FIRSTRAND

ANNUAL REPORT 2002

FIRSTRAND

FIRSTRAND ANNUAL REPORT 2002

Imagine

NEW WAYS THAT WORK . . .

In this year's annual report we take you down a road of imagination and delivery to pay tribute to a number of South African firsts.

Few people know that some of the great inventions solving worldwide problems come from the innovative spirit of our South African people. They have imagined, engineered and delivered new ways that work, time after time.

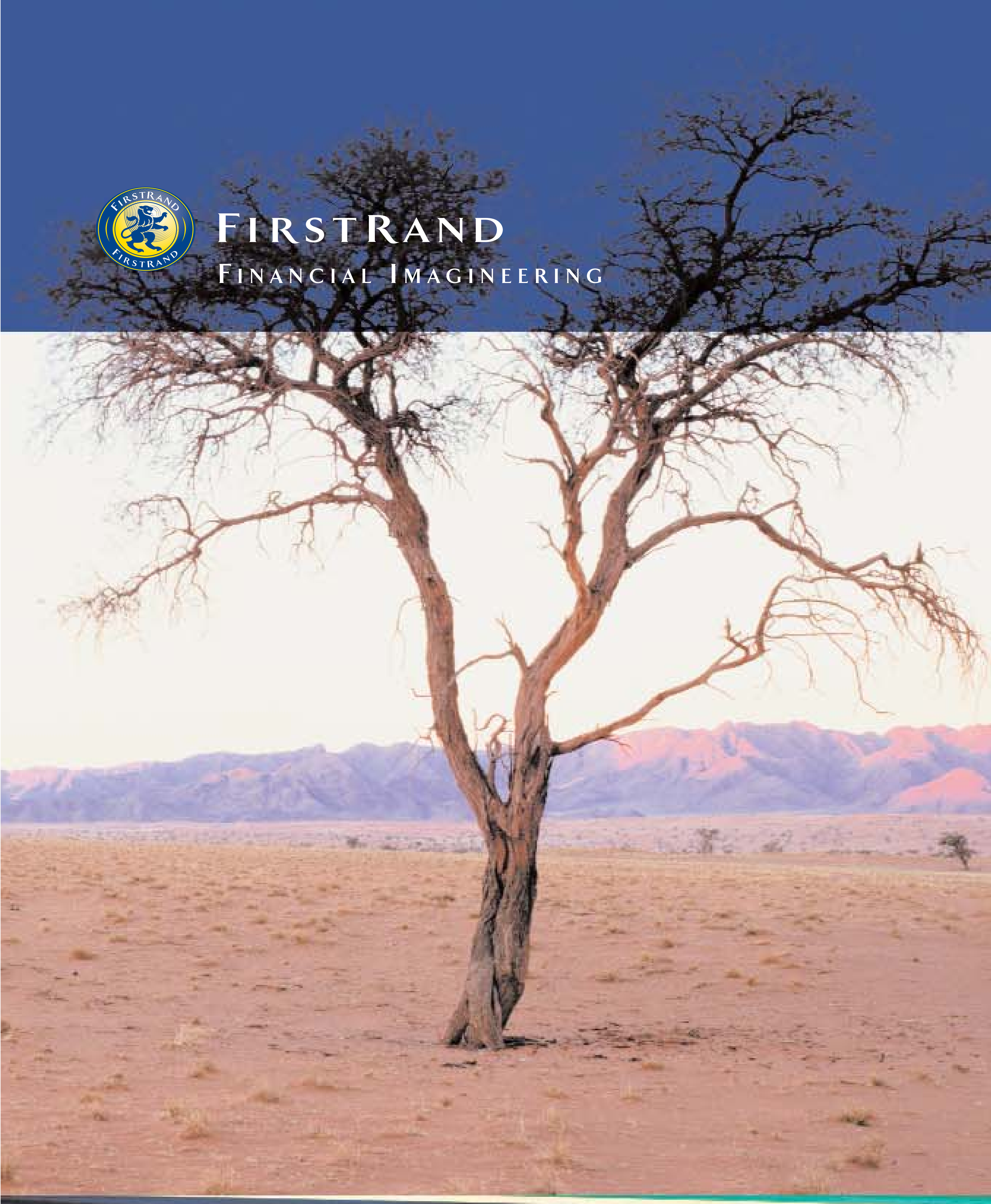
At FirstRand, we operate in the same way. We imagine the impossible and engineer it into a workable solution that benefits all stakeholders.

We call this

FINANCIAL IMAGINEERING

ANNUAL REPORT 2002

www.firstrand.co.za


FirstRand
Financial Imagineering

16:13 Out in the middle of nowhere.

Your water supply is running low, and there's no one to help.

Imagine

A WAY THAT WORKS

SOUTH AFRICA WAS F1RST

Probably one of the most revolutionary innovations for the African continent was made by the Hippo Water Roller Trust. In 1992, this simple, yet highly effective device made light work of transporting large amounts of water.

Take 5

FOR AN OVERVIEW OF 2002 . . .

If you want an overview of this Annual Report for the year ended 30 June 2002 and a basic understanding of FirstRand, a company with a market capitalisation of R40 billion, employing thirty-four thousand people, how it is managed and its prospects, then this five minute read is for you.

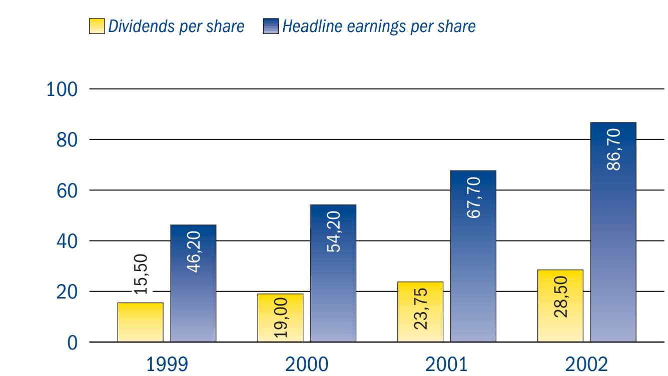
FIRSTRAND

FINANCIAL IMAGINEERING

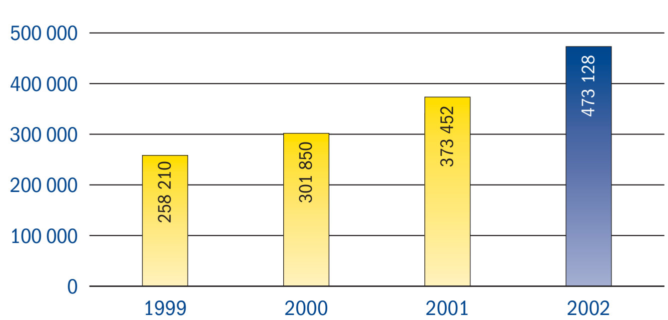
1966/010753/06 Share code: FSR ISIN code ZAE0000 14973

FINANCIAL HIGHLIGHTS

- Core operational headline earnings **+21%**
- Headline earnings including translation gains **+28%**
- Dividends per share **+20%**
- Total assets under management and administration **R473 billion**



Headline earnings and dividends per share (cents)



Assets under management and administration (R million)

First National Bank
A division of FirstRand Bank Limited

Discovery

FIRST LINK INSURANCE BROKERS

eBucks.com

FIRSTRAND – IN A NUTSHELL

Established in 1998 after a merger

FirstRand, a holding company, was established in April 1998 when the financial services interests of RMB Holdings and Anglo American Corporation were merged. It has two wholly owned subsidiaries (page 36):

- Momentum Group (insurance and asset management-related businesses)
- FirstRand Bank Holdings (a wide range of banking-related activities).

Our vision remains: "To build an integrated financial services group structured with critical mass that takes advantage of the blurring of boundaries in financial services and the convergence of products and services."

Our roots are firmly planted in South African soil, and some of our companies can trace their history in South Africa back more than 100 years. We are proud of our heritage and the role we are playing in developing our nation.

MOMENTUM

ORIGIN
The Merchant Bank for Individuals
A division of FirstRand Bank Limited

WesBank
A division of FirstRand Bank Ltd.

RAND MERCHANT BANK
A division of FirstRand Bank Limited

15 directors from diverse backgrounds (page 2)

The FirstRand Board of Directors comprises 15 persons from diverse backgrounds with complementary skills and experience. The chairman and eleven of the directors are non-executive. The board directs and controls the group in the pursuit of economic prosperity, and protects its reputation through the highest standards of integrity and corporate governance (page 27).

Executive Committee directs operations (page 3)

An Executive Committee is responsible for the day-to-day operations of the group. Chaired by the FirstRand CEO, it includes two additional executive directors, the CEOs of each domestic business cluster (ie, business units operating in the same target market) and certain other specialists. The cluster CEOs ensure that each cluster's business units are aligned with their strategies.

A pragmatic business philosophy

Group companies strive for excellence in their respective markets and seek long-term, sustainable profit growth. They do this by attracting, empowering and rewarding the best people they can find. This pragmatic philosophy encourages innovation, entrepreneurial thinking and an owner-manager culture.

Risk managed across the group (page 30)

An ability to produce sustainable, long-term profits requires risks to be appropriately managed across the group in areas such as credit, market, liquidity, operations, compliance and reputation. These and other risks are monitored by committees of skilled individuals.

Taking care of our many stakeholders (page 32)

At FirstRand, we acknowledge the need to integrate economic, social and environmental performance in the pursuit of profit. We are therefore committed to recognising the needs of our many stakeholders:

- *Shareholders (page 201)*
  We communicate formally, twice a year, with our approximately twenty-two thousand shareholders regarding our financial results. These results, as well as presentations to analysts and fund managers, are available at www.firstrand.co.za.

- *Customers*
  Group companies seek long-term, mutually beneficial relationships with their customers, who support the many well-known brands within the group such as First National Bank, Rand Merchant Bank, WesBank, Momentum, Discovery and OUTsurance. Customers are protected by legislation and our mission "to passionately build and nurture the most compelling range of financial service brands in South Africa". Independent research shows that our brands are well respected, that service is reaching new highs and that existing customers are buying more group products.

- *Our people (page 198)*
  At FirstRand, we aim to be the employer of choice in financial services, and seek self-starters with a passion for what they do. We employ thirty-four thousand people, three thousand of whom work outside South Africa. About 50% of our South African employees are from previously disadvantaged communities, and 64% are female. In a survey conducted by Deloitte & Touche – Human Capital Corporation, RMB, Discovery, Momentum and WesBank were ranked in the top ten best companies to work for in South Africa. A substantial investment is made each year to train and educate staff. Membership of retirement and health schemes is compulsory and the incidence of HIV/AIDS in the workplace is receiving special attention.

- *The regulators*
  We seek an open and honest relationship with all the regulators in the financial services industry. South Africa is undergoing dramatic societal transformation as it shakes off the legacy of apartheid, and we are committed to working with government to achieve commonly accepted social goals that maintain local and international investor confidence.

- *The community*
  All group companies contribute 1% of after tax profit to the FirstRand Foundation (www.firstrandfoundation.org), which has donated more than one hundred million rand to worthy causes since 1998 under the watchful eye of an independent body of trustees (page 196). Through brand-related sponsorships, we support job creation and the arts. Our people give willingly of their time and energy to help the less fortunate.

OPERATING RESULTS

Excellent despite global uncertainty

FirstRand raised headline earnings by 28% to R4,72 billion during a year of uncertainty, marked by a tough operating environment:

A tough operating environment

- The economy grew by approximately 2,5% and the JSE All Share Index gained 17%.
- September 11 affected the global and South African economies.
- The rand depreciated by 28% during the financial year, and domestic inflation rose substantially.
- The South African Reserve Bank raised the repo rate by 300 basis points between January and June 2002.
- Investment markets performed poorly and the USA was hit by spectacular corporate failures.
- General uncertainty and liquidity concerns about domestic second-tier banks led to a flight by depositors to larger financial institutions. The result: further consolidation in the banking industry, with FirstRand playing a prominent role.
- On the regulatory front, uncertainty about future legislation affecting banks and insurance companies discouraged foreign and local investors.
- Government expressed concern about the lack of access to banking services by the emerging market (FirstRand is a signatory to the Nedlac Financial Services Charter aimed at addressing this challenge).

Strategic initiatives continue

- Our shareholding in Jersey General (Ashburton) was increased from 55% to 87%, and Momentum International MultiManagers was established to improve the international asset management offering to customers.
- 40% of Futuregrowth, the local specialist fund manager, was sold in a major empowerment transaction.
- The NBS homeloan book valued at R11,5 billion was acquired.
- After Saambou Bank was placed under curatorship, FirstRand Bank assumed liability for the deposits valued at R12,8 billion, and acquired the homeloan book valued at R4,9 billion.

Other strategic initiatives included dealing with the concentration of credit risk in the furniture retail market, the rationalisation of back-office operations to improve efficiencies and reduce operating costs, and two major securitisation deals to assist the bank in its capital management programme.

Diverse earnings base pays off

Our diverse earnings base again allowed us to demonstrate our resilience in the face of market uncertainty.

- *Banking Group (page 64)*
  The Banking Group experienced another excellent year, with good growth on all fronts. Advances and deposits increased by 42%. Substantial translation gains were made on foreign operations, helping to offset the large losses on international lending activities in the wake of US corporate failures. The trading division made good profits by exploiting opportunities in the uncertain, volatile markets. Two quick and very attractive acquisitions were made after second-tier banks found themselves in trouble.

- *Insurance Group (page 136)*
  Despite difficult market conditions, the diverse earnings base allowed a 10% increase in headline earnings, which broke through the R1 billion mark for the first time.

Good long-term track record emerging

FirstRand has grown headline earnings and dividends by an average annual compound rate of 23% since its first full year of operations in 1999. Assets under management and administration have increased by an average annual compound rate of 22% over the same period.

Headline earnings and dividends

for the year ended 30 June

R million	2002	2001	2000	1999
Banking	**3 744**	2 787	2 190	1 898
Insurance	**1 038**	943	790	631
FirstRand Limited costs and STC	**(61)**	(41)	(26)	(13)
Total headline earnings	**4 721**	3 689	2 954	2 516
Headline earnings per share (cents)	**86,7**	67,7	54,2	46,2
Dividend per share (cents)	**28,50**	23,75	19,00	15,50
Return on equity – based on core operational headline earnings (%)	**25,6**	25,2	24,2	24,7

Sources of profit (page 11)

for the year ended 30 June

R million	2002	% of total	2001	% of total
Retail Cluster	**1 761**	**42,2**	1 577	45,7
Corporate Cluster	**1 436**	**34,4**	1 194	34,6
Wealth Cluster	**398**	**9,6**	289	8,4
Health Custer	**131**	**3,1**	115	3,3
International Cluster	**8**	**0,2**	62	1,8
Capital Centre	**439**	**10,5**	213	6,2
Core operational headline earnings	**4 173**	**100,0**	3 450	100,0
Translation gains	**548**		239	
Headline earnings	**4 721**		3 689	

Total assets
as at 30 June

R million	2002	2001	2000	1999
Holding company	**1 158**	1 112	1 113	–
Banking Group	**281 774**	189 886	155 501	145 871
Insurance Group	**190 196**	182 454	145 236	112 339
Total assets under management and administration	**473 128**	373 452	301 850	258 210

From fixing to building
Last year, we told shareholders that the group was in a position to move from the necessary period of fixing that followed the merger to a new phase of building. A solid foundation had been laid, and the necessary building blocks were in place to allow a focus on growth. This year's results illustrate our success in growing the business.

In the year ahead, group companies will continue to focus on organic growth, selective acquisitions, international expansion and new start-up operations. Black economic empowerment and remaining the employer of choice in financial services will be areas of strategic focus.

PROSPECTS

Our earnings are sustainable

Regulatory uncertainty will be a factor

FirstRand operates in a challenging environment which is not helped by regulatory uncertainty. Inevitably, our prospects are influenced by political and economic events both locally and internationally.

The financial benefits of the two acquisitions that the Banking Group has just made will be reflected in future earnings. We are satisfied that our earnings are sustainable, and are confident of continued positive real growth from our well-diversified earnings base.

THANKS

These excellent results are a tribute to the people who work in all FirstRand Group companies. To them and the directors, we extend our sincere thanks.

Our thanks also go to our customers and intermediaries for their support.

Finally, to our twenty-two thousand shareholders, we want you to know that thirty-four thousand people are committed to achieving another year of sustained excellence.

GT Ferreira
Chairman

Laurie Dippenaar
Chief executive

16 September 2002

ANNUAL REPORT 2002
FirstRand

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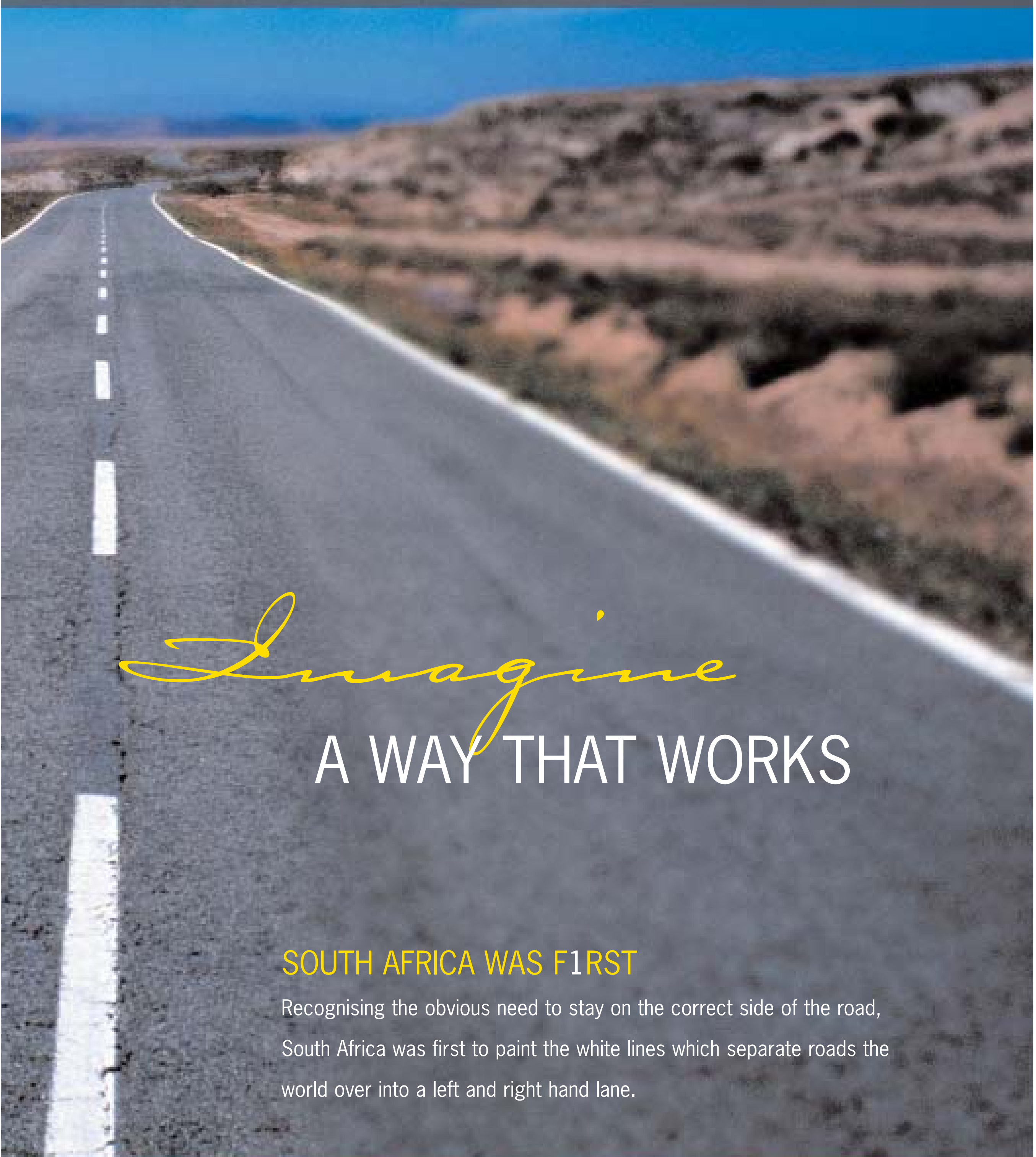
SUBSIDIARIES AND APPENDICES

FIRSTRAND
FINANCIAL IMAGINEERING

11:17 Sharp bend up ahead, broken down truck on the right.

You need to stay on track.



Imagine

A WAY THAT WORKS

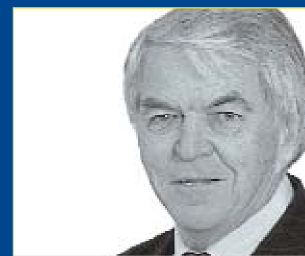
SOUTH AFRICA WAS F1RST

Recognising the obvious need to stay on the correct side of the road, South Africa was first to paint the white lines which separate roads the world over into a left and right hand lane.

FirstRand Limited Board of Directors

Gerrit Thomas Ferreira (54)**
BCom (Hons), (B&A), MBA – Chairman
Appointed 1 July 1992

Lauritz Lanser Dippenaar (53)*
MCom, CA(SA) – CEO
Appointed 1 July 1992



Vivian Wade Bartlett (59)*
AMP (Harvard), FIBSA
– Deputy CEO FirstRand Bank Holdings Limited
Appointed 27 May 1998

Denis Martin Falck (56)** CA(SA)
Appointed 27 February 2001

Barry Hilton Adams (66)†
CA(SA)
Appointed 1 July 1992

David John Alistair Craig (54)†
Appointed 27 May 1998
British

Patrick Maguire Goss (54)†
BEcon (Hons), BAccSc (Hons), CA(SA) Appointed 27 May 1998

Sathyandranath Ragunanan Maharaj (67)†
BA, BAdmin
Appointed 17 September 1999

Paul Kenneth Harris (52)*
MCom – CEO FirstRand Bank Holdings Limited
Appointed 1 July 1992

Benedict James van der Ross (55)† – Dip Law
Appointed 27 May 1998

Michael Wallis King (65)†
CA(SA)
Appointed 27 May 1998

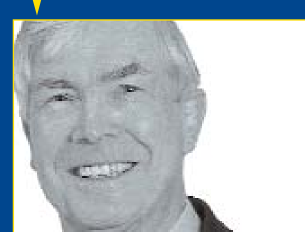
Khehla Cleopas Shubane (46)†
BA (Hons)
Appointed 10 September 1996

Matamela Cyril Ramaphosa (49)†
BProc
Appointed 26 November 2001

Robert Albert Williams (61)†
BA, LLB
Appointed 27 May 1998

* Executive
** Non-executive
† Independent non-executive

Frederik van Zyl Slabbert (62)†
BS, BA (Hons) (cum laude), MA (cum laude), DPhil
Appointed 26 November 2001



FirstRand Executive Committee

Laurie Dippenaar (53)
MCom, CA(SA)
CEO: FirstRand

Viv Bartlett (59)
AMP (Harvard), FIBSA
Deputy CEO: FirstRand Banking Group

Derek Carstens (53)
BEcon (Hons), MA
Director of Brands

Ketso Gordhan (41)
BA, MPhil
BEE strategy

Johan Burger (43)
BCom (Hons), CA(SA)
CFO: FirstRand

Peter Cooper (46)
BCom (Hons), CA(SA), H Dip Tax
COO: RMB Holdings Limited

Adrian Gore (38)
BSc (Hons), FFA, ASA, MAAA, FASSA
CEO: Discovery Holdings Limited

Hillie Meyer (44)
BCom, FIA, AMP (Oxford)
CEO: Wealth Cluster

Paul Harris (52)
MCom
CEO: FirstRand Banking Group

E B Nieuwoudt (41)
MCom
CEO: Corporate Cluster

Wendy Lucas-Bull (49)
BSc
CEO: Retail Cluster

G T FERREIRA

LAURIE DIPPENAAR

Report of the Chairman and the Chief Executive Officers

We are able to report another year of excellent performance

PAUL HARRIS

At the end of our fourth full year of operations since the formation of FirstRand in 1998, we are able to report another year of excellent performance.

Market overview

Macro-economic environment

The year to 30 June 2002 was the third year of South Africa's current business cycle upswing, with the economy growing by approximately 2,5%. Consumer spending during the year under review grew at a rate of over 3%, and fixed investment expanded briskly. The JSE All Share Index gained 17% compared to 19% in the previous year. Most of this gain can be attributed to the mining and resources sector.

The year under review will be remembered for the 11 September attack on the World Trade Centre and the precipitous drop in the value of the rand which followed it. The rand's subsequent recovery was not sufficient to prevent a substantial rise in domestic inflation and the Reserve Bank reacted by raising its repo rate by a total of 300 basis points between January and June 2002.

International financial markets performed poorly. Equity prices were affected by uncertainty regarding the recovery of the US economy, major corporate failures and declining credit ratings. Argentina defaulted on its debt obligations and this created concerns regarding the potential for defaults in other emerging markets. This led to increased uncertainty and market volatility.

Competitive environment

Competition in the South African banking industry remained intense. Market concerns about second tier banks led to a flight by depositors to the larger financial institutions. The turmoil that affected South Africa's second tier banks resulted in further consolidation within the industry and FirstRand Bank was an active participant. Some international banks downsized their operations in South Africa as the weaker rand impacted on their global earnings.

Insurance companies experienced a decline in the demand for investment products which was partly offset by an increased demand for risk related products. Companies providing health insurance struggled with regulatory uncertainty and the demands of the authorities to increase solvency requirements without the use of reinsurance. Earnings from asset management operations were subject to volatile stock market performance both locally and abroad. Some local firms restructured their asset management operations to recognise the strategic importance of black economic empowerment and market pressure on fees.

Regulatory environment

A feature of the year under review was significant regulatory change and regulatory uncertainty. This is unfortunate as all investors seek regulatory certainty in making decisions on prospects for sustainable long-term growth.

During the year, banks moved to meet the higher capital adequacy requirements introduced by the Reserve Bank with effect from October 2001. The South African Revenue Services focused their attention on the banking industry and structured finance projects in particular. Government indicated that it was concerned about access to banking services for the emerging market and the industry responded by signing the Nedlac Financial Services Charter. In terms of the charter, the banking industry has agreed to work with government and other interested parties to make financial services and, in particular, credit more accessible to this market. The banking community expressed severe reservations regarding the first draft of the Community Reinvestment Bill. It has been withdrawn pending further discussion.

Insurance companies across the country prepared themselves for the implementation of the new Financial Advisors and Intermediaries Services Bill. The government's decision to limit payroll deductions for state employees (Persal) contributed to an increase in policy lapses. The limitations placed by the Reserve Bank on foreign portfolio investments by insurers had a negative impact on new individual life business, particularly in Momentum's target market.

The Financial Services Board is in discussion with the life insurance industry to determine new methods of calculating the surplus capital of life insurers. The new proposals, if implemented, will result in a more conservative valuation method in respect of listed and unlisted shares held in the shareholder portfolios of life insurance companies.

During the process of formulating new legislation affecting South Africa's financial services industry, co-operation and co-ordination between government departments and between the private sector and government has been sub-optimal. It is important for the financial services industry in South Africa that this situation improves.

South Africa is undergoing a dramatic societal transformation as it adjusts to shake off the legacies of apartheid. It is incumbent on the South African business community to assist government in achieving commonly accepted social goals while at the same time ensuring that the confidence of international and domestic investors in the South African economy is maintained.

FirstRand executives will give of their best endeavours to work with the authorities to ensure that new legislation affecting South Africa's sophisticated financial services industry is appropriate for this time in our nation's development. Nepad is an exciting concept with the potential to create further opportunities for the group to use its skills and knowledge to the benefit of the African continent.

Value strategy

Vision and strategy

FirstRand's guiding vision remains unchanged. FirstRand seeks to build an integrated financial services group, structured with critical mass to take advantage of the blurring of boundaries in the financial services industry and the convergence of products and services. In this regard, the reputation of the group companies for excellent products and services is paramount. Our mission is to passionately build and nurture the most compelling range of financial service brands in the business.

Goals and objectives

FirstRand seeks to increase earnings per share by a minimum of inflation plus 10% and to generate a return on equity of more than 20%.

The strategy in the year under review was one of external focus and growth. This followed three years of fixing and getting the basics right. During this period there was a focus on rationalisation, turn-arounds, efficiency gains and, where appropriate, the exiting of businesses which were unable to deliver the demanding returns required by management. At the same time, considerable effort was directed at inculcating the FirstRand business philosophy across all group companies.

The executive team has identified growth, empowerment and being the employer of choice as the strategic drivers of earnings in the year ahead.

There are multiple drivers of growth. These can be broadly categorised as organic growth, acquisitive growth and international expansion.

Organic growth will be achieved through the implementation of targeted marketing campaigns aimed at new customers and collaboration between business units to ensure that existing customers are exposed to a complete range of products and services.

Historically, growth by acquisition has been achieved by targeting companies much larger than ourselves. Growth by acquisition will now target niche businesses which add real value and do not involve additional infrastructure and overheads.

One of the growth strategies that the group has excelled at in the past, is the establishment of greenfield operations. Our success formula has been to enter a mature industry and to take on the established players by "changing the rules of the game". We invest only a modest amount of start-up capital which we then increase as necessary. Our success in this regard is impressive, with Discovery and OUTsurance being good examples. Where opportunities are identified, we will pursue them subject always to the condition that they will provide the necessary returns.

International expansion as a growth strategy will always be subject to the filters or principles which underlie our strategy. In the first place, any proposed offshore expansion must have a strategic fit with domestic strategy. Secondly, we do not have a FirstRand "view of the world". A group as diverse as ours cannot be replicated in any one country. Business units will have a preference for different continents. For example, the African continent is an interesting investment destination for the Retail Bank, which already has substantial operations in Namibia, Botswana and Swaziland. However, it is not particularly interesting to Discovery because Africa, excluding South Africa, has an under-developed health insurance system. This is one of the reasons why we believe our international expansion should be driven at business unit level but co-ordinated and monitored at the centre. Finally, our international expansion does not involve the flight of capital and we will not blindly pursue hard currency earnings. We will always ensure that existing operations and future start-ups or acquisitions have a sustainable competitive advantage internationally.

FirstRand is now in a position where approximately 15% of the group's earnings originate outside of South Africa and where one in every eleven of the group's employees currently resides outside of South Africa.

FirstRand recognises empowerment as a strategic imperative. A legacy of unjust laws and prejudices has left many South Africans without the benefits of the free market system. A stable political environment requires that opportunities are created for upliftment and inclusion of these previously disadvantaged people. The potential impact of the government's black empowerment policy on entire industries is taxing the minds of both domestic and international investors. We have seen how the topic has the potential to result in a great deal of volatility in the share prices of affected industries. We believe that the issue of black economic empowerment is much broader than shareholdings and so we have established an empowerment division to develop and implement a comprehensive strategy across the group. Their brief includes reviewing shareholdings, joint ventures, procurement and the group's relationship with the state and parastatals.

It is worth noting that to date our empowerment strategy has been to bring in partners at the business unit level rather than at holding company level. Futuregrowth and WesBank have been successful in this respect and we are currently seeking an empowerment partner for some of the activities in the employee benefits area. We are making good progress in the provision of financial services to previously disadvantaged groups and are pioneering a new affordable housing initiative. We are working with government on the Umsobomvu Youth Fund, a R100 million SME empowerment fund focusing on emerging businesses in South Africa. Our private equity divisions have played a major role in providing finance for BEE transactions and we think we can justly claim to be leaders in the arena of public private partnerships for the financing of major infrastructure projects.

On the matter of corporate social investment, we have possibly been unduly modest and it is worth noting that since its formation in 1998, FirstRand has donated more than R100 million to worthy causes.

Attracting and retaining the best people is the last of our strategic initiatives in the year ahead. We were particularly pleased when Deloitte & Touche Human Capital announced that four of our companies, RMB (2nd), Discovery (4th), Momentum (5th) and WesBank (10th) were ranked in the top ten of their "Best Company to Work For" survey.

Our diversity and employment equity plans form an important part of this strategy.

Organisational structure

FirstRand Limited has two wholly owned subsidiaries. These are FirstRand Bank Holdings, whose subsidiaries are involved in retail, corporate and investment banking activities, and Momentum Group, whose subsidiaries are in the insurance and asset management businesses. These subsidiaries, which are separate legal entities, with independent boards of directors, are subject to the oversight of the SA Reserve Bank and the Financial Services Board respectively.

FirstRand comprises a number of business units each operating independently with its own executive team. Mindful of the need to provide customers with a comprehensive range of products and services, these business units have been clustered according to specific target markets. The clusters are:

- Retail Cluster targeting individual consumers;
- Corporate Cluster targeting large corporate and commercial enterprises;
- Wealth Cluster targeting individuals in the middle and upper income market;
- Health Cluster targeting the health insurance market; and
- International Cluster targeting high net worth clients worldwide

A Capital Cluster manages the capital of the Banking and Insurance operations.

The cluster concept, which was announced last year, was taken a step further this year with the appointment of cluster CEOs and the formation of cluster executive committees. The principle role of the cluster CEO is to promote collaboration between the business units within each cluster and across clusters. Reward systems have been aligned to support collaborative behaviour.

The legal structure of the group is shown on page 36 and the internal management structure promoting collaboration is shown on page 13.

A FirstRand Executive Committee is responsible for developing group strategy and overseeing its implementation. This committee, which is chaired by the FirstRand CEO, includes the cluster CEOs, and other group specialists.

Governance

The integrity of the Board of Directors and group companies is maintained by adherence to the highest levels of corporate governance practices which are described in detail from page 27.

Managing for value

Strategic initiatives

During the year the group was involved in further important strategic initiatives.

These included:

- In July 2001, the acquisition of a further 32% in the international asset manager, Jersey General Group (Ashburton), bringing the total shareholding to 87%.
- In January 2002, the sale of 40% of Futuregrowth, the group's specialist fund manager, to WipCapital in a major black economic empowerment initiative.
- In February 2002, the successful merging of the back-office processing, administration and management teams of Ansbacher South Africa and Origin to eliminate duplicated cost infrastructures while allowing each to retain its distinct and unique service offering to high net worth customers.

- The acquisition in March 2002 of the NBS homeloan book valued at R11,5 billion. The group's short-term insurer, OUTsurance, benefited from the acquisition of the NBS insurance book relating to these properties.
- In May 2002, the taking-on of the deposit client base of Saambou valued at R12,8 billion and, as part of the same transaction, the acquisition of the homeloan book of R4,9 billion.
- The establishment with effect from June 2002 of Momentum International MultiManagers through the consolidation of the local multi-manager, Momentum Advisory Service with Ansbacher International MultiManagers in the United Kingdom. The result is a focused multi-manager product house catering for both local and international investors.

Other strategic interventions included the successful resolution of the Banking Group's risk concentration in the furniture and retail credit markets. Further consolidation of back-office operations in the Retail Bank improved operating efficiencies. Two major securitisation deals assisted the bank in its capital optimisation programme.

The resolution of the dispute between Discovery and the Council for Medical Schemes regarding the level of fees and reinsurance arrangements was important as it removed uncertainty from the operating environment.

Financial overview

This year's results reflect yet another year of sustained growth. A compound annual growth rate of 23% in headline earnings per share has been achieved since 1999. The compound annual growth rate in respect of assets under management and administration during this period is 22%.

FirstRand's results demonstrate the resilience of its diversified earnings base during times of economic uncertainty and volatility.

The year was characterised by good organic top-line growth in banking and two significant strategic acquisitions. The top-line growth was achieved by the Banking Group without compromising the risk profile of its domestic lending portfolio. Shocks in the international debt markets led to losses being incurred on the bank's international lending portfolio. These losses were partly offset by good profits in the trading divisions which benefited from the uncertainty and volatility created by the self-same shocks.

The Insurance Group experienced a decline in new business growth but in spite of this achieved robust double digit headline earnings growth which exceeded R1 billion for the first time.

The devaluation of the rand gave rise to abnormally large translation gains which are not expected to be repeated in the coming year.

Financial results

The financial results of FirstRand's Banking and Insurance subsidiaries are dealt with in detail in the reports by their respective CFOs commencing on pages 64 and 136 respectively.

Consolidated headline earnings can be summarised as follows:

R million	2002	2001	% change
Banking Group	**3 744**	2 787	34
Core operations	**3 196**	2 580	24
Foreign currency translation gain	**548**	207	>100
Insurance Group	**1 038**	943	10
Core operations	**1 038**	911	14
Foreign currency translation gain	**–**	32	(100)
FirstRand Limited	**(61)**	(41)	(49)
Headline earnings	**4 721**	3 689	28
Less: Foreign currency translation gain	**(548)**	(239)	>(100)
Core operational headline earnings	**4 173**	3 450	21
Core operational headline earnings per share (cents)	**76,6**	63,4	21
Headline earnings per share (cents)	**86,7**	67,7	28
Dividend per share (cents)			
Interim	**13,50**	11,25	20
Final	**15,00**	12,50	20
Total	**28,50**	23,75	20

Consolidated headline earnings for the year to 30 June 2002 totalled R4 721 million (86,7 cents per share) representing an increase of 28% on the R3 689 million (67,7 cents per share) of the previous year. If the impact of the foreign currency translation gain relating to integral business is removed, core operational headline earnings grew by 21% to R4 173 million (76,6 cents per share).

Attributable earnings, which include goodwill amortisation, asset impairment and other exceptional items, increased by an excellent 26% to R4 509 million.

Banking operations contributed 77% to core operational headline earnings with insurance and asset management operations contributing the balance. Earnings from international operations, which included another satisfactory year from the African banking subsidiaries, represented 15% of core operational headline earnings (2001: 18%).

A final dividend of 15 cents per share (2001: 12,5 cents per share) has been declared bringing the total dividend for the year to 28,5 cents per share (2001: 23,75 cents per share). This represents an increase of 20%. Dividend cover based on core operational headline earnings was retained at approximately 2,7 times.

The group's assets under management and administration now total R473 billion, an increase of 27% on last year.

Segmental reporting

The FirstRand Group has a diversified earnings base. A summary of these earnings by cluster is set out below. A report on the financial highlights, operational achievements, and prospects of the business units in each cluster appears on pages 11 to 26.

R million	2002	%	2001	%
Retail Cluster	**1 761**	**42,2**	1 577	45,7
Corporate Cluster	**1 436**	**34,4**	1 194	34,6
Wealth Cluster	**398**	**9,6**	289	8,4
Health Cluster	**131**	**3,1**	115	3,3
International Cluster	**8**	**0,2**	62	1,8
Capital Centre	**439**	**10,5**	213	6,2
Core operational headline earnings	**4 173**	**100,0**	3 450	100,0
Currency translation gains	**548**		239	
Headline earnings	**4 721**		3 689	

Share price

The FirstRand share price, which was impacted by world events and an international re-rating of banking shares, fluctuated widely during the year. The weighted average share price was 772 cents per share with a high of 905 cents per share and a low of 615 cents per share. Turnover represented 69% of the free float.

Return on equity

The structure of the group and the different accounting practices adopted by the Banking and Insurance Groups, mean that the consolidated return on equity statistics should be viewed with caution. This year's calculation is also influenced by the substantial translation gains arising from the decline in the value of the rand.

Capital is a scarce resource. We seek to optimise our return on capital and to do this, we aggressively manage the capital which is allocated to the various operating companies. Each business unit is required to meet ROE hurdles.

The structure of wholly owned banking and insurance subsidiaries facilitates the transfer of capital across the group, depending on needs and available returns. The return on average equity for the year, based on core operational headline earnings, was an excellent 25,6% compared with 25,2% the previous year. For the purpose of this calculation, the convertible preference shares of the OutPerformance Incentive Scheme are treated as debt.

Capital management

At 30 June 2002, the consolidated capital adequacy ratio of the Banking Group was 11,6% (2001: 11,4%) compared with the statutory requirement of 10%. The shareholder surplus in the Insurance Group covered the statutory capital adequacy requirements 2,4 times (2001: 2,4 times).

Reference has already been made to the changes in regulatory capital requirements implemented by the South African Reserve Bank and those proposed by the Financial Services Board.

The bank's capital ratios were influenced by the new regulatory changes and its strategy of selective acquisitions and strong top-line growth. Strong new business growth in Discovery Life and Destiny Health is expected to create a demand for additional capital in the Insurance Group.

The review of capital requirements is ongoing. This includes evaluating the benefits of the further securitisation of the bank's advances book, the better utilisation of the group's international capital base and the raising of international tier-2 capital. The group is reviewing the way in which its constituent parts are held in order to optimise capital utilisation.

Risk management

We pride ourselves in our ability to manage risk across the group. An extensive system of risk management controls is in place covering all aspects of our business. Details of this important aspect of our business are provided in the Report on Risk Management and Internal Control on page 30 and the Reports of the two Chief Financial Officers commencing on pages 64 and 136 respectively.

Value platform

With an increase in the emphasis being placed on triple bottom line reporting, this topic is dealt with in a separate Corporate Citizenship and Sustainable Business Practices Report which appears on page 32. This report, which underlines the importance that we place on good corporate citizenship, deals with the interaction of group companies with their primary stakeholders. These have been identified as shareholders, customers, employees, suppliers, the regulatory authorities and the communities in which we operate.

Prospects

At the time of the merger in April 1998 we said that it would take between three and five years for the full benefits of the merger to be achieved. As we enter the final lap of this five-year period, we look back with great satisfaction on the progress made to date.

FirstRand operates in a challenging environment which is not helped by regulatory uncertainty. Inevitably, our prospects are influenced by political and economic events both locally and internationally.

Our strategic initiatives in the year ahead will continue to be outwardly focused. Our internal structure, which is aimed at optimising collaboration between business units, is starting to bear fruit. We have excellent people and the successes in the past year have contributed positively to the increased staff morale. We will continue to acquire businesses which utilise our existing infrastructure. The financial benefits of the two acquisitions made in the past year will be reflected in earnings in the future.

We are satisfied with the quality of our earnings and are confident that shareholders can continue to expect positive real growth from our well-diversified earnings base.

Thanks

These excellent results are a tribute to the people who work in FirstRand Group companies. To all of them and the directors we extend our sincere thanks.

To our customers and intermediaries, we record our gratitude for their support and urge them to continue to communicate with us about their needs and their levels of satisfaction.

Finally to our twenty-two thousand FirstRand shareholders, we know that you will be pleased with our progress during the last year and assure you that all thirty-four thousand people in the group will continue to work towards ensuring that you receive superior returns on your investment in the future.

G T Ferreira
Chairman
FirstRand Limited

L L Dippenaar
Chief executive officer
FirstRand Limited

P K Harris
Chief executive officer
FirstRand Banking Group

Report on operations

Introduction

This report on operations is presented on a cluster basis. Because clusters operate across group legal entities, the segmental report on page 12 reconciles the sources of income by cluster with those reflected in the FirstRand Bank Holdings and Momentum Group income statements.

With strategic thinking now being growth-focused, collaboration between businesses servicing the same target market becomes paramount. Accordingly businesses servicing the same target market are "clustered". During the year this clustering concept was taken a step further with the appointment of cluster CEOs who are responsible for co-ordinating business unit strategies to extract the maximum synergistic benefits.

The clusters are:

- Retail Cluster — targeting individual consumers
- Corporate Cluster — targeting large corporate and commercial enterprises
- Wealth Cluster — targeting individuals in the middle to upper income market
- Health Cluster — targeting the private health insurance market
- International Cluster* — targeting high net worth clients worldwide

** From 1 July 2002, the international cluster has been incorporated into the other clusters.*

Group capital is managed from the centre. The wholly owned subsidiary structure allows capital to be moved between the Banking and Insurance Groups to satisfy reserving requirements or investment opportunities. The cluster concept is shown diagrammatically on page 13. Cluster Executive Committees comprising business unit heads and certain group specialists are responsible for overseeing and driving cluster strategy. The advantages of the cluster management structure include the following:

- A single view of the customer across all business units.
- Optimisation of distribution channels.
- Rationalisation of back office administration where appropriate.
- Alignment of business unit strategies within each cluster.
- Leveraging of product development resources as a result of targeted market research.
- Facilitation of collaboration across clusters.

The uniqueness of the FirstRand business philosophy revolves around the concept of "chunking" – the establishment of profit centres run on an owner-manager basis. Profit centre heads are empowered, held accountable and rewarded for their successes. The cluster concept in no way detracts from this philosophy, it merely ensures that the synergies envisaged at the time of the merger are realised.

SOURCES OF PROFIT

for the year ended 30 June

	2002				2001			
R million	**FirstRand Banking Group**	**Momentum Group**	**FirstRand Limited**	**Total**	**FirstRand Banking Group**	**Momentum Group**	**FirstRand Limited**	**Total**
Retail Cluster				**1 761**				1 577
Retail banking	**803**	**–**	**–**	**803**	631	–	–	631
Instalment finance	**503**	**–**	**–**	**503**	471	–	–	471
African subsidiaries	**288**	**–**	**–**	**288**	231	–	–	231
Mortgage lending	**133**	**–**	**–**	**133**	210	–	–	210
Short-term insurance	**34**	**–**	**–**	**34**	34	–	–	34
Corporate Cluster				**1 436**				1 194
Investment banking	**677**	**–**	**–**	**677**	540	–	–	540
Corporate banking	**424**	**–**	**–**	**424**	337	–	–	337
Asset management	**–**	**228**	**–**	**228**	–	198	–	198
Employee benefits	**–**	**107**	**–**	**107**	–	119	–	119
Wealth Cluster				**398**				289
Individual insurance	**–**	**382**	**–**	**382**	–	308	–	308
Private banking – domestic	**16**	**–**	**–**	**16**	(19)	–	–	(19)
Health Cluster								
Discovery Holdings	**–**	**131**	**–**	**131**	–	115	–	115
International Cluster								
Ansbacher UK	**8**	**–**	**–**	**8**	62	–	–	62
Capital Centre				**439**				213
Banking Group	**310**	**–**	**–**	**310**	83	–	–	83
Insurance Group	**–**	**190**	**–**	**190**	–	171	–	171
FirstRand Limited	**–**	**–**	**(61)**	**(61)**	–	–	(41)	(41)
Core operational headline earnings	**3 196**	**1 038**	**(61)**	**4 173**	2 580	911	(41)	3 450
Add: Currency translation gains	**548**	**–**	**–**	**548**	207	32	–	239
Headline earnings	**3 744**	**1 038**	**(61)**	**4 721**	2 787	943	(41)	3 689

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

FirstRand management structure

Showing major operating divisions and subsidiaries by cluster

Legal entities

Clusters	FirstRand Bank	FirstRand Limited	Momentum Group
Retail	**FNB Retail**: Technology, Delivery, Customer Solutions; **African subsidiaries**: FNB Botswana, FNB Namibia, FNB Swaziland; **Short-term Insurance**; **FNB HomeLoans**; **WesBank**		
Corporate	**FNB Corporate**; **RMB**: Investment Banking, Private Equity, International; **Banking Group Treasury**		**Momentum Employee Benefits**; **FirstRand Asset Management**
Wealth	**Private Banking**: Ansbacher SA, Origin; **First National Trust Services**		**Momentum**; **Momentum International MultiManagers**
Health			**Discovery Health**; **Discovery Life**; **Vitality**; **Destiny Health**
International	**Ansbacher Holdings**		
Group Capital	**Capital Centre**	**FirstRand**	**Shareholder funds**

The Retail Cluster

WENDY LUCAS-BULL

This cluster provides a comprehensive range of banking products to consumers through a number of different distribution channels. The cluster comprises the following businesses:

- FNB Retail – incorporates the branch network and all basic and transactional banking product offerings
- WesBank – provides full service instalment credit finance to the retail and corporate market
- African Banking subsidiaries
  - FNB Botswana
  - FNB Swaziland
  - FNB Namibia

  – provides a broad range of retail and medium corporate transactional and lending banking products to regional client bases
- FNB HomeLoans – offers primary mortgage lending
- Short-term insurance
  - OUTsurance – offers direct short-term insurance products
  - FirstLink – offers insurance broking services
  - eBucks.com – the internet banking operation incorporating full retail internet banking functionality and managing the Banking Group's customer appreciation programme

THE RETAIL CLUSTER WAS F1RST

Businesses within the Retail Cluster were first with the following innovations:

- WesBank introduced a video conferencing sales system. This system allows prospective purchasers of motor vehicles to discuss their requirements live with a WesBank representative at a central location.
- FirstCard improved credit card security by establishing inContact. This system allows credit card customers to receive a cellphone SMS message when their credit card account is accessed.
- FNB used technology to give deep rural customers access to their bank accounts by deploying mini ATM emulation devices at mines and grocery shops in areas where there are no ATMs or branches.
- eBucks developed South Africa's first rewards programme to provide full web services in addition to full call centre service. The programme also allows customers to top up their rewards account and to transfer rewards to another participant in the programme.

FNB RETAIL

The Retail Division of First National Bank (FNB Retail) focuses on providing financial services to the consumer, rural and small business market segments. It produces and administers most of the group's core banking products including the eBucks rewards programme and manages retail distribution, including the branch network, ATM, internet and call centre channels. It is also responsible for managing certain centralised services, including technology.

Financial highlights

- Profit after tax increased by 27% to R803 million.
- Deposits increased by 26% to R42 billion.
- The ratio of non-performing loans declined.

Operational achievements

- There was positive growth in the number of accounts from Metro branches as a result of the improvement in service quality, significantly higher staff morale and the strengthening of the FNB brand.
- The continued streamlining of cheque processing resulted in significant efficiencies. All branches are now included in the re-engineered process. This has resulted in an 85% decrease in the processing cost per cheque.
- The branch network has increased its dominance in the rural areas and maintained a high level of customer satisfaction.
- The call centre has continued to win service awards.
- The ATM division increased its efficiencies and continued to expand their network in strategic areas.
- A focus on turnover growth in FNB Card resulted in before-tax growth in profits of 33%.
- Credit card fraud has been contained to below-industry levels.
- Re-engineering of the credit process has led to an improvement in credit risk management.
- Increased IT system throughput has led to cost efficiencies.
- Improvements in technology architecture have led to the ability to rapidly implement business process changes.
- The internet banking channel currently processes transactions to the value of R3,2 billion each month and continues to show promising growth.
- Since its launch, the eBucks rewards programme has attracted 370 000 customers. The value of eBucks allocated to customers during this financial year was R82 million.
- A smooth conversion of the Saambou deposit base was achieved in two and a half months. A seamless customer transition enabled customers to keep their same PIN, card and account number. The costs of this acquisition have been expensed and the benefits will only be reflected in future years' results. To date 80% of the retail deposit book has been retained.

Prospects

Based on early successes achieved to date in targeted cross-sell initiatives, such as selling cheque accounts into the home loan base and wills to Premier customers, we are confident of continued cross-sell successes through micro-segmentation and focused packaging. This includes leveraging off the databases of newly acquired customer bases (NBS and Saambou) and initiatives into new market segments.

WESBANK/INSTALMENT FINANCE

WesBank is a full-service provider of instalment credit finance to the retail and corporate market.

Financial highlights

- In spite of a margin squeeze net profit after tax increased by 7% to R503 million.
- New business written during the year exceeded R20 billion representing a 27% compound growth rate over the last three years.
- Advances grew by 12% as the division increased market share.
- Non-performing loans decreased to record low levels at 1,5% of advances.

Operational achievements

- WesBank was voted number one vehicle finance company in the PricewaterhouseCoopers Banking Survey 2002.
- WesBank was voted into the top ten of the Deloitte & Touche "Best Company to Work For" survey.
- There was good growth in personal loans marketed under CashPower and Direct Access brands.
- Collection Solutions contributed to a further reduction in bad debt charges and the lowest level of arrear accounts.
- Successes were achieved in marketing instalment products to the FNB Corporate base.
- WesBank's cross-sell strategy resulted in an impressive take-up of home loans and credit card products by WesBank customers.

Prospects

- WesBank anticipates selling additional group products and services to its existing loyal customer base.
- Expansion into various global markets, including Australia, is planned.
- An innovative and exciting franchise business focusing on the used car market is planned early in the new year.
- New acquisitions will contribute to market share expansion.

FNB HOMELOANS/MORTGAGE LENDING

FNB HomeLoans is a provider of mortgage finance to metropolitan homebuyers in South Africa.

Financial highlights

- Profits after tax declined by 37% to R133 million as a result of substantial acquisition costs (and a once-off profit of R56 million from the sale of properties in possession in the prior year not being repeated in the current year).
- The advances book increased from 123 000 accounts with a value of R18,6 billion to 286 000 accounts with a value of R38 billion.
- The level of non-performing loans in respect of the existing book declined to 1,5%.

Operational achievements

- An aggressive acquisition strategy, in partnership with intermediaries, saw record levels of new business being written during the year.
- Market share of metropolitan residential mortgage loans increased from 11% to 20%.
- Market share excluding the Saambou and NBS acquisitions grew from 8% to 11%.
- The acquisition of the NBS home loan book in March 2002 resulted in the acquisition of loans to the value of R11 billion and 100 000 additional customers.
- The acquisition of the Saambou book in May 2002 resulted in the acquisition of loans to the value of R7,9 billion and 63 000 additional customers.
- The above acquisitions increased the book size by 111% with an increase in staff numbers of only 18%.
- Streamlining of operational processes facilitated the efficient transfer of the NBS book.
- FNB HomeLoans was rated by JP Morgan as the best mortgage operation in the country in their report dated June 2002.

Prospects

- The two acquired books of business will make a meaningful contribution to earnings in the new year.
- The focus in the new year will be on retaining newly acquired customers and introducing them to further group products.
- FNB HomeLoans will continue to build relationships with intermediaries.
- Post year-end, the division acquired the affordable housing loan book of Saambou, which offers exciting growth potential into a developing market.

SHORT-TERM INSURANCE

OUTsurance

OUTsurance is the group's direct personal lines short-term insurer. OUTsurance pioneered the OUTbonus concept, which involves rewarding clients for a good claims record with a cash bonus. FirstRand Bank Holdings own 46,1% of this associate.

Financial highlights

- Headline earnings increased by 85% to R58,9 million (profit attributable to the Banking Group after the capital charge amounted to R20 million).
- Gross earned premiums increased by 40% to R574 million.

Operational achievements

- Profitability has increased in spite of strong growth without compromising underwriting standards.
- The claims ratio continues to be well below the industry average due to superior risk selection.
- Expense ratios declined from 38,9% to 31,8% due to the success of the direct selling model.
- Following the acquisition of the NBS mortgage book by FNB HomeLoans, OUTsurance acquired the homeowners insurance portfolio of BoE Insurance Company.
- OUTbonuses paid to customers in the year totalled R7,7 million.

Prospects

- Strong organic growth is expected from the direct marketing channel.
- Continued collaborative marketing with WesBank and FNB HomeLoans is expected to facilitate additional growth.
- OUTsurance plans to start offering cover directly to small commercial clients.

INSURANCE BROKING

First Link Insurance Brokers

(formerly First Bowring)

First Link offers insurance broking to personal lines, small and medium businesses and the agricultural sector. In addition, there is a joint venture with Marsh Inc, the world's largest insurance broker, for corporate insurance.

Financial highlights

- Profit after tax decreased by 7,5% to R14 million. Prior year figures include the profit from the sale of investments.
- Excluding earnings from discontinued operations, the operating profit of core business segments grew by 52%.
- The commercial insurance segment's operating profit has grown by 45% in the year.

Operational achievements

- Two medium-sized brokerages were acquired.
- The re-branding to First Link was accomplished without disruption.
- Collaborative marketing with Origin and FNB's rural branches proved successful.

Prospects

- First Link will seek to increase market share through an aggressive acquisition strategy.
- The high net worth market will continue to be targeted using its First Platinum product.
- Two new joint ventures are in an advanced stage of negotiation.

AFRICAN BANKING SUBSIDIARIES

FirstRand Bank provides full retail and corporate banking services under the FNB brand in the neighbouring states of Botswana, Namibia and Swaziland.

Financial highlights

- Profit after tax and minorities increased by 25% to R288 million, with increases as follows:
  - Botswana – 46% (24% in pula)
  - Namibia – 18%
  - Swaziland – 38%
- The quality of the asset book improved with non-performing loans decreasing.

Operational achievements

- All operations increased representation points in their respective countries.
- Technology improvements resulted in improved service to clients.
- Product offerings to customers were expanded.
- Independent corporate social investment trusts have been established in Botswana and Namibia to allow those companies to contribute to social development.

Prospects

- The excellent results being achieved have resulted in a renewed interest in expanding banking activities into Africa.
- FNB Namibia is looking to expand its market share through acquisitions. Negotiations are currently taking place with SWABOU.

The Corporate Cluster

EB NIEUWOUDT

This cluster provides a comprehensive range of banking, employee benefits and asset management services to the mid and large corporate markets, institutions, government and parastatals. The cluster comprises the following businesses:

Rand Merchant Bank	– provides corporate finance, treasury, structured finance and private equity services
FNB Corporate Bank	– provides transactional, lending and basic banking products
FirstRand Asset Management	– offers a complete range of domestic and international asset management products
Momentum Employee Benefits	– offers insurance benefits, consulting, administration, risk and investment solutions
Banking Group Treasury	– manages liquidity, funding and interest rate management

THE CORPORATE CLUSTER WAS F1RST

Businesses within the corporate cluster were first with the following innovations:

- Inflation-linked debt issuance – Since 1994 RMB has pioneered inflation-linked debt issuance in South Africa. At the time, RMB was first to use structured products to raise debt finance for infrastructure development.

  Since then RMB has been responsible for the major innovations in CPI derivatives. Enabling borrowers to swap fixed for inflation-linked financing and providing investors with the greater equity- and inflation-linked returns were both firsts for South Africa.

- FRESCO – RMB pioneered the development of a collateralised loan obligation (CLO) of bank corporate credit exposure, expanding the range of investment opportunities in the South African capital markets.

  Through combining traditional securitisation with the latest credit derivative technologies, this product effectively secures protection of a portion of FirstRand's corporate loan portfolio, transferring it off the bank's balance sheet into the capital markets.

- Pre-plant crop finance – RMB has created an innovative solution, together with FNB Rural Bank, which allows a farmer to forecast his cash flow, a first in the industry.

- FNB Corporate was the first, and is still the only rated custodian in South Africa.

FNB CORPORATE

FNB Corporate is a major provider of transactional banking services and credit facilities to large and medium size corporates, financial institutions and government departments.

Financial highlights

- Profits after tax increased by 26% to R424 million.
- Advances grew by 14%.

Operational achievements

- FNB Corporate was voted the number two corporate bank in the PricewaterhouseCoopers Banking Survey 2002.
- Excellent progress was achieved across all divisions with particular successes in the areas of Trade Services, Forex and Property Finance.
- Custody Services increased its transactional volumes by more than 200% and is the only rated sub-custodian in South Africa for the second year running, as rated by Global Custodian.
- Uncertainty surrounding the provisioning for bad debts in respect of the retail furniture industry was satisfactorily resolved.
- The Specialised Finance division was established to provide a link to improve co-operative marketing between FNB Corporate and RMB.
- Other collaborative marketing strategies that were particularly successful included WesBank Asset Finance and Bancassurance projects.

Prospects

- The division will continue to focus on building a partnering relationship with its customers.
- Collaborative marketing with other FirstRand companies is expected to deliver extensive benefits to the group.
- The year ahead has a very strong growth focus, with service as a differentiator at its core.

RAND MERCHANT BANK/INVESTMENT BANKING

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

Financial highlights

- Profit after tax increased by 25% to R677 million.
- Excellent results were achieved across all divisions with RMB Treasury in particular making substantial gains.
- Losses in respect of the international loan portfolio totalled R474 million.

Operational achievements

- Ranked top financial services business and second overall in the Deloitte & Touche Human Capital "Best Company to Work for" survey.
- RMB Corporate Finance was rated number one in listings and number two in mergers and acquisitions in the PricewaterhouseCoopers Banking Survey 2002.
- Significant innovation was apparent in a number of landmark deals including Africa's first synthetic collateralised securitisation structure valued at R12,5 billion.
- RMB Trading positioned itself extremely well to take advantage of the opportunities presented by volatile markets. Record profits were achieved with strong contributions from interest rates, forex, agriculturals and equities.
- Private Equity achieved good realisations and continued to improve the unrealised value of its book.

Prospects

- In a market characterised by relatively volatile and unpredictable income and increasing competition, RMB is well placed to retain its position as one of South Africa's premier merchant banks.
- RMB will continue to position itself as an employer of choice to attract and retain the quality intellectual capital that is its business.

MOMENTUM EMPLOYEE BENEFITS

MOMENTUM
EMPLOYEE BENEFITS

MEB offers insurance benefits, consulting, administration, risk and investment solutions to the corporate and union market.

Financial highlights

- Profits after tax declined by 10% to R107 million following adverse experience in respect of AIDS-related claims.
- New risk premium income increased by 32%.
- Fee income more than doubled through innovative solutions to clients needs on structured insurance products, such as pensioner liability outsourcing.

Operational achievements

- Good progress is being made with the development of and migration of business to a new administration platform.
- Momentum Distribution Services has been contracted as a distribution channel, and products have been adapted to suit the needs of this channel.

Prospects

- Steps have been taken to ensure the active monitoring and repricing of risk schemes to recognise the increasing incidence of AIDS. This will result in an improvement in risk profitability.
- The division is seeking a black empowerment partner in respect of its trade union-related business.
- Prospects for collaborative marketing with FNB Corporate and RMB are positive.

FIRSTRAND ASSET MANAGEMENT

RMB ASSET MANAGEMENT

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

FRAM companies include RMB Asset Management (RMBAM), RMB Investment Services, RMB Properties, 40% of Futuregrowth Asset Management (Futuregrowth), FirstRand International Asset Management and 87% of the Jersey General Group.

Financial highlights

- On a comparable basis to last year, excluding foreign exchange translation gains, after-tax profit increased by 15%.
- Market volatility in equity and currency markets made for extremely difficult conditions during the year.
- Assets managed now total R142 billion of which R88 billion represents off-balance sheet assets.
- An impairment of R210 million was charged against attributable earnings, in addition to the normal goodwill amortisation, to bring the carrying value of Jersey General Group in line with the current valuations of similar operations in the UK fund management market.

Operational achievements

- In July 2001, a further 32% of the international asset manager, Jersey General Group (Ashburton), was acquired, bringing the group's total holding to 87%.
- In January 2002, 40% of Futuregrowth was sold to WipCapital in a major black economic empowerment initiative.
- The investment team improved their one-year performance rating relative to competitors as reflected in the Alexander Forbes Global Large Manager Watch.
- Unit Trust performance was ranked in the top quartile overall of the Plexus survey of Unit Trust Performance to June 2002.

Prospects

- Investment returns remain the main profit driver for the asset management group and earnings growth will be determined to a large degree by the performance of local and international investment markets.
- Futuregrowth earnings are expected to benefit from its BEE status.
- Further consolidation in the asset management industry is expected and the group is well positioned to participate in this consolidation.

The Wealth Cluster

HILLIE MEYER

The Wealth Cluster provides products and services to the middle and upper income groups. Its businesses include the following:

Momentum Life	– develops and markets investment and risk products that create and preserve wealth
Momentum International MultiManagers	– provides multi-management asset management products and services
Origin	– provides differentiated banking and investment products
Ansbacher SA	– provides holistic wealth management services focusing on personalised banking, advisory and portfolio management services

THE WEALTH CLUSTER WAS F1RST

Businesses within the wealth cluster were first with the following innovations:

- Client loyalty – The past year saw Momentum introducing a new and different approach to rewarding client loyalty. As opposed to viewing the reward of client loyalty as something separate to its product offering, Momentum embeds client rewards into the basic features of its new products.

  Two recent examples of the above were:

  - The Investo Maximiser maturity loyalty bonus – an investment industry first;
  - The launch of a new-generation Myriad risk product, where a healthy lifestyle automatically leads to enhancements to the client's basic risk benefits.

- Origin single facility – The credit arbitrage between different types of bank account (overdraft versus home loan, current account versus call account) and the forced client inconvenience of having different bank accounts, provided Origin with a financial imagineering opportunity. Origin created the Origin Single Facility that combines debt consolidation (which Origin pioneered in 1998), with transactional functionality into one facility.

- Momentum Personal offshore portfolio – When Momentum launched a product that allowed clients to use their individual offshore allowances, they introduced a unique structure. This unique structure turned a recurring premium product into a single premium product, thereby streamlining the cumbersome approval process required by the authorities. It was an industry first and an immediate success.

- FNB Trust Survivor plan – FNB Trust Services developed and launched a truly unique product combining creative forces across various business units in FirstRand. The product, known as Survivor Plan, provides a client with a will, and automatically provides an amount at death to cover executors' fees as well as monthly income to a nominated beneficiary.

- Embedded value techniques used in banking – Actuaries have developed techniques to value insurance contracts and to monitor the performance of these products relative to accepted benchmarks. These techniques were applied to banking products, and assisted the group in understanding the financial dynamics of banking products.

MOMENTUM LIFE AND MOMENTUM INTERNATIONAL MULTIMANAGERS

Momentum develops and distributes products that create and preserve wealth in the middle-to-upper-income market. Momentum International MultiManagers is the group's multi-manager and investment research house.

Financial highlights

- After-tax profits increased by 24% to R382 million.
- New premium income was impacted by increased limitations on foreign asset swap capacity.
- There was a pleasing reduction in capital adequacy requirements as a result of the capital management programme.

Operational achievements

- Further improvements in operating efficiencies kept administration cost increases to 7% (excluding once-off retrenchment costs).
- There was an improvement in mortality experience and good gains were made in increasing market share of risk business.
- Specialist investment and risk product houses were established as separate product suppliers.
- Momentum Distribution Services improved its alignment with distribution partners through segmentation of financial advisors and differentiated service and product offerings.
- An initiative was launched to improve the lifetime value of existing clients, through client segmentation, differentiated service and the measurement of profitability at individual client level.
- Momentum International MultiManagers (MIMM) was formed by consolidating the local multi-manager operation, Momentum Advisory Service, with Ansbacher International MultiManagers in the UK. MIMM now manages a total of R27,3 billion in assets on a multi-manager basis.

Prospects

- Further collaboration with the Banking Group is expected to result in new opportunities.
- Completion of merger-related activities will allow the company to focus externally. A number of new product launches are planned, commencing with a new risk product in October 2002.
- Improved customer service and tailored offerings to existing clients are expected to improve the value of existing business.

PRIVATE BANKING – DOMESTIC

Ansbacher SA and Origin

Ansbacher (South Africa) provides an holistic wealth management offering to high net worth individuals focused on personalised banking, advisory and portfolio management services.

Origin, the Merchant Bank for Individuals, is focused on the provision of differentiated banking and investment products to the high income market.

Financial highlights

- Combined profits after tax increased to R16 million following losses of R19 million in the previous year.
- Origin achieved its maiden profit.
- Deposits increased by 39% to R2,2 billion.
- Advances grew by 18%.

Operational achievements

- The back-office processing, administration and management teams of Ansbacher (SA) and Origin have successfully been integrated.
- Good progress has been made in the marketing of Origin banking facilities through the Insurance Group's distribution channel, Momentum Distribution Services.

Prospects

- The group will rebrand private banking operations in the new year as it seeks to become the leading private bank in South Africa.
- The savings achieved following the rationalisation of back offices, together with a broadening of the product offering, is expected to yield increased earnings.

The Health Cluster

ADRIAN GORE

Discovery is 63% owned by Momentum Group. It is listed on the JSE Securities Exchange and is responsible for the FirstRand Group's health related products and services.

Discovery's businesses comprise the following:

Discovery	– a specialist insurance company that finances and manages healthcare and other related risks
Discovery Health	– provides affordable, sustainable, quality health care to over 1,2 million people
Discovery Life	– offers focused, flexible, comprehensive risk coverage to meet the entire spectrum of protection needs
Destiny Health	– a pioneer of consumer-directed health care in the US market
Discovery Vitality	– a manifestation of Discovery's core purpose of making people healthier and enhancing and protecting their lifestyles. Based on clinical actuarial and scientific expertise, Vitality distils the science of wellness into an easy-to-follow programme

THE HEALTH CLUSTER WAS F1RST

Businesses within the Health Cluster were first with the following innovations:

- Discovery Health Medical Savings Account – The launch of the Medical Savings Account, a trademark of Discovery, created a paradigm shift in healthcare funding in South Africa by empowering consumers to control their healthcare expenditure. Today over 90% of medical schemes offer a medical savings account in South Africa.

- Discovery Health online claim submission – Discovery was the first health insurer to enable members to process their own claims online in real time. This gave members the ability to bypass claims submission processes and dramatically improve service.

- The Life Plan – The Discovery Life Plan is based on the underlying actuarial structure of invested risk benefits. Through this structure, policyholders are able to invest the value of their total life cover, and not simply the underlying assets, in a range of hard currencies and financial indices. The result is compelling: while paying a stable rand premium, policyholders can have their cover denominated in a hard currency such as the US dollar.

- The Global Education Protector is based on the unique concept of indemnity assurance. It provides protection in the event of death, disability or severe illness against the actual cost of education of a policyholder's children, from primary school to university. Cover includes top overseas universities such as Harvard and Oxford.

- Vitality Healthstyle – Vitality is internationally patented as the first points-based wellness programme. It focuses on improving member's health and enhancing their lifestyles by giving immediate access to a range of health facilities, creating incentives to utilise these and giving members valuable rewards, based on their health status. Vitality gives members access to travel, leisure and lifestyle partners at unprecedented rates.

- VitalityMed – Traditional disease management programmes have consistently failed as a result of their focus on penalising members for non-compliance. VitalityMed changed the paradigm in disease management by harnessing the unique structure of Vitality to reward members suffering from a chronic illness for ongoing disease management compliance and health improvements.

DISCOVERY

Discovery, a 63% owned subsidiary of Momentum Group, focuses on making people healthier and protecting and enhancing their lifestyles. Discovery products relate to healthcare funding and life insurance and are underpinned by the Vitality wellness programme.

Financial highlights

- Headline earnings after tax and minorities increased by 14% to R131 million.
- Embedded value increased by 5% to R3 312 million.
- Group income was up 25% to R3,5 billion.

Operational achievements

- Resolution was reached with the Council of Medical Schemes. This had a negative impact on embedded value.
- Discovery Health membership increased by 23% to 1,18 million members.
- Substantially improved benefits were introduced for Vitality members.
- Discovery Life wrote annualised new business premiums of R264 million and was profitable in its first full year of operation.
- Destiny Health, operating in the USA, wrote new business premiums of R206 million.

Prospects

- New health funding solutions are to be developed for the lower income market.
- Continued new business growth is expected from all sources, especially Discovery Life and Destiny Health.
- The growth of Destiny Health and Discovery Life will require further funding.

Report on operations – International Cluster

ANSBACHER HOLDINGS GROUP

ANSBACHER

The Ansbacher Group provides tailored financial solutions to high net worth clients worldwide.

Financial highlights

- The Ansbacher Group had an extremely challenging year with after tax earnings of R8 million reflecting a decrease of 87% from the prior year.
- The global economic impact of the 11 September attack and the impact of the wave of US accounting scandals on global credit markets had a negative effect on both core and non-core activities.
- Interest margins in the Caribbean banking group and proprietary investment and trading books in the group's central treasury were hardest hit.

Operational achievements

- Regionalisation of both the Channel Islands and Caribbean businesses was successfully completed during the year. A further refinement of processes was the introduction of functional line management across the group which will ensure commonality of purpose and effective implementation of the group's strategy across all business lines.
- The group's technology strategy has maintained its focus on the delivery of client-centric banking and fiduciary systems that are critical as it seeks to further strengthen client relationship management capabilities.
- New business initiatives including Ansbacher Wealth and the development of an international banking solution for FirstRand Group clients were developed further during the course of the year. These developments are in line with the strategy of increasing the range of private banking activities conducted within the UK banking operation.

Prospects

- The internal reorganisation within the Ansbacher Group over the past three years is now largely complete. As operational efficiencies continue to improve, the focus has shifted to the implementation of the growth strategy which seeks to ensure that Ansbacher achieves a market position of sufficient scale.
- As part of the desire to optimise the FirstRand Group's international wealth management activities, it is proposed that the relevant internationally based businesses should be combined under the umbrella of one international private banking/wealth management organisation. It is proposed that this organisation would then form part of the FirstRand Wealth Cluster.

GROUP CAPITAL

Capital Centre

The Capital Centre owns the capital of the banking group.

Financial highlights

- Earnings after tax increased from R83 million to R310 million.
- The Capital Centre, which was negatively impacted in the prior year by levels of provisioning, delivered a considerably better performance in the current year.
- Aided by a higher average interest rate, and a larger capital base, growth has been driven by the capital endowment effect.
- The current level of earnings sets an acceptable base for the future profitability of the Capital Centre.

Shareholder Assets – Insurance Group

Shareholder assets represent the investment of the Momentum Group's free reserves.

Financial highlights

- Investment income increased by 11% to R190 million.
- Growth in income was impacted by the payment of an additional R300 million of dividends in excess of the Momentum Group's normal dividend policy. This forms part of the greater group's capital optimisation programme.
- African Life, which is equity accounted, reported a 40% increase in headline earnings per share.

Corporate governance statement

The King Report on Corporate Governance for South Africa 2002

FirstRand is dedicated to the highest standards of corporate governance. The directors of FirstRand and its various subsidiaries endorse the Code of Corporate Practices and Conduct (the "King Code 2002") contained within the King Report on Corporate Governance for South Africa 2002 (the "King Report 2002"). The directors are satisfied that the group has in all material respects consistently been in conformance with the provisions and spirit of the King Code 2002 during the period under review. The board recognises that certain practices and processes which are in place need to be formally documented and expects that more progress in this regard will be made during the coming financial year.

Governance ethos

FirstRand subscribes to a strong set of values, which foster innovation, creativity, individual empowerment and personal accountability. These values form the basis upon which group companies are managed and controlled. In keeping with this ethos, while the board of FirstRand is responsible for the maintenance of sound corporate values, it believes that implementation is best managed at an operational level. Each principal subsidiary has its own board of directors, executive team, audit and remuneration committees that monitor operations. A consistent policy of corporate governance is applied throughout the group.

The corporate governance framework ensures that the boards play a leading role in the strategic guidance of the group and the effective monitoring of management in discharging their accountability to shareholders and responsibilities to stakeholders through meaningful and effective disclosure.

FirstRand's activities are increasingly international in nature. The board is mindful of the group's need to adhere to best governance practice and the group actively monitors international developments in this respect.

The board of directors and its committees

Composition

FirstRand has a unitary board with a chairman who is a non-executive director. The roles of chairman and chief executive officer are separate with segregated roles and duties.

The board comprises fifteen directors. Ten are considered independent non-executive directors, while two are non-executive and three are executive directors. The directors of FirstRand are listed on page 2 of this report and their profiles appear on page 194. Those who are regarded as independent and non-executive are reflected as such.

The board comprises individuals of high calibre with diverse backgrounds and expertise, each of whom adds value and brings independent judgement to bear on the board's deliberations and decision-making process. The board continually evaluates its requirements as to the appropriate mix of skills and experience required to ensure that its composition remains optimal for the effective discharge of its responsibilities. Changes to the composition of the board will be recommended to shareholders as required.

An induction and orientation programme is available to meet the needs of each respective incoming director.

Subsidiary boards

FirstRand has two principal wholly owned subsidiaries. These are FirstRand Bank Holdings (the "Banking Group") and Momentum Group (the "Insurance Group"). The boards of these organisations are subject to the oversight of the South African Reserve Bank and the Financial Services Board, respectively. Both boards comprise members who enjoy the combination of technical skills and experience necessary to effectively direct and control their respective businesses. Membership of these boards includes executive, non-executive and independent non-executive directors. The deliberations of these boards are reported to the FirstRand board on a quarterly basis.

Board duties

The board has a fiduciary duty to act in good faith, with due diligence and care, and in the best interests of the company and all stakeholders. It is the guardian of the values and ethics of the company and its subsidiaries. It is accountable to the shareholder body as a whole. The fundamental responsibility of the board is to improve the economic prosperity of the group. The board has full and effective control over the group. Control is exercised through the executive committee and the boards of the Banking Group and the Insurance Group. Reports from the executive committees and the two subsidiary boards are reviewed at each FirstRand board meeting.

The board is responsible for appointing the chief executive, guiding and reviewing corporate strategy and major plans of action, corporate governance and risk policy. In so doing, the board and subsidiary boards monitor business plans, key performance indicators, including non-financial criteria, and annual budgets, while overseeing major capital expenditures, acquisitions and disposals and any other matters that it has defined as material. The board is also responsible for managing successful and productive relationships with stakeholders.

The board charter is being reviewed to ensure that it is aligned with the recommendations of the King Report 2002.

Term of appointment

The full board, under the leadership of the chairman, is responsible for the process of nomination and recommendation to the shareholders for appointment of new directors and for the re-appointment of existing board members. Non-executive directors are appointed for three years and are subject to Companies Act provisions relating to removal. Non-executive directors retire by rotation every three years and are eligible for re-election. Re-appointment of non-executive directors is not automatic. The retirement age of directors is set at age 70 across the group. The executive directors all have contracts that can be terminated with one month's notice.

Board proceedings

The board meets once a quarter. A further meeting is devoted solely to a review of strategic plans and the resulting budgets. Additional meetings may be convened when major issues arise, which need to be resolved between scheduled meetings. The boards of the Banking and Insurance Groups meet eight times a year.

Five meetings of the FirstRand board were held during the year under review. Messrs Bartlett, Craig, Maharaj and Falck were absent for two meetings and Messrs King and Van Zyl Slabbert were absent for one meeting. The remaining directors attended all the meetings held.

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

Board committees

To assist the board in discharging its collective responsibility for corporate governance, several committees have been established, to which certain of the board's responsibilities have been delegated. The board determines whether there is a need for committees focusing on specific areas of the group's activities. Board committees currently in place are:

Executive committee

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

Membership of Exco now includes the chief executives of group clusters, which focus on specific target markets. The purpose of these clusters is to ensure that customers are exposed to all the group's products and services in a way that allows group operating divisions to best serve their needs. This management format was formalised during the course of the period under review and facilitates collaboration between the Banking and Insurance Groups. The clusters are:

- Retail Cluster – targeting individual consumers
- Corporate Cluster – targeting large corporate and commercial enterprises
- Wealth Cluster – targeting the middle and upper income market
- Health Cluster – targeting the private health market
- International Cluster – targeting high net worth clients worldwide

A capital centre is responsible for managing the capital of the Banking and Insurance Groups.

The members of the FirstRand Exco are listed on page 3.

Audit committees

The Audit Committee of FirstRand includes the chairmen of the Banking and Insurance Group's audit committees and the chief executive officer. The chairmen of the audit committees are independent non-executive directors who are chartered accountants. The principal function of the FirstRand Audit Committee is to review the findings and reports of the Banking Group and Insurance Group audit committees, which review the activities of their respective groups. The FirstRand Audit Committee also monitors and reviews the activities of the audit committees of Discovery Holdings and OUTsurance.

All group audit committees have adopted formal written terms of reference approved by their respective boards dealing with membership, structure, authority and duties.

The primary objective of the audit committees is to promote the overall effectiveness of corporate governance in the group and has the power to examine any financial, operating or strategic matters in relation to the group. Their responsibilities to their respective boards include:

- reviewing the integrity, reliability and accuracy of accounting and financial reporting systems;
- reviewing systems in place for monitoring risk, control, and compliance with the law and codes of conduct;
- reviewing, with the external auditors and management, the adequacy and effectiveness of the internal audit, risk, compliance and forensic investigation management functions in relation to their coverage plans and against best practice;
- maintaining transparent and appropriate relationships with the respective firms of external auditors; and

- reviewing the scope, quality and cost of the statutory audit and the independence and objectivity of the auditors.

The members of the FirstRand Audit Committee are:
B H Adams (Chairman), Chairman of the Insurance Group Audit Committee
L L Dippenaar, chief executive
M W King, chairman of the Banking Group Audit Committee

Given the group's structure, the board deems it appropriate that the chief executive should be a full member of the FirstRand Audit Committee.

Two meetings of the FirstRand Audit Committee were held during the year under review. All the members were present. The external auditor and group chief financial officer were in attendance, together with other members of the management team, including the internal auditors, as required.

Remuneration Committee

The FirstRand Remuneration Committee includes the chairmen of the remuneration committees of the group's principal subsidiaries. The committee determines on behalf of the shareholders the group's policy on executive remuneration and approves the remuneration of executives and employees of the company. It is also responsible for the group's share incentive schemes. No executive director is involved in the setting of his own remuneration.

The primary objective of the remuneration committees is to develop the reward strategy for the group and its subsidiary companies. Their responsibilities to their respective boards include:

- evaluating the performance of executive directors;
- recommending remuneration packages for executive directors;
- recommending policy relating to the group's share incentive schemes; and
- recommending the quantum of non-executive directors' fees.

The members of the FirstRand Remuneration Committee are:
G T Ferreira (chairman), chairman of the RMB Remuneration Committee and the FirstRand Bank Holdings Remuneration Committee;
B H Adams, chairman of the Insurance Group Remuneration Committee;
L L Dippenaar, chief executive;
M W King, independent non-executive director; and
R Williams, chairman of the FNB Remuneration Committee

The FirstRand board has recommended that the committee meet three times annually.

Performance evaluation

The directors undertook a preliminary evaluation of the board's effectiveness during the period under review. The board anticipates that this process will be improved and extended to cover each individual director and the respective committees during the coming financial year.

FirstRand espouses a remuneration philosophy that promotes active widespread ownership for collective organisational goals and bases reward on individual contribution to their achievement. Further details relating to FirstRand's remuneration practices can be found on page 32 of this report.

Details of each respective director's remuneration for the period under review can be found on page 199 of this report. At the board's direction, the FirstRand Remuneration Committee will give consideration during the coming financial year to a revised structure of non-executive directors' fees, to ensure that they appropriately reflect individual contributions to board and committee activities.

Management succession planning

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

Company secretary

The company secretary of FirstRand is suitably qualified and experienced and was appointed by the board in 1998. The role of the company secretary in providing support and guidance to the board in matters relating to good governance and ethical practices is expected to be strengthened during the course of the coming financial year.

Auditor independence

The group financial statements have been audited by the independent auditors PricewaterhouseCoopers Inc. To date, FirstRand believes that the external auditor has observed the highest level of business and professional ethics. It has no reason to believe that the external auditor has not at all times acted with unimpaired independence.

It is FirstRand's policy to ensure that the group makes use of the most suitable organisation for any professional services it may require. Fees for non-audit services are disclosed in the financial statements of the Banking and Insurance Groups.

Risk management and internal control

Group philosophy

The group's philosophy on risk recognises that managing risk is an integral part of generating sustainable shareholder value and enhancing stakeholder interests. Group boards are accountable for establishing, maintaining and monitoring the effectiveness of the process of risk management and system of internal control applied throughout the group and in any joint ventures and associations to which the group or any subsidiary is party.

The group's risk management and control framework covers the following key aspects:

- Identifying key performance indicators
- Identifying significant business risks
- Maintaining proper accounting records
- Ensuring the reliability of financial and non-financial information used within the business for decision-making or for publication
- Ensuring compliance with applicable laws, regulations and codes of conduct
- Ensuring that the group is not unnecessarily exposed to avoidable financial risks such as the risks associated with fraud, potential liability and loss, including the safeguarding of assets
- Managing potential conflicts of interest of management, board members and shareholders, including misuse of corporate assets and abuse in related party transactions
- Ensuring the effectiveness and efficiency of operations
- Ensuring that the appropriate balance is struck between entrepreneurial endeavour and sound business practice

Overall effectiveness of control environment

As with most systems of internal control, the effectiveness of internal control systems in the group is subject to inherent limitations, including the possibility of human error, poor decision-making, the deliberate circumventing of controls by employees or others, management overriding controls, and the occurrence of unforeseeable circumstances. Control systems are therefore designed to manage, rather than eliminate, the risk of failure. Accordingly, it is recognised that a sound system of internal control can provide only reasonable and not absolute assurance against risks impacting the achievement of business objectives or any material misstatement or loss.

Management reports regularly to the respective group boards on the effectiveness of the group's risk management and control framework. The effectiveness of this framework is subject to continuous review. The board is satisfied that management maintains adequate accounting records and has developed, and continues to maintain, an effective system of internal control. An ongoing process of identifying, evaluating and managing the significant risks faced by the group has been in place for the period under review. During the period under review and up until the date of approval of the annual report and financial statements, nothing has come to the attention of the directors to suggest that any material breakdown in the functioning of the controls, procedures and systems has occurred, which could result in material losses, contingencies or uncertainties that would require disclosure in the financial statements.

Group risk management and control framework

The key aspects of the group's risk management and control framework are summarised below.

Risk assessment and management

Operational risk differs throughout the group, corresponding to the operational differences between business units. Operational responsibility for risk management lies with the management and employees of each profit centre or subsidiary, considering their particular circumstances. Profit centre management has clear responsibilities and accountability for the ongoing identification, assessment and understanding of risks facing their businesses, and for carrying out procedures to monitor the risks and limit them to acceptable levels, based on cost benefit analyses.

Risk management reviews, focusing on the activities of the Banking Group and Insurance Group respectively and including the activities of specialist committees established to focus on key aspects of the each group's risk profile, are incorporated in the report of the respective group's chief financial officer. The review of the chief financial officer of the Banking Group can be found on page 64 of this report. The review of the chief financial officer of the Insurance Group can be found on page 136.

Specific to the monitoring of the operations of the Insurance Group are actuarial committees. The approved statutory valuators have a fiduciary duty to ensure that sound risk management practices are employed consistently and that the financial soundness of the life insurance operations are maintained with specific regard to actuarial, investment and underwriting risks. Two actuarial committees are in operation to help the boards and the valuators in this regard. An independent non-executive director, who is a qualified actuary, chairs these committees. The actuarial committees have written charters that clearly set out responsibilities and objectives. Attention is focused on the appropriateness of the actuarial assumptions, parameters, valuations and reporting guidelines and practices adopted by the statutory valuator.

Control environment and activities

The group has an organisational structure for planning, executing, controlling and monitoring business operations to achieve group objectives. The structure is designed to provide clear responsibilities, accountabilities and control for key areas in the group's business. Internal affairs are organised and controlled in a responsible manner, proper records are maintained and well-defined procedures are in place. The control structure provides for appropriate segregation of duties such as approval, accounting, verification and reconciliation. Suitable staff, who are adequately trained and properly supervised, are provided with the appropriate tools to support the achievement of the company's objectives and to effectively manage risks for their achievement.

Monitoring and corrective action processes

To react dynamically to changing circumstances, the system of internal control is continually monitored and, where necessary, modified. Monitoring processes include management review, control risk self-assessment and testing by risk managers, the internal audit function and specific testing of financial controls by the external auditors. Risk managers, compliance officers, internal and external auditors base their plans on continuous risk assessments and report weaknesses in control to the respective senior management and audit committees for their consideration and remedial action. All these monitoring functions have the respect and co-operation of the respective boards and management teams.

Internal audit

Each of the group's main business units operates its own internal audit function. This reflects the importance of specialised and dedicated resources in the group's main areas of business activity. Each internal audit function is subject to the supervision of an audit committee in either of the Banking or Insurance Groups and operates to a charter approved by such audit committee. Internal audit charters formally define each internal audit function's purpose, authority and responsibility, consistent with the Institute of Internal Auditors' definition of internal auditing. It includes each internal audit function's responsibility for evaluating the effectiveness of the processes by which risks are identified, prioritised, managed and controlled. To this end, a systematic, disciplined and objective approach has been developed to help the group to accomplish its objectives and assist in evaluating and improving the effectiveness of risk management, control and governance processes.

The internal audit functions are directly responsible to the board and report administratively to the chief financial officer of their respective business units. Their activities are governed by a plan approved by their respective supervising audit committee, which also regularly reviews their activities and progress to plan. These activities include reviews of the reliability and integrity of financial and operating information, the effectiveness of systems of internal control, as a means of safeguarding assets, and the effectiveness of operational activities in the conduct of its businesses.

Regulatory compliance, business ethics and organisational integrity

FirstRand is committed to the highest standards of business conduct and organisational integrity in its stewardship of the group's affairs. It seeks to maintain these standards across all its operations. The prime responsibility for compliance with relevant laws, regulations and codes of business practice rests with the board and, in particular, the chief executive officer.

Compliance

The group has operating procedures to ensure that the business is conducted according to regulatory requirements and adherence to the respective group companies' codes of conduct.

Each location, where asset management or dealing takes place, has dedicated compliance officers, of appropriate experience, to direct day-to-day compliance activities. The compliance functions operate within the framework being developed by the Compliance Institute of South Africa.

When individuals become aware of any material price-sensitive, non-public information the relevant securities are embargoed and no further trades are allowed without the authority of executive management. All personal account dealing by investment staff requires prior approval by a member of senior management. All transactions must be placed through the group's dealing rooms. The compliance officers also monitor personal account dealing.

In terms of formal policies established by the board and implemented by the company secretary, "closed seasons" are identified during which all dealings by directors and staff in group securities are prohibited. The "closed season" includes designated periods before the release of interim and final financial results and any other period considered sensitive.

Business ethics and organisational integrity

Details of the group's values, standards of ethical behaviour and compliance procedures are communicated to staff. Each company has a code of conduct in place, which has been tailored for the various types of business and includes personal dealing and insider trading avoidance procedures. Processes are in place to assess the suitability of prospective new employees, and ethical considerations are taken into account in assessing each employee's suitability for promotion and/or delegated authority. FirstRand adopts a zero-tolerance approach to non-adherence to its code of ethics. Any employee found to be acting contrary to any code of conduct is subject to disciplinary proceedings, which can lead to dismissal or legal action.

Business continuity

Documented business continuity and disaster recovery plans are in place to address the need for the organisation to continue its critical business processes in the event of a disastrous incident impacting its activities and to respond effectively to such incidents. These plans are tested.

Corporate citizenship and sustainable business practices

A strong belief in good corporate citizenship is an integral part of the FirstRand business philosophy, which is based on empowerment and accountability and to which all group companies subscribe. The FirstRand board of directors is committed to good corporate citizenship practices and organisational integrity in the direction, control and stewardship of the group's affairs. This commitment provides stakeholders with the comfort that the group's affairs are being managed in an ethical and disciplined manner. The group subscribes to a philosophy of providing meaningful, timely and accurate communication to its primary stakeholders, based on transparency, accountability and integrity. FirstRand regards its shareholders, customers, employees, suppliers, regulators and the communities in which it operates as its key stakeholders.

Shareholders

Communication

FirstRand's communication practices are designed to allow investors to make informed decisions about the acquisition and ownership of shares. FirstRand communicates formally with shareholders twice a year when it announces interim and year-end financial results. These comprehensive reports are sent to all shareholders and are accessible on the company's internet site (www.firstrand.co.za).

In addition presentations are made both locally and internationally to analysts and fund managers to keep them abreast of strategic developments. These presentations are also made available on the company internet site. An investor relations department deals with ongoing enquiries and facilitates meetings with executive management when appropriate.

Ownership

At 30 June 2002 the largest shareholders were RMB Holdings (32,83%), Remgro (9,56%) and the Public Investment Commissioner (7,25%). International investors held 11,33% of FirstRand's share capital while various employee share trusts held a further 3,73%. If the holdings of Remgro, RMB Holdings and the various employee share trusts are excluded, the free float represented 53,88% of issued shares.

An analysis of FirstRand's share price and trading data appears on page 201.

Customers

FirstRand Group companies provide a comprehensive range of products and services to South African corporates and individuals. In this regard the integrity of its various brands, their image and reputation are paramount.

Brands

FirstRand's mission is "to passionately build and nurture the most compelling range of financial service brands in the business".

FirstRand has a multi-branding strategy. The role of the FirstRand brand is an endorsing one. The brand is symbolic of companies which are entrepreneurial, innovative, youthful, approachable and proudly South African. Integrity and meritocracy, best of breed, are their hallmarks.

The major brands are already symbols of excellence in the South African market. RMB has been the leading investment bank in South Africa for a number of years, while WesBank is pre-eminent in vehicle finance. Momentum is one of South Africa's most respected life insurers and OUTsurance is busy revolutionising short-term insurance. Discovery is unrivalled in health insurance and it is particularly pleasing that First National Bank is now strongly challenging for the top spot in retail and corporate banking.

Customer protection

The Banking Group is a signatory to the Code of Banking Practice which governs the bank's relationship with personal and small business customers in South Africa. The code deals with fairness, communication, customer education, advice, complaints, compliance with statutory regulations, integrity, trust and discrimination. The Insurance Group customers enjoy the protection of the Policyholder Protection Rules promulgated in terms of the Insurance Act. These rules deal principally with disclosure of charges and fees and the rights of customers. The Financial Advisory and Intermediary Services Bill requires that intermediaries are subject to accreditation procedures. All group companies endeavour to ensure that company information is available in plain language.

Customer satisfaction

Group companies arrange for independent research houses to measure levels of customer satisfaction. The results of these surveys and concomitant awards won by a number of group companies indicate that service is reaching new highs. An analysis of the database shows that customers having more than one group product is increasing.

The acquisitions involving Saambou and NBS have gained the Banking Group more than 350 000 new customers.

eBucks.com, the group's customer appreciation programme, awarded eBucks to the value of R82 million to participating customers.

Employees

FirstRand Group companies all seek to be the employer of choice in their respective fields. While divisional human resource consultants meet regularly to share ideas and consult on best practice, implementation of these agreed practices remains a line function.

During the year under review RMB (second), Discovery (fourth), Momentum (fifth) and WesBank (tenth) filled four of the top ten positions in the Deloitte & Touche – Human Capital Corporation's "Best Company to Work For" survey.

Strategy

FirstRand's human resource strategy is to recruit, build and retain the best people from South Africa's diverse population base. In particular, it seeks people with an entrepreneurial attitude and encourages an owner-manager culture. People are empowered, held accountable for their actions and are rewarded appropriately.

Remuneration practices

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

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

Within this divisional framework, remuneration structures comprise:

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

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

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

Where the group provides for medical aid contributions beyond the date of retirement, the present value of such contributions for existing pensioners has been determined and the liability provided for. In the case of current employees, such cost is charged over the service period of the employees concerned. Employees joining the group after a certain date do not receive post-retirement medical aid benefits. The practice of providing post-retirement medical aid benefits was discontinued at that date.

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

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

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

- a series of conventional share option schemes (collectively "the FirstRand Share Option Schemes"); and
- the FirstRand OutPerformance Share Scheme.

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

Details of share options issued are set out at page 48 of this report.

The policy on remuneration of executive directors is consistent with that of senior staff as outlined above. Non-executive directors receive fees for their services as directors and for other services. Non-executive directors do not currently qualify for participation in share incentive schemes. Details of remuneration and fees is disclosed in the annual financial statements.

Employee satisfaction

FirstRand Group companies are expected to comply with both the spirit and the letter of the law when dealing with human resource issues. The effectiveness and integrity of group practices are monitored through staff surveys conducted by independent parties. Results are communicated to staff and corrective action, if necessary, is taken.

Training and education

Staff are encouraged and helped to seek to improve their capabilities. Training and education programmes are regarded as an essential element of the group's investment in human capital and the programme content is based on needs identified in terms of industry trends, best practice and research. All group companies are required to contribute 1% of their payroll in terms of the Skills Development Levies Act. Of this levy 20% is paid directly to the National Skills Authority, under the auspices of the Department of Labour, while the balance is paid to the appropriate Sector Education and Training Authority (SETA). The SETA reimburses companies depending on workplace qualifications and standards.

Certain training and education initiatives are aimed specifically at empowerment and previously disadvantaged individuals. These include the following:

- The Rand Merchant Bank Academy is an internship programme for quantitative analysts;
- FirstRand Audit and Compliance's Training Outside Public Practice Programme (TOPP) as an alternative to serving articles with a registered accounting firm;
- FirstRand Asset Management's Institute of Investment Excellence to transfer skills and build capacity in the investment management industry; and
- Momentum's Insurance College established to create an entry point for young graduates with potential to move into the management of the Insurance Group.

Communication

Forums exist in all major divisions and are designed to ensure two-way communication between management and staff. Communication with staff is the responsibility of line management. The different communication practices are pursued according to location and need. The Banking Group uses an extensive national satellite television network to regularly communicate with its many branches around the country. In addition, in-house magazines and formal report-backs are used by most divisions.

Employee wellness

Of growing importance is the impact of HIV/AIDS on the workforce and the South African economy in general. The group has adopted an HIV/AIDS policy that is based on education, communication, counselling and confidentiality. A group-wide HIV/AIDS project is currently being conducted to ensure that the present strategy is effective relative to the incidence of HIV/AIDS within the group. In-house counselling is available to all group employees in respect of both personal and work related issues.

Health and safety

All companies seek to ensure that employees have a safe and healthy place to work. In keeping with the FirstRand philosophy, the objective of Health and Safety Management departments is to protect the health, safety and wellbeing of employees during the execution of their duties and of persons who enter any of the group's premises. Objectives also include the protection of the environment and company assets.

In pursuit of this objective, the group is committed to compliance with the Occupational Health and Safety Act and the Compensation for Occupational Injuries and Diseases Act, 1993.

Trade union membership

Freedom of association is recognised by FirstRand Group companies and employees are free to join any trade union of their choice. Statistics on trade union representation show that approximately 75% of staff belong to unions, with the majority of these belonging to SASBO.

Employment equity

In line with the business philosophy of empowerment, each business unit is charged with meeting its targets in terms of plans submitted to the Department of Labour as required by the Employment Equity Act.

In addition to setting affirmative action targets aimed at raising the number of designated groups as a percentage of the total staff complement, plans commit group companies to the following in pursuit of appropriate employment equity in the organisation:

- increasing the overall racial diversity of the workforce;
- increasing the number of black and women managers;
- creating awareness of employment equity and diversity amongst employees;
- the establishment of representative diversity forums; and
- awareness of employment opportunities for people with disabilities.

At 30 June 2002, the group employed 31 000 people in South Africa. Of the South African workforce, 49,7% were from the Indian, African and Coloured communities and 64,3% were female. Approximately 0,5% of the workforce comprise people with disabilities. A detailed analysis of the workforce appears on page 198.

Suppliers

In terms of current practice, group companies source suppliers as they think appropriate. In certain instances, discounts are negotiated at a central level and group companies are able to take advantage of the resulting discounts.

The group is in the process of identifying accredited black economic empowerment suppliers through which group companies will be able to source their needs.

Regulators

The majority of the financial services and products provided by the group are regulated by law and supervised by a regulatory authority.

A variety of licences to conduct the businesses concerned have been granted to group companies by the appropriate supervisory bodies. The Bank Supervision Department of the South African Reserve Bank is responsible for the effective supervision of banks. In doing so, it contributes towards a stable and efficient payments and banking system. The supervisory environment promotes sound risk management in banks, good corporate governance, transparency and full disclosure. The Financial Services Board fulfils a similar function in supervising the group's insurance, pension and asset management operations. Medical schemes are supervised by the Registrar for Medical Schemes in the Department of Health. International activities are subject to applicable regulation and supervision by authorities in the respective country of operation.

The group seeks to have a good relationship with the supervisory bodies in general. This relationship is prized, as it enhances the interaction necessary between parties. The group culture of compliance is fostered and promoted on an ongoing basis. Contact occurs on a regular basis between the staff of the various group companies and the supervisory bodies. This contact includes the submission of returns, correspondence, comments on proposed legislative amendments, personal visits and participation in initiatives of industry representative bodies. The group firmly believes that this good relationship with supervisory bodies must be maintained as an essential element of future activities.

The Banks Act requires the directors of the banks within the Banking Group to report to the Registrar of Banks on the systems of internal controls relating to financial and regulatory reporting and their compliance with the Banks Act and Regulations. Such a report is substantially contained in the statement on the responsibility of directors for annual financial statements and in the report of the external auditors to the shareholders and other users of the financial statements. In terms of the Financial Market Control Act and Stock Exchange Act, the independent auditors and compliance officers of asset management companies are required to report to the Registrar of Financial Markets on the system of internal controls and compliance with relevant legislation.

From time to time the group is subject to routine regulatory inspections by the authorities. Group companies seek to provide the maximum co-operation on these occasions. Subsequent to the end of the financial year under review, the Reserve Bank requested Advocate Myburgh to conduct a review of corporate governance processes within all banks in South Africa. The Banking Group's management is confident that its practices will stand up to scrutiny.

Communities

Since the formation of FirstRand, corporate social investment, under the auspices of the FirstRand Foundation, has exceeded R100 million. Group companies contribute 1% of their after tax profits to the FirstRand Foundation. The Foundation is professionally managed by Tshikululu Social Investments whose duties are overseen by a board of trustees comprising both company and community representatives. The Foundation seeks to add value in meaningful ways, complementing and extending the role that group companies themselves play in South Africa's economic life by bringing the same commitment to enterprise and growth to areas of social need and development. The Foundation supports initiatives in the fields of education, health care, skills training and job creation, community care, safe communities and social reintegration programmes, artistic and cultural activities and public policy and environmental programmes.

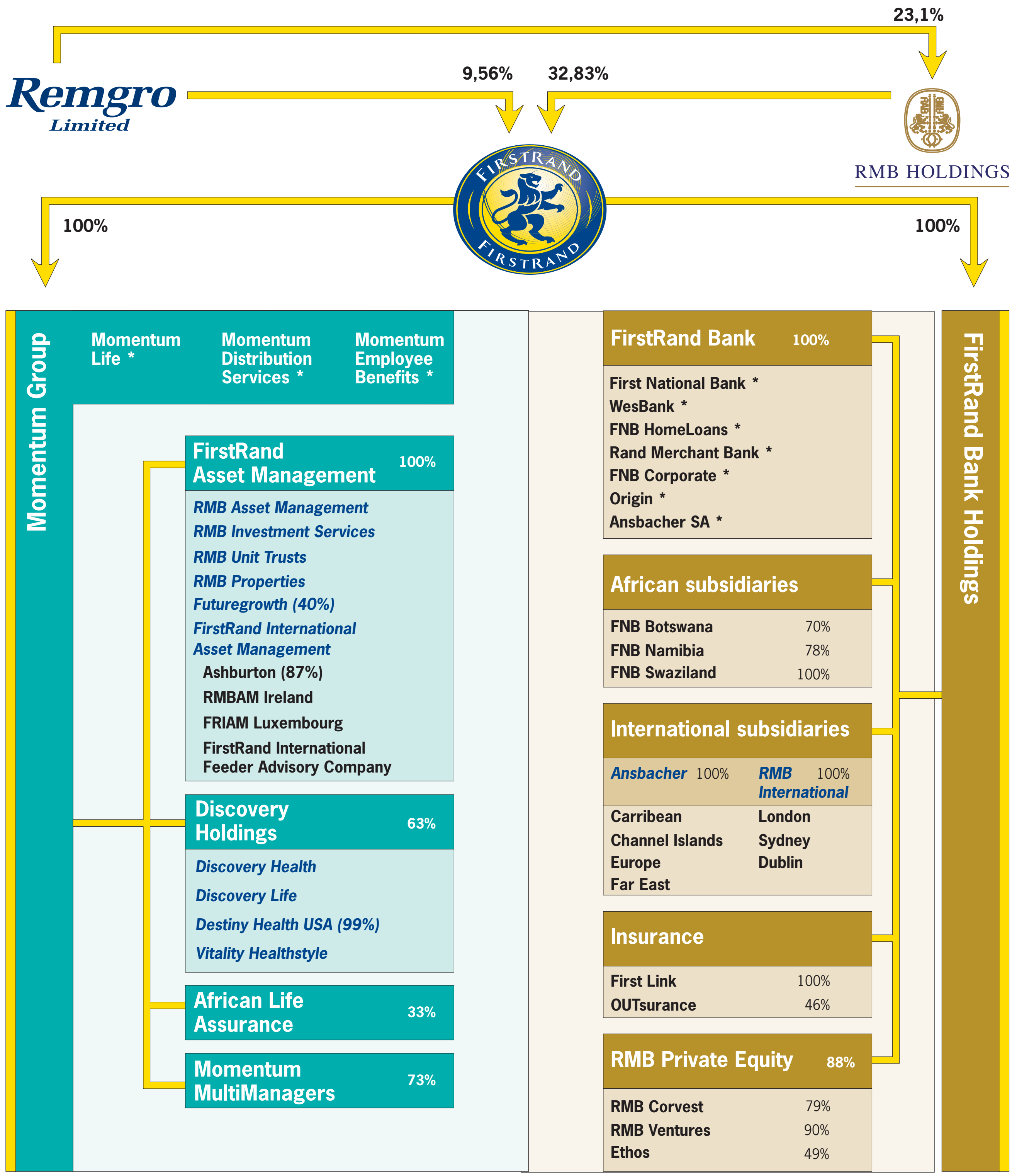
A comprehensive report from the trustees appears on page 196.

In addition certain sponsorships are aimed at community upliftment and staff are encouraged to give their time and energy to assist those who are less fortunate than themselves.

Details of the activities of the FirstRand Foundation can be found on the following website www.firstrandfoundation.org.za.

FirstRand group structure

Showing major subsidiaries and operating divisions by legal entity



* Divisions of Momentum Group Limited

* Division of FirstRand Bank

Directors' responsibility statement

The directors of FirstRand are required by the Companies Act to maintain adequate accounting records and to prepare financial statements for each financial year that fairly present the state of affairs of the company and the group at the end of the financial year, and of the results and cash flows for the year. In preparing the accompanying financial statements, South African Statements of Generally Accepted Accounting Practice have been followed, suitable accounting policies have been applied and reasonable estimates have been made. The financial statements incorporate full and responsible disclosure in line with the group's philosophy on corporate governance.

The directors have reviewed the group's budget and flow of funds forecast for the year to 30 June 2003. On the basis of this review, and in the light of the current financial position, the directors have no reason to believe that FirstRand will not be a going concern for the foreseeable future. The going-concern basis has therefore been adopted in preparing the financial statements.

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

The financial statements of the group and the company for the year ended 30 June 2002, which appear on pages 38 to 57 and 186 to 193 respectively, have been approved by the board of directors and are signed on its behalf by:

G T Ferreira
Chairman

L L Dippenaar
Chief executive officer

Sandton
16 September 2002

Report of the independent auditors

To the members of FirstRand Limited

We have audited the annual financial statements of the group and company set out on pages 38 to 57 and 186 to 193 for the year ended 30 June 2002. These financial statements are the responsibility of the company's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

Scope

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

An audit includes:

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

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

Audit opinion

In our opinion, the financial statements fairly present, in all material respects, the financial position of the group and the company at 30 June 2002 and the results of their operations and cash flows for the year then ended in accordance with Statements of Generally Accepted Accounting Practice in South Africa, and in the manner required by the South African Companies Act of 1973.

PricewaterhouseCoopers Incorporated
Chartered Accountants (SA)
Registered Accountants and Auditors

Sandton
16 September 2002

Directors' report

for the year ended 30 June 2002

Nature of business

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

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

A schedule of group companies is set out on page 36.

Share capital

Ordinary share capital

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

At the annual general meeting of the shareholders of the company held on 26 November 2001 a special resolution was passed authorising the board of directors up to and including the date of the following annual general meeting to approve the purchase of its own shares by the company provided that:

- the general authority shall not extend beyond 15 months from the date of this resolution;
- the general authority to repurchase be limited to a maximum of 20% of the company's issued share capital of that class at the time the authority is granted;
- the repurchases must not be made at a price more than 10% above the weighted average of the market value for the securities for the five business days immediately preceding the date the repurchases were agreed;
- the consolidated assets of the company, fairly valued in accordance with Generally Accepted Accounting Practices, will be in excess of the consolidated liabilities of the company and the group for the next year;
- the company will have adequate capital and reserves for the next year; and
- the working capital of the company and the group will be adequate for the next year's operations.

Preference share capital

9 630 000 "A" preference shares of one cent each issued to the FirstRand Limited Share Trust at a premium of R8,14 per share in March 2000 were redeemed on 2 January 2002 at par plus premium.

9 150 000 new "A" preference shares of one cent each were issued to the FirstRand Limited Share Trust on 2 January 2002, at a premium of R7,44 per share.

Earnings

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

R million	2002	2001
FirstRand Bank Holdings	**3 744**	2 787
Momentum Group	**1 038**	943
FirstRand Limited	**(61)**	(41)
Total headline earnings	**4 721**	3 689
Headline earnings per share (cents)	**86,7**	67,7

Dividends

The following ordinary cash dividends were declared for the 2002 financial year:

Cents per share	2002	2001
Interim (declared 27 February 2002)	**13,50**	11,25
Final (declared 16 September 2002)*	**15,00**	12,50
Total	**28,50**	23,75

** The last day to trade in FirstRand shares on a cum dividend basis will be 25 October 2002 and the first day to trade ex-dividend will be 28 October 2002. The record date will be 1 November 2002 and the payment date 4 November 2002. No dematerialisation or rematerialisation of shares can be done during the period 28 October to 1 November 2002, both days inclusive.*

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

For the six months to 31 December 2001:	R48,2 million (2001: R52,7 million)
For the six months to 30 June 2002:	R51,6 million (2001: R51,6 million)

These dividends are payable at the end of March and October respectively. The "A" preference shares in issue are held by various investment companies owned by the participants in the OutPerformance Share Incentive Scheme administered by the FirstRand Limited Share Trust (The Trust). The Trust holds preference shares issued by these investment companies as well as any surplus "A" preference shares that have not been allotted or that have been repurchased from any of these investment companies since allotment. The preference dividends from the investment companies are received on the same date and at the same rate as the payment of the "A" preference shares per above. The Trust has ceded its right to all the preference share dividends received to FirstRand Limited, which results in a neutral cash flow position for the company.

Directors and secretary

The names of the directors appear on page 2 and the name and address of the company secretary appears on page 202.

At the annual general meeting of shareholders held on 26 November 2001 Mr M C Ramaphosa and Dr F van Zyl Slabbert, who had been duly proposed for election were appointed as non-executive directors of the company.

In terms of the articles of association of the company, one-third of the directors retire by rotation each year.

The following directors retire by rotation in 2002. All are eligible and available for re-election at the annual general meeting:

Messrs P K Harris, M W King, S R Maharaj and K C Shubane

Beneficial interest of 5% or more of the issued ordinary shares

(Disclosure in terms of section 140A(8)(a) of the Companies Act)

RMB Holdings Limited	32,83%	(2001: 32,83%)
Financial Securities Limited (Remgro)	9,56%	(2001: 9,32%)
Public Investment Commissioner	7,25%	(2001: 6,29%)

Events subsequent to the balance sheet date

There is no material fact or circumstance that has occurred between the accounting date and the date of this report.

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

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

P F de Beer (FCIS)
Company secretary

Accounting policies

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

1. Basis of presentation

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

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

2. Consolidation

The financial statements include the results of the holding company and its subsidiaries. Subsidiaries are those companies and other entities in which the group, directly or indirectly, has a long-term interest and has power to exercise control over the operations. Subsidiaries are consolidated from the date on which effective control is transferred to the group and are no longer consolidated from the effective date of disposal. The assets and liabilities acquired are included in the balance sheet at their estimated fair values. All inter-company transactions, balances and unrealised surpluses and deficits on transactions between group companies have been eliminated.

3. Investment in subsidiaries

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

4. Recognition of liabilities, provisions and assets

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

No liability is recognised for:

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

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

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

5. Cash and cash equivalents

For the purpose of the cash flow statements, cash and cash equivalents comprise:

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

6. Deferred taxation

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

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

7. Accounting policies specific to banking and insurance

For detailed accounting policies relating to the banking and insurance operations, please refer to pages 88 to 93 and 149 to 153 respectively.

Balance sheet
as at 30 June

R million	Notes	Group 2002	Group 2001
ASSETS			
Banking operations		**246 336,7**	169 444,2
Cash and short-term funds	3	**24 783,9**	10 133,4
Short-term negotiable securities	4	**3 429,2**	6 104,7
Liquid assets and trading securities	5	**37 939,3**	27 148,2
Advances	6	**175 160,3**	123 343,2
Other investments	7	**3 286,1**	2 714,7
Non-recourse investments	8	**1 737,9**	–
Insurance operations		**76 460,8**	70 509,5
Funds on deposit	9	**13 333,4**	6 160,2
Government and public authority stocks		**9 867,6**	8 738,6
Debentures and other loans	10	**9 675,5**	8 723,7
Policy loans		**579,8**	516,8
Equity investments	11	**40 100,1**	43 331,3
Investment properties	12	**2 904,4**	3 038,9
Current assets	13	**10 522,9**	7 307,4
Loan	14	**1 149,7**	1 108,4
Investments in associated companies	15	**1 735,7**	978,0
Derivative instruments	16	**32 342,2**	17 681,7
Deferred taxation asset	17	**1 264,2**	254,0
Intangible assets	18	**942,1**	524,6
Retirement benefit asset	19	**–**	126,1
Property and equipment	20	**4 045,4**	3 497,0
Total assets		**374 799,7**	271 430,9
LIABILITIES AND SHAREHOLDERS' FUNDS			
LIABILITIES			
Deposit and current accounts	21	**201 404,0**	141 460,9
Non-recourse deposits	8	**1 737,9**	–
Current liabilities	22	**13 789,6**	12 481,6
Provisions	23	**925,9**	782,3
Taxation	24	**508,0**	376,3
Derivative instruments	25	**37 215,2**	24 057,7
Short trading positions	26	**16 798,7**	429,4
Deferred taxation liability	17	**2 288,3**	1 526,0
Post-retirement medical liabilities	27	**1 210,7**	1 123,8
Long-term liabilities	28	**4 229,6**	3 835,2
Life insurance fund	29	**73 273,6**	67 917,0
Total liabilities		**353 381,5**	253 990,2
Outside shareholders' interest	30	**1 111,9**	855,4
SHAREHOLDERS' FUNDS			
Share capital and share premium	31	**9 584,6**	9 594,9
Reserves	32	**10 721,7**	6 990,4
Total shareholders' funds		**20 306,3**	16 585,3
Total liabilities and shareholders' funds		**374 799,7**	271 430,9
Contingencies and commitments	33	**27 283,7**	17 927,8

Income statement

for the year ended 30 June

R million	Notes	Group 2002	Group 2001
BANKING OPERATIONS			
Interest income	Banking note 23.1	**18 720,9**	15 185,1
Interest expenditure	Banking note 23.2	**(12 304,5)**	(9 769,7)
Net interest income before impairment of advances		**6 416,4**	5 415,4
Charge for bad and doubtful debts	Banking note 7	**(1 704,8)**	(1 143,4)
Net interest income after impairment of advances		**4 711,6**	4 272,0
Non-interest income	Banking note 23.3	**8 319,3**	6 445,8
Other non-interest income		**7 771,3**	6 238,8
Translation gains		**548,0**	207,0
Net income from operations		**13 030,9**	10 717,8
Operating expenditure	Banking note 23.4	**(8 377,8)**	(7 179,6)
Income from operations		**4 653,1**	3 538,2
Share of earnings of associate companies	Banking note 11	**367,8**	134,3
Income before indirect taxation		**5 020,9**	3 672,5
Indirect taxation	Banking note 13	**(280,6)**	(225,2)
Income before direct taxation		**4 740,3**	3 447,3
Direct taxation	Banking note 13	**(818,2)**	(536,6)
Income after taxation		**3 922,1**	2 910,7
Earnings attributable to outside shareholders		**(181,9)**	(131,3)
Earnings from banking operations	Banking note 30	**3 740,2**	2 779,4
INSURANCE OPERATIONS			
Group operating profit after taxation		**648,0**	715,1
Premium income	Insurance note 22	**19 245,1**	17 636,0
Investment income attributable to life fund	Insurance note 23	**5 842,2**	4 762,7
Policyholder benefits	Insurance note 24	**(17 393,0)**	(14 358,7)
Marketing and administration expenses	Insurance note 19, 20	**(2 530,1)**	(1 969,8)
Impairment of goodwill	Insurance note 8	**(210,1)**	–
Commissions	Insurance note 19	**(934,3)**	(718,6)
Direct taxation	Insurance note 25	**(603,8)**	(322,2)
Indirect taxation	Insurance note 25	**(130,9)**	(121,8)
Realised and unrealised investment surpluses	Insurance note 19	**2 833,6**	4 963,7
Earnings attributable to outside shareholders	Insurance note 19	**(108,1)**	(68,8)
Transfer to life fund	Insurance note 15	**(5 362,6)**	(9 087,4)
Investment income on the shareholders' portfolio		**176,6**	116,0
Interest, dividends and net rentals	Insurance note 23	**195,6**	143,8
Direct taxation on investment income	Insurance note 25	**(19,0)**	(27,8)
Earnings from insurance operations	Insurance note 19, 21	**824,6**	831,1
FIRSTRAND LIMITED		**(61,3)**	(40,8)
Management expenses		**(6,7)**	(1,1)
Secondary tax on companies		**(54,6)**	(39,7)
Goodwill amortised – intergroup		**5,2**	5,2
Earnings attributable to ordinary shareholders	32, 36	**4 508,7**	3 574,9
Earnings per share (cents)	36	**82,8**	65,7
Core operational headline earnings per share (cents)	36	**76,6**	63,4
Headline earnings per share (cents)	36	**86,7**	67,7
Dividend per share (cents)	35	**28,50**	23,75

Cash flow statement
for the year ended 30 June

R million	Notes	Group 2002	Group 2001
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated by operations	38.1	**15 401,2**	14 293,8
Working capital changes	38.2	**(3 218,7)**	4 545,9
Cash inflow from operations		**12 182,5**	18 839,7
Taxation paid	38.3	**(1 412,1)**	(954,6)
Dividends paid	38.4	**(1 415,8)**	(1 157,1)
Net cash inflow from operating activities		**9 354,6**	16 728,0
CASH FLOWS FROM INVESTMENT ACTIVITIES			
Banking investment activities	38.5	**5 930,8**	(6 316,9)
Insurance investment activities	38.6	**(214,5)**	(8 777,7)
Net purchase of property and equipment		**(1 015,2)**	(389,6)
Investment in associates		**(516,2)**	(278,6)
Net purchase of intangible assets		**(183,9)**	(17,5)
Proceeds on disposal of shares in subsidiary		**55,5**	–
Net cash inflow/(outflow) from investment activities		**4 056,5**	(15 780,3)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from/(repayment of) long-term borrowings		**481,3**	(827,0)
Net cash inflow/(outflow) from financing activities		**481,3**	(827,0)
Net increase in cash and cash equivalents		**13 892,4**	120,7
Cash and cash equivalents at the beginning of the year		**16 293,6**	16 100,7
Cash and cash equivalents acquired		**7 931,3**	72,2
Cash and cash equivalents at the end of the year	38.7	**38 117,3**	16 293,6

Statement of changes in equity

for the year ended 30 June

R million	Share capital (Note 31)	Share premium (Note 31)	Retained earnings (Note 32)	Non-distributable reserves (Note 32)	Total share-holders' funds
Balance at 1 July 2000					
As previously stated	55,8	9 539,1	4 517,1	256,7	14 368,7
Changes in accounting policies					
– Recognised employer reserve on pension fund surplus	–	–	155,7	–	155,7
– Leave pay provision	–	–	(309,7)	–	(309,7)
– Post-retirement medical aid liability	–	–	(247,9)	–	(247,9)
– Restatement of investment reserve	–	–	–	(101,4)	(101,4)
Restated balance at 1 July 2000	55,8	9 539,1	4 115,2	155,3	13 865,4
Currency translation differences	–	–	–	141,0	141,0
Revaluation of investment assets	–	–	–	128,5	128,5
Non-distributable reserves of associated companies	–	–	–	27,8	27,8
Movement in other reserves	–	–	–	4,8	4,8
Earnings attributable to shareholders	–	–	3 574,9	–	3 574,9
Dividends	–	–	(1 157,1)	–	(1 157,1)
Balance at 30 June 2001	55,8	9 539,1	6 533,0	457,4	16 585,3
Balance at 1 July 2001	**55,8**	**9 539,1**	**6 533,0**	**457,4**	**16 585,3**
Preference share capital issued and redeemed	**–**	**(10,3)**	**–**	**–**	**(10,3)**
Currency translation differences	**–**	**–**	**–**	**603,6**	**603,6**
Revaluation of investment assets	**–**	**–**	**–**	**60,2**	**60,2**
Non-distributable reserves of associated companies	**–**	**–**	**–**	**11,5**	**11,5**
Movement in other reserves	**–**	**–**	**–**	**(36,9)**	**(36,9)**
Earnings attributable to shareholders	**–**	**–**	**4 508,7**	**–**	**4 508,7**
Dividends	**–**	**–**	**(1 415,8)**	**–**	**(1 415,8)**
Transfer (to)/from reserves	**–**	**–**	**(36,4)**	**36,4**	**–**
Balance at 30 June 2002	**55,8**	**9 528,8**	**9 589,5**	**1 132,2**	**20 306,3**

Notes to the annual financial statements

for the year ended 30 June

1. ACCOUNTING POLICIES

The accounting policies of the group are set out on page 39.

2. TURNOVER

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

R million	Reference	Group 2002	Group 2001
3. CASH AND SHORT-TERM FUNDS			
Banking operations	Banking note 3	**24 643,3**	10 133,4
Consolidation adjustment		**140,6**	–
		24 783,9	10 133,4
4. SHORT-TERM NEGOTIABLE SECURITIES			
Banking operations	Banking note 4	**3 438,9**	6 114,4
Consolidation adjustment		**(9,7)**	(9,7)
		3 429,2	6 104,7
5. LIQUID ASSETS AND TRADING SECURITIES			
Banking operations	Banking note 5	**37 939,3**	27 148,2
6. ADVANCES			
Banking operations	Banking note 6, 7	**175 145,3**	123 328,2
Consolidation adjustment		**15,0**	15,0
		175 160,3	123 343,2
7. OTHER INVESTMENTS			
Banking operations	Banking note 9	**3 286,1**	2 714,7
8. NON-RECOURSE INVESTMENTS/DEPOSITS			
Banking operations	Banking note 10	**1 737,9**	–
9. FUNDS ON DEPOSIT			
FirstRand Limited	FirstRand Ltd pg 186	**4,8**	1,9
Insurance operations	Insurance pg 154	**13 402,5**	6 211,8
Consolidation adjustment		**(73,9)**	(53,5)
		13 333,4	6 160,2
10. DEBENTURES AND OTHER LOANS			
Insurance operations	Insurance pg 154	**9 675,5**	8 978,3
Consolidation adjustment		**–**	(254,6)
		9 675,5	8 723,7
11. EQUITY INVESTMENTS			
Insurance operations	Insurance note 2	**40 212,6**	43 466,8
Consolidation adjustment		**(112,5)**	(135,5)
		40 100,1	43 331,3
12. INVESTMENT PROPERTIES			
Insurance operations	Insurance note 5	**2 904,4**	3 038,9

R million	Reference	Group 2002	Group 2001
13. CURRENT ASSETS			
FirstRand Limited	FirstRand Ltd pg 186	**2,8**	1,7
Banking operations – debtors	Banking note 8	**3 269,4**	2 410,9
Insurance operations	Insurance note 6	**7 462,3**	4 924,0
Consolidation adjustment		**(211,6)**	(29,2)
		10 522,9	7 307,4
14. LOAN			
OutPerformance Share Incentive Scheme loan	FirstRand Ltd note 2	**1 149,7**	1 108,4
Loans to share option trusts are detailed in note 31.			
15. INVESTMENTS IN ASSOCIATED COMPANIES			
Banking operations	Banking note 11	**1 169,3**	496,4
Insurance operations	Insurance note 3	**566,4**	481,6
		1 735,7	978,0
16. DERIVATIVE INSTRUMENTS			
Banking operations	Banking note 26.4	**26 139,4**	14 208,8
Insurance operations	Insurance note 4	**6 202,8**	3 472,9
		32 342,2	17 681,7
17. DEFERRED TAXATION			
FirstRand Limited	FirstRand Ltd note 3	**0,3**	0,2
Banking operations – debit balances	Banking note 13	**1 253,3**	246,3
Insurance operations – debit balances	Insurance note 7	**10,6**	7,5
		1 264,2	254,0
Banking operations – credit balances	Banking note 13	**1 931,5**	1 524,1
Insurance operations – credit balances	Insurance note 7	**356,8**	1,9
		2 288,3	1 526,0
18. INTANGIBLE ASSETS			
Banking operations	Banking note 14	**288,1**	141,4
Insurance operations	Insurance note 8	**747,8**	482,2
Consolidation adjustment		**(93,8)**	(99,0)
		942,1	524,6
19. RETIREMENT BENEFIT ASSET			
Banking operations	Banking note 25.2	**–**	126,1
20. PROPERTY AND EQUIPMENT			
Banking operations	Banking note 12	**3 411,5**	2 910,6
Insurance operations	Insurance note 9	**636,2**	588,4
Consolidation adjustment		**(2,3)**	(2,0)
		4 045,4	3 497,0
21. DEPOSIT AND CURRENT ACCOUNTS			
Banking operations	Banking note 15	**201 404,0**	141 460,9

Notes to the annual financial statements *continued*

for the year ended 30 June

R million		Reference	Group 2002	Group 2001
22.	CURRENT LIABILITIES			
	FirstRand Limited	FirstRand Ltd pg 186	**58,1**	4,4
	Banking operations – creditors and accruals	Banking note 17	**7 014,8**	8 979,6
	Insurance operations	Insurance note 10	**6 034,7**	3 401,2
	Consolidation adjustment		**682,0**	96,4
			13 789,6	12 481,6
23.	PROVISIONS			
	Banking operations	Banking note 18	**831,4**	690,9
	Insurance operations	Insurance note 11	**94,5**	91,4
			925,9	782,3
24.	TAXATION			
	FirstRand Limited	FirstRand Ltd pg 186	**1,2**	1,3
	FirstRand Investment Holdings		**0,2**	–
	Banking operations	Banking pg 94	**429,1**	30,2
	Insurance operations	Insurance pg 154	**77,5**	344,8
			508,0	376,3
25.	DERIVATIVE INSTRUMENTS			
	Banking operations	Banking note 26.4	**31 525,0**	20 358,0
	Insurance operations	Insurance note 12	**5 690,2**	3 699,7
			37 215,2	24 057,7
26.	SHORT TRADING POSITIONS			
	Banking operations	Banking note 16	**16 798,7**	429,4
27.	POST-RETIREMENT MEDICAL LIABILITIES			
	Banking operations	Banking note 25.1	**897,6**	826,4
	Insurance operations	Insurance note 13	**313,1**	297,4
			1 210,7	1 123,8
28.	LONG-TERM LIABILITIES			
	Banking operations	Banking note 19	**3 217,0**	3 303,8
	Insurance operations	Insurance note 14	**1 990,1**	1 104,5
	Consolidation adjustments		**(977,5)**	(573,1)
			4 229,6	3 835,2
29.	LIFE INSURANCE FUND			
	Insurance operations	Insurance note 15	**73 398,5**	68 035,9
	Consolidation adjustment		**(124,9)**	(118,9)
			73 273,6	67 917,0
30.	OUTSIDE SHAREHOLDERS' INTEREST			
	Banking operations	Banking pg 94	**475,0**	464,8
	Insurance operations	Insurance pg 154	**603,2**	374,0
	Consolidation adjustment		**33,7**	16,6
			1 111,9	855,4

R million	Group 2002	Group 2001
31. SHARE CAPITAL AND SHARE PREMIUM		
Share capital		
Authorised		
6 228 000 000 ordinary shares of 1 cent each (2001: 6 228 000 000)	**62,3**	62,3
272 000 000 "A" variable rate, convertible, redeemable cumulative preference shares of 1 cent each (2001: 272 000 000)	**2,7**	2,7
Issued		
Balance at the beginning of the year		
5 445 303 089 ordinary shares of 1 cent each (2001: 5 445 303 089)	**54,4**	54,4
135 520 000 "A" variable rate, convertible, redeemable cumulative preference shares of 1 cent each (2001: 136 000 000)	**1,4**	1,4
	55,8	55,8
Shares issued during the year		
9 150 000 "A" variable rate, convertible, redeemable cumulative preference shares of 1 cent each	**0,1**	–
Shares redeemed during the year		
9 630 000 "A" variable rate, convertible, redeemable cumulative preference shares of 1 cent each	**(0,1)**	–
	55,8	55,8
Share premium		
Balance at beginning of year	**9 539,1**	9 539,1
Preference shares issued	**68,1**	–
Preference shares redeemed	**(78,4)**	–
	9 528,8	9 539,1
Share capital and share premium	**9 584,6**	9 594,9
The following represents the shareholding of subsidiaries in FirstRand Limited at 30 June 2002:	**%**	**%**
Momentum Group Limited – held on behalf of policyholders	**2,5**	3,0

Share option schemes

Details of the investment in FirstRand Limited by the share incentive schemes in existence within the group are set out below. These schemes comprise the Momentum Life Assurers Limited Share Trust (Momentum Life), the Southern Life Association Limited Share Scheme (Southern Life), the First National Bank Share Purchase/Option Scheme (FNB) and the FirstRand Limited Share Trust (FirstRand).

Details of the investment in RMB Holdings Limited by the RMB Share Trust (RMB) have also been set out below as this scheme is operated for the benefit of employees of companies within the FirstRand Group.

	Momentum Life	Southern Life	FNB	FirstRand	RMB
31. SHARE CAPITAL AND SHARE PREMIUM (continued)					
2002					
Number of options in force at the beginning of the year (millions)	**35,1**	**9,7**	**71,2**	**97,6**	**37,2**
Granted at prices ranging between (cents)	**295 – 990**	**189 – 1 029**	**40 – 1 026**	**674 – 852**	**250 – 1 625**
Number of options granted during the year (millions)	**–**	**–**	**–**	**7,1**	**–**
Granted at prices ranging between (cents)	**–**	**–**	**–**	**690 – 861**	**–**
Number of options exercised/released during the year (millions)	**(4,3)**	**(1,6)**	**(16,7)**	**–**	**(3,1)**
Market value range at date of exercise/ release (cents)	**662 – 880**	**654 – 899**	**651 – 899**	**–**	**945 – 1 262**
Number of options cancelled/lapsed during the year (millions)	**(2,6)**	**(0,1)**	**(1,4)**	**(3,8)**	**(2,6)**
Granted at prices ranging between (cents)	**591 – 700**	**348 – 648**	**148 – 1 026**	**676 – 745**	**760 – 1 450**
Number of options in force at the end of the year (millions)	**28,2**	**8,0**	**53,1**	**100,9**	**31,5**
Granted at prices ranging between (cents)	**527 – 990**	**256 – 1 029**	**173 – 1 026**	**674 – 861**	**250 – 1 625**
Options are exerciseable over the following periods (by first date)					
Financial year 2002/2003 (millions)	**21,0**	**8,0**	**41,3**	**–**	**18,1**
Financial year 2003/2004 (millions)	**7,2**	**–**	**5,9**	**31,3**	**12,8**
Financial year 2004/2005 (millions)	**–**	**–**	**5,7**	**33,6**	**0,6**
Financial year 2005/2006 (millions)	**–**	**–**	**0,2**	**33,6**	**–**
Financial year 2006/2007 (millions)	**–**	**–**	**–**	**2,4**	**–**
Total	**28,2**	**8,0**	**53,1**	**100,9**	**31,5**
Options outstanding (by expiry date)					
Financial year 2002/2003 (millions)	**4,2**	**0,3**	**0,1**	**–**	**1,1**
Financial year 2003/2004 (millions)	**23,9**	**1,5**	**1,3**	**–**	**17,3**
Financial year 2004/2005 (millions)	**0,1**	**1,7**	**3,3**	**–**	**5,0**
Financial year 2005/2006 (millions)	**–**	**0,6**	**0,8**	**–**	**3,2**
Financial year 2006/2007 (millions)	**–**	**0,3**	**1,9**	**93,9**	**2,9**
Financial year 2007/2008 (millions)	**–**	**3,6**	**20,1**	**7,0**	**2,0**
Financial year 2008/2009 (millions)	**–**	**–**	**3,3**	**–**	**–**
Financial year 2009/2010 (millions)	**–**	**–**	**21,7**	**–**	**–**
Financial year 2010/2011 (millions)	**–**	**–**	**0,6**	**–**	**–**
Total	**28,2**	**8,0**	**53,1**	**100,9**	**31,5**
Total options outstanding in the money	**28,1**	**7,8**	**52,2**	**99,6**	**21,3**
Total options outstanding out of the money	**0,1**	**0,2**	**0,9**	**1,3**	**10,2**
Total	**28,2**	**8,0**	**53,1**	**100,9**	**31,5**

	Momentum Life	Southern Life	FNB	FirstRand	RMB
31. SHARE CAPITAL AND SHARE PREMIUM (continued)					
Number of shares in portfolio at the beginning of the year (millions)	**55,8**	**38,0**	**123,8**	*****	**34,7**
Number of shares purchased during the year (millions)	**–**	**–**	**3,6**	**–**	**0,2**
Number of shares released during the year (millions)	**(1,6)**	**(0,4)**	**(17,4)**	**–**	**(4,3)**
Number of surplus shares transferred during the year (millions)	**(22,5)**	**(26,2)**	**(56,9)**	**105,6**	**–**
Number of shares in portfolio at the end of the year (millions)	**31,7**	**11,4**	**53,1**	**105,6**	**30,6**
Cost price of shares in portfolio at the beginning of the year (R million)	**327,8**	**268,5**	**834,4**	*****	**324,0**
Cost price of shares purchased during the year (R million)	**23,5**	**9,4**	**15,9**	**–**	**1,5**
Cost price of shares released during the year (R million)	**(26,0)**	**(7,7)**	**(50,9)**	**–**	**(26,4)**
Cost price of shares transferred during the year (R million)	**(130,1)**	**(198,3)**	**(395,5)**	**–**	**–**
Proceeds of shares transferred during the year (R million)	**(155,1)**	**(182,4)**	**(384,7)**	**733,0**	**–**
Cost price of shares in portfolio at the end of the year (R million)	**195,2**	**71,9**	**403,9**	**733,0**	**299,1**
Market value of shares in portfolio at the end of the year (R million)	**242,5**	**87,2**	**406,3**	**808,1**	**331,0**
Value of company loans to share option trust at the beginning of the year (R million)	**391,6**	**297,3**	**834,4**	*****	**434,5**
Value of company loans to share option trust at the end of the year (R million)	**197,8**	**71,0**	**403,9**	**733,0**	**373,1**
Number of participants	**381**	**720**	**602**	**1 141**	**294**

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

31. SHARE CAPITAL AND SHARE PREMIUM (continued)

2001

	Momentum Life	Southern Life	FNB	FirstRand	RMB
Number of options in force at the beginning of the year (millions)	52,0	12,1	107,4	–	47,9
Granted at prices ranging between (cents)	180 – 990	93 – 1 029	40 – 1 026	–	250 – 1 625
Number of options granted during the year (millions)	–	–	–	98,3	–
Granted at prices ranging between (cents)	–	–	–	674 – 852	–
Number of options exercised/released during the year (millions)	(12,7)	(2,2)	(34,2)	–	(7,8)
Market value range at date of exercise/release (cents)	690 – 874	658 – 874	636 – 874	–	1 177 – 1 250
Number of options cancelled/lapsed during the year (millions)	(4,2)	(0,2)	(2,0)	(0,4)	(2,9)
Granted at prices ranging between (cents)	180 – 700	93 – 1 029	325 – 690	676 – 690	760 – 1 450
Number of options in force at the end of the year (millions)	35,1	9,7	71,2	97,9	37,2
Granted at prices ranging between (cents)	295 – 990	189 – 1 029	40 – 1 026	674 – 852	250 – 1 625
Number of shares in portfolio at the beginning of the year (millions)	59,7	53,8	126,7	–	41,9
Number of shares purchased during the year (millions)	–	–	2,9	–	0,7
Number of shares released during the year (millions)	(3,9)	(0,8)	(5,8)	–	(7,9)
Number of surplus shares sold during the year (millions)	–	(15,0)	–	–	–
Number of shares in portfolio at the end of the year (millions)	55,8	38,0	123,8	*	34,7
Cost price of shares in portfolio at the end of the year (R million)	327,8	268,5	834,4	*	324,0
Market value of shares in portfolio at the end of the year (R million)	480,3	327,1	1 065,6	–	439,5
Value of company loans to share option trust at the beginning of the year (R million)	307,1	360,7	718,9	–	461,1
Value of company loans to share option trust at the end of the year (R million)	391,6	297,3	834,4	*	434,5
Number of participants	451	947	718	1 127	321

31. SHARE CAPITAL AND SHARE PREMIUM (continued)

Share purchase schemes

RMB Preference Share Scheme

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

Number of shares in SPV companies at the beginning of the year (millions)	**10,0**
Purchased at prices ranging between (cents)	**900 – 1335**
Number of shares repurchased by share trust (resignation)	**(0,2)**
Number of shares released during the year (millions) (preference shares redeemed)	**(3,3)**
Number of shares in special purpose companies at the end of the year (millions)	**6,5**
Purchased at prices ranging between (cents)	**900 – 1 335**
Cost price of shares in special purpose companies at the beginning of the year (R million)	**109,0**
Cost price of shares repurchased by share trust (resignation)	**(1,5)**
Cost price of shares released during the year (R million) (preference shares redeemed)	**(33,5)**
Cost price of shares in special purpose companies at the end of the year (R million)	**74,0**
Market value of shares in special purpose companies at the end of the year (R million)	**70,4**
Preference shares are redeemable over the following periods (by first date)	
Financial year 2002/2003 (millions)	**3,8**
Financial year 2003/2004 (millions)	**2,4**
Financial year 2004/2005 (millions)	**0,3**
Total	**6,5**
Preference shares outstanding (by final redemption date)	
Financial year 2003/2004 (millions)	**1,3**
Financial year 2004/2005 (millions)	**2,5**
Financial year 2005/2006 (millions)	**2,4**
Financial year 2006/2007 (millions)	**0,3**
Total	**6,5**
Total shares outstanding in the money	**2,3**
Total shares outstanding out of the money	**4,2**
Total	**6,5**
Number of participants	**41**

31. SHARE CAPITAL AND SHARE PREMIUM (continued)

FirstRand OutPerformance Share Incentive Scheme

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

If there is value at the conversion date the "A" preference shares are converted into ordinary shares that, together with the incentive shares, will be obtained by way of a fresh issue of new ordinary shares. The number of ordinary shares into which the "A" preference shares are converted is the amount of preference share capital originally subscribed for divided by the then ruling market price. The number of incentive shares are awarded in terms of a formula as mentioned above and would, for illustrative purposes, equate to 0,27 ordinary shares per preference share assuming an annual 5% outperformance over and above an annual 5% increase in the index over four years and assuming that the market price of ordinary shares was higher than the market price upon issue of the preference shares. The maximum number of ordinary shares into which a preference share may be converted, is one.

The total number of "A" preference shares issued and redeemed during the period is dealt with under share capital. The loan to the share trust is equivalent to the total preference share capital and share premium account plus accrued preference share dividend.

Number of "A" preference shares at the beginning of the year (millions)	**136,0**
Purchased at prices ranging between (cents)	**815**
Number of shares redeemed during the year (millions) (resignations)	**(9,6)**
Number of shares issued during the year (millions)	**9,1**
Number of "A" preference shares at the end of the year (millions)	**135,5**
Purchased at prices ranging between (cents)	**745 – 815**
Preference shares are redeemable over the following periods:	
Financial year 2002/2003 (millions)	**31,6**
Financial year 2003/2004 (millions)	**31,6**
Financial year 2004/2005 (millions)	**31,6**
Financial year 2005/2006 (millions)	**33,8**
Financial year 2006/2007 (millions)	**2,3**
Financial year 2007/2008 (millions)	**2,3**
Financial year 2008/2009 (millions)	**2,3**
Total	**135,5**
Value of company loans to share option trust at the beginning of the year (R million)	**1 108,4**
Value of company loans to share option trust at the end of the year (R million)	**1 149,7**
Number of participants	**216**

R million	Reference	Group 2002	Group 2001
32. RESERVES			
Retained earnings			
Retained earnings at the beginning of the year		**6 533,0**	4 115,2
Earnings attributable to shareholders		**4 508,7**	3 574,9
Dividend for the current year		**(1 415,8)**	(1 157,1)
Transfer to non-distributable reserves		**(36,4)**	–
Retained earnings at the end of the year		**9 589,5**	6 533,0
Non-distributable reserves			
Non-distributable reserves relating to:			
Banking operations		**947,7**	361,4
Currency translation reserve		**903,3**	354,5
Revaluation of investment assets		**4,6**	4,9
Other		**39,8**	2,0
Insurance operations		**184,5**	96,0
Currency translation reserve		**41,5**	15,7
Revaluation of investment assets		**90,7**	27,9
Reserve on capitalisation of subsidiary		**50,8**	50,8
Other		**1,5**	1,6
Non-distributable reserves at the end of the year		**1 132,2**	457,4
Total reserves		**10 721,7**	6 990,4
Movement for the year in non-distributable reserves			
Balance at the beginning of the year		**457,4**	155,3
Transfer from income statement relating to banking operations		**34,2**	–
Transfer from income statement relating to insurance operations		**2,2**	–
Currency translation differences		**603,6**	141,0
Revaluation of investment assets		**60,2**	128,5
Other		**(25,4)**	32,6
Non-distributable reserves at the end of the year		**1 132,2**	457,4
33. CONTINGENCIES AND COMMITMENTS			
Banking operations	Banking note 22	**27 283,7**	17 927,8
34. NET INCOME AFTER TAXATION ATTRIBUTABLE TO SHAREHOLDERS			
Net income after taxation is stated after charging the following:			
Directors' emoluments paid			
Executive directors			
Salaries, pension and medical aid contributions		**18,3**	14,5
Non-executive directors			
Fees for services as directors/consultants		**3,6**	2,1
		21,9	16,6
Directors' emoluments paid by:			
Company		**1,5**	0,6
Subsidiaries		**20,4**	16,0
		21,9	16,6

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for the year ended 30 June

R million	Group 2002	Group 2001
35. DIVIDENDS		
Ordinary dividends		
An interim dividend of 13,5 cents (2001: 11,25 cents) per share was declared on 27 February 2002 in respect of the six months ended 31 December 2001 payable to shareholders registered in the books of the company at the close of business on 22 March 2002.	**735,1**	612,6
A final dividend of 15 cents (2001: 12,5 cents) per share was declared on 16 September 2002 payable to shareholders registered in the books of the company at the close of business on 12 October 2002. In terms of AC 107, this final dividend was not provided for at year-end.	**816,8**	680,7
	1 551,9	1 293,3

36. EARNINGS PER SHARE

Attributable earnings basis

Earnings per share is based on the net income after taxation attributable to ordinary shareholders and the weighted number of ordinary shares in issue.

Earnings attributable to ordinary shareholders amounted to R4 508,7 million (2001: R3 574,9 million) and the weighted average number of ordinary shares in issue during the year amounted to 5 445 303 089 (2001: 5 445 303 089).

Headline earnings basis

Headline earnings per share is based on the net income after taxation attributable to ordinary shareholders adjusted for items of a non-trading nature, and the weighted average number of ordinary shares in issue.

R million	Group 2002	Group 2001
Headline earnings reconciliation		
Net income after taxation attributable to ordinary shareholders	**4 508,7**	3 574,9
Add: Amortisation of goodwill	**58,3**	36,7
Add: Impairment of goodwill	**210,1**	–
Add: Loss on sale of assets	**4,0**	–
Add: Exceptional items in respect of insurance associated company	**–**	47,3
Add: Effect of insurance transitional taxation on prior years	**–**	30,6
Less: Abnormal profit on release of reserves	**(28,1)**	–
Less: Profit on disposal of subsidiary shares	**(31,2)**	–
Headline earnings	**4 721,8**	3 689,5
Less: Foreign currency translation gain	**(548,0)**	(238,7)
Core operational headline earnings	**4 173,8**	3 450,8

37. RELATED PARTIES

Major shareholders

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

Transactions with major shareholders and with share trusts

Interest-free loans to share trusts amounted to R2 928,5 million at 30 June 2002 (refer to note 31).

Loans to RMB Holdings Limited amounted to R83,5 million and loans receivable to R4,3 million. Income received from RMB Holdings Limited amounted to R14,9 million and expenses paid to R2,9 million.

Transactions with directors

Directors' emoluments are detailed in note 34 and Appendix 5. Transactions with directors are entered into in the normal course of business.

Transactions with entities in the group

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

Fixed interest securities and derivative instruments

The Momentum Group invests from time to time in fixed interest securities and derivative instruments issued by FirstRand Bank. These assets are acquired at market rates in accordance with the group accounting policy. Due to the fact that these assets are acquired to back liabilities to policyholders under unmatured policies, they are not eliminated upon consolidation. At 30 June 2002 Momentum Group reflected assets of R7 238,7 million and liabilities of R2 827,6 million with FirstRand Bank.

R million		Group 2002	Group 2001
38.	**CASH FLOW INFORMATION**		
38.1	***Cash generated by operations***		
	Net income after taxation attributable to ordinary shareholders	**4 508,7**	3 574,9
	Adjustment for non-cash items and taxation	**10 892,5**	10 718,9
	Cash generated by operations	**15 401,2**	14 293,8
38.2	***Working capital changes***		
	Net increase in current assets	**(15 027,3)**	(6 216,0)
	Net increase in current liabilities	**11 808,6**	10 761,9
	Working capital changes	**(3 218,7)**	4 545,9
38.3	***Taxation paid***		
	Balance at the beginning of the year	**(376,3)**	(128,4)
	Taxation charged for the year	**(1 543,8)**	(1 202,5)
	Balance at the end of the year	**508,0**	376,3
	Taxation paid	**(1 412,1)**	(954,6)

R million	Group 2002	Group 2001
38. CASH FLOW INFORMATION (continued)		
38.4 Dividends paid		
Final dividend declared on:		
– 6 September 2001 in respect of the year ended 30 June 2001	**(680,7)**	
– 7 September 2000 in respect of the year ended 30 June 2000		(544,5)
Interim dividend declared on:		
– 27 February 2002 in respect of the period ended 31 December 2001	**(735,1)**	
– 27 February 2001 in respect of the period ended 31 December 2000		(612,6)
Dividends paid	**(1 415,8)**	(1 157,1)
38.5 Banking investment activities		
(Increase)/decrease in:		
Short-term negotiable securities	**2 675,5**	8 365,1
Liquid assets and trading securities	**(10 791,1)**	(17 375,3)
Repurchase agreements	**–**	47,3
Advances	**(40 531,1)**	(21 819,0)
Other investments	**(585,8)**	134,0
	(49 232,5)	(30 647,9)
Deposits and current accounts	**46 940,7**	23 901,6
Short trading positions	**16 369,3**	429,4
	14 077,5	(6 316,9)
Cash flow from assets and deposits purchased:		
Advances acquired	**(16 935,7)**	–
Cash equivalents acquired	**(7 931,3)**	–
Deposits acquired	**13 002,4**	–
Unsettled portion	**3 717,9**	–
Net cash flow from assets and deposits purchased	**(8 146,7)**	–
Net decrease/(increase) in banking investment activities	**5 930,8**	(6 316,9)
38.6 Insurance investment activities		
(Increase)/decrease in:		
Government and public authority stocks	**(1 565,4)**	(3 372,0)
Debentures and other loans	**(1 674,8)**	(2 249,9)
Policy loans	**(63,0)**	(51,9)
Equity investments	**3 771,8**	(3 129,3)
Property investments	**130,0**	148,3
Derivative instruments	**(813,1)**	(122,9)
Net increase in insurance investment activities	**(214,5)**	(8 777,7)

R million	Group 2002	Group 2001
38. CASH FLOW INFORMATION (continued)		
38.7 Cash and cash equivalents		
Cash and cash equivalents consist of cash on hand and balances with banks, and other investments in money market instruments. Cash and cash equivalents included in the cash flow statement comprise the following balance sheet amounts:		
Cash and short-term funds	**24 783,9**	10 133,4
Funds on deposit	**13 333,4**	6 160,2
Cash and cash equivalents	**38 117,3**	16 293,6

39. COMPARATIVE FIGURES

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

ANNUAL REPORT 2002

FirstRand Banking Group

CONTENTS

FIRSTRAND

Banking Group

FINANCIAL IMAGINEERING

18:28 Two minutes until kick off.

You need to get wired. Snap to it.

Imagine

A WAY THAT WORKS

SOUTH AFRICA WAS F1RST

In an effort to make one of the simplest of tasks actually simple, Lumex developed the Snapper Plug. This innovation allowed for quick and effortless wiring of a standard home electrical plug with far greater levels of safety.

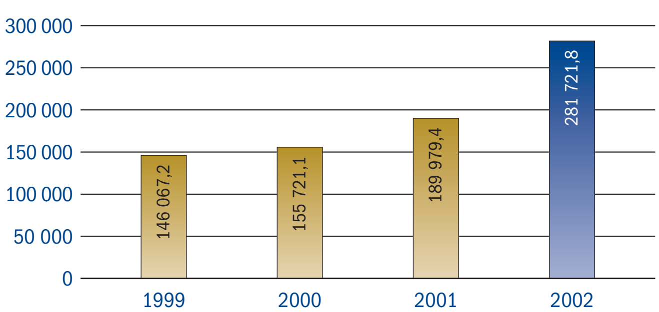
An overview

of the Banking Group's financial performance

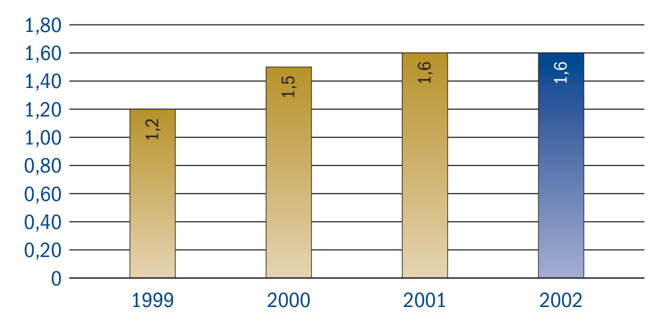
Introduction

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

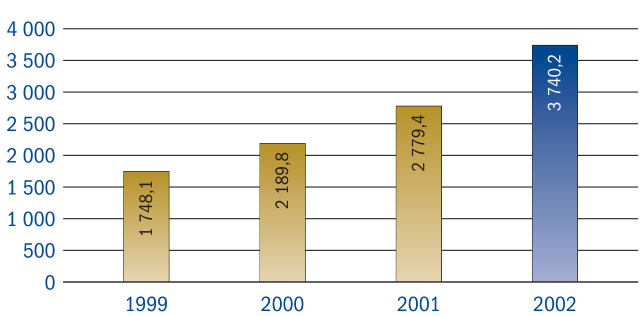
	Excluding translation gains %	**Including translation gains %**
Attributable earnings	+24,1	+34,6
Headline earnings	+23,9	+34,3
Return on average equity	25,1	27,3
Cost to income ratio	57,6	55,5
Advances	+42,0	+42,0



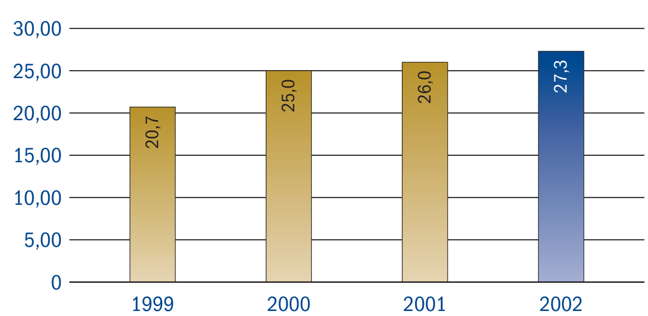
Total assets (R million)



Return on average assets (%)



Earnings attributable to ordinary shareholders (R million)



Return on average equity (%)

Four-year review

R million	1999	2000	2001	2002	Compound growth %
Balance sheet					
Total assets	146 067,2	155 721,1	189 979,4	**281 721,8**	24,5
Advances	93 824,4	102 652,2	123 328,2	**175 145,3**	23,1
Deposit and current accounts	116 305,9	117 591,6	141 460,9	**201 404,0**	20,1
Total equity	8 040,0	9 505,3	11 911,3	**15 459,8**	24,4
Income statement					
Net interest income before impairment of advances	4 594,2	4 696,6	5 415,4	**6 416,4**	11,8
Charge for bad and doubtful debts	(1 362,8)	(1 329,4)	(1 143,4)	**(1 704,8)**	7,7
Non-interest income	5 145,1	5 847,1	6 445,8	**8 319,3**	17,4
Operating expenditure	(6 086,4)	(6 365,3)	(7 179,6)	**(8 377,8)**	11,2
Share of earnings of associate companies	12,8	20,0	134,3	**367,8**	>100
Earnings attributable to ordinary shareholders	1 748,1	2 189,8	2 779,4	**3 740,2**	28,9
Return on average total equity (%)	20,7	25,0	26,0	**27,3**	
Cost to income ratio (excluding translation gains) (%)	62,9	61,0	60,9	**57,6**	
Cost to income ratio (including translation gains) (%)	62,4	60,3	59,9	**55,5**	
Bad and doubtful debts as a percentage of net advances (%)	1,5	1,3	0,9	**1,0**	
Non-interest income as a percentage of total income (%)	52,8	55,5	54,3	**56,5**	
Return on average total assets (%)	1,2	1,5	1,6	**1,6**	
Interest margin on average advances (%)	4,9	4,8	4,8	**4,3**	
EXCHANGE RATES					
Rand/US$	6,0300	6,7725	8,0670	**10,3100**	
Rand/GB£	9,5051	10,2590	11,3511	**15,7454**	

US$ million	1999	2000	2001	2002	Compound growth %
Balance sheet					
Total assets	24 223,4	22 993,1	23 550,2	**27 325,1**	4,1
Advances	15 559,6	15 157,2	15 288,0	**16 987,9**	3,0
Deposit and current accounts	19 287,9	17 363,1	17 535,8	**19 534,8**	0,4
Total equity	1 333,3	1 403,5	1 476,5	**1 499,5**	4,0
Income statement					
Net interest income before impairment of advances	761,9	693,5	671,3	**622,3**	(6,5)
Charge for bad and doubtful debts	(226,0)	(196,3)	(141,7)	**(165,4)**	(9,9)
Non-interest income	853,3	863,4	799,0	**806,9**	(1,8)
Operating expenditure	(1 009,4)	(939,9)	(890,0)	**(812,6)**	(7,0)
Share of earnings of associate companies	2,1	3,0	16,6	**35,7**	>100
Earnings attributable to ordinary shareholders	289,9	323,3	344,5	**362,8**	7,8

GB£ million	1999	2000	2001	2002	Compound growth %
Balance sheet					
Total assets	15 367,2	15 179,0	16 736,7	**17 892,3**	5,2
Advances	9 871,0	10 006,1	10 864,9	**11 123,6**	4,1
Deposit and current accounts	12 236,2	11 462,3	12 462,3	**12 791,3**	1,5
Total equity	845,9	926,5	1 049,4	**981,9**	5,1
Income statement					
Net interest income before impairment of advances	483,3	457,8	477,1	**407,5**	(5,5)
Charge for bad and doubtful debts	(143,4)	(129,6)	(100,7)	**(108,3)**	(8,9)
Non-interest income	541,3	569,9	567,9	**528,4**	(0,8)
Operating expenditure	(640,3)	(620,5)	(632,5)	**(532,1)**	(6,0)
Share of earnings of associate companies	1,3	1,9	11,8	**23,4**	>100
Earnings attributable to ordinary shareholders	183,9	213,5	244,9	**237,5**	8,9

Board of Directors and board committees of FirstRand Bank Holdings Limited

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Australian*

The following director served on the board during the year and has resigned on the date indicated below:
M W Pfaff – 11 June 2002

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

Remuneration Committee:
G T Ferreira (Chairman)
P M Goss
M W King
R A Williams

FirstRand Banking Group strategic committees

Retail Bank Cluster Stratco:

Chief Executive Officer: Wendy Lucas-Bull

Cluster Executive: Viv Bartlett
Johan Burger
Derek Carstens
Laurie Dippenaar
Paul Harris
Michael Jordaan
Robert Keip
Mac Maharaj
Modise Moatlhodi
Yatin Narsai
Peet van der Walt
Ronnie Watson

Corporate Cluster Stratco:

Chief Executive Officer: EB Nieuwoudt

Cluster Executive: Viv Bartlett
Don Brown
Johan Burger
Derek Carstens
LP Collet
Laurie Dippenaar
Ketso Gordhan
Paul Harris
Jan Hugo
Niel Krige
Theunie Lategan
Mac Maharaj
Peter Page
Michael Pfaff
Zelda Roscherr
Ronnie Watson

Wealth Cluster Banking Stratco:

Chief Executive Officer: Hillie Meyer

Cluster Executive: Selina Beagle
Peter Bourne
Johan Burger
Derek Carstens
Laurie Dippenaar
Sean Farrel
Graham McPherson
Willie Miller
Michael Pfaff
Schoeman Rudman

Report of the Chief Financial Officer

Environment

Economic

The twelve months under review were amongst the most dramatic in recent economic history. This period was marked by inter-related events, including the terrorist attacks of 11 September, the sharp decline and subsequent partial recovery of the rand, the reversal of the recent declining trend in South African inflation and interest rates, corporate scandals in the United States, economic meltdown in South America, political uncertainty in Zimbabwe and the re-rating of global share values, amongst other factors.

Statutory and regulatory

The year under review has seen the introduction or presentation for comment of several Bills and Acts of parliament, which have a direct or indirect effect on the Banking Group. In particular, the Community Re-investment Bill, and the Pension Funds Act have created challenges. These challenges are being proactively dealt with by the banking industry, most recently through the establishment of a joint working committee with government.

Operational review

Against this economic background, which has resulted in some shocks, not least the deterioration in international credit markets, the Banking Group has once again produced excellent results, benefiting from a diversified earnings base. Core operational headline earnings, which exclude translation gains, increased by 23,9% from R2 580 million to R3 196 million. Earnings attributable to ordinary shareholders increased by 34,6% from R2 779 million to R3 740 million.

R million	2002	2001	% change
Earnings attributable to ordinary shareholders	**3 740**	2 779	34,6
Less: Translation gains	**(548)**	(207)	>100,0
Core operational earnings attributable to shareholders	**3 192**	2 572	24,1
Less: Profit on sale of subsidiaries	**(5)**	–	>(100,0)
Add: Goodwill	**9**	8	12,5
Core operational headline earnings	**3 196**	2 580	23,9

Translation gains

The Banking Group recognises translation gains and losses on currency movements in the income statement to the extent that the underlying operations are defined as integral to those of the South African based business. Translation gains and losses relating to independent operations are recognised directly in non-distributable reserves. The year-on-year deterioration of the rand has given rise to abnormally large translation gains in the current financial year. For the purposes of calculating core operational headline earnings, all translation gains have been excluded.

R million	2002	2001	% change
Non-distributable reserves	**578**	135	>100,0
Income statement	**548**	207	>100,0
Translation gains based on interest differentials	**133**	109	22,0
Exceptional translation gains	**415**	98	>100,0
Total translation gains	**1 126**	342	>100,0

Interest income

The prime interest rate continued its declining trend into the beginning of the current financial year, with a 0,5% reduction in September 2001, following the 1% reduction in June 2001. The trend was then negatively impacted by the decline in the rand and the consequent increase in inflation and 1% increases in prime occurred in January, March and June of 2002. Prime ended the year at 16,0% from 13,5% at 30 June 2001. Although the Banking Group was positioned for a downward interest trend at the end of the previous financial year, the book was appropriately re-positioned when the view on interest rates was revised. Net interest income, which increased by 18,5%, was positively influenced by:

- the volume impact on margins arising from the considerable organic growth in both assets and deposit liabilities;
- the higher translation rate relating to non-rand denominated interest income following the fall in the rand;
- the volume and margin impact of interest arising on the international corporate debt portfolio (the Collateralised Debt Obligation structures);
- more active management of the Banking Group's capital base; and
- a further increase in the Banking Group's average capital base following the retention of earnings in the previous financial year.

These positive factors outweighed the negatives, which included:
- reduced interest rates on the foreign capital base of the Banking Group;
- further pressure on asset margins; and
- reduced mismatch profit.

Interest margins

The gross interest margin based on average gross advances declined relative to the previous year to 4,3% (2001: 4,7%). This percentage does not reflect the true underlying margins as large advances books were added late in the financial year distorting the averages. If these distortions are excluded, the core margin remains consistent with the prior year despite continuing pressure on asset margins throughout the period.

The Banking Group's retail funding base, which has shown excellent growth as a result of the consolidation of the tier two banks and market share growth, benefited from a widening of deposit margins in the second half of the year. The higher interest rates have increased demand for fixed rate products with better margins. However competitive pressures in the South African market have continued to put pressure on asset margins. Corporate margins continue to reflect the pressure of a highly competitive and sophisticated market and once again reflect a small decline.

Advances

Gross advances grew by 41,8% in the twelve months ended 30 June 2002:

R million	2002	2001	% change
Advances before deducting interest in suspense	**180 235**	127 463	41,4
Less: Interest in suspense	**(725)**	(834)	(13,1)
Gross advances	**179 510**	126 629	41,8
Less: Provisions	**(4 365)**	(3 301)	32,2
Net advances	**175 145**	123 328	42,0

This growth has been significantly assisted by the acquisition of mortgage advances from BoE Limited (NBS transaction) and Saambou Holdings Limited (Saambou transaction).

NBS transaction

With effect from 15 March 2002, the Banking Group acquired the mortgage assets of NBS. The value of the book at the date of acquisition was R11,9 billion, including non-performing advances with a value of R0,5 billion. Properties in possession were excluded from the transaction.

The total purchase consideration was R11,5 billion in cash. In terms of the agreement, the consideration was settled by an initial payment of R5,0 billion, followed by a maximum of six further monthly instalments of approximately R1,0 billion each per month until the full purchase consideration is paid. At 30 June 2002, an amount of R3,7 billion was still outstanding. The outstanding amount will be settled in full on or before 30 September 2002.

The Banking Group also acquired the related Home Owners' Comprehensive Insurance portfolio from BoE. This business is managed by OUTsurance Insurance Company Limited.

Saambou transaction

The Saambou transaction, with an effective date of 9 May 2002, involved the acquisition of the entire share capital of Saambou Bank Limited (Saambou Bank). The transaction was subject to the successful conclusion of a scheme of arrangement in terms of section 311 of the Companies Act and other conditions, in terms of which certain assets and liabilities of Saambou Bank would vest under the sole control of the "Receivership for Scheme Creditors" (Receivership) at a pre-determined price (the excluded assets). The remaining assets and liabilities (the included assets) were the mortgage book of R4,9 billion, claims against the Receivership of R7,9 billion (guaranteed by the South African Reserve Bank) (SARB) and deposit liabilities of R12,8 billion. The included assets and liabilities had a net asset value at 9 May 2002 of R1, and were acquired for the same amount.

The Saambou Bank home loan book of R4,9 billion is conservatively provisioned, taking into account the increased risk stemming from the period of the curatorship.

Impact of the acquisitions

The following table sets out the income statement and balance sheet impact of the Saambou and NBS acquisitions at 30 June 2002:

R million	
Assets	
Advances	**15 912**
Saambou	**4 945**
NBS	**10 967**
Claims against the Receivership (guaranteed by the SARB)	**8 452**
Non-performing loans	**458**
Less: Provisions	
General provisions	**218**
Specific provisions	**290**
Liabilities	
Saambou deposits	
Retail	**8 952**
Medium Corporate	**1 534**
Income statement	
Interest turn	**137**
Charge for bad and doubtful debts	**(5)**
Net interest margin	**132**
Non-interest income	**7**
	139
Operating expenditure	**(111)**
Net income before taxation	**28**

The split between organic and non-organic growth in gross advances is set out below:

R million	2002	Growth %
Balance 2001	**126 629**	–
Organic growth		
Banking book	**13 368**	10,6
Trading book (includes CDO)	**17 170**	13,6
Acquisition		
Saambou	**4 945**	3,9
NBS	**10 967**	8,6
Revaluation of foreign currency denominated advances	**6 431**	5,1
Balance 2002	**179 510**	41,8

FNB HomeLoans has historically been under-represented in the South African residential mortgage market. The acquisitions of the Saambou and NBS books provide an excellent strategic fit and satisfies the objective of increasing representation in this market segment. The transaction will increase the Banking Group's home loan market share from 10% to approximately 19%, which is closer to the overall market share of the Banking Group in South Africa.

FNB HomeLoans has substantially improved its new business volumes, service levels and non-performing loans position and is adequately resourced to absorb the transactions. Hence, whilst organic growth has been successful, the acquisitions provide a significant opportunity to FNB HomeLoans to leverage its infrastructure.

A geographical analysis of the growth in gross advances is reflected below:

R million	2002	2001	% change
US corporate debt	**9 599**	3 669	>100,0
SA banking operations	**150 248**	105 622	42,3
African banking operations	**6 275**	5 102	23,0
International banking operations	**11 733**	10 466	12,1
SA non-banking operations	**1 655**	1 770	(6,5)
Gross advances	**179 510**	126 629	41,8

The Banking Group continued to grow its international advances portfolio and the African subsidiaries also recorded a strong increase in advances. The growth of both portfolios has been enhanced by the decline in the rand against other international currencies. The South African advances book also contains an element of non-rand denominated lending, which has been similarly affected. The tables below further analyse asset growth adjusted for the impact of exchange rates and by product type.

The growth in advances has been achieved without sacrificing credit quality.

A summary of the gross advances between rand and non-rand denominated advances is set out below:

R million	2002	2001	% change
All non-rand denominated advances	**$3 630**	$2 858	27,0
at exchange rate	**10,31**	8,06	
Non-rand denominated advances (Rand)	**37 425**	23 037	62,5
Rand denominated advances	**142 085**	103 592	37,2
Gross advances	**179 510**	126 629	41,8

A summary of the gross advances per product category is set out below:

R million	2002	2001	% change
Overdrafts and managed accounts	**34 397**	33 741	1,9
Card loans	**3 942**	3 096	27,3
Instalment finance	**21 592**	18 722	15,3
Lease payments receivable	**9 514**	9 251	2,8
Home loans	**48 568**	24 612	97,3
Collateralised Debt Obligation (CDO)	**9 599**	3 669	>100,0
Other advances	**51 898**	33 538	54,7
Gross advances	**179 510**	126 629	41,8

FNB HomeLoans, Origin and WesBank continued their active pursuit of asset growth which resulted in significant growth in their advances. WesBank is a market leader in asset-based finance. Its strong alliances with product distributors continue to contribute to new business growth.

Bad debt charge

Non-performing loans

The interest rate increases in the latter half of the financial year have not had a discernible effect on the credit quality of the Banking Group's domestic advances book, which has continued to improve relative to the level of advances. This is predominantly the result of the following factors:

- the more conservative and scientific approach to credit approval adopted by the Banking Group;
- the conservative approach of both corporates and consumers to debt following the interest rate spike of several years ago. This conservative approach is reflected both in the overall level of debt and the structuring of debt with a greater fixed rate component; and
- the impact of the most recent South African government budget which released approximately R15 billion into the economy, predominantly into the lower income brackets, where borrowers are most likely to feel the pressure of increased rates.

In particular, WesBank, FNB HomeLoans and FNB Retail Bank have continued to show improvements in the credit quality of their respective credit books. The Banking Group's bad debt charge in respect of its exposure to the US corporate markets disguises this improvement.

Non-performing loans:

R million	2002	2001	% change
Non-performing loans	**5 305**	4 423	19,9
Less: Recoverable amount	**(1 014)**	(476)	>100,0
Net credit exposure	**4 291**	3 947	8,7
Less: Security	**(1 266)**	(1 158)	9,3
Less: Interest suspended	**(725)**	(834)	(13,1)
Residual risk	**2 300**	1 955	17,6
Specific provision	**2 300**	1 955	17,6
General provision	**2 065**	1 346	53,4
Total provisions	**4 365**	3 301	32,2

As a percentage of gross advances, non-performing loans, which include the CDO portfolio, continue to decline, falling to 3,0% from 3,5% at 30 June 2001.

The Banking Group entered the micro-lending market in 1999. At 30 June 2002, this advances book had grown to R245 million. Growth in this market has been restricted by an extremely cautious approach to credit. The majority of the exposure is either secured or administered by way of corporate payroll deductions.

The Banking Group's exposure to the problematic retail sector has been satisfactorily resolved. Provisions are still held against the equity exposures, on a mark-to-market basis.

Provisioning levels

%	2002	2001
Non-performing loans as a percentage of gross advances	**3,0**	3,5
Specific provision as a percentage of non-performing loans	**43,3**	44,2
Specific provision as a percentage of gross advances	**1,3**	1,5
General provision as a percentage of gross advances	**1,2**	1,1
Total provisions as a percentage of gross advances	**2,5**	2,6
Total provisions as a percentage of non-performing loans	**82,3**	74,6
Total provisions as a percentage of residual risk	**189,8**	168,8

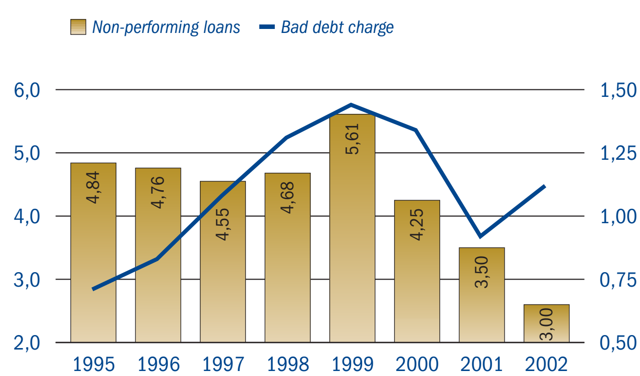
The total provisions reflected in the balance sheet represents a conservative 2,5% of gross advances (2001: 2,6%).

Advances analysis:

R million	2002	2001	% change
Advances (excluding US corporates)			
Gross advances	**169 911**	122 960	38,2
General provision	**1 806**	1 148	57,3
Specific provision	**2 044**	1 955	4,6
Charge for bad and doubtful debts	**1 231**	945	30,3
US corporates			
Gross advances	**9 599**	3 669	>100,0
General provision	**259**	198	30,8
Specific provision	**256**	–	>100,0
Charge for bad and doubtful debts	**474**	198	>100,0

The income statement charge for bad and doubtful debts reflects an increase of 49,2% relative to the prior period. This disappointing performance is a result of higher than expected defaults experienced in the Banking Group's exposures to the US corporate market. These exposures, held through a CDO structure, include Enron, K-Mart, WorldCom and Global Crossing which defaulted during the current year. The increase in the bad and doubtful debt charge resulted in the Banking Group reflecting a deterioration in the bad and doubtful debt charge as a percentage of average gross advances to 1,11% (2001: 0,98%). Excluding the bad debt losses on US corporate exposures, the charge to the income statement would have been 0,95%, which is in line with the Banking Group's targeted loss ratios and an improvement on the previous year.

Non-performing loans and bad and doubtful debt charge as a percentage of gross advances:



Bad debts versus non-performing loans (%)

Analysis of bad debt provision movements

	2002			
R million	**Specific**	**General**	**ISP**	**Income statement**
Opening balance	**1 955,1**	**1 345,7**	**833,6**	**–**
Exchange rate differences	**47,4**	**65,3**	**7,2**	**–**
Amounts written off	**(1 459,0)**	**–**	**(441,8)**	**–**
Reclassifications	**(13,9)**	**13,9**	**–**	**–**
Net provisions created	**1 480,5**	**421,9**	**–**	**(1 902,4)**
Provisions created	**1 720,2**	**421,9**	**–**	**(2 142,1)**
Provisions released	**(239,7)**		**–**	**239,7**
Net interest suspended	**–**	**–**	**301,9**	**–**
Interest suspended	**–**	**–**	**357,5**	**–**
Interest released from suspense	**–**	**–**	**(55,6)**	**–**
Recoveries of bad debts	**–**	**–**	**–**	**187,0**
Acquisitions	**290,0**	**218,3**	**24,2**	**–**
Profit on sale of security	**–**	**–**	**–**	**10,4**
Other	**–**	**(0,1)**	**–**	**0,2**
Closing balance	**2 300,1**	**2 065,0**	**725,1**	**(1 704,8)**

	2001			
R million	**Specific**	**General**	**ISP**	**Income statement**
Opening balance	1 806,8	1 324,5	918,8	–
Exchange rate differences	18,4	29,4	2,9	–
Amounts written off	(1 219,8)	–	(536,1)	–
Net provisions created	1 349,7	(5,8)	–	(1 343,9)
Provisions created	1 785,6	(5,8)	–	(1 779,8)
Provisions released	(435,9)		–	435,9
Net interest suspended	–	–	448,5	–
Interest suspended	–	–	541,5	–
Interest released from suspense	–	–	(93,0)	–
Recoveries of bad debts	–	–	–	139,3
Profit on sale of security	–	–	–	66,2
Other	–	(2,4)	(0,5)	(5,0)
Closing balance	1 955,1	1 345,7	833,6	(1 143,4)

Non-interest income

R million	**2002**	**2001**	**% change**
Transactional income	**5 132**	4 091	25,4
Trading income	**2 320**	1 429	62,4
Investment income	**862**	706	22,1
Other income	**373**	354	5,4
Total non-interest income	**8 687**	6 580	32,0
Less: Income from associates	**(368)**	(134)	>100
Non-interest income	**8 319**	6 446	29,1

Transactional income

Banking fee and commission income has grown by 21,1% as a result of steady growth in revenue generating transaction volumes. The Retail Bank's outward focus is bearing fruit with strong growth in fee and commission income in its books.

Trading income

High volatilities in the currency and interest rate markets created unusually high transactional volumes, increased margins and provided good profit opportunities to the Banking Group's treasury trading teams in contrast to the comparative period.

R million	2002	2001	% change
Exchange earnings	**1 024**	584	75,3
Treasury operations	**642**	413	55,4
Other trading income	**106**	225	(52,9)
Operational trading income	**1 772**	1 222	45,0
Translation gains	**548**	207	>100,0
Trading income	**2 320**	1 429	62,4

Other trading income includes the performance of Ansbacher UK, which incurred trading losses on its US corporate and emerging market debt portfolios.

Translation gains

The Banking Group recognises currency translation gains and losses on integral operations when these emanate from the translation of foreign currency denominated trading assets and advances. All other currency gains and losses are credited to non-distributable reserves.

Investment income

R million	2002	2001	% change
(Loss)/profit on investment banking assets	**(14)**	63	(>100,0)
Income from associated companies	**368**	134	>100,0
Investment income on assets held against employee benefit liabilities	**71**	82	(13,4)
Dividends received	**463**	356	30,1
	888	635	39,8
(Loss)/profit on property and equipment	**(26)**	71	(>100,0)
Investment income	**862**	706	22,1

Investment income includes gains and losses from the Banking Group's private equity businesses, in addition to traditional investment activities. However, profits from the sale of private equity investments held through associates are recognised in the earnings from associate companies line on the income statement. An amount of R95 million in respect of such realisations is included in this category in the current financial year. It is anticipated that private equity profits will increasingly be recognised through the 'Share of earnings of associate companies' line.

Associate companies

R million	2002	2001	% change
McCarthy Retail	**72**	–	>100,0
Less: Provision	**(72)**	–	>100,0
OUTsurance	**46**	26	38,5
RMB Private Equity	**313**	104	>100,0
Other	**9**	4	>100,0
Income from associates	**368**	134	>100,0

McCarthy Retail

Included in earnings of associate companies is pre-tax income from McCarthy Retail of R72 million. The Banking Group acquired 48% of the ordinary share capital of McCarthy Retail in September 2001 as part of a debt for equity swap. Although it is not the intention of the Banking Group to hold McCarthy as a core investment, it is unlikely that the investment will be disposed of before September 2002. Consequently, in terms of accounting standards, it is required that the Banking Group equity accounts for McCarthy. In accordance with the Banking Group's accounting policy in respect of bought-in assets, profits and losses on realisation of such assets will be accounted for in the income statement and the investment will be valued at the market price ruling on the last day of the financial period. In order to retain the investment at the market value, a provision of R72 million has been raised against this investment in the current period.

Other income

Other income includes property rentals and insurance brokerage.

Operating expenditure

R million	2002	2001	% change
Staff expenditure	**4 412**	4 017	9,8
Depreciation	**436**	453	(3,8)
Goodwill	**9**	8	12,5
Other expenditure	**3 521**	2 702	30,3
Total non-interest expenditure	**8 378**	7 180	16,7

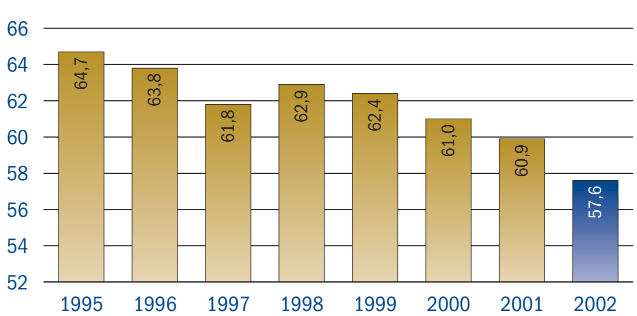
Operating expenditure increased by 16,7% and was impacted by the NBS and Saambou transactions, CDO operating expenditure and the impact of the decline in the rand, as set out below:

R million	2002	2001	% change
Core operational expenditure	**7 876**	6 966	13,1
Retrenchment costs	**–**	137	(100,0)
Saambou and NBS acquisition, retention and infrastructure costs	**111**	–	>100,0
CDO operating cost	**62**	–	>100,0
Goodwill and other write-offs	**9**	77	(88,3)
FNB HomeLoan's organic acquisition costs	**26**	–	>100,0
Currency translation	**294**	–	>100,0
Total operating expenditure	**8 378**	7 180	16,7

The international operations of the Banking Group restricted growth in expenditure to 12% in their reporting currencies. However, the considerable weakening of the rand during the current financial period resulted in a 43,2% increase in rand terms. The R294 million represents the increase in the international operations costs attributable to the depreciation in the rand. The rand depreciation also had a positive compensating effect on interest and non-interest income.

Cost to income ratio

The cost to income ratio has continued to improve during the period under review. Continued strict management of costs together with the growth in income contributed to the improvement in the ratio from 60,9% to 57,6% (excluding translation gains), and from 59,9% to 55,5% (including translation gains).



Cost to income (%)

International operations

Net income before taxation

R million	2002	2001	% change
FNB Botswana	**252**	180	40,0
FNB Namibia	**235**	195	20,5
FNB Swaziland	**24**	15	60,0
African subsidiaries	**511**	390	31,0
FirstRand International	**378**	359	5,3
Other	**52**	44	18,2
Total international earnings	**941**	793	18,7

The Banking Group's international activities include:

- retail banking in other southern African countries under the First National Bank brand (the African subsidiaries);
- private banking and wealth management under the Ansbacher brand;
- vanilla and structured financing and investment through RMB International;
- investment banking services to resource-based businesses through RMB Resources offices in the United Kingdom, Australia and the United States;
- corporate financing in Australia under RMB Corporate Finance;
- private equity investments in Australia and the United Kingdom; and
- development of trading markets in New Zealand, Australia and Singapore.

The increase in income before taxation of FirstRand International was muted due to the reduced endowment effect on capital following the steep decrease in dollar-based interest rates and the higher than expected defaults on the CDO portfolio.

Divisional performances

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

R million	2002	2001	% change
Retail Cluster	**2 492**	2 135	16,7
Retail banking	**1 080**	818	32,0
Instalment finance	**676**	611	10,6
Property finance	**179**	272	(34,2)
African subsidiaries	**511**	390	31,0
Insurance	**46**	44	4,5
Corporate Cluster	**1 480**	1 137	30,2
Investment banking	**910**	700	30,0
Corporate banking	**570**	437	30,4
Wealth Cluster	**52**	8	>100,0
Trust services	**31**	33	(6,1)
Private banking – domestic	**21**	(25)	>100,0
International Wealth Cluster			
Private banking – offshore	**11**	80	(86,3)
Capital Centre	**438**	105	>100,0
	4 473	3 465	29,1
Translation gains	**548**	207	>100,0
Income before taxation	**5 021**	3 672	36,7

Analysis of average margin on margin based business

FirstRand Banking operations

	2002		2001	
	R million	**%**	**R million**	**%**
MARGIN ASSETS				
AVERAGE BALANCE				
Advances and lending operations				
Per product				
Prime rate linked lending	**61 293**		54 818	
Fixed rate lending	**12 868**		6 050	
Overnight and other lending	**10 891**		7 672	
Interest-earning assets	**85 052**		68 540	
INTEREST TURN				
Advances and lending operations				
Per product				
Prime rate linked lending	**2 627**	**4,29**	2 478	4,52
Fixed rate lending	**451**	**3,50**	302	4,99
Overnight and other lending	**300**	**2,75**	168	2,19
Interest margin on assets	**3 378**	**3,97**	2 948	4,30
MARGIN LIABILITIES				
AVERAGE BALANCE				
Per product				
Current and savings	**18 232**		17 776	
Fixed rate raisings	**17 334**		10 956	
Overnight and other raisings	**33 240**		38 320	
Interest-bearing liabilities	**68 806**		67 052	
INTEREST TURN				
Per product				
Current and savings	**1 240**	**6,80**	1 122	6,31
Fixed rate raisings	**152**	**0,88**	149	1,36
Overnight and other raisings	**510**	**1,53**	490	1,28
Interest margin on liabilities	**1 902**	**2,76**	1 761	2,63

Risk management

Board responsibility

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

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

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

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

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

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

Values

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

Risk management structure

Committees of the Board

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

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

Sub-audit committees

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

Representatives of the independent risk and audit functions attend all sub-committee meetings.

Risk committees of the business units

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

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

Independent risk control

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

Finance, Risk and Audit division

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

Risk management by the business units

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

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

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

The risk management process

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

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

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

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

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

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

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

Internal audit

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

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

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

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

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

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

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

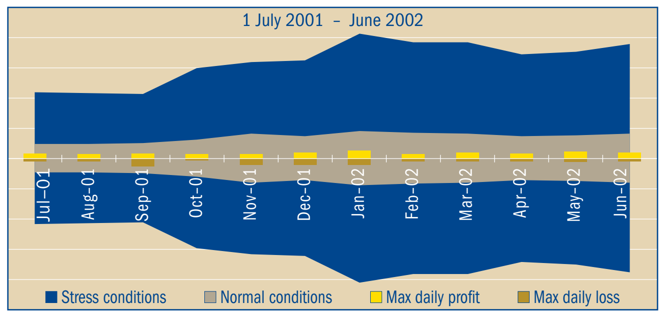
Similarly, the systems auditors audit the operating systems and new systems developments across the Banking Group to assess the adequacy of general and application controls, information security and general operations.

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

Market risk

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

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



Rand Merchant Bank
Treasury market risk

Risk exposure limits

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

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

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

5% of the total capital of the Banking Group. Market risk emanating from trading positions is considered to be relatively small in the context of the Banking Group's overall operations.

Automation of market risk reporting

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

Operational risk

Security of employees and customers

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

Security of assets

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

Losses due to criminal activities and money differences

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

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

Information security

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

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

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

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

Business continuation

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

Legal risk

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

Risk insurance

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

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

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

The new Basel Capital Accord proposals in respect of operational risk

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

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

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

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

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

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

Interest rate risk and liquidity management in the banking book

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

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

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

Interest rate risk management in the banking book

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

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

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

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

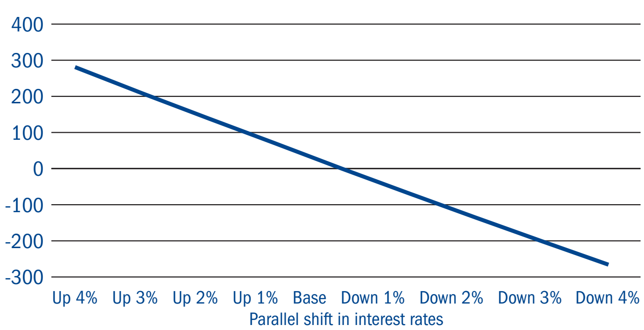
As part of the initiative to forge closer ties between Banking Group Treasury and the clusters, Cluster ALCOs are being established. Cluster ALCOs also ensure that the management of interest rate and liquidity risks in the bank remains a collaborative effort.

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

Banking book interest rate risk

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

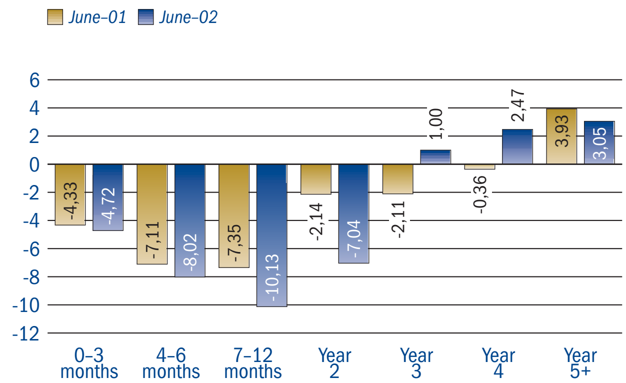
The most significant portion of the Banking Group's interest rate risk resides on its South African balance sheet. The sensitivity of SA rand earnings to an instantaneous shock to interest rates over a 12-month forecast period is as follows:



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

This exposure is considered small relative to the size of the banking operations and is within the Banking Group's prudential limits. The graph presents a static picture and assumes no management intervention during the forecast period. Interest rate sensitivity is continuously managed based on management's view of future interest rates.

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



Cumulative repricing gap (R billion)

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

Liquidity risk management

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

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

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

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

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

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

Credit risk

Corporate credit

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

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

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

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

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

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

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

Credit risk portfolio management

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

Structure, management and organisation

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

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

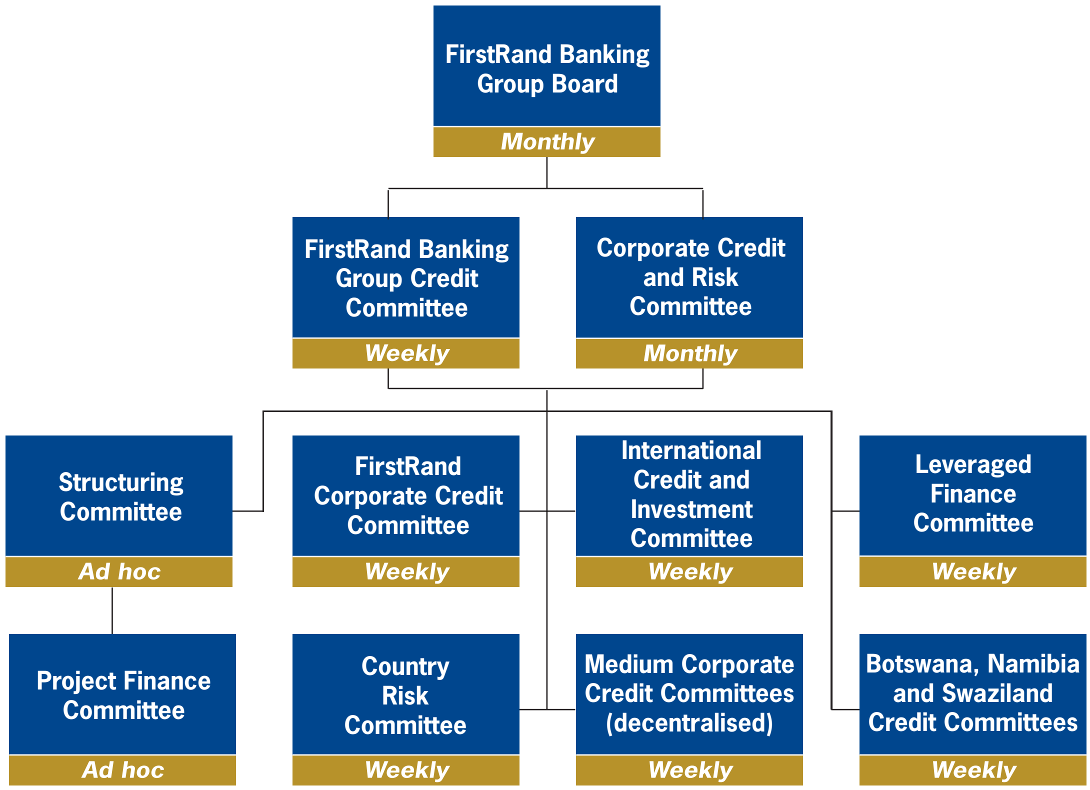
- industry reporting on a proactive basis;
- credit assessment and risk rating on the client relationship as a whole, including the preparation of the credit proposal for the aggregate exposure to the client as well as the extensions thereof;
- ongoing risk management in respect of clients in their portfolio;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

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

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

Credit governance structure

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



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

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

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

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

Description of grading methodology and credit risk models

The rating of the Corporate Cluster credit portfolio over all borrower and deal types is well advanced. Through this process expected losses, once measured, can be provided for on a dynamic basis over a given time horizon based on historical default behaviour and the collateral recovery results associated with the defaulted transactions. For derivative transactions, the credit exposure is measured on a present value and potential future loan equivalent basis by using the Riskwatch model. These risks are generally mitigated through ISDA agreements and collateral arrangements where deemed necessary. Unexpected losses will be measured over a given time horizon. An estimate can be derived of possible worst case credit losses, given a predetermined confidence level (say 99%), and used as input into the management of economic capital levels by business unit and the Banking Group as a whole.

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

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

Effectiveness of the credit risk management process

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

Debt collection

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

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

Consumer credit

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

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

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

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

The table below highlights the improvement in the book:

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

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

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

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

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

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

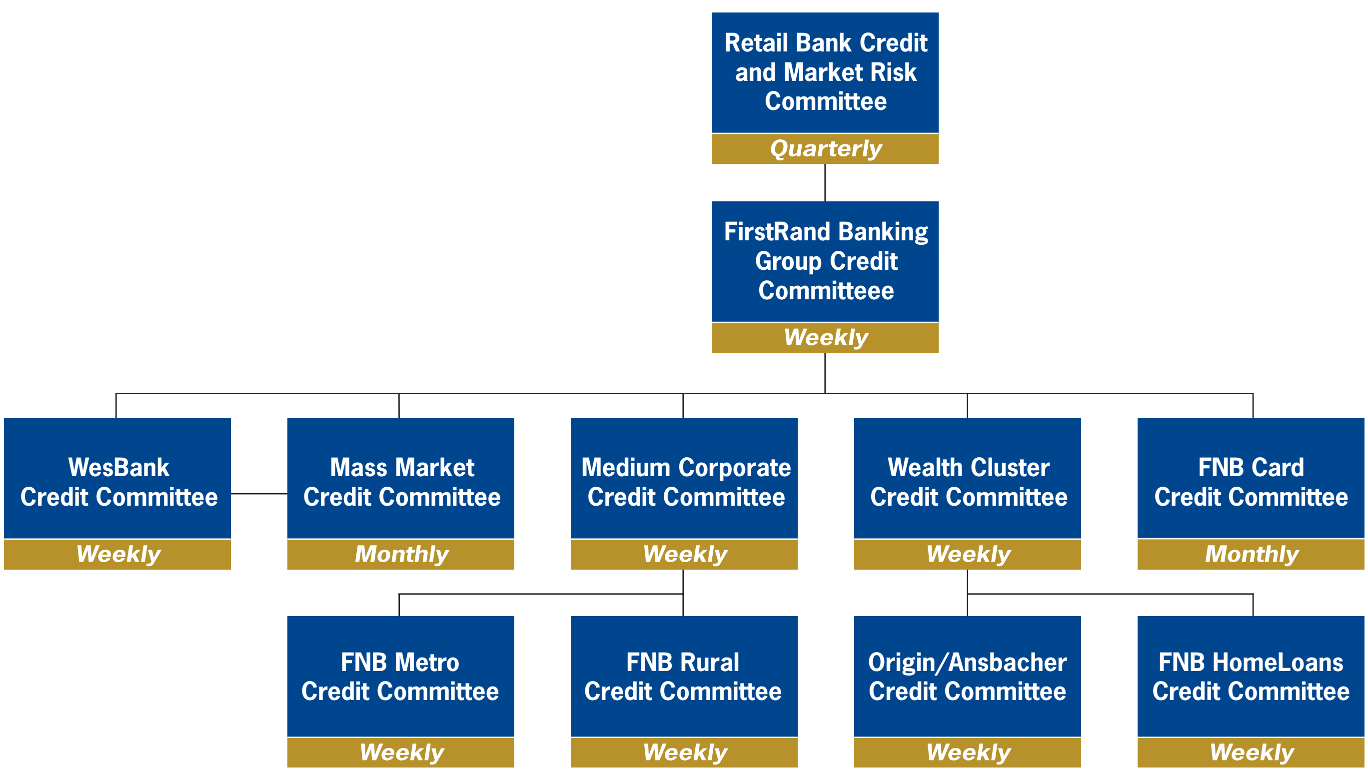
During the course of the year, management took the view that they should increase the general provisions for the other categories of lending products, where it was felt that in view of the rising interest rates, it was appropriate to increase these.

General provisions are now at the following levels:

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

Retail credit governance structure

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



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

Risk mitigation

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

Regulatory environment

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

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

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

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

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

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

Capital adequacy statement

The registered banks within the Banking Group are subject to regulatory capital adequacy requirements. The capital base of a bank provides the foundation for lending, off-balance sheet transactions and other activities. The capital adequacy of banks is measured in terms of the Banks Act requirements. Under these regulations banks are required to maintain a minimum level of capital based on their risk adjusted assets and off-balance sheet transactions. As at 30 June 2002 South African banks were required to hold capital equal to a minimum of 10% of risk adjusted assets and contingencies. Capital has to be held against trading assets as calculated using risk models. As at 30 June 2002, the capital held against the trading assets of the bank was R264,7 million (2001: R450,0 million).

R million	2002	2001
Regulatory capital		
Tier 1		
Share capital	**1 210,0**	956,6
Share premium	**1 756,3**	1 756,3
Capital redemption reserve	**1,1**	1,1
Retained income	**10 152,3**	7 621,5
Less: Impairments	**(159,1)**	(317,8)
Less: Allocated to trading activities	**(149,5)**	(166,9)
Total tier 1 capital available to banking activities	**12 811,1**	9 850,8
Tier 2		
Subordinated debt instruments	**2 984,1**	3 165,7
General provision	**1 412,2**	982,0
Less: Allocated to trading activities	**(100,0)**	(225,0)
Total tier 2 capital available to banking activities	**4 296,3**	3 922,7
Regulatory capital	**17 107,4**	13 773,5
Tier 1 (%)	**8,7**	8,2
Tier 2 (%)	**2,9**	3,2
Total (%)	**11,6**	11,4

Risk adjusted assets and off-balance sheet exposure

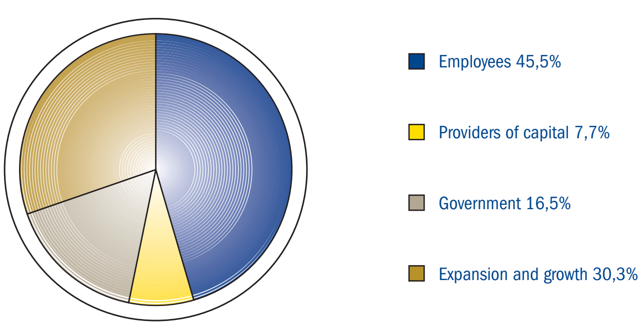
R million	Balances 2002	Balances 2001	Risk weighting	Risk adjusted balances 2002	Risk adjusted balances 2001
Cash, own bank, and central government advances	**81 199,9**	34 794,8	0%	**–**	–
Letters of credit and unutilised facilities on behalf of public sector bodies and exposures dematerialisation	**–**	1 936,7	5%	**–**	96,8
Public sector body advances	**11 105,0**	3 383,4	10%	**1 110,5**	338,3
Other bank advances and letters of credit	**51 390,6**	18 962,4	20%	**10 278,1**	3 792,5
Mortgage advances, remittances in transit and performance related guarantees	**53 207,0**	29 349,2	50%	**26 603,5**	14 674,6
Other advances and lending related guarantees	**102 904,2**	101 311,5	100%	**102 904,2**	101 311,5
Counterparty risk exposure	**7 067,8**	–	100%	**7 067,8**	–
	306 874,5	189 738,0		**147 964,1**	120 213,7

Value added statement

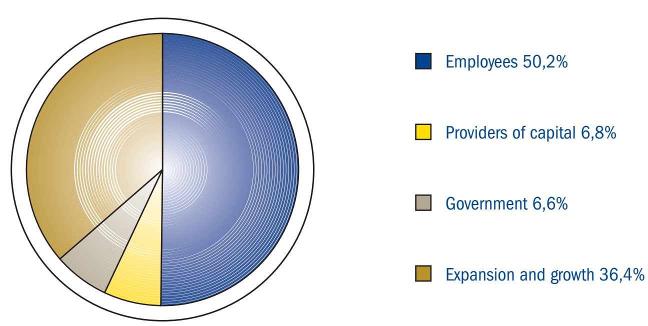
for the year ended 30 June

	Group 2002 R million	Group 2002 %	Group 2001 R million	Group 2001 %
VALUE ADDED				
Income earned by providing banking services	18 720,9		15 185,1	
Cost of services	(14 009,3)		(10 913,1)	
Value added by banking services	4 711,6		4 272,0	
Non-operating income	8 505,2		6 448,8	
Non-operating expenditure	(3 530,0)		(2 709,9)	
Value added by banking services	9 686,8		8 010,9	
TO EMPLOYEES				
Salaries, wages and other benefits	4 412,0	45,5	4 017,3	50,2
TO PROVIDERS OF CAPITAL				
Dividends to shareholders	743,8	7,7	545,0	6,8
TO GOVERNMENT				
Normal taxation	1 314,1	13,6	306,7	3,8
Value-added taxation	193,5	2,0	148,1	1,8
Regional services levy	34,6	0,4	32,0	0,4
Capital gains tax	10,9	0,1	–	0,0
Other	41,6	0,4	45,1	0,6
TO EXPANSION AND GROWTH				
Retained income	2 996,4	30,9	2 234,4	27,9
Depreciation	435,8	4,5	452,4	5,6
Deferred taxation	(495,9)	(5,1)	229,9	2,9
	9 686,8	100,0	8 010,9	100,0

2002



2001



Directors' responsibility statement

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

The financial statements for the year ended 30 June 2002 which appear on pages 88 to 128, have been approved by the Board of Directors and are signed on its behalf by:

J P Burger
Financial director

P K Harris
Chief executive officer

Sandton, 16 September 2002

Report of the independent auditors

To the directors of FirstRand Limited

We have audited the annual financial statements of the FirstRand Banking Group (a division of FirstRand Limited) set out on pages 88 to 128, for the year ended 30 June 2002. These financial statements are the responsibility of the directors of FirstRand Limited. Our responsibility is to express an opinion on these financial statements based on our audit.

Scope

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

An audit includes:

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

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

Audit opinion

In our opinion, the financial statements fairly present, in all material respects, the financial position of the FirstRand Banking Group at 30 June 2002 and the results of its operations and cash flows for the year then ended in accordance with Statements of Generally Accepted Accounting Practice in South Africa.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Incorporated
Chartered Accountants (SA)
Registered Accountants and Auditors

Sandton, 16 September 2002

Deloitte & Touche

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

Sandton, 16 September 2002

Accounting policies

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

1. Basis of presentation

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

The principal accounting policies of the Banking Group set out below are consistent in all material respects with those adopted in the previous year, except where specifically noted. Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year. The effect of the changes in accounting policy on the financial statements of the Banking Group is set out in note 25 below.

2. Consolidation

The financial statements of the Banking Group include the results of the holding company and its subsidiaries. Subsidiaries are those companies and other entities in which the Banking Group, directly or indirectly, has a long-term interest and has power to exercise control over the operations. Subsidiaries are consolidated from the date on which effective control is transferred to the Banking Group and are no longer consolidated from the effective date of disposal. The assets and liabilities acquired are included in the balance sheet of the Banking Group at their estimated fair values to the Banking Group. All intercompany transactions, balances and unrealised surpluses and deficits on transactions between group companies have been eliminated.

3. Associate companies

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

The results of associate companies have been included in the group financial statements using the equity accounting method, from the effective dates of acquisition until the effective dates of disposal. Transactions between the Banking Group and its associates are eliminated in determining the Banking Group's portion of the post-acquisition results.

The Banking Group's share of earnings of associates is included in earnings attributable to ordinary shareholders.

The Banking Group's interest in an associate is carried in the balance sheet at an amount that reflects its share of the net assets of the associate and includes any unamortised excess or deficit of the purchase price over the fair value of the attributable assets of the associate at date of acquisition.

Equity accounting is discontinued when the carrying amount of the investment in an associate company reaches zero, unless the Banking Group has incurred obligations or guaranteed obligations in respect of the associate's undertaking. When equity accounting is resumed, the carrying amount of investments is increased with the Banking Group's share of the associate's income.

4. Joint ventures

The Banking Group's interests in jointly controlled entities are accounted for by proportionate consolidation. Under this method the Banking Group includes its share of a joint venture's individual income or expense, assets and liabilities and cash flows in the relevant components of the Banking Group's financial statements.

5. Revenue recognition

Interest

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

Trading income

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

Dividends

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

Commission on acceptances, bills and promissory notes

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

Services rendered

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

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

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

Foreign currency translation

The assets and liabilities of foreign subsidiary companies, regarded as independent entities, are expressed in South African rand at rates of exchange ruling at year-end. Gains and losses arising on translation of independent entities are recorded directly in a non-distributable currency translation reserve.

The assets and liabilities of foreign subsidiary companies, regarded as an integral part of the Banking Group's operations, are translated into rand at rates of exchange ruling at year-end. Gains and losses arising on translation of these entities are recognised in the income statement.

In both of the above cases, capital and reserves are translated at historic rates, while income statement items are translated at the weighted average rate for the year.

Transactions in foreign currencies are converted to South African rand at the spot rate on the transaction date. Monetary assets and liabilities in foreign currencies are translated to South African rand using the rates of exchange ruling at the financial year-end. Profits and losses from forward exchange contracts used to hedge potential exchange rate exposures are offset against gains and losses on the specific transaction being hedged.

6. Borrowing costs

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

7. Indirect taxes

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

8. Recognition of assets, liabilities and provisions

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

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

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

No liability is recognised when:

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

In the above cases, a contingent liability is disclosed.

9. Advances and provision for credit losses

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

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

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

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

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

Properties in possession are included in advances and are shown at the lower of cost or net realisable value.

10. Cash and cash equivalents

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

- Coins and bank notes;
- Money at call and short notice;
- Balances with central banks; and
- Balances guaranteed by central banks.

11. Repurchase and resale agreements

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

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

12. Accounting for leases – where a group company is the lessee

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

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

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

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

Finance leases

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

Operating leases

Assets leased out under operating leases are included in property and equipment in the balance sheet. They are depreciated over their expected useful lives on a basis consistent with similar fixed assets. Rental income is recognised on a straight-line basis over the lease term.

Instalment credit agreements

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

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

14. Financial instruments

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

Financial assets and liabilities held for trading purposes are stated at fair value. The fair values of listed financial instruments are determined by reference to quoted market rates, which may be adjusted where the bid/offer spreads for long-dated financial instruments are considered to be significant. In the case of unlisted financial instruments, the fair value is the amount for which assets or liabilities could be exchanged or settled between knowledgeable, willing parties in an arm's length transaction, or in the case of derivative financial instruments, from option pricing models or other alternative valuation models as deemed appropriate.

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

The particular revenue recognition methods adopted for financial instruments held for trading and hedging purposes are disclosed in 5 above.

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

15. Other investments

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

16. Property and equipment

Property and equipment are carried at cost less accumulated depreciation.

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

The periods of depreciation used are as follows:

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

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

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

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

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

17. Intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the attributable fair value of the Banking Group's share of the net assets of the acquired subsidiary/associate undertaking at the date of acquisition. Goodwill is capitalised and amortised on the straight-line basis over the period of expected benefit, limited to a maximum of 20 years. The carrying amount of goodwill is reviewed periodically and written down for permanent impairment where considered necessary.

Negative goodwill represents the excess of the fair value of the Banking Group's share of the net assets acquired over the cost of acquisition. Negative goodwill is presented in the same balance sheet classification as goodwill. To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the Banking Group's plan for the acquisition and can be measured reliably, but which do not represent identifiable liabilities, the portion of negative goodwill is recognised in the income statement when the future losses and expenses are recognised. Any remaining negative goodwill, not exceeding the fair value of the non-monetary assets acquired, is recognised in the income statement over the remaining useful life of those assets. Negative goodwill in excess of the fair value of those assets is recognised in the income statement immediately.

Computer software development costs

Generally, computer software development costs are expensed in the year incurred. However, where computer software development costs can be clearly associated with a strategic and unique system which will result in a benefit for the Banking Group exceeding the costs incurred for more than one accounting period, such costs are capitalised and recognised as an intangible asset.

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

Other intangible assets

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

18. Debentures

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

19. Deferred taxation

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

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

20. Employee benefits

Post-employment benefits

The Banking Group operates defined benefit and defined contribution schemes, the assets of which are held in separate trustee-administered funds. The pension plans are generally funded by payments from employees and the relevant Banking Group companies, taking account of the recommendations of independent qualified actuaries. For defined benefit plans the pension accounting costs are assessed using the projected unit credit method. These funds are registered in terms of the Pension Funds Act, 1956, and membership is compulsory for all Banking Group employees. Valuations are performed annually.

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

Post-retirement medical benefits

In terms of certain employment contracts, the Banking Group makes provision for post-retirement healthcare benefits to qualifying employees and retired personnel by subsidising a portion of their medical aid contributions. The Banking Group created an independent fund in 1998 to fund these obligations. AC 116 requires that both the asset and liability in respect thereof be reflected on the balance sheet. All expenditure in respect of post-retirement medical benefits, as well as all investment income from the fund, is accounted for in the income statement.

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

Termination benefits

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

Leave pay provision

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

Pension fund surplus

The Banking Group converted its primary pension plan from a defined benefit scheme to a defined contribution scheme in 1996. At that point, an actuarial surplus was converted into a realised surplus. AC 116 requires that this surplus be reflected on the balance sheet as an asset of the Banking Group. All income and expenditure with regard to the pension fund surplus is brought to account on the income statement.

New pension fund legislation has been introduced with effect from December 2001, which, inter alia, sets out laws regarding the fair division of pension fund surpluses. The regulations governing the implementation of this legislation have not yet been introduced, and considerable uncertainty exists as to the form these regulations will take. Consequently, the Banking Group believes it prudent to impair the pension fund asset created on the balance sheet.

21. Acceptances

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

22. Related party transactions

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

23. Segment reporting

A segment is defined as a distinguishable component of the Banking Group that is engaged either in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segments with a majority of revenue earned from charges to external customers and whose revenue, results or assets are ten per cent or more of all the segments are reported separately.

24. Fiduciary activities

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

25. Changes in accounting policy

The Banking Group has adopted the revised accounting statement on employee benefits (AC 116), which was effective for years commencing on or after 1 January 2001. This statement requires that assets and liabilities, income and expenditure arising from employee obligations be reflected in the financial statements in full in the period. Previously, the Banking Group accounted for employee benefits on a pay as you go basis. The Banking Group's current accounting policy with regard to employee benefits is set out in note 20 on page 92.

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

R million	2002	2001
Attributable earnings before change in accounting policy	**3 761**	2 786
Employee benefits	**(21)**	(7)
Attributable earnings after change in accounting policy	**3 740**	2 779

The distributable reserves of the Banking Group have been affected as follows:

R million	2002	2001	2000
Closing balance of distributable reserves	**12 773**	9 789	7 548
Employee benefits	**(430)**	(409)	(402)
Restated closing balance of distributable reserves	**12 343**	9 380	7 146

Balance sheet

as at 30 June

R million	Notes	Group 2002	Group 2001
ASSETS			
Cash and short-term funds	3	**24 643,3**	10 133,4
Short-term negotiable securities	4	**3 438,9**	6 114,4
Liquid assets and trading securities	5	**37 939,3**	27 148,2
Derivative instruments	26.4	**26 139,4**	14 208,8
Advances	6 & 7	**175 145,3**	123 328,2
Debtors	8	**3 269,4**	2 410,9
Other investments	9	**3 286,1**	2 714,7
Non-recourse investments	10	**1 737,9**	–
Investment in associate companies	11	**1 169,3**	496,4
Property and equipment	12	**3 411,5**	2 910,6
Deferred taxation asset	13	**1 253,3**	246,3
Retirement benefit asset	25.2	**–**	126,1
Intangible assets	14	**288,1**	141,4
Total assets		**281 721,8**	189 979,4
LIABILITIES AND SHAREHOLDERS' FUNDS			
Liabilities			
Deposit and current accounts	15	**201 404,0**	141 460,9
Non-recourse deposits	10	**1 737,9**	–
Derivative instruments	26.4	**31 525,0**	20 358,0
Short trading positions	16	**16 798,7**	429,4
Post-retirement medical liability	25.1	**897,6**	826,4
Creditors and accruals	17	**7 014,8**	8 979,6
Provisions	18	**831,4**	690,9
Taxation		**429,1**	30,2
Deferred taxation liability	13	**1 931,5**	1 524,1
Long-term liabilities	19	**3 217,0**	3 303,8
Total liabilities		**265 787,0**	177 603,3
Outside shareholders' interest		**475,0**	464,8
Shareholders' equity			
Ordinary share capital	20	**106,0**	106,0
Share premium		**1 331,9**	1 331,9
Non-distributable reserves	21	**1 679,1**	1 092,8
Distributable reserves		**12 342,8**	9 380,6
Total shareholders' equity		**15 459,8**	11 911,3
Total liabilities and shareholders' funds		**281 721,8**	189 979,4
Contingencies and commitments	22	**27 283,7**	17 927,8

Income statement

for the year ended 30 June

R million	Notes	Group 2002	Group 2001
Interest income	23.1	**18 720,9**	15 185,1
Interest expenditure	23.2	**(12 304,5)**	(9 769,7)
Net interest income before impairment of advances		**6 416,4**	5 415,4
Charge for bad and doubtful debts	7	**(1 704,8)**	(1 143,4)
Net interest income after impairment of advances		**4 711,6**	4 272,0
Non-interest income	23.3	**8 319,3**	6 445,8
Other non-interest income		**7 771,3**	6 238,8
Translation gains		**548,0**	207,0
Net income from operations		**13 030,9**	10 717,8
Operating expenditure	23.4	**(8 377,8)**	(7 179,6)
Income from operations		**4 653,1**	3 538,2
Share of earnings of associate companies	11	**367,8**	134,3
Income before indirect taxation		**5 020,9**	3 672,5
Indirect taxation	13	**(280,6)**	(225,2)
Income before direct taxation		**4 740,3**	3 447,3
Direct taxation	13	**(818,2)**	(536,6)
Income after taxation		**3 922,1**	2 910,7
Earnings attributable to outside shareholders		**(181,9)**	(131,3)
Earnings attributable to ordinary shareholders		**3 740,2**	2 779,4
Less: Profit on sale of subsidiaries		**(4,9)**	–
Add: Goodwill		**9,5**	7,9
Headline earnings		**3 744,8**	2 787,3

Cash flow statement

for the year ended 30 June

R million	Notes	Group 2002	Group 2001
Cash flows from operating activities			
Cash received from customers	24.1	**26 309,2**	21 059,6
Cash paid to customers and employees	24.2	**(19 884,0)**	(16 088,9)
Net cash inflow from operating activities		**6 425,2**	4 970,7
Cash flows from returns on investments and servicing of finance			
Debenture interest paid		**(362,5)**	(318,8)
Dividends received	24.3	**659,6**	386,5
Dividends paid	24.4	**(746,1)**	(637,9)
Net cash flows from returns on investments and servicing of finance		**(449,0)**	(570,2)
Taxation paid	24.5	**(688,5)**	(604,3)
Cash flows from investment activities			
Purchase of property and equipment		**(856,0)**	(339,1)
Purchase of associates		**(512,7)**	–
Purchase of investments		**(571,4)**	(165,8)
Proceeds from sale of property and equipment		**69,8**	175,3
Proceeds from sale of investments		**12,6**	–
Net cash outflow from investment activities		**(1 857,7)**	(329,6)
Cash flows from financing activities			
Net repayment of long-term liabilities		**(86,8)**	(334,2)
Net cash flow from financing activities		**(86,8)**	(334,2)
Cash flows from banking investment activities			
Increase in income-earning assets	24.6	**(32 277,5)**	(26 363,8)
Increase in deposits and other liabilities	24.7	**43 659,6**	25 055,4
Net cash flow from banking investment activities		**11 382,1**	(1 308,4)
Cash flow from assets and deposits purchased			
Advances acquired		**(16 935,7)**	–
Cash equivalents acquired		**(7 931,3)**	–
Deposits acquired		**13 002,4**	–
Unsettled portion		**3 717,9**	–
Net cash flow from assets and deposits purchased		**(8 146,7)**	–
Net increase in cash and cash equivalents		**6 578,6**	1 824,0
Cash and cash equivalents at beginning of the year		**10 133,4**	8 309,4
Acquired cash equivalents		**7 931,3**	–
Cash and cash equivalents at end of the year	3	**24 643,3**	10 133,4

Statement of changes in equity

for the year ended 30 June

R million	Share capital (Note 20)	Share premium	Non-distributable reserves (Note 21)	Distributable reserves	Total equity
Balance at 1 July 2000					
As previously stated	106,0	1 331,9	921,2	7 548,1	9 907,2
Changes in accounting policies					
Recognised employer reserve on pension fund surplus	–	–	–	155,7	155,7
Leave pay provision	–	–	–	(309,7)	(309,7)
Post-retirement medical aid liability	–	–	–	(247,9)	(247,9)
Restated balance 1 July 2000	106,0	1 331,9	921,2	7 146,2	9 505,3
Currency translation differences	–	–	134,3	–	134,3
Non-distributable reserves of associate companies	–	–	27,8	–	27,8
Revaluation of investments	–	–	4,8	–	4,8
Earnings attributable to ordinary shareholders	–	–	–	2 779,4	2 779,4
Final dividend – 31 October 2000	–	–	–	(106,0)	(106,0)
Interim dividend – 31 March 2001	–	–	–	(439,0)	(439,0)
Movement in other reserves	–	–	4,7	–	4,7
Restated balance as at 30 June 2001	106,0	1 331,9	1 092,8	9 380,6	11 911,3
Balance 1 July 2001	**106,0**	**1 331,9**	**1 092,8**	**9 380,6**	**11 911,3**
Currency translation differences	**–**	**–**	**577,5**	**–**	**577,5**
Non-distributable reserves of associate companies	**–**	**–**	**11,5**	**–**	**11,5**
Earnings attributable to ordinary shareholders	**–**	**–**	**–**	**3 740,2**	**3 740,2**
Final dividend – 31 October 2001	**–**	**–**	**–**	**(289,0)**	**(289,0)**
Interim dividend – 28 March 2002	**–**	**–**	**–**	**(454,8)**	**(454,8)**
Transfer to non-distributable reserves	**–**	**–**	**34,2**	**(34,2)**	**–**
Movement in other reserves	**–**	**–**	**(36,9)**	**–**	**(36,9)**
Balance as at 30 June 2002	**106,0**	**1 331,9**	**1 679,1**	**12 342,8**	**15 459,8**

Notes to the annual financial statements

for the year ended 30 June

1. ACCOUNTING POLICIES
   The accounting policies of the Banking Group are set out on pages 88 to 93.

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

R million	Group 2002	Group 2001
3. CASH AND SHORT-TERM FUNDS		
Coins and bank notes	**1 687,0**	1 997,1
Money at call and short notice	**10 668,1**	6 548,3
Balances with central banks	**3 835,9**	1 588,0
Balances guaranteed by central banks	**8 452,3**	–
	24 643,3	10 133,4
Mandatory reserve balances included above:	**2 191,2**	941,2
Banks are required to deposit a minimum average balance, calculated monthly, with the central bank. These deposits bear no interest. Money at short notice constitutes amounts withdrawable in 32 days or less.		
4. SHORT-TERM NEGOTIABLE SECURITIES		
Bills	**20,6**	32,7
Negotiable certificates of deposit	**259,5**	3 276,8
Treasury bills and other government stock	**2 902,9**	2 432,3
Other	**255,9**	372,6
	3 438,9	6 114,4
5. LIQUID ASSETS AND TRADING SECURITIES		
Government and government guaranteed	**23 776,6**	14 719,1
Other dated securities	**11 906,6**	10 277,0
Undated securities	**2 256,1**	2 152,1
	37 939,3	27 148,2
Analysis of liquid assets and trading securities		
Listed		
Book value	**22 244,7**	19 512,0
Market value	**22 239,0**	19 519,3
Unlisted		
Book value	**15 694,6**	7 636,2
Directors' valuation	**15 689,2**	7 714,6
Investment portfolio	**31 840,1**	15 195,1
Trading portfolio	**6 076,6**	11 267,2
Hedging portfolio	**22,6**	685,9
Total liquid assets and trading securities	**37 939,3**	27 148,2

R million	Group 2002	Group 2001
6. ADVANCES		
Sector analysis		
Agriculture	**3 383,9**	2 578,0
Banks and financial services	**30 419,0**	15 000,3
Building and property development	**6 878,1**	4 543,4
Government, Land Bank and public authorities	**9 986,2**	3 135,3
Individuals	**77 056,7**	54 055,0
Manufacturing and commerce	**34 371,9**	30 309,1
Mining	**2 972,4**	2 187,3
Transport and communication	**5 884,2**	6 157,2
Other services	**9 283,3**	9 497,0
	180 235,7	127 462,6
Interest suspended	**(725,3)**	(833,6)
	179 510,4	126 629,0
Impairment of advances (note 7)	**(4 365,1)**	(3 300,8)
Advances after impairment	**175 145,3**	123 328,2
Geographic analysis (based on credit risk)		
South Africa	**147 432,4**	107 531,4
Other Africa	**7 072,2**	5 603,3
Europe	**11 622,3**	5 700,4
Other	**13 383,5**	7 793,9
	179 510,4	126 629,0
Category analysis		
Card loans	**3 941,5**	3 096,4
Home loans	**48 567,7**	24 612,3
Instalment sales	**21 592,1**	18 721,9
Lease payments receivable	**9 514,2**	9 251,3
Overdrafts and managed account debtors	**34 397,2**	33 740,5
Collateralised debt obligations	**9 599,5**	3 668,8
Other advances	**51 898,2**	33 537,8
	179 510,4	126 629,0
Analysis of instalment sales and lease payments receivable		
Instalment sales	**27 894,8**	23 537,8
Lease payments receivable	**11 976,1**	11 202,2
	39 870,9	34 740,0
Less: Unearned finance charges	**(8 764,6)**	(6 766,8)
	31 106,3	27 973,2

R million	Group 2002	Group 2001
7. IMPAIRMENT OF ADVANCES		
Balance at beginning of the year	**(3 300,8)**	(3 131,3)
Adjustments for exchange rate differences	**(112,7)**	(47,8)
Amounts written off	**1 459,0**	1 219,8
Acquisitions	**(508,3)**	–
Other	**(0,1)**	7,4
	(2 462,9)	(1 951,9)
Recoveries of amounts previously written off	**(187,0)**	(139,3)
Profit on sale of security	**(10,4)**	(66,2)
Charge to income statement	**(1 704,8)**	(1 143,4)
Balance at end of the year	**(4 365,1)**	(3 300,8)
Analysis		
Specific provision	**(2 300,1)**	(1 955,1)
General provision	**(2 065,0)**	(1 345,7)
	(4 365,1)	(3 300,8)

R million	Credit risk	Security held	Interest suspended	Provision
Non-performing lendings by sector				
Agriculture	129,3	52,5	27,5	26,6
Banks and financial services	103,1	21,3	21,6	81,8
Building and property development	409,8	91,4	25,3	134,7
Government, Land Bank and public authorities	227,2	0,3	44,1	21,8
Individuals	2 689,8	915,5	341,0	995,2
Manufacturing and commerce	1 518,6	148,4	236,4	677,7
Mining	9,3	3,1	0,8	5,5
Transport and communication	92,0	7,7	16,2	37,6
Other services	126,0	26,2	12,4	319,2
Total	5 305,1	1 266,4	725,3	2 300,1
2001 Total non-performing lendings	4 422,7	1 158,1	833,6	1 955,1
Non-performing lendings by category				
Overdrafts and managed account debtors	1 344,4	260,1	269,4	734,5
Card loans	351,9	–	92,4	151,3
Instalment sale	311,9	74,9	66,0	141,9
Lease payments receivable	136,5	25,3	31,4	66,0
Home loans	1 360,3	750,3	116,2	480,7
Other advances	1 800,1	155,8	149,9	725,7
Total	5 305,1	1 266,4	725,3	2 300,1
2001 Total non-performing lendings	4 422,7	1 158,1	833,6	1 955,1

R million		Group 2002	Group 2001
8.	DEBTORS		
	Items in transit	**462,0**	420,6
	Accrued interest	**303,4**	311,3
	Accounts receivable	**510,0**	633,6
	Other debtors	**1 994,0**	1 045,4
		3 269,4	2 410,9
9.	OTHER INVESTMENTS		
	Listed investments	**438,7**	221,3
	Unlisted investments	**2 847,4**	2 493,4
		3 286,1	2 714,7
	Aggregate market value for listed investments	**562,9**	198,9
	Aggregate directors' valuation for unlisted investments	**2 805,1**	2 494,6
		3 368,0	2 693,5
	These investments are available for resale.		
	Information regarding other investments as required in terms of Schedule 4 of the Companies Act, 1973, is kept at the company's registered offices. This information is open for inspection in terms of the provisions of section 113 of the Companies Act.		
10.	NON-RECOURSE INVESTMENTS AND DEPOSITS		
	Non-recourse investments		
	Non-recourse investments represent government bonds which were acquired to serve as security in terms of the FRESCO and PROCUL Synthetic Collateralised Debt Obligation structures. The Banking Group has no control over these assets, however these assets were consolidated in terms of AC 412. The investments comprise:		
	South African Government Bonds		
	R153 at cost	**1 107,8**	–
	R194 at cost	**1 029,9**	–
		2 137,7	–
	Less: Banking Group's share thereof	**(399,8)**	–
		1 737,9	–
	Non-recourse deposits		
	Non-recourse deposits represent multiple class linked notes issued to fund the structures whereby noteholders do not have recourse to the Banking Group under any circumstances. These have been issued in various tranches and are priced according to the credit risk of the underlying referenced portfolio and the relative credit enhancement applied to the respective tranches. These notes were consolidated in terms of AC 412. The deposits represent notes issued to external parties.		
	Total value of notes issued	**3 169,2**	–
	Less: Notes acquired by the Banking Group	**(1 431,3)**	–
		1 737,9	–

Notes to the annual financial statements *continued*

for the year ended 30 June

R million	Group 2002	Group 2001
11. INVESTMENT IN ASSOCIATE COMPANIES		
Listed investments		
Cost less amounts written off	**493,8**	–
Unlisted investments		
Cost less amounts written off	**431,3**	360,6
Total cost less amounts written off	**925,1**	360,6
Income before taxation for the year	**367,8**	134,3
Taxation for the year	**(64,2)**	(39,7)
Dividends received for the year	**(196,5)**	(31,5)
Retained income for the year	**107,1**	63,1
Exchange differences	**1,0**	(3,9)
Acquisitions and disposals	**(2,2)**	(4,3)
Share of retained income at beginning of the year	**100,7**	45,8
Share of retained income at end of the year	**206,6**	100,7
Share of other reserves	**37,6**	35,1
Total retained income and reserves	**244,2**	135,8
Total carrying value	**1 169,3**	496,4
Valuation		
Listed investments at market value	**493,8**	–
Unlisted investments at directors' valuation	**1 521,6**	1 026,1
Total valuation	**2 015,4**	1 026,1

Significant associates are as follows:

R million	Nature of business	Issued ordinary share capital R	Number of ordinary shares held	Year-end
Listed				
McCarthy Limited	Retail	1 027 631	964 898 728	30 Jun
Unlisted				
OUTsurance Insurance Company Limited	Insurance	34 366 631	1584 301 689	30 Jun
Zeda Car Leasing (Pty) Limited	Leasing	100	25	31 Mar
Infrastructure Finance Corp Limited	Funding	848 532	150 020	31 Dec
Mobile Acceptances (Pty) Limited	Leasing	700 000	182 000	30 Jun
Toyota Financial Services (Pty) Limited	Vehicle finance	2 700	900	30 Jun
Marsh Holdings SA (Pty) Limited	Insurance brokers	100 000	40 000	31 Dec
Arthur Kaplan Jewellers (Pty) Limited	Jewellers	1 000	463	31 May
Private Equity associates	Various	Various	Various	Various

R million	Beneficial holding % 2002	2001	Group carrying amount 2002	2001	Group costs less amounts written off 2002	2001
11. INVESTMENT IN ASSOCIATE COMPANIES (continued)						
Listed						
McCarthy Limited	**48,2**	–	**493,8**	–	**493,8**	–
Unlisted						
OUTsurance Insurance Company Limited	**46,1**	46,1	**173,5**	141,3	**115,2**	116,7
Zeda Car Leasing (Pty) Limited	**50,0**	50,0	**40,1**	32,3	**0,8**	–
Infrastructure Finance Corp Limited	**17,7**	17,7	**28,8**	30,4	**16,6**	18,3
Mobile Acceptances (Pty) Limited	**26,0**	26,0	**3,5**	2,9	**0,4**	0,4
Toyota Financial Services (Pty) Limited	**33,0**	33,0	**73,1**	45,8	**90,0**	60,0
Arthur Kaplan Jewellers (Pty) Limited	**46,3**	–	**12,1**	–	**10,0**	–
Marsh Holdings SA (Pty) Limited	**40,0**	40,0	**6,4**	7,2	**12,0**	12,0
Private equity associates			**319,1**	225,0	**180,4**	147,7
Other			**18,9**	11,5	**5,9**	5,5
Total unlisted			**675,5**	496,4	**431,3**	360,6
Total listed and unlisted			**1 169,3**	496,4	**925,1**	360,6

Summarised financial information of significant associates

R million	OUTsurance Insurance Company Limited 2002	2001	Zeda Car Leasing (Pty) Limited 2002	2001	Infrastrucure Finance Corp Limited 2002	2001
Balance sheet						
Non-current assets	**354,4**	314,5	**716,9**	712,5	**1 125,6**	961,4
Current assets	**358,2**	205,6	**69,4**	64,0	**4 170,2**	3 673,2
Current liabilities	**(380,4)**	(45,0)	**(655,4)**	(660,3)	**(406,5)**	(435,1)
Non-current liabilities	**(19,2)**	(225,3)	**(51,8)**	(54,4)	**(4 718,0)**	(4 048,8)
Equity	**313,0**	249,8	**79,1**	61,8	**171,3**	150,7
Income statement						
Earnings attributable to the Banking Group	**26,4**	14,7	**8,8**	5,9	**4,9**	6,2
Loans to associates	**–**	2,2	**532,9**	550,6	**328,2**	221,8

R million	Mobile Acceptance (Pty) Limited 2002	2001	Toyota Financial Services (Pty) Limited 2002	2001	Marsh Holdings SA (Pty) Limited 2002	2001
Balance sheet						
Non-current assets	**64,2**	111,0	**1 622,9**	1 525,6	**62,7**	60,2
Current assets	**71,6**	94,7	**851,7**	21,4	**131,5**	169,5
Current liabilities	**(62,9)**	(92,1)	**(105,5)**	(13,6)	**(126,0)**	(174,4)
Non-current liabilities	**(59,5)**	(102,5)	**(2 149,8)**	(1 396,0)	**–**	–
Equity	**13,4**	11,1	**219,3**	137,4	**68,2**	55,3
Income statement						
Earnings/(loss) attributable to the Banking Group	**0,6**	0,6	**(2,7)**	(10,9)	**(1,0)**	(5,6)
Loans to associates	**106,7**	189,5	**2 150,0**	1 396,0	**–**	–

R million	McCarthy Limited 2002	McCarthy Limited 2001	Arthur Kaplan Jewellers (Pty) Limited 2002	Arthur Kaplan Jewellers (Pty) Limited 2001	Private Equity associates 2002	Private Equity associates 2001
11. INVESTMENT IN ASSOCIATE COMPANIES (continued)						
Balance sheet						
Non-current assets	**556,7**	–	**10,5**	–	**559,3**	355,9
Current assets	**1 885,7**	–	**63,1**	–	**434,0**	304,7
Current liabilities	**(1 711,2)**	–	**(30,0)**	–	**(410,4)**	(281,7)
Non-current liabilities	**(350,4)**	–	**(36,8)**	–	**(412,0)**	(307,8)
Equity	**380,8**	–	**6,8**	–	**170,9**	71,1
Income statement						
Earnings attributable to the Banking Group	**–**	–	**2,1**	–	**256,1**	73,2
Loans to associates	**262,0**	–	**5,3**	–	**27,3**	665,3

R million	Other 2002	Other 2001
Balance sheet		
Non-current assets	**93,9**	30,0
Current assets	**362,6**	139,0
Current liabilities	**(360,0)**	(132,6)
Non-current liabilities	**(35,2)**	(12,1)
Equity	**61,3**	24,3
Income statement		
Profit/(loss) attributable to the Banking Group	**19,8**	10,5
Loans to associates	**0,8**	1,4

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

R million	Cost 2002	Accumulated depreciation 2002	Net book value 2002	Cost 2001	Accumulated depreciation 2001	Net book value 2001
12. PROPERTY AND EQUIPMENT						
Property						
Freehold land and buildings	**1 514,3**	**(332,8)**	**1 181,5**	1 125,9	(337,3)	788,6
Leasehold premises	**1 492,4**	**(296,3)**	**1 196,1**	1 395,9	(266,2)	1 129,7
	3 006,7	**(629,1)**	**2 377,6**	2 521,8	(603,5)	1 918,3
Equipment						
Computer equipment	**2 071,4**	**(1 539,5)**	**531,9**	1 894,0	(1 463,8)	430,2
Furniture and fittings	**979,2**	**(589,9)**	**389,3**	927,6	(492,1)	435,5
Motor vehicles	**143,8**	**(71,3)**	**72,5**	188,4	(112,7)	75,7
Office equipment	**165,6**	**(125,4)**	**40,2**	142,9	(92,0)	50,9
Total	**6 366,7**	**(2 955,2)**	**3 411,5**	5 674,7	(2 764,1)	2 910,6

Movement in property and equipment – cost

R million	Freehold land and buildings	Leasehold premises	Computer equipment	Furniture and fittings	Motor vehicles	Office equipment
Cost at the beginning of the year	1 125,9	1 395,9	1 894,0	927,6	188,4	142,9
Foreign currency adjustments	58,1	13,0	43,6	19,1	1,7	3,0
Changes in group structure	–	43,9	2,6	1,1	0,3	0,1
Additions	327,9	57,8	334,3	67,9	42,9	25,2
Disposals	(61,9)	(16,6)	(177,0)	(23,8)	(89,2)	(4,8)
Fully depreciated assets written off	–	(0,6)	(0,2)	(6,4)	–	(0,6)
Intergroup transfers	–	(1,0)	(53,3)	(6,7)	–	0,2
Other	64,3	–	27,4	0,4	(0,3)	(0,4)
Cost at the end of the year	**1 514,3**	**1 492,4**	**2 071,4**	**979,2**	**143,8**	**165,6**

Movement in property and equipment – accumulated depreciation

R million	Freehold land and buildings	Leasehold premises	Computer equipment	Furniture and fittings	Motor vehicles	Office equipment
Accumulated depreciation at the beginning of the year	337,3	266,2	1 463,8	492,1	112,7	92,0
Foreign currency adjustments	9,0	8,0	24,3	12,4	1,1	1,8
Changes in group structure	–	–	2,1	1,5	0,1	(0,1)
Depreciation charge for the year	23,4	37,3	232,7	95,8	24,4	22,2
Disposals	(23,0)	(13,5)	(165,5)	(3,7)	(67,0)	(4,4)
Fully depreciated assets written off	–	(0,6)	(0,2)	(6,4)	–	(0,6)
Intergroup transfers	–	(1,2)	(33,6)	(0,7)	0,1	0,3
Other	(13,9)	0,1	15,9	(1,1)	(0,1)	14,2
Accumulated depreciation at end of the year	**332,8**	**296,3**	**1 539,5**	**589,9**	**71,3**	**125,4**

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

R million	Group 2002	Group 2001
13. TAXATION		
Charge for the year		
Normal taxation		
Current		
Current year	(1 232,6)	(128,7)
Prior year adjustment	8,3	(24,5)
Deferred		
Current year	542,1	(321,0)
Prior year adjustment	(46,2)	126,3
Share of taxation of associates (note 11)	(64,2)	(39,7)
	(792,6)	(387,6)
Foreign company and withholding taxation		
Current		
Current year	(25,6)	(107,4)
Prior year adjustment	–	(6,4)
Deferred		
Current year	–	(35,2)
	(25,6)	(149,0)
Total direct taxation	(818,2)	(536,6)
Total indirect taxation		
Secondary taxation on companies		
Current	(17,2)	(21,3)
Miscellaneous taxes		
Capital gains tax	(10,9)	–
Value-added taxation (net)	(193,5)	(148,1)
Regional services levy	(34,6)	(32,0)
Stamp duties	(8,9)	(5,8)
Other	(15,5)	(18,0)
Total miscellaneous taxes	(263,4)	(203,9)
Total indirect taxation	(280,6)	(225,2)
Total taxation	(1 098,8)	(761,8)
Taxation rate reconciliation	%	%
Effective rate of taxation	21,9	20,7
Total taxation has been affected by:		
Miscellaneous taxes	(5,2)	(5,5)
Non-taxable income	9,2	9,6
Prior year adjustments	(0,8)	–
Other permanent differences	4,9	5,2
Standard rate of taxation	30,0	30,0
Deferred taxation		
The movement on the deferred taxation account is as follows:		
At beginning of the year	1 277,8	1 135,9
Exchange rate difference	18,4	3,6
(Release)/charge to the income statement	(495,9)	229,9
Other	(122,1)	(91,6)
At end of the year	678,2	1 277,8
Deferred taxation asset	(1 253,3)	(246,3)
Deferred taxation liability	1 931,5	1 524,1
	678,2	1 277,8

13. TAXATION (continued)

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

R million	Opening balance	Exchange rate	Current taxation	Acquisitions and disposals	Other	Closing balance
Deferred taxation						
Instalment credit agreements	988,6	12,6	(75,4)	–	–	925,8
Accruals	827,7	6,7	(69,8)	–	(76,1)	688,5
Equipment	5,2	3,8	–	(2,1)	(0,1)	6,8
General provision	(267,8)	(4,6)	(30,4)	0,9	(1,0)	(302,9)
Taxation losses	(76,1)	–	81,4	–	–	5,3
Other	(199,8)	(0,1)	(401,7)	(126,8)	83,1	(645,3)
Total deferred taxation	1 277,8	18,4	(495,9)	(128,0)	5,9	678,2

All deferred taxation is considered to be short-term in nature.

R million	Group 2002	Group 2001
14. INTANGIBLE ASSETS		
Goodwill		
Gross amount	**195,3**	137,9
Less: Accumulated amortisation	**(18,2)**	(13,4)
	177,1	124,5
Movement in goodwill – book value		
Opening balance	**124,5**	111,7
Exchange differences	**32,7**	(1,0)
Disposals	**(16,4)**	–
Additions	**45,0**	20,3
Amortisation charge	**(8,7)**	(6,5)
	177,1	124,5
Software		
Gross amount	**39,1**	22,8
Less: Accumulated amortisation	**(16,0)**	(10,5)
	23,1	12,3
Movement in software – book value		
Opening balance	**12,3**	9,9
Disposals	**(9,0)**	–
Additions	**29,1**	12,9
Amortisation charge	**(9,3)**	(10,5)
	23,1	12,3

Notes to the annual financial statements *continued*

for the year ended 30 June

R million	Group 2002	Group 2001
14. INTANGIBLE ASSETS (continued)		
Development costs		
Gross amount	3,1	5,2
Less: Accumulated amortisation	(1,6)	(1,0)
	1,5	4,2
Movement in development costs – book value		
Opening balance	4,2	–
Exchange differences	1,4	–
Disposals	(4,6)	–
Additions	1,5	5,2
Amortisation charge	(1,0)	(1,0)
	1,5	4,2
Other		
Gross amount	151,3	6,2
Exchange differences	–	(0,3)
Less: Accumulated amortisation	(64,9)	(5,5)
	86,4	0,4
Movement in other – book value		
Opening balance	0,4	–
Exchange differences	(0,6)	(0,3)
Additions	143,4	6,2
Amortisation charge	(56,8)	(5,5)
	86,4	0,4
Total intangible assets		
Goodwill	177,1	124,5
Software	23,1	12,3
Development costs	1,5	4,2
Other	86,4	0,4
	288,1	141,4
15. DEPOSIT AND CURRENT ACCOUNTS		
Term deposits	82 677,0	50 994,3
Current deposit accounts	43 702,6	35 582,2
Deposits from banks	15 221,5	6 222,3
Negotiable certificates of deposit	9 783,4	15 232,2
Savings accounts	4 134,5	3 836,1
Other	45 885,0	29 593,8
	201 404,0	141 460,9
Geographic analysis (based on counterparty risk)		
South Africa	153 401,1	104 768,4
Other Africa	9 036,5	7 040,8
Europe	20 844,5	13 213,7
Other	18 121,9	16 438,0
	201 404,0	141 460,9

The maturity analysis of deposit and current accounts is based on the remaining periods to contractual maturity from year-end.

R million	Group 2002	Group 2001
16. SHORT TRADING POSITIONS		
Government and government guaranteed	**7 654,4**	–
Other dated securities	**7 710,7**	–
Undated securities	**1 433,6**	429,4
	16 798,7	429,4
Analysis of liquid assets and trading securities		
Listed		
Book value	**9 000,1**	307,6
Market value	**9 000,1**	307,6
Unlisted		
Book value	**7 798,6**	121,8
Directors' valuation	**7 798,6**	121,8
17. CREDITORS AND ACCRUALS		
Accrued interest	**112,2**	123,1
Accounts payable	**862,3**	1 051,0
Dividends payable	**2,4**	4,7
Other group companies	**708,4**	3 376,8
Short-term portion of long-term liabilities (note 19)	**178,0**	162,9
Short-term portion of financial leases liabilities (note 19)	**41,5**	24,6
Other creditors	**5 110,0**	4 236,5
	7 014,8	8 979,6
18. PROVISIONS		
Leave pay		
Opening balance	**521,4**	495,4
Charge to the income statement	**30,0**	26,0
Closing balance	**551,4**	521,4
Audit fees		
Opening balance	**17,9**	14,1
Charge to the income statement	**46,7**	36,5
Utilised	**(49,0)**	(32,7)
Closing balance	**15,6**	17,9
Other		
Opening balance	**151,6**	150,0
Charge to the income statement	**112,8**	1,6
Closing balance	**264,4**	151,6
Total provisions	**831,4**	690,9

R million	Group 2002	Group 2001
19. LONG-TERM LIABILITIES		
Debentures		
100 debentures of R1 million each carrying interest at prime rate minus 3%[(a)]	**100,0**	100,0
120 debentures of R1 million each carrying interest at prime rate minus 2%[(b)]	**120,0**	120,0
	220,0	220,0

Both of the instruments above relate to debentures which are convertible into non-redeemable preference shares.

(a) Rand Merchant Bank Limited has the sole right, at any stage after 30 June 2002, to convert the debentures into non-redeemable preference shares. Interest is payable 6 monthly in arrears on 30 June and 31 December each year at the prime overdraft rate minus 3%.

(b) The holder has the right, at any stage after 30 June 2005, to convert the debentures into non-redeemable preference shares. The debentures will automatically convert into non-redeemable preference shares in the event that such conversion has not already taken place by 30 June 2020. Interest is payable 6 monthly in arrears on 30 June and 31 December each year at the prime overdraft rate minus 2%.

R million	Group 2002	Group 2001
Preference shares		
1 500 (2000: 1 500) cumulative redeemable shares with a par value of R0,0001 and a premium of R99 999,9999 per share[(c)]	**150,0**	150,0
10 000 cumulative redeemable shares with a par value of R0,10 and a premium of R9 999,90 per share[(d)]	**100,0**	–
	250,0	150,0

(c) These preference shares are redeemable at the company's discretion on or after 1 June 2003, at the full subscription price. Dividends are paid at a variable rate based on prime rate and currently amounts to 10,4%.

(d) These preference shares are redeemable at the company's discretion, at the full subscription price. Dividends are paid at a variable rate based on prime rate and currently amounts to 9,9%.

R million	Group 2002	Group 2001
Other long-term liabilities		
Unsecured debt securities amortising over the period to 2007[(e)]	**348,0**	302,4
Secured loan[(f)]	**62,4**	101,2
Subordinated notes[(g)]	**1 678,0**	1 802,1
Less: Portion repayable within 12 months transferred to current liabilities (note 17)	**(178,0)**	(162,9)
	1 910,4	2 042,8

(e) Various local and foreign unsecured loans with nominal interest rates ranging from 0% to 17%.

(f) This secured loan is repayable on 11 April 2011 and is stated at net present value, using a discount rate of 15,32%.

(g) The subordinated notes are redeemable in six-monthly tranches until 2009 and do not bear interest. The notes were issued at a discount to notional value and bear an effective interest rate of 16,5%.

R million	Group 2002	Group 2001
19. LONG-TERM LIABILITIES (continued)		
Finance lease liabilities		
Not later than 1 year	**123,9**	109,7
Later than 1 year and not later than 5 years	**667,6**	601,1
Later than 5 years	**486,4**	688,5
	1 277,9	1 399,3
Future finance charges on finance leases	**(399,8)**	(485,0)
Present value of finance lease liability	**878,1**	914,3
Less: Portion repayable within 12 months transferred to current liabilities (note 17)	**(41,5)**	(24,6)
	836,6	889,7
The finance lease liability extends to 2009 and is secured over property occupied for banking operations. Repayments are based on an interest rate of 16,64% and are payable six-monthly in advance.		
Other finance leases	**–**	1,3
	3 217,0	3 303,8
20. SHARE CAPITAL		
Ordinary shares		
Authorised		
550,0 million shares with a par value of 20 cents per share	**110,0**	110,0
Issued shares		
530,0 million shares with a par value of 20 cents per share	**106,0**	106,0
21. NON-DISTRIBUTABLE RESERVES		
Non-distributable reserves in associate companies	**46,6**	35,1
Currency conversion reserve	**1 259,3**	710,5
Revaluation of investments	**4,6**	4,9
Other	**368,6**	342,3
	1 679,1	1 092,8
22. CONTINGENCIES AND COMMITMENTS		
Contingencies		
Guarantees	**23 554,8**	14 921,4
Acceptances	**269,0**	467,3
Letters of credit	**3 459,9**	2 539,1
	27 283,7	17 927,8
There are a number of legal or potential claims against the Banking Group, the outcome of which cannot at present be foreseen. Provision is made for all liabilities which are expected to materialise.		
Employee benefit contingent liability	**102,5**	–
A contingent liability has been raised in respect of pension fund holidays taken since 15 December 2001, refer note 25.		
Commitments		
Commitments in respect of capital expenditure and long-term investments approved by directors		
Contracted for	**285,3**	20,0
Not contracted for	**75,2**	61,2

Funds to meet these commitments will be provided from Banking Group resources.

Notes to the annual financial statements *continued*

for the year ended 30 June

R million	Next year	2nd to 5th year	After 5 years
22. CONTINGENCIES AND COMMITMENTS (continued)			
Group commitments under operating leases			
2002			
Office premises	**202,4**	**889,9**	**504,6**
Recoverable under subleases	**(6,6)**	**(19,6)**	**–**
	195,8	**870,3**	**504,6**
Equipment and motor vehicles	**33,3**	**49,4**	**–**
	229,1	**919,7**	**504,6**
2001			
Office premises	**70,9**	**157,8**	**32,1**
Recoverable under subleases	**(5,8)**	**(22,6)**	**(14,4)**
	65,1	**135,2**	**17,7**
Equipment and motor vehicles	**17,4**	**12,0**	**–**
	82,5	**147,2**	**17,7**

R million	Group 2002	Group 2001
23. ANALYSIS OF INCOME AND EXPENDITURE		
23.1 Interest income		
Interest on:		
Advances	**15 854,2**	13 536,1
Balances with banks and short-term funds	**1 054,1**	716,6
Short-term negotiable securities	**558,9**	282,4
Investment and trading securities		
– Listed	**904,0**	254,3
– Unlisted	**192,3**	25,1
Other	**157,4**	370,6
	18 720,9	15 185,1
23.2 Interest expenditure		
Interest on:		
Term deposits	**(7 694,5)**	(5 765,3)
Current deposit accounts	**(2 415,3)**	(2 247,7)
Savings accounts	**(107,5)**	(185,2)
Debentures	**(362,5)**	(318,8)
Deposits from banks	**(226,5)**	(406,4)
Finance leases	**(85,1)**	(96,7)
Other	**(1 413,1)**	(749,6)
	(12 304,5)	(9 769,7)

R million	Group 2002	Group 2001
23. ANALYSIS OF INCOME AND EXPENDITURE (continued)		
23.3 Non-interest income		
Commission related income	**4 397,9**	3 409,2
Fee income	**734,3**	681,6
Exchange earnings	**1 139,3**	663,0
Trading income	**1 181,3**	766,2
(Loss)/profit on property and equipment	**(26,4)**	71,4
(Loss)/profit on investments	**(14,4)**	63,1
Dividends from other investments	**463,1**	355,0
Income from post-retirement assets	**70,7**	81,7
Other income	**373,5**	354,6
	8 319,3	6 445,8
23.4 Operating expenditure		
Auditors' remuneration		
Audit fees	**(46,7)**	(36,5)
Fees for other services	**(3,3)**	(10,0)
	(50,0)	(46,5)
Amortisation of intangible assets		
Goodwill	**(8,7)**	(6,5)
Software	**(9,3)**	(10,5)
Development costs	**(1,0)**	(1,0)
Other	**(56,8)**	(5,5)
	(75,8)	(23,5)
Depreciation		
Property		
Freehold buildings	**(23,4)**	(37,4)
Leasehold premises	**(37,3)**	(35,3)
Equipment		
Computer equipment	**(232,7)**	(244,4)
Furniture and fittings	**(95,8)**	(74,1)
Motor vehicles	**(24,4)**	(44,0)
Office equipment	**(22,2)**	(17,2)
	(435,8)	(452,4)
Operating lease charges		
Land and buildings	**(225,5)**	(233,7)
Equipment	**(16,3)**	(27,0)
Motor vehicles	**(23,0)**	–
	(264,8)	(260,7)

R million	Group 2002	Group 2001
23. ANALYSIS OF INCOME AND EXPENDITURE (continued)		
Professional fees		
Managerial	**(18,5)**	(28,1)
Technical	**(142,4)**	(76,3)
Other	**(72,3)**	(46,0)
	(233,2)	(150,4)
Staff costs		
Salaries, wages and allowances	**(3 660,4)**	(3 420,4)
Contributions to employee benefit funds	**(445,3)**	(314,4)
Contributions to defined benefit pension fund	**(1,1)**	(4,4)
Social security levies	**(41,7)**	(16,0)
Other	**(263,5)**	(262,1)
	(4 412,0)	(4 017,3)
Other costs	**(2 906,2)**	(2 228,8)
Total operating expenditure	**(8 377,8)**	(7 179,6)
24. CASH FLOW INFORMATION		
24.1 Cash received from customers		
Interest income	**18 608,7**	15 185,1
Fee and commission income	**4 397,9**	3 891,4
Other income	**3 302,6**	1 983,1
Total cash received from customers	**26 309,2**	21 059,6
24.2 Cash paid to customers and employees		
Interest expenditure (excluding debenture interest)	**(11 942,0)**	(9 450,9)
Total operating expenditure (excluding depreciation)	**(7 942,0)**	(6 638,0)
Total cash paid to customers, suppliers and employees	**(19 884,0)**	(16 088,9)
24.3 Dividends received		
Dividends from other investments	**463,1**	355,0
Dividends from associate companies	**196,5**	31,5
Total dividends received	**659,6**	386,5
24.4 Dividends paid		
Amounts unpaid at beginning of the year	**(4,7)**	(97,6)
Charged to distributable reserves	**(743,8)**	(545,0)
Amounts unpaid at end of the year	**2,4**	4,7
Total dividends paid	**(746,1)**	(637,9)
24.5 Taxation paid		
Amounts unpaid at beginning of the year	**(30,2)**	(10,8)
Taxation charge per income statement	**(1 098,8)**	(761,8)
Transfer from deferred taxation to current taxation	**(420,3)**	–
Deferred taxation included in taxation charge	**431,7**	138,1
Amounts unpaid at end of the year	**429,1**	30,2
Total taxation paid	**(688,5)**	(604,3)

R million	Group 2002	Group 2001
24. CASH FLOW INFORMATION (continued)		
24.6 (Increase)/decrease in income-earning assets		
Short-term negotiable securities	**2 675,5**	8 365,0
Net securities purchased under resale agreements	**–**	47,5
Liquid assets and trading securities	**5 578,2**	(16 625,7)
Advances	**(40 531,2)**	(18 150,6)
Net increase in income-earning assets	**(32 277,5)**	(26 363,8)
24.7 Increase/(decrease) in deposits and other liabilities		
Term deposits	**21 020,1**	8 163,3
Current deposit accounts	**6 095,7**	(5 145,3)
Deposits from banks	**8 999,2**	(1 623,9)
Negotiable certificates of deposit	**(5 448,8)**	4 650,9
Savings accounts	**(16,7)**	(55,8)
Creditors net of debtors	**(3 331,9)**	4 717,8
Other	**16 342,0**	14 348,4
Net increase in deposits and other liabilities	**43 659,6**	25 055,4

25. PENSION AND OTHER POST-RETIREMENT BENEFITS

The Banking Group has incurred a liability to subsidise the post-retirement medical expenditure of certain of its employees. At 30 June 2002, the actuarially determined liability of the Banking Group in respect of such liabilities was R897,6 million (2001: R826,4 million).

The Banking Group converted its primary pension plan from a defined benefit scheme to a defined contribution scheme in 1996. At that point, an actuarial surplus was converted into a realised surplus. AC 116 requires that this surplus be reflected on the balance sheet as an asset of the Banking Group. All income and expenditure with regard to the pension fund surplus is brought to account on the income statement. The residual was used to create an employer's reserve. The Banking Group has been accessing this reserve via a pension fund holiday. At 30 June 2002, R430,4 million (2001: R556,5 million) of the employer's reserve remained in the fund.

No asset is recognised in respect of the surplus at 30 June 2002 as the apportionment thereof still needs to be approved by the Registrar of Pension Funds in terms of the Pension Funds Second Amendment Act, Act 39 of 2001.

R million	Group 2002	Group 2001
25.1 Post-retirement medical liability		
Present value of unfunded liability	**897,6**	826,4
The amounts recognised in the income statement are as follows:		
Current service cost	**23,1**	19,4
Interest cost	**94,4**	87,1
Total included in staff costs	**117,5**	106,5
Movement in liability recognised in the balance sheet		
Present value at the beginning of the year	**826,4**	763,3
Amounts recognised in the income statement as above	**117,5**	106,5
Contributions paid	**(46,3)**	(43,4)
Present value at the end of the year	**897,6**	826,4
The principal actuarial assumptions used for accounting purposes were:		
Discount rate (%)	**12**	12
Long-term increase in medical subsidies (%)	**10**	10

Notes to the annual financial statements *continued*

for the year ended 30 June

R million	Group 2002	Group 2001
25. PENSION AND OTHER POST-RETIREMENT BENEFITS (continued)		
25.2 Pension and other post-retirement benefits		
Pension liability (FNB Pension Fund)		
Present value of funded liability	**9 035,7**	8 583,9
Fair value of plan assets	**(9 466,1)**	(9 140,4)
Pension fund surplus	**(430,4)**	(556,5)
Less: Pension fund surplus not recognised	**430,4**	430,4
Retirement benefit asset	**–**	(126,1)
The amounts recognised in the income statement are as follows:		
Current service cost	**196,8**	178,1
Interest cost	**962,3**	941,7
Expected return on plan assets	**(1 032,5)**	(1 022,9)
Total included in staff costs	**126,6**	96,9
Movement in liability recognised in pension fund surplus		
Present value at the beginning of the year	**(556,5)**	(652,8)
Amounts recognised in the income statement as above	**126,6**	96,9
Contributions paid	**(0,5)**	(0,6)
Present value at the end of the year	**(430,4)**	(556,5)
The principal actuarial assumptions used for accounting purposes were:		
Discount rate (%)	**12**	12
Expected return on plan assets (%)	**12**	12
Salary inflation (%)	**7**	7
Net interest rate used to value pensions, allowing for pension increases (%)	**6**	6

26. FINANCIAL INSTRUMENTS

A comprehensive risk management report is included on pages 72 to 84.

26.1 Credit risk management

Significant credit exposures at 30 June 2002 were:

R million	South Africa	Other Africa	Australia	Europe	Other	Total
Assets						
Advances	147 432,4	7 072,2	162,8	11 622,3	13 220,7	179 510,4
Contingencies	24 401,6	949,4	118,1	1 314,0	500,6	27 283,7
	171 834,0	8 021,6	280,9	12 936,3	13 721,3	206 794,1

R million	Rand	UK£	US$	Other	Total

26. FINANCIAL INSTRUMENTS CONTINUED (continued)

26.2 Currency risk management

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

R million	Rand	UK£	US$	Other	Total
Assets					
Cash and short-term funds	20 203,4	387,0	2 637,0	1 415,9	24 643,3
Short-term negotiable securities	2 619,0	–	–	819,9	3 438,9
Liquid assets and trading securities	14 318,3	1 506,4	18 888,1	3 226,5	37 939,3
Derivative instruments	10 423,8	446,5	7 928,1	7 341,0	26 139,4
Advances	140 720,8	3 061,2	26 521,4	9 207,0	179 510,4
Less: Provisions	(3 727,6)	(100,1)	(359,9)	(177,5)	(4 365,1)
Debtors	1 667,2	170,5	988,0	443,7	3 269,4
Other investments	3 077,4	83,1	–	125,6	3 286,1
Non-recourse investments	1 737,9	–	–	–	1 737,9
Investment in associate companies	1 159,3	–	–	10,0	1 169,3
Property and equipment	2 696,5	527,6	13,0	174,4	3 411,5
Deferred taxation asset	1 172,3	–	–	81,0	1 253,3
Intangible assets	193,9	–	94,2	–	288,1
	196 262,2	6 082,2	56 709,9	22 667,5	281 721,8
Liabilities					
Deposit and current accounts	150 691,4	4 065,7	35 957,3	10 689,6	201 404,0
Non-recourse deposits	1 737,9	–	–	–	1 737,9
Derivative instruments	15 365,1	173,1	8 322,5	7 664,3	31 525,0
Short trading positions	16 590,4	115,8	91,7	0,8	16 798,7
Post-retirement medical liability	153,0	3,3	–	741,3	897,6
Creditors and accruals	4 791,0	23,5	1 917,6	282,7	7 014,8
Provisions	831,4	–	–	–	831,4
Taxation	349,2	0,5	6,5	72,9	429,1
Deferred taxation liability	1 982,9	(11,4)	18,6	(58,6)	1 931,5
Long-term liabilities	2 754,6	–	217,9	244,5	3 217,0
Outside shareholders' interest	245,3	39,9	27,4	162,4	475,0
Shareholders' equity	9 960,9	2 658,1	1 592,2	1 248,6	15 459,8
	205 453,1	7 068,5	48 151,7	21 048,5	281 721,8

26.3 Interest rate risk management

A graphical analysis of the interest sensitivity and cumulative repricing gap is included on page 77.

R million	Future contracts	Options	Swaps	FRAs	Credit derivatives	Total
26. FINANCIAL INSTRUMENTS (continued)						
26.4 Derivative instruments						
Absolute value						
The notional amounts of derivative instruments outstanding at 30 June 2002 are set out below:						
Currency	–	4 169,0	32 540,5	217 287,1	–	253 996,6
Equity	149,6	24 514,5	–	241,6	–	24 905,7
Bonds	130,0	2 500,0	–	–	16 941,7	19 571,7
Gold	–	12 500,9	986,4	43 078,7	–	56 566,0
Agriculture	5 480,9	–	–	461,7	–	5 942,6
Metals	–	2,8	–	761,8	–	764,6
Interest rate	267 404,0	2 404,6	188 402,4	47 244,0	334,5	505 789,5
Forward rate agreements	–	–	71,8	100,0	–	171,8
	273 164,5	46 091,8	222 001,1	309 174,9	17 276,2	867 708,5
The fair value and carrying amount of derivative instruments outstanding at 30 June 2002 is set out below:						
Assets						
Fair value						
Currency	–	109,4	11 330,6	990,9	–	12 430,9
Equity	–	2 983,7	–	–	–	2 983,7
Bonds	–	–	–	–	–	–
Gold	–	1 099,2	0,7	2 894,3	–	3 994,2
Agriculture	1 619,0	–	–	54,9	–	1 673,9
Metals	–	–	–	20,5	–	20,5
Interest rate	0,4	(2,6)	572,0	49,7	1 584,4	2 203,9
Forward rate agreements	–	–	2,2	4,6	–	6,8
	1 619,4	4 189,7	11 905,5	4 014,9	1 584,4	23 313,9
Carrying amount						
Currency	–	109,6	11 456,7	4 316,8	–	15 883,1
Equity	–	2 983,7	–	–	–	2 983,7
Bonds	–	–	–	–	–	–
Gold	–	1 099,2	0,7	2 834,8	–	3 934,7
Agriculture	1 619,0	–	–	54,9	–	1 673,9
Metals	–	–	–	20,5	–	20,5
Interest rate	0,4	6,8	–	49,7	1 584,4	1 641,3
Forward rate agreements	–	–	2,2	–	–	2,2
	1 619,4	4 199,3	11 459,6	7 276,7	1 584,4	26 139,4

R million	Future contracts	Options	Swaps	FRAs	Credit derivatives	Total
26. FINANCIAL INSTRUMENTS (continued)						
Liabilities						
Fair value						
Currency	–	210,9	11 477,9	1 056,6	–	12 745,4
Equity	–	9 945,8	–	–	–	9 945,8
Bonds	132,3	–	–	–	–	132,3
Gold	–	928,9	2,0	4 264,3	–	5 195,2
Agriculture	19,9	–	–	58,9	–	78,8
Metals	–	3,3	–	11,2	–	14,5
Interest rate contracts	195,3	15,3	849,0	85,8	–	1 145,4
Forward rate agreements	–	–	2,5	–	–	2,5
	347,5	11 104,2	12 331,4	5 476,8	–	29 259,9
Carrying amount						
Currency	–	211,1	11 486,7	4 342,6	–	16 040,4
Equity	–	9 945,8	–	–	–	9 945,8
Bonds	–	–	–	–	–	–
Gold	–	928,9	2,0	4 264,3	–	5 195,2
Agriculture	19,9	–	–	58,9	–	78,8
Metals	–	3,3	–	11,2	–	14,5
Interest rate contracts	137,2	24,7	–	85,8	–	247,7
Forward rate agreements	–	–	2,5	0,1	–	2,6
	157,1	11 113,8	11 491,2	8 762,9	–	31 525,0

R million	Carrying amount 2002	Demand	Term to maturity 0 – 12 months	1 – 5 years	Over 5 years
26. FINANCIAL INSTRUMENTS (continued)					
26.5 Liquidity risk management					
Assets					
Cash and short-term funds	**24 643,3**	11 766,8	12 876,5	–	–
Short-term negotiable securities	**3 438,9**	326,8	3 112,1	–	–
Liquid assets and trading securities	**37 939,3**	888,7	10 517,2	15 431,0	11 102,4
Derivative instruments	**26 139,4**	820,6	18 365,5	5 327,3	1 626,0
Advances	**175 145,3**	25 079,7	45 910,1	55 648,8	48 506,7
Debtors	**3 269,4**	1 264,5	1 677,5	308,8	18,6
Other investments	**3 286,1**	–	1 557,6	1 555,6	172,9
Non-recourse investments	**1 737,9**	–	–	1 737,9	–
Investment in associate companies	**1 169,3**	–	15,9	230,6	922,8
Property and equipment	**3 411,5**	–	608,5	902,6	1 900,4
Deferred taxation asset	**1 253,3**	–	901,9	318,5	32,9
Intangible assets	**288,1**	0,1	84,5	17,6	185,9
	281 721,8	40 147,2	95 627,3	81 478,7	64 468,6
Liabilities and equity					
Deposit and current accounts	**201 404,0**	85 910,6	83 239,5	17 063,8	15 190,1
Non-recourse deposits	**1 737,9**	–	–	1 737,9	–
Derivative instruments	**31 525,0**	816,8	19 368,0	9 881,8	1 458,4
Short trading positions	**16 798,7**	1 342,0	12 608,2	302,1	2 546,4
Post-retirement medical liability	**897,6**	–	723,9	124,4	49,3
Creditors and accruals	**7 014,8**	475,0	5 927,0	223,6	389,2
Provisions	**831,4**	–	831,4	–	–
Taxation	**429,1**	–	369,7	(4,8)	64,2
Deferred taxation liability	**1 931,5**	–	622,0	1 309,5	–
Long-term liabilities	**3 217,0**	–	–	2 806,0	411,0
Outside shareholders' funds	**475,0**	–	–	–	475,0
Shareholders' equity	**15 459,8**	–	–	–	15 459,8
	281 721,8	88 544,4	123 689,7	33 444,3	36 043,4
Net liquidity gap	**0,0**	(48 397,2)	(28 062,4)	48 034,4	28 425,2

R million	Carrying amount 2002	Fair value 2002	Unrecognised gains/losses 2002
26. FINANCIAL INSTRUMENTS (continued)			
26.6 Fair value of financial instruments			
The following represents the fair values of financial instruments carried on the balance sheet.			
Assets			
Cash and short-term funds	24 643,3	24 643,3	–
Short-term negotiable securities	3 438,9	3 438,9	–
Liquid assets and trading securities	37 939,3	37 928,2	(11,1)
Derivative instruments	26 139,4	23 313,9	(2 825,5)
Advances	175 145,3	175 145,3	–
Debtors	3 269,4	3 269,4	–
Other investments	3 286,1	3 368,0	81,9
Non-recourse investments	1 737,9	1 737,9	–
Investment in associate companies	1 169,3	2 015,4	846,1
	276 768,9	274 860,3	(1 908,6)
Liabilities and equity			
Deposit and current accounts	201 404,0	201 404,0	–
Non-recourse deposits	1 737,9	1 737,9	–
Derivative instruments	31 525,0	29 259,9	2 265,1
Short trading positions	16 798,7	16 798,7	–
Post-retirement medical aid liability	897,6	897,6	–
Creditors and accruals	7 014,8	7 014,8	–
Provisions	831,4	831,4	–
Long-term liabilities	3 217,0	3 217,0	–
	263 426,4	261 161,3	2 265,1

27. TRUST ACTIVITIES

The market value of assets held or placed on behalf of customers in a fiduciary capacity amounts to R38 101,9 million (2001: R30 031,0 million).

28. POST-BALANCE SHEET EVENT

It was announced on 18 May 2002 that FirstRand Limited ("FirstRand") and the curator of Saambou Bank Limited ("Saambou Bank") had entered into an agreement in terms of which FirstRand Bank Holdings Limited ("FirstRand Bank") would acquire from Saambou Holdings Limited the shares in and claims against Saambou Bank for a nominal amount of R1,00 ("the transaction").

As part of the abovementioned transaction, FirstRand proposed a Scheme of Arrangement in terms of section 311 of the Companies Act, 1973, between Saambou Bank and its creditors, other than its depositors ("the scheme"), pursuant whereto:

- the assets and liabilities of Saambou Bank, other than the residential mortgage book and the deposit liabilities, will be ringfenced and placed under receivership; and
- creditors would be paid 100 cents in the rand as at the date of the sanctioning of the scheme.

By mutual agreement between FirstRand, the curator and the South African Reserve Bank, an interim arrangement was implemented with effect from 9 May 2002 to give provisional effect to the transaction until the fulfilment of all the conditions precedent thereto.

Consequently, the acquired deposit liabilities (R12,8 billion), the residential mortgage loan book (R4,9 billion) and the claim against the receivership (R7,9 billion) ("the acquired assets"), as well as the trading results pertaining thereto from the effective date of the interim arrangement, have been included in the consolidated results of the Banking Group for the current reporting period.

All the conditions precedent to the transaction have been fulfilled and the transaction became unconditional on 31 August 2002.

As a result, Saambou Bank became a wholly owned subsidiary of FirstRand Bank with effect from 9 May 2002. At this date, Saambou Bank had net assets of R1,00.

	Nature of business	Issued ordinary capital R million	Effective holding % 2002	% 2001
29. SUBSIDIARIES				
Significant subsidiaries				
Banking				
First National Bank Holdings (Botswana) Limited	Commercial banking	27,9	**100,0**	100,0
First National Bank Holdings (Namibia) Limited	Commercial banking	1,0	**78,0**	78,0
First National Bank Holdings (Swaziland) Limited	Commercial banking	26,6	**100,0**	100,0
FirstCorp Limited	Investment services	10,0	**100,0**	100,0
FirstRand Bank Limited	Commercial and investment banking	4,0	**100,0**	100,0
First National Asset Management and Trust Company (Pty) Limited	Asset management and trust services	0,2	**100,0**	100,0
Ansbacher Holdings Limited	Private banking	0,1	**100,0**	100,0
Rand Merchant Bank Limited	Investment banking	18,9	**100,0**	100,0
Non-banking				
FirstRand International Limited	International holding company	–	**100,0**	100,0
FirstLand Developments Limited	Property company	0,5	**100,0**	100,0
FNB Equipment Finance (Pty) Limited	Equipment and finance	–	**100,0**	100,0
FirstRand (International) Mauritius Limited	Financial services	250,0	**100,0**	100,0
FirstLink Insurance Brokers Holdings (Pty) Limited	Insurance brokers	0,2	**100,0**	100,0

R million	Group carrying amount 2002	2001
Banking		
First National Bank Holdings (Botswana) Limited	**56,3**	56,3
First National Bank Holdings (Namibia) Limited	**9,4**	9,4
First National Bank Holdings (Swaziland) Limited	**15,0**	15,0
FirstCorp Limited	**54,4**	54,4
FirstRand Bank Limited	**1 584,9**	1 584,9
First National Asset Management and Trust Company (Pty) Limited	**0,2**	0,2
Ansbacher Holdings Limited	**–**	–
Rand Merchant Bank Limited	**333,8**	333,8
Non-banking		
FirstRand International Limited	**143,8**	512,9
FirstLand Developments Limited	**0,5**	0,5
FNB Equipment Finance (Pty) Limited	**5,1**	5,1
FirstRand (International) Mauritius Limited	**250,0**	250,0
FirstLink Insurance Brokers Holdings (Pty) Limited	**14,2**	14,2

30. SEGMENT INFORMATION

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

2002

R million	Investment bank	Instalment finance	Retail banking	Corporate	African subsidiaries
30. SEGMENT INFORMATION (continued)					
Primary segments (business)					
Income statement					
Net interest income before impairment of advances	(282,4)	1 380,6	2 099,3	770,0	575,8
Charge for bad and doubtful debts	(518,4)	(285,4)	(439,0)	(156,1)	(14,8)
Net interest income after impairment of advances	(800,8)	1 095,2	1 660,3	613,9	561,0
Non-interest income	1 776,6	466,7	2 939,1	1 335,3	357,8
Net income from operations[a]	975,8	1 561,9	4 599,4	1 949,2	918,8
Operating expenditure	(379,0)	(878,3)	(3 519,8)	(1 386,2)	(410,5)
Income from operations	596,8	683,6	1 079,6	563,0	508,3
Share of earnings of associate companies	313,5	(7,2)	–	7,6	2,0
Income before taxation	910,3	676,4	1 079,6	570,6	510,3
Taxation	–	–	–	–	–
Income after taxation	910,3	676,4	1 079,6	570,6	510,3
Earnings attributable to outside shareholders	(91,7)	–	7,8	–	(95,2)
Income attributable to ordinary shareholders	818,6	676,4	1 087,4	570,6	415,1
Balance sheet includes:					
Advances	63 837,0	30 510,5	14 713,4	21 616,0	5 716,6
Non-performing loans	703,4	453,5	1 257,8	1 266,3	154,9
Total deposits	59 012,1	93,6	41 670,4	36 181,8	7 597,0
Key ratios					
Cost to income ratio (%)[b]	21,0	47,7	69,9	65,6	43,9
Bad and doubtful debt charge as a % of advances	0,8	0,9	3,0	0,7	0,3
Non-performing loans as a % of advances	1,1	1,5	8,5	5,9	2,7

All business segments operate on a fully funded basis. Proceeds on the investment of capital are included in the capital centre profits.

The segmental analysis is based on the management accounts for the respective segments.

(a) Includes income from associates.

(b) Calculated on the assumption that business units earned proceeds on the investment of their imputed capital.

Property finance	Ansbacher UK	Short-term insurance	Capital Centre	Private bank	First National Trust Services	Consoli-dation adjustments	Total
615,1	312,1	7,0	829,0	104,9	5,0	–	6 416,4
(57,9)	24,3	–	(254,1)	(3,4)	–	–	(1 704,8)
557,2	336,4	7,0	574,9	101,5	5,0	–	4 711,6
56,5	322,2	103,4	747,3	92,6	121,8	–	8 319,3
613,7	658,6	110,4	1 322,2	194,1	126,8	–	13 030,9
(434,4)	(647,7)	(95,2)	(357,8)	(173,3)	(95,6)	–	(8 377,8)
179,3	10,9	15,2	964,4	20,8	31,2	–	4 653,1
–	–	30,8	21,1	–	–	–	367,8
179,3	10,9	46,0	985,5	20,8	31,2	–	5 020,9
–		–	–	–	–	(1 098,8)	(1 098,8)
179,3	10,9	46,0	985,5	20,8	31,2	(1 098,8)	3 922,1
–	–	–	(2,8)	–	–	–	(181,9)
179,3	10,9	46,0	982,7	20,8	31,2	(1 098,8)	3 740,2
34 879,5	3 908,1	–	5 343,5	4 207,0	–	(9 586,3)	175 145,3
1 185,9	134,1	–	84,9	64,3	–	–	5 305,1
–	10 349,5	–	57 777,5	2 755,2	–	(14 033,1)	201 404,0
62,4	109,9	67,4	–	87,7	75,4	–	55,5
0,2	(0,6)	–	–	0,1	–	–	1,0
3,4	3,4	–	–	1,5	–	–	3,0

2001

R million	Investment bank	Instalment finance	Retail banking	Corporate	African subsidiaries
30. SEGMENT INFORMATION (continued)					
Primary segments (business)					
Income statement					
Net interest income before impairment of advances	(79,0)	1 237,7	1,863,5	736,1	448,9
Charge for bad and doubtful debts	(38,0)	(248,1)	(470,1)	(200,5)	(11,9)
Net interest income after impairment of advances	(117,0)	989,6	1 393,4	535,6	437,0
Non-interest income	1 038,5	405,2	2 739,1	988,7	293,8
Net income from operations[(a)]	921,5	1 394,8	4 132,5	1 524,3	730,8
Operating expenditure	(339,2)	(764,3)	(3 314,4)	(1 087,0)	(340,4)
Income from operations	582,3	630,5	818,1	437,3	390,4
Share of earnings of associate companies	117,8	(19,5)	–	–	–
Income before taxation	700,1	611,0	818,1	437,3	390,4
Taxation	–	–	–	–	–
Income after taxation	700,1	611,0	818,1	437,3	390,4
Earnings attributable to outside shareholders	(30,3)	–	–	–	(73,0)
Income attributable to ordinary shareholders	669,8	611,0	818,1	437,3	317,4
Balance sheet includes:					
Advances	39 843,5	27 139,8	14 637,2	18 581,4	4 804,4
Non-performing loans	222,5	493,6	1 485,8	1 398,6	174,3
Total deposits	18 753,3	58,8	33 256,4	27 925,2	6 110,2
Key ratios					
Cost to income ratio (%)[(b)]	31,5	47,1	72,0	63,0	45,8
Bad and doubtful debt charge as a % of advances	0,1	0,9	3,2	1,1	0,2
Non-performing loans as a % of advances	0,6	1,8	10,2	7,5	3,6

All business segments operate on a fully funded basis. Proceeds on the investment of capital are included in the capital centre profits.

The segmental analysis is based on the management accounts for the respective segments.

(a) Includes income from associates.

(b) Calculated on the assumption that business units earned proceeds on the investment of their imputed capital.

Property finance	Ansbacher UK	Short-term insurance	Capital Centre	Private bank	First National Trust Services	Consoli-dation adjustments	Total
508,4	184,7	7,0	426,0	79,7	2,4	–	5 415,4
(80,5)	1,3	–	(98,1)	4,9	(2,4)	–	(1 143,4)
427,9	186,0	7,0	327,9	84,6	–	–	4 272,0
97,0	382,3	111,3	223,2	44,9	121,8	–	6 445,8
524,9	568,3	118,3	551,1	129,5	121,8	–	10 717,8
(252,9)	(488,1)	(88,9)	(260,4)	(154,8)	(89,2)	–	(7 179,6)
272,0	80,2	29,4	290,7	(25,3)	32,6	–	3 538,2
–	–	14,6	21,4	–	–	–	134,3
272,0	80,2	44,0	312,1	(25,3)	32,6	–	3 672,5
–		–	–	–	–	(761,8)	(761,8)
272,0	80,2	44,0	312,1	(25,3)	32,6	(761,8)	2 910,7
–	–	–	(28,0)	–	–	–	(131,3)
272,0	80,2	44,0	284,1	(25,3)	32,6	(761,8)	2 779,4
15 456,9	3 002,5	14,7	2 461,0	3 564,1	–	(6 177,3)	123 328,2
384,2	158,4	–	73,0	32,3	–	–	4 422,7
62,8	9 153,0	–	43 387,0	2 032,5	–	721,7	141 460,9
41,8	86,1	66,9	–	124,2	71,8	–	59,9
0,5	–	–	–	(0,1)	–	–	0,9
2,5	5,3	–	–	0,9	–	–	3,6

Notes to the annual financial statements *continued*

for the year ended 30 June 2002

R million	South Africa	Other Africa	Europe	Australia	Other	Total
30 SEGMENT INFORMATION (continued)						
Secondary segments (geographical)						
2002						
Segment revenue	**11 991,0**	**933,7**	**2 062,2**	**59,5**	**57,1**	**15 103,5**
Segment expense	**(7 908,7)**	**(425,4)**	**(1 663,5)**	**(79,8)**	**(5,2)**	**(10 082,6)**
Segment assets	**204 595,0**	**9 354,6**	**51 656,1**	**415,2**	**15 700,9**	**281 721,8**
2001						
Segment revenue	10 117,2	737,9	944,9	148,7	46,8	11 995,5
Segment expense	(7 223,4)	(348,0)	(585,2)	(164,2)	(2,2)	(8 323,0)
Segment assets	144 078,8	8 624,4	32 948,7	370,0	3 957,5	189 979,4

Administration

FirstRand Bank Holdings Limited

(Registration No 1971/009695/06)

Registered office

1st Floor, 4 Merchant Place
Cnr Fredman Drive and Rivonia Road
Sandton
2196

Postal address

PO Box 786273
Sandton
2146

Telephone

National (011) 282 4000
International +27 11 282 4000

Telefax

National (011) 282 1699
International +27 11 282 1699

Websites

www.fnb.co.za
www.rmb.co.za
www.ebucks.com

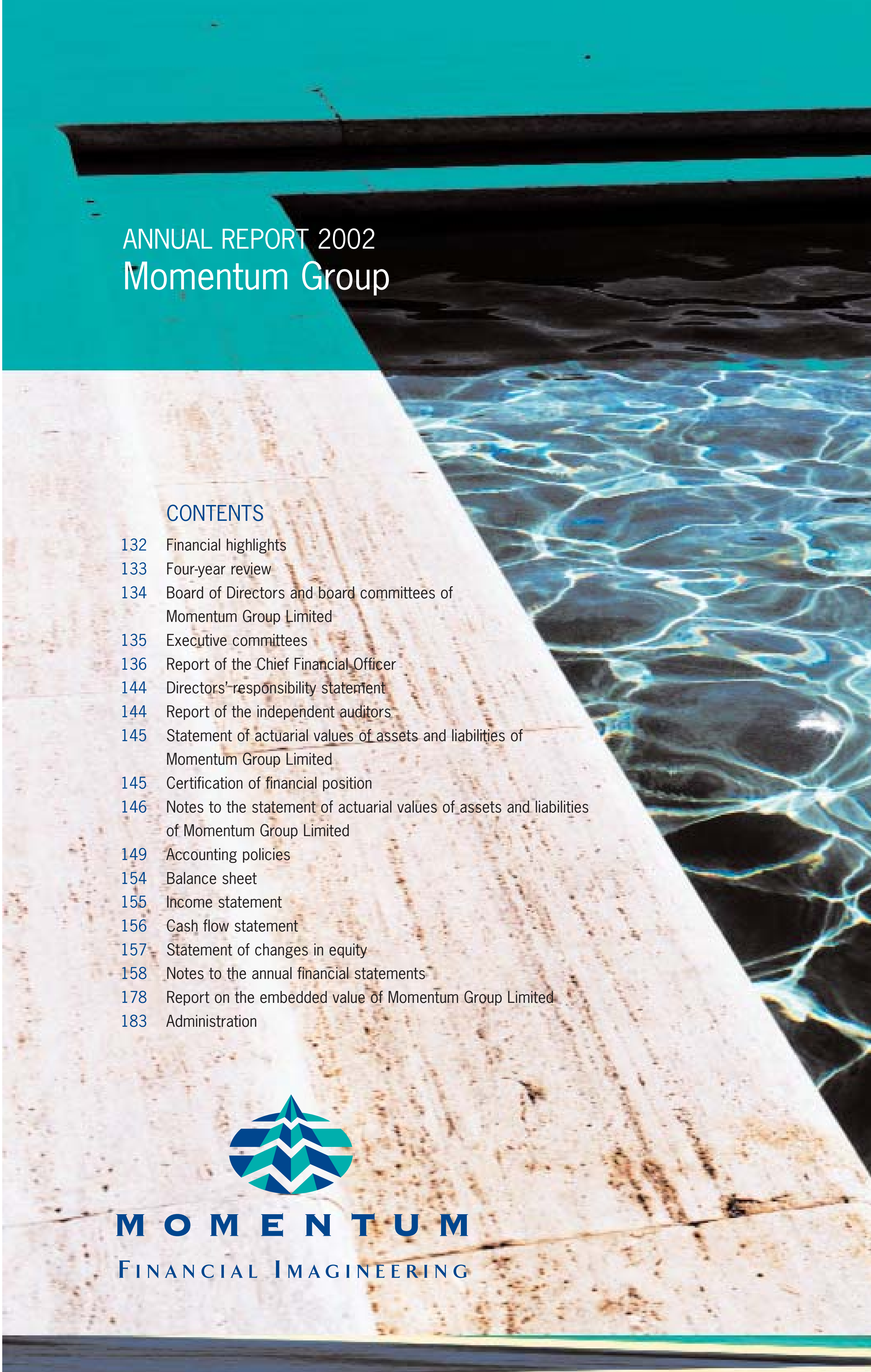
Company secretary

B W Unser

Auditors

PricewaterhouseCoopers Incorporated
2 Eglin Road
Sunninghill

Deloitte & Touche
The Woodlands
20 Woodlands Drive
Woodmead



ANNUAL REPORT 2002

Momentum Group

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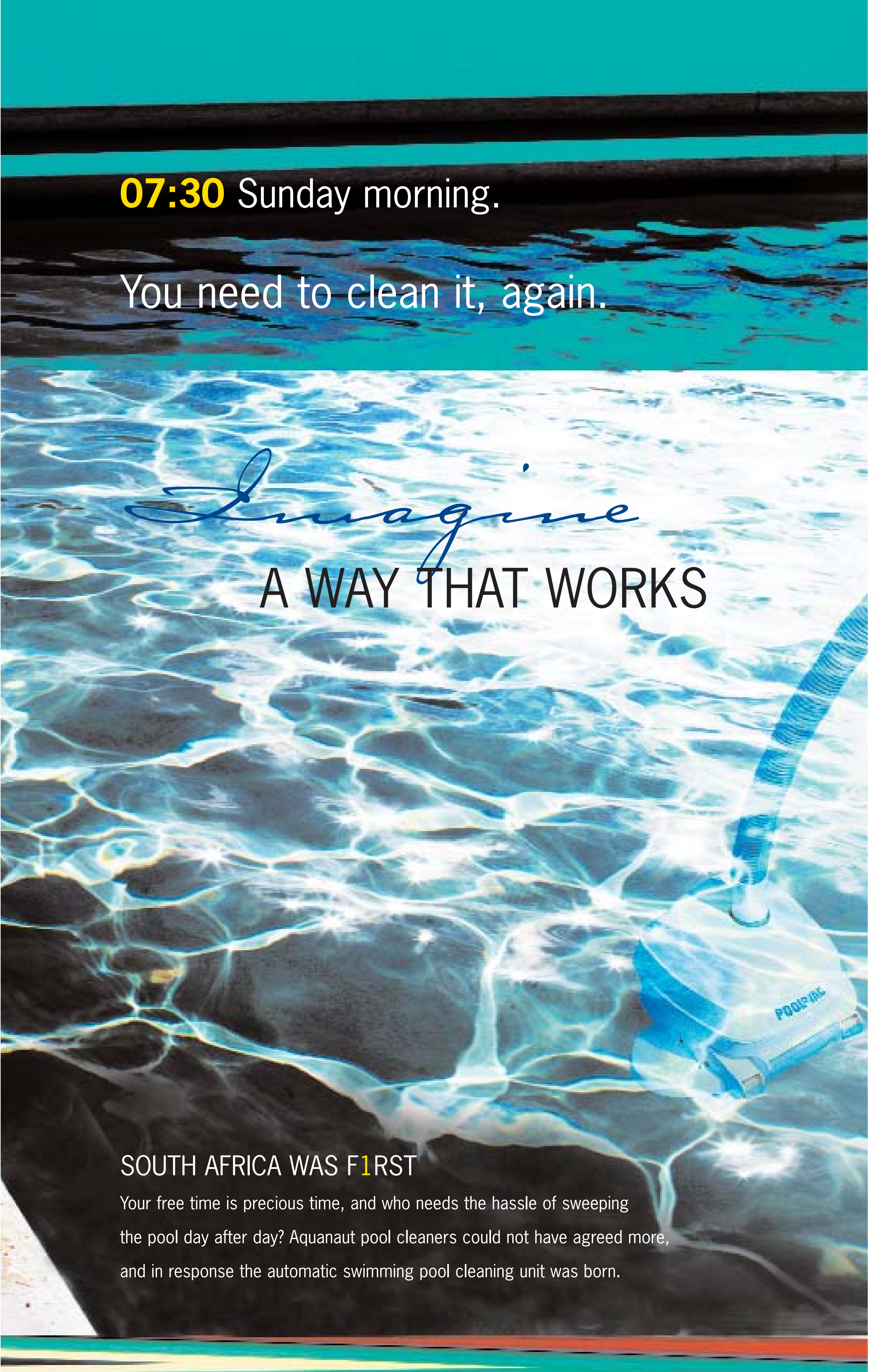
MOMENTUM

FINANCIAL IMAGINEERING



07:30 Sunday morning.

You need to clean it, again.

Imagine

A WAY THAT WORKS

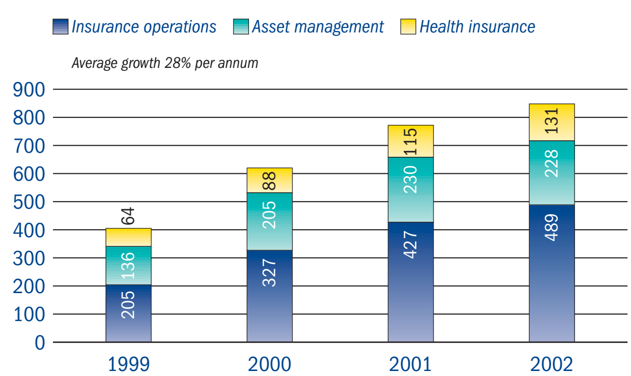
SOUTH AFRICA WAS F1RST

Your free time is precious time, and who needs the hassle of sweeping the pool day after day? Aquanaut pool cleaners could not have agreed more, and in response the automatic swimming pool cleaning unit was born.

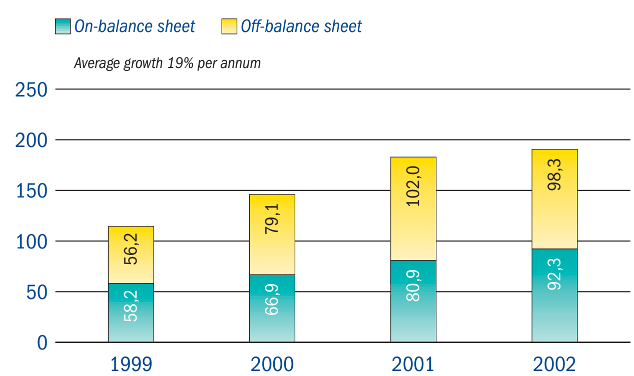
Financial highlights

An overview
of the Momentum Group's financial performance

- Headline earnings exceed **R1 billion** for the first time
- Core operational headline earnings **+14%**
- Net positive flow of funds of **R3,7 billion**
- Group assets exceed **R190 billion**



Group operating profit growth (R million)



Group assets under management (R million)

Four-year review

R million	1999	2000	2001	2002	Compound growth %
GROUP HEADLINE EARNINGS					
Insurance operations	205	327	427	**489**	34
Individual business	127	229	308	**382**	44
Employee benefits	78	98	119	**107**	11
Asset management operations	136	205	230	**228**	19
Health insurance operations	64	88	115	**131**	27
Group operating profit after tax	405	620	772	**848**	28
Investment income on the shareholders' portfolio	226	170	171	**190**	(6)
Group headline earnings	631	790	943	**1 038**	18
FUNDS RECEIVED FROM CLIENTS					
Individual life premium income	5 497	7 721	7 978	**7 474**	11
Single premiums	2 111	3 021	3 944	**3 021**	13
Corporate policy premiums	598	1 859	1 006	**1 240**	28
Recurring premiums	2 788	2 841	3 028	**3 213**	5
Employee benefits premium income	2 807	2 800	3 991	**4 309**	15
Single premiums[1]	1 485	1 661	2 727	**2 927**	25
Recurring premiums	1 322	1 139	1 264	**1 382**	1
Health insurance premium income	1 049	1 871	2 531	**3 132**	44
Linked product sales[2]	3 728	4 744	2 963	**2 920**	(8)
Unit trust sales	3 977	6 713	8 055	**7 348**	23
Segregated third-party inflows[1]	15 570	10 612	7 233	**10 665**	(12)
Total funds received from clients	32 628	34 461	32 751	**35 848**	3
GROUP ASSETS UNDER MANAGEMENT AND ADMINISTRATION					
Total assets per balance sheet	58 189	66 870	80 908	**92 269**	17
Off-balance sheet assets managed on behalf of clients	56 152	79 062	102 020	**98 328**	21
Total assets under management	114 341	145 932	182 928	**190 597**	19
EXCHANGE RATES					
Rand/US$	6,0300	6,7725	8,0670	**10,3100**	
Rand/GB£	9,5051	10,2590	11,3511	**15,7454**	
US$ million					
Group headline earnings	105	117	117	**101**	(1)
Total funds received from clients	5 411	5 088	4 060	**3 477**	(14)
Total assets under management	18 962	21 548	22 676	**18 487**	(1)
GB£ million					
Group headline earnings	66	77	83	**66**	–
Total funds received from clients	3 433	3 359	2 885	**2 277**	(13)
Total assets under management	12 029	14 225	16 115	**12 105**	–

(1) Excludes transfers between on and off-balance sheet business.

(2) Includes sales of products on the life insurance balance sheet, disclosed separately under premium income in note 22 to the annual financial statements as "unit-linked annuities".

Board of Directors and board committees of Momentum Group Limited

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

J D Krige (53)
MCom, FIA, AMP (Harvard)
Deputy Chairman of Momentum Group

H P Meyer (44)
BCom, FIA, AMP (Oxford)
Managing Director of Momentum Group

B H Adams (66)
CA(SA)
Chairman of the FirstRand and Momentum Group Audit Committees, and the Momentum Group Remuneration Committee

A H Arnott (55)
CA(SA), PMD (Harvard)

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

W F E Bragg (61)
FCA

J P Burger (43)
CA(SA)
Chief Financial Officer of FirstRand and Financial Director of FirstRand Bank Holdings
Appointed 1 July 2002

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

K Gordhan (41)
BA, MPhil

R B Gouws (59)
BSc, FFA, FASSA, AMP (Oxford)
Chairman of the Actuarial Committee

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

J d T Hugo (44)
CA(SA)
Chief Executive Officer of FirstRand Asset Management

R J Hutchison (55)
BCom (Hons), (B&A), MBA

N B Langa-Royds (40)
BA (Law), LLB
Appointed 26 June 2002

B J van der Ross (55)
Dip Law (UCT)
Director of FirstRand

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

D J Loch Davis – 27 May 2002
A J Ardington – 4 September 2002

Actuarial Committee

R B Gouws (Chairman)
H P Meyer
N A S Kruger
P G M Truyens

Remuneration Committee

B H Adams (Chairman)
L L Dippenaar
R J Hutchison

Audit Committee

B H Adams (Chairman)
A H Arnott
W F E Bragg
H P Meyer
B J van der Ross

Executive committees

Wealth Cluster Insurance Executive Committee

Laurie Dippenaar (53)
MCom, CA(SA)
Chairman of Momentum Group

Niel Krige (53)
MCom, FIA, AMP (Harvard)
Deputy Chairman of Momentum Group

Hillie Meyer (44)
BCom, FIA, AMP (Oxford)
Managing Director of Momentum Group

Danie Botes (38)
BCompt
Momentum Life

Etienne de Waal (34)
BCom (Hons), FFA
Momentum Employee Benefits

Nigel Dunkley (36)
CA(SA), Adv Tax Cert, AMP (Oxford)
Momentum Corporate Advisory Services

Kobus Sieberhagen (43)
MA (Clin Psych), DPhil, AMP (Oxford)
Momentum Distribution Services

Frans Truter (47)
CA(SA), AMP (Oxford)
Chief Financial Officer of Momentum Group

Riaan van Dyk (36)
BSc, FFA, ASA
Investment Product House

Brandon Zietsman (31)
BCom, HDip (Tax), CFA
RMB Unit Trusts

Asset Management Executive Committee

Laurie Dippenaar (53)
MCom, CA(SA)

Alberto Bottega (60)
MSc, PhD (Phys)
Executive Deputy Chairman of Futuregrowth

Ketso Gordhan (41)
BA, MPhil
Non-executive Chairman of Futuregrowth

Jan Hugo (44)
CA(SA)
Chief Executive Officer of FirstRand Asset Management

Bryan Jackson (56)
BCom, LLB
Chief Executive Officer of RMB Properties

EB Nieuwoudt (41)
MCom
Head of FirstRand Corporate Cluster

Hannes du Preez (40)
MCom
Chief Investment Officer of RMB Asset Management

Paul Rackstraw (38)
CA(SA)
Managing Director of Futuregrowth

Report of the Chief Financial Officer

Momentum Group Limited is a wholly owned subsidiary of FirstRand Limited. The consolidated figures in this report include the operations of Momentum Life, Momentum Employee Benefits, FirstRand Asset Management and the Discovery Group of companies. All operations take place within either divisions of Momentum Group Limited, or within 100% owned subsidiaries, with the exception of Discovery Holdings, in which Momentum Group holds a 63% interest. A comprehensive group structure is set out on page 36.

Basis of preparation

The attached annual financial statements relate to the insurance and asset management interests of the FirstRand Group of companies, and should be read in conjunction with the FirstRand Group financial statements set out on pages 38 to 57.

In order to provide a better understanding of the results of the Momentum Group, these results have been provided on a segmental basis, where appropriate. The segments into which the group has been divided are:

Individual business – includes Momentum Life, the provider of life insurance and investment products to the upper income market, and Momentum International MultiManagers, the group's international multi-manager and investment research house.

Employee benefits – the results of Momentum Employee Benefits, which provides a range of products to the retirement benefit market.

Asset management – the results of the FirstRand Asset Management Group of companies, which provide institutional as well as retail asset management products in South Africa and internationally.

Health insurance – the results of the Discovery Group of companies, which provide healthcare funding and life insurance products.

In addition, the investment income on the Momentum Group shareholders' portfolio is disclosed separately.

The segmental analysis set out above is not necessarily based on the results per statutory entity, but rather on a functional split of the activities of the group, as this is the basis on which the group's affairs are managed.

This report includes information relating to the off-balance sheet activities of the group, as these are a significant contributor to profit as well as to the assets managed by the group. Reconciliations between the figures presented in the group annual financial statements, which represent only the on-balance sheet cash flows and assets of Momentum Group and its subsidiaries, and the figures presented in this report, which represent all on and off-balance sheet cash flows and assets, have been provided where necessary.

Overview of results

The Momentum Group performed satisfactorily during the year under review, with group headline earnings exceeding R1 billion for the first time. Despite difficult market conditions experienced by some business units, the diversity of the group's earnings base has enabled us to produce headline earnings growth of 10% for the year. This growth comprises an increase of 10% in group operating profit after taxation, and an increase of 11% in the investment income on shareholders' assets. Core operational group headline earnings, which excludes foreign currency translation gains, increased by 14%. The highlight of these results was the 24% increase in operating profit after taxation from Momentum's individual business.

R million	2002	2001	% change
Group operating profit after taxation	**848**	772	10
Investment income on shareholders' assets	**190**	171	11
Group headline earnings	**1 038**	943	10
Group core operational headline earnings[1]	**1 038**	911	14

1. Represents group headline earnings excluding foreign currency translation gains of R nil (2001: R32 million).

In the four years since the FirstRand transaction the Momentum Group has generated an average annual compound increase in group operating profit after taxation of 28% from R405 million in 1999 to R848 million in 2002. Further financial information regarding the four years since the transaction is set out on page 133.

The performance of the business units that contributed to the group operating profit after taxation of R848 million, is discussed in more detail in the report on operations, set out on pages 11 to 26. A detailed segmental income statement is also provided in note 19 to the annual financial statements, including information regarding total assets and liabilities per segment.

Investment income on the shareholders' assets

The investment income on the shareholders' assets increased by 11% to R190 million. The two most significant factors affecting this growth in investment income were:

- In pursuit of the optimisation of capital, dividends of R300 million in excess of the Momentum Group's normal dividend policy (refer to dividend policy on page 137) were paid to FirstRand Limited during the current year, with the FirstRand Banking Group reducing its dividend by the same amount. This reduced the overall shareholders' assets, and the corresponding investment income thereon.

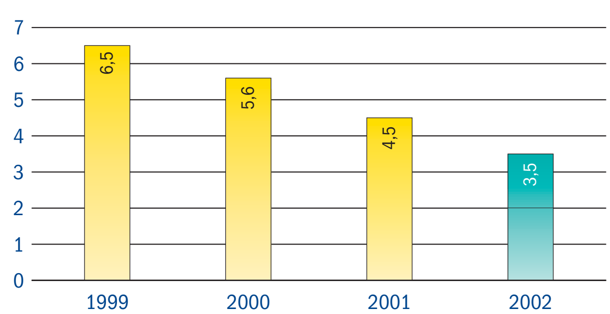
This brings the total dividends paid to FirstRand by Momentum Group in excess of the group's normal dividend policy to R825 million since 2000, which has assisted the FirstRand Banking Group in increasing its capital adequacy ratio; and

- African Life, in which the group equity accounts its 33,4% stake, reported a 40% increase in headline earnings per share during the year to March 2002, resulting in a positive effect on the investment income on shareholders' assets.

Capital management

It is the intention of the Momentum Group to enhance the return on capital, to ensure that we meet or exceed shareholders' minimum long-term required return of at least inflation plus 10%. The focus is therefore on enhancing the operating profit and the return on shareholders' assets, whilst ensuring that there is sufficient, but not excessive capital to meet regulatory requirements. It is the philosophy of the Momentum Group to either invest surplus capital in growth assets, or to redeploy this capital elsewhere in the FirstRand Group where it can be used more effectively. Derivative hedging structures in our smoothed-bonus portfolio and the improved matching of liability profiles have contributed to a further reduction in Momentum's statutory capital requirement over the past financial year, which has resulted in a 3% improvement in the return on capital for the year.

The excess of assets over liabilities of Momentum Group was R6 164 million at 30 June 2002. The Capital Adequacy Requirements (CAR) of R2 543 million (2001: R3 024 million) were covered 2,4 times (2001: 2,4 times) by this excess. The more efficient management of our smoothed-bonus portfolio and improved matching of fixed liability portfolios, resulted in a 31% reduction in the CAR relating to individual business in the past financial year. The following graph illustrates how effective the capital management programme has been in reducing Momentum Group's total CAR as percentage of liabilities to policyholders since 1999.



CAR as a percentage of policyholder liabilities (%)

The Financial Services Board (FSB) is in the process of formulating new rules with regard to the calculation of the solvency requirements relating to life insurers. These new rules include more conservative principles for the valuation of strategic subsidiary investments. Momentum is confident that it will remain in a financially sound position should the current draft proposals be implemented.

Dividend policy

Since the FirstRand merger, the group's dividend policy has been to apply a dividend cover of 2,2 times based on headline earnings. As mentioned elsewhere in this report, over the past three financial years Momentum Group has declared dividends in excess of this dividend policy in order to assist the Banking Group to increase its level of capital.

As from the final dividend declaration for the 2002 financial year, it has been decided that the FirstRand Group dividend should be sourced from the Insurance and Banking Groups in proportion to their contribution to the overall FirstRand Group earnings. This will mean that, in future, the Momentum Group dividend will be based on a dividend cover of approximately 2,7 times.

Embedded value – Momentum Group

The embedded value of Momentum Group Limited, representing the sum of the shareholders' net assets and the present value of the expected future profits arising from the existing in-force insurance business, totalled R9 532 million at 30 June 2002 (2001: R10 536 million). The embedded value calculation includes the Momentum Group's 63% share of the market value of Discovery Holdings, as well as the unlisted strategic subsidiary companies at directors' valuation.

The analysis of the main components of the group embedded value at 30 June 2002 is set out in the following table:

R million	2002	2001
Actuarial value of shareholders' net assets	**6 164**	7 379
Net value of in-force insurance business	**3 368**	3 157
Value of in-force insurance business	**3 611**	3 459
Opportunity cost of capital adequacy requirements	**(243)**	(302)
Embedded value	**9 532**	10 536

The embedded value of new business amounted to R206 million for the current year, 28% less than the figure of R285 million for the prior year. This reduction is directly attributable to the reduction in single premium business without a commensurate reduction in new business expenses, due to the fixed nature of some of these expenses. The embedded value of new business written during the year represents a margin of 16% of the notional new business premiums (new recurring plus 10% of single premiums), compared with 20% for the prior year.

The embedded value loss for the year ended 30 June 2002 amounted to R246 million, calculated as the decline in the embedded value, net of dividends paid during the year of R758 million. This decline represents a negative return on embedded value of 2,3%. The main reason for the negative growth in embedded value was the 34% decline in the share price of Discovery Holdings, which constituted 29% of the actuarial value of shareholders' net assets at 30 June 2002.

The movement in the embedded value during the year can be analysed as follows:

Analysis of movement in embedded value	Rm
Embedded value at 30 June 2001	10 536
Embedded value loss	(246)
Factors related to operations	885
Value of new business	206
Expected return on new business	15
Expected return on existing business	496
Experience assumption changes	39
Operating experience variations	129
Factors related to market conditions	(1 131)
Investment return on shareholders' net assets	(995)
Economic assumption changes	(74)
Investment variations	(62)
***Less:* Dividends paid**	(758)
Embedded value at 30 June 2002	**9 532**

Shareholders' net assets at 30 June 2002 consisted of the following:

R million	2002	2001
Strategic subsidiary investments [1]		
– Discovery Holdings (63%) (2001: 64%)	**1 777**	2 691
– FirstRand Asset Management	**1 603**	1 845
– Momentum Advisory Service (72,5%) (2001: 100%)	**40**	36
Shareholders' portfolio investments [1]		
– African Life (33%) (2001: 32%)	**557**	525
– Fixed interest instruments	**572**	370
– Equities	**132**	139
– Properties	**268**	201
– Share trust and subsidiary loans	**589**	914
– Cash and other	**626**	658
Total shareholders' net assets	**6 164**	7 379

1. The income from strategic subsidiary investments is included in group operating profit, whilst the income on the shareholders' portfolio investments is reflected separately in headline earnings. The group's policy is not to include capital appreciation or depreciation on shareholders' assets in earnings, but to rather account for these items directly in non-distributable reserves.

The comparative figures in the table above have been adjusted upward from R7 149 million to R7 379 million by reversing the 2001 provision for dividends in line with recent changes in accounting standards.

The total shareholders' net assets decreased by 16,5% from R7 379 million to R6 164 million, mainly as a result of the excess dividends declared, the decline in the Discovery share price between 30 June 2001 and 30 June 2002, and the reduction in the directors' valuation of FirstRand Asset Management. The decline in the share trust and subsidiary loans is mainly due to the disposal by the Momentum and Southern share trusts of surplus shares in excess of that required to back options allocated to staff.

The report on the embedded value, detailing the methodology and assumptions made in calculating the embedded value of Momentum Group is reflected on pages 178 to 182 of this annual report.

Embedded value – Discovery Group

The salient features of the embedded value results of the Discovery Group of companies at 30 June 2002, are detailed below:

R million	2002	2001
Shareholders' net assets – adjusted for start-up operations, deferred acquisition costs and deferred commission	**657**	523
Net value of in-force insurance business	**2 655**	2 633
Value of in-force insurance business	**2 820**	2 733
Opportunity cost of capital adequacy requirements	**(165)**	(100)
Embedded value	**3 312**	3 156

Discovery's embedded value increased by 5% to R3 312 million at 30 June 2002. The agreement between Discovery and the Council of Medical Schemes regarding lower levels of administration fees and reinsurance reduced the embedded value by R673 million.

Group assets under management and administration

The Momentum Group managed or administered total assets of R190,6 billion at 30 June 2002, compared with R182,9 billion at 30 June 2001, an increase of 4%. The June 2002 group assets under management excludes the off-balance assets managed by Futuregrowth (2001: R9 billion) as the group's holding in Futuregrowth reduced to 40% on 1 January 2002.

The following table provides a breakdown of the assets managed or administered by group companies:

R billion	2002	2001	% change
On-balance sheet assets	**92,3**	80,9	14
Assets managed on behalf of third parties	**75,2**	80,1	(6)
Unit trust funds managed	**16,9**	16,7	1
Assets under management	**184,4**	177,7	4
Linked product assets under administration [1]	**6,2**	5,2	19
Total assets under management and administration	**190,6**	182,9	4

1. Excludes business written by the Momentum Group's Linked Product Packager on the life company's balance sheet, as these assets are reflected under on-balance sheet assets above. Total linked product assets under administration amounted to R13,9 billion (2001: R11,7 billion).

New business inflows

Total new business inflows of R31,2 billion were received during the year, an increase of 8% compared to the R28,8 billion for the prior year. New recurring business in the individual life and employee benefits areas were boosted by sales of Discovery Life products, whilst individual life single premiums, linked products and unit trust investments all declined. The following table provides an analysis of the new business inflows, which include 100% of the Discovery figures:

R million	2002	2001	% change
Annualised recurring premiums	**3 030**	2 824	7
Individual life[1]	**818**	650	26
Employee benefits[1]	**137**	91	51
Health insurance[2]	**2 075**	2 083	–
Lump sum inflows	**17 456**	18 695	(7)
Individual life premium income	**3 021**	3 944	(23)
Corporate policy premium income	**1 240**	1 006	23
Employee benefits premium income	**2 927**	2 727	7
Linked product sales[3]	**2 920**	2 963	(2)
Unit trust sales – local	**5 245**	5 305	(1)
Unit trust sales – offshore	**2 103**	2 750	(24)
Segregated third party inflows[4]	**10 665**	7 233	47
Total new business inflows	**31 151**	28 752	8

1. Includes the annualised premiums relating to sales of Discovery Life products amounting to R236 million (2001: R85 million) under individual life business, and R28 million (2001: R8 million) under employee benefits business.

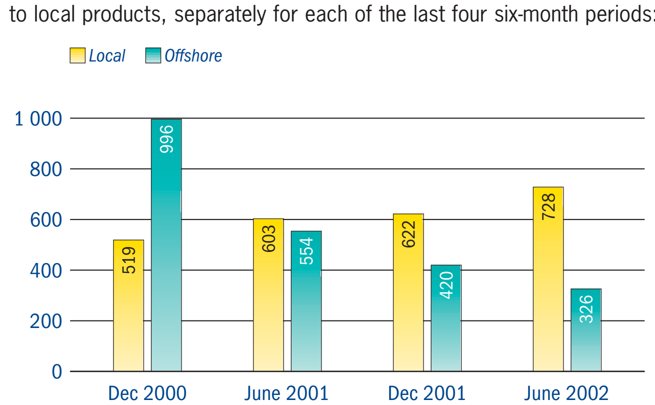
2. Includes the new annualised premiums relating to the sales of Destiny Health products of R206 million (2001: R12 million).

3. Includes sales of products on the life insurance balance sheet amounting to R1,2 billion (2001: R1,6 billion) and linked product sales in the UK of R1,3 billion (2001: R607 million).

4. Includes the once-off inflow of assets from a single institutional mandate of R5,1 billion.

All transfers between on and off-balance sheet funds have been excluded from the above.

Individual life single premium new business has come under significant pressure, mainly as a result of the limitations placed by the Reserve Bank on offshore fund investments by insurers. The effect of these limitations can be seen from the following graph, which illustrates the negative impact on offshore single premium business and the subsequent switch to local products, separately for each of the last four six-month periods:



Single premium business (excluding annuities)

Funds received from clients

Taking into account the inflows from existing business as well as the new business inflows detailed above, the total funds received from clients amounted to R35,8 billion, an increase of 10% over the 2001 figure. The components of this inflow are set out in the following table:

R million	2002	2001	% change
Individual life premium income	**7 474**	7 978	(6)
Single premiums[1]	**3 021**	3 944	(23)
Corporate policy premiums	**1 240**	1 006	23
Recurring premiums	**3 213**	3 028	6
Employee benefits premium income	**4 309**	3 991	8
Single premiums	**2 927**	2 727	7
Recurring premiums	**1 382**	1 264	9
Health insurance net premium income	**3 132**	2 531	24
Gross inflows under management	**7 545**	5 455	38
Less: Medical scheme and money market contributions	**(4 234)**	(2 676)	(58)
Less: Reinsurance premiums	**(179)**	(248)	28
Linked product sales	**2 920**	2 963	(2)
Unit trust sales	**7 348**	8 055	(9)
Local	**5 245**	5 305	(1)
Offshore	**2 103**	2 750	(24)
Segregated third party inflows	**10 665**	7 233	47
Total funds received from clients	**35 848**	32 751	10

1. Single premiums exclude funds retained through the extension of the original policy term, amounting to R457 million (2001: R446 million).

All transfers between on and off-balance sheet funds have been excluded from the above.

The following represents a reconciliation between the total funds received in the table above, and total premium income per note 22 to the annual financial statements:

R million	2002	2001
Total funds received	**35 848**	32 751
Less: Off-balance sheet inflows	**(19 747)**	(16 635)
Linked product sales	**(1 734)**	(1 347)
Unit trust sales	**(7 348)**	(8 055)
Segregated third party inflows	**(10 665)**	(7 233)
Add: Transfers from off-balance sheet funds	**3 144**	1 520
Total premium income per financial statements	**19 245**	17 636

Payments to clients

Total payments to clients for the year of R32,1 billion represents an increase of 14% compared to the prior year. The increased outflow in the segregated third party funds was a result of large benefit withdrawals by retirement fund clients.

The following table provides an analysis of these outflows:

R million	2002	2001	% change
Individual life	**5 561**	5 037	10
Corporate policies	**669**	273	>100
Employee benefits	**4 287**	4 708	(9)
Health insurance	**1 722**	1 473	17
Linked products[1]	**2 491**	3 061	(19)
Unit trusts – local	**5 085**	4 593	11
Unit trusts – offshore	**1 716**	2 452	(30)
Segregated third party funds	**10 593**	6 469	64
Total payments to clients	**32 124**	28 066	14

1. Includes outflows relating to products on the life insurance balance sheet amounting to R1 billion (2001: R742 million).

All transfers between on and off-balance sheet funds have been excluded from the above.

The following represents a reconciliation between the total payments to clients in the table above, and total benefit payments per note 24 to the annual financial statements:

R million	2002	2001
Total payments to clients	**32 124**	28 066
Less: Off-balance sheet payments	**(18 858)**	(15 833)
Linked products	**(1 464)**	(2 319)
Unit trusts	**(6 801)**	(7 045)
Segregated third party funds	**(10 593)**	(6 469)
Add: Transfers to off-balance sheet funds	**4 127**	2 126
Total benefit payments per financial statements	**17 393**	14 359

Net flow of funds

The net flow of funds from clients for the year totalled R3,7 billion (2001: R4,7 billion). This decline was the result of lower single premium individual life inflows, coupled with the increased local unit trust repurchases and the segregated third party fund benefit withdrawals. The following table sets out the net flow of funds per business category, which takes account of the total inflows set out above, and the outflows to clients for the year:

R million	2002	2001	% change
Individual life	**673**	1 935	(65)
Corporate business	**571**	733	(22)
Employee benefits	**22**	(717)	>100
Health insurance	**1 410**	1 058	33
Linked products	**429**	(98)	>100
Unit trusts – local	**160**	712	(78)
Unit trusts – offshore	**387**	298	30
Segregated third party funds	**72**	764	(91)
Total net flow of funds	**3 724**	4 685	(21)

Investment returns

The majority of the assets of the group are managed by RMB Asset Management (RMBAM). The returns achieved by RMBAM are measured against the Alexander Forbes Asset Consultants Global Large Manager Watch, which represents a widely used survey on the returns of large South African institutional asset managers. RMBAM's returns to 30 June 2002 placed it in fifth position over one and three years, out of the ten largest asset managers. This is a significant improvement on the ninth position it occupied with regard to its one-year returns to 30 June 2001.

The returns on shareholders' net assets are discussed under the 'embedded value' section elsewhere in this report.

Risk management framework

The board embraces the principles of King II. It is therefore of paramount importance that the different companies in the Momentum Group review their existing structures and approaches to risk management and internal audit, to ensure that these conform with these principles. Conforming to best practices, where appropriate and cost effective, is obviously an ongoing process and the different companies in the group are currently at various stages of implementation of their new structures and approaches.

Structure and approach

The audit committee has recently approved the separation of assurance management (internal audit) and the risk management functions:

- Risk management's role is to assist management with the identification and evaluation of actual and potential risk areas as they pertain to a company as a total entity, followed by a process of either termination, transfer, acceptance or mitigation of each risk. Risks are uncertain future events that could influence the achievement of an entity's objectives.
- Internal audit is an independent, objective assurance and consulting activity designed to add value and improve a company's operations. It helps a company accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Risk management

Separate risk committees have been established for Momentum Group and FirstRand Asset Management with the responsibility for the quality, integrity and reliability of the total risk management process. The results of their work will be reported and considered by the respective audit committees to whom their boards have delegated responsibility in this regard.

Actuarial committees are in operation at both Momentum Group and Discovery. These committees have been appointed by the respective boards to ensure that the highly technical actuarial aspects specific to insurance companies are debated and reviewed independently.

Risk management and internal control is practiced throughout the group by all staff, and is embedded in the day-to-day activities.

A comprehensive system of internal control is established by management, with input from various specialist support functions (including risk management, IT risk management and internal audit), to ensure that risks are mitigated and that the group's objectives are attained.

We have developed a system of risk management and internal control that builds more robust business operations. The group's key risks are being managed in a way that enhances shareholders' and relevant stakeholders' interests. The system incorporates mechanisms to deliver:

- a commitment by management to the process;
- a documented system of internal control and risk management;
- a demonstrable system of dynamic risk identification;
- a demonstrable system of risk mitigation activities;
- a system of documented risk communications; and
- an alignment of assurance of efforts to the risk profile.

A formal risk management charter that governs the risk management activities and sets out the responsibilities in this regard has been drafted and approved by the Risk Committee of Momentum Group, which is chaired by the managing director.

Dedicated risk managers have been appointed in the various business units to assist management with their risk management responsibilities. They report to either the CFO or CEO of the business unit, and have unlimited access to the Risk Committee and the chairman of the Audit Committee. The risk managers' responsibilities include the facilitation of the internationally recognised control and risk self-assessment (CRSA) process. The CRSA process helps management have a clear and common understanding of the risk assessment process, while emphasising that they are accountable for managing the risk. Centralised IT risk management teams are operating in most companies to address the specific risks associated with IT infrastructure, systems and processes. They use the COBIT methodology and report to the highest authority on IT in their specific company, normally the chairman of the IT steering or similar committee.

Internal audit

The Audit Committee oversees the activities of the various internal audit functions in the group and all the internal auditors have unrestricted access to the chairman of the Audit Committee.

Although the current structures of the various companies in the group differ, they all have a dedicated internal audit function that has the respect and co-operation of both the Board and their management. All companies are moving towards a centralised internal audit function due to the importance attached to independence as well as perceived independence.

The function operates in accordance with the standards of the Institute of Internal Auditors and an internal audit charter formally sets out the purpose, authority and responsibility of the internal audit activity.

As an effective internal audit function it provides the following:

- assurance that the management processes are adequate to identify and monitor significant risks;
- confirmation of the effective operation of the established internal control systems;
- credible processes for feedback on risk management; and
- objective confirmation that the Board receives the right quality of assurance and information from management and that this information is reliable.

The internal audit plan is based on risk assessment as well as on issues highlighted by the risk managers and senior management and approved by the Audit Committee. The risk assessment process is of a continuous nature so as to identify not only residual or existing but emerging risks.

The internal audit function co-ordinates with other internal (including the actuarial function) and external providers of assurance to ensure proper coverage of financial, operational and compliance controls and to minimise duplication of effort.

Management of specific risks

The following represents a summary of the more significant risks to which the group is exposed, together with the way in which we manage these risks:

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The majority of currency exposure within the group results from the offshore assets held by policyholders' portfolios to provide the desired international exposure, subject to the limitations imposed by the South African Reserve Bank. The majority of these assets are backing linked policyholders' liabilities, in other words the full currency risk is passed to the policyholder.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

The most significant concentration of interest rate risk in the group resides with the immediate annuity portfolios, where a guaranteed annuity is provided to an annuitant. This guaranteed annuity is matched with an appropriate asset profile, with the overall liability profile being matched on a weekly basis to minimise the interest rate mismatching risk. Use is made of the interest rate hedging expertise of Rand Merchant Bank and Futuregrowth to manage the interest rate and cash flow matching of the annuity portfolio.

Market risk

Market risk is the risk that the value of a financial instrument will fluctuate due to changes in market prices, irrespective of whether those changes were caused by circumstances particular to the group itself, or to the investment market in general.

One of the main focus areas within the group is to maximise returns for policyholders by stock selection based on market timing. Where specific contractual guarantees have been provided to policyholders, these are protected against market fluctuations by investing in assets matching the liability profile.

Credit risk

Credit risk refers to the risk of loss arising from the obligor's or issuer's inability to service the debt obligations.

Momentum Group manages its portfolio credit risk using a multi-dimensional approach. Initially the creditworthiness of the company is assessed in accordance with our risk acceptance criteria. Pricing and provisioning is determined using the counterparty's 'expected default frequency' and 'recovery rate' in the event of default. In order to achieve appropriate diversification, limits are scrutinised at industry sector level, the number of single obligor exposures within rating categories and the weighted average rating of the portfolio. All counterparties are assigned a 'rating' using a conservative internal rating model. The credit portfolio is made up of 153 counterparties, which is spread across 34 different sectors.

The Momentum Group has an internal credit risk function that performs the ongoing management of the credit portfolio, which in turn is overseen by the Credit Committee of Momentum Group.

Liquidity risk

Liquidity risk is the risk that the group will encounter difficulty in raising funds to meet commitments to policyholders under policy contracts.

All policyholder funds are invested in appropriate assets to meet the reasonable benefit expectations of policyholders, which includes the expectation that funds will be available to pay out benefits as required by the policy contract. The majority of assets invested in are listed financial instruments that are actively traded on the various stock and bond exchanges, resulting in the ability to liquidate most of these investments at relatively short notice.

Underwriting risk

Underwriting risk is the risk that the actual exposure to mortality and morbidity risks will exceed the best estimates of the statutory valuator.

The statutory actuary performs regular investigations into actual mortality and morbidity experience, with the best estimate assumptions being adjusted accordingly. All mortality risks above a set retention limit are reinsured. All applications for mortality or morbidity cover are evaluated against strict underwriting criteria, and are accompanied by compulsory HIV testing in the case of mortality cover.

Operational risk

The main operational risks to which the group is exposed, relate to fraud and theft. One of the mechanisms applied in managing this risk is a dedicated forensic investigation team at Momentum Life. This team comprises three full-time investigators, who liaise closely with client service staff to identify fraudulent policyholder claims relating to death and disability. During the past financial year, approximately 2,5% of all death and disability claims were successfully repudiated on the basis of fraudulent or misrepresented information. Discovery makes use of a forensic investigation team on the same basis.

Proactive training of client service staff takes place to ensure that fraudulent claims are identified and investigated timeously. The forensic investigation team also advises on improvements to internal control systems.

Future financial reporting

Although the financial management of the Momentum Group will continue to be monitored and reported in the current format because of statutory requirements, much more emphasis will in future be placed on the reporting of results on a cluster basis, in line with the structure as set out on page 13.

F J C Truter
Chief financial officer
Momentum Group Limited

Directors' responsibility statement

as at 30 June 2002

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

The financial statements for the year ended 30 June 2002, which appear on pages 145 to 177, have been approved by the Board of Directors and are signed on its behalf by:

L L Dippenaar
Chairman

H P Meyer
Managing director

Sandton
16 September 2002

Report of the independent auditors

To the directors of FirstRand Limited

We have audited the annual financial statements of the Momentum Group (a division of FirstRand Limited) set out on pages 145 to 177 for the year ended 30 June 2002. These financial statements are the responsibility of the directors of FirstRand Limited. Our responsibility is to express an opinion on these financial statements based on our audit.

Scope

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

An audit includes:

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

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

Audit opinion

In our opinion, the financial statements fairly present, in all material respects, the financial position of the Momentum Group at 30 June 2002 and the results of its operations and cash flows for the year then ended in accordance with Statements of Generally Accepted Accounting Practice in South Africa.

PricewaterhouseCoopers Incorporated
Chartered Accountants (SA)
Registered Accountants and Auditors

Sandton
16 September 2002

Statement of actuarial values of assets and liabilities of Momentum Group Limited

as at 30 June

R million	Notes	2002	2001
Fair value of assets	2	**90 670**	81 797
Value of assets as per company balance sheet		**88 345**	78 068
Revaluation of strategic investments		**2 325**	3 729
Total value of liabilities		**84 506**	74 418
Actuarial value of policyholder liabilities	3,4	**73 299**	67 629
Current and other liabilities as per company balance sheet		**11 207**	6 789
Surplus	5,6	**6 164**	7 379
Capital adequacy requirements	6	**2 543**	3 024
Ratio of surplus to capital adequacy requirements		**2,4**	2,4

Certification of financial position

I hereby certify that:

- the valuation of Momentum Group Limited as at 30 June 2002, the results of which are summarised above, has been conducted in accordance with the Actuarial Society of South Africa's Professional Guidance Note (PGN) 104;
- the statutory actuary's report, read together with the annual financial statements, fairly presents the financial position of the company; and
- the company was financially sound as at the valuation date, and in my opinion is likely to remain financially sound for the foreseeable future.

N A S Kruger
BCom, FFA, FASSA
Statutory actuary of Momentum Group Limited

Centurion
16 September 2002

Notes to the statement of actuarial values of assets and liabilities of Momentum Group Limited

as at 30 June 2002

1. Introduction

This statement of actuarial values of assets and liabilities provides a description of the actuarial valuation methods and assumptions used for the financial soundness valuation of Momentum Group Limited (Momentum Group).

2. Value of assets

The value of assets represents the net assets per the company balance sheet of Momentum Group, adjusted for the directors' valuations of strategic subsidiaries and associate companies. The directors' valuations are disclosed in note 35 to the annual financial statements.

3. Valuation assumptions

This section describes the best-estimate valuation assumptions used for purposes of the financial soundness valuation of the policy liabilities. The first-tier margins set out in Professional Guidance Note (PGN) 104 of the Actuarial Society of South Africa, as well as certain second-tier margins described below, were added to the best-estimate assumptions for purposes of the liability valuation.

Investment return

The investment return assumption of 13,5% per annum (before tax) (2001: 12,5% per annum) was determined with reference to the market interest rates on South African government stocks as at 30 June 2002, taking into account the expected outstanding term of the in-force policy book. A notional long-term asset distribution was used to calculate a weighted expected investment return, by adding the following premiums/(discounts) to the market interest rate of 12,3% per annum as calculated above (2001: 11,1% per annum) on South African government stocks as at 30 June 2002:

	% premium/ (discount)	
	2002	**2001**
Equities	**2,0**	2,0
Properties	**1,0**	1,0
Government stocks	**0,0**	0,0
Other fixed-interest stocks	**0,5**	0,5
Cash	**(2,0)**	(1,0)

Expense inflation rate

The assumed future expense inflation assumption of 9,5% per annum (2001: 8,5% per annum) was determined based on an assumed long-term differential of 4,0% per annum relative to the assumed future investment return assumption of 13,5% per annum (2001: 12,5% per annum).

Expenses

The maintenance expense assumptions were based on the results of recently conducted internal expense investigations. These expense investigations covered the financial year ended 30 June 2002 as well as the budgeted expenses for the financial year ending 30 June 2003. The expense assumptions are at a level sufficient to support the existing business on a going-concern basis.

Mortality, morbidity and discontinuance rates

The assumptions regarding future mortality, morbidity and discontinuance rates were based on the results of recent internal experience investigations covering the five-year period 1996 to 2001. Allowance was also made for the expected impact of AIDS on a basis consistent with the recommendations of PGN 105 of the Actuarial Society of South Africa.

Second-tier margins

The following second-tier margins were allowed for in the valuation:

- Investment stabilisation reserves are held as a buffer against the impact of market fluctuations on the assets backing non-profit liabilities.
- Shareholder stabilisation reserves are held as a buffer against the impact of market fluctuations on the assets backing smoothed-bonus liabilities.
- For the closed Lifegro portfolio appropriate reserves are held to ensure that the Lifegro profits are recognised in line with the terms of the Lifegro take-over agreement.
- The present value of the cost-of-capital charges levied on smoothed-bonus portfolios was not capitalised as part of surplus, but was included as a second-tier margin in the actuarial liabilities.
- Experience stabilisation reserves are held to serve as a buffer against fluctuations in experience.
- Reserves are created on structured transactions to recognise profits appropriately over the term of the transactions.

Tax

Allowance was made for future tax based on the four-fund tax dispensation and for capital gains tax at full face value.

4. Liability valuation methodology

The actuarial valuation of the policy liabilities was determined using the financial soundness valuation method in accordance with the guidelines of the Actuarial Society of South Africa. Assets and policy liabilities have been valued using methods and assumptions that are consistent with each other.

The result of the valuation methods and assumptions is that profits are released appropriately over the term of each policy, to avoid the premature recognition of profits that may give rise to losses in later years.

Guarantees and potential losses

Where relevant, liabilities include provisions to meet maturity, mortality and disability guarantees and for losses in respect of potential lapses and surrenders. A separate liability has been set aside to provide for minimum investment guarantees on maturity.

Individual smoothed-bonus and market-related business

Liabilities for individual smoothed-bonus and market-related business were calculated as the fund accounts allocated to the policies, adjusted by the difference between the present value of projected future risk premiums and other charges, and the present value of projected future risk benefits and expenses. Allowance was made for future growth in fund accounts at a level consistent with the assumed future market-related investment return, after allowing for contractual expense charges and taxation.

Policyholder bonus stabilisation reserves

Smoothed-bonus liabilities were further adjusted by policyholder bonus stabilisation reserves. The policyholder bonus stabilisation reserves in the closed Lifegro portfolio and Southern's pre-1984 Segregated portfolio were calculated as these policyholders' full future entitlement to the reserves in these respective portfolios. The policyholder bonus stabilisation reserves of the Momentum smoothed-bonus portfolio and the remainder of the Southern smoothed-bonus portfolios consist of accrued investment surpluses/(shortfalls) in these portfolios. In aggregate the policyholder bonus stabilisation reserves were positive as at 30 June 2002.

Individual and group linked business

Liabilities for linked business were equated to the fair value of the underlying assets.

Immediate annuities

Liabilities for immediate annuities and pensioner outsourcing business were calculated as the present value of expected future annuity payments and expenses, at market-related interest rates according to an appropriate yield curve as at 30 June 2002.

Group risk business

The liabilities for Permanent Health Insurance (and other annuity type) claimants and funeral paid-up benefits were calculated using a prospective cash flow method. Other group risk liabilities were valued using appropriate percentages of the premiums payable for the relevant classes of business.

Guaranteed maturities

The liabilities of endowments with guaranteed maturities were determined by discounting the maturity values using the yields to maturity implied by the fair value of the underlying assets adjusted to allow for planned margins and capital gains tax.

Conventional policies

The liabilities for conventional policies were calculated as the difference between the present value of projected future benefits and expenses, and the present value of projected future premiums. It is assumed that the current bonus rates will be maintained in future.

5. Reconciliation of surplus

The change in Momentum Group Limited's surplus during the year can be analysed as follows:

	Notes	Rm
Surplus as at 30 June 2001		7 149
Reversal of dividend provision		230
Restated surplus as at 30 June 2001	5.1	7 379
Attributable earnings		837
Operating profit after taxation		660
Investment income on shareholders' portfolio after taxation	5.2	177
Capital appreciation on surplus	5.3	(1 307)
Changes in valuation basis	5.4	13
Dividends paid		(758)
Surplus as at 30 June 2002		**6 164**

5.1 The surplus as at 30 June 2001 has been restated from R7 149 million to R7 379 million by reversing the provision of R230 million for dividends, in line with recent changes in accounting standards.

Notes to the statement of actuarial values of assets and liabilities of Momentum Group Limited *continued*

as at 30 June

5.2 Investment income on the shareholders' portfolio comprises interest, dividends and net rental income, after provision for taxation.

5.3 Capital appreciation on surplus includes realised and unrealised capital appreciation.

5.4 Overall, the changes in the valuation basis increased the surplus by R13 million. The changes in basis consisted of the following items:

- The Actuarial Society of South Africa is in the process of formulating new professional guidelines to assist statutory actuaries to reserve appropriately for minimum investment guarantees at maturity. A minimum maturity guarantee reserve of R150 million has been created.
- The mortality assumptions of the annuity portfolio were revised, based on the results of an internal investigation. The change in the mortality assumptions increased the surplus by R67 million.
- The termination assumptions of Southern Life policies were revised following the results of an internal investigation, resulting in an increase of R47 million in the surplus.
- A change in the methodology used to calculate group risk reserves increased the surplus by R18 million.
- The change in the economic assumptions increased the surplus by R27 million.

6. Capital adequacy requirements

Capital adequacy requirements are necessary to provide a cushion against the impact of possible adverse deviations in actual future experience from that assumed in the financial soundness valuation. The capital adequacy requirements, which were determined in accordance with the guidelines of the Actuarial Society of South Africa, were calculated as R2 543 million (2001: R3 024 million). The surplus is sufficient to cover the capital adequacy requirements.

The following main assumptions have been used to calculate the investment resilience capital adequacy requirement:

- That a decline of 30% in equity asset values, 15% in property asset values and 24% in fixed interest asset values (as a result of a 3% increase in fixed-interest yields) will occur, in accordance with PGN 104.
- In determining the capital adequacy requirements, allowance was made for the anticipated management action that will reduce the financial impact of the assumed adverse circumstances. The most important management action assumed was a reduction in bonus rates of 4% per annum on smoothed-bonus policies over the ensuing three years to counteract the effect of adverse investment experience.

The offsetting management actions assumed above have been approved by the Momentum Group Actuarial Committee, which is a subcommittee of the Momentum Group Board. I am satisfied that these actions would be taken if the corresponding risks were to materialise.

For purposes of grossing up the intermediate ordinary capital adequacy requirements (IOCAR) to determine the ordinary capital adequacy requirements (OCAR), it has been assumed that assets backing the capital adequacy requirements are invested in a portfolio consisting of 80% equities and 20% fixed interest assets.

The OCAR exceeded the termination capital adequacy requirements (TCAR) and thus the capital adequacy requirements have been based on the OCAR.

Accounting policies

The following are the principal accounting policies adopted in the preparation of the consolidated financial statements of the Momentum Group (the group).

1. Basis of presentation

The financial statements have been prepared on the going-concern basis, based on the fair value of assets and liabilities, in conformity with South African Statements of Generally Accepted Accounting Practice. The principal accounting policies of the group set out below are consistent in all material respects with those adopted in the previous year, except for the change in accounting for unrealised investment surpluses on shareholders' assets, as set out in point 20 below. Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

2. Consolidation

The group financial statements comprise the financial statements of Momentum Group Limited and its subsidiaries. All subsidiaries, which are those companies in which the group, either directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to exercise control over the operations, have been consolidated.

The results of subsidiaries are included from the effective dates of acquisition to the effective dates of disposal. The assets and liabilities acquired are assessed and included in the balance sheet at their estimated fair values to the group. Intercompany transactions, balances and unrealised surpluses and deficits on transactions between group companies have been eliminated.

3. Associated companies

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

The results of associated companies have been included in the group financial statements using the equity accounting method, from the effective dates of acquisition until the effective dates of disposal. Transactions between the group and its associates are eliminated in determining the group's portion of the post-acquisition results.

The group's share of earnings of associates is included in earnings attributable to ordinary shareholders.

The group's interest in an associate is carried in the balance sheet at an amount that reflects its share of the net assets of the associate and includes any unamortised excess or deficit of the purchase price over the fair value of the attributable assets of the associate at date of acquisition.

Investments in associates for the benefit of policyholders are held as long-term investments and are not accounted for on the equity basis, as these investments are revalued in accordance with the accounting policies applicable to equity investments.

4. Investments

The policy of the group is to reflect long-term investments on the valuation bases set out below:

Stocks and debentures

Government and public authority stocks, debentures and other loan stocks, all fixed-interest stocks, and funds on deposit stocks, including redeemable preference shares, are initially recognised at cost and subsequently at market value.

Debentures and other loans

Debentures and other loans are reflected at par or redemption value, after making provision for any anticipated losses.

Investment properties

Investment properties are held to earn rental income and for capital appreciation, and are stated at fair value, determined by professional valuators, based on discounted cash flow valuations.

Properties in the process of being developed are valued at development costs incurred, less adjustments to reduce the costs to open-market value, where appropriate.

Equity investments

Listed equity investments and unit trust investments are initially stated at cost and subsequently stated at fair value using quoted market and repurchase prices respectively. Unlisted investments are initially recognised at cost and subsequently stated at directors' valuations based on accepted valuation methodologies.

5. Revenue and expense recognition

Premium income

Premium income is reflected net of reinsurance premiums.

Individual life investment funds, lump sums, annuities and single premiums are accounted for when the collection of the premiums in terms of the policy contract is reasonably assured.

All other individual life premiums are accounted for when they become due and payable.

In the Employee Benefits division, risk premiums and pure endowment scheme premiums are accounted for when they become due and payable. Other premiums are accounted for on a cash receipt basis.

Investment income

Investment income comprises interest, dividends and net rental income. Dividends are accounted for as at the last day of registration in respect of listed shares, and on the date of declaration in respect of unlisted shares. Dividend income includes shares received in terms of capitalisation issues, irrespective of whether there is an option to receive cash in lieu of shares.

Interest and other investment income are accounted for on an accrual basis.

Policyholder benefits

Policyholder benefit payments are shown net of reinsurance recoveries and are accounted for when claims are intimated.

Life insurance operating profits

The life insurance operating profits are determined in accordance with the guidance note on Financial Soundness Valuations issued by the Actuarial Society of South Africa (PGN 104).

The operating surpluses arising from life and health insurance business are determined by the annual actuarial valuation. These surpluses are arrived at after taking into account the increase in actuarial liabilities under unmatured policies, provisions for policyholder bonuses and adjustments to contingency and other reserves within the life funds.

Gains or losses arising from the fair valuation of shareholders' assets designated as 'held for sale' are accounted for directly to a non-distributable investment reserve. This policy was changed during the current year. Details of this change can be found in point 20 below.

Commission

Commission payments are net of reinsurance commission received. Life insurance business commissions are expensed as incurred. Commissions of the health insurance subsidiary are paid annually in advance and are amortised over a period of twelve months from the date they are incurred.

Marketing and administration expenses

Marketing and administration expenses include head office and branch administration expenditure, marketing and development expenditure as well as all other non-commission-related expenditure, and are expensed as incurred.

6. Foreign currency translation

The assets and liabilities of foreign subsidiary companies, regarded as independent entities, are expressed in South African rand at rates of exchange ruling at year-end. Gains and losses arising on translation of independent entities are reflected in a non-distributable currency translation reserve.

The non-monetary assets and liabilities of foreign subsidiary companies, regarded as an integral part of the entity's operations, are translated at historic rates, with monetary assets and liabilities being translated at rates of exchange ruling at year-end. Gains and losses arising on translation of these entities are recognised in the income statement.

In both the above cases, capital and reserves are translated at historic rates, while income statement items are translated at the weighted average rate for the year.

Transactions in foreign currencies are translated to South African rand at the spot rate on the transaction date. Monetary assets and liabilities in foreign currencies are translated to South African rand using the rates of exchange ruling at the financial year-end. Profits and losses from forward exchange contracts used to hedge potential exchange rate exposures are offset against gains and losses on the specific transaction being hedged.

7. Borrowing costs

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

8. Taxation

Taxation in respect of the South African life insurance operations is determined using the four-fund method applicable to life insurance companies.

9. Deferred taxation

Deferred taxation 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. Account is only taken of taxation assets arising from taxation losses where the recovery of such losses, in the opinion of the directors, is probable.

10. Recognition of liabilities, provisions and assets

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

No liability is recognised when:

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

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

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

11. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise money at call and short notice.

12. Accounting for leased assets

Leases of property and equipment, where the group assumes substantially all the benefits and risks of ownership, are classified as finance leases, and are capitalised at the estimated present value of the underlying lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The interest element of the lease payment is charged to the income statement and the asset is depreciated over its useful life.

Leases of assets, where all the risks and benefits of ownership are effectively retained by the lessor, are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

13. Financial instruments

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

Financial assets and liabilities held for trading purposes are stated at fair value. The fair values of listed financial instruments are determined by reference to quoted market rates. In the case of unlisted financial instruments, the fair value is the amount for which assets or liabilities could be exchanged or settled between knowledgeable, willing parties in an arm's length transaction, or in the case of derivative financial instruments, from option pricing models or other alternative valuation models as deemed appropriate.

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

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

Included in derivative instruments are financial futures, options, swaps and forward rate agreements.

Derivative instrument contracts are entered into for hedging purposes as well as to facilitate asset allocation. During the lives of these contracts, they are reflected at market value within the appropriate asset category, with all unrealised changes in value being charged to the income statement. The profit or loss realised upon exercise, expiry or close-out of the contract, is accounted for in the income statement when incurred, and subsequently transferred to the life fund.

14. Scrip lending

Scrip lending transactions entered into by the group are subject to repurchase agreements, and as such the loan agreement is recorded at the same value as the underlying asset and no sale of scrip is recorded.

The value at which the loan is recorded corresponds with the group's accounting policy relating to equities, as set out under investments above.

Dividends received on scrip out on loan, as well as fees received for scrip lending transactions, are accounted for as investment income in the income statement.

15. Property and equipment

Property and equipment are carried at cost less accumulated depreciation.

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

The periods of depreciation used are as follows:

Asset classification

Owner-occupied buildings	50 years
Computer equipment	3 years
Office equipment	3 years
Furniture and fittings	3 years
Motor vehicles	5 years

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

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

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

Property investments are reflected as investment assets, and as such are not disclosed as part of property and equipment. These investments are stated in accordance with the accounting policy under investments set out in point 4 above.

16. Intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the attributable fair value of the group's share of the net assets of the acquired subsidiary/associated undertaking at the date of acquisition. Goodwill is capitalised and amortised on the straight-line basis over the period of expected benefit, limited to 20 years. The carrying amount of goodwill is reviewed periodically and written down for permanent impairment where considered necessary.

Negative goodwill represents the excess of the fair value of the group's share of the net assets acquired over the cost of acquisition. Negative goodwill is presented in the same balance sheet classification as goodwill. To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the group's plan for the acquisition and can be measured reliably, but which do not represent identifiable liabilities, the portion of negative goodwill is recognised in the income statement when the future losses and expenses are recognised. Any remaining negative goodwill, not exceeding the fair value of the non-monetary assets acquired, is recognised in the income statement over the remaining useful life of those assets. Negative goodwill in excess of the fair value of those assets is recognised in the income statement immediately.

Computer software development costs

Generally, computer software development costs are expensed in the year incurred. However, development costs associated with significant internally developed and separately identifiable software programs are capitalised and amortised over the useful life of the software, limited to a maximum period of three years, and are reflected at cost less any accumulated amortisation and any accumulated impairment losses. Expenditure that enhances and extends the benefits of separately identifiable computer software programs beyond their original expected lives, is recognised as a capital improvement and added to the original cost of the software. The amortisation of development costs, as well as any impairment charge, are reflected in the income statement under marketing and administration expenses.

Prepaid contracts

In the health insurance subsidiary, prepaid health club contracts are stated at historical cost and are amortised on the straight-line basis over the period of the related contract.

Where an intangible asset has, in the opinion of the directors, been impaired, the asset is recognised as an expense in the period in which the impairment is identified.

17. Debentures

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

The primary financial liability relating to debentures convertible into equity is recognised as a financial liability, whilst the conversion option is disclosed under equity.

18. Employee benefits

Retirement fund benefits

The group operates defined benefit and defined contribution schemes, the assets of which are held in separate trustee-administered funds. The pension plans are generally funded by payments from employees and the relevant group companies, taking account of the recommendations of independent actuaries. For defined benefit plans the pension accounting costs are assessed using the projected unit credit method. These funds are registered in terms of the Pension Funds Act, 1956, and membership is compulsory for all group employees. Valuations are performed every three years.

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

Post-retirement medical benefits

In terms of certain employment contracts, the group makes provision for post-retirement healthcare benefits to qualifying employees and retired personnel by subsidising a portion of their medical aid contributions. All expenditure in respect of post-retirement medical benefits is accounted for in the income statement.

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

Termination benefits

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

Leave pay provision

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

Pension fund surplus

The group converted its primary pension plan from a defined benefit scheme to a defined contribution scheme in 1995. At that point, an actuarial surplus was converted into a realised surplus. AC 116 requires that this surplus be reflected on the balance sheet as an asset of the group. All income and expenditure with regard to the pension fund surplus is brought to account in the income statement.

New pension fund legislation has been introduced with effect from December 2001. This, inter alia, sets out laws regarding the fair division of pension fund surpluses between employers and employees. The regulations governing the implementation of this legislation have not yet been introduced, and considerable uncertainty exists as to the form these regulations will take. Consequently, the group believes it prudent not to recognise the pension fund asset.

19. Segment reporting

A segment is defined as a distinguishable component of the group that is engaged in providing products or services which are subject to risks and rewards that are different from those of other segments. Segments with a majority of revenue earned from charges to external customers are reported separately.

20. Change in accounting policy

AC 133 requires that all unrealised gains or losses upon the fair valuation of shareholders' assets that are classified as 'held for sale' should be transferred directly to a non-distributable reserve. Previously, the group accounted for these gains and losses in the income statement, and subsequently being transferred to the life fund. This change had no effect on income attributable to shareholders.

This change has been applied retrospectively and the non-distributable reserves for 2001 and 2000 have been restated, as set out below:

	Rm
Non-distributable reserves at 30 June 2000 – as previously disclosed	66,9
Cumulative unrealised investment deficits on shareholders' assets until 30 June 2000	(101,4)
Restated balance at 30 June 2000	**(34,5)**
Non-distributable reserves at 30 June 2001 – as previously disclosed	74,9
Cumulative unrealised investment deficits on shareholders' assets until 30 June 2000	(101,4)
Unrealised investment gains on shareholders' assets for 2001	122,5
Restated balance at 30 June 2001	**96,0**

The effect on non-distributable reserves for the year ended 30 June 2002 was an increase of R57,5 million in the revaluation of shareholders' investment assets.

Balance sheet

as at 30 June

R million	Notes	Group 2002	Group 2001
ASSETS			
Funds on deposit		**13 402,5**	6 211,8
Government and public authority stocks		**9 867,6**	8 738,6
Debentures and other loans		**9 675,5**	8 978,3
Policy loans		**579,8**	516,8
Equity investments	2	**40 212,6**	43 466,8
Investments in associated companies	3	**566,4**	481,6
Derivative assets	4	**6 202,8**	3 472,9
Investment properties	5	**2 904,4**	3 038,9
Investment assets		**83 411,6**	74 905,7
Current assets	6	**7 462,3**	4 924,0
Deferred taxation	7	**10,6**	7,5
Intangible assets	8	**747,8**	482,2
Property and equipment	9	**636,2**	588,4
Total assets		**92 268,5**	80 907,8
LIABILITIES AND SHAREHOLDERS' FUNDS			
Liabilities			
Current liabilities	10	**6 034,7**	3 401,2
Provisions	11	**94,5**	91,4
Taxation		**77,5**	344,8
Derivative liabilities	12	**5 690,2**	3 699,7
Deferred taxation	7	**356,8**	1,9
Retirement benefit liabilities	13	**313,1**	297,4
Long-term liabilities	14	**1 990,1**	1 104,5
Life insurance fund	15	**73 398,5**	68 035,9
Total liabilities		**87 955,4**	76 976,8
Outside shareholders' interest		**603,2**	374,0
Shareholders' funds			
Share capital and share premium	16	**1 041,2**	1 041,2
Reserves	17	**2 668,7**	2 515,8
Total shareholders' funds		**3 709,9**	3 557,0
Total liabilities and shareholders' funds		**92 268,5**	80 907,8

Income statement

for the year ended 30 June

R million	Notes	Group 2002	Group 2001
Group operating profit after tax		**648,0**	715,1
Premium income	22	**19 245,1**	17 636,0
Investment income attributable to life fund	23	**5 842,2**	4 762,7
Policyholder benefits	24	**(17 393,0)**	(14 358,7)
Marketing and administration expenses	19, 20	**(2 530,1)**	(1 969,8)
Impairment of goodwill	8	**(210,1)**	–
Commissions	19	**(934,3)**	(718,6)
Direct taxation	25	**(603,8)**	(322,2)
Indirect taxation	25	**(130,9)**	(121,8)
Realised and unrealised investment surpluses	19	**2 833,6**	4 963,7
Earnings attributable to outside shareholders	19	**(108,1)**	(68,8)
Transfer to life fund	15	**(5 362,6)**	(9 087,4)
Investment income on the shareholders' portfolio		**176,6**	116,0
Interest, dividends and net rentals	23	**195,6**	143,8
Direct taxation on investment income	25	**(19,0)**	(27,8)
Earnings attributable to shareholders	19, 21	**824,6**	831,1
Headline earnings			
Insurance operations		**489,0**	427,3
Individual business		**381,8**	308,2
Employee benefits		**107,2**	119,1
Asset management operations		**228,5**	229,9
Health insurance operations		**130,9**	114,3
Group operating profit after taxation		**848,4**	771,5
Investment income on the shareholders' portfolio		**189,9**	171,4
Headline earnings	19, 21	**1 038,3**	942,9

Cash flow statement

for the year ended 30 June

R million	Notes	Group 2002	Group 2001
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated by operations	31	**8 412,5**	8 178,4
Working capital changes	32	**88,1**	14,7
		8 500,6	8 193,1
Taxation paid	33	**(669,2)**	(314,1)
Dividends paid	34	**(758,0)**	(661,5)
Net cash inflow from operating activities		**7 073,4**	7 217,5
CASH FLOWS FROM INVESTMENT ACTIVITIES			
Investment activities			
Government and public authority stocks		**(1 565,4)**	(3 372,0)
Debentures and other loans		**(1 420,2)**	(2 328,4)
Policy loans		**(63,0)**	(51,9)
Equity investments		**3 794,8**	(3 028,8)
Derivative instruments		**(813,1)**	(122,9)
Property investments		**130,0**	148,3
Investment in associated company		**(30,5)**	(100,6)
Proceeds on disposal of subsidiary		**55,5**	–
Net purchase of property and equipment		**(229,3)**	(170,6)
Net purchase of intangible assets		**(28,0)**	(17,5)
Net cash outflow from investment activities		**(169,2)**	(9 044,4)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from increase in long-term liabilities		**286,5**	58,5
Net cash inflow from financing activities		**286,5**	58,5
Net increase/(decrease) in cash and cash equivalents		**7 190,7**	(1 768,4)
Cash and cash equivalents at beginning of the year		**6 211,8**	7 908,0
Cash and cash equivalents acquired		**–**	72,2
Cash and cash equivalents at end of the year		**13 402,5**	6 211,8

Statement of changes in equity

for the year ended 30 June

R million	Share capital (Note 16)	Share premium (Note 16)	Retained earnings (Note 17)	Non-distributable reserves (Note 17)	Total share-holders' funds
Balance at 1 July 2000					
As previously stated	9,5	1 031,7	2 250,2	66,9	3 358,3
Restatement of investment reserve	–	–	–	(101,4)	(101,4)
Restated balance at 1 July 2000	9,5	1 031,7	2 250,2	(34,5)	3 256,9
Currency translation differences	–	–	–	6,7	6,7
Revaluation of investment assets	–	–	–	123,7	123,7
Movement in other reserves	–	–	–	0,1	0,1
Earnings attributable to shareholders	–	–	831,1	–	831,1
Dividends	–	–	(661,5)	–	(661,5)
Balance at 30 June 2001	9,5	1 031,7	2 419,8	96,0	3 557,0
Balance at 1 July 2001	**9,5**	**1 031,7**	**2 419,8**	**96,0**	**3 557,0**
Currency translation differences	**–**	**–**	**–**	**26,1**	**26,1**
Revaluation of investment assets	**–**	**–**	**–**	**60,2**	**60,2**
Earnings attributable to shareholders	**–**	**–**	**824,6**	**–**	**824,6**
Dividends	**–**	**–**	**(758,0)**	**–**	**(758,0)**
Transfer to/(from) reserves	**–**	**–**	**(2,2)**	**2,2**	**–**
Balance at 30 June 2002	**9,5**	**1 031,7**	**2 484,2**	**184,5**	**3 709,9**

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

1. ACCOUNTING POLICIES
The accounting policies of the group are set out on pages 149 to 153.

R million	Group 2002	Group 2001
2. EQUITY INVESTMENTS		
Listed – at market value	**36 311,5**	41 536,8
Unlisted – at directors' valuation	**3 901,1**	1 930,0
	40 212,6	43 466,8
The ten largest equity holdings of the group comprise the following (in alphabetical order): Anglo American Platinum, Anglo American plc, Billiton plc, Imperial Holdings, Remgro, Richemont Securities, RMB Holdings, Sappi, Sasol, Standard Bank		
Investments in listed shares were distributed as follows:	**%**	**%**
Mining	**16**	7
Gold	**2**	1
Financial – Mining houses	**1**	1
Financial – Other	**18**	19
Industrial	**16**	19
Overseas instruments	**24**	28
Unit trusts	**19**	20
Other	**4**	5
	100	100
3. INVESTMENTS IN ASSOCIATED COMPANIES		
African Life Assurance Company Limited	**550,9**	468,3
Healthbridge (Pty) Limited	**4,1**	13,3
Futuregrowth Asset Management (Pty) Limited	**11,4**	–
	566,4	481,6

African Life Assurance Company Limited (African Life) is a listed long-term insurance company. Momentum Group Limited holds directly 33,4% (2001: 31,7%) of the issued share capital of African Life shareholders' portfolio. The market value of this investment as at 30 June 2002 was R556,7 million (2001: R525,1 million). The earnings attributable to ordinary shareholders for the year ended 31 March 2002 were R230,7 million (2001: R31,9 million), which includes capital appreciation on shareholder assets. Momentum Group Limited's portion of the earnings, excluding capital appreciation, is equity accounted.

Healthbridge (Pty) Limited is a provider of electronic commerce communication infrastructure and was established to enhance communication and billing between medical schemes and healthcare providers. Discovery Holdings Limited holds 30% (2001: 30%) of the issued share capital of Healthbridge (Pty) Limited. The loss attributable to ordinary shareholders for the year ended 30 June 2002 amounted to R16,9 million (2001: R nil). Healthbridge (Pty) Limited has a financial year-end at 30 September, and is equity accounted by Discovery Holdings. The directors' valuation of Healthbridge (Pty) Limited is R4,1 million (2001: R13,3 million).

Futuregrowth Asset Management (Pty) Limited provides investment and asset management services to local and international clients. FirstRand Asset Management (Pty) Limited holds 40% (2001: 100%) of the issued share capital of Futuregrowth Asset Management (Pty) Limited indirectly through its 100% shareholding in Futuregrowth (Pty) Limited. The earnings attributable to ordinary shareholders for the year ended 30 June 2002 amounted to R14,6 million (2001: R10,4 million). Futuregrowth Asset Management (Pty) Limited was consolidated until 31 December 2001, but was accounted for using the equity method of accounting since 1 January 2002, the effective date of the sale of 60% of Futuregrowth (Pty) Limited's stake in Futuregrowth Asset Management (Pty) Limited. The proceeds on this sale was R30 million. The directors' valuation of Futuregrowth Asset Management (Pty) Limited is R46 million (2001: R109 million).

3. INVESTMENTS IN ASSOCIATED COMPANIES (continued)

The assets and liabilities of Momentum Group's investment in associated companies are summarised below:

R million	African Life	Healthbridge	Futuregrowth Asset Management
2002			
Assets			
Investments	**10 408,8**	**–**	**34,0**
Current assets	**747,0**	**7,2**	**3,7**
Intangible assets	**62,4**	**–**	**–**
Property and equipment	**118,4**	**4,6**	**1,7**
	11 336,6	**11,8**	**39,4**
Liabilities			
Current liabilities	**387,6**	**5,9**	**10,1**
Deferred taxation	**193,7**	**–**	**–**
Long-term liabilities	**–**	**62,2**	**–**
Life insurance fund	**8 753,2**	**–**	**–**
Outside shareholders' interest	**351,6**	**–**	**–**
	9 686,1	**68,1**	**10,1**
2001			
Assets			
Investments	7 454,1	–	6,5
Current assets	661,0	1,9	16,5
Intangible assets	46,1	–	–
Property and equipment	41,6	5,8	1,4
	8 202,8	7,7	24,4
Liabilities			
Current liabilities	342,0	3,2	9,2
Deferred taxation	105,7	–	–
Long-term liabilities	63,9	38,9	–
Life insurance fund	5 912,9	–	–
Outside shareholders' interest	305,9	–	–
	6 730,4	42,1	9,2

	Group 2002	Group 2001
4. DERIVATIVE ASSETS		
Interest-bearing instruments	**1 073,2**	76,7
Equity instruments	**5 129,6**	3 396,2
	6 202,8	3 472,9

R million	Group 2002	Group 2001
5. INVESTMENT PROPERTIES		
Completed investment properties		
Market value at beginning of the year	**3 038,9**	3 108,1
Additions		
Acquisitions	**159,1**	0,5
Capitalised subsequent expenditure	**14,2**	39,1
Disposals	**(305,7)**	(187,9)
Net (loss)/gain from fair value adjustments	**(2,1)**	79,1
Market value at the end of the year	**2 904,4**	3 038,9
Investment properties can be split as follows:		
Office buildings	**1 783,4**	1 890,2
Shopping malls	**839,2**	819,9
Industrial buildings	**208,4**	208,7
Vacant land	**32,4**	52,5
Listed property equities	**41,0**	47,3
Other	**–**	20,3
	2 904,4	3 038,9
Schedules of freehold property and equity investments are open for inspection at the offices of the various group companies in terms of the provisions of the Companies Act, 1973.		
6. CURRENT ASSETS		
Accrued investment income	**3 857,7**	2 310,4
Unsettled trades	**1 829,0**	1 625,8
Premium debtors	**154,1**	96,3
Properties held for resale	**300,1**	60,7
RMB-SI Investments (Pty) Limited	**207,0**	–
FirstRand Bank	**140,6**	–
Deferred expenditure	**144,9**	51,9
Discovery Health Medical Scheme	**34,0**	67,4
Other debtors	**794,9**	711,5
	7 462,3	4 924,0
7. DEFERRED TAXATION		
Balance at the beginning of the year	**5,6**	(63,9)
Charge for the year	**(351,8)**	69,5
Relating to current year	**(358,4)**	69,5
Relating to prior years	**6,6**	–
Balance at the end of the year	**(346,2)**	5,6
Deferred taxation asset	**10,6**	7,5
Deferred taxation liability	**(356,8)**	(1,9)
	(346,2)	5,6

R million	Opening balance	Charge for the year	Closing balance
7. DEFERRED TAXATION (continued)			
Deferred taxation comprises:			
Capital gains tax on unrealised investment surpluses	**–**	**(246,5)**	**(246,5)**
Reinsurance excess of loss premiums	**–**	**(25,2)**	**(25,2)**
Property and equipment	**(1,4)**	**(11,1)**	**(12,5)**
Provisions	**3,9**	**3,8**	**7,7**
Taxation losses	**0,9**	**1,2**	**2,1**
Other	**2,2**	**(74,0)**	**(71,8)**
	5,6	**(351,8)**	**(346,2)**

	Group 2002	Group 2001
8. INTANGIBLE ASSETS		
Goodwill	**717,3**	468,3
Software development and prepaid contracts	**30,5**	13,9
	747,8	482,2
Goodwill		
Gross amount	**1 034,9**	521,8
Less: Accumulated amortisation	**(317,6)**	(53,5)
Carrying amount at the end of the year	**717,3**	468,3
Gross amount at beginning of the year	**521,8**	44,7
Acquisitions	**550,0**	477,2
Goodwill realised with sale of shares	**(36,5)**	–
Goodwill realised due to dilution of shareholding	**(0,4)**	(0,1)
Gross amount at the end of the year	**1 034,9**	521,8
Accumulated amortisation at beginning of the year	**53,5**	19,6
Amortisation charge	**54,0**	33,9
Impairment of goodwill	**210,1**	–
Accumulated amortisation at the end of the year	**317,6**	53,5
Software development and prepaid contracts		
Cost	**86,4**	58,4
Less: Accumulated depreciation	**(55,9)**	(44,5)
Carrying amount at the end of the year	**30,5**	13,9
Cost at beginning of the year	**58,4**	40,9
Capitalised expenditure	**28,0**	17,5
Cost at the end of the year	**86,4**	58,4
Accumulated amortisation at beginning of the year	**44,5**	15,1
Amortisation for the year	**11,4**	16,6
Impairment losses	**–**	12,8
Accumulated amortisation at the end of the year	**55,9**	44,5

With effect from 1 July 2001, an additional 32% was acquired in Jersey General Group (JGG) for an amount of R363 million, bringing the total investment in JGG to 87%. JGG contributed assets under management of R11,1 billion at 30 June 2002. The decline in international investment markets has resulted in the group reassessing the carrying value of the goodwill arising upon the acquisition of JGG. It was decided to charge an impairment of R210,1 million, in addition to the normal goodwill amortisation, against attributable earnings during the current year. This brings the carrying value of our investment in JGG in line with the current valuations of similar operations in the UK fund management market.

Notes to the annual financial statements *continued*

for the year ended 30 June

R million	Cost 2002	Accumulated depreciation 2002	Net book value 2002	Cost 2001	Accumulated depreciation 2001	Net book value 2001
9. PROPERTY AND EQUIPMENT						
Leased assets						
Land and buildings	**318,9**	**(14,6)**	**304,3**	318,9	(7,2)	311,7
Own assets						
Land and buildings	**8,4**	**(2,1)**	**6,3**	2,9	(0,3)	2,6
Computer equipment	**542,5**	**(369,5)**	**173,0**	420,6	(281,6)	139,0
Office equipment	**72,0**	**(45,0)**	**27,0**	73,4	(36,7)	36,7
Furniture and fittings	**241,6**	**(117,3)**	**124,3**	174,3	(77,8)	96,5
Motor vehicles	**5,9**	**(4,6)**	**1,3**	5,4	(3,5)	1,9
	870,4	**(538,5)**	**331,9**	676,6	(399,9)	276,7
Total assets	**1 189,3**	**(553,1)**	**636,2**	995,5	(407,1)	588,4

	Total	Land and buildings	Computer equipment	Office equipment	Furniture and fittings	Motor vehicles
Movement in property and equipment – Cost						
Cost at beginning of the year	995,5	321,8	420,6	73,4	174,3	5,4
Foreign currency adjustments	13,3	–	7,6	2,7	3,0	–
Subsidiary balances disposed of	(2,7)	–	(1,9)	(0,6)	(0,2)	–
Additions	217,9	5,7	126,6	8,0	76,8	0,8
Disposals	(34,7)	(0,2)	(10,4)	(11,5)	(12,3)	(0,3)
Cost at the end of the year	1 189,3	327,3	542,5	72,0	241,6	5,9
Movement in property and equipment – Accumulated depreciation						
Accumulated depreciation at the beginning of the year	407,1	7,5	281,6	36,7	77,8	3,5
Foreign currency adjustments	8,2	–	4,8	2,0	1,4	–
Subsidiary balances disposed of	(2,1)	–	(1,4)	(0,5)	(0,2)	–
Depreciation charge for the year	159,5	9,2	94,4	14,1	40,5	1,3
Disposals	(19,6)	–	(9,9)	(7,3)	(2,2)	(0,2)
Accumulated depreciation at the end of the year	553,1	16,7	369,5	45,0	117,3	4,6

	Group 2002	Group 2001
10. CURRENT LIABILITIES		
Unsettled trades	**3 626,1**	1 616,7
Accrued benefit payments	**933,8**	889,4
Creditors	**1 474,8**	895,1
	6 034,7	3 401,2

R million	Balance at beginning of year	Additional provision	Utilisation of provision	Unutilised amounts reversed	Balance at end of year
11. PROVISIONS					
2002					
Provision for leave pay	**13,6**	**9,5**	**(0,1)**	**–**	**23,0**
Provision for contract leases	**5,7**	**–**	**(5,7)**	**–**	**–**
Provision for bonuses	**21,3**	**3,8**	**(6,8)**	**–**	**18,3**
Provision for auditors' remuneration	**3,4**	**6,2**	**(4,8)**	**–**	**4,8**
Provision for credit exposure	**15,3**	**–**	**–**	**–**	**15,3**
Other	**32,1**	**20,2**	**(12,7)**	**(6,5)**	**33,1**
	91,4	**39,7**	**(30,1)**	**(6,5)**	**94,5**
2001					
Provision for leave pay	13,3	4,0	(2,4)	(1,3)	13,6
Provision for contract leases	–	5,7	–	–	5,7
Provision for bonuses	23,2	21,3	(22,8)	(0,4)	21,3
Provision for auditors' remuneration	3,4	3,4	(2,9)	(0,5)	3,4
Provision for credit exposure	–	15,3	–	–	15,3
Other	50,0	9,1	(22,2)	(4,8)	32,1
	89,9	58,8	(50,3)	(7,0)	91,4

	Group 2002	Group 2001
12. DERIVATIVE LIABILITIES		
Interest-bearing instruments	**2 298,5**	2 015,8
Equity instruments	**3 391,7**	1 683,9
	5 690,2	3 699,7
13. RETIREMENT BENEFIT LIABILITIES		
Post-retirement medical aid liability	**313,1**	297,4

In certain instances, the group provides for medical aid contributions beyond the date of normal retirement. The present value of expected future medical aid contributions relating to existing pensioners has been determined and the liability provided for. The present value of expected future medical aid contributions relating to current employees is charged against expenditure over the service period of such employees.

The post-retirement medical aid liability is valued once a year, and the latest valuation was done as at 30 June 2002. According to the actuaries, the plan is in a sound financial position.

	Group 2002	Group 2001
Present value of unfunded liability at beginning of the year	**297,4**	193,8
Current service cost	**1,7**	1,4
Interest cost	**25,6**	24,7
Consolidation of cell captive	**–**	91,8
Benefits paid	**(11,6)**	(14,3)
Present value of unfunded liability at end of the year	**313,1**	297,4
The principal actuarial assumptions were:		
Discount rate (%)	**11,75**	11,75
Long-term increase in health costs (%)	**10,00**	10,00
Portion of employees that selected early retirement (%)	**–**	–

13. RETIREMENT BENEFIT LIABILITIES (continued)

Staff pension funds

All full-time employees in the Momentum Group are members of either defined benefit pension funds or defined contribution schemes that are governed by the Pension Funds Act. Both the Momentum Life Pension Fund and Southern Staff Pension Fund are final salary defined benefit plans and are valued by independent actuaries every three years. The latest actuarial valuations of the Momentum Life Pension Fund and Southern Staff Pension Fund were as at 1 July 1999 and 1 April 2002 respectively, and both funds were found to be in a sound financial position. The valuation of the Momentum Life Pension Fund as at 1 July 2002 is partly completed. The recommended employer contribution rate to the Momentum Life Pension Fund is 10% of pensionable salaries in order to meet the ongoing accrual of benefits. From 1 April 2000, all full-time employees who were members of the Southern Staff Pension Fund joined the FirstRand Insurance Group Pension Fund, a defined contribution scheme.

Contributions to the pension funds are charged against expenditure when incurred. Any deficits advised by the actuaries are funded either immediately or through increased contributions to ensure the ongoing soundness of the funds.

The assets of these schemes are held in administered trust funds separated from the group's assets. For the Southern Staff Pension Fund assets consist primarily of inflation-linked securities, listed share and fixed income securities. For the Momentum Life Pension Fund, the scheme assets consist primarily of inflation-linked securities.

R million	Group 2002	Group 2001
Defined benefit pension fund liability		
Present value of funded liability	**(594,8)**	(683,8)
Fair value of plan assets	**679,7**	821,4
	84,9	137,6
Unrecognised actuarial losses/(gains)	**4,8**	(164,6)
Present value of net funded liability	**89,7**	(27,0)
(Surplus)/deficit not recognised [(1)]	**(89,7)**	27,0
Defined benefit pension fund liability recognised in the balance sheet	**–**	–
The amounts recognised in the income statement are as follows:		
Current service cost	**(0,2)**	(17,8)
Interest cost	**(76,3)**	(85,4)
Expected return on plan assets	**92,1**	88,0
Net actuarial profit/(loss) recognised in the year	**100,8**	(33,3)
Contributions paid	**0,3**	0,4
Movement for the year	**116,7**	(48,1)
Surplus not recognised	**(116,4)**	48,5
Total included in staff costs	**0,3**	0,4
Movement in liability		
Present value at beginning of the year	**(27,0)**	21,1
Movement for the year as above	**116,7**	(48,1)
Present value at end of the year	**89,7**	(27,0)
The principal actuarial assumptions were:		
Discount rate (%)	**11,75**	11,75
Expected return on plan assets (%)	**10,75**	10,75
Future salary increases (%)	**7,00**	7,00
Net interest rate used to value pensions, allowing for pension increases (%)	**4,00**	4,00
Portion of employees that selected early retirement (%)	**–**	–

(1) No asset in respect of the surplus was recognised on the balance sheet of Momentum Group, as the Registrar of Pension Funds still needs to approve the apportionment of the surplus in terms of the Pension Funds Second Amendment Act, 39 of 2001.

R million	Group 2002	Group 2001
14. LONG-TERM LIABILITIES		
Capitalised lease commitments	**303,8**	297,5
Debt component of compulsorily convertible debentures	**250,0**	273,1
Loan to fund subsidiary shares acquired	**761,4**	351,3
Property finance loans	**627,3**	156,3
Other long-term loans	**47,6**	26,3
	1 990,1	1 104,5

The debentures are convertible into 3% non-redeemable, non-cumulative preference shares of the company at the option of the debenture holders at any time after 30 June 2008. Any debentures not converted by 30 June 2021 will be compulsorily converted on that date. The debentures bear interest, payable six-monthly in arrears, at an effective rate of 18,3% per annum.

The capitalised lease commitments are secured by assets with a net book value of R304,3 million (2001: R311,7 million) as disclosed in note 9 to these financial statements. The lease commitments are repayable in monthly instalments at an effective interest rate of 13,2% per annum.

Total of minimum lease payments (R million)	
Payable within:	
One year	36,9
Between one and five years	193,3
Later than five years	374,0
	604,2

Present value of minimum lease payments (R million)	
Payable within:	
One year	34,8
Between one and five years	129,7
Later than five years	139,3
	303,8

The total short-term portion of long-term liabilities amounted to R178,5 million (2001: R186,7 million).

	Group 2002	Group 2001
15. LIFE INSURANCE FUND		
The movements in the life insurance fund for the year are as follows:		
Balance at beginning of the year	**68 035,9**	58 948,5
Transfer from income statement	**5 362,6**	9 087,4
Balance at end of year	**73 398,5**	68 035,9
Actuarial liabilities under unmatured policies comprise the following:	**%**	**%**
Linked (market-related) business		
Individual life	**44,6**	39,7
Employee benefits	**15,0**	16,7
Smoothed-bonus business		
Individual life	**13,3**	14,0
Employee benefits	**4,5**	5,2
With-profits reversionary bonus business	**3,1**	3,3
Non-profit business		
Individual life	**4,5**	6,4
Employee benefits	**3,4**	2,3
Annuity business	**11,0**	11,6
Health operations	**0,6**	0,8
	100,0	100,0

The above percentages are based on the actuarial valuations of Momentum Group Limited and Discovery Life Limited at 30 June 2002.

Notes to the annual financial statements *continued*

for the year ended 30 June

R million	Group 2002	Group 2001
16. SHARE CAPITAL AND SHARE PREMIUM		
The company's authorised and issued share capital and share premium are made up as follows:		
Share capital		
Authorised		
225 000 000 ordinary shares of 5 cents each	**11,3**	11,3
1 special class "A" share of 5 cents	**–**	–
Issued		
189 695 508 ordinary shares of 5 cents each	**9,5**	9,5
1 special class "A" share of 5 cents	**–**	–
The unissued shares are under the control of the directors until the next annual general meeting.		
Share premium	**1 031,7**	1 031,7
Share capital and share premium	**1 041,2**	1 041,2
17. RESERVES		
Retained earnings		
Retained earnings at beginning of the year	**2 419,8**	2 250,2
Earnings attributable to ordinary shareholders	**824,6**	831,1
Dividend for the year	**(758,0)**	(661,5)
Transfer to non-distributable reserves	**(2,2)**	–
Retained earnings at end of the year	**2 484,2**	2 419,8
Non-distributable reserves		
Revaluation of investment assets	**90,7**	27,9
Currency translation reserve	**41,5**	15,7
Reserve on capitalisation of Discovery Holdings	**50,8**	50,8
Other	**1,5**	1,6
Total non-distributable reserves	**184,5**	96,0
Total reserves	**2 668,7**	2 515,8
Movement for the year in non-distributable reserves		
Balance at the beginning of the year	**96,0**	(34,5)
Transfer from retained earnings	**2,2**	–
Unrealised surplus on revaluation of investment assets	**60,2**	123,7
Currency translation reserve	**26,1**	6,7
Other	**–**	0,1
Balance at the end of the year	**184,5**	96,0

18. TURNOVER

Turnover is a concept not relevant to the business of insurance. Fee income generated by the asset management operations, as well as non-insurance fee income, are included in investment income.

R million	Momentum Life and Employee Benefits	Discovery Holdings	FirstRand Asset Management	Total
19. SEGMENTAL ANALYSIS				
2002				
Premium income	**15 956,0**	**3 289,1**	**–**	**19 245,1**
Benefits paid	**(15 623,4)**	**(1 769,6)**	**–**	**(17 393,0)**
Investment income	**5 217,2**	**83,5**	**737,1**	**6 037,8**
Realised and unrealised profits and losses	**2 846,5**	**44,7**	**(57,6)**	**2 833,6**
Marketing and administration expenses	**(908,3)**	**(1 280,2)**	**(341,6)**	**(2 530,1)**
Impairment of goodwill	**–**	**–**	**(210,1)**	**(210,1)**
Commission	**(597,1)**	**(272,6)**	**(64,6)**	**(934,3)**
Income before taxation	**6 890,9**	**94,9**	**63,2**	**7 049,0**
Taxation	**(537,8)**	**(151,4)**	**(64,5)**	**(753,7)**
Net income/(loss) after taxation before transfer to the life fund	**6 353,1**	**(56,5)**	**(1,3)**	**6 295,3**
Transfer (to)/from the life fund	**(5 670,1)**	**307,5**	**–**	**(5 362,6)**
Net income/(loss) after taxation	**683,0**	**251,0**	**(1,3)**	**932,7**
Outside shareholders' interest	**(2,6)**	**(92,0)**	**(13,5)**	**(108,1)**
Earnings attributable to ordinary shareholders	**680,4**	**159,0**	**(14,8)**	**824,6**
Goodwill amortised	**(3,6)**	**–**	**57,6**	**54,0**
Goodwill impaired	**–**	**–**	**210,1**	**210,1**
Loss on sale of assets	**4,0**	**–**	**–**	**4,0**
Profit on sale of subsidiary shares	**(1,9)**	**–**	**(24,4)**	**(26,3)**
Abnormal profit on release of reserves	**–**	**(28,1)**	**–**	**(28,1)**
Headline earnings	**678,9**	**130,9**	**228,5**	**1 038,3**
Liabilities	**86 210,4**	**1 046,3**	**1 301,9**	**88 558,6**
Assets	**88 524,5**	**2 093,3**	**1 650,7**	**92 268,5**
2001				
Premium income	15 083,8	2 552,2	–	17 636,0
Benefits paid	(12 884,8)	(1 473,9)	–	(14 358,7)
Investment income	4 142,3	73,6	690,6	4 906,5
Realised and unrealised profits and losses	4 913,7	50,7	(0,7)	4 963,7
Marketing and administration expenses	(773,0)	(864,1)	(332,7)	(1 969,8)
Commission	(583,1)	(86,7)	(48,8)	(718,6)
Income before taxation	9 898,9	251,8	308,4	10 459,1
Taxation	(248,9)	(145,9)	(77,0)	(471,8)
Net income after taxation before transfer to the life fund	9 650,0	105,9	231,4	9 987,3
Transfer (to)/from the life fund	(9 111,9)	24,5	–	(9 087,4)
Net income after taxation	538,1	130,4	231,4	899,9
Outside shareholders' interest	6,5	(46,7)	(28,6)	(68,8)
Earnings attributable to ordinary shareholders	544,6	83,7	202,8	831,1
Exceptional items relating to African Life	47,3	–	–	47,3
Goodwill amortised	6,8	–	27,1	33,9
Effect of transitional taxation on prior years	–	30,6	–	30,6
Headline earnings	598,7	114,3	229,9	942,9
Liabilities	75 325,4	1 290,9	734,5	77 350,8
Assets	77 759,1	2 042,7	1 106,0	80 907,8

R million	Group 2002	Group 2001
20. MARKETING AND ADMINISTRATION EXPENSES		
Marketing and administration expenses include:		
Auditors' remuneration		
Audit fees – current year	7,3	5,8
– under/(overprovision) prior year	1,2	(0,5)
Fees for other services	2,2	0,4
	10,7	5,7
Professional fees		
Actuarial	4,3	1,4
Technical and other	71,6	71,5
	75,9	72,9
Depreciation		
Leased assets		
Land and buildings	7,4	6,5
Own assets		
Land and buildings	1,8	0,1
Computer equipment	94,4	85,4
Office equipment	14,1	11,5
Furniture and fittings	40,5	18,2
Motor vehicles	1,3	1,0
	159,5	122,7
Operating lease charges		
Land and buildings	64,9	59,8
Computer and office equipment	44,9	26,5
Motor vehicles	0,3	0,3
	110,1	86,6
Staff costs		
Salaries, wages and allowances	868,2	632,1
Contribution to pension and other staff funds	76,5	68,5
Social security levies	1,7	3,2
Other	26,1	36,4
	972,5	740,2
21. EARNINGS ATTRIBUTABLE TO SHAREHOLDERS		
Attributable earnings basis		
Earnings attributable to ordinary shareholders amounted to R824,6 million (2001: R831,1 million).		
Headline earnings basis		
The calculation of the headline earnings is based on earnings attributable to ordinary shareholders adjusted by items of a non-trading nature during the year.		
Headline earnings reconciliation		
Attributable earnings	824,6	831,1
Add: Goodwill amortised	54,0	33,9
Add: Goodwill impaired	210,1	–
Add: Loss on sale of assets	4,0	–
Add: Exceptional items relating to African Life	–	47,3
Add: Effect of transitional taxation on prior years	–	30,6
Less: Abnormal profit on release of reserves	(28,1)	–
Less: Profit on disposal of subsidiary shares	(26,3)	–
Headline earnings	1 038,3	942,9
Less: Foreign currency translation gain	–	(31,7)
Core operational headline earnings	1 038,3	911,2

R million	Group 2002	Group 2001
22. PREMIUM INCOME		
Individual life	**7 404,8**	8 572,7
Single premiums	**1 857,7**	2 420,5
Recurring premiums	**3 197,5**	3 012,6
Unit-linked annuities	**1 186,1**	1 616,3
Annuities	**1 163,5**	1 523,3
Corporate business		
Investment funds	**1 255,2**	1 021,4
Total premiums received in respect of individual life business	**8 660,0**	9 594,1
Health business	**3 132,1**	2 530,5
Gross premium income	**7 544,9**	5 454,5
Less: Reinsurance premiums and medical scheme contributions	**(4 412,8)**	(2 924,0)
Employee benefits	**7 453,0**	5 511,4
Single premiums and investment lump sums	**2 926,9**	2 727,2
Transfers from off-balance sheet funds	**3 144,2**	1 519,7
Recurring premiums	**1 381,9**	1 264,5
Total premium income	**19 245,1**	17 636,0
Funds retained through the extension of the policy term amounted to R456,5 million (2001: R446,4 million). These funds are not included in the individual life single premium income figures above.		
23. INVESTMENT INCOME		
Investment income earned in respect of:		
Dividends – listed shares	**665,3**	678,9
Dividends – unlisted shares	**708,0**	47,3
Net rental income from properties	**91,8**	169,7
Interest-bearing investments	**3 341,6**	3 109,1
Fees, investment charges and other income	**1 179,9**	947,7
Income from associates	**51,2**	(46,2)
	6 037,8	4 906,5
Disclosed as follows:	**6 037,8**	4 906,5
Investment income attributable to life fund	**5 842,2**	4 762,7
Investment income on the shareholders' portfolio	**195,6**	143,8

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

R million	Group 2002	Group 2001
24. POLICYHOLDER BENEFITS		
Individual life business		
Benefits in respect of individual life policies	**4 176,6**	3 664,4
Death	**561,8**	464,8
Disability	**98,7**	95,7
Maturities	**1 840,8**	1 494,8
Surrenders	**1 675,3**	1 609,1
Benefits in respect of unit-linked annuities	**1 027,2**	742,2
Lump sum annuities	**1 384,2**	1 372,9
Annuities paid	**1 352,2**	1 320,7
Commutations	**32,0**	52,2
Corporate business	**669,4**	273,0
Surrenders	**38,2**	25,9
Annuities paid	**343,9**	28,8
Maturities	**287,3**	218,3
Total benefits paid in respect of individual life business	**7 257,4**	6 052,5
Health business		
Gross claims	**1 875,9**	1 652,8
Less: Claims recoveries	**(204,7)**	(204,8)
	1 671,2	1 448,0
Withdrawal benefits	**51,0**	24,6
Total benefits paid in respect of health business	**1 722,2**	1 472,6
Employee benefits business		
Benefits in respect of risk business	**2 946,6**	2 022,6
Death	**493,4**	438,0
Disability	**227,6**	203,1
Maturities	**195,2**	105,8
Member withdrawals	**198,4**	163,6
Scheme terminations and investment withdrawals	**1 679,7**	1 040,4
Annuities	**152,3**	71,7
Investment funds	**5 466,8**	4 811,0
Withdrawals	**1 340,5**	2 684,9
Transfers to off-balance sheet funds	**4 126,3**	2 126,1
Total benefits paid in respect of employee benefits business	**8 413,4**	6 833,6
Total benefits paid	**17 393,0**	14 358,7

R million	Group 2002	Group 2001
25. TAXATION		
Direct taxation attributable to life, health insurance and asset management operations	**603,8**	322,2
Indirect taxation attributable to life, health insurance and asset management operations	**130,9**	121,8
Direct taxation attributable to investment income on the shareholders' portfolio	**19,0**	27,8
	753,7	471,8
Charge for the year		
SA normal taxation	**277,7**	246,7
Current taxation	**172,4**	316,2
Current year	**308,3**	405,4
Adjustment for prior years	**(135,9)**	(89,2)
Deferred taxation	**105,3**	(69,5)
Current year	**112,3**	(69,5)
Adjustment for prior years	**(7,0)**	–
SA capital gains taxation	**247,4**	–
Current taxation	**0,9**	–
Deferred taxation	**246,5**	–
Retirement fund taxation	**97,7**	103,3
Stamp duty	**22,3**	22,9
Value-added tax	**92,3**	86,0
Other taxes and levies	**16,3**	12,9
	753,7	471,8

Current taxation is determined by applying the four-fund method of taxation applicable to life insurers.

Other taxes and levies consist of skills development levies, Greater Metropolitan Transitional Council and Financial Services Board levies.

26. FINANCIAL INSTRUMENTS

Fair values

The carrying amounts of all assets backing policyholder liabilities reflect the fair values of the asset concerned. Similarly, the actuarial valuation of policyholder liabilities represents the fair value of the contractual liability under unmatured policies.

Assets making up the shareholders' free reserves have been reflected at fair values in determining the surplus attributable to shareholders.

Derivative instruments

The group makes use of derivative instruments in order to achieve the following:
- exposure to a desired asset spread where liquidity constraints limit the purchase of sufficient physical assets; and
- in order to provide a hedge against a known liability.

Under no circumstances are derivative contracts entered into purely for speculative purposes.

The group's asset managers have been mandated to enter into derivative contracts on an agency basis, with agreed upon internal controls being instituted to ensure that exposure limits are adhered to. These controls include the regular monitoring of sensitivity analyses designed to measure the behaviour and exposure to derivative instruments under conditions of market stress.

Risk management and capital adequacy

The risk and assurance management function is responsible to ensure that material financial risks related to transactions in financial instruments are mitigated by adequate controls and compliance with group policies. The currency risk, interest rate risk, market risk, credit risk, liquidity risk, underwriting risk and operational risk that the Momentum Group are exposed to, are discussed in the chief financial officer's report set out on pages 136 to 143.

Currency risk

The following assets and liabilities, denominated in foreign currencies, where the currency risk resides with the Momentum Group, are included in the group balance sheet:

R million	Group 2002	Group 2001
Shareholders' assets		
Funds on deposit	**307,2**	252,0
Government and public authority stocks	**16,5**	–
Equity investments	**295,4**	261,9
Current assets	**148,2**	65,2
Goodwill	**669,0**	414,3
Property and equipment	**23,8**	18,4
	1 460,1	1 011,8
Shareholders' liabilities		
Current liabilities	**246,9**	156,6
Long-term liabilities	**911,2**	565,2
	1 158,1	721,8

R million	Total	Shorter than 1 year	Maturity date Between 1 and 5 years	Between 5 and 10 years	Longer than 10 years
26. FINANCIAL INSTRUMENTS (continued)					
Interest rate risk					
The following assets will be affected by changes in market interest rates:					
2002					
Policyholder assets					
Funds on deposit	**12 198,3**	**11 711,0**	**246,5**	**214,1**	**26,7**
Government and public authority stocks	**9 826,1**	**1 425,4**	**1 576,9**	**2 809,2**	**4 014,6**
Debentures and other loans	**8 931,8**	**2 442,0**	**4 929,1**	**1 202,8**	**357,9**
	30 956,2	**15 578,4**	**6 752,5**	**4 226,1**	**4 399,2**
Shareholder assets					
Funds on deposit	**1 204,2**	**1 204,2**	**–**	**–**	**–**
Government and public authority stocks	**41,5**	**16,4**	**5,9**	**15,3**	**3,9**
Debentures and other loans	**743,7**	**–**	**106,4**	**171,5**	**465,8**
	1 989,4	**1 220,6**	**112,3**	**186,8**	**469,7**
2001					
Policyholder assets					
Funds on deposit	4 850,0	4 477,1	325,4	47,5	–
Government and public authority stocks	8 716,4	1 784,7	1 259,8	3 084,8	2 587,1
Debentures and other loans	7 660,9	1 794,6	3 341,7	2 011,6	513,0
	21 227,3	8 056,4	4 926,9	5 143,9	3 100,1
Shareholder assets					
Funds on deposit	1 361,8	1 361,8	–	–	–
Government and public authority stocks	22,2	–	5,6	16,6	–
Debentures and other loans	1 317,4	1,0	190,3	405,0	721,1
	2 701,4	1 362,8	195,9	421,6	721,1

27. SCRIP LENDING ARRANGEMENTS

The group has mandated its asset managers to enter into scrip lending arrangements on its behalf. The market value of scrip out on loan is monitored on a daily basis. No significant exposure to credit risk, liquidity risk or cash flow risk has resulted from the scrip lending activities of the group.

Due to the fact that scrip out on loan is subject to a repurchase agreement, the loan agreement is recorded at the same value as the underlying scrip and no sale of scrip is recorded.

The value at which the loan is recorded corresponds with the group's accounting policy relating to the specific class of asset.

Fees earned from scrip lending and dividends received on scrip out on loan are accounted for under investment income.

R million	Group 2002	Group 2001
The following table represents details of the equities on loan at 30 June:		
Market value	**1 881**	1 677
Value of collateral	**1 803**	1 814
• cash	**610**	1 004
• bonds and money market	**592**	609
• equities	**601**	201
Collateral cover (%)	**96**	108

The market value of equities on loan as at 30 June 2002 includes an amount of R201 million in respect of a scrip lending arrangement between Discovery Life Limited and FirstRand Bank Limited, with no corresponding collateral. The collateral cover, excluding this transaction, is 107%.

28. RELATED PARTIES

Holding company

The holding company of Momentum Group Limited is FirstRand Limited, which in turn has two major shareholders being Remgro Limited and RMB Holdings Limited.

Property leases

Certain group companies have entered into property lease agreements with its property management subsidiary, RMB Properties. These leases are based on market-related terms and conditions.

Assets under management

FirstRand Asset Management, a subsidiary of Momentum Group Limited, has been mandated to manage assets on behalf of certain related parties of the group. The total assets under management on behalf of related parties amounted to R57 283,7 million at 30 June 2002 (2001: R62 006,2 million).

Distribution of products

Momentum Distribution Services (MDS), a division of Momentum Group Limited, distributes the products of Discovery Holdings Limited and Momentum Wealth (Pty) Limited in addition to those of Momentum Group Limited. Fees received from these related parties for the distribution of products for the year ended 30 June 2002 amounted to R51,5 million (2001: R81,4 million).

29. CONTINGENCIES AND COMMITMENTS

No material capital commitments existed at 30 June 2002 and no material legal claims had been instituted against the group at that date.

Commitments under derivative instruments

Option contracts, financial futures contracts and interest rate swap agreements have been entered into in the normal course of business in order to achieve the required hedging of policyholder liabilities. In terms of the group's accounting policies, these instruments are stated at fair value or, where not listed, at valuation. Both realised and unrealised profits and losses are included in the income statement and subsequently transferred to or from the life fund.

30. COMPARATIVE FIGURES

Comparative figures have been restated where applicable to afford a more meaningful comparison with the current year's figures.

Notes to the annual financial statements *continued*

for the year ended 30 June

R million	Group 2002	Group 2001
31. CASH GENERATED BY OPERATIONS		
Income after taxation	**932,6**	899,9
Outside shareholders' interest	**(108,0)**	(68,8)
Earnings attributable to ordinary shareholders	**824,6**	831,1
Adjustments for non-cash items and taxation:		
Unrealised changes in long-term investment values	**697,0**	(2 638,7)
Transfer to the life fund and other non-cash items	**6 137,2**	9 514,2
Taxation	**753,7**	471,8
Cash generated by operations	**8 412,5**	8 178,4
32. WORKING CAPITAL CHANGES		
Net increase in current assets	**(2 545,4)**	(1 050,0)
Net increase in current liabilities	**2 633,5**	1 064,7
Working capital changes	**88,1**	14,7
33. TAXATION PAID		
Balance at beginning of the year	**(344,8)**	(117,6)
Taxation charged for the year	**(401,9)**	(541,3)
Balance at end of the year	**77,5**	344,8
Taxation paid	**(669,2)**	(314,1)
34. DIVIDENDS PAID		
Final dividend declared on:		
– 17 October 2001 in respect of the year ended 30 June 2001	**(430,0)**	–
– 5 September 2000 in respect of the year ended 30 June 2000	**–**	(472,5)
Interim dividend declared on:		
– 20 February 2002 in respect of the period ended 31 December 2001	**(328,0)**	–
– 21 February 2001 in respect of the period ended 31 December 2000	**–**	(189,0)
Dividends paid	**(758,0)**	(661,5)

	Effective % holding		Investment by holding company Amounts owing by/(to) subsidiaries		Group carrying amount		Directors' valuation	
	2002 %	2001 %	2002 Rm	2001 Rm	2002 Rm	2001 Rm	2002 Rm	2001 Rm
35. ANALYSIS OF INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES								
Subsidiaries (directly held)								
Listed								
Discovery Holdings Limited	**63**	64	**4,1**	2,0	**661,6**	483,6	**1 777,0**	2 691,0
Unlisted								
Southern Life Special Investments (Pty) Limited	**100**	100	**(61,2)**	(85,8)	**778,7**	928,3	**778,7**	928,3
Momentum Property Investments (Pty) Limited	**100**	100	**991,3**	1 650,5	**350,6**	368,5	**350,6**	368,5
Momentum Life Assurers Limited	**100**	100	**(36,2)**	(36,2)	**36,2**	36,2	**36,2**	36,2
Momentum Wealth (Pty) Limited	**100**	100	**71,1**	79,5	**26,0**	6,4	**26,0**	96,0
Momentum Advisory Service (Pty) Limited	**73**	100	**0,3**	0,3	**2,3**	(7,0)	**40,0**	36,0
FirstRand Asset Management (Pty) Limited	**100**	100	**353,6**	343,8	**26,3**	49,0	**1 603,0**	1 845,0
			1 323,0	1 954,1	**1 881,7**	1 865,0	**4 611,5**	6 001,0
Associates								
Listed								
African Life Assurance Company Limited	**33**	32	**–**	–	**550,9**	468,3	**556,7**	525,1

All the subsidiaries and associate company included above are incorporated in the Republic of South Africa.

Report on the embedded value of Momentum Group Limited

This section of the annual report sets out the embedded value and the value of new insurance business of Momentum Group Limited (Momentum Group).

Definition of embedded value

An embedded value is an estimate of the economic value of the company, excluding any goodwill that may be attributed to the value of future new business.

The embedded value is defined as:

- the shareholders' net assets (as disclosed in the Report of the Chief Financial Officer on page 138 of this annual report); plus
- the value of in-force insurance business less the opportunity cost of holding capital adequacy requirements in respect of the in-force insurance business.

The value of the in-force insurance business is calculated as the present value of the projected stream of future after-tax profits of the insurance business in force at the calculation date. The opportunity cost of holding capital adequacy requirements reflects the fact that the expected long-term investment return on the assets backing the capital adequacy requirements is less than the return required by the shareholders, as reflected by the risk discount rate.

Embedded value results

Embedded value (Table 1)

R million	2002	2001
Shareholders' net assets	**6 164**	7 379
Value of in-force insurance business	**3 368**	3 157
Value of in-force insurance business	**3 611**	3 459
Opportunity cost of capital adequacy requirements	**(243)**	(302)
Embedded value	**9 532**	10 536

Note

The directors' valuations of Discovery Holdings, Momentum Advisory Service, FirstRand Asset Management and African Life form part of the shareholders' net assets as reflected above.

The surplus as at 30 June 2001 has been restated from R6 949 million to R7 379 million by reversing the provision of R430 million for dividends, in line with recent changes in accounting standards.

Value of new business

The value of new business is a measure of the value added to the company as a result of writing new business. The value of new business is calculated as the present value (at point of sale) of the projected stream of future after-tax profits of the new insurance business sold during the financial year, after allowing for initial expenses. The value of new business is also appropriately reduced by the opportunity cost of holding the necessary capital adequacy requirements for new business.

Value of new business (Table 2)

R million	2002	2001
Value of new business	**218**	300
Individual life	**169**	247
Employee benefits	**49**	53
Opportunity cost of capital adequacy requirements	**(12)**	(15)
Value of new business	**206**	285
Notional premiums	**1 327**	1 401
Margin (%)	**16**	20

Note

Notional premiums are defined as annualised recurring premiums plus 10% of single premiums.

Value of new business as a percentage of notional premiums (Table 3)

R million	Value of new business	Notional premiums	Margin %
Individual life	160	1 148	14
Employee benefits	46	179	26
Value of new business	206	1 327	16

Note

The value of new business shown is net of the opportunity cost of capital adequacy requirements.

Reconciliation of new business inflows

The following table shows a reconciliation between the new business inflows used in the calculation of the value of new business and that shown in the chief financial officer's report on page 139.

New business inflows (Table 4)

R million	Annualised recurring premiums	Lump sum inflows
New business inflows as set out in the chief financial officer's report	3 030	28 121
Less:		
• Discovery Health recurring premiums	2 075	–
• Discovery Life recurring premiums	236	–
• Discovery employee benefits recurring premiums	28	–
• Individual life premium income not valued (ad hoc premiums)	–	99
• Employee benefit premium income not valued (investment only business and premiums received by Momentum Advisory Service)	–	2 269
• Linked product sales not valued (Ansbacher and ad hoc inflows)	–	1 727
• Unit trust sales not valued	–	7 348
• Segregated third-party inflows not valued	–	10 665
Plus:		
• Term extensions on maturing policies included in embedded value calculation	–	342
New business inflows in the embedded value report	691	6 355

Embedded value profits

Embedded value profits represent the change in embedded value over the year, adjusted for any capital raised and dividends recommended. The embedded value loss for the twelve months ended 30 June 2002 are set out below.

Embedded value profits (Table 5)

	R million
Embedded value as at 30 June 2002	9 532
Embedded value as at 30 June 2001	10 536
Decrease in embedded value	(1 004)
Plus: Dividends paid	758
Embedded value loss	(246)

Components of the embedded value profits (Table 6)

	R million	% return on embedded value
Factors related to operations	885	8,4
Value of new business	206	2,0
Expected return on new business	15	0,1
Expected return on existing business	496	4,7
Experience assumption changes	39	0,4
Operating experience variations	129	1,2
Factors related to market conditions	(1 131)	(10,7)
Investment return on shareholders' net assets	(995)	(9,4)
Economic assumption changes	(74)	(0,7)
Investment variations	(62)	(0,6)
Embedded value loss	(246)	(2,3)

The value of new business comprises the economic value of the new business written during the year, determined at the point of sale.

The expected return on existing business is determined by applying the risk discount rate to the value of in-force business at the beginning of the year and adding back the expected cost of the capital adequacy requirements over the year.

The operating experience variations represent the positive impact of differences between the actual experience and the assumptions used in the embedded value calculations. The positive variance of R129 million includes R19 million from Momentum Employee Benefits, R80 million from individual life and R30 million from the management of the working capital portfolio. Favourable mortality experience contributed R57 million to the positive individual life experience variation of R80 million.

Experience assumption changes represent the impact of changes in the experience assumptions on the embedded value as at 30 June 2002. Changes in termination assumptions reduced the embedded value by R26 million. A relaxation in the annuitants' mortality assumption increased the embedded value by R68 million.

Investment return on surplus represents the investment income and capital appreciation on the shareholders' assets.

Investment variations represent the impact of the lower investment returns on the policyholder portfolios compared with the returns assumed in the embedded value calculation. The effect of exchange rate movements was not material and was therefore included in investment variations.

The change in the economic assumptions reflects the effect on the embedded value of the increase in market interest rates over the year under review.

Sensitivity to the risk discount rate

The risk discount rate appropriate to an investor depends on the investor's own requirements, tax position and perception of the risks associated with the realisation of the future insurance profits of Momentum Group. The sensitivity of the embedded value and the value of new business to changes in the risk discount rate is illustrated below:

Embedded value (Table 7)

	2002		
	Risk discount rate		
R million	**14,5%**	**15,5%**	**16,5%**
Shareholders' net assets	**6 164**	**6 164**	**6 164**
Value of in-force insurance business	**3 670**	**3 368**	**3 087**
Value of in-force insurance business	**3 770**	**3 611**	**3 458**
Opportunity cost of capital adequacy requirements	**(100)**	**(243)**	**(371)**
Embedded value	**9 834**	**9 532**	**9 251**

Value of new business (Table 8)

	2002		
	Risk discount rate		
R million	**14,5%**	**15,5%**	**16,5%**
Value of new business	**227**	**218**	**206**
Opportunity cost of capital adequacy requirements	**(3)**	**(12)**	**(19)**
Value of new business	**224**	**206**	**187**

Note

The value of new business reflected above excludes the value of Momentum Group's attributable portion of the new business written by Discovery Health and Discovery Life.

Assumptions

The Momentum Group's embedded value complies with the requirements of the Actuarial Society of South Africa's Professional Guidance Note (PGN) 107. The embedded value calculation makes no allowance for any management action. The same best-estimate assumptions were used for the purpose of the embedded value calculations and the financial soundness valuation of Momentum Group. The main assumptions used in the embedded value calculations are described below:

Economic assumptions

The economic assumptions used were as follows:

	2002 %	**2001 %**
Risk discount rate	**15,5**	14,5
Investment returns (before tax)	**13,5**	12,5
Expense inflation rate	**9,5**	8,5

The investment return assumption of 13,5% per annum (2001: 12,5% per annum) was determined with reference to the market interest rates on South African government stocks at 30 June 2002 taking into account the expected outstanding term of the in-force policy book. A notional long-term asset distribution was used to calculate a weighted expected investment return, by assuming the following premiums/(discounts) to the market interest rate of 12,3% per annum (2001: 11,1% per annum) on South African government stocks as at 30 June 2002:

	% premium/ (discount)	
	2002	**2001**
Equities	**2,0**	2,0
Properties	**1,0**	1,0
Government stocks	**0,0**	0,0
Other fixed interest stocks	**0,5**	0,5
Cash	**(2,0)**	(1,0)

The assumed future expense inflation assumption of 9,5% per annum (2001: 8,5% per annum) was determined based on an assumed long-term differential of 4% per annum relative to the assumed future investment return assumption of 13,5% per annum (2001: 12,5% per annum).

For purposes of the calculation of the opportunity cost of holding Capital Adequacy Requirements, it was assumed that the Capital Adequacy Requirements in future years will be backed by surplus assets consisting of 80% equities and 20% fixed interest securities.

Mortality, morbidity and discontinuance rates

The assumptions regarding future mortality, morbidity and discontinuance rates were based on the results of recent experience investigations. Allowance was also made for the expected impact of AIDS on a basis consistent with the recommendations of PGN 105 of the Actuarial Society of South Africa at the time of calculation.

Expenses

The maintenance expense assumptions were based on the results of recently conducted internal expense investigations. These expense investigations covered the financial year ended 30 June 2002 as well as the budgeted expenses for the financial year ending 30 June 2003. The expense assumptions are at a level sufficient to support the existing business on a going-concern basis.

Premium indexation arrangements

The embedded value of in-force business includes the expected value of future premium increases resulting from premium indexation arrangements on in-force business, by using an expected take-up rate based on the results of recent experience investigations. The value of new business includes the expected value of future premium increases resulting from premium indexation arrangements on the new business written during the financial year ended 30 June 2002.

Directors' valuations

The same directors' valuations were used for the subsidiaries and associate companies for the purpose of the embedded value and the financial soundness valuation of Momentum Group. The directors' valuations are disclosed in note 35 to the annual financial statements.

The directors' valuation of FirstRand Asset Management as at 30 June 2002 excludes the value of any profits derived by managing assets on the balance sheet of Momentum Group. The value of asset management profits in respect of assets on the balance sheet of Momentum Group was included in the value of in-force insurance business and the value of new business.

The directors' valuation of Discovery Holdings was equated to Momentum Group's share (63,2%) of the market value of Discovery Holdings as at 30 June 2002.

The directors' valuation of African Life was equated to Momentum Group's share (33,4%) of the market value of African Life as at 30 June 2002.

Reserving bases

It was assumed that the current bases of calculating the policyholder liabilities would continue unchanged in future.

Surrender and paid-up bases

It was assumed that the current surrender and paid-up bases would be maintained in future.

Taxation

Allowance was made for future taxation based on the four-fund taxation dispensation. Allowance was made for the effect of capital gains taxation (CGT) at face value in the policyholders' portfolios. No allowance was made for CGT on shareholders' assets, since it is argued that the strategic investments would not be sold in the foreseeable future. It was also assumed that CGT would not affect the opportunity cost of the capital adequacy requirements. Allowance was made for secondary taxation on companies (STC) on future dividends ultimately payable to shareholders at a rate of 3% per annum of expected future profits. The STC assumption is based on the expected future cash dividend according to the dividend policy of Momentum Group, taking into account expected future STC credits. No credit was taken in the embedded value for any taxation losses within policyholder funds as at 30 June 2002.

Sensitivities

This section illustrates the effect of different assumptions, other than in respect of the risk discount rate, on the value of in-force insurance business and the value of new business. For each sensitivity illustrated, all other assumptions have been left unchanged.

Value of in-force insurance business (Table 9)

R million	Value of in-force business	Increase	% increase
Base value (refer to table 1 on page 178)	3 368	–	–
Renewal expenses reduce by 10%	3 573	205	6
Expense inflation reduces from 9,5% to 8,5%	3 448	80	2
Policy discontinuance rates reduce by 10%	3 444	76	2
Mortality experience improves by 5%	3 551	183	5

These sensitivities reflect the combined effect on the value of in-force business and the changes in the shareholders' net assets. The opportunity cost of capital adequacy requirements is not shown separately in the above table as it remains unchanged.

Report on the embedded value of Momentum Group Limited *continued*

Value of new business (Table 10)

R million	Value of new business	Change	% change
Base value (refer to table 2 on page 178)	206	–	–
Renewal expenses reduce by 10%	223	17	8
Expense inflation reduces from 9,5% to 8,5%	217	11	5
Policy discontinuance rates reduce by 10%	214	8	4

The above tables show the impact of improvements in the experience assumptions. The effect of equivalent deteriorations in the experience assumptions would be to reduce the values by an amount approximately equal to the increases shown above. No allowance was made for compensating management actions. The opportunity cost of capital adequacy requirements is not shown separately in the above table as it remains unchanged.

Review by the independent actuaries

B&W Deloitte Actuaries and Consultants have reviewed in detail the methodology and assumptions underlying the calculation of the embedded value and the value of new insurance business. They have also reviewed the disclosure of the embedded value. They are satisfied that the embedded value methodology, assumptions and the main disclosure contained in this report are in compliance with the Actuarial Society of South Africa's PGN 107. They are satisfied that, based on the information supplied to them by Momentum Group, the methodology and assumptions are appropriate for the purpose of including the embedded value in this report, that these have been determined in accordance with generally accepted actuarial principles, that the approach has been applied consistently across the different business units and that the methodology and assumptions have been applied consistently over the year.

Administration

Momentum Group Limited

(Registration No 1904/002186/06)

Registered office

Momentum
268 West Avenue
Centurion
0157

Postal address

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0046

Telephone

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Telefax

National (012) 671 8209
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Website

www.momentum.co.za

Company secretary

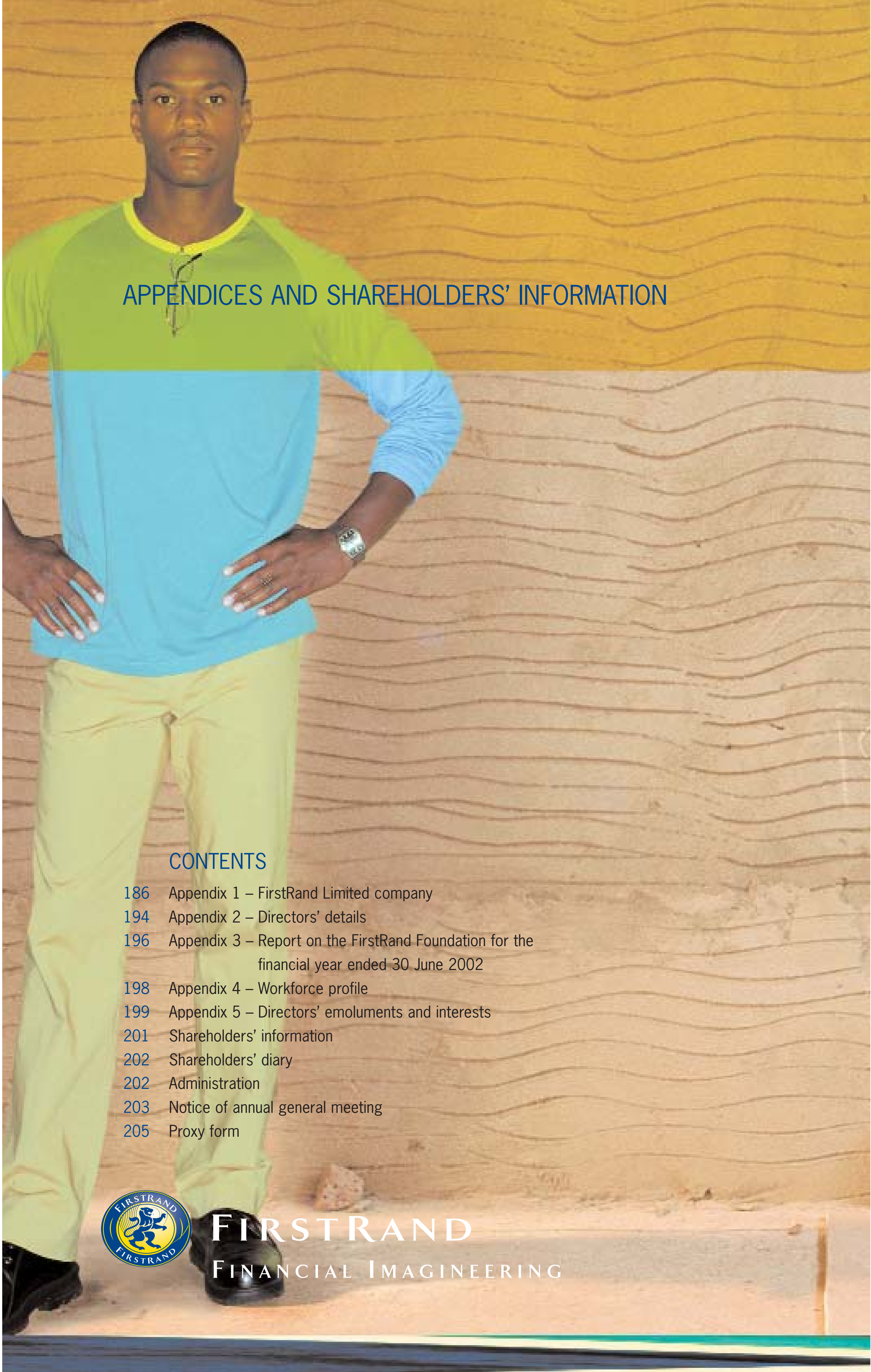
Francois Jooste

Statutory actuary

Nicolaas Kruger

Auditors

PricewaterhouseCoopers Inc
2 Eglin Road
Sunninghill
2157



APPENDICES AND SHAREHOLDERS' INFORMATION

CONTENTS

FIRSTRAND
FINANCIAL IMAGINEERING

19:10 Run down and flat.

You need to get tuned in.

Imagine

A WAY THAT WORKS

SOUTH AFRICA WAS F1RST

Energy is a rare and valued commodity to those who don't have its constant availability. Freeplay broke the silence in the mid-nineties with the self-powered wind-up radio, bringing the airwaves to the doorsteps of the people.

APPENDIX 1 – FIRSTRAND LIMITED COMPANY

Balance sheet

as at 30 June

R million	Notes	Company 2002	Company 2001
ASSETS			
Investments			
Funds on deposit		**4,8**	1,9
Investment in subsidiaries	1, 12	**19 208,0**	15 478,8
Total investments		**19 212,8**	15 480,7
Current assets		**2,8**	1,7
Loan	2	**1 149,7**	1 108,4
Deferred taxation	3	**0,3**	0,2
Total assets		**20 365,6**	16 591,0
LIABILITIES AND SHAREHOLDERS' FUNDS			
LIABILITIES			
Current liabilities		**58,1**	4,4
Taxation		**1,2**	1,3
Total liabilities		**59,3**	5,7
Shareholders' funds			
Share capital and share premium	4	**9 584,6**	9 594,9
Reserves	5	**10 721,7**	6 990,4
Total shareholders' funds		**20 306,3**	16 585,3
Total liabilities and shareholders' funds		**20 365,6**	16 591,0

Income statement

for the year ended 30 June

R million	Notes	Company 2002	Company 2001
Net investment income	6	**4 583,7**	3 635,7
Management and administration expenses	7	**(20,3)**	(19,8)
Income before taxation		**4 563,4**	3 615,9
Taxation	8	**(54,7)**	(41,0)
Earnings attributable to ordinary shareholders	5, 10	**4 508,7**	3 574,9
Earnings per share (cents)	10	**82,8**	65,7
Core operational headline earnings per share (cents)	10	**76,6**	63,4
Headline earnings per share (cents)	10	**86,7**	67,7
Dividend per share (cents)	9	**28,50**	23,75

Cash flow statement

for the year ended 30 June

R million	Notes	Company 2002	Company 2001
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated by operations	11.1	**1 494,3**	1 206,7
Working capital changes	11.2	**1,0**	(17,4)
Cash inflow from operations		**1 495,3**	1 189,3
Taxation paid	11.3	**(54,7)**	(40,0)
Dividends paid	11.4	**(1 415,8)**	(1 157,1)
Net cash inflow/(outflow) from operating activities		**24,8**	(7,8)
CASH FLOWS FROM INVESTMENT ACTIVITIES			
Net investment in subsidiaries		**(21,9)**	5,4
Proceeds on sale of property and equipment		**–**	0,1
Net cash (outflow)/inflow from investment activities		**(21,9)**	5,5
Increase/(decrease) in cash and cash equivalents		**2,9**	(2,3)
Cash and cash equivalents at the beginning of the year		**1,9**	4,2
Cash and cash equivalents at the end of the year		**4,8**	1,9

Statement of changes in equity

for the year ended 30 June

R million	Share capital (Note 4)	Share premium (Note 4)	Retained earnings (Note 5)	Non-distributable reserves (Note 5)	Total share-holders' funds
Balance at 1 July 2000					
As previously stated	55,8	9 539,1	4 517,1	256,7	14 368,7
Changes in accounting policies					
– Recognised employer reserve on pension fund surplus	–	–	155,7	–	155,7
– Leave pay provision	–	–	(309,7)	–	(309,7)
– Post-retirement medical aid liability	–	–	(247,9)	–	(247,9)
– Restatement of investment reserve	–	–	–	(101,4)	(101,4)
Restated balance at 1 July 2000	55,8	9 539,1	4 115,2	155,3	13 865,4
Currency translation differences	–	–	–	141,0	141,0
Revaluation of investment assets	–	–	–	128,5	128,5
Non-distributable reserves of associated companies	–	–	–	27,8	27,8
Movement in other reserves	–	–	–	4,8	4,8
Earnings attributable to shareholders	–	–	3 574,9	–	3 574,9
Dividends	–	–	(1 157,1)	–	(1 157,1)
Balance at 30 June 2001	55,8	9 539,1	6 533,0	457,4	16 585,3
Balance at 1 July 2001	**55,8**	**9 539,1**	**6 533,0**	**457,4**	**16 585,3**
Preference share capital issued and redeemed	**–**	**(10,3)**	**–**	**–**	**(10,3)**
Currency translation differences	**–**	**–**	**–**	**603,6**	**603,6**
Revaluation of investment assets	**–**	**–**	**–**	**60,2**	**60,2**
Non-distributable reserves of associated companies	**–**	**–**	**–**	**11,5**	**11,5**
Movement in other reserves	**–**	**–**	**–**	**(36,9)**	**(36,9)**
Earnings attributable to shareholders	**–**	**–**	**4 508,7**	**–**	**4 508,7**
Dividends	**–**	**–**	**(1 415,8)**	**–**	**(1 415,8)**
Transfer (to)/from reserves	**–**	**–**	**(36,4)**	**36,4**	**–**
Balance at 30 June 2002	**55,8**	**9 528,8**	**9 589,5**	**1 132,2**	**20 306,3**

Notes to the annual financial statements

for the year ended 30 June

R million		Company 2002	Company 2001
1.	INVESTMENT IN SUBSIDIARIES		
	Shares at net asset value	**19 196,1**	15 463,8
	Amounts owing by subsidiaries	**11,9**	15,0
		19 208,0	15 478,8
2.	LOAN		
	OutPerformance Share Incentive Scheme loan	**1 149,7**	1 108,4
	This loan is repayable by the FirstRand Limited Trust upon conversion of the preference shares into ordinary shares. If the conditions for conversion are not met, the loan and preference shares will be cancelled. The return on the loan is linked to the preference share dividend.		
3.	DEFERRED TAXATION		
	Balance at the beginning of the year	**0,2**	–
	Charge for the year		
	Relating to provisions in the current year	**0,1**	0,2
		0,3	0,2
4.	SHARE CAPITAL AND SHARE PREMIUM		
	Share capital		
	Authorised		
	6 228 000 000 ordinary shares of 1 cent each (2001: 6 228 000 000)	**62,3**	62,3
	272 000 000 "A" variable rate, convertible, redeemable cumulative preference shares of 1 cent each (2001: 272 000 000)	**2,7**	2,7
	Issued		
	Balance at the beginning of the year		
	5 445 303 089 ordinary shares of 1 cent each (2001: 5 445 303 089)	**54,4**	54,4
	135 520 000 "A" variable rate, convertible, redeemable cumulative preference shares of 1 cent each (2001: 136 000 000)	**1,4**	1,4
	Shares issued during the year		
	9 150 000 "A" variable rate, convertible, redeemable cumulative preference shares of 1 cent each	**0,1**	–
	Shares redeemed during the year		
	9 630 000 "A" variable rate, convertible, redeemable cumulative preference shares of 1 cent each	**(0,1)**	–
		55,8	55,8
	Share premium		
	Balance at the beginning of the year	**9 539,1**	9 539,1
	Preference shares issued	**68,1**	–
	Preference shares redeemed	**(78,4)**	–
		9 528,8	9 539,1
	Share capital and share premium	**9 584,6**	9 594,9
	The following represents the shareholding of subsidiaries in FirstRand Limited at 30 June 2002:	**%**	%
	Momentum Group Limited – held on behalf of policyholders	**2,5**	3,0

R million	Company 2002	Company 2001
5. RESERVES		
Retained earnings		
Retained earnings at the beginning of the year	**6 533,0**	4 115,2
Earnings attributable to ordinary shareholders	**4 508,7**	3 574,9
Dividend for the year	**(1 415,8)**	(1 157,1)
Transfer to non-distributable reserves	**(36,4)**	–
Retained earnings at the end of the year	**9 589,5**	6 533,0
Non-distributable reserves		
Non-distributable reserves relating to:		
Banking operations	**947,7**	361,4
Currency translation reserve	**903,3**	354,5
Revaluation of investments	**4,6**	4,9
Other	**39,8**	2,0
Insurance operations	**184,5**	96,0
Currency conversion reserve	**41,5**	15,7
Revaluation of investment assets	**90,7**	27,9
Reserve on capitalisation of subsidiary	**50,8**	50,8
Other	**1,5**	1,6
Non-distributable reserves at the end of the year	**1 132,2**	457,4
Total reserves	**10 721,7**	6 990,4
Movement for the year in non-distributable reserves		
Balance at the beginning of the year	**457,4**	155,3
Transfer from income statement relating to banking operations	**34,2**	–
Transfer from income statement relating to insurance operations	**2,2**	–
Currency translation differences	**603,6**	141,0
Revaluation of investment assets	**60,2**	128,5
Other	**(25,4)**	32,6
Non-distributable reserves at the end of the year	**1 132,2**	457,4
6. NET INVESTMENT INCOME		
Net investment income earned in respect of:		
Preference share dividends received	**151,5**	78,7
Preference share dividends paid	**(151,5)**	(78,7)
Investment income earned from subsidiaries:		
Equity accounted earnings of subsidiaries	**3 069,0**	2 408,2
Dividends – unlisted shares	**1 501,8**	1 206,5
Interest-bearing investments and fees from subsidiaries	**12,9**	21,0
	4 583,7	3 635,7
7. MANAGEMENT AND ADMINISTRATION EXPENSES		
Included in management and administration expenses are the following:		
Auditors' remuneration		
Audit fees – current year	**0,4**	0,4
Operating lease charges		
Land and buildings	**0,7**	0,6
Equipment	**0,6**	0,9
	1,3	1,5

R million	Company 2002	Company 2001
8. TAXATION		
South African normal taxation	**0,1**	1,3
Current	**–**	1,5
Deferred	**0,1**	(0,2)
Secondary taxation on companies (STC)	**54,6**	39,7
	54,7	41,0
Tax rate reconciliation	**%**	**%**
Effective rate of taxation	**1,2**	1,1
Equity accounted earnings	**20,1**	20,0
Dividends received	**9,9**	10,0
Secondary taxation on companies	**(1,2)**	(1,1)
Standard rate of taxation	**30,0**	30,0
9. DIVIDENDS		
Ordinary dividends		
An interim dividend of 13,5 cents (2001: 11,25 cents) per share was declared on 27 February 2002 in respect of the six months ended 31 December 2001, payable to shareholders registered in the books of the company at the close of business on 22 March 2002.	**735,1**	612,6
A final dividend of 15 cents (2001: 12,5 cents) per share was declared on 16 September 2002, payable to shareholders registered in the books of the company at the close of business on 12 October 2002. In terms of AC 107, this final dividend was not provided for at year-end.	**816,8**	680,7
	1 551,9	1 293,3
10. EARNINGS PER SHARE		
Attributable earnings basis		
Earnings per share is based on the earnings attributable to ordinary shareholders and the weighted number of ordinary shares in issue. Earnings attributable to ordinary shareholders amounted to R4 508,7 million (2001: R3 574,9 million) and the weighted average number of ordinary shares in issue during the year amounted to 5 445 303 089 (2001: 5 445 303 089).		
Headline earnings basis		
Headline earnings per share is based on the earnings attributable to ordinary shareholders, adjusted for items of a non-trading nature, and the weighted average number of ordinary shares in issue.		
Headline earnings reconciliation		
Net income after taxation attributable to ordinary shareholders	**4 508,7**	3 574,9
Add: Amortisation of goodwill	**58,3**	36,7
Add: Impairment of goodwill	**210,1**	–
Add: Loss on sale of assets	**4,0**	–
Add: Exceptional items in respect of insurance associated company	**–**	47,3
Add: Effect of insurance transitional taxation on prior years	**–**	30,6
Less: Abnormal profit on release of reserves	**(28,1)**	–
Less: Profit on disposal of subsidiary shares	**(31,2)**	–
Headline earnings	**4 721,8**	3 689,5
Less: Foreign currency translation gain	**(548,0)**	(238,7)
Core operational headline earnings	**4 173,8**	3 450,8

R million	Company 2002	Company 2001
11. CASH FLOW INFORMATION		
11.1 Cash generated by operations		
Net income after taxation attributable to shareholders	**4 508,7**	3 574,9
Adjustment for non-cash items and taxation	**(3 014,4)**	(2 368,2)
Cash generated by operations	**1 494,3**	1 206,7
11.2 Working capital changes		
Increase in current assets	**(1,1)**	(1,6)
Increase/(decrease) in current liabilities	**2,1**	(15,8)
Working capital changes	**1,0**	(17,4)
11.3 Taxation paid		
Balance at the beginning of the year	**(1,3)**	–
Taxation charged for the year	**(54,6)**	(41,3)
Balance at the end of the year	**1,2**	1,3
Taxation paid	**(54,7)**	(40,0)
11.4 Dividends paid		
Final dividend declared on:		
– 6 September 2001 in respect of the year ended 30 June 2001	**(680,7)**	
– 7 September 2000 in respect of the year ended 30 June 2000		(544,5)
Interim dividend declared on:		
– 27 February 2002 in respect of the period ended 31 December 2001	**(735,1)**	
– 27 February 2001 in respect of the period ended 31 December 2000		(612,6)
Dividends paid	**(1 415,8)**	(1 157,1)

	Effective percentage holding		Investment of holding company: Amounts owing by subsidiaries		Investment of holding company: Shares at net asset value	
	2002 %	**2001 %**	**2002 Rm**	**2001 Rm**	**2002 Rm**	**2001 Rm**
12. ANALYSIS OF INVESTMENT IN SUBSIDIARIES						
Banking operations						
FirstRand Bank Holdings Limited	**100**	100	**7,2**	12,0	**13 027,4**	9 473,7
Insurance operations						
Momentum Group Limited	**100**	100	**4,7**	3,0	**6 143,0**	5 990,1
FirstRand Investment Holdings Limited	**100**	–	**–**	–	**25,7**	–
			11,9	15,0	**19 196,1**	15 463,8
Total interest in subsidiaries					**19 208,0**	15 478,8

13. COMPARATIVE FIGURES

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

APPENDIX 2
Directors' details

Gerrit Thomas Ferreira (54)
BCom (Hons), (B&A), MBA
Chairman

"GT" Ferreira has been involved in the financial services sector since graduating from the University of Stellenbosch. He started his career at the Bank of Johannesburg and was a co-founder of Rand Consolidated Investments ("RCI") in 1977. RCI acquired control of Rand Merchant Bank ("RMB") in 1985 and he was Managing Director of RMB from 1985 to 1988 after which he was elected as Chairman. He is also Chairman of RMB Holdings and FirstRand. He serves on several other boards, including the Industrial Development Corporation, Malbak, University of Stellenbosch and Glenrand M.I.B. He is also a member of the Board of the Open Society of South Africa.

Lauritz Lanser Dippenaar (53)
MCom, CA(SA)
Chief Executive Officer

Laurie Dippenaar graduated from Pretoria University, qualified as a chartered accountant with Aiken & Carter (now KPMG) and spent a few years with the Industrial Development Corporation before becoming co-founder of Rand Consolidated Investments ("RCI"). RCI acquired control of Rand Merchant Bank ("RMB") in 1985 and he became an executive director. He was appointed Managing Director in 1988, which position he held until 1992 when RMB Holdings ("RMBH") acquired a controlling interest in Momentum Life Assurers, the fifth largest insurance company in South Africa at that time. He was appointed as Executive Chairman of that company, a position he held until being appointed Chief Executive Officer of FirstRand in 1998. He is a director of RMBH and other group companies.

Barry Hilton Adams (66)
CA(SA)

Barry Adams is a chartered accountant who retired as Country Managing Partner of Arthur Andersen in 1991. He has been a Non-executive Director of RMB Holdings Limited since 1993 and has served on the boards of the main group companies as well as being Chairman of the RMBH, FirstRand and Momentum Group audit committees. He is a non-executive director of a number of other companies, including Tiger Brands.

Vivian Wade Bartlett (59)
AMP (Harvard), FIBSA

Viv Bartlett started his career with Barclays Bank DCO South Africa, which became First National Bank of SA Limited in 1987. After some four years of overseas secondments he returned to South Africa in 1972 where he has served as General Manager and Managing Director in various group companies until being appointed as Group Managing Director and Chief Executive Officer of First National Bank of SA in 1996. He now holds the position of Deputy Chief Executive Officer of FirstRand Bank. He is a director of FirstRand Bank Holdings and Momentum Group, and various other group companies. He is Chairman of the CEMEA Regional Board of Visa and an Executive Committee member of Visa International.

David John Alistair Craig (54)
British

David Craig was educated at Ampleforth College, York, in the United Kingdom, whereafter he joined Hambros Bank and ultimately held the position of Director – International Capital Markets Division until 1979 when he left to join JP Morgan Securities as a co-founder. In 1983, holding the position of Deputy Chief Executive (Chief Executive Designate), he left to take up the position of Group Managing Director at IFM Trading until the time of its sale to the J Rothschild Group in 1994. He is Chairman and Chief Executive of Northbridge Management and serves as Non-executive Chairman of Numis Corporation, a UK-quoted financial group, and as a non-executive director of Savills plc.

Denis Martin Falck (56)
CA(SA)

Denis Falck left the auditing profession in 1971 to join the Rembrandt Group. He was appointed Group Financial Director in 1990 and currently holds the same portfolio on the board of Remgro. He is a non-executive director of a number of Remgro's associated companies, including RMB Holdings. He was a director of Momentum Life from 1990 to 1992.

Patrick Maguire Goss (54)
BEcon (Hons), BAccSc (Hons), CA(SA)

Pat Goss, after graduating from the University of Stellenbosch, served as president of the Association of Economics and Commerce Students (AISEC), representing South Africa at The Hague and Basle. He thereafter qualified as a chartered accountant with Ernst and Young and joined the Industrial Development Corporation. In 1977 he was a co-founder of Rand Consolidated Investments ("RCI") which successfully merged with Rand Merchant Bank in 1985. A former Chairman of the Natal Parks Board, his family interests include Umngazi River Bungalows and Boxer Superstores. He has been a non-executive director of RMB Holdings and Rand Merchant Bank since 1985. He also serves on the boards of Anglovaal Industries and McCarthy Retail.

Paul Kenneth Harris (52)
MCom

Paul Harris graduated from the University of Stellenbosch and joined the Industrial Development Corporation where he served for a number of years. He was a co-founder of Rand Consolidated Investments ("RCI"). RCI acquired control of Rand Merchant Bank ("RMB") in 1985 and he became an executive director of the bank. He spent four years in Australia where he founded Australian Gilt Securities (later to become RMB Australia) and returned to South Africa in 1991 where he was appointed Deputy Managing Director of RMB. In 1992 he took over as Managing Director and Chief Executive Officer. He has been Chief Executive Officer of FirstRand Bank since July 1999 and serves on the boards of various group companies.

Michael Wallis King (65)

CA(SA), FCA

Mike King was educated at St John's College and the University of Witwatersrand. He qualified as a chartered accountant with Deloittes (now Deloitte and Touche). In 1961 he joined Union Acceptances (now Nedcor Investment Bank). He was Deputy Managing Director from 1972 to 1974 when he left to join Anglo American Corporation of South Africa. He became Executive Deputy Chairman of the Corporation in 1997 and Executive Vice-chairman of Anglo American plc in 1999. After his retirement in May 2001, he became a non-executive director of Anglo American Corporation of South Africa. He is a non-executive director of Anglo American Platinum Corporation, The Tongaat-Hulett Group, African Rainbow Minerals Gold and companies in the FirstRand Group including Ansbacher Holdings.

Sathyandranath Ragunanan Maharaj (67)

BA, BAdmin

"Mac" Maharaj graduated at Natal University and studied law for two years at the London School of Economics. He obtained his second degree from the University of South Africa while imprisoned on Robben Island. He has been politically active all his life, having been an activist, detainee, political prisoner, exile, underground commander, a negotiator and finally a cabinet minister in South Africa's first democratically elected government. He retired from Parliament and Government after the 1999 general elections and was thereafter appointed to the boards of FirstRand and FirstRand Bank Holdings. He recently edited and published a collection of essays written in Robben Island prison under the title "Reflections in Prison".

Matamela Cyril Ramaphosa (49)

BProc (Unisa)

Cyril Ramaphosa was educated in Soweto and in Sibasa in the Limpopo province. He enrolled for his degree at the University of the North, but his studies were interrupted when he was detained for opposing apartheid. He obtained his BProc degree from the University of South Africa (Unisa). He became a co-founder of the National Union of Mineworkers where he was General Secretary from 1982 to 1991. In 1991 he was elected Secretary General of the ANC. He became a Member of Parliament in 1994 and was the Chairman of the Constitutional Assembly, the body that wrote the new Constitution of South Africa. He left active politics in 1996 and became the Chairman of Johnnic. He is Executive Deputy Chairman of Rebserve Holdings and serves as non-executive director of a number of other companies, including SAB plc, MTN Holdings, Mac Steel and SASRIA.

Khehla Cleopas Shubane (46)

BA (Hons)

Khehla Shubane graduated at the University of the Witwatersrand. Earlier he was a student at the University of the North where his studies were terminated following his arrest, conviction and sentence which he served on Robben Island. Upon his release, he was employed at Liberty Life for a short tenure. He served on various political organisations until joining the Centre for Political Studies in 1988. He has been the co-author of several political publications and is a member of the Board of the Centre for Policy Studies. He was appointed as a director of RMB Holdings, Rand Merchant Bank and Momentum Life Assurers in 1993.

Benedict James van der Ross (55)

Dip Law (UCT)

Ben van der Ross is the Chief Executive Officer of Business South Africa. He has a Diploma in Law from the University of Cape Town. He was admitted to the Cape Side Bar as an attorney and conveyancer. Thereafter he practiced for his own account for 16 years. He became an executive director with the Urban Foundation for five years up to 1990 and thereafter of the Independent Development Trust where he was Deputy Chief Executive Officer from 1995 to 1998. He was appointed to the board of The Southern Life Association in 1986. He is a non-executive director of Nasionale Pers and Pick 'n Pay Stores. He is Chairman of Bonatla Property Holdings and Intersite Property Management Services.

Frederik van Zyl Slabbert (62)

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

Frederik van Zyl Slabbert is a graduate of Stellenbosch University from which he received a doctorate in Philosophy in 1967. He lectured at various South African universities until 1974 when we was elected to the South African Parliament as a member of the Progressive Party for the Rondebosch Constituency. At the time of his retirement from politics in 1986, he was the leader of the Progressive Federal Party, which was the official opposition in Parliament. He is currently a political analyst and serves on a number of boards, including the Open Society Initiative for Southern Africa. He holds an honorary doctorate from the Simon Fraser University in Canada and the University of Natal. He is the author of a number of books dealing with demographics and change in South Africa.

Robert Albert Williams (61)

BA, LLB

Robbie Williams graduated at the University of Cape Town and joined Barlows Manufacturing Company where he became the Managing Director in 1979. In 1983 he was appointed Chief Executive Officer of Tiger Oats. In 1985 he assumed the Chairmanship of CG Smith Foods and Tiger Oats, and was appointed to the board of Barlow Rand. Following the unbundling of CG Smith, he was appointed chairman of Tiger Brands and Illovo Sugar. He has been on the board of FirstRand Bank (formerly First National Bank of Southern Africa) since 1988 and also serves on the board of Mutual & Federal Assurance Company and Nampak.

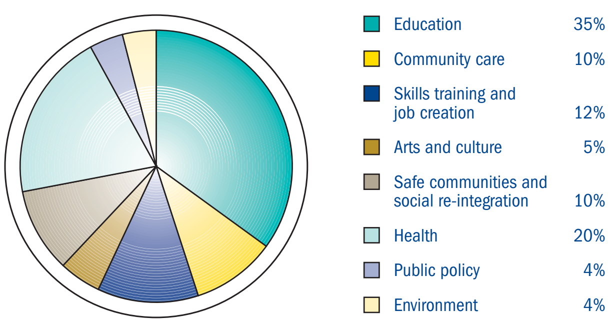
APPENDIX 3

Report on the FirstRand Foundation for the financial year ended 30 June 2002

FirstRand's most significant contribution to social development is to run efficient and profitable businesses through which many people benefit. However, core to the FirstRand Group's philosophy is a desire to improve the quality of life of all South Africans. In line with the FirstRand guiding principles, the group's contribution to the upliftment of the previously disadvantaged is co-ordinated as a group-wide programme in order to increase effectiveness. Through the FirstRand Foundation group companies are able to demonstrate their commitment to the wider welfare of South Africa, showing how the values of individual initiative, hard work and dedication, which are so important for commercial success, can also be the drivers for socio-economic success.

Finances

During the financial year ending 30 June 2002 grant making from the Foundation totalled R37,4 million (close on a 14% increase from the previous financial year). The Business Trust received R11,4 million and the Joint Education Trust just over R2 million. The Business Trust is a major national initiative through which business and government have joined hands to support strategic interventions in education and job creation focused on the critical obstacles hindering progress in these vital areas of development. In addition, more than 539 grants (440 in the previous year) totalling R23,9 million were made. An analysis of the distribution of the R23,9 million by sector and province is set out below.



Funding by sector – value R23,9 million

Funding by sector

The Foundation has tried to align the pattern of its grant making to the group's business role so as to extend and enrich in different ways and directions the contribution FirstRand companies make to economic growth. Most of the projects that the FirstRand Foundation support work at the margin, bringing non-governmental expertise into the formal system or reaching out to communities where formal services are limited. There are many opportunities to do this and it is encouraging to see how much effort is going into structured development partnerships in which NGOs are working together with government officials.

Education secured the lion's share of support (R8,3 million). Support for projects spanning the spectrum of educational need from pre-school to tertiary study provides the Foundation with the opportunity to make a difference in the lives of thousands of young people, expanding their learning and skills, and helping to build a stronger base for future economic growth. Of particular interest to the Foundation are programmes in commerce and business management that introduce new learning opportunities or broaden access to university study in these fields to previously disadvantaged students and academic development and bridging projects that improve access to university study in key subjects of mathematics and science.

Twenty percent of funding was approved in support of **health care initiatives** (R4,7 million). Giving in this sector has increased by 5% compared to the previous financial year. A growing area of need in this sector is care for people infected and affected with **HIV/AIDS**.

The FirstRand Foundation's HIV/AIDS funding policy makes provision for funding at four levels, namely educational programmes (especially programmes designed to assist people to develop alternative strategies for dealing with life challenges, healthy lifestyles and healthy relationships); community-based care programmes (primarily targeting AIDS orphans and their caregivers); hospice care (for the terminally ill); and homes for HIV/AIDS orphans who are not being cared for in their immediate community. Support was also provided to community health programmes and initiatives aimed at improving health care service delivery. Included in this sector was a grant of R1 million (part of a two-year commitment totalling R2 million) agreed towards the relocation and upgrading of the Red Cross Children's Hospital's Trauma Unit.

Grants were made to 37 organisations active in **skills training and job creation** (12% of total giving, R2,9 million compared to the previous financial year giving of R1,9 million). Included in this are some excellent projects such as the Siyazisiza Trust and the Triple Trust organisation, working to improve economic livelihoods in rural areas as well as local training programmes. This is a particularly challenging area of development, but even modest gains in income generation can make a real difference for people on the economic margins.

Ten percent of funding was approved in support of **community care programmes** (R2,4 million compared to the previous financial year figure of R1,6 million). These projects seek to extend care and support to individuals and communities in need not served by the mainstream. This includes assistance to the homeless and destitute, children's homes, old age homes and family counselling and support programmes for people in distress offered by well established organisations such as Childline, the Family and Marriage Society of SA and Life Line.

A growing area of funding has been in support of **safe communities and social re-integration programmes** which aim to promote safer communities and support people who are at risk of infringing the law through drug abuse, alcohol abuse and physical abuse (10%, R2,3 million compared to R1,3 million during the previous financial year). The largest grant was made in support of Business Against Crime (R570 000), a national initiative supported by the FirstRand Foundation. In partnership with organisations in the private sector and government, Business Against Crime has developed a range of successful civil and commercial crime-prevention strategies. The organisation works closely with the law enforcement and judicial authorities, allocating resources and manpower to rationalise capabilities and to streamline processes and systems. A number of smaller grants were made in support of local community policing initiatives, programmes targeting youth at risk and juvenile prisoners and social interventions addressing alcohol and drug abuse as well as violence in families.

Just over R1,1 million was allocated to projects promoting **artistic and cultural activities** (5%). A range of cultural, performing arts and community recreation projects were assisted in recognition of the important part that such activities play in helping build community spirit and the individual's sense of identity and self-expression. Assistance was approved amongst others in support of organisations that are well established such as Moving into Dance, the Grahamstown Foundation Regional School's Festival and the University of Natal's Centre for Creative Arts.

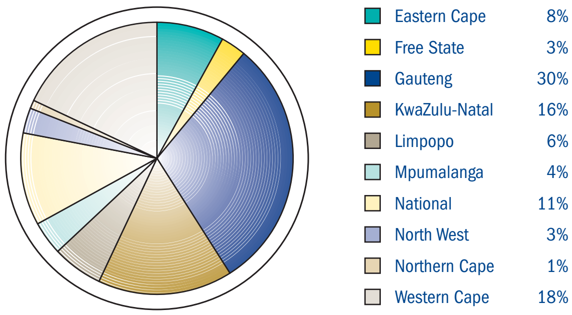
Public Policy and Environmental and Conservation Programmes' initiatives play an important role in stimulating debate regarding national policy issues and promoting the conservation and development of our environment in collaboration with meaningful community development structures. R961 000 and R945 250 respectively were approved in support of these initiatives. Included in the environmental sector was a grant of R500 000 approved towards the cost of establishing a San Rock Art Heritage Centre at the KZN Nature Conservation Services' uKhahlamba-Drakensberg Park at Cathedral Peak.

The lion's share of support has been targeted at benefiting communities residing in Gauteng (30%), followed by the Western Cape (18%) and KwaZulu-Natal (16%) The Foundation is keen to do more in the more underdeveloped areas, especially in the Eastern Cape and Limpopo province, but this is constrained by the absence of significant, on-the-ground capacity. A strategic objective has been set to pursue funding in the poorer provinces, such as the Eastern Cape and Limpopo province, with a view to increasing the share of giving in these areas. Progress in this regard is being achieved, albeit at a slow rate. During the past financial year spending by all funds in underdeveloped provinces has increased slightly, with spending in the Limpopo province increasing from 4% to 6%; Eastern Cape from 6% to 8% and the North West province from 2% to 3%.

South Africa has many urgent and obvious development challenges. The realities of South Africa are often stark but there are thousands of people willing to make a difference. The Foundation seeks to add value in meaningful ways, complementing and extending the role that the group companies themselves play in the country's economic life by bringing the same commitment to enterprise and growth to areas of social need and development.

The outlook for 2002

The FirstRand Foundation interacts with, guides where appropriate, and monitors the numerous approaches for support made to the Foundation and group companies. A full-time dedicated professional team from Tshikululu Social Investments manages the Foundation on a day-to-day basis under the direction of the Foundation's Trustees and the subcommittees of the funds who set the policy and guidelines for the disbursement of funds to projects.



Giving by province

The management of TSI also plays an important role in monitoring trends within the broader development arena and is represented on numerous NGO management boards. TSI's CEO, Margie Keeton, has also played a leading role during the past year in reviewing the proposed amendments to the new tax legislation governing non-profit organisations carrying out community development initiatives and has made significant recommendations to the working groups in this regard, many of which are likely to be approved and adopted during the coming year.

Management of the Foundation has learnt many valuable lessons in respect of best practices and identifying opportunities aimed at streamlining the administrative and financial controls associated with effective and responsible grant making during the first three years of operation of the funds. Grant making has increased significantly during the past two years (R18,4 million in 2000, R24 million in 2001 and an estimated R30 million in 2002) and it has become necessary to employ additional resources to ensure that the grant making and administration carried out by the management of the Foundation is of the highest standard. Management of the Foundation is also looking to identify a few special projects for trustee consideration during the coming year.

Contributions for the year ending 30 June 2003 are estimated at R42 million, an increase of 18% compared to the previous financial year. Of this amount close on R30 million will be earmarked for new grants, R11,5 million will be paid to the Business Trust representing the fourth payment of a five-year commitment and R3,3 million payable to TSI for the management and administration of the Foundation.

Greater attention is being paid to initiatives aimed at communicating the work of the Foundation internally and externally. Although these projects are being managed and co-ordinated by the respective communication and branding departments housed within group companies the management of the Foundation will continue to play a critical role in supporting these initiatives.

More details of the company's givings can be found on the FirstRand website **www.firstrand.co.za**.

APPENDIX 4

Workforce profile

	Number 2002	% 2002	Number 2001	% 2001
SOUTH AFRICAN WORKFORCE				
Managers				
White – Male	**2 925**	**9,4**	2 714	8,9
White – Female	**2 102**	**6,8**	1 592	5,3
ABC – Male	**712**	**2,3**	499	1,7
ABC – Female	**837**	**2,7**	435	1,4
	6 576	**21,2**	5 240	17,3
Other				
White – Male	**2 413**	**7,8**	2 435	8,0
White – Female	**8 166**	**26,3**	8 605	28,3
ABC – Male	**5 021**	**16,2**	5 224	17,2
ABC – Female	**8 859**	**28,5**	8 883	29,2
	24 459	**78,8**	25 147	82,7
Total – South Africa	**31 035**	**100,0**	30 387	100,0
Total white – Male	**5 338**	**17,2**	5 149	16,9
Total white – Female	**10 268**	**33,1**	10 197	33,6
	15 606	**50,3**	15 346	50,5
Total ABC – Male	**5 733**	**18,5**	5 723	18,8
Total ABC – Female	**9 696**	**31,2**	9 318	30,7
	15 429	**49,7**	15 041	49,5
Total – South Africa	**31 035**	**100,0**	30 387	100,0

ABC = Asian (Indian), Black and Coloured

CHANGE IN SOUTH AFRICAN WORKFORCE	
Staff complement at 1 July 2001	**30 387**
New appointments	**4 437**
Resignations	**(3 110)**
Retrenchments	**(300)**
Dismissals	**(312)**
Deaths or disability	**(67)**
Staff complement at 30 June 2002	**31 035**

	Number 2002	% 2002	Number 2001	% 2001
TOTAL WORKFORCE				
South Africa	**31 035**	**91,1**	30 387	91,2
Rest of Africa	**1 924**	**5,7**	1 887	5,7
Other countries	**1 087**	**3,2**	1 034	3,1
Total workforce	**34 046**	**100,0**	33 308	100,0

APPENDIX 5

Directors' emoluments and interests

R000s	Services as directors FirstRand	Group	Cash package(1)	Other benefits(2)	Per-formance related(3)	Total 2002	Total 2001
Executive							
V W Bartlett (4)			2 221	238	2 000	**4 459**	3 537
L L Dippenaar (4)			2 436	497	4 000	**6 933**	5 500
P K Harris (4)			2 543	393	4 000	**6 936**	5 500
Subtotal	–	–	7 200	1 128	10 000	**18 328**	14 537
Non-executive							
G T Ferreira (Chairman) (5)	769	231	–	–	–	**1 000**	500
B H Adams	90	87	–	–	–	**177**	110
D J A Craig	50	194	–	–	–	**244**	166
D M Falck	50	108	–	–	–	**158**	35
P M Goss	70	104	–	–	–	**174**	107
M W King	90	206	–	–	–	**296**	206
S R Maharaj	50	1 014	–	–	–	**1 064**	541
M C Ramaphosa	40	–	–	–	–	**40**	–
K C Shubane	50	–	–	–	–	**50**	15
F v Z Slabbert	40	–	–	–	–	**40**	–
B J van der Ross	50	74	–	–	–	**124**	114
R A Williams	70	156	–	–	–	**226**	71
Resigned director	–	–	–	–	–	**–**	195
Subtotal	1 419	2 174	–	–	–	**3 593**	2 060
Total	1 419	2 174	7 200	1 128	10 000	**21 921**	16 597

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

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

(3) "Performance related" payments are in respect of the year ended 30 June 2002, but will be paid (together with an interest factor) in three tranches during the year ending 30 June 2003.

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

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

Directors' emoluments and interests *continued*

PARTICIPATION IN SHARE INCENTIVE SCHEMES

Executive directors participate in the FirstRand share incentive schemes on the basis consistent with the practice for senior staff. Invitations to participate are subject to specific approval by the FirstRand Remuneration Committee, and are done on pricing parameters consistent with that extended to other senior executives. The current interests of executive directors in the share incentive schemes are as follows:

	Opening balance	Price cents	Expiry date	Taken up this year	Benefit derived R	Closing balance
Option schemes						
(FirstRand shares)						
V W Bartlett	506 250	408	10/9/2006	–	–	506 250
	675 000	325	22/11/2006	–	–	675 000
	450 000	628	24/3/2009	–	–	450 000
	1 170 000	690	9/4/2006	–	–	1 170 000
	2 801 250			–	–	2 801 250
L L Dippenaar	2 750 000	690	9/4/2006	–	–	2 750 000
P K Harris	2 750 000	690	9/4/2006	–	–	2 750 000
OutPerformance Scheme						
(FirstRand preference shares)						
V W Bartlett	1 500 000	815	1/4/2006	–	–	1 500 000
L L Dippenaar	2 000 000	815	1/4/2006	–	–	2 000 000
P K Harris	2 000 000	815	1/4/2006	–	–	2 000 000

DIRECTORS' INTEREST

According to the Register of Directors' interest, maintained by FirstRand in accordance with the provisions of section 140A of the Companies Act, directors of FirstRand have disclosed the following interest in the ordinary shares of the company at 30 June 2002.

Certain directors have also disclosed their effective interest in FirstRand as a result of their shareholding in RMB Holdings Limited, which company holds a 32,8% interest in FirstRand.

000s	Direct beneficial	Indirect beneficial	Indirect via RMBH	Total 2002	Total 2001
B H Adams	–	293	263	**556**	556
V W Bartlett	1 365	–	–	**1 365**	1 365
D J A Craig	–	–	–	–	–
L L Dippenaar	4	407	137 143	**137 554**	137 205
D M Falck	–	–	–	–	–
G T Ferreira	–	–	131 412	**131 412**	131 412
P M Goss	–	–	17 241	**17 241**	17 225
P K Harris	–	34	39 534	**39 568**	39 477
M W King	23	–	45	**68**	23
R S Maharaj	–	–	–	–	–
M C Ramaphosa	–	–	–	–	–
K C Shubane	25	–	–	**25**	20
F v Z Slabbert	–	–	–	–	–
B J van der Ross	–	–	–	–	–
R A Williams	–	59	–	**59**	59
Total 2002	**1 417**	**793**	**325 638**	**327 848**	**327 342**

Shareholders' information

as at 30 June 2002

	Shares held	%
Analysis of shareholding		
Major shareholders (owners) holding more than 5%		
RMB Holdings Limited	1 787 629 950	32,83
Financial Securities Limited (Remgro)	520 716 856	9,56
Public Investment Commissioner	394 516 086	7,25
Subtotal	2 702 862 892	49,64
Other	2 742 440 197	50,36
Total	5 445 303 089	100,0
Shareholder type		
Corporates	2 490 681 632	45,74
Institutions	2 687 257 074	49,35
Individuals	267 364 383	4,91
Total	5 445 303 089	100,0

	Number of shareholders	Shares held	%
Public and non-public shareholders			
Public	21 893	2 897 272 185	53,21
Non-public			
– Corporates (Remgro and RMBH)	2	2 308 346 806	42,39
– Directors and associates	13	9 881 815	0,18
– Share trusts	3	203 513 045	3,74
– Pension fund	1	26 289 238	0,48
Total	21 912	5 445 303 089	100,0

	Shares held	%
Geographic ownership		
South Africa	4 828 350 249	88,67
International	616 952 840	11,33
Total	5 445 303 089	100,0

Performance on the JSE Securities Exchange South Africa

as at 30 June

	2002	2001
Number of shares in issue	**5 445 303 089**	5 445 303 089
Market prices (cents per share):		
Closing	**765**	861
High	**905**	885
Low	**615**	619
Weighted average	**772**	771
Closing price/net asset value per share	**2,05**	2,83
Closing price/earnings per share	**9,24**	13,11
Volume of shares traded (millions)	**2 018**	1 258
Value of shares traded (R billion)	**15,58**	9,70
Market capitalisation (R billion)	**41,66**	46,88

Shareholders' diary

Reporting

Financial year-end	30 June 2002
Announcement of results for 2002	16 September 2002
Annual report posted by	1 November 2002
Annual general meeting	25 November 2002

Dividends

Final for 2002	
– Declared	16 September 2002
– Last day to trade cum-dividend	25 October 2002
– First day to trade ex-dividend	1 November 2002
– Payment date	4 November 2002

Interim for 2003

– Declared	February 2003
– Payable	31 March 2003

Administration

Firstrand Limited
(Registration No 1966/010753/06)
Share code: FSR ISIN code: ZAE0000 14973 ("FSR")

Company secretary
P F de Beer (FCIS)

Registered office
17th floor, 1 Merchant Place
Cnr Fredman Drive and Rivonia Road
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Website
www.firstrand.co.za

Sponsor
(in terms of JSE Listings Requirements)
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Statutory valuator of Momentum Group Limited
Nicolaas Kruger
BCom, FFA, FASSA

Auditors
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Transfer secretaries – South Africa
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2nd Floor, "Edura", 41 Fox Street
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Notice of annual general meeting

Notice is hereby given that the fifth annual general meeting of FirstRand Limited (the company) will be held in the auditorium, 18th Floor, 1 Merchant Place, corner Fredman Drive and Rivonia Road, Sandton, on 25 November 2002 at 09:30.

Agenda

1. To receive and adopt the annual financial statements for the year ended 30 June 2002 including the reports of the directors and the auditors thereon.

2. ### Election of directors

   To elect directors in the place of the following directors who retire in terms of the articles of association of the company:

   Messrs P K Harris, M W King, S R Maharaj and K C Shubane

   These directors are all eligible and available for re-election.

3. To approve the remuneration of directors as per note 34 to the annual financial statements.

4. To re-appoint PricewaterhouseCoopers Inc as auditors of the company until the forthcoming annual general meeting.

5. To authorise the directors to fix and pay the auditors' remuneration for the year ended 30 June 2002.

6. To consider and, if deemed fit, to pass, with or without modification, the following resolutions:

6.1 Special resolution No 1

Resolved:

that, subject to the provisions of the Companies Act, as amended, and the Listings Requirements of the JSE Securities Exchange South Africa (the JSE Listings Requirements), the Board of Directors be authorised, up to and including the date of the following annual general meeting, to approve the purchase of its own shares by the company on the open market of the JSE Securities Exchange South Africa (the JSE) provided that:

- the sponsor to the company provides a letter on the adequacy of working capital in terms of section 2.14 of the JSE Listings Requirements prior to any repurchases being implemented on the open market of the JSE;

- the general authority shall not extend beyond 15 months from the date of this resolution;

- the general authority to repurchase shares (either by the company or by any of its subsidiaries) be limited in any one financial year to a cumulative maximum of 20% of the company's issued share capital of that class at the time the authority is granted;

- the repurchases must not be made at a price more than 10% above the weighted average of the market value for the shares for the five business days immediately preceding the date the repurchases were agreed; and

- a paid press release giving such details as may be required in terms of the JSE Listings Requirements be published when any repurchases (either by the company or by any of its subsidiaries) have cumulatively exceeded 3% of the shares in issue.

The directors undertake that, for a period of 12 months following the date of the annual general meeting or for the period of the general authority, whichever is the longer, they will not undertake any such repurchases unless:

- the company and the group will be able to repay its debts in the ordinary course of business;

- the assets of the company and the group, fairly valued in accordance with Generally Accepted Accounting Practice, and on a basis consistent with the last financial year of the company, will be in excess of the liabilities of the company and the group for the next year;

- the company and the group will have adequate capital and reserves for the next year; and

- the working capital of the company and the group will be adequate for the next year's operations.

The Board has no immediate intention to use this authority to repurchase the company's shares. However, the Board is of the opinion that this authority should be in place should it become appropriate to undertake a share repurchase in the future.

The reason and effect of this special resolution is to enable the Board of Directors, up to and including the date of the next annual general meeting, but not extending beyond 15 months from the date of this resolution, to approve the purchase of its own shares by the company, subject to the limitations included in the special resolution.

6.2 Special resolution No 2

Resolved:

that, subject to the provisions of the Companies Act, as amended, and the JSE Listings Requirements, the Board of Directors be authorised, up to and including the date of the next annual general meeting, to approve the purchase of shares in the company by any subsidiary of the company, on the open market of the JSE provided that:

- the sponsor to the company provides a letter on the adequacy of working capital in terms of section 2.14 of the JSE Listings Requirements prior to any repurchases being implemented on the open market of the JSE;

- the general authority shall not extend beyond 15 months from the date of this resolution;

- the general authority to repurchase shares (either by the company or by any of its subsidiaries) be limited in any one financial year to a cumulative maximum of 20% of the company's issued share capital of that class, at the time the authority is granted;

- the repurchases must not be made at a price more than 10% above the weighted average of the market value for the shares for the five business days immediately preceding the date the repurchases were agreed; and

- a paid press release giving such details as may be required in terms of the JSE Listings Requirements be published when any repurchases (either by the company or by any of its subsidiaries) have cumulatively exceeded 3% of the shares in issue.

The directors undertake that, for a period of 12 months following the date of the annual general meeting or for the period of the general authority, whichever is the longer, they will not undertake any such repurchases unless:

- the company and the group will be able to repay its debts in the ordinary course of business;

- the assets of the company and the group, fairly valued in accordance with Generally Accepted Accounting Practice and on a basis consistent with the last financial year of the company, will be in excess of the liabilities of the company and the group for the next year;

- the company and the group will have adequate capital and reserves for the next year; and

- the working capital of the company and the group will be adequate for the next year's operations.

The Board has no immediate intention to use this authority to repurchase the company's shares. However, the Board is of the opinion that this authority should be in place should it become appropriate to undertake a share repurchase in the future.

The reason and effect of this special resolution is to enable the Board of Directors, up to and including the date of the next annual general meeting, but not extending beyond 15 months from the date of this resolution, to approve the purchase of shares in the company by any subsidiary of the company, subject to the limitations included in the special resolution.

6.3 Ordinary resolution No 1

Resolved:

that the unissued shares in the company be and are hereby placed under the control of the directors until the forthcoming annual general meeting and that they be and are hereby authorised to issue any such shares as they may deem fit subject to the Companies Act, the articles of association of the company and the JSE Listings Requirements.

6.4 Ordinary resolution No 2

Resolved:

that the directors of the company be given a general authority in terms of the JSE Listings Requirements to issue ordinary shares for cash as and when situations arise, subject to the following limitations:

- that this authority shall be valid until the company's next annual general meeting provided that it shall not extend beyond 15 months from the date of this annual general meeting;

- that a paid press announcement giving full details, including the impact on net asset value and earnings per share, will be published at the time of any issue representing, on a cumulative basis, within one financial year, 5% or more of the number of ordinary shares in issue prior to the issue;

- that issues in the aggregate in any one financial year will not exceed 15% of the number of ordinary shares of the company's share capital;

- that, in determining the price at which an issue of shares will be made in terms of this authority, the maximum discount permitted will be 10% of the weighted average traded price of the ordinary shares on the JSE as determined over the thirty days prior to the date that the price of the issue is determined or agreed by the directors; and

- that the issue must be made to public shareholders as defined by paragraphs 4.26 and 4.27 of the JSE Listings Requirements and not to related parties.

The approval of 75% of the votes cast by shareholders present or represented by proxy at this meeting is required for this ordinary resolution to become effective.

Please note

1. Only members who have not dematerialised their shares or who have dematerialised their shares and registered them in their own name are entitled to attend and to vote at the annual general meeting. Any such member is entitled to appoint a proxy (who need not be a member of the company) to attend, speak and, on a poll, to vote in his stead.

2. In the event of a poll, a shareholder or his proxy shall have one vote for every share held.

3. The signed proxy must reach the offices of the company not later than 17:00 on Wednesday, 20 November 2002.

4. Members who have dematerialised their shares and registered them in the name of a Central Securities Depositary Participant (CSDP) or broker should contact their CSDP or broker to make the relevant arrangements to attend/vote at the meeting.

By order of the Board

P F de Beer (FCIS)
Company secretary

16 September 2002

Proxy form

(Reg No 1966/010753/06)
("the company")

FIRSTRAND

Only for use by members who have not dematerialised their shares or who have dematerialised their shares and registered them in their own name.

I/We, the undersigned

of

being the registered holder of

ordinary shares in FirstRand Limited, hereby appoint (see note 2 overleaf)

1. , of or failing him

2. , of or failing him

3. the chairperson of the meeting, as my/our proxy to be present and act on my/our behalf, speak and, on a poll, vote on my/our behalf as indicated below at the annual general meeting of shareholders of the company to be held at 09:30 on Monday, 25 November 2002, and at any adjournment thereof as follows (see note 3 overleaf):

		Number of votes (one vote per ordinary share)		
		In favour of	**Against**	**Abstain**
1.	Resolution to adopt the annual financial statements			
2.	Resolution to re-elect the retiring directors who are available for re-election:			
	2.1 P K Harris			
	2.2 M W King			
	2.3 S R Maharaj			
	2.4 K C Shubane			
3.	Resolution to confirm the directors' fees and determine changes therein			
4.	Resolution to reappoint the auditors			
5.	Resolution to authorise the directors to fix and pay the auditors' remuneration			
6.1	Special resolution No 1 giving general authority until next annual general meeting for the company to repurchase its own shares			
6.2	Special resolution No 2 authorising directors, up to and including the date of the next annual general meeting, to approve the purchase of shares in the company by any subsidiary of the company			
6.3	Ordinary resolution No 1 to place unissued shares under control of directors			
6.4	Ordinary resolution No 2 giving specific authority in terms of the JSE Listings Requirements for directors to issue ordinary shares for cash (75% approval required)			

Instructions to my/our proxy are indicated by a cross in the space provided above or by the number of shares in the appropriate boxes where all shares held are not being voted.

2002

Signature of registered shareholder (assisted by me as applicable) Date

PLEASE SEE NOTES ON REVERSE SIDE OF THE FORM

PLEASE NOTE

Shareholders holding certificated shares or dematerialised shares registered in their own name

1. Only shareholders who hold certificated shares and shareholders who have dematerialised their shares in "own name" registrations may make use of this proxy form.

2. Each such ordinary shareholder is entitled to appoint one or more proxies (none of whom need to be a member of the company) to attend, speak and, on a poll, vote in place of that ordinary shareholder at the general meeting, by inserting the name of a proxy or the names of two alternate proxies of the ordinary shareholder's choice in the space provided, with or without deleting "the chairman of the meeting". The person whose name stands first on the form of proxy and who is present at the meeting will be entitled to act as proxy to the exclusion of those whose names follow.

3. An ordinary shareholder's instructions to the proxy must be indicated by the insertion of the relevant number of votes exercisable by that ordinary shareholder in the appropriate box/es provided. Failure to comply with the above will be deemed to authorise the chairman of the meeting, if he is the authorised proxy, to vote in favour of the resolutions at the general meeting, or any other proxy to vote or to abstain from voting at the general meeting, as he deems fit, in respect of all the ordinary shareholder's votes exercisable thereat.

4. An ordinary shareholder or his proxy is not obliged to vote in respect of all the ordinary shares held or represented by him, but the total number of votes for or against the resolutions in respect of which any abstention is recorded may not exceed the total number of votes to which the ordinary shareholder or his proxy is entitled.

5. Any power of attorney and any instrument appointing a proxy or other authority (if any) under which it is signed, or a notarially certified copy of such power of attorney shall be deposited at the office of the company, or of the transfer secretaries not less than 48 (forty eight) hours (excluding Saturdays, Sundays and public holidays) before the time appointed for holding the meeting.

6. The completion and lodging of this form of proxy will not preclude the relevant ordinary shareholder from attending the meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof should such ordinary shareholder wish to do so.

7. Where there are joint holders of ordinary shares any one holder may sign the proxy form. The vote of only one holder in order of seniority (determined by sequence of names on the company register) will be accepted, whether in person or by proxy, to the exclusion of the vote(s) of other joint holders.

8. Shareholders must lodge, post or fax their completed proxy forms in South Africa to Computershare Investor Services Limited, 2nd Floor, Edura Building, 41 Fox Street, Johannesburg, 2001 (PO Box 61051, Marshalltown, 2107), fax number (011) 836 0792, or in Namibia to Transfer Secretaries (Pty) Limited, Shop No 12, Kaiserkrone Centre, Post Street Mall, Windhoek (PO Box 2401, Windhoek, Namibia), fax number +264 61 24 8531, to be received by not later than 17:00 on Wednesday, 20 November 2002. Proxies not deposited timeously shall be treated as invalid.

Shareholders holding dematerialised shares

9. Shareholders who have dematerialised their shares through a Central Securities Depository Participant (CSDP) or broker (except those shareholders who have elected to dematerialise their shares in "own name" registrations) and all beneficial shareholders holding their shares (dematerialised or certificated) through a nominee should provide such CSDP, broker or nominee with their voting instructions in sufficient time to allow them to advise the transfer secretaries of the company of their voting instructions before the closing time per 8 above.

10. All such shareholders wishing to attend the meeting in person may do so **only** by requesting their CSDP, broker or nominee to issue the shareholder with a letter of representation in terms of the custody agreement. Such letter of representation must also be lodged with the transfer secretaries before the closing time per 8 above.

Acknowledgement

We would like to thank the South African Bureau of Standards Design Institute and Hippo Water Roller Trust for their assistance with the images used in this report.

www.designinstitute.org.za

www.hipporoller.org

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