FIRSTRAND

1998

ANNUAL REPORT

Contents

FIRSTRAND LIMITED

Registration number 66/10753/06

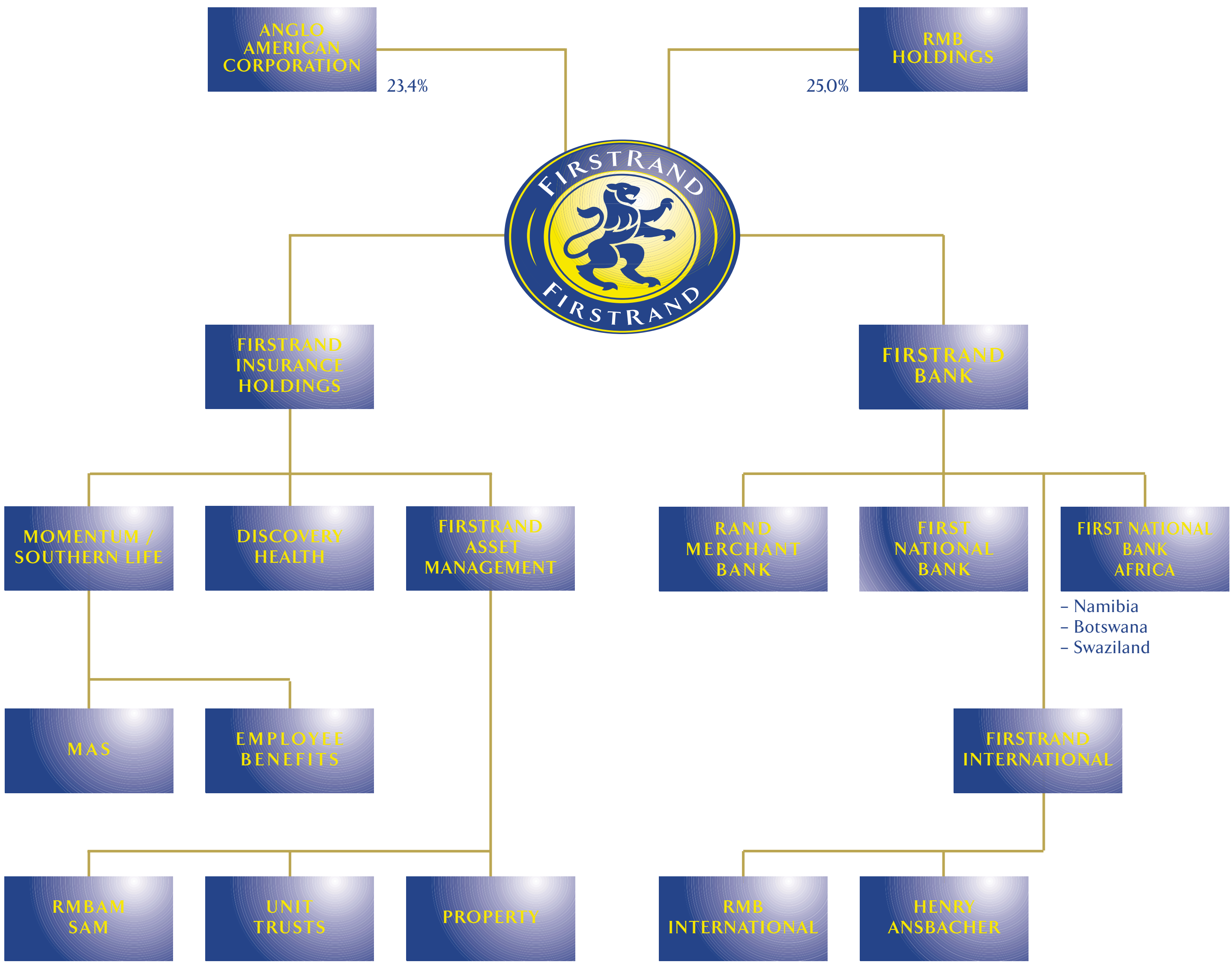
Business Philosophy

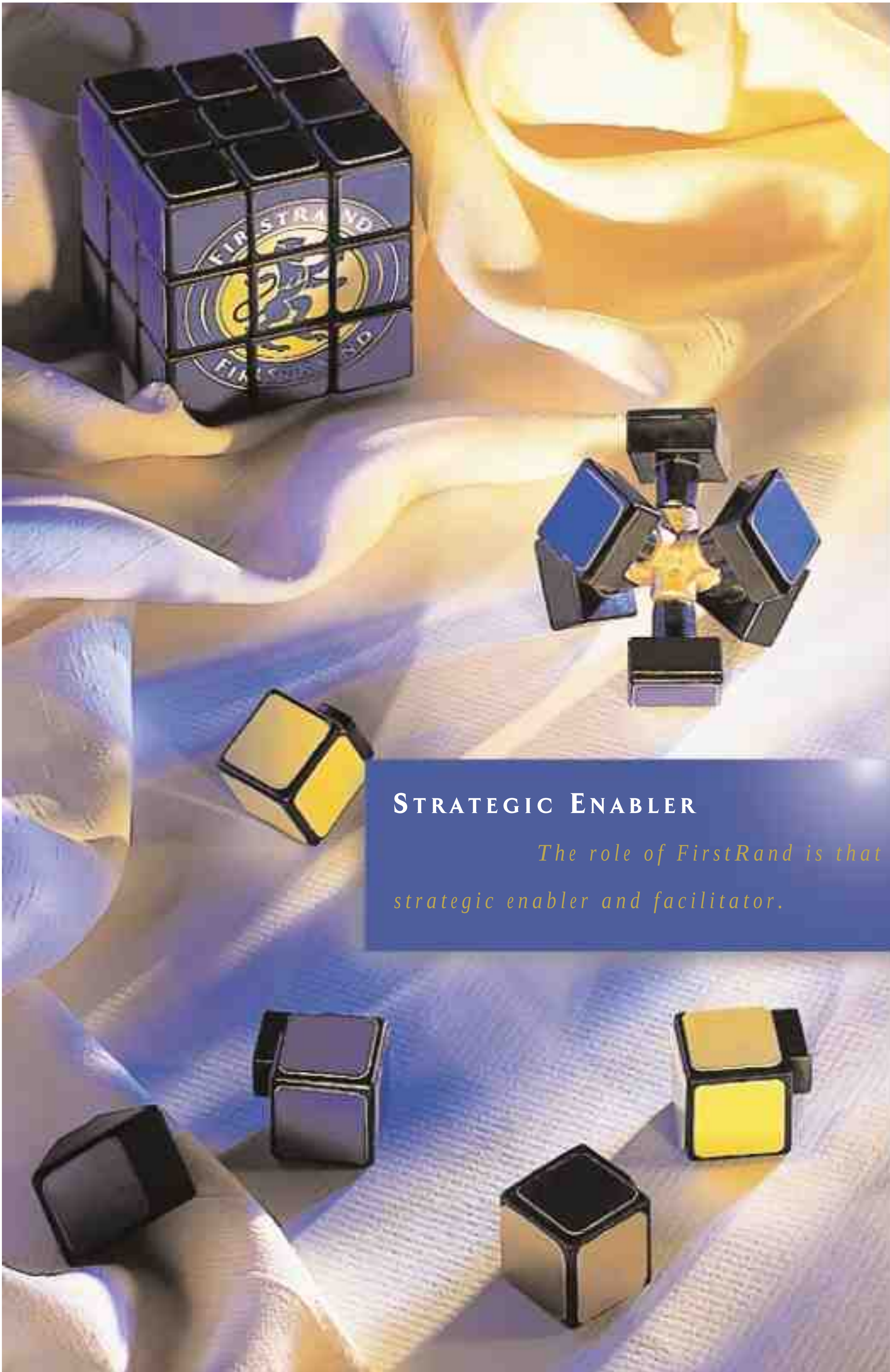
FirstRand is a unique "federation" of business entities, held together by a shared business philosophy which has its roots in an entrepreneurial culture. Its components are distinctly autonomous with an owner-manager culture. They are first league players that focus on their area of expertise and are able to leverage off the skills of their team mates. There is an interdependence that is clearly understood due to the vigorous debate of the business case; which option generates the maximum sustainable profitability.

Operating Structure

The entities within the FirstRand Group report for operational effectiveness into FirstRand Insurance Holdings and FirstRand Bank.

These two coordinating and operating units enable FirstRand to direct the two divisions which have separate but complementary strategies.





Strategic Enabler

The role of FirstRand is that of a strategic enabler and facilitator.

Directors of FirstRand Limited

G T Ferreira
(50)
Chairman
Chairman, RMB Holdings Limited

M W King
(61)
Deputy Chairman
Deputy Chairman, Anglo American Corporation of S.A. Limited

L L Dippenaar
(49)
Chief Executive Officer

B H Adams
(62)
Director of Companies

V W Bartlett
(55)
Chief Executive Officer, First National Bank of Southern Africa Limited

J R Calitz
(55)
Deputy Chairman, Southern Life and Momentum Life

D J A Craig*
(50)
Director of companies

P M Goss
(50)
Director of companies

P K Harris
(48)
Chief Executive Officer, Rand Merchant Bank Limited

G R Pardoe
(41)
Finance Director, Anglo American Corporation of S.A. Limited

K C Shubane
(42)
Senior Researcher, Centre for Policy Studies

B J van der Ross
(51)
Director of companies

R A Williams
(57)
Vice-chairman, C G Smith Limited

** British*

From back to front:
J R Calitz, D J A Craig
P M Goss, R A Williams
K C Shubane, B H Adams, G R Pardoe
B J van der Ross
P K Harris, L L Dippenaar, V W Bartlett
M W King, G T Ferreira

Executive Committee

L L Dippenaar
(49)
Chief Executive Officer

A H Arnott
(51)
Chief Financial Officer

V W Bartlett
(55)
Chief Executive Officer, First National Bank of Southern Africa Limited

J R Calitz
(55)
Deputy Chairman, Southern Life and Momentum Life

A Gore
(34)
Chief Executive Officer, Discovery Health Limited

P K Harris
(47)
Chief Executive Officer, Rand Merchant Bank Limited

R J Hutchison
(51)
Chief Executive Officer, FirstRand Asset Management

M A Jarvis
(51)
Chief Executive Officer, FNB Corporate Bank

H P Meyer
(40)
Managing Director, Southern Life and Momentum Life

N Nightingale
(53)
Chief Operations Officer, First National Bank of Southern African Limited

P R Pretorius
(36)
Chief Executive Officer, Origin

P Thompson
(59)
Excutive Director and Senior General Manager, First National Bank of Southern Africa Limited

From back to front:
P Cooper (ex officio), H P Meyer
A H Arnott, R J Hutchison, P Thompson
A Gore, P R Pretorius
M A Jarvis, P K Harris, J R Calitz
V W Bartlett, N Nightingale
L L Dippenaar

Chairman's and Chief Executive's Review

The vision was to create a new group of companies structured with critical mass to take advantage of the convergence of boundaries and changing paradigms in the financial services industry without the limitations imposed by minorities in operating companies.

A year of change

Throughout the world there is a rapid transformation in the financial services industry. The boundaries between banking and insurance are becoming increasingly blurred. Competition, technology, consumerism and resulting legislation are changing the shape of the financial services industry. The arrival in South Africa of numerous new foreign banks since we were welcomed back into the international arena has contributed to increased competition.

Leaders in the financial services industry have responded by using technology and innovative distribution systems to improve efficiencies and service to customers. Opportunities have been sought to share infrastructure, particularly in the field of technology, and rationalise back office functions to improve operating cost ratios. Leading institutions have also sought to broaden their product offering to existing clients.

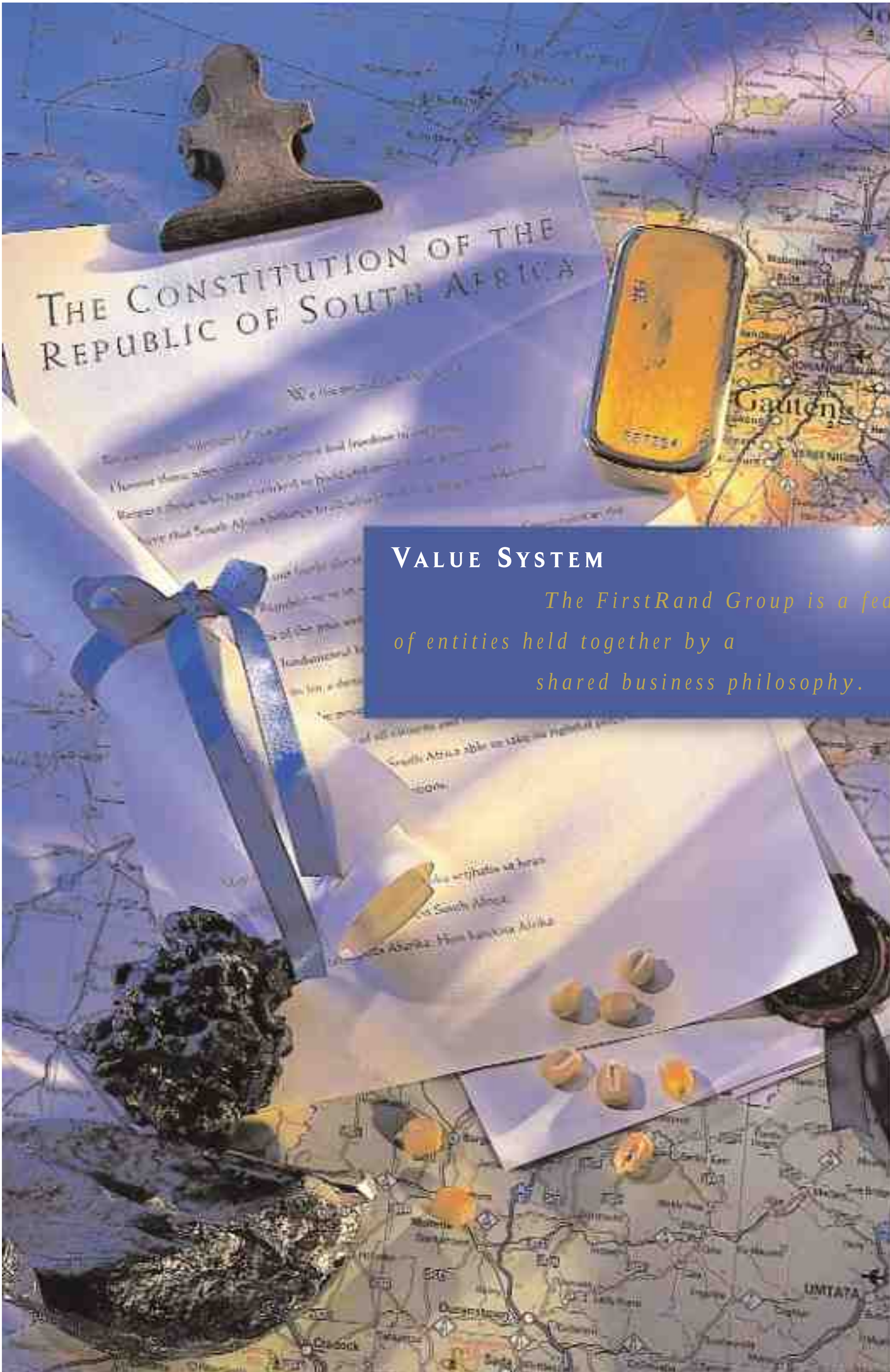
It was against this background that the merger which created the FirstRand group occurred. The merger combined the financial services interests of The Anglo American Corporation of South Africa ("AAC") and RMB Holdings ("RMBH"). The principal companies involved are First National Bank Holdings ("FNB"), one of the "big four" commercial banks in South Africa, The Southern Life Association ("Southern Life"), Momentum Life Assurers ("Momentum Life"), the fourth and fifth largest insurance companies in South Africa respectively and Rand Merchant Bank ("RMB"), a leading merchant bank in South Africa.

The vision was to create a new group of companies structured with critical mass to take advantage of the convergence of boundaries and changing paradigms in the financial services industry without the limitations imposed by minorities in operating companies.

After some four months of negotiations, the principal shareholder of Momentum Life, RMBH, and AAC agreed to merge their respective financial interests with effect from 1 April 1998.

In so doing, the controlling shareholders recognised that Momentum Life and RMB were seen as pioneers and innovators in the segments of the financial services industry in which they operated. Their entrepreneurial and empowerment management style, coupled with their profit focus and excellence in the field of technology, made them ideal partners to exploit the synergies presented by AAC's interests. FNB and Southern Life each serviced a broad client base, thereby providing critical mass and a vast distribution network. In addition, FNB's local representation was supplemented by a London based international operation. FNB's extensive computer network created opportunities to reach more South Africans at a lower cost.

It was decided that the holding company's subsidiaries should, where possible, be wholly owned to give flexibility and remove the limitations imposed by minorities. This arrangement would allow the group to be structured by product, market segment or distribution channels. This, in turn, would allow business units to focus on their core compentencies and facilitate the optimum use of capital.



VALUE SYSTEM

The FirstRand Group is a federation of entities held together by a shared business philosophy.

The proposed transaction, which was announced on 10 March 1998, included the following salient points:

- Momentum Life would be used as the vehicle for the merger.
- Momentum Life would raise approximately R5,1 billion by way of a rights issue. This capital was to be used in part to remove the crossholdings between FNB and Southern Life, thereby making these two companies wholly-owned subsidiaries of Momentum Life.
- Momentum Life would change its name to FirstRand Limited and simultaneously register the name Momentum Life Assurers in a separate company.
- FNB and Southern Life shares would be exchanged for FirstRand shares in the ratio of 675 Momentum shares for every 100 shares in FNB or Southern Life.
- The deal was subject to high level due diligence investigations being carried out.

In terms of a memorandum of understanding, AAC and RMBH are each able to nominate an equal number of directors to the FirstRand Board with AAC nominating the Chairman and RMBH the CEO of FirstRand. The Board, in turn, delegates the management of the Group to an Executive Committee, of which RMBH has the authority to nominate the majority of the members by one. Management of the new group resides with RMBH, and they and AAC each hold approximately 24% of the new company. Details of the Board of Directors and the Executive Committee are set out on pages 4 to 7.

Merger progress – insurance operations

Following on the announcement of the merger, management moved swiftly to establish a Merger Steering Committee with the mandate to analyse the existing businesses and agree strategies for the future. The committee believed that swift action was necessary to limit uncertainty, created by the merger, within the respective operations.

The entrepreneurial and empowerment management style of Momentum Life and RMB, coupled with their profit focus and excellence in the field of technology, made them ideal partners to exploit the synergies presented by AAC's interests in Southern Life and FNB.

Life insurance

Market analysis showed that there was an opportunity to retain the two strong brands, namely Momentum Life and Southern Life. Momentum Life had traditionally operated in the upper-end of the market and enjoyed a strong relationship with financial intermediaries, while Southern Life had serviced the middle income market. It was agreed that this positioning should be reinforced through an arrangement whereby Momentum Life serviced its clients exclusively through financial intermediaries and Southern Life through a dedicated field force, and, in due course, the FNB distribution network.

To improve service and operating efficiencies, the back office will be rationalised. After detailed analysis

The results of the due diligence investigations highlighted the relatively more conservative accounting and actuarial policies of Momentum Life and RMB. The parties therefore agreed that undistributed profits in Momentum Life to the value of R343 million would be capitalised by the issue of shares to Momentum Life shareholders in the ratio of 1,692 new shares for every 100 shares held.

it was agreed that the Momentum Life computer platform would be used. Duplication in respect of support services was eliminated. Prior to the merger announcement, Southern Life had been involved in a transformation programme. The merger announcement created a greater impetus for the programme than might otherwise have been the case. As a result of these actions the total headcount of the combined Insurance Group is to reduce by some 2 000 people by 31 March 1999.

In keeping with the RMBH style, new profit centres have been established and management teams appointed. The conversion to the more effective and integrated Momentum Life IT systems is to be phased in over a two-year period. Training to improve customer service response times has been put in place.

Hillie Meyer, Managing Director of Momentum Life, was appointed to the same position in Southern Life. The Boards of the two companies are now the same and a single Executive Committee is in place. Laurie Dippenaar is the Executive Chairman of the Insurance Group.

Investigations are currently under way to determine whether the two life offices should be merged. This will entail Southern Life and Momentum Life becoming divisions of a single legal entity while retaining their brand names and separate identities. This will, in turn, determine the capital requirements of the Insurance Group.

The challenge in the year ahead will be to ensure that the swift action taken is bedded down and that the focus remains on providing clients with first-class service. Stringent targets have been set for the conversion of computer systems and for levels of new business.

Employee Benefits

The Employee Benefits operations have been consolidated into one powerful new market player under the banner of Momentum Employee Benefits. The new company provides administrative and risk cover to more than 500 000 pension and provident fund members. Its share of the group life and disability market is more than 25%.

The company now comprises four specialised business units, each capable of providing focused and excellent service to clients. The units comprise the Risk Management Consultancy, Momentum Actuaries and Consultants, Negotiated Retirement Funds Services catering for the needs of trade union members and Broker Administration Services. The company will concentrate on those areas where it is able to provide superior service with satisfactory returns to shareholders. Accordingly, the administration of a large number of small unprofitable schemes will cease.

Niel Krige has been appointed Chairman of the new Employee Benefits company with Don Brown as Managing Director.

Linked products

The Group's linked product packager, Momentum Administration Services ("MAS"), has grown strongly. The Merger Steering Committee approved management's recommendations that Southern Life's Investment Management Company ("IMC") should be merged with MAS. The merger of the two operations was accomplished within the short space of two months. The merger achieved significant rationalisation benefits and cost savings as well as improved profit ratios.

Asset management

The Group's asset management activities are to operate under the enabling and facilitating umbrella of FirstRand Asset Management, a new holding company which will be created. The new Group's asset management activities are structured to provide additional choice to clients while capitalising on synergies and cost savings within the broad administration and information technology functions. As a result of the distinct difference in the investment philosophy and style of RMB Asset Management ("RMBAM") and Southern Asset Management ("SAM"), it was decided to retain these two activities as independent, stand-alone operations within the Group. Each has sufficient critical mass and existing and potential product differentiation to support this strategy. The asset management activities of FNB are to be brought under the umbrella of RMBAM.

The team is also assessing the potential optimisation of the international asset management arrangements previously adopted by the two asset managers.

The Group's unit trust operations also fall under the FirstRand Asset Management umbrella. In agreement with FNB, RMB Fund Managers ("RMBFM") is to manage FNB branded unit trusts to be launched in the new year.

The Insurance Group's property activities will fall under the umbrella of RMB Properties ("RMBP"). Southern Life Properties has been merged with RMBP and duplication of administration services has been eliminated.

Health insurance

FirstRand's health insurance strategies are driven by Discovery Health (previously Momentum Health). The emergence of FirstRand presented an opportunity to acquire Southern Healthcare JV. After investigation of Southern Healthcare JV, it was felt inappropriate to acquire the business, since it would require considerable management time from Discovery Health to realise synergies. FirstRand's share of that company has been sold to AAC.

There were a number of compelling reasons to change the name from Momentum Health to Discovery Health. It was felt appropriate to align the company's corporate brand with its product brand, since the product brand is so prevalent when members utilise doctors and hospitals. In addition, as there are considerable differences between the investment, life insurance and health insurance markets, a separate branding to Momentum Life was deemed appropriate. The new brand creates significant opportunities for the company and the aim is to ensure that the Discovery Health brand is the ultimate seal of quality in the healthcare market.

It was felt appropriate that a number of innovative initiatives should accompany the change in the company's brand to ensure that Discovery Health remains at the forefront in the marketplace. To this end, considerable development has taken place to maximise the combination of Medical Savings Accounts and Managed Care. Notably, the Vitality plan, which incentivises wellness and wraps around the Discovery Health plan, is being enhanced. An exciting development is the Vitality Payback which combines loyalty, wellness and financial incentives to enhance health and control costs.

From a managed care perspective, the company will be furthering its reach into the delivery system to maximise quality. For example, the company has agreed to a Patient Bill of Rights with all hospitals in its network to ensure that members receive quality care. It has also developed a Pharmacy Market to advise members on how to best spend their Medical Savings Account.

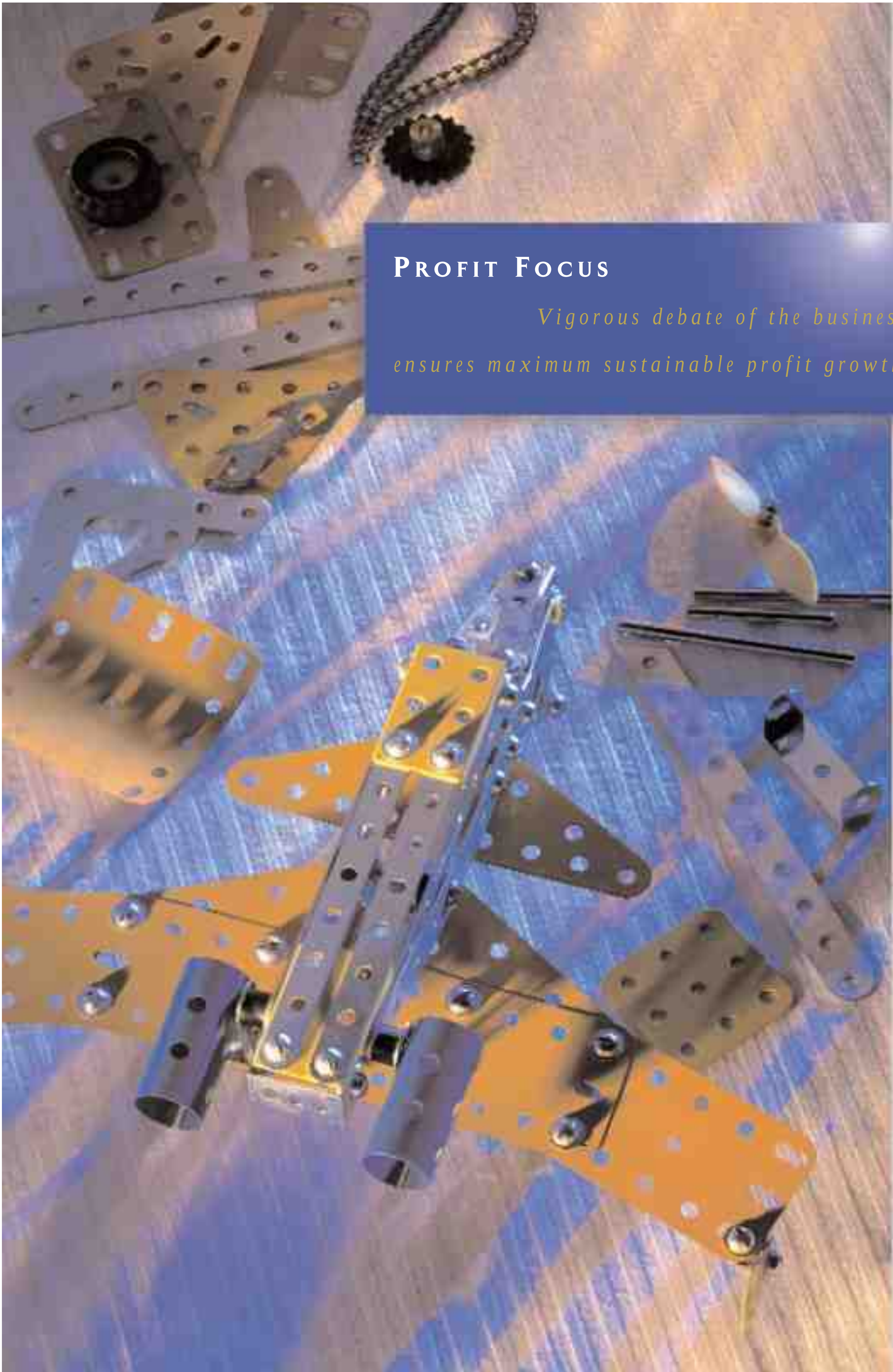
Until now, the large corporate market has used in-house medical schemes to finance employees' health care. Discovery Health believes that it is entirely appropriate to offer large corporates the ability to outsource their health care financing completely. This will provide corporates with the comfort that the risk lies elsewhere while the quality of service, managed care and other developments will be available to their staff.

Distribution

The products of Momentum Life and MAS, together with some of those of Discovery Health and RMBFM, are distributed through Momentum Distribution Services ("MDS"). This division of Momentum Life is responsible for servicing more than 3 000 financial intermediaries and advisors. To maximise rationalisation benefits, Southern Life outsourced its broker distribution to MDS. To improve service, a virtual private network with FNB as the main service provider is being rolled out to all branches. The new network will enable communication between branches and the company's representatives, thereby ensuring superior service to both clients and intermediaries.

Merger progress – banking operations

The new Group is exploring the merits of housing its banking interests under the umbrella of a single legal entity known as FirstRand Bank. This will ensure that the individual operating units will be able to leverage off an enlarged balance sheet. The merger created



Profit Focus

Vigorous debate of the business case ensures maximum sustainable profit growth.

the opportunity to combine the merchant banking activities of RMB and FirstCorp, to strengthen the FNB Corporate Banking division and to allow the retail banking activities of FNB to continue with their transformation process.

Corporate, investment and merchant banking

The transactional banking services to large South African corporate clients, government and institutions are to be provided by FNB Corporate Bank, which will be managed as a division of RMB. Consistent with the RMB business philosophy, the emphasis will be on the various divisions running as separate, entrepreneurial business units with lean management and minimal bureaucracy. To ensure that its products are of first division standard, the Corporate Bank has been structured into a number of focused product areas.

Since the FirstRand Group offers a complete range of financial products for corporates, including merchant and investment banking, health care, asset management, employee benefits, insurance and risk products, it will in due course be possible to deliver these to the clients of FNB Corporate Bank, thereby adding value.

In order to provide the necessary focus in the merchant banking area, it was decided to transfer the Structured Finance, Treasury and Mergers and Acquisitions divisions of FNB to RMB. These teams have already been integrated into RMB and are trading under its banner.

The investment banking activities are being conducted through three channels. FirstCorp Capital Investors has been established as an independent manager of third-party funds. RMB Ventures will concentrate on medium-sized transactions with the option to syndicate large transactions to FirstCorp Capital Investors. RMB Corvest will specialise in the smaller end of the private equity market and management buy-outs.

RMB's Special Projects division has been considerably strengthened with the merger of FNB's Structured Finance team and is now in a strong position in the highly specialised business of creating imaginative financial funding solutions.

The recent decline in the equity market provides the Mergers and Acquisitions division with new opportunities with regard to the restructuring of transactions. The enhanced capability to provide offshore acquisition finance in foreign markets will assist our South African clients in their offshore expansion ventures.

The merging of the trading activities of RMB and FNB under the RMB Treasury division gives rise to the prospect of highly competent business units trading instruments spanning most facets of the financial markets. This also presents the opportunity to access the retail and corporate client base, utilising a significantly larger balance sheet.

The Economic Empowerment Unit ("EEU") is a new unit within RMB charged with the task of addressing the funding and growth requirements of black-owned companies. The unit cooperates closely with other operating divisions within RMB to identify and maximise black economic empowerment ("BEE") opportunities and aims to grow the RMB profile as a major BEE player.

FirstRand International will house the international operations of the Group. RMB International ("RMBI") is the medium through which RMB facilitates business in the international markets. Each division of RMB has formulated an international strategy that will be marketed through RMBI. The RMBI office in Dublin will be expanded into an operational centre and will consolidate some staff from the FNB Zurich operations.

RMB Australia falls under RMBI and is well positioned to build on its reputation as the leading South African bank in cross-border transactions between the two countries. RMB Energy Group, a new initiative, has already established itself as a major player in the field of energy management in Australia and New Zealand.

The Group will expand its offshore banking services, including investment management, through the Henry Ansbacher Group. It is a well-established offshore banking organisation with a presence in ten offshore banking jurisdictions. Henry Ansbacher and Co is a UK authorised bank and a leader in UK trust administration, all of which provides it with a substantial base of high net worth clients.

Retail banking

The operations of the FNB Retail Banking Group have not been directly affected by the merger. However, FNB's significant transformation initiative is being accelerated.

The rationale for embarking on the transformation process was to improve customer service through a focus on satisfying customer needs. By creating smaller business units concentrating on customer segments, cost structures will be reduced and cross-subsidisation eliminated. This will enable FNB to reverse its loss of market share to niche/ foreign banks that all the major South African banks have experienced over the past eight years.

In addition, a number of non-core businesses were disposed of and non-strategic functions were outsourced.

Subsequently, the Retail Banking Group was segmented into three main strategic business units, namely retail banking, installment credit, being the existing WesBank operation, and property finance.

The development of a new customer management strategy is well advanced. The aim of this initiative is to develop a totally customer focused approach throughout the Retail Banking Group which will ensure consistency in the contact with customers. It involves a fresh approach to the way customer relationships are managed. It abandons traditional methods in favour of more scientific application and behavioural scoring processes.

Because the role of call centres is increasingly more important in the delivery of service to customers, a group-wide approach to call centres is being developed which will direct and co-ordinate the future development of the numerous call centres within the Group.

The role and structure of head office was reviewed. In keeping with the principles being applied throughout the transformation process, the central functions are being reduced, outsourced and reorganised. An important part of this change is to move away from a culture of centralised control to one of accountability and responsibility within business units. In a further initiative, procurement policies and procedures have been reviewed and already significant cost savings have been achieved.

The Group is adequately capitalised and uniquely structured to innovatively manage the challenges presented by the changed economic outlook.

The re-organisation of the retail bank into strategic business units means that the provision of personal banking services to customers has been segmented to offer the customers a range of products and services from which they can choose. FNB Private Bank focuses on ultra high net worth customers. In the metropolitan areas of South Africa, FNB Personal Bank is focusing on providing a personalised flexible, professional service through a choice of delivery channels. BOB Bank will be offering its customers technology-driven fast, cost-effective banking services. Its use of technology is supported by educators who will ensure that customers are familiar and comfortable with the high-tech services offered.

In the business and commercial sectors First Commerce offers its services in two market segments, broadly defined as business clients with a turnover of up to R5 million a year and commercial clients with a turnover of between R5 million and R200 million a year. It will be providing its services to its commercial clients through commercial suites and business banks.

In the smaller towns in South Africa, where it is not practical to segment the delivery of services, First National continues to serve the community as a whole.

The role of the Card and Electronic Banking division changed from a credit card company to the Group's card issuer and acquirer. As part of its electronic banking responsibilities the division manages the Group's partnership with VISA and Nedcor in the V-chip program. The partners in this multi-application smartcard have already jointly issued nearly one million cards. The division had a very successful year, achieving considerable improvements in its levels of debt recovery, cost reduction and service.

A business unit focusing on short and long-term insurance and investment products within the Retail Banking Group was established during the year. Its components include wholly-owned broking subsidiary First Bowring and First National Insurance, a short-term insurer specialising in providing products for the FNB client base. A bank assurance facilitation team, capable of drawing on the expertise of Momentum Life and Southern Life, will develop a competitive range of products designed to meet the needs of the FNB customer base. This unit will also be responsible for developing and managing a suite of FNB unit trust products. The bank assurance initiative will result in a significant increase in insurance revenues over time.

Distribution was established as a separate business unit to manage the Retail Banking Group's delivery channels. These channels include the Branch Network, the ATM Network, the Retailer Network and FNB Remote.

The Branch Network is currently the largest delivery channel in the group. Customer support activities are being centralised into operating hubs in the major metropolitan areas. This centralisation is expected to achieve economies of scale and efficiencies, standardisation and enhancement of service levels, focused management and create centres of expertise.

The FNB ATM Network manages the delivery of financial and money transmission services via automatic teller machines and non-cash self-service terminals. The consolidation of the ownership of over 1 700 ATMs in the ATM Network has already shown very positive results.

A state-of-the-art ATM monitoring system has been introduced that will dramatically improve the management of the network. In the year ahead the network's ability to deliver service will also be improved by the installation of a further 200 ATMs. The ATM Network has a critical role to play in providing customers with cost-effective, convenient, 24-hour electronic banking services.

The Retailer Network is responsible for the Group's delivery mechanisms in retailer outlets. These include in-store branches, in-store ATMs, self-service and cash dispensing devices and point of sale devices called Speedpoints. Internationally, the provision of supermarket banking has become a major strategic initiative.

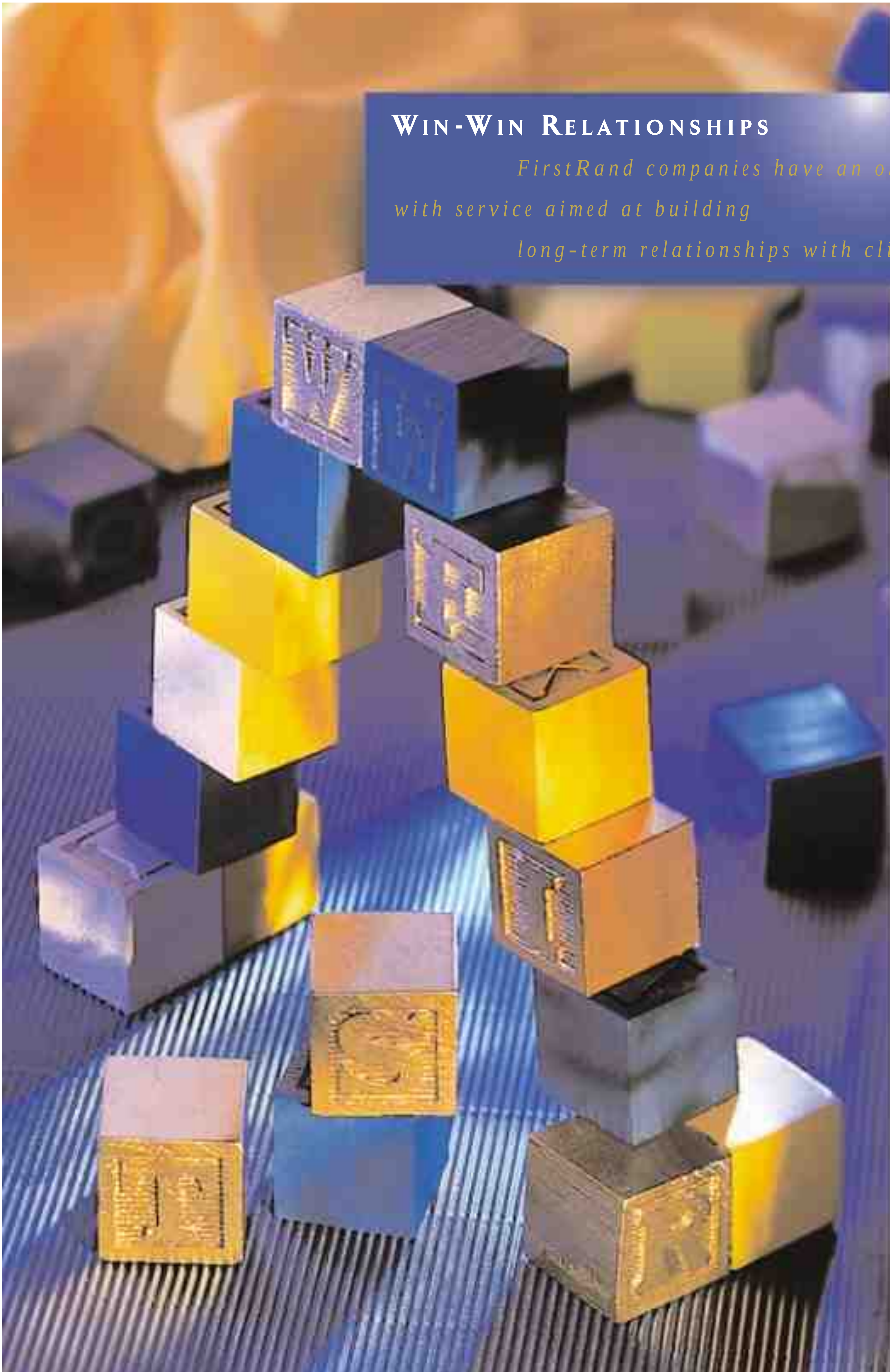
FNB Remote, a customer-owned network, is responsible for the Group's delivery channels accessed by customers using their own electronic devices. These include the Group's online banking services and Beltel delivered services.

Customer demands led to a need for FNB to establish a business unit dedicated to the marketing and servicing of its property finance products. It focuses on the provision of home loan finance for first-time buyers, repeat buyers and people making home improvements, as well as funding commercial and industrial property, corporate schemes and property development.

The first steps taken to establish FNB Properties were the transfer of the property assets from the metropolitan branch network to centralised customer service centres and the transfer of property staff from the branch network to FNB Properties. The property assets of the First National branches, i.e. those branches located in the rural areas of South Africa, remain within First National, which follows the policies established by FNB

WIN-WIN RELATIONSHIPS

FirstRand companies have an obsession with service aimed at building long-term relationships with clients.



Properties with regard to lending in this market. Since October 1997 this business unit has also established a sales force operating from centralised sales centres.

Development began this year on a new computerised home loan system designed to enhance efficiency levels. The system is now in pilot in customer service centres and is expected to be installed next year. FNB Properties is also committed to the ongoing development of systems that will allow for paperless processes.

To provide its customers with professional service FNB Properties needs staff with specialist skills. It is currently focusing on developing these skills, consolidating the Group's property asset base and completing the development of the infrastructure necessary for the efficient management of the unit.

WesBank remains a market leader in the installment credit segment. It further expanded its alliances with key players in the motor industry during the year and through these successful alliances is well positioned to not only hold this position but to gain market share.

WesBank has consistently received superior service ratings from its customers. Management attributes its market leadership position to its customer-centric culture, which is based on long-established core values that have promoted dedication and service continuity among its staff. For some time now WesBank has focused on streamlining its structure and operations to improve efficiencies and remain competitive against international and niche competitors.

FINANCIAL RESULTS

Consolidated Group earnings for the year amounted to R688 million. Due to the merger, a comparison with the earnings of the previous year is difficult. Headline earnings per share increased by 88% from 14,7 cents per share to 27,6 cents per share. A final dividend of 4,5 cents per share has been approved by the Board, bringing the total dividend for the year to 10,39 cents per share, an increase of 44% over the previous year.

An analysis of these results is set out in the Financial Review on pages 22 to 24.

ECONOMIC OUTLOOK

The past year has been a traumatic one for the financial markets and, increasingly, for the economy as well.

South Africa emerged relatively unscathed from the first round of the East-Asian financial turmoil, which started in July 1997. The rand depreciated in an orderly manner and the Reserve Bank saw its way clear to lowering its interest rates in October 1997 and again in March this year, despite international developments.

When the second round of East-Asian financial turmoil struck in May 1998 and when Russia and parts of Latin America came under pressure, South Africa suffered a severe case of emerging market contagion. The rand and share prices fell sharply, while interest rates in the money and capital markets rose to very high levels.

These events were certainly triggered by factors determined in the international arena and which are beyond our control. Among these are the lower gold and commodity prices, the interconnectedness of financial markets and the fact that international investors and financial market participants displayed a herd instinct when it came to emerging markets.

But South Africa was also more vulnerable than it needed to be. Skittish foreign investors, who had previously burnt their fingers elsewhere, immediately started selling off South African financial assets. The unwillingness of the central bank to raise interest rates increased fears. In addition, doubts increased about the adequacy of the country's foreign exchange reserves when it was clear that there was a shortage of domestic savings to finance domestic investment.

South Africa's vulnerability stemmed from the perception among investors that South Africa did not have a sufficiently strong armoury of policy weapons to shield itself from emerging market contagion. The causes of these negative perceptions included an unenthusiastic approach to privatisation and the implementation of labour legislation which would make employment creation difficult and capable of contributing to a potentially unstable domestic socio-political situation. Such instability, it is feared, could eventually lead to calls for more "populist" policy approaches.

In this environment it took only a small trigger to reverse the earlier inflows and, given the existing domestic savings shortfall, to cause downward pressure on the already low foreign exchange reserves. The result was downward pressure on the exchange rates, and upward pressure on interest rates.

As there is little to be done in the short term to shield South Africa from adverse international developments, we need to reduce our vulnerability to these developments by distinguishing ourselves from other emerging markets in terms of policy approaches and prospects for risk-adjusted rates of return on investments.

This requires government to be steadfast in its implementation of all aspects of the Growth Employment and Redistribution Strategy ("GEAR"), and to resist pressure to insulate the economy by reversing the commendable process of exchange control abolition. Government has reason to be concerned about the impact of volatile international capital flows and to wonder with most other governments around the world, and with the multilateral institutions like the IMF, whether there is not some way of addressing the issue on an international basis.

It is, however, right to reject the possibility of unilateral action on South Africa's part, as this is bound to have far more costs than benefits.

Economic policy is not conducted in the first place to satisfy an international audience or even to attract foreign capital. The South African economy is under-performing badly in terms of growth, investment and job creation, and every policy action and pronouncement needs to be weighed up for its impact on these three goals. If there has to be a short-run trade-off between growth, investment and job creation on the one hand and restructuring of the country's social imbalances on the other, it has to be made in favour of the former. Only a growing economy will generate the savings and tax revenue which can make a sustainable, understandable social transformation possible. Understandable impatience with the pace of transformation can lead to policy actions and pronouncements which can undermine confidence, investment, job creation and true eventual transformation.

The FirstRand group of companies is committed to its stakeholders and the new South Africa. As a responsible member of the South African business community, it will contribute in a positive way to the development of the Republic and its people.

Only a growing economy will generate the savings and tax revenue which can make a sustainable, understandable social transformation possible.

BOARD OF DIRECTORS

Following the creation of FirstRand, the Board of Directors was reconstituted to better reflect the new shareholders.

Messrs J D Krige, H P Meyer, A Bottega, R B Gouws, R J Hutchison, B Swartzberg and Ms W E Lucas-Bull resigned on 25 May 1998. They remain executives in the new group. Messrs D J du Preez and D J Malan retire after many years of service. We thank them for their commitment and wish them well in their retirement.

We welcome Viv Bartlett, managing director of FNB, and Jan Calitz, previously managing director of Southern Life, to the Board. Mike King, Deputy Chairman and

Rupert Pardoe, Financial Director of AAC, will represent the Corporation. G T Ferreira and Pat Goss will represent RMBH. Messrs Ben van der Ross, Robbie Williams and David Craig join as independents. Details of the new Board and the executive committee are included in this report on pages 4 to 7.

We have already achieved very good working relations within the new board.

Corporate citizenship

FirstRand will play its role as a good corporate citizen. The Group believes that it should conduct its business in a way that benefits the society in which it operates. We are reviewing the activities of the group companies in the field of Corporate Social Investment to ensure their effectiveness. We will seek to align our contributions with government's macro policy, thereby ensuring that we work with government to build a better society.

The Group has substantial investments in black economic empowerment initiatives. We will continue to support these businesses. The FirstRand Group currently has no substantial black shareholder at the holding company level. This position, may change in the future. However, we believe that a greater contribution can be made to wealth creation by a meaningful partnership at subsidiary level.

Prospects

Events in the financial markets since 30 June 1998 have impacted significantly on companies in the financial services industry making it difficult to accurately forecast earnings.

The precipitous decline in investment markets will impact on fee income from fund management and business units which have fee income streams based on assets under management.

The current high interest rates are expected to reduce banking interest margins and place severe pressure on companies and individuals leading to an increase in bad debts in the banking industry. However, FNB's "build a better bank" transformation is ahead of schedule and we are making good progress with the development of a bancassurance capability.

We believe that South African corporates are in better shape than they were in 1985 when there was substantial exposure to foreign debt. While the environment might be riskier, there will be good opportunities for our Merchant Banking activities.

The collapse of the share market will threaten policyholder expectations. Although bonus stabilisation reserves have been eroded, the life companies have mechanisms in place to protect policyholders and shareholders in the long term.

Our health business should not be affected by events to the same extent as our other group companies. The pending changes to Medical Aid Schemes legislation will present a challenge which management is confident it can meet.

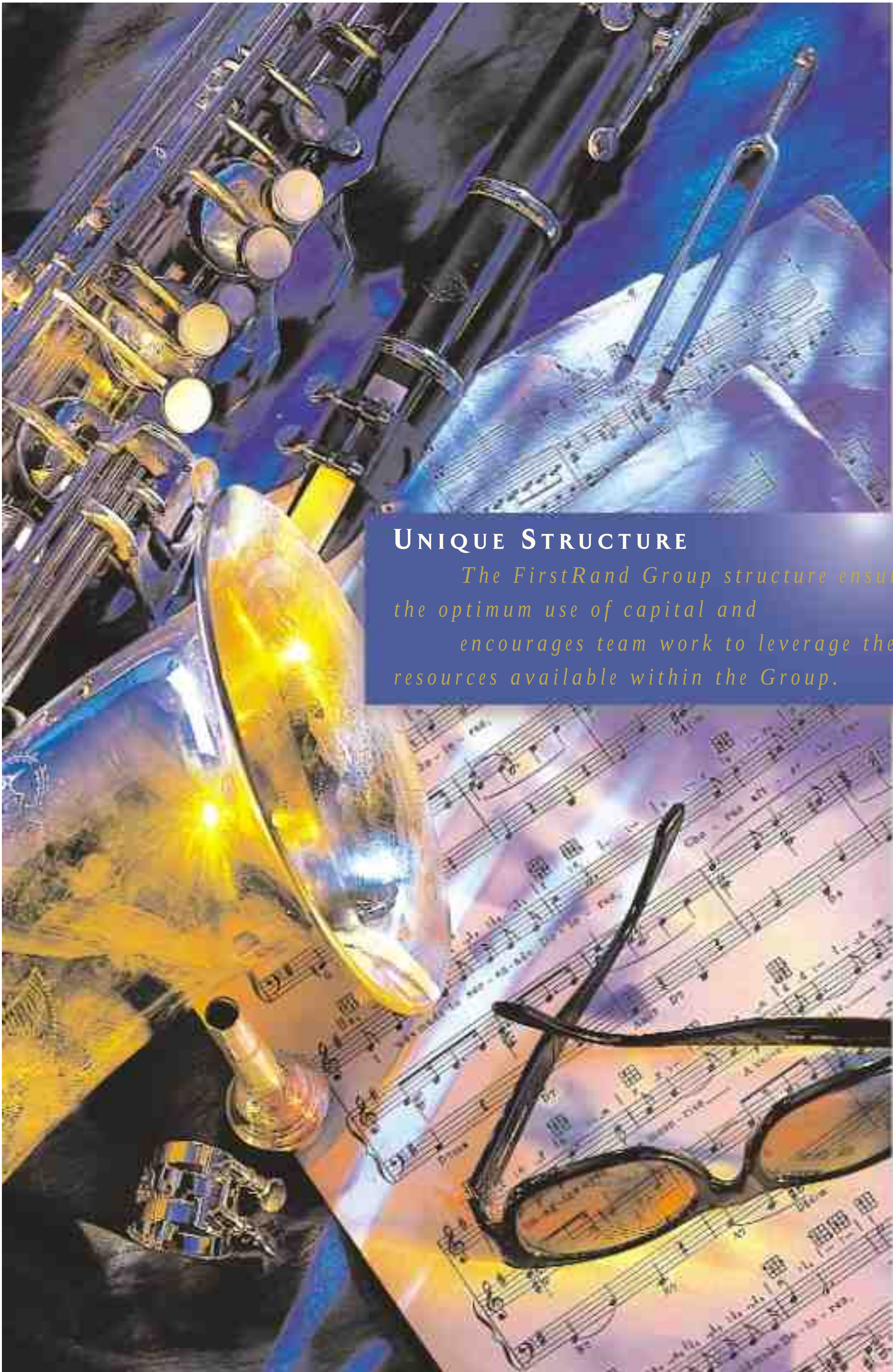
Your Group is adequately capitalised and uniquely structured to innovatively manage the challenges presented by the changed economic outlook. Increased provisions established at the time of the merger and aimed at aligning Group risk management practices have proved to be appropriate and comforting in the prevailing investment climate.

We are very pleased with the progress of the merger. Our decisive actions have limited uncertainty and will ensure early benefits to our shareholders. We are particularly pleased with the way in which the FirstRand business philosophy is being embraced and we are cautiously confident that the new group will meet stakeholder expectations.

We would like to thank the Board of Directors and the many people in the FirstRand Group for their contribution over the past year.

G T Ferreira
Chairman

L L Dippenaar
Chief Executive Officer



Unique Structure

The FirstRand Group structure ensures the optimum use of capital and encourages team work to leverage the resources available within the Group.

FINANCIAL REVIEW

INTRODUCTION

The year ended 30 June 1998 was characterised by significant change. A new group focused on delivering shareholder value through sustainable profits, has been created. The year's activities have been dominated by merger and merger integration activities. While the merger is well advanced, the scale of transformation is illustrated by the increase in the net income attributable to shareholders. Where appropriate, the financial results of the Group have been segregated between the two main operating groups, namely banking and insurance. The banking operations consist of RMB, the corporate, investment and merchant banking subsidiary, as well as FNB, the retail banking subsidiary. The insurance operations consist of the life insurers Momentum Life and Southern Life, as well as the health care and asset management subsidiaries of these two insurance companies. Details regarding the entities included in these two operational groups are contained in appendix 4 to the annual financial statements.

GROUP RESULTS

To facilitate a better understanding of the consolidated group results for the year ended 30 June 1998, a distinction is made between the contribution from the existing operations, being those of the Momentum Life Group of companies, and those operations that were acquired at 1 April as a result of the merger.
These results can be summarised as follows:

	1998 R million	1997 R million
Earnings from existing operations (twelve months)		
Life insurance and asset management	168	110
Health insurance	36	19
Banking	110	78
	314	207
Results from discontinued operation	(17)	10
Net taxed earnings before acquisitions	297	217
Earnings from acquired operations (three months)	308	–
Southern Life	–	–
First National Bank	290	–
Rand Merchant Bank	18	–
Net income from rights issue proceeds	83	–
Net taxed earnings attributable to shareholders	688	217

The different operating periods involved make comparisons with the prior year difficult. Net income earned on the proceeds of the rights issue cover a two-month period to 30 June 1998.

Earnings from existing operations

Companies in the Momentum Life Group all showed exceptional growth with total earnings increasing by 52% to R314 million. The life and asset management companies increased earnings by 53% to R168 million.

Momentum Life's premium income increased from R3 752 million to R4 898 million representing a 30,5% increase while operating expense increases were limited to 2,8%. Momentum Employee Benefits increased profits by 56%. This team continues to deliver superior service in its chosen markets. Total assets of Momentum Life at 30 June 1998 amounted to R30 179 million.

Momentum Administration Services continued its excellent growth record by attracting R3 100 million in new funds. This, together with those assets previously managed by Southern Life's Investment Management Company ("IMC"), brought total assets under administration at 30 June 1998 to R6 500 million. The absorption of IMC should allow the company to significantly increase its operating profits in the year ahead.

RMB Asset Management increased their contribution to profits. At 30 June 1998, RMBAM managed assets totalling R46 263 million of which R28 394 million was on behalf of third parties.

In addition to the above, RMBFM increased unit trust assets under management by 89% to R3 457 million. This was achieved through aggressive marketing and the launch of five additional unit trusts.

RMBP maintained its contribution to profits under difficult trading conditions.

During September 1998, Momentum Health, which is 67% owned by the Group, changed its name to Discovery Health. Total profits after tax doubled to R54 million, with premiums for the year increasing by 97% to R1 271 million. During the year, Discovery Health changed its basis of accounting. The result is a deferral of acquisition costs and a reserving of early risk profits. This has allowed the company to move to a basis where both risk and administration profits are smoothed over the lifetime of the contract. Comparative figures have been adjusted to acknowledge this change.

RMB reported an impressive 40% increase in headline earnings to R183 million, with all divisions of the bank contributing to this success. With effect from 1 April, the FirstRand Group acquired the 40% of RMB previously held by Momentum Life policyholders. The valuation of the RMB shares was performed by the company's independent auditors and reviewed by the valuator. As a result of the acquisition, R110 million (60%) of the year's earnings are reflected as part of existing operations and a further R18 million as acquired banking business.

Earnings from discontinued operation

Losses from discontinued operations result from the group's disposal of its interest in Aegis Insurance Company Limited.

Earnings from acquired operations

Earnings from FNB for the three months to 30 June 1998 totalled R290 million after making additional provisions of R59 million in respect of the bank's property portfolio and leave pay.

At the date of acquisition by FirstRand, the board of FNB deemed it prudent to create an additional general doubtful debt provision of R600 million. This ensured a greater alignment of these provisions within the FirstRand Group.

FNB's investment in Southern Life has been purchased by FirstRand during the period under review. This purchase was funded by the utilisation of a portion of the rights issue proceeds.

Southern Life did not perform an actuarial valuation at 30 June. At 31 March 1998, the company reflected an actuarial surplus of R4 682 million after aligning its reserving bases with that of the more conservative Momentum Life. For the quarter to 30 June 1998 Southern Life's premium income amounted to R1 026 million and total assets were R33 841 million. No earnings were reflected in respect of the three months to 30 June 1998, notwithstanding industry practice of declaring earnings based on prior periods when no actuarial valuation is performed. This decision was taken following the sharp decline in investment markets subsequent to the last actuarial valuation. Management are currently reviewing the possible merging of Southern Life with Momentum Life while retaining the distinct brands. This merger will allow the valuators to determine appropriate levels of capital for the merged entity and possibly free surplus reserves for investment elsewhere in the group.

Earnings arising from the proceeds of the rights issue, net of the purchase of the 40% of RMB previously held by Momentum policyholders, totalled R84 million after tax.

Earnings per share

Earnings per share, using the weighted number of shares in issue during the year totalled 27,4 cents per share, representing an increase of 85% on the 14,8 cents per share for the previous year. Headline earnings per share, which exclude non-recurring profits and losses on the sale of strategic investments, total 27,6 cents per share compared with 14,7 cents per share; an 88% increase.

Details of the changes in the number of issued shares in the company are set out in the *Directors' Report.*

Dividends and dividend policy

On 18 February 1998, the company, then trading as Momentum Life Assurers, declared a dividend of R49,8 million (1997 – R35 million). A second interim dividend of R52,7 million (1997 – R Nil) was declared on 24 April 1998.

On 23 September 1998 a final dividend of R245 million (1997 – R75,8 million) was declared.

This final dividend, which translates to 4,5 cents per share, together with the first and second interim dividends of 3,22 cents per share and 2,67 cents per share respectively, brings the total dividend for the year to 10,39 cents per share (1997 – 7,20 cents per share) which represents an increase of 44%. Due to the special capitalisation award of R343,0 million during the year, all dividend per share figures have been calculated based on the increased weighted average number of shares in issue following the special capitalisation award.

For the purpose of the final dividend declaration, a weighted average dividend cover was calculated by applying the dividend cover previously used by the major companies in the new group.

Pro forma headline earnings

The pro forma headline earnings set out below assume that the Group as it existed at 30 June 1998 had been in existence for twelve months. The calculation acknowledges the payment of R1 700 million for the 40% stake in RMB previously held by Momentum policyholders. As a result RMB's total earnings are reflected for the full year while the net proceeds from the rights issue are reduced by the purchase price of the RMB shares and are assumed to earn 10% after tax.

		R million
Insurance group		668
Momentum	216	
Southern Life	452	
Banking group		1 303
RMB	183	
FNB	1 120	
Income on rights issue		325
		2 296

Based on 5 445 million shares in issue, pro forma earnings per share total 42,2 cents.

FUNDS UNDER MANAGEMENT

Total funds under management at 30 June 1998 comprise the following:

	R million
Banking operations	138 417,8
Insurance operations	56 274,0
Total on-balance sheet assets	194 691,8
Off-balance sheet assets managed and administered on behalf of clients	42 098,1
	236 789,9

Within investment areas such as linked product companies and the management of off-balance sheet pension fund assets, the group acts in a fiduciary capacity that results in the holding of assets on behalf of clients. As these are not assets of the group, they are not reflected on the balance sheet, but are detailed above under ”off-balance sheet assets managed and administered on behalf of clients“.

CAPITAL STRUCTURE

The merger had a significant effect on the capital structure of the Group. The first step in the merger was to raise capital via a rights issue, to be used to acquire the 40% shareholding in RMB not already held by the Group, to finance the elimination of crossholdings between FNB and Southern Life and to strengthen the capital of certain of the operating companies. An amount of R5 154 million was raised, which was reduced by share issue expenses totalling R119 million. In addition, FirstRand shares were issued as consideration for the purchase of the shares in FNB and Southern Life in terms of section 311 schemes. These shares were issued at a value equal to the fair value of the net assets acquired, which amounted to R4 043 million.

An important principle of the merger is the separation of the banking and insurance interests into two distinct groupings. A first step in achieving this segregation was the sale by the Momentum Life policyholders of their 40% share of RMB to the FirstRand shareholders. An arm's length agreement was reached based on an independent valuation performed by the external auditors of FirstRand, which was reviewed by the valuator of Momentum Life. A value of R1 700 million was placed on the RMB shares, with the sale being financed by the utilisation of a portion of the rights issue proceeds. As is often the case in the financial services industry, the value placed on the shares far exceeded the net asset value of the 40% of RMB acquired. An amount of R1 444 million, being the excess of the purchase price over the net assets acquired, has been reflected as a change against share premium, pending the approval by the shareholders and the courts of a capital reduction in terms of section 84 of the Companies Act (Act 61 of 1973).

The balance of the increase in the share capital and share premium was made up of the capitalisation awards made during the year, which totalled R422 million.

LISTING DETAILS

On 22 May 1998, Southern Life and FNB were delisted and on 25 May 1998 FirstRand was listed on the Johannesburg Stock Exchange. On 26 May 1998, FirstRand was listed on the Namibian Stock Exchange (“NSE”). FNB's 70% held subsidiary, FNB Namibia, is also listed on the NSE.

OUTLOOK

The Group is undergoing fundamental change. It is well capitalised and uniquely structured to face the challenges set by the current economic climate. While it will take some time before the real benefits of the enlarged group emerge, early indications are that substantial cost savings are possible and that opportunities exist for the various profit centres to leverage off each other. Notwithstanding these opportunities, the turmoil in the investment market and the high interest rates which impact on business confidence and bad debts, make the forecasting of earnings difficult.

A H Arnott
Chief Financial Officer
Sandton
23 September 1998

Group Risk Management and Capital Adequacy

The nature of the group's operations necessitates a strong commitment to risk management in both the banking and insurance operations. The inherent risks associated with these two operations, and the respective procedures and controls instituted to control these risks, have been set out in the risk management statements detailed below. Separate risk management statements have been provided for the banking and insurance operations respectively.

It should be noted that the different risk management strategies employed by the various business units in the merged operations are currently being reviewed with a view to the alignment of these strategies at group level.

Risk management in the banking operations

Approach to risk management

It is in the nature of the business to take calculated business risks with the objective of generating attractive returns from these ventures. Management is empowered to take and manage these risks so as to achieve the desired outcomes while containing risk to eliminate or reduce the impact of occurrences that could affect performance adversely.

One of the key areas of focus as part of the integration of the various banking operations following the merger, is the preservation and promotion of the overall risk management philosophies of the FNB and RMB Groups.

Banking risks

Banking is, by its very nature, exposed to many risks of which liquidity, credit, operational, legal and market risk are the most important.

The identification of risk is a top priority for all the activities of the banking operations to control, reduce or eliminate these risks and thereby to contain the impact of adverse occurrences.

The structure of risk management

The boards of the individual banking entities take overall responsibility for the implementation of risk management policies through functional risk management structures which cover all activities.

Risk is managed within a framework of risk management policy, committees of the boards, the independent risk and compliance functions and business unit risk managers, as is appropriate.

Board committees

Various board committees oversee policy formulation and implementation and monitor the risk management processes and risk exposures. The main committees are the Executive, Audit, Remuneration, Credit, Asset and Liability Management or ALCO, Risk, Investment and Finance Committees.

Risk management

Liquidity risk

The risk of being unable to meet a financial or settlement obligation to a client or counterparty, or being unable to execute transactions due to volume constraints in thin markets, is controlled through a variety of measures.

The ALCO committees set guidelines and liquidity risk limits for the funding operations and monitor liquidity exposures to ensure that the banks are always in a position to meet their financial obligations as they fall due. Day-to-day liquidity requirements of the banking operations are managed by the relevant funding desks within Treasury.

Prudential limits are set for the trading activities to limit the risk of loss which may result from the inability to fund, unwind or hedge an exposure to the financial markets. Exposures under these limits are monitored daily by the business unit and independent risk management functions.

Credit risk

The banking operations incur credit or counterparty risks through payment, lending and trading activities. Credit quality, concentration, pricing, the ongoing monitoring of exposures and the management of defaults are controlled through credit policy, the various credit committees and the independent credit control functions.

All credit exposures, presettlement and settlement exposures, are limited to formal counterparty limits. Exposures under limits are monitored at regular intervals appropriate to the nature of the specific activity.

The banking operations are engaged in an upgrade of credit risk decision and reporting systems with the aim of implementing the most modern credit scoring, measurement and monitoring methodology.

Operational risk

The risks of loss of life, loss of assets, fraud, business continuation, processing and settlement errors and systems breakdown are actively managed and controlled throughout the banking operations and are closely monitored by the Risk and Audit committees through the internal audit, risk and compliance functions.

Extensive control procedures are in place, augmented by ongoing training and risk awareness programmes, systems improvement and the implementation of best control practices. Comprehensive insurance cover is in place in respect of insurable risks.

Legal risk

The risk that contractual obligations might be dishonoured due to the lack of legal capacity or authority to contract or the inability to enforce a contract in law is addressed through the legal compliance processes throughout the banking operations.

Interest rate risk in the non-trading activities

Interest rate risk, being the risk of loss of income due to changes in interest rates, is incurred in the lending and trading activities of the banking group. The interest rate risk arising from the non-trading or lending activities is controlled by the main ALCO which covers the retail, instalment and corporate banking activities. A second ALCO is in place at the Merchant Bank to oversee its liquidity management.

Basis and interest rate term mismatches are identified by the ALCO risk management support group and reported to ALCO at monthly intervals. ALCO sets limits for the income sensitivity to basis risk and interest rate repricing mismatches, approves hedging strategy and the resultant interest rate risk and monitors the realised and projected interest margin and the execution of hedging, funding and liquidity policy and strategies.

Market risk

The bank trades actively in the financial markets. The larger volumes are generated by currency trading in the spot and forward markets, bond and bond option trading, short-dated rand denominated interest rate derivatives, equity arbitrage and money market trading. Lower volumes are traded in equity and foreign currency options and futures arbitrage.

In the active trading areas the risk of losses emanating from movements in the prices of traded financial instruments is actively controlled through risk limits and the daily monitoring of risk exposures against stress loss limits by the business unit and independent risk managers. Investment activities as opposed to trading, are monitored at appropriate intervals. Exposures are reported to the Risk Committee and the relevant boards at monthly intervals.

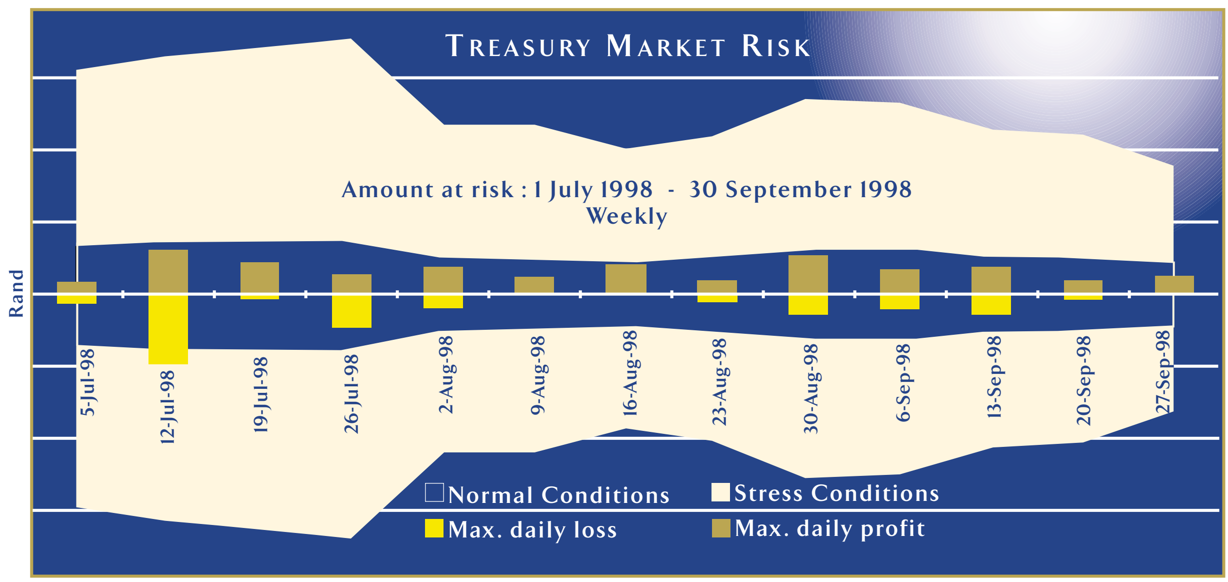
Risk management going forward

The bank is constantly improving its risk management techniques and the risk awareness of its employees to ensure a culture of best control practices, modern and effective risk quantification processes and risk adjusted performance measurement throughout the banking operations.

Treasury market risk

Market risk is measured as an amount at risk under normal market and assumed stress conditions. An example of the bank's ability to manage treasury market risk in extreme conditions is set out below. In the graph, the inner boundaries show the daily average amount at risk by week within which one would expect most trading profits and losses to lie with the occasional outlier. The outer boundaries show the amount at risk under assumed stress conditions. A prudential limit for the latter is set by the Board.

The risk profile is shown for the period 1 July 1998 to 30 September 1998; one of the most volatile periods in the history of the South African financial markets.



Capital adequacy in the banking operations

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 guidelines banks are required to maintain a minimum level of capital based on their risk-adjusted assets and off-balance sheet transactions. Banks are required to maintain capital equal to 8,0 percent of risk-adjusted assets and off-balance sheet transactions. As shown in the analysis below, the banking operations are well in excess of the 8,0 percent requirement and have tier one capital of 7,7 percent. It should be noted that this analysis represents the aggregation of the banking operations.

	1998 R million	1997 R million
Regulatory capital available to group banks		
Tier 1		
Share capital	106,1	18,9
Share premium	1 331,9	13,2
Capital redemption reserve	1,1	1,1
Retained income	5 730,0	266,2
Unimpaired capital in holding company	(17,9)	–
Less: impairments	(229,4)	–
	6 921,8	299,4
Tier 2		
Debentures	1 207,0	220,0
General provision	1 016,0	57,2
	2 223,0	277,2
Total tier 1 and tier 2 capital	9 144,8	576,6
Risk-adjusted capital ratios		
Tier 1	7,7%	4,3%
Tier 2	2,5%	4,0%
Total	10,2%	8,3%

Risk-adjusted assets and off-balance sheet exposure of group banks

	Balance 1998 R million	Balance 1997 R million	Risk weights %	Risk-adjusted balance 1998 R million	Risk-adjusted balance 1997 R million
Assets and off-balance sheet items					
Cash, own bank and central government advances	23 986,4	1 860,3	0	–	–
Letters of credit and unutilised facilities on behalf of public sector bodies	349,4	–	5	17,5	–
Public sector bodies advances	2 796,0	463,1	10	279,6	46,3
Other bank advances and letters of credit	17 123,4	2 136,6	20	3 424,7	427,3
Mortgage advances, remittances in transit performance-related guarantees	24 031,6	1 095,3	50	12 015,8	547,7
Other advances	74 460,2	5 970,8	100	74 460,2	5 970,8
	142 747,0	11 526,1		90 197,8	6 982,1

RISK MANAGEMENT IN THE INSURANCE OPERATIONS

Overview

In order to ensure the overall management of risk in the insurance operations, the Board has mandated the Actuarial Committee and the Insurance Audit Committee to oversee risk management in the insurance operations. In keeping with the group philosophy, risk management within the insurance operations is the responsibility of line management, within the framework of the aforementioned centralised monitoring committees. In addition to these committees, the independent auditors make use of the services of an actuary, who is in the employment of their UK practice to perform a high level review of the actuarial valuation methodology and results within the insurance operations.

Risk management

Operational risks

The risk of loss arising from fraud, systems breakdown and transactional or control error is limited by the existence of a risk management philosophy known as Control and Risk Self Assessment, which is discussed in more detail in the *Corporate Governance Statement*. Risk managers are allocated responsibility to facilitate the risk assessment process for each major business unit, and to ensure that the risks identified are minimised by the implementation of appropriate controls. These controls include, inter alia, the segregation of duties as far as is practical, the implementation and maintenance of disaster recovery plans, the existence of data validation procedures as well as regular monitoring of regulatory compliance.

Investment risks

Investment risk in the insurance environment is the risk that the investment returns on policyholder assets will not be sufficient to cover policyholders reasonable benefit expectations, including minimum guaranteed returns.

The management of market risks includes the following:

- The matching of the duration and type of assets appropriate to the nature of liabilities;
- The distribution of funds across the various asset classes is subject to maximum exposure levels as prescribed by the Insurance Act.

Credit risk

As in the banking operations, credit risk in the insurance operations is represented by the risk of default by counterparties. In order to minimise credit risk, the banking credit committee regularly reviews risk exposures and exposure limits relating to fixed income securities on a group basis. The credit risk that is assumed when a policyholder takes a loan against their policy contract is covered by limiting the policy debt to a maximum percentage of the fund value of the policyholder's investment account.

Underwriting risk

The risk that actual exposure under risk contracts will exceed that assumed is known as underwriting risk. The following represents the more salient controls applied in the management of underwriting risk:

- Review of risk pricing tables by the valuator;
- The reinsurance of all risk-related liabilities in excess of a specified retention limit;
- Regular investigations into mortality and morbidity experience;
- The detailed evaluation of applications received for risk cover against prescribed underwriting criteria;
- The compulsory AIDS testing of applicants for risk cover.

CAPITAL ADEQUACY IN THE INSURANCE OPERATIONS

Capital adequacy requirements in the insurance operations 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, are set out below. These figures represent the aggregate capital adequacy requirements as calculated at the date of the latest actuarial valuations, being 30 June 1998 for Momentum Life and Momentum Health, and 31 March 1998 for Southern Life. As can be seen from the table, the aggregate excess of assets over liabilities as calculated at the dates of the latest actuarial valuations, is more than sufficient to cover the aggregate capital adequacy requirements.

	1998 R million
Capital adequacy requirements	2 172
Excess of assets over liabilities	18 755

ANNUAL FINANCIAL STATEMENTS

CONTENTS

REPORT OF THE INDEPENDENT AUDITORS

TO THE MEMBERS OF FIRSTRAND LIMITED

We have audited the group annual financial statements of FirstRand Limited set out on pages 33 to 78 for the year ended 30 June 1998. These financial statements are the responsibility of the company's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

SCOPE

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

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

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

AUDIT OPINION

In our opinion, the financial statements fairly present, in all material respects, the financial position of the Group at 30 June 1998, and the results of its operations and cash flows for the year then ended in accordance with generally accepted accounting practice, and in the manner required by the Companies Act.

Without qualifying our opinion, we draw attention to the fact that we have relied on the report of the valuator on the financial soundness of the company as reflected on page 34.

PricewaterhouseCoopers Incorporated
Registered Accountants and Auditors
Chartered Accountants (SA)

Sandton
23 September 1998

Corporate Governance Statement

Attitude towards governance

The FirstRand Group is committed to the principles of good corporate citizenship. Good corporate citizenship includes a commitment to corporate governance.

This commitment provides stakeholders with the assurance that the Group's affairs are being managed in an ethical, transparent and responsible manner, after taking into consideration appropriate risk parameters.

Furthermore, in recognition of the need to conduct the affairs of the Group in accordance with the highest standards of corporate governance, the directors of FirstRand and its various subsidiaries endorse the Code of Corporate Practices and Conduct as set out in the King Report on Corporate Governance. The mechanisms that ensure good governance are discussed in more detail below.

Interpretation

With effect from 1 April 1998, the merger of the financial services interests of RMBH and AAC created the FirstRand Group. This corporate governance statement deals with the corporate governance mechanisms applied by the different boards of directors.

Boards of directors

Composition and frequency of meetings

FirstRand

The FirstRand board comprises thirteen directors, of whom one serves in an executive capacity, while the remaining twelve hold non-executive positions. Non-executive directors comprise individuals with a wide range of skills that enable them to bring independent judgement to board deliberations and decisions.

The board of directors will meet at least four times in the next financial year, retaining full and effective control over the group. Additional board meetings will be convened as and when major issues that need to be resolved immediately, arise. Management responsibility rests with the executive committee, which consists of FirstRand directors and executive directors of the main operating groups. The executive committee meets every two weeks.

Major subsidiaries

The boards of directors of all major subsidiaries comprise a majority of non-executive directors. The number of board meetings for major subsidiaries varies between four and eight meetings per year. Management responsibility of major subsidiaries rests with their respective executive committees.

All directors have access to the advice and services of a company secretary, who ensures that board procedures are followed.

Limitation to appointment period

One third of non-executive directors retire by rotation annually. The retirement age of directors is set at age 70 across the Group. Details of the directorate of FirstRand are listed on page 4 of this annual report.

Board committees

To assist the boards in discharging their collective responsibility for corporate governance a number of committees have been established. These committees all have specific terms of reference and are accountable to the various boards which receive minutes of their meetings. More specifically, these committees are:

Audit committees

Each of the various audit committees in the Group consists of a majority of non-executive directors, with a non-executive director as chairman. The various audit committees all have written charters, which clearly set out the scope of their responsibilities and objectives. These committees are responsible for reviewing the effectiveness of the internal audit departments and the independent external auditors. The internal audit departments in the Group report to the audit committees on a periodic basis throughout the year. The respective firms of external auditors in the Group as well as the internal audit departments have unrestricted access to the various audit committees.

Remuneration committees

The Group's various remuneration committees comprise mainly non-executive directors. The purpose of these committees is to ensure that the Group's directors and senior management are rewarded fairly for their individual contributions to the Group's overall performance. In performing their functions, the committees take into account market trends and the need to retain key members of management.

Actuarial committee (insurance operations)

Ensuring the financial soundness of an insurer is an important part of the fiduciary responsibility of the insurer and the approved valuator. An actuarial committee has been in operation since 1993 at Momentum Life to assist the board and the valuator in this regard. A non-executive director, who is a consulting actuary, chairs this committee. The actuarial committee has a written charter that clearly sets out its responsibilities and objectives. With the merger of Momentum Life and Southern Life the actuarial committee was reconstituted to serve both companies.

In addition, the Group's independent auditors make use of the services of an independent actuary, who is in the employ of their UK practice, to perform a high-level review of the actuarial valuation methodology within the Insurance Group.

Credit committee (banking operations)

Credit committees operate at various levels within the RMB and FNB Banking Groups. The boards of both banks have authorised the RMB credit committee to review and approve all exposures to clients and potential clients. This committee comprises senior management as well as executive and non-executive directors of RMB and FNB. An executive director of RMB is the chairman of this committee.

Group risk management procedures

Details regarding the risk management procedures in existence within the banking and insurance groups are set out on pages 25 to 28 of this annual report.

Internal control mechanisms

The directors are responsible for ensuring that the Group maintains accounting records and implements effective systems of internal control. Management is responsible for the implementation and maintenance of these controls, designed to provide reasonable assurance on the achievement of objectives regarding:

- the effectiveness and efficiency of operations;
- the reliability and integrity of financial reporting;
- compliance with applicable laws and regulations;
- the detection and minimisation of significant risks associated with fraud, potential liability, loss and material misstatement; and
- accountability for the safeguarding and verification of assets.

Furthermore, the controls that are in place throughout the Group are based on established procedures and implemented by trained skilled individuals with an appropriate segregation of duties.

As for all systems of internal control, the effectiveness of internal control systems in the FirstRand Group is subject to inherent limitations, including the possibility of human error and the overriding of controls. Accordingly, even an effective internal control system can provide only reasonable assurance on financial statement presentation and asset safeguarding.

Nothing has come to the attention of the directors to indicate any material breakdown in the functioning of financial controls, procedures and systems during the year under review.

Internal audit

Various independent functions exist within the Group to assist management in discharging their responsibilities effectively. As a minimum, these functions all comply with international standards, have unrestricted access to the respective audit committees and access to all information/ explanations needed by them in the execution of their duties.

First National Bank

A centralised internal audit function examines and evaluates their activities. The internal audit function reviews the reliability and integrity of financial and operating information, the systems of internal control, the means of safeguarding assets, the effective management of resources and the conduct of its operations.

Rand Merchant Bank

Rand Merchant Bank has outsourced their internal audit function to PricewaterhouseCoopers.

Life insurance, asset management and health insurance

This subgroup operates on the philosophy that the primary responsibility for risk lies with the management and employees of each profit centre and subsidiary. To this extent dedicated independent Risk and Compliance managers are responsible for a Control and Risk Self-Assessment (CRSA) programme at each of the profit centres or subsidiaries. This process has been in place at Momentum Life since 1996, and has recently been introduced at Southern Life. Prior to the introduction of the CRSA programme at Southern Life, an internal audit department that operated in a similar way to that of First National Bank was in existence.

EMPLOYEE EMPOWERMENT

Code of ethics

Various codes of ethics exist within the FirstRand Group. A process is currently underway to align these with the determined core values of the FirstRand Group.

Employee participation

As with most major financial services groups, FirstRand relies on the commitment of its management and employees to ensure the highest levels of service delivery.

This commitment is nurtured by the continued development of innovative reward and incentive programmes that focus on long- and short-term operational and strategic goals. The empowerment of employees has been enhanced further through the emphasis on a teamwork approach instead of a hierarchical structure, which places unnecessary constraints on employees and inhibits idea sharing.

Equal opportunities

The FirstRand Group is committed to providing employment in an equitable manner to members of all communities. The Group endorses the philosophy of affirmative action as an integral part of its business plans. As such, a number of initiatives within the different group companies are currently in process.

YEAR 2000 COMPLIANCE

The FirstRand Group relies extensively on information technology as a mission-critical component of business solutions and is therefore dependent on the capability of software and hardware applications to function properly. In this light, the Group views the global millennium bug as a threat to business continuation beyond the year 2000.

Approach

Year 2000 work groups have been assembled to ensure that all accounting and operational systems situated in each major business unit in the Group are year 2000 compliant. These work groups report to their respective boards and audit committees on a regular basis.

It is planned that the conversion of all mission-critical applications and processes will be completed by 31 December 1998, after which the converted systems will be tested extensively. Where applicable, group companies have engaged the services of specialist consultants in this area to assist with the compliance effort.

Suppliers/Business partners

All year 2000 work groups have considered the implications of suppliers being year 2000 compliant, and have requested compliance information from them. These are still in the process of being obtained.

The year 2000 problem may impact on other entities with which the Group transacts business, and the Group cannot predict the effect of the year 2000 problem on such entities. Although compliance requests have been sent out to most of these third parties, limited information has been gathered on their year 2000 readiness. As such, the effect on such entities cannot be predicted by the Group, potentially leaving it vulnerable to a third party's failure to remedy their own year 2000 issues. To this end, the majority of our year 2000 work groups are engaged in initiatives with corporate and regulatory bodies to address this problem.

Cost implications

All costs associated with year 2000 compliance are being funded with cash flow generated from operations. Material expenses that can be estimated with reasonable certainty have been provided for in full.

Management believes that the total expense for the group to become year 2000 compliant will not exceed R150 million. The target date for Group compliance is 30 June 1999.

The Group does not expect to encounter material operational difficulties, and based on a reasonable examination, considers the risk to the Group of legal liability not to be material.

Statement of actuarial values of assets and liabilities of FirstRand Limited at 30 June 1998

	Notes	1998 R million	1997 (Restated) R million
Value of assets	2	34 892,5	20 667,3
***Less:* Liabilities**		20 948,5	18 226,5
Policyholder liabilities	3	20 397,3	18 041,9
Long-term and current liabilities		551,2	184,6
Excess of assets over liabilities	4	13 944,0	2 440,8
Represented by:			
Capital		8 840,1	847,3
Distributable reserves		281,1	301,0
Non-distributable reserves		223,2	49,8
Balance of excess		4 599,6	1 242,7
Excess of assets over liabilities		13 944,0	2 440,8
Capital adequacy requirements	5	816,2	585,5
Reconciliation of excess assets:			
Excess assets at beginning of the period	6	2 440,8	
Operating surplus from life insurance		134,7	
Investment return on free reserves		2 557,9	
Dividends paid		(690,5)	
		4 442,9	
New share capital		9 501,1	
Excess assets at end of the period		13 944,0	

Note: This statement of actuarial values of assets and liabilities as at 30 June 1998 represents the financial soundness valuation results of FirstRand Limited (previously Momentum Life). A statement of actuarial values of assets and liabilities of Southern Life as at 31 March 1998 was published in Southern Life's annual financial statements at that date.

Report of the Valuator

I have conducted an actuarial valuation of the assets and liabilities of FirstRand Limited (previously Momentum Life) according to generally accepted actuarial standards, and with due allowance for the reasonable benefit expectations of policyholders. I certify that the company was financially sound as at 30 June 1998, 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 the company as at 30 June 1998.

N A S Kruger BComm FFA
Valuator
Centurion
23 September 1998

Notes to the statement of actuarial values of assets and liabilities at 30 June 1998

1. Financial soundness valuation

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

A financial soundness valuation gives a prudently realistic picture of the financial position of a life insurance company, according to a set of assumptions regarding future investment returns, inflation rates, tax, bonus rates, expenses, lapses, surrenders, mortality and other factors that may have an impact on the financial position of the company. The assumptions are based on past experience and anticipated future trends. The liability calculations also make due allowance for policyholders' reasonable benefit expectations, which exceed the minimum contractual liabilities of the insurance company.

This statement of actuarial values of assets and liabilities provides a description of the actuarial valuation methods and assumptions used for the financial soundness valuation of FirstRand Limited (previously Momentum Life).

2. Value placed on assets

Assets are reflected at market value, except for unlisted subsidiaries where directors' valuations were used. The directors' valuations for FNB and Southern Life were equal to the carrying values as disclosed in Appendix 4 to the financial statements. The revaluation of the other unlisted subsidiaries from carrying value to directors' valuations is disclosed in note 3.5 of Appendix 3 to the financial statements.

3. Value placed on policyholder liabilities

Assets and liabilities were valued on mutually consistent bases.

In the calculation of policyholder liabilities, provision was made for realistic assumptions, plus explicit planned margins. The purpose of the planned margins is to introduce an appropriate degree of prudence to allow for possible adverse deviations in the cost of rendering services and the risk experience during the expected future lifetime of the business. The planned margins also avoid the premature recognition of profits that may give rise to losses in future years.

The interest rate assumption of 16,5% per annum (1997: 16%) was based on the market interest rates prevailing on the valuation date. The realistic assumptions regarding mortality, morbidity, surrenders, lapses and expenses were based on the company's recent experience and on anticipated future trends. Allowance was also made for the expected increase of Aids-related claims. The expense provisions are at a level which is sufficient to support the existing business of the company on a going-concern basis, and allow for future expense inflation at the rate of 12% per annum (1997: 11,5%). Provision for future tax was based on the current tax legislation.

Liabilities for individual universal life policies (smoothed bonuses 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 interest rate, after allowing for contractual expense charges and taxation.

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.

For smoothed bonus policies, full allowance was made for accrued vesting and non-vesting bonuses. Smoothed bonus liabilities were further increased by bonus stabilisation reserves. The bonus stabilisation reserve in the closed Lifegro portfolio was calculated as the Lifegro policyholders' full future entitlement to the current surplus in this portfolio. The bonus stabilisation reserve in the Momentum portfolio consists of accrued investment surpluses in the portfolio.

For immediate annuities, liabilities were calculated as the present value of expected future annuity payments and expenses, at market-related interest rates according to the zero-coupon gilt yield curve on the valuation date.

For group 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.

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

4. Excess of assets over liabilities

The excess of assets over liabilities reflects the financial position of the company, after allowance for bonuses declared to policyholders and dividends payable to shareholders.

5. 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 R816,2 million (1997: R585,5 million restated). The excess of assets over liabilities is more than 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.

6. Change in valuation basis

A number of changes were made to the valuation basis, which reduced the excess of assets over liabilities as at 30 June 1997 by R86,1 million to R2 440,8 million. The most important changes were as follows:

- The directors' valuation of Discovery Health (previously Momentum Health) as at 30 June 1997 was increased, following a restatement in Discovery Health's disclosed profits;
- The liability valuation basis of the closed Lifegro portfolio was refined to ensure that future surpluses emerging from the Lifegro portfolio would be consistent with the profits recognised on the portfolio;
- The allowance for future asset management expenses was reduced to reflect anticipated actual expenses;
- Allowance was made for lighter anticipated future mortality experience on immediate annuities; and
- Allowance was made for an anticipated worsening in future morbidity experience.

Nature of activities

FirstRand, which is quoted on the Johannesburg Stock Exchange ("JSE"), is the holding company of the FirstRand group, whose activities include retail banking, corporate, investment and merchant banking, life insurance, employee benefits, health insurance and asset management. FirstRand is also registered as a bank-controlling company and is the holding company of First National Bank Holdings Limited ("FNB") and Rand Merchant Bank Limited ("RMB").

Change of name

Momentum Life Assurers Limited changed its name to FirstRand Limited on 25 May 1998.

Share capital

Authorised

On 31 March 1998 a special resolution was adopted by shareholders to increase the authorised share capital from 1 500 000 000 ordinary shares of one cent each to 6 500 000 000 ordinary shares of one cent each. The purpose of this increase in authorised share capital was to have sufficient share capital to enable the company to effect the proposed merger of the various financial services interests of the Anglo American Corporation of South Africa Limited ("AAC") and RMB Holdings Limited ("RMBH").

Issued

On 1 July 1997 the issued share capital consisted of 1 353 008 450 ordinary shares of one cent each.

On 10 September 1997 and on 18 February 1998 the board declared a final dividend of 4,9 cents per share and a first interim dividend of 3,22 cents per share respectively. These dividends were awarded by way of a capitalisation award, an alternative to which shareholders could elect to receive a cash dividend. A total of 10 555 215 and 1 160 641 new shares of one cent each respectively were issued as a result of these capitalisation share awards.

On 8 May 1998 a total of 572 696 739 new ordinary shares of one cent each were issued in terms of a rights offer to shareholders in the ratio of 42 new shares for every 100 held. These rights shares were issued at R9,00 each.

On 6 April 1998 it was announced that the board had resolved to capitalise R343 million of distributable reserves by way of a capitalisation award in the ratio of 1,692 new shares of one cent each for every 100 shares held. As a result of this award 32 781 164 new ordinary shares of one cent each were issued on 11 May 1998.

The schemes of arrangement in terms of section 311 of the Companies Act between FirstRand Limited and the shareholders of The Southern Life Association Limited ("Southern Life") and FNB resulted in the issue of 3 475 100 880 new ordinary shares of one cent each on 25 May 1998.

The issued share capital of the company at 30 June 1998 totalled 5 445 303 089 ordinary shares of one cent each.

The unissued shares remain under the control of the directors until the forthcoming annual general meeting.

Directors and secretary

The directorate has been reconstituted to take cognisance of the change in shareholding. The names of the directors, as well as the name, business and postal address of the secretary, appear elsewhere in this annual report.

Messrs M W King, V W Bartlett, J R Calitz, D J A Craig, P M Goss, G R Pardoe, B J van der Ross and R A Williams were appointed as directors on 25 May 1998 while Messrs J D Krige, H P Meyer, A Bottega, D J du Preez, R B Gouws, R J Hutchison, D J Malan, B Swartzberg and Ms W E Lucas-Bull resigned as directors on this date.

The newly appointed directors will all retire but, being eligible, offer themselves for re-election.

On 30 June 1998 the present directors of FirstRand had a direct and indirect interest of 5,6% (1997: 19,2%) in the company.

Holding company

The company has no holding company. The principal shareholders are AAC and RMBH, both of which are quoted on the JSE.

Share incentive schemes

Details of the share incentive schemes in operation within the group, are contained in note 6 to the annual financial statements. These share incentive schemes enable senior and other employees in the group to acquire equity in the company.

Dividends

The following capitalisation share awards and dividends were declared during the financial year:

	1998 cents per share	1997 cents per share
Interim dividend (declared 18 February 1998)	3,22	2,30
Second interim cash dividend (declared 24 April 1998)	2,67	-
Final cash dividend (declared 23 September 1998)	4,50	4,90
	10,39	7,20

Note: The first and second interim dividend per share, as well as the 1997 dividend per share have been restated based on the increased weighted average number of shares in issue following the special capitalisation award detailed under share capital above.

Events subsequent to balance sheet date

Events in the financial markets since 30 June 1998 have impacted significantly on companies in the financial services industry. The recent precipitous decline in investment markets will impact on fee income from fund management and business units which have fee income streams based on the assets under management. The current high interest rates are expected to reduce banking margins and also place severe pressure on companies and individuals leading to an increase in bad debts in the banking industry.

However, the group is adequately capitalised and uniquely structured to innovatively manage the challenges presented by the changed economic outlook. Increased provisions established at the time of the merger and aimed at aligning group risk management practices have proved to be appropriate and comforting in the prevailing investment climate.

Directors' responsibility to the members of FirstRand Limited

The directors of FirstRand are required by the Companies Act to maintain adequate accounting records and to prepare financial statements for each financial year which fairly present the state of affairs, of the Company and the Group at the end of the financial year, and of the profit 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 thereof 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 directors have reviewed the Group's budget and flow of funds forecast for the year to 30 June 1999. 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 in the period to the next financial statements. The going-concern basis has therefore been adopted in preparing the financial statements. The Group's external auditors, PricewaterhouseCoopers, have audited the financial statements and their unqualified report appears on page 29.

The directors are responsible for the company's system of internal control, which includes internal financial controls that are designed to provide reasonable, not absolute, assurance against material misstatement and loss. The company maintains internal financial controls to provide assurance regarding:

- the safeguarding of assets against unauthorised use or disposition; and
- the maintenance of proper accounting records and the reliability of financial information used within the business or for publication.

The controls contain self-monitoring mechanisms, and actions are taken to correct deficiencies as they are identified. Even an effective system of internal control, no matter how well designed, has inherent limitations, including the possibility of circumvention or the overriding of controls. An effective system of internal control therefore aims to provide reasonable assurance with respect to the reliability of financial information and, in particular, financial statements presentation. Further, because of changes in conditions, the effectiveness of internal financial controls may vary over time.

The financial statements for the year ended 30 June 1998 and which appear on pages 30 to 78, 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

23 September 1998
Sandton

Group accounting policies

The principal accounting policies have been categorised between general accounting policies, accounting policies specific to banking operations, and accounting policies specific to insurance operations.

General accounting policies

Presentation

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 the generally accepted practice of accounting for insurance and banking companies 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 values to the Group. Such values are reviewed and amended as appropriate in the financial year 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.

Companies acquired to increase security for advances, or act as a conduit for advances, are not consolidated and are shown as advances.

Investment in subsidiaries

The company's investment in subsidiaries is reflected at the attributable net asset value of the subsidiaries. This is achieved by applying equity accounting principles, which are considered appropriate to the insurance operations of FirstRand.

During the current year the company changed its policy regarding the accounting for its investment in subsidiaries. Previously, these investments were reflected at cost less provision for losses.

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 treated as a non-distributable reserve, pending recognition on an appropriate basis.

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 reserve.

The assets and liabilities of foreign subsidiary companies, regarded as an integral part of the entities operations, are translated at historic rates. 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 historical rates and income statement items are translated at the weighted average rate for the year.

Assets and liabilities denominated in foreign currencies are translated into South African currency at the rates of exchange ruling at the balance sheet date, or where covered 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.

Foreign exchange trading positions, including spot and forward contracts, are valued at current market rates and the resultant profits and losses are accounted for in the income statement.

Investments

Banking operations

Financial assets held for trading purposes are revalued to fair value. The fair values of listed assets are determined by reference to quoted market rates, and in the case of unlisted assets, the fair value is the amount for which assets could be exchanged or settled between knowledgeable, willing parties in an arm's length transaction. Any fair value differences are recognised in the income statement.

Financial assets held for investment purposes are stated at book value less any permanent diminution in value, and profits and losses are recognised on realisation. In determining the book value of investments, financial assets with a fixed redemption date are stated at original cost plus accrued interest. 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. Securities are transferred between investment and trading portfolios at market value.

Where an investment security is held in lieu of an advance, such an investment is reflected as an advance and the dividend income is shown as interest received.

Insurance operations

Realised profits and losses on sale of investments and unrealised changes in policyholders' investment values previously transferred directly to the life fund, are now reflected in the income statement.

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 stated 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.

Property nvestments

Property investments include fixed property and investments in property companies, and are stated at a valuation based on open market values.

Investments in property companies are shown at a value based on the valuation of the underlying net asset values, after revaluation of fixed properties.

Properties in the process of being developed are valued at development costs incurred, less adjustments to reduce the costs to open market value, if required.

Equity investments

Listed equity and unit trust investments are stated at market value and repurchase prices respectively. Unlisted investments are stated at directors' valuation with reference to fair values 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.

Banking operations

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.

Goodwill arising on the acquisition of associates is accounted for in the same way as goodwill on acquisition of subsidiaries. The Group's share of earnings of associates is included in earnings attributable to ordinary shareholders. Intercompany transactions between the parent company and associates are eliminated.

Insurance operations

Investments in associates 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.

Deferred taxation

Deferred taxation is accounted for on the comprehensive basis in respect of all material timing differences between the accounting and taxation treatment of income and expenditure items. Account is only taken of taxation assets arising from taxation losses where the recovery of such losses, in the opinion of the directors, is assured beyond reasonable doubt.

During the current year the insurance operations changed its deferred taxation accounting policy from the partial basis to the comprehensive basis in order to align group policies.

Retirement benefits

The Group has established defined benefit and defined contribution schemes, the assets of which are held in separate trustee-administered funds. These funds are registered in terms of the Pension Funds Act, 1956, and membership is compulsory for all Group employees. The pension plans are generally 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.

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 equipment where the group assumes substantially all the benefits and risks of ownership are classified as finance leases, and are capitalised in terms of the underlying asset category.

Other leases are classified as operating leases. Obligations incurred under operating leases are charged to the income statement in equal instalments over the period of the lease.

Property and equipment

Property and equipment consists of freehold land, buildings, computer equipment, furniture, other equipment and motor vehicles.

With the exception of property held by the insurance operations, property and equipment is stated at historic cost less accumulated depreciation calculated on a straight-line basis over their expected useful lives.

Property investments in the insurance operations are reflected as investment assets, and as such are not disclosed as part of property and equipment. These investments are stated in accordance with the accounting policy under investments of insurance operations 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, provided that these amounts are considered to provide benefits for future periods.

Dividends

Total dividends, being paid in cash or awarded by way of capitalisation awards, are reflected as dividends in the income statement. An estimate of dividends payable as a result of a cash election is reflected under current liabilities and the difference between this estimate and total dividends declared is transferred to a share election reserve under shareholders' funds pending the outcome of the final share awards.

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 revenue in proportion to capital balances outstanding.

Derivative instruments

Included in derivative instruments are financial futures, options, swaps and forward rate agreements.

Banking operations

Derivative instruments held for trading purposes are stated at fair value, which includes a provision for the effects of market risk in the portfolios where the bid/offer spreads for long-dated derivative instruments are considered to be significant.

Profits and losses on derivative instruments, both realised and unrealised, are included in income as incurred, except for those instruments designated as hedges. Profits and losses related to derivative instruments that are designated as hedges are deferred and recognised on the same basis as the hedged asset or liability.

Insurance operations

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. Profits and losses related to derivative instruments are deferred and recognised on the same basis as the hedged asset or liability.

Accounting policies specific to banking operations

Doubtful 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 any bank's 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.

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 group. The value at which the asset is recorded in the financial statements corresponds with the 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 ownership does not pass to the group.

Assets and liabilities subject to repurchase agreements entered into by a foreign subsidiary are disclosed as a net position.

Accounting policies specific to insurance operations

Premium income

Premium income is reflected net of reinsurance premiums.

Individual life investment funds, lump sums, annuities and single premiums are accounted for when the collection of the premiums in terms of the policy contract is reasonably assured.

All other individual life premiums are accounted for when they become due and payable.

In the employee benefits division, risk premiums and pure endowment scheme premiums are accounted for when they become due and payable. Other premiums are accounted for on a cash receipt basis.

Net investment income

Net 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 12 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.

Group income statement
for the year ended 30 June 1998

	Notes	1998 R million	1997 R million
Net income after tax:			
Banking operations	Appendix 1	441,4	81,1
Insurance operations	Appendix 2	205,4	147,0
Interest on rights issue proceeds		83,6	–
Total net income after tax	1	730,4	228,1
Earnings attributable to outside shareholders of:			
Banking operations		(12,0)	(2,5)
Insurance operations		(18,5)	(8,2)
Net income after tax attributable to shareholders		699,9	217,4
Preference dividends	2	(11,5)	–
Net income after tax attributable to ordinary shareholders		688,4	217,4
Ordinary dividends	2	(347,5)	(110,8)
Retained income for the year		340,9	106,6
Distributable reserve at beginning of year		301,0	196,5
		641,9	303,1
Capitalisation award	3	(343,0)	–
Transfer to reserves	8	(17,8)	(2,1)
Distributable reserve at end of year		281,1	301,0
Earnings per share (cents)	4	27,4	14,8
Headline earnings per share (cents)	4	27,6	14,7
Dividend per share (cents)		10,4	7,2

Net income after tax attributable to ordinary shareholders is analysed between existing, discontinued and acquired operations as follows:			
Existing operations (twelve months)		314,0	207,3
Banking operations		109,8	78,6
Insurance operations		204,2	128,7
Discontinued operation			
Insurance operations		(17,3)	10,1
Net income before acquired operations		296,7	217,4
Net income from acquired banking operations (three months)		308,1	–
Net income from rights issue proceeds		83,6	–
		688,4	217,4

GROUP BALANCE SHEET
AT 30 JUNE 1998

	Notes	1998 R million	1997 R million
SHAREHOLDERS' EQUITY AND LIABILITIES			
Ordinary share capital and share premium	6	8 490,1	432,9
Convertible debentures	7	350,0	350,0
Reserves	8	504,3	415,2
Shareholders' equity		9 344,4	1 198,1
Outside shareholders' interest	9	428,8	140,2
Deferred taxation	10	1 104,3	71,7
Debentures issued by subsidiaries	11	120,0	160,0
Deposits and current accounts	12	118 121,7	8 149,3
Long-term liabilities	13	338,5	95,4
Short-term insurance funds		–	51,6
Life insurance funds	14	50 350,0	17 994,6
Current liabilities	25	13 816,6	1 768,1
Liabilities to clients under acceptances		1 067,5	80,1
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		194 691,8	29 709,1
ASSETS			
Banking operations		125 264,3	8 636,4
Cash and short-term funds	15	10 186,6	450,6
Short-term negotiable securities	16	10 573,4	1 883,5
Investment in trading securities	17	7 978,6	1 394,7
Advances	18	94 955,4	4 649,7
Other investments	19	372,3	177,8
Associated companies	20	130,5	–
Clients' liabilities under acceptances		1 067,5	80,1
Insurance operations		54 487,3	18 465,5
Government and public authority stocks		7 032,3	3 256,4
Mortgages, debentures and other loans		3 628,1	2 014,9
Equity investments	21	29 876,8	9 589,3
Property investments	22	3 973,8	1 271,7
Policy loans		546,7	132,9
Funds on deposit		9 429,6	2 200,3
Property and equipment	23	3 557,1	298,9
Current assets	24	11 383,1	2 308,3
TOTAL ASSETS		194 691,8	29 709,1
Contingencies and commitments	26	10 916,2	856,0

GROUP CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 1998

	Notes	1998 R million	1997 R million
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated by operations	29.1	2 812,3	3 746,3
Working capital changes	29.2	531,9	(131,9)
Cash inflow from operations		3 344,2	3 614,4
Normal tax paid	29.3	(315,1)	(79,1)
Dividends paid	29.4	(98,8)	(52,0)
Net cash inflow from operating activities		2 930,3	3 483,3
CASH FLOWS FROM INVESTMENT ACTIVITIES			
Banking investment activities	29.5	1 256,6	(208,7)
Insurance investment activities	29.6	(586,0)	(2 991,4)
Proceeds on disposal of joint venture		127,4	–
Investment in associates		5,5	–
Net purchase of equipment		(184,3)	(28,1)
Net cash inflow/(outflow) from investment activities		619,2	(3 228,2)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of ordinary shares	29.7	5 035,2	–
Repayment of long-term borrowings		(28,8)	(12,2)
Proceeds from debentures issued by insurance operations		–	350,0
Repayment of debentures by banking operations		–	(12,4)
Proceeds from issue of preference shares by banking operations		–	100,0
Net cash inflow from financing activities		5 006,4	425,4
Net increase in cash and cash equivalents		8 555,9	680,5
Cash and cash equivalents at beginning of period		2 650,9	1 970,4
Cash and cash equivalents acquired/disposed of		8 409,4	–
Cash and cash equivalents at end of period	29.8	19 616,2	2 650,9

	1998 R million	1997 R million
1. NET INCOME AFTER TAX ATTRIBUTABLE TO SHAREHOLDERS		
Net income after tax is stated after charging the following:		
Auditors' remuneration		
Audit fees – current year	7,8	3,9
– underprovision prior year	0,2	0,4
Fees for other services	1,5	0,8
	9,5	5,1
Depreciation		
Property – owned	8,4	–
Equipment – owned	123,5	54,0
Equipment – leased	0,3	3,3
Vehicles – owned	22,9	–
	155,1	57,3
Operating lease charges		
Land and buildings	63,1	3,9
Equipment	36,0	9,8
Motor vehicles	0,4	–
	99,5	13,7
Transformation and restructuring costs		
Insurance operations	152,4	–
Directors' emoluments paid		
Executive directors		
Salaries, pension and medical aid contributions	9,6	8,6
Non-executive directors		
Fees for services as directors/consultants	0,3	0,3
	9,9	8,9
Directors emoluments paid by:		
Company	2,3	2,3
Subsidiaries	7,6	6,6
	9,9	8,9

	1998 R million	1997 R million
2. DIVIDENDS		
Preference dividends	11,5	–
Dividends are payable six monthly in arrears on 31 March and 30 September of each year at 62% of the prime overdraft rate based on the subscription price.		
Ordinary dividends		
An interim dividend of 3,22 cents (1997: 2,3 cents) per share (cash equivalent of capitalisation award) was declared on 18 February 1998, payable to shareholders registered on 20 March 1998.	49,8	35,0
A second interim dividend of 2,67 cents per share was declared on 24 April 1998, payable to shareholders registered on 8 May 1998.	52,7	–
A final dividend of 4,5 cents (1997: 4,9 cents) per share (1997: cash equivalent of capitalisation award) was declared on 23 September 1998, payable to shareholders registered on 16 October 1998.		
Final dividend provided as payable in cash	245,0	11,4
Estimated non-cash element transferred to share election reserve (refer note 8)	–	64,4
	347,5	110,8
3. CAPITALISATION AWARD		
Distributable reserves of R343 million were capitalised by way of the issue of 32 781 164 shares in the ratio of 1,692 shares for every 100 shares registered in the name of shareholders on 8 May 1998	343,0	–
4. 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 R688,4 million (1997: R217,4 million) and the weighted average number of ordinary shares in issue during the year amounted to 2 509 989 723 (1997: 1 472 015 546).		
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	688,4	217,4
Less: Profit on sale of strategic investments	(0,6)	(1,8)
Add: Loss on disposal of joint venture	5,4	–
Headline earnings attributable to ordinary shareholders	693,2	215,6

	1998 R million	1997 R million
5. CHANGES IN ACCOUNTING POLICY		
5.1 Realised profits and losses on sale of investments and unrealised changes in policyholders' investment values, previously transferred directly to the life fund, are now reflected in the income statement, and subsequently transferred to the life funds. This had no cumulative effect on the financial statements.		
5.2 Discovery Health Limited changed its valuation basis to follow the more common basis of deferring acquisition costs over the expected period of the policy contract. The effect of this change is detailed below:		
Increase in net income after tax attributable to shareholders for 1997		13,3
Cumulative effect on retained earnings prior to 1997		10,0
Less: Attributable to outside shareholders		(7,0)
Increase in distributable reserve at beginning of year		16,3
6. ORDINARY SHARE CAPITAL AND SHARE PREMIUM		
Ordinary share capital		
Authorised		
6 500 000 000 ordinary shares of 1 cent each (1997: 1 500 000 000)	65,0	15,0
Issued		
Balance at beginning of year:		
1 353 008 450 ordinary shares of 1 cent each (1997: 1 346 852 110)	13,5	13,4
Shares issued during the year:		
Capitalisation awards		
44 497 020 ordinary shares of 1 cent each (1997: 6 156 340)	0,4	0,1
Issued in terms of rights issue		
572 696 739 ordinary shares of 1 cent each	5,7	–
Issued for subsidiaries acquired		
3 475 100 880 ordinary shares of 1 cent each	34,8	–
	54,4	13,5
Share premium		
Balance at beginning of year	419,4	384,5
Arising on issue of ordinary shares:		
Capitalisation awards	422,1	35,0
Issued in terms of rights issue	5 148,6	–
Issued for subsidiaries acquired	4 008,5	–
Share issue expenses	(119,1)	(0,1)
	9 879,5	419,4
Excess of cost of investment in subsidiary over attributable net asset value	(1 443,8)	–
The above set-off has been accounted for on the basis that the company will be proceeding with an application to the High Court for a capital reduction in terms of section 84 of the Companies Act (Act 61 of 1973). The excess relates to the purchase, by shareholders, of the 40% shareholding in Rand Merchant Bank Limited previously held by the Momentum policyholder portfolios. Details of the special resolution proposed in this regard are contained in the addendum to the notice of the annual general meeting enclosed with these annual financial statements.		
Ordinary share capital and share premium	8 490,1	432,9

	1998 %	1997 %
6. ORDINARY SHARE CAPITAL AND SHARE PREMIUM (CONTINUED)		
The following represents the shareholding of subsidiaries in FirstRand Limited at 30 June 1998:		
Southern Life Association Limited	4,4	–

Share option schemes

Details of the investment in FirstRand shares 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")

	Momentum Life	Southern Life	FNB
Number of options in force at end of year (millions)	35,2	26,4	99,5
Granted at prices ranging between (cents)	85 – 910	93 – 1 029	40 – 1 069
Number of options granted during year (millions)	6,5	0,6	0,1
Granted at prices ranging between (cents)	700 – 910	1 029	1 026 – 1 069
Number of options exercised/released during year (millions)	13,9	3,7	5,7
Market value range at date of exercise/release (cents)	700 – 1 215	888 – 1 071	905 – 1 069
Number of remaining shares available for future options (millions)	33,2	28,5	5,4
Value of company loan to share option trust (R million)	395,2	161,1	480,1

The abovementioned figures for Southern Life and FNB take account of the exchange ratio of 675 FirstRand shares for every 100 Southern Life/FNB shares, and cover the three-month period to 30 June 1998. In order to harmonise the terms and conditions applicable to these schemes, management is in the process of reviewing the structure of the schemes.

	R million	R million
7. CONVERTIBLE DEBENTURES		
Fixed rate unsecured subordinated compulsorily 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 average rate of 18,3% per annum.

	1998 R million	1997 R million
8. RESERVES		
Distributable reserve	281,1	301,0
Share election reserve		
Balance at beginning of year	64,4	–
Dividends provided	–	64,4
Shares issued	(64,4)	–
Balance at end of year	–	64,4
Non-distributable reserves		
Non-distributable reserves relating to:		
Banking operations	216,6	0,5
Equity accounted earnings of associates	10,5	–
Other reserves in associated companies	0,2	–
Currency conversion reserve	178,9	–
Other	27,0	0,5
Insurance operations	6,6	49,3
Unrealised surplus on revaluation of investment assets	3,7	22,4
Contingency reserve	–	25,7
Currency conversion reserve	0,9	0,1
Other	2,0	1,1
Balance at end of year	223,2	49,8
Total reserves	504,3	415,2
Movement for the year in non-distributable reserves:		
Balance at beginning of year	49,8	38,2
Transfer from income statement relating to:	17,8	2,1
Banking operations	46,5	–
Insurance operations	4,4	2,1
Discontinued operation	(33,1)	–
Currency conversion reserve	179,7	0,1
Unrealised surplus on revaluation of investments	(12,9)	9,7
Other	(11,2)	(0,3)
Balance at end of year	223,2	49,8

	1998 R million	1997 R million
9. Outside shareholders' interest		
Preference shares issued by banking subsidiary	100,0	100,0
Other shareholdings	328,8	40,2
	428,8	140,2
10. Deferred taxation		
Balance at beginning of year	71,7	59,4
Subsidiary balances acquired/disposed of (net)	1 000,2	–
Charge for the year	32,4	12,3
Balance at end of year	1 104,3	71,7
Analysis of deferred taxation balance		
Difference between tax and book value of:		
Instalment credit agreements	907,1	–
Provisions	76,8	(30,7)
Taxation losses	(6,2)	–
Property and equipment depreciation	40,4	36,0
Other	86,2	66,4
	1 104,3	71,7

Note to the deferred taxation of insurance operations

Due to the lack of a consistent industry-wide basis for the determination of the comprehensive deferred taxation liability relating to transfers between the four tax funds, the estimated liability relating to these timing differences has been provided for in the actuarial liability under unmatured policies, and is not included in the deferred taxation liability detailed above.

This provision amounts to R60,0 million for Momentum Life and R136,0 million for Southern Life at their respective valuation dates.

	1998 R million	1997 R million
11. Debentures issued by subsidiaries		
Non-redeemable subordinated debentures of banking subsidiary	120,0	120,0
Interest is payable six monthly in arrears on 30 June and 31 December of each year at 2% below the prime overdraft rate. The holder has the right, at any time 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.		
Redeemable subordinated debentures of banking subsidiary	100,0	–
Interest is payable at 1,75% below the prime overdraft rate. The debentures are redeemable on 19 December 1998 and do not have any conversion rights.		
Compulsorily convertible non-redeemable debentures of joint venture	–	40,0
	220,0	160,0
Less: Current portion transferred to current liabilities	(100,0)	–
	120,0	160,0

	1998 R million	1997 R million
12. DEPOSITS AND CURRENT ACCOUNTS		
Time deposits	52 720,0	1 286,2
Current deposit accounts	28 820,4	3 476,0
Deposits from banks	3 066,5	806,2
Negotiable certificates of deposit	11 303,8	813,1
Savings accounts	4 303,1	–
Other	17 907,9	1 767,8
	118 121,7	8 149,3
Geographical analysis		
South Africa	106 802,7	8 149,3
Europe	7 401,7	–
Namibia	1 984,5	–
Botswana	1 614,9	–
Swaziland	317,9	–
	118 121,7	8 149,3
Maturity analysis		
Withdrawable on demand	65 630,7	3 476,0
Maturing within one month	25 705,0	2 274,9
Maturing after one month but within six months	17 071,3	817,5
Maturing after six months but within twelve months	7 148,0	118,9
Maturing after twelve months	2 566,7	1 462,0
	118 121,7	8 149,3
The maturity analysis of deposit and current accounts is based on the remaining periods to contractual maturity from year-end.		
13. LONG-TERM LIABILITIES		
Banking operations		
Debt securities amortising annually over the period to 2005	365,1	–
These debt securities are unsecured, with interest being payable six-monthly in arrears at rates that vary between 16,74% and 17,66% per annum.		
Insurance operations		
Property-management subsidiary	72,1	95,4
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	26,9	–
Other long-term loans	8,2	–
	472,3	95,4
Less: Current portion transferred to current liabilities	(133,8)	–
	338,5	95,4

	1998 R million	1997 R million
14. LIFE INSURANCE FUNDS		
The movements in the life insurance funds for the year are as follows:		
Balance at beginning of year	17 994,6	13 850,1
Subsidiary balances acquired	31 477,4	–
Transfer from insurance operations (Appendix 2)	878,0	4 144,5
Balance at end of year	50 350,0	17 994,6
Actuarial liabilities under unmatured policies for the combined insurance operations (1997: Momentum Group) comprise the following:	%	%
Market related business		
Individual life	30,8	23,2
Employee benefits	24,4	37,3
Smooth bonus business		
Individual life	17,1	29,4
Employee benefits	11,1	0,1
With-profits reversionary bonus business	4,9	0,1
Non-profit business		
Individual life	0,8	0,4
Employee benefits	1,2	0,3
Annuity business	9,1	8,5
Health operations	0,6	0,7
	100,0	100,0

The above percentages are based on the actuarial valuations of Momentum Life and Discovery Health at 30 June 1998 and of Southern Life at 31 March 1998, the last date on which an actuarial valuation was performed. The life funds of the group at 30 June 1998 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	R million
15. CASH AND SHORT-TERM FUNDS		
Coin and bank notes	1 773,8	0,4
Money at call and short notice	7 458,0	307,1
Balances with central banks	954,8	143,1
	10 186,6	450,6

Money at short notice constitutes amounts withdrawable in 32 days or less.

	1998 R million	1997 R million
16. SHORT-TERM NEGOTIABLE SECURITIES		
Bills	401,8	–
Negotiable certificates of deposit	4 294,7	902,9
Treasury bills	3 802,6	317,8
Other	2 074,3	662,8
	10 573,4	1 883,5
Trading portfolio	4 742,3	1 565,7
Investment portfolio	5 831,1	317,8
Total short-term and negotiable securities	10 573,4	1 883,5
17. INVESTMENT AND TRADING SECURITIES		
Government and government guaranteed		
Book value	6 203,9	1 148,2
Valuation	6 094,7	1 018,6
Other dated securities		
Book value	810,6	220,7
Valuation	822,1	220,7
Undated securities		
Book value	964,1	25,8
Valuation	1 046,4	25,8
Total book value	7 978,6	1 394,7
Total market value or directors' valuation	7 963,2	1 265,1
Analysis of investment and trading securities		
Listed		
Book value	6 811,7	1 394,7
Market value	6 796,6	1 265,1
Unlisted		
Book value	1 166,9	–
Directors' valuation	1 166,6	–
Total book value	7 978,6	1 394,7
Total market value or directors' valuation	7 963,2	1 265,1
Investment portfolio	4 019,7	317,4
Trading portfolio	3 958,9	1 077,3
Total investment and trading securities	7 978,6	1 394,7

Market prices of listed investments are those as quoted on the JSE or as certified by the Public Investment Commissioner. Assets under repurchase agreements included in the above are detailed in note 30.

	1998 R million	1997 R million
18. ADVANCES		
Sector analysis		
Individuals	37 431,7	335,6
Banks and financial services	12 352,6	382,1
Manufacturing and commerce	24 402,8	1 379,8
Building and property development	6 716,4	44,3
Transport and communication	2 682,8	78,8
Government, Landbank and Public Authorities	8 368,5	31,5
Agriculture	2 562,1	40,8
Mining	1 483,7	251,3
Other services	2 823,5	2 212,5
	98 824,1	4 756,7
Interest suspended	(974,9)	–
	97 849,2	4 756,7
Doubtful debt provisions (specific and general)	(2 893,8)	(107,0)
Advances after doubtful debt provisions	94 955,4	4 649,7
Geographic analysis		
South Africa	91 066,5	4 756,7
Europe	3 377,2	–
Namibia	2 220,6	–
Botswana	958,2	–
Swaziland	226,7	–
	97 849,2	4 756,7
Category analysis		
Overdrafts and managed account debtors	22 791,0	–
Home loans	18 687,7	3,5
Instalment sales	13 613,8	291,3
Lease payments receivable	7 233,0	–
Offshore loans	8 477,1	–
Bills and bankers acceptances	9 139,6	–
Card loans	2 650,9	–
Other advances	15 256,1	4 461,9
	97 849,2	4 756,7
Maturity analysis		
Maturing within 1 year	52 237,0	2 683,6
Maturing after 1 year but within 5 years	22 303,6	2 073,1
Maturing after five years	23 308,6	–
	97 849,2	4 756,7

The maturity analysis of advances is based on the remaining periods to contractual maturity from year end.

	1998 R million	1997 R million
19. OTHER INVESTMENTS		
Listed investments		
Book value	176,1	46,6
Market value	317,7	200,7
Unlisted investments		
Book value	196,2	131,2
Directors' valuation	413,6	131,2
Total book value	372,3	177,8
Total market or directors' valuation	731,3	331,9
20. ASSOCIATED COMPANIES OF BANKING OPERATIONS		
Listed associates		
Cost less amounts written off	76,6	–
Unlisted associates		
Cost less amounts written off	15,1	–
Total cost less amounts written off	91,7	–
Income for the year	15,0	–
Dividends received for the year	(3,9)	–
Equity accounted earnings	11,1	–
Share of retained earnings at beginning of year	20,5	–
Share of retained earnings at end of year	31,6	–
Share of other reserves	7,2	–
Total retained income and reserves	38,8	–
Total carrying value	130,5	–
Valuation		
Listed associates at market value	213,2	–
Unlisted associates at directors' valuation	23,1	–
Total valuation	236,3	–

A detailed list of associated companies is available for inspection at the registered offices.

	1998 R million	1997 R million
21. EQUITY INVESTMENTS		
Listed – at market value	27 668,7	8 763,2
Unlisted – at directors' valuation	2 208,1	826,1
	29 876,8	9 589,3

Equity investments include investments made in associated companies by the insurance operations, which are not equity accounted, but are reflected at fair value in accordance with the accounting policy relating to equity investments.

The ten largest listed equity holdings of the insurance operations comprise the following (in alphabetical order): ABSA, African Life, Anglo American, Dimension Data, FirstRand*, Imperial, Liberty Life, Nedcor, Persetel Q Data and Richemont.

* *The FirstRand shares were acquired on behalf of Southern Life policyholders prior to 1 April 1998.*

Investments in listed shares were distributed as follows:	%	%
Mining	1	6
Gold	1	2
Financial – mining houses	4	11
Financial – other	29	17
Industrial	35	47
Overseas instruments	16	5
Unit trusts	13	10
Other	1	2
	100	100

	R million	R million
22. PROPERTY INVESTMENTS		
Fixed property	3 823,3	1 213,9
Listed property equities	150,5	57,8
	3 973,8	1 271,7

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.

	Cost R million	Accumulated depreciation R million	1998 Net book value R million	Cost R million	Accumulated depreciation R million	1997 Net book value R million
23. PROPERTY AND EQUIPMENT						
Summary of property and equipment						
Property						
Freehold land and buildings	2 014,6	240,0	1 774,6	187,4	–	187,4
Leasehold premises	428,8	191,8	237,0	–	–	–
	2 443,4	431,8	2 011,6	187,4	–	187,4
Equipment						
Computer equipment	2 285,0	1 557,9	727,1	219,9	141,5	78,4
Furniture and fittings	938,5	468,9	469,6	31,2	8,9	22,3
Motor vehicles	587,9	281,0	306,9	4,8	2,0	2,8
Office equipment	103,5	61,6	41,9	11,8	3,8	8,0
	3 914,9	2 369,4	1 545,5	267,7	156,2	111,5
Total	6 358,3	2 801,2	3 557,1	455,1	156,2	298,9

	Freehold land and buildings R million	Leasehold premises R million	Equipment R million	1998 Total R million	1997 Total R million
Movement in property and equipment					
Cost at beginning of the year	187,4	–	267,7	455,1	419,5
Subsidiary balances acquired/disposed of	1 802,0	411,7	3 528,9	5 742,6	–
Additions	11,3	7,9	198,4	217,6	37,3
Disposals	(5,0)	–	(96,5)	(101,5)	(1,7)
Transfers and other movements	18,9	9,2	16,4	44,5	–
Cost at end of the year	2 014,6	428,8	3 914,9	6 358,3	455,1
Accumulated depreciation at beginning of the year	–	–	156,2	156,2	100,0
Subsidiary balances acquired/disposed of	237,2	180,5	2 093,2	2 510,9	–
Depreciation charge for the year	1,3	6,6	147,2	155,1	57,3
Disposals	(0,5)	–	(49,3)	(49,8)	(1,1)
Transfers and other movements	2,0	4,7	22,1	28,8	–
Accumulated depreciation at end of the year	240,0	191,8	2 369,4	2 801,2	156,2
Net book value at end of the year	1 774,6	237,0	1 545,5	3 557,1	298,9

	1998 R million	1997 R million
24. CURRENT ASSETS		
Banking operations		
Items in transit	1 570,9	–
Accrued interest	139,6	–
Accounts receivable	1 736,6	252,6
Non-banking advances	1 486,5	1 227,5
Other debtors	4 802,0	–
	9 735,6	1 480,1
Insurance operations		
Accrued investment income	1 036,0	559,7
Premium debtors	192,1	149,6
Taxation prepaid	–	1,4
Other debtors	419,4	117,5
	1 647,5	828,2
Total current assets	11 383,1	2 308,3
25. CURRENT LIABILITIES		
Dividends payable	245,0	11,4
Fair value provisions	100,0	–
Banking operations		
Accrued interest	116,9	–
Accounts payable	1 585,7	465,4
Debentures (note 11)	100,0	–
Non-banking loan accounts	1 851,1	574,6
Taxation	188,2	38,2
Other creditors	7 079,9	197,7
	10 921,8	1 275,9
Insurance operations		
Outstanding benefit payments	1 221,7	187,0
Creditors	854,4	237,1
Provisions	287,2	13,9
Taxation	186,5	42,8
	2 549,8	480,8
Total current liabilities	13 816,6	1 768,1

	1998 R million	1997 R million
26. Contingencies and commitments		
Contingencies – banking operations		
Guarantees	8 662,6	856,0
Credits	2 253,6	–
	10 916,2	856,0
No material losses are anticipated as a result of these transactions other than losses for which provision has been made in the financial statements.		
Commitments		
Commitments in respect of capital expenditure and long-term investments approved by directors		
Contracted for	18,3	–
Not contracted for	18,4	5,7

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

Commitments under derivative instruments

Option contracts, financial futures contracts, forward rate and interest rate swap agreements and other financial instruments have been entered into in the normal course of business. In terms of the group's accounting policies these instruments are stated at fair value or, where not listed, at valuation. Profits and losses, both realised and unrealised, are included in income.

27. FINANCIAL INSTRUMENTS

Fair values

At 30 June 1998 and 1997 the carrying amounts of cash and short-term deposits, accounts receivable, accounts payable and accrued expenses, and short-term borrowings approximated their fair values due to the short-term maturities of these assets and liabilities.

At 30 June 1998 and 1997 the carrying amounts of the insurance operations' assets and liabilities approximated their fair values.

The fair values of investment and trading securities relating to banking operations are presented in note 17.

The fair values of other long-term investments and of long-term borrowings are not materially different from the carrying amounts.

28. RELATED PARTIES

Major shareholders

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

Transactions with directors

There are no material transactions with directors other than the directors' emoluments detailed in note 1.

Transactions with entities in the group

FirstRand Limited is the ultimate chief controlling entity in the group . The company advanced, repaid and received loans from other entities in the group during the current and previous financial years. These transactions were on commercial terms and conditions.

	1998 R million	1997 R million
29. CASH FLOW INFORMATION		
29.1 Cash generated by operations		
Net profit before taxation	1 050,2	348,0
Adjustment for non-cash items	1 762,1	3 398,3
	2 812,3	3 746,3
Cash generated by operations comprises:		
Banking operations	1 151,6	153,5
Insurance operations	1 532,1	3 592,8
Income from rights issue proceeds	128,6	–
	2 812,3	3 746,3
29.2 Working capital changes		
Current assets		
Increase in items in transit	(661,7)	–
Increase in accrued interest	(26,0)	–
(Increase)/decrease in accounts receivable	(819,5)	274,2
Increase in non-banking advances	(259,0)	(571,5)
Increase in other debtors	(2 334,8)	–
Increase in accrued investment income	(276,2)	(176,8)
Increase in premium debtors	(45,2)	(69,1)
Increase in other debtors	(125,1)	(2,8)
	(4 547,5)	(546,0)
Current liabilities		
Increase in accrued interest	47,3	–
Increase/(decrease) in accounts payable	236,6	(32,9)
Increase in non-banking loan accounts	1 276,5	367,6
Increase in other creditors	3 209,8	68,0
Increase in outstanding benefit payments	190,3	11,9
Increase in creditors	39,4	9,0
Increase/(decrease) in provisions	79,5	(9,5)
	5 079,4	414,1
Net working capital changes	531,9	(131,9)
29.3 Taxation paid		
Balance at beginning of year	(79,6)	(42,1)
Balances of subsidiaries acquired/disposed of	(279,8)	–
Taxation charged for the year	(330,4)	(116,6)
Balance at end of year	374,7	79,6
	(315,1)	(79,1)

	1998 R million	1997 R million
29. Cash flow information (continued)		
29.4 Dividends paid		
Balance at beginning of year	(11,4)	(51,9)
Ordinary dividends declared	(347,5)	(110,8)
Shares issued in lieu of dividends	79,5	34,9
Transfer (from)/to share election reserve	(64,4)	64,4
Balance at end of year	245,0	11,4
	(98,8)	(52,0)
29.5 Banking investment activities		
(Increase)/decrease in income-earning assets		
Short-term negotiable securities	(2 088,6)	(1 334,9)
Investment in trading securities	(3 215,5)	809,4
Advances	(7 517,9)	(1 511,3)
Other investments	(72,4)	(79,1)
	(12 894,4)	(2 115,9)
Deposits and current accounts	14 151,0	1 907,2
Net decrease/(increase) in banking investment activities	1 256,6	(208,7)
29.6 Insurance investment activities		
Net purchases of government and public authority stocks	220,0	(861,8)
Net purchases of mortgages, debentures and other loans	(516,5)	(438,9)
Net purchases of equity investments	(283,3)	(1 685,2)
Net purchases of property investments	37,9	9,6
Net increase in policy loans	(44,1)	(15,1)
	(586,0)	(2 991,4)
29.7 Proceeds from issue of ordinary shares		
By the company	5 154,3	–
Share issue expenses	(119,1)	–
	5 035,2	–
29.8 Cash and cash equivalents		
Cash and cash equivalents consist of cash on hand and balances with banks, and 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	10 186,6	450,6
Funds on deposit	9 429,6	2 200,3
	19 616,2	2 650,9

	1998 R million	1997 R million
30. REPURCHASE AGREEMENTS		
Investment and trading securities	2 756,3	725,8

These assets under repurchase agreements are pledged as security for deposits. They are included in investment and trading securities under banking operations.

In addition to the above, the group has a foreign subsidiary company which is a securities trader registered with the Reserve Bank of Australia and with the Australian Securities Commision, and it concludes 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 price risks and are concluded under a guaranteed settlement/delivery mechanism.

	1998 R million	1997 R million
Securities purchased under agreement to resell	7 113,2	8 514,4
Securities sold under agreement to repurchase	(7 032,6)	(8 384,8)
	80,6	129,6

31. RETIREMENT BENEFIT INFORMATION

Staff pension funds

All full-time employees in the Group are members of either a defined benefit pension fund or defined contribution schemes which are governed by the Pension Funds Act. At the last valuation all defined benefit funds were adequately funded. 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.

32. ACQUISITION OF SUBSIDIARIES

As part of the merger of the financial services interests of AAC and RMBH, the Group acquired the ordinary issued share capital in FNB and Southern Life effective 1 April 1998, with the exception of certain crossholdings which these two groups hold in one another.

The net book value of the assets acquired and liabilities assumed, adjusted to bring them in line with their fair values, were as follows:

	Net book value R million	Fair value adjustments R million	Fair value acquired R million
Assets			
Banking operations			
Cash and short-term funds	6 810,6	–	6 810,6
Short-term negotiable securities	6 601,3	–	6 601,3
Investment in trading securities	3 368,4	–	3 368,4
Advances	83 914,8	(875,0)	83 039,8
Associated companies	136,0	–	136,0
Other investments	122,1	–	122,1
Clients' liabilities under acceptances	2 069,1	–	2 069,1
Insurance operations			
Government and public authority stocks	4 857,2	–	4 857,2
Mortgages, debentures and other loans	1 217,0	(47,0)	1 170,0
Equity investments	20 825,1	–	20 825,1
Property investments	2 919,7	–	2 919,7
Policy loans	369,7	–	369,7
Funds on deposit	1 645,2	–	1 645,2
Property and equipment	3 438,7	(200,0)	3 238,7
Current assets	4 633,9	–	4 633,9
Liabilities			
Outside shareholders' interest	(267,9)	–	(267,9)
Debentures	(100,0)	–	(100,0)
Deposits and current accounts	(95 821,4)	–	(95 821,4)
Deferred taxation	(1 287,0)	285,3	(1 001,7)
Long-term liabilities and provisions	(299,0)	–	(299,0)
Life insurance fund	(31 477,4)	–	(31 477,4)
Current liabilities	(6 577,0)	(150,0)	(6 727,0)
Liabilities to clients under acceptances	(2 069,1)	–	(2 069,1)
	5 030,0	(986,7)	4 043,3
Less: Settled by the issue of shares			
Share capital			(34,8)
Share premium			(4 008,5)
Cash flow on acquisition			0,0

The fair value adjustments detailed above reflect the effects of the merger on the carrying amounts of the related net assets. These adjustments relate primarily to the alignment of the accounting policies and accounting estimates of acquired subsidiaries with those of the Group in order to reflect the fair value of subsidiaries at date of acquisition.

33. COMPARATIVE FIGURES

Comparative figures are restated where necessary to afford proper comparison.

APPENDIX 1 – SEGMENTAL ANALYSIS OF BANKING OPERATIONS

	Notes	1998 R million	1997 R million
Interest income	1.1	4 121,9	242,3
Interest expenditure	1.1	(3 114,5)	(182,6)
Net interest income	1.1	1 007,4	59,7
Charge for bad and doubtful debts	1.2	(312,0)	(17,2)
		695,4	42,5
Other operating income	1.3	1 467,5	326,2
Net interest and other income		2 162,9	368,7
Other operating expenditure		(1 519,3)	(192,2)
Banking income before taxation		643,6	176,5
Net non-banking income before taxation		18,8	–
Net operating income before taxation		662,4	176,5
Taxation	1.4	(177,2)	(43,0)
Net income after taxation		485,2	133,5
Equity accounted earnings (refer note 20 in annual financial statements)		11,1	–
Net income after tax		496,3	133,5
Earnings attributable to policyholders	1.5	(54,9)	(52,4)
Net income after tax attributable to shareholders		441,4	81,1

APPENDIX 1 – SEGMENTAL ANALYSIS OF BANKING OPERATIONS

	1998 R million	1997 R million
1.1 ANALYSIS OF INTEREST INCOME AND EXPENDITURE		
Interest income		
Interest on:		
Advances	3 735,2	197,8
Balances with banks and short-term funds	96,9	5,1
Short-term negotiable securities	169,1	–
Investment and trading securities		
Listed	84,2	2,1
Unlisted	31,2	–
Other	5,3	37,3
	4 121,9	242,3
Interest expenditure		
Interest on:		
Deposit accounts	(2 294,6)	(146,7)
Current deposit accounts	(586,8)	–
Savings accounts	(65,4)	–
Debentures	(71,4)	(35,9)
Deposits from banks	(96,3)	–
	(3 114,5)	(182,6)
Net interest income	1 007,4	59,7
1.2 BAD AND DOUBTFUL DEBT PROVISIONS		
Balance at beginning of year	107,0	93,0
Subsidiary balances acquired	2 622,1	–
Amounts written off	(164,6)	(4,1)
	2 564,5	88,9
Recoveries of amounts previously written off	17,3	0,9
Charge to income statement	312,0	17,2
Balance at end of year	2 893,8	107,0
Analysis:	2 893,8	107,0
Specific provision	1 722,6	17,4
General provision	1 171,2	89,6

	Credit risk R million	Security held R million	Interest suspended R million	Provision R million
1.2 Bad and doubtful debt provisions (continued)				
Non-performing lending by sector – 1998				
Individuals	2 209,2	714,3	534,4	942,1
Manufacturing and commerce	800,9	201,6	194,3	387,9
Banks and financial services	96,8	18,5	11,8	32,5
Agriculture	146,0	30,4	44,9	51,4
Building and property development	457,3	197,2	105,2	147,3
Transport and communication	119,7	45,4	22,6	51,1
Mining	8,1	0,8	1,9	5,3
Other services	344,1	55,3	63,4	105,0
Total	4 182,1	1 263,5	978,5	1 722,6
1997 total non-performing lendings	48,9	26,6	4,9	17,4
Non-performing lending by category – 1998				
Overdraft and managed account debtors	1 755,2	456,2	451,4	797,1
Home loans	1 079,9	657,7	243,2	248,6
Instalment sales	538,7	96,6	107,7	220,6
Lease payments receivable	206,9	37,6	39,8	81,3
Card loans	195,1	–	85,3	151,4
Offshore loans	0,2	0,6	–	0,2
Other advances	406,1	14,8	51,1	223,4
Total	4 182,1	1 263,5	978,5	1 722,6
1997 total non-performing lendings	48,9	26,6	4,9	17,4

	1998 R million	1997 R million
1.3 Other operating income		
Commission earnings	740,3	61,6
Exchange earnings	168,0	22,0
Investment banking	56,6	58,1
Profit on sale of property and equipment	4,6	–
Dividends from other investments	48,8	33,7
Dividends from associated companies	3,9	–
Treasury operations	159,1	142,3
Credit card sundry income	35,8	–
Other income	250,4	8,5
Total operating income	1 467,5	326,2
1.4 Taxation		
Charge for the year		
Income and related taxation		
Normal taxation		
Current	65,0	27,5
Deferred	31,4	14,0
Net contributions to project finance deals and lessor trusts	(0,3)	–
Secondary taxation on companies ("STC")	4,5	–
Stamp duties	12,1	–
Other taxes and levies	64,5	1,5
Total taxation	177,2	43,0
Estimated taxation losses available for set-off against future taxable income	16,9	–
Other taxes and levies consist of Greater Metropolitan Transitional Council and Financial Services Board levies, the levy on financial services and value-added tax.		
Taxation rate reconciliation	%	%
Effective rate of taxation	19,2	24,0
Total taxation has been affected by:		
Non-taxable income	6,0	13,0
Other permanent differences	9,8	(2,0)
Standard rate of taxation	35,0	35,0

1.5 Earnings attributable to policyholders

Until 31 March 1998, 60% of the earnings of Rand Merchant Bank Limited were attributable to shareholders, with the balance of 40% being attributable to Momentum Life policyholders. The portion attributable to policyholders amounting to R54,9 million (1997: R52,4 million) has been excluded from earnings attributable to shareholders.

Effective 1 April 1998, the shareholders of the Group acquired the entire shareholding of Momentum Life policyholders.

APPENDIX 2 – Segmental analysis of insurance operations

	Notes	1998 R million	1997 R million
Income			
Premium income	2.1	7 038,0	4 360,2
Net investment income	2.2	1 848,8	1 184,7
		8 886,8	5 544,9
Outgo			
Commission		339,3	249,9
Marketing and administration expenses		528,0	217,5
Policyholder benefits	2.3	6 539,1	2 228,5
Taxation	2.4	184,6	87,6
		7 591,0	2 783,5
Income less outgo		1 295,8	2 761,4
Realised profits and losses on sale of investments and unrealised changes in long-term investment values		(212,4)	1 530,1
Transfer to the life fund		(878,0)	(4 144,5)
Net income after tax attributable to shareholders		205,4	147,0
Analysed as follows:			
Life insurance and asset management		168,3	109,7
Health insurance		54,4	27,2
Short-term insurance	2.5	(17,3)	10,1
		205,4	147,0

	1998 R million	1997 R million
2.1 PREMIUM INCOME		
Individual life	3 412,1	2 383,5
Single premiums	426,5	521,7
Recurring premiums	1 523,7	949,3
Unit linked annuities	961,1	562,5
Annuities	500,8	350,0
Corporate business		
Investment funds	563,7	295,3
Total premiums received in respect of individual life business	3 975,8	2 678,8
Health business	1 113,9	607,8
Gross premium income	1 270,9	646,4
Less: Reinsurance premiums and medical scheme contributions	(157,0)	(38,6)
Employee benefits	1 948,3	1 073,6
Investment lump sums	1 545,3	1 011,8
Recurring premiums	403,0	61,8
Total premium income	7 038,0	4 360,2

Funds retained through the extension of the policy term amounted to R306,6 million (1997: R94,5 million). These funds are not included in the individual life single premium income figures above.

	1998 R million	1997 R million
2.2 INVESTMENT INCOME		
Investment income earned in respect of:		
Dividends – listed shares	274,7	143,3
Dividends – unlisted shares	25,5	17,2
Net rental income from properties owned by the insurance operations	79,9	1,7
Interest-bearing investments	1 448,1	995,5
Income from subsidiaries	20,6	27,0
	1 848,8	1 184,7

	1998 R million	1997 R million
2.3 POLICYHOLDER BENEFITS		
Individual life business		
Benefits in respect of individual life policies	1 231,3	639,2
Death	236,0	129,8
Disability	41,7	29,4
Maturities	473,7	243,6
Surrenders	479,9	236,4
Benefits in respect of unit linked annuities	125,5	37,0
Lump sum annuities	746,6	474,6
Annuities paid	684,1	436,7
Commutations	62,5	37,9
Corporate business	108,8	86,0
Surrenders	11,3	20,9
Maturities	97,5	65,1
Total benefits paid in respect of individual life business	2 212,2	1 236,8
Health business		
Gross claims	468,0	181,9
Medical savings accounts	420,4	277,2
Less: Claims recoveries	(149,5)	(33,1)
	738,9	426,0
Withdrawal benefits	2,5	0,7
Total benefits paid in respect of health business	741,4	426,7
Employee benefits business		
Benefits in respect of risk business	1 262,3	46,1
Death	124,4	17,9
Disability	39,4	10,4
Maturities	39,1	1,5
Member withdrawals	110,7	14,8
Scheme terminations and investment withdrawals	927,5	–
Annuities	21,2	1,5
Investment funds		
Withdrawals and transfers to off-balance sheet funds	2 323,2	518,9
Total benefits paid in respect of employee benefits business	3 585,5	565,0
Total benefits paid	6 539,1	2 228,5

	1998 R million	1997 R million
2.4 TAXATION		
Charge for the year		
Life and health insurance taxation	77,6	30,0
Current	89,2	30,0
Adjustment for prior years	(11,6)	–
Retirement fund taxation	32,6	20,1
Secondary taxation on companies ("STC")	22,9	–
Stamp duty	6,5	3,6
Other taxes and levies	45,0	33,9
	184,6	87,6

Other taxes and levies consist of Greater Metropolitan Transitional Council and Financial Services Board levies, the levy on financial services and value-added tax. The total tax charge for subsidiaries which are not consolidated on a line-by-line basis amounted to R27,3 million (1997: R14,0 million).This amount is not included in the above figure.

2.5 DISCONTINUED OPERATION

The group disposed of its short-term insurance operation (joint venture) effective 1 January 1998. The results of this operation had previously been reported in investment income. The results relating to this operation are as follows:

	1998 R million	1997 R million
Operating (loss)/profit to date of discontinuation included in headline earnings	(11,9)	10,1
Loss on sale of joint venture	(5,4)	–
Total (loss)/profit on discontinued operation	(17,3)	10,1

APPENDIX 3 – FIRSTRAND LIMITED (PREVIOUSLY MOMENTUM LIFE) – COMPANY FINANCIAL STATEMENTS

	Notes	1998 R million	1997 R million
INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 1998			
Net income after tax attributable to ordinary shareholders		688,4	217,4
Ordinary dividends		(347,5)	(110,8)
Retained income for the year		340,9	106,6
Distributable reserve at beginning of year		301,0	196,5
		641,9	303,1
Capitalisation award		(343,0)	–
Transfer to reserves		(17,8)	(2,1)
Distributable reserve at end of year		281,1	301,0
BALANCE SHEET AT 30 JUNE 1998			
SHAREHOLDERS' EQUITY AND LIABILITIES			
Ordinary share capital and share premium		8 490,1	432,9
Convertible debentures		350,0	350,0
Reserves		504,3	415,2
Shareholders' equity		9 344,4	1 198,1
Life insurance fund	3.1	20 283,5	17 872,7
Current liabilities		551,2	184,6
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		30 179,1	19 255,4
ASSETS			
Investments		29 374,2	18 641,7
Government and public authority stocks		2 915,7	3 179,4
Mortgages, debentures and other loans		2 491,3	2 014,8
Equity investments		9 533,5	9 260,2
Property investments		331,5	241,8
Policy loans		166,0	132,8
Subsidiaries and joint venture (Appendix 4)		6 416,3	1 744,2
Funds on deposits		7 519,9	2 068,5
Fixed assets		9,1	13,1
Current assets		795,8	600,6
TOTAL ASSETS		30 179,1	19 255,4

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 1998

	Notes	1998 R million	1997 R million
Cash flows from operating activities			
Cash generated by operations	A	1 470,6	3 300,6
Working capital changes		(62,2)	(222,2)
Cash inflow from operations		1 408,4	3 078,4
Dividends paid		(98,8)	(52,0)
Net cash inflow from operating activities		1 309,6	3 026,4
Cash flows from investment activities			
Investment activities		(809,6)	(2 874,6)
Proceeds from disposal of joint venture		127,4	–
Net investment in subsidiaries		(207,8)	46,2
Purchase of equipment		(3,4)	(8,6)
Net cash outflow from investment activities		(893,4)	(2 837,0)
Cash flows from financing activities			
Proceeds from issue of ordinary shares		5 035,2	–
Proceeds from issue of debentures		–	350,0
Payment of long term borrowings		–	(15,1)
Net cash inflow from financing activities		5 035,2	334,9
Net increase in cash and cash equivalents		5 451,4	524,3
Cash and cash equivalents at beginning of period		2 068,5	1 544,2
Cash and cash equivalents at end of period		7 519,9	2 068,5

A. CASH GENERATED BY OPERATIONS

	Notes	1998 R million	1997 R million
Income			
Premium income	3.2	4 897,9	3 752,4
Net investment income		1 943,5	1 275,2
		6 841,4	5 027,6
Outgo			
Commissions		214,7	224,2
Marketing and administration expenses		160,3	156,0
Policyholder benefits	3.3	3 979,6	1 801,8
Taxation	3.4	130,1	87,6
		4 484,7	2 269,6
Income less outgo		2 356,7	2 758,0
Capital appreciation on policyholders and shareholders assets for the year		742,5	1 516,5
Transfer to life fund	3.1	(2 410,8)	(4 057,1)
Net income after tax attributable to shareholders		688,4	217,4
Adjustment for non-cash items		782,2	3 083,2
		1 470,6	3 300,6

APPENDIX 3 – FirstRand Limited (previously Momentum Life) – Company Financial Statements

	1998 R million	1997 R million
3.1 Life insurance fund		
The movements in the life insurance fund for the year are as follows:		
Balance at beginning of year	17 872,7	13 815,6
Transfer from income statement	2 410,8	4 057,1
Balance at end of year	20 283,5	17 872,7
Actuarial liabilities under unmatured policies comprise the following:	%	%
Linked (market related) business		
Individual life	32,3	23,4
Employee benefits	29,7	37,4
With-profits (smooth bonus) business		
Individual life	28,3	29,7
Employee benefits	0,1	0,1
Reversionary bonus business	0,1	0,1
Non-profit business		
Individual life	1,2	0,4
Employee benefits	0,3	0,3
Annuity business	8,0	8,6
	100,0	100,0

The life fund at 30 June 1998 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	R million
3.2 Premium income		
Individual life	2 799,2	2 383,5
Single premiums	414,3	521,7
Recurring premiums	1 124,7	949,3
Unit linked annuities	821,0	562,5
Annuities	439,2	350,0
Corporate business		
Investment funds	563,7	295,3
Total premiums received in respect of individual life business	3 362,9	2 678,8
Employee benefits business	1 535,0	1 073,6
Investment lump sums	1 469,0	1 011,8
Recurring premiums	66,0	61,8
Total premium income	4 897,9	3 752,4

Funds retained through the extension of the policy term amounted to R306,6 million (1997: R94,5 million). These funds are not included in the individual life single premium income figures above.

	1998 R million	1997 R million
3.3 BENEFITS PAID		
Individual life business		
Benefits paid in respect of individual life business	826,7	639,2
Death	172,5	129,8
Disability	30,9	29,4
Maturities	302,8	243,6
Surrenders	320,5	236,4
Benefits paid in respect of unit linked annuities	125,5	37,0
Lump sum annuities	530,6	474,7
Annuities paid	485,6	436,7
Commutation	45,0	38,0
Corporate business	108,8	86,0
Surrenders	11,3	20,9
Maturities	97,5	65,1
Total benefits paid in respect of individual life business	1 591,6	1 236,9
Employee benefits business		
Benefits in respect of risk business	64,8	46,0
Death	24,8	17,9
Disability	11,7	10,3
Maturities	4,0	1,4
Member withdrawals	6,2	14,9
Scheme terminations and investment withdrawals	16,5	–
Annuities	1,6	1,5
Investment funds		
Withdrawals and transfers to off-balance sheet assets	2 323,2	518,9
Total benefits paid in respect of employee benefits business	2 388,0	564,9
Total benefits paid	3 979,6	1 801,8

	1998 R million	1997 R million
3.4 TAXATION		
South African normal taxation		
Current	70,0	30,0
Adjustment for prior years	(32,2)	–
Secondary tax on companies (“STC”)	22,0	–
Retirement fund taxation	30,3	20,1
Stamp duty	4,9	3,6
Other taxes and levies	35,1	33,9
	130,1	87,6

Other taxes and levies consist of Greater Metropolitan Transitional Council levies, Financial Services Board levies, the levy on financial services and value-added tax.

	1998 R million	1997 R million
3.5 REVALUATION OF SHAREHOLDERS' INVESTMENTS		
Total assets as per company balance sheet	30 179,1	19 255,4
Revaluation of shareholders' investments to directors' valuation	4 713,4	1 411,9
Total company assets per actuarial balance sheet	34 892,5	20 667,3

The revaluation of shareholders' investments represents the cumulative revaluation of strategic subsidiary investments.

APPENDIX 4 – Subsidiary companies

	Effective percentage holding		Investment of holding company: Amounts owing by/(to) subsidiaries		Group carrying amount	
	1998	1997	1998	1997	1998	1997
	%	%	R million	R million	R million	R million
Banking operations' subsidiaries						
FNB Holdings Limited	100	–	–	–	3 121,5	–
Rand Merchant Bank Limited	100	100	1,3	(0,9)	903,2	564,1
			1,3	(0,9)	4 024,7	564,1
Insurance operations' subsidiaries						
The Southern Life Association Limited	100	–	–	–	1 381,2	–
Momentum Property Investments (Pty) Limited	100	100	479.9	525,6	304,5	409,0
Lifegro Assurance Limited	100	100	(56,1)	(56,1)	56,1	56,1
Momentum Administration Services (Pty) Limited	100	100	23,0	13,3	2,6	(0,9)
Momentum Trust Limited	100	100	3,4	2,8	0,4	0,4
Discovery Health Limited	67	70	(0,8)	0,2	87,0	51,9
MC^2 Solutions (Pty) Limited	100	100	31,9	14,0	(25,7)	(12,4)
RMB Asset Management (Pty) Limited	100	100	7,9	5,4	81,3	36,8
RMB Properties (Pty) Limited	100	100	10,7	4,0	3,0	1,7
			499,9	509,2	1 890,4	542,6
Joint venture						
Aegis Insurance Company Limited	–	50	–	–	–	129,2
			501,2	508,3	5 915,1	1 235,9
Total interest in subsidiaries					6 416,3	1 744,2

DIRECTORS OF PRINCIPAL SUBSIDIARIES

RAND MERCHANT BANK LIMITED

G T FERREIRA[2] (50)
Chairman
P K HARRIS[1, 2] (47)
Chief Executive Officer
V W BARTLETT (55)
Chief Executive Officer, First National Bank of Southern Africa Limited
DR A BOTTEGA (55) (Italian)
Executive Director Southern Asset Management (Proprietary) Limited
J P BURGER (39)
Executive Director
D J A CRAIG (50)(British)
Director of companies
L L DIPPENAAR (49)
Chief Executive Officer, FirstRand Limited
D G K FISH[1] (51)
Alternate Director, Anglo American Corporation of SA Limited
M A JARVIS (51)
Chief Executive Officer, FNB Corporate Bank
M W KING (61)
Deputy Chairman, Anglo American Corporation of SA Limited
G R PARDOE[1] (41)
Finance Director, Anglo American Corporation of SA Limited

FIRST NATIONAL BANK OF SOUTHERN AFRICA LIMITED

G T FERREIRA (50)
Chairman
V W BARTLETT[1] (55)
Deputy Chairman, Chief Executive Officer, First National Bank of Southern Africa Limited
P K HARRIS (47)
Deputy Chairman, Chief Executive Officer, Rand Merchant Bank Limited
M P C BROGAN (AUSTRALIAN) (48)
Executive Chairman, RMB Australia
J P BURGER (39)
Executive Director, Rand Merchant Bank Limited
T N CHAPMAN (64)
Director of companies
L L DIPPENAAR (49)
Chief Executive Officer, FirstRand Limited
D G K FISH[1] (51)
Alternate Director, Anglo American Corporation of SA Limited
J W GAFNEY (64)
Director of companies
P M GOSS (50)
Director of companies
M W KING[1, 2] (61)
Deputy Chairman, Anglo American Corporation of SA Limited
MS W E LUCAS-BULL (45)
Executive Officer, Rand Merchant Bank Limited
G R PARDOE (41)
Finance Director, Anglo American Corporation of SA Limited
P R PRETORIUS (36)
Chief Executive Officer, Origin
R B SAVAGE[1, 2] (55)
Managing Director, Anglovaal Industries Limited
P C H THOMPSON (59)
Executive Director and Senior General Manager, First National Bank of Southern Africa Limited
R A WILLIAMS[1, 2] (57)
Vice-chairman, C G Smith Limited

THE SOUTHERN LIFE ASSOCIATION LIMITED AND MOMENTUM LIFE ASSURERS LIMITED

L L DIPPENAAR[2] (49)
Chairman
J R CALITZ (55)
Deputy Chairman
J D KRIGE (49)
Deputy Chairman
H P MEYER[3] (40)
Managing Director
B H ADAMS[1] (62)
Director of companies
A J ARDINGTON[4] (58)
Director of companies
A H ARNOTT (51)
Chief Financial Officer, FirstRand Limited
MS P N BARDILL[4] (48)
Director of companies
V W BARTLETT (55)
Chief Executive Officer, First National Bank of Southern Africa Limited
W F E BRAGG (56)
Alternate Director, Anglo American Corporation of SA Limited
G T FERREIRA[2] (50)
Chairman, FirstRand Limited
A GORE (34)
Chief Executive Officer, Discovery Health Limited
R B GOUWS[3] (55)
Consulting Actuary
P K HARRIS (48)
Chief Executive Officer, Rand Merchant Bank Limited
R J HUTCHISON (51)
Chief Investment Officer, FirstRand Asset Management
M W KING[2] (61)
Deputy Chairman, Anglo American Corporation of S A Limited
D J LOCH DAVIS[1,4] (67)
Director of companies
MS W E LUCAS-BULL (45)
Executive Officer, Rand Merchant Bank Limited
M W SPICER (45)
Executive Director, Anglo American Corporation of S A Limited
B J VAN DER ROSS[1, 4] (51)
Director of companies

1 = Member of the Audit Committee 2 = Member of the Remuneration Committee
3 = Member of the Actuarial Committee 4 = Policyholder Trustee

Analysis of shareholding

Range of shareholding			Number of shareholders	% of shareholders	Number of shares	% of shares
1	–	700	4 459	17,42	1 307 915	0,02
700	–	1 000	6 782	26,51	5 272 130	0,10
1 001	–	10 000	11 312	44,21	36 285 946	0,67
10 001	–	50 000	2 279	8,90	46 575 541	0,86
50 001	–	100 000	327	1,28	22 430 030	0,41
100 001	–	500 000	281	1,10	59 704 172	1,10
500 001	–	1 000 000	50	0,20	35 792 735	0,66
1 000 001	–	5 000 000	63	0,25	116 061 738	2,12
5 000 000		and over	33	0,13	5 121 872 882	94,06
			25 586	100,00	5 445 303 089	100,00

Analysis of shareholders

Range of shareholding	Number of shareholders	% of shareholders	Number of shares	% of shares
AAC and RMBH	2	0,01	2 638 331 673	48,45
Individuals	24 393	95,34	199 971 637	3,67
Banks and nominee companies	251	0,98	2 065 730 207	37,94
Pension and provident funds	135	0,53	180 388 298	3,32
Insurance companies	26	0,10	112 440 744	2,06
Corporate bodies	779	3,04	248 440 530	4,56
	25 586	100,00	5 445 303 089	100,00

Stock exchange performance

FirstRand was first quoted on the JSE on 25 May 1998 under the Banks and Financials sector after the successful merger of the financial interests of RMBH and AAC. The statistics provided below are for the period 25 May 1998 to 30 June 1998 and do not include the statistics of Momentum Life as it previously existed.

	30 June 1998
Shares traded ('000)	96 183
Price (cents)	
Highest	1 140
Lowest	825
Closing price	910

Notice of annual general meeting

Notice is hereby given that the annual general meeting of the shareholders of FirstRand Limited (formerly Momentum Life Assurers Limited) will be held in the boardroom, 18th Floor, One Merchant Place, Corner Fredman Drive and Rivonia Road, Sandton on 23 November 1998 at 09:30 for the following purposes:

1. To receive and consider the audited annual financial statements of the company for the year ended 30 June 1998.

2. To approve the remuneration of the directors and the auditors for the year ended 30 June 1998

3. To appoint auditors for the ensuing financial year

4. To elect directors in the place of those retiring in terms of the articles of association:

   Messrs M W King, V W Bartlett, D J A Craig, P M Goss, G R Pardoe, B J van der Ross and R A Williams were appointed during the year and being newly appointed, they will all retire, but being eligible, offer themselves for re-election.

5. To place the unissued share capital of the company under the control of the directors and to authorise them to allot and issue the shares at such prices and to such person, and on such terms as they deem fit, until the next annual general meeting of the company.

6. To consider and, if deemed fit, pass, with or without modification, the following resolutions:

   6.1 As a special resolution:

   RESOLVED THAT, subject to the confirmation of the High Court of South Africa:

   6.1.1 the share capital of the company, in the form of the share premium account of the company, be and it is hereby reduced from R9 879 524 655 by the amount of R1 443 841 378 to the amount of R8 435 683 277 with effect from the date on which this resolution is adopted;

   6.1.2 the aforesaid amount of R1 443 841 378 be applied in writing off the amount by which the sum transferred out of the company's shareholders' funds to its policyholders' funds for the acquisition by the company's shareholders of the 40% (forty percentum) shareholding in Rand Merchant Bank Limited, previously held by the policy-holders, exceeded the book value of the underlying net assets by the said 40% of the share capital of Rand Merchant Bank Limited at 1 April 1998. Full details are provided in the atached addendum.

   6.2 As ordinary resolutions:

   RESOLVED THAT any one of the directors of the company be and is hereby authorised and directed to:

   6.2.1 do all such things as may be necessary to give effect to the implementation of the reduction of the company's share capital, including, but without derogating from the generality thereof, to make application to the appropriate division of the High Court of South Africa for confirmation of the reduction of the share premium account and to depose to and sign on behalf of the company any affidavits or other documents necessary to effect the aforesaid application to the High Court of South Africa and to implement the reduction of the share premium account in accordance with the provisions of section 84 of the Companies Act, No 61 of 1973 as amended;.

   6.2.2 If the director who deposes to the affidavit in support of the said application to the High Court of South Africa should consider that it is no longer in the interests of the company's shareholders to proceed with such application by reason of any conditions which the High Court may wish to impose prior to confirming the envisaged reduction of the company's share capital, or for any other reason, the director may withdraw the said application.

7. To conclude any business that may be raised at an annual general meeting.

A member who is entitled to attend and vote at the meeting is entitled to appoint a proxy (or proxies) to attend and speak and, on a poll, to vote in his or her stead. A proxy form is enclosed for that purpose. A proxy need not be a member of the company, and to be effective, the proxy form must be sent to Optimum Registrars (Proprietary) Limited, 4th Floor, Edura Building, 41 Fox Street, Johannesburg, 2001 (PO Box 62391, Marshalltown, 2107) to be received before 12:00 on Friday, 20 November 1998.

By order of the board

P F DE BEER (FCIS)
Secretary
23 September 1998

Addendum concerning the proposed reduction of the share premium account

It is proposed by the company's directors that a special resolution be considered and, if deemed fit, passed by shareholders at the annual general meeting in terms of which:

1. the share premium account of the company will be reduced; and
2. the sum by which the share premium account is so reduced will be applied to write off the amount by which the sum transferred out of the company's shareholder funds to its policyholder funds as consideration for the acquisition by the company's shareholders of the 40% shareholding in Rand Merchant Bank Limited, previously held by the company's policyholders, exceeded the book value of the underlying net assets represented by the said 40% of the shareholders' equity of Rand Merchant Bank Limited as at 1 April 1998.

In accordance with legislation and practice affecting long-term insurers, the assets of the company are allocated to a shareholders' fund and to various policyholders' funds. Until 1 April 1998, 60% of the share capital of Rand Merchant Bank Limited (RMB) was allocated to the company's shareholders and the remaining 40% thereof to policyholders.

In terms of an undertaking made by the company to the Registrar of Insurance, and as the first step towards complying with their requirement that the company dispose of its investment in RMB, the shareholding in RMB held by policyholders was sold to shareholders with effect from 1 April 1998. The acquisition consideration transferred from shareholders to policyholders, being the directors' valuation of these shares in RMB, and verified independently by the external auditors, exceeds the net asset value represented by such shares by a sum of R1 443 841 378.

The authorised share capital of the company is at present R65 000 000, divided into 6 500 million ordinary shares of 1 cent each. Of the authorised share capital, 5 445 303 089 shares have been issued. The amount presently standing to the credit of the share premium account is R9 879 524 655.

It has accordingly been proposed by the directors that the company's share premium account be reduced by an amount of R1 443 841 378, being the amount by which the cost to shareholders of acquiring the said 40% of RMB from policyholders exceeded 40% of the underlying net assets of RMB at the time.

The implementation of the reduction of the share premium account is conditional upon the confirmation thereof by the High Court of South Africa.

PROXY

For use by ordinary shareholders of the company (ordinary shareholders) at an annual general meeting of ordinary shareholders to be held on 23 November 1998 (the general meeting).

I/We

being the holder/s of ordinary shares in the company, appoint (see note 1):

1. or failing him,

2. or failing him,

3. the chairman of the general meeting

as my/our proxy to act for me/us and on my/our behalf at the general meeting which will be held for the purpose of considering, and if deemed fit, passing, with or without modification, the resolution to be proposed thereat and at any adjournment thereof; and to vote for and/or against the resolution and/or abstain from voting in respect of the ordinary shares registered in my/our name/s, in accordance with the following instructions (see note2):

Number of votes (one vote per ordinary share)									
Resolution	1	2	3	4	5	6.1.1	6.1.2	6.2.1	6.2.2
For									
Against									
Abstain									

Signed for an on behalf of on 1998

Signature assisted by me (where applicable)

Notes

1. An ordinary shareholder may insert 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 shareholder's votes exercisable thereat.
3. An ordinary shareholder or his proxy is not obliged to vote in respect of all the ordinary shares held or represented by him but the total number of votes for or against the resolutions in respect of which any abstention is recorded may not exceed the total number of votes to which the ordinary shareholder or his proxy is entitled.
4. Forms of proxy must be lodged with or posted to Optimum Registrars Limited, 4th Floor, Edura Building, 41 Fox Street, Johannesburg, 2001 (PO Box 62391, Marshalltown, 2107), to be received not later than 12:00 on Friday, 20 November 1998.
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.
6. Each ordinary shareholder is entitled to appoint one or more proxies (none or whom need to be a member of the company) to attend, speak, and in a poll, vote in place of that ordinary shareholder at the general meeting.

Shareholders' Diary

Reporting

Financial year-end	30 June 1998
Announcement of results for 1998	29 September 1998
Annual report for 1998 posted by	2 November 1998
Annual general meeting	23 November 1998

Dividends

Final for 1998	
– Declared	23 September 1998
– Last registration date	16 October 1998
– Paid	30 October 1998
Interim for 1999	
– Declared	February 1999
– Payable	March 1999

Registered Office and Head Office

17th Floor
One Merchant Place
Cnr Fredman Drive and Rivonia Road
Sandton, 2199
(PO Box 786273, Sandton, 2146)
Telephone (011) 282-8000
Telefax (011) 282-8065

Secretary

P F de Beer (FCIS)

Approved Valuator

N A S Kruger

Auditors

PricewaterhouseCoopers Incorporated
90 Rivonia Road
Sandton
2146

Administration

Bankers

ABSA Bank
First National Bank
Rand Merchant Bank

Transfer Secretaries

Optimum Registrars Limited
4th Floor, Edura Building
41 Fox Street
Johannesburg, 2001
(PO Box 62391
Marshalltown, 2107)

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