# FirstRand

## Annual Report 2000

## Contents

# Group operating structure

RMB Holdings — 25,0%

FirstRand

**Momentum Group** — 100%

DIVISIONS

- Momentum Life
- Momentum Distribution Services
- Momentum Employee Benefits

**Momentum Wealth** — 100%

- Momentum Wealth SA
- Momentum Wealth UK

**Momentum Advisory Service** — 100%

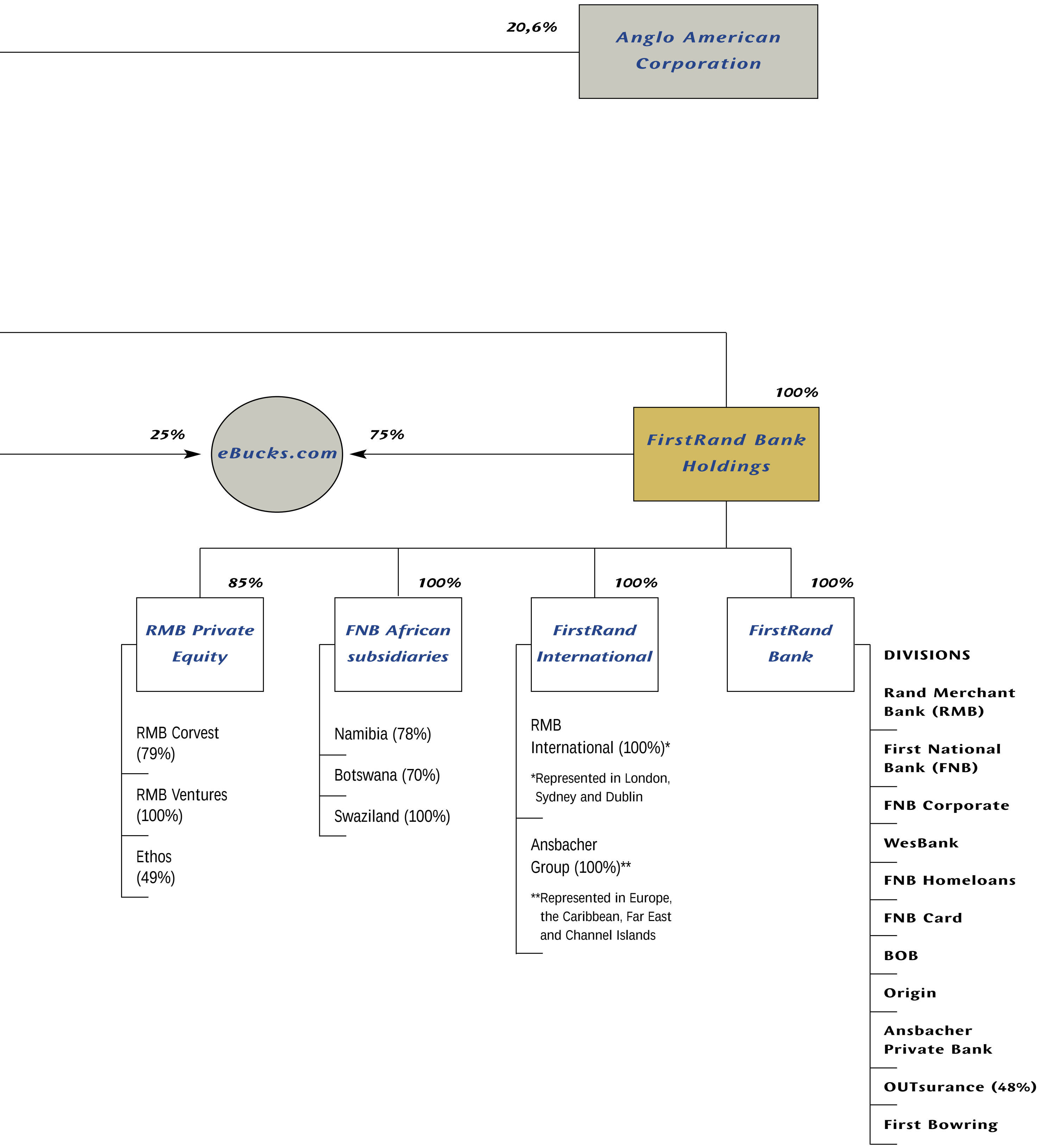
- Momentum Advisory Service SA
- Momentum Advisory Service UK

**FirstRand Asset Management** — 100%

- RMB Asset Management
  - -RMB Unit Trusts
  - -RMB Investment Service
- RMB Properties
- Futuregrowth
  - -Futuregrowth Asset Management
  - -Futuregrowth Unit Trusts
- International
  - -FirstRand International Asset Management
  - -Jersey General Group (55%)
  - -RMBAM Ireland

**Discovery** — 64%

- Discovery Health
  - -Discovery Life
  - -eDiscovery
- Destiny Health USA (99%)
- Vitality



20,6%
Anglo American Corporation
100%
25%
eBucks.com
75%
FirstRand Bank Holdings
85%
RMB Private Equity
100%
FNB African subsidiaries
100%
FirstRand International
100%
FirstRand Bank
RMB Corvest (79%)
RMB Ventures (100%)
Ethos (49%)
Namibia (78%)
Botswana (70%)
Swaziland (100%)
RMB International (100%)*
*Represented in London, Sydney and Dublin
Ansbacher Group (100%)**
**Represented in Europe, the Caribbean, Far East and Channel Islands
DIVISIONS
Rand Merchant Bank (RMB)
First National Bank (FNB)
FNB Corporate
WesBank
FNB Homeloans
FNB Card
BOB
Origin
Ansbacher Private Bank
OUTsurance (48%)
First Bowring

# Report of the Chairman and the Chief Executive

## *This report covers the second full year of the FirstRand Group*

**Here is the group's history in a nutshell:**

### *How FirstRand started*

In April 1998, through the merger of the financial services interests of Anglo American Corporation (AAC) and RMB Holdings (RMBH).

### *Companies in merger*

**On the Anglo American side**

- First National Bank Holdings of Southern Africa Limited (FNBH)
- The Southern Life Association Limited (Southern)

**On the RMBH side**

- Momentum Life Assurers Limited (Momentum)
- Discovery Health Limited (Discovery)
- Rand Merchant Bank Limited (RMB)

*G T Ferreira*

*Group Chairman*

## *Guiding vision*

To create a new group of companies structured with critical mass to take advantage of the blurring of boundaries and the convergence of products and services within the financial services industry, without the limitations imposed by minorities in operating companies.

## *Expected progress*

We estimated that the full benefits of the merger would take three to five years to achieve.

## *Actual progress*

- The merger of the operations of Southern and Momentum is now complete.

- The merger of FNBH's merchant banking operations with RMB is also complete.

- The transformation of the group's retail bank, reported last year, is on track.

- We are confident that the real benefits of the enlarged group will accelerate in the year ahead.

*LAURIE DIPPENAAR*

*GROUP CEO*

# Operating environment

## The group faced a fairly challenging financial year marked by a number of significant events

**The financial year to June 2000 was characterised by the following:**

- A falling interest rate environment. This was positive for the levels of non-performing loans, but did not result in the expected increase in demand for retail credit.
- A modest increase of only 9,4% in the JSE Overall Index over the 12 months to June, which included a fall in the index in the last six months.
- An increase of 5,1% in the headline consumer price index.
- Relatively low market volatility, which had the effect of limiting trading opportunities in financial instruments.
- Uncertainty about the effects of the Y2K millennium bug, which delayed spending and investment in the closing half of 1999.
- Regulatory changes which included a significant increase in the tax paid by life insurance companies, the taxation of foreign dividends and material changes to the Medical Schemes Act which complicated the launch of new health insurance products.

*Paul Harris*
*Banking Group CEO*

# Financial results

## Headline earnings +19% to R2,95 billion
## Total dividend +23% to 19 cents per share
## Assets under management +18% to R303,7 billion

### Attributable earnings

| R million | 2000 | 1999 | % change |
|---|---|---|---|
| Attributable earnings | **3 056** | 2 489 | 23 |
| Earnings per share (cents) | **56,1** | 45,7 | 23 |

### Headline earnings

| R million | 2000 | 1999 | % change |
|---|---|---|---|
| Headline earnings | | | |
| Banking | **2 190** | 1 898 | 15 |
| Insurance | **790** | 631 | 25 |
| Secondary tax on companies | **(33)** | (47) | 30 |
| Total headline earnings after tax | **2 947** | 2 482 | 19 |
| Headline earnings per share | **54,1** | 45,6 | 19 |

### Dividends

| Cents per share | 2000 | 1999 | % change |
|---|---|---|---|
| Interim | **9,0** | 7,5 | 20 |
| Final | **10,0** | 8,0 | 25 |
| Total | **19,0** | 15,5 | 23 |
| Cover (times) | **2,9** | 2,9 | |

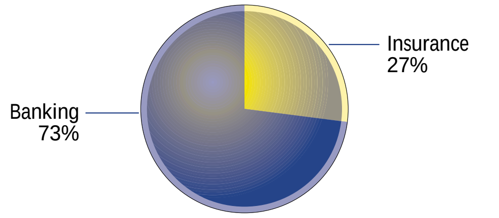
# *Financial results*

## *Contribution to earnings*

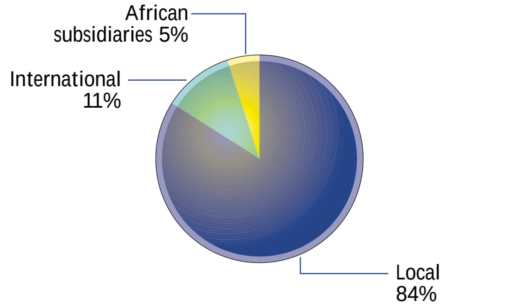
**By major division**
**(and ranked in descending order)**

| | 2000 % | 1999 % |
|---|---|---|
| Merchant banking | **17** | 17 |
| Instalment finance | **14** | 13 |
| Retail banking | **12** | 13 |
| Bank head office and capital centre | **11** | 31 |
| Corporate and commercial | **10** | 7 |
| Individual life insurance | **8** | 5 |
| Asset management | **7** | 5 |
| Investment income on free reserves | **6** | 9 |
| African subsidiaries | **4** | 4 |
| Property finance | **4** | (10) |
| Employee benefits | **3** | 3 |
| Health insurance | **3** | 3 |
| Other | **1** | – |
| Total | **100** | 100 |

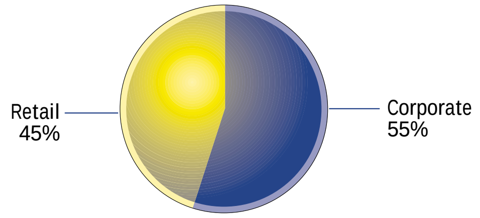
### *Insurance vs banking*



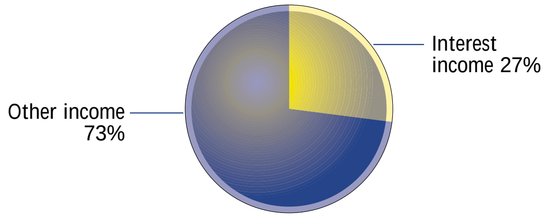

### *Local vs international*




### *Corporate vs retail*




### *Net interest vs other income*



## *Embedded value of insurance group*

**23% return on embedded value before dividends**

The embedded value of the Momentum Group, representing the sum of shareholders' net assets and the present value of the expected future profits arising from the existing in-force insurance business, totalled R9,4 billion at June 2000. The growth in embedded value for the year amounted to R1,9 billion before allowing for dividends. This growth represents a return of 23% on the opening embedded value.

## *Group assets under management*

**+18% to R303,7 billion**

Group assets under management, after adjusting for intergroup holdings, increased by 18% to R303,7 billion as shown below:

| *R MILLION* | *2000* | *1999* | *% CHANGE* |
|---|---|---|---|
| Holding company | **1 113** | - | - |
| Banking Group | **155 513** | 145 871 | 7 |
| Insurance Group | **147 057** | 112 345 | 31 |
| On-balance sheet | **66 165** | 56 193 | 18 |
| Off-balance sheet assets managed and administered on behalf of clients | **80 892** | 56 152 | 44 |
| Total | **303 683** | 258 216 | 18 |

# Management of capital

## Our capital position remains healthy

### Share capital

**R1,1 billion of preference shares issued**

On 30 March 2000, FirstRand issued the first tranches of the "A" convertible preference shares which form the basis of an OutPerformance staff share incentive scheme. The capital raised in this manner amounts to approximately R1,1 billion and will ultimately be deployed in the operating units where the participants are employed. In terms of the share scheme, the preference shares may be converted into ordinary shares over the next three to five years. The number of ordinary shares arising upon conversion will be determined by the extent to which the FirstRand share price outperforms its peers (as represented by the FINI 15 index) over the period.

### Share trading

**24% of issued shares traded**

The FirstRand share price in the year to 30 June 2000 averaged 742 cents per share, with a high of 1 010 cents per share and a low of 550 cents per share. The volume of shares traded remained constant at approximately 24% of the total issued share capital.

### Shareholding structure

**Anglo American will sell its 20,6% stake**

FirstRand's two controlling shareholders are AAC with 20,6%, and RMBH with 25,0%. In addition, the AAC associate De Beers owns a further 3,1%. AAC has indicated that it does not regard FirstRand as part of its core holdings and will seek to dispose of its investment in the next 18 months. The RMBH management and AAC are working together to achieve this.

### Return on equity

**We achieved 24%**

It is our policy at FirstRand to actively manage the capital invested in our subsidiaries and their respective businesses.

The benchmark return on capital for the group businesses has been set at an average of 12,5% real. The actual nominal return on average equity for the year under review was 24%.

During the year, we continued to refine the capital allocation principles which allow us to compare the returns achieved by each part of the business with the capital required to support it. Identifying the capital requirements, both statutory and economic, of the different business operations allows the executive committee to focus on maximising the expected return on any excess capital which might become available from time to time.

### Capital adequacy

**On track to meet proposed SARB ratios**

The favourable surplus capital position in our Insurance Group allowed Momentum to declare a total dividend of R861 million, representing 83% of the total dividends received by FirstRand. At 30 June 2000, Momentum Group's free reserves exceeded its capital adequacy requirements 2,1 times. This favourable position was achieved as a result of the successful listing of Discovery Health and the skilful restructuring of certain investment portfolios which carried investment-related guarantees.

In our Banking Group, the capital adequacy ratio (CAR) increased from 10,5% to 10,9% while the ratio of primary to secondary capital changed from 60 : 40 to 63 : 37.

The South African Reserve Bank has indicated that it intends to increase the statutory capital requirements for banks from the present 8% to at least 10%, and to change the ratio of primary to secondary capital from 50 : 50 to 75 : 25.

We are confident of being able, through the retention of profits, to comply with the Reserve Bank's anticipated changes.

# Management of brands

## *"In the 21st century, branding will ultimately be the only unique differentiator between companies" – Fortune Magazine*

At FirstRand, we have chosen to follow a multibrand strategy. We believe that this allows us to take full advantage of the valuable brands already existing in the portfolio.

## *Changes in our insurance brands*

**Focus on Momentum brand**

We have reviewed our life insurance strategy and decided to consolidate our activity under the Momentum brand. Consequently we have stopped using the Southern Life brand. The name of the company has also changed from FirstRand Insurance Limited to Momentum Group Limited.

## *Changes in our bank brands*

**Consolidation of the First National Bank brand**

During the year the fragmentation of the FNB brand into, amongst others, First Commerce, First Express, Personal Bank, was stopped. These brands have been consolidated under the First National Bank brand. This brand has been positioned to deliver "sensible, simple banking solutions". Furthermore, in the belief that service brands are built on a clear set of staff-owned values, distinctive brand values have been developed and comprehensively communicated internally. An external campaign will be launched in September.

Ansbacher – Recognising the value of a global brand for our high net worth customers, FNB Private Bank was renamed Ansbacher Private Bank to align it with our Ansbacher International Group.

Other – Brands earmarked for further development in the new year include Origin, OUTsurance, eBucks.com, CashPower and BOB.


*Derek Carstens*

# Convergence

## This is the process of capitalising on the blurring boundaries in financial services – and we will exploit it fully

### Convergence already a reality

**The group is uniquely positioned to exploit it**

Reference has already been made to the group's vision of capitalising on the blurring of boundaries and convergence within the financial services sector.

The FirstRand Group is uniquely positioned both in terms of structure and critical mass to take advantage of this trend. We enjoy financial strength, a massive customer base, huge transactional ability, a solid technological platform and virtually no conflict of interest between group companies.

### Good progress so far

**New strategies will improve this still further**

In the new year, we will implement a number of strategies to increase the number of group products owned by our customers. The concept of bancassurance is already a reality in certain parts of the group. WesBank, for example, earns 15% of its income from insurance-related activities, while Momentum Life receives 40% of its new business from independent financial advisers associated with banks. FNB branded unit trusts, education savings schemes and retirement plans are being successfully sold in First National Bank's rural branches.

### eBucks.com

**Focused on cross-selling**

An analysis of the many customer databases within the FirstRand Group reveals that our more than 5 million customers use on average only 1,45 group products. Our research shows that there is ample opportunity to increase this ratio, and this will form a major area of focus in the year ahead.

An important part of the convergence and cross-sell strategy is eBucks.com, our first major eCommerce initiative announced earlier this year. By creating the world's first real bank-backed eCurrency, eBucks.com will leverage all FirstRand group companies' business models via three key offerings:

- **Customer Appreciation Programme**
  This rewards customers in eBucks for using group products, and will therefore be a powerful incentive for them to extend their relationship across group companies. Customers will also be rewarded in eBucks if they switch to more cost-effective online alternatives to traditional banking and other financial services.

- **Secure eShopping**
  This is a secure method of shopping on the Internet. All major credit cards are accepted; even non-card holders will be able to

shop online via an eBucks.com account. No shopper will ever have to disclose confidential information to merchants.

- **eFinancial services**

  This will offer customers:
  - a consolidated view of accounts held with group companies
  - a single access point from which to view detail and to transact on and across these accounts
  - access to all products and services offered by the group via their websites.

On launch, FNB HomeLoans, FNB Card, WesBank, FNB Trust Services, Momentum, RMB Investment Services and CashPower will be represented on the site. As the functionality of this integrated bancassurance portal develops, the group will have an increasingly unique offering differentiating it from its competitors.

eBucks.com will be owned jointly by Momentum Group Limited and FirstRand Bank Holdings Limited. FirstRand will invest approximately R300 million over the next three years in this initiative. We believe this cost is more than offset by eBucks.com's vast potential to earn direct revenue and to add to the group's bottom line through cross-selling. It is an aggressive entry into the business-to-consumer eCommerce market and will form a central part of our future revenue potential.


MICHAEL JORDAAN

# Management of people

## Our people are our most important asset

### We attract excellent people

**They are empowered to achieve maximum effect in the group**

At FirstRand, our hiring philosophy is to attract, challenge and retain excellent people. We expect them to act with the utmost integrity. We empower them, hold them accountable and reward them appropriately.

By promoting the concept of FirstRand as a financial services group with the heartbeat of a merchant bank, we ensure that an entrepreneurial and innovative spirit are the pervasive ethos within the group. This allows us to attract quality staff, lift the level of the intellectual debate and implement tough and difficult decisions.

Our wide range of skills allows us to transfer staff between the Banking and Insurance groups so as to leverage our intellectual capital to best effect.

Details of management practices relating to training, development and remuneration structures are dealt with under our corporate governance report on page 38.

### Employment Equity Act

**We are compliant**

In May 2000, all group companies submitted their plans to the Department of Labour who have confirmed that we are now compliant with the new Employment Equity Act. We believe that these plans are realistic in the light of the present skill shortage and global competition faced by the South African financial services industry. Our research shows that the Government's honourable intentions are unlikely to succeed unless there is close co-operation with business.

At 30 June 2000 the FirstRand Group employed 35 200 people of whom 92% were employed in South Africa, 5% in African subsidiaries and 3% in the rest of the world. Of those employed in South Africa 35% were male and 65% female, while 49% were people of colour and 51% were white.

### New OutPerformance share incentive scheme

**Aimed at destiny changers**

On 30 March 2000, we launched our new OutPerformance staff share incentive scheme aimed at incentivising and retaining existing and potential leaders within the group – our destiny changers. Approximately R1,1 billion was raised in new preference shares to fund the venture. The money will be deployed in the operating units where the participants are employed. In terms of the share scheme, participants may convert their preference shares into ordinary shares over the next three to five years. The number of ordinary shares arising upon conversion will be determined by the extent to which the FirstRand share price outperforms its peers (as represented by the FINI 15 index) over the period.

The OutPerformance scheme is in addition to the share incentive schemes already operating in the Insurance and Banking groups.

# Corporate social investment

## Our grant pool now amounts to 1% of group after-tax profits

### FirstRand Foundation established

**It comprises two independently administered trusts**

During the year we finalised the structure of the FirstRand Foundation. The Foundation now comprises two trusts, these are:

- FirstRand Foundation Educational Trust
- FirstRand Foundation

The administration of the Foundation has been outsourced to Tshikululu Social Investments, and its activities are overseen by a board of trustees which includes representatives from the major divisions within the Banking and Insurance groups and independent trustees with relevant community knowledge and expertise.

Contributions to the fund are equal to 1% of the group's after-tax profits.

In addition, the group is contributing over a 5-year period to the National Business Trust of which FirstRand is a founder member. This is an initiative by South African companies working in partnership with the Government to undertake targeted job creation and capacity-building programmes. The contribution during the year, based on market capitalisation, totalled approximately R12 million.

A report on the Foundation appears on page 43.

# Report on operations —

# FirstRand Banking Group

***This group of companies is involved in retail, corporate and investment banking, both locally and internationally.***

***Consolidated headline earnings +15% to R2,19 billion***
***Pro forma headline earnings +25%***

## *Earnings*

Banking Group earnings during the year increased by 15% to R2 190 million. If the transfer by way of a special dividend of R2 billion of capital held by the Banking Group to Momentum Group on 30 June 1999 is recognised, the Banking Group's earnings represent a healthy pro forma increase of 25%.

An analysis of earnings is set out below:

| *R million* | *2000* | *1999* | *% change* |
|---|---|---|---|
| Rand Merchant Bank | **630** | 540 | 17 |
| WesBank | **507** | 420 | 21 |
| Retail Bank | **451** | 424 | 6 |
| Head Office and Capital Centre | **424** | 1 001 | (57) |
| Corporate and Commercial | **349** | 219 | 59 |
| African subsidiaries | **263** | 217 | 21 |
| Property Finance | **132** | (333) | >100 |
| FirstRand International | **70** | (1) | >100 |
| Broking and short-term insurance | **40** | 52 | (23) |
| Private Banking | **3** | 0 | >100 |
| Income from operations | **2 869** | 2 539 | 13 |
| *Less:* Taxation | **(548)** | (584) | (6) |
| | **2 321** | 1 955 | 19 |
| *Less:* Outside shareholders | **(131)** | (57) | >100 |
| Earnings attributable to ordinary shareholders | **2 190** | 1 898 | 15 |

*A comprehensive report by the Banking Group's Chief Financial Officer appears on page 66.*

# WesBank

## *is a full–service provider of instalment credit finance for moveable assets to the retail and corporate market.*

- Profits before tax increased by 21% to R506,7 million. Bad debts were kept at record low levels. Non-performing loans reduced to 2,4% of advances.

- WesBank retained its position as market leader in the vehicle finance area and was rated the top vehicle finance bank in the most recent PricewaterhouseCoopers survey on banking in South Africa.

- Monthly pay-outs exceeded R1,0 billion throughout the year.

- Joint ventures were established with Volkswagen and Toyota and a black empowerment initiative, Kgwerano Asset Finance. These are in addition to the existing joint ventures with Delta, Nissan, McCarthy and Fiat.

- WesBank entered its first e-commerce initiative through a joint venture with Dimension Data and the retail motor industry. The venture will trade as "Motoronline" and will provide business-to-business and business-to-consumer services to members and customers of the retail motor industry. R50 million is to be invested in the project.

- WesBank expanded the activities of CashPower, a readily accessible form of "paperless" credit available by telephone to consumers.

- A "centralised" group collections division was established within WesBank.


Ronnie Watson

# Rand Merchant Bank

## *RMB offers specialist services in the fields of corporate finance, special projects, investment banking and treasury.*

### *Another good year*

RMB tops charts in banking survey

RMB achieved record profits of R629,7 million before tax, representing an increase of 17%. These profits were achieved despite a relatively flat equity market with low volatility. However, the bank was able to make more efficient use of capital and leverage off the greater group's balance sheet.

RMB was rated by its peers in the most recent PricewaterhouseCoopers survey of banking in South Africa to have the best teams in structured finance, private equity and corporate finance (the latter including both listings and mergers and acquisitions). The survey encompasses both domestic and foreign participants in the local investment and merchant banking markets.

### *RMB Corporate Finance*

Despite generally depressed market conditions and a significant slowdown in mergers and acquisitions activity, RMB Corporate Finance maintained its dominant position in the South African market.

RAND MERCHANT BANK

Michael Pfaff

- Significant transactions concluded during the year included the acquisition of Comparex's international networking business by Didata and the listing of Discovery Health.

- In January 2000, Corporate Finance launched its Australian presence with the acquisition of a team of three senior directors with over 40 years of experience in the Australian and Asian investment banking markets. These directors have built up a team which is focused on large mergers and acquisitions, divestments and fund raising transactions for RMB's Australian and South African clients. In the short period under review, they advised on transactions with a value of more than R4 billion.

### *RMB Private Equity*

RMB Private Equity has the most comprehensive portfolio of private equity investments in the market.

- RMB Ventures and RMB Corvest made a substantial surplus when they realised their joint equity interest in Railit Total Transportation.

- Ethos Private Equity concluded the Waco leverage buyout, which is the largest transaction of its type in South Africa.

- RMB Private Equity successfully expanded its operations into the specialist private equity senior and mezzanine debt business. More than R750 million was advanced to leverage buyouts.

- RMB Ventures Australia evolved into an established private equity player in that country.

### *RMB Special Projects*

RMB Special Projects recorded its best year ever both in terms of current year profitability and present value of future profits arising from deals concluded. These deals contributed R7 billion to long-term asset growth.

- Significant transactions included the financing of the N3 toll road and the acquisition of two new Boeing 747s for South African Airways.

- Several securitisation transactions were entered into. One of these was the raising of US$250 million through the securitisation of FirstRand Bank's future foreign credit card receivables. The division has stated its intentions of making inroads into the structured trade market and leading the way in the creation of new markets for credit-linked securities and derivatives.

- Excellent progress is being made in Special Projects' offshore operations where assets now exceed US$3 billion.

### *RMB Treasury*

RMB Treasury achieved a record performance in a year characterised by relatively low volatility and trading volumes. This performance was achieved with less reliance on traditional trading activities and greater reliance on annuity and arbitrage activities. The capacity now exists to ensure that this trend continues in the years ahead.

- RMB Treasury maintained its premier position in the foreign exchange, fixed-interest and money markets by once again being ranked within the top three in all of these categories by the PricewaterhouseCoopers survey of banking.

- During the year, RMB Treasury assumed full responsibility for the treasury function in the FirstRand Banking Group. The transfer pricing mechanism within the group has been redefined, and all business units are now measured on a fully geared basis. The funding base was diversified and good levels of liquidity were maintained throughout the year, particularly over the Y2K period.

## *Retail Bank (First National Bank)*

***The Retail Bank produces, administers and supports most of the group's core banking products. It is responsible for the strategic marketing functions to the consumer, rural and business market segments. It manages the distribution channels for the bank, delivering financial services to banking clients across all segments.***

***It is also responsible for managing certain centralised services for the Banking Group such as technology, premises and payroll activities.***

*Wendy Lucas–Bull*

## *Good progress on all fronts*

The expected synergies are starting to be realised

Last year we reported that there would be increased management focus on the group's retail banking activity. We indicated that restructuring of its activities could be expected to, over the medium term, improve efficiencies, eliminate loss making activities, unlock human potential and exploit the significant potential for improved revenue, service and profitability.

We are pleased to be able to report impressive progress on all fronts:

- Profits before tax totalled R450,6 million.
- A pilot project to reengineer back-office cheque processing was completed. This revised model which significantly improves the efficiency of operations will be introduced in the year ahead.
- Pricing of products and services was reviewed and adjusted where required to reduce revenue leakage and bring pricing in line with market norms.
- The process of consumer credit approval was improved, using technology and scoring methodologies. This is expected to reduce bad debts and improve service.
- Branch operations in metropolitan areas were restructured and refocused to ensure that they operate as sales and service outlets. In line with this, sales and service directors and managers with appropriate profiles have been appointed.
- Service and efficiency improvements in the bank's contact centre resulted in FirstDirect winning "Best Customer Service in a Call Centre" accolade, awarded by Call Centre Africa 2000. Initiatives are in place to increase contact centre usage.
- The number of customers using Internet banking reached 70 000. The introduction of eBucks is expected to increase this number materially. The Internet banking offering is being revamped for release this year.
- The availability of our ATM network was improved and its functionality increased. FNB now operates more than 1 700 automatic teller machines (ATMs) in South Africa. The use of FNB ATMs has increased against the market trend of static or reduced transaction volumes.
- Client data was reviewed and restructured to identify client needs. The bank's ability to further improve client service depends on its management information system. In this regard, First National Bank enjoys a richness of data which presents an opportunity to service clients more effectively.
- The information technology team achieved annualised savings in excess of R200 million, while at the same time increasing operational capacity, reducing downtime and timeously delivering a number of strategic developments. Disaster recovery was upgraded.
- Annualised savings of R100 million were achieved in the premises and human resources area. It remains the bank's policy to keep head office support services to a minimum.
- FirstCard was restructured and improvements are under way.
- FNB's rural branch network continued to perform strongly, making a material contribution to operating profits and increasing market share.
- The strategy for emerging markets has been agreed and products and services are being rolled out.

# Corporate Bank

## *FNB Corporate provides a complete range of banking products to the business community.*

- Profits before tax increased to R349,4 million. New leadership was appointed and the innovative and entrepreneurial culture of the division strengthened.

- During the year, FNB Corporate Bank assumed the management of FNB's Business and Commercial division. Two separate divisions will be maintained, each operating in its traditional target markets. Substantial savings are expected from this rationalisation.

- Bad debts increased, and it was necessary for the bank to make substantial provisions for a number of well-publicised corporate failures. However, credit processes are being reviewed and pricing mechanisms established to better recognise the credit risks involved.

- Co-operation with RMB and Momentum Employee Benefits will extend the range of products and services available to business clients.


CORPORATE

*Theunie Lategan*

# *PROPERTY FINANCE*

## *provides mortgage finance to homebuyers.*

- There was a dramatic R465,0 million turnaround following the introduction of new management. Profits before tax of R131,7 million were achieved compared to a loss of R333,3 million during the previous year.

- Non-performing home loan balances were reduced to 4% of advances compared with 9% in June 1999.

- There was a 21% fall in the number of properties in possession following the establishment of a Home Traders division.

- The property valuations function was outsourced.

- A home loan pricing strategy was introduced which allowed the introduction of individualised risk lending rates and has focused on increasing the average size of advances.


*ED GRONDEL*

## *African subsidiaries*

***comprise companies in Namibia, Botswana and Swaziland. FNB Namibia (78%-owned) and FNB Botswana (70%-owned), are quoted on their respective stock exchanges.***

- First National Bank of Namibia increased profits by 17% to R149,5 million under difficult trading conditions. The company enjoys a market share in excess of 30% of advances in Namibia. A focus on improving the risk profile of the book has reduced bad debts.

- First National Bank of Botswana continued to show significant growth. Despite the impact of large corporate lending losses, profits increased by 17% to R105,3 million. Profitability is expected to rise significantly in the year ahead following the high level of provisioning in the year under review. This will further improve the sound return of equity and operating ratios. Plans are well advanced to introduce new credit products, including micro-loans, to the emerging market and an insurance brokerage operation.

- Profits more than doubled to R8,4 million at First National Bank of Swaziland. While this is still a relatively small operation, impressive progress was made in improving operating efficiencies and return on equity.


*Viv Bartlett*

# *FirstRand International*

## *serves as an umbrella under which a portfolio of businesses is managed.*

These businesses are aligned to the group's core competencies and include:

- Private banking and wealth management under the Ansbacher brand
- Investment banking to resource-based businesses through RMB Resources
- Energy trading, dealing and settlement services via RMB Energy
- Corporate finance in Australia under RMB Corporate Finance
- Private equity investments in Australia with RMB Ventures

Management also facilitates the international activities of the domestic business units and promotes and protects the group's brands internationally.

- Total earnings before tax from the Banking Group's international activities totalled R458 million and are included, where appropriate, in the various operating divisions' results.

- Management and operating structures are now in place, which makes it possible to further increase the line of foreign-based earnings.

- Ansbacher International is expanding its range of products and services in conjunction with Momentum Wealth and FirstRand Asset Management.


RICHARD SPILG

# *Insurance and broking activities*

## *OUTsurance*

- In July 1999, the activities of OUTsurance, a wholly-owned subsidiary of RMB Holdings, were merged with First National Insurance (FNI). This gave FNI access to OUTsurance's outstanding actuarial skills. OUTsurance, in turn, gained access to FNI's large customer base. In terms of the merger, FirstRand Bank and RMB Holdings each own 47,5% of the merged entity, with staff holding the balance. These operations have now been sufficiently integrated, and progress is being achieved in building the OUTsurance brand.


*René Otto*

*Keith Young*


## *First Bowring*

- First Bowring finalised its joint venture with Marsh Inc, the world's largest insurance broker. FirstRand Bank is a 40% partner in the venture, which operates in the large corporate market. It allows First Bowring to concentrate on personal lines, small and medium businesses, and crop insurance.

# *Private banking*

## *Origin*

Origin provides wealth creation solutions to high income earners

- The division's merchant banking parentage has allowed it to establish a reputation for innovation. Its single credit facility changed the rules of banking and is now being copied by competitors.

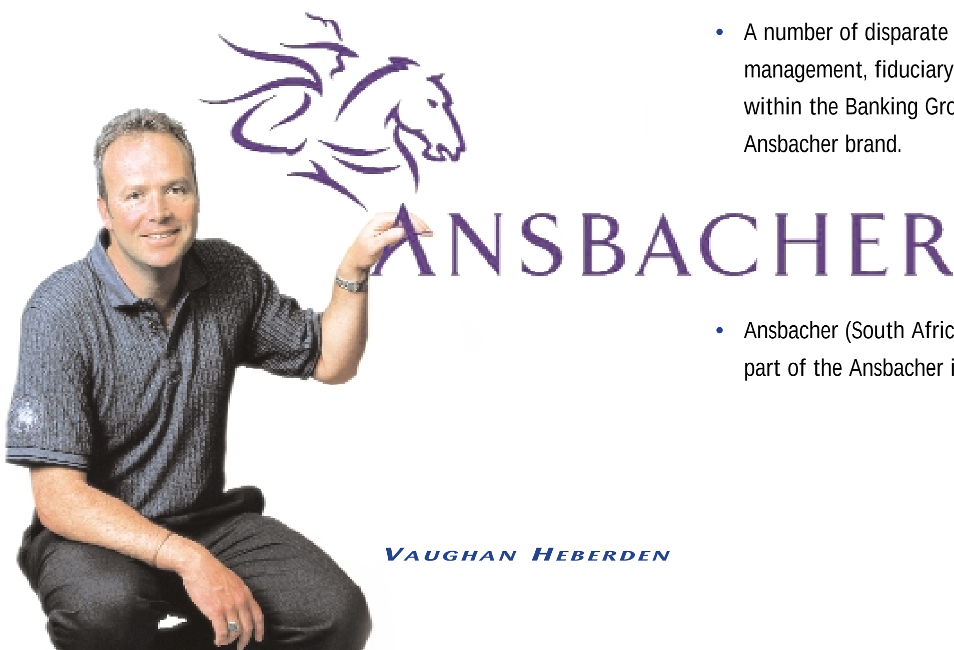
- Additional banking, insurance and investment related products will be introduced to Origin's target market in the new year as part of an aggressive marketing campaign.


*Willie Miller*

## *Ansbacher Private Bank*

Ansbacher is positioned to offer personalised holistic global wealth management to high net worth individuals

- A number of disparate business units including asset management, fiduciary services and private banking from within the Banking Group have been consolidated under the Ansbacher brand.




- Ansbacher (South Africa) is aligned as an integral part of the Ansbacher international group of companies.

*Vaughan Heberden*

# Banking Group Risk and Finance

- Earnings before tax on the Banking Group's capital totalled R425,0 million compared with R1 001,0 million in the prior year. This lower figure reflects the impact of the transfer of R2 billion of capital to FirstRand Limited and the declining interest rate regime.

- The finance division of FirstRand Bank has been consolidated to include Group Accounting, Tax, Internal Audit Services and the management of all aspects of risks including Credit, Market, Operations and ALCO. The group risk division is the custodian of the bank's new risk management framework. This framework is independently audited to ensure its effectiveness.

- Financial officers were appointed in all of the major clusters.

- Good progress is being made with the allocation of capital to measure performance.

- The quality of reporting, based on the decentralised structure was improved and activity-based costing used to test pricing strategies.

# Report on operations —

# Momentum Group

## *Momentum and its subsidiaries are involved in activities related to the creation and protection of wealth.*

### *Consolidated headline earnings +25% to R790 million*

### *Earnings*

An analysis of the earnings of the Momentum Group is summarised below:

| R MILLION | 2000 | 1999 | % CHANGE |
|---|---|---|---|
| Insurance Operations | **327** | 205 | 60 |
| Individual Business | **229** | 127 | 80 |
| Employee Benefits | **98** | 78 | 26 |
| Asset Management operations | **205** | 136 | 51 |
| Health Insurance operations | **88** | 64 | 38 |
| Group operating profit after tax | **620** | 405 | 53 |
| Investment income on free reserves | **170** | 226 | (25) |
| Group headline earnings | **790** | 631 | 25 |

The 53% increase in operating income after tax is particularly pleasing, while the 25% decline in investment income reflects the move from predominantly interest-bearing assets to equities which are expected to provide a better return over the long term.

A comprehensive report by the Chief Financial Officer of Momentum Group appears on page 118.

**Hillie Meyer**

**Momentum Group MD**

## Individual business

### *Earnings from individual business, comprising Momentum Life and Momentum Wealth, increased by 80% to R229 million.*

## Momentum Wealth* and Momentum Advisory Service

### *Momentum Wealth is an administrator of packaged unit trusts. Momentum Advisory Service is the group's global multi–manager and investment research house.*

- Momentum Wealth's assets under administration increased by 56% to R12,5 billion.
- Developments during the year included the introduction of a retirement product for small companies as well as the Group Investment Option which is a multi-manager product for the retirement fund market.
- Momentum Wealth UK was established to offer the Momentum Wealth concept to Henry Ansbacher's International client base. New business inflows during the year totalled R1,5 billion.
- Momentum Advisory Service's wrap funds under management exceeded R3,7 billion.

Peter Göbel

Riaan van Dyk

*previously Momentum Administration Services

# Momentum Life

## *Momentum Life products and services create and protect wealth for the upper– and middle–income market.*

- New single premiums increased by 80% to R4,9 billion. New business recurring premiums increased by 21% to R584 million.

- The conversion of Southern policyholder data to the Momentum administration systems was completed on time and within budget. The single operating platform will ensure substantial ongoing savings and operational efficiencies for Momentum Life estimated at R230 million per annum.

- The Southern conversion was not without its challenges, and service levels in some areas declined. In the circumstances, customer retention was satisfactory. However, Momentum Life takes great pride in being recognised as the leading administrator in South Africa and management is confident that the common systems now in place will ensure that service levels will once again exceed customer expectations.

- Further savings were achieved via a joint venture with Capital Alliance in terms of which the Southern field force was positioned to sell products from both companies. As a result the losses relating to this distribution channel were reduced from R60 million in the previous year to R22 million in the current year. No further losses are anticipated.

- Momentum Corporate Advisory Services (CAS) made a significant contribution to the operational profits. CAS specialises in structuring tailormade insurance products for high net worth individuals and corporate clients.

- Growth in revenue is expected to emerge as a result of increased market share, flowing from an expansion of the capacity of Momentum Distribution Services and the launch of an exciting range of new products in both the investment and risk related fields. Improvements in operating efficiencies of 25% are targeted for the next three years. Staff incentives have been aligned with these targets.


Kobus Sieberhagen

Nigel Dunkley

Danie Botes

## *MOMENTUM EMPLOYEE BENEFITS*

### *MEB provides consulting and employee benefits solutions to a select range of employers.*

- Profits after tax totalled R98 million – an increase of 26%. A large percentage of these profits came from risk-related business where MEB has established itself as a market leader.

- A restructuring of MEB's guaranteed fund portfolios resulted in a reduction of approximately R600 million in capital adequacy requirements. This restructuring, achieved with the use of derivative instruments, will improve MEB's return on equity.

- Plans are well advanced for the implementation of a new administration system, MEB Online. This enhanced consolidated administrative platform will result in improved operating efficiencies and a more effective customer interface.

- Opportunities are being explored to offer the division's products and services to the customers of the Corporate and Commercial Bank.


*NIEL KRIGE*

*DON BROWN*

# Discovery

## *Discovery focuses on making people healthier and enhancing their lifestyle.*

- Earnings attributable to Momentum's 64,1% shareholding in Discovery increased by 38% to R88 million.

- Discovery was successfully listed on the JSE in October 1999 with the initial listing price of R6,90 per share rising to R11,25 at June 2000. This resulted in considerable value being unlocked for the Momentum Group.

- Membership of Discovery's Health Plans grew 38% to more than 700 000 lives.

- The implementation of the new Medical Schemes Act during the year necessitated a substantial change in the structure of the Health Plans. The new plans are now well placed in terms of both the new regulations and products offered by competitors.

- The Vitality HealthStyle programme membership grew 64% to nearly 470 000 members.

Adrian Gore

- Destiny Health, Discovery's US initiative, launched its products in Chicago in May 2000 after receiving the necessary regulatory approval. The initial response from the intermediary community has been most pleasing.

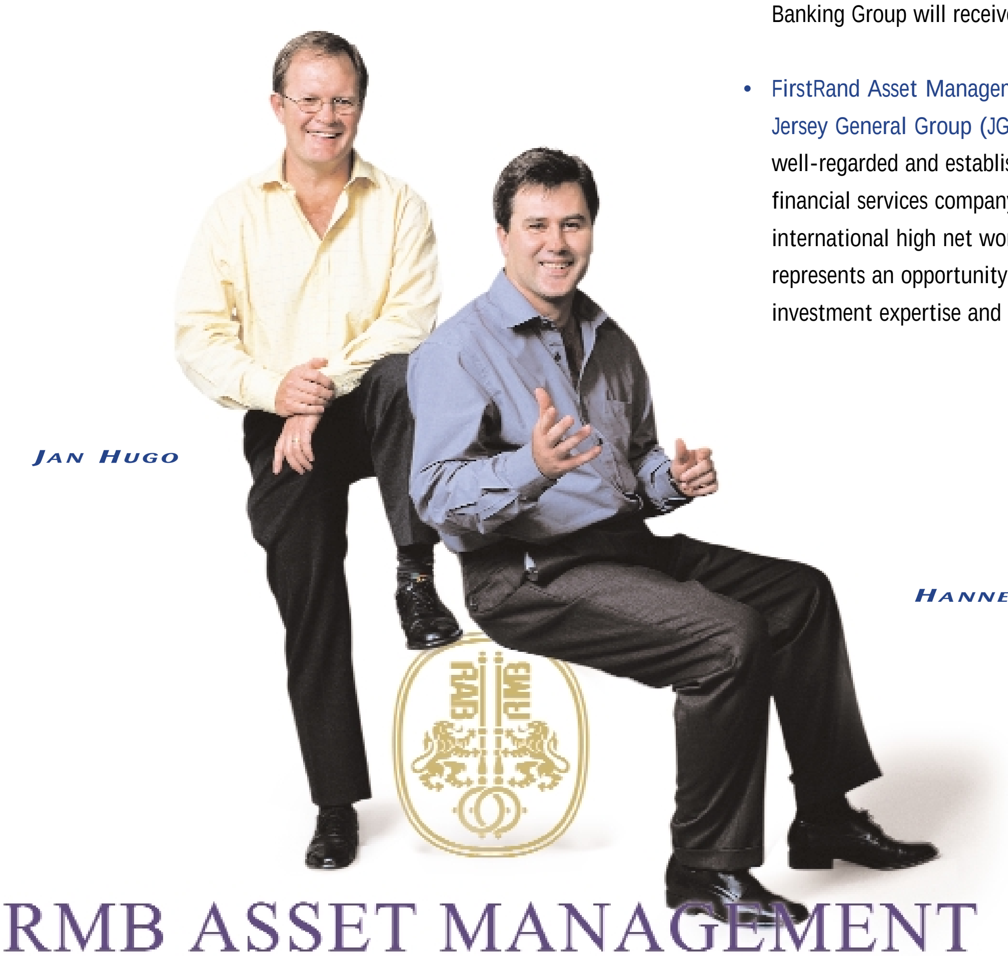
- Discovery's unique positioning in managing risk and health care presents an opportunity to expand into life, disability and dread disease products. To this end, a new subsidiary, Discovery Life, will launch a range of risk-related products aimed initially at its existing customer base in September 2000.

- Discovery World will launch during the coming year and will provide access to Discovery's products and services in a fully interactive online environment.

# FirstRand Asset Management

## provides a complete range of asset management products and services.

- Profits after tax increased by 51% to R205 million.
- Assets managed both locally and internationally reached R127 billion.
- The RMB Asset Management team achieved excellent returns for clients during the year. The team came second in the Alexander Forbes Large Manager Pension Fund Survey over two and ten years, and first in the latest "Plexus" Awards for overall excellence of investment returns across the full range of unit trusts.
- Southern Asset Management was merged with RMB Asset Management, resulting in substantial savings.
- Concurrent with this merger, FutureGrowth was established as a stand-alone asset manager concentrating on empowerment and infrastructure development. We are still seeking a suitable empowerment partner to co-invest in FutureGrowth.
- RMB Properties increased its contribution to profits and was involved in managing building projects totalling R650 million.
- The unit trust team is now also responsible for the administration and marketing of FNB Unit Trusts, which are sold through FNB's retail outlets. This initiative with the Banking Group will receive increased focus in the year ahead.
- FirstRand Asset Management increased its holding in the Jersey General Group (JGG) from 20% to 55%. JGG is a well-regarded and established wealth management and financial services company based in Jersey. It currently services international high net worth individuals. The acquisition represents an opportunity to increase our international investment expertise and to expand this target market.




JAN HUGO

HANNES DU PREEZ

## Prospects

We face the new year with confidence. Two difficult mergers are behind us and the transformation of the Retail Bank is on track.

An ambitious cost-cutting campaign has been launched by the Banking Group with the aim of reducing its cost-to-income ratio to 55% by June 2002. An integral part of the cost-cutting process will be the re-engineering of back office processes at the bank.

A more scientific credit process and credit risk-pricing model is being introduced by the bank. This is expected to impact favourably on the level of non-performing loans.

The establishment of the branches as stand-alone sales and service outlets is a key component of improving cross-sell ratios, customer retention and service levels.

The focus of the Momentum Group will be on product innovation and the development of FNB as a retail distribution outlet. A three-year programme has been devised to achieve significant operational efficiencies of 25%. There will also be a strong focus on improving the return on shareholders' free reserves while optimising the statutory capital employed by the Momentum Group.

Discovery Health has announced that it will launch a life insurance initiative in September 2000. Protection against death, disability and dread disease will be offered initially to its existing customer base and will eventually be expanded into the broader market.

We are confident that the real benefits of the enlarged group will continue to emerge in the year ahead.

## Thanks

We would like to thank the board of directors for their support and guidance, and our staff for their ingenuity and hard work. We want our customers to know that we are committed to providing them with excellent products and services, and our shareholders to be richly rewarded for their confidence in our ability.

G T Ferreira
*Chairman*

L L Dippenaar
*Chief Executive*

# *FirstRand Limited board of directors*

**Gerrit Thomas Ferreira (52)**
*BCom (Hons), B (B&A), MBA*
Chairman

**Michael Wallis King (63)**
*CA(SA), FCA*
Deputy Chairman

**Lauritz Lanser Dippenaar (51)**
*MCom, CA(SA)*
Chief Executive Officer

**Barry Hilton Adams (64)**
*CA(SA)*

**Vivian Wade Bartlett (57)**
*AMP (Harvard), FIBSA*
Deputy Chief Executive Officer of
FirstRand Bank Holdings Limited

**David John Alistair Craig* (52)**

**Patrick Maguire Goss (52)**
*BEcon (Hons), BAccSc (Hons), CA(SA)*

**Paul Kenneth Harris (50)**
*MCom*
Chief Executive Officer of FirstRand Bank Holdings Limited

**Sathyandraneth Ragunanan Maharaj (65)**
*BA, BAdmin*

**George Rupert Pardoe (43)**
*BA (Hons) (Cum Laude)*

**Khehla Cleopas Shubane (44)**
*BA (Hons)*

**Benedict James van der Ross (53)**
*Dip Law (UCT)*

**Robert Albert Williams (59)**
*BA, LLB*

*British

# FirstRand Limited executive committee

**Laurie Dippenaar (51)**
*MCom, CA(SA)*
Chief Executive Officer
FirstRand Limited

**Adrian Arnott (53)**
*BCom, CA(SA), PMD (Harvard)*
Chief Financial Officer
FirstRand Limited

**Viv Bartlett (57)**
*AMP (Harvard), FIBSA*
Deputy Chief Executive Officer
FirstRand Bank Limited

**Derek Carstens (51)**
*BEcon (Hons), MA (Cantab)*
Director of brands and Chairman
of Consumer Banking

**Lindsay-Pierre E Collet (39)**
*BBusSc (Hons), MBA, CFA, AMP (Harvard)*
Executive Director – Special Projects
Rand Merchant Bank

**Peter Cooper (44)**
*BCom (Hons), CA(SA), H Dip Tax*
Chief Operating Officer
RMB Holdings Limited

**Adrian Gore (36)**
*BSc (Hons), FFA*
Chief Executive Officer
Discovery Health Limited

**Paul Harris (50)**
*MCom*
Chief Executive Officer
FirstRand Bank Limited

**Jan Hugo (42)**
*BCom (Hons), CA(SA)*
Newly appointed Chief Executive Officer of
FirstRand Asset Management

**Rowan Hutchison (53)**
*BCom (Hons), B (B&A), MB*
Outgoing Chief Executive Officer of
FirstRand Asset Management

**Wendy Lucas-Bull (47)**
*BSc*
Chief Executive Officer
Retail Bank – FirstRand Banking Group

**Hillie Meyer (42)**
*BCom, FIA, AMP (Oxford)*
Managing Director
Momentum Group Limited

**Michael Pfaff (38)**
*BCom, CA(SA), MBA (Duke)*
Deputy Chief Executive Officer
Rand Merchant Bank

# Corporate governance

### COMPLIANCE STATEMENT

The FirstRand Group is committed to good corporate citizenship and to open corporate governance in its stewardship of the group's affairs.

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

Furthermore, in recognition of the need to conduct the affairs of the group according to the highest standards of corporate governance, in the interests of investor protection, the directors of FirstRand and its various subsidiaries endorse the Code of Corporate Practices and Conduct recommended in the King Report. The directors are satisfied that the group has observed and applied the Code consistently during the period under review.

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

### INTERPRETATION

FirstRand Limited is the holding company of Banking (FirstRand Bank Holdings) and Insurance (Momentum Group) operations. Each group has its own board of directors, executive, audit and remuneration committees that monitor the respective group's operations.

### BOARD OF DIRECTORS

#### Responsibilities of directors

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

#### Composition and frequency of FirstRand Group meetings

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 responsibilities divided between them.

The board comprises thirteen directors of whom three serve in an executive capacity. The directors of FirstRand are listed on page 36 of this report and their profiles appear in appendix 2.
Non-executive directors comprise individuals of high calibre with diverse backgrounds and expertise. This ensures that their views carry significant weight in the board's deliberations and decisions.

The board has a formal schedule of matters it oversees and meets once a quarter. Additional meetings are convened when major issues arise which need to be resolved between scheduled meetings.

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

The Banking and Momentum Groups have their own boards of directors, which function in a similar manner to the FirstRand board.

#### Limitation to appointment period

There is a formal transparent board nomination process. Non-executive directors are appointed for specified terms, subject to re-election and to Companies Act provisions relating to removal, retiring by rotation every three years. Re-appointment of non-executive directors is not automatic. The retirement age of directors is set at age 70 across the group.

### COMPANY SECRETARY

The company secretary of FirstRand is suitably qualified and experienced and was appointed by the board in 1998. He is inter alia responsible for the duties stipulated in Section 268G of the Companies Act and the certificate required to be signed in terms of subsection (d) thereof appears on page 47.

### BOARD SUBCOMMITTEES

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. These committees all have specific terms of reference, and are accountable to the board. The committees are composed of individuals with a mix of skills, experience and other qualities appropriate to their roles. A sufficient number of non-executive board members capable of exercising independent judgement to tasks, where there is a potential conflict of interest, have been assigned to these committees. Examples of such responsibilities include executive remuneration and financial reporting. The board committees are:

#### Executive committee

An executive committee (Exco) is empowered and responsible for carrying out the strategies decided by the board and managing the business affairs of the group. The Exco comprises the CEO of FirstRand Limited and certain executives of the operating subsidiaries. The executive committee members are listed on page 37. Management responsibility for the day-to-day operations is delegated to various executive committees operating within each major business unit in the group. These executive committees consist of the senior management within each business unit, and meet regularly during the year.

#### Audit committee

The audit committee of FirstRand includes the chairmen of the various group audit committees. The chairman of the audit committee is a chartered accountant. The function of the audit committee is to review the findings and reports of the group audit committees, which exist in the Banking Group, Momentum Group and Discovery Health.

All audit committees have adopted formal written charters, approved by the group boards. These clearly set out the scope of their responsibilities and authorities and the structures and processes. The committees regularly assess the adequacy and relevance of their charters. During the financial year under review, the audit committees have addressed their responsibilities properly in terms of their charters.

The primary objective of the audit committees is to promote the overall effectiveness of corporate governance in the group. Their objectives include:

- ensuring the integrity of the group's accounting and financial reporting systems;
- ensuring that appropriate systems are in place for monitoring risk, financial control and compliance with the law and codes of conduct;
- evaluating the effectiveness of the internal audit, risk and compliance management functions in the group;
- maintaining transparent appropriate relationships with the respective firms of external auditors; and
- reviewing the scope and quality of the statutory audit and the independence and objectivity of the auditors.

The risk and compliance managers of the Momentum Group, the internal auditors of the Banking Group and the respective firms of external auditors all have unrestricted access to the chairmen of the audit committees. They report to the committees periodically throughout the year.

All the audit committees consist of a majority of independent non-executive directors, with non-executive directors as chairmen, and meet at least three times a year. Members of senior management attend these meetings to help the committees in effectively carrying out their mandates.

The members of the FirstRand audit committee are:
B H Adams (Chairman)
L L Dippenaar
M W King
G R Pardoe

#### Remuneration committee

The remuneration committee comprises the chairmen of the remuneration committees of the main operating subsidiaries. The committee approves the remuneration of executives and employees of the company and certain group CEOs. It is also responsible for the policy of the group's share incentive schemes.

In terms of the remuneration policy, the group seeks to provide appropriate rewards and incentives for the remuneration of its executives and employees. Share options are awarded based on individual and corporate performance and are considered critical in aligning executive performance and reward with the interests of shareholders.

Group executives are appointed to enhance the level of skills and experience appropriate to the needs of the businesses in the group. Independent external studies and comparisons are used to ensure that rewards are linked to both individual and group performance.

The remuneration of executive directors comprises both current reward and future entitlements. Consistent with the group's remuneration practice for senior staff, executive directors receive salaries and benefits, performance linked payments and share options. Further remuneration elements are detailed below:

- Executive directors in the group receive a salary and benefits that reflect their management responsibilities and their experience, and reward individual performance. Salaries are reviewed annually by reference to performance and the market.

- Executive directors participate in various share incentive schemes.

- Executive directors in the group participate in various pension and provident fund schemes. They are also members of the medical aid fund linked to their particular company in the group.

- Non-executive directors receive fees for their services as directors and for services on the various board committees.

The members of the FirstRand remuneration committee are:

G T Ferreira (Chairman)
M W King
L L Dippenaar

### Actuarial committee – Momentum Group

The approved statutory valuator has a fiduciary duty to ensure that sound risk management practices are employed consistently and that the financial soundness of the life insurance operations is maintained with specific regard to actuarial, investment and underwriting risks. An actuarial committee is in operation to assist the board and the valuator in this regard. A non-executive director, who is a consulting actuary, chairs this committee. The three other members include two senior members of Momentum's management and a non-executive member who is well known in the actuarial profession. The actuarial committee has a written charter that clearly sets out its responsibilities and objectives. Specific focus is placed on the appropriateness of the actuarial assumptions, parameters, valuations, and reporting guidelines and practices adopted by the statutory valuator.

## DISCLOSURE AND TRANSPARENCY

The group subscribes to a philosophy of providing meaningful, transparent, timely and accurate communication to its primary stakeholders. The financial statements incorporate full and responsible disclosure in line with this philosophy. Information has been prepared, based on high quality standards of accounting, financial and non-financial disclosure and audit.

The directors are responsible for the maintenance of adequate accounting records and the preparation of financial statements, which fairly present the state of affairs of the group and the profit and cash flows for the period under review. In preparing the accompanying financial statements, Statements of Generally Accepted Accounting Practices have been applied. Suitable accounting policies have consistently been used, supported by reasonable and prudent judgements and estimates. The board approves significant changes to accounting policies, and the effects thereof are in the annual financial statements. The group's external auditors have audited the financial statements and their unqualified report appears on page 45.

## RISK MANAGEMENT AND INTERNAL CONTROL MECHANISMS

The board is ultimately responsible for establishing, maintaining and monitoring the effectiveness of the group's system of internal control. Management is responsible for the setting up and maintenance of the control process. The control framework is designed to provide reasonable assurance regarding the achievement of business objectives in the following categories:

- The maintenance of proper accounting records and the reliability of financial information used within the business or for publication.

- Compliance with applicable laws, regulations and codes of conduct.
- The detection and minimisation of significant 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.
- The effectiveness and efficiency of operations.

The key internal control procedures can be summarised as follows:

### *Risk management*

The group's philosophy on risk recognises that managing risk is an integral part of generating sustainable shareholder value. By mobilising the linkage between risk management, achievement of corporate goals and reduced volatility of outcomes, the group's economic performance can be enhanced significantly. The group defines risk as the probability of an event occurring that will impact on established business objectives. Risks are viewed as either hazards or opportunities. Hazards represent "downside" risks, potential negative events such as financial loss. These risks are managed by limiting their probability of occurring and potential impact without incurring excessive costs or paralysing the operations. Opportunities are implicit in the relationship between risk and return. They are managed by maximising the "upside" within the group's operating environment and financial constraints.

The primary responsibility for risk management lies with the management and employees of each profit centre or subsidiary. Profit centre management have clear responsibilities and accountabilities for identifying, assessing and understanding known risks facing their businesses, and for carrying out procedures to monitor the risks and limit them to acceptable levels.

A separate risk management report in respect of the Banking group appears on pages 70 to 77.

### *Information and communication*

The group has a comprehensive process of annual budgets and detailed monthly reporting. The executive committees review the annual budget of profit centres and the board of directors approves the budgets as part of its normal responsibilities. Non-financial performance indicators in relation to key business objectives and risk are included in the process.

### *Monitoring 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 the risk managers and internal auditors, and specific testing of financial controls by the external auditors. Risk managers, compliance officers, internal and external auditors report weaknesses in control to the respective audit committees and senior management for their consideration and remedial action.

### *Momentum Group*

In the Momentum Group, risk and compliance managers are responsible for facilitating control and risk self-assessment (CRSA) programmes in each of the Momentum Group's profit centres and for Discovery Health. CRSA is an internationally recognised practice. The risk managers help the group to accomplish its objectives and assist in evaluating and improving the effectiveness of risk management, control and governance processes. To this end a systematic and disciplined approach has been developed. The risk and compliance managers are also responsible for detailed review and internal audit work where the need is indicated.

The risk and compliance management functions of the Momentum Group report directly to the two respective audit committees and they have unrestricted access to the chairmen of the audit committees.

### *Banking Group*

The internal audit function of the Banking Group is independent of management. It reviews the reliability and integrity of financial and operating information, the systems of internal control, the means of safeguarding assets, the efficient management of the Banking Group's resources, and the conduct of its operations. The head of internal audit has unrestricted access to the chairman of the Banking Group audit committee. Independent auditors, KPMG, have been appointed to perform certain elements of the internal audit function, bolstering the skill base of the in-house internal auditors. KPMG is encouraged to communicate regularly with both the audit committee and the external auditors.

### *Compliance*

The asset management and banking areas within the group maintain compliance systems to prevent contravention of relevant financial market legislation and ensure adherence to the company's code of conduct. Each location, where asset management or dealing takes place, has dedicated compliance officers. 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.

### *Regulatory environment*

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, together with corporate governance, transparency and full disclosure. The Financial Services Board fulfils a similar function in supervising the group's asset management, pension and insurance operations.

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 are required to report to the Registrar of Financial Markets on the system of internal controls and compliance with relevant legislation.

### *Overall effectiveness*

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 and the deliberate overriding of controls. Control systems are also designed to manage, rather than eliminate, the risk of failure to achieve business objectives. Accordingly, it is recognised that any internal control system can provide only reasonable and not absolute assurance against any material misstatement or loss.

Management maintains adequate accounting records and has developed, and continues to maintain, an effective system of internal financial controls. During the year under review, nothing has come to the attention of the directors to indicate 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.

## *EMPLOYEE EMPOWERMENT*

### *Code of conduct*

The FirstRand business philosophy requires that the directors and employees of all group companies conduct themselves with honesty and integrity in all business practices to achieve the highest standard of ethical behaviour.

### *Employee participation*

FirstRand relies on the commitment of its management and employees to ensure that service levels to its customers are of the highest standard.

This commitment is nurtured by continuing development through training and incentive programmes that focus on service excellence and operational and strategic goals. All staff are eligible to participate in the share incentive scheme, and shares are allocated to staff based on their individual contribution to the growth of the group.

### *Employment equity*

FirstRand is committed to providing equitable employment to members of all communities. The group is compliant with the Employment Equity Act.

FirstRand believes in a working environment that will allow its people to develop their abilities and to benefit from being an integral part of a world-class business.

## *YEAR 2000 COMPLIANCE*

No material disruption to business processes was experienced during the date change to 1 January 2000. Any other future sensitive date changes are monitored on an ongoing basis according to SABAFS. The costs associated with the year 2000 projects within the group were expensed as incurred and were not considered material in relation to the group results.

# Report on corporate social investment

Building on the significant existing commitments to social investment by FirstRand Group companies, the FirstRand Foundation was established to give greater purpose and cohesion to this work. The activities of the Foundation and the company funds that channel the bulk of the group's giving, are governed by a Board of Trustees that includes company executives and community representatives under the chairmanship of Viv Bartlett.

FirstRand has undertaken to provide one per cent of the group's after tax profits as the major source of the Foundation's income. This, together with investment income, enabled the Foundation to make over 500 grants totalling R21,5 million during the year. In addition, FirstRand continues its support for the Business Trust, 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. Another important national initiative supported by the Foundation is Business Against Crime.

Education continued to dominate the pattern of the FirstRand Foundation's giving for the year. 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 build a stronger base for future economic growth. Noteworthy grants included the support provided by the Momentum Fund to the Shoma Educational Foundation for the establishment of a dedicated centre for computer and network-based learning for teachers in partnership with the Gauteng Department of Education. The Rand Merchant Bank Fund continued its support for the Maths Centre for Professional Teachers and the outreach activities of several independent schools. Support for a variety of needs in higher education is also provided, largely through the FNB Fund.

Construction work at Xolilizwe High School near Willowvale in the Eastern Cape is complete and the new classroom and workshop facilities provided through the R2 million special initiative reported last year are being utilised. The FirstRand Foundation continues its relationship with the school, together exploring ways to build human infrastructure through improved teaching and learning.

Skills training and job creation is also an important focus for the FirstRand Foundation. In this difficult, but much-needed field, effective organisations such as the Triple Trust (Eastern and Western Cape) and the Siyazisiza Trust (northern KwaZulu-Natal) continue their vital work in creating new avenues for sustainable income generation by rural women with the support of the Southern and FNB funds, respectively.

Community health is another area of need where committed NGOs are doing much to extend care and services to communities that have traditionally fallen beyond the reach of the formal system. The Discovery Health Fund made its largest grant, R850 000 over two years, to improve ante-natal and maternity facilities at the Alexandra Health Clinic. Building has proceeded apace and this important new facility will soon be ready for use. The African Medical Mission, based near Umtata, received a grant from the FNB Fund for much-needed equipment. Projects working in practical ways to promote greater awareness of HIV/AIDS and caring for the victims of the disease are supported across the country by several of the company funds. One such is the Kerux project based at the Kalafong Hospital outside Pretoria that received assistance from the Momentum Fund for its care and income generation programmes.

In the fields of arts, culture and the environment, support is provided to different initiatives developing new creative skills and understanding among young people. In recognition of its ongoing support for the Provincial Eisteddfods run by the Grahamstown Foundation, FNB received a prestigious Business Arts South Africa (BASA) award. The Southern Fund provided support for the publication of resource material used by the Hlumelo project to train social workers and care givers in the use of drama and art as effective therapy for victims of trauma, violence and abuse.

The devastation caused by floods in large parts of South Africa and neighbouring countries elicited a special response from the Foundation. Grants were made to assist relief work and in support of a remarkable initiative co-ordinated by RMB staff that involved the collection, transport and distribution of several lorry loads of clothing and supplies to flood victims in Mozambique.

In its first year of operation, the FirstRand Foundation has created the stage for effective social investment informed by the changing development challenges South Africa faces and reflecting the innovative character and core values of FirstRand and associated companies. The FirstRand Foundation seeks to add value in meaningful ways, complementing and extending the companies' significant role in the country's economic life to other areas of social development and growth.

# Annual Financial Statements

FirstRand Group

## Contents

# Directors' responsibility statement

### DIRECTORS' RESPONSIBILITY TO THE MEMBERS OF FIRSTRAND LIMITED

The directors of FirstRand Limited are required by the Companies Act to maintain adequate accounting records and to prepare financial statements for each financial year which 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 period. In preparing the accompanying financial statements, generally accepted accounting practices have been followed, suitable accounting policies have been used 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 group's philosophy on corporate governance.

The directors have reviewed the group's budget for the year to 30 June 2001. 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 2000, which appear on pages 46 to 61 and 160 to 173 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
7 September 2000

# Report of the independent auditors

### TO THE MEMBERS OF FIRSTRAND LIMITED

We have audited the annual financial statements and group annual financial statements of FirstRand Limited set out on pages 46 to 61 and 160 to 173 for the year ended 30 June 2000. These financial statements are the responsibility of the directors of the company. Our responsibility is to express an opinion on these financial statements based on our audit.

### Scope

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

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

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

### Audit opinion

In our opinion, the financial statements fairly present, in all material respects, the financial position of the company and the group at 30 June 2000 and the results of their operations and cash flows for the year then ended in accordance with South African Statements of Generally Accepted Accounting Practice, and in the manner required by the Companies Act in South Africa.

PricewaterhouseCoopers Incorporated
*Registered Accountants and Auditors*
Chartered Accountants (SA)
Sandton, 7 September 2000

# Directors' report

for the year ended 30 June 2000

## NATURE OF BUSINESS

FirstRand Limited ("FirstRand") is listed on the Johannesburg Stock Exchange 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, short-term insurance, life insurance, employee benefits, health insurance and asset management.

The banking and insurance activities of the group are consolidated in the wholly owned subsidiaries FirstRand Bank Holdings Limited and Momentum Group Limited. The name of FirstRand Insurance Limited was changed to Momentum Group Limited to better align the corporate image with the branding strategy.

## SHARE CAPITAL

There was no change in the issued ordinary share capital of the company during the year.

At the shareholders' meeting held on 22 March 2000 a special resolution was passed, in terms of which 272 000 000 ordinary shares of one cent each in the company's authorised but unissued share capital were converted into 272 000 000 "A" variable rate convertible redeemable cumulative preference shares of one cent each ("A" preference shares). The rights attaching to the "A" preference shares are described in article 52 of the Articles of Association of the company which was approved by way of a separate special resolution passed at the same meeting.

These special resolutions were duly registered by the Registrar of Companies on 24 March 2000.

The directors, duly authorised thereto, approved the issue of 136 000 000 "A" preference shares at R8,15 each in the capital of the company on 30 March 2000. These shares were issued to the FirstRand Trust to facilitate the "OutPerformance" share incentive scheme for group employees which was also approved at the shareholders' meeting of 22 March 2000. The details of the incentive scheme were sent to shareholders together with the notice convening the meeting and was posted to shareholders on 29 February 2000.

The unissued ordinary and "A" preference shares remain under control of the directors until the forthcoming annual general meeting.

## DIVIDENDS

The following ordinary cash dividends were declared for the 2000 financial year:

| | ***2000 Cents per share*** | *1999 Cents per share* |
|---|---|---|
| Interim (declared 29 February 2000) | **9,0** | 7,5 |
| Final (declared 7 September 2000)* | **10,0** | 8,0 |
| | **19,0** | 15,5 |

* The final dividend will become payable on 31 October 2000 to all shareholders registered on 13 October 2000.

## DIRECTORS AND SECRETARY

The names of the directors appear on page 36 and the name and address of the company secretary appear on the inside back cover.

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 2000. All are eligible and available for re-election at the annual general meeting:

Messrs V W Bartlett, D J A Craig, P M Goss and M W King.

## DIRECTORS' INTERESTS

The aggregate number of FirstRand Limited ordinary shares directly and indirectly held by directors of the company amounts to 320,1 million shares (1999: 325,1 million) which represent 5,88% (1999: 5,97%) of the issued ordinary share capital of the company.

The group executives on the board of FirstRand Limited participate in the "OutPerformance" share incentive scheme of the group to the extent of 4,5 million (1999: Nil) preference shares having been issued to special purpose vehicles in which they or their family trusts hold the issued ordinary share capital.

### HOLDING COMPANY

FirstRand has no holding company. The principal shareholders in FirstRand are the Anglo American Corporation ("AAC") (20,56%) and RMB Holdings ("RMBH") (25,03%). In terms of a shareholders' agreement between AAC and RMBH, RMBH has management control of FirstRand.

### RESTRUCTURING

The restructuring of FirstRand as contemplated in the previous annual report, in terms of which the operations of Momentum Life were transferred from FirstRand Limited to Momentum Group Limited (previously FirstRand Insurance Limited), was effected in terms of section 37 of the Long-term Insurance Act, 1998, and was approved by the High Court on 27 June 2000.

### DECLARATION BY THE COMPANY SECRETARY IN RESPECT OF S268G(D) OF THE ACT

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

P F de Beer (FCIS)
*Company Secretary*

### BASIS OF PREPARATION

The financial statements have been prepared on the going-concern basis, using the historical cost concept, except for insurance investments and certain banking assets which are stated at fair value, in accordance with Statements of Generally Accepted Accounting Practice and the Companies Act, 1973. The principal accounting policies of the group set out below are consistent in all material respects with those adopted in the previous year, except where specifically noted.

### CONSOLIDATION

The group financial statements comprise the financial statements of FirstRand Limited and its subsidiaries.

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 value to the group. Such fair values are reviewed and amended as appropriate in financial years subsequent to the acquisition.

Where material, adjustments are made to update consolidated results and balances of subsidiaries that have financial year-ends which differ from that of the group.

### INVESTMENT IN SUBSIDIARIES

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

### GOODWILL

Goodwill represents the excess of the purchase consideration of shares over the attributable fair value of the net assets acquired, and is capitalised and amortised on the straight-line basis over the period of expected benefit, limited to 20 years.

Where the fair value of net assets of subsidiaries at date of acquisition exceed the cost of shares acquired, the excess is stated as a non-distributable reserve.

### ACCOUNTING POLICIES SPECIFIC TO BANKING AND INSURANCE

For detailed accounting policies relating to the Banking and Insurance operations, please refer to pages 82 to 85 and pages 131 to 133 respectively.

# BALANCE SHEET

as at 30 June

| R MILLION | NOTES | GROUP 2000 | GROUP 1999 |
|---|---|---|---|
| ***Assets*** | | | |
| **BANKING OPERATIONS** | | **140 175,6** | 135 804,0 |
| Cash and short-term funds | 3 | **8 309,4** | 11 684,2 |
| Short-term negotiable securities | 4 | **14 469,8** | 10 642,1 |
| Liquid assets and trading securities | 5 | **9 772,9** | 13 468,8 |
| Securities purchased under agreements to resell | 6 | **2 434,3** | 5 278,3 |
| Advances | 7 | **102 667,2** | 93 718,1 |
| Other investments | 8 | **2 522,0** | 1 012,5 |
| **INSURANCE OPERATIONS** | | **60 990,7** | 53 553,7 |
| Funds on deposit | 9 | **7 930,0** | 8 160,3 |
| Government and public authority stocks | 10 | **4 800,1** | 5 645,5 |
| Mortgages, debentures and other loans | 11 | **5 964,1** | 4 488,4 |
| Policy loans | 12 | **464,9** | 507,4 |
| Equity investments | 13 | **38 702,9** | 31 363,7 |
| Property investments | 14 | **3 128,7** | 3 388,4 |
| Current assets | 15 | **5 036,3** | 4 143,1 |
| Loans | 16 | **1 108,4** | – |
| Investments in associated companies | 17 | **672,1** | 149,0 |
| Derivative assets | 18 | **10 900,3** | 4 694,4 |
| Deferred taxation | 19 | **183,6** | 0,9 |
| Goodwill | 20 | **57,8** | 136,3 |
| Property and equipment | 21 | **3 666,5** | 3 582,8 |
| **TOTAL ASSETS** | | **222 791,3** | 202 064,2 |
| ***Liabilities and shareholders' funds*** | | | |
| **LIABILITIES** | | | |
| Deposits and current accounts | 22 | **117 559,3** | 115 391,5 |
| Current liabilities | 23 | **9 726,3** | 8 938,5 |
| Taxation | 24 | **161,4** | 376,5 |
| Derivative liabilities | 25 | **14 189,2** | 5 444,6 |
| Securities sold under agreements to repurchase | 6 | **2 387,0** | 5 219,5 |
| Deferred taxation | 19 | **1 555,6** | 1 158,5 |
| Preference shares | 26 | **150,0** | – |
| Debentures and long-term liabilities | 27 | **3 696,7** | 2 313,4 |
| Life insurance funds | 28 | **58 591,3** | 51 689,5 |
| **TOTAL LIABILITIES** | | **208 016,8** | 190 532,0 |
| Outside shareholders' interest | 29 | **641,0** | 518,3 |
| ***Shareholders' funds*** | | | |
| Share capital and share premium | 30 | **9 594,9** | 8 486,5 |
| Convertible debentures | 31 | **350,0** | 350,0 |
| Reserves | 32 | **4 188,6** | 2 177,4 |
| **TOTAL SHAREHOLDERS' FUNDS** | | **14 133,5** | 11 013,9 |
| **TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS** | | **222 791,3** | 202 064,2 |
| Contingencies | 33 | **14 181,2** | 13 282,6 |

# Income statement

for the year ended 30 June

| R million | Notes | Group 2000 | Group 1999 |
|---|---|---|---|
| **Net income after tax** | | | |
| Banking operations | | 2 320,9 | 1 954,7 |
| Insurance operations | | 933,2 | 666,1 |
| Holding company expenses | | (32,3) | (47,4) |
| **Total net income after tax** | 34 | 3 221,8 | 2 573,4 |
| Earnings attributable to outside shareholders of: | | | |
| Banking operations | | (131,2) | (56,6) |
| Insurance operations | | (34,8) | (28,3) |
| **Net income after tax attributable to ordinary shareholders** | | 3 055,8 | 2 488,5 |
| **Earnings per share (cents)** | 36 | 56,1 | 45,7 |
| **Headline earnings per share (cents)** | 36 | 54,1 | 45,6 |
| **Dividend per share (cents)** | | 19,0 | 15,5 |

# Cash flow statement

for the year ended 30 June

| R million | Notes | Group 2000 | Group 1999 |
|---|---|---|---|
| ***Cash flows from operating activities*** | | | |
| Cash generated by operations | 38.1 | **11 454,3** | 13 066,5 |
| Working capital changes | 38.2 | **3 570,1** | 2 987,0 |
| Cash inflow from operations | | **15 024,4** | 16 053,5 |
| Taxation paid | 38.3 | **(897,8)** | (977,9) |
| Dividends paid | 38.4 | **(925,7)** | (653,4) |
| **Net cash inflow from operating activities** | | **13 200,9** | 14 422,2 |
| ***Cash outflows from investment activities*** | | | |
| Banking investment activities | 38.5 | **(9 117,4)** | (7 932,3) |
| Insurance investment activities | 38.6 | **(8 625,9)** | (7 330,3) |
| Proceeds on disposal of shares in subsidiary | | **143,7** | – |
| Investment in associates | | **(139,0)** | (18,5) |
| Net purchase of equipment | | **(600,7)** | (570,3) |
| **Net cash outflow from investment activities** | | **(18 339,3)** | (15 851,4) |
| ***Cash flows from financing activities*** | | | |
| Proceeds from issue of ordinary shares | 38.7 | **–** | (3,6) |
| Proceeds from issue of preference shares | | **150,0** | – |
| Proceeds from long-term borrowings | | **1 383,3** | 1 661,1 |
| **Net cash inflow from financing activities** | | **1 533,3** | 1 657,5 |
| **Net (decrease)/increase in cash and cash equivalents** | | **(3 605,1)** | 228,3 |
| **Cash and cash equivalents at beginning of year** | | **19 844,5** | 19 616,2 |
| **Cash and cash equivalents at end of year** | 38.8 | **16 239,4** | 19 844,5 |

# Statement of changes in equity

for the year ended 30 June

| R million | Share capital (Note 30) | Share premium (Note 30) | Convertible debentures (Note 31) | Retained earnings (Note 32) | Non-distributable reserves (Note 32) | Total shareholders' funds |
|---|---|---|---|---|---|---|
| **Balance at 1 July 1998** | | | | | | |
| As previously stated | 54,4 | 8 435,7 | 350,0 | 281,1 | 223,2 | 9 344,4 |
| Changes in accounting policies | | | | | | |
| Associates income | – | – | – | 31,6 | (31,6) | – |
| **Restated balance at 1 July 1998** | 54,4 | 8 435,7 | 350,0 | 312,7 | 191,6 | 9 344,4 |
| Net gains or losses not recognised in the income statement | – | – | – | – | 28,6 | 28,6 |
| Earnings attributable to shareholders | – | – | – | 2 488,5 | – | 2 488,5 |
| Dividends | – | – | – | (844,0) | – | (844,0) |
| Transfer (to)/from reserves | – | – | – | (7,0) | 7,0 | – |
| Share issue expenses | – | (3,6) | – | – | – | (3,6) |
| **Balance at 30 June 1999** | 54,4 | 8 432,1 | 350,0 | 1 950,2 | 227,2 | 11 013,9 |
| **Balance at 1 July 1999** | **54,4** | **8 432,1** | **350,0** | **1 950,2** | **227,2** | **11 013,9** |
| Preference shares issued | **1,4** | **1 107,0** | **–** | **–** | **–** | **1 108,4** |
| Net gains or losses not recognised in the income statement | **–** | **–** | **–** | **–** | **(10,0)** | **(10,0)** |
| Earnings attributable to shareholders | **–** | **–** | **–** | **3 055,8** | **–** | **3 055,8** |
| Dividends | **–** | **–** | **–** | **(1 034,6)** | **–** | **(1 034,6)** |
| Transfer (to)/from reserves | **–** | **–** | **–** | **(39,5)** | **39,5** | **–** |
| **Balance at 30 June 2000** | **55,8** | **9 539,1** | **350,0** | **3 931,9** | **256,7** | **14 133,5** |

**1. Accounting policies**

The accounting policies of the group are set out on page 47

**2. Turnover**

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

| R MILLION | REFERENCE | GROUP 2000 | GROUP 1999 |
|---|---|---|---|
| **3. Cash and short-term funds** | | | |
| Banking operations | Banking note 3 | **8 309,4** | 11 684,2 |
| **4. Short-term negotiable securities** | | | |
| Banking operations | Banking note 4 | **14 479,5** | 10 651,9 |
| Consolidation adjustment | | **(9,7)** | (9,8) |
| | | **14 469,8** | 10 642,1 |
| **5. Liquid assets and trading securities** | | | |
| Banking operations | Banking note 5 | **9 772,9** | 13 468,8 |
| **6. Repurchase agreements** | | | |
| Banking operations | | | |
| ASSETS | | | |
| Securities purchased under agreements to resell | Banking pg 86 | **2 434,3** | 5 278,3 |
| LIABILITIES | | | |
| Securities sold under agreements to repurchase | Banking pg 86 | **2 387,0** | 5 219,5 |
| **7. Advances** | | | |
| Banking operations | Banking note 7, 8 | **102 652,2** | 93 824,4 |
| Consolidation adjustment | | **15,0** | (106,3) |
| | | **102 667,2** | 93 718,1 |
| **8. Other investments** | | | |
| Banking operations | Banking note 10 | **2 522,0** | 1 012,5 |
| **9. Funds on deposit** | | | |
| FirstRand Limited | | **4,2** | 10,1 |
| Insurance operations | Insurance pg 134 | **8 046,7** | 9 064,6 |
| Elimination of intergroup balances | | **(120,9)** | (914,4) |
| | | **7 930,0** | 8 160,3 |
| **10. Government and public authority stocks** | | | |
| Insurance operations | Insurance pg 134 | **4 800,1** | 5 645,5 |

| R MILLION | REFERENCE | GROUP 2000 | GROUP 1999 |
|---|---|---|---|
| **11. Mortgages, debentures and other loans** | | | |
| Insurance operations | Insurance note 2 | 6 140,2 | 5 574,0 |
| Elimination of intergroup balance | | (176,1) | (1 085,6) |
| | | 5 964,1 | 4 488,4 |
| **12. Policy loans** | | | |
| Insurance operations | Insurance pg 134 | 464,9 | 507,4 |
| **13. Equity investments** | | | |
| Insurance operations | Insurance note 3 | 38 938,9 | 31 363,7 |
| Elimination of intergroup balances | | (236,0) | – |
| | | 38 702,9 | 31 363,7 |
| **14. Property investments** | | | |
| Insurance operations | Insurance note 6 | 3 128,7 | 3 388,4 |
| **15. Current assets** | | | |
| FirstRand Limited | | 42,1 | – |
| Banking operations | Banking note 9 | 2 162,0 | 2 044,4 |
| Insurance operations | Insurance note 7 | 3 162,1 | 2 171,2 |
| Consolidation adjustments | | (329,9) | (72,5) |
| | | 5 036,3 | 4 143,1 |
| **16. Loans** | | | |
| FirstRand Limited | | 1 108,4 | – |
| **17. Investments in associated companies** | | | |
| Banking operations | Banking note 11 | 290,2 | 149,0 |
| Insurance operations | Insurance note 4 | 381,9 | – |
| | | 672,1 | 149,0 |
| **18. Derivative assets** | | | |
| Banking operations | Banking pg 86 | 9 660,3 | 4 522,6 |
| Insurance operations | Insurance note 5 | 1 240,0 | 171,8 |
| | | 10 900,3 | 4 694,4 |
| **19. Deferred taxation** | | | |
| Banking operations – debit balances | Banking note 13 | 183,6 | – |
| Insurance operations – debit balances | Insurance note 8 | – | 0,9 |
| | | 183,6 | 0,9 |
| Banking operations – credit balances | Banking note 13 | 1 491,7 | 1 158,5 |
| Insurance operations – credit balances | Insurance note 8 | 63,9 | – |
| | | 1 555,6 | 1 158,5 |

| R MILLION | REFERENCE | GROUP 2000 | GROUP 1999 |
|---|---|---|---|
| **20. Goodwill** | | | |
| Banking operations | Banking note 14 | **136,9** | – |
| Insurance operations | Insurance pg 134 | **25,1** | 136,3 |
| Consolidation adjustment | | **(104,2)** | – |
| | | **57,8** | 136,3 |
| **21. Property and equipment** | | | |
| FirstRand Limited | | **0,1** | – |
| Banking operations | Banking note 12 | **3 329,9** | 3 431,1 |
| Insurance operations | Insurance note 9 | **537,9** | 165,4 |
| Consolidation adjustments | | **(201,4)** | (13,7) |
| | | **3 666,5** | 3 582,8 |
| **22. Deposits and current accounts** | | | |
| Banking operations | Banking note 15 | **117 591,6** | 116 305,9 |
| Elimination of intergroup balance | | **(32,3)** | (914,4) |
| | | **117 559,3** | 115 391,5 |
| **23. Current liabilities** | | | |
| Dividends payable | | **544,5** | 435,6 |
| Elimination of intercompany dividends | | **(472,5)** | (468,9) |
| FirstRand Limited | | **45,6** | – |
| Banking operations | Banking note 16 | **7 514,2** | 6 807,5 |
| Insurance operations | Insurance note 10 | **2 341,3** | 2 164,3 |
| Consolidation adjustments | | **(246,8)** | – |
| | | **9 726,3** | 8 938,5 |
| **24. Taxation** | | | |
| STC | | **33,0** | 34,1 |
| FirstRand Limited | | **–** | 5,9 |
| Banking operations | Banking pg 86 | **10,8** | 147,6 |
| Insurance operations | Insurance pg 134 | **117,6** | 188,9 |
| | | **161,4** | 376,5 |
| **25. Derivative liabilities** | | | |
| Banking operations | Banking pg 86 | **12 613,0** | 4 769,7 |
| Insurance operations | Insurance note 11 | **1 576,2** | 674,9 |
| | | **14 189,2** | 5 444,6 |

| R MILLION | REFERENCE | GROUP 2000 | GROUP 1999 |
|---|---|---|---|
| **26. Preference shares** | | | |
| Banking operations | Banking note 17 | **150,0** | – |
| **27. Debentures and long-term liabilities** | | | |
| Banking operations | Banking note 17 | **3 488,1** | 3 224,9 |
| Insurance operations | Insurance note 12 | **590,5** | 274,1 |
| Elimination of intergroup balances | | **(267,4)** | (1 085,6) |
| Consolidation adjustments | | **(114,5)** | (100,0) |
| | | **3 696,7** | 2 313,4 |
| **28. Life insurance fund** | | | |
| Insurance operations | Insurance note 13 | **58 716,6** | 51 678,9 |
| Consolidation adjustments | | **(125,3)** | 10,6 |
| | | **58 591,3** | 51 689,5 |
| **29. Outside shareholders' interest** | | | |
| Banking operations | Banking pg 86 | **579,7** | 393,5 |
| Insurance operations | Insurance pg 134 | **224,6** | 124,8 |
| Consolidation adjustment | | **(163,3)** | – |
| | | **641,0** | 518,3 |
| **30. Share capital and share premium** | | | |
| **SHARE CAPITAL** | | | |
| Authorised | | | |
| 6 228 000 000 ordinary shares of 1 cent each (1999: 6 500 000 000) | | **62,3** | 65,0 |
| 272 000 000 "A" variable rate, convertible, redeemable, cumulative preference shares of 1 cent each (1999: nil) | | **2,7** | – |
| Issued | | | |
| Balance at beginning of the year 5 445 303 089 ordinary shares of 1 cent each (1999: 5 445 303 089) | | **54,4** | 54,4 |
| Shares issued during the year | | | |
| 136 000 000 "A" variable rate, convertible, redeemable, cumulative preference shares of 1 cent each | | **1,4** | – |
| | | **55,8** | 54,4 |
| **SHARE PREMIUM** | | | |
| Balance at beginning of year | | **8 432,1** | 8 435,7 |
| Share issue expenses | | **–** | (3,6) |
| Arising on issue of preference shares | | **1 107,0** | – |
| | | **9 539,1** | 8 432,1 |
| **SHARE CAPITAL AND SHARE PREMIUM** | | **9 594,9** | 8 486,5 |

| R MILLION | REFERENCE | GROUP 2000 | GROUP 1999 |
|---|---|---|---|
| **30. Share capital and share premium (continued)** | | % | % |
| The following represents the shareholding of subsidiaries in FirstRand Limited at 30 June 2000: | | | |
| Momentum Group – held on behalf of policyholders | | 4,1 | 4,3 |

**SHARE OPTION SCHEMES**

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

| R MILLION | MOMENTUM LIFE | SOUTHERN LIFE | FNB |
|---|---|---|---|
| **2000** | | | |
| Number of options in force at end of year (millions) | 52,0 | 9,6 | 107,4 |
| Granted at prices ranging between (cents) | 180 – 990 | 93 – 1 029 | 40 – 1 026 |
| Number of options granted during year (millions) | 2,6 | – | 8,0 |
| Granted at prices ranging between (cents) | 591 – 867 | N/A | 590 – 837 |
| Number of options exercised/released during year (millions) | 7,2 | 3,6 | 26,1 |
| Market value range at date of exercise/release (cents) | 617 – 935 | 556 – 996 | 590 – 996 |
| Number of remaining shares available for future options (millions) | 7,7 | 44,2 | 19,3 |
| Value of company loan to share option trust (R million) | 307,1 | 150,9 | 718,9 |
| **1999** | | | |
| Number of options in force at end of year (millions) | 56,6 | 13,6 | 125,1 |
| Granted at prices ranging between (cents) | 165 – 990 | 93 – 1029 | 40 – 1 069 |
| Number of options granted during year (millions) | 33,5 | – | 31,5 |
| Granted at prices ranging between (cents) | 527 – 990 | N/A | 385 – 1 045 |
| Number of options exercised/released during year (millions) | 12,1 | 12,8 | 5,9 |
| Market value range at date of exercise/release (cents) | 519 – 940 | 385 – 1 045 | 591 – 1 045 |
| Number of remaining shares available for future options (millions) | 4,1 | 40,4 | 4,2 |
| Value of company loan to share option trust (R million) | 301,7 | 139,1 | 636,4 |

| R MILLION | REFERENCE | GROUP 2000 | GROUP 1999 |
|---|---|---|---|
| **31. Convertible debentures** | | | |
| Insurance operations | Insurance note 15 | 350,0 | 350,0 |
| **32. Reserves** | | | |
| **DISTRIBUTABLE RESERVES** | | | |
| Retained income at beginning of year | | 1 950,2 | 312,7 |
| Retained income for year | | 3 055,8 | 2 488,5 |
| Dividend for the current year | | (1 034,6) | (844,0) |
| Transfer to non-distributable reserves | | (39,5) | (7,0) |
| Retained income at the end of the year | | 3 931,9 | 1 950,2 |
| **NON-DISTRIBUTABLE RESERVES** | | | |
| Non-distributable reserves relating to: | | | |
| Banking operations | | 189,8 | 210,3 |
| Currency translation reserve | | 220,2 | 157,3 |
| Revaluation of investments | | 0,1 | 1,1 |
| Other | | (30,5) | 51,9 |
| Insurance operations | | 66,9 | 16,9 |
| Unrealised surplus on revaluation of investment assets | | 5,6 | 4,0 |
| Currency translation reserve | | 9,0 | (1,0) |
| Reserve on capitalisation of subsidiary | | 50,8 | 11,3 |
| Other | | 1,5 | 2,6 |
| **BALANCE AT END OF YEAR** | | 256,7 | 227,2 |
| **TOTAL RESERVES** | | 4 188,6 | 2 177,4 |
| **MOVEMENT FOR THE YEAR IN NON-DISTRIBUTABLE RESERVES** | | | |
| Balance at beginning of year | | 227,2 | 191,6 |
| Transfer from income statement relating to: | | 39,5 | 7,0 |
| Banking operations | | – | (4,7) |
| Insurance operations | | 39,5 | 11,7 |
| Currency translation reserve | | 72,9 | (23,5) |
| Unrealised surplus on revaluation of investments | | 0,6 | 2,9 |
| Other | | (83,5) | 49,2 |
| Balance at end of year | | 256,7 | 227,2 |
| **33. Contingencies and commitments** | | | |
| Banking operations | Banking note 20 | 14 181,2 | 13 282,6 |

| R MILLION | REFERENCE | GROUP 2000 | GROUP 1999 |
|---|---|---|---|
| **34. Net income after tax** | | | |
| Net income after tax is stated after charging the following: | | | |
| **DIRECTORS' EMOLUMENTS PAID** | | | |
| Executive directors | | | |
| Salaries, pension and medical aid contributions | | 18,6 | 14,1 |
| Non-executive directors | | | |
| Fees for services as directors/consultants | | 3,2 | 1,6 |
| | | 21,8 | 15,7 |
| Directors' emoluments paid by: | | | |
| Company | | 2,7 | 0,9 |
| Subsidiaries | | 19,1 | 14,8 |
| | | 21,8 | 15,7 |
| **35. Dividends** | | | |
| **ORDINARY DIVIDENDS** | | | |
| An interim dividend of 9,0 cents (1999: 7,5 cents) per share was declared on 29 February 2000 in respect of the six months ended 31 December 1999, payable to shareholders registered in the books of the company at the close of business on 17 March 2000 | | 490,1 | 408,4 |
| A final dividend of 10,0 cents (1999: 8,0 cents) per share was declared on 7 September 2000, payable to shareholders registered in the books of the company at the close of business on 13 October 2000 | | 544,5 | 435,6 |
| | | 1 034,6 | 844,0 |

**36. Earnings per share**

**ATTRIBUTABLE EARNINGS BASIS**

Earnings per share is based on the net income after tax attributable to ordinary shareholders and the weighted number of ordinary shares in issue. Earnings attributable to ordinary shareholders amounted to R3 055,8 million (1999: R2 488,5 million) and the weighted average number of ordinary shares in issue during the year amounted to 5 445 303 089 (1999: 5 445 303 089).

| R million | Reference | Group 2000 | Group 1999 |
|---|---|---|---|
| **36. *Earnings per share (continued)*** | | | |
| **Headline earnings basis** | | | |
| Headline earnings per share is based on the net income after tax 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 tax attributable to ordinary shareholders | | **3 055,8** | 2 488,5 |
| Disposal of shares in subsidiary | | **(149,5)** | – |
| Once-off effect of transitional tax attributable to prior years | | **34,6** | – |
| Portion of goodwill written off | | **6,3** | 1,8 |
| Loss on disposal of subsidiary and joint venture | | **–** | 5,8 |
| Release of provisions made on disposal of joint venture | | **–** | (14,5) |
| **Headline earnings attributable to ordinary shareholders** | | **2 947,2** | 2 481,6 |

## 37. *Related parties*

**Major shareholders**

The major shareholders of FirstRand Limited are AAC and RMBH. Both of these companies are incorporated in South Africa.

**Transactions with directors**

There are no material transactions with directors other than the directors' emoluments detailed in note 34.

**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.

**Fixed interest securities and derivative instruments**

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.

| R MILLION | REFERENCE | GROUP 2000 | GROUP 1999 |
|---|---|---|---|
| **38. Cash flow information** | | | |
| **38.1 CASH GENERATED BY OPERATIONS** | | | |
| Net profit before taxation | | 3 952,9 | 3 521,6 |
| Adjustment for non-cash items | | 7 501,4 | 9 544,9 |
| | | 11 454,3 | 13 066,5 |
| **38.2 WORKING CAPITAL CHANGES** | | | |
| Current assets | | | |
| (Increase)/decrease in items in transit | | (596,1) | 1 413,0 |
| Decrease/(increase) in accrued interest | | 335,6 | (135,1) |
| Decrease/(increase) in accounts receivable | | 2 363,8 | (1 013,3) |
| (Increase)/decrease in other debtors | | (6 819,1) | 2 935,6 |
| Increase in accrued investment income | | (295,7) | (507,2) |
| Decrease in premium debtors | | 59,5 | 24,4 |
| | | (4 952,0) | 2 717,4 |
| Current liabilities | | | |
| Increase in accrued interest | | 51,4 | 51,6 |
| (Decrease)/increase in accounts payable | | (3 578,0) | 2 980,4 |
| Increase/(decrease) in other creditors | | 12 296,7 | (2 439,3) |
| Decrease in outstanding benefit payments | | (278,3) | (158,5) |
| Decrease in debentures | | – | (100,0) |
| Increase/(decrease) in provisions | | 30,3 | (64,6) |
| | | 8 522,1 | 269,6 |
| Net working capital changes | | 3 570,1 | 2 987,0 |
| **38.3 TAXATION PAID** | | | |
| Balance at beginning of year | | (376,5) | (374,7) |
| Taxation charged for the year | | (682,7) | (979,7) |
| Balance at end of year | | 161,4 | 376,5 |
| Taxation paid | | (897,8) | (977,9) |
| **38.4 DIVIDENDS PAID** | | | |
| Balance at beginning of year | | (435,6) | (245,0) |
| Ordinary dividends declared | | (1 034,6) | (844,0) |
| Balance at end of year | | 544,5 | 435,6 |
| Dividends paid | | (925,7) | (653,4) |

| R MILLION | REFERENCE | GROUP 2000 | GROUP 1999 |
|---|---|---|---|
| ***38. Cash flow information (continued)*** | | | |
| **38.5 BANKING INVESTMENT ACTIVITIES** | | | |
| (Increase)/decrease in: | | | |
| Short-term negotiable securities | | **(3 827,7)** | (68,7) |
| Liquid assets and trading securities | | **3 695,9** | (5 570,8) |
| Repurchase agreements | | **11,5** | 21,8 |
| Advances | | **(9 909,4)** | 881,4 |
| Other investments | | **(1 255,5)** | (465,8) |
| | | **(11 285,2)** | (5 202,1) |
| Deposits and current accounts | | **2 167,8** | (2 730,2) |
| Net increase in banking investment activities | | **(9 117,4)** | (7 932,3) |
| **38.6 INSURANCE INVESTMENT ACTIVITIES** | | | |
| (Increase)/decrease in | | | |
| Government and public authority stocks | | **983,2** | 2 102,7 |
| Mortgages, debentures and other loans | | **(1 427,1)** | (1 123,0) |
| Policy loans | | **42,5** | 39,2 |
| Equity investments | | **(8 415,3)** | (8 885,9) |
| Derivative instruments | | **(166,9)** | 345,0 |
| Property investments | | **357,7** | 191,7 |
| Net increase in insurance investment activities | | **(8 625,9)** | (7 330,3) |
| **38.7 PROCEEDS FROM ISSUE OF ORDINARY SHARES** | | | |
| Share issue expenses | | **–** | (3,6) |
| **38.8 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 | | **8 309,4** | 11 684,2 |
| Funds on deposit | | **7 930,0** | 8 160,3 |
| | | **16 239,4** | 19 844,5 |

# FirstRand
## Banking Group

## Contents

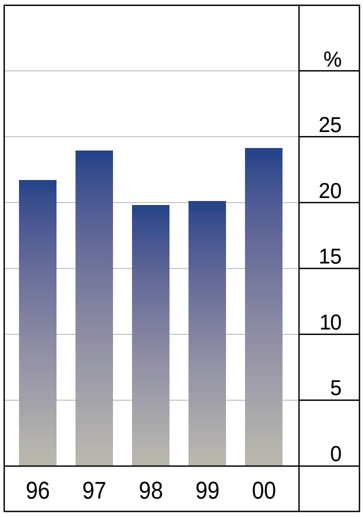
## *Financial highlights*

- Increase in pro forma earnings **25%**
- Decrease in non-performing loans **21%**
- Decrease in bad and doubtful debt charge **2,5%**
- Increase in non-interest expenditure **4%**
- Increase in advances to customers **9%**
- Cost to income ratio **60%**
- Return on average equity **24%**

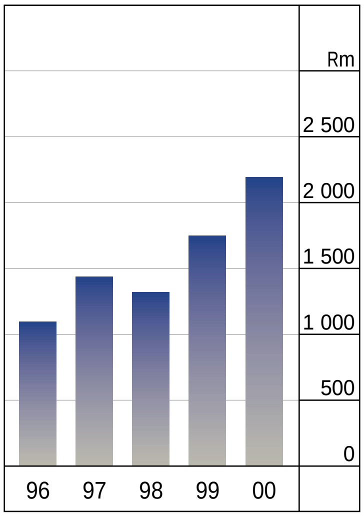
## *Five-year review* for the year ended 30 June

| R million | 2000 | 1999 | 1998 | 1997 | 1996 |
|---|---|---|---|---|---|
| | | Pro forma for 12 months | | | |
| ***Balance sheet*** | | | | | |
| Total assets | **155 933,2** | 146 067,2 | 138 612,5 | 113 593,4 | 100 127,7 |
| Advances | **102 652,2** | 93 824,4 | 95 126,7 | 83 420,9 | 73 058,7 |
| Deposits | **117 591,6** | 116 305,9 | 115 938,6 | 98 202,5 | 86 327,4 |
| Shareholders' funds | **10 107,1** | 8 040,1 | 8 811,2 | 6 502,0 | 5 494,6 |
| ***Income statement*** | | | | | |
| Net interest income | **4 696,6** | 4 594,2 | 3 980,6 | 3 604,4 | 3 348,1 |
| Charge for bad and doubtful debts | **(1 329,4)** | (1 362,8) | (1 169,6) | (847,9) | (569,9) |
| Other operating income | **5 847,1** | 5 145,1 | 4 339,5 | 3 522,9 | 2 923,2 |
| Operating expenditure | **(6 347,7)** | (6 086,4) | (5 232,9) | (4 403,2) | (4 003,3) |
| Earnings attributable to ordinary shareholders | **2 189,7** | 1 748,1 | 1 302,6 | 1 435,3 | 1 096,5 |
| | **%** | % | % | % | % |
| ***Ratios*** | | | | | |
| Return on average equity | **24,1** | 20,1 | 19,8 | 23,9 | 21,7 |
| Efficiency ratio | **60,2** | 61,1 | 62,9 | 61,8 | 63,8 |
| Bad debt charge as a % of average advances | **1,4** | 1,4 | 1,3 | 1,1 | 0,8 |
| Other operating income as a % of total income | **55,5** | 52,8 | 52,2 | 49,4 | 46,6 |
| Return on average total assets | **1,5** | 1,3 | 1,0 | 1,3 | 1,2 |
| Interest margin on average total assets | **3,1** | 3,3 | 3,1 | 3,4 | 3,6 |
| Interest margin on average advances | **4,8** | 5,0 | 4,4 | 4,6 | 4,9 |

***Return on average equity***




***Earnings attributable to ordinary shareholders***



# Board of directors and board committees of FirstRand Bank Holdings Limited

**G T Ferreira (52)**
*BCom (Hons), B (B&A), MBA*
Chairman of FirstRand, FirstRand Bank Holdings and RMB Holdings

**V W Bartlett (57)**
*AMP (Harvard), FIBSA*
Director of FirstRand
Director of FirstRand Bank Holdings

**M P C Brogan (51)**
*FCA*
Chairman of Ansbacher Group of Companies

**J P Burger (41)**
*BCom (Hons), CA(SA)*
Financial Director of FirstRand Bank Holdings

**L L Dippenaar (51)**
*MCom, CA(SA)*
Chief Executive Officer of FirstRand
Chairman of Momentum Group
Director of FirstRand Bank Holdings
Director of RMB Holdings

**D G K Fish (54)**
*CA(SA)*
Alternate Director of Anglo American Corporation

**J W Gafney (66)**
*CTC, CA(SA)*

**P M Goss (52)**
*BEcon (Hons), BAccSc (Hons), CA(SA)*
Director of FirstRand

**P K Harris (50)**
*MCom*
Director of FirstRand
Chief Executive Officer of FirstRand Bank Holdings

**M W King (63)**
*CA(SA), FCA*
Deputy Chairman of FirstRand
Deputy Chairman of FirstRand Bank Holdings
Deputy Chairman of Anglo American Corporation

**S R Maharaj (65)**
*BA, B Admin*
Director of FirstRand

**G R Pardoe (43)**
*BA (Hons) (Cum Laude)*
Director of FirstRand
Director of Anglo American Corporation

**M W Pfaff (38)**
*BCom, MBA (Duke), CA(SA)*

**A S Vahed (66)**
*DCom (Hons), UDW (Hons), DEcon (Natal)*

**R A Williams (59)**
*BA, LLB*
Director of FirstRand

## Audit committee

G R Pardoe (Chairman)
V W Bartlett
D G K Fish
P K Harris
M W King
A H Arnott (ex officio)
J P Burger (ex officio)

## Remuneration committees

RMB
G T Ferreira
P M Goss
P K Harris

FNB
M W King
R A Williams

# FirstRand Banking Group executive committee

**Laurie Dippenaar (51)**
*MCom, CA(SA)*
Chairman of FirstRand Banking Group Executive Committee

**Paul Harris (50)**
*MCom*
Chief Executive Officer of FirstRand Banking Group

**Viv Bartlett (57)**
*AMP (Harvard), FIBSA*
Deputy Chief Executive Officer of FirstRand Banking Group

**Johan Burger (41)**
*BCom (Hons), CA(SA)*
Financial director of FirstRand Banking Group

**Derek Carstens (51)**
*BEcon (Hons), MA (Cantab)*
Branding and Communications

**L P Collett (39)**
*BBusSc (Hons), MBA, CFA, AMP (Harvard)*
Rand Merchant Bank

**Michael Jordaan (32)**
*MCom, PhD*
eBucks.com

**Edward Kieswetter (42)**
*NHD (Elec Eng), HDE (Technical), BEd, MEd*
Banking products

**Theunie Lategan (43)**
*DCom, CA(SA), Dip Adv Banking*
FNB Corporate & Commercial Bank

**Wendy Lucas-Bull (47)**
*BSc*
First National Bank – Retail

**Yatin Narsai (36)**
*BSc*
Information Technology Services and FirstCard

**E B Nieuwoudt (39)**
*MCom*
Rand Merchant Bank

**Michael Pfaff (38)**
*BCom, MBA (Duke), CA(SA)*
Rand Merchant Bank

**Ferdi van Heerden (37)**
*BSc (Hons), AMP (Insead)*
First National Bank – Retail

**Ronnie Watson (53)**
*AMP (Harvard)*
WesBank

*Johan Burger*

# Report of the Chief Financial Officer

**The FirstRand Banking Group ("the Banking Group") is 100% held by FirstRand Limited. The consolidated figures in this report include the operations of First National Bank ("FNB"), WesBank, Rand Merchant Bank ("RMB"), FNB Namibia, FNB Botswana and FNB Swaziland as well as RMB International, First Bowring, OUTsurance, Origin and the Ansbacher Group.**

These results reflect the trading position of the banking interests of the FirstRand Limited Group of companies and should be read in conjunction with the report on FirstRand Limited elsewhere in this publication.

During the previous financial year, the Minister of Finance approved the establishment of a banking entity now known as FirstRand Bank Limited. The legal structure of the Banking Group was finalised on 30 June 1999. The comparatives in these financials have, however, been prepared as though the group had been in place for the full 1999 financial year.

## OVERVIEW OF RESULTS

### Operating environment

The financial year was characterised by lower volatility in the financial markets and a sharp decline in interest rates. Although this return to stability and lower interest rates has been welcomed, the return of consumer and business confidence has been slow with a resultant lower demand for retail credit. The aftermath of the high interest rates in the previous financial year, although substantially reversed by the end of the financial year, still affected the charge for bad and doubtful debts. The substantial improvement in non-performing loans occurred in the latter part of the financial year and the positive effect to the income statement charge should take place in the new financial year. The Banking Group has however maintained its conservative level of specific and general provisions.

## Operating results

The Banking Group achieved excellent results with earnings attributable to shareholders of R2 190 million (1999: R1 898 million). This represents an increase in pro forma headline earnings attributable to shareholders of 25%, calculated as follows:

| R MILLION | 2000 | 1999 | % |
|---|---|---|---|
| Earnings attributable to shareholders | **2 190** | 1 898 | 15 |
| Pro forma interest on capital transferred to FirstRand Limited at 30 June 1999 | **–** | (150) | – |
| Pro forma earnings attributable to shareholders | **2 190** | 1 748 | 25 |

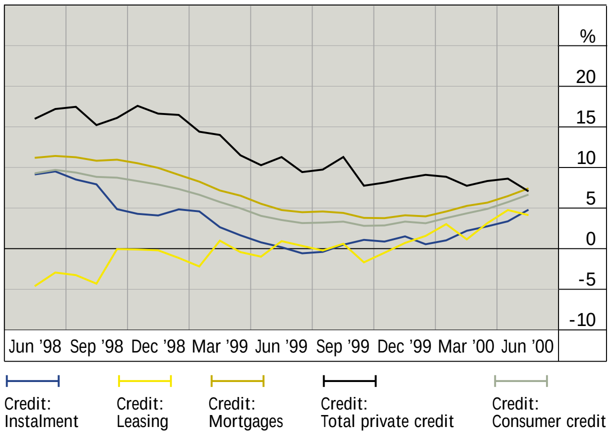
## Modest demand for retail credit

Total advances grew by 9%. Demand for retail credit remained sluggish following last year's high interest rates. This was, however, compensated for by strong growth in Merchant Bank, Corporate and WesBank assets. Our strategy to price for risk, in order to provide an appropriate return, has adversely impacted on certain lines of business.

### Home loans

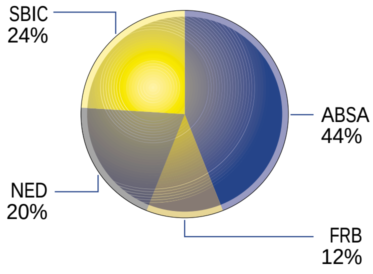
The home loan advances book decreased slightly relative to the prior year, largely as a result of an ageing book and increased focus on credit quality. The year-end position reflects a considerable improvement since the interim results.

## Credit demand (annualised)




*Source: SA Reserve Bank*

## Mortgage advances




*Source: D1900*

The trend of record new business in the last three months of the current financial year continued after year-end. While the ageing book will still make growth difficult, an increase of 10% is budgeted for in the new financial year. This growth has been targeted through greater emphasis on client service and retention, exploring cross-sell opportunities and changing the mix of business origination. FirstRand Bank's market share in home loans is still considerably below what is regarded as the natural level, and as such is targeted as an area of substantial expected growth.

### Offshore loans

The significant increase in offshore loans is pre-dominantly the result of asset growth in FirstRand International. This growth reflects the ongoing development of the Banking Group's capacity to provide international services to its local client base.

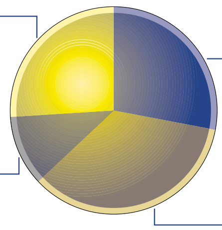
### Corporate and commercial

The Corporate and Commercial advances of the Banking Group have increased relative to the prior year, albeit off a low base. This has been achieved largely through growth in market share, more effective cross-selling to the merchant bank client base, and improved client service. The inculcation of a more entrepreneurial and innovative spirit within the division is considered one of the highlights of the year and has contributed to new product development, client service and team spirit. The growth in advances has been limited to large corporates, with minimal growth at the smaller end of the market.

### Instalment credit

WesBank once again performed strongly, increasing market share to 27%. Joint venture agreements with Volkswagen, Toyota, Delta, Nissan, McCarthy's and Fiat will ensure that WesBank continues to increase its market dominance in the instalment credit market.

### Instalment credit




*Source: D1900*

### Market volatility

Domestic financial markets continue to be characterised by low volumes and volatilities. The rand continued to decline against the US dollar, in spite of positive ratings of South Africa by international rating agencies. The subdued market was also negatively impacted by events in neighbouring countries, in particular Zimbabwe. The Banking Group was nevertheless able to grow levels of treasury and exchange income, largely through exploitation of the limited arbitrage opportunities available. Exchange earnings grew strongly on the back of directional trading. Investment income, which is derived from the bank's local and international investment banking operations, reflected a strong recovery from a low base, following the subdued equity markets of 1999. The total trading-related income reflected an increase of 28,7%, from R983 million in 1999 to R1 265 million in the current financial year and comprises 12% of total income:

| R MILLION | 2000 | 1999 | % |
|---|---|---|---|
| Exchange earnings | **614,1** | 417,8 | 47,0 |
| Investment income | **286,7** | 174,3 | 64,5 |
| Treasury operations | **364,2** | 391,2 | (6,9) |
| | **1 265,0** | 983,3 | 28,7 |

### Interest income

The current financial year saw a sharp drop in the prime interest rate, from a year-end rate of 18,0% at 30 June 1999, to 14,5% at 30 June 2000. The actual net interest income before bad debts of the Banking Group declined by 2%, arising from the combination of:

- the reduced endowment effect arising from the lower interest rates received on the capital base;
- the decline in the Banking Group's average capital base following a transfer of R2 billion in capital in June 1999; and
- a further, albeit slight, tightening of core interest margins to 3,77% (1999: 3,85%).

On the positive side, the growth in advances and the restoration of the mortgage book's margin reduced the decline.

### Non-performing loans

The more stable interest rate environment and an increased focus on non-performing loans have resulted in a significant improvement in the credit profile of the Banking Group, as evidenced by the reduction of non-performing loans. The level of non-performing loans has also been affected by a considerable reduction in long outstanding collectibles, which have either been recovered or written off.

| R MILLION | 2000 | 1999 | % |
|---|---|---|---|
| Non-performing loans | | | |
| Credit exposure | **4 180** | 5 298 | (21) |
| Less: | | | |
| Security | **1 454** | 1 787 | (19) |
| Interest suspended | **919** | 1 194 | (23) |
| Residual risk | **1 807** | 2 317 | (22) |
| Specific provision | **1 807** | 2 137 | (15) |
| General provision | **1 325** | 1 113 | 19 |
| Total provisions | **3 132** | 3 250 | (4) |

| % | 2000 | 1999 |
|---|---|---|
| Specific provisions as a % of total advances | **1,7** | 2,2 |
| General provision as a % of total advances | **1,3** | 1,2 |
| Total provisions as a % of total advances | **3,0** | 3,3 |
| Total provision as a % of residual risk | **173** | 140 |

| R MILLION | SPECIFIC PROVISION | BALANCE SHEET GENERAL PROVISION | INTEREST IN SUSPENSE | INCOME STATEMENT CHARGE |
|---|---|---|---|---|
| At beginning of the period | 2 137,2 | 1 112,5 | 1 193,6 | – |
| Exchange rate differences | 10,8 | 12,8 | 2,0 | – |
| Amounts written off | (1 654,0) | – | (920,9) | – |
| Reclassifications | (178.0) | 186,6 | 8,6 | – |
| Provisions created | 1 904,8 | 12,6 | – | (1 917,6) |
| Provisions released | (414,0) | – | – | 414,0 |
| Interest suspended | – | – | 797,9 | – |
| Recoveries of bad debts | – | – | (169,8) | 132,2 |
| Other | – | – | 7,4 | 42,0 |
| | 1 806,8 | 1 324,5 | 918,8 | (1 329,4) |

The charge to the income statement for bad and doubtful debts reflects a marginal decrease relative to the prior year of 2,5% (1999: increase of 16%), arising from both the improved non-performing loan position and the ongoing maintenance of conservative provisioning levels. The reduction in bad debts, which normally follows an easing in interest rates, lagged slightly behind the downward turn in interest rates. Reduced rates, together with improved credit processes and pricing for risk, is expected to have a positive impact on the results in the new financial year.

The total provisions reflected in the balance sheet represent a conservative 3,0% of advances (1999: 3,3%), which follows the trend in non-performing loans. The general provision has remained constant as a percentage of advances.

### Other income

The increase in fees and commissions earned is largely as a result of higher volumes and the early results of initiatives to stem revenue leakage. The expansion of the Banking Group's private equity business, and participation of other divisions in multi-disciplinary deals, contributed to investment banking profits. In spite of difficult trading conditions, and a changing legal and regulatory environment, the Banking Group's structured finance and treasury teams were able to make outstanding contributions to the Banking Group's bottom line.

### Costs

The efficiency ratio has further improved during the period under review. Our ongoing focus on each business case, together with the elimination of obvious inefficiencies, has restricted growth in costs to 4% for the current financial year.

This sensible management of costs along with the implementation of smaller, more accountable business units has contributed to the improvement in the efficiency ratio from 61,1% to 60,2% against a target of 60%. Significant savings have been achieved in technology spend while still improving response times, capacity and disaster recovery capability. The Banking Group is targeting an efficiency ratio of 57,5% for the financial year 2001, and 55,0% for the financial year ending 30 June 2002.

### International activities

The Banking Group has continued its drive to diversify its sources of income through the internationalisation of its activities. Of the total post-tax earnings of R2 321 million, 28% is sourced from international activities (of which 9% is from African subsidiaries). The Banking Group's international strategy is to facilitate individual business units expansion into niches where they have a competitive advantage, and is therefore a multi-disciplinary offering, incorporating merchant banking, corporate and consumer products.

**Rand/US Dollar Exchange Rate**

### Divisional performances

The divisional performances of the Banking Group, on a pre-tax basis and before adjusting for capital transfer, can be analysed as follows:

| R MILLION | 2000 | 1999 | % |
|---|---|---|---|
| Rand Merchant Bank | **630** | 540 | 17 |
| WesBank | **507** | 420 | 21 |
| Retail Bank | **451** | 424 | 6 |
| Head Office and Capital Centre | **424** | 1 001 | (57) |
| Corporate and Commercial | **349** | 219 | 59 |
| African Subsidiaries | **263** | 217 | 21 |
| Property Finance | **132** | (333) | >100 |
| FirstRand International | **70** | (1) | >100 |
| Broking and Short-term Insurance | **40** | 52 | (23) |
| Private Banking | **3** | 0 | >100 |
| Income from operations | **2 869** | 2 539 | 13 |

*Prior year figures have been restated to reflect changes in the Banking Group's profit model.*

## RISK MANAGEMENT

### Risk management philosophy

Risk is anything which in any way could cause a desired objective not to be achieved. Risk management is a business enabler; without it an organisation or business unit will soon suffer excessive losses. For this reason, risk management is a key focus of the management processes of the Banking Group, its subsidiaries, divisions, business units and support operations.

The Banking Group is exposed to a wide range of risks which include the following:

- Domestic and sovereign credit risk
- Funding, liquidity and interest rate risks attached to the banking book
- Market risks inherent in the trading activities in the financial and commodity markets
- Business and operational risks including pricing, market penetration, service levels, security of staff, assets and information, business disruption, legal and contractual risk
- Technology risks comprising systems failure, data storage and integrity
- Processing risk including settlement and payment
- Reputation risk
- Compliance with statutory and regulatory requirements

The process of risk management seeks to identify all relevant risks and control shortcomings. To evaluate and quantify these and to manage them so as to eliminate, reduce and control the impact of adverse occurrences to yield the desired business and activity outcomes within acceptable parameters.

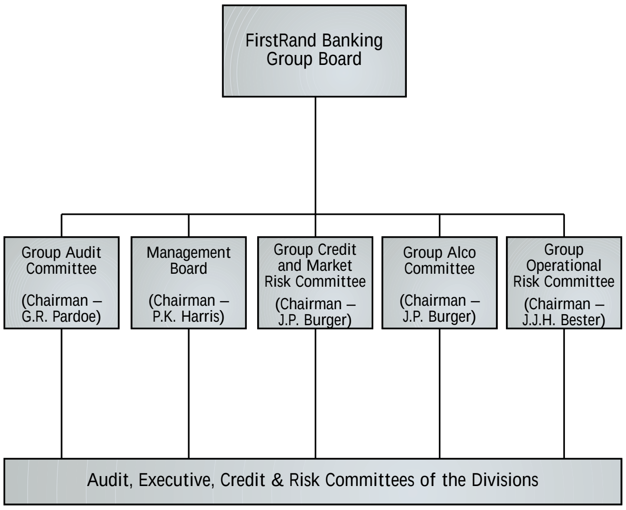
### Risk management structure

In the Banking Group, risk is managed and monitored in accordance with the Risk Management Framework of the board of directors. The sub-committees of the board, executive and operational management, the independent risk and compliance functions and the risk management functions of the operational units.

By using a structure of independent and deployed risk management functions we aim to minimise risk by combining the advantages of an independent monitoring, co-ordination and standards function with those of the risk management functions which are integrated with the business and operational activities and which can add most value to operations because of their specialised knowledge of the business processes and their day-to-day involvement with the business.

### Committees of the board

The Banking Group board has constituted a number of board sub-committees to which it has delegated management and risk monitoring and control functions under specific mandates.



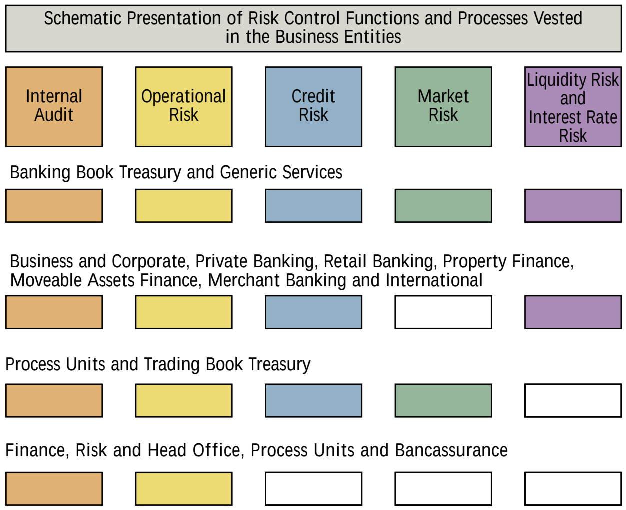

This structure gives effect to the board's risk management strategy to deploy risk management throughout the Banking Group while maintaining a strong independent function responsible for risk monitoring, policies and standards.

- The management board is the main executive committee of the Banking Group.
- The Banking Group audit committee monitors the internal and external audit processes.
- The Banking Group credit and market risk committee oversees credit and market risk management.
- The operational risk committee, within the Finance, Risk and Compliance Division, monitors the general risk management processes, operational risk and risk insurance.
- The group ALCO committee is responsible for the setting of prudential guidelines for liquidity and interest rate risk in the banking book and the monitoring of the management of these exposures by the Banking Group Treasury.

These committees of the Banking Group board delegate specific functions to the management, audit and risk committees of the divisions and are accountable to the board for the execution of the delegated functions.

### *Risk control structure*

The delegated risk control functions and processes, under supervision of the risk and audit committees of the business entities, are summarised in the following diagram:




### *Current and future*

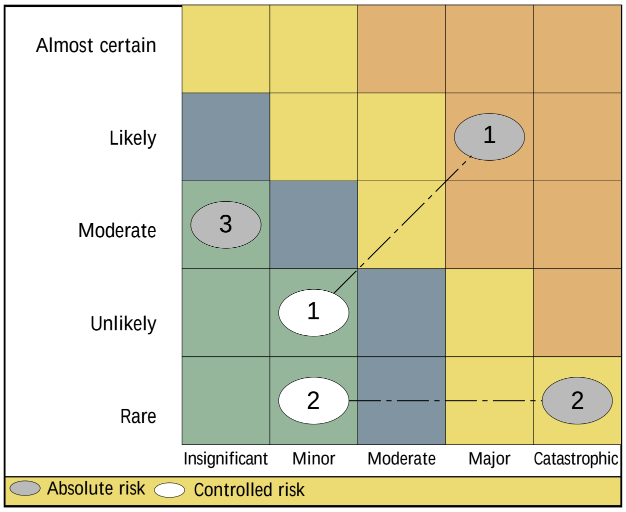
During the past year our efforts concentrated on vesting risk management functions and risk committees throughout the Banking Group. These are now in place and functioning for most of the operating entities. The risk committees and functions focused their risk management activities according to the needs of the specific operating entity that they support. The needs of the various entities varied from awareness and training campaigns to combating criminal activities, to process re-engineering, major system developments and business re-engineering.

We have started with the establishment of risk profiles for the various business entities ("clusters"). These profiles identify the major risks to which a cluster is exposed. They assess the impact that a particular risk might have on the business if the risk is not controlled. They also measure the residual risk profile taking the existence and effectiveness of management's risk control measures into account.

The profiles cover all types of risk and would typically include strategic and operational business risks as well as credit, market and operational risk.

Comprehensive risk profiles have been established for the Retail Bank and WesBank and are currently being refined. The process will be rolled out to other business units during the current financial year. The following diagram is a representation of a risk profile for a business entity.

### Diagrammatic representation of risk




The major business and operating risks of an entity are identified and quantified according to the likelihood of occurrence and the impact that these risks would have on the business in an uncontrolled environment. In the diagram this is schematically represented by the figures 1, 2 and 3 in grey. Thereafter, these risks are quantified taking the effectiveness of existing risk control measures into account, designated by 1 and 2 in white.

In the diagram, the risk portrayed as 1 in grey is a typical major business risk such as credit risk in a banking context. If credit risk is uncontrolled, credit defaults are likely to occur and would be of such a magnitude in the aggregate that losses would have a major impact on the financial performance of a bank. In the diagram the likelihood of credit defaults occurring and the impact thereof is assessed to have been reduced by means of appropriate control measures to "unlikely and of minor impact" as is depicted by point 1 in white. Risk 3 in grey is moderately likely to happen but with insignificant impact on the organisation and is consequently ignored because it would be uneconomic to control. Risk 2 in grey, though highly unlikely to materialise, could potentially have a catastrophic impact on the organisation. Major fraud would fall into this category of risk. Risks of this nature are insured so that the risk is transferred to avoid the demise of the organisation if it should fall victim to any one of a number of potentially catastrophic risks.

The resultant risk profile is assessed to determine the acceptability of the overall residual risk exposure and risk control measures are identified to address risk control shortcomings. These profiles are audited by the internal audit teams in accordance with the risk-based audit approach of the Banking Group in order to provide an independent view of the effectiveness of the risk control measures applied to the major risks of a business entity. This process ensures that all major risks are identified and managed to reduce the impact to acceptable levels.

### The integration of internal audit and risk management

The main function of internal audit is to assess independently the effectiveness of risk control measures which are implemented by management to address the major business risks to which an entity is exposed. Consequently, internal audit forms an integral part of the risk management process.

The internal audit teams are represented on the risk committees of the business clusters. This enables them to monitor the risk management processes and events of process breakdown on an ongoing basis and to ensure that corrective action is taken. Where needed, Risk and Audit Services will facilitate or participate in risk management workshops. In this way the internal audit and risk services of the Banking Group are best placed to understand the needs and complexities of the business entities and to help these entities to identify and manage their risks while providing an independent view of their effectiveness.

The internal audit teams assist the business units with risk control management through their involvement in the risk committees of the clusters that they audit, risk control workshops and in the execution of their standard audit functions.

The audit teams of the service outlets (branches) are being restructured into two groups which will concentrate on process and credit controls respectively. The changes will allow us to audit process controls at branch level more often than at present. The centralisation of credit audits will result in ongoing monitoring of the credit granting activities in support of the rating and scoring systems methodology and credit risk management processes. The objective is to improve the credit risk profile and to yield a return commensurate with the risk.

### *Credit risk*

The risk of loss as a result of a counterparty defaulting in respect of a loan commitment, settlement or other financial obligation is controlled by credit risk management processes vested within the various business units.

The credit risk management processes are governed by the Credit Risk Management Framework and are structured to address the exposure risks of each business unit in the most appropriate manner.

*Personal and small business credit exposures* are authorised by means of a variety of different processes designed to suit the specific lending division. In our instalment credit and credit card divisions, exposures to personal clients are approved by means of credit scoring processes. In all other instances, facilities are mostly approved by credit or lending officers acting according to formal credit authorisation mandates. In each business unit, large credit exposures will be approved by the relevant credit committee.

The facility limits for the *larger public sector, corporate and other credit exposures* are approved by credit committees. The committees are composed of non-executives and executives who are selected to provide the appropriate skills to the relevant committee suited to the type of credit facilities which the committee will be required to approve. Detailed credit proposals are submitted to these committees on the structure of the transaction, project viability, industry sector and country exposure as might be required. All credit proposals to the committee are sponsored by a credit analyst and an account executive. The proposals are presented to the credit committee by the independent credit risk management function which makes recommendations as to security and collateral requirements and changes to structure to reduce the credit exposure of the Banking Group.

### Re-engineering of the credit processes

The Banking Group has embarked on two re-engineering projects addressing consumer and small business credit risk and corporate and commercial credit risk respectively. We have established a common credit risk measurement framework and an internal FirstRand or FR-rating scale for credit risk. The two projects will result in all credit exposures in the Banking Group being measured in terms of the internal rating scale. The most appropriate methodologies are used in terms of customer and product type.

For large corporate exposures the credit analysts utilise a variety of quantitative models to supplement their qualitative analysis. The larger volume smaller value exposures will increasingly depend on quantitative models for credit rating. Consistent and appropriate credit risk quantification enables better selection of risk and more accurate pricing.

Once in place, the common measurement framework will enable us to manage the credit portfolio of the Banking Group as a whole. Credit portfolio management addresses concentration risk and aims to optimise returns on capital employed against credit risk, both from a statutory and an economic capital point of view.

The re-engineering of the credit processes is aimed at reducing the operational cost and incidence of bad debts, given the chosen levels of credit risk, as well as maximising the impact of credit resources utilised in the credit process.

Internationally credit risk is becoming a commodity in that it can be bought and sold in the capital markets. The ability to trade credit risk will enable the Banking Group to manage its credit portfolios dynamically, as opposed to the traditional static portfolio management. The South African secondary credit market is relatively undeveloped, but efforts are being undertaken to develop the market through an education process. It is expected that credit investment instruments as an asset class will grow substantially over the next two to three years, as institutional investors become skilled in trading with these instruments. The Banking Group aims to be a key player in this market.

### *Liquidity and interest rate risk management in the banking book*

The asset/liability committee (ALCO) has a group responsibility for the management of liquidity risk and for managing the banking book interest rate risk. Trading book risks are managed separately and monitored by the relevant risk committees. The following definitions of trading and banking book are used to separate the activities:

The *trading book* consists of proprietary positions in financial instruments that are held for resale and that are taken on by the

Banking Group with the intention of benefiting, in the short term, from actual or expected differences between their buying and selling prices.

The *banking book* is defined as all other assets, liabilities and off-balance sheet items that are intended to be held to maturity in order to generate interest income over time.

The asset/liability management process (ALM) has been enhanced with the separation of the independent risk management function from the risk-taking area. This has been coupled with a focus on balance sheet management including:

- product pricing of all risks;
- growth strategies for the various balance sheet products; and
- management of interest margins.

ALCO fulfils the independent risk management role for the Banking Group, managing the liquidity and banking book interest rate risk limits approved by the board. ALCO ensures that business units managing interest rate risk have the necessary skills and resources, and operate within an agreed mandate. ALCO also monitors the effectiveness of the business units' balance sheet management processes.

### *Liquidity risk management*

Liquidity is managed by major currency in each major entity. Limits have been set in order to ensure that the operating entities will be able to meet their commitments in the currencies in which they transact given their operating environment. These limits are based on a prudent structure of the professional market funding taking into account the anticipated cash flows from all other products both on- and off-balance sheet.

Liquidity risk is assessed in aggregate using information for both the banking and trading portfolios.

Liquidity is treated as the primary risk with interest rate risk being a secondary risk because the interest rate risk profile can be more easily managed using interest rate derivative products. ALCO has delegated the responsibility of ensuring that the Banking Group is fully funded on a daily basis to Banking Group Treasury which ensures that net cash flows are in accordance with the liquidity mandate. Banking Group Treasury also executes the necessary transactions to adjust the interest rate risk profile in accordance with the instructions of the interest rate risk-taking entities.

### Banking book interest rate risk management

The management of SA rand interest rate risk in the banking book is carried out by the ALM strategic committee, WesBank and within RMB. These business units manage the risk positioning of their portfolios' risks within agreed mandates and are required to report to ALCO monthly. In addition, ALCO Support reports an aggregate risk position to ALCO.

Interest rate risk is measured as the potential impact of a 1% change in the general level of interest rates on the projected interest income of the Banking Group as well as on the sensitivity of economic value of equity (EVE). EVE is calculated by present valuing future cash flows in order to derive the longer-term sensitivity of the Banking Group. The Banking Group also calculates the projected change in net interest income and EVE over a forecast period based on the most likely, high and low interest rates scenarios for the period.

Identifying the behavioural characteristics and management of the administered rate products on the SA rand balance sheet has enjoyed a high priority over the last financial year and further refinement will continue.

The Matched Maturity Funds Transfer Pricing System, which is now fully implemented, has enabled interest turn to be analysed between lending, funding and mismatch spreads and for these spreads to be allocated to the business units managing that component of interest turn. Business units have a clear view of where interest turn is being earned, can associate the risk with the revenue earned and are better able to price their products.

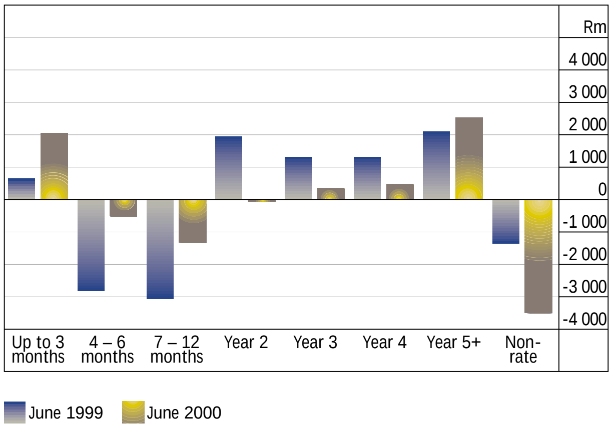
An international ALCO has been established to manage the foreign currency balance sheets and during the coming year a separate ALCO will be established to manage the Banking Group's international activities.

Prior to the Y2K event a neutral interest rate risk was assumed to reduce the impact any problems over the period might have had on the Banking Group.

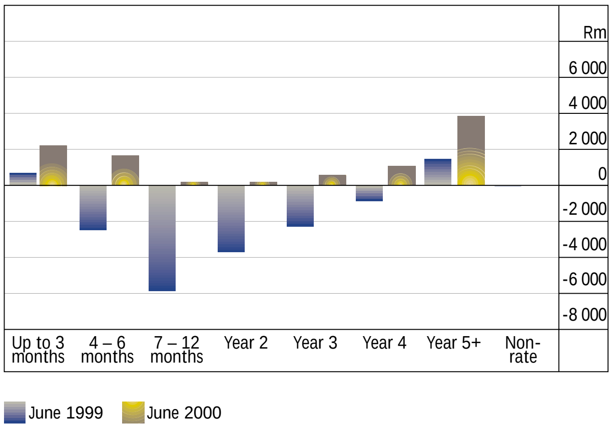
### Interest rate gap

The following graphs represent the interest rate risk of the banking book as at the end of the financial year, in the form of a traditional interest rate gap. The comparative figures for June 1999 are included.

### Gap



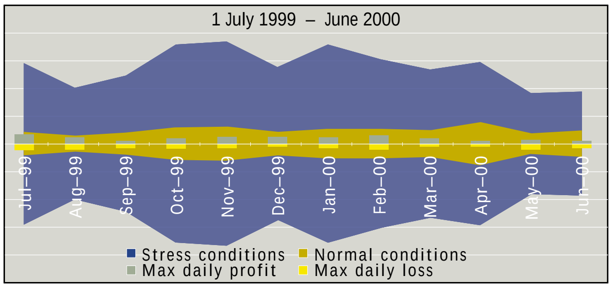

### Cumulative gap




### Market risk

The Banking Group trades actively in the domestic and international financial and commodity markets in currencies, interest rate products, equities, gold and other metals and commodities and in the derivatives associated with these markets, such as swaps and options, mainly through the Treasury division of Rand Merchant Bank. The risk of loss due to adverse movements in rates and prices is controlled by setting stress loss exposure limits for each trading desk. These are approved by the risk committee of Rand Merchant Bank and the divisional and

### Rand Merchant Bank Treasury Market Risk




Banking Group boards. Exposure limits are linked to expected returns and trading results are compared with risk exposures to monitor the effectiveness of the risk taking activities.

Stress exposures are determined by calculating the potential losses which would be incurred on open positions should rates, prices and volatilities change according to specified ranges. Stress exposures are monitored daily by the business unit and independent risk managers and corrective actions agreed with the trading desks, if required.

Trading profits and losses are compared with the calculated exposures under stress and normal market conditions in order to confirm the integrity of the risk measurement methodology and to report the level of risk to the risk committee and the board. The following graph shows the highest daily profits and losses over the past financial year to 30 June 2000 for the Treasury Division of Rand Merchant Bank compared with the amounts at risk or exposures under stress and normal market conditions. The analysis shows no profit and loss outliers relative to normal risk which indicates that risk was well controlled over the period with the amount at risk being measured at the 99% confidence level. It is also a reflection of the low volatilities which prevailed in the financial markets over the past financial year.

The maximum stress loss exposure occurred in January 2000 at a level of R218 million and the maximum normal risk exposure in April 2000 at a level of R41 million. Because of the low volatilities in the market, which restricted trading opportunities, the maximum stress exposure incurred was only 53% of the total stress exposure limit for the Treasury Division which is set at R407 million. The aggregate stress loss limit of R407 million is the maximum risk that the trading activities at RMB would be exposed to under severe conditions of systemic market breakdown. It assumes that all exposures on the occurrence of such an event would be adverse and that there would be no diversification benefits between the trading desks. This is a highly unlikely set of circumstances. It is clear from the forgoing that trading risk is small in relation to the profitability and capital structure of the Banking Group.

Even though volatilities were low during the past financial year, Treasury yielded excellent results because the division was able to generate good income from arbitrage and structured transactions with a lower risk exposure.

The market risk management process is well vested within the organisation. We are currently implementing an Algorithmics RiskWatch system which will enable us to automate our current risk measurement system, to implement a historical value at risk measure across all the trading desks in Treasury and to conduct scenario analysis, especially for complex portfolios.

### *Operational risk*

Operational risk includes all operational, as opposed to strategic, business risks with the exception of credit, liquidity and interest rate risk in the banking book and market risk. It is the risk of loss due to system and process inefficiencies, process breakdown, theft and fraud. These risks include the security of our people, assets and information, business disruption, legal documentation or contractual risk, technology, systems failure, data storage and integrity, settlement, payment and processing risk, reputational risk and compliance with statutory and regulatory requirements.

#### Asset protection

The Banking Group implements extensive security measures for the protection of our personnel and our clients and the safeguarding of our information and physical, financial and intellectual assets in order to combat the high level of criminal activities which is an unfortunate element of the banking environment.

The change to proactive risk control has helped us to reduce losses due to criminal activities by more than 20%. We will continue to improve our loss prevention and fraud detection awareness and controls, but must caution that criminal attempts continue to rise in both number and the degree of sophistication. The banking industry is continuously under attack from criminals whose business it is to profit from illegal activities. The economy will suffer severe consequences if the authorities and the private sector do not succeed in containing and reducing the level of crime.

The information security team reshaped itself as "Information Risk Services" in support of the deployment of responsibility for risk management to the business areas. Emphasis has been placed on a review of policy, generation of baseline standards, development of risk assessment services and tools and on continued support of the security infrastructure products in the shared network and mainframe environments. Our current focus is on improving access management and control, upgrading key management and encryption techniques and ensuring that monitoring procedures are developed and implemented, particularly on the network.

No significant losses or service breaks were experienced due to information security breaches during the period under review.

#### Business continuation

Considerable time and effort was put into developing business continuation plans appropriate for each business entity. Major business disruptions are rare events and one has to balance the probability and severity of occurrence against the cost of establishing elaborate continuation plans and facilities for each business activity. Our aim is to ensure that critical systems and functions will be continued with no or minimum delay following an incident of business disruption. We accept that there will be some delay in re-establishing less critical activities.

Subsequent to the financial year-end we successfully performed a live business continuation test for our main banking systems. We will continue to establish and test business continuation facilities for all the critical operations during the current financial year.

#### Operational risk control

Operational risk control shortcomings are identified by line and deployed risk managers, by the internal audit process and through incidences of process breakdown or loss. Appropriate corrective actions are then identified to improve controls and progress with the implementation thereof monitored by the various risk functions, the risk committees and the internal auditors.

Internal audit supports the risk control processes by means of their involvement with line management and the deployed risk functions in risk identification, the improvement of processes and the monitoring of risk control through representation on the various risk committees while providing the board with a mechanism to support the execution of their statutory and corporate governance responsibilities.

### Risk insurance

Where possible, the Banking Group is protected against large losses that might result from fire or other natural disasters, crime and legal liability through a structured insurance risk finance programme. The Banking Group is well insured against the major risks in these categories. During the past year we had minor claims on insurers in respect of losses related to physical assets. All other claims were funded by internal and other external funding programmes.

### Compliance

A formal compliance function has been established in conformity with the requirements of Regulation 47 of the Banks Act. The function forms part of the risk management framework in order to ensure that there is compliance with applicable laws, regulations and supervisory requirements.

The purpose of the compliance function is to minimise regulatory and related operational risk by implementing and enforcing policies and procedures that assist, facilitate and enable compliance with relevant laws.

The aim is to establish a compliance culture that contributes to the overall objective of prudent risk management. Line management is required to monitor compliance with laws and regulations as part of their normal operational duties and to ensure that regulatory requirements are incorporated into operational procedures manuals where appropriate.

### Legal risk

The risk embedded in the contractual arrangements with clients and counterparties, such as the clarity and enforceability of contracts, the discharge of contractual obligations and the capacity to contract, is overseen by the legal risk committee within the Finance, Risk and Compliance function.

## CAPITAL ADEQUACY STATEMENT OF REGISTERED BANKS WITHIN THE GROUP

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 2000 South African banks were required to hold capital equal to a minimum of 8 per cent of risk adjusted banking assets and contingencies. Capital has to be held against trading assets as calculated using risk models. As at 30 June 2000, the capital held against the trading assets of the Banking Group was R759,6 million (1999: R1 500 million).

| R MILLION | NOTES | GROUP 2000 | GROUP 1999 |
|---|---|---|---|
| ***Regulatory capital*** | | | |
| Tier 1 | | | |
| Share capital | | **768,9** | 106,0 |
| Share premium | | **1 756,3** | 1 331,9 |
| Capital redemption reserve | | **1,1** | 1,1 |
| Retained income | | **4 951,7** | 5 147,5 |
| *Less*: Impairments | | **(100,3)** | (103,5) |
| *Less*: Allocated to trading activities | | **(750,0)** | (750,0) |
| **TOTAL TIER 1 CAPITAL AVAILABLE TO BANKING ACTIVITIES** | | **6 627,7** | 5 733,0 |
| Tier 2 | | | |
| Subordinated debt instruments | | **3 216,6** | 3 663,9 |
| General provision | | **640,1** | 974,7 |
| *Less*: Allocated to trading activities | | **(9,6)** | (750,0) |
| **TOTAL TIER 2 CAPITAL AVAILABLE TO BANKING ACTIVITIES** | | **3 847,1** | 3 888,6 |
| | | **10 474,8** | 9 621,6 |
| | | **%** | % |
| Tier 1 | | **6,9** | 6,3 |
| Tier 2 | | **4,0** | 4,2 |
| | | **10,9** | 10,5 |

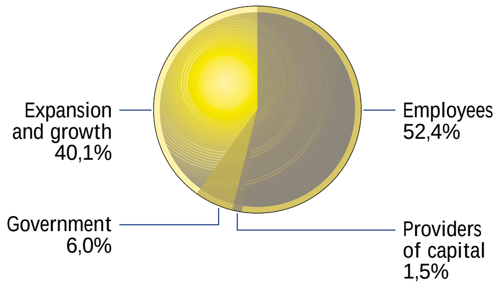
| R MILLION | BALANCE 2000 | BALANCE 1999 | RISK WEIGHT % | RISK ADJUSTED BALANCE 2000 | RISK ADJUSTED BALANCE 1999 |
|---|---|---|---|---|---|
| ***Risk adjusted assets and off-balance sheet exposures*** | | | | | |
| Cash, own bank and central government advances | **20 742,1** | 14 598,1 | 0 | **–** | – |
| Letters of credit and unutilised facilities on behalf of public sector bodies | **0,5** | 95,7 | 5 | **–** | 4,8 |
| Public sector body advances | **4 593,9** | 2 232,0 | 10 | **459,4** | 223,2 |
| Other bank advances and letters of credit | **19 911,5** | 15 809,3 | 20 | **3 982,3** | 3 161,9 |
| Mortgage advances, remittances in transit and letters of credit | **25 281,1** | 25 893,4 | 50 | **12 640,6** | 12 946,7 |
| Other advances | **79 348,8** | 75 366,4 | 100 | **79 348,8** | 75 366,4 |
| | **149 877,9** | 133 994,9 | | **96 431,1** | 91 703,0 |

## *VALUE ADDED STATEMENT*

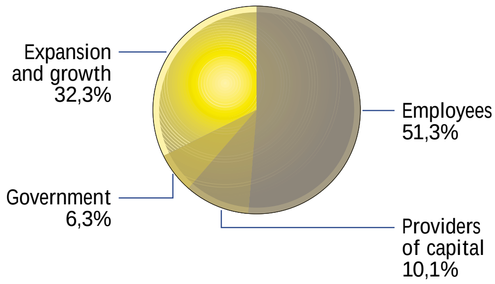
for the year ended 30 June

| | GROUP 2000 R MILLION | GROUP 2000 % | GROUP 1999 R MILLION | GROUP 1999 % |
|---|---|---|---|---|
| ***Value added*** | | | | |
| Income earned by providing banking services | 14 397,9 | | 20 287,4 | |
| Cost of services | (11 030,7) | | (16 841,7) | |
| Value added by banking services | 3 367,2 | | 3 445,7 | |
| Non-operating income | 5 718,1 | | 5 122,8 | |
| Other non-operating expenditure | (2 364,8) | | (2 504,9) | |
| Value added | 6 720,5 | | 6 063,6 | |
| ***To employees*** | | | | |
| Salaries, wages and other benefits | 3 520,8 | 52,4 | 3 100,2 | 51,3 |
| ***To providers of capital*** | | | | |
| Dividend to shareholders | 102,0 | 1,5 | 611,2 | 10,1 |
| ***To government*** | | | | |
| Normal taxation | 189,8 | 2,8 | 166,6 | 2,7 |
| Value added tax | 166,4 | 2,5 | 172,7 | 2,8 |
| Regional services levy | 35,0 | 0,5 | 39,5 | 0,7 |
| Other | 13,0 | 0,2 | 6,3 | 0,1 |
| ***To expansion and growth*** | | | | |
| Retained income | 2 087,7 | 31,1 | 1 286,9 | 21,2 |
| Depreciation | 462,1 | 6,9 | 481,3 | 7,9 |
| Deferred taxation | 143,7 | 2,1 | 198,9 | 3,2 |
| | 6 720,5 | 100,0 | 6 063,6 | 100,0 |

2000




1999




** For comparative purposes, the following adjustments have been made to the 1999 numbers:*
*– R88,0 million dividend paid during the 1999 financial year, but relating to the 1998 financial year has been excluded, and*
*– R2 000,0 million dividend paid in terms of the capital reorganisation during the 1999 financial year has been excluded*

# Annual Financial Statements

FirstRand
Banking Group

## Contents

# DIRECTORS' RESPONSIBILITY STATEMENT

The directors of FirstRand Limited are required to maintain adequate accounting records and to prepare financial statements for each financial year that fairly present the state of affairs of the Banking Group at the end of the financial year, and of the results and cash flows for the period. In preparing the accompanying financial statements, generally accepted accounting practices have been followed, suitable accounting policies have been applied, and reasonable estimates have been made. The Board approves significant changes to accounting policies and the effects of these are fully explained in the annual financial statements. The financial statements incorporate full and responsible disclosure in line with the philosophy on corporate governance. The 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 2000 which appear on pages 82 to 112, have been approved by the Board of Directors and are signed on its behalf by:

G T Ferreira
*Chairman*

P K Harris
*Chief Executive* Officer
*FirstRand Bank Holdings Limited*

Sandton
7 September 2000

# REPORT OF THE INDEPENDENT AUDITORS

### TO THE DIRECTORS OF FIRSTRAND LIMITED

We have audited the annual financial statements of FirstRand Banking Group (a division of FirstRand Limited) set out on pages 82 to 112, for the year ended 30 June 2000. 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 FirstRand Banking Group at 30 June 2000 and the results of its operations and cash flows for the year then ended in accordance with generally accepted accounting practice in South Africa.

Without qualifying our opinion, we draw attention to the basis of preparation of these financial statements, as set out in the accounting policies on page 82.

PricewaterhouseCoopers Incorporated
*Chartered Accountants (SA)*
Registered Accountants and Auditors
Sandton, 7 September 2000

Deloitte & Touche
*Chartered Accountants (SA)*
Registered Accountants and Auditors
Sandton, 7 September 2000

# ACCOUNTING POLICIES

The following are the principal accounting policies adopted in the preparation of the consolidated financial statements of the Banking Group and are consistent with the prior year, except as set out below.

## BASIS OF PRESENTATION

The annual financial statements have been prepared on the historical cost basis, except as disclosed below, and in conformity with generally accepted accounting practice in South Africa. Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

The comparatives to the group financial statements have been prepared on the basis that the operating structure of the FirstRand Banking Group as set out on page 2 was in place for the entire year ended 30 June 1999.

## CONSOLIDATION

The financial statements of the Banking Group include the results of the holding company and its subsidiaries. Subsidiaries are those companies 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. All intercompany transactions, balances and unrealised surpluses and deficits on transactions between group companies have been eliminated.

## ASSOCIATED COMPANIES

Associated 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.

Previously, income from associates was transferred from retained income to non-distributable reserves. The Banking Group has changed its accounting policy to the method recommended under South African accounting standards. Income from associates is reflected in retained income. This change has no income statement effect.

The post-acquisition 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 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.

## 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/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.

## REVENUE RECOGNITION

### Interest

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

### Trading income

Foreign exchange instruments, including spot, forward contracts, currency options and other foreign currency derivatives, are valued at fair value and the resultant profits and losses are accounted for in the income statement. Profits and losses on trading 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 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.

### *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.

- When the outcome of the transaction can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the balance sheet date. The stage of completion is measured based on the amount of work performed.
- When the outcome of the transaction cannot be estimated reliably, revenue is recognised only to the extent of the expenses incurred that are recoverable.

## *PROPERTY AND EQUIPMENT*
All property and equipment are initially recorded at cost. Freehold land and buildings are not depreciated as they are held for investment purposes. Equipment is carried at cost less accumulated depreciation. 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. These expected useful lives are reviewed periodically by management in order to evaluate their appropriateness, and current and future depreciation charges adjusted accordingly.

The periods of depreciation used are as follows:

| | |
|---|---|
| Leasehold premises | Period of lease |
| 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 recoverable amount.

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

## *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.

## *FOREIGN CURRENCY TRANSLATION*
The assets, liabilities and income statement items of foreign subsidiary companies are translated into rand at rates of exchange ruling at year-end. Capital and reserves are translated at historical rates.

Gains and losses arising on translation of subsidiary companies regarded as independent entities are transferred to shareholders' funds. Gains and losses arising on translation of foreign subsidiary companies, regarded as an integral part of the group's operations, are recognised in the income statement.

Assets and liabilities denominated in foreign currencies are translated into rand at the rates of exchange ruling at the balance sheet date, or where hedged by forward exchange contracts, at the relevant contract rates. Unrealised differences on assets and liabilities are recognised in the income statement in the period in which they arise.

## *FINANCIAL INSTRUMENTS*
Financial instruments carried on the balance sheet include all assets and liabilities, except investments, fixed assets and deferred taxation. 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.

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 are disclosed above.

### INVESTMENTS

Financial assets held for investment purposes are stated at carrying amount less any permanent diminution in value, and profits and losses are recognised on realisation. 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. Other investments are stated at original cost. Where the original cost contains premiums or discounts on purchase, such amounts are amortised on a straight-line basis over the period to redemption.

### DEFERRED TAXATION

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

### MISCELLANEOUS TAXES

These taxes include various taxes paid to central and local governments and have been expensed in the income statement as part of the taxation charge.

### ACCOUNTING FOR LEASES – WHERE A GROUP COMPANY IS THE LESSEE

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 in the period in which they occur.

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.

### 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. The difference between the gross receivable and the present value of the receivable is unearned finance income. Lease income is recognised over the term of the lease using the net investment 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.

### ADVANCES

Advances are stated after deduction of amounts that, in the opinion of the directors, are required as specific and general provisions. Specific provisions are made against identified doubtful advances and contingencies. In addition, a general provision is maintained to cover potential losses that, although not specifically identified, may be present in a portfolio of advances. The aggregate provisions made during the year, less amounts released and recoveries of advances previously written off, are charged to the income statement.

Accrual of interest on an advance is suspended when a specific provision is made, or when, in other cases, its recovery is doubtful. Irrecoverable advances are written off when the extent of the loss incurred has been confirmed.

Properties in possession are included under advances, and are valued at the lower of cost and net realisable value.

### 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.

### 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.

### 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.

### 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. The costs of providing retirement benefits is determined using the accrued benefit valuation method.

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.

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 the medical aid contributions. 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.

#### 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.

### RECOGNITION OF ASSETS AND LIABILITIES

Liabilities 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 such case, a contingent liability is disclosed.

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.

### 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.

# Balance sheet

as at 30 June

| R million | Notes | Group 2000 | Group 1999 |
|---|---|---|---|
| ***Assets*** | | | |
| Cash and short-term funds | 3 | **8 309,4** | 11 684,2 |
| Short-term negotiable securities | 4 | **14 479,5** | 10 651,9 |
| Liquid assets and trading securities | 5 | **9 772,9** | 13 468,8 |
| Derivative instruments | 25.4 | **9 660,3** | 4 522,6 |
| Securities purchased under agreement to resell | 6 | **2 434,3** | 5 278,3 |
| Advances | 7, 8 | **102 652,2** | 93 824,4 |
| Debtors | 9 | **2 162,0** | 2 044,4 |
| Other investments | 10 | **2 522,0** | 1 012,5 |
| Investment in associated companies | 11 | **290,2** | 149,0 |
| Property and equipment | 12 | **3 329,9** | 3 431,1 |
| Deferred taxation | 13 | **183,6** | – |
| Goodwill | 14 | **136,9** | – |
| **Total assets** | | **155 933,2** | 146 067,2 |
| ***Liabilities and shareholders' funds*** | | | |
| **Liabilities** | | | |
| Deposit and current accounts | 15 | **117 591,6** | 116 305,9 |
| Derivative instruments | 25.4 | **12 613,0** | 4 769,7 |
| Securities sold under agreements to repurchase | 6 | **2 387,0** | 5 219,5 |
| Creditors and accruals | 16 | **7 514,2** | 6 807,5 |
| Taxation | | **10,8** | 147,6 |
| Deferred taxation | 13 | **1 491,7** | 1 158,5 |
| Long-term liabilities | 17 | **3 638,1** | 3 224,9 |
| **Total liabilities** | | **145 246,4** | 137 633,6 |
| Outside shareholders' interest | | **579,7** | 393,5 |
| **Shareholders' funds** | | | |
| Ordinary share capital | 18 | **106,0** | 106,0 |
| Share premium | | **1 331,9** | 1 331,9 |
| Non-distributable reserves | 19 | **921,2** | 941,9 |
| Distributable reserves | | **7 748,0** | 5 660,3 |
| **Total equity** | | **10 107,1** | 8 040,1 |
| **Total liabilities and shareholders' funds** | | **155 933,2** | 146 067,2 |
| **Contingencies and commitments** | 20 | **14 181,2** | 13 282,6 |

# *Income statement*

for the year ended 30 June

| R million | Notes | Group 2000 | Pro forma* 1999 | Group 1999 |
|---|---|---|---|---|
| Interest income | 21.1 | **14 397,9** | 20 073,1 | 20 287,4 |
| Interest expenditure | 21.2 | **(9 701,3)** | (15 478,9) | (15 478,9) |
| **Net interest income before impairment of advances** | | **4 696,6** | 4 594,2 | 4 808,5 |
| Charge for bad and doubtful debts | 8 | **(1 329,4)** | (1 362,8) | (1 362,8) |
| **Net interest income after impairment of advances** | | **3 367,2** | 3 231,4 | 3 445,7 |
| Fee and commission income | | **3 262,8** | 3 087,5 | 3 087,5 |
| Investment income | | **286,7** | 174,3 | 174,3 |
| Other operating income | 21.3 | **2 297,6** | 1 883,3 | 1 883,3 |
| **Net income from operations** | | **9 214,3** | 8 376,5 | 8 590,8 |
| Other operating expenditure | 21.4 | **(6 347,7)** | (6 086,4) | (6 086,4) |
| **Income from operations** | | **2 866,6** | 2 290,1 | 2 504,4 |
| Share of earnings of associate companies | 11 | **2,2** | 34,3 | 34,3 |
| **Income before taxation** | | **2 868,8** | 2 324,4 | 2 538,7 |
| Taxation | 13 | **(547,9)** | (519,7) | (584,0) |
| **Income after taxation** | | **2 320,9** | 1 804,7 | 1 954,7 |
| Earnings attributable to outside shareholders | | **(131,2)** | (56,6) | (56,6) |
| **Earnings attributable to ordinary shareholders** | | **2 189,7** | 1 748,1 | 1 898,1 |

** Note: Adjusted for the transfer of capital to FirstRand Limited as discussed in the Report of the Chief Financial Officer on page 66.*

# Cash flow statement

for the year ended 30 June

| R million | Notes | Group 2000 | Group 1999 |
|---|---|---|---|
| ***Cash flows from operating activities*** | | | |
| Cash received from customers | 22.1 | 19 546,4 | 24 072,7 |
| Cash paid to customers and employees | 22.2 | (15 303,3) | (21 123,4) |
| **Net cash flow from operating activities** | | 4 243,1 | 2 949,3 |
| ***Cash flows from returns on investments and servicing of finance*** | | | |
| Debenture interest paid | | (283,6) | (93,9) |
| Dividends received | 22.3 | 381,8 | 208,7 |
| Dividends paid | 22.4 | (343,0) | (2 399,8) |
| **Net cash flow from returns on investments and servicing of finance** | | (244,8) | (2 285,0) |
| **Taxation paid** | 22.5 | (525,3) | (423,9) |
| ***Cash flows from investment activities*** | | | |
| Purchase of plant and equipment | | (574,6) | (1 688,2) |
| Purchase of other investments | | (1 370,3) | (484,4) |
| Proceeds from sale of plant and equipment | | 153,1 | 1 230,7 |
| **Net cash flow from investment activities** | | (1 791,8) | (941,9) |
| ***Cash flow from financing activities*** | | | |
| Proceeds from debenture issues and long-term liabilities | | 263,2 | 2 745,1 |
| Proceeds from the issue of preference shares | | 150,0 | – |
| Minority shareholders | | – | 85,7 |
| **Net cash flow from financing activities** | | 413,2 | 2 830,8 |
| ***Cash flows from banking investment activities*** | | | |
| Increase in income-earning assets | 22.6 | (10 277,3) | (4 315,7) |
| Increase in deposits and other liabilities | 22.7 | 4 808,1 | 3 684,0 |
| **Net cash flow from banking investment activities** | | (5 469,2) | (631,7) |
| **Net (decrease)/increase in cash and cash equivalents** | | (3 374,8) | 1 497,6 |
| Cash and cash equivalents at beginning of the year | | 11 684,2 | 10 186,6 |
| **Cash and cash equivalents at end of the year** | | 8 309,4 | 11 684,2 |

# Statement of changes in equity

for the year ended 30 June

| R million | Share capital (note 18) | Share premium | Non-distributable reserves (note 19) | Distributable reserves | Total equity |
|---|---|---|---|---|---|
| **Balance at 1 July 1998** | | | | | |
| As previously stated | 106,0 | 1 331,9 | 948,2 | 6 425,1 | 8 811,2 |
| Changes in accounting policies | | | | | |
| Associates' income | – | – | (31,6) | 31,6 | – |
| **Restated balance at 1 July 1998** | 106,0 | 1 331,9 | 916,6 | 6 456,7 | 8 811,2 |
| Currency translation differences | – | – | (21,6) | – | (21,6) |
| Earnings attributable to ordinary shareholders | – | – | – | 1 898,1 | 1 898,1 |
| Dividends – ordinary shares | | | | | |
| A final dividend relating to First National Bank of South Africa Ltd for the period ended 30 June 1998 paid on 10 October 1998 | – | – | – | (88,0) | (88,0) |
| An interim dividend paid on 31 March 1999 | – | – | – | (272,6) | (272,6) |
| A capital restructuring dividend paid on 30 June 1999 | – | – | – | (2 000,0) | (2 000,0) |
| A final dividend proposed for payment on 31 October 1999 | – | – | – | (338,6) | (338,6) |
| Increase in share of associates' non-distributable reserves | – | – | 1,4 | – | 1,4 |
| Movement in other reserves | – | – | 45,5 | 4,7 | 50,2 |
| **Balance at 30 June 1999** | 106,0 | 1 331,9 | 941,9 | 5 660,3 | 8 040,1 |
| **Balance at 1 July 1999** | 106,0 | 1 331,9 | 941,9 | 5 660,3 | 8 040,1 |
| Currency translation differences | – | – | 48,2 | – | 48,2 |
| Earnings attributable to ordinary shareholders | – | – | – | 2 189,7 | 2 189,7 |
| An interim dividend paid on 31 March 2000 | – | – | – | (102,0) | (102,0) |
| Movement in other reserves | – | – | (68,9) | – | (68,9) |
| **Balance at 30 June 2000** | 106,0 | 1 331,9 | 921,2 | 7 748,0 | 10 107,1 |

### 1. Accounting policies

The accounting policies of the group are set out on pages 82 and 85.

### 2. Turnover

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

| R MILLION | GROUP 2000 | GROUP 1999 |
|---|---|---|
| **3. Cash and short-term funds** | | |
| Coins and bank notes | **1 699,8** | 1 687,4 |
| Money at call and short notice | **5 816,8** | 9 060,6 |
| Balances with central banks | **792,8** | 936,2 |
| | **8 309,4** | 11 684,2 |
| Money at short notice constitutes amounts withdrawable in 32 days or less. | | |
| **4. Short-term negotiable securities** | | |
| Bills | **409,4** | 150,2 |
| Negotiable certificates of deposit | **1 138,6** | 5 298,1 |
| Treasury bills and other government stock | **11 960,3** | 4 266,2 |
| Other | **971,2** | 937,4 |
| | **14 479,5** | 10 651,9 |
| **5. Liquid assets and trading securities** | | |
| Government and government guaranteed securities | **7 243,1** | 10 826,5 |
| Other dated securities | **1 197,7** | 1 679,6 |
| Undated securities | **1 332,1** | 962,7 |
| | **9 772,9** | 13 468,8 |
| ***Analysis of liquid assets and trading securities*** | | |
| **LISTED** | | |
| Book value | **8 348,0** | 10 461,9 |
| Market value | **8 345,0** | 10 466,0 |
| **UNLISTED** | | |
| Book value | **1 424,9** | 3 006,9 |
| Directors' valuation | **1 304,3** | 2 999,0 |

### 6. Securities under resale agreements

A foreign subsidiary company which is a securities trader registered with the Australian Securities Commission, concluded reciprocal agreements in government and semi-government gilts with third parties as a short-term money market trader. These agreements are unique to the Australian trading environment. They are short-term (2 days), carry no pricing risk and are concluded under a guaranteed settlement/delivery mechanism.

| R MILLION | GROUP 2000 | GROUP 1999 |
|---|---|---|
| **7. Advances** | | |
| **SECTOR ANALYSIS** | | |
| Agriculture | 1 828,2 | 2 069,3 |
| Banks and financial services | 14 044,2 | 13 861,7 |
| Building and property development | 4 488,7 | 5 248,1 |
| Government, Landbank and public authorities | 3 093,3 | 1 294,1 |
| Individuals | 43 382,3 | 44 996,8 |
| Manufacturing and commerce | 29 482,1 | 18 325,0 |
| Mining | 1 601,3 | 1 752,4 |
| Transport and communication | 2 980,9 | 2 515,0 |
| Other services | 5 801,3 | 8 205,3 |
| | 106 702,3 | 98 267,7 |
| Interest suspended | (918,8) | (1 193,6) |
| | 105 783,5 | 97 074,1 |
| Doubtful debt provisions (note 8) | (3 131,3) | (3 249,7) |
| Advances after doubtful debt provisions | 102 652,2 | 93 824,4 |
| **GEOGRAPHIC ANALYSIS (BASED ON CREDIT RISK)** | | |
| South Africa | 93 443,4 | 88 179,0 |
| Other Africa | 4 491,4 | 3 757,8 |
| Europe | 4 487,7 | 5 098,9 |
| Other | 3 361,0 | 38,4 |
| | 105 783,5 | 97 074,1 |
| **CATEGORY ANALYSIS** | | |
| Bills and bankers' acceptances | 2 298,7 | 4 143,4 |
| Card loans | 3 014,9 | 2 998,4 |
| Home loans | 18 559,3 | 18 805,9 |
| Instalment sales | 15 858,8 | 14 097,4 |
| Lease payments receivable | 7 768,7 | 7 691,1 |
| Offshore loans | 7 337,0 | 8 016,8 |
| Overdrafts and managed account debtors | 29 089,6 | 24 218,1 |
| Other advances | 21 856,5 | 17 103,0 |
| | 105 783,5 | 97 074,1 |
| **8. Impairment of advances** | | |
| Balance at beginning of the year | (3 249,7) | (2 893,8) |
| Other | (3,5) | – |
| Amounts written off | 1 583,5 | 1 104,4 |
| | (1 669,7) | (1 789,4) |
| Recoveries of amounts previously written off | (132,2) | (97,5) |
| Charge to income statement | (1 329,4) | (1 362,8) |
| Balance at end of the year | (3 131,3) | (3 249,7) |
| **ANALYSIS** | | |
| Specific provision | (1 806,8) | (2 137,2) |
| General provision | (1 324,5) | (1 112,5) |
| | (3 131,3) | (3 249,7) |

| R million | Credit risk | Security held | Interest suspended | Provision |
|---|---|---|---|---|
| **8. *Impairment of advances (continued)*** | | | | |
| **Non-performing lendings by sector** | | | | |
| Agriculture | 109,1 | 51,2 | 19,0 | 38,9 |
| Banks and financial services | 144,3 | 8,7 | 32,1 | 103,5 |
| Building and property development | 811,7 | 136,7 | 110,3 | 564,7 |
| Government, Landbank and public authorities | 4,7 | 0,2 | 1,9 | 2,6 |
| Individuals | 1 684,9 | 927,7 | 482,8 | 274,4 |
| Manufacturing and commerce | 1 118,4 | 255,5 | 221,6 | 641,3 |
| Mining | 27,4 | 2,2 | 3,2 | 22,0 |
| Transport and communication | 74,9 | 18,2 | 13,7 | 43,0 |
| Other services | 204,6 | 54,0 | 34,2 | 116,4 |
| Total | 4 180,0 | 1 454,4 | 918,8 | 1 806,8 |
| 1999 Total non-performing lendings | 5 298,3 | 1 787,1 | 1 193,6 | 2 137,2 |

| R million | Group 2000 | Group 1999 |
|---|---|---|
| **9. *Debtors*** | | |
| Items in transit | **754,0** | 157,9 |
| Accrued interest | **420,5** | 274,7 |
| Accounts receivable | **386,1** | 837,3 |
| Other debtors | **601,4** | 774,5 |
| | **2 162,0** | 2 044,4 |
| **10. *Other investments*** | | |
| Listed investments | **232,6** | 227,6 |
| Unlisted investments | **2 289,4** | 784,9 |
| | **2 522,0** | 1 012,5 |
| Aggregate market value for listed investments | **198,7** | 158,1 |
| Aggregate directors' valuation for unlisted investments | **2 636,5** | 912,0 |
| | **2 835,2** | 1 070,1 |

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

| R million | Group 2000 | Group 1999 |
|---|---|---|
| **11. Investment in associated companies** | | |
| **Unlisted investments** | | |
| Cost less amounts written off | 254,9 | 96,0 |
| Income before taxation for the year | 2,2 | 34,3 |
| Taxation for the year | (2,6) | (10,7) |
| Dividends received for the year | (8,5) | (10,8) |
| Retained income for the year | (8,9) | 12,8 |
| Acquisitions and disposals | (7,5) | – |
| Share of retained income at beginning of the year | 44,4 | 31,6 |
| Share of retained income at end of the year | 28,0 | 44,4 |
| Share of other reserves | 7,3 | 8,6 |
| Total retained income and reserves | 35,3 | 53,0 |
| Total carrying value | 290,2 | 149,0 |
| **Valuation** | | |
| Unlisted investments at directors' valuation | 347,9 | 326,4 |

**Significant associates are as follows:**

| | Nature of business | Issued ordinary share capital R | Number of ordinary shares held | Year-end |
|---|---|---|---|---|
| Unlisted | | | | |
| OUTsurance Insurance Company Limited | Insurance | 33 352 114 | 1 584 225 415 | 30 June |
| Zeda Car Leasing (Pty) Limited | Leasing | 100 | 25 | 31 March |
| Infrastructure Finance Corp Limited | Funding | 840 132 | 175 000 | 31 December |
| Ethos Holdings Limited | Private equity fund | 300 000 000 | 149 970 000 | 30 June |
| Mobile Acceptances (Pty) Limited | Leasing | 700 000 | 182 000 | 30 June |
| Toyota Financial Services (Pty) Limited | Vehicle finance | 90 000 000 | 30 000 000 | 30 June |
| Marsh Holdings SA (Pty) Limited | Insurance brokers | 100 000 | 40 000 | 31 December |
| Ocean Container Holdings (Pty) Limited | Container leasing | 1 000 | – | 31 January |

| R million | Effective holding % 2000 | Effective holding % 1999 | Group carrying amount 2000 | Group carrying amount 1999 | Group costs less amounts written off 2000 | Group costs less amounts written off 1999 |
|---|---|---|---|---|---|---|
| Unlisted | | | | | | |
| OUTsurance Insurance Company Limited | 47,5 | – | 120,6 | – | 116,7 | – |
| Zeda Car Leasing (Pty) Limited | 50,0 | 50,0 | 24,1 | 21,5 | – | – |
| Infrastructure Finance Corp Limited | 20,8 | 21,9 | 22,7 | 20,2 | 18,3 | 18,3 |
| Ethos Holdings Limited | 49,9 | 49,9 | 68,5 | 73,0 | 73,0 | 73,0 |
| Mobile Acceptances (Pty) Limited | 26,0 | 26,0 | 3,1 | 3,0 | 0,4 | 0,4 |
| Toyota Financial Services (Pty) Limited | 33,0 | – | 25,3 | – | 30,0 | – |
| Marsh Holdings SA (Pty) Limited | 40,0 | – | 8,6 | – | 12,0 | – |
| Ocean Container Holdings (Pty) Limited | – | 50,0 | – | 6,5 | – | 0,5 |
| Other | | | 17,3 | 24,8 | 4,5 | 3,8 |
| | | | 290,2 | 149,0 | 254,9 | 96,0 |

| R MILLION | OUTsurance Insurance Company Ltd 2000 | OUTsurance Insurance Company Ltd 1999 | Zeda Car Leasing (Pty) Ltd 2000 | Zeda Car Leasing (Pty) Ltd 1999 | Infrastructure Finance Corp Ltd 2000 | Infrastructure Finance Corp Ltd 1999 |
|---|---|---|---|---|---|---|
| **11. Associated companies (continued)** | | | | | | |
| **SUMMARISED FINANCIAL INFORMATION OF SIGNIFICANT ASSOCIATES** | | | | | | |
| Balance sheet | | | | | | |
| Non-current assets | **130,3** | – | **324,8** | 284,9 | **182,2** | 52,1 |
| Current assets | **80,6** | – | **22,5** | 13,1 | **635,9** | 262,1 |
| Current liabilities | **(112,8)** | – | **(294,4)** | (253,6) | **(40,5)** | (2,2) |
| Non-current liabilities | **(3,8)** | – | **(26,9)** | (22,9) | **(752,4)** | (289,5) |
| Equity | **94,3** | – | **26,0** | 21,5 | **25,2** | 22,5 |
| Income statement | | | | | | |
| Profit/(loss) attributable to ordinary shareholders | **3,6** | – | **6,8** | 10,2 | **2,8** | 4,9 |

| R MILLION | Ethos Holdings Ltd 2000 | Ethos Holdings Ltd 1999 | Mobile Acceptances (Pty) Ltd 2000 | Mobile Acceptances (Pty) Ltd 1999 | Toyota Financial Services (Pty) Ltd 2000 | Toyota Financial Services (Pty) Ltd 1999 |
|---|---|---|---|---|---|---|
| Balance sheet | | | | | | |
| Non-current assets | **173,1** | 170,7 | **22,5** | 19,8 | **–** | – |
| Current assets | **28,4** | 20,6 | **20,3** | 20,8 | **77,2** | – |
| Current liabilities | **(60,4)** | (56,7) | **(20,1)** | (19,4) | **(50,8)** | – |
| Non-current liabilities | **(109,0)** | (94,1) | **(20,4)** | (18,9) | **–** | – |
| Equity | **32,1** | 40,5 | **2,3** | 2,3 | **26,4** | – |
| Income statement | | | | | | |
| Profit/(loss) attributable to ordinary shareholders | **(9,2)** | 4,6 | **1,0** | 0,7 | **(4,6)** | – |

| R MILLION | Marsh Holdings SA (Pty) Ltd 2000 | Marsh Holdings SA (Pty) Ltd 1999 | Ocean Container Holdings (Pty) Ltd 2000 | Ocean Container Holdings (Pty) Ltd 1999 | Other 2000 | Other 1999 |
|---|---|---|---|---|---|---|
| Balance sheet | | | | | | |
| Non-current assets | **60,3** | – | **–** | 4,6 | **19,8** | 100,3 |
| Current assets | **82,6** | – | **–** | 25,6 | **12,6** | 43,0 |
| Current liabilities | **(77,3)** | – | **–** | (12,0) | **(18,4)** | (42,8) |
| Non-current liabilities | **(14,0)** | – | **–** | (9,6) | **(6,1)** | (92,0) |
| Equity | **51,6** | – | **–** | 8,6 | **7,9** | 8,5 |
| Income statement | | | | | | |
| Profit/(loss) attributable to ordinary shareholders | **(3,5)** | – | **–** | – | **(2,8)** | (0,5) |

### 11. Associated companies (continued)

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

| R million | Carrying amount of loans to associates 2000 | 1999 |
|---|---|---|
| **Details of loans to significant associates** | | |
| Unlisted | | |
| OUTsurance Insurance Company Limited | **38,0** | – |
| Zeda Car Leasing (Pty) Limited | **10,6** | 10,6 |
| Infrastructure Finance Corp Limited | **221,8** | 150,2 |
| Ethos Holdings Limited | **284,3** | 265,1 |
| Mobile Acceptances (Pty) Limited | **144,5** | 136,9 |
| Toyota Financial Services (Pty) Limited | **136,7** | – |

The amounts above are all included under advances.

| R million | Cost 2000 | Accumulated depreciation 2000 | Net book value 2000 | Cost 1999 | Accumulated depreciation 1999 | Net book value 1999 |
|---|---|---|---|---|---|---|
| **12. Property and equipment** | | | | | | |
| **Property** | | | | | | |
| Freehold land and buildings | **1 102,2** | **(78,7)** | **1 023,5** | 947,0 | (36,1) | 910,9 |
| Leasehold premises | **1 383,7** | **(239,5)** | **1 144,2** | 1 405,7 | (228,6) | 1 177,1 |
| | **2 485,9** | **(318,2)** | **2 167,7** | 2 352,7 | (264,7) | 2 088,0 |
| **Equipment** | | | | | | |
| Computer equipment | **1 800,6** | **(1 316,0)** | **484,6** | 2 166,6 | (1 531,2) | 635,4 |
| Furniture and fittings | **1 012,9** | **(553,9)** | **459,0** | 947,6 | (480,8) | 466,8 |
| Motor vehicles | **349,8** | **(186,2)** | **163,6** | 399,0 | (203,0) | 196,0 |
| Office equipment | **125,2** | **(70,2)** | **55,0** | 106,1 | (61,2) | 44,9 |
| **Total** | **5 774,4** | **(2 444,5)** | **3 329,9** | 5 972,0 | (2 540,9) | 3 431,1 |

| R million | Freehold land and buildings | Leasehold premises | Computer equipment | Furniture and fittings | Motor vehicles | Office equipment |
|---|---|---|---|---|---|---|
| ***12. Property and equipment (continued)*** | | | | | | |
| **Movement in property and equipment – cost** | | | | | | |
| Cost at the beginning of the year | 947,0 | 1 405,7 | 2 166,6 | 947,6 | 399,0 | 106,1 |
| Foreign currency adjustments | 9,1 | 5,2 | 3,3 | 3,9 | 0,6 | – |
| Changes in group structure | – | – | (21,3) | (6,7) | – | – |
| Additions | 205,7 | 0,7 | 201,4 | 72,7 | 77,4 | 16,7 |
| Disposals | (14,2) | (14,2) | (448,7) | (6,5) | (121,3) | (16,2) |
| Fully depreciated assets written off | – | (3,6) | (43,3) | (1,4) | (1,4) | (0,3) |
| Adjustment on acquisitions | – | (0,2) | (42,1) | (0,2) | (1,1) | 17,6 |
| Other | (45,4) | (9,9) | (15,3) | 3,5 | (3,4) | 1,3 |
| **Cost at the end of the year** | 1 102,2 | 1 383,7 | 1 800,6 | 1 012,9 | 349,8 | 125,2 |
| **Movement in property and equipment – accumulated depreciation** | | | | | | |
| Accumulated depreciation at the beginning of the year | 36,1 | 228,6 | 1 531,2 | 480,8 | 203,0 | 61,2 |
| Foreign currency adjustments | 1,3 | 2,7 | 3,3 | 3,4 | 0,4 | – |
| Changes in group structure | 22,5 | (23,7) | (3,4) | (5,7) | (0,6) | (0,1) |
| Depreciation charge for the year | 19,1 | 37,7 | 237,0 | 76,2 | 74,2 | 17,9 |
| Disposals | (0,3) | (2,6) | (398,1) | (2,7) | (87,3) | (15,4) |
| Fully depreciated assets written off | – | (3,6) | (43,3) | (1,4) | (1,4) | (0,3) |
| Adjustment on acquisitions | 0,1 | – | (30,8) | – | (0,5) | 5,6 |
| Other | (0,1) | 0,4 | 20,1 | 3,3 | (1,6) | 1,3 |
| **Accumulated depreciation at the end of the year** | 78,7 | 239,5 | 1 316,0 | 553,9 | 186,2 | 70,2 |

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

| R MILLION | GROUP 2000 | GROUP 1999 |
|---|---|---|
| **13. Taxation** | | |
| **CHARGE FOR THE YEAR** | | |
| Normal taxation | | |
| Current | | |
| Current year | (156,6) | (99,2) |
| Prior year adjustment | (4,2) | – |
| Deferred | | |
| Current year | (164,2) | (177,1) |
| Prior year adjustment | 25,2 | (24,1) |
| Rate adjustment | – | 15,3 |
| | (299,8) | (285,1) |
| **FOREIGN COMPANY AND WITHHOLDING TAXATION** | | |
| Current | | |
| Current year | (29,3) | (68,8) |
| Prior year adjustment | 0,3 | – |
| Deferred | | |
| Current year | (4,7) | (13,0) |
| | (33,7) | (81,8) |
| **SECONDARY TAXATION ON COMPANIES** | | |
| Current | – | 1,4 |
| Taxation expense before miscellaneous taxes | (333,5) | (365,5) |
| **MISCELLANEOUS TAXES** | | |
| Financial services levy | – | (0,1) |
| Value-added taxation (net) | (166,4) | (172,7) |
| Regional services levy | (35,0) | (39,5) |
| Stamp duties | (8,9) | (4,8) |
| Other | (4,1) | (1,4) |
| Total miscellaneous taxes | (214,4) | (218,5) |
| Total taxation | (547,9) | (584,0) |
| **TAXATION RATE RECONCILIATION** | % | % |
| Effective rate of taxation | 19,1 | 22,7 |
| Total taxation has been affected by: | | |
| Miscellaneous taxes | (7,5) | (8,6) |
| Non-taxable income | 13,0 | 8,3 |
| Rate change adjustment | – | 0,6 |
| Prior year adjustments | – | (1,0) |
| Other permanent differences | 5,4 | 8,0 |
| Standard rate of taxation | 30,0 | 30,0 |

| R MILLION | GROUP 2000 | GROUP 1999 |
|---|---|---|
| **13. Taxation (continued)** | | |
| **DEFERRED TAXATION** | | |
| The movement on the deferred taxation account is as follows: | | |
| At beginning of the year | 1 158,5 | 1 101,7 |
| Effect of rate change | – | (157,4) |
| Exchange rate difference | (9,8) | – |
| Charge to the income statement | 143,7 | 214,2 |
| Other | 15,7 | – |
| At end of year | 1 308,1 | 1 158,5 |
| Deferred taxation asset | (183,6) | – |
| Deferred taxation liability | 1 491,7 | 1 158,5 |
| | 1 308,1 | 1 158,5 |

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

| R MILLION | OPENING BALANCE | EXCHANGE RATE | ACQUISITIONS AND DISPOSALS | INCOME STATEMENT | OTHER | CLOSING BALANCE |
|---|---|---|---|---|---|---|
| **DEFERRED TAX** | | | | | | |
| Instalment credit agreements | 842,3 | 0,6 | (151,0) | (10,3) | 2,6 | 684,2 |
| Accruals | 557,0 | (3,0) | 204,4 | 55,8 | – | 814,2 |
| Equipment | 3,9 | (3,2) | – | 1,8 | 0,1 | 2,6 |
| General provision | (206,0) | – | (57,8) | (16,4) | (0,6) | (280,8) |
| Taxation losses | (49,4) | – | – | 39,4 | – | (10,0) |
| Other | 10,7 | (4,2) | – | 73,4 | 18,0 | 97,9 |
| **TOTAL DEFERRED TAXATION** | 1 158,5 | (9,8) | (4,4) | 143,7 | 20,1 | 1 308,1 |

| R million | Group 2000 | Group 1999 |
|---|---|---|
| **14. Goodwill** | | |
| Gross amount | 145,2 | – |
| *Less*: Accumulated amortisation | (8,3) | – |
| | 136,9 | – |
| **Movement in goodwill – book value** | | |
| Opening balance | – | – |
| Additions | 145,2 | – |
| Amortisation charge | (8,3) | – |
| | 136,9 | – |
| **15. Deposit and current accounts** | | |
| Term deposits | 42 831,0 | 46 195,8 |
| Current deposit accounts | 40 727,6 | 32 990,7 |
| Deposits from banks | 19 559,8 | 17 621,6 |
| Negotiable certificates of deposit | 10 581,3 | 15 401,9 |
| Savings accounts | 3 891,9 | 4 095,9 |
| | 117 591,6 | 116 305,9 |
| **Geographic analysis** | | |
| South Africa | 92 601,7 | 100 333,3 |
| Other Africa | 7 044,6 | 4 607,2 |
| Europe | 8 664,6 | 11 010,2 |
| Other | 9 280,7 | 355,2 |
| | 117 591,6 | 116 305,9 |
| **Maturity analysis** | | |
| Withdrawable on demand | 63 427,4 | 56 672,1 |
| Maturing within 1 month | 27 021,2 | 25 985,5 |
| Maturing after 1 month but within 6 months | 12 257,8 | 17 968,2 |
| Maturing after 6 months but within 12 months | 5 029,7 | 11 637,5 |
| Maturing after 12 months | 9 855,5 | 4 042,6 |
| | 117 591,6 | 116 305,9 |
| The maturity analysis of deposit and current accounts is based on the remaining period to contractual maturity from year-end. | | |
| **16. Creditors and accruals** | | |
| Accrued interest | 219,9 | 168,5 |
| Accounts payable | 4 276,9 | 2 438,2 |
| Dividends payable | 97,6 | 338,6 |
| Other creditors | 2 919,8 | 3 862,2 |
| | 7 514,2 | 6 807,5 |

| R MILLION | GROUP 2000 | GROUP 1999 |
|---|---|---|
| **17. Long-term liabilities** | | |
| **DEBENTURES** | | |
| 100 debentures of R1 million each carrying interest at prime minus 3% [a] | 100,0 | 100,0 |
| 120 debentures of R1 million each carrying interest at prime minus 2% [b] | 120,0 | 120,0 |
| | 220,0 | 220,0 |

[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%.

| | | |
|---|---|---|
| **PREFERENCE SHARES** | | |
| 1 500 (1999: 0) cumulative redeemable shares with a par value of R0,0001 and a premium of R99 999,9999 per share | 150,0 | – |

These preference shares are redeemable at the company's discretion on or after 1 June 2003, at the full subscription price. Dividends are paid at a variable rate based on prime and currently amounts to 9,4%.

| | | |
|---|---|---|
| **FINANCE LEASE LIABILITY** | | |
| Not later than 1 year | 97,0 | 97,0 |
| Later than 1 year and not later than 5 years | 710,8 | 710,8 |
| Later than 5 years | 753,5 | 850,5 |
| | 1 561,3 | 1 658,3 |
| Future finance charges on finance leases | (571,3) | (662,5) |
| Present value of finance lease liability | 990,0 | 995,8 |
| *Less*: portion repayable within 12 months transferred to current liabilities | (10,6) | (5,8) |
| | 979,4 | 990,0 |

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.

| R MILLION | GROUP 2000 | GROUP 1999 |
|---|---|---|
| **17. Long-term liabilities (continued)** | | |
| **OTHER LONG-TERM LIABILITIES** | | |
| Unsecured debt securities amortising over the period to 2007 [a] | 412,2 | 259,8 |
| Secured loan [b] | 146,2 | – |
| Subordinated notes [c] | 1 908,6 | 2 000,0 |
| *Less*: portion repayable within 12 months transferred to current liabilities | (178,3) | (244,9) |
| | 2 288,7 | 2 014,9 |
| [a] Various local and foreign unsecured loans with nominal interest rates ranging from 0% to 17%. | | |
| [b] This secured loan is repayable on 11 April 2001 and is stated at net present value, using a discount rate of 15,32%. | | |
| [c] 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%. | | |
| | 3 638,1 | 3 224,9 |
| **18. 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 |
| **19. Non-distributable reserves** | | |
| Non-distributable reserves in associated companies | 7,3 | 8,6 |
| Currency conversion reserve | 576,2 | 528,0 |
| Revaluation of investments | 0,1 | 1,1 |
| Other | 337,6 | 404,2 |
| | 921,2 | 941,9 |

| R million | Group 2000 | Group 1999 |
|---|---|---|
| **20. Contingencies and commitments** | | |
| **Contingencies** | | |
| Guarantees | **8 432,0** | 10 001,0 |
| Acceptances | **3 271,3** | 3 062,2 |
| Letters of credit | **2 477,9** | 219,4 |
| | **14 181,2** | 13 282,6 |
| 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. | | |
| **Commitments** | | |
| Commitments in respect of capital expenditure and long-term investments approved by directors | | |
| Contracted for | **8,9** | 102,8 |
| Not contracted for | **12,3** | 14,0 |

Funds to meet these commitments will be provided from Banking Group resources.

**Group commitments under operating leases**

| R million | Next year | Second to fifth year | Fifth year and thereafter |
|---|---|---|---|
| Office premises | 268,2 | 744,3 | 1 374,8 |
| Recoverable under subleases | (12,1) | (13,3) | (30,6) |
| | 256,1 | 731,0 | 1 344,2 |
| Equipment and motor vehicles | 103,0 | 205,8 | 0,7 |
| | 359,1 | 936,8 | 1 344,9 |

| R MILLION | GROUP 2000 | GROUP 1999 |
|---|---|---|
| ***21. Analysis of income and expenditure*** | | |
| **21.1 INTEREST INCOME** | | |
| Interest on: | | |
| Advances | **13 466,1** | 18 210,2 |
| Balances with banks and short-term funds | **354,5** | 521,8 |
| Short-term negotiable securities | **136,9** | 942,5 |
| Liquid assets and trading securities | | |
| – Listed | **309,1** | 410,9 |
| – Unlisted | **110,7** | 4,6 |
| Other | **20,6** | 197,4 |
| | **14 397,9** | 20 287,4 |
| **21.2 INTEREST EXPENDITURE** | | |
| Interest on: | | |
| Term deposits | **(5 603,9)** | (11 176,6) |
| Current deposit accounts | **(2 111,8)** | (3 657,7) |
| Savings accounts | **(130,7)** | (301,2) |
| Debentures | **(283,6)** | (94,0) |
| Deposits from banks | **(460,8)** | (82,6) |
| Finance lease | **(80,0)** | – |
| Other | **(1 030,5)** | (166,8) |
| | **(9 701,3)** | (15 478,9) |
| **21.3 OTHER OPERATING INCOME** | | |
| Exchange earnings | **614,1** | 417,8 |
| Profit on sale of plant and equipment | **38,6** | 23,4 |
| Dividends from other investments | **373,3** | 197,9 |
| Treasury operations | **364,2** | 391,2 |
| Other income | **907,4** | 853,0 |
| | **2 297,6** | 1 883,3 |
| **21.4 OTHER OPERATING EXPENDITURE** | | |
| Auditors' remuneration | | |
| Audit fees | **(29,6)** | (29,2) |
| Fees for other services | **(1,8)** | (1,0) |
| | **(31,4)** | (30,2) |
| Depreciation | | |
| Property | | |
| Freehold buildings | **(19,1)** | (5,0) |
| Leasehold premises | **(37,7)** | (28,3) |
| Equipment | | |
| Computer equipment | **(237,0)** | (279,9) |
| Furniture and fittings | **(76,2)** | (78,7) |
| Motor vehicles | **(74,2)** | (71,2) |
| Office equipment | **(17,9)** | (18,2) |
| | **(462,1)** | (481,3) |
| Operating lease charges | | |
| Land and buildings | **(264,7)** | (216,8) |
| Equipment | **(8,5)** | (10,3) |
| | **(273,2)** | (227,1) |

| R MILLION | GROUP 2000 | GROUP 1999 |
|---|---|---|
| **21. Analysis of income and expenditure (continued)** | | |
| **PROFESSIONAL FEES** | (190,1) | (235,7) |
| **STAFF COSTS** | | |
| Salaries, wages and allowances | (3 026,7) | (2 632,9) |
| Contributions to pension funds | (286,1) | (300,9) |
| Social security levies | (14,8) | (12,7) |
| Other | (193,2) | (153,6) |
| | (3 520,8) | (3 100,1) |
| Other costs | (1 870,1) | (2 012,0) |
| Total other operating expenditure | (6 347,7) | (6 086,4) |
| **22. Cash flow information** | | |
| **22.1 CASH RECEIVED FROM CUSTOMERS** | | |
| Interest income | 14 397,9 | 20 287,4 |
| Fee and commission income | 3 262,8 | 3 087,5 |
| Other income | 1 885,7 | 697,8 |
| **TOTAL CASH RECEIVED FROM CUSTOMERS** | 19 546,4 | 24 072,7 |
| **22.2 CASH PAID TO CUSTOMERS AND EMPLOYEES** | | |
| Interest expenditure (excluding debenture interest) | (9 417,7) | (15 384,9) |
| Total other operating expenditure (excluding depreciation) | (5 885,6) | (5 738,5) |
| **TOTAL CASH PAID TO CUSTOMERS AND EMPLOYEES** | (15 303,3) | (21 123,4) |
| **22.3 DIVIDENDS RECEIVED** | | |
| Dividends from other investments | 373,3 | 197,9 |
| Dividends from associated companies | 8,5 | 10,8 |
| **TOTAL DIVIDENDS RECEIVED** | 381,8 | 208,7 |
| **22.4 DIVIDENDS PAID** | | |
| Amounts unpaid at beginning of the year | (338,6) | (39,2) |
| Charged to distributable reserves | (102,0) | (2 699,2) |
| Amounts unpaid at end of the year | 97,6 | 338,6 |
| **TOTAL DIVIDENDS PAID** | (343,0) | (2 399,8) |
| **22.5 TAXATION PAID** | | |
| Amounts unpaid at beginning of the year | (147,6) | (188,2) |
| Taxation charge per income statement | (547,9) | (584,0) |
| Deferred taxation included in tax charge | 159,4 | 200,7 |
| Amounts unpaid at end of the year | 10,8 | 147,6 |
| **TOTAL TAXATION PAID** | (525,3) | (423,9) |

| R MILLION | GROUP 2000 | GROUP 1999 |
|---|---|---|
| **22. *Cash flow information (continued)*** | | |
| **22.6 (INCREASE)/DECREASE IN INCOME-EARNING ASSETS** | | |
| Short-term negotiable securities | **(3 827,6)** | (68,8) |
| Net securities under resale agreements | **11,5** | 21,8 |
| Liquid assets and trading securities | **3 696,0** | (5 570,8) |
| Advances | **(10 157,2)** | 1 302,1 |
| **NET INCREASE IN INCOME-EARNING ASSETS** | **(10 277,3)** | (4 315,7) |
| **22.7 INCREASE/(DECREASE) IN DEPOSITS AND OTHER LIABILITIES** | | |
| Term deposits | **(3 364,8)** | (4 341,1) |
| Current deposit accounts | **7 736,8** | 4 170,3 |
| Deposits from banks | **1 938,2** | (3 352,8) |
| Negotiable certificates of deposit | **(4 820,6)** | 4 098,1 |
| Savings accounts | **(204,0)** | (207,2) |
| Creditors net of debtors | **3 522,5** | 3 316,7 |
| **NET INCREASE IN DEPOSITS AND OTHER LIABILITIES** | **4 808,1** | 3 684.0 |

## 23. *Pension and other post–retirement benefits*

The Banking Group provides for retirement benefits by making payments to various pension funds which are independent. The funds are subject to the Pension Funds Act, 1956, which requires an actuarial valuation every three years. They were last valued at 30 June 1999 and were found to be financially sound by independent consulting actuaries. Contributions by the Banking Group to the pension funds are charged to income.

An actuarial surplus in the pension fund crystallised when the nature of the fund changed from a defined benefit scheme to a defined contribution scheme. Over a period of time a portion of this surplus will be utilised to create a separate fund which will fully meet post-retirement medical benefits of both existing staff and pensioners. This is done with the agreement of the representative trade union and the trustees of the fund.

During the current financial year the Banking Group benefited from a pension fund holiday of R61,4 million (1999: R39,5 million). The proceeds of this holiday were used to supplement the fund created to cover the employers liability for post-retirement medical funding. As at 30 June 1999, the pension fund surplus amounted to R839,0 million. At 30 June 2000 the actuarially calculated liability for post-retirement medical benefits amounted to R816,0 million. The fund created to settle these liabilities amount to R369,9 million, resulting in a net unprovided liability of R446,1 million at 30 June 2000. The Banking Group will continue the pension fund holiday for the financial year 2001, and approximately R180,0 million will be invested in the post-retirement medical fund.

## 24. *Trust activities*

The market value of assets held or placed on behalf of customers in a fiduciary capacity amounts to R70 286,0 million (1999: R68 033,9 million).

## 25. Financial instruments

A comprehensive risk management report is included on pages 70 to 77.

| R MILLION | SOUTH AFRICA | OTHER AFRICA | AUSTRALIA | EUROPE | OTHER | TOTAL |
|---|---|---|---|---|---|---|
| **25.1 CREDIT RISK MANAGEMENT** | | | | | | |
| Significant credit exposures at 30 June 2000 were: | | | | | | |
| Advances | 93 443,4 | 4 491,4 | – | 4 487,7 | 3 361,0 | 105 783,5 |
| Contingencies | 12 889,9 | 806,8 | 89,3 | 279,6 | 115,6 | 14 181,2 |
| | 106 333,3 | 5 298,2 | 89,3 | 4 767,3 | 3 476,6 | 119 964,7 |

### 25.2 CURRENCY RISK MANAGEMENT

The Banking Group manages foreign currency exposures in terms of approved limits. The currency position at 30 June 2000 is set out below:

| R MILLION | RAND | UK£ | US$ | OTHER | TOTAL |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Cash and short-term funds | 4 511,1 | 130,2 | 2 672,7 | 995,4 | 8 309,4 |
| Short-term negotiable securities | 10 656,1 | 754,1 | 2 248,1 | 821,2 | 14 479,5 |
| Liquid assets and trading securities | 6 614,1 | 261,3 | 2 334,4 | 563,1 | 9 772,9 |
| Securities under agreement to resell | – | – | – | 2 434,3 | 2 434,3 |
| Advances | 85 709,4 | 1 996,3 | 9 960,5 | 4 986,0 | 102 652,2 |
| Debtors and derivatives | 7 780,7 | 289,4 | 3 642,2 | 110,0 | 11 822,3 |
| Deferred taxation | 183,6 | – | – | – | 183,6 |
| Other investments | 2 156,2 | 99,0 | 54,9 | 211,9 | 2 522,0 |
| Investment in associated companies | 286,0 | – | – | 4,2 | 290,2 |
| Property and equipment | 3 036,2 | 121,6 | 16,5 | 155,6 | 3 329,9 |
| Goodwill | 123,8 | – | – | 13,1 | 136,9 |
| | 121 057,2 | 3 651,9 | 20 929,3 | 10 294,8 | 155 933,2 |
| **LIABILITIES** | | | | | |
| Deposit and current accounts | 96 272,1 | 2 179,8 | 13 194,8 | 5 944,9 | 117 591,6 |
| Creditors, accruals and derivatives | 15 686,4 | 356,6 | 3 371,3 | 712,9 | 20 127,2 |
| Securities under agreement to repurchase | – | – | – | 2 387,0 | 2 387,0 |
| Current and deferred taxation | 1 375,2 | 13,4 | 18,3 | 95,6 | 1 502,5 |
| Debentures and long-term liabilities | 1 198,0 | 291,4 | 2 079,7 | 69,0 | 3 638,1 |
| Outside shareholders' interest | 475,6 | – | 14,7 | 89,4 | 579,7 |
| Shareholders' funds | 6 999,7 | (258,0) | 2 645,0 | 720,4 | 10 107,1 |
| | 122 007,0 | 2 583,2 | 21 323,8 | 10 019,2 | 155 933,2 |

### 25.3 INTEREST RATE RISK MANAGEMENT

A graphical analysis of the interest rate gap is included on page 75.

| R million | Derivative instrument type: Future contracts | Options | Swaps | Forwards | Total |
|---|---|---|---|---|---|
| ***25. Financial instruments (continued)*** | | | | | |
| **25.4 Derivative instruments** | | | | | |
| **Absolute value** | | | | | |
| The notional amount of derivative instruments outstanding at 30 June 2000 is set out below: | | | | | |
| Currency | 365,8 | 15 262,5 | 11 873,2 | 126 359,7 | 153 861,2 |
| Equity | 174,3 | 459 095,0 | – | – | 459 269,3 |
| Bonds | 274,8 | 11,7 | – | – | 286,5 |
| Gold | – | 37 646,5 | – | 48 656,5 | 86 303,0 |
| Agriculture | 0,1 | 65,6 | – | – | 65,7 |
| Metals | 83,8 | 38,6 | – | – | 122,4 |
| Interest rate | 22 132,4 | 13 192,4 | 123 326,3 | 29 823,5 | 188 474,6 |
| | 23 031,2 | 525 312,3 | 135 199,5 | 204 839,7 | 888 382,7 |
| The fair value and carrying amount of derivative instruments outstanding at 30 June 2000 is set out below: | | | | | |
| **Assets** | | | | | |
| Fair value | | | | | |
| Currency | 7,4 | 477,5 | 4 384,6 | 2 807,9 | 7 677,4 |
| Equity | 0,2 | 841,6 | – | – | 841,8 |
| Bonds | 3,1 | 11,7 | – | – | 14,8 |
| Metals | 12,7 | – | – | – | 12,7 |
| Interest rate | 66,6 | 43,1 | 1 122,5 | 23,3 | 1 255,5 |
| | 90,0 | 1 373,9 | 5 507,1 | 2 831,2 | 9 802,2 |
| Carrying amount | | | | | |
| Currency | 7,4 | 477,5 | 4 382,0 | 2 777,3 | 7 644,2 |
| Equity | 0,2 | 841,6 | – | – | 841,8 |
| Bonds | 3,1 | – | – | – | 3,1 |
| Metals | 12,7 | – | – | – | 12,7 |
| Interest rate | 66,6 | 1,0 | 1 067,6 | 23,3 | 1 158,5 |
| | 90,0 | 1 320,1 | 5 449,6 | 2 800,6 | 9 660,3 |
| **Liabilities** | | | | | |
| Fair value | | | | | |
| Currency | 11,1 | 103,5 | 4 379,6 | 2 596,0 | 7 090,2 |
| Equity | 0,2 | 2 651,4 | – | – | 2 651,6 |
| Bonds | 1,2 | 10,8 | – | – | 12,0 |
| Gold | – | 245,8 | – | – | 245,8 |
| Metals | 13,7 | – | – | – | 13,7 |
| Interest rate | 1 345,4 | 51,5 | 1 305,7 | 46,0 | 2 748,6 |
| | 1 371,6 | 3 063,0 | 5 685,3 | 2 642,0 | 12 761,9 |
| Carrying amount | | | | | |
| Currency | 11,1 | 103,5 | 4 378,0 | 2 554,6 | 7 047,2 |
| Equity | 0,2 | 2 651,4 | – | – | 2 651,6 |
| Bonds | 1,3 | 10,8 | – | – | 12,1 |
| Gold | – | 245,8 | – | – | 245,8 |
| Metals | 13,7 | – | – | – | 13,7 |
| Interest rate | 1 345,4 | 9,4 | 1 241,6 | 46,2 | 2 642,6 |
| | 1 371,7 | 3 020,9 | 5 619,6 | 2 600,8 | 12 613,0 |

## 25. Financial instruments (continued)

### 25.5 Liquidity risk management

| R million | Carrying amount 2000 | Demand | Term to maturity 0 – 12 months | 1 – 5 years | Over 5 years |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Cash and short-term funds | **8 309,4** | 8 309,4 | – | – | – |
| Short-term negotiable securities | **14 479,5** | 14 479,5 | – | – | – |
| Liquid assets and trading securities | **9 772,9** | 9 772,9 | – | – | – |
| Derivative instruments | **9 660,3** | 9 660,3 | – | – | – |
| Securities purchased under agreement to resell | **2 434,3** | – | 2 434,3 | – | – |
| Advances | **102 652,2** | – | 46 028,2 | 27 091,7 | 29 532,3 |
| Debtors | **2 162,0** | – | 2 162,0 | – | – |
| Other investments | **2 522,0** | – | – | – | 2 522,0 |
| Investment in associated companies | **290,2** | – | – | – | 290,2 |
| Property and equipment | **3 329,9** | – | – | – | 3 329,9 |
| Deferred taxation | **183,6** | – | – | – | 183,6 |
| Goodwill | **136,9** | – | – | – | 136,9 |
| | **155 933,2** | 42 222,1 | 50 624,5 | 27 091,7 | 35 994,9 |
| **Liabilities** | | | | | |
| Deposit and current accounts | **117 591,6** | 63 427,4 | 44 308,7 | 9 855,5 | – |
| Derivative instruments | **12 613,0** | 12 613,0 | – | – | – |
| Securities sold under agreements to repurchase | **2 387,0** | – | 2 387,0 | – | – |
| Creditors and accruals | **7 514,2** | – | 7 514,2 | – | – |
| Taxation | **10,8** | 10,8 | – | – | – |
| Deferred taxation | **1 491,7** | – | – | – | 1 491,7 |
| Long-term liabilities | **3 638,1** | – | – | 571,5 | 3 066,6 |
| | **145 246,4** | 76 051,2 | 54 209,9 | 10 427,0 | 4 558,3 |
| Net liquidity gap | **10 686,8** | (33 829,1) | (3 585,4) | 16 664,7 | 31 436,6 |

## 25. *Financial instruments (continued)*

### 25.6 Fair value of financial instruments

The following represents the fair values of financial instruments carried on the balance sheet.

| R million | Carrying amount 2000 | Fair value | Unrecognised gain/(loss) |
|---|---|---|---|
| **Assets** | | | |
| Cash and short-term funds | 8 309,4 | 8 309,4 | – |
| Short-term negotiable securities | 14 479,5 | 14 479,5 | – |
| Liquid assets and trading securities | 9 772,9 | 9 649,3 | (123,6) |
| Derivative instruments | 9 660,3 | 9 802,2 | 141,9 |
| Securities purchased under agreement to resell | 2 434,3 | 2 434,3 | – |
| Advances | 102 652,2 | 102 652,2 | – |
| Debtors | 2 162,0 | 2 162,0 | – |
| Other investments | 2 522,0 | 2 835,2 | 313,2 |
| Investment in associated companies | 290,2 | 347,9 | 57,7 |
| | 152 282,8 | 152 672,0 | 389,2 |
| **Liabilities and equity** | | | |
| Deposit and current accounts | 117 591,6 | 117 591,6 | – |
| Derivative instruments | 12 613,0 | 12 761,9 | (148,9) |
| Securities sold under agreements to repurchase | 2 387,0 | 2 387,0 | – |
| Creditors and accruals | 7 514,2 | 7 514,2 | – |
| Long-term liabilities | 3 638,1 | 3 638,1 | – |
| | 143 743,9 | 143 892,8 | (148,9) |

| Segment | Brands | Target market | Description |
|---|---|---|---|
| **26. Segment information** | | | |
| **Primary segments (business)** | | | |
| Merchant bank | Rand Merchant Bank, RMB Private Equity, RMB International, and RMB Resources | Large corporates, parastatals and government | Merchant and investment banking services |
| Instalment finance | Wesbank | Corporates and individuals | Motor vehicle and instalment finance |
| First National Bank | First National Bank, FNB Card, FNB Trust Services, BOB, Hyphen, Smartbox and First National (Rural bank) | Small businesses and individuals | Retail banking, wholesale banking and support services |
| Corporate and commercial | FNB Corporate | Medium and large corporates | Corporate banking |
| African operations | FNB Namibia, FNB Botswana, and FNB Swaziland | Corporates and individuals | Corporate and retail banking |
| Property finance | FNB Homeloans and Origin | Individuals | Secured mortgage lending |
| FirstRand International | RMB Australia, Nufcor, Henry Ansbacher, and RMB International | Large corporates, parastatals and government | Financial services |
| Short-term insurance | OUTsurance, First National Insurance, and First Bowring | Corporates and individuals | Short-term insurance |
| Head office | FirstRand Bank | – | Owns the capital of the Banking Group |
| Private bank | Ansbacher Private Bank | High net worth individuals | Wealth management |

| R million | Merchant Bank | Movable assets | First National Bank | Corporate and commercial | African operations | Property finance |
|---|---|---|---|---|---|---|
| **26. Segment information (continued)** | | | | | | |
| **Segment result** | | | | | | |
| Segment revenue | 1 156,8 | 1 116,8 | 4 314,3 | 1 352,9 | 553,5 | 490,6 |
| Segment expenditure | (527,1) | (610,1) | (3 863,7) | (1 003,5) | (290,3) | (358,9) |
| Segment result | 629,7 | 506,7 | 450,6 | 349,4 | 263,2 | 131,7 |
| Segment result includes: | | | | | | |
| Depreciation charge | (21,4) | (16,1) | (367,3) | (2,7) | (21,6) | (5,6) |
| Net profit/(loss) from associates | (9,2) | 0,9 | – | – | – | – |
| Cost to income (%) | 44,5 | 43,5 | 79,6 | 59,2 | 47,5 | 42,6 |
| **Segment position** | | | | | | |
| Segment assets | 35 305,6 | 21 016,5 | 30 746,1 | 30 003,3 | 5 795,3 | 15 873,9 |
| Segment liabilities | 34 675,9 | 20 509,8 | 30 295,5 | 29 653,9 | 4 818,4 | 15 742,2 |
| Carrying amounts of segment assets include: | | | | | | |
| Investments in associates | 68,5 | 49,4 | – | – | – | – |

| R million | FirstRand International | Short-term insurance | Head Office | Private Bank | Consolidation adjustments | Total |
|---|---|---|---|---|---|---|
| **Segment result** | | | | | | |
| Segment revenue | 538,2 | 192,9 | 494,6 | 41,0 | (1 035,1) | 9 216,5 |
| Segment expenditure | (468,6) | (153,2) | (69,6) | (38,1) | 1 035,4 | (6 347,7) |
| Segment result | 69,6 | 39,7 | 425,0 | 2,9 | 0,3 | 2 868,8 |
| Segment result includes: | | | | | | |
| Depreciation charge | (18,3) | (9,1) | – | – | – | (462,1) |
| Net profit/(loss) from associates | – | 7,2 | 3,3 | – | – | 2,2 |
| Cost to income (%) | 75,7 | 79,4 | – | 93,0 | – | 60,2 |
| **Segment position** | | | | | | |
| Segment assets | 13 660,9 | 308,2 | 12 164,2 | 225,6 | (9 166,4) | 155 933,2 |
| Segment liabilities | 13 591,3 | 268,5 | 4 336,7 | 222,7 | (8 868,5) | 145 246,4 |
| Carrying amounts of segment assets include: | | | | | | |
| Investments in associates | – | 129,2 | 43,1 | – | – | 290,2 |

**Secondary segments (geographical)**

| R million | South Africa | Other Africa | Europe | Australia | Other |
|---|---|---|---|---|---|
| **Segment revenue** | 7 589,2 | 558,7 | 905,3 | 161,0 | 2,3 |
| **Segment assets** | 120 129,1 | 6 158,6 | 26 100,5 | 2 787,3 | 757,8 |

Comparative information has not been provided. The change in the management and operating structure of the Banking Group prevents useful comparison with the prior years.

## 27. Significant subsidiaries

| | Nature of business | Issued ordinary capital R million | Effective holding % 2000 | Effective holding % 1999 |
|---|---|---|---|---|
| **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 |
| First National Bank of Southern Africa Limited | Commercial banking | 10,0 | **100,0** | 100,0 |
| FirstRand Bank Limited | Commercial and merchant banking | 4,0 | **100,0** | 100,0 |
| First National Asset Management & Trust Company (Pty) Limited | Asset management and trust services | 0,2 | **100,0** | 100,0 |
| Henry Ansbacher Holdings Limited | Private banking | 0,1 | **–** | 100,0 |
| Rand Merchant Bank Limited | Merchant banking | 18,9 | **100,0** | 100,0 |
| **Non-banking** | | | | |
| FirstRand International Limited | International holding company | – | **100,0** | 100,0 |
| First Land Developments Limited | Property company | 0,5 | **100,0** | 100,0 |
| FNB Equipment Finance (Pty) Limited | Equipment finance | – | **100,0** | 100,0 |
| FirstRand (International) Mauritius Limited | Financial services | 250,0 | **100,0** | – |
| FirstBowring Insurance Brokers Holdings (Pty) Limited | Insurance brokers | 0,2 | **100,0** | 100,0 |

| R million | Group carrying amount 2000 | Group carrying amount 1999 | Indebtedness 2000 | Indebtedness 1999 |
|---|---|---|---|---|
| **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 | **–** | – |
| First National Bank of Southern Africa Limited | **54,4** | 54,4 | **42,1** | 42,1 |
| FirstRand Bank Limited | **1 584,9** | 1 584,9 | **(14,0)** | (83,1) |
| First National Asset Management & Trust Company (Pty) Limited | **0,2** | 0,2 | **–** | – |
| Henry Ansbacher Holdings Limited | **–** | 369,1 | **–** | – |
| Rand Merchant Bank Limited | **333,8** | 333,8 | **–** | – |
| **Non-banking** | | | | |
| FirstRand International Limited | **512,9** | 143,8 | **–** | – |
| First Land Developments Limited | **0,5** | 0,5 | **–** | – |
| FNB Equipment Finance (Pty) Limited | **5,1** | 5,1 | **–** | – |
| FirstRand (International) Mauritius Limited | **250,0** | – | **–** | – |
| FirstBowring Insurance Brokers Holdings (Pty) Limited | **14,2** | 14,2 | **–** | – |

*Note: During the current financial year, Henry Ansbacher Holdings Limited was sold by FirstRand Bank Holdings Limited to FirstRand International Limited. The purchase consideration was settled by the issue of FirstRand International Limited ordinary shares.*

# Administration

### Administration
FirstRand Bank Holdings Limited
(Registration No 1971/009695/06)

### Company secretary
Bruce Unser

### Registered office
6th Floor
1 First Place
Bank City
Johannesburg
2001

### Postal address
PO Box 1153
Johannesburg
2000

### Telephone
National (012) 371-2111
International +27 11 371-2111

### Telefax
National (012) 371-2402
International +27 11 371-2402

### Website
www.fnb.co.za
www.rmb.co.za
www.ebucks.com

### Auditors
PricewaterhouseCoopers Incorporated
2 Eglin Road
Sunninghill

Deloitte & Touche
The Woodlands
20 Woodlands Drive
Woodmead

# MOMENTUM Group

## Contents

## *Financial highlights*

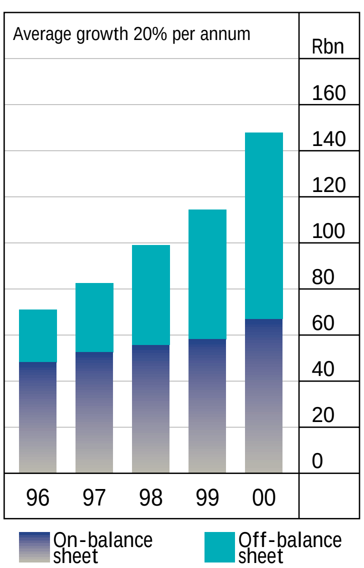
- Attributable earnings **+57%**
- Headline earnings **+25%**
- Embedded value profits of **R1,9 billion**
- New business inflows of **R31,5 billion**
- Net positive flow of funds of **R13,4 billion**
- Group assets **+29%** to **R148 billion**

## *Five-year review* for the year ended 30 June

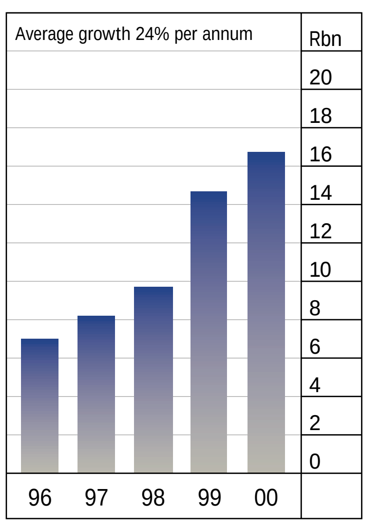
| R million | 2000 | 1999 | 1998 (2) | 1997 (3) | 1996 (3) | Compound growth % |
|---|---|---|---|---|---|---|
| ***Group premium income*** | | | | | | |
| Individual life | **10 368,9** | 7 091,3 | 5 683,8 | 4 959,8 | 4 024,5 | 27 |
| Single premiums | **7 527,4** | 4 303,2 | 2 975,2 | 2 561,9 | 1 988,3 | 39 |
| Recurring premiums | **2 841,5** | 2 788,1 | 2 708,6 | 2 397,9 | 2 036,2 | 9 |
| Employee benefits (1) | **4 139,1** | 6 194,5 | 3 252,6 | 2 886,7 | 2 853,8 | 10 |
| Single premiums | **3 000,4** | 4 872,7 | 1 966,0 | 1 728,6 | 1 683,9 | 16 |
| Recurring premiums | **1 138,7** | 1 321,8 | 1 286,6 | 1 158,1 | 1 169,9 | (1) |
| Health business | **1 871,4** | 1 049,1 | 693,4 | 330,6 | 122,7 | >100 |
| **Total premium income** | **16 379,4** | **14 334,9** | **9 629,8** | **8 177,1** | **7 001,0** | **24** |
| ***Group assets under management and administration*** | | | | | | |
| Total assets per balance sheet | **66 866,5** | 58 189,2 | 55 725,5 | 52 450,4 | 48 202,5 | 9 |
| Off-balance sheet assets managed on behalf of clients | **80 892,2** | 56 152,0 | 43 213,0 | 29 972,9 | 22 878,8 | 37 |
| **Total assets under management** | **147 758,7** | **114 341,2** | **98 938,5** | **82 423,3** | **71 081,3** | **20** |

(1) *The 2000 figure includes transfers from off-balance sheet funds of R1,3 billion (1999: R3,3 billion).*
(2) *Comprises the audited figures for Momentum Life to 30 June 1998 and the pro forma figures for Southern Life to 30 June 1998.*
(3) *Comprises the aggregation of the audited figures of Southern Life to 31 March and those of Momentum Life to 30 June.*

### *Group assets under management and administration*




### *Group premium income*



# Board of directors and board committees of Momentum Group Limited

**L L Dippenaar (51)**
*MCom, CA(SA)*
Chairman of Momentum Group
Chief Executive Officer of FirstRand
Director of FirstRand Bank Holdings
Director of RMB Holdings

**B H Adams (64)**
*CA(SA)*
Chairman of the FirstRand and Momentum Group Audit Committees

**A J Ardington (60)**
*BSc (Hons), MA (Oxford)*
Policyholder trustee

**A H Arnott (53)**
*BCom, CA(SA), PMD (Harvard)*
Chief Financial Officer of FirstRand

**P N Bardill (50)**
*BA, MA, Dip Human Resources Management, Certificate (Education)*
Policyholder trustee

**V W Bartlett (57)**
*FIBSA, AMP (Harvard)*
Director of FirstRand
Director of FirstRand Bank Holdings

**W F E Bragg (59)**
*FCA*
Alternate director of Anglo American Corporation

**G T Ferreira (52)**
*BCom (Hons), B (B&A), MBA*
Chairman of FirstRand, FirstRand Bank Holdings and RMB Holdings

**A Gore (36)**
*BSc (Hons), FFA, ASA, MAAA, FASSA*
Chief Executive Officer of Discovery Holdings

**R B Gouws (57)**
*BSc, FFA, FASSA, AMP (Oxford)*
Chairman of the Actuarial Committee

**P K Harris (50)**
*MCom*
Director of FirstRand
Chief Executive Officer of FirstRand Bank Holdings

**R J Hutchison (53)**
*BCom (Hons), B (B&A), MBA*
Outgoing Executive Chairman of FirstRand Asset Management
Director of RMB Holdings

**M W King (63)**
*CA(SA), FCA*
Deputy Chairman of FirstRand
Deputy Chairman of FirstRand Bank Holdings
Chairman of the Remuneration Committee
Deputy Chairman of Anglo American Corporation

**J D Krige (51)**
*MCom, FIA, AMP (Harvard)*
Deputy Chairman of Momentum Group
Director of RMB Holdings

**D J Loch Davis (69)**
*LLB (Hons) (London)*
Chairman of the Policyholder Trust

**W E Lucas-Bull (47)**
*BSc*
Director of RMB Holdings

**H P Meyer (42)**
*BCom, FIA, AMP (Oxford)*
Managing Director of Momentum Group
Director of RMB Holdings

**M W Spicer (47)**
*MA (Rhodes)*
Director of Anglo American Corporation

**B J van der Ross (53)**
*Dip Law (UCT)*
Director of FirstRand

## Actuarial Committee

**R B Gouws** (Chairman)
**H P Meyer**
**N A S Kruger**
**P G M Truyens**

## Remuneration Committee

**M W King** (Chairman)
**B H Adams**
**L L Dippenaar**

## Audit Committee

**B H Adams** (Chairman)
**D J Loch Davis**
**H P Meyer**
**B J van der Ross**

# Executive committees

## Insurance executive committee

**Laurie Dippenaar (51)**
*MCom, CA(SA)*
Chairman of Momentum Group

**Niel Krige (51)**
*MCom, FIA, AMP (Harvard)*
Deputy Chairman of Momentum Group

**Hillie Meyer (42)**
*BCom, FIA, AMP (Oxford)*
Managing Director of Momentum Group

**Danie Botes (36)**
*BCompt*
Momentum Life

**Don Brown (48)**
*BSc (Hons), FIA, FILPA*
Momentum Employee Benefits

**Nigel Dunkley (34)**
*BCompt (Hons) CA(SA), Adv Tax Cert, AMP (Oxford)*
Momentum Corporate Advisory Services

**Peter Göbel (36)**
*BCom (Hons), AMP (Oxford)*
Momentum Wealth

**Kobus Sieberhagen (41)**
*MA (Clin Psych), DPhil, AMP (Oxford)*
Momentum Distribution Services

**Frans Truter (45)**
*BCom (Hons), CA(SA), AMP (Oxford)*
Chief Financial Officer of Momentum Group
Financial and Actuarial Solutions

**Riaan van Dyk (34)**
*BSc, FFA, ASA*
Momentum Advisory Service

**Llewellyn Janse van Rensburg (45)**
*BCom, FIA, AMP (Oxford)*
Momentum Group consultant

## Asset management executive committee

**Laurie Dippenaar (51)**
*MCom, CA(SA)*

**Alberto Bottega (58)**
*MSc, PhD (Phys)*
Chairman of Futuregrowth

**Jan Hugo (42)**
*BCom (Hons), CA(SA)*
Newly appointed Executive Chairman of FirstRand Asset Management

**Rowan Hutchison (53)**
*BCom (Hons), B (B&A), MBA*
Outgoing Executive Chairman of FirstRand Asset Management

**Bryan Jackson (54)**
*BCom, LLB*
Chief Executive Officer of RMB Properties

**Hannes du Preez (38)**
*MCom*
Chief Investment Officer of RMB Asset Management

FRANS TRUTER

# REPORT OF THE CHIEF FINANCIAL OFFICER

**The Momentum Group (previously the FirstRand Insurance Group) comprises the operations of Momentum Life, Momentum Wealth (previously Momentum Administration Services), Momentum Employee Benefits, FirstRand Asset Management and Discovery Health. All activities take place within either divisions of Momentum Group Limited, or within 100%-owned subsidiaries, with the exception of Discovery Health, in which the Momentum Group holds a 64,1% interest.**

## BASIS OF PREPARATION

The attached annual financial statements relate to the insurance interests of the FirstRand Limited Group of Companies (the FirstRand Group) and should be read in conjunction with the report on FirstRand Limited.

In order to obtain 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 the following:

***Individual Business*** – comprising Momentum Life and the group's linked product provider, Momentum Wealth.

***Employee Benefits*** – the results of Momentum Employee Benefits.

***Asset Management*** – comprising the results of RMB Asset Management, RMB Investment Services, RMB Unit Trusts, Futuregrowth and RMB Properties.

***Health Insurance*** – the results of Discovery Holdings.

In addition to the above, the investment income on shareholders' free reserves is disclosed separately.

The segmental analysis of results has been based on the functional split of group activities, and not necessarily the results by statutory entity. In addition, the figures supplied in this report represent a combination of on- and off-balance sheet information providing the total flow of funds for all operations in the Momentum Group. Reconciliations between the figures in this report and the attached annual financial statements have been provided where appropriate.

The attached annual financial statements have been prepared based on the High Court approval of the transfer of the Momentum Life business from FirstRand Limited to Momentum Group Limited (previously FirstRand Insurance Limited, and before that The Southern Life Association Limited), in terms of Section 37 of the Long-term Insurance Act, 1998. This approval was granted on 27 June 2000, with effect from 1 July 1999, with the merged insurance company being renamed Momentum Group Limited. The comparative results for the year ended 30 June 1999 have also been prepared on this basis in order to afford a more meaningful comparison with the current year results.

## OVERVIEW OF RESULTS

The attributable earnings of the Momentum Group increased by 57% from R638 million to R1 003 million.

The reconciliation between the attributable and headline earnings figures of the Group are reflected in the following table:

| Headline earnings reconciliation | 2000 Rm | 1999 Rm | % change |
|---|---|---|---|
| Attributable earnings | **1 003** | 638 | 57 |
| *Less:* Profit on disposal of subsidiary shares | **(254)** | – | |
| *Add:* Once-off effect of transitional tax attributable to prior years | **35** | – | |
| *Add:* Portion of goodwill amortised | **6** | 2 | |
| *Add:* Loss on disposal of subsidiary and joint venture | **–** | 6 | |
| *Less:* Release of provisions made on disposal of joint venture | **–** | (15) | |
| Group headline earnings | **790** | 631 | 25 |

Headline earnings exclude the profit on sale of shares in two subsidiaries, namely Discovery Health and MC Squared Solutions. Shares in Discovery were sold to facilitate their listing, whilst MC Squared Solutions was sold to FirstRand Bank as it had a better strategic fit with the Banking Group. In addition, headline earnings exclude the portion of the transitional tax introduced in the recent changes to legislation regarding life insurance taxation, attributable to previous years.

The Momentum Group increased headline earnings by 25% from R631 million to R790 million. This increase comprises a rise of 53% in operating profits and a 25% decline in investment income on free reserves.

| Earnings source | 2000 Rm | 1999 Rm | % change |
|---|---|---|---|
| Group operating profit after tax | **620** | 405 | 53 |
| Investment income on free reserves | **170** | 226 | (25) |
| Group headline earnings | **790** | 631 | 25 |

The performance of the operational units that contributed to the increase in operating profit after tax by 53% to R620 million, is explained in more detail in the Chairman and Chief Executive's Report of FirstRand Limited. These earnings figures were produced despite start-up costs of R34 million incurred by new offshore ventures of Discovery Health and Momentum Wealth. In addition, the earnings of Momentum Life, Discovery Health and the Group's associate investment, African Life, were negatively impacted by the significant change in tax legislation applicable to Life Insurers, which is dealt with later in this report.

## INVESTMENT INCOME ON FREE RESERVES

Investment income comprises interest, dividends and the equity accounted earnings of African Life, but excludes capital appreciation on free reserves. As reported in the 1999 annual report, the reduction in the investment income on free reserves is the result of the implementation of a strategy to invest shareholders' free reserves in long-term growth assets.
Whilst investment income has reduced by 25% to R170 million, the total value of shareholders' free reserves has increased by 34% to R7,7 billion at 30 June 2000, before allowing for dividends to shareholders of R861 million. The capital appreciation component of the yield on shareholders' funds is not reflected as part of disclosed earnings, but has impacted positively on the Group Embedded Value.

### NEW TAX DISPENSATION

The changes in tax legislation applicable to Life Insurance Companies, introduced during the year under review, and that took effect from 1 July 2000, had a significant impact on the results of the Momentum Group.

The transitional tax payable by the Group amounted to R247 million including its attributable portion of Discovery Health and the group's associated investment, African Life.

An amount of R72 million, of which R35 million relates to prior years, was charged to the income statement during the year under review and represents the Momentum Group's portion of the total transitional tax for Discovery Health and African Life. The R35 million in respect of *prior years* has been added back for the purposes of the headline earnings calculation. Momentum Group Limited's own portion of the transitional tax, amounting to R175 million, was provided for as deferred taxation in the 1999 actuarial valuation and should be sufficient to cover the transitional tax liability.

The tax changes also impacted negatively on the embedded values of Momentum Group and Discovery Health. Momentum Group and Discovery Health allowed for R408 million and R56 million in their respective embedded values for this new tax which resulted in the return on embedded value being reduced by 5% for Momentum Group and 4% for Discovery Health.

### DIVIDEND

The Momentum Group declared a dividend of R861 million to FirstRand Limited for the year. This unusually high dividend was made possible by the sound capital position of the Momentum Group, and represents 83% of the total dividend payable to FirstRand Limited's shareholders. As a result, it enabled FirstRand Bank to pay a lower dividend in anticipation of intended increases in the statutory capital requirements of banks. The Momentum Group is adequately capitalised for the foreseeable future.

### FINANCIAL SOUNDNESS VALUATION

The excess of assets over liabilities of Momentum Group was calculated as R6,8 billion at 30 June 2000, after allowing for dividends to shareholders. The capital adequacy requirements of R3,3 billion were covered 2,1 times by this excess. The detailed financial soundness valuation of Momentum Group Limited is reflected on pages 128 to 130 of this annual report.

### BREAKDOWN OF ACTUARIAL LIABILITIES

The total actuarial liabilities of Momentum Group increased by 16% to R58,5 billion as at 30 June 2000. The changes in the main liability classes are provided in the table below:

| BREAKDOWN OF ACTUARIAL LIABILITIES | 2000 RBN | 1999 RBN | % CHANGE |
|---|---|---|---|
| Momentum Life | **36,0** | 29,9 | 20 |
| Momentum Employee Benefits | **6,3** | 7,9 | (20) |
| Momentum Wealth | **5,8** | 2,9 | 100 |
| FirstRand Asset Management | **10,4** | 9,7 | 7 |
| Total | **58,5** | 50,4 | 16 |

The Momentum Life liabilities increased by 20% owing to the healthy new business volumes. Smoothed-bonus policies represented 25% of the Momentum Life liabilities as at 30 June 2000. The Momentum Life policy book consisted of 1,3 million in-force policies as at 30 June 2000, with annualised recurring premium income of R3,2 billion. This includes the policies of Southern Life that were converted onto the Momentum systems during this financial year.

The liabilities of Momentum Employee Benefits reduced owing to the restructuring of the Guaranteed Fund and the transfer of some schemes to FirstRand Asset Management. Smoothed-bonus business represented 54% of the liabilities of Momentum Employee Benefits as at 30 June 2000.

The liabilities of Momentum Wealth, representing business written on the balance sheet of Momentum Group, doubled as a result of healthy new business volumes.

The liabilities in respect of FirstRand Asset Management represent investment business on the balance sheet of Momentum Group.

## EMBEDDED VALUE – MOMENTUM GROUP

The embedded value of the Momentum Group, representing the sum of the shareholders' net assets and the present value of the expected future profits arising from the existing in-force insurance business, totalled R9,4 billion as at 30 June 2000. The embedded value profit for the year amounted to R1,9 billion, representing the change in embedded value before allowing for dividends paid. The return on embedded value amounted to 23%. The embedded value calculation includes the Momentum Group's 64,1% share of the market value of Discovery Health as part of the shareholders' net assets. All unlisted companies in the Group are included at directors' valuation as part of the shareholders' net assets.

The value of one year's new business amounted to R187 million after taking account of the new Four Fund tax basis. This represents an increase of 80% over the 1999 value of new business of R104 million. The Southern Field Force joint venture had a significant positive impact on the embedded value of new business by achieving a reduction in the new business losses from R60 million to R22 million in the current year. It is expected that the remaining embedded value losses of the Field Force will be fully eliminated in the 2001 financial year.

NICOLAAS KRUGER

The analysis of the main components of the Group Embedded Value and the main contributors to the movement in the embedded value are detailed in the following tables:

| GROUP EMBEDDED VALUE | 2000 RM | 1999 RM |
|---|---|---|
| Shareholders' net assets | **6 803** | 5 731 |
| Net value of in-force insurance business | **2 588** | 2 609 |
| Value of in-force insurance business | **2 875** | 3 019 |
| Opportunity cost of capital adequacy requirements | **(287)** | (410) |
| Embedded value | **9 391** | 8 340 |

Shareholders' net assets at 30 June 2000 comprise the following:

| SHAREHOLDERS' NET ASSETS | 2000 RM | 1999 RM | % CHANGE |
|---|---|---|---|
| Subsidiary investments: | | | |
| – Discovery Health (64,1%) | **2 780** | 925 | >100 |
| – FirstRand Asset Management | **1 430** | 1 085 | 32 |
| – Momentum Wealth | **210** | 160 | 31 |
| Other investments: | | | |
| – African Life (20,8%) | **610** | 1 314 | (54) |
| – Fixed interest instruments | **545** | 516 | 6 |
| – Equities | **562** | 650 | (14) |
| – Properties | **219** | 270 | (19) |
| – Other | **447** | 811 | (45) |
| Total shareholders' net assets | **6 803** | 5 731 | 19 |

*Note:*

*The shareholders' portfolio was restructured with effect from 30 June 1999, when the proceeds obtained from the elimination of the FNB crossholding were invested in a more balanced portfolio. In particular, the investment in African Life was allocated to the shareholders' portfolio.*

| EMBEDDED VALUE PROFIT – MOMENTUM GROUP | RM |
|---|---|
| Embedded value at 30 June 2000 | 9 391 |
| *Less:* Embedded value at 30 June 1999 | 8 340 |
| Increase in embedded value | 1 051 |
| Dividend declared | 861 |
| Embedded value profit | 1 912 |

| Components of embedded value profit – Momentum Group | Rm |
|---|---|
| Value of past year's new business | 187 |
| Expected profit on existing business | 496 |
| Investment return on shareholders' net assets | 1 563 |
| New tax dispensation | (408) |
| Experience and other variations | 74 |
| Embedded value profits | 1 912 |
| Return on embedded value | 23% |
| Return excluding once-off effect of transitional tax | 28% |

The Report on the Embedded Value detailing the methodology and assumptions applied in calculating the embedded value of the Momentum Group is reflected on pages 154 to 157 of this annual report.

### EMBEDDED VALUE – DISCOVERY HEALTH

The salient features of the embedded value results of Discovery Health, the Momentum Group's 64,1%-held health insurance subsidiary, are detailed below:

| Embedded value profit – Discovery Health | Rm |
|---|---|
| Embedded value at 30 June 2000 | 2 113 |
| *Less:* Embedded value at 30 June 1999 | (1 204) |
| Increase in embedded value | 909 |
| Capital raised | (191) |
| Embedded value profit | 718 |

| Components of embedded value profit – Discovery Health | Rm |
|---|---|
| Value of past year's new business | 397 |
| Expected profit on existing business | 177 |
| Investment return on shareholders' net assets | 34 |
| New tax dispensation | (56) |
| Experience and other variations | 166 |
| Embedded value profits | 718 |
| Return on embedded value | 60% |
| Return excluding once-off effect of transitional tax | 64% |

### GROUP ASSETS UNDER MANAGEMENT AND ADMINISTRATION

The Momentum Group managed or administered total assets of R147,8 billion at 30 June 2000 compared to R114,3 billion at 30 June 1999, an increase of 29%. The majority of this increase can be attributed to the strong new business inflows experienced during the year. The following table provides a more detailed breakdown of the assets managed or administered by group companies:

| Assets under management and administration | 2000 Rbn | 1999 Rbn | % change |
|---|---|---|---|
| On-balance sheet assets | **66,9** | 58,2 | 15 |
| Assets managed on behalf of third parties | **66,0** | 45,7 | 44 |
| Unit trust funds managed | **7,4** | 4,7 | 57 |
| Assets under management | **140,3** | 108,6 | 29 |
| Linked product assets under administration[1] | **7,5** | 5,7 | 32 |
| Total assets under management and administration | **147,8** | 114,3 | 29 |

*[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 R12,5 billion (30 June 1999: R8,0 billion).*

## NEW BUSINESS INFLOWS

Once again the Momentum Group managed to generate significant increases in new business, increasing annualised recurring premiums by 18% and lump sum inflows by 59% to R19,0 billion. The most significant contributors to this growth were single premium life products, specifically offshore and guaranteed products, as well as linked product and unit trust sales. The popularity of unit trust products continues to grow, with the superior performance figures of RMB Unit Trusts, as well as the product flexibility of Momentum Wealth, positively affecting sales of unit trust products.

The segregated third party inflows in the prior year were distorted due to RMBAM securing the mandate for the FNB Pension Fund, which amounted to a transfer-in of R6,4 billion. If this amount is excluded from the prior year inflows, the *total* new business inflows increased by *39%*, compared with the 8% reflected below.

A more detailed breakdown of the *new business* inflows, which includes 100% of the Discovery Health figures, is provided in the table below:

| New business | 2000 Rm | 1999 Rm | % change |
|---|---|---|---|
| Annualised recurring premiums | **1 984** | 1 684 | 18 |
| Individual life[1] | **584** | 483 | 21 |
| Employee benefits | **78** | 125 | (38) |
| Health insurance | **1 322** | 1 076 | 23 |
| Lump sum inflows | **18 958** | 11 899 | 59 |
| Individual life premium income | **4 880** | 2 709 | 80 |
| Employee benefits premium income | **1 661** | 1 485 | 12 |
| Linked product sales[2] | **5 704** | 3 728 | 53 |
| Unit trust sales | **6 713** | 3 977 | 69 |
| Segregated third party inflows | **10 612** | 15 570 | (32) |
| Total new business inflows | **31 554** | 29 153 | 8 |

*[1]New individual life recurring premiums exclude new business received through premium increases which amounted to R162 million (1999: R180 million).*

*[2]Includes sales of products on the life insurance balance sheet amounting to R2,6 billion (1999: R1,6 billion).*

*All transfers between on- and off-balance sheet funds have been excluded from the above.*

## FUNDS RECEIVED FROM CLIENTS

A total of R35,4 billion was received from clients during 2000, an increase of 9% compared with the 1999 figure. It is interesting to note that 65% of these funds were generated by investment business not related to our traditional insurance business, with the remaining 35% representing life insurance, employee benefits and health insurance business. In addition, 62% of all funds received are derived from the individual retail market, whilst the remaining 38% represents institutional investments.

| Funds received | 2000 Rm | 1999 Rm | % change |
|---|---|---|---|
| Individual life | **7 721** | 5 497 | 40 |
| Single premiums[1] | **4 880** | 2 709 | 80 |
| Recurring premiums | **2 841** | 2 788 | 2 |
| Employee benefits | **2 800** | 2 807 | – |
| Single premiums | **1 661** | 1 485 | 12 |
| Recurring premiums | **1 139** | 1 322 | (14) |
| Health insurance | **1 871** | 1 049 | 78 |
| Linked product sales[2] | **5 704** | 3 728 | 53 |
| Unit trust sales | **6 713** | 3 977 | 69 |
| Segregated third party inflows | **10 612** | 15 570 | (32) |
| Total funds received | **35 421** | 32 628 | 9 |

*[1]Single premiums exclude funds retained through the extension of the policy term, amounting to R604 million (1999: R364 million).*

*[2]Includes sales of products on the life insurance balance sheet amounting to R2,6 billion (1999: R1,6 billion).*

*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, and total premium income per note 21 of the annual financial statements:

| | 2000 RM | 1999 RM |
|---|---|---|
| Total funds received | **35 421** | 32 628 |
| *Less:* Off-balance sheet inflows | **(20 382)** | (21 681) |
| – Linked product sales | **(3 057)** | (2 134) |
| – Unit trust sales | **(6 713)** | (3 977) |
| – Segregated third party inflows | **(10 612)** | (15 570) |
| *Add:* Transfers from off-balance sheet funds | **1 340** | 3 388 |
| Total premium income per financial statements | **16 379** | 14 335 |

The following represents a reconciliation between the total payments to clients, and total benefit payments per note 23 of the annual financial statements:

| | 2000 RM | 1999 RM |
|---|---|---|
| Total payments to clients | **22 022** | 19 945 |
| *Less:* Off-balance sheet payments | **(10 235)** | (9 222) |
| – Linked products | **(1 433)** | (1 775) |
| – Unit trusts | **(4 198)** | (3 631) |
| – Segregated third party funds | **(4 604)** | (3 816) |
| *Add:* Transfers to off-balance sheet funds | **1 960** | 1 065 |
| Total benefits paid per financial statements | **13 747** | 11 788 |

### PAYMENTS TO CLIENTS

During the past year the group paid out a total of R22 billion to clients, an increase of 10% compared with the comparative year. Of particular interest is the progress that has been made in containing the outflows of individual life, employee benefits and linked product clients, which, when combined with the strong new business inflows, has resulted in a healthy growth in assets under management.

| Payments to clients | 2000 RM | 1999 RM | % change |
|---|---|---|---|
| Individual life | **5 136** | 5 045 | 2 |
| Employee benefits | **4 856** | 4 791 | 1 |
| Health insurance | **1 208** | 619 | 95 |
| Linked products | **2 020** | 2 043 | (1) |
| Unit trusts | **4 198** | 3 631 | 16 |
| Segregated third party funds | **4 604** | 3 816 | 21 |
| Total payments to clients | **22 022** | 19 945 | 10 |

### NET FLOW OF FUNDS

As in the previous year, the Momentum Group managed to generate a positive net cash flow of client funds, with a total of R13,4 billion flowing into the group, net of payments to clients. This amount does not include investment growth associated with assets under management, nor transfers between on- and off-balance sheet funds.

| Net flow of funds | 2000 RM | 1999 RM | % change |
|---|---|---|---|
| Individual life | **2 585** | 452 | >100 |
| Employee benefits | **(2 056)** | (1 984) | (4) |
| Health insurance | **663** | 430 | 54 |
| Linked products | **3 684** | 1 685 | >100 |
| Unit trusts | **2 515** | 346 | >100 |
| Segregated third party funds | **6 008** | 11 754 | (49) |
| Total net flow of funds | **13 399** | 12 683 | 6 |

### CAPITAL MANAGEMENT

A new capital management programme was implemented for Momentum Group. The cornerstone of the programme is an internally designed measurement approach of risk-based capital. Risk-based capital represents a practical and realistic capital measure which reflects the economic realities of the capital required. The risk-based capital is allocated to business units and is used to set return on capital targets.

We are confident that the capital management programme will achieve the desired results, leading to the optimisation of return on capital. A good example is Momentum Employee Benefits which reduced its statutory capital required by R600 million after the restructuring of its Guaranteed Fund.

In the following financial year the focus will remain on using the capital management programme to ensure the efficient use of capital. The objective is to exceed a minimum threshold return on capital of inflation plus 10%.

### EFFICIENCY IMPROVEMENTS

The Momentum Group is known for being one of the most efficient life insurance companies in South Africa. The targeted savings of R230 million from merging the individual life businesses of Momentum Life and Southern Life will be achieved by 2001. In addition, management has implemented a programme in the *retail insurance* operations to improve efficiencies over the next three years.

Stretching targets have been set to improve efficiencies by another 25% over the next three years in respect of the following ratios:

- New business expense ratio
- Maintenance cost ratio
- Return on capital
- Expense to assets ratio

F J C Truter
*Chief Financial Officer*
Momentum Group Limited

# Annual Financial Statements

Momentum Group

## Contents

# Directors' responsibility statement

The directors of FirstRand Limited are required to maintain adequate accounting records and to prepare financial statements for each financial year that fairly present the state of affairs of the Momentum Group at the end of the financial year, and of the results and cash flows for the period. In preparing the accompanying financial statements, generally accepted accounting practices have been followed, suitable accounting policies have been applied, and reasonable estimates have been made. The board approves significant changes to accounting policies and the effects of these are fully explained in the annual financial statements. The financial statements incorporate full and responsible disclosure in line with the philosophy on corporate governance. The external auditors, PricewaterhouseCoopers Inc, have audited the financial statements and their unqualified report appears below.

The financial statements for the year ended 30 June 2000 which appear on pages 128 to 153, 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
7 September 2000

# Report of the independent auditors

### To the directors of FirstRand Limited

We have audited the annual financial statements of Momentum Group (a division of FirstRand Limited), set out on pages 128 to 153, for the year ended 30 June 2000. 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 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 Momentum Group at 30 June 2000 and the results of its operations and cash flows for the year then ended in accordance with generally accepted accounting practice in South Africa.

Without qualifying our opinion, we draw attention to the basis of presentation of these financial statements, as set out in the accounting policies on page 131.

PricewaterhouseCoopers Incorporated
*Chartered Accountants (SA)*
Registered Accountants and Auditors
Sandton, 7 September 2000

# Statement of actuarial values of assets and liabilities of Momentum Group Limited

as at 30 June

| R million | Notes | 2000 | 1999 |
|---|---|---|---|
| Value of assets | 2 | 65 308 | 56 229 |
| Policyholder liabilities | 3, 4 | 58 505 | 50 498 |
| **Surplus** | 5 | 6 803 | 5 731 |
| **Represented by:** | | | |
| Share capital and share premium | | 1 041 | 1 041 |
| Convertible debentures | | 350 | 350 |
| Distributable reserves | | 1 601 | 1 497 |
| Non-distributable reserves | | 67 | 195 |
| Balance of excess | | 3 744 | 2 648 |
| **Surplus** | 5 | 6 803 | 5 731 |
| **Capital adequacy requirements** | 6 | 3 280 | 3 293 |

# Report by the statutory actuary

I have conducted an actuarial valuation of the assets and liabilities of Momentum Group Limited according to generally accepted actuarial standards, and with due allowance for the reasonable benefit expectations of policyholders. I certify that Momentum Group Limited was financially sound as at 30 June 2000, after allowing for bonuses to policyholders and dividends to shareholders. In my opinion, the statement of actuarial values of assets and liabilities, read together with the financial statements, fairly presents the financial position of Momentum Group Limited.

N A S Kruger
BCom, FFA, FASSA
*Statutory Actuary of Momentum Group Limited*

Centurion
7 September 2000

# NOTES TO THE STATEMENT OF ACTUARIAL VALUES OF ASSETS AND LIABILITIES OF MOMENTUM GROUP LIMITED

as at 30 June 2000

## 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 valuations of Momentum Group Limited ("Momentum Group").

This statement has been prepared in accordance with the guidelines issued by the Actuarial Society of South Africa with regard to financial soundness valuations.

We have used the same financial soundness valuation methodology and approach as at 30 June 1999.

## 2. VALUE OF ASSETS

Assets were taken at market value, except for unlisted subsidiaries and associate companies where directors' valuations were used. The value of assets represents the net assets per the company balance sheet of Momentum Group Limited, adjusted for the directors' valuations of subsidiaries and associate companies. The directors' valuations are disclosed in note 31 of 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 16,0% per annum (before tax) (1999: 17,0% per annum) was determined with reference to the market interest rate on South African government stocks as at 30 June 2000. 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 14,7% per annum (1999: 15,6% per annum) on South African government stocks as at 30 June 2000:

| | % PREMIUM/ (DISCOUNT) |
|---|---|
| Equities | 2,0 |
| Properties | 1,0 |
| Government stocks | 0,0 |
| Other fixed interest stocks | 0,5 |
| Cash | (1,0) |

### Expense inflation rate

The assumed future expense inflation assumption of 12,0% per annum (1999: 13,0% 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 16,0% per annum (1999: 17,0% per annum).

### Expenses

The maintenance expense assumptions were based on the results of recently conducted internal expense investigations. 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. Allowance was also made for 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;
- An additional margin was added to the early termination assumptions on certain blocks of policies.

# NOTES TO THE STATEMENT OF ACTUARIAL VALUES OF ASSETS AND LIABILITIES OF MOMENTUM GROUP LIMITED

as at 30 June 2000

### *Tax*

Allowance was made for future tax based on the revised Four Fund tax dispensation, which is applicable to Momentum Group from 1 July 2000. No allowance was made for the effect of the proposed Capital Gains Tax to be introduced in South Africa with effect from 1 April 2001.

## 4. LIABILITY VALUATION METHODOLOGY

### *Universal life policies*

Liabilities for individual universal life policies (smoothed-bonus and market-related) were calculated as the fund accounts allocated to the policies, reduced 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.

### *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. Allowance was made for future bonuses at an assumed long-term sustainable bonus rate.

### *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.

### *Immediate annuities*

For immediate annuities, liabilities 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 2000.

### *Employee benefits investment contracts*

For employee benefits investment contracts where benefits are directly linked to the performance of an underlying investment portfolio, liabilities were taken as the market value of the underlying assets.

### *Other classes*

The liabilities for certain minor classes of business were determined by using approximate valuation methods.

## 5. RECONCILIATION OF SURPLUS

The change in Momentum Group's surplus during the year can be analysed as follows:

| | RM |
|---|---|
| Surplus as at 30 June 1999 | 5 731 |
| Operating profit (after tax) | 620 |
| Investment income on surplus | 170 |
| Capital appreciation on surplus | 1 128 |
| Change in valuation basis | 15 |
| Dividends | (861) |
| Surplus as at 30 June 2000 | 6 803 |

The breakdown of the operating profit (after tax) between the various operating subsidiaries is set out on page 29 of this annual report.

Investment income on surplus comprises interest, dividends and net rental income. Capital appreciation on surplus includes realised and unrealised capital appreciation.

## 6. CAPITAL ADEQUACY REQUIREMENTS

Capital adequacy requirements are necessary to provide a cushion against the impact of possible adverse deviations in actual future experience from that assumed in the financial soundness valuation. The capital adequacy requirements, which were determined in accordance with the guidelines of the Actuarial Society of South Africa, were calculated as R3 280 million (1999: R3 293 million).

The excess of assets over liabilities is sufficient to cover the capital adequacy requirements. 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.

### BASIS OF PRESENTATION

These group financial statements have been prepared, on a basis consistant with the prior year, based on the life insurance operations of Momentum Life being transferred from FirstRand Limited to Momentum Group Limited (previously FirstRand Insurance Limited). This transfer was performed in terms of Section 37 of the Long-term Insurance Act of 1998, with effect from 1 July 1999.

The financial statements and pro forma comparatives have been prepared on the going-concern basis, based on the fair value of assets and liabilities, in accordance with generally accepted accounting practice in South Africa. The principal accounting policies of the group set out below are consistent in all material respects with those adopted in the previous year.

### 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, 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.

### GOODWILL

Goodwill represents the excess of the purchase consideration of shares over the attributable fair value of net assets acquired, and is capitalised and amortised on the straight-line basis over the period of expected benefit, limited to 20 years.

Where the fair value of net assets of subsidiaries at date of acquisition exceed the cost of shares acquired, the excess is treated as a non-distributable reserve.

### 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. Realised profits and losses on foreign exchange transactions are included in finance costs. 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.

### 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.

#### *Mortgages and other loans*

Mortgages and other loans are reflected at par or redemption value, after making provision for any anticipated losses.

# Accounting policies

### Property investments

Property investments include fixed property and investments in property companies. These investments are initially recognised at cost and are subsequently restated based on open market values.

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 remeasured to fair value using quoted market and repurchase prices respectively. Unlisted investments are initially recognised at cost and subsequently restated, using directors' valuations based on accepted valuation methodologies.

## ASSOCIATED COMPANIES

Associated companies are those companies 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.

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.

Investments in associates for the benefit of shareholders are accounted for using the equity method of accounting.

## 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 deferred taxation assets arising from taxation losses where the recovery of such losses, in the opinion of the directors, is probable.

## RETIREMENT BENEFITS

The group has established defined benefit and defined contribution schemes, the assets of which are held in separate trustee-administered funds. The pension plans are funded by payments from employees and the relevant 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 group employees. The cost of providing retirement benefits is determined using the accrued benefit valuation method.

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.

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

## 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 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.

## FIXED ASSETS

Owner occupied buildings, computer and other equipment, furniture and motor vehicles are stated at historic cost less accumulated depreciation, calculated on a straight-line basis over their expected useful lives.

Property investments are reflected as investment assets, and as such are not disclosed as part of fixed assets. These investments are stated in accordance with the accounting policy under investments set out above.

### 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.

### DERIVATIVE INSTRUMENTS

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 insurance fund.

### 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.

### PROFIT RECOGNITION

The operating surpluses are determined in accordance with the guidance note on Financial Soundness Valuations issued by the Actuarial Society of South Africa, PGN104 (1998).

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 fund. Any unappropriated surplus is carried forward as the balance of excess in the life insurance fund.

### 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. Funds retained through the extension of the policy term are not included in premium income.

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 date 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.

### TAXATION

Taxation in respect of the South African life insurance operations is determined using the Four Fund method applicable to life insurance companies.

### 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.

# Balance sheet

as at 30 June

| R million | Notes | Group 2000 | Group 1999 |
|---|---|---|---|
| ***Assets*** | | | |
| Funds on deposit | | **8 046,7** | 9 064,6 |
| Government and public authority stocks | | **4 800,1** | 5 645,5 |
| Mortgages, debentures and other loans | 2 | **6 140,2** | 5 574,0 |
| Policy loans | | **464,9** | 507,4 |
| Equity investments | 3 | **38 938,9** | 31 363,7 |
| Investment in associated company | 4 | **381,9** | – |
| Derivative assets | 5 | **1 240,0** | 171,8 |
| Property investments | 6 | **3 128,7** | 3 388,4 |
| Investment assets | | **63 141,4** | 55 715,4 |
| Current assets | 7 | **3 162,1** | 2 171,2 |
| Deferred taxation | 8 | **–** | 0,9 |
| Goodwill | | **25,1** | 136,3 |
| Fixed assets | 9 | **537,9** | 165,4 |
| **Total assets** | | **66 866,5** | 58 189,2 |
| ***Liabilities and shareholders' funds*** | | | |
| **Liabilities** | | | |
| Current liabilities | 10 | **2 341,3** | 2 164,3 |
| Taxation | | **117,6** | 188,9 |
| Derivative liabilities | 11 | **1 576,2** | 674,9 |
| Deferred taxation | 8 | **63,9** | – |
| Long-term liabilities | 12 | **590,5** | 274,1 |
| Life insurance fund | 13 | **58 716,6** | 51 678,9 |
| **Total liabilities** | | **63 406,1** | 54 981,1 |
| Outside shareholders' interest | | **224,6** | 124,8 |
| ***Shareholders' funds*** | | | |
| Share capital and share premium | 14 | **1 041,2** | 1 041,2 |
| Convertible debentures | 15 | **350,0** | 350,0 |
| Reserves | 16 | **1 844,6** | 1 692,1 |
| **Total shareholders' funds** | | **3 235,8** | 3 083,3 |
| **Total liabilities and shareholders' funds** | | **66 866,5** | 58 189,2 |

# *Income statement*

for the year ended 30 June

| R million | Notes | Group 2000 | Group 1999 |
|---|---|---|---|
| Income after taxation | 19 | **1 037,4** | 666,1 |
| Earnings attributable to outside shareholders | | **(34,8)** | (28,3) |
| Earnings attributable to ordinary shareholders | | **1 002,6** | 637,8 |
| Attributable earnings | 20 | **1 002,6** | 637,8 |
| Headline earnings | 20 | **789,8** | 630,9 |
| Comprising the following: | | | |
| Insurance operations | | **326,6** | 205,2 |
| Individual business | | **228,6** | 127,2 |
| Employee benefits | | **98,0** | 78,0 |
| Asset management | | **205,0** | 135,6 |
| Health insurance | | **88,4** | 64,0 |
| Investment income on free reserves | | **169,8** | 226,1 |

# Cash flow statement

for the year ended 30 June

| R million | Notes | Group 2000 | Group 1999 |
|---|---|---|---|
| ***Cash flows from operating activities*** | | | |
| Cash generated by operations | A | **8 833,3** | 10 009,4 |
| Working capital changes | B | **(1 158,6)** | (757,8) |
| | | **7 674,7** | 9 251,6 |
| Taxation paid | C | **(322,7)** | (379,3) |
| Dividends paid | D | **(518,4)** | (160,5) |
| Net cash inflow from operating activities | | **6 833,6** | 8 711,8 |
| ***Cash outflows from investment activities*** | | | |
| Investment activities | | | |
| Government and public authority stocks | | **983,2** | 2 102,6 |
| Mortgages, debentures and other loans | | **(517,6)** | (2 208,5) |
| Policy loans | | **42,5** | 39,3 |
| Equity investments | | **(8 651,3)** | (6 183,6) |
| Derivative instruments | | **(166,9)** | 344,9 |
| Property investments | | **357,7** | 191,7 |
| Proceeds on sale of shares in Discovery Health | | **143,7** | – |
| Proceeds on disposal of MC Squared Solutions | | **120,0** | – |
| Net purchase of fixed assets | | **(468,0)** | (112,8) |
| Net cash outflow from investment activities | | **(8 156,7)** | (5 826,4) |
| ***Cash flows from financing activities*** | | | |
| Proceeds from increase in long-term liabilities | | **316,4** | 1,6 |
| Net cash inflow from financing activities | | **316,4** | 1,6 |
| Net (decrease)/increase in cash and cash equivalents | | **(1 006,7)** | 2 887,0 |
| Cash and cash equivalents at beginning of the year | | **9 064,6** | 6 177,6 |
| Cash and cash equivalents disposed of | | **(11,2)** | – |
| Cash and cash equivalents at end of the year | | **8 046,7** | 9 064,6 |

for the year ended 30 June

| R MILLION | | NOTES | GROUP 2000 | GROUP 1999 |
|---|---|---|---|---|
| **A.** | ***Cash generated by operations*** | | | |
| | Premium income | 21 | **16 379,4** | 14 334,9 |
| | Investment income | 22 | **5 000,9** | 4 293,2 |
| | Total income | | **21 380,3** | 18 628,1 |
| | Policyholder benefits | 23 | **13 747,3** | 11 788,3 |
| | Marketing and administration expenses | | **1 404,1** | 1 083,1 |
| | Commissions | | **681,4** | 681,1 |
| | Taxation | 24 | **316,2** | 423,2 |
| | Total outgo | | **16 149,0** | 13 975,7 |
| | Income less outgo | | **5 231,3** | 4 652,4 |
| | Realised profits and losses on sale of investments and unrealised changes in long-term investment values | | **2 843,8** | (2 610,4) |
| | Transfer to the life fund | 13 | **(7 037,7)** | (1 375,9) |
| | Income after taxation (as per income statement) | | **1 037,4** | 666,1 |
| | Outside shareholders' interest | | **(34,8)** | (28,3) |
| | Earnings attributable to ordinary shareholders | | **1 002,6** | 637,8 |
| | Adjustments for non-cash items and taxation: | | | |
| | Unrealised changes in long-term investment values | | **821,3** | 7 356,5 |
| | Transfer to the life fund and other non-cash items | | **6 693,2** | 1 591,9 |
| | Taxation | | **316,2** | 423,2 |
| | Cash generated by operations | | **8 833,3** | 10 009,4 |
| **B.** | ***Working capital changes*** | | | |
| | Net increase in current assets | | **(994,9)** | (522,4) |
| | Net decrease in current liabilities | | **(163,7)** | (235,4) |
| | Net working capital changes | | **(1 158,6)** | (757,8) |
| **C.** | ***Taxation paid*** | | | |
| | Balance at beginning of the year | | **(188,9)** | (141,5) |
| | Taxation charged for the year | | **(251,4)** | (426,7) |
| | Balance at end of the year | | **117,6** | 188,9 |
| | | | **(322,7)** | (379,3) |
| **D.** | ***Dividends paid*** | | | |
| | Balance at beginning of the year | | **(130,3)** | – |
| | Ordinary dividends declared | | **(860,6)** | (290,8) |
| | Balance at end of the year | | **472,5** | 130,3 |
| | | | **(518,4)** | (160,5) |

# Statement of changes in equity

for the year ended 30 June

| R million | Share capital and share premium (Note 14) | Convertible debentures (Note 15) | Retained earnings (Note 16) | Non-distributable reserves (Note 16) | Total shareholders' funds |
|---|---|---|---|---|---|
| **Balance at 1 July 1998** | 1 041,2 | 350,0 | 1 161,1 | 6,6 | 2 558,9 |
| Net gains or losses not recognised in the income statement | – | – | – | 177,4 | 177,4 |
| Earnings attributable to shareholders | – | – | 637,8 | – | 637,8 |
| Dividends | – | – | (290,8) | – | (290,8) |
| Transfer to/(from) reserves | – | – | (11,7) | 11,7 | – |
| **Balance at 30 June 1999** | 1 041,2 | 350,0 | 1 496,4 | 195,7 | 3 083,3 |
| **Balance at 1 July 1999** | **1 041,2** | **350,0** | **1 496,4** | **195,7** | **3 083,3** |
| Net gains or losses not recognised in the income statement | **–** | **–** | **–** | **10,5** | **10,5** |
| Earnings attributable to shareholders | **–** | **–** | **1 002,6** | **–** | **1 002,6** |
| Dividends | **–** | **–** | **(860,6)** | **–** | **(860,6)** |
| Transfer to/(from) reserves | **–** | **–** | **139,3** | **(139,3)** | **–** |
| **Balance at 30 June 2000** | **1 041,2** | **350,0** | **1 777,7** | **66,9** | **3 235,8** |

### 1. Accounting policies

The accounting policies of the group are set out on pages 131 and 133.

| R MILLION | GROUP 2000 | GROUP 1999 |
|---|---|---|
| **2. Mortgages, debentures and other loans** | | |
| Mortgages secured over fixed properties | 2,0 | 40,3 |
| Debentures | 1 762,0 | 1 616,2 |
| Other loans | 4 376,2 | 3 917,5 |
| | 6 140,2 | 5 574,0 |
| **3. Equity investments** | | |
| Listed – at market value | 36 953,9 | 29 565,1 |
| Unlisted – at directors' valuation | 1 985,0 | 1 798,6 |
| | 38 938,9 | 31 363,7 |

The ten largest listed equity holdings of the insurance operations comprise the following (in alphabetical order): Anglo American, Dimension Data, FirstRand, Investec Group, M-Cell, Rembrandt Group, Richemont Securities, RMBH, Sanlam, Standard Bank.

| Investments in listed shares were distributed as follows: | % | % |
|---|---|---|
| Mining | 4 | 1 |
| Gold | 1 | 1 |
| Financial – Mining houses | 2 | 4 |
| Financial – Other | 19 | 28 |
| Industrial | 16 | 25 |
| Overseas instruments | 27 | 23 |
| Unit trusts | 19 | 16 |
| Other | 12 | 2 |
| | 100 | 100 |

| | | |
|---|---|---|
| **4. Investment in associated company** | | |
| African Life | 381,9 | – |

African Life is a listed long-term insurance company. Momentum Group holds directly 20,8% of the issued share capital of African Life in it's shareholders' portfolio. The market value of this investment as at 30 June 2000 was R610 million (1999: R1 314 million). The earnings attributable to ordinary shareholders for the year ended 31 March 2000 was R218,6 million (1999: R256,2 million), which includes capital appreciation. Momentum Group's portion of the earnings, excluding capital appreciation, are equity accounted.

| R million | Group 2000 | Group 1999 |
|---|---|---|
| **4. Investment in associated company (continued)** | | |
| African Life's assets and liabilities as at 31 March are summarised below: | | |
| **Assets** | | |
| Current assets | 480,1 | 549,2 |
| Investments | 6 837,6 | 5 321,4 |
| Fixed assets | 81,5 | 63,5 |
| **Total assets** | 7 399,2 | 5 934,1 |
| **Liabilities** | | |
| Current liabilities | 288,6 | 197,7 |
| Deferred taxation | 141,6 | 1,7 |
| Long-term liabilities | 88,0 | 65,9 |
| Life insurance fund | 4 881,9 | 3 986,1 |
| Outside shareholders' interest | 163,2 | 66,6 |
| **Total liabilities** | 5 563,3 | 4 318,0 |
| **5. Derivative assets** | | |
| Interest-bearing instruments | 5,8 | 11,9 |
| Equity instruments | 1 234,2 | 159,9 |
| | 1 240,0 | 171,8 |
| **6. Property investments** | | |
| Fixed property | 3 091,5 | 3 189,9 |
| Listed property equities | 37,2 | 198,5 |
| | 3 128,7 | 3 388,4 |
| 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. | | |
| **7. Current assets** | | |
| Accrued investment income | 1 838,9 | 1 543,2 |
| Premium debtors | 108,2 | 167,7 |
| FirstRand Bank | 132,5 | – |
| Unsettled trades | 353,1 | 76,6 |
| Other debtors | 729,4 | 383,7 |
| | 3 162,1 | 2 171,2 |

| R MILLION | GROUP 2000 | GROUP 1999 |
|---|---|---|
| **8. *Deferred taxation*** | | |
| Balance at beginning of year | 0,9 | (2,6) |
| Charge for the year | (64,8) | 3,5 |
| Relating to the current year | (40,0) | 3,5 |
| Relating to prior years | (24,8) | – |
| Balance at end of year | (63,9) | 0,9 |

A deferred taxation liability amounting to R175 million (1999: R160 million) has been set aside by the valuator in the actuarial valuation, and is included in the life insurance fund in note 13. This liability is for the transitional tax that resulted from changes to the four fund basis of taxation for life insurance companies. It has been reviewed and is considered adequate, therefore no additional liability has been raised for deferred taxation in the financial statements.

The deferred tax charge for the year mainly represents the transitional tax in respect of Discovery Holdings.

| R MILLION | GROUP 2000 | GROUP 1999 |
|---|---|---|
| **9. *Fixed assets*** | | |
| Cost at beginning of year | 502,6 | 434,2 |
| Subsidiary balances disposed of | (3,2) | – |
| Additions | 485,2 | 150,6 |
| Disposals | (182,7) | (72,7) |
| Transfers and other movements | – | (9,5) |
| **COST AT END OF YEAR** | 801,9 | 502,6 |
| Accumulated depreciation at beginning of year | 337,2 | 294,7 |
| Subsidiary balances disposed of | (1,1) | – |
| Depreciation (net of disposals) | (72,1) | 42,5 |
| **ACCUMULATED DEPRECIATION AT END OF YEAR** | 264,0 | 337,2 |
| **NET BOOK VALUE AT END OF YEAR** | 537,9 | 165,4 |
| **NET BOOK VALUE COMPRISES THE FOLLOWING:** | | |
| Leased assets | | |
| Land and buildings | 304,5 | – |
| Own assets | | |
| Computer and office equipment | 198,5 | 138,7 |
| Motor vehicles | 3,7 | 12,5 |
| Furniture and fittings | 31,2 | 14,2 |
| | 537,9 | 165,4 |

A reconciliation of the movement in the book value of fixed assets is not provided as it is not considered to be material in relation to the group's activities.

The leased assets are encumbered by lease liabilities as disclosed in note 12 to these financial statements.

| R MILLION | GROUP 2000 | GROUP 1999 |
|---|---|---|
| **10. Current liabilities** | | |
| Accrued benefit payments | 784,8 | 1 063,1 |
| Creditors | 924,9 | 842,1 |
| Provisions | 79,1 | 48,8 |
| Fair value provisions | 80,0 | 80,0 |
| Dividends payable | 472,5 | 130,3 |
| | 2 341,3 | 2 164,3 |
| **11. Derivative liabilities** | | |
| Interest-bearing instruments | 950,1 | 423,6 |
| Equity instruments | 626,1 | 251,3 |
| | 1 576,2 | 674,9 |
| **12. Long-term liabilities** | | |
| Property-management subsidiary | 92,5 | 80,3 |
| The loan is unsecured and bears interest at rates agreed upon from time to time. There are no fixed terms of repayment. | | |
| Capitalised lease commitments | 289,1 | – |
| Provision for post-retirement medical expenses | 193,8 | 193,8 |
| Other long-term loans | 15,1 | – |
| | 590,5 | 274,1 |

The capitalised lease commitments are secured by assets with a net book value of R304,5 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 PAYABLE WITHIN: | |
|---|---|
| One year | 30,0 |
| Between one and five years | 156,9 |
| Later than five years | 480,7 |
| | 667,6 |

| PRESENT VALUE OF MINIMUM LEASE PAYMENTS PAYABLE WITHIN: | |
|---|---|
| One year | 28,2 |
| Between one and five years | 105,4 |
| Later than five years | 155,5 |
| | 289,1 |

| R MILLION | GROUP 2000 | GROUP 1999 |
|---|---|---|
| **13. *Life insurance fund*** | | |
| The movements in the life insurance fund for the year are as follows: | | |
| Balance at beginning of year | 51 678,9 | 50 303,0 |
| Transfer from income statement | 7 037,7 | 1 375,9 |
| **BALANCE AT END OF YEAR** | 58 716,6 | 51 678,9 |
| **ACTUARIAL LIABILITIES UNDER UNMATURED POLICIES COMPRISE THE FOLLOWING:** | % | % |
| Linked (market related) business | | |
| Individual life | 35,8 | 31,1 |
| Employee benefits | 21,0 | 26,1 |
| Smoothed-bonus business | | |
| Individual life | 16,5 | 16,4 |
| Employee benefits | 5,9 | 7,0 |
| With-profits reversionary bonus business | 3,7 | 4,5 |
| Non-profit business | | |
| Individual life | 5,1 | 3,2 |
| Employee benefits | 1,7 | 1,6 |
| Annuity business | 9,7 | 9,5 |
| Health operations | 0,6 | 0,6 |
| | 100,0 | 100,0 |

The above percentages are based on the actuarial valuations of Momentum Group and Discovery Holdings at 30 June 2000.

The life funds of the group at 30 June 2000 exceeded the amount of the actuarial value of liabilities under policies and contracts at that date. The change in the actuarial value of policy liabilities includes amounts relating to policyholders' participation in surplus by way of reversionary and other bonuses.

| R MILLION | GROUP 2000 | GROUP 1999 |
|---|---|---|
| **14. *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 |

| R MILLION | GROUP 2000 | GROUP 1999 |
|---|---|---|
| **15. Convertible debentures** | | |
| Fixed rate unsecured subordinated compulsory convertible debentures | **350,0** | 350,0 |
| These 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. | | |
| **16. Reserves** | | |
| **RETAINED EARNINGS** | | |
| Retained earnings at beginning of the year | **1 496,4** | 1 161,1 |
| Earnings attributable to ordinary shareholders | **1 002,6** | 637,8 |
| Dividend for the year | **(860,6)** | (290,8) |
| Transfer from/(to) non-distributable reserves | **139,3** | (11,7) |
| Retained earnings at end of the year | **1 777,7** | 1 496,4 |
| **NON-DISTRIBUTABLE RESERVES** | | |
| Profit on group restructuring | **–** | 178,8 |
| Unrealised surplus on revaluation of investment assets | **5,6** | 4,0 |
| Currency translation reserve | **9,0** | (1,0) |
| Reserve on capitalisation of Discovery Health | **50,8** | 11,3 |
| Other | **1,5** | 2,6 |
| | **66,9** | 195,7 |
| **TOTAL RESERVES** | **1 844,6** | 1 692,1 |
| **MOVEMENT FOR THE YEAR IN NON-DISTRIBUTABLE RESERVES** | | |
| Balance at beginning of year | **195,7** | 6,6 |
| Transfer (to)/from retained earnings | **(139,3)** | 11,7 |
| Profit on group restructuring | **–** | 178,8 |
| Unrealised surplus on revaluation of investment assets | **1,6** | 0,3 |
| Currency translation reserve | **10,0** | (1,9) |
| Other | **(1,1)** | 0,2 |
| **BALANCE AT END OF YEAR** | **66,9** | 195,7 |

## 17. 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 | INSURANCE OPERATIONS | HEALTH INSURANCE | ASSET MANAGEMENT | TOTAL |
|---|---|---|---|---|
| **18. Segmental analysis** | | | | |
| **30 JUNE 2000** | | | | |
| Premiums received | 14 508,0 | 1 871,4 | – | 16 379,4 |
| Benefits paid | (12 539,1) | (1 208,2) | – | (13 747,3) |
| Investment income | 4 444,6 | 49,5 | 506,8 | 5 000,9 |
| Realised and unrealised profits and losses | 2 776,6 | 59,7 | 7,5 | 2 843,8 |
| Marketing and administration expenses | (741,8) | (396,9) | (265,4) | (1 404,1) |
| Commission | (565,4) | (115,6) | (0,4) | (681,4) |
| Income before taxation | 7 882,9 | 259,9 | 248,5 | 8 391,3 |
| Taxation | (198,9) | (73,5) | (43,8) | (316,2) |
| Net income after taxation before transfer to the Life Fund | 7 684,0 | 186,4 | 204,7 | 8 075,1 |
| Transfer to the Life Fund | (6 958,9) | (78,8) | – | (7 037,7) |
| Net income after taxation | 725,1 | 107,6 | 204,7 | 1 037,4 |
| Outside shareholders' interest | – | (35,1) | 0,3 | (34,8) |
| Earnings attributable to ordinary shareholders | 725,1 | 72,5 | 205,0 | 1 002,6 |
| Liabilities | 62 152,4 | 792,9 | 460,8 | 63 406,1 |
| Assets | 64 723,3 | 1 388,0 | 755,2 | 66 866,5 |
| **30 JUNE 1999** | | | | |
| Premiums received | 13 285,8 | 1 049,1 | – | 14 334,9 |
| Benefits paid | (11 168,9) | (619,4) | – | (11 788,3) |
| Investment income | 3 881,5 | 43,0 | 368,7 | 4 293,2 |
| Realised and unrealised profits and losses | (2 622,6) | 10,1 | 2,1 | (2 610,4) |
| Marketing and administration expenses | (671,1) | (208,9) | (203,1) | (1 083,1) |
| Commission | (595,5) | (84,6) | (1,0) | (681,1) |
| Income before taxation | 2 109,2 | 189,3 | 166,7 | 2 465,2 |
| Taxation | (392,1) | – | (31,1) | (423,2) |
| Net income after taxation before transfer to the Life Fund | 1 717,1 | 189,3 | 135,6 | 2 042,0 |
| Transfer to the Life Fund | (1 278,9) | (97,0) | – | (1 375,9) |
| Net income after taxation | 438,2 | 92,3 | 135,6 | 666,1 |
| Outside shareholders' interest | – | (28,3) | – | (28,3) |
| Earnings attributable to ordinary shareholders | 438,2 | 64,0 | 135,6 | 637,8 |
| Liabilities | 54 035,8 | 652,4 | 292,9 | 54 981,1 |
| Assets | 56 753,2 | 948,3 | 487,7 | 58 189,2 |

| R MILLION | GROUP 2000 | GROUP 1999 |
|---|---|---|
| **19. Net income after tax** | | |
| Net income after tax is stated after charging the following: | | |
| **AUDITORS' REMUNERATION** | | |
| Audit fees – current year | 4,7 | 5,3 |
| – (over)/underprovision prior year | (0,2) | 0,8 |
| Fees for other services | 1,5 | 0,8 |
| | 6,0 | 6,9 |
| **PROFESSIONAL FEES** | | |
| Actuarial | 1,5 | 3,2 |
| Technical and other | 36,0 | 28,3 |
| | 37,5 | 31,5 |
| **DEPRECIATION** | | |
| Equipment – owned | 87,7 | 85,9 |
| Owner occupied buildings | 0,9 | - |
| Vehicles – owned | 2,7 | 0,1 |
| Leasehold improvements | 0,1 | - |
| Contracts | 3,4 | - |
| | 94,8 | 86,0 |
| **OPERATING LEASE CHARGES** | | |
| Land and buildings | 35,7 | 26,0 |
| Equipment | 20,0 | 29,4 |
| Motor vehicles | 0,2 | – |
| | 55,9 | 55,4 |
| **STAFF COSTS** | | |
| Salaries, wages and allowances | 414,8 | 370,3 |
| Contribution to pension and other staff funds | 62,0 | 44,0 |
| Social security levies | 2,8 | 1,6 |
| Other | 53,0 | 15,8 |
| | 532,6 | 431,7 |

## 20. Earnings attributable to shareholders

**ATTRIBUTABLE EARNINGS BASIS**

The calculation of the earnings is based on the earnings attributable to ordinary shareholders. Earnings attributable to ordinary shareholders amounted to R1 002,6 million (1999: R637,8 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.

| R MILLION | GROUP 2000 | GROUP 1999 |
|---|---|---|
| **20. *Earnings attributable to shareholders (continued)*** | | |
| **HEADLINE EARNINGS RECONCILIATION** | | |
| Attributable earnings | **1 002,6** | 637,8 |
| *Less:* Profit on disposal of subsidiary shares | **(253,7)** | – |
| *Add:* Once-off effect of transitional tax on prior years | **34,6** | – |
| *Add:* Portion of goodwill written off | **6,3** | 1,8 |
| *Add:* Loss on disposal of subsidiary and joint venture | **–** | 5,8 |
| *Less:* Release of provisions made on disposal of joint venture | **–** | (14,5) |
| Headline earnings | **789,8** | 630,9 |
| **21. *Premium income*** | | |
| **INDIVIDUAL LIFE** | **8 495,3** | 6 478,4 |
| Single premiums | **1 629,6** | 917,8 |
| Recurring premiums | **2 826,7** | 2 788,1 |
| Unit-linked annuities | **2 647,8** | 1 708,8 |
| Annuities | **1 391,2** | 1 063,7 |
| **CORPORATE BUSINESS** | | |
| Investment funds | **1 873,6** | 612,9 |
| **TOTAL PREMIUMS RECEIVED IN RESPECT OF INDIVIDUAL LIFE BUSINESS** | **10 368,9** | 7 091,3 |
| **HEALTH BUSINESS** | **1 871,4** | 1 049,1 |
| Gross premium income | **3 546,7** | 2 144,5 |
| *Less:* Reinsurance premiums and medical scheme contributions | **(1 675,3)** | (1 095,4) |
| **EMPLOYEE BENEFITS** | **4 139,1** | 6 194,5 |
| Single premiums and investment lump sums | **1 660,6** | 1 484,5 |
| Transfers from off-balance sheet funds | **1 339,8** | 3 388,2 |
| Recurring premiums | **1 138,7** | 1 321,8 |
| **TOTAL PREMIUM INCOME** | **16 379,4** | 14 334,9 |
| Funds retained through the extension of the policy term amounted to R604,1 million (1999: R364,0 million). These funds are not included in the individual life single premium income figures above. | | |
| **22. *Investment income*** | | |
| Investment income earned in respect of: | | |
| Dividends – listed shares | **1 140,0** | 465,0 |
| Dividends – unlisted shares | **38,7** | 48,2 |
| Net rental income from properties | **243,9** | 219,5 |
| Interest-bearing investments | **2 838,4** | 3 231,2 |
| Fees, investment charges and other income | **713,4** | 329,3 |
| Income from associate | **26,5** | – |
| | **5 000,9** | 4 293,2 |

| R MILLION | GROUP 2000 | GROUP 1999 |
|---|---|---|
| **23. Policyholder benefits** | | |
| **INDIVIDUAL LIFE BUSINESS** | | |
| Benefits in respect of individual life policies | 3 015,6 | 2 988,9 |
| Death | 450,7 | 455,1 |
| Disability | 88,3 | 83,9 |
| Maturities | 1 211,7 | 1 183,7 |
| Surrenders | 1 264,9 | 1 266,2 |
| Benefits in respect of unit-linked annuities | 587,0 | 268,0 |
| Lump sum annuities | 1 361,8 | 1 546,3 |
| Annuities paid | 1 314,4 | 1 516,6 |
| Commutations | 47,4 | 29,7 |
| Corporate business | 758,8 | 509,7 |
| Surrenders | 12,5 | 12,3 |
| Annuities paid | 28,9 | 28,6 |
| Maturities | 717,4 | 468,8 |
| **TOTAL BENEFITS PAID IN RESPECT OF INDIVIDUAL LIFE BUSINESS** | 5 723,2 | 5 312,9 |
| **HEALTH BUSINESS** | | |
| Gross claims | 1 299,8 | 895,9 |
| *Less*: Claims recoveries | (123,2) | (290,9) |
| | 1 176,6 | 605,0 |
| Withdrawal benefits | 31,6 | 14,4 |
| **TOTAL BENEFITS PAID IN RESPECT OF HEALTH BUSINESS** | 1 208,2 | 619,4 |
| **EMPLOYEE BENEFITS BUSINESS** | | |
| Benefits in respect of risk business | 3 045,7 | 3 405,0 |
| Death | 399,8 | 369,7 |
| Disability | 166,2 | 135,9 |
| Maturities | 89,8 | 141,9 |
| Member withdrawals | 243,4 | 564,8 |
| Scheme terminations and investment withdrawals | 2 082,8 | 2 105,7 |
| Annuities | 63,7 | 87,0 |
| **INVESTMENT FUNDS** | 3 770,2 | 2 451,0 |
| Withdrawals | 1 809,9 | 1 385,7 |
| Transfers to off-balance sheet funds | 1 960,3 | 1 065,3 |
| **TOTAL BENEFITS PAID IN RESPECT OF EMPLOYEE BENEFITS BUSINESS** | 6 815,9 | 5 856,0 |
| **TOTAL BENEFITS PAID** | 13 747,3 | 11 788,3 |

| R MILLION | GROUP 2000 | GROUP 1999 |
|---|---|---|
| **24. Taxation** | | |
| **CHARGE FOR THE YEAR** | | |
| SA normal taxation | **144,2** | 161,4 |
| Current | **79,5** | 133,5 |
| Deferred | **64,8** | (3,5) |
| Adjustment for prior years | **(0,1)** | 31,4 |
| Retirement fund taxation | **69,9** | 141,7 |
| Secondary taxation on companies ("STC") | **–** | 20,1 |
| Stamp duty | **19,0** | 20,5 |
| Other taxes and levies | **83,1** | 79,5 |
| | **316,2** | 423,2 |

Current taxation is determined by applying the four fund method of taxation applicable to life insurers.

Other taxes and levies consist of Greater Metropolitan Transitional Council and Financial Services Board levies and value-added tax.

## 25. 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;
- 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 compliance 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 following represents a summary of the more significant financial risks to which the group is exposed:

#### 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 through the asset swap mechanism facilitated by the South African Reserve Bank ("SARB"). These assets are utilised to provide policyholder portfolios with the desired international exposure, subject to the limitations imposed by the SARB. The majority of these assets are backing linked-policyholders' liabilities, where the full currency risk or benefit is passed to the policyholder.

### 25. Financial instruments (continued)

#### Risk management and capital adequacy (continued)

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 interest rate is provided to an annuitant. This guaranteed interest rate is matched to an appropriate asset profile, with the overall liability profile being matched on a weekly basis to minimise the interest rate mismatching risk.

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 share 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 is the risk that a counterparty to a financial instrument will default on their obligation to the group, thereby causing financial loss to the group.

All counterparty exposures are approved by the FirstRand Bank Credit Committee. This committee also monitors the overall levels of group exposure to individual counterparties to ensure that concentrations of credit risk are managed in terms of appropriate guidelines.

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 assets that match 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 valuator 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 above set limits.

### 26. *Scrip–lending arrangements*

The group has mandated its asset manager 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.

The following table represents details of the equities on loan at 30 June:

| R MILLION | GROUP 2000 | GROUP 1999 |
|---|---|---|
| Market value | 2 190 | 3 146 |
| Value of collateral | 2 286 | 3 359 |
| – cash | 611 | 2 255 |
| – bonds and money market | 1 675 | 1 104 |
| Collateral cover (%) | 104 | 107 |

### 27. *Related parties*

#### HOLDING COMPANY

The holding company of Momentum Group Limited is FirstRand Limited, which in turn has two major shareholders being Anglo American Corporation and RMB Holdings.

#### 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 R53 850,7 million at 30 June 2000 (1999: R46 360,6 million).

#### DISTRIBUTION OF PRODUCTS

Momentum Distribution Services ("MDS"), a division of Momentum Group Limited, distributes the products of Discovery Health, Momentum Wealth and RMB Unit Trusts in addition to those of Momentum Life. Fees received from these related parties for the distribution of products amounted to R66,6 million (1999: R57,4 million) for the year.

#### TRANSACTIONS WITH DIRECTORS

There were no material transactions with directors during the year to 30 June 2000.

All the above intergroup transactions are negotiated on an arm's length basis.

### 28. *Contingencies and commitments*

No material capital commitments existed at 30 June 2000 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.

### 29. *Retirement benefit information*

#### Staff pension funds

All full-time employees in Momentum Group are members of either defined benefit pension funds or defined contribution schemes that are governed by the Pension Funds Act. The Momentum Life Pension Fund and Southern Staff Pension Fund were valued by independent actuaries as at 1 July 1999 and 1 April 2000 respectively and were found to be in a sound financial position. The recommended employer contribution rate to the Momentum Life Pension Fund is 10% of pensionable salaries in order to meet the ongoing accrual of benefits. From 1 April 2000, all full-time employees who were members of the Southern Staff Pension Fund joined the FirstRand Insurance Group Pension Fund, a defined contribution scheme.

Contributions to the pension funds are charged against expenditure when incurred. Any deficits advised by the actuaries are funded either immediately or through increased contributions to ensure the ongoing soundness of the funds.

The assets of these schemes are held in administered trust funds separated from the group's assets. Scheme assets primarily consist of listed shares, fixed income securities and property investments.

#### Medical aid benefits

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.

### 30. *Comparative figures*

Comparative figures have been restated where applicable to afford a more meaningful comparison with the current year's figures.

## 31. Analysis of investments in subsidiaries and associate

| | Effective % holding 2000 % | Effective % holding 1999 % | Investment by holding company: Amounts owing by/(to) subsidiaries 2000 Rm | Amounts owing by/(to) subsidiaries 1999 Rm | Group carrying amount 2000 Rm | Group carrying amount 1999 Rm | Directors' valuation 2000 Rm | Directors' valuation 1999 Rm |
|---|---|---|---|---|---|---|---|---|
| **Subsidiaries (directly held):** | | | | | | | | |
| Southern Life Special Investments (Pty) Limited | **100** | 100 | **52,9** | 278,9 | **727,4** | 2 516,3 | **727,4** | 2 516,3 |
| Momentum Property Investments (Pty) Limited | **100** | 100 | **479,8** | 485,1 | **309,4** | 262,1 | **309,4** | 262,1 |
| Momentum Life Assurers Limited (previously Lifegro Assurance Limited) | **100** | 100 | **(56,1)** | (56,1) | **56,1** | 56,1 | **56,1** | 56,1 |
| Momentum Wealth (Pty) Limited | **100** | 100 | **53,3** | 44,8 | **15,0** | 5,3 | **210,0** | 160,0 |
| Momentum Advisory Service (Pty) Limited | **100** | 100 | **–** | – | **(5,8)** | (4,1) | **(5,8)** | (4,1) |
| Momentum Trust Limited | **–** | 100 | **–** | 4,4 | **–** | 0,4 | **–** | 0,4 |
| Discovery Holdings Limited | **64** | 75 | **1,4** | 0,5 | **381,4** | 228,8 | **2 780,0** | 925,0 |
| MC² Solutions (Pty) Limited | **–** | 100 | **–** | 52,8 | **–** | (37,1) | **–** | 120,0 |
| FirstRand Asset Management (Pty) Limited | **100** | 100 | **37,8** | 48,8 | **291,2** | 195,5 | **1 370,0** | 1 035,0 |
| RMB Properties (Pty) Limited | **100** | 100 | **5,4** | 11,4 | **31,4** | 14,2 | **60,0** | 50,0 |
| | | | **574,5** | 870,6 | **1 806,1** | 3 237,5 | **5 507,1** | 5 120,8 |
| **Associate:** | | | | | | | | |
| African Life Assurance Company Limited | **21** | 21 | **–** | – | **381,9** | 1 314,0 | **610,0** | 1 314,0 |

# *Report on the Embedded Value of Momentum Group*

This section of the annual report sets out the embedded value and the value of new insurance business of Momentum Group Limited ("Momentum Group") for the year ended 30 June 2000.

### *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
- 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)* | ***2000*** ***Rm*** | ***1999*** ***Rm*** |
|---|---|---|
| Shareholders' net assets | **6 803** | 5 731 |
| • Strategic investments | **5 030** | 3 484 |
| • Other discretionary investments | **1 773** | 2 247 |
| Value of in-force insurance business | **2 588** | 2 609 |
| • Value of in-force insurance business | **2 875** | 3 019 |
| • Opportunity cost of capital adequacy requirements | **(287)** | (410) |
| Embedded value | **9 391** | 8 340 |

*Notes:*

*The strategic investments reflected above represent the directors' valuations of the Momentum Group's investment in Momentum Wealth, RMB Properties, FirstRand Asset Management and the quoted market values of Discovery Health and African Life. More details regarding the directors' valuations and market values of these investments are disclosed in note 31 of the annual financial statements.*

### *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.

The value of new business shown in the tables below allows for revisions in fees to counteract the impact of the revised Four Fund Tax dispensation.

| *Value of new business (table 2)* | ***2000*** ***Rm*** | ***1999*** ***Rm*** |
|---|---|---|
| Value of new business: | **197** | 119 |
| • Individual life broker business | **156** | 135 |
| • Individual life field force | **(22)** | (60) |
| • Employee benefits | **63** | 44 |
| Opportunity cost of capital adequacy requirements | **(10)** | (15) |
| Value of new business | **187** | 104 |

### *EMBEDDED VALUE PROFIT*

Embedded value profit represents the change in embedded value over the year, adjusted for any capital raised and dividends paid. The embedded value profit for the year ended 30 June 2000 is set out below.

| *Embedded value profit (table 3)* | *Rm* |
|---|---|
| Embedded value as at 30 June 2000 | 9 391 |
| *Less:* Embedded value as at 30 June 1999 | 8 340 |
| Increase in embedded value | 1 051 |
| *Plus*: dividends declared | 861 |
| Embedded value profit | 1 912 |

| Components of the embedded value profit (table 4) | Rm | % return on embedded value |
|---|---|---|
| Value of new business | 187 | 2 |
| Expected profit on in-force business | 496 | 6 |
| Investment return on shareholders' net assets | 1 563 | 19 |
| Impact of new tax dispensation | (408) | (5) |
| Experience and other variations | 74 | 1 |
| Embedded value profit | 1 912 | 23 |

The expected profit on in-force 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 investment return on shareholders' net assets represents investment income and capital appreciation on the shareholders' net assets.

The revised Four Fund Tax basis is applicable to Momentum Group from 1 July 2000. The impact of the new tax dispensation represents the net effect of the increased tax payable as a result of the new tax dispensation, after allowing for the portion thereof to be borne by policyholders.

The experience and other variations represent the combined impact of differences between the actual and expected experience during the year, as well as changes in assumptions regarding future experience.

### 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 in the table that follows.

| Embedded value (table 5) | Risk discount rate 17% Rm | 18% Rm | 19% Rm |
|---|---|---|---|
| Shareholders' net assets | 6 803 | 6 803 | 6 803 |
| • Strategic investments | 5 030 | 5 030 | 5 030 |
| • Other discretionary investments | 1 773 | 1 773 | 1 773 |
| Value of in-force insurance business: | 2 861 | 2 588 | 2 308 |
| • Value of in-force insurance business | 3 017 | 2 875 | 2 712 |
| • Opportunity cost of capital adequacy requirements | (156) | (287) | (404) |
| Embedded value | 9 664 | 9 391 | 9 111 |

| Value of new business (table 6) | Risk discount rate 17% Rm | 18% Rm | 19% Rm |
|---|---|---|---|
| Value of new business | 208 | 197 | 186 |
| Opportunity cost of capital adequacy requirements | (5) | (10) | (15) |
| Value of new business (after opportunity cost) | 203 | 187 | 171 |

*Notes:*
*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 African Life.*

### ASSUMPTIONS

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:

| | 2000 % PA | 1999 % PA |
|---|---|---|
| Risk discount rate | **18** | 19 |
| Investment returns (before tax) | **16** | 17 |
| Expense inflation rate | **12** | 13 |

The investment return assumption of 16,0% per annum (1999: 17,0% per annum) was determined with reference to the market interest rate on South African government stocks at 30 June 2000. 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 14,7% per annum (1999: 15,6% per annum) on South African government stocks as at 30 June 2000:

| | % PREMIUM/ (DISCOUNT) |
|---|---|
| Equities | 2,0 |
| Properties | 1,0 |
| Government stocks | 0,0 |
| Other fixed interest stocks | 0,5 |
| Cash | (1,0) |

The assumed future expense inflation assumption of 12,0% per annum (1999: 13,0% per annum) was determined based on an assumed long-term differential relative to the assumed future investment return assumption of 16,0% per annum (1999: 17,0% per annum).

### 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 AIDS on a basis consistent with the recommendations of Professional Guidance Note (PGN) 105 of the Actuarial Society of South Africa.

### Expenses

The maintenance expense assumptions were based on the results of recently conducted internal expense investigations. 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 year ended 30 June 2000.

### Directors' valuations

The same directors' valuations were used for the subsidiaries and associate companies for purposes of the embedded value and the financial soundness valuation of Momentum Group.

The directors' valuation of FirstRand Asset Management as at 30 June 2000 excludes the value of any profits derived by managing assets on the balance sheet of Momentum Group. The value of asset management profits in respect of assets on the balance sheet of Momentum Group was included in the value of in-force insurance business and the value of new business.

The directors' valuation of Discovery Health as at 30 June 1999 was based on their embedded value. The corresponding directors' valuation as at 30 June 2000 was based on Discovery Health's share price as at 30 June 2000. The market value as at 30 June 2000 of the Momentum Group's holding in Discovery Health was included in the shareholders' net asset component of the embedded value. The value of the in-force insurance business of Discovery Health was therefore not included in the value of the in-force business of Momentum Group.

The directors' valuation of African Life was equated to Momentum Group's share of the market value of African Life as at 30 June 2000.

### *Reserving bases*

It was assumed that the current bases of calculating the policyholder liabilities would continue unchanged in future.

### *Surrender and paid-up bases*

It was assumed that the current surrender and paid-up bases would be maintained in future.

### *Tax*

Allowance was made for future tax based on the revised Four Fund Tax dispensation, which is applicable to Momentum Group from 1 July 2000. No allowance was made for the effect of the proposed Capital Gains Tax to be introduced in South Africa with effect from 1 April 2001. No allowance was made for Secondary Tax on Companies on future dividends payable to shareholders.

## *SENSITIVITIES*

This section illustrates the effect of different assumptions 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 7)* | *Value of in-force business Rm* | *Increase Rm* | *% increase* |
|---|---|---|---|
| Base value (Refer to table 1) | 2 588 | | |
| Renewal expenses reduced by 10% | 2 762 | 174 | 7 |
| Expense inflation reduced from 12% to 11% | 2 727 | 139 | 5 |
| Policy discontinuance rates reduced by 10% | 2 646 | 58 | 2 |
| Mortality experience improves by 5% | 2 766 | 178 | 7 |

| *Value of new business (table 8)* | *Value of new business Rm* | *Increase Rm* | *% increase* |
|---|---|---|---|
| Base value (Refer to table 2) | 187 | | |
| Renewal expenses reduced by 10% | 199 | 12 | 6 |
| Expense inflation reduced from 12% to 11% | 195 | 8 | 4 |
| Policy discontinuance rates reduced by 10% | 197 | 10 | 5 |

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.

## *REVIEW BY THE INDEPENDENT ACTUARIES*

Woodrow Milliman, an international firm of consulting actuaries, have reviewed in detail the methodology and assumptions underlying the calculation of the embedded value and the value of new business. They are satisfied that, based on the information supplied to them by Momentum Group, the methodology and assumptions are appropriate for the purpose of including the embedded value in this report, that these have been determined in accordance with generally accepted actuarial principles and that the approach has been applied consistently across the different business units.

# ADMINISTRATION

Momentum Group Limited
(Registration No 1904/002186/06)

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F D Jooste

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***Website***
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***Statutory Actuary***
N A S Kruger

***Auditors***
PricewaterhouseCoopers Incorporated
2 Eglin Road
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2157

FIRSTRAND

# APPENDICES AND SHAREHOLDER INFORMATION

## CONTENTS

# Appendix I — FirstRand Limited company financial statements

## Balance sheet

as at 30 June

| R million | Notes | Company 2000 | Company 1999 |
|---|---|---|---|
| ***Assets*** | | | |
| **Investments** | | **13 630,4** | 36 786,9 |
| Funds on deposits | | **4,2** | 6 976,8 |
| Government and public authority stocks | | **–** | 2 976,5 |
| Mortgages, debentures and other loans | 1 | **–** | 4 597,9 |
| Policy loans | | **–** | 145,8 |
| Equity investments | 2 | **–** | 12 108,1 |
| Subsidiaries | 3, 23 | **13 626,2** | 9 501,0 |
| Derivative assets | 4 | **–** | 171,8 |
| Property investments | 5 | **–** | 309,0 |
| Current assets | 6 | **–** | 1 179,0 |
| Loans | | **1 108,4** | – |
| Goodwill | | **–** | 136,3 |
| Fixed assets | 7 | **0,1** | 36,3 |
| **Total assets** | | **14 738,9** | 38 138,5 |
| ***Liabilities and shareholders' funds*** | | | |
| **Liabilities** | | | |
| Current liabilities | 8 | **605,4** | 819,6 |
| Derivative liabilities | 9 | **–** | 674,9 |
| Life insurance fund | 10 | **–** | 25 630,1 |
| **Total liabilities** | | **605,4** | 27 124,6 |
| **Shareholders' funds** | | | |
| Share capital and share premium | 11 | **9 594,9** | 8 486,5 |
| Convertible debentures | 12 | **–** | 350,0 |
| Reserves | 13 | **4 538,6** | 2 177,4 |
| **Total shareholders' funds** | | **14 133,5** | 11 013,9 |
| **Total liabilities and shareholders' funds** | | **14 738,9** | 38 138,5 |

*These annual financial statements have been prepared based on the High Court approval of the transfer of the Momentum Life business from FirstRand Limited to Momentum Group Limited, in terms of Section 37 of the Long-term Insurance Act, 1998. This transfer was effective 1 July 1999.*

# Income statement

for the year ended 30 June

| R million | Notes | Company 2000 | Company 1999 |
|---|---|---|---|
| **Income** | | | |
| Premium income | 14 | – | 9 297,7 |
| Investment income | 15 | 3 104,9 | 4 299,6 |
| | | 3 104,9 | 13 597,3 |
| **Outgo** | | | |
| Policyholder benefits | 16 | – | 4 911,2 |
| Taxation | 17 | 33,0 | 281,5 |
| Management and administration expenses | 18 | 16,1 | 244,7 |
| Commissions | | – | 309,1 |
| | | 49,1 | 5 746,5 |
| **Income less outgo** | | 3 055,8 | 7 850,8 |
| Capital appreciation on policyholders' and shareholders' assets for the year | | – | (15,7) |
| Transfer to the life fund | | – | (5 346,6) |
| **Earnings attributable to ordinary shareholders** | | 3 055,8 | 2 488,5 |
| Earnings per share (cents) | 20 | 56,1 | 45,7 |
| Headline earnings per share (cents) | 20 | 54,1 | 45,6 |
| Dividend per share (cents) | | 19,0 | 15,5 |

# Appendix I – FirstRand Limited company financial statements

## Cash flow statement

for the year ended 30 June

| R million | Notes | Company 2000 | Company 1999 |
|---|---|---|---|
| ***Cash flows from operating activities*** | | | |
| Cash generated by operations | A | 959,7 | 13 098,2 |
| Working capital changes | B | 20,7 | (381,1) |
| Cash inflow from operations | | 980,4 | 12 717,1 |
| Taxation paid | C | (40,0) | (203,5) |
| Dividends paid | D | (925,7) | (653,4) |
| **Net cash inflow from operating activities** | | 14,7 | 11 860,2 |
| ***Cash outflows from investment activities*** | | | |
| Investment activities | E | – | (8 943,4) |
| Net investment in subsidiaries | | (20,4) | (3 415,1) |
| Net purchase of fixed assets | | (0,1) | (41,2) |
| **Net cash outflow from investment activities** | | (20,5) | (12 399,7) |
| ***Cash outflows from financing activities*** | | | |
| Proceeds from issue of ordinary shares | F | – | (3,6) |
| **Net cash outflow from financing activities** | | – | (3,6) |
| **Total net decrease in cash and cash equivalents** | | (5,8) | (543,1) |
| **Cash and cash equivalents at beginning of the year** | | 6 976,8 | 7 519,9 |
| **Transfer of insurance business to Momentum Group Limited** | | (6 966,8) | – |
| **Cash and cash equivalents at end of the year** | | 4,2 | 6 976,8 |

for the year ended 30 June

| R MILLION | | COMPANY 2000 | COMPANY 1999 |
|---|---|---|---|
| **A.** | ***Cash generated by operations*** | | |
| | Net income after taxation attributable to shareholders | **3 055,8** | 2 488,5 |
| | Adjustment for non-cash items and taxation | **(2 096,1)** | 10 609,7 |
| | | **959,7** | 13 098,2 |
| **B.** | ***Working capital changes*** | | |
| | **CURRENT ASSETS** | | |
| | Increase in accrued investment income | **–** | (385,4) |
| | Decrease in premium debtors | **–** | 24,5 |
| | Increase in other debtors | **–** | (22,3) |
| | | **–** | (383,2) |
| | **CURRENT LIABILITIES** | | |
| | Increase in outstanding benefit payments | **–** | 19,5 |
| | Increase in creditors | **20,7** | 1,2 |
| | Decrease in other provisions | **–** | (18,6) |
| | | **20,7** | 2,1 |
| | Net working capital changes | **20,7** | (381,1) |
| **C.** | ***Taxation paid*** | | |
| | Balance at beginning of the year | **(152,3)** | (76,6) |
| | Transfer of insurance business to Momentum Group Limited | **112,3** | – |
| | Taxation charged for the year | **(33,0)** | (279,2) |
| | Balance at end of the year | **33,0** | 152,3 |
| | Taxation paid | **(40,0)** | (203,5) |
| **D.** | ***Dividends paid*** | | |
| | Balance at beginning of the year | **(435,6)** | (245,0) |
| | Dividends | **(1 034,6)** | (844,0) |
| | Balance at end of the year | **544,5** | 435,6 |
| | Dividends paid | **(925,7)** | (653,4) |
| **E.** | ***Investment activities*** | | |
| | Decrease in government and public authority stocks | **–** | 289,4 |
| | Increase in mortgages, debentures and other loans | **–** | (2 373,1) |
| | Decrease in policy loans | **–** | 20,2 |
| | Increase in equity investments | **–** | (7 242,6) |
| | Decrease in derivative instruments | **–** | 345,0 |
| | Decrease in property investments | **–** | 17,7 |
| | | **–** | (8 943,4) |
| **F.** | ***Proceeds from issue of ordinary shares*** | | |
| | Share issue expenses | **–** | (3,6) |

## APPENDIX I — FIRSTRAND LIMITED COMPANY FINANCIAL STATEMENTS

## STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June

| R MILLION | SHARE CAPITAL (NOTE 11) | SHARE PREMIUM (NOTE 11) | CONVERTIBLE DEBENTURES (NOTE 12) | RETAINED EARNINGS (NOTE 13) | NON-DISTRIBUTABLE RESERVES (NOTE 13) | TOTAL SHAREHOLDERS' FUNDS |
|---|---|---|---|---|---|---|
| **BALANCE AT 1 JULY 1998** | | | | | | |
| As previously stated | 54,4 | 8 435,7 | 350,0 | 281,1 | 223,2 | 9 344,4 |
| Changes in accounting policies | | | | | | |
| Associates income | – | – | – | 31,6 | (31,6) | – |
| **RESTATED BALANCE AT 1 JULY 1998** | 54,4 | 8 435,7 | 350,0 | 312,7 | 191,6 | 9 344,4 |
| Net gains or losses not recognised in the income statement | – | – | – | – | 28,6 | 28,6 |
| Earnings attributable to shareholders | – | – | – | 2 488,5 | – | 2 488,5 |
| Dividends | – | – | – | (844,0) | – | (844,0) |
| Transfer (to)/from reserves | – | – | – | (7,0) | 7,0 | – |
| Share issue expenses | – | (3,6) | – | – | – | (3,6) |
| **BALANCE AT 30 JUNE 1999** | 54,4 | 8 432,1 | 350,0 | 1 950,2 | 227,2 | 11 013,9 |
| **BALANCE AT 1 JULY 1999** | **54,4** | **8 432,1** | **350,0** | **1 950,2** | **227,2** | **11 013,9** |
| Preference shares issued | **1,4** | **1 107,0** | **–** | **–** | **–** | **1 108,4** |
| Transfer of insurance business to Momentum Group Limited | **–** | **–** | **(350,0)** | **350,0** | **–** | **–** |
| Net gains or losses not recognised in the income statement | **–** | **–** | **–** | **–** | **(10,0)** | **(10,0)** |
| Earnings attributable to shareholders | **–** | **–** | **–** | **3 055,8** | **–** | **3 055,8** |
| Dividends | **–** | **–** | **–** | **(1 034,6)** | **–** | **(1 034,6)** |
| Transfer (to)/from reserves | **–** | **–** | **–** | **(39,5)** | **39,5** | **–** |
| **BALANCE AT 30 JUNE 2000** | **55,8** | **9 539,1** | **–** | **4 281,9** | **256,7** | **14 133,5** |

| R MILLION | COMPANY 2000 | COMPANY 1999 |
|---|---|---|
| **1. Mortgages, debentures and other loans** | | |
| Debentures | – | 1 085,6 |
| Other loans | – | 3 512,3 |
| | – | 4 597,9 |
| **2. Equity investments** | | |
| Listed – at market value | – | 11 648,1 |
| Unlisted – at directors' valuation | – | 460,0 |
| | – | 12 108,1 |
| Investment in listed shares were distributed as follows: | % | % |
| Mining | – | 1 |
| Gold | – | 1 |
| Financial – Mining houses | – | 5 |
| Financial – Other | – | 22 |
| Industrial | – | 31 |
| Overseas investments | – | 14 |
| Unit trusts | – | 23 |
| Other | – | 3 |
| | – | 100 |
| **3. Investment in subsidiaries** | | |
| Shares at net asset value | 13 605,8 | 8 934,4 |
| Amounts owing by subsidiaries | 20,4 | 566,6 |
| | 13 626,2 | 9 501,0 |
| **4. Derivative assets** | | |
| Interest-bearing instruments | – | 11,9 |
| Equity instruments | – | 159,9 |
| | – | 171,8 |
| **5. Property investments** | | |
| Fixed property | – | 297,4 |
| Listed property equities | – | 11,6 |
| | – | 309,0 |
| A register detailing the fixed property is available for inspection at the company's registered address. | | |

# Appendix I — FirstRand Limited company financial statements

## Notes to the annual financial statements

for the year ended 30 June

| R million | Company 2000 | Company 1999 |
|---|---|---|
| **6. Current assets** | | |
| Accrued investment income | – | 1 094,5 |
| Premium debtors | – | 41,7 |
| Other debtors | – | 42,8 |
| | – | 1 179,0 |
| **7. Fixed assets** | | |
| Computers, furniture, equipment and motor vehicles | | |
| Cost | 0,1 | 132,4 |
| Accumulated depreciation | – | 96,1 |
| Net book value | 0,1 | 36,3 |
| **8. Current liabilities** | | |
| Outstanding benefit payments | – | 67,4 |
| Dividends payable | 544,5 | 435,6 |
| Creditors | 27,9 | 153,4 |
| Provisions | – | 10,9 |
| Taxation | 33,0 | 152,3 |
| | 605,4 | 819,6 |
| **9. Derivative liabilities** | | |
| Interest-bearing instruments | – | 423,6 |
| Equity instruments | – | 251,3 |
| | – | 674,9 |
| **10. Life insurance fund** | | |
| The movements in the life insurance fund for the year are as follows: | | |
| Balance at beginning of year | 25 630,1 | 20 283,5 |
| Transfer of insurance business to Momentum Group Limited | (25 630,1) | – |
| Transfer from income statement | – | 5 346,6 |
| Balance at end of year | – | 25 630,1 |

| R million | Company 2000 | Company 1999 |
|---|---|---|
| **10. *Life insurance fund (continued)*** | % | % |
| Actuarial liabilities under unmatured policies comprise the following: | | |
| Linked (market related) business | | |
| Individual life | – | 34,3 |
| Employee benefits | – | 32,6 |
| With-profits (smoothed-bonus) business | | |
| Individual life | – | 19,9 |
| Employee benefits | – | 0,1 |
| Reversionary bonus business | – | 1,6 |
| Non-profit business | | |
| Individual life | – | 2,4 |
| Employee benefits | – | 0,4 |
| Annuity business | – | 8,7 |
| | – | 100,0 |
| **11. *Share capital and share premium*** | | |
| **Share capital** | | |
| Authorised | | |
| 6 228 000 000 ordinary shares of 1 cent each (1999: 6 500 000 000) | **62,3** | 65,0 |
| 272 000 000 "A" variable rate, convertible, redeemable, cumulative preference shares of 1 cent each (1999: nil) | **2,7** | – |
| Issued | | |
| Balance at beginning of the year: | | |
| 5 445 303 089 ordinary shares of 1 cent each (1999: 5 445 303 089) | **54,4** | 54,4 |
| Shares issued during the year | | |
| 136 000 000 "A" variable rate, convertible, redeemable, cumulative preference shares of 1 cent each | **1,4** | – |
| | **55,8** | 54,4 |
| **Share premium** | | |
| Balance at beginning of year | **8 432,1** | 8 435,7 |
| Arising on the issue of ordinary shares | | |
| Share issue expenses | – | (3,6) |
| Arising on the issue of preference shares | **1 107,0** | – |
| | **9 539,1** | 8 432,1 |
| **Share capital and share premium** | **9 594,9** | 8 486,5 |
| **Share option scheme** | | |
| Number of options in force at end of year (millions) | – | 56,6 |
| Granted at prices ranging between (cents) | – | 165–990 |
| Number of options granted during year (millions) | – | 33,5 |
| Price at which granted (cents) | – | 527–990 |
| Number of options exercised/released during year (millions) | – | 12,1 |
| Market value range at date of exercise (cents) | – | 519–940 |
| Number of remaining shares available for future options (millions) | – | 4,1 |
| Value of company loan to share option trust (R million) | – | 301,7 |

# Appendix I — FirstRand Limited company financial statements

## Notes to the annual financial statements

for the year ended 30 June

| R million | Company 2000 | Company 1999 |
|---|---|---|
| **12. Convertible debentures** | | |
| Fixed rate unsecured subordinated compulsorily convertible debentures | – | 350,0 |
| **13. Reserves** | | |
| **Retained earnings** | | |
| Retained earnings at beginning of the year | 1 950,2 | 312,7 |
| Transfer of insurance business to Momentum Group Limited | 350,0 | – |
| Earnings attributable to ordinary shareholders | 3 055,8 | 2 488,5 |
| Dividend for the year | (1 034,6) | (844,0) |
| Transfer to non-distributable reserves | (39,5) | (7,0) |
| | 4 281,9 | 1 950,2 |
| **Non-distributable reserves** | | |
| Non-distributable reserves relating to: | | |
| **Banking operations** | 189,8 | 210,3 |
| Currency translation reserve | 220,2 | 157,3 |
| Revaluation of investments | 0,1 | 1,1 |
| Other | (30,5) | 51,9 |
| **Insurance operations** | 66,9 | 16,9 |
| Unrealised surplus on revaluation of investment assets | 5,6 | 4,0 |
| Currency translation reserve | 9,0 | (1,0) |
| Reserve on capitalisation of subsidiary | 50,8 | 11,3 |
| Other | 1,5 | 2,6 |
| | 256,7 | 227,2 |
| **Total reserves** | 4 538,6 | 2 177,4 |

| R MILLION | COMPANY 2000 | COMPANY 1999 |
|---|---|---|
| **14. Premium income** | | |
| **INDIVIDUAL LIFE** | – | 4 391,1 |
| Single premiums | – | 627,8 |
| Recurring premiums | – | 1 233,4 |
| Unit linked annuities | – | 1 593,6 |
| Annuities | – | 936,3 |
| **CORPORATE BUSINESS** | | |
| Investment funds | – | 564,5 |
| **TOTAL PREMIUMS RECEIVED IN RESPECT OF INDIVIDUAL LIFE BUSINESS** | – | 4 955,6 |
| **EMPLOYEE BENEFITS BUSINESS** | – | 4 342,1 |
| Investment lump sums | – | 838,1 |
| Transfer from off-balance sheet funds | – | 3 388,2 |
| Recurring premiums | – | 115,8 |
| **TOTAL PREMIUM INCOME** | – | 9 297,7 |
| Funds retained through the extension of the policy term for the year ended 30 June 1999 amounted to R364,0 million. These funds are not included in the individual life single premium income figures above. | | |
| **15. Investment income** | | |
| Investment income earned in respect of: | | |
| Dividends – listed shares | – | 178,6 |
| Dividends – unlisted shares | 959,1 | 2 372,5 |
| Net rental income from property investments | – | 15,0 |
| Interest-bearing investments and income from subsidiaries | 2 145,8 | 1 733,5 |
| | 3 104,9 | 4 299,6 |
| **16. Policyholder benefits** | | |
| **INDIVIDUAL LIFE BUSINESS** | | |
| Benefits in respect of individual life policies | – | 1 029,1 |
| Death | – | 166,1 |
| Disability | – | 27,9 |
| Maturities | – | 269,3 |
| Surrenders | – | 565,8 |
| **BENEFITS IN RESPECT OF UNIT LINKED ANNUITIES** | – | 268,0 |
| Lump sum annuities | – | 610,8 |
| Annuities paid | – | 581,1 |
| Commutations | – | 29,7 |
| Corporate business | – | 481,1 |
| Surrenders | – | 12,3 |
| Maturities | – | 468,8 |
| **TOTAL BENEFITS PAID IN RESPECT OF INDIVIDUAL LIFE BUSINESS** | – | 2 389,0 |

# Appendix I — FirstRand Limited company financial statements

## Notes to the annual financial statements

for the year ended 30 June

| R million | Company 2000 | Company 1999 |
|---|---|---|
| **16. Policyholder benefits (continued)** | | |
| **Employee benefits business** | | |
| Benefits in respect of risk and administration business | – | 71,2 |
| Death | – | 38,3 |
| Disability | – | 13,5 |
| Maturities | – | 0,2 |
| Member withdrawals | – | 9,9 |
| Scheme terminations and investment withdrawals | – | 8,3 |
| Annuities | – | 1,0 |
| Investment funds | – | 2 451,0 |
| Withdrawals | – | 1 385,7 |
| Transfers to off-balance sheet funds | – | 1 065,3 |
| **Total benefits paid in respect of employee benefits business** | – | 2 522,2 |
| **Total benefits paid** | – | 4 911,2 |
| **17. Taxation** | | |
| South African normal taxation | | |
| Current | – | 94,6 |
| Secondary taxation on companies (“STC”) | 33,0 | 54,2 |
| Retirement fund taxation | – | 63,3 |
| Stamp duty | – | 17,8 |
| Other taxes and levies | – | 51,6 |
| | 33,0 | 281,5 |
| Other taxes and levies consist of Greater Metropolitan Transitional Council levies, Financial Services Board levies and value-added tax. | | |

| R MILLION | COMPANY 2000 | COMPANY 1999 |
|---|---|---|
| **18. Management and administration expenses** | | |
| Included in management and administration expenses are the following: | | |
| **AUDITORS' REMUNERATION** | | |
| Audit fees – current year | 0,4 | 1,0 |
| – underprovision prior year | – | 0,9 |
| Fees for other services | – | 0,6 |
| | 0,4 | 2,5 |
| **DEPRECIATION** | | |
| Equipment – owned | – | 13,9 |
| Vehicles – owned | – | 0,1 |
| | – | 14,0 |
| **OPERATING LEASE CHARGES** | | |
| Land and buildings | 0,4 | 3,4 |
| Equipment | 0,5 | 2,7 |
| | 0,9 | 6,1 |
| **INTEREST PAID** | | |
| Convertible debentures | – | 70,0 |
| **19. Dividends** | | |
| An interim dividend of 9,0 cents (1999: 7,5 cents) per share was declared on 29 February 2000 in respect of the six months ended 31 December 1999, payable to shareholders registered in the books of the company at the close of business on 17 March 2000. | 490,1 | 408,4 |
| A final dividend of 10,0 cents (1999: 8,0 cents) per share was declared on 7 September 2000, payable to shareholders registered in the books of the company at the close of business on 13 October 2000. | 544,5 | 435,6 |
| | 1 034,6 | 844,0 |

## 20. 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 R3 055,8 million (1999: R2 488,5 million) and the weighted average number of ordinary shares in issue during the year amounted to 5 445 303 089 (1999: 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.

## Notes to the annual financial statements

for the year ended 30 June

| R million | Company 2000 | Company 1999 |
|---|---|---|
| **20. Earnings per share (continued)** | | |
| **Headline earnings reconciliation** | | |
| Earnings attributable to ordinary shareholders | 3 055,8 | 2 488,5 |
| Disposal of shares in subsidiary | (149,5) | – |
| Once-off effect of transitional tax attributable to prior years | 34,6 | – |
| Portion of goodwill written off | 6,3 | 1,8 |
| Loss on disposal of subsidiary and joint venture | – | 5,8 |
| Release of provisions made on disposal of joint venture | – | (14,5) |
| Headline earnings attributable to ordinary shareholders | 2 947,2 | 2 481,6 |

### 21. Comparative figures

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

### 22. Deferred taxation

A deferred taxation liability amounting to R68,7 million has been recognised by the valuator in the actuarial valuation for the year ended 30 June 1999 and is included in the life insurance fund in note 10. This liability has been assessed and is considered adequate. No additional liability has been raised for deferred taxation in the financial statements.

| | Effective percentage holding 2000 % | 1999 % | Investment of holding company: Amounts owing by/(to) subsidiaries 2000 Rm | 1999 Rm | Shares at net asset value 2000 Rm | 1999 Rm |
|---|---|---|---|---|---|---|
| **23. Analysis of investment in subsidiaries** | | | | | | |
| **Banking operations** | | | | | | |
| FirstRand Bank Holdings Limited | **100** | 100 | **38,0** | (1,4) | **7 464,5** | 5 736,0 |
| **Insurance operations** | | | | | | |
| Momentum Group Limited | **100** | – | **(17,6)** | – | **6 141,3** | – |
| The Southern Life Association Limited | **–** | 100 | **–** | – | **–** | 2 530,2 |
| Momentum Property Investments (Pty) Limited | **–** | 100 | **–** | 485,1 | **–** | 262,1 |
| Momentum Life Assurers Limited (previously Lifegro Assurance Limited) | **–** | 100 | **–** | (56,1) | **–** | 56,1 |
| Momentum Wealth (Pty) Limited | **–** | 100 | **–** | 44,8 | **–** | 5,3 |
| Momentum Advisory Service (Pty) Limited | **–** | 100 | **–** | – | **–** | (4,1) |
| Momentum Trust Limited | **–** | 100 | **–** | 4,4 | **–** | 0,4 |
| Discovery Holdings Limited | **–** | 75 | **–** | 0,5 | **–** | 228,8 |
| $MC^2$ Solutions (Pty) Limited | **–** | 100 | **–** | 52,8 | **–** | (37,1) |
| RMB Asset Management (Pty) Limited | **–** | 100 | **–** | 25,1 | **–** | 142,5 |
| RMB Properties (Pty) Limited | **–** | 100 | **–** | 11,4 | **–** | 14,2 |
| | | | **(17,6)** | 568,0 | **6 141,3** | 3 198,4 |
| | | | **20,4** | 566,6 | **13 605,8** | 8 934,4 |
| Total interest in subsidiaries | | | | | **13 626,2** | 9 501,0 |

# Appendix 2
# Directors' details

### Gerrit Thomas Ferreira (52)
*BCom (Hons), B (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 Limited ("RCI") in 1977. RCI acquired control of Rand Merchant Bank Limited ("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 Limited and FirstRand Limited. He serves on several other boards, including the Industrial Development Corporation, Malbak Limited, University of Stellenbosch and Glenrand MIB Limited.

### Michael Wallis King (63)
*CA(SA), FCA*
*Deputy Chairman*

Mike King was educated at St John's College and the University of Witwatersrand, and qualified as a chartered accountant with Deloittes (now Deloitte and Touche). In 1961 he joined Union Acceptances Limited (now Nedcor Investment Bank). He was Deputy Managing Director from 1972 to 1974 when he left to join Anglo American Corporation of South Africa Limited. He became Deputy Chairman of the Corporation in 1997 and Vice-Chairman of Anglo American plc in 1999, and is also a member of both companies' executive committees. He is a director of a number of group companies.

### Lauritz Lanser Dippenaar (51)
*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 Limited ("RCI"). RCI acquired control of Rand Merchant Bank Limited ("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 Limited ("RMBH") acquired a controlling interest in Momentum Life Assurers Limited, the fifth largest insurance company in South Africa at that time, and he was appointed as Executive Chairman of that company, a position he held until being appointed Chief Executive Officer of FirstRand Limited. He is also a Director of RMBH as well as various other group companies.

### Barry Hilton Adams (64)
*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 also a Non-Executive Director of a number of other companies including Tiger Brands Limited, Glenrand MIB Limited and Non-executive Chairman of Specialised Outsourcing Limited.

### Vivian Wade Bartlett (57)
*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 Limited in 1996. He now holds the position of Deputy Chief Executive Officer of FirstRand Bank Limited and is also a Director of FirstRand Bank Holdings Limited and Momentum Group Limited, as well as various other group companies. He is Chairman of the CEMEA Regional Board of Visa and an Executive Committee member of Visa International. He is also the current Chairman of the Banking Council of South Africa.

### David John Alistair Craig (52)
*British*

David Craig was educated at Ampleforth College, York, UK 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. 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 Limited. Since 1996 he has been an Executive of Culross Global Management and now serves as Chairman of Numis Corporation Limited, a UK quoted financial group, and as a Non-Executive Director of Savills plc in the United Kingdom. He is also a founder Chief Executive Officer of OperadiO.com Limited and a director of ukphonebook.com Limited, both based in the UK.

### Patrick Maguire Goss (52)
*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 in the Hague and Basle. He thereafter qualified as a chartered accountant with Ernst and Young and then joined the Industrial Development Corporation. In 1977 he was a co-founder of Rand Consolidated Investments Limited ("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 Cash and Carry (Pty) Limited. He has been a Non-Executive Director of RMB Holdings Limited and Rand Merchant Bank Limited since 1985 and other prominent board memberships include Anglovaal Industries Limited, McCarthy Retail Limited and Relyant Retail Limited.

### Paul Kenneth Harris (50)

*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 Limited ("RCI"). RCI acquired control of Rand Merchant Bank Limited ("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 now been appointed as the Chief Executive Officer of FirstRand Bank Limited and also serves on the boards of various other group companies.

### Sathyandranath Ragunanan Maharaj (65)

*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, a detainee, political prisoner, an exile and an underground commander, and then 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 Limited.

### George Rupert Pardoe (43)

*BA (Hons) (Cum Laude)*

Rupert Pardoe was educated at Diocesan College (Bishops) in Cape Town and graduated at the University of Cape Town. He completed his honours degree, cum laude, at the University of South Africa and did one year's post-graduate research in political economy at the University of Paris before joining the Anglo American Corporation of South Africa Limited ("AAC") in 1981. Part of his training involved secondment to a firm of stockbrokers on the Johannesburg Stock Exchange and to merchant bankers, SG Warburg & Company Limited, in London. He was appointed Finance Director of Anglo American Industrial Corporation in 1995 and has been Finance Director of AAC since 1997. He is Chairman of the audit committees of FirstRand Bank Limited and Rand Merchant Bank.

### Khehla Cleopas Shubane (44)

*BA (Hons)*

Khehla Shubane graduated at the University of the Witwatersrand and then registered at the University of the North. He was arrested for political reasons and spent five years on Robben Island, whereafter 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 Open Society Foundation for South Africa, Board of Control for the Centre for Policy Studies and the Board of the National Housing Forum. He was appointed as a Director of RMB Holdings Limited, Rand Merchant Bank Limited and Momentum Life Assurers Limited in 1993.

### Benedict James van der Ross (53)

*Dip Law (UCT)*

Ben van der Ross completed a diploma in Law at the University of Cape Town, whereafter he was admitted to the Cape Side Bar as an Attorney and Conveyancer. Thereafter he practised 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 Limited in 1986 and is also a Non-Executive Director of SA Rail Commuter Corporation, Nasionale Pers Beperk and Pick 'n Pay Stores Limited. He is also chairman of Western Cape Property Company Limited.

### Robert Albert Williams (59)

*BA, LLB*

Robbie Williams qualified at the University of Cape Town and joined Barlows Manufacturing Company where he became the Managing Director in 1979. In 1983 he was appointed Chief Executive Officer of Tiger Oats Limited and in 1985 assumed Chairmanship of CG Smith Foods and Tiger Oats Limited and was appointed to the board of Barlow Rand Limited. Following the unbundling of CG Smith Limited, he is currently chairman of Tiger Brands Limited and Illovo Sugar Limited. He has been on the board of FirstRand Bank Limited (formerly First National Bank of Southern Africa Limited) since 1988 and also serves on the board of Mutual & Federal Assurance Company Limited.

# NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the third annual general meeting of FirstRand Limited will be held in the auditorium, 18th Floor, 1 Merchant Place, Corner Fredman Drive and Rivonia Road, Sandton, on 27 November 2000 at 09:30.

## AGENDA

1. To receive and consider the annual financial statements for the year ended 30 June 2000 and the reports of the directors and the auditors thereon.

2. To elect directors in the place of the following directors who retire in terms of the articles of association of the company:

   Messrs V W Bartlett, D J A Craig, P M Goss and M W King

   These directors are all eligible and available for re-election.

3. To confirm the directors' fees paid by the company for the year ended 30 June 2000 and to determine any change therein for the year commencing 1 July 2000.

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 2000.

6. ***SPECIAL BUSINESS***

6.1 To consider and, if approved, pass the following special resolution, with or without amendments, to give a general authority until the forthcoming annual general meeting for the company to repurchase its own shares.

***Resolved:***

That, subject to the provisions of the Companies Act, 61 of 1973, as amended, and the Listings Requirements of the Johannesburg Stock Exchange ("JSE"), 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 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 10% 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 5% above the weighted average of the market value for the securities for the five business days immediately preceding the date of repurchases;
- the consolidated assets of the company, fairly valued in accordance with Generally Accepted Accounting Practice, will be in excess of the consolidated liabilities of the company;
- the company will have adequate capital; and
- the working capital of the company will be adequate for the next year's operations.

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, to approve the purchase of its own shares by the company, subject to the limitations included in the special resolution.

6.2 To consider and, if approved, pass the following resolutions as ordinary resolutions, with or without amendment, placing the unissued shares under control of the directors and giving a specific authorisation for the directors to issue shares for cash.

***Resolved:***

6.2.1 That the unissued shares in the company be and are hereby placed under control of the directors until the forthcoming annual general meeting and that they be and are hereby authorised to issue any such shares as they may deem fit, subject to the Companies Act, 1973, and the articles of association of the company.

6.2.2 That the directors of the company be given the specific authority in terms of the Listings Requirements of the JSE to issue 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 10% of the number of ordinary shares of the company's share capital provided further that such issues shall not in aggregate in any three-year period exceed 15% of the company's issued ordinary 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 30 days prior to the date of the issues determined or agreed by the directors; and

- that the issue must be made to public shareholders as defined by paragraph 4.22 of the JSE Listing Requirements.

### *Please note*

1. A member entitled to attend and vote at the annual general meeting 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/her stead.

2. In the event of a poll, a shareholder or his/her proxy shall have one vote for every share held.

3. The signed proxy must reach the offices of the company not later than 48 hours before commencement of the meeting.

By order of the board

P F de Beer (FCIS)
*Company Secretary*

7 September 2000

## Analysis of major shareholders

| Name | Number of shares | % of issued shares |
|---|---|---|
| RMB Holdings Limited | 1 362 766 806 | 25,03 |
| Anglo American Corporation of SA Limited | 1 119 681 425 | 20,56 |
| Standard Bank Nominees (Tvl) (Pty) Limited | 945 579 198 | 17,37 |
| NedcorBank Nominees (Pty) Limited | 417 004 907 | 7,66 |
| First National Nominees (Pty) Limited | 411 792 375 | 7,56 |
| CMB Nominees (Pty) Limited | 202 796 200 | 3,72 |
| De Beers Holdings (Pty) Limited | 167 543 133 | 3,08 |

RMB Holdings Limited and Anglo American Corporation of SA Limited are the only shareholders who beneficially hold more than 5% of the issued ordinary shares in the company. The nominee companies mentioned above are registered shareholders in the company, but hold the shares on behalf of other beneficial owners, none of which individually own more than 5%.

## Performance on the Johannesburg Stock Exchange

for the year ended 30 June 2000

| | **2000** | 1999 |
|---|---|---|
| Shares traded ('000) | **1 323 013** | 1 318 444 |
| Price (cents) | | |
| – Highest | **1 010** | 1 060 |
| – Lowest | **550** | 380 |
| – Closing price | **700** | 690 |

# PROXY FORM

(Reg No 1966/010753/06)

I/We, the undersigned

of

being the registered holders of

ordinary shares in FirstRand Limited, hereby appoint/s (see note 1)

1. or failing him/her

2. or failing him/her

3. the chairperson of the meeting as my proxy to be present and act on my behalf, speak and, on a poll, vote on my behalf as indicated below at the annual general meeting of shareholders of the company to be held at 09:30 on Monday, 27 November 2000, and at any adjournment thereof (see Note 2).

| | | 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 | | | |
| 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 giving general authority until next annual general meeting for company to repurchase its own shares | | | |
| 6.2.1 | Resolution to place unissued shares under control of directors | | | |
| 6.2.2 | Resolution giving specific authority in terms of the Listings Requirements of the JSE for directors to issue ordinary shares for cash | | | |

Instructions to my proxy are indicated by the number of shares into the appropriate boxes.

2000

Signature of registered shareholder (assisted by me as applicable)

Date

**PLEASE SEE NOTES ON REVERSE SIDE OF THE FORM**

## *NOTES*

1. Each 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 in a poll, vote in place of that ordinary shareholder at the general meeting, by inserting the name of a proxy or the names of two alternate proxies of the ordinary shareholder's choice in the space provided, with or without deleting "the chairman of the general meeting". The person whose name stands first on the form of proxy and who is present at the general meeting will be entitled to act as proxy to the exclusion of those whose names follow.

2. 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 general 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 shareholders' votes exercisable thereat.

3. An ordinary shareholder or his/her proxy is not obliged to vote in respect of all the ordinary shares held or represented by him/her 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 this proxy is entitled.

4. Forms of proxy duly completed and signed by the shareholder (and accompanied by a notarially certified copy of the power of attorney authorising the signature, where applicable) must be lodged with or posted to Computershare Services Limited, 2nd Floor, Edura Building, 41 Fox Street, Johannesburg, 2001 (PO Box 61051, Marshalltown, 2107), to be received not later than 16:00 on Wednesday, 22 November 2000. Proxies not deposited timeously shall be treated as invalid.

5. The completion and lodging of this form of proxy will not preclude the relevant ordinary shareholder from attending the general 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.

# Shareholders' diary

**Reporting**

| | |
|---|---|
| Financial year-end | 30 June 2000 |
| Announcement of results for 2000 | 7 September 2000 |
| Annual report posted by | 31 October 2000 |
| Annual general meeting | 27 November 2000 |

**Dividends**

Final for 2000:

| | |
|---|---|
| – Declared | 7 September 2000 |
| – Last day to register | 13 October 2000 |
| – Payable | 31 October 2000 |

**Interim for 2001**

| | |
|---|---|
| – To be declared | February 2001 |
| – To be payable | March 2001 |

# Administration

**Administration**
FirstRand Limited
(Registration No 1966/010753/06)

**Company secretary**
P F de Beer (FCIS)

**Registered office**
17th Floor
1 Merchant Place
Cnr Fredman Drive & Rivonia Road
Sandton
2196

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2146

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**Telefax**
National (011) 282-8065
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**Website**
www.firstrand.co.za

**Transfer secretaries**
Computershare Services Limited
2nd Floor, Edura Building
41 Fox Street
Johannesburg
2001

PO Box 61051
Marshalltown
2107

Telephone No: +27 11 370-7700
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**Auditors**
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GRAPHICOR
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