

Notes to the Financial Statements

FOR THE YEAR ENDED 31 MARCH 2002

1. Accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below:

1.1 Basis of presentation

The financial statements are prepared in accordance with South African Statements of Generally Accepted Accounting Practice, using the historical cost convention as modified by the revaluation of marketable securities.

1.2 Investment in subsidiaries

Investments in subsidiaries are shown at cost less any provision for diminution in value.

1.3 Negotiable securities and other investments

Negotiable securities having a fixed redemption value are stated at cost, adjusted for differences between cost and redemption value, and are brought to account over the period until the redemption date. No provision is made for any shortfall between the market value of securities held for investment purposes and the carrying value as determined above, as it is intended they be held to redemption. Listed investments are stated at the current market value at the close of the Johannesburg Securities Exchange at the year-end. Other investments are stated at the lower of cost or directors' valuation. All gains and losses on the sale and revaluation of investments are recognised in the income statement.

1.4 Property and equipment

Property held as investment properties are not depreciated, but are revalued instead. The company has elected for the fair value model to account for investment properties and revaluations are done within every three years. Land and buildings held for resale are included in advances and are stated at the lower of cost and net realisable value. Surpluses on revaluation are credited to non-distributable reserves and deficits are charged to income in the year of valuation, unless reversing previous deficits or surpluses, in which case the amount of the reversal is credited to income or debited to a non-distributable reserve. On realisation, the remaining net surpluses are transferred from non-distributable to distributable reserves and profits or losses on disposal based on book values are credited to or charged against income. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

All equipment is stated at historical cost less accumulated depreciation. Depreciation is calculated on the straight-line method to write down the cost of such assets to their residual value over their estimated useful lives. Improvements to leased premises are written-off on a straight-line basis over the period of the lease. The estimated useful lives are as follows:

Computer equipment	5 years
Motor vehicles	5 years
Furniture and fittings	10 years
Improvement to leased premises	10 years
Office equipment	10 years

Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken to the income statement.

1.5 Intangible assets

Expenditure on acquired software and computer system development costs is capitalised and amortised once the system is in use. Amortisation is charged on a straight-line basis over the expected useful life of the system, which is usually 5 years. Intangible assets are not re-valued. The carrying amount of each intangible asset is reviewed annually and adjusted for impairment where considered necessary.



Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 MARCH 2002

1.6 Interest income and expense

Interest income and expense are recognised in the income statement for all interest bearing instruments on an accrual basis using the effective yield method based on the amounts outstanding. Interest income includes coupons earned on fixed income investment and trading securities and accrued discount and premium on treasury bills and other discounted instruments. Interest income is suspended when loans become doubtful of collection, such as when overdue by more than 120 days, or, when the borrower or securities' issuer defaults, if earlier than 120 days. Such income is excluded from interest income until received.

1.7 Fee and commission income

Fees and commissions are generally recognised on an accrual basis. Loan origination fees for loans which are probable of being drawn down, are deferred (together with related direct costs) and recognised as an adjustment to the effective yield on the loan. Commission and fees arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction.

1.8 Trading securities

Trading securities are securities which were either acquired for generating a profit from short-term fluctuations in price or dealers margin, or are securities included in a portfolio in which a pattern of short-term profit taking exists. Trading securities are initially recognised at cost (which includes transaction costs) and subsequently re-measured at fair value based on quoted bid prices. All related realised and unrealised gains and losses are included in net trading income. Interest earned whilst holding trading securities is reported as interest income. Dividends received are included in dividend income.

All purchases and sales of trading securities that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recognised at trade date, which is the date that the Company commits to purchase or sell the asset. Otherwise such transactions are treated as derivatives until settlement occurs.

1.9 Sale and repurchase agreements and lending of securities

Securities sold subject to linked repurchase agreements ("repos") are retained in the financial statements as trading or investment securities and the counterparty liability is included in amounts due to other banks, deposits from banks, other deposits, or deposits due to customers, as appropriate. Securities purchased under agreements to resell ("reverse repos") are recorded as loans and advances to other banks or customers as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of repo agreements using the effective yield method. Securities lent to counterparties are also retained in the financial statements.

Securities borrowed are not recognised in the financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded with the gain or loss included in trading income. The obligation to return them is recorded at fair value as a trading liability.

1.10 Instalment credit agreements

Leases and instalment credit agreements are regarded as financing transactions. Rentals and instalments receivable thereunder, less unearned finance charges, are included under advances. Finance charges earned are computed at the effective rate of interest inherent in the contracts and are brought to income in proportion to balances outstanding under each contract.

1.11 Loans and advances

Loans and advances are recognised when cash is advanced to borrowers. Advances are reflected at the outstanding capital amounts advanced and accrued finance charges, after deduction of specific provisions to cover identified doubtful debts. A credit risk provision for loan impairment is established if there is objective evidence that the Bank will not be able to collect all amounts due. The amount of the provision is the difference between the carrying amount and the recoverable amount, including amounts recoverable from guarantees and collateral. If the amount of the impairment subsequently decreases due to an event occurring after the write-down, the release of the provision is credited to the bad and doubtful debt expense. The amounts required to fund the assessed levels of provisions are charged against income. Interest on advances is accrued to income until such time as reasonable doubt exists with regard to its recovery; thereafter further interest is suspended.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 MARCH 2002

1.12 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand, and deposits held with the central bank, domestic banks and foreign banks.

1.13 Assets held under financial lease obligations

Assets held under financial leases are capitalised at the present value of contractual lease payments. The capitalised amount of the leased asset is depreciated over its expected useful life and the lease charges are allocated to accounting periods during the lease term so as to result in a finance charge and a reduction of the financial lease liability over the period of the lease.

1.14 Foreign currency transactions

Transactions in foreign currencies are converted to South African Rand at the spot rate on the transaction date. Monetary assets, liabilities and commitments in foreign currencies are translated in South African Rand using the rates of exchange ruling at the financial year-end. Realised profits and losses on foreign exchange are included in operating income.

Profits and losses from forward exchange contracts used to hedge potential exchange rate exposures are offset against gains and losses on the specific transaction being hedged.

1.15 Deferred income taxes

Deferred income tax is provided, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred income tax. Deferred tax assets relating to the carry forward of unused tax losses are recognised to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised.

1.16 Pension fund

The Bank operates a defined contribution fund, the assets of which are held in trustee-administered funds. The pension fund is funded by payments from employees. Company contributions to the fund are based on a percentage of the payroll and are charged to the income statement as incurred.

1.17 Post-retirement medical benefits

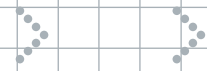
The Bank provides for post-retirement healthcare benefits to its retired employees. The entitlement to these benefits is only applicable to employees who were employed with the Bank prior to May 2000 and is based on the employees remaining in service up to retirement age. The Bank contributes, after taking into account the recommendations of independent qualified actuaries, to a post-retirement healthcare policy that is intended to off-set the expected costs relating to the post-retirement healthcare benefits. The costs of the defined benefit plan are assessed using the projected unit credit method. Under this method, the cost of providing post-retirement medical benefits is charged to the income statement so as to spread the regular cost over the service lives of employees in accordance with the advice of qualified actuaries, who value the plans at least every three years. All actuarial gains and losses are recognised in income statement. The Banks contributions to the post-retirement healthcare policy are charged to the income statement in the year to which they relate.

1.18 Financial instruments

Investments in financial assets are initially recognised at cost. Subsequently, financial assets are re-measured at fair value, except for fixed maturity investments such as debt, loans and redeemable preference shares. Financial liabilities are recognised at the original debt less repayments and amortisation's except for trade creditors and derivatives, which are re-measured at fair value.

The net profit and loss relating to the portion of the adjustments to securities held for short-term trading are accounted for in income. The non-trading portion is reported in equity until the financial asset is sold at which time the realised gain or loss is accounted for in income.

Hedge accounting is applied when the hedging relationships are clearly defined, measurable and actually effective. The hedge instruments are carried at fair value. Gains and losses on the hedging instrument and on the hedged item are accounted for in income for the period. Hedge accounting is discontinued when the hedge is no longer effective or the forecasted transaction is no longer expected to occur.



Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 MARCH 2002

1.19 Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Employee entitlements to annual leave and long-service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the balance sheet date.

1.20 Comparative figures

Comparative figures have been regrouped and restated, where necessary, to allow for more meaningful comparison.

	2002 R'000	2001 R'000
2. Notes to the income statement		
2.1 Net profit on sale and revaluation of investments		
Net profit on sale of discontinued operations	56,577	12,971
(Loss)/profit on revaluation of investments	(8,902)	412
	47,675	13,383
2.2 Non-interest income		
Fees and commission	103,575	83,660
Trading income	10,921	5,440
Investment income	12,318	31,814
	126,814	120,914
2.3 Operating expenditure		
Auditors' remuneration		
Audit fees – current year	1,298	1,125
Audit fees – prior year under-provision	603	–
Fees for other services	544	498
	2,445	1,623
Professional fees		
Managerial	19,282	3,270
Technical and other	7,630	5,345
	26,912	8,615
Depreciation (refer note 8)	28,074	20,989

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 MARCH 2002

2.3 Operating expenditure (continued)

	2002 R'000	2001 R'000
Lease charges		
Motor vehicles	2,921	3,703
Equipment	455	570
	3,376	4,273
Staff costs		
Salaries, wages and allowances	145,933	110,486
Contributions to defined benefit funds	7,873	5,089
Provision for post-retirement medical benefits	9,798	–
Contributions to defined contribution funds	9,848	10,115
Other	22,630	12,218
	196,082	137,908
Number of staff (including temporary) at year end	614	955
Loss on sale and impairment costs		
Improvements to leased premises	2,662	325
Computer equipment	39	6
Furniture and fittings	19	111
Office equipment	20	11
Motor vehicles	(82)	–
Computer software	4,254	4
	6,912	457
Rent	18,095	21,210
Marketing and communication	10,977	12,786
Directors' emoluments		
Executive directors:		
Salaries	4,255	1,856
Fringe benefits	91	133
Pension fund contributions	531	135
	4,877	2,124
Non-executive directors:		
Fees	603	409
Fees for other services	192	–
	795	409
	5,672	2,533
Other operating costs	95,205	49,223
Total operating expenditure	393,750	259,617

2.4 Taxation

Direct taxation

South African normal taxation:

Prior year	4,854	–
	4,854	–

Indirect taxation

Unclaimable value added tax	6,150	5,961
Skills development levy	745	488
Regional services council levies	1,384	1,547
Total taxation	13,133	7,996

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 MARCH 2002

2.4 Taxation (continued)

	2002 R'000	2001 R'000
South African tax rate reconciliation		
Standard rate of taxation	30,0%	30,0%
Exempt income	3,7%	19,5%
Non-deductible expenses	(1,6%)	(2,4%)
Reversal of allowances	(1,0%)	(4,9%)
Tax losses raised	(31,9%)	(42,2%)
Effective rate of taxation	(0,8%)	0%
As the Bank had no taxable income at the year end, no provision for taxation has been made.		
Estimated tax losses available for set-off against future taxable income	1,076,279	431,227

2.5 Discontinued operations

	Banking Services		Corporate Banking		Securitisation Processing		Total	
	2002 R'000	2001 R'000	2002 R'000	2001 R'000	2002 R'000	2001 R'000	2002 R'000	2001 R'000
Income statements								
Interest income	65,985	108,993	-	-	4,660	2,324	70,645	111,317
Interest expenditure	(42,097)	(69,725)	(229)	(2,898)	828	3,957	(41,498)	(68,666)
Net interest income	23,888	39,268	(229)	(2,898)	5,488	6,281	29,147	42,651
Provision for credit losses	(103,212)	(21,471)	(41,658)	(6,300)	(724)	(138)	(145,594)	(27,909)
	(79,324)	17,797	(41,887)	(9,198)	4,764	6,143	(116,447)	14,742
Non-interest income	(11,265)	7,450	4,904	30,684	24,325	9,515	17,964	47,649
	(90,589)	25,247	(36,983)	21,486	29,089	15,658	(98,483)	62,391
Operating expenditure	(26,396)	(28,216)	(192)	(760)	(26,677)	(9,617)	(53,265)	(38,593)
(Loss)/profit before taxation	(116,985)	(2,969)	(37,175)	20,726	2,412	6,041	(151,748)	23,798
Taxation	(850)	(862)	(11)	(4)	(290)	(267)	(1,151)	(1,133)
(Loss)/profit after taxation	(117,835)	(3,831)	(37,186)	20,722	2,122	5,774	(152,899)	22,665
Balance sheet information:								
Total assets	95,828	729,506	18,102	98,304	60,244	207,036	174,174	1,034,846
Total liabilities	159,377	607,967	54,815	77,577	58,123	183,274	272,315	868,818
Cash flow information:								
Net cash inflow/(outflow)								
from operating activities	(13,740)	18,409	4,500	27,022	7,622	6,052	(1,618)	51,483
Net cash inflow/(outflow)								
from operating funds	75,016	(284,381)	15,782	(47,293)	19,920	(5,981)	110,718	(337,655)
Net cash inflow/(outflow)								
from investing activities	1,776	505	(28)	105	(3,779)	(1,118)	(2,031)	(508)
Changes in required								
capital amounts	(67,253)	262,849	(20,254)	20,166	(23,763)	1,047	(111,270)	284,062

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 MARCH 2002

	2002 R'000	2001 R'000
3. Cash and cash equivalents		
Cash on hand	13,817	19,428
Central bank balances	45,328	68,687
Domestic bank balances	121,359	69,141
Foreign bank balances	21,944	32,870
	202,448	190,126
4. Negotiable securities		
Net government stock	131,387	8,521
Long	131,387	30,213
Short	-	(21,692)
Treasury bills	111,610	336,539
	242,997	345,060
Included in negotiable securities are bonds and treasury bills pledged under repurchase agreements with the South African Reserve Bank having a market value of R53m (2001:R49m). All repurchase agreements mature within twelve months of their inception.		
Government stock maturity analysis		
Maturing after five years	131,387	8,521
Long	131,387	30,213
Short	-	(21,692)
Fair values are disclosed in note 17.		
5. Other assets		
Sundry debtors	158,284	82,000
Fellow subsidiaries and associate companies (refer to note 19.2)	76,560	100,831
Prepayments and deposits	1,690	14,558
	236,534	197,389
6. Loans and advances		
Category analysis		
Current accounts	836,546	923,342
Credit card	122,858	122,716
Home loans	334,828	397,060
Instalment sales and leases	152,726	708,010
Preference shares	14,988	78,152
Other advances	672,848	883,546
	2,134,794	3,112,826
Less: Provision for credit losses	(604,850)	(260,536)
Less: Interest in suspense	(54,176)	(58,647)
	1,475,768	2,793,643
Maturity analysis		
Repayable on demand	1,462,564	1,479,705
Maturing within six months	9,505	116,597
Maturing after six months but within 12 months	27,825	111,336
Maturing after 12 months	634,900	1,405,188
	2,134,794	3,112,826
Provision for credit losses		
Balance at beginning of year	260,536	242,570
Movements for the year:		
Credit losses written-off	(160,522)	(84,210)
Credit losses recovered	390	7,691
Provision for the year per income statement	504,446	94,485
Balance at end of year	604,850	260,536

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 MARCH 2002

6. Loans and advances (continued)

	2002 R'000	2001 R'000
Comprising:		
Specific	531,865	238,886
General	72,985	21,650
	604,850	260,536

Note:

6.1 The aggregate amount of non-performing loans on which interest was not accrued amounted to R592 million as at 31 March 2002 (2001:R420 million).

6.2 Included in the provision for credit losses is a provision of R12.4 million relating to a contingent liability that arose from the sale of the asset finance book during the financial year.

7. Investments

In unlisted subsidiary companies

Shares at book value	18	10
Loans	44,487	41,796
	44,505	41,806
Directors valuation of unlisted subsidiary companies	44,505	41,806
Other		
Listed	720	5,623
Unlisted	26,452	42,634
	27,172	48,257
Market value of listed investments	720	5,623
Directors' valuation of unlisted investments	26,452	42,634

A register containing details of investments is available for inspection at the registered office of the company.

8. Property, equipment and intangible assets

PROPERTY AND EQUIPMENT	Property R'000	Leasehold Improvements R'000	Computer Equipment R'000	Furniture & Fittings R'000	Office Equipment R'000	Motor Vehicles R'000	Total R'000
Year ended 31 March 2000	95	11,707	26,774	5,255	8,006	241	52,078
Additions	-	1,029	10,648	816	2,446	29	14,968
Disposals	-	(414)	(1,849)	(100)	(83)	(23)	(2,469)
Depreciation	-	(1,612)	(8,968)	(803)	(1,469)	(66)	(12,918)
Year ended 31 March 2001	95	10,710	26,605	5,168	8,900	181	51,659
Additions	-	766	11,251	181	859	510	13,567
Disposals	-	(2,962)	(9,579)	(443)	(841)	(21)	(13,846)
Depreciation	-	(1,699)	(10,516)	(865)	(1,900)	(154)	(15,134)
Year ended 31 March 2002	95	6,815	17,761	4,041	7,018	516	36,246
Year ended 31 March 2002							
Cost	95	15,558	60,348	8,430	15,909	1,441	101,781
Accumulated depreciation	-	(8,743)	(42,587)	(4,389)	(8,891)	(925)	(65,535)
Net carrying value	95	6,815	17,761	4,041	7,018	516	36,246
Year ended 31 March 2001							
Cost	95	19,406	62,148	9,181	16,865	1,460	109,155
Accumulated depreciation	-	(8,696)	(35,543)	(4,013)	(7,965)	(1,279)	(57,496)
Net carrying value	95	10,710	26,605	5,168	8,900	181	51,659

A register containing details of the property is available for inspection at the registered office of the company.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 MARCH 2002

8. Property, equipment and intangible assets (continued)

INTANGIBLE ASSETS	Computer Software R'000	Capitalised System Cost R'000	Total R'000
Year ended 31 March 2000	19,125	6,874	25,999
Additions	13,086	3,196	16,282
Depreciation	(6,055)	(2,016)	(8,071)
Year ended 31 March 2001	26,156	8,054	34,210
Additions	16,545	–	16,545
Disposals	(15,542)	–	(15,542)
Depreciation	(10,285)	(2,655)	(12,940)
Year ended 31 March 2002	16,874	5,399	22,273
Year ended 31 March 2002			
Cost	35,997	13,277	49,274
Accumulated depreciation	(19,123)	(7,878)	(27,001)
Net carrying value	16,874	5,399	22,273
Year ended 31 March 2001			
Cost	41,389	13,277	54,666
Accumulated depreciation	(15,233)	(5,223)	(20,456)
Net carrying value	26,156	8,054	34,210

9. Contingent liabilities

9.1 Guarantees and letters of credit		
Guarantees	179,515	151,979
Letters of Credit	7,314	51,480
	186,829	203,459

9.2 Conditional buy-back obligation
The company disposed of its asset finance book during the year. In terms of the sale agreement the company has an obligation to buy-back the Credit Agreement Rights and Obligations of customers that fail to meet their repayments. The capital balance outstanding on this book at 31 March 2002 was R 375,2 million.

9.3 Commitments under operating leases		
The total minimum future lease payments under non-cancellable operating leases are as follows:		
Motor vehicle rentals:		
Due within one year	1,878	2,289
Due between one and five years	2,451	4,815
	4,329	7,104

A register containing details of the existence and terms of renewal and escalation clauses is available for inspection at the registered office of the company.

10. Ordinary shares and share premium

	Number of Shares '000	Ordinary Shares R'000	Share Premium R'000	Total R'000
At 31 March 2000	62,484	124,969	645,774	770,743
Issue of shares	–	–	33,327	33,327
At 31 March 2001	62,484	124,696	679,101	804,070
Issue of shares	–	–	126,000	126,000
Stamp duty on issue of shares	–	–	(383)	(383)
At 31 March 2002	62,484	124,969	804,718	929,687

Notes:

- The total authorised number of ordinary shares is 62 630 000 (2001: 62 630 000) shares with a par value of R2.00 per share.
- The unissued shares are under the control of the directors until the next annual general meeting.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 MARCH 2002

	2002 R'000	2001 R'000	
11. Reserves			
General reserve			
Balance at beginning and end of year	12,231	12,231	
12. Deposit and credit balances			
Balances from banks	53,083	84,486	
Call deposits and current accounts	761,627	1,283,085	
Savings accounts	136,017	138,777	
Term and notice deposits	368,585	709,190	
Negotiable certificates of deposit	627,839	717,686	
Foreign bank deposits and loans	166,542	208,004	
	2,113,693	3,141,228	
Maturity analysis			
Repayable on demand	1,305,646	1,870,679	
Maturing within six months	716,717	948,883	
Maturing after six months but within 12 months	88,901	121,242	
Maturing after 12 months	2,429	200,424	
	2,113,693	3,141,228	
13. Other liabilities			
Accruals	37,060	5,272	
Product related credits	18,501	17,833	
Sundry creditors	74,796	26,750	
	130,357	49,855	
14. Provisions			
	Total R'000	Post-retirement Medical Benefits R'000	Leave Pay R'000
At 31 March 2000	2,001	-	2,001
Additional provision raised	5,240	-	5,240
Charged to provision	(3,685)	-	(3,685)
At 31 March 2001	3,556	-	3,556
Additional provision raised	20,888	9,798	11,090
Charged to provision	(5,045)	-	(5,045)
At 31 March 2002	19,399	9,798	9,601
15. Post-retirement medical benefits			
The Bank operates a partly-funded post-retirement medical scheme. The assets of the funded plan are held independently of the Bank's assets in a separate trustee administered fund. This scheme is valued by independent actuaries at least every three years. The latest actuarial valuations were carried out as at 31 March 2002. No comparative figures are given as this is the first year that actuarial valuations have been prepared.			
The amounts recognised in the balance sheet are as follows:			
	2002 R'000	2001 R'000	
Present value of total service liabilities	14,977	-	
Fair value of plan assets	(5,179)	-	
Actuarial liability	9,798	-	
The amounts recognised in the income statement are as follows:			
Current service cost	2,238	2,191	
Net actuarial short-fall recognised in year	9,798	-	
Total included in staff costs	12,036	2,191	

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 MARCH 2002

15. Post-retirement medical benefits (continued)

The principle actuarial assumptions used were as follows:

Investment returns	15% compounded annually
Rate of medical inflation	13% compounded annually

16. Retirement benefits

All permanent employees of the Bank are members of the pension and provident funds. The funds are defined contribution funds and are governed by the Pension Funds Act, 1956. The rules of the funds provide for regular actuarial valuation. Contributions by the Bank to the Funds are charged to the income and amounted to R 9.8 million (2001: R10.1 million).

17. Financial risk management

17.1 Foreign currency risk management

The Bank, in terms of approved policy limits, manages short-term foreign currency exposures relating to trade imports, exports and interest flows on foreign liabilities. The transaction exposures and material forward exchange contracts at year-end are summarised as follows:

Exposure in R'000 to	US Dollar	Euro	Japanese Yen	Pound Sterling	Other	Total
Total foreign exchange assets	55,427	3,546	11	2,171	1,659	62,814
Total foreign exchange liabilities	(155,735)	(1,455)	(11)	(250)	(568)	(158,019)
Commitments to purchase under forward contracts at ruling market values	260,634	62,883	216	4,091	3,694	331,518
Commitments to sell under forward contracts at ruling market values	(159,792)	(65,031)	(216)	(5,410)	(4,501)	(234,950)
Month-end effective net open foreign currency positions	534	(57)	–	602	284	1,363

17.2 Interest rate risk management

The Bank takes on exposures to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise.

Mismatches of interest rate repricing are monitored daily.

	Up to 1 Month R'000	1-3 Months R'000	3-12 Months R'000	1-5 Years R'000	Over 5 Years R'000	Non-interest Bearing R'000	Total R'000
Total assets	1,555,323	144,998	49,072	62,955	121,397	345,198	2,287,943
Total liabilities	1,305,646	579,405	226,213	2,429	–	154,701	2,268,394
On balance sheet interest sensitivity gap	249,677	(434,407)	(177,141)	60,526	121,397		
Derivatives off balance sheet interest sensitivity gap	53,829	16,268	36,268	–	–		
Total interest sensitivity gap	303,506	(418,139)	(140,873)	60,526	121,397		

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 MARCH 2002

17.3 Credit risk management

Potential concentrations of credit risk consist mainly of short-term cash, cash equivalent investments, advances and debtors.

The Bank limits its counter-party exposures from its money market investment operations by only dealing with well-established financial institutions of high quality credit standing. The credit exposure to any one counter-party is managed by setting transaction/exposure limits, which are reviewed by the Risk Management Committee.

Advances and debtors comprise a large number of customers, dispersed across different industries and geographical areas. Ongoing credit evaluations are performed on the financial condition of these debtors. Advances and debtors are presented net of the allowance for doubtful debt.

The Bank is exposed to credit-related losses in the event of non-performance by counter-parties to hedging instruments. The counter-parties to these contracts are financial institutions. The Bank continually monitors its positions and the credit ratings of its counter-parties and limits the amount of contracts it enters into with any one party.

At year-end, the Bank did not consider there to be any significant concentration of risk which had not been insured or adequately provided for. There were no material credit exposures in advances made to foreign entities at year-end.

17.4 Liquidity risk management

The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs and guarantees. The Bank maintains cash resources. The table below summarises assets and liabilities of the Bank into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date.

	Assets R'000	Liabilities R'000	Mismatch R'000
Maturing up to one month	1,496,169	1,462,728	33,441
Maturing between one and three months	144,998	345,070	(200,072)
Maturing between three and six months	9,634	234,335	(224,701)
Maturing between six months and one year	39,438	137,312	(97,874)
Maturing after one year	597,704	88,949	508,755
	2,287,943	2,268,394	19,549

17.5 Fair value of financial instruments

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

Fair value of negotiable securities that are not carried at market value:

	Carry Value 2002 R'000	Fair Value 2001 R'000
Government stock	131,387	121,875
Treasury bills	111,610	111,334

Fair value of assets and liabilities in respect of derivative instruments:

	Notional Principal R'000	Net Fair Value R'000	Fair Value of Assets R'000	Fair Value of Liabilities R'000
Foreign exchange contracts				
Non-trading	-	3,345	14,407	(11,062)
Interest rate contracts				
Interest rate swaps				
Non-trading	107,372	(7,637)	-	(7,637)

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 MARCH 2002

17.5 Fair value of financial instruments (continued)

	2002 R'000	2001 R'000
Changes in fair value of financial assets and liabilities recognised as income or expenses for the period		
Listed investments	(7,426)	(1,581)
Other investments	(1,698)	2,028
	<u>(9,124)</u>	<u>447</u>

18. Cash flow detail

18.1 Total cash receipts from customers		
Interest income	362,228	436,456
Operating income and net profit on sale and revaluation of investments	174,489	134,297
Less:		
Dividends received	(12,318)	(30,674)
Profit on sale of business	(56,577)	-
Non-cash items	8,193	(13,383)
	<u>476,015</u>	<u>526,696</u>

18.2 Total cash paid to customers and employees		
Interest expenditure	238,967	286,765
Operating expenditure	393,750	259,617
Less: Depreciation	(28,074)	(20,989)
Movement in provisions	(20,888)	(5,240)
Loss on disposal of property, equipment and intangibles	(6,912)	(457)
	<u>576,843</u>	<u>519,696</u>

18.3 Dividends received		
Dividends	12,318	30,674
	<u>12,318</u>	<u>30,674</u>

18.4 Taxation paid		
Amounts unpaid at beginning of year	-	-
Income statement charge	13,133	7,996
Less: Amounts unpaid at end of year	(4,945)	-
	<u>8,188</u>	<u>7,996</u>

18.5 Movement in income earning assets		
Negotiable securities	(102,063)	(147,689)
Loans and advances	(348,206)	58,124
	<u>(450,269)</u>	<u>(89,565)</u>

18.6 Movement in deposits and other accounts		
Deposit and credit balances	(1,027,535)	(379,298)
Other accounts	36,312	(115,568)
	<u>(991,223)</u>	<u>(494,866)</u>

18.7 Sale of businesses		
Operating assets	465,223	-
Fixed assets	-	-
Profit on sale	56,577	-
Consideration received	521,800	-

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 MARCH 2002

19. Related-party information

19.1 Identity of related parties with whom material transactions have occurred

Material subsidiaries and associates of the Bank are identified below. All of these entities are related parties. There are no other related parties with whom material transactions have taken place, other than as listed below.

19.2 Material related-party transactions

The Bank in the ordinary course of business, enters into various financial services transactions with its subsidiaries, holding company, fellow subsidiaries, associates and joint ventures. These transactions are governed by terms no less favourable than those arranged with third parties.

	%	2002	2001
	Holding	R'000	R'000
Loans to subsidiaries			
Name			
Portion 2 of Lot 8 Sandown (Pty) Ltd	100	37,043	34,078
Lisabank Corporate Finance Ltd	100	2,767	2,635
LSM Troyeville Properties (Pty) Ltd	100	4,461	4,446
Sertona (Pty) Ltd	100	216	222
		44,487	41,381

Loans to fellow subsidiaries, associate companies and joint ventures

ESAS (Pty) Limited	–	1,674
Mercantile Asset Trading Company (Pty) Limited	7,922	4,692
Mercguard (Pty) Limited	10	8
Mercvest (Pty) Limited	–	16,517
Mercantile Finance (Pty) Limited	–	1,555
Mercantile Insurance Brokers (Pty) Limited	1,922	1,228
Mercantile Lisbon Bank Holdings Limited	13,144	22,941
Mercantile Registrars Limited	48,115	48,374
Mercantile Equipment Trading (Pty) Limited	467	467
Mercantile Nominees (Pty) Limited	4	4
Upfront Investment (50% owned by MLB Holdings)	4,340	2,592
Weskor Beleggings (Pty) Limited	636	779
	76,560	100,831

19.3 Director and director-related activities

There were no material contracts with directors other than those regarding directors' emoluments as follows:

Director	Directors' Fees R'000	Fees for other Services R'000	Salary R'000	Fringe Benefits R'000	Pension Fund and Medical Aid Contributions R'000	Total R'000
Wood BT	38	143	–	–	–	181
Symmonds RJ	13	–	1,132	–	126	1,271
Chadwick GK	40	–	–	–	–	40
De Kock GP	49	–	–	–	–	49
Meyer WH	–	–	100	–	18	118
Real Pereira JH	–	–	781	36	30	847
Shaw MJ	46	–	–	–	–	46
Soares AMSA	67	–	–	–	–	67
Steyn A	–	–	1,380	50	86	1,516
van Rooyen BR	108	–	–	–	–	108
O'Dwyer A	49	7	264	5	6	331
Dos Santos CS	17	–	–	–	–	17
Lund GG	31	42	598	–	265	936
Skosana IB	53	–	–	–	–	53
Voster HV	92	–	–	–	–	92
	603	192	4,255	91	531	5,672

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 31 MARCH 2002

20. Events after balance sheet date

During July 2002 CGD entered into an agreement with the Company in terms of which CGD has guaranteed the recovery of certain specifically identified non-performing advances with an aggregate face value of R265 million, against which full provision has been made in the current financial year. The effect of the guarantee will be to reverse such provisions and increase the reserves of the Company by R265 million. The financial effect of the guarantee on the Company's balance sheet, based on the assumption that it was in existence at 31 March 2002, is set out below:

	At 31 March 2002 <i>Before the Guarantee</i> R'000	At 31 March 2002 <i>After the Guarantee</i> R'000
Assets		
Cash and cash equivalents	202,448	202,448
Negotiable securities	242,997	242,997
Loans and advances	1,475,768	1,210,768
Investments	71,677	71,677
Other assets	236,534	236,534
Property, equipment and intangible assets	58,519	58,519
Total assets	2,287,943	2,552,943
Liabilities		
Deposit and credit balances	2,113,693	2,113,693
Other liabilities	154,701	154,701
Total liabilities	2,268,394	2,268,394
Shareholders' equity		
Share capital	929,687	929,687
Reserves	(910,138)	(645,138)
Total shareholders' funds	19,549	284,549
Total liabilities and shareholders' funds	2,287,943	2,552,943