

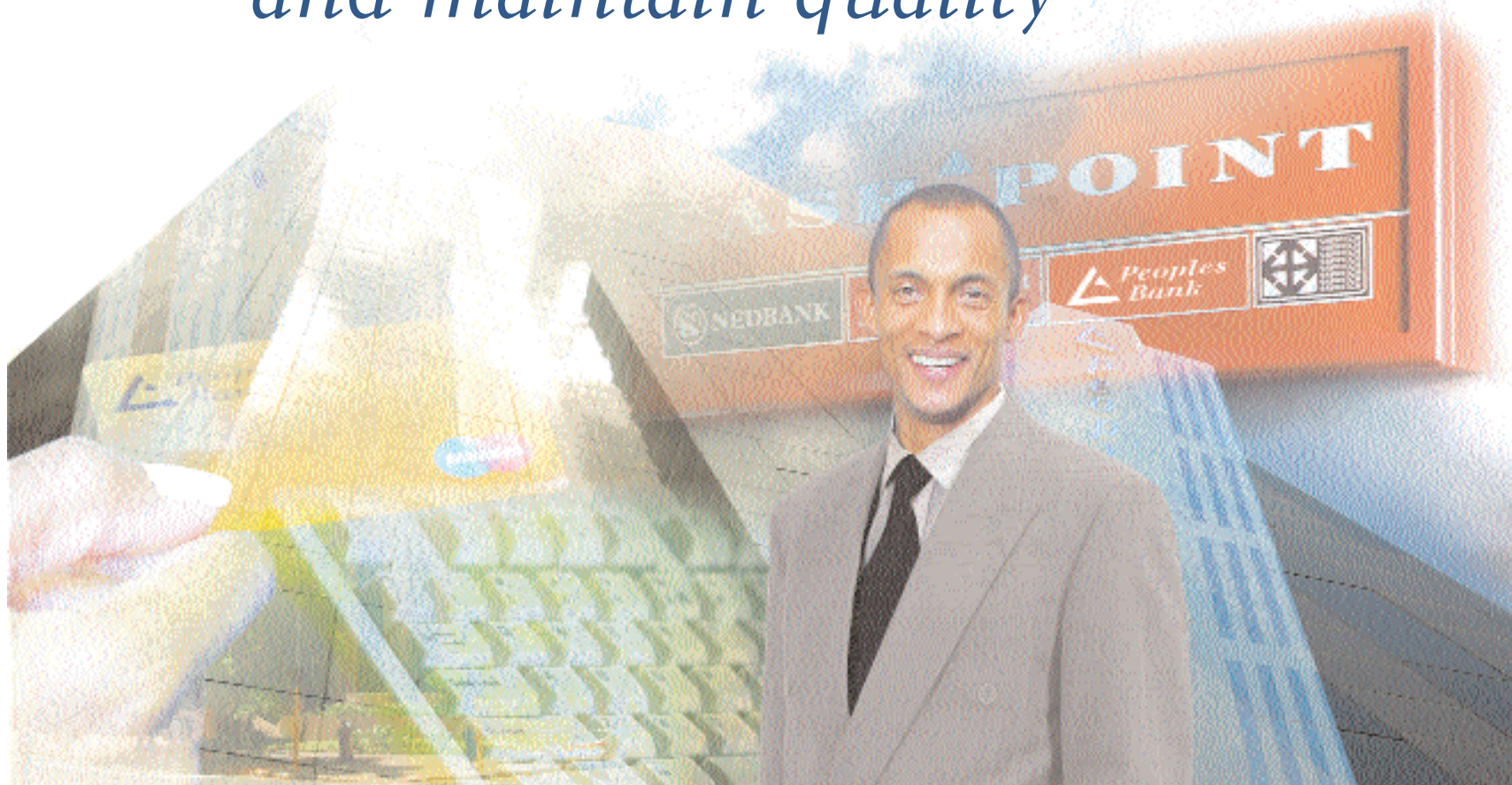


Now You Can



Annual Report 2002

‘Aspiring to do more, and maintain quality’



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** Peoples Bank is a subsidiary of Nedbank Limited ('Nedbank'), which is a wholly owned subsidiary of Nedcor Limited ('Nedcor'), the controlling company of the Nedcor Group.*

Peoples Bank aims to become the dominant provider of financial services to its chosen markets by positioning the brand successfully and leveraging partnerships and relationships for sustainable growth.

Vision

Transforming the banking experience

Mission

To proactively and profitably meet the banking and financial needs of our retail and business customers by providing appropriate products and legendary service

Values



• Respect



• Integrity



• Passion



• Innovation

Now You Can

By creating an enabling financial services environment, through providing appropriate products and superior service, clients can raise their quality of life.

Annual highlights

Financial	% change	2002	2001
SELECTED RETURNS			
Headline earnings (Rm)	29	434,7	337,2
Headline earnings per share (cents)	(20)	10,3	12,9
Core earnings, excluding non-recurring FBC Fidelity Bank and other legacy items after tax (Rm)	112	109,0	51,4
Core earnings per share (cents)	30	2,6	2,0
Return on average shareholders' funds (%)		27,4	35,1
Return on total assets (%)		5,7	4,2
Non-interest revenue to total income (%)		28,7	29,4
Efficiency ratio (%)		55,9	56,2
Core efficiency ratio (%)		60,4	77,7
Net interest income to interest-earning assets (%)		8,4	5,1
Doubtful-debt provisions to total advances (%)		14,8	16,7
BALANCE SHEET			
Total shareholders' equity (Rm)	146	1 824,3	741,3
Deposits, current and other accounts (Rm)	10	3 254,9	2 958,8
Advances and other accounts (Rm)	5	7 117,6	6 786,9
Total assets (Rm)	10	7 848,1	7 162,3
Capital ratio (%)		34,5	21,8
Capital ratio – tier 1 (%)		31,6	16,6
SHARE STATISTICS			
Number of shares in issue (m)		4 254,0	2 658,1
Weighted average number of shares (m)		4 215,5	2 615,7
Attributable earnings per share (cents)	160	10,3	(17,1)
Fully diluted weighted average number of shares (m)		4 524,9	3 128,4
Diluted headline earnings per share (cents)	(19)	10,2	12,6

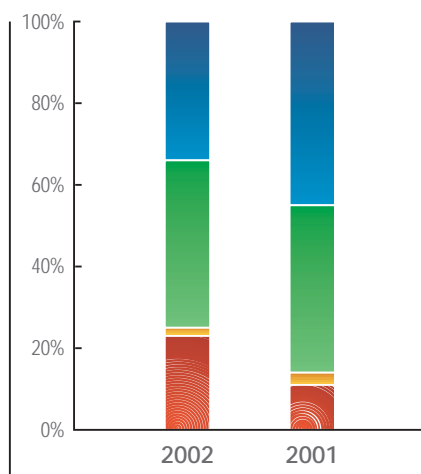
(The acquisition and sale of various BoE Retail divisions and old FBC Fidelity Bank portfolios described elsewhere in this report was effective 1 January 2003. The above figures are not influenced by these transactions)

Operational

- ✓ Integration of BoE Retail proceeding well
- ✓ Prestigious awards received
- ✓ Brand awareness increased
- ✓ Business model refined to broaden target market
- ✓ Corporate governance further strengthened

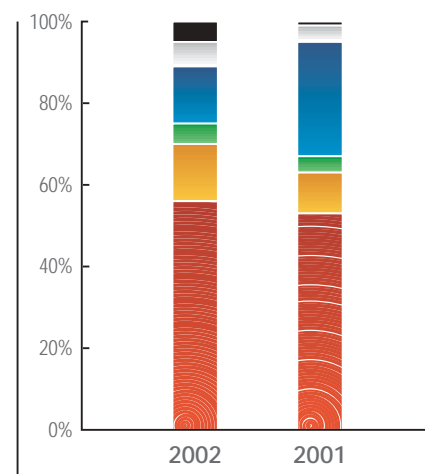
‘Peoples Bank is progressive’

	2002	2001
Ordinary shareholders' funds	23%	11%
Subordinated debt instruments	2%	3%
Deposit and current accounts	41%	41%
Loans from holding company	34%	45%



Shareholders' funds and liabilities

	2002	2001
Homeloans	56%	53%
Microloans	14%	10%
SME	5%	4%
Corporate and commercial	14%	28%
Regulatory assets	6%	4%
Other	5%	1%



Assets

Key success factors

- ✓ Ensure successful integration with BoE Retail
- ✓ Retain clients through integration process
- ✓ Optimise third-party relationships
- ✓ Capitalise on shareholder relationships
- ✓ Build cohesive, integrated teams
- ✓ Accelerate transformation through effective social responsibility

‘We create value for stakeholders through strategic alliances’



The bank for all South Africans

Our shareholding structure makes Peoples Bank the first, largest and most empowered bank in the country with retail and commercial divisions. Our alliances enable Peoples Bank to increase market share in a highly competitive sector.

Shareholders



Part of the listed Nedcor Group, South Africa's largest financial services group.



A leading and listed empowerment group, in partnership with NUMSA INV, SARHWU INV, WDB, DECT and NASASA.

**PAI
GROUP**

Comprises Progressive Youth Investment Company, Africa Milestone Investments and BMF Investment Company.

Alliances



Old Mutual Group Schemes, a division of Old Mutual plc, is a leader in the group schemes market.



US-based expert with a proven competitive advantage in lower-income lending markets.



Leading durable goods retailer, offering credit and financial services.

‘Living by our values’

Complete commitment to the highest standards of integrity and ethical conduct in dealings with all stakeholders.



- | | | | |
|------------------|---------------|-------------------------|---------------|
| 1 T Kgobe † | 6 R Laubscher | 12 J Magwaza †
Chair | 17 M Brey † |
| 2 J Gerwel † | 7 S Morris | 13 A Wolfson † | 18 A Mukoki |
| 3 J Maxwell | 8 C Bomela † | 14 N Fakude † | 19 J Manyi |
| 4 T Lamont Smith | 9 L Ndlovu | 15 V Maphai † | 20 E Molobi † |
| 5 C Liebenberg † | 10 S Baqwa | 16 G van Niekerk † | |
| | 11 D Muller | | |

† Non-executive directors

*Details of directors' credentials may
be found on the inside back cover*



'Delivering a legendary banking experience'

The cornerstone is in place for us to build on our strengths to continue our growth trajectory and to deliver sustainable growth in earnings.

The performance of Peoples Bank in the 12 months to 31 December 2002 was commendable, given difficult trading conditions in the domestic economy generally and in the financial services sector in particular. Results are not strictly comparable to the previous period because of the amount of corporate activity that has taken place. However, we believe these results underpin the bank's business model and its considerable potential for sustainable growth.

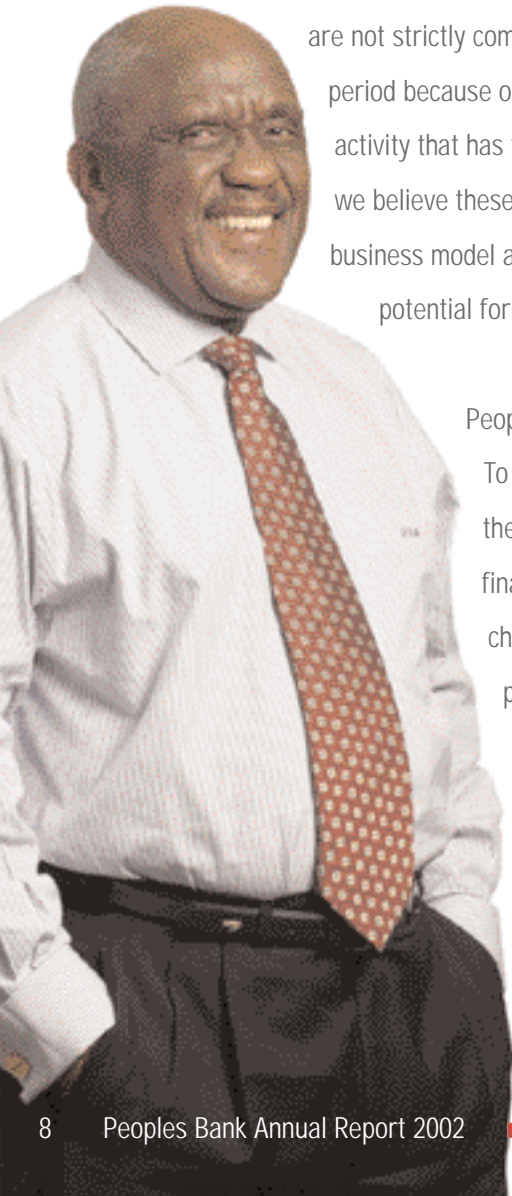
Peoples Bank is different.

To realise our vision of being the dominant provider of financial services in our chosen markets, we have to provide a different banking experience, both internally and externally. Internally, to build on the pride our people have in meeting

and exceeding the expectations of clients and, externally, to provide the products and services our markets demand and the returns our shareholders deserve.

The Peoples Bank empowerment transaction, whereby 30% of the bank was acquired by empowerment groupings through a new capital injection of R569 million effective 2 January 2002, was instrumental in creating the largest and most empowered bank in the country. The challenge now is clear: by positioning the brand through legendary service and appropriate products, we must continue on our growth trajectory, proving that Peoples Bank is, indeed, different and that, in time, our shareholders can expect sustainable earnings growth.

In this respect, the integration of BoE Retail into Peoples Bank from 1 January 2003 is an important milestone. Going into 2003, the bank is a vastly different entity from what it was two years ago. The scope of services has been significantly broadened, and the depth and breadth of leadership and experience have been enhanced.



We know that any integration process has an inherent pain, but that it leaves those involved richer for the experience and more cohesively committed to extracting and managing the synergies of the merged entity.

Our unique strategic alliances are an important element in the Peoples Bank business model. We firmly believe that the appropriate alliances will enable the bank to enhance its performance in terms of its business objectives and generate sustainable earnings growth. The lessons learned from our existing alliances are pivotal in refining our concept of 'pooled knowledge and shared experience' as we focus on increasing market share in our selected niches.

We keenly understand that traditional banking delivery systems on their own have no place in the 21st century. That is why we are building the bank differently. Through dynamic alliances, sophisticated technology and a proactive approach, we shall ensure that Peoples Bank continues to deliver competitive and innovative products that meet market needs.

Thanks

I thank my fellow boardmembers for their guidance and commitment. The management team of Peoples Bank has again demonstrated their passion for the business, and their combined skills are an important element of our success. I also wish to thank our alliance partners and empowerment shareholders for their respective

contributions. Most importantly, I thank our growing base of loyal clients who believe that their bank is different and the staff who make this a reality.

Prospects

Peoples Bank is different. It is a new-generation South African bank, whose culture of innovation is underpinned by disciplined risk management, stringent corporate governance and comprehensive operational controls.

Following a year of commendable performance Peoples Bank is steadily building the brand, determined to transform the so-called big four into the big five. By capitalising on opportunities to grow organically or acquisitively, by clearly redefining its market scope and by building its image as the bank most responsive to business, social and economic needs, Peoples Bank is well positioned to expand its financial services offering and capture market share in an increasingly competitive sector.



JB MAGWAZA

Chairman

'Strengthening our presence nationally'

Integration brings about an increase in distribution network and depositor base as well as the addition of talented staff.

Operational overview

In 2002 Peoples Bank continued to strengthen its presence in the banking industry and across South Africa.

This was reflected in the two prestigious awards received during the review period, namely: Outstanding Financier for Small Business (Black Business Quarterly) and Most Progressive Company of the Year (Black Management Forum). Participating for the first time, the bank also ranked among the top third in the Best Companies to Work For survey.

The start of the merger and integration of Peoples Bank and BoE Retail (NBS, CashBank and PEP Bank) was undoubtedly the most significant event of 2002. Peoples Bank will benefit from a substantially increased distribution network and depositor

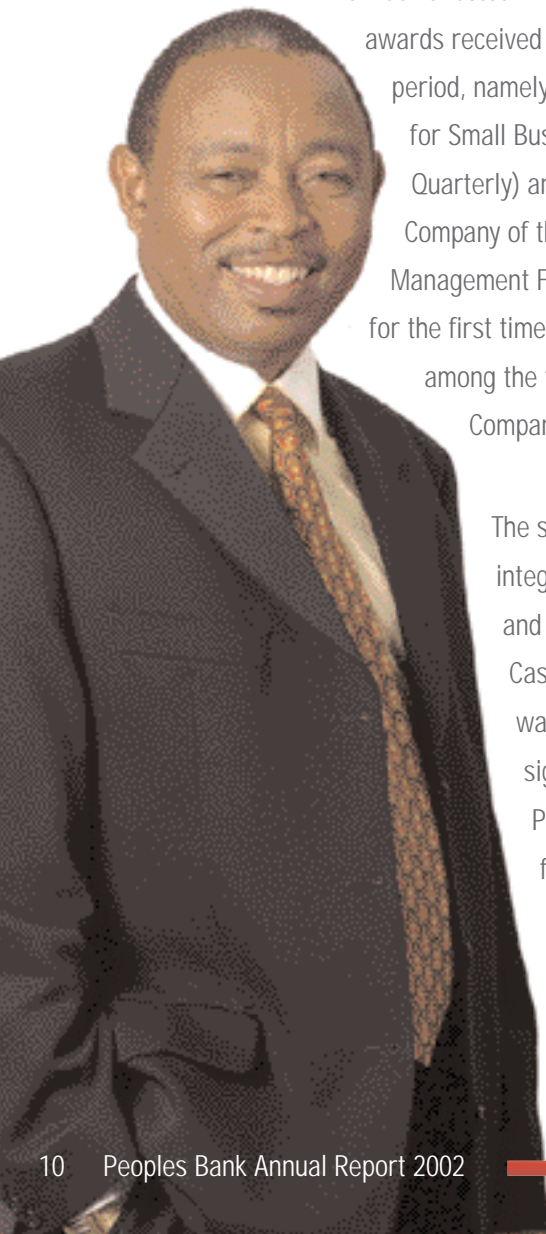
base as well as the addition of talented staff. Together we are laying the foundation to take the merged entity to even greater heights over the next two years as the integration process is completed.

Results

Highlights of the operations for the year:

- Headline earnings up 29% to R435 million
- Core earnings up 112% to R109 million
- Advances growth 5% net of increased provisions and higher-than-expected repayments of old FBC Fidelity portfolios
- Depositors' growth of 10%
- Return on equity 27,4%
- Return on assets 5,7%
- Core efficiency ratio 60,4%

In a year of realignment and consolidation Peoples Bank made good progress towards achieving its objectives, recording strong growth of 11% in its homeloan business and growing the retail depositor base by 12%. The retail and business divisions recorded an encouraging combined growth of 16%. There was, however, a disappointing increase in losses in our microloans business.



Total advances grew by 5% to R7,1 billion. Net interest income grew by 32%, mainly as a result of the introduction of new capital, the conversion of the subordinated loan and the 10% increase in deposits to R3,3 billion. The interest margin, including the endowment benefit of the new capital, increased from 5,1% to 8,4%.

Core operating expenses increased by 14,8% from R552,7 million to R634,6 million, with the core efficiency ratio improving to 60,4% (2001: 77,7%).

Peoples Bank continues to adopt a conservative provisioning policy and the charge against core earnings increased by 249,2% to R294,2 million. Although a cautious approach was taken to microlending, the bank did not escape the troubles of this industry. Bad-debt provisions totalling R194,9 million (2001: R29,6 million), the effect of which is shared with the alliance partners, have been recognised in respect of unsecured microloan exposures in terms of predictive provisioning policies. Provisions in respect of unsecured microloans stand at 32,7% (2001: 8,7%) of the capital balance as at 31 December 2002. Non-performing loans represent 20,3% (2001: 24,9%) of total advances, and net provision coverage, after allowing for expected recoveries, remains conservative at 108,4% (2001: 105,8%).

In line with South African Statements of Generally Accepted Accounting Practice a non-recurring deferred tax asset of R185 million, based on the closing estimated value of the assessed loss, was raised having recognised the expected future benefit of the utilisation of tax losses.

A dividend of R90 million had been declared for the year to December 2002 and will be paid to registered shareholders on 20 February 2003.

Outlook

In the new financial year the focus will be on ensuring the successful integration with BoE Retail, particularly with regard to the retention of the depositor base. In addition, attention will be given to turning the position around in the micro/small-scale lending book.

The bank is well positioned to capitalise on the elements that characterise the new Peoples Bank – legendary service, low-cost business model, and passion and innovation. It is a growing business determined to become the preferred bank for all South Africans through service, convenience, competitiveness and financial security.

Appreciation

It was a challenging and rewarding year for Peoples Bank. In living by our values and embracing change, we met the challenges and reaped the rewards. I thank everyone involved in creating the new Peoples Bank for their enthusiasm, professionalism and commitment. Together we have the opportunity to build a great South African organisation.



LOT NDLOVU

Chief Executive

Executive management

1 L Rossler
Head of Corporate Affairs

2 A Mukoki
Head of Risk Management
and Monitoring

3 D Ncala
Head of Human Resources

4 J Manyi
Head of Business Banking
and Marketing

5 T Lamont Smith
Head of Finance

6 L Ndlovu
Chief Executive

7 L Zikhali
Chief Compliance Officer

8 C Mamabolo
Head of Technology and Process

9 H Akoob
Head of Retail Banking Branches

10 V Sandamela
Head of Product and Channel

11 J Maxwell
Head of Retail Banking

12 B Duguid
Head of Alliances and Efficiencies

13 L Kubeka
Head of Inmarket Banking



Retail Banking Division



John Maxwell
Retail Banking



Lindiwe Kubeka
Inmarket Banking



Hassim Akoob
Branches

Broad strategy and target market

Following the integration of BoE Retail, Peoples Bank now has a client base of 2,0 million. A three-pronged strategy has been developed to:

- manage this base effectively in the branches
- generate new business in selected markets

- capitalise on our empowerment credentials to gain access to selected employee groups

Activities

Peoples Bank now offers a comprehensive range of transactional banking products and services, lending facilities and client education.

Highlights

- Asset growth of 11% on Peoples Bank mortgage book
- Impressive organic growth in liabilities
- Successful repositioning of the brand
- Good progress on integration, while managing normal business operations

Operational review

This entire business sector has faced extremely challenging conditions in the past year with the demise of several high-profile competitors and the return of numerous banking licences. This, together with the inflationary environment, has put even greater pressure on clients' ability to save and to service debt. Against this background, the results of the Retail Banking Division are commendable.

Key financial drivers

- Capitalise on increased mortgage and liabilities book resulting from the integration of BoE Retail
- Attract new homeloan and savings business
- Achieve merger synergies

Report of operations *(continued)*

Retail Banking Division *(continued)*



Victor Sandamela
Product and Channel



Paul Shongwe
Client Education

Integration process

Very good progress is being made in integrating BoE Retail, which includes NBS, PEP Bank and CashBank, into Peoples Bank. Senior and divisional structures have been confirmed and a client retention strategy highlighting the numerous benefits of the enlarged Peoples Bank has been implemented. A new employee banking division has been successfully established.

Objectives and outlook

In the new financial year the focus will be on integrating the businesses to derive the envisaged synergies and advantages of scale, while achieving projected financial results. In a challenging retail market the emphasis will be on gaining market share through service and competitiveness, maximising cross-selling opportunities and exploring alternative distribution models.

Business Banking Division



Jimmy Manyi
Business Banking and
Marketing



Chene Molotsi
Regional Manager



Tony Luis
Regional Manager

Broad strategy and target market

Peoples Bank Business Division, formerly NedEnterprise, focuses on small and medium enterprises (SMEs) and mid-sized companies. The division is redefining its offering to meet changing market needs as sectors transform themselves in line with various pending industry charters.

Activities

The division currently offers debt finance, investment options, transactional services and facilitates equity funding through Nedbank. It focuses on commercial transactions rather than retail (individuals) and has created a strong market presence through the Nedbank infrastructure and personal relationships.

Highlights

- Record transactions concluded during the year
- Strong growth in assets underscored by brand acceptance and empowerment credentials
- Significant client numbers added to stable client base
- Recognition as Financier of the Year (small business) by Black Business Quarterly amid strong competition
- Full client retention due to strong relationships and knowledge that Nedcor is behind the division

Operational review

In a highly competitive market and difficult trading conditions the division has focused on building strong relationships with clients through innovative financial solutions and personalised service. The success of this approach is evident in excellent client retention and the addition of major clients.

Key financial drivers

- Increasing net-interest income
- Improving non-interest revenue
- Lowering funding costs by increasing deposits
- Appropriate pricing and cost management

Report of operations *(continued)*

Business Banking Division *(continued)*



Reabetsoe Mbambisa
New Business and Supplier
Development



Johnny Nair
Regional Manager



Chris Ras
Regional Manager



Wayne Roos
Property Finance



Peter Stemmet
Regional Manager



Nomkhosi Mbonambi
Regional Manager

Objectives and outlook

The division is clearly focused on providing flexible and creative financial solutions to its chosen market niches within stringent risk management parameters. As the primary intention is to achieve critical mass to underpin substantial revenue inflows, appropriate acquisitions and

alliances are envisaged. The empowerment credentials of Peoples Bank will greatly assist in positioning the division in a transforming environment.

Lending Division – Capital One/Peoples Bank alliance



Nick Moore
Lending Division

Broad strategy and target market

In 2003 the Capital One/Peoples Bank lending alliance will continue to focus on building a profitable and sustainable micro/small-scale lending business, serving the underbanked in South Africa and growing the emerging middle-class market. It aims to become the lender of choice in this market by building an industry-leading, end-to-end risk management capability through ethical lending and product offerings focused on client needs. This strategy will be underpinned by further investment in the best talent and infrastructure and by leveraging the strengths of its various stakeholders and partners.

Activities

The alliance specialises in datamining, datawarehousing and information-based penetration into new microloan markets, drawing on Capital One's expertise and proven competitive advantage in lower-income lending markets.

Highlights

- 68 000 new accounts booked in 2002
- Value of the book before provisions increased 57% from R756 million to R1 186 million
- Significant improvement in credit-scoring ability
- Strong focus on operations, particularly collections

Operational review

The end of 2001 and beginning of 2002 were characterised by considerable turbulence in the microlending industry. The combination of the over extension of clients during 2000 and 2001, the squeeze on disposable incomes due to inflation and interest rate increases, and the disruption of the market by the troubles at UniFer and Saambou led to increased bad debts over the year. However, Peoples Bank's approach of cautious growth, combined with a generally conservative approach to credit granting and provisioning, restricted exposure to the high-risk unsecured market.

During the year growth was further controlled by the introduction of improved and stricter credit scoring. Much focus was placed on improving the collections infrastructure, with positive results towards the end of the year. This is expected to continue in 2003.

Key financial drivers

- Controlled growth in new accounts
- Capitalising on enhanced credit-scoring ability
- Focus on operations, particularly collections

Objectives and outlook

The approach to new business in 2003 will remain cautious until there is compelling evidence of an improvement in market conditions. The combination of an improved and improving ability to 'credit score' clients and an enhanced infrastructure is expected to pay dividends in 2003, both in terms of the performance of the existing book and in the ability to grow the book once the market improves.

The merger with BoE Retail and the integration of various businesses under the Peoples Bank brand has further expanded the distribution footprint and the existing client base.

JD Group/Peoples Bank alliance



Brian Duguid
Alliances and Efficiencies

Broad strategy and target market

The primary objective of this alliance is the establishment and operation of a distribution network of instore points in selected JD Group outlets (Bradlows, Russells, Joshua Doore and Price 'n Pride). JD Group has some 650 furniture retail outlets located throughout South Africa. The alliance cross-sells financial services products to the JD Group client base, which includes 1,2 million active debtor clients in the middle- and lower-income market segments.

Activities

The alliance provides a network for the distribution of Peoples Bank and Old Mutual Group Schemes products.

Highlights

- Over 180 fully operational instore points
- Distribution of selected Old Mutual Group Schemes products

- Alliance business operations integrated into Peoples Bank
- Automated loan application system launched

Operational review

During the year a limited number of new instore points were established in selected Bradlows, Russells, Joshua Doore and Price 'n Pride outlets, while a full-service onstore outlet was successfully piloted.

The range of Peoples Bank products and services being distributed through this cost-effective sales channel is due to be expanded in 2003 to incorporate a broader range of Peoples Bank term investment products. Term-lending product assets generated by the alliance are managed within the Capital One/Peoples Bank alliance.

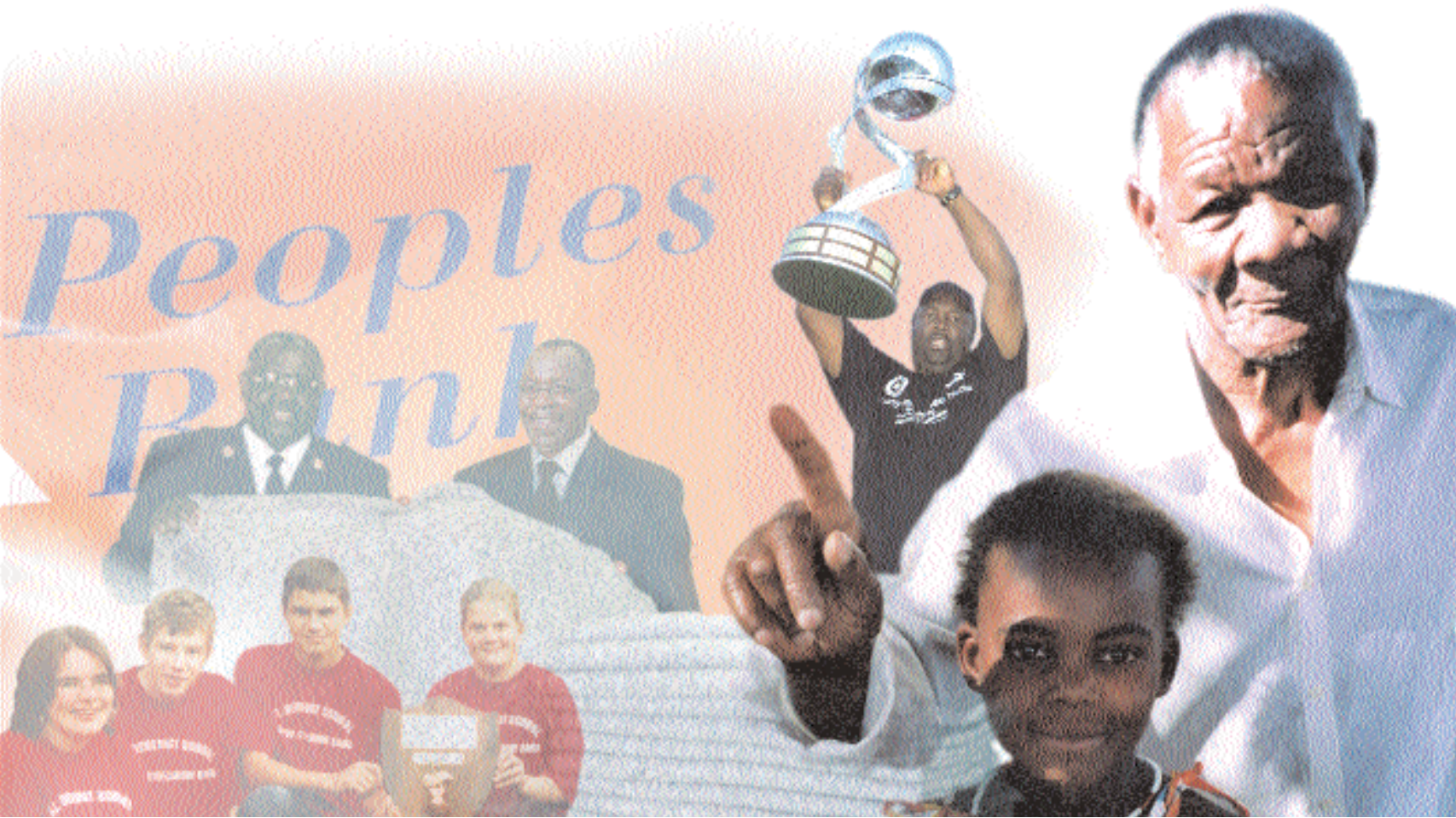
Key financial drivers

- The value of the advances book stands at R240 million
- Dedicated staff complement of 220

Objectives and outlook

To date the alliance has focused on distributing primarily unsecured term-lending products (Peoples Personal Loan). Given the difficulties in the microlending market within the banking industry over the past 18 months, the alliance has adopted a cautious approach in generating additional unsecured term-lending business and will continue to do so during the new financial year. The credit policy and debtors management/collections will continue to be managed by the Capital One/Peoples Bank alliance.

‘Investing in the community’



An active corporate social investment programme focuses on financial education, education, literacy and HIV/Aids. Staff regularly volunteer their time for community relief and upliftment programmes.

Corporate Affairs



Lora Rossler
Corporate Affairs



Mandla Zwane
Government Relations

A new division has been established in the wake of the Peoples Bank and BoE Retail merger. The role of the Corporate Affairs Division is to enhance the bank's reputation by maximising relationships with stakeholders, amongst them staff, media, external organisations and communities. The division guides and implements the bank's corporate citizenship initiatives, coordinates access to information and assists with client satisfaction.

Communications

An internal communications strategy ensures that staff are kept informed about operational and integration news, while ongoing media liaison ensures that the public is similarly informed.

Corporate Social Investment (CSI)

Peoples Bank is developing its role to become a leader in

social responsibility and is investing in several initiatives aimed at strengthening relationships with the communities in which we operate. The bank has a stated commitment to being at the forefront of transformation through corporate social responsibility.

CSI is seen as a component of an overall corporate citizenship strategy and is integral to business strategy. A key focus will be to engage actively with stakeholders to inform strategic planning and risk management.

Flagship initiatives

- *Family focus*

Peoples Bank Family Law Centres provide advice and guidance on family law through three centres in Cape Town, Durban and Johannesburg. The Peoples Bank Family Law Centre is a company not for gain that provides affordable, paralegal family law services and is a public-private partnership with the Department of Justice and Constitutional Development.

- *Financial literacy*

The development of financial literacy and basic banking material for schools was done in partnership with the non-profit organisation, St Mary's Interactive Learning Experience (S.M.I.L.E.). It focused on basic financial literacy, an understanding of economics and whole-life financial management. 19 783 learners in 76 schools in 14 different community areas benefited from the programme.

- *Encouraging entrepreneurship*

In 2002 NBS partnered with the Entrepreneurship Education Initiative to run the Schools Competition. This partnership stimulates entrepreneurship learning in schools in KwaZulu-Natal. In 2003 Peoples Bank will continue with this successful partnership.

- *Music and life skills*

Music is universally acknowledged as an effective tool for building confidence and promoting social upliftment. In

In addition to music training, the work of the Field Band Foundation and Steel Drum Foundation has an important life skills aspect.

The above are a small selection of some of the flagship social investments of the new Peoples Bank and is not an exhaustive list of all investments made. All investments are made in conjunction with the Nedcor Foundation.

Market education

- In conjunction with the *Sowetan*, we launched the stock market investor and savings education programme to educate the public and encourage saving.
- In partnership with various parastatals, we offer client training and business development programmes to impart business skills.
- Partnerships have been formed with a broad range of other organisations and regulatory bodies for client education training.
- NBS has had a close relationship with the Natal Early Learning Resources Unit (NELRU) for many years. NELRU trains preprimary school teachers and provides support to the 36 preschools that the NBS Centenary Foundation has helped to build over the past 15 years in some of the remotest parts of KwaZulu-Natal.

Marketing



Thembeke Ngugi
Brand Marketing



Colleen Mutch
Knowledge Centre

Brand repositioning

Marketing activities during this financial year were geared towards repositioning the brand to develop an appropriate platform for attracting more profitable clients and retaining the current base. This included the bank's first television campaign, supported by radio and print, to position it in an aspirational manner.

Brand integration

As part of the merger with BoE Retail, the NBS, CashBank and Pep Bank brands are to be merged into Peoples Bank. These brands will be phased out over 18 to 24 months to form one mother brand, Peoples Bank. Pep Bank is already being rebranded and client retention has been prioritised. NBS will be rebranded towards the end of 2003, finishing in mid-2004.

Marketing *(continued)*



Pietro Hanekom
Marketing Operations



Adu Owusu
Product Marketing

Product marketing

An aggressive campaign showcased the product range that Peoples Bank has to offer. This supported the repositioning of the brand and contributed to building brand credibility.

Sponsorships

Marketing embarked on a number of sponsorship opportunities. These are conducted on three levels, namely: a platform to sell products, profile the brand and leverage traditional advertising spend to achieved predetermined returns.

The sponsorship opportunities embarked on are:

- Comrades Marathon – Peoples Bank is a sponsor of this high-profile and popular annual event that attracts South Africans from all walks of life, as well as international athletes.
- Jomo Cosmos – Peoples Bank sponsors this leading soccer team and its development academy.

- Golf for All – These training centres for aspirant golfers from all levels and communities are sponsored by the bank.

Customer Relationship Management (CRM)

Peoples Bank has introduced customer relationship management services in selected areas of operations. The objective is to build sustainable and profitable relationships with existing and potential customers. Our CRM strategy includes business networking forums, such as the Success and Wealth Creation clubs, cluster workshops in targeted sectors and sports sponsorship, particularly golf. By developing appropriate networks, identifying new business opportunities and focusing on excellent customer service and customised financial solutions, Peoples Bank aims to be positioned as the financial partner of choice for empowerment transactions.

‘We are committed to the highest standard of integrity and ethical conduct with all our stakeholders’



Governance principles

General

The directors endorse and fully comply with the code of corporate practice and conduct recommended in the first King Report. In addition, the directors have studied the second King Report, and while Peoples Bank already

complies with many of the applicable recommendations, attention is being given to areas where the bank does not yet fully comply. By supporting these codes Peoples Bank demonstrates its commitment to the highest standards of integrity and ethical conduct in dealings with all its stakeholders.



Lindiwe Zikhali
Compliance

Peoples Bank is committed to an open and transparent governance process that gives its shareowners and other stakeholders the assurance that, in adding value to and protecting the bank's financial and human investment, the bank is being managed ethically in compliance with best international practices and all applicable legislation and predetermined risk parameters. The directors subscribe fully to the principles embodied in appropriate international corporate governance codes, including compliance with sound accounting practices. They believe these principles have been adhered to in discharging their duties.

Policies, objectives and performance measurement

The philosophy, policies, values and objectives of the bank are determined by the board which, in turn, receives input and guidance from management. The board sets the bank's strategic objectives and determines investment and performance criteria. Management is charged with the detailed planning and implementation of that policy, in line with appropriate risk parameters. The achievement of objectives and compliance with policies by management is

monitored by the board through a comprehensive system of reporting to mandated board committees.

Following the integration of parts of BoE's businesses into Peoples Bank, policies, objectives and performance measurement standards are being revised to align with new employment terms and conditions.

Risk management

The bank has developed comprehensive systems and risk management processes to control and monitor all activities. An experienced executive director has been appointed as Head of Risk Management. Risk management is closely monitored by board subcommittees, and ultimate accountability lies with the board.

Ethics

The bank subscribes to the Code of Banking Practice endorsed by the Banking Council of South Africa. This code governs the bank's conduct regarding relationships with authorities, clients, competitors, employees, shareholders, suppliers and the community. The bank has appropriate procedures and mechanisms in place to ensure all elements of this code are met. Peoples Bank's own code of ethics is currently being developed.

The bank has a charter of employment that commits management and employees to high standards of ethical behaviour in their dealings with each other and the bank's stakeholders. Failure to maintain ethical standards may result in disciplinary action. Employees of

outsourced functions must also comply with the principles of this charter.

Employee equity and empowerment

Development of all employees is a critical component of the bank's broader approach to corporate governance. The bank has an affirmative action programme to achieve and create employment equity in the workplace through training, monitoring and development of all staff. This programme meets all legislated requirements, and is an important contribution to enhancing business competitiveness.

Independent of its parent shareholder, Peoples Bank has registered with all regulatory bodies governing its industry and meets their requirements.

Internal control

Responsibility for the systems of internal financial and operational control rests with the board. The foundations for internal control processes are in the bank's governance principles, which incorporate ethical behaviour, legislative compliance and sound accounting practice.

Control systems include clearly defined lines of accountability and delegation of authority, and provide for full reporting and analysis against approved budgets. Executive directors are responsible for determining the adequacy, extent and operation of these systems. These control systems will be applied to the structures being integrated into Peoples Bank following the merger.

Compliance

Peoples Bank has an independent compliance department, which reports to the Head of Risk Management and has unrestricted access to the Chief Executive, Audit Committee and board. It is a part of the bank's risk management framework and its purpose is to ensure that the bank continuously manages its regulatory risk, ie the risk that the bank does not comply with applicable laws and regulations or supervisory requirements. This department has been formed to meet Banks Act requirements and has adopted a risk-based approach to compliance monitoring.

Compliance is a proactive function, focused on raising awareness about relevant issues throughout the bank.

Reporting

Peoples Bank is committed to transparent reporting and disclosure. Information provided to all stakeholders, including financial results and the annual report, is presented in a meaningful and relevant manner to enable users to gain a proper and objective perspective of the bank.

Governance structures

Directorate

The board of directors is chaired by an independent non-executive director. He is supported by 10 non-executive directors and nine executive directors, five of whom are directly involved in Peoples Bank. The board meets regularly and is responsible for the proper management,

Corporate governance *(continued)*

control, compliance and ethical behaviour of the business. With due regard for the recommendations of management, the board determines and monitors matters relating to the implementation and/or modification of policies and strategic plans, investments and disposals, major capital expenditure, and operational and financial budgets.

Board committees

All committees of the board have formal written terms of reference that are reviewed regularly, and updated as necessary, to take account of developments and any specific requirements of the board.

The board has established principal committees, namely Corporate Governance, Remuneration and Audit, with a number of other committees important to the effective operation of the board reporting through the Audit Committee.

Corporate Governance and Strategy Committee

The Banks Act imposes additional responsibilities and further obligations of a corporate governance nature on the boards of banks in discharging these responsibilities. The Corporate Governance Committee, comprising non-executive directors, ensures that the board complies with these requirements at all times. The terms of reference for this committee are currently being revised.

Remuneration Committee

This committee is chaired by a non-executive director and includes three other non-executive directors and two

executive directors. The terms of reference, including the remuneration strategy and incentive schemes, for this committee are currently being revised.

The committee's primary objective is to ensure that the right calibre of management is recruited and retained by the bank. The committee reviews the overall remuneration strategy of the company to ensure that directors and senior executives are appropriately remunerated for their contribution to the bank's operating and financial performance.

Audit Committee

The Audit Committee has a minimum of five members, all non-executive directors. The committee is chaired by a non-executive director. Executive directors attend committee meetings.

The committee's primary objective is to provide the board with additional assurance regarding the quality and reliability of the financial information used by directors and to assist them in the discharge of their duties. The committee must satisfy the board that adequate and appropriate financial and operating controls are in place; that significant business, financial and other risks have been identified and managed; that accounting policies and financial information issued to shareholders and the public are appropriate; and that appropriate standards of governance, reporting and compliance are in operation.

Issues relating to accounting, auditing, internal control and financial reporting matters are discussed with the external

auditors at periodic meetings. Both internal and external auditors are afforded unrestricted access to the Audit Committee.

The bank's internal audit functions are performed principally by the Nedcor Group's Internal Audit Unit, which reports to the Audit Committee. Major responsibilities allocated to the internal auditors include the examination and evaluation of the effectiveness of operational activities, together with attendant business risks and systems of operational and financial control. Material deficiencies, development needs and instances of non-compliance are reported to the Audit Committee, the external auditors and operational management for resolution.

The Audit Committee is assisted by regular reports from the Credit Risk Monitoring Committee, Financial and Other Risk Monitoring Committee and the Operational Risk Committee.

Credit Risk Monitoring Committee

This committee comprises five non-executive directors and four attending executive directors, and is chaired by a non-executive director.

Its primary purpose is to establish the broad credit risk policies of the bank and carry out high-level monitoring of credit risk in the bank.

Operational Risk Monitoring Committee

This committee comprises both executive and non-executive directors, and is chaired by any one of its members from time to time.

Its primary purpose is to review the bank's compliance with the Banks Act, with particular reference to annual reporting, internal financial controls and going concern. Based on its processes and management assurances, it is required to satisfy itself that there has been no material malfunction in the bank's financial internal controls, procedures and systems. It carries out high-level monitoring of solvency, internal control (operating), legal, regulatory and compliance risks in the bank.

Financial and Other Risk Monitoring Committee

This committee comprises three executive and three non-executive directors, and is chaired by a non-executive director.

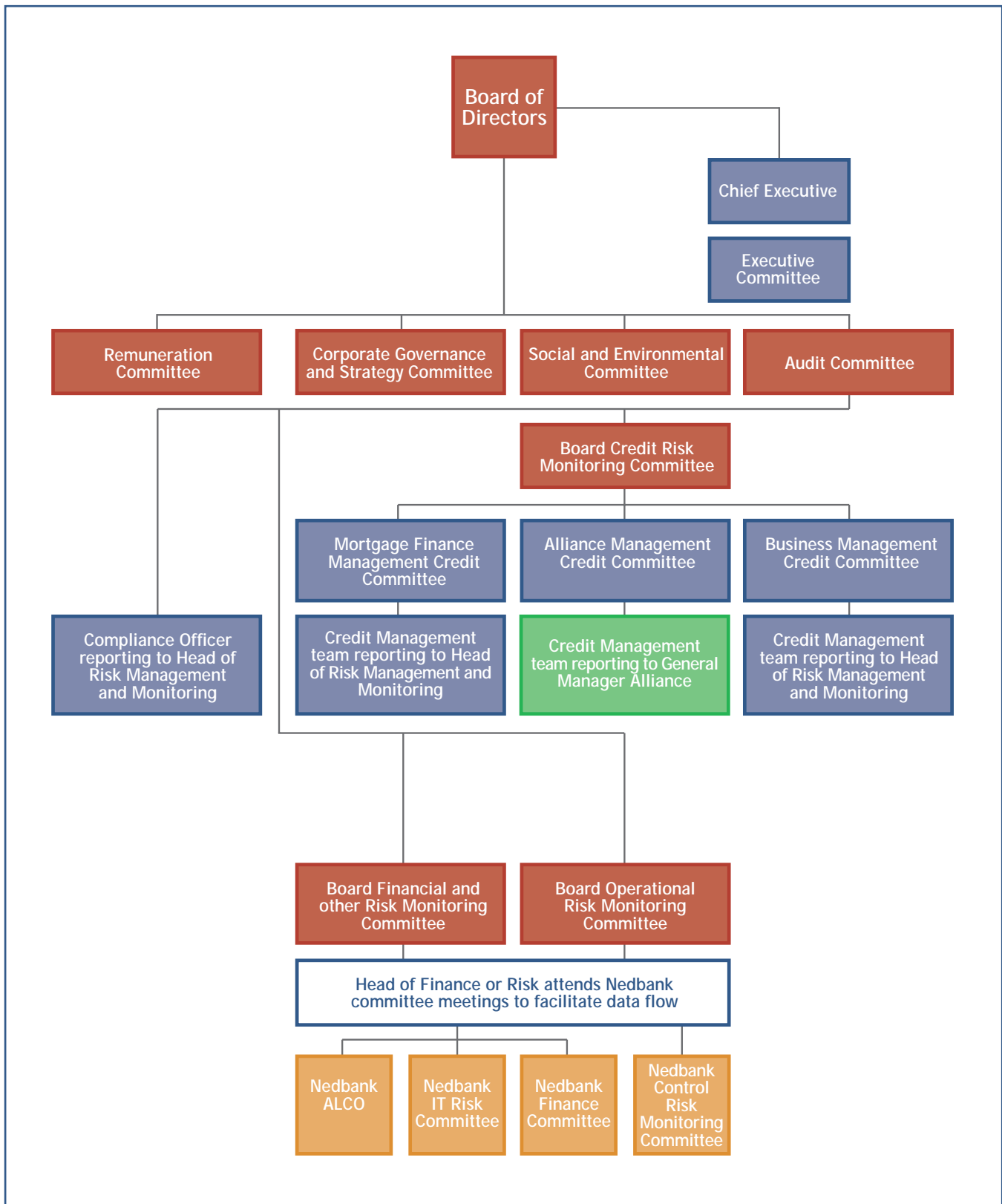
Its primary purpose is to establish the asset/liability risk management framework of the bank and to evaluate the appropriateness, adequacy and efficiency of accounting policies and procedures. It carries out high-level monitoring of liquidity, interest, market and trading, and technology risks in the bank.

Social and Environmental Committee

This new committee comprises three executive and four non-executive directors, and is chaired by a non-executive director.

The committee's terms of reference are currently under development.

Corporate governance *(continued)*



Committee composition

Non-executive director/Executive director

	Corporate Governance and Strategy Committee	Social and Environmental Committee	Audit, Risk and Compliance Committee	Credit Risk Monitoring Committee	Remuneration Committee	Financial and Other Risk Monitoring Committee	Operational Risk Monitoring Committee
S Baqwa ²	✓	✓					
C Bomela ³			✓	✓	Chair	✓	
M Brey ³			Chair			Chair	✓
N Fakude ³		✓		Chair			✓
J Gerwel ³	✓	✓					
J Magwaza (Chair) ³	Chair						
T Kgobe ³	✓	✓	✓	✓			
T Lamont Smith ¹				✓		✓	✓
R Laubscher ²					✓		
C Liebenberg ³	✓						
V Maphai ³		Chair			✓		
J Maxwell ¹				✓		✓	
E Molobi ³	✓						
S Morris ²			✓	✓			Chair
A Mukoki ¹		✓		✓		✓	✓
D Muller ²							✓
L Ndlovu ¹	✓	✓	✓	✓	✓		✓
G van Niekerk ³	✓		✓	✓	✓		✓
A Wolfson ³			✓	✓			

1 Executives of Peoples Bank

2 Executives of Nedbank

3 Non-executive

Remuneration report

The report on remuneration deals with directors' emoluments.

Executive directors' remuneration

Name	2002	2002			2001		
	Number of share options	Guaranteed remuneration R000	Performance bonus R000	Total R000	Guaranteed remuneration R000	Performance bonus R000	Total R000
T Lamont Smith	74 615	1 177	480	1 657	1 062	399	1 461
A Mukoki	81 833	861	354	1 215	776	430	1 206
L Ndlovu	207 700	1 666	2 250	3 916	1 333	1 650	2 983
	364 148	3 704	3 084	6 788	3 171	2 479	5 650

The executive directors participate in the Nedcor Limited share option scheme. As at 31 December 2001, 423 632 options in the holding company shares were outstanding under the scheme. During the current year 51 500 share options were granted at R125,00 per share (2001: 57 593 at R136,20 per share), and 110 984 (2001: 20 611) options were exercised. As at 31 December 2002, 364 148 options in the holding company shares were outstanding under the scheme.

RCM Laubscher, SG Morris, SAM Baqwa and DGS Muller are remunerated by the holding company.

Non-executive directors' remuneration

Name	2002 R000	2001 R000
C Bomela	55	–
M Brey	55	–
N Fakude	35	–
J Gerwel	45	–
T Kgobe	55	–
J Magwaza	50	–
V Maphai	45	–
E Molobi*	9	–
G van Niekerk	9	–
A Wolfson	40	–
Total	398	–

* E Molobi's fees are paid to the Kagiso Trust

CF Liebenberg is remunerated by the holding company.



Alan Mukoki
Risk Management and Monitoring



Phindi Mthethwa
Recoveries and Collections



Sherry Coates
Retail Credit

The following is a review of the risk management function over the reporting period.

Solvency risk – capital adequacy

It is essential that the bank is adequately capitalised to absorb potential losses in its activities, to maintain the confidence of those with whom it does business and to fund the growth of its operations.

The South African Reserve Bank has, in accordance with international standards issued by the Bank of International Settlements (BIS), established minimum standards for capitalisation of banks, taking into account the particular risks to which each bank may be exposed.

However, as Peoples Bank has set itself ambitious growth targets in its chosen markets in South Africa, it is important to maintain capital considerably in excess of the requirements of the authorities. The bank's capital adequacy ratio at the end of December 2002 was 34,5%. After taking account of the dividend declared, the ratio was 32,7%, compared with the regulatory requirement of 10%.

CAPITAL ADEQUACY	R million
Primary capital	
Ordinary share capital	43
Primary reserves	1 782
Impairment for deferred-tax asset	(185)
Total primary capital	1 640
Secondary capital	
Subordinated compulsorily convertible loans	130
General risk reserve	29
Impairments	(5)
Total secondary capital	154
Total capital	1 794
Total risk-weighted assets	5 190
Capital adequacy ratio (%)	34,5



Henry Ansara
Operational Risk

Operational and technology risks

Operational risk is the potential for loss caused by a breakdown in business continuity, ie information and communications technology, transaction processing, settlement systems and procedures. It is critically important that the bank maintains comprehensive systems of internal controls, and the bank's risk management methodology spans people, systems, processes and all external factors that could impact on its business. Enforcing and monitoring compliance with such policies and standards of practice is a vital component of operational risk management.

Human resources risk is managed by the Peoples Bank Human Resources Department, while technology, physical security and insurance risk are managed by the appropriate Nedbank division.

Peoples Bank Technology and Process manages the Nedbank service delivery, through written service level agreements.

Legal and compliance risk

Legal risk is the risk that transactions or agreements with third parties may not be legally enforceable or do not reflect the deal as approved by the Credit Committee.

Compliance or regulatory risk is the risk of non-compliance with statutes, especially the requirements imposed by the South African Reserve Bank, the Micro-Finance Regulatory Council or the Financial Services Board.

Peoples Bank uses Nedbank's Legal Department and the Peoples Bank compliance function has again been expanded during the year to ensure compliance with all applicable statutory and regulatory requirements.

Asset and liability management

Peoples Bank's Asset and Liability Management Committee (ALCO) was established during the year to deal with the strategic and financial objectives of the bank. The effective management of risk is addressed by Nedbank, which ensures that acceptable levels of financial risk – excluding credit, operational and control, and compliance risk – are identified, understood and effectively managed.

Interest rate risk management

Nedbank is responsible for managing Peoples Bank's interest rate risk. It assesses interest rate risk exposure through the use of traditional gap analysis and earnings-at-risk modelling techniques. Gap analysis measures the volumes of assets and liabilities subject to repricing within a given period, according to their contractual repricing characteristics. Stress testing and net interest

income simulations for a variety of possible interest rate scenarios measure the financial impact of interest rate movements. The risk concentrations and possible financial implications are dynamically measured, identified and managed, generally through the use of on-balance sheet activities.

Liquidity risk management

Liquidity risk management is carried out on our behalf by Nedbank and is actively implemented through:

- cash flow forecasting models and strategic planning, including Peoples Bank projections;
- maintaining an adequate pool of high-quality marketable assets; and
- liability diversification, taking account of Peoples Bank depositors.

Trading risk management

Peoples Bank has specifically excluded trading activities from its strategic business plan.

Credit risk management and monitoring

Structure and policy

Credit risk is the risk that a counterparty fails to meet its commitments to the bank, thereby causing a loss. This includes losses arising through both on- and off-balance sheet lending decisions.

Lending by the bank is governed by credit policy guidelines set by the board's Credit Risk Monitoring Committee. All facilities in excess of 10% of the bank's capital and

reserves are approved by this committee and ratified by the board. The committee also reviews other large exposures, risk profiles, levels of provisions, risk parameters and compliance with prudential criteria. It further evaluates the findings of internal and external auditors as these relate to credit risk and provides information on credit risk to the Audit Committee.

Each division has its own credit policy, which conforms to bank policy and deals with matters specific to its business, such as mandates, authority limits, writeoffs, provisions and lending procedures.

Credit risk is managed and monitored daily according to various criteria, such as concentrations of risk, arrears, excesses and aggregate exposure, and is monitored at least quarterly by the Credit Risk Monitoring Committee. Using international best-practice audit methodologies credit risk is also frequently and independently reviewed by the Nedbank internal auditors through their specialised credit auditors.

Non-performing loans

Non-performing loans are loans that are classified as 'doubtful or loss' according to the current SA Reserve Bank definitions. The appropriate capital and interest provisions are raised against these advances, after taking account of the value of any expected recoveries. Non-performing loans are reviewed by the Credit Risk Monitoring Committee and provisions are approved by the board.

Risk management review *(continued)*

Provisions for loan losses

The bank has established procedures for making specific provisions against loan losses and for writing off loans in line with the policy. Specific provisions for bad and doubtful advances are made against identified doubtful advances, in line with regulatory minimum standards. Interest not serviced has to be reserved and written off when it is considered irrecoverable. In addition, the bank maintains a general provision to cover the inherent risk of losses in the book not yet specifically identified as doubtful.

Country risks

Peoples Bank is limiting itself to exposures within South Africa.

Retail credit risk

Peoples Bank carries retail credit risk in two areas, namely:

- affordable homeloans; and
- microloans, whether secured or not.

Peoples Bank homeloans

Credit risk management follows a three-pronged approach, ie assessment and credit granting, client credit management and legal recoveries.

• *Assessment and credit granting*

Assessment deals with the process of evaluating loan applications to determine the relative risk involved for Peoples Bank. Granting a credit facility is based on the outcome of the assessment, ensuring that the all-

important balance between risk and reward is maintained and that lending quality and asset growth targets are achieved. The relationship between sales volume and risk pricing is scientifically assessed and managed.

Although justification for granting a facility could be found in security, the general policy is to find primary justification for making a loan on a borrower's credit standing and ability to service loan repayments.

• *Client credit management*

Client credit management is primarily responsible for monitoring credit quality and assisting clients who are experiencing financial difficulties in repaying loans. The rehabilitation of a client involves negotiating a repayment plan that will reinstate the client as a normal, active borrower.

The objective is to maintain a positive client relationship at all times. In regularising clients, we will consider all innovative ways of assisting clients within the context of their financial position and the bank's appetite for further risk.

• *Legal recoveries*

Legal recoveries are concerned with foreclosure, realisation of non-liquid security, property in possession and attachment of moveable goods after all attempts at rehabilitating a client have failed. This process generally involves litigation.

The management of homeloans reports monthly to a credit risk committee, which in turn reports quarterly to the Board Credit Risk Management Committee.

Microloans

The management of credit risk taken in Peoples Bank's microloans business is undertaken in conjunction with our alliance partner, Capital One.

Capital One's extensive experience in quantitative methods and information-based strategy are being employed with the intention of expanding our exposure to better credit risks or reducing it for poorer risks, unless adequate risk compensation can be found in the pricing.

There is a standing Alliance Credit Risk Management Committee that meets monthly and reports to the Alliance Governing Board and the Board Credit Monitoring Committee.

Peoples Bank Business credit risk

The management of credit risk in Peoples Bank Business is carried out by a team of credit managers who use various practices to lower risks and manage exposures. Security in the form of credit guarantee insurance is used to enhance creditworthiness where balance sheets or a track record would mitigate against any exposure.

Nedbank divisions credit risk

Assets originating from the acquired FBC Fidelity portfolio, not falling within Peoples Bank's target market, were managed by the Nedbank division most suited to the type of asset. From the start of 2003 these portfolios have been sold to Nedbank or incorporated into the Peoples Bank retail or business divisions where appropriate.

Annual financial statements of Peoples Bank Limited

for the year ended 31 December 2002
Registration number 1994/000929/06

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Directors' responsibility and approval



The directors are responsible for the integrity of the financial statements and the related information included in this annual report.

For the board to discharge its responsibilities management has developed and continues to maintain a system of internal financial control. The board has ultimate responsibility for this system of internal control and reviews the effectiveness of its operation, primarily through the Audit Committee and other risk-monitoring committees and functions.

The internal financial controls include risk-based systems of accounting and administrative controls designed to provide reasonable, but not absolute, assurance that assets are safeguarded and that transactions are executed and recorded in accordance with generally accepted business practices and the bank's written policies and procedures. These controls are implemented by trained, skilled staff with clearly defined lines of accountability and appropriate segregation of duties. The controls are monitored by management and include a comprehensive budgeting and reporting system operating within strict deadlines and an appropriate framework.

As part of the system of internal controls, the Nedcor Group internal audit function conducts operational, financial and specific audits and coordinates audit coverage with the external

auditors. The external auditors are responsible for reporting on the financial statements.

The financial statements are prepared in accordance with South African Generally Accepted Accounting Practice and incorporate responsible disclosures in line with the accounting philosophy of the bank. The financial statements are based on appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The directors believe that the bank will be a going concern in the year ahead. For this reason, they continue to adopt the going-concern basis in preparing the financial statements.

These financial statements have been approved by the board of directors and are signed on its behalf by:

JB MAGWAZA
Chairman

LM NDLOVU
Chief Executive

Johannesburg
6 February 2003

Certificate from the Company Secretary

In terms of section 268G(d) of the Companies Act, 61 of 1973, as amended, I certify that, to the best of my knowledge and belief, the bank has lodged with the Registrar of Companies for the year ended 31 December 2002 all such returns as are required of a public company in terms of the Companies Act, and that all such returns are true, correct and up to date.

MW VENA
Company Secretary

Johannesburg
6 February 2003

Report of the independent auditors

To the members of Peoples Bank Limited

We have audited the financial statements of Peoples Bank Limited set out on pages 39 to 63 for the year ended 31 December 2002. These financial statements are the responsibility of the bank'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 issued by the South African Institute of Chartered Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. Our 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 bank at 31 December 2002 and the results of its operations and cash flows for the year then ended in accordance with Statements of South African Generally Accepted Accounting Practice and in the manner required by the South African Companies Act.



SIZWENTSALUBA VSP INC

*Chartered Accountants (SA)
Registered Accountants and Auditors*



KPMG INC

*Chartered Accountants (SA)
Registered Accountants and Auditors*

Johannesburg
6 February 2003

PRINCIPAL ACTIVITIES

The company operates as a registered bank. It is primarily focused on the lower- to middle-income retail sector and small to medium enterprises.

OPERATING RESULTS

Full details of the financial results are set out on pages 40 to 63.

DECLARATION OF DIVIDEND

A cash dividend of R90 million was declared in respect of the year ended 31 December 2002, and will be distributed to the registered shareholders in terms of the shareholders' agreement on 20 February 2003.

SHARE CAPITAL AND SHARE PREMIUM

Details of the share capital and share premium are set out in the statement of changes in ordinary shareholders' funds and in note 16 to the financial statements. Share issues during the year and last year have been occasioned by:

- the requirements of the agreement in terms of which Nedbank acquired the bank (including a capital injection to replenish capital adequacy following the determination of the final net asset value (NAV) at the effective date);
- the conversion of certain subordinated compulsorily convertible loans into ordinary shares in accordance with the loan agreements. New shares were issued to Nedbank, having acquired these loans as part of the acquisition of the bank;
- the issue of shares to two consortia of empowerment partners, leaving them with an effective 30% control in the bank.

DIRECTORATE

The directors of the bank are listed on page 7 of this annual report. The following changes have taken place since the previous annual report:

TT Thahane resigned with effect from 1 August 2002.

The following individuals were appointed as directors on 7 October 2002: JG Maxwell, GS van Niekerk, SAM Baqwa, E Molobi.

JB Magwaza was appointed as Chairman of the board on 7 October 2002.

JM Manyi was appointed as director on 6 February 2003.

ML Ndlovu and AT Mukoki have an interest in one of the minority shareholding consortia, giving them an effective interest of 0,48% and 0,36% respectively in the bank.

EVENTS SUBSEQUENT TO BALANCE SHEET DATE AND CURRENT STATUS OF THE BANK

On 1 January 2003 the bank acquired parts of the businesses of BoE Management Limited (formerly BoE Bank Limited) at their respective carrying amounts by means of an intergroup transaction in terms of section 54 of the Banks Act, 94 of 1990, as amended. Details of the assets and liabilities acquired are as follows:

	NBS Bank R000	Cash Bank R000	Pep Bank R000	Total R000
Advances net of provisions	–	1 013 928	121 539	1 135 467
Fixed and other assets	197 770	4 703	60 216	262 689
Depositors	(6 601 775)	(3 810)	(113 212)	(6 718 797)
Net balances acquired	(6 404 005)	1 014 821	68 543	(5 320 641)

At the same date the bank acquired an affordable homeloan portfolio of 20 001 accounts with a book value of R1 325,075 million from Nedbank, and sold the commercial property and corporate loan portfolios, with a net book value of R695,567 million and R323,337 million respectively, to Nedbank at their respective carrying amounts.

On 31 March 2003, 270 833 333 shares will be issued to Nedbank Limited at a price of 48 cents per share to repay the subordinated compulsorily convertible loan of R130 million maturing on that date.

HOLDING COMPANY

Nedbank Limited is the holding company of the bank, holding 70% of the shares following the issue of shares referred to above.

SECRETARY

Ms MW Vena is the secretary to the company. Her addresses are on the notice of the annual general meeting.

Income statement

for the year ended 31 December

	Notes	2002 R000	2001 R000
Interest income		1 306 849	1 201 355
Interest expense		545 679	623 715
Net interest income		761 170	577 640
Non-interest revenue	3.1	305 667	240 626
Total income		1 066 837	818 266
Specific and general provisions	10.4	254 233	544 585
Net income		812 604	273 681
Expenses	3.2	596 618	459 509
Restructuring costs	3.3	–	185 547
Net operating income before loss attributable to alliance partners		215 986	(371 375)
Recoverable from alliance partners		63 733	16 108
Net income before taxation		279 719	(355 267)
Taxation	4.1	(155 044)	92 158
BALANCE OF RETAINED INCOME FOR THE YEAR		434 763	(447 425)
Earnings per share (cents)	5	10,3	(17,1)
Headline earnings per share	5	10,3	12,9
Fully diluted earnings per share (cents)	5	10,2	(12,4)
Fully diluted headline earnings per share (cents)	5	10,2	12,6
HEADLINE EARNINGS			
Headline earnings		434 763	337 171
<i>After excluding</i>			
Loss attributable to shareholders prior to 31 July 2000		–	(784 596)

Balance sheet



as at 31 December

	Notes	2002 R000	2001 R000
ASSETS			
Cash and short-term funds	6	164 443	96 042
Other short-term securities	7	296 219	199 773
Government and public sector securities	8	–	92
Advances and other accounts	9	7 117 616	6 786 939
Deferred-taxation asset	11	184 172	–
Subsidiary companies	12	–	–
Other investments	13	28 410	29 634
Fixed property	14.1	1 600	1 615
Equipment	14.2	55 112	48 060
Intangible assets	14.3	623	176
Total assets		7 848 195	7 162 331
SHAREHOLDERS' FUNDS AND LIABILITIES			
SHAREHOLDERS' FUNDS			
Ordinary share capital	16	42 540	26 581
Reserves		1 781 790	714 693
Ordinary shareholders' funds		1 824 330	741 274
Subordinated-debt instruments	17	130 000	230 000
Total capital and reserves		1 954 330	971 274
LIABILITIES			
Deposit and current accounts	18	3 254 941	2 958 840
Loans from holding company	19	2 638 924	3 232 217
Total liabilities		5 893 865	6 191 057
Capital, reserves and liabilities		7 848 195	7 162 331
Guarantees on behalf of customers excluded from assets	20	28 123	35 809

Statement of changes in ordinary shareholders' funds

for the year ended 31 December

	2002 R000	2001 R000
ANALYSIS		
Share capital	42 540	26 581
Balance at beginning of year	26 581	24 476
Issued during year	15 959	2 105
Share premium	2 095 655	1 463 321
Balance at beginning of year	1 463 321	938 945
Issues of shares	653 328	524 376
Share issue expenses	(20 994)	–
Distributable reserves	(313 865)	(748 628)
Balance at beginning of year	(748 628)	(301 203)
Balance of retained income for year	434 763	(447 425)
Ordinary shareholders' funds	1 824 330	741 274
SUMMARY		
Ordinary share capital	42 540	26 581
Reserves	1 781 790	714 693
Share premium	2 095 655	1 463 321
Distributable reserves	(313 865)	(748 628)
Ordinary shareholders' funds	1 824 330	741 274

Cash flow statement



for the year ended 31 December

	Notes	2002 R000	2001 R000
CASH FLOW FROM OPERATING ACTIVITIES	22.6	491 253	220 295
Cash received from clients	22.1	1 604 426	1 418 447
Cash paid to clients, staff and suppliers	22.2	(1 119 186)	(1 220 319)
Dividends from preference shares	3.1	6 013	22 167
CHANGE IN WORKING FUNDS		(319 153)	(2 938 347)
(Increase)/decrease in operating assets	22.3	(611 171)	137 696
Increase/(decrease) in operating liabilities	22.4	292 018	(3 076 043)
CASH GENERATED/(UTILISED) BY OPERATING ACTIVITIES		172 100	(2 718 052)
TAXATION PAID	22.5	(29 956)	(20 158)
CASH FLOW FROM INVESTMENT ACTIVITIES		(28 743)	(10 359)
Investment in fixed assets	15	(25 726)	(25 995)
Proceeds on sale of fixed assets	15	43	13 829
Proceeds on sale of other investments	13.3	–	6 752
Acquisition of other investments	13.3	(3 060)	(4 945)
CASH (UTILISED)/PROVIDED BY FINANCING ACTIVITIES		(45 000)	2 286 591
Net proceeds of ordinary shares issued		548 293	412 398
Loan from holding company		(593 293)	1 874 193
NET CASH GENERATED/(UTILISED)		68 401	(461 978)
Cash and short-term funds at beginning of year		96 042	558 020
AT END OF YEAR	6	164 443	96 042

Notes to the annual financial statements

for the year ended 31 December

1. SIGNIFICANT ACCOUNTING POLICIES

The financial statements are prepared in accordance with, and comply with, South African Statements of Generally Accepted Accounting Practice and the requirements of the South African Companies Act. The financial statements are prepared on the historical-cost basis, except for certain assets and liabilities that are carried at fair values. The accounting policies adopted and applied are set out below and are in all material respects consistent with those of the previous year, unless otherwise indicated.

1.1 Financial instruments

Financial instruments carried on the balance sheet include all of the following:

1.1.1 *Cash and short-term funds*

Cash and short-term funds comprise coins and banknotes, money at call and short notice and balances with central bank.

1.1.2 *Other short-term securities and other investments*

Securities that have a fixed redemption value are stated at cost, adjusted for the difference between cost and redemption value, which is brought to account over the period to redemption date. No provision is made for the impairment of fixed redemption value securities where the bank intends holding these securities until redemption. Securities held for trading purposes are stated at market value. Gains and losses on the remeasurement to market value are recognised in the income statement in the period in which the change arises. Other investments are stated at cost net of accumulated impairment losses.

1.1.3 *Advances*

Advances are stated net of amounts that, in the opinion of the directors, are required as specific and general provisions for bad and doubtful advances to reflect the estimated recoverable amounts thereof.

1.1.4 *Instalment credit agreements*

Instalment credit agreements are regarded as financing transactions. Instalment credit assets are recognised in the balance sheet at an amount equal to the net investment in the agreement, which are included in advances. The net investment is determined as the difference between the gross investment and unearned finance charges. Finance charges are recognised as income on a basis that reflects a constant periodic rate of return on the bank's net investment outstanding in respect of the agreement. Instalment credit payments relating to the accounting period, excluding costs for services, are applied against the gross investment to reduce both the principal and the unearned finance income.

1.1.5 *Derivative financial instruments*

Derivative financial instruments include foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, and currency and interest rate options (both written and purchased).

Non-trading transactions are undertaken for hedging purposes. Gains and losses on derivative financial instruments used for hedging purposes are deferred and recognised as income or expense on the same basis and over the same accounting period as those of the hedged items to which they relate. The fair values of all derivative financial instruments are reported on a gross basis in the notes to the balance sheet at positive replacement values and negative replacement values. The carrying values of derivatives are included in the advances line item in the balance sheet.

1.1.6 *Discounting transactions*

Promissory notes, acceptances and other bills drawn by clients and discounted by the bank are included under advances. Amounts rediscounted are included under the contra items for acceptances.

1.2 Properties in possession

Properties in possession are included under advances and valued at the lower of cost and net realisable value. Cost includes the outstanding balance on repossession, which includes capitalised interest incurred by the client, together with other charges relating to the repossession.

1.3 Specific and general provisions for bad and doubtful advances

Specific provisions for bad and doubtful advances are made against identified doubtful advances, including amounts in respect of interest that is not serviced, and are deducted from advances.

In addition, a general provision is maintained against significant unforeseen losses and, in particular, against advances not specifically identified as doubtful, in order to reflect the potential losses that may be present in any portfolio of advances. The provisions, both specific and general, made during the year, less recoveries of advances previously written off, are charged to the income statement.

1.4 Provisions

Provisions are recognised when the bank has a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefits will occur, and where a reliable estimate can be made of the amount of the obligation.

1.4.1 Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the bank from a contract are lower than the unavoidable cost of meeting the obligations under the contract.

1.4.2 Leave pay

The provision for leave pay represents the amount the bank has a present obligation to pay as a result of employees' services provided to the balance sheet date. The provision is measured as the additional amount that the bank expects to pay as a result of the unused leave entitlement that has accumulated at the balance sheet date, taking into account the undiscounted amount of current costs to employer per employee.

1.5 Property and equipment

Freehold land is carried at cost less accumulated impairment losses. Other items of property and equipment are carried at cost less accumulated depreciation and accumulated impairment losses. Depreciation is provided on the straight-line basis on all items of property and equipment, other than freehold land, over the estimated useful lives of these assets.

Subsequent expenditure relating to an item of property and equipment is capitalised when it is probable that future economic benefits from the use of the asset will be increased. All other subsequent expenditure is recognised as an expense in the period in which it is incurred. Surpluses/(deficits) on the disposal of property and equipment are credited/(charged) to income. The surplus or deficit is the difference between the net disposal proceeds and the carrying amount of the asset.

1.6 Intangible assets

1.6.1 Computer software

Amortisation of computer software cost is charged to the income statement on a straight-line basis over the estimated useful lives of these assets, not exceeding seven years.

Notes to the annual financial statements *(continued)*

for the year ended 31 December

1. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

1.6.2 *Goodwill and negative goodwill*

Goodwill arises as the excess of the cost of an acquisition over the bank's interest in the fair value of the identifiable assets and liabilities acquired. Goodwill is carried at cost less accumulated amortisation and accumulated impairment losses, and is amortised on a straight-line basis over its estimated useful life. Any gain or loss on the disposal of an interest in an asset includes the unamortised balance of goodwill relating to the disposal of that interest.

Negative goodwill arising on an acquisition represents any excess of the fair value of the bank's share of the identifiable net assets acquired over the cost of the acquisition. To the extent that negative goodwill relates to an expectation of future losses and expenses that are identified in the plan of acquisition and can be measured reliably, but which do not represent identifiable liabilities at the date of acquisition, it is recognised in the income statement when the future losses and expenses are recognised. Any remaining negative goodwill, not exceeding the fair values of the non-monetary assets acquired, is recognised in the income statement over the weighted average useful life of those assets. The balance of negative goodwill in excess of the fair values of the non-monetary assets acquired is recognised immediately in the income statement.

1.7 Taxation

Current taxation comprises taxation payable calculated on the basis of the expected taxable income for the year, using the tax rates enacted at the balance sheet date, and any adjustment of taxation payable for previous years.

Deferred taxation is provided using the balance sheet liability method, based on temporary differences. Temporary differences are differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax base. The amount of deferred taxation provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using tax rates applicable at the balance sheet date. Deferred taxation is charged to the income statement, except to the extent that it relates to a transaction that is recognised directly in equity or a business combination that is an acquisition. The effect on deferred taxation of any changes in tax rates is recognised in the income statement, except to the extent that it relates to items previously charged or credited directly to equity.

A deferred-tax asset is recognised to the extent that it is probable that future taxable income will be available against which the associated unutilised tax losses and deductible temporary differences can be used. Deferred-tax assets are reduced to the extent that it is no longer probable that the related tax benefits will be realised.

1.8 Employee benefits

1.8.1 *Defined-contribution plans*

Benefits offered in terms of defined-contribution plans comprise retirement benefits. Contributions to defined-contribution plans are recognised as an expense in the income statement as incurred.

1.8.2 *Defined-benefit plans*

Benefits offered in terms of defined-benefit plans comprise retirement benefits and post-retirement medical benefits. The Nedcor Group's defined-benefit obligation in respect of each plan is calculated by estimating the amount of future benefit that the employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine the present value, and the fair value of any plan assets is deducted. The discount rate is the yield at balance sheet date on government bonds that have maturity dates approximating the term of the Nedcor Group's obligation. The calculation is performed by a qualified actuary using the projected-unit credit method. The present value of the defined-benefit obligation and the fair value of any plan assets are determined with sufficient regularity for the amounts recognised in the financial statements not to differ materially from the amounts that would be determined at the balance sheet date.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees of the bank is recognised as an expense in the income statement on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the related expense is recognised immediately in the income statement.

In calculating the Nedcor Group's obligation in respect of a plan, to the extent that any cumulative unrecognised actuarial gain or loss exceeds 10% of the greater of the present value of the defined-benefit obligation (before deducting the fair value of plan assets) and the fair value of plan assets, that portion attributable to the bank is recognised in the income statement over the expected average remaining working lives of the bank's employees participating in the plan. Otherwise, the actuarial gain or loss is not recognised.

Where the calculation results in a benefit to the Nedcor Group, the recognised asset is limited to the total of any cumulative unrecognised net actuarial losses and past-service costs and the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The following are recognised immediately to the extent that they arise while a defined-benefit asset is determined and are attributable to the bank:

- Net actuarial losses and past-service cost of the current period to the extent that they exceed any reduction in the present value of the economic benefits specified above. If there is no change or an increase in the present value of the economic benefits, the entire net actuarial losses of the current period and past-service cost of the current period are recognised immediately; and
- Net actuarial gains of the current period after the deduction of past-service cost of the current period to the extent that they exceed any increase in the present value of the economic benefits specified above. If there is no change or a decrease in the present value of the economic benefits, the entire net actuarial gains of the current period after the deduction of past-service cost of the current period are recognised immediately.

1.8.3 *Equity compensation benefits*

The Nedcor Group grants share options to qualifying employees of the bank under a group employee share incentive scheme.

1.9 **Revenue recognition**

The bank's revenue relates mainly to its banking activities and comprises the following:

1.9.1 *Interest income and expense*

Interest income and expense are recognised in the income statement as they accrue, taking into account the effective interest rates applied to lending-related assets and liabilities. The accrual of interest on lending-related assets is suspended when its recovery is considered to be doubtful. Interest income includes interest earned on lending-related investments. Interest income and expense include the amortisation of any discount or premium or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity, calculated on an effective interest rate basis.

1.9.2 *Non-interest revenue*

Non-interest revenue includes commission, fees and dividends from investments.

1.9.3 *Offsetting*

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

Notes to the annual financial statements *(continued)*

for the year ended 31 December

1. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

1.10 Comparative figures

Comparative figures are restated, where necessary, to afford a proper comparison.

2. RELATED-PARTY INFORMATION

2.1 Parent company

The holding company of Peoples Bank Limited is Nedbank Limited, which holds 70% (2001: 100%) of the bank's ordinary shares, after allowing for the conversion of the subordinated compulsorily convertible loans. The ultimate holding company is Old Mutual plc, incorporated in the United Kingdom.

2.2 Identity of related parties with whom material transactions have occurred

Nedbank Limited is identified as a related party with whom the bank has material transactions.

2.3 Material related-party transactions

Nedbank Limited provides funding, managerial, operational and data processing services to the bank based on terms comparable with those arranged for other subsidiaries or divisions of Nedbank Limited.

	2002 R000	2001 R000
3. INCOME AND EXPENSES		
3.1 Non-interest revenue		
Commission and fees	267 728	212 131
Other income	31 926	6 328
Dividends from preference shares	6 013	22 167
	305 667	240 626
3.2 Expenses		
Auditors' remuneration		
audit fees	2 345	1 391
other services	–	29
Depreciation	18 090	15 010
fixed property	–	106
equipment	17 683	15 090
intangible assets	395	(214)
vehicles	12	28
Staff costs	187 882	149 006
Loss on sale of fixed assets	109	2 331
Operating lease charges		
fixed property	13 658	9 171
computer equipment	36	35
furniture and other equipment	912	1 070
Other expenses	373 586	281 466
	596 618	459 509

Notes to the annual financial statements *(continued)*

for the year ended 31 December

	2002 R000	2001 R000
3. INCOME AND EXPENSES <i>(continued)</i>		
3.3 Restructuring costs		
Receiver's fees		4 288
Contract cancellation costs		66 742
Audit costs		1 285
Retrenchment costs		18 292
Branch closing expenses		5 851
Integration of products, processes and computer systems		22 562
Fixed assets written off		28 732
Other restructuring costs		35 795
Extra credit collection costs		2 000
		185 547
3.4 Directors' emoluments		
For services as non-executive directors	398	–
For services as executive directors	6 788	5 650
Salaries from the company	2 038	1 838
Salaries from the holding company	1 666	1 333
Bonuses from the holding company	3 084	2 479
	7 186	5 650

Additional details regarding individual directors' remuneration are detailed in the remuneration report on page 30.

	2002 R000	2001 R000
4. TAXATION		
4.1 Charge for the year		
Taxation on income:		
South African normal taxation – deferred	(185 000)	72 000
Total taxation on income	(185 000)	72 000
Transaction and other taxation		
Regional Services Council levies	4 005	2 298
Value-added tax charge in respect of current expenditure net of input credits	24 294	16 581
Stamp duty	1 657	1 279
Total transaction and other taxation	29 956	20 158
Total taxation	(155 044)	92 158
4.2 Future tax relief		
The bank has estimated tax losses of R706 million (2001: R873 million) that can be set off against future taxable income of which R616 million has been applied to raise a deferred tax asset.		
The bank has accumulated STC credits amounting to R35 million at the year-end (2001: R14 million).		
5. EARNINGS PER SHARE		
Earnings attributable to ordinary shareholders	434 763	(447 425)
Headline earnings	434 763	337 171
Weighted average ordinary shares in issue (000)	4 215 493,8	2 615 744,2
Earnings per share (cents)	10,3	(17,1)
Headline earnings per share (cents)	10,3	12,9
Earnings and headline earnings per share are calculated by dividing the relevant earnings amount by the weighted average number of shares in issue.		
Diluted earnings per share		
Fully diluted weighted average ordinary shares in issue (000)	4 524 871,0	3 128 410,9
Fully diluted earnings per share (cents)	10,2	(12,4)
Fully diluted headline earnings per share (cents)	10,2	12,6
6. CASH AND SHORT-TERM FUNDS		
Coin and banknotes	37 134	28 511
Money at call and short notice	–	6
Balances with central bank	127 309	67 525
	164 443	96 042

Notes to the annual financial statements *(continued)*

for the year ended 31 December

	2002 R000	2001 R000
7. OTHER SHORT-TERM SECURITIES		
7.1 Analysis		
Treasury bills	296 219	199 773
7.2 Book value		
Investment portfolio	296 219	199 773
7.3 Market valuation		
Investment portfolio	296 219	199 773
8. GOVERNMENT AND PUBLIC SECTOR SECURITIES		
8.1 Book value		
Government and government-guaranteed securities	–	92
8.2 Maturity structure		
Maturing within one year	–	92
8.3 Book value		
Investment portfolio	–	92
8.4 Valuation		
Unlisted securities		
– Book value	–	92
– Directors' valuation	–	92
Total market/directors' valuation	–	92
Total redemption value	–	100

	2002 R000	2001 R000
9. ADVANCES AND OTHER ACCOUNTS		
9.1 Category analysis		
Mortgage loans	5 551 267	5 357 530
Properties in possession	258 109	312 037
Other loans and overdrafts	1 862 685	1 709 946
Leases and instalment debtors	567 165	674 940
<i>Less: Unearned finance charges on lease and instalment debtors</i>	<i>(107 837)</i>	<i>(95 641)</i>
Preference shares and debentures	–	126 509
Trade, other bills and bankers' acceptances	–	21 908
Remittances in transit	190	22
Sundry debtors and accrued interest	221 439	35 895
	8 353 018	8 143 146
Provisions (note 10)	1 235 402	1 356 207
	7 117 616	6 786 939
9.2 Sectoral analysis		
Retail mortgage finance	4 643 279	4 229 778
Microloans	1 350 536	1 013 968
Unsecured	703 862	376 553
Secured	646 674	637 415
Commercial property finance	1 094 008	1 439 788
SME and franchise finance	521 327	484 968
Commercial asset-based finance	60 849	137 361
Local authority lending	220 572	219 339
Corporate loans	240 818	455 517
Preference shares	–	126 509
Other assets	221 629	35 918
	8 353 018	8 143 146

Notes to the annual financial statements *(continued)*

for the year ended 31 December

	2002 R000	2001 R000
9. ADVANCES AND OTHER ACCOUNTS <i>(continued)</i>		
9.3 Maturity structure		
Repayable on demand or at short notice	7 723	159 674
Three months or less but not repayable on demand or at short notice	420 046	198 478
One year or less but over three months	450 008	245 982
Five years or less but over one year	1 751 371	1 987 202
Over five years	5 723 870	5 551 810
	8 353 018	8 143 146

	2002 R000			2001 R000		
	Outstanding balance	Expected recovery	Provision raised	Outstanding balance	Expected recovery	Provision raised
9.4 Non-performing advances						
Sectoral analysis						
Retail mortgage finance	609 360	384 267	225 093	638 692	450 461	188 231
Microloans	263 580	16 987	246 593	85 810	45 153	40 657
Unsecured	230 496	–	230 496	32 931	–	32 931
Secured	33 084	16 987	16 097	52 879	45 153	7 726
Commercial property finance	392 218	32 878	359 340	661 678	154 985	506 693
SME and franchise finance	234 538	78 477	156 061	244 068	70 093	173 975
Commercial asset-based finance	31 997	8 000	23 997	124 075	4 132	119 943
Corporate loans	82 516	19 000	63 516	193 201	6 097	187 104
Preference shares	–	–	–	79 071	52 114	26 957
Other assets	80 113	53 156	26 957	–	–	–
	1 694 322	592 765	1 101 557	2 026 595	783 035	1 243 560
Provision requirements in respect of underperforming advances			92 838			71 640
	1 694 322	592 765	1 194 395	2 026 595	783 035	1 315 200

	2002 R000	2001 R000
10. PROVISIONS		
10.1 Analysis of provisions		
Specific provision for bad and doubtful debts	1 194 395	1 315 200
General provision	41 007	41 007
Provisions available	1 235 402	1 356 207
10.2 Specific provision for bad and doubtful debts		
Balance at beginning of year	1 315 200	1 004 155
Income statement charge (note 10.4)	254 233	544 980
Debts written off	(444 094)	(303 425)
Transfer from interest reserve	72 500	95 230
Debts recovered	2 917	1 520
Provisions reallocated to investments	(6 361)	(27 260)
Provision at end of year	1 194 395	1 315 200
10.3 General provision		
Balance at beginning of year	41 007	41 402
Income statement release (note 10.4)	–	(395)
Provision at end of year	41 007	41 007
10.4 Specific and general provisions – income statement charge		
Specific provision for bad and doubtful debts (note 10.2)	254 233	544 980
General provision (note 10.3)	–	(395)
Income statement charge for the year	254 233	544 585
10.5 Ratio of provisions to advances		
Provisions available at end of year (note 10.1)	1 235 402	1 356 207
Total advances and other accounts	8 353 018	8 143 146
Ratio (%)	14,8	16,7

		2002 R000	2001 R000
13.	OTHER INVESTMENTS		
13.1	Book value Unlisted	28 410	29 634
13.2	Valuation Unlisted	28 410	29 634
13.3	Analysis of movements		
	Book value at beginning of year	29 634	52 344
	– Writedown of investment	(4 284)	(20 903)
	– Net additions/(disposals)	3 060	(1 807)
		28 410	29 634

		2002 R000			2001 R000		
		Cost or valuation	Accumulated depreciation	Book value	Cost or valuation	Accumulated depreciation	Book value
14.	FIXED ASSETS						
14.1	Fixed property						
	Freehold land and buildings	1 600	–	1 600	1 615	–	1 615

Registers giving details required by the Companies Act, 1973, are available for inspection at the registered office of the bank.
Freehold land and buildings, which are considered to be long-term investments, were valued by independent valuers at R1,6 million as at 30 June 2001.

Notes to the annual financial statements *(continued)*

for the year ended 31 December

		2002 R000			2001 R000		
		Cost or valuation	Accumulated depreciation	Book value	Cost or valuation	Accumulated depreciation	Book value
14.	FIXED ASSETS <i>(continued)</i>						
14.2	Equipment						
	Computer equipment	24 131	15 608	8 523	15 428	7 615	7 813
	Furniture and other equipment	78 250	31 751	46 499	66 020	25 818	40 202
	Vehicles	133	43	90	76	31	45
		102 514	47 402	55 112	81 524	33 464	48 060

The aggregate amount of leasehold equipment held by the bank is included in the above and does not exceed R1 million.

14.3	Intangible assets						
	Computer software	1 086	463	623	242	66	176

For purposes of calculating depreciation the useful lives of fixed assets are considered to be two to five years for computer and other equipment, two to seven years for computer software, five years for vehicles, four to ten years for furniture and other equipment and five to ten years for improvements to fixed property.

	December 2001 R000 Book value	Additions/ Capitalisation	Disposals Proceeds	Profit/(Loss)	Depreciation/ Amortisation	December 2002 R000 Book value
15. MOVEMENTS IN FIXED AND INTANGIBLE ASSETS						
Freehold land and buildings (note 14.1)	1 615	–	(12)	(3)	–	1 600
Computer equipment	7 813	9 060	(31)	14	(8 333)	8 523
Furniture and other equipment	40 202	15 767	–	(120)	(9 350)	46 499
Vehicles	45	57	–	–	(12)	90
Equipment (note 14.2)	48 060	24 884	(31)	(106)	(17 695)	55 112
Computer software (note 14.3)	176	842	–	–	(395)	623
Total 2002	49 851	25 726	(43)	(109)	(18 090)	57 335
Total 2001	83 758	25 995	(13 829)	(31 063)	(15 010)	49 851

	2002 R000	2001 R000
16. SHARE CAPITAL		
16.1 Ordinary share capital		
<i>Authorised</i> 10 000 000 000 (2001: 10 000 000 000) ordinary shares of 1 cent each	100 000	100 000
<i>Issued</i> 4 254 037 680 (2001: 2 658 126 870) fully paid ordinary shares of 1 cent each	42 540	26 581

Notes to the annual financial statements *(continued)*

for the year ended 31 December

		2002 R000	2001 R000
16.	SHARE CAPITAL <i>(continued)</i>		
16.2	Ordinary share movements during year		
	Issued share capital at beginning of year	2 658 126 870	469 880 600
	Compulsorily convertible non-participating preference shares converted to ordinary shares of 1 cent each	–	1 977 653 600
	Capital injection from Nedbank at 250 cents per share	–	164 959 400
	Subordinated compulsorily convertible loan converted to ordinary shares at 250 cents per share on maturity	–	45 633 270
	Subordinated compulsorily convertible loan converted to ordinary shares at 41,93760 cents per share on maturity	238 449 506	–
	Shares issued to consortia of empowerment partners at 41,93760 cents per share	1 357 461 304	–
	Issued share capital at end of year	4 254 037 680	2 658 126 870
17.	SUBORDINATED-DEBT INSTRUMENTS		
	Subordinated compulsorily convertible loans:		
	Convertible on 28 February 2002	–	100 000
	Convertible on 31 March 2003	130 000	130 000
		130 000	230 000
The fixed rate subordinated compulsorily convertible loan is convertible into shares of Peoples Bank Limited on maturity.			
18.	DEPOSIT AND CURRENT ACCOUNTS		
18.1	Analysis		
	Current accounts	141 473	87 548
	Saving deposits	1 086 298	1 054 790
	Other deposits and loan accounts	1 941 093	1 625 617
	Creditors and other accounts	86 077	190 885
		3 254 941	2 958 840
18.2	Sectoral analysis		
	Banks	105	4 753
	Government and public sector	81 403	74 653
	Individuals	2 545 969	2 528 793
	Business sector	627 464	350 641
		3 254 941	2 958 840

	2002 R000	2001 R000
18. DEPOSIT AND CURRENT ACCOUNTS <i>(continued)</i>		
18.3 Maturity structure		
Repayable on demand	1 355 352	1 224 371
Three months or less but not repayable on demand	905 830	799 667
One year or less but over three months	775 427	726 681
Five years or less but over one year	169 515	154 653
Over five years	48 817	53 468
	3 254 941	2 958 840
19. LOANS FROM HOLDING COMPANY		
Ceded loans	458 500	458 500
Funding	2 180 424	2 773 717
	2 638 924	3 232 217

Nedbank has agreed to retain in the bank the ceded loans, free of interest and with repayment being subject to mutual agreement. The funding from Nedbank is unsecured, bears interest at a linked variable rate, which averaged 10% for the year (2001: 6%), and has no fixed repayment conditions.

20. CONTINGENT LIABILITIES		
Liabilities under guarantees	28 123	25 215
Unutilised facilities and other	–	10 594
	28 123	35 809

21. COMMITMENTS

21.1 Operating lease commitments

The bank has entered into leases over fixed property, furniture and other equipment for varying periods. The charges will increase in future in line with negotiated escalations and expansions.

	2007 and thereafter R000	2006 R000	2005 R000	2004 R000	2003 R000	2002 R000	2001 R000
Land and buildings	977	3 069	7 882	10 444	14 367	13 658	10 300
Furniture and other equipment	2 601	2 935	3 027	2 931	2 907	1 259	–
Total operating lease commitments	3 578	6 004	10 909	13 375	17 274	14 917	10 300

Notes to the annual financial statements *(continued)*

for the year ended 31 December

	2002 R000	2001 R000
22. CASH FLOW INFORMATION		
22.1 Cash receipts from clients		
Interest income and dividends from finance facilities	1 304 772	1 199 988
Commission and fees	267 728	212 131
Other income	31 926	6 328
	1 604 426	1 418 447
22.2 Cash payments to clients, staff and suppliers		
Interest expense	545 679	623 715
Staff costs	166 258	146 627
Other payments	407 249	449 977
	1 119 186	1 220 319
22.3 Increase/(decrease) in operating assets		
Other short-term securities	96 446	(63 416)
Government and public sector securities	(92)	(299)
Advances and other accounts	514 817	(73 981)
	611 171	(137 696)
22.4 Increase/(decrease) in operating liabilities		
Current and savings accounts	85 434	519 295
Other deposit and loan accounts	315 476	(3 699 122)
Creditors and other liabilities	(108 892)	103 784
	292 018	(3 076 043)
22.5 Taxation paid		
Amounts unpaid at beginning of year	–	–
Income statement charge	(29 956)	(20 158)
Amounts unpaid at end of year	–	–
	(29 956)	(20 158)

	2002 R000	2001 R000
22. CASH FLOW INFORMATION <i>(continued)</i>		
22.6 Cash inflow from operating activities – reconciliation		
Net income before taxation	279 719	(355 267)
<i>Add:</i> depreciation (note 15)	18 090	43 742
loss on sale of fixed assets (note 3.2)	109	2 331
provision for bad and doubtful debts (note 10.4)	254 233	544 585
leave pay provision raised	4 912	2 379
<i>Less:</i> valuation on other investments	(2 077)	(1 367)
loss attributable to alliances	(63 733)	(16 108)
	491 253	220 295

23. EMPLOYEE BENEFITS

The bank offers post-employment benefits, comprising retirement benefits and post-retirement medical benefits, to employees and their dependants in terms of various Nedcor Group defined-contribution and defined-benefit plans.

The Nedcor Group has a number of defined-benefit and defined-contribution plans whereby it provides pension and post-retirement medical benefits to employees and their dependants on retirement or death. All eligible employees and former employees are members of trustee-administered or underwritten pension schemes within the Nedcor Group, financed by company and employee contributions. All South African plans are governed by the Pension Funds Act, 1956. Contributions to the defined-benefit funds, which are charged against operating income, are based on actuarial advice following periodic valuations of the funds, using a projected-unit credit method. Any deficits are funded to ensure the ongoing financial soundness of the funds.

The benefits provided for by the defined-benefit schemes are based on years of membership and/or salary levels. These benefits are provided from contributions by employees and the Nedcor Group, and income from the assets of these schemes. The benefits provided for by the defined-contribution schemes are determined by the accumulated contributions and investment earnings. The benefits are provided from contributions by employees, the group, and income from the assets of these schemes. At the dates of the latest valuations the Nedcor Group pension funds were in sound financial position in terms of section 16 of the Pension Funds Act. During 1998 active members in the Nedcor (defined-benefit) Pension Fund were granted a further option to transfer to one of the defined-contribution funds and approximately three quarters of the then valuation surplus was allocated to members and pensioners.

At 31 December 2002, the date of the last actuarial calculation, the Nedcor Pension Fund had assets totalling R2 212 million at market value. The actuarial calculation of the liabilities was R1 879 million, resulting in a surplus of R333 million.

Notice of annual general meeting

Notice is hereby given that the annual general meeting of members of Peoples Bank Limited ('the bank') will be held in the Auditorium, 6th Floor, 100 Main Street, Johannesburg, on 9 May 2003, at 09:00 to transact the following business:

1. To receive and consider the annual financial statements for the year ended 31 December 2002, together with the reports of the directors and auditors.
2. To note and confirm the dividend of R90 million for the year ended 31 December 2002, declared in terms of the bank's articles of association and payable on 20 February 2003.
3. To elect directors by a single resolution.
4. To elect directors of the bank. Messrs C Bomela, GJ Gerwel, TV Maphai, DGS Muller and TP Lamont Smith retire by rotation in terms of the bank's articles of association. All retiring directors are eligible and available for reelection. Messrs SAM Baqwa, MJ Manyi, JG Maxwell, E Molobi, and GS van Niekerk were appointed as directors of the bank, and in terms of the bank's articles of association retire at the annual general meeting but, being eligible for reelection, offer themselves for reelection.
5. To confirm fees paid to directors for their services as directors for the past financial year in terms of the bank's articles of association.
6. To appoint KPMG Inc, SizweNtsaluba vsp Inc and Deloitte & Touche as joint auditors.
7. To authorise the directors to determine the remuneration of the bank's auditors.
8. To renew the general authority granted to the directors in placing the authorised but unissued ordinary shares in the capital of the bank under the control of the directors, who are authorised to allot these shares on such terms and conditions and at such times as they deem fit, subject to the provisions of the Companies Act, 61 of 1973 (as amended), and the Banks Act, 94 of 1990 (as amended).

Members attending the annual general meeting will be afforded the opportunity of putting questions to the directors and management.

A member entitled to attend and vote at the meeting may appoint a proxy or proxies to attend and speak and, on a poll, vote in his/her stead. A proxy need not be a member of the bank. Completed proxy forms should be received at the registered office of the bank not less than 24 hours before the time appointed for the holding of the meeting.

By order of the board

MW VENA

Company Secretary

6 February 2003

REGISTERED OFFICE

100 Main Street
Johannesburg
2001

POSTAL ADDRESS

PO Box 1144
Johannesburg
2000

REGISTRATION NUMBER

1994/000929/06

Directorate profile

Baqwa, SAM

Executive
Current position: Executive Director Nedcor Ltd, Group Head of Corporate Governance
Nationality: South African
Age: 51
Qualifications: B Juris (Fort Hare), LLB (Unisa), Dip Maritime Law (Natal), Certificate in Constitutional Law (Natal), MBA (De Montfort, UK)
Appointed: 07 October 2002

Bomela, C

Non-executive
Current position: Managing Director – BMF Investment Company
Nationality: South African
Age: 53
Qualifications: BCom (Fort Hare), MBA (Wits)
Appointed: 04 February 2002
Directorships (other): Advtech, Webtrade Investments & Mossbrooke Investments.

Brey, MA

Non-executive
Current position: CE – Brimstone Investment Corporation
Nationality: South African
Age: 48
Qualifications: BCompt(Hons), CA(SA)
Appointed: 16 October 2000
Directorships (other): among others, Oceana Fishing Group, Sea Harvest Ltd, SA Post Office Ltd, Scientific Group (Pty) Ltd, The Lion of Africa Insurance Company Ltd, Nandos Holdings Ltd.

Fakude, VN

Non-executive
Current position: Managing Director – Black Management Forum
Nationality: South African
Age: 38
Qualifications: BA (Unisa), BA Hons (Fort Hare), Senior Executive Programme (Harvard/Wits Business School), Director Development Programme (CDG/UNISA)
Appointed: 04 February 2002
Directorships (other): BMF Investment Company, BMF Intellect, Harmony Gold, Business Partners, Wheat Trust.

Gerwel, GJ

Non-executive
Current position: Chairman – Brimstone Investment Corporation
Nationality: South African
Age: 56
Qualifications: BA, BA(Hons) (UWC), Licentiate in Germanic Philosophy (Brussels), DLit et Phil (magna cum laude) (Brussels), Doctor of Humanities (honoris causa) (Clark College, Atlanta), Doctor of Humane Letters (honoris causa) (University of New York), DLit (honoris causa) (Cape Town), LL.D (honoris causa) (Rhodes)
Appointed: 16 October 2000
Directorships (other): among others, Brimstone Investment Corporation Ltd, Africon Engineering International (Pty) Ltd, Naspers, Educator, Institute for Justice and Reconciliation, Old Mutual Life Holdings (SA) Ltd, Old Mutual Life Assurance Company (SA) Ltd.

Kgobe, TD

Non-executive
Current position: CEO – NUMSA Investment Company
Nationality: South African
Age: 39
Appointed: 04 February 2002
Directorships (other): Uthingo Management (Pty) Ltd, Wireless Business Solutions (WBS) (Pty) Ltd, Bell Equipment Ltd, Builders Depot (Pty) Ltd.

Lamont Smith, TP

Executive
Current position: Head of Finance
Nationality: South African
Age: 54
Qualifications: BCom (Wits), CA(SA), MBED (Colorado)
Appointed: 16 October 2000
Directorships (other): Lonetime Investments (Pty) Ltd, Independent Examining Board.

Laubscher, RCM

Executive
Current position: CEO – Nedcor Ltd and Nedbank Ltd
Nationality: South African
Age: 51
Qualifications: BCom (Hons), AMP (Harvard), FIBSA
Appointed: 16 October 2000
Directorships (other): Old Mutual plc, Old Mutual Financial Services (UK) plc and Old Mutual Life Assurance Company (SA) Ltd.

Liebenberg, CF

Non-executive
Current position: Chairman – Nedcor Ltd and Nedbank Ltd
Nationality: South African
Age: 68
Qualifications: CAIB (SA), FIBSA, AMP (Harvard), DCom (honoris causa)
Appointed: 16 October 2000
Brief history: Former Minister of Finance in the South Africa Government of National Unity and past CEO of Nedcor Ltd
Directorships (other): Old Mutual plc, Old Mutual Life Assurance Company (SA) Ltd, Mutual & Federal Insurance Company Ltd and Macsteel Holdings (Pty) Ltd.

Magwaza, JB

Chair
Current position: Executive Director – Tongaat-Hulett Group
Nationality: South African
Age: 60
Qualifications: BA, MA (Warwick UK)
Appointed: 15 October 2000
Directorships (other): among others, Nedcor Ltd, Nedbank Ltd, Dorbyl Ltd, DBSA Ltd, Ithala Development Finance Corporation Ltd, Anglo American Corporation of Southern Africa Ltd.

Manyi, MJ

Executive
Current position: Head of Business Banking and Marketing
Nationality: South African
Age: 38
Qualifications: NHD Economic Geology, SEP (Harvard), FSM (UCT-GSB), DDP (Germany), Chartered Marketer (SA)
Appointed: 06 February 2003
Directorships (other): African Milestone Investment, Black Management Forum, Nedcor Foundation.

Maphai, TV

Non-executive
Current position: Director Corporate Affairs – SA Breweries, Chairman – SABC
Nationality: South African
Age: 50
Qualifications: Adv Management Programme (Harvard), PhD (Natal), BA Honours (UNISA), MA (Leuven)
Appointed: 04 February 2002
Directorships (other): Anglovaal Mining, Howden Africa, South African Breweries.

Maxwell, JG

Executive
Current position: Head of Retail Banking
Nationality: South African – Naturalised
Age: 41
Qualifications: BCom (Natal), CA (Natal)
Appointed: 07 October 2002
Directorships (other): BoE Bank Holdings Ltd, BoE Bank Ltd, BoE Limited, The Board of Executors, Onshelf Trading Ninety Seven (Pty) Ltd, I-Tran (Pty) Ltd, Circle Risk Management Ltd, Delinprops 20 Ltd, Investors Dream 13 Ltd, Moneyline 239 Ltd.

Molobi, E

Non-executive
Current position: Executive Chairman – Kagiso Trust Investment Company (Pty) Ltd
Nationality: South African
Age: 57
Qualifications: BA (SA)
Appointed: 07 October 2002
Directorships (other): Kagiso Trust Investment Company (Pty) Ltd, Imperial Holdings, Imperial Bank, Remgro Group, Northam Platinum, National Housing Finance Corporation.

Morris, SG

Executive
Current position: Group Financial Director – Nedcor Ltd
Nationality: South African
Age: 57
Qualifications: BCom, CA (SA)
Appointed: 16 October 2000
Directorships (other): Nedcor Ltd, Nedbank Ltd, Imperial Bank Ltd.

Mukoki, AT

Executive
Current position: Head of Risk Management and Monitoring
Nationality: South African
Age: 42
Qualifications: CAIB (SA), Post-graduate Diploma in Company Direction (GITM), Senior Executive Programme (Wits), Senior Executive Programme (Harvard)
Appointed: 16 October 2000
Directorships (other): Business Partners, Denel (Pty) Ltd

Muller, DGS

Executive
Current position: Chief Executive of Nedbank Corporate
Nationality: South African
Age: 50
Qualifications: BCom, CA(SA), AMP (Harvard)
Appointed: 16 October 2000
Directorships (other): Nedbank Limited, Net 1 Applied Technology Holdings Limited.

Ndllovu, ML

Executive
Current position: CEO – Peoples Bank Ltd
Nationality: South African
Age: 51
Qualifications: Dip LR (Unisa), MAP (Wits), EDP (North Western USA), AMP (Harvard Business School)
Appointed: 16 October 2000
Directorships (other): Director Nedcor Ltd, Nedbank Ltd, Non-executive Chairman of Africa Milestone Investment Ltd, Lafarge (SA) (Pty) Ltd and serves as a Commissioner for The Office of the Banking Adjudicator.

van Niekerk, GS

Non-executive
Current position: Director of Companies
Nationality: South African
Age: 59
Qualifications: BCom, BCom (Hons), Hons B(B&A), MA (Econ), (North Western USA), DPhil (hc)
Appointed: 07 October 2002
Directorships (other): BoE Bank Ltd, BoE Holdings Ltd, BoE Ltd, Old Mutual Life Assurance Company (SA) Ltd, Old Mutual Life Assurance Company (Namibia) Ltd, Imperial Bank Ltd, University of Stellenbosch.

Wolfson, AD

Non-executive
Current position: Managing Director International – Capital One
Nationality: Canadian
Age: 56
Qualifications: PhD (Econ) (Harvard)
Appointed: 04 February 2002

Management profile

Akoob, H

Current position: Head of Retail Banking Branches
Nationality: South African
Qualifications: BCom Legal (Unisa), Advanced Business Development (Cape Graduate School of Business)
Joined the group in 2002, previously within the NBS and BoE group. Responsible for merging the retail banking operations of NBS, PEP Bank and Peoples Bank with the aim of developing a single branch network.

Duguid, BG

Current position: Head of Alliances and Efficiencies
Nationality: South African
Qualifications: LIB (SA), CAIB (SA), FIBSA
Joined the group in 1992. Also performs the Programme Management role for the BoE Retail Integration Programme. Extensive experience in Retail Banking (primarily Nedbank) as well as in the Commercial Banking arena. He has played a leadership role in a number of strategic project initiatives during the past seven years (Integrated Distribution Initiative (Nedbank) and the establishment of the Alliance initiative with JD Group)
Directorships: Institute of Bankers in South Africa – Section 21 Tonquani Homeowners Association P/L – Section 21

Kubeka, L (Ms)

Current position: Head of In-Market Banking
Nationality: South African
Qualifications: BCom (Accounting), SGP (Wits), YMP – Insead (France), Member of Institute of Bankers South Africa

Mamabolo, MC

Current position: Head of Technology and Process
Nationality: South African
Qualifications: MDP, EMP
Joined the group in November 2000. Extensive background in the IT industry, mostly with IBM. Responsible for the provision and oversight of technological infrastructure in Peoples Bank.
Directorships: Rangwato Operations cc (Post Net Franchise), Africa Milestone Investments Limited

Ncala, DE

Current position: Head of Human Resources
Nationality: South African
Qualifications: BA (SocSci), PMP, MAP, CIPR, SEP (Wits)
Joined the group in 1986. Extensive background in industrial relations and human resources.
Directorship/s: Cotlands Baby Sanctuary (Chairman of Board)

Rosslor, L (Ms)

Current position: Head of Corporate Affairs
Nationality: South African
Qualifications: BA (Psychology and Communication), IPM Certificate
Joined the group in 2002. Previously within NBS & BoE Group as manager Public Affairs, Group Communications Manager and Divisional Director: People Reputation, BoE Retail.

Sandamela, VN

Current position: Head of Product and Channel
Nationality: South African
Qualifications: BCom Hons, CAIB (SA), MAP (Stellenbosch), SMDP (Wits), EDP GIBS (Gordon Institute of Business)
Joined the group in 1988. Extensive experience in retail/commercial sector. Overseeing the current and future products of Peoples Bank. Overseeing the adequate and appropriate distribution channels for Peoples Bank.

Zikhali, LV (Ms)

Current position: Chief Compliance Officer
Nationality: South African
Qualifications: LLB, Diploma in Advanced Banking, Certificate in Money Laundering
Joined the group in November 2000. Strong background in retail and investment banking environments as legal consultant and compliance officer.



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