FirstRand Bank Limited | Annual Report 2005

FIRSTRAND
Bank Limited

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FirstRand Bank Limited Annual Report 2005

Contents

Board of directors and board committees of FirstRand Bank Limited

GT Ferreira (57) *Non-independent Non-executive*

BCom, Hons B(B&A), MBA

Chairman of FirstRand, FirstRand Bank Holdings and RMB Holdings and Director of Momentum Group

PK Harris (55) *Executive*

MCom

Chief Executive Officer of FirstRand Bank Holdings, Director of FirstRand, RMB Holdings and Momentum Group

VW Bartlett (62) *Non-independent Non-executive*

AMP (Harvard), FIBSA

Director of FirstRand and FirstRand Bank Holdings

JP Burger (46) *Executive*

BCom (Hons), CA(SA)

Chief Financial Officer of FirstRand and Financial Director of FirstRand Bank Holdings

LL Dippenaar (56) *Executive*

MCom, CA(SA)

Chief Executive Officer of FirstRand, Chairman of Momentum Group and Discovery Holdings, Director of RMB Holdings and FirstRand Bank Holdings

DM Falck (59) *Independent Non-executive*

CA(SA)

Director of FirstRand, FirstRand Bank Holdings and RMB Holdings

PM Goss (57) *Independent Non-executive*

BEcon (Hons), BAccSc (Hons), CA(SA)

Director of FirstRand, FirstRand Bank Holdings and RMB Holdings

WR Jardine (40) *Independent Non-executive*

BSc, MSc

Director of FirstRand Bank Holdings

MW King (68) *Independent Non-executive*

CA(SA), FCA

Director of FirstRand, FirstRand Bank Holdings and FirstRand International

SE Nxasana (48) *Independent Non-executive*

BCom, BCompt (Hons), CA(SA)

Director of FirstRand Bank Holdings

RK Store (63) *Independent Non-executive*

CA(SA)

Director of FirstRand Bank Holdings

BJ van der Ross (58) *Independent Non-executive*

Dip Law (UCT)

Director of FirstRand, FirstRand Bank Holdings and Momentum Group

RA Williams (64) *Independent Non-executive*

BA, LLB

Director of FirstRand and FirstRand Bank Holdings

The following director was appointed to the board during the year on the date indicated below:

RK Store – 1 September 2004

The following director served on the board during the year and resigned on the date indicated below:

I Charnley – 1 March 2005

Audit committee

MW King (Chairman)
VW Bartlett
DM Falck
SE Nxasana
RK Store
RA Williams

Risk committee

RK Store (Chairman)
DM Falck
MW King
SE Nxasana
RA Williams

Remuneration committee

PM Goss (Chairman)
VW Bartlett
LL Dippenaar
GT Ferreira
MW King
BJ van der Ross
RA Williams

Large exposures credit committee

RK Store (Chairman)
VW Bartlett
JP Burger
PK Harris
WR Jardine
BJ van der Ross

Directors' affairs and governance committee

DM Falck (Chairman)
VW Bartlett
GT Ferreira
PM Goss
WR Jardine
MW King
SE Nxasana
RK Store
BJ van der Ross
RA Williams

Corporate governance

COMPLIANCE STATEMENT

FirstRand Bank is committed to good corporate citizenship and to open corporate governance in its stewardship of the bank's affairs.

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

Furthermore, in recognition of the need to conduct the affairs of the Bank according to the highest standards of corporate governance, in the interests of investor protection, the directors of FirstRand Bank endorse the Code of Corporate Practices and Conduct recommended in the King II Report on Corporate Governance for South Africa 2002 ("King II"). The directors are satisfied that the Bank has observed and applied the Code consistently during the year under review.

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

BOARD OF DIRECTORS

Responsibilities of directors

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

Composition and frequency of meetings

FirstRand Bank has a unitary board. Its chairman is non-executive, but not independent in terms of the King II definition. The board members believe that it is appropriate for Mr Ferreira to continue to chair the Bank's board, notwithstanding the fact that he does not fulfil the strict criteria of "independence" as set out in King II. It is also the view of the directors that a strong independent element of non-executive directors exists on the board and that this provides the necessary objectivity essential for its effective functioning. The roles of chairman and chief executive officer are separate with segregated duties.

The board comprises 13 directors of whom three serve in an executive capacity. The directors of the Bank are listed on page 1. Non-executive directors comprise individuals of high calibre with diverse backgrounds and expertise. This ensures that their views carry significant weight in the board's deliberations and decisions.

The board has a formal schedule of matters it oversees. The board meets quarterly. Two further meetings are scheduled to approve the annual financial statements and to review the strategic plans and the resulting budgets. Additional meetings are convened as and when necessary.

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

Limitation to appointment period

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

COMPANY SECRETARY

The company secretary is suitably qualified and experienced and was appointed by the board in 1998. He is, inter alia, responsible for the duties stipulated in section 268G of the Companies Act and the certificate required to be signed in terms of subsection (d) thereof appears on page 25.

Risk management

PHILOSOPHY

A successful business has to manage all its business risks effectively in order to achieve its desired objectives, avoid adverse outcomes and prevent reputational damage. It has to get many things right and be mindful that a single factor could cause sub-optimal performance or even failure. Successful entrepreneurs seek profitable opportunities which will yield superior and sustainable returns because of the risk management expertise that they bring to develop such opportunities to full potential.

RISK MANAGEMENT POLICY

Risk management in the Banking Group is governed by the Business Success and Risk Management Framework ("Framework") which is a policy of the boards of directors.

In terms of the Framework, risk management is vested as an integral part of management's functions at all levels of the Banking Group and includes the management of strategy, reputation, human resources, competitive positioning and all financial risks. It also covers securing the safety of people and assets, the management of tax, market and credit risk, capital, interest rate risk, liquidity, technology, business continuity, information security, legal and compliance risks, criminal activities, processes and systems risk and external factors.

Risk management is simply a tool, albeit a most important one, which management uses:

- to identify strategic and operating business risks;
- to track, by means of appropriate reporting and monitoring processes, that these risks are properly managed to yield a return commensurate with the risk and to correct shortcomings; and
- to capitalise a business in accordance with its inherent risk profile to ensure its sustainability for the benefit of all its stakeholders.

The executive, independent and deployed risk managers, internal auditors and the governance committees monitor that the Banking Group's business risks are managed in accordance with the Framework and that the processes are effective. Improvements are initiated as required.

IMPLEMENTATION OF THE RISK MANAGEMENT FRAMEWORK

Business performance is the responsibility of the business entity leaders. (Business entities include all holding, operating and subsidiary companies as well as their divisions, departments and business units.) The implementation of the Risk Management Framework of the board is the responsibility of everyone at the Banking Group; the business entity, business unit and team leaders and all employees. Business entities are supported in this task by the independent and deployed risk management functions.

REPORTING ON THE EFFECTIVENESS OF RISK MANAGEMENT

The risk management processes across the eight generic business risk categories of the Framework, are monitored by the independent and deployed risk managers and the entity risk committees, which meet monthly. All the business units, 136 in total, report on the effectiveness of their risk management processes, in a generic dashboard format, to their relevant risk management functions and risk committees and to Risk Management Services via a bottom-up process. Consolidated assessments, for each of the main business divisions, are submitted quarterly for review by the main risk committee.

The monitoring structures and processes also follow the progress with corrective actions which the business entities implement to improve risk management deficiencies.

GOVERNANCE STRUCTURES

Independent oversight of the risk management processes

The independent Finance, Risk and Audit Services division employs experts in the following areas to drive and facilitate risk management across the Banking Group, while Risk Management Services will drive the risk management processes:

Asset and liability management ("ALCO");	Safety of people;
Balance sheet management;	Business continuity;
Capital management;	Compliance;
Corporate governance;	Criminal loss
Credit risk;	Criminal loss prevention;
Direct and indirect tax;	Risk insurance;
Financial market trading;	Financial management;
Internal audit;	Information security;
Liquidity management;	Legal risk management;
Operational risk;	Market risk; and
Risk quantification.	

Strategic business risks are managed by executive management and monitored by the executive and strategic governance structures of the Banking Group. Shortcomings in the management processes to address strategic and operating risks are highlighted in the assessments of the effectiveness of risk management and reported as outlined.

Responsibility of the board

The board of the Banking Group is responsible for overall risk management and the quality of internal control systems. The board is supported in these tasks by the committees of the board ("board committees") and their sub-committees and the risk management functions. The table overleaf lists the board committees and their main responsibilities.

Audit and risk committees of the board of directors

Committee and chairperson	Main duties and responsibilities
Audit committee *MW King Sub-audit committees	Approves the financial statements and accounting policies. Monitors the quality of the internal controls and processes of the Banking Group and the implementation of corrective actions.
Risk committee *RK Store Sub-risk committees	Approves risk management policy, standards and processes; monitors group risk assessments; monitors the effectiveness of risk management and high priority corrective actions.
Large exposures credit committee *RK Store	Approves credit exposures in excess of 10% of bank capital.
Banking Group credit committee *JP Burger	Credit approvals of group or individual credit facilities in excess of sub-committee mandates and limits. Approves all credit products and product policies.
Credit approval committees and sub-committees: ● Large exposures credit committee ● Banking Group credit committee Sub-committees: ● Project and structured commodity finance credit committee ● Corporate credit committee ● Commercial credit committee and panels (including medium corporate, business and agricultural segments) ● International credit committee ● Country risk credit committee ● Leveraged finance committee ● Commercial property finance credit committee ● Consumer credit review committees and panels ● WesBank credit committee ● HomeLoans credit committee	Credit approvals as per individual committee mandates.
Banking Group credit risk committee *JP Burger Sub-committees: Corporate and consumer segment credit risk committees	Approves credit risk management policies, standards and processes; monitors the effectiveness of the credit risk management processes.
Market risk committee MH Field	Approves market risk management policy, standards and processes; monitors the effectiveness of the market risk management processes.
Operational risk committee JJH Bester Sub-committees: ● Security committee ● Technology and information management committee	Monitors the risk management processes, operational risk management, the effectiveness of risk management, process breakdowns and corrective actions.
Asset and Liability committee (ALCO) *JP Burger Sub-committees International Asset and Liability committee	Approves liquidity and interest rate risk management policies, methodologies, standards and processes for the banking books; monitors the effectiveness of these risk management processes.
Risk sub-committees of the subsidiaries and main operating divisions	Monitor risk management processes and risk assessments; monitor the effectiveness of risk management and high priority corrective actions.

* *Denotes board director.*

Risk governance structure

The diagram below depicts the various levels of the risk management governance structures for the Banking Group which cascade down from the board to the subsidiaries and main divisions and their business units. All subsidiaries, divisions and major business units of the Banking Group have risk and audit committees. All audit committees and the main risk committee have non-executive representation. The main risk and audit committees 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 committee meetings as is appropriate.

Through these mechanisms, the Banking Group maintains transparency and ensures the integrity of the reports to the board committee through the presence of external and independent observers at all governance levels.

Board committees

Audit committee	Risk committee	Large exposures credit committee	Banking Group credit committee

Sub-committees of the risk committee

Banking Group credit risk committee	Asset and Liability committee	Market risk committee	Operational risk committee

Risk committees of the subsidiaries and divisions of the Banking Group

FNB Namibia	FNB Botswana	FNB Swaziland	FNB	WesBank	RMB and RMBI	Banking Group Treasury	Finance, Risk and Audit

Risk committees of business units

The major business units all have their own risk committees as sub-committees of the subsidiary and divisional risk committees: 17 in total

Audit committees of the subsidiaries and divisions of the Banking Group

FNB Namibia	FNB Botswana	FNB Swaziland	FNB	WesBank	RMB and RMBI	Banking Group Treasury	Group Support

ENTERPRISE-WIDE RISK MANAGEMENT

All risks are managed in terms of the policies and frameworks of the board and its committees and their sub-committees; for example the Business Success and Risk Management Framework, the Credit Risk Management Framework, the Market Risk Management Framework, the Operational Risk Management Framework, the Compliance Risk Management Framework and the Legal Risk Management Framework.

The review of the effectiveness of the risk management processes that follows shows that the Banking Group was very successful in the management of its business risks during the past year. The Group has achieved its desired business objectives and managed to avoid unexpected losses of any consequence, which might have been caused by shortcomings in risk controls.

Achievements of the past year

- further integration of the management and risk management processes;
- further improvement in the measurement and reporting of the effectiveness of risk management;
- considerable progress with the alignment of risk management, internal audit and other governance functions;
- ongoing development of the qualitative and quantitative measures of key risks;
- substantial improvement in systems control, credit administration processes and business continuation arrangements;
- ongoing improvement of management information and financial reporting systems;
- proactive positioning in anticipation of a decline in interest rates; and
- further development of the risk quantification processes, generally and specifically to address the directives of the Basel II Capital Accord to determine capital adequacy requirements for credit, market and operational risk.

The year ahead

- implementation of an intranet application to automate the reporting of the effectiveness of risk management;
- further integration of the audit and risk management reporting systems;
- further improvement in and refinement of key risk indicator reporting;
- ongoing refinement of the risk quantification processes, including the quantification of concentration risk at business entity and enterprise level; and
- further refinement of the reporting of the effectiveness of risk management.

THE EFFECTIVENESS OF RISK MANAGEMENT

The management of the key business risks of the Banking Group

The key economic risks of the Banking Group are credit, interest rate, liquidity, operational and market risk. The most important operating risks lie in business continuation and the functionality and efficiency of processes and systems.

It is in the nature of a large commercial Banking Group that credit risk is the largest risk exposure category. This is certainly true of FirstRand with 79% of economic capital allocated to support the credit businesses. Investment, operational, interest rate and market risk exposures follow, although these exposures are much smaller.

The management of these risks has been very effective as is demonstrated in the following sections:

- losses due to credit defaults have declined further in a benign economic and business environment;
- the bank was well positioned against the negative impact of lower interest rates;
- market risk was well controlled and trading activities yielded excellent results;
- the Group did not experience any funding constraints during the past year;
- the Group has made substantial progress in its aim to implement best practice business continuation arrangements across the various business units and is close to achieving this goal;
- systems availability was high with little or no service disruption due to capacity constraints or external attacks by hackers or fraudsters; and
- losses due to criminal activities declined further as did process losses.

The sections that follow discuss the success of the risk management activities in more detail.

RISK EXPOSURE UNDER STRESS CONDITIONS

The Banking Group did not experience any unexpected or stress conditions during the past year in the markets in which it operates. The Group assesses the potential impact and losses which it might experience under stress conditions. In the exercise to quantify potential stress losses a number of factors are considered, including:

- a worsening of business conditions which causes a substantial increase in credit losses;
- one or more severe price movements in the financial and commodity markets;
- a substantial rise or fall in interest rates;
- potential currency fluctuations;
- unexpected operational losses; and
- unexpected declines in revenues and increases in operating costs.

The aggregation of potential losses across these factors, and based on the underlying assumptions, yields a range of potential stress losses, though the coincidence of such hypothetical events is highly unlikely. The aggregate of these hypothetical losses under extreme stress conditions is substantially less than the annual operating income, before tax, of the Banking Group. This confirms the relatively low risk profile of the Group relative to its income and capital base. Conversely, it demonstrates a very high degree of organisational sustainability and capital adequacy.

CREDIT RISK

The risk that a counterparty will default on an obligation to the Bank

The management of credit risk

Credit risk is managed in terms of the Credit Risk Management Framework. The credit originating units operate in terms of policies, mandates and limit structures and provide credit products and services to the market, which have all been approved in terms of the aforementioned framework, in alignment with their business strategies.

All credit exposures are approved by means of scoring models, or individual assessments and approval by a credit approval committee, as is appropriate to a specific market segment.

The Banking Group's main risk exposures are to counterparties in respect of credit facilities in the form of secured or unsecured advances, project and structured financing, trade and market trading facilities and property and asset based finance. The board, executive, credit product owners and credit risk management functions recognise the relative magnitude of these exposures and that credit risk is the main risk exposure of the Banking Group. With the foregoing in mind, the credit processes are designed to implement and maintain the best possible approach to the identification and management of these risks; even more so in an environment where credit costs are relatively low, consumers have scope to take on additional credit and where the competitive pressures are high to provide credit facilities to the satisfaction of customers.

The Banking Group has considerable appetite to take on credit risk, being one of its main income generators, but only if such risks are properly identified, quantified, adequately controlled and sufficiently rewarding relative to the risk.

Credit risk control extends across the credit processes from origination, through day-to-day credit exposure management to final settlement. These processes include counterparty assessment and rating which determines default probability, the assessment of exposure given default, the setting of prudential exposure limits, credit approvals and pricing facilities for risk. The processes also cover facility terms and conditions, contractual agreements, control over payments, ongoing monitoring of exposures and account behaviour, payments and settlements, analysis of risk concentration, settlement and recovery. The Banking Group aims to maintain best practice processes across all these aspects of credit and operational risk in order to keep credit losses within the parameters assumed in the pricing models so that it generates an optimum return on risk capital.

For the past financial year, credit defaults were lower than statistically expected defaults in all the main credit businesses. However pleasing this outcome may be, one must bear in mind that defaults will vary over time to reflect general business and economic conditions and expect that default levels may increase in the future should these conditions deteriorate as is discussed in the section on the distribution of credit risk profiles.

Effectiveness of credit risk management

The effectiveness of credit risk management in the credit product houses is monitored by the business units, the credit risk managers, the corporate and consumer segment credit risk committees and the Banking Group credit risk committee. These functions and committees monitor credit default rates relative to default expectations, recoveries, actions to address risk control shortcomings, portfolio risks and changes in the credit environment.

The following sections report on the effectiveness and status of risk management with reference to the various elements of the credit risk management processes across the credit product houses and market segments, namely corporate and commercial, commercial property, the consumer segments, HomeLoans and asset based finance.

Credit origination

The credit origination processes in the various product houses and market segments are in accordance with approved policy frameworks and mandates and are aligned to the segmentation criteria. These processes are standardised within the various segments and are continuously improved to adjust to changes in the credit environment.

Credit assessments vary from scoring models in the mass market segments to individual analysis in the corporate, commercial and commercial property segments and for larger exposures in the wealth and mass markets. The credit research and analysis processes are appropriate to the relevant products, customer and market segments and credit portfolio dynamics.

Pricing for risk

A bank has to maintain capital according to its risk profile to ensure its sustainability, to comply with regulatory requirements and to give comfort to its counterparties and stakeholders as a going concern. The credit businesses are charged for the capital that they utilise commensurate with the risk profiles of their credit products, portfolios and market segments.

All the credit businesses apply scoring and rating methodologies and credit pricing models which are designed to price appropriately for the credit risk they assume, in order to service the cost of capital and to generate adequate profits to achieve the organisation's targeted return on equity to cater for future growth in the financing needs of its customers and the economy as a whole. The effectiveness of these pricing models are continuously monitored by the business units and risk management functions and changes are made as needed.

Ongoing risk management

The management of credit risk exposure does not end with the approval of a credit facility. Credit risk is controlled in an end-to-end process which covers:

- the management of the conditions of the facility which have to be met before the facility becomes activated;
- the implementation of the necessary contracts and agreements to formalise the facility;
- ongoing collateral management;
- ongoing monitoring of the utilisation of the facility to ensure that capital and interest payments and covenants are met, that excesses and arrears are identified without delay and corrected or formally authorised;
- timeous review of facilities and the identification of facilities that are not performing according to the facility, or where circumstances may have changed the creditworthiness of the counterparty, so that appropriate corrective actions and risk mitigation measures may be implemented;
- monitoring of default experience at product and portfolio level to verify the effectiveness of the pricing models and to identify operational control weaknesses which may have contributed to credit losses so that the process deficiencies may be corrected;
- identification of credit losses which have been caused by operational breakdowns or defects in the enforceability of contracts so that these shortcomings can be rectified;
- the handing over of defaulted accounts to specialist collection and workout units to limit the potential loss on a defaulted counterparty;
- the identification of portfolio concentration risk in order to mitigate the risk;
- the modelling of portfolio performance under stress conditions to provide an early warning of potential weak spots to enable timeous mitigating steps;
- compliance with statutes and regulations; and
- regular internal and external audits to verify the quality of the credit risk control methodologies and processes and general compliance.

Credit impairment policy

The credit businesses make credit impairments against underperforming or non-performing loans, with due recognition of security, in accordance with formal procedures and policies. The accounting standards in respect of credit impairment, which do not support the creation of general loss reserves, introduce the potential for income volatility as credit defaults fall or increase in line with business conditions; defaults have to be charged to the income statement in the year in which they occur. Furthermore, should a valuation of the credit portfolio show that future losses would result in operating losses in the lending portfolio, such future losses have to be provided for.

The past year

The Banking Group's efforts to refine and improve its credit risk management processes focused on the following:

- continuous enhancement of the scoring, rating, individual assessment and pricing models in the various credit businesses;
- considerable effort to ensure that credit processes will be Basel II compliant;
- further improvement of models to align economic capital with the credit risk inherent in the various portfolios;
- continuation of the development of an automated exposure and limit management system for the corporate sector; and
- continuous improvement of the data quality in the credit businesses.

Going forward

The initiatives listed in the foregoing section are multi-year projects designed to ensure continuous improvement of the credit risk management processes within the Banking Group and readiness for the implementation of Basel II. These initiatives will continue in the year ahead as key focus areas for credit risk management. In addition, the Banking Group looks to refine and develop credit concentration risk identification methodologies within business units and at enterprise level.

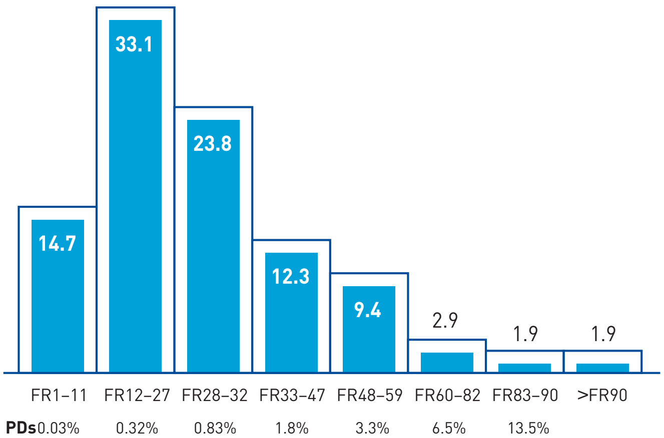
Distribution of credit risk profiles

This section describes the key inputs used internally in the credit process to determine the potential future credit losses. The following graphs show the distribution of the main credit portfolios. 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.

Wholesale portfolio (corporate and SME exposures)

The following graph indicates the credit distribution based on the counterparty's probability of default ("PD") and FR rating for the wholesale and SME credit portfolio (excluding the financial institution and sovereign exposures):

Wholesale and SME credit portfolio
Exposure distribution across rating buckets (%)



Notes:

1. *The above graph includes the exposures of RMB and FNB to large corporate counterparties, the FNB Commercial exposures to mid-corporate counterparties as well as the WesBank exposures to corporate counterparties.*
2. *The mid-point PDs noted in the graph above, can be mapped to international scale and national scale rating equivalents as follows:*

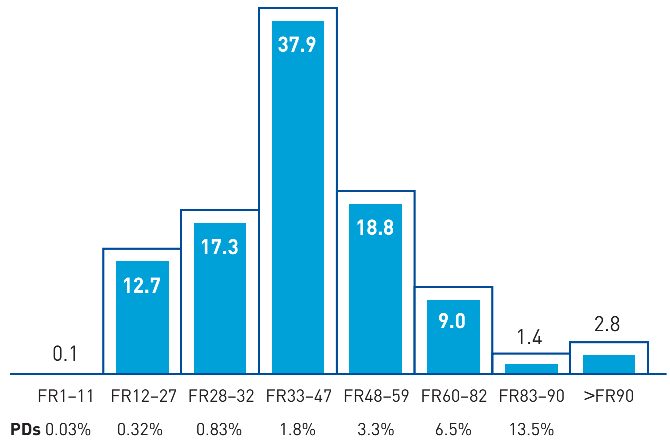
FR rating	Mid-point PD	International scale	National scale equivalent (zaf)
FR 1 – 11	0.03%	AAA, AA, A	AAA, AA+
FR 12 – 27	0.32%	BBB	AA, AA-
FR 28 – 32	0.83%	BB+, BB	A
FR 33 – 47	1.84%	BB-	BBB
FR 48 – 59	3.38%	B+	BB
FR 60 – 82	6.52%	B	B+
FR 83 – 90	13.55%	B-	B
Above FR 90		Below B-	CCC

The graph above details the credit probability of default without any consideration of the collateral in place. The PD is only one dimension of credit risk, the other being the loss in the event of default. The excellent recovery processes of the bank ensure that the losses incurred upon a default is significantly reduced below the level of the outstanding exposure. The loss given default ("LGD") estimates in the wholesale lending portfolio ranges between 30% and 50% for facilities with non-financial collateral and lower where financial collateral is held.

Retail credit portfolio

The following graph indicates the credit distribution based on the counterparty's PD and FR rating for the retail portfolio:

Retail portfolio
Exposure distribution across rating buckets (%)



Note:

1. *The above graph includes the exposures of FNB to retail customers, eg home loans, credit cards and overdrafts, FNB Commercial exposures to business and agriculture counterparties as well as WesBank retail exposures.*

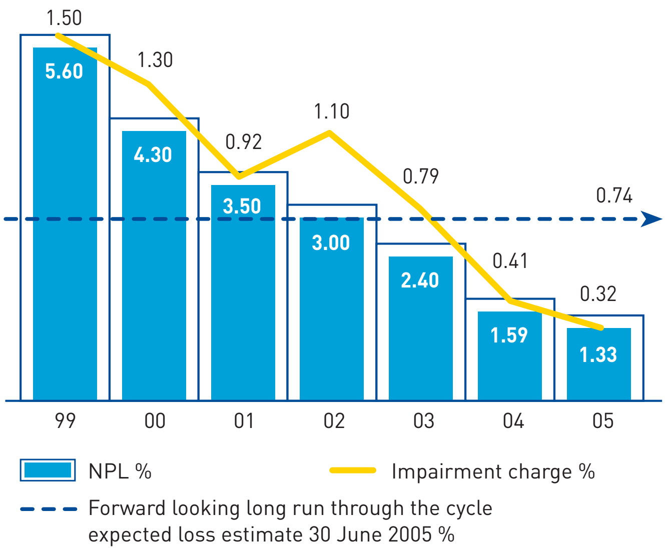
The LGD for the retail exposures depend on the product and collateral type. The LGD would typically vary between 20% and 40% for secured lending (eg home loans) and between 50% and 70% for unsecured lending (eg credit cards).

Actual versus expected losses – Portfolio view

The expected loss ("EL") of the portfolio is a function of the PD (reflected in the credit distributions above) 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 2005 for the Bank's portfolio is estimated at 0.74%.

The graph below indicates the history of the Banking Group's actual losses reflected by the impairment charge percentage and non-performing loans against the forward looking expected loss estimate as at 30 June 2005.

NPLs and impairment charge percentages



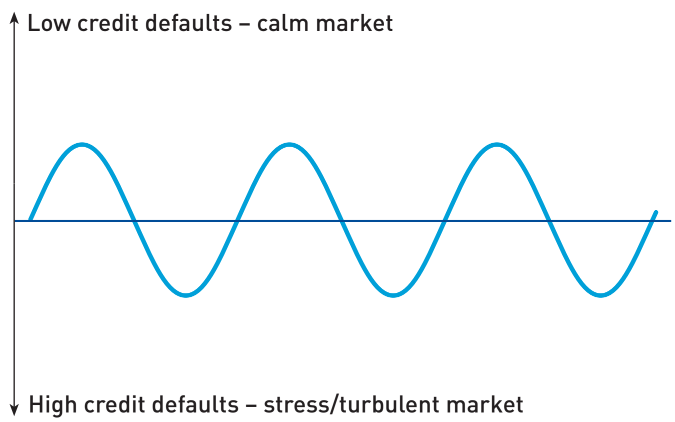
Note:

Non-performing loans are classified as such based on the definition of default used by the Banking Group. 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/worked out. The impairment charge percentage is the bad debt charged to the income statement as a percentage of total advances in the current year based on the application of the bank's internal provisioning policies. The expected loss estimates are based on credit distribution and loss given default estimations as at 30 June 2005.

It is clear from the graph that the current impairment charge percentage of 0.32% is below the forward looking long run average expected loss of 0.74%, due to the current favourable market conditions. Factors which may lead the actual credit impairments to revert to the long run average expectation include unanticipated sudden economic shocks such as a sharp increase in interest rates or other adverse business environment changes.

It should furthermore be noted that the long run average expected loss estimates presented above were based on data which included data from the high interest rate environment experienced in 1998/1999 and 2001/2002. Should the current interest rate environment constitute a more permanent structural interest rate shift, the long run average expected loss estimates through the cycle will need to be revised to a lower level.

Internally, the expected losses are also analysed by looking at the potential scenarios in the credit cycle as illustrated in the graph below in order to provide a better point in time estimate of credit conditions.



The analysis of the credit cycle is conducted for each business unit and is based on past experience, internal data, management judgement and also external data for other markets where appropriate.

INTEREST RATE RISK

The risk of loss of interest income due to fluctuations in interest rates

Interest rate risk in the banking book

Interest rate risk management processes in place for the domestic and international entities; reported to the relevant asset and liability committees	Yes
Net interest income in line with expectations and interest rate forecast	Yes
Loss in income due to unexpected developments in interest rate markets	None
Interest rate sensitivity in line with approved limits; no exceptions noted during the period under review	Yes
Effectiveness of income hedges taken against expected rate trends	Very good
Portfolios managed within interest rate risk limits, namely interest rate sensitivity, economic value sensitivity, net interest income at risk	Yes

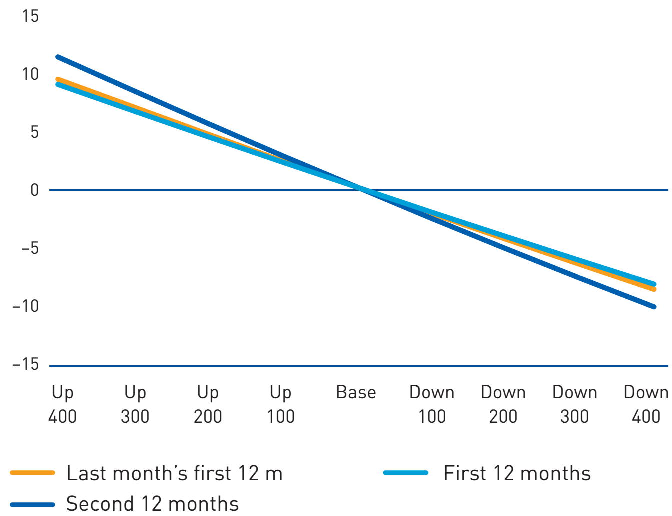
Key initiatives

- refinement of the quantification of interest rate risk per portfolio; and
- protection of the interest margin of portfolios by means of appropriate hedges where possible.

The graph below reflects the adverse change in net interest income in the domestic banking book to a range of instantaneous shocks to the yield curve over a 12-month period and in addition, a further 12-month cycle.

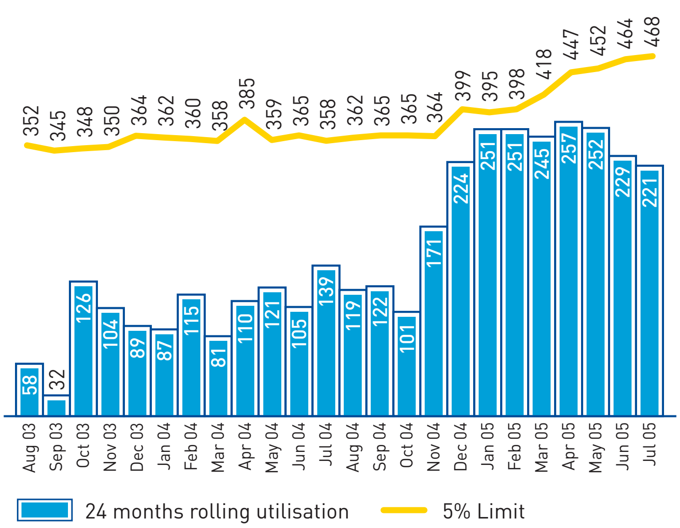
A change of 200 points in interest rates, will result in a change in net interest income in the domestic banking book of approximately 4%.

% Change to net interest income for a shock in rates – June 2005



The next graph reflects the actual interest rate risk exposure of a 1% instantaneous shock against the approved limit of not greater than 5% change to net interest income.

NII changes 5% for a 1% instantaneous shock to yield curve



The sensitivity of interest income in comparison to the base scenario (where current market rates and client behaviour are held constant for the next 12 months) is considered small relative to the size of the Banking Group's net interest income before impairment of advances of R9 497 million.

LIQUIDITY RISK

The inability to discharge funding or trading obligations which fall due at market related prices

Management of liquidity risk

The Banking Group has a group-wide funding and liquidity management process in place. Liquidity positions are managed at currency level and across all jurisdictions in which the Banking Group operates. Liquidity risk is managed by Banking Group Treasury and the dedicated liquidity risk management team reports to the Group asset and liability committee ("ALCO").

Management of the current liquidity position

The bank performs numerous tasks to manage the short-term liquidity gap. These include:

1. Industry benchmarking.
2. Analysing the concentration of short-term funding maturities.
3. Running a longer term funding portfolio at appropriate cost.
4. Diversifying the range of funding products offered to financial institutions.
5. Managing the portfolio of available liquid securities.
6. Monitoring the daily cash flow movements across the bank's various payment streams.
7. Actively managing the daily settlements and collateral management processes.
8. Performing assumptions based on scenario analysis to assess potential cash flows at risk.
9. Monitoring sources of funding for contingency funding needs.
10. Monitoring liquidity risk limits.

No significant changes to the Banking Group's liquidity position have been noted during the current financial period. The Banking Group is adequately funded and able to meet all its current and future obligations.

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 the Banking Group remains liquid during stress conditions. In addition, the liquidity risk management team monitors and manages the Group's portfolio of available liquid sources and instruments against these stress assumptions.

MARKET RISK

The risk of loss on trading instruments and portfolios due to changes in market prices and rates

Trading in the financial, equity and commodity markets is undertaken in terms of the Market Risk Management Framework which is a policy of the board.

Market risk exposures are controlled by means of stress loss limits which are approved by the relevant business and risk management functions, the market risk committee (RMB risk committee), the Group risk committee and the board of directors.

Market risk exposures are quantified daily across all trading activities of the Banking Group and monitored by the business risk managers and the business unit heads. The deployed and independent risk managers at RMB and the internal auditors monitor limit excesses, the causes of any excesses and the correction thereof on a daily basis for the main trading activities, namely treasury and equity trading. 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 over past years. The daily risk monitoring and internal audit processes have not identified significant process deficiencies. Process shortcomings which may be identified are corrected and the progress with corrective actions is monitored by the risk managers and the market risk committee.

The market risk control processes have been strengthened by the roll-out of continuous audits and ongoing daily auditing of selected trade types and changes to counterparty settlement, transaction and accounting records.

Effectiveness of market risk control of trading activities

Net income generated by trading activities relative to risk exposure	Very good
Containment of exposures within risk limits	Excellent
Profit and losses in line with risk exposures and identified risk factors	Yes
Highest market risk exposure (one day 99% VaR)	R29 million
Average market risk exposure	R23 million
General risk control of trading activities	Excellent

Key initiatives

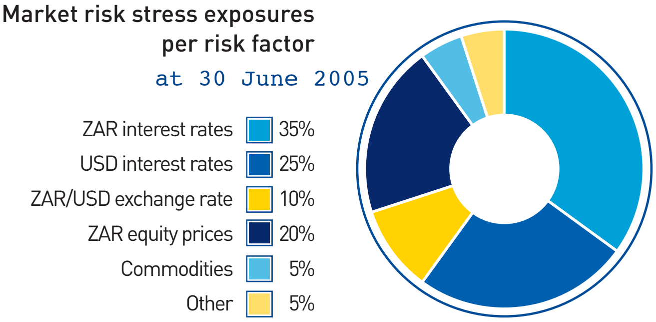
- incorporation of risk adjusted performance management measures into strategic risk decision-making structures;
- refinement of stress loss methodology for the equities and special projects international business units to more accurately reflect the stress in complex financial products;
- refinement of consolidated market risk measurement; and
- refinement of profit and loss attribution by risk factor.

Market risk exposures are controlled by means of stress exposure limits. Stress conditions are represented by a systemic disaster scenario where correlations between the different market risk factors break down. The disaster scenario has been deliberately set to reflect the illiquid conditions and ballooning spreads experienced during a systemic breakdown in the markets.

The following pie chart shows the distribution of stress exposures per risk factor across the bank's trading activities at the end of the financial year.

Market risk stress exposures per risk factor

at 30 June 2005

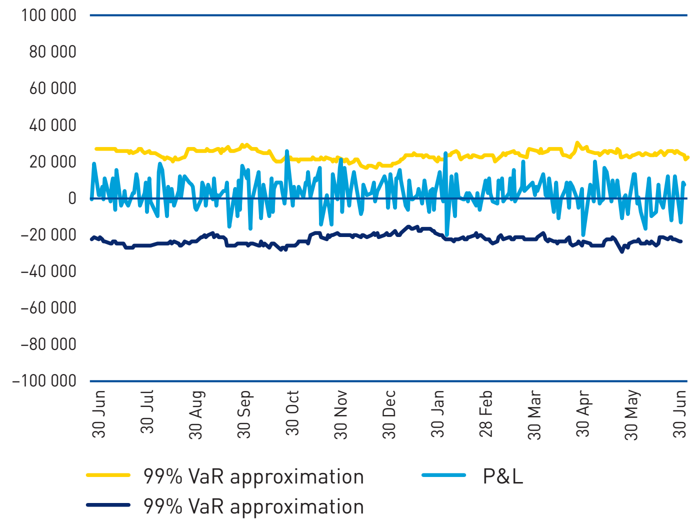


QUANTIFICATION OF MARKET RISK EXPOSURES

A Value at Risk methodology is applied in the aggregation of market risk exposures across the different trading activities and across the individual market risk factors.

The following graph shows an approximation of the Value at Risk for the year under review. The daily Value at Risk depicted below is scaled from the daily stress loss for trading activities. Comparing these approximated daily Value at Risk figures to trading income indicates that a sound risk/return ratio, or equivalently, that a good quality of earnings was achieved.

Value at Risk (99% 1-day) (Rand) – 1 July 2004 to 30 June 2005



OPERATIONAL RISK

The risk of loss due to criminal activities, the failure of a process, system or human error or external events

Operational risk management in the Banking Group

The management of operational risk covers many diverse activities such as the security of people and assets, process efficiency, systems capacity and availability, information security, legal risk, business continuation, prevention of criminal activities, key management processes and insurance. Comprehensive programmes are in place to identify operational defects and to implement process improvements. The Banking Group has also made good progress with the development of the quantification of operational risk using various statistical distributions and extreme value theories.

The following sections provide an overview of operational risk management in the Banking Group.

Risk management

Operational Risk Management Framework	Approved
Independent operational risk management function to develop, implement and co-ordinate operational risk management strategies, processes and systems	In place
Operational risk management processes and systems	Good, being refined

Operational losses

Losses due to criminal activities	Small decline
Losses due to process or systems failures relative to size of operations and benchmarks	Low
Process losses (routine processes)	Lower than last year's figure; low in relative value terms
Reporting of operational losses	Good

Key initiatives

- refinement of operational loss reporting and operational risk management processes;
- alignment of internal audit processes with the risk management functions and the Risk Management Framework; and
- alignment with Basel II requirements.

Risk management

| Continued |

The following table shows the history of operational losses indexed to 100 with the year to 30 June 2000 as the base. The figures for 2000 and 2001 are for criminal losses only, while losses in the routine process have been recorded formally since 2002.

Index of operational losses

Financial year to 30 June	2000	2001	2002	2003	2004	**2005**
Banking fraud and forgery	67	37	29	30	21	**25**
Robberies and burglaries	12	19	15	12	32	**17**
Card fraud	11	16	11	15	19	**24**
Transit losses	1	2	0	0	1	**0**
Money differences	7	7	7	3	2	**1**
Other	1	0	0	0	0	**0**
International fraud	1	14	0	0	0	**0**
Credit fraud	0	0	16	11	7	**6**
Losses due to criminal activities	100	95	78	72	81	**74**
Routine process losses			9	20	40	**33**
Total operational losses	100	95	88	92	121	**107**
Total assets indexed	100	122	181	195	208	**225**

Losses due to criminal activities were 8.6% lower than last year. Losses due to banking and credit card fraud were higher, while losses due to burglaries and robberies and debit card fraud were lower.

Similarly, process losses were lower than last year. Losses due to money differences in the branches were higher, although small in relative terms, while losses due to other processing errors were lower than last year.

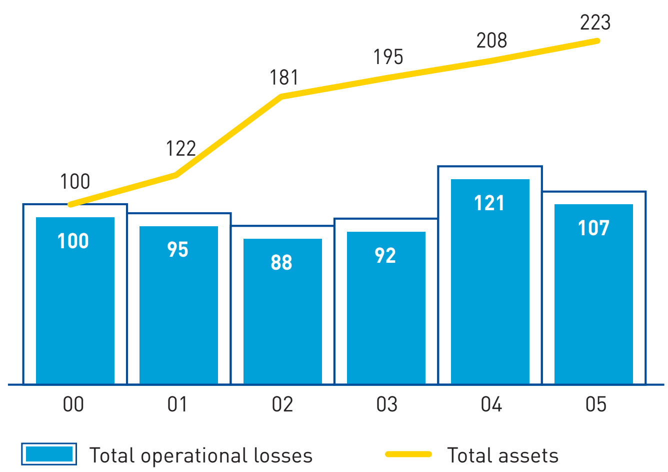
The upgrade of the alarm systems in the branches is almost complete. The Banking Group continues to improve protection, control and response procedures to counter the threat of criminal gangs which target the financial sector.

The indexed operational losses in the table show that the Banking Group has been very successful in containing criminal losses relative to the growth in assets. Losses due to criminal activities declined by 26% over the period while assets grew by 123%. Process losses in the routine process categories for which fairly accurate statistics exist over the term covered by the indices, are low in relative and absolute terms. Total operational losses increased by 7% over the period since the 2000 financial year relative to the growth in assets of 123%. Recorded processing errors and other operational losses are expected to increase as loss recording improves to build a reliable history for purposes of comparison.

Not all operational losses are shown as processing errors. The identification and recording of operational losses in the credit and market trading operations are being improved in order to identify operational weaknesses to correct. However, such losses in the credit businesses are still recorded as credit defaults because similar losses had not been separately identified in the past and form part of the historical credit default database which is used to calculate economic risk capital. Operational losses in the trading businesses are recorded as other operational losses.

The following graph illustrates the level of operational losses indexed relative to the growth in assets. The containment of operational losses in the categories in the table is most pleasing, but subject to the caveat that loss reporting is continuously being refined.

Index of operational losses vs index of total assets
(R million)



INFORMATION SECURITY

The risk of financial loss and reputational damage resulting from the exploitation of information security deficiencies by criminals who continue to seek such deficiencies, continues to increase. The implementation of best practice controls in conjunction with an intensive security awareness programme, in a consistent manner across the Banking Group, is the most effective way to combat these risks.

External attacks

During the year under review, there have been no attacks on the bank's internet websites that have had significant success and the effect of new viruses and worms has been contained to the point where only minor inconveniences have been experienced.

Identity theft

Identity theft has become a major source of concern and the South African banking community, including FirstRand customers, has become the target of syndicates based overseas, who use the technique of "phishing" to obtain customers' identification and authentication details which are then used to transfer funds illegally from the customer's accounts.

Criminals achieve this by setting up bogus websites that replicate the bank's e-business sites and entice customers who may dial into these sites, to enter their security information. Alternatively, e-mails are sent to customers requesting that the customer replies, giving security details on the pretext that this is required by the bank for a legitimate purpose.

While it is impossible to prevent this type of attack, FirstRand has taken steps to educate customers on how to recognise "phishing" attempts and has created awareness of exactly what to do and what not to do when communicating with the bank. The FNB internet banking service sends SMS messages of movements over their accounts to those customers who have registered for the "In Contact" service to enable customers to identify any unauthorised transactions as soon as possible. It also offers a device that generates a unique code each time a customer transacts through the website. These additional security measures prevent losses even when the customer's identity and password have been compromised.

While no major loss or damage has been experienced, the Group remains ever vigilant and continues to research new threats and how to deal with them. Commitment to good governance is high and a comprehensive compliance reporting system ensures consistent security across the various business areas.

INSURANCE RISK

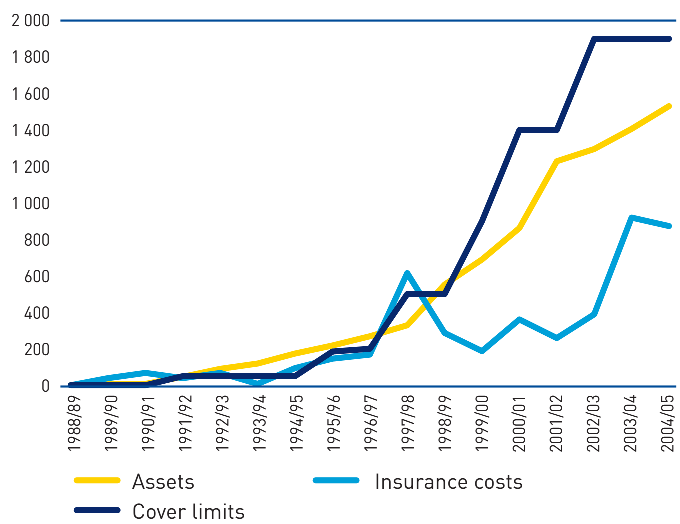
The risk that unexpected losses which are not business related losses, are not adequately covered by insurance

Insurance risk management

Key features of the past year:

- maintenance of appropriate Bankers Bond, Computer Crime, Professional Indemnity, Directors' & Officers' Liability, Assets and Liability cover levels;
- enhanced cost effective insurance/risk financing structures implemented;
- insurance cover readily available in the market at improved rates;
- reduction in total insurance costs;
- insurance policies, cover and limits are reviewed and benchmarked regularly; and
- all cover is placed at FirstRand Group level to maximise on economies of scale.

Financial Institutions Programme – increase in assets, insurance cost and cover limit (Base 1988/89)



The graph shows the index of asset growth against the indices of insurance cover limits and insurance costs. Insurance costs include both the primary layers retained by the Group and the cost of reinsurance.

The indices show that the level of insurance cover has been maintained in line with the growth in balance sheet assets. Similarly, insurance costs have not risen by as much as the growth in assets.

The increase in relative cost in 2003/2004 was largely due to the impact of the tragedy which occurred on 11 September 2001 in New York and numerous other international insured loss events on the international insurance markets which impacted the Group as insurance programmes were renewed. A marginal decrease in total cost was achieved in the year under review.

All Group insurance policies have been renewed successfully at acceptable terms.

BUSINESS CONTINUATION AND DISASTER RECOVERY RISK

The risk of loss of data or the ability to continue business processes or activities due to unforeseen events

Business Continuity Management Cycle maintained for the annual review of strategies, measures, plans (biannual) and execution of appropriate testing was maintained	Yes
Test objectives met for all mission critical and key support processes.	Successfully tested
Effectiveness of the new remote site for mainframe and front-end core banking systems continuity and core network recovery.	Successfully tested

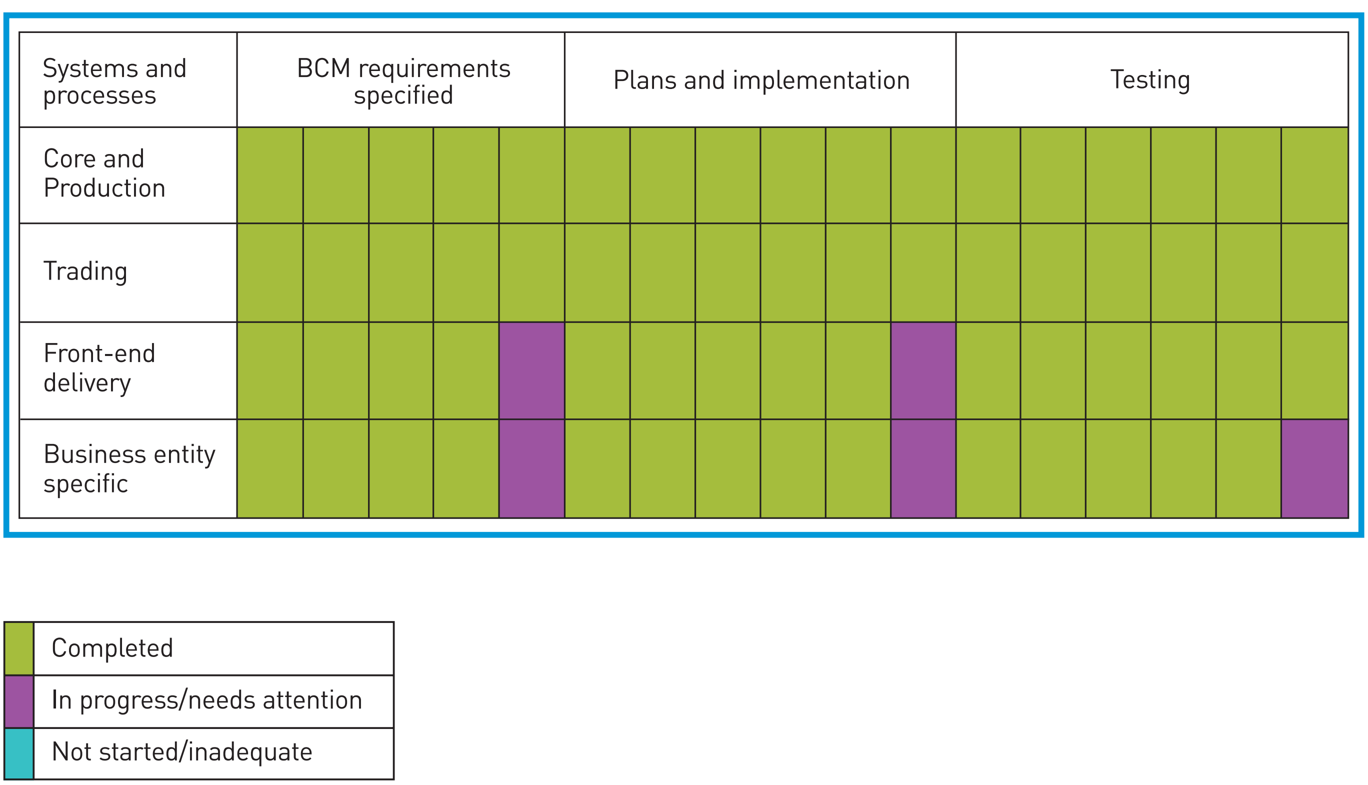
Key initiatives

- implement basic Business Impact Analysis;
- implement secondary tier static backup for core mainframe systems; and
- implement technological basis for more remote backup site.

No effort was spared in improving an already effective Core Banking Systems continuity strategy, resulting in the approval of a substantial investment in infrastructure to provide a world-class solution to possible data corruption in the mirrored disk systems. The "shadow" third disk solution allows for quick recovery from a logical attack on mission-critical mainframe systems and was implemented during July and August 2005. It also provides for the efficient and comprehensive storage and recovery of systems data and subsequent archiving.

Extensive organisational changes rendered some continuation plans ineffective. In response, a huge effort was made by many business entities which resulted in a consolidation and streamlining of business continuation strategies and better testing. Training carried out during the year resulted in heightened awareness and acceptance of Business Continuity Management as a business enabler.

Business continuity status (systems and processes)



LEGAL RISK

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 a 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 management in the Bank

Legal Risk Management Framework implemented	Yes
Identification of the sources of legal risk by business units	Ongoing
Implementation of action plans by business units to monitor legal risks and to ensure that these are obviated or appropriately managed	Ongoing
Remedial actions by business units where legal defect is detected	Yes
Litigation database maintained	Yes
Adequate management of claims and litigation	Yes
Implementation of a contract management system	In progress
Implementation of an intellectual property management framework and management system	In progress
Identification of potential issues arising from proposed legislation and judgements and actions to address these	Comprehensive monitoring in place

Key initiatives

- to finalise implementation of the contract management system and intellectual property management framework and management system;
- to continue to highlight the necessity for business units to be aware of and to identify significant legal risks and to manage the impact of these with appropriate processes and procedures; and
- through audit processes, ensure that legal risk is being effectively managed in business units. Where deficiencies are identified, to assist business units to introduce appropriate processes.

COMPLIANCE RISK

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.

Compliance management

Deployment and resourcing of compliance functions	In place
Group-wide compliance awareness	Continuing awareness programmes
Implementation of Compliance Risk Management Framework	Continuous refinement
Identification of areas of high and medium compliance risk by business units	Implemented
Implementation of action plans by business units to monitor compliance risks to ensure they are obviated or appropriately addressed	In progress
Regular compliance reporting to Banking Group board, main risk and audit committees and regulators	Yes
Remedial action taken by business units where compliance defects and breaches are detected	Yes
Requisite compliance training of all staff	Yes, continuous
Ongoing awareness training, implementation of new legislation and updating of existing legislation	Yes

Key initiatives

- implementation of the CURA compliance module for updating, managing and monitoring of compliance risk throughout the Banking Group locally and offshore;
- refining of reporting methodology;
- embedding implementation of the Compliance Risk Management Framework throughout the Group;
- development/sourcing of and implementation of specialist compliance training material for all compliance staff; and
- development and implementation of a Records Management Framework throughout the Banking Group.

INTERNAL AUDIT

The internal auditors perform comprehensive process, systems 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.

Capital management

Capital in the FirstRand Banking Group is managed on a group basis. In order to understand the capital management philosophy of FirstRand Bank Limited, one needs to understand how capital is managed on a group basis. In order to facilitate this, an extract from the Banking Group's Capital Management Report has been included below.

FRAMEWORK FOR CAPITAL MANAGEMENT

Objectives of capital management

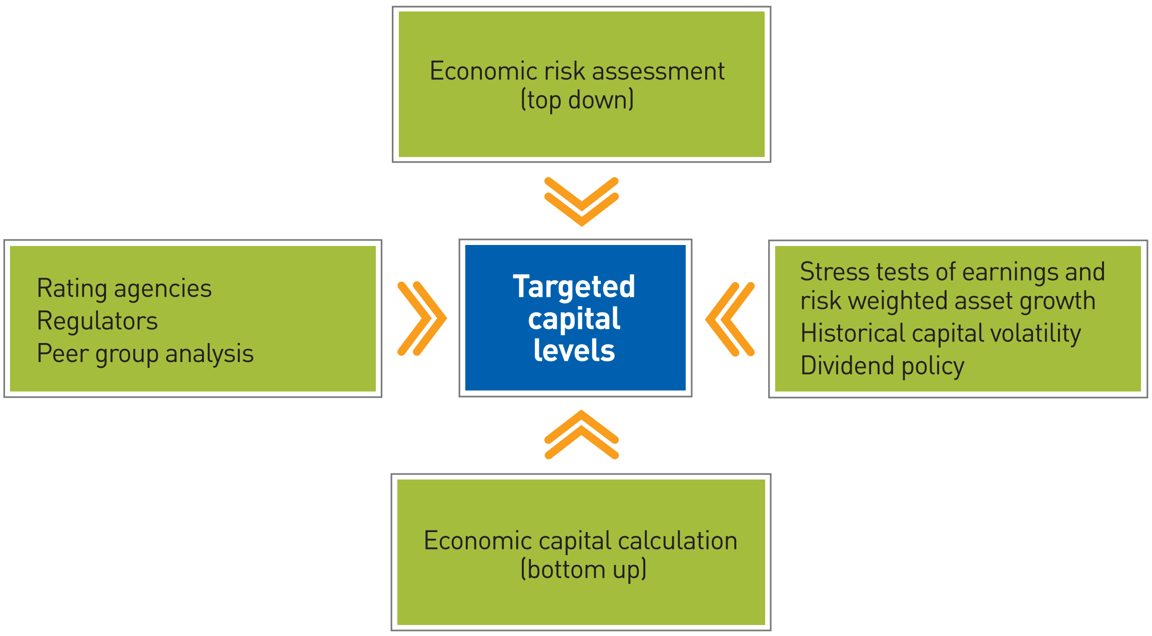
Active capital management is one of the five growth pillars in the strategy of FirstRand. Through the framework and its associated processes, capital management aims to add shareholder value. This is done through the proactive management of the **level of capital,** the **investment of capital** and the **allocation of capital** as indicated in the diagram below which is consistent with the FirstRand Limited Capital Management Framework.

	Level of capital	Investment of capital	Allocation of capital
Objectives	• Minimise economic risk exposure • Optimise cost of capital through choice of capital instruments	• Invest the capital base to maximise wealth within acceptable earnings at risk and economic risk	• Strategic decision making • Risk adjusted performance measurement • Pricing and reserving for expected and unexpected losses
Principles	• Internal capital adequacy assessment process • Capitalise at highest of economic capital or regulatory capital plus appropriate buffer	• Profile managed by specialist business unit • Rolling investment profile • Invest in government assets or provide funds to funding pool	• Bottom-up calculation on risk adjusted basis • Credit, market, investment, interest rate, operational and other residual risks
Focus	Capitalise in line with economic risk exposure of FirstRand Banking Group	Invest capital to produce optimal risk adjusted return	Align managers' and shareholders' interest

LEVEL OF CAPITAL – CAPITAL ADEQUACY

The level of capitalisation should be appropriate to support the business to meet its stated performance targets. To this end, the Banking Group should be capitalised to minimise its economic risk exposure. *Economic risk exposure is defined as the risk of losses of a magnitude which threatens the continuation or sustainability of an entity or the perception of sustainability.*

To determine the targeted level of capital, the Banking Group has a rigorous internal capital adequacy assessment process. This process results in the targeted capital levels expressed as a buffer relative to the minimum of regulatory capital requirements. This process can be illustrated as follows:



The capital adequacy target ranges for 2005/2006 for the Banking Group have been set at 11.5% to 12% and for FirstRand Bank at 11% to 11.5%. These targets are reviewed regularly, taking account of the economic cycle, growth forecasts and economic risk and capital assessments.

The capital composition (between debt and equity) is optimised, taking into account the requirements of the regulators and rating agencies. The focus of this process is to ensure the most efficient cost of capital.

Investment of capital

The investment of the Banking Group's book capital is managed as a separate portfolio by a specialist business unit within the Banking Group. The objective of this business unit is to maximise wealth within acceptable risk limits. This objective is met through the investment of capital in a desired interest rate investment profile which optimises risk adjusted return. The capital investment is typically spread between one to five years in order to minimise income and mark-to-market volatility and maximise returns.

Allocation of capital

Allocation of capital on a risk adjusted basis has been performed since June 2003. Economic capital is calculated per main business unit for:

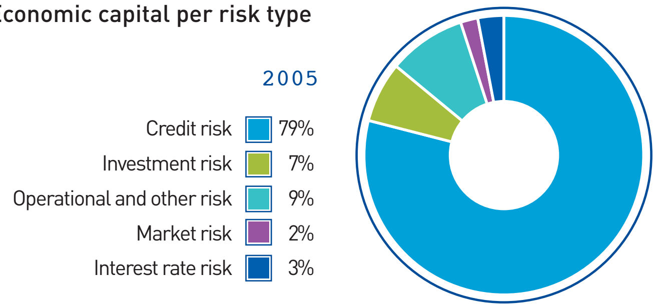
- credit risk;
- market risk;
- equity investment risk;
- banking book interest rate risk;
- operational risk; and
- other residual risks.

The economic capital allocation methodology closely follows the Basel II advanced approaches' principles. *This process has contributed extensively to the awareness, implementation and optimisation of portfolios for Basel II throughout the Banking Group.*

The Banking Group uses economic capital allocation widely. It is a key input into deal pricing, risk management, the measurement of business performance on a risk adjusted basis, and strategic decisions regarding the capitalisation of FirstRand Bank and the Banking Group.

The following graph indicates the economic capital analysis per risk type for 2005:

Economic capital per risk type



Economic profit

Economic capital and risk adjusted performance measurement principles have been embedded in the management culture of the organisation through the economic profit contribution measurement. Business units are assessed on their contribution to the Banking Group's profits, after the deduction of a capital charge on the higher of risk adjusted capital or regulatory capital allocated.

Economic profit ("EP"), also referred to as net income after capital charge, is a function of the headline earnings and the capital utilised in the businesses. This measurement aligns the interests of management and shareholders.

Economic profit = headline earnings* – (cost of equity x average shareholders' equity and reserves)

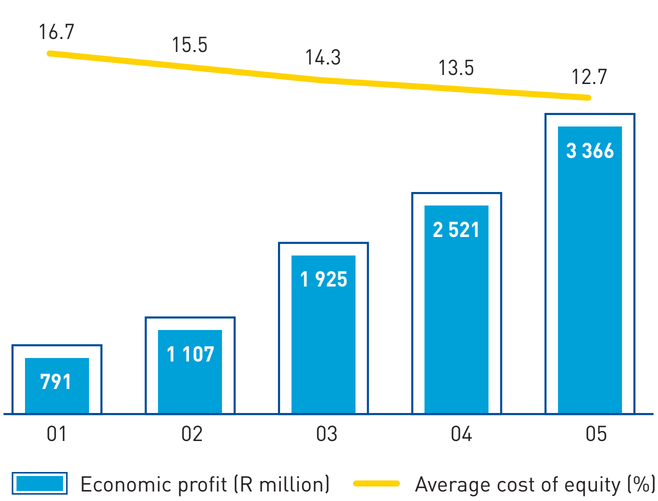
Net economic profit

R million	2005	2004
For the year ended 30 June		
Headline earnings*	6 228	5 166
Charge for capital	(2 862)	(2 645)
Net economic profit	3 366	2 521
Return on equity (%)*	27.6	26.4

* *Headline earnings excluding translation gains and losses.*

The graph below indicates the growth in economic profit and internally estimated average cost of equity for the Banking Group:

Growth in economic profit (EP) and cost of equity



It is apparent from the graph that the Banking Group has increased its economic profit contribution with a compound annual growth rate of more than 40% per year over five years.

Return on equity

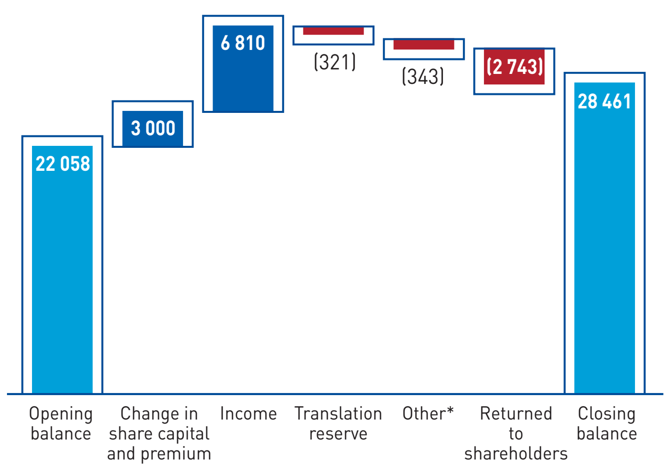
The Banking Group achieved a return on average ordinary shareholders' equity ("ROE") of 27.6% (2004: 26.4%) during the year under review (based on headline earnings excluding translation gains and losses). The section below deals with the ROE percentages for the business units.

Analysis of shareholders' equity and reserves

Total shareholders' equity and reserves per the Banking Group balance sheet totalled R28 461 million as at 30 June 2005 (R22 058 million in 2004) after the issue of R3 billion non-redeemable non-cumulative preference shares during November 2004. The average ordinary shareholders' equity and reserves for the year amounted to R22 537 million (2004: R19 550 million).

The following graph indicates the movement in shareholders' funds for the year:

Total shareholders' funds
(R million)



* *Includes redemption of R355 million cumulative redeemable preference shares.*

Segmental ROE

Business unit performance is measured internally using a number of metrics, including ROE and economic profit.

For purposes of segmental ROE reporting, ordinary shareholders' funds have been attributed to business units based on the higher of their regulatory capital (including targeted regulatory capital buffers) or economic capital utilisation. Regulatory capital is calculated using the regulatory rules currently applied by the South African Reserve Bank ("SARB") and other regulators. Economic capital utilisation, in contrast, is calculated for both regulated and unregulated businesses and incorporates an assessment of the capital required for the risk incurred by the business, as per the methodology described in the previous section.

Capital management

| Continued |

The tables below provide a summary of the ROEs for the main business units, based on headline earnings (excluding translation gains and losses):

Return on equity

R million	Headline earnings	ROE
For the year ended 30 June 2005		
FNB	2 930	35.5%
RMB	1 317	31.5%
WesBank	1 008	17.8%
FirstRand Africa and Emerging Markets	313	28.6%
Group Support Services*	660	
Total	6 228	27.6%
For the year ended 30 June 2004		
FNB	2 581	35.8%
RMB	958	25.5%
WesBank	759	17.9%
FirstRand Africa and Emerging Markets	288	30.2%
Group Support Services *	580	
Total	5 166	26.4%

* *Includes Ansbacher.*

Note:

Group Support Services includes the income and expenses on capital transactions as well as the income from associates, eg OUTsurance.

Capital held at the centre (Group Support Services) includes Group balance sheet management transactions such as the BEE deal, discontinued businesses' capital, excess capital above targeted buffers, capital not available for gearing such as AC 133 reserves and capital from associates.

CAPITAL ADEQUACY

The registered banks in the Banking Group must comply with the South African Reserve Bank's regulations and those of their home regulators, which in general have been based on the international Basel I principles. The capital base provides the foundation for lending, off-balance sheet transactions and other activities.

The capital adequacy position of the Banking Group and FirstRand Bank is set out below:

FirstRand Banking Group

R million	2005	2004
Tier 1 (%)	8.8	10.1
Total capital adequacy (%)	11.8	13.8
Risk weighted assets	191 566	160 404

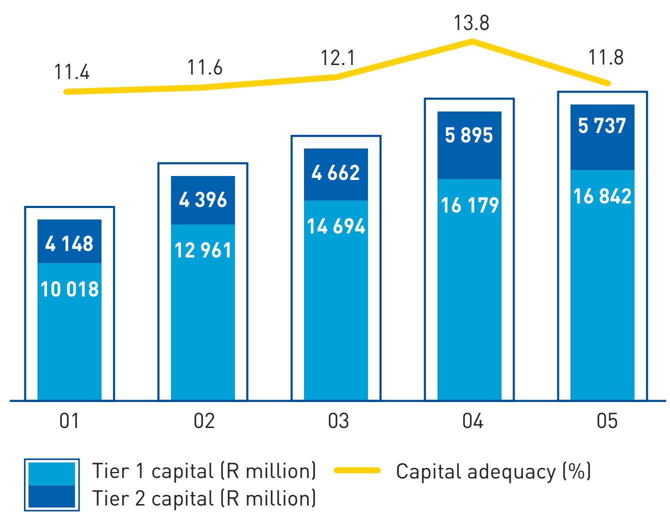
Ansbacher capital and risk weighted assets were included in 2004 and not in 2005. The 2004 capital adequacy ratio excluding Ansbacher capital and risk weighted assets amounted to 13.5%.

FirstRand Bank Limited

R million	2005	2004
Tier 1 (%)	7.9	9.7
Total capital adequacy (%)	11.1	13.5
Risk weighted assets	164 309	135 477

The graph below provides a five-year overview of the regulatory capital position of the banking operations in the Banking Group:

Banking Group regulatory capital position



Due to the buoyant market conditions, the high growth rate in risk weighted assets and the revised dividend cover ratio adopted in 2004, the capital adequacy has decreased and is now broadly in line with the capital adequacy target range set by the Banking Group. As was reported in the interim financial statements, FirstRand Limited issued R3 billion non-cumulative non-redeemable preference shares during November 2004 in order to facilitate its BEE transaction. The proceeds of this issue were invested in FirstRand Bank Limited on 31 December 2004. For capital adequacy purposes, the application of these funds to the BEE transaction impaired capital upon the final conclusion of the transaction in the first half of 2005.

Further information on the capital adequacy position of FirstRand Bank is set out on page 23.

Capitaladequacy

| Continued |

FIRSTRAND BANK LIMITED

At 30 June 2005, the capital held against the trading assets of the Bank was R387 million (2004: R359 million)

R million	2005	2004
Regulatory capital		
Tier 1	**12 956**	13 101
Share capital	**4**	4
Share premium	**2 612**	2 490
Non-redeemable non-cumulative preference shares	**3 000**	–
Reserves	**9 961**	10 692
Less: Impairments	**(2 621)**	(85)
Tier 2	**5 323**	5 203
Subordinated debt instruments	**3 503**	3 564
Qualifying provisions	**1 820**	1 639
Total regulatory capital	**18 279**	18 304
Capital adequacy ratios		
Tier 1	**7.9%**	9.7%
Tier 2	**3.2%**	3.8%
Total	**11.1%**	13.5%

CALCULATION OF RISK WEIGHTED ASSETS

				Risk weighted assets	
	2005	2004	Risk weighting	2005	2004
Banking book	**496 781**	393 859		**160 924**	132 689
Cash, own bank and central Government advances	**73 259**	75 439	0%	**–**	–
Central Securities Depositary Participation	**205 267**	137 967	0%	**–**	–
Public sector body advances and letters of credit	**2 185**	2 134	5% – 10%	**204**	213
Other bank advances and letters of credit	**27 437**	21 114	20%	**5 487**	4 223
Mortgage advances, remittances in transit and performance related guarantees	**66 799**	57 904	50%	**33 399**	28 952
Other advances and lending related guarantees	**117 175**	94 889	100%	**117 175**	94 889
Counterparty risk exposure	**4 659**	4 412	100%	**4 659**	4 412
Large exposures	**–**	–	100%	**–**	–
Trading book	**3 385**	2 788		**3 385**	2 788
Position risk	**2 400**	2 178	100%	**2 400**	2 178
Counterparty risk exposure	**972**	554	100%	**972**	554
Large exposures	**13**	56	100%	**13**	56
	500 166	396 647		**164 309**	135 477

In terms of a directive from the South African Reserve Bank (SARB), the results of Saambou Bank Limited are consolidated with those of FirstRand Bank Limited when reporting to the SARB. The information above includes the Saambou Bank Limited figures.

Directors' responsibility statement

The directors of FirstRand Bank Limited are required to maintain adequate accounting records and to prepare financial statements for each financial year that fairly present the state of affairs of FirstRand Bank Limited, at the end of the financial year, and of the results and cash flows for the year. In preparing the accompanying financial statements, South African Statements of Generally Accepted Accounting Practice 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 FirstRand Bank Limited's philosophy on corporate governance. The external auditors, PricewaterhouseCoopers Inc. and Deloitte & Touche, have audited the financial statements and their unqualified report appears below on this page.

The directors have reviewed FirstRand Bank Limited's budget and cash flows for the year to 30 June 2006. On the basis of this review, and in the light of the current financial position, the directors have no reason to believe that FirstRand Bank 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 consolidated financial statements for the year ended 30 June 2005, which appear on pages 25 to 67, have been approved by the board of directors and are signed on its behalf by:

JP Burger
Financial Director

PK Harris
Chief Executive Officer

Sandton
19 September 2005

Report of the independent auditors

TO THE MEMBERS OF FIRSTRAND BANK LIMITED

We have audited the financial statements of FirstRand Bank Limited which appear on pages 3 to 6 and 25 to 67, for the year ended 30 June 2005. These financial statements are the responsibility of the directors of FirstRand Bank Limited. Our responsibility is to express an opinion on these financial statements based on our audit.

SCOPE

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

An audit includes:

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

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

AUDIT OPINION

In our opinion, the financial statements fairly present, in all material respects, the financial position of FirstRand Bank Limited at 30 June 2005 and the results of its operations and cash flows for the year then ended in accordance with Generally Accepted Accounting Practice in South Africa and in the manner required by the Companies Act of 1973.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Incorporated
Chartered Accountants (SA)
Registered Accountants and Auditors

Deloitte & Touche.

Deloitte & Touche
Chartered Accountants (SA)
Registered Accountants and Auditors

Sandton
19 September 2005

Directors' report

NATURE OF BUSINESS

The activities of FirstRand Bank Limited include merchant banking, corporate banking, instalment finance, retail banking, property finance and private banking.

SHARE CAPITAL

The following shares were issued during the period:

Ordinary shares pursuant to the conversion of compulsory convertible debentures.

21 December 2004	161 ordinary shares at R2.00 each
31 January 2005	161 ordinary shares at R2.00 each
28 February 2005	215 ordinary shares at R2.00 each

Following a decision to restructure the Bank's capital, a non-cumulative non-redeemable preference share issue, which qualifies as tier 1 capital, was made on 31 December 2004, 3 000 000 non-cumulative non-redeemable preference shares of 1 cent each were issued, raising R3 billion additional capital.

Details of the Bank's share capital are presented in notes 25 and 26 of the notes to the financial statements.

DIVIDENDS

Ordinary cash dividends of R2 573 million were paid during the 2005 financial year (2004: R1 784 million).

OWNERSHIP OF THE BANK

The Bank is a wholly owned subsidiary of FirstRand Bank Holdings Limited.

PROFIT AFTER TAX

Profit after tax amounted to R3 233 million (2004: R4 276 million).

DIRECTORS' INTERESTS IN THE BANK

Other than nominee shares held on behalf of FirstRand Bank Holdings Limited under power of attorney, no shares in the company are held by the directors.

DIRECTORATE

The following director was appointed to the board on 1 September 2004:

RK Store

The following director served on the board during the year and resigned on the date indicated below:

I Charnley – 1 March 2005

CONSOLIDATED ACCOUNTS

Group annual financial statements have not been prepared as the Bank is a wholly owned subsidiary of FirstRand Bank Holdings Limited and its ultimate holding company is FirstRand Limited, a company incorporated in South Africa.

POST-BALANCE SHEET EVENTS

No material matters which adversely affect the financial position of the Bank have arisen subsequent to the year end.

SHARE PURCHASE/OPTION SCHEME

Details of the investment in the FirstRand Limited ordinary shares by the First National Bank Share Purchase Scheme ("the FNB Scheme") and in the RMB Holdings Limited ordinary shares by the Rand Merchant Bank Share Incentive Scheme ("the RMB scheme") established for the benefit of employees of the Bank are set out below:

	FNB scheme 2005	RMB scheme 2005	FNB scheme 2004	RMB scheme 2004
Number of options in force at the end of year (million)	11.2	0.8	21.9	2.7
Granted at prices ranging between (cents)	325 – 1 069	300 – 1 350	325 – 1 069	300 – 1 350
Number of options granted during year (million)	0.1	–	–	–
Number of options exercised/released during year (million)	(10.8)	(1.9)	(23.1)	(15.5)
Market value range at date of exercise/release (cents)	325 – 1 454	1 590 – 2 299	225 – 1 037	1 194 – 1 617
Number of unallocated shares available for future options (million)	–	–	–	–
Number of options cancelled/lapsed during the year (million)	–	–	(0.2)	(8.3)
Value of company loan to share option trust (R million)	65.1	11.1	259.2	46.3

Declaration by the company secretary in respect of section 268G(d) of the Act

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

BW Unser

Company Secretary

Accounting policies

INTRODUCTION

The Bank adopts the following accounting policies in preparing its financial statements.

1. BASIS OF PRESENTATION

The Bank prepares its audited financial statements on a going concern basis using the historical cost basis, except for certain financial assets and liabilities where it adopts the fair value basis of accounting.

These financial assets and liabilities include:

- financial assets and liabilities held for trading;
- financial assets classified as available-for-sale;
- derivative financial instruments; and
- financial instruments elected to be carried at fair value.

The financial statements conform to Statements and Interpretations of Generally Accepted Accounting Practice in South Africa.

The principal accounting policies are consistent in all material respects with those adopted in the previous year, except where noted. The Bank adjusts comparative figures to conform to changes in presentation in the current year.

The South African Institute of Chartered Accountants has issued an interpretation AC 501 – Accounting for Secondary Tax on Companies ("AC 501"), effective for financial periods commencing on or after 1 January 2004. The interpretation requires an entity to recognise a deferred tax asset to the extent that it is probable that the entity will declare dividends against which unused STC credits can be utilised.

The Bank adopted AC 501 with effect from 1 July 2004. Further details regarding the effect of the change in accounting policy is set out in note 25 below. The restatement to prior year numbers due to the change in accounting policy is set out in note 26 below.

All monetary information and figures presented in these financial statements are stated in millions of Rand (R million), unless otherwise indicated.

2. SUBSIDIARY COMPANIES

Investments in subsidiary companies are carried at cost less amounts written off.

3. ASSOCIATED COMPANIES

Associated companies are companies in which the Bank holds an equity interest of between 20% and 50%, or over which it has the ability to exercise significant influence, but does not control, and which it does not intend to dispose of within a short term (12 months).

The Bank carries its interest in an associated company in its balance sheet at cost less amounts written off. Associated company results are not equity accounted.

4. JOINT VENTURES

The Bank accounts for interests in jointly controlled entities at cost less amounts written off.

5. REVENUE RECOGNITION

5.1 Interest income

The Bank recognises interest income, excluding that arising from trading activities, on an accrual basis, applying the effective yield on the assets. The effective yield takes into account all directly attributable external costs, discounts or premiums on the financial asset, save for mortgage origination costs which are expensed in the year incurred.

From an operational perspective, it suspends the accrual of contractual interest on the non-recoverable portion of an advance, when the recovery of the advance is considered doubtful. However, in terms of AC 133, interest income on impaired advances is thereafter recognised based on the original effective interest rate used to determine the recoverable amount of the advance. The difference between the recoverable amount and the original carrying value 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. Dividends received on these instruments are included in interest income.

5.2 Trading income

The Bank includes profits, losses and fair value adjustments on trading financial instruments (including derivative instruments which do not qualify for hedge accounting in terms of AC 133), both realised and unrealised, in income as incurred.

5.3 Fee and commission income

The Bank recognises fee and commission income on an accrual basis when the service is rendered.

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.

5.4 Services rendered

The Bank recognises revenue for services rendered to customers based on the estimated outcome of the transactions.

When the outcome can be reliably estimated, transaction revenue is recognised by reference to the stage of completion of the transaction at the balance sheet date. The stage of completion is measured based on the amount of work performed.

When the outcome cannot be reliably estimated, revenue is recognised only to the extent of the expenses incurred that are recoverable.

5.5 Dividends

The Bank recognises dividends 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.

6. FOREIGN CURRENCY TRANSLATION

The Bank presents its financial statements in South African Rand, the measurement currency of the holding company ("the reporting currency").

The Bank converts transactions in foreign currencies to South African Rand at the spot rate on the transaction date. Monetary assets and liabilities in foreign currencies are translated to South African Rand using the rates of exchange ruling at the financial year end. Translation differences on monetary assets and liabilities measured at fair value are included in the income statement for the year, with translation differences on non-monetary items included as part of the fair value gain or loss in equity.

Profits and losses from forward exchange contracts used to hedge potential exchange rate exposures are offset against gains and losses on the specific transaction being hedged, to the extent that the hedging transaction qualifies for hedge accounting in terms of AC 133.

7. BORROWING COSTS

The Bank capitalises borrowing costs incurred in respect of assets that require a substantial period to construct or install, up to the date on which the construction or installation of the assets is substantially complete.

Other borrowing costs are expensed when incurred.

8. DIRECT AND INDIRECT TAXATION

Direct taxes include South African and foreign jurisdiction corporate tax payable, as well as capital gains tax.

Indirect taxes include various other taxes paid to central and local governments, including value added tax, regional services levies and secondary tax on companies.

Indirect taxes are disclosed separately from direct tax 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 taxation rates that have been enacted or substantively enacted by the balance sheet date, in each particular jurisdiction within which the Bank operates.

9. RECOGNITION OF ASSETS, LIABILITIES AND PROVISIONS

9.1 Assets

The Bank 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 enterprise.

9.2 Contingent assets

The Bank 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 Bank's control.

9.3 Liabilities and provisions

The Bank recognises liabilities, including provisions when:

- it has a present legal or constructive obligation as a result of past events; and
- 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.

9.4 Contingent liabilities

The Bank discloses a contingent liability where:

- 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 enterprise; or
- it is not probable that an outflow of resources will be required to settle an obligation; or
- the amount of the obligation cannot be measured with sufficient reliability.

9.5 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 measured at fair value, with changes in fair value reported in the income statement. The counterparty liability is included in deposits from other banks, other deposits, or deposits due to customers, as appropriate.

Securities purchased under agreements to resell ("reverse repos") are recorded as loans and advances to other banks or customers as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the reverse repos using the effective yield method. Securities lent to counterparties are retained in the financial statements of the Bank.

The Bank 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.

10. DERECOGNITION OF ASSETS AND LIABILITIES

The Bank derecognises an asset when it loses control over the contractual rights that comprise the asset and consequently transfers the substantive risks and benefits associated with the asset. This occurs when the rights are realised, expire or are surrendered. A liability is derecognised when it is legally extinguished.

11. OFFSETTING FINANCIAL INSTRUMENTS

The Bank 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; and
- the maturity date for the financial asset and liability is the same; and
- the financial asset and liability is denominated in the same currency.

12. 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.

13. FINANCIAL INSTRUMENTS

13.1 General

Financial instruments carried on the balance sheet include all assets and liabilities, including derivative instruments, but exclude investments in associated companies, property and equipment, deferred taxation, taxation payable and intangible assets.

The Bank 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 to or by it.

13.2 Financial assets

13.2.1 Originated advances

The Bank classifies advances as "Originated" where it provides money directly to a borrower or to a sub-participation agent at drawdown. Originated advances are carried at amortised cost. Third party expenses, such as legal fees incurred in securing a loan are treated as part of the transaction in determining the effective yield of the advance.

The Bank expenses mortgage origination costs in the year incurred.

All advances are recognised when cash is advanced to borrowers.

13.2.2 Purchased advances and receivables and investment securities

The Bank classifies purchased advances and receivables and investment securities as held-to-maturity, available-for-sale or elected fair value assets.

Purchased advances and receivables (including sub-participations acquired after providing the original loan) and investment securities with a fixed maturity and fixed or determinable payments, where management has both the intent and the ability to hold to maturity, are classified as "Held-to-maturity". The Bank classifies purchased advances and receivables and investment securities where the intention is to hold for an indefinite period of time and which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices, as "Available-for-sale" or as "At elected fair value". Management determines the appropriate classification at the time of purchase.

The Bank initially recognises purchased advances and receivables and investment securities at cost (which includes transaction costs, excluding mortgage origination costs). It subsequently re-measures available-for-sale and elected fair value advances and receivables and investment securities at fair value, based on quoted bid prices where the underlying markets for the instruments are liquid and well developed. Alternatively, it derives fair value from cash-flow models or other appropriate valuation models where markets are illiquid or do not reflect the true market value based on the underlying risks of the instrument.

The Bank estimates fair values for unquoted equity instruments using applicable price:earnings ratios or cash-flow models. It estimates the fair value of debt instruments with reference to applicable underlying interest rate yield curves and estimated future cash flows on the applicable instruments.

The Bank recognises unrealised gains and losses arising from changes in the fair value of advances and receivables classified as available-for-sale, in equity. It recognises interest income on these assets as part of interest income, based on the instrument's original effective 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.

The Bank recognises fair value adjustments on loans and advances classified as elected fair value in trading income. Interest income on these assets is included in the fair value adjustment.

The Bank carries held-to-maturity advances and receivables and investments at amortised cost using the effective yield method, less any impairment.

The Bank classifies purchased advances and receivables acquired in terms of a business combination, where such advances and receivables were classified as "Originated" by the seller, as "Originated".

13.3 Impairments for credit losses

13.3.1 General

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. Financial assets are assessed on an annual basis to determine whether there is objective evidence of impairment.

13.3.2 Impairment of originated advances

The Bank creates a specific impairment in respect of non-performing advances when there is objective evidence that it will not be able to collect all amounts due. The impairment is calculated as the difference between the carrying amount and the recoverable amount, calculated as the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate at inception of the advance.

The Bank creates further portfolio impairments in respect of performing advances where there is objective evidence that components of the advances portfolio contain losses at the balance sheet date, which will only be specifically identified in the future, or where insufficient data exists to reliably determine whether such losses exist. The portfolio impairments are based upon historical patterns of losses in each component of the performing portfolio, the credit ratings allocated to the borrowers and take account of the current economic climate in which the borrowers operate.

When an advance is uncollectable, it is written off against the related impairment. Subsequent recoveries are credited thereto.

The Bank writes off advances once all reasonable attempts at collection have been made and there is no realistic prospect of recovering outstanding amounts.

Statutory and other regulatory loan loss reserve requirements that exceed the specific and portfolio impairment amounts are dealt with in a General Risk Reserve as an appropriation of retained earnings.

The Bank reverses impairments through the income statement, if the amount of the impairment subsequently decreases due to an event occurring after the initial impairment.

Property in possession is included in advances and is shown at the lower of cost and net realisable value.

13.3.3 Impairment of other financial assets carried at amortised cost

The Bank calculates the impairment loss for assets carried at amortised cost as the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the financial instrument's original effective interest rate. By comparison, the recoverable amount of an instrument measured at fair value is the present value of expected future cash flows discounted at the current market rate of interest for a similar financial asset.

13.4 Trading securities (including instruments at elected fair value)

The Bank includes in "Trading securities", securities that are:

- acquired for generating a profit from short-term fluctuations in price or dealer's margin; or
- included in a portfolio in which a pattern of short-term profit-taking exists; or
- designated as such on initial recognition.

The Bank initially recognises trading securities at cost (which includes directly attributable transaction costs) and subsequently re-measures them at fair value based on quoted bid prices. It includes all related realised and unrealised gains and losses in trading income. It reports interest earned on trading securities as non-interest income. Dividends received are included in dividend income.

The Bank determines the fair value of listed trading instruments by reference to quoted bid prices, which may be adjusted where the bid/offer spreads for long-dated financial instruments are considered to be significant.

For non-trading, illiquid or unlisted financial instruments, the fair value is the amount for which assets or liabilities could be exchanged or settled between knowledgeable, willing parties in an arm's length transaction, determined using various methods and assumptions that are based on market conditions and risks existing at each balance sheet date. In the case of long-term debt or investment securities, these methods include using quoted market prices or dealer quotes for the same or similar securities, estimated discount values of future cash flows, replacement cost and termination cost.

13.5 Derivative financial instruments and hedging

The Bank 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 cost (including transaction costs) and subsequently re-measures these instruments at their fair value.

The fair value of publicly traded derivatives are 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 Bank recognises derivatives as assets when the fair value is positive and as liabilities when the fair value is negative.

The Bank recognises fair value changes of derivatives that are designated and qualify as fair value hedges in the income statement along with the corresponding change in fair value of the hedged risk of the hedged asset or liability.

If the hedge no longer meets the accounting criteria for hedge accounting, the cumulative adjustment to the carrying amount of a hedged financial instrument is amortised to net profit or loss over the period to maturity.

The transitional adjustment in respect of the un-hedged portion of available-for-sale equity securities remains in equity until the disposal of the instrument.

The Bank recognises fair value changes of derivatives that are designated and qualify as cash flow hedges and prove to be highly effective in relation to the hedged risk, in the Cash flow hedging reserve in equity. Where the forecasted transaction or firm commitment results in the recognition of an 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 asset or liability. Otherwise, the Bank 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.

On the date a derivative is entered into, the Bank designates certain derivatives as either:

- a hedge of the fair value of a recognised asset or liability ("fair value hedge"); or
- a hedge of a future cash flow attributable to a recognised asset or liability, a forecasted transaction or a firm commitment ("cash flow hedge").

The Bank applies hedge accounting for a derivative instrument when the following criteria are met:

- formal documentation identifying the hedging instrument, hedged item, hedging objective, hedging strategy and relationship between the hedged item and the hedge, is prepared before hedge accounting is applied; and
- the hedge documentation shows that the hedge is expected to be highly effective in offsetting the risk in the hedged item throughout the reporting period; and
- the hedge is effective on an ongoing basis.

13.6 Embedded derivatives

The Bank treats derivatives embedded in other 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.

14. COMMODITIES

Commodities are carried at the lower of cost or net realisable value and are valued on a weighted average basis. Net realisable value is determined with reference to open market value in arm's length transactions.

15. PROPERTY AND EQUIPMENT

The Bank carries property and equipment at cost less accumulated depreciation.

It depreciates property and equipment 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. Management reviews useful lives periodically to evaluate their appropriateness and current and future depreciation charges are adjusted accordingly.

The periods of depreciation used are as follows:

Leasehold premises and capitalised leased assets	Shorter of estimated life or period of lease
Freehold property	50 years
Computer equipment	3 – 5 years
Furniture and fittings	3 – 10 years
Motor vehicles	5 years
Office equipment	3 – 6 years

The Bank impairs an asset to its estimated recoverable amount where there is a permanent diminution in the carrying value of an asset.

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

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 on disposal.

16. ACCOUNTING FOR LEASES – WHERE A GROUP COMPANY IS THE LESSEE

The Bank 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 Bank 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 charged to the income statement over the lease period. The property and equipment acquired are depreciated over the shorter of the useful life of the asset or the lease period, on a basis consistent with similar owned fixed property and equipment.

The Bank classifies leases of assets, where the lessor effectively retains the risks and benefits of ownership, as operating leases. It charges operating lease payments to 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 Bank recognises as an expense any penalty payment to the lessor for early termination of an operating lease before the lease period has expired, in the period in which termination takes place.

17. ACCOUNTING FOR LEASES – WHERE A GROUP COMPANY IS THE LESSOR

17.1 Finance leases

The Bank 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.

17.2 Operating leases

The Bank includes in property and equipment assets leased out under operating leases. It depreciates these assets over their expected useful lives on a basis consistent with similar assets. Rental income is recognised on a straight-line basis over the lease term.

17.3 Instalment credit agreements

The Bank regards instalment credit agreements as financing transactions and includes the total rentals and instalments receivable thereunder, less unearned finance charges, in advances.

It 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.

18. INTANGIBLE ASSETS

18.1 Computer software development costs

The Bank generally expenses computer software development costs in the year 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 Bank exceeding the costs incurred for more than one accounting period, the Bank capitalises such costs and recognises them as an intangible asset.

The Bank 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 on an annual basis. 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.

18.2 Other intangible assets

The Bank does not attribute value to internally developed trademarks, concessions, patents and similar rights and assets, including franchises and management contracts.

The Bank generally expenses the costs incurred on trademarks, concessions, patents and similar rights and assets, whether purchased or created by it, to the income statement in the period in which the costs are incurred.

However, the Bank capitalises material acquired trademarks, patents and similar rights where it will receive a benefit from these intangible assets in more than one accounting period.

The Bank 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 on an annual basis. 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 expenditure in the income statement.

19. DEFERRED TAXATION

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

The Bank recognises deferred tax assets if the directors of FirstRand Bank 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, provisions for pensions and other post-retirement benefits and tax losses carried forward.

20. EMPLOYEE BENEFITS

20.1 Post-employment benefits

The Bank 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 Bank, taking account of the recommendations of independent qualified actuaries. For defined benefit plans the pension accounting costs are assessed using the projected unit credit method.

These funds are registered in terms of the Pension Funds Act, 1956, and membership is compulsory for all Bank employees. Qualified actuaries perform annual valuations.

The Bank writes off current service costs immediately, while it expenses past service costs, experience adjustments, and plan amendments over the expected remaining working lives of employees. Actuarial gains and losses are expensed on the basis set out in note 20.5 below. The costs are written off immediately in the case of retired employees.

20.2 Post-retirement medical benefits

In terms of certain employment contracts, the Bank provides for post-retirement healthcare benefits to qualifying employees and retired personnel by subsidising a portion of their medical aid contributions. The Bank created an independent fund in 1998 to fund these obligations. AC 116 requires that the assets and liabilities in respect thereof be reflected on the balance sheet. The Bank recognises all expenses for post-retirement medical benefits, as well as all investment income of the Fund, in the income statement.

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.

20.3 Termination benefits

The Bank 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.

20.4 Leave pay provision

The Bank recognises in full employees' rights to annual leave entitlement in respect of past service.

20.5 Recognition of actuarial gains and losses

Actuarial gains or losses occur 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.

An enterprise has the option of recognising actuarial gains and losses that fall within a specific range ("corridor") in the accounting period in which such loss or gain occurs or defer them to the following accounting period. The portion of the actuarial gains or losses that is in excess of the corridor must be recognised as income or expense in the current accounting period or on a systematic basis over the average remaining lives of the employees affected.

The Bank 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.

21. BORROWINGS

The Bank initially recognises borrowings, including debentures, at the fair value of the consideration received. Discounts or premiums on debentures issued are amortised on a basis that reflects the effective yield on the debentures over their life span. Interest paid is brought to account on an effective interest rate basis.

The Bank separately measures and recognises the fair value of the equity component of an issued convertible bond in 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 Bank purchases its own debt, the debt is presented on a net basis in the balance sheet and any difference between the carrying amount of the liability and the consideration paid is included in trading income.

22. SHARE CAPITAL

22.1 Share issue costs

Costs directly related to the issue of new shares or options are shown as a deduction from equity.

22.2 Dividends paid

Dividends on ordinary shares are recognised against equity in the period approved by the company's shareholder. Dividends declared after the balance sheet date are not recognised but disclosed as a post-balance sheet event.

23. ACCEPTANCES

Acceptances comprise undertakings by the Bank to pay bills of exchange drawn on customers. The Bank accounts for and discloses acceptances as a contingent liability.

24. FIDUCIARY ACTIVITIES

The Bank 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.

25. CHANGE AND RE-INTERPRETATION OF ACCOUNTING POLICY

Impact of the changes in accounting policy and re-interpretation of AC 105 – leases on opening equity

Following the circular 7/2005 issued by SAICA on 2 August 2005 clarifying the interpretation of AC 105 – leases, has resulted in a reduction to retained earnings.

The table below sets out the effect of the changes in accounting policy and re-interpretation of AC 105 on opening retained income:

R million	
Closing balance at 30 June 2003	6 305
Retained income adjusted for:	
Adjustment for lease rentals	(152)
Creation of deferred tax asset for unused STC credits	25
Restated opening balance at 1 July 2003	6 178

Impact of changes in accounting policy and re-interpretation on the period under review and the comparative period

The table below sets out the effect of the changes in accounting policy on the attributable income for the period under review and for the comparative period:

	Audited	
	Year ended 30 June	
R million	**2005**	2004
Adjustment to earnings attributable to ordinary shareholders	**(16)**	20

26. RESTATEMENT OF PRIOR YEAR NUMBERS

The following line items on the face of the balance sheet, income statement and in the statement of changes in equity have been restated due to the change in accounting policy and re-interpretation of AC 105 – leases, referred to in note 25 above:

R million	As previously reported	As restated	Reason for restatement
Income statement			
Interest income	18 187	18 256	Refer below
Fair value advances	1 262	69	Separate disclosure of investment securities
Investment securities	–	1 193	Refer above
Holding and fellow subsidiaries	1 215	1 203	Separate disclosure of loans to and from holding and fellow subsidiaries and insurance group companies
Insurance group companies	–	81	Refer above
Interest expenditure	(10 895)	(10 964)	Refer below
Holding and fellow subsidiaries	–	(56)	Separate disclosure of loans to and from holding and fellow subsidiaries and insurance group companies
Insurance group companies	–	(13)	Refer above
Operating expenditure	(9 073)	(9 090)	Refer below
– Land and buildings	(297)	(314)	Recognition of lease rental adjustments in terms of AC 105
Direct taxation charge	(1 285)	(1 248)	Refer below
– Deferred			
Current year	40	77	Recognition of lease rental adjustments in terms of AC 105 (R5 million); and recognition of deferred tax asset on STC credits in terms of AC 501 (R32 million)
Balance sheet			
Assets			
Holding and fellow subsidiary companies	20 208	20 175	Separate disclosure of loans to and from holding and fellow subsidiaries and insurance group companies
Loans to insurance group	–	33	Refer above
Liabilities and shareholders' funds			
Holding and fellow subsidiary companies	20 974	17 380	Separate disclosure of loans to and from holding and fellow subsidiaries and insurance group companies
Loans to insurance group	–	3 594	Refer above
Creditors and accruals	2 616	2 851	Refer below
– Other creditors	1 911	2 146	Recognition of lease rental adjustments in terms of AC 105
Deferred taxation liabilities	1 558	1 430	Refer below
– AC 105 adjustments for lease rentals	–	(66)	Recognition of lease rental adjustments in terms of AC 105
– AC 501 adjustments for STC	–	(25)	Recognition of deferred tax asset on STC credits in terms of AC 501
– Charge to the income statement	69	32	Recognition of lease rental adjustments in terms AC 105 (R5 million); and recognition of deferred tax asset on STC credits in terms of AC 501 (R32 million)

Income statement for the year ended 30 June

R million	Notes	2005	2004
Interest income	2	19 894	18 256
Interest expenditure	3	(12 608)	(10 964)
Net interest income before impairment of advances		7 286	7 292
Impairment of advances	10	(572)	(436)
Net interest income after impairment of advances		6 714	6 856
Non-interest income	4	9 538	8 067
– Fee and commission income		6 774	5 471
– Trading income		1 764	534
– Investment income		275	1 124
– Other non-interest income		741	1 019
– Loss on sale of property and equipment		(16)	(81)
Net income from operations		16 252	14 923
Operating expenditure	5	(11 534)	(9 090)
Income from operations		4 718	5 833
Indirect taxation	6	(347)	(309)
Income before direct taxation		4 371	5 524
Direct taxation	6	(1 138)	(1 248)
Earnings attributable to ordinary shareholders		3 233	4 276

Balance sheet as at 30 June

R million		2005	2004
Assets			
Cash and short-term funds	7	14 057	13 123
Derivative financial instruments	8	20 500	17 480
– qualifying for hedging		574	268
– trading		19 926	17 212
Advances	9	201 700	178 122
– originated		163 626	124 042
– held-to-maturity		5 916	7 003
– available-for-sale		1 648	418
– fair value advances		30 510	46 659
Investment securities and other investments	11	26 549	21 861
– held-to-maturity		10	–
– available-for-sale		10 065	11 507
– elected fair value		16 474	10 354
Commodities	12	395	418
Accounts receivable	13	1 241	1 586
Investment in associated companies	14	724	343
Interest in subsidiary companies	15	13	18
Holding and fellow subsidiary companies	16	18 738	20 175
Property and equipment	17	2 095	1 726
Loans to insurance group		3 658	33
Retirement benefit asset	18.3	2 228	1 932
Intangible assets	19	36	26
Total assets		291 934	256 843
Liabilities and shareholders' funds			
Liabilities			
Deposit and current accounts	20	209 728	179 102
Short trading positions	21	14 037	19 471
Derivative financial instruments	8	15 064	14 120
– qualifying for hedging		95	30
– trading		14 969	14 090
Creditors and accruals	22	2 940	2 851
Provisions	23	1 632	1 269
Taxation		104	914
Post-retirement medical liability	18.2	1 165	1 020
Deferred taxation liabilities	6.1	1 950	1 430
Holding and fellow subsidiary companies	16	17 743	17 380
Loans from insurance group		7 956	3 594
Long-term liabilities	24	3 349	3 349
Total liabilities		275 668	244 500
Shareholders' equity			
Ordinary shares	25	4	4
Share premium	25	5 612	2 490
Non-distributable reserves	26	2 579	2 337
Distributable reserves		8 071	7 512
Total shareholders' equity		16 266	12 343
Total liabilities and shareholders' funds		291 934	256 843
Contingencies and commitments	27	24 854	21 257

Cash flow statement for the year ended 30 June

R million	Notes	2005	2004
Cash flows from operating activities	28.1	6 631	7 055
Receipts from customers		29 086	25 304
Interest income		19 856	18 330
Fee and commission income		6 774	5 471
Other income		2 456	1 503
Payments to customers and employees		(22 455)	(18 249)
Interest expenditure (excluding debenture interest)		(12 206)	(10 462)
Total other operating expenditure (excluding depreciation)		(10 249)	(7 787)
Taxation paid	28.3	(1 839)	(1 218)
Cash flows from banking activities		(2 888)	(10 779)
Increase in income-earning assets		(27 020)	(18 257)
Liquid assets and trading securities		(4 688)	2 265
Advances		(24 132)	(26 123)
Net funding from fellow subsidiary companies		1 800	5 601
Increase in deposits and other liabilities		24 132	7 478
Term deposits		22 209	17 989
Current deposit accounts		(6 431)	(2 547)
Deposits from banks		597	5 930
Negotiable certificates of deposit		6 966	12 907
Savings accounts		113	78
Short trading positions		(5 434)	(15 114)
Creditors and accruals net of accounts receivable (including derivatives)		(1 887)	(4 618)
Other liabilities and assets		7 999	(7 147)
Net cash inflow/(outflow) from operating activities		1 904	(4 942)
Cash flows from investment activities			
Capital expenditure		(979)	(834)
Net (acquisition)/proceeds on sale of associates		(381)	434
Proceeds from sale of property and equipment		52	40
Proceeds from sale of investments		98	–
Sale of investments in subsidiaries		5	7
Dividends from other investments		222	804
Dividends from associated companies		19	50
Net cash (outflow)/inflow from investment activities		(964)	501
Cash flows from financing activities			
Net proceeds from the issue of long-term liabilities		–	453
Proceeds from the issue of ordinary shares		122	–
Proceeds from the issue of preference shares		3 000	–
Debenture interest paid		(466)	(438)
Dividends paid	28.2	(2 662)	(1 784)
Net cash flow from financing activities		(6)	(1 769)
Net increase/(decrease) in cash and cash equivalents		934	(6 210)
Cash and cash equivalents at beginning of the year		13 123	19 333
Cash and cash equivalents at end of the year	7	14 057	13 123

Statement of changes in equity for the year ended 30 June

R million	Share and share premium	General risk reserve	Cash flow hedge reserve	Available-for-sale reserve	Currency translation reserve	Other non-distributable reserve	Distributable reserve	Total shareholders' equity
Balance as reported at 1 July 2003	2 494	459	216	143	1	703	6 305	10 321
AC 105 adjustments for lease rentals	–	–	–	–	–	–	(152)	(152)
AC 501 adjustments for STC	–	–	–	–	–	–	25	25
Restated balance at 1 July 2003	2 494	459	216	143	1	703	6 178	10 194
Correction of AC 133 transitional adjustments	–	160	342	46	–	–	(388)	160
Currency translation differences	–	–	–	–	(1)	–	–	(1)
Earnings attributable to ordinary shareholders	–	–	–	–	–	–	4 276	4 276
Final dividend – 6 November 2003	–	–	–	–	–	–	(595)	(595)
Interim dividend – 15 March 2004	–	–	–	–	–	–	(1 189)	(1 189)
Transfer to General Risk Reserve (impaired capital reserve)	–	130	–	–	–	–	(130)	–
Revaluation of available-for-sale assets	–	–	–	(21)	–	–	–	(21)
Revaluation of cash flow hedges	–	–	(481)	–	–	–	–	(481)
Transfer to capital redemption reserve	–	–	–	–	–	640	(640)	–
Balance as at 30 June 2004	2 494	749	77	168	–	1 343	7 512	12 343
Earnings attributable to ordinary shareholders	–	–	–	–	–	–	3 233	3 233
Preference dividends – 30 July 2004	–	–	–	–	–	–	(89)	(89)
Final dividend – 25 October 2004	–	–	–	–	–	–	(1 205)	(1 205)
Final dividend – 25 October 2005	–	–	–	–	–	–	(18)	(18)
Interim dividend – 21 February 2005	–	–	–	–	–	–	(2)	(2)
Interim dividend – 23 March 2005	–	–	–	–	–	–	(1 122)	(1 122)
Interim dividend – 29 April 2005	–	–	–	–	–	–	(111)	(111)
Interim dividend – 30 June 2005	–	–	–	–	–	–	(47)	(47)
Interim dividend – 25 February 2005	–	–	–	–	–	–	(68)	(68)
Transfer to General Risk Reserve (impaired capital reserve)	–	12	–	–	–	–	(12)	–
Revaluation of available-for-sale assets	–	–	–	(30)	–	–	–	(30)
Revaluation of available-for-sale assets transferred to income	–	–	–	45	–	–	–	45
Revaluation of cash flow hedges	–	–	215	–	–	–	–	215
Issue of ordinary shares	122	–	–	–	–	–	–	122
Issue of non-redeemable preference shares	3 000	–	–	–	–	–	–	3 000
Balance as at 30 June 2005	5 616	761	292	183	–	1 343	8 071	16 266

Notes to the annual financial statements for the year ended 30 June

1. Accounting policies

The accounting policies of the bank are set out on pages 26 to 33.

R million	2005	2004
2. Interest income		
Interest on:		
Advances	16 326	15 108
– originated	15 619	14 105
– held-to-maturity	648	934
– available-for-sale	37	–
– fair value advances	22	69
Cash and short-term funds	757	269
Investment securities	1 021	1 193
Holding and fellow subsidiaries	506	1 203
Insurance group companies	2	81
Unwind of present value on non-performing loans	26	86
Other	1 256	316
	19 894	18 256
3. Interest expenditure		
Interest on:		
Deposits from banks and financial institutions	(56)	(91)
Current accounts	(1 807)	(2 193)
Savings accounts	(34)	(40)
Term deposits	(8 430)	(7 493)
Holding and fellow subsidiaries	(579)	(56)
Insurance group companies	(42)	(13)
Debentures and long-term liabilities	(466)	(438)
Other	(1 194)	(640)
	(12 608)	(10 964)

R million	2005	2004
4. Non-interest income		
Fee and commission income		
– Banking	5 958	4 922
– Knowledged based fee and commission income	342	128
– Non-banking fee and commission income	164	144
– Other income	310	277
	6 774	5 471
Trading income		
– Trading dividends received	203	152
– Currency trading	625	702
– Trading profit/(loss)	936	(320)
	1 764	534
Investment income		
– Profit on sale of investments	98	190
– Revaluation (loss)/gain transferred on sale of available-for-sale securities	(45)	130
– Other dividends received	222	804
	275	1 124
Other non-interest income		
– Recoveries from subsidiaries	502	335
– Other income	239	684
	741	1 019
– Loss on sale of property and equipment	(16)	(81)
Total non-interest income	9 538	8 067
5. Operating expenditure		
Auditors' remuneration		
– Audit fees	(32)	(44)
– Fees for other services	(4)	(7)
– Technical advice	(3)	–
– Other	(1)	–
	(36)	(51)
Amortisation of intangible assets		
– Software	(14)	(15)
– Development costs	(1)	(1)
	(15)	(16)
Other impairments incurred		
– Computer equipment	(19)	–
Depreciation		
– Property	(113)	(85)
Freehold buildings	(39)	(20)
Leasehold premises	(74)	(65)
– Equipment	(410)	(348)
Computer equipment	(292)	(202)
Furniture and fittings	(71)	(109)
Motor vehicles	(12)	(8)
Office equipment	(35)	(29)
	(523)	(433)

R million	2005	2004
5. Operating expenditure *(continued)*		
Operating lease charges		
– Land and buildings	(455)	(314)
– Equipment	(185)	(158)
– Motor vehicles	(23)	(23)
	(663)	(495)
Directors' emoluments paid		
– Salaries, wages and allowances	(17)	(25)
– Fees for services as directors/consultants	(2)	(3)
	(19)	(28)
Professional fees		
– Managerial	(1)	(25)
– Technical	(146)	(105)
– Other	(215)	(183)
	(362)	(313)
Direct staff costs		
– Salaries, wages and allowances	(3 800)	(3 586)
– Contributions to employee benefit funds	(836)	(576)
– Social security levies	(41)	(32)
– Other	(274)	(395)
	(4 951)	(4 589)
Staff related costs	(540)	(429)
	(5 491)	(5 018)
Other operating costs	(4 406)	(2 736)
– Insurance	(128)	(123)
– Advertising and marketing	(510)	(354)
– Acquisition costs	(312)	(185)
– eBuck customer reward costs	(162)	(209)
– Maintenance	(421)	(356)
– Property	(215)	(206)
– Stationery	(167)	(170)
– Telecommunications	(311)	(252)
– Holding and fellow subsidiaries	(378)	(108)
– Insurance group	(75)	(24)
– Other	(1 727)	(749)
Total operating expenditure	(11 534)	(9 090)

R million	2005	2004
6. Taxation		
Direct taxation		
Normal taxation		
– Current	(682)	(1 216)
Current year	(1 100)	(1 341)
Prior year adjustment	418	125
– Deferred	(413)	(32)
Current year – normal taxation	8	45
– STC	(15)	32
Prior year adjustment	(457)	(109)
Taxation rate adjustment	51	–
	(1 095)	(1 248)
Customer tax adjustment account	(43)	–
Total direct taxation	(1 138)	(1 248)
Indirect taxation		
Miscellaneous taxes		
Value-added taxation (net)	(308)	(245)
Regional services levy	(43)	(49)
Stamp duties	–	2
Other	4	(17)
Total indirect taxation	(347)	(309)
Total taxation	(1 485)	(1 557)

Taxation rate reconciliation – South African normal taxation	%	%
Effective rate of taxation	31.5	26.7
Total taxation has been affected by:		
Miscellaneous taxes	(7.4)	(5.3)
Non-taxable income	4.7	3.8
Foreign tax rate differential		
Prior year adjustment	(0.8)	0.3
Taxation rate adjustment	1.1	–
Other permanent differences	(0.1)	4.5
Standard rate of South African taxation	29.0	30.0

R million	2005	2004
6. Taxation *(continued)*		
6.1 Deferred taxation		
The movement on the deferred taxation account is as follows:		
Credit balance		
– Balance at the beginning	1 430	1 557
– AC 105 adjustments for lease rentals	–	(66)
– AC 501 adjustments for STC	–	(25)
Restated opening balance	1 430	1 466
– Correction of AC 133 transitional adjustments	–	68
– Charge to the income statement	464	32
– Fair value revaluation	121	(112)
– Taxation rate adjustment	(51)	–
– Other	(14)	(24)
Total credit balance	1 950	1 430

Deferred taxation assets and liabilities are offset when the income taxes relate to the same fiscal authority and there is a legal right to set-off. Deferred taxation liabilities and deferred taxation charge/(credit) in the income statement are attributable to the following items:

	Opening balance	Taxation rate adjustment	Taxation charge	Other	Closing balance
Deferred tax liabilities					
Provision for loan impairment	57	22	586	(647)	18
Provision for post-retirement benefits	–	–	(146)	146	–
Other provisions	(50)	6	14	11	(19)
Cash flow hedges	–	–	212	(283)	(71)
On fair value adjustments of financial instruments	–	–	113	(113)	–
Instalment credit agreements	1 266	(42)	(16)	59	1 267
Accruals	246	(17)	124	270	623
Revaluation of available-for-sale securities to equity	(15)	1	12	6	4
Other	(74)	(21)	(435)	658	128
Total deferred taxation liabilities	1 430	(51)	464	107	1 950

R million	2005	2004
7. Cash and short-term funds		
Coins and bank notes	2 297	2 083
Money at call and short notice	690	513
Balances with central banks	4 860	3 495
Balances guaranteed by central banks	38	99
Balances with other banks	6 172	6 933
	14 057	13 123
Mandatory reserve balances included in above:	4 858	3 494

Banks are required to deposit a minimum average balance, calculated monthly, with the central bank.

These deposits bear no or very low interest.

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

8. Derivative financial instruments

The Bank uses the following financial instruments for hedging purposes:

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 bank faces due to volatile interest rates. The bank accepts deposits at variable rates and uses pay fixed interest rate derivatives as cash flow hedges of future interest payments, effectively converting borrowings from floating to fixed rates. The bank also has assets at variable rates and uses received fixed interest rate derivatives as cash flow hedges of future interest receipts.

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 bank'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 bank's detailed risk management strategy, including the use of hedging instruments in risk management, is set out in the Risk Management Report on pages 3 to 18 of the Annual Report ("the Risk Report").

Further information pertaining to the risk management of the bank is set out in note 29 below.

	2005			
	Assets		Liabilities	
R million	Notional	Fair value	Notional	Fair value
The bank utilises the following derivatives for hedging and trading purposes:				
Qualifying for hedge accounting				
Cash flow hedges				
Interest rate derivatives				
– Swaps	13 167	304	3 498	64
Total cash flow hedges	13 167	304	3 498	64
Fair value hedges				
Interest rate derivatives				
– Swaps	5 680	270	1 460	31
Total fair value hedges	5 680	270	1 460	31
Total qualifying for hedge accounting	18 847	574	4 958	95

	2005			
	Assets		Liabilities	
R million	Notional	Fair value	Notional	Fair value
8. Derivative financial instruments *(continued)*				
Held for trading				
Currency derivatives				
– Forward rate agreements	70 822	2 782	68 187	2 612
– Swaps	106 697	7 773	101 848	4 656
– Options	1 933	222	1 624	26
Total currency derivatives	179 452	10 777	171 659	7 294
Interest rate derivatives				
– Forward rate agreements	91 209	212	77 516	189
– Swaps	152 620	5 396	139 118	5 328
– Options	11 611	76	11 309	82
– Other	166	–	–	–
Total interest rate derivatives	255 606	5 684	227 943	5 599
Equity derivatives				
– Options	14 269	1 409	3 667	343
– Other	113	2	–	–
Total equity derivatives	14 382	1 411	3 667	343
Commodity derivatives				
– Forward rate agreements	4 336	322	4 359	702
– Swaps	175	5	566	30
– Options	8 903	1 686	9 223	921
– Other	85	2	186	80
Total commodity derivatives	13 499	2 015	14 334	1 733
Credit derivatives	5 640	39	–	–
Total held for trading	468 579	19 926	417 603	14 969
Total	487 426	20 500	422 561	15 064

	2005					
	Assets: Derivative instruments					
	Exchange traded		Over the counter		Total	
R million	Notional	Fair value	Notional	Fair value	Notional	Fair value
Qualifying for hedge accounting						
Cash flow hedges	–	–	13 167	304	13 167	304
Interest rate derivatives	–	–	13 167	304	13 167	304
Fair value hedges	–	–	5 680	270	5 680	270
Interest rate derivatives	–	–	5 680	270	5 680	270
Held for trading	4 866	1	463 713	19 925	468 579	19 926
Currency derivatives	–	–	179 452	10 777	179 452	10 777
Interest rate derivatives	3 667	1	251 939	5 683	255 606	5 684
Equity derivatives	–	–	14 382	1 411	14 382	1 411
Commodity derivatives	1 199	–	12 300	2 015	13 499	2 015
Credit derivatives	–	–	5 640	39	5 640	39
Total	4 866	1	482 560	20 499	487 426	20 500

	2005					
	Liabilities: Derivative instruments					
	Exchange traded		Over the counter		Total	
	Notional	Fair value	Notional	Fair value	Notional	Fair value
8. Derivative financial instruments *(continued)*						
Qualifying for hedge accounting						
Cash flow hedges	–	–	3 498	64	3 498	64
Interest rate derivatives	–	–	3 498	64	3 498	64
Fair value hedges	–	–	1 460	31	1 460	31
Interest rate derivatives	–	–	1 460	31	1 460	31
Held for trading	3 596	5	414 007	14 964	417 603	14 969
Currency derivatives	–	–	171 659	7 294	171 659	7 294
Interest rate derivatives	2 558	3	225 385	5 596	227 943	5 599
Equity derivatives	–	–	3 667	343	3 667	343
Commodity derivatives	1 038	2	13 296	1 731	14 334	1 733
Credit derivatives	–	–	–	–	–	–
Total	3 596	5	418 965	15 059	422 561	15 064

	2004			
	Assets		Liabilities	
R million	Notional	Fair value	Notional	Fair value
The bank utilises the following derivatives for hedging and trading purposes:				
Qualifying for hedge accounting				
Cash flow hedges				
Interest rate derivatives				
– Forward rate agreements	500	–	1 100	–
– Swaps	22 828	268	7 497	30
Total cash flow hedges	23 328	268	8 597	30
Held for trading				
Currency derivatives				
– Forward rate agreements	33 001	2 993	34 326	2 790
– Swaps	53 833	5 168	50 246	3 478
– Options	618	38	1 358	69
– Other	–	–	464	3
Total currency derivatives	87 452	8 199	86 394	6 340
Interest rate derivatives				
– Forward rate agreements	75 390	68	88 150	76
– Swaps	125 792	4 307	149 994	4 074
– Options	5 495	7	2 497	16
– Other	82	–	52	–
Total interest rate derivatives	206 759	4 382	240 693	4 166

	2004			
	Assets		Liabilities	
R million	Notional	Fair value	Notional	Fair value
8. Derivative financial instruments *(continued)*				
Equity derivatives				
– Options	14 108	1 219	4 053	650
– Other	129	2	61	–
Total equity derivatives	14 237	1 221	4 114	650
Commodity derivatives				
– Forward rate agreements	5 649	370	5 299	875
– Swaps	146	4	453	19
– Options	5 606	1 527	5 540	889
– Other	250	16	384	43
Total commodity derivatives	11 651	1 917	11 676	1 826
Credit derivatives	2 451	1 493	1 263	1 108
Total held for trading	322 550	17 212	344 140	14 090
Total	345 878	17 480	352 737	14 120

	2004					
	Assets: Derivative instruments					
	Exchange traded		Over the counter		Total	
R million	Notional	Fair value	Notional	Fair value	Notional	Fair value
Qualifying for hedge accounting						
Cash flow hedges	–	–	23 328	268	23 328	268
Interest rate derivatives	–	–	23 328	268	23 328	268
Held for trading	2 204	1 193	320 346	16 019	322 550	17 212
Currency derivatives	(321)	(300)	87 773	8 499	87 452	8 199
Interest rate derivatives	110	1	206 649	4 381	206 759	4 382
Equity derivatives	64	–	14 173	1 221	14 237	1 221
Commodity derivatives	–	–	11 651	1 917	11 651	1 917
Credit derivatives	2 351	1 492	100	1	2 451	1 493
Total	2 204	1 193	343 674	16 287	345 878	17 480

	2004					
	Liabilities: Derivative instruments					
	Exchange traded		Over the counter		Total	
	Notional	Fair value	Notional	Fair value	Notional	Fair value
Qualifying for hedge accounting						
Cash flow hedges	–	–	8 597	30	8 597	30
Interest rate derivatives	–	–	8 597	30	8 597	30
Held for trading	1 388	10	342 752	14 080	344 140	14 090
Currency derivatives	554	4	85 840	6 336	86 394	6 340
Interest rate derivatives	771	4	239 922	4 162	240 693	4 166
Equity derivatives	63	2	4 051	648	4 114	650
Commodity derivatives	–	–	11 676	1 826	11 676	1 826
Credit derivatives	–	–	1 263	1 108	1 263	1 108
Total	1 388	10	351 349	14 110	352 737	14 120

R million	2005 Originated	2005 Held-to-maturity	2005 Available-for-sale	2005 Fair value	2005 Total	2004 Total
9. Advances						
Sector analysis						
Agriculture	4 107	–	452	149	4 708	5 453
Banks and financial services	6 256	–	1 283	18 205	25 744	34 970
Building and property development	10 420	–	–	–	10 420	5 065
Government, Land Bank and public authorities	677	–	–	4 833	5 510	11 059
Individuals	110 117	5 916	–	8	116 041	88 017
Manufacturing and commerce	18 854	–	–	4 994	23 848	27 519
Mining	2 903	–	–	453	3 356	1 820
Transport and communication	4 206	–	–	340	4 546	2 978
Other services	8 362	–	–	1 528	9 890	3 726
Notional value of advances	165 902	5 916	1 735	30 510	204 063	180 607
Contractual interest suspended	(387)	–	–	–	(387)	(459)
Gross advances	165 515	5 916	1 735	30 510	203 676	180 148
Impairment of advances (note 10)	(1 889)	–	(87)	–	(1 976)	(2 026)
Net advances	163 626	5 916	1 648	30 510	201 700	178 122
Net advances – 2004	124 042	7 003	418	46 659	178 122	
Geographic analysis (based on credit risk)						
South Africa	165 679	5 916	1 735	21 279	194 609	145 168
Other Africa	31	–	–	147	178	209
Europe	167	–	–	9 038	9 205	4 799
United Kingdom	159	–	–	5 613	5 772	3 845
Ireland	1	–	–	1 024	1 025	333
Other Europe	7	–	–	2 401	2 408	621
North America	18	–	–	22	40	98
South America	–	–	–	24	24	32
Australasia	–	–	–	–	–	33
Other	7	–	–	–	7	30 268
Total value of advances	165 902	5 916	1 735	30 510	204 063	180 607
Contractual interest suspended	(387)	–	–	–	(387)	(459)
Gross advances	165 515	5 916	1 735	30 510	203 676	180 148
Impairment of advances (note 10)	(1 889)	–	(87)	–	(1 976)	(2 026)
Net advances	163 626	5 916	1 648	30 510	201 700	178 122
Net advances – 2004	124 042	7 003	418	46 659	178 122	

R million	2005 Originated	Held-to-maturity	Available-for-sale	Fair value	Total	2004 Total
9. Advances *(continued)*						
Category analysis						
Overdrafts and managed accounts	23 634	–	–	–	23 634	20 544
Card loans	6 989	–	–	–	6 989	5 325
Instalment sales	34 550	–	–	252	34 802	27 725
Lease payments receivable	18 604	–	–	–	18 604	14 322
Property finance	64 462	5 916	–	–	70 378	52 036
– Home loans	60 729	5 916	–	–	66 645	49 021
– Commercial property finance	3 733	–	–	–	3 733	3 015
Personal loans	3 947	–	–	–	3 947	5 164
Preference share advances	654	–	–	–	654	659
Collateralised debt obligations	182	–	–	–	182	100
Assets under agreement to resell	191	–	–	8 112	8 303	20 327
Other	12 689	–	1 735	22 146	36 570	34 405
Notional value of advances	165 902	5 916	1 735	30 510	204 063	180 607
Contractual interest suspended	(387)	–	–	–	(387)	(459)
Gross advances	165 515	5 916	1 735	30 510	203 676	180 148
Impairment of advances (note 10)	(1 889)	–	(87)	–	(1 976)	(2 026)
Net advances	163 626	5 916	1 648	30 510	201 700	178 122
Net advances – 2004	124 042	7 003	418	46 659	178 122	

R million	2005 Within 1 year	Between 1 and 5 years	More than 5 years	Total	2004 Total
Analysis of instalment sales and lease payments receivable					
Lease payments receivable	5 083	13 245	288	18 616	33 935
Suspensive sale instalments receivable	11 956	30 008	9	41 973	14 300
	17 039	43 253	297	60 589	48 235
Less: Unearned finance charges	(2 039)	(5 143)	(1)	(7 183)	(6 188)
	15 000	38 110	296	53 406	42 047

A maturity analysis of advances is set out in paragraph 29.7 on page 65 and 66 of this annual report, and is based on the remaining periods to contractual maturity from the year end.

The bank has not recognised contingent rentals in income during the period.

R million	2005 Total impairment	2005 Specific impairment	2005 Portfolio impairment	2005 Income statement
10. Impairment of advances				
Analysis of movement in impairment of advances				
Opening balance	2 026	1 582	444	–
Amounts written off	(807)	(807)	–	–
Unwinding of discounted present value on non-performing loans	(26)	(26)	–	–
Reclassifications	–	(48)	48	–
Net new impairments created	783	739	44	(783)
Impairments created	1 277	1 205	72	(1 277)
Impairments released	(494)	(466)	(28)	494
Recoveries of bad debts	–	–	–	212
Other	–	–	–	(1)
Closing balance	1 976	1 440	536	(572)

R million	2004 Total impairment	2004 Specific impairment	2004 Portfolio impairment	2004 Income statement
Opening balance	2 572	1 912	660	–
Correction of AC 133 transitional adjustments	(228)	–	(228)	–
Amounts written off	(986)	(860)	(126)	–
Unwinding of discounted present value on non-performing loans	(91)	(91)	–	–
Reclassifications	–	(13)	13	–
Net new impairments created	759	634	125	(759)
Impairments created	1 325	1 077	248	(1 325)
Impairments released	(566)	(443)	(123)	566
Recoveries of bad debts	–	–	–	312
Other	–	–	–	11
Closing balance	2 026	1 582	444	(436)

R million	2005 Credit risk	2005 Security held	2005 Contractual interest suspended	2005 Specific impairments	2004 Specific impairments
10. Impairment of advances *(continued)*					
Non-performing lendings by sector					
Agriculture	149	112	18	47	40
Banks and financial services	171	18	46	111	203
Building and property development	99	61	28	44	14
Government, Land Bank and public authorities	197	–	10	27	3
Individuals	1 213	494	143	796	730
Manufacturing and commerce	783	130	104	296	581
Mining	13	2	4	8	5
Transport and communication	41	6	7	36	6
Other services	147	27	27	75	–
Total	2 813	850	387	1 440	1 582
2004 Total non-performing lendings	2 910	751	459	1 582	
Non-performing lendings by category					
Overdrafts, term loans and managed account debtors	894	280	190	536	526
Card loans	264	–	22	219	211
Instalment sale	294	53	32	181	114
Lease payments receivable	193	35	21	105	133
Home loans	526	419	76	258	281
Commercial property finance	55	36	17	13	–
Other	587	27	29	128	317
Total	2 813	850	387	1 440	1 582
2004 Total non-performing lendings	2 910	751	459	1 582	

R million	2005 Held-to-maturity	2005 Available-for-sale	2005 Elected	2005 Total	2004 Total
11. Investment securities and other investments					
Total					
Negotiable certificates of deposit	–	–	736	736	450
Treasury bills	10	–	2 473	2 483	1 517
Other government and government guaranteed stock	–	9 790	6 117	15 907	14 244
Other dated securities	–	1	801	802	1 399
Other undated securities	–	–	786	786	81
Other	–	274	5 561	5 835	4 170
	10	10 065	16 474	26 549	21 861
Total – 2004	–	11 507	10 354	21 861	
Listed					
Negotiable certificates of deposit					
Treasury bills	–	–	–	–	–
Other government and government guaranteed stock	–	9 790	3 942	13 732	13 204
Other dated securities	–	–	715	715	79
Other undated securities	–	–	–	–	–
Other	–	–	3 104	3 104	404
	–	9 790	7 761	17 551	13 687
Listed – 2004	–	11 224	2 463	13 687	
Unlisted					
Negotiable certificates of deposit	–	–	736	736	450
Treasury bills	10	–	2 473	2 483	1 517
Other government and government guaranteed stock	–	–	2 175	2 175	1 040
Other dated securities	–	1	86	87	1 320
Other undated securities	–	–	786	786	81
Other	–	274	2 457	2 731	3 766
	10	275	8 713	8 998	8 174
Unlisted – 2004	–	283	7 891	8 174	

R11 115 million (2004: R9 775 million) of the financial instruments form part of the bank's liquid asset portfolio in terms of the South African Reserve Bank and other foreign banking regulators' requirements.

R million	2005	2004
Analysis of investment securities		
Listed	17 551	13 687
Equities	1 383	404
Debt	16 168	13 283
Unlisted	8 998	8 174
Equities	2 728	3 135
Debt	6 270	5 039
	26 549	21 861
Aggregate market value of listed securities	17 551	13 687
Aggregate directors' valuation of unlisted investments	8 998	8 174
	26 549	21 861

Held-to-maturity securities are carried at amortised cost in both years. Available-for-sale securities are carried at fair value.

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.

The maturity analysis for investment securities is set out in note 29.7 below.

R million	2005	2004
12. Commodities		
Agricultural stock	377	418
Other	18	–
	395	418
13. Accounts receivable		
Items in transit	200	–
Accrued interest	60	22
Other	981	1 564
	1 241	1 586
14. Investment in associated companies		
Listed investments		
Equity investments at cost less amounts written off	544	190
Unlisted investments		
Equity investments at cost less amounts written off	180	153
Total carrying value	724	343
Valuation		
Listed investments at market value	544	394
Unlisted investments at directors' valuation	343	161
Total valuation	887	555

	Nature of business	Issued ordinary share capital R	Number of ordinary shares held	Year end
Listed				
Makalani Holdings Limited*	Investment holding	625 000 000	5 437 380	30 Jun
Unlisted				
Natal Lands (Pty) Limited	Property holding	240 000	60 000	31 Dec
Toyota Financial Services (Pty) Limited	Vehicle finance	4 500	1 499	31 Mar

	Effective holding %		Market value or directors' valuation		Bank costs less amounts written off	
R million	2005	2004	2005	2004	2005	2004
Listed						
Makalani Holdings Limited*	22	–	544	–	544	–
Relyant Retail Limited	–	26	–	394	–	190
Total listed			544	394	544	190
Unlisted						
Natal Lands (Pty) Limited	50	50	–	3	1	1
SBV Services (Pty) Limited	25	25	9	–	10	–
Mobile Acceptances (Pty) Limited	–	26	–	4	–	–
Pamodzi Investment Holdings (Pty) Limited	20	–	18	–	18	–
Toyota Financial Services (Pty) Limited	33	33	217	67	150	150
Other	Various		99	87	1	2
Total unlisted			343	161	180	153
Total listed and unlisted			887	555	724	343

* *This is a new company and as such no information has been made publicly available.*

R million	Mobile Acceptance (Pty) Limited 2005	2004	Toyota Financial Services (Pty) Limited 2005	2004	Natal Lands (Pty) Limited 2005	2004
14. Investment in associated companies *(continued)*						
Summarised financial information of associated companies:						
Balance sheet						
Non-current assets	**–**	7	**4 831**	3 584	**–**	5
Current assets	**–**	16	**1 796**	1 261	**–**	2
Current liabilities	**–**	(2)	**(805)**	(173)	**–**	(1)
Non-current liabilities	**–**	(5)	**(5 300)**	(4 233)	**–**	–
Equity	**–**	16	**522**	439	**–**	6
Loan to associates	**–**	–	**3 215**	3 444	**–**	–

R million	Relyant Retail Limited 2005	2004
Balance sheet		
Non-current assets	**–**	501
Current assets	**–**	1 846
Current liabilities	**–**	(695)
Non-current liabilities	**–**	(337)
Equity	**–**	1 315
Loan to associates	**–**	–

R million	2005	2004
15. Interest in subsidiary companies		
Shares at cost less amounts written off	**13**	18

	Nature of business	Issued capital Rand	Effective holding %	Investment in subsidiaries Rand
30 June 2005				
Direct Axis (Pty) Limited	**Financial services**	**13 333**	**51**	**11 000 000**
RMB Corporate Finance (Pty) Limited	**Investment**	**1 000**	**100**	**1 282 762**
Other				**892 238**
				13 175 000
30 June 2004				
Direct Axis (Pty) Limited	Financial services	13 333	51.0	11 000 000
Comcorp Online (Pty) Limited	Technology	200	80.0	5 000 160
RMB Corporate Finance (Pty) Limited	Investment	1 000	100.0	1 282 762
Other				506 078
				17 789 000

R million	2005	2004
16. Holding and fellow subsidiary companies		
Amounts due to holding company	**(200)**	(344)
Amounts due to fellow subsidiary companies	**(17 543)**	(17 036)
Amounts due to holding and fellow subsidiary companies	**(17 743)**	(17 380)
Amounts due by holding company	**760**	941
Amounts due by fellow subsidiary companies	**17 978**	19 234
Amounts due by holding and fellow subsidiary companies	**18 738**	20 175
Net amounts due by holding and fellow subsidiary companies	**995**	2 795

These loans have no fixed terms of repayment and carry varying rates of interest. Loans to fellow subsidiary companies amounting to R57 million are subject to subordination agreements until such time that their assets fairly valued, exceed their liabilities.

R million	Cost 2005	Accumulated depreciation and impairments 2005	Net book value 2005	Cost 2004	Accumulated depreciation and impairments 2004	Net book value 2004
17. Property and equipment						
Property						
Freehold land and buildings	**883**	**(388)**	**495**	690	(368)	322
Leasehold premises	**534**	**(287)**	**247**	421	(224)	197
	1 417	**(675)**	**742**	1 111	(592)	519
Equipment						
Computer equipment	**2 176**	**(1 351)**	**825**	1 873	(1 170)	703
Furniture and fittings	**718**	**(386)**	**332**	683	(334)	349
Motor vehicles	**70**	**(34)**	**36**	63	(31)	32
Office equipment	**279**	**(119)**	**160**	213	(90)	123
	3 243	**(1 890)**	**1 353**	2 832	(1 625)	1 207
Total	**4 660**	**(2 565)**	**2 095**	3 943	(2 217)	1 726

R million	Freehold land and buildings	Leasehold premises	Computer equipment	Furniture and fittings	Motor vehicles	Office equipment
Movement in property and equipment – net book value						
Net book value at 1 July 2003	377	161	504	294	25	111
Additions	45	103	458	168	18	42
Depreciation charge for period	(20)	(65)	(202)	(109)	(8)	(29)
Impairments	(6)	–	–	–	–	–
Disposals	(65)	(8)	(22)	(15)	(3)	(8)
Other	(9)	6	(35)	11	–	7
Net book value at 30 June 2004	**322**	**197**	**703**	**349**	**32**	**123**
Additions	**247**	**132**	**437**	**55**	**17**	**91**
Depreciation charge for period	**(39)**	**(74)**	**(292)**	**(71)**	**(12)**	**(35)**
Impairments	**–**	**–**	**(19)**	**–**	**–**	**–**
Disposals	**(35)**	**(8)**	**(4)**	**(1)**	**(1)**	**(19)**
Net book value at 30 June 2005	**495**	**247**	**825**	**332**	**36**	**160**

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 the provisions of section 113 of the Companies Act, 1973.

18. Pension and post-retirement benefits

The Bank has incurred a liability to subsidise the post-retirement medical expenditure of certain of its employees.

At 30 June 2005, the actuarially determined liability of the bank was R1 268 million (2004: R1 099 million).

R million	2005	2004
18.1 Post-retirement pension		
Pension liability		
Present value of funded liability	12 316	9 816
Fair value of plan assets	(12 316)	(9 643)
Pension fund surplus	–	173
Unrecognised actuarial loss	–	(173)
Retirement benefit asset	–	–
The amounts recognised in the income statement are as follows:		
Current service cost	283	248
Interest cost	956	978
Expected return on plan assets	(952)	(935)
Other	(4)	(43)
Total included in staff costs	283	248
Movement in liability recognised in pension fund surplus:		
Present value at the beginning of the year	–	–
Amounts recognised in the income statement as above	283	248
Contributions paid	(283)	(248)
Present value at the end of the year	–	–
The principal actuarial assumptions used for accounting purposes were:		
Discount rate (%)	8.25	10.0
Expected return on plan assets (%)	8.25	10.0
Salary inflation (%)	4.50	6.0
Net interest rate used to value pensions, allowing for pension increases (%)	5.00	5.0
18.2 Post-retirement medical liability		
Present value of unfunded liability	1 268	1 099
Unrecognised actuarial losses	(103)	(79)
Post-retirement medical liability	1 165	1 020
The amounts recognised in the income statement are as follows:		
Current service cost	28	27
Expected return on plan assets	61	–
Interest cost	107	99
Total included in staff costs	196	126
Movement in liability recognised in the balance sheet:		
Liability at the beginning of the year	1 020	942
Amounts recognised in the income statement as above	196	126
Contributions paid	(51)	(48)
Liability value at the end of the year	1 165	1 020
The principal actuarial assumptions used for accounting purposes were:		
Discount rate (%)	8.25	10.0
Long-term increase in medical subsidies (%)	6.25	8.0
18.3 Employee benefit assets		
Leave pay insurance policy	650	650
Post-retirement medical asset	1 578	1 282
	2 228	1 932

R million	2005	2004
19. Intangible assets		
Intangible assets		
Gross amount	90	65
Less: Accumulated amortisation	(54)	(39)
	36	26
Movement in intangibles – book value		
Opening balance	26	21
Additions	25	21
Accumulated amortisation	(15)	(16)
	36	26
Software		
Gross amount	82	62
Less: Accumulated amortisation	(52)	(38)
	30	24
Movement in software – book value		
Opening balance	24	21
Additions	20	18
Accumulated amortisation	(14)	(15)
	30	24
Development costs		
Gross amount	8	3
Less: Accumulated amortisation	(2)	(1)
	6	2
Movement in development costs – book value		
Opening balance	2	–
Additions	5	3
Accumulated amortisation	(1)	(1)
	6	2
Total intangible assets		
Software	30	24
Development costs	6	2
	36	26

R million	2005	2004
20. Deposit and current accounts		
From banks and financial institutions	18 784	18 187
– In the normal course of business	5 896	4 526
– Under repurchase agreements	12 888	13 661
From customers	136 425	120 534
– Current accounts	45 769	52 200
– Savings account	1 776	1 663
– Term deposits	88 880	66 671
Other deposits	54 519	40 381
– Negotiable certificates of deposit	30 891	23 925
– Other deposits	23 628	16 456
	209 728	179 102
Geographic analysis (based on counterparty risk)		
South Africa	203 529	172 736
Other Africa	1 338	972
United Kingdom	2 599	3 498
Other	2 262	1 896
	209 728	179 102

Deposits include amounts raised under repurchase agreements with a carrying value of R12 888 (2004: R13 661).

R million	2005	2004
21. Short trading positions		
Government and government guaranteed	5 510	13 251
Other dated securities	2 843	2 599
Undated securities	5 684	3 621
	14 037	19 471
Analysed as follows:		
Listed	11 211	16 856
Unlisted	2 826	2 615
	14 037	19 471

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.

R million	2005	2004
22. Creditors and accruals		
Accrued interest	43	107
Accounts payable	479	476
Short-term portion of long-term liabilities	–	122
Other creditors	2 418	2 146
	2 940	2 851

R million	2005	2004
23. Provisions		
Leave pay		
Opening balance	610	581
Charged to the income statement	121	112
Utilised	(109)	(83)
Closing balance	622	610
Audit fees		
Opening balance	18	28
Charged to the income statement	32	44
Utilised	(37)	(54)
Closing balance	13	18
Other		
Opening balance	641	369
Charged to the income statement	818	340
Utilised	(462)	(68)
Closing balance	997	641
Total provisions	1 632	1 269
24. Long-term liabilities		
Debentures		
Unsecured debt securities amortising over the period to 2005	–	122
Less: Portion payable within 12 months transferred to current liabilities	–	(122)
	–	–
Other long-term liabilities		
Subordinated convertible loans		
Unsecured debt security amortising over the period to 2009[a]	2 349	2 349
Fixed rate bonds[b]	700	700
Floating rate bond[c]	300	300
Total long-term liabilities	3 349	3 349

a The subordinated convertible loans are redeemable in 2009 and bear interest at 16.5% semi-annually. These loans are convertible into ordinary shares at the option of the holder at any time prior to redemption.

b The fixed rate bonds mature 31 August 2010 and bear interest at 1.2% above the R153 bond rate.

c The floating rate bonds mature 31 August 2010 and bear interest at 0.715% above the three-month JIBAR rate.

R million	2005	2004
25. Ordinary and non-redeemable preference shares		
Ordinary shares		
Authorised		
2 000 000 ordinary shares of R2 each	4	4
100 000 000 non-cumulative non-redeemable preference shares with a par value of 1 cent per share	1	–
Issued		
1 758 842 (2004: 1 758 305) ordinary shares of R2 each	4	4
3 000 000 non-cumulative non-redeemable preference shares with a par value of 1 cent per share to Holding Company	–	–
	4	4
Share premium		
1 758 842 (2004: 1 758 305) ordinary shares of R2 each	2 612	2 490
3 000 000 non-cumulative non-redeemable preference shares with a par value of 1 cent per share to Holding Company	3 000	–
	5 612	2 490
26. Non-distributable reserves		
Cash flow hedging reserve	292	77
Revaluation reserve – available-for-sale instruments	183	168
General risk reserve (impaired capital reserve)	761	749
Capital redemption reserve fund	1 345	1 345
Other	(2)	(2)
	2 579	2 337
A detailed reconciliation of the movements in the respective non-distributable reserve balances is set out in the statement of changes in equity.		
27. Contingencies and commitments		
Contingencies		
Guarantees*	12 828	12 737
Acceptances	5	21
Letters of credit	12 021	8 499
	24 854	21 257
** Includes undrawn irrevocable facilities.*		
There are a number of legal or potential claims against the bank, the outcome of which cannot at present be foreseen. These claims are not regarded as material either on an individual or group basis.		
Provision is made for all liabilities which are expected to materialise.		
Employee benefit contingent liability		
A contingent liability has been raised in respect of pension fund holidays taken since 15 December 2001	–	315
Interest claims contingent liability		
The Bank has contingent liabilities in respect of certain outstanding claims	150	150
Interest claims contingent asset		
The Bank has reciprocal claims against other institutions. These claims qualify as contingent assets	134	150
Commitments		
Commitments in respect of capital expenditure and long-term investments approved by directors:		
Contracted for	83	66
Not contracted for	486	184
Funds to meet these commitments will be provided from the Bank's resources.		

R million	2005 Next year	2005 2nd to 5th year	2005 After 5th year
27. Contingencies and commitments *(continued)*			
Bank commitments under operating leases			
Office premises	241	509	113
Equipment and motor vehicles	27	32	–
	268	541	113

R million	2004 Next year	2004 2nd to 5th year	2004 After 5th year
Office premises	450	1 184	40
Equipment and motor vehicles	27	26	–
	477	1 210	40

R million	2005	2004
28. Cash flow information		
28.1 Reconciliation of operating profit to cash flow from operating activities		
Income from operations	4 718	5 833
Adjusted for:		
– Depreciation, amortisation and impairment costs	538	449
– Impairment of advances	572	436
– Provision for post-employment benefit obligations	(243)	374
– Impairment of property and equipment	19	–
– Other non-cash provisions	869	618
– Net profit on sale of property and equipment and investments	(82)	(109)
– Revaluation loss/(gain) transferred to available-for-sale securities	15	(130)
– Debenture interest paid	466	438
– Dividends from other investments	(222)	(804)
– Dividends from associated companies	(19)	(50)
Cash flows from operating activities	6 631	7 055
28.2 Dividends paid		
Amounts unpaid at beginning of the year	–	–
Charged to distributable reserves	(2 662)	(1 784)
Amounts unpaid at end of the year	–	–
Total dividends paid	(2 662)	(1 784)
28.3 Taxation paid		
Amounts unpaid at beginning of the year	(914)	(607)
Taxation charge per income statement	(1 138)	(1 248)
Customer taxation adjustment	43	–
Deferred taxation included in tax charge	413	32
VAT and other tax charges	(347)	(309)
Amounts unpaid at end of the year	104	914
Total taxation paid	(1 839)	(1 218)

29. Risk management

29.1 General

The Risk Management Report of the bank is contained on pages 3 to 18 ("the Risk Report"). The report sets out in detail the various risks the bank is exposed to, as well as the strategy, methodology and instruments used to mitigate these risks.

Risk control policies and exposure limits for the key risk areas of the bank are approved by the Board, while operational policies and control procedures are approved by the relevant risk committees. Details of the bank's risk management structure, the risk management methodologies and the various risk committees are set out on pages 3 to 5 of the Risk Report. Pages 3 to 6 of the Risk Report form part of the audited financial statements.

Strategy in using financial instruments

By its nature the bank's activities are principally related to the use of financial instruments including derivatives. The bank accepts deposits from customers at both fixed and floating rates and for various periods and seeks to earn above average interest margins by investing these funds in high quality assets. The bank seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates while maintaining sufficient liquidity to meet all claims that might fall due.

The bank also trades in financial instruments where it takes positions in traded and over the counter instruments, including derivatives, to take advantage of short-term market movements in the equity and bond markets and in currency, interest rate and commodity prices. The Board of the bank places trading limits on the level of exposure than can be taken in relation to both overnight and intra-day positions. With the exception of specific hedging arrangements, foreign exchange and interest rate exposures associated with these derivatives are normally offset by entering into counterbalancing positions, thereby controlling the variability in the net cash amounts required to liquidate market positions.

29.2 Strategy in using hedges

The bank strategy for using hedges is set out in note 8 above, read with the Risk Report.

29.3 Credit risk management

Credit risk

Credit risk is the risk that a counterparty will be unable to repay amounts when they fall due. In general, the bank 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 contained in the Risk Management report on pages 7 to 10 of the Annual Report.

Significant credit exposures at 30 June 2005 were:

R million	South Africa	Other Africa	United Kingdom	Ireland	Other Europe	North America	South America	Austral-asia	Other	Total
Assets										
Advances	194 608	178	5 772	1 025	2 408	41	24	–	7	204 063
Contingencies	20 141	884	141	2 878	317	54	9	2	428	24 854
	214 749	1 062	5 913	3 903	2 725	95	33	2	435	228 917

Economic sector risk concentrations in respect of advances are set out in note 9.

Significant credit exposures at 30 June 2004 were:

R million	South Africa	Other Africa	United Kingdom	Ireland	Other Europe	North America	South America	Austral-asia	Other	Total
Assets										
Advances	161 377	209	13 459	1 230	3 779	481	33	33	6	180 607
Contingencies	18 818	1 004	173	479	177	1	17	2	586	21 257
	180 195	1 213	13 632	1 709	3 956	482	50	35	592	201 864

29. Risk management *(continued)*

29.4 Market risk

The bank takes on exposure to market risk. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The bank applies a "Value at Risk" methodology to estimate the market risk positions held and the maximum losses expected, based upon a number of assumptions for various changes in market conditions. The primary risk control mechanism used for risk control purposes are stress loss test and limits. Further details on the market risk management are set out in the Risk Report on pages 12 and 13 of the Annual Report.

29.5 Currency risk management

The bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The bank manages foreign currency exposures in terms of approved limits. The currency position at 30 June 2005 is set out below:

R million	Rand	UK£	US$	Eur	Other	Total
Assets						
Cash and short-term funds	9 317	114	4 527	46	53	14 057
Derivative financial instruments	10 466	390	6 162	3 338	144	20 500
– qualifying for hedging	574	–	–	–	–	574
– trading	9 892	390	6 162	3 338	144	19 926
Advances	193 790	520	6 290	1 072	28	201 700
– originated	163 451	157	18	–	–	163 626
– held-to-maturity	5 916	–	–	–	–	5 916
– available-for-sale	1 648	–	–	–	–	1 648
– fair value advances	22 775	363	6 272	1 072	28	30 510
Investment securities and other investments	26 544	–	–	5	–	26 549
– held-to-maturity	10	–	–	–	–	10
– available-for-sale	10 060	–	–	5	–	10 065
– at elected fair value	16 474	–	–	–	–	16 474
Commodities	395	–	–	–	–	395
Accounts receivable	1 241	–	–	–	–	1 241
Investment in associated companies	724	–	–	–	–	724
Interest in subsidiary companies	13	–	–	–	–	13
Holding and fellow subsidiary companies	16 011	343	2 380	–	4	18 738
Property and equipment	2 095	–	–	–	–	2 095
Loans to insurance group	3 655	3	–	–	–	3 658
Retirement benefit asset	2 228	–	–	–	–	2 228
Intangible assets	36	–	–	–	–	36
	266 515	1 370	19 359	4 461	229	291 934

R million	Rand	UK£	US$	Eur	Other	Total
29. Risk management *(continued)*						
29.5 Currency risk management *(continued)*						
Liabilities						
Deposit and current accounts	205 608	670	2 461	920	69	209 728
Short trading positions	14 037	–	–	–	–	14 037
Derivative financial instruments	8 618	249	3 631	2 303	263	15 064
– qualifying for hedging	95	–	–	–	–	95
– trading	8 523	249	3 631	2 303	263	14 969
Creditors and accruals	2 938	–	2	–	–	2 940
Provisions	1 632	–	–	–	–	1 632
Taxation	104	–	–	–	–	104
Post-retirement benefit fund liability	1 165	–	–	–	–	1 165
Deferred taxation liabilities	1 950	–	–	–	–	1 950
Holding and fellow subsidiary companies	17 730	–	1	1	11	17 743
Loans from insurance group	7 896	19	40	1	–	7 956
Long-term liabilities	3 349	–	–	–	–	3 349
Shareholders' equity	16 266	–	–	–	–	16 266
	281 293	938	6 135	3 225	343	291 934

29.6 Interest rate risk management

Interest sensitivity of assets, liabilities and off-balance sheet items – repricing analysis

The bank 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 following summarises the bank's exposure to interest rate risks. Included in the table are the bank's assets and liabilities at carrying amounts, categorised by the earlier of repricing or maturity dates.

Further details on the interest rate risk management are set out in the Risk Report on pages 10 to 11.

R million	Carrying amount 2005	Interest earning/bearing				Non-interest earning/bearing
			Term to repricing			
		Demand	1-12 months	1-5 years	Over 5 years	
29. Risk management *(continued)*						
Assets						
Cash and short-term funds	**14 057**	9 142	127	–	–	4 788
Derivative financial instruments	**20 500**	–	6 623	6 568	5 898	1 411
– qualifying for hedging	**574**	–	160	414	–	–
– trading	**19 926**	–	6 463	6 154	5 898	1 411
Advances	**201 700**	104 461	44 180	40 911	12 138	10
– originated	**163 626**	88 930	35 108	31 283	8 295	10
– held-to-maturity	**5 916**	–	3 169	2 188	559	–
– available-for-sale	**1 648**	365	–	–	1 283	–
– fair value advances	**30 510**	15 166	5 903	7 440	2 001	–
Investment securities and other investments	**26 549**	12 274	4 914	1 926	6 616	819
– held-to-maturity	**10**	10	–	–	–	–
– available-for-sale	**10 065**	–	3 565	24	6 226	250
– at elected fair value	**16 474**	12 264	1 349	1 902	390	569
Commodities	**395**	–	–	–	–	395
Accounts receivable	**1 241**	19	206	–	–	1 016
Investment in associated companies	**724**	–	–	–	–	724
Interest in subsidiary companies	**13**	–	–	–	–	13
Holding and fellow subsidiary companies	**18 738**	14 495	1 099	2 827	24	293
Property and equipment	**2 095**	–	–	–	–	2 095
Loans to insurance group	**3 658**	2 245	1 386	1	24	2
Retirement benefit asset	**2 228**	–	–	–	2 228	–
Intangible assets	**36**	–	–	–	–	36
	291 934	142 636	58 535	52 233	26 928	11 602
Liabilities						
Deposit and current accounts	**209 728**	124 281	79 385	4 816	570	676
Short trading positions	**14 037**	5	872	1 389	6 087	5 684
Derivative financial instruments	**15 064**	4	7 720	4 202	2 795	343
– qualifying for hedging	**95**	–	54	40	–	1
– trading	**14 969**	4	7 666	4 162	2 795	342
Creditors and accruals	**2 940**	147	87	–	–	2 706
Provisions	**1 632**	–	–	–	–	1 632
Taxation	**104**	–	–	–	–	104
Post-retirement benefit fund liability	**1 165**	–	–	–	1 165	–
Deferred taxation liabilities	**1 950**	–	–	–	–	1 950
Holding and fellow subsidiary companies	**17 743**	13 686	–	–	–	4 057
Loans from insurance group	**7 956**	3 004	2 454	2 072	425	1
Long-term liabilities	**3 349**	–	–	3 349	–	–
Shareholders' equity	**16 266**	–	–	–	–	16 266
	291 934	139 962	90 518	15 828	12 207	33 419
Net interest sensitivity gap		2 674	(31 983)	36 405	14 721	(21 817)

29. Risk management *(continued)*

29.7 Liquidity risk management

The bank is exposed to daily liquidity requirements from overnight deposits, current accounts, maturing deposits, loan drawdowns and other cash requirements. The bank 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 bank. It is unusual for banks to be completely matched since business transactions are often of uncertain terms and of 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 bank and its exposure to changes in interest rates and exchange rates.

Details on the liquidity risk management process is set out on page 11 of the Risk Report.

The table below sets out the maturity analysis of the bank's balance sheet based on the remaining period from year end to contractual maturity. "Demand" denotes assets or liabilities with a contractual maturity of 32 days or less.

			Term to maturity		
R million	Carrying amount 2005	Demand	1-12 months	1-5 years	Over 5 years
Assets					
Cash and short-term funds	**14 057**	11 307	126	–	2 624
Derivative financial instruments	**20 500**	3	6 573	7 969	5 955
– qualifying for hedging	**574**	–	160	414	–
– trading	**19 926**	3	6 413	7 555	5 955
Advances	**201 700**	34 435	65 848	77 069	24 348
– originated	**163 626**	19 269	56 665	65 899	21 793
– held-to-maturity	**5 916**	–	3 149	2 223	544
– available-for-sale	**1 648**	–	131	1 507	10
– fair value advances	**30 510**	15 166	5 903	7 440	2 001
Investment securities and other investments	**26 549**	12 269	5 101	8 369	810
– held-to-maturity	**10**	10	–	–	–
– available-for-sale	**10 065**	14	3 584	6 467	–
– at elected fair value	**16 474**	12 245	1 517	1 902	810
Commodities	**395**	–	395	–	–
Accounts receivable	**1 241**	485	704	50	2
Investment in associated companies	**724**	20	–	10	694
Interest in subsidiary companies	**13**	–	–	–	13
Holding and fellow subsidiary companies	**18 738**	15 307	1 176	2 221	34
Property and equipment	**2 095**	49	34	565	1 447
Loans to insurance group	**3 658**	2 245	1 388	1	24
Retirement benefit asset	**2 228**	–	–	–	2 228
Intangible assets	**36**	–	15	14	7
	291 934	76 120	81 360	96 268	38 186

R million	Carrying amount 2005	Demand	Term to maturity 1-12 months	1-5 years	Over 5 years
29. Risk management *(continued)*					
29.7 Liquidity risk management *(continued)*					
Liabilities					
Deposit and current accounts	**209 728**	102 955	100 645	5 491	637
Short trading positions	**14 037**	5 685	876	1 389	6 087
Derivative financial instruments	**15 064**	–	7 970	4 300	2 794
– qualifying for hedging	**95**	–	55	40	–
– trading	**14 969**	–	7 915	4 260	2 794
Creditors and accruals	**2 940**	850	2 090	–	–
Provisions	**1 632**	574	1 058	–	–
Taxation	**104**	–	104	–	–
Post-retirement benefit fund liability	**1 165**	–	–	–	1 165
Deferred taxation liabilities	**1 950**	–	1 357	593	–
Holding and fellow subsidiary companies	**17 743**	17 743	–	–	–
Loans from insurance group	**7 956**	122	5 337	2 072	425
Long-term liabilities	**3 349**	–	–	3 349	–
Shareholders' equity	**16 266**	–	–	–	16 266
	291 934	127 929	119 437	17 194	27 374
Net liquidity gap	**–**	(51 809)	(38 077)	79 074	10 812

29.8 Fair value of financial instruments

The following table represents the fair values of financial instruments not carried at fair value on the balance sheet:

R million	Carrying amount 2005	Fair value 2005	Unrecognised gain/(loss) 2005
Assets			
Advances	**201 700**	**201 700**	**–**
Investment securities	**26 549**	**26 549**	**–**
	228 249	**228 249**	**–**
Liabilities			
Deposit and current accounts	**209 728**	**209 728**	**–**
Long-term liabilities	**3 349**	**3 349**	**–**
	213 077	**213 077**	**–**

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.

30. Trust activities

The market value of assets held or placed on behalf of customers in a fiduciary capacity amounts to R10 413 million (2004: R14 934 million).

31. Segment information

31.1 Primary segments (business)

Divisions	Segment	Brands	Target segment	Description
FNB	Retail banking	First National Bank FNB Card, BOB, FNB HomeLoans	Small businesses and individuals	Retail banking, wholesale banking and support services
	Corporate banking	First National Bank	Medium and large corporates	Corporate banking
	Wealth management	RMB Private Bank FNB Trust Services	High net worth individuals Trust services	Wealth management
RMB	Investment banking	Rand Merchant Bank RMB Private Equity RMB International RMB Resources RMB Australia	Large corporates, parastatals and government	Merchant and investment banking services
WesBank	Instalment finance	WesBank	Corporates and individuals	Motor vehicle and instalment finance
Support	Capital centre	FirstRand Bank		Owns the capital of the Bank

Segmental financial information is not presented as the Bank is a wholly owned subsidiary of FirstRand Bank Holdings Limited.

32. Related parties

All related party transactions are at arm's length and incurred in the ordinary course of business.

Administration

FirstRand Bank Limited
(Registration number 1929/001225/06)

Registered office:
1st Floor, 4 Merchant Place
Cnr Fredman Drive & Rivonia Road
Sandton
2196

Postal address:
PO Box 786273
Sandton
2146

Telephone:
National (011) 282-4000
International +27 11 282-4000

Telefax:
National (011) 282-1699
International +27 11 282-1699

Websites:
www.fnb.co.za
www.rmb.co.za
www.ebucks.com
www.wesbank.co.za

Company secretary:
BW Unser

Auditors:
PricewaterhouseCoopers Incorporated
2 Eglin Road
Sunninghill
2157

Deloitte & Touche
The Woodlands
20 Woodlands Drive
Woodmead
2199

www.firstrand.co.za

FIRSTRAND
Bank Limited