



integrated **financial services**



FIRSTRAND

2005 Sustainability Report



About FirstRand Sustainability Index

This section consists of the following:

1. Approach to Sustainability
2. Indicator Tables
3. Risk Management
4. Non-Financial Risks & Opportunities
5. Stakeholder Engagement
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As one of the largest financial institutions in South Africa we have a very important role to play in building and developing our country



SUSTAINABILITY REPORTING

OUR PHILOSOPHY

FirstRand believes that the management of non-financial issues is integral to its business and key to sustainable performance.

As a holding company we do not have direct customers or a large complement of staff. Since its formation the Group's business philosophy has been to devolve responsibility and authority into the business units, and it is these units – most easily recognised by their brands – that have direct relationships with large numbers of employees and clients and whose operations impact on broader society and the natural environment.

During the year, and for the first time since its inception, we updated the FirstRand business philosophy to include an emphasis on the Group's broader role. The philosophy now requires business units to clearly understand and monitor social and environmental as well as cost and revenue implications of all actions, and states that for profits to be sustainable, the Group must be able to defend its markets against local and foreign players, and adapt to the changing social and environmental landscape. We expect our business units to address the issues relevant to them in line with this.

INCORPORATING NON-FINANCIAL ISSUES IN THIS ANNUAL REPORT

FirstRand's direct stakeholders, for whom these Annual Financial Statements are written, are shareholders, financial analysts and legal and regulatory bodies, including the JSE Limited. We must therefore meet their requirements for information regarding financial performance and corporate governance and a perspective on major economic trends in the markets in which the Group operates.

In previous years (last report covered year to June 2004) the Group produced a Sustainability Report separate to the Annual Financial Statements. However, in line with our new philosophy, this year the Group has decided to integrate the disclosure of key non-financial issues within the Annual Report.

Each brand, through the Review of Operations, discusses the performance of its business and its strategy for the coming year. Each brand has its own set of non-financial issues, as it serves different market segments with different products

and is operating under distinct regulatory regimes. Therefore its sustainability performance criteria and stakeholders differ. To accommodate this, each brand has included an overview of key non-financial risks and opportunities.

THE NEW FORMAT FOR REPORTING

The level of detail required to provide a comprehensive report to all stakeholders cannot be accommodated in the FirstRand Annual Report alone.

Underlying the non-financial issues identified in this report is a significant amount of further detail regarding policies, practices, operations and results, which we believe is vital to make available at the brand level. We have therefore created detailed brand reports for the financial year, which are available on a dedicated website www.firstRANDsusrep.co.za. This site can be accessed through the FirstRand website www.firstRAND.co.za and all of the Group's brand sites.

The format on the site provides an opportunity to view the information by brand and by stakeholder groups and will provide a very comprehensive picture of the Group's approach to sustainability and the actions it has taken.

We do believe, given the size and complexity of the Group that this is a practical and useful format. We would welcome any feedback at the following web address www.firstRANDsusrep.co.za.



SUSTAINABILITY INDICATORS

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

Topics and indicators	JSE SRI Criteria	King II	GRI #	FSC	FirstRand strategy	Where to find it	Page
Strategy							
Group strategy	x		1			Annual Report	6, 22
Structure including significant changes	x		2.14	x		Annual Report	5, 13
Sustainability reporting approach							
Philosophy	x		2.11 – 2.13; 2.17	x		Annual Report	22
Key non-financial risks and opportunities					x	Annual Report	32, 35, 38, 39, 41, 43, 47, 51
Corporate governance							
Corporate governance overview	x	x	3.1 – 3.8; 3.19; S03; LA11			Annual Report	60 – 65
Board composition						Annual Report	54 – 57
Regulatory environment	x	x	3.14			Annual Report	147
Compliance	x	x		x		Annual Report	63, 142
Risk management	x	x	3.17; S01			Annual Report	16, 17, 127 – 142
Non-financial risk management	x		3.17	x		Annual Report	12, 237
Stakeholders							
Stakeholder list	x		2.9			Annual Report	22
Stakeholder engagement	x		3.9-3.12			Website	
Regulatory environment – brands							
	x		3.15			Website	
Our people							
Scope	x				x	Website	
Major Issues identified	x			x	x	Website	
Policies	x		HR1; HR2; HR5 – 7	x		Website	
Workforce breakdown	x		LA1; LA2; LA11	x		Website	
Transformation	x		LA10	x		Annual Report	68
Staff satisfaction	x					Website	
Staff consultation	x		LA3; LA4			Website	
Health and safety including HIV/AIDS	x		LA5; LA6; LA7; LA8			Website	
Training	x		LA9	x		Website	
Remuneration	x		EC5			Website	
						Annual Report	66, 112 – 114
Supply chain							
Scope including total expenditure	x		EC3		x	Website	
Strategy	x			x	x	Website	
Policies	x		3.16; HR3	x		Website	
Supplier Satisfaction			3.9-3.12			Website	
Transformation	x			x		Website	
Environment							
Scope					x	Website	
Policies	x		3.14			Website	
Direct energy usage; initiatives	x		EN3			Website	
Reduce, recycle, reuse; initiatives	x		EN5; EN 11			Website	
Transport; initiatives	x		EN8			Website	
Community							
Scope					x	Website	
Major issues	x					Website	
Policies	x		3.14			Website	
Total contribution	x		EC10	x		Website	
Community satisfaction	x		3.9-3.12			Website	
Impact assessment	x				x	Website	
Customers							
Scope			EC2		x	Website	
Major issues	x		3.17; EN14; S01	x		Website	
Policies	x		PR2; PR3; 3.14			Website	
Current performance	x			x		Website	
Distribution	x			x		Website	
Transformation	x			x		Website	
Customer satisfaction						Website	
Health and safety			PR1			Website	
Economic impact							
Statement of economic Value-added	x		EC5 – EC8; EC10			Annual Report	53
Financial performance	x		EC1			Annual Report	1, 78 – 82

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 prevention;
Credit risk;	Risk insurance;
Direct and indirect tax;	Financial management;
Financial market trading;	Information security;
Internal audit;	Legal risk management;
Liquidity management;	Market risk;
Operational risk;	
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.

Risk management

| Continued |

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 <ul style="list-style-type: none"> ● Large exposures credit committee ● Banking Group credit committee Sub-committees: <ul style="list-style-type: none"> ● 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 <ul style="list-style-type: none"> ● 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

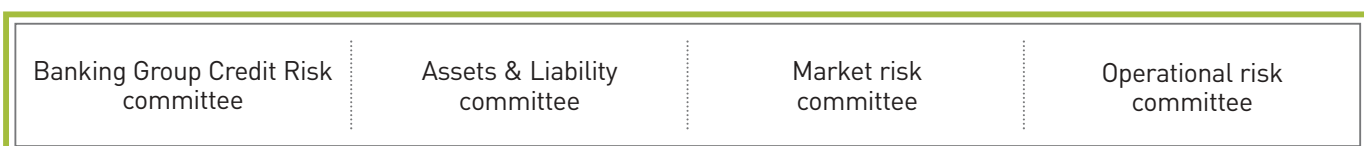
The diagram below depicts the various levels of the risk management governance structures for the Banking Group which cascade down from the board to the subsidiaries and main divisions and their business units. All subsidiaries, divisions and major business units of the Banking Group have risk and audit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

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

Board committees



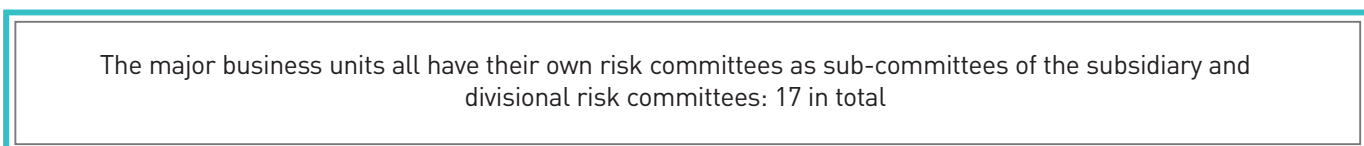
Sub-committees of the risk committee



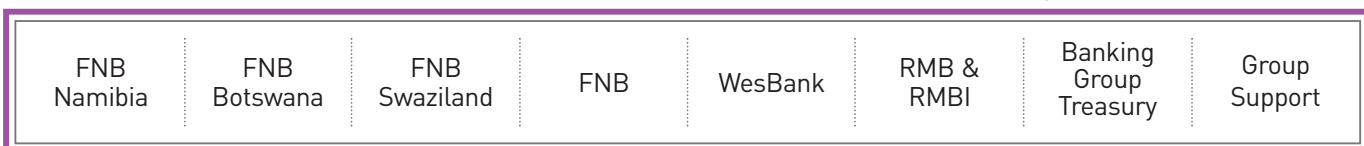
Risk committees of the subsidiaries and divisions of the Banking Group



Risk committees of business units



Audit committees of the subsidiaries and divisions of the Banking Group



About FirstRand Sustainability Non-financial Risks & Opportunities

In this year's Annual Financial Statements, each brand has written briefly about the key non-financial risks and opportunities with which they are faced and have provided summarised information about their response to these. Each of their Sustainability Reports offers greater detail about how they are managing the issues, which they highlight in their respective introductions. Bringing sustainability issues into the Operational Review presented to shareholders is a key step for us in integrating them into the mainstream of business strategy.

ISSUE	MANAGEMENT ACTION
<p>Reputation for good customer service and value for money</p>	<p>Service</p> <p>Discovery focuses on service across all its businesses. Some of our key focus areas are:</p> <ul style="list-style-type: none"> • exceeding call centre best practice • multi-skilled consultants • fast payment of claims • simplicity and familiarity <p>Our website is Discovery's online service platform for all stakeholders, offering extensive service functionality.</p> <p>Value for money</p> <p>Both initial affordability and ongoing sustainability of premiums are important. Discovery Health has given members consistently stable increases over the past decade. Discovery Life's integrated products cover the entire risk-spectrum, allowing policyholders to consolidate risk cover and take advantage of significant savings.</p>
<p>Impact of BEE</p>	<p>Discovery is on target to meet all the targets set by the Financial Sector Charter. With the announcement of the BEE transaction on 13 September 2005 and the flow-through of shareholding from FirstRand's BEE transaction, marginally over 25% of Discovery's South African assets rest with previously disadvantaged individuals</p>
<p>Complex and high profile regulatory environment</p>	<p>Discovery has found in all instances that proactive and ongoing engagement with the regulatory bodies responsible for the relevant industries to be the most effective means of ensuring that Discovery stays abreast of proposed regulatory changes and makes appropriate inputs to represent the interests of stakeholders</p>
<p>HIV/AIDS impact on customer base</p>	<p>The impact of HIV/AIDS is both measurable and manageable in relation to our client base. Discovery Health's HIV/AIDS programme provides a confidential vehicle to help HIV-positive members manage their condition effectively.</p>



Public Sector segment

The focus of the Public Sector segment is on the three spheres of Government; namely, national, provincial and local. Customers also include universities and schools.

FNB's increased focus on this segment resulted in a number of large tenders being won.

The priority in the next financial year will be on local government in line with Government's own focus on service delivery.

Branch Banking

During the year Branch Banking embarked on a programme to further improve and enhance the branch infrastructure. The main elements of this programme include:

- repositioning of branches in line with demographic shifts and new nodes that are emerging. This resulted in a net increase of 33 branches, increasing the network size to 667, with 19% of the coverage in previously disadvantaged areas, including 22 community banks;
- improving the retail design of the branches to create easier customer navigation. 121 branches were revamped in the current financial year with a further 53 branches planned for 2006;

- creating specialised sales and service platforms within the branches;
- upskilling all branch frontline staff; and
- optimising processes to ensure that over-the-counter service delivery is faster.

Branch Banking is strengthening its sales force by increasing the number of dedicated in-branch sales people. In addition a new mobile sales team is being established to focus on customer acquisition and cross sell in the middle market segment and this team will be remunerated based on performance. In order to ensure that this sales team does not oversell to customers there is a post-sales audit to check appropriateness of products sold and customer affordability.

Non-financial opportunities and risks

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

ISSUE	MANAGEMENT ACTION
Financial Sector Charter: employment equity targets at senior levels	Strategic HR interventions; close monitoring of market conditions.
Potential changes to FSC targets codes of best practice	Engagement with negotiation process via Banking Council.
Value for money to customers; Government probe into bank pricing	Raising awareness of customers about charging structures and how to maximise value.
Increased regulation: National Credit Bill	Engagement with legislative process via Banking Council.



- Focus on establishing and growing the newly formed short-term insurance initiative; and
- Continued focus on providing good value for money to customers. Momentum plans to encourage existing retirement annuity investors to convert to the latest product ranges on favourable terms. Momentum has reserved R100 million to facilitate this conversion process. The commission proposals recently made by the LOA should significantly improve early termination values of savings products, and will simplify product design and fee structures.

Non-financial opportunities and risks

Management understands the importance of managing key non-financial opportunities and risks that could have a material impact on Momentum’s operations. The main non-financial opportunities and risks, together with management actions taken to address it are tabled below:

ISSUE	MANAGEMENT ACTION
Change in commission regulations	Consumer bodies and regulators are pressurising the industry to move away from up-front commission to as-and-when commission. Management is investigating various alternatives.
Providing value for money products, especially in a low inflationary environment	Momentum will encourage clients to switch to the current generation retirement annuity products. As part of the switching process early termination values will be enhanced. Momentum has also realised the importance of scale benefits through consolidation in the industry.
Legislative changes might cause a threat to some markets	Momentum is addressing this challenge through innovation and a diversified product range.
Achieving employment equity targets for the Financial Sector Charter, especially at senior and middle management levels.	Momentum focuses on the retention of key employment equity staff, as well as performance measurement and career development.



LOUIS VAN DER MERWE
CEO, RMB Asset Management

RMB Asset Management



RMB ASSET MANAGEMENT

After a period of consolidation and realignment with core business strategy during the previous two years, RMBAM was well positioned for strong growth in operating profits



	2005	2004	% change
Profit before tax (Rm)	234	151	55.0
Profit after tax (Rm)	179	115	55.7
Assets under management (Rm)	162 868	138 028	18.0
Cost to fee income ratio (%)	38.0	43.6	5.6

Environment

A strong equity market during 2005 together with a low inflationary environment compensated for the challenges of a generally mature industry and current low savings culture.

Main focus areas in 2005

- The development of the retail business with emphasis on growing assets under management was very successful;
- The institutional third party business performed in line with expectations with an emphasis on higher yielding assets; and
- Investment performance as measured over a three year period remains excellent.

Performance

After a period of consolidation and realignment with core business strategy during the previous

two years, RMBAM was well positioned for strong growth in operating profits. Assisted by strong market returns and the elimination of non-recurring losses which hampered profits in the previous two years, growth in net profit after tax of 55.7% was achieved.

Growth in funds under management is summarised in the table below.

Areas of focus for 2006

- Continue building the retail presence in the market;
- Investigate economically viable businesses in sub-Saharan Africa;
- Expand the current product range; and
- Investigate efficiencies of internal structures to streamline the current business model.

R million	Institutional	Unit trusts
Funds under management – 1 July 2004	129 943	7 307
Funds under management – 30 June 2005	150 300	11 988
Growth for the year	15.7%	64.1%

Non-financial opportunities and risks

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

ISSUE	MANAGEMENT ACTION
Mandate compliance	Appointed a dedicated Mandate Compliance Officer and an alternate who report to the head of the Portfolio Construction department. An automated compliance system was installed.
Regulatory compliance	Established a Regulatory Compliance Department, an independent function, reporting directly to the Chief Executive Officer.
Responsiveness to shareholder activism	Established a Corporate Action and Proxy Vote Department and rigorous proxy voting procedures. Formal policy document written. Direct engagement with company management. Full support of King II.

RMB Non-Financial Risks and Opportunities

RMBs success has largely been built on its intellectual capital base, its culture which propels individuals to go beyond their best, and its reputation. All three of these are interdependent. Thus management expends significant effort on preserving the reputation, nurturing the culture as well as attracting and retaining great people. Particular emphasis is currently being placed on positioning RMB as the employer of choice across all segments of the population to effectively deal with challenges and opportunities surrounding employment equity.

grew by 26% to N\$310 million following a flat performance the previous year.

The main synergies of the merger occurred in the HomeLoans business and in Swabou Life, with embedded value increasing by 36%. Costs were well controlled and grew by an inflationary 5%.

Despite the decreasing interest rate environment, net interest income increased by 9%, due to the growth in advances of 15%, predominantly driven by HomeLoans and WesBank, both of which are market leaders in Namibia.

Non-interest income grew by 18% (excluding the sale of property of N\$6 million) due to increased volumes from growth in new accounts.

The BEE transaction, which was announced during the year (4% BEE consortium and 1% BEE staff initiative) will dilute the FirstRand Banking Group's 60% shareholding over five years due to the option structure.

FNB Swaziland

Business conditions remained challenging as a result of the depressed state of the economy.

Swaziland performed below expectations as a result of pressure on interest income as well as an increase in bad debt provisioning. The latter was due to the sale of a poorly performing micro finance book which required intensive management attention and an increase in specific provisions due to the depressed state of the economy. However, non-interest income grew 18% as a result of new business growth and increased transactional volumes, supported by the electronic delivery platform.

FNB Lesotho

Lesotho's first year of operation exceeded the original business plan with a lower than expected required investment in the start-up of the

business. The main drivers of the business have been growth in the deposit base as well as transactional banking revenue.

Growth in advances has been somewhat disappointing due to limited quality lending opportunities. The WesBank operation, which commenced during the year, is showing positive signs.

Electronic cross-border banking functionality and the "in country" electronic banking offering are proving to be very successful and will be a focal point for 2006.

Focus areas for 2006

FirstRand continues to explore expansion opportunities in selected African and emerging markets and two transactions were completed during the year under review.

FirstRand made an investment in Africa International Financial Holdings (AIFH), a private equity fund, which is focused on building retail banking networks primarily acquired through privatisations in Africa. Several opportunities are currently under consideration and FirstRand's first right of refusal on the assets sold by the fund creates the opportunity to acquire, in time, direct control of good quality banking networks.

FirstRand also acquired Celpay (with effect from 30 June 2005) which provides mobile payment solutions, in the form of banking and airtime purchases, in the Democratic Republic of Congo and Zambia. This product extension strategy offers exciting prospects for further expansion into Africa.

Non-financial opportunities and risks

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

ISSUE	MANAGEMENT ACTION
HIV/AIDS in workforce	HIV/AIDS education programmes, policies and support facilities, e.g. social worker/s.
Country Risk on new investments	Well developed and strong risk management model in due diligence process.
Different constitutional frameworks, with fewer rights entrenched by law	Apply same standards to all operations as those expected in South Africa.



A significant milestone was reached during the year when the total OUTbonuses paid out to valued clients, since the Company's inception, reached R100 million



ISSUE	MANAGEMENT ACTION
Reputation for good customer service and value for money	Staff are incentivised for providing outstanding service. Detailed management information is available on a daily basis to ensure tight monitoring of various aspects of service rendered to clients.
Reputation for claims repayment	Claim repudiations are subject to robust escalation procedures. Complaints lodged internally and at the Short-Term Insurance and FAIS Ombuds are monitored closely. Significant management resources have been deployed to ensure OUTsurance's claims payment reputation is strengthened even further.
Regulatory action on premiums rating	Through the South African Insurance Association (SAIA), OUTsurance is playing an active part in ongoing engagement with regulators and input to the legislative drafting process.
FSC procurement targets (<i>vis a vis</i> very large number of very small suppliers)	Through active participation in SAIA working groups and significant deployment of internal resources, practical implementation plans are being devised.

CORPORATE GOVERNANCE

Good corporate governance is an integral part of FirstRand's business philosophy

GOVERNANCE ETHOS

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

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

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

FirstRand believes that the implementation of Group strategies is best managed at subsidiary level. While the non-executive directors acknowledge the need for their independence, they recognise the importance of good communication and close co-operation between executive and non-executive directors. Team work between directors is an essential part of the Group's ethos and the annual FirstRand strategy conference is attended by all the directors and those of the principal wholly-owned subsidiaries.

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

Across the Group strategies are developed in the business units for effective engagement and communication with their specific stakeholders.

These include segment-based customer groups, employees and the community.

Shareholders are encouraged to attend the annual general meeting.

THE BOARD OF DIRECTORS AND ITS COMMITTEES

Composition

FirstRand has a unitary board. Its chairman is non-executive, but not independent in terms of the King Report 2002 definition. The board members believe that the banking and financial services experience of Mr Ferreira equip him ideally to lead FirstRand, notwithstanding the fact that he does not fulfil the strict criteria of "independence" as set out in King Report 2002. It is also the view of the directors that a strong independent element of non-executive directors already exists on the FirstRand board and those of its major subsidiaries and that this provides the necessary objectivity essential for the effective functioning of boards of directors. The roles of the chairman and chief executive officer are separate. This ensures a balance of authority and precludes any one director from exercising unfettered powers of decision-making.

Following the successful completion of FirstRand's black economic empowerment transaction three new directors were appointed to the board. These directors were nominated by the Trusts they represent namely, the Kagiso Trust, the WDB Investment Trust and the Mineworkers' Investment Company Trust. Their appointment to the board was subject to the standard procedures adopted by FirstRand companies for the appointment of new directors and their continued membership of the board will be subject to ratification by shareholders at the forthcoming annual general meeting. In terms of the FirstRand BEE transaction, there is no automatic right for the Trusts referred to above to appoint directors to the board.

At 30 June 2005 the board of FirstRand comprised seventeen directors. Two of the directors are executive, a further three are defined as non-executive and the balance are independent non-executive directors. The board includes three women. Seven of the directors are classified as black in terms of the Financial Sector Charter. The profiles, of the directors appear on pages 55 to 57 of this report.



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

Appointment of directors

There is a clear policy in place detailing procedures for appointments to the board and such appointments are formal and a matter for the board as a whole, assisted by the Directors' affairs and governance committee. When appointing directors, the board takes cognisance of its needs in terms of different skills, experience, diversity, size and demographics.

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

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

Board proceedings

The board meets quarterly. A further meeting is devoted solely to a review of the strategic plans and the resulting budgets. Additional meetings are convened as and when necessary.

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

	Sept	Nov	Feb	May	June
GT Ferreira (Chairman)	✓	✓	✓	✓	✓
VW Bartlett	✓	✓		✓	✓
DJA Craig	✓	✓	✓	✓	
LL Dippenaar	✓	✓	✓	✓	✓
DM Falck	✓	✓	✓	✓	✓
PM Goss	✓	✓	✓	✓	✓
NN Gwagwa	✓		✓	✓	✓
PK Harris	✓	✓	✓	✓	✓
MW King	✓	✓	✓		✓
YI Mahomed Appointed May 2005				✓	✓
G Moloji			✓	✓	
AP Nkuna Appointed May 2005				✓	✓
SEN Sebotsa Appointed May 2005				✓	✓
KC Shubane	✓	✓	✓	✓	✓
RA Williams	✓	✓		✓	✓
BJ van der Ross	✓	✓	✓	✓	✓
F van Zyl Slabbert	✓	✓	✓	✓	✓

Mr VW Bartlett retired as an executive director on 1 July 2004. He has remained on the board in a non-executive capacity.

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

Role and function of the board

The directors have a duty and responsibility to ensure that the principles outlined in the King Code 2002 are observed. In exercising its duties, the board balances its conformance with governance constraints and its performance in an entrepreneurial way. The directors have a fiduciary duty to act in good faith, with due diligence and care and in the best interests of the company and all stakeholders. They are the guardians of the values and ethics of the Company and its subsidiaries. All directors subscribe to the code of ethics which forms part of the board Charter.

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

In exercising control of the Group, the directors are empowered to delegate. This it does through the boards of the major subsidiaries, an executive committee and various board committees. A number of FirstRand directors are also directors of the major subsidiaries. The board committees are structured to ensure that they include representatives from similar subsidiary board committees. This ensures that there is a common understanding across the Group of the challenges that it faces, how these are managed and the decisions that are being taken. Reports from the subsidiaries and board committees are reviewed at quarterly board meetings.

Subsidiary boards and board committees

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

FirstRand holds 64% of Discovery Holdings, which is separately listed on the JSE Limited. While reporting directly to its shareholders and the Stock Exchange, its corporate governance procedures are the same as those practised by FirstRand.

Board committees assist the directors in the discharge of their duties and responsibilities. At FirstRand level, in addition to the Executive Committee (Exco), board committees have been appointed to deal with Remuneration, Audit and Risk, Directors' Affairs and Governance and the monitoring of the implementation of the Financial Sector Charter and Transformation. These committees have formal terms of reference and report to the board. With the exception of Exco they are chaired by independent non-executive directors and have a majority of independent non-executive directors. Independent professional advice may be obtained at the Group's expense in support of their duties.

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

EXECUTIVE COMMITTEE

Role

The FirstRand Exco is empowered and responsible for implementing the strategies approved by the FirstRand board and for managing the affairs of the Group. The Exco Charter encompasses strategy development, values, branding, reputation and collaboration between business units. Meetings are held monthly.

Composition

Exco is chaired by the Chief Executive of FirstRand. Membership of Exco, which was restructured during the year, includes the CEOs of the major subsidiaries and operating brands, the Group Chief Financial Officer and certain members of senior management. The members of the FirstRand Exco are listed on page 58 to 59.

REMUNERATION COMMITTEE

Role

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

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

FirstRand espouses a remuneration philosophy that promotes widespread ownership for collective organisational goals and

bases reward on individual contribution to the achievement of those goals. Further details relating to FirstRand's remuneration practices can be found on page 66 and 67 of this report.

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

The Company has closed periods prohibiting trade in FirstRand shares by directors before the announcement of interim and year end results and during any period where the Company is trading under cautionary or where they have knowledge of price sensitive information.

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

Composition

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

The chairperson attends the annual general meeting.

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

	July	April	June
PM Goss (Chairman)	✓	✓	✓
GT Ferreira	✓	✓	✓
R Hutchison			
MW King	✓	✓	✓
BJ van der Ross	✓	✓	✓
RA Williams	✓	✓	✓

AUDIT AND RISK COMMITTEE

Role

The FirstRand audit and risk committee reviews the findings and reports of the subsidiary company audit committees and addresses matters of a Group nature. The FirstRand audit committee and all Group audit committees have adopted terms of reference approved by their respective boards dealing with membership, structure, authority and duties. The FirstRand audit and risk committee has complied with its terms of reference.

The responsibility across the Group of the FirstRand audit committee is to:

- ensure the integrity, reliability and accuracy of accounting and financial reporting systems;
- ensure that appropriate systems are in place to identify and monitor risk, controls and compliance with the law and codes of conduct;
- evaluate the adequacy and effectiveness of internal audit, risk and compliance;
- maintain transparent and appropriate relationships with the respective firms of external auditors;



- review the scope, quality and cost of the statutory audit and the independence and objectivity of the auditors; and
- set principles recommending the use of the accounting firm of external auditors for non-audit services.

The management of non-financial risk is seen as the responsibility of the board of FirstRand and those of its subsidiaries. Issues relating to sustainable business practices and the Group's status as a good corporate citizen are reported and discussed at these meetings.

Composition

Given the Group's structure, the board deems it appropriate that the Chief Executive should be a full member of the committee. The FirstRand Chief Financial Officer is the Chairman of the Discovery audit committee. He attends FirstRand audit committee meetings in an *ex-officio* capacity. The external auditors are present at all audit committee meetings and meet independently with the non-executives at least once a year.

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

	Sept	Feb
MW King – Chairman and Chairman of the Banking Group audit committee	✓	✓
LL Dippenaar – Chief Executive	✓	✓
BJ van der Ross – Chairman of the Insurance Group audit committee	✓	✓

The chairman attends the annual general meeting.

DIRECTORS' AFFAIRS AND GOVERNANCE COMMITTEE

Role

In terms of its Charter, the prime objective of this committee is to assist the board in discharging its responsibilities relative to corporate governance structures, matters relating to performance and remuneration of directors and the appointment of new directors, the effectiveness of the board and succession planning at executive level. This committee also ensures that adequate education and training is available to directors.

Composition

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

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

	Sept	May
PM Goss (Chairman)	✓	✓
VW Bartlett		✓
DJA Craig		
DM Falck	✓	✓
GT Ferreira	✓	✓
N Gwagwa	✓	✓
MW King	✓	
YI Mahomed – appointed May 2005		✓
G Moloji		
AP Nkuna – appointed May 2005		✓
SEN Sebotsa – appointed May 2005		✓
KC Shubane	✓	✓
BJ van der Ross	✓	✓
F van Zyl Slabbert	✓	✓
RA Williams	✓	✓

The chairman attends the annual general meeting.

FINANCIAL SECTOR CHARTER AND TRANSFORMATION MONITORING COMMITTEE

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

Role

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

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

Composition

This committee is chaired by an independent non-executive director of FirstRand, who is also a director of FirstRand Bank Holdings Limited and Momentum Group Limited. The committee comprises directors and executive representatives from FirstRand Bank Holdings Limited, Momentum Group Limited and Discovery Holdings Limited.

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

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

	July	Sept	Nov	Jan	May	June
B van der Ross – Chairman	✓	✓	✓	✓	✓	✓
VW Bartlett – FirstRand			✓	✓		
NN Gwagwa – FirstRand	✓	✓	✓		✓	✓
Z Manyathi – FirstRand Bank					✓	✓
R Watson – FirstRand Bank	✓	✓	✓			
NB Langa-Royds – Momentum	✓	✓	✓	✓	✓	
HP Meyer – Momentum		✓		✓		
J Dlamini –Discovery	✓	✓	✓	✓	✓	✓
K Mayet – Discovery	✓	✓	✓		✓	✓

Financial Sector Charter progress

The Charter Council has still to agree on certain targets and definitions relating to the Charter Scorecard. As a consequence it has not been possible to publish audited results reflecting FirstRand's progress in terms of the Scorecard. The Group's internal monitoring does, however, indicate that good progress is being made and FirstRand expects to score well.

The FirstRand BEE transaction means that at least 10% of the Company's shares are now directly held by black shareholders. FirstRand believes that at least a further 15% is held indirectly by black South Africans through their pension and provident funds.

The Group has made considerable progress in meeting the Charter's objectives. In this regard the Transformation Unit established last year has played an important role in consolidating data and providing guidance to the Group's divisions on how to meet the various targets. Under executive leadership, a comprehensive policy statement was prepared and disseminated across the Group. Where live presentations were not possible, in-house close circuit television was used. The presentations and guidelines have been well received and the response has been supportive and enthusiastic.

Structures are in place to share information relating to best practice and where feasible reports are being independently audited.

The Financial Sector Charter and Transformation Monitoring Committee is playing a valuable role in monitoring performance and offering constructive advice where appropriate. Support for the Financial Sector Charter and its national objectives are an important part of FirstRand's good corporate citizenship philosophy. Progress insofar as it relates to each of the major brands is reported in Sustainability Reports which are available on the FirstRand website. Employment equity figures are reflected on page 68 of this report.

PERFORMANCE EVALUATION

In June 2004 the directors evaluated the effectiveness of the FirstRand board. They deemed it unnecessary to repeat this

exercise during the 2005 financial year and agreed that the next survey would be completed in 2006. No material concerns were expressed in these evaluations and the committees in their opinion have satisfied their responsibilities during the year.

Details of each respective director's remuneration for the period under review can be found on page 112 of this report. The remuneration of the non-executive directors is reviewed annually and proposals relating to increases in fees are submitted to the annual general meeting of shareholders for approval.

MANAGEMENT SUCCESSION PLANNING

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

SUSTAINABILITY REPORTING

FirstRand believes that the management of issues relating to sustainability are integral to the way in which the Group is managed. The Group's approach to sustainability is outlined on pages 22 and 23 and the material risks and opportunities associated with sustainability challenges have been dealt with in the Review of Operations. Detailed information relating to stakeholder concerns is available on the FirstRand sustainability website (www.firststrandsusrep.co.za).

CORPORATE SOCIAL INVESTMENT

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

The work of the Foundation is subject to the oversight of a board of trustees comprising a cross-section of members of management and independent trustees representing broader society.

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

During the year under review the Group contributed in excess of R50 million to a wide range of causes including education, health and HIV initiatives, job creation and skills training, community care and the environment. The geographical spread of funding across the country has remained fairly constant. In addition, FirstRand employees were encouraged to contribute their time and skills in support of the FirstRand Volunteers initiative.

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



COMPANY SECRETARY

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

AUDITOR INDEPENDENCE

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

Details of non-audit services provided by the external auditors are disclosed in the financial statements, together with fees paid in respect thereof.

REMUNERATION PHILOSOPHY

FirstRand follows a practice of devolving the design and implementation of appropriate “industry specific” remuneration strategies through various board remuneration committees.

REMUNERATION COMMITTEE

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

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

The FirstRand remuneration committee oversees the activities of the subsidiary remuneration committees and co-ordinates Group remuneration strategies thereby ensuring its appropriateness across all divisions.

REMUNERATION STRATEGY

Within the divisional framework, referred to above, remuneration structures comprise:

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

The performance of the executive team and senior management is measured against predetermined goals, both financial and non-financial.

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

The policy on remuneration of executive directors is consistent with that of senior staff. Non-executive directors receive fees for their services as directors and for services provided as members

of board committees. These fees vary depending on the role of the committee. Non-executive directors do not qualify for participation in share incentive schemes. Black non-executive directors serving on the boards of FirstRand, FirstRand Bank Holdings and Momentum Group were invited to participate in FirstRand’s BEE transaction on terms and conditions approved at the general meeting of shareholders held on 21 April 2005.

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

Basic salary and benefits

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

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

All full-time employees are required to belong to a medical aid scheme. On retirement, opportunities exist for ex-employees to join medical aid schemes in their individual capacities. Where, as the result of past practice, the Group is required to contribute towards post-retirement medical aid costs, the present value of such contributions is calculated and provided for. Since 1999 it has not been employment practice for the Group to provide post-retirement medical aid benefits.

Performance related payments

Where appropriate, annual performance related payments are made to employees. The level of such payments is dependent upon a number of key measures including the performance of the individual and benchmarks relating to targets such as return on equity and growth in earnings for the business unit concerned. The payment of bonuses is always subject to the discretion of management and bonuses are not formula driven. In certain business units bonus payments take place in tranches during the twelve months following the financial year to which they relate. Notwithstanding such deferral, the bonuses are provided for in full in the current year’s expenditure. Should an employee resign



or be dismissed from the Group's employ, unpaid bonus tranches are forfeited.

Share incentives

Share incentive schemes operated by the Group are a powerful tool in aligning the interests of staff with those of FirstRand shareholders. All of the share incentive schemes currently in operation in the Group have received the prior approval of FirstRand shareholders in general meeting. A maximum of 561 million ordinary shares in the capital of FirstRand may be allocated to the schemes. This represents approximately 10% of FirstRand's ordinary shares currently in issue.

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

- A series of conventional share option schemes (collectively "the FirstRand Share Option Schemes"); and
- The FirstRand Outperformance Share Scheme, in terms of which participants are rewarded only if the performance of the FirstRand share exceeds that of the FINI 15 over a 36 month period.

Up to half of the ordinary shares available in terms of the share incentive scheme may be allocated to the FirstRand Outperformance Share Scheme.

The present Outperformance scheme was introduced in 2000 and ends during the 2006 financial year. Its introduction recognised modern trends to encourage long-term sustainable performance relative to a peer group, thereby countering suggestions of windfall executive remuneration.

Allocations to both schemes are reviewed annually and no schemes exist beyond 10 years.

At the meeting of shareholders held to approve the FirstRand BEE deal, shareholders approved the allocation of share options to certain black non-executive directors. These options vest in equal amounts over a ten-year period commencing April 2005. No benefits accrue until 2014.



WORKFORCE PROFILE for the year ended 30 June

	AIC		White		Grand total		Total
	Male	Female	Male	Female	Male	Female	
South African workforce							
1. Top management	25	9	138	23	163	32	195
2. Senior management	85	39	535	212	620	251	871
3. Professionally qualified and experienced specialists and mid-management	768	685	2 035	1 496	2 803	2 181	4 984
4. Skilled technical and academically qualified workers, junior management, supervisors	1 914	3 183	1 951	3 818	3 865	7 001	10 866
5. Semi-skilled and discretionary decision-making	4 093	8 323	1 107	4 633	5 200	12 956	18 156
6. Unskilled and defined decision-making	731	335	12	6	743	341	1 084
Total	7 616	12 574	5 778	10 188	13 394	22 762	36 156

AIC = African, Indian and Coloured.

	By race					By gender			
	2005	%	2004	%		2005	%	2004	%
AIC	20 190	55.8	17 532	53.6	Male	13 394	37.0	11 815	36.1
White	15 966	44.2	15 200	46.4	Female	22 762	63.0	20 917	63.9
Total	36 156	100.0	32 732	100.0	Total	36 156	100.0	32 732	100.0

Change in South African workforce

	2005	2004
Staff complement at 1 July	32 732	32 110
New appointments/acquisitions	6 909	3 770
Resignations	(2 453)	(1 993)
Retrenchments	(94)	(89)
Dismissals	(229)	(104)
Deaths or disability	(78)	(58)
Other*	(631)	(904)
Staff complement at 1 July	36 156	32 732

* Contract workers.

Total workforce

	2005		2004	
	Number	%	Number	%
South Africa	36 156	91.8	32 732	91.3
Rest of Africa	2 451	6.2	2 331	6.5
Other countries	778	2.0	774	2.2
Total workforce	39 385	100.0	35 837	100.0



About FirstRand Sustainability Stakeholder Engagement

Information on how we engage with our stakeholders can be found throughout this report which is designed to facilitate searching by brand and by stakeholder. We hope that this format will allow you, the user, to easily find the information relevant to you.

Each of our brands has a distinct set of stakeholders and, depending on their business, places a different focus on each one. At the present time, most of this engagement is not part of a formalised stakeholder engagement process and happens through day-to-day interaction. Examples include interaction with suppliers, or in topic specific committees (like staff EE forums), or at different levels within the organisation (FirstRand Bank with the Regulator).

It is expected that over time these processes will become more formalised and that this website will increase the opportunities for interaction with our customers, staff, suppliers and the broader community. As a first basic step in this direction, we have included a feedback section in this report. Let us know what you think. We want our actions and the reporting that flows from them to benefit from your input.

FirstRand Africa

FNB Africa

This section covers the sustainability issues relating to FNB Africa's operations in Botswana, Lesotho, Namibia and Swaziland. FNB has substantial retail operations in these countries and therefore has ongoing relationships with staff and customers, and a long term approach to interacting within the relevant national context including regulatory and transformational issues. At this point our reporting on sustainability outside of South Africa is in its early stages, but we intend these briefings to offer an overview of the major topics of concern to stakeholders.

Namibia

Scope

FNB Namibia has 35 branches and 9 agencies across Namibia. We are the largest bank in Namibia with an overall market share of approximately 33%.

Regulation

FNB Namibia Group operates in a highly regulated environment, maintaining good relationships with the Bank of Namibia, Namibia Financial Institutions Supervisory Authority and the Ministry of Finance.

FNB Namibia Holdings Ltd is involved in the research and formulation of the Banking Services Charter. In terms of the Charter the Financial services industry will agree to work with Government and other interested parties to make financial services and in particular credit more accessible to this market.

BEE Deal

Five per cent of the total issued share capital of the Group was allocated to the BEE transaction implemented during this year. This as a result of FirstRand Bank Holdings Ltd agreeing to reduce its overall shareholding from 60% to 55%. One percent of the shareholding was allocated to black employees and black non-executive directors of the Group and 4% was allocated to a BEE consortium. After allocating shares to black non-executive director and black employees the balance of the 1% allocation went to a share trust through which dividends from the holding company will be used to meet the educational, health and other needs of staff members. The BEE Consortium consists of two groups namely Sovereign Capital and Chappa'AI investments. About 30% of the shares made available to the consortium go to the broad based groups that include members and dependents of the two largest unions in the public sector being NAPWU and NANTU. With the conclusion of the deal, the Group is now owned by Namibians

People

With 1406 staff, the Group is now one of the largest employers in Namibia. The Group has received its Affirmative Action compliance certificate based on a clear cut move aimed at transforming the ratio between black and white employees.

We have a detailed HIV/AIDS policy which is in line with FirstRand Bank policy in South Africa.

Customers

FNB has introduced ATMs and electronic banking facilities including mini-ATMS to increase the options for cost-effective banking available to our customers.

Corporate Governance

The group is developing and improving Corporate Governance structures and practices to ensure compliance with the recommendations of King II, in particular, the introduction of two new committees, for Risk and Compliance and Directors Affairs. The Charters for these two committees have been approved by the Board.

The Group's leadership philosophy is based on the principle that control of the board and executive responsibility for the running of the business are two separate and distinct tasks, resulting in a clear division of responsibilities between the Chairman of the Board and the Chief Executive. In all matters relating to good Corporate Governance, the structures, principles and processes of the Holding Company are followed.

Corporate Social Investment

The Bank continues to play a major role in corporate social investment in Namibia, and now aims at a wide economic spectrum. The Foundation, funded by 1% of the Group's post tax profit, is now well established and contributing to Namibian Society. Its focus areas are education, job creation, skills development, primary healthcare, safe community initiatives, arts and culture, environment and community care programmes.

Botswana

Scope

FNB Botswana has 13 branches. We are currently 3rd in the country in terms of market share.

Corporate Governance

The Board of First National Bank Botswana is committed to the principles of transparency, accountability and integrity. The Directors recognise the need to conduct the business of the bank in accordance with generally accepted good corporate practices. The company strives to provide stakeholders with the assurance that the bank's affairs are managed in an ethical transparent and responsible manner after taking into consideration appropriate risk parameters. The bank has adequate risk management processes in place to minimise the incidence of adverse outcomes. (Extracted from FNB Botswana Annual Report)

Customers

FNB has introduced ATMs and electronic banking facilities including mini-ATMS to increase the options for cost-effective banking available to our customers.

FNB Botswana is a voluntary signatory to the Botswana Code of Banking Ethics, which requires it to endeavour to:

Act fairly and reasonably in all our dealings with customers;
Ensure all services and products comply with the Code and relevant laws and regulations;

Give customers information on services and products in plain language and offer help if there is an aspect that a customer does not understand;
Help customers choose a service or product that fits their needs;
Help customers understand the financial implications of borrowing and savings and investment products;
Help customers understand how accounts work;
Have safe, secure and reliable banking and payment systems;
Ensure staff procedures reflect the code;
Correct errors and handle complaints speedily.

People

We have 723 staff, of whom 27 are expatriate South Africans.
We have a specific policy on HIV/AIDS incorporated in our wellness policy.

Corporate Social Investment

The FNB Botswana Foundation has been founded for purpose of aiding education, arts, culture and social welfare in Botswana by identifying beneficiaries who are in need and deserving of assistance. Since its inception in 2001, the Foundation has become one of the biggest contributors to social causes in Botswana and has disbursed in excess of P 3.2m for capital projects as well as working capital requirements for qualifying causes. Details of the Foundation and criteria for eligibility can be found at the Bank's website: www.fnbbotswana.co.bw

Swaziland

Scope

FNB Swaziland currently operates from 4 branches and works with 5 agencies. Overall, based on the market share of different products we are the joint 2nd largest bank in the country.

Customers

FNB has introduced and is increasing the number of ATMs and electronic banking facilities in Swaziland including mini-ATMS to expand the options for cost-effective banking available to our customers.

People

We have 264 staff, 259 of whom are Swazi. It is our policy to keep the number of expatriate South Africans working in Swaziland to a minimum.

We have introduced a comprehensive HIV/AIDS policy which addresses the following three major interventions:

- Risk reduction, through awareness raising; provision of care and support to infected and affected employees and confidential voluntary counselling and testing.
- Response Management, through the creation of an enabling environment for Bank employees with HIV/AIDS, continuous counselling and shared confidentiality, and training of volunteer counsellors and carers.

- Impact Mitigation through non-discrimination of people with HIV/AIDS; prioritisation of systematic training on HIV/AIDs and systematic human resources planning and management systems.

The policy is publicly available on request.

Corporate Social Investment

FNB Swaziland is committed to investing in appropriate development projects and during this year, a number of proposals have been approved. Funds have been provisioned for a larger contribution during the coming year, and we will be putting more formal structures in place to set out the requirements for projects that we would fund, and for regular meetings to approve proposals.

Lesotho

Scope

FNB Lesotho is the newest of the commercial banks operating in Lesotho after having opened its doors in late October 2004. The banking industry is dominated by the Standard Bank Group which runs two separate Banks in Lesotho, followed by Nedbank and then FNB which currently has one branch based in Maseru.

Corporate Governance

As FNB Lesotho is an externally registered branch of FNB (a Division of FirstRand Bank Limited) in all matters relating to good corporate governance, the structures, principles and processes of the FirstRand Group are followed.

Customers

FNB has introduced ATMs and electronic banking facilities including mini-ATMS to increase the options for cost-effective banking available to our customers. In addition FNB Lesotho recently launched WesBank which is seen as being tremendous for the motor industry in Lesotho and also for the average man on the street who now has access to professional advice and service in terms of acquiring a motor vehicle.

People

FNB Lesotho currently employs 31 staff members with plans to increase this over the next financial year in line with projected growth. The bulk of the staff are citizens of Lesotho

Skills and technology transfer is happening through placing a minimal number of South African expatriates in the new operation.

FNB Lesotho recognizes that HIV/AIDS is a serious life threatening disease with far reaching implications for the business and employees. For this reason, the Bank set out a clear policy that details management strategy and actions in the management of HIV/AIDS. This policy is designed to:

- Guide managers and supervisors.
- Inform employees of their rights, benefits and responsibilities.
- Ensure consistent treatment of all employees with a life threatening condition

In addition to formulating its own policy on HIV/Aids FNB Lesotho is a member of the Association of Lesotho Employers and Business (ALE), whereby the Association has permanently employed an HIV/AIDS Coordinator in order to assist employers and employees with all HIV/AIDS matters.

Corporate Social Investment

FNB Lesotho, being a new venture, is currently posting losses and as such no Foundation has been set up. In line with other group initiatives the ultimate intention is to establish a foundation and 1% of profits will be set aside to fund important social initiatives. As an interim measure, and as FNB Lesotho is a branch of FNB and not a separate subsidiary, an approach has been made to the FirstRand Foundation to leverage off their base.



Discovery Index

This section consists of the following:

1. Overview
2. Our People: Data
3. Our People: Info (and HIV/AIDS)
4. Supply Chain
5. Environment: Direct
6. Community
7. Customers
8. Regulators

Discovery Overview

Introduction to Discovery's Sustainability Report

Discovery's core purpose is to make people healthier and to enhance and protect their lives. It is an expression of our understanding of the potential impact of our business activities – an acknowledgement that everything we do in some way affects people's lives.

It is in this context that we have framed our view of the issue of sustainability. Sustainability reporting, for us, is about demonstrating this understanding, providing information on the types of impact and the people affected. This report is aimed at those people. As a company that provides health and life assurance products to 1,8 million people, we employ four thousand employees and partner with thousands of employer groups, financial advisors, health care providers and suppliers – and are directly accountable to many shareholders and regulatory stakeholders. In the various sections of our sustainability report, we have attempted to outline how we engage with these different stakeholder groups and how we deal with the issues that may impact on them.

Importantly, for Discovery, sustainability is not a separate area of focus, but rather an underlying principle integrated into every aspect of our business. Our business model pivots on organic growth, which we believe fosters a natural alignment of incentives. Because we build our businesses life by life, our continued success hinges on the relevance of our products to our clients, the level of service we provide to them, the strength of our management team, our operational efficiency and our ability to manage costs and risks effectively. As long as we continue to conduct our business according to these principles, it will continue to grow and prosper. If we fail to focus on these areas, we run the risk of losing our business.

As an extension of this, regular interaction with our clients and keeping stakeholders informed is a key component of our ability to build and maintain relationships of trust. Discovery has created various mechanisms that allow us to keep in touch with our clients and stakeholders. You will find more detail about these mechanisms in the various sections of our report.

In terms of the non-financial risks we have identified the following are key concerns for our business: Our reputation for good products and services (details outlined in our Customer report); the targets relating to various industry charters (details outlined in our Regulatory report, with feedback on specific targets in our People and Supplier reports); the complexity of our regulatory environment (details in our Regulatory report) and finally, the potential impact of HIV/AIDS (dealt with in our People report).

While we already have significant focus on these issues built into our business, we will continue to drive hard in the year ahead in terms of these important areas. Of particular importance to us in the year ahead will be the issue of extending affordable access to private health care to South Africa's previously uninsured market through our KeyCare Plans, as well as leveraging our existing scale and size to deliver value for money and excellent service to our clients. Discovery announced a BEE transaction in September 2005, which sets out to empower and reward Discovery's talented black employees, make a positive contribution to the health care sector through the Discovery Foundation and achieve broad-based empowerment in partnership with WDB Investment Holdings. In the year ahead, Discovery will focus on realising these objectives by working actively with its new partners.

Discovery Employment Equity as at June 2005

Total Employees by Occupational Categories

Occupational Categories	Male				Female				Total
	Black	Coloured	Indian	White	Black	Coloured	Indian	White	
Top Management	0	0	1	13	1	0	0	0	15
Senior Management	2	5	7	75	6	3	5	52	155
Middle Management	9	5	17	96	17	6	27	140	317
Junior Mgt & Supervisors	81	63	108	287	118	85	117	419	1,278
Semi-skilled	206	166	216	222	365	274	271	550	2,270
Unskilled	0	0	0	0	0	0	0	0	0
Total Permanent	298	239	349	693	507	368	420	1,161	4,035
Non-permanent Employees	36	2	9	29	60	26	20	75	257
Total Employees	334	241	358	722	567	394	440	1,236	4,292

Discovery Our People: Info

Scope

As at 30 June 2005, Discovery employed a total of 4146 people. Most of our employees are call centre agents, or fulfill administrative functions (processing health and life assurance claims) or are technical staff within our systems/IT environment. The majority of our employees are based in Johannesburg, but we also have employees based in KwaZulu-Natal in SA and, when it comes to PruHealth and Destiny Health respectively, we also have employees based in the UK and the US.

Division	No. of Employees	% Female	% BEE	% Managers
Corporate Management	661	52%	39%	17%
Destiny	286	58%	45%	4%
Discovery Consulting Services	2	50%	50%	0%
Discovery Life	512	53%	51%	13%
Discovery People	79	81%	43%	28%
Discovery Service	1475	62%	65%	6%
Health Operations	491	72%	61%	8%
La Health	44	70%	45%	2%
Marketing Management	105	69%	44%	27%
Prudent Advisory Services	3	67%	33%	33%
Prudential Health	99	57%	46%	11%
Risk Management	70	71%	31%	36%
To Be Assigned	145	64%	48%	26%
Vitality Healthstyle	63	59%	63%	10%

Table 1 Discovery Staff Profile at 30 June 2005

EE target data and previous year's figures to be added from FR HR source.

Issues of Major Concern Relating To Staff

We use various channels to identify issues of major concern to our employees.

Exit Interviews

We have recently revamped our online exit interviews. We provide the information gathered through exit interviews to our Discovery HR Exco as well as Discovery Holdings Exco. Depending on the nature of the issue, HR or the business unit head is responsible for addressing issues and reporting back to Exco.

Employee Engagement Surveys

We introduced an online engagement survey in November 2004. The result of this research is provided to every individual member of the management team, providing specific data pertaining to their own team. Executives see the results for their business unit within Discovery, as well as the overall results for Discovery. Each manager is

responsible for addressing issues in their own teams and ongoing measurement tools, along with performance measurement, is in place to assess the impact of the action taken.

Divisional Staff Morale Surveys

Survey results are provided to divisional heads (as and where required). Divisional heads are responsible for addressing the issues and monitoring the results. This is often linked to the manager's management incentive measures.

Training and Development

We have found that the classroom often provides a forum for people to raise and discuss issues about the workplace that they are not comfortable sharing elsewhere. While the data gathered is obviously anecdotal rather than scientific, we have empowered trainers to escalate, where appropriate, these issues to their line manager, the Head of Employer Brand Management or the Head of Discovery People (HR).

Recruitment

It is Discovery's policy to recruit internally wherever possible. Again, our recruitment staff often receive valuable feedback about employee concerns during the internal interview processes and where appropriate, they raise these concerns with senior management within our HR environment.

Grievances

We have a formal grievance procedure in place, which is managed by our Employee Relations team. They provide regular reports to the Head of Discovery People on any issues of concern. Depending on the issue at hand, either the Head of Discovery People or the head of the relevant Discovery business unit is tasked with taking action.

Voluntary Escalations

Managers sometimes also request the assistance of our HR division in resolving issues within their teams. Here the focus of any intervention is on providing support and playing a facilitation role, rather than disempowering the manager.

Policies

In compliance with legislation, the following policies are currently in effect

- Disciplinary and grievance policy (Labour Relations Act - LRA)
- Restructuring policy (LRA)
- Leave policy (BCEA – Basic Conditions of Employment)
- Recruitment policy (Employment Equity Act - EEA)
- Sexual harassment Policy (EEA).

During 2004, Discovery embarked on a process of reframing and redrafting all policies, with the aim of engaging employees in the policymaking process, implementing feedback received through market research, increasing alignment with industry best practice and increasing understanding of their content by using simple language and graphics.

Here are some of examples of the policy changes flowing from this process:

- Family responsibility leave increased from three to five days

- We adopted a paternity leave policy that entitles employees to five days' leave after the birth or adoption of a child
- The period of service required to qualify for paid maternity leave reduced from a full year's service to nine months

We have not drafted specific policies around human rights or freedom of association, as we subscribe to the tenets of the South African constitution in this regard. Please note that where you have operations outside of SA, the constitution does not cover your employees. Can you make a statement that you are comfortable that rights are enshrined in the legal framework of the other countries where you operate (the US for example has a very different labour rights environment).

In addition, we have several other policies in place, including policies around issues of diversity, sexual harassment, HIV/Aids, safeguarding of persons and properties and policies related our Discovery Employee Assistance Programme. Discovery acknowledges that personal problems, family commitments and work-related stresses can have an impact on employees personal wellbeing and their job performance. This programme provides employees with a range of support services – from onsite dry cleaners, vehicle registration renewal service, a crèche and beauty salon to a 24-hour confidential counselling service, onsite doctor and regular seminars on topical issues like balancing your work and home life. The policy documents the rules around confidentiality issues related to the medical and counselling services to which our employees have access.

Managing Relationships with Staff Performance

Average Age 31
Total number of staff as at 30 June 2005

4146

Discovery Staff Gender Profile as at 30 June 2005

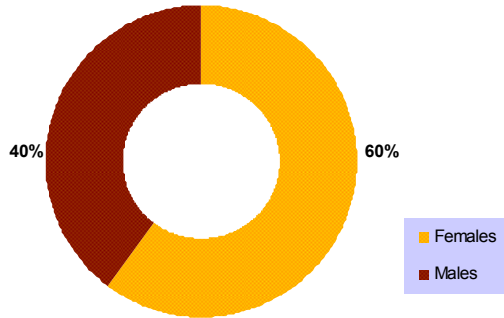


Figure 1 Gender Statistics 30 June 2005

Discovery Staff Race Profile as at 30 June 2005

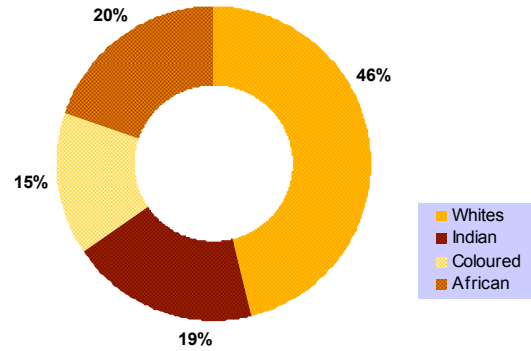


Figure 2 Race Statistics 30 June 2005

Discovery Staff Race/ Gender Profile as at 30 June 2005

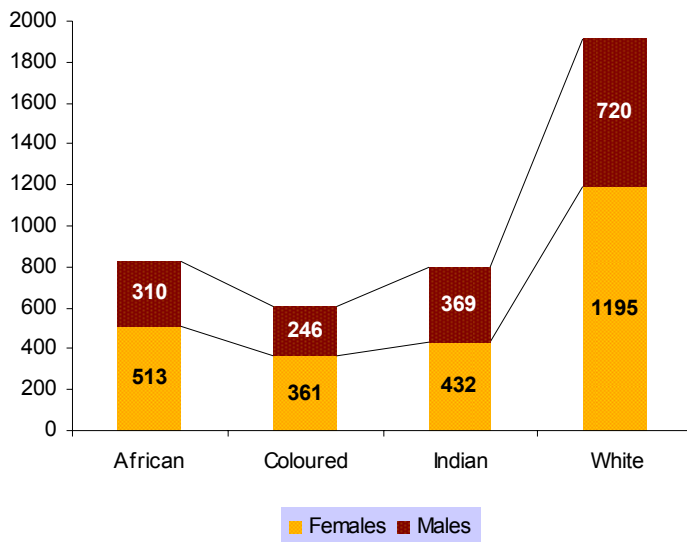


Figure 3 Race/ Gender Statistics at 30 June 2005

Transformation

Discovery is proud to operate in the South African context and continually strives to become more representative of the country's demographics, and to ensure that all employees, irrespective of race, gender or disability are treated fairly. During the year under review, we undertook a number of initiatives across Discovery's operations in this regard.

Our focus has been on:

- Raising awareness and understanding of different cultures
- Improving our employment equity status, and
- Creating an environment that embraces all aspects of EE.

- **Monthly executive committee review** – every month Discovery's EXCO reviews our EE status against plan, and drives any corrective actions required.
- **Divisional Exco workshops** – we have held workshops and discussions with each Divisional Exco to explain the Discovery philosophy around diversity and EE.
- **Divisional action plans** – each division has developed a plan as a result of these sessions and we have undertaken various divisional interventions (primarily focused on raising awareness and understanding including) including township visits, theatre trips etc
- **Diversity programme pilots** – we have undertaken a number of pilots in different areas of the business. Again, the focus has been mainly on raising awareness and understanding, and providing staff with an opportunity to discuss diversity and opportunities that this provides .
- **Management incentives** – One of the measures we focus on in terms of management incentives at senior level is achievement against FSC goals. In addition, EE targets are included in every division's management incentive measures and targets, with the emphasis on our main challenges – EE at management levels and equity recruitment. Quarterly reports are provided to each division tracking their progress against target and net change.
- **Succession planning** – we included EE as one element of our succession planning initiative. With each Exco member, in addition to looking at critical skills and people, we identified high potential EE candidates and the individual Exco members are responsible for their development.
- **Leadership development** – diversity is weaved into all of our leadership development initiatives. Over the past six months we have focused on "African Leadership" as a theme for our monthly leadership development forum for managers. Here we have exposed our management team to diverse and effective leadership styles, and provided the opportunity for interaction and learning.
- **Policy review** – As mentioned above, we have consulted our staff in reviewing and revamping all our policies over the past year. One of the primary objectives of this exercise was to ensure that they embraced diversity and did not disadvantage any group. These policies have been signed off and communicated to our employees.
- **Divisional manager survey** – we contacted a sample group of divisional managers telephonically to discuss diversity and employment equity. We received positive feedback with only a few interviewees identifying any EE issues. We identified the need for more detailed communication, and some

managers have requested team workshops to help develop greater understanding and awareness within the teams. An example of action flowing from this survey is the piloting of team workshops to improve the effectiveness of team dialogue, with particular focus on diversity and the value it brings to teams.

- **Communication** – we launched an internal magazine in May this year, which addresses topics around employment equity and diversity in every issue
- **Diversity committee** – one of our biggest divisions within Discovery Health has established an active diversity committee. They consider and make recommendations to the division's management team on diversity and employment equity issues within their unique environment.
- **Volunteers week** – in an effort to expose Discovery's leadership team to Corporate Social Investment initiatives and create a compelling diversity experience, we divided 250 managers into groups and sent them to the following venues where they engaged in the painting of the walls and experienced various traditional community activities:

Staff Satisfaction

Over the years, Discovery Holdings has conducted employee loyalty research through an annual survey conducted by Markinor on our behalf among various stakeholder groups. However, in 2004 we decided to draw on the expertise of the Gallup Organization to conduct a rigorous, internationally benchmarked survey to measure employee engagement. They conducted the survey, called Q12, in November 2004 and 70% of employees participated.

We selected this method because of the proven relationship between high levels of employee engagement and performance – employee satisfaction has not been proven to correlate to performance in the same way. Employee engagement relates to an employee's level of enthusiasm and involvement with their work – and so to their output, whereas satisfaction is related to whether or not the employee's needs are being met without any reference to their performance. The Gallup Organization has identified twelve questions which measures broad-ranging factors that influence engagement, such as relationships at work, understanding of the company's vision and opportunities for growth.

We also based our decision on the excellent follow through process and rigorous, confidential reporting methodology used. This has enabled us to measure employee engagement at a team level, rather than at an organisation level alone as was the case in the past. In addition to the twelve questions identified by Gallup as a credible measure of employee's levels of engagement, we included an additional question on employee satisfaction.

This has enabled managers to understand the level of employee engagement for their own team and benchmark it against the performance of their division, Discovery as a whole and international norms. Managers were provided with training and support to assist them in analysing the results, engaging with their teams and developing strategies to address issues – all in a confidential and non-threatening manner.

At an organisation level, Discovery performed well in relation to the 75% percentile of Gallup's international database of companies. Areas for improvement identified are: the need to demonstrate care for our employees as people, to ensure our employees have

the opportunity to do what they do best at work and to spend more time on encouraging individual development. We are also focusing on areas where we performed very well in relation to the international database:

- The good understanding among our employees of our company's vision and how their individual role relates to it
- The fact that people feel well equipped with the materials and resources they need in performing their duties
- The good, trusting relationships our employees have established within the workplace.

Staff Consultation

As mentioned above, during the year we consulted extensively with our employees in reviewing all our policies. Employees nominated a panel made up of staff members from across the business to represent their interests. Once policies had been discussed and updated, they were published on our intranet site where employees could view and comment on them before final ratification. We will use this consultative process for the management and maintenance of all policies going forward. Our grievance policy in particular has been developed with the aim of encouraging open and informal dialogue between staff and managers. More formal processes are also available to staff who feel they are not consulted appropriately in any decisions. During the reporting year, 17 cases were referred to the CCMA for conciliation; there were no labour disputes.

In the past year, we have also created a consultative framework for all issues relating to training and development. We have established Discovery training committees responsible for making recommendations, in partnership with the Discovery Institute (responsible for all training), to the Discovery executive committee about our workplace skills plan.

Discovery has never had any trade union interactions.

Health and Safety

As mentioned in the report on the environmental impacts, Discovery has committed itself to ensuring the health and safety of our clients and employees. As our functions are mainly administrative, we have experienced no work-related injuries or deaths during the year under review.

Even so, we have set up a network of emergency numbers within our buildings in Sandton, which employees or any visitors may use during office hours to call for help or report any issues. For example, by dialling 911# on Discovery's internal telephone handsets, employees will reach the emergency controller and by dialling 912#, they will reach the emergency controller for our building at 155 West Street.

Discovery has among its employees a number of trained medical professionals, including doctors, paramedics and nursing staff. Many of them act as volunteer health and safety coordinators. We have well-equipped medical rooms in all our building where emergency first aid treatment can be administered by trained personnel. For example, the rooms have an AED defibrillator machines which can be used in the case of any employee or visitor suffering a heart attack while on our premises.

A health and safety related issue is accessibility for disabled employees. We've ensured that our building is accessible and safe for disabled employees – measures include the use of Braille markings on lift buttons, wheelchair ramps hand rails, ample disabled parking and a wheelchair that can be used by frail or elderly visitors to our building.

We are in the process of developing an extensive health and safety risk management programme for use by members of our Health and safety committee, building and floor coordinators. The programme will encompass risk assessment and identification, monthly health and safety inspections and a log of minor and major injuries.

In accordance with the requirements of the Occupational Health and Safety Act, we have appointed all the relevant parties:

- Adrian Gore (CEO)
- John Robertson (CIO)
- (Assistant) David Pierre-Eugene
- (Assignee assistants) Fanie van der Nest and Andre Weber
- *EMR2* Freddie van Deventer
- *GMR2* Dawid Westermann
- Coordinators for each building
- Coordinators for each floor

We conduct full emergency evacuation drills in all our buildings twice a year.

Discovery's policies and practices with respect to HIV/AIDS are detailed according to GRI guidelines, in the table below:

1	Description of HIV/Aids policy	In 2004, Discovery reformulated its HIV/Aids policy in consultation with staff. The policy commits us to non-discrimination, the right to non-disclosure, confidentiality upon disclosure and counselling support for employees and their families. It also offers guidelines to managers on what to do if an employee discloses to them that he or she is HIV- positive.
2	Strategy for managing the HIV/Aids risk	<p>The majority of Discovery's employees are members of the Discovery Health Medical Scheme. In terms of our Discovery Care programme for HIV/Aids, we encourage members to undergo voluntary testing and counselling and encourage members who are HIV-positive to enrol in the programme. The programme places strong emphasis on confidentiality and focuses on a lifestyle management approach which helps to keep these members healthy.</p> <p>Employees have access to an onsite doctor who consults, counsels and tests employees confidentially and assists with the</p>

		management of the condition in employees who are HIV-positive.
3	Extent of preparedness and contingency planning in anticipation of expected HIV/Aids impact	While no HIV/Aids prediction model is currently in place in relation to employees specifically, we are able to extrapolate prevalence rates among our employees using the model we use for Discovery Health medical scheme members. The prevalence rates are very low and so the impact is minimal.
4	Monitoring of progress and reports in respect of above indicators	This applies only in terms of employees who belong to the Discovery Health Medical Scheme and have enrolled on our HIV/Aids management programme
5	Stakeholder involvement in formulation of policy, strategy and implementation	Our policy was formulated and implemented in consultation with staff, HR representatives and management representatives
Measurement, monitoring and evaluation		
6	Prevalence rates	No prevalence studies have been conducted by the employer. However, predicted prevalence of 4.2% has been predicted using the medical scheme's behaviour model based on claims experience. However, this does not take non-scheme members into account
7	HIV/Aids associated costs and losses: Absenteeism, employee benefits (death benefits), recruitment and training costs due to death and disability, cost associated with compassionate leave, negative staff morale, general loss of turnover and profits	Not measured at the moment
8	Total assumed future HIV/Aids costs and losses	Not measured at the moment
Workplace conditions HIV/Aids management		
9	Workplace-related HIV/Aids programmes and interventions	Employees have access to HIV/Aids counselling and training on sexual health issues through the Discovery Employee Assistance Programme
10	Budget allocation	This falls within our budget for our employee wellness programme and no separate budget has been set aside specifically for HIV/Aids programmes for our employees. We are in the process of recruiting a new manager for

		our Employee Wellness Programme and we are extending the scope of this role to include a greater focus on HIV/Aids related wellness initiatives. The new manager will make recommendations on budgetary spend to support these initiatives.
Depth, quality/sustainability of programmes		
11	Voluntary counselling and testing	See the information under point 2 Vitality members earn Vitality points for undergoing voluntary counselling and testing
12	Other support programmes	Please see the information provided under point 9
13	HIV/Aids education and training programmes	HIV education is offered to all employees as part of Discovery's induction programme. In addition, we offer periodic seminars through the Employee Assistance Programme on sexual health issues.
14	Condom and femidom distribution	Free condoms are placed in staff toilets on various floors of Discovery's buildings. We currently do not distribute femidoms
15	General healthcare provisions	Employees have access to a broad range of wellness related services, including an onsite doctor, onsite wellness assessments and information, confidential counselling services and more.
16	Additional benefits and support for employees, sick, dying or deceased from HIV-related conditions	All Discovery employees have access to benefits through their Discovery Group Risk cover and medical cover for employees belonging to Discovery Health Medical Scheme.

Training

Rands spent on training over the year

- Direct training costs: R 16,496,652.94
- Internal Cost: R 15,077,798.23
- External Cost: R 1,418,854.71

Total Training Expenditure (direct and indirect)

- Total training costs: R 24,236,666.75

Training Spend per Employee

- Average Spend per Employee: R 4,218.01

Training Hours per Employee

- Each employee spent an average of 13 hours receiving training during the year under review. Importantly, this includes training of less than six hours on product changes for a large number of employees

Training Expenditure in terms of Payroll Expense per Employee

- Training % of Payroll: 5%

We are proud to present some of our staff training achievements:

1. Most of Discovery's people who received training fall within the right occupational groups that support the service delivery channels of Discovery
2. Training is marginally favourable towards transformation with a higher focus on the training and development of people within the designated groups.
3. Total spending on training is in excess of 5% of the total payroll
4. All learners [18(1) and 18(2)] on learnerships are black, which further enhance the development of black candidates as new entrants to the industry and for progression within the organisation
5. Training is still highly function-orientated i.e. job specific with little focus on the development of generic competencies. This area will improve significantly through the implementation of developmental programmes for team leaders and leadership/management. However, more can be done at a staff level to support career-orientated and holistic development
6. Greater emphasis on quality of training is evident through the role-out of the new quality management procedures
7. Our ability to ensure integrated monitoring, evaluation and tracking of training will be enhanced considerably by the implementation of the new Learning Management System.

We continue to experience a number of human resource-related challenges:

- The Department of Labour's publication on the proposed SETA grant regulations regarding monies received by a SETA and related matters in terms of the Skills Development Act, 1998 (Act No. 97 of 1998) and National Skills Development Strategy 2 will pose some significant challenges in terms of the BBBEE & EE

- targets. (BBBee & EE Profile and targets (85% blacks, 54% women and 4% disabled)
- Inseta still need to make policy decisions on how the BBBEE & EE targets will influence skills development within the sector. This will have a significant impact on Discovery
 - The disability target does not consider the freedom of disclosure on disability status inline with the EE Act
 - The current EE profile within the insurance sector will continuously impact organisational specific training requirements e.g. training the existing staff on operational skills/competencies, although will be needed to sustain competency levels and encourage “life-long learning”
 - Financial: If all the NSDS EE targets (85% blacks, 54% women and 4% disabled) are implemented, organisations who traditionally met the planning and implementation targets, will be recovering 10% less grants than the previous year. This can have exorbitant financial implications
 - Short timelines on requirements and insufficient consultation within and outside the organisation on critical and scarce skills, reporting requirements and policy setting initiatives from Inseta will have to be addressed
 - Reporting periods: The reporting periods for the following reports poses some serious challenges in aligning and comparing data for the various initiatives:
 - Skills Development – reporting year end 31 March
 - Financial Charter – reporting year end 31 December
 - Employment Equity – reporting year end 30 June

The diverse and expert skills of Discovery’s people is a key factor in our success. For this reason, a commitment to developing the skills of our people is entrenched in the values of the organisation.

The main drivers of our skills development philosophy are focused on key aspects of our business model: the ability to identify key social trends, develop innovative products and the need to grow organically in response. We recognise that we must reward the time and effort invested in our people by providing the opportunity to help them maintain and enhance their competency levels.

Discovery is a responsible social partner and engages with national initiatives on Skills Development in line with The National Skills Development Strategy through the implementation of Skills Programmes and Learnership. Learnerships are leveraged as an ideal mechanism for developing career paths where there is a scarcity of skills, and acts as a structured approach for vocational competence through “learning while working”.

The transformational agenda of the company seeks to increase the number of black professionals being trained and/or to provide access thereto. Discovery embraces skills development as a critical component of its transformation Agenda and will continue to promote the redress of imbalances in this area.

Discovery also identifies and communicates professional development learning opportunities to its clients and promotes partnerships with other professional groups (for example, practice management training for health care professionals and training for intermediaries around FAIS accreditation requirements at the Discovery Institute in

partnership with independent industry experts) to develop and deliver multi-disciplinary learning opportunities to the sector.

Remuneration

Discovery's overarching remuneration philosophy is to balance a flexible approach that recognises differences in individuals' performance, value and contribution to the organisation, with a consistent framework that ensures equitable pay levels and defensible pay decisions.

Remuneration management within Discovery is guided and supported by the following principles:

- We pay competitive packages
- We measure, recognise and reward contribution to business success
- There is a clear link between performance and reward
- We are committed to equity across the business
- Remuneration must reflect a mix of individual, team and business performance
- Remuneration must reflect a cascade of objectives from top to bottom
- Timely and fair setting of targets
- Recognise non-financial rewards in total package

We continuously benchmark our packages against the market to ensure that we remain competitive. We participate in established remuneration surveys twice a year. All staff have an element of performance based pay as part of their total package (cost to company). The proportion of total package paid on the basis of performance varies between 8.3% at the lower levels to 100% for sales staff on commission-based pay.

Discovery Supply Chain

Scope

Discovery's central procurement division is responsible for the processes related to creating, managing and terminating contracts with suppliers within our South African operations – including the local operations of Destiny Health and PruHealth situated at our Sandton head office. The division works in partnership with each area to identify the right supplier, negotiate the right price and track and manage service delivery. While the procurement division manages the accreditation and payment of suppliers and the periodic re-evaluation of contracts, we view compliance with our procurement policies as a shared responsibility. In this framework of co-responsibility, the role of the procurement division is to facilitate and add value to the supplier-client relationship, rather than merely to enforce rules.

Strategy

Discovery's procurement strategy is underpinned by the belief that procurement is a means of creating sustainable competitive advantage, rather than purely a cost management function. An important theme for us is the need to invest in the transformation and economic upliftment of South African society.

For this reason, Discovery is committed to ensuring that, wherever possible, procurement is focused on the empowerment of black economic entities. In addition, we are focused on developing sustainable enterprises through joint ventures and direct investment in black or empowered entities. Here our aim is to transfer our skills and operational capacity to the developing entity.

Discovery's procurement division has adopted the tenets of triple bottom line reporting as a framework for its business practice. They therefore focus not only on issues of economic empowerment, but also the impact of the supply chain on the environment and society – even at the smallest level. So for example, our procurement division assisted DiscoveryWare, our in-house shop where employees, clients and intermediaries can purchase branded goods, in sourcing environmentally-friendly shopping bags.

Question – what is the nature of Discovery's relationship with 'suppliers' of pharmaceuticals? What is Discovery's position on the pricing of HIV/AIDS related medication? I know this is a tough question but if you want to claim that you are focusing on the impact of your supply chain on society, this is a big issue.

Procurement Policies

Discovery has in place a clear set of rules governing issues such as fraud, corruption and the promotion of self-interest. These rules deal with issues like accepting gifts from suppliers, maintaining appropriate relationships with suppliers, requesting three quotes for any goods supplier and so on. In addition, Discovery has in the past financial year documented and implemented the following policies:

- **Affirmative Procurement**
Aimed to set clear guidelines for the identification of black owned and empowered suppliers, as well as the process that should be followed to determine the level of strategic importance of these suppliers in view of our overall procurement strategy. The document sets out Discovery's commitment to support new and existing black suppliers and to put in practice a transparent process through which all affirmative procurement is to be both considered and awarded.
- **Enterprise Development**
The purpose of Discovery's Enterprise Development Policy document is to set clear guidelines around the process to be followed and the issues that should be considered in Enterprise Development. The document sets out the commitment to support new and existing enterprise development initiatives and to put in practice a transparent process through which these initiatives are reviewed and managed.

Managing Relationships with Suppliers

Supplier Satisfaction

Supplier cooperation and interaction is of strategic importance. We are in touch with our accredited suppliers on an ongoing basis, providing them with regular opportunities to quote for any new jobs and assisting them with payment and delivery issues. In addition to these daily interactions, we introduced an annual supplier summit at the end of 2004 where we educate them on any new regulations or processes that apply to Discovery and where we encourage open interaction and feedback from them on the issues of concern.

At this stage, we do not have a formal supplier satisfaction survey in place. However, with the introduction of our supplier summit last year, we have created a dedicated, regular forum for open discussion with our suppliers. Issues raised in this forum or in our daily supplier interactions are escalated to the head of central procurement, and reported to the Discovery executive committee. Key areas of concern noted in the past revolved around the BEE accreditation process and inefficient processes leading to payment delays. We have reengineered our internal processes to address these issues and we have invited our suppliers to let us know how they are finding the new processes and supplier management system.

Supplier Transformation

The most pressing issue for most of our suppliers over the past year has been the implementation of the new VAT regulations and compliance with BEE requirements, specifically in terms of their rating and our new supplier management system (B1SA) we adopted in the first quarter of 2005. We provide them with regular updates on how we and they are faring in terms of achieving our affirmative procurement goals and encourage them to raise any issues with us.

The illustration below demonstrates the process flow for Discovery's interaction with our suppliers with specific reference to the BEE accreditation process.

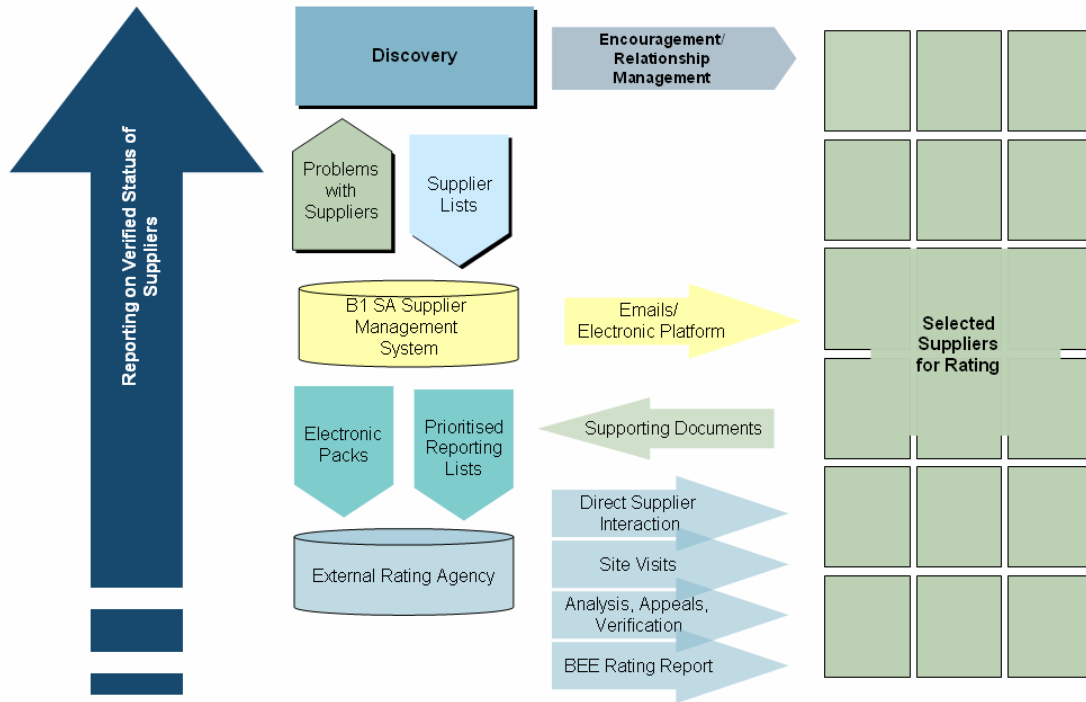


Figure 1 Discovery's BEE Supplier Accreditation Process

The results of our recent initiatives are already evident in our procurement figures. In terms of the Financial Services Charter, to which Discovery is a signatory, we have exceeded our target of 25% for 2005 for procurement. While we have not been rated by an independent rating agency, our score based on the charter's requirements for procurement was at 30% (excluding exempted spend). This amounts to almost R315 million.

We are particularly pleased about this achievement in view of the fact that in June 2004, only 6% of our spend was with BEE suppliers. Importantly, our focus has not just been on black-owned (up from 23 to 36) and black-empowered (up from 13 to 20) businesses (increased to 67 from 43), but also on SMMEs (increased from 5 to 20), black-influenced businesses and businesses owned by black females (up from 0 to 5). We have seen marked improvements in these areas since the previous financial year, while we have managed to reduce number of none BEE suppliers we deal with from 15 to only two.

We are on track to meeting our target of increasing our rating from 30% to 50% in terms of our FSC scorecard by June 2006. During the year ahead, we will again use our supplier summit (scheduled for the end of 2005) as well as the process of renewing and revising all our supplier's BEE accreditation ratings to help us achieve our goal.

Discovery Environment

Scope

Apart from creating and maintaining a working environment that supports Discovery's unique people and the company's innovative approach, we are committed to operating all our businesses in an environmentally friendly way. This report touches on how we manage the 21 000 m² of office space at our Discovery Head Office at 155 West Street, Sandton. While the same policies apply to all Discovery's other offices as well (Sandton, Durban and Cape Town), the statistical information provided relates specifically to our head office.

Environmental Policy

As health and life assurer, Discovery's business has a limited impact on the physical environment. Our only documented environmental policy is therefore focused on the health and safety of the company's employees working within our South African operations. It states the company's commitment to constant monitoring of health and safety risks, urgent resolution of any issues identified and the provision of health and safety training to employees. "With the co-operation of each individual, we will maintain a healthy, safe and secure working environment for all Discovery employees in which each employee, without discrimination, will be encouraged to develop their potential." The policy was drafted and came into effect on 24 July 2002 and also pertains to employees of PruHealth and Destiny Health based here in South Africa. We have not reported here on the health, safety and environmental policies in place in our UK and US based offices.

Environmental Management of Our Operations

Resource Use

Electricity usage is monitored on a monthly basis using the Miniflex electricity billing system
Water usage is monitored on a monthly basis.

Electricity Usage

We have implemented various power management initiatives based on recommendations on energy efficiency by made by NUS Consulting, an international cost management company:

- We use only low voltage globes to ensure energy efficiency and we turn off office and common lighting during non-peak hours (i.e. nights and weekends)
- We make use of zone lighting in our buildings, including in our basements and parking areas
- We turn off our air-conditioning units during non-peak hours via our Building Management System (BMS) system, which allows us to monitor and manage our buildings across the country.

The recent implementation of the Miniflex System has enabled a saving of R50 000 every second month.

Refrigerants in Air Conditioners

- We have ensured that our air-conditioning contractor complies with the Montreal Protocol Global Warming Policy.

Water Usage

- We limit our water usage by operating a closed air conditioning system and also by regular maintenance of all toilet-flushing systems.

Reduce/ recycle/reuse/repair

- Paper: All waste paper is recycled. Confidential documents are shredded onsite by an external supplier.
- Waste: All waste is compacted and removed from our buildings by DASA Services
- Electrical Equipment: Fluorescent lamps are disposed of by Waste Tech in the toxic waste bins at their site in Wadeville
- Furniture: We sell all old and broken furniture at low cost for redistribution in other African countries.

Transport Size

The company operates a fleet of 46 vehicles. Twelve of these vehicles are used to collect claims from claims boxes and do ad hoc deliveries. A further 33 vehicles are used for Discovery Life's SmartService and SmartDoctor initiatives, which dispatches health professionals to prospective policyholders to perform any blood or medical tests required and assist them in completing any medical questionnaires. Importantly, we have selected Smart cars for this service – these small, energy efficient vehicles are ecologically-friendly. The manufacturers recycle many of the components used during manufacture of the vehicle and use energy efficient techniques to apply powder-based paints with zero solvent emissions. In addition, the vehicles consume less than 4 litres of fuel per 100 km and their CO² emissions are low. In Mpumalanga and Limpopo provinces where our health care professionals travel into more rural areas we have opted to use Corsa bakkies (two in total).

Average Business Travel Undertaken During the Year

For our delivery vehicles, the average mileage per vehicle is 3800 km per month which is 547 200 km per annum for the fleet. The vehicles are used exclusively for business-related travel. For our SmartService initiative, most of the vehicles have clocked up around 50 000 km during the two years they have been in use, averaging around 25 000 kms per year

Activities Undertaken To Reduce Travel

Discovery Health has over the past few years intensified its efforts to increase electronic claims submission, with the ultimate aim of achieving a paper-free claims environment. During the past few years, our ongoing drive to encourage health care providers to register for electronic funds transfer and submit all their claims to us directly via the various electronic switches in operation has significantly increased the percentage of claims submitted electronically. At 30 June 2005, the ratio of paper to electronic claims stood at 81% to 19%. Over 50% of our membership base receives their claims statements and other communication electronically (as at 30 June 2005: 366 208 principal members had chosen to receive paper statements compared to 367 152 who preferred electronic statements), another important way in which we have reduced the amount of paper we use as well as the travel associated with the postage and delivery of documents.

However, our SmartService initiative has been so well received that we are looking at extending the service into new areas and this may increase travel related to this service. We will continue to focus on energy efficiency here to limit the environmental impact of expanding this service.

Discovery Community

Discovery's Corporate Social Investment (CSI) programme is guided by our core purpose of making people healthy and enhancing and protecting their lives. Our programme therefore has two distinct areas of focus:

- Support for projects in the health care sector
- Support for projects related to wellness

These projects are underpinned by our Employee Volunteer Project (EVP).

Approach

Discovery's CSI approach used to be largely reactive, which implied that we waited for applications to be submitted by organisations and thus responded to a particular need. This approach perpetuated the distance between the company and those that do not form part of its business constituency.

In early 2004, the company embraced a more strategic approach, by taking ownership of our CSI commitment and appointing a *Deputy General Manager: CSI* to run the CSI programme on a full time basis. We then consulted broadly with the public sector and civil society to consider whether our focus areas were appropriate and to investigate measures which would ensure more targeted support, building of partnerships and greater alignment of CSI with the broader Discovery business.

Discovery spends approximately 1.7% of after-tax profits per annum on its CSI programme. In the arena of health projects, our contribution is 1% of after-tax profits per annum and in wellness, we have made a commitment to the value of R12.5m over 5 years starting in 2001.

In terms of decision-making powers and areas of responsibility, the Discovery Fund is chaired by the MD of Discovery Health (Barry Swartzberg) and comprises further of the Group Marketing Director and MD of Vitality (Neville Koopowitz), the head of HR (Keith Kropman), the head of Clinical Vitality (Craig Nossel), the head of Marketing Services (Suzanne Stevens) and the head of CSI (Ruth Lewin). They meet on a quarterly basis to consider applications received.

Communication

Communicating more effectively about our CSI initiatives is another issue we are now focusing on from a strategy point of view. The aim is not only to report more effectively to our stakeholders, but hopefully also encourage their participation in our CSI initiatives.

We use the following avenues to communicate what we do:

1. **Publications:** We have identified key publications that provide an appropriate platform through which to communicate with various stakeholders. These include the *Dialogue* publications, the *Discovery* magazine and the *Big Issue*.
2. **Photographic exhibition:** We launched our *Encounters* photographic exhibition which aims to engage our employees in the projects we're involved with. This exhibition opened by Gauteng MEC for Health, Dr. Gwen Ramokgopa, has resulted in numerous spin-offs which include increased staff volunteerism, anonymous donation of a container as an

extension to the Impilo Primary Health Care facility in Hillbrow, Gauteng Provincial Health Department funding of 5 beds at the Zaziwe Hope for Life Hospice. It also resulted in Discovery being a nominee for the Business Day Arts Awards for Best Commissioned Use of Art.

3. **Symbolic handovers:** As a means of developing a closer relationship between Discovery and the projects we support, the projects organise handover ceremonies within their communities. This ceremony serves as a “public” expression of Discovery’s commitment and support for the project. It has taken the form of a **handover** of a gift which may be used in the project i.e. the Sakhisizwe TB project in the Eastern Cape indicated that cooler bags would be useful for the transportation of specimens, the University of Johannesburg requested a prism bar set, Matie needed a medical bag for their primary health care facility and Harriet Shezi HIV Paediatrics Clinic an ENT set.
4. **National Department of Health Nurses Awards:** For the past three years, Discovery has contributed towards the Nurses awards, both in terms of the actual award and the event itself. We are in discussion with the Department of Health to ensure that our involvement is more sustainable and to rather direct this type of spend within the new HR policy proposal which they are in the process of developing.

Issues of Major Concern Relating To the Community

Stakeholder engagement is an important feature of the Discovery CSI approach. While we have not conducted any formal research, our head of CSI, Ruth Lewin, meets regularly and extensively with stakeholders including the Department of Health, Department of Education and various NGOs to identify key areas of focus at a national and regional level. We also spend a lot of timing meeting with the stakeholders at the projects we already support to understand how our support has assisted them and to identify any future areas of involvement. With our focus on employee volunteerism and the sustainability of projects, we remain involved with projects long after the funds we donated have been handed over.

Policies

We have documented the following policies in terms of our CSI projects.

- Policy in terms of CSI funding:

We have determined that our CSI budget will have the following characteristics:

- A 70% proactive vs a 30% reactive split
- One infrastructure project per annum
- Expansion of support for projects located in Mpumalanga, Limpopo, Free State and Eastern Cape Provinces as these have been identified as areas of need

- Policy in terms of involving employees:

In a recent report by Everatt and Solanki, South Africa is identified as a nation of givers. The aim of the Discovery Employee Volunteer Project (EVP) is to provide employees with an avenue for such giving and in the process to align this giving with the support provided through the Discovery Fund. We believe that this will complement the support already channelled through the Discovery Fund.

The objectives of the Employee Volunteer Project are to:

- Co-ordinate a focused CSI employee involvement programme with the aim of situating Discovery within the broader SA Community and in the process achieving loyalty and pride in Discovery as a company;
- Recognise and reward staff for their effort and commitment through communicating involvement of staff within and outside of Discovery's community and to
- Reinforce the Discovery CSI projects by encouraging staff involvement by giving of their time, expertise and financial resources. Discovery employees have over the past two years been involved with employee volunteer initiatives. However, since October 2004, we have developed a more strategic alignment of employee volunteerism with Discovery Fund projects so as to ensure greater impact in areas and projects where a commitment has already been made.

We encourage Discovery employees to get involved in two distinct forms of activity:

- Adopting projects at departmental level for a period of one year. Adoption could take the form of financial assistance, imparting of expertise and time.
- Participating in once-off events primarily to raise funds for various charities or to respond to specific requirements at a given time as requested by charities we have a relationship with.

We are in the process of instituting an Employee Community Builder of the Year award which aims to reward Discovery employees participating in community work during their own time. This will form part of the objective of adopting a project for a period of one year as a group, department and not as individuals. The overall winner will be selected after twelve months and the prize money of R10 000 will be donated to a charity selected by the winners.

In March 2005 we launched, together with Discovery People (our HR division), a Leadership Volunteer Week where all our managers gave of their time to refurbish projects which form part of the Discovery CSI programme. The projects were the Red Cross Children's Hospital in Cape Town, Life Line in KwaZulu-Natal, Zaziwe Hospice in Jeppestown, Othandweni Children's Home in Soweto and the Alexandra Clinic.

Managing Relationships with Community

Discovery Fund Projects

The Discovery Fund spent over R3,48 million on developmental and community projects for the financial year 2004-2005.

Discovery Fund Projects 2004-2005

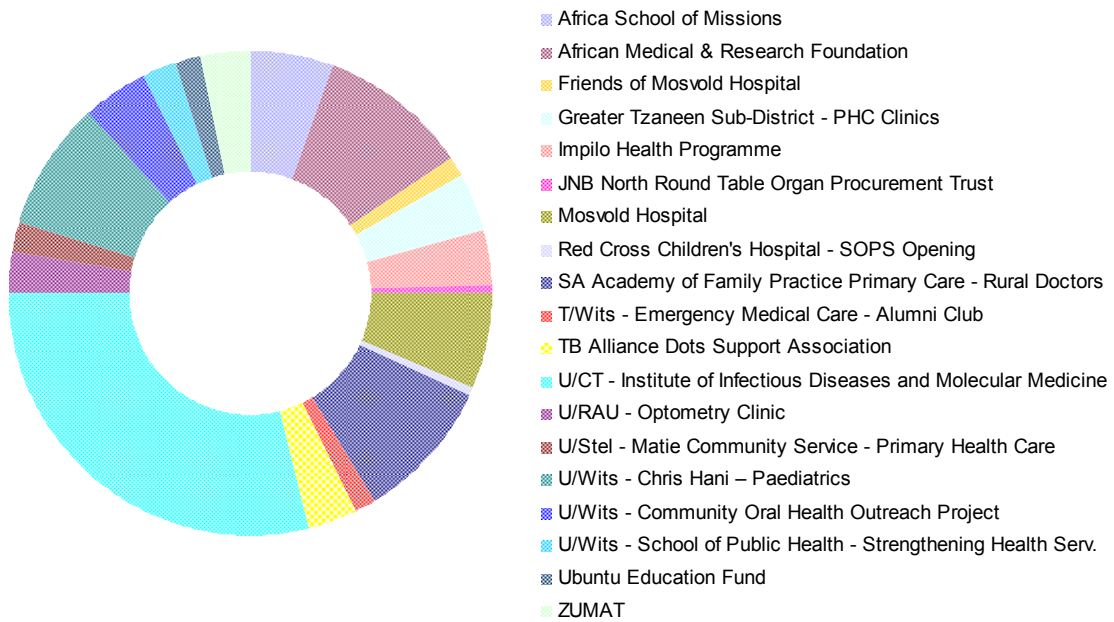


Table 1 Discovery Fund Projects

Laureus Sport for Good Foundation

This programme supports 7 sport projects, and contributed over R1,3 million towards these initiatives in the last financial year.

Laureus Sport for Good Foundation Projects 2004-2005

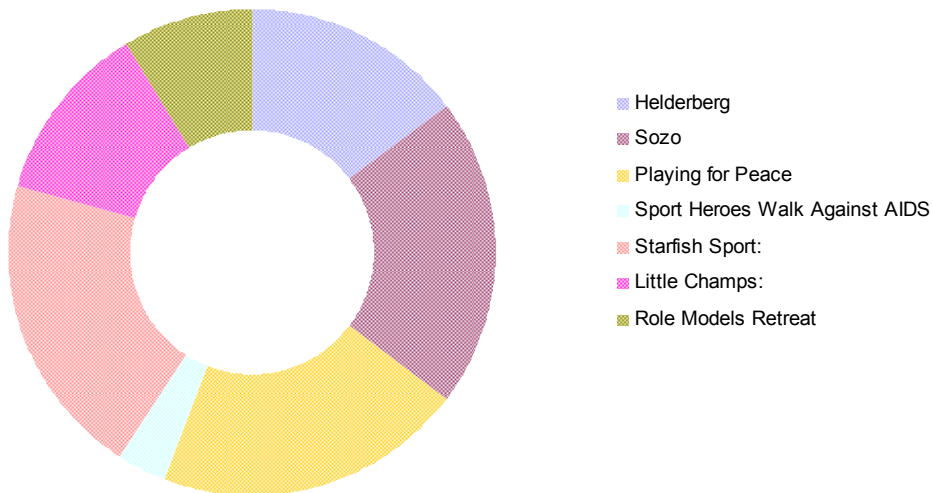


Table 2 Laureus Sport for Good Foundation Projects

Profiles of Certain CSI Projects

Health-related projects supported through the Discovery Fund

Matie Community Service, University of Stellenbosch – Primary Health Care

The Matie Community Service (MCS) was formed in 1964 when medical students at the Tygerberg campus of Stellenbosch University identified the need for basic medical services in under-resourced communities on the Cape Flats. MCS is now a well organised programme that renders medical and dental services to people in previously disadvantaged communities.

During 2004, 70 evening clinics were held in the Kleinvlei (Bluedowns) community and the Scottsdene (Wallacedene) community. This medical service includes two visits per week (excluding student holidays and examination times), with approximately 700 students and 70 doctors rotating at these two clinics throughout the academic year. A total of 821 patients were treated during 2004.

Seven weekend clinics and 1 holiday clinic were held during 2004. Weekend clinics assist patients in remote areas, squatter settlements, underprivileged townships and small rural communities, providing extended and free medical service. ±100 Medical, Physiotherapy, Speech & Audio and Nursing student volunteers from the Faculty of Health Science took part in these activities. Dr Heyns, from the Department of Pediatrics and Child Health, was the supervisory doctor for all of the 8 outreaches.

Impilo Health Care Programme, Johannesburg – Primary Health Care

The Impilo Health Care Programme was initiated in Hillbrow in 1994, when it became evident that street children and local youth were often involved in fights, sometimes leading to severe injuries. In addition these children were exposed to very unhygienic living conditions and were often turned away from Hospitals or Clinics due to their lack of funds to cover admission fees or because they did not have a permanent address. The Project now cares for all homeless people in Hillbrow and inner-city Johannesburg, and it consists of a mobile clinic, a container sickbay/clinic and a care centre.

Impilo's strategy is four dimensional. The four units are:

- *Primary Health Care Unit:* Professional Nurses render health services with a special focus on emergency first aid, primary health care, TB and STD referrals, HIV/AIDS counselling and test referrals, as well as wound care and after care. Between March 2003 and February 2004, a total of 6 949 people were treated
- *Home/Community Based Care Nursing Unit:* These caregivers have been trained in general medical assessments, first aid and wound care and have completed the 59 day Home Based Care Course. On average 305 home visits are done per month
- *A Health Education and Promotion Unit:* This unit aims to train and educate children and their peers about health issues, such as basic hygiene, safe sex, STDs, HIV/AIDS, basic first aid, TB and substance abuse. During the year 2004, a total of 8 443 people were reached through these programmes
- *The Zaziwe Hope for Life Care Centre:* This is Impilo's hospice in Jeppestown, Johannesburg. The facility has 80 beds, but currently can only accommodate 30 terminally ill patients at any given time due to funding constraints. In addition to the palliative care service, patients are offered assistance in terms of counselling, family reunification, group work, grant applications, ID applications and pastoral care. As of September 2004, a full time creative therapist volunteered her services for one year to assist in developing a recreational programme which includes beadwork, gym, dancing, painting etc. 407 patients were admitted to the Care Centre in 2004. 71

patients were assisted with grant applications, 41 patients were assisted with ID documents and 61 patients were reunited with their families.

Wellness projects in partnership with the Laureus Sport for Good Foundation: The Helderberg Partnership Project, Western Cape

"Training is winning and winning is a way of life"

This project is a partnership between the Helderberg Sports Academy (HSA) and Prevention and Treatment of Child Abuse in the Helderberg (PATCH) that raises awareness about child sexual abuse at weekly athletics coaching sessions.

The HSA was established in 1999 to supplement the inadequate sports coaching at schools in the Helderberg Basin. During coaching sessions as well as conversations with their athletes, however, HSA officials soon became aware of a serious child sexual abuse problem in the Macassar area. PATCH, on the other hand, had been trying for years to encourage volunteers from Macassar to assist in presenting body safety programmes in the area, as they were aware of the magnitude of this problem. Then the Helderberg Sports Academy approached them in 2002, offering their sports coaches to be trained as PATCH volunteers since the children already knew and trusted them.

Coaching sessions are offered six days a week to children aged between 10 and 18 – in athletics, cross-country, road running and race walking – and all children are allowed to attend irrespective of their ability to pay. HSA sports coaches have now been trained by PATCH to recognise signs of trauma amongst their athletes in training, and together with PATCH social workers they now raise awareness of the problems of juvenile sexual abuse at the daily coaching sessions. In addition the coaches give a lecture once a week on some aspect of child sexual abuse and the athletes know that they can turn to their coaches for help.

Playing for Peace, KwaZulu-Natal

"Children who learn to play together can learn to live together"

This project aims to foster tolerance and compassion among youth in Durban and surrounding areas, breaking down barriers by bringing youth from various backgrounds together to play basketball. In the five years since its inception in December 2000, Playing for Peace Durban has coached thousands of black, white and Indian children aged between 10 and 16 to play together. Coaches also facilitate off-court interaction and talk to the children about the importance of respecting each others' cultures and backgrounds. The friendships that develop from playing together as a team have enabled many of these children to influence their communities in a positive way as well

The project has built more than 30 full-length basketball courts in and around Durban and has established the only primary school basketball league in the region. They have also recruited and trained many local coaches and coordinators and are constantly expanding their basketball programme to engage more young people throughout the region.

On a social level, through the HIV/AIDS awareness initiative they have implemented across their programme they are training young adults to become mentors, while educating all the children about critical health issues and thus empowering the next generation of South Africans to lead healthier, more integrated and positive lives.

Community Satisfaction

As mentioned before, our CSI programme was reengineered during 2004 to bring it in line with the focus areas identified by the community and government. We have become more proactive in our approach and are actively looking for opportunities to involve both the communities we touch and our employees.

Impact assessment

We have found the best way to measure the impact of what we do is to go back to the communities we have invested in and experience the impact first hand. For example, in the previous financial year we invested funds in building netball courts at schools in indigent communities in partnership with the Department of Education and the Laureus Sport for Good Foundation. We have now returned to these schools to assess the impact the project has had and monitor the maintenance of these courts. Flowing from that, we are sponsoring netball tournaments in these communities to raise awareness and encourage community participation. We have invited the community to become involved, using the facilities not only for other sports but also as a centre for the community to get together and meet to discuss important issues. This commitment to measuring the impact and addressing any issues arising from the assessment applies to all the projects we invest in.

Discovery Customers

Scope

Discovery is a specialist risk assurer operating in international health and life assurance markets. While we have recently entered the UK private health insurance market through our 50/50 partnership with the Prudential plc, called PruHealth, and have been operating in selected US markets since 2000 through our wholly-owned subsidiary, Destiny Health, the focus of this report is primarily on stakeholder engagement in the South African operations. Importantly, most of the back office and call centre functionality for these ventures is located at our head office in Sandton, and therefore the processes and principles outlined here apply to these operations.

Discovery sells private health care cover in the open medical scheme market through Discovery Health and offers administrative services to large closed medical schemes through its Discovery InHouse offering. We also provide risk-only cover for life, disability and severe illness benefits through Discovery Life. In June 2005, Discovery Life launched its first investment product, the Discovery Life retirement Optimiser. Discovery Life also offers group risk benefits to medium and large employer groups. Through Discovery Vitality, we provide our members with access to various health, leisure and lifestyle services in partnership with leading lifestyle brands. Financial services was added to this list when we launched the DiscoveryCard, a unique rewards-based credit card, underwritten by First National Bank's Card division.

For Discovery, the customer means many different things – our customers include members of the Discovery Health Medical Scheme, individual and group life policyholders, the employers of medical scheme members and group risk policyholders and the trustees and members of closed medical schemes. In addition, we provide services to a wide range of stakeholders who are not our direct customers, but as key partners and stakeholders, are treated with the same focus on service delivery as our direct customers. These would include the health professionals whose claims we pay and who care for our members, our Vitality partners and the intermediaries who provide service support and advice to our members.

Almost 1.8 million lives are covered by the Discovery Health and Life Plans, and our customer base therefore reflects a very broad and diverse range of customer segments. In the Discovery Health environment, where regulations stipulate community rating and open enrolment, our target market is essentially any employed individual who requires access to private health care cover. We offer a series of plans to cater for the differing financial and health needs of different individuals. Our KeyCare Plans cater specifically for the lower income, employed but uninsured market (employed individuals earning a household income of less than R5 000 per month).

In terms of Discovery Life, our target market for individual life business at present is the middle to higher income earner typically between the ages of 25 to 55.

As a company that touches people's lives, keeping our clients and stakeholders informed is a key component of our ability to build and maintain relationships of trust. Discovery utilises state-of-the art technology to keep in touch with our clients and

provide them with relevant, personalised information. We use electronic newsletters, SMS and email notifications to provide the right information to the right people at the right time. Discovery also makes use of its in-house publications, the Discovery magazine and the Discovery Health Partner magazine to communicate to clients and health professionals respectively.

Discovery maintains regular communication with shareholders and the investment community through the media, SENS, our annual report, annual general meetings for the Discovery Health Medical Scheme and the Discovery Group, as well as regular results presentations and one-on-one interviews with the media and analysts. Copies of Discovery's latest results announcements, press releases and media activity are available at www.discovery.co.za on our Investor Relations Zone.

An important aspect of our stakeholder communication strategy is to provide various channels of response, so our clients and stakeholders are able to reach us when they need to and in a way that is convenient to them. Again, technology plays a key role and clients have the ability to email us, visit our website, call into dedicated call centres or make use of voice recognition software to give us feedback and request further information. These are supplemented by regular client feedback surveys conducted by our Client Research division, as well as independent surveys and focus groups conducted by independent research companies.

Issues of Major Concern Relating To Customer

As seen below, Discovery relies on intermediaries to market and distribute its products and service its clients – both employers and members. Because their interests are aligned with us when it comes to service delivery to our clients, intermediaries are an excellent source of feedback. They interface with our clients every day, picking up issues of concern very quickly and providing us with honest feedback. They also hold us accountable for resolving the issues they raise with us, following up regularly on what actions we are taking to resolve matters.

In addition, we conduct extensive research to gauge our clients' perceptions and identify any areas for improvement. We often do once-off, issue-based research, where we engage with specific client groupings to test their perceptions about a defined issue that may be of concern to us at the time. Recent examples include research among Discovery Health members about the adequacy of their benefits, focus groups with our KeyCare members about our communication material, research among health care providers on their attitudes to balance billing and a survey among employers on whether or not they feel that offering Discovery benefits to their employees impacts on their stature as an employer of choice. This type of research is usually telephonically conducted by our research department and takes the form of a detailed interview.

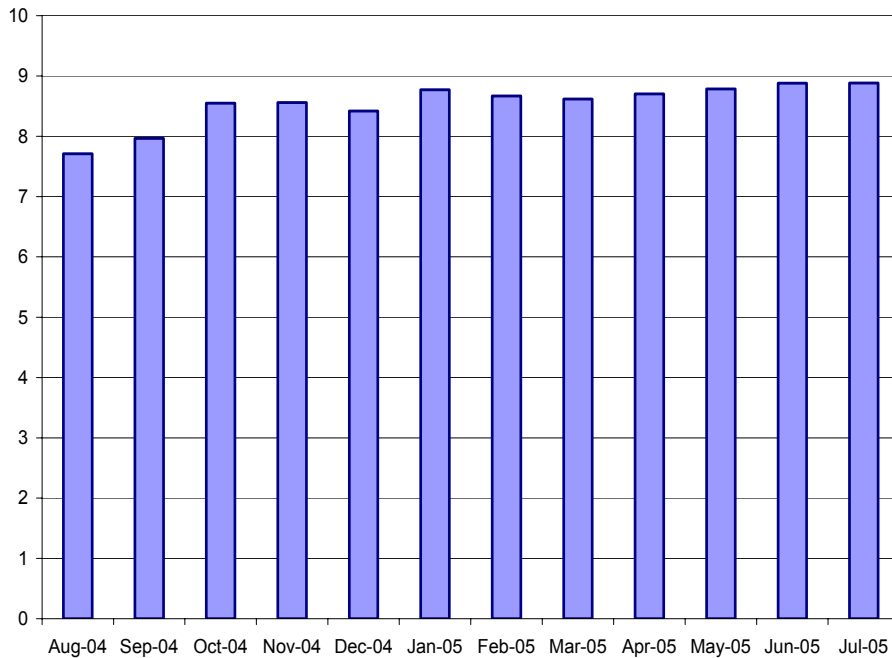
We also conduct ongoing research on a more regular basis. Discovery Health participates in the TWIG industry surveys conducted twice a year. This extensive research polls perceptions among our members, employers, intermediaries and health care providers and we are able to track our performance against our competitors in the industry. Most years we also commission Markinor to conduct surveys among all our client groupings, including our employees, with specific reference to the efficiency of our various customer touchpoints (for example, our member magazine, member benefit guides and client services call centre) and the value they deliver.

We also regularly survey our clients on the likelihood of their recommending Discovery. We benchmark these results against international studies and have found that we perform quite well in this assessment, with our results second only to that of Southwest airlines in the US.

With all of this research, we probe deeper into the results and understand why we are scored in a specific way. This helps us to highlight issues, implement actions to address issues and then track our performance over time to see what issues are of importance at different times.

In addition, we conduct regular surveys among our call centre staff, who on average each deal with 60 calls a day, asking them to list the top three issues our clients are phoning in about.

An important initiative that we have implemented during the past financial year is emailing people who have dealt with any of our call centres a day or so after their call to ask them to rate their interaction. Our various service teams compete against one another based on these results and our call centre consultants' incentives are based almost entirely on this rating. Since implementation, we have seen the average rating out of ten increase from a 7.7 average to around an 8.8 average.



Policies

Discovery has various client-related policies, but the majority of issues are governed by our values, which focus on integrity, honesty, urgency, leadership, innovation, service and a commitment to quality people. All the activities of the entire organisation are geared towards achieving our core purpose of making people healthier and protecting their lives and are framed by and measured against these values. Extensive training is

done regularly throughout the organisation to educate employees about the values and drive their compliance.

Our products and services comply with the rules and regulations that apply to our business activities and we have a dedicated compliance department that monitors our ongoing compliance and takes action if any deviations are identified. The rules applicable to the Discovery Health Medical Scheme and the other medical schemes we administer are registered with the Council for Medical Schemes and we are properly accredited as medical scheme administrators and financial services providers with the relevant industry bodies. More details are available in the section on our regulatory environment.

In addition, Discovery Health has a “Patient Bill of Rights”, which we distribute to all our members upon joining to educate them about their rights when admitted to hospital. We ask that all hospitals comply with the guidelines set out in the Bill and take up any complaints we receive from members in this regard directly with the hospital in question.

Managing Relationships with Customers Current Performance (FY 2004)

Service remained a key focus area for Discovery during the year under review, with the emphasis on increasing operational efficiency and improving response times. New business flows increased dramatically, with our largest ever take on of Discovery Health new business in January 2005. In spite of this, we achieved our best service levels yet during the past financial year. Please refer to our operational review in the Annual Report for more information on product and service performance over the past year. More information on our service levels can also be found in section 2.4 on customer satisfaction.

In the Discovery Life environment, the addition of our SmartDoctor service to the Discovery Smart Service offering (also mentioned in our environmental report) has drawn many compliments from intermediaries and their clients – and many of our competitors have followed suit. Discovery Life’s SmartService and SmartDoctor initiatives dispatch health professionals to prospective policyholders to perform any blood or medical tests required and assist them in completing any medical questionnaires.

In terms of product development, both Discovery Health and Discovery Life are responsive to client needs in designing and enhancing our products. During the past financial year, Discovery launched its credit card, the DiscoveryCard to meet three important objectives – to add significant value to members, encourage and reward healthy behaviours and increase convenience. The powerful benefits of the DiscoveryCard are linked to members’ Vitality status, so the healthier members are, the greater the benefits they enjoy at our network of retail and travel partners. The DiscoveryCard is also a membership card, and it also allows members to choose additional, interest-free cover for non-hospital expenses through the Health Plan Account.

Value for money and affordability are of critical concern to consumers in the medical scheme environment, a traditionally inflationary environment. Discovery Health helped to pioneer a single digit inflation environment when it announced a 5,4% headline increase

at the beginning of 2005. The rest of the environment followed suit and the trend is set to continue, with our headline inflation increase of 6.9% for 2006 – despite complex regulatory changes. Discovery Health also rolled out enhancements to its Health Plans in January 2005 to ensure that we offer members extended cover for chronic conditions in keeping with the Prescribed Minimum Benefits (please see the section on the regulatory environment for more information.)

The Discovery Life retirement Optimiser uses unused life cover to boost policyholders' income in retirement, and flexible, transparent product design protects policyholders against unforeseen penalty fees and fluctuations in investment markets. Discovery Life also enhanced cover on some of its key Life Plan benefits during the year under review – making cover for severe illness and disability even more accessible by extending the criteria used for assessing claims.

Distribution

Discovery relies entirely on intermediaries for the distribution of its products. Discovery's support of the intermediary role flows from our belief that the complex nature of health and life assurance products requires objective, independent and well-researched advice. We have developed a franchise structure to offer service support to the intermediary environment. There are 32 Discovery Consulting Services (DCS) franchises distributed over four provinces in South Africa. The 227 DCS business consultants call on around 5 000 intermediaries to educate them on Discovery's products, assist them with any service or product queries and provide them with the tools required to market Discovery's products.

This face-to-face service support structure allows for regular interaction with our intermediaries and formal channels exist for escalating and addressing any issues raised through this mechanism. In addition, Discovery's marketing division provides regular product training, technical marketing support and education about legal and regulatory requirements to our DCS franchise directors, business consultants and directly to intermediaries. They also have access to the intermediary zone at www.discovery.co.za where they can access a wide variety of product information, member servicing functionality, commission statements and more.

Discovery provides further service support to the distribution channel through various telesales areas which focus on increasing the uptake of DiscoveryCard, the Vitality programme and on an ad hoc basis, support intermediary sales of any new standalone benefits. The telesales areas work with intermediaries to target specific client groups and the structure is permission-based.

Transformation

The number of South Africans covered through private health care funders has remained static at around 7 million, or 16 percent of the population, for many years now. While high unemployment rates have kept many South Africans out of the private healthcare system, there are around seven and half million employed South Africans in the low income market who are not insured. In January 2003, Discovery Health entered the employed but uninsured market with its KeyCare Plans. We believe that in tapping into this market, we are not only creating an important source of future growth for Discovery Health, but are also helping to alleviate some of the pressure on our overburdened

public health sector. As more and more South Africans enjoy access to the private health sector, it is hoped that more funds and resources will be freed up within the public sector to improve the overall quality and accessibility of care.

- **The KeyCare Plans**

The KeyCare Plans have grown steadily over the two and a half years since their launch, starting from a zero base to 90 000 members in June 2005 – with around 54% of those members having never enjoyed access before. Since the outset, we have striven to balance affordability and quality of care. A network-based structure that manages cost on the supply-side means that affordability is achieved by limiting members' choice, rather than limiting their benefits (as has been the case with other plans that have targeted the same market).

- **The Local Authority Health Plans**

Another important development in extending access to private health care is the addition of the LA Health Medical Scheme to Discovery Health's portfolio of InHouse Schemes (previously known as LAMAF or Local Authorities Medical Aid Fund). On 1 January 2005, Discovery Health started administering this scheme aimed at employees of the local government sector. Historically, the scheme catered for the upper echelons of local government employees and had a largely white target market. As the face of local government has changed over the past ten years, so has the need increased to provide access to private health care cover to a broader base of municipal and local government employees – especially those earning less than R5 000 per month. To cater specifically for this emerging market within the local government sector, we have extended the KeyCare concept into the LA Health Plan range with LA KeyPlus, which operates similarly to the KeyCare Plus Plan. They also have access to the benefits of KeyClub, the lifestyle rewards programme attached to the KeyCare Plan designed to add value and encourage members to stay covered.

The potential market for LA Health is around 250 000 local government employees and we believe a large proportion of those employees who would traditionally have been dependent on the public sector for care will now be able to access private health care cover through the LA KeyPlus Plan.

Customer Satisfaction

In the past year, the number of escalated queries have reduced from a monthly average of about 1000 to around 650. We have Customer Relationship Managers (CRMs) within Discovery, who have been selected based on their experience and skill in resolving client queries. Any issues that are escalated to Discovery's executive team are routed to the CRMs as well as any queries escalated through our intermediary call centre. In addition, our call centre consultants are empowered to escalate any cases they feel require face-to-face interaction to the CRMs.

Other escalation vehicles also exist within the regulatory framework for dissatisfied clients. For example, clients are able to lodge complaints with the Council for Medical Schemes, Financial Services Board and now with our entry into the retirement funding market, the Pension Funds Adjudicator.

In broad terms, our research over the past year has highlighted the fact that our clients find it complex to interact with us. Especially in the Discovery Health environment,

complexity is added by the multi-dimensional nature of interaction between patient, doctor and health care funder. Our clients also find our products quite complex.

We have therefore focused over the past year on streamlining the way in which members experience the claims submission and payment process. This is achieved by encouraging direct electronic claims submission, ensuring we communicate with our members at the most appropriate time – so that we're communicating when it is relevant and meaningful to members, we have simplified our claims statements and we are currently redesigning our claims notifications. We have also focused on call centre effectiveness and the ongoing competition between similar service areas, supported by the incentive structures mentioned above are examples of the actions we have taken in this regard.

Health and Safety

The policies outlined in the operational report on our people and the environment applies to any visitors to our buildings.

Discovery Regulators

Regulators

The major regulatory bodies with oversight for Discovery are:

- Discovery Health
 - Financial Services Board
 - Council for Medical Schemes
- Discovery Life
 - Financial Services Board
 - Life Offices Association
 - Pension Funds Adjudicator (only with effect from August 2005, when Discovery Life's retirement Optimiser became available)

In addition, Discovery participates in various industry and business forums and associations. For Discovery Health, these include the Board of Healthcare Funders and Private Healthcare Forum and for Discovery Life, the office of the Ombudsman for Long-term Assurance.

We occasionally also engage with other government departments such as the Department of Health, the Treasury, the Department of Trade and Industry on certain issues.

Discovery has the following mechanisms in place for interaction with these bodies:

Discovery Health

- Financial Services Board – no regular formal meetings are in place, but Discovery's compliance department maintains ongoing communication with the FSB.
- Council for Medical Schemes – most interactions with the Council for Medical Schemes are channelled through the Principal Officer of the Discovery Health Medical Scheme.

There are regular quarterly meetings between Discovery Health and the Council for Medical Schemes.

Discovery Life

- Financial Services Board – as above
- Life Offices Association – interactions are channelled through Discovery's compliance department and the office of the CEO.
- Pension Funds Adjudicator – the Discovery Life legal department interacts directly as and when issues arise.

In addition, representatives of Discovery engage with our regulators through the advisory and industry bodies mentioned above, such as the Board of Healthcare Funders or Private Health Forum. Here our interactions are often in an advisory capacity or as representatives of the industry rather than of Discovery.

Major Issues of Concern during the Year Discovery Health

- **The implementation of ICD 10 coding** –In terms of this system, health care practitioners need to use an international set of diagnostic codes, which provides clinical information about patient consultations, on all their claims invoices. With effect from 1 July 2005, medical schemes must reject payment for any claims received that do not contain these codes. During the year under review, Discovery Health engaged regularly with the Council for Medical Schemes on the monitoring of compliance and industry readiness for adopting this new methodology. We have also communicated extensively with health care practitioners on the implementation of this coding system. In partnership with the South African Medical Association and Foundation for Professional Development, we have sought solutions to ensure health care professionals are equipped to deal with the ICD-10 implementation. This included training at the Discovery Institute. Discovery Health supports the implementation of the ICD 10 coding system and has made all the necessary adjustments to our claims payment processes to support this new addition.
- **The implementation of the medicine pricing regulations** – This issue received extensive media coverage in the latter quarter of 2004 and first quarter of 2005. The industry still awaits the final outcome of the Constitutional Court’s hearing of the Department of Health’s appeal against the ruling made by the Appellate Division last year that the regulations were invalid. Discovery Health engaged extensively with the Department of Health and the Council for Medical Schemes during this period, with the view to finding a solution that would support the aims of the regulations while protecting our members against uncertainty and rising costs. Discovery Health paid for medicine claims in line with the 26% mark-up limit set out by the regulations, but many members experienced shortfalls in cover at pharmacies that considered the regulations null and void. We therefore implemented an interim pricing structure that pays up to a 36% or R54.90 mark-up and certain pharmacies have agreed to charge these rates. We are still awaiting a final ruling on this issue and will continue to pay claims in this manner until the ruling is received. We will engage appropriately with the regulator once the outcome is known.
- **The roll out of the extended Prescribed Minimum Benefits** – Regulations extending the cover offered in terms of the Prescribed Minimum Benefits relating to the out of hospital diagnosis, management and treatment of 26 chronic conditions came into effect on 1 January 2005. Discovery Health is fully compliant with the stipulations of the Prescribed Minimum Benefits, but we have continued to engage regularly during the year under review with the Council for Medical Schemes about the roll out of these benefits and how to ensure their ongoing sustainability.
- **Government Employees Medical Scheme tender** – During the year under review, Discovery Health regularly engaged with the Department of Health, Department of Public Service Administration and the Council for Medical Schemes around the requirements for the new medical scheme for public servants, which will be rolled out from 1 January 2006.
- **Risk equalisation fund** – Discovery has over the past year regularly engaged with the Council for Medical Schemes and the Department of Health’s Ministerial Task Team about the proposed introduction of a risk equalisation fund (REF) for South Africa’s medical schemes. We welcome the move in the belief that it will address the potentially serious problems of the vastly different risk profiles of different medical schemes, based on the variations in respective schemes’ membership profiles. Schemes with younger, healthier

members are at less risk than schemes with an older, sicklier membership profile. Medical schemes with a better risk profile will pay funds into the REF to the benefit of medical schemes with a riskier membership profile. This provides stability and certainty in the medical schemes market and protects medical scheme members. Discovery Health has already assessed its risk profile in terms of the REF and while we will be a net contributor to the fund, the financial impact on the Discovery Health Medical Scheme will be minimal. Depending on the announcement of the legislation, we expect to see the REF come into effect on 1 January 2007.

- **Social Health Insurance** – Social health insurance has been under discussion for a while and we believe that the overall objective remains intact. However, two streams have emerged from the discussions held thus far – income solidarity and risk solidarity. In terms of risk solidarity, this issue is addressed within the context of risk equalisation fund, which we expect to be implemented by 1 January 2007. However, the question of income solidarity is a far more complex one and a joint task team from the Health Department and Treasury has been appointed to investigate how to address this issue. We expect their investigation to only yield discussion documents towards the end of the year and therefore, we believe it will still be a while before any tangible steps are taken.
- **Council for Medical Schemes ruling on variable Medical Savings Account contributions** – In December 2004, the Council for Medical Schemes ruled that the variability of Medical Savings Accounts is inconsistent with the Medical Schemes Act. In 2006, across the industry, health plans will be designed with a single level Medical Savings Account. This will have a significant impact on the benefit design of many medical schemes. Discovery Health has engaged extensively with the Council for Medical Schemes on its 2006 plan and benefit designs to ensure compliance with this ruling.

Discovery Life and Health

- **FAIS compliance** – During the year under review, Discovery Health and Life rolled out extensive communication and training to the Independent Financial Advisors (IFAs) on our books to facilitate their compliance with the Financial Advisory and Intermediary Services Act. FAIS emphasises the need for intermediaries selling life and health products to attain certain qualification standards set by the Insurance Sectoral Education and Training Authority (INSETA). FAIS was established to ensure good governance and sound intermediary advice. According to the Act, the FAIS Fit and Proper Determination requires that all IFAs either had at least a matric, depending on their category of business, on the National Qualifications Framework (NQF) in order to have been licensed by 30 September 2004. Thereafter they are required to build up further credits over the next three years, up to 60 credits. Discovery partnered with the Financial Planning Institute to provide training on all 60 credits for intermediaries. Intermediaries who are not properly accredited are not paid commission, as per the Act, and we engage regularly with the Financial Services Board and INSETA on the Act and its application with Discovery.
- **Financial Intelligence Centre Act compliance** – During the year under review, Discovery Life's compliance officer assessed our compliance with FICA and oversaw the drafting and publication of the internal rules and training initiatives required by legislation in terms of record-keeping, client detail verification and reporting of suspicious transactions. We have engaged extensively with the Financial Services Board and the Financial Intelligence Centre on our implementation of these rules and compliance with the Act

Financial Sector Charter

1. Preamble

1.1 In August 2002, at the NEDLAC Financial Sector Summit, the financial sector committed itself to the development of a Black Economic Empowerment (BEE) charter. We made this commitment noting that:

- despite significant progress since the establishment of a democratic government in 1994, South African society remains characterised by racially based income and social services inequalities. This is not only unjust, but inhibits the country’s ability to achieve its full economic potential;
- BEE is a mechanism aimed at addressing inequalities and mobilising the energy of all South Africans. It will contribute towards sustained economic growth, development and social transformation in South Africa;
- inequalities also manifest themselves in the country’s financial sector. A positive and proactive response from the sector through the implementation of BEE will further unlock the sector’s potential, promote its global competitiveness, and enhance its world class status;
- equally, the financial stability and soundness of the financial sector and its capacity to facilitate domestic and international commerce is central to the successful implementation of BEE.

1.2 We, the parties to this charter, therefore commit ourselves to actively promoting a transformed, vibrant, and globally competitive financial sector that reflects the demographics of South Africa, and contributes to the establishment of an equitable society by effectively providing accessible financial services to black people and by directing investment into targeted sectors of the economy.

1.3 This financial sector charter

- was voluntarily developed by the sector;
- is a Transformation Charter as contemplated in the Broad-Based BEE legislation;
- constitutes a framework and establishes the principles upon which BEE will be implemented in the financial sector;
- represents a partnership programme as outlined in Government’s Strategy for Broad-Based BEE;
- provides the basis for the sector’s engagement with other stakeholders including Government and labour;
- establishes targets and unquantified responsibilities in respect of each principle; and
- outlines processes for implementing the charter and mechanisms to monitor and report on progress.

2. Interpretation

2.1 Affected institution means every financial institution that takes designated investments.

2.2 Agreed standard valuation means a valuation of an asset (valued in terms of the context in which this term appears) based on normal valuation methodologies (representing standard market practice) given the nature and stage of development of the asset being valued provided that:

- the principles set out in the table hereunder will serve only as a guide to possible valuation methodologies that could be employed:

Operation	Valuation methodologies
Banking	Discounted cash flow Price to book Capitalisation of earnings Net asset value
Insurance	Discounted cash flow Embedded value Price-to-embedded value Capitalisation of earnings Net asset value

Brokerage firms	Discounted cash flow Capitalisation of earnings Net asset value
Asset managers & Collective Investment Schemes	Discounted cash flow Capitalisation of earnings Percentage of funds under management Net asset value

- where the financial institution is listed on the JSE Securities Exchange South Africa the market capitalisation of the financial institution concerned shall serve as an overall benchmark for the individual valuations of the underlying assets and businesses of such financial institution such that, on a sum-of-the-parts basis, these would represent a value no higher than such market capitalisation.
- Cash flows to a beneficiary or shareholder will be valued on an after-tax basis.

- 2.3 BEE, as defined in the Broad-Based Black Economic Empowerment legislation, means the economic empowerment of all black people, including women, workers, youth, people with disabilities and people living in rural areas, through diverse but integrated socio-economic strategies.
- 2.4 BEE accredited means being validated in terms of this charter as a BEE company, or being validated as having achieved a certain standard of BEE contribution in terms of a recognised BEE charter scorecard or accreditation system.
- 2.5 BEE transactions means:
- all transactions for the acquisition, by black people, of direct ownership in an existing or new entity (other than an SME) in the financial or any other sector of the economy; and
 - joint ventures with, debt financing of or other form of credit extension to, and equity investments in BEE companies (other than SMEs).
- 2.6 BEE companies refers to companies as defined in paragraphs 2.7, 2.8, 2.9, and 2.12.
- 2.7 Black companies mean companies that are more than 50% owned and are controlled by black people.
- 2.8 Black empowered companies mean companies that are more than 25% owned by black people and where substantial participation in control is vested in black people.
- 2.9 Black influenced companies mean companies that are between 5% and 25% owned by black people and with participation in control by black people.
- 2.10 Black people means all Africans, Coloureds and Indians who are South African citizens and includes black companies. However, in paragraphs 5 and 11 the term shall include permanent residents of the Republic of South Africa. The word “black” when used in conjunction with other words shall have the same implications.
- 2.11 Black SME means a small or medium enterprise (with a turnover ranging from R500,000 per annum to R20 million per annum) which is a black company or a black empowered company.
- 2.12 Black women-empowered enterprise means companies that are more than 30% owned by black women, and where substantial participation in control is vested in black women.
- 2.13 Broad-based ownership is where an empowerment shareholder represents a broad base of members such as employees (to the extent that the options have actually been exercised), collectives and/or communities, or where the benefits support a target group, for example black women, people living with disabilities and the youth. Shares are held directly or indirectly through non-profit organisations and trusts. At the same time, directors and management of the groups should predominantly comprise black people.
- 2.14 Charter Council means the Charter Council established in terms of paragraph 15.1.
- 2.15 Company means an enterprise registered in terms of the Companies Act, 1973, close corporations, trusts and any other such enterprise formed for business purposes.
- 2.16 Control centres on the authority and power to manage assets, the determination of policies and the direction of business operations. Indicators of control may include:
- participation in control structures of a business unit or of the company (such as shareholder meetings, the Board of directors, board subcommittees, and divisional boards), the exercise of voting rights on the board of directors and committees thereof, and controlling equity;

- participation in executive management.
- 2.17 Discrimination: means discrimination as defined in the Promotion of Equality and Prevention of Unfair Discrimination Act.
- 2.18 Designated investment means any form of statutory or voluntary deposit, saving, investment or risk insurance placed or made by the South African public (whether of a wholesale or retail nature, but not by one financial institution in another).
- 2.19 Development Finance Institutions or “DFI’s” means finance entities created or funded by a tier of Government. These include, but are not limited to, the DBSA, IDC, PostBank, NEF, Land Bank, Khula, NHFC, the PIC, the Umsobomvu Fund, and Provincial Development Corporations.
- 2.20 Direct ownership means ownership of an equity interest together with control over all of the voting rights attaching to that equity interest.
- 2.21 Empowerment financing means the provision of finance for or investment in:
- Targeted investment; and
 - BEE transactions.
- 2.22 Effective access means
- 2.22.1 being within a distance of 20 Kms to the nearest service point at which first-order retail financial services can be undertaken, and includes ATM and other origination points, except in the case of the products and services of the long term assurance industry, where effective access, including physical access will be in terms of the availability of these products and services, and in terms of proximity or accessibility of financial advisers to community-based infrastructure;
- 2.22.2 being within a distance of 20 Kms to the nearest accessible device at which an electronic (other than ATM) service can be undertaken;
- 2.22.3 a sufficiently wide range of first-order retail financial products and services to meet first order market needs and which are aimed at and are appropriate for individuals who fall into the All Media Product Survey (AMPS) categories of LSM 1-5;
- 2.22.4 non-discriminatory practices;
- 2.22.5 appropriate and affordably priced products and services for effective take up by LSM 1-5; and
- 2.22.6 structuring and describing financial products and services in a simple and easy to understand manner.
- 2.23 Enterprise development means support for existing, or the fostering of, new black SMEs and BEE companies in the financial and other sectors of the economy.
- 2.24 Executive management means X number of people identified by the Board of Directors by name and position as the top managers of that financial institution, where X = 0.4% of the total staff of the financial institution employed in South Africa, with a minimum of 9 people and a maximum of 50.
- 2.25 Financial sector means all the classes of financial institution defined in paragraph 2.26.
- 2.26 Financial institutions means banks, long-term insurers, short-term insurers, re-insurers, managers of formal collective investment schemes in securities, investment managers and other entities that manage funds on behalf of the public, including retirement funds and members of any exchange licensed to trade equities or financial instruments in this country and entities listed as part of the financial index of a licensed exchange. Any other institution in the financial sector, including licensed exchanges, may opt in.
- 2.27 First-order retail products and services means
- 2.27.1 transaction products and services, being a first order basic and secure means of accessing and transferring cash for day-to-day purposes;
- 2.27.2 savings products and services, being a first order basic and secure means of accumulating funds over time. (e.g. savings accounts, contractual savings products such as endowment policies, collective investments and community-based savings schemes);
- 2.27.3 credit for low-income housing (as defined in paragraph 2.34.3, but with a minimum income of R500 per month), financing agricultural development, or establishing, financing or expanding a black SME (as defined in paragraph 2.11, but with no minimum turnover);
- 2.27.4 insurance products and services being the mitigation of impact of defined first order basic risks. (e.g. life insurance, funeral insurance, burial society, household insurance and health insurance).
- 2.28 Global policy means a globally and uniformly applied restriction, regulation, or directive imposed on a foreign owned financial institution by the parent company or on any financial institution by a regulator which governs that financial institution.

- 2.29 Indirect ownership occurs where an institution or other investor owns equity in a company on behalf of beneficiaries and there may not be direct participation by the beneficiaries in the voting rights.
- 2.30 Management
- 2.30.1 Management is divided into senior, middle and junior levels, and
- Senior management means all employees with a package (excluding bonuses) in respect of which the cost to the employer is R450,000 per annum or more, but excludes all employees who fall within the definition of executive management;
 - Middle management means all employees with a package (excluding bonuses) in respect of which the cost to the employer is between R250,000 and R450,000 per annum;
 - Junior management means all employees with a package (excluding bonuses) in respect of which the cost to the employer is between R150,000 and R250,000 per annum.
- 2.30.2 If the bonus is in excess of 50% of total remuneration then 50% of the bonus will be included as part of the package.
- 2.30.3 The salary bands will be increased in line with the consumer price index (“CPIX”) on the 1st of January each year commencing on 1st January 2004.
- 2.31 Procurement means all expenditure to acquire goods and or services including capital expenditure, but excluding
- broker commissions;
 - reinsurance premiums;
 - commissions paid to insurance intermediaries;
 - property and rental purchases (although property management is specifically included);
 - expenditure classes covered elsewhere in the charter e.g. salaries and wages. (Contract staff are regarded for this purpose as own staff and are excluded);
 - procurement spending where there is a natural monopoly;
 - any items of procurement where the supplier is imposed in terms of a global policy for technical (but specifically not commercial) reasons;
 - inter-entity charges for services rendered by other members of the group;
 - social investment expenditure and donations; and
 - all V.A.T payable.
- 2.32 Regulation or regulate when used in this charter shall have a common law or economic meaning depending on the context in which it is used.
- 2.33 Sound business practice means business practice which is conducive to the establishment, maintenance and promotion of:
- domestic and international confidence in the financial sector;
 - best international practice and prudential and other regulations relating to the custody and investment of the nation’s savings and the acceptance of risk;
 - the right to underwrite in both the long and short-term insurance industries;
 - sustainable sources of finance, which take cognisance of the different resources available;
 - level playing fields and competition between the different sub-sectors of the financial sector, and hence the avoidance of arbitrage between the sub-sectors; and
 - BEE transactions taking place on a willing buyer and a willing seller basis.
- 2.34 Targeted Investment means debt financing of, or other form of credit extension to, or equity investment in South African projects in areas where gaps or backlogs in economic development and job creation have not been adequately addressed by financial institutions. It specifically means financing of or investment in:
- 2.34.1 transformational infrastructure projects that support economic development in underdeveloped areas and contribute towards equitable access to economic resources. Such infrastructure projects could be in the following sectors-
- transport;
 - telecommunications;
 - water, waste water and solid waste;
 - energy;
 - social infrastructure such as health, education, and correctional services facilities; and
 - municipal infrastructure and services.
- 2.34.2 agricultural development involving integrated support for resource-poor farmers, through enabling access to and the sustainable use of resources.

- 2.34.3 low-income housing for households with a stable income in excess of R1,500 per month and less than R7,500 per month. This income band will be increased in line with the CPIX on the 1st of January each year commencing on 1 January 2004.
- 2.34.4 Black SMEs.
- 2.35 All references to a year mean 31 December of that year (e.g. 2008 means 31 December 2008).

3. **The challenges facing the financial sector**

- 3.1 In most economies the financial sector plays a central role in enhancing growth and development. The South African financial sector is generally recognised as world class in terms of its skilled workforce, adequate capital resources, infrastructure and technology, as well as a conducive operating, regulatory and supervisory environment. However, the financial sector is confronted by a number of challenges which include the fact that:
- it is characterised by the presence of a few very large institutions. Many of the smaller and foreign institutions have exited the market in recent years;
 - there are low levels of black participation, especially of black women, in meaningful ownership, control, management and high-level skilled positions in the sector;
 - there has been an inadequate response by the sector to the increasing demand for access to financial services;
 - the sector has not effectively provided credit to entrepreneurs, particularly black businesses;
 - the national level of savings and investment is inadequate to support sustained economic growth and individual financial security;
 - there is insufficient investment of the savings pool under the control of the sector into targeted investments of national priority;
 - a large pool of funds circulates outside the formal financial system, including but not limited to funds held by stokvels, informal traders and in other forms of short-term savings;
 - there has been limited support for new black firms in the financial sector by Government and the private sector; and
 - they need to find meaningful ways to support the Proudly South African Campaign.
- 3.2 By addressing the abovementioned challenges, the financial sector will make a significant contribution towards economic growth, development, empowerment and reduction of inequalities and poverty in our society. The initiatives envisaged will also promote growth in the financial sector.
- 3.3 The growth and development of the financial sector is central to the successful implementation of BEE and is an overriding principle and objective of this charter. In order to enhance the financial sector's global competitiveness and to address BEE, the following imperatives must be satisfied:
- the long term financial stability and soundness of the sector and its capacity to finance economic growth and to facilitate domestic and international commerce must be maintained;
 - the sector's ability to provide appropriate and effective access to financial services for a greater segment of the population must be substantially enhanced;
 - a savings culture must be developed in South African society;
 - the pool of intellectual capital in the sector must be improved by focusing on attracting new entrants and continually investing in the skills development and training of existing and new black professionals and managers;
 - the development of black strategic and operational leadership must be fostered within the sector;
 - diverse organisational cultures must be promoted to cater for a wide range of customers and to reflect the principles of inclusivity;
 - the financial sector must promote triple bottom line accountability, including principles of good corporate governance;
 - the representation of black women and black people living with disabilities in the sector as employees, managers, suppliers and owners of equity must be increased;
 - champions who understand and are committed to transformation are required at the highest level within each organisation ;
 - the number and quality of black firms providing services and products to the financial services industry must be increased and competition amongst domestic firms improved;
 - entrepreneurial development must be promoted and enhanced by supporting black entrepreneurs;

- the financial sector, which controls significant pools of savings, must be cognisant of the impact it has on directing savings towards targeted investments of national priority; and
- the regulatory environment and architecture of the sector must promote the empowerment objectives of this charter, lower the barriers to entry and facilitate competition.

4. **Application of the financial sector charter**

- 4.1 This charter applies to the South African operations of the financial sector.
- 4.2 The targets in this charter will be applied from 1 January 2004 (the “effective date”) until 31 December 2014.
- 4.3 In 2009 (based on the reports for the year ended 31 December 2008), the Charter Council will undertake a comprehensive mid-term review and make decisions regarding the implementation of the charter in its second term. The ownership provisions will be reviewed in 2011 to address identified shortcomings. The ownership provisions will be reviewed by the Charter Council in 2011 to decide what further steps (if any) to address identified shortcomings should be taken at individual financial institution, sub sector, sector or national levels.
- 4.4 The parties to this charter agree that the principles contained in the charter will be relevant beyond 2015. In 2015 (based on the reports for the year ended 31 December 2014) the Charter Council will undertake a second comprehensive review of progress in terms of the charter, and draw conclusions as to the impact of the charter on the sector and the economy, and make decisions as to what further steps (if any) to address identified shortcomings should be taken at individual financial institution, sub sector, sector or national levels.
- 4.5 All the provisions of the charter are to be achieved in a manner consistent with sound business practice.
- 4.6 Certain of the provisions of the charter will not apply in the same manner to all financial institutions. The following qualifications are provided for:
- 4.6.1 *Exemption from the Human Resource Development provisions*
If the financial institution has less than 50 staff members, it will be exempt from the provisions of paragraphs 5, 11.3 and 11.4 of the charter unless it opts to be so bound. But it will nevertheless remain bound by all labour legislation (and specifically the provisions of the Employment Equity, Labour Relations and Skills Development Acts).
- 4.6.2 *Exemption from the Empowerment Financing provisions*
If the financial institution has less than R10 m of designated investments it will be exempt from the provisions of paragraph 9 of the charter unless it opts to be so bound.
- 4.6.3 *Exemption from all the provisions*
If the financial institution has less than 50 staff members and less than R10 m of designated investments, it will be exempt from all the provisions of the charter unless it opts to be so bound.
- 4.6.4 *Qualifications if there is a global policy to which the financial institution is subject*
If, in terms of a global policy to which a financial institution is subject, –
- any board members, executive or senior managers are imposed on the local operation, those personnel will not be taken into account for the purposes of calculating ratios in terms of paragraphs 5 or 11 of the charter;
 - it is precluded from accommodating local ownership participation, it will be exempt from the ownership provisions of paragraph 10 of the charter.
- 4.6.5 *Exemption from the Access provisions*
- If the financial institution is a wholesaler, in the sense that it is not a provider of first-order financial products and services, it will be exempt from the provisions of paragraph 8 of the charter unless it opts to be so bound.
 - If the financial institution is a retailer of first-order financial products and services but, on grounds presented to and accepted by the Charter Council, it would be inconsistent with its business model for it to extend those products or services to low-income communities, it will only be responsible for the consumer education component of access (paragraph 8.4), and the points will be adjusted accordingly.
- 4.6.6 *Qualifications in respect of retirement funds*
If a retirement fund has less than 50 staff members, it will be exempt from all the provisions of the charter other than paragraphs 9 and 12.

If a retirement fund has more than 50 staff members, it will be exempt from all the provisions of the charter other than paragraphs 5, 11.3 and 11.4, and paragraphs 9 and 12.

- 4.7 All financial institutions claiming exemptions in terms of this paragraph must submit a return to the Charter Council providing motivation and evidence supporting the exemption.
- 4.8 The participation of DFIs in certain aspects of the charter is required in order to give full effect to the intent of the charter.
- 4.9 If a financial institution is a member of a group, it will be measured and reported on as part of the South African group unless –
- the financial institution is a listed company; or
 - the financial institution opts in.
- 4.10 Notwithstanding the provisions of paragraph 4.9 above, the boards of directors of all financial institutions will ensure that transformation plans are rolled out through all the divisions and subsidiaries of the group, and that measurement mechanisms are put in place, responsibility given and performance evaluated at all levels and in all areas.
- 4.11 The parties to this charter agree that the public and private sectors, when sourcing products and services from the financial sector, should apply the charter and its scorecard. Accordingly –
- 4.11.1 the financial institutions specifically agree that, when competing for business, they will use their charter rating to explain their BEE contribution;
- 4.11.2 in adjudicating tenders for the provision of financial services, all tiers of Government will base their adjudication of BEE contribution on the charter rating which has been accorded in terms of this charter; and
- 4.11.3 the parties to this charter agree that the private sector should base its evaluation of the BEE contribution of members of the financial sector on the charter rating which has been accorded in terms of this charter.

5. **Human resource development**

- 5.1 Disparities in the South African workplace resulting from past discriminatory practices and laws are not only unjust, but also have direct negative implications for economic efficiency, competitiveness and productivity. It is therefore in the country's long-term national interests that a broad-based and diverse pool of skills is developed for the sector to unleash the potential of all South Africans.
- 5.2 Consequently, each financial institution undertakes to:
- 5.2.1 promote a non-racial, non-sexist environment and to enhance cultural diversity and gender sensitivity within the sector;
- 5.2.2 invest in human resource development across the full spectrum of skills, with special emphasis on increasing the participation of black people in skilled, strategic and operational leadership in the sector;
- 5.2.3 invest in and equip current and future leadership incumbents in the sector with the appropriate knowledge and capacity to enable them to play a central role in driving the transformation programme.
- 5.3 In addition to the obligations of the financial sector in terms of Employment Equity and Skills Development legislation, and -
- 5.3.1 based on an estimated ratio of 10% for 2002, each financial institution will have a minimum target of 20% to 25% black people at senior management level by 2008;
- 5.3.2 based on an estimated ratio of 1.6% for 2002, each financial institution will have a target of a minimum of 4% black women at senior management level by 2008;
- 5.3.3 based on an estimated ratio of 17% for 2002, each financial institution will have a target of a minimum of 30% black people at middle management level by 2008;
- 5.3.4 based on an estimated ratio of 5% for 2002, each financial institution will have a target of a minimum of 10% black women at middle management level by 2008;
- 5.3.5 based on an estimated ratio of 28% for 2002, each financial institution will have a minimum target of 40% to 50% black people at junior management level by 2008;
- 5.3.6 based on an estimated ratio of 12% for 2002, each financial institution will have a target of a minimum of 15% black women at junior management level by 2008.
- 5.4 In recognition of the low starting points and targets, and the need for higher levels of black women representation at all three levels and at executive level, a 2014 target of 33% of the relevant total black representation target has been set for black women representation at all four levels. The financial sector commits, before 2008 and through a mechanism established by the Charter Council,

to establish the other 2014 targets for all management levels and at executive level (dealt with in paragraphs 11.3 and 11.4).

- 5.5 Over and above any skills levies payable by a financial institution, each financial institution will, from the effective date of the charter to 2008, spend 1.5% of total basic payroll per annum on training of black employees.
- 5.6 This skills development initiative shall be directed at skills programmes that promote black skills in the sector in line with a skills audit for each sub-sector. These skills audits may be undertaken by the financial institution, the sub-sectors or by the respective SETAs and the programmes shall be formalised and commenced by 1 July 2005.
- 5.7 The financial sector undertakes to implement a Learnership Programme in terms of which, over one learning cycle of three intakes, each financial institution will employ up to 4.5% of its total staff in the form of black matriculants, or the NQF Level Four equivalent, in registered learnerships. Direct spending in excess of that recovered from the SETAs or Government will form part of the skills development targets in 5.5. The sector commits to review its matriculant learnership programme after the first cycle in consultation with the department of labour, with a view to implementing a second cycle. This commitment is subject to satisfactory resolution of the principles and funding of matriculant learnerships with Government and the relevant SETAs.
- 5.8 Each financial institution undertakes to develop and report on the following programmes:
 - 5.8.1 career pathing through the provision of the necessary support to black people at all levels to facilitate progress in their agreed careers;
 - 5.8.2 the implementation of appropriate mentorship programmes within companies in the sector to assist in the rapid development of black professionals;
 - 5.8.3 targeted recruitment to expand the base of potential recruits;
 - 5.8.4 cultural diversity and gender sensitivity programmes at various levels of management in the financial institution, with the intention of promoting a vibrant, enabling and diverse institutional culture; and
 - 5.8.5 where possible, in conjunction with institutions of higher learning, introduce training programmes in line with the NQF requirements and establish undergraduate and post graduate diplomas and degrees in financial services.

6. Procurement Policies

- 6.1 Financial institutions will implement a targeted procurement strategy to enhance BEE. Provided there are charters in the information and communications technology ("ICT"), the advertising and the automotive and building sectors, and that international suppliers are subject to those charters, the target will be 50% of the value of all procurement from BEE accredited companies by 2008 and 70% by 2014.
- 6.2 A minimum of two thirds of that expenditure must be spent with BEE accredited companies as the primary vendor. The residual one third may be channelled to BEE accredited companies via a primary vendor, which is not a BEE accredited company, with only the BEE portion of the expenditure counting towards the target. Where a supplier is a BEE accredited company, which also sources from other BEE accredited companies, only the expenditure at the first tier will count towards the target.
- 6.3 Financial institutions will:
 - 6.3.1 provide support to black SMEs to enable them to benefit from targeted procurement programmes. Such support will include programmes designed to assist black SMEs in tendering for financial sector business, setting aside areas of procurement reserved or preferred for black SMEs only;
 - 6.3.2 promote early payment for services provided by SME's;
 - 6.3.3 encourage existing suppliers to address BEE and become BEE accredited;
 - 6.3.4 report on all spend as per the categories that fall within the definition of BEE accredited; and
 - 6.3.5 explore meaningful ways of supporting the Proudly South African Campaign.
- 6.4 The Charter Council will review the 2008 and 2014 targets in 2005, to assess the status of charters in other sectors, and to assess the impact of 6.1 on procurement of services from black-owned SME'S. The Charter Council will specifically review the targets for claims procurement in the short-term insurance sub-sector in 2005.

7. **Enterprise development**

- 7.1 The financial sector commits itself to fostering new, and developing existing BEE accredited companies through the following initiatives:
- 7.1.1 improving the levels of assistance provided to BEE accredited companies in the financial sector and other sectors of the economy through skills transfer, secondment of staff, infrastructure support, and giving technical and administrative support and assistance. Measurable financial support given in this connection will be scored under procurement;
- 7.1.2 supporting the establishment and growth of BEE accredited companies as broking agencies and/or enterprises in the financial sector through which the sector sells its products and services. Measurable financial support given in this connection will be scored under procurement; and
- 7.1.3 joint ventures with, debt financing of, and equity investments in BEE companies, in the financial sector and other sectors of the economy. Measurable financial support given in this connection for a Black SME may be scored under Targeted Investments, or, for a BEE company, it may be scored under BEE transactions financing, measured on the basis of Rand spend.
- 7.2 The financial sector will ensure that where appropriate, it refers business opportunities to, and procures financial services from, black owned financial institutions.
- 7.3 The financial sector's support for the development of second and third tier financial institutions may take, but shall not be limited to taking, the form of measures set out in paragraphs 7.1.1 and 7.2

8. **Access to financial services**

- 8.1 The financial sector acknowledges that access to first-order retail financial services is fundamental to BEE and to the development of the economy as a whole.
- 8.2 In terms of the Declaration of the Financial Sector Summit on 20th August 2002, it was agreed that strategies would be put in place to ensure that the financial sector is more efficient in the delivery of financial services, which enhance the accumulation of savings and direct them to development initiatives. Insofar as it relates to access to financial services, specific actions were agreed in relation to:
- ensuring the provision of first-order retail financial services including:
 - sustainable and affordable banking services;
 - contractual savings schemes; and
 - credit for small and micro enterprise and poor households.
 - the development of sustainable institutions to serve poor communities;
 - the regulation of Credit Bureaux;
 - discrimination;
 - HIV/AIDS; and
 - supporting higher levels of savings and investment overall.
- 8.3 In respect of this charter, the financial sector commits itself to substantially increase effective access to first-order retail financial services to a greater segment of the population, within LSM 1-5. The financial sector specifically undertakes:
- 8.3.1 by 2008 to make available appropriate first-order retail financial services, affordably priced and through appropriate and accessible physical and electronic infrastructure such that:
- 80% of LSM 1-5 have effective access to transaction products and services (defined in paragraph 2.27.1);
 - 80% of LSM 1-5 have effective access to bank savings products and services (defined in paragraph 2.27.2);
 - a percentage (to be settled with the life assurance industry) of LSM 1-5 households have effective access to life assurance industry products and services (defined in paragraphs 2.27.2 and 2.27.4);
 - 1% of LSM 1-5 plus 250,000 have effective access to formal collective investment savings products and services (defined in paragraph 2.27.2); and
 - 6% of LSM 1-5 have effective access to short term risk insurance products and services (defined in paragraph 2.27.4).
- 8.3.2 in accordance with the arrangements concluded with Government and the DFIs in terms of paragraph 9.1.3, to originate the low-income housing loans, agricultural development loans, and loans to black SMEs, necessary to achieve the desired breakdown of targeted investment

established in terms of paragraph 9.1.3. For the purposes of determining the value of loans originated in terms of this paragraph, any loan which falls within the definition of a first-order retail financial service or product as set out in paragraph 2.27.3 will be taken into account.

- 8.3.3 Each sub-sector will determine, in consultation with the Charter Council how the sub-sector targets will be divided between the individual financial institutions in the sub-sector.
- 8.4 Each financial institution commits, from the effective date of the charter to 2008, to annually invest a minimum of 0.2% of post tax operating profits in consumer education. Consumer education will include programmes that are aimed at empowering consumers with knowledge to enable them to make more informed decisions about their finances and lifestyles
- 8.5 The financial sector furthermore commits to:
- the elimination of discrimination in the provision of financial services;
 - supporting the establishment of third tier community based financial organisations or alternative financial institutions.
- 8.6 By 2005, the financial sector, together with Government, undertakes to establish standards to monitor access and to design a mechanism for the ongoing evaluation and review of the impact of its initiatives on access.

9. **Empowerment financing**

9.1 Resourcing

- 9.1.1 All the parties to the charter commit themselves to working in partnership with Government and its DFIs to mobilise resources for empowerment financing.
- 9.1.2 Based on preliminary calculations, it is estimated that the aggregate amount of new empowerment financing from the financial sector could exceed R75bn. All parties agree to working together to meet the objective of increasing the total amount of empowerment financing.
- 9.1.3 As part of the process, the parties will, by no later than 30 June 2004, establish:
- 9.1.3.1 the total amount of empowerment financing;
 - 9.1.3.2 the desired breakdown between BEE transaction financing and the four components of targeted investment;
 - 9.1.3.3 appropriate risk mitigating measures and risk sharing arrangements between Government and its DFIs on the one hand and the private sector on the other;
 - 9.1.3.4 the period over which the empowerment financing will be done;
 - 9.1.3.5 the institutional framework and financing models for the mobilisation of the various resources; and
 - 9.1.3.6 the extent to which and how past empowerment financing transactions will be taken into account in terms of paragraph 9.1.6.
- 9.1.4 Investment in transformational infrastructure will, in part, depend on the establishment of a mechanism to identify and analyse potential projects (including appropriate skills and post funding care).
- 9.1.5 The total amounts to be invested in BEE transaction financing and targeted investments in terms of 9.1.3.2 will be calculated as percentages of the total designated investments in the financial sector as at 31 December 2003, and currently estimated to be of the order of R2,000 bn. Those percentages of designated investments in each affected financial institution will constitute the targets for BEE transaction financing and targeted investment respectively.
- 9.1.6 Without reducing the total amount for new empowerment financing by the sector, the targets of individual affected institutions might be adjusted to take account of empowerment financing which they have on their books on the effective date of the charter.
- 9.1.7 Different affected institutions within the sector may choose to participate to a greater or lesser extent in each of the components of targeted investment, depending on where they are relatively better positioned to do so.
- 9.1.8 For the purposes of calculating the targeted investment made by an affected institution:
- investments and financing made by the affected institution, and held on its own balance sheet, or any securitised financing or investments in or financing to institutions which themselves hold targeted investments or financing, will be taken into account; and
 - any financing and investment which falls within the definition of a first-order retail financial service or product as set out in paragraph 2.27.3 will be taken into account.

- 9.1.9 Each affected institution shall annually report its investment into each of the four targeted investment areas so that the aggregate can be monitored and actions taken to ensure that the desired results are achieved.
- 9.1.10 The Charter Council will review the financial sector's impact on the four classes of targeted investments at the end of the period determined in terms of paragraph 9.1.3.4.
- 9.1.11 Pension fund trustees, fund managers and consultants play a critical role in influencing the flow of funds. Initiatives will therefore be developed to enhance their understanding of investments in general and specifically their participation in targeted investments and BEE transaction financing and to make a material contribution to shareholder activism as contemplated in paragraph 12.
- 9.2 Principles of BEE transactions
- 9.2.1 BEE ownership initiatives should be aimed at promoting the productive and sustainable participation of black companies and black people in each sector of the economy;
- 9.2.2 Ownership will be particularly encouraged if it adds value to the companies involved and includes meaningful participation in management and control;
- 9.2.3 The funding structures should facilitate the transfer of full economic interest to the BEE partner and longer-term shareholder-type relationships, as opposed to short-term portfolio investments (especially where the transaction has been facilitated);
- 9.2.4 If the acquisition of equity by the BEE company is facilitated in terms of the provisions of this charter or Government assistance, the retention of the shareholding as a BEE share should be promoted to the greatest extent possible;
- 9.2.5 Initiatives aimed at achieving broad-based empowerment will be promoted. This would include employee ownership, community and collective ownership; and
- 9.2.6 Joint ventures or partnership arrangements should be meaningfully structured with equitable portions of the responsibility and benefit to each party.
10. **Ownership in the financial sector**
- 10.1 Each financial institution will have a target of a minimum of 25% black ownership, measured at holding company level, by 2010.
- 10.2 A minimum of 10% of the target set in terms of paragraph 10.1 must be satisfied by way of direct ownership by black people, provided further that the financial institution complies with the provisions of paragraph 11.1 concerning the appointment of black directors.
- Should the balance or any part of the balance of 15% be achieved by way of direct ownership a maximum of four bonus points will be awarded.
- 10.3 Direct ownership as contemplated in 10.2 should where possible meet the principles outlined in paragraph 9.2 and may include:
- 10.3.1 direct ownership in the financial institution as a result of BEE transaction financing;
- 10.3.2 broad-based ownership;
- 10.3.3 disposal of any assets, operations, businesses or subsidiaries by the financial institution as a going concern to black people;
- 10.3.4 direct shareholding or ownership with control, commensurate with the level of ownership concerned, at subsidiary or divisional level; or
- 10.3.5 joint venture or partnership arrangements.
- 10.4 Any transaction which involves BEE parties acquiring equity on a conditional, deferred basis, with no issue of equity carrying upfront economic interest, shall, for the avoidance of doubt, not fall to be counted as direct ownership for the purposes of paragraph 10.3 until such time as the equity is actually transferred.
- 10.5 A maximum of 15% of the target set in terms of paragraph 10.1 may be satisfied by way of indirect ownership by black people at group or subsidiary level. Financial institutions may only score indirect ownership points if they have reached a level of 10% direct ownership, and if they have taken active measures to meet the responsibilities outlined in section 12 of this charter. Indirect ownership will be measured on a basis to be agreed and approved by the Charter Council.
- 10.6 For the purposes of this charter, black ownership will be calculated as the agreed standard valuation of the black interests referred to in paragraph 10.3 expressed as a percentage of the agreed standard valuation of the South African operations of the financial institution on the date of the transaction. Where a BEE transaction results in black people acquiring 100% of an asset, operation, business or subsidiary from a financial institution the agreed standard valuation of that asset shall be deemed to be the transaction consideration applicable to the BEE transaction concerned, and the

aforementioned percentage shall be calculated based on the agreed standard valuation (as defined) of the South African operations on the date of the transaction.

- 10.7 Only historical direct ownership transactions, which remain wholly or partially current on the effective date, can be included in the calculations of direct ownership. After the effective date, all direct ownership transactions can be included in the calculation of direct ownership, even if they unwind, provided they meet the principles of BEE transactions as provided in paragraph 9.2.
- 10.8 Any direct ownership transaction, which unwinds, must be referred to the Charter Council for analysis as to whether, when it was originally concluded, the transaction genuinely complied with the intent of paragraph 9.2. If the Charter Council decides that it was not, it may not be taken into account in calculating direct ownership.
- 10.9 If a financial institution is at least 25% owned by another financial institution, it may, in the calculation of direct black ownership, take into account a portion of the direct black ownership in that other company based on the percentage shareholding of that other company in the financial institution concerned.
- 10.10 Due to their unique nature, foreign banking groups with a branch structure will have the same target as is set out in paragraph 10.1, but will be permitted to address that target either -
 - 10.10.1 by transactions contemplated in paragraphs 10.2 and 10.3 of this charter; or
 - 10.10.2 by financing identified BEE transactions in addition to the investment contemplated in paragraph 9.1.5. Points and bonus points for such financing will be scored in the same way as if the financing (calculated as a percentage of the agreed standard valuation of the South African operations of the foreign banking group) equated the same percentage of direct ownership in terms of paragraph 10.2. At least 25% of this financing must be committed to BEE transactions in the financial sector.
 - 10.10.3 Not more than 18 points may be earned in aggregate in terms of 10.10.1 and 10.10.2. BEE transactions identified in terms of 10.10.2 will, for the purposes of this charter, be treated as if they were ownership transactions, and shall be governed by all the provisions of paragraph 10, and shall not be measured or treated interchangeably with BEE transactions in paragraph 9.1.5.

11. **Control in the financial sector**

- 11.1 Each financial institution will have a target of 33% black people on the board of directors by 2008;
- 11.2 Each financial institution will have a target of a minimum of 11% black women on the board of directors by 2008.
- 11.3 Based on an estimated ratio of 15% for 2002, each financial institution will have a target of a minimum of 25% black people at executive level by 2008;
- 11.4 Based on an estimated ratio of 2% for 2002, each financial institution will have a target of a minimum of 4% black women at executive level by 2008.

12. **Shareholder activism**

- 12.1 The financial sector recognises that shareholder activism is a critical component of continued confidence and long-term growth of the sector.
- 12.2 Financial institutions therefore undertake within the parameters of good corporate governance to:
 - 12.2.1 promote increasing levels of influence of direct black owners at board level;
 - 12.2.2 encourage training and awareness programmes for all shareholders regarding the impact of indirect shareholding;
 - 12.2.3 encourage shareholder awareness through triple bottom line reporting, reporting on performance in terms of the charter and information about the institution and the sector; and
 - 12.2.4 facilitate, where possible, black companies or individuals voting on behalf of indirect owners.
- 12.3 Fund managers and asset consultants commit, as part of their obligations in the charter, to comply with the provisions of 12.2 and to improve their knowledge and that of union trustees regarding BEE transactions and targeted investment.
- 12.4 Pension fund trustees are encouraged to play an increasingly active role in promoting the objectives of the charter on their respective boards and in the entities in which they have taken significant investments.

13. Corporate social investment

13.1 Each financial institution will have a target of directing 0.5% per annum of post tax operating profits to corporate social investment (CSI) between the effective date of the charter and 2014.

13.2 CSI means projects aimed primarily at black groups, communities and individuals that have a strong developmental approach and contribute towards transformation.

13.3 CSI projects may include, but will not be limited to –

- Education: support for community education facilities; programmes at secondary and tertiary education level aimed at promoting the industry; bursaries and scholarships, which are oriented towards the hard sciences;
- Training: community training; skills development for unemployed; adult basic education and training in communities; financial literacy programmes in communities;
- Development Programmes for youth and other target groups;
- Environment: support of conservation projects; community clean up projects; food garden initiatives;
- Job Creation: job creation projects external to the workplace or any commitments contained in empowerment financing;
- Arts & Culture: support of development programmes; development of new talent;
- Health: support of community clinics; health programmes in the community; and
- Sport: support of developmental programmes.

14. Regulatory issues

14.1 The regulatory environment and architecture of the sector must promote the empowerment objectives of this charter, ensure appropriate standards of entry, operation and disclosure and facilitate competition.

14.2 The parties to this charter agree that, in consultation with Government, the relevant aspects of the regulatory environment which inhibit compliance with the provisions of this charter will be identified and amended to allow for compliance. By the effective date of the charter the specific areas of regulatory review will be defined and attached as an annexure to the charter.

14.3 A key principle informing this charter is that of support for community reinvestment. Any legislation aimed at giving effect to community reinvestment or which requires the setting of targets for the financial sector or any part of it should be brought within the framework of this charter.

14.4 The charter will be published as a Transformation Charter in terms of the Broad-Based BEE legislation. The Minister of Trade and Industry will be requested to publish a Code of Practice which will give effect to the provisions of paragraph 4.11.2.

15. Implementation

15.1 Charter council

15.1.1 Fundamental principles –

- A Charter Council will be established as an independent body with a mandate to oversee the implementation of the charter.
- The Charter Council will address the issues of principle and, in particular
 - conduct the reviews and take the decisions referred to in paragraphs 4.3 and 4.4; and
 - if there is a material change in the circumstances or the environment in which the charter has to be implemented, it will consider whether the targets and implementation strategies are still appropriate, and if not how they should be varied.
- There will be equality between industry association representatives and all others on the Charter Council. The Charter Council must fairly reflect the interests of all the financial institutions.
- Decisions of the Charter Council will be taken on a consensual basis. If, on any issue, the Charter Council is unable to achieve consensus, there will be a dispute-breaking mechanism in the Charter Council either by some agreed mechanism within the Charter Council, or by reference to arbitration or mediation.

15.1.2 The Charter Council will establish an executive to attend to its routine work and specifically to:

- receive, consider and approve annual audits from each financial institution;
- confirm ratings of financial institutions;

- issue guidance notes on the interpretation and application of the charter;
- prepare an annual review which outlines progress and evaluates new areas of intervention;
- submit the annual review to the BEE Advisory Council for publication;
- prepare interim reports at appropriate intervals;
- undertake the reviews identified in terms of the charter;
- accredit agencies to perform audits; and
- engage with Government, public sector finance institutions, the BEE Advisory Council and other regulatory agencies to promote the implementation of the charter.

15.1.3 There will be a right to take any decision of the executive on review or appeal to the Charter Council.

15.1.4 The Charter Council will ensure that the executive is adequately resourced, capacitated and supported to fulfil its mandate as envisaged in the charter. A business plan will be commissioned which will, amongst other things, outline a budget for the work of the Charter Council. Financial Institutions will be required to fund the Charter Council in accordance with the budget.

15.2 Reporting and Review

15.2.1 Each financial institution will report annually to the Charter Council on its progress in implementing the provisions of this charter. If a financial institution is a member of a group, it should report as part of the group in the South African holding company unless –

- The financial institution is a listed company; or
- The financial institution opts in.

15.2.2 The first annual report will be for the year ending 31 December 2004, and must be submitted to by 31 March 2005.

15.2.3 Thereafter each financial institution will report as at 31 December each year thereafter, and submit the report by 31 March of the following year.

15.2.4 All financial institutions will publish, for general information, an annual BEE report. The BEE report will include the audited scorecard and an account of progress in discharging unquantified responsibilities as contained in paragraph 15.2.6.

15.2.5 Besides the general reviews outlined in 4.3 and 4.4, the following specific areas have been identified for review, and where necessary, the setting of targets:

- all targets for black women representation on the basis of the reports for 2006;
- 5.5 on employment equity targets for 2014 and 11 at board and executive management levels;
- 5.7 on learnerships;
- 6.4 on procurement;
- 8.6 on access;
- 9.1.3 on targeted investment; and
- 14 on regulations.

15.2.6 Progress on the following unquantified responsibilities (as set out in the charter) should be reported on annually by financial institutions and submitted together with the scorecard, to the Charter Council.

- 4.10
- 5.2
- 5.8
- 8.5
- 10.5
- 12

16. **The scorecard**

16.1 The scorecard set out in Annexure A forms an integral part of the financial sector charter and provides an objective and broad-based set of measurement indicators for purposes of measuring BEE progress in and between financial institutions, in different sub sectors and in the financial sector as a whole. It will be used by:

- each financial institution as a basis for self-assessment of its BEE endeavours;
- the Charter Council as a means of evaluating BEE progress in the sector;
- Government in the adjudication of contracts awarded to financial institutions; and

- the private sector in the awarding of contracts to financial institutions.

16.2 Financial institutions, which are exempted from any paragraph in the charter in terms of paragraph 4 will not be required to complete the specific section in the scorecard, subject to paragraph 4. Under such circumstances, the points allocated to the paragraph from which the financial institution is exempted will be cancelled, and it will score out of the remaining points and calculate its score as a percentage of that reduced remainder.

SIGNED:

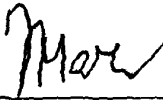


Association of Black Securities
and Investment Professionals

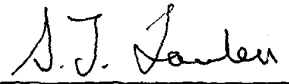
(As mandated by the Black Business Council)



Association of Collective Investments



Banking Council of South Africa



Bond Exchange of South Africa

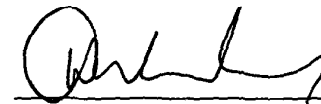


Foreign Bankers Association of SA



Investment Managers Association of SA

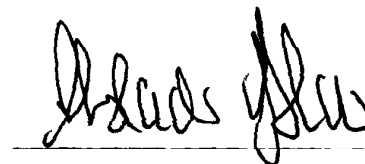
Institute of Retirement Funds



JSE Securities Exchange South Africa



Life Offices' Association of South Africa



South African Reinsurance Offices' Association



South African Insurers Association

Financial Sector Charter

Scorecard

1. Ratings

1.1 Each financial institution will be given a rating each year; after the Charter Council has approved the audited scorecard of the institution.

1.2 The basis of rating financial institutions and suppliers will be:

Score %	Rating	Tendering to Govt.	Financial institutions procuring from Pvt. Sector	
		Weighting to be given by Govt.	Where the supplier is subject to a charter	Where the supplier is measured on the basis of ownership
< 40%	E	0	0	
40 – 55%	D	25%	50c in the R	Black influenced – 50c in the Rand
55 – 70%	C	50%	75c in the R	
70 – 80%	B	75%	100c in the R	Black empowered 100c in the Rand
> 80%	A	100%	125c in the R	Black owned – 125c in the Rand

2. Thresholds

2.1 Unless otherwise specifically provided, points will be scored from the level of the threshold for each target and in linear progression from that level to the level of the target.

2.2 The 2014 thresholds will be set as part of the process of the 2009 review outlined in 4.3 of the charter.

3. Interim Rating

The 2004 equivalent of the rating bands in 2008 (reflected in paragraph 1.2 above) will be established before the effective date. The rating bands for each of the intervening years will be a linear progression from the 2004 ratings to the 2008 ratings.

4. Ownership and Control Scoring

For the purposes of paragraph 10.2 of the charter, if within 3 months of a reporting date an institution ceases to comply with the provisions of paragraph 11.1 for reasons beyond its control, but re-establishes compliance by the time the report is due, it will be deemed to have complied at the reporting date.

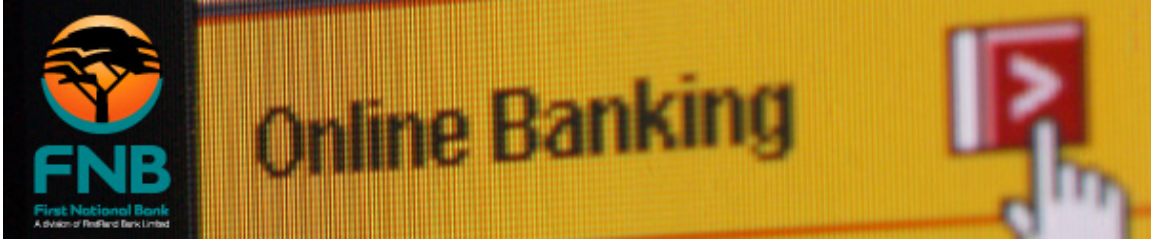
Core component of BEE	Indicators	Target 2008	Target 2014	Financial institution annual target	Threshold	Points	Institution's annual score
Section 1 – (Paragraph 5 of the charter) Human Resource Development						20	
<i>1.1 Employment Equity</i>					Industry Mean at 31/12/2003	15	
1.1.1 Senior management	black people as a % of senior management	Min 20%-25%				4 (3 at 20% + 1 at 25%)	
	black women as a % of senior management	Min 4%	33%of black target			1	
1.1.2 Middle management	black people as a % of middle management	Min 30%				4	
	black women as a % of middle management	Min 10%	33%of black target			1	
1.1.3 Junior management	black people as a % of junior management	Min 40%-50%				4 – (2.5 @ 40%, 0.75 @ 45% 0.75 @ 50%)	
	black women as a % of junior management	Min 15%	33%of black target			1	
<i>1.2 Skills development</i>						5	
1.2.1 Skills spend	% of payroll spent p.a. on skills development of black employees	1.5%			0%	3	

Core component of BEE	Indicators	Target 2008	Target 2014	Financial institution annual target	Threshold	Points	Institution's annual score
1.2.2 Learnership program	learnerships as % of total staff	4.5%			0%	2	
Section 2 – (Paragraphs 6 & 7 of the charter) Procurement and enterprise development		50%	70%			15	
Procurement					10%		
Procurement from black influenced companies, & companies rated "D" in terms of a charter	Targeted procurement from those companies as a percentage of total procurement - Scored at 50% of Rand spend						
Procurement from companies rated "C" in terms of a charter	Targeted procurement from those companies as a percentage of total procurement - Scored at 75% of Rand spend						
Procurement from black empowered companies, & companies rated "B" in terms of a charter	Targeted procurement from those companies as a percentage of total procurement - Scored at 100% of Rand spend						
Procurement from black SMEs, black companies, black women-empowered enterprises & companies rated "A" in terms of a charter	Targeted procurement from those companies as a percentage of total procurement - Scored at 125% of Rand spend						
Enterprise Development: paragraphs 7.1.1 & 7.1.2 of charter							
Enterprise development: black influenced companies	Rand spend - Scored at 50% of Rand spend						

Core component of BEE	Indicators	Target 2008	Target 2014	Financial institution annual target	Threshold	Points	Institution's annual score
Enterprise development: black empowered companies	Rand spend - Scored at 100% of Rand spend						
Enterprise development: black SMEs, black companies & black women-empowered enterprises	Rand spend - Scored at 125% of Rand spend						
Section 3 – (Paragraph 8 of the charter)						18	
Access to Financial Services							
3.1 Transactions savings products and services	Effective access for LSM 1-5 (%)	80%			70%	4	
3.2 Bank savings products and services	Effective access for LSM 1-5 (%)	80%			70%	4	
3.3 Life assurance products and services	Effective access for LSM 1-5 (%)	tbf				12	
3.4 Collective investments products and services	Effective access for LSM 1-5 (%)	1%, plus 250, 000			0	Tbd	
3.5 Short term risk insurance products	Effective access for LSM 1-5 (%)	6%			0	4	
3.6 Origination	Origination of home loans (R)	tbf			10% of target	4	
	Origination of agriculture loans (R)	tbf			10% of target	2	
	Origination of black SME loans (R)	tbf			10% of target	2	
3.7 Consumer education	% of post tax operating profits spend p.a.	Min 0.2%			0%	2	

Core component of BEE	Indicators	Target 2008	Target 2014	Financial institution annual target	Threshold	Points	Institution's annual score
Section 4 – (Paragraph 9 of the charter) Empowerment Financing	22						
<i>4.1 Targeted Investments</i>	Institution's target for Targeted Investment (R)	Tbf			0	17	
	Institution's annual investment in transformational infrastructure (R)						
	Institution's annual investment in low-income housing (R)						
	Institution's annual investment in agricultural development (R)						
	Institution's annual investment in black SMEs						
4.2 BEE transaction financing including JV's, debt financing, equity investments in BEE companies that are not black SMEs	Institution's target for BEE transaction financing (R)	Tbf			0	5	
Core component of BEE	Indicators	Target 2008	Target 2014	Financial institution annual target	Threshold	Points	Institution's annual score
Section 5 – (Paragraphs 10 & 11 of Charter) Ownership & Control						22	
<i>5.1 Ownership</i>		25% by 2010				14	

5.1.1 Direct ownership Max of 4 Bonus points scored: 0.5 when direct ownership at 13.75%, 0.5 at 17.5%, 1.5 at 21.25% and 1.5 at 25%	Listed companies: standard valuation as % of market capitalisation Non-listed companies: standard valuation	Min 10% by 2010	-		2.5%	12 + 4 bonus	
5.1.2 Direct or indirect ownership in excess of 10%	Ditto	15% by 2010	-			0.5 points at: 13.75%, 17.5%, 21.25%, & 25%	
<i>5.2 Control</i>						8	
<i>5.2.1 Board</i>						3	
	Black people as a % of board of directors	33%			20%	2	
	Black women as a % of board of directors	Min of 11%			0%	1	
<i>5.2.2 Executive</i>							
Executive management	Black people as a % of executive management	Min 25%			Industry mean at 2003	4	
	Black women as a % of executive management	Min 4%	33%		Industry mean at 2003	1	
Section 6 – (Paragraph 12) Corporate Social Investment						3	
Corporate Social Investment	% of post tax operating profit directed p.a. to CSI	0.5%			0%	3	



FNB Index

This section consists of the following:

1. Overview
2. Our People: Data
3. Our People: Info (and HIV/AIDS)
4. Supply Chain
5. Environment: Direct
6. Community
7. Customers
8. Regulators

FNB

Overview

FNB and Sustainability

FNB's ambition is to be a great company helping to create a better South Africa. Our ambition, therefore, is not just about profits but also to be a great company to work for, buy from and partner with, a company that also shoulders its responsibility to help ensure the prosperity of all South Africans.

While sustainability has become a big theme globally, 'creating a better South Africa' has been crystallised in many ways for FNB through the introduction of the Financial Sector Charter goals, to which we are a willing signatory. The Charter sets targets in all aspects of our business, ranging from board representation to employment equity, to procurement, as well as access to our products and services. Industry targets were negotiated on a pragmatic basis and while stretched, are achievable. Our ambition of helping to create a better South Africa will be realized if, by 2008, FNB can achieve all its Financial Sector Charter targets.

It would be quite easy to see the Charter as mere compliance, yet another set of rules. This is not the FNB view. Instead, we believe that the Charter opens up significant growth opportunities.

The infusion of more Black people into FNB will add to the diversity of debate and diversity of opportunities. The asset growth targets in the Charter represent a challenge to come up with innovative ideas to grow our book while helping those who have never before had access to owning their own homes or starting their own businesses. And we are aware of and focused on the areas that challenge the Banking industry and us.

This Sustainability Report offers details of the initiatives we are undertaking across the business to move towards the Charter targets. You will find information in each of the sections, except Environment, that relates to Charter activity.

We also go beyond the Charter to talk about our broader approach to meeting the needs of all our People and Customers, of how we interact with our suppliers and understand them, and how we are addressing our impact on the natural environment, while the sections on the Community and Regulatory Environment talk about how we interact with the representatives of the broader context within which we operate. You will find information about how we are educating customers to help them reduce bank fees, how we are creating a framework for dealing with the impact of HIV/AIDS on our people, and about the many projects we are funding in the community to improve education, skills training and community care.

We hope that this report offers you a comprehensive picture of what we are doing here at FNB to become the great company helping to create a better South Africa that we aspire to be.

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First National Bank									
Total Employees by Occupational Categories									
Occupational Categories	Male				Female				Total
	Black	Coloured	Indian	White	Black	Coloured	Indian	White	
Top Management	7	0	2	25	1	1	0	4	40
Senior Management	15	3	11	164	5	2	3	51	254
Middle Management	191	87	169	1,142	90	146	128	739	2,692
Junior Mgt & Supervisors	402	197	244	885	412	714	463	1,705	5,022
Semi-skilled	1,697	669	375	572	2,714	2,297	1,104	3,406	12,834
Unskilled	579	98	9	12	210	74	6	6	994
Total Permanent	2,891	1,054	810	2,800	3,432	3,234	1,704	5,911	21,836
Non-permanent Employees	487	172	112	163	741	513	183	437	2,808
Total Employees	3,378	1,226	922	2,963	4,173	3,747	1,887	6,348	24,644

FNB

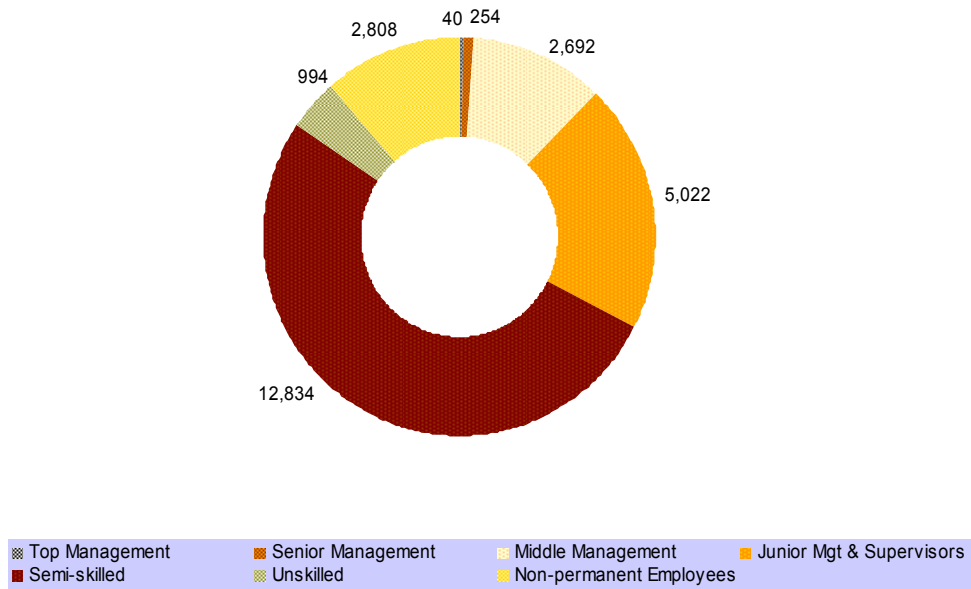
Our People: Info

At FNB, we firmly believe that Human Resource Management is a line management function. Taking our cue from the philosophy, HR facilitates and influences from the centre, but operates at the business unit level. This means that while policies and guidelines are stated at a broad level, the CEOs of each of our business units drive their approach to managing people based on the needs of the business and their culture. FirstRand Bank provides a framework to enable FNB to do this, which is aligned with regulatory requirements and the principles espoused by the Financial Sector Charter.

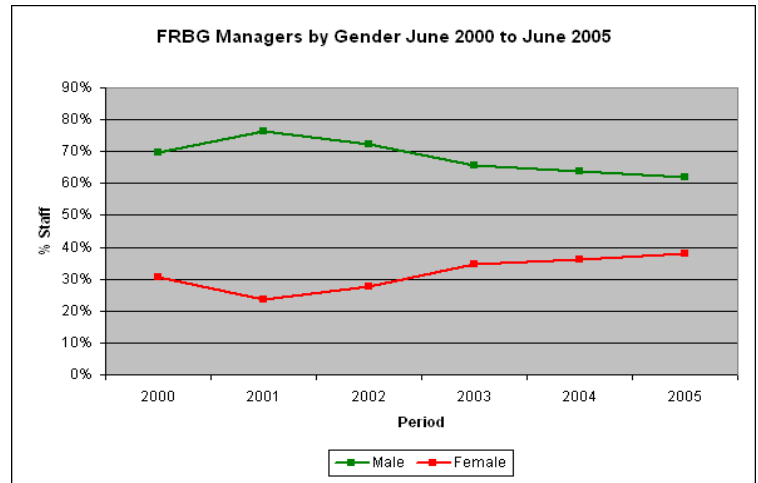
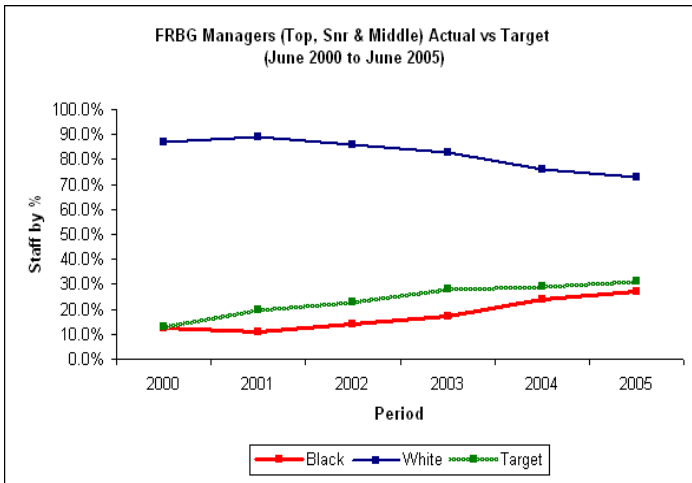
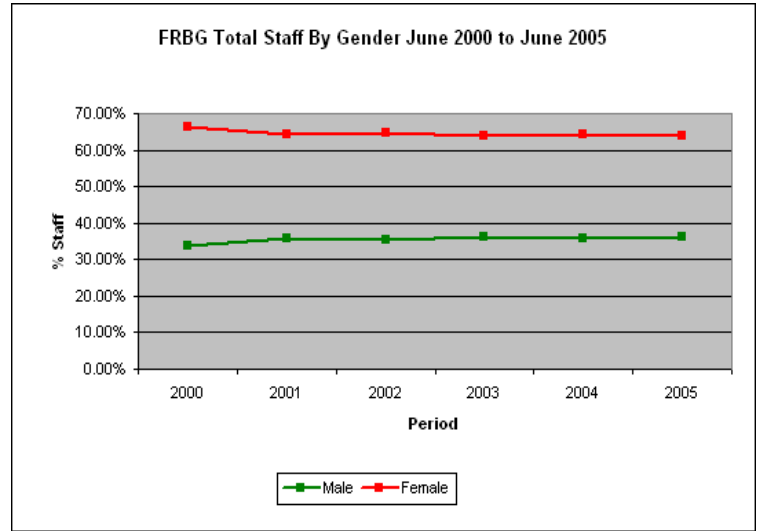
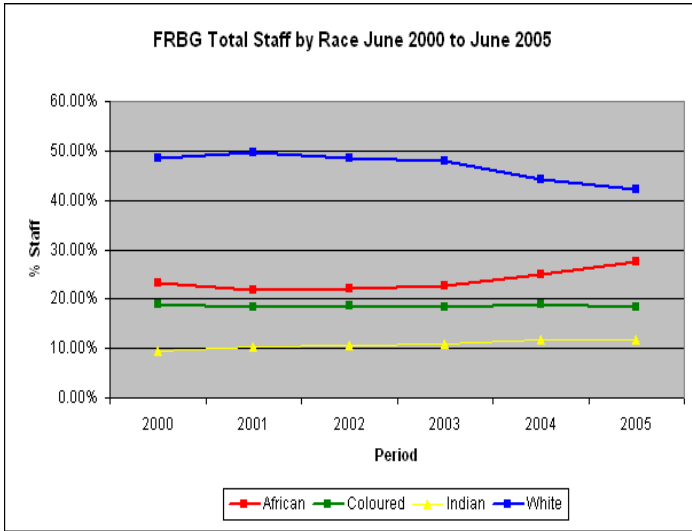
Scope

The diagrams below indicate the number of FNB staff as at the end of the financial year (June 2005), by category, across the various race groups, for both genders.

First National Bank Employees by Occupational Category as at 30 June 2005



For comparative purposes, the trend in staff composition can be seen below, for FirstRand Bank (FNB, RMB and Wesbank) as a whole. These figures are not available broken down by brand over time, because of fundamental changes in the organisational structure of the Banking Group which have taken place over the last year, where we moved from a cluster to a brand structure.



Employee Satisfaction

Employee satisfaction is one of the key pillars on which the FNB strategy resides. To achieve our objectives, we need to attract the best staff, and retain them. We are proud to note that on average, our staff have been in our service for approximately 14 years. We employ a number of mechanisms to obtain data and insight into staff satisfaction and issues of concern. These mechanisms include:

- Formal staff satisfaction surveys (the more recent surveys are indicated below)
- Exit interviews undertaken by some business units
- IIR cases

- Our Employment Equity Report
- Performance Management Reviews
- Staff meetings

Formal staff satisfaction surveys are undertaken both across different business units within a brand (e.g. at FNB level), or within a specific business unit or function (e.g. branch banking). The frequency, level of detail, and action plans to address issues arising are directly tailored towards the needs of the particular business unit.

Some of the most recent surveys undertaken include:

- The FNB-wide People-Pillar survey:
 - Conducted for the first time this year
 - The sample participants spanned every area of the Bank, at every level. 12,000 respondents represented roughly 50% of the total staff complement of FNB
 - The objective of this survey was to identify issues and set a baseline for measuring a range of areas. Responses could be anonymous although 75% of respondents opted to include their details in their response. Scores were out of 10, with 7-8 being 'good' scores and 8-9 being 'great'. The responses to 26 online questions are grouped in six broad categories plus one 'would you recommend us?' question:

○ I would recommend FNB to a friend	7.7
○ I have confidence & trust in our leadership	8.2
○ I have confidence in our context (RSA)	8.0
○ I am satisfied with my team	7.7
○ I am satisfied with my career & its scope	7.6
○ I am satisfied with management	7.6
○ I am satisfied with reward & recognition	6.7

The survey has provided management with areas to focus on this year, in particular, how to build more direct links between pay and performance.

- The Capabilities Study (last undertaken in 2004):
 - Conducted every two years, this survey was aimed at obtaining deeper insight into the people dynamics within the FirstRand Banking Group.
 - The survey resulted in a representativity of 85%, with participation from all employees across the 36 units of FirstRand Banking Group
- The Branch Banking Culture Management survey:
 - Conducted via intranet once a year, this initiative has been successfully running for 2 years, and has a response rate of approximately 98%. All branch staff have access to a terminal to complete the survey. Anonymity is guaranteed through a variety of encoded and business principles.
 - ♣ Once data is analysed, in conjunction with other business unit intelligence, results are communicated back to branch and/ or regional managers for actioning.

Given the anonymity of these surveys, there is a high level of willingness to trust the system and respond openly.

Generally, the feedback from the various surveys was positive and upbeat. At a macro-environmental level, and a leadership level, there is much positive sentiment and confidence across the various staff constituencies and race/ gender groups.

The key themes of concern centre around the areas of talent management, retention and management. This incorporates issues such as:

- Promotions: providing scope and encouragement of career growth, especially for women
- Remuneration and Reward: payment for performance, and transparent management for consistent underperformance
- Enabling a work-life balance

Of course, obtaining the data is only half the picture. Strategies and actions need to be implemented to acknowledge and build on positive outcomes, and address the recurring issues of staff concern. This is achieved through collaboration between HR representatives within each business unit, and line management within these units, where appropriate. Where the Customer Satisfaction initiative has been commenced by “Group” HR, support is provided to the relevant area to ensure these issues are addressed.

H.R. representatives in each business unit use data to identify areas needing attention. Action is ensured through a variety of mechanisms, including incorporating responsibility for addressing the issues into the relevant manager’s performance instruments, which ultimately cascade into the department Balanced Scorecard.

Policies

The following HR policies have been adopted and applied by FNB. These policies are broadly stated, by detailing the application of the South African Constitution, relevant South African legislation, global practices, the First Rand Group vision and philosophy, and other input sources to provide specific direction for the business. Business Units can choose to further expand on these policies (including via implementation of specific interventions), while continuing to take direction from, and operate under the auspices of, these policies.

Policy	Commentary
Freedom of Association	See Human Rights below. For example, although SASBO is our formally-recognised union, employees have the right to join any union of their choice. We currently run check-off (union fee subscription deductions) services for SACAWU members who are in our employ.
Human Rights	We do not have a separate human rights policy, as the requirements for human rights are incorporated into our Employment Equity policy. We ensure this policy aligns back to Section 9 of the South African Constitution, which addresses the issue of Human Rights. This also encompasses elements such as freedom of association, etc. We are also signatories to the International Labour Convention 3, we requires us to

	adhere to internationally-recognised labour rights standards.
Employee Support and Wellbeing	The FNB Employee Assistance programme - Employee Wellness – is designed to improve the well being of our employees and their families through medical, psychological and lifestyle interventions
HIV/ Aids	Please see separate GRI report on HIV
Disability	FNB has a policy on Disability Equity and Disability Management which was introduced during the last financial year and was accompanied by a training and awareness programme in Disability Sensitisation for management and staff throughout company.
Compliance with Legislation	Other general policies relating to supporting the skills upgrade and employee learning efforts are indicated in the relevant sections

Managing Relationships with Staff Transformation

FNB is aggressively driving towards transformation in all areas of the Banking group, from Board and Executive level, and across various areas of operations. In terms of employment equity, our commitment is demonstrated through well articulated policies and initiatives aimed at improving the employability of disadvantaged people in the economy. The Group has successfully implemented initiatives to change the attitudes of people internally to make us a truly South African company. Our EE Policy guideline and philosophy statement is shown below.

- We will strive to be a leader in employment equity
- We will contribute to improving the skill pools and the distribution of skills in South Africa in general
- We will strive to eliminate prejudice and legacy attitudes that inhibit transformation in our organisation
- We aim to make the Group a truly representative South African organisation where there is mutual respect between all people
- We strive for meritocracy where all barriers to participation are removed and where people are treated equally and fairly. We believe that equality of outcome flows from equality of opportunity
- We aim to have a staff profile that will reflect the demographic profile of the available skills pool in South Africa
- We will conduct management development programmes internally aimed at addressing imbalances that affect disadvantaged and previously disadvantaged people
- We will allow for a Transformation Band that will represent about 10% of black recruits who are not yet fully competent and we will facilitate their development
- We will significantly exceed the Charter targets with respect to the recruitment of black women
- The aim for the next four years will be 50%, 40% and 30% of all new recruits or promotion into junior, middle, and senior management will be black
- We will strive to meet and endeavour to exceed the targets set by the Financial Sector Charter

Our EE Policy and implementation plan guides Business Units on four key areas:

- Recruitment
- Promotion
- Terminations, and
- Promoting equality and elimination of unfair labour practices in the workplace.

The FNB transformation implementation plan has 4 strategies for achieving diversity and equity in the workplace. The implementation plan sets out targets for overall black representation in the group. It also sets targets for black managers and women at Top, senior and middle levels throughout the group.

The strategies take full cognisance of business requirements needed whilst pursuing employment equity in the group. The following initiatives are in various stages of development or implementation:

1. Our Disability Policy has been developed. Signoff is anticipated within the current financial year. Disability awareness programmes like workshops and industrial theatre have been held. An environmental audit has been conducted to assess the degree of “disability friendliness” of physical infrastructure such as branches and Bank City.
2. FNB currently runs Vuka, a programme designed to clarify and promote diversity awareness and experiences among staff
3. EE and Diversity Forums in place to monitor and evaluate progress towards achieving targets in the Employment Equity plan. These forums are elected by their peers, and are the interface between management and staff on EE and diversity issues
4. Training and development programmes to address skills shortages within the Group are in
5. To ensure the Group remains compliant with the Department of Labour’s Employment Equity Act, we work with the DOL to assess compliancy
6. EE training programmes are being conducted to ensure material knowledge of the EE Act, as well as assist staff in understanding their role with regards to employment equity
7. The Group has implemented accredited learning centres in a number of areas

Staff Consultation

The stakeholders within the Industrial Relations environment include the Business Units and the Union.

The Bank has a collective agreement with the union SASBO, which regulates various issues including hours of work, working conditions, overtime, and retrenchment. While salary negotiations are conducted annually with the union and formal interaction occurs during the process of negotiations, ongoing operational relationships are maintained through working parties. Working parties comprise of Union and Bank representatives, who constitute project teams to design and develop recommendations on pertinent issues. Examples of joint working projects over the last year include a review of remuneration principles, business unit restructuring, changes to the maternity policy, and

the job grading (broadbanding) project. Once the working group has analysed the issue under assessment, designed principles, and drafted high level outcomes, the results are then formally taken to the table for discussion between the Bank and the Union.

Formal discussions are usually the product of this joint process. Confrontational issues are dealt with by way of dialogue, debate and negotiation. The relationship with the union is one of mutual respect and there is co-operation from both parties on most aspects.

Health and Safety

The effective implementation of the Employee Health and Safety policy requires the co-operation and active involvement of employees at all levels and in all areas. To ensure stated standards are maintained, the FirstRand Group monitors health and safety performance and consults with its employees on health and safety matters. The significant recommendations arising out of the health and safety monitoring, consultation and risk assessment programmes, are prioritised and actioned to ensure continuous improvement in integrated health and safety management systems. FNB is pleased to report that injuries during the course of employment reduced over the last financial year.

FNB Working Environment

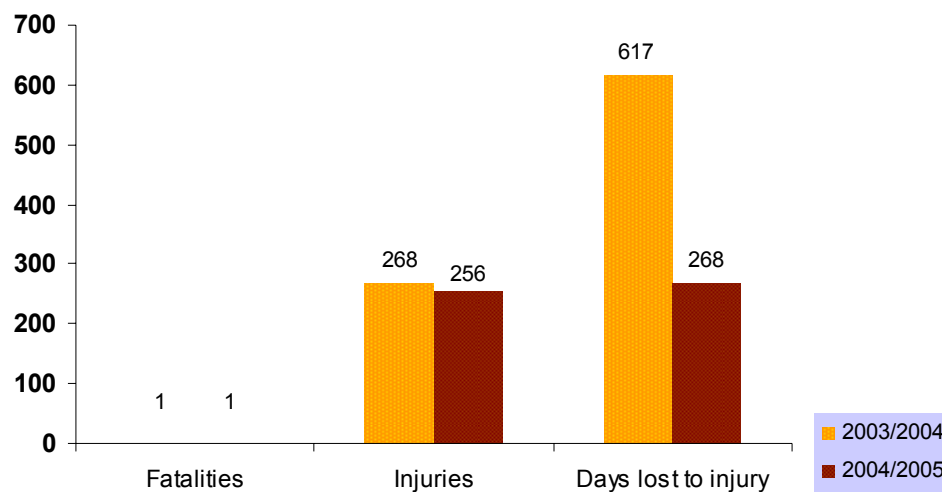


Figure 1 No. of Fatalities, Injuries and Days Lost to Injuries

Our commitment to Employee Health and Safety, and ongoing risk assessment, training and risk management system, and engendering a health and safety culture complements the Occupational Health and Safety Act, 85 of 1993, as well as internationally recognised safety standards.

A table with detailed information about our HIV/AIDS policies and practices, based on the GRI format, is included at the end of this People report.

Training

FNB plays its part in expanding the skills base in the wider community, with bursaries, skills training, internships and learnerships. Our philosophy is that once we recruit people, their development should continue, and we have, over the years, instituted a wide range of programmes to add value to the intellectual and professional lives of the many thousands of people we have employed.

Staff are regarded as the most important resource of the organisation and all efforts are made towards recruiting and empowering staff who share these values. We believe in the continued improvement of our peoples skills, and have become well known for its groundbreaking training and development programmes. Because we have to deal with the historical legacy, our fundamental focus has been in “growing our own timber” rather than poaching from other banks. The latter approach would help us meet targets but it is a “ticking the box” approach because it does not contribute to true transformation in the financial sector. As a result, in the last financial year, over R 132 million was invested in training programmes for more than 21,350 FirstRand Banking Group staff (which includes FNB as the largest portion). The average training spend per employee was R6,195.

All learning related service solutions are aimed at providing staff the opportunity to acquire the appropriate skills, knowledge and behaviours needed by the organisation to sustain its position as a leader in the financial services industry.

The learning solutions offered by First National Bank Learning (FNBL) attempts to challenge learners to take ownership of their future. The learning is multi-faceted and holistic in nature, including face-to-face, distance, self-paced and e-learning interventions. The objective is to be pro-active, knowledgeable and flexible in our approach, thereby addressing the needs of business partners.

All learning interventions comply with statutory requirements for the financial services sector in South Africa, including SAQA, Skills Development, FAIS and most recently, the Financial Services Charter, to also ensure that the business fulfils its responsibility as a good corporate citizen.

Skills

Skills’ training involves training such as product training, sales training, leadership and management; IT, secretarial, etc. either conducted either in-house or through external providers.

Learnerships and Internships

Learnerships refer to registered learnership programmes where currently employed staff or unemployed learners are trained while working (as in an apprenticeship). The costs for these learners are funded by Bankseta grants (provided we have met various requirements e.g. Skills Development Act.) The data below represents the learnership investments of FNB for the financial year 2004-2005.

1. Certificate in Management Learnership

Certificate in Management Learnership	Total No. of Learners	Training Spend	Spend per Employee	EE Details
First Intake	40 Learners <ul style="list-style-type: none"> • 21 Employed • 19 Unemployed 	R600,000	R15,000	<ul style="list-style-type: none"> • Black = 60% • Coloured = 22% • Indian = 5% • White = 13% Of which, <ul style="list-style-type: none"> • Female = 35%
Second Intake	26 Learners <ul style="list-style-type: none"> • 17 Employed • 9 Unemployed 	R390,000	R15,000	<ul style="list-style-type: none"> • Black = 81% • Coloured = 12% • Indian = 12% • White = 13% Of which, <ul style="list-style-type: none"> • Disabled = 38% • Female = 23%
Inland North Intake	16 Learners <ul style="list-style-type: none"> • 16 Employed • 0 Unemployed 	R240,000	R15,000	<ul style="list-style-type: none"> • Black = 19% • Coloured = 38% • Indian = 5% • White = 38% Of which, <ul style="list-style-type: none"> • Female = 56%
Third Intake	20 Learners <ul style="list-style-type: none"> • 10 Employed • 10 Unemployed 	R300,000	R15,000	<ul style="list-style-type: none"> • Black = 65% • Coloured = 10% • White = 25% Of which, <ul style="list-style-type: none"> • Disabled = 50% • Female = 65%
Home Loans Intake	25 Learners <ul style="list-style-type: none"> • 25 Employed • 0 Unemployed 	R375,000	R15,000	<ul style="list-style-type: none"> • Black = 36% • Coloured = 16% • Indian = 12% • White = 36% Of which, <ul style="list-style-type: none"> • Female = 60%

2. Diploma in Management Leadership

Diploma in Management Leadership	Total No. of Learners	Training Spend	Spend per Employee	EE Details
First Intake	38 Learners <ul style="list-style-type: none"> 20 Employed 18 Unemployed 	R836,000	R22,000	<ul style="list-style-type: none"> Black = 60% Coloured = 22% Indian = 5% White = 13% Of which, <ul style="list-style-type: none"> Female = 35%

3. Customer Service Representative (CSR) (External)

CSR Learnership	Total No. of Learners	Training Spend	Spend per Employee	EE Details
First Intake	51 Learners <ul style="list-style-type: none"> 51 Unemployed 	R 102 000.00	R20 000.00	<ul style="list-style-type: none"> Black = 84% White = 16% Of which, <ul style="list-style-type: none"> Female = 51%

4. Customer Service Representative (CSR) (Internal)

CSR Learnership	Total No. of Learners	Training Spend	Spend per Employee	EE Details
First Intake	667 Learners <ul style="list-style-type: none"> 667 Employed 	R14,674,000	R22,000	

5. Trusted Advisor

Trusted Advisor Learnership	Total No. of Learners	Training Spend	Spend per Employee	EE Details
Second Intake	512 Learners <ul style="list-style-type: none"> 512 Employed 	R11,264,000	R22,000	

6. Sales and Relationship Management (SRM)

SRM Learnership	Total No. of Learners	Training Spend	Spend per Employee	EE Details
First Intake	100 Learners <ul style="list-style-type: none"> 100 Employed 	R1,500,000	R15,000	<ul style="list-style-type: none"> Black = 11% Coloured = 9 % Indian = 24%

				<ul style="list-style-type: none"> • White = 56% • Female - 56%
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7. Letsema Learnerships

The Letsema Programme is utilised by a number of areas of the business, and provides Financial Service Advice learning opportunities to matriculants, and Business Development Programme learning opportunities to graduates.

Letsema Learnership	Total No. of Learners	Training Spend	Spend per Employee	EE Details
Letsema I	200 Learners <ul style="list-style-type: none"> • 200 Employed 			<ul style="list-style-type: none"> • Black = 90% • Coloured = 7% • Indian = 2% • White = 1% Of which, <ul style="list-style-type: none"> • Disabled = 4% • Female = 23%
Letsema II	100 Learners <ul style="list-style-type: none"> • 100 Employed 			<ul style="list-style-type: none"> • Black = 88.5% • Coloured = 8% • Indian = 3% • White = 0.5% Of which, <ul style="list-style-type: none"> • Disabled = 4% • Female = 65%

8. Business Management: Risk Management

Business Management Learnership	Total No. of Learners	Training Spend	Spend per Employee	EE Details
Programme completes in 2006	21 Learners <ul style="list-style-type: none"> • 21 Employed 	R388,500	R18,500	<ul style="list-style-type: none"> • Black - 33% • White – 67% Of which, <ul style="list-style-type: none"> • Female – 48%

9. Call Centre Support

Call Centre Support Learnership	Total No. of Learners	Training Spend	Spend per Employee	EE Details
Programme completes in 2006	12 Learners <ul style="list-style-type: none"> • 12 Employed 	R 190,000	R 15,834	<ul style="list-style-type: none"> • Black = 100% Of which, <ul style="list-style-type: none"> • Female = 75%

10. National Banking Certificate – Asset Base Finance Level 4

National Banking Certificate Learnership	Total No. of Learners	Training Spend	Spend per Employee	EE Details
Programme currently in progress	24 Learners <ul style="list-style-type: none"> • 10 Employed • 14 Unemployed 	R 650,000	R 27,084	<ul style="list-style-type: none"> • Black = 100% • Disabled = 1% • Female = 46%

11. Call Centre Support Level 2

Call Centre Level 2 Learnership	Total No. of Learners	Training Spend	Spend per Employee	EE Details
Level 2	15 Learners <ul style="list-style-type: none"> • 15 Employed 	R 67,000	R 4,467	<ul style="list-style-type: none"> • Black = 73% Of which, • Female = 60%

12. Information Technology Banking Learnership Programme (ITBLP)

ITBLP Learnership	Total No. of Learners	Training Spend	Spend per Employee	EE Details
Programme currently in progress	3 Learners <ul style="list-style-type: none"> • 3 Unemployed 	R148,350	R 49,450	<ul style="list-style-type: none"> • Black = 100% Of which, • Females = 67%

Training and Skills Development

Staff are encouraged and provided with assistance to improve their capabilities. Training and education programmes are regarded as an essential element of the Group's investment in human capital and the programme content is based on needs identified in terms of industry trends, best practice and research. All group companies are required to contribute 1% of their payroll in terms of the Skills Development Levies Act. Of this levy 20% is paid directly to the National Skills Authority, under the auspices of the Department of Labour, while the balance is paid to the appropriate Sector Education and Training Authority (SETA). The SETA reimburses companies depending on workplace qualifications and standards.

We are currently undertaking a review of our training strategy by undertaking individual discussions with the largest business units, to ensure our training programmes continue to meet their needs, and are aligned with their strategies. The outcomes will have to address the business needs as well as compliance needs of the business.

All people development initiatives are being aligned to the Investors in People (IIP) Standard and the emerging competency framework.

Initiatives Aimed at Empowerment and Previously Disadvantaged Individuals within the Group

Certain training and education initiatives are aimed specifically at empowerment and previously disadvantaged individuals currently employed by FNB. These include the following:

1. FNB Learning

FNB Learning is an accredited training institution, providing learning interventions related to banking skills, management and leadership and related disciplines to both Retail Banking staff and clients. FNB Learning is currently providing a learnership for 40 staff deployed in various business units linked to the Delivery Business Unit. 23 of the participants were already employed in the business and 17 were recruited from previously disadvantaged communities. The learnership is run in conjunction with the University of the Free State, and is registered with the Department of Labour.

2. The Staff Development Centre

This is a new structure that provides the business with training that is based on business and learner needs. EXCO mandated the Centre to establish a Training Work Group to ensure organisational strategic objectives were met via an effective Training and Development Strategy and Training and Development Plan. The current focus of the Training Work Group (TWG) is to deliver on key operational training needs as well as providing strategic direction for people development initiatives.

3. FNB Card

FNB Card is an accredited training provider, providing technical, behavioural and leadership skills training interventions for its staff. In line with its commitment to a learning organisation, last year FNB Card embarked on a programme to identify and up-skill trainers dedicated to the various line departments.

The groups of trainers identified are subject matter experts within their departments. This group consisted of eight individuals. Of the eight, 88% are from previously disadvantaged backgrounds and 75% are female.

4. The Internal Audit Technician Learnership Programme

This programme consists of 8 modules, spread over a period of 15 months. The programme is a balance of both academic input - provided by the Institute of Internal Auditors; South Africa and workplace application, supervised by mentors and managers. At the end of the programme, the learners will be awarded the Internal Audit Technician Qualification, which is equivalent to a level 6 on the skills qualification framework. This initiative is the first audit learnership of its kind internationally.

FirstRand Banking Group's seven participants are all from previously disadvantaged groups and 42% are female. Through the learnership process, FirstRand will be able to prepare its talented employees and provide them with the required skills, while at the

same time, supporting the ideals of the National Skills Strategy. Our internal audit function operates at the Banking Group level.

Initiatives Aimed at Empowerment and Previously Disadvantaged Individuals outside the Group

1. Information Technology Banking Learnership Programme (ITBLP)

Information Technology Banking Learnership Programme (ITBLP) sponsors students from mainly township & rural high schools with matric pass and helps them obtain an IT qualification. The programme is run in conjunction with the Technikon Pretoria where academic learning takes place over one year, followed by six months of practical experience at FNB Technology. Ten students are currently supported, not only financially but also by allocated full time mentors. Four students are now busy with their workplace component of the Learnership and six are on the academic component at the Technikon.

FNB Technology also has an internship programme which allows students with practical experience to fulfill their IT Diploma qualification requirements. The students spend usually six months at the bank where they earn a stipend equal to the entry level trainee developer salary. There are currently two students on this programme.

These students have a greater potential to be absorbed as full time employees after successful completion of their training. Our recruitment strategy is to hire entry-level employees mainly from these programmes.

Remuneration

Our remuneration strategy uses market databases to benchmark pay practices against market practice. We ensure the use of market salary surveys to ensure packages are market related, such as Remchannel Banking Market Survey, Renwick Merchant Bankers Survey, Corporate Lawyers Association of S.A. Salary survey, Deloitte & Touche Forensics Salary survey & 21st Century Pay Solutions). Packages and bonuses are paid on a % basis (less/more risk) according to market relativity of various industries/professions.

Our remuneration policy follows from this strategy, by offering guaranteed packages pitched against the market median (exceptions do occur). We recognise the importance of rewarding exceptional performance; bonuses are paid based on pre-determined performance parameters agreed between the employee and his immediate manager, a self-assessment evaluation, and an annual performance review, ultimately aligned to the business' objectives through the Bank's Balanced Scorecard. Total remuneration is pitched depending on the individual performance. A top performer is pitched against 75th percentile. A good performer is pitched against median. We emphasise paying for performance/outputs, driving a performance culture.

The culture of performance management is supported by the current Broadbanding project, which commenced in January 2005. The objective of this project is to support a cultural shift of the organisation to a higher level of performance by:

- Creating an environment where people are motivated to contribute to the maximum of their potential and are rewarded for their performance
- Ensuring that salaries are competitive with the market to enable the Bank to attract the right talent
- Aligning reward to level of contribution so as to retain and grow performers
- Enabling a more flexible and adaptable organisation with a flatter structure where hierarchy is de-emphasised
- Creating a more flexible, fair and more transparent system than the current grading system
- Ensuring consistency across the Bank

Phased implementation of the project is ongoing, with the Broad Banding conceptual framework having been signed off by the FNB Exco.

FNB
Our People: Info
FNB HIV/ Aids Table for GRI Reporting

Performance Indicators	Topic	Description
Good Governance		
HIV1	Description of HIV/Aids Policy	FNB as part of FirstRand believe it is necessary to set out a clear policy and approach to managing HIV/AIDS within the workplace. In 2004, the HIV/AIDS steering committee, including our Medical Practitioner, reviewed the policy and ensured it was re-written in simplified English. The policy was launched together with the Health Days Launch in August 2004. The policy is reviewed annually.
HIV2	Strategy for managing HIV/Aids risk	<p>To ensure we have an effective and inclusive HIV & AIDS program, a checklist was adopted, extracted from “Guidelines for developing a workplace policy and program on HIV/AIDS and STDs”, issued by the Department of Health Directorate: HIV/AIDS and STDs.</p> <p>The HIV/Aids program is targeted at all FNB employees and extends through to their families, either by direct intervention from the Bank or indirectly through our service providers. FNB has demonstrated its commitment to fighting HIV & AIDS through the implementation of workplace HIV & AIDS Programmes. The following programmes were initiated:</p> <ul style="list-style-type: none"> • Education and Prevention • VaPT (Voluntary Prevalence Testing) • VCT (Voluntary Counselling and Testing) • Non – Discrimination • Care and Treatment <p>We believe that HIV & AIDS is not restricted to the workforce/workplace. We therefore also support surrounding communities through:</p> <ul style="list-style-type: none"> • FirstRand Foundation – Tshikululu Social Investments • FirstRand Volunteers <p>We believe our strategy is working because of Senior Management endorsement and buy-in from the Stakeholders and the various</p>

Performance Indicators	Topic	Description
		<p>Exco's; despite challenges such as cultural differences, structure changes, remote rural areas and large geographical distribution. HIV & AIDS is mentioned on every agenda within the Group at all levels. In addition to the above, FNB has approved the appointment of a full-time HIV/Aids Champion, who will be responsible for driving HIV/Aids initiatives within and across the various business units that comprise FNB's business</p>
HIV3	Extent of preparedness and contingency planning in anticipation of expected HIV/Aids impacts	<p>Our various initiatives are aimed at curbing the rate of new infections among employees; encourage the use of ART's and encourage good and positive living habits i.e. eating healthy, eliminate smoking and alcohol intake.</p>
HIV4	Monitoring of progress and reports in respect of indicators 1-3 above	<p>Guided from the Group policy and guidelines, we are currently in the process of finalising the monitoring of progress in terms of the HIV/Aids management programme within FNB. Our objectives in terms of monitoring and reporting include:</p> <ul style="list-style-type: none"> • The current steering committee functioning is being reviewed • The appointment of an HIV/Aids Champion that will interact with executives and senior decision-makers, as well as all stakeholders <p>A monthly report was introduced in July 2005, to be completed by HIV/Aids Coordinators from each business unit (BU), together with the BU's CEO and the CEO of each business unit</p> <p>A mini survey was conducted in 2004 to audit each Business Unit in terms of their communication of the policy i.e. do all our employees know that we have a policy and also identify Gaps in terms of Group initiatives.</p>
HIV5	Stakeholder involvement in formulation of policy, strategy and implementation	<p>An HIV/Aids Steering Committee comprising representatives who are decision makers from the FirstRand Banking Group, as well as Co-ordinators who represent the operational aspect of the HIV/Aids are responsible for the implementation of HIV & AIDS initiatives at Business Unit level. (Co-ordinators fulfil the role of Peer Educators), over and above the implementation of other HIV/AIDS initiatives.</p>
Measurement, Monitoring and Evaluation		

Performance Indicators	Topic	Description
HIV6 (FNB)	Prevalence rates	A survey by the four major Banks in SA to determine the prevalence rate in the Banking Sector was conducted over a 3 month period in 2003. The test was anonymous, unlinked and voluntary. A followup survey is being planned for late 2005/06. The budget has been approved, and will be discussed with the other financial institutions <i>Banking Industry results available on request.</i>
HIV7 (FNB)	HIV/Aids-associated costs and losses	Not available
HIV8 (FNB)	Total assumed HIV/Aids associated costs/ losses	Not available
Workplace Conditions and HIV/Aids Management		
HIV9 (FNB)	Workplace-related HIV/Aids programmes and interventions	<ul style="list-style-type: none"> • Management training covering basic skills training on how to handle disclosure, legislative requirements, how to manage HIV positive employees, confidentiality, and information on support available within the Bank has been developed. We exceed our target of training 1000 manager by over 760. Our new target for 2005 is to train at least 5000 managers and all other employees by end of November 2005. The main aim of this training is to educate our managers and to prepare the environment for Voluntary Counseling Testing (VCT) • Health Insite, a content service provider, supplies weekly updates and news on HIV/ Aids for access by and distribution to our employees. A customised website for FirstRand Bank has been developed. Here, our HIV & AIDS policy is also posted. This facility provides confidential access to an online medical consultant through the facility "Ask the Doctor". Health Insite also runs our Management Training on HIV & AIDS • BankMed and Discovery Health, FirstRand Bank recognised medical aid schemes, provide support, care, and treatment to our HIV/AIDS infected employees and their families • Careways provide a full Employee Wellness Program and provides a 24-hour help line for our employees and their families. The service provided by Careways is broader and inclusive of HIV & AIDS support and guidance. • Our consultant Medical Practitioner is also a member of the

Performance Indicators	Topic	Description
		<p>HIV/Aids Steering Committee.</p> <ul style="list-style-type: none"> • We utilise the services of Hecate, an Industrial Theatre organisation which assists us with components of our communication strategy through Roadshows, live theatre performances, and video production • At Induction, all Business units are encouraged to introduce new recruits to the Group's HIV & AIDS program. Voluntary Counselling and Testing (VCT) is currently high on the agenda of most meetings. At the Induction session, time is allocated for the viewing of the VCT video to encourage individuals to get tested and know their status • In the past, our lower level employees had an option to choose whether they wanted to belong to Medical Aid or not. Since the inception of our HIV & AIDS program, we became concerned about employees who did not have Medical Aid cover. Exco determined it was compulsory for all our employees to belong to a Medical Aid for their benefit. It also committed that the Bank would pay full Medical Aid subscription for the member, their spouse, and 3 dependant children. We are pleased and relieved that all ±1000 previously non-medical aid employees became Bankmed members with effect from 1st January 2005 • The ongoing communication campaign includes: <ul style="list-style-type: none"> • Monthly Health Alerts in the form of Health Posters • Intranet articles • Payslip attachments • Payslip message • Ongoing status updates to our Exco • On an ad-hoc basis, business units hold have a movie week and show an HIV & AIDS DVD such as "The Closer Walk"
HIV9 (FNB)	Workplace-related HIV/Aids programmes and interventions	As per HIV 9 above
HIV10 (FNB)	Budget allocation	Undisclosed
Depth quality/ sustainability of programme		
HIV11 (FNB)	Voluntary counselling and testing	The Voluntary Counselling and Testing (VCT/Know Your Status) initiative was launched in 2005. A video has been developed to encourage employees to get tested and know their status. The video

Performance Indicators	Topic	Description
		covers information on why we should know our status, what can we do when we test positive and what support structures are available within the Bank. The video was customised for each Brand within the Bank, with an introduction from the CEO of that particular Brand. VCT communication has been included in the various in-house magazines, the electronic weekly "Tree Talk" communication to individual employees and plasma screens at all the foyers. We have put mechanisms in place to assist us in measuring participation
HIV12 (FNB)	Other support programmes	See HIV 9
HIV13 (FNB)	HIV/Aids education and training programmes	See HIV 9
HIV14 (FNB)	Condom and Femidom distribution programme	Condoms and femidoms are distributed at Bank City's onsite clinic which is available for exclusive use of employees. Condoms and femidoms are currently not distributed within bathroom facilities on premises
HIV15 (FNB)	General healthcare provision	Health Days (Know Your Health/Know Your Status) was inspired by the awareness that opportunistic illnesses prey upon people who are HIV positive, and therefore employees need to address their health on a holistic basis. We therefore embarked on a monthly Health campaign/drive. A Health Icon was developed for our communication. This icon is the same every month, but changes colour e.g. pink for cancer, grey for Diabetes, and red for HIV/Aids, etc. This is in line with our commitment to treating HIV & AIDS like any other Life Threatening Diseases (LTD's). Various in-house publications e-mail and posters are used to communicate these topics. These Health days coincide with the Health Calendar supplied by the Department of Health. This initiative was launched with the re-launch of the HIV & AIDS policy in 2004. Posters are supplied to each Business Unit and detailed information on the particular disease, suggested interventions, and sources of further information are provided.
HIV16(FNB)	Additional benefits for employees sick, dying or	With agreement with BankMed, our primary Medical Aid service provider, employees registered for anti-retroviral benefits exceeding R30,000 per annum will continue to receive anti-retrovirals in spite of exceeding this limit

Performance Indicators	Topic	Description
	deceased from HIV-related conditions	

FNB

Supply Chain

FNB's Procurement spend of over R 3 billion annually represents about a third of the Bank's total cost base. Efficiency and effectiveness of this spend is a key component of the Bank's **good to Great** strategy.

We aim to achieve bottom-line savings through effective management of demand and supply, while at the same time ensuring that we achieve redistribution of wealth.

Procurement Scope

FNB has just over 4,000 active suppliers ranging from large multi-nationals to small micro enterprises. The annual operational spend and capital procurement can be broken down into 6 main categories as per the table below.

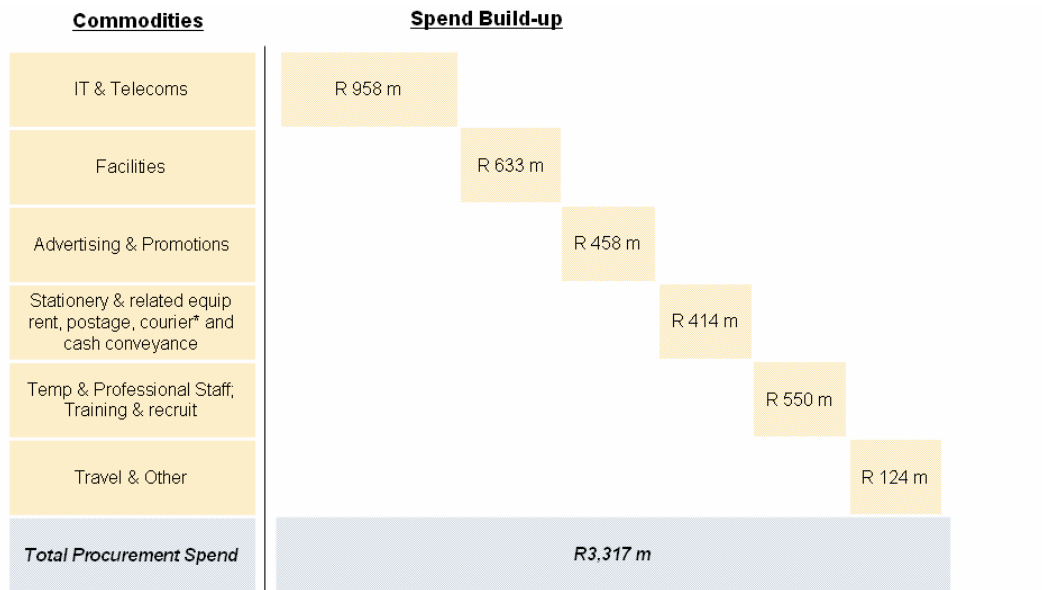


Figure 1 Procurement Spend 2004-2005

Strategy

FNB's procurement aspiration is to achieve world-class purchasing efficiencies and to contribute to sustained economic growth, development, and social transformation in South Africa by using FNB procurement spend to effect redistribution of wealth.

A good case study where efficiency and sustainability work hand-in-glove is FNB's Multi functional printer strategy. These printers have been implemented in all FNB branches with the objective of reducing consumption of paper and ink-cartridges. Ensuring that wherever possible both sides of the paper is used (duplex printing) has also helped curb demand for paper. The volume of paper has been reduced already by 30% and is expected to get to at least 45% reduction when all the initiatives are fully implemented and functional.

The diagram below describes our aspirational model for procurement.

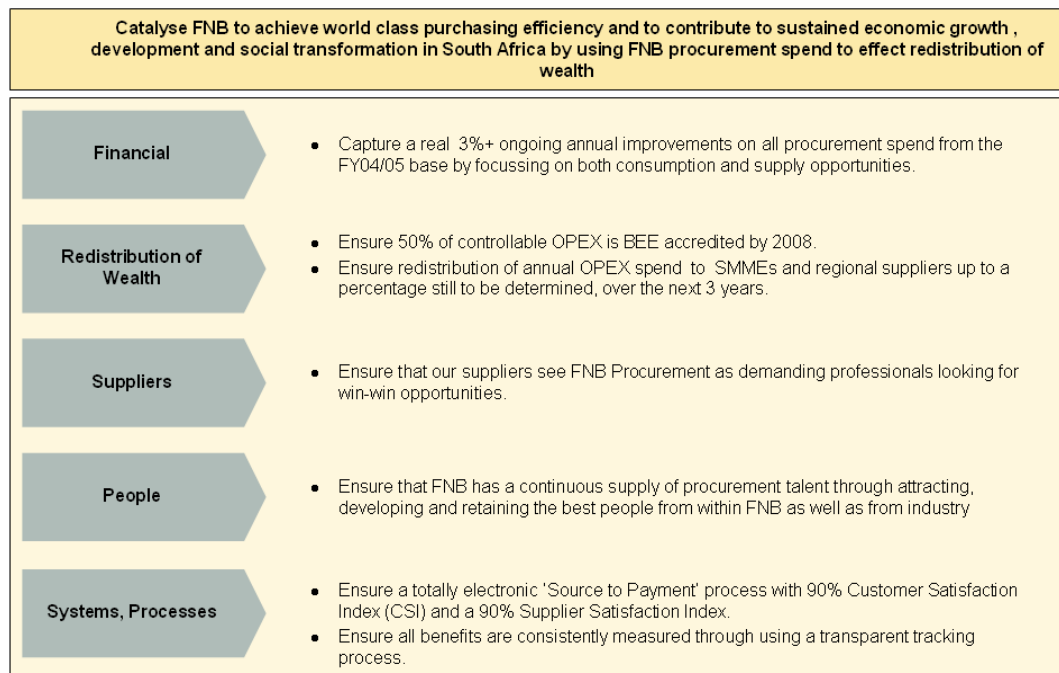


Figure 2 Procurement Aspiration

Our strategy is to achieve sustainable efficiencies and to contribute towards transformation by:

- Placing a clear focus on spend patterns and looking for innovative ways to reduce consumption and optimise usage, and
- Developing clear supplier strategies and create demanding win-win professional relationships with suppliers.

To achieve these aspirations FNB's Procurement objective is to move away from a decentralised structure to a single FNB-wide system of contracts with suppliers.

Ensuring that transformation targets are achieved is part and parcel of the FNB Procurement Governance Framework and will remain a major criterion when developing FNB supply strategies.

Policies

We do not have a stated policy to maintain ethical standards per se. However, through the following procurement function designs, we aim to ensure we reduce the potential risk of unethical conduct.

- A consequence of the creation of a centralised procurement function is the removal of the personal relationship between the supplier and the customer within each business unit. While the business unit will continue to determine and initiate the process for its procurement needs, centralised buying enables both economies of scale and the ability to negotiate terms on a more formal basis with suppliers, reducing the opportunity for suppliers and customers to engage in undesirable conduct
- We have decomposed our procurement into various categories for e.g. IT hardware procurement. We then develop specifications for procuring such items. Business units will then follow these specifications.

Managing Relationships with Suppliers

FNB is moving away from a decentralised supplier management model. The objective is to have single FNB-wide contracts with suppliers, which cater for the specific needs of each Business Unit. Contracts will be administered and the relationship coordinated by the Centre with each Business Unit's ensuring that at an operating level Service Levels are met.

The diagram below indicates the Procurement governance function we will be implementing.

Collaborative Procurement for FNB

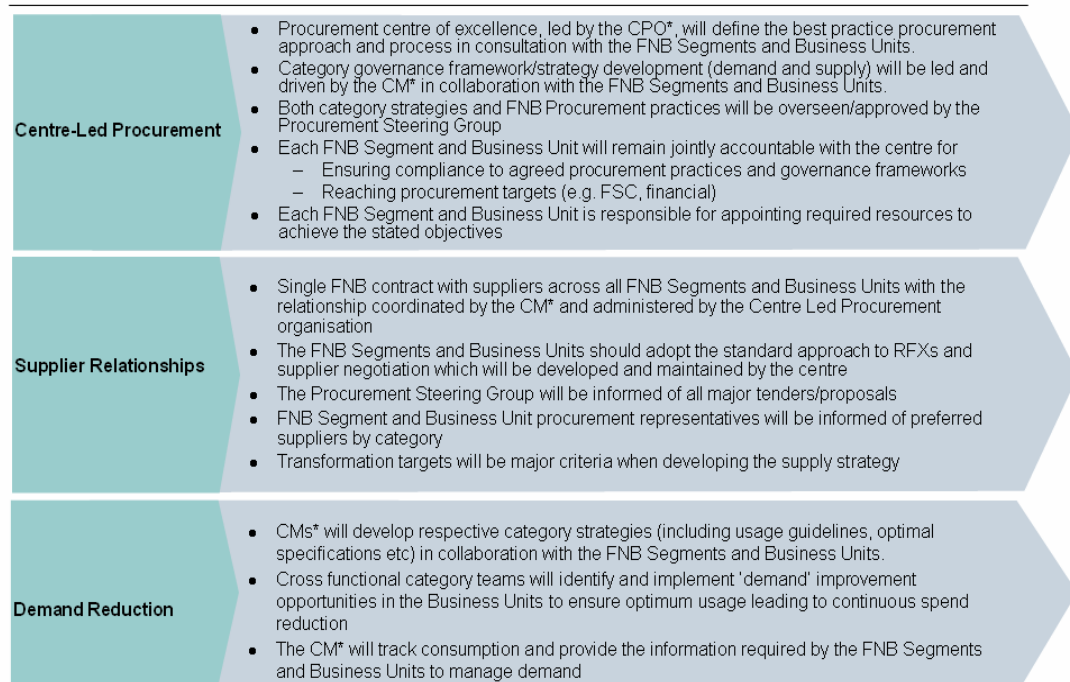


Figure 3 Procurement Governance

Supplier Satisfaction

As part of our Procurement Aspirations, we envisage undertaking Supplier Satisfaction Surveys in future.

That being stated, though, the implementation of BuyIt, our procurement system, has resulted in tremendous benefits to a significant number of our suppliers. Many suppliers, particularly those that deal with us frequently or submit a large number of invoices, can now be assured within a matter of minutes and hours, rather than days and weeks, about the status of the settlement of their invoices, which rapidly speeds up accounting dispute and reconciliation processes.

Supplier Transformation

FNB has been an active contributor towards the development of and the practical implementation of the Financial Sector Charter. Procurement and Enterprise Development contributes 15% to the Financial Sector Charter (FSC) Scorecard. The Financial Mail's 2005 Top Empowerment Survey ranked us as the number one financial institution to conduct business with. It was demonstrated that after Government with its R100bn in buying power in this group, FNB ranked second in terms of procurement from SMME's.

FNB's procurement contributes significantly to redistribution of wealth with more than 40% of controllable spend now with black enterprises.

Our specific objectives for Procurement and Enterprise Development are as follows:

- **Procurement:** To ensure that we purchase more goods and services from Black owned suppliers. By 2008, 50% of the Rand value of FNB purchases should be from Black organisations
- **Enterprise Development:** Purchase more goods and services from SMME suppliers and provide facilities that enable these small enterprises to develop and grow
- **Regional Development:** Ensure FNB shifts spend appropriately to regional-based (provincial) suppliers. FNB is recognised as the leading bank in achieving BEE Procurement

Our success in achieving these objectives is indicated in the data (and accompanying diagram) below.

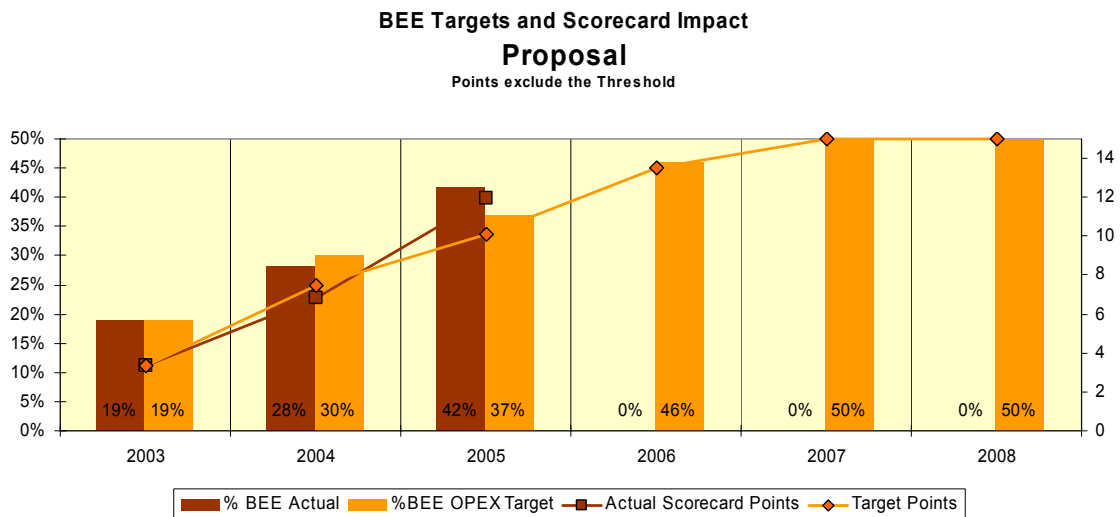


Figure 4 Supplier Transformation Targets and Actual Performance to Date

Implementation of the FNB "Centre Led" procurement is now in progress and it is Actions, Not Words, that will determine success. How do we know we're getting our

Procurement strategy right? Some of our Procurement success stories are depicted below.

- FNB's strategy has been to **actively engage existing suppliers** and encourage these organisations to transform to meet the BEE criteria of the FSC. This has been hugely successful with most of our existing suppliers transforming their organisations so as to become a BEE supplier.
- In specific large spend areas, such as Branch Refurbishment, we have actively pursued a strategy of **sourcing new BEE suppliers**. This has also been highly successful and is reflected clearly in the Capital Expenditure BEE figure which calendar year to date (January- August, 2005) is sitting at 54% BEE.
- FNB has now started to focus on **Enterprise development** and as already built real case studies of how Procurement can contribute significantly towards new enterprise development. For example, we have awarded a component of the FNB ATM Maintenance to a "developing" supplier. The objective is to grow the new supplier and in so doing create long term sustainable advantage for FNB, by not being dependant on one supplier.
- FNB has made good progress with regard to ensuring that spend is directed to **regional suppliers**. At present about 15% of the Bank's controllable spend is spent outside Gauteng with just over 50% being spent on local BEE suppliers. Additional focus will be placed on SMME development and redistributing spend to regional suppliers over the next 12 months.

FNB Environment: Direct

Scope

This report covers the direct environmental impact of the head office premises of FNB in BankCity Johannesburg, where the focus of attention on our impact has been to date. These buildings are:

Brand	Building	Location	Size	Number of Occupants
First National Bank (FNB)	Bank City	Consists of 5 block building located in Johannesburg city centre (Simmonds Street) (Of this, 9 floors are occupied by approximately 950 WesBank staff)	107,259 m2	6,275
First National Bank (FNB)	Hogan Technologies (under the auspices of FNB) – Various Premises	Cnr. Harley & Pretoria Streets – Randburg 111 May Street, Greyville, Durban Liddle Street, Greenpoint, Cape Town 172 Main Road, Walmer, Port Elizabeth Cnr. Douglas & Gordon Roads, Bloemfontein 385 Oberon Street, Faerie Glen, Pretoria	17,670 m2 3,356 m2 2,282 m2 3,095 m2 3,162 m2 3,596 m2	300 105 128 178 198 16

This does not imply that other areas of the Bank's operations do not undertake responsible initiatives in the field of improved environmental operations; for the purposes of this report, we elaborate on a concentrated group of infrastructures that consume environmental resources. It is our intention to increase the scope of our initiatives to cover our branch infrastructure over the coming years –the large number of branches and their geographical spread makes this a major undertaking.

We have a policy for the management of environmental risk in place in terms of our lending (see below). At this point, the policy is undergoing a process of review and thereafter we will be rolling out an awareness raising programme for staff engaged in lending operations where these issues are relevant.

Policy

Our environmental policies cover two broad areas of operation: our investment in current or potential projects where the impacts of projects that the bank finances could result in negative social or environmental consequences, and our own daily operations.

The FirstRand Banking Group Environmental Risk Policy (Investments)

FirstRand Banking Group has a detailed environmental risk management policy that acknowledges that the sound management of natural resources is a cornerstone of sustainable development including justifiable social and economic development.

This policy provides bank personnel with a guideline to ensure that environmental risk is identified and assessed in a consistent manner, and where appropriate, advises on appropriate mitigation measures to be incorporated to make projects sustainable. This policy largely pertains to the investment operations of RMB. FNB and WesBank, while broadly governed by this policy, also maintain specific policies that operate under the auspices of the FRBG Environmental Risk policy.

Policies Pertaining To Environmental Management of Our Operations

A number of policies relating to the area of employee health and safety are in place, include policies relating to smoking at work premises, and environmental health and safety at work premises.

In addition, while not formally enforced through policy, a number of practical initiatives pertaining directly to our consumption of natural resources directly, or through utilisation of resources that add to environmental degradation, have also been implemented, or are in the process of being further refined. These include the use of electricity and water, the use of chemical products to support the operations of air-conditioners, and the use of fuels and oils in vehicles.

The remainder of this report provides an overview of the environmental management of our operations in terms of direct impact.

Environmental Management of our Operations

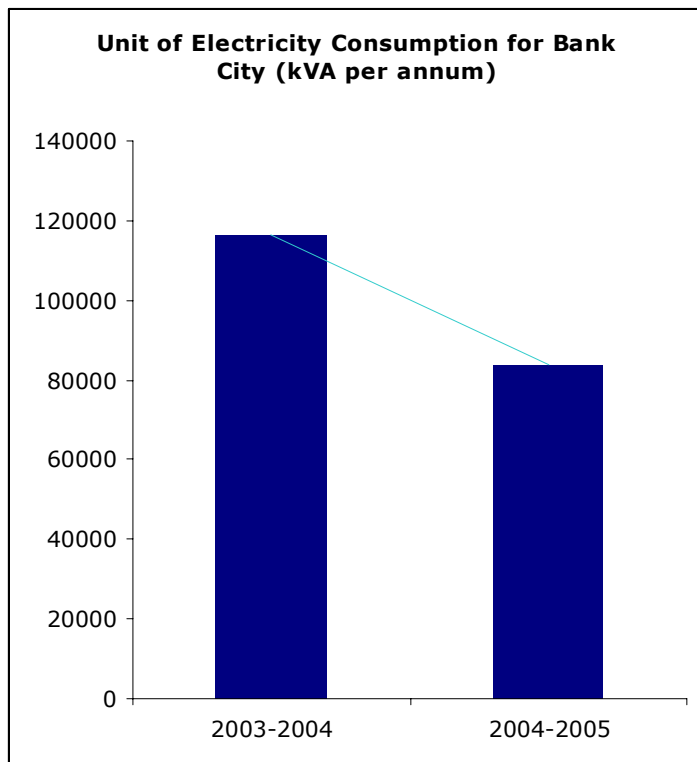
FNB's environmental management of operations at Bank City, and at various premises occupied by Hogan Technology

A review of the Utilities Bills and Maintenance records provides us with an indication of costs and usage trends of electricity, water and refrigerants. We undertake a number of initiatives to reduce consumption and waste output.

a. Bank City

Electricity Usage: To reduce electricity usage, Bank City management teamed up with Eskom on their Demand Side Management initiative. This has resulted in a considerable reduction in the consumption of electricity, with consequent financial savings as well.

The diagram below indicates our efforts to reduce the amount of electricity consumed at Bank City over the last 2 years.



Air conditioner Refrigerants: In line with international standards, regarding refrigerants in Air Coolers, the current use of Arcton 22 will be phased out by 2008.

Paper Recycling: Paper is resorted for recycling by Nampak.

Waste: Waste is separated into wet and dry waste. Wet waste consists of food waste and hazardous waste. Both are disposed of by approved companies.

Electrical Equipment: Large printer cartridges are returned to the supplier on and exchange basis. Fluorescent tubes are repacked into their original packaging and returned to suppliers. Electrical lights are donated or re-used or stored for re-use.

Furniture: Furniture is re-used constantly at Bank City. Used carpets have been donated to various charity organisations.

b. Hogan Technology premises

Hogan is the mainframe technology on which FNB's main information systems are run.

Electricity Usage: At the Randburg premises an initiative to reduce UPS systems from 4 to 2, and hardware changes resulted in lower power consumption and cooling. A saving of approximately R 250 000 per month was also achieved.

At the Faerie Glen offices, a similar process of reducing the UPS systems from 3 X 400kVA to 3 X 200kVA units, as well as a change in the airconditioning system and the removal of 1 transformer will result in reduced energy consumption.

Airconditioner Refrigerants: In line with international standards, regarding refrigerants in Air Coolers, the current use of Arcton 22 has to be phased out by 2008.

Paper Recycling: Hogan Technology's Randburg operations has partnered with Nampak to recycle waste paper. Hogan Head Office has also started ensuring more efficient use of paper such as double-sided printing, use of electronic media instead of paper, the removal of physical newspaper access for managers, and the removal of colour printers. These initiatives have successfully resulted in reduced paper utilisation and improved environmental management.

Electrical Equipment: At all Hogan Technology's facilities printer cartridges are sent back to suppliers for re-use.

Furniture: Hogan Technology sells furniture to staff. Obsolete partitioning is removed by contractors. Old computer equipment is sold as scrap material. Chairs have been donated to churches and other charity organisations. Where possible, however, furniture is re-used. Only items in excess of 15 years are donated.

Describe the financial impact of these activities (cost reductions, savings, value of goods donated etc.)

At Bank City, electricity savings initiatives have resulted in an estimated annual saving of over R4, 800,000.00

Bank City's general policy of re-using furniture rather than replacing furniture also results in cost avoidance or savings.

Transport

The table below indicates the size of the vehicle fleet used by FNB, at the Bank City and Hogan Technology premises. Hogan Technology have ensured that their vehicles consume unleaded fuel only.

Company	Size of Car Fleet	Annual Mileage	Business
Bank City	2 Vehicles	3,959 km	
Hogan Technology	At 28 Feb 2005 the number of vehicles totalled 13. From 1 March 2005 these vehicles were reduced to 3	205,133 km	

FNB Community

Throughout the group, our Corporate Social Investment strategy involves two 'legs' – financial giving through the various funds of the FirstRand Foundation, and giving in kind, through the FirstRand Volunteers Programme.

FirstRand Foundation and the FNB Fund

The FNB Fund is one of five funds operating under the FirstRand Foundation, which is a duly constituted and registered Trust and complies with Sections 30 and 18a of the Income Tax Act. It was also recently awarded Public Benefit Organisation status under the above Tax Act.

The Foundation is Chaired by Mr Viv Bartlett and includes 9 Trustees who fulfil senior executive positions within the Group, as well as five external trustees (including Mr Bartlett) representing the community at large. The Trustees meet on a quarterly basis to ensure the sound governance of the Foundation, to review its work, discuss its strategy, and to consider grants in excess of R120 000.

The five sub-committees of the Foundation representing Discovery, FNB, Momentum, RMB and WesBank each meet on a quarterly basis to consider grants in excess of R50 000 and up to R120 000. These committees also play an important role in contributing to strategic debates regarding the giving of the Foundation. Each sub-committee is chaired by a Trustee of the Foundation.

The Trustees of the Foundation have also delegated authority to the Management of Tshikululu Social Investments, a not-for-profit corporate social investment consultancy, to approve grants in the name of the respective group company funds, up to a limit of R50 000 per grant. Fortnightly meetings are held at Tshikululu to ensure a quick turn around time in reviewing requests for funding.

All grants approved by Tshikululu and the sub-committees of the Foundation are subject to the same stringent processes required of Trustees grants, and all of these grants are reported to the Trustees on a quarterly basis.

The Finance Sub-Committee of the Foundation comprising of two senior executives of FirstRand and Trustees of the Foundation, namely Adrian Arnott and Peter Cooper, and the Finance Manager of Tshikululu Social Investment meet on a quarterly basis to review the Foundation's financial status, to debate the investment strategy, and to monitor the growth of these investments. This is done in addition to the day-to-day

financial management of the Foundation overseen by Tshikululu, whose responsibilities also include:

- Arranging external annual financial audits of the Foundation,
- Monitoring the legislative compliance of the Foundation and ensuring that Public Benefit reporting compliance is adhered to,
- Implementing and monitoring risk management protocols related to the approval and payment of grants,
- Ongoing review of systems that assist in the above,
- Providing management information to the FirstRand Board, Trustees and Committees on the Foundation's activities,
- Providing access to a multi-disciplinary team of social investment professionals who evaluate and monitor projects,
- Handling and tracking all correspondence and telephonic queries addressed to the Foundation, and
- Tabling written requests for funding to the Trustees and Committees and, if approved, monitoring the utilisation of funding and the rollout of interventions.

The FNB Fund has seen a number of significant changes during the latter part of the year. A new committee was elected, chaired by Derek Carstens, and includes senior managers from each business unit. A vision statement has been created for the Fund - Helping to create a better South Africa through our Youth - and key focus areas have been agreed upon.

By June 2006 at least 50% of funding will be earmarked for flagship programmes. Ideally, flagship programmes will have a national focus, and FNB will be the sole corporate funder. Such programmes will also be aligned to our responsibilities in terms of the Financial Services Charter. A number of initiatives are currently being reviewed for support.

During the coming year, the FNB Fund will also continue to support broad-based CSI initiatives. The areas of focus include community care with an emphasis on women and youth, educational programmes focusing on schools and universities, and skills training and job creation programmes also emphasising efforts among youth and women.

Policies

Historically the Foundation has been responsive to the needs identified by communities themselves. It then prioritised these against the key strategic focus areas of the Funds, which are all aligned to business imperatives. The Foundation is now also adopting a more proactive approach in identifying potential new projects for support.

The work of the Foundation is also informed by the ongoing review of projects supported in the past, reflecting on lessons learnt, challenges communities face and how these lessons can be applied to improve on future programmes.

National development imperatives also inform the work of the Foundation. These include the high unemployment rate and the need to offer job creation opportunities (through initiatives such as the Technical Assistance Fund). Our role in addressing past imbalances in the education system is implemented through initiatives such as bridging programmes offered by universities. An example is the University of Fort Hare and Johannesburg University joint initiative focusing on upgrading the quality of the Fort Hare B Comm. Accounting programme.

The Foundation has clear guidelines (available at www.firststrandfoundation.org.za) to assist prospective grantees to apply for funding. The guidelines provide detailed information on the supporting documentation required when reviewing requests for funding and also outlines initiatives generally not supported by the Foundation. The website also outlines the focus areas of the respective Funds. (This information is also made available to projects via fax or mail to those who do not have access to the web).

The giving of the Foundation and the respective Funds is also governed by the Trust Deeds and requirements for Public Benefit Organisations. As a general rule the Foundation is only able to support not-for-profit organisations that undertake public benefit activities.

Community Satisfaction

The Foundation has always prided itself on going the extra mile and adding value through its engagement with projects, creating opportunities for organisations to share experiences and to network and to assist initiatives with “intellectual capital” in addition to financial support. One recent example of this has been working proactively in Hospices throughout the country to learn more about the challenges they face and looking at the best way of supporting them. Through this initiative the Foundation has established a programme dedicated towards the training of home-based care workers.

The value of this engagement has not been measured by the Foundation; however, in the annual CSI Handbook, the Foundation is recognised by NPOs as a good corporate grant maker, and a grant maker with a hands-on approach.

During the coming year greater emphasis will be placed on monitoring the value and impact of the work of the Foundation.

Impact Assessment - Measurement

All grants approved are conditional on specific project and financial reporting. The Fund is conscious of the fact that the development sector is faced with many challenges and that delays in delivery or challenges can arise during interventions. In light of this projects are also required to reflect on these lessons learnt and to report how these will impact on future delivery. Visits are also undertaken to projects on occasions.

The Foundation aims to move towards a more quantitative impact assessment model during the coming year and will be employing a Monitoring and Evaluation Practitioner who will be responsible for setting up systems to monitor the impact of projects against agreed targets.

Fund Performance

A detailed list of all projects by sector and province is available on our website www.firststrandfoundation.co.za

The value of grants for the year ending 30 June 2005 was R20.5 million. The actual number of grants for the year ending 30 June 2005 was 155.

The overview of the "Giving in the name of the FNB Fund" that follows does not reflect new focus areas but rather the giving as agreed during the year under review.

Giving in the name of the FNB Fund increased significantly year-on-year by R5 million. This was primarily due to a significant commitment of R5 million made by FNB in support of the Mass Media Heartlands Project. A series of 12 SABC 2 based programmes in 2006 will be exploring a range of values such as integrity, honesty, trust, perseverance, prejudice, and racism. The objective is to stimulate discussion amongst families around these central themes and will, in time, be accompanied by resources to be used in classrooms and other discussion groups.

Education continues to be the key focus area of the FNB Fund. We actively support a number of university academic development and bridging programmes, such as the Rhodes University Commerce Foundation Programme, and the Johannesburg University and Fort Hare University B.Comm. Accounting initiative, as well as supplementary tuition programmes. 28% of FNB's funding or just on R5,7 million was approved in support of the above programmes.

The Rhodes Commerce Foundation Programme – A Case Study

The Commerce Foundation Programme aims to fulfill South Africa's need for qualified black commerce graduates. This one-year programme is targeted at the best students from historically disadvantaged schools, who would normally not qualify for admission to a B Com degree. The Programme has been running in

the Faculty for nine years. It is a one-year academic-bridging programme during which students can earn up to 6 academic credits towards a B Com degree. The programme is not for weak students, but rather for the best students from disadvantaged backgrounds who apply to study at Rhodes.

Foundation programme students are put on a fixed curriculum consisting of Computer Science, English for Academic Purposes, Financial Mathematics, Foundation Accounting (a one semester course spread over the full year) and Statistics. They also take Introduction to Business Skills and Life Skills. The group is small (not more than 30 students) to enable lecturers to give individual attention to students. Active learning and continuous assessment techniques are used. The students on this programme have two extra contact hours per week per subject.

Students who pass the Foundation programme proceed on to their second year of study and take the rest of the prescribed first year commerce courses, namely Management, Economics, Commercial Law and the second part of first year Accounting. Academic support and peer group assistance continues to form an integral part of the students' second Foundation year. Third and Fourth year students are indistinguishable from the mainstream student body, completing the full Commerce curriculum. During this time, they are encouraged to become tutors for younger students. While some students may require an additional, or fifth, year of study, most graduate within the minimum time.

Twenty four students enrolled for the programme in 2004, of which five students were excluded from the programme by year-end due to unsatisfactory performance (a required 60% average). Three of the students obtained averages of 70% and two students obtained first class passes in Statistics. These students were among the top twenty students in the class of 500 students. One of the students is now a tutor for mainstream students and the other to Foundation students. The success rate of the programme (number of students graduating) has fluctuated over the years and produced satisfactory results, namely: 43%; 22%; 35%; 44%; 48%; 48% (five students still studying)

The results need to be reviewed in a context that prior to the introduction of the programme at Rhodes only 1% of "township" students progressed beyond their first year of study and hardly anybody graduated. Access was also very limited. In 1993 Rhodes enrolled 15 "township" students for B Comm. and not one graduated.

The results should also be reviewed in the context of other initiatives such as the University of Fort Hare Accounting Programme which has shown that just over

50% of the first group of students in 2002 have succeeded in progressing to their fourth year of study. The throughput rate for B Comm. (Accounting) at the University of Johannesburg is more or less 40 %.

In addition to the academic courses offered the programme has also run life skills training programmes, first aid courses, orientation camps at the beginning of the year and outings to local businesses to learn more about the real world of work.

Support for **community care programmes** totalled R4,1 million. This includes a range of initiatives addressing the needs of the homeless, destitute, orphaned, and youth and families at risk such as Kids Haven, the African Children's Feeding Scheme, and Tembisa Child and Family Welfare Society. These initiatives, whilst not viewed as developmental in nature, provide a critical service to thousands of vulnerable people in need of basic care and support. The Fund also continued to assist with the training and development of community-based home care workers through its support to a number of hospices operating throughout the country. These caregivers undergo accredited training to enable them to care for people infected and affected by HIV/AIDS in their own communities. This training often provides a platform for longer-term full time employment at hospices or homes for the aged. The Fund supported the training of close on 2,500 care workers during the past year, at a cost of R1,8 million.

A further R2 million was approved during the year in support of a range of **skills training and job creation programmes** operating in urban and rural settings including support for the Siyazisiza Trust, Vuk'uzenzele, and African Enterprise.

African Enterprise – A Case Study of Empowerment through Development

African Enterprise has been running the Diploma in Social Empowerment and Development for a number of years. The objectives of the programme are empowerment and development and the creation of employment and income generating opportunities. African Enterprise started the Social Empowerment programme in association with World Vision and the Rural Advice Centre in 1991. Since its inception, the Diploma in Social Empowerment (DSE) programme has grown from 7 to 82 participating students per annum in 2004 and a total of 121 students have graduated to date. A further 36 will be graduating at the end of this year. Students get accreditation through the Evangelical Seminary of SA and the University of Natal and this enables students who lack the educational entrance requirements to get access to tertiary academic institutions if they wish to pursue further studies.

The DSE programme provides a structured, intensive, holistic education intended to train individuals to become development facilitators for impoverished communities in SA; it provides community development skills which allow

programme graduates to initiate and run successful development programmes in their communities; trainees are able to identify the resources in the community and match these with the needs of their communities; help communities to affirm their dignity and belief in their own capacity as facilitators of community development. Recruitment of students onto the DSE programme is done through recruitment workshops conducted mainly in various previously disadvantaged communities of KwaZulu Natal, although some students have come from as far afield as Swaziland, Zimbabwe, Lesotho, Zambia and Malawi. Through these workshops, students who show leadership potential (no formal education standards are required) are identified and invited to apply. Acceptance onto the DSE Programme is contingent on students having been involved in community work prior to the course.

Impact and Results

In 2004 the enrolment in the DSE programme was as follows: 8 first-year students, 28 second year students and 37 in their third year – 50 of these are women. 31 students graduated with a diploma at the end of 2004. The 6 who failed will redo their final year again. There have been various success stories with students starting full-time employment with the Department of Social Development and Health while continuing their work in the communities. Their partnership with the Evangelical Seminary of SA has also strengthened the organisation and particularly the accreditation for certificates – it has been mutually beneficial as ESSA provides the educational framework of courses while AE provides the practical experience and knowledge of community development.

The Fund also continued to support programmes that address violence against women, children and families. This will remain a focus area of the Fund in the upcoming year. Initiatives supported range from counselling and support services, to more proactive approaches to curbing violent acts. Organisations supported during the year include the UCT Centre for the Study of Violence Against Women, Life Line, Rape Crisis Cape Town and Crisis Line.

FirstRand Volunteers' Programme and FNB

Inspired by President Mbeki's message to South Africa to "Rise up and do something", the FirstRand Volunteers Programme provides an enabling environment, guidelines, channels, and auditable mechanisms to enable staff to donate of their time or finances towards initiatives identified by employees themselves, with guidance by The FirstRand Volunteers Programme or through The FirstRand Foundation.

The Programme enjoys the highest level of business support. Launched by Paul Harris, the Banking Group CEO two years ago, and Sponsor of the programme, Paul continues

to communicate constantly to employees about the need for, and importance of volunteering.

The Programme also resides on the agenda of the 351 Forum, which is a forum of the Group's top executives that meets on a quarterly basis. Executives obtain programme feedback, and are introduced to different charity organisations supported by employees, who speak about what they do and the challenges they face. The 351 Matched Fund gives this forum the opportunity to support the charities presented to them.

Exco and Management also support employees by attending many of the charity handovers and charity drives. Often CEO themselves are directly involved, giving their time along with staff in delivering initiatives. Volunteer staff engage in a series of activities either on a once-off or recurring basis, or through ongoing relationships, Annual Group challenges and National Charity Days.

The Programme is an excellent opportunity to enhance learning and awareness of the greater environment in which we operate. Through our engagement with donor organisations and the community, our staff obtains first-hand exposure and experience of what communities experience on a regular basis. At this level of community engagement, they discover that the mechanisms, processes, resources, and support structures which they have available to them at work, and are therefore taken for granted, are simply non-existent in some instances. Staff learns significant lessons about the challenges communities face, which inculcates a much greater sense of compassion and empathy.

The underlying philosophy driving the FirstRand Volunteers programme is the "Spirit of Giving". This is facilitated through the Matched Giving Mechanism. For every unit of time and/ or money donated by groups of employee volunteers, the Programme matches the donation in equal units. Financial contributions raised by teams of two or more employees are matched in equal amounts. If teams of four or more employees give of their time, knowledge and skills, the Programme contributes R2 500 for every 8 hours of accumulated team effort. These monies are paid into business unit or division bank accounts. Employees are encouraged to identify 'wish lists', hence engaging and partnering with beneficiaries. The Volunteers' Programme is based on using the financial resources raised by volunteers and the Programme to identify what the community or organisation requires by engaging with the community, and purchasing what the specified items. In addition, volunteers often take out time from their working schedule to implement specific projects. The Programme does not hand over cash or a cash equivalent to an organisation – rather, we focus on identifying and supplying the resources directly required to address specific needs.

The diagram below depicts the FirstRand Volunteers' Matched Giving Mechanism.



Figure 1 The Matched Giving Mechanism of the FirstRand Volunteers' Programme

Over the last year, at least 20% of the FirstRand Group staff contributed directly of their time or financial resources towards the FirstRand Volunteers' Programme. We're looking to substantially increase these contributions over the upcoming year, as indicated in the section on our plans for the forthcoming year.

Performance

Each of our brands continues to increase their efforts in making a success of the FirstRand Volunteers' Programme. In the last financial year, each brand increased its contribution in time and money given over to worthy causes.

FirstRand Volunteer Contribution by Brand (2003-2005)

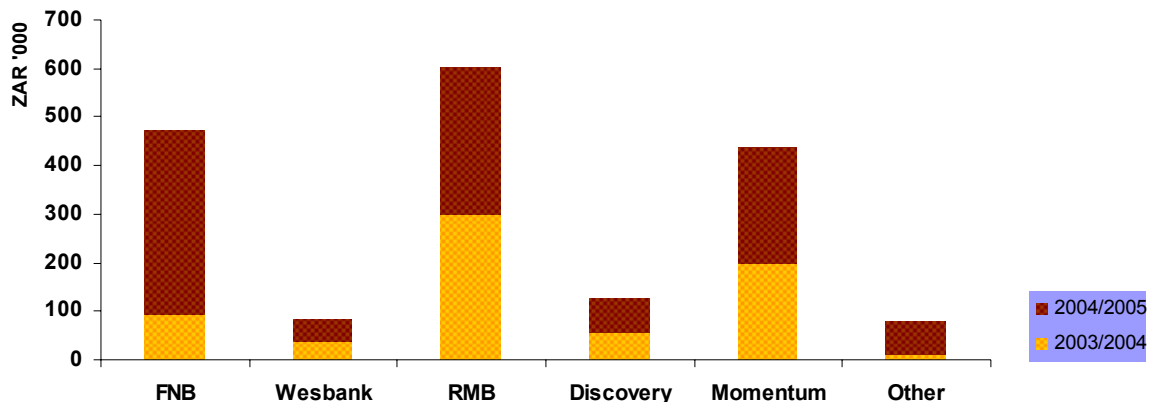


Figure 2 Contribution of FirstRand brands to Volunteers' Programme

During 2004/5, a total amount of just under R1, 000,000 in contributions (both time and hours) was raised by employees of the Group. The FirstRand Volunteers' Programme then matched this contribution, resulting in under R2, 000,000 being contributed to charity organisations.

The diagram below indicates the financial commitment of the FirstRand Volunteers' Programme over the past two years. Note that the contribution (time and money) of volunteers is matched 100% by the Programme.

FNB staff is enthusiastic about the FirstRand Volunteers' Programme. From demonstrating their support for Casual Day and Bandana Day, to ongoing support for community care initiatives and other programmes, FNB staff have significantly increased their commitment to the FirstRand Volunteers' Programme, from just under R95,000 to over R377,000 in the last financial year. With matched contributions from the Programme, FNB contributed in excess of R1,200,000 in 2004/2005 to various initiatives. An example of one such project that is close to the heart of FNB staff is demonstrated below.

How partnerships initiated through the FirstRand Volunteers' Programme can result in a win-win for all

A particularly exciting opportunity for both staff and the community is the enhancement of basic financial literacy within communities. Here our staff can play a pivotal role. We are currently developing a concept based around extending the knowledge of branch staff beyond the confines of the branch. Volunteers will be encouraged from amongst branch staff to partner with non-profit organisations (and where appropriate, other expert stakeholders) to spread basic consumer financial literacy, and support our consumer education strategy of savings, borrowing, lending, and insurance as tools for development and upliftment.

This exciting potential project, which we're hoping to be pilot in the future, enables a win-win for all stakeholders. By arming communities with increased financial awareness, communities are better able to participate in the economy. At the same time, we are better positioned to meet and exceed our commitments and responsibilities to improving consumer financial literacy in terms of the Financial Services Charter.

Contribution by FirstRand Volunteers and Staff (2003-2005)

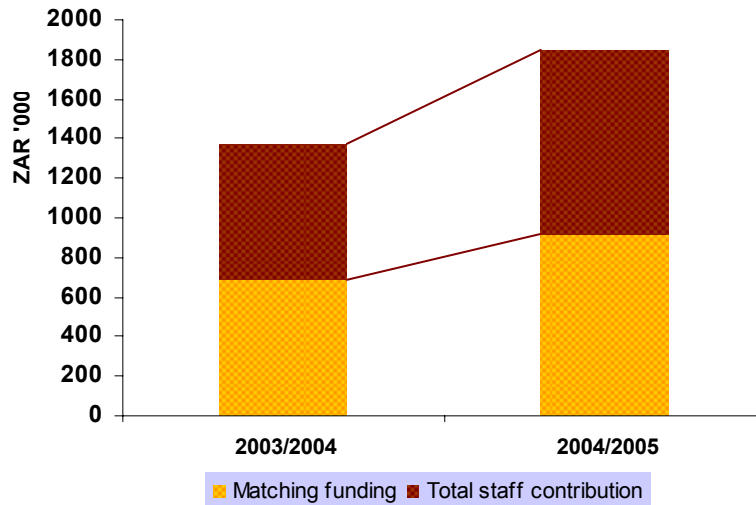


Figure 3 Staff Contribution and Matched Funding

For the current financial year, the FirstRand Volunteers’ Programme allocated a budget of R2,200, 000 to manage and match the efforts of volunteers. Of this, approximately R704, 000 has been held over for the next financial year (2006). An application to the FirstRand Foundation to replenish the Fund was approved. The amount of R1, 500,000 indicates the value placed by the FirstRand Foundation in the efforts of the Volunteer Programme.

In addition to the individual projects tackled by volunteers, some of the recurring financial efforts of the Programme include:

- 10 000 Winters Warmers supplied to homeless/orphans
- Bandana Day: held on the 1st September 2004, and planned for the 21st of September every year, National Bandana Day helps the Sunflower Fund recruit donors for the South African Bone Marrow Registry, which provides life-saving bone marrow to leukaemia patients nationally.
- Casual Day: Staff demonstrates their support for disabled people across South Africa, by purchasing a sticker “entitling” them to wear casual clothes to work on the 2nd of September. The proceeds from the sales of stickers (along with the matched contribution by the Volunteers’ Programme) are utilised by six national welfare organisations for disabled people.
- Children’s Day – 5th November
- World Aids Day – 1st December

Policy and Impact Measurement

While the FirstRand Volunteers' Programme has assisted in building trust, loyalty and comfort with the different brands, it is important that we continue to grow and strengthen the programme holistically. While we receive significant acknowledgement from the community in the form of verbal and written feedback, it is important that we determine quantitatively as well the impact of our work in the community. That involves many facets of attention, including strengthening the current complement of co-ordinators, and identifying and implementing key performance indicators or impact assessment measures, etc.

Strict and auditable criteria are also implemented to ensure that ultimately the organisation or initiative supported benefits 100% from the time, activity and materials volunteered. Our website www.firstrandvolunteers.co.za provides more information in this regard.

Focus for 2006

We are undertaking a number of exciting challenges in the forthcoming year to grow and strengthen the FirstRand Volunteers' Programme. Most importantly, we are focusing maximising staff participation in the Programme by exposing more people to the spirit of giving. The additional funding received from the FirstRand Foundation will certainly help us increase our disbursements to communities.

However, the Programme is not merely about handouts. A critical element of upliftment is ensuring the sustainability of initiatives. We are therefore focusing on building and enhancing capacity within the communities we support, by sharing skills and knowledge as well. We're also actively trying to ensure enduring relationships that enhance the capacity of the community. By strengthening our partnerships with non-profit organisations, the community (or community-based groups), and staff, we're hoping to increase the sustainability of the efforts of all stakeholders.

The Refilwe Community Project and FNB Staff's Spirit Of Volunteerism

The Refilwe Community Project is situated near Lanseria Airport, north of Johannesburg and services approximately 50 000 severely disadvantaged people within a 20km radius (Eskom, Thabo Mbeki, Joe Slovo and R28 squatter camps). HIV/AIDS, unemployment, limited education, lack of skills and poor housing are some of the challenges facing this community.

The Project's scope is vast with an Aids Management Day Care Clinic, which aims to provide terminally ill Aids patients with spiritual, physical and emotional help. A TB clinic and mobile clinic visits members of the community who are unable to reach the centre due to poor health. A HIV/AIDS Voluntary Counselling and Testing Centre, a Drop-In Centre where members of the community can have a meal, wash their clothes and use the showers, and a Dental and Eye Care facility.

The Project also runs a school on their premises, which schools 87 children from Grades 1 to 5. Skills Development is high on their agenda this includes sewing, beadwork and welding which is proving extremely successful (how do we know?).

As a catchment, Phambili have focused on the children of Refilwe. When we started supporting them there were 27 orphaned/homeless children at the Shelter. There are now 37. These children are either Aids orphans, have been abandoned by their parents, or come from very impoverished backgrounds where their parents are not able to care for them. Staff from the Phambili Catchment Area (branches include Northcliff, Craighall, Cresta, Randburg Square, Randburg and Homeworld North) have been supporting Refilwe since May 2004. Here; in the words of the regional representative is a description of what they have been doing:

Staff contribute monthly to an account solely utilised to help Refilwe. Between June and August 2004 we bought blankets, scarves, gloves & beanies for all the children at the Shelter. In August we took all 27 children to Ackermans and bought them all new takkies, then to McDonalds where Ronald McDonald entertained them and they were all treated to Happy Meals After our Teddy Bear Campaign, where staff knitted an assortment of cuddly teddy bears, we surprised all the children with their very own teddy bear and sweetie packet. At the Catchment's "National Anthem Function" where all the children of Refilwe and the staff enjoyed a fun-filled evening, eBucks 20 000 was donated to the children. We have taken all the children as well as some Missionaries from the UK, to the JHB Zoo, paid for their entrance and provided a lunch.

In March 2005 another shoe outing was arranged where all the children received brand new shoes and socks from Jet Stores and had a wonderful meal at "Food" in Cresta. In support of Worlds Aids Day, Refilwe were the sole beneficiaries of R100 000 from FNB. After the cheque handover we bundled the children into cars and took them to the Hunters Hill Fire Station where we had a Xmas party waiting for them. All the gifts were bought by the staff of the Phambili Catchment Area. We approached the Mr Price Group who generously donated comforter sets to each child.

Staff regularly clean out their cupboards at home and donate all old clothing, toys etc. to Refilwe. They also regularly visit Refilwe and are becoming more involved.

The children of Refilwe will be moving to new premises at the end of the year and we are hoping to be instrumental in helping them turn the new premises into a place they can call "home".

FNB Customers

Scope

The diagram below depicts our product and service offering.

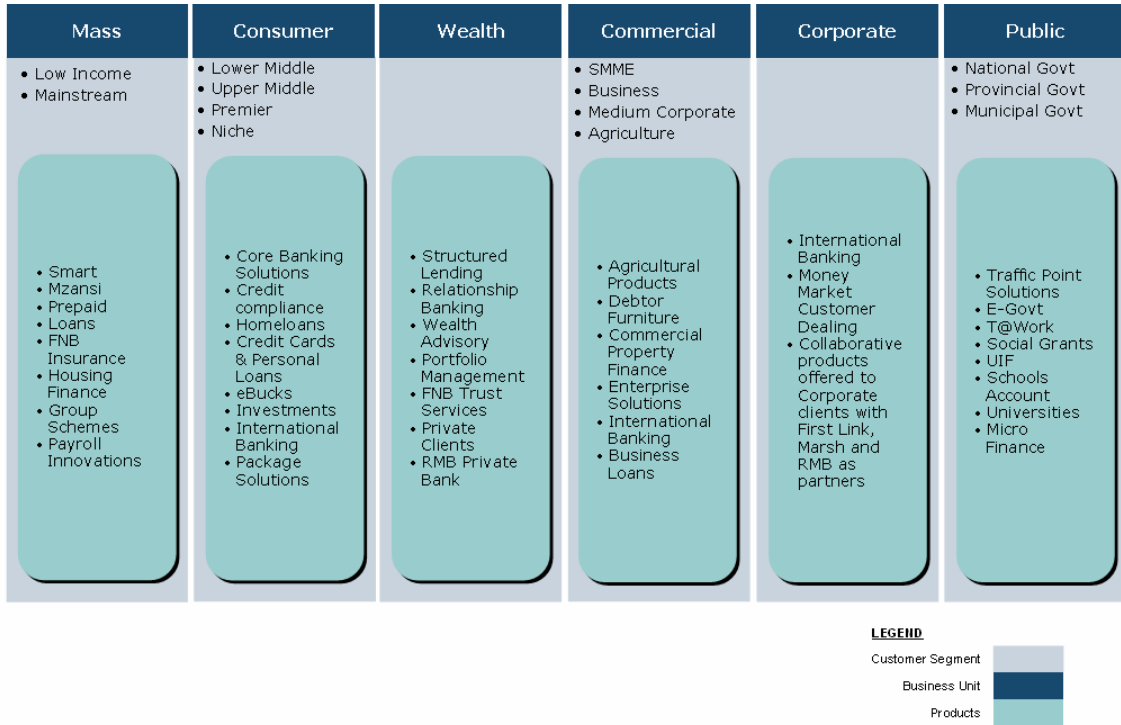


Figure 1 FNB Customer Offering by Business Unit and Product

Issues of major concern relating to Customer Segment served

A good relationship between a bank and its customers is fundamental to the continuing success of the business. In an ever-changing global landscape with a proliferation of products and services, we recognise that our customers reside at the heart of our success. Each of our customers have a number of personal and sometimes, business needs that we must consider. Our customers want efficient, reasonably-priced and personalised services, accessible through a variety of convenient and secure channels.

The pillars of the relationship between FNB and its customers are service, solution offering, and transactional efficiency and cost-effectiveness. Through various studies, surveys and information-gathering exercises, and the application of strategic analysis, we understand what is important to our customers, what some of the

primary concerns are, and what we can do from a service and solution offering perspective to improve our customer's interaction with us.

Customer satisfaction surveys are undertaken both across different business units within a brand (e.g. at FNB level), or within a specific function (e.g. branch banking). Different instruments are used and customised according to the needs of the various business units. These include:

- Telephonic and Computer-Assisted personal interviews
- Various internal surveys, dashboards, and business intelligence analysis using information technology
- Information feeds from staff "on the ground" including relationship managers, branch personnel, etc.
- AMPS (Annual Media Product Surveys) and FinScope (commissioned by FinMark Trust to understand the needs and usage of financial services across the entire South African population)
- State of Segment, and Brand Health studies
- Annual Customer Tracking Studies
- Media reviews and publicly-logged concerns e.g. Banking Ombudsman issues, complaints and compliments logged in media such as Hellopeter.com, etc.

The frequency, level of detail, and action plans to address customer satisfaction issues also vary, as they ensure they are directly tailored towards the needs of the particular business unit. Some of the most recent surveys undertaken to understand the needs and issues of various customers segments include:

- Mass Market Survey:
 - Conducted in 2002, this involved 2,900 personal interviews
 - While the rule-of-thumb indicates the results are generally valid for a period of about five years we plan annual customer tracking studies continue to help us obtain useful insight into the needs, issues and requirements of our customers
- Black Lower-Middle Market Survey:
 - Conducted in 2003, the results of this survey led to the development of our "designer banking" offering to address some of the issues and opportunities expressed by this segment
- AMPS and Finscope Market Tracking:
 - Data for the period 2002 – 2004 was sourced and compiled into a Consumer Market Metrics booklet
 - This information provides detailed consumer information, which various business units could then use to recompile segment-specific information, and to supplement strategic planning
- Voice of Customer Buzz Barometer:
 - We recently implemented a monthly measurement of customer satisfaction and loyalty as a measure of retention, for all customer segments, serviced by all channels. We hope to use this holistically to identify customer issues leading to satisfaction (or lack thereof). We can then develop and apply solutions both

tactically and in support of FNB's good-to-Great strategic programme

These surveys, as well as recurring customer satisfaction analyses provide insight into some of the key customer concerns including, broadly speaking:

- A concern regarding unnecessary debt accumulation, and fear of debt mismanagement,
- The cost of bank fees, and issues such as interest charges and the limits on credit or overdrafts,
- A low level of understanding of understanding of various offerings/ lack of information and financial education, and
- General customer service concerns relating to speed of service, and efficiency and effectiveness of customer issue resolution. Generally, these concerns vary by channel e.g. internet banking customers expressed different satisfaction levels as compared to branch banking customers.

Our ongoing review about customer issues, requirements and elements comprising satisfaction (such as service, products and solutions) is subject to immediate redress, as well as tactical solution design. We try and understand not only the root cause of issues, but anticipate potential opportunities for improvement in segments and channels. Where appropriate, solutions incorporated into strategic planning, and budgeting activities. For instance, in the last financial year, we re-organised a number of business units, including the mass market business unit, the wealth market, and the commercial and corporate business units, in order to improve our ability to focus on the needs of customer groups more effectively. We are continuing to work on ensuring that customers' needs and preferences are at the centre of our business, rather than our lines of businesses or solution offering.

For example a key concern constantly expressed by consumers is their dissatisfaction around the cost of banking transactions. FNB was particularly concerned about customer dissatisfaction in the area of bank charges. We therefore looked to a number of avenues to reducing charges, simplifying options for customers, and ensuring our customers obtain greater value from their banking activity. Some of the ways of addressing this issue included product design or re-design, developing different banking solutions for different clients needs, increasing the use of technology as a means of reducing costs and increasing operating efficiencies, and ensuring greater convenience through a choice of banking channels and solutions for customers. Through these activities, we are able to develop innovative, customised pricing options, offering customers a greater ability to influence bank charges paid by selecting the most optimal product and channel for their unique banking requirements. Our key objective is to ensure our customers enjoy value through a choice of products suitable to their needs.

During the course of 2005, we embarked on a concerted effort to educate our customers about the options available to reduce and manage their bank charges, by banking in the most appropriate manner suitable to the customers needs. Customers are offered four pricing options in order to manage their fees and charges. These include a "Pay as you use" option whereby customers are charged individually for

each transaction they perform, the “Fee Manager” option, allowing the customer to purchase a set number of transactions for a fixed monthly fee, a “Fee Saver” option, where the reward for maintaining a minimum account balance results in a number of free transactions, and the “Electronic Pricing” option whereby the fee for electronic transactions is capped at R85 pm (including the R10 monthly account fee).

With the help of our call centres and branches, customers can determine what the most appropriate products are for their requirements, as well as the channels and nature of their banking activity. For example, customers primarily utilising electronic transacting facilities such as the internet, telephone and cellphone banking, debit orders and debit and cheque card facilities could potentially pay no more than R85.00 a month on transaction fees, in spite of the number and value of transactions (subject to Saswitch, cash deposit, cash handling fees and statutory fees). Therefore, by highlighting options available to consumers, and ensuring greater pricing transparency, customers are better able to determine their options and opportunities to save on charges.

Not all customer issues, however, require strategic interventions. Ongoing operational issues of misunderstanding, genuine errors and quality of relationship concerns are common in a service business such as ours.

When a specific customer complaint is received, strict resolution turnaround times are applied. If immediate action can be taken to address particular concerns, the relevant business unit ensures expeditious action. Within most business units, the outcomes of these actions are also reported on a case-by-case basis by the relevant business unit to the responsible CEO during monthly reports or executive meetings. For systemic issues that impair customer service e.g. process flows, or IT system issues, we regularly determine the root cause of the complaint, and develop projects or implement solutions to address the problem.

Policies

Customer Health and Safety

In terms of legislation, any person on the premises of the business is deemed to be an employee for the purposes of health and safety. The FirstRand Group’s Health and Safety policy, which complies with complying with all the applicable aspects of the Occupational Health and Safety Act, 85 of 1993 pertinent to the business of the Group, is therefore also applicable to customers.

Transparency and Ethics

Customer data protection is ensured through our stated FirstRand Banking Group Code of Ethics, which employees are required to sign upon joining the Group. This code governs the protection of customers rights, and employees obligations in their dealings with customers. Non-compliance with this Code is considered a serious and disciplinary offence.

Legislative Compliance

A number of pertinent Acts have been passed during the past few years that increase security within the Financial Services environment. One Act that particularly addresses

the consumer protection in their interaction with Financial Service Providers is the FAIS Act. In terms of recent legislation, the Financial Advisory and Intermediary Services (FAIS) Act (Act 37 of 2002), which regulates the rendering market conduct within the financial services industry provides consumer protection in terms of financial products, and enhances the integrity of the South African financial services industry.

Consumer Protection through Industry Regulation or Association

- The Financial Services Charter focuses on improving the ability of consumers to interact with financial service providers. In particular, consumers can now enjoy greater and cheaper access to a variety of financial services and instruments, such as transactional banking and low cost homeloans, in terms of the *Access to Financial Services* component of the Financial Services Charter
- As signatories to the Code of Banking Practice ('the Code'), a valuable safeguard for our clients is provided. Through the Code, the Ombudsman for Banking Services (OBS) provides a free service in assisting individuals to resolve their complaints with banks. The Ombudsman's decision may be delivered in the form of a binding determination, or a non-binding recommendation. During the process of discussing a dispute with the Ombudsman, the customer is also free to engage other legal dispute resolution mechanisms such as the South African courts.

Managing Relationships with Customers

Distribution

Our channels include:

- Branches (these include agencies, branches and portable banks, and to a small degree, UIF paypoints). Our strategic placement of branches now follows the requirements of the Financial Sector Charter.
- Electronic and Internet Banking
- Automated Teller Machines (ATMs) and mini-ATMs (including the Saswitch network) Our decisions about where to place ATMs and mini-ATMs are also taken to align with the access requirements of the Financial Sector Charter.
- Telephone Banking and Contact Centres
- Relationship Managers and Client Portfolio Executives

The diagram below indicates the spread of branches across the different regions of South Africa.

FNB Branch Distribution as at 31 July 2005

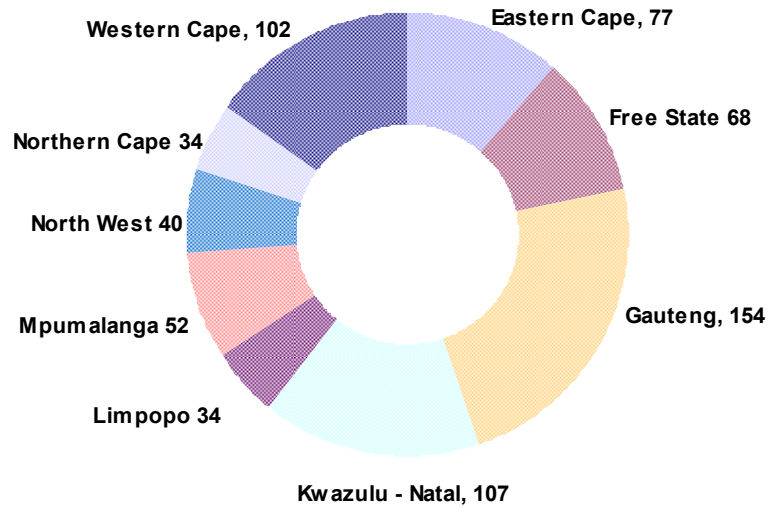


Figure 2 FNB Branches per Region

Our current distribution of ATMs and Mini-ATMs per region is indicated below.

FNB ATMs and Mini-ATMs at 30 June 2005

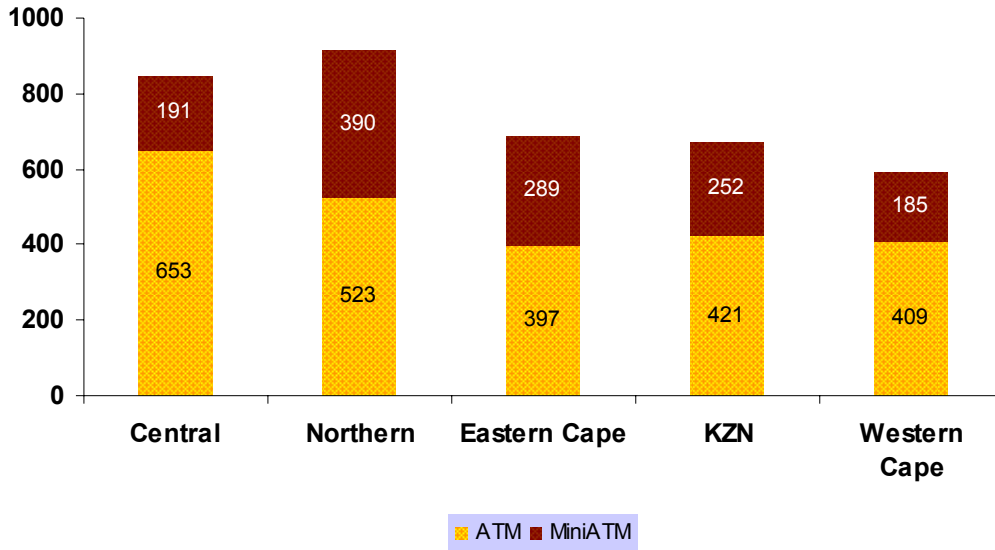


Figure 3 FNB ATMs and Mini-ATMs per Region at 30 June 2005

Transformation

Transformation within the industry is encapsulated within the Financial Services Charter, to which we are a signatory. However, our commitment to transformation goes beyond the targets and points identified. We are constantly looking for opportunities to enhance value or help uplift the community from which we draw our customers.

An indication of our commitment to transformation is the fact that we have set aside over R350 million for infrastructure spending in the financial year 2005 – 2006.

FNB's transformation activities in the individual and commercial customer segments are described below.

- **Mass Market and Consumer Segments**

Within these customer segments, we have undertaken the following initiatives over the last year, in support of our transformation programme:

- i. **The Mzansi Account** was launched by the four major banks, as well as Postbank, in October 2004, in response to our commitments in terms of the Financial Services Charter. Mzansi's objective was to increase access to, and affordability of primary banking and financial transaction services among a broader base of the population. Mzansi Account provides a basic savings and transmission service at greatly reduced charges.

The minimum features of the Mzansi Account across all banks are:

- No monthly management fee
- One physical deposit a month free of charge irrespective of the channel used
- No additional fees for ATM transactions at other banks' ATMs
- Standard functionality and inter-operability across the banks, resulting in the same bank fee being charged despite which ATM is used

FNB is commitment to increase affordable banking using the Mzansi account by simplifying pricing for banking services, and passing on the benefits of cost-saving through the use of electronic channels We do not derive profits from Mzansi Accounts. We cover additional costs of the Account ourselves and not cross-subsidise it from other market segments. For example, the costs of providing the in-Contact free SMS notification facility to Mzansi customers is carried by the Bank.



Currently, there are over well over 1,000,000 Mzansi accountholders in SA. FNB Mzansi accountholders comprise 21% of the current number of Mzansi accounts.

- ii. **Portable Branches** are modular constructions providing all the services, features and benefits of a normal bank outlet but are considerably cheaper and quicker to erect. Personal and business customers enjoy have access to two tellers, two customer service consultants and two ATMs. This innovation supports the Financial Services Charter's appeal to banks to increase access to financial services for the unbanked and underbanked. Since 2003, we have opened over 18 portable branches. In the area of Mogaswe, the local community have embraced its services so enthusiastically that we are planning to convert the portable branch to a permanent structure. Most portable branches, in fact, average over 10,000 transactions a month, demonstrating the significant need for such services.



Our success with this concept is demonstrated by the decision of other banks to follow suit and develop their own movable banking branches.

For the upcoming financial year, more than 60% of money set aside for branch banking infrastructure will be spent in rural and developing areas to address the need for improved access to banking.

- iii. **Mini-ATMs** use cellphone technology to connect the ATM to the bank's systems. In areas with no electricity, this connection is ensured through the use of a 12-volt battery. Transactional security is ensured through the issue of three receipts. The first indicates how much has been drawn, and the second indicates drawer's account balance. The third receipt is printed on a store-owner's machine. The store-owner then gives the customer the amount he wishes to withdraw as printed on the receipt. The store-owner is reimbursed by FNB, and can enjoy a profit of 60c on every transaction.

An additional knock-on from this service is that the increase in disposable cash in the immediate vicinity ensures greater spending. Storeowners have grown their businesses partly as a result of the fact that cash drawn from these ATMs are spent in their stores.

Clients also make use of mini-ATMs to purchase prepaid telephone services from all three cellular operators, and Telkom.

We have committed to rolling out an additional 250 ATMs countrywide. We are also continuing with our mini-ATM implementation programme, which will increase reach and access to basic electronic banking facilities nationally.

- iv. Our two **cell phone offerings** make accessing and managing bank accounts cheaper and easier in the mass market. inContact is a messaging service which gives a free notification of balances and transactions and can save travelling expenses as a result, while Cell Phone banking allows people who do not have physical infrastructure nearby to be able to undertake banking transactions.
- v. The requirement for **Affordable Housing** poses both a social and business commitment upon banks. Home ownership offers great rewards by being a virtually risk-free investment, offering relatively stable and comparatively reliable returns on the owner's investment, thereby being an essential wealth creation method. The creation of wealth through this form of asset ownership is also a key driver of economic growth and prosperity for South Africa. While government's significant achievement in the delivery of over 1.6 million houses in the 10 years since 1994 has been welcome, there is still a sizeable housing shortfall in South Africa. Easing access to financing will assist government achieve greater successes in meeting its commitments for affordable housing.

In March of this year, the FNB, Nedbank, Standard Bank and ABSA Sector signed a Memorandum of Understanding (MoU) with the Minister of Housing, Lindiwe Sisulu. The MoU is aligned to our responsibilities in terms of the Financial Services Charter, and government's New Comprehensive Plan on Sustainable Human Settlements, to extend housing finance on a sustainable basis to low-income borrowers as well as to transform the manner of engagement between the housing sector and historically- disadvantaged South Africans. The MoU is essentially a partnership between the banks and government to address, amongst other housing-related issues, three key enablers of transformation viz. access, affordability, and realisable property value.

The four banks have committed to a minimum of R42bn in housing finance earmarked for households earning up to R7 500 by 31 December 2008. An additional positive consequence of this investment is also the enablement of the opportunity to foster growth of small and medium enterprises (both black and non-black) within the housing development and construction sector. While not within the ambit of the MoU with the Department of Housing, we are confident that the MoU's indirect role in facilitating the growth of the SMME sector within the housing construction segment will further contribute towards transformation within the broader South African context.

FNB's commitment to affordable housing is quantified at R8.4 billion for the period beginning January 2004 to December 2008, which represents financing around 90,000 house units. To meet this commitment, we intend releasing an affordable housing finance product – SmartBond – in Q2 of financial year 2006.

SmartBond is an innovative housing finance solution that specifically talks to, and addresses the housing needs of, the low income market. Crafted to broaden access to housing finance, this offering will go a long way in ensuring home ownership and associated benefits for many of the country's population. A building loan solution is applied where the bank has approved finance for the customer to build a home, and payment is made as work progresses. SmartBond



allows South Africans wanting to own homes costing up to R180,000 to obtain an ordinary home loan, as well as a building loan (where the bank has approved finance for the customer to build a home, and payment is made as work progresses). Life-cover, additional cost coverage, and borrower education ensure that SmartBond is tailored towards the needs of affordable housing market segment.

- vi. **Investment Products** During this year we have created an innovative product to allow people in the mass market to access the equity market. This has been done through a Unit Trust which is sold via our branch network thus avoiding the broker channel which does not service this segment. The Unit Trust costs only R500 lump sum (versus the normal R3,000) or R40 per month (versus the normal R200-300). The fees on this product have also been reduced through innovative use of transactional account functionality. Since December 2003, we have also had available a 32 day "interest plus" account, this product leads the market as being the lowest entry (R100) medium term investment account.
- vii. **Consumer Education** is another empowering vehicle for transformation in terms of the Financial Sector Charter. For us, consumer education is a process of enhancing the basic financial literacy skills of individuals that have previously had very little or no exposure or access to basic formal saving, insurance, borrowing and lending facilities. In 2004, we spent over R4,4 m on basic consumer financial literacy alone, and well over R10 m on product education and marketing spend in support of financial literacy initiatives.

For 2005 and beyond, we are focusing on consumer education for financial literacy enhancement (as opposed to product education). In this regard, we are investigating the establishment of a "Consumer Education Fund" directed at a comprehensive education program covering the three primary responsibilities of the banking business, as indicated below.

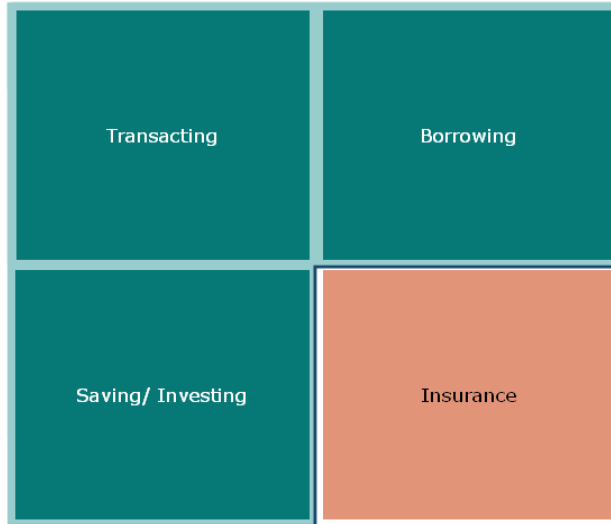


Figure 4 Areas of Consumer Education

We are extremely excited about an upcoming initiative to focus on basic consumer financial literacy through an innovative radio programme, targeted at all regions of the country,

The budget of R4,7m, which constitutes 0.2% of our post-tax operating profits for financial year 04/05, represents our 100% Financial Sector Charter target for consumer education for our financial year 05/06. Approximately 75% of this allocation will be apportioned to the radio-based education campaign, with the remainder being applied at the discretion of business decision makers through the Bank's Financial Sector Charter Steering

localised for linguistic and interpretive nuances. The programme will focus, in turn, on each of the four quadrants indicated above, underpinned by generic financial literacy and services. A series of 52 half-hour programmes, commencing in November 2005, in varied and interesting formats, will be run on local radio stations. The objective of this initiative is to

foster improved understanding of basic financial concepts such as bank accounts, money transfers, how bank cards work, etc, among the LSM 1 to LSM 5 market. Interaction with consumers will be live, dynamic and bi-lateral, and based on "own language" engagement. The programme will be facilitated by both a local journalist and a content expert, which includes members of our branch banking staff, as well as in some instances, industry specialists e.g. from the ITC, or from the Office of the Ombudsman. We will measure the success and outcomes of each programme, to ensure we achieve our desired result of increasing basic consumer financial awareness and literacy.

- **Commercial Segment**

- i. **Support for Start-Ups and Small Enterprises** is enabled through providing a user-friendly environment. Startups on particular have the benefit of our focus to ensure we develop tangible value propositions to address their requirements.

In Q1 of 2006, we launched our Biznetwork forum, a new, comprehensive learning and networking platform for South African entrepreneurs of emerging, small and medium businesses. Biznetwork enables access to business experts such as

Jack Welch, Raymond Ackerman, Herman

biznetwork
Your Gateway to Business Success



Maschaba and Eric Parker, to name but a few successful people, on the complexities of running a business. Along with Prime Stars and Ster Kinekor, our objective is to support entrepreneurship in South Africa by developing and facilitating an interactive network of entrepreneurs and recognised business experts, to provide practical guidance, information and support to small business owners who have significant management and operational responsibilities.

- ii. We have proudly committed to assisting the **Emerging Agricultural** segment through a fresh and re-energised focus in the last 2 quarters of the financial year. Since the economy of rural areas and the bulk of the branch network is dependent on the welfare of the agricultural sector, responsible investment in the agricultural sector is critical to the effective function of many rural communities. FirstRand Bank strategically invests in emerging agriculture by extending services to individual emerging farmers who have the capacity to farm commercially.

A Success Story in the Making: How FNB enabled one emerging farmer on his way to success

Lepono David Matlokotsi is an entrepreneur from Qwa Qwa. He is a store-owner, businessman, and farmer. A few years ago, Mr. Matlokotsi saw an opportunity to grow his business activities in the area of dry bean farming. Through hard work, perseverance, a tiny bit of luck, financial assistance from FNB, and the support of the Dry Bean Producers Organisation (DBPO), he persevered in spite of the challenges facing farmers all over South Africa. From the technical areas of product and mechanisation management, to business issues such as marketing, financial, and labour management, and even management information systems and community and organised agricultural forums, Mr. Matlokotsi grew his business to the point where he was recognised for contributing contribute to the growth and stability of the dry bean industry of South Africa.

In 2005, the DBPO recognised Mr. Matlokotsi's efforts and successes, by nominating him as one of several exceptional performers in the field of dry bean production. A strict and quantifiable evaluation process of his exemplary farming practices, good labour relations, ability to conserve and promote resources, and his expertise followed. In September 2005, Mr. Matlokotsi was awarded the **FNB Emerging Dry Bean Producer of the Year** by the Chairman and the Managing Director of DBPO.

FNB is extremely proud of Mr. Matlokotsi, and all the nominees in this category. We look forward to welcoming future Mr. Matlokotsis in 2006!



Mr. Lepono Matlokotsi accepts his award.

- iii. **Within the Business and Medium Corporate segments**, we are currently in the process of conducting primary research how to facilitate effective BEE transformation as well as offering non-banking services to enhance our offering to our customers. We have FNB Enterprise Solutions – which is now doing a lot of deals every month, many of them BEE transactions – phone them to get details.

We are proud to state that we currently hold 32% of the black commercial market. Of this, approximately 91% of these businesses are 100% black-owned. (Overall, we hold between 20% - 25% of the business market).

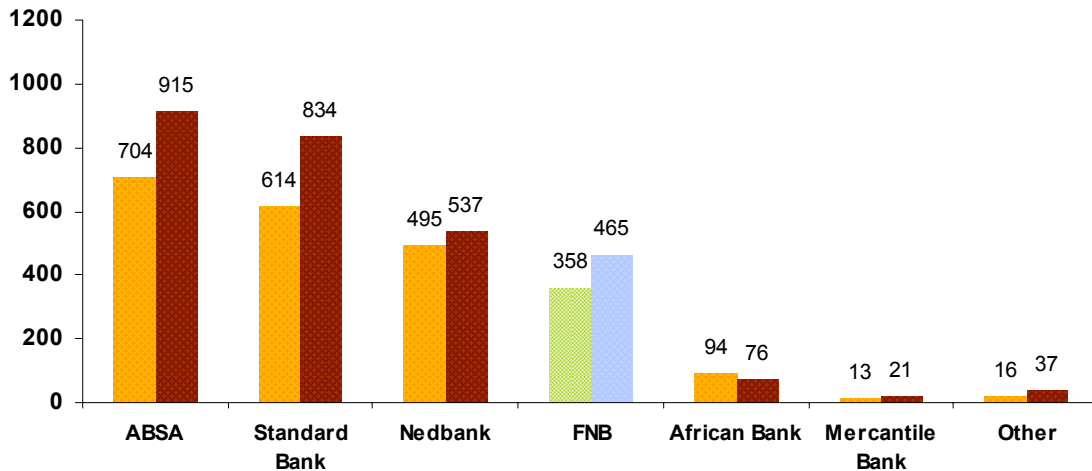
Customer Satisfaction

Customer complaints are sourced through a variety of mechanisms. In some instances, we can pro-actively determine a potential problem, but in most cases, we can only address a complaint once we become aware of customer dissatisfaction. Some of the sources of customer complaints include:

- Complaints logged on our website
- Telephone calls to various call centres e.g. homeloans, card, etc, and/ or complaints lodged directly with a senior manager or CEO
- In-branch complaints
- Complaints logged in the public domain e.g. within print and electronic media, or websites such as hellopeter.com
- Complaints lodged with the Banking Ombudsman

We have provided an overview of the level of customer complaints that ultimately reach Ombudsman level. Of the four major banks, FNB had the lowest number of complaints lodged against it.

Banking Consumer Complaints to Ombudsman 2003-2005



* Note Ombudsman reports for a calendar period of January – December, whereas FNB reporting period is July – June.

■ 2003 ■ 2004

Figure 5 FNB ranks lowest among the top 4 SA banks in terms of consumer complaints lodged with banking Ombudsman

Generally, customer complaints relate to the following issues, in no particular order:

- Costs, calculations, disputed transactions, and account changes e.g. interest rate changes, repayment calculations, bank charges, etc.

- Procedural and service-related complaints such as expectations around turnaround times, staff attitudes in servicing a customer's requirements, or the impact of systemic changes on the customer's transactions
- Customer-specific requirements that are not addressed to the customer's satisfaction e.g. requests for increased credit limits that may be denied

Specific complaints that can be addressed relatively easily operationally are immediately resolved. For example, specific concerns expressed about products or services are often directly addressed by the relevant business unit within pre-defined customer service turnaround times.

The general process for customer complaint resolution is as follows:

1. Understand the nature of the complaint, and contact the customer (if the customer is not currently available on a telephonic or face-to-face basis)
2. Establish the issues, and immediately provide the customer with an overview of the way forward and the expected time for resolution
3. Satisfactorily address the customer complaint within pre-defined turnaround times (we try and exceed these times whenever possible)
4. Keep the customer informed about progress, especially if resolution takes longer than anticipated

We monitor and record complaints on an ongoing basis. Business units will also compile detailed scheduled reports regarding complaints to various CEOs and Boards, including source and volume of complaints, nature of complaints, actions taken to resolve the specific complaint, and plans to resolve the source of recurring complaints. In some instances, customer complaints are also ultimately closed with a letter of acknowledgement from the CEO.

Some programmes that are put in place to address customer complaints include ongoing staff training the development and communication of procedural guides or bulletins when business changes occur, specific efforts to recognise and reward excellent customer service, and ongoing infrastructure and system upgrades to enhance customer interaction, workflow, etc. Linking of customer satisfaction to performance recognition and rewards is one of the additional and powerful ways in which we ensure responsibility for ensuring and always improving customer satisfaction is shared with all staff. For instance, our branch network is evaluated on a monthly basis in terms of customer service and satisfaction. Customers directly evaluate each branch's performance. Satisfaction scores, which form part of the Branch Scorecard, are collated and weighted on a scheduled basis, ultimately resulting in an allocation of bonuses based on branch customer satisfaction performance measures.

FNB Regulators

Introduction

From a legal perspective, the entity dealing with regulators is FirstRand Bank comprising FNB, Wesbank and RMB. The FirstRand Bank Compliance area is often the area that engages with government, industry bodies and entities representing various social and developmental constituencies. In some instances, co-operative policies, self-regulation, agreements and engagements support these relationships, whereas elsewhere they are governed formally by Acts of Legislation or regulation

This section provides an overview of the key regulatory authorities, key Acts, legislation or agreements, and commitments framing all our South African banking operations. Note that with over 100 Acts of legislation, and numerous directives, self-regulatory compliance and similar elements, only key regulatory entities that regulate financial or operational health of the business are indicated below.

Regulatory Authority	Purpose of Interaction
South African Reserve Bank	In terms of the Banks Act, 1990 (Act No. 94 of 1990), the Reserve Bank regulates and supervises our trading activities and compliance through the office of the Registrar of Banks. The objective of this supervision is to ensure and promote the safety and soundness of banks and banking groups. The Registrar supervises all banks via interfacing with the relevant CEOs and compliance officers for banks.
Department of Labour	Our interaction with the DOL relates to all matters of employment legislation, regulation, monitoring and compliance.
Department of Trade and Industry	Direction from the DTI is assumed through the definition of the Codes of Good Practice on Broad-Based Black Economic Empowerment. For the purposes of transformation, our interaction with the DTI takes place through the vehicle of the Financial Sector Charter Council. The DTI also administers the Usury Act 1968 (subsequently amended), which will be replaced by the proposed National Credit Bill currently being reviewed by Parliament's Committee on Trade and Industry.
Office of the Banking Ombudsman	Through the Code of Banking Practice, the Ombudsman for Banking Services (OBS) assists individuals to resolve their complaints with banks
Banking Association	A co-operative, non-competitive association of banking participants, representing the issues and interests of the sector.

Regulatory Authority	Purpose of Interaction
Financial Sector Charter Council	The Charter Council is responsible for overseeing the implementation of the Financial Sector Charter, to which the FirstRand Group is a signatory.

Mechanisms for Interaction

Regulatory Authority	Mechanism
South African Reserve Bank	<ul style="list-style-type: none"> Supervision and monitoring primarily occurs through the office of the Bank Supervision Department under the auspices of the Registrar of Banks. The Board of Directors, the auditors and the Registrar of Banks meet formally each year, to discuss issues of mutual concern.
Department of Labour	<ul style="list-style-type: none"> Interaction with the DOL is both formal and informal. Formal mechanisms include the interaction with various directorates and commissions within DOL, such as the Commission for Employment Equity. Co-operative relationships have been established with inspectorates and commissions where input and commentary is required in the development of regulation and legislation. The frequency of interaction varies on a formal and informal basis. Formally compliance audits occur annually, while informally dialogue and interaction is continuous, bilateral, and needs-driven by both FirstRand Bank and the DOL.
Department of Trade and Industry	<ul style="list-style-type: none"> Financial Sector Charter Council Banking Association
Office of the Banking Ombudsman	<ul style="list-style-type: none"> Files opened by customers with the Office of the Banking Ombudsman are initially communicated to a single contact point within FirstRand Bank. Ultimately the business unit to which the complaint relates interacts directly with the customer through/ with the Ombudsman's office to address the issue.
Banking Association	<ul style="list-style-type: none"> A number of committees comprise the Bank's representation at the Banking Association.
Financial Sector Charter Council	<ul style="list-style-type: none"> Our interaction with the Council includes representation on various working committees, such as the Procurement Committee.

Major Issues of Concern during the Year

The regulatory landscape in which we operate is extremely fluid and continues to expand in ensuring the health of the Banking industry, as well as the broader economic, social and international environment in which we operate. Structural changes continue to occur in response to a vast number of environmental drivers, including local transformation efforts, and international co-operative efforts aimed at ensuring a stable and secure financial market. The potential risks of financial institutions being used for criminal and terrorist activities are also being addressed. The number of Acts, amendments, annexure, notices, and directives continue to extend the scope of our regulatory compliance, planning, implementation and monitoring. We have identified a universe of over 100 Acts of Regulation that govern our business.

While we are fully committed to complying with all obligations and regulations, the implication of increasing regulation is the maintenance and growth of an infrastructure to analyse, implement, monitor and report on compliance. The cost of implementation is significant.

Major Changes in the Regulatory Environment

A number of regulatory issues have either arisen in the past financial year, or have been the object of our focus as part of implementation and monitoring. These include the following:

- i. **FAIS**
The promulgation of the Financial Advisory and Intermediary Services (FAIS) Act (Act 37 of 2002) requires us to ensure that staff involved in dispensing financial advice are properly trained and registered. This requirement is encapsulated in the ongoing training programme within the Group.
- ii. **FICA**
A system of administrative measures to control money-laundering and to facilitate its prevention, detection, investigation and prosecution is being established through the Financial Intelligence Centre Act, No. 38 of 2001. The Act seeks to combat money-laundering activities through a Financial Intelligence Centre (FIC) and a Money Laundering Advisory Council. FirstRand Bank embarked on the following initiatives in adherence to this legislation:
 - a. **KYC: Know Your Customer** required us to ensure every customer was formally identified to us. Through a variety of communication programmes, customers were requested to verify their details telephonically or via branch visits, by providing their identity documentation and proof of address. For those customers who did not meet the prescribed deadlines, accounts were frozen. The KYC initiative is ongoing, with a further extension to the deadline authorised by the Reserve Bank (SARB). Quarterly reports are submitted to SARB. The final reporting deadline to SARB is in September 2006.
 - b. **Identification of Suspicious and/ or Unusual Transactions (STR)**
 - c. **Staff training on the relevant level of compliance.** This also included training on new processes and procedures in this regard.
 - d. **Account monitoring**

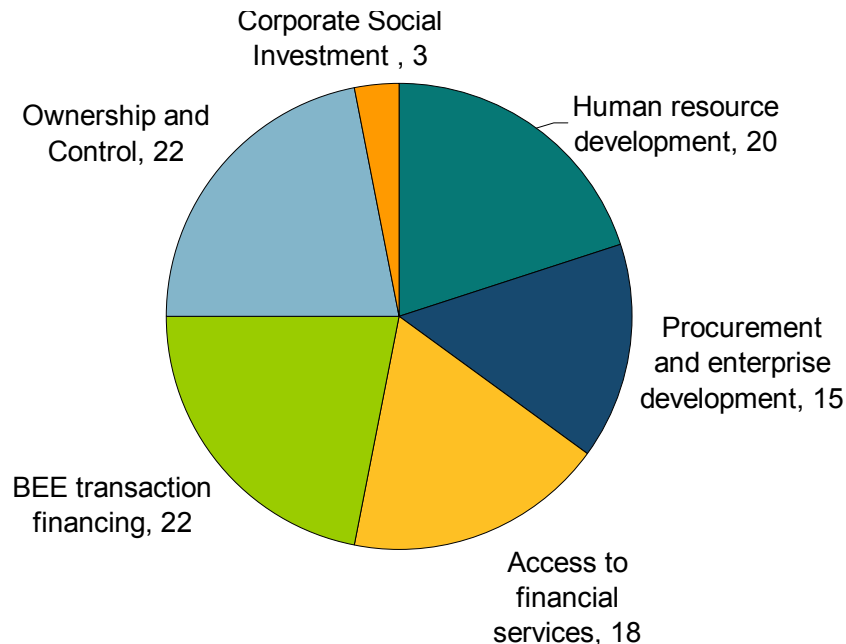
As FICA continues to be implemented and defined by amendments and further legislation, its increasing scope and complexity requires us to review our policies, procedures, systems and training initiatives.

iii. Financial Sector Charter

The Financial Sector Charter signed in November 2003, the result of significant discussion and collaboration among all stakeholders ranging from government, business and labour to community groups, is designed to:

- Address racially-based inequalities in SA
- Promote economic justice and help SA to achieve its full economic potential
- Contribute towards sustained economic growth, development and social transformation in South Africa;
- Unlock the sector's potential, promote its global competitiveness, and enhance its world class status

2004 saw significant planning initiatives and some implementation of the components of the FSC required to facilitate transformation within the sector. The FSC has been complemented by the release of the draft Codes of Good Practice for Broad-Based Black Economic Empowerment issued by the Department of Trade and Industry. The objective of "the Codes" is to provide further definition and clarity to the seven pillars of the FSC. These pillars are encapsulated in the FSC Scorecard, and each pillar is allocated points and a target for transformation by 2008 and 2014:



Through FirstRand's transformation committee, and the active involvement of the top management of the organisation, we continue to work on the implementation, monitoring and driving of programmes designed to achieve sustainable transformation in these areas.

iv. Employment Equity Act (1998) and the new Code of Good Practice for Broad-Based Black Economic Empowerment

The FirstRand Banking Group has participated in the public commentary on the Human Resource elements and implications of this code. The Code is expected to be gazetted as an Addendum to the Employment Equity Act by Parliament by August 2005.

v. BASEL II

BASEL II is the new international capital accord set to take effect from 1 January 2008. Basel II is the successor to the 1988 capital accord introduced by the Basel Committee on Banking Supervision - a voluntary association of banking supervisory authorities from the major industrialised economies. Overseeing the implementation of BASEL II in SA is the Registrar of Banks.

The overarching objective of BASEL II is to promote enhanced financial stability in the international financing system by ensuring that a system of credit, operational and market risk modelling, processes and systems is in place to facilitate. By increasing the resilience of banks, which are custodians of savings, and a fundamental part of any economy, banks will be better able to contribute to sustainable growth within the broader environment in which they operate.

The implementation of the BASEL II Accord requires significant commitment of resources, including human capital, finances and systems. All banks are required to ensure complete implementation of BASEL II by 2008.

A 2005 study by Ernst and Young (BASEL II: Addressing the Challenges) indicated that FirstRand is well on track to realise its BASEL II commitments. We spent much of 2004 defining, planning and preparing for the implementation of BASEL II processes and systems. We are ready for the first pilot test of the new system in Quarter 1 of the new financial year 2005. Basel II requirements have also been included in a number of projects throughout the business units in the Group to ensure compliance by the implementation date of 2008.

vi. National Credit Bill (upcoming)

Under existing law, consumer credit is regulated by the Usury Act, the Credit Agreements Act, the Magistrate's Court Act and common law. The National Credit Bill, 2005 (NCB), originally known as the Consumer Credit Bill, 2004, proposes to repeal the Usury Act and the Credit Agreements Act, replacing both with a single National Credit Act.

The Bill seeks to address problems of over-indebtedness and lending and borrowing by placing limits on total costs of credit and interest rates, regulating access to credit information, ensuring full disclosure of charges, terms and conditions and effective regulation of credit information and credit bureaus. The Bill also provides for the established of a National Credit Regulator and a National Consumer Tribunal, to effectively administrate the Bill. Through these mechanisms, it is hoped that the all borrowers will be accorded uniform rights and protection, and that a greater portion of the population will have access to affordable credit.

vii. Dedicated Banks Act (DBB 2004)

In November 2004, the National Treasury published the Dedicated Banks Bill for comment.

The Dedicated Banks Bill (DBB 2004) aims to improve access to basic banking services for low income and historical disadvantaged communities. The Bill creates the opportunity for companies such as, amongst others, large retail outlets, cellular phones companies, etc. as well as existing banks to expand basic banking services to these communities. Companies may provide these services by becoming Savings Banks or Savings and Loans Banks (called dedicated banks in the draft Bill) by lowering the existing requirements provided for in the Banks Act No. 94 of 1990.

viii. Co-operative Banks Act (CBB 2004)

In November 2004, the National Treasury also published the Co-Operative Banks Bill for comment. This Bill (CBB 2004) aims to formalise the co-operative banks industry by creating a legal framework for the regulation and supervision of their banking activities. This will afford depositors with co-operative banks the same level of safety and protection as enjoyed by depositors with formal commercial banks; and provide for the support and development of the co-operative banking industry to ensure the sustainability and the growth of the sector and compliance with the provisions of this Bill.

Both CBB and DBB are aimed at broadening access to financial services. The Bills are currently under discussion and various stakeholders, such as the Banking Regulator, have provided their comment and perspective.

FirstRand Bank Perspective

A number of issues pertaining to regulation require closer analysis and definition into 2006. Where possible, we pro-actively review these changes, and determine the likely impact on the business as well as related stakeholders (e.g. customers) as these changes unfold.

Clarification of perceived differences between the Codes of Good Conduct for BBBEE and the Financial Sector Charter

The industry as a whole (as well as other industries that have already signed and begun implementing sectoral charters) continues to operate in an environment of uncertainty. This uncertainty arises from the fact that the Financial Services Charter, having been signed and committed to in 2003, has subsequently recently received greater definitional clarity and direction through the promulgation of the draft Codes of Good Conduct for Broad Based Black Economic Empowerment.

The result of the timing differences between these mechanisms for transformation requires the Financial Sector industry to clarify a number of issues with the DTI, through the vehicles of the Financial Sector Charter Council and the Banking Association. Issues under discussion include Enterprise Development, and various discrete elements comprising Ownership, amongst others. Various inter and intra-industry players have expressed concern over the perceived misalignment between charters and the Codes, resulting in an uncertain operational environment.

FirstRand's stated intention is that in the absence of further direction within timeframes required for the first public reporting of progress against the Financial Sector Charter, as well as a measurement of the success to the mid-point of 2008, the transformation efforts we have implemented within the Group will "proceed, no matter what". At a practical level, however, the differences in the timing of direction and clarity provided by the Codes will require potential course correction in the future, which could imply financial cost and/ or operational disruption.

The Impact of the National Credit Bill

The Bill has recently been approved by Cabinet, and has been open to public hearings. A number of concerns about the Bill have been expressed, primarily related to the complexity of the Bill, concerns that an unintended consequence of protection of debtor information could result in increased borrowing and credit indebtedness, and the administrative costs of enforcing the bill, and the concern of cross-subsidisation by lower risk lenders to subsidise higher risk lenders. At this stage, the industry is unclear as to the finalisation and timing of the gazetting of the Bill.

Other Regulatory Changes

There are a number of complex Bills under various stages of discussion and finalisation, which could impact on our operations. Some of these are directly pertinent to the industry, while others are broader, but could enhance our regulatory operating environment. Examples of such changes include the corporate law reform, the Convergence Bill (Government Gazette no. 27254 of 2005), a review Data Privacy and Protection and acts aimed at advancing Consumer Protection and Children's Rights.

Should a number of these Bills be passed and gazetted during the 2005-2006 financial year, we anticipate a significant upswing in administrative workload. To monitor any changes and their impact on the organisation, we continue to keep track of the status of pertinent legislation.



Momentum Index

This section consists of the following:

1. Overview
2. Our People: Data
3. Our People: Info (and HIV/AIDS)
4. Supply Chain
5. Environment: Direct
6. Community
7. Customers
8. Regulators

Momentum

Overview

Momentum and Sustainability Reporting Overview

About Us

As our name suggests, Momentum is a place of constant movement and energy. We started out as a small life insurance company in 1966. In 1992 we became part of the RMB Holdings Group, which in 1998 formed the FirstRand Group, one of the largest financial institutions in South Africa. As a wholly owned subsidiary of the FirstRand Group, we are responsible for the insurance and multi-management activities of the group. Our growth has been both organic, and by mergers and acquisitions.

Sustainability

Momentum's main aim is to generate sustainable profits. However, to generate revenue, we need a loyal and satisfied stakeholder base with whom we have a win-win relationship. Momentum realises that its stakeholders are its most important resource in achieving its goal of creating sustainable profits.

This report deals with Momentum's interaction with its major stakeholders. We have identified these as our customers, employees, suppliers, the communities in which we operate, the government and regulatory authorities.

Non-Financial Opportunities and Risks

Momentum understands the importance of managing key non-financial risks that could have a material impact on its operations. The main non-financial opportunities and risks are discussed below.

Achieving Employment Equity Targets In Terms Of the Financial Sector Charter

Momentum is committed to achieving employment equity targets as per the Financial Sector Charter. Momentum was behind the industry threshold figures for most categories of management in December 2003, the starting point of the Charter scoring. While there has been relatively rapid improvement in our junior management representation, the middle and senior management categories still require more focus: in middle management our proportion of black managers has increased from 15% to 21% (2005 target 26%) and in senior management, we have increased from 9% to 14.3% (2005 target 19.4%) There are many initiatives designed to address this issue, such as the recent internal restructuring of Momentum (with resultant opportunities for black managers), external recruitment of black talent and the training and development of current black managers at the middle and junior levels.

Providing Value for Money Products

The value for money of retirement annuities following the early cessation (or reduction) of premium payments is currently receiving unprecedented attention from consumers and the press, especially following rulings of the Pension Fund Adjudicator against life insurers and retirement funds.

Momentum launched a new range of the Investo products, which feature lower policy charges and the unique Save Thru Spend benefits, which enhance clients' savings as they channel household spend to a closed community of business partners. [Click here](#) to read details of the savings that Investo offers

consumers and the press, especially following rulings of the Pension Fund Adjudicator against life insurers and retirement funds.

Momentum launched a new range of the Investo products, which feature lower policy charges and the unique Save Thru Spend benefits, which enhance clients' savings as they channel household spend to a closed community of business partners. [Click here](#) to read details of the savings that Investo offers

Investo addresses each of the real problems facing our industry. And these problems are serious: the current savings rate as a percentage of income has plummeted to 0,4% compared to 11,4% 10 years ago, and until now no insurer has comprehensively addressed this problem.

Momentum plans to encourage existing retirement annuity investors to convert to the latest product ranges on favourable terms. Momentum has reserved R100 million to facilitate this conversion process.

Momentum capitalised on consolidation opportunities in its chosen markets and acquired Sovereign Health, Sage Holdings and Advantage Asset Managers in the current year. The disposal of African Life and the acquisition of African Life Health remain subject to regulatory approval. The Sage and Advantage acquisitions allow Momentum to achieve scale benefits by improving cost efficiencies and enable it to pass on these savings to consumers in the form of reduced fees and charges, whilst the acquisitions in the health industry provide us with the critical mass to compete effectively in this market.

Momentum has embarked on a joint venture with FNB to service the middle income market, with Momentum providing the product expertise and FNB providing the distribution channel.

Momentum has also established its own short-term insurance initiative. This will enable Momentum to provide a holistic product offering to its customers.

Change in Commission Regulations

The recent commission proposals made by the Life Offices Association (LOA) should significantly improve early termination values of savings products, and will simplify product design and fee structures. Please use the following link to the FAnews debate surrounding the new commission proposals made by the LOA.

Focus Areas for 2006

Momentum will be focusing on:

- Implementation of the Sage integration by 31st March 2006,
- FNB joint venture in the middle income market,
- Turnaround of the losses incurred in international operations, and
- The establishment of the short-term insurance initiative.

Momentum prides itself on being highly innovative (such as the Save Thru Spend initiative) and proactive. This together with the acquisitions made during the year will enable Momentum to meet the changing needs of its customer base. Momentum will endeavour to continue to provide products in the market that are cost effective, innovative and encourage a savings culture amongst South African consumers.

Momentum

Our People: Info

Scope

At 30 June 2005 Momentum employed 3,409 people. This figure relates to those employees engaged in the Life and health insurance operations, and does not include the Asset Management operations which reside under the RMB Brand, and for the purposes of this report have been reported there.

An analysis of the racial and gender composition of the South African staff and their turnover during the last year is set out below.

Momentum Employment Equity as at June 2005									
Total Employees by Occupational Categories									
Occupational Categories	Male				Female				Total
	Black	Coloured	Indian	White	Black	Coloured	Indian	White	
Top Management	5	0	1	20	2	0	0	4	32
Senior Management	9	3	10	49	2	0	3	15	91
Middle Management	30	17	31	196	20	30	60	228	612
Junior Mgt & Supervisors	154	92	140	339	235	217	176	869	2,222
Semi-skilled	49	12	82	6	94	41	67	48	399
Unskilled	5	0	0	0	2	1	0	0	8
Total Permanent	252	124	264	610	355	289	306	1,164	3,364
Non-permanent Employees	3	2	10	3	4	6	9	8	45
TOTAL EMPLOYEES	255	126	274	613	359	295	315	1,172	3,409

Table 1 Momentum Staff Composition 30 June 2005

Strategy

BUSINESS AND PEOPLE PHILOSOPHY

Momentum's main aim is to generate sustainable profits. However, to generate revenue, you need a loyal and satisfied client base with whom you have a win-win relationship. And in order to do that, you need happy employees with a passion for what they do.

Consequently, Momentum realises that its people are its most important resource in achieving its goal of creating sustainable profits. We therefore believe the following about people:

- a) People are inherently good and want to accept responsibility for reaching their goals as well as for their own development. In the right circumstances, the average person not only accepts responsibility, but also looks for it.
- b) If people are freed from the baggage and the clutter of bureaucratic rules and restrictions and are allowed to make their own choices, they will inherently choose to do the sensible thing.
- c) It is easier for people to make a sensible choice if they are well informed and understands the company's aims.
- d) People are inclined to organise around a vision, which is clearly communicated.
- e) People will exercise self-direction and self-control in reaching the goals to which they are committed.
- f) Performance is based on internal motivation and on results rather than supervision by the manager.
- g) If people experience their contributions as meaningful to the company they are more likely to enjoy what they are doing.
- h) Fun and enjoyment lead to creativity.
- i) When people take ownership for correcting their own mistakes they are inclined to act responsibly.

Policies and Practices

Momentum follows a decentralised people practices approach. It is the responsibility of each divisional head with the support of HR in the specific profit centre to identify issues of major concern relating to staff. Data in this regard is gathered through different interventions, for example team buildings, climate surveys, performance feedback, personal growth sessions, etc. All relevant data is fed back to the divisional head and the relevant line manager.

Although the responsibilities are decentralised these are coordinated centrally to identify company trends. The personal wellbeing of the staff is therefore also centrally measured through climate surveys to ensure that Momentum is the place to be for our staff.

Momentum's focus is on having guidelines rather than policies, as these allow management to exercise their discretion and apply their minds to the specific situation. Momentum's leaning towards an entrepreneurial culture is reinforced by its lack of policies, thereby allowing staff to be innovative and take ownership of values and initiatives.

Formal policies exist with regard to:

- Disability (HIV/Aids)
- Annual leave
- Sick leave
- Unpaid leave
- Maternity leave
- Study leave
- Family responsibility leave

Guidelines exist with respect to:

- Grievance procedure
- Dealing with sexual harassment in the workplace
- Disciplinary procedures

Employment is in accordance with the Basic Conditions of Employment Act and the Labour Relations Act together with the Codes of Good Practice and the relevant Statutory Regulations.

We do not have a Human Rights policy or a freedom of association policy as we feel that it is unnecessary to put rights in a policy document that are already entrenched in the constitution. Operations outside of South Africa are subject to the laws and best practices in those countries.

Transformation

Performance of Momentum relative to the Financial Sector Charter targets is set out below:

Black as % of	June '05 Actual	2003* Thres-hold ¹	2004 Actual	2005 Target	2006 Target	2007 Target	2008 Target
Senior management	14.3%	12.6%	13.0%	19.4%	21.3%	23.1%	25.0%
Black women % of Senior Management	2.9%	2.4%	2.0%	3.3%	3.5%	3.8%	4.0%
Middle Management	21.0%	21.0%	18.0%	26.0%	27.3%	28.7%	30.0%
Black women % of Middle Management	6.6%	7.4%	7.0%	8.8%	9.2%	9.6%	10.0%
Junior Management	36.9%	32.6%	31.0%	39.4%	41.3%	43.1%	45.0%
Black women % of Junior Management	20.6%	16.5%	17.0%	16.5%	16.5%	16.5%	16.5%

Table 2 Momentum's Transformation Statistics beginning 2003

The diagrams below illustrate the target versus actual measures for each employment equity category

¹ * This is the industry mean for 2003

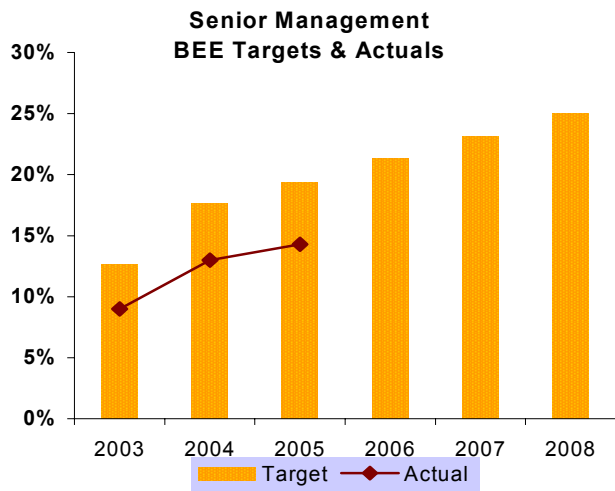


Figure 1 Momentum - Black Senior Management Targets

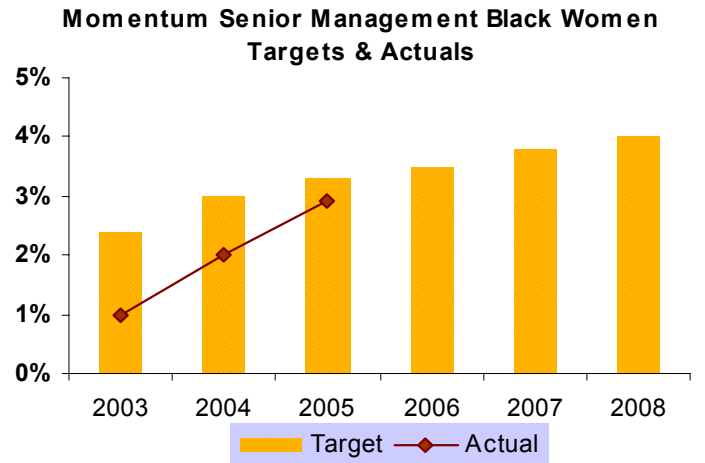


Figure 2 Momentum Black Female - Senior Management Targets

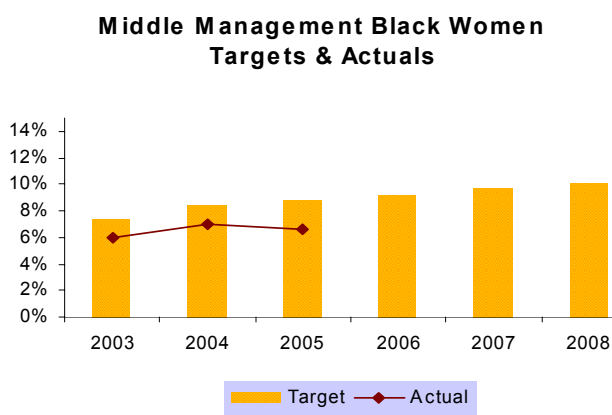


Figure 1 Momentum BEE - Middle Management Targets

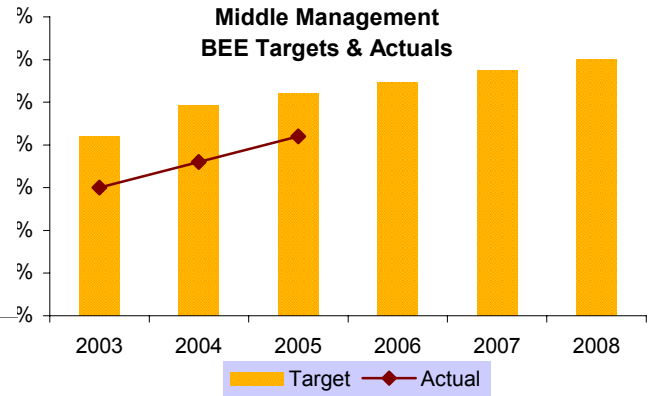


Figure 2 Momentum Black Female - Middle Management Targets

Junior Management BEE Targets & Actuals

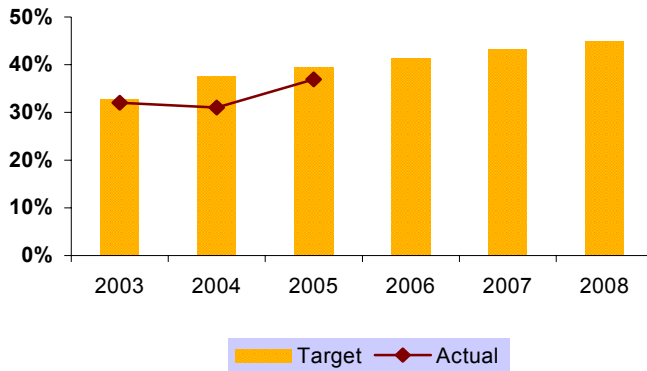


Figure 5 Momentum BEE – Junior Management Targets

Junior Management Black Women Targets & Actuals

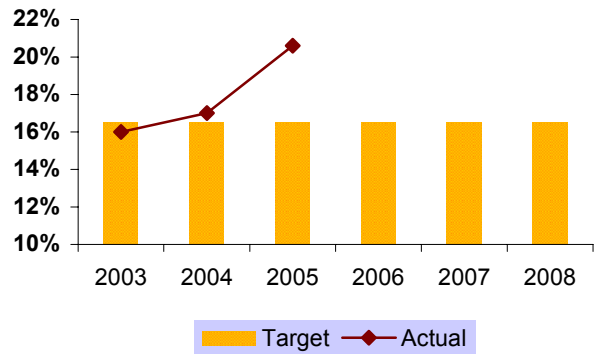


Figure 6 Momentum Black Female - Junior Management Targets

Momentum Group was significantly behind the industry threshold figures for most categories of management in December 2003, the starting point of the Charter scoring. The following table illustrates the progress made by the Group in improving the ratio of ACI senior managers since 2003:

Period	% Black Senior Managers	Threshold/ Target
2003	9.0%	12.6%
2004	13.0%	17.6%
2005 June	14.3%	19.4%

The total black percentage of staff has increased from 39.3% to 47.1% during the twelve-month period from July 2004. One of the main reasons for this is the Sovereign acquisition. Sovereign’s staff complement is currently 79% black. Strategic initiatives have also been put into place in order to improve the percentage of black staff in the Group. Among these is the conscious effort to ensure that new appointments come from these designated groups. In the past twelve months, 62.8% of new appointments were from black groups.

Momentum has implemented the following affirmative action measures to address transformation:

Recruitment procedures:

Recruitment agencies have been screened to ensure that Momentum's recruitment is mainly aimed at designated employees. Divisions also have clear designated employee targets that they have to achieve.

HR monitors all job advertisements to ensure that they are EE compliant and staff are incentivised for EE referrals.

Job assignments

Managers have been tasked to ensure the spread of work amongst employees is fair and allows all employees the opportunity to be challenged and stimulated.

Training and development

Momentum has implemented the following training and development programmes directed mostly at designated groups:

- Creation of a Junior Board
- Gordon Institute of Business Science (GIBS) Leadership Development Programme (Designated employees with potential are put onto leadership programmes to ensure their development is accelerated)
- Graduate Bridging Programme for unemployed learners
- Executive Leadership Development Programme
- INSETA Women in Insurance (WIN-INSETA)
- Adult Basic Education Training (ABET)
- School for Financial Advisors, 100% black students
- Employees are encouraged to make use of all the personal development training that is accessible for them on a central training database. Coaching is provided by HR on an ongoing basis should there be a need.

Turnover

During the twelve months, 178 black employees resigned. This represents 49.9% of total resignations. A retention strategy is currently being formulated to address the issue of high staff turnover, especially of black employees. The participation of black staff in the FirstRand BEE deal is expected to further enhance this retention strategy.

Senior Management

The Momentum EXCO has a total of nine members, 2 of which are black males. This represents 22% of the EXCO, compared to the Charter target of a minimum of 25% by 2008. There are currently no females on the EXCO, and the Charter requires that there should be a minimum of 4% black females by 2008.

Board

Currently, five of the 17 Momentum board members (29.4%) are black, compared to the 2008 Charter target of 33%. Two of these board members are black women, representing 11.8% of the Momentum Board, compared to the 2008 Charter target of 11%.

Staff Satisfaction

The last survey was done in October 2004, where all employees were consulted to ascertain their satisfaction within the company. Arising from this survey the following three priorities were tabled for action and implementation:

- Maximisation of human potential
- Engagement with all staff, ensuring there is stimulation and challenging work
- Ensuring that all people processes are aligned to the business strategy

Staff consultation

Staff are consulted individually every 6 months. After an initial consultation, follow-up meetings are conducted to address issues and continue until such time that employees feel comfortable and more motivated. Feedback is given to line managers where appropriate. The HR department is used as mechanism to raise staff grievances.

Momentum has an EE forum that meets on a monthly basis. Executive management have quarterly meetings with staff to discuss issues.

Except for Sovereign, none of the staff at Momentum have Trade Union representation. Sovereign is affiliated with NEHAWU.

Health and Safety

Momentum has adopted the Occupational Health and Safety Act, 1993 (OHSACT). In terms of this act, Momentum as an employer has the following duties towards its employees:

- identifying hazards in the workplace and seeking to eliminate them
- clearly informing employees of hazards in the workplace that cannot be eliminated

- providing training for employees to enable them to handle their work under the prevailing circumstances and, in addition, equipping them with the necessary protective clothing etc.
- managing employees properly, including adequate supervision, discipline where required, and by keeping them fully informed as to the scope of their authority.

Training

Momentum spent an amount of R15.8 million on training during the twelve months ended 30 June 2005, representing 2.75% of the total payroll. Black employees benefited from training amounting to R11 million, representing 1.91% of the total payroll, compared with the Charter target of 1.5%.

Momentum, which is accredited by the Insurance Sector Quality Authority as a training provider, has an extensive learnership programme for graduates and matriculants to create an entry point for young graduates with potential entry into FirstRand. Momentum recruits unemployed graduates who are trained on a generic learnership for 1 year. The purpose is to create an entry point to FirstRand for young graduates with potential.

Momentum also recruits unemployed people with the potential to become Call Centre Agents. Training is for a period of one year after which the company assists with their employment placement. Finally, Momentum is participating in the Charter Learnership, in compliance with the FSC requirements.

Momentum offers five bursaries a year for students focusing on actuarial science and accounting. The students are obliged, under the terms of the bursary, to work at Momentum for a period after qualifying.

Momentum also runs a Saturday School for staff who are unable to attend classes during the week. The purpose of the school is to develop suitably qualified people for future positions in support of our EE plan.

Sovereign Health, a subsidiary of Momentum, runs a six month leadership development course for black candidates called "coaching for achievers". This assists in their career development.

The table below indicates Momentum's Training Spend for the last financial year, categorised by race and gender.

Race	Gender	Total (Rand spend)	Spend as % of total Black spend	Total Payroll	Spend as % of Total Payroll
African	Male	2,967,115.38			
	Female	3,939,102.67			
African Total		6,906,218.05	63.02%		1.20%
Coloured	Male	918,223.27			
	Female	1,195,748.17			
Coloured Total		2,113,971.44	19.29%		0.37%
Indian	Male	599,149.67			
	Female	1,338,621.15			
Indian Total		1,937,770.82	17.69%		0.34%
Black		10,957,960.31			1.91%
White	Male	1,607,134.36			
	Female	3,191,851.22			
White Total		4,798,985.58			0.84%
Grand Total		15,756,945.89		573,367,334.00	2.75%

Table 3 Momentum's Training Spend for Financial Year 2005

Remuneration

Momentum's remuneration policy is based on rewarding employees for performance. Momentum pays competitive, market related salaries.

Salary increase decisions are based on the performance of employees and their contribution to business success. The average increase is determined taking into account inflation rates and industry related factors. Increases are allocated to employees using a normal distribution.

Momentum

Our People: Info

HIV/AIDS

Introduction

The following outlines Momentum's policy and procedures for interacting with employees who have been medically diagnosed with or who are suspected of having the AIDS (Acquired Immune Deficiency Syndrome) virus.

Purpose

The purpose of the AIDS policy is to reassure employees that AIDS is not spread through casual contact during normal work practices and to reduce unrealistic fears about contracting an AIDS virus-related condition. This policy also protects the legal right to work of employees who are diagnosed with an AIDS virus-related condition and provides guidelines for situations where infection with the AIDS virus is suspected. Our policy is to encourage sensitivity to and understanding for employees affected with a condition of the AIDS virus.

General policy

We are committed to maintaining a healthy work environment by protecting the physical and emotional health and well-being of all employees in the workplace. We also have a continuing commitment to provide employment for people with physical disabilities who are able to work. This AIDS policy is a direct outgrowth of those commitments.

It provides guidelines for situations when a question as to an AIDS virus-related condition arises. There are three major points:

- Employees who are diagnosed with an AIDS virus-related condition may continue to work if they are deemed medically able to work and can meet acceptable performance standards. We will provide reasonable performance standards to enable these employees to continue working.
- We will provide AIDS education for all employees to help them understand how the AIDS virus is spread and to reduce unrealistic fears of contracting an AIDS virus-related condition.
- The term "AIDS virus-related conditions" refers to the following four medically diagnosed conditions:
 1. presence of the AIDS antibody without symptoms of AIDS
 2. presence of an AIDS-Related Complex (ARC)
 3. central nervous system infection

Please refer to the following link for the comprehensive policy on AIDS.

Momentum's HIV/aids prevalence rates

The management committee of Momentum launched our HIV/aids prevalence study during May and June 2004 by participating in the anonymous HIV/aids tests. A randomly selected sample group followed their lead and we have now received the results of the prevalence study from OCSA, the independent company that conducted the HIV tests.

Results of the study

The sample group, including the management committee, comprised 20% of Momentum's head office staff of 1 540. The sample therefore amounted to 308 people. A high participation rate was required to obtain accurate results and 250 people (81.2% of the sample group) were tested. Four of the 250 anonymous results were positive, which means that Momentum's prevalence rate is estimated at 1.6%. This rate should be interpreted with care as it is based on only a sample of Momentum's employees.

If this rate is extrapolated to the 1 540 head office staff, 25 people at our head office are HIV positive. Unfortunately we do not know what the HIV infection rate is for the 58 people in the sample group that did not participate in the study.

Relative position in the financial services industry

Momentum's estimated prevalence rate of 1.6% is low if compared to the most recent information for South African banks and some of our competitors:

- The combined prevalence rate for ABSA, Nedbank, Standard Bank and FNB is 3.4%
- Old Mutual's staff have a prevalence rate of 6%
- The employees of Liberty have a prevalence rate of 3%

Concluding remarks

The HIV/aids prevalence study was necessary to gain insight into the potential prevalence rate in Momentum and to raise awareness of HIV/aids in the company. We believe it is important to increase our efforts in terms of education and awareness. More detail about specific decisions and action steps will follow, but we will monitor the HIV/aids situation in Momentum and grow the solution accordingly. We will also ensure that the impact of HIV/aids on Momentum's employees and our plans in this regard are discussed by the respective Employment Equity panels.

Momentum HIV/Aids policy – next steps.

After the prevalence study done in 2004, certain suggestions were made by OCSA and the then Momentum HIV/Aids team (Esta Calitz, Dieter von Staden and Liezl Gropp). From those suggestions, we brainstormed an action plan. To promote the execution of the HIV/Aids action plan, we simplified focus areas as follows:

1. Perform a Knowledge, Attitude and Practices (KAP) survey

As part of the action plan, Momentum will conduct a KAP survey. This survey will not only stimulate awareness, but will also provide direction in terms of how we should proceed with HIV/Aids campaigns in future.

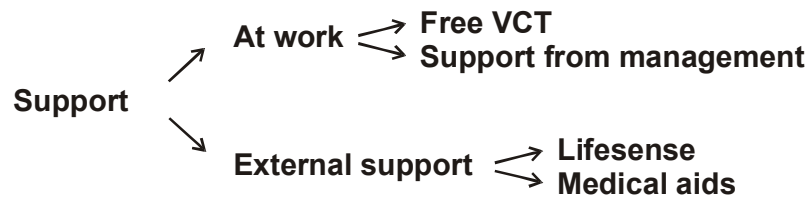
2. Awareness of the disease and Momentum's HIV/Aids policy

Awareness  **Prevention of the disease**
Available treatment for HIV/Aids
What support can be expected from Momentum (Policy)

Drive an awareness campaign that focuses on both staff and management.

- Prevention of the disease
- Available treatment for HIV/Aids
- What support can be expected from Momentum (Policy)

3. Provide information on support programmes at work, as well as external support programmes



Drive support programmes at work:

- Free Voluntary Counselling and Testing (VCT)
- Punt support that can be expected from Momentum management.

Promote knowledge of other support programmes:

- Lifesense
- Benefits offered by Discovery and Momentum Health.

4. Use statistics from VCT to measure and monitor data related to HIV/Aids. From this, model the impact of HIV/Aids on Momentum.

Momentum Supply Chain

Scope

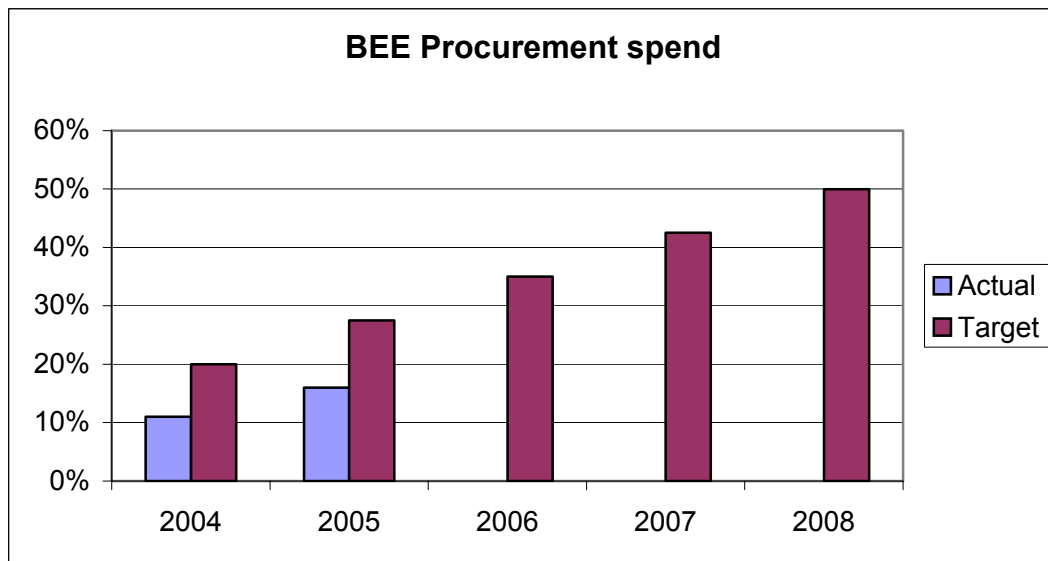
Momentum's procurement policy is in line with Financial Sector Charter guidelines which requires us to spend 50% of our discretionary spend with BEE accredited suppliers by 2008. In this regard the FirstRand Group has established a centralised database (BUYIT) which allows group companies to identify BEE accredited suppliers and to negotiate appropriate pricing.

Strategy

Momentum makes use of the FirstRand database of accredited BEE suppliers when making purchases. Momentum leverages off the buying power of the FirstRand Group.

In the past Momentum did its own procurement. This year, in response to the need to increase the use of BEE suppliers we are using a centralised model, which improves our ability to find and accredit appropriate BEE suppliers. Therefore Momentum does not have its own set of procurement policies, but follows the FirstRand Group procurement policy. The FirstRand procurement department acts as a central point of contact with suppliers.

Procurement Spend



The table above shows our interim targets and our progress against those for the last two years.

Momentum Life and Mometum Health's BEE procurement spend as at 30 June 2005 was R44.6m.

Momentum's discretionary spend is made up as follows:

TOTAL PROCUREMENT SPEND BROKEN DOWN INTO 6 MAIN CATEGORIES
FINANCIAL YEAR 2004/2005

Commodities	TOTAL SPEND Spend Rm	BEE SPEND Spend Rm
IT&Telecoms	76,915	12,980
Facilities	19,709	3,169
Advertising&Promotions	67,794	11,454
Stationary&related equip rent, postage, courier and cash conv.	19,802	4,111
Temp staff, professional services, Training and recruiting	44,389	2,400
Travel and other(incl Fgrowth)	39,004	8,655
	<hr/>	
	267,613	42,769

Momentum Group Limited currently spends 16.0% of its controllable procurement with BEE accredited suppliers, compared with the Charter target of 50% by 2008 and FirstRand's BEE spend of 38.9%.

Momentum Environment: Direct

Scope

Momentum's Head Office building is located at 268 West Avenue, Centurion, covers 21 000m² and houses 1,336 people.

Policy

Momentum has adopted an Environmental Policy in line with that of FirstRand Bank. This policy acknowledges that the sound management of natural resources is a cornerstone of sustainable development. It provides personnel with a guideline to ensure that environmental risk is identified and assessed in a consistent manner.

The environmental policy applies to practices within the Group from two perspectives: operational guidelines for better environmental practices, as well as high-level direction that provide staff with a guideline to ensure that environmental risk is identified and assessed in a consistent manner and reduces the risks of Momentum incurring financial losses or damage to its reputation.

Resource Usage

The Momentum head office is equipped with technology to manage electricity and water usage. This includes the management of air conditioning systems and the recycling of water used in the building's water features.

In order to reduce consumption of electricity, all internal lights are switched off from 10pm to 5am, except for the emergency lighting. Similarly, all external lights are switched off between 6am and 6pm. Air conditioners are switched off from 11pm to 5am every day. The water features are switched off from 6pm to 6am.

The air-conditioning system uses refrigerants which are aligned with the requirements of the Montreal Protocol. The system is sealed and limits water usage as a result.

We currently have a fleet of 7 delivery vehicles.

Recycle/Reuse/Repair

With regards to paper, used paper is re-used for scrap as well as recycled. In order to ensure paper is recycled, recycling boxes are placed throughout Momentum's head office. Printer cartridges are recycled.

Momentum's head office building is 5 years old and therefore all furniture is still new. However, older furniture is donated to schools nominated by the in-house volunteer program ('THUSO').

Systems are being developed to measure savings as a result of recycling.

Momentum Community

Scope

The FirstRand Foundation is a duly constituted and registered Trust and complies with Sections 30 and 18a of the Income Tax Act. It was also recently awarded Public Benefit Organisation status under the above Tax Act.

The Foundation is Chaired by Mr Viv Bartlett and includes 9 Trustees who fulfill senior executive positions within the group as well as five external trustees (including Mr Bartlett) representing the community at large. The Trustees meet on a quarterly basis to ensure the sound governance of the Foundation, to review its work, debate its strategy and to consider grants in excess of R120 000.

The Momentum fund meets on a quarterly basis to consider grants in excess of R50 000 and up to R120 000. These committees also play an important role in contributing to strategic debates regarding the giving of the Foundation. Each sub-committee is chaired by a Trustee of the Foundation.

The Trustees of the Foundation have also delegated authority to the Management of Tshikululu Social Investments, a not-for-profit corporate social investment consultancy, to approve grants in the name of the respective group company funds, up to a limit of R50 000 per grant. Fortnightly meetings are held at Tshikululu to ensure a quick turn around time in reviewing requests for funding.

All grants approved by Tshikululu and the sub-committees of the Foundation are subject to the same stringent processes required of Trustees grants, and all of these grants are reported to the Trustees on a quarterly basis.

The Finance Sub-Committee of the Foundation comprising of two senior executives of FirstRand and Trustees of the Foundation namely Adrian Arnott and Peter Cooper, and the Finance Manager of Tshikululu Social Investment meet on a quarterly basis to review the Foundation's financial status, to debate the investment strategy, and to monitor the growth of these investments. This is done in addition to the day-to-day financial management of the Foundation overseen by Tshikululu whose responsibilities also includes:

- Arranging external annual financial audits of the Foundation.
- Monitoring the legislative compliance of the Foundation and ensuring that Public Benefit reporting compliance is adhered to.
- Implementing and monitoring risk management protocols related to the approval and payment of grants.
- Ongoing review of systems that assist in the above.
- Providing management information to the FirstRand Board, Trustees and Committees on the Foundation's activities.
- Providing access to a multi-disciplinary team of social investment professionals to evaluate and monitor projects.
- Handling and tracking all correspondence and telephonic queries addressed to the Foundation.
- Tabling written requests for funding to the Trustees and Committees and, if approved, monitoring the utilisation of funding and the rollout of interventions.

The Momentum Fund continues to be chaired by Mrs Beth van Heerden; however, a new committee was elected during the year including a cross section of Momentum staff who are involved in community volunteer initiatives and/or who have shown a passion for development initiatives.

The focus areas of the Momentum Fund remain support for people with disabilities; early childhood development (ECD); and community based programmes supporting people, particularly orphaned children and their care givers, and child-headed households infected and affected by HIV/AIDS.

Support for programmes targeting people with disabilities and people infected and affected by HIV/AIDS is strategically aligned to Momentum's assurance business imperatives whilst support for ECD programmes is done on the premise that children with a sound educational foundation will have a greater chance of succeeding in all spheres of life.

Through the FirstRand Volunteers Programme, FirstRand has created an enabling environment, guidelines, channels, and auditable mechanisms to enable staff to donate of their time or finances towards initiatives identified by the FirstRand Foundation, or other sustainable causes. By creating this mechanism, FirstRand encourages the spirit of volunteerism that exists in many people.

The programme was launched by Paul Harris, the CEO FirstRand Banking Group Ltd. As the main patron behind the programme, he communicates constantly to employees about the need and importance of volunteering.

The FirstRand Volunteers Programme resides on the agenda of the **351 Forum** – a forum of the groups' top executives across the group who meet on a quarterly basis. Here it provides Exco with programme feedback and we introduce a different charity organisation supported by employees to the forum, at each meeting. We have established a 351 Matched Fund, giving this forum the opportunity to support the charities presented to them. We provide the charity organisations the opportunity to talk to the forum about their organisations and the challenges they face.

Exco and Management support employees by attending many of the charity handovers and charity drives. Often CEO themselves are directly involved in the matching, giving their time along with staff in delivering initiatives. For the current financial year, the FirstRand Volunteers Programme allocated a budget of R1,9 million to run and match the efforts of volunteers. Of this, approximately R704,000 has been held over for the next financial year. An application to the FirstRand Foundation is currently in progress to match this amount and thereby replenish the fund.

There are a variety of activities that volunteers engage off on a once-off or more recurring basis, where employees try to make a sustainable difference in the lives of the NPO's and beneficiary organisations they support. Annual Group challenges and National Charity Days supported over 2004/2005 included:

- 10 000 Winters Warmers to homeless/orphans
- Bandana Day – 1st September
- Casual Day – 3rd September
- World Aids Day – 1st December

Issues Of Major Concern Relating To The Community

Historically the Foundation has been responsive to the needs identified by communities themselves and then prioritises these against the key strategic focus areas of the Funds – which are all aligned to business imperatives. The Foundation is now also adopting a more proactive approach in identifying potential new projects for support.

The work of the Foundation is also informed by the ongoing review of projects supported in the past, reflecting on lessons learnt, challenges communities face and how these lessons can be applied to improve on future programmes.

National development imperatives also inform the work of the Foundation these include the increasing number of people infected and affected by HIV/AIDS in the country and the shortage of basic pre-school educational schooling, especially in rural areas in South Africa.

Policies

The Foundation has clear guidelines (available at www.firststrandfoundation.org.za) to assist prospective grantees to apply for funding. The guidelines provide detailed information on the supporting documentation required when reviewing requests for funding and also outlines initiatives generally not supported by the Foundation. The website also outlines the focus areas of the respective Funds. (This information is also made available to projects via fax or mail for those who do not have access to the web).

The giving of the Foundation and the respective Funds is also governed by the Trust Deeds and requirements for Public Benefit Organisations. As a general rule the Foundation is only able to support not-for-profit organisations that undertake public benefit activities.

Performance

(a detailed list of all projects by sector and province is available at www.firststrandfoundation.org.za)

Value of grants for the year ending 30 June 2005: R7,2 million

Number of grants for the year ending 30 June 2005: 92

Support for programmes addressing the needs of *people with disabilities* totaled R2,6 million (37%). This included support for a number of educational institutions for learners with special needs; workshops for the disabled; residential care for the aged; and support for the South African National Blind Cricket team.

San Salvador Home in Johannesburg provides residential care to disabled women. It also runs a very successful outreach programme supporting people with disabilities in Alexandra through its Garden for Growth project. 51 residents from Alexandra are participating in the programme. In addition to supplementing food at the home, the garden is also of therapeutic value to the participants who would otherwise be unproductive. The participants are also involved in an income generating project making tomato jam, puree and chutney from excess tomatoes.

Support for *Early Childhood Development* (ECD) received R1,7 million (23%) of Momentum's funding. The focus is on the training of community ECD accredited practitioners who provide the critical foundation education for thousands of pre-schoolers in rural and informal settlements. This is also an important job creation initiative for many women who have a passion for education, often with years of experience in the field but no formal qualifications. During the past year the Momentum Fund assisted in the training of 261 new ECD Practitioners.

Just over R2,5 million or 36% of funding was made in support of community based programmes focusing on *strengthening the care and support of AIDS orphans and their caregivers*. This includes providing assistance to enable children to register for birth certificates and child care grants; ensuring that they have access to adequate medical care and schooling; providing emotional support to assist these children to work through their loss and grief; ensuring that community structures are in place to prevent these vulnerable children from being abused or neglected; and providing support to the caregivers of these children, often grandparents who are themselves vulnerable and needy.

Ntataise – Case Study

Ntataise started in 1980 with two trainers, twelve farm workers' wives and 150 children from six farm pre-schools in the Viljoenskroon district. The positive response of the women to the training offered and the success of the pre-schools led to requests from other farm communities in the area for assistance in establishing pre-schools. Over the years Ntataise has extended its operation to meet the ever increasing requests from women in rural areas and informal settlements and has grown into one of the lead agencies in the field of ECD. It now has a network of 16 affiliated organisations in 7 provinces. These operate as separate projects responsible for their own day to day management and funding. However, they form a close part of the Ntataise network, and utilise their training and training materials. Ntataise is accredited to train up to Level 4, has developed most of its own resources and training courses, and has influenced the lives of thousands of practitioners and pre-school children.

A three year capacity building intervention, supported by the Momentum Fund, amongst others, was concluded at the end of 2004. The major objective of this exercise was to develop the management capacity of organisations in the network and their ability to deliver quality ECD training and programmes. 91 participants from 13 ECD organisations attended the training. This intervention has also impacted on 1,500 practitioners based in 1,100 pre-schools attended by some 48,000 children. An evaluation of the programme reports improvement in the competency and professionalism of directors and senior management. Organisations also appear to have adopted a more 'inclusive' philosophy to planning and implementation with greater staff buy-in, improved communication and teamwork. It is also clear that organisations are now planning their year's activities, goals and training requirements upfront and this in turn is helping with their ability to attract funding. Trainers' knowledge and understanding of ECD has increased significantly. Issues such as parental involvement, HIV/AIDS, team work and group dynamics have enabled trainers to take a more holistic approach to their work. Trainers seem to be holding one another ever more accountable for the quality of the training given. Ntataise reports a dramatic improvement in the work ethic amongst all staff in the network. The programme has seen the empowerment of individuals and the emergence of community leaders. It allows organisations to keep up with the changes in the education and social development fields as well as developing individuals to meet the challenges they face with confidence and competence.

Cotlands – Case Study

Cotlands was established in 1936 as a sanctuary for unmarried mothers and abandoned infants. Since then the range of services offered has increased in order to meet the needs of children and families particularly those infected and affected by HIV/AIDS. Cotlands also operates a hospice and nursery school at its premises in Turffontein in Johannesburg, and runs outreach initiatives in the form of home-based care, community development and training services in the field of HIV/AIDS in townships and informal settlements in Gauteng as well as in rural areas such as Hlabisa in KwaZulu Natal. Recent developments include Orphan Identification and Care Programmes and a counselling programme at Chris Hani Baragwanath Hospital. Through its various programmes, Cotlands is dealing holistically with the impact that HIV/AIDS is having on the community, particularly young children.

Cotlands' Home Based Care Programme in Hlabisa in northern KwaZulu Natal provides Community care to children and their families affected by the HIV/AIDS pandemic. It has been in operation since 1999. It focuses on orphans and child and grandparent headed families in the Hlabisa area. One of the aims of the programme is to enable children to stay in their communities. This avoids the psychosocial trauma as well as the economic expense of institutionalising them.

The Hlabisa Magisterial District is located in northern KwaZulu Natal and covers 3 700 square kilometres. There is an estimated population of 200 000. The closest large town is Richard's Bay, approximately 100 kilometres away. According to Cotlands there is a 47% prevalence of HIV/AIDS in the district.

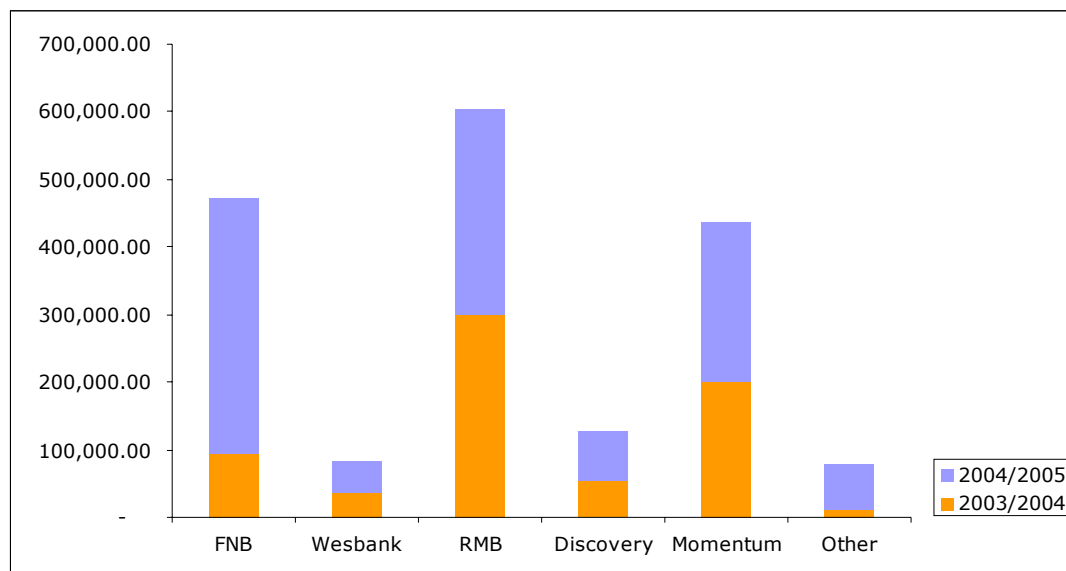
The Home Based Care programme assists people within a 30 km radius of the hospital, providing services which include:

- Assisting families to prepare for imminent death by identifying caregivers to look after the children;
- Identifying orphans and bringing their existence to the attention of the Department of Social Development;
- Assistance with hygiene needs, such as bathing and even household chores;
- Assisting families to link up with resources such as social grants;
- Provision of relief material, such as milk formula for babies, e-pap and food parcels, and clothing and blankets;
- The provision of counselling to both the terminally ill patients and their families.

Cotlands has reported that the number of orphans in the area has been increasing exponentially and that between June 2004 and April 2005 they had cared for 1241 children. In order to assist the caregivers in the area to ensure proper care of these vulnerable children a community meeting was called earlier this year. More than 500 community members attended the meeting which was held at the local community hall, most of attendees were grandmothers who are currently looking after the orphans. Subsequent to this meeting child-care committees have been established comprising of a school teacher, a home care worker, a nursery school teacher, an ordinary community member and the social worker that will head up the team. The home care worker will look after the health aspect of the child and the teacher, the educational side. The nursery school teachers will assist by caring for the young children so that older siblings can go to school and the community member will keep an eye on those children living alone and report to the team. Four teams have been set up thus far and the social worker is still busy with this process.

Volunteers Performance

Each of our brands continues to increase their efforts in making a success of the FirstRand Volunteers Programme. In the last financial year, each brand increased its contribution in time and money given over to worthy causes.



Momentum Customers

Our Philosophy

Our Integrity Is Not Negotiable and We Do Not Allow Conflict Of Interest

- We will observe the highest standards of integrity, honesty and fairness when dealing with any person.
- We will apply all our skills and time when at work for the benefit of Momentum.
- All staff members have the responsibility to maintain and protect the complete confidentiality, integrity and availability of client and business information.
- We do not accept gifts or entertainment that anyone could see as adversely affecting our integrity or objectivity. Furthermore, we will not provide gifts or entertainment to any person that anyone could see as adversely influencing the proper judgement of any person we deal with.

We Value Our Clients and Apply Best-Practice Principles

- We will apply due skill, care and diligence in dealing with any person.
- We will seek to gain an understanding of our clients' financial need; investment objectives and financial circumstances and we will strive to provide our clients with any information needed to enable them to make a balanced and informed decision.
- We will strive to keep abreast of all developments in the market, to improve and update our knowledge and understanding of our industry on an ongoing basis.
- We will apply our own unique entrepreneurial skills to grow and be successful in our markets.

We Respect Prescriptive Measures and We Tell the Truth

- We recognise and honour the Constitution of South Africa.
- We comply with all South African laws, regulations and codes that are in force and have bearing on our business and employees.
- We will observe the highest standards of market conduct.
- We abide to lawful and reasonable instructions from our management and peers.
- We will reveal all material facts that have an influence on our business, shareholders, clients and employees timely and in a transparent manner in all our reporting, both internally and externally.

Target Markets

The schedule below shows the range of products offered by Momentum. It also provides a high level segmentation of the target market for each product:

Business unit	Product	Product name	Client segment
Life insurance	Traditional (closed book)	Momentum Southern Life Lifegro	Middle to upper income
	New (open book)	Myriad	Upper income
Investment	Traditional (closed book endowment)	Momentum Southern Life Lifegro	Middle to upper income
	Endowment	Investo	Upper income
	Guaranteed Endowment	Enginuity	Upper income
	Unit Trusts	Wealth	Upper income
	Investment House		SMME; Corporate
Retirement	Traditional (closed book endowment)	Momentum Southern Life Lifegro	Middle to upper income
	Retirement annuities	Investo Wealth	Upper income
	Pension Funds	Funds-At-Work	Commercial
	Provident Funds		Small to medium business
	Annuities	Enginuity	Upper income
Health	Momentum Health	Momentum Health	Upper income
Middle-market initiative	Life insurance and endowment	Aspire	Middle income group
Lifestyle	Loyalty programme	Multiply Save-thru-Spend	All clients
Group schemes	Endowment Retirement annuities Life insurance	Momentum Southern Life Lifegro	Upper income

MCB	Group life		Commercial
Short-term insurance	Personal and commercial lines	Momentum insurance	Upper income Commercial
Corporate Advisory Services	Corporate policies	Momentum	Corporate

Momentum targets the middle to upper income markets (LSM 8 – 10), which, in South Africa encompasses a small percentage of the market. However, the new middle-market initiative, recently launched in conjunction with First National Bank will focus on the middle-income market (or LSM 6 – 7). The client segments shown above form the majority of our client base.

Managing Relationships with Customers

The savings industry has undergone significant changes since the early 1990's. Clients demand better value for money and more flexibility, consumer bodies demand better disclosure, regulatory pressures have increased, whilst competitive pressures as well as the structurally lower inflation environment are placing pressure on margins. Momentum has pro-actively responded to these challenges (see detail below on new products) and will continue to support changes that improve the sustainability of the savings industry.

An important milestone in our pro-active stance was the launch of our Investo series of investment products in 2000, and more specifically our latest product update, Investo IV, introduced in February 2005. This product range sets new standards in transparency and fee levels, and was well received by clients, financial advisors and the financial press. We will continue to pro-actively meet client requirements, and further improvements are planned for our Investo V launch later this year. We furthermore plan to encourage existing retirement annuity investors to convert to our latest product ranges, on favourable terms.

Customer Satisfaction

Momentum uses technology to track the interaction with the client with the Call Centre. A “*mood indicator*” depicting the state of the client after the last interaction is populated on the interaction screen to assist the Call Centre operator to track the client's perception of previous interaction to be:

- Satisfied (green)
- Neutral (light blue)
- Agitated (purple)
- Angry (red)

The Call Centre agents are also encouraged to perform short interviews with clients when a request for termination of a policy is received. The purpose of the interviews is to ascertain possible reasons for termination of policies to enable Momentum to strategise proactively to restrict the outflow of business via lapses and surrenders of policies.

Momentum also utilise ad hoc and informal feedback from branches and brokers with regards to products and service offerings.

One of the major concerns relating to Momentum's target market is the recent negative publicity in the media, which resulted in some skepticism about long-term investment contracts as an appropriate savings vehicle.

Policies Relating To Customers

One of the main operational risks to which the Group is exposed, relates to fraud and theft perpetrated internally and externally. Group Forensic Services provide fraud prevention, detection and investigation services to support business unit management in meeting their objectives of minimising fraud risk.

The team comprises of three full-time investigators and two administrators. The team liaises closely with client service staff and their management to identify potential and real fraudulent claims relating to life insurance products, potential and real fraudulent payment transactions on investment products, and fraudulent or unethical sales related conduct.

In line with the group's zero tolerance policy of dishonesty and other misdemeanors all identified perpetrators are prosecuted in accordance with existing laws.

Proactive training of relevant staff takes place to ensure that potential and real fraudulent claims, payment transactions and unscrupulous sales behaviour are identified and investigated timeously.

The forensic investigation team also advises on improvements to internal control systems and is represented at both the formal Momentum Enterprise Wide Risk Committee and Momentum Audit Committee.

Momentum has created a reporting facility to enable anonymous reporting of any such transgressions of the company's ethical standards as set out in the Code of Conduct. The accounting firm, KPMG, independently administers the Momentum Report Line.

Distribution

The Momentum distribution strategy is based on the active management of growth within clearly defined intermediary market segments. Momentum believes that embracing intermediaries is the most appropriate strategy to maximise sales in our selected target market.

Different intermediary segments will increasingly have unique needs, which will require different distribution models. In this process a separate division focusing on developing an agency force for Momentum has been created. With regards to broker distribution, specialist distribution within Momentum Distribution Services (MDS) will in future address the needs of intermediaries specialising in a specific product line. A dedicated focus will also be placed on the development of low-producing brokers, as well as the black intermediary market.

The MDS footprint consists out of twenty-two regional offices in South Africa, with six hundred sales and administrative staff, supporting different intermediaries segments.

Transformation

The Life Offices Association issued circular 108/2005 on the 18th of August 2005 to address the issue of affordable and accessible long-term insurance for people in lower income categories (LSM 1-5). According to the circular, the LOA announced that finalised standards and targets for the provision of such products have been proposed to the Financial Sector Charter (FSC)

Council after extensive research on the supply and demand side, including participation in the Finscope 2003 and 2004 surveys.

The product standards and targets form part of the commitment made by the long term insurance industry signatories to the FSC.

Momentum, however, has decided as a strategic imperative, not to develop or sell products to customers in the LSM 1-5 category. It is Momentum's belief that the LSM 1-5 category will evolve in the near future to LSM 6-7 due to the benefits of Government initiatives designed to promote Broad Based Black Economic Empowerment and the general economic uplift being experienced in South Africa.

Momentum has therefore recently launched the new middle-market initiative in conjunction with First National Bank to focus on the LSM 6-7 market.

Customer Satisfaction

Momentum's clients have various ways to submit complaints. As an intermediary focused company, the intermediary will in most cases be the first stop for a clients' complaint. Clients can, however, contact the various contact centres or Momentum management directly. Within the Momentum Service area, a dedicated Client Care team deals with client complaints. As a last resort, clients can raise complaints with the ombudsman for long-term insurance, the FSB or the Pension Fund Adjudicator.

As a barometer of the client complaints level, the year-to-date Ombudsman cases as at 19 September 2005 are as follows:

Momentum Life	314
All Insurers	6 534

Momentum Life's portion is 4% compared to our industry market share of 12%.

The Ombudsman found 23% of complaints submitted for Momentum in favor of the complainant, compared to 43% for all insurers.

An analysis of Ombudsman Momentum complaints identified the following 3-areas as reasons for complaints:-

Disability claims	21%
Dissatisfaction with values	19%
Communication	19%

Customer satisfaction surveys are commissioned on an annual basis to track and compare the current client satisfaction. The needs of clients change continually and these surveys are crucial to assess the changes and to make the necessary adjustments to service levels to satisfy these needs. The ratings of the surveys are crucial to evaluate the existing service offering as well as in assisting with strategic business planning and decision making on future service offerings.

The following primary studies were conducted for Momentum in 2005:

Markinor Service Survey

Annual Client and Broker Service Surveys have been commissioned with Markinor since 2002. The questions posed in the studies focused on brand awareness as well as the perception and evaluation of the service levels of the Client (400 interviews) and Broker (200 interviews) Service Call Centre of Momentum clients and brokers.

The surveys indicated a steady increase in the client's satisfaction with the service offered by the Call Centre for the period 2002 – 2004. Brokers also indicated an increased level of satisfaction with the service experienced with the Broker Call Centre. The study however provided information on key areas where the Call Centres could focus to enhance service experienced by clients e.g. improved response time as well as continued communication.

In 2005 another service survey has been commissioned for 1,200 interviews which focuses on the current service offering *throughout* Momentum. The information obtained from this comprehensive study is to be utilised for strategic initiatives with regards to future service initiatives on *all levels* (brokers, clients and commercial) after the recent internal restructure within Momentum. The findings of the study are to be presented in mid October 2005.

TWIG – Man in the street survey

TWIG conducted a survey in 2003/2004. Over a period of four months 900 interviews were conducted with clients. The sample consisted of clients from Momentum (200), Old Mutual, Sanlam, Discovery, Charter, Metropolitan and Sage. Momentum clients expressed very high levels of satisfaction with the service that they had experienced from Momentum during the period of the study.

TWIG - Broker Survey

Over a period of four months 426 interviews were conducted with brokers active within the industry. The sample consisted of clients from Momentum (116), Old Mutual, Sanlam, Discovery, Charter, Metropolitan and Sage. The categories on which the brokers had to rate the companies were overall perception, service orientation, general administration, claims administration, broker support and product rating.

Momentum was ranked **FIRST** on twenty-four of the measurements and rated exceptionally high on all measurements in the Product Range, Broker Support, and General Administration sections. The exception is the measurement "Overall service level of assurer" where Momentum is ranked (joint) third

These results are being utilised in product development as well as service offering to brokers and these studies are being repeated during this financial year.

FINSCOPE

FINSCOPE is an annual study commissioned by FinMark Trust to understand the needs as well as the usage of financial services throughout the entire South African population. The LOA brokered a special package in 2005 for Insurance companies to participate in the annual FINSCOPE study, which Momentum participated in.

We have also undertaken a study during the year to assess Momentum's brand health.

Market Tracking

Dedicated research and library services in Momentum keep track of market developments and trends through printed media, electronic information portals and conducting media reviews.

Internal Dashboards

Divisions set their own individual dashboards outlining targets, goals, as well as service standards. The dashboards are reviewed quarterly to ensure that these remain relevant to industry trends and standards.

Health and Safety

Momentum has adopted the Occupational Health and Safety Act, 1993 (OHSACT). In terms of this act, Momentum as an employer has a series of duties towards its employees and customers, which are described in the People section of this report.

Momentum Regulators

Regulators

Momentum Life's operations are overseen by the:

Financial Services Board, (FSB), the main regulatory body for the financial services sector.

FAIS Ombudsman, a quasi-regulatory body whose function is to provide determinations on complaints regarding intermediary services.

Pension Fund Adjudicator, a quasi-regulatory body whose function is to provide determinations on complaints regarding pension fund related issues.

Life Offices Association, (LOA), the membership body for the Life Assurance industry. It has prescriptive codes, which its members must adhere to. It is not a regulatory body. For any industry specific issues, Momentum has representatives on a number of LOA committees. These committees serve as discussion forums and the LOA then acts as a conduit to take these matters to the regulatory bodies.

Momentum Health is regulated by the Medical Schemes Council, (MSC), the main regulatory body for the Medical Aid Administrators.

Interaction with Regulators

Meetings with the regulators are on a needs basis. There is virtually daily interaction with the regulator from various parts of the Momentum Group.

Major Regulatory Issues Facing the Life Assurance Industry

During this year, the main issue relating to regulations has been a series of Pension Fund Adjudicator (PFA) rulings which are likely to result in significant changes to the way in which Life Assurers will be conducting future business. The rulings have also had an impact on the broker industry, as the current structure of up-front commissions is being questioned and may change to include an 'as and when' structure.

In Momentum's view the savings industry has undergone significant changes since the early 1990's. Clients demand better value for money and more flexibility, consumer bodies demand better disclosure, regulatory pressures have increased, whilst competitive pressures as well as the structurally lower inflation environment is putting pressure on margins. Momentum has pro-actively responded to these challenges and will continue to support changes that improve the sustainability of the savings industry.

An important milestone in our pro-active stance was the launch of our Investo series of investment products in 2000, and more specifically our latest product update, Investo IV, introduced in February 2005. This product range sets new standards in transparency and fee levels, and was well received by clients, financial advisors and the financial press. We will continue to pro-actively meet client requirements, and further improvements are planned for our Investo V launch later this year. We furthermore plan to encourage existing retirement annuity investors to convert to our latest product ranges, on favourable terms. We have reserved R100m to facilitate this conversion process.

The values of retirement annuities following an early cessation (or reduction) of premium payments are currently receiving unprecedented attention from consumers and the press. This follows rulings from the Pension Fund Adjudicator against life insurers and retirement funds. Momentum is aware that policy designs and charging structures of the past lend themselves to criticism. However, it is important that past practices should be judged against what was accepted market practice at the time. It is important that the uncertain legal framework in which life companies currently do retirement annuity business, be clarified as soon as possible.

The proposals relating to the payment of commissions recently made by the LOA should significantly improve early termination values of savings products, and will simplify product design and fee structures. It is hoped that intermediaries and our regulators will endorse these proposals in the interest of a more sustainable savings industry.

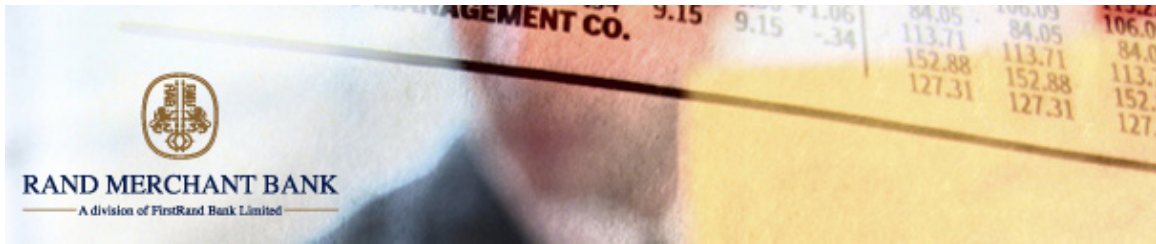
Recent Changes to the Regulatory Environment

Financial and Intermediary Services (FAIS) Act – The FAIS Act requires all financial service providers to be licensed to be able to sell products and provide intermediary services. This act has the potential to reduce the number of brokers who qualify to act as intermediaries.

The Stock Exchange Control Act, the Financial Markets Control Act and the Insider Trading Act were all repealed in the current year and replaced by the Security Services Act. The new Act has more restrictions on how investment business should be conducted and has filled gaps in the previous legislation.

International Financial Reporting Standards (IFRS) – The South African Institute of Chartered Accountants (SAICA) has issued new accounting standards based on IFRS and all listed companies will have to adopt IFRS for financial years beginning on or after 1st January 2005. Momentum, being a 100% subsidiary of the FirstRand Group, will therefore be adopting the new accounting standards from 1st July 2005. FirstRand has an accounting team that has done significant work regarding IFRS and Momentum has been liaising with them on a regular basis. The accounting standard that will have the most significant impact on the Insurance industry is IFRS 4.

The Companies Act, 1973 is undergoing a complete overhaul and details on this should be finalised by the end of 2005. Momentum is analysing the impact that the proposed changes will have on it. These changes are unlikely to be material.



RMB Index

This section consists of the following:

1. Overview
2. Our People: Data
3. Our People: Info (and HIV/AIDS)
4. Supply Chain
5. Environment: Direct
6. Environment: Indirect
7. Community
8. Customers
9. Regulators

RMB Overview

RMB and Sustainability Reporting

Sustainable, the Oxford dictionary tells us, means that which is able to be upheld, defended or maintained at a certain rate or level. In other words, it's the difference between being here temporarily, and being here for the foreseeable future.

Sustainability is important to us because we want to be a part of that future. That's why our business growth is underpinned by solid foundations of ethics, values and transparency. These dictate our day-to-day approach to business. In the process, we take account of the needs of all relevant stakeholders in order to ensure the continued viability and profitability of our operations and the prosperity of our people.

In the broadest sense, RMB's section of this sustainability report targets internal audiences (mainly employees) and relevant external audiences such as clients, shareholders, analysts and various regulatory and financial authorities ranging from the JSE to the Reserve Bank.

As far as stakeholder engagement is concerned, we like to be proactive, transparent and as forthcoming with information as we can possibly be without breaching the confidentiality upon which our business is based. In short, we want people to feel that they can trust what we communicate to them rather than conclude that we have something to hide.

In this year's Annual Report, we stated that the need to manage our intellectual capital is our key non-financial opportunity and risk. Given that intellectual capital is the key differentiator for a merchant bank of choice like RMB, we go to extraordinary lengths to guard against the risk of failing to attract and retain the best people. Consequently, through constant reinforcement, our culture sustains the objective of empowering great people to perform and rewarding them accordingly.

From a performance perspective, without a doubt, we score most strongly in the field of employee relations in all its facets – from skills development and leadership to occupational health and workplace conditions. This is reflected in our continued presence, for six years running, in the top seven of the Best Company to Work For survey by Deloitte – a rating unmatched by any other financial services company. We also score well in employment equity and procurement.

Ironically, our biggest weakness flows from our biggest strength, which is our empowering culture. Because we aren't obsessed with rules and regulations and rely on people to do the right thing, we find that we have few formal structures (committees, managers, forums) for sustainability issues, and tend not to brag about what we do. Yet this is what the market demands. So we have started to focus on according more formal status to our sustainability activities, developing policies and procedures, and communicating more extensively - both internally and externally - to capture reputational benefits.

The publication of Citizen RMB was the first step in this direction.

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Rand Merchant Bank										
Total Employees by Occupational Categories										
Occupational Categories	Male				Female				Total	
	Black	Coloured	Indian	White	Black	Coloured	Indian	White		
Top Management	0	2	1	24	2	0	0	7	36	
Senior Management	0	2	2	59	0	1	1	25	90	
Middle Management	21	7	18	128	12	3	8	47	244	
Junior Mgt & Supervisors	41	13	21	138	26	7	33	113	392	
Semi-skilled	20	2	2	4	41	24	14	48	155	
Unskilled	21	1	0	0	17	0	0	0	39	
Total Permanent	103	27	44	353	98	35	56	240	956	
Non-permanent Employees	10	0	4	18	15	2	3	21	73	
Total Employees	113	27	48	371	113	37	59	261	1,029	

Rand Merchant Bank Asset Management Employment Equity as at June 2005

Total Employees by Occupational Categories

Occupational Categories	Male				Female				Total
	Black	Coloured	Indian	White	Black	Coloured	Indian	White	
Top Management	1	1	1	8	0	0	0	3	14
Senior Management	0	0	0	6	0	0	0	7	13
Middle Management	3	1	6	22	3	2	3	22	62
Junior Mgt & Supervisors	11	4	8	9	17	9	16	48	122
Semi-skilled	2	0	0	0	1	0	0	0	3
Unskilled	5	0	0	0	4	0	0	0	9
Total Permanent	22	6	15	45	25	11	19	80	223
Non-permanent Employees	7	2	1	5	7	4	1	9	36
Total Employees	29	8	16	50	32	15	20	89	259

Rand Merchant Bank Properties Employment Equity as at June 2005

Total Employees by Occupational Categories

Occupational Categories	Male				Female				Total
	Black	Coloured	Indian	White	Black	Coloured	Indian	White	
Top Management	0	0	0	6	0	0	0	0	6
Senior Management	0	0	0	4	0	0	0	0	4
Middle Management	2	2	1	18	2		1	15	41
Junior Mgt & Supervisors	13	3	2	24	1	4	2	23	72
Semi-skilled	49	5	5	5	11	26	12	37	150
Unskilled	0	0	0	0	4	0	0	0	4
Total Permanent	64	10	8	57	18	30	15	75	277
Non-permanent Employees	0	0	0	0	0	0	0	0	0
Total Employees	64	10	8	57	18	30	15	75	277

RMB

Our People: Info

This section addresses our philosophy, policies and practices on people issues. We share our workforce profile, the initiatives we are undertaking to tackle the need for transformation in the workforce including our recruitment policies; the processes and structures we have in place for staff consultation, health and safety and the measurement of staff satisfaction; and our remuneration policy.

Workforce Profile

The average age of our 864 permanent staff at RMB is 35 years. The diagrams below represent the gender and race profile of our staff.

RMB Staff Profile by Gender at 30 June 2005

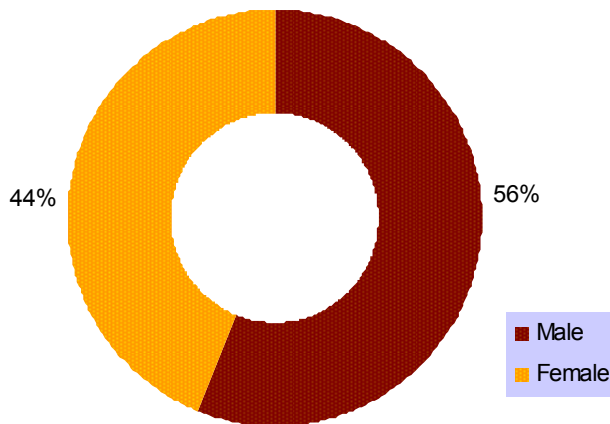


Figure 2 RMB Staff Gender Statistics 30 June 2005

RMB Staff Profile by Race at 30 June 2005

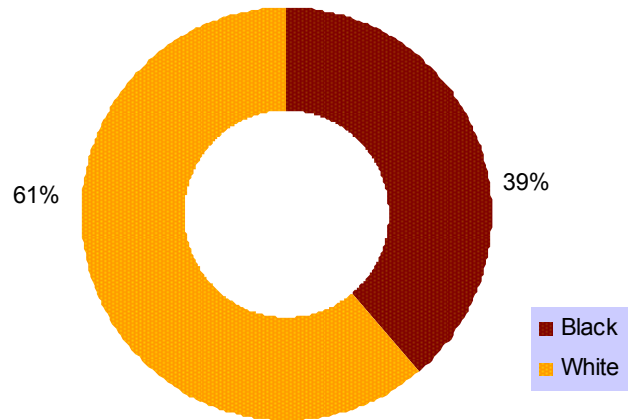


Figure 1 RMB Staff Race Statistics 30 June 2005

The diagram below indicates the occupational breakdown of our permanent staff complement.

RMB Staff Breakdown by Work Category 30 June 2005

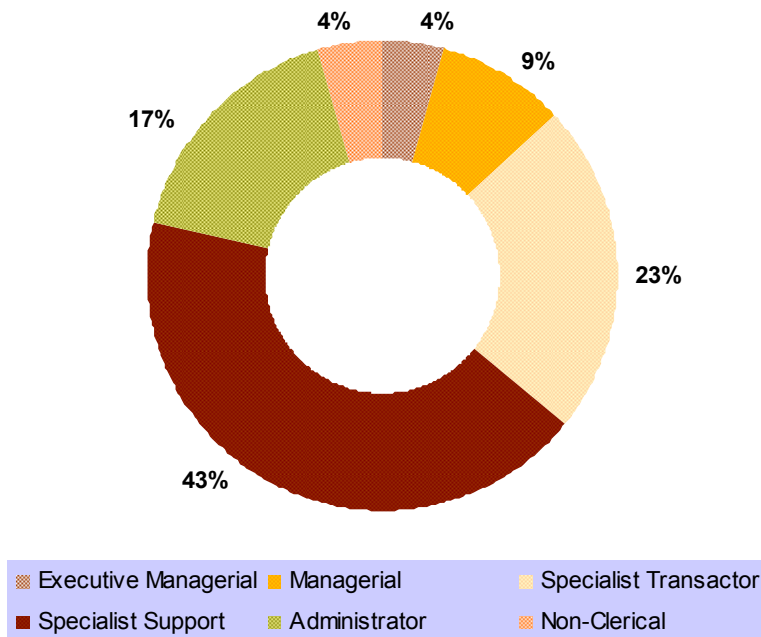


Figure 3 RMB Staff Work Category at 30 June 2005

Rand Merchant Bank									
Total Employees by Occupational Categories									
Occupational Categories	Male				Female				Total
	Black	Coloured	Indian	White	Black	Coloured	Indian	White	
Top Management	0	2	1	24	2	0	0	7	36
Senior Management	0	2	2	59	0	1	1	25	90
Middle Management	21	7	18	128	12	3	8	47	244
Junior Mgt & Supervisors	41	13	21	138	26	7	33	113	392
Semi-skilled	20	2	2	4	41	24	14	48	155
Unskilled	21	1	0	0	17	0	0	0	39
Total Permanent	103	27	44	353	98	35	56	240	956
Non-permanent Employees	10	0	4	18	15	2	3	21	73
Total Employees	113	27	48	371	113	37	59	261	1,029

Rand Merchant Bank Asset Management Employment Equity as at June 2005									
Occupational Levels	Male				Female				Total
	African	Coloured	Indian	White	African	Coloured	Indian	White	
Top Management	1	1	1	8	0	0	0	3	14
Senior Management	0	0	0	6	0	0	0	7	13
Middle Management	3	1	6	22	3	2	3	22	62
Junior Mgt & Supervisors	11	4	8	9	17	9	16	48	122

Semi-skilled	2	0	0	0	1	0	0	0	3
Unskilled	5	0	0	0	4	0	0	0	9
TOTAL PERMANENT	22	6	15	45	25	11	19	80	223
Non-permanent Employees	7	2	1	5	7	4	1	9	36
TOTAL EMPLOYEES	29	8	16	50	32	15	20	89	259
Total Employees	36	10	17	55	39	19	21	98	295

Rand Merchant Bank Properties Employment Equity as at June 2005									
Total Employees by Occupational Categories									
Occupational Categories	Male				Female				Total
	Black	Coloured	Indian	White	Black	Coloured	Indian	White	
Top Management	0	0	0	6	0	0	0	0	6
Senior Management	0	0	0	4	0	0	0	0	4
Middle Management	2	2	1	18	2		1	15	41
Junior Mgt & Supervisors	13	3	2	24	1	4	2	23	72
Semi-skilled	49	5	5	5	11	26	12	37	150
Unskilled	0	0	0	0	4	0	0	0	4
Total Permanent	64	10	8	57	18	30	15	75	277
Non-permanent Employees	0	0	0	0	0	0	0	0	0
Total Employees	64	10	8	57	18	30	15	75	277

Transformation

This year, FirstRand published an internal transformation report that addresses all the activities we are undertaking to address the key challenge for South African companies today. Half of the transformation report focuses on Employment Equity issues and sets out the approach to Employment Equity, to which RMB adheres.

- FirstRand will strive to be a leader in employment equity
- We will contribute to improving the skills pools and the distribution of skills in South Africa in general
- We will strive to eliminate prejudice and legacy attitudes that inhibit transformation in our organisation
- We aim to make the Group a truly representative South African organisation where there is mutual respect between all people
- We strive for a meritocracy where all barriers to participation are removed and where people are treated equally and fairly. We believe that equality of outcome flows from equality of opportunity
- We aim to have a staff profile that reflects the demographic profile of the available skills pool in South Africa
- We will conduct management development programmes internally aimed at addressing imbalances that affect disadvantaged and previously disadvantaged people
- We will allow for a Transformation Band that will represent about 10% of black recruits who are not yet fully competent and we will facilitate their development
- We will significantly exceed the Charter targets with respect to the recruitment of black women
- The aim for the next four years is that 50%, 40% and 30% of all new recruits or promotion into junior, middle, and senior management will be black

- We will strive to meet and exceed the targets set by the Financial Sector Charter

Recruitment Policies to Address Transformation

The Transformation Report provides extensive information on our approach to the recruitment strategy required to shift the racial representation in RMB. Here, we provide a brief summary of our recruitment policies and the strategic partnerships we are pursuing to support these.

Our policy is that at least 50% of all new recruits or promotion into junior management will be black people, that at least 40% of all new recruits or promotions into middle management will be black people and that at least 30% of all new recruits or promotions into senior management will be black people. Senior management is most affected by the historical legacy, the intense competition for staff in this category and the fact that our policy of “growing our own timber” has not had sufficient time to make an impact. As a result, the latter can be seen as a “stretch target”. Our policy is that black women will make up at least 5%, 10% and 20% of all new recruits and promotion in senior, middle and junior management respectively. Given the talented black women in the group and in the market, this is one target we believe we can comfortably exceed. We may wish to increase our internal targets for black women.

Rand Merchant Bank believes it is essential to play an active supporting role with the Association of Black Securities and Investment Professionals (ABSIP) and the Association for the Advancement of Black Accountants of South Africa (ABASA). RMB’s relationship with these two organisations has been to its benefit, raising its profile among black professionals and attracting a number of unsolicited approaches by qualified and talented young black men and women.

Furthermore, it has given RMB an opportunity to network with members of ABSIP and ABASA, allowing RMB employees to market its culture and ethos to potential candidates.

Internal Structures to Promote Employment Equity

Employment Equity Committees have been democratically elected by staff members, who work in association with a designated manager. One of the tasks of the manager is to run internal audits to identify and remove all possible barriers to employment equity. Line managers and all business-unit management boards are part of the process in implementing the equity programme in conjunction with the Employment Equity Task Team/Diversity Management Team for each business unit.

RMB Private Bank has also contracted an external consultancy, Connectivity, to hold a series of diversity management workshops monthly. Staff attendance is compulsory. Willie Miller, CEO, conducts transformation workshops with staff on an adhoc interactive basis on transformation initiatives.

Policies

RMB has the following policies in place:

- HIV/Aids Policy
- Leave Policy
- Maternity Leave Policy

- Employment Equity Policy
- Temporary Employment Policy and Procedures
- Grievance Policy
- Referral Fee Policy
- Sexual Harassment Policy
- Transformation policy guidelines

Policies amended during the year include:

- Leave Policy – Sick leave was altered slightly but we maintained our general allocation over and above the Basic Conditions of Employment Act.
- Maternity Policy – this policy was amended, but only impacted the related tax implications.
- HIV/Aids Policy – Annual revision by the FRBG HIV/Aids Steering Committee.

Overall Staff Satisfaction

Usually, our employees raise issues of concern either with their line managers, their Organisational Development (OD) consultant deployed specifically to their area, or with the EE Forum. We also garner feedback through surveys such as the Deloitte Best Company To Work For survey (which has ranked us in the top 7 for six years running) and the FirstRand Capability Survey. We also run temperature-check surveys in various departments.

Staff Consultation

CEO Breakfast backchat sessions – This is a Chief Executive Officer (CEO) initiative. Diverse groups of employees are invited to breakfast with the CEO and a member of the management board for an open, informal feedback session. These sessions are held bi-weekly.

CEO Quarterly sessions – The CEO and members of the different Boards host quarterly feedback sessions with the bank in which various issues are discussed. These include the financial results, Financial Services Charter updates and any other current issues, like feedback from the Best Company to Work For survey. This meeting is also an opportunity for questions and debate.

EE Forum – Employees are encouraged to make use of our EE forum, as and when required, to raise any concerns they may have.

OD Consultants - We have introduced feedback sessions with the OD consultants for all employees who have been with the bank for three months or longer. We also have one-on-one sessions with all new employees who have been with the bank for three months. These sessions are intended to check if new recruits have settled in and to address any issues they may be experiencing.

Best Company to Work For survey - We participate in the annual Best Company to Work For survey, which is conducted by Deloitte.

Temperature check surveys - As and when required, we complete “Temperature check” surveys in various departments to gauge employee interests and concerns.

Health and Safety

(Policy and statistics are for FirstRand Banking Group)

In keeping with the philosophy of the FirstRand Group and its belief that business should be conducted honestly, fairly and within the framework of all applicable laws, our goal is to, as far as is reasonably practical, protect the health, safety and wellbeing of our employees and any other persons who may enter our premises. We are pleased to report that there was a reduction in employment-related injuries during the past financial year.

Our commitment to employee health and safety, as well as our various risk management and training initiatives, complement both the Occupational Health and Safety Act, 85 of 1993 and internationally recognised safety standards.

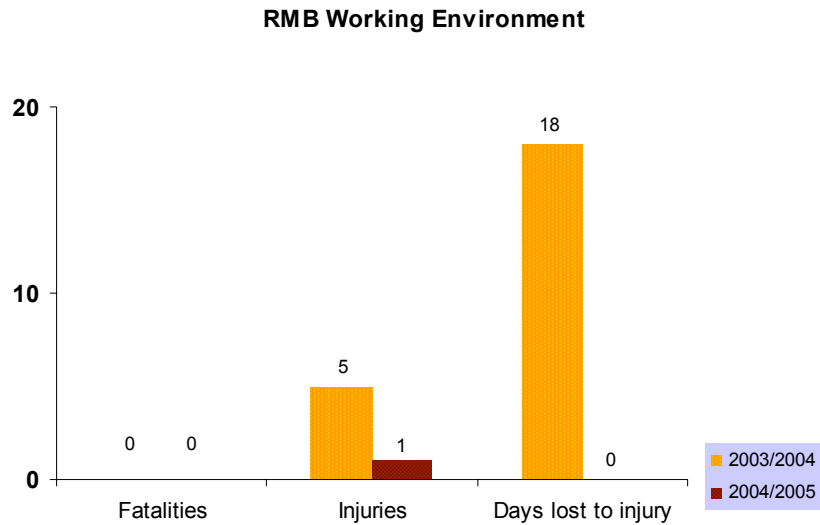


Figure 4 *RMB Fatalities, Injuries, Days Lost to Injury*

The effective implementation of the Employee Health and Safety policy requires the co-operation and active involvement of employees at all levels and in all areas. To ensure that stated standards are maintained, the FirstRand Group monitors health and safety performance and consults with employees on health and safety matters. The significant recommendations arising out of the health and safety monitoring, consultation and risk assessment programmes are prioritised and actioned to ensure continuous improvement in integrated health and safety management systems.

Training

For the period 1 April 2004 to 30 April 2005, 680 RMB staff received training. The total spend for this period was R7,245,676.00.

I. RMB Internship Programmes for Financial Year 2005

Name of Internship	Total Number of Employed Learners	Training spent	Spend per employee	EE Details
Treasury Dealer Internship	2	R3,677.20	R1,838.60	<ul style="list-style-type: none"> • 2 Black Males
Quantitative Analyst Internship	3	R50,230.48	Varies per learner	<ul style="list-style-type: none"> • 1 Indian Male • 1 Indian Female • 1 White Male
Risk & Compliance Internship	1	R2,550	R2,550	<ul style="list-style-type: none"> • 1 Indian Male
IT Internship	2	R6,000	R3,000	<ul style="list-style-type: none"> • 1 Black Male • 1 Black Female

Training Programmes

Rand Merchant Bank (RMB) and First National Bank (FNB) have both implemented the successful *Class Of* programme. This training scheme, started in 1993, was conceived to bring fresh talent into the banks and has succeeded beyond the Group’s greatest expectations. Every effort continues to be made to find black candidates for this programme. The RMB *Class Of* accepts about five high achievers with at least three years’ working experience. In order to attract fresh talent, the programme deliberately looks for people who do not have merchant banking experience.

Class Of graduates have gone on to play leadership roles in many organisations. Malose Kekana is the CEO of the Umsobomvu Youth Fund, Disebo Moephuli is the Treasurer of the Development Bank of South Africa and Bongji Mkhungo runs his own advertising agency, Inroads. Modise Mothloba was head of ABSIP and played a major role in negotiating the Charter. Many other graduates are in senior influential positions in industry.

RMB, together with the RMB Academy, approaches university lecturers across SA to nominate candidates for its internship programmes. This is supplemented by advertising in the media and on the RMB website. The aim is to attract recently qualified black graduates into the bank, who are recruited on a 12-month contract (some internships last longer) with the possibility of full-time employment upon completion. A number of internship programmes have been implemented: Quantitative Analyst (2002) Treasury Dealer (2003), Business Development (2003), Private Equity (2004) and Equities Transactor (2004).

The success of these programmes is underpinned by coaching and mentoring, which give the interns additional relevant technical training as well as life skills to help them succeed. To date, 20 interns have been recruited through RMB and 10 have been offered permanent employment. The highest intake has come from the universities of Cape Town, Witwatersrand, Natal, Stellenbosch, Pretoria, and Rhodes University.

RMB recruited 12 interns in 2005 into the following intern programmes: Corporate Finance/Structured Finance (new), Risk & Compliance (new), Technology (new), Equities Transactor, Treasury Dealer and Quants Analyst.

RMB Properties entered into an internship programme with the South African Properties Association (Sapoa) in November 2004. The development division of RMB Properties has a mentoring programme that has two graduates working closely with senior executives to get a hands-on feel and practical experience for the business. In addition, in conjunction with a black-owned property company, a candidate is seconded into the development division to work with senior executives on a specific project to ensure skills transfer. Training schemes of this type have been in place for four years.

RMB Asset Management runs a mentorship programme, the Institute of Investment Excellence, that provides, among other things, intensive training in financial markets, portfolio management, financial statement analysis and valuation of securities.

Interns are chosen annually to become part of the RMBAM team for nine months, after which they are sufficiently skilled to launch a career in financial services. RMBAM has three people dedicated to IIE (write in full), and one member of staff concentrating just on staff training. Five interns have been appointed as full staff members over the last four years

Remuneration

Remuneration packages are determined by skills and relevant experience. It is RMB's policy to pay market-related salaries and as such we participate in a bi-annual industry survey (Hay Investment and Merchant Banking survey) in order to benchmark these.

The decision to pay employees an annual performance bonus is based on the performance of the Bank, the performance of the employee's department and division and their individual performance over the financial year.

RMB
Our People: Info
RMB HIV/ Aids Table for GRI Reporting

Performance Indicators	Topic	Description
Good Governance		
HIV1	Description of HIV/Aids Policy	RMB as part of FirstRand recognises that HIV/AIDS is a serious life- threatening disease with far-reaching implications for the business and our employees. For this reason, we believed it was necessary to set out a clear policy and approach to managing HIV/AIDS within the workplace. In 2004, the steering committee, including our Medical Practitioner, reviewed the policy and ensured it was re-written in simplified English. The policy was then launched together with the Health Days Launch in August 2004. The policy is reviewed annually, and will be reviewed in August 2005.
HIV2	Strategy for managing HIV/Aids risk	<p>To ensure we have an effective and inclusive HIV & AIDS program, a checklist was adopted, extracted from “Guidelines for developing a workplace policy and program on HIV/AIDS and STDs”, issued by the Department of Health Directorate: HIV/AIDS and STDs. This checklist was used as a Best Practices guideline on developing HIV & AIDS workplace program.</p> <p>The HIV/Aids program is targeted at all FirstRand Bank employees and extends through to their families, either by direct intervention from the Bank or indirectly through our service providers. The Group has demonstrated its commitment to fighting HIV & AIDS through the implementation of workplace HIV & AIDS Programmes. The following programmes were initiated:</p> <ul style="list-style-type: none"> • Education and Prevention • VaPT (Voluntary Prevalence Testing) • VCT (Voluntary Counselling and Testing)

Performance Indicators	Topic	Description
		<ul style="list-style-type: none"> • Non – Discrimination • Care and Treatment <p>We believe that HIV & AIDS is not restricted to the workforce/workplace. We therefore also support surrounding communities through:</p> <ul style="list-style-type: none"> • FirstRand Foundation – Tshikululu Social Investments • FirstRand Volunteers <p>We believe our strategy is working because of Senior Management endorsement and buy-in from the Stakeholders and the various Exco's; despite challenges such as cultural differences, structure changes, remote rural areas and large geographical distribution. HIV & AIDS is mentioned on every agenda within the Group at all levels. We will continue to explore new ways and opportunities to support our employees and their families in fighting the disease</p>
HIV3	Extent of preparedness and contingency planning in anticipation of expected HIV/Aids impacts	Our various initiatives are aimed at curbing the rate of new infections among employees; discourage the use of ART's and encourage good and positive living habits i.e. eating healthy, eliminate smoking and alcohol intake.
HIV4	Monitoring of progress and reports in respect of indicators 1-3 above	<p>Guided from the Group policy and guidelines, we are currently in the process of finalising the monitoring of progress in terms of the HIV/Aids management programm. Our objectives in terms of monitoring and reporting include:</p> <ul style="list-style-type: none"> • The current steering committee functioning is being reviewed • The appointment of an HIV/Aids Champion that will interact with executives and senior decision-makers, as well as all stakeholders <p>A monthly report was introduced in July 2005, to be completed by HIV/Aids Coordinators from each business unit (BU), together with the BU's CEO and</p>

Performance Indicators	Topic	Description
		<p>the CEO of each business unit</p> <p>A mini KAP survey was conducted in 2004 to audit each Business Unit in terms of their communication of the policy i.e. do all our employees know that we have a policy and also identify Gaps in terms of Group initiatives.</p>
HIV5	Stakeholder involvement in formulation of policy, strategy and implementation	<p>RMB, within FirstRand Banking Group, addresses the issue of HIV/AIDS as a strategic business imperative. It carries the full support of the CEO and the Banking Group Executive.</p> <p>An HIV/Aids Steering Committee comprising representatives who are decision makers from the FirstRand Banking Group, as well as Co-ordinators who represent the operational aspect of the HIV/Aids are responsible for the implementation of HIV & AIDS initiatives at Business Unit level. (Co-ordinators fulfil the role of Peer Educators), over and above the implementation of other HIV/AIDS initiatives.</p>
Measurement, Monitoring and Evaluation		
HIV6	Prevalence rates	<p>A survey by the four major Banks in SA to determine the prevalence rate in the Banking Sector was conducted over a 3 month period in 2003. The test was anonymous, unlinked and voluntary. A followup survey is being planned for late 2005/06. The budget has been approved, and will be discussed with the other financial institutions <i>Banking Industry results available on request.</i></p>
HIV7	HIV/Aids-associated costs and losses	Not available
HIV8	Total assumed HIV/Aids associated costs/ losses	Not available
Workplace Conditions and HIV/Aids Management		
HIV9	Workplace-related	<ul style="list-style-type: none"> Management training covering basic skills training

Performance Indicators	Topic	Description
	HIV/Aids programmes and interventions	<p>on how to handle disclosure, legislative requirements, how to manage HIV positive employees, confidentiality, and information on support available within the Bank has been developed. We exceed our target of training 1000 managers by over 760. Our new target for 2005 is to train at least 5000 managers and all other employees by end of November 2005. The main aim of this training is to educate our managers and to prepare the environment for Voluntary Counseling Testing (VCT)</p> <ul style="list-style-type: none"> • Health Insite, a content service provider, supplies weekly updates and news on HIV/ Aids for access by and distribution to our employees. A customised website for FirstRand Bank has been developed. Here, our HIV & AIDS policy is also posted. This facility provides confidential access to an online medical consultant through the facility "Ask the Doctor". Health Insite also runs our Management Training on HIV & AIDS • BankMed and Discovery Health, FirstRand Bank recognised medical aid schemes, provide support, care, and treatment to our HIV/AIDS infected employees and their families • Careways provide a full Employee Wellness Program and provides a 24-hour help line for our employees and their families. The service provided by Careways is broader and inclusive of HIV & AIDS support and guidance. • Our consultant Medical Practitioner is also a member of the HIV/Aids Steering Committee. • We utilise the services of Hecate, an Industrial Theatre organisation which assists us with components of our communication strategy through Roadshows, live theatre performances, and video production • At Induction, all Business units are encouraged to introduce new recruits to the Group's HIV & AIDS program. Voluntary Counselling and Testing

Performance Indicators	Topic	Description
		<p>(VCT) is currently high on the agenda of most meetings. At the Induction session, time is allocated for the viewing of the VCT video to encourage individuals to get tested and know their status</p> <ul style="list-style-type: none"> • In the past, our lower level employees had an option to choose whether they wanted to belong to Medical Aid or not. Since the inception of our HIV & AIDS program, we became concerned about employees who did not have Medical Aid cover. Exco determined it was compulsory for all our employees to belong to a Medical Aid for their benefit. It also committed the Bank would pay full Medical Aid subscription for the member, their spouse, and 3 dependant children. We are pleased and relieved that all. ±1000 previously non-medical aid employees became Bankmed members with effect from 1st January 2005 • The ongoing communication campaign includes: <ul style="list-style-type: none"> • Monthly Health Alerts in the form of Health Posters • Intranet articles • Payslip attachments • Payslip message • Ongoing status updates to our Exco • Each Business unit customises the information supplied centrally to suit their culture/business and develop further initiatives. For instance, RMB engaged two guest speakers – Clem Sunter and Judge Edwin Cameron – to address all employees. Wesbank organised an HIV & AID Industrial Theatre performance by an ex-medical doctor • On an ad-hoc basis, business units hold have a movie week and show an HIV & AIDS DVD such as “The Closer Walk”
HIV10	Budget allocation	Undisclosed
Depth quality/ sustainability of programme		
HIV11	Voluntary	<ul style="list-style-type: none"> • The Voluntary Counselling and Testing

Performance Indicators	Topic	Description
	counselling and testing	(VCT/Know Your Status) initiative was launched in 2005. A video has been developed to encourage employees to get tested and know their status. The video covers information on why we should know our status, what can we do when we test positive and what support structures are available within the Bank. The video was customised for each Brand within the Bank, with an introduction from the CEO of that particular Brand. VCT communication has been included in the various in-house magazines, the electronic weekly "Tree Talk" communication to individual employees and plasma screens at all the foyers. We have put mechanisms in place to assist us in measuring participation
HIV12	Other support programmes	See HIV9
HIV13	HIV/Aids education and training programmes	See HIV9
HIV14	Condom and Femidom distribution programme	Condoms and femidoms are distributed at Bank City's onsite clinic which is available for exclusive use of employees. Condoms and femidoms are currently not distributed within bathroom facilities on premises
HIV15	General healthcare provision	<ul style="list-style-type: none"> Health Days (Know Your Health/Know Your Status) was inspired by the awareness that opportunistic illnesses prey upon people who are HIV positive, and therefore employees need to address their health on a holistic basis. We therefore embarked on a monthly Health campaign/drive. A Health Icon was developed for our communication. This icon is the same every month, but changes colour e.g. pink for cancer, grey for Diabetes, and red for HIV/Aids, etc. This is in line with our commitment to treating HIV & AIDS like any other Life Threatening Diseases (LTD's). Various in-house publications e-mail and posters are used to communicate these topics.

Performance Indicators	Topic	Description
		<p>These Health days coincide with the Health Calendar supplied by the Department of Health. This initiative was launched with the re-launch of the HIV & AIDS policy in 2004. Posters are supplied to each Business Unit and detailed information on the particular disease, suggested interventions, and sources of further information are provided.</p>
HIV16	Additional benefits for employees sick, dying or deceased from HIV-related conditions	With agreement with BankMed, our primary Medical Aid service provider, employees registered for anti-retroviral benefits exceeding R30,000 per annum will continue to receive anti-retrovirals in spite of exceeding this limit

RMB Supply Chain

Procurement Scope

RMB has fully endorsed the Financial Services Charter. There is a process in place to promote and direct spend to identified BEE suppliers within the business. Affirmative procurement is taken seriously and is monitored at CFO level on a monthly basis.

Strategy

FirstRand Bank (FRB) has established a FirstRand Procurement department. Its main function is to provide a service to the Banking Group in terms of rating suppliers. It acts as a central point of contact for all suppliers used by FRB's business units and ensures that vendor accreditation is done without delay. RMB regularly uses this department to handle its vendor accreditation and makes use of their database of rated BEE suppliers. RMB strives to increase the number of BEE suppliers, with particular focus on SMME companies.

In 2004, rating agency EmpowerDex reported that Rand Merchant Bank was seventh on the list of companies in terms of spend with BEE suppliers.

Procurement Policies

The endorsed Group Procurement policy is clear on aspects relating to BEE procurement and also deals with procurement ethics:

- FirstRand will strive to remain a leader in affirmative procurement.
- Our procurement goes hand-in-hand with enterprise development.
- We will give preference to suppliers of goods and services who have strong empowerment credentials.
- We believe that affirmative procurement, enterprise development and the promotion of entrepreneurs / SMMEs are integrated and we will strive to be leaders in these fields.

Supplier Satisfaction

RMB has a federal approach to BEE so that each Business unit develops and maintains strong relationships with its own suppliers.

Supplier Transformation

The Group's BEE procurement target is stated in the FirstRand Procurement policy. The target as per the Financial Services Charter is set at 27, 5% for 31 December 2005. RMB has achieved a 33, 8% level for all discretionary spend on BEE suppliers for the year ending 30 June 2005, well within the target. Very noteworthy is our capital expenditure, of which 68% was spent with BEE suppliers. We are actively working towards increasing this percentage month-on-month.

Business units report their BEE procurements figures monthly to the FirstRand Transformation unit. They collate and consolidate these figures for reporting to, and monitoring at, Exco and Board levels.

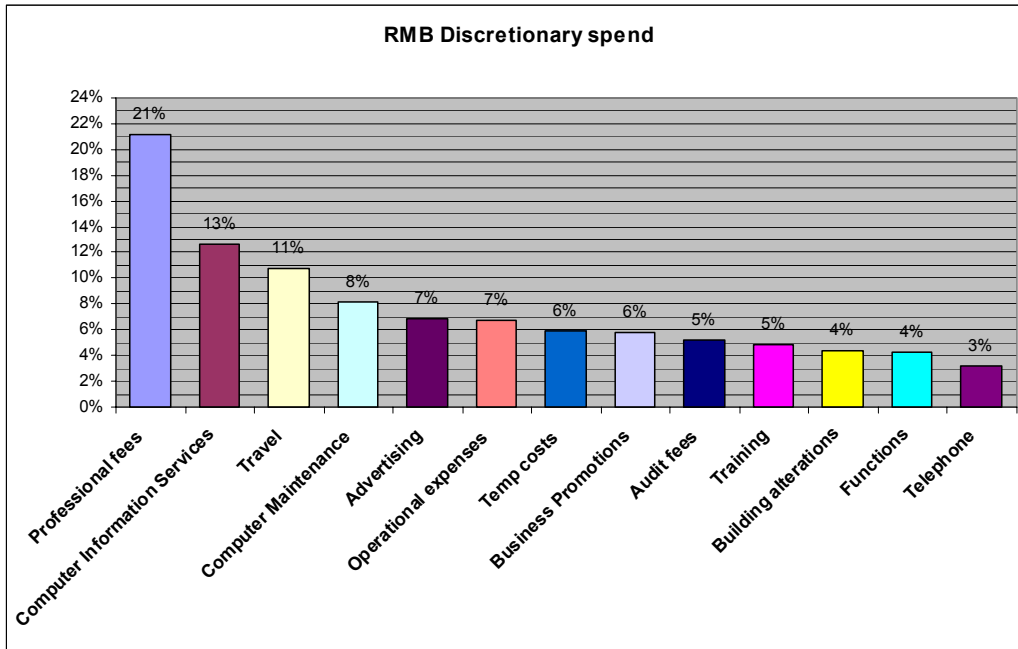


Figure 11 RMB's Discretionary BEE Spend per Expense Category

Breakdown of Suppliers by BEE Credentials

RMB shares the BEE database which is distributed by FRB Procurement with all the other group companies. We pay approximately 400 vendors a month, of which 58 are currently accredited BEE vendors.

RMB

Environment: Direct

Introduction

This section addresses the direct environmental impact of RMB's operations, which as a financial services institution is limited. Indirect impacts are addressed in the customer section of this report. Here we share the size of our operations, the policies in place and current practices addressing resource usage and recycling.

Operations

RMB's offices are situated in Sandton. They cover an area of 26 170m² and house 1 006 people. We currently have a fleet of 11 vehicles. They are used mainly for deliveries and did 151,054 km during the past year.

Policy

The FirstRand Banking Group has a detailed environmental risk management policy which acknowledges that the sound management of natural resources is a cornerstone of sustainable development. This policy provides bank personnel with guidelines to ensure that environmental risk is identified and assessed in a consistent manner. These guidelines are periodically reviewed in response to changes in policy, legislation and circumstances.

The Bank strives to apply those environmental standards that are applicable to its business.

Resource Usage

Electricity Usage

RMB recently joined Eskom's Demand Side Management initiative and is awaiting their findings and recommendations. The objective is to reduce current power consumption by 22%. Electricity supply has been changed from Urban Nightsave to Miniflexe, thereby reducing usage. We envisage that the installation of electronic ballasts for fluorescent lights will be one of the recommendations.

Refrigerants in Air Coolers

The current use of Arcton 22 has to be phased out by 2008. RMB is investigating alternatives.

Water Usage

Automated toilet-flushing systems are under investigation in order to reduce water consumption.

Reuse/recycle/repair

RMB ensures that paper is sorted and sold to recycling companies. RMB has also donated furniture to the SAPS, Diepsloot Library, the Salvation Army and schools and crèches in Alexandra. These donations were valued at R 62 545.

RMB

Environment: Indirect

Environmental Impact of Our Lending

RMB as a division of FirstRand Bank Limited (FirstRand) has formally adopted an environmental risk policy at executive level through the FirstRand Credit Committee. The policy covers all FirstRand's products and is reviewed annually. It is constantly applied through RMB's lending criteria with no particular monetary or other threshold, and as a result, RMB complies with best-practice standards and legal requirements. The policy is available upon request.

It is the responsibility of the various credit committees in FirstRand to determine whether transactions have financial or reputational risk for the bank and its clients. Through its lending criteria, the bank also considers whether clients have complied, or are able to comply, with relevant legislation. If there is any doubt, transactions are not approved.

In the absence of more detailed classification criteria that might apply in local jurisdictions, transactions are identified and classified according to World Bank criteria. Business units are guided by the recommendations of an Environmental Impact Assessment (EIA) where relevant recommendations are incorporated as a condition of the facility. The FirstRand Credit Committee or any of its sub-committees may also impose additional conditions in the event of potential liability arising from environmental risk. These conditions, depending on the outcome and recommendation of an EIA, are reviewed quarterly, bi-annually or annually. The monitoring process involves the particular transactor / client representative interfacing with the client and reporting back to the relevant credit committee.

Because these lending criteria are actively applied by the various credit committees, transactors / relationship executives are aware that no facility will be approved for clients who do not comply with relevant environmental legislation. No particular training program has been developed and staff are not currently appraised on environmental performance.

RMB Community

This section describes the financial and in kind donations which RMB makes from its annual allocation of 1% of post-tax profit. This shows how the funding element is governed and managed and how the volunteer programme operates. It discusses our interactions with organisations working in the community, how we measure the impact of our giving, and ends with some examples of projects undertaken. More details are available at www.firststrandfoundation.org.za (see RMB Fund).

FirstRand Foundation

Philosophy

Historically the Foundation has been responsive to the needs identified by communities themselves and then prioritises these against the key strategic focus areas of the Funds – which are all aligned to business imperatives. The Foundation is now also adopting a more proactive approach in identifying potential new projects for support.

The RMB Fund, chaired by Carolynne Waterhouse, considers support for Educational initiatives with a particular interest in maths interventions; environmental and nature conservation programmes; arts and culture; safe communities; and staff initiatives linked to community care programmes. Maths interventions are the main focus of the Fund given that RMB is aware of how crucial maths skills are to South Africa's economic future and the development of specialists in the field of finance.

Support for the arts represents close on 20% of RMB's overall CSI spend. Support in this sector is aligned to RMB's commitment to a number of arts sponsorship initiatives such as the annual Starlight Classics event. While the RMB Fund does not provide direct funding for this initiative it does support a number of interventions throughout the year which seek to develop new, young artistic talent, many of whom are then able to perform at Starlight Classics concerts.

The work of the Foundation uses the ongoing review of projects supported in the past, constant learning about the challenges communities face and consideration of how these lessons can be applied, to improve on future programmes.

Governance and Management

The FirstRand Foundation is a duly constituted and registered Trust and complies with Sections 30 and 18a of the Income Tax Act. It was also recently awarded Public Benefit Organisation status. It is Chaired by Viv Bartlett and includes 9 Trustees who fulfill senior executive positions within the group as well as five external trustees (including Viv Bartlett) representing the community at large. The Trustees meet on a quarterly basis to ensure the sound governance of the Foundation, to review its work, debate its strategy and to consider grants in excess of R120 000.

The RMB Fund committee meets on a quarterly basis to consider grants in excess of R50 000 and up to R120 000. It is chaired by a Trustee of the Foundation and plays an important role in contributing to strategic debates. All grants approved by the fund manager, Tshikululu Social Investments (see below) and the sub-committees of the Foundation are subject to the same stringent processes required of Trustees grants, and are reported to the Trustees on a quarterly basis.

The Finance Sub-Committee of the Foundation comprising of two senior executives of FirstRand and Trustees of the Foundation, and the Finance Manager of Tshikululu meet

on a quarterly basis to review the Foundation's financial status, to debate the investment strategy, and to monitor the growth of these investments.

The Trustees of the Foundation have delegated authority to the management of Tshikululu Social Investments, a not-for-profit corporate social investment consultancy, to approve grants in the name of the respective group company funds, up to a limit of R50 000 per grant. Fortnightly meetings are held at Tshikululu to ensure a quick turn around time in reviewing requests for funding.

Tshikululu's responsibilities also include:

- Day to day financial management
- Arranging external annual financial audits
- Monitoring and ensuring legislative compliance
- Implementing and monitoring risk management protocols
- Ongoing review of systems that assist in the above.
- Providing management information to the FirstRand Board, Trustees and Committees
- Handling and tracking all correspondence and telephonic queries
- Tabling written requests for funding to the Trustees and Committees
- Monitoring the utilisation of funding and the rollout of interventions.

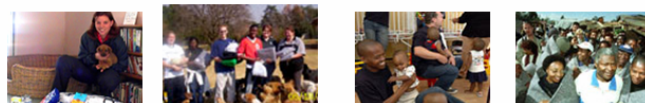
The Foundation has clear guidelines (available at www.firstrandfoundation.org.za) to assist prospective grantees to apply for funding. The guidelines provide detailed information on the supporting documentation required when reviewing requests for funding and also outlines initiatives generally not supported by the Foundation. The website also outlines the focus areas of the respective Funds. (This information is also made available to projects via fax or mail where they do not have access to the web.)

The giving of the Foundation and the respective Funds is also governed by the Trust Deeds and requirements for Public Benefit Organisations. As a general rule the Foundation is only able to support not-for-profit organisations that undertake public benefit activities.

FirstRand Volunteers

The second pillar of our CSI strategy is FirstRand Volunteers. FirstRand has created an enabling environment, guidelines, channels, and auditable mechanisms to enable staff to donate of their time or finances towards initiatives identified by the FirstRand Foundation, or other sustainable causes. This FirstRand Volunteers Programme resides on the agenda of the **351 Forum** – where the groups' top executives meet on a quarterly basis. Here it provides programme feedback and introduces different charity organisations supported by employees. We have established a 351 Matched Fund giving this forum the opportunity to support the charities presented to them. We provide the charity organisations the opportunity to talk to the forum about their organisations and the challenges they face.

The diagram below depicts the FirstRand Volunteers Matched Fund



Performance

- Value of grants for the year ending 30 June 2005: R10,4 million
- Number of grants for the year ending 30 June 2005: 96

The RMB Fund spent R3 million on *maths and maths literacy initiatives* in the year ending June 2005 - the largest single portion of RMB's CSI budget. The programme targets primary schools, high schools and universities, and is spread over a wide range of areas spanning teacher training and bridging courses, to bursaries and research. This spend varies from R25 000 for a mathematics outreach programme at Hilton College to as much as R300 000 for the Scimathus Science & Mathematics bridging programme at the University of Stellenbosch, which aims to increase the number of black students enrolling for degrees in engineering, science and accountancy.

The Fund also supports a range of other educational initiatives focusing on outreach programmes run by independent schools for the benefit of less privileged schools, as well as support for centres of excellence.

Support for *environmental and nature conservation programmes* received the second largest slice of funding, namely R2,2 million or 21% of RMB's overall spend during the year. Support includes funding for education programmes and initiatives that support the conservation of lesser well known species and their habitats.

Arts and Culture continues to be an important focus area of the Fund, with a particular interest in programmes that promote the identification and promotion of young talent and support for classical music and dance. This includes ongoing support for the SA Ballet Theatre and the Apollo Music Trust. The Trust has been instrumental in promoting young talent and promoting music education programmes for children in townships. The Fund also supports a number of other initiatives such as the Sibikwa Community Theatre Project, ACOSA Ma-Afrika Cultural Organisation, the Cape Town Opera, Ochrim, and Buskaid.

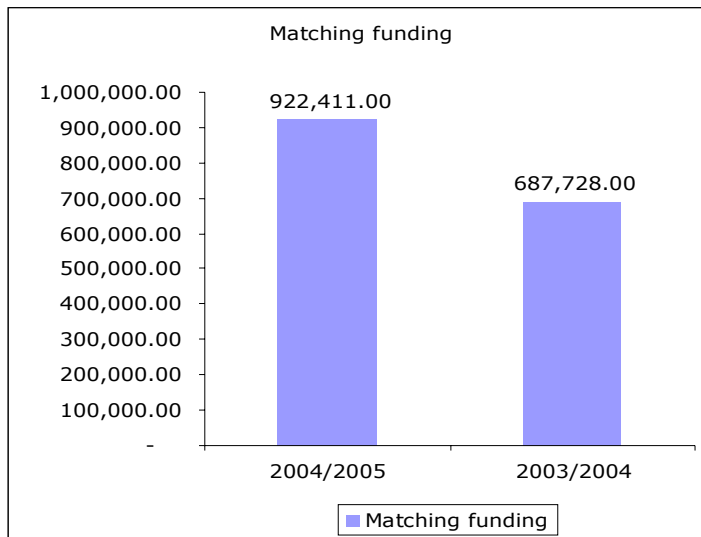
University Of Stellenbosch Scimathus Programme: Case Study

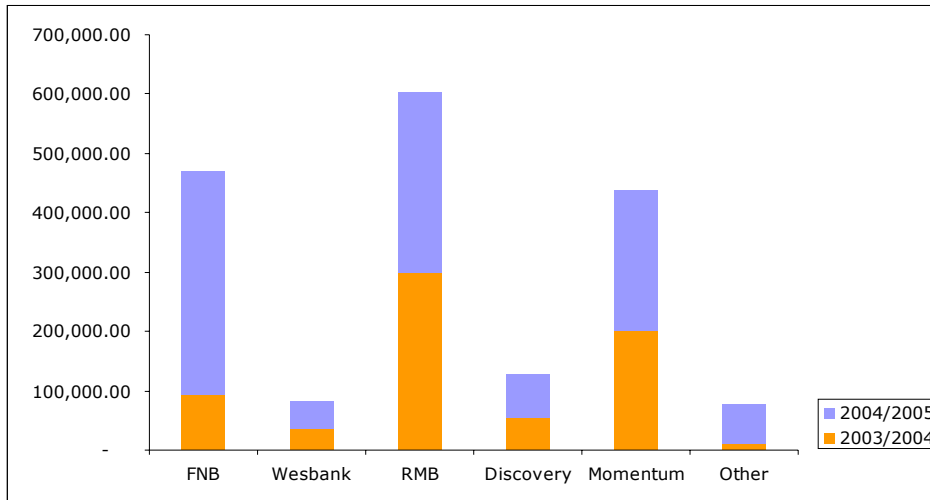
The Scimathus Programme is a short-term intervention with the aim of increasing the number of black students enrolling for degrees in the critical fields of engineering, science and accountancy. The model (adapted from the Johannesburg College of Education) makes it possible to deliver results after one year. Learners with potential who have misguidedly switched to Standard Grade Maths/Science, and where inadequate school preparation means they would not be able to realise their full potential, are targetted. This intense 1-year post-matric intervention delivers University ready learners, able to cope with the demands of tertiary level Maths and Science. The objective of the Programme is to change the learning culture from rote learning and passive observation to active collaboration in small groups and the construction of own knowledge. Scimathus students are registered as “special” University students, with all the benefits of access to the library, student centre, etc and classes are in phase with the general University timetable. The curriculum also contains language proficiency and communications skills, life skills, statistics and computer skills.

The first intake of 40 students was in 2001. Of this group, 18 (45%) have gone on to further their studies at tertiary institutions. Fifteen of these students have received bursaries to pursue their studies, mainly from the National Education Financial Assistance Scheme (NSFAS). Up until the end of 2002, there were a total of 31 Scimathus Students enrolled at the University of Stellenbosch and 11 students studying at other tertiary institutions. Thirty four of the 42 students that were admitted in 2003 completed the programme and applied to the University of Stellenbosch for Tertiary study. All have received bursaries, loans or a combination. Scimathus graduates at the University of Stellenbosch are trained as mentors for new Scimathus students and are also encouraged to return to their schools of origin to offer “community service”.

FirstRand Volunteers

For the current financial year, the FirstRand Volunteers Programme allocated a budget of R1.9 million to run and match the efforts of volunteers. Of this, approximately R 704 000 has been held over for the next financial year. An application to the FirstRand Foundation is currently in progress to match this amount and thereby replenish the fund.





During 2004/5, a total amount of R1 million in matched funds were raised by employees of the Group and donated to charity organisations.

There are a variety of activities that volunteers engage off on a once-off or more recurring basis, where employees try to make a sustainable difference in the lives of the NPO's and beneficiary organisations they support. Annual Group challenges and National Charity Days supported over 2004/2005 included: 10 000 Winter Warmers to homeless/orphans; Bandana Day – 1st September; Casual Day – 3rd September; World Aids Day – 1st December.

Building homes in Ivory Park

Inspired by the spirit of The National Corporate Volunteers Week in March 2005, 150 RMB Treasury employees teamed up with Habitat for Humanity to donate their time and skills to building a home in Ivory Park. Initially the plan was to build one house, but Treasury staff responded with such enthusiasm that the team were big enough to take on the challenge of building two homes. The FirstRand Volunteers Programme, which supports and facilitates employee community efforts, matched the time and monetary contributions which RMB employees contributed.

Treasury volunteers not only donated their own time over the five days, but also contributed R100 000 towards building costs and to feed, transport and clothe the workers. The Treasury team, Habitat and the other builders celebrated together at the end of the week when the houses were complete and held an official hand-over ceremony to give the new owners the keys to their homes.

Community Satisfaction

The Foundation has always prided itself on going the extra mile and adding value through its engagement with projects, creating opportunities for organisations to share experiences and to network and to assist initiatives with “intellectual capital” in addition to financial support. One recent example of this has been the RMB Fund’s support for the Centre for Development and Enterprises’ national research programme on the maths education crisis in South Africa. The recommendations from this report are being reviewed by the RMB Fund in consultation with other organisations working in this field with a view to making recommendations to improve the number of higher grade maths matriculants in the country.

Impact Assessment

All grants approved are conditional on specific project and financial reporting. The FirstRand Foundation is conscious of the fact that the development sector is faced with

many challenges and that delays in delivery or challenges arise during interventions – in light of this, projects are also required to reflect on these lessons learnt and to report how these will impact on future delivery. Visits are also undertaken to projects on occasion.

The Foundation aims to move towards a more quantitative impact assessment model during the coming year and will be employing a Monitoring and Evaluation Practitioner who will be responsible for setting up systems to monitor the impact of projects against agreed targets.

RMB

Customers

Description of Business

Rand Merchant Bank (RMB) offers specialist financial services and takes principal positions in the fields of corporate finance, structured finance, project finance, private equity, commodities, equities, interest rates and foreign currencies.

RMB Asset Management offers asset management services to institutional, mainly Pension Funds and Life Companies, and retail investors in the South African market and to some extent African market.

Products Sold

RMB offers the full spectrum of debt and equity investment-banking products and services. These include:

- **Commodities** - trading, hedging and financing
- **Advisory** - corporate finance for mergers and acquisitions, and listings; structured finance for debt structuring
- **Debt** - money and capital market activities and solutions, derivatives, structured and property finance, infrastructure and project finance
- **Equities** - equity market activities, private equity and solutions
- **Forex** - financing, derivatives, forex market activities and solutions
- **Private equity** - MBOs, LBOs and BEE (black economic empowerment) transactions
- **Resources** - mining and natural resources

Customers Served

We focus mainly on the South African market and to some extent African clients, in the following segments:

Corporate clients

- multinationals across all industries
- resources and mining, oil and gas, construction, industrials, manufacturing, telecommunications and technology, services, consumer goods
- financial institutions – pension funds, insurance, banks, investment houses

Public Sector

- state-owned enterprises
- national, provincial, and local government
- government agencies
- infrastructure projects and PPPs (Public-Private Partnerships) in areas such as roads, bridges, ports, rail, hospitals and prisons.

Issues Of Major Concern Relating To Customers

RMB offers specialist financial solutions to its clients. Typically, these solutions are specific to each client's requirements, and many of them involve a combination of a number of different, complex financial products or instruments. Their applicability is often dependent on current business environmental factors such as market rates, regulatory and legislative requirements and economic factors. Generally, the solutions offered to these three key segments – corporates, financial institutions and Public Sector clients – vary substantially as the needs of each are different. This requires a high degree of flexibility, constant innovation and an ability to understand each client's unique requirements

To ensure that our clients are offered solutions appropriate to their needs RMB fields a team of product as well as client or industry specialised. Our experience has shown that it is difficult to be an expert in both product and client or industry trends. RMB therefore has teams of experts who focus on particular industries or clients as well as product specialists. These two groups – product and client or industry experts - work together to ensure we are able to provide the best solutions to our clients.

Policies

Customer Health and Safety

In terms of legislation, any person on the premises of the business is deemed to be an employee for the purposes of health and safety. The FirstRand Group's Health and Safety policy, which complies with complying with all the applicable aspects of the Occupational Health and Safety Act, 85 of 1993 pertinent to the business of the Group, is therefore also applicable to customers.

Consumer Protection

A number of pertinent Acts have been passed during the past few years that increase security within the Financial Services environment. The Financial Advisory and Intermediary Services (FAIS) Act (Act 37 of 2002), regulates conduct within the financial services industry with respect to clients. As signatories to the Code of Banking Practice ('the Code'), a valuable safeguard for our clients is also provided.

Transparency and Ethics

Confidential treatment of information regarding our clients is ensured through our stated FirstRand Banking Group Code of Ethics, which employees are required to sign upon joining the Group. This code governs the protection of customer's rights, and employees obligations in their dealings with customers. Non-compliance with this Code is considered a serious and disciplinary offence.

RMB's core philosophy in all its business dealings is "Traditional Values, Innovative Ideas". The aim is to ensure that all business dealings are conducted with integrity, transparency, honesty and respect. RMB prides itself on being able to do business on a handshake and seeks to adhere to the spirit as well as the letter of agreements.

Managing Relationships with Customers

Distribution

RMB has offices in Johannesburg (Sandton), Durban and Cape Town where we service clients in those markets. Very few of RMB's products and services are distributed through branches or FirstRand Group infrastructure. Due to the high levels of product and industry specialisation, our products and services tend to be distributed or sold by product specialists in the various divisions of RMB. It is normal for one team of product and industry experts to originate the deal, design the solution and eventually implement it. In traded markets clients tend to interact with RMB either telephonically or electronically.

Outside of SA, RMB services many African destinations on a fly-in / fly-out basis, and to some extent leverages FNB's offices in the neighbouring states of Namibia, Botswana, Swaziland and Lesotho.

Certain divisions of RMB also operate from offshore jurisdictions:

- Australia (Private Equity and Corporate Finance)
- London (SPJ International, Project Finance, Equities and Treasury)
- Dublin (most divisions)

The sustainability issues relating to our African operations have been dealt with in the FirstRand Africa section of this report.

Transformation

Transformation within the industry is encapsulated within the Financial Services Charter, to which we are a signatory. However, our commitment to transformation goes beyond the targets and points identified. We are constantly looking for opportunities to enhance value or assist in nation-building initiatives.

In many recent surveys, and not for the first time (e.g. Business Map Foundation 2002 and 2003, PricewaterhouseCoopers Peer Survey 2005), RMB has been rated as the top private-sector BEE financier and funder. RMB has advised, structured and / or funded more than 50% of all BEE transactions (by value) since 2004. Some examples of major BEE transactions concluded by RMB are Mvelaphanda, Kumba, Caltex, Imperial, Dimension Data, African Bank, Afrox Healthcare and FirstRand. In addition, RMB recently started and partially funded Makalani, an entity which will focus specifically on facilitating and funding BEE transactions.

RMB has been instrumental in funding many national infrastructure projects such as the roads, dams, hospitals and power stations. RMB's total participation in Public Sector, Infrastructure and Development Finance in the past seven years has been around R60 bn (1997-2004). Projects include the N3 tollroad, Nkosi Albert Luthuli Central Hospital, Kelvin Power Station and Chapman's Peak Drive. RMB was recently appointed co-lead arranger to the Bombela Consortium, the preferred bidder for the Gautrain project.

RMB through a joint venture with First National Bank has developed an innovative approach to Affordable Housing. Using its risk analysis skills and FNB's product and distribution capabilities it started a project-based lending programme that allowed

Government subsidies to be secured. A key element of this strategy is that it is based on risk sharing with other market players, including Government.

Customer Satisfaction

In June 2004, Rand Merchant Bank undertook a market survey of its corporate target market. By means of a telephone interview, participants were requested to compare RMB with leading local and international merchant and investment banks. 113 interviews were conducted, 68% of which were at chairman, CEO or CFO level.

The following table gives a summary of the findings.

Category	1st	2nd
Products		
Has the most comprehensive range of products	Standard	RMB
Is the leader in 'innovative financial solutions'	RMB	Investec
Is the market leader in Public Private Partnership Funding	RMB	ABSA
Is the best for advice in M & A	RMB	Standard
Is the leading advisors on BEE projects	RMB	Standard
Is best equipped for offshore deals	Standard	Investec
Skills and Market knowledge		
Has the most 'talented intellectual capital'	RMB	Standard
Has the best knowledge of the SA market	Standard	RMB
Balance Sheet and Risk Appetite		
Has a good appetite for risk	RMB	Standard
General		
Is seen as the 'merchant bank of choice'	RMB	Standard
Practices integrity and transparency	RMB	Standard
Is best positioned to go forward in the marketplace	Standard	RMB
Has embraced EE throughout the organisation	Standard	RMB
Is seen as a good corporate citizen	Standard	RMB

RMB Asset Management

RMB's report covers all the major issues which relate to its customers. However, as an Asset Manager, it is incumbent upon RMB Asset Management to go further to address its role in investing huge funds on behalf of its customers, enabling it to have an impact on the sustainability of the companies in which it invests. This section briefly addresses this impact.

RMB Asset Management strongly support the principles of shareholder activism. We believe our responsibility as asset managers is to preserve or enhance the value of the assets entrusted to us by clients, and shareholder activism plays a very key role in this value enhancement.

As long-term investors we seek to balance the objectives of unlocking investment value in the medium term, and investing in sustainability over the long-term. We believe that the proper management of sustainability risk incorporates not only financial, but social and environmental factors as well. Ultimately, we believe that a company's approach to issues, including social and environmental factors, will have a financial impact and is best monitored through the strength of its corporate governance. Our company research includes an evaluation of corporate governance and management practices. Compliance with the King II recommendations is assessed and, in particular, attention is paid to board composition and structure, remuneration and internal controls.

RMB Asset Management's policy is to actively exercise the voting rights of every client. Our support (or otherwise) for each resolution is based on careful analysis of the underlying issues by the relevant analyst. Management will frequently be engaged and, where appropriate, we will work with like-minded institutions towards a particular outcome. However, we believe that shareholder activism is best conducted away from the limelight, as publicity can limit the room for negotiation. Dialogue with company management is frequently undertaken behind the scenes before a course of action is embarked on.

In terms of the Financial Sector Charter, pension fund trustees should also make a material contribution to shareholder activism. Our ongoing interaction with clients ensures they are informed and updated on the principles of shareholder activism, corporate governance, and RMB Asset Management's policies in this regard.

RMB Regulators

Regulatory Environment

Introduction

This section gives an overview of the different regulatory bodies charged with overseeing RMB's operations and how often RMB interacts with them. We also highlight the changes in the regulatory environment during the past year and the issues that have emerged.

Regulatory Bodies

In South Africa, RMB's operations are overseen by the South African Reserve Bank (SARB), the Financial Services Board (FSB) and the Financial Intelligence Centre (FIC). Our operations in Mauritius and Ireland are under the relevant regulatory authorities of those countries. The information provided here focuses on our South African operations only.

Our Interactions with the Regulators

In terms of bank supervisory issues, a very co-operative relationship exists between RMB and the SARB. Meetings are generally at the invitation or request of one or other entity, though they may also happen directly through FirstRand Bank. FirstRand is kept abreast of all meetings with the SARB. Exchange-control issues are handled directly with the Exchange Control Department of the SARB through our Exchange Control Department.

Frequent contact with the SARB is a feature of RMB's business. This occurs if the SARB would like clarity on information submitted to them or if they are simply looking for an opinion on an industry issue. RMB would initiate the contact in cases where the bank wishes to make an application to establish an entity, to clarify the treatment of a transaction for exchange control, capital adequacy or disclosure purposes, or to obtain dispensation for a specific treatment on any of these issues, RMB sees the maintenance of a good and trusting relationship with the SARB as vital to its business success. Where the interactions between the two are of a more general nature, they are done through official channels at FirstRand Bank. Where they are of a more specific investment banking nature, RMB makes direct contact with the SARB, or vice-versa.

With the FSB, interaction happens through RMB's Equities Division, which is the main body under that authority's supervision. The FIC is not a body with which we have regular contact as they are not charged with interpreting the law or assisting banks to comply with it. They are a new regulatory body charged with the monitoring of money laundering control, which is done on a random basis at present.

Changes and Issues in the Regulatory Environment This Year

The implementation of the FAIS Act – with which RMB is fully compliant - and major deadlines for the anti-money-laundering process have been the main focus in the past year. More specifically, we focused on the following issues:

- **Quality of regulatory reporting**
RMB has worked hard to stabilise the regulatory reporting platform through the implementation of substantial compensating controls. This has had a very positive effect on the quality of reporting and has been well received by the SARB.
- **Statutory Compliance**
A new department has recently been constituted with the sole aim of facilitating statutory compliance with the regulations attached to the Banks Act as well as with the requirements of the Companies Act. Significant progress has been made to date.
- **Drafting of New Banks Act Returns**
Over the past year, the industry has been assisting the SARB in drafting more meaningful regulatory returns. RMB was significantly involved in giving input.
- **Money-laundering**
The FIC requested (through the SARB) an audit of our KYC (Know your Client) implementation. This took place in Jan/Feb 2005. RMB came out with a 100% record of KYC compliance in terms of the documentation required of clients.

The impending implementation of Basel 2 and the promulgation of new regulatory returns are the primary regulatory changes on the cards for the next 2 years.



Wesbank Index

This section consists of the following:

1. Overview
2. Our People: Data
3. Our People: Info (and HIV/AIDS)
4. Supply Chain
5. Environment: Direct
6. Community
7. Customers
8. Regulators

Wesbank Overview

WesBank's mission statement is *'to be the acknowledged leader in instalment credit in terms of customer service, profitability and size'*.

This is further reinforced in our shared values of:

- We believe the customer comes first
- We believe in our people as individuals
- We believe in quality in all that we do
- We believe in profitable growth

In all of the above sustainability is an integral component for the success of our organisation, hence our dream is about *'helping to create a better world' for all our stakeholders* as a good corporate citizen, as we have earned our reputation as a truly South African Brand.

We have identified our stakeholders as our customers, employees, suppliers, the communities in which we operate, the government and regulatory authorities and our partners and shareholders.

With this in mind we are pleased to present the 2005 Sustainability Report, guided by the 'Global Reporting Initiatives (GRI) Sustainable Guidelines' and JSE Sustainability Reporting Indicators which we deem to be appropriate. We operate in a South African environment in which the Financial Sector Charter is a key driver of how we think about sustainability going into the future in our line of business.

WesBank recognizes that sustainability is crucial not only for its long term profitability, but also as a means for ensuring greater focus on the long-term interest of all its stakeholders. To ensure that we are a sustainable business, it is vital that we manage the key non-financial risks to minimize the potential material impact on our operations. These concerns drive our approach to engaging key stakeholders and where we focus management's attention.

This report is an attempt to summarize aspects of interest to our stakeholders namely, our customers, employees, suppliers, the communities in which we operate, government and regulatory authorities, and our partners and shareholders. Below we highlight the risk we have prioritized along with a description of the actions we are taking to address them.

Risk	Action	Cross Reference in our report
Meeting Financial Sector Charter targets specifically for EE in the middle management level	<ul style="list-style-type: none">○ Programmes focusing on recruitment into front line of business	People

Impact of shift in legislative environment for credit	<ul style="list-style-type: none"> ○ Co-operating with auto and financial sectors to engage on key issues relating to access to credit 	Regulation
Customer impact of poor roads and vehicle safety	<ul style="list-style-type: none"> ○ Proactive stance and close collaboration with SANTACO on taxi recapitalization 	Customer
Long term environmental impact of emissions from cars	<ul style="list-style-type: none"> ○ Promoting the idea of environmentally friendly Car of the Year Award in the Motor Industry 	Customer

Risk	Action	Cross Reference in our report
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Wesbank									
Total Employees by Occupational Categories									
Occupational Categories	Male				Female				Total
	Black	Coloured	Indian	White	Black	Coloured	Indian	White	
Top Management	1	0	0	9	2	0	0	2	14
Senior Management	8	0	4	115	0	1	3	44	175
Middle Management	46	12	26	266	29	5	24	164	572
Junior Mgt & Supervisors	119	48	66	202	107	99	87	539	1,267
Semi-skilled	155	57	44	43	310	147	95	219	1,070
Unskilled	2	0	0	0	14	0	0	0	16
Total Permanent	331	117	140	635	462	252	209	968	3,114
Non-permanent Employees	69	21	26	43	189	58	38	113	557
Total Employees	400	138	166	678	651	310	247	1,081	3,671

Wesbank

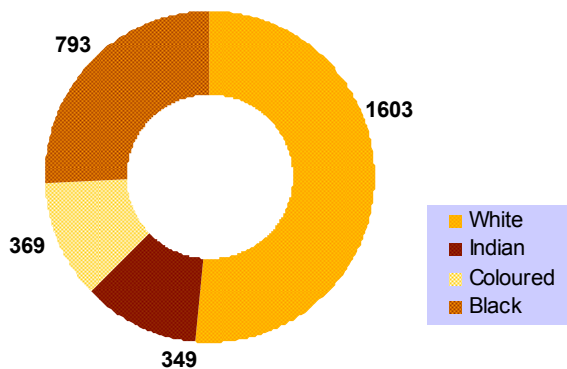
Our People: Info

Scope

WesBank's mission is to be the acknowledged leader in instalment credit in terms of customer service, profitability and market share. The focus of WesBank's business activities are marketing of financial products and services to individuals and the corporate market. Thus the majority of WesBank's employees are involved in marketing or marketing related activities around financial options, financial products and agreements.

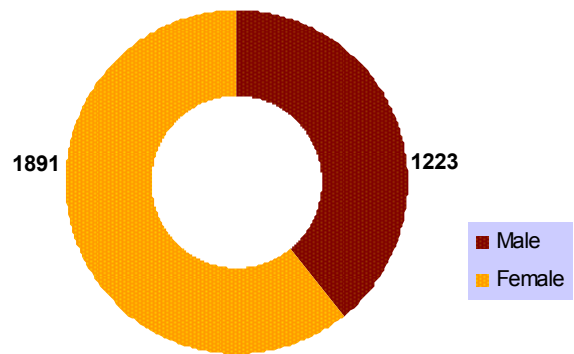
Our current workforce profile, excluding 557 non-permanent employees is shown below.

**WesBank Staff Race Profile
as at 30 June 2005**



**Figure 1 WesBank Staff Race Statistics
30 June 2005**

**WesBank Staff Gender Profile
as at 30 June 2005**



**Figure 2 WesBank Staff Gender Statistics
30 June 2005**

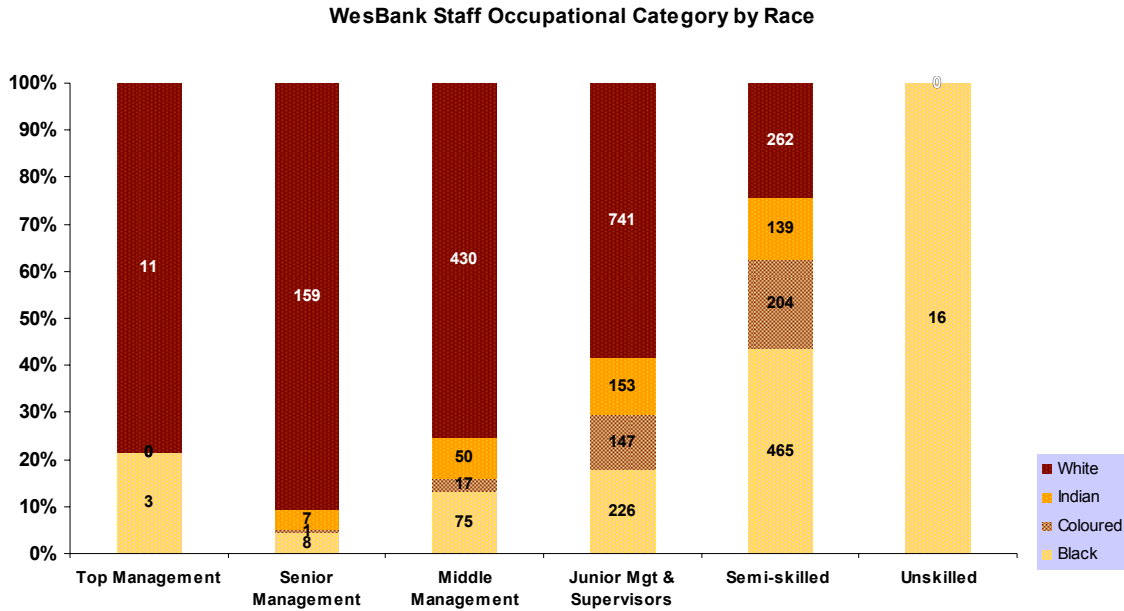


Figure 3 WesBank Job Category by Race 30 June 2005

Issues of Major Concern Relating To Staff

These are identified in a number of ways including:

- Internal Climate Survey
- Best Companies to Work For
- FirstRand Banking Group Capability study
- Executive committee Roadshows
- Diversity Forums
- Wellness@WesBank program
- Industrial Relations / disciplinary issues

Qualitative and quantitative data gathered from these sources is made available to the Executive Committee along with an executive summary of key trends. This information is also communicated to all staff. For the Climate Survey, each manager receives, where applicable, a personal, departmental and regional/area report. Key themes are communicated at different forums such as our Imbizo (attended by the majority of senior managers) and the Diversity Forum. Management and staff are accountable for actioning the results both at an individual and departmental level.

In addition to action plans being monitored by the People and Customer Service (PACS) team (Human Resources), a year on year analysis is conducted for survey data to assess the impact of actions / plans.

From an IR perspective, a register of serious disciplinary matters is kept and presented to PACS Executive Committee bi-annually. General trends are extracted and acted upon where necessary.

Policies

Human Rights/Freedom of Association

All policies are negotiated with the Union (SASBO). All staff have the right to join the Union, and as the majority Union SASBO will ensure all staff's rights are considered.

WesBank falls under the same bargaining unit as FNB and share common people policies via the HR Manual. Specific business requirements do create the need for some separate policies e.g. International people policies where we need policies to structure the working of night shifts and adapting to international public holidays. All staff directly employed by Wesbank are located in South Africa. Our partners in Australia manage their staff according to national norms there.

Legal requirements

WesBank complies with the following required legislation:

- Employment Equity Act
- Labour Relations Act
- Basic conditions of Employment
- Occupational Health and Safety Act
- Compensation for Occupational Injuries and Diseases Act
- Skills Development Act
- Unemployment Insurance Act
- The Constitution

Transformation

The importance of creating a “safe” environment where freedom of expression could take root and grow, was identified when WesBank embarked on an aggressive campaign of educating our staff about diversity. This campaign gave members of staff the opportunity of expressing openly and honestly what they had experienced under the apartheid regime, and how they were adapting to transformation. It enabled staff to understand the importance of diversity, allowed them to share feelings and experiences with colleagues, and highlighted the importance of accepting and respecting each other as individuals and respecting human rights and the freedom of expression.

Diversity Forums

In 1998, WesBank established Diversity Forums in each business division. These Forums meet regularly and are empowered to advise line management and Human Resources on groundswell diversity issues around transformation. Diversity Forums are consulted regarding employment opportunities and work closely with executives setting targets, and contribute towards recruitment and selection decisions. They are involved in strategic planning and other equity related matters.

The chairpersons from each Forum meet in Johannesburg for a National Forum meeting every quarter to streamline their activities, raise concerns, address issues and share best practice techniques on a national basis. At every National Forum meeting Forum members also meet the WesBank Executive team to raise concerns, address issues and discuss areas needing specific attention. The Forum commands a great deal of autonomy and enjoys tremendous support at executive level. Members of the Forum have their own key result areas, measured in terms of their performance contracts, so that their duties as a Forum member are recognized and rewarded according to the effectiveness with which they fulfill their roles.

Job Shadow

Currently 23% of WesBank's Executive team are black people. CEO Ronnie Watson, and various members of the Executive team, have a black executive assistant. These are people who have been identified as potential leaders and are mentored and equipped for a future managerial position. Executive assistants are seconded into these roles for the period of one year during which they shadow the executive to whom they have been assigned. To date, almost all of these staff members have taken up senior managerial positions, having completed their year of assisting the executive.

Skills Development

During the last financial year to end May 2005, WesBank spent more than R6 million on the development of black staff, which constitutes 2.76% of the payroll, and approximately two thirds of the annual total training spend. This achievement is way ahead of the targets set in the Financial Sector Charter which requires 1.5% of payroll to be spent on the development of black staff.

Leadership Development

WesBank's Leader/Manager Development Framework provides a clear view of our Leadership Development interventions and is accessible to staff at all levels within the organization through the intranet as well as via the business units People And Customer Service champions.

One of our "initiatives in incubation" is aimed at integrating a group of newly recruited black people through a programme supporting them with top class coaching and discussion groups. We plan to track the progress of this group through the use of pre, post and post-post assessments. Should the pilot prove successful, we intend to extend the programme into other areas of WesBank.

Learnerships

As part of the two-fold drive to enhance the skills and opportunities available to unemployed young black matriculants and graduates, and to enable staff within WesBank to learn new skills and venture into new areas, WesBank embarked on a learnership programme more than two years ago. The first graduates have completed their learnerships, and WesBank has employed over 90% of them.

Learnerships also provide WesBank with an opportunity of fulfilling part of its social responsibility towards the development of South African youth. Last year WesBank hosted learners from the Letsema Learnership, the Call Centre Learnership and the Asset Based Finance Learnership. All of these offered learners exposure to skills necessary for positions in the marketplace.

WesBank has developed and registered the following occupational qualifications, which are directly linked to our business and will allow us to develop the skills necessary for successful entry into:

- Service Seta Qualifications
- Call Center Support Level 2
- Secretarial Level 4
- IT Level 4
- Accounting / Bookkeeping Level 4
- Marketing Research Level 4
- Pay-Roll Administration Level 4 & 5

- Asset Base Finance Corporate Level 5
- Business Accounting Level 4
- Mailing Services Level 4

WesBank will be offering 11 learnership programmes during 2005. The number of participants will be: 70 Unemployed black matriculants, 11 Unemployed black graduates and 105 Internal staff.

VUKA

Another transformation initiative that WesBank has embraced whole-heartedly is the VUKA – “awakening” experience. This initiative offers WesBankers a challenge to “walk in the shoes of another”. Led by CEO Ronnie Watson, who experienced VUKA with other members of the Executive team during 2004, WesBank embarked on a drive to take its entire management team through both the experience and the immersion parts of the programme – a total of four days. WesBank is currently extending this opportunity to each member of staff. Our history prevented cross-cultural community bridge building, and the lessons learned during VUKA are life changing according to the participants.

Besides the goal of closing the diversity divide and enriching participants’ understanding of other cultures, VUKA has had inspiring spin offs for local communities and people who hosted WesBankers. Almost without exception, staff return from this journey, determined to give something back, to make a difference, to help in any way they can. Teams have saved their lunch money, held raffles and other fund raisers, and returned to homes and organisations, with what they perceived was needed to help transform the various communities.

Training

Training strategy

WesBank has a competency based development and training strategy that is aligned to the National Qualifications Framework. Competencies are identified per job or role and staff are developed against these competencies. All staff are expected to have a development plan in place as part of their annual performance contract and this gets reviewed on a quarterly or bi-annual basis. People and Customer Services (PACS) is an accredited training institution, providing the full spectrum of training to all staff within WesBank. WesBank PACS has also led the Banking industry in terms of getting specialist asset based financing qualifications registered on the NQF, and is also currently running the first of its kind asset-based financing learnership for previously disadvantaged job seekers. Each Division also has its own HR team that consults and supports the line on learning and development issues and interventions

Training Spend

Rands spent on training over the year

- R13 786 801 spent on black staff (65.1% against total spend)
- R 21 927 423 spent on all staff

Training Spend per Employee

- R 6171 per annum (Includes direct and indirect training spend)
- R 514 per month per staff member (on average)

Training Hours per Employee

- 5.6 hours per employee (average over the year)

Training outcomes are measured in terms of:

- WesBank workplace skills plan – actual versus target
- Training reports – number of staff that have attended workshops
- Development plans agreed and implemented
- Increase in staff competency levels
- Staff movement (promotions)
- Staff Satisfaction

This is measured primarily through the

- Climate Survey
- The Best Company to Work
- Feedback from staff

We were ranked in the Top 10 companies to work for in 2005.

Staff engagement and consultation takes place through the following mechanisms:

- Industrial Relations consultations
- Trades Unions – Consultations regarding pay and benefits.
- Each division enjoys the support of a divisional People and Customer Service team (HR) which is easily accessible and available to handle formal and informal ad hoc consultations with staff and management.
- Diversity forum
- Annual Road shows

Health and Safety

The effective implementation of the Employee Health and Safety policy requires the co-operation and active involvement of employees at all levels and in all areas. To ensure stated standards are maintained, the FirstRand Group monitors health and safety performance and consults with its employees on health and safety matters. The significant recommendations arising out of the health and safety monitoring, consultation and risk assessment programmes, are prioritised and actioned to ensure continuous improvement in integrated health and safety management systems.

We are pleased to report that injuries during the course of employment reduced over the last financial year.

Wesbank Working Environment

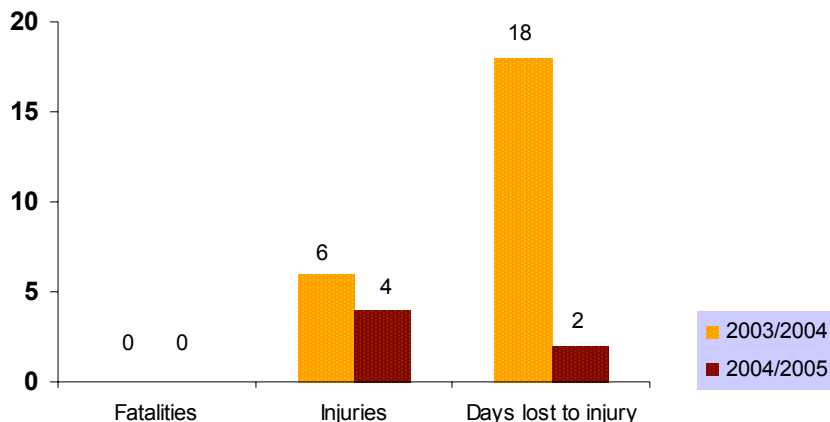


Figure 4 WesBank Working Environment Statistics as at 30 June 2005

Our commitment to Employee Health and Safety, and ongoing risk assessment, training and risk management system, and engendering a health and safety culture complements the Occupational Health and Safety Act, 85 of 1993, as well as internationally recognised safety standards.

Remuneration

WesBank's main method of remuneration is a fixed salary. We pay competitive salaries that are benchmarked against, and are in line with industry norms. Salaries are also regularly reviewed for market comparisons using Remchannel, an electronic survey mechanism. We abide by, and apply all salary agreements, reached with the unions (SASBO) for those employees falling within the bargaining unit. On average, we pay above market for all categories of employment.

Variable Remuneration is predominantly applied as follows:

- Certain business units, Motor, Corporate and The Relationship Centre have introduced variable pay to supplement fixed salaries.
- WesBank is actively driving the implementation of variable pay for most of its business units.
- As at end June 2005, 26% of WesBank staff was on variable pay. This involves a salary sacrifice of between 20-25% of fixed pay, with the opportunity to earn significantly more based on performance.
- Performance is also recognized through performance bonus, with 70% of all managers having received bonuses.
- Superior performance and profitability are the key drivers of variable remuneration.

Wesbank
Our People: Info
Wesbank HIV/ Aids Table for GRI Reporting

Performance Indicators	Topic	Description
Good Governance		
HIV1	Description of HIV/Aids Policy	<p>Wesbank as part of FirstRand recognises that HIV/AIDS is a serious life- threatening disease with far-reaching implications for the business and our employees. For this reason, we believed it was necessary to set out a clear policy and approach to managing HIV/AIDS within the workplace. In 2004, the steering committee, including our Medical Practitioner, reviewed the policy and ensured it was re-written in simplified English. The policy was then launched together with the Health Days Launch in August 2004. The policy is reviewed annually, and will be reviewed in August 2005.</p>
HIV2	Strategy for managing HIV/Aids risk	<p>To ensure we have an effective and inclusive HIV & AIDS program, a checklist was adopted, extracted from “Guidelines for developing a workplace policy and program on HIV/AIDS and STDs”, issued by the Department of Health Directorate: HIV/AIDS and STDs. This checklist was used as a Best Practices guideline on developing HIV & AIDS workplace program.</p> <p>The HIV/Aids program is targeted at all Wesbank employees and extends through to their families, either by direct intervention from the Bank or indirectly through our service providers. The Group has demonstrated its commitment to fighting HIV & AIDS through the implementation of workplace HIV & AIDS Programmes. The following programmes were initiated:</p> <ul style="list-style-type: none"> • Education and Prevention • VaPT (Voluntary Prevalence Testing)

Performance Indicators	Topic	Description
		<ul style="list-style-type: none"> • VCT (Voluntary Counselling and Testing) • Non – Discrimination • Care and Treatment <p>We believe that HIV & AIDS is not restricted to the workforce/workplace. We therefore also support surrounding communities through:</p> <ul style="list-style-type: none"> • FirstRand Foundation – Tshikululu Social Investments • FirstRand Volunteers <p>We believe our strategy is working because of Senior Management endorsement and buy-in from the Stakeholders and the various Exco's; despite challenges such as cultural differences, structure changes, remote rural areas and large geographical distribution. HIV & AIDS is mentioned on every agenda within the Group at all levels. We will continue to explore new ways and opportunities to support our employees and their families in fighting the disease</p>
HIV3	Extent of preparedness and contingency planning in anticipation of expected HIV/Aids impacts	Our various initiatives are aimed at curbing the rate of new infections among employees; discourage the use of ART's and encourage good and positive living habits i.e. eating healthy, eliminate smoking and alcohol intake.
HIV4	Monitoring of progress and reports in respect of indicators 1-3 above	<p>Guided from the Group policy and guidelines, we are currently in the process of finalising the monitoring of progress in terms of the HIV/Aids management programme within Wesbank. Our objectives in terms of monitoring and reporting include:</p> <ul style="list-style-type: none"> • The current steering committee functioning is being reviewed • The appointment of an HIV/Aids Champion that will interact with executives and senior decision-makers, as well as all stakeholders <p>A monthly report was introduced in July 2005, to be completed by HIV/Aids Coordinators from each</p>

Performance Indicators	Topic	Description
		<p>business unit (BU), together with the BU's CEO.</p> <p>A mini KAP survey was conducted in 2004 to audit each Business Unit in terms of their communication of the policy i.e. do all our employees know that we have a policy and also identify Gaps in terms of Group initiatives.</p>
HIV5	Stakeholder involvement in formulation of policy, strategy and implementation	<p>Wesbank, as part of FirstRand Banking Group addresses the issue of HIV/AIDS as a strategic business imperative. It carries the full support of the CEO and the Banking Group Executive.</p> <p>An HIV/Aids Steering Committee comprising representatives who are decision makers from the FirstRand Banking Group, as well as Co-ordinators who represent the operational aspect of the HIV/Aids are responsible for the implementation of HIV & AIDS initiatives at Business Unit level. (Co-ordinators fulfil the role of Peer Educators), over and above the implementation of other HIV/AIDS initiatives.</p>
Measurement, Monitoring and Evaluation		
HIV6	Prevalence rates	<p>A survey by the four major Banks in SA to determine the prevalence rate in the Banking Sector was conducted over a 3 month period in 2003. The test was anonymous, unlinked and voluntary. A followup survey is being planned for late 2005/06. The budget has been approved, and will be discussed with the other financial institutions <i>Banking Industry results available on request.</i></p>
HIV7	HIV/Aids-associated costs and losses	Not available
HIV8	Total assumed HIV/Aids associated costs/ losses	Not available
Workplace Conditions and HIV/Aids Management		
HIV9	Workplace-related	<ul style="list-style-type: none"> Management training covering basic skills training

Performance Indicators	Topic	Description
	HIV/Aids programmes and interventions	<p>on how to handle disclosure, legislative requirements, how to manage HIV positive employees, confidentiality, and information on support available within the Bank has been developed. We exceed our target of training 1000 manager by over 760. Our new target for 2005 is to train at least 5000 managers and all other employees by end of November 2005. The main aim of this training is to educate our managers and to prepare the environment for Voluntary Counseling Testing (VCT)</p> <ul style="list-style-type: none"> • Health Insite, a content service provider, supplies weekly updates and news on HIV/ Aids for access by and distribution to our employees. A customised website for FirstRand Bank has been developed. Here, our HIV & AIDS policy is also posted. This facility provides confidential access to an online medical consultant through the facility "Ask the Doctor". Health Insite also runs our Management Training on HIV & AIDS • BankMed and Discovery Health, FirstRand Bank recognised medical aid schemes, provide support, care, and treatment to our HIV/AIDS infected employees and their families • Careways provide a full Employee Wellness Program and provides a 24-hour help line for our employees and their families. The service provided by Careways is broader and inclusive of HIV & AIDS support and guidance. • Our consultant Medical Practitioner is also a member of the HIV/Aids Steering Committee. • We utilise the services of Hecate, an Industrial Theatre organisation which assists us with components of our communication strategy through Roadshows, live theatre performances, and video production • At Induction, all Business units are encouraged to introduce new recruits to the Group's HIV & AIDS program. Voluntary Counselling and Testing

Performance Indicators	Topic	Description
		<p>(VCT) is currently high on the agenda of most meetings. At the Induction session, time is allocated for the viewing of the VCT video to encourage individuals to get tested and know their status</p> <ul style="list-style-type: none"> • In the past, our lower level employees had an option to choose whether they wanted to belong to Medical Aid or not. Since the inception of our HIV & AIDS program, we became concerned about employees who did not have Medical Aid cover. Exco determined it was compulsory for all our employees to belong to a Medical Aid for their benefit. It also committed the Bank would pay full Medical Aid subscription for the member, their spouse, and 3 dependant children. We are pleased and relieved that all. ±1000 previously non-medical aid employees became Bankmed members with effect from 1st January 2005 • The ongoing communication campaign includes: <ul style="list-style-type: none"> • Monthly Health Alerts in the form of Health Posters • Intranet articles • Payslip attachments • Payslip message • Ongoing status updates to our Exco • Each Business unit customises the information supplied centrally to suit their culture/business and develop further initiatives. For instance, RMB engaged two guest speakers – Clem Sunter and Judge Edwin Cameron – to address all employees. Wesbank organised an HIV & AID Industrial Theatre performance by an ex-medical doctor • On an ad-hoc basis, business units hold have a movie week and show an HIV & AIDS DVD such as “The Closer Walk”
HIV10	Budget allocation	Undisclosed
Depth quality/ sustainability of programme		
HIV11	Voluntary	<ul style="list-style-type: none"> • The Voluntary Counselling and Testing

Performance Indicators	Topic	Description
	counselling and testing	(VCT/Know Your Status) initiative was launched in 2005. A video has been developed to encourage employees to get tested and know their status. The video covers information on why we should know our status, what can we do when we test positive and what support structures are available within the Bank. The video was customised for each Brand within the Bank, with an introduction from the CEO of that particular Brand. VCT communication has been included in the various in-house magazines, the electronic weekly "Tree Talk" communication to individual employees and plasma screens at all the foyers. We have put mechanisms in place to assist us in measuring participation
HIV12	Other support programmes	See HIV9
HIV13	HIV/Aids education and training programmes	See HIV9
HIV14	Condom and Femidom distribution programme	Condoms and femidoms are distributed at Bank City's onsite clinic which is available for exclusive use of employees. Condoms and femidoms are currently not distributed within bathroom facilities on premises
HIV15	General healthcare provision	<ul style="list-style-type: none"> Health Days (Know Your Health/Know Your Status) was inspired by the awareness that opportunistic illnesses prey upon people who are HIV positive, and therefore employees need to address their health on a holistic basis. We therefore embarked on a monthly Health campaign/drive. A Health Icon was developed for our communication. This icon is the same every month, but changes colour e.g. pink for cancer, grey for Diabetes, and red for HIV/Aids, etc. This is in line with our commitment to treating HIV & AIDS like any other Life Threatening Diseases (LTD's). Various in-house publications e-mail and posters are used to communicate these topics.

Performance Indicators	Topic	Description
		<p>These Health days coincide with the Health Calendar supplied by the Department of Health. This initiative was launched with the re-launch of the HIV & AIDS policy in 2004. Posters are supplied to each Business Unit and detailed information on the particular disease, suggested interventions, and sources of further information are provided.</p>
HIV16	Additional benefits for employees sick, dying or deceased from HIV-related conditions	With agreement with BankMed, our primary Medical Aid service provider, employees registered for anti-retroviral benefits exceeding R30,000 per annum will continue to receive anti-retrovirals in spite of exceeding this limit

Wesbank Supply Chain

Scope

In light of the increasing need to transform our supplier selection practices, procurement is now receiving substantial focus within WesBank. Initially, our procurement objectives include:

- Rationalisation of suppliers database, (currently +- 6000 suppliers)
- Increase BEE spend
- Cost savings

The first part of a procurement process was the implementation of a 'New Supplier Application Process', from May 2005. The objective of this process is to formalise our procurement from suppliers and to accredit the BEE status of the company. The process also ensures that our WesBank payment terms are negotiated at the inception of the relationship with the supplier.

Spend

WesBank's Procurement Spend by Category (FY 2004-2005)

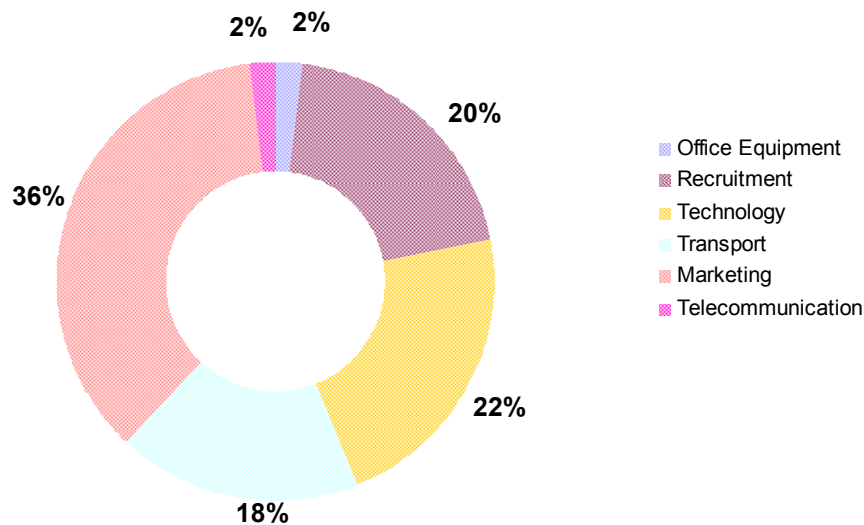


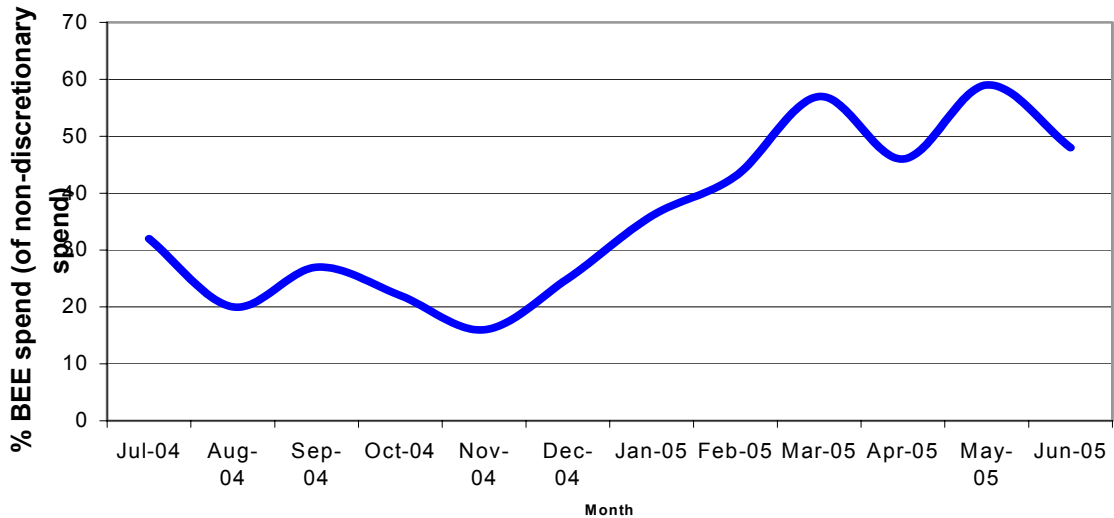
Figure 1 Categorised Procurement Spend for 1 July '04 - 30 June '05

WesBank's BEE spend for the past financial year amounted to 35% of all controllable capital and operational expenditure. The increase in BEE spend was due to the following:

- Extensive exercise on the accreditation of our top spend suppliers

- Re-categorisation of our non-discretionary spend to exclude or include suppliers that were monopolies, government, parastatals, sole suppliers of which WesBank had no control on spend
- Increase on spend with BEE accredited suppliers, both new as well as existing

BEE Spend for period Jul 04 to June 05



The objective for the 2005/2006 financial year is for WesBank to attain a BEE spend of 50%.

Managing Relationships with Suppliers

Supplier Satisfaction

The relationship and supplier management is currently being conducted informally with the business unit representative and the supplier. It is a de-centralised function that is managed on an ad-hoc basis. Business units communicate directly with the suppliers or service providers on non-performance issues, which are resolved at operational level.

Supplier Transformation

Prior to January 2005 only 5% of our Top20-Spend Suppliers were BEE accredited and to date the figure has increased to 65%. This has been effected through the introduction of a system of National 'Preferred Suppliers'. This simply means that we now have a consolidated list of suppliers who are BEE accredited through a tender process. Business units within WesBank are encouraged to use suppliers from this list resulting in centralised strategic relationships with our top-spend suppliers, bi-annual reviews with both the business units and suppliers on performance and other service delivery requirements and issues, and continuous negotiations with suppliers on trade and settlements discounts.

Wesbank Environment

Scope

This report covers the following buildings:

Wesbank	9 Kerk Street, Bank City	9 Floors	950 people
	Units 3 and 4, Eastwood Office Park, Bedfordview	3 Floors	60 People
	WesBank House, Van Riebeeck Street, Cape Town	2 Floors	186 People
	Fairway Office Park, Cape Town	2 Floors	63 People
	SA Eagle Building, Durban	5 Floors	281 People
	Block B, Meintjies Plein, Pretoria	3 Floors	197 People
	Signal House, Pretoria	1 Floor	21 People
	Asset Sales Office, Midrand	1 Floor	20 People
	WesBank House, Constantia Park	3 Floors	366 People
	Bridgeview House, Constantia Park	3 Floors	307 People

Environment Policy

The FirstRand Banking Group has a detailed environmental risk management policy that acknowledges that the sound management of natural resources is a cornerstone of sustainable development including justifiable social and economic development. This policy provides bank personnel with a guideline to ensure that environmental risk is identified and assessed in a consistent manner.

The Bank strives to apply those environmental standards that are applicable to our business and services. We will continue to promote the advancement of environmental awareness within our Company (this fits under customers/impact of our services)

The guideline is periodically reviewed in response to policy and/or legislative changes, as well as changes in circumstances. The environmental policy applies to practices within the Group from two perspectives: operational guidelines for better environmental practices, and high-level direction that provides staff with a guideline to ensure that environmental risk is identified and assessed in a consistent manner, enhances the credit decision making process, and reduces the risks of the bank incurring financial losses or damage to its reputation.

This policy is further reinforced by WesBank's Safety, Health and Environmental policy.

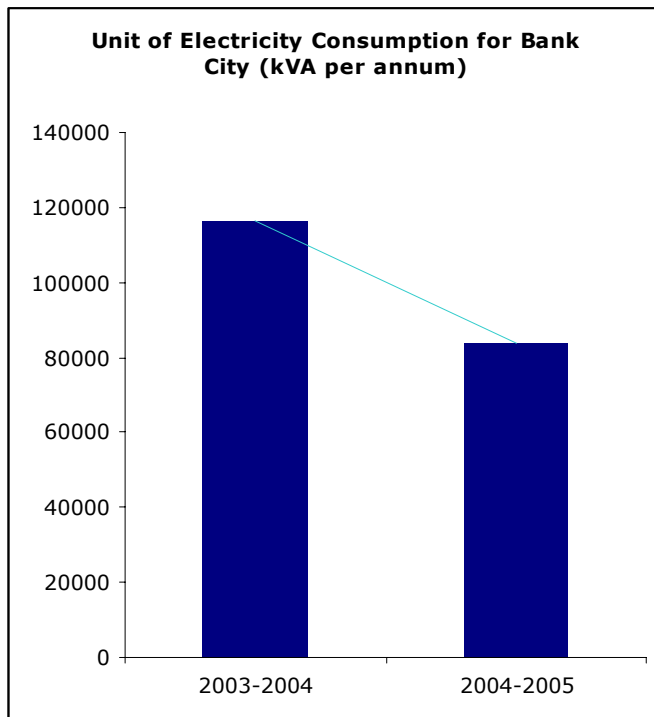
WesBank Environmental Initiatives

WesBank has applied for ISO 14001 and OHSAS 18001 certification and will be audited in February 2006. The success of this application depends on a holistic and sustainable focus on issues of environmental concern relating to business operations. WesBank is therefore focused on initiatives to enhance the environmental efficiency of its operations.

Wesbank's head office occupies one of the five Bank City buildings, and as such fall under one management process with the FNB Head office. The initiatives below all therefore apply to Wesbank, although the total figures shown below are for the whole complex, of which Wesbank accounts for one fifth.

Electricity Usage: To reduce electricity usage, Bank City management teamed up with Eskom on their Demand Side Management initiative. This has resulted in a considerable reduction in the consumption of electricity, with consequent financial savings as well.

The diagram below indicates efforts to reduce the amount of electricity consumed at Bank City over the last 2 years.



Airconditioner Refrigerants: In line with international standards, regarding refrigerants in Air Coolers, the current use of Arcton 22 will be phased out by 2008.

Paper Recycling: Paper is resorted for recycling by Nampak. WesBank's Paper recycling initiatives are being rolled out to all buildings this year. Paper use has already been reduced considerably over the past year.

Waste: Waste is separated into wet and dry waste. Wet waste consists of food waste and hazardous waste. Both are disposed of by approved companies.

Electrical Equipment: Large printer cartridges are returned to the supplier on an exchange basis. Fluorescent tubes are repacked into their original packaging and returned to suppliers. Electrical lights are donated or re-used or stored for re-use.

Furniture: Furniture is re-used constantly at Bank City. Used carpets have been donated to various charity organisations.

Vehicle Fleet

Wesbank has a fleet of 843 vehicles

Wesbank Community

Introduction

The concept of nation building is the one central issue that informs all our Corporate Social Investment activities. We have identified four focus areas, which we believe are critical to the concept of nation building in South Africa.

In summary, they are:

- Flagship initiatives focusing on road safety, we finance vehicles and it business sense for us to align ourselves to this cause, we intend spending 25% of our R 7 million on this cause
- Community Care aligned to volunteers' programmes (Hospices, Community care, Disabled, the elderly etc.)
- Education focusing on literacy, both at schools and for adults and the provision of educational resources
- Sustainable livelihoods/food gardens - Encouraging entrepreneurs towards financial independence

It is important to note that Wesbank also has a staff volunteer programme.

The FirstRand Foundation and the Wesbank Fund

WesBank comprises one of the five sub-committees of the Foundation. As with the other companies within FirstRand, Tshikululu Social Investments is instrumental in assisting the WesBank Fund fulfil its objectives. Tshikululu Social Investments evaluates grants, and develops approval recommendations. The relevant documentation is then sent to committee members (which includes some of our EXCO members and senior managers) a week before meetings with agenda and financials. The Committee approves or declines grant requests. Requests over R 120 000 sent to Trustees, and Peter Page, WesBank's General Manager (Marketing).

The work of the Fund is informed by the ongoing review of projects supported in the past, reflecting on lessons learnt, challenges communities face and how these lessons can be applied to improve on future programmes. National development imperatives also inform its work.

Managing Relationships with Community

Performance

In the last financial year, WesBank spent R4.2 mil on approximately 129 causes. We depict this spending below by community sector, and by region.

WesBank's CSI Spend by Sector (2004-2005)

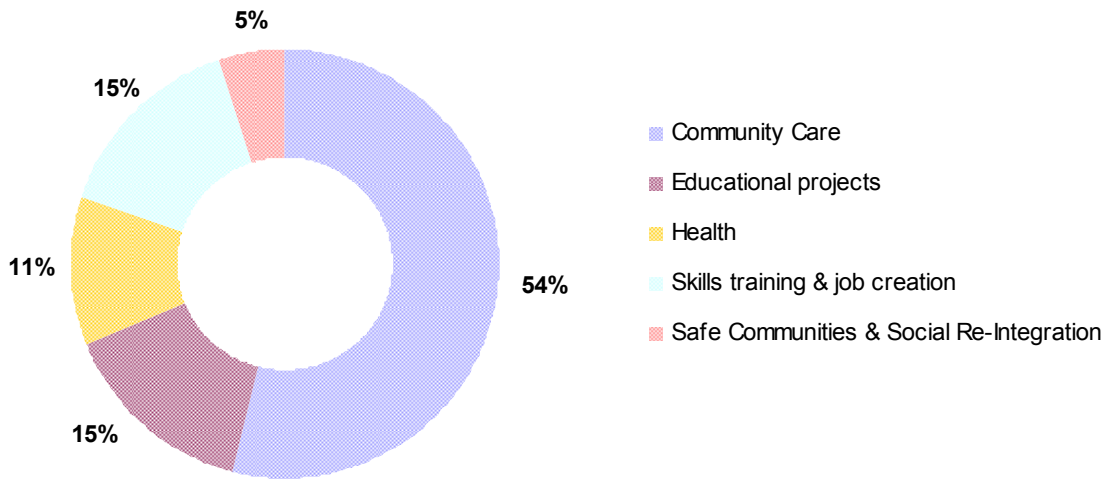


Figure 1 WesBank's CSI Spend by Sector

WesBank's CSI Spend by Region (2004-2005)

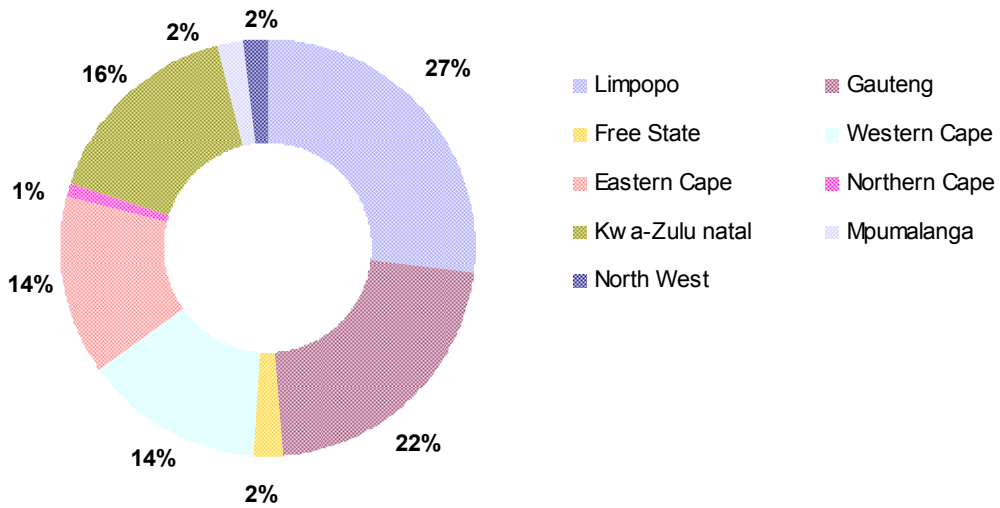


Figure 2 WesBank's CSI Spend by Region

Some of the initiatives we have supported over the last year include the following:

- **Community Care**

The WesBank Fund approved a grant of R 279 000 to Heifer SA – an organisation active in rural communities of the Eastern Cape, KwaZulu Natal and Limpopo Provinces. Heifer SA helps women become self sufficient, providing them with protein rich food, which can be sold to generate some income

- **Road Safety**

WesBank granted R 347 000.00 for the Drive Alive initiative, which promotes road safety programmes in schools.

- **Education**

The WesBank Fund approved a grant of R 25 000 to the Cape Town based College of Magic, established in 1980 to provide performance arts training for aspirant magicians and entertainers from all sectors of society.

- **Health**

WesBank approved a grant of R120,000 for the St Luke's Hospice in the Western Cape which was used to purchase a vehicle so that caregivers could reach those suffering at home. St Luke's cares for more than 600 terminally ill cancer and HIV/AIDS sufferers each day.

FirstRand Volunteers' Programme and WesBank

WesBank is a keen and hands-on supporter of the FirstRand Volunteers' Programme. A project particularly close to the heart of our staff is indicated below.

Wesbank and the Tiang Care Centre

WesBank, touched by the hardships endured by children with severe disabilities, has chosen to support a number of organisations caring for such people. One of these is the Tiyang Care Centre in Soshanguve, north of Pretoria.

Tiyang is run by a dedicated 60 year old woman, Robina Makhetsaba who takes care of 16 profoundly disabled children as her service to the local community. Registered as a Section 21 company, she receives R400.00 per month for the full day and night residents and R100.00 per month for daycare from the families of those she looks after, if and when they are able to pay.

Besides the children ranging in age from 4 years old, Robina and her six volunteer helpers also look after four frail adults who need care. The centre operates from a rented small three bedroom house with no sanitation or proper facilities for the disabled.

WesBank has adopted Robina and her precious charges, and staff donations and collections have already started making life a little easier for them. To date, staff from the four departments of WesBank Credit and Risk has responded generously. Staff have contributed basic essentials, donating food, toys, clothing as well as a fridge/freezer and a washing machine. Since the first visit, we have raised R4.000.00 from staff donations. WesBankers raised R5 000.00 and used these funds to host a 2004 Christmas party for the children. In Mid-July 2005, the WesBank Combi was loaded with 100 warm blankets (50 purchased from WesBank staff donations, and 50 supplied through the FirstRand Volunteers Matched Funding initiative), a new portable stove, groceries and clothing

donated by the Risk Division, and staff set off to deliver these items to Tiyang. The toilet has since been upgraded by Tiyang from donations received. Once a month, a physiotherapist visits the children at Tiyang on a voluntary basis. WesBank will devote R2,000.00 of the funds raised to purchase physio equipment to help the children with exercises during her visits.

Wesbank Customers

Overview

'We believe the Customer comes first'

WesBank aims to be the customer's first choice in instalment finance and related services both internationally and locally. Whilst we have recently entered the United Kingdom and the Australian market with our partnership philosophy, the focus of this report is primarily on stakeholder engagement in the South African operations. Our philosophy for our international operation is to leverage off existing infrastructure and hence the functionality for the back office and call centre for Australia is based in our Constantia offices, to which this report also applies.

WesBank sells instalment finance, financial leases, rentals and stock finance across the market to both the retail and corporate markets which includes small, medium, large and listed corporates. Through our Motor Division we provide motor vehicle finance at the point of sale through our partnership philosophy with the motor manufacturer and dealer. Our Wholesale Finance division provides stock finance to the motor industry. Our Corporate Division provides finance for large fleets, assets and aviation through joint ventures with both the industrial and aviation partners. Our Fleet Division provides fleet management services through our branded card 'WesBank Auto' and provides administrative services for branded cards outside of the FirstRand Group, once again through our partnership philosophy. Through our Loans Division we are providers of personal loans to the middle market, with a focus on entering the lower income market.

For WesBank, the customer comes first. Our customers include the motor manufacturer, the motor dealer, industrial suppliers, and employees of corporate companies, individual customers, corporates and government. In addition we provide services to stakeholders who are not our direct customer, but as key partners and stakeholders are treated with the service standards enjoyed by our direct customer.

Markets

Currently our customer base is represented by close to a million account holders and therefore reflects a very broad and diverse range of customers segments. In meeting the needs of this diverse customer base we have responded with some tailor made solutions.

Islamic Finance

About 1.2 million South Africans are currently Muslims, and due to religious restrictions are not permitted to pay or earn interest in financial dealings. WesBank has a product which is Shariah compliant, through its Islamic Finance Joint Venture, which meets need of the religious requirements. Islamic Finance has created an opportunity for the Muslim individual to enter into financial agreements without paying any finance charges or interest on their borrowings, but rather profit margins which are agreed at the inception of the contract. This product will be extended to the transactional banking into the future by First National Bank.

Customer Wellness

At WesBank we really care about our customers and there are times when life presents challenges and causes us to deal with difficult issues and problems. The launch of Customer Wellness is a free initiative to assist the customer during difficult times. Customer Wellness is information, advice and tele-counselling for the customer and the customer's immediate family to assist them to make informed decisions about health, financial and legal issues. This service is rendered by a leading health support solutions provider 24 hours a day, seven days a week.

Financial Fitness

In line with the Financial Sector Charter's requirements of providing 'Consumer Education', our Collection Solutions Division has launched a product called Financial Fitness. This product provides education on managing personal budgets, reducing debt and creating wealth for the individual.

SANTACO (South African National Taxi Council) and SA National Taxi Finance

WesBank has for years been at the forefront of in the creation of finance schemes in this highly volatile industry. In 2003 the industry found itself in the precarious position that, whilst it accounted for the transport of over 65% of South Africans, it was fragmented and disorganised, resulting in it receiving very little government assistance.

The formation of SANTACO, with its democratically elected leadership carrying the full support of government and the Taxi Recapitalisation program is set to change all this.

WesBank has thrown its weight behind SANTACO by creating a joint venture finance company, SA National Taxi Finance. It has donated computer equipment and the services of its portal technology development to build and administer a membership arrangement system.

WesBank had committed to write R3.4 billion of new business during the duration of the Taxi Recapitalisation Program.

Dealer Empowerment Enabler

In line with the Financial Sector Charter and the need for Empowerment Finance, WesBank has been instrumental in creating a product that will promote transformation in the motor industry. Our Dealer Empowerment Enabler solution provides the following opportunities to dealers:

- ♣ Equity funding
- ♣ Stock funding
- ♣ Property funding
- ♣ Capital equipment funding
- ♣ And any other funding requirements.

Distribution

WesBank has a national footprint represented by over 50 branches in South Africa and is based at 260 point of sale dealer showroom floors and through our collaboration at 58 First National Bank branches

Transformation

To further focus on the diverse segments of our customer base we are responding to the changes in the market, in the:

- ♣ Increased participation of black consumers in the vehicle finance market reflecting the positive shift in the income demographics of the country.
- increasing number of women in our customer base
- Youth market expansion. Customers aged between 18-24 now represents 8.3% of our book

From an environmental perspective we are promoting the idea of the motor industry producing vehicles which are environmentally friendly through our sponsorship 'The Car of the Year'.

Customer Satisfaction

Customer service is entrenched in our shared values and all customer complaints/concerns are responded to promptly. Each business unit head assumes responsibility for their unit. We currently have a 2% complaints rate.

Our high standards for managing Customer Satisfaction are established through:

- Ongoing customer service measurement – since 1992 we have been using a questionnaire with our new and existing customers. This data is updated quarterly on intranet to inform all staff of performance. Compliments to staff by external and internal customers are circulated by the CEO in his weekly communication to staff
- Daily measurement of compliments vs. complaints. The data gathered on compliments versus complaints is put up on a board in our BankCity reception, reflecting daily statistics
- The introduction of a 'One Call' philosophy in which we strive to resolve a customer's query through a single interaction. Should an issue be unresolved, it can then be escalated to the Customer Service champion (GM) who may involve the CEO should there be a need.
- The introduction a One Question CSI, which asks the following question : 'Would you recommend Wesbank as your first choice of finance to a friend or colleague?' The current response rate is 98% in favour of WesBank.

The diagrams below indicates the satisfaction expressed by our customers in terms of Excellent to Poor and a trend of our Customer Satisfaction Index

WesBank Customer Satisfaction 2004-2005

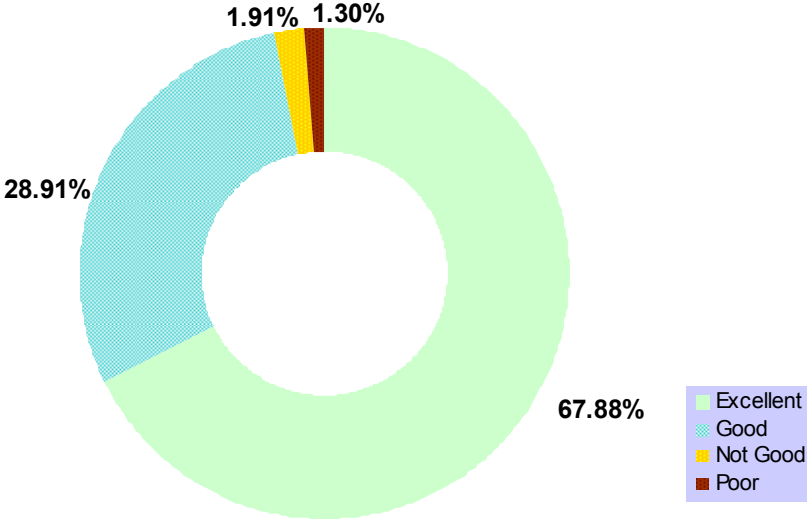


Figure 1 Percent WesBank Customer Satisfaction by Category

WesBank Customer Satisfaction Dec 2000-June 2005

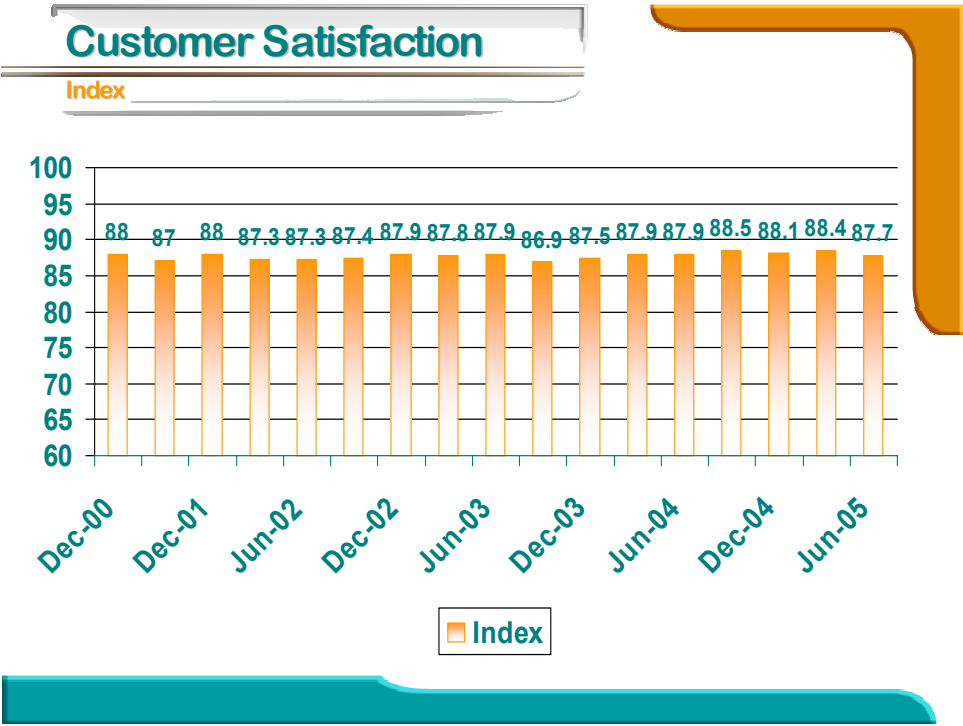


Figure 2 WesBank Customer Satisfaction Index

Policies

Customer data protection is ensured through our stated FirstRand Bank Code of Ethics, which employees are required to sign upon joining the Group. This governs the protection of customers' rights, and employees' obligations in their dealings with customers. Non-compliance with this Code is considered a serious and disciplinary offence.

A number of Acts have been passed during in recent years that increase security within the Financial Services environment. One Act that addresses consumer protection is the Financial Advisory and Intermediary Services (FAIS) Act (Act 37 of 2002).

As signatories to the Code of Banking Practice ('the Code'), a valuable safeguard for our clients is provided. Through the Code, the Ombudsman for Banking Services (OBS) provides a free service in assisting individuals to resolve their complaints with banks. The Ombudman's decision may be delivered in the form of a binding determination, or a non-binding recommendation. During the process of discussing a dispute with the Ombudsman, the customer is also free to engage other legal dispute resolution mechanisms such as the South African courts.

Health and Safety

In terms of legislation, any person on the premises of the business is deemed to be an employee for the purposes of health and safety. The FirstRand Group's Health and Safety policy, which complies with complying with all the applicable aspects of the Occupational Health and Safety Act, 85 of 1993 pertinent to the business of the Group, is therefore also applicable to customers.

Wesbank Regulators

Introduction

From a legal perspective, the entity dealing with regulators is FirstRand Bank comprising FNB, Wesbank and RMB. The FirstRand Bank Compliance area is often the area that engages with government, industry bodies and entities representing various social and developmental constituencies. In some instances, co-operative policies, self-regulation, agreements and engagements support these relationships, whereas elsewhere they are governed formally by Acts of Legislation or regulation

This section provides an overview of the key regulatory authorities, key Acts, legislation or agreements, and commitments framing all our South African banking operations. Note that with over 100 Acts of legislation, and numerous directives, self-regulatory compliance and similar elements, only key regulatory entities that regulate financial or operational health of the business are indicated below.

Regulatory Authority	Purpose of Interaction
South African Reserve Bank	In terms of the Banks Act, 1990 (Act No. 94 of 1990), the Reserve Bank regulates and supervises our trading activities and compliance through the office of the Registrar of Banks. The objective of this supervision is to ensure and promote the safety and soundness of banks and banking groups. The Registrar supervises all banks via interfacing with the relevant CEOs and compliance officers for banks.
Department of Labour	Our interaction with the DOL relates to all matters of employment legislation, regulation, monitoring and compliance.
Department of Trade and Industry	<p>Direction from the DTI is assumed through the definition of the Codes of Good Practice on Broad-Based Black Economic Empowerment. For the purposes of transformation, our interaction with the DTI takes place through the vehicle of the Financial Sector Charter Council.</p> <p>The DTI also administers the Usury Act 1968 (subsequently amended), which will be replaced by the proposed National Credit Bill currently being reviewed by Parliament's Committee on Trade and Industry.</p>
Office of the Banking Ombudsman	Through the Code of Banking Practice, the Ombudsman for Banking Services (OBS) assists individuals to resolve their complaints with banks

Regulatory Authority	Purpose of Interaction
Banking Association	A co-operative, non-competitive association of banking participants, representing the issues and interests of the sector.
Financial Sector Charter Council	The Charter Council is responsible for overseeing the implementation of the Financial Sector Charter, to which the FirstRand Group is a signatory.

Mechanisms for Interaction

Regulatory Authority	Mechanism
South African Reserve Bank	<ul style="list-style-type: none"> Supervision and monitoring primarily occurs through the office of the Bank Supervision Department under the auspices of the Registrar of Banks. The Board of Directors, the auditors and the Registrar of Banks meet formally each year, to discuss issues of mutual concern.
Department of Labour	<ul style="list-style-type: none"> Interaction with the DOL is both formal and informal. Formal mechanisms include the interaction with various directorates and commissions within DOL, such as the Commission for Employment Equity. Co-operative relationships have been established with inspectorates and commissions where input and commentary is required in the development of regulation and legislation. The frequency of interaction varies on a formal and informal basis. Formally compliance audits occur annually, while informally dialogue and interaction is continuous, bilateral, and needs-driven by both FirstRand Bank and the DOL.
Department of Trade and Industry	<ul style="list-style-type: none"> Financial Sector Charter Council Banking Association
Office of the Banking Ombudsman	<ul style="list-style-type: none"> Files opened by customers with the Office of the Banking Ombudsman are initially communicated to a single contact point within FirstRand Bank. Ultimately the business unit to which the complaint relates interacts directly with the customer through/ with the Ombudsman's office to address the issue.

Banking Association	<ul style="list-style-type: none"> • A number of committees comprise the Bank's representation at the Banking Association.
Financial Sector Charter Council	<ul style="list-style-type: none"> • Our interaction with the Council includes representation on various working committees, such as the Procurement Committee.

Major Issues of Concern during the Year

The regulatory landscape in which we operate is extremely fluid and continues to expand in ensuring the health of the Banking industry, as well as the broader economic, social and international environment in which we operate. Structural changes continue to occur in response to a vast number of environmental drivers, including local transformation efforts, and international co-operative efforts aimed at ensuring a stable and secure financial markets. The potential risks of financial institutions being used for criminal and terrorist activities is also being addressed. The number of Acts, amendments, annexures, notices, and directives continue to extend the scope of our regulatory compliance, planning, implementation and monitoring. We have identified a universe of over 100 Acts of Regulation that govern our business.

While we are fully committed to complying with all obligations and regulations, the implication of increasing regulation is the maintenance and growth of an infrastructure to analyse, implement, monitor and report on compliance. The cost of implementation is significant.

Major Changes in the Regulatory Environment

A number of regulatory issues have either arisen in the past financial year, or have been the object of our focus as part of implementation and monitoring. These include the following:

- i. **FAIS**
The promulgation of the Financial Advisory and Intermediary Services (FAIS) Act (Act 37 of 2002) requires us to ensure that staff involved in dispensing financial advice are properly trained and registered. This requirement is encapsulated in the ongoing training programme within the Group.
- ii. **FICA**
A system of administrative measures to control money-laundering and to facilitate its prevention, detection, investigation and prosecution is being established through the Financial Intelligence Centre Act, No. 38 of 2001. The Act seeks to combat money-laundering activities through a Financial Intelligence Centre (FIC) and a Money Laundering Advisory Council. FirstRand Bank embarked on the following initiatives in adherence to this legislation:
 - a. **KYC: Know Your Customer** required us to ensure every customer was formally identified to us. Through a variety of communication programmes, customers were requested to verify their details telephonically or via branch visits, by providing their identity documentation and proof of address. For those customers who did not meet the prescribed deadlines, accounts were frozen. The KYC initiative is ongoing, with a further extension to the deadline authorised by the Reserve Bank (SARB). Quarterly reports are submitted to SARB. The final reporting deadline to SARB is in September 2006.
 - b. **Identification of Suspicious and/ or Unusual Transactions (STR)**
 - c. **Staff training on the relevant level of compliance.** This also included training on new processes and procedures in this regard.

d. Account monitoring

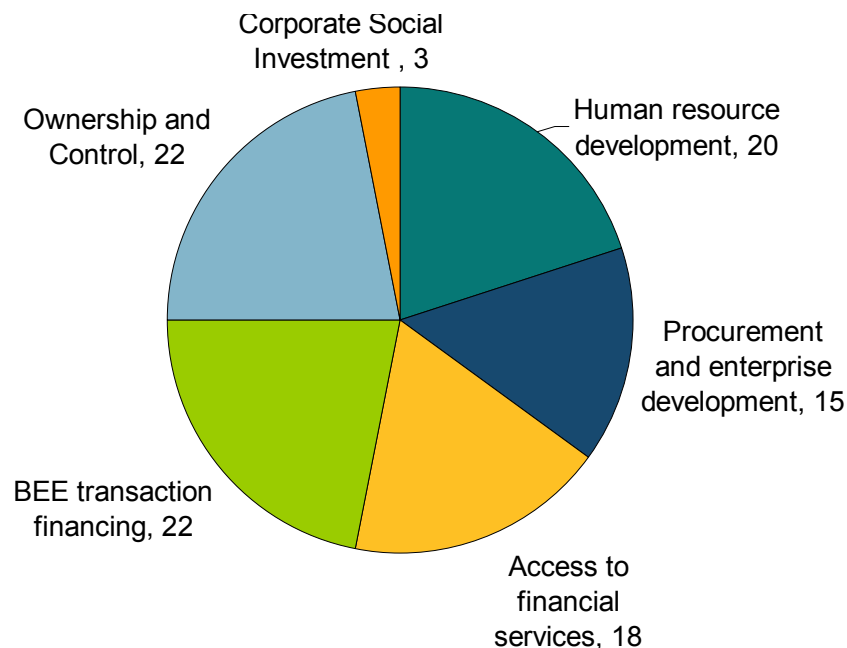
As FICA continues to be implemented and defined by amendments and further legislation, its increasing scope and complexity requires us to review our policies, procedures, systems and training initiatives.

iii. Financial Sector Charter

The Financial Sector Charter, signed in November 2003, the result of significant discussion and collaboration among all stakeholders ranging from government, business and labour to community groups, is designed to:

- Address racially-based inequalities in SA
- Promote economic justice and help SA to achieve its full economic potential
- Contribute towards sustained economic growth, development and social transformation in South Africa;
- Unlock the sector's potential, promote its global competitiveness, and enhance its world class status

2004 saw significant planning initiatives and some implementation of the components of the FSC required to facilitate transformation within the sector. The FSC has been complemented by the release of the draft Codes of Good Practice for Broad-Based Black Economic Empowerment issued by the Department of Trade and Industry. The objective of "the Codes" is to provide further definition and clarity to the seven pillars of the FSC. These pillars are encapsulated in the FSC Scorecard, and each pillar is allocated points and a target for transformation by 2008 and 2014:



Through FirstRand's transformation committee, and the active involvement of the top management of the organisation, we continue to work on the implementation, monitoring and driving of programmes designed to achieve sustainable transformation in these areas.

iv. Employment Equity Act (1998) and the new Code of Good Practice for Broad-Based Black Economic Empowerment

The FirstRand Banking Group has participated in the public commentary on the Human Resource elements and implications of this code. The Code is expected to be gazetted as an Addendum to the Employment Equity Act by Parliament by August 2005.

v. BASEL II

BASEL II is the new international capital accord set to take effect from 1 January 2008. Basel II is the successor to the 1988 capital accord introduced by the Basel Committee on Banking Supervision - a voluntary association of banking supervisory authorities from the major industrialised economies. Overseeing the implementation of BASEL II in SA is the Registrar of Banks.

The overarching objective of BASEL II is to promote enhanced financial stability in the international financing system by ensuring that a system of credit, operational and market risk modelling, processes and systems is in place to facilitate. By increasing the resilience of banks, which are custodians of savings, and a fundamental part of any economy, banks will be better able to contribute to sustainable growth within the broader environment in which they operate.

The implementation of the BASEL II Accord requires significant commitment of resources, including human capital, finances and systems. All banks are required to ensure complete implementation of BASEL II by 2008.

A 2005 study by Ernst and Young (BASEL II: Addressing the Challenges) indicated that FirstRand is well on track to realise its BASEL II commitments. We spent much of 2004 defining, planning and preparing for the implementation of BASEL II processes and systems. We are ready for the first pilot test of the new system in Quarter 1 of the new financial year 2005. Basel II requirements have also been included in a number of projects throughout the business units in the Group to ensure compliance by the implementation date of 2008.

vi. National Credit Bill (upcoming)

Under existing law, consumer credit is regulated by the Usury Act, the Credit Agreements Act, the Magistrate's Court Act and common law. The National Credit Bill, 2005 (NCB), originally known as the Consumer Credit Bill, 2004, proposes to repeal the Usury Act and the Credit Agreements Act, replacing both with a single National Credit Act.

The Bill seeks to address problems of over-indebtedness and lending and borrowing by placing limits on total costs of credit and interest rates, regulating access to credit information, ensuring full disclosure of charges, terms and conditions and effective

regulation of credit information and credit bureaus. The Bill also provides for the established of a National Credit Regulator and a National Consumer Tribunal, to effectively administrate the Bill. Through these mechanisms, it is hoped that the all borrowers will be accorded uniform rights and protection, and that a greater portion of the population will have access to affordable credit.

vii. Dedicated Banks Act (DBB 2004)

In November 2004, the National Treasury published the Dedicated Banks Bill for comment.

The Dedicated Banks Bill (DBB 2004) aims to improve access to basic banking services for low income and historical disadvantaged communities. The Bill creates the opportunity for companies such as, amongst others, large retail outlets, cellular phones companies, etc. as well as existing banks to expand basic banking services to these communities. Companies may provide these services by becoming Savings Banks or Savings and Loans Banks (called dedicated banks in the draft Bill) by lowering the existing requirements provided for in the Banks Act No. 94 of 1990.

(we need to say what mechanisms we are using to engage on this issue)

viii. Co-operative Banks Act (CBB 2004)

In November 2004, the National Treasury also published the Co-Operative Banks Bill for comment. This Bill (CBB 2004) aims to formalise the co-operative banks industry by creating a legal framework for the regulation and supervision of their banking activities. This will afford depositors with co-operative banks the same level of safety and protection as enjoyed by depositors with formal commercial banks; and provide for the support and development of the co-operative banking industry to ensure the sustainability and the growth of the sector and compliance with the provisions of this Bill.

Both CBB and DBB are aimed at broadening access to financial services. The Bills are currently under discussion and various stakeholders, such as the Banking Regulator, have provided their comment and perspective.

FirstRand Bank Perspective

A number of issues pertaining to regulation require closer analysis and definition into 2006. Where possible, we pro-actively review these changes, and determine the likely impact on the business as well as related stakeholders (e.g. customers) as these changes unfold.

Clarification of perceived differences between the Codes of Good Conduct for BBEE and the Financial Sector Charter

The industry as a whole (as well as other industries that have already signed and begun implementing sectoral charters) continues to operate in an environment of uncertainty. This uncertainty arises from the fact that the Financial Services Charter, having been signed and committed to in 2003, has subsequently recently received greater definitional clarity and direction through the promulgation of the draft Codes of Good Conduct for Broad Based Black Economic Empowerment.

The result of the timing differences between these mechanisms for transformation requires the Financial Sector industry to clarify a number of issues with the DTI, through the vehicles of the Financial Sector Charter Council and the Banking Association. Issues under discussion include Enterprise Development, and various discrete elements comprising Ownership, amongst others. Various inter and intra-industry players have expressed concern over the perceived misalignment between charters and the Codes, resulting in an uncertain operational environment.

FirstRand's stated intention is that in the absence of further direction within timeframes required for the first public reporting of progress against the Financial Sector Charter, as well as a measurement of the success to the mid-point of 2008, the transformation efforts we have implemented within the Group will "proceed, no matter what". At a practical level, however, the differences in the timing of direction and clarity provided by the Codes will require potential course correction in the future, which could imply financial cost and/ or operational disruption.

The Impact of the National Credit Bill

The Bill is currently being discussed within Portfolio Committee on Trade and Industry, and has been open to public hearings. A number of concerns about the Bill have been expressed, primarily related to the complexity of the Bill, concerns that an unintended consequence of protection of debtor information could result in increased borrowing and credit indebtedness, and the administrative costs of enforcing the bill, and the concern of cross-subsidisation by lower risk lenders to subsidise higher risk lenders. At this stage, the industry is unclear as to the finalisation and timing of the gazetting of the Bill.

Other Regulatory Changes

There are a number of complex Bills under various stages of discussion and finalisation, which could impact on our operations. Some of these are directly pertinent to the industry, while others are broader, but could enhance our regulatory operating environment. Examples of such changes include the corporate law reform, the Convergence Bill (Government Gazette no. 27254 of 2005), a review Data Privacy and Protection and acts aimed at advancing Consumer Protection and Children's Rights.

Should a number of these Bills be passed and gazetted during the 2005-2006 financial year, we anticipate a significant upswing in administrative workload. To monitor any changes and their impact on the organisation, we continue to keep track of the status of pertinent legislation.