FIRSTRAND Bank Limited

2007 Annual Report

contents

GT Ferreira (59) *Non-independent non-executive*
BCom, Hons B(B&A), MBA
Chairman of FirstRand, FirstRand Bank Holdings and RMB Holdings and Director of Momentum Group

SE Nxasana (50) *Executive*
BCom, BCompt (Hons), CA(SA)
Chief Executive Officer of FirstRand Bank Holdings and director of FirstRand

VW Bartlett (64) *Non-independent non-executive*
AMP (Harvard), FIBSA
Director of FirstRand and FirstRand Bank Holdings

JP Burger (48) *Executive*
BCom (Hons), CA(SA)
Chief Financial Officer of FirstRand and Financial Director of FirstRand Bank Holdings

LL Dippenaar (58) *Non-executive*
MCom, CA(SA)
Chairman of Momentum Group and Discovery Holdings, Director of RMB Holdings, FirstRand and FirstRand Bank Holdings

DM Falck (61) *Non-independent non-executive*
CA(SA)
Director of FirstRand, FirstRand Bank Holdings and RMB Holdings

PM Goss (59) *Independent non-executive*
BEcon (Hons), BAccSc (Hons), CA(SA)
Director of FirstRand, FirstRand Bank Holdings and RMB Holdings

PK Harris (57) *Executive*
MCom
Chief Executive Officer of FirstRand, Director of FirstRand Bank Holdings, RMB Holdings, and Momentum Group

Z Rylands (44) *Independent non-executive*
BCom (Hons), CA(SA)
Director of FirstRand Bank Holdings

WR Jardine (42) *Independent non-executive*
BSc, MSc
Director of FirstRand Bank Holdings

E Matenge-Sebesho (53) *Independent non-executive*
MBA (Brunel University of London)
C.A.I.B (SA)
Director of FirstRand Bank Holdings

RK Store (65) *Independent non-executive*
CA(SA)
Director of FirstRand and FirstRand Bank Holdings

BJ van der Ross (60) *Independent non-executive*
Dip Law (UCT)
Director of FirstRand, FirstRand Bank Holdings and Momentum Group

RA Williams (66) *Independent non-executive*
BA, LLB
Director of FirstRand and FirstRand Bank Holdings

During the year Ms Z Rylands was appointed a director of FirstRand Bank Holdings and FirstRand Bank. Mr MW King retired from the board having reached the mandatory retirement age.

Audit committee

RK Store (Chairman)
WV Bartlett
DM Falck
E Matenge-Sebesho
RA Williams

Risk committee

RK Store (Chairman)
DM Falck
RA Williams

Remuneration committee

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

Large exposures credit committee

RK Store (Chairman)
VW Bartlett
JP Burger
SE Nxasana
WR Jardine
BJ van der Ross

Directors' affairs and governance committee

WR Jardine (Chairman)
VW Bartlett
LL Dippenaar
DM Falck
GT Ferreira
PM Goss
E Matenge-Sebesho
Z Rylands
RK Store
BJ van der Ross
RA Williams

COMPLIANCE STATEMENT

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

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

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

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

BOARD OF DIRECTORS

Responsibilities of directors

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

Composition and frequency of meetings

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

The board comprises 14 directors of whom three serve in an executive capacity. The directors of the Bank are listed on page 1. Non-executive directors comprise individuals of high calibre with diverse backgrounds and expertise. This ensures that their views carry significant weight in the board's deliberations and decisions.

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

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

Limitation to appointment period

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

COMPANY SECRETARY

The company secretary is suitably qualified and experienced and was appointed by the board in 1998. He is, inter alia, responsible for the duties stipulated in section 268G of the Companies Act and the certificate required to be signed in terms of subsection (d) thereof appears on page 33.

PHILOSOPHY

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

Risk in the FirstRand Banking Group ("FRBG") is managed on a group basis. In order to understand the risk philosophy of FirstRand Bank Limited ("the Bank"), one needs to understand how risk is managed on a group basis. To facilitate this, an extract from the Banking Group's Risk Management Report has been included below.

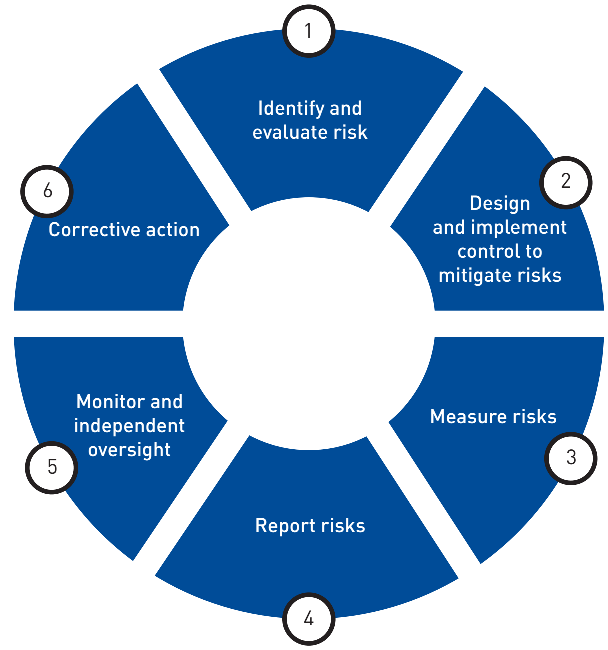
RISK GOVERNANCE

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

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

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

The Group adopts the following approach to risk management:



RISK MANAGEMENT FRAMEWORK

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

The Risk Framework is based on the experience that:

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

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

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

KEY RISKS

The financial and operational risks for FRBG are discussed in this report. Financial risks include credit risk, market risk, liquidity risk, and interest rate risk. The key non-financial and business risks and opportunities for FRBG are identified and discussed in its operational report. The non-financial business risks and opportunities include issues such as reputation, regulation, transformation and customer relationships. Managing sustainability and reputational risk is a key component of the risk governance process at FRBG.

RISK-REWARD APPETITE

The ERM function of FRBG provides independent risk management oversight for all the risks across the group to ensure that these risks are appropriately managed within the defined and approved risk-reward appetite framework.

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

The following objectives and measures articulate the risk-reward appetite of FRBG:

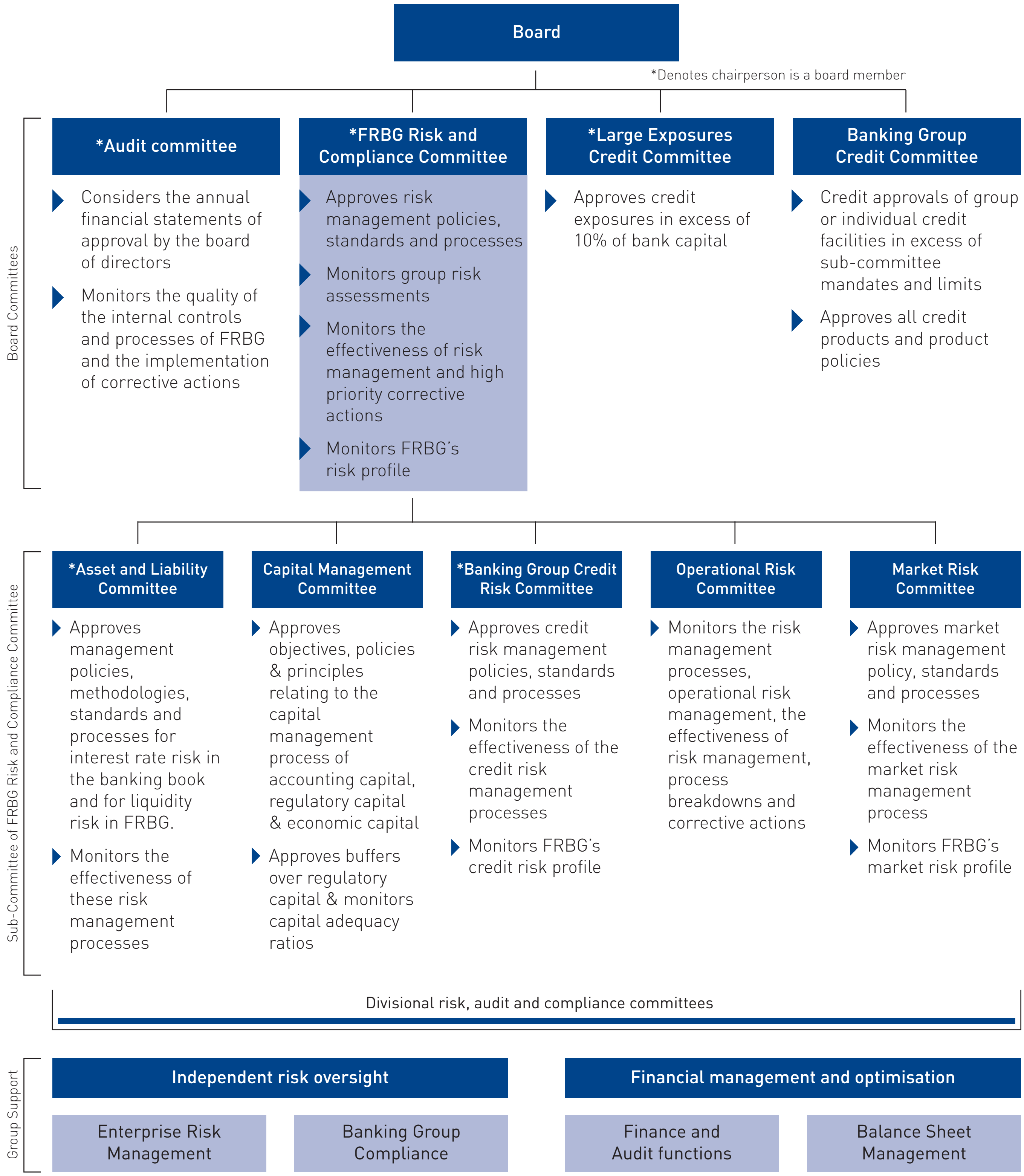
RISK-REWARD OBJECTIVES	RISK-REWARD MEASURES
• Targeted credit rating – FRBG targets the highest possible credit rating. – FRBG ensures the level and composition of capital is consistent with its credit rating. – FRBG's profitability and risk levels are the primary drivers behind its credit rating. • Targeted capitalisation – FRBG is adequately capitalised on an economic basis, with the targeted capital levels the higher of economic capital or regulatory capital plus buffer. • Risk limits – Risk limits are put in place for specific risk types and exposures are monitored to stay within these limits.	• Targeted sustainable profitability 10% real growth in earnings (CPIX + 10%). • Targeted return on equity (ROE): – 10% + Weighted Average Cost of Capital. • Positive NIACC (Net Income After Capital Charge)

PROTECTION OF THE GROUP'S REPUTATION

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

GOVERNANCE STRUCTURE

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



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

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

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

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

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

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

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

CAPITAL ADEQUACY REQUIREMENTS

The section on capital management on pg 22 provides a description of capital requirements in South Africa and other jurisdictions in which the group operates, as well as the process for assessing the adequacy of capital in FRBG.

SUCCESSES FOR 2007

Enterprise Risk Management

- Successful implementation of phase I of the Integrated Risk Reporting project; and

Credit Risk:

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

Market Risk:

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

Liquidity Risk:

- Issuance of Euro500m, 5 year Floating Rate Notes off FRBG's EMTN programme into the international markets; and

Interest Rate Risk in the Banking Book:

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

SUCCESSES FOR 2007

Operational Risk:

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

FOCUS FOR 2008

Enterprise Risk Management:

- Further refinements of the integrated risk reporting system;
- Refinement of risk appetite; and

Credit Risk:

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

Market Risk:

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

Liquidity Risk:

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

Interest Rate risk in the Banking Book:

- Continue improvement of risk measurement methodologies in line with international best practice;
- Increase focus on investment of offshore capital; and

Operational Risk:

- Basel II:
  Application to the SARB for Advanced Measurement Approach (AMA);
  Implementation of operational risk AMA requirements – refined risk tools and embedded risk measurement;
  Key operational risk focus areas for 2008 include:
  - Continued improvement of operational risk loss data quality;
  - Refinement of quantification for operational risk capital; and
  - Refinement of balance scorecards for risk sensitive operational risk capital allocation; and
- Implementation of a fully automated web based Business Continuity Management system.

CREDIT RISK

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

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

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

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

Credit risk governance

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

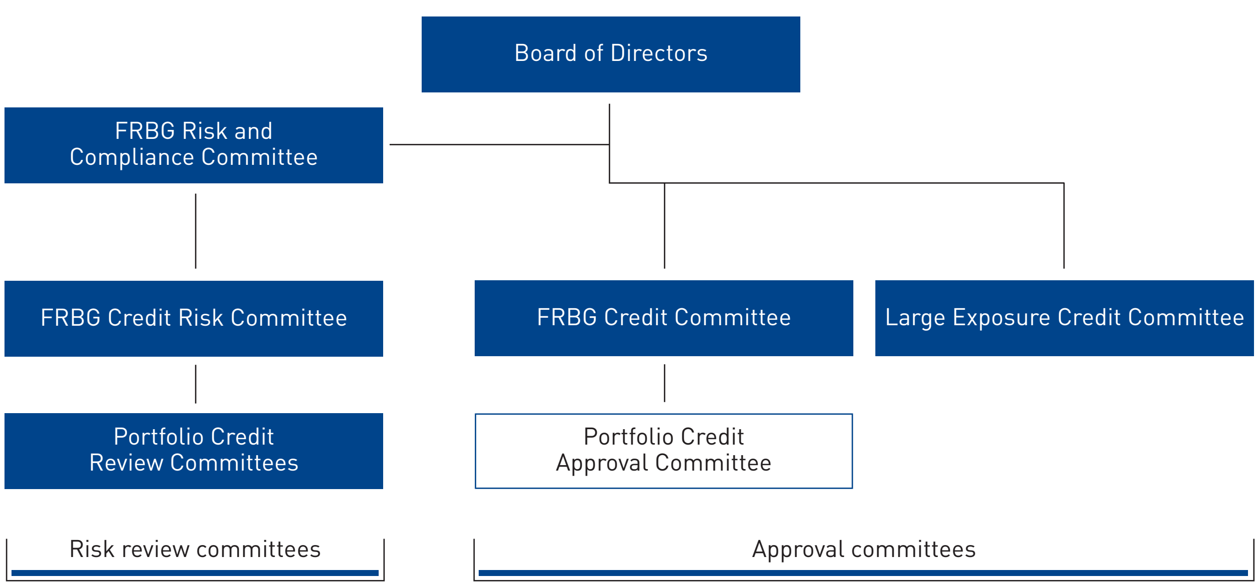
The overall responsibility for the effectiveness of credit risk management processes vests with the board of directors. The operational responsibility has been delegated to the FRBG Risk and Compliance Committee and its sub-committees, executive management, operations management and the risk management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

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

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

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

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



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

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

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

Credit risk management

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

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

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

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

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

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

Credit risk mitigation

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

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

Credit concentration risk management

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

- Concentration risk management in the wholesale credit portfolio is based on individual name limits (which are reported to and approved by the Large Exposure credit committee) and the monitoring of industry and country concentrations. A sophisticated simulation portfolio model has been implemented to quantify concentration risk and the potential impact thereof on the credit portfolio. FRBG also uses securitisation structures and the purchase of credit derivatives as a credit mitigation tool to address credit concentration risk management;
- For the FNB Commercial (SME level) exposures, the emphasis of concentration risk measurement is on industry distribution; and
- Due to the inherent diversification in the retail portfolios, concentrations are managed with reference to collateral concentrations.

Sector and country analysis have been included in the notes to the financial statements (notes 10 and 30.3). 54% of the total advances was exposure to retail and WesBank counterparties. 89% of this exposure is included in the FNB HomeLoans, Wealth and WesBank portfolios where the exposures are in general secured by the underlying asset as described above. The credit risk to these counterparties is inherently highly diversified.

Credit risk measurement

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

i. Probability of default ("PD") and credit ratings

The probability of default is the probability that a counterparty will default within the next year. The definition of default is dependant on the following two drivers:

- a time driven element where an exposure is more than 90 days in arrears; or
- an event driven element when there is reason to believe that the exposure will not be recovered in full.

Cumulative default probabilities over a multi-year cycle are established for internal purposes.

The FirstRand master rating scale, the FR ratings, range from FR 1 to FR 100, with FR 1 being the best rating with the lowest probability of default. The FR rating has been mapped to default probabilities as well as external rating agency national and international rating scales. The granular 100 point scale is summarised for internal purposes into 18 buckets and for reporting purposes into 9 performing buckets as described below.

The ratings and associated PDs reflect two different expectations under the current economic cycle whereas the "through the cycle" PDs reflect a longer term average over the economic cycle. These PDs are applied in different circumstances as appropriate to the business and regulatory requirements under Basel II. Typically, the "point in time" (PIT) estimates are used for calculating impairments, whereas the "through the cycle" estimates are used for capital calculations.

The FR scale is summarised in the following table, together with a mapping to international scale ratings from external rating agencies:

FR Rating	Mid-point PD	International scale mapping*
FR 1 – 12	0.04%	AAA, AA, A
FR 13 – 25	0.27%	BBB
FR 26 – 32	0.77%	BB+, BB
FR 33 – 37	1.34%	BB-
FR 38 – 48	2.15%	B+
FR 49 – 60	3.53%	B+
FR 61 – 83	6.74%	B
FR 84 – 91	15.02%	B-
Above FR 92		Below B-
FR 100	100%	D (defaulted)

* *Indicative mapping to international rating scale of Fitch and S&P*

The rating assignment process depends on the type of counterparty being rated. The processes vary from an automated score card process in the retail areas to an extensive analysis on an individual basis for corporate counterparties. The rating assignment processes in the Bank was generally developed and validated internally using a combination of internal and external data sources. The rating approach for each rating system is described in the table below.

ii. Loss given default ("LGD")

The loss given default is defined as the economic loss that will be suffered on an exposure following default of the counterparty, expressed relative to the amount outstanding at the time of default. The recoveries are significantly impacted by the types and levels of collateral held against the exposure, the level of subordination, the effectiveness of the recovery processes and the timing of the recovered cash flows. For the calculation of capital, "downturn" LGD's are used. The downturn LGD reflects increased LGD's relative to long run average LGD estimates during periods of high defaults. (i.e. where a positive correlation exists between the PD and LGD).

The LGD approach for each major segment is described in the table below.

iii. Exposure at default ("EAD")

Exposure at default is defined as the gross exposure of a facility upon default of a counterparty. This measurement reflects potential credit exposure for off balance sheet exposures such as the probability of further drawdown under a committed facility.

The EAD approach for each major segment is described in the table below.

RATING SYSTEM	HIGH LEVEL DESCRIPTION OF RATING APPROACH
1. Retail exposure rating systems (HomeLoans, Card, Overdrafts, Private Bank (Wealth), Personal loans and WesBank Retail)	• The retail portfolio is segmented into homogenous pools and sub-pools through an automated scoring process using statistical models of customer behaviour and application data, delinquency status and similar parameters. • Based on internal product level history associated with the homogenous pools and sub-pools the probabilities of default are estimated for each sub-pool. • LGD and EAD estimates are based on sub segmentation based on the collateral or product type, and associated modelling of internal data histories.
2. SME exposure rating systems (FNB Commercial, WesBank corporate)	• The rating system is based on a statistical model (Moody's RiskCalc) using a financial ratios assessment which is calibrated on industry pooled data. A qualitative overlay is also incorporated in the modeling framework. • LGD and EAD estimates are based on modelling of internal data histories.
3. Large corporate rating systems (Wholesale: FNB Corporate and Transactional Banking and RMB)	• The rating assignment to corporate credit counterparties is based on a detailed individual assessment of the counterparty's credit worthiness. • This assessment is performed through a qualitative analysis of the business and financial risks of the counterparty and is supplemented by an internally developed statistical rating model. • The rating model was developed using internal and external data of more than 10 years. The qualitative analysis is based on the methodology followed by international rating agencies. The rating assessment is reviewed by the FRBG Credit committee and the rating (and associated PD) is approved by this committee. • LGD and EAD estimates are based on modelling of a combination of internal and suitable adjusted international data.
4. Low default portfolios: Sovereign and bank rating systems (Wholesale: FNB Corporate and Transactional Banking and RMB)	• Constrained expert judgment models are used with external rating agency ratings and structured peer group analysis forming key inputs in the ratings process. The analysis is supplemented by internally developed statistical models. • Calibrations of PD and LGD are done using mappings to external default histories and calibrations based on credit spread market data.
5. Specialised lending rating systems (Wholesale: FNB Corporate Transactional Bank and RMB and FNB Commercial)	• The rating system is based on hybrid models using a combination of statistical cash flow simulation models and qualitative scorecards calibrated to a combination of internal and benchmark data.

The rating systems are recalibrated and validated independently on an annual basis to ensure the validity and accuracy of the rating systems. The focus remains on the predictive power of the underlying models. The models are appropriately conservative and incorporate data of downturn periods such as 2000.

iv. Expected loss

Expected loss is calculated as PD x LGD x EAD. This measurement is a forward looking measure of risk through the cycle, also referred to as the through the cycle measure. For internal purposes such as inputs into pricing and impairment calculation processes, the PIT probability of default is used in the determination of a point in time expected loss.

The PD, LGD and EAD estimates are used as inputs into the credit approval process, pricing process, calculation of impairments, reporting and internal economic capital estimates where appropriate.

More information on the credit risk measurement for the current portfolio position is provided in the Portfolio overview section below.

Credit portfolio management

The PD, LGD and EAD estimates provide input into the portfolio level credit exposure assessment of FRBG. In addition to these metrics, the correlations between counterparties and industries are assessed as well as potential diversification benefits. The portfolio management includes the monitoring of the following:

- Credit concentrations to single counterparties and industry sectors relative to capital levels;
- Economic capital (unexpected loss) measurement using internally developed macro economic models and simulations for the retail credit portfolios and a sophisticated simulation portfolio model for wholesale credit portfolios;
- Assessment of economic risk with reference to potential downturn and severe downturn scenarios, together with the earnings and capital impact thereof and the link to the internal capital adequacy assessment process;
- Portfolio stress tests on expected losses, including the assessment of the impact of macro economic factors on the credit portfolio; and
- Consideration of the need for macro credit hedges given the potential scenarios determined, including the identification of structured transactions such as securitisations and credit insurance.

Portfolio overview – FirstRand Bank credit quality

The credit quality of the wholesale credit book remained stable around FR32. The exposure to investment grade counterparties amounted to 52% (2006: 54%). The weighted average rating for retail credit counterparties further deteriorated slightly. The overall internal counterparty rating, ignoring collateral effects, was FR 45 at 30 June 2007 (FR 41 at 30 June 2006). The rating is equivalent to a national scale credit rating of zaBB (zaBBB at 30 June 2006).

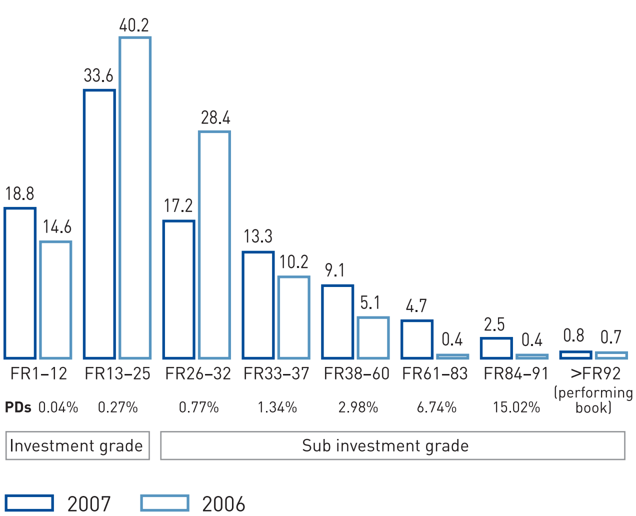
The following section provides the distribution of credit exposures across the above FR rating bands for the major credit portfolios, based on through the cycle ratings.

Wholesale credit exposures

Exposures to corporate, bank and sovereign counterparties are included below. A wide range of products gives rise to the credit exposures, including loan facilities, contingent products and derivative instruments.

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

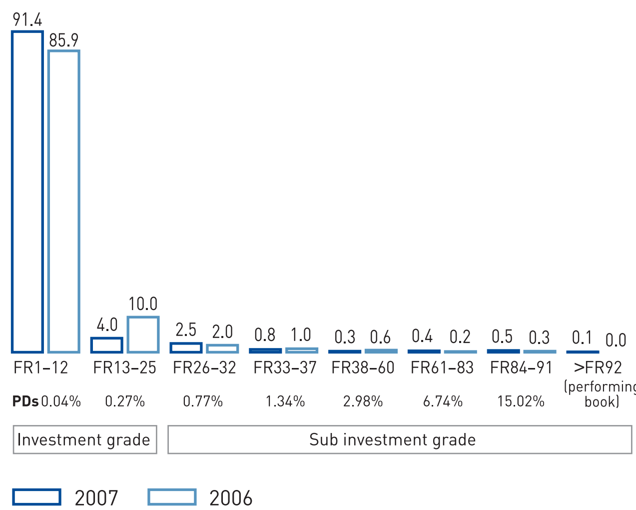
Wholesale – corporates
Exposure distribution across rating buckets (%)



The weighted average PD for corporate counterparties is around 1% and the weighted coverage LGD typically ranges between 35% and 45%.

The following graph indicates the credit distribution based on the counterparty's probability of default ("PD") and FR rating for the bank and sovereign credit portfolio:

Wholesale – banks and sovereigns
Exposure distribution across rating buckets (%)



Note: Comparatives have been updated using the latest rating mappings.

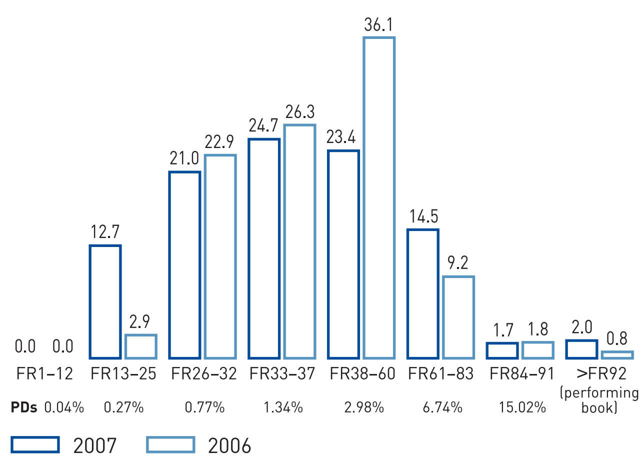
The weighted average PD for banks and sovereign counterparties ranges between 0.2% and 0.3% and the weighted average LGD ranges between 25% and 30%.

FNB Commercial credit exposures

The exposures form part of the FNB Commercial segment and includes corporate and retail SME type exposures. A wide range of products gives rise to the credit exposures including loan facilities, contingent products, and term lending products.

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

FNB Commercial
Exposure distribution across rating buckets (%)



Note: Comparatives have been updated using the latest rating mappings.

The weighted average PD for FNB Commercial's SME counterparties typically ranges between 3.5% and 4%.

The LGDs for these exposures are dependant on the level and type of security held. The weighted average LGD for FNB Commercial's exposures typically ranges between 25% and 45% on average.

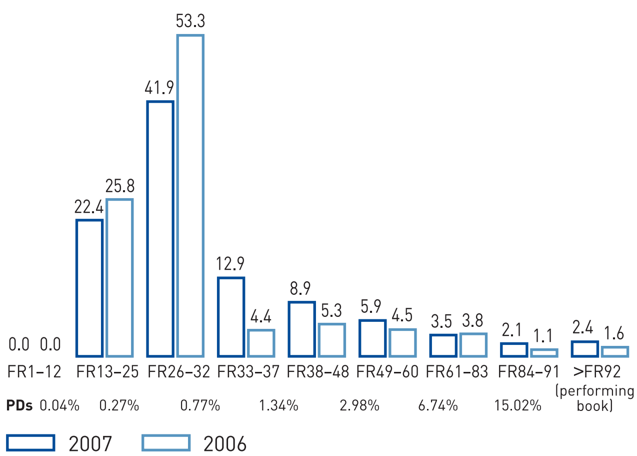
FNB Consumer exposures

The FNB Consumer portfolio includes exposures to individuals across a number of products. These exposures are in FNB, RMB Private Bank and FNB Private Clients.

Residential mortgages

The following graph indicates the probability of default distribution of the residential mortgage portfolios in the Bank.

Retail portfolio – FNB and wealth mortgages
Exposure distribution across rating buckets (%)



Note: Comparatives have been updated using the latest rating mappings.

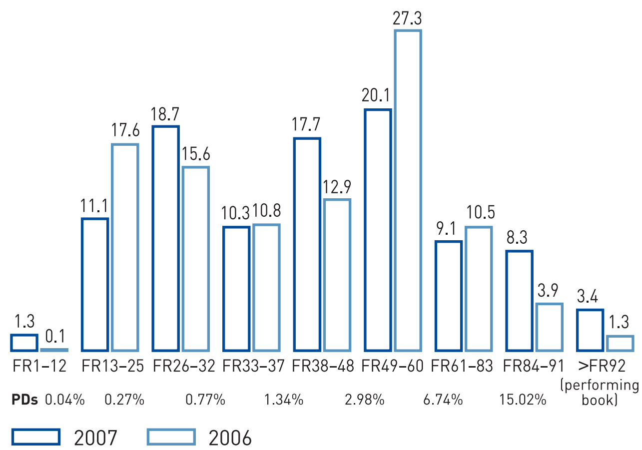
The weighted average PD for residential mortgages ranges between 2% and 2.5%. The expected LGD for mortgages are low due to the high valuations obtained for property in the current market. However, for capital calculations, a downturn LGD is used to reflect the potential loss in a downturn scenario. The weighted average expected LGD across a normal economic cycle for the mortgages typically ranges between 10% and 20%.

The average loan to book value is 77.4% (June 2006: 77.7%) and loan to market value is 56.3% (June 2006: 53.9%) for the home loans portfolio.

Credit card, overdrafts and other exposures

The following graph indicates the probability of default distribution for credit card, overdraft and other retail exposures:

Retail portfolio – retail credit cards, overdrafts and other
Exposure distribution across rating buckets (%)



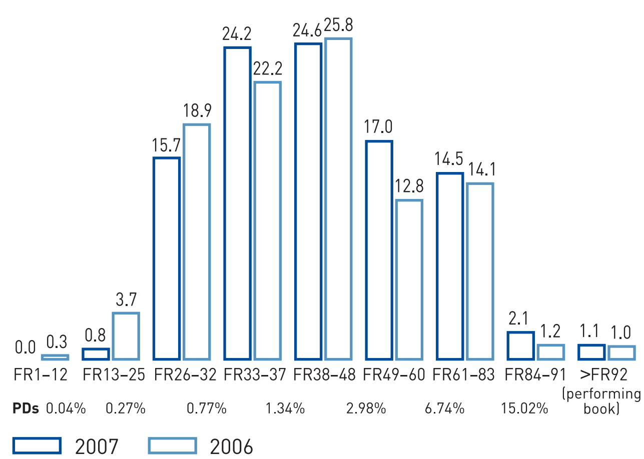
Note: Comparatives have been updated using the latest rating mappings.

The PD for these products depends on the product and the market segment. The weighted average PDs range between 3% and 5%. The LGDs for these exposures depend on the level and type of security. Typically, these exposures are unsecured. Due to the unsecured nature of these exposures the LGDs are high and ranges between 40% and 70% on average.

WesBank exposures

The asset backed finance business of WesBank spans across retail and corporate (mostly SME) counterparties. WesBank's portfolio also includes a small portfolio of unsecured personal loans to its customer base.

WesBank
Exposure distribution across rating buckets (%)



Note: Comparatives have been updated using the latest rating mappings.

The weighted average PD for WesBank exposures is on average between 3.5% and 4%, however the PD is dependent on the product and market segment. The unsecured loans typically have a higher weighted average PD. The LGDs for the secured asset backed finance exposures are on average between 20% and 40%, depending on the type of asset financed. The LGD for the unsecured exposures are around 70% on average and the weighted average LGD for WesBank typically ranges between 30% and 50%.

Expected loss

The expected loss ("EL") of the portfolio is a function of the exposure, the PD (reflected in the credit distributions above) and the loss given default dimension is a forward looking measure of risk through the cycle. The forward looking long run average expected loss estimated at 30 June 2007 for the Bank's portfolio is estimated at 0.8% (30 June 2006 0.7%.)

Non performing loans and impairments of advances

FRBG assesses the adequacy of impairments on an ongoing basis through review of the quality of the credit exposures. Although credit management and workout processes are similar for amortised cost advances and for fair value advances, the creation of impairments differ. For amortised cost advances, impairments are recognised through the creation of an impairment reserve through an impairment charge in the income statement. For fair value advances, the credit valuation adjustment is charged to the income statement through trading income.

Specific impairments are created in respect of non-performing advances where there is objective evidence that a loss event had an adverse impact on the estimated future cash flows from the asset. The amounts recoverable from guarantees and collateral are incorporated into the calculation of the impairment. All assets not individually impaired as described, are included in portfolios with similar credit characteristics and are collectively assessed. Portfolio impairments are created in respect of these performing advances based on historical patterns of losses in each component of the performing portfolio. Reference is made to the point in time PDs, LGDs and the economic climate. When a loan is considered uncollectible, it is written off against the provision for loan impairment. Subsequent recoveries of amounts previously written off decrease the amount of the loan impairment in the income statement in the year of the recovery.

Overall, the credit risk associated with the Bank's banking book is considered to be within acceptable risk levels and is managed effectively in FRBG.

MARKET RISK

Market risk, being the risk of revaluation of any financial instrument as a consequence of changes in market prices or rates, exists in all trading, banking and investment portfolios. For the purpose of these financial statements market risk is considered to be fully contained within the trading portfolios. Substantially all market risk within FRBG is taken in RMB as this is the division within FRBG where the market risk taking and management expertise lies.

Market risk governance and management

Market risk is managed in terms of the Market Risk Framework which is a sub framework of the Business Performance and Risk Management Framework. Trading activities currently include trading in the foreign exchange, interest rate, equity, commodity and credit markets in both physical and derivative instruments.

A two pronged governance structure governs market risk taking activities within the Bank. Appetite for market risk taking activities is determined at the RMB Proprietary Board. This board has the primary task of overseeing the strategic and prudential aspects of proprietary position taking within RMB. The Proprietary Risk and Capital Committee is the Market Risk committee of FRBG and is a sub committee of FRBG Risk and Compliance Committee, and is charged with the independent oversight of market risk in the Bank. This Committee is responsible for the reporting of all material aspects of market risk to the FRBG Risk and Compliance Committee. Longer term equity investments, both listed and unlisted, are approved by the Investment Risk Committee on an individual basis and are managed under the Investment Risk Framework.

Market risk measurement

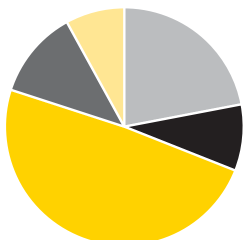
Market risk exposures are limited by means of stressed expected tail loss (ETL) limits, whilst soft value at risk (VaR) triggers indicate that positions require review by management. Both sets of limits are approved by the RMB Proprietary board and ratified by the FRBG Risk and Compliance Committee and the board of directors. Risk concentrations are controlled by means of appropriate sub-limits attached to both asset class and business unit maximum allowable exposures.

Stress conditions are represented by historic systemic disaster scenarios over which the portfolio is fully revalued. The disaster scenario has been deliberately set to reflect the illiquid conditions and ballooning spreads experienced during a typical systemic breakdown in the markets.

In addition to the ETL and VaR methodologies, the Bank supplements its measurement techniques with defined stress testing and scenario analysis. These provide frequent additional insight into possible outcomes under stressed market conditions to the RMB Proprietary Board.

The following pie chart shows the distribution of stress exposures per risk factor across the Bank's trading activities at the end of the financial year based on the ETL methodology.

Market risk stress exposure per risk factor (30 June 2007)



Market risk limits are reviewed at least annually.

Market risk exposures are quantified on a daily basis across all trading activities of FRBG and monitored by the business risk managers, desk heads, business unit heads, and designated executive management. The deployed and independent risk managers at RMB monitor limit excesses, the causes of any excesses and the correction thereof on a daily basis for all trading business units. These functions also track the daily profits and losses against risk exposures and monitor the attribution of profits and losses by risk factor to ensure that risk exposures do not go undetected and that profits and losses are explained.

The market risk management processes are well vested and have functioned effectively for a number of years. The daily risk monitoring and internal audit processes, as well as an external independent internal model validator and the SARB internal model process approval team have not identified significant process deficiencies in the 2007 financial year. Process shortcomings which are identified are corrected and the progress with corrective actions is monitored by the risk managers and the RMB Proprietary Risk and Capital Committee as they arise.

REALISED MARKET RISK EXPOSURES:

The VaR exposure reflected below has been applied to aggregate the market risk exposure across different trading activities and across individual market risk factors. The VaR risk measure estimates the potential loss over a 10 day holding period at a 99% confidence level over a scenario set comprising the last 260 trading days, as is required for internal model capital regulatory market risk measurement.

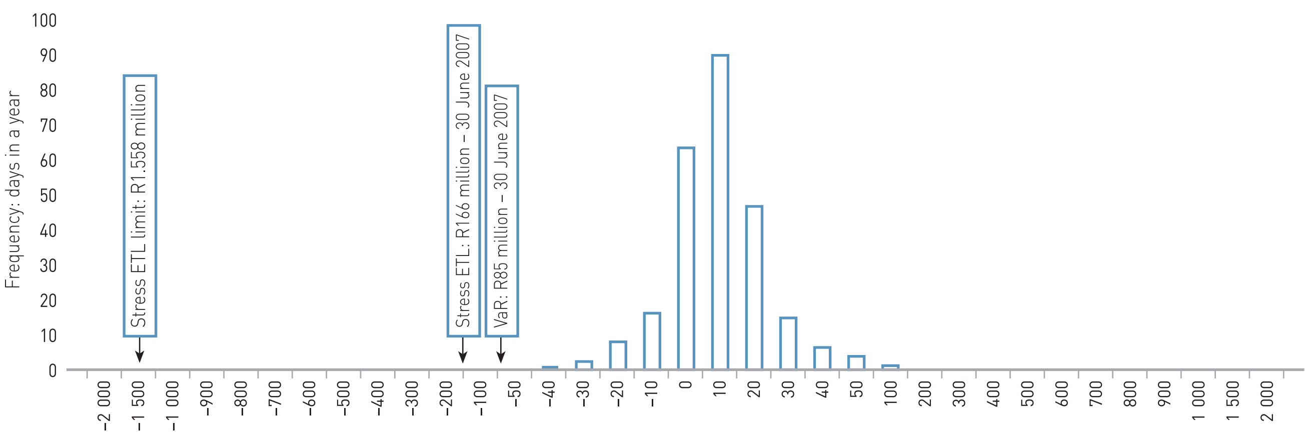
Trading book VaR analysis (R millions)

	Year end 30 June 2007				Year end 30 June 2006			
R million	Min	Max	Ave	Year end	Min	Max	Ave	Year end
Risk type								
Equities	181.3	723.8	273.7	269.0	71.2	219.4	127.9	219.4
Interest Rates	36.7	93.8	70.0	93.4	27.6	46.5	34.1	45.7
Foreign Exchange	14.3	97.9	31.6	40.5	9.0	23.2	15.1	23.0
Commodities	8.7	204.2	52.0	68.1	9.5	27.4	15.6	27.4
Traded Credit	3.1	53.2	28.9	21.4	4.8	45.9	20.0	43.8
Diversification	(22.8)	(617.3)	(150.8)	(226.9)	(38.6)	(134.9)	(79.2)	(131.8)
Total	221.3	555.6	305.4	265.5	83.5	227.5	133.5	227.5

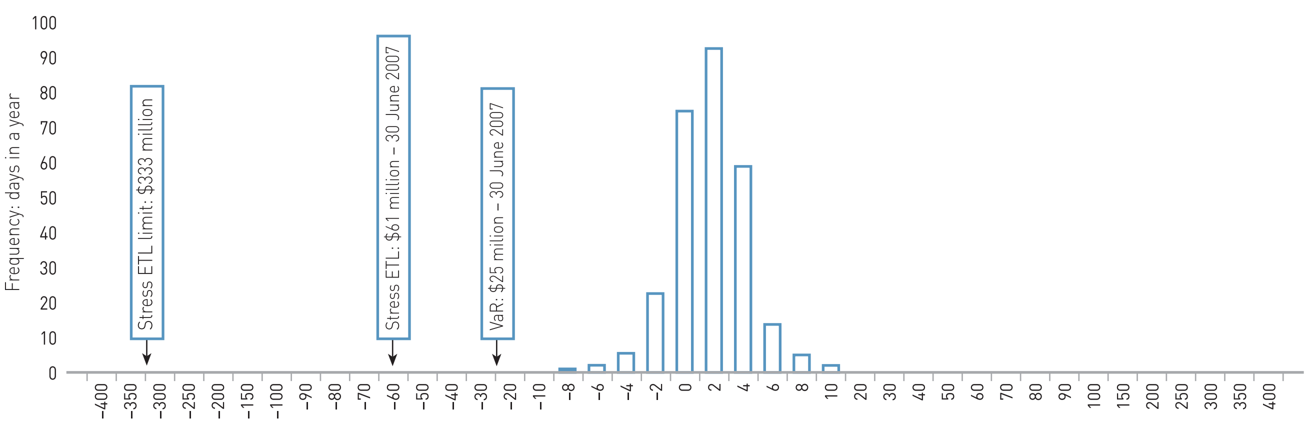
In order to validate the VaR calculations, back testing is conducted on a daily basis. This is accomplished by comparing the 1 day VaR at the 99% confidence level to actual trading profits or losses for that particular day.

The graph below shows the daily trading earnings profile for the past year. The distribution is skewed to the profit side showing that on average a profit of R10 million or more was realised on the majority of trading days. The graph also shows that exposures have been contained within risk limits during the trading year.

Distribution of trading income for the 2007 financial year
(PnL in ZAR millions)



Distribution of trading income for the 2007 financial year for offshore divisions
(PnL in USD millions)



Overall, market risk is considered to be within acceptable risk levels and is managed effectively in the Bank.

LIQUIDITY RISK

Liquidity risk is the risk that the Bank will not meet all payment obligations as liabilities fall due. It also represents the risk associated with not being able to realise assets to meet depositor repayment obligations in a stress scenario.

Liquidity risk: a broader definition:

Due to rapidly changing markets, technologies, governance, accounting policies, regulatory monitoring etc., risk management has become more sophisticated with liquidity risk being no exception. Understanding what the impacts of these factors are on liquidity is extremely important and it starts by broadening the definition of liquidity risk into Market Liquidity Risk and Funding Liquidity Risk. Funding liquidity risk is the risk of inability to effectively meet current and future cash flow and collateral requirements, without negatively affecting the normal course of business, the Bank's financial position and its reputation. Market liquidity risk is the risk that market disruptions or lack of market liquidity causes the Bank to be unable (or able, but with difficulty) to trade in specific markets, without affecting market prices significantly.

Liquidity risk governance

FRBG has a group wide funding and liquidity management process in place, across all jurisdictions in which FRBG operates. Liquidity risk is managed in terms of the Liquidity Risk Management framework, which is a sub framework of the Risk Framework. Liquidity risk is centrally managed by Balance Sheet Management with a dedicated liquidity risk management team reporting to the Asset and Liability Committee ("ALCO").

Liquidity risk management

Liquidity risk resides in the short term exposure the Bank faces where most of the bank's liabilities mature within 1 month with relatively few assets maturing in that period. This risk is managed through the following processes:

- Industry benchmarking;
- Analyse & decrease the concentration of short term funding maturities;
- Diversify the range of products offered to financial institutions;
- Maintain and manage a portfolio of available liquid securities;
- Perform assumptions based sensitivity analysis to assess potential cash flows at risk;
- Monitor sources of funding for contingency funding needs;
- Monitor daily cash flow movements across the Bank's various payment streams;
- Actively manage the daily settlements and collateral management processes;
- Create and monitor liquidity risk limits; and
- Maintain an appropriate term mix of funding.

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

Management of the Bank's funding profile

Funding risk is the risk that the Bank does not have an appropriate mix of funding sources. This represents the risk of not having a diversified funding base by market segment, term structure (term to maturity), product range and client mix. High concentration in any one of these categories poses the risk that the Bank may have insufficient funding opportunities for advances growth or during a liquidity stress scenario.

The Bank's overall funding profile is managed through funds transfer pricing principles, involvement in relevant product development and pricing committees of the Bank and development of funding product and pricing solutions with certain business units. The Bank's funding base is compared monthly with our industry peers to ensure that we are well diversified in terms of term structure and market segment of funding (financial institutions, government, corporates and retail clients). On both counts, the Bank is in line with market norms and has a well diversified funding portfolio.

Liquidity contingency planning

Product behaviour assumptions are assessed and stress analysis is performed on the current liquidity position in order to assess potential cash flows at risk. Consideration is given to a variety of appropriate contingency funding mechanisms aimed at ensuring the Bank remains liquid during stress conditions. In addition, the liquidity risk management team monitors and manages the Bank's portfolio of available liquid sources against these stress assumptions.

Overall, liquidity risk is considered to be within acceptable risk levels and is managed effectively in the Bank.

INTEREST RATE RISK IN THE BANKING BOOK

Interest rate risk in the banking book is a normal part of banking and can be an important source of profitability and shareholder value. It arises primarily from repricing differences between assets and liabilities associated with banking (i.e. non-trading) activities. Changes in interest rates can impact the Bank's earnings as well as the economic value of assets and liabilities. Interest rate risk in the banking book can be measured by the sensitivity of the balance sheet and income statement due to changes in interest rates.

Governance of interest rate risk in the banking book

Interest rate risk in the banking book is managed in terms of the Framework for the Management of Interest Rate Risk in the banking book, which is a sub framework of the Business Performance and Risk Management Framework.

Interest rate risk management is part of Balance Sheet Management in FRBG. The objective of Balance Sheet Management is to protect and enhance the Balance Sheet and income statement of FRBG. In line with this objective, interest rate risk in the banking book is managed from an earnings approach over a specified horizon, and changes to economic value are monitored and managed within defined risk tolerance levels. Economic value measures have the advantage that all future cash flows are considered and therefore they can also highlight risk beyond the earnings horizon.

The interest rate risk of FRBG is governed by ALCO, which is a sub committee of the FRBG Risk & Compliance Committee. Interest rate risk in the banking book is reported to ALCO on a monthly basis. FirstRand Bank Limited's banking book includes FNB, WesBank and RMB.

ALCO monitors the risk exposures and the effectiveness of the interest rate risk management and reports to the FRBG Risk and Compliance committee and the board. The committee meets monthly and is chaired by the CFO.

Management of interest rate risk in the banking book

The net interest rate risk profile of the domestic banking book is managed centrally by the Interest Rate Risk Management team in Balance Sheet Management. The interest rate profile is adjusted by changing the profile of liquid assets or through transactions in derivative instruments, based on FRBG's interest rate outlook with reference to other risk factors impacting the balance sheet, most notably credit risk. Risk measurement and hedging is, in general, done at an aggregate level (i.e. the net interest rate risk profile of the Bank is hedged). Micro-hedging is generally reserved for large and complex once-off transactions.

The banking book of RMB is managed separately. It is managed in terms of the RMB Market Risk Framework and limits are approved by the board.

Where possible, cash flow hedge accounting is applied to derivatives that are used for hedging interest rate risk in the banking book. In cases where hedges do not qualify for cash flow hedge accounting, mismatches may arise due to timing differences in the recognition of income between hedges, which are fair valued, and underlying banking book exposures, which may be accounted for on an accrual basis. These accounting mismatches are monitored regularly.

Interest rate risk measurement

Several measures are used to quantify interest rate risk in the banking book, some of which measure the risk from an earnings perspective and others from an economic value perspective. A selection of earnings and economic value measures are reported to ALCO on a monthly basis.

The table below shows the repricing gap for the banking book (excl. RMB) at the financial year end. All assets, liabilities and derivative instruments are placed in time buckets based on their repricing characteristics. Instruments which have no explicit contractual repricing or maturity dates are placed in time buckets according to management's judgement and analysis, based on the most likely repricing behaviour.

The natural position of the Bank remains asset sensitive (positively gapped), since interest earning assets reprice sooner than interest paying liabilities. This makes the projected net interest income (NII) vulnerable to a drop in interest rates.

Repricing schedule for the banking book as at 30 June 2007 (Rm)[1, 2]

	Term to repricing				
	Within 3 months	After 3 months, but within 6 months	After 6 months, but within 12 months	After 12 months	Non-rate sensitive
Net repricing gap	11 984	2 201	(4 412)	7 802	(17 575)
Cumulative repricing gap	11 984	14 185	9 773	17 575	–

1 This repricing analysis excludes RMB's banking book, as this is managed separately.

Several interest rate scenarios are modelled to assess their impact on projected earnings in the domestic banking book. For example, a 100 basis point instantaneous, parallel downward (upward) shift in the yield curve is modelled to determine the potential impact on net interest income over the next 12 months. Assuming no management intervention to mitigate the impact of changes in the level of interest rates, the projected net interest income would be reduced (increased) by R563 million (R559 million) in the first 12 months, which represents 3.8% (3.8%) of the projected 12 month net interest income in the domestic banking book.

Net interest income sensitivity of the domestic banking book as at 30 June 2007

	Change in projected 12 month net interest income	
	Rm	% of base 12m NII
Downward 100 bps	(563)	(3.8)
Upward 100 bps	559	3.8

The quantum of interest rate risk in the banking book undertaken by RMB was limited to R62.4m on a VaR basis as at 30 June 2007.

The interest rate risk associated with the banking book is within the board approved limits and is considered to be managed effectively.

OPERATIONAL RISK

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk but excludes strategic and reputational risk.

Operational risk governance

Operational risk is managed in terms of the Operational Risk Management Framework ("ORMF"), which is a sub framework of the Business Performance and Risk Management Framework. The FRBG Operational Risk Committee ("ORC") is a sub-committee of the FRBG Risk and Compliance committee, and is established to oversee the operational risk/reward profile of FRBG and its business entities. The role of the ORC is to govern, direct and co-ordinate operational risk management processes, in accordance with the ORMF in order to achieve an acceptable operational risk/reward profile and to facilitate compliance with regulatory requirements and world class operational risk practices.

Independent monitoring of operational risk occurs through a number of functions across FRBG. Examples of these functions include; Risk Insurance, Legal, Information Risk Services, Operational Risk Governance and Group Forensic Services. Each of the functions has defined roles, responsibilities as well as performance objectives to ensure operational risk is effectively managed and reported across FRBG.

The following table provides an overview of the operational risk categories, the specialist risk functions responsible for independent monitoring and the sub frameworks of the Business Performance and Risk Management Framework governing these risks:

OPERATIONAL RISK CATEGORY	SPECIAL RISK FUNCTIONS	FRAMEWORKS
Process Breakdowns and Issues	Operational Risk Governance	Operational Risk Management Framework
Project Risk	Project Risk Management	Operational Risk Management Framework
Outsourcing and Procurement	Operational Risk Governance	Operational Risk Management Framework
Financial Controls Breakdowns	Corporate Accounting	Group Finance Risk Management Framework
Business Continuity Risk	Business Continuity Management	Business Continuity Management Policy
Legal Risk	Group Legal Services	Legal Risk Management Framework
Information and Technology Risk Management	Information Risk Services	Information Risk Management Framework
Compliance Risk	Group Compliance	Compliance Management Framework
Fraud and Security Risks	Group Forensic Services	Security Policy
Human Resources Risk	Human Resources Functions	Human Resources Policy
Risk Insurance	Risk Insurance	Insurance Methodology

Operational Risk Management

The overall strategy of the operational risk management team is to ensure that risks arising from operational matters are identified and appropriately managed and mitigated, to protect the solvency of FRBG, the interest of all stakeholders, reputation of the Group, and enable the board to discharge its fiduciary and statutory duty to control the business activities responsibly and effectively.

The management of operational risk is inherent in the day to day execution of duties by management of business entities.

All categories of operational risk are managed effectively and considered to be within acceptable risk levels.

Operational Risk Management Methodologies and Tools

A number of operational risk management methodologies have been developed to deal with the practical implementation of operational risk management challenges. These methodologies are supplemented by a number of risk tools. These include:

- Risk Effectiveness Report – An intranet based, self assessment application to report on the effectiveness of risk management;
- Internal operational loss data and incident reporting – A well established system used to record losses and incidents;
- External data – subscription to an external database that is a repository of all global publicly known loss events;
- Key risk indicators – a process whereby measurable, quantifiable metrics are tracked to assess the level of operational risk and provide early warning indications of potential breakdowns;
- Incident and issue reporting – a process of reporting and escalating operational risk incidents and issues through the risk committee structures;
- Risk scenario analysis – an analysis based on past experience, or expert opinion to describe potential future threats to FRBG. Scenarios are quantified at various frequencies (probabilities of occurrence); and
- Risk assurance – Supports the risk control process by auditing the integrity and completeness of the financial reporting and management information systems and processes, as well as the relevant controls, which are used for the assessment and reporting of business performance.

Operational Risk Quantification and Capital Calculation

Operational risk capital is calculated based on the Basel II operational risk Standardised Approach (TSA) for internal capital allocation purposes. FRBG applied to the SARB for approval to use the Standardised Approach for regulatory capital purposes from 1 January 2008.

A more sophisticated operational risk quantification and capital calculation methodology is currently being developed further and implemented using the Advanced Measurement Approach (AMA) for operational risk in accordance with Basel II and SARB requirements.

Capital charges for operational risk will be calculated using statistical models under the Basel II AMA framework. Risk scenarios and internal loss data are the key inputs in the AMA operational risk capital modelling process and qualitative risk measures such as risk self assessment (RER), risk indicators (KRI) and audit findings will provide input to internal operational risk capital allocation mechanisms.

Business Continuity Management

Business continuity management in FRBG focuses on improving the resilience of banking operations in order to withstand unexpected disruptions and disasters.

Business continuity management is an ongoing process of assessing needs, identifying weaknesses and single points of failure, developing strategies and keeping plans current and tested. The approach involves following a well established annual cycle of actions, designed to ensure plans and associated measures are kept relevant and tested.

The status of readiness for disruptions is measured through quarterly reporting reflecting the organisation's compliance with the cyclical requirements, e.g. full testing of plans once per annum. These are reported through the governance structure to the FRBG Risk and Compliance Committee and the board.

A number of strategic business continuity projects have been launched during the year to improve management and effectiveness of this program. The Bank deems itself ready to continue services and profitability even if impacted by a wide range of possible disruptions or disasters.

Legal Risk

Legal risk is the risk of loss due to defective contractual arrangements, legal liability, both criminal and civil, incurred during operations by the inability of the organisation to enforce its rights or by failure to address identified concerns to the appropriate authorities where changes in the law are proposed (implemented changes are dealt with as part of compliance risk).

Legal risk is managed in terms of the Legal Risk Management Framework and through activities such as monitoring of new legislation, awareness initiatives, identifying significant legal risks and by managing and monitoring the impact of these risks through appropriate processes and procedures, one of which was the establishment of the Legal Risk Committee.

There were no significant legal risk breakdowns during the year.

Information Risk

Information risk is defined as the possibility or chance of harm being caused to a business as a result of a loss of confidentiality, integrity or availability of information.

Information has been described as "the lifeblood of an enterprise". Without accurate, trustworthy, up-to-date information being continually available, the enterprise is vulnerable to numerous threats. Implementation of sound Information Risk management not only protects against adverse influences, but also acts as a business enabler, supporting effective rollout of new services. It is therefore a strategic imperative of FRBG.

Information risk services establishes appropriate good practice and control measures to protect the information assets of FRBG and to ensure confidentiality, integrity and availability of FRBG's information. Information risk services assists and drives business entities of FRBG to establish appropriate good practice and control measures to protect the information assets of the Group.

The Information Technology Governance and Information Security Framework ("IT Framework") is a customisation of ISACA's Control Objectives for Information and related Technology (COBIT®) framework and the Information Security Forum's Standard of Good Practice for FirstRand. The IT Framework is approved by the TIMCO (Technology and Information Management Risk Committee), and applies to FRBG.

The IT Framework is used as:

- the definition of the objectives for managing IT Governance and Information Security;
- the outline of the processes that need to be addressed across the group in terms of IT Governance and Security; and
- the measurement framework for IT Governance and Security across FRBG.

Due to the changing nature of information risk and information security, FRBG constantly faces new threats and challenges. The Risk Management structure for information risk is specifically structured to enable and support the measurement of status and the resolution of issues.

Compliance Risk

Compliance risk is the risk of legal or regulatory sanction, material financial loss or loss to reputation a bank may suffer as a result of its failure to comply with laws, regulations, rules, related self-regulatory organisation standards and codes of conduct applicable to its banking activities.

The responsibility for managing compliance risk is delegated by the board of directors to the FRBG Risk and Compliance Committee, the Head of the FRBG Compliance department and to the heads of each of the divisions within FRBG. The head of each business is responsible to ensure that appropriate, effective and efficient risk management processes, systems and monitoring structures are in place and integrated in the day to day activities for the business entity and its sub-units.

Compliance officers deployed within business entities are independent compliance specialists with an appropriate skills base to support the business entity in identification and management of its compliance risks, to help find solutions to compliance risk issues and to provide a professional compliance risk analysis, control, reporting and monitoring service to the business entity directly and then to FRBG Risk and Compliance Committee.

Fraud and Security Risks

FRBG is committed through policies, frameworks and actions, in striving towards an environment that safeguards its customers, staff and assets. FRBG distributes and communicates its Ethics Policy to existing staff members on a quarterly basis. The Ethics Policy reiterates FRBG's commitment to a stance of Zero Tolerance to crime. All new staff members receive a copy of the Ethics Policy and are trained accordingly.

Criminal behaviour for the 2006/2007 financial year was evidenced with a new dimension, that of utilising new age technology as a conduit for perpetrating white collar crime. In the fight against crime FRBG established a fraud identification team using current fraud identification rules.

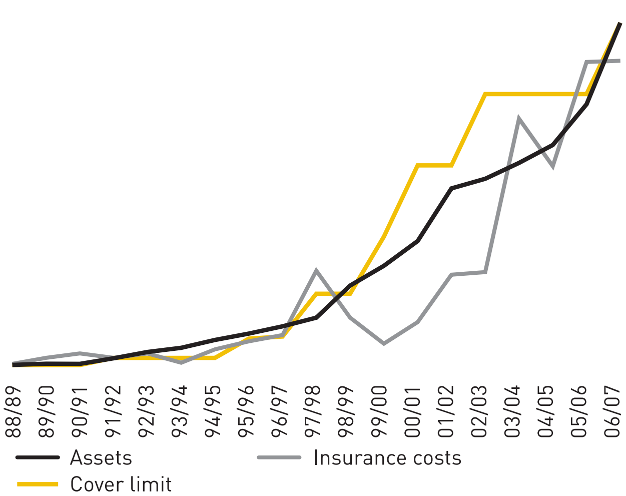
The Credit Card Fraud Forum, a Commercial Crime Forum and a Physical Security Forum within Enterprise Risk Management reports directly to the ORC and is responsible to find workable solutions for identified fraud and security risks.

FRBG believes it has appropriate governance structures in place to address fraud and security risks. The risk management structure for fraud and security risks is adequate to address these risks and find solutions to safeguard its people and assets.

Risk Insurance

Risk insurance risk is defined as the risk that material unexpected losses, arising from non-trading risks, are not identified and/or adequately covered by appropriate insurance risk financing structures.

Financial institutions insurance programme – increase in assets, insurance cover limit (base 1988/89)



The FirstRand Group has a global insurance risk financing programme in place with cover limits that are commensurate with the size and stature of the Group. The risks written into the programme are Bankers Blanket Bond, Computer Crime, Professional Indemnity, Directors & Officers Liability, Assets and various Liabilities.

In addition to working closely with the other risk management areas within the Group, annual benchmarking exercises also ensure that the limits of cover and the breadth of policy wordings take account of the growth and diversity of the FirstRand Group.

The financial institutions insurance programme is the largest within the Group's insurance risk financing structures and, as can be seen from the graph, the growth in total cost has not exceeded that of the Group, whereas the level of protection has kept pace with this growth.

We will continue to monitor developments within the Group and ensure that the insurance financing programme is adapted accordingly and where appropriate.

INTERNAL AUDIT

The internal auditors perform comprehensive process, systems, compliance and business audits across the spectrum of business entities to identify shortcomings and to augment the risk effectiveness self-assessments. All audit reports are reviewed at the appropriate audit committees of the business units. Major issues are escalated to higher levels of review. Internal Audit attends the meetings of the FRBG Audit, and Risk and Compliance committees.

Action plans to address identified process weaknesses are agreed with management of the relevant business unit and progress monitored by the risk committees, as appropriate. Internal Audit further conducts independent reviews of risk committees to ensure that they operate effectively and efficiently and comply with the requirements of good corporate governance.

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

CAPITAL MANAGEMENT STRATEGY AND ACTIONS

The Group aims to fulfil the requirements of shareholders and maintain an efficient capital structure with limited excesses, but which supports its short term growth requirements. It does not hold surplus capital for acquisitions and the need for raising additional capital is assessed on a transaction by transaction basis.

The Group's targeted return on invested shareholders' capital is 10% above the weighted average cost of capital. The Group constantly monitors whether this target is met by the business units, and if not, businesses are changed or terminated.

The year under review was characterised by strong growth, particularly from the Banking Group, which was funded by strong capital generation. It is expected that both domestic growth and international expansion will continue in the next financial year, which will increase the demand for capital and the Banking Group has taken certain actions to ensure this growth is funded in the most efficient manner. The Banking Group concluded Fresco II in August 2007, which was a partially funded synthetic securitisation of a portfolio of South African and international corporate credit exposures held on the balance sheet. This transaction relieved R1.4 billion of current regulatory capital under Basel I and R700 million under Basel II. The Banking Group will also hold a buffer for international expansion initiatives but will only allocate capital to these if they meet or exceed the current hurdle rates.

Basel II, which is applicable from 1 January 2008, will have a neutral impact on the capital requirements of the Banking Group. In addition, the new regulations will allow for more innovative Tier 1 and Tier 2 capital instruments, which the Banking Group is planning to issue to further strengthen the capital base and to fund growth.

Given the increase in interest rates over the past 12 months, the Banking Group expects retail lending to slow to more sustainable levels and this will reduce pressure on capital requirements. Whilst it is expected that corporate lending will increase, the use of the Banking Group's balance sheet will be limited to those asset classes that provide an appropriate return, and will continue to focus on an "originate and distribute" against an "originate and hold" strategy in light of recent market developments.

Capital supply and demand

Management aims to produce solid returns to the Banking Group's shareholders while maintaining sound capital ratios and a strong credit rating – all against the backdrop of an efficient capital structure with limited excesses. As a result, the Banking Group provides management with the necessary tools to manage this total capital ratio in order to uphold its sound capitalisation and credit ratings.

The most optimal level of capital is achieved after taking into account business units' organic growth requirements – provided financial targets are met – as well as expectations of investors, considerations of rating agencies, targeted capital ratios and future business plans.

Capital is generated primarily by means of earnings. The focus of the Banking Group remains on core capital, or normalised net asset value, which it believes is the core of measuring strength, performance and capital requirements. Total capital in the broader sense is further enhanced with the issuance of mezzanine debt capital such as preference shares and subordinated debt. Capital required from a growth point of view is reviewed and any excess above this level is returned to shareholders.

The current and projected capital positions of FirstRand Bank Limited and the Banking Group are monitored on an ongoing basis. A forecast of the future capital position is updated periodically, while the Banking Group continues to develop these over a longer period.

The year under review

Credit growth in the country remains strong, as evidenced by the robust growth in most categories of risk weighted assets – see graph on page 24. The sound capital position reported at the end of June 2006 has enabled the Bank to continue its participation in the economic activities of the country.

Strong earnings growth has solidified the Banking Group's Tier 1 and Total capital adequacy ratios. Coupled with a highly optimal capital structure, it has reduced the level of activity of the Banking Group in the financial markets during the period under review. While the number of transactions is lower, the absolute size of these initiatives is of a much larger nature.

Additionally, this optimal capital structure has afforded the Banking Group the opportunity to increase its internal focus on areas such as performance measurement – refer to the section on economic profit below – portfolio optimisation and other balance sheet initiatives. Given the new Basel II environment, this focus will shift to opportunities in the external market, such as the issuance of hybrid instruments that will be recognised as Tier 1 capital as well as other innovative instruments and optimisation initiatives.

The Bank periodically securitises instalment debtors and home loans primarily to enhance the Bank's liquidity position, diversify its sources of funding across the maturity spectrum and optimise the composition of its balance sheet. For the period under review, the Bank securitised instalment debtors of R10 billion (2006: R2 billion) and home loans of R1.9 billion (2006: R nil).

Subsequent to year end, the Bank synthetically securitised up to R20 billion worth of corporate loans (Fresco II), providing R1.4 billion of capital relief. The impact of the securitisation is demonstrated on the capital adequacy ratios of FirstRand Bank and the Banking Group in the next section.

CAPITAL ADEQUACY RATIOS

The registered banks in the Banking Group must comply with the SARB regulations and those of their home regulators. At FirstRand, capital adequacy is measured via three risk based ratios; core Tier 1 capital, Tier 1 capital, and Total capital.

While Tier 1 capital is a function of core capital and non redeemable non cumulative preference shares, Total capital also includes other items such as subordinated debt and an eligible portion of the total general allowance for credit losses. All of these capital measures are stated as a percentage of risk weighted assets. Risk weighted assets are measured primarily on perceived credit risk and include certain off balance sheet exposures, such as loan commitments and letters of credit.

The Banks Act requires the Banking Group to maintain a minimum level of capital based on the Banking Group's risk weighted assets and off balance sheet exposures. These minimum requirements are a Tier 1 capital ratio of 7.5% and a Total capital ratio of 10%. FirstRand Banking Group and FirstRand Bank have always held Tier 1 capital and Total capital well in excess of these required ratios.

The table below shows the capital adequacy position of the Bank and Banking Group as disclosed, as well as the ratio following the Fresco II securitisation (post year end) – details below.

FirstRand Banking Group

%	Total capital adequacy	Tier 1 capital
Disclosed capital adequacy	13.6	10.7
Fresco II saving*	0.4	0.4
Actual capital adequacy post year end	14.0	11.1

**Note this saving of R1.4 billion reduces to approximately R700 million under Basel II.*

FirstRand Bank Limited

%	Total capital adequacy	Tier 1 capital
Disclosed capital adequacy	11.4	8.3
Fresco II saving*	0.5	0.5
Actual capital adequacy after Fresco II	11.9	8.8

**Note this saving of R1.4 billion reduces to approximately R700 million under Basel II.*

The capital adequacy ratio for the Banking Group has improved over the last year and is now well above the target ratio of 12.0%.

The table below highlights the targeted and actual capital levels for the year ended 30 June 2007:

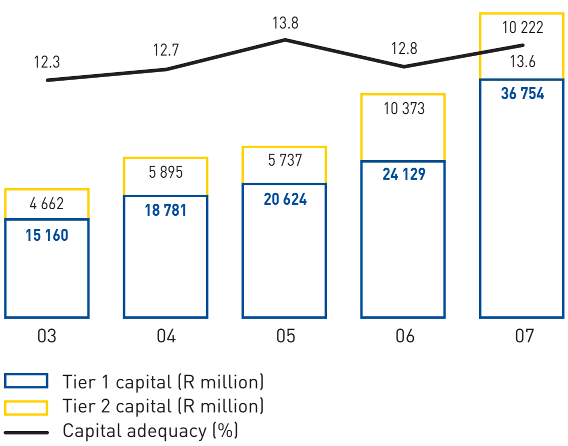
	Total capital adequacy		Tier 1 capital		Tier 1 capital – core	
%	Target	Actual	Target	Actual	Target	Actual
FRBG	> 12.0	13.6	> 9.25	10.7	> 7.25	9.8
FRB	> 11.5	11.4	> 8.75	8.3	> 6.75	7.2

The current total capital adequacy and Tier 1 ratios for the Bank are above the minimum target levels if the Fresco II securitisation is taken into account. Additionally, the current targets reflect a Basel II environment. During the course of the new financial year the Bank will issue hybrid instruments in terms of the new regulations, which should increase the Tier 1 and total capital adequacy ratios above the target levels.

The consolidated capital adequacy position of the Banking Group is set out below:

	At 30 June	
	2007	2006
Total capital adequacy (%)	**13.6**	12.8
Tier 1 (%)	**10.7**	9.0
Tier 1 – core capital (%)	**9.8**	7.8
Risk weighted assets (R million)	**344 368**	269 272

FirstRand Banking Group

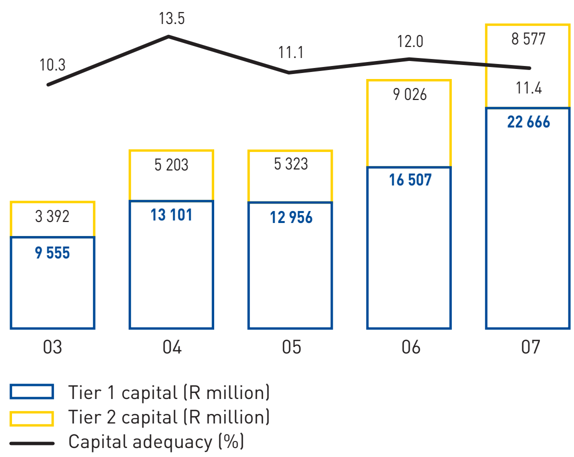


The capital adequacy position of FirstRand Bank Limited can further be analysed as follows:

	At 30 June	
	2007	2006
Total capital adequacy (%)	**11.4**	12.0
Tier 1 (%)	**8.3**	7.7
Tier 1 – core capital (%)	**7.2**	6.3
Risk weighted assets (R million)	**274 558**	213 557

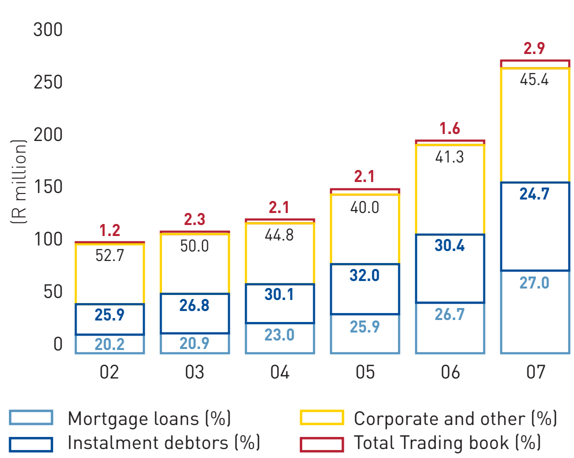
The graphs below indicate the regulatory capital position of the Banking Group and FirstRand Bank Limited over the last five years:

FirstRand Bank Limited



The next graph shows that the significant growth in risk weighted assets for FirstRand Bank Limited was driven primarily by home loans and corporate advances. The composition of instalment debtors is down significantly following the securitisation of assets within this category.

Total risk weighted assets



CAPITAL MANAGEMENT FRAMEWORK

At FirstRand Bank, the capital management framework governs this capital management process.

The purpose of the Bank's capital management framework is to create objectives, policies and principles relating to the capital management process of book capital, regulatory capital and economic capital. It ensures that management defines, measures and invests all forms of capital in an integrated and well structured way, and that the Bank maintains sufficient capital consistent with the Bank's risk profile.

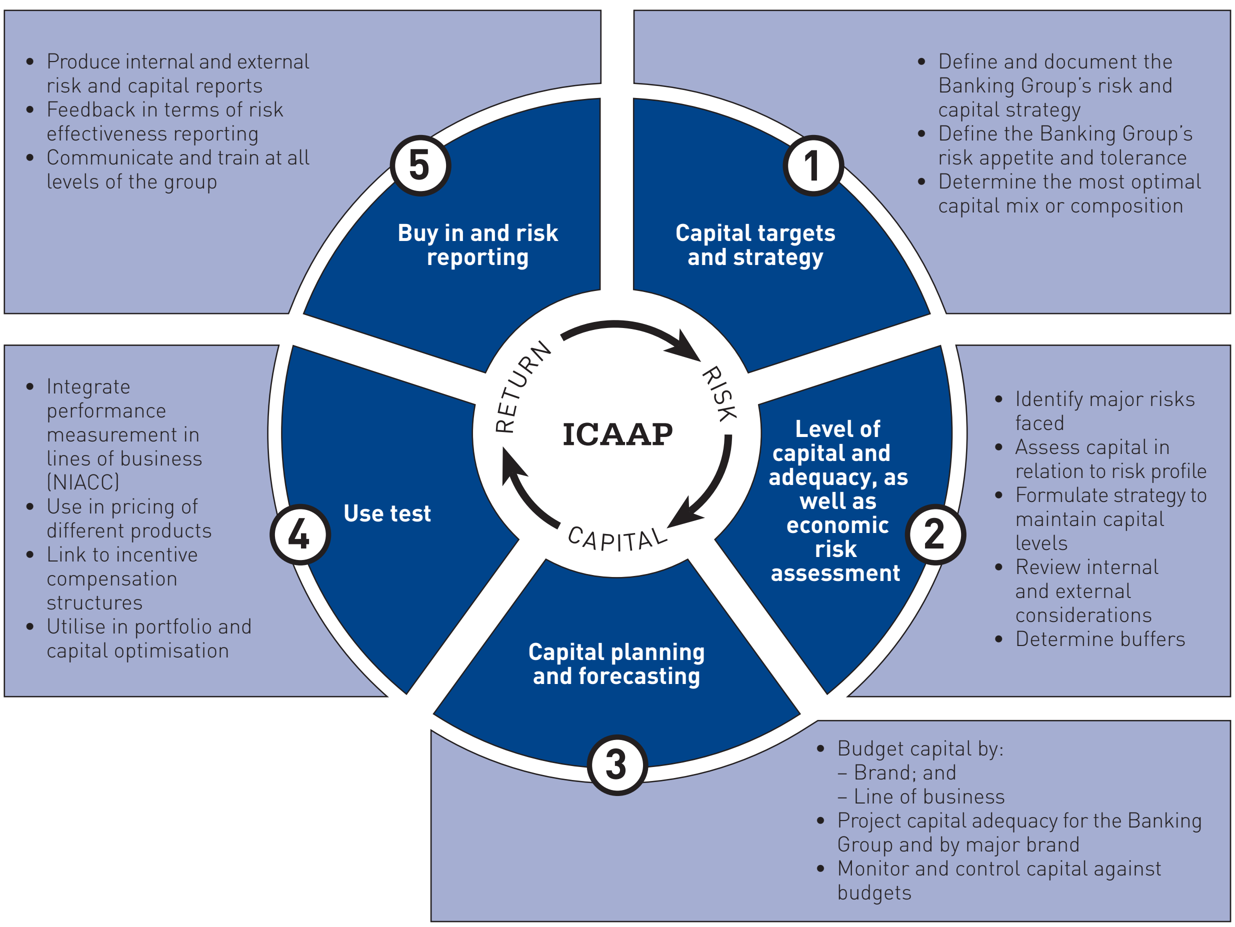
As a result, the framework assesses the overall capital adequacy commensurate with the Bank's risk profile, along with a strategy for maintaining the capital levels. This is done through the proactive management of (1) the level of capital; (2) the investment of capital; and (3) the allocation of capital.

The team also manages and monitors the Banking Group's capital from three perspectives: (1) regulatory capital; (2) economic capital; and (3) shareholders' capital. While the onus is on each of the Banking Group's subsidiaries to ensure that the respective capital adequacy ratios are calculated and maintained in compliance with local regulations, the capital management team provides central oversight and consolidated capital management across these different entities.

(1) Level of capital

The targeted level of capital for the Banking Group is governed by the Internal Capital Adequacy Assessment Process ("ICAAP"). The Banking Group's ICAAP document has been reviewed and approved by the Capital Management Committee and Main Risk Committee. This document is updated annually.

ICAAP is part of the new Basel II Capital Accord Pillar 2 requirements. In Pillar 2, risks are identified and risk management assessed from a wider perspective, to supplement the capital requirements calculated within the scope of Pillar 1. The process is best demonstrated in the next diagram.



The Banking Group is capitalised at the higher of economic and regulatory capital (inclusive of an appropriate buffer). This is done at both Group level and in each of the operating entities within the Banking Group.

Economic capital is defined as the capital which the Banking Group must hold, commensurate with its risk profile under severe stress conditions, to give comfort to third party stakeholders (shareholders, counterparties and depositors, rating agencies and regulators) that it will be able to discharge its obligations to third parties in accordance with an indicated degree of certainty even under stress conditions, and would continue to operate as a going concern entity. A "bottom up" statistical economic capital calculation is done at a 99.9% confidence interval.

(2) Investment of capital

Share capital and reserves are managed as part of the net interest rate risk profile of the Bank by adjusting the profile of liquid assets or through transactions in derivative instruments. For other subsidiaries capital is generally placed in the funding pool.

(3) Allocation of capital

Capital is allocated to business units at the higher of:

- Regulatory capital (plus buffer); and
- Economic capital.

The Banking Group's ICAAP framework assists in the attribution of capital to business units in proportion to the risks inherent in their respective businesses, which also drives the optimisation of returns in terms of risk and reward. It allows for direct comparable performance measurements through Net income after capital charge ("NIACC") and Return on Equity ("ROE").

The framework also serves to consistently measure and align economic capital with the underlying risks associated with the activities of each business unit. The capital attribution methodologies involve a number of assumptions and estimates that are revised periodically. Any changes to these factors directly impact other measures such as business units' return on average equity, and economic profit or NIACC.

The economic capital allocation methodology is broadly based on the advanced approach followed under Basel II. The economic capital allocation is widely used in the Banking Group. It is a key input into deal pricing, risk management, the measurement of business performance on a risk adjusted basis, and strategic decisions regarding the capitalisation of FirstRand Bank and the Banking Group.

The risk adjusted capital is calculated for both Bank and non bank entities and takes into account the following risk types (Pillar 1 and Pillar 2 of Basel II accord):

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

The following graph indicates the economic capital analysis per risk type for 2007:

Risk type split – including business risk – 2007

RETURN ON EQUITY AND ECONOMIC PROFIT

Return on equity ("ROE")

The return on equity for the Banking Group is 31%, compared to the prior year of 28%.

Analysis of shareholders' equity and reserves

Total shareholders' equity and reserves per the Banking Group balance sheet totalled R39.2 billion as at 30 June 2007 (R30.9 billion in 2006). The average ordinary shareholders' equity and reserves for the year amounted to R31.9 billion (2006: R26.1 billion).

Segmental ROE

For purposes of segmental ROE reporting, ordinary shareholders' funds have been attributed to business units based on economic capital utilisation, inclusive of an appropriate buffer. Economic capital utilisation is calculated for both regulated and unregulated businesses and incorporates an assessment of the capital required for the risk incurred by the business, as per the methodology described elsewhere in the section on capital management.

The tables below provide a summary of the ROE numbers for the main business units based on unaudited normalised earnings attributable to ordinary shareholders:

Year ended 30 June 2007

R million (unaudited)	Normalised earnings	ROE %
FNB	4 303	33
RMB	4 029	43
WesBank	988	18
FNB Africa	456	33
Group Support	33	
Total	9 809	31

Year ended 30 June 2006

R million (unaudited)	Normalised earnings	ROE %
FNB	3 415	32
RMB	2 253	32
WesBank	1 120	27
FNB Africa	377	28
Group Support	45	
Total	7 210	28

Normalised earnings include the net income on capital earned by the respective divisions.

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

Allocating equity involves the use of assumptions, interpretations and techniques that are regularly reviewed and updated as deemed necessary. The allocation of risk capital is based on certain assumptions, interpretations and techniques that quantify economic risks as described in the "allocation of capital" section. Banks that disclose information on similar allocations and related return measures may use different assumptions, interpretations and techniques.

Economic profit, or net income after capital charge ("NIACC")

Many banks use a risk reward methodology to actively manage their portfolios of investments or activities, and for performance evaluation. At FirstRand, NIACC – a derivative from economic profit – is a performance measure that has been in place since July 2005.

The incorporation of an opportunity cost of equity capital into the Banking Group's performance measurement system potentially can offer great benefits in terms of improved risk management, greater efficiency in the use of capital, and quicker and more informed decision making on the part of managers. It also aligns the interests of management with those of shareholders.

Economic profit and risk adjusted performance measurement principles have been embedded in the management culture of the organisation through economic profit contribution measurement. Economic profit is a function of the unaudited normalised earnings and capital utilised in the businesses.

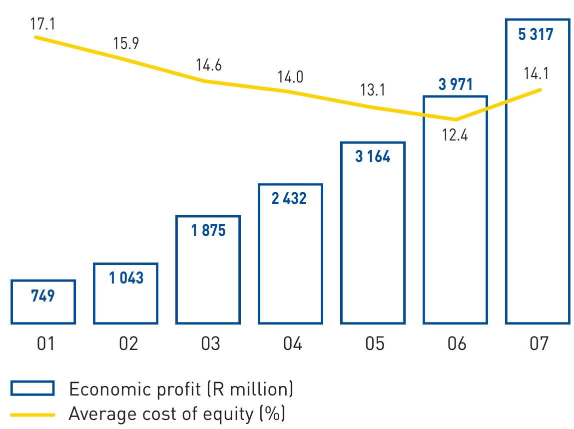
Economic profit = normalised earnings – (cost of equity x average ordinary shareholders' equity and reserves).

	At 30 June	
R million	2007	2006
Normalised earnings (unaudited)	10 041	7 463
Preference dividends	(232)	(253)
Normalised earnings attributable to ordinary shareholders (unaudited)	9 809	7 210
Charge for capital*	(4 492)	(3 239)
Net economic profit	5 317	3 971
Average ordinary shareholders' equity	31 939	26 143
Return on average ordinary shareholders' equity (%)	30.7	27.6

** The capital charge is based on an average cost of equity of 14.1% (2006: 12.4%).*

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

Net economic profit*
CAGR: 39%



*Economic profit for 2001 to 2004 based on pre-IFRS basis

FirstRand subsidiaries continue to enjoy strong counterparty credit ratings in South Africa. The current strong credit rating is supported by the solid capital position, the diverse portfolio of activities within the Group, prudent risk management and an enterprise wide focus on value creation.

	Fitch Ratings	Standard and Poor's	Moody's Investor Services
FirstRand Bank Limited			
Foreign currency	–	–	–
– Long term	A-	BBB+	Baa1
– Short term	F2	A-2	P-2
– Outlook	Stable	Stable	–
Local currency	–	–	–
– Long term	A-	BBB+	A1
– Short term	–	A-2	P-1
– Outlook	Stable	Positive	–
National	–	–	–
– Long term	AA+(zaf)	–	Aa1.za
– Short term	F1+(zaf)	–	P-1.za
– Outlook	Stable	–	–
Individual	B/C	–	–
Support	2	–	–
Counterparty credit	–	BBB+/A-2/Positive	–
Bank financial strength	–	–	C
Outlook	–	–	Stable

FirstRand Bank Limited

R million	At 30 June 2007	2006
Regulatory capital		
Tier 1	22 666	16 507
Share capital	4	4
Share premium	6 161	3 372
Non redeemable non cumulative preference shares	3 000	3 000
Reserves	14 123	10 713
Less: Impairments	(622)	(582)
Tier 2	8 577	9 026
Subordinated debt instruments	7 183	6 867
Qualifying provisions	2 295	2 159
Less: Impairments	(901)	–
Total regulatory capital	31 243	25 533
Capital adequacy ratios (%)		
Tier 1	8.3	7.7
Tier 2	3.1	4.3
Total	11.4	12.0

Calculation of risk weighted assets of FirstRand Bank Limited

R million	2007	2006	Risk weighting	Risk weighted assets 2007	Risk weighted assets 2006
Banking book	980 560	670 474		266 538	210 175
Cash, own bank and capital government advances	105 961	123 525	0%	–	–
Central Securities Depository Participation	530 213	268 011	0%	–	–
Public sector body advances and letters of credit	1 794	575	5-10%	179	42
Other bank advances and letters of credit	25 561	24 021	20%	5 112	4 804
Mortgage advances, remittances in transit and performance related guarantees	111 568	98 026	50%	55 784	49 013
Other advances and lending related guarantees	197 231	149 006	100%	197 231	149 006
Counterparty risk exposure	8 232	7 310	100%	8 232	7 310
Trading book	8 020	3 382		8 020	3 382
Position risk	6 280	2 336	100%	6 280	2 336
Counterparty risk exposure	1 740	955	100%	1 740	955
Large exposures	–	91	100%	–	91
	988 580	673 856		274 558	213 557

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

FirstRand Bank received in principle approval from the South African Reserve Bank ("SARB") to use the advanced internal ratings based approach for credit risk under Basel II. The final approval will only be granted after the finalisation of the new banking regulations. The Bank is currently working with the SARB to address any further refinements. The Bank also received internal model approval for market risk. The operational risk application for the advanced measurement approach will be submitted in 2008, with the targeted implementation during 2009.

The capital impact of Basel II is expected to be largely neutral with a bias to a potential increase due to the changes in the credit cycle.

The directors of FirstRand Bank Limited are required to maintain adequate accounting records and to prepare financial statements for each financial year that fairly present the state of affairs of FirstRand Bank Limited at the end of the financial year, and of the results and cash flows for the year. In preparing the accompanying financial statements, International Financial Reporting Standards have been followed. Suitable accounting policies have been applied, and reasonable estimates have been made. The Board approves significant changes to accounting policies and the effects of these are fully explained in the annual financial statements. The financial statements incorporate full and responsible disclosure in line with the FirstRand Bank Limited's philosophy on corporate governance. The external auditors, PricewaterhouseCoopers Inc. and Deloitte & Touche, have audited the financial statements and their unqualified report appears on page 32.

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

The financial statements for the year ended 30 June 2007, which appear on pages 33 to 110, have been approved by the Board of directors and are signed on its behalf by:

JP Burger	**SE Nxasana**
Chief Financial Officer	Chief Executive Officer

Sandton
31 October 2007

TO THE MEMBER OF FIRSTRAND BANK LIMITED

We have audited the parent company financial statements of FirstRand Bank Limited, which comprise the directors' report, the balance sheet as at 30 June 2007, the income statement, the statement of changes in equity and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 33 to 110 and pages 3 to 7 (excluding capital adequacy requirements) of the Risk Report.

Directors' responsibility for the parent company financial statements

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

Auditor's responsibility

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

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

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

Opinion

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

Deloitte & Touche

Deloitte & Touche
W Klaassen
Partner
Registered Auditor

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc
J Grosskopf
Director
Registered Auditor

31 October 2007
Sandton

NATURE OF BUSINESS

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

SHARE CAPITAL

The following shares were issued during the period:

Ordinary shares pursuant to the conversion of compulsory convertible debentures.

23 October 2006	1 ordinary share at R2.00
26 March 2007	1 ordinary share at R2.00

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

DIVIDENDS

Ordinary cash dividends of R 2 665 million were paid during the 2007 financial year (2006: R2 225 million).

OWNERSHIP OF THE BANK

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

PROFIT AFTER TAX

Profit after tax amounted to R5 388 million (2006: R4 995 million).

DIRECTORS' INTERESTS IN THE BANK

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

DIRECTORATE

During the year Ms Z Rylands was appointed as a director of FirstRand Bank Holdings and FirstRand Bank. Mr MW King retired from both boards having reached the mandatory retirement age of 70 as per the Articles of the company.

CONSOLIDATED ACCOUNTS

As outlined under note 2 of the accounting policies – Basis of Preparation, Group annual financial statements have been prepared.

POST-BALANCE SHEET EVENTS

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

SHARE PURCHASE/OPTION SCHEME

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

	FNB Scheme 2007	FNB Scheme 2006	RMB Scheme 2006
Number of options in force at the end of year (million)	**3.3**	6.9	–
Granted at prices ranging between (cents)	**586 – 724**	325 – 1 069	n/a
Number of options granted during year (million)	**–**	–	–
Number of options exercised/released during year (million)	**(3.6)**	(4.3)	(0.8)
Market value range at date of exercise/release (cents)	**1 650 – 2 524**	325 – 1 069	2 445 – 2 697
Number of unallocated shares available for future options (million)	**–**	–	–
Number of options cancelled/lapsed during the year (million)	**–**	–	–
Value of company loan to share option trust (R million)	**28.6**	36.3	–
The RMB Scheme terminated on 30 June 2006			

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

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

BW Unser
Company Secretary

1. INTRODUCTION

FirstRand Bank Limited adopts the following accounting policies in preparing its financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated.

2. BASIS OF PRESENTATION

The Bank's audited financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The Bank has prepared these stand alone financial statements for regulatory purposes.

The Bank has also prepared consolidated financial statements in accordance with IFRS for the Bank and its subsidiaries (the "Group").

In the consolidated financial statements, subsidiary undertakings (which are companies that the Group, directly or indirectly, has an interest of more than half of the voting rights or has power to exercise control over the operations) have been consolidated.

The consolidated financial statements can be obtained on request from the company secretary.

Users of these stand alone financial statements should read them together with the Group's financial statements in order to obtain a full understanding of the Group's financial position and results of operations.

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

These financial assets and liabilities include:

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

The preparation of audited financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are outlined in note 34.

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

3. SUBSIDIARY COMPANIES

Subsidiaries are companies in which the Bank, directly or indirectly, has the power to exercise control over the operations for its own benefit. The Bank considers the existence and effect of potential voting rights that are presently exercisable or convertible in determining control.

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

4. ASSOCIATES AND JOINT VENTURES

Associates are entities in which the Bank holds an equity interest of between 20% and 50%, or over which it has the ability to exercise significant influence, but does not control. Joint ventures are entities in which the Bank has joint control over the economic activity of the joint venture, through a contractual arrangement. Investments acquired and held exclusively with the view to dispose in the near future (12 months) are not accounted for using the equity accounting method, but carried at fair value less cost to sell in terms of the requirements of IFRS 5.

The Bank recognises its interest in associates and joint ventures at cost less amounts written off.

5. INTEREST INCOME AND EXPENSE

The Bank recognises interest income and expense in the income statement for instruments measured at amortised cost using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the average expected life of the financial instrument or portfolios of financial instruments.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

From an operational perspective, the Bank suspends the accrual of contractual interest on non-recoverable advances. However, in terms of IAS 39, interest income on impaired advances is thereafter recognised based on the original effective interest rate used to determine the discounted recoverable amount of the advance. This difference between the discounted and undiscounted recoverable amount is released to interest income over the expected collection period of the advance.

Instruments with characteristics of debt, such as redeemable preference shares, are included in loans and advances or long-term liabilities. Dividends received or paid on these instruments are included and accrued in interest income and expense using the effective interest method.

6. TRADING INCOME

The Bank includes profits, losses and fair value adjustments on trading financial instruments (including derivative instruments which do not qualify for hedge accounting in terms of IAS 39) as well as financial instruments designated at fair value in fair value income as it is earned.

7. FEE AND COMMISSION INCOME

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

Certain fees and transaction costs that form an integral part of the effective interest rate of available-for-sale and amortised cost financial instruments are capitalised and recognised as part of the effective interest rate of the financial instrument over the expected life of the financial instruments. These fees and transaction costs are recognised as part of the net interest income and not as non-interest revenue.

Commission income on acceptances, bills and promissory notes endorsed is credited to income over the lives of the relevant instruments on a time apportionment basis.

8. DIVIDEND INCOME

The Bank recognises dividends when the Bank's right to receive payment is established. This is on the "last day to trade" for listed shares and on the "date of declaration" for unlisted shares. Dividend income includes scrip dividends, irrespective of whether there is an option to receive cash instead of shares.

9. FOREIGN CURRENCY TRANSLATION

9.1 Functional and presentation currency

The financial statements are presented in Rand ("R"), which is the functional and presentation currency of the holding company of the Bank.

9.2 Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss.

Foreign currency translation differences on monetary items classified as available–for-sale, such as foreign currency bonds designated as available-for-sale, are not reported as part of the fair value gain or loss in equity, but are recognised as a translation gain or loss in the income statement when incurred.

Translation differences on non-monetary items classified as available–for-sale, such as equities, are included in the available-for-sale reserve in equity when incurred.

10. BORROWING COSTS

The Bank capitalises borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset up to the date on which construction or installation of the assets is substantially completed. Other borrowing costs are expensed when incurred.

11. DIRECT AND INDIRECT TAX

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

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

Indirect taxes are disclosed separately from direct tax in the income statement.

The charge for current tax is based on the results for the year as adjusted for items which are non-taxable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date, in each particular jurisdiction within which the Bank operates.

12. RECOGNITION OF ASSET

12.1 Assets

The Bank recognises assets when it obtains control of a resource as a result of past events, and from which future economic benefits are expected to flow to the entity.

12.2 Contingent assets

The Bank discloses a contingent asset where, as a result of past events, it is highly likely that economic benefits will flow to the Bank, but this will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events which are not wholly within the Bank's control.

13. LIABILITIES, PROVISIONS AND CONTINGENT LIABILITIES

13.1 Liabilities and provisions

The Bank recognises liabilities, including provisions, when:

- it has a present legal or constructive obligation as a result of past events;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate of the amount of the obligation can be made.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of the obligation as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

13.2 Contingent liabilities

The Bank discloses a contingent liability when:

- it has a possible obligation arising from past events, the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or
- it is not probable that an outflow of resources will be required to settle an obligation; or
- the amount of the obligation cannot be measured with sufficient reliability.

14. SALE AND REPURCHASE AGREEMENTS AND LENDING OF SECURITIES

The financial statements reflect securities sold subject to a linked repurchase agreement ("repos") as trading or investment securities. These instruments are recognised at fair value through profit or loss. The counterparty liability is included in deposits from other banks, other deposits, or deposits due to customers, as appropriate at amortised cost.

Securities purchased under agreements to resell ("reverse repos") are recorded as loans and receivables to other banks or customers as appropriate and recognised at amortised cost. The difference between purchase and resale price is treated as interest and accrued over the life of the reverse repos using the effective interest method.

Securities lent to counterparties are retained in the financial statements of the Bank.

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

15. OFFSETTING FINANCIAL INSTRUMENTS

The Bank offsets financial assets and liabilities and reports the net balance in the balance sheet where:

- there is a legally enforceable right to set off; and
- there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

16. CASH AND CASH EQUIVALENTS

In the cash flow statement, cash and cash equivalents comprise:

- coins and bank notes;
- money at call and short notice;
- balances with central banks;
- balances guaranteed by central banks; and
- balances with other banks.

All balances included in cash and cash equivalents have a maturity date of less than three months.

17. FINANCIAL INSTRUMENTS

17.1 General

Financial instruments carried on the balance sheet include all assets and liabilities, including derivative instruments, but exclude investments in associates and joint ventures, commodities, property and equipment, assets and liabilities of insurance operations, deferred tax, tax payable, intangible assets, inventory and post retirement liabilities.

The Bank recognises financial assets and financial liabilities on it's balance sheet when, and only when, the Bank becomes a party to the contractual provisions of the instrument.

17.2 Financial assets

The Bank classifies its financial assets in the following categories:

- financial assets at fair value through profit or loss;
- loans and receivables;
- available-for-sale financial assets; and
- held-to-maturity investments.

Management determines the classification of the asset at initial recognition.

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method, less any impairment. Gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss are included in the income statement in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity, until the financial asset is derecognised or impaired, at which time the cumulative gain or loss previously recognised in equity is recognised in the income statement as gains and losses from investment securities. However, interest calculated on available-for-sale financial assets using the effective interest method is recognised in the income statement as part of interest income. Dividends on available for sale equity instruments are recognised in the income statement when the entity's right to receive payment is established.

The Bank recognises purchases and sales of financial instruments that require delivery within the time frame established by regulation or market convention (regular way purchases and sales) at settlement date, which is the date the asset is delivered or received. Otherwise such transactions are treated as derivatives until settlement.

The fair values of quoted investments in active markets are based on current bid prices. Alternatively, the Bank derives fair value from cash flow models or other appropriate valuation models where an active market does not exist. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

17.2.1 Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception.

A financial asset is designated as a trading instrument if acquired principally for the purpose of selling in the short term or if it forms part of a portfolio of financial assets in which there is evidence of short term profit taking. Derivatives are also categorised as held for trading unless they are designated as effective hedges.

Assets are classified on initial recognition as at fair value through profit or loss to the extent that it produces more relevant information because it either:

(i) Results in the reduction of measurement inconsistency (or accounting mismatch) that would arise as a result of measuring assets and liabilities and the gains and losses on them on a different basis; or

(ii) Is a group of financial assets and/or financial liabilities that is managed and its performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy, and this is the basis on which information about the assets and/or liabilities is provided internally to the entity's key management personnel; or

(iii) Is a financial asset or liability containing significant embedded derivatives that clearly require bifurcation.

The Bank recognises fair value adjustments on financial assets classified as at fair value through profit or loss in trading income. Interest income on these assets is included in the fair value adjustments.

17.2.2 Loans and receivables

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market.

This category also includes purchased loans and receivables, where the Bank has not designated such loans and receivables in any of the other financial asset categories.

17.2.3 Held-to-maturity

Held-to-maturity investments are non derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold-to-maturity. Were the Bank to sell other than an insignificant amount of held-to-maturity investments, the entire category would be tainted and reclassified as available-for-sale.

The Bank carries held-to-maturity financial assets and investments at amortised cost using the effective interest method, less any impairment.

17.2.4 Available-for-sale

Available-for-sale financial assets are non derivative financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

The Bank recognises gains and losses arising from changes in the fair value of available for sale assets, in equity. It recognises interest income on these assets as part of interest income, based on the instrument's original effective interest rate. Interest income is excluded from the fair value gains and losses reported in equity. When the advances and receivables or investment securities are disposed of or impaired, the related accumulated fair value adjustments are included in the income statement as gains and losses from investment securities.

17.3 Financial liabilities

Financial liabilities are initially recognised at fair value less transaction costs for all financial liabilities not carried at fair value through profit or loss. Financial liabilities are subsequently measured at amortised cost and interest is recognised over the period of the borrowing using the effective interest method.

A financial liability is classified as a trading instrument if acquired principally for the purpose of selling in the short term or if it forms part of a portfolio of financial liabilities in which there is evidence of short term profit taking. Derivatives are also categorised as held for trading unless they are designated as effective hedges.

The Bank designates certain liabilities at fair value through profit or loss to the extent that it produces more relevant information because it either:

(i) Results in the reduction of a measurement inconsistency (or accounting mismatch) that would arise as a result of measuring assets and liabilities and the gains and losses on them on a different basis; or

(ii) A group of financial assets and/or financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and this is the basis on which information about the assets and/or liabilities is provided internally to the entity's key management personnel; or

(iii) A liability containing significant embedded derivatives that clearly requires bifurcation.

The Bank recognises fair value adjustments on financial liabilities classified as at fair value through profit and loss in trading income.

The fair values of financial liabilities quoted in active markets are based on current ask/offer prices. If the market for a financial liability is not active, the Bank establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

17.4 Embedded derivatives

The Bank treats derivatives embedded in other financial or non-financial instruments, such as the conversion option in a convertible bond, as separate derivatives when:

- their risks and characteristics are not closely related to those of the host contract; and
- the host contract is not carried at fair value, with gains and losses reported in income.

Where embedded derivatives meet the criteria for hedge accounting, they are accounted for in terms of the applicable hedge accounting rules.

17.5 Derecognition of assets and liabilities

The Bank derecognises an asset when:

(i) the contractual rights to the asset expires; or

(ii) where there is a transfer of the contractual rights that comprise the asset; or

(iii) the Bank retains the contractual rights of the assets but assumes a corresponding liability to transfer these contractual rights to another party and consequently transfers substantially all the risks and benefits associated with the asset.

Where the Bank retains substantially all the risks and rewards of ownership of the financial asset, the Bank continues to recognise the financial asset.

If a transfer does not result in derecognition because the Bank has retained substantially all the risks and rewards of ownership of the transferred asset, the Bank continues to recognise the transferred asset in its entirety and recognises a financial liability for the consideration received. In subsequent periods, the Bank recognises any income on the transferred asset and any expense incurred on the financial liability.

Where the Bank neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, the Bank determines whether it has retained control of the financial asset. In this case:

(i) if the Bank has not retained control, it derecognises the financial asset and recognise separately as assets or liabilities any rights and obligations created or retained in the transfer; or

(ii) if the Bank has retained control, it continues to recognise the financial asset to the extent of its continuing involvement in the financial asset.

The Bank derecognises a financial liability, or part of a financial liability, when it is extinguished, i.e. when the obligation is discharged or cancelled or expired.

18. IMPAIRMENTS OF FINANCIAL ASSETS

18.1 General

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount.

18.2 Assets carried at amortised cost

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event(s) has an adverse impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and performs a collective assessment for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the financial assets' carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Bank may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Bank's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due in accordance with the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Bank and historical loss experience for assets with similar credit risk characteristics. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows for groups of assets reflect and are directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related allowance account. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

18.3 Available-for-sale financial assets

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement, is removed from equity and recognised in the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

19. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING

The Bank initially recognises derivative financial instruments, including foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, currency and interest rate options (both written and purchased) and other derivative financial instruments, in the balance sheet at fair value. Derivatives are subsequently remeasured at their fair value with all movements in fair value recognised in the income statement, unless it is a designated and effective hedging instrument.

The fair value of publicly traded derivatives are based on quoted bid prices for assets held or liabilities to be issued, and current offer prices for assets to be acquired and liabilities held.

The fair value of non-traded derivatives is based on discounted cash flow models and option pricing models as appropriate. The Bank recognises derivatives as assets when the fair value is positive and as liabilities when the fair value is negative.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Bank recognises profits or losses on day one.

Where fair value is determined using valuation techniques whose variables include non observable market data, the difference between the fair value and the transaction price ("the day one profit or loss") is deferred in equity and released over the life of the instrument. However, where observable market factors that market participants would consider in setting a price subsequently become available, the balance of the deferred day one profit or loss is released to income.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Bank designates certain derivatives as either:

(i) hedge of the fair value of recognised assets or liabilities or firm commitments ("fair value hedge"); or,

(ii) hedge of highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction ("cash flow hedge").

The hedge of a foreign currency firm commitment can either be accounted for as a fair value or a cash flow hedge.

Hedge accounting is used for derivatives designated in this way, provided certain criteria are met.

The Bank documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Bank also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

19.1 Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used, is amortised to the income statement over the period to maturity. The adjustment to the carrying amount of a hedged equity security remains in retained earnings until the disposal of the equity security.

19.2 Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in the cash flow hedging reserve in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are recycled to the income statement in the periods in which the hedged item will affect the income statement (for example, when the forecast sale that is hedged takes place).

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Where the forecasted transaction or a foreign currency firm commitment results in the recognition of a non financial asset or a liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the non financial asset or liability. For financial assets and liabilities, the Bank transfers amounts deferred in equity to the income statement and classifies them as revenue or expense in the periods during which the hedged firm commitment or forecasted transaction affects the income statement.

20. COMMODITIES

Commodities where the Bank has a longer term investment intention are carried at the lower of cost or net realisable value. Cost is determined using the weighted average method. Cost excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Cost of commodities includes the transfer from equity of any gains or losses on qualifying cash flow hedges relating to purchases of commodities.

Commodities where the Bank has a shorter term trading intention are carried at fair value less cost to sell in accordance with the broker trader exception in IAS 2.

Forward contracts to purchase or sell commodities, where net settlement occurs or where physical delivery occurs and the commodities are held to settle a further derivative contract, are recognised as derivative instruments and fair valued.

21. PROPERTY AND EQUIPMENT

The Bank carries property and equipment at historical cost less depreciation and impairment, except for land which is carried at cost less impairment. Historical cost includes expenses that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. The carrying amount of the replacement part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Property and equipment are depreciated on a straight-line basis at rates calculated to reduce the book value of these assets to estimated residual values over their expected useful lives.

Freehold properties and properties held under finance lease are broken down into significant components that are depreciated to their respective residual values over the economic lives of these components.

The periods of depreciation used are as follows:

- Leasehold premises — Shorter of estimated life or period of lease
- Freehold property and property held under finance lease:
  - Buildings and structures — 50 years
  - Mechanical and electrical — 20 years
  - Components — 20 years
  - Sundries — 3 – 5 years
- Computer equipment — 3 – 5 years
- Furniture and fittings — 3 – 10 years
- Motor vehicles — 5 years
- Office equipment — 3 – 6 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains or losses on disposals are determined by reference to the carrying amount of the asset and the net proceeds received, and are recorded in the income statement on disposal.

22. LEASES

22.1 The Bank is the lessee

22.1.1 Finance leases

The Bank classifies leases as finance leases where it assumes substantially all the benefits and risks of ownership.

Finance leases are capitalised as assets at the fair value of the leased asset at the inception of the lease, or, if lower, at the estimated present value of the underlying lease payments. The Bank allocates each lease payment between the liability and finance charges to achieve a constant rate on the finance balance outstanding. The interest component of the finance charge is recognised in the income statement over the lease period. The property and equipment acquired are depreciated over the useful life of the assets, unless it is not probable that the Bank will take ownership of the assets, in which case the assets are depreciated over the shorter of the useful life of the asset or the lease period, on a basis consistent with similar owned property and equipment.

22.1.2 Operating leases

The Bank classifies leases as operating leases where the lessor effectively retains the risks and benefits of ownership. It recognises operating lease payments in the income statement on a straight-line basis over the period of the lease. Minimum rentals due after year end are reflected under commitments.

The Bank recognises as an expense any penalty payment to the lessor for early termination of an operating lease, in the period in which termination takes place.

22.2 The Bank is the lessor

22.2.1 Finance leases

The Bank recognises as advances assets sold under a finance lease at the present value of the lease payments. The difference between the gross receivable and the present value of the receivable represents unearned finance income. Lease income is recognised over the term of the lease using the effective interest rate method, which reflects a constant periodic rate of return.

22.2.2 Operating leases

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

22.3 Instalment credit agreements

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

The Bank calculates finance charges using the effective interest rates as detailed in the contracts and credits finance charges to income in proportion to capital balances outstanding.

23. INTANGIBLE ASSETS

23.1 Computer software development costs

The Bank generally expenses computer software development costs in the financial period incurred. However, where computer software development costs can be clearly associated with a strategic and unique system which will result in a benefit for the Bank exceeding the costs incurred for more than one financial period, the Bank capitalises such costs and recognise it as an intangible asset.

The Bank carries capitalised software assets at cost less amortisation and any impairment losses. It amortises these assets on a straight-line basis at a rate applicable to the expected useful life of the asset, but not exceeding three years. Management reviews the carrying value wherever objective evidence of impairment exists. The carrying value is written down to estimated recoverable amount when a permanent decrease in value occurs. Any impairment is recognised in the income statement when incurred.

23.2 Other intangible assets

The Bank generally expenses the costs incurred on internally generated intangible assets, such as trademarks, concessions, patents and similar rights and assets, to the income statement in the period in which the costs are incurred. Internally generated intangible assets which are separately identifiable, where the costs can be reliably measured and where the Bank is expected to derive a future benefit for more than one accounting period is capitalised.

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

The Bank carries capitalised trademarks, patents and similar assets at cost less amortisation and any impairments. It amortises these assets at a rate applicable to the expected useful life of the asset, but not exceeding 20 years. Management reviews the carrying value whenever objective evidence of impairment exists. Carrying value is written down to estimated recoverable amount when a permanent decrease in value occurs. Any impairment is recognised in the income statement when incurred.

Amortisation and impairments of intangible assets are reflected under operating expenses in the income statement.

24. DEFERRED TAX

Deferred income tax in provided in full, using the liability method on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the financial statement. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affect neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The Bank recognises deferred tax assets if the directors of FirstRand Bank Limited consider it probable that future taxable income will be available against which the unused tax losses can be utilised.

Temporary differences arise primarily from depreciation of property and equipment, revaluation of certain financial assets and liabilities including derivative contracts, provisions or pensions and other post retirement benefits and tax losses carried forward.

Deferred income tax is provided on temporary differences arising from investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Bank and it is probable that the difference will not reverse in the foreseeable future.

Deferred tax related to fair value re-measurement of available-for-sale financial assets and cash flow hedges, which are charged or credited directly to equity, is also credited or charged directly to equity and is subsequently recognised in the income statement together with the deferred gain or loss.

25. EMPLOYEE BENEFITS

25.1 Post employment benefits

The Bank operates defined benefit and defined contribution schemes, the assets of which are held in separate trustee administered funds. The pension plans are generally funded by payments from employees and the Bank, taking account of the recommendations of independent qualified actuaries. For defined benefit plans the pension accounting costs are assessed using the projected unit credit method.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs.

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

The Bank recognises current service costs immediately, while it expenses past service costs, experience adjustments, changes in actuarial assumptions and plan amendments over the expected remaining working lives of employees. The costs are expensed immediately in the case of retired employees.

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

For defined contribution plans, the Bank pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Bank has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

25.2 Post retirement medical benefits

In terms of certain employment contracts, the Bank provides for post retirement healthcare benefits to qualifying employees and retired personnel by subsidising a portion of their medical aid contributions. The Bank created an independent fund in 1998 to fund these obligations. IAS 19 requires that the assets and liabilities in respect thereof be reflected on the balance sheet.

The expected costs of these benefits are accrued over the period of employment using an accounting methodology similar to that for defined benefit pension plans.

The entitlement to these benefits is usually based on the employee remaining in service up to retirement age and completing a minimum service period. Qualified actuaries perform annual valuations.

25.3 Termination benefits

The Bank recognises termination benefits as a liability in the balance sheet and as an expense in the income statement when it has a present obligation relating to termination. The Bank has a present obligation when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

25.4 Leave pay provision

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

25.5 Bonuses

Management and staff bonuses are recognised as an expense in staff costs as incurred when it is probable that the economic benefits will be paid and the amount can be reliably measured.

25.6 Recognition of actuarial gains and losses

Recognition of actuarial gains or losses occur as a result of:

- increases or decreases in the present value of defined benefit plan liabilities;
- increases or decreases in the fair value of plan assets; or
- a combination of the above.

Increases or decreases in the fair value of plan liabilities can be caused by changes in the discount rate used, expected salaries or number of employees, plan benefits and expected inflation rates.

Increases or decreases in the fair value of plan assets occur as a result of the difference between the actual and expected return on the plan assets.

The Bank does not recognise actuarial gains or losses below the corridor limit of 10% in the period under review, but defers such gains or losses to future periods.

26. BORROWINGS

The Bank initially recognises borrowings, including debentures, at the fair value of the consideration received. Borrowings are subsequently measured at amortised cost. Discounts or premiums on debentures issued are amortised on a basis that reflects the effective interest rate on the debentures over their life span. Interest paid is recognised in the income statement on an effective interest basis.

The Bank separately measures and recognises the fair value of the debt component of an issued convertible bond in liabilities, with the residual value separately allocated to equity. It calculates interest on the debt portion of the instrument based on the market rate for a non-convertible instrument at the inception thereof.

Instruments with characteristics of debt, such as redeemable preference shares, are included in liabilities. Dividends paid on such instruments are included in interest expense.

Where the Bank purchases its own debt, the debt is derecognised from the balance sheet and any difference between the carrying amount of the liability and the consideration paid is included in trading income.

27. SHARE CAPITAL

27.1 Share issue costs

Shares are classified as equity when there is no obligation to transfer cash or assets. Incremental costs directly related to the issue of new shares or options are shown as a deduction from equity. Incremental costs directly attributable to the issue of equity instruments as consideration for the acquisition of a business are included in the cost of acquisition.

27.2 Dividends paid

Dividends on ordinary shares and non cumulative non redeemable preference shares are recognised against equity in the period in which they are approved by the company's shareholder. Dividends declared after the balance sheet date are not recognised but disclosed as a post balance sheet event.

27.3 Treasury shares

Where the Bank purchases its own equity share capital, the consideration paid, including any directly attributable incremental costs, is deducted from total shareholders' equity as treasury shares until they are reissued or sold. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental costs, is included in shareholders' equity.

28. ACCEPTANCES

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

29. SEGMENT REPORTING

The Bank defines a segment as a distinguishable component or business that provides either:

(i) unique products or services ("business segment"); or

(ii) products or services within a particular economic environment ("geographical segment"),

subject to risks and rewards that are different from those of other segments.

Segments with a majority of revenue earned from charges to external customers and whose revenue, results or assets are 10% or more of all the segments, are reported separately.

Assets, liabilities, revenues or expenses that are not directly attributable to a particular segment are allocated between segments where there is a reasonable basis for doing so. The Bank accounts for intersegment revenues and transfers as if the transactions were with third parties at current market prices. Tax is allocated to a particular segment on a pro-rata basis.

Funding is provided to business units and segments based at internally derived transfer pricing rates taking into account the funding structures of the Bank.

30. FIDUCIARY ACTIVITIES

The Bank excludes assets and the income thereon, together with related undertakings to return such assets to customers, from these financial statements where it acts in a fiduciary capacity such as nominee, trustee or agent.

31. SHARE BASED PAYMENT TRANSACTIONS

The Bank operates equity settled and cash settled share based compensation plans.

31.1 Equity settled share based compensation plans

The Bank expenses the fair value of the employee services received in exchange for the grant of the options, over the vesting period of the options, as employee costs, with a corresponding credit to a share based payment reserve in the statement of changes in equity. The total value of the services received is calculated with reference to the fair value of the options on grant date.

The fair value of the options is determined excluding non-market vesting conditions. These vesting conditions are included in the assumptions of the number of options expected to vest. At each balance sheet date, the Bank revises its estimate of the number of options expected to vest. The Bank recognises the impact of the revision of original estimates, if any, in the income statement, with a corresponding adjustment to equity.

The proceeds received net of any attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

31.2 Cash settled share based payment compensation plans

A liability equal to the portion of the goods or services received is recognised at the current fair value determined at each balance sheet date until settled. The liability is recognised over the vesting period and is revalued at every balance sheet date. Any changes in the liability are accounted for in the income statement.

32. NON CURRENT ASSETS HELD FOR SALE

Non current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than continuing use. The classification is only met if the sale is highly probable and the assets or disposal groups are available for immediate sale.

Immediately before classification as held for sale, the measurement (carrying amount) of assets and liabilities in relation to a disposal group is recognised based upon appropriate IFRS standards. On initial recognition as held for sale, the non current assets and liabilities are recognised at the lower of carrying amount and fair value less costs to sell.

Any impairment losses on initial classification to held for sale are recognised in the income statement.

The non current assets and disposal groups held for sale are derecognised immediately when there is a change in intention to sell. Subsequent measurement of the assets of the disposal group at that date will be the lower of:

(i) its carrying amount before the asset or disposal group was classified as held for sale, adjusted for any deprecation, amortisation or revaluations that would have been recognised had the asset or disposal group not been classified as held for sale; and

(ii) its recoverable amount at the date of the subsequent decision not to sell.

33. RESTATEMENT OF PRIOR YEAR NUMBERS

The following line items on the face of the income statement and balance sheet have been restated in line with industry practice:

R MILLION	AS PREVIOUSLY REPORTED	AS RESTATED	REASON FOR RESTATEMENT
Non interest income	12 442	12 585	Disclosing fee and commissions expenses as part of operating expenses for enhanced disclosure
Operating expenses	13 556	13 699	Disclosing fee and commissions expenses as part of operating expenses for enhanced disclosure
Advances	258 046	280 855	Change in application of IAS 32 set-off due to change in local and international interpretation of the set-off rules.
Deposits	269 862	292 671	Change in application of IAS 32 set-off due to change in local and international interpretation of the set-off rules.

income statement

for the year ended 30 June

R million	Notes	2007	2006
Interest and similar income	2	35 001	23 359
Interest expenses and similar charges	3	(23 051)	(13 820)
Net interest income before impairment of advances		11 950	9 539
Impairment losses on loans and advances	11	(2 564)	(1 427)
Net interest income after impairment of advances		9 386	8 112
Non interest income	4	14 533	12 585
Income from operations		23 919	20 697
Operating expenses	5	(16 314)	(13 699)
Income before tax		7 605	6 998
Indirect tax	6	(412)	(408)
Profit before tax		7 193	6 590
Direct tax	7.1	(1 805)	(1 595)
Profit for the year		5 388	4 995

balance sheet
as at 30 June

R million	Notes	2007	2006
ASSETS			
Cash and short term funds	8	22 707	20 104
Derivative financial instruments	9	20 174	34 455
– qualifying for hedge accounting		127	253
– held for trading		20 047	34 202
Advances	10	330 392	280 855
– loans and receivables		269 643	239 524
– available-for-sale		740	538
– fair value through profit and loss		60 009	40 793
Investment securities and other investments	12	41 072	33 502
Financial securities held for trading		24 259	13 828
Investment securities		16 813	19 674
– loans and receivables		–	185
– available-for-sale		7 567	12 119
– fair value through profit and loss		9 246	7 370
Commodities	13	1 060	627
Accounts receivable	14	4 310	1 673
Loans to Insurance Group		3 436	636
Investment in associates and joint ventures	15	289	724
Investment in subsidiary companies	16	13	13
Amounts due by holding company and fellow subsidiary companies	17	29 357	24 637
Property and equipment	18	3 082	2 773
Post retirement benefit assets	19.2	2 616	2 467
Intangible assets	20	61	43
Non current assets held for sale	39	572	–
Total assets		459 141	402 509
EQUITY AND LIABILITIES			
Liabilities			
Deposits	21	347 580	292 671
– deposits and current accounts		347 580	292 671
Short trading positions	22	27 206	20 588
Derivative financial instruments	9	17 599	31 270
– qualifying for hedge accounting		28	51
– held for trading		17 571	31 219
Creditors and accruals	23	4 316	3 820
Provisions	24	2 817	2 193
Tax liability		805	430
Post retirement benefit fund liability	19.1	1 798	1 627
Deferred tax liability	7.2	1 741	1 804
Amounts due to holding company and fellow subsidiary companies	17	17 928	17 794
Long term liabilities	25	8 217	7 396
Loans from Insurance Group		4 185	3 450
Total liabilities		434 192	383 043
Equity			
Capital and reserves attributable to equity holders			
Ordinary shares	26	4	4
Share premium	26	9 161	6 372
Non distributable reserves	27	2 947	2 552
Distributable reserves		12 837	10 538
Total equity		24 949	19 466
Total equity and liabilities		459 141	402 509

statement of changes in equity

for the year ended 30 June

R million	Share capital and share premium	General risk reserve	Cash flow hedge reserve
Restated balance as at 1 July 2005	2 616	587	292
Profit for the period	–	–	–
Preference dividend – 31 August 2005	–	–	–
Preference dividend – 27 February 2006	–	–	–
Ordinary dividend – 21 July 2005	–	–	–
Ordinary dividend – 31 August 2005	–	–	–
Ordinary dividend – 21 October 2005	–	–	–
Ordinary dividend – 24 March 2006	–	–	–
Ordinary dividend – 31 May 2006	–	–	–
Transfer to General Risk Reserve (impaired capital reserve)	–	130	–
Revaluation of available-for-sale assets	–	–	–
Available-for-sale profit transferred to the income statement	–	–	–
Revaluation of cash flow hedges	–	–	(174)
Movement in other non distributable reserves	–	–	–
IFRS share based payments	–	–	–
Issue of ordinary shares	760	–	–
Balance as at 30 June 2006	3 376	717	118
Profit for the period	–	–	–
Preference dividend – 28 August 2006	–	–	–
Preference dividend – 26 February 2007	–	–	–
Final ordinary dividend – 23 October 2006	–	–	–
Interim ordinary dividend – 26 March 2007	–	–	–
Transfer to General Risk Reserve (impaired capital reserve)	–	202	–
Revaluation of available-for-sale assets	–	–	–
Available-for-sale profit transferred to the income statement	–	–	–
Revaluation of cash flow hedges	–	–	(53)
IFRS share based payments	–	–	–
Issue of ordinary shares	2 789	–	–
Balance as at 30 June 2007	6 165	919	65

Available-for-sale reserve	Share based payment reserve	Other non distributable reserves	Distributable reserves	Total permanent capital	Preference shares issued to FirstRand companies	Total equity
183	133	1 343	8 118	13 272	3 000	16 272
–	–	–	4 995	4 995	–	4 995
–	–	–	(113)	(113)	–	(113)
–	–	–	(107)	(107)	–	(107)
–	–	–	(500)	(500)	–	(500)
–	–	–	(38)	(38)	–	(38)
–	–	–	(759)	(759)	–	(759)
–	–	–	(843)	(843)	–	(843)
–	–	–	(85)	(85)	–	(85)
–	–	–	(130)	–	–	–
40	–	–	–	40	–	40
(126)	–	–	–	(126)	–	(126)
–	–	–	–	(174)	–	(174)
–	–	2	–	2	–	2
–	142	–	–	142	–	142
–	–	–	–	760	–	760
97	275	1 345	10 538	16 466	3 000	19 466
–	–	–	5 388	5 388	–	5 388
–	–	–	(109)	(109)	–	(109)
–	–	–	(123)	(123)	–	(123)
–	–	–	(1 242)	(1 242)	–	(1 242)
–	–	–	(1 413)	(1 413)	–	(1 413)
–	–	–	(202)	–	–	–
126	–	–	–	126	–	126
(20)	–	–	–	(20)	–	(20)
–	–	–	–	(53)	–	(53)
–	140	–	–	140	–	140
–	–	–	–	2 789	–	2 789
203	**415**	**1 345**	**12 837**	**21 949**	**3 000**	**24 949**

cash flow statement

for the year ended 30 June

R million	Notes	2007	2006
Cash flows from operating activities			
Cash receipts		49 183	35 220
Interest receipts		34 756	23 206
Fee and commission receipts		9 770	7 498
Other receipts		4 657	4 516
Cash payments		(35 972)	(24 966)
Interest payments (excluding debenture interest paid)		(22 291)	(13 250)
Debenture interest payments		(718)	(509)
Total other operating payments (excluding depreciation)		(12 963)	(11 207)
Cash generated from operations	29.1	13 211	10 254
Cash flows from operating assets and liabilities		(8 396)	(4 450)
Increase in income earning (operating) assets		(63 927)	(93 749)
Liquid assets and trading securities		(7 423)	(7 186)
Advances		(51 918)	(80 715)
Net funding from fellow subsidiary companies		(4 586)	(5 848)
Increase in deposits and other liabilities		55 531	89 299
Term deposits		14 802	(2 088)
Current deposit accounts		12 053	80 259
Deposits from banks		24 921	(9 466)
Negotiable certificates of deposit		3 017	14 173
Savings accounts		116	65
Short trading positions		6 618	6 551
Creditors net of debtors		(3 981)	(512)
Other		(2 015)	317
Net cash inflow from operating activities before income tax		4 815	5 804
Tax paid	29.3	(1 896)	(1 607)
Net cash inflow from operating activities		2 919	4 197
Cash flows from investment activities			
Dividends from other investments		166	322
Dividends from associated companies		51	11
Capital expenses to maintain operations		(1 041)	(989)
Purchase of associates and joint ventures		(112)	–
Proceeds from disposal of property and equipment		29	84
Net (investment)/proceeds from (aquisition)/disposal of investments		(81)	90
Net cash outflow from investment activities		(988)	(482)
Cash flows from financing activities			
Net proceeds of long term liabilities		770	4 017
Proceeds on the issue of ordinary shares		2 789	760
Dividends paid	29.2	(2 887)	(2 445)
Net cash inflow from financing activities		672	2 332
Net increase in cash and cash equivalents		2 603	6 047
Cash and cash equivalents at beginning of the year		20 104	14 057
Cash and cash equivalents at end of the year	8	22 707	20 104

R million	2007	2006
1. ACCOUNTING POLICIES		
The accounting policies of the Bank are set out on pages 34 to 43.		
2. INTEREST AND SIMILAR INCOME		
Interest on:		
Advances	29 321	20 369
– loans and receivables	29 257	20 324
– available-for-sale	64	45
Cash and short term funds	2 134	554
Investment securities	912	690
– held-to-maturity	2	–
– available-for-sale	910	690
Unwinding of discounted present value on non performing loans	82	60
Loans from Insurance Group	59	–
Amounts due by holding and fellow subsidiary companies	1 218	877
Other	1 275	809
Interest and similar income	**35 001**	**23 359**
3. INTEREST EXPENSE AND SIMILAR CHARGES		
Interest on:		
Deposits from banks and financial institutions	(500)	(46)
Current accounts	(5 324)	(3 490)
Savings deposits	(42)	(30)
Term deposit accounts	(14 535)	(8 529)
Amounts due to holding and fellow subsidiary companies	(975)	(398)
Debentures	(718)	(509)
Loans to Insurance Group	(21)	(3)
Other	(936)	(815)
Interest expense and similar charges	**(23 051)**	**(13 820)**

R million	2007	2006
4. NON INTEREST INCOME		
Fees and commissions		
– Banking fee and commission income	9 164	7 340
Card commissions	1 144	816
Cash deposit fees	895	757
Commissions: bills, drafts & cheques	358	346
Service fees	3 333	2 822
Other commissions	3 434	2 599
– Knowledge based fee and commission income	566	275
– Non banking fee and commission income	40	26
Fees and commission income	9 770	7 641

The Bank provides custody, trustee, corporate administration, investment management and advisory services to third parties, which involve the Bank making allocation and purchase and sale decisions in relation to a wide range of financial instruments.

Those assets that are held in a fiduciary capacity are not included in these financial statements. Some of these arrangements involve the Bank accepting targets for benchmark levels of returns for the assets under the Bank's care.

R million	2007	2006
Fair value income		
– Foreign exchange operations	656	761
– Trading operations	2 673	2 525
Fair value income	3 329	3 286

Foreign exchange net trading income includes gains and losses from spot and forward contracts, options, futures and translated foreign currency assets and liabilities. Interest rate instruments includes the results in making markets in instruments in government securities, corporate debt securities, money market instruments, interest rate and currency swaps, options and other derivatives. Equity trading income includes the results of making markets globally in equity securities and equity derivatives such as swaps, options, futures and forward contracts.

R million	2007	2006
Gains less losses from investment activities		
– (Loss)/profit on realisation of investment banking assets	(53)	90
– Transfer from revaluation reserve on sale of available-for-sale assets	(30)	–
– Dividends received from associates	51	11
– Dividends received from other investments	166	311
Gains less losses from investment activities	134	412
Other non interest income		
– Recoveries from subsidiaries	671	478
– Loss on disposal of property and equipment	(6)	(21)
– Other income	635	789
Other non interest income	1 300	1 246
Total non interest income	14 533	12 585

Fair values of financial instruments recognised in the financial statements may be determined in whole or in part using valuation techniques based on assumptions that are not supported by prices from current market transactions or observable market data. In these instances, the net fair value recorded in the financial statements is the sum of three components:

(i) the value given by application of a valuation model, based upon the Bank's best estimate of the most appropriate model inputs;

(ii) any fair value adjustments to account for market features not included within valuation model (for example, bid-mid spreads, counterparty credit spreads and/or market data uncertainty); and

(iii) day one profit or loss, or an unamortised element thereof, not recognised immediately in the income statement in accordance with FirstRand Bank Ltd's accounting policy, and separately detailed within the derivative note below.

R million	2007	2006
5. OPERATING EXPENSES		
Fee and commission expense	(180)	(143)
Auditors' remuneration		
– Audit fees	(48)	(43)
– Fees for other services	(8)	(10)
Technical advice	(1)	(7)
Other	(7)	(3)
	(56)	(53)
Amortisation of intangible assets		
– Software	(17)	(19)
– Development costs	(7)	(2)
	(24)	(21)
Depreciation		
– Property	(144)	(142)
Freehold property	(34)	(31)
Leasehold premises	(110)	(111)
– Equipment	(547)	(527)
Computer equipment	(401)	(379)
Furniture and fittings	(69)	(83)
Motor vehicles	(20)	(13)
Office equipment	(57)	(52)
	(691)	(669)
Other impairments incurred		
– Property and equipment	(9)	(15)
– Other	–	(3)
	(9)	(18)
Operating lease charges		
– Property	(776)	(555)
– Equipment	(204)	(211)
– Motor vehicles	(21)	(25)
	(1 001)	(791)
Directors' emoluments paid		
– Salaries, wages and allowances	(18)	(18)
– Fees for services as directors/consultants	(4)	(4)
	(22)	(22)
Professional fees		
– Managerial	–	(3)
– Technical	(346)	(137)
– Other	(170)	(191)
	(516)	(331)
Direct staff costs		
– Salaries, wages and allowances	(4 751)	(4 314)
– Contributions to employee benefit funds	(996)	(849)
Defined contribution schemes	(993)	(838)
Defined benefit schemes	(3)	(11)
– Social security levies	(72)	(61)
– Share based payments (refer to note 25 and 38)	(239)	(142)
– Other	(356)	(488)
	(6 414)	(5 854)
Staff related costs	(1 802)	(1 158)
Total staff costs	**(8 216)**	(7 012)

for the year ended 30 June

R million	2007	2006
5. OPERATING EXPENSES continued		
Other operating costs	(5 599)	(4 639)
– Insurance	(170)	(172)
– Advertising and marketing	(681)	(557)
– Maintenance	(541)	(450)
– Property	(257)	(230)
– Computer	(529)	(434)
– Stationery	(188)	(180)
– Telecommunications	(352)	(319)
– eBucks customer rewards	(203)	(190)
– Conveyance of cash	(169)	(90)
– Intergroup expenses	(885)	(924)
– Acquisition costs	(42)	(22)
– Other operating expenses	(1 582)	(1 071)
Total operating expenses	(16 314)	(13 699)
6. INDIRECT TAX		
Value added tax (net)	(385)	(339)
Regional services levy	(5)	(62)
Stamp duties	(2)	(1)
Other	(20)	(6)
Total indirect tax	(412)	(408)
7. TAX		
7.1 Direct tax		
Normal tax		
– Current	(1 857)	(1 525)
Current year	(1 600)	(925)
Prior year adjustment	(257)	(600)
– Deferred	62	(151)
Current year	(198)	(672)
Prior year adjustment	260	521
Tax rate adjustment	–	–
Total normal tax	(1 795)	(1 676)
Secondary tax on companies	(10)	81
– Deferred	(10)	81
Total direct tax	(1 805)	(1 595)
Tax rate reconciliation – South African normal taxation	%	%
Effective rate of tax	25.1	24.2
Total tax has been affected by:		
– Non taxable income	12.1	8.2
– Prior year adjustments	–	(1.1)
– Other permanent differences	(8.2)	(2.3)
Standard rate of South African tax	29.0	29.0
7.2 Deferred tax		
The movement on the deferred tax account is as follows:		
Deferred tax liability		
Opening balance	1 804	1 821
– Charge to the income statement	(62)	151
– STC charge/(release) to the income statement	10	(81)
– Other	(11)	(87)
Total credit balance	1 741	1 804

7. TAX continued

7.2 Deferred tax continued

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

R million	2007 Opening balance	Tax charge	Other	Closing balance
Deferred tax liabilities				
Tax losses	(2)	2	–	–
Provision for loan impairment	(174)	(208)	–	(382)
Provision for post retirement benefits	58	(44)	–	14
Other provisions	(364)	(284)	–	(648)
Cash flow hedges	78	11	(32)	57
Instalment credit assets	1 634	236	–	1 870
Accruals	754	142	–	896
Revaluation of available-for-sale securities to equity	39	(36)	21	24
STC	(91)	10	(32)	(113)
Other	(128)	119	32	23
Total deferred tax liability	1 804	(52)	(11)	1 741

Deferred income tax assets are recognised for tax losses carried forward only to the extent that realisation of the related tax benefit is probable. The Bank has recognised deferred tax on all deductible temporary differences, unused tax losses and unused tax credits.

R million	2007	2006
8. CASH AND SHORT TERM FUNDS		
Coins and bank notes	2 118	2 142
Money at call and short notice	4 314	1 178
Balances with central banks	7 969	6 357
Balances with other banks	8 306	10 427
Cash and short term funds	22 707	20 104
Mandatory reserve balances included in above:	7 944	6 352

Banks are required to deposit a minimum average balance, calculated monthly, with the central bank, which are not available to the Bank's day to day operations. These deposits bear no or very low interest. Money at short notice constitutes amounts withdrawable in 32 days or less.

9. DERIVATIVE FINANCIAL INSTRUMENTS

The Bank uses the following financial instruments for hedging purposes:

Forward rate agreements are negotiated interest rate futures that call for cash settlement at a future date for the difference between the contractual and market rates of interest, based on a notional principal amount.

Currency and interest rate swaps are commitments to exchange one set of cash flows for another, resulting in the economic exchange of interest rates (for example fixed rate for floating rate). No exchange of principal takes place.

Rand overnight deposit swaps are commitments to exchange fixed rate interest flows with floating rate interest flows where the repricing takes place daily on the floating leg based on the daily overnight rates.

Strategy in using hedging instruments

Interest rate derivatives comprising mainly interest rate swaps, rand overnight deposit swaps ("RODS") and forward rate agreements are utilised for hedging purposes to eliminate uncertainty and reduce the risk that the Bank faces due to volatile interest rates. The Bank accepts deposits at variable rates and uses pay fixed interest rate derivatives as cash flow hedges of future interest payments, effectively converting borrowings from floating to fixed rates. The Bank also has assets at variable rates and uses receive fixed interest rate derivatives as cash flow hedges of future interest receipts.

The notional amounts of the derivative instruments do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments, and therefore, do not present the Bank's exposure to credit or pricing risk. Derivative instruments become favourable (assets) or unfavourable (liabilities) based on changes in market interest rates. The aggregate notional amount of derivative financial instruments, the extent to which the instruments are favourable or unfavourable, and thus the aggregate fair value can fluctuate significantly, overtime.

9. DERIVATIVE FINANCIAL INSTRUMENTS continued

The Bank's detailed risk management strategy, including the use of hedging instruments in risk management, is set out in the Risk report on pages 3 to 21 of the Annual Report ("the Risk Report").

Further information pertaining to the risk management of the Bank is set out in note 30 below.

Fair value hedges

The Bank's fair value hedges principally consist of interest rate and currency swaps that are used to protect against changes in fair value of fixed rate long-term financial instruments and non-rand denominated financial instruments due to movement in the market interest rates and currency fluctuations. For qualifying fair value hedges, all changes in fair value of the derivative and in the fair value of the item in relation to the risk being hedged are recognised in income. If the hedge relationship is terminated, the fair value adjustment to the item continues to be reported as part of the basis of the item and is amortised to income as a yield adjustment over the remainder of the hedging period.

Cash flow hedges

The hedging instruments used to hedge the underlying book are primarily interest rate swaps. These instruments have quarterly resets and settlements. The amounts of these resets are dependant upon a number of factors including notional amounts, reset rates and reset dates. The maturities of these instruments are negotiated at the time of the deal and are dependant on future yields and maturity profile of the underlying hedged book. Underlying hedged items have monthly cash flows based on the underlying reference rate. A single swap cash flow hedges the cumulative change in cash flow for three subsequent months.

The effective portion of changes in fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is released to income. Amounts accumulated in equity are released to the income statement in periods in which the hedged item will affect profit or loss. When hedging instruments mature or are sold, or when the hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity is released to the income statement.

Contract for Differences

The instruments are valued by using the differential between the market price and traded price multiplied by the notional amount. Market prices are obtained from applicable trading exchanges, for example SAFEX.

Credit derivatives

A discounted cash flow model is used. Market data is supplied by Market Risk and Compliance. In some instances prices are sourced from the market. Individual credit spreads are added in these instances.

Options

The majority of options are valued using the Black-Scholes model. Inputs are obtained from market observable data. Where market prices are obtainable from trading exchanges the value per the exchange is used, for example SAFEX.

Forwards

The forward value of a deal is projected using market observed forwards. The strike price of the forward is then subtracted from the forward value to get a projected cash flow. This projected cash flows then present valued to get the present value of the forward.

Forward rate agreement

A discounted cash flow model is used. Discount rates used are determined from a yield curve using similar market traded instruments. The reset rate of the deal is determined in terms of the legal documents.

Futures

Futures are marked to market for fair valuation purposes.

Swaps

For each swap reset period (swaplet) there is a real start, real end, forward start, forward end payment and reset date. Forward rates are determined from the forward start and forward end date (forward period) and are applied over the real start and real end date (interest period) to get an interest amount. The cash flow (interest amount) is then present valued from the payment date. The forward rates and discount rates are determined from a curve derived from similar market traded instruments. The reset rate of each swaplet is determined in the terms of the legal documents and is reset on the reset date of each swaplet.

R million	2007	2006
Reconciliation of movements in the cash flow hedge reserve net of deferred tax		
Opening balance	118	292
Amount recognised directly in equity during the year	(2)	72
Amounts removed from equity and included in the income statement for the year	(51)	(246)
Closing balance	65	118

9. DERIVATIVE FINANCIAL INSTRUMENTS continued

	2007		2006	
	Assets	Liabilities	Assets	Liabilities
Cash flows on the underlying hedged items are expected to impact the income statement as follows:				
– 1 – 3 months	176	(121)	225	(164)
– 3 – 12 months	401	(269)	367	(253)
– 1 – 5 years	424	(284)	630	(389)
Total	1 001	(674)	1 222	(806)
The cashflows on the hedging instruments are expected to be released to the income statement as follows:				
– 1 – 3 months	(143)	123	(206)	193
– 3 – 12 months	(322)	271	(311)	292
– 1 – 5 years	(373)	314	(529)	419
Total	(838)	708	(1 046)	904

	2007			
	Assets		Liabilities	
	Notional	Fair value	Notional	Fair value
The Bank utilises the following derivatives for hedging and trading purposes:				
Qualifying for hedge accounting				
Cash flow hedges				
Interest rate derivatives				
– Swaps	32 120	122	11 400	28
– Options	661	5	–	–
Total cash flow hedges	32 781	127	11 400	28
Total qualifying for hedge accounting	32 781	127	11 400	28
Held for trading				
Currency derivatives				
– Forward rate agreements	76 527	2 163	68 857	2 125
– Swaps	119 544	5 123	101 438	2 287
– Options	1 536	146	1 338	114
– Other	–	–	11	–
	197 607	7 432	171 644	4 526
Interest rate derivatives				
– Forward rate agreements	636 854	1 727	679 746	1 427
– Swaps	342 823	6 096	332 868	6 061
– Options	57 208	465	37 913	356
– Other	2 915	2	3 351	2
	1 039 800	8 290	1 053 878	7 846
Equity derivatives				
– Forward rate agreements	2	2	–	–
– Options	1 289	80	25 147	357
– Other	4 268	161	9 400	1 046
	5 559	243	34 547	1 403

	2007			
	Assets		Liabilities	
	Notional	Fair value	Notional	Fair value
9. DERIVATIVE FINANCIAL INSTRUMENTS continued				
Commodity derivatives				
– Forward rate agreements	3 185	111	9 029	1 329
– Swaps	276	3	932	32
– Options	8 792	3 938	7 491	2 426
– Other	695	5	1 929	5
	12 948	4 057	19 381	3 792
Credit derivatives	1 070	25	150	4
Total held for trading	1 256 984	20 047	1 279 600	17 571
Total derivative financial instruments	1 289 765	20 174	1 291 000	17 599

	2007					
	Assets: Derivative instruments					
	Exchange traded		Over the counter		Total	
	Notional	Fair value	Notional	Fair value	Notional	Fair value
Qualifying for hedge accounting						
Cash flow hedges	–	–	32 781	127	32 781	127
Interest rate derivatives	–	–	32 781	127	32 781	127
Held for trading	7 246	11	1 249 738	20 036	1 256 984	20 047
Currency derivatives	–	–	197 607	7 432	197 607	7 432
Interest rate derivatives	5 392	5	1 034 408	8 285	1 039 800	8 290
Equity derivatives	1 147	–	4 412	243	5 559	243
Commodity derivatives	707	6	12 241	4 051	12 948	4 057
Credit derivatives	–	–	1 070	25	1 070	25
Total assets	7 246	11	1 282 519	20 163	1 289 765	20 174

	2007					
	Liabilities: Derivative instruments					
	Exchange traded		Over the counter		Total	
	Notional	Fair value	Notional	Fair value	Notional	Fair value
Qualifying for hedge accounting						
Cash flow hedges	–	–	11 400	28	11 400	28
Interest rate derivatives	–	–	11 400	28	11 400	28
Held for trading	13 264	9	1 266 336	17 562	1 279 600	17 571
Currency derivatives	11	–	171 633	4 526	171 644	4 526
Interest rate derivatives	3 351	3	1 050 527	7 843	1 053 878	7 846
Equity derivatives	7 900	1	26 647	1 402	34 547	1 403
Commodity derivatives	2 002	5	17 379	3 787	19 381	3 792
Credit derivatives	–	–	150	4	150	4
Total liabilities	13 264	9	1 277 736	17 590	1 291 000	17 599

9. DERIVATIVE FINANCIAL INSTRUMENTS continued

The Bank utilises the following derivatives for hedging and trading purposes:

	2006			
	Assets		Liabilities	
	Notional	Fair value	Notional	Fair value
Qualifying for hedge accounting				
Cash flow hedges				
Interest rate derivatives				
– Forward rate agreements	1 500	–	–	–
– Swaps	8 742	253	5 352	50
	10 242	253	5 352	50
Currency derivatives				
– Futures	–	–	1	1
	–	–	1	1
Total cash flow hedges	10 242	253	5 353	51
Held for trading				
Currency derivatives				
– Forward rate agreements	277 935	8 579	177 689	9 490
– Swaps	234 287	11 675	127 179	8 156
– Options	2 752	212	2 303	127
– Other	5 191	261	4 539	290
	520 165	20 727	311 710	18 063
Interest rate derivatives				
– Forward rate agreements	135 860	203	141 631	701
– Swaps	184 280	5 185	191 287	4 366
– Options	19 525	86	28 240	110
	339 665	5 474	361 158	5 177
Equity derivatives				
– Options	11 401	3 375	13 859	4 349
– Other	1 426	13	2 033	182
	12 827	3 388	15 892	4 531
Commodity derivatives				
– Swaps	261	6	946	42
– Options	10 467	4 257	10 998	2 731
– Other	3 165	350	2 921	675
	13 893	4 613	14 865	3 448
Total held for trading	886 550	34 202	703 625	31 219
Total derivative financial instruments	896 792	34 455	708 978	31 270

	2006					
	Assets: Derivative instruments					
	Exchange traded		Over the counter		Total	
	Notional	Fair value	Notional	Fair value	Notional	Fair value
Qualifying for hedge accounting						
Cash flow hedges	–	–	10 242	253	10 242	253
Interest rate derivatives	–	–	10 242	253	10 242	253
Held for trading	5 463	5	881 087	34 197	886 550	34 202
Currency derivatives	606	1	519 559	20 726	520 165	20 727
Interest rate derivatives	–	–	339 665	5 474	339 665	5 474
Equity derivatives	2 342	–	10 485	3 388	12 827	3 388
Commodity derivatives	2 515	4	11 378	4 609	13 893	4 613
Total assets	5 463	5	891 329	34 450	896 792	34 455

	Liabilities: Derivative instruments					
	Exchange traded		Over the counter		Total	
	Notional	Fair value	Notional	Fair value	Notional	Fair value
9. DERIVATIVE FINANCIAL INSTRUMENTS continued						
Qualifying for hedge accounting						
Cash flow hedges	1	1	5 352	50	5 353	51
Interest rate derivatives	–	–	5 352	50	5 352	50
Currency derivatives	1	1	–	–	1	1
Held for trading	4 992	4	698 633	31 215	703 625	31 219
Currency derivatives	–	2	311 710	18 061	311 710	18 063
Interest rate derivatives	–	–	361 158	5 177	361 158	5 177
Equity derivatives	3 053	–	12 839	4 531	15 892	4 531
Commodity derivatives	1 939	2	12 926	3 446	14 865	3 448
Total liabilities	4 993	5	703 985	31 265	708 978	31 270

	2007			
R million	Loans and receivables	Available-for-sale	Fair value through profit and loss	Total
10. ADVANCES				
Sector analysis				
Agriculture	6 475	–	647	7 122
Banks and financial services	14 120	740	29 011	43 871
Building and property development	3 202	–	7 316	10 518
Government, Land Bank and public authorities	9 959	–	9 521	19 480
Individuals	203 229	–	159	203 388
Manufacturing and commerce	24 147	–	7 240	31 387
Mining	676	–	2 896	3 572
Transport and communication	4 251	–	120	4 371
Other services	8 085	–	3 099	11 184
Notional value of advances	274 144	740	60 009	334 893
Contractual interest suspended	(466)	–	–	(466)
Gross advances	273 678	740	60 009	334 427
Impairment of advances (note 11)	(4 035)	–	–	(4 035)
Net advances	269 643	740	60 009	330 392
Geographic analysis (based on credit risk)				
South Africa	272 128	740	39 298	312 166
Other Africa	57	–	156	213
United Kingdom	1 925	–	10 658	12 583
Other	34	–	9 897	9 931
Total value of advances	274 144	740	60 009	334 893
Contractual interest suspended	(466)	–	–	(466)
Gross advances	273 678	740	60 009	334 427
Impairment of advances (note 11)	(4 035)	–	–	(4 035)
Net advances	269 643	740	60 009	330 392

R million	2007 Loans and receivables	Available-for-sale	Fair value through profit and loss	Total
10. ADVANCES continued				
Category analysis				
Overdrafts and managed accounts	46 811	–	1 350	48 161
Loans to other financial institutions	117	–	1 602	1 719
Card loans	12 311	–	–	12 311
Instalment sales	40 218	–	–	40 218
Lease payments receivable	28 729	–	–	28 729
Property finance	119 577	–	1 746	121 323
– Home loans	114 946	–	–	114 946
– Commercial property finance	4 631	–	1 746	6 377
Personal loans	13 071	–	–	13 071
Preference share advances	2 308	–	–	2 308
Other	10 602	740	37 507	48 849
Assets under agreement to resell	400	–	17 804	18 204
Notional value of advances	274 144	740	60 009	334 893
Contractual interest suspended	(466)	–	–	(466)
Gross advances	273 678	740	60 009	334 427
Impairment of advances (note 11)	(4 035)	–	–	(4 035)
Net advances	269 643	740	60 009	330 392

R million	2006 Loans and receivables	Available-for-sale	Fair value through profit and loss	Total
Sector analysis				
Agriculture	6 202	–	54	6 256
Banks and financial services	9 975	538	21 985	32 498
Building and property development	6 708	–	–	6 708
Government, Land Bank and public authorities	494	–	7 303	7 797
Individuals	158 710	–	2	158 712
Manufacturing and commerce	34 558	–	10 395	44 953
Mining	5 132	–	7	5 139
Transport and communication	7 458	–	330	7 788
Other services	13 490	–	717	14 207
Notional value of advances	242 727	538	40 793	284 058
Contractual interest suspended	(435)	–	–	(435)
Gross advances	242 292	538	40 793	283 623
Impairment of advances (note 11)	(2 768)	–	–	(2 768)
Net advances	239 524	538	40 793	280 855
Geographic analysis (based on credit risk)				
South Africa	242 555	538	30 103	273 196
Other Africa	62	–	123	185
United Kingdom	72	–	6 512	6 584
Other	38	–	4 055	4 093
Total value of advances	242 727	538	40 793	284 058
Contractual interest suspended	(435)	–	–	(435)
Gross advances	242 292	538	40 793	283 623
Impairment of advances (note 11)	(2 768)	–	–	(2 768)
Net advances	239 524	538	40 793	280 855

R million	Loans and receivables	Available-for-sale	Fair value through profit and loss	Total
	2006			
10. ADVANCES continued				
Category analysis				
Overdrafts and managed accounts	44 808	–	–	44 808
Loans to other financial institutions	87	–	4 702	4 789
Card loans	9 380	–	–	9 380
Instalment sales	41 201	–	–	41 201
Lease payments receivable	24 994	–	–	24 994
Property finance	97 815	–	3 006	100 821
– Home loans	94 243	–	–	94 243
– Commercial property finance	3 572	–	3 006	6 578
Personal loans	10 136	–	–	10 136
Preference share advances	1 061	–	–	1 061
Other	12 782	538	22 549	35 869
Collateralised debt obligations	161	–	–	161
Assets under agreement to resell	302	–	10 536	10 838
Notional value of advances	242 727	538	40 793	284 058
Contractual interest suspended	(435)	–	–	(435)
Gross advances	242 292	538	40 793	283 623
Impairment of advances (note 11)	(2 768)	–	–	(2 768)
Net advances	239 524	538	40 793	280 855

A maturity analysis of advances is set out in note 30.7 and is based on the remaining periods to contractual maturity from the year end.

Advances relating to Synthetic securitisations are:
Procul is a synthetic securitisation transaction amounting to R2.0 billion (2006: R2.0 billion) of WesBank retail instalment sale advances. In terms of the transaction WesBank has transferred the credit risk up to the value of the reference portfolio to Procul, a bankruptcy remote special purpose vehicle.

Fresco is a synthetic securitisation transaction amounting to Rnil (2006: R12.5 billion) of FirstRand Bank Limited corporate advances. In terms of the transaction, FirstRand Bank Limited has transferred the credit risk up to the value of the reference portfolio to Fresco, a bankruptcy remote special purpose entity.

Included in Instalment sale advances above is R9.4 billion (2006: R1.7 billion) non recourse securitised Instalment sale advances.

Analysis of instalment sales and lease payments receivable

	Within 1 year	**Between 1 and 5 years**	**More than 5 years**	**Total**
	2007			
Lease payments receivable	**7 778**	**20 881**	**79**	**28 738**
Suspensive sale instalments receivable	**13 210**	**36 857**	**140**	**50 207**
	20 988	**57 738**	**219**	**78 945**
Less: Unearned finance charges	**(2 697)**	**(7 273)**	**(28)**	**(9 998)**
Total	**18 291**	**50 465**	**191**	**68 947**

Analysis of instalment sales and lease payments receivable

	Within 1 year	Between 1 and 5 years	More than 5 years	Total
	2006			
Lease payments receivable	6 246	18 749	–	24 995
Suspensive sale instalments receivable	10 434	31 309	–	41 743
	16 680	50 058	–	66 738
Less: Unearned finance charges	(154)	(467)	–	(621)
Total	16 526	49 591	–	66 117

Under the terms of the lease agreements, no contingent rentals are payable. These agreements are relate to motor vehicles and equipment. The accumulated allowance for uncollectible minimum lease payments receivable included in the allowance for impairments at the balance sheet date is R250 million (2006: R172 million).

Advances under repurchase agreement included above R nil (2006: R nil).

11. IMPAIRMENT OF ADVANCES

R million	2007 Total impairment	Specific impairment	Portfolio impairment	Income statement
Analysis of movement in impairment of advances				
Opening balance	2 768	1 598	1 170	–
Bad debts written off	(1 564)	(1 564)	–	–
Unwinding of discounted present value on non performing loans	(82)	(82)	–	–
Reclassifications	–	(111)	111	–
Net new impairments created	2 913	2 383	530	(2 913)
– impairments created	3 167	2 615	552	(3 167)
– impairments released	(254)	(232)	(22)	254
Recoveries of bad debts	–	–	–	346
Acquisitions	–	–	–	3
Profit/(loss) on realisation of security	–	–	–	–
Closing balance	4 035	2 224	1 811	(2 564)

R million	2006 Total impairment	Specific impairment	Portfolio impairment	Income statement
Opening balance	2 053	1 229	824	–
Bad debt written off	(943)	(941)	(2)	–
Unwinding of discounted present value on non performing loans	(60)	(60)	–	–
Reclassifications	–	(3)	3	–
Net new impairments created	1 718	1 373	345	(1 718)
– impairments created	2 565	2 202	363	(2 565)
– impairments released	(847)	(829)	(18)	847
Recoveries of bad debts	–	–	–	287
Profit/(loss) on realisation of security	–	–	–	4
Closing balance	2 768	1 598	1 170	(1 427)

R million	2007 Total value including interest in suspense	Security held	Contractual interest suspended	Specific impairments
Non performing lendings by sector				
Agriculture	141	91	18	43
Banks and financial services	40	9	5	11
Building and property development	93	22	12	31
Government, Land Bank and public authorities	239	–	–	–
Individuals	4 223	3 554	285	1 711
Manufacturing and commerce	651	117	118	295
Mining	11	2	3	2
Transport and communication	127	18	11	34
Other services	177	27	14	97
Total	5 702	3 840	466	2 224
Non performing lendings by category				
Overdrafts and managed account debtors	681	116	97	463
Card loans	969	–	69	630
Instalment sale	999	152	68	335
Lease payments receivable	450	77	31	171
Home loans	1 776	3 356	132	306
Commercial property finance	25	14	13	8
Personal loans	524	98	50	273
Other	278	27	6	38
Total	5 702	3 840	466	2 224

Net recoverable amount on non performing loans is R3 012 million.

11. IMPAIRMENT OF ADVANCES continued

R million	2006 Total value including interest in suspense	Security held	Contractual interest suspended	Specific impairments
Non performing lendings by sector				
Agriculture	173	99	23	74
Banks and financial services	67	20	27	13
Building and property development	153	21	41	95
Individuals	2 219	745	170	1 044
Manufacturing and commerce	629	95	94	287
Mining	50	1	10	12
Transport and communication	134	7	59	38
Other services	118	41	11	35
Total	3 543	1 029	435	1 598
Non performing lendings by category				
Overdrafts and managed account debtors	848	111	181	557
Card loans	554	–	34	347
Instalment sale	814	103	62	191
Lease payments receivable	210	43	16	77
Home loans	791	646	78	259
Commercial property finance	32	16	16	10
Personal loans	224	90	22	129
Other	70	20	26	28
Total	3 543	1 029	435	1 598

Net recoverable amount on non performing loans is R 1 029 million.

The NCA came into effect 1 June 2007 and will impact the Banking Group's levels of credit impairment. Specifically, the NCA will impact the judgements and estimates made regarding the default ratios and the recovery periods (resulting from debt counselling programmes and outcomes).

12. INVESTMENT SECURITIES AND OTHER INVESTMENTS

Negotiable certificates of deposits

Negotiable certificates of deposits are fair valued based on quoted market prices, or where market prices are not available, using a discounted cash flow method using similar market quoted instruments.

Treasury bills

The Banking Group uses the closing BESA mark to market bond yield in the BESA bond pricing formula for fair valuation purposes.

Government, public and utility stock

Market prices obtained from applicable market institutions or broker/dealer price quotations are used to determine the fair value, for example BESA, SAFEX and JSE. Where this information is not available, fair value is estimated using quoted market prices for securities with similar credit, maturity and yield characteristics.

Other dated securities

The majority of other dated securities are fair valued using a discounted cash flow method. The discount curve used is one derived from similar market quoted instruments.

Other

Other instruments are valued either by making use of a discounted cash flow model using a market related discount rate or another valuation technique which is commonly used by market participants using inputs obtained from market observable data.

R million	Loans and receivables	Available-for-sale	2007 Fair value through profit and loss Held for trading	Designated	Total
12. INVESTMENT SECURITIES AND OTHER INVESTMENTS continued					
Total					
Negotiable certificates of deposit	–	–	905	–	905
Treasury bills	–	39	9 858	–	9 897
Other Government and Government guaranteed stock	–	7 197	5 788	–	12 985
Other dated securities	–	–	261	458	719
Other undated securities	–	1	5	–	6
Other	–	330	7 442	8 788	16 560
Total – 2007	–	7 567	24 259	9 246	41 072
Listed					
Other Government and government guaranteed stock	–	7 197	4 804	–	12 001
Other dated securities	–	–	114	–	114
Other undated securities	–	–	5	–	5
Other	–	45	1 377	38	1 460
Listed – 2007	–	7 242	6 300	38	13 580
Unlisted					
Negotiable certificates of deposit	–	–	905	–	905
Treasury bills	–	39	9 858	–	9 897
Other Government and Government guaranteed stock	–	–	984	–	984
Other dated securities	–	–	147	458	605
Other undated securities	–	1	–	–	1
Other	–	285	6 065	8 750	15 100
Unlisted – 2007	–	325	17 959	9 208	27 492

R million	Loans and receivables	Available-for-sale	2006 Fair value through profit and loss Held for trading	Designated	Total
12. INVESTMENT SECURITIES AND OTHER INVESTMENTS continued					
Total					
Negotiable certificates of deposit	–	–	701	–	701
Treasury bills	–	15	2 358	–	2 373
Other Government and government guaranteed stock	–	11 827	4 829	–	16 656
Other dated securities	–	–	318	682	1 000
Other undated securities	–	1	–	188	189
Other	185	276	5 622	6 500	12 583
Total – 2006	185	12 119	13 828	7 370	33 502
Listed					
Other government and government guaranteed stock	–	11 827	4 829	–	16 656
Other dated securities	–	–	70	–	70
Other	–	15	1 391	14	1 420
Listed – 2006	–	11 842	6 290	14	18 146
Unlisted					
Negotiable certificates of deposit	–	–	701	–	701
Treasury bills	–	15	2 358	–	2 373
Other dated securities	–	–	248	682	930
Other undated securities	–	1	–	188	189
Other	185	261	4 231	6 486	11 163
Unlisted – 2006	185	277	7 538	7 356	15 356

Investment securities and other investments

R17 862 million (2006: R14 396 million) of the financial instruments held for trading form part of the Bank's liquid asset portfolio in terms of the South African Reserve Bank and other foreign banking regulators requirements.

Investments under repurchase agreement included above R1 089 million (2006: R2 596 million).

	2007	2006
Analysis of investment securities		
Listed	13 580	18 146
– Equities	1 438	1 420
– Debt	12 142	16 726
Unlisted	27 492	15 356
– Equities	14 402	6 936
– Debt	13 090	8 420
	41 072	33 502
Aggregate market value of listed securities	13 580	18 146
Aggregate directors' valuation of unlisted investments	27 492	15 356
Total	41 072	33 502

Information regarding other investments as required in terms of Schedule 4 of the Companies Act is kept at the Company's registered offices. This information is open for inspection in terms of the provisions of Section 113 of the Companies Act.

The maturity analysis for investment securities is set out in note 30.7 below.

R million	2007	2006
13. COMMODITIES		
Commodities, where the Bank has a longer term intention, are carried at the lower of cost or net realisable value. Cost is determined using the weighted average method. However, the Bank applies fair value hedge accounting to these commodities that it currently holds. These commodities are therefore currently recognised at fair value.		
Commodities, where the Bank has a shorter term intention, are valued using market quoted prices or derived from futures prices if there is no actively traded market.		
Agricultural stock	964	578
Other	96	49
Commodities	**1 060**	627
14. ACCOUNTS RECEIVABLE		
Items in transit	1 957	14
Accrued interest	38	24
Accounts receivable	2 315	1 635
Accounts receivable	**4 310**	1 673
The fair value of accounts receivable approximates the carrying value		
15. INVESTMENT IN ASSOCIATES AND JOINT VENTURES		
Listed investments		
Investments at cost less amounts written off	–	544
Unlisted investments		
Investments at cost less amounts written off	289	180
Total carrying value	**289**	724
Valuation		
Listed investments at market value	–	565
Unlisted investments at directors' valuation	697	334
Total valuation	**697**	899

R million	Nature of business	Issued ordinary share capital	Number of ordinary shares held	Year end
Listed				
Makalani Holdings	Investment holding	553 052 203	5 480 885	30 Jun
Unlisted				
Natal Lands (Pty) Limited	Property holding	240 000	60 000	31 Dec
SBV Services (Pty) Limited	Logistics	2 000	500	30 Jun
Pamodzi Investment Holdings (Pty) Limited	Investment holding	50 000	11 310	31 Aug
Toyota Financial Services (Pty) Limited	Vehicle finance	4 500	1 485	31 Mar
Langa Lokulunga	Investment holding	100	15	31 Mar

15. INVESTMENT IN ASSOCIATES AND JOINT VENTURES continued

R million	Effective holding % 2007	Effective holding % 2006	Valuation amount 2007	Valuation amount 2006	Bank costs less amounts written off 2007	Bank costs less amounts written off 2006
Listed						
Makalani Holdings	**22.44**	22	**0**	565	**0**	544
Total listed			**0**	565	**0**	544
Unlisted						
Natal Lands (Pty) Limited	**50**	50	**1**	1	**1**	1
SBV Services (Pty) Limited	**25**	25	**75**	10	**10**	10
Pamodzi Investment Holdings (Pty) Limited	**22.6**	22.6	**75**	18	**18**	18
Toyota Financial Services (Pty) Limited	**33**	33	**330**	207	**215**	150
Langa Lokulunga	**15**	15	**3**	–	**4**	–
Other	**Various**	Various	**213**	98	**41**	1
Total unlisted			**697**	334	**289**	180
Total listed and unlisted			**697**	899	**289**	724

Certain investments have been transferred to non current assets held-for-sale – refer to note 39.

R million	2007	2006
16. INTEREST IN SUBSIDIARY COMPANIES		
Analysis of investment securities		
Shares at cost less amounts written off	**13**	13

	Nature of business	Issued capital Rand	Effective holding %	Investment in subsidiaries Rand
30 June 2007				
Direct Axis (Pty) Limited	Financial services	13 333	51	11 000 000
RMB Corporate Finance (Pty) Limited	Investment	1 000	100	1 282 762
Other	Various			892 238
				13 175 000
30 June 2006				
Direct Axis (Pty) Limited	Financial services	13 333	51	11 000 000
RMB Corporate Finance (Pty) Limited	Investment	1 000	100	1 282 762
Other	Various			892 238
				13 175 000

R million	2007	2006
17. AMOUNTS DUE BY/(TO) HOLDING AND FELLOW SUBSIDIARY COMPANIES		
Amounts due to holding company	(526)	(816)
Amounts due to fellow subsidiary companies	(17 402)	(16 978)
Amounts due to holding and fellow subsidiary companies	(17 928)	(17 794)
Amounts due by holding company	472	659
Amounts due by fellow subsidiary companies	28 885	23 978
Amounts due by holding and fellow subsidiary companies	29 357	24 637
Net amounts due by/(to) holding and fellow subsidiary companies	11 429	6 843

These loans have no fixed terms of repayment and carry varying rates of interest. Loans to fellow subsidiary companies amounting to R7.2 million are subject to subordination agreements until such time that their assets fairly valued, exceed their liabilities.

	2007			
	Amounts due by fellow subsidiary companies		Amounts due to fellow subsidiary companies	
	Notional	Fair value	Notional	Fair value
Included in above are the following: Amounts due by fellow subsidiaries includes derivative instruments of	13 053	862	31 821	1 626

	2006			
	Amounts due by fellow subsidiary companies		Amounts due to fellow subsidiary companies	
	Notional	Fair value	Notional	Fair value
Amounts due by fellow subsidiaries includes derivative instruments of	25 025	694	8 799	221

18. PROPERTY AND EQUIPMENT

	2007			2006		
R million	Gross carrying amount	Accumulated depreciation and impairments	Net carrying amount	Gross carrying amount	Accumulated depreciation and impairments	Net carrying amount
Property						
Freehold land and buildings	1 045	(90)	955	936	(57)	879
Leasehold premises	638	(235)	403	748	(400)	348
	1 683	(325)	1 358	1 684	(457)	1 227
Equipment						
Computer equipment	2 875	(1 830)	1 045	2 552	(1 596)	956
Furniture and fittings	855	(459)	396	840	(467)	373
Motor vehicles	130	(49)	81	84	(37)	47
Office equipment	348	(146)	202	339	(169)	170
	4 208	(2 484)	1 724	3 815	(2 269)	1 546
Total	5 891	(2 809)	3 082	5 499	(2 726)	2 773

for the year ended 30 June

18. PROPERTY AND EQUIPMENT continued

	Freehold land and buildings	Leasehold premises	Computer equipment	Furniture and fittings	Motor vehicles	Office equipment
Movement in property and equipment – net carrying amount						
Net carrying amount at 30 June 2005	972	247	825	332	36	160
Additions	23	221	513	138	26	68
Depreciation charge for period	(31)	(111)	(379)	(83)	(13)	(52)
Impairments recognised	–	(7)	(7)	(7)	–	(6)
Impairments reversed	–	–	12	–	–	–
Disposals	(86)	(1)	(6)	(8)	(3)	(1)
Other	1	(1)	(2)	1	1	1
Net carrying amount at 30 June 2006	**879**	**348**	**956**	**373**	**47**	**170**
Additions	**120**	**172**	**491**	**100**	**57**	**101**
Depreciation charge for period	**(34)**	**(110)**	**(401)**	**(69)**	**(20)**	**(57)**
Impairments recognised	**–**	**(8)**	**1**	**(7)**	**–**	**(3)**
Impairments reversed	**–**	**–**	**8**	**–**	**–**	**–**
Disposals	**(10)**	**–**	**(11)**	**(2)**	**(2)**	**(10)**
Other	**–**	**1**	**1**	**1**	**(1)**	**1**
Net carrying amount at 30 June 2007	**955**	**403**	**1 045**	**396**	**81**	**202**

Information regarding land and buildings as required in terms of Schedule 4 of the Companies Act is kept at the Company's registered offices. This information will be open for inspection in Company's registered offices. This information will be open for inspection in terms of the provisions of section 113 of the Companies Act, 1973.

19. POST RETIREMENT BENEFIT FUND LIABILITIES AND ASSETS

R million	2007 Pension	2007 Medical	2007 Total	2006 Pension	2006 Medical	2006 Total
19.1 Post retirement liability						
Present value of funded liability	**18 294**	**1 813**	**20 107**	15 437	1 593	17 030
Fair value of plan assets	**(18 728)**	**–**	**(18 728)**	(15 263)	–	(15 263)
Pension fund (asset)/deficit	**(434)**	**1 813**	**1 379**	174	1 593	1 767
Unrecognised actuarial surplus/(loss)	**608**	**(189)**	**419**	11	(140)	(129)
Limitation imposed by IAS 19	**–**	**–**	**–**	(11)	–	(11)
Post retirement liability	**174**	**1 624**	**1 798**	174	1 453	1 627
The amounts recognised in the income statement are as follows:						
Current service cost	**334**	**38**	**372**	312	33	345
Interest cost	**1 290**	**125**	**1 415**	994	102	1 096
Expected return on plan assets	**(1 298)**	**–**	**(1 298)**	(1 011)	–	(1 011)
Actuarial loss recognised	**–**	**13**	**13**	–	128	128
Total included in staff costs	**326**	**176**	**502**	295	263	558
Movement in post retirement liability						
Present value at the beginning of the year	**174**	**1 453**	**1 627**	174	1 243	1 417
Amounts recognised in the income statement as above	**326**	**176**	**502**	295	263	558
Benefits paid	**(315)**	**(58)**	**(373)**	(306)	(53)	(359)
Limitation imposed by IAS 19	**(11)**	**–**	**(11)**	11	–	11
Transfer of liability	**–**	**53**	**53**	–	–	–
Present value at the end of the year	**174**	**1 624**	**1 798**	174	1 453	1 627

19. POST RETIREMENT BENEFIT FUND LIABILITIES AND ASSETS continued

19.1 Post retirement liability continued

R million	2007 Pension	2007 Medical	2007 Total	2006 Pension	2006 Medical	2006 Total
Movement in the fair value of plan assets of the year is as follows:	15 263	–	15 263	12 316	–	12 316
Expected return on plan assets	1 239	–	1 239	1 011	–	1 011
Actuarial (losses)/gains	3 175	–	3 175	2 353	–	2 353
Exchange differences	–	–	–	–	–	–
Employer contributions	258	–	258	260	–	260
Employee contributions	258	–	258	296	–	296
Benefits paid	(1 465)	–	(1 465)	(973)	–	(973)
End of the year	18 728	–	18 728	15 263	–	15 263
Plan assets are comprised of the following:						
Equity	11 363	–	11 363	8 914	–	8 914
Debt	1 143	–	1 143	1 683	–	1 683
Other	6 222	–	6 222	4 666	–	4 666
Total	18 728	–	18 728	15 263	–	15 263
Included in plan assets were the following:						
FirstRand Limited ordinary shares with fair value of:	499	–	499	427	–	427
Buildings occupied by the group with a fair value of:	386	–	386	323	–	323
Total	885	–	885	750	–	750

	2007 Pension %	2007 Medical %	2006 Pension %	2006 Medical %
The principal actuarial assumptions used for accounting purposes were:				
– Expected return on plan assets Banking Fund	9.50	–	8.25	–
– Discount rate Banking Fund	8.50	8.50	8.75	8.75
– Expected rates of salary increases Banking Fund	7.00	–	7.25	–
– Long term increase in health cost Banking Fund	–	7.25	–	7.50
The effects of a 1% movement in the assumed health cost rate were as follows				
– Increase of 1%				
Banking Fund				
Effect on the aggregate of the current service cost and interest cost	–	117.98	–	117.99
Effect on the defined benefit obligation	–	118.04	–	119.79
– Decrease of 1%				
Banking Fund	–	–		
Effect on the aggregate of the current service cost and interest cost	–	85.37	–	85.79
Effect on the defined benefit obligation	–	82.54	–	88.26
– Net increase in rate used to value pensions, allowing for pension increases Banking Fund	–	–	(2.25)	–

19. POST RETIREMENT BENEFIT FUND LIABILITIES AND ASSETS continued

	2007 Active members	2007 Pensioners	2006 Active members	2006 Pensioners
19.1 Post retirement liability continued				
– Mortality rate				
Pension Fund				
Normal retirement age	**60**	**–**	60	–
Mortality rate table used	**Fund specific**	**PA(90)-1**	Fund specific	PA90
Post retirement medical				
Normal retirement age	**60**	**–**	60	–
Mortality rate table used	**SA72-77**	**PA(90)-1**	SA72-77	PA90

SA72-77 refers to standard actuarial mortality tables for active members on a defined benefit plan where the chance of dying before normal retirement is expressed at each age for each gender.

PA90 refers to standard actuarial mortality tables for current and prospective pensioners on a defined benefit plan where the chance of dying after early or normal retirement is expressed at each age for each gender.

	2007 Pension years	2007 Medical years	2006 Pension years	2006 Medical years
– Mortality rate				
The average life expectancy in years of a pensioner retiring at age 65 on the balance sheet date is as follows:				
– Banking Fund				
Male	**15**	**15**	14	14
Female	**19**	**19**	18	18
The average life expectancy in years of a pensioner retiring at age 65, 20 years after the balance sheet is as follows:				
– Banking Fund				
Male	**15**	**15**	14	14
Female	**19**	**19**	18	18

Five year analysis on total pension and medical post retirement plans

As at 30 June	2007	2006	2005	2004	2003
Present value of defined benefit obligation	**20 107**	17 030	13 836	10 915	9 788
Fair value of plan assets	**(18 728)**	(15 263)	(12 316)	(9 643)	(8 346)
Surplus	**1 379**	1 767	1 520	1 272	1 442

R million	2007	2007 %	2006	2006 %
Increase of 1%				
– Banking Group Fund				
Effect on the aggregate of the current service cost and interest cost	**1 823 160**	**118.16**	1 639 411	118.09
Effect on the defined benefit obligation	**196 280**	**117.96**	190 879	119.93
Decrease of 1%				
– Banking Fund				
Effect on the aggregate of the current service cost and interest cost	**1 320 977**	**85.61**	1 189 407	85.67
Effect on the defined benefit obligation	**130 077**	**78.17**	140 650	88.37
– Banking Group Fund				
Effect on the aggregate of the current service cost and interest cost	**1 543 007**	**100.00**	1 388 316	100.00
Effect on the defined benefit obligation	**166 400**	**100.00**	159 160	100.00

19. POST RETIREMENT BENEFIT FUND LIABILITIES AND ASSETS continued

R million	2007	2006
19.2 Post retirement benefit assets		
Pension and post retirement benefits		
Leave pay insurance policy	386	569
Post retirement medical asset	2 230	1 898
Total post retirement benefit assets	2 616	2 467

20. INTANGIBLE ASSETS

	2007 Gross	2007 Accumulated amortisation and impairments	2007 Net	2006 Gross	2006 Accumulated amortisation and impairments	2006 Net
Software						
Movement in software – book value						
Opening balance	97	(71)	26	82	(52)	30
Additions	26	–	26	15	–	15
Amortisation to the income statement	–	(17)	(17)	–	(19)	(19)
Impairment losses	–	–	–	–	–	–
Closing balance	123	(88)	35	97	(71)	26
Development costs						
Movement in development costs – book value						
Opening balance	21	(4)	17	8	(2)	6
Additions	16	–	16	13	–	13
Amortisation to the income statement	–	(7)	(7)	–	(2)	(2)
Impairment losses	–	–	–	–	–	–
Closing balance	37	(11)	26	21	(4)	17
Total intangible assets						
Software	123	(88)	35	97	(71)	26
Development costs	37	(11)	26	21	(4)	17
	160	(99)	61	118	(75)	43

21. DEPOSITS

R million	2007 At amortised cost	2007 Fair value through profit and loss	2007 Total
Deposit and current accounts			
From banks and financial institutions	16 851	17 388	34 239
– In the normal course of business	16 851	7 013	23 864
– Under repurchase agreements	–	10 375	10 375
From customers	192 078	49 554	241 632
– Current accounts	137 864	217	138 081
– Savings deposits	1 957	–	1 957
– Term deposit accounts	52 257	49 337	101 594
Other deposits	3 485	68 224	71 709
– Negotiable certificates of deposit	30	40 215	40 245
– Buy backs	–	2 621	2 621
– Other	3 455	25 388	28 843
	212 414	135 166	347 580

R million	At amortised cost (2006)	Fair value through profit and loss (2006)	Total (2006)
21. DEPOSITS			
Deposit and current accounts			
From banks and financial institutions	3 021	6 297	9 318
– In the normal course of business	3 021	2 745	5 766
– Under repurchase agreements	–	3 552	3 552
From customers	169 947	44 714	214 661
– Current accounts	125 560	468	126 028
– Savings deposits	1 841	–	1 841
– Term deposit accounts	42 546	44 246	86 792
Other deposits	7 130	61 562	68 692
– Negotiable certificates of deposit	30	28 797	28 827
– Buy backs	–	11 140	11 140
– Other	7 100	21 625	28 725
	180 098	112 573	292 671

A maturity analysis of deposits and current accounts is set out in note 30.7 and is based on the remaining periods to contractual maturity from the year end.

R million	2007	2006
22. SHORT TRADING POSITIONS		
Government and government guaranteed	**20 769**	10 437
Other dated securities	**1 576**	3 524
Undated securities	**4 861**	6 627
	27 206	20 588
Analysed as follows:		
Listed	**24 083**	16 922
Unlisted	**3 123**	3 666
	27 206	20 588

Short trading positions are carried at fair value. Fair market value for listed securities are their market quoted prices, and for unlisted securities are based on the directors valuation using suitable valuation methods.

R million	2007	2006
23. CREDITORS AND ACCRUALS		
Accrued interest	**146**	104
Short term portion of long term liabilities (note 25)	**48**	30
Accounts payable	**4 122**	3 686
	4 316	3 820

All amounts are expected to be settled in line with maturity analysis set out in note 30.7

R million	2007	2006
24. PROVISIONS		
Staff and staff related provisions		
Opening Balance	1 800	1 175
Additions	(23)	(1)
Charge to the income statement	2 040	1 188
Utilised	(1 429)	(562)
Closing Balance	2 388	1 800
Audit fees		
Opening Balance	13	13
Additions	(8)	–
Charge to the income statement	48	44
Utilised	(42)	(44)
Closing Balance	11	13
Other*		
Opening balance	380	470
Additions	30	1
Charge to the income statement	300	293
Utilised	(292)	(384)
Closing Balance	418	380
Total provisions	2 817	2 193

** Other provisions consist mainly of provision for litigation, fraud and other.*

25. LONG TERM LIABILITIES

R million	2007	2006
Preference shares		
The preference shares of FirstRand Bank Ltd have been classified as long term liabilities and comprise the following 1 671 (2006:5 371) cumulative redeemable shares with a par value of R0,0001 and a premium of R99 999,9999 per share[a]	167	537
	167	537

a These preference shares are redeemable over the next 5 years at the full subscription price. Dividends are paid at variable rates of between 56.0% and 62.5% of the prime interest rate. All issued share capital is fully paid up.

R million	2007	2006
Subordinated convertible loans	2 349	2 349
Share Based Payments (cash settled)	99	–
Fixed rate bonds[b]	700	700
Floating rate bonds[c]	4 950	3 840
Less: Portion repayable within 12 months transferred to creditors and accruals (note 23)	(48)	(30)
Long term liabilities	8 217	7 396

b The fixed rate bonds mature 31 August 2010 and bear interest at 1.2% above the R153 bond rate.
c The floating rate bonds mature from 31 August 2010 to 21 December 2018 and bear interest at 0.715% above the three month JIBAR rate.

R million	2007	2006
26. ORDINARY SHARES AND PREFERENCE SHARES		
Authorised		
2 000 000 ordinary shares with a par value of R2 per share	4	4
100 000 000 non cumulative non redeemable preference shares with a par value of R0,01 per share	1	1
Issued		
1 758 845 (2006: 1 758 843) ordinary shares with a par value of R2 per share	4	4
3 000 000 non cumulative non redeemable preference shares with a par value of R 0,01 per share to Holding Company	–	–
	4	4
All issued share capital is fully paid up.		
Share premium		
1 758 845 (2006: 1 758 843) ordinary shares with a par value of R2 per share	6 161	3 372
3 000 000 non cumulative non redeemable preference shares with a par value of R 0.01 per share to Holding Company	3 000	3 000
	9 161	6 372

The unissued ordinary shares are under the control of the directors until the next annual general meeting.

	Number of ordinary shares	Number of non cumulative non redeemable preference shares
Reconciliation of shares issued		
Shares at 1 July 2005	1 758 842	3 000 000
Issued during the year	1	–
Shares at 30 June 2006	1 758 843	3 000 000
Issued during the year	2	–
Shares at 30 June 2007	**1 758 845**	**3 000 000**

R million	2007	2006
27. NON DISTRIBUTABLE RESERVES		
Revaluation reserve – cash flow hedging reserve	65	118
Revaluation reserve – available-for-sale instruments	203	97
Capital redemption reserve fund	1 345	1 345
General risk reserve (impaired capital reserve)	919	717
Share based payment reserve	415	275
	2 947	2 552

A detailed reconciliation of the movements in the respective non distributable reserve balances is set out in the statement of changes in equity.

R million	2007	2006
28. CONTINGENCIES AND COMMITMENTS		
Guarantees*	24 938	12 725
Acceptances	340	6
Letters of credit	12 578	22 366
Total contingencies	37 856	35 097
Irrevocable commitments	33 067	27 336
Total contingencies and commitments	70 923	62 433

** Guarantees consist predominantly of endorsements and performance guarantees*

Other contingencies
The Bank is exposed to various actual or potential claims.

Legal proceedings
There are a number of legal or potential claims against the Bank, the outcome of these cannot be foreseen. These claims are not regarded as material either on an individual or group basis.

Provision is made for all liabilities which are expected to materialise.

Employee benefit contingent liability
A contingent liability has been raised in respect of pension fund holidays taken since 15 December 2001.

R million	2007	2006
Claims		
– The Bank has contingent liabilities in respect of certain outstanding claims	150	150
– The Bank has reciprocal claims against other institutions. These claims qualify as contingent assets.	(134)	(134)
Commitments		
Commitments in respect of capital expenses and long-term investments approved by directors:		
– Total contracted for	282	479
– Total not contracted for	216	618
Made up of the following		
Capital commitments contracted for at the balance sheet date but not yet incurred are as follows:		
– Property and equipment	282	479
Capital commitments not yet contracted for at balance sheet date but have been approved by the directors:		
– Property and equipment	216	618

Funds to meet these commitments will be provided from the Bank's resources.

Assets pledged
Assets are pledged as collateral under repurchase agreements with other banks and for security deposits relating to local futures and options. Mandatory reserve deposits are also held at the South African Reserve Bank in accordance with statutory requirements. These deposits are not available to finance the Bank's day to day operations.

	2007		2006	
	Asset	Related liability	Asset	Related liability
Balances with central banks	7 944	–	6 352	–
Trading securities	–	1 089	1 752	2 596
Investment securities	7 944	1 089	8 104	2 596

Bank commitments under operating leases where the Bank is the lessee
Leasing arrangements:
The Bank's significant operating leases relates to property rentals of the various branch network channels represented in the form of full service branches, agencies mini branches and ATM lobbies. The rentals are negotiated on a fixed monthly rental basis, with a percentage contribution of the monthly operating costs. Escalation clauses are negotiated at market related rates, for a period of at least five years with an option to renew for a further five year period.

Restrictions are more an exception than the norm.
The Bank has various operating lease agreements, which may or may not contain renewal options. The lease terms do not contain restrictions on the Bank's activities concerning dividends, additional funding or further leasing.

R million	2007 0 to 1st year	2007 2nd to 5th year	2007 After 5th year
28. CONTINGENCIES AND COMMITMENTS continued			
Office premises	420	957	127
Recoverable under subleases	–	–	–
	420	957	127
Equipment and motor vehicles	17	33	–
Total operating lease commitments	437	990	127

R million	2006 0 to 1st year	2006 2nd to 5th year	2006 After 5th year
Office premises	343	828	120
Recoverable under subleases	–	–	–
	343	828	120
Equipment and motor vehicles	35	15	–
Total operating lease commitments	378	843	120

R million	2007	2006
29. CASH FLOW INFORMATION		
29.1 Reconciliation of net income from operations to cash flow from operating activities		
Net income from operations	7 605	6 998
Adjusted for:		
– Depreciation, amortisation and impairment costs	724	708
– Impairment of advances	2 564	1 427
– Provision for post employment benefit obligations	–	–
– Revaluation of post employment benefit assets	22	(29)
– Other non cash provisions	2 416	1 596
– Loss/(Profit) on disposal of property and equipment and investments	59	(69)
– Revaluation gain transferred to available-for-sale securities	(20)	(126)
– Foreign currency translation reserve	–	3
– Dividends from other investments	(166)	(322)
– Dividends from associate companies	(51)	(11)
– IFRS 2 Share based payments	239	142
– Deferred income	(242)	(123)
– Deferred expense	61	60
Cash flows from operating activities	13 211	10 254
29.2 Dividends paid		
Amounts unpaid at beginning of the year	–	–
Charged to distributable reserves	(2 887)	(2 445)
Amounts unpaid at end of the year	–	–
Total dividends paid	(2 887)	(2 445)
29.3 Tax paid		
Amounts unpaid at beginning of the year	(430)	(104)
Other Movements	(2)	–
Tax charge per income statement	(1 805)	(1 595)
Deferred tax included in tax charge	(52)	70
VAT and other tax charges	(412)	(408)
Amounts unpaid at end of the year	805	430
Total tax paid	(1 896)	(1 607)
Direct tax paid	(1 484)	(1 199)
Indirect tax paid	(412)	(408)
Total tax paid	(1 896)	(1 607)

30. RISK MANAGEMENT

30.1 General

The Risk Management report of the Bank is contained on pages 3 to 21 ("the Risk Report") which forms part of this set of financial statements. The report sets out in detail the various risks the Bank is exposed to, as well as the strategy, methodology and instruments used to mitigate these risks.

Risk control policies and exposure limits for the key risk areas of the Bank are approved by the Board, while operational policies and control procedures are approved by the relevant risk committees. Details of the Bank's risk management structure, the risk management methodologies and the various risk committees are set out in pages 3 to 7 of the Risk Report.

Pages 3 to 7 (excluding capital adequacy requirements) of the Risk Report form part of the audited financial statements.

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

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

30.2 Strategy in using hedges

The Banks strategy for using hedges is set out in note 8 above, and is also dealt with in the Risk Report.

30.3 Credit risk management

Credit risk
Credit risk is the risk that a counterparty will be unable to repay amounts when they fall due. In general, the Bank manages its credit risk exposure by placing limits on the acceptable risk exposure to individual borrowers or groups of borrowers, and within geographic and industry segments. Credit risk is monitored on an ongoing basis. Further detail on credit risk management is contained on pages 8 to 14 of the of the Risk Management

Significant credit exposures at 30 June 2007 were:

R million	South Africa	Other Africa	United Kingdom	Ireland	Other Europe	North America	South America	Australia	Other	Total
Assets										
Gross advances	**311 699**	**213**	**12 583**	**1 126**	**8 700**	**4**	**6**	**3**	**93**	**334 427**
Contingencies*	**37 477**	**1**	**–**	**–**	**378**	**–**	**–**	**–**	**–**	**37 856**
	349 176	**214**	**12 583**	**1 126**	**9 078**	**4**	**6**	**3**	**93**	**372 283**

Economic sector risk concentrations in respect of advances are set out in note 11.

Significant credit exposures at 30 June 2006 were:

R million	South Africa	Other Africa	United Kingdom	Ireland	Other Europe	North America	South America	Australia	Other	Total
Assets										
Gross advances	272 761	185	6 584	718	3 317	33	16	7	2	283 623
Contingencies*	33 306	1 075	15	–	144	50	13	2	492	35 097
	306 067	1 260	6 599	718	3 461	83	29	9	494	318 720

** Contingencies exclude irrevocable commitments – original maturity of one year or less*

30.4 Market risk

The Bank takes on exposure to market risk. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The Bank applies a "value at risk" methodology to estimate the market risk positions held and the maximum losses expected, based upon a number of assumptions for various changes in market conditions. The primary risk control mechanism used for risk control purposes are stress loss test and limits. Further details on the market risk management are set out on pages 14 to 16 of the Risk Report.

30. RISK MANAGEMENT continued

30.5 Currency risk management

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

The Bank manages foreign currency exposures in terms of approved limits. The currency position at 30 June 2007 is set out below:

R million	2007 Rand	UK£	US$	Euro	Other	Total
ASSETS						
Cash and short term funds	18 513	49	3 923	146	76	22 707
Derivative financial instruments	11 383	–	8 188	323	280	20 174
– qualifying for hedge accounting	127	–	–	–	–	127
– held for trading	11 256	–	8 188	323	280	20 047
Advances	314 461	601	12 727	2 598	5	330 392
– loans and receivables	269 036	27	427	148	5	269 643
– available-for-sale	740	–	–	–	–	740
– fair value through profit and loss	44 685	574	12 300	2 450	–	60 009
Investment securities and other investments	41 026	–	46	–	–	41 072
Financial securities held for trading	24 259	–	–	–	–	24 259
Investment securities	16 767	–	46	–	–	16 813
– available-for-sale	7 521	–	46	–	–	7 567
– fair value through profit and loss	9 246	–	–	–	–	9 246
Commodities	1 060	–	–	–	–	1 060
Accounts receivable	4 260	–	50	–	–	4 310
Loans to Insurance Group	3 436	–	–	–	–	3 436
Investment in associates and joint ventures	289	–	–	–	–	289
Investment in subsidiary companies	13	–	–	–	–	13
Amounts due by holding and fellow subsidiary companies	25 157	805	2 661	398	336	29 357
Property and equipment	3 082	–	–	–	–	3 082
Retirement benefit asset	2 616	–	–	–	–	2 616
Intangible assets	61	–	–	–	–	61
Non current assets held for sale	572	–	–	–	–	572
	425 929	1 455	27 595	3 465	697	459 141
LIABILITIES						
Deposits	339 463	244	5 693	2 121	59	347 580
– deposits and current accounts	339 463	244	5 693	2 121	59	347 580
Short trading positions	27 206	–	–	–	–	27 206
Derivative financial instruments	8 726	324	7 914	503	132	17 599
– qualifying for hedge accounting	28	–	–	–	–	28
– held for trading	8 698	324	7 914	503	132	17 571
Creditors and accruals	4 306	–	10	–	–	4 316
Provisions	2 817	–	–	–	–	2 817
Tax liability	805	–	–	–	–	805
Post retirement benefit fund liability	1 798	–	–	–	–	1 798
Deferred tax liability	1 741	–	–	–	–	1 741
Amounts due to holding and fellow subsidiary companies	17 741	20	102	40	25	17 928
Long term liabilities	8 217	–	–	–	–	8 217
Loans from Insurance Group	4 166	15	4	–	–	4 185
Shareholders' equity	24 949	–	–	–	–	24 949
	441 935	603	13 723	2 664	216	459 141

30. RISK MANAGEMENT continued

30.5 Currency risk management continued

R million	2006 Rand	UK£	US$	Euro	Other	Total
ASSETS						
Cash and short term funds	15 877	30	4 105	56	36	20 104
Derivative financial instruments	17 362	491	13 773	2 706	123	34 455
– qualifying for hedge accounting	253	–	–	–	–	253
– held for trading	17 109	491	13 773	2 706	123	34 202
Advances	271 516	30	8 435	866	8	280 855
– loans and receivables	239 468	–	41	15	–	239 524
– available-for-sale	538	–	–	–	–	538
– fair value through profit and loss	31 510	30	8 394	851	8	40 793
Investment securities and other investments	33 482	–	–	–	20	33 502
Financial instruments held for trading	13 808	–	–	–	20	13 828
Investment securities	19 674	–	–	–	–	19 674
– loans and receivables	185	–	–	–	–	185
– available-for-sale	12 119	–	–	–	–	12 119
– fair value through profit and loss	7 370	–	–	–	–	7 370
Commodities	627	–	–	–	–	627
Loans to Insurance Group	632	4	–	–	–	636
Accounts receivable	1 673	–	–	–	–	1 673
Investment in associates and joint ventures	724	–	–	–	–	724
Investment in subsidiary companies	13	–	–	–	–	13
Amounts due by holding and fellow subsidiary companies	23 044	742	536	–	315	24 637
Property and equipment	2 773	–	–	–	–	2 773
Retirement benefit asset	2 467	–	–	–	–	2 467
Intangible assets	43	–	–	–	–	43
	370 233	1 297	26 849	3 628	502	402 509
LIABILITIES						
Deposits	279 641	248	11 460	1 252	70	292 671
– deposit and current accounts	279 641	248	11 460	1 252	70	292 671
Short trading positions	20 588	–	–	–	–	20 588
Derivative financial instruments	14 797	458	14 216	1 617	182	31 270
– qualifying for hedge accounting	51	–	–	–	–	51
– held for trading	14 746	458	14 216	1 617	182	31 219
Creditors and accruals	3 814	–	6	–	–	3 820
Provisions	2 193	–	–	–	–	2 193
Tax liability	430	–	–	–	–	430
Post retirement benefit fund liability	1 627	–	–	–	–	1 627
Deferred tax liability	1 804	–	–	–	–	1 804
Amounts due to holding and fellow subsidiary companies	17 532	–	252	–	10	17 794
Long term liabilities	7 396	–	–	–	–	7 396
Loans from Insurance Group	3 383	26	30	11	–	3 450
Shareholders' equity	19 466	–	–	–	–	19 466
	372 671	732	25 964	2 880	262	402 509

30. RISK MANAGEMENT continued

30.6 Interest rate risk management

Repricing analysis of the balance sheet at carrying values

The Bank is exposed to interest rate risk as its balance sheet and earnings may be adversely affected by changes in the level or volatility of interest rates. Interest rate risk arises mainly from the Banks banking and trading activities. For the most part, interest rate risk in the banking book is managed separately from interest rate risk associated with trading. A more comprehensive discussion of the management of interest rate risk in the banking book is provided on pages 17 to 18 of the Risk Report, whilst the management of interest rate risk arising from trading activities is covered in the market risk section on pages 14 to 16 of the Risk Report.

The table below shows a repricing analysis for the Bank's balance sheet at carrying values. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by the earlier of repricing or maturity dates.

	2007 Interest earning/bearing						
			Term to repricing				
R million	Carrying amount	Demand	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Trading and non interest earning/ bearing
ASSETS							
Cash and short term funds	22 707	20 589	–	–	–	–	2 118
Derivative financial instruments	20 174	1 025	5 745	–	57	1 841	11 506
– qualifying for hedge accounting	127	1	121	–	5	–	–
– held for trading	20 047	1 024	5 624	–	52	1 841	11 506
Advances	330 392	244 431	7 736	7 009	26 493	26 153	18 570
– loans and receivables	269 643	217 132	2 457	6 669	23 836	19 549	–
– available-for-sale	740	740	–	–	–	–	–
– fair value through profit and loss	60 009	26 559	5 279	340	2 657	6 604	18 570
Investment securities and other investments	41 072	7 914	5 112	7 038	4 742	5 459	10 807
Financial securities held for trading	24 259	2 139	3 796	5 738	814	1 128	10 644
Investment securities	16 813	5 775	1 316	1 300	3 928	4 331	163
– available-for-sale	7 567	283	15	1 298	2 631	3 279	61
– fair value through profit and loss	9 246	5 492	1 301	2	1 297	1 052	102
Commodities	1 060	–	–	–	–	–	1 060
Accounts receivable	4 310	489	29	206	28	–	3 558
Loans to Insurance Group	3 436	1 846	1	–	897	–	692
Investment in associates and joint ventures	289	–	–	–	–	–	289
Investment in subsidiary companies	13	–	–	–	–	–	13
Amounts due by holding and fellow subsidiary companies	29 357	21 368	1 172	130	2 346	1 770	2 571
Property and equipment	3 082	–	–	–	–	–	3 082
Retirement benefit asset	2 616	–	–	–	–	2 616	–
Intangible assets	61	–	–	–	–	–	61
Non current assets held for sale	572	–	–	–	–	–	572
	459 141	297 662	19 795	14 383	34 563	37 839	54 899

30. RISK MANAGEMENT
continued

30.6 Interest rate risk management *continued*

	2007 Interest earning/bearing						
			Term to repricing				
R million	Carrying amount	Demand	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Trading and non interest earning/ bearing
EQUITY AND LIABILITIES							
Deposits	347 580	212 704	44 204	56 121	21 259	1 949	11 343
– deposits and current accounts	347 580	212 704	44 204	56 121	21 259	1 949	11 343
Short trading positions	27 206	1 291	98	22	3 849	565	21 381
Derivative financial instruments	17 599	1 168	5 627	35	–	22	10 747
– qualifying for hedge accounting	28	–	28	–	–	–	–
– held for trading	17 571	1 168	5 599	35	–	22	10 747
Creditors and accruals	4 316	487	148	22	–	–	3 659
Provisions	2 817	–	–	–	–	–	2 817
Tax liability	805	–	–	–	–	–	805
Post retirement benefit fund liability	1 798	–	–	–	–	1 798	–
Deferred tax liability	1 741	–	–	–	–	–	1 741
Amounts due to holding and fellow subsidiary companies	17 928	11 893	765	126	3 999	–	1 145
Long term liabilities	8 217	89	30	–	4 149	3 850	99
Loans from Insurance Group	4 185	1 075	567	830	1 438	–	275
Shareholders' equity	24 949	3 002	–	–	–	–	21 947
	459 141	231 709	51 439	57 156	34 694	8 184	75 959
Net interest sensitivity gap	–	65 953	(31 644)	(42 773)	(131)	29 655	(21 060)

R million	Carrying amount	Demand	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Trading and non interest earning/ bearing
	2006 Interest earning/bearing						
			Term to repricing				
30. RISK MANAGEMENT continued							
30.6 Interest rate risk management *continued*							
ASSETS							
Cash and short term funds	20 104	17 671	400	–	–	–	2 033
Derivative financial instruments	34 455	296	12 009	8 217	2 313	3 469	8 151
– qualifying for hedge accounting	253	–	221	21	11	–	–
– held for trading	34 202	296	11 788	8 196	2 302	3 469	8 151
Advances	280 855	94 458	50 416	25 306	52 597	58 061	17
– loans and receivables	239 524	91 397	30 952	21 889	40 347	54 922	17
– available-for-sale	538	538	–	–	–	–	–
– fair value through profit and loss	40 793	2 523	19 464	3 417	12 250	3 139	–
Investment securities and other investments	33 502	3 337	3 910	5 410	11 634	7 620	1 591
Financial instruments held for trading	13 828	3 076	2 246	1 379	3 687	1 900	1 540
Investment securities	19 674	261	1 664	4 031	7 947	5 720	51
– loans and receivables	185	185	–	–	–	–	–
– available-for-sale	12 119	44	12	3 707	5 215	3 090	51
– fair value through profit and loss	7 370	32	1 652	324	2 732	2 630	
Commodities	627	–	–	–	–	–	627
Accounts receivable	1 673	537	8	–	–	–	1 128
Loans to Insurance Group	636	1	3	2	–	–	630
Investment in associates and joint ventures	724	–	–	–	–	244	480
Investment in subsidiary companies	13	–	–	–	–	–	13
Amounts due by holding and fellow subsidiary companies	24 637	20 607	889	10	731	230	2 170
Property and equipment	2 773	–	–	–	–	–	2 773
Retirement benefit asset	2 467	–	–	–	–	2 467	–
Intangible assets	43	–	–	–	–	–	43
	402 509	136 907	67 635	38 945	67 275	72 091	19 656
LIABILITIES							
Deposits	292 671	150 421	83 638	41 839	15 976	797	–
– deposit and current accounts	292 671	150 421	83 638	41 839	15 976	797	
Short trading positions	20 588	226	1 172	5 127	11 530	2 218	315
Derivative financial instruments	31 270	297	12 865	8 949	647	235	8 277
– qualifying for hedge accounting	51	–	28	7	15	–	1
– held for trading	31 219	297	12 837	8 942	632	235	8 276
Creditors and accruals	3 820	343	72	–	–	–	3 405
Provisions	2 193	–	–	–	–	–	2 193
Tax liability	430	–	430	–	–	–	–
Post retirement benefit fund liability	1 627	127	–	–	–	1 500	–
Deferred tax liability	1 804	–	–	–	–	–	1 804
Amounts due to holding and fellow subsidiary companies	17 794	8 513	518	153	1 206	7 124	280
Long term liabilities	7 396	507	–	–	6 889	–	–
Loans from Insurance Group	3 450	464	1 368	1 581	24	–	13
Shareholders' equity	19 466	–	–	–	–	–	19 466
	402 509	160 898	100 063	57 649	36 272	11 874	35 753
Net interest sensitivity gap	–	(23 991)	(32 428)	(18 704)	31 003	60 217	(16 097)

30. RISK MANAGEMENT continued

30.7 Liquidity risk management

The Bank is exposed to daily liquidity requirements from overnight deposits, current accounts, maturing deposits, loan draw downs and other cash requirements. The Bank does not maintain sufficient cash resources to meet all of these liquidity needs, as historical experience indicates a minimum level of reinvestment of maturing funds with a high level of certainty.

The matching and controlled mismatching of maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks to be completely matched since business transactions are often of uncertain terms and of different types. An unmatched position potentially enhances profitability, but may also increase the risk of loss.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest rates and exchange rates.

Details on the liquidity risk management process is set out on page 16 and 17 of the Risk Report

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

	2007					
			Term to maturity			
R million	Carrying amount	Demand	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years
ASSETS						
Cash and short term funds	22 707	22 707	–	–	–	–
Derivative financial instruments	20 174	3 819	2 135	3 753	8 299	2 168
– qualifying for hedge accounting	127	7	12	44	64	–
– held for trading	20 047	3 812	2 123	3 709	8 235	2 168
Advances	330 392	84 957	14 912	30 268	88 978	111 277
– loans and receivables	269 643	48 023	6 800	27 472	79 029	108 319
– available-for-sale	740	–	51	143	546	–
– fair value through profit and loss	60 009	36 934	8 061	2 653	9 403	2 958
Investment securities and other investments	41 072	13 377	5 333	7 348	9 368	5 646
Financial securities held for trading	24 259	13 082	4 025	5 706	679	767
Investment securities	16 813	295	1 308	1 642	8 689	4 879
– available-for-sale	7 567	295	15	1 300	2 632	3 325
– fair value through profit and loss	9 246	–	1 293	342	6 057	1 554
Commodities	1 060	1 060	–	–	–	–
Accounts receivable	4 310	3 352	8	791	97	62
Loans to Insurance Group	3 436	1 820	2	1	1 495	118
Investment in associates and joint ventures	289	–	–	–	–	289
Investment in subsidiary companies	13	–	–	–	–	13
Amounts due by holding and fellow subsidiary companies	29 357	20 118	1 102	114	7 139	884
Property and equipment	3 082	–	–	–	656	2 426
Retirement benefit asset	2 616	–	–	–	–	2 616
Intangible assets	61	–	–	–	13	48
Non current assets held for sale	572	–	–	–	–	572
	459 141	151 210	23 492	42 275	116 045	126 119

R million	Carrying amount	Demand	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years
	2007		Term to maturity			
30. RISK MANAGEMENT continued						
30.7 Liquidity risk management						
EQUITY AND LIABILITIES						
Deposits	347 580	213 650	45 649	56 817	23 086	8 378
– deposits and current accounts	347 580	213 650	45 649	56 817	23 086	8 378
Short trading positions	27 206	27 195	–	–	11	–
Derivative financial instruments	17 599	1 970	2 374	4 606	6 442	2 207
– qualifying for hedge accounting	28	2	–	13	12	1
– held for trading	17 571	1 968	2 374	4 593	6 430	2 206
Creditors and accruals	4 316	1 911	1 909	264	54	178
Provisions	2 817	422	1 132	655	605	3
Tax liability	805	–	–	805	–	–
Post retirement benefit fund liability	1 798	–	–	–	–	1 798
Deferred tax liability	1 741	–	–	–	1 741	–
Amounts due to holding and fellow subsidiary companies	17 928	14 442	762	93	2 631	–
Long term liabilities	8 217	–	–	–	4 268	3 949
Loans from Insurance Group	4 185	1 073	567	834	1 528	183
Shareholders' equity	24 949	2	–	–	–	24 947
	459 141	260 665	52 393	64 074	40 366	41 643
Net liquidity gap	–	(109 455)	(28 901)	(21 799)	75 679	84 476

R million	Carrying amount	Demand	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years
	2006		Term to maturity			
ASSETS						
Cash and short term funds	20 104	19 705	399	–	–	–
Derivative financial instruments	34 455	307	8 440	11 237	8 898	5 573
– qualifying for hedge accounting	253	2	11	37	203	–
– held for trading	34 202	305	8 429	11 200	8 695	5 573
Advances	280 855	47 998	37 508	38 543	98 582	58 224
– loans and receivables	239 524	45 474	17 996	35 000	85 993	55 061
– available-for-sale	538	1	48	126	339	24
– fair value through profit and loss	40 793	2 523	19 464	3 417	12 250	3 139
Investment securities and other investments	33 502	4 925	3 910	5 390	11 657	7 620
Financial instruments held for trading	13 828	4 594	2 246	1 379	3 709	1 900
Investment securities	19 674	331	1 664	4 011	7 948	5 720
– loans and receivables	185	185	–	–	–	–
– available-for-sale	12 119	299	12	3 687	5 031	3 090
– fair value through profit and loss	7 370	(153)	1 652	324	2 917	2 630
Commodities	627	627	–	–	–	–
Accounts receivable	1 673	1 286	244	83	58	2
Loans to Insurance Group	636	626	3	7	–	–
Investment in associates and joint ventures	724	172	–	–	10	542
Investment in subsidiary companies	13	–	–	–	–	13
Amounts due by holding and fellow subsidiary companies	24 637	20 848	1 047	14	2 085	643
Property and equipment	2 773	199	6	15	438	2 115
Retirement benefit asset	2 467	–	–	–	–	2 467
Intangible assets	43	–	4	10	20	9
	402 509	96 693	51 561	55 299	121 748	77 208

R million	Carrying amount	Demand	2006 Term to maturity 1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years

30. RISK MANAGEMENT continued

30.7 Liquidity risk management continued

R million	Carrying amount	Demand	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years
EQUITY AND LIABILITIES						
Deposits	292 671	169 739	63 012	43 071	16 022	827
– deposit and current accounts	292 671	169 739	63 012	43 071	16 022	827
Short trading positions	20 588	541	2 881	3 018	11 944	2 204
Derivative financial instruments	31 270	314	9 303	11 539	7 956	2 158
– qualifying for hedge accounting	51	–	1	15	34	1
– held for trading	31 219	314	9 302	11 524	7 922	2 157
Creditors and accruals	3 820	1 816	1 599	31	36	338
Provisions	2 193	400	1 042	579	167	5
Tax liability	430	–	–	430	–	–
Post retirement benefit fund liability	1 627	127	–	–	–	1 500
Deferred tax liability	1 804	–	–	–	1 830	(26)
Amounts due to holding and fellow subsidiary companies	17 794	7 785	630	154	5 087	4 138
Policyholder liabilities under insurance contracts	–	–	–	–	–	–
Long term liabilities	7 396	491	–	–	6 905	–
Loans from Insurance Group	3 450	477	1 368	1 581	24	–
Shareholders' equity	19 466	3 994	172	–	512	14 788
	402 509	185 684	80 007	60 403	50 483	25 932
Net liquidity gap	–	(88 991)	(28 446)	(5 104)	71 265	51 276

30.8 Fair value of financial instruments

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

R million	2007 Carrying amount	2007 Fair value	2007 Unrecognised gain/(loss)	2006 Carrying amount	2006 Fair value	2006 Unrecognised gain/(loss)
Assets						
Advances						
– loans and receivables	**269 643**	**269 643**	**–**	239 524	239 524	–
Liabilities						
Deposit and current accounts	**347 580**	**347 580**	**–**	292 671	292 671	–
Long term liabilities	**8 217**	**8 217**	**–**	7 396	7 396	–
	355 797	**355 797**	**–**	300 067	300 067	–

R million	2007	2006
31. TRUST ACTIVITIES		
Market value or assets held or placed on behalf of customers in a fiduciary capacity	**19 502**	12 972

The Bank provides custody, trustee, corporate administration, investment management and advisory services to third parties, which involves the Bank making allocation and purchase and sale decisions in relation to a wide range of financial statements. Those assets that are held in a fiduciary capacity are not included in these financial statements. Some of these arrangements involve the Bank accepting targets for benchmark levels of returns for the assets under the Bank's care. These services give rise to the risk that the Bank will be accused of maladministration or under performance.

32. SEGMENT INFORMATION

32.1 Primary segments (business)

2007 Segment information R million	HomeLoans	Consumer Segment Card Issuing	Other Consumer	Consumer Segment	FNB Corporate
Net interest income before impairment of advances	1 566	842	1 726	4 134	397
Impairment of advances	(255)	(575)	(145)	(975)	(10)
Net interest income after impairment of advances (segment revenue)	1 311	267	1 581	3 159	387
Non interest income	162	1 171	1 769	3 102	1 059
Net income from operations	1 473	1 438	3 350	6 261	1 446
Operating expenses	(699)	(1 260)	(2 042)	(4 001)	(968)
Income before tax	774	178	1 308	2 260	478
Indirect tax	(47)	(22)	(75)	(144)	(8)
Income before direct tax	727	156	1 233	2 116	470
Direct tax	(182)	(39)	(309)	(530)	(118)
Profit attributable to ordinary shareholders	545	117	924	1 586	352
Cost to income (%)	40.5	62.6	58.4	55.3	66.5
Diversity ratio (%)	9.4	58.2	50.6	42.9	72.7
Bad debt charge as a percentage of average advances (%)	0.27	4.82	3.78	0.88	0.05
NPLs as a percentage of advances (%)	1.6	8.0	3.9	2.4	0.9
Income statement includes					
Depreciation	(14)	(7)	(124)	(145)	(77)
Amortisation	–	–	–	–	–
Impairment charges	–	–	(2)	(2)	9
Other non cash provisions	(11)	(19)	(87)	(117)	(103)
Balance sheet includes					
Advances (after ISP – before impairments)	94 851	11 935	3 833	110 619	21 105
Non performing loans	1 527	954	148	2 629	184
Investment in associates and joint ventures	–	–	–	–	–
Total deposits	12	1 303	50 737	52 052	48 177
Segment assets (total)	94 342	11 205	4 082	109 629	21 963
Segment liabilities (external)	1 093	1 525	52 244	54 862	49 432
Capital expenditure					
– Property & equipment	10	8	174	192	109

** All consolidation adjustments have been recorded in the Group Support.*
1. The segmental analysis is based on the management accounts for the respective segments.
2. Tax has been allocated on a pro-rata basis.

Certain interdivisional charges are included in the segment report in line with management accounting.
*** FNB reviewed its level of portfolio impairments to cater both for the effects of potential higher defaults and longer recovery periods as a result of the NCA combined with the impact of the recent rate increases.*

 # LROS stands for the legal right of set off.

Wealth	Com-mercial	FNB Mass and Support**	Total FNB	RMB	WesBank	FNB Africa	Group Support*	Total
470	2 711	487	8 199	244	3 578	7	(78)	11 950
(36)	(113)	(394)	(1 528)	(1)	(1 094)	–	59	(2 564)
434	2 598	93	6 671	243	2 484	7	(19)	9 386
184	2 595	2 697	9 637	3 136	479	42	1 239	14 533
618	5 193	2 790	16 308	3 379	2 963	49	1 220	23 919
(486)	(2 909)	(2 317)	(10 681)	(2 424)	(1 950)	(72)	(1 187)	(16 314)
132	2 284	473	5 627	955	1 013	(23)	33	7 605
(12)	(14)	(133)	(311)	(43)	(105)	–	47	(412)
120	2 270	340	5 316	912	908	(23)	80	7 193
(30)	(568)	(85)	(1 331)	(229)	(227)	2	(20)	(1 805)
90	1 702	255	3 985	683	681	(21)	60	5 388
74.3	54.8	72.8	59.9	71.7	48.1	146.9	102.2	61.6
28.1	48.9	84.7	54.0	92.8	11.8	85.7	106.7	54.9
0.17	0.56	25.47	0.88	–	1.36	–	(1.92)	0.77
1.3	2.1	19.5	2.2	0.3	2.0	–	–	1.7
(16)	(7)	(339)	(584)	(28)	(65)	(2)	(12)	(691)
(3)	–	–	(3)	(21)	–	–	–	(24)
–	–	(17)	(10)	–	–	–	1	(9)
(74)	(110)	(402)	(806)	(866)	(87)	(6)	(623)	(2 388)
21 006	20 269	1 547	174 546	76 064	80 671	41	3 105	334 427
275	432	303	3 823	258	1 620	–	1	5 702
–	–	–	–	456	217	–	(384)	289
4 653	55 914	7 462	168 258	53 761	434	159	124 968	347 580
21 030	19 994	6 786	179 402	146 690	81 694	118	51 237	459 141
4 889	58 523	9 422	177 128	132 375	3 832	141	120 716	434 192
34	17	647	999	53	35	6	(52)	1 041

2006					FNB
Segment information	Consumer Segment				
R million	HomeLoans	Card Issuing	Other Consumer	Consumer Segment	Corporate

32. SEGMENT INFORMATION continued

32.1 Primary segments (business) continued

R million	HomeLoans	Card Issuing	Other Consumer	Consumer Segment	Corporate
Net interest income before impairment of advances	1 298	699	1 307	3 304	319
Impairment of advances	(170)	(311)	(79)	(560)	(9)
Net interest income after impairment of advances (segment revenue)	1 128	388	1 228	2 744	310
Non interest income	67	982	1 519	2 568	1 011
Net income from operations	1 195	1 370	2 747	5 312	1 321
Operating expenses	(682)	(972)	(1 945)	(3 599)	(959)
Income before tax	513	398	802	1 713	362
Indirect tax	(71)	(18)	(77)	(166)	(12)
Income before direct tax	442	380	725	1 547	350
Direct tax	(107)	(92)	(175)	(374)	(85)
Profit attributable to ordinary shareholders	335	288	550	1 173	265
Cost to income (%)	50.0	57.8	68.8	61.3	72.1
Diversity ratio (%)	4.9	58.4	53.7	43.7	76.0
Bad debt charge as a percentage of average advances (%)	0.21	3.39	2.88	0.61	0.04
NPLs as a percentage of advances (%)	0.8	5.5	3.2	1.4	1.7
Income statement includes					
Depreciation	(5)	(5)	(135)	(145)	(69)
Amortisation	–	–	–	–	4
Impairment charges	–	–	–	–	–
Other non cash provisions	–	–	–	–	–
Balance sheet includes					
Advances (after ISP – before impairments)	79 454	9 192	2 727	91 373	25 006
Non-performing loans	655	504	88	1 247	415
Investment in associate and joint venture companies	–	–	–	–	–
Total deposits	12	1 221	43 853	45 086	47 032
Segment assets (total)	79 203	8 737	3 050	90 990	24 999
Segment liabilities (external)	8 856	2 464	39 808	51 128	46 248
Capital expenditure					
– Property & equipment	21	8	119	148	133

Certain interdivisional charges are included in the segment report in line with management accounting.
 # LROS stands for the legal right of set off.
** All consolidation adjustments have been recorded in the Group Support.*
1. The segmental analysis is based on the management accounts for the respective segments.
2. Tax has been allocated on a pro-rata basis.

Wealth	Com-mercial	FNB Mass and Support**	Total FNB	RMB	WesBank	FNB Africa	Group Support*	**Total**
324	2 104	390	6 441	206	3 209	3	(320)	9 539
(20)	(41)	(103)	(733)	–	(631)	–	(63)	(1 427)
304	2 063	287	5 708	206	2 578	3	(383)	8 112
123	2 228	1 946	7 876	2 674	31	35	1 969	12 585
427	4 291	2 233	13 584	2 880	2 609	38	1 586	20 697
(348)	(2 577)	(1 688)	(9 171)	(1 672)	(1 523)	(56)	(1 277)	(13 699)
79	1 714	545	4 413	1 208	1 086	(18)	309	6 998
(14)	(19)	(124)	(335)	(34)	(90)	–	51	(408)
65	1 695	421	4 078	1 174	996	(18)	360	6 590
(16)	(410)	(102)	(987)	(284)	(241)	4	(87)	(1 595)
49	1 285	319	3 091	890	755	(14)	273	4 995
77.9	59.5	72.3	64.1	58.1	47.0	147.4	77.4	61.9
27.5	51.4	83.3	55.0	92.8	1.0	92.1	119.4	56.9
0.13	0.24	10.12	0.49	0.00	0.82	0.00	1.56	0.50
1.2	2.5	15.9	1.6	0.1	1.3	0.0	1.1	1.2
(9)	(11)	(313)	(547)	(40)	(68)	(1)	(13)	(669)
–	–	–	4	(19)	–	–	(6)	(21)
–	–	–	–	–	–	–	(18)	(18)
–	–	–	–	–	–	–	1 525	1525
15 971	16 765	1 021	150 136	52 301	77 151	19	4 016	283 623
188	415	162	2 427	37	1 033	–	46	3 543
–	–	–	–	428	150	–	146	724
3 275	47 011	6 330	148 734	46 424	61	91	97 361	292 671
15 885	16 488	4 746	153 108	119 348	76 861	60	53 132	402 509
632	45 034	9 223	152 265	93 379	2 785	54	134 560	383 043
25	4	536	846	48	83	3	9	989

32. SEGMENT INFORMATION continued

32.1 Primary segments (business)

Divisions	Segment	Brands	Target segment	Description
FNB	Consumer	First National Bank FNB Card FNB Home Loans First Link	Individuals in the middle and upper income market Home Loans Card Issuing	Retail banking Insurance Broking Rewards programme Support
	Wealth	RMB Private Bank FNB Trust Services FNB Private Clients	High net worth individuals	Retail banking Wealth management Trust services
	Commercial	First National Bank	Mid-corporate, business and agriculture	Commercial banking (Corporate and Retail Banking)
	Corporate	First National Bank	Large corporates, financial institutions and state owned enterprises	Corporate banking
	FNB Other (Mass, Public Sector Banking, Branch) Banking and support	First National Bank BOB	Government, individuals in the Mass market, universities and schools and includes the bank infrastructure	Retail banking Infrastructure Support services
FNB Africa	FNB Lesotho	First National Bank	Individual is in the middle and upper income market, mid corporate, business and agriculture	Corporate and retail banking
RMB		Rand Merchant Bank, RMB Private Equity, RMB International RMB Resources RMB Australia	Large corporates, parastatals and government	Merchant and investment banking services
WesBank	Instalment finance	WesBank	Corporates and individuals	Motor vehicle and instalment finance
Group Support	Capital centre			Owns the capital of the Bank and provides bank support

33. RELATED PARTIES

FirstRand Bank Limited defines related parties as:

- Parent companies: FirstRand Bank Holdings Limited, FirstRand Limited, RMB Holdings Limited and Remgro Limited
- Fellow subsidiaries: Discovery Limited, Momentum Limited, FirstRand Investment Holdings Limited
- Associate and joint venture companies: Refer to note 15
- Key management personnel as the FirstRand Bank Holdings Ltd board of directors and the Bank executive committee
- Key management personnel includes close family members of key management personnel. Close family members are those family members who may be expected to influence, or be influenced by that individual in dealings with the Bank. This may include the individual's spouse/domestic partner and children, domestic partner's children and dependants of individual or domestic partner.

Enterprises which are controlled by these individuals through their majority shareholding or their role as chairman and/or CEO in those companies.

33.1 Subsidiaries

During the financial year a co-investments arrangement was established whereby certain key executives and decision makers of FirstRand are allowed to coinvest with FirstRand in certain pre-defined portfolios.

The rationale for the co-investment arrangement includes:

- Alignment of management and shareholder objectives;
- Retention of key employees and decision makers; and
- Attracting new talent in a highly competitive market.

The participants who co-invest with FirstRand buy into the existing portfolios at the disclosed fair values, are required to place capital at risk and receive no additional gearing from FirstRand.

Participants share in future profits to the extent of their capital as a percentage of the total capital at risk in the portfolios.

Where losses are incurred, participants share in the losses to the full extent of their capital committed and profits made on other portfolios.

The co-investment arrangement encourages a long-term perspective and commitment from employees.

The arrangement also encourages executives to remain in the employ of the FirstRand group of companies in excess of three years, as the value of the underlying investments are expected to realise over a longer time frame.

The FirstRand Remuneration Committee determines annually:

- The portfolios in which co-investment will be allowed:
- The level of co-investment allowed; and
- Which key executives and decision makers qualify for co-investment.

Profit share entitlements to key management personnel for the year are included under other long term benefits of key management personnel compensation under the related parties note below:

Details of interest in subsidiaries are disclosed in note 16.

Transactions with fellow subsidiaries appear in the table below.

33.2 Associate and joint venture companies

Details of investments in associate and joint venture companies are disclosed in note 15.

33. RELATED PARTIES continued

33.3 Details of transactions with relevant related parties appear below:

R million	2007 Parent	2007 Fellow subsidiaries
Loans and advances		
Balance 1 July	36	–
Net movement for the year	318	–
Balance 30 June	354	–
Deposits		
Balance 1 July	6	–
Net movement for the year	2	–
Balance 30 June	8	–
Loans to Insurance Group		
Balance 1 July	8	628
Net movement for the year	127	2 673
Balance 30 June	135	3 301
Loans from Insurance Group		
Balance 1 July	36	3 414
Net movement for the year	5	730
Balance 30 June	41	4 144
Amounts due to holding and fellow subsidiaries		
Balance 1 July	816	16 978
Net movement for the year	(290)	424
Balance 30 June	526	17 402
Amounts due from holding and fellow subsidiaries		
Balance 1 July	659	23 978
Net movement for the year	(187)	4 914
Balance 30 June	472	28 892
Derivative financial instruments/(asset)[1]		
1. Amount included in the amount due by holding company and fellow subsidiaries	–	862
Derivative financial instruments/(liability)[2]		
2. Amount included in the amount due to holding and fellow subsidiaries	–	1 626
Interest received	29	1 269
Interest paid	12	984
Non interest income	–	879
Operating expenditure	14	870

33. RELATED PARTIES continued

R million	2006 Parent	2006 Fellow subsidiaries
Loans and advances		
Balance 1 July	–	–
Net movement during the year	36	–
Balance 30 June	36	–
Deposits		
Balance 1 July	2 001	–
Net movement during the year	(1 995)	–
Balance 30 June	6	–
Loans to Insurance Group		
Balance 1 July	1 554	2 104
Net movement during the year	(1 546)	(1 476)
Balance 30 June	8	628
Loans from Insurance Group		
Balance 1 July	36	7 920
Issued during the year	–	(4 506)
Balance 30 June	36	3 414
Amounts due to holding and fellow subsidiaries		
Balance 1 July	200	17 543
Net movement during the year	616	(565)
Balance 30 June	816	16 978
Amounts due from holding and fellow subsidiaries		
Balance 1 July	760	17 978
Net movement during the year	(101)	6 000
Balance 30 June	659	23 978
Derivative financial instruments(asset)[1]		
1. Amount included in the amount due by holding company and fellow subsidiaries	–	694
Derivative financial instruments(liability)[2]		
2. Amount included in the amount due to holding and fellow subsidiaries	–	221
Interest received	7	870
Interest paid	50	390
Non interest income	–	635
Operating expenditure	7	919

R million	2007	2006
33. RELATED PARTIES continued		
33.4 Key management personnel		
Total Advances		
In normal course of business (mortgages, other, instalment finance and credit cards)		
Balance 1 July	25	43
Issued during year	312	169
Repayments during year	(256)	(189)
Interest earned	6	2
Balance 30 June	87	25
Share scheme loans		
Balance 1 July	2	29
Repayments during year	(2)	(27)
Balance 30 June	–	2
The FirstRand share schemes are different from other similar schemes in that the underlying shares are bought and an equivalent amount granted.		
Advances in normal course of business by product		
Mortgages		
Credit balance 1 July	3	36
Issued during year	228	129
Repayments during year	(154)	(163)
Interest earned	5	1
Balance 30 June	82	3
No impairments have been recognised for loans granted to key management (2006: Nil). Mortgage loans are repayable monthly over 20 years.		
Other loans		
Balance 1 July	21	5
Issued during year	82	34
Repayments during year	(101)	(19)
Interest earned	1	1
Balance 30 June	3	21
Instalment finance		
Balance 1 July	1	2
Issued during year	2	–
Repayments during year	(1)	(1)
Balance 30 June	2	1
No impairments have been recognised in respect of instalment finance (2006: R nil)		
Credit cards		
Balance 1 July	–	–
Total annual spend	11	6
Repayments	(11)	(6)
Balance 30 June	–	–

No impairments have been recognised in respect of credit cards held by key management (2006: R nil).

Interest rates are in line with normal rates charged to customers.

R million	2007	2006
33. RELATED PARTIES continued		
33.4 Key management personnel continued		
Deposits		
Deposits by product		
Cheque and current accounts		
Balance 1 July	27	7
Net deposits and withdrawals	(7)	20
Net interest, service fees and bank charges	–	–
Balance 30 June	20	27
Savings deposits		
Balance 1 July	33	64
Interest income	4	4
Net new investments/(withdrawals)	4	(35)
Balance 30 June	41	33
Other including term deposits		
Balance 1 July	–	2
Interest income	2	–
Net new investments/(withdrawals)	30	(2)
Balance 30 June	32	–
Insurance and investment		
Insurance		
Life and disability insurance		
Aggregate insured cover	1	3
Premiums received	–	1
Surrender value	2	1
Balance 30 June	3	5
Investment products		
Fund value opening balance	522	236
Deposits/withdrawals	163	225
Net investment return credited	360	63
Commission and other transaction fees	(3)	(2)
Fund closing balance	1 042	522
Other fees		
Financial consulting fees and commissions	1	2
Key management compensation		
Salaries and other short term benefits	128	103
Share based payments	39	9
Total compensation	167	112
A listing of the board of directors of the Bank is on page 1 of the annual report.		
33.5 Post employment benefit plan		
Details of transactions between the Bank and the Bank's post-employment benefit plan is listed below:		
Fee income	9	9
Deposits held with the Bank	1	10
Interest expenditure	33	43
Value of assets under management	2 230	1 898
Deposits held in bonds and money market	454	688

34. CRITICAL ACCOUNTING ESTIMATES, AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Credit impairment losses on loans and advances

The Bank assesses its credit portfolios for impairment at each balance sheet date. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a portfolio of loans.

For purposes of these judgements the performing portfolio is split into two parts:

(i) The first part consists of the portion of the performing portfolio where there is objective evidence of the occurrence of an impairment event. In the Retail and WesBank portfolios the account status, namely arrears versus non arrears status is taken as a primary indicator of an impairment event. In the Commercial portfolios other indicators such as the existence of "high risk" accounts, based on internally assigned risk ratings are used, while the Wholesale portfolio assessment includes a review of individual industries for objective signs of distress.

A portfolio specific impairment (PSI) calculation to reflect the decrease in estimated future cash flows is performed for this sub segment of the performing portfolio. The decrease in future sub segment of the performing portfolio. The decrease in future cash flows is primarily estimated based on analysis of historical loss and recovery rates for comparable sub segments of the portfolio.

(ii) The second part consists of the portion of the performing portfolio where an incurred impairment event is inherent in a portfolio of performing advances but has not specifically been identified. A so called incurred but not reported (IBNR) provision is calculated on this sub segment of the portfolio, based on historical analysis of loss ratios, roll-rates from performing status into non-performing status and similar risk indicators over an estimated loss emergence period.

Estimates of roll-rates, loss ratios and similar risk indicators are based on analysis of internal and, where appropriate external data. Estimates of the loss emergence period are made in the context of the nature and frequency of credit assessments performed, availability and frequency of updated data regarding customer creditworthiness and similar factors. Loss emergence periods differ from portfolio to portfolio, but typically range from 1 – 12 months.

Non-performing loans
Retail loans are individually impaired if amounts are due and unpaid for three or more months, or if there is evidence before this that the customer is unlikely to repay its obligations in full. WesBank's loans are impaired upon its classification status, i.e. following an event driven approach and specific assessment of the likelihood to repay. Commercial and Wholesale loans are analysed on a case by case basis taking into account breaches of key loan conditions, excesses and similar risk indicators.

Management's estimates of future cash flows on individually impaired loans are based on internal historical loss experience, supplemented by analysis of comparable external data (for Commercial and Wholesale loans) for assets with similar credit risk characteristics. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Refer to note 11 for a detailed analysis of the impairment of advances and the carrying amounts of the specific and portfolio impairments.

Recoveries of individual loans as a percentage of the outstanding balances are estimated below as follows:

(b) Fair value of derivatives

The fair value of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by independent qualified senior personnel. All models are certified before they are used, and models are calibrated and back tested to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data, however, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates.

Refer to note 9 for a detailed analysis of the derivatives and the carrying amounts of the different types of derivative instruments.

(c) Impairment of available-for-sale equity instruments

The Bank determines that available-for-sale equity instruments are impaired and recognised as such in the income statement, when there has been a significant or prolonged decline in the fair value below their cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Bank evaluates among other factors, the normal volatility in share prices. In addition, impairment may be appropriate when there is evidence of a deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

The Bank determined that the impairment of available-for-sale equity instruments were not appropriate for the year under review.

34. CRITICAL ACCOUNTING ESTIMATES, AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES continued

(d) Income taxes

The Bank is subject to direct taxation in a number of jurisdictions. There may be transactions and calculations for which the ultimate taxation determination has an element of uncertainty during the ordinary course of business. The Bank recognises liabilities based on objective estimates of the amount of taxation that may be due. Where the final taxation determination is different from the amounts that were initially recorded, such difference will impact the income taxation and deferred taxation provisions in the period in which such determination is made.

Refer to note 7 for more information regarding the direct and deferred tax charges, assets and liabilities.

(e) Financial risk management

The Bank's risk management policies are disclosed in the Risk Report on pages 3 to 21 of the annual report.

(f) Employee benefit liabilities

The cost of the benefits and the present value of the defined benefit pension funds and post retirement medical obligations depend on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the charge to the income statement arising from these obligations include the expected long term rate of return on the relevant plan assets, the discount rate and the expected salary and pension increase rates. Any changes in these assumptions will impact the charge to the income statement and may affect planned funding of the pension plans.

The assumptions related to the expected return on plan assets are determined in a uniform basis, considering long-term historical returns, assets allocation and future estimations of long-term investment returns. The Bank determines the appropriate discount rate at the end of each year, which represents the interest rate that should be used to determine the present value of the expected cash flows outflows expected to be required to settle the pension and post retirement medical obligations. In determining the appropriate discount rate, the Bank considers the interest rate on high quality corporate bonds and government bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the retirement pension liability. The expected salary and pension increase rates are based on inflation rates, adjusted for salary scales and country specific conditions. The inflation rate used is a rate within the government's monetary policy target for inflation and is calculated as the difference between the yields on portfolios of fixed interest government bonds and a portfolio of index linked bonds of a similar term.

Additional information is provided in note 19.

(g) Share based payments

Share based payment costs arise from the issue of share options to employees. These share options are classified as equity settled share based payments and as such, the fair value cost is determined on date of grant on an actuarial basis using a number of assumptions. These assumptions used in determining the fair value cost include expected volatility, expected dividend yield, the discount rate and the expected forfeit of lapse rate. In accordance with the principles of valuing equity settled share based payments, only a change in the actual experience of forfeits compared to the estimated forfeit rate assumption, will impact on the charge in the income statement. All other assumptions are determined at grant date and are not amended.

The expected volatility assumption is determined based on a ruling historical volatility over the expected life of the options and comparable financial information. The expected dividend yield is determined based on historical dividend yields and management's estimates. The discount rate is based on zero coupon government bonds and have terms to maturity consistent with the assumed life of the share option. The expected forfeit rate has been based on historical experience and management estimates.

Refer to note 38 for the detailed information regarding the share based payment expense and the assumptions used in determining the expense, liability and reserve.

(h) Fair value of commodities

The Bank is long on certain commodities through the outright purchase of the specific commodity or through a series of OTC forward purchase agreements. Judgement has been applied in determining the fair value of the most recent transactions between market participants that is used to calculate the fair value of the physical commodity positions. In addition, judgement and estimation has been applied in determining the method for calculating the fair value of the commodity forward purchase agreements.

35. AVERAGE BALANCE SHEET AND EFFECTIVE INTEREST RATES

	30 June 2007 Average balance Rm	30 June 2007 Average rate %	30 June 2007 Interest/income expenditure Rm	30 June 2006 Average balance Rm	30 June 2006 Average rate %	30 June 2006 Interest income/expenditure Rm
Assets						
Cash and short term funds	21 575	10.6	2 283	15 905	3.5	554
Derivative financial instruments	27 077	0.2	42	26 100	1.0	253
Advances	304 720	9.5	28 943	228 067	9.0	20 436
– loans and receivables	253 831	11.4	28 879	190 143	10.7	20 391
– held-to-maturity	–	–	–	2 001	–	–
– available-for-sale	637	10.0	64	1 329	3.4	45
– fair value through profit and loss	50 252	–	–	34 594	–	–
Investment securities and other investments	37 578	6.5	2 456	28 935	4.1	1 176
Accounts receivable	2 879	–	–	1 427	4.4	63
Commodities	834	–	–	705	–	–
Loans to Insurance Group	1 517	3.9	59	2 690	–	–
Investment in associates and joint ventures	607	–	–	724	–	–
Investment in subsidiary companies	13	–	–	13	–	–
Amounts due by Holding company and fellow subsidiary companies	22 394	5.4	1 218	21 551	4.1	877
Property and equipment	2 906	–	–	2 674	–	–
Retirement benefit asset	2 539	–	–	2 321	–	–
Intangible assets	47	–	–	39	–	–
Non current assets held for sale	191	–	–	–	–	–
Total Assets	424 876	8.2	35 001	331 151	7.1	23 359
EQUITY AND LIABILITIES						
Liabilities						
Deposits	315 264	6.8	21 472	236 405	5.4	12 882
Short trading positions	24 558	–	–	16 603	–	–
Derivative financial instruments	25 311	–	–	21 401	–	9
– qualifying for hedge accounting	48	–	–	81	–	–
– trading	25 263	–	–	21 320	–	9
Creditors and accruals	4 083	0.3	13	3 217	–	–
Provisions	2 438	–	–	1 887	–	–
Taxation liability	567	–	–	154	–	–
Post retirement benefit fund liability	1 758	–	–	1 501	–	–
Deferred tax liability	1 728	–	–	1 874	–	–
Amounts due to holding company and fellow subsidiary companies	15 147	6.4	975	19 054	2.1	401
Long term liabilities	8 011	7.1	570	5 221	10.1	528
Liabilities directly associated with non current assets classified as held for sale	–	–	–	–	–	–
Loans from Insurance Group	3 952	0.5	21	5 948	–	–
Total liabilities	402 817	5.7	23 051	313 265	4.4	13 820
Equity						
Capital and reserves attributable to the Bank's equity holders						
Ordinary shares	4	–	–	4	–	–
Share premium	7 631	–	–	6 119	–	–
Non distributable reserves	2 654	–	–	2 508	–	–
Distributable reserves	11 770	–	–	9 255	–	–
Capital and reserves attributable to the Bank's equity holders	22 059	–	–	17 886	–	–
Total equity and liabilities	424 876	5.4	23 051	331 151	4.2	13 820

36. STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

The Bank will comply with the following new standards and interpretations applicable to its business from the stated effective date.

		Effective date
IAS 23	**Borrowing Costs** The amendment removes the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. The capitalisation of borrowing costs as part of the cost of such assets is therefore now required. However, it does not require the capitalisation of borrowing costs relating to assets measured at fair value and inventories that are manufactured or produced in large quantities on a repetitive basis, even if they take a substantial period of time to get ready for use or sale. The Bank's accounting policy is to capitalise borrowing costs on a qualifying asset. The amendment will therefore not have an effect on the Bank's results.	Annual periods commencing on or after 1 January 2009.
IFRS 7	**Financial Instruments: Disclosure (including amendments to IAS 1 – Presentation of financial statements: Capital disclosures)** This standard deals with the disclosure of financial instruments, as well as the disclosure of related qualitative and quantitative risks associated with financial instruments. As IFRS 7 will supersede the current disclosure required in IAS 30 and IAS 32, the standard will not impact the results of the Bank, but will result in potentially more disclosure than that currently provided in the Bank's financial statements. The Bank does not intend to adopt this standard early.	Annual periods commencing on or after 1 January 2007.
IFRS 8	**Operating Segments** IFRS 8 replaces IAS 14 Segment Reporting. IFRS 8 requires an entity report financial and descriptive information about its reportable to segments, which are operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources in assessing performance. The Bank does not intend to adopt this standard early.	Annual periods commencing on or after 1 January 2009
IFRIC 10	**Interim Financial Reporting and Impairment** This interpretation addresses the interaction between the requirements of IAS 34 and the recognition of impairment losses on goodwill in IAS 36 and certain financial assets in IAS 39, and the effect of that interaction on subsequent interim and annual financial statements. The amendment will not have a significant impact on the Bank's results.	Annual periods commencing on or after 1 November 2006
IFRIC 11	**IFRS 2 – Group and Treasury Share Transactions** IFRIC 11 clarifies the application of IFRS 2 Share Based Payment to certain share based payment arrangements involving the entity's own equity instruments and to arrangements involving equity instruments of the entity's parent. This interpretation is not expected to have a significant effect on the Bank's results.	Annual periods commencing on or after 1 March 2007

36. STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE continued

The Bank will comply with the following new standards and interpretations applicable to its business from the stated effective date.

		Effective date
IFRIC 12	**Service Concession Arrangements** The interpretations addresses the accounting by private sector operators involved in the provision of public sector infrastructure assets and services. This interpretation is not applicable to the Bank.	Annual periods commencing on or after 1 January 2008
IFRIC 13	**Customer Loyalty Programmes** The interpretation requires entities to allocate some of the proceeds of the initial sale of the award credits (such as 'points' or travel miles) and recognise these proceeds as revenue only when the entity has fulfilled its obligations. An entity may fulfil its obligation by supplying awards themselves or engaging a third party to do so. This interpretation is applicable to eBucks, a subsidiary of FirstRand Bank Holdings Limited.	Annual periods commencing on or after 1 July 2008
IFRIC 14	**The limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction** This interpretation clarifies that an additional liability need not be recognised by the employer unless the contributions that are payable under the minimum funding requirement cannot be returned to the company.	Annual periods commencing on or after 1 January 2008

37. TRANSACTIONS INVOLVING THE LEGAL FORM OF LEASE

The Bank entered into an arrangement with the counterparty for the refurbishment of moveable assets, which are for the exclusive use of the counterparty. The duration of the arrangement is for 14 years and will conclude in May 2016. The transactions are a series of back to back leases, which, although the transactions are structured as leases, are in substance a financing arrangement.

Fees received are recognised annually in non-interest income.

Income received for the period amounted to R60 million and is reflected in Interest and similar income in the income statement.

R million	2007	2006
38. REMUNERATION SCHEMES		
The income statement charge for share based payments is as follows:		
FirstRand Share Incentive Scheme	75	85
FirstRand Black Employee Trust	66	57
FirstRand Share Appreciation Right Scheme	98	–
Charge to income statement	239	142
The fair value of options granted in the financial periods is as follows:		
FirstRand Share Incentive Scheme	350	393
FirstRand Black Employee Trust	306	288
FirstRand Share Appreciation Right Scheme	522	–
Fair value of options granted	1 178	681

Share option schemes
The FirstRand share option schemes were previously all equity settled schemes. The FirstRand Share Appreciation Right Scheme was implemented in 2006 and represents appreciation rights allocated to selected employees. The rationale to move to a share appreciation right scheme was done based on the impact of the new International Financial Reporting Standards (IFRS), and by governance and employment practices now prevalent in the market.

Description of the trusts
The FirstRand Share incentive scheme
The purpose of this scheme is to provide a facility to employees of the FirstRand Limited Group to acquire shares in FirstRand Limited. The primary purpose of this scheme is to appropriately attract, incentivise and retain managers within the FirstRand Group.

The FNB Botswana and FNB Namibia schemes are a modification of the FirstRand share incentive scheme, but the principles of allocation remain the same.

For options allocated, delivery may only be taken by the participant 3,4 and 5 years after the option is exercised at a rate of 33.3% per annum.

The FirstRand Black Economic Empowerment Trusts
FirstRand is firmly committed to the process of achieving transformation in South Africa. The company specifically wishes to ensure that the long-term benefits of the BEE transaction reach the widest possible community of black South Africans.

FirstRand made available 171.4 million shares, representing approximately 3.1% of the issued share capital of FirstRand, to its black South African employees. These shares were made available to the staff trusts, as follows:
– 20.0 million shares to the FirstRand Staff Assistance Trust
– 136.4 million shares to the Black Employee Trust (subject to IFRS 2)
– 15.0 million shares to the Black Non Executive Directors Trust (subject to IFRS 2)

38. REMUNERATION SCHEMES continued

The FirstRand Black Employee Trust

This trust has been set up specifically for the benefit of the black employees. The participation in this trust will be in addition to participation in any existing FirstRand share incentive scheme.

The initial allocation of this scheme was:

– an initial allocation of 500 shares to each black employee of good standing, employed by FirstRand Group on 31 December 2004.

Approximately 17 000 black employees, as defined in the Financial Charter, received this allocation. Additional allocations were also made to black management.

After the initial allocation, the primary purpose of this scheme will be to appropriately attract, incentivise and retain black managers within the FirstRand Group.

67% of the shares available were granted upfront. The remainder of the shares will be allocated within a period of five years from the operative date (such allocations will be made with reference to the then ruling price and may be at a discount not exceeding 10% of the then ruling price). In this regard an additional 20% of the available shares were granted to selected black managers within the FirstRand group in November 2006.

Funding is at 80% of prime and 100% of dividends received is used to service funding costs. The funding is repayable in 10 years.

Vesting conditions are as follows:

– After 3 years 30% will vest and thereafter an additional 10% will vest each year until all options have vested, except for the 20% allocation done in November 2006, where the final vesting will be 30% on 31 December 2014.

The FirstRand Share Appreciation Right scheme

The purpose of this scheme is to provide selected employees, including executive directors, the opportunity of receiving shares in the company or incentive remuneration payments based on the increase of the value of ordinary shares in FirstRand Limited.

FirstRand recognised the need to link the outcome of this scheme to key performance criteria, and the following performance vesting criteria was therefore laid down:

– The base performance indicator will be Normalised Earnings per share.
– To achieve 100% vesting Normalised Earnings per share must grow at a rate per annum which equals or exceeds CPIX plus 10% from the base year to the end of the financial year immediately preceding the exercise date.

For options allocated, delivery may only be taken by the participant 3,4 and 5 years after the option is exercised at a rate of 33.3% per annum, taking into account the performance vesting criteria.

38. REMUNERATION SCHEMES continued

Co-investment arrangement

During the financial year a co-investments arrangement was established whereby certain key executives and decision makers of FirstRand are allowed to coinvest with FirstRand in certain pre defined portfolios.

The rationale for the co-investment arrangement includes:
• Alignment of management and shareholder objectives;
• Retention of key employees and decision makers; and
• Attracting new talent in a highly competitive market.

The participants who co-invest with FirstRand buy into the existing portfolios at the disclosed fair values, are required to place capital at risk and receive no additional gearing from FirstRand.

Participants share in future profits to the extent of their capital as a percentage of the total capital at risk in the portfolios.

Where losses are incurred, participants share in the losses to the full extent of their capital committed and profits made on other portfolios.

The co-investment arrangement encourages a long term perspective and commitment from employees.
The arrangement also encourages executives to remain in the employ of the FirstRand group of companies in excess of three years, as the value of the underlying investments are expected to realise over a longer time frame.

The FirstRand Remuneration Committee determines annually:
• The portfolios in which co-investment will be allowed:
• The level of co-investment allowed; and
• Which key executives and decision makers qualify for co-investment.

During the financial year under review key management personnel invested R72 million worth of capital in the Co-investment arrangement of which R72 million was still committed at year end.

Profit share entitlements to key management personnel for the year are included under other long term benefits of key management personnel compensation under the related parties note 33.4.

Valuation methodology

FirstRand Share incentive scheme

Fair values for the share incentive schemes are calculated at the date of grant using a modification of the Cox-Rubenstein binominal model. For valuation purposes, each call option granted has been valued as a Bermudan call option with a number of exercise dates. The days on which the options can be exercised has been assumed to be the last day that the shares trade cum dividend.

Market data consists of the following:
– Volatility is the expected volatility over the period of the option. In the absence of other available date, historical volatility can be used as a proxy for expected volatility.
– The interest rate is the risk free rate of return, recorded on the date of the option grant, on a South African government zero coupon bond of a term equal to the expected life of the option.

Dividend data consists of the following:
– The last dividend paid is the Rand amount of the last dividend before the options were granted;
– The last dividend date is the ex-date of the last dividend; and
– The dividend growth is the annual expected dividend growth, which should be based on publicly available information.

Employee statistic assumptions:
– Annual employee turnover is the average annual rate that employees participating in the option scheme are expected to leave before the options have vested.

The number of iterations is the number to be used in the binominal model, which is limited to 500.

The weighted average number of forfeitures is based on the major grants because these grants have a more reliable cancellation or forfeiture pattern.

38. REMUNERATION SCHEMES continued

FirstRand Black Employee Trust

Economically, FirstRand has granted European call options and is repurchasing shares. The strike price equates to the expected outstanding amount of the funding. The value of the implicit options is determined using an appropriate option pricing model.

Market data consists of the following:

– Volatility is the expected volatility over the period of the option. In the absence of other available date, historical volatility can be used as a proxy for expected volatility.
– The interest rate used was the RMB forward prime curve (extrapolated where necessary) as the funding of the option is linked to the prime lending rate

Dividend data consists of the following:
A fixed dividend yield was assumed.
Employee statistic assumptions:

– The annual staff turnover rate used for the vesting adjustments is the average annual forfeiture rate on the existing FirstRand share options held by non-white employees.
– A weighted average forfeiture rate was used based on experience from the current schemes operated at the Group.

FirstRand Share Appreciation Right scheme

The fair values for the Share Incentive Scheme are calculated on the last day of the financial year using a modification of the Cox-Rubenstein binominal model.

For valuation purposes, each call option granted has been valued as a Bermudan call option with a number of exercise dates. The days on which the options can be exercised has been assumed to be the last day that the shares trade cum dividend.

Market data consists of the following:

– Volatility is the expected volatility over the period of the option. in the absence of other available data, historic volatility could be used as a proxy for expected valuation.
– the interest rate is the risk free rate of return, recorded on the date of the option grant, on a South African government zero coupon bond of a term equal to the government zero coupon bond of a term equal to expected life of the option.

Dividend data consists of the following:
A fixed dividend yield was assumed.

Employee statistic assumptions:
The annual employee turnover is the actual number of employees that has resigned at year end, before any options have vested. This will be updated annually.

The number of iterations is the number to be used in the binominal model, which is limited to 500.

38. REMUNERATION SCHEMES continued

The significant weighted average assumptions used to estimate the fair value of options granted and the IFRS 2 expenses for the year under review are:

	FirstRand Share Incentive Scheme	FNB Botswana	FNB Namibia	FirstRand Black Employee Trust	FirstRand Share Appreciation Right scheme
2007					
Weighted average share price (Rands)	6.80 – 18.70	7.75 – 15.1	4 – 7	15.43 – 18.62	22.60
Expected volatility (%)	27 – 33	11 – 33	8 – 17	27	35.07
Expected option life	5	5	5	10	5
Expected risk free rate (%)	6.8 – 12	8.68 – 11.85	7.89 – 14.46	6.91 – 9.9	9.47
Expected dividend yield (%)				3.81	3.2
Expected dividend growth (%)	20 – 22.87	17 – 24	15 – 19		
2006					
Weighted average share price (Rands)	6.80 – 16.95	7.75	4 – 6	15.43	–
Expected volatility (%)	27 – 33	11	8 – 11	27	–
Expected option life	4	4	4	10	–
Expected risk free rate (%)	6.8 – 12	11.85	7.89 – 14.46	6.91 – 9.9	–
Expected dividend growth (%)	20 – 22.87	22.42	15 – 19	15	–

R million	2007 FirstRand (FSR shares)	"FNB" (FSR shares)	"FirstRand" Share Appreciation Right Scheme (FSR shares)	FirstRand Black Employee Trust
Share option detail				
Number of options in force at the beginning of the year (millions)	178.6	6.9	–	81.6
Granted at prices ranging between (cents)	655 – 1 771	325 – 1 069	–	1 228 – 2 078
Weighted average (cents)	1 136	530	–	1 232
Number of options granted during the year (millions)	–	–	62.6	21.7
Granted at prices ranging between (cents)	–	–	1 795 – 2 460	1 781 – 2 280
Weighted average (cents)	–	–	1 811	1 871
Number of options exercised/released during the year (millions)	(27.1)	(3.6)	–	–
Market value range at date of exercise/release (cents)	1 637 – 2 600	1 650 – 2 524	–	–
Weighted average share price for the year (cents)	2 088	2 088	–	–
Number of options cancelled/lapsed during the year (millions)	(8.7)	–	(2.7)	(12.3)
Granted at prices ranging between (cents)	655 – 1 695	–	1 795	1 228 – 1 862
Weighted average (cents)	1 275	–	1 795	1 350
Number of options in force at the end of the year (millions)	142.8	3.3	59.9	91.0
Granted at prices ranging between (cents)	655 – 1 771	586 – 724	1 795 – 2 460	1 228 – 2 280
Weighted average (cents)	1 208	633	1 811	1 371
Options are exercisable over the following periods (first date able to release)				
Financial year 2006/2007 (millions)	11.8	3.3	–	–
Financial year 2007/2008 (millions)	40.3	–	–	–
Financial year 2008/2009 (millions)	44.1	–	–	–
Financial year 2009/2010 (millions)	29.9	–	20.0	–
Financial year 2010/2011 (millions)	16.7	–	20.0	–
Financial year 2011/2012 (millions)	–	–	19.9	–
Financial year 2014/2015 (millions)	–	–	-	91.0
Total	142.8	3.3	59.9	91.0

R million	FirstRand (FSR shares)	"FNB" (FSR shares)	"FirstRand" Share Appreciation Right Scheme (FSR shares)	FirstRand Black Employee Trust
	2006			

38. REMUNERATION SCHEMES continued

	FirstRand (FSR shares)	"FNB" (FSR shares)	"FirstRand" Share Appreciation Right Scheme (FSR shares)	FirstRand Black Employee Trust
Number of options in force at the beginning of the year (millions)	175.8	11.2	0.8	–
Granted at prices ranging between (cents)	655 – 1 440	325 – 1 069	–	–
Weighted average (cents)	836	–	–	–
Number of options granted during the year (millions)	56.6	–	–	92.6
Granted at prices ranging between (cents)	1 491 – 1 771	–	–	1 228 – 2 078
Weighted average (cents)	1 688	–	–	1 232
Number of options exercised/released during the year (millions)	(39.8)	(4.3)	(0.8)	–
Market value range at date of exercise/release (cents)	1 401 – 2 100	1 386 – 2 080	2 445 – 2 697	–
Weighted average share price for the year (cents)	1 617	–	–	–
Number of options cancelled/lapsed during the year (millions)	(14.0)	–	–	(11.0)
Granted at prices ranging between (cents)	655 – 1 695	–	–	1 228
Weighted average (cents)	926	–	–	1 228
Number of options in force at the end of the year (millions)	178.6	6.9	–	81.6
Granted at prices ranging between (cents)	655 – 1 771	325 – 1 069		1 228 – 2 078
Weighted average (cents)	1 132	530		1 232
Options are exercisable over the following periods (first date able to release)				
Financial year 2006/2007 (millions)	31.7	6.9	–	–
Financial year 2007/2008 (millions)	36.2	–	–	–
Financial year 2008/2009 (millions)	30.1	–	–	–
Financial year 2009/2010 (millions)	45.5	–	–	–
Financial year 2010/2011 (millions)	28.4	–	–	–
Financial year 2011/2012 (millions)	6.7	–	–	–
Financial year 2014/2015 (millions)	–	–	–	81.6
Total	178.6	6.9	–	81.6

38. REMUNERATION SCHEMES continued

Options outstanding (by expiry date)	"FirstRand" (FSR shares) Expiry date	Exercise price (Rands)	Outstanding options 2007 Millions	Outstanding options 2006 Millions
	16/09/2007	6.55	**18.5**	32.2
	11/11/2007	7.85	**0.2**	0.3
	17/03/2008	6.80	**1.0**	1.4
	31/05/2008	7.45	**–**	1.7
	14/06/2008	7.72	**0.1**	0.2
	17/09/2008	7.70	**33.3**	44.3
	15/06/2009	10.15	**0.2**	0.2
	01/10/2009	12.12	**38.4**	43.2
	15/11/2009	12.49	**0.1**	0.1
	01/03/2010	13.99	**0.2**	0.2
	15/03/2010	13.94	**0.2**	0.2
	15/06/2010	14.40	**0.1**	0.1
	03/10/2010	16.95	**48.2**	52.2
	20/10/2010	14.91	**2.0**	2.0
	15/11/2010	17.00	**0.2**	0.2
	01/06/2011	17.71	**0.1**	0.1
			142.8	178.6
Total options outstanding – in the money (millions)			**142.8**	126.1
Total options outstanding – out of the money (millions)			**–**	52.5
Total (millions)			**142.8**	178.6
Value of company loans to share option trust at the beginning of the year (R million)			**2 831.4**	2 533.8
Value of company loans to share option trust at the end of the year (R million)			**2 369**	2 831.4
Number of participants			**1 489**	1 610

R million	Expiry date	FNB Exercise price (Rands)	Outstanding options Millions
38 REMUNERATION SCHEMES continued			
Options outstanding (by expiry date)			
	2008/02/01	6.96	0.1
	2008/10/15	6.30	1.5
	2008/10/30	7.24	0.1
	2009/03/24	6.28	1.3
	2009/05/01	6.70	0.1
	2009/05/31	5.86	0.1
	2009/08/01	6.67	*
	2009/10/01	6.20	0.1
			3.3
Total options outstanding – in the money (millions)			3.3
Total options outstanding – out of the money (millions)			–
			3.3
Value of company loans to share option trust at the beginning of the year (R million)			44.0
Value of company loans to share option trust at the end of the year (R million)			28.6
Number of participants			79

R million	Expiry date	FNB Exercise price (Rands)	Outstanding options Millions
Options outstanding (by expiry date)	2006/10/01	4.00	0.1
	2006/11/22	3.25	2.0
	2007/02/05	3.62	*
	2007/08/01	5.77	0.2
	2007/11/24	4.07	0.2
	2008/02/01	6.96	0.1
	2008/02/16	7.40	*
	2008/07/01	9.10	*
	2008/10/15	6.30	2.4
	2008/10/30	7.24	0.1
	2009/03/24	6.28	1.5
	2009/05/01	6.70	0.1
	2009/05/31	5.86	0.1
	2009/08/01	6.67	*
	2009/10/01	6.20	0.1
			6.9
Total options outstanding – in the money (millions)			6.9
Total options outstanding – out of the money (millions)			–
			6.9
Value of company loans to share option trust at the beginning of the year (R million)			65.3
Value of company loans to share option trust at the end of the year (R million)			44.0
Number of participants			126

** = less than R50 000*

	2007					
	FirstRand Share Appreciation Right Scheme			**FirstRand Black Employee Trust**		
	Expiry date	**Exercise price (Rands)**	**Outstanding options Millions**	**Expiry date**	**Exercise price (Rands)**	**Outstanding options Millions**
	2011/10/01	17.95	58.2	2014/12/31	12.28	70.3
	2012/03/01	24.67	0.2	2014/12/31	14.91	1.0
	2012/03/15	22.50	0.3	2014/12/31	19.81	*
	2012/04/01	24.60	0.6	2014/12/31	20.78	0.1
	2012/06/15	23.74	0.6	2014/12/31	17.20	*
				2014/12/31	18.62	19.0
				2014/12/31	17.81	0.1
				2014/12/31	22.80	0.5
			59.9			91.0
			58.5			90.5
			1.4			0.5
			59.9			91.0
			–			1 837.0
			1 185.0			1 829.0
			1 212			12 210

	2006					
	FirstRand Share Appreciation Right Scheme			FirstRand Black Employee Trust		
	Expiry date	Exercise price (Rands)	Outstanding options Millions	Expiry date	Exercise price (Rands)	Outstanding options Millions
				2014/12/31	12.28	80.5
				2014/12/31	14.91	1.0
				2014/12/31	19.81	*
				2014/12/31	20.78	0.1
				2014/12/31	17.20	*
						81.6
						81.5
						0.1
						81.6
						–
						1 837
						15 064

39. NON CURRENT ASSETS HELD FOR SALE

As part of an internal group reorganisation, the Bank intends to dispose of certain investments to another FirstRand group company, in the next financial year at the higher of market value or net asset value. This sale is subject to approval from the South African Reserve Bank Banking Supervision Department.

The assets currently form part of the RMB division. The assets include investments in the following subsidiaries:

– Makalani Holdings Ltd
– Property SPV's included in the Investment Banking Division

R million	2007
Makalani Holdings Ltd	544
Property SPV's included in the Investment Banking Division	28
	572
Liabilities associated with non current assets held for sale	–

FirstRand Bank Limited

(Registration No. 1929/001225/06)

Registered office

1st Floor, 4 Merchant Place
Cnr Fredman Drive and Rivonia Road
Sandton
2196

Postal address

PO Box 786273
Sandton
2146

Telephone

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Websites

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

Company Secretary

BW Unser

Auditors

PricewaterhouseCoopers Incorporated
2 Eglin Road
Sunninghill
2157

Deloitte & Touche*

The Woodlands
20 Woodlands Drive
Woodmead
2199

***National Executive**
GG Gelink Chief Executive
AE Swiegers Chief Operating Officer
GM Pinnock Audit
DL Kennedy Tax
L Geeringh Consulting
L Bam Strategy
CR Beukman Finance
TJ Brown Clients and Markets
NT Mloba Chairman of the Board
J Rhynes Deputy Chairman of the Board

A full list of partners and directors is available on request.

FIRSTRAND
Bank Limited

www.firstrand.co.za