FIRSTRAND

2007 Annual Report

nature of business

Listed on the JSE and the Namibian Stock Exchange, FirstRand Limited is an integrated financial services group providing a comprehensive range of products and services to the South African market and niche products in certain international markets.

Since the creation of FirstRand in 1998 the diversified earnings base of the Group has delivered strong growth in earnings, assets and dividends. The Group's track record has been achieved through a combination of organic growth, acquisitions, innovation and creating extra sources of revenue through the start up and development of completely new businesses such as Discovery Group and OUTsurance.

The Group is differentiated by its decentralised structure and owner manager culture. It has a portfolio branding strategy and there are a number of leading brands within the Group such as Rand Merchant Bank ("RMB"), First National Bank ("FNB"), WesBank, Momentum and Discovery.

contents

The Group's operating brands are presented below

financial highlights

+29% Diluted headline earnings per share

+32% Diluted normalised earnings per share

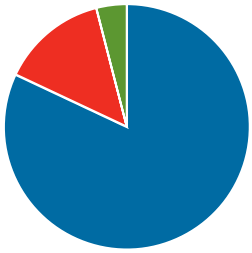
+25% Ordinary dividend per share

+13% Total assets under management or administration

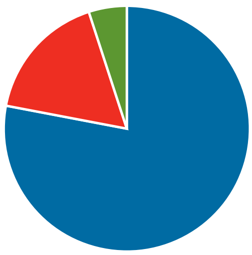
R million	2007	2006	% change
Headline earnings	**10 457**	8 115	29
Normalised earnings	**11 845**	8 958	32
Diluted headline earnings per share (cents)	**196.8**	152.6	29
Diluted normalised earnings per share (cents)	**210.1**	159.2	32
Ordinary dividend per share (cents)	**82.5**	66.0	25
Normalised return on equity (%)	**28**	25	
Assets under management or administration	**900 148**	794 693	13

results highlights

Normalised earnings analysis 2007



Normalised earnings analysis 2006



BANKING GROUP	Business profile
FNB	Retail and corporate banking, and wealth management
WesBank	Instalment finance
RMB	Investment banking
FNB Africa	African subsidiaries and growth strategy into Africa
Bank Support and divisions disclosed elsewhere	Support services and capital centre
Total Banking Group	

MOMENTUM	Business profile
Insurance operations	Long term risk and investment products
Asset management operations	Domestic and international asset management products
Investment income on shareholders' assets	Investment income earned on the surplus assets
Total Momentum Group	

DISCOVERY	Business profile
Health	Offers consumer driven private health care cover in SA
Life	Offers pure risk life assurance products and retirement products in SA
Vitality	Science based wellness programme that spans across all Discovery's businesses
Destiny Health	Offers consumer driven private health care products to selected US markets
PruHealth	Offers consumer engaged health care products for UK's private medical insurance market
Pru Protect	Offers a range of risk products in the UK
Total Discovery Group	

Normalised earnings (R million)		Cost to income ratio (%)		ROE based on normalised earnings (%)		Impairment charge (%)		Non perfoming loans (%)		Normalised earnings contribution (%)	
2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
4 140	3 255	59.9	63.2	33	32	0.91	0.56	2.2	1.6	41	44
918	1 059	53.4	48.9	18	27	1.39	0.90	1.7	1.2	9	14
3 910	2 148	42.0	38.5	43	32	0.11	–	0.5	0.8	39	29
456	377	43.8	45.2	33	28	0.75	0.49	2.9	2.9	5	5
617	624			–	–	(1.54)	(0.60)	1.1	(1.8)	6	8
10 041	7 463	51.7	54.0	31	28	0.81	0.50	1.7	1.3	100	100

Normalised earnings (R million)		New business (R million)		Funds received from clients (R million)		Net flow of funds (R million)		Embedded value (R million)		Normalised earnings contribution (R million)	
2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
1 145	914	23 464	19 798	29 635	25 056	1 685	1 981	12 358	11 301	67	60
340	312	37 164	39 605	37 164	39 605	(42 457)	88	3 569	3 137*	20	21
231	288	–	–	–	–	–	–	–	–	13	19
1 716	1 514	60 628	59 403	66 799	64 661	(40 772)	2 069	15 927	14 438	100	100

** RMB Asset Management, Ashburton and RMB Properties (2006 only)*

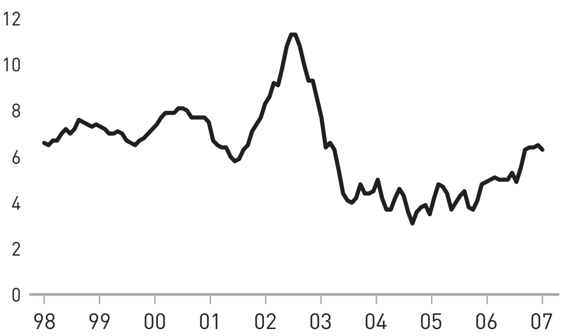
New business annualised premium income (R million)		Gross inflows under management (R million)		Profit from operations (R million)		Value of in-force business (%)	
2007	2006	2007	2006	2007	2006	2007	2006
2 577	2 505	18 828	16 542	791	689	4 451*	4 136
971	789	2 357	1 768	1 000	807	5 826	4 322
100	107	721	654	58	51	–	–
768	796	1 449	1 322	(89)	(142)	–	5
743	282	556	141	(214)	(142)	–	–
–	–	–	–	(36)	–	–	–
5 159	4 479	23 911	20 427	1 510	1 263	10 277	8 463

** Health and Vitality*

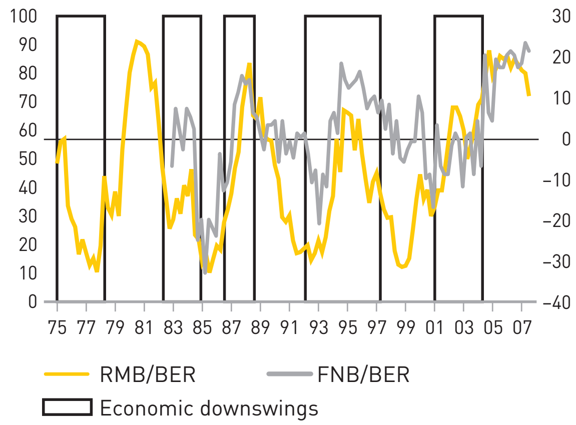
Companies positioned to take advantage of the buoyant domestic demand experienced strong increases in profitability.

The rise in private sector fixed investment is increasingly being underpinned by the investments of the public corporations, which are the engines of government's capital expenditure drive now underway.

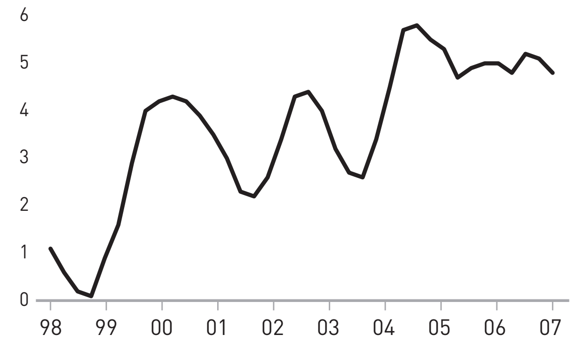
CPIX
(y/y%)



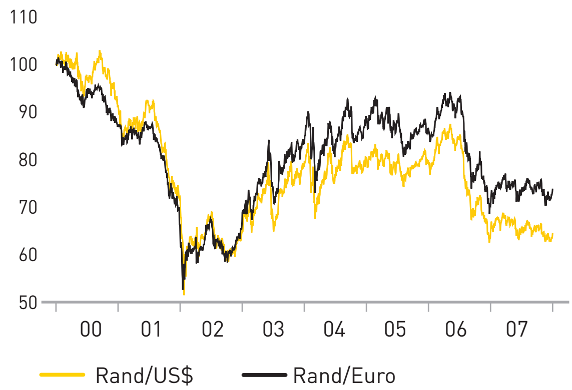
RMB/BER Business Confidence and FNB/BER Consumer Confidence Index



Real growth in domestic product
(y/y%)



Exchange rates



RUDOLF GOUWS

Chief Economist, Rand Merchant Bank

The economy's good performance continued in the Group's past financial year. There was again strong growth in expenditure, income and output, despite a modest rise in inflation and interest rates. These favourable conditions allowed corporate profitability and private sector fixed investment to rise appreciably, which supported job creation.

The favourable position in which consumers found themselves over the past financial year is reflected by the record high levels of the FNB/BER Consumer Confidence Index. The positive mood, coupled with still relatively low interest rates and easy financial conditions, encouraged substantial increases in consumer borrowings. Demand for asset backed credit was strong, driven largely by mortgage finance, and only suffered some easing off in the second half of the financial year. Further income tax relief and the increase in government grants boosted the income of many of the poor and so supported consumer spending.

Companies positioned to take advantage of the buoyant domestic demand experienced strong increases in profitability. This was reflected in the RMB/BER Business Confidence Index, which maintained record high levels. Though the corporate sector in general is cash flush, corporate credit demand increased strongly as companies took advantage of the strong economy and favourable financing conditions to fund higher working capital needs and capital expenditure projects. The rise in private sector fixed investment is increasingly being underpinned by the investments of the public corporations, which are the engines of government's capital expenditure drive now underway.

Notwithstanding tightening of policy by a number of central banks and sharply higher international oil prices, the global economy sustained the strong growth of the past four years. This was attributable partly to the ongoing robustness of key emerging market economies, most notably China, which also helped boost commodity prices. This benefited South Africa, which enjoyed improved terms of trade with the rest of the world. Export oriented and import competing industries benefited from a less strong, more fairly valued currency for most of the financial year.

The economy's high growth path continued to attract foreign portfolio inflows into the equity market. These and other foreign investment inflows enabled South Africa to run an overall balance of payments surplus. This allowed the South African Reserve Bank to further build its foreign exchange reserves. Whereas global risk aversion in the first half of the financial year had put considerable downward pressure on the Rand's exchange rate, its subsequent easing allowed the Rand's exchange rate to recover half its earlier losses during the second half of the financial year.

Following the steadiness of the previous year, short term interest rates were increased a number of times during the Group's past financial year, with the prime interest rate rising from 10.5% in June 2006 to 13% a year later. The still low level of interest rates supported further asset price growth, with share prices on the JSE scaling new highs as companies reported record earnings. However, in the face of a number of small interest rate increases during the Group's financial year, property prices continued to lose momentum, especially in the higher price categories, though the lower and middle priced market segments continued to record good price gains.

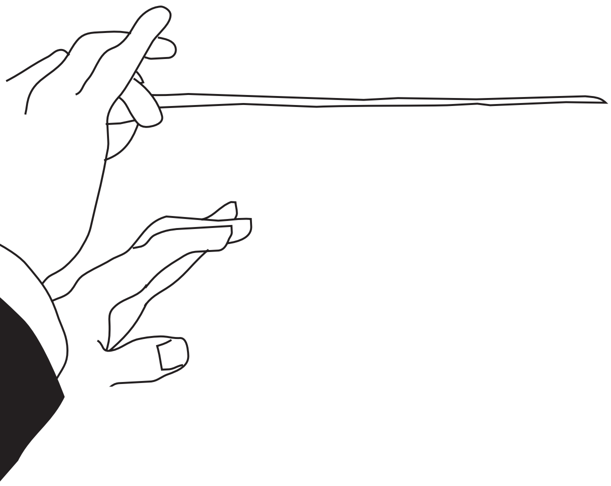
CEES BRUGGEMANS

Chief Economist, First National Bank

The robust economic growth led to tax revenues again overshooting and resulted in the traditional budget deficit finally turning into a small (and growing) surplus. This reduced the supply of government paper in the domestic bond market, although yields throughout the financial year were substantially influenced by global conditions, with bouts of risk aversion at times causing backup in yields.

Throughout the financial year it was clear that the long phase of strong growth in domestic demand continued to contribute to the widening of macro economic imbalances. In particular, the strong rise in consumer spending boosted imports which, along with a sharp further rise in the international oil price, substantially widened the deficit on the current account of the balance of payments. At the same time, global events late in the financial year brought about a repricing of risky assets by global investors, contributing to a correction in the Rand and other emerging market currencies. An increase in global risk aversion and expectations of further international interest rate increases saw asset prices give up some of the earlier gains, but this was subsequently overcome by continuing good growth prospects and reduced risk aversion. The results of the weaker currency, a sharply higher international oil price and rising domestic food prices could also be seen in higher inflation at both the consumer and producer levels. Together, these developments prompted a tightening of the monetary policy stance in South Africa, with increases in the Reserve Bank's repo rate in June, August, October, December and after a six month pause, again in June.

The year ahead is unlikely to quite match the past year's economic growth performance. With interest rates and inflation higher and possibly still rising higher in the short term, and the need for households to digest the sharp increase in their indebtedness of the past four years, consumer spending growth is expected to slow. As a result, the growth in credit extension to households is also likely to moderate, while banks' bad debts may increase further from the present still low levels. Buoyed by public sector investment spending and sound long term economic prospects, fixed investment and the demand for credit and capital by the private sector should continue to expand. Through all this it is important that global economic growth remains buoyant. Assisted by a weaker Dollar and lower interest rates, the United States economy should avoid an outright (housing led) recession, with limited impact on growth elsewhere in the world. Still, significant risks remain.



best perfomance ever

Allow me to reflect on a truly outstanding set of results. For the year to 30 June 2007, the FirstRand Group of companies grew normalised earnings 32% and achieved a normalised return on equity of 28%. All of these performances exceeded the Group's two main performance targets; earnings growth of 10% real and return on equity of 10% above the weighted average cost of capital.

GT Ferreira Chairman

The changing landscape is meaningful for a business such as ours and whilst our diverse portfolio of businesses produced an impressive performance for the year under review, there clearly are challenges ahead.

Dear shareholder

As I sat down to write this year's Chairman's statement I realised that almost three months had passed since the year end and the global financial markets were looking very different to when we closed the books at 30 June 2007. We witnessed a significant correction on the world's financial markets which has created increased uncertainty and investor nervousness. The changing credit market dynamics have caused investors to re-evaluate risk appetite which in turn has led to a broad repricing of risk in all financial markets.

The South African landscape is also changing with CPIX increasing steadily on the back of higher oil prices and the current account deficit, and since the year end South Africa has seen another interest rate increase resulting in a total increase of 250 bps in the last 13 months. There are signs emerging that this tightening of monetary policy has started to have some impact, with the absolute growth in consumer credit slowing.

This changing landscape is meaningful for a business such as ours and whilst our diverse portfolio of businesses produced an impressive performance for the year under review, there clearly are challenges ahead.

However, before we get too despondent, allow me to reflect on a truly outstanding set of results. For the year to 30 June 2007, the FirstRand Group of companies grew normalised earnings 32% and achieved a normalised return on equity of 28%.

FirstRand Banking Group contributed 35% growth in normalised earnings from R7.05 billion to R10.04 billion and an ROE of 31% with the Momentum Group increasing earnings 13% from R1.5 billion to R1.7 billion and an ROE of 25%. Momentum's earnings were impacted by the payment of R2.14 billion of special dividends to FirstRand, after adjusting for this, normalised earnings would have increased 19%. Discovery Group increased earnings from R424 million to R536 million, representing a 26% increase year on year.

All of these performances exceeded the Group's two main performance targets; earnings growth of 10% real and return on equity of 10% above the weighted average cost of capital.

The gem in this year's results was the performance of our investment bank, Rand Merchant Bank ("RMB"), which in my view, should be considered "exceptional".

We would like to believe that RMB is South Africa's pre-eminent investment bank, with a very strong portfolio of inherently diverse businesses which allows it to perform well across different cycles. That said, the base that RMB created this year (particularly by the very strong growth emanating from certain of its trading businesses), will be difficult to exceed in the next financial year. However, please allow me the opportunity to explain how we believe one could evaluate RMB's performance.

Volatility in earnings has always been and always will be the reality of all true investment banks, particularly as they take on increased risk. However, the advent of IFRS with its fair value accounting rules (which seems to have taken the place of prudence and common sense as far as the disclosure of results is concerned) accentuates such volatility even further. How I long back for the years when "hidden reserves" were considered admirable and not classified in the same category as a proverbial four letter word.

Investment banking revenues are increasingly tied to the fortunes of the markets and those that rely on them – such as private equity and hedge funds. However, in spite of sub prime losses in the US, plenty of investment banking business will still get done. According to recent market estimates, corporate clients represent more than 30% of international investment banking revenues and they are becoming much more active after a long period of strong profitability. Certainly within the South African context corporates are releveraging their very strong balance sheets, either as a result of a need to build capacity or perhaps fear of an aggressive US private equity firm offering to do it for them!

It is somewhat ironic that when RMB acquired Momentum in the early 1990's, we assumed that the insurance earnings would be somehow more stable and sustainable than that of the investment bank. This didn't turn out to be the case and the investment bank has shown consistent growth in earnings of above 20% for the past 15 years, while the performance from the insurance business has been more erratic. One of the reasons for the consistent performance from RMB is the strong annuity income that it generates, and this, interestingly, is where comparisons with other global investment banks diverge. RMB's strategy to originate and hold assets resulted in a large structured finance book and whilst this may shrink going forward, as we assess the benefits of an "originate and distribute" model, there is still good annuity income in the earnings base. Likewise in Private Equity where, despite realisations, we continue to invest, resulting in unrealised profits in the portfolio totaling R2.2 billion this year. It is also interesting to note that over 50% of the private equity division's earnings can be attributed to earnings generated by the underlying investments in the portfolio. These equity accounted earnings are more consistent in nature than the more lumpy profits from realisations.

I would like to take this opportunity to congratulate Michael Pfaff and his team at RMB. It is an amazing achievement to grow earnings by 80% off an already high level, notwithstanding the best investment banking environment ever. RMB is very well positioned in its chosen markets and although earnings volatility will increase, we believe it has the ability to grow faster than its peers. The quality of the people and their ability to be swift and opportunistic in rapidly changing markets, both local and international, means that over time RMB can be a very sustainable growth story for shareholders.

Our commercial bank, FNB, also deserves to be congratulated. It continues on its path to becoming South Africa's most profitable commercial bank. Its strategy to focus on ROE rather than market share growth has already started to have an impact especially in the home loans business which delivered strong profitability and a satisfactory ROE for the first time. In addition, the management team has delivered on its promise to become more efficient, shaving almost 3% off its cost to income ratio. Well done to Michael Jordaan and his team.

Our asset finance business, WesBank had a difficult year experiencing "negative gearing" in its local franchise with retail asset growth slowing and a significant increase in bad debts. These issues are to be expected at this point in the cycle, and combined with increased start up costs and operating losses in the international operations, negatively impacted earnings. We are, however, confident that WesBank has the ability to bounce back and trust that it will be able to resume earnings growth once the international businesses gain traction.

Turning to the non banking businesses of the Group, Momentum's insurance operations showed continued strong new business growth and improving margins. What is particularly pleasing is that we finally seem to have achieved traction in terms of collaboration with FNB in the mass and middle market segments, and bancassurance is finally contributing to growth. Furthermore, Momentum has been a stalwart in consistently delivering much needed capital to the banking businesses through the payment of special dividends.

Despite the under performance of Destiny Health in the USA, Discovery has managed to deliver another year of solid results for the Group. However, a critical issue for the Group was its decision to unbundle Discovery, which we announced to shareholders in September.

Discovery is an excellent example of FirstRand's strategy to establish and grow "new age businesses" from scratch. Adrian Gore approached the Group with an idea to revolutionise the South African healthcare industry, and we were happy to support his vision which subsequently created more than R8 billion of value for FirstRand shareholders. Increasingly, however, our shareholders have questioned the merits of having two insurance companies within the Group. Our philosophy has always been that having "two horses in the same race" was not such a bad idea, particularly as one was coming first and one second. We were always very clear, however, that should the competition between the two "horses" became unmanageable inside the Group, we would take the appropriate action. Discovery and Momentum are now competing head on in a number of areas and we anticipate that this is likely to increase significantly in the medium term, particularly as Discovery moves into the investment space. It is therefore no longer optimal for the Group to continue with the "two horses in one race" strategy. We believe that through the unbundling exercise we are offering our shareholders the best possible alternative in that they now have the option to decide for themselves whether they wish to retain their interest in one or both of these two thoroughbreds in future.

I would like to thank Adrian Gore and his team for the energy and effort they have expended at Discovery and the considerable value they have contributed over the years to the Group and its shareholders. I also wish to congratulate them and pay tribute to their achievements over the past 15 years.

I would now like to cover the proposed changes at Board level following my decision to step down as Chairman and Director of both FirstRand Limited and FirstRand Bank in September 2008, which was announced to shareholders at the time of the publication of our results.

I think it is important to provide some additional perspective on this development. I am turning 60 in April next year and have decided, for a variety of reasons, that it may be the right time for me to step down as Chairman. At some point in the evolution of RMB the "founders" had to make a choice of whether we wanted to retain control and keep the business small or whether we wanted to grow the business to a point where it no longer mattered whether we were part of the team or not. With the purchase of Momentum in 1992 and the formation of FirstRand in 1998 we clearly chose the latter strategy. As a result of this decision we developed a business model that is decentralised in structure and entrepreneurial in nature, which has created a very deep pool of management talent. Hence, I am extremely comfortable that as the "founders" exit executive and/or non executive management roles, we are leaving FirstRand in very capable hands.

The Group has often been described as an "owner managed" business, where shareholder and management interests are truly aligned, and this has been an important component of our investment proposition. I do not believe that the eventual departure of the "founders" destroys this proposition given the philosophy and culture that is deeply embedded in the way the Group operates.

It is 10 years since the creation of the Group and I have been Chairman for the entire period. International best practice suggests that a Chairman should only be re-elected three times and then, after his ninth year, step down but with the option of remaining on the Board. This suggests to me that my timing is just about right!

Looking forward to financial year 2008, given the increased uncertainty in financial markets since the year end, we would be remiss, while acknowledging the excellent performance in 2007, not to draw the attention of shareholders to the turmoil that has been visited upon global financial markets since the Group's year end. We have witnessed a significant correction in global markets which has created increased uncertainty and investor nervousness, causing a broad repricing of risk in all financial markets. We cannot avoid this kind of contagion and clearly this turmoil will also impact on South Africa. With interest rates and inflation increasing, consumer spending is expected to slow down, with growth in retail credit moderating. As levels of consumer indebtedness rise, bad debts could also increase further. The corporate sector, however, is expected to continue to show robust growth due to public sector investment combined with private fixed investment.

Against this background, the banking businesses should show continued growth in assets and earnings, although the mix will change and WesBank and FNB are likely to experience stronger demand for credit from their corporate and commercial businesses. RMB will continue to benefit from increased infrastructure spend, corporate capacity building and BEE activity, however, it will be a challenge to exceed the exceptional performance in the current year, especially from certain of the trading businesses.

The Group continues to deliver only because of our people's dedication, energy and innovation.

Momentum should continue to grow new business volumes, particularly as collaboration with FNB gains further traction and new distribution channels come on line.

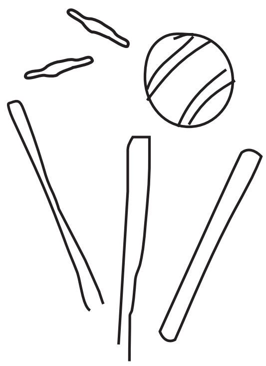
FirstRand's strategy remains focused on building a diverse portfolio of leading financial services franchises in South Africa, but with an increasing focus on selected niche international opportunities, particularly in Africa, India and Brazil. In line with this strategy RMB is currently building investment banking and private equity capacity in India, and WesBank has identified some specific vehicle financing opportunities in Australia, the UK and Brazil. FNB is accelerating its strategy to become a significant player within the SADC region and is actively seeking opportunities to establish greenfields or acquire platforms from which it can leverage its products and services into the region over the longer term.

The Group believes that the anticipated organic growth in the local franchises combined with growing returns from the international initiatives over the medium term, will underpin the Group's ability to continue to achieve a 10% real growth in earnings to shareholders over time.

It only remains for me to humbly thank the staff and management of FirstRand for their continued efforts on behalf of our shareholders. The Group continues to deliver only because of your dedication, energy and innovation. It has, once again, been a privilege, a pleasure and an honour to be the Chairman of such a magnificent group of people during the past year.

GT Ferreira
Chairman

Paul Harris Chief Executive Officer



excellent results

Despite the high base created last year, the Group's growth strategy has once again allowed FirstRand to outperform its two performance targets. The Group has delivered an annual compound growth rate in earnings of 22% over the past five years and has achieved this consistent performance through focusing on a number of core strategies which underpin the way we run this business.

DESPITE THE HIGH BASE CREATED LAST YEAR, THE GROUP'S GROWTH STRATEGY HAS ONCE AGAIN ALLOWED FIRSTRAND TO OUTPERFORM ITS TWO PERFORMANCE TARGETS OF 10% REAL GROWTH IN EARNINGS AND RETURN ON EQUITY OF 10% ABOVE OUR WEIGHTED COST OF CAPITAL. THE GROUP HAS DELIVERED AN ANNUAL COMPOUND GROWTH RATE IN EARNINGS OF 22% OVER THE PAST FIVE YEARS AND HAS ACHIEVED THIS CONSISTENT PERFORMANCE THROUGH FOCUSING ON A NUMBER OF CORE STRATEGIES WHICH UNDERPIN THE WAY WE RUN THIS BUSINESS, NAMELY:

- **ORGANIC GROWTH THROUGH INNOVATION, COLLABORATION ACROSS BUSINESS UNITS AND OUR EMPOWERING BUSINESS PHILOSOPHY;**
- **ACQUISITIONS WHICH HAVE PROVIDED DIVERSIFICATION AND OFTEN A QUANTUM LEAP IN SIZE;**
- **THE ESTABLISHMENT OF NEW BUSINESSES FROM SCRATCH, BACKING ENTREPRENEURIAL MANAGEMENT TEAMS WITH CAPITAL AND OPERATING PLATFORMS; AND**
- **HOLISTIC CAPITAL AND BALANCE SHEET MANAGEMENT.**

These strategies have remained very consistent over the past 20 years, although it often doesn't appear that way as the components do not all "kick in" every year. Also they are sometimes not all that visible as they are implemented at business unit level and not driven from "the centre". However, we have consistently used these core strategies with the ultimate objective of producing superior returns to shareholders and looking at the year under review, apart from acquisitions, they were clearly evident in the Group's performance.

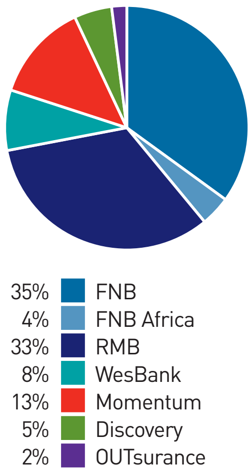
There was strong organic growth in the majority of our franchises, which resulted in excellent topline growth for the Group as a whole. New business volumes, transaction volumes and customer numbers increased in both the banking and insurance businesses and we saw good market share gains in many of our market segments. Whilst there is no doubt that the favourable economic conditions we are currently experiencing in South Africa provided very good natural growth, it was pleasing that organic growth was also driven by our continuous efforts to innovate and collaborate.

For example, the collaboration between Momentum and FNB has really gained traction in the current year. FNB insurance made a significant contribution to Momentum's growth in operating profits, recurring new business volumes and new business embedded value. This was driven by strong sales growth in funeral policies and embedded credit life policies. These sales, which are generated within FNB's branch network, have also positively contributed to Momentum's strategy to diversify its distribution network. Over the past three years FNB's contribution to distribution volumes has increased 6% whilst sales through other bank brokers have dropped 9%.

One of the strengths of FirstRand is its well diversified portfolio of businesses, and this allows the Group to deliver good returns to shareholders across the entire economic cycle. The following charts breakdown the Group's earnings in two different ways.

Firstly, earnings broken down by franchise which shows that whilst the banking operations continue to dominate the earnings base, the commercial bank and the investment bank now contribute almost the same. This was not the case three years ago when FNB's contribution was significantly higher.

Franchise composition



The second chart shows the Group's earnings broken down by segment and this is relevant as the South African growth story rotates from consumer driven growth to corporate driven growth and it is clear that FirstRand will continue to benefit.

Segment diversification

However, there is no doubt that the increasing contribution from the investment bank inevitably raises questions regarding the sustainability and quality of those earnings.

In the Chairman's statement, GT Ferreria touches on the drivers behind the very strong growth of investment banking earnings in general, which has been a global phenomenon. I would like to focus briefly on RMB, its history and its unique position in the South African market.

Since RMB's inception in the late 1970's we have been both traders and advisors. Our trading style has always been relative value. We have developed strong arbitrage and market making skills and technical expertise in valuations, the workings of the markets and the nature of the instruments that we trade. I believe that the consistent success RMB has had in trading is grounded in sophisticated risk management systems and capital allocation models which have ensured that we commit the appropriate amount of capital to our trading activities.

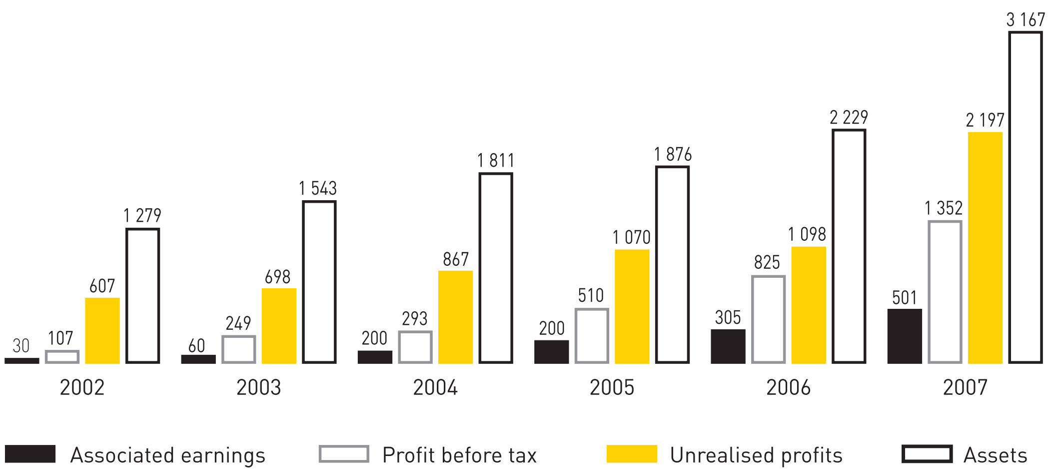
Given our success in bonds and derivatives it was a natural extension to enter the equities markets where we have now successfully deployed our relative valuation and arbitrage skills. These skills have allowed us to perform well, particularly in highly volatile markets as values can become distorted and significant opportunities open up. In addition, the amount of capital we allocate to principal trading and investing is very small relative to both the size of our capital and compared to other investment banks around the world.

I believe that the combination of strong and proven trading skills, combined with the appropriate risk management and capital disciplines will enable RMB to prosper in volatile markets whether the trend is up or down.

Another large component of RMB's earnings is its private equity business which has been built over many years into a very diversified portfolio of over 100 investments, well diversified over a number of different sectors of the market.

We see our private equity business like a plantation. Ideally, one third of your time should be spent planting, one third maintaining and one third harvesting and this is roughly where we are at the moment as can be seen from the chart below.

Private equity growth story
(R million)



Whilst we continued to make the most of positive markets and realise investments from the portfolio, we also made over R1 billion of new investments. This extremely strong pipeline has been driven by BEE and is expected to continue for the foreseeable future. Many more South African companies need to undergo BEE transactions which create opportunities for RMB to invest, at a discount, into high quality corporate assets.

We are often questioned about the sustainability of private equity earnings and I believe that the previous chart should provide shareholders with a great deal of comfort. It is worth noting that in the current year, more than double that number, R750 million, was generated from the underlying earnings from the portfolio. This represents a significant annuity income stream.

The diversified nature of the local portfolio means that some businesses perform above average and others perform below. Inevitably some make spectacular contributions such as all the divisions of RMB this year, while others such as WesBank and Card Issuing can take a breather without impacting the achievements of our Group wide targets. Divisions that don't perform above average in any one year are encouraged to re-evaluate their strategies with the objective of becoming better performers in future years. Group businesses do not compete with each other in the market. One exception has been Discovery and Momentum which will no longer be the case after the unbundling of Discovery. Divisions do, however, compete fiercely to be the best contributor to Group profitability, which is very healthy competition.

Whilst we expect increased volatility in investment banking earnings in the future, we believe that 25 years of experience in trading, combined with risk management skills, M&A leadership and a highly sustainable private equity business will result in good growth going forward.

Overall, I believe that RMB's earnings are of a higher quality than many commentators believe as it has a 46% annuity underpin in its earnings.

In addition, it is a very strong franchise in a market with excellent investment banking opportunities, particularly around infrastructure finance, BEE and corporate action. Whilst we expect increased volatility in investment banking earnings in the future, we believe that 25 years of experience in trading, combined with risk management skills, M&A leadership and a highly sustainable private equity business will result in good growth going forward.

Our statement of intent remains to build a diverse portfolio of leading financial services franchises in South Africa, with selected niche international operations where we think we have a competitive advantage.

Regarding expansion across geographic boundaries there are a few key principles that underpin our international strategy. The first is that we do not seek to replicate FirstRand in other jurisdictions but rather to encourage those businesses that have the capabilities and potential to expand their businesses into offshore markets. That means that international expansion has been driven at business unit level. RMB has been successful in transporting its intellectual capital into selected markets, especially by participating in structured finance transactions in Africa. Also, its private equity business in Australia has been a consistent contributor to profits. RMB is also currently building investment banking and private equity capacity in other emerging markets.

FNB is accelerating its strategy to become a significant player within the SADC region and is actively seeking opportunities to establish new greenfields operations or acquire platforms from which it can leverage its products and services into the region.

Opportunities for growth are also being evaluated in India and Brazil. Exploiting opportunities will be dependent on being able to leverage our South African infrastructure in these markets, forging relationships with local partners and obtaining the proper regulatory approvals.

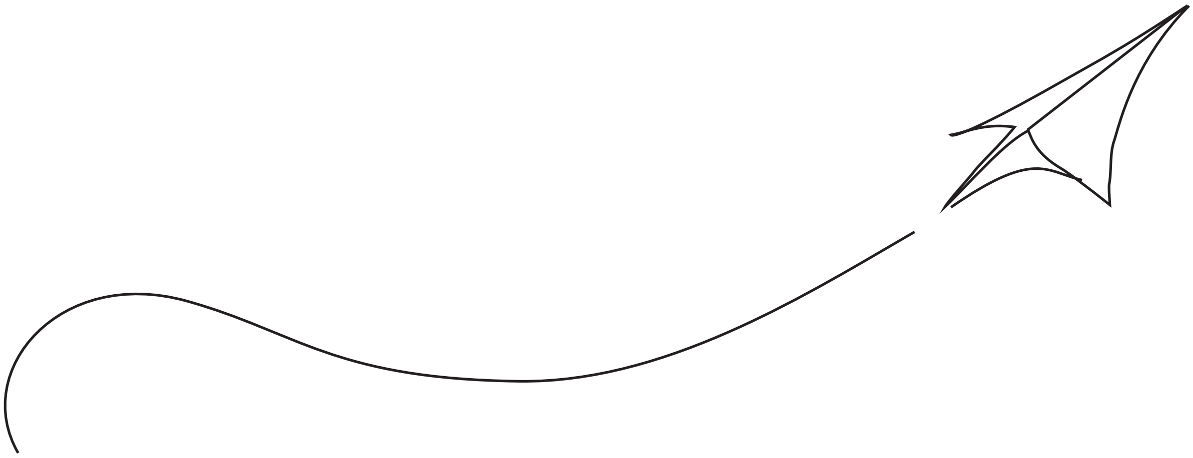
WesBank has a unique business model that focuses its distribution on the motor manufacturers and dealers. It has built the business up successfully, managing numerous joint ventures and providing an impressive range of ancillary services to motor dealers that enhance that quality of their franchises. Their model is transferable into other international markets and so far they have businesses in Australia and the United Kingdom and are evaluating other opportunities in other markets.

Momentum has made excellent progress in expanding its health business into Africa where they are currently active in eight countries.

We also believe that OUTsurance has an exportable model and they are evaluating a number of comparable international markets. As with our banking business the insurance business will seek to leverage off the South African infrastructure.

We are currently committed to our local and international growth strategies and the achievement of our growth and ROE targets. The FirstRand corporate culture of breaking the businesses into lots of small business units and empowering the management is very strong. It has been the single greatest secret of our success. As the leadership of the Group we realise that our role is to nurture the culture. It brings out the best in our people and ensures that the best leadership emerges thereby ensuring that succession planning is well catered for. All these factors make us confident but not arrogant about our future prospects.

PK Harris
Chief executive officer



strong strategic framework

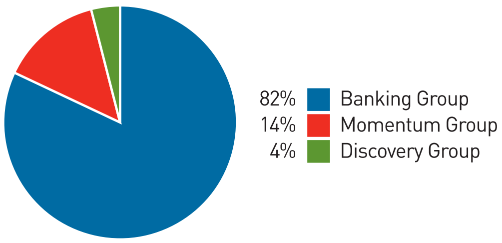
The Group CFO has responsibility for the strategic positioning of the balance sheet, including both the assets and liabilities originated by the individual business units. At the core of our balance sheet management approach is a belief that the balance sheet and its income statement streams can be both protected and enhanced throughout the cycle, through the active management of investment and enterprise value risks.

Johan Burger Chief Financial Officer

Introduction

This report represents a high level overview of FirstRand Limited's performance and balance sheet management strategies, which form a major part of the Group CFO's portfolio.

FirstRand Limited comprises three main operating entities, the FirstRand Banking Group, the Momentum Group and the Discovery Group. The chart below illustrates the relative contribution by each of these entities to the normalised earnings of the Group.



** Based on normalised earnings, excluding the FirstRand centre and NCNR preference shares*

The Group's operational style is to break these legal entities down into a portfolio of autonomous business units, which operate within a broader FirstRand strategic framework. We are therefore structured along "federal" lines with the business units responsible for the daily management of business, financial and operational risks and for the delivery of:

- targeted return on economic capital; and
- growth in net income after cost of capital ("NIACC").

Business unit normalised earnings

	Year ended 30 June		
R million	**2007**	2006	% change
FNB	**4 140**	3 255	27
FNB Africa	**456**	377	21
RMB	**3 910**	2 148	82
WesBank	**918**	1 059	(13)
Group Support	**617**	624	(1)
Banking Group	**10 041**	7 463	35
Momentum Group	**1 716**	1 514	13
Discovery Group	**536**	424	26
FirstRand Limited	**(100)**	(169)	(41)
Dividends to NCNR* preference shareholders	**(348)**	(274)	27
	11 845	8 958	32

** Non cumulative non redeemable*

The CFO's portfolio includes strategies designed to protect and enhance the business unit returns and reduce earnings volatility through the cycle. Below is a review of these strategies in relation to:

- performance management; and
- balance sheet management.

Performance management strategy

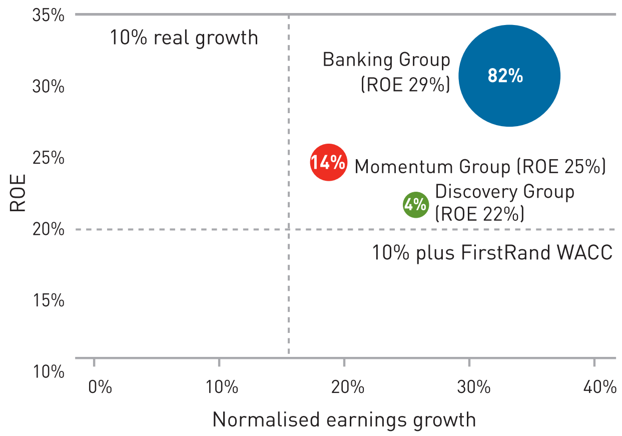
FirstRand's performance management strategy remains a key component of the Group's overall strategy. Its focus is to deliver superior, sustained returns to shareholders.

We continue to monitor the effectiveness of our performance management strategy using two financial targets, namely 10% real growth in normalised earnings and return on equity of 10% plus FirstRand's weighted average cost of capital.

During the year FirstRand produced excellent results, growing normalised earnings 32% or 26% in real terms after adjusting for the effects of inflation. Headline earnings grew 29% or 23% in real terms.

The diagram below indicates that the three legal entities delivered against all relevant financial targets, thus delivering superior value for shareholders.

Financial targets met



** Based on normalised earnings, excluding the FirstRand centre and NCNR preference shares*

We believe normalised earnings most accurately reflect the sustainable operational performance of the business given the non operational and accounting anomalies that impact headline earnings. The table below shows the reconciliation between normalised earnings and headline earnings in the current and prior year.

	Year ended 30 June		
R million	**2007**	2006	% change
Headline earnings – audited	**10 457**	8 115	29
Adjustments	**1 388**	843	
Private equity realisations	**397**	219	
Agreement with National Treasury	**–**	30	
Discovery BEE transaction	**19**	102	
IFRS 2: Share based payments	**401**	168	
Treasury shares	**543**	352	
Listed property adjusted to NAV	**28**	(28)	
Normalised earnings	**11 845**	8 958	32

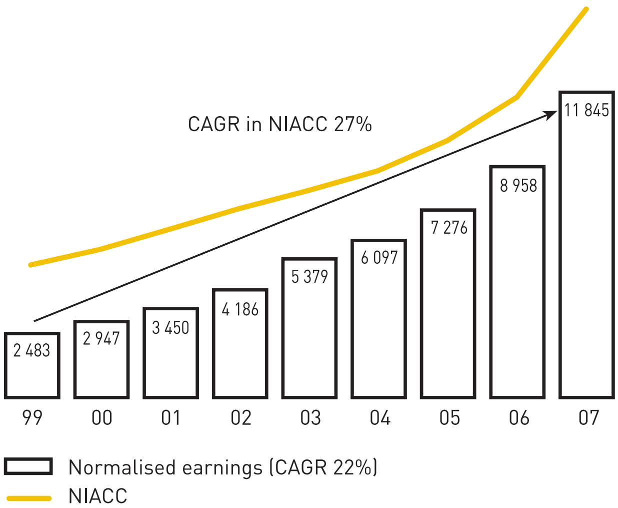
All of the individual franchises within the Banking Group also delivered ahead of targeted return on economic capital as indicated in the chart below.

ROE and earnings contribution

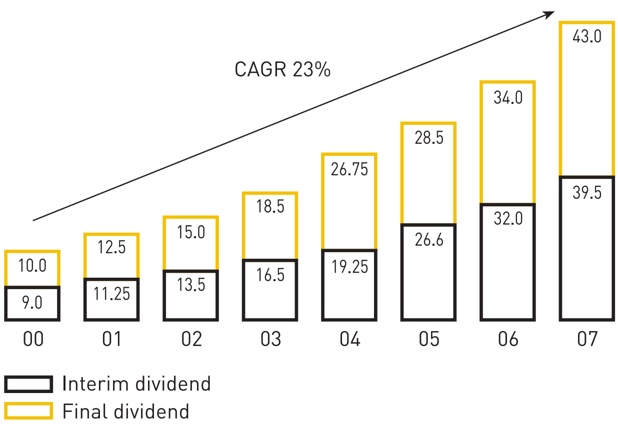
	ROE %	Earnings %
FNB	33	35
FNB Africa	33	4
RMB	43	33
WesBank	18	8
Momentum	25	13
Discovery	22	5
OUTsurance	64	2

During the current year further enhancements were made to the implementation of the performance management strategy to include the following three additional measures, namely growth in NIACC, growth in tangible net asset value ("TNAV") and growth in distributions to shareholders. These performance measures are in the process of being implemented across the Group to generate sustainable profits and add greater economic value to shareholders. The tables below indicate the Group's track record in two of these ratios.

NIACC and normalised earnings
(R million)



Ordinary dividend per share
(cents)



Risk reward management

Risk management disciplines are rigorously applied to provide the business units with appropriate risk frameworks to ensure sustainable performance within a band of acceptable return volatility and to avoid undesired outcomes.

Risk is core to our business and operational risks are an inevitable consequence. Our aim is not, therefore, to eliminate all risks but to achieve an appropriate balance between risk and return. By actively managing the inter relationship between risk management, balance sheet management and capital, we seek to limit the scope for adverse variations in our earnings and ROE, particularly in the context of "stress events" and downward economic cycles.

Balance sheet management

The Group CFO has responsibility for the strategic positioning of the balance sheet, including both the assets and liabilities originated by the individual business units. At the core of our balance sheet management approach is a belief that the balance sheet and its income statement streams can be both protected and enhanced throughout the cycle, through the active management of investment and enterprise value risks, which include:

- interest rate risk;
- credit portfolio risk;
- capital risks; and
- strategic funding risks.

To achieve this objective we have implemented an integrated balance sheet management approach. This approach requires a detailed understanding of the economic cycle and the interplay between the risks created by the cycle and the "levers" that can be used to mitigate those risks. Ultimately, we seek to optimise the natural position of the balance sheet, look for natural hedges or implement appropriate macro hedges in the current structure, and only make the balance sheet available to the origination businesses if the required risk reward return can be met.

Our integrated balance sheet management approach is aligned to the objectives of performance management in that it facilitates optimisation of the spread between ROE and COE.

During the current year the integrated balance sheet management structure was further refined and cross pillar integration was improved. The structure was also enhanced to include a fourth pillar on equity and investment analysis. The updated structure is depicted below and now consists of four key pillars, namely:

- macro portfolio management;
- credit portfolio management;
- capital management and strategic funding; and
- equity and investment analysis.

Below we explain in more detail the high level objectives and activities of the four pillars. These are currently fully implemented in the Banking Group and steps have been taken to introduce them to the Momentum Group.

Macro portfolio management

The macro portfolio management ("MPM") pillar manages the net interest rate position of the Banking Group. It also interacts with the other three pillars to assist them to protect and enhance their portfolios with respect to risk arising from the macro economic environment, specifically as they relate to interest rate and exchange rate risk. Accordingly, the MPM pillar manages the risk free component of the investment of capital as well as macro hedges to protect the balance sheet and more particularly the credit portfolio.

In addition to the regular governance processes, an investment committee – made up of senior management – meets regularly to review the macro economic environment and to oversee the investment strategy of the MPM pillar and all its portfolios.

In the year under review, the repo rate of the South African Reserve Bank increased from 7.5% to 9.5%. The domestic balance sheet was protected by positioning the book as short as possible. The income statement also benefited from the positive endowment effect by closing out the endowment hedges before the start of the hiking cycle.

By aligning the different risk types (capital, credit, funding and interest rates), we were able to pull the desired levers and align our portfolios appropriately during this rising interest rate cycle.

As an example, the MPM team – in conjunction with the credit portfolio management team – implemented a tail risk protection strategy to reduce the adverse impact of large hikes in interest rates on bad debts. These strategies have contributed positively during the year under review.

The MPM pillar also became more involved in the management of the international interest rate position. Most notably, we formalised an investment and risk management process for the UK banking book (Carlyle Finance). The duration of the portfolio was shortened to protect against rate hikes in the UK. As a next step, the interest rate and exchange rate risk of the international capital portfolio will receive more attention and become more actively managed.

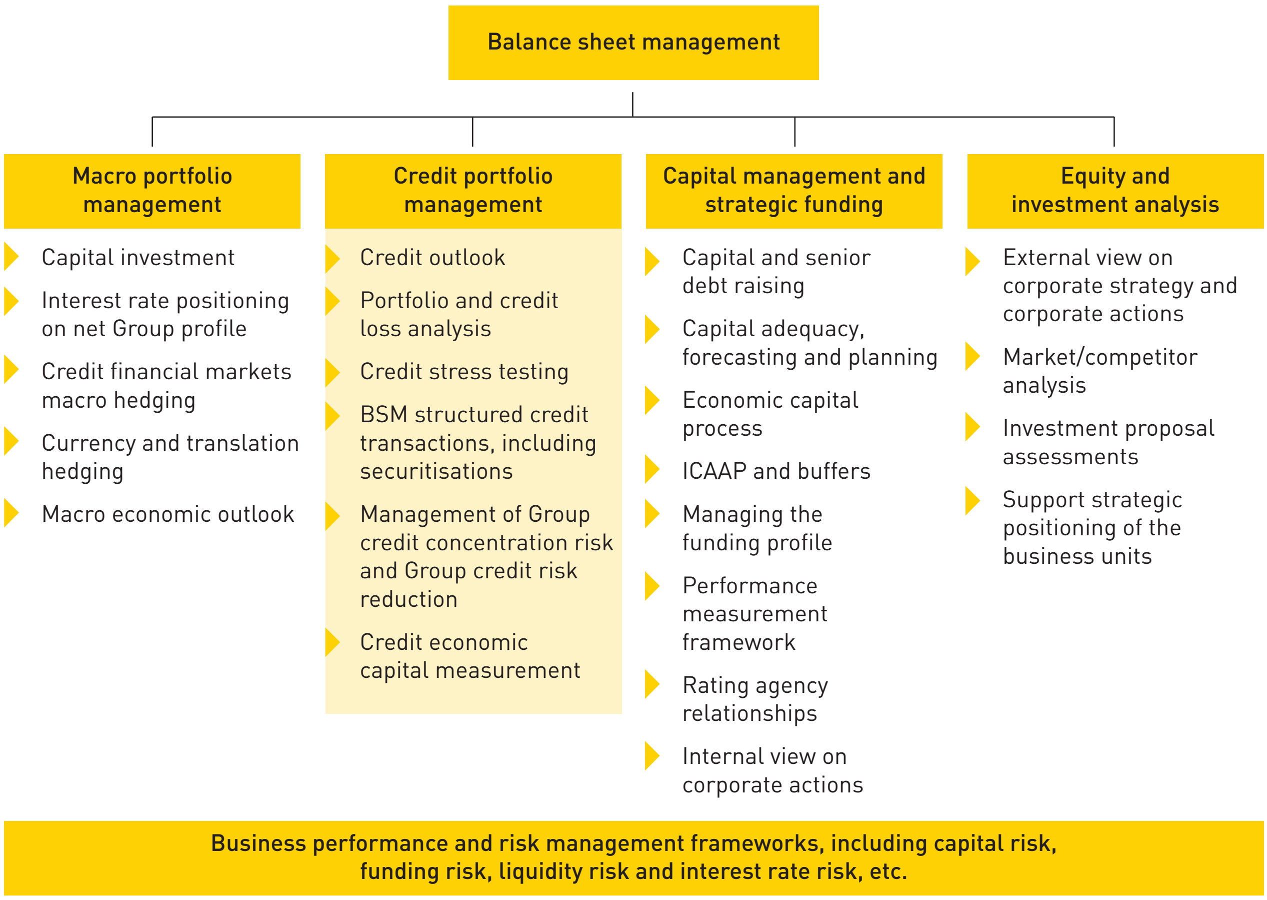
With the creation of balance sheet management last year, one of the objectives was to consolidate all exposures across the banking book, to offset natural hedges and to manage the residual net position consistently across the Banking Group. Good progress has been made in this regard and all key portfolios are now included in the consolidated position.

In the coming year, these activities will also be expanded to include the asset/liability management activities of Momentum Group.

Credit portfolio management

Credit portfolio management ("CPM") is responsible for the management and oversight of the Bank's aggregate credit portfolio risk. The objectives of the function are:

- the management of aggregate credit risk through economic cycles, ie mitigating the impact of procyclical credit business activities on capital and earnings volatility; as well as
- optimisation of credit capital consumption (both regulatory and economic capital).



The function is also concerned with the review of credit risk quantification and pricing models used by business units and, in conjunction with the Enterprise Risk Management teams, provides independent oversight on aspects such as credit rating models and implementation of the credit risk management framework.

CPM plays a portfolio management role for the underlying business units which are focused on:

- formulating the Group's credit outlook (taking into account FRBG's macro economic outlook) for Wholesale, Commercial and Retail businesses;
- supporting the business units in determining their credit risk appetite and pricing strategies;
- reviewing origination strategies through different economic cycles;
- performing scenario analysis, stress testing and long term loss forecasting;
- monitoring portfolio risk information, including various measures of portfolio credit quality, credit impairment trends, arrears and non performing loans;
- assessing the adequacy of credit provisions in the light of the macro economic outlook; and
- determining and executing credit loss protection strategies, in consultation with the macro portfolio management pillar to mitigate earnings volatility and extreme losses, especially in an adverse credit cycle.

CPM also works with business units to ensure disciplined origination, especially with regards to risk adjusted pricing and ensuring that the returns are managed within an acceptable level of volatility.

As credit risk forms the largest component of economic capital, CPM also allocates economic capital and monitors returns. The allocation of economic capital is aligned with Basel II principles and the implementation of Basel II across the Group is the responsibility of CPM.

During the past year the CPM team had the following key successes:

- significant improvements were made in the sophistication of the credit economic conditions and loss forecasting models. On the basis of these forecasts it was determined that credit losses increase at a more rapid pace if interest rates move beyond 200 bps over a short horizon;
- credit hedging strategies (including both interest rate hedges as well as insurance structures) were put in place in consultation with MPM to protect against the impacts of potential movements beyond 200 bps. Over the past 18 months, interest rates moved by 300 bps of which 200 bps were experienced during the 2007 financial year. These strategies have contributed some R150 million to earnings for the current period;
- following the conclusion of a three year Basel II project lead by the Credit Portfolio Management team, FRB obtained in principle approval from the South African Reserve Bank to use the Advanced Internal Ratings Based Approach ("AIRB") for credit under Basel II from 1 January 2008. This means that all 17 rating systems used across the Bank (as described in more detail in the Risk Management report) will be used to quantify probability of default, loss given default, and exposure at default for the individual credit portfolios in order to estimate the regulatory capital requirement under Basel II; and
- adoption of the AIRB approach results in credit capital savings of approximately R2 billion compared to alternative approaches available under Basel II.

Operationally, the focus for 2008 will be further improvements in systems and methodologies to enhance credit portfolio risk quantifications, as well as improvements in economic capital quantification, concentration risk measures and risk appetite quantification measures.

Capital management

The objective of capital management is to maintain the optimal level of capital in the most cost efficient way, given our risk profile and targeted credit counterparty rating. The optimal capital level is achieved through balancing the needs of regulators, rating agencies, depositors and shareholders.

We aim to fulfil the requirements of shareholders and maintain an efficient capital structure with limited excesses, but which supports our short term growth requirements. We do not hold surplus capital for acquisitions and the need for raising additional capital is assessed on a transaction by transaction basis.

The table below indicates our actual and target minimum capital ratios.

R million	Target %	Actual %
Banking Group		
Target capital adequacy	>12.5	13.6
Tier I	>9.0	10.7
– Core Tier I	>7.0	9.8

Our policy is to capitalise the Group at the higher level of economic or regulatory capital. At the same time we seek to provide a capital buffer to give confidence to debt holders, depositors, regulators and rating agencies. We strive to achieve the highest credit rating possible in South Africa, but are currently constrained by the sovereign credit rating. A strong credit rating places us in a strong position to attract debt funding at a lower cost.

MPM invests the capital in low risk assets and the profile of these assets depends on our interest rate view. The benefits of this approach mean that business units are protected from the volatility of the interest rate cycle and therefore can focus on operational and strategic priorities to maximise the return on the risk assumed through their own strategies.

Our capital investment strategy and economic capital allocation approach allows the business units to price correctly for the risk they assume. Our approach also provides the business units with a stable cost of equity.

We strive to create value for shareholders while protecting our strong capitalisation and credit ratings.

The year under review was characterised by increased demand for capital for growth requirements, which was funded by strong capital generation.

In order to ensure that the Group achieves its performance targets, capital management monitors performance to ensure that the capital deployed to the business units meets these targets. If they do not, business models are adapted, changed or terminated.

It is expected that the demand for capital both locally and internationally will continue to remain strong. The Group actively seeks to fund this growth in the most efficient manner. In August 2007, the Group concluded Fresco II, which was a partially funded synthetic securitisation of a portfolio of South African and international credit exposures held on balance sheet. This transaction has provided the group with capital relief of R1 400 million (Basel I) and R700 million (Basel II). The Banking Group will also hold a buffer for international expansion initiatives but will only allocate capital to these if they meet or exceed current hurdle rates.

Basel II, which is applicable from 1 January 2008, will have a neutral impact on the capital requirements of the Banking Group, with the potential for a slight increase due to the current cycle. The minimum capital ratio will be 9.5% going forward and will comprise each of the following three components:

Pillar 1:	8%	minimum capital requirement
Pillar 2a:	1.5%	add on for systemic risk
Pillar 2b:	x%	add on for bank specific risks

The new regulations will also allow for more innovative Tier I and Tier II capital instruments to be issued. The Group is planning to take this opportunity to further strengthen the capital base and to fund the growth requirements of the Group.

The introduction of IFRS, which requires increased fair value accounting will lead to greater earnings volatility going forward, particularly in the investment bank. The Group does not wish to expose the dividend to this volatility and therefore will focus on a sustainable growth rate in dividend. This means that the dividend cover may vary from year to year. In the current year the Group has increased the dividend by 25%.

Strategic funding

The objective of strategic funding is to secure funding at an optimal cost from diversified and sustainable funding sources.

It is highly desirable that we achieve maximum market share in retail, commercial and corporate deposits, which represent the most cost effective source of funding. Extra market share in these deposits will create a competitive advantage for us as it provides a natural liquidity buffer, and our liability strategy is focused on achieving this objective.

In order to be in a position to take full advantage of changes in financial markets, we have embarked on a strategy to liquefy the balance sheet, which will enable us to optimally fund growth across a broad range of sources and through economic cycles. Given the current market conditions and this strategy, our objective is to make use of either our deposit franchise or the capital markets to fund the asset growth.

The ability to differentiate through new and innovative funding mechanisms is one of our hallmarks and we constantly review new proposals regarding funding strategies based on forecast balance sheet structures. This allows us to anticipate and plan for future funding and structural liquidity requirements.

We place great value on the establishment of strong relationships with all our debt investors and we have an active marketing approach underpinning our funding strategy with a strong focus on existing and new relationships. The relationships with the rating agencies, namely Moody's, Fitch, Standard and Poor's, and the maintenance of our credit rating, are central to the funding strategy.

Funding and liquidity management

We maintain a well balanced portfolio of liabilities, with a broad range of funding sources (by market, product and currency) which generates a stable flow of financing and provides protection in the event of market disruptions. Together with our centralised approach to funding management this enables us to pursue a strategy to fund business activities at the lowest possible cost.

Funding and liquidity management determine the medium and long term funding requirements of the Group by assessing the overall funding profile of the balance sheet, the effective maturity of the asset base and the quantity of funding that will need to be replaced. It also reviews the ability of the Group to continue to fund itself on an ongoing basis across all business activities through periods of stress, by actively managing the buffers.

In order to manage liquidity requirements, the Group has built up liquidity buffers within South Africa and international balance sheets and there are plans to increase these in light of the current market uncertainties.

Internationally, in order to further diversify the funding base and lengthen its profile, the Group embarked upon a Euro Medium Term Note Program of US1.5 billion. During the period under review, the Group issued Euro 500 million Floating Rate Notes, five years at an effective coupon of 50 bps over Euribor.

Domestically, the Group approved R50 billion securitisations programme (R25 billion synthetic securitisations, R25 billion physical securitisations), bilateral funding lines and three corporate conduits (iNdwa, iNkotha, iVuzi) and a warehouse facility.

The Group has issued R15 billion in securitisations (homeloans and autoloans) to date to diversify the funding base and provide capital relief.

As originating banks often absorb material expected losses from both on balance sheet and securitised pools, it is our belief that sound underwriting standards and practices remain the best protection against excessive credit exposure. Our approach to securitisation requires that all loans be subject to the same loan policy and approval process to protect against the tendency to loosen underwriting standards for pools that lenders believe may be sold and to ensure that the sold and retained loans are of the same general quality. In our securitisations, the risk of "cherry picking" is mitigated by selecting a general pool of assets to be securitised to ensure that the Bank does not compromise its rating on any of the existing entities. The Banking Group also views securitisation as a broad-based strategic initiative and, as such, has integrated the Bank's risk management systems into all facets of the securitisation process.

Equity and investment analysis

The Equity Pillar in Balance Sheet Management is responsible for ensuring that strategic decisions reflect the requirements of equity shareholders. The interplay between the positioning of the Group and the impact that these decisions have on the Group's valuation underpins the Balance Sheet Management activity. In achieving alignment, we analyse both local and international banks. Current trends, business practices, products and services are identified. This analysis encompasses the evaluation of the business units' strategic positioning and performance relative to local peer group and international benchmarks.

In order to assist the business units in meeting the returns set out in the performance framework, particularly on new capital allocations, this function provides support in formulating expansion plans for greenfields operations or acquisitions. We strive to ensure that new initiatives meet both the strategic and financial expectations of shareholders. During the last year the Group formulated entry strategies for India and Brazil and made a small acquisition in Mozambique.

Macro economic trends and bottom up information is used to develop detailed forecasts for use in the capital and funding planning processes.

To ensure that the Group meets its performance targets we work closely with the other three pillars to design the appropriate performance measurement tools.

Balance sheet management in a changing environment

Balance sheet management is acutely aware of the risks inherent in the current macro economic environment and the threats (and possible opportunities) posed by the volatility in the global financial markets. The Balance Sheet Management team continues to monitor these events and are constantly looking for further ways to protect the balance sheet and income statement streams of the Group.

Some of the key focus areas are the following:

Macro portfolio management

MPM continues to monitor the current macro economic environment and the threats and is constantly looking for further ways to protect the balance sheet and income statement streams of the Group. Although the objective to enhance is never far from the surface, the objective to protect dominates under these uncertain conditions.

Credit portfolio management

The adverse credit cycle resulting from consumer indebtedness and the interest rate hikes experienced in the 2006/2007 financial year, as well as the continued rate hikes after the financial year end is expected to result in further increases in arrears, NPL's and impairment rates over the next year.

It is expected that impairment rates will continue to increase and remain above the stated medium term target of 70 – 90 bps and be in a range of 90 – 110 bps given the current market implied interest rates. The increase is, however, in line with the sensitivity tests conducted as early as June 2006 and the upper boundary expectations for the credit portfolio in an adverse cycle.

CPM continues to actively monitor the outcome of the recent volatility experienced in the international credit markets for any potential spill over into the domestic market. Where required, further mitigating actions will be put in place to protect the Banking Group's earnings, including additional interest rate derivative hedges to protect against the increase in bad debts on the retail books resulting from unexpected interest rate increases, as well as consideration of industry and name specific protection structures for the Wholesale credit area.

Capital management and strategic funding

The strong growth in liquidity in recent years has created an investor appetite for highly leveraged financing arrangements with low credit protection. However, the losses suffered by market participants from sub prime mortgage exposures and changes in credit rating agency views on risk in highly levered transactions have caused investors to re-evaluate their risk appetite and have led to a broad repricing of risk. As a result, debt issues, particularly in the high yield space, have been downsized, restructured, or withdrawn, credit market access has been interrupted, and issuers across the entire credit spectrum have seen a rise in borrowing costs.

The changing market dynamics have meant that the Group will need to carefully monitor the demand and supply for structured credit products in both local and international markets, but most keenly those in the international markets. The current market dynamics are projecting higher cost of credit and liquidity. It has also led to an increase in volatility, which lead to an increase in the cost of capital. The market dynamics have been taken into account in the internal transfer pricing of funding and pricing to business units for new business. The impact of the change in market dynamics on the existing businesses is not expected to be material.

Johan Burger
Chief financial officer

R million	1999	2000	2001	2002
Balance sheet				
Total assets	202 064	222 791	271 431	374 766
Advances	93 718	102 667	123 343	175 161
Deposit and current accounts	115 392	117 559	141 461	201 404
Total equity	11 014	14 134	16 585	20 306
Treasury shares	1 272	1 272	1 272	1 272
Dividend	844	1 035	1 157	1 415
Total equity after dividend and treasury shares	13 130	16 440	19 014	22 993
Assets under administration	255 412	303 683	373 452	473 094
Income statement				
Earnings attributable to ordinary shareholders	2 489	3 056	3 575	4 495
Headline earnings	2 483	2 947	3 689	4 734
Normalised earnings	2 483	2 947	3 450	4 186
Return on average equity (%)	24.4%	24.3%	23.3%	25.2%
Earnings per share (cents)				
- Basic	45.7	56.1	65.7	82.5
- Diluted	45.7	56.1	65.7	82.5
Headline earnings per share (cents)				
- Basic	45.6	54.1	67.7	86.9
- Diluted	45.6	54.1	67.7	86.9
Normalised earnings per share (cents)				
- Basic	45.6	54.1	63.4	76.9
- Diluted	45.6	54.1	63.4	76.9
Dividend per share (cents)				
- Interim	7.5	9.0	11.3	13.5
- Final	8.0	10.0	12.5	15.0
	15.5	19.0	23.8	28.5
Dividend cover	2.94	2.85	2.67	2.70
Perpetual preference dividend per share (cents)				
- February	–	–	–	–
- August	–	–	–	–
Net asset value per ordinary share	2.02	2.60	3.05	3.50
Shares in issue	5 445.3	5 445.3	5 445.3	5 445.3
Exchange rates				
Rand/US$				
- Closing	6.03	6.77	8.07	10.31
- Average	5.95	6.40	7.42	9.19
Rand/ £				
- Closing	9.51	10.26	11.35	15.75
- Average	9.63	9.88	10.81	14.81
Balance sheet (USD)				
Total assets	33 510	32 896	33 647	36 350
Advances	15 542	15 159	15 290	16 989
Deposit and current accounts	19 136	17 358	17 536	19 535
Total equity	1 827	2 087	2 056	1 851
Assets under administration	42 357	44 841	46 294	45 887
Income statement (USD)				
Earnings attributable to ordinary shareholders	418	477	482	489
Headline earnings	417	460	497	515
Normalised earnings	417	460	465	456
Balance sheet (GBP)				
Total assets	21 259	21 717	23 912	23 802
Advances	9 860	10 008	10 866	11 125
Deposit and current accounts	12 140	11 459	12 462	12 791
Total equity	1 159	1 378	1 461	1 212
Assets under administration	26 871	29 602	32 900	30 046
Income statement (GBP)				
Earnings attributable to ordinary shareholders	258	309	331	303
Headline earnings	258	298	341	320
Normalised earnings	258	298	319	283

2003	2004	2005	2006	2007	Compound growth %
393 674	424 821	462 231	602 596	**721 559**	17
188 112	208 874	221 851	313 885	**378 945**	19
215 637	219 061	245 793	332 113	**400 557**	17
20 793	23 912	29 910	36 530	**43 548**	19
1 272	1 590	3 786	5 792	**6 149**	22
1 715	1 956	2 767	3 114	**3 795**	21
23 780	27 458	36 463	45 436	**53 492**	19
488 242	529 039	616 348	794 693	**900 148**	17
4 516	5 676	7 137	8 825	**11 511**	21
4 847	5 727	6 723	8 115	**10 457**	20
5 379	6 097	7 276	8 958	**11 845**	22
22.6%	25.4%	25.2%	25.1%	**28.1%**	
86.2	109.3	137.3	171.6	**222.9**	22
84.5	106.8	134.5	166.0	**216.6**	21
92.5	110.3	129.3	157.8	**202.5**	20
90.7	107.7	126.7	152.6	**196.8**	20
102.6	117.4	132.4	159.4	**210.2**	21
100.7	115.3	131.4	159.2	**210.1**	21
16.5	19.3	26.6	32.0	**39.5**	23
18.5	26.8	28.5	34.0	**43.0**	23
35.0	46.1	55.1	66.0	**82.5**	23
2.88	2.49	2.50	2.50	**2.55**	(2)
–	–	228.00	356.00	**410.00**	
–	–	360.00	363.00	**431.00**	
3.97	4.61	5.77	6.71	**8.27**	19
5 445.3	5 476.4	5 613.6	5 634.1	**5 635.7**	
7.56	6.18	6.68	7.13	**7.07**	
8.89	6.77	6.19	6.44	**7.21**	
12.47	11.20	11.97	13.15	**14.17**	
14.12	11.83	11.50	11.48	**13.99**	
52 090	68 741	69 243	84 516	**102 059**	15
24 890	33 798	33 234	44 023	**53 599**	17
28 532	35 447	36 820	46 580	**56 656**	15
2 751	3 869	4 481	5 123	**6 160**	16
64 603	85 605	92 330	111 458	**127 319**	15
508	838	1 152	1 370	**1 597**	18
545	846	1 085	1 260	**1 450**	17
605	900	1 175	1 391	**1 643**	19
31 564	37 932	38 622	45 825	**50 922**	12
15 082	18 650	18 537	23 870	**26 743**	13
17 289	19 560	20 537	25 256	**28 268**	11
1 667	2 135	2 499	2 778	**3 073**	13
39 146	47 238	51 499	60 433	**63 525**	11
320	480	621	769	**823**	16
343	484	585	707	**747**	14
381	516	633	780	**847**	16

sources of profit

for the year ended 30 June

R million	2007	% composition	2006	% composition	% change
FNB	4 140	35	3 255	36	27
RMB	3 910	33	2 148	24	82
WesBank	918	8	1 059	12	(13)
FNB Africa	456	4	377	4	21
Momentum	1 485	12	1 226	14	21
Discovery	536	5	424	5	26
Group Support	848	7	912	10	(7)
Banking Group	617		624		
Momentum Group	231		288		
FirstRand	(100)	(1)	(169)	(2)	(41)
Dividend paid to non cumulative non redeemable preference shareholders	(348)	(3)	(274)	(3)	27
Normalised earnings	11 845	100	8 958	100	32

FIRSTRAND

- FirstRand Bank Holdings Ltd
  - FirstRand Bank
    - First National Bank
    - WesBank
    - Rand Merchant Bank
    - FNB African subsidiaries
    - OUTsurance
    - First Link
    - eBucks
    - RMB Properties
- Momentum Group Ltd
  - Momentum
    - RMB Asset Management
    - Advantage Asset Managers
    - Ashburton*
- Discovery Holdings Ltd
  - Discovery Health
    - Discovery Life
    - Vitality
    - Destiny
    - PruHealth

For group ownership structure see page 303.

** From July 2007 Ashburton is a wholly owned subsidiary of FirstRand Bank*

growth

FirstRand Banking Group increased normalised earnings 35% from R7.5 billion to R10.0 billion. This growth was underpinned by a particularly strong performance from the Investment Bank, RMB, which grew normalised earnings 82%.

FIRSTRAND
Banking Group

Sizwe Nxasana CEO FirstRand Banking Group

Sizwe Nxasana / 49 /
BCom, BCompt (Hons), CA(SA)
CEO: FirstRand Banking Group

Johan Burger / 48 /
BCom (Hons), CA(SA)
CFO: FirstRand Banking Group

Paul Harris / 57 /
MCom
CEO: FirstRand Limited

Michael Jordaan / 39 /
MCom (Economics)
PhD (Banking Supervision)
CEO: First National Bank

Theunie Lategan / 50 /
DCom, CA(SA), Advanced Diploma Banking
CEO: FirstRand Africa and Emerging Markets

Zweli Manyathi / 45 /
BCom (Hons) (Financial Management) (Unisa)
CEO: FNB Branch Banking

Yatin Narsai / 41 /
BSc Hons
CEO: FNB Smart Solutions and Public Sector Banking and CIO

Michael Pfaff / 45 /
BCom, CA(SA), MBA
CEO: Rand Merchant Bank

Ronnie Watson / 60 /
AMP (Harvard)
Executive chairman: WesBank

Brian Riley / 50 /
FHA Diploma
AEP (Unisa)
AMP (Harvard)
CEO: WesBank

MICHAEL JORDAAN
CEO, First National Bank

FNB has produced another set of excellent results with profit before taxation increasing 26%

FNB

R million	2007	2006	% change
	Year ended 30 June		
Income before indirect tax	5 983	4 846	23
Indirect tax	(320)	(342)	(6)
Income before tax	5 663	4 504	26
Advances (post gross up)	180 281	153 876	17
Total deposits (post gross up)	168 280	148 734	13
Assets under management	26 489	18 270	45
Cost to income ratio (%)	59.9	63.2	
Non performing loans (%)	2.2	1.6	

R million	2007	2006	% change
FNB Mass and Support	367	568	(35)
Consumer segment	2 337	1 732	35
– HomeLoans	840	551	52
– Card (Issuing)	156	380	(59)
– Other Consumer	1 341	801	67
Wealth	161	101	59
Commercial	2 275	1 700	34
Corporate	523	403	30
Total FNB	5 663	4 504	26

FNB achieved a significant increase in customer numbers, robust growth in deposits and advances, and strong volume growth.

ENVIRONMENT

FNB's operating environment remained favourable during the year under review, despite interest rates increasing 250 bps between June 2006 and June 2007. Overall, the South African economy remained buoyant, and consumer demand for credit, to a large extent, showed resilience to the rising interest rates. The tightening of the monetary policy has, however, started to have some impact with the absolute growth in consumer credit slowing. FNB achieved a significant increase in customer numbers, robust growth in deposits and advances, and strong volume growth, which all contributed to a strong performance for the year, despite the interest rate increases resulting in higher bad debts.

CHANGES IN LEGISLATION

The provisions of the National Credit Act ("NCA") relating to fees and pricing came into effect in the current year from 1 June 2007. The implementation costs, primarily in terms of opportunity cost and management time spent, were predominantly felt in the current financial year. It is likely that the ongoing cost of compliance as well as the impact on revenue will continue in the future.

FNB reviewed its level of impairments to cater both for the effects of potential higher defaults and for longer recovery periods as a result of the NCA, combined with the impact of the recent rate increases, and increased impairments centrally. This charge is included in the results of FNB Mass and Support and is the primary driver for the 35% reduction in profitability.

FNB estimates that the total implementation costs of the NCA amounted to some R230 million. The annualised revenue loss continues to be estimated in the range of R300 million to R400 million. This impact will, however, not be experienced in any one financial year as it would be phased over a period as existing client agreements, which were drawn up in terms of the Usury Act, are converted to the requirements of the NCA.

COMPETITION COMMISSION

The Competition Commission Enquiry into Banking recently completed the final round of public hearings. The Commission is investigating possible transgressions of the Competition Act and will make recommendations for improvements for the industry in a detailed report to be released towards the end of 2007. The implementation of any of the Commission's recommendations will be over a period and as such it is unlikely that any financial impact will be felt in the next financial year.

CHANGES IN STRUCTURE AND ACCOUNTING TREATMENT

Certain operations, including Money Market and Direct Foreign Dealing were transferred from FNB to RMB. FNB retained the activities required to service its Large Corporate clients with transactional banking solutions. The historical results have accordingly been restated.

The FNB Wealth segment has taken management control of the international wealth offering (Ashburton) previously included under Momentum and the FNB Corporate segment has taken transfer of the Custody business from RMB, both with effect from 1 July 2007. Ashburton's current year profitability amounted to some R40 million with Custody at R60 million.

Further, FNB has changed its accounting policy for set off of advances and deposits held by Corporate and Commercial clients under its cash management schemes. This change, which is in line with IFRS and has no profitability or regulatory impact, has the impact of grossing up deposits and advances by R18 billion (2006: R22.8 billion). The results and commentary in this report are based on the post gross up values and where required, the gross up impact is separately disclosed.

PERFORMANCE COMMENTARY

FNB has produced another set of excellent results with profit before tax increasing 26% from R4 504 million to R5 663 million.

Interest income grew 27% mainly due to the continued strong balance sheet growth in both advances (up 17%) and deposits (up 13%), supported by the widening of margins resulting from the interest rate increases and the increased endowment benefit on deposits.

Bad debts increased to 0.91% (2006: 0.56%) of average advances. This increase is in line with expectations, given the abnormally low arrears and non performing loans ("NPLs") in previous years, coupled with the impact of interest rate increases and the estimated impact of the NCA. This ratio also benefited from provision reversals relating to certain corporate exposures that were repaid.

Non interest income increased 20% driven by 13% growth in customer numbers and higher transactional volumes across all segments.

Operating expenses increased 17%. This was mainly driven by significant variable costs associated with increased volumes, costs related to growth of new businesses, ongoing investment in the brand (FIFA sponsorship), new products, improved services, infrastructure and processes. Costs related to the cooperation agreements by Card, HomeLoans and Personal Loans also contributed to this increase.

Deposits increased R20 billion or 13%. This growth has been substantially impacted by the change in policy in terms of IFRS requiring grossing up of client balances on the cash management schemes. These cash management balances generally fluctuate on a daily basis, thereby easily distorting the absolute growth. The business operations and margins are managed on a net (set off) basis. This treatment impacts the Corporate segment balances significantly with a marginal impact to the Commercial segment. Excluding the impact of gross up, deposits grew 19% (R24 billion) with the Commercial, Corporate and Consumer segments being the major contributors. This growth was largely driven by product innovation and sales of shorter term products as the interest rate increases made deposits more attractive. Further, Corporate and Commercial reported deposits reduced against prior year balances as a result of the exclusion of the Money Market deposits amounting to R9.6 billion and R6.5 billion respectively.

Advances increased R26 billion or 17%. Excluding the grossing up impact, the increase amounts to R30 billion or 23% with HomeLoans (R17 billion), Card, Wealth and Commercial the main contributors to this growth. Corporate's advances were reduced R8.8 billion, as a result of the exclusion of Money Market advances and now represent only working capital advances.

SEGMENT PERFORMANCE COMMENTARY

As stated previously, FNB's segment view is not a "pure" indication of FNB's penetration into each segment as revenue is based on assumptions of the segment categorisation of customers as well as internal service level arrangements. In line with the continuous refinement of its segmentation of customers, FNB will be disclosing Mass (Smart Solutions) separately from December 2007 and making refinement reallocations between segments on both customer revenue and internal service level arrangements.

FNB Mass and Support

Included in FNB Mass and Support is Smart Solutions, Public Sector Banking, Branch Banking, Brand and Support.

Mass (Smart Solutions)

Smart and Mzansi accounts
Microloans (SmartSpend)
ATMs (including Retail & Mini ATMs)
Cellphone banking and Prepaid products
Housing finance (SmartBond & Smart Housing Plan)
FNB Life

This segment focuses on individuals earning less than R81 000 per annum and is principally serviced by the FNB Smart branded products and services. This segment focuses on innovation, particularly where technology can provide convenience and cost efficiency to the customer, and requires cheaper delivery channels to operate profitably.

The segment performed well during the year, with profits increasing significantly and customer numbers growing from 2.9 million to 3.3 million. The main driver of this performance was the strong growth in non interest income which increased 27%. This increase in turn, was driven by 22% growth in income generating transactions, including debit card transactions which grew 63%. SmartSpend loans payout growth at 45% and 60% growth in prepaid airtime turnover also contributed positively to the performance.

Interest income increased 43% resulting from 16% growth in deposits to R7 billion and advances growth of 39% to R4 billion.

FNB's market share of Saswitch transactions increased to 29% (2006: 28%) despite the market share based on number of devices declining to 21% (2006: 22%). This is largely due to the process efficiencies implemented in the current year. The number of ATMs (including Mini ATMs) increased 9% to 4 561.

FNB is continuing with its strategy of increased customer product holding, with focus on lending and insurance products in this segment. The advances growth relates to the SmartSpend, Smart Housing Plan and SmartBond products. In addition, sales of Funeral Policies increased in excess of 100% and a new product, Smart Cover (a personal accident plan), was added in September 2006 with over 39 000 active plans in place at 30 June 2007.

By June 2007, Cellphone banking had nearly 379 000 registered customers representing 74% growth since June 2006. The use of this channel provides convenience and cost efficiencies and, together with InContact, is expected to contribute to continued good market share growth.

Operating costs increased 18% driven mainly by growth in variable costs relating to the increased customers and transactional volumes. InContact SMS volumes grew 36% to 400 million messages for the year.

FNB Life also performed well as a result of its strategy to add value and enhance insurance features to existing products. In-force policies increased 30% totalling 2.6 million at year end.

Public Sector Banking

This segment provides transactional and other products and services to the three spheres of government; namely national, provincial and local. Customers also include universities and public schools.

FNB's increased focus in this segment resulted in tenders being won or retained during the year despite increased competitor activity. There are still several big tenders outstanding at year end awaiting adjudication. FNB has successfully competed on innovative solutions and service rather than price. The strategy will continue to focus on forming partnerships with government to improve service delivery.

Branch Banking

Branch Banking provides banking services to FNB customers through its 698 representation points distributed nationally with 25% (2006: 24%) positioned in designated Financial Sector Charter communities. Branch Banking continues to make progress with the upgrading of its branches to ensure improved and standardised customer experience.

The investment in the branch infrastructure continued during the year and included 66 branch upgrades. Altogether, 53% of FNB's branches now comply with the updated retail design standard.

The commission based sales team operating in the Bancassurance arena contributed to the strong sales growth within Branch Banking. This was further assisted by the success of the FNB Sales Centres, the "Bank on Wheels" and Community Banks.

	Year ended 30 June		%
	2007	2006	change
Representation points (branches, agencies, Bank on Wheels, etc)	**698**	690*	1
ATMs	**4 561**	4 185	9

* *Updated to include Bank on Wheels*

Consumer Segment

Cheque and transmission products including overdrafts
Investments and equity products
Personal loans (including Student loans)
FNB Insurance Brokers (previously First Link)
eBucks
HomeLoans (including One Account)
Card (Issuing)

This segment focuses on providing banking and insurance solutions to customers with incomes ranging from R81 000 to R750 000 per annum and certain sub segments (youth and teens, students, graduates and seniors).

This segment delivered a very strong performance for the year with profits before tax increasing 35% from R1 732 million to R2 337 million. This was achieved despite a more challenging operating environment characterised by rising interest rates and increasing bad debts, and was underpinned by continued growth in both client and transactional volumes.

Interest income increased 26% as a result of the widening of margins, the positive endowment impact on deposits and strong growth in both deposits and advances.

Non interest income grew 19%, driven mainly by 7% growth in transactions per account, increased card transaction volumes resulting from the focus on card transactional and revolving clients, growth in transactional income in FNB HomeLoans and an increase in the active account base of 5%.

Advances for the year grew 22% to R114 billion (2006: R94 billion), however, growth slowed from the 31% reported for first half of the financial year, reflecting the reduced demand for retail credit. The bad debt charge increased 78% to 0.94% of gross average advances, resulting from an increase in both arrears and NPLs. NPLs as a percentage of gross advances increased to 2.34% from 1.37%.

Deposits increased 16% to R52 billion. This is attributable to the higher interest rate environment attracting investment capital and an increase in both the transactional banking, as well as savings and investment products. FNB's strategy to grow savings and investment accounts through innovative products such as the Million-a-Month-account ("MAMA") and Re-Start Fixed Deposit, and through reducing the entry levels to R100 for investment accounts, contributed to the growth. Margins increased mainly due to the move to short term deposits as well as the endowment benefit in the higher interest rate environment. FNB has been granted leave to appeal the MAMA judgement in the Supreme Court of Appeal.

Growth in operational expenses reduced to 11% (from 16% in the first six months). This was achieved through a strong focus on efficiencies despite continued investment in future growth

FNB HomeLoans grew profit before tax 52% from R551 million to R840 million

initiatives such as the start up costs associated with the "white label" cooperation agreements (predominantly within Card (Issuing), Personal Loans and HomeLoans) and expenditure on additional operational capacity to cater for increased transactional volumes.

Personal Loans (including Student Loans) increased advances 45%, due mainly to new business growth of 55% and a positive impact from the Edcon cooperation agreement. This positive performance was partly offset by an increase in the bad debt charge which, in line with expectations, increased from 2.7% to 4.0% of gross average advances, and the margin squeeze experienced prior to the lifting of the Usury Act ceiling in March.

First Link, a short term insurance broker, performed well and continues to add a range of value added services to FNB's customers, particularly in the Premier and Wealth segments. Revenue and operating profit grew 12% and 25% respectively in an increasingly competitive and regulatory environment.

The eBucks rewards programme continued to perform well as a strategy to acquire and retain customers and has, since inception, awarded eBucks amounting to R885 million (over R200 million in the current year) to its members. In a recent survey by Razor Edge Business Intelligence, eBucks won the award for the "Most Valuable Retail Rewards Programme".

FNB HomeLoans

FNB HomeLoans grew profit before tax 52% from R551 million to R840 million. This was driven by both volume growth in profitable new business, increased margins due to rising interest rates and a deliberate focus on ROE. In addition, non interest revenue grew 68%, underpinned by good transactional volume growth, particularly from the One Account. Operating costs increased only 3%, as a result of better operational leverage.

Gross advances increased 21% to R98 billion, driven largely by sales growth and increases in property values. New business market share decreased to 16% from 21% due to the focus on generating new business with an appropriate ROE. As expected, the higher interest rate environment had a negative impact on bad debts with credit impairment charges increasing 63% to 0.28% of gross average advances. This is directly related to the increases in arrears and NPLs, albeit off a low base. A focus on preserving the credit quality of new business, despite the rising interest rate environment, is expected to have a positive impact going forward.

Card (Issuing)

Card continued to show strong balance sheet growth for the year under review with advances growing 30% to R12 billion. Non interest income increased 19%, reflecting the increase in transactional volumes. Pre tax profit, however, reduced significantly to R156 million compared to R380 million in the previous year.

This reduction in profitability was as a result of three issues. Firstly, bad debts increased 85% to 5.44% of gross average advances while NPLs increased to 7.99% of gross advances primarily as a result of the increased interest rate environment and exceptional asset growth in the prior year.

Significant effort was made by the collections department to maximise recoveries, improve customer paying patterns and rate limit interventions which have helped in maintaining the arrear levels. Card has also tightened credit granting criteria in the current year, primarily as a result of increasing consumer over indebtedness and in anticipation of the NCA affordability test which was implemented from 1 June 2007. As a result FNB has lost market share measured in terms of advances, although transactional market share was maintained.

Secondly, Card was unable, until March 2007, to reprice in line with the interest rate increases due to the Usury Act ceiling, while the cost of funds increased. This resulted in interest margins being squeezed.

Thirdly, the launch of cooperation agreements with Clicks, Kulula and Vodacom has incurred setup and operational costs, which will only be recovered in the medium to long term.

Wealth Segment

RMB Private Bank
FNB Private Clients
FNB Trust Services
Senior Suites

The Wealth segment's profit before tax increased 59% to R161 million, driven mainly by the strong performance of RMB Private Bank, which grew profit before tax 38% to R167 million. In addition, FNB Trust Services (including Senior Suites) grew profits 41% to R41 million and the start up losses in FNB Private Clients decreased 4% to R47 million.

Assets under management increased 45% to R26 billion, largely due to net new business inflows, growth in the equity market and investment selection. The strong increase in total advances of 32% to R21 billion resulted from customer growth, largely in FNB Private Clients, and the increase in the value of properties. Deposit growth of 42% to R5 billion resulted from the inflows of funds in the portfolio management divisions. These contributed to interest income and non interest revenue increasing 41% and 32% respectively.

Operating expenditure increased 31% for the segment, largely due to the continued investment in FNB Private Clients, coupled with increased variable costs. FNB Private Clients has tripled its advances since June 2006 to R2.6 billion with assets under management more than doubling to R2.5 billion. This is expected to contribute to the segment's profitability in the medium to long term.

Commercial Segment

SMMEs, Business and Mid Corporate overdraft and transactional products
Investment products
Agricultural products
BEE finance
Commercial property finance
Debtor finance
FNB Leveraged finance
BEE funding, franchises, tourism and start ups

FNB Commercial is the provider of financial solutions including working capital solutions, structured finance, investment products, transactional banking, international banking and term loans to the Mid Corporate, Business, SMMEs and Agricultural sub segments.

The Commercial segment had a particularly strong year with interest income and non interest income increasing 28% and 17% respectively. Although total costs increased 13% the segment delivered an excellent 34% increase in profit before tax.

Deposits grew 19% due to strong consumer demand impacting retail sales, resulting in increased cash balances of commercial entities.

Advances increased 21% due primarily to Commercial Property Finance loans increasing 44% from a low base as FNB Commercial continued to add market share in a buoyant property market, and Agriculture term loans increasing 21% as a result of increased focus. Debtor Finance grew its book 29% as a result of a renewed product focus. Business advances increased 20% due to improved efficiency in the credit approval process.

Interest income increased as a result of strong deposit and advances growth as well as improved deposit margins, given the endowment impact due to the increase in interest rates.

The growth was impacted, to an extent, by an increased bad debt charge due to the current credit environment. The bad debt charge more than doubled in the current year, increasing from 0.27% to 0.60% of gross average advances. This increase, however, is off an abnormally low base in the prior year and will continue to normalise. Overall, the segment is still experiencing good credit quality and NPLs as a % of gross advances improved from 2.45% at June 2006 to 2.11% at June 2007, mainly as a result of new client growth in the advances book.

The Commercial segment experienced strong transactional volumes growth in 2007. Non interest income increased 17%, driven by 14% growth in the active transacting Commercial account base. Furthermore, Electronic delivery channels and Speedpoint revenue increased 27% and 37% respectively. International Banking's non interest income showed a growth of 15% year on year, mainly due to the increase in dealing revenue as a result of increased volumes and turnover, despite suppressed margins and reduced market volatility.

Increased costs were as a result of increased variable costs associated with the transaction volume growth and balance sheet growth coupled with the increased costs associated with the new initiatives such as Franchises, Start ups and Tourism.

Collaborations with other FirstRand Group business units continued successfully with WesBank advances in this segment growing 35%.

Corporate Transactional Banking Segment

Corporate current account services and associated working capital solutions
Speedpoint (Card acquiring)
Bulk cash
Electronic banking (FNB Online)
International Banking
Private label cards

The Corporate segment provides transactional banking, working capital solutions and other services to large corporate, financial institution and state owned enterprises in terms of Schedule 2 of the PFMA Act.

Profit before tax grew 30% with interest income and non interest income growing 25% and 9% respectively. Operating expenditure growth was contained at 6%, attributed to a focus on operational efficiencies throughout the business and achieved despite significant investment in infrastructure. This investment included the convergence of "Internet Banking" and "Business Internet Solutions" onto a single platform in Online Banking, an increase in the number of Speedpoint devices (22%) and the opening of two new Cash centres.

NPLs as a % of advances improved to 0.87% from 1.66%. (excluding the gross up, the ratio improved to 5.36% from 16.73%). NPLs decreased considerably in the current year largely due to the repayment of certain corporate exposures and provisions being released together with certain old exposures being written off. The absolute bad debt charge is still relatively low at R10 million.

Deposit volumes grew 2%. Excluding the grossing up impact, the growth is 25%, which is largely indicative of the favourable economic environment benefiting the corporate sector. However, margins are continually under pressure and are being squeezed, notably in the Financial Institution sector, which is characterised by thinner margins and repricing of clients.

Advances reflect a reduction of 16% largely due to the volatility of gross up cash management balances. Excluding the impact of this, the growth amounted to 38% to R3.4 billion, largely due to increased working capital requirements in the corporate sector.

Non interest income growth was positively impacted by the increased usage of electronic channels by customers. Electronic banking and Speedpoint grew transactional volumes 26% and 31% respectively which resulted in non interest income growth of 14% and 38% respectively in those businesses. International Banking business growth was curbed by reduced Rand volatility and a product mix change to open account trading. Volumes in the Cash business increased 35% mainly from increased client activity, increased footprint and new customers.

KEY NON FINANCIAL OPPORTUNITIES AND RISKS

It is vital that non financial opportunities and risks that could have a material impact on operations are managed. The risks that have been prioritised along with a description of the actions taken are detailed in the table below:

ISSUE	MANAGEMENT ACTION
Sustaining and improving on our Financial Sector Charter ("FSC") Employment Equity ("EE") performance	Good progress has been made in meeting FSC targets. Executive attention is now focused on sustaining the EE performance, specifically in senior management. There is engagement with staff to identify the root causes of attrition, and to determine how to manage talent more effectively, with a special focus on African Coloured Indian ("ACI") staff.
Management and financial skills shortages at senior management levels persist, especially in the African Coloured Indian ("ACI") category	Skills shortage remains a national consideration. Internally FNB has taken a long term view by developing people e.g. through the graduate recruitment programme. However, efforts need to be coordinated across the Group. A success pipeline should be created, identifying high potential middle management skills, including ACI skills, to increase the senior management base. Through the Corporate Social Investment programme, obligation free tertiary bursaries are provided for Commerce students, as well as increasing investment in primary school mathematics education.
Moving to a more responsible environmental position	Identifying how FNB can support responsible environmental behaviour using products and solutions. While FNB is still determining how to leverage business opportunities, there is a focus on responsibly managing the direct impact for a number of years, and aim to achieve ISO14001 certification for a number of company buildings this year.
Increasing support for, and sustainability of, small business through enterprise development	Small business has historically been supported by FNB's commercial business and increased support for enterprise development is now a focus. To cement relationships with current customers and support potential emerging business, a variety of mentoring, support and related services are offered. Mentoring and support also improves the risk profile of customers. A steering committee comprising of both operational and support functions to identify how to increase activities in this regard has been convened.

Mike Pfaff
CEO: Rand Merchant Bank

RMB took advantage of the strong corporate and investment banking conditions to deliver 81% year on year growth in pre tax earnings to 30 June 2007, with exceptional performances delivered across RMB's entire portfolio of businesses.

RAND MERCHANT BANK
A division of FirstRand Bank Limited

R million	Year ended 30 June 2007	2006	% change
Income before indirect tax	5 396	2 994	80
Indirect tax	(53)	(34)	56
Income before tax	5 343	2 960	81
Total assets	198 929	164 651	21
Cost to income ratio (%)	42.0	38.5	
Income before direct tax (before restructuring)	4 916	2 575	91
Transfer in BGT & RMB Properties	427	385	11
Income before tax (post restructuring)	5 343	2 960	81

ENVIRONMENT AND FINANCIAL PERFORMANCE

A number of factors combined to create extremely positive market conditions for investment banking in the 2007 financial year.

Locally, the equity market delivered a strongly upward directional movement with good volumes, while there was increased volatility in interest rates and currency markets. The economy remained buoyant as increased capital expenditure and infrastructure development contributed to strong growth in the corporate sector. There was good deal flow across many key sectors and a number of landmark deals were concluded in the period such as Gautrain and Exxaro. The Private Equity market remained favourable for both realisation and investment opportunities.

Internationally, there were very good gains across most developed and emerging markets while global credit spreads hit historic lows. Strong commodity markets continued to drive prices higher, particularly in the energy sector.

RMB took advantage of the strong corporate and investment banking conditions to deliver 81% year on year growth in pre tax earnings to 30 June 2007, with exceptional performances delivered across RMB's entire portfolio of businesses.

Three business units, Equities Trading, Private Equity and Investment Banking, delivered profits in excess of R1.25 billion each, with the Equity Trading and Offshore Divisions showing particularly strong growth.

Operational expenditure increased during the year and was mainly due to continued investment in people and RMB's operational platform and infrastructure

Staff numbers increased approximately 25% in the year, primarily to support the significant growth in business unit activities. The strong growth in top line performance resulted in a commensurate increase in the variable revenue related component of the cost base.

CHANGE OF STRUCTURE

During the financial year RMB restructured some of its business activities. The Investment Banking Division was formed after combining the major client focussed activities of Project Finance, Corporate Finance and Structured Finance. RMB Properties was also transferred into the Investment Banking Division. All the Debt Capital Market origination, structuring, trading and distribution activities of Treasury Trading (now FiCC) and Investment Banking teams were also combined to be jointly run by both divisions.

The hard and soft commodity trading activities were moved to Treasury Trading as were some Banking Group Treasury (BGT) businesses, Rand Account Services, Custody and Forex Customer Dealing. This unit has now been renamed Fixed Income, Currency and Commodities Trading (FiCC).

The results and comparatives are restated in the table below.

Divisional analysis of net profit

	Year ended 30 June		
R million	2007	2006	% change
Private Equity	1 352	825	64
Equity Trading	1 429	435	>100
Investment Banking	1 271	826	54
Fixed Income and Commodities	754	597	26
Other	537	277	94
	5 343	2 960	81

PRIVATE EQUITY

The Private Equity division performed well during the year delivering 64% growth in net income before tax.

Realisations amounted to R812 million of which Alstom was the significant single contributor. In addition, very strong equity accounted earnings of R1 009 million was recorded as a result of good underlying growth in the portfolio, mainly driven by the buoyant economy and new investments over the last two years.

Over R1 billion of new investments were made in the current financial year as the market still provided opportunities for investment at attractive prices, particularly in the Black Economic Empowerment space. The unrealised profit in the Private Equity portfolio doubled to R2 billion.

EQUITY TRADING

The Equity Trading division was the largest contributor to RMB's growth, delivering R1.43 billion of net profit before tax.

The most significant driver of this performance was the Proprietary Trading activities which capitalised on extremely favourable local and international conditions. The equity arbitrage ("ILCA") team, in their second full year operating out of the UK, delivered excellent gains on a number of successful trading strategies.

The agency business benefited from strong volumes in local equity markets and the Morgan Stanley JV's contribution was above expectations in its first full year of operation.

INVESTMENT BANKING

Very strong local economic conditions contributed to the Investment Banking division's year on year profit growth of 54% with all business areas contributing to the overall performance.

Corporate Finance benefited from excellent deal flow on the back of continued BEE activity and strong public to private deal activity. The buoyant commodity sector generated favourable resource finance opportunities, and notably, RMB won the Banker's Africa Deal of the Year Award for the Exxaro deal, which resulted in the formation of the largest BEE company in South Africa.

Property Finance produced very good growth in 2007 and the Preference Share team continued to capitalise on the strong demand for preference share funding. The Infrastructure team concluded a number of new deals both locally and in Africa, in addition to successfully partnering with government on the Gautrain, the largest ever public-private-partnership (PPP).

FIXED INCOME, CURRENCY AND COMMODITY TRADING ("FICC")

These trading businesses grew profits 26% as volatility and direction returned to the domestic interest rate and currency markets. Good client flow and active bond markets benefited the market makers.

The profits on client focused activities grew 40%, driven largely by the inflation and structuring businesses. The De Beers Pension Fund and Kumba (Exxaro) transactions were particularly notable in the year. The commodities business delivered in excess of 100% growth on the back of a very strong soft commodity market. The agency businesses benefited from increased client activities and strong equity markets.

OTHER

The offshore resources business comprises private equity and financing activities in the resources sector outside of South Africa, and the energy trading business of Nufcor. Nufcor produced excellent growth on the back of the extremely strong global energy prices whilst the resources team concluded a number of profitable realisations during the financial year.

PROSPECTS

In the coming financial year RMB will maintain its focus on providing clients with product excellence and innovative multi-disciplinary solutions. RMB remains well positioned in key growth areas such as infrastructure finance, asset backed, acquisitions ("LBOs"), BEE and increased corporate borrowing in general. Its ability to provide integrated advisory, finance, execution and investment offerings for clients remains a key competitive advantage.

RMB will continue to build its international and local debt and equity capital market distribution capabilities, through partnering with international banks such as Morgan Stanley, on research and international distribution, and expanding its significant product and trading expertise.

In line with international trends there will be a continued focus on principal investment activities where RMB can best leverage its intellectual capital and risk appetite.

KEY NON FINANCIAL OPPORTUNITIES AND RISKS

"Our growth over the past 30 years has been remarkable, and could never have been achieved without us living and practicing sustainability in our business. As this report shows, we continue to abide by these principles in all areas of our business – from ethics and best practice to nurturing talent and embracing transformation" – Michael Pfaff, CEO.

The most important non financial risk facing our business is the attraction and retention of the best talent in the industry, as these individuals give competitive advantage. The second non financial risk is delivering a stable operating and technology platform to run the business successfully. Other non financial risks are also addressed in the report.

Below are the non financial risk issues and the management action taken to manage them.

ISSUE	MANAGEMENT ACTION
Attracting and retaining talent	An ongoing programme to attract and retain talent has been initiated.
Diversity	Aligning employee complement with the demographics of South Africa remains a priority, with a particular focus on recruiting more black candidates into specialist transactor and management levels.
Stable operating and technology platform	RMB is focusing on the delivery of the Operational Transformation Initiative which will provide a stable operating and technology platform for running the business, as a matter of significant strategic importance. RMB has recently appointed a Chief Operating Officer, Business Technology Director and Transformation Director to ensure sufficient oversight and support from the executive.

Brian Riley
CEO: WesBank

WesBank's performance is as expected at this point in the cycle.

WesBank
A division of FirstRand Bank Ltd.

R million	2007	2006	% change
	Year ended 30 June		
Income before indirect tax	1 481	1 559	(5)
Indirect tax	(111)	(94)	18
Income before tax	1 370	1 465	(6)
Advances WesBank Consolidated	98 434	79 604	24
Cost to income ratio (%) WesBank Consolidated	53.4	48.9	
Cost to income ratio (%) WesBank South Africa	43.3	46.1	
Non performing loans (%)	1.7	1.2	

ENVIRONMENT

For a number of consecutive years, the motor sector has experienced very strong growth, which is now moderating, specifically in the latter half of the current year. Overall growth was largely in the corporate and commercial sectors as the retail sector experienced a more challenging economic environment due to higher interest rates and increased levels of consumer indebtedness as evidenced by the increase in household debt to disposable income levels moving to over 70%. Gross domestic fixed investment and infrastructure development is providing the stimulus for higher capital investment levels in the corporate market, which remains highly competitive with pricing pressures playing a major role.

PERFORMANCE

WesBank's overall profitability was impacted by increased losses in its international operations, although the local operations maintained similar profit levels to the first six months of the year. Overall income declined 6% to R1.37 billion, with the core local finance operation increasing net income 5%.

The table below represents the relative contributions from local and international operations.

Divisional analysis of net income

R million	2007	2006	% change
	Year ended 30 June		
SA operations	1 519	1 451	5
International operations	(149)	14	(>100)
Total	1 370	1 465	(6)

South African operations

WesBank's local lending operations are sensitive to changes in the consumer credit cycle and therefore the performance is as expected at this point in the cycle. Local operations showed net income before tax of R1.519 billion, a year on year increase of 5%. This low growth level reflected the sharp increase in provisioning levels brought about by higher interest rates and the lower levels of consumer affordability. These factors reduced new business levels in the retail sector and resulted in bad debts increasing 74% year on year.

Total new business written was R50.8 billion, an increase of 1%. Retail sales from the Motor division comprised 67% of this new business and showed a small year on year decline in production levels for the reasons stated above. Corporate new business comprised 28% of total production and the growth in corporate sales reflects the upward momentum in the sector, as capital expenditure and infrastructure development increases. The balance of the new business relates to the personal loan business, which also showed slower growth levels due to the affordability constraints in the consumer sector. Gross

Strong growth is expected in the corporate sector in the coming year, **which should benefit WesBank's corporate lending businesses**

advances consequently grew R18.8 billion to R98.4 billion, an increase of 24% on the prior period.

Competitive forces on pricing, combined with the increased cost of longer term funding of the fixed rate advances book, continued to impact margins resulting in a six basis point decline in the South African operations during the period.

The charge for bad debts, as a percentage of advances, was 1.39% compared to 0.89% in the comparative period. This is a direct result of higher levels of customer indebtedness and the 2.5% increase in the prime rate experienced from June 2006 to June 2007. Portfolio impairments also increased as a result of impairments created for the impact of the National Credit Act. Non performing loans increased to 1.7% from 1.2% of advances. Arrear levels have recently shown some improvement due to intensified collections activities and as a result of the tightening of the credit scorecard at various intervals over the course of the last 16 months. Repossessions have also started to reduce off recent highs.

Within the lending business, non interest income grew 21% year on year. This strong growth was driven by insurance revenues and WesBank's Fleet business. Non interest expenses grew 13% year on year. Cost to income and cost to asset ratios in the business improved from 46% and 2.5% to 43% and 2.3% respectively, highlighting the improved efficiency levels in the operation. Finalisation of the migration onto the new debtors' system and related improvements should ensure further efficiency benefits going forward.

Over a number of years, WesBank has developed a number of non lending businesses that are complementary to its core business, providing related services and products to retail and corporate customers. The key operations include Direct Axis (the entity responsible for marketing to the WesBank and other personal loans books), WorldMark (the business selling a wide variety of car care and related products to consumers), Norman Bissett & Associates (the third party external collections operation) and Mobile Data (the vehicle tracking operation recently merged into the consolidated Tracker business).

International operations

WesBank's International operations include Motor One Finance (the retail finance operation in Australia), WorldMark (the car care product business in Australia) and Carlyle Finance (the retail and business finance operation in the UK). These operations remain in an investment phase and as a result operating losses totalled R149 million for the period under review. These losses are expected to reduce in the coming financial year.

New business in the international operations totalled R3.7 billion and comprised R1.6 billion in Australia and R2.1 billion in the UK. This compares to R0.7 billion in the prior year, which reflected only production from the Australian operation. Advances totalled R6.2 billion, and comprised R2.5 billion in Australia and R3.7 billion in the UK. Motor One Finance is a greenfields operation and is in the process of building scale, whereas Carlyle Finance is an existing finance operation, which requires some operational restructuring and investment to return the business to an appropriate level of profitability. Conditions in both markets remain challenging, however, profitability is forecast within a two year time frame.

OPERATIONAL HIGHLIGHTS

WesBank established new and strengthened existing partnerships in both the retail motor and corporate markets. This partnership strategy continues to underpin the point of sale service offering to customers.

With increased arrear levels being experienced, the collections process and activities received major focus during the year, as well as the acquisition and credit granting processes. Although provisions have shown sharp increases year on year, the resulting customer profile is of a higher quality following a number of scorecard adjustments which tightened credit approvals.

WesBank's securitisation programme, Nitro, continued in the current year with the issuance of two further tranches of R5 billion each, which were successfully placed in the local and international debt capital markets. The securitisation programme is expected to continue in the new financial year.

WesBank's Mobile Data telematics business and the Tracker vehicle recovery operation merged to create a unique company offering the full spectrum of products across the vehicle tracking and recovery industry. As the effective date of the merger was June 2007, the benefits are expected to accrue in the new financial year.

PROSPECTS

As WesBank diversifies its income streams, a change in business and earnings mix is anticipated. Strong growth is expected in the corporate sector in the coming year, which should benefit WesBank's corporate lending businesses which currently comprise 27% of its advances book. A greater contribution is also expected from the non lending and associate operations going forward.

International expansion is a key component of WesBank's medium term growth strategy and meaningful progress is being made in the international operations with the United Kingdom and Australia obtaining critical mass. Other opportunities in certain favourable markets continue to be assessed.

KEY NON FINANCIAL OPPORTUNITIES AND RISKS

It is vital that non financial opportunities and risks that could have a material impact on operations are managed. The risks that have been prioritised along with a description of the actions taken are detailed in the table below:

ISSUE	MANAGEMENT ACTION
Meeting Financial Sector Charter targets specifically Employment Equity	A number of programmes focusing on recruiting suitable candidates into the front line and other areas of the business.
Impact of shift in legislative environment for credit (National Credit Act, Consumer Protection Bill, etc)	Cooperating with auto and financial sectors to engage on key issues relating to access to credit.
Power outages	An energy saving initiative campaign was launched with best practices and awareness communicated to all staff.
HIV/AIDS	Staff wellness programme in place and comprehensive awareness communication to all staff.
Long term environmental impact of emissions from cars	Promoting idea of environmentally friendly car of the year with motor industry, and awareness campaigns, for example, through our partners in Motorsport with the WesBank Super Series.
Avian flu	Pandemic BCP Plans have been documented to address the risk.
Customer service and satisfaction	Customer satisfaction index is in place to measure service levels. Complaints are addressed at CEO and business unit level.

Theunie Lategan
CEO: FirstRand Africa and Emerging Markets

In line with FirstRand's stated intent to be a strong regional player in Southern Africa, expansion opportunities in various countries continue to be actively pursued.

FIRSTRAND

FirstRand Africa and Emerging Markets ("FRAEM") comprise the FNB Africa subsidiaries (Botswana, Lesotho, Namibia and Swaziland) as well as a division acting as the strategic enabler, facilitator and coordinator for international expansion undertaken by the FirstRand business unit.

FNB AFRICA

	Year ended 30 June		
R million	**2007**	2006	% change
Income before indirect tax	**945**	761	24
Indirect tax	**(18)**	(17)	6
Income before tax	**927**	744	25
Attributable earnings	**693**	551	26
Advances	**13 492**	12 216	10
Deposits	**17 409**	16 299	7
Cost to income ratio (%)	**43.8**	45.2	
Non performing loans (%)	**2.9**	2.9	

Geographic contribution – income before tax

	Year ended 30 June		
	2007	2006	% change
FNB Botswana (Pula million)	***367***	*298*	*23*
FNB Botswana (R million)	**428**	348	23
FNB Namibia (R million)	**435**	359	21
FNB Swaziland (R million)	**62**	39	59
FNB Lesotho (R million)	**2**	(2)	>100
Total (R million)	**927**	744	25

ENVIRONMENT

The interest rate environment of Namibia, Swaziland and Lesotho closely mirrored that of South Africa. Botswana in the past has experienced higher inflation and higher interest rates, however, inflation moved down during the year from a high of 12.3% to the current 6.4%, which is within the target range of 4% – 7%. The weighted Pula/Rand average conversion rate remained fairly static at 1.16 during the period under review. Interest rates in Botswana reduced 0.5% towards the end of the financial year, due to the decline in inflation and stable exchange rates.

Botswana and Namibia experienced relatively strong GDP growth (between 4.0% and 4.5%) while Swaziland and Lesotho's GDP growth remained stable (between 1.0% and 1.5%).

PERFORMANCE

FNB Africa Consolidated

Net income before tax increased 25% year on year to R927 million on the back of strong transactional volume growth, improved efficiencies across the portfolio and modest balance sheet growth.

Net interest income increased 21% due to widening margins in a higher interest rate environment and an increase in gross advances of 10% to R13 492 million and deposits of 7% to R17 409 million. Overall, the portfolio's ratio of non performing loans to average gross advances was still acceptable at 3%. Appropriate Capital Management Frameworks were implemented in all subsidiaries and this resulted in an improvement on return on equity from 28% to 33%.

Operating expenses grew 20% due to the launching of new products, such as cell phone banking, opening of new branches and the resultant increase in key staff. This investment in infrastructure and resources was offset by positive growth in non interest income of 23%. With income growing faster than expenditure, the cost to income ratio continued to improve from 45% to 44%.

FNB Botswana

Net income before tax increased 23% to P367 million for the year driven by a strong increase in non interest revenue of 24% as a result of increased transactional volumes, new product launches and the opening of new branches during the year. The cost to income ratio remained flat at an industry low of 34% with return on equity improving slightly to 44%.

Total assets increased 15% year on year. This growth rate in total assets was primarily driven by advances growth of 12%.

FNB Namibia

FNB Namibia maintained its dominant market share in most product categories with an overall market share in excess of 30%.

Net income before tax increased by 21% to N$435 million as a result of robust transactional volumes, widening margins, ongoing efficiencies and new revenue sources flowing from the Swabou brand. As a result of this, the cost to income ratio reduced from 51% to 49%. Net advances increased 10% for the year to N$8 726 million and deposits increased 7% to N$8 482 million. Initiatives aimed at improving the composition of the balance sheet resulted in return on equity improving from 21% to 24%.

FNB Swaziland

Net income before tax increased 59% year on year to E62 million. This positive result can be attributed to improved efficiencies flowing from the previous year's restructure, and the focus on new business resulting in increased transactional volumes. As a result, the cost to income ratio improved from 61% to 50%. Net advances increased 10% to E752 million and deposits increased 14% to E962 million. Swaziland's balance sheet optimisation resulted in an increase in return on equity from 21% to 34%.

FNB Lesotho

FNB Lesotho performed well above expectation with a net profit before tax of M2 million for the year compared to a loss of M2 million in the prior year. Lesotho has reached a sustainable level of profitability, well ahead of its original business plan.

INTERNATIONAL INITIATIVES

In line with FirstRand's stated intent to be a strong regional player in Southern Africa, expansion opportunities in various Southern African countries continue to be actively pursued. Since the year end FNB has acquired 80% of Banco de Desenvolvimento e Comércio ("BDC") in Mozambique. BDC, will be rebranded FNB Moçambique. The Bank has a staff complement of 70 and operates four branches in Maputo. FNB will focus on aligning Mozambique with existing FNB processes, introduce new products and bolster management resources.

FNB views Mozambique as a growth economy and is well positioned with this acquisition to take advantage of the future economic growth in this country.

Other African territories, mainly Angola, Nigeria and Zambia, and other emerging markets such as Brazil and India have also been identified as potential countries for expansion. Resources have been deployed to some of these countries to develop entry strategies.

Approvals for representative offices in Dubai and Shanghai were granted by the necessary regulatory authorities. In Dubai, the Group is particularly interested in pursuing opportunities in trade finance, treasury, commodity and project finance and the office will act as a relationship channel for all the Group's businesses looking to operate in the Middle East, Indian sub continent and North Africa. The Shanghai office will focus predominantly on trade finance and general correspondent banking activities.

KEY NON FINANCIAL OPPORTUNITIES AND RISKS

It is vital that non financial opportunities and risks that could have a material impact on operations are managed. The risks that have been prioritised along with a description of the actions taken are detailed in the table below:

ISSUE	MANAGEMENT ACTION
Economy	Management is constantly reviewing economic trends and is positioning the operations appropriately.
Competition	Competition is increasing and the focus is on service, new products and distribution channels to meet market needs.
Governance	In line with legal and regulatory requirements and increasing governance requirements, greater emphasis is being placed on the appropriate management and committee structures.
Technology	Technology is changing rapidly and this remains a priority to ensure efficient delivery of products and services.
Expansion opportunities	These opportunities will continue to be initiated.

Willem Roos
CEO: OUTsurance

OUTsurance continues to produce good returns for shareholders.

SURANCE

	Year ended 30 June		
R million	2007	2006	% change
Gross premiums	2 959	2 341	26
Operating profit	587	451	30
Profit after tax	495	384	29
Expense/cost to income ratio (%)	15.0	16.4	(9)
Claims and OUTbonus ratio (%)	58.8	58.3	1

The FirstRand Banking Group, through FirstRand Bank Holdings, owns 47% of OUTsurance, South Africa's leading direct short term insurance company.

ENVIRONMENT

During 2006 and 2007, the underwriting margins of the short term insurance industry reduced from the highs experienced during 2004 and 2005 to more normal levels. Against this background, OUTsurance maintained its underwriting margin during the past financial year.

MAIN FOCUS AREAS IN 2007

OUTsurance's main focus continues to be on its core personal lines business. Incremental innovation and improvement in all areas enabled OUTsurance to continue to deliver exceptional service and value for money to clients, together with producing good returns for shareholders.

Business OUTsurance performed very strongly during the year growing premium income 72% and reaching acceptable levels of profitability.

Within the context of FirstRand Limited's longer term international objectives, OUTsurance established a greenfields operation in Australia during the latter part of the financial year.

PERFORMANCE

The increase in operating profit of 30% was driven by growth in premium income together with a lower management expense ratio. Premium growth was principally due to growth in client numbers, as premium increases were contained in line with inflation.

Expenses, as a percentage of net premium revenue, decreased from 18% to 16%. Improved productivity and lower acquisition costs were the main contributing factors.

The claims ratio of 58.8% (including OUTbonus costs) was 0.5 percentage points higher than the previous year. The slight increase was mainly due to weather related claims. During 2006/2007, normal wet weather conditions prevailed, compared to the unusually clement conditions in the prior period.

During the same period the short term insurance industry as a whole registered significantly higher claims ratios, as the underwriting cycle turned downwards. Against this background, OUTsurance maintained its profit margin, confirming the competitiveness of its low cost direct business model and scientific rating approach.

Profits after tax for the year increased 29% with the slightly lower increase compared to operating profits due to lower investment income on capital. Careful capital management resulted in a capital base proportionally smaller than the comparative period. This led to slightly reduced investment income, although the rate earned on these cash like investments increased due to higher prevailing interest rates.

AREAS OF FOCUS FOR 2008

- Continued focus on maintaining strong organic growth and increasing operational productivity in Personal OUTsurance;
- Further increasing new business flows in Business OUTsurance by expanding the product range;
- Investigating the possibility of selling other financial services products under the OUTsurance brand; and
- Building the required infrastructure and obtaining the requisite regulatory approvals for OUTsurance Australia to be able to start trading.

INITIATIVES

Part of the OUTsurance vision is to contribute to making South Africa a safer place. OUTsurance and Radio 702 cooperate with the Johannesburg Metro Police by sponsoring 22 fixed and 10 mobile pointsmen. These pointsmen assist with traffic flows at busy intersections.

KEY NON FINANCIAL OPPORTUNITIES AND RISKS

It is vital that non financial opportunities and risks that could have a material impact on operations are managed. The risks that have been prioritised along with a description of the actions taken are detailed in the table below:

ISSUE	MANAGEMENT ACTION
Reputation for good customer service and value for money	OUTsurance is committed to providing clients with exceptional service through the call centre operation, whether in relation to sales, client care and claims. Detailed information is available to monitor all aspects of service delivery. The company aims to ensure that clients are consistently offered innovative and value for money products that suit their individual needs.
Reputation for claims payments	OUTsurance is proud of its claims payment reputation and ensures that valid claims are paid promptly. Any claim disputes are monitored closely via internal escalation processes as well as with the offices of the relevant Ombuds.
Regulatory issues including FAIS and FSC	OUTsurance understands the changing face of the business landscape and society and as such, changes in the regulatory environment are embraced and compliance with the requirements of appropriate legislation, which includes FAIS (Financial Advisory and Intermediary Services Act), Employment Equity and Skills Development is ensured.

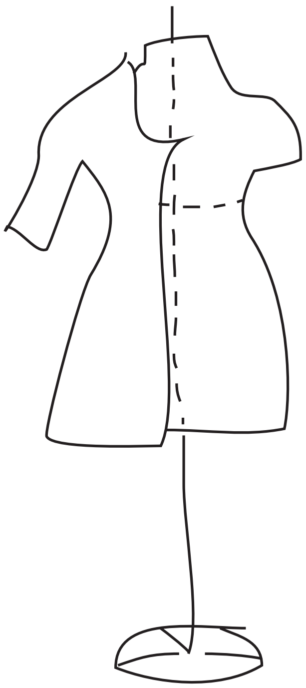
FIRSTRAND SHORT TERM INSURANCE HOLDINGS ("FRSTIH")

	Year ended 30 June		
R million	2007	2006	% change
Banking Group attributable income before tax	310	251	24

FRSTIH, a joint venture with Momentum, houses the Banking Group's short term insurance interests, including OUTsurance and Momentum Short-Term Insurance ("Momentum STI").

PERFORMANCE

FRSTIH registered a good performance for the past financial year with both OUTsurance and Momentum STI showing strong growth in turnover. Premium income increased 26% to R3 billion. Attributable profits grew at a slower pace due to start up losses incurred in Momentum STI.



product innovation

Momentum continued to benefit from strong new business growth in its insurance operations.

momentum

EB Nieuwoudt CEO Momentum Group

EB Nieuwoudt / 45 /
MCom
CEO: Momentum Group

Danie Botes / 43 /
BCompt (Hons)
CEO: Momentum Service and Health

Johan Burger / 48 /
BCom (Hons), CA(SA)
CFO: FirstRand

Derek Carstens / 57 /
BEcon (Hons), MA (Cantab)
Director of Brands: FirstRand

Nigel Dunkley / 41 /
CA(SA), Adv Tax Cert, AMP (Oxford)
CEO: Corporate Advisory Services

Paul Harris / 57 /
MCom
CEO: FirstRand

Nicolaas Kruger / 39 /
BCom, FFA, FASSA
CFO: Momentum Group

Johann le Roux / 40 /
BSc (Hons), MBA, FFA
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Asokan Naidu / 46 /
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CEO: Joint Ventures

Kobus Sieberhagen / 48 /
BA Admission, Psychology (Hons), MA: Clinical Psychology, DPhil
CEO: Momentum Sales

Morris Mthombeni / 33 /
B Juris, B Proc, LLB (Unisa), MBA
CEO: Momentum Group Business

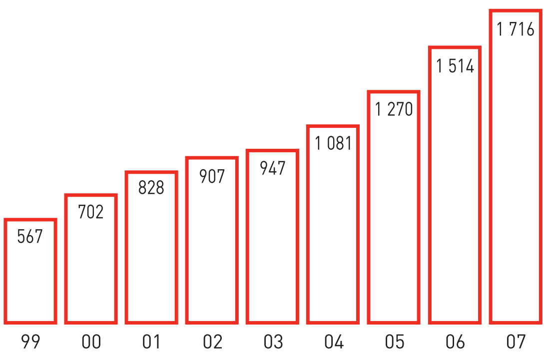
Riaan van Dyk / 41 /
BSc, FFA, ASA
CEO: Momentum Wealth

Ferdi van Heerden / 44 /
BSc (Hons), AMP
International Strategy

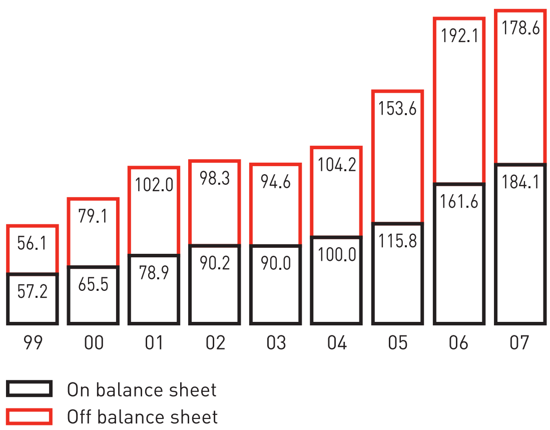
Louis van der Merwe / 43 /
BSc (Hons), AMP
CEO: RMB Asset Management

R million	2007	2006	% change
	Year ended 30 June		
Normalised earnings	**1 716**	1 514	13
Return on equity (%)	**25.3**	24.1	
Return on embedded value (%)	**28**	31	
Momentum insurance new business	**23 100**	19 571	18
Value of new business	**518**	434	19

Normalised earnings
(R million)
CAGR: 14.8%



Assets under management or administration
(R billion)
CAGR: 15.7%



Momentum is an intermediary focused company that differentiates itself from its competitors through responsible product innovation and service excellence.

OVERVIEW OF RESULTS

The strong growth in equity markets experienced during the first six months of the year continued in the second half, with the JSE ALSI 40 Index increasing 31% for the year. The positive impact of the buoyant equity markets on asset based fees was partly offset by the continued investment in growth and diversification initiatives.

The Momentum Group results for the year ended 30 June 2007 were characterised by the following:

- strong new business growth in insurance operations;
- excellent results from FNB insurance;
- improved new business margin in the second half of the financial year;
- lower proportion of performance fee income, and increased outflows from asset management operations; and
- ongoing investment in product, channel and market diversification strategies.

The following table reflects the main components of Group earnings:

Reconciliation of earnings

	Year ended 30 June		
R million	2007	2006	% change
Earnings attributable to ordinary shareholders	**2 076**	1 909	9
Adjusted for:			
Profit on sale of associates	**–**	(92)	100
Profit on sale of available-for-sale assets[1]	**(567)**	(261)	>(100)
Impairment of goodwill	**53**	–	–
Impairment of intangible assets	**48**	–	–
Net asset value in excess of purchase price of subsidiaries	**–**	(22)	100
Headline earnings	**1 610**	1 534	5
Adjusted for:			
Settlement with National Treasury	**–**	30	(100)
Adjustment of listed property associates to net asset value[2]	**28**	(28)	>100
IFRS 2 share based payment charge	**78**	26	>100
Transfer of RMB Properties to the Banking Group[3]	**–**	(48)	100
Normalised earnings	**1 716**	1 514	13

1 The change in the mandate relating to shareholders' assets necessitated the disposal of the equities held in the shareholders' portfolio.

2 Momentum's investments in the associate listed property funds, Emira and Freestone, which were reflected at net asset value in the 2006 accounts, are now reflected at fair value, as these assets back linked policyholder liabilities in terms of IAS 39.

3 The comparative normalised earnings were adjusted for the transfer of RMB Properties to the Banking Group.

The main contributors to the normalised earnings are set out in the following table:

Earnings source

	Year ended 30 June		
R million	2007	2006	% change
Insurance operations	**1 145**	914	25
Momentum insurance[1, 2]	**1 000**	859	16
FNB insurance	**145**	55	>100
Asset management operations	**340**	312	9
RMB Asset Management[1]	**292**	262	11
Ashburton	**48**	50	(4)
Group operating profit	**1 485**	1 226	21
Investment income on shareholders' assets[2]	**231**	288	(20)
After capital reduction	**231**	212	9
Capital reduction	**–**	76	(100)
Normalised earnings	**1 716**	1 514	13

1 The operating profit of RMBAMI of R20 million (2006: R12 million), which was previously included in "Momentum insurance", is now included in "RMB Asset Management", following the transfer of this business. In addition, the comparative operating profit excludes the R48 million earned by RMB Properties in 2006, following the transfer of RMB Properties to the Banking Group.

2 The equity accounted losses of R14 million (2006: R8 million) from MSTI, which were previously included in "Investment income on shareholders' assets" are now included in "Momentum insurance".

Insurance operations

The operating profit generated by Momentum insurance increased 16% to R1 billion. The positive impact of equity market gains on asset based fees was dampened somewhat by the investment in growth and diversification initiatives, which comprised the following:

- R23 million investment in the tied agency force in order to diversify Momentum's distribution capacity. The cost of this initiative results in increased new business strain on recurring premium business;
- the middle market initiative with FNB generated a loss of R19 million for the year, mainly as a result of increased new business strain;
- Momentum's share of the loss incurred by MSTI totalled R14 million, with new business and claims ratios remaining within the targeted range set by management; and
- Momentum Africa, which represents Momentum's expansion of its healthcare interests into Africa, generated a loss of R20 million for the year.

The following table summarises the new business generated by the Momentum insurance operations:

Insurance operations – new business

R million	2007	2006	% change
	Year ended 30 June		
Recurring premiums – Momentum insurance	1 556	1 241	25
– Retail	1 166	997	17
– Employee benefits	390	244	60
Recurring premiums – FNB insurance	364	221	65
Lump sums	21 544	18 330	18
Total new business inflows	23 464	19 792	19
Annualised new business inflows[1]	4 074	3 295	24

1 Represents new recurring premium inflows plus 10% of lump sum inflows.

The growth in new retail recurring premium business of 17% to R1 166 million is particularly pleasing considering the competitiveness of this market. This growth was driven mainly by an increase of 20% in sales of recurring savings products. The excellent growth in FNB insurance new business resulted from increased sales of funeral policies and embedded credit life products.

Sales of Momentum's lump sum investment products increased by a pleasing 18% to R21.5 billion, mainly as a result of:

- Momentum's continued focus on building partnerships with specialist investment brokers; and
- the positive impact of buoyant equity markets on investor confidence.

New employee benefits recurring premium business reflected a significant turnaround from the 9% growth shown in the first half of the financial year, ending the year 60% higher due to the benefits of leveraging off the Momentum distribution footprint, as well as through product innovation.

During the current year the business units operating in the employee benefits market were realigned under one common strategy. The primary purpose of this realignment is to position Momentum as a leading provider of solutions to retirement funds, medical schemes and corporate entities. These businesses operate in an environment undergoing significant structural change, particularly with the advent of government's social security and retirement reform proposals. The new structure seeks to strategically position each business as "best of breed" in terms of product offering, whilst striving to eliminate duplication and optimise efficiencies.

The healthcare administrators are now managed as a single business ("MMSA") which also provides back office support for the health business in Africa. The total number of members under administration in South Africa was 493 000 at 30 June 2007. The number of members in the Momentum Health open scheme increased by 14% to 161 100 members at 30 June 2007.

The significant growth in new business from FNB insurance resulted in an increase in operating profit from R55 million to R145 million.

Asset management operations

The asset management operations generated an increase in operating profit of 9% to R340 million.

RMBAM increased operating profit 11% to R292 million. The operating profits for both 2007 and 2006 include certain once off items, which if excluded from both years resulted in operating profit increasing only marginally. The positive impact of strong equity markets was offset to some extent by a reduction in performance fees resulting from the lower relative investment performance and the negative impact of net cash outflows. Despite the decision by the PIC to disinvest a significant portion of their assets from various asset managers, following the restructuring of the way in which they manage their portfolio, total assets managed by RMBAM decreased only marginally to R195 billion. It is important to note that the withdrawal of PIC assets is not expected to have a material impact on fee revenue, assuming that RMBAM achieve the performance benchmarks on the remaining PIC specialist mandates.

RMBAM and Momentum have moved towards a closer strategic alignment in the Wealth market during the year under review. The aim is to deliver improved investment returns, leveraging Momentum's retail distribution and marketing footprint, eliminating duplication, improving efficiencies and to access new asset classes.

RMBAMI (previously RMB Multi-Managers), situated in London, was successfully incorporated into RMBAM during the course of the year, resulting in a streamlined product for both South African and international clients, and is part of the drive to globalise the asset management business.

The negative impact of the weaker US Dollar on Dollar based revenue, relative to the Pound Sterling expenses, coupled with increased fund outflows, resulted in a 4% decline in operating profit at Ashburton. Effective 1 July 2007, Momentum's interest in Ashburton, which was recently increased from 87% to 100%, was sold to the FirstRand Banking Group, in order to better align the strategic positioning of Ashburton with the private banking operations of the FirstRand Banking Group.

Investment income on shareholders' assets

The investment income earned on shareholders' assets decreased 20% to R231 million. This reduction is mainly due to the R2.4 billion in special dividends declared to FirstRand during the year (including the R500 million dividend paid on 30 June 2006). The disposal of African Life ("Aflife") halfway through the prior year also impacted negatively on investment income as the earnings yield on the Aflife investment was higher than the yield on the cash proceeds. The change to the investment mandate resulted in a positive impact on the level of investment income, albeit only for the second half of the financial year.

Momentum's focus on **product innovation**, and the diversification of its growing distribution model resulted in **strong new business inflows**

RESULTS OF THE EMBEDDED VALUE CALCULATION

The embedded value of Momentum increased by R1.5 billion from R14.4 billion at 30 June 2006 to R15.9 billion at 30 June 2007. The growth in the embedded value was dampened by the special dividends paid to FirstRand during the year. The embedded value profit for the year represents a return of 28% on the opening embedded value at 30 June 2006. The analysis of the main components of the embedded value is reflected in the following table:

Embedded value

	At 30 June		
R million	2007	2006	% change
Ordinary shareholders' net worth[1]	8 244	8 134	1
Net value of in-force insurance business	7 683	6 304	22
Present value of future profits	8 458	6 974	21
Cost of capital at risk	(775)	(670)	16
Embedded value attributable to ordinary shareholders	15 927	14 438	10

1 *The growth in ordinary shareholders' net worth was impacted negatively by the special dividends paid.*

The contributors to the annualised return on embedded value of 28% are:

- Value of new business 4%
- Expected return on value of in-force insurance business 6%
- Investment return on shareholders' net worth 11%
- Investment variance 5%
- Experience variances and assumption changes 2%

The following table reflects a breakdown of the embedded value profit:

Embedded value profit

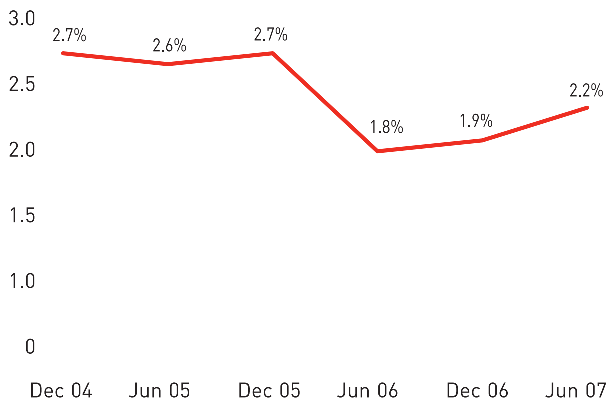
R million	2007
Changes in ordinary shareholders' net assets	2 673
Earnings attributable to ordinary shareholders	2 076
Unrealised capital appreciation and other items	597
Change in net value of in-force insurance business	1 484
Change in cost of capital at risk	(105)
Embedded value profit	4 052

The embedded value of new business increased 19% to R518 million. This satisfactory increase is due to increased volumes across most product lines, as well as strong sales of higher margin products, particularly the FNB insurance products.

The new business margin was boosted in the second six months by improvements in the margins and volumes of wealth business, FNB insurance, and employee benefits business. There was a pleasing improvement in the new business margin from 1.9% during the first half of the year to 2.2% in the second half, resulting in a margin of 2.1% for the full year, marginally lower than the prior year margin.

The trend in six monthly new business margins since December 2004 can be seen in the following graph:

New business margin
(%)



MOMENTUM GROUP ASSETS UNDER MANAGEMENT OR ADMINISTRATION

The Momentum Group managed or administered total assets of R362.7 billion at 30 June 2007 compared with R353.7 billion at 30 June 2006. Segregated third party funds under management were negatively impacted by the PIC disinvestment. The following table provides an analysis of the assets managed and administered:

Assets under management or administration

R billion	At 30 June 2007	2006	% change
On balance sheet assets	**184.1**	161.6	14
Segregated third party funds	**124.6**	147.7	(16)
Unit trust funds managed	**36.9**	30.9	19
Assets under management	**345.6**	340.2	2
Linked product assets under administration[1]	**17.1**	13.5	27
Total assets under management or administration	**362.7**	353.7	3

1 Excludes business written by the Momentum Group's linked investment service provider on the life company's balance sheet, as these assets are reflected under on balance sheet assets above. Total linked product assets under administration amounted to R40.9 billion (2006: R29.6 billion).

CAPITAL MANAGEMENT

Investment mandate for the shareholders' portfolio

During the 2007 financial year, Momentum revisited the investment mandate of the shareholders' portfolio as well as the appropriate economic capital level for Momentum. The shareholders' portfolio holds those assets that are not required to meet obligations towards policyholders. Momentum's board confirmed the principle that capital serves to support the life insurance business. The investment of those assets that represent Momentum's capital is therefore not viewed as a risk taking opportunity in its own right. The intention is that no equity risk, credit risk or foreign exchange risks should be introduced via the investment mandate for the shareholders' portfolio so that Momentum's required level of economic capital is minimised.

The Board decided that Momentum would support its regulatory Capital Adequacy Requirement ("CAR") with cash assets, but that the balance of the shareholders' assets will be invested in a combination of strategic investments and interest bearing assets. This represents a change from the previous investment mandate where the discretionary shareholders' assets (i.e. not backing CAR) were invested in strategic investments and domestic equity.

Capital position

The revised investment mandate reduced Momentum's inherent risk profile, and the targeted economic capitalisation level was therefore reduced to between 1.7 – 1.9 times CAR (compared to a targeted range of 1.8 – 2.2 times CAR previously). The reduced risk profile and the commensurate reduction in the targeted economic capitalisation level allowed Momentum to return excess capital to shareholders. A final dividend of R1.1 billion (comprising a normalised dividend of R0.4 billion and a special dividend of R0.7 billion) is expected to be declared in October 2007, resulting in a reduction in the CAR cover ratio from 2.3 times to 1.9 times, which is in line with the targeted capitalisation level.

During the current year the High Court approved the transfer of the Sage Life business to Momentum in terms of Section 37 of the Long Term Insurance Act 1998, effective 1 July 2006. As a result, the comparative statutory surplus and CAR are provided on a pro forma comparable basis in the following table:

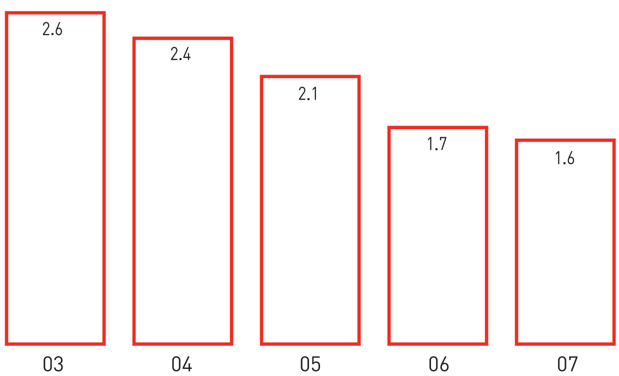
Statutory surplus and CAR

R million	2007	2006 pro forma	2006 as originally reported
Statutory excess of assets over liabilities[1]	**5 794**	6 345	6 041
CAR	**2 467**	2 239	1 978
CAR cover ratio (times)	**2.3**	2.8	3.1

1 The statutory surplus has reduced due to the special dividends paid to FirstRand during the year.

The graph below shows the capital efficiency improvements over the past five years by expressing CAR as a percentage of Momentum's policyholder liabilities.

Capital efficiency movements
(%)



The reduction was mainly due to a more capital efficient liability mix, as well as the positive impact of good investment performance.

Momentum's credit rating

As part of the ongoing management of Momentum's capital position, the annual review of Momentum's credit rating was conducted by Fitch Ratings ("Fitch"). Fitch confirmed Momentum's credit rating on 8 December 2006 as follows:

"...affirmed Momentum Group Limited's National Insurer Financial Strength (IFS) rating at 'AA+(zaf)' and National Long-term rating at 'AA(zaf)'. The rating Outlook is Stable."

Fitch previously indicated that the reduction of Momentum's targeted capitalisation level to 1.7 – 1.9 times CAR would not impact Momentum's credit rating and commented as follows:

"...Fitch expects the company to take measures over time to reduce its available capital from current levels to within its revised target range of 1.7 – 1.9 times. Momentum has recently reduced its targeted capitalisation level to reflect the more conservative investment mandate that has been adopted for the shareholders' funds..."

Return on equity

The active management of Momentum's capital plays an important role to achieve the targeted return on capital set by the FirstRand Group. ROE for the year ended 30 June 2007 amounted to 25.3% (based on normalised earnings), compared with 24.1% in the year to 30 June 2006. The reduction of capital by way of the payment of special dividends during 2007 contributed to this increase.

NON FINANCIAL OPPORTUNITIES AND RISKS

It is vital that non financial opportunities and risks that could have a material impact on operations are managed. The risks that have been prioritised along with a description of the actions taken are detailed in the table below:

ISSUE	MANAGEMENT ACTION
FAIS, National Credit Act, Consumer Protection Bill and other legislation	Momentum continues to address compliance with the applicable legislation, as well as industry codes. The application for registration as a Credit Provider in terms of the National Credit Act has been approved. A dedicated FAIS compliance team has been operational for the past year and a Momentum Compliance Charter drawn up to reflect our increased focus on compliance issues.
Regulatory changes	A number of regulatory changes will impact Momentum. Most notable is the change in commission regulations expected in October 2007. This will continually be addressed through product innovation. Active engagement with regulatory bodies and key stakeholders such as government, will ensure that the Group stays abreast of developments that impact the business. The new generation products already cater for the change in commission structure from upfront to as and when payments.
Meeting senior management Financial Sector Charter (FSC) targets	Recruiting and retaining skilled African, Coloured and Indian ("ACI") senior and middle managers, remains a challenge for Momentum. To address this, Momentum is being positioned as Employer of Choice in order to be able to attract the best skills. Initiatives such as leadership development, employee wellness and the benchmarking of recognition and rewards practices will be used to assist in meeting the FSC targets. Some of these initiatives, such as leadership development, have already commenced.

Adrian Gore CEO Discovery

organic growth

The Discovery ethos of "consumer engaged financial services" flows through all of the businesses, creating consumer demand for products, ensuring strong organic growth and driving profitability for shareholders.

R million	Year ended 30 June 2007	2006	% change
Profit before tax	1 458	1 076	36
New business annualised premium income	5 159	4 479	15
Gross inflows under management	23 911	20 427	17

ENVIRONMENT

The period under review has been not only a successful period, but also a fundamental one in the evolution of Discovery. Operating performance has progressed in a pleasing manner, but more importantly, significant structural change has taken place – both at shareholder level and within most of the operating businesses.

The unbundling of FirstRand's shareholding in Discovery is a point of inflection for Discovery, in that it removes any strategic conflict going forward and opens up many opportunities for the Group.

Within each business, significant innovations took place during the period. Not only does innovation continue, but additional businesses have been constructed and will be rolled out during the next financial year. The combination of these factors has created a step change within Discovery and in its prospects.

Discovery's purpose of making people healthier and enhancing and protecting their lives fits in squarely with the global trend of wellness

It is important to note that Discovery's purpose of making people healthier and enhancing and protecting their lives fits in squarely with the global trend of wellness. Discovery finds itself, within each of its businesses, able to compete effectively and sustainably and able to meet clients' needs in unique ways. The Discovery ethos of "consumer engaged financial services" flows through all of the businesses, creating consumer demand for products, ensuring strong organic growth and driving profitability for shareholders.

THE UNBUNDLING OF FIRSTRAND SHAREHOLDING IN DISCOVERY

As has been discussed, FirstRand will be unbundling its majority Discovery shareholding to FirstRand shareholders. Over the past few years there has been regular debate at the FirstRand and Discovery Boards regarding FirstRand's majority shareholding in Discovery, including the relative merits of an unbundling.

From Discovery's perspective, there has been considerable trade off between the considerable value added by FirstRand against the market place competition between Discovery and other FirstRand companies, in particular Momentum. In the past, such tensions have been managed particularly well, Discovery's growth, however, both in size and in scope, will invariably lead to difficulties going forward. With Discovery's impending launch of its investment business, the potential for conflict has increased.

For both FirstRand and Discovery, it is clear that the strategy of having "two horses in the same race" has worked in the past to the benefit of all shareholders. However, going forward, the benefits of an unbundling are significant, and reflect the positioning and scale of both Discovery and FirstRand.

Discovery is particularly pleased with this development, for the following reasons:

- The unbundling removes any strategic conflict and provides Discovery with flexibility and increased scope for business opportunities.
- Within its new shareholder base, RMBH becomes Discovery's strategic capital partner. It is important to point out that RMBH was the original shareholder of Discovery and in effect – from a philosophical point of view – Discovery is now returning to the shareholder structure it had when it was formed in 1992.
- The unbundling creates a significant opportunity to further enhance management ownership. Key members of the management team have indicated their intention to increase their shareholding following the unbundling.
- The unbundling addresses the long standing issue of Discovery's small free float and limited liquidity of shares. When combined, the current shareholdings in Discovery of FirstRand, Discovery management and Discovery's BEE partners total 82%, leaving a free float of just 18%.

PERFORMANCE

For the period under review Group operating profit increased by 20% before the impact of the BEE transaction to R1 510 million (2006: R1 263 million), while net profit after tax, excluding BEE, rose by 34% to R1 107 million (2006: R827 million). Diluted headline earnings per share before the impact of the BEE transaction increased 33% to 168.4 cents (2006: 126.4 cents) and new business grew to R5.2 billion.

Discovery Health

Discovery Health's performance over the period was particularly pleasing. In addition to its focus on providing access to quality care on a sustainable basis for its clients, key structural initiatives were undertaken over the period aimed at placing Discovery Health and the schemes it manages in an advantageous position.

Operating profits rose by 12% to R736 million (2006: R655 million), with new business improving to R2 577 million (2006: R2 505 million). The number of lives under management grew to 2 025 650 in total (2006: 1 939 339).

Discovery Health's strategy is to utilise its scale and sophistication to build a better healthcare system for stakeholders. In this regard, a central initiative during the period was to interface with hospitals, doctors and other providers of healthcare in order to ensure quality and cost effectiveness within the healthcare system.

To this end, Discovery Health embarked on a process with doctors to increase their remuneration appropriately and ensure that members have access to care without gaps in their coverage. The roll out of the GP Network and the Premier Rate payment mechanism for specialists are two central strategies in this regard. This has proven particularly difficult and has ignited considerable debate within the medical community. The debate has highlighted the historic chasm that exists between providers and funders of healthcare. Nonetheless, significant progress is being made with the South African Medical Association ("SAMA") and many of the specialist societies now endorsing the need to work with Discovery Health in order to build a system that is sustainable for both members and health professionals. Discovery Health is optimistic that significant progress has been made to date and expects this to continue.

From a structural perspective, considerable focus was placed on maximising operating efficiencies. In addition, Discovery Health's administration fees were reduced by approximately 1% of gross contribution income, translating to a reduction of R145 million in income for Discovery Health.

In addition, considerable progress was made in building up the statutory reserves within the Discovery Health Medical Scheme towards the required level of 25% of gross contribution income, as laid down by the Medical Schemes Act. Given the size and growth of the Discovery Health Medical Scheme, the Council for Medical Schemes requires it to reach 23% by 31 December 2007 and 25% by 31 December 2008. Both Discovery Health and the

Discovery Health Medical Scheme are confident of achieving these targets as set out by the Regulator.

The combination of these factors positions Discovery Health particularly well going forward.

Discovery Life

Discovery Life's performance exceeded expectation. In addition to performing particularly well in the pure life assurance (protection) market, considerable progress was made in the construction of its long term investment business – due to be launched during October 2007.

The company increased operating profits by 29%, while gross inflows under management increased by 33% to R2 357 million (2006: R1 768 million). Annualised new business premium income rose by 23%, to a record of just under R1 billion (2006: 789 million). The value of business in-force improved significantly, growing by 35% to R5 826 million (2006: R4 322 million).

The company has developed a strong leadership position in the pure risk life insurance market (protection market), enabling it to grow both strongly and profitably. In addition, the strong growths in embedded value – and the positive experience variances within it – reflect the quality of business being transacted.

During this period, focus was applied to Discovery Life's distribution channels to enhance and deepen their potential – for both the existing protection products and the impending investment products. To this end, work began on the construction of a high quality tied agency force. By the end of the period almost 100 agents with production significantly above market average have been recruited, and are currently producing approximately 10% of Discovery Life's new business.

Discovery Life's launch into the investment market is aimed at capitalising on current market trends and the macro factors giving rise to them. The approach will be to embrace the evolving trends in the investment markets of consumerism, transparency of fees and open architecture, with Discovery's ability to add value through product innovation and its other assets. Discovery Life is confident of its ability to make an impact in this market and to add value to its clients.

PruHealth

PruHealth's performance over the period was in line with expectation. Discovery remains optimistic about its potential for profitable growth and its ability to make an impact on the UK market. During the period, focus was applied to pricing, underwriting and managed care, in order to maximise the quality of business, and to building the infrastructure to ensure that it can achieve cost levels that move it toward profitability. Importantly, focus was applied during the period toward the construction of PruProtect – the pure life insurance joint venture between Discovery and the Prudential, which will be launched on 25 September 2007.

New business grew strongly to R743 million in annualised premium income (2006: R282 million), bringing to 117 000 the number of lives covered (2006: 58 912) by the end of the period. Operating losses increased in line with our expectations by 23% to £16 million (2006: £13 million).

While operating performance was largely in line with the figure budgeted, new business production, although significant in absolute terms, was behind target by the end of the period for the following reasons:

- as part of the focus on optimising the balance between value and volume, the direct to consumer strategy was revised during the fourth quarter, along with the concomitant reduction of activity in this channel. This resulted in a slowdown of new business for the quarter; and
- on a similar line and given the company's scale and increasing credibility, it was felt that a more disciplined approach to pricing large corporate business was justified, resulting in a temporary lack of competitiveness.

Both of these factors have been addressed and new business has since reverted to budgeted levels. Given the company's scale, the infrastructure built and the focus on cost and quality, it is expected that operating losses will narrow significantly during the next financial year.

During the period, 10 broker franchises were built and rolled out across the UK. These franchises will not only provide broader access to brokers active in the health insurance market, but will form a crucial distribution channel for PruProtect as it rolls out from September onwards.

In preparation for the launch of PruProtect, the corporate structure of the entire joint venture with Prudential has been reworked. Going forward, Discovery and the Prudential plc will each own 50% of PruProtection, the holding company of PruHealth and PruProtect.

Discovery remains optimistic about the prospects for PruProtection.

Vitality and the DiscoveryCard

Vitality's performance over the period was ahead of expectation. Revenues increased to R721 million (2006: R654 million) and operating profits remained flat at R43 million (2006: R41 million).

Vitality is the manifestation of Discovery's vision of making people healthier and, to this end, its primary role is to underpin and to integrate Discovery's products so that they offer added value to Discovery's clients. During the period, Vitality performed its crucial role of creating a significant impact on profitability, product competitiveness and reduced lapses across the Group. In particular, the Discovery Life Card Integrator was launched during the period, bringing together the Life Plan, Vitality and the DiscoveryCard.

The results have exceeded expectation with 17% of sales of the Life Plan utilising the Card Integrator. From a financial

The company has developed a **strong leadership position** in the pure risk life insurance market (protection market), **enabling it to grow both strongly and profitably**

perspective, Vitality performed particularly well – despite expensing the entire start up costs of WellPoint, a corporate product launched during the period, which provides the tools and incentives to create a healthy workplace.

The DiscoveryCard performed soundly, despite operational difficulties during the initial implementation of the National Credit Act. These difficulties have since been addressed.

A number of fundamental enhancements were developed during the period and will be launched into the market during September 2007.

Destiny Health

Destiny Health's performance over the period was disappointing. Discovery has made it clear in previous announcements that the last 24 months have been particularly difficult for Destiny. A new management team was put in place to address these difficulties and move the company onto a path of growth and profitability. As part of the process, Discovery established a number of strategic criteria for Destiny's progress to ensure the appropriate focus and discipline.

Considerable progress was made in relation to many of the key operational, product and market strategies; however, from a financial perspective, the performance fell short of the criteria.

Operationally, key initiatives included: restructuring the partnerships with Tufts and Guardian; announcement of a partnership with one of the world's largest insurers Aegon; selling Vitality as a stand-alone, non risk product to large companies; and expansion into new markets with more favourable pricing and a more favourable competitive landscape.

From a financial perspective, the Board set two criteria:

- operating losses cannot exceed 5% of the Group's overall operating profit – which was disclosed publicly; and
- each six month period must be better than the last.

At the interim stage, Destiny's financial performance was in line with budget and comfortably in line with these measures and this favourable performance continued from January through to April of this year. Unfortunately, the financial performance in May and June was disappointing, giving rise to an operating loss of R102 million over the period (5.9% of Discovery's operating profit). In effect, therefore, two of the conditions set were breached during the period.

Over the past three months, intense work has been done to evaluate the strategy going forward, taking into account the unique assets of the Discovery Group and how they could be best positioned in the US. Discovery is currently assessing a number of strategic options in this regard and will announce the appropriate strategy on 15 October 2007.

PROSPECTS

Discovery's businesses are well positioned for growth going forward without requiring additional capital.

KEY NON FINANCIAL OPPORTUNITIES AND RISKS

It is vital that non financial opportunities and risks that could have a material impact on operations are managed. The risks that have been prioritised along with a description of the actions taken are detailed in the table below:

ISSUE	MANAGEMENT ACTION
The impact of HIV and AIDS on the wellbeing of employees and clients.	The wellbeing of employees and clients is ensured through various initiatives: • for employees a comprehensive programme to address HIV and AIDS in the workplace, with a special focus on increasing awareness and knowledge and providing support to employees affected by HIV and AIDS, was implemented; • members of the Discovery Health Medical Scheme have access to comprehensive HIV and AIDS benefits through the Discovery Health HIV and AIDS Management Programme; and • through Vitality WellPoint, corporate companies have access to Discovery HIVCare, a comprehensive HIV management programme that addresses the full spectrum of employer and employee needs, from preventive care to active disease management.
The sustainability of private healthcare in South Africa.	To ensure that the private healthcare sector remains sustainable over the long term, the Group believes all stakeholders should work together to support and nurture it. To help achieve this goal, partnerships have been established with healthcare professionals and professional societies for the benefit of both members and doctors. • the Premier Rate and Discovery GP Network at the end of 2006 was launched as the first of the direct payment arrangements with different groups of healthcare professionals; and • the Paediatric Governance project, launched mid June is a successful peer review programme that incorporates good risk management increased remuneration.
Impact of the rising costs of healthcare on the sustainability of the medical scheme and the consumer.	To protect the sustainability of the medical schemes that are managed, members are offered products that protect lifestyles through quality healthcare cover and life assurance. Members are encouraged to become healthier through the wellness programme, Vitality. Vitality is a science based wellness programme and encourages members to participate in the right health behaviours regularly by providing the right tools and knowledge, and the right incentives to do so. A study undertaken by Milliman Actuarial Consultants in the US, in partnership with Discovery, demonstrates the value of Vitality in reducing health care expenditure. The morbidity rates of active Vitality members were measured against that of non members and Vitality members not actively participating in the programme. The study found that: • both sick and healthy members are attracted to the benefits of Vitality. This is demonstrated by the fact that active Vitality members are as likely to have a chronic condition as not; • active Vitality members, even those who have a chronic condition, have fewer claims than non Vitality members or Vitality members who are not actively participating in the programme; and • active Vitality members do improve their health, with lower claims over time than their non engaged counterparts.

ISSUE	MANAGEMENT ACTION
	In addition, Discovery Health uses its extensive data and applies the latest health economics models to develop sustainable health funding protocols that protect members' benefits in the long term. It also uses targeted and appropriate managed care interventions to ensure that members receive quality care that is affordable and sustainable.
Impact of different targets relating to Financial Sector and Health Sector Charters.	Discovery is on track to meeting all the targets set by the Financial Sector Charter.
The impact of regulatory requirements and changes on Discovery, such as the proposed Circular 8/2007 "Headline Earnings", the Risk Equalisation Fund and the National Credit Act.	We actively engage with all regulatory bodies that may impact our different businesses and operations, to ensure we comply with the law.
The impact of scarce resources in the public healthcare sector.	The Discovery Foundation was established to help improve healthcare in South Africa, especially in areas of greatest needs. The Foundation will invest around R200 million over the next 10 years to develop resources in the public healthcare sector. According to a study by the HSRC, South Africa only has seven doctors per 10 000 people. The USA and the UK have 24 and 21 respectively. The problem is more acute in rural areas such as the Eastern Cape where there are only three doctors for every 10 000 people. There are eight schools of medicine in South Africa graduating an average of 1 200 doctors a year which is only two thirds of the number South Africa needs. Although the Department of Health is now actively addressing these pressing issues, it is also critical for the private sector to play a significant role, and Discovery believes it can make a valuable contribution through the Discovery Foundation. The Foundation made its first awards, to the value of over R12 million on 6 June 2007. It awarded 20 fellowships in the following categories: **Academic Fellowship Award** – For medical graduates completing their specialist training who wish to pursue a career in academic medicine in South Africa. The Foundation approved 13 awards with a total value of R9 200 000. **Excellence Award** – For an organisation or institution that demonstrates excellence in service delivery, training and innovation for the benefit of South African health care, particularly by way of strengthening human resources in the health sector. Two awards of R1 million each were made. **Specialist Award** – For medical graduates completing their specialist training who wish to pursue a career in academic medicine in South Africa. The Foundation approved two awards valued at R400 000 in total. **Rural Fellowship Award** – For medical graduates who wish to specialise in family medicine and pursue a career working in a rural community in South Africa. The Foundation recently made three awards valued at R687 500.

The concept of sustainable business practices and good corporate citizenship are embedded in the DNA of FirstRand Group brands. We are committed through interaction with stakeholders to continuous improvement of our existing processes and practices. Detailed sustainability reports prepared in respect of each of our major brands (First National Bank and its African subsidiaries, Rand Merchant Bank, WesBank, Momentum, Discovery and OUTsurance) are available on our website (www.firstrandsusrep.co.za). FirstRand welcomes comments on these reports which have the assurance of FirstRand's internal audit department.

Our board governance complies with King II and has been dealt with in considerable detail in this report to shareholders (pages 83 to 88). Our governance ethos applies to all our subsidiaries and divisional boards. We are pleased for the second year in succession to have won the Deloitte's Award for Good Governance.

Our comprehensive risk management framework, which deals with both financial and non financial risk is also comprehensively dealt with in this report (pages 100 to 140). In addition the brand CEO's have, in their divisional reports, commented on the major risks and opportunities facing them.

FirstRand is a signatory to the Financial Sector Charter. Our independently audited scorecard at 31 December 2006 which is set out below, shows that we have achieved an "A" rating. The alignment where appropriate of the Financial Sector Charter with the DTI's Codes of Good Practice is to be welcomed if it means that the Charter's targets can now be finalised.

Charter component	Dec 2006 target	FRL actual points
HR development		
Employment equity	10.5	10.88
Skills development	2.1	3.00
Learnerships	1.4	1.45
Procurement and enterprise development	10.5	13.29
Access to financial services	5.8	7.09
Origination	5.6	3.13
Consumer education	1.4	0.00
Empowerment financing		
• BEE transations	3.5	5.00
• Targeted investments	11.9	9.00
Ownership:	9.8	12.70
Control: Board	2.1	3.00
Control: Executive management	3.5	5.00
Corporate social investment	2.1	3.00
	70.2	76.54

This equates to an "A" rating.

Our major stakeholders have been identified as our shareholders, employees, customers, suppliers, government and regulatory authorities, the environment and the communities in which we operate. Our progress towards building mutually rewarding long term relationships with these stakeholders in the interests of ensuring sustainable profit growth is summarised below.

In our communication with existing and potential shareholders we continue to strive to provide additional relevant information which is timeous, accurate and transparent. This annual report is indicative of this commitment. Our executive continue to meet on a regular basis both locally and internationally with investors and investment analysts, while our interim and final year end results are communicated through the media of SENS, the press and television. The presentation is also available via the company's website (www.firstrand.co.za). At year end FirstRand had 26 600 registered shareholders. The 10 largest shareholders hold 73.8% of the company's shares and 13% of our shares are held by international investors.

In terms of our Business Philosophy, FirstRand Group companies seek people who are committed and passionate about what they do. As employees they are empowered, held accountable and rewarded appropriately. The current worldwide shortage of skilled employees is a major challenge in South Africa and the Group continues to invest heavily in training and education. We actively seek to ensure that our employment practices attract and retain the most talented staff in the country. Staff turnover amongst skilled black employees is too high and steps are being taken to address this challenge.

The workforce profile is set out on page 91.

The Banking Group's interaction with its customers has come under independent scrutiny during the past year and the findings of the Commission of Enquiry into Banking Practices which are due in November 2007 are awaited with interest. The National Credit Act which came into law in June 2006 has required considerable investment in systems but we are confident that the end result will be mutually beneficial. Both Discovery and Momentum have in the interests of building lasting customer relations, established Fair Practices Committees which include suitably qualified representatives from the community. Our Group operating divisions continue to win awards for service excellence and others which indicate high levels of employee satisfaction. These are commented on in detail in their respective sustainability reports.

The process of centralising our procurement activities has continued during the year. Those involved seek to standardise on best practice to ensure fairness in all our dealings with suppliers. These dealings are influenced in part by the Financial Sector Charter, but also allow the Group to make a material contribution to the development of small and medium enterprises.

The Group's value added statement appears on page 92 of this report. Taxes paid to government in the last year totalled R5.4 billion. As part of our nation building initiatives, Group executives participate actively on industry committees to ensure that South Africa's financial services industry remains amongst the best in the world. Other executives are actively involved in Business Against Crime and are members of the Big Business Working Group which meets with the President on a quarterly basis. Recognising the importance to South Africa of the 2010 FIFA World Cup, First National Bank is proud to be a major national sponsor. It remains Group practice not to make donations to political parties.

The one area where we felt that we have lagged in the past is in respect of the environment. This year an environmental forum with a board approved mandate was established to ensure that best practice with regard to the Group's management of the environment was pursued with vigour.

WESBANK'S NEW HEAD OFFICE HAS BEEN HAILED AS AN EXAMPLE OF ISO14001 COMPLIANCE AND FNB RECEIVED THE MAIL & GUARDIAN'S GREENING THE FUTURE AWARD FOR THE MOST IMPROVED ENVIRONMENTAL PERFORMANCE BY A CORPORATE.

Our corporate social investment programme has in the past year seen in excess of R90 million invested in community upliftment programmes. This brings the total investment in these programmes to more than R450 million since the establishment of the FirstRand Foundation and the FirstRand Education Trust in 1998. We were particularly pleased that our values based Heartlines programme launched in conjunction with all three SABC television channels was recognised through a Social Entrepreneurs Award from the Gordon Institute for Business Studies. A further R100 million will be invested in the 2008 financial year representing 1% of the 2007 after tax profits. Our grant making activities place us amongst the top five donors in corporate South Africa. The activities of our trusts continue to be independently managed and all grant making is overseen by an independent board of trustees which includes both company and community representatives. Our ongoing monitoring and evaluation processes continue to be improved thereby ensuring maximum value to both us and the beneficiaries. The chart below provides an analysis of grants made during the past financial year.

Funding by sector

9% HIV/AIDS
4% Arts culture and heritage
16% Community care
13% Disability programme
40% Education
3% Environment
2% Policy and sales communities
4% Sustainable livelihoods
9% Skills training and job creation

In addition to the investment into society made by the FirstRand Foundation, we estimate that 25% of our staff are involved in giving of their skills and time in our Employee Volunteer Programme.

As we enter our tenth year of operations FirstRand stands committed to building a better South Africa and to cementing mutually rewarding long term relations with all its stakeholders.

The schedule below shows the key indicators we have used for our reporting, their source and where to find the relevant date.

Topics and indicators	JSE SRI criteria	King II	GRI #	FSC	Where to find it	Page
Strategy						
Group strategy			1.1	x	Annual Report, Website	18
Structure including significant changes			1.1 3.6	x	Annual Report, Website	27
Sustainability reporting approach						
Philosophy	x				Annual Report, Website	74
Key non financial risks and opportunities			1.2	x	Annual Report	39, 43, 47, 51, 54, 65, 72 and 73
Corporate governance						
Corpoate governance overview	x	x	4.1		Annual Report	83
Board composition	x	x			Annual Report	78
Regulatory environment		x			Annual Report, Website	100
Compliance	x	x			Annual Report, Website	100
Risk management	x	x			Annual Report, Website	100
Non financial risk management	x	x			Annual Report	117
Stakeholders						
Stakeholder list			4.14		Annual Report, Website	74
Stakeholder engagement	x		4.16 4.17		Website	
Our people						
Scope	x		2.8 3.6		Website	
Major issues identified			1.2		Website	
Policies	x					
Workforce breakdown	x		LA 1 LA 13	x	Website	
Transformation	x		LA 10 LA 13	x	Website	
Staff satisfaction	x				Website	
Staff consultation	x		LA 3		Website	
Health and safety, including HIV/AIDS	x		LA 6 LA 7 LA 8		Website	
Training	x		LA 10 LA 11	x	Website	
Remuneration				x	Website	
Supply chain						
Scope, including total expenditure	x		3.6		Website	
Strategy			EC 6		Website	
Policies	x				Website	
Supplier satisfaction					Website	
Transformation	x		EC 6	x	Website	
Environment						
Scope	x		3.6		Website	
Policies	x				Website	
Direct energy usage initiatives	x		EN 3		Website	
Reduce, recycle, reuse initiatives	x		EN 5		Website	
Transport initiatives			EC 2			
Indirect impact					Website	
Community						
Scope			3.6		Website	
Major issues			1.2		Website	
Policies	x				Website	
Total contribution	x			x	Website	
Community satisfaction	x				Website	
Impact assessment	x		EC 8		Website	
Customers						
Scope			2.2 2.3 2.7 3.6		Website	
Major issues			1.2		Website	
Policies						
Current performance					Website	
Distribution			2.2 2.7		Website	
Transformation	x		EC 9	x	Website	
Customer satisfaction			PR 5		Website	
Health and safety			PR 1		Website	
Economic impact						
Statement of economic value added	x		EC 1		Website	
Financial performance	x		EC 1		Website	


GT Ferreira


PK Harris


VW Bartlett


DJA Craig


LL Dippenaar


DM Falck


PM Goss


NN Gwagwa


YI Mahomed


G Moloi


AP Nkuna


SE Nxasana


SEN Sebotsa


KC Shubane


RK Store


BJ van der Ross


F van Zyl Slabbert


RA Williams

↗ **Gerrit Thomas Ferreira (59)** *Non executive chairman*
BCom, Hons B (B&A), MBA
Appointed May 1998

GT Ferreira has been involved in the financial services sector since graduating from the University of Stellenbosch. He started his career at the Bank of Johannesburg in 1972 and was a co-founder of Rand Consolidated Investments ("RCI") in 1977. RCI acquired control of Rand Merchant Bank ("RMB") in 1985 and he was managing director of RMB from 1985 to 1988 after which he was elected as executive chairman. When RMB Holdings was founded in 1987 he was appointed chairman, a position which he still holds. Following the formation of FirstRand in 1998, he was appointed non executive chairman. He is a member of the Council of the University of Stellenbosch.

FirstRand – committee membership
Directors' affairs and governance
Remuneration
Directorships – FirstRand Group
FirstRand Bank Holdings Limited – chairman
Momentum Group Limited
Rand Merchant Bank*
Directorships – external
Glenrand MIB Limited
RMB Holdings Limited – chairman

↗ **Paul Kenneth Harris (57)** *Chief executive officer*
MCom
Appointed May 1998

Paul Harris graduated from the University of Stellenbosch and joined the Industrial Development Corporation. He was a co-founder of Rand Consolidated Investments ("RCI") in 1977. RCI acquired control of Rand Merchant Bank ("RMB") in 1985 and he became an executive director of the bank. He spent four years in Australia where he founded Australian Gilt Securities (later to become RMB Australia) and returned to South Africa in 1991 as deputy managing director of RMB. In 1992, he took over as chief executive officer. Subsequent to the formation of FirstRand, he was appointed chief executive officer of FirstRand Bank Holdings in 1999, a position he held until December 2005 when he was appointed chief executive officer of FirstRand.

FirstRand – committee membership
Audit – Ex officio
Executive – chairman
Directorships – FirstRand Group
Discovery Holdings Limited
FirstRand Bank Holdings Limited
FirstRand Investment Holdings Limited
First National Bank*
Momentum Group Limited
Rand Merchant Bank*
RMB Asset Management (Pty) Limited
Directorships – external
Remgro Limited

↗ **Vivian Wade Bartlett (64)** *Independent non executive*
AMP (Harvard), FIBSA
Appointed May 1998

Viv Bartlett started his career with Barclays Bank DCO South Africa, which subsequently became First National Bank of Southern Africa in 1987. After some four years of overseas secondments he returned to South Africa in 1972 where he has served as general manager and managing director in various group companies until being appointed as group managing director and chief executive officer of First National Bank of Southern Africa in 1996. In 1998, he was appointed deputy chief executive officer of FirstRand Bank, a position he held until his retirement in 2004.

FirstRand – committee membership
Directors' affairs and governance
Directorships – FirstRand Group
First National Bank*
FirstRand Bank Holdings Limited
FirstRand STI Holdings Limited
Makalani Holdings Limited – chairman
WesBank*
Directorships – external
Visa International CEMEA Regional – chairman
Visa International

↗ **David John Alastair Craig (59)** *Independent non executive*
British
Appointed May 1998

David Craig is managing director and chief investment officer of Sand Aire Limited, a large multi-family investment management office located in London.

He held the position of director – International Capital Markets Division at Hambros Bank until 1979 when he was recruited to set up JP Morgan Securities, eventually being offered the role of CEO designate. Instead, in 1983 he set up IFM Asset Management, the first major hedge fund group in London, which he ran until the time of its sale in 1994. He has served as chairman of Northbridge management since 1995. In 2006, Northbridge merged with Sand Aire, a large London based multi family investment office, where he currently also holds the position of group managing director.

FirstRand – committee membership
Directors' affairs and governance
Directorships – FirstRand Group
Rand Merchant Bank*

↗ **Lauritz Lanser Dippenaar (58)** *Non executive*
MCom, CA(SA)
Appointed May 1998

Laurie Dippenaar graduated from Pretoria University, qualified as a chartered accountant with Aiken & Carter (now KPMG) and spent three years with the Industrial Development Corporation before becoming a co-founder of Rand Consolidated Investments ("RCI") in 1977. RCI acquired control of Rand Merchant Bank ("RMB") in 1985 and he became an executive director. He was appointed managing director of RMB in 1988 which position he held until 1992 when RMB Holdings ("RMBH") acquired a controlling interest in Momentum Life Assurers ("Momentum"). He served as executive chairman of that company from 1992 until the formation of FirstRand in 1998. He was appointed as the first chief executive of FirstRand and held this position until the end of 2005 when he assumed a non executive role.

FirstRand – committee membership
Directors' affairs and governance
Remuneration
Directorships – FirstRand Group
Discovery Holdings Limited – chairman
First National Bank*
FirstRand Bank Holdings Limited
FirstRand STI Holdings Limited – chairman
Momentum Group Limited – chairman
Rand Merchant Bank*
RMB Asset Management (Pty) Limited
Directorships – external
RMB Holdings Limited

↗ **Denis Martin Falck (61)** *Non executive*
CA(SA)
Appointed February 2001

Denis Falck left the auditing profession in 1971 to join the Rembrandt Group. He was appointed group financial director in 1990 and currently holds the same portfolio on the board of Remgro.

** Divisional boards*

FirstRand – committee membership
Directors' affairs and governance
Directorships – FirstRand Group
FirstRand Bank Holdings Limited
Directorships – external
Remgro Limited
RMB Holdings Limited
Trans Hex Group Limited

Patrick Maguire Goss (59) *Independent non executive*
BEcon (Hons), BAccSc (Hons), CA(SA)
Appointed May 1998

Pat Goss, after graduating from the University of Stellenbosch, served as President of the Association of Economics and Commerce Students ("AIESEC"), representing South Africa at The Hague and Basle. He thereafter qualified as a chartered accountant with Ernst and Young and then joined the Industrial Development Corporation. He has served as a director of various group companies for the past 30 years. A former chairman of the Natal Parks Board, his family interests include Umngazi River Bungalows and other conservation related activities.

FirstRand – committee membership
Directors' affairs and governance – chairman
Remuneration – chairman
Directorships – FirstRand Group
FirstRand Bank Holdings Limited
Rand Merchant Bank*
Directorships – external
AVI Limited
RMB Holdings Limited

Nolulamo (Lulu) Gwagwa (48) *Independent non executive*
BA (Fort Hare), MTRP (Natal) , MSc (cum laude) (London), PhD (London)
Appointed February 2004

Lulu Gwagwa worked as a town planner in the private, public and NGO sectors between 1981 and 1986, whereafter she proceeded to further her studies. In 1992 she joined the University of Natal as a senior lecturer in the Department of Town and Regional Planning. In 1995 she was appointed as a deputy director general in the national Department of Public Works, where she was responsible for the national public works programme and the transformation of the construction industry. From 1998 to 2003 she was the chief executive officer of the Independent Development Trust. She is currently the chief operating officer of Lereko Investments.

FirstRand – committee membership
Directors' affairs and governance
Financial sector charter and transformation monitoring
Directorships – external
Development Bank of South Africa Limited
Massmart Holdings Limited
Real Africa Holdings Limited
Sun International Limited

Yunus Ismail Mahomed (56) *Independent non executive*
B Proc, MBA
Appointed May 2005

Yunus Mahomed graduated from the University of South Africa, and is an admitted attorney and conveyancer. He worked for Shun Chetty & Company until 1979 and thereafter practised as Yunus Mahomed & Associates. He is one of the founding trustees of Kagiso Trust and is currently its chairman.

FirstRand – committee membership
Directors' affairs and governance
Financial Sector Charter and transformation monitoring
Directorships – external
Kagiso Media Limited

** Divisional boards*

Gugu Moloi (39) *Independent non executive*
BA (Law), MA (Town and Regional Planning), Diploma (General Management)
Appointed February 2004

Gugu Moloi was CEO of Umgeni Water from 2002 until 2006. Prior to that she was CEO of the government's Municipal Infrastructure Investment Unit. She has considerable expertise in the field of development at both national and local level. She currently runs her own company Iman Africa and is chairperson of Soul City Investment company.

FirstRand – committee membership
Directors' affairs and governance

Aser Paul Nkuna (55) *Independent non executive*
AMP (Wits Business School)
Appointed May 2005

Paul Nkuna began his career as a teacher before joining the mining industry in 1977. He joined the National Union of Mineworkers in 1984 and later served as Treasurer General and was instrumental in local government negotiations as chairman of the management committee of the Brakpan Transitional Local Council. He also served in a number of executive structures within local government, including the Gauteng Association of Local Government ("GALA") and the South African Local Government Association ("SALGA"). He joined the Mineworkers Investment Company as executive chairman in 1997 and in 2003 became chief executive officer, a position he currently holds.

FirstRand – committee membership
Directors' affairs and governance
Financial Sector Charter and transformation monitoring
Directorships – external
Council for Geoscience
Metrofile Holdings Limited – chairman
Primedia Limited – chairman

Sizwe Errol Nxasana (49) *Executive*
BCom, BCompt (Hons), CA(SA)
Appointed January 2006

Sizwe Nxasana started his career at Unilever. In 1989 he established Sizwe & Co, the first black owned audit practice in KwaZulu-Natal. In 1996 he became the founding partner of Nkonki Sizwe Ntsaluba, the first black owned national firm of accountants and was national managing partner until 1998 when he joined Telkom SA as chief executive officer. He held this position until August 2005.

His experience in the financial services industry includes being a non executive director of NBS Boland Bank from 1995 to 1998, a non executive director of the Development Bank of South Africa from 1995 to 1998 and chairman of Mesele-Hoskens Insurance Group from 1994 to 1996. He joined the board of FirstRand Bank Holdings in 2003 and was appointed chief executive officer with effect from January 2006. In February 2006 he was appointed an executive director of FirstRand.

FirstRand – committee membership
Executive
FirstRand Foundation – chairman
Directorships – FirstRand Group
First National Bank*
FirstRand Bank Holdings Limited – CEO
FirstRand Investment Holdings Limited
Rand Merchant Bank*

Sonja Emilia Ncumisa Sebotsa (35)
Independent non executive
LLB (Hons) LSE, MA (McGill), SFA
Appointed: May 2005

Sonja Sebotsa's areas of study were in Law, Business and Economics. She started her career in investment banking at Deutsche Morgan Grenfell, Johannesburg in 1997 working on M&A

transactions, privatisations and BEE deals. She left Deutsche Bank almost six years later, after having spent some time working in their London and Tokyo offices. Leaving Deutsche Bank as a vice president in late 2002 she took up an executive position with the WDB Group where her role largely involves negotiating and executing BEE transactions on behalf of WDB's sole shareholder, the WDB Trust.

FirstRand – committee membership
Directors' affairs and governance
Financial Sector Charter and transformation monitoring
Directorships – FirstRand Group
Discovery Holdings Limited
Makalani Holdings Limited
Rand Merchant Bank*
Directorships – external
Paracon Holdings Limited

Khehla Cleopas Shubane (51) *Independent non executive*
BA (Hons), MBA
Appointed May 1998

Khehla Shubane graduated at the University of the Witwatersrand. Prior to this he was a student at the University of the North where his studies were terminated following his arrest for political activities, conviction and sentence which he served on Robben Island. Upon his release he was employed at Liberty Life for a short time. He served on various political organisations until joining the Centre for Policy Studies in 1988. He is an author and has coauthored several political publications, and is a member of the Board of the Centre for Policy Studies.

FirstRand – committee membership
Directors' affairs and governance
Directorships – external
RMB Holdings Limited

Ronald Keith (Tim) Store (64) *Independent non executive*
CA(SA)
Appointed May 2007

Tim retired in 2004 from Deloitte, South Africa where he completed his career as chairman of the Board of Partners. He founded the firm's Financial Institutions Services Team ("FISTR") in 1984. In that capacity, he rendered regulatory, risk management and corporate governance consulting services to Southern African banking institutions, central banks and the World Bank.

Tim Store has had an ongoing interest in training in regulatory, governance and risk management topics relating to banks. He has lectured in this capacity to most South African banks. Since 1997 he has convened a course with the University of Johannesburg (formerly RAU) where he holds an honorary professorship.

He was appointed curator for four failed South African banks during the period 1991 to 2004.

He chairs the FirstRand Banking Group Board's Risk committee.

FirstRand – committee membership
Audit, risk and compliance – chairman
Directors' affairs and governance
Directorships – FirstRand Group
FirstRand Bank Holdings Limited
Rand Merchant Bank*

Benedict James van der Ross (60)
Independent non executive
Dip Law (UCT)
Appointed May 1998

Ben van der Ross is a director of companies. He has a diploma in Law from the University of Cape Town and was admitted to the Cape Side Bar as an attorney and conveyancer. Thereafter, he practised for his own account for 16 years. He became an executive director with the Urban Foundation for five years up to 1990 and thereafter of the Independent Development Trust where he was deputy chief executive officer from 1995 to 1998. He acted as chief executive officer of the South African Rail Commuter Corporation from 2001 to 2003 and as chief executive officer of Business South Africa from 2003 to 2004. He served on the Board of The Southern Life Association from 1986 until the formation of the FirstRand Group in 1998.

FirstRand – committee membership
Audit, risk and compliance
Directors' affairs and governance
Financial Sector Charter and transformation monitoring – chairman
Remuneration
Directorships – FirstRand Group
First National Bank*
FirstRand Bank Holdings Limited
Makalani Holdings Limited
Momentum Healthcare (Pty) Limited – chairman
Momentum Group Limited
RMB Asset Management (Pty) Limited – chairman
Strategic Real Estate Management Limited – chairman (managers of the EMIRA Property Fund)
Directorships – external
Lewis Group Limited
Naspers Limited
Pick 'n Pay Stores Limited

Frederik van Zyl Slabbert (67) *Independent non executive*
BS, BA (Hons) (cum laude), MA (cum laude), D Phil
Appointed November 2001

Frederik van Zyl Slabbert is a graduate of Stellenbosch University from which he received a Doctorate in Philosophy in 1967. He lectured at various South African universities until 1974 when he was elected to the South African Parliament as a member of the Progressive Party for the Rondebosch Constituency. At the time of his retirement from politics in 1986, he was the leader of the Progressive Federal Party, which was the official opposition in Parliament. He is currently a political analyst. He holds Honorary Doctorates from the Simon Fraser University in Canada, the University of Natal and the University of the Free State. He is the author of a number of books dealing with demographics and change in South Africa and also a member of the Board of the Open Society of South Africa N.Y.

FirstRand – committee membership
Directors' affairs and governance
Directorships – external
Adcorp Holdings Limited – chairman
Caxton CTP Publishers and Printers Limited – chairman

Robert Albert Williams (66) *Independent non executive*
BA, LLB
Appointed May 1998

Robbie Williams qualified at the University of Cape Town and joined Barlows Manufacturing Company where he became the managing director in 1979. In 1983 he was appointed chief executive officer of Tiger Brands and in 1985 he was appointed chairman of CG Smith Foods and Tiger Brands. Following the unbundling of CG Smith, he remained chairman of Tiger Brands until 2006. He is currently chairman of Illovo Sugar Limited.

FirstRand – committee membership
Directors' affairs and governance
Remuneration
Directorships – FirstRand Group
FirstRand Bank Holdings Limited
Directorships – external
Illovo Sugar Limited – chairman
Nampak Limited
Oceana Group Limited

** Divisional boards*

Paul Harris / 57 /
MCom
CEO: FirstRand

Johan Burger / 48 /
BCom (Hons), CA(SA)
CFO: FirstRand

Derek Carstens / 57 /
BEcon (Hons), MA (Cantab)
Director of Brands

Peter Cooper / 51 /
BCom (Hons), CA(SA),
H Dip Tax
COO: RMB Holdings Limited

Adrian Gore / 43 /
BSc (Hons), FFA, ASA,
MAAA, FASSA
CEO: Discovery Holdings
Limited

Michael Jordaan / 39 /
MCom (Economics)
PhD (Banking Supervision)
CEO: First National Bank

Theunie Lategan / 50 /
DCom, CA(SA)
Advanced Diploma Banking
CEO: FirstRand Africa and
Emerging Markets

Zweli Manyathi / 45 /
BCom (Hons) Professional
Development Programme (NY)
Sen Exec Prog (HBS and WBS)
CEO: FNB Branch Banking

Sam Moss / 47 /
BA (Hons) UK, MA
(Exeter University)
Director of Investor
Relations, FirstRand

Yatin Narsai / 41 /
BSc (Hons)
CEO: FNB Smart Solutions
and CIO

EB Nieuwoudt / 45 /
MCom
CEO: Momentum Group

Sizwe Nxasana / 49 /
BCom, BCompt (Hons), CA(SA)
CEO: FirstRand Banking Group

Michael Pfaff / 45 /
BCom, CA(SA), MBA (Duke
University)
CEO: Rand Merchant Bank

Willem Roos / 35 /
BCom (Hons), FIA
CEO: OUTsurance

Brian Riley / 50 /
FHA Diploma
AEP (Unisa)
AMP (Harvard)
CEO: WesBank

Ronnie Watson / 60 /
AMP (Harvard)
Executive chairman: WesBank

GOVERNANCE ETHOS

Good corporate governance is an integral part of FirstRand's business philosophy. The values espoused in this philosophy govern the way in which the Group operates and interfaces with all its stakeholders. Included in these values are the importance of being a good corporate citizen, integrity and the desire to be a world class company. Central to strategy is the belief in individual empowerment and personal accountability.

The directors of FirstRand and its subsidiaries endorse the Code of Corporate Practices and Conduct (the "King Code 2002") contained within the King Report on Corporate Governance for South Africa 2002 (the "King Report 2002"). They are satisfied that the Group has in all material respects complied with the provisions and the spirit of the King Code 2002.

Corporate Governance is standardised across the Group to ensure that the high standards that FirstRand has set itself are implemented and monitored in a consistent manner in all its cooperations. Where the Group conducts business internationally, appropriate best practice is adopted and monitored accordingly.

FirstRand believes that the implementation of Group strategies is best managed at subsidiary level. While the non executive directors acknowledge the need for their independence, they recognise the importance of good communication and close cooperation between executive management and non executive directors. To this end, the annual FirstRand strategy conference is attended by all the FirstRand directors and senior management across the Group. The FirstRand directors, in this context, include individuals who are also directors of the subsidiary companies and divisional boards.

STAKEHOLDER COMMUNICATION

FirstRand actively distributes information to shareholders through the Stock Exchange News Service ("SENS"), the print media and its website (www.firstrand.co.za). Following the publication of its financial results it engages with investors and analysts both locally and internationally to present the results and answer questions in respect of them. The presentations of both the interim and final results are accessible via satellite television.

Shareholders are encouraged to attend the annual general meeting. Voting by ballot is the norm. Electronic voting is not, at this stage, available to shareholders.

Across the Group, strategies are developed in each of the business units for effective engagement and communication with their specific stakeholders. These include segment based customer groups, employees, suppliers, regulatory and industry bodies and the communities in which they operate. Details of these engagements are reported in the company's sustainability report to stakeholders.

THE BOARD OF DIRECTORS AND ITS COMMITTEES

Definition of independence

In the light of discussions surrounding the classification of directors, it is thought appropriate to advise stakeholders of the basis on which directors have been classified in terms of their independence in this annual report.

Executive directors are employed in a full time capacity by FirstRand Limited or any company in the FirstRand Group.

Non executive directors are those who represent FirstRand's BEE partners and those who are also directors of RMB Holdings and are not classified in that company as independent. The company believes that a strong case could be made for these directors to be classified as independent since they are expected to demonstrate a spirit of independence in their deliberations. Directors who were previously employed in the FirstRand Group in an executive capacity in the previous three years are, in terms of King Report 2002, classified as non executive.

Independent non executive directors are all other directors. This includes those black directors who participate in the FirstRand black non executive directors' share trust established as part of FirstRand's BEE transaction. Directors who are also directors of RMB Holdings and who are classified as independent in that company are similarly classified at FirstRand.

No directors have an automatic right to a position on the FirstRand Board. All directors are required to be elected by shareholders at the annual general meeting.

The current Board of directors and their individual classifications are shown on pages 78 to 81.

APPOINTMENT OF DIRECTORS

There is a clear policy in place detailing procedures for appointments to the Board and such appointments are formal and a matter for the Board as a whole, assisted by the Directors' Affairs and Governance committee. When appointing directors, the Board takes cognisance of its needs in terms of different skills, experience, diversity, size and demographics. It is the routine of the Board to establish a new nominations committee every time a new director needs to be appointed.

A brief CV of each director standing for election or re-election at the annual general meeting accompanies the notice of the meeting contained in the annual report. A staggered rotation of directors ensures continuity of experience and knowledge. Non executive directors are appointed for three years and are subject to the Companies Act, Act 61 of 1973, as amended, provisions relating to their removal. The reappointment of non executive directors is not automatic and is subject to performance and eligibility for reappointment. The retirement age for non executive directors is set at age 70 across the Group in respect of its South African operations. The terms of employment of the executive directors are such that they can be terminated at one month's notice.

New directors are encouraged to participate in induction programmes and ongoing training to familiarise themselves with FirstRand's operations, the business environment, their fiduciary duties and responsibilities and the Board's expectations.

Composition

FirstRand has a unitary Board. Its chairman is non executive, but not independent in terms of the definitions stated above.

The Board members believe that given his specialist knowledge, it is appropriate for Mr Ferreira to continue to lead FirstRand, notwithstanding the fact that he either controls or influences a considerable number of RMBH shares, and does not fulfil the strict criteria of "independence" as set out in King Report 2002. It is also the view of the directors that a strong independent element of non executive directors already exists on the FirstRand Board and those of its major subsidiaries and that this provides the necessary objectivity essential for the effective functioning of boards of directors. The roles of the chairman and chief executive officer are separate. This ensures a balance of authority and precludes any one director from exercising unfettered powers of decision making.

At 30 June 2007, the Board of FirstRand comprised 18 directors. Two of the directors are executive, a further six are defined as non executive and the balance are classified as independent non executive directors. The Board includes three women. Eight of the directors are classified as black in terms of the Financial Sector Charter. Three of the directors represent FirstRand's three broad based Black Economic Empowerment partners. These directors were nominated by the Trusts they represent, but their appointment was subject to the approval of the rest of the Board and the shareholders in general meeting. The profiles of the directors appear on pages 78 to 81 of this report.

The Boards of the Group's major subsidiaries are similarly constituted with an appropriate mix of skills, experience and diversity.

Role and function of the board

The directors have a duty and responsibility to ensure that the principles outlined in the King Code 2002 are observed. In exercising its duties, the Board balances its conformance with governance constraints and its performance in an entrepreneurial way. The directors have a fiduciary duty to act in good faith, with due diligence and care and in the best interests of the company and all stakeholders. They are the guardians of the values and ethics of the company and its subsidiaries. All directors subscribe to the code of ethics which forms part of the Board Charter. The Code deals with duties of care and skill as well as issues of good faith, including honesty and integrity, and the need to always act in the best interests of the company. Procedures exist in terms of which unethical business practices can be brought to the attention of the Board by directors or employees.

The fundamental responsibility of the Board is to improve the economic prosperity of the Group over which it has full and effective control. In terms of its Charter, the Board is responsible for appointing the chief executive, approving corporate strategy, major plans of action and policies and procedures and the monitoring of operational performance. This includes identifying risks which impact on the Group's sustainability, the monitoring and management of these risks and internal controls, corporate governance, key performance indicators established in terms of the company's business plans, including non financial indicators and annual budgets. It monitors major capital expenditure, acquisitions and disposals and any other matters that are defined as material. The Board is also responsible for overseeing successful and productive relationships with all stakeholders.

In exercising control of the Group, the directors are empowered to delegate. This is in line with the Group's federal and decentralised management philosophy and is done through the Boards of the major subsidiaries and their respective CEO's, the executive committee ("Exco") and various board committees. A number of FirstRand directors are also directors of the major subsidiaries, thereby enhancing reporting between the subsidiary boards and FirstRand. The Board committees are structured to ensure that they include representatives from similar subsidiary board committees. This ensures that there is a common understanding across the Group of the challenges that it faces, how these are managed and the decisions that are being taken. Reports from the subsidiaries and Board committees are reviewed at quarterly Board meetings.

Directors have full and unrestricted access to management and all Group information and properties. They are entitled to seek independent professional advice at the Group's expense in support of their duties. Directors may meet separately with management without the attendance of executive directors.

Board proceedings

The Board meets quarterly. A further meeting is devoted solely to a review of the strategic plans and the resulting budgets. Additional meetings are convened as and when necessary. Directors' interests in contracts in terms of Section 234 of the Companies Act are disclosed at every meeting.

The Board met five times during the year and attendance was as follows:

	Sept 2006	Nov 2006	Feb 2007	May 2007	June 2007
GT Ferreira (Chairman)	√	√	√	√	√
VW Bartlett	A	√	A	√	A
DJA Craig	√	√	√	A	A
LL Dippenaar	√	√	√	√	√
DM Falck	√	√	√	√	√
PM Goss	√	√	√	√	√
N N Gwagwa	√	√	A	√	A
PK Harris	√	√	√	√	√
MW King – Retired March 2007	√	√	√	–	–
YI Mahomed	√	√	√	√	√
G Moloi	A	√	A	√	√
AP Nkuna	√	√	√	√	√
SE Nxasana	√	√	√	√	√
SEN Sebotsa	√	√	√	A	√
KC Shubane	√	√	√	√	√
RK Store – Appointed May 2007	–	–	–	√	√
BJ van der Ross	√	√	√	√	√
F van Zyl Slabbert	√	√	√	√	√
RA Williams	√	√	√	√	√

A = apologies tendered

As a result of his involvement with Visa International, a strategic partner of FirstRand Bank, Mr Bartlett has had to travel extensively and was overseas on three occasions on VISA matters when Board meetings were held.

SUBSIDIARY BOARDS AND BOARD COMMITTEES

FirstRand has three wholly owned subsidiaries. These are FirstRand Bank Holdings Limited, Momentum Group Limited and FirstRand Investment Holdings Limited. These subsidiary Boards are subject to the oversight of the relative regulatory authorities which include the South African Reserve Bank and the Financial Services Board.

FirstRand holds 57% of Discovery Holdings, which is separately listed on the JSE Limited. While Discovery reports directly to all its shareholders and the Stock Exchange, its corporate governance procedures are the same as those practised by FirstRand. As a medical aid administrator, certain companies in the Discovery Group are accountable to the Registrar of Medical Schemes in addition to the Financial Services Board.

Board committees assist the directors in their duties and responsibilities. In addition to the Exco, FirstRand board committees have been appointed to deal with Remuneration, Audit, Risk and Compliance, Directors' Affairs and Governance and the monitoring of the implementation of the Financial Sector Charter and Transformation. These committees have formal charters and report to the quarterly Board meetings. With the exception of Exco they are chaired by independent non executive directors and have a majority of independent non executive directors with the exception of the Financial Sector Charter and Transformation committee which includes the three directors representing FirstRand's BEE partners. Independent professional advice necessary in support of their duties may be obtained at the Group's expense.

Additional board committees exist at subsidiary company level and are established specifically for the purposes of managing risk. These include Large Exposure and Credit committees, established in the Banking Group and actuarial committees which exist where companies are involved in insurance related activities.

When FirstRand directors retire, they automatically retire from the committees on which they serve. Their reappointment to the committees is not automatic and is subject to the approval of the FirstRand Directors' Affairs and Governance committee.

All committees have satisfied their responsibilities during the year in compliance with their terms of reference.

EXECUTIVE COMMITTEE

Composition

Exco is chaired by the chief executive of FirstRand. Membership of Exco includes the CEO's of the major subsidiaries and operating divisions, the Group chief financial officer and certain members of senior management. The members of the FirstRand Exco are listed on page 82.

Role

Exco is empowered and responsible for implementing the strategies approved by the FirstRand Board and for managing the affairs of the Group. The Exco Charter encompasses strategy, which includes optimisation of the Group's capital base and its financial resources and also the Group's technical and human resources. Of particular importance in terms of strategy is the ongoing development and inculcation of an enduring and widely embraced Group values system which creates an enabling environment in which operating units can grow and prosper. This value system is reflected in the FirstRand Business Philosophy. Other responsibilities of the FirstRand Exco include acting as custodian of the FirstRand Brand and managing Group image and reputational issues. Group profitability is optimised through synchronising the strategies of the major operating units and leveraging off Group strength.

The committee meets monthly.

REMUNERATION COMMITTEE

Composition

Membership includes representatives of the Remuneration committees of the Group's principal subsidiaries. The chief executive of FirstRand attends in an ex officio capacity.

Role

The primary objective of the Remuneration committee is to develop the reward strategy for the Group. It is responsible for:

- evaluating the performance and rewarding of executive directors and senior executives;
- recommending remuneration packages for executive directors and senior management including, but not limited to, basic salary, benefits in kind, performance based incentives, pension and other benefits;
- recommending policy relating to the Group's bonus and share incentive schemes;
- recommending the basis for non executive directors' fees; and
- reviewing the process for an approval of annual salary increases.

FirstRand espouses a remuneration philosophy that promotes commitment to the meeting of organisational goals and recognises individual contribution to the achievement of those goals. Further details relating to FirstRand's remuneration practices can be found on pages 89 and 90 of this report.

No executive director is involved in the setting of their own remuneration.

Proceedings

Membership and attendance at the meetings held during the year was as follows:

	July 2006	April 2007	June 2007
PM Goss (Chairman)	A	√	√
LL Dippenaar	√	√	√
GT Ferreira	√	√	√
MW King – Retired 31 March 2007	√	–	–
BJ van der Ross	√	√	√
RA Williams	√	√	√

The chairman attends the annual general meeting.

Details of each director's remuneration for the period under review can be found on page 297 of this report. Details of share options and dealings in FirstRand shares is reported on page 298. The remuneration of the non executive directors is reviewed annually and proposals relating to increases in fees are submitted to the annual general meeting of shareholders for approval.

AUDIT, RISK AND COMPLIANCE COMMITTEE

Composition

The committee includes the chairpersons of the Group's major subsidiary Audit committees. In addition, the Board deems it appropriate that the chief executive should attend all committee meetings. The FirstRand chief financial officer is the chairman of the Discovery Audit committee. He attends FirstRand Audit, Risk and Compliance committee meetings in an ex officio capacity. The external auditors are present at all Audit committee meetings and meet independently with the non executives as and when required.

Role

The FirstRand Audit, Risk and Compliance committee reviews the findings and reports of the subsidiary company audit, Risk and Compliance committees and addresses matters of a Group or head office nature. All the committees have adopted terms of reference approved by their respective Boards dealing with membership, structure, authority and duties.

The responsibility of the FirstRand Audit committee is to:

- ensure the integrity, reliability and accuracy of accounting and financial reporting systems;
- ensure that appropriate systems are in place to identify and monitor risk, controls and compliance with the law and codes of conduct;
- evaluate the adequacy and effectiveness of internal audit, risk and compliance;
- appoint the auditors and evaluate their services and independence;
- maintain transparent and appropriate relationships with the respective firms of external auditors;
- review the scope, quality and cost of the statutory audit and the independence and objectivity of the auditors; and
- set principles recommending the use of external auditors for non audit services.

Issues relating to sustainable business practices and the Group's status as a good corporate citizen are monitored by this committee. The integrity of the Sustainability report is reviewed by the Group's internal auditors.

The committee has complied with its terms of reference. The independent auditor attends all Audit committee meetings and the annual general meeting of shareholders. The senior partner responsible for the audit is required to rotate every five years. The committee meets with the auditors independently of senior management.

Proceedings

Membership and attendance at the two meetings held during the year was as follows:

	Sept 2006	Feb 2007
MW King – Chairman and chairman of the Banking Group Audit committee	√	√
BJ van der Ross – Chairman of the Insurance Group Audit committee	√	√

The FirstRand chief executive, chief financial officer and the Group's auditors were present at both meetings.

Following the retirement of Mr MW King in March 2007, Mr RK Store was appointed chairman of the committee. Prior to his appointment, Mr Store, who was chairman of FirstRand Bank's audit committee, attended meetings in an advisory capacity.

The chairman attends the annual general meeting.

DIRECTORS' AFFAIRS AND GOVERNANCE COMMITTEE

Composition

This committee comprises all the non executive directors and is chaired by an independent non executive director.

Role

In terms of its Charter, the prime objective of this committee is to assist the Board in discharging its responsibilities relative to corporate governance structures, matters relating to performance and remuneration of directors and the appointment of new directors, the effectiveness of the Board and succession planning at executive level.

Proceedings

This committee met twice during the year. Membership and attendance was as follows:

	Sept 2006	May 2007
PM Goss (Chairman)	√	√
VW Bartlett	A	√
DJA Craig	√	A
LL Dippenaar	√	√
DM Falck	√	√
GT Ferreira	√	√
N Gwagwa	√	√
MW King (Retired with effect from 31 March 2007)	√	–
YI Mahomed	√	√
G Moloi	A	√
AP Nkuna	√	√
SEN Sebotsa	√	A
KC Shubane	√	A
RK Store (Appointed to the Board 23 May 2007)	–	–
BJ van der Ross	√	√
F van Zyl Slabbert	√	√
RA Williams	√	√

The chairman attends the annual general meeting.

FINANCIAL SECTOR CHARTER AND TRANSFORMATION MONITORING COMMITTEE

Composition

This committee is chaired by an independent non executive director of FirstRand, who is also a director of FirstRand Bank Holdings Limited and Momentum Group Limited. The committee comprises directors and executive representatives from FirstRand Bank Holdings Limited, Momentum Group Limited and Discovery Holdings Limited. The directors include the three representatives from FirstRand's BEE partners.

Role

This committee was established to monitor the implementation of the Group's strategy to embrace the Financial Sector Charter. The committee also oversees transformation related activities.

The Charter of the committee lists its principal responsibilities as being:

- to receive reports from the FirstRand Transformation Unit. This Unit collates the data and information necessary to complete the "scorecard" against which the Group is measured;
- to offer advice and encouragement to executive management on how best to achieve the Charter's goals; and
- to review practices facilitating transformation.

The responsibility for the implementation of strategies to achieve the objectives of the Financial Sector Charter rests with executive management.

Proceedings

Membership and attendance of FirstRand directors at the meetings held during the year was as follows:

	Aug 2006	Nov 2006	Jan 2007	May 2007
B van der Ross – Chairman	√	√	√	A
VW Bartlett (Resigned 1 January 2007)	A	A	–	–
NN Gwagwa	√	√	√	√
YI Mahomed	√	√	√	√
AP Nkuna	√	√	√	√
SEN Sebotsa	√	√	√	√

Progress with regard to the Financial Sector Charter scorecard is reported on page 28. Details regarding the company's Employment Equity targets are available in the FirstRand Sustainability report on page 28.

PERFORMANCE EVALUATION

The Board and all its committees conducted evaluations to measure their effectiveness during the year. No material concerns were expressed in these evaluations and the committees in their opinion have satisfied their responsibilities during the year.

SUCCESSION PLANNING

FirstRand benefits from an extensive pool of people with diverse experience and competence at senior management level. A formal succession planning exercise has been undertaken across the entire Group. The Board is confident that it should be possible to identify suitable short term and long term replacements from within the Group should the need arise.

TRADING IN COMPANY SHARES

The company has closed periods prohibiting trade in FirstRand shares by directors, senior executives and participants in the various share option schemes. The closed periods commence on 1 January and 1 July and are in force until the announcement of the interim and year end results and during any period where the company is trading under cautionary or where they have knowledge of price sensitive information. Similar prohibitions exist in respect of trading in RMB Holdings shares.

All directors' dealings require the prior approval of the chairman and the secretary retains a record of all such share dealings and approvals.

Trading in securities by members of the Exco and the company secretary are subject to the Group's Personal Account Trading Rules.

SUSTAINABILITY REPORTING

FirstRand believes that the management of issues relating to sustainability are integral to the way in which the Group is managed. The Group's approach to sustainability is outlined on pages 74 to 77 and the material risks and opportunities associated with sustainability challenges have been dealt with in the Review of Operations. Detailed information relating to stakeholder concerns is available on the sustainability website (www.firstrandsusrep.co.za).

CORPORATE SOCIAL INVESTMENT

Group companies contribute 1% of after tax profits to the FirstRand Foundation, the vehicle used by the Group to oversee its Corporate Social Investment activities.

The work of the Foundation is subject to the oversight of a board of trustees comprising a cross section of members of management and independent trustees representing broader society. All trustees are subject to the FirstRand Code of Ethics.

The day to day running of the Foundation is outsourced to Tshikululu Social Investments, a not for profit corporate social consultancy. Together with the trustees, they oversee compliance with relevant legislation, the implementation and monitoring of risk management protocols related to the approval and payment of grants and measuring the impact of the Foundation's work.

The FirstRand Foundation was established following the creation of the FirstRand Group in 1998. Areas of need identified by the Foundation include education, disability, the impact of HIV/AIDS, the protection of the environment, arts and culture, provision of food and community care, including care of the aged and the control of substance abuse.

FirstRand Group employees are encouraged to contribute their time and skills through the FirstRand Volunteers initiative.

Details of the activities of the Foundation, the projects supported and how the public might interface with the Foundation are available on the Foundation's website – www.firstrandfoundation.org.za.

POLITICAL DONATIONS/SOLICITATION OF GIFTS

The Group does not make donations to political parties.

The making or acceptance of payments, other than declared remuneration, gifts and entertainment, as consideration to act or fail to act in a certain way are prohibited. Directors are required to disclose any potential conflict of interests.

COMPANY SECRETARY

AH Arnott was appointed company secretary on 25 November 2002. He is suitably qualified and empowered and has access to the Group's secretarial resources. The company secretary provides support and guidance to the Board in matters relating to governance and ethical practices across the Group. He assists the Board as a whole and directors individually with detailed guidance as to how their responsibilities should be properly discharged in the best interest of FirstRand. He facilitates, where necessary, induction and training for directors and assists the Chief Executive in determining the annual meeting timetable.

AUDITOR INDEPENDENCE

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

Details of fees paid to the external auditors are included on page 172 of this report, together with details of non audit services provided and the fees paid in respect thereof.

REMUNERATION COMMITTEE

The FirstRand Group companies operate in a number of sectors within the broader financial services industry. Each of these sectors has its own distinct employment practices and unique human resource pressures. To recognise and address such divergent needs, FirstRand follows a practice of devolving the design and implementation of appropriate "industry specific" remuneration strategies through various Board Remuneration committees:

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

The FirstRand Remuneration committee oversees the activities of the subsidiary Remuneration committees and coordinates Group remuneration strategy, thereby ensuring its appropriateness across all divisions. Details of the committee's charter and its membership form part of the Corporate Governance report on pages 83 to 88.

REMUNERATION STRATEGY

Within the divisional framework, referred to above, remuneration structures for employees include:

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

The performance of the executive team and senior management is measured against predetermined goals, both financial and non financial. Scorecards are used where appropriate.

Where employees belong to recognised trade unions, appropriate bargaining platforms exist to satisfy all parties.

The policy on remuneration of executive directors is consistent with that of senior staff.

From time to time processes are reviewed by independent consultants to ensure that they remain appropriate and in line with best practice.

Basic salary and benefits

Salaries are reviewed annually, in the context of individual and business unit performance, inflation and specific industry practices and trends. Reference is made to independent salary surveys on a regular basis.

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

All full time employees are required to belong to a medical aid scheme. On retirement, facilities exist for ex employees to join medical aid schemes in their individual capacities. Where, as the result of past practice, the Group is required to contribute towards post retirement medical aid costs, the present value of such contributions is calculated and provided for. Current employment practice is for the Group not to contribute to post retirement medical aid costs.

Performance related payments

Where appropriate, annual performance related payments are made to employees. The level of such payments is dependent upon a number of key measures including the performance of the individual and benchmarks relating to targets such as return on equity and growth in earnings for the business unit concerned. The payment of bonuses is always subject to the discretion of management and bonuses are not formula driven. In respect of senior positions, there is no guarantee in respect of bonuses. In certain business units, bonus payments take place in tranches during the 12 months following the financial year to which they relate. Notwithstanding such deferral, the bonuses are provided for in full in the current year's expenditure. Should an employee resign or be dismissed from the Group's employ, unpaid bonus tranches are forfeited. Bonuses are not capped at any particular level.

Share incentives

Share incentive schemes operated by the Group are a powerful tool in aligning the interests of staff with those of FirstRand shareholders. All of the share incentive schemes currently in operation in the Group have received the prior approval of FirstRand shareholders in general meeting. A maximum of 564 million ordinary shares in the capital of FirstRand may be allocated to the schemes. This represents approximately 10% of FirstRand's ordinary shares currently in issue.

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

- a series of conventional share option schemes (collectively "the FirstRand share option schemes"); and
- the FirstRand Outperformance share scheme, in terms of which participants are rewarded only if the performance of the FirstRand share price exceeds that of the FINI 15 over a 60 month period.

The Outperformance scheme was introduced in 2000. The last of the grants will expire in October 2008.

For options issued subsequent to 30 June 2006, the essence of the FirstRand share option scheme has been refined to take cognisance of further developments in corporate governance and the impact of changes flowing from the implementation of International Financial Reporting Standards. Options issued since then involve share appreciation rights and the achievement of vesting hurdles which are based on real growth in earnings. Allocations are reviewed annually and the time horizon of the schemes still being used for new issues is five years.

Participation in FirstRand BEE transaction

As part of FirstRand's BEE transaction approved at the general meeting of shareholders held on 21 April 2005:

- Certain black non executive directors serving on the Boards of FirstRand, FirstRand Bank Holdings and Momentum Group participate in the FirstRand black non executive directors' share trust. The trust holds 15 million FirstRand ordinary shares. The extent of the participation of the black directors concerned is disclosed separately on page 298.
- FirstRand's black South African employees participate in the FirstRand black employee share trust. This share trust holds 136.4 million ordinary shares in FirstRand, representing 2.4%% of the company's issued share capital.

Details relating to these schemes are set out at note 37 to the financial statements.

NON EXECUTIVE DIRECTOR REMUNERATION

Non executive directors receive fees for their services as directors and for services provided as members of Board committees. These fees vary depending on the role of the committee. Non executive directors do not qualify for participation in share incentive schemes and have no contracts with the company.

As described in the corporate governance section of this report, non executive directors are appointed for a period of three years after which they are required to retire by rotation. Their reappointment to the Board is subject to internal governance processes and the approval of shareholders at the annual general meeting.

Fees paid to non executive directors are based on current market practice and are approved by shareholders at the annual general meeting.

Details of fees paid to the directors are set out on page 297.

change in South African workforce

for the year ended 30 June

	2007	2006	2005	2004
Staff complement at 1 July	39 738	36 156	32 732	32 110
New appointments	6 179	8 143	6 909	3 770
Resignations	(3 491)	(3 094)	(2 453)	(1 993)
Retrenchments	(279)	(165)	(94)	(89)
Dismissals	(365)	(390)	(229)	(104)
Deaths or disability	(148)	(132)	(78)	(58)
Other*	(1 908)	(780)	(631)	(904)
Staff complement at 30 June	39 726	39 738	36 156	32 732

* *Contract workers*

total workforce

	2007		2006	
	Number	%	Number	%
South Africa	39 726	92.7	39 738	92.9
Rest of Africa	2 626	6.1	2 447	5.7
Other countries	530	1.2	573	1.4
Total workforce	42 882	100	42 758	100

value added statement

for the year ended 30 June

	2007 R million	2007 %	2006 R million	2006 %
Value added				
Net interest income earned by FirstRand Banking Group	11 141	11.5	9 304	11.2
Net premium income and fees earned by Momentum	39 540	40.7	40 621	49.0
Net income earned by Discovery	4 300	4.4	2 676	3.2
Net loss by FirstRand Limited	(100)	(0.1)	(127)	(0.1)
Value added by Group	54 881	56.5	52 474	63.3
Non operating income	55 484	57.1	38 056	45.9
Non operating expenditure	(13 204)	(13.6)	(7 631)	(9.2)
Valued added by Group	97 161	100	82 899	100
To employees				
Salaries, wages and other benefits	13 236	13.6	10 230	12.3
To providers of capital				
Dividends to shareholders	4 143	4.3	4 988	6.0
To government	5 411	5.6	4 306	5.2
Normal tax	4 154		3 068	
Value added tax	625		578	
Regional services levy	5		70	
Capital Gains Tax	391		410	
Other	236		180	
To policyholders				
Policyholder claims and benefits	64 837	66.7	57 348	69.2
Insurance contracts	6 844		5 811	
Investment contracts	32 929		23 488	
Adjustment to liabilities under investment and insurance contracts	25 064		28 049	
To expansion and growth	9 534	9.8	6 027	7.3
Retained income	7 616		4 220	
Depreciation	922		892	
Deferred tax	996		915	
	97 161	100.0	82 899	100.0

For the year to June 2007 the FirstRand Group of companies grew normalised earnings 32% and achieved normalised ROE of 28%.

contents

TO THE MEMBERS OF FIRSTRAND LIMITED

The directors of FirstRand Limited are required by the Companies Act to maintain adequate accounting records and to prepare financial statements for each financial year that fairly present the state of affairs of the company and the Group at the end of the financial year, and of the results and cash flows for the year. In preparing the accompanying financial statements, International Financial Reporting Standards have been followed, suitable accounting policies have been applied and reasonable estimates have been made. The Board approves significant changes to accounting policies and the effects of these are fully explained in the annual financial statements. The financial statements incorporate full and responsible disclosure in line with the Group's philosophy on corporate governance.

The directors have reviewed the Group's budget and flow of funds forecast for the year to 30 June 2008. On the basis of this review, and in the light of the current financial position, the directors have no reason to believe that FirstRand Limited will not be a going concern for the foreseeable future. The going concern basis has therefore been adopted in preparing the financial statements.

The Group's external auditors, PricewaterhouseCoopers Inc, have audited the financial statements and their unqualified report appears on page 96.

The financial statements of the Group and the company for the year ended 30 June 2007, which appear on pages 141 to 279 and pages 280 to 300 respectively, have been approved by the Board of directors and are signed on its behalf by:

GT Ferreira
Chairman

PK Harris
Chief executive officer

Sandton

17 September 2007

group secretary's certification

DECLARATION BY THE COMPANY SECRETARY IN RESPECT OF SECTION 268G (D) OF THE COMPANIES ACT

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

AH Arnott
Company secretary

17 September 2007

TO THE MEMBERS OF FIRSTRAND LIMITED

We have audited the annual financial statements and Group annual financial statements of FirstRand Limited, which comprise the Directors' report, the balance sheet and the consolidated balance sheet as at 30 June 2007, the income statement and the consolidated income statement, the statement of changes in equity and the consolidated statement of changes in equity, the cash flow statement and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 97 to 99 and from 141 to 300.

Directors' responsibility for the financial statements

The company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the company and of the Group as of 30 June 2007, and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa.

PricewaterhouseCoopers Inc
Director: F Tonelli
Registered Auditor

Johannesburg

17 September 2007

NATURE OF BUSINESS

FirstRand Limited ("FirstRand") is the holding company of the FirstRand group of companies. These companies are engaged in diverse financial services activities in the areas of retail, corporate, investment and merchant banking, life insurance, employee benefits, health insurance, short term insurance and asset and property management. While the Group is predominantly South African based, it has operations in the neighbouring countries, the United Kingdom, the United States, the Middle East and Australia.

FirstRand Limited is listed under "Financial – Banks" on the Securities Exchange of the JSE Limited ("JSE") and the Namibian Stock Exchange.

A simplified FirstRand organogram is shown on page 27.

GROUP RESULTS

A general review of the financial results of the Group and the operations of its subsidiaries commences on page 28.

The financial results have been prepared in accordance with International Financial Reporting Standards.

Earnings

Headline earnings were as follows:

R million	2007	2006
Banking Group	9 355	7 049
Momentum Group	1 610	1 534
Discovery Group	556	350
FirstRand Limited	(123)	(164)
Consolidation of share trusts	(593)	(380)
Dividend payment on non cumulative non redeemable preference shares	(348)	(274)
Headline earnings	10 457	8 115
Diluted headline earnings per share (cents)	196.8	152.6

Dividends

Ordinary shares

The following ordinary cash dividends were declared in respect of the 2007 financial year:

Cents per share	2007	2006
Interim (declared 21 February 2007)	39.5	32.0
Final (declared 17 September 2007*)	43.0	34.0
	82.5	66.0

* *The last day to trade in FirstRand shares on a cum-dividend basis in respect of the final dividend will be Friday, 12 October 2007 and the first day to trade ex-dividend will be Monday, 15 October 2007. The record date will be Friday, 19 October 2007 and the payment date Monday, 22 October 2007. No dematerialisation or rematerialisation of shares may be done during the period Monday, 15 October 2007 and Friday, 19 October 2007, both days inclusive.*

Preference shares

Dividends on the "A" preference shares are calculated at a rate of 65% of the prime lending rate of First National Bank. The following dividends were declared and paid during the year:

For the six months to 31 December 2006: R2 795 257 (2006: R22 465 956)

For the six months to 30 June 2007: R2 412 645 (2006: R12 568 955)

Dividends on the "B" and "B1" preference shares are calculated at a rate of 68% of the prime lending rate of First National Bank. The following dividends have been declared for payment:

Cents per share	2007 "B"	2007 "B1"	2006 "B"	2006 "B1"
Period 30 August 2005 – 27 February 2006			356.0	356.0
Period 28 February 2006 – 28 August 2006			363.0	363.0
Period 29 August 2006 – 26 February 2007	409.7	409.7		
Period 27 February 2007 – 27 August 2007	431.1	431.1		

SHARE CAPITAL

Authorised – ordinary and preference share capital

Details of the company's authorised share capital as at 30 June 2007 are shown in note 34 to the financial statements.

No changes were made to FirstRand's authorised ordinary and preference share capital.

Issued – ordinary share capital

During the year under review the following changes were made to the issued ordinary share capital of the company:

On 8 November 2006 FirstRand converted 831 066 "A" variable rate, convertible, redeemable, cumulative preference shares issued by the company in terms of the FirstRand Outperformance share incentive scheme into the same number of ordinary shares.

On 12 April 2007, FirstRand converted 764 107 "A" variable rate, convertible, redeemable, cumulative preference shares issued by the company in terms of the aforesaid FirstRand Outperformance share incentive scheme into the same number of ordinary shares.

Issued – preference share capital

During the year under review the following changes were made to the preference share capital of the company:

"A" preference shares

The following "A" preference shares were redeemed or converted in terms of the Outperformance scheme:

Date	Number of shares	Premium
Redemptions		
8 November 2006	2 956 434	R6.53
12 April 2007	983 393	R7.44
1 June 2007	825 000	R6.53
Conversions		
8 November 2006	831 066	R6.53
12 April 2007	764 107	R7.44

For reporting purposes, the "A" preference shares are shown as part of long term liabilities, as the substance of these instruments is debt.

"B" and "B1" preference shares

There were no changes during the year to the number of "B" and "B1" preference shares in issue during the year.

SHAREHOLDER ANALYSIS

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

Based on information disclosed by STRATE and investigations conducted on behalf of the company, the following shareholders have a beneficial interest of 5% or more in the issued ordinary shares of the company:

RMB Holdings Limited	30.07%	(2006: 30.20%)
Financial Securities Limited (Remgro)	8.54%	(2006: 8.57%)
Public Investment Corporation	9.05%	(2006: 8.66%)
FirstRand Empowerment Trust and related parties	9.50%	(2006: 9.50%)

A further analysis of shareholders is set out on page 304.

DIRECTORATE

At 31 March 2007 Mr MW King retired as a director of the company, having reached the mandatory retirement age.

On 23 May 2007 Mr RK Store was appointed an independent non executive director. Mr Store has replaced Mr King as chairman of the FirstRand Audit committee.

Details of the directors are on page 78. The name of the company secretary and FirstRand's business and postal addresses are on page 305.

DIRECTORS' INTEREST IN FIRSTRAND

(Disclosure in terms of paragraph 8.63 (d) of the Listings Requirements of the JSE.)

Details of the directors' interest in the issued ordinary and preference shares of FirstRand are on page 300.

DIRECTORS' EMOLUMENTS

Directors' emoluments and their participation in share incentive schemes are on page 297. Information relating to the determination of directors' emoluments, share option allocations and related matters are contained in the remuneration report on page 89.

INTEREST OF DIRECTORS AND OFFICERS

During the financial year, no contracts were entered into in which directors or officers of the company had an interest and which significantly affected the business of the Group. The directors had no interest in any third party or company responsible for managing any of the business activities of the Group except to the extent that they are shareholders in RMB Holdings, which together with Remgro, has management control of FirstRand.

PROPERTY AND EQUIPMENT

There is no change in the nature of the property and equipment of the Group or in the policy regarding their use during the year.

INSURANCE

The Group protects itself against crime risks as well as professional indemnity by carrying large deductibles through a structured insurance risk financing programme and carries levels of cover commensurate with the size and stature of the organisation.

SUBSIDIARIES AND ASSOCIATES

Interests in subsidiary and associate companies which are considered material in the light of the Group's financial position and its results are on pages 191 to 194 and pages 240 to 244.

COMPANY SECRETARY AND REGISTERED OFFICES

AH Arnott was appointed company secretary on 25 November 2002. The address of the company secretary is that of the registered office as stated on page 305.

SUBSEQUENT EVENTS

Unbundling of 57.1% Discovery shareholding

Since the year end, FirstRand announced that it had reached agreement with Discovery to seek shareholder approval for the unbundling of the Group's 57.1% shareholding in Discovery. The proposed unbundling will provide FirstRand shareholders with a direct shareholding in Discovery and is expected to improve the liquidity of the trading in Discovery shares on the JSE.

Following the decision in 2000 to allow Discovery to enter the risk market, shareholders increasingly questioned the merits of FirstRand having two insurance businesses competing in the same markets.

The Group's strategy was that "two horses in the race" was producing significant growth, as both companies were growing at the expense of the competition and therefore not destroying shareholder value. This strategy was monitored on a regular basis by the Boards of FirstRand, Discovery and Momentum.

With Discovery now entering the investment market and Momentum's growing presence in the health sector, both will increasingly be competing head on in all product areas and the Group has, therefore, agreed it is appropriate to fully unbundle Discovery.

BOARD CHANGES

Mr GT Ferreira has advised the Board of FirstRand Limited of his decision to step down as Chairman after the announcement of the Group's results in September 2008. A special Nomination committee, comprised of certain non executive directors, was established to recommend a successor. The committee has recommended, and the Board has approved, that Mr Laurie Dippenaar should succeed Mr Ferreira as Chairman of FirstRand.

Mr Ferreira has also advised the Board of FirstRand Bank that he will resign as Chairman and a director in September 2008. A separate Nomination committee was established to assess the succession process at the Bank and has also recommended that Mr Dippenaar be appointed as Chairman.

Both Boards believe that Mr Dippenaar is the most appropriate successor to Mr Ferreira given his long and successful track record with the Group and his deep understanding of the financial services industry.

GT Ferreira
Chairman

PK Harris
Chief executive officer

PHILOSOPHY

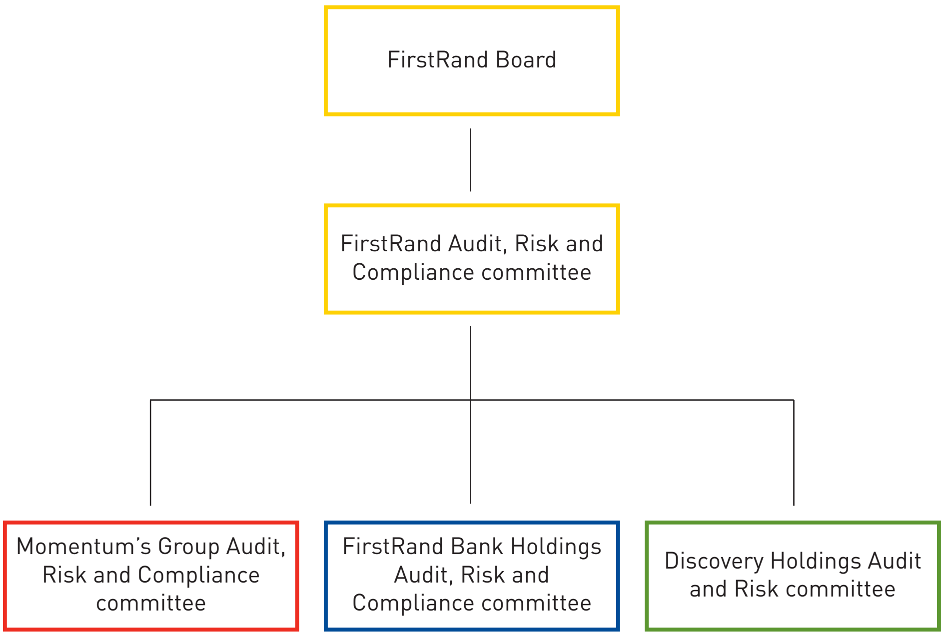
The FirstRand Business Philosophy embodies sustainable business practices and an obsession with good corporate governance. In line with this business philosophy, FirstRand recognises that effective risk management and governance is essential to generate sustainable profits, safeguard its reputation, create a competitive edge and achieve an optimal risk/reward profile.

RISK GOVERNANCE

FirstRand defines risk as any factor which could cause the entity not to achieve its desired business objectives or result in adverse outcomes, including reputational damage. The Enterprise Risk Management ("ERM") function of the Group is responsible for the independent oversight and discipline required to continuously drive improvement of the Group's risk management capabilities in a challenging and ever changing operating environment. The objective of the risk management programme is not only to protect, but also to create enterprise value to the Group's strategy, people, processes, technology and knowledge. Risk management is embedded in the Group's strategy and is integrated in its day to day operating activities. Direction and oversight of risk management occur at the top of the organisation.

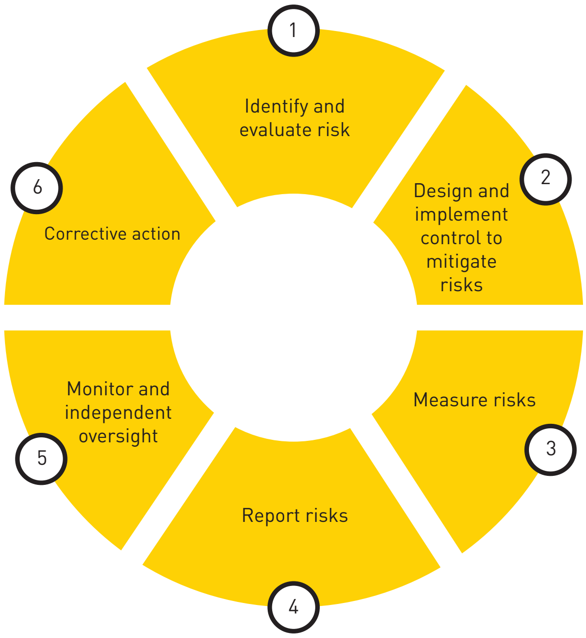
The Board of FirstRand is responsible for oversight of the business performance and risk management activities of the Group. The Board is supported in these tasks by the Boards of the major subsidiaries, Board committees and their sub-committees; independent and deployed risk management functions as well as internal auditors and compliance. These committees and functions monitor the Group's risks and provide assurance that risk management processes operate effectively throughout the organisation.

This diagram illustrates the governance oversight provided by the FirstRand Board and the FirstRand Audit, Risk and Compliance committee:



The FirstRand Audit, Risk and Compliance committee reviews the findings and reports of the subsidiary Audit, Risk and Compliance committees, which in turn review the findings and reports of the board sub-committees and the independent risk management functions. The independent risk management functions are responsible to ensure that appropriate, effective and efficient business performance and risk management processes, and control and compliance are in place and integrated in the day to day activities.

The Group adopts the following approach to risk management:



RISK MANAGEMENT FRAMEWORK

The Business Performance and Risk Management Framework of FirstRand, a policy of the Board of directors, governs the risk management process and provides a matrix of business, strategic, financial and non financial risks that the Group will monitor. In terms of this Framework, risk management is vested as an integral part of management's functions at all levels of the Group and includes the management of governance, strategy, business performance, competitiveness, human resources, external factors, processes, information technology, and operational, financial and tax risk.

Within FirstRand, as the holding company, each of the major subsidiaries, FirstRand Banking Group, Momentum Group and Discovery Group, operate in specific markets that present different financial and non financial risks and opportunities. Risk management in each of these subsidiaries is governed by a separate Risk Management Framework. In the FirstRand Banking Group this is referred to as the Business Performance and Risk Management Framework; in the Momentum Group, the Business Success and Risk Management Framework; and in the Discovery Group, the Enterprise Risk Management Framework (henceforth collectively referred to as the "the Risk Frameworks").

The Risk Frameworks are based on the experience that:

- top performing organisations of long standing excel at good governance, strategic and competitive positioning, the management of key risks and the implementation of world class processes and systems;
- entrepreneurs add value to an organisation through innovation, management of risk and the identification of profitable opportunities which will yield superior and sustainable returns and minimise negative impacts on all stakeholder groups;
- successful businesses are those who manage their business performance and risks better than their competitors; and
- to be successful, a business has to get many things right while a single factor could cause it to fail.

The Risk Frameworks aim to incorporate the risk management process into the overall management process. This process drives strategy, products, services and processes to generate profits and growth in a sustainable way, while the risk management process supports management by providing the checks and balances, through risk quantification, qualitative assessments, monitoring and the initiation of corrective measures, to ensure sustainability, performance, the achievement of the desired objectives and to avoid adverse outcomes and reputational damage.

The Risk Frameworks comply with statutory and regulatory requirements and are in line with King II and COSO requirements. The Frameworks have been reviewed and benchmarked against international best practice and have proved to be thorough, effective and robust in fully supporting enterprise risk management principles.

KEY RISKS

The risk management report is presented for each of the three major subsidiaries of FirstRand Group, namely FirstRand Banking Group, Momentum Group and Discovery Group. The financial and operational risks for each major subsidiary are discussed separately in this report. Financial risks include credit risk, market risk, liquidity risk, interest rate risk, and insurance risk. The key non financial and business risks and opportunities for each major subsidiary are identified and discussed in their operational reports. The non financial business risks and opportunities include issues such as reputation, regulation, transformation, customer relationships and the impact of HIV/AIDS on the customer base. Managing sustainability and reputational risk is a key component of the risk governance process at FirstRand.

RISK REWARD APPETITE

The ERM functions of each of the three major subsidiaries of FirstRand Group provide independent risk management oversight for all the risks across the respective subsidiaries to ensure that these risks are appropriately managed within the defined and approved risk/reward appetite framework.

A business profits from taking risks, but will only generate an acceptable profit commensurate with the risks from its activities, if the risks are adequately managed and controlled. FirstRand's aim is not to eliminate risk, but to achieve an appropriate balance between risk and return, called the risk/reward appetite. This balance is achieved by controlling risk at the level of individual exposures, at portfolio level and in aggregate, across all risk types and businesses, relative to the risk/reward appetite.

The following objectives and measures articulate the risk/reward appetite of FirstRand:

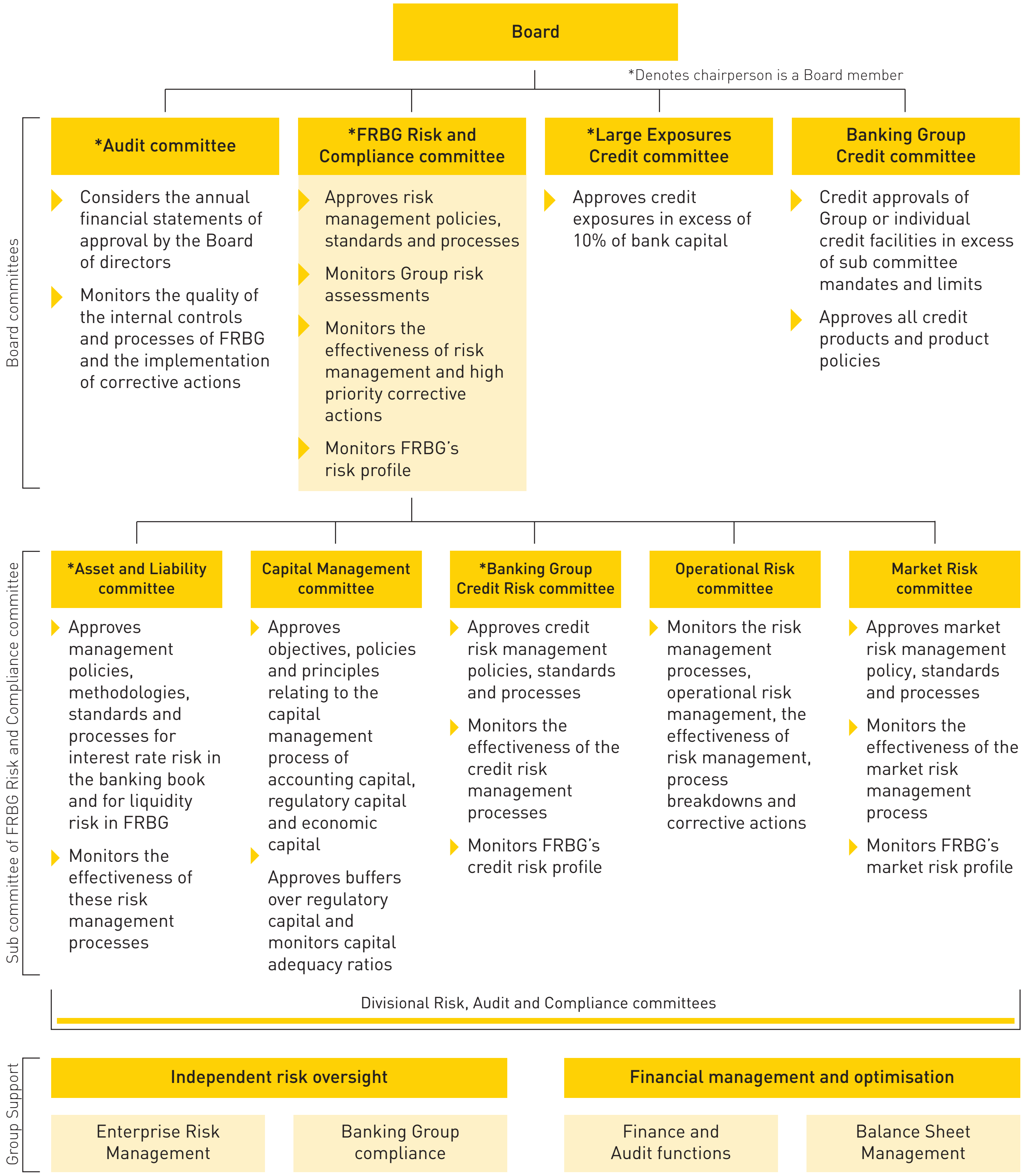
RISK REWARD OBJECTIVES	RISK/REWARD MEASURES
• Targeted credit rating – FirstRand targets the highest possible credit rating. – FirstRand ensures the level and composition of capital is consistent with its credit rating. – FirstRand's profitability and risk levels are the primary drivers behind its credit rating. • Targeted capitalisation – FirstRand is adequately capitalised on an economic basis, with the targeted capital levels the higher of economic capital or regulatory capital plus buffer. • Risk limits – Risk limits are put in place for specific risk types and exposures are monitored to stay within these limits.	• Targeted sustainable profitability 10% real growth in earnings (CPIX + 10%). • Targeted return on equity ("ROE"): – 10% + weighted average cost of capital. • Positive NIACC (Net income after capital charge) – (only applicable to FirstRand Banking Group)

PROTECTION OF THE GROUP'S REPUTATION

Safeguarding the Group's reputation is of paramount importance to its continued prosperity and is the responsibility of every member of staff. Reputational risks can arise from environmental, social and governance issues or as a consequence of financial or operational risk events. The Group's good reputation depends upon the way in which it conducts its business and protects its reputation by managing and controlling the risks incurred in the course of business. This means avoiding large concentrations or exposures and limiting potential stress losses from credit, market, liquidity and operational risk, and taking account of reputational risk to its business.

FIRSTRAND BANKING GROUP ("FRBG") GOVERNANCE STRUCTURE

The governance structure of FRBG is illustrated in the diagram below:



The risk management governance structures of FRBG cascade down from the Board to the subsidiaries and main divisions and their business units. Divisional and risk sub committees oversee the risk management processes of FRBG.

The ERM function provides independent risk oversight and the FRBG compliance ("BGC") function provides independent compliance oversight. These independent risk oversight functions are responsible for coordinating and monitoring the risk governance functions and oversight of FRBG, as well as establishing and driving implementation of risk management standards, methodology and processes, and report directly to the CEO.

Balance Sheet Management is responsible for balance sheet optimisation and manages credit risk, interest rate risk, liquidity risk and capital and funding requirements. The Finance and Audit function manages financial reporting, tax risk and legal risk. Balance Sheet Management and the Financial and Audit functions report to the CFO.

In the various divisions and business units, deployed risk managers are responsible for supporting the implementation of the Risk Framework at business unit level. All the business units report on the effectiveness of their risk management processes to their relevant risk management functions and Risk committees via a bottom up process. The risk reporting process is designed to provide an appropriate representation of the risk profile. The risk reports for each of the main business divisions are submitted quarterly for review by FRBG Risk and Compliance committee. The FRBG Risk and Compliance committee reports on a quarterly basis to the Board of directors.

FRBG is in the process of aligning the responsibilities and tasks of the various Board committees and sub committees with the recommendations of Basel II.

All subsidiaries, divisions and major business units of FRBG have their own Risk and Audit committees. All Audit committees and the FRBG Risk and Compliance committee have non executive representation. The FRBG Risk and Compliance committee and all Audit committee meetings are attended by representatives from the external and internal auditors and the independent risk management functions. The independent and deployed risk managers attend all Risk committees as is appropriate.

These mechanisms ensure the integrity of reports presented to the Board committees through external and independent oversight observers at all levels of governance.

CAPITAL ADEQUACY REQUIREMENTS

The section on capital management in the CFO report on page 21 provides a description of capital requirements in South Africa and other jurisdictions in which the Group operates, as well as the process for assessing the adequacy of capital in FRBG.

SUCCESSES FOR 2007

Enterprise risk management

- successful implementation of phase I of the Integrated Risk Reporting project;

Credit risk:

- successful implementation of exposure and limit management system for treasury and structured credit products in RMB after successful implementation in the previous year in FNB Corporate Transactional Bank;
- finalised the application to the South African Reserve Bank ("SARB") for the use of the advanced internal ratings based approach for credit risk under Basel II and obtained in principle approval from the SARB to use the advanced approach from 2008 for regulatory capital;
- implementation of credit capital calculation systems and new Banks' Act reporting systems; and
- implementation of the credit concentration risk factor into the economic capital models used for pillar II (internal capital adequacy assessment processes) and credit portfolio modelling.

Market risk:

- obtained approval from the SARB to measure regulatory market risk capital by way of an internal model approach which aligns with global best practice for market risk management; and
- large scale process re-engineering and systems upgrades during the process of obtaining approval for the internal model approach.

Liquidity risk:

- issuance of Euro500m, five year Floating Rate Notes off FRBG's EMTN programme into the international markets; and

Interest rate risk in the banking book:

- improved policies and risk measurement processes and methodologies in line with Basel II requirements;
- actively positioned the book to protect and enhance the balance sheet and income statement from the impact of rising interest rates; and

SUCCESSES FOR 2007 continued

Operational risk:

- improved IT governance and Information Security Framework;
- finalised the application to the SARB for the use of The Standardised Approach ("TSA") for operational risk under Basel II; and
- significant progress with the implementation of the Basel II Advanced Measurement Approach ("AMA") requirements, including improved operational risk management and reporting and successful implementation of a number of operational risk methodologies.

FOCUS FOR 2008

Enterprise risk management:

- further refinements of the integrated risk reporting system; and
- refinement of risk appetite.

Credit risk:

- further refinements on the new Banks' Act reporting systems;
- implementation of Basel II pillar 3 and IFRS 7 risk reporting and disclosure; and
- further enhancements on internal economic capital models using internal data and best practice approaches.

Market risk:

- adoption and implementation of the internal model approach to measure regulatory market risk capital; and
- improving the risk analysis and quantification on positions and strategies which give rise to risks over and above that which is quantified in general risk models (commonly referred to as specific risk analysis).

Liquidity risk:

- a new liquidity risk regulatory return to be submitted to the SARB; and
- implementation of Basel II requirements regarding liquidity risk funding and management; and

Interest rate risk in the banking book:

- continue improvement of risk measurement methodologies in line with international best practice; and
- increase focus on investment of offshore capital.

Operational risk:

Basel II:

- application to the SARB for Advanced Measurement Approach ("AMA");
- implementation of operational risk AMA requirements – refined risk tools and embedded risk measurement;
- key operational risk focus areas for 2008 include:
  - continued improvement of operational risk loss data quality;
  - refinement of quantification for operational risk capital; and
  - refinement of balance scorecards for risk sensitive operational risk capital allocation; and
- implementation of a fully automated web based Business Continuity Management system.

CREDIT RISK

Credit risk is the risk of loss due to non performance of a counterparty in respect of any financial or performance obligation due to deterioration in the financial status of the counterparty.

Credit risk arises from advances to customers, lending commitments, contingent products (e.g. letters of credit) and traded products such as derivative instruments. It could also arise from the decrease in value of an asset subsequent to the downgrading of a counterparty.

Country risk relates to the likelihood that changes in the business environment will occur that reduce the profitability of doing business in a country and ultimately may result in credit losses arising from cross border transactions.

Credit risk is the most significant risk type FRBG is exposed to. The contribution of credit risk to the total economic capital of FRBG is 67%.

Credit risk governance

Credit risk in FRBG is managed in terms of the Credit Risk Management Framework. This Framework is a sub framework of the Business Performance and Risk Management Framework. Through the establishment of formal credit risk management and governance structures, policies, procedures and methodologies, FRBG aims to achieve effective management of credit risk, to provide an adequate return on risk adjusted capital in line with FRBG's risk reward appetite.

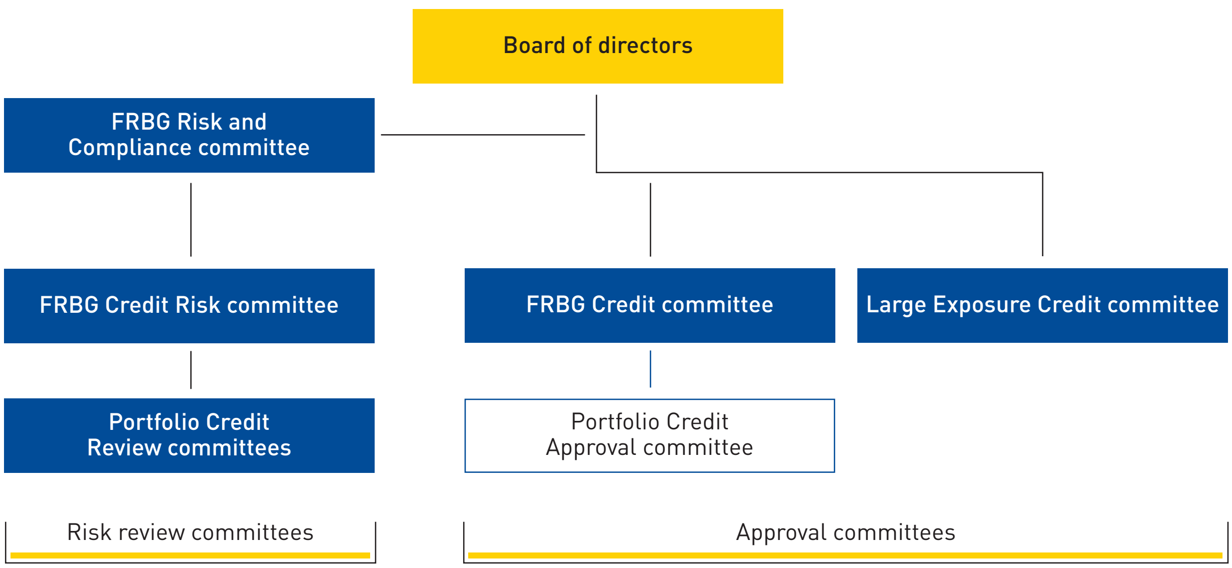
The overall responsibility for the effectiveness of credit risk management processes vests with the Board of directors. The operational responsibility has been delegated to the FRBG Risk and Compliance committee and its sub committees, executive management, operations management and the risk management functions throughout FRBG.

An integral part of the credit risk management governance is the approval of credit exposure by the FRBG Credit Approval committees. The Large Exposure Credit committee is a sub committee of the Board of directors and approves credit facilities in excess of 10% of capital. The FRBG Credit Committee (a sub committee of the Board of directors) and its sub committees approve credit facilities according to delegated mandates.

The FRBG Credit Risk committee is a sub committee of the FRBG Risk and Compliance committee. This committee provides reports to the FRBG Risk and Compliance committee on the effectiveness of credit risk management and an overview of the credit risk profile of FRBG. The FRBG Credit Risk Committee and its sub committees are responsible for the approval of relevant credit policies and the ongoing review of the credit exposure of FRBG. This committee's responsibilities include the monitoring of the following:

- stress quantification and credit risk capital;
- credit defaults against expected losses;
- credit concentration risk;
- return on risk;
- appropriateness of loss provisions and reserves; and
- the effectiveness of credit risk management.

The following diagram illustrates the governance structure for credit risk in FRBG:



Deployed credit risk management functions consist of credit product houses, credit analysts and credit risk managers. These functions implement the Credit Risk Management Framework and policies at the various levels within the organisation. Operational level credit risk management responsibility vests with these functions and involves the management of the credit value chain from end to end.

The FRBG Credit Risk committee and deployed risk management functions are supported by the FRBG Credit and Economic capital function within the Balance Sheet Management area. This function's responsibilities include the following:

- formulation of the quarterly credit economic conditions outlook;
- portfolio stress tests based on macro economic scenarios in liaison with credit segments to support credit forecasting and scenario analyses;
- identification of credit hedging requirements;
- preparation of aggregate credit risk reports and credit portfolio analysis for the governance committees;
- liaison with credit segment heads and other stakeholders on areas such as credit risk appetite, credit pricing, IFRS credit provisioning, credit policies and frameworks, sensitivity analyses and stress testing;
- quantification and allocation of credit economic risk and capital including the credit risk assessment used for the internal capital adequacy assessment process and assessment of capital buffer requirements; and
- independent oversight on aspects such as credit rating systems and Basel II framework implementation.

Credit risk management

Credit risk is managed through comprehensive policies and processes that ensure adequate identification, measurement, monitoring and control as well as reporting of credit risk exposure. The objectives of the policies and processes are to ensure a sound credit risk management environment with appropriate credit granting, administration, measurement and monitoring through the implementation of adequate risk management controls.

Based on FRBG's credit risk appetite and competitive credit strategies, credit risk is managed with reference to risk/reward principles. The reward is managed through pricing for risk on an individual and portfolio basis.

The credit value chain incorporates credit risk management at every level in the organisation. Upon application, creditworthiness of the counterparty is assessed and measured in terms of the risk appetite. The counterparty's credit risk is measured using internally developed and validated risk models as described in the credit risk measurement section below. The credit exposure is approved at appropriate levels as prescribed per the delegated mandates.

Subsequent to credit approval, all facilities are continually measured, managed and monitored as part of the ongoing credit risk management processes. This includes the following:

- quantification of exposure and risk and management of facility utilisation within the predetermined and approved credit limits;
- ongoing monitoring of creditworthiness of the counterparty to ensure early identification of high risk loans;
- review of facilities at appropriate intervals;
- collateral and covenant management;
- management of high risk loans ("watch list exposures");
- collections and work out processes for defaulted assets; and
- credit risk reporting.

Credit defaults are monitored relative to expected losses. Provisions are created against the portfolio and against impaired loans as described in the section below on impairments.

Credit risk mitigation

Although in principle the credit assessment focuses on the counterparty's ability to repay the debt, credit mitigation instruments are used where appropriate. These include financial or other collateral, netting agreements, guarantees or credit derivatives. The collateral types are driven by segment, product or counterparty type:

- The mortgage and instalment sale finance portfolios in FNB HomeLoans, Wealth and WesBank are secured by the underlying assets financed.
- The personal loans, overdrafts and credit card exposures are generally unsecured.
- The Commercial credit counterparties are mostly secured by the assets of the SME counterparties and commercial property finance deals are secured by the underlying property and the cash flows received from the use thereof.
- The working capital facilities in FNB Corporate Transactional Bank are unsecured whereas the structured facilities in RMB are mostly secured as part of the structure, through financial or other collateral. The credit risk in RMB's Treasury exposures is mitigated through the use of netting agreements and financial collateral.

Credit concentration risk management

Concentration risk is managed in the credit portfolios. The nature thereof differs according to segment.

- concentration risk management in the wholesale credit portfolio is based on individual name limits (which are reported to and approved by the Large Exposure Credit committee) and the monitoring of industry and country concentrations. A sophisticated simulation portfolio model has been implemented to quantify concentration risk and the potential impact thereof on the credit portfolio. FRBG also uses securitisation structures and the purchase of credit derivatives as a credit mitigation tool to address credit concentration risk management;

- for the Commercial (SME level) exposures, the emphasis of concentration risk measurement is on industry distribution; and
- due to the inherent diversification in the retail portfolios, concentrations are managed with reference to collateral concentrations.

Industry and country analysis have been included in the notes to the financial statements (note 14). 54% of the total advances was exposure to retail and WesBank counterparties. 89% of this exposure is included in the FNB HomeLoans, Wealth and WesBank portfolios where the exposures are in general secured by the underlying asset as described above. The credit risk to these counterparties is inherently highly diversified.

Credit risk measurement

Credit risk measurement forms an integral part of the management of credit risk. Through the implementation of the Basel II requirements for the advanced internal ratings based approach for credit risk in FirstRand Bank, the rating systems used provide a consistent focus on credit risk measurement. These risk parameters will be used in the calculation of regulatory capital for FirstRand Bank from the live date of Basel II. The credit risk parameters measured are described as follows:

Probability of default ("PD") and credit ratings

The probability of default is the probability that a counterparty will default within the next year. The definition of default is dependent on the earlier of the following two drivers:

- a time driven element where an exposure is more than 90 days in arrears; or
- an event driven element when there is reason to believe that the exposure will not be recovered in full.

Cumulative default probabilities over a multi year cycle are established for internal purposes.

The FirstRand master rating scale, the FR ratings, range from FR 1 to FR 100, with FR 1 being the best rating with the lowest probability of default. The FR rating has been mapped to default probabilities as well as external rating agency national and international rating scales. The granular 100 point scale is summarised for internal purposes into 18 buckets and for reporting purposes into nine performing buckets as described below.

The ratings and associated PDs reflect two different conventions. The "point in time" PDs reflect the default expectations under the current economic cycle whereas the "through the cycle" PDs reflect a longer term average over the economic cycle. These PDs are applied in different circumstances as appropriate to the business and regulatory requirements under Basel II. Typically, the "point in time" estimates are used for provisioning, whereas the "through the cycle" estimates are used for capital calculations.

The FR scale is summarised in the following table, together with a mapping to international scale ratings from external rating agencies:

FR Rating	Mid point PD	International scale mapping*
FR 1 – 12	0.04%	AAA, AA, A
FR 13 – 25	0.27%	BBB
FR 26 – 32	0.77%	BB+, BB
FR 33 – 37	1.34%	BB-
FR 38 – 48	2.15%	B+
FR 49 – 60	3.53%	B+
FR 61 – 83	6.74%	B
FR 84 – 91	15.02%	B-
Above FR 92		Below B-
FR 100	100%	D (defaulted)

* *Indicative mapping to international rating scale of Fitch and S&P*

The rating assignment process depends on the type of counterparty being rated. The processes vary from an automated scorecard process in the retail areas to an extensive analysis on an individual basis for corporate counterparties. The rating assignment processes in FirstRand Bank were generally developed and validated internally using a combination of internal and external data sources. The rating approach for each rating system is described in the table below.

Loss given default ("LGD")

The loss given default is defined as the economic loss that will be suffered on an exposure following default of the counterparty, expressed relative to the amount outstanding at the time of default. The recoveries are significantly impacted by the types and levels of collateral held against the exposure, the level of subordination, the effectiveness of the recovery processes and the timing of the recovered cash flows. For the calculation of capital, "downturn" LGD's are used. The downturn LGD reflects increased LGD's relative to long run average LGD estimates during periods of high defaults (i.e. where a positive correlation exists between the PD and LGD).

The LGD approach for each major segment is described in the table below.

Exposure at default ("EAD")

Exposure at default is defined as the gross exposure of a facility upon default of a counterparty. This measurement reflects potential credit exposure for off balance sheet exposures such as the probability of further drawdown under a committed facility.

The EAD approach for each major segment is described in the table below.

RATING SYSTEM	HIGH LEVEL DESCRIPTION OF RATING APPROACH
1. Retail exposure rating systems (HomeLoans, Card, Overdrafts, Private Bank (Wealth), Personal loans and WesBank Retail)	• The retail portfolio is segmented into homogenous pools and sub pools through an automated scoring process using statistical models of customer behaviour and application data, delinquency status and similar parameters. • Based on internal product level history associated with the homogenous pools and sub pools the probabilities of default are estimated for each sub pool. • LGD and EAD estimates are based on sub segmentation based on the collateral or product type, and associated modeling of internal data histories.
2. SME exposure rating systems (FNB Commercial, WesBank Corporate)	• The rating system is based on a statistical model (Moody's RiskCalc) using a financial ratios assessment which is calibrated on industry pooled data. A qualitative overlay is also incorporated in the modeling framework. • LGD and EAD estimates are based on modeling of internal data histories.
3. Large corporate rating systems (Wholesale: FNB Corporate Transactional Bank and RMB)	• The rating assignment to corporate credit counterparties is based on a detailed individual assessment of the counterparty's creditworthiness. • This assessment is performed through a qualitative analysis of the business and financial risks of the counterparty and is supplemented by an internally developed statistical rating model. • The rating model was developed using internal and external data of more than 10 years. The qualitative analysis is based on the methodology followed by international rating agencies. The rating assessment is reviewed by the FRBG Credit committee and the rating (and associated PD) is approved by this committee. • LGD and EAD estimates are based on modeling of a combination of internal and suitable adjusted international data.
4. Low default portfolios: Sovereign and bank rating systems (Wholesale: FNB Corporate Transactional Bank and RMB)	• Constrained expert judgement models are used with external rating agency ratings and structured peer group analysis forming key inputs in the rating process. The analysis is supplemented by internally developed statistical models. • Calibrations of PD and LGD are done using mappings to external default histories and calibrations based on credit spread market data.
5. Specialised lending rating systems (Wholesale: FNB Corporate Transactional Bank and RMB and FNB Commercial)	• The rating system is based on hybrid models using a combination of statistical cash flow simulation models and qualitative scorecards calibrated to a combination of internal and benchmark data.

The rating systems are recalibrated and validated independently on an annual basis to ensure the validity and accuracy of the rating systems. The focus remains on the predictive power of the underlying models. The models are appropriately conservative and incorporate data of downturn periods such as 2000.

Expected loss

Expected loss is calculated as PD x LGD x EAD. This measurement is a forward looking measure of risk through the cycle, also referred to as the "through the cycle measure". For internal purposes such as inputs into pricing and provisioning processes, the PIT probability of default is used in the determination of a point in time expected loss.

The PD, LGD and EAD estimates are used as inputs into the credit approval process, pricing process, provisioning, reporting and internal economic capital estimates where appropriate.

More information on the credit risk measurement for the current portfolio position is provided in the Portfolio overview section below.

Credit portfolio management

The PD, LGD and EAD estimates provide input into the portfolio level credit exposure assessment of FRBG. In addition to these metrics, the correlations between counterparties and industries are assessed as well as potential diversification benefits. The portfolio management includes the monitoring of the following:

- credit concentrations to single counterparties and industry sectors relative to capital levels;
- economic capital (unexpected loss) measurement using internally developed macro economic models and simulations for the retail credit portfolios and a sophisticated simulation portfolio model for wholesale credit portfolios;
- assessment of economic risk with reference to potential downturn and severe downturn scenarios, together with the earnings and capital impact thereof and the link to the internal capital adequacy assessment process;
- portfolio stress tests on expected losses, including the assessment of the impact of macro economic factors on the credit portfolio; and
- consideration of the need for macro credit hedges given the potential scenarios determined, including the identification of structured transactions such as securitisations and credit insurance.

Portfolio overview – FirstRand Bank credit quality

The credit quality of the wholesale credit book remained stable around FR32. The exposure to investment grade counterparties amounted to 52% (2006: 54%). The weighted average rating for retail credit counterparties further deteriorated slightly. The overall internal counterparty rating, ignoring collateral effects, was FR45 at 30 June 2007 (FR41 at 30 June 2006). The rating is equivalent to a national scale credit rating of zaBB (zaBBB at 30 June 2006).

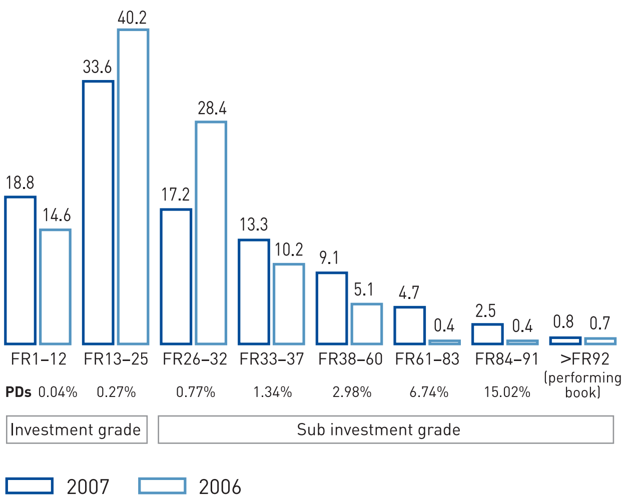
The following section provides the distribution of credit exposures across the above FR rating bands for the major credit portfolios, based on through the cycle ratings.

Wholesale credit exposures

Exposures to corporate, bank and sovereign counterparties are included below. A wide range of products gives rise to the credit exposures, including loan facilities, contingent products and derivative instruments.

The following graph indicates the credit distribution based on the counterparty's probability of default ("PD") and FR rating for the corporate credit portfolio (excluding the financial institution and sovereign exposures):

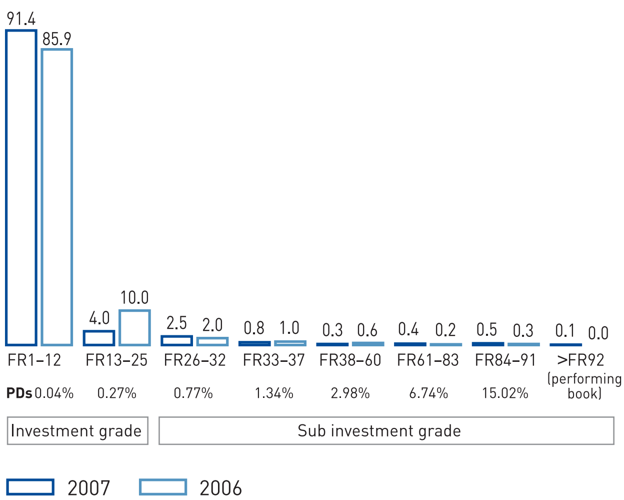
Wholesale – corporates
Exposure distribution across rating buckets (%)



The weighted average PD for corporate counterparties is around 1% and the weighted avearge LGD typically ranges between 35% and 45%.

The following graph indicates the credit distribution based on the counterparty's probability of default ("PD") and FR rating for the Bank and sovereign credit portfolio:

Wholesale – banks and sovereigns
Exposure distribution across rating buckets (%)



The weighted average PD for bank and sovereign counterparties ranges between 0.2% and 0.3% and the weighted average LGD typically ranges between 25% and 30%.

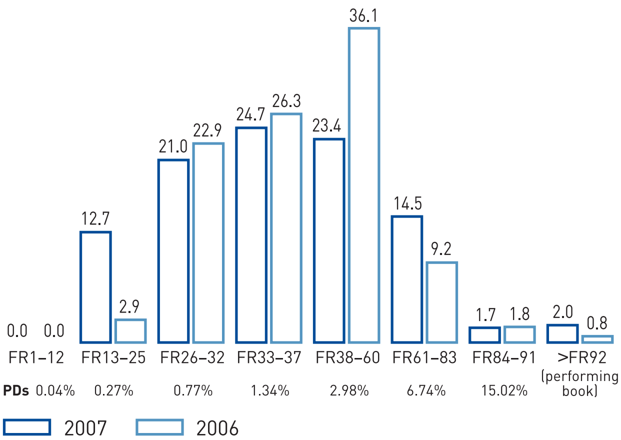
FNB Commercial credit exposures

The exposures form part of the FNB Commercial business unit and includes corporate and retail SME type exposures. A wide range of products gives rise to the credit exposures, including loan facilities, contingent products, and term lending products.

The following graph indicates the credit distribution based on the counterparty's probability of default ("PD") and FR rating for the SME credit portfolio:

FNB Commercial

Exposure distribution across rating buckets (%)



The weighted average PD for Commercial's SME counterparties typically ranges between 3.5% and 4%.

The LGDs for these exposures are dependent on the level and type of security held. The weighted average LGD for FNB Commercial exposures typically ranges between 25% and 45% on average.

FNB Consumer exposures

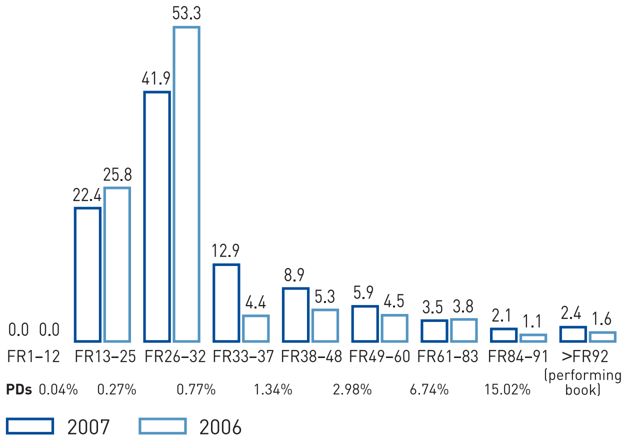
The FNB Consumer portfolio includes exposures to individuals across a number of products. These exposures are in FNB, RMB Private Bank and FNB Private Clients.

Residential mortgages

The following graph indicates the probability of default distribution of the residential mortgage portfolios in FirstRand Bank:

Retail portfolio – FNB and wealth mortgages

Exposure distribution across rating buckets (%)



The weighted average PD for residential mortgages ranges between 2% and 2.5%. The expected LGD for mortgages is low due to the high valuations obtained for property in the current market. However, for capital calculations, a downturn LGD is used to reflect the potential loss in a downturn scenario. The weighted average expected LGD across a normal economic cycle for the mortgages typically ranges between 10% and 20%.

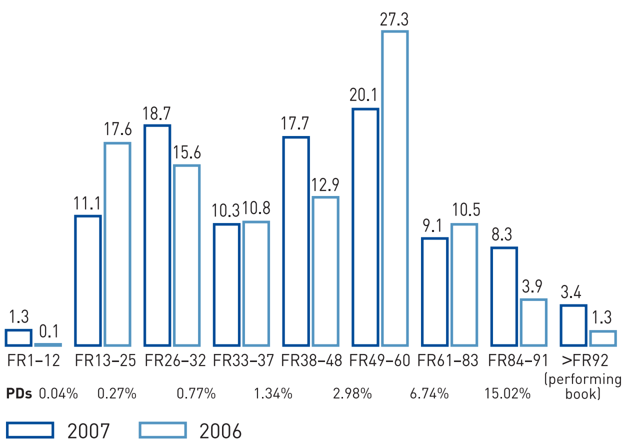
The average loan to book value is 77.4% (June 2006: 77.7%) and loan to market value is 56.3% (June 2006: 53.9%) for the HomeLoans portfolio.

Credit card, overdrafts and other exposures

The following graph indicates the probability of default distribution for credit card, overdraft and other retail exposures:

Retail portfolio – retail credit cards, overdrafts and other

Exposure distribution across rating buckets (%)

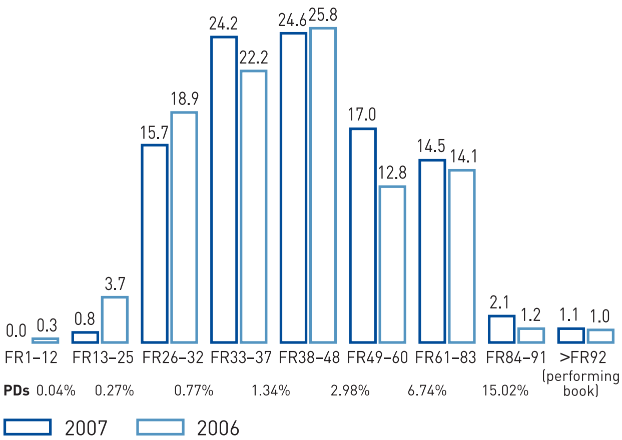


The PD for these products depends on the product and the market segment. The weighted average PDs range between 3% and 5%. The LGDs for these exposures depend on the level and type of security. Typically, these exposures are unsecured. Due to the unsecured nature of these exposures the LGDs are high and range between 40% and 70% on average.

WesBank exposures

The asset backed finance business of WesBank spans across retail and corporate (mostly SME) counterparties. WesBank's portfolio also includes a small portfolio of unsecured personal loans to its customer base.

WesBank
Exposure distribution across rating buckets (%)



The weighted average PD for WesBank exposures is on average between 3.5% and 4%, however the PD is dependent on the product and market segment. The unsecured loans typically have a higher weighted average PD. The LGDs for the secured asset backed finance exposures are on average between 30% and 50%, depending on the type of asset financed. The LGD for the unsecured exposures is around 70% on average and the weighted average LGD for WesBank ranges between 30% and 50%.

Expected loss

The expected loss ("EL") of the portfolio is a function of the exposure, the PD (reflected in the credit distributions above) and the loss given default dimension is a forward looking measure of risk through the cycle. The forward looking long run average expected loss estimated at 30 June 2007 for FirstRand Bank's portfolio is estimated at 0.8% (30 June 2006: 0.7%.)

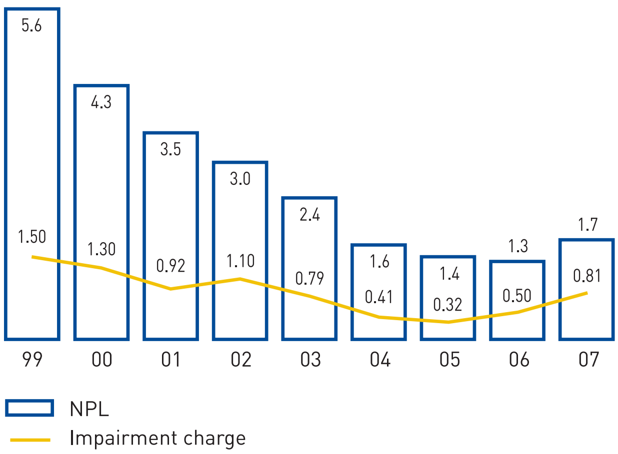
Non performing loans and impairments on advances

FRBG assesses the adequacy of impairments on an ongoing basis through review of the quality of the credit exposures. Although credit management and workout processes are similar for amortised cost advances and for fair value advances, the creation of impairments differs. For amortised cost advances, impairments are recognised through the creation of an impairment reserve through an impairment charge in the income statement. For fair value advances, the credit valuation adjustment is charged to the income statement through trading income.

Specific impairments are created in respect of non performing advances where there is objective evidence that a loss event had an adverse impact on the estimated future cash flows from the asset. The amounts recoverable from guarantees and collateral are incorporated into the calculation of the impairment. All assets not individually impaired as described, are included in portfolios with similar credit characteristics and are collectively assessed. Portfolio impairments are created in respect of these performing advances based on historical patterns of losses in each component of the performing portfolio. Reference is made to the arrears, arrears roll rate, point in time PDs, LGDs and the economic climate. When a loan is considered uncollectible, it is written off against the provision for loan impairment. Subsequent recoveries of amounts previously written off decrease the amount of provision for loan impairment in the income statement in the year of the recovery.

The graph below indicates the history of FRBG's actual losses reflected by the impairment charge percentage and non performing loans as at 30 June 2007:

NPL % and impairment charge
(%)



Note:

Non performing loans are classified as such based on the definition of default used by FRBG. The non performing loans percentage includes the total value of non performing loans classified into this category in the current year, as well as those of previous years that are still being collected. The impairment charge percentage is the bad debt charge to the income statement as a percentage of total average advances in the current year based on the application of FRBG's internal provisioning policies and on the accounting basis applicable at the time (SA GAAP prior to 2006). The impairment charge for 2007 in the graph above is before recognition of a R150 million credit insurance claim.

Overall, the credit risk associated with FRBG's banking book is considered to be within acceptable risk levels and is managed effectively in FRBG.

MARKET RISK

Market risk, being the risk of revaluation of any financial instrument as a consequence of changes in market prices or rates, exists in all trading, banking and investment portfolios. For the purpose of these financial statements market risk is considered to be fully contained within the trading portfolios. Substantially all market risk within FRBG is taken in RMB as this is the division within FRBG where the market risk taking and management expertise lies.

Market risk governance and management

Market risk is managed in terms of the Market Risk Framework which is a sub framework of the Business Performance and Risk Management Framework. Trading activities currently include trading in the foreign exchange, interest rate, equity, commodity and credit markets in both physical and derivative instruments.

A two pronged governance structure governs market risk taking activities within FRBG. Appetite for market risk taking activities is determined at the RMB Proprietary Board. This Board has the primary task of overseeing the strategic and prudential aspects of proprietary position taking within RMB. The Proprietary Risk and Capital committee is the Market Risk committee of FRBG and is a sub committee of FRBG Risk and Compliance Committee, and is charged with the independent oversight of market risk in FRBG. This committee is responsible for the reporting of all material aspects of market risk to the FRBG Risk and Compliance committee. Longer term equity investments, both listed and unlisted, are approved by the Investment Risk committee on an individual basis and are managed under the Investment Risk Framework.

Market risk measurement

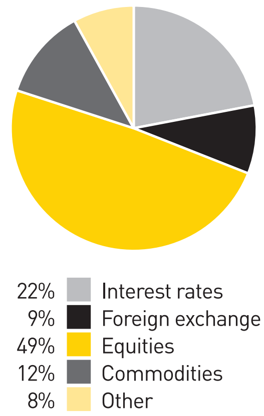
Market risk exposures are limited by means of stressed expected tail loss ("ETL") limits, whilst soft value at risk ("VaR") triggers indicate that positions need review by management. Both sets of limits are approved by the RMB Proprietary Board and ratified by the FRBG Risk and Compliance committee and the Board of directors. Risk concentrations are controlled by means of appropriate sub limits attached to both asset class and business unit maximum allowable exposures.

Stress conditions are represented by historic systemic disaster scenarios over which the portfolio is fully revalued. The disaster scenario has been deliberately set to reflect the illiquid conditions and ballooning spreads experienced during a typical systemic breakdown in the markets.

In addition to the ETL and VaR methodologies, FRBG supplements its measurement techniques with defined stress testing and scenario analysis. These provide frequent additional insight into possible outcomes under stressed market conditions to the RMB Proprietary Board.

The following pie chart shows the distribution of stress exposures per risk factor across FRBG's trading activities at the end of the financial year based on the ETL methodology.

Market risk stress exposure per risk factor (30 June 2007)



Market risk limits are reviewed at least annually.

Market risk exposures are quantified on a daily basis across all trading activities of FRBG and monitored by the business risk managers, desk heads, business unit heads, and designated executive management. The deployed and independent risk managers at RMB monitor limit excesses, the causes of any excesses and the correction thereof on a daily basis for all trading business units. These functions also track the daily profits and losses against risk exposures and monitor the attribution of profits and losses by risk factor to ensure that risk exposures do not go undetected and that profits and losses are explained.

The market risk management processes are well vested and have functioned effectively for a number of years. The daily risk monitoring and internal audit processes, as well as an external independent internal model validator and the SARB internal model process approval team have not identified significant process deficiencies in the 2007 financial year. Process shortcomings which are identified are corrected and the progress with corrective actions is monitored by the risk managers and the RMB Proprietary Risk and Capital committee as they arise.

REALISED MARKET RISK EXPOSURES

The VaR exposure reflected below has been applied to aggregate the market risk exposure across different trading activities and across individual market risk factors. The VaR risk measure estimates the potential loss over a 10 day holding period at a 99% confidence level over a scenario set comprising the last 260 trading days, as is required for internal model capital regulatory market risk measurement.

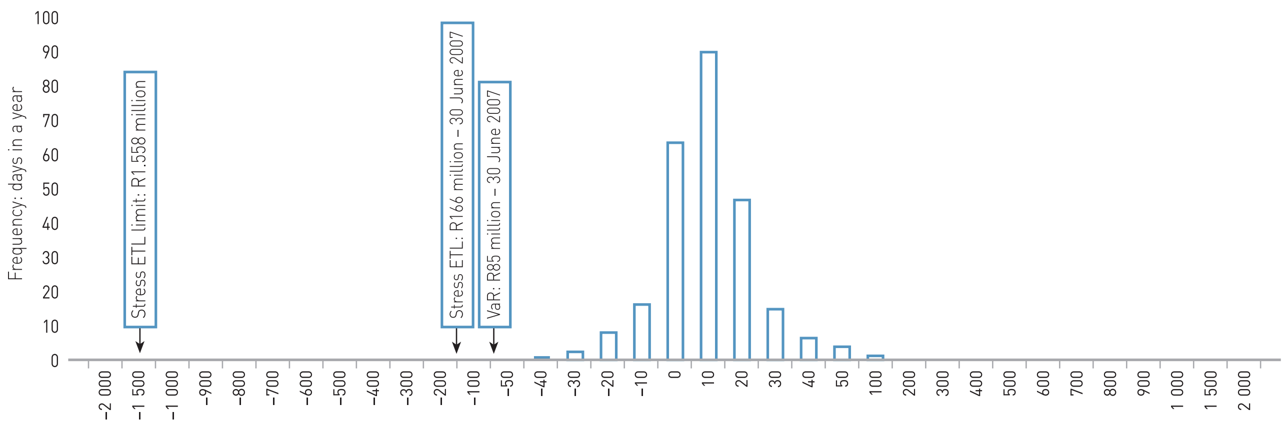
Trading book VaR analysis (R millions)

R million	Year end 30 June 2007 Min	Max	Ave	Year end	Year end 30 June 2006 Min	Max	Ave	Year end
Risk type								
Equities	181.3	723.8	273.7	269.0	71.2	219.4	127.9	219.4
Interest rates	36.7	93.8	70.0	93.4	27.6	46.5	34.1	45.7
Foreign exchange	14.3	97.9	31.6	40.5	9.0	23.2	15.1	23.0
Commodities	8.7	204.2	52.0	68.1	9.5	27.4	15.6	27.4
Traded credit	3.1	53.2	28.9	21.4	4.8	45.9	20.0	43.8
Diversification	(22.8)	(617.3)	(150.8)	(226.9)	(38.6)	(134.9)	(79.2)	(131.8)
Total	221.3	555.6	305.4	265.5	83.5	227.5	133.5	227.5

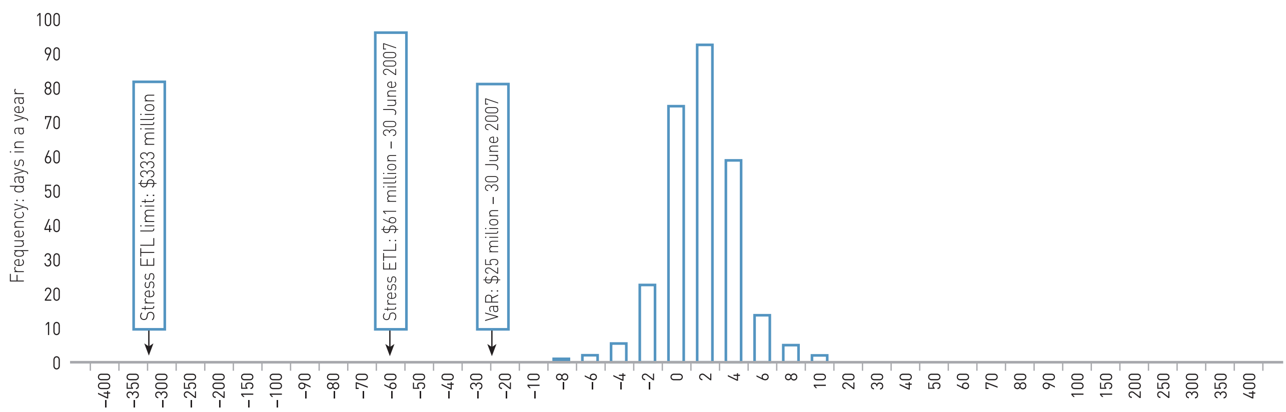
In order to validate the VaR calculations, back testing is conducted on a daily basis. This is accomplished by comparing the one day VaR at the 99% confidence level to actual trading profits or losses for that particular day.

The graph below shows the daily trading earnings profile for the past year. The distribution is skewed to the profit side showing that on average a profit of R10 million or more was realised on the majority of trading days. The graph also shows that exposures have been contained within risk limits during the trading year.

Distribution of trading income for the 2007 financial year
(PnL in ZAR millions)



Distribution of trading income for the 2007 financial year for offshore divisions
(PnL in USD millions)



Overall, market risk is considered to be within acceptable risk levels and is managed effectively in FRBG.

LIQUIDITY RISK

Liquidity risk is the risk that FRBG will not meet all payment obligations as liabilities fall due. It also represents the risk associated with not being able to realise assets to meet depositor repayment obligations in a stress scenario.

Liquidity risk: a broader definition

Due to rapidly changing markets, technologies, governance, accounting policies, regulatory monitoring etc, risk management has become more sophisticated with liquidity risk being no exception. Understanding what the impacts of these factors are on liquidity is extremely important and it starts by broadening the definition of liquidity risk into *Market Liquidity Risk and Funding Liquidity Risk. Funding liquidity risk* is the risk of inability to effectively meet current and future cash flow and collateral requirements, without negatively affecting the normal course of business, FRBG's financial position and its reputation. *Market liquidity risk* is the risk that market disruptions or lack of market liquidity causes FRBG to be unable (or able, but with difficulty) to trade in specific markets, without affecting market prices significantly.

Liquidity risk governance

FRBG has a group wide funding and liquidity management process in place, across all jurisdictions in which FRBG operates. Liquidity risk is managed in terms of the Liquidity Risk Management Framework, which is a sub framework of the FRBG Risk Framework. Liquidity risk is centrally managed by Balance Sheet Management with a dedicated liquidity risk management team reporting to the Asset and Liability committee ("ALCO").

Liquidity risk management

Liquidity risk resides in the short term exposure FRBG faces where most of the bank's liabilities mature within one month with relatively few assets maturing in that period. To manage this risk we do the following:

- industry benchmarking;
- analyse and decrease the concentration of short term funding maturities;
- diversify the range of products offered to financial institutions;
- maintain and manage a portfolio of available liquid securities;
- perform assumptions based sensitivity analysis to assess potential cash flows at risk;
- monitor sources of funding for contingency funding needs;
- monitor daily cash flow movements across FRBG's various payment streams;
- actively manage the daily settlements and collateral management processes;
- create and monitor liquidity risk limits; and
- maintain an appropriate term mix of funding.

No significant changes to FRBG's liquidity position have been noted during the current financial period. FRBG is adequately funded and able to meet all its current and future obligations.

Management of the bank's funding profile

Funding risk is the risk that FRBG does not have an appropriate mix of funding sources. This represents the risk of not having a diversified funding base by market segment, term structure (term to maturity), product range and client mix. High concentration in any one of these categories poses the risk that FRBG may have insufficient funding opportunities for advances growth or during a liquidity stress scenario.

FRBG's overall funding profile is managed through funds transfer pricing principles, involvement in relevant Product Development and Pricing committees of FRBG and development of funding product and pricing solutions with certain business units. FRBG's funding base is compared monthly with our industry peers to ensure that we are well diversified in terms of term structure and market segment of funding (financial institutions, government, corporates and retail clients). On both counts, the Bank is in line with market norms and has a well diversified funding portfolio.

Management of liquidity and funding risks in the international operations

Balance Sheet Management (liquidity risk and funding) is keenly involved in the Group treasury issues associated with the businesses of RMB International, Wesbank Australia and the African subsidiaries. This work involves ensuring that the Group treasury operations of the offshore businesses operate within appropriate business mandates, are in compliance with Group liquidity risk management policy and that they are active in the international market for cost effective funding in a manner which does not reprice FRBG's funding base inappropriately.

Liquidity contingency planning

Product behaviour assumptions are assessed and stress analysis is performed on the current liquidity position in order to assess potential cash flows at risk. Consideration is given to a variety of appropriate contingency funding mechanisms aimed at ensuring FRBG remains liquid during stress conditions. In addition, the liquidity risk management team monitors and manages FRBG's portfolio of available liquid sources against these stress assumptions.

Overall, liquidity risk is considered to be within acceptable risk levels and is managed effectively in FRBG.

INTEREST RATE RISK IN THE BANKING BOOK

Interest rate risk in the banking book is a normal part of banking and can be an important source of profitability and shareholder value. It arises primarily from repricing differences between assets and liabilities associated with banking (i.e. non trading) activities. Changes in interest rates can impact the Bank's earnings as well as the economic value of assets and liabilities. Interest rate risk in the banking book can be measured by the sensitivity of the balance sheet and income statement due to changes in interest rates.

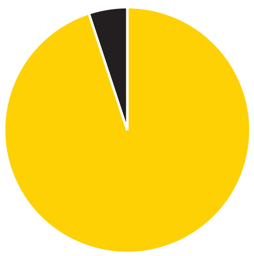
Interest rate risk in the banking book governance

Interest rate risk in the banking book is managed in terms of the Framework for the Management of Interest Rate Risk in the banking book, which is a sub framework of the Business Performance and Risk Management Framework.

Interest rate risk management is part of Balance Sheet Management in FRBG. The objective of Balance Sheet Management is to protect and enhance the balance sheet and income statement of FRBG. In line with this objective, interest rate risk in the banking book is managed from an earnings approach over a specified horizon, and changes to economic value are monitored and managed within defined risk tolerance levels. Economic value measures have the advantage that all future cash flows are considered and therefore they can also highlight risk beyond the earnings horizon.

The interest rate risk of the entire FRBG is governed by its ALCO, which is a sub committee of the FRBG Risk and Compliance committee. Interest rate risk in the banking book is reported to ALCO on a monthly basis. FRBG's banking book includes FirstRand Bank Limited (including FNB, WesBank and RMB), the FNB Africa subsidiaries, Carlyle Finance in the UK, and Porsche/Motor One in Australia. The chart below shows the composition of FRBG's banking book weighted by assets.

Total FirstRand Banking Group book



ALCO monitors the risk exposures and the effectiveness of the interest rate risk management and reports to the FRBG Risk and Compliance committee and the Board. The committee meets monthly and is chaired by the CFO. In addition, to ensure that region specific issues are addressed, the effectiveness of interest rate risk management in the banking books of international businesses is monitored by FRBG's International ALCO, which is a sub committee of ALCO. Each of the FNB Africa subsidiaries has its own ALCO, which monitors interest rate risk associated with the banking book of that subsidiary and reports back to ALCO of FRBG on a monthly basis.

Interest rate risk in the banking book management

The net interest rate risk profile of the domestic banking book is managed centrally by the Interest Rate Risk Management team in Balance Sheet Management. The interest rate profile is adjusted by changing the profile of liquid assets or through transactions in derivative instruments, based on FRBG's interest rate outlook with reference to other risk factors impacting FRBG's balance sheet, most notably credit risk. Risk measurement and hedging is, in general, done at an aggregate level (i.e. the net interest rate risk profile of the Bank is hedged). Micro hedging is generally reserved for large and complex once off transactions.

The banking book of RMB is managed separately. It is managed in terms of the RMB Market Risk Framework and limits approved by the Board.

Internationally, interest rate risk in the banking book is managed regionally, whilst each FNB Africa subsidiary is responsible for the management of its own banking book interest rate risk.

Where possible, cash flow hedge accounting is applied to derivatives that are used for hedging interest rate risk in the banking book. In cases where hedges do not qualify for cash flow hedge accounting, mismatches may arise due to timing differences in the recognition of income between hedges, which are fair valued, and underlying banking book exposures, which may be accounted for on an accrual basis. These accounting mismatches are monitored regularly.

Interest rate risk measurement

Several measures are used to quantify interest rate risk in the banking book, some of which measure the risk from an earnings perspective and others from an economic value perspective. A selection of earnings and economic value measures are reported to ALCO on a monthly basis.

The table below shows the repricing gap for the banking book (excl RMB) at the financial year end. All assets, liabilities and derivative instruments are placed in time buckets based on their repricing characteristics. Instruments which have no explicit contractual repricing or maturity dates are placed in time buckets according to management's judgement and analysis, based on the most likely repricing behaviour.

The natural position of the Bank remains asset sensitive (positively gapped), since interest earning assets reprice sooner than interest paying liabilities. This makes the projected net interest income ("NII") vulnerable to a drop in interest rates.

Repricing schedule for the banking book as at 30 June 2007 (Rm)[1, 2]

	Term to repricing				
	Within 3 months	After 3 months, but within 6 months	After 6 months, but within 12 months	After 12 months	Non rate sensitive
Net repricing gap	12 721	2 840	(4 753)	8 936	(19 744)
Cumulative repricing gap	12 721	15 561	10 808	19 744	0

1 This consolidated repricing analysis for the Group is purely illustrative as interest rate risk is managed per currency.
2 This repricing analysis excludes RMB's banking book, as this is managed separately.

Several interest rate scenarios are modelled to assess their impact on projected earnings in the domestic banking book. For example, a 100 basis point instantaneous, parallel downward (upward) shift in the yield curve is modelled to determine the potential impact on net interest income over the next 12 months. Assuming no management intervention to mitigate the impact of changes in the level of interest rates, the projected net interest income would be reduced (increased) by R563 million (R559 million) in the first 12 months, which represents 3.8% (3.8%) of the projected 12 month net interest income in the domestic banking book.

Net interest income sensitivity of the domestic banking book as at 30 June 2007

	Change in projected 12 month net interest income	
	Rm	% of base 12m NII
Downward 100 bps	-563	-3.8
Upward 100 bps	+559	+3.8

The quantum of interest rate risk in the banking book undertaken by RMB was limited to R62.4 million on a VaR basis as at 30 June 2007.

The interest rate risk associated with the banking book is within the Board approved limits and is considered to be managed effectively.

OPERATIONAL RISK

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk but excludes strategic and reputational risk.

Operational risk governance

Operational risk is managed in terms of the Operational Risk Management Framework ("ORMF"), which is a sub framework of the Business Performance and Risk Management Framework. The FRBG Operational Risk committee ("ORC") is a sub committee of the FRBG Risk and Compliance committee, and is established to oversee the operational risk/reward profile of FRBG and its business entities. The role of the ORC is to govern, direct and coordinate operational risk management processes, in accordance with the ORMF in order to achieve an acceptable operational risk/reward profile and to facilitate compliance with regulatory requirements and world class operational risk practices.

Independent monitoring of operational risk occurs through a number of functions across FRBG. Examples of these functions include Risk Insurance, Legal, Information Risk Services, Operational Risk Governance and Group Forensic Services. Each of the functions has defined roles, responsibilities as well as performance objectives to ensure operational risk is effectively managed and reported across FRBG.

The following table provides an overview of the operational risk categories, the specialist risk functions responsible for independent monitoring and the sub frameworks of the Business Performance and Risk Management Framework governing these risks:

OPERATIONAL RISK CATEGORY	SPECIAL RISK FUNCTIONS	FRAMEWORKS
Process breakdowns and issues	Operational Risk Governance	Operational Risk Management Framework
Project risk	Project Risk Management	Operational Risk Management Framework
Outsourcing and procurement	Operational Risk Governance	Operational Risk Management Framework
Financial control breakdowns	Corporate Accounting	Group Finance Risk Management Framework
Business continuity risk	Business Continuity Management	Business Continuity Management Policy
Legal risk	Group Legal Services	Legal Risk Management Framework
Information and technology risk management	Information Risk Services	Information Risk Management Framework
Compliance risk	Group Compliance	Compliance Management Framework
Fraud and security risks	Group Forensic Services	Security Policy
Human resources risk	Human Resources Functions	Human Resources Policy
Risk insurance	Risk Insurance	Insurance Methodology

Operational risk management

The overall strategy of the operational risk management team is to ensure that risks arising from operational matters are identified and appropriately managed and mitigated, to protect the solvency of FRBG, the interest of all stakeholders, reputation of the Group, and enable the Board to discharge its fiduciary and statutory duty to control the business activities responsibly and effectively.

The management of operational risk is inherent in the day to day execution of duties by management of business entities.

All categories of operational risk are managed effectively and considered to be within acceptable risk levels.

Operational risk management methodologies and tools

A number of operational risk management methodologies have been developed to deal with the practical implementation of operational risk management challenges. These methodologies are supplemented by a number of risk tools. These include:

- Risk effectiveness report – an intranet based, self assessment application to report on the effectiveness of risk management;
- Internal operational loss data and incident reporting – a well established system used to record losses and incidents;
- External data – subscription to an external database that is a repository of all global publicly known loss events;
- Key risk indicators – a process whereby measurable, quantifiable metrics are tracked to assess the level of operational risk and provide early warning indications of potential breakdowns;
- Incident and issue reporting – a process of reporting and escalating operational risk incidents and issues through the Risk committee structures;
- Risk scenario analysis – an analysis based on past experience, or expert opinion to describe potential future threats to FRBG. Scenarios are quantified at various frequencies (probabilities of occurrence); and
- Risk assurance – supports the risk control process by auditing the integrity and completeness of the financial reporting and management information systems and processes, as well as the relevant controls, which are used for the assessment and reporting of business performance.

Operational risk quantification and capital calculation

Operational risk capital is calculated based on the Basel II operational risk Standardised Approach ("TSA") for internal capital allocation purposes. FRBG applied to the South African Reserve Bank ("SARB") for approval to use the Standardised Approach for regulatory capital purposes from 1 January 2008.

A more sophisticated operational risk quantification and capital calculation methodology is currently being developed further and implemented using the Advanced Measurement Approach ("AMA") for operational risk in accordance with Basel II and SARB requirements.

Capital charges for operational risk will be calculated using statistical models under the Basel II AMA Framework. Risk scenarios and internal loss data are the key inputs in the AMA operational risk capital modelling process and qualitative risk measures such as risk self assessment ("RER"), risk indicators ("KRI") and audit findings will provide input to internal operational risk capital allocation mechanisms.

Business continuity management

Business continuity management in FRBG focuses on improving the resilience of banking operations in order to withstand unexpected disruptions and disasters.

Business continuity management is an ongoing process of assessing needs, identifying weaknesses and single points of failure, developing strategies and keeping plans current and tested. The approach involves following a well established annual cycle of actions, designed to ensure plans and associated measures are kept relevant and tested.

The status of readiness for disruptions is measured through quarterly reporting reflecting the organisation's compliance with the cyclical requirements, e.g. full testing of plans once per annum. These are reported through the governance structure to the FRBG Risk and Compliance committee and the Board.

A number of strategic business continuity projects have been launched during the year to improve management and effectiveness of this programme. The Bank deems itself ready to continue services and profitability even if impacted by a wide range of possible disruptions or disasters.

Legal risk

Legal risk is the risk of loss due to defective contractual arrangements, legal liability, both criminal and civil, incurred during operations by the inability of the organisation to enforce its rights or by failure to address identified concerns to the appropriate authorities where changes in the law are proposed (implemented changes are dealt with as part of compliance risk).

Legal risk is managed in terms of the Legal Risk Management Framework and through activities such as monitoring of new legislation, awareness initiatives, identifying significant legal risks and by managing and monitoring the impact of these risks through appropriate processes and procedures, one of which was the establishment of the Legal Risk committee.

There were no significant legal risk breakdowns during the year.

Information risk

Information risk is defined as the possibility or chance of harm being caused to a business as a result of a loss of confidentiality, integrity or availability of information.

Information has been described as "the lifeblood of an enterprise". Without accurate, trustworthy, up to date information being continually available, the enterprise is vulnerable to numerous threats. Implementation of sound Information risk management not only protects against adverse influences, but also acts as a business enabler, supporting effective rollout of new services. It is therefore a strategic imperative of FRBG.

Information Risk Services establish appropriate good practice and control measures to protect the information assets of FRBG and to ensure confidentiality, integrity and availability of FRBG's information. Information Risk Services assists and drives business entities of FRBG to establish appropriate good practice and control measures to protect the information assets of the Group.

The Information Technology Governance and Information Security Framework ("IT Framework") is a customisation of ISACA's Control Objectives for Information and related Technology ("COBIT®") Framework and the Information Security Forum's Standard of Good Practice for FirstRand. The IT Framework is approved by the TIMCO ("Technology and Information Management Risk committee"), and applies to FRBG.

The IT Framework is used as:

- the definition of the objectives for managing IT Governance and Information Security;
- the outline of the processes that need to be addressed across the Group in terms of IT Governance and Security; and
- the measurement framework for IT Governance and Security across FRBG.

Due to the changing nature of information risk and information security, the FRBG constantly faces new threats and challenges. The Risk Management structure for information risk is specifically structured to enable and support the measurement of status and the resolution of issues.

Compliance risk

Compliance risk is the risk of legal or regulatory sanction, material financial loss or loss to reputation a bank may suffer as a result of its failure to comply with laws, regulations, rules, related self regulatory organisation standards and codes of conduct applicable to its banking activities.

The responsibility for managing compliance risk is delegated by the Board of directors to the FRBG Risk and Compliance Committee, the Head of the FRBG Compliance department and to the heads of each of the divisions within FRBG. The head of each business is responsible to ensure that appropriate, effective and efficient risk management processes, systems and monitoring structures are in place and integrated in the day to day activities for the business entity and its sub units.

Compliance officers deployed within business entities are independent compliance specialists with an appropriate skills base to support the business entity in identification and management of its compliance risks, to help find solutions to compliance risk issues and to provide a professional compliance risk analysis, control, reporting and monitoring service to the business entity directly and then to the FRBG Risk and Compliance committee.

Fraud and security risks

FRBG is committed through policies, frameworks and actions, in striving towards an environment that safeguards its customers, staff and assets. FRBG distributes and communicates its Ethics Policy to existing staff members on a quarterly basis. The Ethics Policy reiterates FRBG's commitment to a stance of Zero Tolerance to crime. All new staff members receive a copy of the Ethics Policy and are trained accordingly.

Criminal behaviour for the 2006/2007 financial year was evidenced with a new dimension, that of utilising new age technology as a conduit for perpetrating white collar crime. In the fight against crime, FRBG established a fraud identification team using current fraud identification rules.

The Credit Card Fraud Forum, a Commercial Crime Forum and a Physical Security Forum within Enterprise Risk Management reports directly to the ORC and is responsible to find workable solutions for identified fraud and security risks.

FRBG believes it has appropriate governance structures in place to address fraud and security risks. The risk management structure for fraud and security risks is adequate to address these risks and find solutions to safeguard its people and assets.

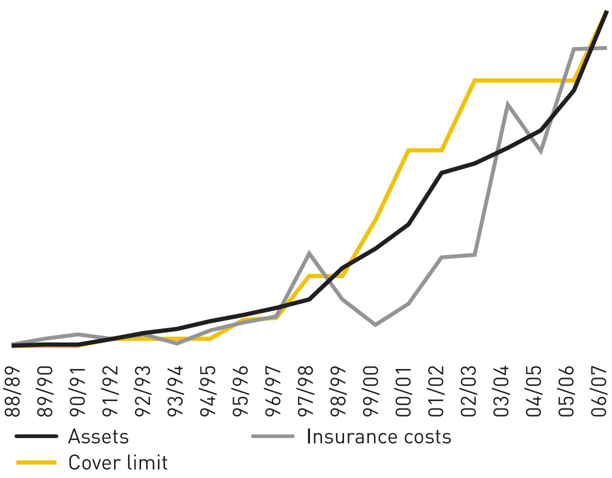
Risk insurance

Risk insurance risk is defined as the risk that material unexpected losses, arising from non trading risks, are not identified and/or adequately covered by appropriate insurance risk financing structures.

The FirstRand Group has a global insurance risk financing programme in place with cover limits that are commensurate with the size and stature of the Group. The risks written into the programme are Bankers Blanket Bond, Computer Crime, Professional Indemnity, Directors & Officers Liability, Assets and various Liabilities.

In addition to working closely with the other risk management areas within the Group, annual benchmarking exercises also ensure that the limits of cover and the breadth of policy wordings take account of the growth and diversity of the FirstRand Group.

Financial institutions insurance programme – increase in assets, insurance cover limit (base 1988/89)



The financial institutions insurance programme is the largest within the Group's insurance risk financing structures and, as can be seen from the graph, the growth in total cost has not exceeded that of the Group, whereas the level of protection has kept pace with this growth.

We will continue to monitor developments within the Group and ensure that the insurance financing programme is adapted accordingly and where appropriate.

INTERNAL AUDIT

The internal auditors perform comprehensive process, systems, compliance and business audits across the spectrum of business entities to identify shortcomings and to augment the risk effectiveness self assessments. All audit reports are reviewed at the appropriate Audit committees of the business units. Major issues are escalated to higher levels of review. Internal Audit attends the meetings of the FRBG Audit, and Risk and Compliance committees.

Action plans to address identified process weaknesses are agreed with management of the relevant business unit and progress monitored by the Risk committees, as appropriate. Internal Audit further conducts independent reviews of Risk committees to ensure that they operate effectively and efficiently and comply with the requirements of good corporate governance.

MOMENTUM GROUP ("MOMENTUM")

GOVERNANCE STRUCTURE

The Board of Momentum is responsible for oversight of business performance and risk management activities. The Board is supported in these tasks by the committees of the Board ("Board committees") and their sub committees, independent and deployed risk management functions as well as internal auditors. These committees and risk functions monitor Momentum's risks and provide assurance that risk management processes operate effectively. The governance structure is illustrated in the diagram below:

Board

*Denotes chairperson is a Board member

Board committees

***Momentum Group Audit committee**

- Considers the annual financial statements for approval by the Board of directors
- Monitors the quality of the internal controls and processes of Momentum and the implementation of corrective actions

***Momentum Group Actuarial committee**

- Review matters on behalf of the Board pertaining to assumptions, valuation results, embedded values and experience items as well as product offerings

***Momentum Group Fair Practices committee**

- Considers fair treatment of Momentum customers
- Acts as Discretionary Participation committee as required by the Financial Services Board to define the principles and practices of financial management as it applies to discretionary business

Risk committees

***Momentum Group Risk committee**

- Approves risk management policy
- Monitors Group risk assessments
- Monitors the effectiveness of risk management and high priority corrective actions

***Momentum Group Investment committee**

- Considers appropriateness of matching of assets and liabilities
- Monitors and evaluates investment performance
- Evaluates relevance of new and existing mandates
- Monitors compliance with investment mandates and regulations

Risk Sub committees

Credit Risk committee

- Approves credit risk management policies, standards and processes
- Monitors the effectiveness of the credit risk management process

Divisional Operational Risk committees

- Monitor the risk management processes, operational risk management, effectiveness of risk management, process breakdowns and corrective actions

Compliance Risk committee

- Monitors the compliance risk management process, effectiveness of compliance risk management, compliance process breakdowns and corrective actions

Group Support

Independent risk oversight

- Enterprise Risk Management
- Momentum Group Compliance

Financial management and optimisation

- Finance and Audit functions
- Balance Sheet Management

The risk management governance structures of Momentum cascade down from the Board to the subsidiaries and main divisions and their business units. Divisional and risk sub committees oversee the risk management processes of Momentum.

The ERM function provides independent risk oversight and the Compliance function provides independent compliance oversight. These independent risk oversight functions are responsible for coordinating and monitoring the risk governance functions and oversight of Momentum, as well as establishing and driving implementation of risk management standards, methodology and processes, and report directly to the CFO. The Finance and Audit function manages financial reporting, tax risk and legal risk and reports directly to the CFO.

In the various divisions and business units, deployed risk managers are responsible for supporting the implementation of the Risk Framework at business unit level. All the business units report on the effectiveness of their risk management processes to their relevant risk management functions and risk committees via a bottom up process. The risk reporting process is designed to provide an appropriate representation of the risk profile. The risk reports for each of the main business divisions are submitted quarterly for review by Momentum's Risk committee. Momentum's Risk committee reports on a regular basis to the Board of directors.

All subsidiaries, divisions and major business units of Momentum have risk committees. The Audit committee and Momentum Risk committee have non executive representation. Momentum Audit committee meetings are attended by representatives from the external and internal auditors and the independent risk management functions. The independent and deployed risk managers attend all Risk committee meetings as is appropriate.

These mechanisms ensure the integrity of reports to the Board committees through the presence of external and independent observers at all governance levels.

Capital adequacy requirements

Momentum holds assets to enable it to meet its obligations to policyholders as and when they fall due. The value of liabilities is calculated based on best estimates of future experience, plus prescribed margins to allow for the possibility of adverse experience. However, in the event of severe adverse conditions, this may not be sufficient to enable Momentum to meet all its liabilities. For this reason, in terms of the Long Term Insurance Act (1998), the Registrar of Long Term Insurance requires insurers to hold a minimum amount of capital, to increase security to policyholders in extreme circumstances.

The minimum capital amount is known as the Capital Adequacy Requirement ("CAR"). The calculation of the CAR as defined in the Long Term Insurance Act and is based on an approximate 95% confidence level of meeting liabilities. This means that sufficient capital is being maintained to cover 95% of losses arising from fluctuations in experience.

In accordance with the professional guidance note PGN 104 of the Actuarial Society of South Africa, the CAR is calculated as the amount of capital required to absorb certain material deviations in interest rates, investment markets, mortality and morbidity rates, termination rates and expenses. This is then reduced to reflect the assumed management actions in the event of adverse scenarios materialising. Assumed management actions may vary from year to year but generally include an assumed reduction in future bonus rates in the event of market values reducing. The assumed management actions are approved by the Board annually.

The main contributor to the CAR is the "investment resilience component". In determining the investment resilience CAR, it was assumed that a decline of 30% in equity asset values, 15% in property asset values and a change in the market value of fixed interest securities commensurate with a 25% relative increase (or decrease) in the fixed and real yields to maturity would occur immediately. (In the latter scenario, it is tested which of the two possibilities – an increase or decrease in yields – gives rise to higher liabilities. This scenario is then applied in the CAR calculation.)

Another significant contributor to CAR, is an allowance for the potential detrimental impact of minimum investment guarantees on smoothed bonus and market related individual life policies. This contribution is calculated in line with the requirements of professional guidance note PGN 110, issued by the Actuarial Society of South Africa.

Material amounts of CAR are also held in respect of possible losses associated with early terminations of long term policy contracts and claims fluctuations (including potential additional claims arising from the AIDS pandemic).

It was furthermore assumed that all assets backing the CAR are invested in cash, near cash or variable rate preference shares. As at 30 June 2007, Momentum's CAR was R2 467 million (pro forma 2006: R2 239 million) and was covered 2.3 times by its statutory surplus of R5 794 million (pro forma 2006: 2.8 times). Momentum's target for the CAR is a cover of between 1.7 and 1.9 times.

SUCCESSES FOR 2007

Enterprise Risk Management

- successful implementation of the Enterprise Risk Management Framework and methodologies in the subsidiaries of Momentum; and
- articulation of risk appetite for Momentum;

Credit risk

- successful implementation of a stochastic model to manage credit risk; and

Operational risk

- progress with the implementation of the Operational Risk Management Framework requirements with the following successes:
  - improved operational risk management and reporting;
  - improved consolidated reporting on loss data guidance;
  - key risk indicator identification and implementation of early warning systems;
- successful implementation of end to end compliance risk management processes;
- testing of business continuity and IT continuity (DR) plans for all major business units; and
- improved IT governance and Information Security frameworks.

FOCUS FOR 2008

Enterprise Risk Management

- further investigation of the Solvency II requirements for the Insurance Industry; and
- implementation of IFRS 7 risk reporting and disclosure.

Credit risk

- further refinements of the stochastic and related credit risk models; and

Tax risk

- further refinement and implementation of the Tax Risk Management Framework and articulation of the Tax Risk Appetite; and

Operational risk

- further identification and implementation of key risk indicators;
- continued improvement of operational risk loss data quality and reporting;
- continue to embed regulatory compliance throughout Momentum;
- implementation of a fully automated Business Continuity Management system; and
- implementation of an updated Information Security awareness campaign.

INSURANCE RISK

Momentum defines insurance risk as the likelihood that future claims and expenses will exceed the value placed on insurance liabilities.

The Momentum Group Actuarial committee is responsible for insurance risk oversight. Insurance risk could occur due to the uncertainty of the timing and amount of future cash flows arising under insurance contracts. In determining the value of insurance liabilities, assumptions need to be made regarding future rates of mortality, morbidity, termination rates, expenses and investment performance. The uncertainty of these rates will result in actual experience being different from that assumed and hence actual cash flows being different from those projected.

The larger the portfolio of contracts, the smaller the expected variation between actual and expected experience becomes. In addition, the more diversified a portfolio of risks, the smaller the impact of deviation of actual experience in a particular risk factor, compared to the assumption.

The following table shows the value of liabilities held in respect of each of the main classes of business for insurance and investment contracts combined, as at 30 June 2007:

		Policyholder liabilities (R million)	Liabilities as a percentage of total
Linked (market related) business	• Individual life	70 547	45%
	• Employee benefits	40 074	25%
Discretionary participating business	• Individual life	15 634	10%
	• Employee benefits	4 827	3%
With profits reversionary bonus business		4 015	3%
Non profit business	• Individual life	3 269	2%
	• Employee benefits	1 622	1%
Annuity business		16 655	11%

Mortality and morbidity risks

The risk that actual experience in respect of the rates of mortality and morbidity may be higher than assumed in pricing and valuation, varies, depending on the terms of different products. The material classes of business most affected by these risks are discussed below:

Individual insurance business

Products are sold directly to individuals providing benefits on death and disability, including impairment, or in the event of suffering a critical illness. The main insurance risk relates to the possibility that rates of death or disability may be higher than expected. This may be due to:

- normal statistical variation due to the random nature of insurance events;
- incorrect assumption regarding future experience;
- natural catastrophes such as floods or earthquakes, and unnatural catastrophes such as acts of terrorism;
- the impact of HIV/AIDS or epidemics such as Asian Bird Flu;
- anti selection such as where a client who has a pre-existing condition or disease purchases a product where a benefit will be paid on death or in the event of contracting such a disease;
- the effect of selective withdrawal which means policyholders are less likely to withdraw voluntarily if they are more likely to need the cover in the foreseeable future;
- economic conditions resulting in more disability claims; and
- concentration risk which is the risk of a large number of claims from a single event, or in a particular geographical area.

Risks are managed and mitigated via risk management practices, including:

- underwriting, which is the assessment of health risk, hazardous pursuits or financial risk, including the requirement of a negative HIV test as a condition for accepting risk, charging extra premiums or declining cover where applicable based on the outcome of the underwriting, and differentiating premiums for risk factors such as age and smoker status;
- claims assessment processes to ensure only valid claims are paid;
- appropriate pricing including allowing for known risks based on actual claims experience, and making use of profit testing techniques;
- regular review of premium rates and approval of the approach to setting premium rates by the Statutory Actuary;
- a guarantee period shorter than the policy term applies to risk business, and enables Momentum to review premium rates on in-force contracts during the life of contracts. The guarantee period on whole life products is generally within the range of 10 to 15 years;
- appropriate policy conditions, including setting appropriate maximum income replacement ratios in the case of products providing disability benefits, and approval of policy conditions by the Statutory Actuary;
- reserving for AIDS risk in accordance with the guidelines issued by the Actuarial Society of South Africa as set out in PGN 105;
- reinsurance to limit Momentum's liability on particularly large claims or sub standard risks. On individual pure risk

business, Momentum reinsures 30% of the mortality risk and 35% of the morbidity risk. The maximum retention on aggregate mortality and morbidity risks on any one life is R3 million; and
- concentration risk is reduced by diversification of business over a large number of uncorrelated risks and several classes of insurance, as well as by taking out catastrophe reinsurance. Momentum's catastrophe reinsurance cover for the current financial year is R170 million in excess of R30 million for any single event involving three or more lives, in respect of both individual and group business.

The following table shows the spread of amounts at risk, both gross and net of reinsurance. Benefits include those payable on death, and both standalone and accelerated dread disease and disability benefits.

Sum at risk per benefit	Number of benefits	Total amount at risk gross of reinsurance (R million)	Total amount at risk net of reinsurance (R million)
0 – 50 000	183 183	3 118	2 871
50 001 – 100 000	103 379	7 874	6 952
100 001 – 200 000	154 485	22 690	18 821
200 001 – 500 000	269 201	90 983	69 400
500 001 – 1 000 000	173 933	124 561	87 956
more than 1 000 000	127 450	267 883	144 839
Total	**1 011 631**	**517 109**	**330 839**

Group risk business

Employee benefit products provide life and disability cover to members of a group such as employees of companies or members of trade unions. Typical benefits are:

- life Insurance (mostly lump sum but some children and spouse's annuities);
- disability Insurance (lump sum and income protection);
- dread Disease; and
- continuation of insurance option.

The products are as a rule quite simple and mostly basic products with a one year renewable term. In most cases the products are compulsory for all employees although it has become more common recently to provide members with a degree of choice when selecting risk benefits.

Underwriting on Group business is much less stringent than for individual business as there is typically less scope for anti selection. The main reasons for this are that participation in the Momentum insurance programmes are normally compulsory, and as a rule members have limited choice in the level of benefits. Where choice in benefits and levels is offered, this is accompanied by an increase in the level of underwriting to combat anti selection.

Groups are priced using standard mortality and morbidity tables plus an explicit AIDS loading. The price for an individual scheme is adjusted for the following risk factors:

- region;
- salary structure;
- gender structure; and
- industry.

For large schemes (typically for 200 or more members) the past experience of a scheme is a crucial input in setting a rate for a scheme. The larger the scheme, the more weight is given to the scheme's past experience.

Rates are guaranteed for one year. Rates may be guaranteed for up to three years on request but will be subject to an additional loading. Momentum does not pay claims resulting from active participation in war or from Atomic, Biological and Chemical weapon risks.

To manage the risk of anti selection, there is an Actively at Work clause which requires members to be actively at work and attending to their normal duties for cover to take effect. This is waived if we take over a scheme from another insurer for all existing members. In addition, a pre-existing clause applies which says that no disability benefit will be payable if a member knew about a disabling condition within a defined period before the cover commenced and the event takes place within a defined period after cover has commenced. There is a standard treaty in place covering Group business.

Lump sum benefits in excess of R2 million are reinsured and disability income benefits above R20 000 per month are reinsured.

There are some facultative arrangements in place on some schemes where a special structure is required, for example a very high free cover limit or high benefit levels. In addition, there is a Catastrophe Treaty in place for both Group business and individual business. Such a treaty is particularly important for Momentum risk business as there are considerably more concentrations of risks compared to individual business.

The catastrophe cover is for losses over and above R20 million with an upper maximum of R200 million.

An indication of the concentration risk in respect of Group business can be obtained by noting that the five largest Group schemes contribute 20% to the total risk exposure under Group life cover in force at 30 June 2007.

Individual annuity business

Annuity contracts provide a specified regular income in return for a lump sum consideration. The income is normally provided for the life of the annuitant. In the case of a joint life annuity, the income is payable until the death of the last survivor. The income may furthermore be paid for a minimum guaranteed period and may be fixed or increased at a fixed rate or in line with inflation. The mortality risk in this case is that the annuitants may live longer than assumed in the pricing of the contract. This is known as the risk of longevity.

Momentum manages this risk by allowing for improvements in mortality when pricing and valuing the contracts. Momentum measures deviations of experience from assumptions biannually and also performs more detailed actuarial experience investigations every two years and adjusts assumptions in pricing for new contracts and valuation of existing contracts when necessary. The last detailed investigation was performed during June 2007.

The following table shows the distribution of a number of annuities by total amount per annum as at June 2007:

Income category pa	Number of annuitants	Amount per annum (R million)
0 to 10 000	67 260	277
10 001 to 50 000	28 754	611
50 001 to 100 000	4 257	293
100 001 to 200 000	1 628	218
200 001+	390	111
Grand total	**102 289**	**1 510**

The largest concentration in terms of the number of annuitants is for small amounts of income per annum. 93% of the total amount of income payable per year relates to income per annuity of R200 000 or less.

Permanent Health Insurance business

Momentum also pays Permanent Health Insurance ("PHI") income to disabled employees, the bulk of which are from employee benefit insured schemes. The income payments continue to the earlier of death, recovery or retirement of the disabled employee. There is therefore the risk of lower recovery rates or lower mortality rates than assumed, resulting in claims being paid for longer periods. Claims in payment are reviewed annually to ensure claimants still qualify and rehabilitation is managed and encouraged.

Persistency risk

Persistency risk relates to the risk that policyholders may cease or reduce their contributions, or withdraw their benefits and terminate their contracts prior to the contractual maturity date of a contract. Expenses such as commission and acquisition expenses are largely incurred at the outset of the contract. These upfront costs are expected to be recouped over the term of a contract from fees and charges from the contract. Therefore, if the contract or premiums are terminated before the contractual date, expenses might not have been fully recovered, resulting in losses being incurred. As a result, the amount payable on withdrawal normally makes provision for recouping any outstanding expenses. However, losses may still occur if the expenses incurred exceed the value of a policy, which normally happens early on in the term of recurring premium policies, or where the withdrawal amount does not fully allow for the recovery of all unrecouped expenses. This may either be due to a regulatory minimum applying, or because of product design.

The recovery of expenses is in line with the regulatory limitations introduced in 2006. Therefore, in addition to setting realistic assumptions with regards to termination rates (rates of withdrawal and lapse), based on Momentum's actual experience specific amounts are set aside to cover the expected cost of any lost charges when policyholders cease their premiums or terminate their contracts.

Expense risk

There is a risk that Momentum may experience a loss due to actual expenses being higher than those assumed when pricing and valuing policies. This may be due to inefficiencies, higher than expected inflation, lower than expected volumes of new business or higher than expected terminations resulting in a smaller in-force book size.

Momentum performs expense investigations annually and sets pricing and valuation assumptions to be in line with actual experience, with allowance for inflation. The latest investigation was performed at 30 June 2007. The inflation assumption furthermore allows for the expected gradual shrinking of the number of policies arising from the run off of books closed to new business arising from past acquisitions.

Business volume risk

There is a risk that Momentum may not sell sufficient volumes of new business to meet the expenses associated with distribution and administration. A significant portion of the new business acquisition costs are variable and relate directly to sales volumes. The fixed cost component can be scaled down if there is an indication of a permanent decline in business volumes. A further mitigating factor is that the distribution channels used to generate new insurance and investment business, are also used to distribute other product lines within Momentum, such as health insurance and short term insurance.

Sensitivities

The following table sets out the impact on liabilities of changes in the key valuation assumptions. The numbers in the table demonstrate the impact on liabilities if experience deviates from our "best estimate" assumptions in all future years – not only in one given time period. For mortality, morbidity and discontinuance rates, the sensitivities that result in liability increases were shown. On some product lines, this means an increase in the assumption, whereas on others it will represent a decrease. For instance, the "10% worsening in mortality" sensitivity assumes that future mortality experience on insurance policies will be 10% heavier than assumed in the valuation basis, while annuitant mortality will be 10% lighter.

R million	Liability	Renewal expenses increase by 10%	Expense inflation increases by 1%	Discon-tinuance rates worsen by 10%	Mortality and morbidity worsen by 10%	Invest-ment returns reduce by 1%
Insurance Business (as defined under IFRS 4)						
Retail Insurance Business (excluding annuities)	28 556	28 700	28 708	28 461	29 506	28 570
Annuities (retail and employee benefits)	15 716	16 052	16 058	15 716	16 440	17 414
Employee Benefits Business	1 603	1 603	1 603	1 603	1 603	1 603
Investment Business (as defined under IFRS 4)	110 768	110 839	110 835	110 834	110 830	110 848
Total	**156 643**	**157 194**	**157 204**	**156 614**	**158 379**	**158 435**

The above sensitivities were chosen, because they represent the main assumptions regarding future experience that Momentum employs in determining its insurance liabilities. The magnitudes of the variances were chosen to be consistent with the sensitivities shown in Momentum's published embedded value report and also to facilitate comparisons with similar sensitivities published by other insurance companies in South Africa.

It is not uncommon to experience one or more of the stated deviations in any given year. However, a 10% change in mortality and morbidity experience is less likely to occur. A change of this magnitude can be considered an extreme event. There might be some correlation between sensitivities. For instance, changes in investment returns are normally correlated with changes in discontinuance rates. The table above shows the impact of each sensitivity in isolation, without taking into account possible correlations.

The table does not show the financial impact of variances in lump sum mortality and morbidity claims in respect of employee benefit business, because of the annually renewable nature of this class of insurance. An indication of the sensitivity of financial results to mortality and morbidity variances on this class of business can be obtained by noting that a 10% increase in mortality and morbidity lump sum benefits paid in any given year will result in a reduction of R62 million in the before tax earnings of Momentum.

It should be pointed out that the table shows only the sensitivity of liabilities to changes in valuation assumptions. It does not fully reflect the impact of the stated variances to Momentum's financial position. In many instances, changes in the fair value of assets will accompany changes in liabilities. An example of this is the annuity portfolio, where assets and liabilities are closely matched. A change in annuitant liabilities, following a change in long term interest rates, will be countered by an almost equal change in the value of assets backing these liabilities, resulting in a relatively modest overall change in net asset value.

Overall, insurance risk is considered to be within acceptable risk levels and is managed effectively in Momentum.

CREDIT RISK

Credit risk is the risk of loss due to non performance of a counterparty in respect of any financial or performance obligation due to deterioration in the financial status of the counterparty.

Credit risk arises from the investment in corporate debt in the shareholder's and guaranteed portfolios. It could also arise from the decrease in value of an asset subsequent to the downgrading of a counterparty.

Credit risk governance

Credit risk in Momentum is managed in terms of the Credit Risk Management Framework, which is a sub framework of the Business Success and Risk Management Framework. The governance of credit risk is comprehensively set out in the Credit Risk Charter. The overall responsibility for the effectiveness of credit risk management processes vests with the Board of directors. The operational responsibility has been delegated to the Momentum Risk committee and its sub committees, executive management, operations management and the risk management functions.

The Credit Risk committee is a sub committee of the Momentum Risk committee. This committee reports to the Momentum Risk committee on the effectiveness of credit risk management and provides an overview of the credit portfolio of Momentum. The Momentum Credit Risk committee and its sub committees are responsible for the approval of relevant credit policies and the ongoing review of the credit exposure of Momentum. This includes the monitoring of the following:

- quality of the credit portfolio;
- stress quantification;
- credit defaults against expected losses;
- credit concentration risk;
- return on risk; and
- appropriateness of loss provisions and reserves.

An integral part of the credit risk management governance is the approval of credit exposures and credit facilities by the Credit Approval committee according to delegated mandates.

Credit risk management

Management recognises and accepts that losses may occur through the inability of corporate debt issuers to service their debt obligations. In order to limit this risk, the Credit Risk committee has formulated guidelines regarding the investment in corporate debt instruments, including a framework of limits based on Momentum's credit risk appetite, the nature of the exposure, a detailed assessment of the counterparty's financial strength, the prevailing economic environment, industry classification and other qualitative factors.

To achieve the above, an internal credit risk function performs ongoing risk management of the credit portfolio. This is made possible by the use of stochastic portfolio credit risk modelling in order to gauge the level of portfolio credit risk, consider levels of capital and identify sources of concentration risk (see below) and the implications thereof.

Regular risk management reporting to the Credit Risk committee includes Credit Risk Exposure reporting, which contains the relevant data on the counterparty, credit limits and ratings. Counterparty exposures in excess of the set credit limit are monitored and corrective action is taken where required.

Credit risk measurement

Credit risk measurement forms an integral part of the management of credit risk. The credit risk parameters measured are described as follows:

Probability of default ("PD")

The probability of default is the probability that a counterparty will default within the next year. The definition of default is dependent on the earlier of the following two drivers:

- a time driven element where an exposure is more than 90 days in arrears; or
- an event driven element when there is reason to believe that the exposure will not be recovered in full.

Cumulative default probabilities over a multi year cycle are established for internal purposes. Where appropriate, this is used for pricing.

Loss given default ("LGD")

The loss given default is defined as the economic loss that will be suffered on an exposure following default of the counterparty, expressed relative to the amount outstanding at the time of default. The recoveries are significantly impacted by the types and levels of collateral held against the exposure.

For the calculation of capital, LGDs are used.

Exposure at default ("EAD")

Exposure at default is defined as the gross exposure of a facility upon default of a counterparty.

Expected loss

The expected loss ("EL") of the portfolio is a function of the exposure, the PD and the loss given default dimension and is a forward looking measure of risk through the cycle. The forward looking long run average expected loss estimated at 30 June 2007 for Momentum's portfolio is estimated at 0.1% (30 June 2006: 0.2%).

Portfolio level analysis

The above credit risk estimates provide input into the portfolio level credit exposure assessment of the credit risk portfolio. In addition to the above metrics, the correlations between counterparties and industries are assessed as well as potential diversification benefits. Credit concentrations are identified and managed with reference to the total credit portfolio. The PD, LGD and EAD estimates are used as inputs into the credit approval process, pricing process, internal reporting and economic capital estimates, where appropriate.

More information on the credit risk measurement for the current portfolio position is provided in the Portfolio overview section below.

Credit risk mitigation

Credit mitigation instruments are used where appropriate. These include collateral, netting agreements and guarantees or credit derivatives.

Credit risk concentrations

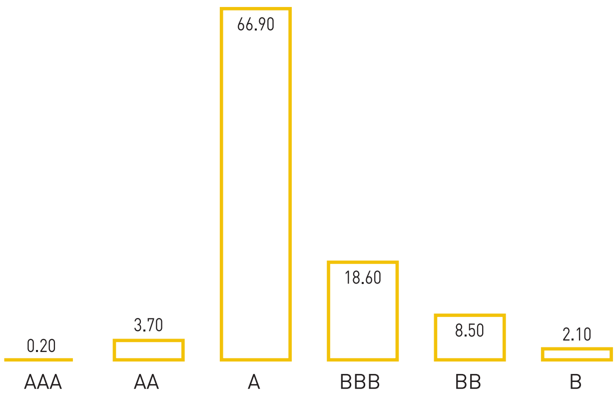
Concentration risk is managed at the credit portfolio level. The nature thereof differs according to segment. Concentration risk management in the credit portfolio is based on individual name limits and exposures (which are reported to and approved by the Credit Risk committee) and the monitoring of industry concentrations. A sophisticated simulation portfolio model has been implemented to quantify concentration risk and the potential impact thereof on the credit portfolio.

PORTFOLIO OVERVIEW

The credit ratings for the counterparties in the portfolio are based on FirstRand ratings as well as internationally recognised rating agencies. The PDs (through the cycle and point in time) for the various rating classes are then determined based on S&P published Annual 2005 Global Corporate Default Study and Rating Transitions based on data from 1981 to 2005.

The graph below shows the spread of the total corporate debt portfolio across the various rating categories (based on Standard & Poors International, Local Currency rating scale) at 30 June 2007.

Proproportion of credit portfolio
(%)



Rating category	AAA	AA	A	BBB	BB	B
Pd	0.01%	0.02%	0.08%	0.23%	0.64%	3.59%

The weighted average rating of the portfolio at 30 June 2007 is a BBB rating whilst it was a BBB- rating at 30 June 2006. The rating is equivalent to a national scale rating of AA-. The weighted average LGD for the portfolio is 32%.

Commission debtors

Commission debtors arise when upfront commission paid on recurring premium policies is clawed back on a sliding scale within the first two years of origination. As the largest portion of the Momentum's new business arises from brokerages that are subsidiaries of A-rated SA banks, the risk of default is minimal, and relates mainly to independent intermediaries.

An impairment of commission debits is made to the extent that these are not considered to be recoverable, and a legal recovery process commences.

Reinsurance

The Group only enters into reinsurance treaties with reinsurers registered with the Financial Services Board. The reinsurers contracted represent subsidiaries of large international reinsurance companies, and no instances of default have yet been encountered.

Regular monthly reconciliations are performed regarding claims against reinsurers, and the payment of premiums to reinsurers.

Reinsurer	Reinsurer proportion	International credit rating of reinsurer (Standard & Poors)
Swiss	48%	AA–
Hannover Re	24%	AA–
GeneralCologne Re	17%	AAA
RGA	10%	AA–
Other	1%	–

Policy loan debt

The Group's policy is to automatically lapse a policy where the policy loan debt exceeds the fund value. There is therefore little risk that policy loan debt will remain irrecoverable.

Overall, the credit risk associated with Momentum's book is considered to be within acceptable risk levels and is managed effectively in Momentum.

MARKET RISK

Market risk is the risk that Momentum is unable to meet its obligations due to changes in the market value of the assets backing the liabilities, as well as a decrease in the net asset value due to a decline in the fair value of shareholder assets.

Market risk, being the risk of revaluation of any financial instrument consequent of changes in market prices or rates, exists in all trading, banking and investment portfolios. For the purpose of these financial statements market risk is considered to be fully contained within the trading portfolios. Substantially all market risk within Momentum is taken in the asset managers in Momentum as this is the division where the market risk taking and management expertise lies. The Momentum Group Risk committee provides market risk oversight for these divisions.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The majority of currency exposure within Momentum results from the offshore assets held by policyholders' portfolios to provide the desired international exposure, subject to the limitations imposed by the South African Reserve Bank. The largest portion of these assets are backing linked policyholders' liabilities, this results in the majority of the currency risk being passed to the policyholder in terms of the policy agreement.

Overall, currency risk is considered to be within acceptable risk levels and is managed effectively in Momentum.

Property risk

Property risk is the risk that the value of investment properties will fluctuate as a result of changes in the rental market.

Property investments are made on behalf of policyholders, shareholders and other investment clients and are reflected at market value. Diversification in property type, geographical location and tenant exposure are all used to reduce the risk exposure.

Overall, property risk is considered to be within acceptable risk levels and is managed effectively in Momentum.

Equity risk

Equity risk is the risk that the value of a financial instrument will fluctuate as a result of changes in the marketplace. The equity exposure arises from equity investments made on behalf of shareholders and policyholders, including equities backing guaranteed liabilities, minimum investment return guarantees in some universal life products, and as a result of fees charged as a percentage of policyholder assets that are invested in equities.

Equities are reflected at market values, which are susceptible to fluctuations. The risks from these fluctuations can be separated into systematic risk (affecting all equity instruments) and specific risk (affecting individual securities). In general, specific risk can be reduced through diversification but systematic risk cannot.

Momentum manages its equity risk by employing the following procedures:

- mandating specialist equity fund managers to invest only in listed equities, where there is an active market and where access is gained to a broad spectrum of financial information relating to the companies invested in;
- diversifying across many securities to reduce specific risk. Diversification is guided by the concentration rules imposed on admissible assets by the Long Term Insurance Act;
- requiring these fund managers to maintain the overall equity exposure within the prudential investment guidelines set by the Financial Services Board; and
- considering the risk reward profile of holding equities and bearing the risk in order to obtain higher expected returns on assets.

Individual insurance and investment contracts with discretionary participation features

Momentum offers various product lines in this category. Some of these products have been closed to new business.

Assets are invested in a balanced mix of local and offshore equities, fixed interest assets, property and cash, according to the asset manager's best investment view. The Investment committee regularly monitors the asset mix and performance to ensure that the expected returns are in line with policyholders' expectations. Separate investment portfolios are managed for separate smoothed bonus products.

The investment return earned on the underlying assets, after tax and charges, is distributed to policyholders in the form of bonuses in line with product design, reasonable policyholder expectations, affordability and management discretion. The use of bonuses is a mechanism to smooth returns to policyholders, in order to reduce the risk of volatile investment performance. Any returns not yet distributed are retained in a Bonus Stabilisation Account ("BSA"), for future distribution to policyholders.

In the event of adverse investment performance, such as a sudden or sustained fall in the market value of assets backing smoothed bonus business, the BSA may be negative. In such an event, Momentum has the following options:

- assume lower bonuses will be declared in future in valuing the liabilities;
- actually declare lower bonuses;
- a portion of bonuses declared is not guaranteed and in the event of a fall in the market value of assets, Momentum has the right to remove previously declared non guaranteed bonuses. This will only be done if it is believed that markets will not recover in the short term;
- a market value adjuster may be applied in the event of voluntary withdrawal to ensure that withdrawal benefits do not exceed the market values. This is to protect remaining policyholders;
- funds in the Additional Bonus Stabilisation Account are used to temporarily or permanently top up the BSA on recommendation of the Actuarial Committee and approval from the Board of directors. This is a general bonus stabilisation account set aside as a buffer to support all smoothed bonus business; and
- this account is not attributable to any specific class of smoothed bonus business and is not intended for distribution under normal market conditions. In very extreme circumstances, funds may be transferred from the shareholder portfolio into the BSA on a temporary or permanent basis.

The Performance Guaranteed Fund product offered is a variation to the smoothed bonus products. Policyholders are guaranteed to receive at least a return of capital after five and ten years for single premium and recurring premium contracts respectively. In addition, management fees will be returned to policyholders if the portfolio did not achieve an investment return at least equal to inflation. Assets are invested in local and international equities, bonds and cash and the portfolio is managed as an absolute return fund.

Individual contracts offering investment guarantees

Momentum has a book of universal life business that is closed to new business, which offers minimum maturity values based on a specified rate of investment return. This guaranteed rate is 4.5% per annum for the bulk of business. This applies to smoothed bonus portfolios as well as certain market linked portfolios. A number of contracts also provide a guarantee to policyholders that the investment return or annual bonus rate will not be less than the minimum rate in any year. As a result of the current low inflation environment, Momentum no longer automatically offers these guarantees on new business. Policyholders do, however, have the option to purchase a minimum guaranteed return of up to 3.5% per annum in return for a guarantee charge. Only selected portfolios qualify for this guarantee and the guarantee also applies only for specific terms.

Momentum manages the risk of being unable to meet guarantees by holding a specific liability for minimum maturity values and other guaranteed benefits arising from minimum contractual investment returns in accordance with local actuarial guidance. A stochastic model is used to quantify the reserve required to finance possible shortfalls in respect of minimum maturity values and other guaranteed benefits. The model is calibrated to market data and the liability is calculated every six months. Momentum also holds statutory capital in respect of the guarantee risk. The amount of capital is calculated to be sufficient to cover the cost of guarantees in all but extreme scenarios.

Group contracts with discretionary participation features

The Momentum Secure Bonus ("MSB"), Momentum Structured Growth ("MSG"), Momentum Capital Plus ("MCP") and Sage Group smoothed bonus portfolios are offered to institutional investors and provide a continuous guarantee on capital and declared bonuses. Bonuses are fully vesting and are declared monthly in advance in the case of MSB and MCP, monthly in arrears in the case of MSG, and annually in arrears in the case of the Sage Group smoothed bonus portfolio. These contracts are investment contracts with discretionary participation features ("DPF") in terms of IFRS 4.

No market value adjuster applies in the case of MSB, MSG and MCP, but allowance is made for the payment of benefits over a period of up to twelve months if large collective outflows may prejudice remaining investors. Extensive use is made of derivative instruments to minimise downside market risk in these Momentum DPF portfolios. The Sage smoothed bonus portfolio has a positive return investment mandate, and benefits may be staggered over up to 10 years in the case of withdrawals when market values are depressed. Because of these strategies, bonus stabilisation accounts in respect of Group business with discretionary participation features are small, relative to the bonus stabilisation accounts on individual (retail) business.

Market related/unit linked business

Market linked or unit linked contracts are those invested in portfolios where there is a direct relationship between the returns earned on the underlying portfolio and the returns credited to the contract. These may be investment contracts or insurance contracts, and include universal life contracts which also provide cover on death or disability.

Policyholders carry the investment risk. However, Momentum does carry a risk of reduced income from fees where these are based on investment returns or the underlying fund value, or where investment conditions affect its ability to recoup expenses incurred. There is furthermore also the risk of a damaged reputation if actual investment performance is not in line with policyholders' expectations. These risks are managed through the rigorous investment research process applied by Momentum's investment managers, which is supported by technical as well as fundamental analysis.

Overall, market risk is considered to be within acceptable risk levels and is managed effectively in Momentum.

LIQUIDITY RISK

Liquidity risk is the risk that Momentum will encounter difficulty in raising funds to meet commitments to policyholders under policy contracts and in respect of other obligations.

All policyholder funds are invested in appropriate assets that match the reasonable benefit expectations of policyholders, which include the expectation that funds will be available to pay out benefits as required by the policy contract. The majority of assets invested in are listed financial instruments that are actively traded on the various securities and bond exchanges, resulting in the ability to liquidate most of these investments at relatively short notice.

The only significant shareholders' liability is the callable bond issued during 2006. Momentum's shareholders' funds include sufficient cash resources to fund the coupon payments under this bond, and the nominal amount, which is callable in 2014, which will be funded from cash resources at that time.

Momentum's Group Risk committee is responsible for liquidity risk oversight and overall, liquidity risk is considered to be within acceptable risk levels and is managed effectively in Momentum.

INTEREST RATE RISK

Interest rate risk in Momentum is defined as the sensitivity of the balance sheet and income statement to unexpected, adverse movements of interest rates.

The most significant interest rate risk for Momentum emanates from the immediate annuity portfolios, where guaranteed regular annuity payments are made to an annuitant. These guaranteed annuities are matched with appropriate assets by FirstRand (acting through its RMB division) who acts as the asset portfolio manager on behalf of Momentum. Momentum's Group Risk committee is responsible for interest rate risk oversight.

Non profit annuity business

An annuity pays an income to the annuitant for life, in return for a lump sum consideration paid on origination of the annuity. Income payments may be subject to a minimum period. The income may be fixed, or increase at a fixed rate or in line with inflation.

Momentum guarantees this income and is therefore subject to interest rate risk, in addition to the risk of longer than anticipated life expectancy. In order to hedge against the interest rate risk, Momentum invests in an actively managed portfolio of government and corporate bonds, promissory notes from banks and swaps, of the same duration as the liabilities.

The mismatch risk is measured in terms of duration and convexity risk. The asset manager aims to minimise both these risks. Index-linked annuities, which provide increases in line with inflation, are matched with index linked bonds. Where perfect cash flow matching is not possible, interest rate risk is minimised by ensuring the values of assets and liabilities respond similarly to small changes in interest rates, and a mismatching liability is raised as a component of the investment stabilisation account. In a monthly meeting with the asset managers, the matching position of the portfolio is considered as well as the need for corrective action. The asset managers are motivated, by way of performance fees, to minimise any mismatching risk.

As an indication of the robustness of the asset liability management, it is worth noting that a 25% horizontal shift in the risk free yield curve as at 30 June 2007 would have resulted in an 0.8% move in the liability relative to assets. Similar to the annuity portfolio, the liability for Permanent Health Insurance payments to disabled employees of insured group schemes is matched by fixed and index linked bonds to protect Momentum against interest rate movements.

Guaranteed endowments and structured products

Momentum issues guaranteed endowment policies; the majority of these contracts are five year single premium endowment policies providing guaranteed maturity values. In terms of these contracts policyholders are not entitled to receive more than the guaranteed maturity value as guaranteed on inception. Momentum hedges the risk of being unable to meet the guaranteed maturity value by investing in zero coupon corporate bonds of comparable yield and term to maturity.

A variation on guaranteed endowment policies are contracts where the capital guarantee is combined with a guaranteed return linked to the returns on local and offshore market indices. Momentum hedges the risk associated with the guarantee on these contracts through the purchase of zero coupon bonds and the risk of the offshore indices is hedged through equity linked notes issued by banks. In addition to the above mentioned hedging strategies a portion of the guaranteed endowment policies is reinsured with reputable reinsurers in terms of Momentum's reinsurance policies.

Hedging on guaranteed and structured endowments is robust. It was calculated that, at 30 June 2007, a 25% horizontal shift in the zero coupon yield curve would have resulted in an 0.4% move in the liability relative to assets.

Other non profit business

In addition to mortality risk, morbidity risk, expense risk and persistency risk, there is also the risk that investment return experienced may be lower than that assumed when the price of insurance business was determined. Momentum reduces this risk by investing in assets comparable to the nature of these liabilities, such as fixed interest investments.

Impact of changes in interest rates

Refer to note 48 for an analysis of the impact of change in interest rates.

Overall, interest rate risk is considered to be within acceptable risk levels and is managed effectively in Momentum.

OPERATIONAL RISK

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk but excludes strategic and reputational risk.

Operational risk governance

Operational risk is managed in terms of the Operational Risk Management Framework ("ORMF"), which is a sub framework of the Business Success and Risk Management Framework. The ultimate responsibility for risk management oversight lies with the Board. The Board has delegated its responsibility for operational risk governance and oversight to the Momentum Risk committee and its sub committees, executive management, operational management and the risk management functions.

The Operational Risk committees in the business units of Momentum are sub committees of Momentum Risk committee, and are established to oversee the operational risk/reward profile of Momentum and its business entities. The role of an Operational Risk committee is to govern, direct and co ordinate operational risk management process, in accordance with the ORMF in order to achieve an acceptable operational risk/-reward profile and to facilitate compliance with regulatory requirements and world class operational risk practices.

Independent monitoring of operational risk occurs through a number of functions across Momentum. Examples of these functions include; Risk Insurance, Legal, Information Risk Services, Operational Risk Governance and Group Forensic Services. Each of the functions has defined roles, responsibilities as well as performance objectives to ensure operational risk is effectively managed and reported across Momentum.

The following table provides an overview of the operational risk categories, the specialist risk functions responsible for independent monitoring and the sub frameworks of the Business Success and Risk Management Framework governing these:

OPERATIONAL RISK CATEGORY	SPECIAL RISK FUNCTIONS	FRAMEWORKS
Process breakdowns and issues	Operational Risk Management	Operational Risk Management Framework
Project risk	Operational Risk Management	Operational Risk Management Framework
Outsourcing and procurement	Operational Risk Management	Operational Risk Management Framework
Financial control breakdowns	Financial Control	Operational Risk Management Framework
Business continuity risk	Operational Risk Management	Operational Risk Management Framework
Legal risk	Group Legal Services	Legal Risk Management Framework
Information and technology risk management	Information Risk Management	Information Risk Management Framework
Compliance risk	Group Compliance	Compliance Management Framework
Fraud and security risks	Group Forensic Services	Security Policy
Human resources risk	Human Resources Functions	Human Resources Policy
Insurance risk	Insurance Risk	Insurance Methodology

Operational risk management

The overall strategy of the Momentum Operational Risk Management team is to ensure that risks arising from operational matters are identified and appropriately managed and mitigated, to protect the solvency of Momentum, the interest of all stakeholders, reputation of Momentum, and enable the Board to discharge its fiduciary and statutory duty to control the business activities responsibly and effectively.

The management of operational risk is inherent in the day to day execution of duties by management of business entities.

Overall, operational risk is considered to be within acceptable risk levels and is managed effectively in Momentum.

Operational risk management methodologies and tools

A number of operational risk management methodologies have been developed to deal with practical implementation of operational risk management challenges. These methodologies are supplemented by a number of risk tools. These include:

- Control risk self assessments – self assessment to report on the effectiveness of risk management;
- Internal operational loss data and incident reporting – a process to record and analyse the root cause of losses and incidents;
- Key risk indicators – a process whereby measurable, quantifiable metrics are tracked to assess the level of operational risk and provide early warning indications of potential breakdowns;
- Incident and issue reporting – a process of reporting and escalating operational risk incidents and issues through the Risk committee structures; and
- Risk assurance – supports the risk control process by auditing the integrity and completeness of the financial reporting and management information systems and processes, as well as the relevant controls, which are used for the assessment and reporting of business performance.

Operational risk quantification and capital calculation

Momentum is in the process of investigating the most appropriate way to calculate operational risk capital considering the Basel II operational risk Standardised Approach ("TSA") for internal capital allocation purposes as well as the Solvency II requirements.

Business continuity management

Business continuity management in Momentum focuses on improving the resilience of business operations in order to withstand unexpected disruptions and disasters.

Business continuity management is an ongoing process of assessing needs, identifying weaknesses and single points of failure, developing strategies and keeping plans current and tested. The approach involves following a well established annual cycle of actions, designed to ensure plans and associated measures are kept relevant and tested.

The status of readiness for disruptions is measured through quarterly reporting reflecting the organisation's compliance with the cyclical requirements, e.g. full testing of plans once per annum. These are reported to the Momentum Risk committee.

Legal risk

Legal risk is the risk of loss due to defective contractual arrangements, legal liability, both criminal and civil, incurred during operations by the inability of the organisation to enforce its rights or by failure to address identified concerns to the appropriate authorities where changes in the law are proposed (implemented changes are dealt with as part of compliance risk).

Legal risk is managed in terms of the Legal Risk Management Framework and through activities such as monitoring of new legislation, awareness initiatives, identifying significant legal risks and by managing and monitoring the impact of these risks through appropriate processes and procedures.

Overall, legal risk is considered to be within acceptable risk levels and is managed effectively in Momentum.

Information risk

Information risk is defined as the possibility or chance of harm being caused to a business as a result of a loss of confidentiality, integrity or availability of information.

Information has been described as "the lifeblood of an enterprise". Without accurate, trustworthy, up to date information being continually available, the enterprise is vulnerable to numerous threats. Implementation of sound information risk management not only protects against adverse influences, but also acts as a business enabler, supporting effective rollout of new services. It is therefore a strategic imperative of Momentum.

Information risk services establishes appropriate good practice and control measures to protect the information assets of Momentum and to ensure confidentiality, integrity and availability of Momentum's information. Information risk management assists and drives business entities of Momentum to establish appropriate good practice and control measures to protect the information assets of Momentum.

The Information Technology Governance and Information Security Framework ("IT Framework") is a customisation of ISACA's Control Objectives for the Information and related Technology ("COBIT®") Framework and the Information Security Forum's Standard of Good Practice for FirstRand. The IT Framework is approved by the Momentum Risk committee.

The IT Framework is used:

- As the definition of the objectives for managing IT Governance and Information Security;
- To outline the processes that need to be addressed across Momentum in terms of IT Governance and Security; and
- As the measurement framework for IT Governance and Security across Momentum.

Due to the changing nature of information risk and information security, Momentum constantly faces new threats and challenges. The risk management structure for information risk is specifically structured to enable and support the measurement of status and the resolution of issues.

Compliance risk

Compliance risk is the risk of legal or regulatory sanctions, material financial loss, or loss to reputation that Momentum may suffer as a result of its failure to comply with applicable laws, regulations, and codes of conduct and standards of good practice.

Compliance risk is managed in terms of Momentum's Business Success and Risk Management Framework. Momentum has a hybrid model for the day to day running of compliance risk management in the business. This entails that some of the compliance officers are employed by and report to the Head of Compliance, Momentum, whilst the rest do not report to the Head of Compliance and are employed by the business units.

The Head of Compliance reports to the Company Secretary, but has access to Momentum Risk and Audit committees and is therefore able to report compliance risks directly to these governance functions.

Fraud and security risks

Momentum is committed, through policies and actions, in striving towards an environment that safeguards its people, customers and assets.

Momentum operates in an environment where the acceptance of a Zero Tolerance to criminal activities is a given. Momentum enhances this environment with robust control structures and policies to safeguard the employees, clients and assets of Momentum.

In this regard Momentum relies on line management and formal structures that include Assurance and Risk management as well as Forensic services to enforce the Zero Tolerance attitude. This attitude is further completely underwritten by the Momentum senior management and Board.

To reach these goals Momentum has not only a code of expected conduct that applies to all staff, but also various mechanisms to create anti crime awareness as well as mechanisms that assist in the detection of and formal prosecution of all offenders.

Risk insurance

Risk insurance risk is defined as the risk that material unexpected operational losses, arising from non trading risks, are not identified and/or adequately covered by appropriate insurance risk financing structures.

Momentum forms part of the FirstRand Group's global insurance risk financing programme with cover limits that are commensurate with the size and stature of Momentum. The risks written into the programme are Bankers' Blanket Bond, Computer Crime, Professional Indemnity, Directors' & Officers' Liability, Assets and various Liabilities.

Momentum will continue to monitor developments and ensure that the insurance financing programme is adapted accordingly and where appropriate.

INTERNAL AUDIT

The internal auditors perform comprehensive process, systems, compliance and business audits across the spectrum of business entities to identify shortcomings and to augment the risk effectiveness self assessments. All audit reports are reviewed at the appropriate Audit committees of the business units. Major issues are escalated to higher levels of review.

Action plans to address identified process weaknesses are agreed with management of the relevant business unit and progress monitored by the Risk committees, as appropriate. Internal Audit further conducts independent reviews of Risk committees to ensure that they operate effectively and efficiently and comply with the requirements of good corporate governance.

DISCOVERY GROUP ("DISCOVERY") GOVERNANCE STRUCTURE

The Board of Discovery is responsible for the oversight of business performance and risk management activities. The Board is supported in these tasks by the Board committees and their sub committees, the risk management and compliance functions as well as internal audit. The governance structure of Discovery is illustrated in the diagram below:

Board

Discovery Group Audit and Risk committee

- Ensures integrity, reliability and accuracy of accounting and financial reporting systems
- Ensures appropriate systems are in place for monitoring risk, control and compliance with the law and codes of conduct
- Evaluates the adequacy and effectiveness of the risk management, internal audit and compliance processes
- Reviews the scope, quality and cost of the statutory audit and the independence and objectivity of the auditors
- Considers the annual financial statements for approval by the Board of directors

Discovery Group Actuarial committee

- Considers the financial soundness valuation results of Discovery
- Considers the embedded value results of Discovery
- Reviews the external disclosure of the financial soundness valuation results and the embedded value results of Discovery
- Ensures from an actuarial perspective, Discovery complies with all statutory requirements and adheres to international best practice
- Considers the capital position of Discovery
- Ensures that the necessary processes and forums are in a place to enable the statutory actuary to ensure the actuarial soundness of new products as well as revisions of existing products
- Reviews all reinsurance arrangements

Discovery Group Audit and Risk committee

- Evaluates the adequacy and effectiveness of the risk management, internal audit and compliance processes

Shareholders' Assets Investments committee

- Determines investment philosophy and strategy for investment of shareholders' assets in support of Group operations

Independent risk management functions within Discovery

Asset and Liability Management	Operational Risk Management	Compliance	Internal Audit	Legal	Finance

The risk management governance structures of Discovery cascade down from the Board to the subsidiaries and main divisions and their business units. Divisional risk and Exco sub committees oversee the risk management processes of each entity in Discovery.

The Audit and Risk committee has non executive representation and all Audit committee meetings are attended by representatives from the external and internal auditors and the independent risk management functions.

These mechanisms ensure the integrity of reports to the Board committees through the presence of external and independent observers at all governance levels.

SUCCESSES FOR 2007

- The definition and development of the first iterations of the Discovery Project and Incident Risk Management Frameworks;
- The extension of the Enterprise Risk Management Framework to include business as usual objectives and risks;
- The definition of a more granular risk rating methodology to enable better analysis of risk at all levels of the organisation; and
- Formal definition of a common risk language across Discovery.

FOCUS FOR 2008

- Develop an Early Warning System based on Key Risk Indicators;
- Define (or revise, where appropriate) risk appetites at the project, process, management, executive and Board levels. This will ensure that all risks are duly considered by the appropriate level in the organisation;
- Fully embed the Discovery Project and Incident Risk Management Frameworks within all companies and corporate entities in Discovery; and
- Facilitate better analysis of risks at all levels of the organisation.

INSURANCE RISKS

Insurance risks relate to the likelihood that future claims and expenses will exceed the value placed on insurance liabilities. This could occur due to the uncertainty of the timing and amount of future cash flows arising under insurance contracts. In determining the value of insurance liabilities, assumptions need to be made regarding future rates of mortality, morbidity, termination rates, expenses and investment performance. The uncertainty of these rates will result in actual experience being different from that assumed and hence actual cash flows being different from those projected.

Discovery Life insurance risks

The Discovery Life Plan provides protection against a comprehensive spectrum of risks. The plan covers:

- Life Cover Benefits;
- Disability Benefits, Severe Illness Benefits; and
- Income Continuation Benefits.

The Health Plan Protector will fund contributions to the Discovery Health Medical Scheme in the event of death, disability or severe illness. It further rewards members for positive health management through the payback benefit.

The Retirement Optimiser offers funding for retirement and offers unique benefits that, together with the Life Plan, could capitalise unneeded risk cover to boost retirement funding. On a Group basis, Life Cover, Severe Illness and Income Continuation Benefits are offered on a Group basis.

Automatic increase take up rate

The majority of Discovery Life policyholders have selected policies with automatic premium and benefit increases. The automatic increases increase the profitability of the plans over time since the cash flows under the policy are maintained in real terms.

These automatic increases are contractual; however policyholders may elect to change their policy to a plan with lower premium. In practice most policyholders continue with their initial funding. For valuation purposes it has been assumed that all policyholders change to plans with minimum premium increases without changing the cover levels as at the valuation date. This is the worst case scenario and thus acts as a margin.

Lapse and surrender risk

Policyholders have the option to discontinue or reduce contributions at any time. There is a risk of financial loss due to the withdrawal rate being higher than expected. There is a further risk that the withdrawals are selective from a claims experience point of view.

The lapse risk is managed as follows:

Product design – Products are designed to be sustainable in the long term. New product offerings are made available to existing policyholders as far as possible to prevent lapse and re-entry risk. Integration between different product offerings across Discovery enhances the value proposition of the overall package of products from Discovery. No surrender benefit is offered on risk benefits and thus the loss on withdrawal is reduced.

Distribution – Discovery Life predominantly distributes via independent intermediaries which typically experiences lower lapse rates than a direct channel. Commissions are also clawed back from intermediaries where a policy lapses within the first two years of inception.

Client relationships – Clients are contacted after a failed debit order and after notification of a cancellation. The reason is established and wherever possible the policies are conserved.

Reinsurance – Discovery has reinsurance treaties that protect a part of the assets under insurance contracts against a substantial increase in lapses.

Experience monitoring – Lapse experience is monitored on a monthly basis.

Underwriting experience risk

There is a risk that actual mortality and morbidity experience is higher than expected. Selection is the risk that worse risks than expected are attracted and these risks are then charged inadequate premiums. There is a risk that the emergence of a new disease or epidemic can increase the number of claims.

The risks are managed through:

• *Product design and pricing*

Products are carefully designed to minimise adverse selection. Rating factors are applied to standard premium rates to differentiate between different levels of risk. Discovery Life has the unique ability to take additional rating factors into account, for example lifestyle factors.

New premium rates are reviewed and approved by the statutory actuary.

Product integration helps to attract healthier lives than average in the market leading to positive selection.

For certain product options, Discovery Life has retained the option to review premium rates annually throughout the life of the contract.

Discovery Life predominantly operates in the high end of the insurance market where the risk to AIDS is lower than for the market as a whole. The impact of HIV/AIDS is considered and allowed for during the product development and pricing.

Group business premiums are reviewed, either annually or every two years, dependent on the premium term.

Overall, Discovery Life has experienced better than estimated claims experience during every reporting period since its inception in 2001.

• *Underwriting*

Underwriting ensures that only insurable risks are accepted and that premiums reflect the unique circumstances of each risk. For individual policies with lump sum life cover, the minimum requirement will be an HIV test.

Financial underwriting is applied to ensure that the policyholder can justify the amount of cover applied for.

Premium loadings and exclusions are applied where high risks are identified.

Group business is underwritten on an employer by employer basis and additional allowance is made for the impact of industry class, income and geographic location on expected claims experience.

Quality assurance audits are performed on underwriting to minimise the risk of incorrect underwriting decisions.

• *Reinsurance*

Reinsurance protects against volatility in claims experience and against an accumulation of risk. Reinsurance is further utilised on a facultative basis if uncertainty exists over the terms that should be offered to a particular risk.

In addition, reinsurers provide specialist advice when designing new products.

• *Experience Monitoring*

Experience investigations are conducted and corrective action is taken where adverse experience is noted. Experience monitoring is done on at least a quarterly basis.

Modelling and data risk

The actuarial liabilities are calculated using complex discounted cash flow models. There is thus a risk that the model doesn't accurately project the policy cash flows in the future.

The risk is controlled using specialist actuarial software.

The original actuarial model was tested and verified using an independent but identical parallel model. Any changes made are externally and independently reviewed.

The model relies on data from the administration system. There is thus a risk that the data does not accurately reflect the policies being valued. Data is subjected to detailed checks and high level responsibility checks. There are also no legacy systems.

Capital adequacy requirements and protection against adverse experience

There is a risk that future premiums and estimates used to calculate liabilities are insufficient to provide for variations in actual future experience. Margins are maintained in all liabilities. In addition, Discovery maintains shareholder capital to meet substantial deviations in experience.

In accordance with the Long Term Insurance Act (1998) Discovery Life is required to demonstrate solvency to the Registrar of Long Term Insurance. Discovery Life thus needs to maintain sufficient shareholder assets, over and above the assets required to fund shareholder liabilities, to fund the Capital Adequacy Requirement ("CAR").

The CAR is calculated in accordance with the Professional Guidance Note 104 as issued by the Actuarial Society of South Africa. The CAR calculation is intended to approximate a risk based capital measure and covers the major areas of insurance risk. It explicitly covers the following areas of risk:

- Lapse and withdrawal risk;
- Fluctuations in mortality and morbidity experience;
- Fluctuation in expense experience;
- AIDS risk;
- Risk of asset liability mismatches; and
- Risk of worse than expected investment returns.

At 30 June 2007, the Statutory Capital Adequacy Requirement was R145 million and was covered 10.0 times.

Concentration risk

- **Claims experience risk** – There is a risk that a concentration of risk can lead to worse than expected experience. The concentration risk is the highest in Group business, since assured lives live in the same geographical location and generally work in the same industry or at the same location. Discovery's exposure to Group business is however small at this stage and this risk is mitigated through catastrophe reinsurance. Discovery Life maintains a well diversified portfolio of policies. Reinsurance is further used to protect against the concentration of risk.

- **Withdrawal concentration risk** – There is a financial risk of the withdrawal of a block of policies written by a single independent intermediary. Discovery Life has a well diversified book of business by source of new business and spread across more than 6 000 brokers.

Destiny Health insurance risks

Destiny Health writes contracts providing health insurance coverage to individuals and employer groups in select markets within the United States of America. Destiny Health retains all or part of the insurance risk obligation.

Underwriting experience risk

Destiny is exposed to uncertainty surrounding the timing and severity of claims under its contracts of insurance. Risk premium rates are estimated using statistical techniques at a level reflective of expected annual claims cost per member, on a pooled basis. Insurance events are, by nature, random and the actual number and size of events during any one year may vary from those estimated using established statistical techniques.

These risks are further managed through:

- **Underwriting to screen risk and rates appropriately**
- **Pricing** – Pricing is monitored on an ongoing basis and changes to pricing occurs monthly. Pricing information sources include internal analysis, provider data, industry pricing tables, and partner data. Destiny Health's pricing is also reviewed from time to time by external consultants.
- **Managing health** – Destiny Health uses specialist external consultants for the following services:
  - pharmacy benefits management;
  - in patient and outpatient utilisation management, case management, disease management and maternity management;
  - mental health benefit and case management; and
  - diagnostic test review.

  The disease management programme uses risk screening and predictive modelling to identify members for outreach.
- **Claims management** – Claims payment patterns are short tailed by nature, and 90% of claims are typically settled within three months from dates of service. Destiny Health does not have exposure to latent claims, as all original claims are required to be submitted within 12 months from date of service. Average receipt of claims differs by territory, and currently runs at 45 days for all markets combined. Provider network contracts provide some claim cost relief. Limited benefits are paid when non participating providers are used. Controls and procedures also exist to identify fraud, inaccurate billing, non disclosure, and pre-existing conditions.

Concentration risk

Concentration of risk increases Destiny Health's exposure to factors impacting the severity and frequency of claims. Destiny Health management is focused to diversify geographical, group size exposure and quality of business risk to promote a balanced portfolio.

PruHealth insurance risks

PruHealth is a UK based joint venture in which Discovery has a 50% interest. PruHealth provides and administers health insurance products to employer groups and individuals in the UK, together with Prudential Assurance Company Limited.

PruHealth offers three main product types:

- Individual product offered to the retail market;
- SME product is an age rated product offered to small groups (2-100); and
- Corporate product is a product with fixed premiums by age that is fully experience rated each year.

The key areas of risk are premium pricing, claims volatility and failing to meet target levels of business. Monthly meetings are held to review actual experience against original pricing assumptions. Current claims experience is monitored against expected to ensure that PruHealth's current pricing assumptions are reasonable. Information is fed into the pricing reviews conducted by the Actuarial and Underwriting department. On a quarterly basis, the financial forecast is reviewed against emerging experience.

PruHealth use Milliman, an external actuarial consultancy, for external peer review and formal product sign off. Milliman will continue to perform ongoing reviews of the results of emerging experience against our pricing assumptions. Their review will focus on underwriting, claims experience, reserving, demographics and new product pricing.

An excess of loss reinsurance treaty and a quote share treaty have been concluded to mitigate risk.

CREDIT RISK

Credit risk is the risk of loss due to non performance of a counterparty in respect of any financial or performance obligation due to deterioration in the financial status of the counterparty.

Key areas where Discovery is exposed to credit risk are reinsurers' share of insurance liabilities, amounts due from Discovery Health Medical Scheme, premium debtors, broker and cash and cash equivalents held at various financial institutions.

Premium debtors are managed by strong collection processes to ensure that the identification of any unpaid debt exists and this is reported on a monthly basis. Most commission claw backs are offset against future payments and hence the risk of outstanding commission is minimal.

Discovery structures the levels of credit risk it accepts by placing limits on its exposure to a single counterparty, or groups of counterparties. An appropriate level of provision is maintained.

Discovery manages its exposure to credit risk in reinsurance assets held by placing reinsurance with reputable international companies. The credit rating of the company is assessed when placing the business and where there is a change in the status of the reinsurer.

The risk of cash and cash equivalents is managed through dealings with the major banks and exposures are monitored against approved limits.

Overall, credit risk is considered to be effectively managed in Discovery.

MARKET RISK

Market risk is the risk that Discovery is unable to meet its obligations due to changes in the market value of the assets backing the liabilities, as well as a decrease in the net asset value due to a decline in the fair value of shareholder assets.

Equity risk

Equity risk is the risk that the value of a financial instrument will fluctuate as a result of changes in the marketplace.

Equity investments are made on behalf of policyholders and shareholders. Equities are reflected at market values, which are susceptible to fluctuation. Of the total investments subject to equity price risk being R2 137 million (2006: R1 600 million), R1 516 million (2006: R1 176 million) are designated shareholder specific assets not linked to policyholders' liabilities. All market securities are managed by qualified asset managers in line with a mandate approved by the investment committee. In addition, equity risk is managed by diversifying across securities to reduce specific risk. Diversification is guided by the concentration rules imposed on admissible assets by the Long Term Insurance Act.

For unit linked investment contracts, Discovery is not exposed to a significant market risk as the policyholder's return is linked to the return on the underlying asset. Exposure exists to the extent that management fees and charges are dependent on the market value of the assets under the linked policies. There is thus a risk that the management fees could be insufficient to cover operational expenses.

The value of the assets under insurance contracts is dependant on the underlying assumption of future investment returns. There is a risk that actual investment returns are different from expected. Discovery Life currently has negative policyholder liabilities overall and the exposure to fluctuations in actual market returns is thus low.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

Discovery operates internationally and its exposures to foreign exchange risk arise primarily with respect to the US Dollar and the UK Pound. As a result, foreign exchange risk arises from net investments in foreign operations.

Discovery manages short term foreign currency exposures. Forward exchange contracts are utilised to reduce exposure to currency risk and are designated as cash flow hedges.

Overall, market risk is considered to be within acceptable risk levels and is managed effectively in the Discovery Group.

LIQUIDITY RISK

Liquidity risk is the risk that Discovery will encounter difficulty in raising cash to meet commitments associated with financial instruments. Liquidity risk arises when there is a mismatching between the maturities of assets and liabilities.

Discovery maintains sufficient liquid assets to meet short term liabilities and to allow for the initial cash flow strain when writing new business.

Policyholder funds are invested in appropriate assets, taking into account expected cash outflows.

Reinsurance provides stability in claims experience further reducing the liquidity risk.

Discovery believes liquidity risk to be within acceptable levels and managed effectively in Discovery.

INTEREST RATE RISK

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

Investments in government and public authority stocks and money market securities and deposits are managed by qualified asset managers.

Cash balances are invested at the best interest rates achievable in accordance with Discovery's investment policy.

Discovery believes interest rate risk to be within acceptable levels and managed effectively in Discovery.

OPERATIONAL RISK

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk but excludes strategic and reputational risk.

Operational risk is managed in terms of Discovery's Operational Risk Management Framework, which is a sub framework of Discovery's Enterprise Risk Management Framework. The operational risk management framework has as its objectives to:

- focus the business on the management of its key business success and risk factors in order to maximise the probability of achieving its stated objectives;
- integrate the risk management process with the line management process i.e. to reinforce the concept that line management is risk management; and

- outline a process that will result in concise, relevant, meaningful and value adding risk reporting at all levels of the organisation that will support risk analysis.

Operational risk governance

Independent monitoring of operational risk occurs through a number of functions, including Legal, Group Forensic Services, Group Compliance and Group Risk Management. Each of the functions has defined roles and responsibilities as well as performance objectives to ensure operational risk is effectively managed across Discovery. The management of operational risk is inherent in the day to day execution of duties by management of business entities.

Overall, operational risk is considered to be within acceptable risk levels and is managed effectively in Discovery.

Business continuity management

Business continuity management focuses on improving the resilience of Discovery's operations in order to withstand unexpected disruptions and disasters.

Business continuity management is an ongoing process of assessing needs, identifying weaknesses and single points of failure, developing strategies and keeping plans current and tested. The approach involves following a well established annual cycle of actions, designed to ensure plans and associated measures are kept relevant and tested.

The status of readiness for disruptions is measured through quarterly reporting reflecting the organisation's compliance with the cyclical requirements, e.g. full testing of plans once per annum.

Discovery deems itself ready to continue services and profitability even if impacted by a wide range of possible disruptions or disasters.

Legal risk

Legal risk is the risk of loss due to defective contractual arrangements, legal liability, both criminal and civil, incurred during operations by the inability of the organisation to enforce its rights or by failure to address identified concerns to the appropriate authorities where changes in the law are proposed (implemented changes are dealt with as part of compliance risk).

Legal risk is managed through activities such as monitoring of new legislation, awareness initiatives, identifying significant legal risks and by managing and monitoring the impact of these risks through appropriate processes and procedures.

There were no significant legal risk breakdowns during the year.

Information security

Information Risk is defined as the possibility or chance of harm being caused to a business as a result of a loss of confidentiality, integrity or availability of information.

Discovery establishes appropriate good practice and control measures to protect the information assets and to ensure confidentiality, integrity and availability of Discovery's information.

The Information Security Policy is used as:

- The definition of the objectives for managing Information Security; and
- The outline of the processes that need to be addressed across Discovery in terms of Information Security.

Compliance risk

Compliance risk is the risk of legal or regulatory sanction, material financial loss or loss to reputation that may be suffered as a result of failure to comply with laws, regulations, rules, related self regulatory organisation standards and codes of conduct.

Compliance officers support the business divisions to identify and manage their compliance risks to help find solutions to compliance risk issues and to provide a professional compliance, risk analysis, control, reporting and monitoring service.

Fraud and security risks

Discovery is committed through policies and actions, in striving towards an environment that safeguards its customers, staff and assets.

Discovery has a code of expected conduct that applies to all staff and various mechanisms to create anti crime awareness as well as mechanisms that assist in the detection of and formal prosecution of all offenders.

INTERNAL AUDIT

The internal auditors perform comprehensive process, system and business audits utilising a risk based audit methodology across the spectrum of business entities to identify shortcomings and to augment the risk effectiveness self assessments. All audit reports are reviewed at a divisional level and at the Audit committees. Major issues are escalated to higher levels for review. Action plans to address identified process weaknesses are agreed with management and progress is monitored as appropriate.

1. INTRODUCTION

FirstRand Limited ("the Group") is an integrated financial services company consisting of banking, insurance and asset management and health operations.

The Group adopts the following accounting policies in preparing its consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated.

2. BASIS OF PRESENTATION

The Group's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The Group prepares its consolidated financial statements in accordance with the going concern principle using the historical cost basis, except for certain financial assets and liabilities.

These financial assets and liabilities include:
- financial assets and liabilities held for trading;
- financial assets classified as available-for-sale;
- derivative financial instruments;
- financial instruments at fair value through profit and loss;
- investment properties valued at fair value; and
- policyholder liabilities under insurance contracts that are valued in terms of a Financial Soundness Valuation ("FSV") basis as outlined below.

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are outlined in note 45.

All monetary information and figures presented in these financial statements are stated in millions of Rand (R million), unless otherwise indicated.

3. CONSOLIDATION

The consolidated financial statements include the assets, liabilities and results of the operations of the holding company and its subsidiaries. Subsidiaries are companies in which the Group, directly or indirectly, has the power to exercise control over the operations for its own benefit. The Group considers the existence and effect of potential voting rights that are presently exercisable or convertible in determining control. Subsidiaries are consolidated from the date on which the Group acquires effective control. Consolidation is discontinued from the effective date of disposal.

The Group consolidates a special purpose entity ("SPE") when the substance of the relationship between the Group and the SPE indicates that the Group controls the SPE.

The Group uses the purchase method of accounting to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

3.1 Consolidation of collective investment schemes

The Group consolidates collective investment schemes in which it is considered to have control through its size of investment, voting control or related management contracts. The consolidation principles as described in interests in subsidiaries above are applied.

4. ASSOCIATES AND JOINT VENTURES

Associates are entities in which the Group holds an equity interest of between 20% and 50% or over which it has the ability to exercise significant influence, but does not control. Joint ventures are entities in which the Group has joint control over the economic activity of the joint venture, through a contractual agreement. Investments acquired and held exclusively with the view of disposal in the near future (12 months) are not accounted for using the equity accounting method, but are carried at fair value less costs to sell in terms of the requirements of IFRS 5.

The Group includes the results of associates and joint ventures in its consolidated financial statements using the equity accounting method, from the effective date of acquisition to the effective date of disposal. The investment is initially recognised at cost. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss.

Earnings attributable to ordinary shareholders include the Group's share of earnings of associates and joint ventures. Reserves include the Group's share of post acquisition movements in reserves of associates and joint ventures. The cumulative post acquisition movements are adjusted against the cost of the investment in the associate or joint venture.

The Group discontinues equity accounting when the carrying amount of the investment in an associate or joint venture reaches zero, unless it has incurred obligations or guaranteed obligations in favour of the associated undertaking.

After discontinuing equity accounting the Group applies the requirements of IAS 39 to determine whether it is necessary to recognise any additional impairment loss with respect to the net investment in the associate or joint venture as well as other exposures to the investee. Goodwill included in the carrying amount of the investment in associate or joint venture is assessed for impairment in accordance with IAS 36 as part of the entire carrying value of the investment in the associate or joint venture.

The Group increases the carrying amount of investments with its share of the associate or joint venture's income when equity accounting is resumed.

Unrealised gains on transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's interest in the entity. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the associates and joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

5. INTEREST INCOME AND EXPENSE

The Group recognises interest income and expense in the income statement for instruments measured at amortised cost using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the average expected life of the financial instruments or portfolios of financial instruments.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, pre payment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

From an operational perspective, the Group suspends the accrual of contractual interest on non recoverable advances. However, in terms of IAS 39, interest income on impaired advances is thereafter recognised based on the original effective interest rate used to determine the discounted recoverable amount of the advance. This difference between the discounted and undiscounted recoverable amount is released to interest income over the expected collection period of the advance.

Instruments with characteristics of debt, such as redeemable preference shares, are included in loans and advances or long term liabilities. Dividends received or paid on these instruments are included and accrued in interest income and expense using the effective interest method.

6. TRADING INCOME

The Group includes profits, losses and fair value adjustments on trading financial instruments (including derivative instruments which do not qualify for hedge accounting in terms of IAS 39) as well as financial instruments at fair value through profit and loss in trading income as it is earned.

7. FEE AND COMMISSION INCOME

The Group generally recognises fee and commission income on an accrual basis when the service is rendered.

Certain fees and transaction costs that form an integral part of the effective interest rate of available-for-sale and amortised cost financial instruments are capitalised and recognised as part of the effective interest rate of the financial instrument over the expected life of the financial instruments. These fees and transaction costs are recognised as part of the net interest income and not as non interest revenue.

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

8. DIVIDEND INCOME

The Group recognises dividends when the Group's right to receive payment is established. This is on the "last day to trade" for listed shares and on the "date of declaration" for unlisted shares. Dividend income includes scrip dividends, irrespective of whether there is an option to receive cash instead of shares.

9. FOREIGN CURRENCY TRANSLATION

9.1 Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Rand ("R"), which is the functional and presentation currency of the holding company of the Group.

9.2 Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Translation differences on non monetary items, such as equities at fair value through profit or loss, are reported as part of the fair value gain or loss.

Foreign currency translation differences on monetary items classified as available-for-sale, such as foreign currency bonds designated as available-for-sale, are not reported as part of the fair value gain or loss in equity, but are recognised as a translation gain or loss in the income statement when incurred.

Translation differences on non monetary items, classified as available-for-sale, such as equities are included in the fair value reserve in equity when incurred.

9.3 Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency of the Group are translated at the actual rates into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates, unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions; and
- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold or partially disposed of, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

10. BORROWING COSTS

The Group capitalises borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset up to date on which construction or installation of the assets is substantially completed. Other borrowing costs are expensed when incurred.

11. DIRECT AND INDIRECT TAXES

Direct taxes include South African and foreign jurisdiction corporate tax payable, secondary tax on companies, as well as capital gains tax.

Indirect taxes include various other taxes paid to central and local governments, including value added tax, secondary tax on companies and regional services levies.

Indirect taxes are disclosed as part of operating expenditure in the income statement.

The charge for current tax is based on the results for the year as adjusted for items which are non taxable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date, in each particular jurisdiction within which the Group operates.

Tax in respect of the South African Life Insurance operation is determined using the four fund method applicable to life insurance companies.

12. RECOGNITION OF ASSETS

12.1 Assets

The Group recognises assets when it obtains control of a resource as a result of past events, and from which future economic benefits are expected to flow to the entity.

12.2 Contingent assets

The Group discloses a contingent asset where, as a result of past events, it is highly likely that economic benefits will flow to it, but this will only be confirmed by the occurrence or non occurrence of one or more uncertain future events which are not wholly within the Group's control.

13. LIABILITIES, PROVISIONS AND CONTINGENT LIABILITIES

13.1 Liabilities and provisions

The Group recognises liabilities, including provisions, when:

- it has a present legal or constructive obligation as a result of past events;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate of the amount of the obligation can be made.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of the obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in same class of obligations may be small.

13.2 Contingent liabilities

The Group discloses a contingent liability when:

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

14. SALE AND REPURCHASE AGREEMENTS AND LENDING OF SECURITIES

The financial statements reflect securities sold subject to a linked repurchase agreement (repos) as trading or investment securities. These instruments are recognised at fair value through profit or loss. The counterparty liability is included in deposits from other banks, other deposits, or deposits due to customers, as appropriate at amortised cost.

Securities purchased under agreements to resell (reverse repos) are recorded as loans and advances to other banks or customers as appropriate and recognised at amortised cost. The difference between purchase and resale price is treated as interest and accrued over the life of the reverse repos using the effective interest method.

Securities lent to counterparties are retained in the financial statements of the Group.

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

15. OFFSETTING FINANCIAL INSTRUMENTS

The Group offsets financial assets and liabilities and reports the net balance in the balance sheet where:

- there is a legally enforceable right to set off; and
- there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

16. CASH AND CASH EQUIVALENTS

In the cash flow statement, cash and cash equivalents comprise:

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

All balances from date of acquisition included in cash and cash equivalents have a maturity date of less than three months.

17. FINANCIAL INSTRUMENTS

17.1 General

Financial instruments carried on the balance sheet include all assets and liabilities, including derivative instruments, but exclude investments in associates and joint ventures, commodities, property and equipment, assets and liabilities of insurance operations, deferred tax, tax payable, intangible assets, inventory and post retirement liabilities. The Group recognises a financial asset or a financial liability on its balance sheet when and only when, the entity becomes a party to the contractual provision of the instrument.

17.2 Financial assets

The Group classifies its financial assets in the following categories:

- financial assets at fair value through profit or loss;
- loans and receivables;
- available-for-sale financial assets; and
- held-to-maturity investments.

Management determines the classification of the asset at initial recognition.

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method, less any impairment. Gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss are included in the income statement in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity, until the financial asset is derecognised or impaired, at which time the cumulative gain or loss previously recognised in equity is recognised in the income statement as gains and losses from investment securities. However, interest calculated on available-for-sale financial assets using the effective interest method is recognised in the income statement as part of interest income. Dividends on available-for-sale equity instruments are recognised in the income statement when the entity's right to receive payment is established.

The Group recognises purchases and sales of financial instruments that require delivery within the time frame established by regulation or market convention (regular way purchases and sales) at settlement date, which is the date the asset is delivered or received. Otherwise such transactions are treated as derivatives until settlement.

The fair values of quoted investments in active markets are based on current bid prices. Alternatively, it derives fair value from cash flow models or other appropriate valuation models where an active market does not exist. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

17.2.1 Financial assets at fair value through profit or loss

This category has two sub categories: financial assets held for trading, and those designated at fair value through profit or loss at inception.

A financial asset is classified as a trading instrument if acquired principally for the purpose of selling in the short term, if it forms part of a portfolio of financial assets in which there is evidence of short term profit taking. Derivatives are also categorised as held for trading unless they are designated as effective hedges.

Assets are classified on initial recognition as at fair value through profit and loss to the extent that it produces more relevant information because it either:

- results in the reduction of measurement inconsistency (or accounting mismatch) that would arise as a result of measuring assets and liabilities and the gains and losses on them on a different basis; or
- is a group of financial assets and/or financial liabilities that is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and this is the basis on which

information about the assets and/or liabilities is provided internally to the entity's key management personnel; or
- is a financial asset or liability containing significant embedded derivatives that clearly requires bifurcation.

The Group recognises fair value adjustments on financial assets classified as at fair value through profit and loss in trading income. Interest income on these assets is included in the fair value adjustment.

17.2.2 Loans and receivables

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market.

This category also includes purchased loans and receivables, where the Group has not designated such loans and receivables in any of the other financial asset categories.

17.2.3 Held-to-maturity

Held-to-maturity investments are non derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. Were the Group to sell other than an insignificant amount of held-to-maturity investments, the entire category would be tainted and reclassified as available-for-sale.

The Group carries held-to-maturity financial assets and investments at amortised cost using the effective interest method, less any impairment.

17.2.4 Available-for-sale

Available-for-sale investments are non derivative financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

The Group recognises gains and losses arising from changes in the fair value of available-for-sale assets, in equity. It recognises interest income on these assets as part of interest income, based on the instrument's original effective interest rate. Interest income is excluded from the fair value gains and losses reported in equity. When the advances and receivables or investment securities are disposed of or impaired, the related accumulated fair value adjustments are included in the income statement as gains and losses from investment securities.

17.3 Financial liabilities

Financial liabilities are initially recognised at fair value less transaction costs for all financial liabilities not at fair value through profit and loss. Financial liabilities are measured at amortised cost and interest is recognised over the period of the borrowing using the effective interest method.

A financial liability is classified as a trading instrument if acquired principally for the purpose of selling in the short term, if it forms part of a portfolio of financial liabilities in which there is evidence of short term profit taking, or if so designated by management. Derivatives are also categorised as held for trading unless they are designated effective hedges.

The Group classifies certain liabilities at fair value through profit and loss to the extent that it produces more relevant information because it either:

- results in the reduction of measurement inconsistency (or accounting mismatch) that would arise as a result of measuring assets and liabilities and the gains and losses on them on a different basis; or
- is a group of financial assets and/or financial liabilities that is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and this is the basis on which information about the assets and/or liabilities is provided internally to the entity's key management personnel; or
- a liability containing significant embedded derivatives that clearly requires bifurcation.

The Group recognises fair value adjustments on financial liabilities classified as at fair value through profit and loss in trading income.

The fair values of financial liabilities quoted in active markets are based on current ask/offer prices. If the market for a financial liability is not active, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

17.3.1 Policyholder liabilities under investment contracts

The Group accounts for policyholder liabilities under investment contracts at fair value through profit and loss. Refer to sections below for a detailed description of the valuation of policyholder liabilities under investment contracts.

17.3.2 Liabilities arising to third parties as a result of consolidating collective investment schemes

A financial liability is recognised for the fair value of external investors' interest where the issued units of the fund are classified as financial liabilities in terms of IAS 39. The consolidation of collective investment schemes has no effect on net equity.

17.4 Embedded derivatives

The Group treats derivatives embedded in other financial or non financial instruments such as the conversion option in a convertible bond, as separate derivatives when:

- their risks and characteristics are not closely related to those of the host contract; and
- the host contract is not carried at fair value, with gains and losses reported in income.

Where embedded derivatives meet the criteria for hedge accounting, they are accounted for in terms of the applicable hedge accounting rules.

17.5 Derecognition of assets and liabilities

The Group derecognises an asset when:

- the contractual rights to the asset expires; or
- where there is a transfer of the contractual rights that comprise the asset; or
- the Group retains the contractual rights of the assets but assumes a corresponding liability to transfer these contractual rights to another party and consequently transfers substantially all the risks and benefits associated with the asset.

Where the Group retains substantially all the risks and rewards of ownership of the financial asset, the Group continues to recognise the financial asset.

If a transfer does not result in derecognition because the Group has retained substantially all the risks and rewards of ownership of the transferred asset, the Group continues to recognise the transferred asset in its entirety and recognises a financial liability for the consideration received. In subsequent periods, the Group recognises any income on the transferred asset and any expense incurred on the financial liability.

Where the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, the Group determines whether it has retained control of the financial asset. In this case:

- if the Group has not retained control, it derecognises the financial asset and recognise separately as assets or liabilities any rights and obligations created or retained in the transfer; or
- if the Group has retained control, it continues to recognise the financial asset to the extent of its continuing involvement in the financial asset.

The Group derecognises a financial liability when it is extinguished, i.e. when the obligation specified in the contract is discharged, cancelled or expires.

18. IMPAIRMENT OF FINANCIAL ASSETS

18.1 General

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount.

18.2 Assets carried at amortised cost

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event(s) has an adverse impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and performs a collective assessment for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the financial assets' carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (ie, on the basis of the Group's grading process that considers asset type, industry, geographical location, collateral type, past due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Group and historical loss experience for assets with similar credit risk characteristics. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related allowance account. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the income statement,

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

18.3 Available-for-sale financial assets

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement, is removed from equity and recognised in the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

19. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING

The Group initially recognises derivative financial instruments, including foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, currency and interest rate options (both written and purchased) and other derivative financial instruments, in the balance sheet at fair value. Derivatives are subsequently remeasured at their fair value with all movements in fair value recognised in the income statement, unless it is a designated and effective hedging instrument.

The fair value of publicly traded derivatives is based on quoted bid prices for assets held or liabilities to be issued, and current offer prices for assets to be acquired and liabilities held.

The fair value of non traded derivatives is based on discounted cash flow models and option pricing models as appropriate, The Group recognises derivatives as assets when the fair value is positive and as liabilities when the fair value is negative.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e., the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Group recognises profits or losses on day one.

Where fair value is determined using valuation techniques whose variables include non observable market data, the difference between the fair value and the transaction price ("the day one profit or loss") is deferred in equity and released over the life of the instrument. However, where observable market factors that market participants would consider in setting a price subsequently become available, the balance of the deferred day one profit or loss is released to income.

The method of recognising the resulting fair value gains or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

- hedge of the fair value of recognised assets or liabilities or firm commitments ("fair value hedge"); or
- hedge of highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction ("cash flow hedge").

The hedge of a foreign currency firm commitment can either be accounted for as a fair value or a cash flow hedge.

Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

The Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

19.1 Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to the income statement over the period to maturity. The adjustment to the carrying amount of a hedged equity security remains in retained earnings until the disposal of the equity security.

19.2 Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in the non distributable reserve in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are recycled to the income statement in the periods in which the hedged item will affect profit or loss (for example, when the forecast sale that is hedged takes place).

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Where the forecasted transaction or a foreign currency firm commitment results in the recognition of a non financial asset or a liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the non financial asset or liability. For financial assets and liabilities, the Group transfers amounts deferred in equity to the income statement and classifies them as revenue or expense in the periods during which the hedged firm commitment or forecasted transaction affects the income statement.

20. COMMODITIES

Commodities, where the Group has a longer term investment intention, are carried at the lower of cost or net realisable value. Cost is determined using the weighted average method. Cost excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Cost of commodities includes the transfer from equity of any gains or losses on qualifying cash flow hedges relating to purchases of commodities.

Commodities, where the Group has a shorter term trading intention, are carried at fair value less costs to sell in accordance with the broker trader exception in IAS 2.

Forward contracts to purchase or sell commodities, where net settlement occurs or where physical delivery occurs and the commodities are held to settle a further derivative contract, are recognised as a derivative instrument and fair valued.

21. PROPERTY AND EQUIPMENT

The Group carries property and equipment at historical cost less depreciation and impairment, except for land which is carried at cost less impairment. Historical cost includes expenses that are directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replacement part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Property and equipment are depreciated on a straight line basis at rates calculated to reduce the book value of these assets to estimated residual values over their expected useful lives.

Freehold properties and properties held under finance leases are broken down into significant components that are depreciated to their respective residual values over the economic lives of these components.

The periods of depreciation used are as follows:

- Leasehold premises — Shorter of estimated life or period of lease
- Freehold property and property held under finance lease
  - Buildings and structures — 50 years
  - Mechanical and electrical — 20 years
  - Components — 20 years
  - Sundries — 3 – 5 years
  - Computer equipment — 3 – 5 years
  - Furniture and fittings — 3 – 10 years
  - Motor vehicles — 5 years
  - Office equipment — 3 – 6 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains or losses on disposals are determined by reference to the carrying amount of the asset and the net proceeds received, and are recorded in income statement on disposal.

22. INVESTMENT PROPERTIES

The Group classifies investment properties as properties held to earn rental income and/or capital appreciation that are not occupied by companies in the Group.

Investment properties comprise freehold land and buildings and are carried at fair value. Fair value is based on active market prices adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available the Group uses valuation methods such as discounted cash flow projections or recent prices on less active markets. These valuations are reviewed annually by a combination of independent and internal valuation experts. Investment properties that are being redeveloped for continuing use as investment property, or for which that market has become less active, continue to be measured at fair value.

Property located on land that is held under an operating lease is classified as investment property as long as it is held for long term rental yields and is not occupied by the Group. The initial cost of the property is the lower of the fair value of the property and the present value of the minimum lease payments. Subsequent to initial recognition, the property is carried at fair value.

When investment properties become owner occupied, the Group reclassifies it to property and equipment, using the fair value at the date of reclassification as the cost, and depreciates it on a straight line basis at rates calculated to reduce the book value of these assets to estimated residual values over the expected useful lives.

Fair value adjustments on investment properties are included in the income statement as net fair value gains on assets at fair value through profit and loss. These fair value gains or losses are adjusted for any double counting arising from the recognition of lease income on the straight line basis compared to the accrual basis normally assumed in the fair value determination.

The Group carries properties under development at cost, less adjustments to reduce the cost to open market value, if appropriate.

23. LEASES

23.1 A group company is the lessee

23.1.1 Finance leases

The Group classifies leases as property and equipment where it assumes substantially all the benefits and risks of ownership as finance leases.

Finance leases are capitalised as assets at the fair value of the leased asset at the inception of the lease, or, if lower, at the estimated present value of the underlying lease payments. The Group allocates each lease payment between the liability and finance charges to achieve a constant rate on the finance balance outstanding. The interest component of the finance charge is recognised in the income statement over the lease period. The property and equipment acquired are depreciated over the useful life of the assets, unless it is not probable that the Group will take ownership of the assets, in which case the assets are depreciated over the shorter of the useful life of the asset or the lease period, on a basis consistent with similar owned property and equipment.

23.1.2 Operating leases

The Group classifies leases as operating leases where the lessor effectively retains the risks and benefits of ownership. It recognises operating lease payments in the income statement on a straight line basis over the period of the lease. Minimum rentals due after year end are reflected under commitments.

The Group recognises as an expense any penalty payment to the lessor for early termination of an operating lease, in the period in which termination takes place.

23.2 A group company is the lessor

23.2.1 Finance leases

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

23.2.2 Operating leases

The Group includes in a separate category as "assets held under operating lease" property and equipment assets leased out under operating leases. It depreciates these assets over their expected useful lives on a basis consistent with similar owned property and equipment. Rental income is recognised on a straight line basis over the lease term.

23.3 Instalment credit agreements

The Group regards instalment credit agreements as financing transactions and includes the total rentals and instalments receivable hereunder, less unearned finance charges, in advances.

The Group calculates finance charges using the effective interest rates as detailed in the contracts and credits finance charges to income in proportion to capital balances outstanding.

24. INTANGIBLE ASSETS

24.1 Goodwill

Goodwill represents the excess of the cost of an acquisition over the attributable fair value of the Group's share of the net assets of the acquired subsidiary or associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates.

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

For impairment purposes goodwill is allocated to the lowest components of the business that is expected to benefit from synergies of the combination and at which management monitors goodwill ("cash generating unit"). Each cash generating unit represents a grouping of assets no higher than a primary business or reporting segment.

24.2 Computer software development costs

The Group generally expenses computer software development costs in the financial period incurred. However, where computer software development costs can be clearly associated with a strategic and unique system which will result in a benefit for the Group exceeding the costs incurred for more than one financial period, the Group capitalises such costs and recognises it as an intangible asset

The Group carries capitalised software assets at cost less amortisation and any impairment losses. It amortises these assets on a straight line basis at a rate applicable to the expected useful life of the asset, but not exceeding three years. Management reviews the carrying value wherever objective evidence of impairment exists. The carrying value is written down to estimated recoverable amount when a permanent decrease in value occurs. Any impairment is recognised in the income statement when incurred.

24.3 Other intangible assets

The Group generally expenses the costs incurred on internally generated intangible assets such as trademarks, concessions, patents and similar rights and assets, to the income statement in the period in which the costs are incurred. Internally generated intangible assets which are separately identifiable, where the costs can be reliably measured and where the Group is expected to derive a future benefit for more than one accounting period are capitalised.

The Group capitalises material acquired trademarks, patents and similar rights where it will receive a benefit from these intangible assets in more than one financial period.

The Group carries capitalised trademarks, patents and similar assets at cost less amortisation and any impairments. It amortises these assets at a rate applicable to the expected useful life of the asset, but not exceeding 20 years. Management reviews the carrying value whenever objective evidence of impairment exists. Carrying value is written down to estimated recoverable amount when a permanent decrease in value occurs. Any impairment is recognised in the income statement when incurred.

Amortisation and impairments of intangible assets are reflected under operating expenses in the income statement.

24.4 Agency force

As a result of certain acquisitions and the application of purchase accounting the Group carried an agency force intangible asset representing the value of the agency force acquired in the acquisition. The value of the agency force is determined by estimating the future value of the new business generated by the agents acquired. The Group amortises the agency force over its expected useful life of 10 years.

24.5 Contractual customer relationships – rights to receive investment management fees

Incremental costs paid, which are directly attributable to securing the rights to receive fees for investment management services sold with investment contracts, are recognised as an intangible asset where they can be identified separately and measured reliably and it is probable that they will be recovered.

The asset represents the Group's contractual right to benefit from providing asset management services and is amortised over the expected life of the contract as a constant percentage of expected gross profit margins. The costs of securing the right to provide asset management services do not include transaction costs relating to the origination of the investment contract. The resulting change to the carrying value of the contractual customer relationship asset is recognised as an expense in the income statement. An impairment test is conducted annually at the reporting date on the contractual customer relationship asset balance to ensure that the amount will be recovered from future revenue generated by the applicable remaining investment management contracts.

24.6 Value of in-force business

As a result of certain acquisitions of insurance contracts and the application of purchase accounting, the Group carries a customer contract intangible asset representing the present value of in-force ("PVIF") business acquired. PVIF is determined by estimating the net present value of future cash flows from the contracts in force at the date of acquisition. The Group amortises PVIF on the expected life of the contract as a constant percentage of expected gross margins over the estimated life of the acquired contracts. The estimated life is evaluated regularly. The PVIF is carried in the balance sheet at fair value less any accumulated amortisation and impairment losses.

25. DEFERRED TAX

Deferred income tax is provided in full, using the liability method on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affect neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The Group recognises deferred tax assets if the directors of FirstRand Limited consider it probable that future taxable income will be available against which the unused tax losses can be utilised.

Temporary differences arise primarily from depreciation of property and equipment, revaluation of certain financial assets and liabilities including derivative contracts, provisions for pensions and other post retirement benefits and tax losses carried forward.

Deferred income tax is provided on temporary differences arising from investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the difference will not reverse in the foreseeable future.

Deferred tax related to fair value remeasurement of available-for-sale investments and cash flow hedges, which are charged or credited directly to equity, is also credited or charged directly to equity and is subsequently recognised in the income statement together with the deferred gain or loss.

In respect of temporary differences arising from the fair value adjustments on investment properties, deferred tax is provided at the use rate if the property is considered to be a long term strategic investment or at the capital gains effective rate if recovery is anticipated to be mainly through disposals. Deferred tax related to fair value remeasurement of available-for-sale financial assets and cash flow hedges, which are charged directly to equity, is also credited or charged directly to equity and is subsequently recognised in the income statement together with deferred gains and losses.

26. EMPLOYEE BENEFITS

26.1 Post employment benefits

The Group operates defined benefit and defined contribution schemes, the assets of which are held in separate trustee administered funds. The pension plans are generally funded by payments from employees and the relevant Group companies, taking account of the recommendations of independent qualified actuaries. For defined benefit plans the pension accounting costs are assessed using the projected unit credit method.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs.

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

The Group recognises current service costs immediately, while it expenses past service costs, experience adjustments, changes in actuarial assumptions and plan amendments over the expected remaining working lives of employees. The costs are expensed immediately in the case of retired employees.

These funds are registered in terms of the Pension Funds Act, 1956, and membership is compulsory for all Group employees. Qualified actuaries perform annual valuations.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

26.2 Post retirement medical benefits

In terms of certain employment contracts, the Group provides for post retirement healthcare benefits to qualifying employees and retired personnel by subsidising a portion of their medical aid contributions. The Group created an independent fund in 1998 to fund these obligations. IAS 19 requires that the assets and liabilities in respect thereof be reflected on the balance sheet.

The expected costs of these benefits are accrued over the period of employment using an accounting methodology similar to that for defined benefit pension plans.

The entitlement to these benefits is usually based on the employee remaining in service up to retirement age and completing a minimum service period. Qualified actuaries perform annual valuations.

26.3 Termination benefits

The Group recognises termination benefits as a liability in the balance sheet and as an expense in the income statement when it has a present obligation relating to termination. The Group has a present obligation when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan, without possibility of withdrawal or providing termination benefits as a result of an offer to encourage voluntary redundancy.

26.4 Leave pay provision

The Group recognises in full employees rights to annual leave entitlement in respect of past service.

26.5 Bonuses

Management and staff bonuses are recognised as an expense in staff costs as incurred when it is probably that the economic benefits will be paid and the amount can be reliably measured.

26.6 Recognition of actuarial gains and losses

Recognition of actuarial gains and losses occurs as a result of:

- increases or decreases in the present value of defined benefit plan liabilities;
- increases or decreases in the fair value of plan assets; or
- a combination of the above.

Increases or decreases in the fair value of plan liabilities can be caused by changes in the discount rate used, expected salaries or number of employees, plan benefits and expected inflation rates.

Increases or decreases in the fair value of plan assets occur as a result of the difference between the actual and expected return on the plan assets.

The Group does not recognise actuarial gains or losses below the corridor limit of 10% in the period under review, but defers such gains or losses to future periods.

27. BORROWINGS

The Group initially recognises borrowings, including debentures, at the fair value of the consideration received. Borrowings are subsequently measured at amortised cost. Discounts or premiums on debentures issued are amortised on a basis that reflects the effective interest rate on the debentures over their life span. Interest paid is recognised in the income statement on an effective interest rate basis.

The Group separately measures and recognises the fair value of the debt component of an issued convertible bond in liabilities, with the residual value separately allocated to equity. It calculates interest on the debt portion of the instrument based on the market rate for a non convertible instrument at the inception thereof.

Instruments with characteristics of debt, such as redeemable preference shares, are included in liabilities. Dividends paid on such instruments are included in interest expense.

Where the Group purchases its own debt, the debt is derecognised from the balance sheet and any difference between the carrying amount of the liability and the consideration paid is included in trading income.

28. SHARE CAPITAL

28.1 Share issue costs

Shares are classified as equity when there is no obligation to transfer cash or assets. Incremental costs directly related to the issue of new shares or options are shown as a deduction from equity. Incremental costs directly attributable to the issue of equity instruments as consideration for the acquisition of a business are included in the cost of acquisition.

28.2 Dividends paid

Dividends on ordinary shares and non cumulative non redeemable preference shares are recognised against equity in the period in which they are approved by the company's shareholders. Dividends declared after the balance sheet date are not recognised but disclosed as a post balance sheet event.

28.3 Treasury shares

Where the company or other members of the consolidated Group purchases the company's equity share capital, the consideration paid, including any directly attributable incremental costs, is deducted from total shareholders' equity as treasury shares until they are reissued or sold. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental costs, is included in shareholders' equity.

29. ACCEPTANCES

Acceptances comprise undertakings by the Group to pay bills of exchange drawn on customers. The Group accounts for and discloses acceptances as a contingent liability.

30. SEGMENT REPORTING

The Group defines a segment as a distinguishable component or business that provides either:

- unique products or services ("business segments"); or
- products or services within a particular economic environment ("geographical segments"),

subject to risks and rewards that are different from those of other segments.

Segments with a majority of revenue earned from charges to external customers and whose revenue, results or assets are 10% or more of all the segments, are reported separately.

Assets, liabilities, revenue or expenses that are not directly attributable to a particular segment are allocated between segments where there is a reasonable basis for doing so. The Group accounts for intersegment revenues and transfer as if the transactions were with third parties at current market prices. Tax is allocated to a particular segment on a pro rata basis.

Funding is provided to business units and segments based at internally derived transfer pricing rates taking into account the funding structures of the Group.

31. FIDUCIARY ACTIVITIES

The Group excludes assets and the income thereon, together with related undertakings to return such assets to customers, from these financial statements where it acts in a fiduciary capacity such as nominee, trustee or agent.

32. SHARE BASED PAYMENT TRANSACTIONS

The Group operates equity settled and cash settled share based compensation plans.

32.1 Equity settled share based compensation plans

The Group expenses the fair value of the employee services received in exchange for the grant of the options, over the vesting period of the options, as employee costs, with a corresponding credit to a share based payment reserve in the statement of changes in equity. The total value of the services received is calculated with reference to the fair value of the options on grant date.

The fair value of the options is determined excluding non market vesting conditions. These vesting conditions are included in the assumptions of the number of options expected to vest. At each balance sheet date, the Group revises its estimate of the number of options expected to vest. The Group recognises the impact of the revision of original estimates, if any, in the income statement, with a corresponding adjustment to equity.

When the options are exercised the proceeds received net of any attributable transaction costs are credited to share capital (nominal value) and share premium.

32.2 Cash settled share based payment compensation plans

A liability equal to the portion of the goods or services received at current fair value is determined at each balance sheet date until settled. The liability is recognised over the vesting period and is revalued at every balance sheet date. Any changes in the liability are accounted for in the income statement.

33. DISPOSAL GROUPS HELD FOR SALE

Non current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than continuing use. This classification is only met if the sale is highly probable and the assets or disposal groups are available for immediate sale.

In light of the Group's primary business being the provision of insurance and investment products, non current assets held as investments are not classified as held for sale as the ongoing investment management implies regular purchases and sales in the ordinary course of business.

Immediately before classification as held for sale, the measurement (carrying amount) of assets and liabilities in relation to a disposal group is recognised based upon the appropriate IFRS standards. On initial recognition as held for sale, the non current assets and liabilities are recognised at the lower of carrying amount and fair value less costs to sell.

Any impairment losses on initial classification to held for sale are recognised in the income statement.

The non current assets and disposal groups held for sale will be derecognised immediately when there is a change in intention to sell. Subsequent measurement of the asset or disposal group at that date, will be the lower of:

- its carrying amount before the asset or disposal group was classified as held for sale, adjusted for any depreciation, amortisation or revaluations that would have been recognised had the asset or disposal group not been classified as held for sale; and
- its recoverable amount at the date of the subsequent decision not to sell.

34. INSURANCE AND INVESTMENT CONTRACTS

This section outlines the main lines of business that forms part of the Groups' in-force policy book. The product descriptions provide a background against which other sections of this report can be interpreted.

The main product groupings currently on the books of the Group are:

- universal life unit linked or smoothed bonus policies: These policies have unit accounts, similar to unit trust investments. The policies might offer additional life or disability cover. The benefit structure might be a discretionary participating feature("DPF"), or unit linked to the fair value of the assets supporting the liabilities. On expiry of the contracts, the fair value of units is paid to policyholders;
- pure risk products, which are intended to provide insurance against death, disability or medical contingencies and do not offer early termination values;
- new generation investment products, which offer unitised benefits similar to universal life contracts, but without risk cover. Policyholders can choose between a variety of underlying unitised or smoothed bonus funds as investment vehicles. A single policy can be invested in more than one unitised fund and the policyholder has the option to switch between funds at any time. The "Investo" product range falls within this category;
- immediate annuities, which provide regular payments (usually monthly) to policyholders. Payments normally cease on death of the insured life or lives, but different options, such as guaranteed payment periods and maximum payment terms, are offered to policyholders;
- group risk business: The main products on offer within this category are group Permanent Health Insurance ("PHI") cover, which provide regular annuity benefits while an insured is disabled, CPI linked annuities, as well as lump sum death and disability benefits;
- group investment business: Two DPF unitised pooled funds are offered to policyholders;
- conventional (reversionary bonus or non profit) policies: These policies do not have unit accounts like universal life products, but rather provide a guaranteed sum assured at death or maturity. The guaranteed payment is augmented by discretionary bonuses if the contract has DPF features. The difference between conventional and universal life DPF policy types is that, on universal life policies, annual bonus additions are made to the policy's investment account, whereas additions of bonuses on conventional policies are made to the lump sum payable on death or maturity;
- health insurance products: These plans typically cover a variety of covers ranging from hospital benefits, outpatient surgery and day to day visits to physician offices. Some products offer optional cover for chronic medication, total medication, preventative medication and preventative care; and
- products that offer health and lifestyle benefits with selected partners to the Group's clients. This business includes the DiscoveryCard which is offered to Discovery policyholders within South Africa.

Overview of discretionary participation features

A discretionary participating feature ("DPF") entitles the policyholder to receive, as a supplement to guaranteed benefits, additional benefits or bonuses. These additional benefits have the following features:

- the benefits constitute a significant portion of the total contractual benefits payable under each policy;
- the timing and amount of the benefits are at the discretion of the Group; and
- the benefits are contractually based on the investment performance of a specified pool of assets underlying a specified pool of contracts or a specified type of contract.

Terminology that is commonly used in the South African insurance industry also refers to contracts with discretionary participating features as "with profit" or "smoothed bonus" policies.

Distributions of bonuses on DPF contracts are performed annually. Bonuses are used as a mechanism to smooth returns distributed to policyholders, in order to reduce their uncertainty of benefit payments. The smoothing mechanism operates in such a way that the bonuses declared are normally lower than actual investment returns in buoyant market conditions, whereas declared bonuses normally exceed the actual investment returns during depressed market conditions. In terms of the contracts, bonuses can never be negative. In buoyant market conditions, any investment returns which are not declared as bonuses in the year are transferred to a bonus stabilisation account, after the deduction of tax and management charges. This liability is held for future distribution to policyholders. The smoothing mechanism results in a degree of cross subsidisation of investment returns and benefit payments between different classes and generations of DPF policyholders.

The factors which are considered in determining the discretionary bonus declared are the investment return achieved on underlying assets in the period, the company's bonus philosophy as regards to the intended level of smoothing for policyholders, the type of DPF contract under consideration and the existence of any contractual minimum bonus rate guarantees.

In the event of adverse investment performance, where the historical bonuses declared have exceeded investment returns on the assets backing the liabilities, the bonus stabilisation account may become negative. When such a scenario arises, the discretionary bonus declarations during ensuing years will normally be less than the investment returns on the underlying assets, until the deficit has been eliminated. If the bonus stabilisation account is negative, it is the Group's policy to apply a market value adjuster to benefits paid on early termination of smoothed bonus contracts. The market value adjuster is employed to avoid dilution of the bonus stabilisation account, which will occur if benefits are paid that exceeds the fair value of underlying assets. The above is applied based on the principles set out in the statement of intent as agreed between the insurance industry and National Treasury in the Republic of South Africa in December 2005.

The discretionary bonus distributions made to policyholders by the Group consist of vested and non vested bonuses. The vested portion correlates to the realised portion of the investment returns and the non vested potion correlates to the unrealised gains on the investments which underlie the policyholder liabilities. Under extreme circumstances (such as a sudden and sustained fall in the market value of assets backing smoothed bonus liabilities), the Group has a contractual right to remove previously declared non vested bonuses. It is the Group's policy to do this only if it is believed that markets will not recover in the foreseeable future, in order to protect the solvency of the company or the interests of remaining policyholders.

In addition, DPF contracts may incorporate embedded options including minimum guaranteed rate of bonus additions credited to a policy over its lifetime. These embedded options are accounted for in terms of the companies accounting policy for embedded derivatives.

34.1 Classification of contracts

The contracts issued by the Group transfer insurance risk, financial risk or both. As a result of the differing risks transferred by contracts, for the purposes of valuation and profit recognition, contracts are divided into investment and insurance contracts. Insurance contracts are those contracts that transfer significant insurance risk to the Group, whereas investment contracts transfer financial risk.

The classification of contracts is performed at the origination of each contract. The classification of the contract at inception remains the classification of the contract for the remainder of its lifetime unless the terms of the contract change to such an extent that it necessitates a change in classification.

34.2 Insurance contracts

An insurance contract is one that transfers significant insurance risk to the Group. Significant insurance risk exists when it is expected that the present value of benefits payable in terms of the policy on the occurrence of an insured event will materially differ from the amount payable, had the insured event not occurred. Financial penalties levied on early termination of policy contracts are not taken into account when classifying the contracts. If the difference between the benefit payable on an insured event and a non insured event arises solely from an early termination penalty, the contract is not classified as an insurance contract.

Insurance contracts may transfer financial risk as well as insurance risk. However, in all instances where significant insurance risk is transferred, the contract is classified as an insurance contract.

The following typical type of contracts issued by the Group are classified as insurance contracts:

- insurance policies providing lump sum benefits on death or disability of the policyholder. These contracts are issued for either a defined period or for the whole life of the policyholder;
- life annuity policies where the policyholder transfers the risk of longevity to the Group;
- policies which provide for retrenchment or funeral cover; and
- policies providing Permanent Health Insurance ("PHI").

The terms of these contracts may also allow for embedded options. These include minimum guaranteed rates of investment return resulting in a minimum level of benefit payable at expiry of the contractual term, after allowing for the cost of risk cover. These embedded options are treated in terms of the company's policies in respect of embedded derivatives.

Insurance contracts and Insurance contract with DPF are within the scope of IFRS 4 and therefore accounted for in terms of the requirements of IFRS 4 – Insurance contracts.

34.3 Investment contracts

These are contracts that transfer financial risk with no significant insurance risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate; financial instrument price; commodity price; foreign exchange rate; index prices or other variable.

For the purposes of valuation and profit recognition, investment contracts are further classified into the following sub categories:

34.3.1 Investment contracts with discretionary participating features ("DPF")

These contracts fall within the scope of IFRS 4 and therefore are accounted for in terms of the requirements of IFRS 4.

A discretionary participating feature ("DPF") entitles the policyholder to receive, as a supplement to guaranteed benefits, additional benefits or bonuses. These additional benefits have the following features:

- the benefits constitute a significant portion of the total contractual benefits payable under each policy;
- the timing and amount of the benefits are at the discretion of the Group; and
- the benefits are contractually based on the investment performance of a specified pool of assets underlying a specified pool of contracts or a specified type of contract.

The following types of contracts issued by the Group are classified as investment contracts with DPF:

- universal life smoothed bonus policies, where discretionary bonuses are added to the investment account annually; and
- reversionary bonus policies, where discretionary bonuses are added to a guaranteed sum assured, payable at the end of the contract term.

The carrying amounts in respect of the DPF benefits are included as liabilities on the balance sheet.

34.3.2 Investment contracts without discretionary participating features ("DPF")

These contracts fall within the scope of IAS 39: Financial Instruments: Recognition and measurement and are accounted for in terms of the requirements of IAS 39. They are further classified as:

- contracts with investment management service components; and
- contracts without investment management service components.

The following two sub sections further describe these two product groupings:

34.3.2.1 Contracts with investment management services

These represent investment contracts with services provided by the Group to policyholders whereby the Group undertakes to actively manage the investments of the policyholder over the lifetime of the policy contract.

The following types of contracts issued by the Group are classified as investment contracts with investment management services:

- unit linked contracts, where lump sum benefits payable at the end of the contracts' terms are determined using unit values that reflect the fair value of the assets in the unitised fund underlying the group of policies, multiplied by the number of units attributed to the policyholder; and
- living annuities, where the number of units is payable to policyholders on a monthly basis.The monetary value of the monthly benefit payments is determined by the number of units paid to the policyholder, multiplied by a unit price determined by the fair value of underlying assets.

These contracts may incorporate embedded options, such as a minimum guaranteed rate of unit price increase credited to a policy over its lifetime. These embedded options are accounted for in terms of the company's accounting policy for embedded derivatives.

34.3.2.2 Contracts without investment management services

These are investment contracts where the Group does not actively manage the investments of the policyholder over the lifetime of each policy contract. Benefits are guaranteed at inception of the policy contract or linked to the performance of a specified index or pool of assets.

The following types of contracts issued by the Group are classified as investment contracts where no investment management services are rendered:

- guaranteed endowments, where a guaranteed benefit specified at the inception date of the policy is paid at the end of the contract term; and
- certain structured products, where the benefit payable at expiry of the contract is linked to a published market index.

34.4 Valuation and recognition

34.4.1 Insurance contracts (with and without DPF) and investment contracts with DPF

The next section provides detail in respect of the general valuation and profit recognition principles in respect of insurance contracts (with and without DPF) and investment contracts with DPF. The sections following thereafter give more detail on how these valuation assumptions are applied to particular product lines falling within the category.

34.4.2 Principles of valuation and profit recognition

Under IFRS 4, liabilities in respect insurance and investment (with DPF) contracts are valued according to the requirements of the South African Long Term Insurance Act (1998) and in accordance with professional guidance notes ("PGNs") issued by the Actuarial Society of South Africa ("ASSA"). Of particular relevance to the liability calculations, are the following actuarial guidance notes:

- PGN 104 (v6; Jan 2005): Life Offices – Valuation of Long Term Insurers;
- PGN 110 (v1.0; Dec 2003): Reserving for minimum investment return guarantees;
- PGN 102 (Mar 1995): Life Offices – HIV/AIDS;
- PGN 105 (Nov 2002): Recommended AIDS extra mortality bases; and
- PGN 106 (v3.0; Jul 2005): Actuaries and Long Term Insurance in South Africa.

These guidance notes are available on the website of the Actuarial Society of South Africa (www.assa.org.za).

34.4.3 Valuation

Liabilities are valued in terms of the financial soundness valuation ("FSV") method as described in professional guidance note PGN 104, issued by the Actuarial Society of South Africa.

Where the value of the policyholder liability is negative, this is shown as an asset under insurance contracts. The asset is not offset against the liability.

The FSV method is a discounted cash flow method which requires the expected income (premiums and charges) and outgo (claims, expenses, tax) arising from each policy contract to be projected into the future, using appropriate assumptions regarding future investment returns, tax, inflation, claims experience and persistency. The projected expenses are only those required to service the existing policy book, and not the expenses expected to be incurred in acquiring future new business. Similarly, expected income from future sales is not included in the projection – only income emanating from the in-force policy book.

The assumptions used to project cash flows are best estimates of future experience. However, a degree of prudence is introduced by the addition of compulsory margins. The compulsory margins are defined by professional guidance note PGN 104. PGN 104 allows for the addition of discretionary margins where necessary to avoid the premature recognition of profits on certain lines of business.

The projected cash flows (income less outgo) under each policy contract are discounted at a market related rate of interest, to arrive at the liability held in respect of each policy contract. The discount rate used to value the liability is consistent with the market value of assets underlying the liability.

The valuation assumptions take into account current and expected future experience, as well as revised expectations of future income, claims and expenditure. The assumptions are applied to the whole in-force policy book. Differences between the assumptions used at the start and the end of the accounting period give rise to a revised liability quantification.

The effect of policyholder options that would result in a decrease in liabilities were excluded from the liabilities in order to prevent unnecessarily reducing the liabilities. Policyholder options that would result in an increase in the liabilities were incorporated into the valuation on a best estimate basis, as described above.

The expected level of early terminations is incorporated into the liabilities irrespective of whether this leads to an increase or a decrease in the liabilities.

If future experience under a policy contract is exactly in line with the assumptions employed at inception of the contract, the valuation margins will emerge as profits over the duration of a policy contract. This is known as the unwinding of margins.

In addition to the profit recognised at the origination of a policy contract, and the unwinding of margins, any differences between the best estimate valuation assumptions and actual experience over each accounting period also give rise to profits and losses. These profits and losses emerge over the lifetime of a policy contract. Other sources of profit or loss include the change in liabilities from basis changes, profits on group business that are recognised as earned and shareholders' share of the cost of bonus for certain segregated DPF pools.

34.4.4 Recognition

34.4.4.1 Premiums

Premiums receivable from insurance contracts and investment contracts with DPF are recognised as revenue in the income statement, gross of commission and reinsurance premiums and excluding taxes and levies. Premiums and annuity considerations on insurance contracts are recognised when they are due in terms of the contract. Premium income received in advance is included in insurance and other payables.

Health insurance premiums received in respect of annual contracts are recognised proportionally over the period of the coverage. The portion of the premium received on in-force contracts that relates to unexpired risks at the balance sheet date is reported as unearned premiums within liabilities arising from insurance contracts. The unearned premium income is amortised on a straight-line basis.

34.4.4.2 Benefits and claims

Insurance benefits and claims incurred under insurance contracts and investment contracts with DPF include death, disability, maturity, annuity and surrender payments and are recognised in the income statement gross of any related reinsurance recoveries. Death, disability and surrender claims are recognised when notified. Any of these types of claims that are notified but not paid before the balance sheet date are included in insurance and other payables. Maturity and annuity claims are recognised when they are due for payment in terms of the contract.

Group life benefits and benefits payable under health insurance contracts are accounted for as incurred. Provision is made for the estimated cost of benefit (together with the anticipated recoveries under re insurance arrangements) notified but not settled at the balance sheet date.

Amounts unpaid under investment contacts are recorded as deductions from investment contract liabilities.

34.4.4.3 Reinsurance premiums

Reinsurance premiums are recognised as an expense in the income statement when they become due for payment, in terms of the contracts at the undiscounted amounts payable in terms of the contract.

34.4.4.4 Reinsurance recoveries

Reinsurance recoveries are recognised in the income statement in the same period as the related claim at the undiscounted amount receivable in terms of the contract.

34.4.4.5 Liability adequacy test for business with discounting liabilities

On insurance contracts, the liability adequacy test is inherent in the Financial Soundness Valuation methodology applied to these contracts and this meets the minimum requirements of the test required under IFRS 4.

34.4.4.6 Implicit recognition of a deferred acquisition cost ("DAC") asset

Acquisition costs, disclosed as sales remuneration, for insurance contracts and investment contracts with DPF include all commission and expenses directly related to acquiring new business. The Financial Soundness Valuation methodology implicitly creates a deferred acquisition cost asset by reducing the liabilities to the extent of margins in the office premium intended to recoup acquisition costs. Thus, no explicit deferred acquisition cost asset is recognised in the balance sheet for contracts valued on this basis.

34.5 Application of the above valuation methodology to individual product lines

The preceding paragraphs highlighted the principles followed in valuation and profit recognition in respect of insurance and investment (with DPF) contracts. The next section outlines how these principles are applied to the main product lines within this category, as discussed in the beginning of this note.

34.5.1 Universal life unit linked or smoothed bonus policies

Liabilities for individual smoothed bonus and market related "unit linked" business are set equal to the fair value of units held by the policyholder at the balance sheet date. This is the so called unit liability. In addition, the present value of expected future cash flows (income less outgo) in respect of each policy is added or deducted from the unit liability to arrive at the total liability in respect of each universal life policy contract. This adjustment represents the so called Rand liability. If future income is expected to exceed future outgo under a universal life policy contract, the Rand liability is negative, whereas it is positive if future outgo is expected to exceed future income.

Projected future outgo includes claims payments and maintenance expenses, whereas projected future income includes deductions of risk premium and other charges. In performing the projections of future income and outgo, allowance is made for future growth in unit account values at a level consistent with the assumed future market related investment return, after allowing for contractual expense charges and tax.

Future additions of bonuses to smoothed bonus policies are projected at levels that are consistent with and supported by the assumed rate of investment return, after allowing for contractual expense charges and tax.

In respect of smoothed bonus universal life policies, bonus stabilisation accounts are also held. Bonus stabilisation reserves have been discussed above, but more detail about these provisions is given in the section below.

Profits arising from universal life policy contracts are recognised as described in above.

34.5.2 Policies with a DPF switching option

On some new generation investment contracts, policyholders have a choice of a wide range of investment funds, including a DPF fund. Policyholders also have the option to switch, without penalty, between smoothed bonus and unit linked funds within the same policy structure. The DPF portions of these policies are valued, using the FSV valuation methodology applicable to universal life DPF policies (as described above), but the capitalised value of discounted charges (net of expenses) on each policy is limited to the value of the DAC asset less DRL liability that would have been held, had the whole policy been classified as an investment without DPF investment contract. This is done so that switches between unit linked and smoothed bonus components do not to give rise to discontinuities in liabilities held against these contracts.

The practical implication of this treatment is that liabilities and profit recognition on these products are the same as similar "investment without DPF contracts". For the purposes of valuation and recognition, these policies are therefore treated in the same way as investment policies without DPF.

34.5.3 Immediate annuities

Liabilities for immediate annuities are set equal to the present value of expected future annuity payments and expenses, discounted using an appropriate market related yield curve as at the balance sheet date. The yield curve is based on risk free securities (either fixed or CPI linked, depending on the nature of the corresponding liability), adjusted for credit and liquidity spreads of the assets actually held in the portfolio and reduced by compulsory and discretionary margins. Explicit liabilities are set aside for expected credit losses, to avoid a reduction in liabilities caused by capitalisation of credit spreads.

34.5.4 Conventional (reversionary bonus or non profit) policies

The liabilities for conventional policies are calculated as the difference between the present values of projected future benefits and expenses, and the present value of projected future premiums, using the best estimate rate of return, plus prescribed margins as per PGN 104. It is assumed that current bonus rates (both reversionary and terminal bonus rates) will be maintained in future.

Profits arising on conventional policy contracts are recognised as described above.

34.5.5 Group risk business

The main liability types in respect of this class of business are:

- discounted cash flow liabilities for Permanent Health Insurance claims in payment and CPI linked annuities;
- the liability related to the claims which relate to insurance events which have occurred before year end and thus have been incurred but have not been reported to the Group, this liability is known as the Incurred but not reported ("IBNR") liability claims on group risk benefits;
- unearned premium provisions in respect of risk exposure remaining after the balance sheet date where premiums relating to the risk have been received before the balance sheet date; and
- CPI linked annuities.

The liabilities for Permanent Health Insurance and other annuity claimants and funeral paid up benefits are calculated using a prospective cash flow method, discounted at a discount rate consistent with the average term of the liabilities and market yields on the assets supporting the liabilities.

Liabilities in respect of IBNR claims are determined, using a basic triangulation or chain ladder method to derive, from past claims run off patterns, an estimate of the amount of claims that have been incurred but not yet reported. The liabilities are calculated gross of reinsurance. An asset is then raised to allow for the expected recovery from reinsurers.

An unearned premium provision is also held in respect of the portion of premiums received that relate to future risk exposure, which is assumed to be constant over the premium term. These liabilities are measured at the undiscounted value because of the short term nature of the liabilities.

Group CPI linked annuities are valued in the same way as CPI linked annuities on individual life business.

Profits arising on group risk contracts are recognised as premiums received less claims and expenses paid, plus or minus the move in the IBNR and unearned premium provisions over the relevant accounting period.

The best estimate and margins are reviewed annually to reflect the underlying profitability of the portfolio.

34.5.6 Group investment business (with DPF)

The liability in respect of group investment (with DPF) business is set equal to the fair value of the assets supporting the liabilities. The liability is reflected as the face value of policyholders' balances, plus a bonus stabilisation account. The bonus stabilisation account is the difference between the market value of assets and the face value of policyholders' balances.

No discounting of future cash flows (such as premiums, claims and expenses) is performed in respect of this class of business.

An Additional Unexpired Risk Provision is held if the expected premiums and investment returns are not sufficient to meet expected future claims and expenses. This meets the requirements of the liability adequacy test in IFRS 4 and thus no additional liability adequacy test is performed.

34.5.7 Policyholder bonus stabilisation accounts

DPF liabilities (insurance and investment) are adjusted by policyholder bonus stabilisation accounts. Bonus stabilisation accounts have been introduced under the general description of policy contracts issued by the Group in the section preceding the accounting policies.

If the fair value of the assets underlying a smoothed bonus or conventional with profit portfolio is greater than the policyholders' investment accounts (net premiums invested plus declared bonuses), a positive bonus stabilisation account is created which will be used to enhance future bonuses. Conversely, if assets are less than the investment accounts, a negative bonus stabilisation account is created. A negative bonus stabilisation account will be limited to the amount that the Statutory Actuary expects will be recovered through the declaration of lower bonuses during the ensuing three years, if investment returns are in line with long term assumptions. Negative bonus stabilisation accounts in excess of 7.5% of the investment accounts are disclosed.

The purpose with bonus stabilisation accounts is therefore to allocate all investment surpluses or deficits to policyholders after deduction of all related contractual charges.

The policyholder bonus stabilisation accounts in respect of the closed Lifegro portfolio and Southern Pre-84 segregated portfolio are set equal to the policyholders' full future entitlement to the assets in these portfolios (which includes not only investment surpluses, but other sources of surplus as well), as per the respective profit share agreements between policyholders and shareholders.

Bonus stabilisation accounts are included in policyholder liabilities under insurance contracts and investment with DPF contracts.

34.5.8 Guaranteed maturity value liabilities

A number of contracts contain embedded derivatives in the form of guaranteed maturity values. The liability in respect of these guarantees is calculated using stochastic modelling techniques, whereby assets and liabilities are projected into the future under a range of possible future investment return scenarios. The expected present value of the cost of the guarantee over and above base liabilities is taken as the liability in respect of the guarantee.

The modelling approach is governed by professional guidance note PGN 110, which sets minimum criteria that the stochastic model should adhere to, being minimum numbers of simulations to be performed and minimum variability characteristics of the stochastic input parameters. The model uses 2 000 scenarios and an externally developed and calibrated economic scenario generator that is widely used internationally.

34.5.9 Group life (including the Health Plan Protector)

Where a claim is reported but not yet validated, an estimate of the expected claim amounts is included in the claims reported in liabilities under insurance contracts. The estimate is determined taking into account the likelihood of the claim being valid and the expected severity of the claim given that the claim is valid. The proportion to be included is estimated separately for each benefit type.

Liabilities are held to reflect IBNR claims. The IBNR is modified to reflect actual current operating conditions.

The liabilities are calculated gross of reinsurance. An asset is then recognised to allow for the expected recoveries.

34.5.10 Health insurance

The Health IBNR calculation is performed using the chain ladder approach. This allows for the historic patterns of claims payment in determining the likely future emergence claims. The

IBNR is further modified to reflect current operational conditions or known events.

34.6 Discretionary margins

Discretionary margins are held in addition to the compulsory margins.These discretionary margins are used to ensure that profit and risk margins in the premiums are not capitalised prematurely so that profits are recognised in line with product design and in line with the risks borne by the company.

The main discretionary margins utilised in the valuation are as follows:

- additional bonus stabilisation accounts are held to provide an additional layer of protection for policyholders against the risk of removal of non vested bonuses caused by fluctuations in the values of assets backing smoothed bonus liabilities. This account is in addition to the policyholder bonus stabilisation account described elsewhere, and is not distributed as bonuses to policyholders under normal market conditions. The size of this account is monitored according to the results of stochastic modelling of the investment risk. Excess assets over the size indicated by the results of the stochastic modelling are released as profit;
- for the closed Lifegro portfolio and segregated portion of the Southern Life book, appropriate liabilities are held to reverse the capitalisation of future profits to ensure that the Lifegro profits are recognised in line with the terms of the Lifegro take over agreement and the statute of the Old Southern Segregated Fund;
- investment stabilisation accounts are held to reduce the risk of future losses, caused by the impact of market fluctuations on capitalised fees and on the assets backing guaranteed liabilities. This liability is built up retrospectively and released if adverse market conditions cause a reduction in the capitalised value of fees or in the value of assets backing guaranteed liabilities;
- additional prospective margins are held in respect of decrement assumptions and asset related fees on certain product lines to avoid the premature recognition of profits that may give rise to future losses if claims experience turns out to be worse than expected. This allows profits to be recognised in the period in which the risks are borne by the company; and
- an additional margin on the discount rates derived from the yield curve is held in respect if the investment return assumption used to value annuity benefit payments (both group and individual business). Further margins are held on the discount rates derived from the yield curve in respect of long dated guaranteed liabilities, where exact matching of assets and liabilities is difficult to achieve. These margins are held to reflect the potential for credit spreads widening and parameter risk associated with the long end of the yield curve and are related to the extent of corporate debt backing liabilities and the uncertainties relating to long dated liabilities.

34.7 Investment contracts without DPF, with provision of investment management services

Under this category, the Group issues unit linked contracts, where benefits payable are determined using unit values that reflect the fair value of the assets in the unitised fund underlying the group of policies, multiplied by the number of units attributed to the policyholder. Policyholder liabilities for this class of business are set equal to the fair value of the assets in the unitised fund underlying the group of policies, as reflected in the value of units held by each policyholder at the valuation date.

34.7.1 Amounts received and benefits paid

Amounts received under investment contracts, being additional investments by the policyholders and investment returns, are recorded as deposits to investment contract liabilities whereas benefits incurred are recorded as deductions from investment contract liabilities.

Service fee income on investment management contracts is recognised as and when the services are rendered. Service fee income includes policy administration fees, surrender charges and bid-offer spreads on premium allocations. The surrender charges are applied based on the principles set out in the statement of intent as agreed between the insurance industry and National Treasury in the Republic of South Africa in December 2005 and in accordance with the ongoing projects of the National Treasury.

34.7.2 Deferred revenue liability ("DRL")

A DRL is recognised in respect of fees paid at the inception of the contract by the policyholder which are directly attributable to a contract. The DRL is then released to revenue as the investment management services are provided, over the expected duration of the contract, as a constant percentage of expected gross profit margins (including investment income) arising from the contract. The pattern of expected profit margins is based on historical and expected future experience and is updated at the end of each accounting period. The resulting change to the carrying value of the DRL is recognised in revenue.

34.7.3 Deferred acquisition cost ("DAC") asset

Commissions paid and other incremental acquisition costs are incurred when new investment contracts are obtained or existing investment contracts are renewed. These costs, if specifically attributable to an investment contract with an investment management service element, are deferred and amortised over the expected life of the contract, as a constant percentage of expected gross profit margins (including investment income) arising from the contract. The pattern of expected profit margins is based on historical and expected future experience and is updated at the end of each accounting period. The resulting change to the carrying value of the DAC is recognised as an expense in profit or loss. Amortisation of the DAC is done separately for each policy contract. An impairment test is conducted annually at the reporting date on the DAC balance to ensure that the amount will be recovered from future revenue generated by the applicable remaining investment management contracts.

34.7.4 Onerous contracts

The Group recognises a provision for an onerous contract, when the expected benefits to be derived from a contract are lower than the unavoidable costs of meeting the obligations under the contract.

34.7.5 Profit recognition

Profits or losses that accrue to shareholders in respect of investment contracts where investment management services are rendered are equal to fees received during the period concerned plus the movement in the DAC asset and DRL liability, less expenses incurred.

Where these contracts provide for minimum investment return guarantees, provision was made for the fair value of the embedded option. The valuation methodology is the same as the methodology applied to investment guarantees on insurance contracts.

34.8 Investment contracts without DPF, without provision of investment management services

The Group issues single premium investment contracts with fixed and guaranteed terms under this category (guaranteed endowments and term certain annuities).

34.8.1 Valuation

The liabilities of endowments with guaranteed maturity values are fair valued using a valuation model, as the policies are not traded in an active market. The model values the liabilities as the present value of the maturity values, using appropriate market related yields to maturity net of tax and investment management expenses. If liabilities calculated in this manner fall short of the single premium paid at inception of the policy, the liability is increased to the level of the single premium, to ensure that no profit is recognised at inception. This additional liability is amortised over the lifetime of the policy. The amortisation pattern is such that profits are recognised in line with expected investment returns on the underlying assets supporting the liabilities. The amortisation pattern is determined at point of sale and not re adjusted during the term of the policy contract.

34.8.2 Amounts received and benefits paid

Amounts received under this class of investment contracts, being additional investments and investment returns, are recorded as deposits to investment contract liabilities whereas benefits paid are recorded as deductions from investment contract liabilities.

34.9 Options and guarantees

The effect of policyholder options that would result in a decrease in liabilities were excluded from the liabilities in order to prevent unnecessarily reducing the liabilities. Policyholder options that would result in an increase in the liabilities were incorporated into the valuation on a best estimate basis, as described above.

The expected level of early terminations is incorporated into the liabilities irrespective of whether this leads to an increase or a decrease in the liabilities.

The best estimates used to determine the value of the liabilities include estimates that take into account maturity, mortality and disability guarantees, as well as expected lapses and surrenders.

34.10 Embedded derivatives

The Group does not separately measure embedded derivatives that meet the definition of an insurance contract or options to surrender insurance contracts for a fixed amount (or an amount based on a fixed amount and an interest rate). All other embedded derivatives are separated and carried at fair value if they are not closely related to the host insurance contract and meet the definition of a derivative. Embedded derivatives that are separated from the host contract are fair valued through profit or loss.

A number of contracts contain embedded derivatives in the form of guaranteed maturity values. The liability in respect of these guarantees is calculated using stochastic modelling techniques, whereby assets and liabilities are projected into the future under a range of possible future investment return scenarios, with parameters calibrated to market data. The modelling approach is governed by professional guidance note PGN 110, which sets minimum criteria that the stochastic model should adhere to, being minimum numbers of simulations to be performed and minimum variability characteristics of the stochastic input parameters. The model is calibrated to use market consistent assumptions and parameters as at the valuation date.

34.11 Reinsurance contracts

Contracts entered into by the Group with reinsurers under which it is compensated for losses on one or more contracts issued by the Group and that meet the classification requirements for insurance contracts, are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets.

The benefits to which the Group is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short term balances due from reinsurers (classified as loans and receivables), as well as long term receivables (classified as reinsurance assets) that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts.

Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract.

Reinsurance liabilities consist of premiums payable for reinsurance contracts and are recognised as an expense when due.

The Group assesses its reinsurance assets for impairment on an annual basis. If there is objective evidence that the reinsurance asset is impaired, the Group reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in profit or loss for the period. The Group gathers the objective evidence that a reinsurance asset is impaired using the same process adopted for financial assets held at amortised cost. The impairment loss is also calculated following the same method used for these financial assets.

34.12 Receivables and payables related to insurance and investment contracts

Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and insurance contract holders. If there is objective evidence that the insurance receivable is impaired, the Group reduces the carrying amount of the insurance receivable accordingly and recognises the impairment loss in the income statement. The Group gathers the objective evidence that an insurance receivable is impaired using the same process adopted for loans and receivables. The impairment loss is also calculated following the same method used for these financial assets.

35. COMPARATIVES

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

The following line items on the face of the income statement and balance sheet have been reallocated for more accurate disclosure purposes.

	Amount as previously stated	Amount as restated	Difference	Explanation
Income statement				
Non interest income				
– fees and commissions	12 009	14 088	(2 079)	Fee and commission expense reallocated to operating expenditure.
– gains less losses from investment securities	19 225	21 005	(1 780)	Reallocation of rental income and fair value income on investment properties to investment securities from non interest income.
– other non interest income	2 268	488	1 780	Refer to gains less losses from investment securities.
Operating expenses	20 402	22 481	(2 079)	Refer to fees and commissions above.
Balance sheet				
Cash and short term funds	30 323	46 684	16 361	Reallocation of money market investment to cash and short term funds.
Money market investments	16 361	–	(16 361)	Refer to cash and short term funds.
Creditors and accruals	16 848	16 645	203	Deferred revenue liability of Discovery moved to separate line on face of balance sheet.
Deferred revenue liability	248	451	(203)	Refer to creditors and accruals.
Advances				
– loans and receivables	236 370	259 179	(22 809)	Grossing up of advances in line with international practice relating to set off in terms of IAS 32.
Deposits				
– deposit and current accounts	309 304	332 113	(22 809)	Grossing up of advances in line with international practice relating to setoff in terms of IAS 32.

consolidated income statement

for the year ended 30 June

R million	Notes	2007	2006
Interest and similar income	1	45 463	30 395
Interest expense and similar charges	2	(25 844)	(15 383)
Net interest income before impairment of advances		19 619	15 012
Impairment of advances	14.1	(2 857)	(1 411)
Net interest income after impairment of advances		16 762	13 601
Non interest income	3	51 040	39 930
Net insurance premium income	4	7 946	6 822
Net claims and benefits paid	5	(6 844)	(6 174)
Increase in value of policyholder liabilities	6	(25 064)	(17 430)
Fair value adjustment to financial liabilities	7	(54)	(530)
Income from operations		43 786	36 219
Operating expenses	8	(27 088)	(22 481)
Net income from operations		16 698	13 738
Share of profit from associates and joint ventures	18	2 101	1 290
Profit before tax		18 799	15 028
Tax	9	(5 721)	(5 040)
Profit for the year		13 078	9 988
Attributable to:			
Non cumulative non redeemable preference shares		348	274
Equity holders of the company		11 511	8 825
		11 859	9 099
Minority interest		1 219	889
Profit for the year		13 078	9 988
Basic earnings per share (cents)	11	222.9	171.6
Diluted earnings per share (cents)	11	216.6	166.0

consolidated balance sheet

as at 30 June

R million	Notes	2007	2006
ASSETS			
Cash and short term funds	12	46 952	46 684
Derivative financial instruments	13	33 244	37 934
Advances	14	378 945	313 885
Investment securities and other investments	15	221 950	173 848
Financial securities held for trading		45 276	28 348
Investment securities		176 674	145 500
– held-to-maturity		1 041	998
– available-for-sale		17 647	22 947
– fair value through profit and loss		142 036	112 761
– fair value through profit and loss non recourse investments		15 950	8 794
Commodities	16	1 118	676
Accounts receivable	17	9 257	6 046
Investments in associates and joint ventures	18	11 809	5 069
Property and equipment	19	6 411	5 011
Deferred tax asset	10	1 306	1 043
Intangible assets and deferred acquisition costs	21	4 302	4 076
Investment properties	22	2 356	6 141
Policy loans on insurance contracts		166	118
Reinsurance assets	23	595	292
Tax asset		34	7
Assets arising from insurance contracts	24	3 114	1 766
Total assets		721 559	602 596
EQUITY AND LIABILITIES			
Liabilities			
Deposits	25	416 507	340 649
Short trading positions	26	36 870	25 967
Derivative financial instruments	13	24 505	22 370
Creditors and accruals	27	13 887	16 645
Provisions	28	3 598	2 407
Tax liability		1 368	1 024
Post retirement benefit fund liability	20	1 882	1 635
Deferred tax liability	10	6 279	5 159
Long term liabilities	29	9 250	10 576
Reinsurance liabilities		20	24
Policyholder liabilities under insurance contracts	30	46 979	40 740
Policyholder liabilities under investment contracts	31	111 239	93 720
Liabilities arising to third parties	32	1 568	1 725
Deferred revenue liability	33	387	451
Total liabilities		674 339	563 092
Equity			
Capital and reserves attributable to ordinary shareholders			
Ordinary shares	34	51	51
Share premium	34	2 338	3 584
Distributable reserves		31 612	24 854
Non distributable reserves	35	5 028	3 522
		39 029	32 011
Non cumulative non redeemable preference shares	34	4 519	4 519
Capital and reserves attributable to equity holders		43 548	36 530
Minority interest		3 672	2 974
Total equity		47 220	39 504
Total equity and liabilities		721 559	602 596

consolidated statement of changes in equity

for the year ended 30 June

R million	Share capital (note 34)	Share premium (note 34)	Distributable reserves
	Ordinary share capital and ordinary shareholders' funds		
Balance 1 July 2005	**51**	**4 049**	**19 427**
Issue of share capital	–	–	–
Conversion of convertible redeemable preference shares	–	165	(165)
Share issue expense	–	–	–
Currency translation differences	–	–	–
Movement in revaluation reserves	–	–	–
Movement in other non distributable reserves	–	–	–
Earnings attributable to ordinary shareholders	–	–	8 825
Ordinary dividends	–	–	(3 114)
Preference dividends	–	–	–
Transfer (to)/from reserves	–	–	(184)
Effective change of shareholding of subsidiary	–	–	69
Movement in share based payment reserve	–	–	(4)
Consolidation of treasury shares	–	(630)	–
Balance at 30 June 2006	51	3 584	24 854
Balance at 1 July 2006 as previously stated	**51**	**3 584**	**24 854**
BEE share based payment reserve (note 51)	–	–	(1 655)
Balance at 1 July 2006 as restated	**51**	**3 584**	**23 199**
Issue of share capital	–	–	–
Conversion of convertible redeemable preference shares	–	(164)	164
Share issue expense	–	–	–
Currency translation differences	–	–	–
Movement in revaluation reserves	–	–	–
Movement in other non distributable reserves	–	–	3
Earnings attributable to ordinary shareholders	–	–	11 511
Ordinary dividends	–	–	(3 795)
Preference dividends	–	–	–
Transfer (to)/from reserves	–	–	(255)
Effective change of shareholding of subsidiary	–	–	355
Movement in share based payment reserve	–	–	–
Consolidation of treasury shares	–	(1 082)	430
Balance at 30 June 2007	**51**	**2 338**	**31 612**

		Perpetual preference shareholders' funds				
Non distributable reserves (note 35)	Total ordinary shareholders' funds	Non cumulative preference share capital	Non cumulative preference share premium	Total preference shareholders' funds	Minority interest	Total equity
2 064	25 591	–	2 992	2 992	2 306	30 889
–	–	–	1 531	1 531	19	1 550
–	–	–	–	–	–	–
–	–	–	(4)	(4)	(4)	(8)
225	225	–	–	–	27	252
225	225	–	–	–	41	266
19	19	–	–	–	–	19
–	8 825	–	274	274	889	9 988
–	(3 114)	–	–	–	(263)	(3 377)
–	–	–	(274)	(274)	–	(274)
184	–	–	–	–	7	7
10	79	–	–	–	17	96
274	270	–	–	–	(65)	205
521	(109)	–	–	–	–	(109)
3 522	32 011	–	4 519	4 519	2 974	39 504
3 522	32 011	–	4 519	4 519	2 974	39 504
1 655	–	–	–	–	–	–
5 177	32 011	–	4 519	4 519	2 974	39 504
–	–	–	–	–	45	45
–	–	–	–	–	–	–
–	–	–	–	–	(1)	(1)
10	10	–	–	–	(7)	3
137	137	–	–	–	83	220
(23)	(20)	–	–	–	10	(10)
–	11 511	–	348	348	1 219	13 078
–	(3 795)	–	–	–	(747)	(4 542)
–	–	–	(348)	(348)	–	(348)
255	–	–	–	–	51	51
(340)	15	–	–	–	26	41
237	237	–	–	–	19	256
(425)	(1 077)	–	–	–	–	(1 077)
5 028	39 029	–	4 519	4 519	3 672	47 220

consolidated cash flow statement

for the year ended 30 June

R million	Note	2007	2006
Cash flows from operating activities			
Cash receipts from customers	36.2	67 979	53 303
Cash paid to customers, suppliers and employees	36.3	(48 214)	(27 670)
Dividends received		1 952	1 327
Dividends paid		(3 795)	(3 651)
Net cash flows from operating activities	36.1	17 922	23 309
Increase in income earning assets	36.4	(86 700)	(98 204)
Increase in deposits and other liabilities	36.5	82 063	81 030
Net cash flows from operating funds		(4 637)	(17 174)
Tax paid	36.6	(3 912)	(3 257)
Net cash inflow from operating activities		9 373	2 878
Cash flows from investment activities			
Purchase of property and equipment		(2 193)	(1 329)
Proceeds from sale of equipment		59	105
Purchase of investments properties		(175)	(46)
Disposal of investments properties		988	319
Proceeds on disposal of subsidiary	36.7	–	67
Acquisition of subsidiary	36.7	(5 143)	–
(Acquisition)/disposal of associates	36.8	(3 274)	638
Purchase of intangible assets		(149)	(36)
Net cash outflow from investment activities		(9 887)	(282)
Cash flows from financing activities			
(Repayment of)/proceeds from long term borrowings		(102)	5 469
Proceeds from share issue		–	1 526
Net cash (outflow)/inflow from financing activities		(102)	6 995
Net (decrease)/increase in cash and cash equivalents		(616)	9 591
Cash and cash equivalents at the beginning of the year	36.9	46 684	36 317
Cash and cash equivalents at the end of the year		46 068	45 908
Cash and cash equivalents sold*		–	(52)
Cash and cash equivalents bought*		884	828
Cash and cash equivalents at the end of the year	36.9	46 952	46 684

** Cash and cash equivalents sold and bought relate to subsidiaries acquired and sold during the year*

consolidated statement of headline earnings and dividends

for the year ended 30 June

R million	2007	2006
Banking Group	9 355	7 049
Momentum Group	1 610	1 534
Discovery Group	556	350
FirstRand Limited (company)	(123)	(164)
Consolidation of share trusts	(372)	(383)
Subtotal	11 026	8 386
Dividend paid to non cumulative non redeemable preference shareholders	(348)	(274)
Subtotal	10 678	8 112
FirstRand shares held by policyholders (Fair value movement)	(221)	3
Headline earnings attributable to ordinary shareholders	10 457	8 115
Earnings per share (cents)		
– Basic	222.9	171.6
– Diluted	216.6	166.0
Headline earnings per share (cents)		
– Basic	202.5	157.8
– Diluted	196.8	152.6
Ordinary dividend per share (cents)		
– Interim	39.5	32.0
– Final	43.0	34.0
Total dividend per ordinary share (cents)	82.5	66.0
Dividend information		
Dividend on non cumulative non redeemable preference share (cents)		
"B" preference share		
– 27 February 2007/28 February 2006	410	356
– 28 August 2007/29 August 2006	431	363
Total "B" preference share	841	719
"B1" preference share		
– 27 February 2007/28 February 2006	410	356
– 28 August 2007/29 August 2006	431	363
Total "B1" preference share	841	719
Dividends declared (R million)		
Ordinary dividends	4 658	3 718
Non cumulative non redeemable preference shares	379	324
Headline earnings reconciliation		
Banking Group	9 826	7 260
Momentum Group	2 076	1 909
Discovery Group	673	437
FirstRand Limited (company)	(123)	(127)
Consolidation of share trusts	(372)	(383)
Dividend payment of non cumulative non redeemable preference shares	(348)	(274)
Consolidation of treasury shares: policyholders	(221)	3
Attributable earnings to ordinary shareholders	11 511	8 825
Adjusted for:		
– Profit on sale of equity accounted private equity associates	(397)	(219)
– Impairment of property and equipment	–	1
– Profit on sale of shares in subsidiary and associate	(68)	(129)
– Net asset value in excess of purchase price of subsidiaries	–	(22)
– (Profit)/loss on sale of assets	(6)	19
– Profit on sale of available-for-sale financial instruments	(684)	(360)
– Impairment of intangible assets	48	–
– Impairment of goodwill	53	–
Headline earnings to ordinary shareholders	10 457	8 115

R million	2007	2006
1. INTEREST AND SIMILAR INCOME		
Interest on:		
Advances	32 992	22 311
– loans and receivables	32 853	22 113
– held-to-maturity	75	150
– available-for-sale	64	48
Cash and short term funds	2 358	1 056
Investment securities	8 331	6 531
– held-to-maturity	60	164
– available-for-sale	2 319	1 013
– fair value through profit and loss	5 952	5 263
– held for trading	–	91
Accrued on impaired advances	106	77
Other	1 676	420
Interest and similar income	45 463	30 395
2. INTEREST EXPENSE AND SIMILAR CHARGES		
Interest on:		
Deposits from banks and financial institutions	(763)	(142)
Current accounts	(5 663)	(3 674)
Savings deposits	(93)	(75)
Term deposit accounts	(15 331)	(8 903)
Negotiable certificates of deposit	(76)	–
Finance leases	(244)	(112)
Debentures	(1 147)	(404)
Other	(2 527)	(2 073)
Interest expense and similar charge	(25 844)	(15 383)

R million	2007	2006
3. NON INTEREST INCOME		
Fee and commission income:		
– Banking fee and commission income	9 099	8 005
– Card commissions	1 244	892
– Cash deposit fees	958	811
– Commissions: bills, drafts and cheques	385	394
– Service fees	3 520	2 990
– Other commissions	2 992	2 918
– Knowledge based fee and commission income	987	1 168
– Non banking fee and commission income	982	677
– Asset management and related fees	2 665	2 325
– Fees for health administration	2 533	244
– Amortisation of deferred revenue liability	44	18
– Other	487	1 651
Fee and commission income	16 797	14 088
Fair value income:		
– Foreign exchange trading	805	887
– Treasury trading operations	4 808	3 462
– Fair value through profit and loss	473	–
Fair value income	6 086	4 349

Foreign exchange net trading income includes gains and losses from spot and forward contracts, options, futures, and translated foreign currency assets and liabilities. Trading operations include interest rate instruments and equity trading income.

Interest rate instruments includes the results of making markets in instruments in government securities, corporate debt securities, money market instruments, interest rate and currency swaps, options and other derivatives. Equity trading income includes the results of making markets globally in equity securities and equity derivatives such as swaps, options, futures and forward contracts.

R million	2007	2006
Gains less losses from investment activities		
– Gains on investments carried at fair value through profit and loss	22 229	17 335
– Transfer from revaluation reserve on sale of available-for-sale assets	762	15
– Gain on realisation of available-for-sale securities	320	375
– Dividends received	847	834
– Listed shares – fair value through profit and loss	516	638
– Listed shares – available-for-sale	194	114
– Unlisted shares – fair value through profit and loss	137	82
– Share of profit of associates and joint ventures (note 18)	2 101	1 290
– Unrealised profit on assets held against employee liabilities	339	321
– Investment banking assets	429	345
– Fair value gains on investment properties held at fair value through profit and loss	410	1 224
– Rental income from investment properties	201	556
Gross gains less losses from investment activities	27 638	22 295
Less: Profit of associates and joint ventures *(disclosed separately on face of income statement)*	(2 101)	(1 290)
Gains less losses from investment activities	25 537	21 005

R million	2007	2006
3. NON INTEREST INCOME continued		
Other non interest income		
– Gain/(loss) on sale of property and equipment	6	(19)
– Other income/(loss)	1 967	(147)
– Vitality income	647	654
Other non interest income	2 620	488
Total non interest income	51 040	39 930

Fair values of financial instruments recognised in the financial statements may be determined in whole or in part using valuation techniques based on assumptions that are not supported by prices from current market data. In these instances, the net fair value recorded in the financial statements is the sum of three components:

(i) the value given by application of a valuation model, based upon the Group's best estimate of the most appropriate model inputs;
(ii) any fair value adjustments to account for market features not included within valuation model (for example, bid mid spreads, counterparty credit spreads and/or market data uncertainty); and
(iii) day one profit or loss, or an unamortised element thereof, not recognised immediately in the income statement in accordance with the Group's accounting policy, and separately detailed within the derivative note above.

R million	2007	2006
4. NET INSURANCE PREMIUM INCOME		
Insurance premiums		
Long term insurance contracts		
Individual life	6 411	5 282
– Single premiums	221	42
– Recurring premiums	5 718	4 661
– Annuities	472	579
Employee benefits	1 512	1 453
– Single premiums and investment lump sums	4	190
– Recurring premiums	1 508	1 263
Health	158	74
– Recurring premiums	158	74
Total long term insurance contracts	8 081	6 809
Short term insurance contracts		
Health	921	949
– Recurring premiums	921	949
Total short term insurance contracts	921	949
Total insurance premium revenue	9 002	7 758
Insurance premium ceded to reinsurers		
Long term insurance contracts	(991)	(855)
– Individual life	(717)	(673)
– Employee benefits	(272)	(180)
– Health	(2)	(2)
Short term insurance contracts	(65)	(81)
– Health	(65)	(81)
Total insurance premium ceded to reinsurers	(1 056)	(936)
Net insurance premium income	7 946	6 822
Broken up as follows:		
– Long term insurance contracts	7 090	5 954
– Short term insurance contracts	856	868
Net insurance premium income	7 946	6 822

R million	2007	2006
5. NET CLAIMS AND BENEFITS PAID		
Benefits paid in respect of long term insurance contracts		
Individual life	(4 420)	(3 687)
– Death	(1 317)	(979)
– Disability	(534)	(293)
– Maturities	(1 810)	(1 477)
– Surrenders	(759)	(938)
Lump sum annuities	(1 408)	(1 428)
– Annuities paid	(1 388)	(1 299)
– Commutations	(20)	(129)
Total benefits paid in respect of individual life business	(5 828)	(5 115)
Employee benefits		
– Death	(721)	(564)
– Disability	(374)	(334)
– Scheme terminations and member withdrawals	(2)	(1)
– Annuities	(77)	(70)
Total benefits paid in respect of employee benefits business	(1 174)	(969)
Health		
– Gross claims	(835)	(791)
Total benefits paid in respect of health business	(835)	(791)
Gross claims and benefits paid on insurance contracts	(7 837)	(6 875)
Insurance benefits recovered from reinsurers		
– Individual life	789	508
– Employee benefits	139	114
– Health	65	79
Total insurance benefits recovered from reinsurers	993	701
Total net claims and benefits paid	(6 844)	(6 174)
6. INCREASE IN VALUE OF POLICYHOLDER LIABILITIES		
Fair value adjustment on investment contracts (note 31)	(19 766)	(14 485)
Net transfer to policyholder balance under insurance contracts	(5 298)	(2 945)
Transfer to policyholder liabilities under insurance contracts (note 30)	(5 949)	(3 877)
Transfer to policyholder assets under insurance contracts	651	932
Increase in value of policyholder liabilities	(25 064)	(17 430)
7. FAIR VALUE ADJUSTMENT TO FINANCIAL LIABILITIES		
Fair value adjustment to liabilities arising to third parties as a result of the consolidation of collective investment schemes		
Emira Property Fund	–	(526)
Other consolidated collective investment schemes	(54)	(4)
Fair value adjustment to financial liabilities	(54)	(530)

R million	2007	2006
8. OPERATING EXPENSES		
Fee and commission expense	(2 080)	(2 079)
Auditors remuneration		
– Audit fees	(94)	(74)
– Fees for other services	(22)	(19)
– Technical advice	(10)	(11)
– Other	(12)	(8)
– Prior year under provision	(11)	(4)
Auditors remuneration	(127)	(97)
Amortisation of intangible assets		
– Trademarks	(21)	–
– Software	(80)	(77)
– Development costs	(39)	(2)
– Other	(181)	(45)
Amortisation of intangible assets	(321)	(124)
Depreciation		
– Property	(203)	(205)
– Freehold property	(44)	(70)
– Leasehold premises	(159)	(135)
– Equipment	(715)	(710)
– Computer equipment	(505)	(482)
– Furniture and fittings	(108)	(142)
– Motor vehicles	(30)	(21)
– Office equipment	(72)	(65)
– Capitalised leased assets	(4)	(11)
Depreciation	(922)	(926)
Other impairments incurred		
– Goodwill	(53)	–
– Property and equipment	(9)	13
– Software	(48)	–
– Other	(3)	(71)
Other impairments incurred	(113)	(58)
Operating lease charges		
– Property	(677)	(590)
– Equipment	(329)	(325)
– Motor vehicles	(23)	(26)
Operating lease charges	(1 029)	(941)
Professional fees		
– Managerial	(28)	(26)
– Technical	(488)	(180)
– Other	(314)	(377)
– Actuarial fees	(5)	(12)
Professional fees	(835)	(595)

R million	2007	2006
8. OPERATING EXPENSES continued		
Direct staff costs		
– Salaries, wages and allowances	(8 185)	(7 050)
– Contributions to employee benefit funds	(1 386)	(1 155)
– Defined contribution schemes	(954)	(713)
– Defined benefit schemes	(432)	(442)
– Current service costs	(382)	(346)
– Interest cost	(1 512)	(1 165)
– Expected return on plan assets	121	1 077
– Net actuarial gains/(losses) recognised in year	1 341	(8)
– Social security levies	(116)	(99)
– Share based payments	(455)	(202)
– Other	(661)	(736)
Direct staff cost	(10 803)	(9 242)
– Staff related cost	(2 433)	(1 411)
Total staff cost	(13 236)	(10 653)
Other operating costs		
– Insurance	(271)	(208)
– Advertising and marketing	(1 071)	(1 017)
– Maintenance	(642)	(505)
– Property	(378)	(262)
– Computer	(931)	(874)
– Stationery	(284)	(250)
– Telecommunications	(594)	(497)
– eBucks customer rewards	(203)	(190)
– Conveyance of cash	(176)	(96)
– Acquisition costs	(94)	(24)
– Other operating expenditure	(3 008)	(2 388)
– Total directors' remuneration	(87)	(38)
– Services as directors	(66)	(21)
– Other emoluments	(17)	(17)
– Compensation for loss of office	(4)	–
– Services as directors	(4)	–
Other operating costs	(7 739)	(6 349)
Value added tax (net)	(625)	(522)
Regional services levy	(5)	(69)
Stamp duties	(14)	(11)
Other	(42)	(57)
Indirect tax	(686)	(659)
Total operating expenses	(27 088)	(22 481)

R million	2007	2006
9. TAX		
Direct tax		
Normal tax		
– Current	(3 062)	(2 539)
– Current year	(2 849)	(2 070)
– Prior year adjustment	(213)	(469)
– Deferred	(575)	(572)
– Current year	(815)	(1 090)
– Prior year adjustment	240	518
– Share of associate and joint ventures tax (note 18)	(496)	(352)
Total normal tax	(4 133)	(3 463)
Foreign company and withholding tax		
– Current	(596)	(315)
– Current year	(592)	(273)
– Prior year adjustment	(4)	(42)
– Deferred tax	(37)	78
– Current year	(43)	47
– Prior year adjustment	6	31
Total foreign company and withholding tax	(633)	(237)
Secondary tax on companies	(198)	(354)
– Current	(132)	(249)
– Deferred	(66)	(105)
Capital gains tax	(709)	(789)
– Current tax	(391)	(419)
– Deferred tax	(318)	(370)
Direct tax	(5 673)	(4 843)
Retirement fund tax	(48)	(197)
Total tax	(5 721)	(5 040)

Tax rate reconciliation – South African normal tax	%	%
Effective rate of tax	30.4	33.5
Total tax has been affected by:		
– Non taxable income	3.4	5.6
– Foreign tax rate differential	0.2	1.8
– Prior year adjustments	0.1	(0.3)
– Other permanent differences	(5.1)	(11.6)
Standard rate of South African tax	29.0	29.0

R million	2007	2006
10. DEFERRED TAX		
Deferred tax		
The movement on the deferred tax account is as follows:		
Credit balance (Deferred tax liability)		
Opening balance	5 159	3 768
– Exchange rate difference	7	3
– Charge to the income statement	1 169	710
– STC charge/(release) to the income statement	72	(22)
– Acquisitions and disposals	–	22
– Deferred tax on amounts charged/(transferred) directly to equity	(11)	(84)
– Other	(117)	762
Total credit balance	6 279	5 159
Debit balance (Deferred tax asset)		
Opening balance	1 043	1 070
– Exchange rate difference	11	14
– (Release)/charge to the income statement	240	(178)
– STC charge/(release) to the income statement	6	(11)
– Acquisitions and disposals	80	94
– Deferred tax on amounts charged/(transferred) directly to equity	(1)	–
– Other	(73)	54
Total debit balance	1 306	1 043
Net balance for the year	4 973	4 116

Deferred tax assets and liabilities are offset when the income taxes relate to the same fiscal authority and there is a legal right to setoff.

Deferred tax assets and liabilities and deferred tax charged/(released) to the income statement are attributable to the following items:

R million	2007 Opening balance	Tax charge	Exchange rate	Acquisitions and disposals	Other	Closing balance
Deferred tax liability						
Tax losses	136	–	–	(2)	(134)	–
Provision for loan impairment	(64)	(207)	–	(192)	1	(462)
Provision for post retirement benefits	3	(44)	–	131	–	90
Cash flow hedges	(71)	11	–	149	(32)	57
Fair value adjustments of financial instruments	1 187	320	–	(6)	(134)	1 367
Instalment credit assets	1 646	236	(1)	27	–	1 908
Accruals	795	142	–	(41)	–	896
Revaluation of available-for-sale securities to equity	79	(38)	–	(37)	62	66
Capital gains tax	74	50	–	–	6	130
Insurance contracts	779	298	–	–	–	1 077
Other	595	473	8	(29)	103	1 150
Total deferred tax liability	5 159	1 241	7	–	(128)	6 279
Deferred tax asset						
Tax losses	143	137	–	–	(1)	279
Provision for loan impairment	97	2	2	–	25	126
Provision for post retirement benefits	11	1	–	–	–	12
Fair value adjustments of financial instruments	6	(5)	–	–	7	8
Instalment credit assets	(996)	80	–	–	–	(916)
Accruals	(765)	(10)	–	–	2	(773)
Revaluation of available-for-sale securities to equity	–	(1)	–	–	–	(1)
Capital gains	–	6	–	–	–	6
Insurance contracts	526	57	–	–	–	583
Other	2 021	(22)	9	80	(106)	1 982
Total deferred tax asset	1 043	245	11	80	(73)	1 306
Total deferred tax	4 116	996	(4)	(80)	(55)	4 973

R million	Opening balance	Tax charge	Exchange rate	2006 Acquisitions and disposals	Other	Closing balance
10. DEFERRED TAX continued						
Deferred tax liability						
Tax losses	66	130	–	–	(60)	136
Provision for loan impairment	(9)	(5)	–	–	(50)	(64)
Provision for post retirement benefits	10	–	–	–	(7)	3
Cash flow hedges	–	–	–	–	(71)	(71)
Fair value adjustments of financial instruments	797	448	–	22	(80)	1 187
Instalment credit assets	(981)	129	(2)	–	2 500	1 646
Accruals	(766)	172	–	–	1 389	795
Revaluation of available-for-sale securities to equity	3	3	–	–	73	79
Capital gains tax	51	23	–	–	–	74
Insurance contracts	252	216	–	–	311	779
Other provisions	4 454	(406)	5	–	(3 458)	595
Total deferred tax liability	3 877	710	3	22	547	5 159
Deferred tax asset						
Tax losses	68	14	7	56	(2)	143
Provision for loan impairment	67	25	–	–	5	97
Provision for post retirement benefits	10	1	–	–	–	11
Fair value adjustments of financial instruments	3	(22)	–	–	25	6
Instalment credit assets	(981)	(14)	–	–	(1)	(996)
Accruals	(766)	(2)	–	–	3	(765)
Revaluation of available-for-sale securities to equity	3	(3)	–	–	–	–
Insurance contracts	–	69	–	–	457	526
Other provisions	2 190	(246)	7	38	32	2 021
Total deferred tax asset	594	(178)	14	94	519	1 043
Total deferred tax	3 283	888	(11)	(72)	28	4 116

R million	2007	2006
11. EARNINGS PER SHARE		
Basic		
Basic earnings per share is calculated by dividing the net profit attributable to equity holders of the Group by the weighted average number of ordinary shares in issue during the year, excluding the average number of ordinary shares purchased by the Group and held as treasury shares.		
Earnings attributable to ordinary shareholders (R million)	11 511	8 825
Weighted average number of ordinary shares in issue	5 163 931 035	5 142 685 331
Basic earnings per share (cents)	222.9	171.6
Diluted		
Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.		
Earnings attributable to ordinary shareholders (R million)	11 511	8 825
Actual number of shares:		
Shares in issue as at 1 July	5 634 120 503	5 613 566 954
– Outperformance conversion October 2006/2005	831 066	1 465 514
– Outperformance conversion April 2007/2006	764 107	19 088 035
Number of shares in issue as at 30 June	5 635 715 676	5 634 120 503
Less: Treasury shares	(464 663 200)	(449 689 562)
– Staff schemes	(267 754 209)	(242 605 846)
– BEE staff trusts	(171 401 072)	(179 401 072)
– Policyholder and mutual funds "deemed treasury shares"	(25 507 919)	(27 682 644)
Number of shares in issue (after treasury shares)	5 171 052 476	5 184 430 941
Weighted number of shares		
Actual number of shares as at 1 July	5 634 120 503	5 613 566 954
Adjustments	745 071	5 549 512
– Outperformance conversion	745 071	5 549 512
Weighted average number of shares before treasury shares	5 634 865 574	5 619 116 466
Less: Treasury shares	(470 934 539)	(476 431 135)
– Staff schemes	(282 667 735)	(269 347 419)
– BEE staff trusts	(171 401 072)	(179 401 072)
– Policyholder and mutual funds "deemed treasury shares"	(16 865 732)	(27 682 644)
Weighted average number of shares	5 163 931 035	5 142 685 331
Weighted average number of shares	5 163 931 035	5 142 685 331
Dilution impact		
– Outperformance	3 857 700	6 807 375
– Staff schemes	108 490 250	111 997 137
– BEE staff trust	38 552 823	56 119 306
Diluted weighted average number of shares in issue	5 314 831 808	5 317 609 149
Diluted earnings per share (cents)	216.6	166.0

R million	2007	2006
12. CASH AND SHORT TERM FUNDS		
Coins and bank notes	2 328	2 360
Money at call and short notice	5 340	2 731
Balances with central banks	8 487	6 673
Balances guaranteed by central banks	780	4 432
Balances with other banks	12 645	10 677
Money market investments	17 372	19 811
Cash and short term funds	46 952	46 684
Mandatory reserve balances included in above:	8 327	6 652
Banks are required to deposit a minimum average balance, calculated monthly, with the central bank, which is not available for use in the Group's day to day operations. These deposits bear no or low interest. Money at short notice constitutes amounts withdrawable in 32 days or less.		
Fair value of balance presented	46 952	46 684

13. DERIVATIVE FINANCIAL INSTRUMENTS

The Group uses the following financial instruments for hedging purposes:

Hedging instruments

Forward rate agreements are negotiated interest rate futures that call for cash settlement at a future date for the difference between the contractual and market rates of interest, based on a notional principal amount.

Currency and interest rate swaps are commitments to exchange one set of cash flows for another, resulting in the economic exchange of interest rates (for example fixed rate for floating rate). No exchange of principal takes place.

Rand overnight deposit swaps are commitments to exchange fixed rate interest flows with floating rate interest flows where the repricing takes place daily on the floating leg based on the daily overnight rates.

Strategy in using hedging instruments

Interest rate derivatives comprising mainly interest rate swaps, Rand overnight deposit swaps ("RODS") and forward rate agreements are utilised for hedging purposes to eliminate uncertainty and reduce the risk that the Group faces due to volatile interest rates. The Group accepts deposits at variable rates and uses fixed interest rate derivatives as cash flow hedges of future interest payments, effectively converting borrowings from floating to fixed rates. The Group also has assets at variable rates and uses fixed interest rate derivatives as cash flow hedges for future interest receipts.

The insurance companies within the Group will on occasion make use of derivative instruments in order to achieve exposure to a desired asset spread where liquidity constraints limit the purchase of sufficient physical assets as well as to hedge against known liabilities. In the insurance companies, derivatives are not entered into for purely speculative purposes.

The notional amounts of the derivative instruments do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments, and therefore, do not present the Group's exposure to credit or pricing risk. Derivative instruments become favourable (assets) or unfavourable (liabilities) based on changes in market interest rates. The aggregate notional amount of derivative financial instruments, the extent to which the instruments are favourable or unfavourable, and thus the aggregate fair value can fluctuate significantly, over time.

The Group's detailed risk management strategy, including the use of hedging instruments in risk management, is set out on pages 100 to 105 of the Annual Report ("the Risk Report").

Further information pertaining to the risk management of the Group is set out in note 48.

Fair value hedges

The Group's fair value hedges principally consist of interest rate and currency swaps. These are used to protect against changes in fair value of fixed long term financial instruments and non Rand denominated financial instruments due to movement in the market interest rates and currency fluctuations. For qualifying fair value hedges, all changes in fair value of the derivative and in the fair value of the item in relation to the risk being hedged are recognised in income. If the hedge relationship is terminated, the fair value adjustment to the item continues to be reported as part of the basis of the item and is amortised to income as a yield adjustment over the remainder of the hedging period.

Cash flow hedges

The hedging instruments used to hedge the underlying book are primarily interest rate swaps. These instruments have quarterly resets and settlements. The amounts of these resets are dependent upon a number of factors including notional amounts, reset rates and reset dates. The maturities of these instruments are negotiated at the time of the deal and are dependent on future yields and maturity profile of the underlying hedged book. Underlying hedged items have monthly cash flows based on the underlying reference rate. A single swap cash flow, hedges the cumulative change in cash flow for three subsequent months.

The effective portion of changes in fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is released to income. Amounts accumulated in equity are released to the income statement in periods in which the hedged item will affect profit or loss. When hedging instruments matures or are sold, or when the hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity is released to the income statement.

R million	2007	2006
13. DERIVATIVE FINANCIAL INSTRUMENTS continued		
Reconciliation of the movements in the cash flow reserve		
Opening balance	176	348
– Amount recognised directly in equity during the year	3	–
– Amount removed from equity and included in the income statement for the year	(48)	(172)
Closing balance	131	176

Fair value methodologies

Contract for differences

The instruments are valued by using the differential between the market price and traded price multiplied by the notional amount. Market prices are obtained from applicable trading exchanges, for example SAFEX.

Credit derivatives

A discounted cash flow model is used. Market data is supplied by Market Risk and Compliance. In some instances prices are sourced from the market. Individual credit spreads are added in these instances.

Options

The majority of options are valued using the Black Scholes model. Inputs are obtained from market observable data. Where market prices are obtainable from trading exchanges the value per the exchange is used, for example SAFEX.

Forwards

A discounted cash flow model is used. Discount rates used are determined from a yield curve using similar market traded instruments. The reset rate of the deal is determined in terms of the legal documents.

Forward rate agreement

A discounted cash flow model is used. Discount rates used are determined from a yield curve using similar market traded instruments. The reset rate of the deal is determined in terms of the legal documents.

Futures

Futures are marked to market for fair valuation purposes.

Swaps

For each swap reset period (swaplet) there is a real start, real end, forward start, forward end payment and reset date. Forward rates are determined from the forward start and forward end date (forward period) and are applied over the real start and real end date (interest period) to get an interest amount. The cash flow (interest amount) is then present valued from the payment date. The forward rates and discount rates are determined from a curve derived from similar market traded instruments. The reset rate of each swaplet is determined in the terms of the legal documents and is reset on the reset date of each swaplet.

R million	Assets Notional	Assets Fair value	Liabilities Notional	Liabilities Fair value
13. DERIVATIVE FINANCIAL INSTRUMENTS continued				
2007				
Qualifying for hedge accounting				
Cash flow hedges				
Currency derivatives	–	–	41	2
– Forward rate agreements	–	–	41	2
Interest rate derivatives	34 332	140	11 400	28
– Swaps	33 671	135	11 400	28
– Options	661	5	–	–
Total cash flow hedges	34 332	140	11 441	30
2007				
Fair value hedges				
Interest rate derivatives	120	4	49	116
– Swaps	120	4	49	116
Total fair value hedges	120	4	49	116
Total qualifying for hedge accounting	34 452	144	11 490	146
2007				
Held for trading				
Currency derivatives	199 614	7 554	173 796	4 660
– Forward rate agreements	77 812	2 215	70 367	2 166
– Swaps	120 125	5 192	102 057	2 356
– Options	1 677	147	1 353	138
– Other	–	–	19	–
Interest rate derivatives	1 049 843	17 148	1 066 819	12 081
– Forward rate agreements	636 854	1 727	679 746	1 427
– Swaps	352 857	14 954	345 809	10 295
– Options	57 218	466	37 913	356
– Other	2 914	1	3 351	3
Equity derivatives	13 071	4 213	40 430	3 722
– Forward rate agreements	2	2	–	–
– Options	5 082	432	27 857	989
– Other	7 987	3 779	12 573	2 733
Commodity derivatives	15 910	4 100	21 029	3 832
– Forward rate agreements	3 185	111	9 029	1 329
– Swaps	276	3	932	32
– Options	10 172	3 977	8 871	2 465
– Other	2 277	9	2 197	6
Credit derivatives	14 423	85	10 889	64
Total held for trading	1 292 861	33 100	1 312 963	24 359
Total derivative financial instruments	1 327 313	33 244	1 324 453	24 505

13. DERIVATIVE FINANCIAL INSTRUMENTS continued

R million	Assets: Derivative instruments					
	Exchange traded		Over the counter		Total	
	Notional	Fair value	Notional	Fair value	Notional	Fair value
2007						
Qualifying for hedge accounting						
Cash flow hedges	–	–	34 332	140	34 332	140
– Interest rate derivatives	–	–	34 332	140	34 332	140
Fair value hedges	–	–	120	4	120	4
– Interest rate derivatives	–	–	120	4	120	4
Not qualifying for hedge accounting						
Held for trading	11 639	131	1 281 222	32 969	1 292 861	33 100
– Currency derivatives	–	–	199 614	7 554	199 614	7 554
– Interest rate derivatives	5 402	5	1 044 441	17 143	1 049 843	17 148
– Equity derivatives	3 702	117	9 369	4 096	13 071	4 213
– Commodity derivatives	2 288	9	13 622	4 091	15 910	4 100
– Credit derivatives	247	–	14 176	85	14 423	85
Total derivative financial instruments	11 639	131	1 315 674	33 113	1 327 313	33 244

R million	Liabilities: Derivative instruments					
	Exchange traded		Over the counter		Total	
	Notional	Fair value	Notional	Fair value	Notional	Fair value
2007						
Qualifying for hedge accounting						
Cash flow hedges	41	2	11 400	28	11 441	30
– Interest rate derivatives	–	–	11 400	28	11 400	28
– Currency derivatives	41	2	–	–	41	2
Fair value hedges	–	–	49	116	49	116
– Interest rate derivatives	–	–	49	116	49	116
Not qualifying for hedge accounting						
Held for trading	14 226	74	1 298 737	24 285	1 312 963	24 359
– Currency derivatives	11	–	173 785	4 660	173 796	4 660
– Interest rate derivatives	3 351	3	1 063 468	12 078	1 066 819	12 081
– Equity derivatives	8 594	65	31 836	3 657	40 430	3 722
– Commodity derivatives	2 270	6	18 759	3 826	21 029	3 832
– Credit derivatives	–	–	10 889	64	10 889	64
Total derivative financial instruments	14 267	76	1 310 186	24 429	1 324 453	24 505

R million	Assets		Liabilities	
	Notional	Fair value	Notional	Fair value
2006				
Qualifying for hedge accounting				
Cash flow hedges				
Currency derivatives	–	–	1	1
– Futures	–	–	1	1
Interest rate derivatives	10 550	255	5 352	145
– Forward rate agreements	1 500	–	–	–
– Swaps	9 050	255	5 352	145
Total cash flow hedges	10 550	255	5 353	146

R million	Assets Notional	Assets Fair value	Liabilities Notional	Liabilities Fair value
13. DERIVATIVE FINANCIAL INSTRUMENTS continued				
2006				
Fair value hedged				
Currency derivatives	964	1	1 084	11
– Swaps	964	1	1 084	11
Interest rate derivatives	(2 821)	172	(1 184)	100
– Swaps	(2 821)	172	(1 184)	100
Credit derivatives	21	–	–	–
Total fair value hedges	(1 836)	173	(100)	111
Total qualifying for hedge accounting	8 714	428	5 253	257
2006				
Held for trading				
Currency derivatives	525 056	22 994	327 813	18 246
– Forward rate agreements	278 474	8 597	191 619	9 520
– Swaps	235 977	11 798	129 289	8 295
– Options	4 006	1 423	2 365	139
– Other	6 599	1 176	4 540	292
Interest rate derivatives	496 143	6 221	538 029	(4 599)
– Forward rate agreements	140 414	210	142 492	(11 460)
– Swaps	198 317	5 850	203 590	6 750
– Options	19 685	85	28 240	110
– Other	137 727	76	163 707	1
Equity derivatives	18 800	3 596	20 926	4 641
– Options	13 469	3 476	18 203	4 373
– Other	5 331	120	2 723	268
Commodity derivatives	13 893	4 632	15 051	3 456
– Swaps	261	6	946	42
– Options	10 467	4 276	11 116	2 739
– Other	3 165	350	2 989	675
Credit derivatives	8 055	63	9 896	369
Total held for trading	1 061 947	37 506	911 715	22 113
Total derivative financial instruments	1 070 661	37 934	916 968	22 370

13. DERIVATIVE FINANCIAL INSTRUMENTS continued

R million	Assets: Derivative instruments – Exchange traded Notional	Exchange traded Fair value	Over the counter Notional	Over the counter Fair value	Total Notional	Total Fair value
2006						
Qualifying for hedge accounting						
Cash flow hedges	–	–	10 550	255	10 550	255
– Interest rate derivatives	–	–	10 550	255	10 550	255
Fair value hedges	–	–	(1 836)	173	(1 836)	173
– Currency derivatives	–	–	964	1	964	1
– Interest rate derivatives	–	–	(2 821)	172	(2 821)	172
– Credit derivatives	–	–	21	–	21	–
Not qualifying for hedge accounting						
Held for trading	144 733	109	917 214	37 397	1 061 947	37 506
– Currency derivatives	642	35	524 414	22 959	525 056	22 994
– Interest rate derivatives	137 728	–	358 415	6 221	496 143	6 221
– Equity derivatives	3 848	70	14 952	3 526	18 800	3 596
– Commodity derivatives	2 515	4	11 378	4 628	13 893	4 632
– Credit derivatives	–	–	8 055	63	8 055	63
Total derivative financial instruments	144 733	109	925 928	37 825	1 070 661	37 934

R million	Liabilities: Derivative instruments – Exchange traded Notional	Exchange traded Fair value	Over the counter Notional	Over the counter Fair value	Total Notional	Total Fair value
2006						
Qualifying for hedge accounting						
Cash flow hedges	1	1	5 352	145	5 353	146
– Interest rate derivatives	–	–	5 352	145	5 352	145
– Currency derivatives	1	1	–	–	1	1
Fair value hedges	–	–	(100)	111	(100)	111
– Currency derivatives	–	–	1 084	11	1 084	11
– Interest rate derivatives	–	–	(1 184)	100	(1 184)	100
Not qualifying for hedge accounting						
Held for trading	169 557	57	742 158	22 056	911 715	22 113
– Currency derivatives	154	40	327 659	18 206	327 813	18 246
– Interest rate derivatives	163 707	1	374 322	(4 600)	538 029	(4 599)
– Equity derivatives	3 571	6	17 355	4 635	20 926	4 641
– Commodity derivatives	2 125	10	12 926	3 446	15 051	3 456
– Credit derivatives	–	–	9 896	369	9 896	369
Total derivative financial instruments	169 558	58	747 410	22 312	916 968	22 370

	2007 Assets	2007 Liabilities	2006 Assets	2006 Liabilities
Hedge ineffectiveness recognised in the income statement				
Cash flow hedges are expected to affect the income statement in the following periods:				
1 – 3 months	**164**	**(133)**	142	(119)
3 – 12 months	**373**	**(300)**	354	(308)
1 – 5 years	**395**	**(348)**	530	(442)
Total	**932**	**(781)**	1 026	(869)
The cash flows from the cash flow hedges are expected to occur in the following periods:				
1 – 3 months	**(52)**	**18**	(36)	(6)
3 – 12 months	**(123)**	**48**	(109)	26
1 – 5 years	**(130)**	**55**	(203)	85
Total	**(305)**	**121**	(348)	105

R million	2007 Loans and receivables	Held-to-maturity	Available-for-sale	Fair value through profit and loss	Total
14. ADVANCES					
Sector analysis					
Agriculture	6 930	–	–	1 126	8 056
Banks and financial services	11 611	–	740	32 371	44 722
Building and property development	5 091	–	–	8 156	13 247
Government, Land Bank and public authorities	10 486	–	–	9 578	20 064
Individuals	229 517	346	–	95	229 958
Manufacturing and commerce	30 544	–	–	9 869	40 413
Mining	1 337	–	–	3 452	4 789
Transport and communication	5 875	–	–	3 040	8 915
Other services	9 034	193	–	4 715	13 942
Notional value of advances	310 425	539	740	72 402	384 106
Contractual interest suspended	(605)	(4)	–	(2)	(611)
Gross advances	309 820	535	740	72 400	383 495
Impairment of advances (note 14.1)	(4 538)	–	(12)	–	(4 550)
Net advances	305 282	535	728	72 400	378 945
Fair value of advances	305 282	535	728	72 400	378 945
Geographic analysis (based on credit risk)					
South Africa	286 959	539	740	44 827	333 065
Other Africa	13 913	–	–	1 750	15 663
United Kingdom	5 694	–	–	13 193	18 887
Other	3 859	–	–	12 632	16 491
Total value of advances	310 425	539	740	72 402	384 106
Contractual interest suspended	(605)	(4)	–	(2)	(611)
Gross advances	309 820	535	740	72 400	383 495
Impairment of advances (note 14.1)	(4 538)	–	(12)	–	(4 550)
Net advances	305 282	535	728	72 400	378 945
Category analysis					
Overdrafts and managed accounts	49 306	–	–	2 159	51 465
Loans to other financial institutions	943	–	–	5 384	6 327
Card loans	13 194	–	–	–	13 194
Instalment sales	57 071	–	–	–	57 071
Lease payments receivable	29 441	–	–	–	29 441
Property finance	132 639	346	–	2 379	135 364
– Home loans	127 510	346	–	–	127 856
– Commercial property finance	5 129	–	–	2 379	7 508
Personal loans	14 929	–	–	–	14 929
Preference share advances	2 444	–	–	–	2 444
Other	10 038	193	740	42 986	53 957
Assets under agreement to resell	420	–	–	19 494	19 914
Notional value of advances	310 425	539	740	72 402	384 106
Contractual interest suspended	(605)	(4)	–	(2)	(611)
Gross advances	309 820	535	740	72 400	383 495
Impairment of advances (note 14.1)	(4 538)	–	(12)	–	(4 550)
Net advances	305 282	535	728	72 400	378 945

14. ADVANCES continued

R million	Loans and re-ceivables	Held-to-maturity	Available-for-sale	Fair value through profit and loss	Total
	2006				
Sector analysis					
Agriculture	6 987	–	–	410	7 397
Banks and financial services	8 418	–	538	28 450	37 406
Building and property development	8 581	–	–	–	8 581
Government, Land Bank and public authorities	533	–	–	7 587	8 120
Individuals	170 840	536	–	11	171 387
Manufacturing and commerce	35 756	–	–	13 275	49 031
Mining	5 506	–	–	512	6 018
Transport and communication	9 989	–	–	2 129	12 118
Other services	16 220	178	–	1 131	17 529
Notional value of advances	262 830	714	538	53 505	317 587
Contractual interest suspended	(535)	(1)	–	(35)	(571)
Gross advances	262 295	713	538	53 470	317 016
Impairment of advances (note 14.1)	(3 116)	(15)	–	–	(3 131)
Net advances	259 179	698	538	53 470	313 885
Fair value of advances	259 179	698	538	53 470	313 885
Geographic analysis (based on credit risk)					
South Africa	248 430	714	538	35 911	285 593
Other Africa	12 341	–	–	1 687	14 028
United Kingdom	108	–	–	7 317	7 425
Other	1 951	–	–	8 590	10 541
Total value of advances	262 830	714	538	53 505	317 587
Contractual interest suspended	(535)	(1)	–	(35)	(571)
Gross advances	262 295	713	538	53 470	317 016
Impairment of advances (note 14.1)	(3 116)	(15)	–	–	(3 131)
Net advances	259 179	698	538	53 470	313 885
Category analysis					
Overdrafts and managed accounts	47 162	–	–	338	47 500
Loans to other financial institutions	(2 666)	–	–	6 442	3 776
Card loans	10 120	–	–	–	10 120
Instalment sales	45 314	–	–	–	45 314
Lease payments receivable	25 602	–	–	–	25 602
Property finance	108 046	536	–	2 849	111 431
– Home loans	104 138	536	–	–	104 674
– Commercial property finance	3 908	–	–	2 849	6 757
Personal loans	11 575	–	–	–	11 575
Preference share advances	1 859	–	–	–	1 859
Other	15 284	178	538	31 946	47 946
Collateralised debt obligation	161	–	–	–	161
Assets under agreement to resell	373			11 930	12 303
Notional value of advances	262 830	714	538	53 505	317 587
Contractual interest suspended	(535)	(1)	–	(35)	(571)
Gross advances	262 295	713	538	53 470	317 016
Impairment of advances (note 14.1)	(3 116)	(15)	–	–	(3 131)
Net advances	259 179	698	538	53 470	313 885

Refer to note 48 for maturity analysis.

14. ADVANCES continued

Advances relating to synthetic securitisations are:

- Procul is a synthetic securitisation transaction amounting to R2.0 billion of WesBank retail instalment sale advances. In terms of the transaction WesBank has transferred the credit risk up to the value of a reference portfolio to a bankruptcy remote special purpose vehicle.
- Fresco is a synthetic securitisation transaction of FirstRand Bank Limited corporate advances. In terms of the transaction, FirstRand Bank Limited has transferred the credit risk up to the value of a reference portfolio to Fresco, a bankruptcy remote special purpose entity.

Included in instalment sale advances above is non recourse securitised instalment advances.

Advances under repurchase agreements included above are R1 607 million (2006: R99 million).

Additional information relating to these transactions are set out in note 15.

R million	Within 1 Year	Between 1 and 5 years	More than 5 years	Total
2007				
Analysis of instalment sales and lease payments receivable				
Lease payments receivable	9 421	23 659	9 457	42 537
Suspensive sale instalments receivable	13 607	40 651	141	54 399
Subtotal	23 028	64 310	9 598	96 936
Less: Unearned finance charges	(2 707)	(7 689)	(28)	(10 424)
Total	20 321	56 621	9 570	86 512
2006				
Analysis of instalment sales and lease payments receivable				
Lease payments receivable	6 431	20 928	–	27 359
Suspensive sale instalments receivable	10 659	33 776	–	44 435
Subtotal	17 090	54 704	–	71 794
Less: Unearned finance charges	(176)	(787)	–	(963)
Total	16 914	53 917	–	70 831

The Group has not sold or pledged any securities to third parties.

Under the terms of the lease agreements, no contingent rentals are payable. These agreements relate to motor vehicles and equipment. The accumulated allowance for uncollectible minimum lease payments receivable included in the allowance for impairments at the balance sheet date is R250 million (2006: R172 million).

14. ADVANCES continued

14.1 Impairment of advances

R million	2007 Total impairment	Specific impairments	Portfolio impairments	Income statement
Analysis of movement in impairment of advances				
Opening balance	3 131	2 010	1 121	–
Exchange rate difference	6	3	3	–
Bad debts written off	(1 747)	(1 740)	(7)	–
Reclassifications	–	(111)	111	–
Unwinding of discounted present value on non performing loans	(106)	(106)	–	–
Net new impairments created	3 231	2 693	538	(3 231)
– impairments created	3 883	3 002	881	(3 883)
– impairments released	(652)	(309)	(343)	652
Recoveries of bad debts	–	–	–	374
Acquisitions	35	–	35	–
Closing balance	4 550	2 749	1 801	(2 857)

R million	2006 Total impairment	Specific impairments	Portfolio impairments	Income statement
Opening balance	2 587	1 666	921	–
Exchange rate difference	(8)	(7)	(1)	–
Bad debts written off	(1 115)	(1 033)	(82)	–
Unwinding of discounted present value on non performing loans	(77)	(77)	–	–
Net new impairments created	1 729	1 447	282	(1 729)
– impairments created	3 225	2 504	721	(3 225)
– impairments released	(1 496)	(1 057)	(439)	1 496
Recoveries of bad debts	–	–	–	312
Acquisitions	15	14	1	–
Profit on realisation of security	–	–	–	6
Closing balance	3 131	2 010	1 121	(1 411)

R million	2007 Total value including interest in suspense	Security held	Contractual interest suspended	Specific impairments
Non performing lendings by sector				
Agriculture	143	92	18	44
Banks and financial services	40	9	5	13
Building and property development	343	61	74	101
Government, Land Bank and public authorities	241	–	2	–
Individuals	4 599	3 831	337	1 907
Manufacturing and commerce	743	138	139	374
Mining	11	2	3	2
Transport and communication	153	26	17	47
Other services	217	39	16	261
Total	6 490	4 198	611	2 749

14. ADVANCES continued

14.1 Impairment of advances continued

R million	2007 Total value including interest in suspense	Security held	Contractual interest suspended	Specific impairments
Non performing lendings by category				
Overdrafts and managed account debtors	798	147	130	685
Card loans	979	–	70	638
Instalment sales	1 057	167	75	422
Lease payments receivable	468	79	32	177
Home loans	2 131	3 659	179	419
Commercial property finance	181	14	64	21
Personal loans	546	106	56	281
Other	330	26	5	106
Total	6 490	4 198	611	2 749

The net recoverable amount on non performing loans is R3 129 million.

R million	2006 Total value including interest in suspense	Security held	Contractual interest suspended	Specific impairments
Non performing lendings by sector				
Agriculture	182	82	24	76
Banks and financial services	67	40	27	–
Building and property development	262	65	72	125
Government, Land Bank and public authorities	202	169	33	–
Individuals	2 423	905	207	1 311
Manufacturing and commerce	740	271	120	349
Mining	50	28	10	12
Transport and communication	157	40	63	54
Other services	128	30	15	83
Total	4 211	1 630	571	2 010
Non performing lendings by category				
Overdrafts and managed account debtors	931	97	208	626
Card loans	557	170	35	352
Instalment sale	851	566	68	217
Lease payments receivable	224	120	18	86
Home loans	1 027	414	109	504
Personal loans	281	107	31	143
Other	340	156	102	82
Total	4 211	1 630	571	2 010

The net recoverable amount on non performing loans is R1 630 million.

15. INVESTMENT SECURITIES AND OTHER INVESTMENTS

Fair value methodologies

Negotiable certificates of deposits

Negotiable certificates of deposits are fair valued based on quoted market prices, or where market prices are not available, using a discounted cash flow method using similar market quoted instruments.

Treasury bills

The Group uses the closing BESA mark to market bond yield in the BESA bond pricing formula for fair valuation purposes.

Government, public and utility stock

Market prices obtained from applicable market institutions or broker/dealer price quotations are used to determine the fair value, for example BESA, SAFEX and JSE. Where this information is not available, fair value is estimated using quoted market prices for securities with similar credit, maturity and yield characteristics.

Other dated securities

The majority of other dated securities are fair valued using a discounted cash flow method. The discount curve used is one derived from similar market quoted instruments.

Other

Other instruments are valued either by making use of a discounted cash flow model using a market related discount rate or another valuation technique which is commonly used by market participants using inputs obtained from market observable data.

	2007					
R million	**Held for trading**	**Held-to-maturity**	**Available-for-sale**	**Fair value through profit and loss**	**Fair value through profit and loss non recourse investments***	**Total**
Negotiable certificates of deposit	905	–	249	108	–	1 262
Treasury bills	9 865	42	5 459	21 904	–	37 270
Other Government and Government guaranteed stock	11 675	–	7 740	1 028	11 009	31 452
Other dated securities	2 175	–	642	13 607	–	16 424
Other undated securities	(26)	–	1 301	93 260	–	94 535
Other	20 682	999	1 800	11 319	–	34 800
Money market investments	–	–	456	810	–	1 266
Non recourse investment	–	–	–	–	4 941	4 941
Total	45 276	1 041	17 647	142 036	15 950	221 950

	2006					
R million	Held for trading	Held-to-maturity	Available-for-sale	Fair value through profit and loss	Fair value through profit and loss non recourse investments*	Total
Negotiable certificates of deposit	701	–	(418)	254	–	537
Treasury bills	2 369	–	4 513	–	–	6 882
Other Government and Government guaranteed stock	7 619	92	13 858	18 181	957	40 707
Other dated securities	2 954	–	1 130	14 841	–	18 925
Other undated securities	–	906	3 320	71 898	–	76 124
Other	14 705	–	544	7 587	–	22 836
Non recourse investments	–	–	–	–	7 837	7 837
Total	28 348	998	22 947	112 761	8 794	173 848

R million	2007	2006
15. INVESTMENT SECURITIES AND OTHER INVESTMENTS continued		
Analysis of investment securities		
Listed	156 968	135 706
Equities	106 297	72 878
Debt	50 671	62 828
Unlisted	64 982	38 142
Equities	27 979	20 110
Debt	37 003	18 032
Total	221 950	173 848

R19 409 million (2006: R15 672 million) of the financial instruments held for trading form part of the Group's liquid asset portfolio in terms of the South African Reserve Bank and other foreign banking regulators requirements.

*** Fair value through profit and loss non recourse investments**

Non recourse investments represent government bonds which were acquired to serve as security in terms of the Fresco and Procul Synthetic Collateralised Debt Obligation structures. The Group has no control over these assets, but these assets were consolidated as the Group is deemed to control these structures in terms of SIC 12. These assets are categorised as trading and carried at fair value, with changes in fair value taken to the income statement.

	2007	2006
Other Government and Government guaranteed stock	11 009	957
Investment grade commercial paper[1]	4 941	7 837
Total non recourse deposits	15 950	8 794

1 iNdwa Investment Limited, an asset-backed conduit that provides South African institutional investors with short dated investment grade commercial paper is consolidated, as the Group is deemed to control these assets in terms of SIC 12. The Group has no obligation towards other investors beyond the amounts already contributed. The Group has no management control or influence over these investments which are recorded at fair value under the available-for-sale category in the above table.

	2007	2006
Valuation of investments		
Market value of listed investments	156 968	135 706
Directors' valuation of unlisted investments	64 982	38 142
Total valuation	221 950	173 848

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

16. COMMODITIES

	2007	2006
Agricultural stock	1 022	627
Other	96	49
Commodities	1 118	676

Commodities, where the Group has a longer term intention, are carried at the lower of cost or net realisable value. Cost is determined using the weighted average method. The Group, however, applies fair value hedge accounting to those commodities it currently holds. These commodities are therefore recognised at fair value.

Commodities, where the Group has a shorter term intention, are valued using market quoted prices or derived from futures prices if there is no actively traded market.

R million	2007	2006
17. ACCOUNTS RECEIVABLE		
Accounts receivable	8 360	4 038
Premium debtors	327	351
Less: Provision for impairment of premium debtors	(35)	(24)
Prepayments	54	37
Properties held for resale	–	174
Unsettled trades	137	1 233
Reinsurance debtors	414	237
Accounts receivable	9 257	6 046
Fair value of receivables	9 257	6 046
18. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES		
Listed investments		
Investments at cost less amounts written off	1 788	2 298
Unlisted investments		
Investments at cost less amounts written off	3 457	2 030
Income before tax for the year	2 048	1 368
Share of profit before impairment and tax	2 101	1 468
Impairment	(53)	(100)
Transfer to other reserves	(28)	–
Tax for the year (note 9)	(496)	(332)
Dividends received for the year	(1 105)	(540)
Retained income for the year	419	496
Exchange differences	8	27
Acquisitions and disposals	4 970	(767)
Share of retained income at beginning of the year	1 149	951
Share of retained income at end of the year	6 546	707
Share of other reserves	18	34
Total retained income and reserves	6 564	741
Total carrying value	11 809	5 069
Goodwill included in carrying value above		
Gross amount	251	226
Less: Accumulated impairment losses	(197)	–
Goodwill	54	226
Movement in goodwill		
Opening balance	226	277
Exchange differences	–	(6)
Disposals	(211)	(54)
Additions	34	9
Impairment losses	5	–
Closing balance	54	226
Valuation		
Listed investments at market value	8 205	1 976
Unlisted investments at directors' valuation	8 501	5 100
Total valuation	16 706	7 076
Included in listed investments		
Debenture loans	408	405
Included in unlisted investments		
Shareholder loans	1 021	1 361

	Nature of business	Number of ordinary shares held	Year end
18. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES continued			
Listed			
Makalani Holdings	Investment holding	5 480 885	30 Jun
Emira Property Fund	Property Unit Trust		30 Jun
Other	Various	Various	Various
Unlisted			
OUTsurance Insurance Company Limited	Insurance	1 584 225 400	30 Jun
Zeda Car Leasing (Pty) Limited	Leasing	50	31 Mar
Toyota Financial Services (Pty) Limited	Vehicle finance	1 565	31 Mar
Marsh Holdings SA (Pty) Limited	Insurance brokers	40 000	31 Dec
Private Equity Associates	Various	Various	Various
Tembisa Plaza Share Block (Pty) Limited	Share block shopping centre	*	
Collective investment schemes	Collective investment schemes	Various	Various

* = Unlisted shares cost is less than R1.

	Effective holding %		Group valuation amount		Group costs less amounts written off	
R million	**2007**	2006	**2007**	2006	**2007**	2006
Listed						
Makalani Holdings Limited	**24**	22	**2 131**	565	**543**	565
Freestone Property Holdings Limited (merged with Emira Property Fund)	**–**	38	**–**	223	**–**	192
Emira Property Fund[1]	**37**	39	**1 945**	–	**1 945**	–
Collective investment schemes	**Various**	Various	**4 129**	1 053	**4 129**	1 053
Other	**Various**	Various	**–**	135	**–**	52
Total listed			**8 205**	1 976	**6 617**	1 862
Unlisted						
OUTsurance Insurance Company Limited	**48**	47	**600**	502	**134**	134
Zeda Car Leasing (Pty) Limited	**–**	50	**–**	–	**–**	–
Toyota Financial Services (Pty) Limited	**33**	33	**319**	207	**215**	150
Marsh Holdings SA (Pty) Limited	**40**	40	**29**	10	**14**	14
Tembisa Plaza Share Block (Pty) Limited	**50**	50	**49**	43	**37**	37
Private Equity Associates	**Various**	Various	**2 154**	1 761	**1 482**	1 172
Other	**Various**	Various	**5 350**	2 577	**1 716**	192
Total unlisted			**8 501**	5 100	**3 598**	1 699
Total listed and unlisted			**16 706**	7 076	**10 215**	3 561

1 Emira was previously consolidated. During the current year it has been accounted for as an associate, carried at fair value. The Group cost less amounts written off and Group valuation is the fair value of Emira Property Fund.

18. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES continued

Summarised financial information of associates:

	Marsh Holdings (Pty) Limited Associate		Makalani Holdings Limited Associate		Private Equity Associates Associate		OUTsurance Insurance Company Limited Associate	
R million	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006
Balance sheet								
Current assets	**179**	165	**277**	1 473	**9 847**	4 483	**1 131**	1 298
Non current assets	**92**	7	**2 105**	1 097	**18 911**	9 941	**1 465**	801
Current liabilities	**(157)**	(93)	**(82)**	(83)	**(8 019)**	(3 294)	**(230)**	(137)
Non current liabilities	**(24)**	(22)	**(8)**	(1 847)	**(16 295)**	(7 584)	**(64)**	(75)
Equity	**90**	57	**2 292**	640	**4 444**	3 546	**2 302**	1 887
Income statement								
After tax profit attributable to the Group	**20**	–	**60**	24	**727**	474	**225**	175
Loans to associates – included in investments	**–**	–	**–**	–	**1 011**	1 361	**–**	–
Loans to associates – ordinary loans	**12**	12	**–**	–	**–**	–	**–**	–
Share of associate contingent liabilities	**–**	–	**–**	–	**–**	–	**–**	–

	Zeda Car Leasing (Pty) Limited Associate		Toyota Financial Services (Pty) Limited Associate		Collective investment schemes Associate		Emira Property Fund Associate	
R million	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006[1]
Balance sheet								
Current assets	**–**	–	**4 371**	2 857	**779**	112	**206**	–
Non current assets	**–**	–	**8 028**	6 514	**14 357**	7 623	**7 204**	–
Current liabilities	**–**	–	**(5 391)**	(2 915)	**(642)**	(102)	**(144)**	–
Non current liabilities	**–**	–	**(6 017)**	(5 835)	**–**	–	**(1 569)**	–
Equity	**–**	–	**991**	621	**14 494**	7 633	**5 697**	–
Income statement								
After tax profit attributable to the Group	**–**	21	**47**	35	**188**	52	**10**	–
Loans to associates – included in investments	**–**	–	**–**	–	**–**	–	**–**	–
Loans to associates – ordinary loans	**–**	–	**1 259**	2 447	**–**	–	**–**	–
Share of associate contingent liabilities	**–**	–	**–**	–	**–**	–	**–**	–

1 No prior year numbers included as in the prior year Emira Property Fund was consolidated.

	Freestone Property Fund Associate		Tembisa Plaza Share Block (Pty) Limited Associate		Other Associates		Other Joint Ventures	
R million	2007	2006	2007	2006	2007	2006	2007	2006
18. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES continued								
Balance sheet								
Current assets	–	80	–	–	4 570	9 334	357	13
Non current assets	–	1 613	109	93	10 440	5 201	2	103
Current liabilities	–	(91)	–	–	(3 847)	(4 814)	(156)	(7)
Non current liabilities	–	(1 548)	(52)	(49)	(8 101)	(3 271)	–	(14)
Equity	–	54	57	44	3 062	6 450	203	95
Income statement								
After tax profit attributable to the Group	–	36	12	6	415	440	(99)	(127)
Loans to associates – included in investments	–	–	–	–	10	–	–	–
Loans to associates – ordinary loans	–	–	–	–	504	8	–	–
Share of associate contingent liabilities	–	–	–	–	–	76	–	–

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

	Gross carrying amount	Accumulated depreciation and impair-ments	Net carrying amount	Gross carrying amount	Accumulated depreciation and impair-ments	Net carrying amount
R million	2007	2007	2007	2006	2006	2006
19. PROPERTY AND EQUIPMENT						
Property	5 041	(790)	4 251	3 860	(857)	3 003
Freehold land and buildings	2 226	(201)	2 025	1 682	(159)	1 523
Leasehold premises	2 788	(583)	2 205	2 178	(698)	1 480
Assets held under lease agreements	27	(6)	21	–	–	–
Equipment	5 894	(3 734)	2 160	5 416	(3 408)	2 008
Computer equipment	3 920	(2 665)	1 255	3 421	(2 305)	1 116
Furniture and fittings	1 231	(699)	532	1 290	(738)	552
Motor vehicles	196	(81)	115	139	(65)	74
Office equipment	492	(247)	245	462	(248)	214
Capitalised leased assets	55	(42)	13	104	(52)	52
Total	10 935	(4 524)	6 411	9 276	(4 265)	5 011

R million	Freehold land and buildings	Leasehold premises	Computer equipment	Furniture and fittings	Motor vehicles	Office equipment	Capitalised leased assets	Total
19. PROPERTY AND EQUIPMENT continued								
Movement in property and equipment – net carrying amount								
Net carrying amount at 30 June 2005	1 238	1 512	1 043	550	58	201	8	4 610
Foreign currency adjustments on translation	(1)	1	1	3	–	–	–	4
Additions	104	260	629	212	38	95	3	1 341
Depreciation charge for period	(70)	(135)	(482)	(142)	(21)	(65)	(11)	(926)
Impairments recognised	–	(7)	(7)	(7)	–	(6)	–	(27)
Impairments reversed	42	–	12	–	–	–	–	54
Disposals	(88)	(1)	(14)	(13)	(6)	(2)	–	(124)
Disposal of subsidiary	–	–	(3)	(13)	–	–	–	(16)
Other	298	(150)	(63)	4	5	1	–	95
Net carrying amount at 30 June 2006	**1 523**	**1 480**	**1 116**	**594**	**74**	**224**	**–**	**5 011**
Foreign currency adjustments on translation	**–**	**22**	**–**	**–**	**–**	**–**	**–**	**22**
Changes in Group structure	**1**	**–**	**1**	**–**	**–**	**(1)**	**–**	**1**
Additions	**530**	**665**	**651**	**145**	**76**	**118**	**8**	**2 193**
Depreciation charge for period	**(44)**	**(158)**	**(505)**	**(108)**	**(30)**	**(72)**	**(4)**	**(921)**
Impairments recognised	**–**	**(9)**	**1**	**(7)**	**–**	**(3)**	**–**	**(18)**
Impairments reversed	**–**	**–**	**8**	**–**	**–**	**–**	**–**	**8**
Disposals	**(10)**	**–**	**(17)**	**(6)**	**(5)**	**(14)**	**(1)**	**(53)**
Acquisition/(disposal) of subsidiary	**67**	**–**	**–**	**1**	**–**	**(3)**	**7**	**72**
Reclassifications	**(116)**	**200**	**–**	**–**	**–**	**–**	**–**	**84**
Other	**74**	**26**	**–**	**(87)**	**–**	**(4)**	**3**	**12**
Net carrying amount at 30 June 2007	**2 025**	**2 226**	**1 255**	**532**	**115**	**245**	**13**	**6 411**

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

R million	2007 Pension	2007 Medical	2007 Total	2006 Pension	2006 Medical	2006 Total
20. POST RETIREMENT BENEFIT FUND LIABILITIES						
Post retirement liability						
Present value of funded obligation	19 650	1 939	21 589	16 738	1 639	18 377
Fair value of plan assets	(20 313)	–	(20 313)	(16 691)	–	(16 691)
Pension fund asset/(deficit)	(663)	1 939	1 276	47	1 639	1 686
Transfer of liability	67	–	67	59	–	59
Unrecognised actuarial gains/ (losses)	732	(193)	539	23	(144)	(121)
Limitation imposed by IAS 19	–	–	–	11	–	11
Post retirement liability	136	1 746	1 882	140	1 495	1 635
The amounts recognised in the income statement are as follows:						
Current service cost	341	41	382	311	35	346
Interest cost	1 377	135	1 512	1 052	113	1 165
Actuarial loss recognised	(1 341)	–	(1 341)	(5)	13	8
Expected return on plan assets	(121)	–	(121)	(1 077)	–	(1 077)
Limit imposed by IAS 19	69	–	69	26	–	26
Total included in staff costs	325	176	501	307	161	468
Movement in post retirement liability						
Present value at the beginning of the year	140	1 495	1 635	139	1 594	1 733
Exchange differences	1	–	1	1	–	1
Subsidiary balances sold	–	–	–	(12)	7	(5)
Amounts recognised in the income statement as above	325	176	501	307	161	468
Benefits paid	(319)	(63)	(382)	(306)	(62)	(368)
Limitation imposed by IAS 19	(11)	–	(11)	11	–	11
Settlement of liability	–	138	138	–	(205)	(205)
Present value at the end of the year	136	1 746	1 882	140	1 495	1 635
Movement in the fair value of plan assets of the year is as follows:						
Opening balance	16 691	–	16 691	13 178	–	13 178
Expected return on plan assets	1 371	–	1 371	1 088	–	1 088
Actuarial gains	3 245	–	3 245	2 396	–	2 396
Exchange differences	11	–	11	–	–	–
Employer contributions	262	–	262	260	–	260
Employee contributions	258	–	258	296	–	296
Benefits paid and settlements	(1 525)	–	(1 525)	(527)	–	(527)
Closing balance	20 313	–	20 313	16 691	–	16 691
Plan assets comprised of the following:						
Equity	12 162	–	12 162	9 633	–	9 633
Debt	1 796	–	1 796	2 273	–	2 273
Other	6 355	–	6 355	4 785	–	4 785
Total	20 313	–	20 313	16 691	–	16 691
Included in plan assets were the following:						
FirstRand Limited ordinary shares with a fair value of:	499	–	499	427	–	427
Buildings occupied by the Group with a fair value of:	386	–	386	323	–	323
Total	885	–	885	750	–	750

20. POST RETIREMENT BENEFIT FUND LIABILITIES continued

	2007 Pension %	2007 Medical %	2006 Pension %	2006 Medical %
The principal actuarial assumptions used for accounting purposes were:				
Expected return on plan assets				
– Momentum Group Fund	10.07	–	10.25	–
– Banking Group Fund	9.50	–	8.25	–
Discount rate				
– Momentum Group Fund	8.50	8.50	8.75	8.75
– Banking Group Fund	8.50	8.50	8.75	8.75
Expected rates of salary increases				
– Momentum Group Fund	5.75	–	5.75	–
– Banking Group Fund	7.00	–	7.25	–
Long term increase in health cost				
– Momentum Group Fund	–	7.00	–	7.25
– Banking Group Fund	–	7.30	–	7.50
The effects of a 1% movement in the assumed health cost rate were as follows:				
Increase of 1%				
– Momentum Group Fund				
Effect on the defined benefit obligation	–	113.00	–	111.00
– Banking Group Fund				
Effect on the aggregate of the current service cost and interest cost	–	117.98	–	117.99
Effect on the defined benefit obligation	–	118.04	–	119.79
Decrease of 1%				
– Momentum Group Fund				
Effect on the defined benefit obligation	–	89.00	–	92.00
– Banking Group Fund				
Effect on the aggregate of the current service cost and interest cost	–	85.37	–	85.79
Effect on the defined benefit obligation	–	82.54	–	88.26
Net increase in rate used to value pensions, allowing for pension increases				
– Momentum Group Fund	–	–	2.80	–
– Banking Group Fund	–	–	2.80	–

Mortality rate	2007 Active members	2007 Pensioners	2006 Active members	2006 Pensioners
Pension fund				
Normal retirement age	60	–	60	–
Mortality rate table used	SA72-77	PA(90)-1	SA72-77	PA90
Post retirement medical				
Normal retirement age	60	–	60	–
Mortality rate table used	SA72-88	PA(90)-1	SA72-88	PA90

SA72-77 refers to standard actuarial mortality tables for active members on a defined benefit plan where the chance of dying before normal retirement is expressed at each age for each gender.

PA(90)-1 refers to standard actuarial mortality tables for current and prospective pensioners on a defined benefit plan where the chance of dying after early or normal retirement is expressed at each age for each gender.

The Group has set aside certain assets against these liabilities. The assets are managed and invested to achieve a return which reflects the growth in the underlying liability.

Five year analysis on total pension and medical post retirement plans

As at 30 June	2007	2006	2005	2004	2003
Present value of defined benefit obligation	21 589	18 377	14 437	11 710	10 739
Fair value of plan assets	(20 313)	(16 691)	(13 168)	(10 351)	(9 239)
Deficit	1 276	1 686	1 269	1 359	1 500

R million	2007 Gross	2007 Accumulated amortisation and impairments	2007 Net	2006 Gross	2006 Accumulated amortisation and impairments	2006 Net
21. INTANGIBLE ASSETS AND DEFERRED ACQUISITION COSTS						
Goodwill						
Movement in goodwill – book value						
Opening balance	1 133	(8)	1 125	777	(8)	769
Subsidiary balance acquired	(1)	1	–	76	–	76
IFRS 3 adjustment	54	(54)	–	61	–	61
Exchange differences	19	–	19	7	–	7
Disposals	(4)	–	(4)	–	–	–
Additions	61	–	61	214	–	214
Other	3	(2)	1	(2)	–	(2)
Impairment losses	–	(53)	(53)	–	–	–
Closing balance	1 265	(116)	1 149	1 133	(8)	1 125
Software						
Movement in software – book value						
Opening balance	427	(194)	233	331	(127)	204
Reclassification	(51)	51	–	–	–	–
Subsidiary balance acquired	(53)	31	(22)	24	(11)	13
IFRS 3 adjustment	(2)	2	–	(20)	–	(20)
Exchange differences	11	(3)	8	1	–	1
Subsidiary balance disposed	(17)	15	(2)	(21)	21	–
Additions	77	–	77	112	–	112
Amortisation to the income statement	–	(80)	(80)	–	(77)	(77)
Impairment losses	–	(48)	(48)	–	–	–
Closing balance	392	(226)	166	427	(194)	233
Development costs						
Movement in development costs – book value						
Opening balance	26	(3)	23	8	(1)	7
Reclassification	(40)	40	–	–	–	–
Disposals	–	–	–	–	–	–
Additions	273	(143)	130	18	–	18
Impairment losses	–	–	–	–	–	–
Amortisation to the income statement	–	(39)	(39)	–	(2)	(2)
Closing balance	259	(145)	114	26	(3)	23
Trademarks						
Movement in trademarks – book value						
Opening balance	113	(1)	112	113	(1)	112
Reclassification	17	(17)	–	–	–	–
Disposals	(114)	–	(114)	–	–	–
Additions	147	(35)	112	–	–	–
Amortisation to the income statement	–	(21)	(21)	–	–	–
Closing balance	163	(74)	89	113	(1)	112
Deferred acquisition cost asset	1 702	(242)	1 460	1 375	(137)	1 238
Movement in deferred acquisition cost assets – book value						
Opening balance	1 375	(137)	1 238	1 074	–	1 074
Reclassification	(8)	8	–	–	–	–
Subsidiary balances acquired	–	–	–	5	–	5
Exchange differences	–	–	–	1	–	1
Deferred acquisition costs on new business	335	–	335	295	–	295
Amortisation to the income statement	–	(113)	(113)	–	(137)	(137)
Impairment losses	–	–	–	–	–	–
Closing balance	1 702	(242)	1 460	1 375	(137)	1 238
Value of in-force business						
Movement in value of in-force business – book value						
Opening balance	1 057	(18)	1 039	–	–	–
Subsidiary balances acquired	–	–	–	1 057	–	1 057
Amortisation to the income statement	–	(27)	(27)	–	(18)	(18)
Closing balance	1 057	(45)	1 012	1 057	(18)	1 039

R million	2007 Gross	2007 Accumulated amortisation and impairments	2007 Net	2006 Gross	2006 Accumulated amortisation and impairments	2006 Net
21. INTANGIBLE ASSETS AND DEFERRED ACQUISITION COSTS continued						
Contractual customer relationships						
Movement in contractual customer relationships – book value						
Opening balance	261	(23)	238	79	(4)	75
Reclassification	5	–	5	204	–	204
IFRS 3 adjustment	20	–	20	(22)	–	(22)
Amortisation to the income statement	–	(32)	(32)	–	(19)	(19)
Closing balance	286	(55)	231	261	(23)	238
Agency force						
Movement in agency force – book value						
Opening balance	22	(2)	20	–	–	–
Subsidiary balances acquired	–	–	–	22	–	22
Amortisation to the income statement	–	(2)	(2)	–	(2)	(2)
Closing balance	22	(4)	18	22	(2)	20
Other						
Movement in other – book value						
Opening balance	78	(30)	48	13	(15)	(2)
Reclassification	119	(119)	–	–	–	–
IFRS 3 adjustment	(7)	7	–	–	–	–
Exchange differences	1	1	2	–	–	–
Disposals	(168)	38	(130)	(15)	–	(15)
Additions	152	–	152	80	–	80
Amortisation to the income statement	–	(7)	(7)	–	(14)	(14)
Impairment losses	–	(2)	(2)	–	(1)	(1)
Closing balance	175	(112)	63	78	(30)	48
Total intangible assets						
Goodwill	1 265	(116)	1 149	1 133	(8)	1 125
Software	392	(226)	166	427	(194)	233
Development costs	259	(145)	114	26	(3)	23
Trademarks	163	(74)	89	113	(1)	112
Insurance related intangible assets:						
– Deferred acquisition cost asset	1 702	(242)	1 460	1 375	(137)	1 238
– Value in-force business	1 057	(45)	1 012	1 057	(18)	1 039
– Contractual customer relationships	286	(55)	231	261	(23)	238
– Agency force	22	(4)	18	22	(2)	20
Other	175	(112)	63	78	(30)	48
Total intangible assets	5 321	(1 019)	4 302	4 492	(416)	4 076

Impairment of goodwill

For impairment testing purposes, goodwill is allocated to cash generating units ("CGU") at the lowest level of operating activity (business) to which it relates, and is therefore not combined at Group level.

The CGU's to which the goodwill balance as at 30 June 2007 relates to:

FNB Botswana
FNB Corporate
RMB Corvest
WesBank

When testing for impairment, the recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a one year period. Cash flows beyond one year are extrapolated using the estimated growth rate for the CGU. The growth rate does not exceed the long term average past growth rate for the business in which the CGU operates and the discount rates are as follows:

FNB Botswana	12.17
FNB Corporate	12.04
RMB Corvest	15.00
WesBank	12.04

The discount rate used is the weighted average cost of capital for the specific segment, adjusted for specific risks relating to the segment. Some of the other assumptions include investment returns, expense inflation rates, tax rates and new business growth.

R million	2007	2006
22. INVESTMENT PROPERTIES		
Completed properties		
Fair market value at beginning of the year	6 012	4 101
Properties owned by listed property subsidiaries as at 30 June 2006, changing to an associate as from 1 July 2006	(2 998)	–
Reclassification of listed property equities to equity investments	(268)	–
Net revaluations (included in gains and losses from investment activities – note 3)	410	1 244
– Gross revaluations	410	1 241
– Net movements on straight lining of operating leases in terms of IFRS	–	3
Additions	37	832
– Acquisitions	18	357
– Capitalised subsequent expenditure	19	129
– Business combinations	–	346
Disposals	(988)	(14)
Disposal group held for sale	(67)	–
Reclassifications	147	(144)
Transfer from properties under development	71	(7)
Fair market value at end of year	2 356	6 012
Properties under development		
Cost at the beginning of year	129	71
Additions: capitalised subsequent expenditure	138	58
Completed property transferred to property and equipment as an owner occupied building	(196)	–
Properties completed during the year	(71)	–
Cost at end of year	–	129
Total investment properties	2 356	6 141
Comprising:		
Office buildings	1 507	3 240
Shopping malls	627	1 946
Industrial buildings	102	544
Vacant land	117	137
Listed property equities	3	274
Total investment properties	2 356	6 141
The following amounts have been included in the income statement:	201	(1 917)
Rental income (included in other operating income – note 3)	201	556
Direct operating expenses arising from investment properties that generate rental income	–	(2 473)

Investment properties are acquired for letting to external tenants with the intention to generate future rental income. The valuation calculations are based on the aggregate of the net annual rents receivable and associated costs, using the discounted cash flow method. The discounted cash flow method takes projected cash flow and discounts them at a rate which is consistent with the comparable market transactions. The discount rates used vary between 10% and 20% (depending on the risks associated with the respective properties).

Any gains or losses arising from changes in fair value are included in the income statement for the year.

R million	2007	2006
Carrying amount of unlet or vacant investment property at 30 June	96	257

Schedules of freehold property and equity investments are open for inspection at the offices of the various Group companies in terms of the provisions of the Companies Act, 1973.

R million	2007	2006
23. REINSURANCE ASSETS		
Insurance contracts	595	292
Short term reinsurance contracts	–	32
Life reinsurance contracts	595	260
Total reinsurance contracts	595	292
Maturity analysis	595	292
Current	259	63
Non current	336	229
Maturity analysis	595	292
Due within 1 year	259	63
Due within 1 and 5 years	175	128
Due within 5 to 10 years	72	46
Due after 10 years	89	55
24. ASSETS ARISING FROM INSURANCE CONTRACTS		
Assets arising from insurance contracts		
Long term insurance contracts – gross	3 374	1 825
Less: Recovery from reinsurers	(260)	(59)
Long term insurance contracts – net	3 114	1 766
Non current	3 114	1 766
Movement in long term insurance contract liabilities		
Opening balance	1 766	1 184
Movement for the year:		
Expected release of liability	(326)	(70)
New business	1 388	563
Experience variances	73	89
– Mortality	3	2
– Economic basis	(2)	–
– Lapses	(48)	(39)
– Policy alterations	(39)	72
– Premium increases	159	54
Modelling changes	10	11
Benefit enhancements	(10)	(46)
Changes in assumptions	213	35
– Lapses	(22)	(87)
– Economic basis	18	(26)
– Premium increases	–	142
– Mortality and morbidity	246	–
– Other	(29)	6
Closing balance	3 114	1 766

R million	At amortised cost	Fair value through profit and loss	Total
25. DEPOSITS			
2007			
Deposits			
Deposit and current accounts			
From banks and financial institutions	17 707	26 490	44 197
– In the normal course of business	17 707	12 590	30 297
– Under repurchase agreements	–	13 900	13 900
From customers	207 125	50 221	257 346
– Current accounts	145 909	882	146 791
– Savings accounts	2 982	–	2 982
– Term deposits	58 234	49 339	107 573
Other deposits	25 555	73 459	99 014
– Negotiable certificates of deposit	939	40 214	41 153
– Other	24 616	33 245	57 861
*Non recourse deposits**	–	15 950	15 950
– Total fair value of notes issued	–	17 995	17 995
– *Less:* Notes acquired by the Banking Group	–	(2 045)	(2 045)
Deposits and current accounts	250 387	166 120	416 507
Fair value of balance disclosed	250 387	166 120	416 507
2006			
Deposits			
Deposit and current accounts			
From banks and financial institutions	3 410	16 004	19 414
– In the normal course of business	3 410	11 798	15 208
– Under repurchase agreements	–	4 206	4 206
From customers	192 155	44 833	236 988
– Current accounts	132 918	472	133 390
– Savings accounts	2 756	–	2 756
– Term deposits	56 481	44 361	100 842
Other deposits	11 953	63 758	75 711
– Negotiable certificates of deposit	4 303	28 797	33 100
– Other	7 650	34 961	42 611
*Non recourse deposits**	(458)	8 994	8 536
– Total fair value of notes issued	(458)	9 459	9 001
– *Less:* Notes acquired by the banking group	–	(465)	(465)
Deposits and current accounts	207 060	133 589	340 649
Fair value of balance disclosed	207 060	133 589	340 649

** Refer to note 15 for description of non recourse investment securities.*

R million	2007	2006
25. DEPOSITS continued		
Geographic analysis (based on counterparty risk)		
South Africa	358 032	301 235
Other Africa	22 921	18 583
United Kingdom	23 186	9 976
Other	12 368	10 855
Total deposits before notes acquired by Group	**416 507**	**340 649**
A maturity analysis of deposits and current accounts is based on the remaining periods to contractual maturity from the year end. Refer to note 48 for maturity analysis.		
26. SHORT TRADING POSITIONS		
Short trading positions		
Government and government guaranteed	22 418	11 021
Other dated securities	6 711	3 819
Undated securities	7 741	11 127
Short trading positions	**36 870**	**25 967**
Analysed as follows:		
Listed	30 097	16 593
Unlisted	6 773	9 374
Short trading positions	**36 870**	**25 967**
Fair value of balance disclosed	**36 870**	**25 967**
Short trading positions are carried at fair value. Fair market value for listed securities are their market quoted prices, and for unlisted securities are based on the directors' valuation using suitable valuation methods.		
27. CREDITORS AND ACCRUALS		
Accrued interest	305	217
Short term portion of long term liabilities (note 29)	1 173	918
Short term portion of financial leases (note 29)	221	171
Accounts payable and accrued liabilities	10 787	11 170
Accrued benefit payments (including insurance payables)	1 380	1 016
Unsettled trades	21	3 153
Creditors and accruals	**13 887**	**16 645**

R million	2007	2006
28. PROVISIONS		
Staff related provision*		
Opening balance	2 220	1 447
– Subsidiary balances acquired	(15)	33
– Exchange differences	14	13
– Disposals	(9)	–
– Charge to the income statement	2 504	1 512
– Utilised	(1 229)	(785)
Closing balance	3 485	2 220

* *Staff related provision consists mainly of provision for leave pay and staff bonuses.*

R million	2007	2006
Audit fees		
Opening balance	32	28
– Disposals	(10)	–
– Charge to the income statement	81	64
– Utilised	(68)	(60)
Closing balance	35	32
Other**		
Opening balance	155	92
– Subsidiary balances acquired	–	168
– Exchange differences	1	6
– Additions	72	38
– Charge to the income statement	314	488
– Utilised	(298)	(632)
– Unused amounts reversed	(166)	(5)
Closing balance	78	155
Total provisions	3 598	2 407

** *Other provisions consist mainly of provisions for litigation, fraud and restructuring.*

For expected settlement date refer to the liquidity risk note 48.

R million	2007	2006
29. LONG TERM LIABILITIES		
Debentures		
120 debentures of R1 million each carrying interest at prime minus 2% [a]	120	120
Debentures	120	120
The instrument above relates to debentures which are convertible into non redeemable preference shares.		
[a] The holder has the right, at any stage after 30 June 2005, to convert the debentures into non redeemable preference shares. The debentures will automatically convert into non redeemable preference shares in the event that such conversion has not already taken place by 30 June 2020. Interest is payable 6 monthly in arrears on 30 June and 31 December each year at the prime overdraft rate minus 2%.		
Preference shares		
The preference shares of FirstRand Investment Holdings (Pty) Limited and FirstRand Bank Holdings Limited have been classified as long term liabilities and comprise the following:		
9 030 Preference shares subscribed for by third parties	903	1 123
FirstRand Bank Holdings co-investment preference shares	114	–
Preference shares	1 017	1 123
Other long term liabilities		
Unsecured debt securities amortising over the period to 2007 [b]	510	101
Secured loan [c]	660	458
Subordinated notes [d]	1 649	1 996
Fixed rate bonds [e]	700	700
Floating rate bond [f]	4 151	4 384
Securitisation [g]	967	1 870
Less: Portion repayable within 12 months transferred to current liabilities (note 27)	(1 173)	(918)
Other long term liabilities	7 464	8 591
[b] Various local and foreign unsecured loans with nominal interest rates ranging from 0% to 17%.		
[c] This secured loan is repayable on 11 April 2011 and is stated at net present value, using a discount rate of 15.32%.		
[d] The subordinated notes are redeemable in six monthly tranches until 2009 and do not bear interest. The notes were issued at a discount to notional value and bear an effective interest rate of 16.5%.		
[e] The fixed rate bonds mature 31 August 2010 and bear interest at 1.2% above the R153 bond rate.		
[f] The floating rate bonds mature 31 August 2010 and bear interest at 0.715% above the three month JIBAR rate.		
[g] These notes bear interest at an average rate of 9%, with the earliest maturity date of 12 September 2006 and latest maturity date of 12 December 2009.		
Finance lease liabilities		
Not later than 1 year	270	232
Later than 1 year and not later than 5 years	553	747
Later than 5 years	–	77
Total finance lease liabilities	823	1 056
Future finance charges on finance leases	(80)	(143)
Present value of finance lease liability	743	913
Less: Portion repayable within 12 months transferred to current liabilities (note 27)	(221)	(171)
Long term finance lease charges	522	742
The finance lease liability extends to 2009 and is secured over property occupied for banking operations. Repayments are based on an interest rate of 16.64% and are payable six months in advance.		
Share based payment (cash settled)	127	–
Total long term liabilities	9 250	10 576
Fair value	9 250	10 576

R million	2007	2006
30. POLICYHOLDER LIABILITIES UNDER INSURANCE CONTRACTS		
Opening balance	40 740	48 989
Reclassification from policyholder liabilities under insurance contracts (IFRS 4)	–	(17 017)
Reclassification to reinsurance assets (movement for 2006)	–	13
Subsidiary balances acquired	–	4 922
Subsidiary balances disposed	–	(1)
Revaluation of liability	203	–
Exchange differences	–	(6)
Transfer to policyholder liabilities under insurance contracts (note 6)	5 949	3 877
– Increase in retrospective liabilities	8 238	6 782
– Transfer from cell owner to policyholder liabilities under insurance contracts	39	–
– Unwind of discount rate	1 084	1 251
– New business	296	370
– Change in economic assumptions	58	(1 125)
– Change in non economic assumptions	(39)	51
– Expected cash flows	(3 035)	(2 866)
– Expected release of margins	(633)	(450)
– Expected variances	(59)	(136)
Fair value adjustment to policyholder liabilities under insurance contracts	87	(40)
Premiums received on insurance contracts	–	4
Fees on insurance contracts	–	(1)
Closing balance	46 979	40 740
Insurance contracts with discretionary participation features	11 646	9 105
Insurance contracts without discretionary participation features	35 333	31 635
Policyholder liabilities under insurance contracts	46 979	40 740
Current	1 559	2 072
Non current	45 420	38 668
Policyholder liabilities under insurance contracts	46 979	40 740
Included in the balance above is the following with respect to short term insurance contracts:		
Gross		
Claims reported and loss adjustment expense	384	228
Claims incurred but not yet reported	307	228
Unearned premium	1	8
Total liability arising from short term insurance contracts	692	464
Current	692	464
Non current	–	–
Policyholder liabilities under short term insurance contracts	692	464
Actuarial liabilities under unmatured policies comprise the following:	%	%
Linked (market related) business – Individual life	35.5	33.0
Smoothed bonus business – Individual life	15.8	15.0
With profits reversionary bonus business	8.9	8.0
Non profit business		
– Individual life	1.0	1.5
– Employee benefits	3.9	7.3
Annuity business	33.5	34.0
Life business		
– Individual life	0.8	0.5
– Employee benefits	0.4	0.3
Health insurance business short term	0.2	0.4
Total	100	100

The amounts above are based on the actuarial valuations of Momentum Group Limited and Discovery Holdings Limited at 30 June 2007.

30. POLICYHOLDER LIABILITIES UNDER INSURANCE CONTRACTS continued

Best estimate valuation assumptions

Economic assumptions

Risk free return

The 10 year zero coupon risk free yield, derived from SA government bonds, is used as the starting point to determine the gross valuation interest rate for South African Rand (ZAR) denominated businesses. Similarly, the corresponding 10 year yield, derived from US Treasury Bills, is used to determine the gross valuation interest rate for the United States Dollar (US$) denominated businesses.

	2007	2006
ZAR ten year zero coupon risk free yield	8.44	8.87
USD ten year zero coupon risk free yield	5.00	5.30

Valuation interest rate

The gross valuation interest rate of 9.5% per annum for ZAR denominated businesses (2006: 10% per annum) was calculated as a weighted investment return, representing the investment returns on a theoretical, balanced notional portfolio consisting of equities, properties, gilt edged stocks, corporate bonds and cash.

	2007	2006
Notional portfolio used as at 30 June:		
– Equities	60%	60%
– Properties	10%	10%
– Government bonds	10%	10%
– Corporate bonds	10%	10%
– Cash	10%	10%
Assumed performance of other asset classes relative to government bonds:		
– Equities (including overseas equities)	+2.0% per annum	+2.0% per annum
– Properties	+1.0% per annum	+1.0% per annum
– Corporate bonds	+0.5% per annum	+0.5% per annum
– Cash	–2.0% per annum	–2.0% per annum

Rounding to the nearest 0.25% was performed.

Using the same methodology, the gross valuation rate of 6.25% per annum (2006: 6.5% per annum) was determined for US$ denominated business.

Liabilities in the annuity portfolio were valued at the risk free zero coupon yield curve, adjusted for credit and liquidity spreads.

Inflation

An expense inflation rate of 6.5% per annum for ZAR denominated business was used to project future renewal expenses. The ZAR inflation rate was derived by deducting the 10 year real return on CPI linked government bonds of 2.6% (2006:2.7%) from the risk free rate and adding an allowance for salary inflation and increases in unit costs of 0.75% per annum. Rounding to the nearest 0.25% was performed. US$ inflation was assumed to be 3.25% per annum (2006: 3.5% per annum), thus maintaining the same 3% margin relative to the valuation rate of return (compared to ZAR expense inflation). A real rate of return of 3% per year was used to value CPI linked annuity payments.

Tax

To provide for tax, the gross valuation interest rate expected to be earned in future was reduced appropriately for taxable business and retirement annuity business. These reductions in the investment return represent the expected tax payable on the assumed investment return on the notional policyholders' portfolio, based on the four fund tax dispensation. It was assumed that the Group will remain in an "Excess investment income" position (as opposed to "Excess expense") for the purposes of projecting tax on income and relief on expenses.

Mortality, morbidity and terminations

Demographic assumptions, such as those in respect of future mortality, disability and persistency rates are set by calibrating standard tables to internal experience. The investigations are performed and assumptions set for individual product lines, but ensuring that assumptions are consistent where experience is not expected to deviate between product lines.

Assumptions in respect of mortality, morbidity and terminations were based on experience investigations performed in June 2007. The investigations covered a period of five years, from 2002 to 2007. The experience on policies and annuities were analysed.

Mortality and disability rates are adjusted to allow for expected deterioration in mortality rates as a result of AIDS and for expected improvements in mortality rates in the case of annuity business. Allowance for AIDS was made according to professional guidance notes PGN 102 (March 1995): Life Offices – HIV/AIDS and PGN 105 (November 2002): Recommended AIDS extra mortality bases, issued by the Actuarial Society of South Africa.

30. POLICYHOLDER LIABILITIES UNDER INSURANCE CONTRACTS continued

PHI termination of claim rates

Disability claim recovery probabilities are modelled, using the Group Long Term Disability Table ("GLTD"), developed in the United States of America. The table details recovery rates for given:

– ages;
– waiting periods; and
– duration since disability.

We adjust the recovery rates for South African circumstances by taking the following proportions of the GLTD rates:

	2007	2006
Year 1:	+40%	+40%
Year 2:	+80%	+80%
Year 3:	+130%	+130%

where the years represent duration of disability.

Expenses

The sustainable annual renewal expense per policy was based on an analysis of budgeted expenses for the year ending 30 June 2008. The analysis distinguished between renewal and acquisition costs.

Expenses expected to be once off in nature or not relating to long term insurance business were removed from the budgeted expenses.

Asset management expenses were expressed as an annual percentage of assets under management.

Policyholder bonuses

Future additions of discretionary bonuses to smoothed bonus (universal life) policies have been projected at levels that are consistent with and supported by the assumed rate of investment return, after allowing for contractual expense charges and tax.

On conventional policies, it is assumed that current bonus rates (both reversionary and terminal bonus rates) will be maintained in future.

Compulsory margins

The compulsory margins to best estimate assumptions are detailed in actuarial professional guidance note PGN 104 and are intended to provide a minimum level of financial resilience in the liabilities to ensure that profits are not recognised prematurely. The following prescribed margins were applied to the best estimate assumptions applicable to individual life business:

Assumption	Margin
– Mortality	7.5% – increase to assumption for assurance – decrease to assumption for annuities
– Morbidity	10% – increase to best estimate assumption
– Medical	15% – increase to best estimate assumption
– Lapses	25% (e.g. if best estimate is 10%, the margin is 2.5%) – increase or decrease, depending on which alternative increases liabilities
– Surrenders	10% – increase or decrease, depending on which alternative increases liabilities
– Terminations for disability – Income benefits in payment	10% – decrease to best estimate assumption
– Expenses	10% – increase to best estimate assumption
– Expense inflation	10% (of estimated escalation rate) – increase to best estimate assumption
– Charge against investment return	– 25 basis points reduction in the management fee or an equivalent asset based or investment performance based margin – 25 basis points reduction in the assumed rate of future investment return on contracts that do not have an asset based or investment performance based fee

30. POLICYHOLDER LIABILITIES UNDER INSURANCE CONTRACTS continued

Discretionary margins

As described in the accounting policies, discretionary margins are used to prevent the premature capitalisation of profit. The specific discretionary margins that are added to the best estimate assumptions are as follows:

Cost of capital charges levied against smoothed bonus portfolios are not capitalised against current liabilities, but are recognised as and when they are earned. This avoids the premature recognition of income that is required to mitigate the additional cost of capital required to support smoothed bonus liabilities.

An asset charge, equal to 10% of investment return, is levied on some universal life linked and smoothed bonus policies. Not all income arising from this asset based charge is discounted against the liability, but is recognised as and when it is earned.

Additional margins are held in respect of mortality and disability claims assumptions, as well as termination assumptions, on certain individual life product lines. This allows risk profits to be recognised in the period in which the risks are borne by the company.

A margin of 10% is added to expected group PHI claims termination rates, to reduce the risk of premature recognition of profits from uncertain claim termination experience.

A margin of 10% is added to Group IBNR liabilities.

Other discretionary liabilities, not described above, have been outlined under the accounting policies.

R million	2007	2006
31. POLICYHOLDER LIABILITIES UNDER INVESTMENT CONTRACTS		
Opening balance	93 720	48 844
Reclassification from policyholder liabilities under insurance contracts (IFRS 4)	–	17 017
Revaluation upon adoption of IFRS	–	1 330
Setoff of policy loans as at 1 July 2005	–	(530)
Subsidiary balances acquired	(275)	3 408
Subsidiary balances disposed	–	
Movement for the year	17 794	23 651
Deposits received	33 028	33 992
Policyholder benefits on investment contracts	(33 151)	(23 513)
Fees on investment contracts	(1 796)	(1 384)
Movement in policy loans for the year	(42)	5
Exchange differences	(11)	6
Consolidation of cell	–	60
Fair value adjustment to policyholder liabilities under investment contracts	19 766	14 485
Closing balance	111 239	93 720
Investment contracts with discretionary participation features	14 307	13 882
Investment contracts without discretionary participation features	96 932	79 838
– With investment management service components	92 238	74 891
– Without investment management service components	4 694	4 947
Total policyholder liabilities under investment contracts	111 239	93 720
Current	14 669	13 289
Non current	96 570	80 431
Policyholder liabilities under investment contracts	111 239	93 720

31. POLICYHOLDER LIABILITIES UNDER INVESTMENT CONTRACTS continued

	Total	Shorter than 1 year	Between 1 and 5 years	Between 5 and 10 years	Longer than 10 years
2007					
Linked (market related) business					
– Individual life	53 943	6 547	19 382	6 886	21 128
– Employee benefits	40 748	5 475	15 970	9 568	9 735
Smoothed bonus business					
– Individual life	8 458	1 045	2 429	2 215	2 769
– Employee benefits	4 827	541	1 537	1 192	1 557
Non profit business					
– Individual life	2 522	1 040	1 257	28	197
Annuity business	741	21	163	29	528
Total policyholder liabilities under investment contracts	111 239	14 669	40 738	19 918	35 914
2006					
Linked (market related) business					
– Individual life	43 483	6 462	15 959	5 220	15 842
– Employee benefits	34 044	4 586	12 878	8 461	8 119
Smoothed bonus business					
– Individual life	7 135	636	2 227	1 838	2 434
– Employee benefits	5 775	574	1 753	1 412	2 036
Non profit business					
– Individual life	2 506	1 006	1 499	1	–
Annuity business	777	25	223	34	495
Total policyholder liabilities under investment contracts	93 720	13 289	34 539	16 966	28 926

R million	2007	2006
32. LIABILITIES ARISING TO THIRD PARTIES AS A RESULT OF CONSOLIDATING COLLECTIVE INVESTMENT SCHEMES		
Emira Property Fund	–	1 573
Other consolidated collective schemes	1 568	152
– RMB Balanced Fund	722	–
– Momentum Global Fund	277	–
– RMB Property Fund	178	–
– Momentum Money Market Fund	105	–
– RMB High Dividend Fund	70	–
– RMB International Conservative Fund of Funds	44	–
– RMB International Balance Fund of Funds	13	–
– Momentum Industrial Fund	6	–
– RMB SA Rand Focus Equity Fund	2	–
– Momentum Stable Fund of Funds	2	–
– RMB Euro Income Fund	1	–
– Momentum Conservative Fund of Funds	1	–
– Momentum Multi Focus Fund	20	5
– Momentum Core Fund	–	1
– Momentum Gilt Fund	–	14
– Momentum Income Fund	18	26
– RMB Financial Services Fund	60	65
– RMB Industrial Fund	47	39
– RMB Structured Equity Fund	2	2
Total liabilities arising to third parties as a result of consolidating collective investment schemes	1 568	1 725
Current	–	–
Non current	1 568	1 725
Total	1 568	1 725

Collective investment schemes where the Group (through Momentum Group) exercises control are consolidated in terms of IFRS. This liability is measured at fair value and represents the interest of third parties in the collective investment schemes that are consolidated.

R million	2007	2006
33. DEFERRED REVENUE LIABILITY		
Opening balance	451	481
Amount recognised in the income statement during the year	(182)	(126)
Deferred income relating to new business	118	79
Interest payable	–	4
Subsidiary balances acquired	–	13
Closing balance	387	451

Deferred revenue relates to various income and fees which have been spread over the life of the transaction.

Current	103	151
Non current	284	300
Total	387	451

34. SHARE CAPITAL AND SHARE PREMIUM

Authorised

Ordinary shares – number

Issued

Ordinary shares

Opening balance

Conversion of convertible redeemable preference shares

Closing balance

"A" shares

Opening balance

– Redeemed during the year

– Converted during the year

Closing balance

"B" shares

Opening balance

Closing balance

"B1" shares

Opening balance

Closing balance

Total issued share capital – closing balance

Analysis of total issued share capital closing balance:

Ordinary issued share capital closing balance as above (ordinary shares of 1 cent each)

"A" variable rate, convertible, redeemable, cumulative preference shares (of 1 cent each)

"B" variable rate, non cumulative non redeemable preference shares (of 1 cent each)

"B1" variable rate, non cumulative non redeemable preference shares (of 1 cent each)

Preference shares disclosed under liabilities

Treasury shares

Total issued share capital – closing balance

Disclosed on the face of the balance sheet

Ordinary share capital

Ordinary share premium

Non cumulative non redeemable preference shares

Total

** Less than R1 million*

The following represents the shareholding of subsidiaries in FirstRand Limited at 30 June:

Momentum Group Limited – held on behalf of policyholders. These shares have been treated as "deemed treasury shares".

Share option schemes

The investment in FirstRand Limited by the share incentive schemes in existence within the Group have been treated as treasury shares as set out above.

2007						
No of ordinary shares	No of "A" preference shares	No of "B" preference shares	No of "B1" preference shares	Share capital R million	Share premium R million	Total R million
5 928 000 000	272 000 000	100 000 000	100 000 000	–	–	–
5 634 120 503	–	–	–	56	8 591	8 647
1 595 173	–	–	–	*	(164)	(164)
5 635 715 676	–	–	–	56	8 427	8 483
–	15 127 500	–	–	1	101	102
–	(4 764 827)	–	–	*	(32)	(32)
–	(1 595 173)	–	–	*	(11)	(11)
–	8 767 500	–	–	1	58	59
–	–	30 000 000	–	–	2 992	2 992
–	–	30 000 000	–	–	2 992	2 992
–	–	–	15 000 000	–	1 527	1 527
–	–	–	15 000 000	–	1 527	1 527
5 635 715 676	8 767 500	30 000 000	15 000 000	57	13 004	13 061
5 635 715 676	–	–	–	56	8 427	8 483
–	8 767 500	–	–	1	58	59
–	–	30 000 000	–	*	2 992	2 992
–	–	–	15 000 000	*	1 527	1 527
–	–	–	–	(1)	(58)	(59)
(464 663 200)	–	–	–	(5)	(6 089)	(6 094)
5 171 052 476	8 767 500	30 000 000	15 000 000	51	6 857	6 908
						51
						2 338
						4 519
						6 908

	2007 %
	0.4
	7.8

34. SHARE CAPITAL AND SHARE PREMIUM continued

Authorised

Ordinary shares – number

Issued
Ordinary shares
Opening balance
Conversion of convertible redeemable preference shares

Closing balance

“A” shares
Opening balance
– Redeemed during the year
– Converted during the year

Closing balance

“B” shares
Opening balance

Closing balance

“B1” shares
Opening balance
– Issued during the year
– Share issue expense

Closing balance

Total issued share capital – closing balance

Analysis of total issued share capital closing balance:
Ordinary issued share capital closing balance as above (ordinary shares of 1 cent each)
“A” variable rate, convertible, redeemable, cumulative preference shares (of 1 cent each)
“B” variable rate, non cumulative non redeemable preference shares (of 1 cent each)
“B1” variable rate, non cumulative non redeemable preference shares (of 1 cent each)
Preference shares disclosed under liabilities
Treasury shares

Total issued share capital – closing balance

Disclosed on the face of the balance sheet
Ordinary share capital
Ordinary share premium
Non cumulative non redeemable preference shares

Total

** Less than R1 million*

The following represents the shareholding of subsidiaries in FirstRand Limited at 30 June:
Momentum Group Limited – held on behalf of policyholders. These shares have been treated as “deemed treasury shares”.

Share option schemes
The investment in FirstRand Limited by the share incentive schemes in existence within the Group have been treated as treasury shares as set out above.

2006						
No of ordinary shares	No of “A” preference shares	No of “B” preference shares	No of “B1” preference shares	Share capital R million	Share premium R million	Total R million
5 928 000 000	272 000 000	100 000 000	100 000 000	–	–	–
5 613 566 954	–	–	–	56	8 426	8 482
20 553 549	–	–	–	–	165	165
5 634 120 503	–	–	–	56	8 591	8 647
–	47 905 000	–	–	1	361	362
–	(12 223 951)	–	–	*	(95)	(95)
–	(20 553 549)	–	–	*	(165)	(165)
–	15 127 500	–	–	1	101	102
–	–	30 000 000	–	*	2 992	2 992
–	–	30 000 000	–	–	2 992	2 992
–	–	–	–			–
–	–	–	15 000 000	–	1 531	1 531
–	–	–	–		(4)	(4)
–	–	–	15 000 000	–	1527	1527
5 634 120 503	15 127 500	30 000 000	15 000 000	57	13 211	13 268
5 634 120 503	–	–	–	56	8 591	8 647
–	15 127 500	–	–	1	101	102
–	–	30 000 000	–	*	2 992	2 992
–	–	–	15 000 000	*	1 527	1 527
–	–	–	–	(1)	(101)	(102)
(449 689 562)	–	–	–	(5)	(5 007)	(5 012)
5 184 430 941	15 127 500	30 000 000	15 000 000	51	8 103	8 154
						51
						3 584
						4 519
						8 154

2006 %
0.5
7.5

R million	2007	2006
35. NON DISTRIBUTABLE RESERVES		
Currency translation reserve		
Opening balance	575	355
– Currency translation difference	10	225
– Transfer from reserve	–	(5)
Closing balance	585	575
Cash flow reserve		
Opening balance	176	348
– Movement for the year	(45)	(172)
Closing balance	131	176
Revaluation reserve – available-for-sale securities		
Opening balance	1 003	606
– Revaluation of available-for-sale assets	913	756
– Loss on available-for-sale transferred to the income statement	(737)	(370)
– Tax on available-for-sale profit or loss transferred	5	11
Closing balance	1 184	1 003
General risk reserve (impaired capital reserve)		
Opening balance	1 136	949
– Transfer to reserve	215	187
Closing balance	1 351	1 136
Share based payment reserve		
Opening balance as previously stated	473	199
BEE share based payment reserve (note 51)	1 655	–
Opening balance as restated	2 128	199
– Movement for the year	237	274
Closing balance	2 365	473
Other		
Opening balance	159	(394)
– Movement for the year	13	19
– Transfer to reserve	2	2
– Effective change of shareholding in subsidiary	(337)	11
– Consolidation of share trusts	(425)	521
Closing balance	(588)	159
Total non distributable reserves	5 028	3 522

A reconciliation of the movements in the respective non distributable reserve balances is set out in the statement of changes in equity.

R million	2007	2006
36. CASH FLOW INFORMATION		
36.1 Reconciliation of operating profit before income tax to cash flows from operating activities		
Operating profit before income tax	18 799	15 028
Adjusted for:		
– Depreciation, amortisation and impairment costs	1 391	1 115
– Impairment of advances	2 857	1 415
– Associate earnings less dividends received	(996)	(750)
– Unrealised profits on assets held against employee liabilities	(339)	(321)
– Movement in provisions	2 732	836
– (Profit)/loss on disposal of property and equipment	(6)	19
– Profit on disposal of investments	–	(418)
– Foreign currency losses	–	252
– Revaluation reserve	(1 192)	266
– Deferred expenses and income	(199)	15
– Share based payment expense	455	202
– Net fair value gains on assets through profit and loss	(25 060)	(16 965)
– Movement in policyholder liabilities under investment contracts	17 804	23 520
– Transfer to policyholder liabilities under insurance contracts	5 517	2 855
– Accruals	384	–
– Dividends paid	(3 795)	(3 651)
– Consolidation of share trusts	(430)	(109)
Net cash flows from operating activities	17 922	23 309
36.2 Cash receipts from customers		
Interest income	45 144	30 395
Fee and commission income	16 797	14 088
Trading and other income	4 936	1 062
Premium income	1 102	7 758
Cash receipts from customers	67 979	53 303
36.3 Cash paid to customers, suppliers and employees		
Interest expense	(25 704)	(15 383)
Other operating expenses	(22 510)	(12 287)
Cash paid to customers, suppliers and employees	(48 214)	(27 670)
36.4 Increase in income earning assets		
Liquid assets and trading securities	(21 199)	(29 185)
Advances	(65 501)	(69 019)
Increase in income earning assets	(86 700)	(98 204)
36.5 Increase in deposits and other liabilities		
Term deposits	6 719	8 362
Current deposit accounts	13 469	60 273
Deposits from banks	26 600	(12 089)
Negotiable certificates of deposits	8 095	1 441
Savings accounts	226	29
Creditors, net of debtors	(3 095)	942
Other	30 049	22 072
Increase in deposits and other liabilities	82 063	81 030
36.6 Tax paid		
Tax payable and deferred tax at beginning of the year	(1 017)	(67)
Other	–	833
Charge to income statement	(4 229)	(5 040)
Tax payable and deferred tax at end of the year	1 334	1 017
Tax paid	(3 912)	(3 257)

R million	2007	2006
36. CASH FLOW INFORMATION continued		
36.7 Acquisitions and proceeds on disposal of subsidiaries		
FirstRand Limited disposed of 6.7 million shares in Discovery Holdings Limited during September 2005 for a cash consideration of R67 million.		
Value of shares	–	30
Proceeds on disposal	–	37
Acquisition (note 47)	(5 143)	–
Net cash (outflow)/inflow	(5 143)	67
36.8 (Acquisition)/proceeds on disposal of associates		
Momentum disposed of its 34% shareholding in African Life Assurance Company Limited for a cash consideration of R881 million.		
Momentum disposed of its 40% shareholding in Futuregrowth Asset Management (Pty) Limited for a cash consideration of R26 million.		
The total cash received for associated companies disposed of can be summarised as follows:		
– African Life Assurance Company Limited	–	881
– Futuregrowth Asset Management (Pty) Limited	–	26
Total cash consideration for associated companies disposed of	–	907
Carrying amount of investments purchased	(3 274)	(269)
(Acquisition)/proceeds on disposal of associates	(3 274)	638
36.9 Cash and cash equivalents		
Cash and cash equivalents consist of cash on hand and balances with banks, and other investments in money market instruments. Cash and cash equivalents included in the cash flow statement comprise the following balance sheet amounts:		
Cash and short term funds	29 580	30 323
Money market investments	17 372	16 361
Cash and cash equivalents	46 952	46 684
37. REMUNERATION SCHEMES		
The income statement charge for share based payments is as follows:		
FirstRand share incentive scheme	104	115
FNB Botswana	1	*
FNB Namibia	2	*
FirstRand black employee trust	78	58
FirstRand black non executive directors' trust	22	*
FirstRand share appreciation right scheme	127	–
Discovery incentive schemes	63	29
Momentum subsidiary scheme	21	–
Banking Group other remuneration scheme	37	–
Charge to income statement	455	202

* *less than R1 million*

Share option schemes

The FirstRand share option schemes were previously all equity settled schemes, except for the FirstRand share appreciation right scheme which is cash settled.

The FirstRand share appreciation right scheme was implemented in 2006 to provide selected FirstRand Group employees, including executive directors of the participating companies, the opportunity of receiving incentive remuneration payments based on the increase in the market value of ordinary FirstRand shares.

This scheme is better aligned to employment and governance practices currently prevailing in the market.

37. REMUNERATION SCHEMES continued

Description of the trusts

FirstRand share incentive scheme

The rules of the FirstRand share scheme ("the Scheme") are constituted in the FirstRand Limited share trust.

The purpose of the Scheme is to increase the proprietary interests of identified employees in the Group's success and to encourage them to render and continue to render their best services to the Group. Options over FirstRand ordinary shares are granted by the trust to these employees.

The FNB Botswana and FNB Namibia schemes are generally aligned to the Scheme in terms of purpose and rules.

The sale of shares arising from the exercise of options may only be implemented as to one third of the total number of options issued after the third year, two thirds after the fourth year and all of the shares on the fifth anniversary of the date of issue.

FirstRand black economic empowerment trusts

FirstRand is committed to the process of achieving transformation in South Africa and in creating its transformation initiative sought to ensure that the long term benefits of the transaction reach the widest possible community of black South Africans.

- 171.4 million shares, representing approximately 3.1% of the issued share capital of FirstRand, are held by the BEE Trusts which have granted participation to black South African directors and employees.
- 20.0 million shares to the FirstRand staff assistance trust.
- 136.4 million shares to the FirstRand black employee trust (subject to IFRS 2).
- 15.0 million shares to the FirstRand black non executive directors' trust (subject to IFRS 2).

The FirstRand black employee trust

This trust was set up specifically for the benefit of the black employees. The participation in this trust is in addition to participation in any existing FirstRand share incentive scheme.

The first issue of participation rights in the trust was made on 20 July 2005.

The second issue of participation rights were granted on 1 November 2006.

The remainder will be granted at the discretion of the directors.

Distribution to beneficiaries takes place at 31 December 2014.

FirstRand black non executive directors' trust

The beneficiaries of this trust are the black non executive and those executive directors who were non executives prior to becoming executives of FirstRand Group companies.

Distribution to beneficiaries takes place at 31 December 2014.

FirstRand share appreciation right scheme

The purpose of this scheme is to provide identified employees, including executive directors, the opportunity of receiving shares in the company or incentive remuneration payments based on the increase in the market value of ordinary shares in FirstRand Limited.

FirstRand recognised the need to link the outcome of this scheme to key performance criteria, and the following performance vesting criteria were determined for this purpose by the directors:

- The base performance indicator will be normalised earnings per share.
- To achieve 100% vesting normalised earnings per share must grow at a rate per annum which equals or exceeds CPIX plus 10% from the base year to the end of the financial year immediately preceding the exercise date.

For appreciation rights granted, exercise may only be implemented as to one third of the total number of rights issued after the third, two thirds after the fourth and all of the shares on the fifth anniversary of the date of grant, taking into account the performance vesting criteria.

37. REMUNERATION SCHEMES continued

Co-investment arrangement

During the financial year a co-investment arrangement was established whereby certain key executives and decision makers of FirstRand are allowed to co invest with FirstRand in certain pre defined portfolios.

The rationale for the co-investment arrangement includes:

- alignment of management and shareholder objectives;
- retention of key employees and decision makers; and
- attracting new talent in a highly competitive market.

The participants who co-invest with FirstRand buy into the existing portfolios at the disclosed fair values, are required to place capital at risk and receive no additional gearing from FirstRand.

Participants share in future profits to the extent of their capital as a percentage of the total capital at risk in the portfolios.

Where losses are incurred, participants share in the losses to the full extent of their capital committed and profits made on other portfolios.

The co-investment arrangement encourages a long term perspective and commitment from employees. The arrangement also encourages executives to remain in the employ of the FirstRand Group of companies in excess of three years, as the value of the underlying investments are expected to realise over a longer time frame.

The FirstRand Remuneration committee determines annually:

- the portfolios in which co-investment will be allowed;
- the level of co-investment allowed; and
- which key executives and decision makers qualify for co-investment.

The amounts invested by key management personnel have been included in note 49.4.

Discovery incentive schemes

Discovery Holdings operates the following four staff incentive schemes:

- The Discovery Holdings Limited share trust;
- BEE staff trust;
- The Destiny Health Inc. stock option plan; and
- The phantom scheme.

The number of Discovery shares held by the above incentive schemes are as follows:

	2007 Number of shares	2006 Number of shares
Total number of shares	**53 245 348**	58 075 353

37. REMUNERATION SCHEMES continued

Valuation methodology

FirstRand share incentive scheme

Fair values for the share incentive schemes are calculated at the date of grant using a modification of the Cox Rubenstein binominal model. For valuation purposes, each call option granted has been valued as a Bermudan call option with a number of exercise dates. The days on which the options can be exercised has been assumed to be the last day that the shares trade cum dividend.

Market data consists of the following:

- Volatility is the expected volatility over the period of the option. In the absence of other available data, historical volatility can be used as a proxy for expected volatility.
- The interest rate is the risk free rate of return, recorded on the date of the option grant, on a South African government zero coupon bond of a term equal to the expected life of the option.

Dividend data consists of the following:

- The last dividend paid is the Rand amount of the last dividend before the options were granted;
- The last dividend date is the ex date of the last dividend; and
- The dividend growth is the annual expected dividend growth, which should be based on publicly available information.

Employee statistic assumptions:

- Annual employee turnover is the average annual rate that employees participating in the option scheme are expected to leave before the options have vested.

The number of iterations is the number to be used in the binominal model, which is limited to 500.

The weighted average number of forfeitures is based on the major grants because these grants have a more reliable cancellation or forfeiture pattern.

FirstRand black employee trust

Economically, FirstRand has granted European call options and is repurchasing shares. The strike price equates to the expected outstanding amount of the funding. The value of the implicit options is determined using an appropriate option pricing model.

Market data consists of the following:

- Volatility is the expected volatility over the period of the option. In the absence of other available data, historical volatility can be used as a proxy for expected volatility.
- The interest rate used was the RMB forward prime curve (extrapolated where necessary) as the funding of the option is linked to the prime lending rate.

Dividend data consists of the following:

A fixed dividend yield was assumed.

Employee statistic assumptions:

- The annual staff turnover rate used for the vesting adjustments is the average annual forfeiture rate on the existing FirstRand share options held by non white employees.
- A weighted average forfeiture rate was used based on experience from the current schemes operated at the Group.

FirstRand black non executive directors' trust

The FirstRand Black non executive directors' trust is valued on the same methodology as used for the FirstRand black employee trust, except that a zero percentage weighted average forfeiture rate was used due to the fact that there are only 11 participants.

Market data consists of the following:

- Volatility is the expected volatility over the period of the option. In the absence of other available data, historical volatility can be used as a proxy for expected volatility.
- The interest rate used was the RMB forward prime curve (extrapolated where necessary) as the funding of the option is linked to the prime lending rate.

Dividend data consists of the following:

A fixed dividend yield was assumed.

37. REMUNERATION SCHEMES continued

FirstRand share appreciation right scheme

The share appreciation right scheme issues are valued as European options using the Black Scholes model. The scheme is cash settled and will thus be repriced at each reporting date.

Market data consists of the following:

– Volatility is the expected volatility over the period of the option. In the absence of other available data, historic volatility could be used as a proxy for expected valuation.

– The interest rate is the risk free rate of return, as recorded on the last day of the financial year, on a swap curve of a term equal to the expected life of the share appreciation right.

Dividend data consists of the following:

A fixed dividend yield was assumed.

Employee statistic assumptions:

The number of options granted is reduced by the actual staff turnover at year end. This turnover is then assumed to be constant over the period of the options and used to estimate future turnover.

The significant weighted average assumptions used to estimate the fair value of options granted and the IFRS 2 expenses for the year under review are:

	FirstRand share incentive scheme	FNB Botswana	FNB Namibia	FirstRand black employee trust	FirstRand black non executive directors' trust	FirstRand share appreciation right scheme
2007						
Weighted average share price (Rands)	**6.80 – 19.49**	**7.75 – 15.10**	**4.00 – 7.21**	**15.43 – 18.62**	**12.28 – 17.60**	**22.60**
Expected volatility (%)	**27 – 33**	**11 – 33**	**8 – 17**	**27**	**27**	**35**
Expected option life (years)	**5**	**5**	**5**	**10**	**10**	**5**
Expected risk free rate (%)	**6.80 – 12.00**	**8.68 – 11.85**	**7.89 – 14.46**	**6.91 – 9.90**	**6.91**	**9.47**
Expected dividend yield (%)				**3.81**	**3.81**	**3.2**
Expected dividend growth (%)	**20.00 – 22.87**	**17.00 – 24.00**	**15.00 – 19.00**			
2006						
Weighted average share price (Rands)	6.80 – 16.95	7.75	4.00 – 6.00	15.43	12.28	
Expected volatility (%)	27 – 33	11	8 – 11	27	27	
Expected option life (years)	4	4	4	10	10	
Expected risk free rate (%)	6.80 – 12.00	11.85	7.89 – 14.46	6.91 – 9.90	6.91	
Expected dividend yield (%)				3.81	3.81	
Expected dividend growth (%)	20.00 – 22.87	17.00 – 24.00	15.00 – 19.00			

Share option detail	2007 FirstRand (FSR shares)	Southern Life (FSR shares)	FNB share trust (FSR shares)	FirstRand share appreciation right scheme (FSR shares)	FirstRand black employee trust (FSR shares)	FirstRand black non executive directors' trust (FSR shares)
37. REMUNERATION SCHEMES continued						
Number of options in force at the beginning of the year (millions)	249.2	0.5	6.9	–	91.8	10.0
Granted at prices ranging between (cents)	655 – 1 949	474 – 1029	325 – 1 069	–	1 228 – 2 078	1 228
Weighted average (cents)	1 115	657	530	–	1 232	1 228
Number of options granted during the year (millions)	–	–	–	82.9	28.0	1.0
Granted at prices ranging between (cents)	–	–	–	1 795 – 2 467	1 781 – 2 280	1 760
Weighted average (cents)	–	–	–	1 808	1 869	1 760
Number of options exercised/released during the year (millions)	(40.0)	(0.3)	(3.6)	–	–	–
Market value range at date of exercise/release (cents)	1 637 – 2 600	1 682 – 2 533	1 650 – 2 524	–	–	–
Weighted average share price for the year (cents)	2 088	2 088	2 088	–	–	–
Number of options cancelled/lapsed during the year (millions)	(9.4)	–	–	(3.0)	(12.3)	–
Granted at prices ranging between (cents)	655 – 1 695	–	–	1 795	1 228 – 1 862	–
Weighted average (cents)	1 275	–	–	1 795	1 337	–
Number of options in force at the end of the year (millions)	199.8	0.2	3.3	79.9	107.5	11.0
Granted at prices ranging between (cents)	655 – 1 949	648 – 1 029	586 – 724	1 795 – 2 467	1 228 – 2 280	1 228 – 1 760
Weighted average (cents)	1 180	661	633	1 808	1 385	1 272
Options are exercisable over the following periods (first date able to release)						
Financial year 2006/2007 (millions)	18.8	0.2	3.3	–	–	–
Financial year 2007/2008 (millions)	58.0	–	–	–	–	–
Financial year 2008/2009 (millions)	60.5	–	–	–	–	–
Financial year 2009/2010 (millions)	40.3	–	–	26.7	–	–
Financial year 2010/2011 (millions)	22.2	–	–	26.6	–	–
Financial year 2011/2012 (millions)	–	–	–	26.6	–	–
Financial year 2014/2015 (millions)	–	–	–	–	107.5	11.0
Total	199.8	0.2	3.3	79.9	107.5	11.0

Options outstanding (by expiry date)	FirstRand share trust (FSR shares)	
	Expiry date	Exercise price (Rand)
37. REMUNERATION SCHEMES continued		
	2007/09/16	6.55
	2007/11/15	7.85
	2008/03/17	6.80
	2008/06/14	7.72
	2008/09/17	7.70
	2009/06/15	10.15
	2009/10/01	12.12
	2009/11/15	12.49
	2010/03/01	13.99
	2010/03/15	13.94
	2010/06/15	14.4
	2010/10/03	16.95
	2010/10/20	14.91
	2010/11/15	17.00
	2011/03/01	18.70
	2011/03/15	19.49
	2011/06/01	17.71
Total options outstanding – in the money (millions)		
Total options outstanding – out of the money (millions)		
** = less than R1 million*		
Value of company loans to share option trust at the beginning of the year (R million)		
Value of company loans to share option trust at the end of the year (R million)		
Number of participants		

Options outstanding (by expiry date)	FNB share trust (FSR shares)	
	Expiry date	Exercise price (Rand)
	2008/02/01	6.96
	2008/10/15	6.30
	2008/10/30	7.24
	2009/03/24	6.28
	2009/05/01	6.70
	2009/05/31	5.86
	2009/08/01	6.67
	2009/10/01	6.20
Total options outstanding – in the money (millions)		
Total options outstanding – out of the money (millions)		
** = less than R1 million*		
Value of company loans to share option trust at the beginning of the year (R million)		
Value of company loans to share option trust at the end of the year (R million)		
Number of participants		

2007						
	Southern Life (FSR shares)			FirstRand black non executive directors' trust (FSR shares)		
Outstanding options (Millions)	Expiry date	Exercise price (Rand)	Outstanding options (Millions)	Expiry date	Exercise price (Rand)	Outstanding options (Millions)
28.4	2007/10/01	6.48	0.2	2014/12/31	12.28	10.0
0.8	2008/04/01	10.29	*	2014/12/31	17.60	1.0
1.6						
0.2						
47.8						
0.3						
53.5						
0.1						
0.2						
0.2						
0.1						
63.7						
2.0						
0.3						
0.5						
*						
0.1						
199.8			0.2			11.0
199.8			0.2			11.0
–			–			–
199.8			0.2			11.0
2 548			6.3			202
2 369			5.8			201
1 961			55			11

	FirstRand share appreciation right scheme (FSR shares)			FirstRand black employee trust (FSR shares)		
Outstanding options (Millions)	Expiry date	Exercise price (Rand)	Outstanding options (Millions)	Expiry date	Exercise price (Rand)	Outstanding options (Millions)
0.1	2011/10/01	17.95	78.0	2014/12/31	12.28	80.5
1.5	2011/12/01	19.77	*	2014/12/31	14.91	1.0
0.1	2012/02/27	24.67	0.2	2014/12/31	19.81	*
1.3	2012/03/01	23.95	*	2014/12/31	20.78	0.1
0.1	2012/03/15	22.50	0.4	2014/12/31	17.20	*
0.1	2012/04/01	24.60	0.6	2014/12/31	17.81	0.1
*	2012/06/15	23.74	0.7	2014/12/31	18.62	25.3
0.1				2014/12/31	22.80	0.5
3.3			79.9			107.5
3.3			78.4			107.0
–			1.5			0.5
3.3			79.9			107.5
44			–			1 837
28.6			1 185			1 829
79			1 591			13 646

37. REMUNERATION SCHEMES continued

	2006					
Share option detail	FirstRand (FSR shares)	Southern Life (FSR shares)	FNB share trust (FSR shares)	RMB (RMB shares)	FirstRand black employee trust	FirstRand black non executive directors' trust
Number of options in force at the beginning of the year (millions)	257.4	1.3	11.2	0.8	–	–
Granted at prices ranging between (cents)	655 – 1 015	511 – 1 029	325 – 1 069	760 – 1 200	–	–
Weighted average (cents)	1 035	660	529	867	–	–
Number of options granted during the year (millions)	80.6	–	–	–	102.8	10.0
Granted at prices ranging between (cents)	1 440 -1 949	–	–	–	1 228 – 2 078	1 228
Weighted average (cents)	1663	–	–	–	1 232	1 228
Number of options exercised/ released during the year (millions)	(65.5)	(0.8)	(4.3)	(0.8)	–	–
Market value range at date of exercise/release (cents)	1 228 – 2 100	1 418 – 2 096	1 386 – 2 080	2 445 – 2 697	–	–
Weighted average share price for the year (cents)	1 617	1 617	1 617	2 670	–	–
Number of options cancelled/ lapsed during the year (millions)	(23.3)	*	–	–	(11.0)	–
Granted at prices ranging between (cents)	655 – 1 695	648	–	–	1 228	–
Weighted average (cents)	926	–	–	–	1 228	–
Number of options in force at the end of the year (millions)	249.2	0.5	6.9	–	91.8	10.0
Granted at prices ranging between (cents)	655 – 1 695	474 – 1 029	325 – 1 069	–	1 228 – 2 078	1 228
Weighted average (cents)	1 115	657	530	–	1 232	1 228
Options are exercisable over the following periods (first date able to release)						
Financial year 2005/2006 (millions)	3.0	*	2.5	–	–	–
Financial year 2006/2007 (millions)	52.0	*	0.3	–	–	–
Financial year 2007/2008 (millions)	64.3	0.5	4.0	–	–	–
Financial year 2008/2009 (millions)	59.1	–	0.1	–	–	–
Financial year 2009/2010 (millions)	70.8	–	–	–	–	–
Financial year 2010/2011 (millions)	–	–	–	–	–	–
Financial year 2014/2015 (millions)	–	–	–	–	91.8	10.0
Total	249.2	0.5	6.9	–	91.8	10.0

* *Less R1 million*

37. REMUNERATION SCHEMES continued

	2006					
Options outstanding (by expiry date)	FirstRand (FSR shares)			Southern Life		
	Expiry date	Exercise price (Rand)	Outstanding options Millions	Expiry date	Exercise price (Rand)	Outstanding options Millions
	2006/11/15	7.66	0.3	2007/04/01	6.26	*
	2007/10/01	7.86	0.2	2007/10/01	6.48	0.4
	2007/11/15	7.85	1.2	2008/04/01	10.29	0.1
	2008/03/17	6.80	2.1			
	2008/05/31	7.45	1.9			
	2008/06/17	7.72	0.4			
	2008/09/16	6.55	48.0			
	2008/09/17	7.70	64.1			
	2009/04/09	6.90	0.7			
	2009/06/15	10.15	0.3			
	2009/10/01	12.12	58.1			
	2009/11/15	12.49	0.1			
	2010/03/01	13.99	0.2			
	2010/03/15	13.94	0.2			
	2010/06/15	14.4	0.1			
	2010/10/03	16.95	68.5			
	2010/20/03	14.91	2.0			
	2010/11/15	17.00	0.3			
	2011/03/01	18.70	0.4			
	2011/06/01	17.71	0.1			
			249.2			0.5
Total options outstanding – in the money (millions)			179.9			0.5
Total options outstanding – out of the money (millions)			69.3			–
			249.2			0.5
* = less than R1 million						
Value of company loans to share option trust at the beginning of the year (R million)			3 578			11
Value of company loans to share option trust at the end of the year (R million)			4 211			3
Number of participants			2 124			131

37. REMUNERATION SCHEMES continued

Options outstanding (by expiry date)	FNB share trust	
	Expiry date	Exercise price (Rand)
	2006/10/01	4.00
	2006/11/22	3.25
	2007/02/05	3.62
	2007/08/01	5.77
	2007/11/24	4.07
	2008/02/01	6.96
	2008/02/16	7.40
	2008/07/01	9.10
	2008/10/15	6.30
	2008/10/30	7.24
	2009/03/24	6.28
	2009/05/01	6.70
	2009/05/31	5.86
	2009/08/01	6.67
	2009/10/01	6.20
Total options outstanding – in the money (millions)		
Total options outstanding – out of the money (millions)		

** = less than R1 million*

Value of company loans to share option trust at the beginning of the year (R million)	
Value of company loans to share option trust at the end of the year (R million)	
Number of participants	

2006						
	FirstRand black employee trust			FirstRand black non executive directors' trust		
Outstanding options (Millions)	Expiry date	Exercise price (Rand)	Outstanding options (Millions)	Expiry date	Exercise price (Rand)	Outstanding options (Millions)
0.1	2014/12/31	12.28	90.7	2014/12/31	12.28	10.0
2.0	2014/12/31	14.91	1.0			
*	2014/12/31	19.81	*			
0.2	2014/12/31	20.78	0.1			
0.2	2014/12/31	17.2	*			
0.1						
*						
*						
2.4						
0.1						
1.5						
0.1						
0.1						
*						
0.1						
6.9			91.8			10.0
6.9			91.7			10.0
–			0.1			–
6.9			91.8			10.0
65.3			–			–
36.3			1 837			202
161			16 500			10

R million	2007	2006
38. CONTINGENCIES AND COMMITMENTS		
Contingencies and commitments		
Guarantees*	26 432	14 232
Acceptances	340	6
Letters of credit	12 673	22 517
Total contingencies	39 445	36 755
Irrevocable commitments	2 602	29 190
Contingencies and commitments	42 047	65 945

* *Guarantees consist predominantly of endorsements and performance guarantees*

Other contingencies

The Group is exposed to various actual or potential claims.

Legal proceedings

There are a number of legal or potential claims against the Group, the outcome of which cannot at present be foreseen. These claims are not regarded as material either on an individual or a Group basis. Provision is made for all liabilities which are expected to materialise.

	2007	2006
Claims		
– The Group has contingent liabilities in respect of certain outstanding claims	150	150
– The Group has reciprocal claims against other institutions. These claims qualify as contingent assets.	(134)	(134)
Commitments		
Commitments in respect of capital expenditure and long term investments approved by directors:		
– Total contracted for	340	486
– Total not contracted for	634	812
Made up of the following:		
– *Capital commitments contracted for at the balance sheet date but not yet incurred are as follows:*		
– Property and equipment	340	486
– *Capital commitments not yet contracted for at balance sheet date but have been approved by the directors:*		
– Property and equipment	499	472
– Intangible assets	135	340

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

Assets pledged

Assets are pledged as collateral under repurchase agreements with other banks and for security deposits relating to local futures and options. Mandatory reserve deposits are also held with local reserve banks in accordance with statutory requirements. These deposits are not available to finance the Group's day to day operations.

	Asset	**Related liability**	Asset	Related liability
	2007	**2007**	2006	2006
Balances with central banks	8 327	–	6 652	–
Trading securities	2 623	1 536	2 596	1 752
Investment securities	10 950	1 536	9 248	1 752

38. CONTINGENCIES AND COMMITMENTS continued

Group commitments under operating leases where the Group is the lessee

The Group's significant operating leases relate to property rentals of the various branch network channels represented by full service branches, agencies, mini branches and ATM lobbies. The rentals are negotiated on a fixed monthly rental basis, with a percentage contribution of the monthly operating costs. Escalation clauses are negotiated at market related rates for a period of at least five years with an option to renew for a further five year period. Restrictions are more an exception than the norm.

The Group has various operating lease agreements, which may or may not contain renewal options. The lease terms do not contain restrictions on the Group's activities concerning dividends, additional funding or further leasing.

R million	Next year	2007 2nd to 5th year	After 5th year
Office premises	558	1 372	256
	558	1 372	256
Equipment and motor vehicles	79	75	–
Total operating lease commitments	**637**	**1 447**	**256**

R million	Next year	2006 2nd to 5th year	After 5th year
Office premises	432	1 123	237
	432	1 123	237
Equipment and motor vehicles	90	15	–
Total operating lease commitments	522	1 138	237

Group commitments under operating leases where the Group is the lessor

The minimum future lease payments under non cancellable operating leases on investment properties:

R million	Next year	2007 2nd to 5th year	After 5th year
Office premises	**474**	**1 076**	**127**

R million	Next year	2006 2nd to 5th year	After 5th year
Office premises	38	159	97

39. NON CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

There were no non current assets held for sale by the Group for the current and prior year.

40. TRUST ACTIVITIES

R million	2007	2006
Market value of assets held or placed on behalf of customers in a fiduciary capacity	29 944	25 331

The Group provides custody, trustee, corporate administration, investment management and advisory services to third parties, which involves the Group making allocation and purchase and sale decisions in relation to a wide range of financial statements.
Those assets that are held in a fiduciary capacity are not included in these financial statements. Some of these arrangements involve the Group accepting targets for benchmark levels of returns for the assets under the Group's care.

41. TRANSACTIONS INVOLVING THE LEGAL FORM OF A LEASE

The Group entered into an arrangement with the counterparty for the refurbishment of moveable assets, which are for the exclusive use of the counterparty. The duration of the arrangement is for 14 years and will conclude in May 2016. The transactions are a series of back to back leases, which, although the transactions are structured as leases, are in substance a financing arrangement.

Fees received are recognised annually in non interest income.

Income received for the period amounted to R60 million (2006: R63 million) and is reflected in interest and similar income in the consolidated income statement.

R million	2007	2006
42. SALE AND REPURCHASE AGREEMENTS AND LENDING OF SECURITIES		
Securities lending transactions:		
Securities subject to lending transactions:		
Equities – at market value	10 446	9 967
Securities subject to lending transactions	10 446	9 967
Collateral held consists of:		
Cash	4 463	4 067
Bonds, fixed deposits and money market	5 218	4 732
Equities	3 132	1 349
Value of collateral held	12 813	10 148
Collateral cover %	123%	102%

The Group has mandated its asset managers and traders to enter into scrip lending arrangements on its behalf. The market value of scrip out on loan is monitored on a daily basis. No significant exposure to credit risk, liquidity risk or cash flow risk has resulted from the scrip lending activities of the Group.

Because any scrip out on loan is subject to a repurchase agreement, the loan agreement is recorded at the same value as the underlying scrip and no sale of scrip is recorded.

The value at which the loan is recorded corresponds with the Group's accounting policy relating to the specific class of asset.

Fees earned from scrip lending and dividends received on scrip out on loan are accounted for under investment income.

Sale and repurchase agreements

Assets are pledged as collateral under repurchase agreements with other banks and for security deposits relating to local futures, options and stock exchange memberships. Mandatory reserve deposits are also held with central banks in accordance with statutory requirements. These deposits are not available to finance the Group's day to day operations.

	Assets		Related liabilities	
	2007	2006	2007	2006
Balances with central banks	8 327	6 652	–	–
Trading securities	2 623	2 596	1 536	1 752
Total	10 950	9 248	1 536	1 752

for the year ended 30 June

43. DIVISIONAL INFORMATION

Income statement for the year ended 30 June

	Banking Group		Momentum Group		Discovery Group	
R million	**2007**	2006	**2007**	2006	**2007**	2006
Net interest income	**13 998**	10 895	**5 700**	4 263	**116**	151
Impairment of advances	**(2 857)**	(1 411)	**–**	–	**–**	–
Net interest income after impairment of advances	**11 141**	9 484	**5 700**	4 263	**116**	151
Non interest income	**20 778**	15 637	**27 786**	21 583	**3 277**	2 883
Net insurance premium income	**58**	37	**5 023**	4 487	**2 865**	2 298
Net claims and benefits paid	**–**	–	**(5 590)**	(5 186)	**(1 254)**	(988)
(Increase)/decrease in value of policyholder liabilities	**–**	–	**(25 535)**	(17 846)	**471**	416
Fair value adjustment to financial liabilities	**–**	–	**(54)**	(530)	**–**	–
Income from operations	**31 977**	25 158	**7 330**	6 771	**5 475**	4 760
Operating expenses	**(19 497)**	(15 506)	**(4 136)**	(3 576)	**(3 800)**	(3 547)
Share of profit of associates and joint ventures	**2 013**	1 259	**185**	148	**(97)**	(117)
Profit before tax	**14 493**	10 911	**3 379**	3 343	**1 578**	1 096
Tax	**(3 844)**	(3 012)	**(1 307)**	(1 413)	**(505)**	(430)
Profit for the year	**10 649**	7 899	**2 072**	1 930	**1 073**	666
Attributable to:						
Minority interest	**823**	639	**(4)**	21	**400**	229
Non cumulative non redeemable preference shares	**232**	253	**–**	–	**–**	–
Attributable earnings to ordinary shareholders	**9 594**	7 007	**2 076**	1 909	**673**	437
Profit for the year	**10 649**	7 899	**2 072**	1 930	**1 073**	666
Attributable earnings to shareholders	**9 826**	7 260	**2 076**	1 909	**673**	437
Headline earnings adjustments	**(471)**	(211)	**(466)**	(375)	**(117)**	(87)
Profit on sale of equity accounted private equity associates	**(397)**	(219)	**–**	–	**–**	–
Profit on disposal of available-for-sale assets	**–**	(11)	**(567)**	(261)	**(117)**	(88)
Impairment of property and equipment	**–**	–	**–**	–	**–**	1
Profit on sale of shares in subsidiaries and associates	**(68)**	–	**–**	(92)	**–**	–
Net asset value in excess of purchase price of subsidiaries	**–**	–	**–**	(22)	**–**	–
(Profit)/loss on disposal of property and equipment	**(6)**	19	**–**	–	**–**	–
Impairment of intangible assets	**–**	–	**48**	–	**–**	–
Impairment of goodwill	**–**	–	**53**	–	**–**	–
Headline earnings	**9 355**	7 049	**1 610**	1 534	**556**	350

FirstRand Group		Consolidation of treasury shares		Subtotal		Consolidation		Total	
2007	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006
(238)	(117)	**7**	(180)	**19 583**	15 012	**36**	–	**19 619**	15 012
–	–	**–**	–	**(2 857)**	(1 411)	**–**	–	**(2 857)**	(1 411)
(238)	(117)	**7**	(180)	**16 726**	13 601	**36**	–	**16 762**	13 601
258	245	**(381)**	(200)	**51 718**	40 148	**(678)**	(218)	**51 040**	39 930
–	–	**–**	–	**7 946**	6 822	**–**	–	**7 946**	6 822
–	–	**–**	–	**(6 844)**	(6 174)	**–**	–	**(6 844)**	(6 174)
–	–	**–**	–	**(25 064)**	(17 430)	**–**	–	**(25 064)**	(17 430)
–	–	**–**	–	**(54)**	(530)	**–**	–	**(54)**	(530)
20	128	**(374)**	(380)	**44 428**	36 437	**(642)**	(218)	**43 786**	36 219
(78)	(70)	**(219)**	–	**(27 730)**	(22 699)	**642**	218	**(27 088)**	(22 481)
–	–	**–**	–	**2 101**	1 290	**–**	–	**2 101**	1 290
(58)	58	**(593)**	(380)	**18 799**	15 028	**–**	–	**18 799**	15 028
(65)	(185)	**–**	–	**(5 721)**	(5 040)	**–**	–	**(5 721)**	(5 040)
(123)	(127)	**(593)**	(380)	**13 078**	9 988	**–**	–	**13 078**	9 988
–	–	**–**	–	**1 219**	889	**–**	–	**1 219**	889
348	274	**–**	–	**580**	527	**(232)**	(253)	**348**	274
(471)	(401)	**(593)**	(380)	**11 279**	8 572	**232**	253	**11 511**	8 825
(123)	(127)	**(593)**	(380)	**13 078**	9 988	**–**	–	**13 078**	9 988
(471)	(401)	**(593)**	(380)	**11 511**	8 825	**–**	–	**11 511**	8 825
–	(37)	**–**	–	**(1 054)**	(710)	**–**	–	**(1 054)**	(710)
–	–	**–**	–	**(397)**	(219)	**–**	–	**(397)**	(219)
–	–	**–**	–	**(684)**	(360)	**–**	–	**(684)**	(360)
–	–	**–**	–	**–**	1	**–**	–	**–**	1
–	(37)	**–**	–	**(68)**	(129)	**–**	–	**(68)**	(129)
–	–	**–**	–	**–**	(22)	**–**	–	**–**	(22)
–	–	**–**	–	**(6)**	19	**–**	–	**(6)**	19
–	–	**–**	–	**48**	–	**–**	–	**48**	–
–	–	**–**	–	**53**	–	**–**	–	**53**	–
(471)	(438)	**(593)**	(380)	**10 457**	8 115	**–**	–	**10 457**	8 115

43. DIVISIONAL INFORMATION continued

Consolidated balance sheet as at 30 June

	Banking Group		Momentum Group		Discovery Group	
R million	**2007**	2006	**2007**	2006	**2007**	2006
ASSETS						
Cash and short term funds	**28 796**	27 710	**18 935**	20 332	**623**	1 251
Derivative financial instruments	**20 840**	35 381	**14 985**	17 195	**–**	–
Advances	**383 485**	316 840	**–**	–	**–**	–
Investment securities and other investments	**90 081**	70 728	**128 237**	109 018	**3 168**	2 116
Commodities	**1 118**	676	**–**	–	**–**	–
Accounts receivable	**6 866**	3 486	**1 759**	2 899	**743**	544
Investments in associates and joint ventures	**5 457**	3 649	**6 146**	1 323	**200**	91
Investment in subsidiary companies	**–**	–	**–**	–	**–**	–
Property and equipment	**5 428**	4 329	**557**	382	**226**	184
Deferred tax asset	**537**	360	**684**	642	**80**	41
Intangible assets and deferred acquisition costs	**843**	764	**3 307**	3 199	**93**	55
Investment properties	**–**	–	**2 356**	6 257	**–**	–
Policy loans on insurance contracts	**–**	–	**166**	118	**–**	–
Reinsurance assets	**–**	–	**544**	260	**51**	32
Tax asset	**–**	–	**17**	7	**4**	–
Assets arising from insurance contracts	**–**	–	**–**	–	**3 114**	2 463
Loans from Insurance Group	**4 016**	1 274	**–**	–	**–**	–
Loans from Banking Group	**–**	–	**6 395**	–	**198**	–
Total assets	**547 467**	465 197	**184 088**	161 632	**8 500**	6 777
EQUITY AND LIABILITIES						
Liabilities						
Deposits	**419 965**	342 331	**–**	–	**–**	–
Short trading positions	**36 870**	28 264	**–**	–	**–**	–
Derivative financial instruments	**18 135**	32 972	**7 817**	8 687	**2**	–
Creditors and accruals	**9 064**	10 101	**6 199**	5 842	**673**	642
Provisions	**3 211**	1 985	**336**	384	**48**	36
Tax liability	**1 123**	554	**224**	369	**–**	48
Post retirement benefit fund liability	**1 842**	1 597	**40**	38	**–**	–
Deferred tax liability	**3 268**	2 724	**2 213**	1 917	**806**	518
Long term liabilities	**7 174**	7 804	**1 219**	2 226	**40**	40
Reinsurance liabilities	**–**	–	**–**	–	**20**	24
Policyholder liabilities under insurance contracts	**412**	325	**45 875**	39 965	**692**	450
Policyholder liabilities under investment contracts	**–**	–	**110 768**	93 105	**735**	604
Liabilities arising to third parties	**–**	–	**1 568**	1 725	**–**	
Deferred revenue liability	**–**	–	**265**	248	**122**	203
Loans from Insurance Group	**5 522**	4 307	**–**	–	**–**	–
Loans from Banking Group	**–**	–	**1 093**	–	**–**	–
Total liabilities	**506 586**	432 964	**177 617**	154 506	**3 138**	2 565
Equity						
Capital and reserves attributable to ordinary shareholders						
Ordinary shares	**106**	106	**9**	9	**1**	1
Share premium	**3 802**	1 632	**1 032**	1 032	**1 392**	1 347
Distributable reserves	**28 916**	23 279	**4 316**	4 842	**3 057**	2 224
Non distributable reserves	**3 302**	2 738	**595**	710	**912**	640
	36 126	27 755	**5 952**	6 593	**5 362**	4 212
Non cumulative non redeemable preference shares	**3 100**	3 100	**500**	500	**–**	–
Capital and reserves attributable to equity holders	**39 226**	30 855	**6 452**	7 093	**5 362**	4 212
Minority interest	**1 655**	1 378	**19**	33	**–**	–
Total equity	**40 881**	32 233	**6 471**	7 126	**5 362**	4 212
Total equity and liabilities	**547 467**	465 197	**184 088**	161 632	**8 500**	6 777

FirstRand Group		Consolidation of treasury shares		Subtotal		Consolidation		Total	
2007	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006
–	536	–	–	48 354	49 829	(1 402)	(3 145)	46 952	46 684
–	–	–	–	35 825	52 576	(2 581)	(14 642)	33 244	37 934
–	2 309	(1 900)	(5 279)	381 585	313 870	(2 640)	15	378 945	313 885
712	–	(783)	132	221 415	181 994	535	(8 146)	221 950	173 848
–	–	–	–	1 118	676	–	–	1 118	676
24	757	3	(102)	9 395	7 584	(138)	(1 538)	9 257	6 046
476	7	–	(1)	12 279	5 069	(470)	–	11 809	5 069
17 753	15 348	–	–	17 753	15 348	(17 753)	(15 348)	–	–
–		–	–	6 211	4 895	200	116	6 411	5 011
5	–	–	–	1 306	1 043	–	–	1 306	1 043
–	167	–	–	4 243	4 185	59	(109)	4 302	4 076
–	–	–	–	2 356	6 257	–	(116)	2 356	6 141
–	–	–	–	166	118	–	–	166	118
–	–	–	–	595	292	–	–	595	292
13	–	–	–	34	7	–	–	34	7
–	–	–	–	3 114	2 463	–	(697)	3 114	1 766
2 299	–	–	–	6 315	1 274	(6 315)	(1 274)	–	–
1 867	–	6	–	8 466	–	(8 466)	–	–	–
23 149	19 124	(2 674)	(5 250)	760 530	647 480	(38 971)	(44 884)	721 559	602 596
–	–	(68)	(258)	419 897	342 073	(3 390)	(1 424)	416 507	340 649
–	–	–	–	36 870	28 264	–	(2 297)	36 870	25 967
–	–	–	–	25 954	41 659	(1 449)	(19 289)	24 505	22 370
118	153	–	(22)	16 054	16 716	(2 167)	(71)	13 887	16 645
1	2	–	–	3 596	2 407	2	–	3 598	2 407
19	53	–	–	1 366	1 024	2	–	1 368	1 024
–	–	–	–	1 882	1 635	–	–	1 882	1 635
21	–	–	–	6 308	5 159	(29)	–	6 279	5 159
938	2 768	–	(621)	9 371	12 217	(121)	(1 641)	9 250	10 576
–	–	–	–	20	24	–	–	20	24
–	–	–	–	46 979	40 740	–	–	46 979	40 740
–	–	–	–	111 503	93 709	(264)	11	111 239	93 720
–	–	–	–	1 568	1 725	–	–	1 568	1 725
–	–	–	–	387	451	–	–	387	451
–	–	–	–	5 522	4 307	(5 522)	(4 307)	–	–
3 536	–	3 543	–	8 172	–	(8 172)	–	–	–
4 633	2 976	3 475	(901)	695 449	592 110	(21 110)	(29 018)	674 339	563 092
56	56	(4)	(1)	168	171	(117)	(120)	51	51
8 451	8 616	(6 089)	(4 718)	8 588	7 909	(6 250)	(4 325)	2 338	3 584
3 803	2 926	(49)	(54)	40 043	33 217	(8 431)	(8 363)	31 612	24 854
1 687	31	(7)	424	6 489	4 543	(1 461)	(1 021)	5 028	3 522
13 997	11 629	(6 149)	(4 349)	55 288	45 840	(16 259)	(13 829)	39 029	32 011
4 519	4 519	–	–	8 119	8 119	(3 600)	(3 600)	4 519	4 519
18 516	16 148	(6 149)	(4 349)	63 407	53 959	(19 859)	(17 429)	43 548	36 530
–	–	–	–	1 674	1 411	1 998	1 563	3 672	2 974
18 516	16 148	(6 149)	(4 349)	65 081	55 370	(17 861)	(15 866)	47 220	39 504
23 149	19 124	(2 674)	(5 250)	760 530	647 480	(38 971)	(44 884)	721 559	602 596

43. DIVISIONAL INFORMATION continued

43.1 Segmental reporting

Certain interdivisional charges are included in the segment report in line with management accounting.

Business segment

	FirstRand Banking Group							
	FNB							
	Personal banking	Home-Loans	Card Issuing	Total Consumer segment	Wealth	Com-mercial	Corporate	FNB Other
2007								
Segmental income statement information:								
Segmental operating income	3 698	1 609	1 438	6 745	786	5 203	1 556	2 867
Intercompany eliminations	–	–	–	–	–	–	–	–
Total income	3 698	1 609	1 438	6 745	786	5 203	1 556	2 867
Net operating income	1 393	889	178	2 460	173	2 289	531	490
Share of profits of associates and joint ventures	25	–	–	25	–	–	–	15
Profit for the year	984	616	114	1 714	118	1 669	384	269
Segmental balance sheet information:								
Segmental assets	4 206	97 918	11 205	113 329	21 047	20 214	19 764	8 816
Associates and joint ventures	39	–	–	39	–	–	–	48
Total assets	4 245	97 918	11 205	113 368	21 047	20 214	19 764	8 864
Total segmental liabilities	52 961	1 328	1 525	55 814	4 955	58 533	47 233	9 534
Other segment items								
Depreciation	(133)	(14)	(7)	(154)	(19)	(7)	(85)	(340)
Amortisation	(4)	–	–	(4)	(3)	–	–	–
Impairment charges – other assets	–	(2)	–	(2)	–	–	9	(17)

** FirstRand Limited Company, share trusts and consolidation entries*

Geographical segment

	South Africa	Other Africa	United Kingdom	Australasia	Other	Total
Segmental income	100 433	3 318	2 456	1 562	1 696	109 465
Segmental expenses	(84 378)	(2 441)	(2 223)	(908)	(716)	(90 666)
Segment assets	631 686	23 248	27 527	7 060	32 038	721 559
Segment liabilities	592 957	20 758	23 320	7 041	30 263	674 339
Segmental capital expenditure	2 832	21	10	–	–	2 863

2007												
						Momentum		Discovery				
Total FNB	RMB	FNB Africa	WesBank	Group Support	Banking Group	Insurance	Asset management	Health	Life	Vitality	Other*	Total
17 157	7 827	1 757	4 501	735	31 977	6 413	917	2 448	2 291	736	(354)	44 428
–	–	–	–	–	–	–	–	–	–	–	(642)	(642)
17 157	7 827	1 757	4 501	735	31 977	6 413	917	2 448	2 291	736	(996)	43 786
5 943	3 864	944	1 384	800	12 935	3 336	427	683	936	56	(1 675)	16 698
40	1 532	1	97	343	2 013	185	–	(97)	–	–		2 101
4 154	3 919	693	1 005	878	10 649	1 758	314	341	689	43	(716)	13 078
183 170	195 003	21 480	99 864	42 493	542 010	177 255	687	1 445	6 641	214	(18 502)	709 750
87	3 926	3	615	826	5 457	6 146	–	200	–	–	6	11 809
183 257	198 929	21 483	100 479	43 319	547 467	183 401	687	1 645	6 641	214	(18 496)	721 559
176 069	153 887	19 328	8 298	149 004	506 586	177 228	389	742	2 223	173	(13 002)	674 339
(605)	(65)	(23)	(91)	(21)	(805)	(51)	–	(66)	(1)	–	–	(923)
(7)	(34)	(15)	(45)	(2)	(103)	(187)	–	(26)	(5)	–	–	(321)
(10)	–	(97)	(61)	156	(12)	(101)	–	–	–	–	–	(113)

43. DIVISIONAL INFORMATION continued

43.1 Segmental reporting continued

Business segment

	FirstRand Banking Group							
	FNB							
	Personal banking	Home-Loans	Card Issuing	Consumer segment	Wealth	Com-mercial	Corporate	FNB Other
2006								
Segmental income statement information:								
Segmental operating income	3 056	1 323	1 370	5 749	582	4 296	1 382	2 417
Intercompany eliminations	–	–	–	–	–	–	–	–
Total income	3 056	1 323	1 370	5 749	582	4 296	1 382	2 417
Net operating income	879	624	398	1 901	115	1 719	415	686
Share of profits from associates and joint ventures	–	–	–	–	–	–	–	10
Profit for the year	581	400	276	1 257	73	1 234	292	412
Segmental balance sheet information:								
Segmental assets	3 139	81 406	8 737	93 282	15 893	16 644	24 999	6 135
Associates and joint ventures	33	–	–	33	–	–	–	–
Total assets	3 172	81 406	8 737	93 315	15 893	16 644	24 999	6 135
Total segmental liabilities	40 357	9 023	2 464	51 844	674	45 195	46 248	9 356
Other segment items								
Depreciation	(142)	(5)	(5)	(152)	(11)	(11)	(77)	(314)
Amortisation	(2)	–	–	(2)	–	–	4	–
Impairment charges – other assets	–	–	–	–	–	–	–	–

* *FirstRand Limited Company, share trusts and consolidation entries*

Geographical segment

	South Africa	Other Africa	United Kingdom	Australasia	Other	Total
Segmental income	73 790	2 361	2 340	840	(670)	78 661
Segmental expenses	(56 125)	(1 791)	(1 456)	(444)	(3 817)	(63 633)
Segment assets	530 062	21 029	19 525	2 664	29 316	602 596
Segment liabilities	497 516	18 616	15 967	2 773	28 220	563 092
Segmental capital expenditure	1 787	52	9	2	124	1 974

2006												
						Momentum		Discovery				
Total FNB	RMB	FNB Africa	WesBank	Group Support	Banking Group	Insurance	Asset management	Health	Life	Vitality	Other*	Total
14 426	4 010	1 436	3 512	1 774	25 158	5 806	965	2 338	1 768	654	(252)	36 437
–	–	–	–	–	–		–		–	–	(218)	(218)
14 426	4 010	1 436	3 512	1 774	25 158	5 806	965	2 338	1 768	654	(470)	36 219
4 836	2 139	761	1 411	974	10 121	2 346	849	355	807	51	(791)	13 738
10	855	–	148	246	1 259	144	4	(117)	–	–	–	1 290
3 268	2 148	551	1 059	873	7 899	1 578	352	115	516	35	(507)	9 988
156 953	162 231	19 197	78 293	44 874	461 548	159 138	1 171	1 491	5 008	187	(31 016)	597 527
33	2 420	3	152	1 041	3 649	1 323	–	91	–	–	6	5 069
156 986	164 651	19 200	78 445	45 915	465 197	160 461	1 171	1 582	5 008	187	(31 010)	602 596
153 317	142 671	17 167	5 586	114 223	432 964	153 699	807	829	1 606	130	(26 943)	563 092
(565)	(45)	(29)	(68)	(62)	(769)	(60)	(7)	(87)	(2)	–	–	(925)
2	–	(7)	–	(47)	(52)	(54)	–	(21)	(4)	–	–	(131)
–	2	–	–	(58)	(56)	–	–	(2)	–	–	–	(58)

	Nature of business	Country	Issued ordinary Listed/ Unlisted	Capital R million	Effective holding % 2007	% 2006
44. SUBSIDIARIES						
Significant subsidiaries						
Banking						
First National Bank Holdings (Botswana) Limited	Commercial banking	Botswana	Listed	28	**100**	100
First National Bank of Namibia Limited	Commercial banking	Namibia	Listed	1	**57**	61
First National Bank of Swaziland Limited	Commercial banking	Swaziland	Unlisted	28	**100**	100
FirstCorp Merchant Bank Holdings Limited	Commercial banking	South Africa	Unlisted	10	**100**	100
FirstRand Bank Limited	Commercial and merchant banking	South Africa	Unlisted	4	**100**	100
Saambou Bank Limited	Commercial banking	South Africa	Unlisted	69	**100**	100
Non banking						
First National Asset Management and Trust Company (Pty) Limited	Asset management and trust services	South Africa	Unlisted	–	**100**	100
RMB Asset Finance Limited	Merchant banking	South Africa	Unlisted	19	**100**	100
FirstRand International Limited	International holding company	Guernsey	Unlisted	–	**100**	100
First Land Developments Limited	Property company	South Africa	Unlisted	1	**100**	100
FNB Equipment Finance (Pty) Limited	Equipment and finance	South Africa	Unlisted	–	**100**	100
FirstRand (International) Mauritius Limited	Financial services	Mauritius	Unlisted	25	**100**	100
First Link Insurance Brokers Holdings (Pty) Limited	Insurance brokers	South Africa	Unlisted	–	**100**	100
RMB Private Equity (Pty) Limited	Investment and financial services	South Africa	Unlisted	–	**94**	94
RMB Private Equity Holdings (Pty) Limited	Investment and financial services	South Africa	Unlisted	–	**88**	88
iNdwa Investments Limited	Investment and financial services	South Africa	Unlisted	–	**n/a**	n/a
Norman Bisset and Associates (Pty) Limited	Debt collection	South Africa	Unlisted	–	**90**	n/a

44. SUBSIDIARIES continued

	Nature of business	Country	Issued ordinary Listed/ Unlisted	Issued ordinary Capital R million	Effective holding % 2007	Effective holding % 2006
Insurance						
Emira Property Fund (transferred to associates)	Property company	South Africa	Listed	–	–	39
Momentum Property Investments (Pty) Limited	Property company	South Africa	Unlisted	–	100	100
Momentum Life Assurers Limited	Dormant	South Africa	Unlisted	3	100	100
Momentum Administration Services (Pty) Limited	Investment business	South Africa	Unlisted	–	100	100
Momentum Medical Scheme Administrators (Pty) Limited	Health administration services	South Africa	Unlisted	–	100	100
African Life Health (Pty) Limited	Health administration services	South Africa	Unlisted	3	100	100
Community Property Holdings Limited	Property company	South Africa	Unlisted	2	100	100
Momentum Collective Investments (Pty) Limited	Unit trusts	South Africa	Unlisted	6	100	100
Momentum Ability Limited	Insurance services	South Africa	Unlisted	10	100	100
FirstLife Assurance (Pty) Limited	Insurance services	Botswana	Unlisted	3	100	100
Lekana Employee Benefit Solutions (Pty) Limited	Employee benefits services	South Africa	Unlisted	–	70	70
Momentum International Multimanagers (Pty) Limited	Multi management	South Africa	Unlisted	–	95	95
Momentum Netherlands BV	Multi management services	Netherlands	Unlisted	–	100	100
FirstRand Asset Management (Pty) Limited	Asset management	South Africa	Unlisted	–	100	100
Health						
Discovery Life Limited	Insurance services	South Africa	Unlisted	1 016	100	100
Discovery Health (Pty) Limited	Administration and managed care services	South Africa	Unlisted	*	100	100
Vitality Healthstyle (Pty) Limited	Health and lifestyle benefits	South Africa	Unlisted	*	100	100
Destiny Health Inc	Short term health insurance	USA	Unlisted	963	98	98
Discovery Offshore Holdings Limited	International holding company	United Kingdom	Unlisted	547	100	100

* *Issued ordinary capital and shares at cost are R1 000*

R million	Group carrying amount 2007	2006
44. SUBSIDIARIES continued		
FirstRand Banking Group – Banking		
First National Bank Holdings (Botswana) Limited	56	56
First National Bank of Namibia Limited	30	33
First National Bank of Swaziland Limited	17	17
FirstCorp Merchant Bank Holdings Limited	54	35
FirstRand Bank Limited	5 834	2 796
Saambou Bank Limited	–	–
FirstRand Banking Group – Non banking		
First National Asset Management & Trust Company (Pty) Limited	–	–
RMB Asset Finance Limited	334	334
FirstRand International Limited	1 142	1 142
First Land Developments Limited	1	1
FNB Equipment Finance (Pty) Limited	5	5
FirstRand (International) Mauritius Limited	31	31
First Link Insurance Brokers Holdings (Pty) Limited	14	14
RMB Private Equity Holdings (Pty) Limited	–	–
iNdwa Investments Limited	–	–
Norman Bisset and Associates (Pty) Limited	76	–
Momentum		
Emira Property Fund (transferred to associates)	–	963
Momentum Property Investments (Pty) Limited	849	718
Momentum Life Assurers Limited	36	36
Momentum Administration Services (Pty) Limited	60	66
Momentum Medical Scheme Administrators (Pty) Limited	(107)	(207)
African Life Health (Pty) Limited	88	104
Community Property Holdings Limited	146	94
Momentum Collective Investments (Pty) Limited	(5)	61
Momentum Ability Limited	18	14
FirstLife Assurance (Pty) Limited	16	10
Lekana Employee Benefit Solutions (Pty) Limited	47	109
Momentum International Multimanagers (Pty) Limited	196	199
Momentum Netherlands BV	280	293
FirstRand Asset Management (Pty) Limited	3 061	2 867
Health		
Discovery Life Limited	1 289	1 282
Discovery Health (Pty) Limited	156	117
Vitality Healthstyle (Pty) Limited	5	3
Destiny Health Inc	75	–
Discovery Offshore Holdings Limited	203	85

45. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Credit impairment losses on loans and advances

The Group assesses its credit portfolios for impairment at each balance sheet date. In determining whether an impairment loss should be recorded in the income statement, the Group makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a portfolio of loans.

For purposes of these judgements the performing portfolio is split into two parts:

(i) The first part consists of the portion of the performing portfolio where there is objective evidence of the occurrence of an impairment event. In the Retail and WesBank portfolios the account status, namely arrears versus non arrears status, is taken as a primary indicator of an impairment event. In the Commercial portfolios other indicators such as the existence of "high risk" accounts, based on internally assigned risk ratings and management judgement, are used, while the Wholesale portfolio assessment includes a judgemental review of individual industries for objective signs of distress.

A portfolio specific impairment ("PSI") calculation to reflect the decrease in estimated future cash flows is performed for this sub segment of the performing portfolio. The decrease in future cash flows is primarily estimated based on analysis of historical loss and recovery rates for comparable sub segments of the portfolio.

(ii) The second part consists of the portion of the performing portfolio where an incurred impairment event is inherent in a portfolio of performing advances but has not specifically been identified. A so called incurred-but-not-reported (IBNR) impairment is calculated on this sub segment of the portfolio, based on historical analysis of loss ratios, roll rates from performing status into non performing status and similar risk indicators over an estimated loss emergence period.

Estimates of roll rates, loss ratios and similar risk indicators are based on analysis of internal and, where appropriate external data. Estimates of the loss emergence period are made in the context of the nature and frequency of credit assessments performed, availability and frequency of updated data regarding customer creditworthiness and similar factors. Loss emergence periods differ from portfolio to portfolio, but typically range from 1 – 12 months.

Non performing loans

Retail loans are individually impaired if amounts are due and unpaid for three or more months, or if there is evidence before this that the customer is unlikely to repay its obligations in full. WesBank's loans are impaired upon its classification status, i.e. following an event driven approach and specific assessment of the likelihood to repay. Commercial and Wholesale loans are analysed on a case by case basis taking into account breaches of key loan conditions, excesses and similar risk indicators.

Management's estimates of future cash flows on individually impaired loans are based on internal historical loss experience, supplemented by analysis of comparable external data (for Commercial and Wholesale loans) for assets with similar credit risk characteristics. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Refer to note 14.1 for a detailed analysis of the impairment of advances and the carrying amounts of the specific and portfolio impairments.

National Credit Act ("NCA")

The NCA came into effect on 1 June 2007 and will impact the Group's levels of credit impairment. Specifically, the NCA will impact the judgements and estimates made regarding the default ratios and the recovery periods (resulting from debt counselling programmes and outcomes). At this stage, the exact effect on the level of credit impairments cannot be accurately calculated.

(b) Fair value of derivatives

The fair value of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by independent qualified senior personnel. All models are certified before they are used, and models are calibrated and back tested to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data, however, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates.

Refer to note 13 for a detailed analysis of the derivatives and the carrying amounts of the different types of derivative instruments.

(c) Impairment of available-for-sale equity instruments

The Group determines that available-for-sale equity instruments are impaired and recognised as such in the income statement, when there has been a significant or prolonged decline in the fair value below their cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Group evaluates among other factors, the normal volatility in share prices. In addition, impairment may be appropriate when there is evidence of a deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

The Group determined that the impairment of available-for-sale equity instruments was not appropriate for the year under review.

(d) Securitisations and special purpose entities

The Group sponsors the formation of special purpose entities ("SPEs") primarily for the purpose of allowing clients to hold investments, for asset securitisation transactions and for buying and selling credit protection. The Group consolidates SPEs that it does control in terms of IFRS. As it can sometimes be difficult to determine whether the Group does control an SPE, it makes judgements about its exposure to the risks and rewards, as well as about its ability to make operational decisions for the SPE in question. In many instances, elements are present that, considered in isolation, indicate control or lack of control over an SPE, but when considered together make it difficult to reach a clear decision. In such cases, the SPE is accounted for based on management's best estimate of the economic reality of the underlying transaction.

Refer to note 14 for more information regarding the Group's synthetic securitisations and the respective carrying amounts.

45. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES continued

(e) Income taxes

The Group is subject to direct tax in a number of jurisdictions. There may be transactions and calculations for which the ultimate tax determination has an element of uncertainty during the ordinary course of business. The Group recognises liabilities based on objective estimates of the amount of tax that may be due. Where the final tax determination is different from the amounts that were initially recorded, such difference will impact the income tax and deferred tax provisions in the period in which such determination is made.

Refer to notes 9 and 10 for more information regarding the direct and deferred tax charges, assets and liabilities.

(f) Financial risk management

The Group's risk management policies are disclosed in the Risk Report on pages 100 to 140 of the Annual Report.

(g) Impairment of goodwill

The recoverable amount of goodwill is tested annually for impairment in accordance with the stated accounting policy. The recoverable amount of the cash generating units ("CGU") has been determined based on value-in-use calculations, being the net present value of the discounted cash flows of the CGU less the tangible net asset value of the CGU. Details of the main assumptions applied in determining the net present value of the CGU are provided in notes to these financial statements.

Refer to note 21 for the impairment loss recorded on goodwill.

(h) Employee benefit liabilities

The cost of the benefits and the present value of the defined benefit pension funds and post retirement medical obligations depend on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the charge to the income statement arising from these obligations include the expected long term rate of return on the relevant plan assets, the discount rate and the expected salary and pension increase rates. Any changes in these assumptions will impact the charge to the income statement and may affect planned funding of the pension plans.

The assumptions related to the expected return on plan assets are determined on a uniform basis, considering long term historical returns, assets allocation and future estimations of long term investment returns. The Group determines the appropriate discount rate at the end of each year, which represents the interest rate that should be used to determine the present value of the expected cash outflows required to settle the pension and post retirement medical obligations. In determining the appropriate discount rate, the Group considers the interest rate on high quality corporate bonds and government bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability. The expected salary and pension increase rates are based on inflation rates, adjusted for salary scales and country specific conditions. The inflation rate used is a rate within the government's monetary policy target for inflation and is calculated as the difference between the yields on portfolios of fixed interest government bonds and a portfolio of index linked bonds of a similar term.

Additional information is provided in note 20.

(i) Share based payments

Share based payment costs arise from the issue of share options to employees. These share options are classified as equity settled share based payments and as such, the fair value cost is determined on date of grant on an actuarial basis using a number of assumptions. These assumptions used in determining the fair value cost include expected volatility, expected dividend yield, the discount rate and the expected forfeit and lapse rate. In accordance with the principles of valuing equity settled share based payments, only a change in the actual experience of forfeits compared to the estimated forfeit rate assumption, will impact on the charge in the income statement. All other assumptions are determined at grant date and are not amended.

The expected volatility assumption is determined based on a ruling historical volatility over the expected life of the options and comparable financial information. The expected dividend yield is determined based on historical dividend yields and management's estimates. The discount rate is based on zero coupon government bonds and have terms to maturity consistent with the assumed life of the share option. The expected forfeit rate has been based on historical experience and management estimates.

Refer to note 37 for the detailed information regarding the share based payment expense and the assumptions used in determining the expense, liability and reserve.

(j) Fair value of commodities

The Group is long on certain commodities through the outright purchase of the specific commodity or through a series of OTC forward purchase agreements. Judgement has been applied in determining the fair value of the most recent transactions between market participants that is used to calculate the fair value of the physical commodity positions. In addition, judgement and estimation has been applied in determining the method for calculating the fair value of the commodity forward purchase agreements.

46. STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

The Group will comply with the following new standards and interpretations applicable to its business from the stated effective date:

		Effective date
IFRS 7	**Financial instruments: Disclosure (including amendments to IAS 1 – Presentation of financial statements: Capital disclosures)** This standard deals with the disclosure of financial instruments, as well as the disclosure of related qualitative and quantitative risks associated with financial instruments. As IFRS 7 will supersede the current disclosure required in IAS 30 and IAS 32, the standard will not impact the results of the Group, but will result in potentially more disclosure than that currently provided in the Group's financial statements. The Group does not intend to adopt this standard early.	Annual periods commencing on or after 1 January 2007
IFRS 8	**Operating Segments** IFRS 8 replaces IAS 14 Segment Reporting. IFRS 8 requires an entity to report financial and descriptive information about its reportable segments, which are operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources in assessing performance. The Group does not intend to adopt this standard early.	Annual periods commencing on or after 1 January 2009
IFRIC 10	**Interim Financial Reporting and Impairment** This interpretation addresses the interaction between the requirements of IAS 34 and the recognition of impairment losses on goodwill in IAS 36 and certain financial assets in IAS 39, and the effect of that interaction on subsequent interim and annual financial statements. The amendment will not have a significant impact on the Group's interim results.	Annual periods commencing on or after 1 November 2006
IFRIC 11	**IFRS 2 – Group and Treasury Share Transactions** IFRIC 11 clarifies the application of IFRS 2 Share based payment to certain share based payment arrangements involving the entity's own equity instruments and to arrangements involving equity instruments of the entity's parent. This interpretation is not expected to have a significant effect on the Group's results.	Annual periods commencing on or after 1 March 2007
IFRIC 12	**Service Concession Arrangements** The interpretation addresses the accounting by private sector operators involved in the provision of public sector infrastructure assets and services. This interpretation is not applicable to the Group.	Annual periods commencing on or after 1 January 2008
IAS 23 Amendment	**Borrowing Costs** The amendment removes the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. The capitalisation of borrowing costs as part of the cost of such assets is therefore now required. However, it does not require the capitalisation of borrowing costs relating to assets measured at fair value and inventories that are manufactured or produced in large quantities on a repetitive basis, even if they take a substantial period of time to get ready for use or sale. The Group's accounting policy is to capitalise borrowing costs on a qualifying asset. The amendment will therefore not have an effect on the Group's results.	Annual periods commencing on or after 1 January 2009
IFRIC 13	**Customer Loyalty Programmes** The interpretation requires entities to allocate some of the proceeds of the initial sale of the award credits (such as 'points' or travel miles) and recognise these proceeds as revenue only when the entity has fulfilled its obligations. An entity may fulfil its obligation by supplying awards themselves or engaging a third party to do so. This interpretation is applicable to eBucks, a subsidiary of FirstRand Bank Holdings Limited.	Annual periods commencing on or after 1 July 2008
IFRIC 14	**IAS 19 – The limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction** This interpretation clarifies that an additional liability need not be recognised by the employer unless the contributions that are payable under the minimum funding requirement cannot be returned to the company.	Annual periods commencing on or after 1 January 2008

47. SIGNIFICANT SUBSIDIARIES AND ASSOCIATES ACQUISITION AND DISPOSALS

Significant acquisitions during the 2007 financial year

Carlyle

On 1 July 2006, the Group acquired Carlyle Finance a division of Julian Hodge Bank with an effective date of 1 July 2006. Carlyle Finance contributed a R48.4 million loss to the Group for the period 1 July 2006 to 30 June 2007.

The details of the fair values of the assets, liabilities and contingent liabilities acquired and goodwill arising are as follows:

	2007	
R million	Carrying amount before acquisition	Fair value at acquisition
ASSETS		
Advances	3 441	3 441
– loans and receivables	3 441	3 441
Accounts receivable	4	1
Property and equipment	5	12
Total assets acquired	3 450	3 454
LIABILITIES		
Financial liabilities	–	3
Provisions	5	5
Deferred income	26	81
Total liabilities acquired	31	89
Net asset value as at date of acquisition before intangible assets in terms of IFRS 3		3 365
Intangible assets identified in terms of IFRS 3		58
Net asset value as at date of acquisition		3 423
Cash consideration		(3 422)
Net asset value in excess of cash consideration		1

The fair value of assets and liabilities acquired are based on the market value price paid by two unconnected parties.

The intangible assets acquired consist of the trademark placed on the "Carlyle Finance" name acquired from Julian Hodge Bank and the distribution channel acquired from Julian Hodge Bank. The intangible assets were valued using a discounting of future revenue streams.

Acquisition provisions of Rnil were created.

47. SIGNIFICANT SUBSIDIARIES AND ASSOCIATES ACQUISITION AND DISPOSALS continued

Tracker Investment Holdings (Pty) Limited

As part of a transaction to obtain a 32.5% interest in Tracker Investment Holdings (Pty) Limited ("Tracker"), the Group obtained an additional 50% interest in Mobile Data (Pty) Limited ("Mobile Data") effective 31 May 2007.

On that same day, the Group disposed of its 100% interest in Mobile Data for R295 million to Tracker for a 20.4% shareholding in Tracker.

The Group acquired a further 12.1% shareholding in Tracker for an amount of R174.6 million, thereby obtaining an effective 32.5% shareholding in Tracker.

The Group paid an amount of R170.8 million to acquire an additional 50% of Mobile Data. The purchase price is broken down as follows:

R million	Purchase value 2007
Payment to vendor (discharge by cash)	144
Acquisition of loan from vendor	10
Payment of interest	7
Cash consolidation on purchase of 50% of Mobile Data	161
Capitalisation of loan to Mobile Data	10
Net cost of purchase of 50% of Mobile Data	171

On 31 May 2007, the Group acquired 32.5% of Tracker with an effective date of 31 May 2007.

In addition to the share for share swap to acquire 20.4% of Tracker, the Group also purchased an additional 12.1% from the other shareholders for an amount of R174.6 million.

Tracker contributed R3.26 million income to the Group for the period 1 July 2006 to 30 June 2007.

The details of the fair values of the assets, liabilities and goodwill acquired (post Mobile Data acquisition by Tracker) and goodwill arising are as follows:

	2007	
R million	Carrying amount before acquisition	Fair value at acquisition
ASSETS		
Cash and short term funds	252	252
Accounts receivable	15	15
Inventory	43	43
Intangible assets and deferred acquisition costs	179	179
Property and equipment	40	40
Total assets acquired	529	529
LIABILITIES		
Financial liabilities	110	110
Tax liability	85	85
Deferred tax liability	39	39
Total liabilities acquired	234	234
Net asset value as at date of acquisition before intangible assets in terms of IFRS 3		95
Intangible assets identified in terms of IFRS 3		266
Net asset value as at date of acquisition		361
Cash consideration		(470)
Net asset value in excess of cash consideration		(109)

The goodwill is attributable to the ability of Tracker to generate additional profit in the future by making use of synergies that are available to Tracker based on its relationship with the Group and the expectation of the generation of additional business through interaction with the Group.

Fair value assets and liabilities acquired are based on the values as reflected in the management accounts of Tracker as at 31 May 2007.

Intangible assets recognised as a result of the purchase price allocation for Tracker were R266.4 million.

Acquisition provisions of Rnil were created.

47. SIGNIFICANT SUBSIDIARIES AND ASSOCIATES ACQUISITION AND DISPOSALS continued

Dark Room Investments no 1 (Pty) Limited

On 1 August 2006 the Group acquired 100% of Dark Room Investments no 1 (Pty) Limited ("Dark Room"). Dark Room contributed R60 million losses to the Group for the period 1 August 2006 to 30 June 2007.

The details of the fair values of the assets, liabilities and contingent liabilities acquired and goodwill arising are as follows:

R million	2007 Carrying amount before acquisition	2007 Fair value at acquisition
Investment	154	555
Cash and short term funds	620	620
Deferred tax asset	31	80
Net asset value as at date of acquisition	805	1 255
Cash consideration		(1 251)
Net asset value in excess of cash consideration		**4**

The fair value of the deferred tax asset and the negative goodwill are based on the value of future STC credits. The fair value of the investment is based on the closing bid price of the shares, as listed on the JSE, on 31 July 2006.

Significant acquisitions during the 2006 financial year

Sage Group Limited

Effective 12 September 2005, the Group acquired 100% of the ordinary share capital of Sage Group Limited. The fair value of the assets, liabilities and contingent liabilities at the date of acquisition were as follows:

R million	2006
ASSETS	
Cash and short term funds	1 830
Investment securities	9 960
– available-for-sale	462
– fair value through profit and loss	9 498
Accounts receivable	171
Property and equipment	18
Deferred tax asset	92
Intangible assets and deferred acquisition costs	12
Investment properties	346
Policy loans on insurance contracts	108
Total assets acquired	**12 537**
LIABILITIES	
Creditors and accruals	939
Provisions	168
Tax liabilities	38
Post retirement benefit fund liability	25
Deferred tax liability	22
Policyholder liabilities under insurance contracts	4 922
Policyholder liabilities under investment contracts	3 408
Liabilities arising to third parties	3 163
Deferred revenue liability	13
Total liabilities acquired	**12 698**
Net asset value as at date of acquisition before intangible assets in terms of IFRS 3	(161)
Intangible assets identified in terms of IFRS 3	
Value of in-force intangible assets	1 057
Agency force intangible asset	22
Client contract intangible asset	78
Deferred tax on intangible assets	(336)
Net asset value as at date of acquisition after intangible assets in terms of IFRS 3	660
Cash consideration	(645)
Net asset value in excess of cash consideration	**15**

The net asset value in excess of the cash consideration was recognised under other operating income.

Included in the Group results is an amount of R173 million earnings attributable to ordinary shareholders since the effective date of the acquisition of Sage Group Limited.

47. SIGNIFICANT SUBSIDIARIES AND ASSOCIATES ACQUISITION AND DISPOSALS continued

Significant acquisitions during the 2006 financial year

African Life Health (Pty) Limited

Effective 9 February 2006, the Group acquired 100% of the ordinary share capital of African Life Health (Pty) Limited. The fair value of the assets, liabilities and contingent liabilities at the date of acquisition were as follows:

R million	2006
ASSETS	
Cash and short term funds	23
Accounts receivables	69
Tax asset	1
Deferred tax asset	2
Intangible assets and deferred acquisition costs	81
Property and equipment	17
Total assets acquired	193
LIABILITIES	
Creditors and accruals	60
Other financial liabilities	9
Tax liabilities	6
Post retirement benefit fund liability	8
Total liabilities acquired	83
Net asset value as at date of acquisition before intangible assets in terms of IFRS 3	110
Intangible assets identified in terms of IFRS 3	
Client contract intangible asset	126
Deferred tax on intangible assets	(36)
Net asset value as at date of acquisition after intangible assets in terms of IFRS 3	200
Cash consideration	(193)
Net asset value in excess of cash consideration	7

The net asset value in excess of the cash consideration was recognised under other operating income.

Included in the Group results is an amount of R6 million earnings attributable to ordinary shareholders since the effective date of the acquisition of African Life Health (Pty) Limited.

Advantage Asset Managers (Pty) Limited

The Group acquired Mcubed's 42.5% shareholding in Advantage Asset Managers (Pty) Limited effective 31 March 2006 for a consideration of R144 million. This increased Momentum's shareholding in Advantage Asset Managers (Pty) Limited to 85%.

The total amount paid in cash for subsidiaries acquired for the year ended 30 June 2006 is:

Sage Group	645
African Life Health	193
Additional stake in Advantage Asset Managers	144
Total cash consideration for subsidiaries acquired	982

Significant disposals during the 2007 financial year

There were no significant disposals during the current year by the Group.

47. SIGNIFICANT SUBSIDIARIES AND ASSOCIATES ACQUISITION AND DISPOSALS continued

Significant disposals during the 2006 financial year

Momentum Leben

Effective 31 May 2006, the Group sold its 100% share of Momentum Leben's ordinary share capital for a cash consideration of R49 million.

The fair value of the assets and liabilities as at the date of sale were as follows:

R million	2006
ASSETS	
Cash and short term fund	52
Property and equipment	2
Total assets sold	**54**
LIABILITIES	
Creditors and accruals	4
Policyholder liabilities under insurance contracts	1
Total liabilities sold	**5**
Net asset value sold	49
Cash consideration received	(49)
Profit on sale of subsidiary	**–**

African Life Assurance Company Limited and Futuregrowth Asset Management (Pty) Limited

Effective 1 December 2005, the Group disposed of its 34% shareholding in African Life Assurance Company Limited for a cash consideration of R881 million.

Effective 1 October 2005, the Group disposed of its 40% shareholding in Futuregrowth Asset Management (Pty) Limited for a cash consideration of R26 million.

The total cash received for associates disposed of can be summarised as follows:

African Life Assurance Company Limited	881
Futuregrowth Asset Management (Pty) Limited	26
Total cash consideration for associate companies disposed of:	907
Carrying amount of investment sold	(765)
Profit on sale of associates	**142**

48. RISK MANAGEMENT

General

The Risk Report for FirstRand Limited appears on pages 100 to 140 of the Annual Report. The report sets out in detail the various risks the Group is exposed to, as well as the strategy, methodology and instruments used to mitigate these risks.

Details of the risk management structures, risk management methodologies and various Risk committees of the business entities (Banking Group, Momentum Group and Discovery Group) are set out in the report.

The main financial risks that the business entities are exposed to are discussed in further detail below.

48.1 Credit risk management

Credit risk is the risk that the counterparty will be unable to repay amounts when they fall due. In general, the Group manages its credit risk by placing limits on acceptable risk exposure to counterparties. Credit risk is monitored on an ongoing basis.

Credit risk management differs between the banking and insurance operations, therefore, the discussion regarding credit risk is split between these entities.

48.1.1 Banking Group

In general, the Banking Group manages its credit risk exposure by placing limits on the acceptable risk exposure to individual borrowers or groups of borrowers, and within geographic and industry segments. Credit risk is monitored on an ongoing basis. Further detail on credit risk management is found on pages 106 to 114 in the Risk Report.

Significant credit exposures

	2007									
R million	South Africa	Other Africa	United Kingdom	Ireland	Other Europe	North America	South America	Australasia	Other	Total
Assets										
Gross advances	336 994	15 663	18 887	1 236	10 127	416	1 095	3 531	86	388 035
Financial commitments	36 660	1 077	594	–	885	96	–	87	46	39 445
	373 654	16 740	19 481	1 236	11 012	512	1 095	3 618	132	427 480

	2006									
R million	South Africa	Other Africa	United Kingdom	Ireland	Other Europe	North America	South America	Australasia	Other	Total
Assets										
Gross advances	288 548	14 028	7 425	935	5 923	1 812	343	1 525	3	320 542
Financial commitments	33 934	2 105	15	–	144	50	13	201	293	36 755
	322 482	16 133	7 440	935	6 067	1 862	356	1 726	296	357 297

48. RISK MANAGEMENT continued

48.1.2 Momentum Group

The following are Momentum's exposures to credit risk:
- corporate and government debt;
- commission debtors;
- reinsurance;
- policy loan debt;
- scrip lending; and
- derivatives.

Further details on the management of credit risk can be found on pages 127 to 129 in the Risk Report.

Corporate and government debt

Momentum adopts a portfolio management approach to manage its credit exposures. In order to achieve appropriate diversification, limits are scrutinised at industry sector level, the number of single obligor exposures within rating categories and the targeted weighted average rating of the portfolio.

The Momentum Group's total exposure to corporate debt amounts to R27.9 billion at 30 June 2007 (2006: R30.2 billion), containing its most significant exposure to credit risk.

R million	Banks	RSA Govern-ment	Utilities	Mining	Other sectors	Total
2007	**11 500**	**7 100**	**–**	**–**	**9 300**	**27 900**
2006	13 500	8 200	800	700	7 000	30 200

The exposure to "other sectors" is spread across 31 industry sectors, with no single sector representing more than 3% of the total corporate debt exposure.

The exposure to banks represents debt, cash on deposit and derivative exposures to the largest A rated banks in South Africa. The largest counterparty exposure is to the RSA Government with R6.7 billion in exposure at 30 June 2007 (2006: R7.5 billion).

The total corporate debt portfolio is spread as follows across the various ZAR rating categories (based on Standard & Poor's rating scale). The ratings are relative to South African government debt.

	2007	2006
AAA	**–**	25%
AA+	**3%**	1%
AA+	**–**	2%
A+	**67%**	1%
A	**–**	45%
A-	**–**	5%
BBB+	**19%**	4%
BBB+	**–**	6%
BBB-	**–**	2%
BB+	**8%**	6%
BB	**–**	1%
B	**3%**	1%
B-	**–**	1%

The weighted average rating of the portfolio at 30 June 2007 was a BBB rating (2006: A).

Reinsurance

Momentum only enters into reinsurance treaties with reinsurers registered with the Financial Services Board.

No instances of default have yet been encountered.

Policy loan debt

Momentum's policy is to automatically lapse a policy where the policy loan debt exceeds the fund value. There is therefore little risk that the policy loan debt will remain irrecoverable.

Scrip lending

Momentum lends out listed equity holdings to a maximum of 50% of the total holding. At 30 June 2007 R10 446 million; 11% (2006: R9 055 million; 11.3%) of the toal equity holding, was out on loan. Fees received for scrip lending are included in fee income.

Collateral, in the form of either cash or fixed interest Government bonds, at least equal to the value of scrip on loan is retained on an ongoing basis in order to mitigate the risk of default.

Derivative contracts

Momentum enters into derivative contracts with A rated local banks on terms set out by the industry standard International Swaps and Derivative Agreements ("ISDA"). In terms of these ISDA agreements, derivative assets and liabilities can be set off with the same counterparty, resulting in only the net exposure being included in the overall Group counterparty exposure analysis.

48. RISK MANAGEMENT continued

48.1.3 Discovery Group

The key areas where Discovery is exposed to credit risk are:

– reinsures share of insurance liabilities;
– amounts due from Discovery Health Medical Scheme; and
– cash and cash equivalents held at various financial institutions.

Discovery structures the levels of credit risk it accepts by placing limits on its exposure to a single counterparty, or groups of counterparties. An appropriate level of impairment is maintained.

Discovery manages its exposure to credit risk in reinsurance assets held by placing reinsurance with reputable international companies. The credit rating of the company is assessed when placing the business and where there is a change in the status of the reinsurer.

The risk of cash and cash equivalents are managed through dealings with the major banks and exposures are monitored against approved limits.

48.2 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group has the following currency exposures:

48.2.1 Banking Group

The Banking Group takes on exposure to fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Banking Group manages foreign currency exposure in terms of approved limits. The currency position at 30 June 2007 is set out below:

			2007			
R million	Rand	GBP	US$	Euro	Other	Total
ASSETS						
Cash and short term funds	20 071	115	7 360	189	1 061	28 796
Derivative financial instruments	11 843	–	8 261	383	353	20 840
– qualifying for hedge accounting	126	–	4	–	14	144
– held for trading	11 717	–	8 257	383	339	20 696
Advances	339 026	4 657	20 422	3 450	15 930	383 485
– loans and receivables	288 320	3 913	1 181	286	15 761	309 461
– held-to-maturity	535	–	–	–	–	535
– available-for-sale	728	–	–	–	–	728
– fair value through profit and loss	49 443	744	19 241	3 164	169	72 761
Investment securities and other investments	71 604	1 142	5 752	2 215	9 368	90 081
Financial instruments held for trading	37 124	1 040	2 354	1 234	3 565	45 317
Investment securities	34 480	102	3 398	981	5 803	44 764
– held-to-maturity	–	–	–	–	5	5
– available-for-sale	8 126	8	134	–	5 486	13 754
– fair value through profit and loss	10 404	94	3 264	981	312	15 055
– fair value through profit and loss non recourse investments	15 950	–	–	–	–	15 950
Commodities	1 077	–	–	–	41	1 118
Loans to Insurance Group	3 953	63	–	–	–	4 016
Accounts receivables	5 390	197	583	12	684	6 866
Investments in associates and joint ventures	4 159	–	701	–	597	5 457
Property and equipment	5 114	44	9	–	261	5 428
Deferred tax asset	371	34	–	–	132	537
Intangible assets and deferred acquisition costs	389	53	6	–	395	843
Total assets	462 997	6 305	43 094	6 249	28 822	547 467

R million	Rand	GBP	2007 US$	Euro	Other	Total
48. RISK MANAGEMENT continued						
48.2.1 Banking Group continued						
EQUITY AND LIABILITIES						
LIABILITIES						
Deposits	374 958	780	22 129	4 674	17 424	419 965
– deposits and current accounts	359 008	780	22 129	4 674	17 424	404 015
– fair value through profit and loss non recourse deposits	15 950	–	–	–	–	15 950
Short trading positions	33 728	–	2 348	350	444	36 870
Derivative financial instruments	8 819	432	8 113	569	202	18 135
– qualifying for hedge accounting	28	–	2	–	–	30
– held for trading	8 791	432	8 111	569	202	18 105
Loans from Insurance Group	5 222	299	–	–	1	5 522
Creditors and accruals	8 249	182	–	2	631	9 064
Provisions	2 546	356	159	15	135	3 211
Tax liability benefit fund	990	112	21	–	–	1 123
Post retirement benefit fund liability	1 801	7	–		34	1 842
Deferred tax liability	3 136	2	–	–	130	3 268
Long term liabilities	5 206	–	–	–	1 968	7 174
Policyholder liabilities under insurance contracts	224	–	–	–	–	224
Policyholder liabilities under investment contracts	–	–	–	–	188	188
Capital and reserves attributable to equity holders	32 741	57	3 633	318	2 477	39 226
Total equity and liabilities	477 620	2 227	36 403	5 928	23 634	545 812

48. RISK MANAGEMENT continued

48.2.1 Banking Group continued

R million	Rand	GBP	2006 US$	Euro	Other	Total
ASSETS						
Cash and short term funds	20 746	465	5 467	80	952	27 710
Derivative financial instruments	17 459	537	14 403	2 780	202	35 381
– qualifying for hedge accounting	254	–	172	–	2	428
– held for trading	17 205	537	14 231	2 780	200	34 953
Advances	286 063	307	15 649	2 341	12 480	316 840
– loans and receivables	248 582	52	1 023	160	12 317	262 134
– held-to-maturity	713	–	–	–	–	713
– available-for-sale	523	–	–	–	–	523
– fair value through profit and loss	36 245	255	14 626	2 181	163	53 470
Investment securities and other investments	50 954	844	8 269	1 335	9 326	70 728
Financial instruments held for trading	21 074	834	3 124	963	4 020	30 015
Investment securities	29 880	10	5 145	372	5 306	40 713
– held-to-maturity	–	–	–	–	92	92
– available-for-sale	12 399	3	1 425	120	4 965	18 912
– fair value through profit and loss	8 687	7	3 720	252	249	12 915
– fair value through profit and loss non-recourse investments	8 794	–	–	–	–	8 794
Commodities	644	–	2	–	30	676
Loans to Insurance Group	1 108	26	139	–	1	1 274
Accounts receivables	2 631	21	426	6	402	3 486
Investments in associates and joint ventures	3 238	–	273	–	138	3 649
Property and equipment	4 075	1	11	–	242	4 329
Deferred tax asset	197	79	–	–	84	360
Intangible assets and deferred acquisition costs	410	–	11	–	343	764
Total assets	387 525	2 280	44 650	6 542	24 200	465 197

R million	Rand	GBP	2006 US$	Euro	Other	Total

48. RISK MANAGEMENT continued

48.2.1 Banking Group continued

EQUITY AND LIABILITIES

R million	Rand	GBP	US$	Euro	Other	Total
Liabilities						
Deposits	304 970	606	18 070	2 606	16 079	342 331
– deposits and current accounts	296 176	606	18 070	2 606	16 079	333 537
– fair value through profit and loss non recourse deposits	8 794	–	–	–	–	8 794
Short trading positions	24 722	–	2 631	258	653	28 264
Derivative financial instruments	15 715	517	14 669	1 819	252	32 972
– qualifying for hedge accounting	51	–	100	6	5	162
– held for trading	15 664	517	14 569	1 813	247	32 810
Loans from Insurance Group	3 981	113	196	17	–	4 307
Creditors and accruals	9 044	13	603	4	437	10 101
Provisions	1 651	76	62	3	193	1 985
Tax liability	528	4	3	(33)	52	554
Post retirement funding liability	1 557	10	–	–	30	1 597
Deferred tax	2 629	–	1	5	89	2 724
Long term liabilities	4 764	17	2 534	–	489	7 804
Policyholder liabilities under insurance contracts	178	–	–	–	147	325
Caital and reserves attributable to equity holders	25 187	13	3 727	(21)	1 949	30 855
Minority interest	1 378	–	–	–	–	1 378
Total equity and liabilities	396 304	1 369	42 496	4 658	20 370	465 197

48.2.2 Momentum Group

The majority of the currency exposure within the Momentum Group results from offshore assets held by policyholder portfolios to provide the desired international exposure, subject to the limitations imposed by the South African Reserve Bank. The largest portion of these assets are backing linked policyholder liabilities, resulting in the majority of the currency risk being passed to the policyholder in terms of the policy agreement.

The following assets and liabilities, denominated in foreign currencies, where the currency risk resides with the Momentum Group, are included in the Group balance sheet:

R million	**GBP**	**US$**	**2007 Euro**	**Other**	**Total**
Shareholders' assets and liabilities					
Assets					
Cash and short term funds	331	148	3	42	524
Government and public authority stocks	–	–	–	–	–
Debentures and other loans	–	–	–	–	–
Equity investments	11	11	–	–	22
Derivative financial instruments	–	2		–	2
Investment assets	342	161	3	42	548
Accounts receivables	76	27	4	22	129
Tax	1	–	–	–	1
Deferred tax asset	–	–	–	2	2
Intangible assets and deferred acquisition costs	9	–	–	–	9
Property and equipment	21	–	–	4	25
Total assets	449	188	7	70	714

R million	GBP	US$	2007 Euro	Other	Total
48. RISK MANAGEMENT continued					
48.2.2 Momentum Group continued					
Liabilities					
Creditors and accruals	238	19	2	9	268
Provisions	9	–	–	–	9
Tax liability	12	6	–	1	19
Employee benefit liabilities	17	–	–	–	17
Deferred revenue liability	10	–	–	–	10
Other financial liabilities	10	–	–	–	10
Total liabilities	296	25	2	10	333
Assets backing policyholder liabilities					
Cash and short term funds	86	1 272	339	46	1 743
Loans and receivables	–	4	–	8	12
Government and public authority stocks	6	1 291	118	38	1 453
Equity investments	96	8 785	293	161	9 335
Debentures and other loans	–	–	–	–	–
Derivative financial instruments	1	1 045	2		1 048
Total assets	189	12 397	752	253	13 591
Liabilities					
Accounts payable	–	5	–	20	25
Other financial liabilities	–	–	–	3	3
Policyholder liabilities under investment contracts	–	615	–	–	615
Policyholder liabilities under insurance contracts	–	–	–	11	11
Total liabilities	–	620	–	34	654

	GBP	US$	Euro	Pula
Foreign exchange rates as at 30 June 2007				
Closing rate	14.1732	7.0700	9.5516	1.1489
Average rate	13.9869	7.2072	9.4483	1.1703

R million	GBP	US$	2006 Euro	Other	Total
Shareholders' assets and liabilities					
Assets					
Cash and short term funds	138	166	9	3	316
Debentures and other loans	36	–	–	–	36
Equity investments	3	86	–	–	89
Derivative financial instruments	1	–	–	–	1
Investment assets	178	252	9	3	442
Loans and receivables	51	41	7	2	101
Tax	3	–	–	–	3
Intangible assets and deferred acquisition costs	9	–	–	–	9
Property and equipment	22	–	–	–	22
Total assets	263	293	16	5	577
Liabilities					
Creditors and accruals	81	24	5	4	114
Provisions	11	2	–	–	13
Tax liability	6	2	–	–	8
Deferred revenue liability	6	–	–	–	6
Other financial liabilities	15	–	–	–	15
Total liabilities	119	28	5	4	156

R million	GBP	US$	2006 Euro	Other	Total

48. RISK MANAGEMENT continued

48.2.2 Momentum Group continued

	GBP	US$	Euro	Other	Total
Assets backing policyholder liabilities					
Money market investment	54	1 427	378	203	2 062
Loans and receivables	–	1	–	8	9
Government and public authority stocks	12	1 354	66	75	1 507
Equity investments	289	5 833	324	282	6 728
Debentures and other loans	–	13	–	–	13
Derivative financial instruments	87	1 623	120	36	1 866
Total assets	442	10 251	888	604	12 185
Liabilities					
Accounts payable	–	3	–	16	19
Other financial liabilities	–	–	–	3	3
Policyholder liabilities under investment contracts	–	66	–	–	66
Policyholder liabilities under insurance contracts	–	–	–	8	8
Total liabilities	–	69	–	27	96

	GBP	US$	Euro	Pula
Foreign exchange rates as at 30 June 2006				
Closing rate	13.1545	7.1325	9.1007	1.1840
Average rate	11.4478	6.4407	7.8536	1.1622

48.2.3 Discovery Group

Discovery operates internationally and its exposure to foreign exchange risk arises primarily with respect to the US Dollar and the UK Pound. As a result, foreign exchange risk arises from net investment in foreign operations.

Discovery manages short term foreign currency exposures. Forward exchange contracts are utilised to reduce exposure to currency risk and are designated as cash flow hedges.

The following assets and liabilities, denominated in foreign currencies, where the currency risk resides with Discovery, are included in the Group balance sheet:

R million	Rand	GBP	2007 US$	Euro	Other	Total
Insurance and investment contracts						
Assets						
Intangible assets including deferred acquisition costs	9	20	–	–	–	29
Financial assets						
– Equity investments	562	16	29	24	8	639
– Government and public stock	38	1	2	5	4	50
– Money market	104	–	4	–	–	108
– Equity linked notes	78	–	–	–	–	78
Reinsurance assets	51	–	–	–	–	51
Cash and short term funds	522	–	–	–	–	522
Total assets	1 364	37	35	29	12	1 477
Liabilities						
Liabilities arising from insurance contracts	539	50	153	–	–	742
Financial liabilities						
– Investment contracts at fair value through profit and loss	735	–	–	–	–	735
Total liabilities	1 274	50	153	–	–	1 477

R million	Rand	GBP	2007 US$	Euro	Other	Total
48. RISK MANAGEMENT continued						
48.2.3 Discovery Group continued						
Shareholders						
Assets						
Property and equipment	219	2	7	–	–	228
Intangible assets	79	–	5	–	–	84
Assets arising from insurance contracts	3 114	–	–	–	–	3 114
Investment in associates	1	–	–	–	–	1
Financial assets						
– Equity investments	1 348	18	63	78	9	1 516
– Government and public stock	116	1	136	6	4	263
– Money market	410	–	59	–	–	469
– Equity linked notes	45	–	–	–	–	45
– Accounts receivables	601	145	142	–	–	888
Deferred tax asset	80	–	–	–	–	80
Tax asset	4	–	–	–	–	4
Cash and short term funds	220	175	79	–	–	474
Total assets	6 237	341	491	84	13	7 166
Equity						
Share capital and share premium	1 393	–	–	–	–	1 393
Reserves/(losses)	5 199	(342)	(888)	–	–	3 969
Total equity	6 592	(342)	(888)	–	–	5 362
Liabilities						
Liabilities arising from reinsurance contracts	20	–	–	–	–	20
Long term liabilities	40	–	33	–	–	73
Deferred tax liability	806	–	–	–	–	806
Deferred revenue	122	–	–	–	–	122
Provisions	46	–	2	–	–	48
Creditors and accruals	471	107	157	–	–	735
Total liabilities	1 505	107	192	–	–	1 804
Total equity and liabilities	8 097	(235)	(696)	–	–	7 166

R million	Rand	GBP	2006 US$	Euro	Other	Total
48. RISK MANAGEMENT continued						
48.2.3 Discovery Group continued						
Insurance and investment contracts						
Assets						
Intangible assets including deferred acquisition costs	1	1	–	–	–	2
Financial assets						
– Government and public stock	367	11	19	12	15	424
– Money market	44	–	2	4	2	52
– Equity linked notes	142	–	4	2	–	148
– Accounts receivables	21	–	–	–	–	21
Reinsurance assets	32	–	–	–	–	32
Cash and short term funds	389	–	–	–	–	389
Total assets	996	12	25	18	17	1 068
Liabilities						
Liabilities arising from insurance contracts	306	20	138	–	–	464
Financial liabilities						
– Investment contracts at fair value through profit and loss	604	–	–	–	–	604
Total liabilities	910	20	138	–	–	1 068
Shareholders						
Assets						
Property and equipment	175	2	9	–	–	186
Intangible assets	46	10	8			64
Assets arising from insurance contracts	2 463	–	–	–	–	2 463
Investment in associates and joint ventures	7	–	–	–	–	7
Financial assets						
– Equity investments	1 046	11	46	58	15	1 176
– Government and public stock	45	1	129	3	3	181
– Money market	50	–	5	2	1	58
– Equity linked notes	56	–	–	–	–	56
– Accounts receivables	358	63	138	–	–	559
Deferred income tax	41	–	–	–	–	41
Cash and short term funds	726	95	112	–	–	933
Total assets	5 013	182	447	63	19	5 724
Equity						
Share capital and share premium	1 348	–	–	–	–	1 348
Reserves/(losses)	3 891	(246)	(781)	–	–	2 864
Total equity	5 239	(246)	(781)	–	–	4 212
Liabilities						
Liabilities arising from reinsurance contracts	24	–	–	–	–	24
Long term liabilities	42	–	119	–	–	161
Deferred tax liability	518	–	–	–	–	518
Deferred revenue	203	–	–	–	–	203
Provisions	36	–	–	–	–	36
Creditors and accruals	341	37	144	–	–	522
Tax asset	48	–	–	–	–	48
Total liabilities	1 212	37	263	–	–	1 512
Total equity and liabilities	6 451	(209)	(518)	–	–	5 724

48. RISK MANAGEMENT continued

48.3 Liquidity risk management

Liquidity risk is the risk that the Group will encounter difficulty in raising funds to meet its commitments. Each of the entities have different liquidity risks.

48.3.1 Banking Group

The Banking Group is exposed to daily liquidity requirements from overnight deposits, current accounts, maturing deposits, loan draw downs and other cash requirements. The Banking Group does not maintain sufficient cash resources to meet all of these liquidity needs, as historical experience indicates a minimum level of reinvestment of maturing funds with a high level of certainty.

The matching and controlled mismatching of maturities and interest rates of assets and liabilities is fundamental to the management of the Banking Group. It is unusual for banks to be completely matched since business transactions are often of uncertain terms and different types. An unmatched position potentially enhances profitability, but may also increase the risk of loss.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest bearing liabilities as they mature, are important factors in assessing the liquidity of the Banking Group and its exposure to changes in interest rates and exchange rates.

Details on the liquidity risk management process is set out on pages 115 of the risk report.

	2007					
		Term to maturity				
R million	Demand	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Carrying amount
ASSETS						
Cash and short term funds	28 512	33	238	12	1	28 796
Derivative financial instruments	3 890	2 259	3 897	8 565	2 229	20 840
– qualifying for hedge accounting	6	27	44	67	–	144
– held for trading	3 884	2 232	3 853	8 498	2 229	20 696
Advances	88 354	20 713	34 761	112 632	127 025	383 485
– loans and receivables	50 566	10 057	29 784	97 103	121 951	309 461
– held-to-maturity	–	140	–	13	382	535
– available-for-sale	–	51	143	534	–	728
– fair value through profit and loss	37 788	10 465	4 834	14 982	4 692	72 761
Investment securities and other investments	34 953	16 464	10 317	16 618	11 729	90 081
Financial instruments held for trading	29 396	4 546	7 394	2 044	1 937	45 317
Investment securities	5 557	11 918	2 923	14 574	9 792	44 764
– held-to-maturity	–	5	–	–	–	5
– available-for-sale	397	4 984	1 666	3 386	3 321	13 754
– fair value through profit and loss	154	3 179	370	7 518	3 834	15 055
– fair value through profit and loss non recourse investments	5 006	3 750	887	3 670	2 637	15 950
Commodities	1 081	19	18	–	–	1 118
Accounts receivable	4 904	687	893	270	112	6 866
Investments in associates and joint ventures	13	35	–	9	5 400	5 457
Property and equipment	63	1	3	2 340	3 021	5 428
Deferred tax asset	6	7	54	317	153	537
Intangible assets and deferred acquisition costs	9	3	13	152	666	843
Loans to Insurance Group	1 820	65	250	1 695	186	4 016
Total assets	163 605	40 286	50 444	142 610	150 522	547 467

	2007					
		Term to maturity				
R million	Demand	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Carrying amount
48. RISK MANAGEMENT continued						
48.3.1 Banking Group continued						
SHAREHOLDERS' EQUITY AND LIABILITIES						
Liabilities						
Deposits	231 794	58 520	69 752	29 477	30 422	419 965
– deposits and current accounts	228 225	55 102	62 114	28 506	30 068	404 015
– fair value through profit and loss non recourse deposits	3 569	3 418	7 638	971	354	15 950
Short trading positions	36 233	–	–	325	312	36 870
Derivative financial instruments	2 182	2 412	4 670	6 649	2 222	18 135
– qualifying for hedge accounting	2	–	13	14	1	30
– held for trading	2 180	2 412	4 657	6 635	2 221	18 105
Creditors and accruals	2 968	2 972	3 124	–	–	9 064
Provisions	883	1 271	958	99	–	3 211
Tax liability	125	38	960	–	–	1 123
Post retirement benefit fund liability	–	–	57	196	1 589	1 842
Deferred tax liability	3	4	1	2 199	1 061	3 268
Long term liabilities	51	318	1 234	5 571	–	7 174
Policyholder liabilities under insurance contracts	–	–	–	224	188	412
Capital and reserves attributable to equity holders	–	–	–	–	39 226	39 226
Minority interest	–	–	–	–	1 655	1 655
Loans from Insurance Group	1 363	976	835	1 528	820	5 522
Total liabilities and equity	275 602	66 511	81 591	46 268	77 495	547 467
Net liquidity gap	(111 997)	(26 225)	(31 147)	96 342	73 027	–

R million	Demand	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Carrying amount
	2006					
		Term to maturity				
48. RISK MANAGEMENT continued						
48.3.1 Banking Group continued						
ASSETS						
Cash and short term funds	26 997	513	200	–	–	27 710
Derivative financial instruments	435	8 604	11 301	8 774	6 267	35 381
– qualifying for hedge accounting	1	13	42	282	90	428
– held for trading	434	8 591	11 259	8 492	6 177	34 953
Advances	52 300	46 229	41 470	109 067	67 774	316 840
– loans and receivables	47 023	21 762	36 525	93 322	63 502	262 134
– held-to-maturity	–	135	–	15	563	713
– available-for-sale	–	34	126	339	24	523
– fair value through profit and loss	5 277	24 298	4 819	15 391	3 685	53 470
Investment securities and other investments	14 995	11 448	10 386	20 694	13 205	70 728
Financial instruments held for trading	13 987	2 612	3 378	7 299	2 739	30 015
Investment securities	1 008	8 836	7 008	13 395	10 466	40 713
– held-to-maturity	20	57	15	–	–	92
– available-for-sale	352	4 666	4 629	5 966	3 299	18 912
– fair value through profit and loss	146	2 229	888	4 266	5 386	12 915
– fair value through profit and loss non recourse investments	490	1 884	1 476	3 163	1 781	8 794
Commodities	647	27	2	–	–	676
Accounts receivables	2 266	736	322	157	5	3 486
Investments in associates and joint ventures	172	–	3	1 967	1 507	3 649
Property and equipment	278	6	15	1 513	2 517	4 329
Deferred tax asset	1	17	74	208	60	360
Intangible assets and deferred acquisition costs	62	4	10	185	503	764
Loans to Insurance Group	782	31	7	446	8	1 274
Total assets	98 935	67 615	63 790	143 011	91 846	465 197

48. RISK MANAGEMENT continued

48.3.1 Banking Group continued

R million	Demand	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Carrying amount
	2006					
		Term to maturity				
EQUITY AND LIABILITIES						
Liabilities						
Deposits	183 455	77 060	50 151	19 023	12 642	342 331
– deposits and current accounts	183 455	73 061	45 356	19 023	12 642	333 537
– non recourse deposits	–	3 999	4 795	–	–	8 794
Short trading positions	3 846	2 929	3 154	15 191	3 144	28 264
Derivative financial instruments	528	9 549	11 981	8 511	2 403	32 972
– qualifying for hedge accounting	–	12	19	70	61	162
– held for trading	528	9 537	11 962	8 441	2 342	32 810
Creditors and accruals	5 059	3 085	591	1 139	227	10 101
Provisions	306	685	701	259	34	1 985
Tax liability	4	97	392	60	1	554
Post retirement liability	–	–	54	377	1 166	1 597
Deferred tax liability	–	8	47	2 026	643	2 724
Long term liabilities	–	–	–	4 080	3 724	7 804
Policyholder liabilities under insurance contracts	–	–	–	178	147	325
Capital and reserves attributable to equity holders	–	–	–	–	30 855	30 855
Minority interest	–	–	–	–	1 378	1 378
Loans from Insurance Group	746	1 886	1 581	24	70	4 307
Total liabilities and equity	193 944	95 299	68 652	50 868	56 434	465 197
Net liquidity gap	(95 009)	(27 684)	(4 862)	92 143	35 412	–

48.3.2 Momentum Group

The Momentum Group views liquidity risk as the risk that the Group will encounter difficulty in raising funds required to meet commitments to policyholders under policy contracts and in respect of other obligations.

All policyholder funds are invested in assets that match the reasonable benefits expectations of policyholders, which includes the expectation that funds will be available to pay out benefits as required by the contracts.

The only significant shareholders' liability is the callable bond issued during 2006. The Group's shareholder funds include sufficient shareholders' funds which include sufficient cash resources to fund the coupon payments under this bond and the nominal amount, which matures in 2015, that will be funded from cash resources at that time.

The following table gives an indication of liquidity needs in respect of cash flows required to meet obligations arising under long term insurance contracts (as defined under IFRS 4). The amounts in the table represents the excess of claims and expenses over premium income. Only expected cash flows from the current in-force book have been modelled and future new business has been ignored. Annually renewable policy contracts, namely lump sum Group risk business and credit life business, have been excluded from the table (but Group annuities have been included). Cash flows from investment contracts (as defined under IFRS 4) have also been excluded, as a table with the maturity profile in respect of this class of business has been included in note 31 to the financial statements.

R million	**2007**	2006
Period when cash flows become due (insurance contracts)		
Less than 1 year	**880**	1 363
1 to 5 years	**4 123**	6 863
5 to 10 years	**7 069**	8 940
10 to 30 years	**25 254**	25 427
	37 326	42 593

48. RISK MANAGEMENT continued

48.3.2 Momentum Group continued

The table below discloses major categories of assets and liabilities between current and non current portion.

R million	2007 Current	2007 Non current	2006 Current	2006 Non current
Assets				
Accounts receivables	1 748	–	2 899	–
Derivative financial instruments	5 843	6 632	11 091	6 104
Reinsurance assets	216	328	31	229
Deferred acquisition cost asset	4	1 446	177	1 059
	7 811	8 406	14 198	7 392
Liabilities				
Derivative financial instruments	1 066	5 302	5 249	3 343
Creditors and accruals	4 025		5 823	
Liabilities arising to third parties as a result of consolidating collective schemes	–	1 568	–	1 725
Other financial liabilities	–	978	1 897	1 956
Policyholder liabilities under investment contracts	14 669	96 099	12 704	80 401
Long term liabilities	–	241	19	270
Provisions	336		384	
Deferred revenue liability	14	251	58	190
Policyholder liabilities under insurance contracts	1 559	44 316	5 236	34 729
	21 669	148 755	31 370	122 614

48.3.3 Discovery Group

As with the Momentum Group, Discovery Group views liquidity risk as the risk that the Group will encounter difficulty in meeting commitments associated with financial instruments.

Policyholder funds are invested in appropriate assets, taking into account expected cash outflows. Discovery has significant liquid resources. Cash flows from insurance products are predicted to be positive in the forseeable future.

Reinsurance expected cash flows net of tax under in force insurance and investment contracts are as follows:

R million	Year 1	Years 2 – 5	2007 Years 5 – 10	Years 11 – 20	Years 21+
Cash flow	630	2 354	3 141	6 740	22 666

R million	Year 1	Years 2 – 5	2006 Years 5 – 10	Years 11 – 20	Years 21+
Cash flow	472	1 675	2 140	4 328	10 557

Note that these cash flows are based on best estimates cash flows not taking into account the margins included within the liability calculations.

No allowance has been made for new business and related expenses.

For more detail on the cash flow profile from insurance contracts and investment contracts refer to note 30 and note 31 of the financial statements.

48. RISK MANAGEMENT continued

48.3.3 Discovery Group continued

The table below discloses major categories of assets and liabilities between their current and non current portion.

R million	2007 Current	2007 Non current	2006 Current	2006 Non current
Assets				
Assets arising from insurance contracts	–	3 114	–	2 463
Financial assets	43	3 125	38	2 078
Accounts receivables	752	136	558	1
Reinsurance assets	51	–	32	–
Deferred tax asset	3	77	2	39
	849	6 452	630	4 581
Liabilities				
Liabilities arising from insurance contracts	742	–	464	–
Liabilities arising from reinsurance contracts	7	13	7	17
Investment contracts at fair value through profit and loss	–	735	–	604
Long term liabilities	36	37	121	40
Deferred tax liability	8	798	23	495
Deferred revenue liability	89	33	93	110
Provisions	48	–	36	–
Creditors and accruals	684	51	516	6
	1 614	1 667	1 260	1 272

48. RISK MANAGEMENT continued

48.4 Interest rate risk management

48.4.1 Banking Group

Interest sensitivity of assets, liabilities and off balance sheet items – repricing analysis

The Banking Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The Board of directors sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily.

The table below summarises the Group's exposure to interest rate risk, categorised by contractual repricing date.

	2007						
	Interest earning/bearing						
		Term to repricing					
R million	Demand	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Non interest earning/ bearing	Carrying amount
ASSETS							
Cash and short term funds	26 174	55	239	–	–	2 328	28 796
Derivative financial instruments	1 054	5 776	18	164	1 984	11 844	20 840
– qualifying for hedge accounting	–	124	–	5	–	15	144
– held for trading	1 054	5 652	18	159	1 984	11 829	20 696
Advances	255 975	23 874	9 428	42 443	31 726	20 039	383 485
– loans and receivables	226 735	12 032	8 174	38 463	22 826	1 231	309 461
– held-to-maturity	340	140	–	–	55	–	535
– available-for-sale	728	–	–	–	–	–	728
– fair value through profit and loss	28 172	11 702	1 254	3 980	8 845	18 808	72 761
Investment securities and other investments	15 559	14 413	9 047	10 062	9 734	31 266	90 081
Financial instruments held for trading	2 432	3 796	7 382	2 331	2 160	27 216	45 317
Investment securities	13 127	10 617	1 665	7 731	7 574	4 050	44 764
– held-to-maturity	–	5	–	–	–	–	5
– available-for-sale	413	4 998	1 662	2 770	3 447	464	13 754
– fair value through profit and loss	6 102	1 941	3	1 503	1 920	3 586	15 055
– fair value through profit and loss non recourse investments	6 612	3 673	–	3 458	2 207	–	15 950
Commodities	–	–	–	–	–	1 118	1 118
Accounts receivables	1 033	62	212	94	49	5 416	6 866
Investments in associates and joint ventures	18	65	–	–	–	5 374	5 457
Property and equipment	–	–	–	–	–	5 428	5 428
Deferred tax asset	7	4	4	–	–	522	537
Intangible assets and deferred acquisition costs	22	–	–	–	–	821	843
Loans to Insurance Group	2 094	2	–	897	–	1 023	4 016
Total assets	301 936	44 251	18 948	53 660	43 493	85 179	547 467

48. RISK MANAGEMENT continued

48.4.1 Banking Group continued

R million	2007 Interest earning/bearing Demand	Term to repricing 1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Non-interest earning/bearing	Carrying amount
EQUITY AND LIABILITIES							
Liabilities							
Deposits	255 645	56 936	68 190	25 858	2 103	11 233	419 965
– deposits and current accounts	251 765	53 518	60 675	24 722	2 102	11 233	404 015
– non recourse deposits	3 880	3 418	7 515	1 136	1	–	15 950
Short trading position	1 303	74	–	4 086	877	30 530	36 870
Derivative financial instruments	1 185	5 721	47	87	38	11 057	18 135
– qualifying for hedge accounting	–	30	–	–	–	–	30
– held for trading	1 185	5 691	47	87	38	11 057	18 105
Creditors and accruals	886	3 593	2 682	–	–	1 903	9 064
Provisions	43	20	17	–	–	3 131	3 211
Tax liability	139	20	19	(100)	–	1 045	1 123
Post retirement funding liability	–	–	58	195	1 589	–	1 842
Deferred tax liability	3	–	–	–	–	3 265	3 268
Long term liabilities	1 973	1 805	469	2 927	–	–	7 174
Policyholders' liabilities under insurance contracts	–	–	–	–	–	412	412
Capital and reserves attributable to equity holders	–	–	–	–	–	39 226	39 226
Minority interest	–	–	–	–	–	1 655	1 655
Loans from Insurance Group	1 541	567	830	1 438	177	969	5 522
Total equity and liabilities	262 718	68 736	72 312	34 491	4 784	104 426	547 467
Net interest sensitivity gap	39 218	(24 485)	(53 364)	19 169	38 709	(19 247)	–

48. RISK MANAGEMENT continued

48.4.1 Banking Group continued

R million	Demand	1-3 months	3-12 months	1-5 years	Over 5 years	Non interest earning/ bearing	Carrying amount
	2006						
	Interest earning/bearing						
		Term to repricing					
ASSETS							
Cash and short term funds	24 508	657	–	200	–	2 345	27 710
Derivative financial instruments	297	12 254	8 262	2 097	4 059	8 412	35 381
– qualifying for hedge accounting	–	395	21	11	–	1	428
– held for trading	297	11 859	8 241	2 086	4 059	8 411	34 953
Advances	102 880	62 740	27 503	58 996	63 394	1 327	316 840
– loans and receivables	97 091	38 281	22 684	43 611	59 144	1 323	262 134
– held-to-maturity	–	135	–	15	563	–	713
– available-for-sale	523	–	–	–	–	–	523
– fair value through profit and loss	5 266	24 324	4 819	15 370	3 687	4	53 470
Investment securities and other investments	4 254	11 445	10 326	20 189	13 438	11 076	70 728
Financial instruments held for trading	3 337	2 612	3 209	7 277	2 700	10 880	30 015
Investment securities	917	8 833	7 117	12 912	10 738	196	40 713
– held-to-maturity	20	20	52	–	–	–	92
– available-for-sale	262	4 663	4 859	5 609	3 434	85	18 912
– fair value through profit and loss	145	2 266	730	4 140	5 523	111	12 915
– fair value through profit and loss non recourse investments	490	1 884	1 476	3 163	1 781	–	8 794
Commodities	17	–	–	–	–	659	676
Accounts receivables	648	50	7	3	–	2 778	3 486
Investments in associates and joint ventures	–	–	–	–	–	3 649	3 649
Property and equipment	–	–	–	–	–	4 329	4 329
Deferred tax asset	–	–	–	–	–	360	360
Intangible assets and deferred acquisition costs	–	–	–	–	–	764	764
Loans to Insurance Group	157	16	2	–	–	1 099	1 274
Total assets	132 761	87 162	46 100	81 485	80 891	36 798	465 197
EQUITY AND LIABILITIES							
Liabilities							
Deposits	161 896	100 241	49 735	17 284	1 013	12 162	342 331
– deposits and current accounts	161 896	96 242	44 940	17 284	1 013	12 162	333 537
– non recourse deposits	–	3 999	4 795	–	–	–	8 794
Short trading position	–	1 220	5 264	14 777	3 158	3 845	28 264
Derivative financial instruments	399	13 368	9 071	1 070	235	8 829	32 972
– qualifying for hedge accounting	–	136	8	17	–	1	162
– held for trading	399	13 232	9 063	1 053	235	8 828	32 810
Creditors and accruals	1 003	856	446	395	249	7 152	10 101
Provisions	1 858	88	–	–	–	39	1 985
Tax liability	76	431	30	–	–	17	554
Post retirement funding liability	1	–	55	185	1 356	–	1 597
Deferred tax liability	–	–	–	–	–	2 724	2 724
Long term liabilities	–	–	–	–	–	325	325
Policyholders' liabilities under insurance contracts	–	–	–	4 971	2 833	–	7 804
Capital and reserves attributable to equity holders	–	–	–	–	–	30 855	30 855
Minority interest	–	–	–	–	–	1 378	1 378
Loans from Insurance Group	734	1 886	1 581	24	–	82	4 307
Total equity and liabilities	165 967	118 090	66 182	38 706	8 844	67 408	465 197
Net interest sensitivity gap	(33 206)	(30 928)	(20 082)	42 779	72 047	(30 610)	–

48. RISK MANAGEMENT continued

48.4.2 Momentum Group

Momentum Group views interest rate risk as the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

The following assets will be affected by changes in market interest rates:

R million	Shorter than 1 year	Between 1 and 5 years	Between 5 and 10 years	Longer than 10 years	Total	Effective interest rate %
	2007					
	Maturity date					
Assets backing policyholder liabilities						
Cash and short term funds	1 741	–	–	–	1 741	7.6
Money market investments	11 035	506	1	97	11 639	8.2
Government and public authority stocks	5 131	6 575	3 402	6 835	21 943	8.5
Debentures and other loans	3 309	5 155	2 567	321	11 352	12.0
Total assets	21 216	12 236	5 970	7 253	46 675	9.2
Lease payments receivable	182	–	–	–	182	
Less unearned finance charges	(55)	–	–	–	(55)	
Net lease debtor	127	–	–	–	127	
Shareholder assets						
Cash and short term funds	602	–	–	–	602	7.6
Money market investments	3 552	–	–	–	3 552	8.2
Government and public authority stocks	157	–	–	–	157	8.5
Debentures and other loans	6	504	–	–	510	12.0
Total assets	4 317	504	–	–	4 821	8.5

Total effect on earnings attributable to ordinary shareholders if interest rates change by 1 percentage point is R38 million.

R million	Shorter than 1 year	Between 1 and 5 years	Between 5 and 10 years	Longer than 10 years	Total	Effective interest rate %
	2006					
	Maturity date					
Assets backing policyholder liabilities						
Cash and short term funds	2 331	–	–	–	2 331	7.0
Money market investments	14 794	18	40	–	14 852	7.5
Government and public authority stocks	5 178	2 623	2 175	7 372	17 348	8.0
Debentures and other loans	5 103	2 480	1 995	1 085	10 663	10.8
Total assets	27 406	5 121	4 210	8 457	45 194	8.3
Lease payments receivable	563	–	–	–	563	
Less unearned finance charges	(109)	–	–	–	(109)	
Net lease debtor	454	–	–	–	454	
Shareholder assets						
Cash and short term funds	1 119	–	–	–	1 119	7.0
Money market investments	2 030	–	–	–	2 030	7.5
Government and public authority stocks	148	123	1	16	288	8.0
Debentures and other loans	36	606	–	–	642	10.8
Total assets	3 333	729	1	16	4 079	7.9

Total effect on earnings attributable to ordinary shareholders if interest rates change by 1 percentage point is R29 million. The following table provides a split of interest bearing assets that are exposed to cash flow interest rate risk and those that are exposed to fair value interest rate risk.

48. RISK MANAGEMENT continued

48.4.2 Momentum Group continued

R million	2007 Cash flow interest rate risk	2007 Fair value interest rate risk	2007 Total
ASSETS			
Cash and short term funds	2 343	–	2 343
Money market investments	14 587	604	15 191
Government and public authority stocks	–	22 100	22 100
Debentures and other loans	–	11 862	11 862
Total interest bearing assets	16 930	34 566	51 496

R million	2006 Cash flow interest rate risk	2006 Fair value interest rate risk	2006 Total
ASSETS			
Cash and short term funds	3 208	242	3 450
Money market investments	15 914	968	16 882
Government and public authority stocks	139	17 497	17 636
Debentures and other loans	–	11 305	11 305
Total interest bearing assets	19 261	30 012	49 273

The table below illustrates the amount where there is a contractual repricing of the coupon interest rate prior to the maturity date:

R million	2007	2006
Government and public authority stocks	2 635	1 385
Debentures and other loans	120	7
Total interest bearing assets	2 755	1 392

48.4.3 Discovery Group

As Momentum, Discovery views interest rate risk as the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

Investments in government and public authority stocks and money market securities and deposits are managed by qualified asset managers.

As can be seen from the following table, a majority of the non equity investments are short term in nature thereby limiting Discovery's interest rate risk. The following assets will be affected by changes in market interest rates:

	2007				
	Maturity date				
R million	Shorter than 1 year	Between 1 and 5 years	Between 5 and 10 years	Longer than 10 years	Total
Insurance and investment contracts					
Cash and short term funds	522	–	–	–	522
Money market investments	108	–	–	–	108
Government and public authority stocks	8	20	11	11	50
	638	20	11	11	680
Shareholders					
Cash and short term funds	474	–	–	–	474
Money market investments	469	–	–	–	469
Government and public authority stocks	218	22	11	12	263
	1 161	22	11	12	1 206

48. RISK MANAGEMENT continued

48.4.3 Discovery Group continued

	2006				
	Maturity date				
R million	Shorter than 1 year	Between 1 and 5 years	Between 5 and 10 years	Longer than 10 years	Total
Insurance and investment contracts					
Cash and short term funds	389	–	–	–	389
Money market investments	148	–	–	–	148
Government and public authority stocks	8	21	11	12	52
	545	21	11	12	589
Shareholders					
Cash and short term funds	933	–	–	–	933
Money market investments	58	–	–	–	58
Government and public authority stocks	136	22	11	12	181
	1 127	22	11	12	1 172

48.5 Fair value disclosures

The following represents the fair values of financial instruments not carried at fair value on the balance sheet.

48.5.1 Banking Group

R million	**2007 Fair value**	2006 Fair value
Assets		
Advances		
– loans and receivables	**309 461**	262 134
– held-to-maturity	**535**	713
Investment securities		
– held-to-maturity	**5**	92
	310 001	262 939
Liabilities		
Deposit and current accounts	**404 015**	333 537
Long term liabilities	**7 174**	7 804
	411 189	341 341

Fair value has been determined as follows:

- advances: based on the discounted value of estimated future cash flows, determined based on current market rates;
- held-to-maturity investment securities: market/dealer quotations, if available, or fair value estimations based on market prices for similar instruments with similar credit risks;
- deposits and current accounts: where there is no stated maturity, the amount repayable on demand in respect of interest bearing liabilities with a fixed maturity, based on discounted cash flow value using market rates on new liabilities with a similar maturity; and
- long term liabilities: quoted market prices, if available, or based on the discounted cash flow values using market rates for similar instruments with a comparable term to maturity.

48. RISK MANAGEMENT continued

48.5.2 Momentum Group

The carrying values of all assets backing the policyholder liabilities (other than policy loans and certain held-to maturity preference shares) reflect the fair values of the assets concerned.

Similarly, the actuarial valuation of policyholder liabilities under investment contracts represents the fair value of the contractual liability under unmatured policies. Assets making up the shareholders' free reserves have been reflected at fair values in determining the surplus attributable to shareholders, with the exception of certain held-to-maturity preference shares and the share trust loans.

R million	**2007 Fair value**	2006 Unrecognised profit/loss
Assets		
Accounts receivables	1 748	2 899
Tax asset	120	7
Policy loans on insurance contracts	166	118
Property and equipment	557	382
	2 591	3 406
Liabilities		
Creditors and accruals	4 025	5 842
Other financial liabilities	1 219	2 226
	5 244	8 068

48.5.3 Discovery Group

All financial assets and liabilities are carried at fair value, except for certain borrowings in respect of a financial lease which is classified as at amortised cost. The fair value of this lease liability is R52 million (2006: R59 million).

Financial assets

Financial assets classified as fair value through profit and loss or as available-for-sale are subsequently carried at fair value. Fair values are based on regulated exchange quoted ruling bid prices at the close of business on the last trading day on or before the balance sheet date. Collective investments are valued at their repurchase price. For unquoted investments. Discovery establishes fair value using valuation techniques. These include reference to other instruments that are substantially the same, discounted cash flow and option pricing.

Financial liabilities

Discovery's main valuation techniques incorporate all factors that market participants would consider and are based on observable market data. The fair value of a unit linked financial liability is determined using the current unit values that reflect the fair values of the financial assets contained within Discovery's unitised investments funds linked to the financial liability, multiplied by the number of units attributed to the contract holder at the balance sheet date. If the investment contract is subject to a put or surrender option, the fair value of the financial liability is never less than the amount payable or surrender, discounted for the required notice period, where applicable.

48.6 Other

Momentum Group

48.6.1 Equity risk

Equity risk is the risk that the value of a financial instrument will fluctuate as a result of changes in the market place. The equity exposure arises from equity investments made on behalf of shareholders and policyholders, including equities backing guaranteed liabilities, minimum investment return guarantees in some universal life products, and, as a result of fees charged as a percentage of policyholder assets that are invested in equities. Equities are reflected at market value, which are susceptible to fluctuations. The risks from these fluctuations can be separated into systemic risk (affecting all equity instruments) and specific risk (affecting individual securities). In general, specific risk can be reduced through diversification but systemic risk cannot.

Further details on equity risk management can be found in the Risk Report on pages 130 to 131.

48.6.2 Individual insurance and investment contracts with discretionary participation features ("DPF")

Assets are invested in a balanced mix of local and offshore equities, fixed interest assets, property and cash, according to the asset manager's best investment view. The Investment committee monitors the asset mix and performance to ensure that expected returns are in line with policyholders' expectations. Separate investment portfolios are managed for separate smoothed bonus products.

Individual contracts offering investment guarantees

The risk of being unable to meet guarantees is managed by holding a specific laibility for minimum maturity values and other guaranteed benefits arising from minimum contractual investment returns in accordance with local actuarial guidance.

Group contracts with DPF

Extensive use is made of derivative instruments to minimise downside market risk in the group DPF portfolios. Because of this strategy, bonus stabilisation accounts in respect of Group DPF business are small, relative to the bonus stabilisation accounts on individual (retail) business.

Marlet related/unit linked business

Further details on the description of products and the management thereof for the contracts above can be found on page 131 of the Risk Report.

49. RELATED PARTIES

The FirstRand Group defines related parties as:
- The parent company
- Associates
- Joint ventures
- Post retirement benefit funds (pension funds)
- Key management personnel as the FirstRand Limited Board of directors and the FirstRand Executive committee
- Key management personnel includes close family members of key management personnel. Close family members are those family members who may be expected to influence, or be influenced by that individual in dealings with the Group. This may include:
- Enterprises which are controlled by these individuals through their majority shareholding or their role as chairman and/or CEO in those companies

The ultimate parent of the FirstRand Group is RMB Holdings Limited, incorporated in South Africa.

49.1 Subsidiaries

Details of interest in subsidiaries are disclosed in note 44.
Transactions between FirstRand Group and its subsidiaries have been eliminated on consolidation and are not disclosed in this note.

49.2 Associates and joint ventures

Details of investments in associates and joint venture companies are disclosed in note 18.

49.3 Details of transactions with relevant related parties appear below:

R million	**2007 Parent**	2006 Parent
Loans and advances		
Opening balance	36	–
Issued during year	318	36
Closing balance	354	36
Deposits		
Opening balance	6	2 001
Received during year	2	(1 995)
Closing balance	8	6
Interest received	21	–
Interest paid	–	39
Fees and commissions earned/(paid)	2	(2)
Dividends paid	1 235	1 011

49.4 Key management personnel

	2007	2006
Total advances		
In normal course of business (mortgages, other, instalment finance and credit cards)		
Opening balance	52	55
Issued during year	419	214
Repayments during year	(343)	(221)
Interest earned	10	4
Closing balance	138	52
Share scheme loans		
Opening balance	2	38
Repayments during year	(2)	(36)
Closing balance	–	2

The FirstRand share schemes are different from other similar schemes in that the underlying shares are bought and an equivalent loan granted.

	2007	2006
49. RELATED PARTIES continued		
49.4 Key management personnel continued		
Advances in normal course of business by product		
Mortgages		
Opening balance	29	48
Issued during year	294	148
Repayments during year	(200)	(170)
Interest earned	9	3
Closing balance	132	29
No impairment has been recognised for loans granted to key management (2006: nil). Mortgage loans are repayable monthly over 20 years.		
Other loans		
Opening balance	22	5
Issued during year	110	59
Repayments during year	(129)	(43)
Interest earned	1	1
Closing balance	4	22
Instalment finance		
Opening balance	1	2
Issued during year	2	–
Repayments during year	(1)	(1)
Closing balance	2	1
No impairments have been recognised in respect of instalment finance.		
Credit cards		
Total annual spend	13	7
Repayments	(13)	(7)
Closing balance	–	–
No impairments have been recognised in respect of credit cards held by key management (2006: nil). Interest rates are in line with normal rates charged to customers.		
Deposits		
Deposits by product		
Cheque and current accounts		
Opening balance	28	12
Net deposits and withdrawals	7	16
Closing balance	35	28
Savings accounts		
Opening balance	36	68
Interest income	6	4
Net new investments	13	(36)
Closing balance	55	36
Other including term deposits		
Opening balance	–	2
Interest income	2	–
Net new investments	31	(2)
Closing balance	33	–

	2007	2006
49. RELATED PARTIES continued		
49.4 Key management personnel continued		
Insurance and investment		
Insurance		
Life and disability insurance		
Aggregate insured cover	1	3
Premiums received	–	2
Surrender value	2	1
Other insurance		
Premiums received	1	1
Investment products		
Fund value opening balance	523	237
Deposits/withdrawals	172	226
Net investment return credited	362	63
Commission and other transaction fees	(3)	(3)
Closing balance	1 054	523
Other fees		
Financial consulting fees and commissions	4	3
Key management compensation		
Salaries and other short term benefits	170	132
Share based payments	48	13
Total compensation	218	145
A listing of the Board of directors of the FirstRand Group is on page 78 of the Annual Report.		
49.5 Post employment benefit plan		
Details of transactions between the Group and the Group's post employment benefit plan are listed below:		
Fee income	9	9
Deposits held with the Banking Group	1	10
Interest expenses	33	43
Value of assets under management	2 343	1 984
Deposits held in bonds and money market	454	688

50. SUBSEQUENT EVENTS

Acquisition of an 80% shareholding in Banco de Desenvolvimento e Commercio, SARL ("BDC") in Mozambique

FirstRand Bank Holdings Limited acquired an 80% shareholding in the BDC with effect from 24 July 2007 for €14.4 million (±R139 million). BDC had gross assets at 31 December 2006 of $59 million (±R417 million) and liabilities of $50.8 million (R359.2 million).

BDC has been operating in Mozambique since 2001 and has four branches and three offsite ATMs in Maputo. The bank also has a "micro branch" in Matola and is looking to open a new branch in Nampula. BDC, to be renamed FNB Moçambique, currently employs approximately 70 staff.

Unbundling of 57.1% Discovery shareholding

Since the year end, FirstRand announced that it had reached agreement with Discovery to seek shareholder approval for the unbundling of the Group's 57.1% shareholding in Discovery. The proposed unbundling will provide FirstRand shareholders with a direct shareholding in Discovery and is expected to improve the liquidity of the trading in Discovery shares on the JSE.

Following the decision in 2000 to allow Discovery to enter the risk market, shareholders increasingly questioned the merits of FirstRand having two insurance businesses competing in the same markets.

The Group's strategy was that "two horses in the race", was producing significant growth, as both companies were growing at the expense of the competition and therefore not destroying shareholder value. This strategy was monitored on a regular basis by the Boards of FirstRand, Discovery and Momentum.

With Discovery now entering the investment market and Momentum's growing presence in the health sector, both will increasingly be competing head on in all product areas and the Group has, therefore, agreed it is appropriate to fully unbundle Discovery.

51. OTHER ACCOUNTING STANDARDS

Financial impact of black economic empowerment ("BEE")

Background

IFRS 2 – Share based payments requires that all share based payment transactions for goods or services received must be expensed with effect from financial periods commencing on or after 1 January 2005. During the past 18 months there has been ongoing debate on whether BEE equity linked transactions result in the receipt of "goods" or "services", and therefore should be expensed in terms of IFRS 2. The International Financial Reporting Interpretations Committee issued an interpretation IFRIC 8 – the Scope of IFRS 2 ("IFRIC 8") during January 2006. IFRIC 8 clarifies that IFRS 2 applies to all share based payment transactions where the consideration received or to be received, either through identifiable or unidentifiable goods or services, is less than the fair value of the equity instruments issued or granted. IFRIC 8 is applicable for financial periods commencing on or after 1 May 2006, on a fully retrospective basis, using the transitional provisions of IFRS 2 read with IFRS 1.

Financial impact on the FirstRand Group

FirstRand has accounted for the non staff component of the Group's BEE transaction, with effect from the financial year commencing 1 July 2006, in accordance with the requirements of IFRIC 8.

As a result, the full financial impact in terms of IFRS 2 of the non staff component of the BEE transaction, amounting to R1.655 billion, has been accounted for as an opening reserve transfer on 1 July 2006, and will have no further income statement effect.

Headline earnings

FirstRand has applied Headline Earnings Circular 7/2002 in preparing these financial statements. In applying this circular cognisance has been taken of existing market practice.

With effect from the 2008 financial year, FirstRand will adopt Headline Earnings Circular, Circular 8/2007.

income statement

for the year ended 30 June

R million	Notes	Company 2007	Company 2006
Interest and similar income	2	10	16
Interest expense and similar charges	3	(13)	(22)
Net interest expense		(3)	(6)
Non interest income	4	6 678	5 082
– fees and commissions	4.1	15	8
– gains less losses from investment securities	4.2	6 663	5 074
Income from operations		6 675	5 076
Operating expenses	5	(115)	(67)
Income before tax		6 560	5 009
Tax	6	(47)	(185)
Profit for the year		6 513	4 824
Attributable to:			
Equity holders of the company		6 165	4 550
Non cumulative non redeemable preference shares		348	274
Profit for the year		6 513	4 824

balance sheet

as at 30 June

R million	Notes	Company 2007	Company 2006
ASSETS			
Cash and short term funds	7	41	37
Loans and accounts receivable	8	62	130
Investment in subsidiaries	9	18 077	16 086
Property and equipment		*	*
Deferred tax asset	10	5	–
Tax asset		13	–
Total assets		18 198	16 253
EQUITY AND LIABILITIES			
Liabilities			
Creditors and accruals	11	88	94
Tax liability		–	51
Long term liabilities	12	25	64
Total liabilities		113	209
Equity			
Capital and reserves attributable to equity holders			
Ordinary shares	13	56	56
Share premium	13	8 426	8 591
Distributable reserves	14	3 397	2 869
Non distributable reserve	15	1 687	9
		13 566	11 525
Non cumulative non redeemable preference shares	13	4 519	4 519
Total equity		18 085	16 044
Total equity and liabilities		18 198	16 253

** Less than R500 000*

statement of changes in equity

for the year ended 30 June

R million	Share capital (note 13)	Share premium (note 13)	Distributable reserves (note 14)
	Ordinary share capital and ordinary shareholders' funds		
Balance at 1 July 2005	**56**	**8 426**	**1 877**
Issue of share capital	–	–	–
Conversion of convertible redeemable preference shares	*	165	(165)
Share issue expense	–	–	–
Earnings attributable to ordinary shareholders	–	–	4 550
Ordinary dividends	–	–	(3 397)
Preference dividends	–	–	–
Movement in share based payment reserve	–	–	4
Balance at 30 June 2006	56	8 591	2 869
Balance at 1 July 2006 as previously stated	56	8 591	2 869
Black economic empowerment – share based payment	–	–	(1 655)
Balance at 1 July 2006 as restated	56	8 591	1 214
Conversion of convertible redeemable preference shares	*	(165)	165
Movement in other reserves	–	–	(6)
Earnings attributable to ordinary shareholders	–	–	6 165
Ordinary dividends	–	–	(4 141)
Preference dividends	–	–	–
Movement in share based payment reserve	–	–	–
Balance at 30 June 2007	**56**	**8 426**	**3 397**

		Perpetual preference shareholders’ funds			
Non distributable reserves (note 15)	Total ordinary shareholders' funds	Non cumulative preference share capital (note 13)	Non cumulative preference share premium (note 13)	Total preference shareholders’ funds	Total equity
–	**10 359**	*	**2 992**	**2 992**	**13 351**
–	**–**	*	1 530	1 530	**1 530**
–	**–**	–	–	–	**–**
–	**–**	–	(3)	(3)	**(3)**
–	**4 550**	–	274	274	**4 824**
–	**(3 397)**	–	–	–	**(3 397)**
–	**–**	–	(274)	(274)	**(274)**
9	**13**	–	–	–	**13**
9	**11 525**	*	4 519	4 519	**16 044**
9	**11 525**	*	4 519	4 519	**16 044**
1 655	**–**	–	–	–	**–**
1 664	**11 525**	–	4 519	4 519	**16 044**
–	**–**	–	–	–	**–**
–	**(6)**	–	–	–	**(6)**
–	**6 165**	–	348	348	**6 513**
–	**(4 141)**	–	–	–	**(4 141)**
–	**–**	–	(348)	(348)	**(348)**
23	**23**	–	–	–	**23**
1 687	**13 566**	**–**	**4 519**	**4 519**	**18 085**

cash flow statement

for the year ended 30 June

R million	Note	Company 2007	Company 2006
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated by operations	17.1	6 577	4 941
Working capital changes	17.2	62	33
Net cash flow from operations		6 639	4 974
Tax paid	17.3	(116)	(125)
Dividends paid	17.4	(4 489)	(3 671)
Net cash flows from operating activities		2 034	1 178
CASH FLOWS FROM INVESTMENT ACTIVITIES			
Investment in subsidiaries		(2 170)	(528)
Loan from/(to) subsidiaries		179	(2 131)
Net cash flows from investment activities		(1 991)	(2 659)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of long term borrowings		(39)	(45)
Proceeds from issue of preference shares		–	1 530
Share issue expense written off against preference share premium		–	(3)
Net cash flows from financing activities		(39)	1 482
Increase in cash and cash equivalents		4	1
Cash and cash equivalents at the beginning of the year		37	36
Cash and cash equivalents at the end of the year		41	37

R million	**Company 2007**	Company 2006
1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES		
The annual financial statements of FirstRand Limited ("FirstRand") are prepared according to the same accounting policies used in preparing the consolidated financial statements of the Group. For detailed accounting policies refer to pages 141 to 161 of this report.		
2. INTEREST AND SIMILAR INCOME		
Interest on:		
Cash and short term funds	5	1
"A" preference share dividends received	5	15
Interest and similar income	10	16
3. INTEREST EXPENSE AND SIMILAR CHARGES		
Interest on:		
Borrowed funds	8	7
"A" preference share dividends paid	5	15
Interest expense and similar charges	13	22
4. NON INTEREST INCOME		
4.1 Fees and commissions		
Fees from subsidiaries	15	8
Other fees	*	*
Total fees and commissions	15	8
4.2 Gains less losses from investment securities		
Dividends received from subsidiaries – unlisted shares:		
Ordinary dividends	6 393	4 716
Preference dividends	270	238
Other investment income:		
Gains on investments carried at elected fair value	–	38
Fair value adjustment of derivative financial instruments	–	82
Total gains less losses from investment securities	6 663	5 074
Total non interest income	6 678	5 082

** Less than R500 000*

R million	Company 2007	Company 2006
5. OPERATING EXPENSES		
Advertising and marketing	4	3
Annual reports	6	5
Auditors remuneration		
– Audit fees	3	1
– Fees for other services	*	1
– Prior year under provision	2	–
Depreciation		
– Motor vehicles	*	*
Directors fees paid	4	3
Direct staff costs		
– Salaries, wages and allowances	11	6
– Contributions to employee benefit funds	1	1
– Share based payment expense	26	4
– Other	*	*
Donations	2	12
Investor relations	3	2
Operating lease charges		
– Property	3	2
– Furniture and equipment	1	1
Professional fees paid to subsidiaries	1	6
Indirect tax		
– Regional services council levies	–	7
– Value added tax	3	4
Other	45	9
Total operating expenses	115	67

** Less than R500 000*

R million	**Company 2007**	Company 2006
6. TAX		
South African normal taxation		
– Normal tax: current	**3**	7
– Deferred: current	**(5)**	24
South African secondary taxation on companies ("STC")	**49**	154
Total tax charge	**47**	185
Tax rate reconciliation	**%**	%
Effective rate of taxation	**0.7**	3.7
Total tax has been affected by:		
Dividends received	**29.5**	28.7
Non deductible expenses	**(0.5)**	(0.3)
Secondary taxation on companies ("STC")	**(0.7)**	(3.1)
Standard rate of taxation	**29.0**	29.0
7. CASH AND SHORT TERM FUNDS		
Balances with other banks	**41**	37
Cash and short term funds	**41**	37
8. LOANS AND ACCOUNTS RECEIVABLE		
Receivables		
Dividends receivable ("A" preference shares)	**3**	7
Sundry debtors	*****	21
Total receivables	**3**	28
Loans		
Outperformance share incentive scheme loan		
Short term portion of loan to share trust	**36**	38
Long term portion (asset)	**23**	64
Total loans	**59**	102
Total loans and accounts receivable	**62**	130
Fair value of loans and accounts receivable	**62**	130

* *Less than R500 000*

	Effective percentage holding		Investment of holding company Amounts owing by/(to) subsidiaries		Shares at net carrying amount	
	2007 %	2006 %	**2007 Rm**	2006 Rm	**2007 Rm**	2006 Rm
9. INVESTMENT IN SUBSIDIARIES						
Banking Group						
FirstRand Bank Holdings Limited ("FRBH")						
– Ordinary shares	**100**	100	**(134)**	36	**8 027**	5 857
– Non redeemable preference shares	**100**	100	**–**	–	**3 000**	3 000
Momentum						
Momentum Group Limited						
– Ordinary shares	**100**	100	**(9)**	–	**4 633**	4 633
– Non redeemable preference shares	**100**	100	**–**	–	**500**	500
Discovery						
Discovery Holdings Limited	**63.3**	65	**–**	–	**1 435**	1 435
FirstRand Investment Holdings Limited						
– Ordinary shares	**100**	100	**–**	–	*****	*
– Non redeemable preference shares	**100**	100	**600**	600	**25**	25
FirstRand Empowerment Trust	**100**	100	**–**	–	**–**	–
Total			**457**	636	**17 620**	15 450
Total interest in subsidiary					**18 077**	16 086
Carrying amount at the beginning of the year					**15 450**	14 922
Movement for the year:						
Net acquisition of Discovery					**–**	28
Increase in investment in Banking Group					**2 170**	–
Investment in Momentum perpetual preference shares					**–**	500
Carrying amount at the end of the year					**17 620**	15 450

The following share trusts are controlled by FirstRand Limited:
- Momentum Life Assurers Limited share trust
- Southern Life Association Limited share scheme
- First National Bank share purchase/option scheme
- FirstRand Limited share trust
- FirstRand staff assistance trust
- FirstRand black employee trust
- FirstRand black non executive directors' trust

The carrying amount of these investments is nil, except for the loan to the FirstRand Limited share trust which is disclosed in note 8.

** = R100*

R million	**Company 2007**	Company 2006
10. DEFERRED TAX		
Deferred income tax assets and liabilities are offset when the income taxes relate to the same fiscal authority and there is a right to offset at settlement. The following amount is disclosed:		
Deferred tax asset	5	–
Tax effects of temporary differences between tax and book value for:		
Deferred tax asset		
Opening balance	–	24
– Change in fair value of derivative financial instrument	–	(24)
– STC credits	5	–
Closing balance	5	–
Movement on deferred tax account is as follows:		
Opening balance	–	24
– Charge to the income statement	–	(24)
– STC charge to the income statement	5	–
Closing balance	5	–
11. CREDITORS AND ACCRUALS		
Dividends payable ("A" preference shares)	20	17
Sundry creditors	32	39
Loan from FirstRand empowerment trust	*	*
Short term portion of long term liability (note 12)	36	38
Total creditors and accruals	88	94
12. LONG TERM LIABILITIES		
Outperformance share incentive scheme liability		
Total Outperformance share incentive scheme liability	59	102
Short term portion disclosed under creditors and accruals	(36)	(38)
Long term portion	23	64
This liability represents the preference shares issued in terms of the Outperformance share incentive scheme.		
Other		
Share based payment	2	–
Total long term liabilities	25	64

* *Less than R500 000*

13. SHARE CAPITAL AND SHARE PREMIUM

Authorised
Number of shares
Issued
Ordinary shares
Opening balance
– Conversion of convertible redeemable preference shares
Closing balance
"A" preference shares
Opening balance
– Redeemed during the year
– Converted during the year
Closing balance
"B" preference shares
Opening balance
Closing balance
"B1" preference shares
Opening balance
Closing balance
Total issued share capital and share premium
Analysis of total issued share capital at the end of the year
Ordinary issued share capital at end of year as above (1 cent each)
"A" variable rate convertible redeemable cumulative preference shares (1 cent each)
"B" variable rate non cumulative non redeemable preference shares (1 cent each)
"B1" variable rate non cumulative non redeemable preference shares (1 cent each)
Preference shares presented under creditors
Total issued share capital and share premium
Disclosed on the face of the balance sheet
Ordinary share capital
Ordinary share premium
Non cumulative non redeemable preference shares
Total issued share capital and share premium

* *Less than R500 000*

2007						
Number of ordinary shares	**Number of "A" preference shares**	**Number of non redeemable "B" preference shares**	**Number of non redeemable "B1" preference shares**	**Share capital R million**	**Share premium R million**	**Total R million**
5 928 000 000	272 000 000	100 000 000	100 000 000			
5 634 120 503				56	8 591	8 647
1 595 173				*	(165)	(165)
5 635 715 676				56	8 426	8 482
	15 127 500			1	101	102
	(4 764 827)			*	(32)	(32)
	(1 595 173)			*	(11)	(11)
	8 767 500			1	58	59
		30 000 000		–	2 992	2 992
		30 000 000		–	2 992	2 992
			15 000 000	–	1 527	1 527
			15 000 000	–	1 527	1 527
5 635 715 676	8 767 500	30 000 000	15 000 000	57	13 003	13 060
				56	8 426	8 482
				1	58	59
				–	2 992	2 992
				–	1 527	1 527
				(1)	(58)	(59)
				56	12 945	13 001
						56
						8 426
						4 519
						13 001

13. SHARE CAPITAL AND SHARE PREMIUM continued

Authorised
Number of shares

Issued
Ordinary shares
Opening balance
– Conversion of convertible redeemable preference shares

Closing balance

"A" preference shares
Opening balance
– Redeemed during the year
– Converted during the year

Closing balance

"B" preference shares
Opening balance

Closing balance

"B1" preference shares
Opening balance
– Issued during the year
– Share issue expense

Closing balance

Total issued share capital and share premium

Analysis of total issued share capital at the end of the year
Ordinary issued share capital at end of year as above (1 cent each)
"A" variable rate convertible redeemable cumulative preference shares (1 cent each)
"B" variable rate non cumulative non redeemable preference shares (1 cent each)
"B1" variable rate non cumulative non redeemable preference shares (1 cent each)
Preference shares presented under creditors

Total issued share capital and share premium

Disclosed on the face of the balance sheet
Ordinary share capital
Ordinary share premium
Non cumulative non redeemable preference shares

Total issued share capital and share premium

** Less than R500 000*

2006						
Number of ordinary shares	Number of "A" preference shares	Number of non redeemable "B" preference shares	Number of non redeemable "B1" preference shares	Share capital R million	Share premium R million	Total R million
5 928 000 000	272 000 000	100 000 000	100 000 000			
5 613 566 954				56	8 426	8 482
20 553 549				–	165	165
5 634 120 503	–	–	–	56	8 591	8 647
	47 905 000			1	361	362
	(12 223 951)			*	(95)	(95)
	(20 553 549)			*	(165)	(165)
–	15 127 500	–	–	1	101	102
		30 000 000		*	2 992	2 992
–	–	30 000 000	–	–	2 992	2 992
–	–	–	–			
			15 000 000	–	1 530	1 530
			–	–	(3)	(3)
–	–	–	15 000 000	–	1 527	1 527
5 634 120 503	15 127 500	30 000 000	15 000 000	57	13 211	13 268
				56	8 591	8 647
				1	101	102
				*	2 992	2 992
				*	1 527	1 527
				(1)	(101)	(102)
				56	13 110	13 166
						56
						8 591
						4 519
						13 166

R million	Company 2007	Company 2006
14. DISTRIBUTABLE RESERVES		
Opening balance as previously stated	2 869	1 877
Black economic empowerment – share based payment	(1 655)	–
Opening balance as restated	1 214	–
Conversion of convertible redeemable preference shares	165	(165)
Earnings attributable to ordinary shareholders	6 513	4 824
Ordinary dividend for the year	(4 141)	(3 397)
Preference dividend for the year	(348)	(274)
Movement in other reserves	(6)	4
Closing balance	3 397	2 869
15. NON DISTRIBUTABLE RESERVES		
Share based payment reserve		
Opening balance as previously stated	8	–
Black economic empowerment – share based payment	1 655	–
Opening balance as restated	1 663	–
Movement for the year	23	8
Closing balance	1 686	8
Capital redemption reserve		
Opening balance (CARF)	1	1
Movement for the year	*	*
Closing balance	1	1
Total non distributable reserves	1 687	9
16. DIVIDENDS		
Ordinary dividends		
An interim dividend of 39.5 cents (2006: 32 cents) per share was declared on 27 February 2007 in respect of the six months ended 31 December 2006	2 226	1 797
A final dividend of 43 cents (2006: 34 cents) per share was declared on 17 September 2007 in respect of the six months ended 30 June 2007	2 423	1 916
Total ordinary dividends declared for the year	4 649	3 713
Preference dividends		
"B" preference shares		
An interim dividend of 409.67 cents (2006: 356 cents) per share was declared on 27 February 2007 in respect of the six months ended 31 December 2006	123	107
A final dividend of 431 cents (2006: 363 cents) per share was declared on 27 August 2007 in respect of the six months ended 30 June 2007	129	109
"B1" preference shares		
An interim dividend of 409.67 cents (2006: 356 cents) per share was declared on 27 February 2007 in respect of the six months ended 31 December 2006	61	53
A final dividend of 431 cents (2006: 363 cents) per share was declared on 27 August 2007 in respect of the six months ended 30 June 2007	66	54
Total preference dividends declared for the year	379	323

** = less than R500 000*

R million	Company 2007	Company 2006
17. CASH FLOW INFORMATION		
17.1 Cash generated by operations		
Net income before tax attributable to shareholders	6 560	5 009
Adjustment for non cash items	17	(68)
Cash generated by operations	6 577	4 941
17.2 Working capital changes		
Decrease in current assets	68	246
Decrease in current liabilities	(6)	(213)
Net working capital changes	62	33
17.3 Tax paid		
Tax payable and deferred tax at beginning of the year	(51)	(13)
Charge to income statement	(47)	(163)
Tax payable and deferred tax at the end of the year	(18)	51
Tax paid	(116)	(125)
17.4 Dividends paid		
Ordinary dividends		
Final dividend paid on:		
– 23 October 2006 in respect of the year ended 30 June 2006	(1 915)	–
– 24 October 2005 in respect of the year ended 30 June 2005	–	(1 600)
Interim dividend paid on:		
– 26 March 2007 in respect of the period ended 31 December 2006	(2 226)	–
– 27 March 2006 in respect of the period ended 31 December 2005	–	(1 797)
Ordinary dividends paid	(4 141)	(3 397)
Preference dividends on "B" preference shares		
Final dividend paid on:		
– 28 August 2006 in respect of the year ended 30 June 2006	(109)	–
– 29 August 2005 in respect of the year ended 30 June 2005	–	(108)
Interim dividend paid on:		
– 26 February 2007 in respect of the period ended 31 December 2006	(123)	–
– 27 February 2006 in respect of the period ended 31 December 2005	–	(107)
Preference dividends on "B1" preference shares		
Final dividend declared on:		
– 28 August 2006 in respect of the year ended 30 June 2006	(55)	–
– 29 August 2005 in respect of the year ended 30 June 2005	–	(6)
Interim dividend declared on:		
– 26 February 2007 in respect of the period ended 31 December 2006	(61)	–
– 27 February 2006 in respect of the period ended 31 December 2005	–	(53)
Preference dividends paid	(348)	(274)
Total dividends paid	(4 489)	(3 671)

R million	Company 2007	Company 2006

18. RELATED PARTIES

FirstRand Limited defines related parties as:

- The parent company
- Associate companies
- Joint ventures
- Post retirement benefit funds (pension funds)
- Key management personnel are the FirstRand Board of directors and the FirstRand Executive committee
- Key management personnel includes close family members of key management personnel. Close family members are those family members who may be expected to influence, or be influenced by that individual in dealings with the Group. This may include: Enterprises which are controlled by these individuals through their majority shareholding or their role as chairman and/or CEO in those companies.

The ultimate parent of FirstRand Limited is RMB Holdings Limited, incorporated in South Africa. During the current and prior financial year FirstRand Limited did not enter directly into transactions with its parent company.

18.1 Subsidiaries

Details of interest in subsidiaries as well as loan account balances are disclosed in note 9.

18.2 Details of transactions with relevant related parties appear below:

R million	Company 2007	Company 2006
Interest paid	8	7
Fees and commissions earned	15	7
Dividends received	6 663	4 954

18.3 Key management personnel

Please refer to page 278 for detailed disclosure.

19. SUBSEQUENT EVENTS

Unbundling of 57.1% Discovery shareholding

Since the year end, FirstRand announced that it had reached agreement with Discovery to seek shareholder approval for the unbundling of the Group's 57.1% shareholding in Discovery. The proposed unbundling will provide FirstRand shareholders with a direct shareholding in Discovery and is expected to improve the liquidity of the trading in Discovery shares on the JSE.

Following the decision in 2000 to allow Discovery to enter the risk market, shareholders increasingly questioned the merits of FirstRand having two insurance businesses competing in the same markets.

The Group's strategy was that "two horses in the race", was producing significant growth, as both companies were growing at the expense of the competition and therefore not destroying shareholder value. This strategy was monitored on a regular basis by the Boards of FirstRand, Discovery and Momentum.

With Discovery now entering the investment market and Momentum's growing presence in the health sector, both will increasingly be competing head on in all product areas and the Group has, therefore, agreed it is appropriate to fully unbundle Discovery.

DETAILS OF DIRECTORS

The names of the directors, their age, qualifications and other details appear on pages 79 to 81 of this report.

DIRECTORS' EMOLUMENTS

Remuneration and fees

Payments to directors during the year for services rendered are as follows:

	Services as directors FSR R000's	Group R000's	Cash package R000's	Retirement and medical aid fund contributions R000's	Performance related R000's	Other benefits R000's	Total 2007 R000's	Total 2006 R000's
Executive								
LL Dippenaar	–	–	–	–	–	–	**–**	3 286
PK Harris	–	–	4 092	611	11 750	–	**16 453**	12 576
SE Nxasana	–	–	3 684	502	9 000	247	**13 433**	5 250
Subtotal	–	–	7 776	1 113	20 750	247	**29 886**	21 112
Non executive								
GT Ferreira (Chairman)	681	1 151					**1 832**	1 752
VW Bartlett	178	680					**858**	794
DJA Craig	166	–					**166**	227
LL Dippenaar	213	1 070					**1 283**	544
DM Falck	177	378					**555**	489
PM Goss	231	299					**530**	547
NN Gwagwa	190	–					**190**	149
MW King	214	680					**894**	2 009
YI Mahomed	201	–					**201**	141
G Moloi	177	–					**177**	124
AP Nkuna	167	–					**167**	147
SEN Sebotsa	201	377					**578**	277
KC Shubane	177	–					**177**	124
RK Store	89	661					**750**	–
BJ van der Ross	296	1 207					**1 503**	1 339
F van Zyl Slabbert	177	–					**177**	124
RA Williams	213	417					**630**	640
Subtotal	3 748	6 920					**10 668**	9 427
Total	3 748	6 920	7 776	1 113	20 750	247	**40 554**	30 539

1. *"Cash package" includes travel and other allowances.*
2. *"Performance related" payments are in respect of the year ended 30 June 2007, but will be paid (together with an interest factor) in three tranches, during the year ending 30 June 2008.*
3. *Fees earned by executive directors from FirstRand and its subsidiaries are waived and ceded to companies in the FirstRand Group and do not accrue to them in their private capacity. These fees are not reflected in the above schedule.*
4. *Other benefits comprise the profit share entitlement from the Group co-investment scheme (see note 49 to the financial statements).*
5. *Benefits derived by executive directors in terms of their share option schemes are disclosed on page 298. No options are granted to executive directors who have attained the age of 57 by September of each year. In such cases bonuses are adjusted to recognise the value of options not awarded.*
6. *Mr Dippenaar became non executive on 1 January 2006.*

The current interests of executive directors in share incentive schemes, together with benefits derived from sales and redemptions are as follows:

FirstRand share option scheme	Opening balance (number of shares)	Strike price (cents)	Expiry date	Granted/ Taken up this year (number of shares)	Closing balance (number of shares)	Benefit derived (Rand)
PK Harris	1 315 867	655	17/9/2007	(657 934)	657 933	7 454 392
	493 450	770	16/9/2008	(164 484)	328 966	1 674 447
	394 760	1212	1/10/2009	–	394 760	–
	540 000	1695	3/10/2010	–	540 000	–
	–	1795	1/10/2011	800 000	*800 000	
	2 744 077			(22 418)	2 721 659	9 128 839
SE Nxasana	2 000 000	1491	20/10/2010		2 000 000	–
		1795	1/10/2011	350 000	*350 000	–
	2 000 000			350 000	2 350 000	–

* *Share appreciation rights ("SARS")*

FIRSTRAND OUTPERFORMANCE SCHEME

No directors benefited from this scheme during the year and in terms of the rules of the scheme their participation came to an end during the previous financial year.

PARTICIPATION BY CERTAIN BLACK DIRECTORS IN THE FIRSTRAND BLACK NON EXECUTIVE DIRECTORS' SHARE TRUST

Messrs KC Shubane, SE Nxasana and BJ van der Ross and Mesdames NN Gwagwa and G Moloi were each granted rights to 1 000 000 FirstRand ordinary shares in terms of the FirstRand Black Non Executive Directors' Trust Deed. The rights entitle the non executive directors to receive the shares on 31 December 2014 at a price of R12.28 per share plus holding and other related costs less dividends received on the shares by the Trust. In the event of a director ceasing to be a director prior to 31 December 2014, the participation rights of that director are reduced by 10% in respect of each year prior to 31 December 2014 during which he/she is not a director. The Trust owns 15 000 000 FirstRand ordinary shares. In terms of the Trust Deed, executive directors who were previously non executive directors, are entitled to retain their interests in the Trust upon their appointment to the executive.

PARTICIPATION IN THE FIRSTRAND BLACK EMPLOYEE SHARE TRUST

Mr SE Nxasana in his position as chief executive of FirstRand Bank Holdings participates in the Black Employee Share Trust. Vesting of participation rights with employees commence after the third anniversary of the offer date at which date 30% of the shares vest. Thereafter a further 10% vest each year up to and including the year ending 31 December 2004. Mr Nxasana was granted 1 000 000 shares by the trustees at a price of R14.91 per share on 1 January 2006.

DIRECTORS' INTERESTS

According to the Register of Directors' Interest, maintained by FirstRand in accordance with the provisions of Section 140A of the Companies Act, directors of FirstRand have disclosed the following interest in the company at 30 June 2007.

Certain directors have also disclosed their effective interest in FirstRand as a result of their shareholding in RMB Holdings Limited, which company holds 30.07% (2006: 30.20%) of the issued share capital of FirstRand.

Ordinary shares

000's	Direct beneficial	Indirect beneficial	Indirect non beneficial	Indirect via RMBH	**Total 2007**	Total 2006
VW Bartlett	3 693	376	–	–	**4 069**	4 069
DJA Craig	–	–	–	–	**–**	–
LL Dippenaar	–	3 180	375	128 906	**132 461**	132 453
DM Falck	–	–	–	–	**–**	–
GT Ferreira	–	–	–	124 409	**124 409**	122 976
PM Goss	1	–	–	16 416	**16 417**	16 216
NN Gwagwa	–	–	–	–	**–**	–
PK Harris	–	2 042	–	42 942	**44 984**	44 159
MW King (retired)	–	–	–	–	**–**	64
YI Mahomed	–	–	–	–	**–**	–
G Moloi	1	–	–	–	**1**	1
AP Nkuna	28	–	–	–	**28**	28
SE Nxasana	–	–	–	–	**–**	–
SEN Sebotsa	–	–	–	–	**–**	–
KC Shubane	41	–	–	–	**41**	41
RK Store	–	–	–	–	**–**	–
BJ van der Ross	–	–	–	–	**–**	–
F v Z Slabbert	–	–	–	–	**–**	–
RA Williams	–	54	–	–	**54**	54
Total	3 764	5 652	375	312 673	**322 464**	320 061

"B" preference shares

000's	Direct beneficial	Indirect beneficial	Indirect via RMBH	**Total 2007**	Total 2006
LL Dippenaar	–	520	–	**520**	250
PM Goss	–	49	–	**49**	55
MW King (retired)	–	–	–	**–**	40
RA Williams	–	4	–	**4**	4
Total	–	573	–	**573**	349

Group share incentive schemes

In addition the executive directors participate in Group share incentive schemes. Their participation is subject to the specific approval of the FirstRand Remuneration committee and allocations are done on pricing parameters consistent with those extended to other senior executives.

SHAREHOLDERS' INFORMATION

The annual general meeting will take place at 09:00 on 29 November 2007 in the auditorium, FNB Training Centre, Grayston Drive, Sandton.

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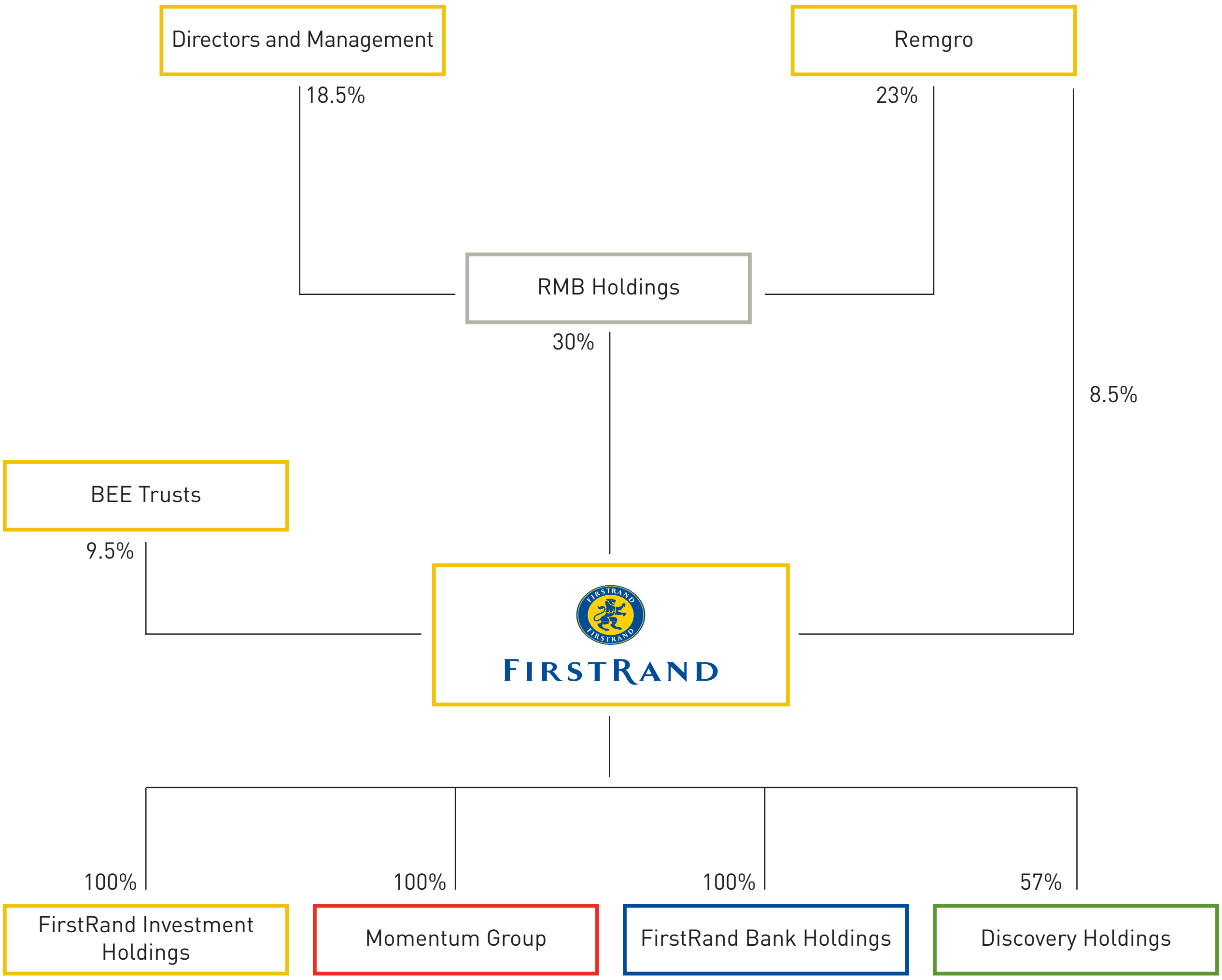
Directors and Management
18.5%
Remgro
23%
RMB Holdings
30%
8.5%
BEE Trusts
9.5%
FIRSTRAND
100%
100%
100%
57%
FirstRand Investment Holdings
Momentum Group
FirstRand Bank Holdings
Discovery Holdings

analysis of shareholders

as at 30 June 2007

	Shares held 000's	%
Shareholders holding more than 5%		
RMB Holdings Limited	1 694 847	30.07
Financial Securities Limited (Remgro)	481 142	8.54
Public Investment Commissioner	510 206	9.05
FirstRand empowerment trust and related parties	535 201	9.50
Subtotal	3 221 396	57.16
Other	2 414 320	42.84
Total	5 635 716	100.00
Shareholder type		
Corporates (RMB Holdings and Remgro)	2 175 989	38.61
Pension funds	923 069	16.38
Insurance companies and banks	836 057	14.83
Unit trusts	457 001	8.11
Individuals	152 549	2.71
Empowerment trusts	535 201	9.50
Employee share trusts	198 118	3.52
Other	357 732	6.34
Total	5 635 716	100.00

	Number of shareholders	Shares held 000's	%
Public and non public shareholders			
Public	28 669	2 721 142	48.28
Non public			
– Corporates (Remgro and RMBH)	2	2 175 989	38.61
– Directors	7	5 266	0.09
– Empowerment trusts	5	535 201	9.50
– Employee share trusts	4	198 118	3.52
Total		5 635 716	100.00

	Shares held 000's	%
Geographic ownership		
South Africa	4 664 119	82.76
International	971 597	17.24
Total	5 635 716	100.00

performance on the JSE Securities Exchange South Africa

as at 30 June 2007

	2007 000's	2006 000's
Number of shares in issue (000's)	**5 635 716**	5 634 121
Market prices (cents per share):		
Closing	**2 260**	1 690
High	**2 606**	2 120
Low	**1 569**	1 365
Weighted average	**2 058**	1 786
Closing price/net asset value per share	**2.73**	2.52
Closing price/earnings (headline)	**11.16**	10.78
Volume of shares traded (millions)	**2 937**	2 771
Value of shares traded (R millions)	**60 434**	49 491
Market capitalisation (R billions)	**127.37**	95.22

FirstRand Limited

(Registration number 1966/010753/06)
Share Code: FSR
ISIN Code ZAE 0000 66304

Company secretary

AH Arnott, BCom, CA(SA)

Registered office

4th Floor, 4 Merchant Place
Corner of Fredman Drive and Rivonia Road
Sandton 2196

Postal address

PO Box 786273, Sandton 2146
Telephone: +27 11 282 1808
Telefax: +27 11 282 8088
Web address: www.firstrand.co.za

Sponsor

(In terms of JSE requirements)
Rand Merchant Bank
(A division of FirstRand Bank)
Corporate Finance
1 Merchant Place
Corner of Fredman Drive and Rivonia Road
Sandton 2196
Telephone: +27 11 282 1847
Telefax: +27 11 282 8215

Transfer secretaries – South Africa

Computershare Investor Services 2004 (Pty) Limited
70 Marshall Street, Johannesburg 2001

Postal address

PO Box 61051, Marshalltown 2107
Telephone: +27 11 370 5000
Telefax: +27 11 688 5221

Transfer secretaries – Namibia

Transfer Secretaries (Pty) Limited
Shop No 12, Kaiserkrone Centre
Post Street Mall, Windhoek

Postal address

PO Box 2401, Windhoek, Namibia
Telephone: +264 61227647
Telefax: +264 61248531

Auditors

PricewaterhouseCoopers Inc
2 Eglin Road
Sunninghill

Postal address

Private Bag X36, Sunninghill 2157
Telephone: +27 11 797 4000
Telefax: +27 11 797 5800

REPORTING

Financial year end	30 June
Announcement of results for 2007	18 September 2007
Annual Report posted by	End October 2007
Annual general meeting	29 November 2007

DIVIDENDS

Final for 2007	
– Declared	17 September 2007
– Last day to trade cum dividend	12 October 2007
– First day to trade ex dividend	15 October 2007
– Record date	19 October 2007
– Payment date	22 October 2007

INTERIM FOR 2008

– Declared	February 2008
– Payable	March 2008

FIRSTRAND LIMITED

(Incorporated in the Republic of South Africa)
(Registration number: 1966/010753/06)
Share Code: FSR ISIN: ZAE000066304
("FirstRand" or "the company")

Notice is hereby given that the tenth annual general meeting of FirstRand Limited will be held in the auditorium, FNB Training Centre, Grayston Drive, Sandton on Thursday 29 November 2007 at 09:00 to, if approved, pass the following resolutions with or without modification:

1. Ordinary resolution number 1

Adoption of annual financial statements
To receive and adopt the audited annual financial statements of the company and the Group for the year ended 30 June 2007 including the reports of the directors and auditors.

2. Ordinary resolution number 2

Final dividend
To note and confirm the final dividend of 43.0 cents per ordinary share declared on 17 September 2007.

3. Ordinary resolution number 3

Re-election of directors
To appoint directors in the positions of the under mentioned directors who retire in terms of the company's articles of association and who, being eligible, offer themselves for re-election:

3.1 Gerrit Thomas Ferreira (59)
Non executive chairman
Date of appointment: May 1998

Educational qualifications
- BCom
- Hons B (B&A)
- MBA

Directorships – FirstRand Group
FirstRand Bank Holdings Limited – chairman
Momentum Group Limited
Rand Merchant Bank*
Directorships – external
Glenrand MIB Limited
RMB Holdings Limited – chairman

3.2 Denis Martin Falck (61)
Non executive director
Date of appointment: February 2001

Educational qualifications
- CA(SA)

Directorships – FirstRand Group
FirstRand Bank Holdings Limited
Directorships – external
Remgro Limited
RMB Holdings Limited
Trans Hex Group Limited

3.3 Nolulamo (Lulu) Gwagwa (48)
Independent non executive director
Date of appointment: February 2004

Educational qualifications
- BA (Fort Hare)
- MTRP (Natal)
- MSc (cum laude) (London)
- PhD (London)

Directorships – external
Development Bank of South Africa Limited
Massmart Holdings Limited
Real Africa Holdings Limited
Sun International Limited

3.4 Gugu Moloi (39)
Independent non executive director
Date of appointment: February 2004

Educational qualifications
- BA (Law)
- MA (Town and Regional Planning)
- Diploma (General Management)

3.5 Frederik van Zyl Slabbert (67)
Independent non executive director
Date of appointment: November 2001

Educational qualifications
- BS
- BA Hons (cum laude)
- MA (cum laude)
- DPhil

Directorships – external
Adcorp Holdings Limited – chairman
Caxton CTP Publishers and Printers Limited – chairman

3.6 Robert Albert Williams (66)
Independent non executive director
Date of appointment: May 1998

Educational qualifications
- BA
- LLB

Directorships – FirstRand Group
FirstRand Bank Holdings Limited
Directorships – external
Illovo Sugar Limited – chairman
Nampak Limited
Oceana Group Limited

4. Ordinary resolution number 4

Election of director
To elect a director appointed during the year and who retires in terms of the company's articles and being eligible offers himself for re-election.

4.1 Ronald Keith Store (64)
Independent non executive director
Date of appointment: May 2007

Educational qualifications
- CA(SA)

Directorships – FirstRand Group
FirstRand Bank Holdings Limited
Rand Merchant Bank*

* *Divisional Board*

5. **Ordinary resolution number 5**

Approval of directors' remuneration for the year to June 2007

Resolved that the remuneration of the directors as reflected in page 297 to the financial statements be approved.

6. **Ordinary resolution number 6**

Approval of directors' fees for the year to June 2008

Resolved that the fees of the directors, increased by approximately 6% as reflected below be approved for the year to June 2008.

	Per annum
FirstRand Board	
Chairman	670 000
Director	127 000
Audit committee	
Chairman	76 000
Member	38 000
Remuneration committee	
Chairman	76 000
Member	38 000
Directors' Affairs and Governance committee	
Chairman	25 500
Member	12 750
Financial Sector Charter Compliance committee	
Chairman	50 000
Member	25 500
Ad hoc meetings (in exceptional circumstances)	2 350

7. **Ordinary resolution number 7**

Approval of reappointment of auditors

Resolved that PricewaterhouseCoopers Inc be reappointed as auditors of the company until the next annual general meeting.

8. **Ordinary resolution number 8**

Approval of auditors' remuneration

Resolved that the directors fix and pay the auditors' remuneration for the year ended 30 June 2007.

9. **Ordinary resolution number 9**

Place the unissued ordinary shares under the control of the directors

Resolved that all the authorised but unissued ordinary shares in the company be and are hereby placed under the control of the directors as a general authority until the forthcoming annual general meeting and that they be and are hereby authorised to allot and issue shares in the company upon such terms and conditions as the directors in their discretion deem fit, subject to the Companies Act (Act 61 of 1973), as amended ("the Companies Act"), the articles of association of the company ("the articles") and the JSE Limited ("JSE") Listings Requirements. The issuing of shares granted under this authority will be limited to FirstRand's existing contractual obligations to issue shares required for the purpose of carrying out of the FirstRand Outperformance share incentive schemes.

10. **Ordinary resolution number 10**

General issue of ordinary shares for cash

Resolved that the Board of directors of the company be hereby authorised, by way of a renewable general authority, to issue ordinary shares in the authorised but unissued ordinary share capital of the company for cash as and when they in their discretion deem fit, subject to the Companies Act and the Listings Requirements of the JSE, when applicable, and the following limitations, namely that:

- this authority shall be valid until the company's next annual general meeting or for 15 months from the date of this resolution, whichever period is shorter;
- the ordinary shares must be issued to public shareholders as defined by the JSE Listings Requirements and the Namibian Stock Exchange Listings Requirements and not related parties;
- the ordinary shares which are the subject of the issue for cash may not exceed 5% in the aggregate in any one financial year of the number of equity shares in issue of that class;
- the equity securities which are the subject of the issue for cash must be of a class already in issue, or where this is not the case, must be limited to such securities or rights that are convertible into a class already in issue and the securities which are the subject of a general issue for cash of a particular class, will be aggregated with any securities that are compulsorily convertible into securities of that class, and, in the case of the issue of compulsorily convertible securities, aggregated with the securities of that class into which they are compulsorily convertible;
- a maximum discount at which the ordinary shares may be issued is 10% of the weighted average traded price of the company's ordinary shares measured over 30 business days prior to the date that the price of the issue is determined or agreed by the directors of the company; and
- a paid press announcement giving full details, including the impact on net asset value and earning per share, will be published at the time of any issue representing, on a cumulative basis within one financial year, 5% or more of the number of ordinary shares in issue prior to that issue, in terms of the JSE Listings Requirements.

Approval for this ordinary resolution is obtained by achieving a 75% majority of the votes cast in favour of this resolution at the annual general meeting by all equity security holders present or represented by proxy.

11. Ordinary resolution number 11

General issue of preference shares for cash

Resolved that the Board of directors of the company be hereby authorised, by way of a renewable general authority, to issue the unissued but authorised "B" variable rate, non cumulative, non redeemable preference shares of the company for cash as and when they in their discretion deem fit, subject to the Companies Act and the Listings Requirements of the JSE, when applicable, and the following limitations, namely that:

- this authority shall be valid until the company's next annual general meeting or for 15 months from the date of this resolution, whichever period is shorter; and
- a paid press announcement giving full details, including the impact on net asset value and earnings per share, will be published at the time of any issue representing, on a cumulative basis within one financial year, 5% or more of the number of ordinary shares in issue prior to that issue, in terms of the JSE Listings Requirements.

Approval for this ordinary resolution is obtained by achieving a 75% majority of the votes cast in favour of this resolution at the annual general meeting by all equity security holders present or represented by proxy.

12. Special resolution number 1

Authority to repurchase company shares

Resolved that in terms of the company's articles of association, the company's directors be hereby authorised, by way of a general authority, to repurchase issued shares in the company or to permit a subsidiary of the company to purchase shares in the company, as and when deemed appropriate, subject to the following initiatives:

- that this authority shall be valid until the company's next annual general meeting provided that it shall not extend beyond fifteen (15) months from the date of this annual general meeting;
- that any such repurchase be effected through the order book operated by the JSE trading system and done without any prior understanding or agreement between the company and the counterparty;
- that a paid press release giving such details as may be required in terms of the JSE Listings Requirements be published when the company or its subsidiaries have repurchased in aggregate 3% of the initial number of shares in issue, as at the time that the general authority was granted, and for each 3% in aggregate of the initial number of shares which is acquired thereafter;
- that a general repurchase may not in the aggregate in any one financial year exceed 10% of the number of shares in the company's issued share capital at the time this authority is given provided that a subsidiary of the company may not hold at any one time more than 10% of the number of issued shares of the company;
- that no repurchases will be effected during a prohibited period unless there is in place a repurchase programme where the dates and quantities of securities to be traded during the relevant period are fixed (not subject to any variation) and full details of the programme have been disclosed in an announcement over SENS prior to the commencement of the prohibited period;
- that at any point in time, the company may only appoint one agent to effect repurchases on the company's behalf;
- that the company may only undertake a repurchase of securities if, after such repurchase, the spread requirements of the company comply with the JSE Listings Requirements;
- that, in determining the price at which shares may be repurchased in terms of this authority, the maximum premium permitted be 10% above the weighted average traded price of the shares as determined over the five (5) days prior to the date of repurchase;
- the sponsor to the company provides a letter to the JSE on the adequacy of working capital in terms of section 2.12 of the JSE Listings Requirements prior to any repurchases being implemented on the open market of the JSE; and
- that such repurchase shall be subject to the Companies Act and the applicable provisions of the JSE Listings Requirements.

The Board of directors of the company ("the Board') has no immediate intention to use this authority to repurchase company shares. However, the Board is of the opinion that this authority should be in place should it become appropriate to undertake a share repurchase in the future.

Having considered the effect in the event that the maximum allowed repurchase is effected, the directors are of the opinion that:

- the company and the Group will be able, in the ordinary course of business, to pay its debts for a period of 12 months after the date of the repurchase;
- the assets of the company and the Group will be in excess of the liabilities of the company and the Group for a period of 12 months after the date of the repurchase. The assets and liabilities have been recognised and measured for this purpose in accordance with the accounting policies used in the latest audited annual Group financial statements;
- the company's and the Group's ordinary share capital and reserves will, after such payment, be sufficient for ordinary business purposes for a period of 12 months following the date of the repurchase; and
- the company and the Group will, after such payment, have sufficient working capital for ordinary business purposes for a period of 12 months following the date of the repurchase.

Reason for and effect of the special resolution number 1

The reason for special resolution number 1 is to grant the company's directors a general authority, up to and including the date of the following annual general meeting of the company, to approve the company's purchase of shares in itself, or to permit a subsidiary of the company to purchase shares in the company. The effect of special resolution number 1 is to grant a general authority to the company's directors accordingly.

For purposes of considering the special resolution and in compliance with Rule 11.26 of the JSE Listings Requirements, the information listed below has been included in the Annual Report, in which this notice of annual general meeting is included, at the places indicated:

- directors and management – refer pages 78 to 82 of this report;
- major shareholders – refer page 304 of this report;
- for material changes refer page 98 of this report;
- directors' interest in securities – refer page 300 of this report;
- share capital of the company – refer page 290 of this report;
- the directors, whose names are set out on page 78 of this report, collectively and individually accept full responsibility for the accuracy of the information contained in this special resolution and certify that to the best of their knowledge and belief that there are no other facts, the omission of which would make any statement false or misleading and that they have made all reasonable queries in this regard; and
- litigation – save as reported in note 38 to the financial statements on page 230 of the Group, there are no legal or arbitration proceedings (including any such proceedings that are pending or threatened of which the company is aware) which may have or have had in the previous 12 months, a material effect on the Group's financial position.

By order of the Board of Directors

AH Arnott
BCom, CA(SA)
Company secretary

17 September 2007

Important notes regarding attendance at the annual general meeting

GENERAL

Shareholders wishing to attend the annual general meeting have to ensure beforehand with the transfer secretaries of the company that their shares are in fact registered in their name.

CERTIFICATED MEMBERS

Members who have not dematerialised their shares or who have dematerialised their shares with "own name" registration are entitled to attend and vote at the meeting and are entitled to appoint a proxy or proxies to attend, speak and vote in their stead. The person so appointed need not be a member. Proxy forms should be forwarded to reach the registered office of the company/company's transfer secretaries by 48 hours prior to the meeting.

DEMATERIALISED SHAREHOLDERS

Members who have dematerialised their shares, other than those members who have dematerialised their shares with "own name" registration, should contact their Central Securities Depository Participant ("CSDP") or broker in the manner and time stipulated in their agreement:

- to furnish them with their voting instructions; and
- in the event that they wish to attend the meeting, to obtain the necessary authority to do so.

On a show of hands, every member of the company present in person or represented by proxy shall have one vote only. On a poll, every member of the company shall have one vote for every share held in the company by such member.

for the year ended 30 June

FIRSTRAND LIMITED

(Incorporated in the Republic of South Africa)
(Registration number: 1966/010753/06)
Share Code: FSR ISIN: ZAE000066304
("FirstRand" or "the company")

Only for use by members who have not dematerialised their shares or members who have dematerialised their shares with own name registration.

All other dematerialised shareholders must contact their CSDP or broker to make the relevant arrangements concerning voting and/or attendance at the annual general meeting.

For completion by the aforesaid registered members who hold ordinary shares of the company and who are unable to attend the 2007 annual general meeting of the company to be held in the FNB Training Centre, Grayston Drive, Sandton on Thursday, 29 November 2007 at 09:00 ("the annual general meeting").

I/We, ____________________

Of (address) ____________________

Being the holder/s of __________ ordinary shares in the company, hereby appoint (see instruction overleaf)

1. ____________________ or, failing him/her

2. ____________________ or, failing him/her

3. the chairperson of the annual general meeting, as my/our proxy to attend, speak and vote for me/us and on my/our behalf or to abstain from voting at the annual general meeting of the company and at any adjournment thereof, as follows (see instructions overleaf).

	Insert an "X" or the number of votes exercisable (one vote per ordinary share)		
	In favour of	Against	Abstain
Ordinary resolution number 1 Adoption of annual financial statements			
Ordinary resolution number 2 Final dividend			
Ordinary resolution number 3 Re-election of directors			
3.1 Gerrit Thomas Ferreira			
3.2 Denis Martin Falck			
3.3 Nolulama Gwagwa			
3.4 Gugu Moloi			
3.5 Frederik van Zyl Slabbert			
3.6 Robert Albert Williams			
Ordinary resolution number 4 Election of director			
4.1 Ronald Keith Store			
Ordinary resolution number 5 Approval of directors' remuneration for the year to June 2007			
Ordinary resolution number 6 Approval of directors' fees for the year to June 2008			
Ordinary resolution number 7 Approval of reappointment of auditors			
Ordinary resolution number 8 Approval of auditors' remuneration			
Ordinary resolution number 9 Place unissued shares under the control of directors			
Ordinary resolution number 10 General issue of ordinary shares for cash			
Ordinary resolution number 11 General issue of preference shares for cash			
Special resolution number 1 Authority to repurchase company shares			

Signed at __________ on __________ 2007

Signature/s ____________________

Assisted by ____________________
(where applicable)

PLEASE SEE NOTES ON REVERSE SIDE OF THE FORM

USE OF PROXIES

A member who holds ordinary shares in FirstRand ("member") is entitled to attend and vote at the annual general meeting and to appoint one or more proxies to attend, speak and vote in his/her stead. A proxy need not be a member of the company.

Every member present in person or by proxy and entitled to vote at the annual general meeting of the company shall, on a show of hands, have one vote only, irrespective of the number of shares such member holds, but in the event of a poll, every ordinary share in the company shall have one vote.

Instructions on signing and lodging the proxy form:

1. A member may insert the name of a proxy or the names of two alternative proxies of the member's choice in the space/s provided overleaf, with or without deleting "the chairman of the annual general meeting", but any such deletion must be initialled by the member. Should this space be left blank, the chairman of the annual general meeting will exercise the proxy. The person whose name appears first on the proxy form and who is present at the annual general meeting will be entitled to act as proxy to the exclusion of those whose names follow.
2. A member's voting instructions to the proxy must be indicated by the insertion of the number of votes exercisable by that member in the appropriate spaces provided overleaf. Failure to do so shall be deemed to authorise the proxy to vote or to abstain from voting at the annual general meeting, as he/she thinks fit in respect of all the member's exercisable votes. A member or his/her proxy is not obliged to use all the votes exercisable by his/her proxy, but the total number of votes cast, or those in respect of which abstention is recorded, may not exceed the total number of votes exercisable by the member or by his/her proxy.
3. A minor must be assisted by his/her parent or guardian unless the relevant documents establishing his/her legal capacity are produced or have been registered by the transfer secretaries.
4. To be valid, the completed proxy forms must be forwarded to reach the company's transfer secretaries, Computershare Investor Services 2004 (Pty) Limited, 70 Marshall Street, Johannesburg 2001 (PO Box 61051, Marshalltown 2107), fax number (011) 688 5221 or in Namibia to Transfer Secretaries (Pty) Limited, Shop No 12, Kaiserkrone Centre, Post Street Mall, Windhoek (PO Box 2401, Windhoek, Namibia), fax number +264 6124-8531 by no later than 09:00 on Tuesday, 27 November 2007. Proxy forms may only be completed by members who have not dematerialised their shares or who have dematerialised their shares with "own name" registration.
5. Documentary evidence establishing the authority of a person signing a proxy form in a representative capacity must be attached to the proxy form unless previously recorded by the transfer secretaries or waived by the chairman of the annual general meeting.
6. The completion and lodging of this proxy form shall not preclude the relevant member from attending the annual general meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof, should such member wish to do so.
7. The completion of any blank spaces overleaf need not be initialled. Any alterations or corrections to this proxy form must be initialled by the signatory/ies.
8. The chairman of the annual general meeting may reject or accept any proxy form which is completed other than in accordance with these instructions provided that he is satisfied as to the manner in which a member wishes to vote.

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