2006 ANNUAL REPORT

FIRSTRAND

INTEGRATED FINANCIAL SERVICES

On this DVD are a series of interviews with the senior management of FirstRand, conducted by Amanda Vermeulen, a freelance financial journalist, previously with Business Day and Finance Week. In her interviews with the CEO's of the Group's major operating brands, Amanda asks questions regarding the business's financial and operational performance during the year, and some of the strategies implemented and challenges faced.

She also interviews the marketing executives of the Group's major brands and we showcase examples of some of the major advertising and marketing campaigns conducted by RMB, FNB, Momentum, Discovery, WesBank and OUTsurance during the year.

The Group's operating brands are represented below

CONTENTS

GROUP AT A GLANCE

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

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

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

Attritbutable ROE charge (R million)		Headline loans contribution (R million)		Cost-to-income (%)		Based on normalised headline earnings pre- IFRS (%)		Impairment (%)		Non-performing (%)		Headline earnings (%)	
2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
3 486	2 922	**3 473**	2 935	**62.3**	65.4	**32**	32	**0.5**	0.3	**1.8**	1.7	**49.3**	51.9
1 059	787	**1 059**	788	**45.5**	49.2	**29**	32	**0.8**	0.5	**1.2**	0.9	**15.0**	13.9
1 782	1 359	**1 782**	1 306	**37.7**	38.1	**36**	33	**–**	–	**0.9**	1.1	**20.6**	23.1
378	314	**377**	314	**45.2**	47.0	**29**	29	**0.5**	0.6	**2.9**	2.7	**5.3**	5.5
555	585	**358**	313	**45.0**	42.4	**–**	–	**(0.1)**	0.2	**(1.8)**	0.0	**9.8**	5.6
7 260	5 967	**7 049**	5 656	**53.8**	56.6	**29**	28	**0.5**	0.3	**1.4**	1.4		

Attributable earnings (R million)		Headline earnings (R million)		New business (R million)		Funds recveived from clients (R million)		Net flow of funds (R million)		Embedded value (R million)		Headline earnings contribution (%)	
2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
935	680	**913**	672	**14 016**	11 375	**19 274**	15 912	**1 374**	(1 079)	**11 927**	9 955	**59.5**	52.9
349	245	**341**	243	**45 387**	31 314	**45 387**	31 314	**695**	4 641	**2 511**	1 901	**22.2**	19.1
625	416	**280**	355	**–**	–	**–**	–	**–**	–	**–**	–	**18.3**	28.0
1 909	1 341	**1 534**	1 270	**59 403**	42 689	**64 661**	47 226	**2 069**	3 562	**14 438**	11 856	**100.0**	100.0

New business annualised premium income (R million)		Gross inflows under management (R million)		Profit from operations (R million)		Value of in-force business (R million)	
2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
2 505	2 776	**16 542**	14 571	**655**	548	**4 136**	3 844
789	629	**1 768**	1 278	**546**	417	**4 322**	1 832
107	93	**654**	521	**41**	37	**–**	–
796	809	**1 322**	914	**(151)**	(90)	**5**	274
282	35	**141**	11	**(146)**	(148)	**–**	–

NATURE OF BUSINESS

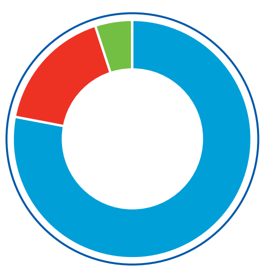
Listed on the JSE and the Namibian Stock Exchange, FirstRand Limited is an integrated financial services group providing a comprehensive range of products and services to the South African market and niche products in certain international markets.

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

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

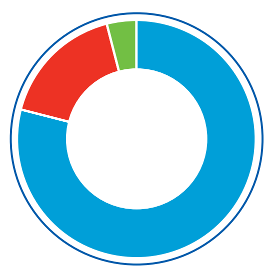
RESULTS HIGHLIGHTS

Normalised earnings analysis 2006



78% Banking Group
17% Momentum
5% Discovery

Normalised earnings analysis 2005



79% Banking Group
17% Momentum
4% Discovery

Financial highlights

	% change
Headline earnings	+21
Diluted headline earnings per share	+20
Normalised earnings (unaudited)	+21
Diluted normalised earnings per share (unaudited)	+19
Ordinary dividend per share	+20
Total assets under management or administration	+24

RUDOLF GOUWS / Chief Economist, Rand Merchant Bank

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

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

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

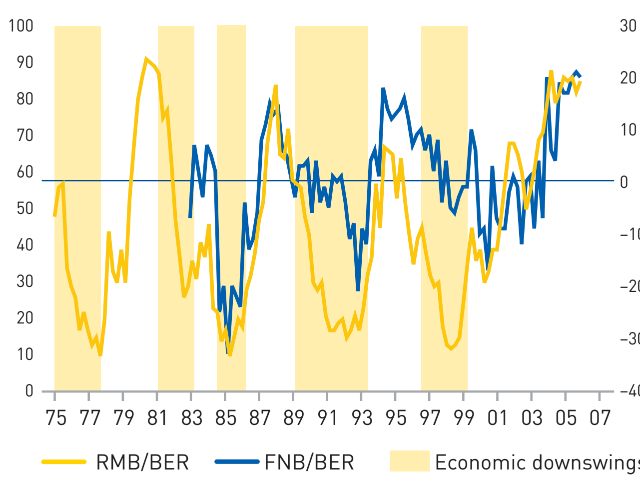
Notwithstanding tightening of policy by a number of central banks, and sharply higher international oil prices, the global economy sustained the strong growth of the past two years. This was attributable partly to the continued robustness of key emerging market economies, most notably China, which also helped boost commodity prices. This benefited South Africa, which enjoyed improved terms of trade with the rest of the world. Export-oriented and import-competing industries did feel the adverse impact of the strengthening currency, but the economy seems to have grown more resilient to a strong Rand over the past four years.

The economy's higher growth path attracted portfolio inflows into the equity market. These and other foreign investment inflows enabled South Africa to run an overall balance of payments surplus. This allowed the South African Reserve Bank to build its foreign exchange reserves. Following Barclays' acquisition of a majority stake in ABSA, the volume of foreign direct investment gathered pace, the most significant transaction subsequently being the increase by Vodafone of its shareholding in Vodacom.

Following the sharp declines of the previous two years, short-term interest rates held steady during the Group's past financial year. The low level of interest rates supported further asset price growth, with share prices on the JSE scaling new highs as companies reported record earnings. However, without the boost of further interest rate reductions, property prices lost some of the momentum of previous years.

CPIX
(y/y%)

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



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

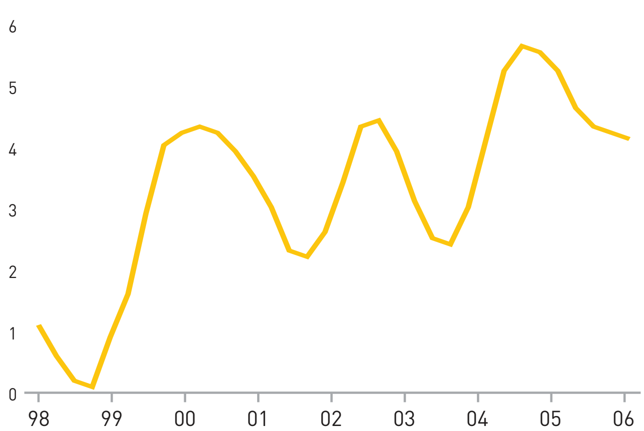
CEES BRUGGEMANS / Chief Economist, First National Bank

Robust economic growth led to tax revenues overshooting, and resulted in a substantial narrowing of the budget deficit. This reduced the supply of Government paper in the domestic bond market, driving yields to record low levels midway through the financial year. Upgrades by all three major credit rating agencies helped ensure that the sovereign spread of government's latest Eurobond issue was the lowest ever achieved. This is confirmation that foreign investors have become more confident about the Government's macro-economic policies.

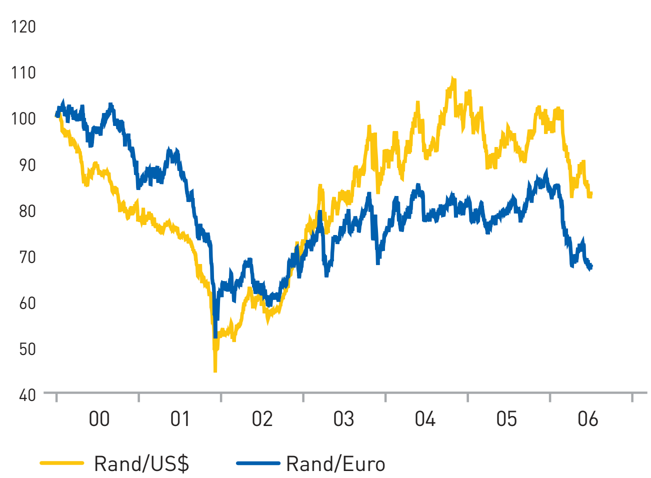
During the second half of the financial year it became clear that the long phase of strong growth in domestic demand had eventually started to generate macro-economic imbalances. In particular, the strong rise in consumer spending boosted imports which, along with a further sharp rise in international oil prices, substantially widened the current account deficit. At the same time, rising global interest rates brought about a re-pricing of risky assets by global investors, contributing to a sharp fall in the Rand and other emerging market currencies. An increase in global risk aversion and expectations of further international interest rate hikes saw asset prices give up some of the gains seen earlier in the year. The results of the weaker currency and sharply higher oil price could also be seen in higher inflation at both the consumer and producer levels. Together, these developments prompted a tightening of the monetary policy stance in South Africa, with increases in the Reserve Bank's repo rate in June and again in August.

The year ahead is unlikely to quite match the past year's economic growth performance. With higher interest rates and inflation, as well as the need for households to digest the sharp increase in their indebtedness of the past four years, consumer spending growth is expected to slow down. As a result, the growth in credit extension to households is also likely to moderate, while banks' bad debts may increase somewhat from current low levels. However, buoyed by public sector investment spending and sound long-term economic prospects, private fixed investment (and the demand for credit and capital) should continue to expand.

Real growth in domestic product
(y/y%)



Exchange rates



With 2010 and the Soccer World Cup on the horizon, Government's stated commitment to investment in services and infrastructure, strong corporate balance sheets and a growing consumer base, all contribute to a positive picture in South Africa for the next few years.

GT FERREIRA / Chairman

Dear Shareholder

The Group's performance

Often a Chairman's statement will start with a long exposition on the state of the economy, something I have also attempted in the past. However, FirstRand benefits from the views of two eminent South African economists, Rudolf Gouws of RMB and Cees Bruggemans of FNB and their extremely comprehensive overview of the SA economy can be found on pages 2 and 3 of this Annual Report.

I would simply like to reiterate that, during my lifetime, the SA economy has never been in better shape and I do believe that we have achieved, through excellent fiscal decision making by the Government, a structurally lower inflation and interest rate environment. This does not of course mean that we will not experience cyclicality and as this year drew to a close we started to see relatively small incremental increases in interest rates. These increases are not, in my view, the beginnings of another boom bust scenario, they are corrections required due partly to concerns of overheating in some segments of the economy but mainly due to significant external issues such as US and global interest rate increases, an increasing oil price and the large deficit on our current account.

With 2010 and the Soccer World Cup on the horizon (something I will return to later in this statement), Government's stated commitment to investment in services and infrastructure, strong corporate balance sheets and a growing consumer base, all contribute to a positive picture in South Africa for the next few years.

FirstRand produced excellent results for the year, growing normalised earnings by 21%. The Banking Group, which produced normalised earnings growth of 20% to R7.268 billion, benefited from an outstanding performance from Rand Merchant Bank ("RMB") and strong performances from First National Bank ("FNB") and WesBank. Sustained low interest rates continued to result in strong advances growth for FNB and WesBank although margin pressure increased. The strong equity markets and a healthy pipeline of BEE transactions underpinned the excellent performance of RMB's businesses.

Momentum delivered strong results in what remained a challenging operating environment, growing normalised earnings 23% to R1.564 billion. The combination of buoyant equity markets and the continued success of Momentum's distribution model resulted in a significant increase in lump sum investment inflows. Sales of recurring premium risk policies continued to also show strong growth, although sales of recurring premium investment products were negatively impacted by a reduction in retirement annuity sales.

Discovery delivered an excellent performance growing normalised earnings by 34% to R424 million. This performance reflects the success of Discovery's organic growth strategy.

Some of the challenges we faced during the year

One of the most significant challenges facing financial services globally is ever increasing regulation and South Africa has not escaped this trend, in both the banking and insurance sectors.

The Centre for the Study of Financial Innovation, in association with PricewaterhouseCoopers Inc., conducts an annual survey on the risks facing the banking industry worldwide, and compiles a document called the Banking Banana Skins Report. This year they surveyed 468 banks in 60 countries. It is interesting to note that for the second year running, banks worldwide regarded excessive regulation as the most important risk factor (ahead of credit and derivatives) facing the banking industry. The reasons include cost, diversion of management time and the sheer volume of regulatory initiatives.

Banking in particular is one of the most regulated industries in the world, which is appropriate given the influence these institutions have within economies. Systemic risk is something to be avoided at all costs but at the same time, it is also critical that financial institutions are profitable.

South Africa is committed to being a free market and therefore banks have to compete for capital, both funding and equity. If the return on the equity portion is inadequate, the banks will not attract further capital and debt funding, thus constraining their ability to lend and therefore grow. This in turn can constrain the growth of the economy.

It is also critical that the banks retain the trust and confidence of depositors that their money is safe and that their capital and interest will be paid. The reputations of banks therefore must be protected.

There is no doubt that over regulation can have a significant impact on profitability. In his introduction to the Banking Banana Skins 2006 report Andrew Hilton, Director of the Centre for the Study of Financial Innovation says "...regulation is not a free good; it is added to the cost of every single financial product and if it is excessive, that excess means we will all earn less from (and pay more for) the financial services we purchase. Over regulation also means that another row of bricks will have been added to the barriers that keep new entrants out of the banking industry – and that, inevitably means less competition, less innovation and generally higher charges".

Whilst I am not suggesting that we are in a situation of over regulation in South Africa, it is important that our policymakers understand the correct balance between risk and benefit. There may be some practices in the system that must change and the introduction of FAIS, FICA and the National Credit Act are all broadly positive for the banks and the consumer. However, we have a very sophisticated and robust financial services industry in South Africa that is admired in many developed and emerging markets and we must be careful not to regulate that industry out of business or erode its image in the eyes of its customers.

It is also important that policymakers do not fall into the trap of believing that all risks can be "regulated away". Banks are fairly good at managing risk, and it is a key competitive advantage for their business. We are fortunate that we have a regulator that understands the importance of this delicate balance.

Clearly, however, the combination of healthy regulation and consumerism can be a very positive force for change. I believe the investigations by the Pension Funds Adjudicator ("PFA") resulted in good news for the consumer and will ultimately be constructive for the insurance industry as a whole. Momentum is certainly applying its mind to providing value for money products to its customers and whilst this may in the short term impact negatively on margins, it is a fundamentally more sustainable way of dong business.

Banking fees remain a very relevant issue but an emotionally charged one. Those with a vested interest to bash the banks tend to ignore the facts and the media have dedicated thousands of column inches to the topic with varying degrees of insight. There have been a few research papers which have tried to apply a more scientific assessment of South African fees and benchmark them against other markets. For example, in their study for Finmark Trust, Genesis-Analytics noted that "the banks' cost of operations may also have an impact on prices charged to consumers. In Brazil, Kenya and South Africa, where labour costs are high, the bank charges at first glance seem amongst the highest in the accounts surveyed. In contrast Malaysia's low labour costs are reflected in lower bank charges".

There is no doubt that the cost of running a traditional bricks and mortar infrastructure is a large part of a bank's cost base, which ultimately has some impact on fees and FNB, in particular through its pricing strategy, has tried to migrate its customers to cheaper channels such as ATMs, the Internet and cellphones.

There is also much talk about the fact that the UK banks provide "free" banking for individuals (it is not free for SMEs). The fact is that the UK banks have very similar levels of profitability to banks in South Africa but generate their revenues in different ways. UK banks focus more than South African banks on interest revenue (from borrowing and lending) as well as charging more penalty fees. This approach to pricing hides the true costs to consumers and results in borrowing or lending customers cross subsidising transacting customers. It is worth noting that the net interest margins of the South African banks are over a third lower than the average for Global Emerging Markets' banks. These differences as well as many others, such as disparities in demographic profiles (South Africa has high inequality and many lower income consumers), financial literacy, security costs and regulation make simple comparisons difficult and ultimately misleading.

This debate will go on for a long time and in the end, the banks and the policymakers all need to be pragmatic. However, what is important is that the facts must take precedent over fiction particularly if it is designed to place un-commercial pressure on the banks.

There needs to be a resolution where everyone benefits. Such an example is the introduction of the National Credit Act. The Act is somewhat of a double edged sword in that whilst there is a component of FNB's fees which will come under pressure, on the other hand it creates a "level playing field" in certain segments, where the retailers and other non-regulated providers of finance have operated very profitably, which the established players can now enter. My view is that one of the reasons this Act is largely constructive is that there was effective engagement between the regulators and the industry, something that was also a crucial element of the PFA resolution.

We are also fully committed to working with the Competition Commission to ensure that customers get value for money but at the same time South Africa maintains a world-class payment system and highly competitive banking industry.

We believe that competition between the banks is already vigorous. Our view is that a competitive market drives innovation and change, improving our business, our customers' experience and ultimately our country. We will continue to compete aggressively on product, service, channels, price and brand to attract and retain customers.

There is no doubt that regulation and consumerism will continue to be part of the financial services landscape for quite some time. We remain hopeful that regulation will continue to focus on the promotion of a healthy banking and insurance system and not a response to populist thinking or political expediency. This is particularly critical if we wish to maintain shareholder confidence and continue to attract international investors to our banks and insurance companies as this is ultimately what creates capacity to grow.

2010 a catalyst for growth

Moving on to a very different topic, I was particularly fortunate this year to attend the Soccer World Cup in Germany. Not only was it a truly memorable sporting experience but it provided me with a real sense of the benefits the hosting of this event will bring to South Africa and the rest of Africa. It will certainly put the Continent, and especially the region, "on the map" with millions of people who have only a very limited appreciation of how exciting Africa can be. As a veteran spectator who attended three Soccer World Cups, four Rugby World Cups and six Olympic Games I think I have a valid perspective.

Can we handle the World Cup? I have no doubts that we can. I believe we will provide the venues, manage the logistics and provide a safe and efficient environment for the expected 500 000 visiting spectators during their 30-day stay in South Africa. Whilst we cannot afford to underestimate the challenges, Danny Jordaan has already stated publicly that he will pull together a "dream team" of local and international experts to ensure that we host an outstanding event. In addition, Government is behind it, business is behind it and over the next four years and beyond the economy will benefit from the anticipated investment required in roads, airports and technology, to deliver it. The transport and accommodation market has a way of sorting itself out (with a little bit of help from the authorities).

Michael Jordaan, the CEO of FNB, was with me in Germany while FNB was successfully negotiating to become an official National Sponsor of the FIFA 2010 World Cup. Michael lived in Germany at the time the Berlin Wall came down and he commented that in his view the real unification of East and West Germany finally happened in June this year courtesy of one of the greatest German soccer sides in recent history. I think therefore that in 2010 we could experience a further cementing and celebration of the South African unification story – although Bafana Bafana will need to get down to some serious training to make the semi-finals as the Germans did in 2006. At least we seem to have the right coach on board!

FNB was successful in its bid to become the first South African corporate to sign up as the financial services National Supporter of the 2010 World Cup for a total cost of $30 million. A key business benefit is that FNB takes on the role of the Official Bank of the 2010 FIFA World Cup and will be well positioned to compete for all business related opportunities. These range from tourism and hospitality to forex, transport and infrastructure and returns from these activities are expected to be well in excess of the sponsorship cost.

Major marketing benefits include access to tickets, direct association with FIFA and the official emblem and official provider of all event related financial services products. Ultimately, we believe that FNB's high profile association with the event will significantly enhance its brand and market share in the growing black middle market.

Management and vote of thanks

In September 2005, we announced that Laurie Dippenaar had decided to step down from his position as CEO at 31 December 2005. He remains on the board of FirstRand as a non-executive director and retains his position as chairman of Momentum Group, Discovery Holdings and OUTsurance. He also serves in a non-executive capacity on the board of FirstRand Bank Holdings and certain other group subsidiaries.

As a result of Laurie's decision, Paul Harris CEO of FirstRand Bank Holdings was appointed to replace Laurie at the FirstRand level and Sizwe Nxasana, previously a non-executive director of the Banking Group and CEO of Telkom, replaced Paul effective 1 January 2006.

The Group's succession plans have worked well and the changes have been relatively seamless.

Laurie Dippenaar has served our Group well in various executive and non-executive positions over the past 30 years. He was appointed CEO of FirstRand when the company was formed in 1998 and during his tenure as CEO, group earnings grew by an annual compound rate of 20%. We are delighted that the Group still enjoys his strategic input and in recognition of the remarkable contribution that he has made over the last eight years have decided to establish a post-graduate scholarship fund in his honour, with an initial seed capital contribution from the Group of R12 million. Laurie will contribute an additional R1 million of his own money to the fund. The scholarship, to be known as the FirstRand/Laurie Dippenaar Scholarship will form part of the FirstRand Foundation Educational Trust. It is envisaged that the Trust will grant one or two post-graduate scholarships each year for study at overseas universities. Details of the scholarships will be announced in due course and will be targeted at benefiting the brightest minds in South Africa.

Lastly, I wish to thank our shareholders, board of directors and last, but not least, our management and staff, for their efforts and contribution over the last year. Without your assistance FirstRand could never be the special company that it is and it is indeed an honour and a privilege for me to serve as the Chairman of the FirstRand Group and I am incredibly proud to do so.

GT Ferreira
Chairman

PAUL HARRIS /
Chief Executive Officer

FirstRand's performance in the year to June 2006 represents the continuation of a track record of excellent growth and returns to shareholders since its inception in 1998. The Group has delivered a compound annual growth rate of 21% in earnings and 23% in dividends and has also maintained a return on equity ("ROE") well ahead of our stated target of 10% above the weighted average cost of capital.

The Group has achieved this consistent performance through focusing on a number of core strategies which underpin the way we run this business. During 2006, the combination of these strategies and a strong external environment meant that despite the high base created last year, the Group exceeded its earnings growth target of 10% above inflation.

With regard to the external environment we believe that there has been a fundamental structural change in the South African economy. Political and economic reform has essentially restructured the economy and increased competition across all sectors. This, together with a sound monetary policy and fiscal discipline has provided a favourable climate for growth in the economy and financial services has been one of the sectors to benefit. Micro-economic reform has increased social delivery and we have seen formal employment expand. Tax and interest rate cuts have increased disposable income levels and the impact of Black Economic Empowerment, particularly in the area of employment equity, is creating a new black middle class, which is critical to a stable political and economic landscape.

For FirstRand, this environment has provided a number of key growth themes, against which our businesses are particularly well positioned.

Firstly, **lower interest rates and inflation** created a climate for strong organic growth for our commercial bank, First National Bank ("FNB"), our instalment finance business, WesBank and our insurance businesses, Momentum and Discovery.

In every area of its business, in almost every segment and product line, FNB not only had robust growth but also grew faster than its peers and therefore grew market share. A pleasing feature was that both FNB and WesBank not only grew volumes but also had good growth in new customers. FNB's growth is evidenced in the table below.

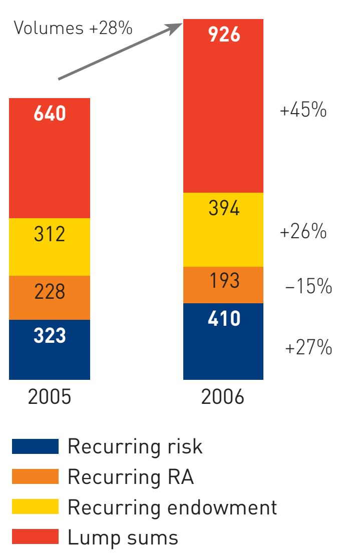
FNB growth in customers

	June 2005 000's	**June 2006 000's**	Volume growth %
Customer base*	4 422	**5 153**	↗ 17
InContact	1 855	**3 417**	↗ 84
eBucks customers	865	**982**	↗ 14
Internet bankers	389	**537**	↗ 38
Telephone bankers	159	**192**	↗ 21
Cellphone bankers	74	**218**	↗ >100

** Including WesBank, customers amount to 5.6 million.*

Momentum also benefited from the strong economy. As can be seen from the chart below, new business volumes grew strongly across all the main product areas except for retirement annuities.

Momentum's new business annualised premium income (Rm)



As a result of Black Economic Empowerment, significant wealth transfer has taken place in South Africa. The combination of employment equity policies, black ownership transactions, procurement policies and enterprise development has resulted in the rapid emergence of a new black consumer. The main beneficiaries of the rapid growth of this market have been FNB, WesBank, Momentum and OUTsurance. For example, the strong growth in transactional accounts, debit cards, micro loans and affordable housing loans experienced by FNB in the past year is off a low base but reflects how well positioned FNB is to capture customers in this market segment.

BEE has also been a big driver of growth at Rand Merchant Bank ("RMB") which has developed considerable expertise in advising, structuring and funding BEE transactions. Although RMB took advantage of the strong equity markets and realised three large investments in its Private Equity portfolio during the year, BEE created opportunities to provide capital to a number of new BEE entities that have established themselves in the market and add attractive investments to the portfolio.

In terms of BEE transactions, RMB's Structured Finance and Corporate Finance divisions have a dominant market share and have been mandated for 44% of the total BEE deals done to date by value since 2004.

I now turn to the core strategies of the Group that we believe have contributed to the Group's growth, over and above the opportunities provided by the market. For the past 18 months FirstRand has been consistently positive on the macro, environment and has pursued an **aggressive organic growth strategy**. As a result of this strategy strong organic growth was experienced across all of our main businesses, which resulted in excellent top line growth as a whole.

The table opposite, which is not an exhaustive list, provides a good indicator of how this strategy enabled the Group to perform ahead of the growth provided by the market, and in many areas grow market share.

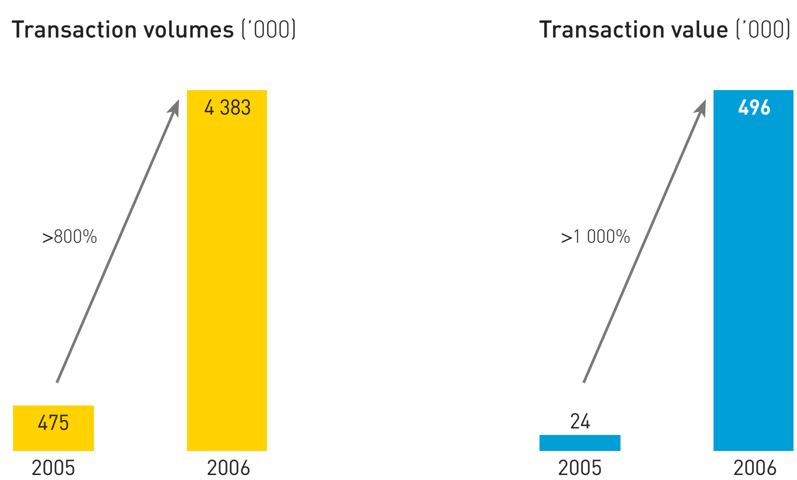
Organic growth indicators

WesBank new business	+28%
FNB HomeLoans new business	+58%
FNB Card advances	+36%
FNB Corporate deposits	+29%
RMB Private Bank advances	+28%
Momentum new business	+39%
Discovery Life new business	+25%

A critical driver of our organic growth strategy is our almost obsessive focus on innovation which I believe differentiates us from our peers, both in banking and insurance. Our innovative approach has its roots in our entrepreneurial culture and it has continued to thrive due to our structure and business philosophy.

A particular segment where we have used innovation to good effect is in the mass market. In this segment the challenge for the banks is to provide accessible and cost effective products and channels for customers. FNB has been particularly effective at responding to this challenge and has successfully used technology to provide low cost solutions. The mini ATM is a good example of deploying technology in an innovative way to service customers in rural communities and we have now deployed about 1 500 of these devices throughout South Africa. FNB's cellphone banking offering has also shown exponential growth since its launch in March 2005 (as can be seen in the charts below) and is the leading cellphone banking offering in South Africa.

FNB Cellphone banking



Given the levels of cellphone penetration in the country, we expect this growth trend to continue for some time.

We have often commented on the benefits of FirstRand's integrated structure in that it allows each business to leverage off the systems, platforms, client bases and skills of the rest of the Group. Significant top line growth has been created through the various businesses working together, we refer to this strategy as collaboration.

Examples of growth from collaboration include the success of the Discovery Card which made a significant contribution to the excellent performance of FNB Card, delivering 9% of the FNB Card's 33% growth in customer spend and 9% of its 36% growth in advances.

FNB's collaboration with Momentum has also gained traction. The strategy of selling Momentum manufactured but FNB branded insurance products through FNB's distribution channels contributed to Momentum's strong new business growth and showed an increase in earnings from R18 million in 2005 to R58 million in 2006. Momentum's short-term insurance start-up, which together with OUTsurance leverages off the skills and platform of FirstRand Short-Term Insurance, is well ahead of the business plan.

The table below demonstrates that collaboration between the banking and insurance businesses continued to contribute significantly to the Group's overall growth.

Retail NPBT from insurance operations

	June 05 (Rm)	**June 06 (Rm)**	% change
OUTsurance	214	**225**	5
FirstLink	60	**68**	13
WesBank	267	**394**	48
HomeLoans	63	**63**	0
FNB Life	20	**49**	>100
FNB Consultants	49	**63**	29
Total	673	**862**	**28**

The last point I would like to cover under our growth strategy is the extent to which our **business philosophy** has empowered our divisions and their management to provide the results we are reporting.

Unlike its peers, the Group is structured as a federation of profit centres or business units that are active in the various sectors of the financial services market. This structure is successful because it allows FirstRand to function as a number of small focused businesses that can find and swiftly exploit profitable niches. At the same time they can benefit from the financial muscle and operational critical mass of the Group. In this context we refer to FirstRand as a "jugger-niche" – a juggernaut with a niche market mentality.

Each profit centre has its own strategy and its own empowered management team supported by a brand specifically positioned to service that particular market segment or customer base. The Group has a strong portfolio of leading brands in FNB, RMB, WesBank, Momentum, OUTsurance and Discovery. All of these brands are "seeded players" and most are either the number one or two in their market segment. All this, combined with our focus on innovation has allowed us to exploit the growth opportunities the market has offered.

Looking forward, we remain generally positive on the overall macro environment, albeit that growth may not be at the exceptional levels of the past year. Our philosophy is that whilst the macro environment may make growth easier it is our business philosophy and the quality and empowerment of our staff and our strategies that must provide superior growth.

There are a number of issues and challenges that we need to address. GT Ferreira has covered at length in his Chairman's statement that one of the major issues facing financial services is **increasing regulation.** The only comment I would like to add is that both regulation and consumerism are "here to stay" and the financial services industry needs to get its house in order and focus on winning the customer over.

Transformation is an issue we take very seriously at FirstRand as we believe it is a significant contributor to the sustainability of the South African economy. We have spent a great deal of time trying to understand what transformation entails and have provided our business units with a detailed framework on how to implement it. We have communicated these guidelines internally and externally and I believe that we have been able to inspire our management to tackle transformation "from the heart" rather than as a "ticking the box exercise".

The five pillars of our strategy that are equally important are:

- Contributing to a better macro environment;
- Redressing investment imbalances;
- Employment equity;
- Facilitating the emergence of black businesses;
- Facilitating equitable ownership and control of companies.

Whilst the above pillars are relevant to all aspects of the Financial Sector Charter and Department of Labour measurements we see them as real deliverables and we have "hard-wired" them into every element of our business.

One of the perceived gaps in FirstRand's growth strategy is our apparently cautious approach to **African and international expansion.**

There are a few key principles that underpin our international strategy. The first is that we cannot replicate FirstRand internationally and we will therefore only expand the activities of those businesses within the Group that have a competitive advantage in other jurisdictions. This means that international expansion is driven at business unit level with the centre playing a facilitative and supportive role.

Looking forward I believe that the Group is in good shape and all our businesses are settled and focused on growth. We have a well-diversified earnings base, a portfolio of leading brands and empowered and committed people.

Another key principle is that we have an incremental approach to international expansion and would seek to establish "greenfields" operations or joint ventures with partners who can provide brand credibility and distribution in chosen markets.

To illustrate this approach is the great success of our greenfields Australian Private Equity business which was achieved by leveraging off the infrastructure and skills developed in South Africa. Another example is Discovery's joint venture in the UK with Prudential which has a formidable presence in its markets and provides substantial benefits in terms of brand credibility and distribution capabilities.

The last strategic issue I would like to cover, is our decision to focus on maintaining ROE and not aggressively growing market share for the sake of it in those business lines that have become increasingly commoditised. This does not mean that we will not continue to grow in these businesses but we will focus on products that are profitable and provide our targeted returns. Whilst this may result in a loss of market share in some areas of our business we are comfortable with this strategy as we are confident that we can deploy our scarce capital in areas that provide a more sustainable ROE.

In summing up, I would like to join with GT Ferreira in acknowledging the hard work and commitment displayed by FirstRand's management team and staff to deliver these excellent results. Looking forward, I believe that the Group is in good shape and all our businesses are settled and focused on growth. We have a well-diversified earnings base, a portfolio of leading brands and empowered and committed people. All these, combined with a healthy operating environment, should allow us to continue to grow profits and deliver superior returns to shareholders in the coming years.

PK Harris
Chief Executive Officer
FirstRand Limited

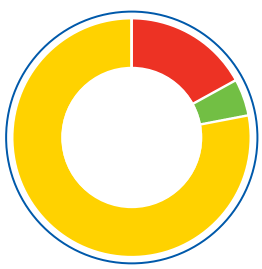
Our approach to performance management is to maximise the spread between return on equity, ("ROE") and cost of equity ("COE") and to measure ourselves on our ability to maintain and grow that spread over time.

JOHAN BURGER / Chief Financial Officer

Introduction

The CFO's report represents a high level overview of the Group's performance, risk and balance sheet management strategies, which form a major part of the Group CFO's portfolio. This overview covers the three main operating subsidiaries of the Group, FirstRand Bank, Momentum and Discovery. The chart below illustrates the relative contribution by these subsidiaries to the normalised earnings of the Group.

Normalised earnings – 2006



The Group's operational style is to break the main operating subsidiaries down into a portfolio of separately branded businesses. We are therefore structured along "federal" lines with autonomous business units, each responsible for the daily management of business, financial and operational risks and for the delivery of:

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

The CFO's portfolio includes certain strategies designed to augment the business unit returns and reduce earnings volatility through the economic cycle ("the cycle"). These strategies relate to:

- performance management;
- risk management; and
- balance sheet management.

Performance management strategy

As outlined in last year's report, FirstRand's performance management strategy is a key component of the Group's overall strategy. Its focus is to deliver superior, sustained returns to shareholders.

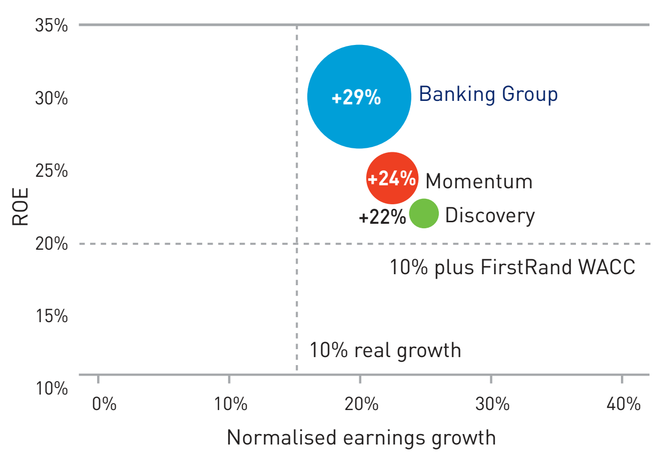
Our approach to performance management is to maximise the spread between return on equity ("ROE") and cost of equity ("COE") and to measure ourselves on our ability to maintain and grow that spread over time.

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

During the year, FirstRand produced excellent results, growing normalised earnings by 21%. Headline earnings also grew 21%, however we believe normalised earnings most accurately reflects the operational performance, given non-operational and accounting anomalies that impact headline earnings. The table below shows the reconciliation between normalised earnings and headline earnings.

R million	Year ended 30 June **2006**	2005	% change
Headline earnings – audited	**8 115**	6 723	21
Adjustments	**703**	553	
Private equity realisations	**219**	406	
Agreement with National Treasury	**30**	–	
Discovery BEE transaction	**102**	–	
Treasury shares	**352**	147	
Normalised earnings – unaudited	**8 818**	7 276	21

During the year to 30 June 2006, against all relevant targets the three main operating subsidiaries operated in the top quadrant, thus delivering superior value for shareholders.



The business units within the Banking Group also delivered ahead of targeted return on economic capital as indicated in the table below.

ROE	**2006**	2005
For the year ended 30 June 2006		
FNB	**32%**	32%
RMB	**36%**	33%
WesBank	**29%**	22%
FirstRand Africa and Emerging Markets	**29%**	29%
Total	**29%**	28%

Since the year end, a further enhancement to our performance measures, net income after cost of capital ("NIACC"), was introduced across the Group. Maximising NIACC to generate economic value has become a key focus for each business unit and drives strategic and economic allocation of capital to generate sustainable profits.

Risk management strategy

Risk management provides the business units with risk frameworks to ensure sustainable performance by maintaining ROE within a band of acceptable return volatility and avoiding undesired outcomes. The risk framework incorporates the quantification of risk appetite, qualitative assessment, regular monitoring and corrective action.

Balance sheet management strategy

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

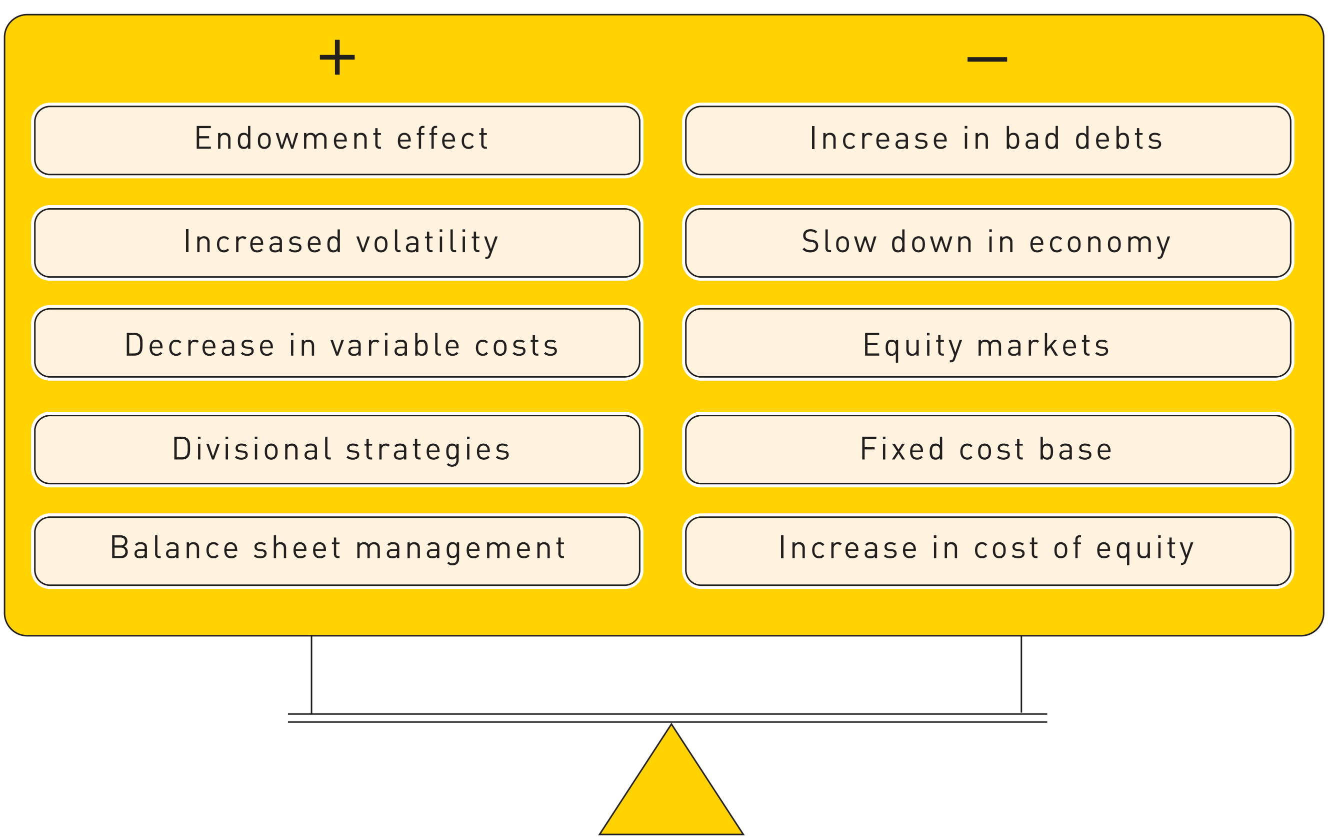
- interest rate risk;
- credit portfolio risk;
- capital risks; and
- strategic funding risks.

We take a holistic view of the balance sheet. This allows for pro-active management of the natural position of the balance sheet and the related risks that impact upon it. This also allows us to protect and enhance returns by "increasing alpha", reducing volatility and best positioning the balance sheet through the cycle.

(Alpha in this context implies the extra returns that can be separated from the market returns achieved, by actively trading the natural position of the balance sheet such that our returns are not as negatively impacted as the general market.)

To achieve this objective we have implemented an integrated balance sheet management approach. This approach requires a detailed understanding of the economic cycle and the interplay between the risks created by the cycle and the "levers" that can be used to mitigate those risks. Ultimately, we seek to optimise the natural position of the balance sheet and look for natural hedges in the current structure.

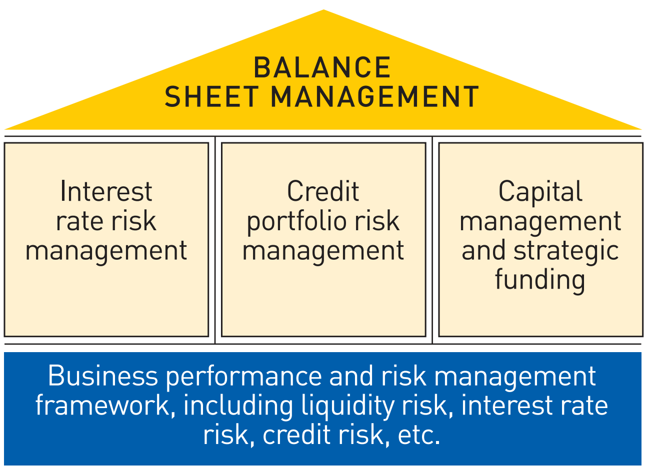
The illustrative diagram below reflects some of the positive and negative factors that can impact our balance sheet and its income streams in an increasing interest rate environment. Through actively managing the balance sheet through the cycle we try to mitigate the negative and enhance the positive impact of these factors.



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

The integrated balance sheet management structure is depicted below and consists of three key pillars, namely:

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



Below we explain in more detail the high level objectives and activities of these three pillars. These are currently fully implemented in the Banking Group and we are in the process of introducing some of these objectives and activities in the Momentum Group.

Interest rate risk management

Interest rate risk management ("IRRM") has responsibility for identifying and quantifying interest rate risk in the Bank's assets and liabilities, excluding trading assets and liabilities.

The net interest rate risk profile of the Bank is managed by changing the profile of liquid assets or through derivative instruments, based on our interest rate outlook with reference to other risk factors impacting the balance sheet, notably credit risk.

Our risk positioning is an important source of net interest income and its primary objective is to protect the Bank against adverse movements in interest rates (ie a drop in interest rates). A secondary objective is to enhance or optimise the net interest income of the Bank by capitalising on temporary mispricing in the market.

Risk positioning has been very successful to date. For example, through certain hedging strategies implemented, we effectively protected earnings against the 6.5% drop in rates between 2003 and 2005. Going forward our balance sheet has been positioned to benefit fully from the positive endowment effect in the increasing rate environment.

Credit portfolio risk management

Credit risk management ("CRM") is responsible for the oversight of the Bank's credit portfolio risk. It is concerned with the review of credit risk quantification models and scorecards used by business units and provides independent oversight on aspects such as credit rating models and implementation of the credit risk management framework.

CRM plays a portfolio management role for the underlying business units. This role focuses on:

- determining the risk appetite;
- reviewing origination strategies through different economic cycles;
- monitoring arrears and non-performing loans;
- assessing the adequacy of credit provisions; and
- determining credit loss protection strategies, if necessary.

CRM also ensures that business units price appropriately for the credit risk taken and that the returns are managed within an acceptable level of volatility. CRM will work with IRRM to seek added protection for the income streams in the case of a negative interest rate cycle.

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

Capital management

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

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

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

The table below indicates our actual and target capital ratios.

R million	Target %	Actual %
Banking Group		
Target capital adequacy	12 – 13	12.8
Tier I	8.8 – 10	9.0
– Core Tier I	7 – 8	7.8
– Non-cumulative non-redeemable preference shares	1.8 – 2	1.2
Tier II	2.2 – 3	3.8
– Other qualifying instruments and tertiary capital	1.1 – 1.5	0.9
– Subordinated debt (maximum)	1.1 – 1.5	2.9
Momentum Group	1.8 – 2.2	3.1

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

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

The introduction of Basel II in 2008 is expected to bring closer alignment between regulatory and economic capital requirements and to increase the cyclicality in the amount of capital required. We aim to use the Basel II advanced internal ratings based approach for credit risk in the local banking operations and the standardised approach for our offshore banking subsidiaries. For operational risk, we will first adopt the standardised approach, but will move to the advanced measurement methodology in the medium term.

Strategic funding

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

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

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

To ensure maximum efficiency and flexibility in accessing funding opportunities, we have established a range of debt programmes.

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

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

Capital and funding actions

As part of our strategy to improve capital efficiency and provide funding for anticipated growth, we undertook the following actions:

- In November 2005, FirstRand Limited raised R1.5 billion through the issue of non-cumulative non-redeemable preference shares to further enhance the level and structure of its capital base. R500 million was deployed to Momentum for its acquisition strategy and R1 billion was utilised to refinance the vendor component of the BEE transaction, which was previously funded by the Banking Group. This eliminated the capital impairment in FirstRand Bank.
- During the year, Momentum issued a further R1 billion subordinated debt to further improve efficiency of its capital structure.

- In October 2005, FirstRand Bank issued R1 billion subordinated bonds. In June 2006, there was a further issue of R3 billion. We considered the market conditions to be favourable and therefore took maximum opportunity to raise debt capital and this resulted in an excess of debt capital of R1.5 billion. The strategy is to utilise this excess for future funding and capital requirements.
- Momentum has an excess of 0.9 times over its target range of between 1.8 and 2.2 times Capital Adequacy Requirement ("CAR") cover. As a result a special dividend of R500 million has been declared to FirstRand on 30 June 2006, which the Group utilised to reduce debt at the centre. Our strategy is to utilise Momentum's remaining excess capital for further organic growth requirements.

FirstRand Bank securitised R2 billion of motor loans originated by WesBank during the year. We obtained approval from SARB to securitise up to R15 billion of asset-backed securities, primarily home loans and vehicle finance loans originated by FNB HomeLoans and WesBank, respectively.

Securitisations enhance a bank's liquidity position, diversify its source of funding across the maturity spectrum and optimise the composition of its balance sheet. It improves the liquidity risk position of the Bank through matched funding as the cash flow profile of the securitisation bonds generally match the cash flow profile of the assets securitised.

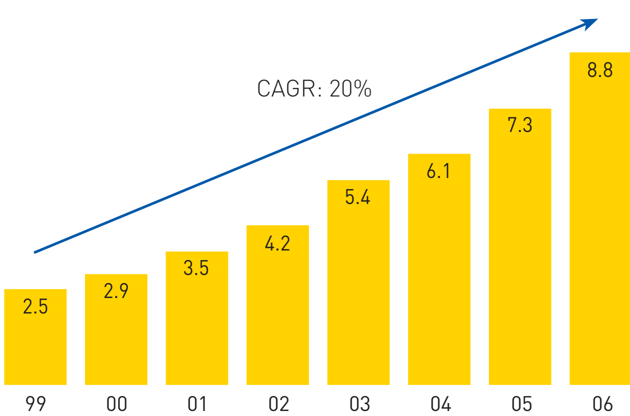
Conclusion

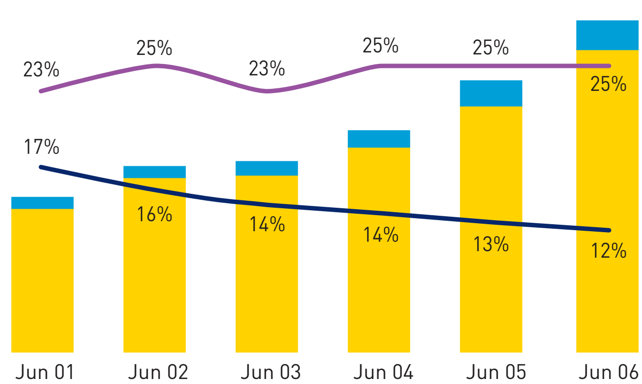
Since the creation of FirstRand in 1998, the diversified earnings base of the Group has delivered strong growth in earnings, assets and dividends. The two graphs below reflect our track record of successfully achieving our objectives of growing earnings at a compound annual growth rate of 20%, in improving and maintaining ROE, in reducing cost of equity and growing net asset value.

Johan Burger
Chief Financial Officer
FirstRand Limited

Sandton
19 September 2006

Delivering shareholder value





R million	1999	2000	2001	2002	2003	2004	2005	**2006**	Compound growth %
Balance sheet									
Total assets	202 064	222 791	271 431	374 766	393 674	424 821	462 739	**579 787**	15
Advances	93 718	102 667	123 343	175 161	188 112	208 874	221 851	**291 076**	15
Deposit and current accounts	115 392	117 559	141 461	201 404	215 637	219 061	245 793	**317 840**	13
Total equity	11 014	14 134	16 585	20 306	20 793	23 912	29 910	**36 530**	19
Treasury shares	1 272	1 272	1 272	1 272	1 272	1 590	3 786	**5 792**	24
Dividend	844	1 035	1 157	1 415	1 715	1 956	2 767	**3 320**	22
Total equity after dividend	13 130	16 440	19 014	22 993	23 780	27 458	36 463	**45 642**	19
Assets under administration	255 412	303 683	373 452	473 094	488 242	529 039	616 348	**771 884**	17
Income statement									
Earnings attributable to ordinary shareholders	2 489	3 056	3 575	4 495	4 516	5 676	7 137	**8 825**	20
Headline earnings	2 483	2 947	3 689	4 734	4 847	5 727	6 723	**8 115**	18
Normalised earnings	2 483	2 947	3 450	4 186	5 379	6 097	7 276	**8 818**	20
Return on average equity (%)	24.4%	24.3%	23.3%	25.2%	22.6%	25.4%	25.2%	**25.1%**	
Earnings per share (cents)									
– Basic	45.70	56.10	65.70	82.50	86.20	109.30	137.25	**171.60**	21
– Diluted	45.70	56.10	65.70	82.50	84.50	106.80	134.50	**165.96**	20
Headline earnings per share (cents)									
– Basic	45.60	54.10	67.70	86.90	92.50	110.30	129.29	**157.79**	19
– Diluted	45.60	54.10	67.70	86.90	90.70	107.70	126.70	**152.60**	19
Normalised earnings									
– Basic	45.60	54.10	63.40	76.90	102.60	117.40	132.44	**156.92**	19
– Diluted	45.60	54.10	63.40	76.90	100.70	115.30	131.43	**156.73**	19
Dividend per share (cents)									
– Interim	7.50	9.00	11.25	13.50	16.50	19.25	26.60	**32.00**	23
– Final	8.00	10.00	12.50	15.00	18.50	26.75	28.50	**33.99**	23
	15.50	19.00	23.75	28.50	35.00	46.00	55.10	**65.99**	23
	2.94	2.85	2.67	2.70	2.88	2.49	2.50	**2.50**	(2)
Perpetual preference Dividend per share (cents)									
– February	–	–	–	–	–	–	228	**356**	
– August	–	–	–	–	–	–	360	**363**	
Net asset value per ordinary share	2.02	2.60	3.05	3.50	3.97	4.61	5.77	**6.71**	19
Shares in issue	5 445.3	5 445.3	5 445.3	5 445.3	5 445.3	5 476.4	5 613.6	**5 634.1**	
Exchange rates									
Rand/US$									
– Closing	6.03	6.77	8.07	10.31	7.56	6.18	6.68	**7.13**	
– Average	5.95	6.40	7.42	9.19	8.89	6.77	6.19	**6.44**	
Rand/£									
– Closing	9.51	10.26	11.35	15.75	12.47	11.20	11.97	**13.15**	
– Average	9.63	9.88	10.81	14.81	14.12	11.83	11.50	**11.48**	
Balance sheet (USD)									
Total assets	33 510	32 896	33 647	36 350	52 090	68 741	74 703	**90 029**	15
Advances	15 542	15 159	15 290	16 989	24 890	33 798	35 815	**45 198**	16
Deposit and current accounts	19 136	17 358	17 536	19 535	28 532	35 447	39 680	**49 354**	14
Total equity	1 827	2 087	2 056	1 851	2 751	3 869	4 829	**5 672**	18
Assets under administration	42 357	44 841	46 294	45 887	64 603	85 605	99 501	**119 858**	16
Income statement (USD)									
Earnings attributable to ordinary shareholders	418	477	482	489	508	838	1 152	**1 370**	18
Headline earnings	417	460	497	515	545	846	1 085	**1 260**	17
Headline earnings excluding translation gains and losses	417	460	465	456	605	900	1 175	**1 369**	18
Normalised earnings									
Balance sheet (GDP)									
Total assets	21 259	21 717	23 912	23 802	31 564	37 932	40 234	**50 504**	13
Advances	9 860	10 008	10 866	11 125	15 082	18 650	19 290	**25 355**	14
Deposit and current accounts	12 140	11 459	12 462	12 791	17 289	19 560	21 371	**27 686**	12
Total equity	1 159	1 378	1 461	1 212	1 667	2 135	2 601	**3 182**	16
Assets under administration	26 871	29 602	32 900	30 046	39 146	47 238	53 590	**67 237**	14
Income statement (GDP)									
Earnings attributable to ordinary shareholders	258	309	331	303	320	480	621	**769**	17
Headline earnings	258	298	341	320	343	484	585	**707**	15
Headline earnings excluding translation gains and losses	258	298	319	283	381	516	633	**768**	17

SOURCES OF PROFIT
for the year ended 30 June

R million	2006	% composition	2005	% composition	% change
Banking Group	7 049	85	5 656	83	25
FNB	3 473	41	2 934	43	18
RMB	1 782	21	1 306	19	36
WesBank	1 059	13	788	12	34
FNB Africa	377	5	314	5	20
Support	358	4	314	5	14
Momentum Group	1 534	18	1 270	19	21
Insurance operations	943	11	672	10	40
Asset management operations	341	4	243	4	40
Investment income on shareholders' assets	280	3	355	5	(21)
Agreement with National Treasury	(30)	–	–	–	(>100)
Discovery Group	350	4	324	5	8
FirstRand Limited	(164)	(2)	(304)	(5)	(46)
Consolidation of share trusts	(380)	(5)	(155)	(2)	–
Headline earnings	8 389	100	6 791	100	24
Dividend payment to non-cumulative non-redeemable preference shareholders	(274)		(68)		>100
Headline earnings for the group	8 115		6 723		21

Notes

1. Taxation relating to the Banking Group has been allocated across the Bank's operating divisions on a pro rata basis.

Sustainable business practices and the concept of good corporate citizenship are embodied in the FirstRand Business Philosophy.

This Philosophy, which forms an important part of the induction programme for staff, emphasises the Group's owner-manager culture, its desire for mutually rewarding long term relationships with all its stakeholders and the quest for long-term sustainable earnings growth. The Philosophy provides a framework for our decentralised operations. For FirstRand as a holding company, it is our business units – most easily recognised by their brands – that have direct relationships with their staff and their customers, and whose operations impact on broader society and the natural environment.

Managing these impacts is integral to our business and key to sustainable performance, and we address this through a focus on non-financial risks and opportunities. Our comprehensive Risk Management Framework is in a constant process of refinement and during this year we have increased our focus on Sustainability. The key non-financial risks for each brand are identified in their operational reports. Challenges facing the industry and our Group are referred to in the reports from the Chairman and the CEO.

An important element of sustainable business practices in South Africa today is the need for transformation. In our sector this need is articulated in the Financial Sector Charter. The challenges and opportunities associated with this have been referred to in the CEO's report.

At the end of December 2005, the FirstRand Group scorecard, which was submitted to the Financial Sector Charter Council, showed that we were making good progress on all fronts. The scorecard reflects the targets at 31 December 2005 and compares these with FirstRand's actual performance:

Charter component	Max points	Dec 2005 target	FRL actual points
HR development	20	11.00	12.62
Employment equity	15	8.25	8.49
Skills development/learnerships	5	2.75	4.13
Procurement and enterprise development	15	8.25	11.94
Access to financial services	18	9.90	9.11
Empowerment financing	22	12.10	16.00
Ownership and control	22	12.10	18.80
Corporate social investment	3	1.65	3.00
	100	55.00	71.47

During the year under review, we have continued to move ahead with our initiatives around sustainability. In some areas there has been a marked improvement (with our supplier management, for example), in others we see steady progress (with our people, customers and community) and in others, we continue to debate and learn about challenges and opportunities (the physical environment, and regulatory changes).

Our customer surveys have continued to show improvements in the way our products and services are rated in terms of satisfaction and customer loyalty. National industry surveys rated us consistently in the upper quartile.

Our engagements with staff have identified opportunities to further improve the quality of their lives. Employment equity plans are bearing fruit overall while the specific challenge remains at senior levels. Our skills development initiatives are consistently reviewed, based on research results. Our HIV/AIDS programmes cover a full range of services from the provision of preventative information to counselling and treatment.

Procurement is increasingly centralised and regular engagement with our suppliers has allowed us to better understand their needs in terms of service levels, payments and process flows and to assist them with the transformation required in terms of the Financial Sector Charter. It has also allowed us to support start-ups and SMEs through offering assistance and opportunities. Policies and procedures are in place to preclude bribery and corruption relating to procurement.

We have co-operated with the regulators as we seek to improve the quality of legislation applicable to our industry, including the BEE Codes of Good Conduct, new credit legislation and the Competition Commission enquiry.

Our spend on corporate social investment increased by a further 20% during the year. Since its inception in 2000, the FirstRand Foundation has made grants in excess of R350 million to community and development initiatives in South Africa. This year, we introduced a specific monitoring and evaluation capacity to improve our ability to understand the impact of our funding and get more feedback from our partner organisations.

We have contributed to a number of nation building initiatives including Heartlines, the Homecoming Revolution and South Africa – The Good News. Our businesses contribute to infrastructure and low-cost housing development, in particular through ongoing engagement with the Government. It continues to be our policy not to make donations to political parties.

In the new year we will complete two major new office buildings. Both of these premises will employ the latest environmentally friendly technology. Through our Environmental Compliance area we are undertaking awareness raising training in the Banking Group, and hope to see the impact of this over the coming year, in terms of further new initiatives.

We have had successful meetings with shareholders and analysts both locally and overseas and during the year we won the Deloittes Good Governance Award in addition to coming first in respect of Board Effectiveness, Remuneration Practices and Sustainable Development.

During the year under review, the Group became a signatory to the United Nations' Global Compact.

As was the case last year, our sustainability reporting is done by brand. This is because each brand operates in a particular market where its stakeholders have different needs. These comprehensive reports are available on our website – www.firstrandsusrep.co.za. We have also created a short executive summary document, which we hope will provide an overview of our performance at the Group level. This can also be downloaded from the website.

As always we welcome any feedback.

Our spend on corporate social investment increased by a further 20% during the year. Since its inception in 2000, the FirstRand Foundation has made grants in excess of R350 million to various worthy causes in South Africa. Our research shows that we are making a meaningful difference to the lives of thousands of South Africans.

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

Topics and indicators	JSE SRI criteria	King II	GRI #	FSC	FirstRand strategy	Where to find it	Page
Strategy							
Group strategy	x		1		x	Annual Report	9, 15
Structure including significant changes	x		2.3	x		Annual Report	25, 285
Sustainability reporting approach							
Philosophy	x		2.11 – 2.13; 2.17	x		Annual Report	22
Key non-financial risks and opportunities					x	Annual Report	35, 38, 41, 45, 55, 62
Corporate governance							
Corporate governance overview	x	x	3.1 – 3.8; 3.19; SO3;			Annual Report	69
Board composition		x	LA11			Annual Report	64
Regulatory environment	x	x	3.14			Annual Report	84
Compliance	x	x		x		Annual Report	84
Risk management	x	x	3.17; SO1			Annual Report	15, 84
Non-financial risk management	x	x	3.17	x		Annual Report	22, 84
Stakeholders							
Stakeholder list	x		2.9			Annual Report Website	22
Stakeholder engagement	x		3.9-3.12			Website	
Regulatory environment	x		3.15			Website Annual Report	4, 84
Our people							
Scope	x				x	Website	
Major Issues identified	x			x	x	Website	
Policies	x		HR1; HR2; HR5 – 7	x		Website	
Workforce breakdown	x		LA1; LA2; LA11	x		Website Annual Report	76
Transformation	x		LA10	x		Website	
Staff satisfaction	x					Website	
Staff consultation	x		LA3; LA4			Website	
Health and safety including HIV/AIDS	x		LA5;LA6; LA7; LA8			Website	
Training	x		LA9	x		Website	
Remuneration	x		EC5			Website Annual Report	63, 74
Supply chain							
Scope including total expenditure	x		EC3		x	Website	
Strategy	x			x	x	Website	
Policies	x		3.16; HR3	x		Website	
Supplier satisfaction			3.9-3.12			Website	
Transformation	x			x		Website	
Environment							
Scope					x	Website	
Policies	x		3.14			Website	
Direct energy usage; initiatives	x		EN3			Website	
Reduce, recycle, reuse; initiatives	x		EN5;EN 11			Website	
Transport; initiatives	x		EN8			Website	
Community							
Scope					x	Website	
Major issues	x					Website	
Policies	x		3.14			Website	
Total contribution	x		EC10	x		Website	
Community satisfaction	x		3.9-3.12			Website	
Impact assessment	x				x	Website	
Customers							
Scope			EC2		x	Website	
Major issues	x		3.17; EN14; SO1	x		Website	
Policies	x		PR2; PR3; 3.14			Website	
Current performance	x			x		Website	
Distribution	x			x		Website	
Transformation	x			x		Website	
Customer satisfaction						Website	
Health and safety			PR1			Website	
Economic impact							
Statement of economic Value-added	x		EC5 – EC8; EC10			Annual Report	63
Financial performance	x		EC1		x	Annual Report	1, 15

FIRSTRAND

FirstRand Bank Holdings Ltd

FirstRand Bank

- Rand Merchant Bank
- First National Bank
- WesBank
- FNB African subsidiaries
- OUTsurance
- First Link
- E Bucks

Momentum Group Ltd

Momentum

- RMB Asset Management
- RMB Properties
- Advantage Asset Managers
- Ashburton

Discovery Holdings Ltd

Discovery Health

- Discovery Life
- Vitality
- Destiny
- PruHealth

For group ownership structure see page 285.

SIZWE NXASANA / CEO FirstRand Banking Group

The Banking Group produced excellent results for the year benefiting from strong performances from RMB, FNB and WesBank.

FIRSTRAND
Banking Group

Sizwe Nxasana / 48 /
MCom, CA(SA)
CEO: FirstRand Banking Group

Johan Burger / 47 /
BCom (Hons), CA(SA)
CFO: FirstRand Banking Group

Paul Harris / 56 /
MCom
CEO: FirstRand Limited

Michael Jordaan / 38 /
MCom (Economics)
PhD (Banking Supervision)
CEO: First National Bank

Theunie Lategan / 49 /
DCom; CA(SA)
Advanced Diploma Banking
CEO: FirstRand Africa and Emerging Markets

Zweli Manyathi / 44 /
BCom (Hons) (Financial Management) (Unisa)
CEO: FNB Branch Banking

Yatin Narsai / 40 /
BSc Hons
CEO: FNB Smart Solutions and Public Sector Banking and CIO

Michael Pfaff / 44 /
BCom, CA(SA), MBA
CEO: Rand Merchant Bank

Zelda Roscherr / 39 /
BSc (Maths), BCom Hons
Group Treasurer

Ronnie Watson / 59 /
AMP (Harvard)
CEO: WesBank

MICHAEL JORDAAN / CEO, First National Bank

Results and commentary are on a pre-IFRS basis

	2006	2005	% change
Income before tax (R million)	**5 060**	4 147	22
Advances (R million)	**140 111**	107 201	31
Total deposits (R million)	**142 038**	118 517	20
Cost to income ratio (%)	**64.2**	66.7	(4)
Non-performing loans (%)	**1.8**	1.7	6

R million	**2006**	2005	% change
Consumer segment	**1 639**	1 545	6
– *Personal Banking*	**942**	788	20
– *HomeLoans*	**268**	454	(4)
– *Card Issuing*	**429**	303	42
Wealth	**121**	97	25
Commercial	**1 916**	1 563	23
Corporate	**642**	512	25
FNB Other	**742**	430	73
Total FNB	**5 060**	4 147	22

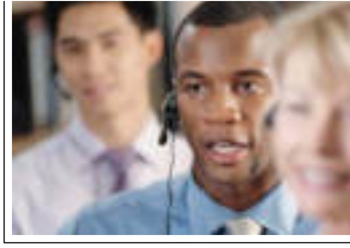
Environment

FNB operated in a positive socio-economic environment during the year under review, characterised by continued low inflation and stable low interest rates. Overall, a buoyant South African economy, strong consumer demand for credit, a significant increase in customer numbers, market share gains and strong volume growth, all contributed to an excellent set of financial results, despite the low interest rate environment which continued to place pressure on margins.

Changes in legislation

The National Credit Act ("NCA") was enacted during May 2006 with the provisions relating to fees and pricing being effective 1 June 2007. The impact to revenue has not been fully determined, given that the regulations governing the detail of the Act were only finalised during June 2006. FNB estimates that the total implementation costs of the NCA will range between R140 million to R230 million.

FNB believes its fee structures are highly competitive and every effort is made to make fees easier to understand, to educate customers and provide solutions for customers.



FNB believes that the NCA will provide significant opportunities for the established players to enter new markets.

One of the key challenges facing the industry is the Competition Commission enquiry. On 4 August 2006, the Competition Commission announced an enquiry into competition which will focus on the following:

- the level and structure of fees charged by banks, as well as other providers of payment services;
- the feasibility of improving access by non-banks and would-be banks to the national payment system infrastructure so that they can compete more effectively; and
- any other aspects relating to the payment system which could be seen as anti-competitive.

FNB is aware of the importance of fees paid by customers and strives to ensure that customers receive value for money. FNB believes its fee structures are highly competitive and every effort is made to make fees easier to understand, to educate customers and provide solutions for customers (such as the customer pricing hotline).

Performance commentary

FNB has produced another set of excellent results with profit before taxation increasing 22% from R4 147 million to R5 060 million.

Interest income grew 19%. This increase is attributable to the continued strong balance sheet growth in both advances and deposits, offset to some extent by a reduced endowment effect.

Bad debts have increased to 0.5% (2005: 0.3%) of advances. This increase was expected given the abnormally low arrears and NPLs in recent years.

Non-interest income increased 21% as a result of a significant increase in customer numbers and higher transactional volumes, particularly in the Mass, Card, Consumer and Commercial segments.

Operating expenses increased 16%. This was mainly driven by significant variable costs such as new business acquisition expenses and investment in infrastructure and processes. Excluding these costs, there was an increase of 9% in the base costs.

Deposits increased R24 billion or 20%, with the Commercial, Corporate and Consumer segments being the major contributors.

Advances increased R33 billion or 31%, with HomeLoans (R23 billion), Card Issuing, Wealth and Commercial being the major contributors. Corporate advances continued to decline as a result of low credit demand and increased pricing competition.

As previously reported, FNB's segment view is not a "pure" indication of FNB's penetration into each segment as certain revenue from customers within a defined segment could be recognised in a different segment depending on the product segment categorisation as well as internal service level and revenue arrangements. It is also likely that segmentation of clients will be revised on a continuous basis as the model refines.

Segment performance commentary

Consumer segment

Cheque products including overdrafts
Investments
Personal Loans (including Student Loans)
First Link Insurance Brokers
eBucks
HomeLoans
Card Issuing

This segment focuses on customers with incomes ranging from R60 000 to R750 000 per annum. It provides banking and insurance solutions covering the full customer lifecycle from youth to senior and includes HomeLoans and Card Issuing.

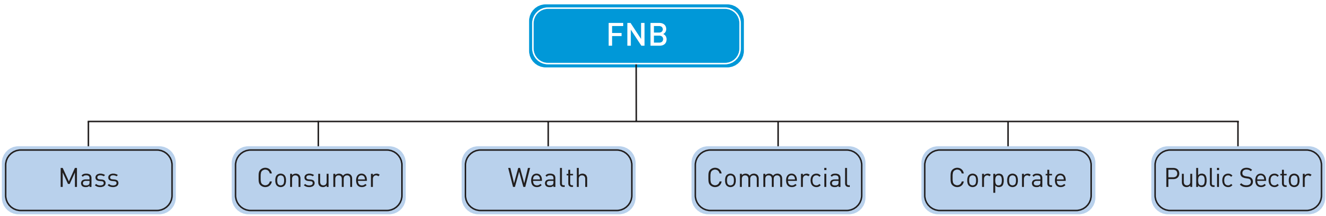
This segment continued to perform well with profit before taxation increasing 6% from R1 545 million to R1 639 million. On an IFRS compliant basis the profit before taxation increased 14% largely due to the impact of the capitalisation of the HomeLoans acquisition costs to the value of the loan and amortisation over the life of the loan through interest income. The business benefited from the continued strong growth in customer numbers and transaction volumes.

Low interest rates dominated the operating environment resulting in continued pressure on margins. The bad debt charge increased off prior year lows given the movement of NPLs returning to normalised levels within the risk appetite of the bank.

Interest income grew 20% during the year as a result of strong growth in both advances and deposits.

Advances grew 39% to R93 billion as a result of focused sales activities and the continued strong demand for consumer credit. This demand is, however, expected to slow. The bad debt charge increased from 0.3% to 0.5% of advances in line with the growth in non-performing loans ("NPLs") which ended the year at 1.4% (2005 – 1.2%) of advances.

Deposits grew 15%, attributable to increased market share of transactional banking as well as savings and investment products. Investments showed strong growth in customers and number of accounts, driven by innovative products, marketing and new distribution channels. This compensated for increased competitive pressure on margins and the low consumer savings rate.



FNB's segment structure

The success of the Million-a-Month Account ("MAMA"), launched during January 2005, continued during the year, increasing the customer base to over 400 000 accounts and contributing to the deposit growth.

Non-interest income grew 25%, driven by 9.5% growth in active accounts and 8.7% increase in transactions per customer.

Operating expenses increased 22%, reflecting the costs associated with the strong growth in transactions and sales revenues. A significant factor contributing to this growth is HomeLoans acquisition costs which are expensed as incurred. A base cost increase of 18% would result if these costs were excluded, (under IFRS these costs are now capitalised to the value of the loan and are amortised through interest income). Investments for growth such as the Discovery Card, MAMA account and additional relationship managers, were a component of the operating expenses increase. Excluding these, the costs growth would further decrease to 16%.

Personal Loans (including Student Loans) had an excellent year with advances growing 34% to R1.6 billion largely driven by increased sales volumes.

First Link performed well and continues to add a range of value added services to FNB's customers, particularly in the Premier and Wealth segments. Revenue and operating profit growth of 20% and 18%, respectively were excellent in a competitive environment characterised by soft conditions in the commercial market segment and largely commoditised product offerings in Personal Lines.

The eBucks rewards programme continues to perform well as a strategy to retain customers and incentivise profitable behaviour. Since inception, more than R680 million worth of eBucks have been awarded to members. On average, more than 70% of eBucks allocations are spent on a monthly basis. eBucks rewards both personal and business customers.

InContact, FNB's SMS and e-mail messaging service, has become a standard feature of FNB's transactional products, providing transaction and security notifications to account holders. During the year, 3.4 million subscribers benefited from this innovative value-add service.

Telephone banking increased active customers by 21% to 192 000 with transactions increasing by 18%.

FNB HomeLoans

The property market continued to show impressive loan growth of 31.5% over the year. FNB HomeLoans benefited from this growth and retained a new business market share of 20.7% (2005: 20.8%). The increase in advances of 40% to R81 billion resulted from a 58% (R37 billion) increase in new business written.

The One Account continues to perform extremely well, has over 10 000 customers and increased its loan book to R4.9 billion from R1.3 billion in the previous year.

Profit before taxation decreased 41% (1% decrease on an IFRS compliant basis) and although there was a significant increase in advances, interest income grew by only 20%. This was due to margin pressures, as a result of the lower interest rate environment, competitive market pricing and an increase in bad debt provisions due to increased arrears in the second half of the year. Non-interest income increased 19%, driven by increased volumes.

The results on a pre-IFRS basis were further negatively impacted by the significant (46%) increase in new business acquisition costs from R327 million to R478 million, as well as increased staff costs relating to an enhanced sales force and processing capability. Together, these were the major contributors to operating costs increasing 36%. (On an IFRS compliant basis with the capitalisation of the acquisition costs, the cost increase reduces to 22%.)

During the year, FNB resolved the Saambou interest calculation dispute and recalculated the incorrect Saambou interest calculations on the acquired home loan and housing finance books. The amount of R154 million, which is being refunded to customers, is largely covered by warranties and provisions.

Collaboration with other FirstRand Banking Group businesses continued to be strong. The Commercial/ WesBank collaboration delivered advances payout growth of 86%, while RMB Structured Finance payout in the Commercial segment increased 91%.

Card Issuing

Card Issuing produced another excellent performance, increasing its profit before taxation by 42% and growing advances 36% to R9 billion. This growth resulted from increased customer numbers, success in selling balance transfers and continued customer spending, with cardholder turnover increasing 33%. The 28% growth in FNB Card's customer numbers was achieved by an increased sales focus and success in cross-selling to existing FNB customers and the successful launch of the Discovery Card. Operating expenses increased 22%, due in the main to Discovery Card.

Wealth segment

RMB Private Bank
FNB Private Clients
FNB Trust Services
Senior Suites

The Wealth segment's profit before taxation grew 25% to R121 million, driven in the main by a particularly strong performance by RMB Private Bank, which grew profit before taxation by 76% to R139 million.

Assets under management grew 57% to R18 billion, due to growth in the equity market, investment selection and net new business inflows. Growth in advances of 29% to R16 billion and growth in deposits of 32% contributed to this performance. As a result, interest income increased 35% and non-interest income grew 21%.

The 25% increase in operating costs for the segment is largely related to the start-up and rapid growth of FNB Private Clients, which required an investment of R49 million.

FNB Private Clients grew advances to over R800 million and has a healthy pipeline awaiting payouts. Assets under management totalled R1.2 billion. This represents a substantial investment by the Wealth segment for the future, as the growth potential is significant.

FNB Trust Services also had good profit growth of 15%. This was a result of good new estate inflows, continued strong equity markets and a focus on cost containment.

Commercial segment

Commercial Property Finance
Debtor Finance, FNB Leveraged Finance
BEE Funding, Franchises and Start-ups

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

The 28% growth in FNB Card's customer numbers was achieved by an increased sales focus and success in cross-selling to existing FNB customers and the successful launch of the Discovery Card.

The Commercial segment had an excellent year with profit before taxation increasing by 23%.

Deposits grew 20%, largely due to strong consumer demand and retail sales resulting in increased cash balances of commercial entities. South African business tends to be conservative and as such retain cash buffers given previous historic economic volatility.

Advances grew 25%, driven in the main by FNB Leveraged Finance (growth in excess of 200%), Commercial Property Finance (up 72%), both business units growing from a low base. Agriculture Term Loans grew 40% as a result of the targeted acquisition of Land Bank customers, and Debtor Finance grew 36% driven by a renewed marketing focus and penetration into the Business segment.

Interest income increased 12% as a result of the growth in advances, improved advances margins due to a change in product mix in favour of higher margin products, and strong deposit growth. The growth was impacted by lower deposit margins given the increased competition in the market for deposits. Further, this growth was substantially reduced by the run-off of the endowment hedge.

Commercial experienced continued good credit quality with non-performing loans as a % of gross advances improving from 2.9% (June 2005) to 2.4% in June 2006. The bad debt charge as a % of gross advances also improved from 0.4% in June 2005 to 0.2% at year end.

Commercial experienced strong transactional volumes in 2006 resulting in non-interest income increasing 19%, with a 31% increase in Electronic delivery channels and Speedpoint. Excellent new active account growth of 18% in the Business segment, combined with increased activity, resulted in transactional revenue growth of 19%.

International banking's non-interest income showed a growth of only 4%, largely due to suppressed margins as a result of the reduced Rand volatility, for the major part of the year.

Operating expenses increased 13%, largely due to the upfront cost associated with new growth initiatives, including the enhanced Franchise capability and the new Commercial start-up initiative (offering transactional banking and financing solutions to early stage businesses), together with increased costs, associated with balance sheet and transactional volume increases. Commercial has focused on streamlining its key processes beginning with the credit environment, where a scaleable scoring model has been rolled out across the Business and Agriculture segments which has contributed to certain cost savings.

Collaboration with other FirstRand Banking Group businesses continued to be strong. The Commercial/WesBank collaboration delivered advances payout growth of 86%, while RMB Structured Finance payout in the Commercial segment increased 91%.

The Commercial segment market share increased from 21% to 25% (Tracker Survey – Nov 05).

Corporate segment

Corporate Transactional Banking
Associated Working Capital Solutions
SpeedPoint (Card Acquiring)
Bulk Cash
Electronic Banking

This segment is the provider of transactional banking and other services to large corporates, financial institutions and state-owned enterprises in terms of Schedule 2 of the PFMA Act.

Profit before taxation increased 25%. Growth in non-interest income of 11% was driven by increased utilisation of electronic channels, with the main contributors being Electronic Banking and Speedpoint. This was due in part to new client acquisition and a favourable economic environment in the retail market, resulting in strong organic growth.

Deposit volumes increased 29% reflecting the overall condition of the South African large corporate environment and the cash surpluses that exist. However, actual deposit margins dropped by 5 bps from the comparative period and remain under pressure. Given these market conditions, advances reduced 11% with continued low credit demand and increased pricing competition being a major factor.

The current year's bad debt charge was R13 million, against a net recovery of R11 million in the prior year. The current year charge, however, has been reduced by R50 million as a result of a provision reversal, relating to a corporate exposure which was repaid during the year.

International Banking remains a significant contributor to the segment's profitability. Notwithstanding the reduced volatility of the Rand in the first six months and margin pressures, the overall volumes in the international and cross-border businesses for large corporates increased, resulting in a 16% growth in profits.

Operating expenses increased only 2%, with existing infrastructure growing marginally in the environments of Speedpoint and Electronic Banking to accommodate volume growth.

Electronic Banking achieved significant growth in customer numbers, volumes and values during the period. Transactions to the value of R549 billion were processed for the period (2005: R355 billion), an increase of 55%.

FNB Other

Included in FNB Other is Mass, Public Sector Banking, Branch Banking and Support.

Mass (Smart Solutions)

Smart and Mzansi accounts
Microloans (SmartSpend)
ATMs (including Retail and Mini-ATMs)
Cellphone Banking and Pre-paid products
Housing Finance (SmartBond and Smart Housing Plan)
FNB Life

This segment focuses on individuals earning less than R60 000 per annum and is principally serviced by the FNB Smart branded products and services. In addition, this segment focuses on innovation, particularly where technology can provide convenience and cost efficiency to the customer, as this segment requires cheaper delivery channels to operate profitably. The segment performed exceptionally well during the period under review with profits increasing significantly during the year.

The main driver of this segment's performance was the strong growth in non-interest income, which increased 26%. This was primarily driven by 18% growth in transacting accounts and 19% growth in ATM transactions (FNB and Saswitch), as well as debit card transactions and SmartSpend loans payout growth in excess of 100%, and more than doubling prepaid airtime turnover.

The ongoing roll-out of the mini-ATMs (now 100% on GPRS) and process efficiency, contributed to a stable market share of Saswitch transactions of 28% while the number of Saswitch devices remained at 22%. The number of ATMs increased 13% to 4 185.

FNB is pursuing a strategy of increased customer product penetration, with a focus on lending and assurance in this segment, where profitability is strongly correlated to process efficiency and customer "share of wallet". The segment achieved advances growth of 82% in this period. The advances growth relates to the SmartSpend, Smart Housing Plan and SmartBond products, where sales have increased by more than 100% (R996 million). In addition, assurance sales of Law-on-Call and Personal Accident increased in excess of 100%, while Funeral Cover sales grew 26%.

By June 2006, Cellphone Banking had over 215 000 registered customers and the cellphone channel and prepaid airtime sales business unit was generating profits on a monthly basis. This initiative remains in a start up phase and required a significant investment in the period under review, with the majority of benefits only expected to materialise in the medium-term. The use of this channel provides convenience and cost efficiencies and in tandem with InContact is expected to contribute to good market share growth.

Operating costs include the cost relating to the Cellphone Banking business which only commenced operations in the second half of the previous financial year and also the variable costs relating to the increased customers and transactional volumes.

FNB Life achieved significant growth due to its strategy of adding value and enhancing insurance features to existing products. At June 2006, there were 2.0 million in-force policies, a growth of 40% compared to June 2005.

Public Sector Banking

This segment is the provider of financial services to the three spheres of Government; namely, national, provincial and local. Customers also include universities and schools.

FNB's increased focus on this segment resulted in a number of tenders being won despite increased competitor activity in this market segment. Government's under-spending has resulted in this sector having a reduced appetite for credit and increase in cash holdings. This segment's main focus is therefore on transactional banking.

Branch Banking

Branch Banking continues to reposition its network to reflect demographic shifts and new retail and commercial development in previously disadvantaged areas. As a result, 26 new branches were opened, 13 closed and 15 relocated. At the end of the year, of the total 680 representation points, which include the sales centres, mobile banks, community banks and branches, 24% (June 2005: 19%) are in previously disadvantaged areas (as defined in the Financial Sector Charter).

Branch Banking continued with its infrastructure improvement programme converting 112 branches to its new retail design which gives easy navigation to customers.

FNB has developed the following in its strategy to service previously unbanked communities:

- Community banks provide full banking services to customers in remote and other previously unbanked areas, with 27 of these units currently deployed;
- FNB improved its distribution capability by introducing the "Bank on Wheels", which provides FNB with the ability to deliver banking services to remote communities as well as to employees of corporates at their place of employment. 10 of these units have been deployed.
- FNB also launched the FNB Sales Centres to expand its network during the year. These units focus on sales and convenience given their locations and longer operating hours. These Sales Centres

Community banks provide full banking services to customers in remote and other previously unbanked areas, with 27 of these units currently deployed.

have proved to be cost efficient in providing more banking solutions to customers and/or in acquiring new customers.

Branch Banking commenced with a major project introducing a new front line system in all branches. Elements of this new system will be implemented in the next 18 months. The system is, however, expected to be fully deployed in 24 months.

During the year, Branch Banking experienced strong growth in sales which has contributed to the increase in FNB's market share.

The establishment of commission based sales teams that operate in the Bancassurance arena encountered initial implementation problems which was to be expected given the start up nature of this unit. This unit is now poised to add value with regard to customer acquisitions and assist with market share growth.

Infrastructure table

	2006	2005	% change
Representation points (branch, agencies, etc)	**680**	667	2.0
ATMs	**4 185**	3 718	12.6

Non-financial opportunities and risks

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

ISSUE	MANAGEMENT ACTION
While regulation is important, the ever-increasing and complex regulatory environment is resulting in greater allocation of corporate resources	FNB ensures that legislators are informed about the risks, challenges, and consequences of implementation by engaging with the relevant authorities either via the Banking Association or directly to corporate resources, other stakeholders (eg representation to the Department of Trade and Industry ("DTI") or Parliamentary Working Committees) as appropriate. For example, there is close co-operation with the new National Credit Regulator through industry association meetings, to jointly identify solutions relating to the implementation of the NCA.
Ongoing uncertainty in broader transformation environment regarding alignment of the Financial Sector Charter (FSC) and the DTI BEE Codes persists	Engagement with the Financial Sector Charter Council, DTI and all FSC (and other) stakeholders is ongoing to ensure transformation efforts are not hampered. Work to align FSC elements and Codes is ongoing in parallel.
The Competition Commission enquiry into the national payments system and bank charges could present an incorrect perception of industry collusion in price-setting	Please refer to the section dealing with the response to the Competition Commission enquiry on page 30 of this Operational Review.

WesBank

A division of FirstRand Bank Ltd.

RONNIE WATSON / CEO, WesBank

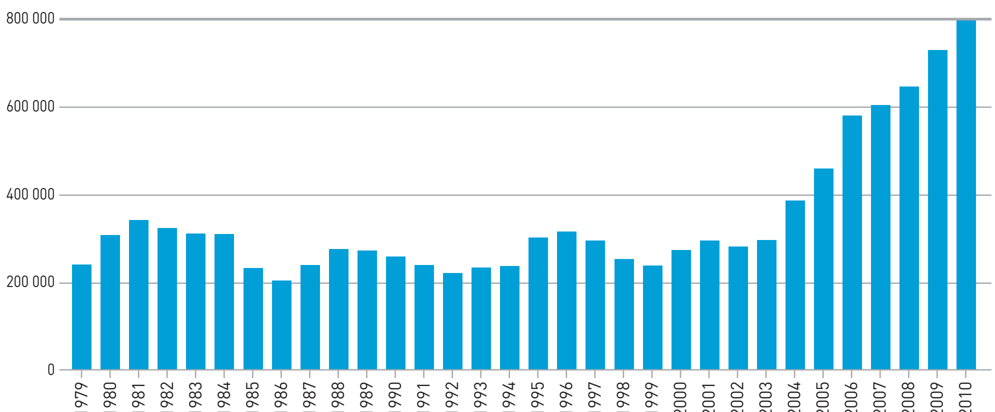
Results and commentary are on a pre-IFRS basis

	2006	2005	% change
Income before tax (R million)	**1 755**	1 404	25
Advances (R million)	**80 156**	63 318	27
Cost to income ratio (%)	**43.0**	46.8	(8)
Non-performing loans (%)	**1.2**	0.9	33

Environment

The retail motor industry showed high levels of activity, continuing several consecutive years of strong volume growth. This growth is expected to continue into the future, although not at the same rates evidenced over the past couple of years, and is likely to emanate more from the Commercial, Corporate and Government sectors, than from the consumer market. Vehicle pricing has remained fairly static throughout the financial year. The growth of new vehicle sales is depicted in the graph below, showing the extremely strong increase in volumes driven mainly by the positive economic environment and the emergence of new markets.

Motor industry
(New vehicle sales)



Source: WesBank own estimates

WesBank established relationships with several new partners in both the retail motor industry, as well as in the corporate market. This further strengthens the delivery of point of sale service to customers.

Gross domestic fixed investment and infrastructure development is providing stimulus for higher capital investment levels in the corporate market. The market remains highly competitive with pricing pressures playing a major role. Consumer indebtedness continues to increase, which has impacted on the historically low arrear levels experienced recently.

Main focus areas in 2005/2006

- International expansion remained a major focus area, with consolidation of the Motor One Finance operation in Australia, as well as the acquisition of Carlyle Finance, a retail finance operation in the UK.
- WesBank established relationships with several new partners in both the retail motor industry, as well as in the corporate market. This further strengthens the delivery of point of sale service to customers.
- Process efficiency remained a focus point in the current year. The systems and operational platform to handle the significantly increased volumes have been completed, producing the opportunity to drive major cost efficiencies into the business.
- There has been a major focus on the Financial Sector Charter and significant progress was made on both the Employment Equity and Procurement components. BEE procurement now exceeds 50%, and continues to increase. In addition, the National Credit Act was promulgated during the course of the year, and the business is well prepared for this legislation.
- WesBank commenced its securitisation programme with a R2 billion issuance during March. This programme is to be accelerated over the course of the new financial year.

Performance

WesBank had a very good year with earnings increasing 25%. This performance extends a sustained period of exceptional profit growth, with annual compound growth over the last three years of 36.5%. Growth was driven by increased market share and high new business volumes. Total new business written was R50.8 billion, an increase of 28.4%. Included in this is R700 million written in the Motor One Finance business in Australia.

On a divisional basis the Motor, Corporate, Fleet and Personal Loans divisions increased new business by 22.2%, 46.8%, 19.7% and 48.5%, respectively. The Motor division comprises 70% of total new business and its growth reflects the continued buoyancy in the motor industry. Increasing capital investment demands, as well as growth in collaborative efforts with FNB, resulted in high growth in the Corporate division. Personal Loan growth reflected the higher debt appetite in the middle-income market.

Growth was driven by increased market share and high new business volumes. Total new business written was R50.8 billion, an increase of 28.4%.

Advances increased R15.1 billion (23.9%), excluding the impact of securitisations, the growth was 22.0%. The high growth is due to new business written.

Bad debts were 0.8% of gross advances and non-performing loans 1.2% of gross advances. These figures are up from 0.5% and 0.9%, respectively in the prior year. The combination of the rise in consumer indebtedness, as well as the reduction in realisation values on vehicles as security, has caused increases in arrear and bad debt levels, but remains within WesBank's long-term target range. Provision levels have also increased in line with the IFRS provisioning requirements.

Interest margins declined from 3.61% to 3.46% due to further compression of short-term funding rates, as well as competitive pressures on customer rates.

Non-interest income increased 26.2%, driven largely by the high new business volumes and increased penetration of insurance products. WesBank Auto, the operation providing a fleet card offering, showed further growth in customer base and corresponding revenue streams.

Costs increased 18.4%, against new business growth of 28.4%. The cost to income and cost to asset ratios both improved, from 46.8% to 43.0% and from 2.39% to 2.28%, respectively. The cost increases resulted from an investment in capacity to deal with the high volumes currently experienced and expected into the future. The platform has now been built and this level of annual cost increases is not forecast to persist into the new financial year.

Areas of focus for 2007

- Growth through increased partnerships, improved market share and continued enhancement of dealer offerings;
- development of both the UK and Australian retail finance offerings;
- infrastructure development and capital expenditure running towards 2010 is expected to provide growth in the corporate market;
- major efficiency and productivity improvements;
- launch of a comprehensive fleet management offering;
- consolidation of external collection activities; and
- growth of insurance revenues and launch of additional insurance products.

Non-financial opportunities and risks

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

ISSUE	MANAGEMENT ACTION
Meeting Charter targets specifically for EE at middle management levels	Programmes focusing on recruiting suitable candidates into the front line, and other areas, of the business.
Impact of shift in legislative environment for credit (National Credit Act, etc)	Co-operating with auto sector and financial sector to engage on key issues relating to access to credit.
Customer impact of poor road and vehicle safety	Proactive stance and close collaboration with SANTACO on taxi recapitalisation; contribution towards a taxi driving academy.
Long-term environmental impact of emissions from cars	Promoting an environmentally friendly car of the year with the motor industry.

RAND MERCHANT BANK
A division of FirstRand Bank Limited

The primary drivers of this performance were the equity businesses, which excelled in buoyant equity markets.

MIKE PFAFF / CEO, Rand Merchant Bank

Results and commentary are on a pre-IFRS basis

	2006	2005	% change
Income before tax (R million)	**2 608**	1 890	38
Total assets (R million)	**162 355**	101 346	60
Cost to income ratio (%)	**37.7**	38.1	(1)

Environment

The economic environment both locally and internationally was extremely favourable for investment banking activities, with the equity markets in particular offering significant opportunities. BEE, low interest rates and booming commodity prices combined with robust economic growth counteracted the contraction of credit spreads experienced both locally and offshore. On the negative side, the significant opportunities in infrastructure finance expected from Public/Private Partnerships did not materialise in 2006. From a proprietary trading perspective, the year was characterised by a benign foreign exchange and interest rate environment which limited proprietary trading opportunities, although the final quarter saw an increase in volatility.

Divisional analysis of net profit

R million	**2006**	2005	% change
Private Equity	**826**	556	49
Equity Trading	**387**	230	68
Corporate Finance	**206**	141	46
Structured Finance	**552**	403	37
Project, Trade and Commodity Finance	**106**	121	(12)
Treasury Trading	**243**	227	7
SPJ International	**97**	117	(17)
Offshore Division	**216**	107	>100
Other	**(25)**	(12)	>100
Total	**2 608**	1 890	38

Performance

RMB delivered an exceptional performance in 2006, producing year-on-year growth of 38%. The primary drivers of this performance were the equity businesses, which excelled in buoyant equity markets. High levels of business confidence and continued BEE activity were also conducive to good originated debt and advisory performances. The proprietary trading businesses enjoyed varied success in challenging market conditions which prevailed for most of the year. However, the weakening Rand and steepening interest rate curves aided a strong close to the year for the forex and interest rate trading books. RMB's decision to invest in client relationships, and collaboration between the business units to produce innovative solutions to a broader array of clients, had a tangible impact on the bottomline.

Although the anticipated infrastructure development projects locally and regionally have not yet materialised, Project Trade and Commodity Finance's focus on Africa contributed substantially to a solid performance. The V Mobile transaction in Nigeria, for which RMB was joint lead arranger, was voted Africa Emerging Telecom Deal of the Year by Euromoney. The hard and soft commodities trading environment proved challenging in the period.

Private Equity produced outstanding results. The robust economy and a market conducive to realisations combined to drive strong growth in equity accounted earnings and profits on realisations. However, despite the realisations, a number of new investments contributed to an increase in the carrying value of the portfolio.

The robust market conditions and strong earnings projections also boosted unrealised profits in the remainder of the portfolio to R1.1 billion (2005: R1.07 billion).

Equity Trading recorded an excellent performance in 2006, posting year-on-year growth of 68%. All components of the business – trading, structuring and broking – contributed to this result. In addition, the division has successfully established a diversified offshore trading portfolio.

Corporate Finance delivered exceptional results for 2006. The mergers and acquisitions team consolidated its leading market leading position with a number of notable deals. For the second year running, RMB was the top corporate finance house according to both the Dealmakers and PricewaterhouseCoopers league tables. The Equity Capital business delivered excellent returns and the Preference Share business led the market with continued innovation.

The debt businesses made a strong comeback in 2006, in particular Structured Finance posted good earnings growth and cemented RMB's reputation as South Africa's leading debt house. This result was boosted by a very strong contribution from the recently established Property Finance division and healthy growth in fee income, achieved on the back of strong deal flow and innovative structuring solutions.

Although the anticipated infrastructure development projects locally and regionally have not yet materialised, Project Trade and Commodity Finance's focus on Africa contributed substantially to a solid performance. The V Mobile transaction in Nigeria, for which RMB was joint lead arranger, was voted Africa Emerging Telecom Deal of the Year by Euromoney. The hard and soft commodities trading environment proved challenging in the period.

Treasury Trading posted modest growth in earnings in markets that lacked volatility and direction but finished the year strongly aided by the steepening ZAR yield curve and increased volatility in the Rand.

Treasury was successful in increasing its market share in 2006. The related growth in client flows, together with more volatile markets, should provide a platform for strong growth in the coming year.

SPJ International's performance was below that of the comparable period having run down the remainder of the high yield corporate positions and reduced its exposures to emerging markets in the current environment of extremely tight credit spreads.

The Offshore Resources division comprising of a joint venture in an energy business and a resources focused, lending and investing business, delivered a record performance, doubling the prior year's contribution.

Strategic initiatives

- ***Operational transformation***

  Good progress has been made on initiatives to transform the operational environment within RMB. The programme involves a number of initiatives dealing with shorter term requirements, eg. Basel II, and longer term strategic streams designed to transform the trading systems, operations, financial reporting and market and credit risk areas.

  This programme is essential for RMB to:

  – effectively respond to the challenges of an increasingly intensive regulatory environment;
  – provide a sound base for future growth;

The debt businesses made a strong comeback in 2006, in particular Structured Finance posted good earnings growth and cemented RMB's reputation as South Africa's leading debt house.

  - minimise operational and reputational risk; and
  - ensure business units are still able to quickly respond to market opportunities.

- *Morgan Stanley JV*

  The joint venture between RMB and Morgan Stanley became operational on 1 July 2006, and provides both firms' clients with distribution capacity in the primary and secondary equity markets. The joint venture also ensures the distribution of quality equity research, drawing on both the technology and regional expertise of each of the partners.

Non-financial opportunities and risks

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

Treasury was successful in increasing its market share in 2006. The related growth in client flows, together with more volatile markets, should provide a platform for strong growth in the coming year.

THEUNIE LATEGAN / CEO, FirstRand Africa and Emerging Markets

FirstRand Africa and Emerging Markets ("FRAEM") comprises the FNB Africa subsidiaries (FNB Botswana, FNB Lesotho, FNB Namibia and FNB Swaziland) as well as a division acting as the strategic enabler, facilitator and co-ordinator for international expansion undertaken by the FirstRand brands.

Consolidated results of FNB Africa subsidiaries are on a pre-IFRS basis

	2006	2005	% change
Income before tax (R million)	**768**	653	18
Attributable earnings (R million)	**378**	313	21
Advances (R million)	**12 237**	10 671	15
Total deposits (R million)	**16 302**	9 920	64
Cost to income ratio (%)	**45.3**	47.5	(5)
Non-performing loans as a % of gross advances	**2.9**	2.7	7

Geographic contribution – Income after tax

FNB Botswana (Pula million)	**238**	194	23
FNB Botswana (R million)	**278**	257	8
FNB Namibia (R million)	**262**	216	21
FNB Swaziland (R million)	**31**	15	>100
FNB Lesotho (R million)	**(2)**	(7)	71
Total (R million)	**569**	481	18

FNB AFRICA SUBSIDIARIES – OPERATING REVIEW

Environment

The interest rate environment of Namibia, Swaziland and Lesotho closely mirrored South Africa, whilst Botswana experienced different dynamics with high inflation and high interest rates on the back of the Pula which depreciated over the year against the Rand by 12%.

These economies have all been relatively stagnant.

Performance

Despite the stagnant economies, the income after tax of the subsidiaries grew 18.3% for the financial year. New CEOs were appointed in Botswana, Namibia and Swaziland resulting in a renewed focus on growing sales and cost control initiatives. Operating expenses increased by only 6% and with revenue enhancements the cost to income ratio improved from 47.5% to 45.3%.

Total consolidated assets grew 45% and deposits increased 64% year-on-year. This growth has been dominated by the 143% growth in deposits at FNB Botswana following the revision in requirements by the Bank of Botswana only permitting commercial banks as bidders for Bank of Botswana Certificates ("BoBCs"). Asset managers, corporates and parastatals have, as a result, switched surplus funds previously placed in BoBCs to alternative deposit instruments through commercial banks.

Although non-performing loans increased to 2.9%, the levels remain well under control.

FNB Botswana

The business continued to perform well with income after tax increasing 22.7% to P238.4 million, but only 8.2% in Rand terms due to the Pula depreciation.

FirstRand seeks to identify attractive markets where niche value propositions can be established on a sustainable basis.

Non-interest income grew 22.4%. The main drivers behind this increase were the increased product offerings and resultant increase in transactional volumes, as well as growth in forex income.

Despite inflation running at 12%, operating expenses were well contained to a 10% increase and this, together with the solid non-interest revenue increase, resulted in the cost to income ratio reducing further from 38% to an excellent 35%.

Although advances grew by only 9.7%, the property portfolio performed exceptionally well growing 42%. For the reasons stated above, deposits grew 143% and assets grew 116% to P7.2 billion.

FNB Namibia

FNB Namibia is a diversified financial services group offering a wide range of banking services, unit trusts, life and short-term insurance. Brands include FNB, WesBank and RMB Asset Management, all of which provide diversified revenue sources.

Despite the moderate growth in the economy, income after tax grew 21.3% to N$262 million.

Non-interest income grew 19.2% due to the focus on sales and effective cross-selling across all businesses in the group, substantially increasing the number of accounts and transactional volumes.

Operating expenses were well controlled, increasing 10.4% with the cost to income ratio reduced to 47%.

Total assets grew 15.8% to N$9.5 billion and advances grew 17.3% to N$8 billion, predominantly driven by HomeLoans and WesBank.

In a market with tight liquidity, the strategy of diversifying the deposit base has benefited the Bank with deposits growing 16.4%, with a substantially reduced reliance on inter-group funding.

FNB Swaziland

There has been a significant turnaround in the Swaziland business compared to 2005. Whilst the economic environment remains stagnant, the restructuring efforts of local management, together with FirstRand Group support, are yielding results. Income after tax grew 106.6% to E31 million.

Non-interest income grew 33% and operating expenses were well maintained, increasing by only 7.1%. The cost to income ratio reduced to 59% after exceeding 80% in the previous year.

Total assets grew 20% to over E1 billion, advances grew 11% and deposits 22.9%. Deposit raising was, however, predominantly at the wholesale level, which had a small effect on margins.

FNB Lesotho

Despite the difficult operating environment, FNB Lesotho performed well above expectations and achieved a maiden monthly profit in December 2005, thirteen months after start-up. Further investment is planned in the year ahead which will impact costs and profitability.

The main drivers of the performance were the growth in the liability base and transactional revenues allied to the growing account base. Credit growth was in line with expectations, although off a low base, and this growth is attributed primarily to the WesBank operation.

International initiatives

Diversifying into international markets is a primary strategic objective for FirstRand. The primary responsibility to drive international expansion lies with the business units. In order to create synergies and to avoid duplication, FirstRand, through its FRAEM division, co-ordinates all international initiatives and acts as a catalyst and an enabler.

FirstRand seeks to identify attractive markets where niche value propositions can be established on a sustainable basis.

During the year, a representative office was opened in Dubai, which will facilitate trade, forex, asset management and project finance business. The opening of a representative office in Shanghai, China, with a similar aim, awaits regulatory approval.

In order to position FirstRand as a strong regional player in Southern Africa, various opportunities in SADC countries, including Angola, Mozambique and Zambia, are being pursued. Nigeria has also been identified as a potential country for expansion. In addition, Brazil and India have been identified as emerging markets offering opportunities for expansion.

Celpay, a company offering mobile transactional payment capabilities, was acquired as an alternative banking strategy in Africa. The company faces a number of challenges in Zambia and the Democratic Republic of the Congo in generating the required volumes to reach profitability. The strategic importance of this business, in the context of FirstRand's expansion strategy, as well as its financial viability, is being monitored closely.

OUT SURANCE

WILLEM ROOS / **HOWARD ARON** / Joint CEOs, OUTsurance

	2006	2005	% change
Gross premiums (R million)	**2 341**	1 901	23
Operating profit (R million)	**451**	373	21
Headline earnings (R million)	**384**	298	29
Expense/cost to income ratio (%)	**16.4**	16.2	1
Claims and OUTbonus ratio (%)	**58.3**	57.6	1
Banking Group attributable income before tax (R million)	**251**	204	23

FirstRand Bank holds 45% of OUTsurance, South Africa's leading direct short-term insurance company.

Environment

During 2006, the underwriting margins of the short-term insurance industry reduced from the highs experienced during 2004 and 2005 to more normal levels. Against this background, OUTsurance registered a good performance for the past financial year.

Main focus areas in 2006

OUTsurance's main focus continues to be its core personal-lines business and by continually improving systems and processes, consistently delivers on its promise of awesome service and value for money to clients. Essential OUTsurance, a new product aimed at the uninsured older vehicle market, was launched successfully during May 2005 and registered good sales volumes during the financial year.

Business OUTsurance achieved its maiden operating profit during 2006. New business flows increased 34% when compared to the prior financial year.

Part of the OUTsurance vision is to contribute to making South Africa a safer place. OUTsurance has sponsored 120 new traffic police vehicles, and is working closely with the authorities and Arrive Alive to reduce the high rate of road accidents in the country. OUTsurance also sponsors 22 pointsmen in the Johannesburg area, in conjunction with the Johannesburg Metro Police Department, in order to assist with traffic flows at busy intersections.

In line with FirstRand's longer term objectives, OUTsurance conducted detailed research in various international markets with a view to establishing a business off-shore.

Performance

The increase in operating profit of 21% was largely driven by growth in premium income. The latter resulted principally from growth in client numbers, as premium adjustments were contained in line with inflation.

Management and marketing expenses, as a percentage of net premium revenue, increased slightly from 16.2% to 16.4%. The main reasons for the higher costs include an increase in the development of sales channels for Business OUTsurance, as well as increased compliance costs.

The claims ratio of 58.3% (including OUTbonus costs) was 0.7 percentage points higher than the previous year. The slight increase was mainly due to weather related claims. During 2006, more normal wet weather conditions prevailed compared to the unusually clement conditions in the prior period.

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

OUTsurance maintained its profit margin, confirming the competitiveness of its low-cost direct business model and scientific rating approach.

Headline earnings for the year increased 29.4%. The higher increase compared to operating profits is due to careful cash and investment management, resulting in increased investment income.

Areas of focus for 2007

- Continued focus on maintaining strong organic growth in Personal OUTsurance and growing the Essential OUTsurance customer base;
- Further increasing new business flows in Business OUTsurance;
- Investigating the possibility of selling other financial services products under the OUTsurance brand; and
- Laying the foundations for expansion of OUTsurance's activities abroad.

Part of the OUTsurance vision is to contribute to making South Africa a safer place. OUTsurance has sponsored 120 new traffic police vehicles, and is working closely with the authorities and Arrive Alive to reduce the high rate of road accidents in the country. OUTsurance also sponsors 22 pointsmen in the Johannesburg area, in conjunction with the Johannesburg Metro Police Department, in order to assist with traffic flows at busy intersections.

Non-financial opportunities and risks

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

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

EB NIEUWOUDT / CEO Momentum

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

momentum

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MCom
CEO: Momentum

Danie Botes / 42 /
BCompt (Hons)
CEO: Middle Market Initiative

Johan Burger / 47 /
BCom (Hons), CA(SA)
CFO: FirstRand

Derek Carstens / 56 /
BEcon (Hons), MA (Cantab)
Director of Brands: FirstRand

Nigel Dunkley / 40 /
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CEO: Corporate Advisory Services

Paul Harris / 56 /
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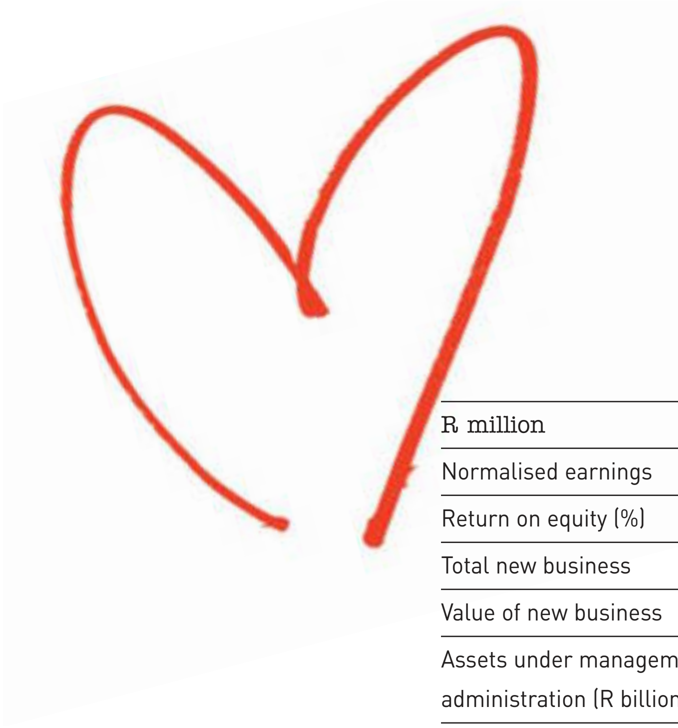


R million	2006	2005	% change
Normalised earnings	1 564	1 270	23
Return on equity (%)	24.1	24.5	
Total new business	59 403	42 689	39
Value of new business	434	368	18
Assets under management or administration (R billion)	354	269	31

Business

Momentum is an intermediary-focused company that differentiates itself from its competitors through responsible product innovation and service excellence. It achieves this by providing excellent and uncompromising service levels to its customers and intermediaries, as well as through product innovation.

Environment

Local equity markets continued to show strong gains, with the FTSE-JSE Top 40 Index increasing by 52% during the financial year, impacting positively on earnings for the year. Upward inflationary pressure resulted in two recent 50-basis point increases in the Reserve Bank's repo rate, the latter taking place subsequent to the financial year end.

The Life Offices' Association statistics regarding new business growth in the life insurance industry indicate that new recurring premium and single premium business increased by 10% and 13% respectively over the year to December 2005. Sales of new recurring retirement annuity ("RA") products, however, declined by 15% over the same period.

The financial services market is characterised by an increased focus on consumerism and products that are transparent and offer value for money. The Group is committed to proactively addressing consumer needs, which is why Momentum recently formed a sub-committee of the board specifically tasked with ensuring that the Group exhibits fairness in all its dealings with clients. This committee has non-executive board representation, as well as independent representation from outside the Group.

The benefits of the acquisition of Sage arise firstly from the positive scale impact on the administration cost per policy, and secondly from providing an agency force that is accustomed to writing business in Momentum's target market.

Main focus areas in 2005/2006

- The integration of Sage Group Limited ("Sage") into the Momentum Group has progressed well, with the conversion of 260 000 Sage policies to the Momentum IT platform being completed within a 100-day time frame. The integration of the Sage agency force into the Momentum distribution environment has also been completed, with the combined agency force increasing its contribution to new recurring premium production during the year.
- Momentum acquired the business of African Life Health ("ALH") from African Life during the 2006 financial year. The total number of principal members administered by ALH and Sovereign combined now exceeds 232 000 in South Africa. The acquisition of ALH provides access to local government and lower income schemes, which complement Sovereign's strong presence in the restricted schemes market. This acquisition also provides a firm base from which to expand the medical schemes administration business into the rest of Africa.
- Momentum acquired mCubed's remaining interest in Advantage Asset Managers ("Advantage") during the year under review. Effective 15 December 2005, WDB Holdings and Advantage's Black Staff Share Trust acquired stakes of 11.5% and 3.5%, respectively in Advantage. Momentum currently holds 85% of the issued share capital of Advantage.
- The entry into new markets in partnership with the wider FirstRand Group is progressing well. The FNB Life mass market credit life products are gaining good penetration into the Bank's client base, whilst FNB and Momentum also successfully launched a middle market product range comprising education savings and risk products under the FNB brand, using both the insurance and banking licenses. Sales of Momentum products through the FNB Financial Consultants distribution channel also increased significantly.
- Momentum Short-term Insurance ("MSTI") was successfully launched in October 2005. Its initial focus was on the independent brokers with whom Momentum already has strong relationships, as well as on Momentum's agency force. Sales volumes to date are better than expected.


Group operating results

Normalised earnings (before the once-off impact of the agreement with National Treasury), before the impact of IFRS increased by 22% to R1 567 million for the year ended 30 June 2006. Post-IFRS group headline earnings, after the impact of the agreement with National Treasury increased by 21% to R1 534 million. Earnings attributable to ordinary shareholders increased by 42% to R1 909 million.

These results were characterised by:

- strong retail new business growth, especially in individual life and discretionary lump sum investments, and in collaboration with FNB. Profit margins on new products have, however, been reduced, which, coupled with the negative impact of increased new business strain, has dampened new business profit growth;
- the positive impact of strong equity market returns;
- increased operating profits as a result of recent acquisitions. These acquisitions were funded by cash, resulting in lower investment income on shareholder assets;
- the turnaround in the loss-making international operations; and
- a significant increase in asset management earnings due to increased equity market growth and retail product inflows.

Total assets under management or administration increased by 31% to R353.7 billion mainly due to buoyant equity markets, and the acquisition of Sage.

The headline return on equity ("ROE") amounted to 24.1% (before the impact of the agreement with National Treasury and pre-IFRS), compared with 24.5% in the prior year. This ROE is in excess of Momentum's internal target, being the weighted average cost of capital plus 10%. The return on embedded value for the year was 31%.

The table opposite shows the main components of the increase in Group headline earnings, with the impact of IFRS and the agreement with National Treasury, referred to above, shown separately:

Earnings source

R million	**2006**	2005	% change
Insurance operations	**940**	685	37
– Local	**883**	726	22
– FNB collaboration	**58**	18	>100
– International	**(1)**	(59)	98
Asset management operations	**347**	247	40
– Local	**243**	178	37
– International	**104**	69	51
Group operating profit	**1 287**	932	38
Investment income on shareholders' assets	**280**	355	(21)
Normalised earnings (pre-IFRS) (unaudited)	**1 567**	1 287	22
Impact of IFRS[1]	**(3)**	(17)	82
Normalised earnings (unaudited)	**1 564**	1 270	23
Agreement with National Treasury	**(30)**	–	–
Group headline earnings	**1 534**	1 270	21

1. The impact of IFRS is mainly the change in profit recognition on investment contracts, and the adjustment of listed property subsidiary and associate investments to net asset value.

Local insurance operations

The operating profit generated by local insurance operations increased by 22% to R883 million. The strong growth in investment markets and the inclusion of earnings from new acquisitions impacted positively on the results for the year, whilst the increased new business levels, reduction in fee margins and the investment in the agency force resulted in an increased new business strain, which dampened profit growth.

It is pleasing to note that the value of new business, which represents the present value of expected future profits from new business, increased by 18% to R434 million, driven mainly by the increased new business volumes. The margin on new business, however, declined from 2.6% to 2.2%, mainly due to reduced fee charges, a change in business mix and the higher interest rates.

The benefits of the acquisition of Sage arise firstly from the positive scale impact on the administration cost per policy, and secondly from providing an agency force that is accustomed to

The acquisition of ALH provides access to local government and lower income schemes which complement Sovereign's strong presence in the restricted schemes market. This acquisition also provides a firm base from which to expand the medical schemes administration business into the rest of Africa.

writing business in Momentum's target market. A total of R64 million for Sage is included in operating profit from 1 September 2005, whilst an amount of R21 million is included in investment income on shareholders' assets, representing the income yield on the Sage shareholder assets from 1 September 2005. It should be noted that, in terms of IFRS 3, Momentum has identified intangible assets totalling R1 157 million (gross of deferred taxation) in the Sage balance sheet at the effective date, represented mainly by the value of in-force business. In terms of IFRS 3, these intangible assets must be amortised against group earnings over their useful lives. Although this will impact on future earnings, there will be no impact on the embedded value.

The Momentum Health open scheme, which is administered by Sovereign Health (Sovereign), currently has 62 300 principal members, compared with 48 500 at 30 June 2005, an increase of 28%. During the year, Momentum acquired the business of ALH from African Life. The total number of principal members administered by ALH and Sovereign combined now exceeds 232 000 in South Africa. The acquisition of ALH provides access to local government and lower income schemes which complement Sovereign's strong presence in the restricted schemes market. This acquisition also provides a firm base from which to expand the medical schemes administration business into the rest of Africa, with three additional countries (Tanzania, Ghana and Mauritius) currently being added to the five countries (Kenya, Botswana, Lesotho, Mozambique and Zambia) where ALH already operates.

Momentum Collective Benefits, the provider of group risk products to the pension fund market, benefited from an 18% increase in new business premium income. Although group life margins have reduced as a result of increased competition, group disability margins improved due to the termination of certain schemes with poor claims experience.

Momentum Short-term Insurance ("MSTI") was successfully launched in October 2005. Its initial focus was on the independent brokers with whom Momentum already has strong relationships, as well as on Momentum's agency force. Sales volumes to date are better than expected and the future prospects of this venture are positive. Momentum's attributable operating loss for the year amounted to R8 million. Further start-up losses have been included in the business plan for the coming year.

Momentum acquired the remaining stake of mCubed in Advantage, which brings Momentum's total stake to 85%. At 30 June 2006, Advantage's total assets under management amounted to R52 billion (2005: R39 billion).

FNB collaboration

The disposal of Momentum's stake in African Life is in line with the preferred strategy of targeting the mass and middle income market using the FNB brand and distribution channels, rather than through a traditional life insurance distribution model. This strategy has delivered strong growth in sales through FNB, specifically in the mass market through FNB Life. The middle market initiative, Aspire, launched a number of new products during the year, using both the banking and insurance licences, and production continues to increase steadily. These collaboration efforts increased their contribution to earnings after tax from R18 million to R58 million, driven mainly by the increased new business volumes.

International

The back-office function of Momentum's offshore retail-linked product provider was relocated from the UK to South Africa in order to leverage the existing local infrastructure. This resulted in a turnaround in the earnings from offshore operations, from a loss of R59 million incurred during the prior year to a R1 million loss during the current year.

Asset management operations

The asset management operations comprise the institutional asset management and unit trust operations of RMB Asset Management (RMBAM), RMB Properties (RMBP) and 87% of Ashburton. The group's 40% shareholding in Futuregrowth was sold to Wiphold, the majority shareholder, during the current year.

The asset management operations generated an increase in headline earnings of 40% to R347 million. The local asset management operations, represented mainly by RMBAM, generated an excellent 37% increase in headline earnings. Strong market growth in the institutional business, offset marginally by a net outflow of funds, has resulted in increased asset values and consequently higher fees, whilst unit trust net inflows also had a positive impact on income levels.

The focus in the institutional business has been on marketing the capabilities of RMBAM's Customised Solutions team, as well as the on-balance sheet product range. The focus on the on-balance sheet business has resulted in over R650 million flowing into these products during the year. The withdrawal of the African Life assets following Momentum's disposal of its stake has impacted negatively on off-balance sheet funds under management.

Investment income on shareholders' assets

The investment income earned on shareholders' assets decreased by 21% to R280 million. The acquisitions of Sage, Sovereign (acquired 1 June 2005), Advantage and ALH, together with the repayment of loans relating to the funding of international operations, resulted in a reduction in investment income. The net cost of the preference share and bond issues, as well as the start-up loss on MSTI also contributed to reduced investment income for shareholders.

An analysis of the investment income earned on the shareholders' portfolio investments is set out in the following table:

Investment income on shareholders' portfolio investments

R million	2006	2005
– African Life (34%)	47	96
– Fixed interest instruments	76	57
– Preference shares	43	35
– Equities	30	20
– Properties	2	–
– Share trust and subsidiary loans	34	39
– Cash and near cash	63	108
– Debt	(15)	–
Total investment income on shareholders' portfolio investments	280	355
– Momentum	259	355
– Sage	21	–

Momentum Short-term Insurance ("MSTI") was successfully launched in October 2005. Its initial focus was on the independent brokers with whom Momentum already has strong relationships, as well as on Momentum's agency force.

Agreement with National Treasury

The total impact on Momentum and Sage of the agreement with National Treasury that was reached on 12 December 2005, amounts to R196 million after tax. The impact on Momentum is R108 million, with the balance representing Sage.

As a provision of R78 million after tax already existed at 30 June 2005, the full balance of the Momentum charge of R30 million after tax has been taken against current year earnings. The impact on Sage has been accounted for in pre-acquisition earnings.

Momentum will continue to actively manage the level and composition of its capital base to maximise the value created for its shareholder.

Momentum is well advanced in adapting its systems ahead of the implementation date of the agreement reached with National Treasury regarding minimum standards on early termination values.

Capital management

The excess of assets over liabilities of Momentum Group Limited, calculated on the statutory valuation method, amounted to R6 041 million (June 2005: R4 510 million). The capital adequacy requirement ("CAR") of R1 978 million was covered 3.1 times (June 2005: 2.2 times) by the excess of assets over liabilities. This is in excess of the targeted capitalisation level of between 1.8 and 2.2 times CAR. Momentum will continue to actively manage the level and composition of its capital base to maximise the value created for its shareholders. A special dividend of R500 million has been declared to FirstRand on 30 June 2006, and a final dividend of R1 billion will be declared to FirstRand to bring the CAR cover closer to the targeted range.

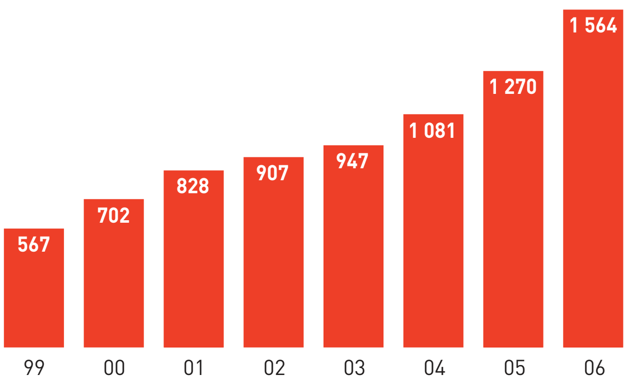
Momentum issued R500 million in preference shares, and R1 billion in unsecured subordinated debt during the year, resulting in a significant reduction in the weighted average cost of capital from 12.4% to 10.8%. The FSB has approved the inclusion of this R1.5 billion in capital for statutory purposes, which has also contributed to the increased CAR cover.

Main focus areas for 2007

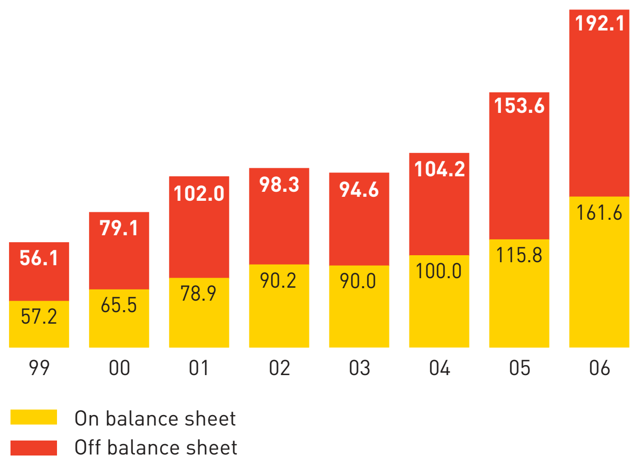
- Focus on growing the newly formed short-term insurance, as well as the middle and mass market collaboration initiatives with FNB.
- The extraction of efficiency benefits from the new acquisitions.
- Continued focus on providing good value for money to customers through product innovation, awesome service and sound financial advice.
- As expected, the new tied agency force is not yet operating at optimum capacity. It does, however, provide a platform for growth in future new business in an area of the market where Momentum has not traditionally been well represented. The focus will therefore be on increasing the productivity of the agency force.
- The acquisition of ALH provides a firm base from which to expand the medical schemes administration business into the rest of Africa, with three additional countries (Tanzania, Ghana and Mauritius) currently being added to the five countries (Kenya, Botswana, Lesotho, Mozambique and Zambia) where ALH already operates.



Normalised earnings
(R million)



Assets under management or administration
(R billion)



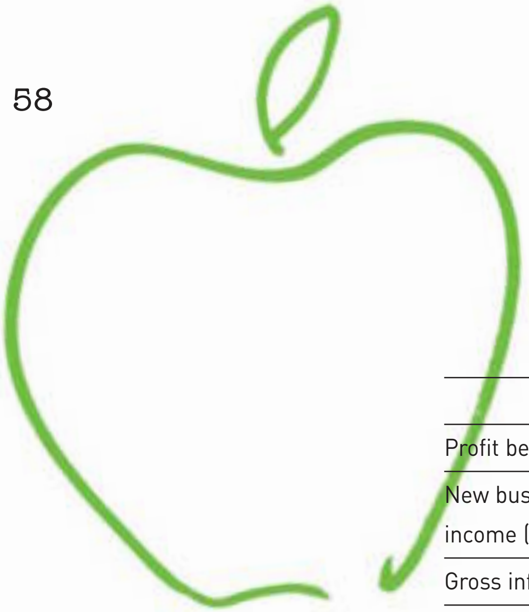
Non-financial opportunities and risks

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

IDENTIFIED RISK	MANAGEMENT ACTION
FAIS, National Credit Act, Consumer Protection Bill and other legislation	Momentum continues to address compliance with applicable legislation and industry codes. A dedicated FAIS compliance unit is operational and involved in all aspects of FAIS compliance. We have applied for registration as a Credit Provider in terms of the National Credit Act. Further analysis of the Consumer Protection Bill will be conducted.
The impact of new commission regulation, such as paying of annual commission on recurring investment products, rather than up-front commission	Management is investigating various alternatives. New products, such as the Investo range, already include the option of as-and-when commission, and the take-up to date has been encouraging. Momentum is actively involved with the National Treasury proposals via its LOA membership. Furthermore, Momentum provides health and short-term product ranges which increase the as-and-when commission stream of brokers and agents, thereby reducing the potential impact of the proposed changes.
Achieving Employment Equity ("EE") targets as set out in the Financial Sector Charter ("FSC")	Momentum is currently focusing on the retention and career development of all key black staff, especially those in the senior and middle management levels of the FSC. Each business unit has submitted comprehensive EE plans that will ensure that the FSC targets are met. The plans will be monitored and reported to management on a monthly basis to ensure the correct level of focus and attention is afforded to this matter.

ADRIAN GORE / CEO Discovery

Discovery's focus on meeting consumers' needs through innovation results in organic growth.



	2006	2005	% change
Profit before tax and BEE (R million)	**1 237**	853	45
New business annualised premium income (R million)	**4 479**	4 342	3
Gross inflows under management (R million)	**20 427**	17 295	18

Environment

The year under review has been a successful one for Discovery, with important developments in each of its businesses, strong earnings growth and the declaration of a maiden dividend. The Group's core purpose of "making people healthier and enhancing and protecting their lives" imposes an ethos wherein always meeting clients' needs first and foremost leads to superior growth and profitability. The year under review illustrates the continued efficacy of this approach. As in previous years, all of Discovery's businesses focused intensely on significant developments and innovations designed to meet specific client needs in rapidly changing markets – resulting in strong organic growth.

Discovery has consistently followed a philosophy of pursuing organic growth, funded from internal resources without recourse to debt. Discovery is now in a position of having built both scale and platforms for future growth, but is now concurrently strongly cash-generative. Discovery Life's significant growth since its commencement in 2001 required substantial investment of the Group's cash resources. The company is now turning cash flow positive and so, while Discovery will continue to aggressively pursue a wide range of new initiatives, the Group is expected to be cash-generative going forward. The level of the maiden dividend has been set taking into account Discovery's future capital and growth needs.

As in previous years, all of Discovery's businesses focused intensely on significant developments and innovations designed to meet specific client needs in rapidly changing markets – resulting in strong organic growth.

The Group's core purpose of "making people healthier and enhancing and protecting their lives" imposes an ethos wherein always meeting clients' needs first and foremost leads to superior growth and profitability.

Performance

Headline earnings before BEE expenses increased 36% to R692 million. Annualised recurring new business production exceeded expectation, increasing 3% to R4.5 billion (2005: R4.3 billion). Embedded value increased 15% driven by strong new business and enhanced efficiencies.

Discovery Life

Discovery Life's performance exceeded expectation. The core driver of Discovery Life's performance is the leadership position that it has achieved in the protection market. Discovery's ethos of focusing on clients' needs first has translated into a strategy that leads to both growth and profitability. The key success factors in this market are price competitiveness and product innovation, which lead to growth, superior mortality and morbidity experience and higher levels of persistency. During the year, the launch of the Discovery Life Card Integrator, which integrates the DiscoveryCard with the Discovery LIFE PLAN in order to achieve lower premiums, was a further step in using Discovery's unique product platform to generate value for clients, while creating a strong product differentiation. A substantial portion of Discovery Life's profitability was generated from mortality and morbidity profits, illustrating the success of the strategies followed.

The significant embedded value of the new business transacted, combined with the positive experience variances of the in-force embedded value, reflects the quality and scale of the company's protection business.

During the year, Discovery Life entered the retirement funding market with the launch of the Discovery Retirement Optimiser. While still early in its evolution, the company estimates that its market share of new business amounted to approximately 17% of the independent broker recurring premium retirement annuity market, in just its first year of entry. Given this, Discovery Life is evaluating a broader long-term savings offering.

Discovery Life's joint protection initiative with the Prudential plc was launched into the UK assurance market during July 2006. The strategy followed was a controlled roll-out to select broker houses to ensure that both Discovery Life and Prudential could gain a deep and rapid insight into the dynamics of the market to ensure success, given the fundamental differences to existing products that the joint protection product represents. Early signs are positive and Discovery Life remains cautiously optimistic for the prospects of this initiative. The financial structure of the joint venture requires limited capital for infrastructural development from Discovery, but exposes Discovery to the upside of the embedded value created.

Discovery Health

Discovery Health's performance was pleasing. Operating profit increased 20% to R655 million (2005: R548 million) and the number of lives covered on the Discovery Health Medical Scheme and other medical schemes under management increased 8% to 1.94 million from 1.78 million.

Discovery Health's purpose is clear: to create affordable access to quality healthcare on a sustainable basis for its clients. It is uniquely positioned to do so due its size and unique assets. The size of the DMHS is now 3.8 times greater than that of its nearest competitor, and just this year's growth is larger than the fourth largest medical scheme in the market.

During the year under review, considerable progress was made in discussions with hospital and other provider groups toward the managing of healthcare costs, which continue to increase at stubbornly high medical inflation rates, despite a lower price inflation environment. The company is close to launching a series of provider initiatives aimed at providing quality care at affordable and sustainable rates, while ensuring members' service experience is positive and effortless. It is anticipated that these developments will benefit members directly and will further serve to entrench Discovery Health's competitive position, enabling future growth.

The company continued its growth in the lower income market through its KeyCare product range and to this end formed a proprietary network of 2 055 doctors and 64 hospitals specifically to care for KeyCare members.

Considerable investment in operations and technology was made in the previous year, and this yielded substantial results during the year under review. Discovery Health's business is of a highly transactional nature, with large volumes of administrative transactions taking place every day. In this context, the implementation of a small number of well-executed initiatives can have a significant impact. Service levels reached highest levels yet, and importantly, substantial efficiencies emerged, with staff headcount per thousand lives covered reducing by 13.2% over the year. The combination of organic growth and expense efficiencies drove the increase in operating profit.

Destiny Health

Destiny Health's performance was disappointing for the financial year, although its performance for the last six months was in line with expectations set at the interim results stage. Operating losses increased 68% to R151 million (2005: R90 million) and recurring premium new business reduced 2% to R796 million (2005: R809 million).

Discovery Health's purpose is clear: to create affordable access to quality healthcare on a sustainable basis for its clients. It is uniquely positioned to do so due its size and unique assets.

The poor performance reflects a significant shift in the competitive dynamics of the markets in which Destiny operates. While the concept of Consumer-driven Healthcare continues to grow significantly in the US health insurance markets – presenting a substantial and unique opportunity for Discovery given the Group's experience and capabilities – it became clear during the first six months of the year that Destiny was poorly positioned to make positive progress. A positive underwriting cycle and significantly deeper discounts available to the major competitors, created an environment in which Destiny is simply not price competitive – particularly in Illinois, Destiny's major market – resulting in slow growth and worse-than-expected loss ratios.

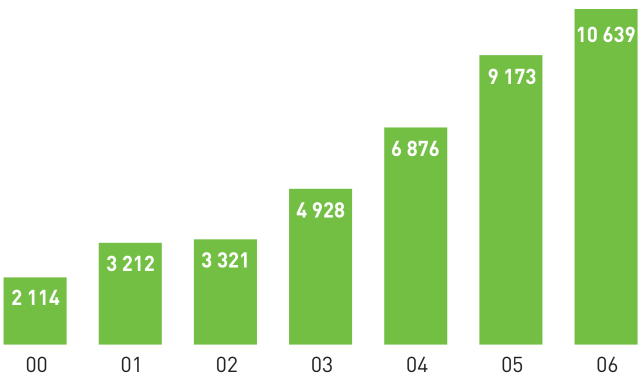
In addition, Destiny's pace of expansion into other markets where it could compete was inadequate and contingent upon partner influences. Since the half year, substantial steps have been taken to address the situation:

- The appointment of a new CEO
- A focus on appropriately increasing premium rates to address the elevated loss ratio and return it to the correct level
- A mutual agreement with Tufts Health Plan to terminate the joint venture to allow for correct focus on growth opportunities
- A significant scaling down of the operations to reflect the realities of the business
- The recruitment of senior resources
- A focus on obtaining competitive network discounts
- The expansion into more promising markets, such as Texas

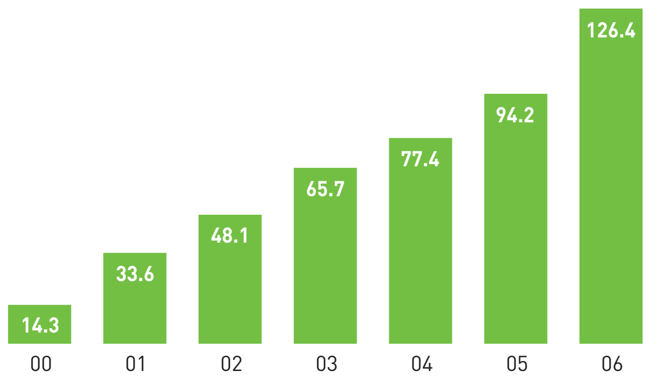
The resulting operating losses reflect the tail-end of the issues, and the steps taken have had a significant impact. It is anticipated that the emerging losses will be minimised and reduced rapidly.

However, Discovery has made the decision that the business model and strategy is not sustainable and must change. Discovery, Destiny Health and the Guardian Life Assurance Company of New York (Destiny Health's exclusive distribution partner in the US) are in the process of revisiting the partnership arrangement. Potential changes may include a construct wherein Destiny will provide the intellectual capital and an operational platform for the Guardian in return for a fixed fee per member in some states in the US, while Destiny Health will market its own products in other US states. However, it must be stressed that any growth outside of this will be opportunistic, confined to those markets where competitive pricing can be obtained and will be pursued with great care to limit any downside.

Embedded value
(R million)



Diluted headline earnings per share before BEE expenses and abnormal items
(Cents)



Vitality and the DiscoveryCard

Vitality performed well over the period. Operating profit increased 11% to R41 million (2005: R37 million), Vitality membership increased 7% to 522 516 members (2005: 486 416 members), and the number of primary DiscoveryCard-holders increased 120% to 307 688 (2005: 139 563).

Vitality's function is foundational across Discovery, and focus continues to be applied to ensuring that its structure achieves the correct levels of engagement and behavioural change. Its performance in this regard and in creating a competitive advantage for all of Discovery's businesses has been remarkable. To ensure continual improvement, many of the benefit structures were reworked during the year, most notably the introduction of kulula.com as an air travel partner in addition to British Airways. This strengthens the incentives for members to engage in healthy behaviours, thereby boosting their Vitality statuses. The number of Vitality flights booked on kulula.com per day exceeds 1 000 – which is greater than the historic total monthly usage of the British Airways flight benefit. Over 200 000 Vitality members are now actively training at the gyms in the Vitality network.

The growth of the DiscoveryCard has been pleasing. Its central purpose is to offer a platform for both Discovery Health and Discovery Life to enhance their value propositions for their clients. This has been a particularly successful strategy and the launch of the Discovery Life Card Integrator during the year is a clear and powerful illustration of this. In addition to this, the DiscoveryCard represents a powerful entry into the credit card marketplace and the growth of the advances portfolio to in excess of R1.1 billion is testimony to its success. Discovery remains confident and optimistic that its value proposition places it in a uniquely competitive position. Discovery expects continued evolution and growth from and through the DiscoveryCard.

PruHealth

The performance of PruHealth, Discovery's 50% joint venture with the Prudential plc, was particularly pleasing. Members covered increased 696% to 58 912 (2005: 7 400), while new business increased by 705% to R282 million (2005: R35 million).

During the year under review, the company has made a significant impact on the UK private medical insurance ("PMI") market. It has taken a product leadership position and its operational execution has been robust and thorough. The central Vitality philosophy of incentivising better health has been exceptionally well received in the marketplace and is wholly consistent with government policy and practice. The impressive levels of new business production over the year reflect a successful strategy in every respect.

PruHealth distributes its products through both broker ("IFA") and direct-to-consumer ("D2C") distribution channels. The IFA channel has been remarkably receptive from the outset and over the year exceeded set targets, with continued growth in both depth and breadth. A pleasing development during the year has been the increasing success of the D2C channel and, in particular, the online channel. Importantly, the D2C channel attracts individual business, which is significantly more profitable. This bodes well for future growth and profitability.

From an actuarial perspective, a central strategy designed to ensure price competitiveness is the use of the Vitality structure

The DiscoveryCard represents a powerful entry into the credit card marketplace and the growth of the advances portfolio to in excess of R1.1 billion is testimony to its success.

to induce greater persistency, thereby leading to superior durational morbidity experience. Early indications are positive, with 100% of small and medium size companies ("SMEs") renewing their coverage.

Going forward, PruHealth is well positioned for continued growth. It is pursuing a number of key strategies, including the broadening of its distribution channels to the generalist IFAs and an acceleration of its D2C execution.

Non-financial opportunities and risks

Discovery recognises the importance of understanding and managing the non-financial risks that could potentially have an impact on its business and by extension, stakeholders. Discovery proactively works to identify these risks and puts processes in place to ensure effective management. There is regular communication with stakeholders about key aspects of the business and actions taken to address any issues of concern are detailed in the table below.

ISSUE	MANAGEMENT ACTION
Reputation for Good Customer Service and Value-for-Money	**Service** Discovery focuses on service across all its businesses. Some of the key focus areas are: • Exceeding call centre best practice • Multi-skilled consultants • Fast payment of claims • Simplicity and familiarity The website is Discovery's online service platform for all stakeholders, offering extensive service functionality. **Value-for-money** Both initial affordability and ongoing sustainability of premiums are important. Discovery Health has given members consistently stable increases over the past decade. Discovery Life's integrated products cover the entire risk-spectrum, allowing its policyholders to consolidate their risk cover and take advantage of significant savings.
Impact of different targets relating to Financial Sector and Health Sector Charters	Discovery is on target to meet all the targets set by the Financial Sector Charter.
Complex and high profile regulatory environment	Discovery has found in all instances that proactive and ongoing engagement with the regulatory bodies responsible for the industries to be the most effective means of ensuring that the company stays abreast of proposed regulatory changes and make appropriate inputs to represent the interests of the stakeholders.
HIV/AIDS impact on customer base	The impact of HIV/AIDS is both measurable and manageable in relation to the client base. Discovery Health announced a comprehensive new HIV-management programme on 19 September 2006, which provides corporates with the tools to actively measure and manage the impact of HIV/AIDS within their business. Discovery Health HIV Care forms part of Discovery Vitality Wellpoint, a new corporate wellness programme for employers. Wellpoint's HIV programme includes surveys, HIV Education, an awareness, voluntary counselling and testing programme, medical advice and counselling, and policy development. The HIV disease management programme also gives access to ARVs, doctor consultations and pathology, as well as support for employees with HIV.

VALUE ADDED STATEMENT
for the year ending 30 June 2006

	2006 R million	2006 %	2005 R million	2005 %
Value added				
Net interest income earned by FirstRand Banking Group	9 304	11.2	8 791	16.0
Net premium income and fees earned by Momentum	40 621	49.0	19 606	35.6
Net income earned by Discovery	2 676	3.2	2 369	4.3
Net loss by FirstRand Limited	(127)	(0.1)	(290)	(0.5)
Value added by Group	52 474	63.3	30 476	55.4
Non-operating income	38 056	45.9	32 904	59.8
Non-operating expenditure	(7 631)	(9.2)	(8 375)	(15.2)
Valued added by Group	82 899	100	55 005	100
To employees				
Salaries, wages and other benefits	10 230	12.3	7 882	14.3
To providers of capital				
Dividends to shareholders	4 988	6.0	2 835	5.2
To Government	4 306	5.2	2 387	4.3
Normal taxation	3 068	3.7	1 191	2.2
Value-added tax	578	0.7	502	0.9
Regional services levy	70	0.1	120	0.2
Capital gains tax	410	0.5	293	0.5
Other	180	0.2	281	0.5
To policyholders				
Policyholder claims and benefits	57 348	69.2	34 362	62.5
Insurance contracts	5 811	7.0	8 662	15.8
Investment contracts	23 488	28.4	10 413	18.9
Adjustment to liabilities under investment and insurance contracts	28 049	33.8	15 287	27.8
To expansion and growth	6 027	7.3	7 539	13.7
Retained income	4 220	5.1	5 179	9.4
Depreciation	892	1.1	721	1.3
Deferred taxation	915	1.1	1 639	3.0
	82 899	100	55 005	100


1. GT Ferreira


2. PK Harris


3. VW Bartlett


4. DJA Craig


5. LL Dippenaar


6. DM Falck


7. PM Goss


8. NN Gwagwa


9. MW King


10. YI Mahomed


11. G Moloi

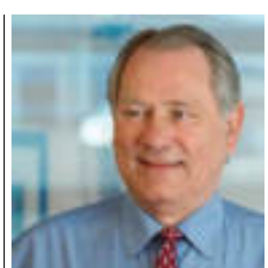

12. AP Nkuna


13. SE Nxasana


14. SEN Sebotsa


15. KC Shubane


16. BJ van der Ross


17. F van Zyl Slabbert


18. RA Williams

1. Gerrit Thomas Ferreira / 58 / **Non-executive chairman** / BCom, Hons B (B&A), MBA / Appointed May 1998

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

FirstRand – memberships / Directors' Affairs and Governance Committee / Remuneration Committee

Directorships – FirstRand Bank Holdings – Chairman / Glenrand MIB / Momentum Group / RMB Holdings – Chairman

2. Paul Kenneth Harris / 56 / **Chief executive officer** / MCom / Appointed May 1998

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

FirstRand – memberships / Executive Committee – chairman

Directorships / FirstRand Bank Holdings / Momentum Group Remgro Limited / RMB Holdings

3. Vivian Wade Bartlett / 63 / **Non-executive** / AMP (Harvard), FIBSA / Appointed May 1998

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

FirstRand – memberships / Directors' Affairs and Governance Committee / Financial Sector Charter and Transformation Monitoring Committee

Directorships – CEMEA Regional Visa International – Chairman / FirstRand Bank Holdings / Makalani Holdings Limited – Chairman / FirstRand STI Holdings / Visa International

4. David John Alastair Craig / 58 / **Independent non-executive** / British / Appointed May 1998

David Craig is Managing Director and Chief Investment Officer of Sand Aire Limited, a large multi-family investment management office located in London.

He held the position of director – International Capital Markets Division at Hambros Bank until 1979 when he left to help set up JP Morgan Securities. In 1983, holding the position of chief executive designate, he left in order to set up IFM Trading, the first major hedge fund group in London, where he was CEO until the time of its sale in 1994. He served as Chairman of Northbridge Management from 1995 until its merger with Sand Aire in 2006.

FirstRand – memberships / Directors' Affairs and Governance Committee

Directorships – Northbridge Management – Chairman / Sand Aire Limited – MD and CIO / Various international private companies

5. Lauritz Lanser Dippenaar / 57 / **Non-executive director** / MCom, CA(SA) Appointed May 1998

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

FirstRand – memberships / Directors' Affairs and Governance Committee / Remuneration Committee

Directorships – Discovery Holdings – Chairman / FirstRand Bank Holdings / Momentum Group – Chairman / FirstRand STI Holdings – Chairman / RMB Asset Management / RMB Holdings

6. Denis Martin Falck / 60 / **Non-executive** / CA(SA) / Appointed February 2001

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

FirstRand – memberships / Directors' Affairs and Governance Committee

Directorships – FirstRand Bank Holdings / Remgro / RMB Holdings / Trans Hex Group.

7. Patrick Maguire Goss / 58 / **Independent non-executive** / BEcon (Hons), BAccSc (Hons), CA(SA) / Appointed May 1998

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

FirstRand – memberships / Directors' Affairs and Governance Committee – Chairman / Remuneration committee – Chairman

Directorships – AVI Limited / FirstRand Bank Holdings / Lewa Wildlife Conservancy (Kenya) / RMB Holdings

8. Nolulamo (Lulu) Gwagwa / 47 / **Independent non-executive** / BA (Fort Hare), MTRP (Natal), MSc (cum laude) (London), PhD (London) / Appointed February 2004

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

FirstRand – memberships / Directors' Affairs and Governance Committee / Financial Sector Charter and Transformation Monitoring Committee

Directorships – ACSA / Development Bank of South Africa / Sun International

9. Michael Wallis King / 69 / **Independent non-executive** / CA (SA), FCA / Appointed May 1998

Mike King was educated at St John's College and the University of Witwatersrand. He qualified as a chartered accountant with Deloittes. In 1961 he joined Union Acceptances, and was deputy managing director from 1972 to 1974. He left to join Anglo American Corporation of South Africa, and was finance director from 1979 to 1997. He became executive deputy chairman in 1997, executive vice-chairman of Anglo American plc in 1999, and retired in May 2001. He served on the board of Barclays Bank DCO South Africa, whose name was changed in 1987 to First National Bank of Southern Africa.

FirstRand – memberships / Audit Committee – Chairman / Directors' Affairs and Governance Committee / Remuneration Committee

Directorships – FirstRand Bank Holdings / African Rainbow Minerals / Sturrock and Robson Holdings / Teal Exploration & Mining Inc / The Tongaat-Hulett Group

10. Yunus Ismail Mahomed / 55 / **Independent non-executive** / BProc, MBA / Appointed May 2005

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

FirstRand – memberships / Directors' Affairs and Governance Committee / Financial Sector Charter and Transformation Monitoring Committee

Directorships – Kagiso Media Limited / Various private companies

11. Gugu Moloi / 38 / **Independent non-executive** / BA (Law), MA (Town and Regional Planning), Diploma (General Management) / Appointed February 2004

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

FirstRand – membership / Directors' Affairs and Governance Committee

Directorships – Iman Africa / Soul City Investment Company

12. Aser Paul Nkuna / 54 / **Independent non-executive** / AMP (Wits Business School) / Appointed May 2005

Paul Nkuna started his career as a teacher and joined the mining industry in 1977. Since 1984, has been involved with the trade union movement. He was the National Treasurer of the National Union of Mineworkers for ten years and was vice-president for the Federation of Mineworkers on the African continent. He was active in the transitional local government negotiations and served as chairman of the management committee in Brakpan. He was involved in the formation of the Gauteng Local Government Association ("GALA") and the South African Local Government Association ("SALGA") and served as an executive member of both. He joined the Mineworkers' Investment Company as executive chairman in 1997 and is currently chief executive officer.

FirstRand – memberships / Directors' Affairs and Governance Committee / Financial Sector Charter and Transformation Monitoring Committee

Directorships – BP South Africa – Alternate director / Council for Geoscience / Masana Petroleum Solution Mathomo / Chairman / Metrofile (Pty) Ltd / Primedia Broadcasting – Chairman / SA Airways / Tracker Investment Holdings

13. Sizwe Errol Nxasana / 48 / **Non-executive director** / BCom, BAccSc (Hons), CA(SA) / Appointed January 2006

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

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

FirstRand – memberships / Executive Committee / FirstRand Foundation – Chairman

Directorships – FirstRand Bank Holdings – CEO / Zenex Trust

14. Sonja Emilia Ncumisa Sebotsa / 34 / **Independent non-executive** / LLB (Hons) LSE, MA (McGill), SFA / Appointed May 2005

Sonja Sebotsa's areas of study were in Law, Business and Economics. She started her career in investment banking at Deutsche Morgan Grenfell, Johannesburg in 1997 working on M&A transactions, privatisations and BEE deals. She left Deutsche Bank almost six years later, after having spent some time working in their London and Tokyo offices. Leaving Deutsche Bank as a vice president in late 2002 she took up an executive position with the WDB Group where her role largely involves negotiating and executing BEE transactions on behalf of the WDB's sole shareholder, the WDB Trust.

FirstRand – memberships / Directors' Affairs and Governance Committee / Financial Sector Charter and Transformation Monitoring Committee

Directorships – Adcorp Holdings / Makalani Holdings / Paracon Holdings / Willis South Africa

15. Khehla Cleopas Shubane / 50 / **Independent non-executive** / BA (Hons), MBA / Appointed May 1998

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

FirstRand – memberships / Directors' Affairs and Governance Committee

Directorships – Aviation Insurance Company / Benfield / Businessmap Foundation / FCB South Africa / Nurcha / RMB Holdings

16. Benedict James van der Ross / 59 / **Independent non-executive** / Dip Law (UCT) / Appointed May 1998

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

FirstRand – memberships / Audit Committee / Directors' Affairs and Governance Committee / Financial Sector Charter and Transformation Monitoring Committee – Chairman / Remuneration Committee

Directorships – FirstRand Bank Holdings / Lewis Stores / Makalani Holdings / Momentum Group / Nasionale Pers / Pick 'n Pay Stores / RMB Asset Management – Chairman / Strategic Real Estate Management – Chairman

17. Frederik van Zyl Slabbert / 66 / **Independent non-executive** / BS, BA Hons (cum laude), MA (cum laude), DPhil / Appointed November 2001

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

FirstRand – memberships / Directors' Affairs and Governance Committee

Directorships – Adcorp – Chairman / CTP Caxton – Chairman

18. Robert Albert Williams / 65 / **Independent non-executive** / BA, LLB / Appointed May 1998

Robbie Williams qualified at the University of Cape Town and joined Barlows Manufacturing Company where he became the managing director in 1979. In 1983, he was appointed chief executive officer of Tiger Brands and in 1985 he was appointed chairman of CG Smith Foods and Tiger Brands. Following the unbundling of CG Smith, he remained chairman of Tiger Brands until 2005. He is currently chairman of Illovo Sugar Limited.

FirstRand – memberships / Directors' Affairs and Governance Committee / Remuneration Committee

Directorships – FirstRand Bank Holdings / Illovo Sugar – Chairman / Nampak / Oceana Group / Pescanova

Paul Harris / 56 /
MCom
CEO: FirstRand

Johan Burger / 47 /
BCom (Hons), CA(SA)
CFO: FirstRand

Derek Carstens / 56 /
BEcon (Hons), MA (Cantab)
Director of Brands

Peter Cooper / 50 /
BCom (Hons), CA(SA),
H Dip Tax
COO: RMB Holdings Limited

Adrian Gore / 42 /
BSc (Hons), FFA, ASA, MAAA,
FASSA
CEO: Discovery Holdings Limited

Michael Jordaan / 38 /
MCom (Economics)
PhD (Banking Supervision)
CEO: First National Bank

Theunie Lategan / 49 /
DCom; CA(SA)
Advanced Diploma Banking
CEO: FirstRand Africa and
Emerging Markets

Zweli Manyathi / 44 /
BCom (Hons) Professional
Development Programme (NY)
Sen Exec Prog (HBS and WBS)
CEO: FNB Branch Banking

Sam Moss / 46 /
BA (Hons) UK; MA
(Exeter University), Director of
Investor Relations, FirstRand

Yatin Narsai / 40 /
BSc Hons
CEO: FNB Smart Solutions
and CIO

EB Nieuwoudt / 44 /
MCom
CEO: Momentum Group

Sizwe Nxasana / 48 /
BCom, BCompt (Hons), CA(SA)
CEO: FirstRand Banking Group

Michael Pfaff / 44 /
BCom, CA(SA), MBA (Duke
University)
CEO: Rand Merchant Bank

Willem Roos / 34 /
BCom (Hons), FIA
CEO: OUTsurance

Zelda Roscherr / 39 /
BSc (Maths), BCom (Hons)
Group Treasurer

Ronnie Watson / 59 /
AMP (Harvard)
CEO: WesBank

Governance ethos

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

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

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

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

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

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

Across the Group, strategies are developed in each of the business units for effective engagement and communication with their specific stakeholders. These include segment based customer groups, employees, suppliers, regulatory and industry bodies and the communities in which they operate.

The board of directors and its committees

Composition

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

At 30 June 2006, the board of FirstRand comprised 18 directors. One of the directors is executive, a further five are defined as non-executive and the balance are regarded as independent non-executive directors. The board includes three women. Eight of the directors are classified as black in terms of the Financial Sector Charter. Three of the directors represent FirstRand's three broad-based Black Economic Empowerment partners. These directors were nominated by the Trusts they represent, but their appointment was subject to the approval of the rest of the board and the shareholders in general meeting. For this reason they are classified as independent non-executive directors in this report. The profiles of the directors appear on pages 64 to 67 of this report.

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

Appointment of directors

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

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

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

Board proceedings

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

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

	Sept 2005	Nov 2005	**Feb 2006**	**May 2006**	**June 2006**
GT Ferreira (Chairman)	√	√	√	√	√
VW Bartlett	A	√	A	√	√
DJA Craig	√	√	√	√	A
LL Dippenaar	√	√	√	√	√
DM Falck	√	√	√	√	A
PM Goss	√	√	√	√	A
N N Gwagwa	√	√	√	√	√
PK Harris	√	√	√	√	√
MW King	√	√	√	√	√
YI Mahomed	√	√	√	√	√
G Moloi	√	√	√	√	√
AP Nkuna	√	√	√	√	√
SE Nxasana – Appointed January 2006	A	A	√	√	√
SEN Sebotsa	√	√	√	√	√
KC Shubane	√	√	√	A	√
BJ van der Ross	√	√	√	√	√
F van Zyl Slabbert	√	√	√	√	√
RA Williams	√	√	√	√	√

A = apologies

From 4 June 2006 until 18 August 2006, Mr PM Goss was out of the country and was granted leave of absence. No fees accrued to Mr Goss during this period.

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

Role and function of the board

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

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

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

Subsidiary boards and board committees

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

FirstRand holds 57% of Discovery Holdings, which is separately listed on the JSE Limited. While Discovery reports directly to its shareholders and the Stock Exchange, its corporate governance procedures are the same as those practised by FirstRand.

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

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

Executive Committee

Role

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

Composition

EXCO is chaired by the chief executive of FirstRand. Membership of EXCO includes the CEO's of the major subsidiaries and operating divisions, the group chief financial officer and certain members of senior management. The members of the FirstRand EXCO are listed on page 68.

Remuneration Committee

Role

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

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

FirstRand espouses a remuneration philosophy that promotes commitment to the meeting of organisational goals and recognises individual contribution to the achievement of those goals. Further details relating to FirstRand's remuneration practices can be found on pages 74 and 75 of this report.

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

Composition

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

	Jul 2005	**Feb 2006**
PM Goss (Chairman)	√	√
LL Dippenaar (*)		√
GT Ferreira	√	√
MW King	√	√
BJ van der Ross	√	√
RA Williams	√	√

(*) Appointed with effect from 1 January 2006.

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

The chairperson attends the annual general meeting.

Details of each director's remuneration for the year under review can be found on page 280 of this report. The remuneration of the non-executive directors is reviewed annually and proposals relating to increases in fees are submitted to the annual general meeting of shareholders for approval.

Audit, Risk and Compliance Committee

Role

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

The responsibility of the FirstRand Committee is to:

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

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

The committee has complied with its terms of reference.

Composition

The board deems it appropriate that the chief executive should attend all committee meetings. The FirstRand chief financial officer is also the chairman of the Discovery Audit Committee. He attends FirstRand Audit, Risk and Compliance Committee meetings in an ex officio capacity. The external auditors are present at all Audit Committee meetings and meet independently with the non-executives as and when required.

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

	Sept 2005	Feb 2006
MW King – Chairman and Chairman of the Banking Group Audit Committee	√	√
BJ van der Ross – Chairman of the Insurance Group Audit Committee	√	√

The FirstRand chief executive was present at both meetings.

The chairman attends the annual general meeting.

Directors' Affairs and Governance Committee

Role

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

Composition

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

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

	Sept 2005	May 2006
PM Goss (Chairman)	√	√
VW Bartlett	A	√
DJA Craig	√	√
LL Dippenaar (Appointed 1 January 2006)		√
DM Falck	√	√
GT Ferreira	√	√
N Gwagwa	√	√
MW King	√	√
YI Mahomed	√	√
G Moloi	√	√
AP Nkuna	√	√
SEN Sebotsa	√	√
KC Shubane	√	A
BJ van der Ross	√	√
F van Zyl Slabbert	√	√
RA Williams	√	√

The chairman attends the annual general meeting.

Financial Sector Charter and Transformation Monitoring Committee

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

Role

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

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

Composition

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

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

Membership and attendance, including attendance of alternates, at the meetings held during the year was as follows:

	Sept	Nov	Jan	May
B van der Ross – Chairman	√	√	√	√
VW Bartlett – FirstRand	A	A	√	A
NN Gwagwa – FirstRand	A	√	√	√
YI Mahomed – FirstRand		√	√	√
AP Nkuna – FirstRand		√	√	√
SEN Sebotsa – FirstRand		√	√	√
Z Manyathi – FirstRand Bank	√	√	√	√
R Watson – FirstRand Bank	√	√	√	√
NB Langa-Royds – Momentum	√	√	√	A
EB Nieuwoudt – Momentum	A	√	√	√
K Mayet – Discovery (*)		√	A	
J Dlamini – Discovery(*)	√	√	A	A

(*) Resigned 31 December 2006

Messrs Mahomed and Nkuna and Ms Sebotsa were formally appointed to the committee with effect from November 2005.

Progress with regard to the Financial Sector Charter scorecard is reported on page 22.

Performance evaluation

During the course of the year, the board and all its committees conducted evaluations to measure their effectiveness. No material concerns were expressed in these evaluations and the committees in their opinion have satisfied their responsibilities during the year as set out in their respective charters.

Management succession planning

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

Trading in company shares

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

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

Sustainability reporting

FirstRand believes that the management of issues relating to sustainability are integral to the way in which the Group is managed. The Group's approach to sustainability is outlined on pages 22 to 24 and the material risks and opportunities associated with sustainability challenges have been dealt with in the Review of Operations. Detailed information relating to stakeholder concerns is available on the sustainability website (www.firstrandsusrep.co.za).

Corporate social investment

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

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

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

During the year under review, the Group contributed to a wide range of causes including education, health and HIV/AIDS initiatives, job creation and skills training, community care and the environment. The geographical spread of funding across the country has remained fairly constant. In addition, FirstRand Group employees contributed their time and skills in support of the FirstRand Volunteers initiative. Since its inception in 1999, the Foundation has contributed more than R350 million for the upliftment of South African communities.

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

Company secretary

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

Auditor independence

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

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

Remuneration Committee

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

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

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

Remuneration strategy

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

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

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

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

The policy on remuneration of executive directors is consistent with that of senior staff. Non-executive directors receive fees for their services as directors and for services provided as members of board committees. These fees vary depending on the role of the committee. Non-executive directors do not qualify for participation in share incentive schemes.

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

Basic salary and benefits

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

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

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

Performance related payments

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

Share incentives

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

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

- A series of conventional share option schemes (collectively "the FirstRand Share Option Schemes"); and
- The FirstRand Outperformance Share Scheme, in terms of which participants are rewarded only if the performance of the FirstRand shares exceed that of the FINI 15 over a 60-month period.

For options issues subsequent to 30 June 2006, the operation of the FirstRand Share Option Schemes will be refined to take cognisance of further developments in corporate governance

All of the share incentive schemes currently in operation in the Group have received the prior approval of FirstRand shareholders in general meeting. A maximum of 561 million ordinary shares in the capital of FirstRand may be allocated to the schemes. This represents approximately 10% of FirstRand's ordinary shares currently in issue.

and the impact of changes flowing from the implementation of International Financial Reporting Standards. In the main, such changes will involve the structuring of future option issues as share appreciation rights and the implementation of vesting hurdles.

The Out-performance Scheme was introduced in 2000 and will expire during the 2007 financial year. At that stage its introduction was aimed at encouraging long-term sustainable performance relative to a FirstRand's peer group.

Allocations are reviewed annually and the time horizon of the schemes being used for new issues is five years.

Participation in FirstRand BEE transaction

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

- Certain black non-executive directors serving on the boards of FirstRand, FirstRand Bank Holdings and Momentum Group participate in the FirstRand Black Non-executive Directors' Trust. The extent of their participation is disclosed separately on page 281.
- FirstRand's black South African employees participate in the FirstRand Black Employee Share Trust. This share trust holds 87.3 million shares in FirstRand representing 1.55% of the company's issued share capital.

South African workforce	AIC Male	AIC Female	White Male	White Female	Total Male	Total Female	Grand total
1 Top management	19	10	111	22	130	32	162
2 Senior management	190	98	636	320	826	418	1 244
3 Professionally qualified and experienced specialists and mid-management	1 034	1 162	2 349	1 865	3 383	3 027	6 410
4 Skilled technical and academically qualified workers, junior management, supervisors	2 544	4 732	1 820	4 465	4 364	9 197	13 561
5 Semi-skilled and discretionary decision making	4 405	8 322	1 022	3 666	5 427	11 988	17 415
6 Unskilled and defined decision making	548	278	5	1	553	279	832
Total	8 740	14 602	5 943	10 339	14 683	24 941	39 624
Foreign nationals					57	57	114
Grand total					14 740	24 998	39 738

AIC = African, Indian and Coloured

South African workforce	By race 2006	%	2005	%		By gender 2006	%	2005	%
AIC	**23 342**	**58.7**	20 190	55.8	Male	**14 740**	**37.1**	13 394	37.0
White	**16 282**	**41.0**	15 966	44.2	Female	**24 998**	**62.9**	22 762	63.0
Foreign nationals	**114**	**0.3**							
Total	**39 738**	**100.0**	36 156	100.0	Total	**39 738**	**100.0**	36 156	100.0

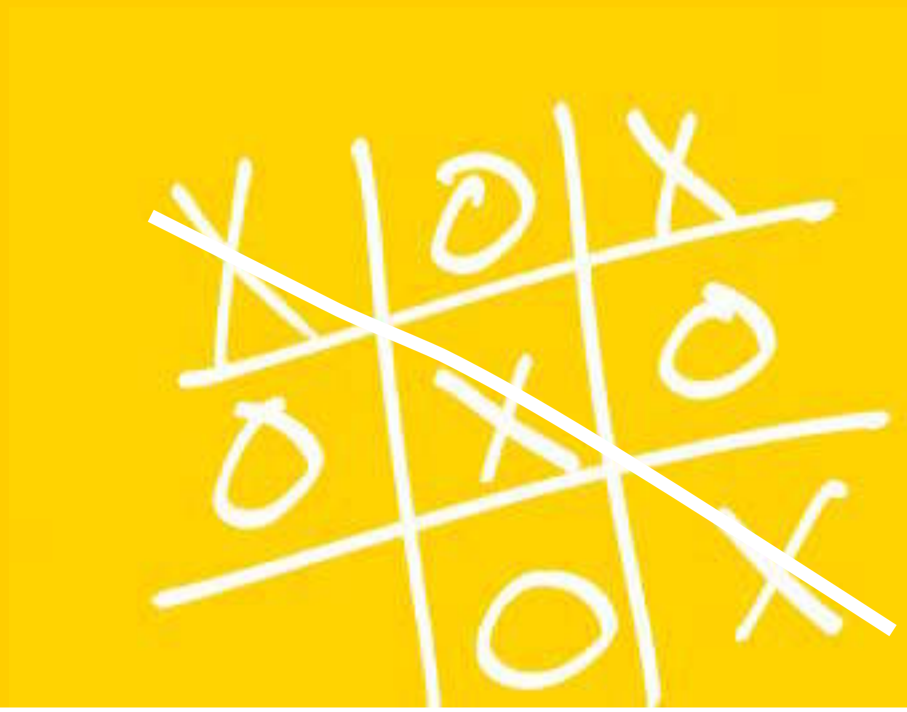
Change in South African workforce

	2006	2005
Staff complement at 1 July	**36 156**	32 732
New appointments/acquisitions	**8 143**	6 909
Resignations	**(3 094)**	(2 453)
Retrenchments	**(165)**	(94)
Dismissals	**(390)**	(229)
Deaths or disability	**(132)**	(78)
Other*	**780**	(631)
Staff complement at 30 June	**39 738**	36 156

Total workforce

	2006 Number	**%**	2005 Number	%
South Africa	**39 738**	**92.9**	36 156	91.8
Rest of Africa	**2 447**	**5.7**	2 451	6.2
Other countries	**573**	**1.4**	778	2.0
Total workforce	**42 758**	**100.0**	39 385	100.0

* *Includes contractors.*



FIRSTRAND

Contents

Directors' responsibility statement

TO THE MEMBERS OF FIRSTRAND LIMITED

The directors of FirstRand Limited are required to maintain adequate accounting records and to prepare financial statements for each financial year that fairly present 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 Group's philosophy on corporate governance.

The directors have reviewed the group's budget and cash flows for the year to 30 June 2007. On the basis of this review, and in the light of the current financial position, the directors have no reason to believe that FirstRand Limited will not be a going concern for the foreseeable future. The going concern basis has therefore been adopted in preparing the financial statements.

The group's external auditors, PricewaterhouseCoopers Inc., have audited the financial statements and their unqualified report appears on page 80.

The financial statements of the group for the year ended 30 June 2006, which appear on pages 77 to 282, have been approved by the Board of directors and are signed on its behalf by:

GT Ferreira
Chairman

PK Harris
Chief Executive Officer

Sandton
19 September 2006

Group secretary's certification

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

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

AH Arnott
Company Secretary

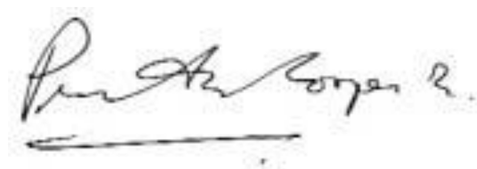
19 September 2006

TO THE MEMBERS OF FIRSTRAND LIMITED

We have audited the Company and the Group annual financial statements of FirstRand Limited set out on pages 81 to 83 and from 119 to 282 for the year ended 30 June 2006. These financial statements are the responsibility of the Company's directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company and the Group at 30 June 2006, and the results of their operations and cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa.



PricewaterhouseCoopers Inc.
Director: Fulvio Tonelli
Registered Auditor

Sandton
19 September 2006

NATURE OF BUSINESS

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

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

A schedule of significant group companies is set out on page 285.

GROUP RESULTS

A general review of the financial results of the group and the operations of its subsidiaries commences on page 8.

The financial results have been prepared in accordance with International Financial Reporting Standards. To the extent that there have been changes in accounting policies, the impact of these changes on prior year figures is set out from pages 237 to 263 in the financial statements.

Earnings

Headline earnings were as follows:

R million	2006	2005
Banking Group	7 049	5 656
Momentum Group	1 534	1 270
Discovery Group	350	324
FirstRand Limited	(164)	(304)
Consolidation of share trusts	(380)	(155)
Dividend payment on non-cumulative non-redeemable preference shares	(274)	(68)
Headline earnings	8 115	6 723
Headline earnings per share (cents)	157.8	129.3

Dividends

Ordinary shares

The following ordinary cash dividends were declared in respect of the 2006 financial year.

Cents per share	2006	2005
Interim (declared 28 February 2006)	32.0	26.60
Final (declared 19 September 2006*)	34.0	28.50
	66.0	55.10

* *The last day to trade in FirstRand shares on a cum-dividend basis in respect of the final dividend will be Friday 13 October 2006. The first day to trade ex-dividend will be Monday 16 October 2006. The record date will be Friday 20 October 2006 and the payment date Monday 23 October 2006. No dematerialisation or rematerialisation of shares may be done during the period Monday 16 October 2006 and Friday 20 October 2006, both days inclusive.*

Preference shares

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

For the six months to 31 December 2005:	R22 465 956 (2005: R22 465 956)
For the six months to 30 June 2006:	R12 568 955 (2005: R12 568 955)

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

	2006		2005	
Cents per share	"B"	"B1"	"B"	"B1"
Period 11 August 2005 – 29 August 2005	–	–	–	37
Period 30 August 2005 – 27 February 2006	356	356	228	–
Period 28 February 2005 – 28 August 2006	363	363	360	–

SHARE CAPITAL

Authorised – ordinary and preference share capital

Details of the company's authorised share capital as at 30 June 2006 are shown in note 30 to the financial statements.

No changes were made during the year under review to FirstRand's authorised ordinary and preference share capital.

Issued – ordinary share capital

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

On 25 October 2005, FirstRand converted 1 465 514 "A" variable rate, convertible, redeemable, cumulative preference shares issued by the company in terms of the FirstRand Out-performance share incentive scheme into the same number of ordinary shares.

On 31 March 2006, FirstRand converted 19 088 035 "A" variable rate, convertible, redeemable, cumulative preference shares issued by the company in terms of the aforesaid FirstRand Out-performance share incentive scheme into the same number of ordinary shares.

Issued – preference share capital

During the year under review, the following changes were made to the issued preference share capital of the company.

"A" preference shares

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

Date	Number of shares	Premium
Redemption		
25 October 2005	2 411 986	6.53
15 January 2006	1 207 500	8.14
15 January 2006	360 000	6.53
31 March 2006	6 777 847	8.14
31 March 2006	696 618	7.44
1 April 2006	770 000	8.14
Conversions		
25 October 2005	1 465 514	6.53
31 March 2006	18 037 153	8.14
31 March 2006	1 050 882	7.44

For reporting purposes, the "A" preference shares are shown as part of long-term liabilities, as the substance of these instruments is debt. The dividends paid on the shares are recorded as interest expense.

"B" and "B1" preference shares

On 11 August 2005, FirstRand issued and listed R1 530 million non-cumulative non-redeemable "B1" preference shares at an effective coupon rate of 66.7% of First National Bank's prime prevailing lending rate.

The proceeds were applied to the redemption of the remaining R1.1 billion cumulative preference shares issued in the 2004 financial year by FirstRand Investment Holdings (Pty) Limited. This has resulted in an improvement in the quality of the capital base of FirstRand Limited. The remaining funds were used to subscribe for R500 million non-cumulative non-redeemable preference shares in Momentum Group to improve their weighted average cost of capital. This transaction is eliminated on consolidation.

SHAREHOLDER ANALYSIS

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

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

RMB Holdings Limited	30.20%	(2005: 29.59%)
Financial Securities Limited (Remgro)	8.57%	(2005: 8.57%)
FirstRand Empowerment trust	6.48%	(2005: 6.48%)
Employee Share trusts	5.17%	(2005: 5.00%)

A further analysis of shareholders is set out on page 286.

DIRECTORATE

At 31 December 2005, Mr LL Dippenaar assumed a non-executive position within the group and Mr PK Harris was appointed as chief executive officer in his stead. Mr Dippenaar had held this position since the formation of FirstRand in 1998.

On 22 February 2006, Mr SE Nxasana was appointed a non-executive director of FirstRand Limited. Mr Nxasana had been a non-executive director of FirstRand Bank Holdings until 1 January 2006 when he became chief executive officer of that company. This position was previously held by Mr PK Harris.

Details of the Board of directors are set out on page 64. The name of the company secretary, FirstRand's business and postal addresses are set out on page 287.

DIRECTORS' INTEREST IN FIRSTRAND

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

Details of the directors' interest in the issued ordinary and preference shares of FirstRand are reflected on page 282 of this report.

DIRECTORS' EMOLUMENTS

Directors' emoluments and their participation in share incentive schemes are disclosed on pages 280 and 281. Information relating to the determination of directors' emoluments, share option allocations and related matters are contained in the remuneration report on page 74.

INTEREST OF DIRECTORS AND OFFICERS

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

PROPERTY AND EQUIPMENT

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

INSURANCE

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

SUBSIDIARIES AND ASSOCIATES

Interests in subsidiary and associate companies which are considered material in the light of the group's financial position and its results are set out on pages 225 to 227.

COMPANY SECRETARY AND REGISTERED OFFICES

AH Arnott was appointed company secretary on 25 November 2002. The address of the company secretary is that of the registered office as stated on page 287.

EVENTS SUBSEQUENT TO BALANCE SHEET DATE

Subsequent to year end, there have been no events which could materially impact on the group's results for the year to 30 June 2006.

PHILOSOPHY

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

BANKING GROUP

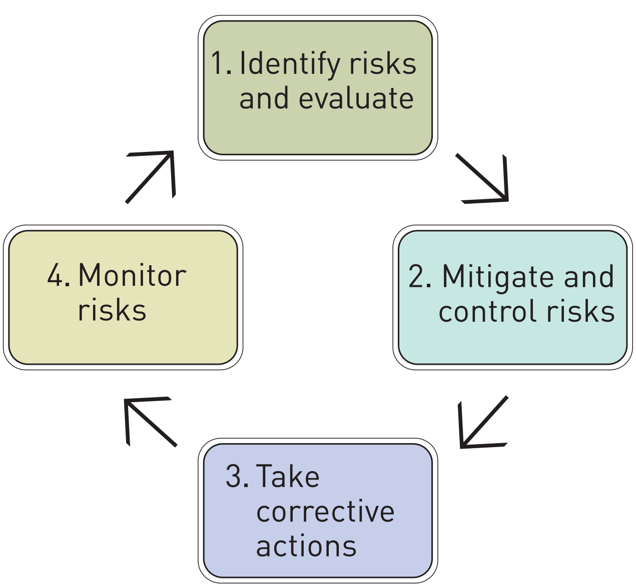
Enterprise-wide risk management

Risk management in the Banking Group is governed by the Business Success and Risk Management Framework ("Framework") which is a policy of the Board of directors. In terms of the Framework, risk management is vested as an integral part of management's functions at all levels of the Banking Group and includes the management of governance, strategy, business performance, competitiveness, human resources, external factors, processes, information technology and financial risks which include market, credit, interest rate, liquidity, tax and insurance risk.

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

The Banking Group's Risk Management Framework has been reviewed and benchmarked against international best practice and has proved to be thorough, effective and robust in fully supporting enterprise risk management principles.

The Banking Group adopts the following approach to risk management:



IMPLEMENTATION OF THE RISK MANAGEMENT FRAMEWORK

The implementation of the Risk Management Framework of the Board is the responsibility of everyone at the Banking Group. Divisions are supported in this task by the independent and deployed risk management functions, as well as the internal auditors and governance committees that monitor the Banking Group's risks and provide assurance that risk management processes operate effectively.

The independent risk management functions form part of the Finance, Risk and Audit division. This division is responsible for co-ordinating and monitoring the risk management functions of the Banking Group, as well as establishing and driving implementation of risk management standards, methodology and processes.

The deployed risk managers form part of the various divisions and business units. The deployed risk managers are responsible for supporting the implementation of the Risk Management Framework at business unit level.

The risk management processes are monitored by the independent and deployed risk managers and the divisional risk committees. 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. Consolidated assessments, for each of the main business divisions, are submitted quarterly for review by the FRBG Risk and Compliance Committee.

PROTECTION OF THE BANKING GROUP'S REPUTATION

The Banking Group 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, not only from credit, market and liquidity risk, but also from operational risk.

RISK-REWARD APPETITE

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. The Banking Group's aim is not to eliminate risk, but to achieve an appropriate balance between risk and return, called the risk-reward appetite.

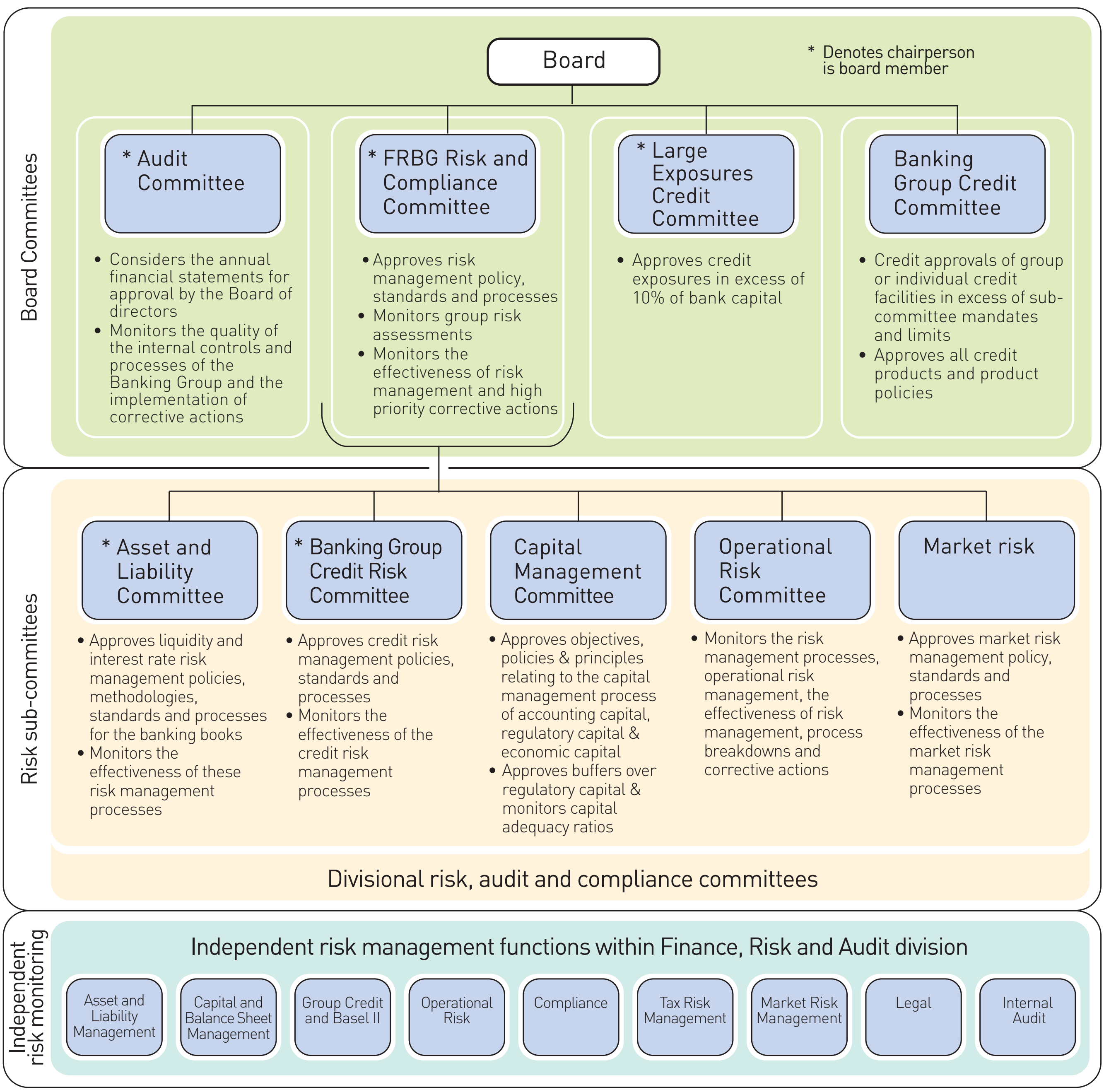
This balance is achieved by controlling risk at the level of individual exposures, at portfolio level and in aggregate, across all risk types and businesses, relative to the risk-reward appetite.

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

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

These risk-reward measures align the interests of management with those of shareholders.

GOVERNANCE STRUCTURES



Responsibility of the board

The board of the Banking Group is responsible for oversight of risk management and the quality of internal control systems. The board is supported in these tasks by the committees of the board ("Board committees") and their sub-committees and the risk management functions.

Risk governance structure

The risk management governance structures of the Banking Group cascade down from the board to the subsidiaries and main divisions and their business units. All subsidiaries, divisions and major business units of the Banking Group have Risk and Audit Committees. All Audit Committees and the 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.

Through these mechanisms transparency is maintained and integrity of the reports to the Board Committees is ensured through the presence of external and independent observers at all governance levels.

SUCCESSES FOR 2006

- successful implementation of exposure and limit management systems for corporate transactional bank facilities;
- implementation of a forward looking VaR calculation for market risk across all trading business units within RMB;
- successfully financing the substantial growth in assets. New funding markets were entered into for the first time, to further diversify our funding base; and
- Basel II:
  - incorporation of credit concentration risk into the credit economic capital models;
  - improved the interest rate risk modelling process;
  - revised the interest rate Risk Management Framework in line with international best practice;
  - successful implementation of automated reporting of effectiveness of risk management across the Banking Group;
  - successful implementation of Key Risk Indicator reporting; and
  - improved IT governance and Information Security Frameworks.

FOCUS FOR 2007

- continued implementation of exposure and limit management systems for structured credit products;
- continue to develop a well-diversified funding base;
- continued focus on integrated risk reporting;
- develop and finalise compliance processes for new legislation, eg National Credit Act; and
- Basel II:
  - ongoing refinements to scoring models, rating systems and pricing engines for credit risk;
  - application to the South African Reserve Bank for advanced internal ratings based approach approval for credit risk in FirstRand Bank;
  - application to the South African Reserve Bank for internal model approval for market risk;
  - compliance with Basel II requirements relating to interest rate risk in the banking book; and
  - continued development of operational risk quantification models.

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 (eg 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 the Banking Group is exposed to. Credit risk represents 72% of the total economic capital of the Banking Group, which is aligned to Basel II principles.

Credit risk in the Banking Group is managed in terms of the Credit Risk Management Framework. This framework is a policy of the Board of directors of the Banking Group and is ancillary to the Business Success and Risk Management Framework.

CREDIT RISK GOVERNANCE

The governance of credit risk management is comprehensively set out in the Credit Risk Management Framework and is supplemented by ancillary policies and committee mandates. 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.

The Banking Group 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 risk management and an overview of the credit portfolio of the Banking Group. The Banking Group 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 the Banking Group. This includes the monitoring of the following:

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

An integral part of the credit risk management governance is the approval of credit exposures by the Banking Group 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 Banking Group Credit Committee (a sub-committee of the Board of directors) and its sub-committees approve credit facilities according to delegated mandates.

Deployed credit risk management functions consist of credit product houses, credit analysts and credit risk managers. These functions implement the Credit Risk Management Framework at the various levels within the organisation. Operational level credit risk management responsibility vests with these functions and involves the implementation of the comprehensive policies and processes described below.

The Banking Group Credit Risk Committee and deployed risk management functions are supported by the Banking Group Credit and Basel II Function. This function's responsibility includes the following:

- formulation of the quarterly credit economic conditions outlook;
- preparation of aggregate credit risk reports and credit portfolio analysis for the governance committees;
- independent oversight on aspects such as credit rating systems and Basel II framework implementation;
- liaison with credit segment heads and other stakeholders on areas such as credit risk appetite, credit pricing, IFRS credit provisioning, credit policies and frameworks, sensitivity analyses and stress testing; and
- quantification and allocation of credit economic risk and capital.

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. Based on the Banking Group'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 management of credit risk entails a detailed end-to-end process. Upon application, creditworthiness of the counterparty is assessed and measured in terms of the risk appetite. The counterparty credit risk is measured in terms of the predetermined policies as described in the credit risk measurement section below. The exposure is approved with reference to delegated mandates.

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

- quantification of exposure and management of facility utilisation within the predetermined credit limits (this includes management of excesses);
- ongoing monitoring of creditworthiness of the counterparty;
- review of facilities at appropriate intervals; and
- collateral and covenant management.

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

CREDIT RISK MEASUREMENT

Credit risk measurement forms an integral part of the management of credit risk. The credit risk parameters measured are described as follows:

Probability of default ("PD")

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

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

Cumulative default probabilities over a multi-year cycle are established for internal purposes. Where appropriate this is used for pricing and credit migration analysis.

Loss given default ("LGD")

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

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.

Expected loss

Expected loss is calculated as PD x LGD x EAD. This measurement is a forward looking measure of risk through the cycle.

Portfolio level analysis

The above credit risk estimates provide input into the portfolio level credit exposure assessment of the Banking Group. In addition to the above metrics, the correlations between counterparties and industries are assessed as well as potential diversification benefits. Credit concentrations are identified and managed with reference to the total credit portfolio.

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

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

CREDIT RISK MITIGATION

Credit mitigation instruments are used where appropriate. These include collateral, netting agreements and guarantees or credit derivatives.

CREDIT RISK CONCENTRATIONS

Concentration risk is managed at the credit portfolio levels. The nature thereof differs according to segment.

- Concentration risk management in the wholesale credit portfolio is based on individual name limits and exposures (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.
- For the Commercial (SME level) exposures, the emphasis for concentration risk measurement is on industry distribution.
- Due to the inherent diversification in the retail portfolios, concentrations are managed with reference to collateral concentrations.

Industry and country analysis have been included in the notes to the financial statements (notes 14 and 39.3).

PORTFOLIO OVERVIEW

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 eight buckets as described below.

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

The FR scale is summarised in the following table:

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

* *Indicative mapping to international rating scale of Fitch and S&P.*
** *Indicative mapping to national rating scale, ignoring the impact of sovereign risk.*

The credit quality of the wholesale credit book improved slightly during the year due to improved ratings for certain corporate counterparties after the adjustment of the South African sovereign rating which serves as a rating ceiling for most local corporates. The weighted average rating for retail credit counterparties deteriorated slightly due to the normalisation of the retail credit markets. The overall internal counterparty rating, ignoring collateral effects, was FR 41 at 30 June 2006 (FR 40 at June 2005). The rating is equivalent to a national scale credit rating of zaBBB (zaBBB at 30 June 2005).

The following section describes the rating process used for each major asset class and provides the distribution of credit exposures across the above FR rating bands for these assets.

Wholesale credit exposures

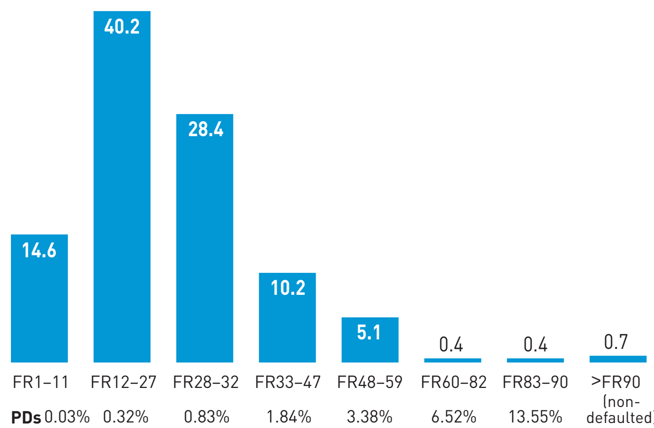
Exposures to corporate, bank and sovereign counterparties are included below. A wide range of products gives rise to the credit exposures, including loan facilities, contingent products and derivative instruments.

Description of the rating process

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. The qualitative analysis is based on the methodology followed by international rating agencies. The rating assessment is reviewed by the Banking Group Credit Committee and the rating (and associated PD) is approved by this committee.

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

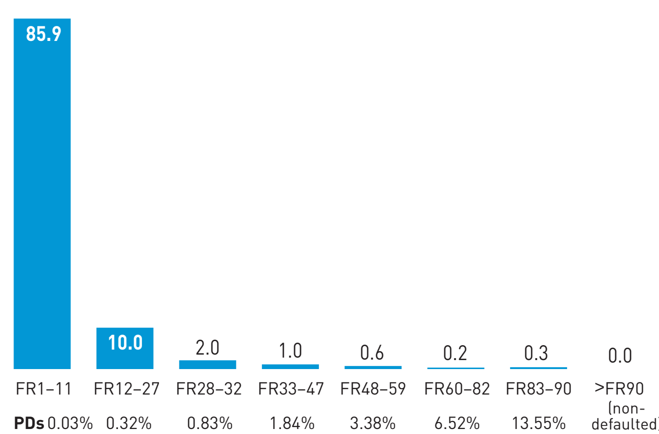
Wholesale – Corporates
Exposure distribution across rating buckets (%)



The LGD for the wholesale credit portfolio is generally between 30% and 50%.

For bank and sovereign counterparties a similar rating process is followed as described above. Through the use of templates and practice aids, a qualitative and quantitative (model) assessment is employed to derive the ratings of such counterparties. For banks and sovereigns, the external ratings assigned by the international rating agencies are used and supplemented with internal analysis as appropriate.

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

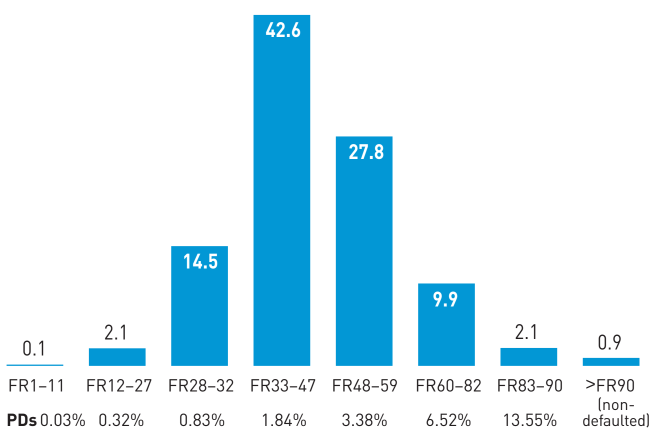


FNB Commercial credit exposures

Exposures to SME counterparties are described in this section. The exposures form part of the FNB Commercial business unit and includes corporate and retail SME type exposures. A wide range of products give rise to the credit exposures including loan facilities, contingent products and term lending products.

The rating assignment to SME corporate credit counterparties is based on an individual assessment of the counterparty's credit worthiness and is supplemented with the Moody's RiskCalc model that has been built using South African industry data. The retail SME exposures are assessed through the use of scorecards similar to those described in the retail section below.

FNB Commercial
Exposure distribution across rating buckets (%)



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

The LGDs for these exposures are dependent on the level and type of security held. The LGD for FNB Commercial exposures typically ranges between 20% and 40%.

FNB Consumer exposures

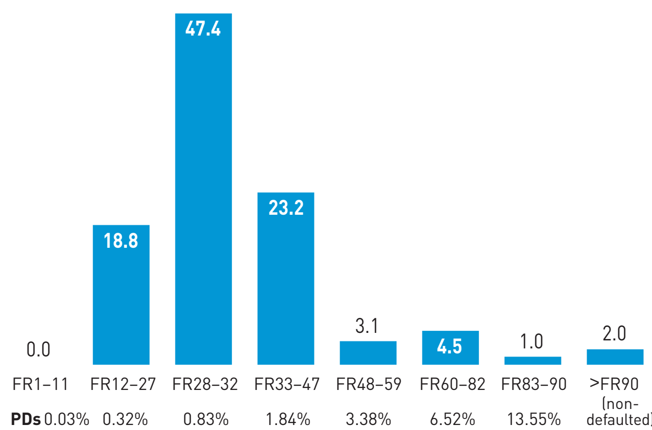
The FNB Consumer portfolio includes exposures to individuals across a number of products. These exposures are in FNB and RMB Private Bank.

The PD assignment to retail exposures is based on automated scorecard processes. Based on internal product level history, scores are mapped to probabilities of defaults.

Residential mortgages

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

Retail – Mortgages
Exposure distribution across rating buckets (%)

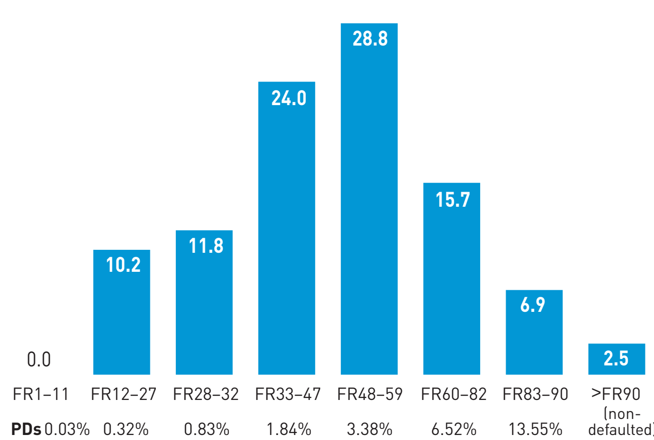


The expected LGD for mortgages are low due to the high valuations obtained for property in the current market. However, for capital calculations, a downturn LGD is used to reflect the potential loss in a downturn scenario. The weighted average expected LGD across a normal economic cycle for the mortgages typically ranges between 10% and 30%.

Credit card, overdrafts and other exposures

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

Retail – Retail credit card, overdrafts and other
Exposure distribution across rating buckets (%)

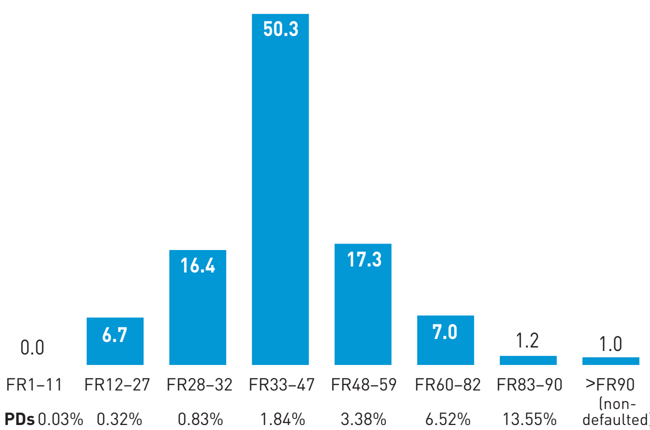


The LGDs for these exposures depend on the level and type of security. Typically, these exposures are unsecured. Due to the unsecured nature of these exposures the LGDs are high and ranges between 50% and 70%.

WesBank

The asset-backed finance business of WesBank spans across retail and corporate (mostly SME) counterparties. The rating assessments followed for these exposures are similar to those described above depending on the type of counterparty. Retail exposures are scored by the scorecards and product specific PDs are assigned based on internal data history. WesBank's portfolio also includes a small portfolio of personal loans to its customer base.

WesBank
Exposure distribution across rating buckets (%)



The LGDs for the secured asset-backed finance exposures are asset-backed on average between 30% and 50%, depending on the type of asset financed. The LGD for the unsecured exposures are between 50% and 70%.

Expected loss

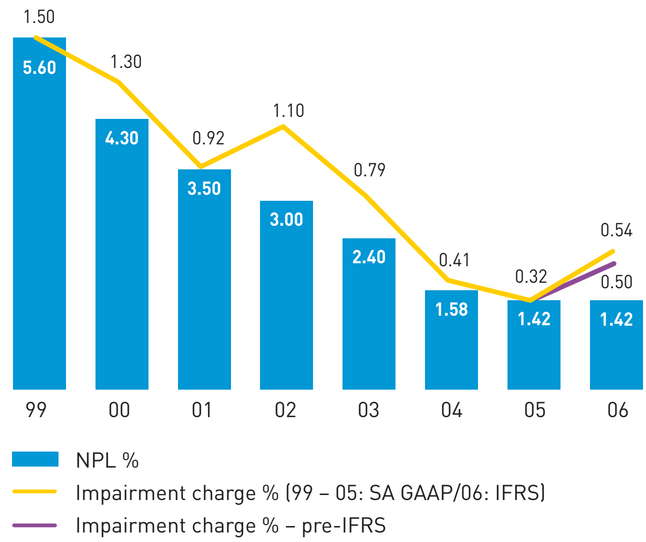
The expected loss ("EL") of the portfolio is a function of the exposure, the PD (reflected in the credit distributions above) and the loss given default dimension and is a forward looking measure of risk through the cycle. The forward looking long run average expected loss estimated at 30 June 2006 for the Bank's portfolio is estimated at 0.7% (30 June 2005 0.7%).

Impaired advances

The Banking Group assesses the adequacy of impairments on an ongoing basis through review of the quality of the credit exposures. Specific impairments are created in respect of non-performing advances where there is objective evidence that all amounts due will not be collected. The amounts recoverable from guarantees and collateral are incorporated into the calculation of the impairment. Portfolio impairments are also created in respect of performing advances based on historical patterns of losses in each component of the performing portfolio. Reference is made to the FR ratings and the economic climate.

The graph below indicates the history of the Banking Group's actual losses reflected by the impairment charge percentage and non-performing loans as at 30 June 2006.

NPLs and impairment charge percentages
(%)



Note:
Non-performing loans are classified as such based on the definition of default used by the Banking Group. The non-performing loans percentage includes the total value of non-performing loans classified into this category in the current year, as well as those of previous years that are still being collected/worked out. The impairment charge percentage is the bad debt charge to the income statement as a percentage of total advances in the current year based on the application of the Bank's internal provisioning policies.

Overall, the credit risk associated with the Group's banking book is considered to be within acceptable risk levels and is managed effectively in the Banking Group. Determination of the credit impairment under IFRS is discussed under note 1.

MARKET RISK

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

Market risk exists in all trading, banking or investment portfolios. Substantially all market risk is taken in RMB from proprietary positions as this is where the market risk taking and management expertise lies.

Trading in the foreign exchange, interest rate, equity, commodity and credit markets, and derivatives thereof is undertaken in terms of the Market Risk Management Framework which is a policy of the Board and is ancillary to the Business Success and Risk Management Framework. 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 exposures are controlled by means of stress loss limits which are approved by the relevant business and risk management functions, the Market Risk Committee (RMB Risk Committee) and RMB Proprietary Board, and ratified by the FRBG Risk and Compliance Committee and the Board of directors.

Market risk exposures are quantified daily across all trading activities of the Banking Group and monitored by the business risk managers and the business unit heads. The deployed and independent risk managers at RMB and the internal auditors monitor limit excesses, the causes of any excesses and the correction thereof on a daily basis for 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 have not identified significant process deficiencies in the 2006 financial year. Process shortcomings which are identified, are corrected and the progress with corrective actions is monitored by the risk managers and the Market Risk Committee.

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

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

Market risk stress exposure per risk factor – 30 June 2006

QUANTIFICATION OF MARKET RISK EXPOSURES

Quantification of Market Risk Exposures

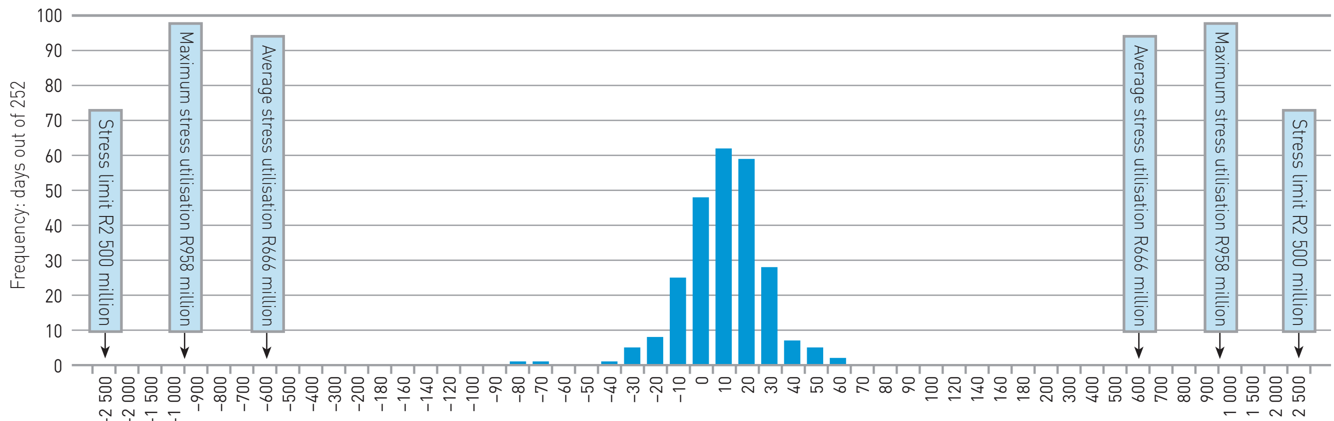
A Value at Risk ("VaR") methodology is applied in the aggregation of market risk exposures across the different trading activities and across the individual market risk factors. The VaR risk measure estimates the potential loss over a given holding period (10 days) per a specific confidence interval (99%). It is notable that in the most instances the maximum risk measurement for each risk factor occurred at year end. This was due to the volatility experienced during May/June 2006. There was a shift in global economic and geopolictical outlook which led to most portfolios restructuring from a market neutral strategy into a directional strategy. Notably in the equity risk factor there was the realisation of an offshore expansion strategy for equities agreed upon in the 2005 financial year.

Trading book Value at Risk analysis (R million)

	Year end 30/06/2006				Year end 30/06/2005			
R million	**Min**	**Max**	**Ave**	**Y/E**	Min	Max	Ave	Y/E
Risk Type								
Equities	**71.2**	**219.4**	**127.9**	**219.4**	45.5	79.3	62.4	69.2
Interest Rates	**27.6**	**46.5**	**34.1**	**45.7**	13.1	36.2	22.3	34.4
Foreign Exchange	**9.0**	**23.2**	**15.1**	**23.0**	8.0	17.8	11.8	16.7
Commodities	**9.5**	**27.4**	**15.6**	**27.4**	11.7	30.4	20.7	16.7
Traded Credit	**4.8**	**45.9**	**20.0**	**43.8**	1.0	4.7	2.8	4.7
Diversification	**(38.6)**	**(134.9)**	**(79.2)**	**(131.8)**	(31.1)	(82.2)	(50.3)	(65.2)
Total	83.5	227.5	133.5	227.5	**48.2**	**86.2**	**69.7**	**76.5**

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.

Profit and loss
(R million)



LIQUIDITY RISK

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

Management of liquidity risk

The Banking Group has a group-wide funding and liquidity management process in place. Liquidity risk is managed in terms of the Liquidity Risk Management Framework, which is ancillary to the Business Success and Risk Management Framework. Liquidity positions are managed at currency level and across all jurisdictions in which the Banking Group operates. Liquidity risk is managed by Banking Group Treasury and the dedicated liquidity risk management team reports to the Group Asset and Liability Management Committee ("ALCO").

Management of the current liquidity position

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

- analysing the concentration of short-term funding maturities;
- monitoring liquidity risk limits;
- maintaining an appropriate term mix of funding;
- diversifying the range of funding products offered to financial institutions;
- monitoring the daily cash flow movements across the Bank's various payment streams;
- actively managing the daily settlements and collateral management processes;
- performing assumptions-based scenario analysis to assess potential cash flows at risk;
- monitoring sources of funding for contingency funding needs;
- managing the portfolio of available liquid securities; and
- industry benchmarking.

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

Liquidity contingency planning

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

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

INTEREST RATE RISK IN THE BANKING BOOK

Interest rate risk in the banking book of the Banking Group is defined as the sensitivity of the balance sheet and income statement to unexpected, adverse movements of interest rates. This risk is a normal part of banking and can be an important source of profitability and shareholder value.

Interest rate risk management approach

Banking Group

Interest rate risk is managed from an earnings approach, with the aim to protect and enhance net interest income in accordance with the board-approved Interest Rate Risk Management Framework, which is ancillary to the Business Success and Risk Management Framework. In addition, changes to economic value are monitored daily, where possible, and managed within defined risk tolerance levels.

The net interest rate risk profile of the Bank is managed centrally by the Asset & Liability Management Unit by changing the profile of liquid assets or through derivative instruments, based on the Bank's interest rate outlook with reference to other risk factors impacting the Bank's balance sheet, notably credit risk. The Banking Group's Asset and Liability Management Committee ("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.

Within RMB, interest rate risk in the banking book is managed together with the interest rate risk in the trading book and is overseen by the Market Risk Committee.

Each of the FNB Africa subsidiaries has its own ALCO, which monitors interest rate risk associated with the banking book in that subsidiary. Repricing gaps and margins are monitored and reported to the Banking Group's ALCO on a monthly basis.

Currently, the international balance sheet consists of marketable investments and liabilities, which are measured on a mark-to-market basis and fall under the ambit of the Market Risk Committee. The endowment risk on capital in our international portfolios is managed in accordance with the Capital Investment Framework.

Interest rate risk position

Several tools are used to measure the interest rate risk in the domestic banking book, some of which measure the risk from an earnings perspective and others from an economic value perspective. The interest rate risk in the banking book is reported to ALCO on a monthly basis from both perspectives.

Two of the standard tools that are used to measure the sensitivity of earnings to changes in the level of interest rates, are the repricing gap and net interest income sensitivity, which are shown below.

Repricing gap of the domestic banking book (including hedges) as at 30/06/2006 (R million)

	Overnight to 3m	4m – 6m	7m – 12m	>12m	Non-rate sensitive
Assets	226 636	(4 139)	6 962	16 893	8 889
Liabilities and equity	207 459	3 572	9 551	13 953	20 707
Net repricing gap	19 177	(7 711)	(2 589)	2 940	(11 818)
Cumulative repricing gap	19 177	11 466	8 877	11 817	(1)

Repricing gap

The repricing gap for the domestic banking book at the financial year end is shown below. All assets, liabilities and derivative instruments have been placed in gap intervals based on repricing characteristics. Instruments which have no explicit contractual repricing or maturity dates are placed in gap intervals 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.

Net interest income sensitivity

Several interest rate scenarios are modelled to assess their impact on projected earnings in the domestic banking book. For example, a 1% 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 in response to changes in the level of interest rates, the projected net interest income would be reduced (increased) by R479 million (R475 million) in the first 12 months, which represents 3.4% (3.4%) of the projected 12-month net interest income in the domestic banking book.

Net interest income sensitivity of the domestic banking book as at 30/6/2006

	Change in projected 12-month net interest income R million	% of base 12m NII
Downward 100 bps	(479)	(3.4)
Upward 100 bps	475	3.4

The interest rate risk associated with the banking book is considered to be within acceptable risk levels (and limits) and is managed effectively.

OPERATIONAL RISK

The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

Operational risk management

The management of operational risk covers many diverse dimensions such as process efficiency, systems capacity and availability, information security, legal risk, business continuation, prevention of criminal activities, key management processes and insurance. Comprehensive programmes are in place to identify and evaluate operational risks, implement process improvements and monitor the status of key risks. Operational risk in the Banking Group is managed in terms of the Operational Risk Management Framework, which is ancillary to the Business Success and Risk Management Framework.

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

OPERATIONAL RISK CATEGORY	SPECIAL RISK FUNCTIONS	FRAMEWORKS
Process breakdowns and issues	Operational Risk Management	Operational Risk Management Framework
Business Continuity	Business Continuity Management	Business Continuity Management Policy
Legal	Group Legal Services	Legal Risk Management Framework
Information Risk	Information Risk Services	Information Risk Management Framework
Compliance	Group Compliance	Compliance Management Framework
Fraud, Security	Group Forensic Services	Security Policy
Financial controls breakdowns	Corporate Accounting	Financial Risk Management Framework
Human Resources Risk	Human Resources Functions	Human Resources Policy
Insurance	Risk Insurance	Risk Insurance Methodology

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

Operational risk management tools

The Banking Group uses well defined operational risk management tools to assist the business units with managing their risks.

These include:

- self assessment – An intranet-based application to report on the effectiveness of risk management;
- loss database – A well established system used to record losses and incidents;
- key risk indicators – A process whereby objective measures are used to assess the level of operational risk and provide early warning indications of potential breakdowns; and
- incident and issue reporting – A process of reporting and escalating operational risk incidents and issues through the Risk Committee structure.

These tools are used throughout the Banking Group and the Business Success and Risk Management Framework is used as the basis for consistent reporting.

Operational risk quantification

The Banking Group has an Operational Risk Measurement Framework which forms the basis of operational risk quantification for economic capital purposes.

This framework incorporates operational risk elements including internal loss data, external loss data, scenario models, predictive models and various qualitative factors.

Business continuity management

Business continuity management in the Banking Group focuses on managing the potential impact associated with the ability to continue critical business processes due to unforeseen events.

Business continuity management is an important aspect of risk control and its value has been proven in creating a more resilient operational platform, through activities such as business impact assessments, business continuity planning and implementation, testing of business continuity and reporting of the status.

Bank industry initiatives to establish standards and synergies in continuity planning are being supported, whilst internally added efforts are directed to improve the management techniques around continuity management and move towards global best practice.

Legal risk

The risk of loss due to defective contractual arrangements, legal liability, both criminal and civil, incurred during operations by the inability of the organisation to enforce its rights or by 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).

This risk is managed through activities such as awareness initiatives, monitoring of new legislation, identifying significant legal risks and by managing and monitoring the impact of these risks through appropriate processes and procedures.

Information risk management

Information risk management within the Banking Group not only involves securing bank information and systems, but also entails the application of risk management principles to ensure efficient, reliable and timely delivery of information.

This is achieved through awareness initiatives, implementation of the Information Technology Governance and Information Security Frameworks and appropriate status reporting.

Compliance Risk

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

Compliance risk is managed, not only to facilitate business success, but also to promote confidence with all stakeholders by meeting the expectations of customers, the markets and society as a whole. It further aligns the business with international best practices and enables global competitiveness.

Anti-fraud and security risks

The Banking Group is committed, through policies and actions, in striving towards an environment that safeguards its people, customers and assets.

The Banking Group has a culture of zero tolerance to crime. This is achieved primarily through the implementation of awareness and investigative processes.

The awareness initiatives, fully supported by Executive Management, allow for constant communication to all Banking Group staff via internal printed media and video broadcasts. In support of this, our investigative policies clearly indicate that we will not distinguish between people irrespective of their position or the value of the criminal/unethical act. All cases are reported to the authorities and we ensure that each case gets criminal and civil action to enforce "Zero Tolerance".

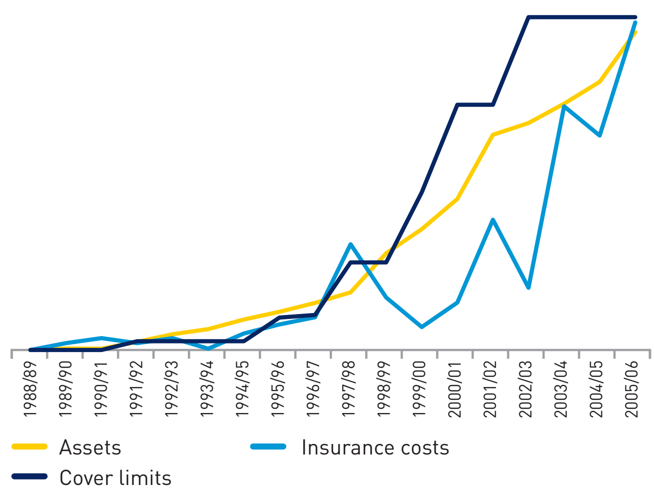
Insurance risk

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

The FirstRand Group, including the Banking Group, has a comprehensive insurance programme with cover for Bankers' Bond, Computer Crime, Professional Indemnity, Directors' & Officers' Liability, Assets and Liabilities. An annual benchmarking review of policy wordings, covers and limits ensures that the level of risk mitigation is adequate in relation to the Banking Group's risk profile.

All cover is placed at FirstRand Group level to maximise on economies of scale and to ensure all business units are included.

Financial Institutions Insurance Programme – increase in assets, insurance costs and cover limits (base 1988/89)



The graph shows the index of asset growth against the indices of insurance cover limits and insurance costs. The indices show that the level of insurance cover and costs have been maintained in line with the growth in assets.

Internal audit

The internal auditors perform comprehensive process, system and business audits across the spectrum of business entities to identify shortcomings and to augment the risk effectiveness self-assessments. All audit reports are reviewed at the appropriate Audit Committees of the business units. Major issues are escalated to higher levels of review.

Action plans to address identified process weaknesses are agreed with management of the relevant business unit and progress monitored by the risk committees, as appropriate.

Refer to note 39 for further Risk Management analysis.

MOMENTUM GROUP

General

Risk Management Philosophy

The Momentum Board embraces the principles of King II. The Momentum Group's philosophy on risk recognises that managing risk is an integral part of generating sustainable shareholder value and enhancing stakeholder interests. It also recognises that an appropriate balance should be struck between entrepreneurial endeavour and sound business practice.

Approach to ERM

The Momentum Group operates a risk management framework, which is based on Committee of Sponsoring Organisations of the Treadway Commission's ("COSO") ERM ("ERM") Framework. The underlying premise of ERM is that every entity exists to provide value for its stakeholders. All entities face uncertainty and the challenge for management is to determine how much uncertainty to accept as it strives to grow stakeholder value.

Uncertainty presents both risk and opportunity, with the potential to erode or enhance value. ERM enables management to effectively deal with uncertainty and associated risk and opportunity, enhancing the capacity to build value.

Value is maximised when management sets strategy and objectives to strike an optimal balance between growth and return goals and related risks, and efficiently and effectively deploys resources in pursuit of the entity's objectives.

ERM in the Group encompasses:

- *Aligning risk and strategy* – Management takes into account the subjective assessment of risk in evaluating strategic alternatives, setting related objectives, and developing mechanisms to manage related risks;
- *Enhancing risk response decisions* – ERM provides the rigor to identify and select among alternative risk responses – risk avoidance, reduction, sharing, and acceptance;
- *Reducing operational losses* – Entities gain enhanced capability to identify potential events and establish responses, reducing the risk of unforeseen losses and associated costs;
- *Identifying and managing multiple and cross-enterprise risks* – The Momentum Group faces a myriad of risks affecting different parts of the organisation, and ERM facilitates effective response to the interrelated impacts, and integrated responses to multiple risks;
- *Seizing opportunities* – By considering a full range of potential events, management is positioned to identify and proactively realise opportunities; and
- *Improving deployment of capital* – Obtaining robust risk information allows management to effectively assess overall capital needs and enhance capital allocation.

These capabilities inherent in ERM help management achieve the Group's performance and profitability targets and prevent loss of resources. ERM helps ensure effective reporting and compliance with laws and regulations, and helps avoid damage to the entity's reputation and associated consequences.

Risk governance

The risk governance model is based on three aspects to risk management. This model distinguishes between functions owning and managing risks, functions overseeing risks and functions providing independent assurance:

- The Board approves the strategy for managing risk and is responsible for the Group's system of internal control. The Group Chief Executive has overall responsibility for the management of risks facing the Group and is supported in the management of these risks by management at the operating business units. Management and staff within each business have the primary responsibility for managing risk. They are required to take responsibility for the identification, assessment, management, monitoring and reporting of enterprise risks arising within their respective areas;
- The Group Chief Risk Officer, supported by the Group ERM function and other specialist in-house functions at Company and subsidiary levels, which provide technical support and advice to operating management to assist them with the identification, assessment, management, monitoring and reporting of financial and non-financial risks. The risk function provides objective oversight and co-ordinates ERM activities in conjunction with other specialist risk related functions. Group ERM is not, however, accountable for the day-to-day management of financial and non-financial risks; and
- The Group Internal Audit function and the Group Audit Committee, supported by Audit Committees at subsidiaries. The third aspect of risk management is designed to provide independent objective assurance on the effectiveness of the management of enterprise risks across the Group.

Audit committee

The audit committee has been appointed by the Board to:

- ensure the integrity, reliability and accuracy of accounting and financial reporting systems;
- ensure that appropriate systems are in place for monitoring risk, control and compliance with the law and codes of conduct;
- evaluate the adequacy and effectiveness of internal audit, risk and compliance;
- maintain a transparent and open relationship with the external auditors;
- review the scope, quality and cost of the statutory audit and the independence and objectivity of the auditors;
- set principles regarding the use of the external auditors for non-audit services.

Actuarial committee

The Actuarial Committee has been appointed by the Board to ensure that the technical actuarial aspects specific to long-term insurance companies are debated and reviewed independently.

In addition to acting as a sounding board for the Board and the statutory actuary, and assisting the statutory actuary and Board in fulfilling their duties, its functions include the following:

- To consider the financial soundness valuation results of Momentum Group, including the overall methodology and assumptions used to value the assets and liabilities of the company, as well as the controls applied by the statutory actuary;
- To consider the financial position and capital adequacy of the Momentum Group;
- To consider the statutory actuary's recommendations to the Board with regard to the distribution of surplus by way of bonus declarations to policyholders, as well as the declaration of profits as dividends to shareholders; and
- To determine that the necessary procedures and controls are in place which ensure the actuarial soundness of new products and revisions to existing products is appropriate with emphasis on the soundness of guarantees offered.

Risk Committee

The Risk Committee is responsible for the quality, integrity and reliability of the company's risk management process. The results of the Committee's work is reported to and considered by the Audit Committee to whom the Board has delegated its responsibility in this regard.

The Committee provides an objective oversight and review of the information presented by the various management teams on risks and risk management in their specific business units.

The Committee monitors the Group's entire risk profile, ensuring that the major risks are identified and reported.

The Committee's responsibilities include:

- Continued identification and evaluation of actual and potential risks, including opportunities, as they pertain to the Group as a whole;
- Suggesting the Group's appetite/tolerance for risks, and then setting its risk strategy policies;
- Reviewing the design, implementation and monitoring by management of the risk management process, and management's integration of it into the day-to-day activities of the company;
- Setting out the nature, role, responsibility and authority of the risk management support functions within the Group; and
- Reporting the results of their activities to the Audit Committee for reporting to the Board.

Investment Committee

The Investment Committee is a committee reporting to the Actuarial Committee and performs the role of a governance vehicle between the Group and its investment managers. The main functions of the Investment Committee include:

- Considering the appropriateness of the matching of assets and liabilities;
- Monitoring the investment performance of all the Group's investment portfolios and comparing these to comparable benchmarks;
- Evaluating the investment performance of the Group's investment managers relative to the performance of other investment managers with similar mandates;
- Evaluation of the appropriateness of new and existing mandates and their various benchmarks;
- Monitoring the investment manager's compliance with investment mandates and applicable investment regulations;
- Making recommendations pertaining to the remuneration structure of the Group's investment managers; and
- Understanding the investment philosophy of the investment managers and the extent of deviations from the best investment view.

Credit Risk Committee

The Credit Risk Committee ("CRC") is a sub-committee of the Risk Committee. The responsibilities of the committee include:

- Review and approval of credit risk exposure in the Group;
- Establish and maintain a sound credit management methodology and capability;
- Review and maintain credit risk management techniques and methodologies; and
- Monitor counterparty exposure levels and take corrective action in the case of overexposure, excessive concentration or counterparty defaults;

Capital adequacy requirement

The Group holds liabilities to enable it to meet its obligations to policyholders as and when they fall due. The value of liabilities is calculated based on best estimates of future experience, plus prescribed and discretionary margins to allow for the possibility of adverse experience. However, in the event of severe adverse conditions, this may not be sufficient to enable the Group to meet all its liabilities. For this reason, in terms of the Long-term Insurance Act (1998), the Registrar of Long-term Insurance requires insurers to hold an additional amount of capital, to ensure liabilities can be paid as and when they fall due in extreme circumstances.

This additional amount is known as the Capital Adequacy Requirement ("CAR"). The calculation of the CAR is prescribed by the Long-term Insurance Act and is based on an approximate 95% confidence level of meeting liabilities. This results in an excess amount of capital being maintained to ensure that there will be sufficient assets to cover 95% of losses in extreme circumstances.

In accordance with the professional guidance note PGN 104 of the Actuarial Society of South Africa, the CAR is calculated as the amount of capital required to absorb certain material deviations in interest rates, investment markets, mortality and morbidity rates, termination rates and expenses. This is then reduced to reflect the assumed management actions in the event of adverse scenarios materialising. Assumed management actions may vary from year to year but generally includes an assumed reduction in future bonus rates in the event of market values reducing. The assumed management actions are approved by the Board annually.

In accordance with professional guidance note PGN 110 allowance has been made in the CAR for the potential detrimental impact of minimum investment guarantees on smoothed bonus and market-related individual life policies.

The main contributor to the CAR is the investment resilience component. In determining the investment resilience CAR, it was assumed that a decline of 30% in equity asset values, 15% in property asset values and a change in the market value of fixed-interest securities commensurate with a 25% relative increase in the fixed and real yields to maturity would occur immediately. Where an assumed decrease of 25% in yields resulted in an increase in CAR, the increase has been taken into account.

It was furthermore assumed that all assets backing the CAR are invested in cash, near-cash or variable rate preference shares.

As at 30 June 2006, the Group's CAR was R1 978 million (2005: R2 041 million) and was covered 3.1 times by its statutory surplus of R6 104 million (2005: 2.2 times). The Group's target for the CAR is cover of between 1.8 and 2.2 times.

Operational risk

Operational risk is defined as the direct or indirect loss resulting from inadequate or failed internal processes, people or technology. Operational risks include (but are not limited to) the following categories:

- Process/systems risk – Automated systems have been implemented to monitor critical transactions and proactively flag potential high risks. These risks are then investigated and followed up by individuals in areas such as business operations, ERM and the forensic investigations department.
- Information security – The risk of a loss of confidentiality, integrity or availability of information. Security mechanisms have been implemented to safeguard the organisation against malicious code such as viruses and worms. Intrusion detection systems enable the monitoring of unauthorised activity on the network. No significant losses or service breaks due to information security breaches or deficiencies were experienced during the period under review.
- Business continuity – Appropriate business continuation measures have been implemented for key activities. Furthermore, disaster recovery plans are tested annually. The challenge for the Group's business continuity management programme is to maintain the effectiveness of plans amidst constant change of business profiles, system growth and changes, as well as the occasional physical transfer of units to new or alternative sites.
- Legal risk – There are various legal risks applying to the business including the risk embedded in the contractual arrangements with clients and counterparties, employment, corporate matters and such like. Legal advisors are employed in the business units to assist with the management of the legal risk.
- Compliance risk – The risk of non-compliance with statutory requirements including regulations imposed by the Financial Services Board. Compliance risk is managed by business unit managers who achieve this through the use of compliance officers in the respective business units and a combination of training, monitoring and service activities to provide assurance that the various regulations are identified, understood and effectively managed. These compliance officers report to the Group Compliance Officer, who in turn reports to the Company Secretary.
- Fraud risk – One of the main operational risks to which the Group is exposed, relates to fraud and theft. The conduct of staff within the Group is subject to the Group Code of Ethics, which is communicated to all staff. Group forensic services provide fraud prevention, detection and investigation services to support business unit management in meeting their objectives of mitigating fraud risk. The team comprises three full-time investigators, who liaise closely with client service staff to identify fraudulent policyholder claims relating to risk products and fraudulent payment transactions on investment products. Proactive training of client service staff takes place to ensure that fraudulent claims and payments are identified and investigated timeously. The forensic investigation team also advises on improvements to internal control systems.

Financial risk

Financial risk is defined as "the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract".

Financial risks may affect the fair value of the assets held by the Group, in respect of a reduction in market values, changes in interest rates and currency fluctuations. In addition the Momentum Group is subject to financial risks on the liabilities associated with the investment, maturity and pricing guarantees. Financial risks may result in a reduction in current and future fees, policyholders' expectations not being met or damage to the Group's reputation, and in the extreme, insolvency of the company.

The Group, with the assistance of the Investment Committee manages financial risks by matching the assets held by the group with the liabilities payable by the group. Investments are made in assets which are expected to provide cash flows that match liability outflows as and when they are expected to occur.

In addition, the Investment Committee monitors investment performance of all investment portfolios, compares performance against benchmarks and evaluates the appropriateness of investment mandates and benchmarks.

Market risk

Market risk is the risk that the Group is unable to meet its obligations due to changes in the market value of the assets backing the liabilities, as well as a decrease in the net asset value due to a decline in the fair value of shareholder assets.

For each of the major components of market risk, described in more detail below, the Group has put in place policies and procedures to manage and monitor each risk in terms of the Group's overall risk appetite.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The majority of currency exposure within the Group results from the offshore assets held by policyholders' portfolios to provide the desired international exposure, subject to the limitations imposed by the South African Reserve Bank. The largest portion of these assets are backing linked policyholders' liabilities, this results in the majority of the currency risk being passed to the policyholder in terms of the policy agreement.

Refer to note 39 for further risk management analysis.

Interest rate risk

Interest rate risk is the risk that the Group may be unable to meet its obligations due to changes in interest rates. The following sections set out the areas where the Momentum Group is exposed to interest rate risks, as well as how these are managed.

Non-profit annuity business

An annuity pays an income to the annuitant for life, in return for a lump sum consideration paid on origination of the annuity. Income payments may be subject to a minimum period. The income may be fixed, or increase at a fixed rate or in line with inflation.

The Group guarantees this income and is therefore subject to interest rate risk, in addition to the risk of longer than anticipated life expectancy. In order to hedge against the interest rate risk, the Group invests in an actively managed portfolio of government and corporate bonds, promissory notes from banks and swaps, of the same duration as the liabilities. The mismatch risk is measured in terms of duration and convexity risk. The asset manager aims to minimise both these risks. Index-linked annuities, which provide increases in line with inflation, are matched with index-linked bonds. Where perfect cash flow matching is not possible, interest rate risk is minimised by ensuring the values of assets and liabilities respond similarly to small changes in interest rates, and a mismatching liability is raised as a component of the investment stabilisation account. In a monthly meeting with the asset managers, the matching position of the portfolio is considered as well as the need for corrective action. The asset managers are motivated, by way of performance fees, to minimise any mismatching risk.

As an indication of the robustness of the asset-liability management, it is worth noting that a 25% horizontal shift in the risk-free yield curve as at 30 June 2006, would have resulted in a 2.5% move in the liability relative to assets.

Similar to the annuity portfolio, the liability for Permanent Health Insurance payments to disabled employees of insured group schemes is matched by fixed and index-linked bonds to protect the Group against interest rate movements.

Guaranteed endowments and structured products

The Group issues guaranteed endowment policies, the majority of these contracts are five-year single premium endowment policies providing guaranteed maturity values. In terms of these contracts policyholders are not entitled to receive more than the guaranteed maturity value as guaranteed on inception. The Momentum Group hedges the risk of being unable to meet the guaranteed maturity value by investing in zero coupon corporate bonds of comparable yield and term to maturity.

A variation on guaranteed endowment policies are contracts where the capital guarantee is combined with a guaranteed return linked to the returns on local and offshore market indices. The Momentum Group hedges the risk associated with the guarantee on these contracts through the purchase of zero coupon bonds and the risk of the offshore indices is hedged through equity-linked notes issued by banks. In addition to the above mentioned hedging strategies a portion of the guaranteed endowment policies is reinsured with reputable reinsures in terms of the group's reinsurance policies.

Hedging on guaranteed and structured endowments is robust. It was calculated that, at 30 June 2006, a 25% horizontal shift in the zero coupon yield curve would have resulted in a 0.2% move in the liability relative to assets.

Other non-profit business

In addition to mortality risk, morbidity risk, expense risk and persistency risk, there is also the risk that investment return experienced may be lower than that assumed when the price of insurance business was determined. The Group reduces this risk by investing in assets comparable to the nature of these liabilities, such as fixed interest investments.

Impact of changes in interest rates

Refer to note 39.11 for further risk management analysis.

Property risk

Property risk is the risk that the value of investment properties will fluctuate as a result of changes in the rental market. Property investments are made on behalf of policyholders, shareholders and other investment clients and are reflected at market value. Diversification in property type, geographical location and tenant exposure are all used to reduce the risk exposure.

Equity risk

Equity risk is the risk that the value of a financial instrument will fluctuate as a result of changes in the market place.

The equity exposure arises from equity investments made on behalf of shareholders and policyholders, including equities backing guaranteed liabilities, minimum investment return guarantees in some universal life products, and as a result of fees charged as a percentage of policyholder assets that are invested in equities.

Equities are reflected at market values, which are susceptible to fluctuations. The risks from these fluctuations can be separated into systematic risk (affecting all equity instruments) and specific risk (affecting individual securities). In general, specific risk can be reduced through diversification but systematic risk cannot.

The Group manages its equity risk by employing the following procedures:

- mandating specialist equity fund managers to invest only in listed equities, where there is an active market and where access is gained to a broad spectrum of financial information relating to the companies invested in;
- diversifying across many securities to reduce specific risk. Diversification is guided by the concentration rules imposed on admissable assets by the Long-Term Insurance Act;
- requiring these fund managers to maintain the overall equity exposure within the prudential investment guidelines set by the Financial Services Board; and
- considering the risk-reward profile of holding equities and bearing the risk in order to obtain higher expected returns on assets.

Individual insurance and investment contracts with discretionary participation features

The Momentum Group offers various product lines in this category, some of these products have been closed to new business.

Assets are invested in a balanced mix of local and offshore equities, fixed interest assets, property and cash, according to the asset manager's best investment view. The Investment Committee regularly monitors the asset mix and performance to ensure that the expected returns are in line with policyholders' expectations. Separate investment portfolios are managed for separate smoothed bonus products.

The investment return earned on the underlying assets, after tax and charges, is distributed to policyholders in the form of bonuses in line with product design, policyholder reasonable expectations, affordability and management discretion. The use of bonuses is a mechanism to smooth returns to policyholders, in order to reduce the risk of volatile investment performance. Any returns not yet distributed are retained in a Bonus Stabilisation Account (BSA), for future distribution to policyholders.

In the event of adverse investment performance, such as a sudden or sustained fall in the market value of assets backing smoothed bonus business, the BSA may be negative. In such an event, the Group has the following options:

- To assume lower bonuses will be declared in future in valuing the liabilities; and
- To actually declare lower bonuses.

A portion of bonuses declared is not guaranteed and in the event of a fall in the market value of assets, the Group has the right to remove previously declared non-guaranteed bonuses. This will only be done if it is believed that markets will not recover in the short term.

A market value adjuster may be applied in the event of voluntary withdrawal to ensure that withdrawal benefits do not exceed the market values. This is to protect remaining policyholders. The application of market value adjusters is in line with the principles of the Statement of Intent agreed between the Insurance Industry and National Treasury in South Africa in December 2005 and the resultant ongoing project between the industry and the National Treasury. The limitations imposed on the size of market value adjusters under these agreements could result in surrender values higher than the market value of assets under some market conditions which limits the effectiveness of this risk management tool.

Using funds in the Additional Bonus Stabilisation Account to temporarily or permanently top up the BSA on recommendation of the Actuarial Committee and approval from the Board of Directors. This is a general bonus stabilisation account set aside as a buffer to support all smoothed bonus business. This account is not attributable to any specific class of smoothed bonus business and is not intended for distribution under normal market conditions. In very extreme circumstances, funds may be transferred from the shareholder portfolio into the BSA on a temporary or permanent basis.

The Performance Guaranteed Fund product offered is a variation to the smoothed bonus products. Policyholders are guaranteed to receive at least a return of capital after five and ten years for single premium and recurring premium contracts respectively. In addition, management fees will be returned to policyholders if the portfolio did not achieve an investment return at least equal to inflation. Assets are invested in local and international equities, bonds and cash and the portfolio is managed as an absolute return fund.

Individual contracts offering investment guarantees

The Group has a book of universal life business that is closed to new business, which offers minimum maturity values based on a specified rate of investment return. This guaranteed rate is 4.5% per annum for the bulk of business. This applies to smoothed bonus portfolios as well as certain market-linked portfolios. A number of contracts also provide a guarantee to policyholders that the investment return or annual bonus rate will not be less than the minimum rate in any year.

As a result of the current low inflation environment, the Group no longer automatically offers these guarantees on new business. Policyholders do, however, have the option to purchase a minimum guaranteed return of up to 3.5% per annum in return for a guarantee charge. Only selected portfolios qualify for this guarantee and the guarantee also applies only for specific terms.

The Group manages the risk of being unable to meet guarantees by holding a specific liability for minimum maturity values and other guaranteed benefits arising from minimum contractual investment returns in accordance with local actuarial guidance. A stochastic model is used to quantify the reserve required to finance possible shortfalls in respect of minimum maturity values and other guaranteed benefits. The model is calibrated to market data and the liability is calculated every six months. Momentum also holds statutory capital in respect of the guarantee risk. The amount of capital is calculated to be sufficient to cover the cost of guarantees in all but extreme scenarios (where "extreme" is defined as the worst 5% of the outcomes from the stochastic simulations).

Group contracts with discretionary participation features

The Momentum Secure Bonus ("MSB"), Momentum Structured Growth ("MSG") and Momentum Capital Plus ("MCP") portfolios are offered to institutional investors and provide a continuous guarantee on capital and declared bonuses. Bonuses are fully vesting and are declared monthly in advance in the case of MSB and MCP, or annually in arrears in the case of MSG. These contracts are insurance contracts in terms of IFRS 4.

No market value adjuster applies but allowance is made for the payment of benefits over a period of up to 12 months if large collective outflows may prejudice remaining investors. Extensive use is made of derivative instruments to minimise downside market risk in the group DPF portfolios. Because of this strategy, bonus stabilisation accounts in respect of group DPF business are small, relative to the bonus stabilisation accounts on individual (retail) business.

Market-related/Unit-linked business

Market linked or unit-linked contracts are those invested in portfolios where there is a direct relationship between the returns earned on the underlying portfolio and the returns credited to the contract. These may be investment contracts or insurance contracts, and include universal life contracts which also provides cover on death or disability.

Policyholders carry the investment risk. However, the Group does carry a risk of reduced income from fees where these are based on investment returns or the underlying fund value, or where investment conditions affect its ability to recoup expenses incurred. There is furthermore also the risk of a damaged reputation if actual investment performance is not in line with policyholders' expectations. These risks are managed through the rigorous investment research process applied by the Group's investment managers, which is supported by technical as well as fundamental analysis.

Credit risk

Credit risk refers to the risk of loss arising from the inability of a counterparty to service its debt obligations.

Corporate and government debt

Management recognises and accepts that losses may occur through the inability of corporate debt issuers to service their debt. To mitigate this risk, the Credit Risk Committee has formulated guidelines, including a framework of limits based on the Group's risk acceptance criteria, the nature of the exposure, a detailed assessment of the counterparty's financial strength, the prevailing economic environment, industry classification and other qualitative factors. An assessment of this nature generates a counterparty specific rating. Pricing and provisioning is determined using the counterparty's "expected default frequency" and "recovery rate" in the event of default.

The Momentum Group has an internal credit risk function that performs ongoing risk management of the credit portfolio, which in turn is overseen by the Credit Risk Committee. The reporting process is supported by regular Credit Risk Exposure reporting, which contains the relevant data on the counterparty, credit limits and ratings. Counterparty exposure in excess of the set credit limit per counterparty is monitored and corrective action is taken where required.

The Group adopts a portfolio management approach to manage its credit exposures. In order to achieve appropriate diversification, limits are scrutinised at industry sector level, the number of single obligor exposures within rating categories and the targeted weighted average rating of the portfolio.

The Group's total exposure to corporate debt amounted to R30.2 billion at 30 June 2006. The following represent the major industry sectors to which the Group is exposed in terms of corporate debt at 30 June 2006:

Industry	Amount
Banks	R13.5 billion
RSA Government	R8.2 billion
Utilities	R0.8 billion
Mining	R0.7 billion
Other sectors	R7.0 billion
Total	**R30.2 billion**

The exposure to "other sectors" is spread across 31 industry sectors, with no single sector representing more than 2% of the total corporate debt exposure.

The exposure to banks represents debt issued by the largest A-rated banks in South Africa. The largest single counterparty exposure is to FirstRand Bank Limited, with R7.5 billion in exposure at 30 June 2006.

The total corporate debt portfolio is spread as follows across the various ZAR rating categories (based on the Standard & Poors rating scale) at 30 June 2006. The ratings are relative to South African government debt.

AAA	25%
AA+	1%
AA	2%
A+	1%
A	45%
A–	5%
BBB+	4%
BBB	6%
BBB–	2%
BB+	6%
BB	1%
B	1%
B–	1%

The weighted average rating of the portfolio at 30 June 2006 was an A-rating.

Commission debtors

Commission debtors arise when upfront commission paid on recurring premium policies is clawed-back on a sliding scale within the first two years of origination. As the largest portion of the Group's new business arising from intermediaries relates to brokers that are subsidiaries of A-rated SA Banks, the risk of default is minimal, and relates mainly to independent intermediaries.

An impairment of commission debits is made to the extent that these are not considered to be recoverable, and a legal recovery process commences.

Reinsurance

The Group only enters into reinsurance treaties with reinsurers registered with the Financial Services Board. The reinsurers contracted represent subsidiaries of large international reinsurance companies, and no instances of default have yet been encountered.

Regular monthly reconciliations are performed regarding claims against reinsurers, and the payment of premiums to reinsurers.

Reinsurer	Reinsured proportion	International credit rating of reinsurer (Standard & Poors)
Swiss Re	48%	AA-
Hannover Re	25%	AA-
GeneralCologne Re	12%	AAA
RGA Re	13%	AA-
Munich Re	1%	–
Other	1%	–

Policy loan debt

The Group's policy is to automatically lapse a policy where the policy loan debt exceeds the fund value. There is therefore little risk that policy loan debt will remain irrecoverable.

Scrip lending

The Group lends out listed equity holdings to a maximum of 50% of the total holding. At 30 June 2006, a total of R9 055 million, or 11.3% of the total equity holding, was out on loan. Fees received for scrip lending are included in fee income.

Collateral, in the form of either cash or fixed interest government bonds, at least equal to the value of scrip on loan is retained on an ongoing basis in order to mitigate the risk of default.

Derivative contracts

The Group enters into derivative contracts with A-rated local Banks on terms set out by the industry standard International Swaps and Derivatives Agreements ("ISDA"). In terms of these ISDA agreements, derivative assets and liabilities can be set-off with the same counterparty, resulting in only the net exposure being included in the overall Group counterparty exposure analysis.

Liquidity risk

Liquidity risk is the risk that the group will encounter difficulty in raising funds to meet commitments to policyholders under policy contracts and in respect of other obligations.

All policyholder funds are invested in assets that match the reasonable benefit expectations of policyholders, which includes the expectation that funds will be available to pay out benefits as required by the policy contract. The majority of assets invested in are listed financial instruments that are actively traded on the various stock and bond exchanges, resulting in the ability to liquidate most of these investments at relatively short notice.

The only significant shareholders' liability is the callable bond issued during the current year. The Group shareholders' funds include sufficient cash resources to fund the coupon payments under this bond, and the nominal amount, which is callable in 2014, will be funded from cash resources at that time.

The following table gives an indication of liquidity needs in respect of cash flows required to meet obligations arising under long-term insurance contracts (as defined under IFRS 4). The amounts in the table represent the excess of claims and expenses over premium income. Only expected cash flows from the current in-force book have been modelled – future new business has been ignored. Annually renewable policy contracts, namely lump sum group risk business and credit life business, have been excluded from the table (but group annuities have been included). Cash flows from investment contracts (as defined under IFRS 4) have also been excluded, as a table with the maturity profile in respect of this class of business has been included in note 39 to the accounts.

Period when cash flow becomes due (insurance contracts)	Amount payable R million
Less than 1 year	1 363
1 to 5 years	6 863
5 to 10 years	8 940
10 to 30 years	25 427

Fair values

The carrying amounts of all assets backing policyholder liabilities (other than policy loans and certain held-to-maturity preference shares) reflect the fair values of the assets concerned. Similarly, the actuarial valuation of policyholder liabilities under investment contracts represents the fair value of the contractual liability under un-matured policies.

Assets making up the shareholders' free reserves have been reflected at fair values in determining the surplus attributable to shareholders, with the exception of certain held-to-maturity preference shares and the share trust loans.

Insurance risk

Insurance risks relate to the likelihood that future claims and expenses will exceed the value placed on insurance liabilities. This could occur due to the uncertainty of the timing and amount of future cash flows arising under insurance contracts. In determining the value of insurance liabilities, assumptions need to be made regarding future rates of mortality, morbidity, termination rates, expenses and investment performance. The uncertainty of these rates will result in actual experience being different from that assumed and hence actual cash flows being different from those projected.

The larger the portfolio of contracts, the smaller the expected variation between actual and expected experience. In addition, the more diversified a portfolio of risks, the smaller the impact of deviation of actual experience in a particular risk factor, compared to the assumption.

The following table shows the value of liabilities held in respect of each of the main classes of business for insurance and investment contracts combined, as at 30 June 2006.

		Policyholder liabilities (R'm)	Liabilities as a percentage of total
Linked (market related) business	• Individual life	56 283	42%
	• Employee benefits	34 044	26%
Discretionary participating business	• Individual life	13 006	10%
	• Employee benefits	5 775	4%
With-profits reversionary bonus business		3 312	3%
Non-profit business	• Individual life	3 099	2%
	• Employee benefits	2 879	2%
Annuity business		14 672	11%

The main insurance risks are set out below, as well as how the Group manages the risks.

Mortality and morbidity risks

The risk that actual experience in respect of the rates mortality and the rates of morbidity may be higher than assumed in pricing and valuation, varies, depending on the terms of different products. The material classes of business most affected by these risks are discussed below.

Individual insurance business

Products are sold directly to individuals providing benefits on death and disability, including impairment, or in the event of suffering a critical illness. The main insurance risk relates to the possibility that rates of death or disability may be higher than expected. This may be due to:

- Normal statistical variation due to the random nature of insurance events;
- Incorrect assumption regarding future experience;
- Natural catastrophes such as floods or earthquakes, and unnatural catastrophes such as acts of terrorism;
- The impact of HIV/AIDS or epidemics such as Asian Bird Flu;
- Anti-selection such as where a client who has a pre-existing condition or disease purchases a product where a benefit will be paid on death or in the event of contracting such a disease;
- The effect of selective withdrawal which means policyholders are less likely to withdraw voluntarily if they are more likely to need the cover in the foreseeable future;

- Economic conditions resulting in more disability claims; and
- Concentration risk which is the risk of a large number of claims from a single event, or in a particular geographical area.

Risks are managed and mitigated via risk management practices, including:

- Underwriting, which is the assessment of health risk, hazardous pursuits or financial risk, including the requirement of a negative HIV test as a condition for accepting risk, charging extra premiums or declining cover where applicable based on the outcome of the underwriting, and differentiating premiums for risk factors such as age and smoker status;
- Claims assessment processes to ensure only valid claims are paid;
- Appropriate pricing including allowing for known risks based on actual claims experience, and making use of profit-testing techniques;
- Regular review of premium rates and approval of the approach to setting premium rates by the Statutory Actuary;
- A guarantee period shorter than the policy term applies to risk business, and enables the Group to review premium rates on in-force contracts during the life of contracts. The guarantee period on whole-life products is generally within the range of 10 to 15 years;
- Appropriate policy conditions, including setting appropriate maximum income replacement ratios in the case of products providing disability benefits, and approval of policy conditions by the Statutory Actuary;
- Reserving for AIDS risk in accordance with the guidelines issued by the Actuarial Society of South Africa as set out in Professional Guidance Note ("PGN") 105;
- Reinsurance to limit the Group's liability on particularly large claims or substandard risks. On individual pure risk business, the Group reinsures 30% of the mortality risk and 35% of the morbidity risk. The maximum retention on aggregate mortality and morbidity risks on any one life is R3 million;
- Concentration risk is reduced by diversification of business over a large number of uncorrelated risks and several classes of insurance, as well as by taking out catastrophe reinsurance. The Group's catastrophe reinsurance cover for the current financial year is R170 million in excess of R30 million for any single event involving three or more lives, in respect of both individual and group business.

The following table shows the spread of amounts at risk per life and in total, both gross and net of reinsurance. Benefits include those payable on death, and both standalone and accelerated dread disease and disability benefits.

Sum at risk per benefit	Number of benefits	Total amount at risk gross of reinsurance (R million)	Total amount at risk net of reinsurance (R million)
0 – 50 000	126 569	2 009	1 955
50 001 – 100 000	125 669	8 078	7 572
100 001 – 200 000	184 254	24 977	22 334
200 001 – 500 000	286 972	93 713	77 593
500 001 – 1 000 000	158 383	112 488	86 331
more than 1 000 000	100 319	203 205	118 521
Total	**982 166**	**444 470**	**314 306**

Before reinsurance, 46% of the total amount at risk is for sums at risk exceeding R1 million per benefit. This reduces to 38% if reinsurance is taken into account.

Group risk business

Employee benefit products provide life and disability cover to members of a group such as employees of companies or members of trade unions. Typical benefits are:

- Life Insurance (mostly lump sum but some children and spouse's annuities)
- Disability Insurance (lump sum and income protection)
- Dread Disease
- Continuation of insurance option

The products are as a rule quite simple and mostly basic products with a one- year renewable term. In most cases the products are compulsory for all employees although it has become more common recently to provide members with a degree of choice when selecting risk benefits.

Underwriting on group business is much less stringent than for individual business as there is typically less scope for anti-selection. The main reasons for this are that participation in the group insurance programme is normally compulsory, and as a rule members have limited choice in the level of benefits. Where choice in benefits and levels is offered, this is accompanied by an increase in the level of underwriting to combat anti-selection.

Groups are priced using standard mortality and morbidity tables plus an explicit AIDS loading. The price for an individual scheme is adjusted for the following risk factors:

- Region
- Salary structure
- Gender structure
- Industry

For large schemes (typically for 200 or more members) the past experience of a scheme is a crucial input in setting a rate for a scheme. The larger the scheme the more weight is given to the scheme's past experience.

Rates are guaranteed for one year. Rates may be guaranteed for up to three years on request but will be subject to an additional loading.

The Group does not pay claims resulting from active participation in war or from Atomic, Biological and Chemical weapon risks.

To manage the risk of anti-selection, there is an Actively at Work clause which requires members to be actively at work and attending to their normal duties for cover to take effect. This is waived if we take over a scheme from another insurer for all existing members.

In addition, a pre-existing clause applies which says that no disability benefit will be payable if a member knew about a disabling condition within a defined period before the cover commenced and the event takes place within a defined period after cover has commenced.

There is a standard treaty in place covering group business. Lump sum benefits in excess of R2 million are reinsured and disability income benefits above R20 000 per month are reinsured.

There are some facultative arrangements in place on some schemes where a special structure is required for example a very high free cover limit or high benefit levels.

In addition, there is a Catastrophe Treaty in place for both group business and individual business. Such a treaty is particularly important for the group risk business as there are considerably more concentrations of risks compared to individual business. The catastrophe cover is for losses over and above R20 million with an upper maximum of R200 million.

An indication of the concentration risk in respect of group business can be obtained by noting that the five largest group schemes contribute 23% to the total risk exposure under group life cover in force at 30 June 2006.

Individual Annuity Business

Annuity contracts provide a specified regular income in return for a lump sum consideration. The income is normally provided for the life of the annuitant. In the case of a joint-life annuity, the income is payable until the death of the last survivor. The income may furthermore be paid for a minimum guaranteed period and may be fixed or increased at a fixed rate or in line with inflation. The mortality risk in this case is that the annuitants may live longer than assumed in the pricing of the contract. This is known as the risk of longevity.

The Group manages this risk by allowing for improvements in mortality when pricing and valuing the contracts. The Group measures deviations of experience from assumptions bi-annually and also performs more detailed actuarial experience investigations every two years and adjusts assumptions in pricing for new contracts and valuation of existing contracts when necessary. The last detailed investigation was performed on 30 June 2005.

The following table shows the distribution of number of annuities by total amount per annum as at 30 June 2006.

Income category pa	Number of annuitants	Amount per annum (R million)
0 to 10 000	69 082	285
10 001 to 50 000	29 757	628
50 001 to 100 000	4 283	294
100 001 to 200 000	1 603	214
200 001+	361	104
Grand total	**105 086**	**1 525**

The largest concentration in terms of the number of annuitants is for small amounts of income per annum. 93% of the total amount of income payable per year relates to income per annuity of R200 000 or less.

Permanent Health Insurance business

The Group also pays Permanent Health Insurance ("PHI") income to disabled employees, the bulk of which are from employee benefit insured schemes. The income payments continue to the earlier of death, recovery or retirement of the disabled employee. There is therefore the risk of lower recovery rates or lower mortality rates than assumed, resulting in claims being paid for longer periods. Claims in payment are reviewed annually to ensure claimants still qualify and rehabilitation is managed and encouraged.

Persistency Risk

Persistency risk relates to the risk that policyholders may cease or reduce their contributions, or withdraw their benefits and terminate their contracts prior to the contractual maturity date of a contract. Expenses such as commission and acquisition expenses are largely incurred at outset of the contract. These upfront costs are expected to be recouped over the term of a contract from fees and charges from the contract. Therefore, if the contract or premiums are terminated before the contractual date, expenses might not have been fully recovered, resulting in losses being incurred. As a result, the amount payable on withdrawal normally makes provision for recouping any outstanding expenses. However, losses may still occur if the expenses incurred exceed the value of a policy, which normally happens early on in the term of recurring premium policies, or where the withdrawal amount does not fully allow for the recovery of all unrecouped expenses. This may either be due to a regulatory minimum applying, or because of product design. The recovery of expenses is in line with the principles contained in the statement of intent as agreed between the Insurance Industry and National Treasury in the Republic of South Africa in December 2005 and the resulting ongoing project.

Therefore, in addition to setting realistic assumptions with regards to termination rates (rates of withdrawal and lapse), based on the Group's actual experience, specific amounts are set aside to cover the expected cost of any lost charges when policyholders cease their premiums or terminate their contracts.

Expense risk

There is a risk that the Group may experience a loss due to actual expenses being higher than those assumed when pricing and valuing policies. This may be due to inefficiencies, higher than expected inflation, lower than expected volumes of new business or higher than expected terminations resulting in a smaller in-force book size.

The Group regularly performs expense investigations and sets pricing and valuation assumptions to be in line with actual experience, with allowance for inflation. The latest investigation was performed at 30 June 2006. The inflation assumption furthermore allows for the expected gradual shrinking of the number of policies arising from the run-off of books closed to new business arising from past acquisitions.

Business volume risk

There is a risk that the Group may not sell sufficient volumes of new business to meet the expenses associated with distribution and administration.

A significant portion of the new business acquisition costs are variable and relate directly to sales volumes. The fixed cost component can be scaled down if there is an indication of a permanent decline in business volumes. A further mitigating factor is that the distribution channels used to generate new insurance and investment business, are also used to distribute other product lines within the group, such as health insurance and short-term insurance.

Sensitivities

The following table sets out the impact on liabilities of changes in the key valuation assumptions. The numbers in the table demonstrate the impact on liabilities if experience deviates from our "best estimate" assumptions in all future years – not only in one given time period. For mortality, morbidity and discontinuance rates, the sensitivities that result in liability increases were shown. On some product lines, this means an increase in the assumption, whereas on others it will represent a decrease. For instance, the "10% worsening in mortality" sensitivity assumes that future mortality experience on insurance policies will be 10% heavier than assumed in the valuation basis, while annuitant mortality will be 10% lighter.

	Liability	Renewal expenses increase by 10%	Expense inflation increases by 1%	Dis-continuance rates worsen by 10%	Mortality and morbidity worsen by 10%	Investment returns reduce by 1%
Insurance Business (as defined under IFRS 4)						
Retail Insurance Business (excluding annuities)	22 954	23 125	23 080	23 055	23 844	22 945
Annuities (retail and employee benefits)	13 660	13 692	13 703	13 660	14 022	14 930
Employee Benefits Business	3 351	3 355	3 353	3 351	3 394	3 450
Investment Business (as defined under IFRS 4)	93 105	93 208	93 196	93 199	93 249	93 276
Total	**133 070**	**133 380**	**133 332**	**133 265**	**134 509**	**134 601**

The above sensitivities were chosen, because they represent the main assumptions regarding future experience that Momentum employs in determining its insurance liabilities. The magnitudes of the variances were chosen to be consistent with the sensitivities shown in Momentum's published embedded value report and also to facilitate comparisons with similar sensitivities published by other insurance companies in South Africa.

It is not uncommon to experience one or more of the stated deviations in any given year. However, a 10% change in mortality and morbidity experience is less likely to occur. A change of this magnitude can be considered an extreme event.

There might be some correlation between sensitivities. For instance, changes in investment returns are normally correlated with changes in discontinuance rates. The table above shows the impact of each sensitivity in isolation, without taking into account possible correlations.

The table does not show the financial impact of variances in lump sum mortality and morbidity claims in respect of employee benefit business, because of the annually renewable nature of this class of insurance. An indication of the sensitivity of financial results to mortality and morbidity variances on this class of business can be obtained by noting that a 10% increase in mortality and morbidity lump sum benefits paid in any given year will result in a reduction of R49 million in the before-tax earnings of the Momentum Group.

It should be pointed out that the table shows only the sensitivity of liabilities to changes in valuation assumptions. It does not fully reflect the impact of the stated variances to Momentum's financial position. In many instances, changes in the fair value of assets will accompany changes in liabilities. An example of this is the annuity portfolio, where assets and liabilities are closely matched. A change in annuitant liabilities, following a change in long-term interest rates, will be countered by an almost equal change in the value of assets backing these liabilities, resulting in a relatively modest overall change in net asset value.

DISCOVERY GROUP

Discovery is exposed to financial risk through its financial assets, financial liabilities, reinsurance assets and insurance liabilities. In particular the key financial risk is that the proceeds from its financial assets are not sufficient to fund the obligations arising from its insurance and investment contracts. The most important components of this financial risk are foreign currency risk, liquidity risk, credit risk, interest rate risk and market risk.

Discovery manages these risks through various risk management processes, all forming part of an asset liability management framework. This framework has been developed to ensure that the long-term investment return on assets supporting policy liabilities is sufficient to fund policyholders' reasonable benefit expectations and the shareholders' dividend expectations. The following committees have been established to implement and monitor these risk management processes:

- Executive Committees in each business unit;
- Discovery Holdings Executive Committee;
- Audit and Risk Committee;
- Actuarial Committee; and
- an Investment Committee.

Discovery Life

Product descriptions

Discovery Life offers policyholders a range of insurance and financial solutions. The Discovery Life products reflect Discovery's underlying philosophy to make members healthier and to enhance and protect their lives. Discovery Life offers some unique benefits that integrate with the benefits offered by Discovery Health and Vitality.

Discovery Life Plan

The Discovery Life Plan provides protection against a comprehensive spectrum of risks. The plan covers:

- Life Cover benefits
- Disability benefits
- Severe Illness benefits
- Income Continuation benefits

The Life Fund forms the financial foundation of the Life Plan. The Life Fund can be linked to a benefit escalation rate, for example inflation, and will then automatically increase at each policy anniversary. The Life Fund can also be linked to global investment markets and a selection of currencies via the Global Linkage Benefit to provide additional protection in real terms and in foreign currencies.

The key risk benefits are then defined as a percentage of the Life Fund. The Life Fund is reduced by the amount of benefits paid from the Life Fund. The Life Fund can be protected against claims by means of the Minimum Protected Fund. Multiple claims are allowed against the Life Fund from the same benefit.

There are a number of risk benefits that are defined in monetary terms or in the form of indemnity benefits, rather then being expressed as a percentage of the Life Fund. These benefits include:

- Income Continuation benefit
- Global Education benefit
- Global Health Protector

The Life Plan has unique features allowing policyholders to add benefits for other family members. The Global Education protector, Global Health Protector, Childbirth benefit, Child Severe Illness benefit, Parent Severe Illness benefit and Family Trauma benefit allow protection for the whole immediate family.

By actively maintaining and improving their health Discovery Life policyholders, through the Integrator benefit, could receive premium discounts and refunds of premiums.

The Life Plan provides whole of life cover. Premium guarantees are offered and quantified on most benefits. For example, the premiums for Life cover are guaranteed not to increase by more than 25% for any 10-year period.

Premiums are payable monthly. There are four funding methods that allow policyholders a choice of premium funding patterns. A combination of level premium funding patterns, annually increasing premium patterns and 10-yearly stepped premium funding patterns are offered. The higher the compulsory future premium increase, the lower the starting premium.

At 30 June 2006, there were 146 000 Life Plans with an annualised premium income of R1 709 million.

Health Plan Protector

The Health Plan Protector will fund contributions to the Discovery Health Medical Scheme in the event of death, disability or severe illness. It further rewards members for positive health management through the payback benefit. The Health Plan Protector can be added to the Life Plan or can be bought on a standalone basis. The Health Plan Protector provides cover up to age 65.

At 30 June 2006, there were 55 000 Health Plan Protector policies with an annualised premium income of R122 million.

Discovery Retirement Optimiser

The Retirement Optimiser offers funding for retirement and offers unique benefits that could together with the Life Plan, capitalise unneeded risk cover to boost retirement funding. Policyholders have a choice of linked investment portfolios or a portfolio that offers a guaranteed return in real terms.

Group Life

Discovery Life offers a comprehensive spectrum of protection benefits on a group basis. Life cover, Severe Illness, Disability and Income Continuation cover is offered on a group basis. The policies offered under Group Life can be cancelled or the premiums adjusted at the end of the contract term (usually one year).

At 30 June 2006, there were 129 000 lives covered under group policies with an annualised premium income of R247 million.

Insurance and financial risks

Market and mismatching risk

- *Shareholder funds* – Shareholder investments are reflected at fair value and thus susceptible to market fluctuation. The shareholder portfolio is a well diversified portfolio to reduce specific risk.

- *Insurance contracts* – The insurance related cash outflows (eg benefit payments and administrations expenses) have been matched with future cash inflows (predominantly future premiums). This can clearly be seen by considering the expected future cash flows arising from insurance contracts:

	Cash flow
Year 1	563
Years 2 to 5	1 540
Years 5 to 10	1 077
Years 11 to 20	681
Years 21+	(2 575)

  The value of assets under insurance contracts is calculated by discounting the expected future cash flows shown above. The effect of discounting is R1 196 million. The discount rate is set with reference to the prevailing risk-free gilt yield. There is thus a risk that a change in the risk-free gilt yield could cause a change in the value of the assets under insurance contracts.

  The positive insurance liability held is mostly short term in nature and have consequently been matched with cash.

  The risk under the Global Linkage benefit is fully reinsured and Discovery does not face any net direct market risk. In the event of the reinsurer defaulting, the investments held by the reinsurer to hedge their risk relating to the Global Linkage benefit, will be ceded to Discovery Life.

- *Investment contracts* – Discovery Life has written business with linked benefits under the Discovery Retirement Optimiser product.

  Although Discovery Life is not exposed to significant market risk as the policyholder's return is linked to the return on the underlying asset, Discovery Life is exposed to market risk to the extent that management fees and charges are dependent on the market value of the assets under the linked policies. There is thus a risk that the management fees could be insufficient to cover operational expenses.

- *Embedded derivatives* – Discovery Life does not currently have significant embedded derivatives that do not meet the definition of insurance contracts.

Automatic increase take-up rate

The majority of Discovery Life policyholders have selected policies with automatic premium and benefit increases. The automatic increases increase the profitability of the plans over time since the cash flows under the policy are maintained in real terms.

These automatic increases are contractual, however, if a policyholder is no longer in a position to meet the premium increases, they may elect to change their policy to a plan with lower premium and benefit increases. In practice it has been found that most of the policyholders continue with their initial funding plans. However, for valuation purposes it has been assumed that all policyholders change to plans with minimum premium increases without changing the cover levels as at the valuation date. This is the worst case scenario and thus acts as a margin.

Lapse and surrender risk

Policyholders have the option to discontinue or reduce contributions at any time. There is a risk of financial loss due to the withdrawal rate being higher than expected. The risk is highest during the early duration of the policy since the acquisition costs and commission incurred at the inception of the policy will not yet have been recouped. There is also a risk of lower than expected withdrawals at late durations of the policy since no surrender value is payable on withdrawal from a risk policy.

There is a further risk that the withdrawals are selective from a claims experience point of view. For example, healthy lives may find it easier to obtain cover elsewhere compared to less healthy lives.

Future earnings are dependent on the number of policies remaining in future years and thus future earnings are dependent on the lapse rate. The future expected earnings vary by the premium funding method chosen by the policyholder. In general, the withdrawal risk to future earning increases, the higher the compulsory increase.

The lapse risk is managed as follows:

- *Product design* – Products are designed to be sustainable in the long term. New product offerings are made available to existing policyholders as far as possible to prevent lapse and re-entry risk.

  Integration between different product offerings across Discovery enhances the value proposition of the overall package of products from Discovery. For example Vitality provides unique rewards and benefits to members which has proven to be a credible risk differentiator. Premium discounts are available to policyholders who actively engage in a healthier lifestyle and utilise the Vitality benefit. Better terms are thus offered to healthy lives compared to less healthy lives.

On the Health Plan Protector a payback benefit is offered. The Payback benefit returns a percentage of policyholders' premiums, less claims, at regular intervals. The Payback benefit improves the value proposition of the policy.

No surrender benefit is offered on risk benefits and thus the loss on withdrawal is reduced.

- *Distribution* – Discovery Life predominantly distributes via independent intermediaries. The intermediary sales channel typically experiences lower lapse rates than a direct channel.

  Commissions are also clawed back from intermediaries where a policy lapses within the first two years of inception. The amount of commission clawback depends on the duration of the policy in months and gradually reduces from 100% to 0% over the two-year period.

- *Client relationships* – All premiums are collected via debit order. Clients are contacted after a failed debit order and after notification of a cancellation. The reason for the cancellation is established and wherever possible the policies are conserved.

- *Reinsurance* – Discovery has reinsurance treaties that protect a part of the assets under insurance contracts against a substantial increase in lapses. The reinsurance protects Discovery Life against the loss of assets under insurance contracts in the event that the aggregate lapse rate exceeds a predefined level.

- *Experience monitoring* – Lapse experience is monitored on a monthly basis and the data is analysed to establish possible trends for which management action can be taken.

Reinsurance credit risk

There is a risk that a reinsurer does not perform in accordance with the reinsurance contract.

This risk is limited as risk premiums are paid monthly to reinsurers and claims can be offset against risk premiums. Further it is expected that there will be little build-up of actuarial liability on the reinsurers' side. Liabilities under reinsurance contracts are primarily premiums payable on reinsurance contracts covering lapse risk. The risk thus mainly arises following a period of higher than expected claims.

The risk is mitigated by the choice of reinsurers. Only reinsurers that have appropriate credit ratings and are subsidiaries of large multi-national reinsurance groups, are used.

Underwriting experience risk

There is a risk that actual mortality and morbidity experience is higher than expected. This could arise as a result of the number of claims or the value of claims being higher than expected.

Selection is the risk that worse risks than expected are attracted and these risks are then charged inadequate premiums. Selection could also lead to higher than expected mortality and morbidity experience.

There is a risk that the emergence of a new disease or epidemic can increase the number of claims, for example, an outbreak of Avian Flu. The risks are managed through:

- *Product design and pricing* – Products are carefully designed to minimise adverse selection. Rating factors are applied to standard premium rates to differentiate between different levels of risk. For example, premiums are differentiated by income, education level, smoker status, gender, medical history and age. Discovery Life has the unique ability to take additional rating factors into account, for example, the current medical scheme claims and lifestyle factors.

  All new premium rates are reviewed and approved by the statutory actuary.

  Product integration between the different product offerings in the Discovery Group helps to attract healthier lives than average in the market leading to positive selection.

  For certain of the product-options offered under the Life Plan, Discovery Life has retained the option to review premium rates annually throughout the life of the contract because of uncertainties underlying the value of the benefits offered. Only premiums that can be predicted with confidence are guaranteed. Where guarantees are offered, Discovery guarantees that premiums can only be reviewed every 10 years and increased by a maximum of 25%. The guarantee provided to the policyholder will, however, be strengthened based on policyholders' actual annual historic Vitality status.

  Discovery Life predominantly operates in the high end of the insurance market where the risk to AIDS is lower than for the market as a whole. The impact of HIV/AIDS is considered and allowed for during the product development and pricing.

  Group business can be reviewed at least once every two years. AIDS risk is specifically allowed for in the pricing of individual groups.

  Overall, Discovery Life has experienced better than estimated claims experience during every reporting period since its inception in 2001.

- *Underwriting* – Underwriting ensures that only insurable risks are accepted and that premiums reflect the unique circumstances of each risk. For individual policies with lump sum life cover, the minimum requirement will be an HIV test.

  Financial underwriting is applied to ensure that the policyholder can justify the amount of cover applied for.

  Premium loadings and exclusions are applied where high risks are identified. Discovery Life can dynamically adjust premiums using the information from the health claims experience of a policyholder who is also a member of the Discovery Health Medical Scheme and Vitality. This provides Discovery Life with an advantageous position in the market.

  Group business is underwritten on an employer by employer basis and additional allowance is made for the impact of industry class, income and geographic location on expected claims experience. The free cover limit is the sum assured that will be given automatically to a specific life without further specific underwriting. The free cover limits are set separately for each scheme depending on the size and cover chosen by the specific scheme.

Quality assurance audits are performed on underwriting to minimise the risk of incorrect underwriting decisions.

- *Reinsurance* – Reinsurance protects against volatility in claims experience and against an accumulation of risk. Reinsurance is further utilised on a facultative basis if uncertainty exists over the terms that should be offered to a particular risk.

  In addition, reinsurers provide specialist advice when designing new products.

  Discovery Life utilises Surplus Reinsurance to reinsure the proportion of each risk in excess of R2.25 million as at the policy inception. Discovery Life is thus protected against large individual claims.

  In addition, catastrophe reinsurance reduces the risk of an accumulation of risk due to a single event. Both individual and group business are covered by the catastrophe reinsurance.

- *Experience monitoring* – Experience investigations are conducted and corrective action is taken where adverse experience is noted. Experience monitoring is done on at least a quarterly basis.

Expense risk

Expense risk is the risk of actual expenses being higher than expected. Expenses could exceed expectations due to an increase in the expense inflation or due to a reduction in the number of in-force policies. Expenses are monitored on a monthly basis against budgeted expenses. Any deviation from the budget is investigated, reported and where necessary, remedial action is taken.

Modelling and data risk

The actuarial liabilities are calculated using complex discounted cash flow models. There is thus a risk that the model doesn't accurately project the policy cash flows in the future.

The risk is controlled using specialist actuarial software that is widely used and accepted in the life insurance industry throughout the world.

The original actuarial model was tested and verified using an independent but identical parallel model. Any changes made are externally and independently reviewed. Parallel models are developed to test any modelling changes.

The model relies on data from the administration system and there is thus a further risk that the data does not accurately reflect the policies being valued.

The data is extracted from a single modern administration system and subjected to detailed checks together with high level reasonability checks. Discovery Life does not have any legacy systems that could impact on the data quality.

Operational/Implementation risk

Discovery faces operational risk due to factors such as management failure, inadequate systems, inadequate controls, internal and external fraud, human error and a disruption in the normal operating environment.

Discovery's core value serves as an overall guidance to staff and aim to create a culture of prudence, accountability and integrity. Discovery further manages these risks through internal controls, internal audit, forensic functions, back-up facilities and insurance.

Segregation of duties ensure multiple checks on process and further protects against the risk of fraud.

Discovery does not have any legacy systems and processes to deal with thereby reducing operational risk.

Regulatory risk

Discovery Life operates in a highly regulated environment which is currently being scrutinised and questioned by both consumers and regulators. This has resulted in the constant review of the in-force regulations and the interpretation thereof. The regulatory risk can thus be defined as the potential detrimental impact of unexpected changes in regulations (or interpretation thereof) on Discovery Life.

Discovery Life is a member of the Life Offices Association, an industry-wide body that engages in discussions with policymakers and regulators.

Although Discovery endeavours to design insurance solutions which meet the requirements of the current regulations in force, the risk does exist that changes in the regulations, or the interpretation of the regulations, over time may result in the current products not fully complying with the regulations in force in future. This risk is managed through constantly seeking legal advice on new product developments. Further, all products issued by Discovery Life has to be signed off by the independent Statutory Actuary.

In addition, Discovery Life further does not have legacy retirement business that is affected by the recent rulings made by the Pension Fund Adjudicator.

Discovery Life's compliance department enhances regulatory compliance through audits and by monitoring developments in the regulatory environment.

Tax risk

Tax risk is the risk that the actual future tax liability is different to what is currently expected. This could be as a result of an incorrect interpretation or application of tax legislation or as a result of changes to taxation legislation.

External tax advice is obtained as required to ensure that products are structured in a tax efficient way.

Currency risk

All of Discovery Life's benefits are Rand denominated, with the exception of the Global Linkage Benefit, a benefit where the sum insured can be linked to global investment markets or a selection of currencies. The Global Linkage Benefit is fully reinsured. Discovery Life does therefore not have significant net currency risk.

Investment return

The value of the assets under insurance contracts is dependent on the underlying assumption of future investment returns.

There is thus a risk that actual investment returns are different to expected. Discovery Life currently has negative policyholder liabilities overall and the exposure to fluctuations in actual market returns is thus low.

Capital adequacy requirements and protection against adverse experience

There is a risk that future premiums and estimates used to calculate liabilities are insufficient to provide for variations in actual future experience. Margins are maintained in all liabilities. In addition, Discovery maintains shareholder capital to meet substantial deviations in experience.

In accordance with the Long-term Insurance Act (1998), Discovery Life is required to demonstrate solvency to the Registrar of Long-term Insurance. Discovery Life thus needs to maintain sufficient shareholder assets, over and above the assets required to fund shareholder liabilities, to fund the Capital Adequacy Requirement ("CAR").

The CAR is calculated in accordance with the Professional Guidance Note ("PGN") 104 as issued by the Actuarial Society of South Africa ("ASSA"). The CAR calculation is intended to approximate a risk-based capital measure and covers the major areas of insurance risk. It explicitly covers the following areas of risk:

- Lapse and Withdrawal risk
- Fluctuations in mortality and morbidity experience
- Fluctuation in expense experience
- AIDS risk
- Risk of asset liability mismatches
- Risk of worse than expected investment returns

No management action was allowed for to offset adverse conditions. At 30 June 2006, the statutory capital adequacy requirement was R94 million and was covered 14.0 times.

Liquidity risk

The liquidity risk is the risk that Discovery Life has insufficient cash available to meet commitments as and when they fall due. Liquidity risk arises due to a timing mismatch between the assets and liabilities.

Discovery maintains sufficient liquid assets to meet short-term liabilities and to allow for the initial cash flow strain when writing new business.

Currently, Discovery Life's expected liabilities are mostly long term and the main liquidity requirement is to fund acquisition expenses on new business. The liquidity risk on the existing portfolio is thus relatively small.

Large individual claims in excess of R3 million are reinsured, providing stability in claims experience and further reducing the liquidity risk.

The net of tax and net of reinsurance expected cash inflows under in-force insurance and investment contracts as at 30 June 2006 were as follows:

	Cash flow
Year 1	472
Years 2 to 5	1 675
Years 5 to 10	2 140
Years 11 to 20	4 328
Years 21+	10 557

Note that these cash flows differ from those disclosed earlier, since these are based on best estimate cash flows not taking into account the margins included within the liability calculations. No allowance has been made for new business and related expenses.

Policy wording/legal risks

There is a risk that Discovery could be financially exposed to obligations that are different to expected and not adequately provided for. The risk could also arise from legal proceedings.

The risk is managed when new products are developed and all policy wordings are reviewed by legal advisors and external advice is obtained where necessary to ensure that terms and conditions are clearly defined and unambiguous.

Reputational risk

Reputational risk is the risk of negative market reaction towards Discovery Life. Discovery Life may thus not be able to apply management policies to reduce risk.

Reputational risks are controlled in that all decisions to repudiate claims are reviewed by the chief medical officer and legal advice is obtained where necessary.

Marketing material and policy wordings are reviewed and designed to be clear and unambiguous to avoid creating unreasonable policyholder expectations.

Discovery Life offers policies that integrate with the product offerings within the Discovery Group. The reputational risk to Discovery Life is thus extended to the reputational risk of the entire Discovery Group. Discovery Life management reviews all product offerings to minimise the reputational risk. All products are approved by the statutory actuary prior to launch.

Concentration risk

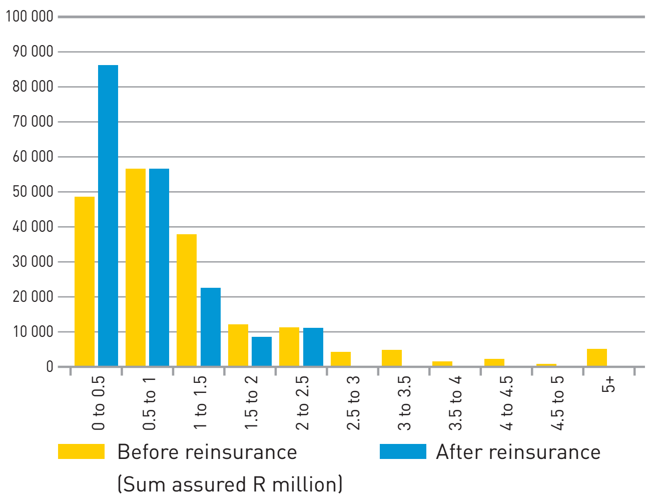
- *Claims experience risk* – There is a risk that a concentration of risk can lead to worse than expected experience. The concentration risk is the highest in group business, since assured lives live in the same geographical location and generally work in the same industry or at the same location.

  Discovery's exposure to group business is, however, small at this stage and this risk is mitigated through catastrophe reinsurance.

  Discovery Life maintains a well diversified portfolio of policies. Reinsurance is further used to protect against the concentration of risk. Catastrophe reinsurance protects against accumulation of claims from a single event, for example an airplane crash.

Reinsurance removes the exposure to large individual claims, as demonstrated by the table below:

Retained sum assured
(Number of lives covered)



The distribution of policies by sum assured is thus shifted towards lower sum assured.

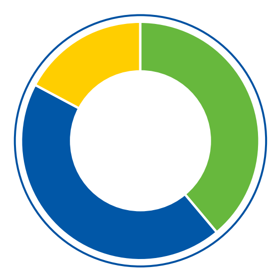
Withdrawal concentration risk
There is a financial risk of the withdrawal of a block of policies written by a single independent intermediary.

Discovery Life has a well diversified book of business by source of new business and spread across more than 6 000 brokers.

The maximum exposure of Discovery Life to a single intermediary is smaller than 1% and to a group of intermediaries is 6.3% in number of policies.

The distribution of API by concentration to an intermediary group is given in the graph below. A large concentration is defined as an intermediary group that has written more than 1 000 Discovery Life policies. A small concentration is defined as an intermediary group that has written less than 100 policies.

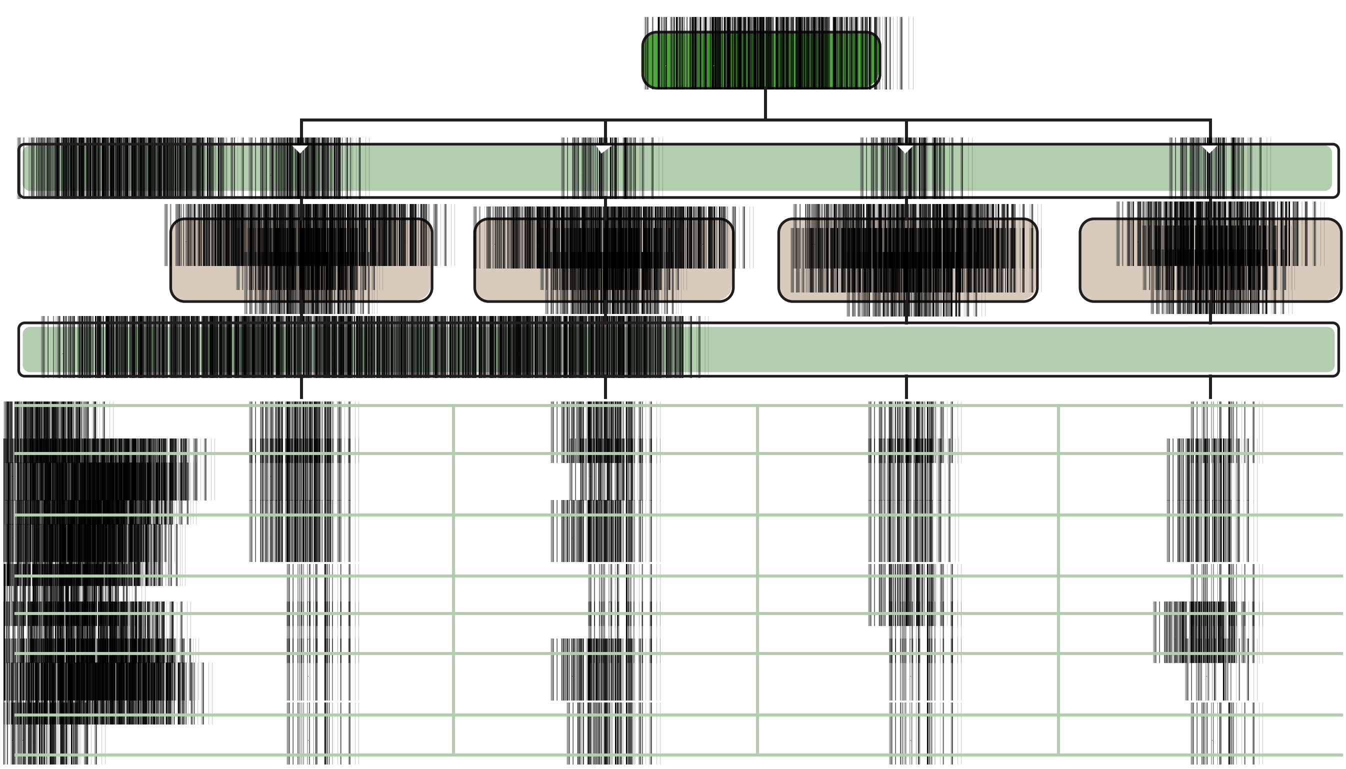
API Concentration by intermediary



38.9% Small concentration (0 – 99 policies)
43.9% Medium concentration (100 – 999 policies)
17.2% Large concentration (1 000+ policies)

Destiny Health

The Destiny Health business is written in seven jurisdictions (Illinois, Wisconsin, Massachusetts, Washington DC, Virginia, Maryland and Texas) and on the paper of four insurance carriers (Destiny Health Insurance Company, Guardian Life Insurance Company, Clarendon National Insurance Company and Tufts Insurance Company). Apart from the Destiny Health Insurance Company, all other paper is rated A- and higher by AM Best Company. Different reinsurance and risk sharing agreements govern the retained risk to Destiny Health in each of these markets and on each of the licences. The distribution of business and effective risk sharing is illustrated in the chart below:



Product description

The Destiny Health Plan comprises a medical plan providing medical coverage with a number of benefit options.

The plan typically covers the following Health Insurance Benefits:

- Hospital benefits covering a range of inpatient hospital care and related services.
- Surgery benefits apply for outpatient surgery that is medically necessary; and the surgery cannot be performed in a physician's office.
- Day-to-day benefits relate to physician office visits and in-office treatment. Optional coverage is provided for:
  - Chronic medication, which covers prescribed medications, including insulin, that are required for the treatment of certain chronic illnesses.
  - Total medication, which covers all prescribed medications.
  - Preventive medications, covering prescription drugs, as defined by the plan, for the preventive treatment of various health conditions.
  - Preventative care, covering costs for services such as childhood immunisations and mammograms.
  - Hospital and surgery benefit, providing coverage for hospital and surgery services subject to a separate deductible.

Insurance and financial risks

Destiny Health writes contracts providing health insurance coverage to individuals and employer groups in select markets within the United States of America. Destiny Health retains all or part of the insurance risk obligation.

- *Underwriting experience risk* – Destiny is exposed to uncertainty surrounding the timing and severity of claims under its contracts of insurance. Risk premium rates are estimated using statistical techniques at a level reflective of expected annual claims cost per member, on a pooled basis. Insurance events are, by nature, random and the actual number and size of events during any one year may vary from those estimated using established statistical techniques.
  Destiny Health strengthened its reinsurance programme on 1 October 2005 by lowering the attachment points from US$300 000 to US$250 000. More than 93% of the new business written by Destiny Health has 50% quota share coverage.

  These risks are further managed through:

  - *Underwriting to screen risk and rate appropriately* – Destiny Health requires medical tests on individual policies. In smaller groups a statement of health disclosure is required. Lifestyle information is used in addition to medical history. Key risk factors considered in individual and small group underwriting are: age, gender, region, industry, height and weight and medical and lifestyle information. Industry data sources are used to augment information obtained.

  In the large group segment (51 and more employees) underwriting mainly comprises experience rating using claims history, aligned with industry practice. Non-disclosure, participation and pre-existing condition monitoring are further mechanisms used to manage upfront selection risk.

  - *Pricing* – Premiums are annually renewable and policies are cancellable upon non-payment (all size groups), non-disclosure (groups with 51 or more employees) and fraud (all size groups). Some states require small group rates to be within a particular band, ie the highest rate cannot exceed the lower by more than mandated percentage. The distribution of business quoted and sold is monitored on a weekly basis and the aggregate of business sold at the highest rates are aimed to be fewer than 10%. Pricing is monitored on an ongoing basis and changes to pricing occur monthly. Pricing information sources include internal analysis, provider data, industry pricing tables, and partner data. Destiny Health's pricing is also reviewed from time-to-time by external consultants.

  - *Managing Health* – Destiny Health uses specialist external consultants for the following services:

    - Pharmacy benefit management
    - In-patient and outpatient utilisation management, case management, disease management and maternity management
    - Mental health benefit and case management
    - The disease management programme uses risk screening and predictive modelling to identify members for outreach.
    - Destiny Health's wellness programme, Vitality, plays an integral part in promoting health awareness, incentevising healthy behaviour and providing access to wellness programmes and facilities.

  - *Claims management* – Claims payment patterns are short tailed by nature, and 90% of claims are typically settled within three months from dates of service. Destiny Health does not have exposure to latent claims, as all original claims are required to be submitted within 12 months from date of service. Average receipt of claims differs by territory, and currently runs at 45 days for all markets combined.

  Provider network contracts provide some claim cost relief. Groups, and in some circumstances members, choose regional provider networks. Services outside the region are available through PHCS, a national network of providers. In addition, specialist mental health network and transplant networks are used to control the costs on related services. Overseas coverage is only available for a 90-day period outside of the United States. Limited benefits are paid when non-participating providers are used.

  Controls and procedures also exist to identify fraud, inaccurate billing, non-disclosure, and pre-existing conditions. A co-ordination of benefits provision applies when a member has healthcare coverage under more than one plan, including Medicare.

– *Ongoing risk monitoring* – The Destiny Health Risk Committee meets weekly focusing on new business and underwriting, renewals, and claims experience and medical management respectively. The meeting comprises executives from Destiny Health and representatives from Discovery in South Africa. Destiny Health also reports through to the Discovery Holdings Actuarial Committee, a sub-committee of the Discovery Holdings' Board, meeting at least four times per year.

Within the framework of Destiny Health's quality management programme the Medical Management Committee convenes quarterly to review medical practices and procedures and overall medical management. This committee comprises internal executives and external medical experts. Destiny Health's vendor oversight programme requires quarterly meetings with all managed care vendors.

– *Concentration risk* – Concentration of risk increases Destiny Health's exposure to factors impacting the severity and frequency of claims. Destiny Health management is focused to diversify geographical, group size exposure and quality of business risk to promote a balanced portfolio.

Concentration metrics are summarised below (gross premium in R million):

Distribution by Age and Market

R million	Illinois	Massachusetts	Mid-Atlantic*	Texas	Wisconsin	Total
Age range:						
Under 20	2	1	1	–	–	4
20 to 29	85	21	31	3	11	151
30 to 39	159	43	55	5	18	280
40 to 49	212	61	51	6	19	349
50 to 59	170	49	33	4	13	269
60 plus	61	15	12	1	3	92
Total	689	190	183	19	64	1 145

** Washington DC, Virginia and Maryland*

Distribution by Group Size and Market

R million	Illinois	Massachusetts	Mid-Atlantic*	Texas	Wisconsin	Total
Group size:						
1	5	1	–	–	–	6
2 to 50	472	109	84	12	26	703
51 to 100	143	39	36	7	26	251
101 to 500	64	41	63	–	12	180
500 plus	5	–	–	–	–	5
Total	689	190	183	19	64	1 145

** Washington DC, Virginia and Maryland*

IBNR calculation

The IBNR calculation is an estimate of claims incurred but not yet paid at 30 June 2006. The provision is calculated as the difference between the expected fully incurred claims for all months up to the calculation date, and the actual claims already paid for each month as at the calculation date. The calculation of the incurred claims estimate requires assumptions and actuarial judgement. Actual experience will differ from these estimates and impact profits in the post calculation period. The calculation methodology, key assumptions and the sensitivity of the estimate to changes in the key assumptions are outlined below.

Description of IBNR methodology

A monthly outstanding claims liability estimate is calculated for each of the four separate licences. Sub-categories are developed per licence for claims with different completion characteristics.

Claim lag triangles are populated for each category using paid claim information (chain ladder method). Triangles are also generated at the licence level.

Completion factors are developed for each triangle. In each case, the final completion factors are a blending of various methods, where the weighting applied to each method varies based on the availability of data, maturity of the block and other notable characteristics. Where insufficient data exists for a particular block, the final completion factors used may be based in part or in full on other similar business. Large claims are removed from the triangle for factor development purposes where these result in disproportionate distortions to the lag pattern.

Sensitivity analysis

The IBNR provision is most sensitive to changes in claims development patterns. Another relevant assumption is medical inflation (trend). The table below shows the impact of a change in these assumptions on the 30 June 2006 IBNR.

	Base		5% increase in claims development patterns		1% increase in trend	
R million	Gross	Net	Gross	Net	Gross	Net
	50	42	51	43	50	42
CNIC	20	20	20	20	20	20
GLIC	71	33	72	34	71	33
TICO	19	9	20	10	20	10
	160	104	163	107	161	105

PruHealth

Product description

PruHealth offers three main product types:

- *Individual product* – This is offered to the retail market either direct or via a broker. The product features include:
  - Private Medical Insurance: Cover is offered for a range of private healthcare related claims. The cover is dependent on the plan type chosen and includes hospital and outpatient cover for selected conditions. It specifically excludes emergency cover, maternity cover and cover for chronic conditions.
  - Starter discounts: Up to 30% based on answers to healthcare questions.
  - Renewal discounts: Discounts are offered at renewal depending on claims and Vitality status.
  - Vitality rewards: Full Vitality package, including gym offering and healthcare related rewards.
- *SME product* – This is an age-rated product offered to small groups (2 – 100) via the broker market. The product features include:
  - *Private Medical Insurance* – Cover is offered for a range of private healthcare related claims. The cover is dependent on the plan type chosen and includes hospital and outpatient cover for selected conditions. It specifically excludes emergency cover, maternity cover and cover for chronic conditions.
  - *Renewal discounts for employers* – Discounts are offered at renewal depending on loss ratio.
  - *Cashback* – Employees are eligible for cash bonuses depending on the amount claimed during the period and their Vitality status.
  - *Vitality rewards* – A full Vitality package is offered, including gym offering and healthcare related rewards.
- *Corporate product* – This is a product with fixed premiums by age that is fully experience rated each year. It is offered by brokers and employee benefit consultants. The product features include:
  - *Private Medical Insurance* – Cover is offered for a range of private healthcare related claims. The cover is dependent on the plan type chosen and includes hospital and outpatient cover for selected conditions. It specifically excludes emergency cover, maternity cover and cover for chronic conditions.
  - *Cashback* – Companies can select their desired level of cashback. If selected, employees are eligible for cash bonuses depending on the amount claimed during the period and their Vitality status.
  - *Vitality rewards* – A full Vitality package is offered, including gym offering and healthcare related rewards.

Insurance and financial risks

PruHealth takes a proactive approach to managing its risk and each business unit responsible for the five risk groupings identified below have initiated a series of risk management processes to ensure that they are adequately controlled.

Insurance risk

The key areas of risk are premium pricing, claims volatility and failing to meet target levels of business. Monthly meetings are held to review actual experience against original pricing assumptions. Current claims experience is monitored against expected to ensure that PruHealth's current pricing assumptions are reasonable. Information is fed into the pricing reviews conducted by the Actuarial and Underwriting department. On a quarterly basis, the financial forecast is reviewed against emerging experience. The financial model uses the product pricing assumptions and profitability output to produce a model office with financial statements that provide an overview of future company profitability and capital requirements of the business.

PruHealth uses Milliman, an external actuarial consultancy, for external peer review and formal product sign off. Milliman will continue to perform ongoing reviews of the results of emerging experience against our pricing assumptions. Their review will focus on underwriting, claims experience, reserving, demographics and new product pricing.

A recent project has been completed to evaluate reinsurance options to PruHealth in the market and an excess of loss reinsurance treaty has been concluded with a joint syndicate consisting of Wellington (a Lloyds syndicate) and Sirius, an international reinsurer.

Liquidity risk

The key areas of risk here are asset mismatching, the inability to sell financial assets quickly enough and unexpected cash flows. At present the first two risks are minimised as all financial assets are held as cash and hence our liquidity position is strong. To manage unexpected cash flows monthly financials are compared to budget and quarterly budget re-forecasting is conducted to ensure that any additional financing required from PruHealth's shareholders is identified at least three to six months ahead.

Credit risk

Key counter parties identified that may result in a credit risk to PruHealth are premium debtors and brokers. Premium debtors are managed by strong collection processes to ensure that the identification of any unpaid debt exists and this is reported on a monthly basis. Most commission claw-backs are off set against future payments and hence the risk of outstanding commission is minimal. Whilst PruHealth's entry into a reinsurance arrangement will have an impact on their credit risk, it is not significant at present.

Market risk

The key areas of risk are the movement on interest rates and exchange rate movements resulting in reduced income. PruHealth invests its cash assets on the overnight money market, seeking the best interest rate it can achieve in accordance with its investment policy. At present, budgeted interest rate is being achieved. Should there be a change in the market, PruHealth's budgets would be adjusted accordingly to reflect the reduced investment income achievable. Exchange rate movements have been largely managed through the creation of an annual expense contract with Discovery and the fixing of exchange rates.

Operational risk

A detailed Risk Management Framework has been implemented across PruHealth through the implementation of individual business unit risk registers, a complaints management process and regular business continuity reviews.

IBNR calculation

The PruHealth IBNR calculation is performed using the chain ladder approach. This allows for the historic patterns of claims payment in determining the likely future emergence of claims. Due to the variability of estimates for the recent months, an adjustment is made to the claims for more recent months to allow for the number of pre-authorised claims and the expected cost per pre-authorised event.

The data used for the chain ladder calculation includes all claims processed from April 2005 to the end of June 2006. Adjustments are made to the IBNR using pre-authorised claims for the period February 2006 to June 2006.

A 10% increase in assumed IBNR will result in a R1.9 million increase in the IBNR provision.

Discovery Health

Product description

Select benefit

The select benefit provides cover to members of Discovery Health Medical Scheme who selected the Select plan option. This product has been closed to new business since 2000. The following benefits are provided:

- The Private Ward Benefit provides a stated benefit of R825 per day when the policyholder is admitted to hospital. There is no overall benefit limit and the benefit ceases at age 65.
- The US Benefit covers the cost of treatment in the United States where the procedure is not available in South Africa. There is a lifetime benefit limit of US$1 million, and cover ceases at age 65.

The private ward benefit is reinsured on a quota share basis, and the overseas cover benefit is fully reinsured.

As at 30 June 2006, there were 9 649 lives covered under the select benefit with an annual premium income of R17 million.

Primary Care network

With effect from 1 January 2006, Discovery Health Medical Scheme pays Discovery Health (Pty) Ltd a monthly fee for each beneficiary on the Scheme's KeyCare Plus Plan. In return for the monthly fee, Discovery Health (Pty) Ltd covers both the cost of healthcare services provided by the Primary Care network for these beneficiaries and the cost of administration of the Primary Care network. The covered Primary Care network services include unlimited visits to a specified GP, basic pathology, radiology, optometry, dentistry and acute and chronic medication.

As at 30 June 2006 there were 126 864 lives covered under the Primary Care Network Benefit with an annual premium income of R144 million.

Financial instrument risks

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

Discovery operates internationally and its exposures to foreign exchange risk arise primarily with respect to the US dollar and the UK pound. As a result, foreign exchange risk arises from net investments in foreign operations.

Discovery manages short-term foreign currency exposures. Forward exchange contracts are utilised to reduce exposure to currency risk and are designated as cash flow hedges.

Refer to note 39.12 for more details.

Credit risk

Credit risk is the risk that a counterparty to a financial instrument will default on their obligation to Discovery, thereby causing financial loss.

Key areas where Discovery is exposed to credit risk are:

- reinsurers' share of insurance liabilities;
- amounts due from Discovery Health Medical Scheme; and
- cash and cash equivalents held at various financial institutions.

Discovery structures the levels of credit risk it accepts by placing limits on its exposure to a single counterparty, or groups of counterparties. An appropriate level of provision is maintained.

Discovery managers its exposure to credit risk in reinsurance assets held by placing reinsurance with reputable international companies. The credit rating of the company is assessed when placing the business and where there is a change in the status of the reinsurer.

The risk of cash and cash equivalents is managed through dealings with the major banks and exposures are monitored against approved limits.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

Investments in government and utility stocks and money market securities and deposits are managed by qualified asset managers.

Refer to note 39.13 for more details.

Legal risk

Legal risk is the risk that the Group will be exposed to contractual obligations which have not been provided for.

The Group has a policy of ensuring all contractual obligations are documented and appropriately evidenced to agreements with the relevant parties to the contract.

All significant claims are reviewed by independent legal resources and amounts are immediately provided for if there is consensus as to any possible group exposure. At 30 June 2006, the directors are not aware of any significant obligation not provided for.

Liquidity risk

Liquidity risk is the risk that Discovery will encounter difficulty in raising cash to meet commitments associated with financial instruments. Liquidity risk arises when there is mismatching between the maturities of liabilities and assets.

Policyholder funds are invested in appropriate assets, taking into account expected cash outflows. Discovery has significant liquid resources.

Market risk

Market risk is the risk that the value of a financial instrument will fluctuate due to changes in market prices.

Equity investments are made on behalf of policyholders and shareholders. Equities are reflected at market values, which are susceptible to fluctuation. Of the total investments subject to equity price risk being R1 600 million (2005: R1 299 million), R1 176 million (2005: R932 million) are designated shareholder specific assets not linked to policyholders' liabilities. All market securities are managed by qualified asset managers in line with a mandate approved by the investment committee.

Refer note 39 for further risk management analysis.

1. BASIS OF PRESENTATION

The Group's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The Group prepares its audited consolidated financial statements on a going concern basis using the historical cost basis, except for certain financial assets and liabilities where it adopts the fair value basis of accounting.

These financial assets and liabilities include:

- financial assets and liabilities held for trading;
- financial assets classified as available-for-sale;
- derivative financial instruments;
- financial instruments elected to be carried at fair value;
- investment properties valued at fair value; and
- policyholder liabilities under insurance contracts that are valued in terms of the Financial Soundness Valuation ("FSV") basis as outlined below.

The preparation of audited consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

In accordance with the transitional provisions set out in IFRS 1, "First-time Adoption of International Financial Reporting Standards" and other relevant standards, the Group has applied IFRS expected to be in force as at 30 June 2006 in its financial reporting with effect from FirstRand's transition date on 1 July 2004, with the exception of the standards relating to financial instruments and insurance contracts which were applied with effect from 1 July 2005.

Therefore, the impact of adopting IAS 32, IAS 39 and IFRS 4 are not included in the 2005 comparatives in accordance with IFRS 1. The Group previously followed South African accounting standards. As part of the adoption of IFRS, the Group has changed its accounting policy in respect of the accounting for joint ventures from proportionate consolidation to equity accounting, with effect from 1 July 2004.

All monetary information and figures presented in these financial statements are stated in Rand million, unless otherwise indicated.

2. CONSOLIDATION

The consolidated financial statements include the assets, liabilities and results of the operations of the holding company and its subsidiaries. Subsidiaries are companies in which the Group, directly or indirectly, has the power to exercise control over the operations for its own benefit. The Group considers the existence and effect of potential voting rights that are presently exercisable or convertible in determining control. Subsidiaries are consolidated from the date on which the Group acquires effective control. Consolidation is discontinued from the effective date of disposal.

The Group consolidates a special purpose entity ("SPEs") when the substance of the relationship between the Group and the SPE indicates that the Group controls the SPE.

The Group uses the purchase method of accounting to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.1 Consolidation of collective investment schemes

The Group consolidates collective investment schemes in which it is considered to have control through its size of investment, voting control or related management contracts. The consolidation principles as described above are applied.

3. ASSOCIATES AND JOINT VENTURES

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

The Group includes the results of associates and joint ventures in its consolidated financial statements using the equity accounting method, from the effective date of acquisition to the effective date of disposal. The investment is initially recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

Earnings attributable to ordinary shareholders include the Group's share of earnings of associated companies and joint ventures, the Group's reserves include its share of post-acquisition movements in reserves of associated companies and joint ventures. The cumulative post-acquisition movements are adjusted against the cost of the investment in the associated or joint venture company.

The Group discontinues equity accounting when the carrying amount of the investment in an associated or joint venture company reaches zero, unless it has incurred obligations or guaranteed obligations in favour of the associated undertaking.

After discontinuing equity accounting, the Group applies the requirements of IAS 39 to determine whether it is necessary to recognise any additional impairment loss with respect to the net investment in the associate or joint venture company as well as other exposures to the investee. Goodwill included in the carrying amount of the investment in associate or joint venture is assessed for impairment in accordance with IAS 36 as part of the entire carrying value of the investment in the associate or joint venture.

The Group increases the carrying amount of investments with its share of the associated or joint venture company's income when equity accounting is resumed.

Unrealised gains on transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's interest in the entity. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the investors have been changed where necessary to ensure consistency with the policies adopted by the Group.

4. INTEREST INCOME AND EXPENSE

The Group recognises interest income and expense in the income statement for instruments measured at amortised cost using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the average expected life of the financial instruments or portfolios of financial instruments. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

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

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

5. TRADING INCOME

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

6. FEE AND COMMISSION INCOME

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

Certain fees and transaction costs that form an integral part of the yield 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 net interest income.

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.

7. DIVIDENDS

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

8. FOREIGN CURRENCY TRANSLATION

8.1 Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in Rand, which is the functional and presentation currency of the holding company of the Group.

8.2 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.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in the carrying amount are recognised in equity.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available for sale are included in the available-for-sale reserve in equity.

8.3 Group companies

The results and financial position of the Group entities (none of which has the currency of a hyperinflationary economy) that has a functional currency different from the presentation currency of the Group are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold or partially disposed of, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

9. BORROWING COSTS

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

10. DIRECT AND INDIRECT TAXES

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

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

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

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

Taxation in respect of the South African Life insurance operation is determined using the four fund method applicable to Life insurance companies.

11. RECOGNITION OF ASSETS

11.1 Assets

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

11.2 Contingent assets

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

12. LIABILITIES, PROVISIONS AND CONTINGENT LIABILITIES

12.1 Liabilities and provisions

The Group recognises liabilities, including provisions, when:

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

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

12.2 Contingent liabilities

The Group discloses a contingent liability where:

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

13. SALE AND REPURCHASE AGREEMENTS AND LENDING OF SECURITIES

The financial statements reflect securities sold subject to a linked repurchase agreement ("repos") as trading or investment securities. These instruments are measured at fair value, with changes in fair value reported in the income statement. The counterparty liability is included in deposits from other banks, other deposits, or deposits due to customers, as appropriate.

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

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

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

14. OFFSETTING FINANCIAL INSTRUMENTS

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

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

15. 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 original maturity date of less than three months from the date of acquisition.

16. FINANCIAL INSTRUMENTS

16.1 General

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

16.2 Financial assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. Management determines the classification of its investments 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.

Gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss category 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 should be recognised in profit or loss. However, interest calculated on available-for-sale financial assets using the effective interest method is recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the income statement when the entity's right to receive payment is established.

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

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

16.2.1 Financial assets at fair value through profit or loss

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

A financial asset is classified as a trading instrument if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges.

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

- Results in the reduction of measurement inconsistency (or accounting mismatch) that would arise as a result of measuring assets and liabilities and the gains and losses on them on a different basis; or
- 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
- A financial asset or liability containing significant embedded derivatives.

The Group recognises fair value adjustments on financial assets classified as fair value through profit and loss in trading income. Interest income on these assets is included in the fair value adjustment.

16.2.2 Loans and receivables

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

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

16.2.3 Held-to-maturity

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

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

16.2.4 Available-for-sale

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

The Group recognises gains and losses arising from changes in the fair value of available-for-sale assets, in equity. It recognises interest income on these assets as part of interest income, based on the instrument's original effective rate. Interest income is excluded from the fair value gains and losses reported in equity. When the 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.

16.3 Financial liabilities

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

The Group classifies certain liabilities at fair value through profit and loss to the extent that it produces more relevant information because it either:

- Results in the reduction of measurement inconsistency (or accounting mismatch) that would arise as a result of measuring assets and liabilities and the gains and losses on them on a different basis; or
- 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
- A liability containing significant embedded derivatives.
- The Group recognises fair value adjustments on financial liabilities classified as at fair value through profit and loss in trading income.

16.3.1 Policyholder liabilities under investment contracts

The Group accounts for policyholder liabilities under investment contracts at fair value through profit and loss. Refer to sections below for a detailed description of the valuation of policyholder liabilities under investment contracts.

16.3.2 Liabilities arising to third parties as a result of consolidating collective investment schemes

A financial liability is recognised for the fair value of external investors' interest where the issued units of the fund are classified as financial liabilities in terms of IAS 39. The consolidation of collective investment schemes has no effect on net equity.

16.4 Embedded derivatives

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

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

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

16.5 Derecognition of assets and liabilities

The Group derecognises an asset when the contractual rights to the asset expires, where there is a transfer of the contractual rights that comprise the asset, or the Group retains the liability to transfer these contractual rights to another party and consequently transfers substantially all the risks and benefits associated with the asset.

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

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

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

- If the Group has not retained control, it shall derecognise the financial asset and recognise separately as assets or liabilities any rights and obligations created or retained in the transfer; or
- If the Group has retained control, it shall continue to recognise the financial asset to the extent of its continuing involvement in the financial asset.

The Group derecognises a financial liability when it is extinguished (ie when the obligation specified in the contract is discharged or cancelled or expire).

17. IMPAIRMENT OF FINANCIAL ASSETS

17.1 General

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

17.2 Assets carried at amortised cost

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

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them 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 on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the 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 and the amount of the loss is recognised in the income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

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

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

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

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

When a loan is uncollectible, it is written off against the related provision for loan impairment. 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.

17.3 Available-for-sale financial assets

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss, 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 profit or loss, the impairment loss is reversed through the income statement.

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

18. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING

The Group initially recognises derivative financial instruments, including foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, currency and interest rate options (both written and purchased) and other derivative financial instruments, in the balance sheet at fair value and subsequently re-measures these instruments at their fair value.

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

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

The best evidence of the fair value of a derivative at initial recognition is the transaction price (ie 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 (ie without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Group recognises profits/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/loss") is deferred 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/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 Group designates certain derivatives as either:

- hedges of the fair value of recognised assets or liabilities or firm commitments ("fair value hedge"); or
- hedges of highly probable future cash flows attributable to a recognised asset or liability, or a foretasted transaction ("cash flow hedge").

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

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

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

18.1 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 profit or loss 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.

18.2 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 equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

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

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

The Group recognises fair value changes of derivatives that are designated and qualify as cash flow hedges and prove to be highly effective in relation to the hedged risk, in the cash flow hedging reserve in equity.

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

19. COMMODITIES

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

Commodities, where the Group has a shorter term trading intention, are carried at fair value less 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 fair valued.

20. PROPERTY AND EQUIPMENT

The Group carries property and equipment at historical cost less depreciation and impairment, except for land which is carried at cost less impairment. Historical cost includes expenditure 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 Group and the cost of the item can be measured reliably.

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 further 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
• 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 amortisation 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.

Repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

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

21. INVESTMENT PROPERTIES

The Group classifies investment properties as properties held to earn rental income and/or capital appreciation. It carries investment properties at fair value based on valuations by professional valuators. Valuations are carried out annually. Fair value movements are taken to the income statement in the year in which they arise. When investment properties become owner occupied, the Group reclassifies it to property and equipment and depreciates it on a straight-line basis at rates calculated to reduce the book value of these assets to estimated residual values over the expected useful lives.

The Group carries properties under development at cost, less adjustments to reduce the cost to open market value, if appropriate.

22. LEASES

22.1 A group company is the lessee

Finance leases

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

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

Operating leases

The Group classifies leases of assets, where the lesser effectively retains the risks and benefits of ownership, as operating leases. It charges operating lease payments to the income statement on a straight-tine basis over the period of the lease. Minimum rentals due after year end are reflected under commitments.

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

22.2 A group company is the lessor

Finance leases

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

Operating leases

The Group includes in a separate category "assets held under operating leases" 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 Group regards instalment credit agreements as financing transactions and includes the total rentals and instalments receivable hereunder, less unearned finance charges, in advances.

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

23. INTANGIBLE ASSETS

23.1 Goodwill

Goodwill represents the excess of the cost of an acquisition over the attributable fair value of the Group's share of the net assets of the acquired subsidiary or associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in Investments in associates.

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

For impairment purposes, goodwill is allocated to the lowest components of the business that is expected to benefit from synergies of the combination and at which management monitors goodwill ("cash generating unit"). Each cash generating unit represents a grouping of assets no higher than a primary business or reporting segment.

23.2 Computer software development costs

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

The Group carries capitalised software assets at cost less amortisation and any impairment losses. It amortises these assets on a straight-line basis at a rate applicable to the expected useful life of the asset, but not exceeding three years. Management reviews the carrying value wherever objective evidence of impairment exists. 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.

23.3 Other intangible assets

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

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

The Group carries capitalised trademarks, patents and similar assets at cost less amortisation and any impairment. 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 wherever 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 expenditure in the income statement.

23.4 Agency Force

As a result of certain acquisitions and the application of purchase accounting the Group carried an Agency Force intangible asset representing the value of the agency force acquired in the acquisition. The value of the agency force is determined by estimating the future value of the new business generated by the agents acquired. The Group amortises the agency force over its expected useful life of ten years.

23.5 Contractual customer relationships – rights to receive investment management fees

Incremental costs paid which are directly attributable to securing the rights to receive fees for investment management services sold with investment contracts are recognised as an intangible asset where they can be identified separately and measured reliably and it is probable that they will be recovered.

The asset represents the Group's contractual right to benefit from providing asset management services and is amortised over the expected life of the contract as a constant percentage of expected gross profit margins. The costs of securing the right to provide asset management services do not include transaction costs relating to the origination of the investment contract. The resulting change to the carrying value of the contractual customer relationship asset is recognised as an expense in profit or loss. An impairment test is conducted annually at the reporting date on the contractual customer relationship asset balance to ensure that the amount will be recovered from future revenue generated by the applicable remaining investment management contracts.

23.6 Value of in-force business

As a result of certain acquisitions of insurance contracts and the application of purchase accounting, the Group carries a customer contract intangible asset representing the present value of in-force ("PVIF") business acquired. PVIF is determined by estimating the net present value of future cash flows from the contracts in force at the date of acquisition. The Group amortises PVIF on the expected life of the contract as a constant percentage of expected gross margins over the estimated life of the acquired contracts. The estimated life is evaluated regularly. The PVIF is carried in the balance sheet at fair value less any accumulated amortisation and impairment losses.

24. DEFERRED TAXATION

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

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

Temporary differences arise primarily from depreciation of property and equipment, revaluation of certain financial assets and liabilities, including derivative contracts, provisions for pensions and other post-retirement benefits and tax losses carried forward. 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 affects neither accounting nor taxable profit or loss.

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

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

In respect of temporary differences arising from the fair value adjustments on investment properties, deferred taxation is provided at the use rate if the property is considered to be a long-term strategic investment or at the capital gains effective rate if recovery is anticipated to be mainly through disposals.

25. EMPLOYEE BENEFITS

25.1 Post-employment benefits

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

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

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

The Group writes off 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 written off immediately in the case of retired employees.

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

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

25.2 Post-retirement medical benefits

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

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

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

25.3 Termination benefits

The Group recognises termination benefits as a liability in the balance sheet and as an expense in the income statement when it has a present obligation relating to termination.

25.4 Leave pay provision

The Group 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 probably 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 and losses occurs as a result of:

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

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

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

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

26. BORROWINGS

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

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

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

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

27. SHARE CAPITAL

27.1 Share issue costs

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

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 shareholders. Dividends declared after the balance sheet date are not recognised but disclosed as a post-balance sheet event.

27.3 Treasury shares

Where the company or other members of the consolidated Group purchases the company's equity share capital, the consideration paid is deducted from total shareholders' equity as treasury shares until they are reissued or cancelled. Where such shares are subsequently reissued, any consideration received is included in shareholders' equity.

28. ACCEPTANCES

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

29. SEGMENT REPORTING

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

- unique products or services ("business segments"); or
- products or services within a particular economic environment ("geographical 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 al the segments, are reported separately.

30. FIDUCIARY ACTIVITIES

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

31. SHARE-BASED PAYMENTS

The Group operates equity-settled share-based compensation plans.

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

The fair value of the options is determined excluding non-market vesting conditions. These vesting conditions are included in the assumptions of the number of options expected to vest. At each balance sheet date, the Group revises its estimate of the number of options expected to vest.

32. DISPOSAL GROUPS HELD FOR SALE

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

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

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

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

- its carrying amount before the asset or disposal group was classified as held for sale, adjusted for any depreciation, amortisation or revaluations that would have been recognised had the asset or disposal group not been classified as held for sale; and
- its recoverable amount at the date of the subsequent decision not to sell.

33. INSURANCE AND INVESTMENT CONTRACTS

This section outlines the main lines of business that forms part of the Groups' in-force policy book. The product descriptions provide a background against which other sections of this report can be interpreted.

The main product groupings currently on the books of the Group are:

- Universal life unit-linked or smoothed-bonus policies: These policies have unit accounts, similar to unit trust investments. The policies might offer additional life or disability cover. The benefit structure might be a DPF, or unit-linked to the fair value of the assets supporting the liabilities. On expiry of the contracts, the fair value of units is paid to policyholders.
- Pure risk products, which are intended to provide insurance against death, disability or medical contingencies and do not offer early termination values. The "Myriad" product range falls within this category.
- New generation investment products, which offer unitised benefits similar to universal life contracts, but without risk cover. Policyholders can choose between a variety of underlying unitised or smoothed bonus funds as investment vehicles. A single policy can be invested in more than one unitised fund and the policyholder has the option to switch between funds at any time. The "Investo" product range falls within this category.
- Immediate annuities, which provide regular payments (usually monthly) to policyholders. Payments normally cease on death of the insured life or lives, but different options, such as guaranteed payment periods and maximum payment terms, are offered to policyholders.
- Group risk business: The main products on offer within this category are group Permanent Health Insurance (PHI) cover, which provides regular annuity benefits while an insured is disabled, CPI-linked annuities, as well as lump sum death and disability benefits.
- Group investment business: Two DPF unitised pooled funds are offered to policyholders.
- Conventional (reversionary bonus or non-profit) policies: These policies do not have unit accounts like universal life products, but rather provide a guaranteed sum assured at death or maturity. The guaranteed payment is augmented by discretionary bonuses if the contract has DPF features. The difference between conventional and universal life DPF policy types is that, on universal life policies, annual bonus additions are made to the policy's investment account, whereas additions of bonuses on conventional policies are made to the lump sum payable on death or maturity.
- Health insurance products: These plans typically cover a variety of covers ranging from hospital benefits, outpatient surgery and day to day visits to physician offices. Some products offer optional cover for chronic medication, total medication, preventative medication and preventative care.
- Vitality, a product that offers health and lifestyle benefits with selected partners to the Group's clients. This business includes the DiscoveryCard which is offered to Discovery Policyholders within South Africa. Health and lifestyle.

Overview of Discretionary Participation Features

A discretionary participating feature ("DPF") entitles the policyholder to receive, as a supplement to guaranteed benefits, additional benefits or bonuses. These additional benefits have the following features:

- The benefits constitute a significant portion of the total contractual benefits payable under each policy;
- The timing and amount of the benefits are at the discretion of the Group; and
- The benefits are contractually based on the investment performance of a specified pool of assets underlying a specified pool of contracts or a specified type of contract.

Terminology that is commonly used in the South African insurance industry also refers to contracts with discretionary participating features as "with-profit" or "smoothed bonus" policies.

Distributions of bonuses on DPF contracts are performed annually. Bonuses are used as a mechanism to smooth returns distributed to policyholders, in order to reduce their uncertainty of benefit payments. The smoothing mechanism operates in such a way that the bonuses declared are normally lower than actual investment returns in buoyant market conditions, whereas declared bonuses normally exceed the actual investment returns during depressed market conditions. In terms of the contracts, bonuses can never be negative. In buoyant market conditions, any investment returns which are not declared as bonuses in the year are transferred to a bonus stabilisation account, after the deduction of tax and management charges. This liability is held for future distribution to policyholders. The smoothing mechanism results in a degree of cross-subsidisation of investment returns and benefit payments between different classes and generations of DPF policyholders.

The factors which are considered in determining the discretionary bonus declared by are the investment return achieved on underlying assets in the period, the company's bonus philosophy as regards to the intended level of smoothing for policyholders, the type of DPF contract under consideration and the existence of any contractual minimum bonus rate guarantees.

In the event of adverse investment performance, where the historical bonuses declared have exceeded investment returns on the assets backing the liabilities, the bonus stabilisation account may become negative. When such a scenario arises, the discretionary bonus declarations during ensuing years will normally be less than the investment returns on the underlying assets, until the deficit has been eliminated. If the bonus stabilisation account is negative, it is the Group's policy to apply a market value adjuster to benefits paid on early termination of smoothed-bonus contracts. The market value adjuster is employed to avoid dilution of the bonus stabilisation account, which will occur if benefits are paid that exceeds the fair value of underlying assets. The above is applied based on the principles set out in the statement of intent as agreed between the insurance industry and National Treasury in the Republic of South Africa in December 2005.

The discretionary bonus distributions made to policyholders by the Group consist of vested and non-vested bonuses. The vested portion correlates to the realised portion of the investment returns and the non-vested potion correlates to the unrealised gains on the investments which underly the policyholder liabilities. Under extreme circumstances (such as a sudden and sustained fall in the market value of assets backing smoothed-bonus liabilities), has a contractual right to remove previously declared non-vested bonuses. It is the Group's policy to do this only if it is believed that markets will not recover in the foreseeable future, in order to protect the solvency of the company or the interests of remaining policyholders.

In addition, DPF contracts may incorporate embedded options including minimum guaranteed rate of bonus additions credited to a policy over its lifetime. These embedded options are accounted for in terms of the companies accounting policy for embedded derivatives.

33.1 Classification of contracts

The contracts issued by the Group transfer insurance risk; financial risk or both. As a result of the differing risks transferred by contracts, for the purposes of valuation and profit recognition, contracts are divided into investment and insurance contracts. Insurance contracts are those contracts that transfer significant insurance risk to the Group, whereas investment contracts transfer financial risk.

The classification of contracts is performed at the origination of each contract. The classification of the contract at inception remains the classification of the contract for the remainder of its lifetime unless the terms of the contract change to such an extent that it necessitates a change in classification.

33.2 Insurance contracts

An insurance contract is one that transfers significant insurance risk to the Group. Significant insurance risk exists when it is expected that the present value of benefits payable in terms of the policy on the occurrence of an insured event will materially differ from the amounts payable, had the insured event not occurred. Financial penalties levied on early termination of policy contracts are not taken into account when classifying the contracts. If the difference between the benefit payable on an insured event and a non-insured event arises solely from an early termination penalty, the contract is not classified as an insurance contract.

Insurance contracts may transfer financial risk as well as insurance risk. However, in all instances where significant insurance risk is transferred, the contract is classified as an insurance contract.

Certain insurance contracts also contain features where the benefits payable (on either insured or non-insured events) are linked to investment returns on a specified pool of assets and whose amount or timing is contractually at the discretion of the Group, these features are known as discretionary participation features ("DPF").

The following types of contracts issued by the Group are classified as insurance contracts:

- Insurance policies providing lump sum benefits on death or disability of the policyholder. These contracts are issued for either a defined period or for the whole life of the policyholder.
- Life annuity policies where the policyholder transfers the risk of longevity to the Group;
- Policies which provide for retrenchment or funeral cover; and
- Policies providing Permanent Health Insurance ("PHI").

The terms of these contracts may also allow for embedded options. These include minimum guaranteed rates of investment return resulting in a minimum level of benefit payable at expiry of the contractual term, after allowing for the cost of risk cover. These embedded options are treated in terms of the company's policies in respect of embedded derivatives.

Insurance contracts and Insurance contracts with DPF are within the scope of IFRS 4 and therefore accounted for in terms of the requirements of IFRS 4: Insurance contracts.

33.3 Investment contracts

These are contracts that transfer financial risk with no significant insurance risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate; financial instrument price; commodity price; foreign exchange rate; index prices or other variable.

For the purposes of valuation and profit recognition, investment contracts are further classified into the following sub-categories:

33.3.1 Investment contracts with discretionary participating features ("DPF")

These contracts fall within the scope of IFRS 4 and therefore are accounted for in terms of the requirements of IFRS 4.

A discretionary participating feature ("DPF") entitles the policyholder to receive, as a supplement to guaranteed benefits, additional benefits or bonuses. These additional benefits have the following features:

- The benefits constitutes a significant portion of the total contractual benefits payable under each policy;
- The timing and amount of the benefits are at the discretion of the Group; and
- The benefits are contractually based on the investment performance of a specified pool of assets underlying a specified pool of contracts or a specified type of contract.

The following types of contracts issued by the Group are classified as investment contracts with DPF:

- Universal life smoothed-bonus policies, where discretionary bonuses are added to the investment account annually.
- Reversionary bonus policies, where discretionary bonuses are added to a guaranteed sum assured, payable at the end of the contract term.

The carrying amounts in respect of the DPF benefits are included as liabilities in the balance sheet.

33.3.2 Investment contracts without discretionary participating features ("DPF")

These contracts fall within the scope of IAS 39: Financial Instruments: Recognition and measurement and are accounted for in terms of the requirements of IAS 39. They are further classified as:

- contracts with investment management service components; and
- contracts without investment management service components.

The following two sub-sections further describe these two product groupings.

33.3.2.1 Contracts with investment management services

These represent investment contracts with services provided by the Group to policyholders whereby the Group undertakes to actively manage the investments of the policyholder over the lifetime of the policy contract.

The following types of contracts issued by the Group are classified as investment contracts with investment management services:

- unit-linked contracts, where lump sum benefits payable at the end of the contracts' terms are determined using unit values that reflect the fair value of the assets in the unitised fund underlying the group of policies, multiplied by the number of units attributed to the policyholder; and
- living annuities, where the number of units is payable to policyholders on a monthly basis. The monetary value of the monthly benefit payments is determined by the number of units paid to the policyholder, multiplied by a unit price determined by the fair value of underlying assets.

These contracts may incorporate embedded options, such as a minimum guaranteed rate of unit price increase credited to a policy over its lifetime. These embedded options are accounted for in terms of the company's accounting policy for embedded derivatives.

33.3.2.2 Contracts without investment management services

These are investment contracts where the Group does not actively manage the investments of the policyholder over the lifetime of each policy contract. Benefits are guaranteed at inception of the policy contract or linked to the performance of a specified index or pool of assets.

The following types of contracts issued by the Group are classified as investment contracts where no investment management services are rendered:

- Guaranteed endowments, where a guaranteed benefit specified at the inception date of the policy is paid at the end of the contract term; and
- Certain structured products, where the benefit payable at expiry of the contract is linked to a published market index.

33.4 Valuation and recognition

33.4.1 Insurance contracts (with and without DPF) and Investment contracts with DPF

The next section provides detail in respect of the general valuation and profit recognition principles in respect of insurance contracts (with and without DPF) and investment contracts with DPF. The sections following thereafter give more detail on how these valuation assumptions are applied to particular product lines falling within the category.

33.4.2 Principles of valuation and profit recognition

Under IFRS 4, liabilities in respect insurance and investment (with DPF) contracts are valued according to the requirements of the South African Long-Term Insurance Act (1998) and in accordance with professional guidance notes ("PGNs") issued by the Actuarial Society of South Africa ("ASSA"). Of particular relevance to the liability calculations, are the following actuarial guidance notes:

PGN 104 (v6; Jan 2005): Life Offices – Valuation of Long-Term Insurers
PGN 110 (v1.0; Dec 2003): Reserving for minimum investment return guarantees
PGN 102 (Mar 1995): Life Offices – HIV/AIDS
PGN 105 (Nov 2002): Recommended AIDS extra mortality bases
PGN 106 (v3.0; Jul 2005): Actuaries and Long-Term Insurance in South Africa

These guidance notes are available on the website of the Actuarial Society of South Africa (www.assa.org.za).

33.4.3 Valuation

Liabilities are valued in terms of the financial soundness valuation ("FSV") method as described in professional guidance note PGN 104, issued by the Actuarial Society of South Africa.

The FSV method is a discounted cash flow method which requires the expected income (premiums and charges) and outgo (claims, expenses and taxation) arising from each policy contract to be projected into the future, using appropriate assumptions regarding future investment returns, taxation, inflation, claims experience and persistency. The projected expenses are only those required to service the existing policy book, and not the expenses expected to be incurred in acquiring future new business. Similarly, expected income from future sales is not included in the projection – only income emanating from the in-force policy book.

The assumptions used to project cash flows are best estimates of future experience. However, a degree of prudence is introduced by the addition of compulsory margins. The compulsory margins are defined by professional guidance note PGN 104. PGN 104 allows for the addition of discretionary margins where necessary to avoid the premature recognition of profits on certain lines of business.

The projected cash flows (income less outgo) under each policy contract are discounted at a market related rate of interest, to arrive at the liability held in respect of each policy contract. The discount rate used to value the liability is consistent with the market value of assets underlying the liability.

The valuation assumptions take into account current and expected future experience, as well as revised expectations of future income, claims and expenditure. The assumptions are applied to the whole in-force policy book. Differences between the assumptions used at the start and the end of the accounting period give rise to a revised liability quantification.

The effect of policyholder options that would result in a decrease in liabilities were excluded from the liabilities in order to prevent unnecessarily reducing the liabilities. Policyholder options that would result in an increase in the liabilities were incorporated into the valuation on a best estimate basis, as described above.

The expected level of early terminations is incorporated into the liabilities irrespective of whether this leads to an increase or a decrease in the liabilities.

If future experience under a policy contract is exactly in line with the assumptions employed at inception of the contract, the valuation margins will emerge as profits over the duration of a policy contract. This is known as the unwinding of margins.

In addition to the profit recognised at the origination of a policy contract, and the unwinding of margins, any differences between the best-estimate valuation assumptions and actual experience over each accounting period also give rise to profits and losses. These profits and losses emerge over the lifetime of a policy contract. Other sources of profit or loss include the change in liabilities from basis changes, profits on group business that are recognised as earned and shareholders' share of the cost of bonus for certain segregated DPF pools.

33.4.4 Recognition

33.4.4.1 Premiums

Premiums receivable from insurance contracts and investment contracts with DPF are recognised as revenue in the income statement, gross of commission and reinsurance premiums and excluding taxes and levies. Premiums and annuity considerations on insurance contracts are recognised when they are due in terms of the contract. Premium income received in advance is included in insurance and other payables.

33.4.4.2 Benefits and claims

Insurance benefits and claims incurred under insurance contracts and investment contracts with DPF include death, disability, maturity, annuity and surrender payments and are recognised in the income statement gross of any related reinsurance recoveries. Death, disability and surrender claims are recognised when notified. Any of these types of claims that are notified but not paid before the balance sheet date are included in insurance and other payables. Maturity and annuity claims are recognised when they are due for payment in terms of the contract.

33.4.4.3 Reinsurance premiums

Reinsurance premiums are recognised as an expense in the income statement when they become due for payment, in terms of the contracts at the undiscounted amounts payable in terms of the contract.

33.4.4.4 Reinsurance recoveries

Reinsurance recoveries are recognised in the income statement in the same period as the related claim at the undiscounted amount receivable in terms of the contract.

33.4.4.5 Liability adequacy test for business with discounting liabilities

On insurance contracts, the liability adequacy test is inherent in the financial soundness valuation methodology applied to these contracts and this meets the minimum requirements of the test required under IFRS 4.

33.4.4.6 Implicit recognition of a deferred acquisition cost ("DAC") asset

Acquisition costs, disclosed as sales remuneration, for insurance contracts and investment contracts with DPF include all commission and expenses directly related to acquiring new business. The financial soundness valuation methodology implicitly creates a deferred acquisition cost asset by reducing the liabilities to the extent of margins in the office premium intended to recoup acquisition costs. Thus, no explicit deferred acquisition cost asset is recognised in the balance sheet for contracts valued on this basis.

33.5 Application of the above valuation methodology to individual product lines

The preceding paragraphs highlighted the principles followed in valuation and profit recognition in respect of insurance and investment (with DPF) contracts. The next section outlines how these principles are applied to the main product lines within this category, as discussed in the beginning of note 33.

33.5.1 Universal life unit-linked or smoothed-bonus policies

Liabilities for individual smoothed-bonus and market related "unit-linked" business are set equal to the fair value of units held by the policyholder at the balance sheet date. This is the so-called unit liability. In addition, the present value of expected future cash flows (income less outgo) in respect of each policy is added or deducted from the unit liability to arrive at the total liability in respect of each universal life policy contract. This adjustment represents the so-called Rand liability. If future income is expected to exceed future outgo under a universal life policy contract, the Rand liability is negative, whereas it is positive if future outgo is expected to exceed future income.

Projected future outgo includes claims payments and maintenance expenses, whereas projected future income includes deductions of risk premium and other charges. In performing the projections of future income and outgo, allowance is made for future growth in unit account values at a level consistent with the assumed future market related investment return, after allowing for contractual expense charges and taxation.

Future additions of bonuses to smoothed-bonus policies are projected at levels that are consistent with and supported by the assumed rate of investment return, after allowing for contractual expense charges and taxation.

In respect of smoothed-bonus universal life policies, bonus stabilisation accounts are also held. Bonus stabilisation reserves have been discussed above, but more detail about these provisions is given in the section below.

Profits arising from universal life policy contracts are recognised as described above.

33.5.2 Policies with a DPF switching option

On some new generation investment contracts, policyholders have a choice of a wide range of investment funds, including a DPF fund. Policyholders also have the option to switch, without penalty, between smoothed-bonus and unit-linked funds within the same policy structure. The DPF portions of these policies are valued, using the FSV valuation methodology applicable to universal life DPF policies (as described above), but the capitalised value of discounted charges (net of expenses) on each policy is limited to the value of the DAC asset less DRL liability that would have been held, had the whole policy been classified as an investment without DPF investment contract. This is done so that switches between unit-linked and smoothed-bonus components do not give rise to discontinuities in liabilities held against these contracts.

The practical implication of this treatment is that liabilities and profit recognition on these products are the same as similar "investment without DPF contracts". For the purposes of valuation and recognition, these policies are therefore treated in the same way as investment policies without DPF.

33.5.3 Immediate annuities

Liabilities for immediate annuities are set equal to the present value of expected future annuity payments and expenses, discounted using an appropriate market-related yield curve as at the balance sheet date. The yield curve is based on risk-free securities (either fixed or CPI-linked, depending on the nature of the corresponding liability), adjusted for credit and liquidity spreads of the assets actually held in the portfolio and reduced by compulsory and discretionary margins. Explicit liabilities are set aside for expected credit losses, to avoid a reduction in liabilities caused by capitalisation of credit spreads.

33.5.4 Conventional (reversionary bonus or non-profit) policies

The liabilities for conventional policies are calculated as the difference between the present values of projected future benefits and expenses, and the present value of projected future premiums, using the best-estimate rate of return, plus prescribed margins as per PGN 104. It is assumed that current bonus rates (both reversionary and terminal bonus rates) will be maintained in future.

Profits arising on conventional policy contracts are recognised as described above.

33.5.5 Group risk business

The main liability types in respect of this class of business are:

- Discounted cash flow liabilities for Permanent Health Insurance claims-in-payment and CPI-linked annuities;
- The liability related to the claims which relate to insurance events which have occurred before year end and thus have been incurred but have not been reported to the Group, this liability is known as the Incurred-but-not-reported ("IBNR") liability claims on group risk benefits;
- Unearned premium provisions in respect of risk exposure remaining after the balance sheet date (where premiums relating to the risk have been received before the balance sheet date); and
- CPI-linked annuities.

The liabilities for Permanent Health Insurance and other annuity claimants and funeral paid-up benefits are calculated using a prospective cash flow method, discounted at a discount rate consistent with the average term of the liabilities and market yields on the assets supporting the liabilities.

Liabilities in respect of IBNR claims are determined, using a basic triangulation or chain-ladder method to derive, from past claims run-off patterns, an estimate of the amount of claims that have been incurred but not yet reported.

An unearned premium provision is also held in respect of the portion of premiums received that relate to future risk exposure, which is assumed to be constant over the premium term. These liabilities are measured at the undiscounted value because of the short-term nature of the liabilities.

Group CPI-linked annuities are valued in the same way as CPI-linked annuities on individual life business.

Profits arising on group risk contracts are recognised as premiums received less claims and expenses paid, plus or minus the move in the IBNR and unearned premium provisions over the relevant accounting period.

33.5.6 Group investment business (with DPF)

The liability in respect of group investment (with DPF) business is set equal to the fair value of the assets supporting the liabilities. The liability is reflected as the face value of policyholders' balances, plus a bonus stabilisation account. The bonus stabilisation account is the difference between the market value of assets and the face value of policyholders' balances.

No discounting of future cash flows (such as premiums, claims and expenses) is performed in respect of this class of business.

An Additional Unexpired Risk Provision is held if the expected premiums and investment returns are not sufficient to meet expected future claims and expenses. This meets the requirements of the liability adequacy test in IFRS 4 and thus no additional liability adequacy test is performed.

33.5.7 Policyholder bonus stabilisation accounts

DPF liabilities (insurance and investment) are adjusted by policyholder bonus stabilisation accounts. Bonus stabilisation accounts have been introduced under the general description of policy contracts issued by the Group in the section preceding the accounting policies.

If the fair value of the assets underlying a smoothed-bonus or conventional with-profit portfolio is greater than the policyholders' investment accounts (net premiums invested plus declared bonuses), a positive bonus stabilisation account is created which will be used to enhance future bonuses. Conversely, if assets are less than the investment accounts, a negative bonus stabilisation account is created. A negative bonus stabilisation account will be limited to the amount that the Statutory Actuary expects will be recovered through the declaration of lower bonuses during the ensuing three years, if investment returns are in line with long-term assumptions. Negative bonus stabilisation accounts in excess of 7.5% of the investment accounts are disclosed.

The purpose with bonus stabilisation accounts is therefore to allocate all investment surpluses or deficits to policyholders after deduction of all related contractual charges.

The policyholder bonus stabilisation accounts in respect of the closed Lifegro portfolio and Southern Pre-84 segregated portfolio are set equal to the policyholders' full future entitlement to the assets in these portfolios (which includes not only investment surpluses, but other sources of surplus as well), as per the respective profit share agreements between policyholders and shareholders.

Bonus stabilisation accounts are included in policyholder liabilities under insurance contracts and investment with DPF contracts.

33.5.8 Guaranteed maturity value liabilities

A number of contracts contain embedded derivatives in the form of guaranteed maturity values. The liability in respect of these guarantees is calculated using stochastic modelling techniques, whereby assets and liabilities are projected into the future under a range of possible future investment return scenarios. The expected present value of the cost of the guarantee over and above base liabilities is taken as the liability in respect of the guarantee.

The modelling approach is governed by professional guidance note PGN 110, which sets minimum criteria that the stochastic model should adhere to, being minimum numbers of simulations to be performed and minimum variability characteristics of the stochastic input parameters. The model uses 2 000 scenarios and an externally developed and calibrated economic scenario generator that is widely used internationally.

33.6 Discretionary margins

Discretionary margins are held in addition to the compulsory margins. These discretionary margins are used to ensure that profit and risk margins in the premiums are not capitalised prematurely so that profits are recognised in line with product design and in line with the risks borne by the company.

The main discretionary margins utilised in the valuation are as follows:

- Additional bonus stabilisation accounts are held to provide an additional layer of protection for policyholders against the risk of removal of non-vested bonuses caused by fluctuations in the values of assets backing smoothed-bonus liabilities. This account is in addition to the policyholder bonus stabilisation account described elsewhere, and is not distributed as bonuses to policyholders under normal market conditions. The size of this account is monitored according to the results of stochastic modelling of the investment risk. Excess assets over the size indicated by the results of the stochastic modelling are released as profit.
- For the closed Lifegro portfolio and segregated portion of the Southern Life book, appropriate liabilities are held to reverse the capitalisation of future profits to ensure that the Lifegro profits are recognised in line with the terms of the Lifegro take-over agreement and the statute of the Old Southern Segregated Fund.
- Investment stabilisation accounts are held to reduce the risk of future losses, caused by the impact of market fluctuations on capitalised fees and on the assets backing guaranteed liabilities. This liability is built up retrospectively and released if adverse market conditions cause a reduction in the capitalised value of fees or in the value of assets backing guaranteed liabilities.
- Additional prospective margins are held in respect of decrement assumptions and asset related fees on certain product lines to avoid the premature recognition of profits that may give rise to future losses if claims experience turns out to be worse than expected. This allows profits to be recognised in the period in which the risks are borne by the company.
- An additional margin on the discount rates derived from the yield curve is held in respect if the investment return assumption used to value annuity benefit payments (both group and individual business). Further margins are held on the discount rates derived from the yield curve in respect of long-dated guaranteed liabilities, where exact matching of assets and liabilities is difficult to achieve. These margins are held to reflect the potential for credit spreads widening and parameter risk associated with the long end of the yield curve and are related to the extent of corporate debt backing liabilities and the uncertainties relating to long-dated liabilities.

33.7 Investment contracts without DPF, with provision of investment management services

Under this category, the Group issues unit-linked contracts, where benefits payable are determined using unit values that reflect the fair value of the assets in the unitised fund underlying the group of policies, multiplied by the number of units attributed to the policyholder. Policyholder liabilities for this class of business are set equal to the fair value of the assets in the unitised fund underlying the group of policies, as reflected in the value of units held by each policyholder at the valuation date.

33.7.1 Amounts received and benefits paid

Amounts received under investment contracts, being additional investments by the policyholders and investment returns, are recorded as deposits to investment contract liabilities whereas benefits incurred are recorded as deductions from investment contract liabilities.

Service fee income on investment management contracts is recognised as and when the services are rendered. Service fee income includes policy administration fees, surrender charges and bid-offer spreads on premium allocations. The surrender charges are applied based on the principles set out in the statement of intent as agreed between the insurance industry and National Treasury in the Republic of South Africa in December 2005 and in accordance with the ongoing projects of the National Treasury.

33.7.2 Deferred revenue liability ("DRL")

A DRL is recognised in respect of fees paid at the inception of the contract by the policyholder which are directly attributable to a contract. The DRL is then released to revenue as the investment management services are provided, over the expected duration of the contract, as a constant percentage of expected gross profit margins (including investment income) arising from the contract. The pattern of expected profit margins is based on historical and expected future experience and is updated at the end of each accounting period. The resulting change to the carrying value of the DRL is recognised in revenue.

33.7.3 Deferred acquisition cost ("DAC") asset

Commissions paid and other incremental acquisition costs are incurred when new investment contracts are obtained or existing investment contracts are renewed. These costs, if specifically attributable to an investment contract with an investment management service element, are deferred and amortised over the expected life of the contract, as a constant percentage of expected gross profit margins (including investment income) arising from the contract. The pattern of expected profit margins is based on historical and expected future experience and is updated at the end of each accounting period. The resulting change to the carrying value of the DAC is recognised as an expense in profit or loss. Amortisation of the DAC is done separately for each policy contract. An impairment test is conducted annually at the reporting date on the DAC balance to ensure that the amount will be recovered from future revenue generated by the applicable remaining investment management contracts.

33.7.4 Onerous contracts

The group recognises a provision for an onerous contract, when the expected benefits to be derived from a contract are lower than the unavoidable costs of meeting the obligations under the contract.

33.7.5 Profit recognition

Profits or losses that accrue to shareholders in respect of investment contracts where investment management services are rendered are equal to fees received during the period concerned plus the movement in the DAC asset and DRL liability, less expenses incurred.

Where these contracts provide for minimum investment return guarantees, provision was made for the fair value of the embedded option. The valuation methodology is the same as the methodology applied to investment guarantees on insurance contracts.

33.8 Investment contracts without DPF, without provision of investment management services

The Group issues single-premium investment contracts with fixed and guaranteed terms under this category (guaranteed endowments and term-certain annuities).

33.8.1 Valuation

The liabilities of endowments with guaranteed maturity values are fair-valued using a valuation model, as the policies are not traded in an active market. The model values the liabilities as the present value of the maturity values, using appropriate market related yields to maturity net of tax and investment management expenses. If liabilities calculated in this manner fall short of the single premium paid at inception of the policy, the liability is increased to the level of the single premium, to ensure that no profit is recognised at inception. This additional liability is amortised over the lifetime of the policy. The amortisation pattern is such that profits are recognised in line with expected investment returns on the underlying assets supporting the liabilities. The amortisation pattern is determined at point of sale and not re-adjusted during the term of the policy contract.

33.8.2 Amounts received and benefits paid

Amounts received under this class of investment contracts, being additional investments and investment returns, are recorded as deposits to investment contract liabilities whereas benefits paid are recorded as deductions from investment contract liabilities.

33.9 Options and guarantees under insurance contracts

The effect of policyholder options that would result in a decrease in liabilities were excluded from the liabilities in order to prevent unnecessarily reducing the liabilities. Policyholder options that would result in an increase in the liabilities were incorporated into the valuation on a best estimate basis, as described above.

The expected level of early terminations is incorporated into the liabilities irrespective of whether this leads to an increase or a decrease in the liabilities.

The best estimates used to determine the value of the liabilities include estimates that take into account maturity, mortality and disability guarantees, as well as expected lapses and surrenders.

33.10 Embedded derivatives under insurance contracts

The Group does not separately measure embedded derivatives that meet the definition of an insurance contract or options to surrender insurance contracts for a fixed amount (or an amount based on a fixed amount and an interest rate). All other embedded derivatives are separated and carried at fair value if they are not closely related to the host insurance contract and meet the definition of a derivative. Embedded derivatives that are separated from the host contract are fair valued through profit or loss.

A number of contracts contain embedded derivatives in the form of guaranteed maturity values. The liability in respect of these guarantees is calculated using stochastic modelling techniques, whereby assets and liabilities are projected into the future under a range of possible future investment return scenarios, with parameters calibrated to market data. The modelling approach is governed by professional guidance note PGN 110, which sets minimum criteria that the stochastic model should adhere to, being minimum numbers of simulations to be performed and minimum variability characteristics of the stochastic input parameters. The model is calibrated to use market-consistent assumptions and parameters as at the valuation date.

33.11 Reinsurance contracts

Contracts entered into by the Group with reinsurers under which it is compensated for losses on one or more contracts issued by the Group and that meet the classification requirements for insurance contracts, are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets.

The benefits to which the Group is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short-term balances due from reinsurers (classified as loans and receivables), as well as long-term receivables (classified as reinsurance assets) that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts.

Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract.

Reinsurance liabilities consist of premiums payable for reinsurance contracts and are recognised as an expense when due.

The Group assesses its reinsurance assets for impairment on an annual basis. If there is objective evidence that the reinsurance asset is impaired, the Group reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in profit or loss for the period. The Group gathers the objective evidence that a reinsurance asset is impaired using the same process adopted for financial assets held at amortised cost. The impairment loss is also calculated following the same method used for these financial assets.

33.12 Receivables and payables related to insurance and investment contracts

Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and insurance contract holders. If there is objective evidence that the insurance receivable is impaired, the Group reduces the carrying amount of the insurance receivable accordingly and recognises the impairment loss in the income statement. The Group gathers the objective evidence that an insurance receivable is impaired using the same process adopted for loans and receivables. The impairment loss is also calculated following the same method used for these financial assets.

R million	Notes	**2006**	2005
Net interest income		**15 012**	13 184
Interest and similar income	3	**30 395**	27 505
Interest expense and similar charges	4	**(15 383)**	(14 321)
Impairment losses on loans and advances		**(1 411)**	(706)
Impairment of advances – specific		**(1 132)**	(756)
Impairment of advances – portfolio		**(279)**	50
Net fee and commission income	5	**12 009**	9 878
Fee and commission income		**14 088**	11 835
Fee and commission expense		**(2 079)**	(1 957)
Net insurance premium income	6	**6 822**	7 423
Insurance premium revenue		**7 758**	8 111
Premium ceded to reinsurers		**(936)**	(688)
Net claims and benefits paid	7	**(6 174)**	(8 861)
Gross claims and benefits paid on insurance contracts		**(6 875)**	(9 348)
Reinsurance recoveries		**701**	487
Net gains from banking and trading activities	8	**4 349**	2 187
Net gains from investment activities	8	**19 225**	16 003
Other operating income	8	**2 268**	1 715
Increase in value of policyholder liabilities		**(17 430)**	(13 447)
Fair value adjustment to financial liabilities	9	**(530)**	(232)
Net operating income		**34 140**	27 144
Operating expenses	10	**(20 402)**	(16 836)
Other operating expenses		**(20 344)**	(16 825)
Other impairments	10	**(58)**	(11)
Share of profit of associated and joint venture companies		**1 290**	1 076
Income before discontinued operations		**15 028**	11 384
Loss on disposal of discontinued operations	37	**–**	(67)
Operating profit before income tax		**15 028**	11 317
Taxation expense	11	**(5 040)**	(3 610)
Profit for the year		**9 988**	7 707
Attributable to:			
Non-cumulative non-redeemable preference shares		**274**	68
Equity holders of the Company		**8 825**	7 137
Total for equity holders of the Company		**9 099**	7 205
Minority interest		**889**	502
Profit for the year		**9 988**	7 707
Basic earnings per share (cents)	12	**171.6**	137.3
Diluted earnings per share (cents)	12	**166.0**	134.5

R million	Notes	**2006**	2005
ASSETS			
Cash and short-term funds	13	**30 323**	24 890
Money market investments		**16 361**	11 427
Advances	14	**291 076**	221 851
– *Originated*		**236 370**	175 475
– *Held-to-maturity*		**698**	7 449
– *Available-for-sale*		**538**	1 648
– *Elected fair value*		**53 470**	37 279
Derivative financial instruments	15	**37 934**	39 795
– *Qualifying for hedge accounting*		**428**	811
– *Held for trading*		**37 506**	38 984
Investment securities and other investments	16	**173 848**	133 763
Financial instruments held for trading		**28 348**	20 728
Investment securities		**136 706**	104 854
– *Held-to-maturity*		**998**	2 880
– *Available-for-sale*		**22 947**	16 100
– *Elected fair value*		**112 761**	85 874
Non-recourse investments		**8 794**	8 181
Commodities	16	**676**	439
Investment properties	17	**6 141**	4 172
Policy loans on insurance contracts		**118**	–
Policy loans on investment contracts		**–**	530
Reinsurance assets	18	**292**	236
Insurance assets		**1 766**	1 881
Loans and receivables	19	**6 046**	11 548
Investments in associates and joint ventures	20	**5 069**	5 707
Taxation		**7**	118
Intangible assets	22	**4 076**	1 178
Property and equipment	23	**5 011**	4 610
Deferred taxation	24	**1 043**	594
Total assets		**579 787**	462 739

R million	Notes	**2006**	2005
LIABILITIES			
Deposits	25	**317 840**	245 793
– *Deposits and current accounts*		**309 304**	237 888
– *Non-recourse deposits*	16	**8 536**	7 905
Short trading positions	26	**25 967**	19 919
Derivative financial instruments	15	**22 370**	30 264
– *Qualifying for hedge accounting*		**257**	249
– *Held for trading*		**22 113**	30 015
Creditors and accruals		**16 848**	23 257
Reinsurance liabilities		**24**	31
Policyholders' liabilities under investment contracts	32	**93 720**	48 844
Policyholders' liabilities under insurance contracts	33	**40 740**	49 001
Liabilities arising to third parties	34	**1 725**	1 027
Deferred revenue liability	35	**248**	–
Post-retirement funding liability	27	**1 635**	1 733
Debentures and long-term liabilities	28	**10 576**	5 007
Provisions	29	**2 407**	1 567
Taxation liability		**1 024**	185
Deferred taxation	24	**5 159**	3 877
Total liabilities		**540 283**	430 505
Shareholders' equity			
Ordinary share capital and share premium	30	**3 635**	4 396
Non-cumulative non-redeemable preference shares		**4 519**	2 992
Distributable reserves		**24 854**	20 284
Non-distributable reserves		**3 522**	2 238
Total shareholders' equity		**36 530**	29 910
Minority interest		**2 974**	2 324
Total shareholders' equity and liabilities		**579 787**	462 739

R million	Notes	2006	2005
Operating activities			
Cash receipts from customers	38.2	54 053	47 451
Cash paid to customers, employees and suppliers	38.3	(27 670)	(28 013)
Dividends received		1 327	988
Dividends paid		(3 651)	(2 835)
Net cash flows from operating activities	38.1	24 059	17 591
Increase in income-earning assets	38.4	(98 204)	(30 051)
Increase in deposits and other liabilities	38.5	80 280	22 249
Net cash flows from operating funds		(17 924)	(7 802)
Taxation paid	38.6	(3 257)	(3 298)
Net cash inflow from operating activities		2 878	6 491
Cash flows from investment activities			
Purchase of property and equipment		(1 329)	(388)
Proceeds from disposal of equipment		105	–
Purchase of investments		(46)	(10 484)
Proceeds from disposal of investments		319	–
Proceeds from disposal of subsidiary	38.7	67	1 019
Purchase of associates		(269)	(1 316)
Proceeds from disposal of associates	38.8	907	–
Purchase of intangible assets		(36)	(238)
Net cash outflow from investment activities		(282)	(11 407)
Cash flows from financing activities			
Increase in/(repayment of) long-term borrowings		5 469	(693)
Proceeds from share issue		1 526	3 000
Net cash inflow from financing activities		6 995	2 307
Net increase/(decrease) in cash and cash equivalents		9 591	(2 609)
Cash and cash equivalents at the beginning of the year	38.9	36 317	40 253
Cash and cash equivalents at the end of the year		45 908	37 644
Cash and cash equivalents sold*		(52)	(1 335)
Cash and cash equivalents bought*		828	8
Cash and cash equivalents at the end of the year	38.9	46 684	36 317

** Cash and cash equivalent sold and bought relate to subsidiaries acquired and sold during the periods.*

Statement of changes in equity for the year ended 30 June

R million	Ordinary share capital Share capital (note 31)	Share premium (note 31)	Distributable reserves
Balance at 30 June 2004	52	6 715	15 208
IFRS adjustments for:			
Property and equipment			246
Post-retirement liability			(141)
Share-based payments			(26)
Foreign exchange			579
Other IFRS adjustments			(44)
Restated balance at 1 July 2004	52	6 715	15 822
Issue of share capital	1		(30)
Reduction of share capital		(1)	
Share issue expense		(5)	
Currency translation differences			
Movement in revaluation reserves			
Movement in other reserves			(169)
Earnings attributable to shareholders			7 497
Ordinary dividends			(2 767)
Preference dividends			
Transfer (to)/from reserves			116
Effective change of shareholding of subsidiary			(4)
Share-based payment reserve			(181)
Consolidation of share trusts	(2)	(2 364)	
Balance at 30 June 2005	51	4 345	20 284
Balance at 30 June 2005	51	4 345	20 284
IFRS adjustments			(30)
Debt/equity classification			(46)
Effective interest rate			(78)
Credit impairment provisioning			(343)
IFRS 4			
Other IFRS adjustments		(296)	(360)
Balance at 1 July 2005	51	4 049	19 427
Issue of share capital		165	(165)
Reduction of share capital			
Share issue expense			
Currency translation differences			
Movement in revaluation reserves			
Movement in other reserves			
Earnings attributable to shareholders			8 825
Ordinary dividends			(3 114)
Preference dividends			
Transfer (to)/from reserves			(184)
Effective change of shareholding of subsidiary			69
Share-based payment reserve			(4)
Consolidation of share trusts	–	(630)	
Balance at 30 June 2006	51	3 584	24 854

and ordinary shareholders' funds			Perpetual preference shareholders' funds			
Non-distributable reserves	Outside shareholders' interest	Total ordinary shareholders' funds	Non-cumulative preference share capital	Non-cumulative preference share premium	Total preference shareholders' funds	Total Shareholders' funds
2 040	1 823	**25 838**	–		**–**	**25 838**
	(1)	**245**			**–**	**245**
		(141)			**–**	**(141)**
25	(1)	**(2)**			**–**	**(2)**
(579)		**–**			**–**	**–**
	29	**(15)**			**–**	**(15)**
1 486	1 850	**25 925**	–	–	**–**	**25 925**
		(29)			**–**	**(29)**
		(1)		3 000	**3 000**	**2 999**
		(5)		(8)	**(8)**	**(13)**
		–			**–**	**–**
619		**435**			**–**	**435**
61		**76**			**–**	**76**
	502	**7 999**		68	**68**	**8 067**
	(60)	**(2 827)**			**–**	**(2 827)**
		–		(68)	**(68)**	**(68)**
(116)		**–**			**–**	**–**
		(4)			**–**	**(4)**
181		**–**			**–**	**–**
7	32	**(2 327)**			**–**	**(2 327)**
2 238	2 324	**29 242**	–	2 992	**2 992**	**32 234**
2 238	2 324	**29 242**	–	2 992	**2 992**	**32 234**
		(30)			**–**	**(30)**
		(46)			**–**	**(46)**
	(18)	**(96)**			**–**	**(96)**
(174)		**(517)**			**–**	**(517)**
		(656)			**–**	**(656)**
2 064	2 306	**27 897**	–	2 992	**2 992**	**30 889**
	19	**19**		1 531	**1 531**	**1 550**
		–			**–**	**–**
	(4)	**(4)**		(4)	**(4)**	**(8)**
225	27	**252**			**–**	**252**
225	41	**266**			**–**	**266**
19		**19**			**–**	**19**
	889	**9 714**		274	**274**	**9 988**
	(263)	**(3 377)**		–	**–**	**(3 377)**
		–		(274)	**(274)**	**(274)**
184	7	**7**			**–**	**7**
10	17	**96**			**–**	**96**
274	(65)	**205**			**–**	**205**
521	–	**(109)**	–	–	**–**	**(109)**
3 522	2 974	**34 985**	–	4 519	**4 519**	**39 504**

Statement of headline earnings and dividends for the year ended 30 June

R million	2006	2005
FirstRand Banking Group	**7 049**	5 656
Momentum Group	**1 534**	1 270
Discovery Group	**350**	324
FirstRand Limited	**(164)**	(304)
Consolidation of share trusts	**(383)**	(155)
Sub-total	**8 386**	6 791
Dividend payment of non-cumulative non-redeemable preference shares	**(274)**	(68)
Sub-total	**8 112**	6 723
FirstRand shares held by policyholders (Fair value movement)	**3**	–
Headline earnings attributable to ordinary shareholders	**8 115**	6 723
Earnings per share (cents)		
– Basic	**171.6**	137.3
– Diluted	**166.0**	134.5
Headline earnings per share (cents)		
– Basic	**157.8**	129.3
– Diluted	**152.6**	126.7
Dividend per ordinary share (cents)		
– Interim	**32.0**	26.6
– Interim	**34.0**	28.5
Total dividend per ordinary share (cents)	**66.0**	55.1
Dividend information		
Dividend on non-cumulative non-redeemable preference shares (cents)		
“B” preference share		
– 27 February 2006/28 February 2005	**356**	228
– 28 August 2006/29 August 2005	**363**	360
Total “B” preference share	**719**	588
“B1” preference share		
– 27 February 2006	**356**	–
– 28 August 2006/29 August 2005	**363**	37
Total “B1” preference share	**719**	37
Ordinary dividends declared (R million)	**3 718**	3 093
Dividend payment of non-cumulative non-redeemable preference shares	**324**	177
Headline earnings reconciliation		
Banking Group	**7 260**	5 967
Momentum Group	**1 909**	1 341
Discovery Group	**437**	356
FirstRand Limited (company)	**(127)**	(304)
Consolidation of share trusts	**(383)**	(155)
Dividend payment of non-cumulative non-redeemable preference shares	**(274)**	(68)
Consolidation of treasury shares: policyholders	**3**	–
Attributable earnings to ordinary shareholders	**8 825**	7 137
Adjusted for		
Less: Reversal of private equity realisations	**(219)**	(406)
Add: Impairment of property and equipment	**1**	–
Less: Profit on sale of subsidiaries/associates	**(92)**	67
Less: Profit on sale of shares in subsidiary	**(37)**	–
Less: Net asset value in excess of purchase price of subsidiaries	**(22)**	–
Add: Loss on sale of assets	**19**	7
Less: Profit on sale of available-for-sale financial instruments	**(360)**	(82)
Headline earnings to ordinary shareholders	**8 115**	6 723

1. CRITICAL ACCOUNTING ASSUMPTIONS AND JUDGEMENTS

The group makes estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the balance sheet date as well as affecting the reported income and expenses for the year. Estimates and judgements are continually evaluated and are based on management's best knowledge, historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Credit impairment losses on loans and advances

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

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

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

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

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 socalled 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 between 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, ie 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.

Held-to-maturity investments

The group follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires considerable judgement. In making this judgement, The group evaluates its intention and ability to hold such investments to maturity. If the group fails to keep these investments to maturity other than for specific circumstances defined by the group it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value and not amortised cost.

Fair value of derivative financial instruments and other unlisted investments

The fair value of financial instruments that a are not quoted in active markets is 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.

Impairment of available-for-sale equity instruments

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

As at 30 June 2006 (and 30 June 2005), the Group had no declines of financial instruments with fair values below cost that had been considered significant or prolonged.

Securitisations and special purpose entities

The Group sponsors the formation of special purpose entities ("SPEs") primarily for the purpose of allowing clients to hold investments, for asset securitisation transactions and for buying and selling credit protection. The Group consolidates SPEs that it controls in terms of IFRS. As it can sometimes be difficult to determine whether the Group controls an SPE, it makes judgements about its exposure to the risks and rewards, as well as about its ability to make operational decisions for the SPE in question. In many instances, elements are present that, considered in isolation, indicate control or lack of control over an SPE, but when considered together make it difficult to reach a clear decision. In such cases, the SPE is accounted for based on management's best estimate of the economic reality of the underlying transaction.

Intangible assets

The Group acquired Sage Group Limited (Sage) effective 12 September 2005 and African Life Health (Pty) Limited effective 9 February 2006. IFRS 3 requires the acquirer to allocate the cost of a business combination at the effective date by recognising the acquiree's identifiable assets, liabilities and contingent liabilities that satisfy the recognition criteria.

Acquisition of Sage

As part of the purchase price allocation of the Sage transaction, Momentum identified the following intangible assets:

- *Present value of in-force-business (PVIF).* The PVIF was calculated using the embedded value methodology and basis, without deducting the opportunity cost of required statutory capital. Because PVIF for embedded value purposes is usually calculated assuming emergence of future profits on a statutory liability valuation basis, the PVIF was modified to conform with the emergence of profits on the IFRS basis.

Assumptions for mortality, morbidity and terminations were consistent with the most recent experience investigations, and future renewal expenses were based on the continuation of the company as a going concern combined with Momentum.

Economic assumptions (future investment returns and inflation) were based on market rates at the applicable date. The rate of discount used was 11%. The useful life has been assumed to be the full expected future duration of the policies in force, allowing for expected attrition through mortality, morbidity, maturities and terminations.

- *Agency force.* One of the reasons for the acquisition was to acquire the Sage distribution channels comprising mostly agents, which complement the Momentum distribution channel comprising mostly brokers.

  Some of the information used in the valuation process is the historical information (number of agents, past production and business mix), projected new business volumes per main product category and the Group's new business embedded value per main product category as at 30 June 2005. The valuation was done on a new business embedded value basis, as the agency force is a going concern. The amortisation period of the agency force intangible asset has been set at 10 years. This was based on the general expected premium payment terms in the insurance industry.

- *Contractual customer relationships.* The future fees to be earned on the investment management contracts of Sage's unit trust business is considered to be an intangible asset as it will result in the inflow of future economic benefits.

  The Group valued this intangible asset using a percentage of assets valuation approach (2.5%). The valuation was based only on external retail clients of Sage Unit Trusts. The price earnings ratio equated to 8 times. The expected useful life of this intangible asset has been set at 10 years.

No value was placed on the Sage technology as all of Sage's systems and processes were transferred to Momentum's platform. An assessment was performed on the Sage brand, based on a discounted cash flow valuation based on the results of the assessment no intangible asset was recognised.

Acquisition of African Life Health ("ALH")

As part of the purchase price allocation of the ALH transaction, Momentum identified the following intangible asset:

- *Contractual customer relationships.* The administration contracts with the medical schemes will result in the inflow of economic benefits to the Group and as a result is considered to be an intangible asset.

The discounted cash flow technique was used to value the customer contracts. Budgeted operating profit before tax was used as cash flows. A zero percent growth rate was assumed as ALH was identified as a mature business in the administration of medical aid schemes. Any future growth will therefore be through the Group and not at ALH level. It was assumed that any growth at ALH would be offset by the loss of members in other schemes. A discount rate of 24% was used, which is considered to be appropriate for the industry in which ALH operates. The useful life of this intangible asset has been estimated to be 10 years.

African Life Health is a medical scheme administrator and the brand value lies in the medical schemes which it administrates, rather than the brand of the company. Therefore, no value has been placed on the brand.

African Life Health used an external system known as the Neil Harvey system, which they did not own. No technology was therefore acquired as part of the business combination.

Income taxes

The Group 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 Group 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. The corporate tax rate applicable in South Africa is 29%. The insurance operations namely

Momentum Group Limited and Sage Life Limited have four separate tax funds. These funds are the individual policyholders' fund (taxed at 30%), corporate policyholders' fund (taxed at 29%), untaxed policyholders' fund and the corporate fund (taxed at 29%).

Impairment of goodwill

The recoverable amount of goodwill is tested annually for impairment in accordance with the stated accounting policy. The recoverable amount of the cash-generating units ("CGU") has been determined based on value-in-use calculation, being the net present value of the discounted cash flows of the CGU less the tangible net asset value of that CGU. Details of the main assumptions applied in determining the net present value of the CGU are provided in notes to these financial statements.

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

Additional information is provided in the notes to these financial statements.

Provisions

Provisions are, by definition, liabilities of uncertain timing or amounts. In order to establish a provision, management makes assessments of the expected amount of any future cash outflows and the estimated timing thereof. Where the effect of discounting is material, provisions payable longer than one year are discounted using pre-tax discount rates that reflect the current market assessment of the time value of money and where appropriate, the risk specific to the liability.

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 or 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 rolling 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 has 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.

Additional information is provided in the notes to these financial statements.

Valuation of policyholder liabilities under insurance contracts

The actuarial value of policyholder liabilities arising from long-term insurance contracts is determined using the Financial Soundness Valuation method as described in the actuarial guidance note PGN 104 of the Actuarial Society of South Africa. The method requires the following assumptions:

- The best estimate for a particular assumption is determined;
- Prescribed margins are then applied, as required by the Long-term Insurance Act of South Africa and Board Notice 72 issued in terms of the Act; and
- Discretionary margins may be applied, as required by the valuation methodology or if the statutory actuary considers such margins necessary to cover the risks inherent in the contracts.

Best estimate assumptions as to mortality and morbidity, expenses, investment income and tax are used that may vary at each balance sheet date. A margin for adverse deviations is included in the assumptions. Improvements in estimates have a positive impact on the value of the liabilities and related assets, while deteriorations in estimates have a negative impact.

The process for determining the assumptions used are as follows:

Mortality and morbidity

For group life insurance contracts, the rate of recovery from disability is derived from industry experience studies, adjusted where appropriate for the Group's own experience. For individual life insurance contracts, demographic assumptions were set with reference to reinsurer rates and industry experience.

Persistency

Lapse and surrender assumptions are based on past experience. The lapse analysis is done by considering the in-force duration of policies. For durations longer than existing actual data, lapse rates are set based on expectations of future experience based on internal and external expert advice. The lapse experience investigation covers at least the last two years of lapse experience to allow trends to be identified. Lapse assumptions are varied between different types of policies where the lapse experience is expected to differ significantly.

Withdrawal

The withdrawal assumptions are based on the most recent withdrawal investigations taking into account past as well as expected future trends. The withdrawal rates are analysed by product type and policy duration.

Expense

Expense assumptions are based on an expense analysis, using a functional cost approach. This analysis allocates expense between policy and overhead expenses and within policy expenses, between new business, maintenance and claims.

Investment income

Estimates are made as to future investment income and are tested against market conditions as at the valuation date taking into account the terms of the liabilities. Inflation assumptions are tested against market conditions and with regard to consistency, with interest rate assumptions.

Tax

Allowance is made for future taxation and taxation relief.

Refer to notes to these financial statements for more detail on the assumptions used in valuating the policyholder liabilities under insurance contracts.

2. STANDARDS ISSUED BUT NOT YET EFFECTIVE

IAS 19 amendment	**Employee benefits** The amendment introduces the option of an alternative recognition approach for actuarial gains and losses. It will impose additional recognition requirements for multi-employer plans where sufficient information is available to apply defined benefit accounting. It also adds new disclosure requirements. As the Group does not intend to change the accounting policy adopted for recognition of actuarial gains and losses and does not participate in any multi-employer plans, adoption of this amendment will only affect the format and extent of disclosures presented. The Group will apply this amendment from 1 July 2006.	Annual periods commencing on or after 1 January 2006.
IAS 21 amendment	**Net investment in a foreign operation** The amendment clarifies that a group entity that may have a monetary item receivable from or payable to a foreign operation, which is classified in substance as part of the net investment in a foreign operation, may be any subsidiary of the group and not only the parent. The amendment further specifies that the loan can be denominated in any currency and not only the functional currencies of the parties to the loan. The amendment will not have a significant effect on the Group's results.	Annual periods commencing on on or after 1 January 2006.
IAS 39 amendment	**Financial instruments: recognition and measurement – cash flow hedge accounting of forecast intragroup transactions** The amendment to IAS 39 allows the designation, as a hedged item in consolidated financial statements, of the foreign currency risk of a highly probable forecast intragroup transaction under certain conditions. The Group will consider the amendment but the application is expected to be limited.	Annual periods commencing on or after 1 January 2006.
IAS 39 amendment	**Financial Instruments: recognition and measurement – fair value option** The revisions to IAS 39 restrict the extent to which entities can designate a financial asset or financial liability as at fair value through profit and loss only to specific situations. The amendment is not expected to reduce the Group's current application materially.	Annual periods commencing on or after 1 January 2006.

2. STANDARDS ISSUED BUT NOT YET EFFECTIVE *continued*

IAS 39 and IFRS 4 amendment	**Financial instruments: recognition and measurement and insurance contracts – financial guarantee contracts** Under the revised statements the issuer of a financial guarantee contract would generally measure the contract at: • initially at fair value; and • subsequently at the higher of the amount determined in accordance with IAS 37 and at the amount initially recognised (less, when appropriate, cumulative amortisation). The Group's current policy is substantially in line with this approach and no significant adjustment is expected.	Annual periods commencing on or after 1 January 2006.
IFRIC 4	**Determining whether an arrangement contains a lease** This interpretation provides guidance on determining whether an arrangement that does not take the legal form of a lease contains a lease and should be accounted for in terms of IAS 17 Leases. An arrangement contains a lease if the fulfilment of the arrangement is dependent on the use of a specific asset or assets, and the arrangement conveys the right to use the asset. The amendment will not have a significant impact on the Group's results.	Annual periods commencing on or after 1 January 2006.
IFRIC 8	**Scope of IFRS 2** This interpretation clarifies that IFRS 2 applies to transactions in which the entity cannot specifically identify the goods or services received in return for a share-based payment, but where other circumstances indicate that goods or services have been received. IFRIC 8, in the context of South Africa, will result in non-staff components of Black Economic Empowerment ("BEE") transactions being accounted for under IFRS 2. As a result, the full financial impact in terms of IFRS 2 of the non-staff component of the BEE transaction, amounting to R1.655 billion, will be accounted for as an opening reserve transfer on 1 July 2005, and will have no further income statement effect.	Annual periods commencing on or after 1 January 2006.
IFRIC 9	**Reassessment of embedded derivatives** This interpretation clarifies that the assessment of whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative as per IAS 39 is when the entity first becomes a party to the contract, and that a first-time adopter of IFRS assesses the embedded derivative on the basis of conditions that existed at the later of the date it first became party to the contract and the date a reassessment is required.	Annual periods commencing on or after 1 June 2006.
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 supercede the current disclosure required in IAS 30 and IAS 32, the standard will not impact the results of the Group, but will result in more disclosure than that currently provided in the Group's financial statements.	Annual periods commencing on or after 1 January 2007.
IFRIC 10	**Interim financial reporting and impairment** This interpretation addresses the interaction between the requirements of IAS 34 and the recognition of impairment losses on goodwill in IAS 36 and certain financial assets in IAS 39, and the effect of that interaction on subsequent interim and annual financial statements. The amendment will not have a significant impact on the Group's interim results.	Annual periods commencing on or after 1 November 2006.

2. STANDARDS ISSUED BUT NOT YET EFFECTIVE *continued*

Other	The following statements are not applicable to the business of the Group:	Annual periods commencing on or after:
	IFRIC 5 – Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	1 January 2006
	IFRIC 6 – Liabilities arising from Participation in a Specific Market – Waste Electrical and Electronic Equipment	1 December 2005
	IFRIC 7 – Applying the Restatement Approach under IAS 29 – Financial Reporting in Hyperinflationary Economies	1 March 2006
	IFRS 6 – Exploration for and Evaluation of Mineral Resources	1 January 2006

R million	2006	2005
3. INTEREST AND SIMILAR INCOME		
Interest on:		
Advances	22 311	19 904
– originated	22 113	17 437
– held-to-maturity	150	951
– available-for-sale	48	416
– fair value	–	1 100
Cash and short-term funds	1 056	1 208
Investment securities – Total listed and unlisted	6 531	5 682
– held-to-maturity	164	31
– available-for-sale	1 013	1 604
– elected fair value	5 263	4 047
– trading	91	–
Accrued on impaired advances	77	260
Accrued on off-market advances	–	14
Other	420	437
Interest and similar income	30 395	27 505
4. INTEREST EXPENSE AND SIMILAR CHARGES		
Interest expenditure		
Deposits from banks and financial institutions	142	406
Current accounts	3 674	1 930
– At amortised cost	3 667	1 926
– Elected fair value	7	4
Savings deposits	75	88
Term deposits accounts	8 903	9 147
Finance leases	112	123
Debentures – external	404	603
Other	2 073	2 024
Interest expense and similar charges	15 383	14 321

R million	2006	2005
5. NET FEE AND COMMISSION INCOME		
Fee and commission income:		
Banking fee and commission income	8 005	7 358
– Card commissions	892	577
– Cash deposit fees	811	716
– Commissions: bills drafts and cheques	394	448
– Service fees	2 990	2 836
– Other commissions	2 918	2 781
Knowledge based fee	1 168	1 027
Asset management and related fees	2 325	1 491
Portfolio and other management fees	18	32
Other	2 572	1 927
– Management fees	1 950	1 655
– Other	622	272
Fee and commission income	14 088	11 835
Fee and commission expense	(2 079)	(1 957)
– Broking commission paid	(1 961)	(1 563)
– Other	(118)	(394)
Net fee and commission income	12 009	9 878
6. NET INSURANCE PREMIUM INCOME		
Insurance premiums		
Long-term insurance contracts		
Individual life	5 282	6 244
Single premiums	42	371
Recurring premiums	4 661	5 238
Annuities	579	635
Employee benefits	1 453	1 277
Single premiums and investment lump sums	190	546
Recurring premiums	1 263	731
Health	74	18
Recurring premiums	74	18
Total long-term insurance contracts	6 809	7 539

R million	2006	2005
6. NET INSURANCE PREMIUM INCOME *continued*		
Short-term insurance contracts		
Other	949	572
Net life policy premium income	89	73
Policy fees on investment contracts	54	35
Revenue from health insurance products	806	464
Total short-term insurance contracts	949	572
Insurance premium revenue	7 758	8 111
Insurance premium ceded to reinsurers		
Long-term insurance contracts	855	635
Individual life	673	486
Employee benefits	180	146
Health	2	3
Short-term insurance contracts		
Revenue from health insurance products	81	53
Total premium revenue ceded to reinsurers on insurance contracts issued	936	688
Net insurance premium income	6 822	7 423
Broken up as follows:		
Long-term insurance contracts	5 954	6 904
Short-term insurance contracts	868	519
	6 822	7 423
7. NET CLAIMS AND BENEFITS PAID		
Net claims and benefits paid		
Long-term insurance contracts		
Individual life	3 687	6 666
Death	979	949
Disability	293	254
Maturities	1 477	4 078
Surrenders	938	1 385
Lump sum annuities	1 428	1 216
Annuities paid	1 299	1 204
Commutations	129	12
Total benefits in respect of individual life business	5 115	7 882
Employee benefits	969	1 070
Death	564	485
Disability	334	311
Maturities	–	2
Scheme terminations and member withdrawals	1	201
Annuities	70	71

R million	2006	2005
7. NET CLAIMS AND BENEFITS PAID *continued*		
Total benefits in respect of employee benefit business		
Health		
Gross claims	791	396
Total benefits in respect of health business	791	396
Insurance benefits recovered from reinsurers		
Individual life	508	323
Employee benefits	114	121
Health	79	43
Total insurance benefits recovered from reinsurers	701	487
Total net insurance benefits	6 174	8 861
8. INVESTMENT AND TRADING INCOME		
Gains and losses from banking and trading activities		
Foreign exchange trading		
– domestic based currency trading	812	657
– foreign based currency trading	75	(2)
Treasury trading operations	3 462	1 532
Net gains from banking and trading activities	4 349	2 187
Gains and losses from investment activities		
Profit on realisation of investment banking assets	375	92
Transfer from revaluation reserve on sale of available-for-sale assets	15	(29)
Dividends received	834	815
Loss on sale of discontinued operations	–	(67)
Income from associate and joint venture companies	1 290	1 076
Unrealised profit on assets held against employee liabilities	321	296
Net gains and unrealised gains on investments carried at fair value	17 680	14 829
Gross investment income	20 515	17 012
Less amounts shown separately on the face of the income statement	1 290	1 009
Loss on sale of discontinued operations	–	(67)
Income from associated companies	1 290	1 076
Net gains from investment activities	19 225	16 003
Other operating income		
Rental income from investment properties	556	466
Loss on sale of fixed assets	(19)	(7)
Other income*	1 731	1 256
Other operating income	2 268	1 715

** Including fair value movement of investment properties of R1 224 million (2005: R616 million).*

R million	2006	2005
9. FAIR VALUE ADJUSTMENT TO FINANCIAL LIABILITIES		
Emira Property Fund	526	232
Other consolidated collective investment schemes	4	–
Fair value adjustment to financial liabilities	530	232
10. OPERATING EXPENSES		
Auditors' remuneration	97	74
Audit fees	74	56
Fees for other services	19	18
Technical advice	11	11
Other	8	7
Prior year under provision	4	0
Amortisation of intangible assets	131	60
Trademarks	–	1
Software	51	24
Development costs	27	24
Other	53	11
Depreciation	926	791
Property	209	166
Freehold property	71	52
Leasehold premises	138	114
Equipment	705	609
Computer equipment	482	420
Furniture and fittings	134	118
Motor vehicles	21	19
Office equipment	68	52
Capitalised leased assets	12	16
Other impairments incurred	58	11
Software	–	6
Other	71	–
Freehold property – buildings	(15)	5
Leasehold equipment	2	–
Operating lease charges	941	737
Property	590	421
Equipment	325	290
Motor vehicles	26	26
Professional fees	595	591
Managerial	26	19
Technical	180	178
Other	377	388
Actuarial fees	12	6

10. OPERATING EXPENSES *continued*

R million	2006	2005
Direct staff costs	9 242	7 709
Salaries, wages and allowances	7 050	6 110
Contributions to employee benefit funds	1 155	943
Defined contribution schemes	713	409
Defined benefit schemes	442	534
Social security levies	99	61
Other	938	595
Provision for staff and management bonuses	463	384
Provision for leave pay	16	8
Staff training	53	40
Transfer expenditure	2	–
Recruitment fees	26	22
Sundry other	44	47
Share-based payment expenses (equity)	202	32
Casual staff	71	42
Contractors	31	18
Retrenchment costs	30	2
Staff related costs	1 411	755
Other operating costs	6 342	5 584
Insurance	208	210
Advertising and marketing	1 017	930
Maintenance	505	462
Property maintenance	262	260
Computer expenses	874	657
Stationery	250	222
Telecommunications	497	447
eBucks customer rewards	190	161
Conveyance of cash	96	127
Acquisition costs	24	312
Other	2 419	1 796
Business travel	1 643	1 237
Local travel	22	16
International travel	12	13
Donations	20	6
Total directors' remuneration	38	28
Services as directors	21	13
Other emoluments	17	15
Entertainment	21	17
Finance lease charges	10	10
Legal	8	5
Storage and delivery	5	5
Other expenses	640	459
Indirect taxation	659	524
Value-added taxation (net)	522	451
Regional services levy	69	48
Stamp duties	11	5
Other	57	20
Total operating expenditure	20 402	16 836

R million	2006	2005
11. TAXATION		
Direct Taxation		
Normal taxation		
Current	2 539	754
Current year	2 070	1 334
Current taxation	2 070	1 334
Prior year adjustment	469	(580)
Deferred	572	1 443
Current year	1 090	1 250
Deferred taxation	1 090	1 250
Prior year adjustment	(518)	249
Taxation rate adjustment	–	(56)
Tax rate adjustment	–	(56)
Share of associate taxation	352	337
Total normal taxation	3 463	2 534
Foreign company and withholding taxation		
Current	315	197
Current year	273	197
Prior year adjustment	42	–
Deferred tax	(78)	5
Current year	(47)	5
Prior year adjustment	(31)	–
Total foreign company and withholding taxation	237	202
Capital gains tax	419	295
Customer tax adjustment account	–	43
Deferred taxation	370	249
Change in taxation rate	–	(8)
Secondary taxation on companies	354	223
Current	249	206
Deferred	105	17
Retirement fund taxation	197	72
Total taxation	5 040	3 610
Taxation rate reconciliation – South African normal taxation	%	%
Effective rate of taxation	33.5	31.9
Total taxation has been affected by:		
Non-taxable income	5.6	7.2
Foreign tax rate differential	1.8	1.8
Prior year adjustments	(0.3)	(2.9)
Taxation rate adjustment	–	(0.5)
Other permanent differences	(11.6)	(8.5)
Standard rate of South African taxation	29.0	29.0

R million	2006	2005
12. EARNINGS PER SHARE		
Basic		
Basic earnings per share is calculated by dividing the net profit attributable to equity holders of the Group by the weighted average number of ordinary shares in issue during the year, excluding the average number of ordinary shares purchased by the Company and held as treasury shares.		
Profit attributable to equity holders (R million)	8 825	7 137
Weighted average number of ordinary shares in issue	5 184 430 941	5 186 970 920
Basic earnings per share (cents)	171.6	137.3
Diluted		
Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.		
Profit attributable to equity holders (R million)	8 825	7 137
Actual number of shares:		
Opening balance 1 July	5 613 566 954	5 476 374 833
Movements		
Odd lot	–	(49 850)
Outperformance conversion May 2005	–	18 241 971
Share issue (May 2005 – BEE transaction)	–	119 000 000
Shares in issue as at 1 July	5 613 566 954	5 613 566 954
Outperformance conversion October 2005	1 465 514	–
Outperformance conversion April 2006	19 088 035	–
Number of shares in issue as at 30 June	5 634 120 503	5 613 566 954
Less: Treasury shares	(449 689 562)	(426 596 034)
Staff schemes	242 605 846	247 194 962
BEE staff trusts	179 401 072	179 401 072
Policyholder and mutual funds "deemed treasury shares"	27 682 644	–
Actual number of shares in issue (after treasury shares)	5 184 430 941	5 186 970 920
Weighted number of shares		
Actual number of shares as at 1 July	5 613 566 954	5 476 374 833
Adjustments		
Odd lot	–	(38 787)
Outperformance conversion May 2005	5 549 512	2 298 988
Share issue (May 2005 – BEE transaction)	–	14 997 260
Weighted average number of shares before treasury shares	5 619 116 466	5 493 632 294
Less: Treasury shares	(476 431 135)	(293 768 089)
Staff schemes	269 347 419	271 158 639
BEE staff trusts	179 401 072	22 609 450
Policyholder and mutual funds "deemed treasury shares"	27 682 644	–
Weighted average number of shares	5 142 685 331	5 199 864 205
Weighted average number of shares	5 142 685 331	5 199 864 205
Dilution impact		
Outperformance	6 807 375	42 395 169
Staff schemes	111 997 137	60 181 517
BEE staff trust	56 119 306	3 999 387
Diluted weighted average number of shares in issue	5 317 609 149	5 306 440 278
Diluted earnings per share (cents)	166.0	134.5

R million	2006	2005
13. CASH AND SHORT-TERM FUNDS		
Coins and bank notes	2 360	2 518
Money market investments	3 450	1 634
Money at call and short notice	2 731	5 712
Balances with central banks	6 673	4 983
Balances guaranteed by central banks	4 432	4 570
Balances with other banks	10 677	5 473
	30 323	24 890
Mandatory reserve balances included in above:	6 652	5 030

Banks are required to deposit a minimum average balance, calculated monthly, with the central bank which are not available for use in the Group'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.

R million	2006 At amortised cost	2006 Held-to-maturity	2006 Available-for-sale	2006 Fair value	2006 Total	2005 Total
14. ADVANCES						
Gross/Notional values of advances						
Agriculture	6 935	–	–	410	7 345	5 337
Banks and financial services	4 873	–	538	28 450	33 861	26 757
Building and property development	7 194	–	–	–	7 194	11 081
Government, land bank and public authorities	221	–	–	7 587	7 808	6 318
Individuals	170 837	536	–	11	171 384	125 637
Manufacturing and commerce	26 091	–	–	13 275	39 366	27 357
Mining	1 288	–	–	512	1 800	3 952
Transport and communication	9 200	–	–	2 129	11 329	7 504
Other services	13 382	178	–	1 131	14 691	10 912
Notional value of advances	240 021	714	538	53 505	294 778	224 855
Contractual interest suspended	(535)	(1)	–	(35)	(571)	(494)
Gross advances	239 486	713	538	53 470	294 207	224 361
Impairment of advances (note 14.1)	(3 116)	(15)	–	–	(3 131)	(2 510)
Net advances	236 370	698	538	53 470	291 076	221 851
Net advances – 2005	175 475	7 449	1 648	37 279	221 851	
Geographic analysis (based on credit risk)						
South Africa	225 621	714	538	35 911	262 784	202 055
Other Africa	12 341	–	–	1 687	14 028	12 068
UK	108	–	–	7 317	7 425	5 827
Other	1 951	–	–	8 590	10 541	4 905
Total	240 021	714	538	53 505	294 778	224 855
Contractual interest suspended	(535)	(1)	–	(35)	(571)	(494)
Gross advances	239 486	713	538	53 470	294 207	224 361
Impairment of advances (note 14.1)	(3 116)	(15)	–	–	(3 131)	(2 510)
Net advances	236 370	698	538	53 470	291 076	221 851
Net advances – 2005	175 475	7 449	1 648	37 279	221 851	

14. ADVANCES *continued*

R million	At amortised cost	Held-to-maturity	Available-for-sale	Fair value	Total 2006	Total 2005
Category analysis						
Overdrafts and managed accounts	24 353	–	–	338	24 691	28 280
Loans to other financial institutions	(2 666)	–	–	6 442	3 776	8 971
Card loans	10 120	–	–	–	10 120	7 569
Installment sales	45 314	–	–	–	45 314	36 533
Lease payments receivable	25 602	–	–	–	25 602	19 199
Property finance	108 046	536	–	2 849	111 431	80 016
Home loans	104 138	536	–		104 674	75 801
Commercial property finance	3 908	–	–	2 849	6 757	4 215
Personal loans	11 575	–	–	–	11 575	4 889
Preference share agreements	1 859	–	–	–	1 859	(760)
Other	15 284	178	538	31 946	47 946	40 158
Collateralised debt obligation	161	–	–	–	161	–
Assets under agree to resell	373	–	–	11 930	12 303	–
Notional value of advances	240 021	714	538	53 505	294 778	224 855
Contractual interest suspended	(535)	(1)	–	(35)	(571)	(494)
Gross advances	239 486	713	538	53 470	294 207	224 361
Impairment of advances (note 14.1)	(3 116)	(15)	–	–	(3 131)	(2 510)
Net advances	236 370	698	538	53 470	291 076	221 851
Net advances – 2005	175 475	7 449	1 648	37 279	221 851	

Analysis of installment sales and lease payments receivable	Within 1 year	Between 1 and 5 years	Total 2006	Total 2005
Lease payments receivable	6 431	20 928	27 359	20 615
Suspensive sale instalments receivable	10 659	33 776	44 435	43 937
Sub-total	17 090	54 704	71 794	64 552
Less: Unearned finance charges	(176)	(787)	(963)	(7 467)
Total	16 914	53 917	70 831	57 085

A maturity analysis of advances is set out in note 39 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 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 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.

14. ADVANCES *continued*

14.1 Impairment of advances

Analysis of movement in impairment of advances

R million	2005 Total provisions	Specific provisions	Portfolio provisions	Income statement
Opening balance	3 027	2 195	832	–
Exchange rate difference	10	10	–	–
Bad debts written off	(1 254)	(1 254)	–	–
Unwinding of discounted present value on non-performing loans	(260)	(260)	–	–
Reclassifications	–	152	(152)	–
New provisions created	925	975	(50)	(925)
Recoveries of bad debts	–	–	–	220
Acquisitions	62	62	–	–
Loss on realisation of security	–	–	–	(1)
Closing balance	2 510	1 880	630	(706)

R million	**2006 Total provisions**	**Specific provisions**	**Portfolio provisions**	**Income statement**
Opening balance	**2 510**	**1 880**	**630**	**–**
IFRS adjustment	**77**	**(214)**	**291**	**–**
– IFRS reclassification	**(235)**	**(86)**	**(149)**	**–**
– IFRS remeasurement	**312**	**(128)**	**440**	**–**
Restated opening balance	**2 587**	**1 666**	**921**	**–**
Exchange rate difference	**(8)**	**(7)**	**(1)**	**–**
Bad debts written off	**(1 115)**	**(1 033)**	**(82)**	**–**
Unwinding of discounted present value on non-performing loans	**(77)**	**(77)**	**–**	**–**
New provisions created	**1 729**	**1 447**	**282**	**(1 729)**
Recoveries of bad debts	**–**	**–**	**–**	**312**
Acquisitions	**15**	**14**	**1**	**–**
Profit/(Loss) on realisation of security	**–**	**–**	**–**	**6**
Closing balance	**3 131**	**2 010**	**1 121**	**(1 411)**

In previous periods the Group entered into synthetic securitisation transactions namely, Procul and Fresco the synthetic securitisation transactions amounting to R2 billion of Wesbank and R12.5 billion of FirstRand Bank Corporate advances (Fresco). These transactions transfer credit risk to value of the referenced portfolios (Procul) to third parties.

These securitisation transactions have been consolidated in terms of SIC 12, refer notes 16 and 25.

14. ADVANCES *continued*

14.1 Impairment of advances *continued*

R million	2006 Total capital value including interest in suspense	2006 Security held	2006 Contractual interest suspended	2006 Specific provisions	2005 Specific provisions
Non-performing lendings by sector					
Agriculture	182	82	24	76	49
Banks and financial services	67	40	27	–	256
Building and property development	262	65	72	125	61
Government, Land Bank and public authorities	202	169	33	–	27
Individuals	2 423	905	207	1 311	898
Manufacturing and commerce	740	271	120	349	373
Mining	50	28	10	12	8
Transport and communication	157	40	63	54	52
Other services	128	30	15	83	156
Total	4 211	1 630	571	2 010	1 880
Total non-performing lendings 2005	3 241	866	495	1 880	
Non-performing lendings by category					
Overdrafts and managed account debtors	931	97	208	626	591
Card loans	557	170	35	352	226
Installment sale	851	566	68	217	220
Lease payments receivable	224	120	18	86	109
Home loans	1 027	414	109	504	335
Personal loans	281	107	31	143	101
Other	340	156	102	82	298
Total	4 211	1 630	571	2 010	1 880
Total non-performing lendings 2005	3 241	866	495	1 880	

15. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments

The Group 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 Group faces due to volatile interest rates. The Group 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 Group also has assets at variable rates and uses receive fixed interest rate derivatives as cash flow hedges of future interest receipts.

The insurance companies within the Group will on occasion make use of derivative instruments in order to achieve exposure to a desired asset spread where liquidity constraints limit the purchase of sufficient physical assets as well as to hedge against known liabilities. In the insurance companies, derivatives are not entered into for purely speculative purposes.

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

The Group's detailed risk management strategy, including the use of hedging instruments in risk management, is set out on pages 84 to 86 of the Annual Report ("the Risk Management Report").

Further information pertaining to the risk management of the Group is set out in note 39 below.

R million	Assets Notional	Assets Fair value	Liabilities Notional	Liabilities Fair value
15. DERIVATIVE FINANCIAL INSTRUMENTS *continued*				
2006				
Qualifying for hedge accounting				
Cash flow hedges				
Currency derivatives				
– Futures	–	–	1	1
Interest rate derivatives				
– Forward rate agreements	1 500	–	–	–
– Swaps	9 050	255	5 352	145
Total cash flow hedges	10 550	255	5 353	146
2006				
Fair value hedges				
Currency derivatives				
– Forward rate agreements				
– Swaps	964	1	1 084	11
Interest rate derivatives				
– Forward rate agreements	–	–	–	–
– Swaps	(2 821)	172	(1 184)	100
Credit derivatives	21	–	–	–
Total fair value hedges	(1 836)	173	(100)	111
Total qualifying for hedge accounting	8 714	428	5 253	257
2006				
Held for trading				
Currency derivatives				
– Forward rate agreements	278 474	8 597	191 619	9 520
– Swaps	235 977	11 798	129 289	8 295
– Options	4 006	1 423	2 365	139
– Other	6 599	1 176	4 540	292
	525 056	22 994	327 813	18 246
Interest rate derivatives				
– Forward rate agreements	140 414	210	142 492	(11 460)
– Swaps	198 317	5 850	203 590	6 750
– Options	19 685	85	28 240	110
– Other	137 727	76	163 707	1
	496 143	6 221	538 029	(4 599)
Equity derivatives				
– Forward rate agreements				
– Options	13 469	3 476	18 203	4 373
– Other	5 331	120	2 723	268
	18 800	3 596	20 926	4 641

R million	Assets Notional	Assets Fair value	Liabilities Notional	Liabilities Fair value
15. DERIVATIVE FINANCIAL INSTRUMENTS *continued*				
Commodity derivatives				
– Forward rate agreements				
– Swaps	261	6	946	42
– Options	10 467	4 276	11 116	2 739
– Other	3 165	350	2 989	675
	13 893	4 632	15 051	3 456
Credit derivatives	8 055	63	9 896	369
Total held for trading	1 061 947	37 506	911 715	22 113
Total	1 070 661	37 934	916 968	22 370

Assets: Derivative instruments

R million	Exchange traded Notional	Exchange traded Fair value	over the counter Notional	over the counter Fair value	Total Notional	Total Fair value
2006						
Qualifying for hedge accounting						
Cash flow hedges	–	–	10 550	255	10 550	255
Fair value hedges	–	–	(1 836)	173	(1 836)	173
Held for trading	144 733	109	917 214	37 397	1 061 947	37 506
Currency derivatives	642	35	524 414	22 959	525 056	22 994
Interest rate derivatives	137 728	–	358 415	6 221	496 143	6 221
Equity derivatives	3 848	70	14 952	3 526	18 800	3 596
Commodity derivatives	2 515	4	11 378	4 628	13 893	4 632
Credit derivatives	–	–	8 055	63	8 055	63
Total	144 733	109	925 928	37 825	1 070 661	37 934

Liabilities: Derivative instruments

R million	Exchange Traded Notional	Exchange Traded Fair value	Over the Counter Notional	Over the Counter Fair value	Total Notional	Total Fair value
2006						
Qualifying for hedge accounting						
Cash flow hedges	1	1	5 352	145	5 353	146
Interest rate derivatives			5 352	145	5 352	145
Currency derivatives	1	1			1	1
Credit derivatives	–	–	–	–		
Fair value hedges	–	–	(100)	111	(100)	111
Currency derivatives	–	–	1 084	11	1 084	11
Interest rate derivatives	–	–	(1 184)	100	(1 184)	100
Held for trading	169 557	57	742 158	22 056	911 715	22 113
Currency derivatives	154	40	327 659	18 206	327 813	18 246
Interest rate derivatives	163 707	1	374 322	(4 600)	538 029	(4 599)
Equity derivatives	3 571	6	17 355	4 635	20 926	4 641
Commodity derivatives	2 125	10	12 926	3 446	15 051	3 456
Credit derivatives	–	–	9 896	369	9 896	369
Total	169 558	58	747 410	22 312	916 968	22 370

R million	Assets Notional	Assets Fair value	Liabilities Notional	Liabilities Fair value
15. DERIVATIVE FINANCIAL INSTRUMENTS				
continued				
2005				
Qualifying for hedge accounting				
Cash flow hedges				
Currency derivatives				
– Swaps	19	1	–	–
Interest rate derivatives				
– Swaps	16 416	421	5 714	63
Credit derivatives	2 153	118	2 069	
Total cash flow hedges	18 588	540	7 783	63
2005				
Currency derivatives				
– Swaps	–	–	13	–
Interest rate derivatives				
– Swaps	5 680	271	1 482	126
Credit derivatives	–	–	866	60
Total fair value hedges	5 680	271	2 361	186
Total qualifying for hedge accounting	24 268	811	10 144	249

R million	Assets Notional	Assets Fair value	Liabilities Notional	Liabilities Fair value
15. DERIVATIVE FINANCIAL INSTRUMENTS *continued*				
2005				
Held for trading				
– Forward rate agreements	70 930	2 791	68 192	2 617
– Swaps	113 197	14 273	108 363	11 185
– Options	2 021	1 034	1 624	26
– Other	61	61		
	186 209	18 159	178 179	13 828
Interest rate derivatives				
– Forward rate agreements	91 709	214	78 016	190
– Swaps	169 669	12 782	154 279	7 212
– Options	11 658	76	11 309	83
– Other	31 949	200	23 031	184
	304 985	13 272	266 635	7 669
Equity derivatives				
– Forward rate agreements	14 305	1 462	5 416	1 741
– Options	6 987	2 340	561	2 555
– Other	2 082	1 369	–	713
	23 374	5 171	5 977	5 009
Commodity derivatives				
– Forward rate agreements	4 336	322	4 359	702
– Swaps	175	5	593	32
– Options	8 952	1 691	9 436	924
– Other	165	5	661	118
	13 628	2 023	15 049	1 776
Credit derivatives	7 495	359	3 064	1 733
Total held for trading	535 691	38 984	468 904	30 015
Total	559 959	39 795	479 048	30 264

	Assets: Derivative instruments					
	Exchange traded		over the counter		Total	
R million	Notional	Fair value	Notional	Fair value	Notional	Fair value
2005						
Qualifying for hedge accounting			18 588	540	18 588	540
Fair value hedges	–	–	5 680	271	5 680	271
Held for trading	19 459	71	516 232	38 913	535 691	38 984
Currency derivatives	5	5	186 204	18 154	186 209	18 159
Interest rate derivatives	17 572	13	287 413	13 259	304 985	13 272
Equity derivatives	582	45	22 792	5 126	23 374	5 171
Commodity derivatives	1 300	8	12 328	2 015	13 628	2 023
Credit derivatives	–	–	7 495	359	7 495	359
Total	19 459	71	540 500	39 724	559 959	39 795

	Liabilities: Derivative instruments					
	Exchange traded		over the counter		Total	
R million	Notional	Fair value	Notional	Fair value	Notional	Fair value
15. DERIVATIVE FINANCIAL INSTRUMENTS *continued*						
2005						
Qualifying for hedge accounting						
Cash flow hedges	–	–	7 783	63	7 783	63
Interest rate derivatives	–	–	5 714	63	5 714	63
Credit derivatives	–	–	2 069	–	2 069	–
Fair value hedges	–	–	2 361	186	2 361	186
Currency derivatives	–	–	13	–	13	–
Interest rate derivatives	–	–	1 482	126	1 482	126
Credit derivatives	–	–	866	60	866	60
Held for trading	14 702	31	454 202	29 984	468 904	30 015
Currency derivatives	5	5	178 174	13 823	178 179	13 828
Interest rate derivatives	12 487	22	254 148	7 647	266 635	7 669
Equity derivatives	483	(39)	5 494	5 048	5 977	5 009
Commodity derivatives	1 727	43	13 322	1 733	15 049	1 776
Credit derivatives	–	–	3 064	1 733	3 064	1 733
Total	14 702	31	464 346	30 233	479 048	30 264

R million	**2006**	2005
16. INVESTMENT SECURITIES AND OTHER INVESTMENTS		
Analysis of investment securities		
Listed	**135 706**	106 520
Equities	**72 878**	53 879
Debt	**62 828**	52 641
Unlisted	**38 142**	27 243
Equities	**20 110**	11 090
Debt	**18 032**	16 153
	173 848	133 763
Aggregate market value of listed securities	**143 851**	107 456
Aggregate directors' valuation of unlisted investments	**35 895**	24 433
	179 746	131 889

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 below.

R million	2006	2005
16. INVESTMENT SECURITIES AND OTHER INVESTMENTS *continued*		
Financial instruments held for trading		
– Negotiable certificates of deposit	701	736
– Treasury bills	2 369	2 476
– Government, public and utility stocks	7 619	6 180
Other dated securities	2 954	1 593
Other undated securities	–	1 704
Other	14 705	8 039
	28 348	20 728
Investment securities and other investments		
– Debt securities	72 065	60 613
– Listed equity securities	72 202	53 440
– Unlisted equity securities	20 110	11 090
	136 706	104 854
– Non-recourse investments*	8 794	8 181
Total investment securities and other investments	173 848	133 763
Portfolio analysis of investment securities		
Held-to-maturity	998	2 880
Available-for-sale	22 947	16 100
Elected fair value	112 761	85 874
Total analysis	136 706	104 854
Non-recourse investments*		
R194 at fair value	957	1 188
Other	7 837	7 010
Total	8 794	8 198
Commodities		
Agricultural stock	627	377
Other	49	62
	676	439

R million	2006	2005
16. INVESTMENT SECURITIES AND OTHER INVESTMENTS *continued*		
Sub-total	8 794	8 198
Less: Group's share thereof	–	17
Total non-recourse Investment	8 794	8 181
Non-recourse deposits		
Total fair value of notes issued	9 001	7922
Less: Notes acquired by the Group	(465)	(17)
Total non-recourse deposits (refer to note 25)	8 536	7 905
Commodities	676	439
Total of non-recourse investments and commodities	9 470	8 620
Maturity analysis of investment securities and other investments at their fair values		
– Maturing within one year	45 474	23 717
– Maturing after one year but within five years	22 552	13 441
– Maturing after five years but within 10 years	7 884	23 131
– Maturing after 10 years	8 497	11 837
– Undated assets	95 339	59 763
	179 746	131 889

R15 672 million (2005: R12 206 million) of the financial instruments held for trading form part of the Group's liquid asset portfolio in terms of the South African Reserve Bank and other foreign banking regulators requirements.

The Group holds certain interests in collateralised debt obligation structures. The Group has no obligations toward other investors beyond the amounts already combined. The Group has no management control or influence over these investments.

***Non-recourse investments**

Non-recourse investments represent government bonds which were acquired to serve as security in terms of the Fresco and Procul synthetic collateralised debt obligation structures (refer note 14). These assets were consolidated as the Group is deemed to control these structures in terms of SIC 12. These investments are categorised as trading and carried at fair value, with changes in fair value taken to the income statement. These investments consist of:

South African government bonds

R million	2006	2005
R153 at fair value	–	1 270
R194 at fair value	957	1 188
	957	2 458
Investment grade commercial paper[1]	7 837	6 966
Less: Group's share thereof	–	(1 243)
	8 794	8 181

1. *iNdwa Investments Limited, an asset-backed conduit that provides South African institutional investors with short dated investment-grade commercial paper is consolidated. The Banking Group has no obligations toward other investors beyond the amounts already contributed. The Banking Group has no management control or influence over these investments which are recorded at fair value under the available-for-sale category in the above table.*

R million	2006	2005
17. INVESTMENT PROPERTIES		
Completed properties		
Fair market value at beginning of the year	4 101	3 648
Net revaluations	1 244	616
Gross revaluations	1 241	616
Net movements on straight-lining of operating leases in terms of IFRS	3	–
Additions	832	169
Acquisitions	357	142
Capitalised subsequent expenditure	129	27
Business combinations	346	–
Disposals	(14)	(332)
Reclassifications	(144)	–
Transfer to properties under development	(7)	–
Fair market value at end of the year	6 012	4 101
Properties under development		
Cost at the beginning of year	71	71
Additions – capitalised subsequent expenditure	58	–
Cost at end of year	129	71
Total investment properties	6 141	4 172
Comprising:		
Office buildings	3 240	2 278
Shopping malls	1 946	1 340
Industrial buildings	544	404
Vacant land	137	23
Listed property equities	274	127
	6 141	4 172

Investment properties are acquired for letting to external tenants with the intention to generate future rental income.

One third of the property portfolio in Emira was valued by CB Richard Ellis, Mills Fitchet, Old Mutual Properties, Investec Property Group and Valuation Alliance. Valuations on the remaining two thirds were performed by RMB Properties (Pty) Limited who employs registered valuators using mainly the discounted cash flow of the future income stream method. The independent valuations are obtained on a rotational basis to ensure that external independent valuation professionals have valued each property every three years.

The valuation calculations are based on the aggregate of the net annual rents receivable and associated costs, using the discounted cash flow method. The discounted cash flow method takes projected cash flow and discounts them at a rate which is consistent with the comparable market transactions. The discount rates used vary between 10% and 20% (depending on the risks associated with the respective properties).

All other investment properties have historically not been independently valued, but valued annually by RMBP's registered valuators. These properties will be valued on the same basis as Emira's properties from the next financial year. The latest date of valuation was 30 June 2006 on all investment properties.

Any gains or losses arising from changes in fair value are included in the net income or loss for the year.

The carrying amount of unlet or vacant investment properties as at 30 June 2006 was R257 million (2005: R21 million).

Schedules of freehold property and equity investments are open for inspection at the offices of the various group companies in terms of the provisions of the Companies Act, 1973.

R million	2006	2005
18. REINSURANCE ASSETS		
Insurance contracts	292	236
Short-term reinsurance contracts	32	19
Life reinsurance contracts	260	217
Investment contracts	–	–
Total reinsurance contracts	292	236
Maturity analysis	292	236
Current	63	36
Non-current	229	200
Maturity analysis	292	236
Due within one year	63	36
Due within one to five years	128	80
Due within five to 10 years	46	55
Due after 10 years	55	65
19. LOANS AND RECEIVABLES		
Unsettled trades	1 233	531
Trade debtors	255	316
Premium debtors	360	183
Less provision for impairment of premium debtors	(24)	(14)
Reinsurance debtors	237	164
Prepayments	37	20
Properties held for resale	174	–
Other debtors	3 774	10 348
Loans and receivables	6 046	11 548
20. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES		
Investment in associate and joint venture companies		
Listed investments		
Investments at cost less amounts written off	2 298	2 850
Unlisted investments		
Investments at cost less amounts written off	2 030	1 798
Total retained income and reserves	741	1 059
Retained income for the year	496	492
Income before taxation for the year	1 368	1 127
Share of profit before taxation	1 468	1 202
Impairment	(100)	(75)
Taxation for the year	(332)	(315)
Dividends received for the year	(540)	(320)
Exchange differences	27	(12)
Disposals and acquisitions	(767)	(276)
Share of retained income at beginning of the year	951	747
Share of retained income at end of the year	707	951
Share of other reserves	34	108
Total carrying value	5 069	5 707
Goodwill included in carrying value above		
Gross amount	226	282
Accumulated impairment losses	–	(6)
	226	276

R million	2006	2005
20. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES *continued*		
Movement in goodwill		
Opening balance	277	116
Exchange differences	(6)	14
Disposals	(54)	(68)
Additions	23	215
At end of year	240	277
Valuation		
Listed investments at market value	1 976	3 310
Unlisted investments at directors' valuation	5 100	4 128
Total valuation	7 076	7 438
Included in listed investments		
Debenture loans	405	408
Included in unlisted investments		
Shareholder loans	1 361	832

R million	Nature of business	Issued ordinary share capital R	Number of ordinary shares held R	Year end
Significant associates and joint ventures				
Listed				
Makalani Holdings	Investment holding	625 000 000	5 437 380	30-Jun
Other	Various	Various	Various	Various
Unlisted				
OUTsurance Insurance Company Limited	Insurance	33 387 430	1 584 225 400	30-Jun
Futuregrowth Asset Management (Pty) Limited	Asset management	*	*	
Tembisa Plaza Share Block (Pty) Limited	Share block – shopping centre	*	*	
Healthbridge (Pty) Limited	Electronic commerce communication infrastructure	300	300	30-Sep
Zeda Car Leasing (Pty) Limited	Leasing	100	50	31-Mar
Toyota Financial Services (Pty) Limited	Vehicle finance	4 500	1 499	31-Mar
Marsh Holdings SA (Pty) Limited	Insurance brokers	100 000	40 000	31-Dec
Private Equity Associates	Various	Various	Various	Various

** = Unlisted share cost is less than R1.*

20. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

continued

R million	Effective holding % 2006	Effective holding % 2005	Group carrying amount 2006	Group carrying amount 2005	Group costs less amounts written off 2006	Group costs less amounts written off 2005
Listed						
Makalani Holdings	**22**	22	**565**	543	**565**	543
African Life Assurance Company	**–**	33	**–**	727	**–**	–
Freestone Property Holdings	**38**	40	**223**	200	**–**	–
Other	**Various**	Various	**1 105**	1 642	**1 733**	2 307
Total listed			**1 893**	3 112	**2 298**	2 850
Unlisted						
OUTsurance Insurance Company Limited	**47**	48	**502**	416	**134**	140
Zeda Car Leasing (Pty) Limited	**50**	50	**–**	64	**–**	–
Toyota Financial Services (Pty) Limited	**33**	33	**207**	174	**150**	150
Marsh Holdings SA (Pty) Limited	**40**	40	**10**	1	**14**	16
Private Equity Associates	**Various**	Various	**1 761**	1 275	**1 172**	875
Other	**Various**	Various	**696**	665	**560**	617
Total unlisted			**3 176**	2 595	**2 030**	1 798
Total listed and unlisted			**5 069**	5 707	**4 328**	4 648

Summarised financial information of significant associated companies:

R million	Makalani Holdings Limited Associate 2006	Makalani Holdings Limited Associate 2005	Outsurance Insurance Company Limited Associate 2006	Outsurance Insurance Company Limited Associate 2005	Zeda Car Leasing (Pty) Limited Associate 2006	Zeda Car Leasing (Pty) Limited Associate 2005	Toyota Financial Services (Pty) Limited Associate 2006	Toyota Financial Services (Pty) Limited Associate 2005
Balance sheet								
Non-current assets	**1 097**	350	**801**	660	**–**	21	**6 514**	4 831
Current assets	**1 473**	2 143	**1 298**	1 176	**–**	1 208	**2 857**	1 796
Current liabilities	**(83)**	(8)	**(137)**	(990)	**–**	(1 052)	**(2 915)**	(805)
Non-current liabilities	**(1 847)**	(1 875)	**(75)**	(80)	**–**	(62)	**(5 835)**	(5 300)
Equity	**640**	610	**1 887**	766	**–**	115	**621**	522
Income statement								
After tax profit attributable to the Group	**24**	–	**175**	142	**21**	13	**35**	27
Loans to associates								
– Included in investments	–	–	–	–	–	–	**–**	–
– Ordinary loans	–	–	–	–	–	–	**2 447**	3 215
Share of associate contingent liabilities	–	–	–	–	–	–	**–**	–

20. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES *continued*

R million	Futuregrowth Asset Management (Pty) Limited Associate 2006	2005	Marsh Holdings (Pty) Limited Associate 2006	2005	African Life Assurance Company Limited Associate 2006	2005	Private Equity Associates Associate 2006	2005
Balance sheet								
Non-current assets	–	22	**7**	7	–	12 154	**9 941**	8 701
Current assets	–	54	**165**	232	–	952	**4 483**	4 688
Current liabilities	–	(40)	**(93)**	(161)	–	(476)	**(3 294)**	(4 222)
Non-current liabilities	–	–	**(22)**	(20)	–	(10 646)	**(7 584)**	(5 883)
Equity	–	36	**57**	58	–	1 984	**3 546**	3 284
Income statement								
After tax profit attributable to the Group	**3**	4	–	(7)	**21**	75	**474**	292
Loans to associates								
– Included in investments								
– Ordinary loans	–	–	**12**	12	–	–	**1 361**	832
Share of associate contingent liabilities	–	–	–	–	–	–	–	–

	Healthbridge (Pty) Limited Associate 2006	2005	Freestone Property Fund 2006	2005	Tembisa Plaza Share Block (Pty) Limited 2006	2005
Balance sheet						
Non-current assets	**2**	–	**1 613**	1 310	**93**	64
Current assets	**25**	21	**80**	15	–	–
Current liabilities	**(9)**	(8)	**(91)**	(94)	–	–
Non-current liabilities	**(63)**	(69)	**(1 548)**	(1 270)	**(49)**	(42)
Equity	**(45)**	(56)	**54**	(39)	**44**	22
Income statement						
After tax profit attributable to the Group	**6**	7	**36**	(5)	**6**	–
Loans to associates	–	–	–	–	–	–
Share of associate contingent liabilities	–	–	–	–	–	–

R million	Other Associates 2006	2005	Other Joint ventures 2006	2005
Balance sheet				
Non-current assets	**19 323**	10 646	**103**	118
Current assets	**12 304**	2 844	**13**	3
Current liabilities	**(4 709)**	(1 753)	**(7)**	(22)
Non-current liabilities	**(3 264)**	(2 680)	**(14)**	(2)
Equity	**23 654**	9 057	**95**	97
Income statement				
After tax profit attributable to the Group	**218**	253	**(127)**	(117)
Loans to associates				
– Included in investments				
– Ordinary loans	**8**	118	–	–
Share of associate contingent liabilities	**76**	–	–	–

The most recent audited annual financial statements of associates are used by the Group in applying the equity method of accounting for associates. These are not always drawn up to the same date as the financial statements of the Group. In instances where significant events occurred between the last financial statement date of an associate and the financial statement date of the Group, the effect of such events are adjusted for. Where the last financial statement date of an associate was more than six months before the financial statement date of the Group, the Group uses the unaudited management accounts of the associate. The Group has applied this principle consistently since adopting the equity accounting method for associates.

21. RELATED PARTIES

The FirstRand Group defines related parties as:
The parent company;
Associate companies; and
Joint ventures.

Key management personnel is the FirstRand Limited Board of directors and the FirstRand executive committee.

Key management personnel includes close family members of key management personnel. Close family members are those family members who may be expected to influence, or be influenced by that individual in dealings with the Group.

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

The ultimate parent of the FirstRand Group is RMB Holdings Limited, incorporated in South Africa.

21.1 Subsidiaries

Details of interests in subsidiaries are disclosed in note 43.

Transactions between FirstRand Group and its subsidiaries have been eliminated on consolidation and are not disclosed in this note.

21.2 Associates and joint ventures

Details of investments in associate and joint venture companies are disclosed in note 20.

21.3 Details of transactions with relevant related parties appear below:

R million	**2006 Parent**	2005 Parent
Loans and advances		
Balance 1 July	**–**	–
Issued during year	**(36)**	–
Repayments during year	**–**	–
Balance 30 June	**(36)**	–
Deposits		
Balance 1 July	**2 001**	545
Received during year	**(1 995)**	1 456
Repaid during year	**–**	–
Balance 30 June	**6**	2 001
Interest paid	**39**	48
Interest received	**–**	–
Fees and commissions paid	**(2)**	(2)
Dividends paid	**1 011**	954

R million	2006	2005
21. RELATED PARTIES *continued*		
21.4 Key management personnel		
Total advances		
In the normal course of business (mortgages, other loans, instalment finance and credit cards)		
Balance 1 July	55	66
Issued during year	214	115
Repayments during year	(221)	(131)
Interest earned	4	5
Balance 30 June	52	55
Share scheme loans		
Balance 1 July	38	73
Issued during year	–	–
Repayments during year	(36)	(35)
Interest earned	–	–
Balance 30 June	2	38
The FirstRand share schemes are different from other loans and similar schemes in that the underlying shares are bought and a loan granted.		
Advances in the normal course of business by product		
Mortgages		
Balance 1 July	48	64
Issued during year	148	57
Repayments during year	(170)	(78)
Interest earned	3	5
Balance 30 June	29	48
No impairment has been recognised for loans granted to key management (2005: Nil). Mortgage loans are repayable monthly over 20 years.		
Other loans		
Balance 1 July	5	2
Issued during year	59	49
Repayments during year	(43)	(46)
Interest earned	1	–
Balance 30 June	22	5
Instalment finance		
Balance 1 July	2	–
Issued during year	–	3
Repayments during year	(1)	(1)
Interest earned		
Balance 30 June	1	2
No impairments have been recognised in respect of instalment finance.		
Credit cards		
Balance 1 July	–	–
Total annual spend	7	6
Repayments	(7)	(6)
Interest and fees earned	–	–
Balance 30 June	–	–
No impairments have been recognised in respect of credit cards held by key management (2005: Nil). Interest rates are in line with normal rates charged to customers.		
Deposits		
Deposits by product		
Cheque and current accounts		
Credit balance 1 July	12	6
Net deposits and withdrawals	16	7
Net service interest, fees and bank charges	–	(1)
Balance 30 June	28	12

R million	**2006**	2005
21. RELATED PARTIES *continued*		
21.4 Key management personnel *continued*		
Savings accounts		
Balance 1 July	**68**	50
Interest income	**4**	4
Net new (withdrawals)/deposits	**(36)**	14
Balance 30 June	**36**	68
Other, including term deposits		
Balance 1 July	**2**	2
Interest income	**–**	–
Net new investments	**(2)**	–
Balance 30 June	**–**	2
Insurance and investment		
Insurance		
Life and disability insurance		
Aggregate insured cover	**3**	3
Premiums received	**2**	1
Claims paid	**–**	–
Surrender value	**1**	1
Other insurance		
Premiums received	**1**	1
Claims paid	**–**	–
Investment products		
Fund value opening balance	**237**	148
Deposits	**226**	29
Net investment return credited	**63**	61
Commission and other transaction fees	**(3)**	(1)
Fund closing balance	**530**	237
Other fees paid by key management		
Financial consulting fees and commissions	**3**	1
Key management compensation		
Salaries and other short-term benefits	**132**	104
Share-based payments	**13**	9
Total	**145**	113

A listing of the Board of directors of the FirstRand Group appears on page 64 of the annual report.

22. INTANGIBLE ASSETS

R million	2006 Gross	2006 accumulated amortisation and impairment	2006 Net	2005 Gross	2005 accumulated amortisation and impairment	2005 Net
Intangible assets						
Goodwill						
Gross amount	1 133	(8)	1 125	777	(8)	769
Accumulated amortisation	–	–	–	–	–	–
Impairment losses	–	–	–	–	–	–
Closing balance	1 133	(8)	1 125	777	(8)	769
Movement in goodwill – book value						
Opening balance	777	(8)	769	1 144	(662)	482
IFRS adjustment	–	–	–	(645)	654	9
Restated opening balance	777	(8)	769	499	(8)	491
Subsidiary balance acquired	76	–	76	–	–	–
IFRS 3 adjustment	61	–	61	–	–	–
Exchange differences	7	–	7	39	–	39
Disposals	–	–	–	(5)		(5)
Additions	214	–	214	27	–	27
Other	(2)	–	(2)	217	–	217
Closing balance	1 133	(8)	1 125	777	(8)	769
Software						
Gross amount	427	(271)	156	331	127	204
Accumulated amortisation	–	77	77	–	–	–
Impairment losses	–	–	–	–	–	–
Closing balance	427	(194)	233	331	(127)	204
Movement in software – book value						
Opening balance	331	(127)	204	147	(72)	75
Subsidiary balance acquired	24	(11)	13	–	–	–
IFRS 3 adjustment	(20)	–	(20)	–	–	–
Exchange differences	1	–	1	1	–	1
Disposals	(21)	21	–			–
Additions	112	–	112	183	–	183
Accumulated amortisation	–	(77)	(77)	–	(49)	(49)
Impairment losses	–	–	–	–	(6)	(6)
Closing balance	427	(194)	233	331	(127)	204
Development costs						
Gross amount	26	(5)	21	8	(1)	7
Accumulated amortisation	–	2	2	–	–	–
Impairment losses	–	–	–	–	–	–
Closing balance	26	(3)	23	8	(1)	7
Movement in development costs – book value						
Opening balance	8	(1)	7	4	–	4
Disposals	–	–	–	(1)	–	(1)
Additions	18	–	18	5	–	5
Accumulated amortisation	–	(2)	(2)	–	(1)	(1)
Closing balance	26	(3)	23	8	(1)	7
Trademarks						
Gross amount	113	(1)	112	113	(1)	112
Accumulated amortisation	–	–	–	–	–	–
Impairment losses	–	–	–	–	–	–
Closing balance	113	(1)	112	113	(1)	112

R million	**2006 Gross**	**2006 accumulated amortisation and impairment**	**2006 Net**	2005 Gross	2005 accumulated amortisation and impairment	2005 Net
22. INTANGIBLE ASSETS *continued*						
Movement in trademarks – book value						
Opening balance	113	(1)	112	109	–	109
Additions	–	–	–	4		4
Accumulated amortisation	–	–	–	–	(1)	(1)
Closing balance	113	(1)	112	113	(1)	112
Other						
Gross amount	1 420	(127)	1 293	105	(19)	86
Accumulated amortisation	–	53	53	–	–	–
Impairment losses	–	1	1	–	–	–
Closing balance	1 420	(73)	1 347	105	(19)	86
Movement in other – book value						
Opening balance	93	(19)	74	40	–	40
IFRS 3 adjustment	(22)	–	(22)	–	–	–
Exchange differences	1	–	1	–	–	–
Disposals	(15)	–	(15)	(17)	–	(17)
Additions	1 363	–	1 363	82	–	82
Accumulated amortisation	–	(53)	(53)	–	(19)	(19)
Impairment losses	–	(1)	(1)	–	–	–
Closing balance	1 420	(73)	1 347	105	(19)	86
Deferred acquisition cost asset						
Opening balance created as at 1 July 2005	–	–	1073	–	–	–
Subsidiary balances acquired	–	–	5	–	–	–
Deferred acquisition costs on new business	–	–	295	–	–	–
Amortisation and impairment charges to the income statement	–	–	(137)	–	–	–
Net carrying value at the end of the year	–	–	1 236	–	–	–
Total intangible assets						
Goodwill	1 133	(8)	1125	777	(8)	769
Software	427	(194)	233	331	(127)	204
Development costs	26	(3)	23	8	(1)	7
Trademarks	113	(1)	112	113	(1)	112
Other	1 420	(73)	1 347	105	(19)	86
Deferred acquisition cost asset	1 373	(137)	1 236	–	–	–
	4 492	(416)	4 076	1 334	(156)	1 178

R million	Gross carrying amount 2006	Accumulated depreciation and impairments 2006	Net carrying amount 2006	Gross carrying amount 2005	Accumulated depreciation and impairments 2005	Net carrying amount 2005
23. PROPERTY AND EQUIPMENT						
Property						
Freehold land and buildings	1 682	(159)	1 523	1 415	(177)	1 238
Leasehold premises	2 178	(698)	1 480	2 075	(563)	1 512
	3 860	(857)	3 003	3 490	(740)	2 750
Equipment						
Computer equipment	3 421	(2 305)	1 116	3 155	(2 110)	1 045
Furniture and fittings	1 290	(738)	552	1 161	(640)	521
Motor vehicles	139	(65)	74	114	(56)	58
Office equipment	462	(248)	214	384	(191)	193
Capitalised leased assets	104	(52)	52	81	(38)	43
	5 416	(3 408)	2 008	4 895	(3 035)	1 860
Total	9 276	(4 265)	5 011	8 385	(3 775)	4 610

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

R million	Freehold land and buildings	Leasehold premises	Computer equipment	Furniture and fittings	Motor vehicles	Office equipment	Capitalised leased assets	Total
Property and Equipment								
Net book value at 1 July 2004	1 540	1 558	1 003	543	53	159	23	4 879
Foreign currency adjustments on translation	12	2	4	2	–	–	–	20
Additions	262	154	506	151	27	110	–	1 210
Depreciation charge for period	(51)	(112)	(420)	(122)	(19)	(52)	(15)	(791)
Impairments recognised	–	–	(5)	–	–	–	–	(5)
Disposals	(520)	(99)	(4)	(10)	(3)	(17)	–	(653)
Other	(5)	9	(41)	(14)	–	1	–	(50)
Net book value at 30 June 2005	**1 238**	**1 512**	**1 043**	**550**	**58**	**201**	**8**	**4 610**
Foreign currency adjustments on translation	(1)	1	1	3	–	–	–	4
Additions	104	260	629	212	38	95	3	1 341
Depreciation charge for period	(70)	(135)	(482)	(142)	(21)	(65)	(11)	(926)
Impairments recognised	–	(7)	(7)	(7)	–	(6)	–	(27)
Impairments reversed	42	–	12	–	–	–	–	54
Disposals	(88)	(1)	(14)	(13)	(6)	(2)	–	(124)
Disposal of subsidiary	–	–	(3)	(13)	–	–	–	(16)
Other	298	(150)	(63)	4	5	1	–	95
Net book value at 30 June 2006	**1 523**	**1 480**	**1 116**	**594**	**74**	**224**	**–**	**5 011**

R million	**2006**	2005
24. DEFERRED TAXATION		
Deferred taxation		
The movement on the deferred taxation account is as follows:		
Credit balance		
– Balance at the beginning of the year	**3 877**	2 097
– Conversion to IFRS		
– property and equipment	**–**	54
– employee benefits	**–**	(76)
– effective interest rate	**(74)**	–
– credit impairment	**(35)**	–
– Restated opening balance	**3 768**	2 075
– Exchange rate difference	**3**	(2)
– Charge to the income statement	**710**	1 997
– STC (release)/charge to the income statement	**(22)**	16
– Acquisitions and disposals	**22**	–
– Taxation rate adjustment	**–**	(71)
– Deferred taxation on amounts (transferred)/charged directly to equity	**(84)**	76
– Other	**762**	(214)
Total credit balance	**5 159**	3 877
Debit balance		
– Balance at the beginning of the year	**594**	1 036
– IFRS Adjustments	**476**	3
– Restated opening balance	**1 070**	1 039
– Exchange rate difference	**14**	2
– (Release)/charge to the income statement	**(178)**	194
– STC (release)/charge to the income statement	**(11)**	1
– Acquisitions and disposals	**94**	–
– Taxation rate adjustment	**–**	(3)
– Other	**54**	(639)
Total debit balance	**1 043**	594
Net balance for the year	**4 116**	3 283

24. DEFERRED TAXATION *continued*

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

R million	Opening balance	Exchange rate	Acquisitions and disposals	Taxation charge	Revaluation of cash flow hedges	Other	Closing balance
2006							
Deferred tax liabilities							
Taxation losses	66	–	–	130	–	(60)	136
Provision for loan impairment	(9)	–	–	(5)	–	(50)	(64)
Provision for post-retirement benefits	10	–	–	–	–	(7)	3
Cash flow hedges	–	–	–	–	–	(71)	(71)
On fair value adjustments of financial instruments	797	–	22	448	(84)	4	1 187
Installment credit assets	(981)	(2)	–	129	–	2 500	1 646
Accruals	(766)	–	–	172	–	1 389	795
Revaluation of available-for-sale securities to equity	3	–	–	3	–	73	79
Capital gains tax	51	–	–	23	–	–	74
Insurance contracts	252	–	–	216	–	311	779
Other provisions	4 454	5	–	(406)	–	(3 458)	595
Total deferred taxation liabilities	3 877	3	22	710	(84)	631	5 159
2006							
Deferred tax assets							
Taxation losses	68	7	56	14	–	(2)	143
Provision for loan impairment	67	–	–	25	–	5	97
Provision for post-retirement benefits	10	–	–	1	–	–	11
Cash flow hedges	–	–	–	–	–	–	–
On fair value adjustments of financial instruments	3	–	–	(22)	–	25	6
Installment credit assets	(981)	–		(14)	–	(1)	(996)
Accruals	(766)	–	–	(2)	–	3	(765)
Revaluation of available-for-sale securities to equity	3	–	–	(3)	–	–	–
Capital gains tax	–	–	–	0	–	–	–
Insurance contracts	–	–	–	69	–	457	526
Other provisions	2 190	7	38	(246)	–	32	2 021
Total deferred taxation assets	594	14	94	(178)		519	1 043
Net deferred taxation liability	3 283	(11)	(72)	888	(84)	112	4 116

24. DEFERRED TAXATION *continued*

R million	Opening balance	Exchange rate	Taxation rate adjust-ment	Taxation charge	Revaluation of available-for-sale portfolio	Other	Closing balance
2005							
Deferred tax liabilities							
Taxation losses	(10)	–	–	–	–	76	66
Provision for loan impairment	5	–	22	586	–	(622)	(9)
Provision for post-retirement benefits	(1)	–	(3)	(146)	–	160	10
Cash flow hedges	(1)	–	13	212	–	(244)	(20)
On fair value adjustments of financial instruments	299	–	(6)	540	76	(112)	797
Installment credit assets	83	(3)	(46)	(15)	–	(1 000)	(981)
Accruals	–	–	(17)	124	–	(873)	(766)
Revaluation of available-for-sale securities to equity	(62)	–	1	12	–	52	3
Capital gains tax	18	–	(1)	34	–	–	51
Insurance contracts	87	–	(3)	168	–	–	252
Other provisions	1 705	1	(37)	482	–	2 323	4 474
Total deferred taxation liabilities	2 123	(2)	(77)	1 997	76	(240)	3 877
2005							
Deferred tax assets							
Taxation losses	47	1	–	(1)	–	21	68
Provision for loan impairment	59	–	–	8	–	–	67
Provision for post-retirement benefits	9	–	–	1	–	–	10
On fair value adjustments of financial instruments	2	–	–	22	–	(21)	3
Installment credit assets	(975)	–	–	(9)	–	3	(981)
Accruals	(767)	–	–	1	–	–	(766)
Revaluation of available-for-sale securities to equity	–	–	–	–	–	3	3
Other provisions	2 661	1	(3)	172	–	(641)	2 190
Total deferred taxation assets	1 036	2	(3)	194	–	(635)	594
Net deferred taxation liability	1 087	(4)	(74)	1 803	76	395	3 283

R million	2006	2005
25. DEPOSITS AND CURRENT ACCOUNTS		
From banks and financial institutions	19 414	31 912
– In the normal course of business	15 208	19 024
– Under repurchase agreements	4 206	12 888
From customers	214 179	145 515
Current accounts	110 581	50 308
Savings accounts	2 756	2 727
Term deposits	100 842	92 480
Other deposits	75 711	60 461
Negotiable certificates of deposit	33 100	31 659
Buy backs	11 140	–
Other	31 471	28 802
Non-recourse deposits (see note 16)	8 536	7 905
Total fair value of notes issued to third parties	9 001	7 922
Less: Notes acquired by the Group	(465)	(17)
	317 840	245 793
Geographic analysis (based on counterparty risk)		
South Africa	278 597	218 172
Other African countries	18 451	11 644
United Kingdom	9 975	8 773
Other	10 817	7 204
	317 840	245 793
Category analysis		
Amortised	184 451	117 887
Fair value	133 389	127 906
	317 840	245 793
26. SHORT TRADING POSITIONS		
Government and government guaranteed	11 021	5 514
Other dated securities	3 819	3 997
Undated securities	11 127	10 408
	25 967	19 919
Analysed as follows:		
Listed	16 593	14 336
Unlisted	9 374	5 583
	25 967	19 919

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	2006 Pension	2006 Medical	2006 Total	2005 Pension	2005 Medical	2005 Total
27. POST-RETIREMENT FUND LIABILITIES						
Post-retirement liability						
Present value of fund obligation	16 738	1 639	18 377	13 097	1 668	14 765
IFRS adjustment	–	–	–	167	88	255
Fair value of plan assets	(16 691)	–	(16 691)	(13 168)	–	(13 168)
Fund of deficits	47	1 639	1 686	96	1 765	1 852
Unrecognised actuarial gains/(losses)	59	(144)	(85)	35	(162)	(127)
Unrecognised surplus	34	–	34	8	–	8
Post-retirement liability	140	1 495	1 635	139	1 594	1 733
The amounts recognised in the income statement are as follows:						
Current service cost	311	35	346	281	32	313
Interest cost	1 052	113	1 165	1 037	141	1 178
Past service cost	–	–	–	–	64	64
Expected return on plan assets	(1 077)	–	(1 077)	(1 035)	–	(1 035)
Actuarial loss recognised	(5)	13	8	(1)	15	14
Total included in staff costs	281	161	442	282	252	534
Movement in post-retirement liability						
Present value at the beginning of the year (post IFRS adjustments)	139	1 594	1 733	144	1 475	1 619
Exchange differences	1	–	1	1	–	1
Subsidiary balance acquired	12	7	19	–	–	–
Subsidiary balances sold	–	–	–	(5)	(29)	(34)
Amounts recognised in the income statement as above	281	161	442	282	252	534
Benefits paid	(293)	(62)	(355)	(283)	(104)	(387)
Settlement of liability by employer	–	(205)	(205)	–	–	–
Present value at the end of the year	140	1 495	1 635	139	1 594	1 733

R million	**2006 Pension**	**2006 Medical**	**2006 Total**	2005 Pension	2005 Medical	2005 Total
27. POST-RETIREMENT FUND LIABILITIES *continued*						
The principal actuarial assumptions used for accounting purposes were:	**%**	**%**	**%**	%	%	%
– Expected return on plan assets						
– Momentum Group Fund	**10.25**	**–**	**–**	8.75	–	–
– Banking Group Fund	**8.30**	**–**	**–**	8.00	–	–
– Discount rate						
– Momentum Group Fund	**8.75**	**8.75**	**–**	8.25	8.25	–
– Banking Group Fund	**8.80**	**8.80**	**–**	8.00	8.00	–
– Expected rates of salary increases						
– Momentum Group Fund	**5.75**	**–**	**–**	4.50	–	–
– Banking Group Fund	**7.20**	**–**	**–**	5.00	–	–
– Long-term increase in health cost						
– Momentum Group Fund	**–**	**7.25**	**–**	–	6.25	–
– Banking Group Fund	**–**	**7.50**	**–**	–	6.00	–
– Net interest rate used to value pensions, allowing for pension increases						
– Momentum Group Fund	**2.80**	**–**	**–**	3.60	–	–
– Banking Group Fund	**2.80**	**–**	**–**	5.00	–	–

The Group has set aside certain assets against these liabilities. The assets are managed and invested to achieve a return which reflects the growth in the underlying liability.

The additional contribution was transferred to meet the post-retirement benefit liability was made in order to meet the increase liability as a result of changes to the fund in respect of non-clerical staff being included on the scheme and changes in structure to the contribution tables.

R million	2006	2005
28. DEBENTURES AND LONG-TERM LIABILITIES		
Debentures		
100 debentures of R1 million each carrying interest at prime minus 3%[a]	–	100
120 debentures of R1 million each carrying interest at prime minus 2%[b]	120	120
	120	220

Both of the instruments above relate to debentures which are convertible into non-redeemable preference shares.

a *The holder has the sole right, at any stage after 30 June 2002, to convert the debentures into non-redeemable preference shares. Interest is payable six-monthly in arrears on 30 June and 31 December each year at the prime overdraft rate minus 3%.*

b *The holder has the right, at any stage after 30 June 2005, to convert the debentures into non-redeemable preference shares. The debentures will automatically convert into non-redeemable preference shares in the event that such conversion has not already taken place by 30 June 2020. Interest is payable six-monthly in arrears on 30 June and 31 December each year at the prime overdraft rate minus 2%.*

The preference shares of FirstRand Investment Holdings Group have been classified as long-term liabilities and comprise the following:

	2006	2005
5 500 Preference shares subscribed for by third parties and related parties[c]	1 123	136

c *These preference shares are redeemable at the company's discretion, at the full subscription price. Dividends are paid at a variable rate based on prime and currently amounts to 7.8%.*

	2006	2005
Other long-term liabilities		
Unsecured debt securities amortising over the period to 2007	101	275
Secured loan[d]	458	2 146
Subordinated notes[e]	1 996	1 080
Fixed rate bonds[f]	700	695
Floating rate bond[g]	6 254	300
Less: Portion repayable within 12 months transferred to creditors	(918)	(760)
	8 591	3 736

d *This secured loan is repayable on 11 April 2011 and is stated at net present value, using a discount rate of 15.32%.*

e *The subordinated notes are redeemable in six monthly tranches until 2009 and do not bear interest. The notes were issued at a discount to notional value and bear an effective interest rate of 16.5%.*

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

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

	2006	2005
Finance lease liabilities		
Not later than one year	232	205
Later than one year and not later than five years	747	957
Later than five years	77	101
	1 056	1 263
Future finance charges on finance leases	(143)	(216)
Present value of finance lease liability	913	1 047
Less: Portion repayable within 12 months transferred to creditors	(171)	(132)
	742	915

The finance lease liability extends to 2009 and is secured over property occupied for banking operations. Repayments are based on an interest rate of 16.64% and are payable six-monthly in advance.

	2006	2005
Total	10 576	5 007

R million	2006	2005
29. PROVISIONS		
Leave pay		
Opening balance	**747**	712
Subsidiary balances acquired	**26**	5
Exchange differences	**–**	1
Additions	**–**	1
Charge to the income statement	**167**	146
Utilised	**(148)**	(118)
Closing balance	**792**	747
Audit fees		
Opening balance	**28**	31
Additions	**–**	1
Charge to the income statement	**64**	49
Utilised	**(60)**	(53)
Closing balance	**32**	28
Other – Litigation		
Opening balance	**–**	–
Charge to the income statement	**2**	–
Closing balance	**2**	–
Other – Staff bonuses		
Opening balance	**40**	38
Subsidiary balances acquired	**7**	–
Exchange differences	**1**	–
Charge to the income statement	**66**	39
Utilised	**(41)**	(37)
Unused amounts reversed	**(3)**	–
Closing balance	**70**	40
Other – Performance/management bonuses		
Opening balance	**25**	15
Subsidiary balances acquired		1
Charge to the income statement	**22**	24
Utilised	**(25)**	(15)
Closing balance	**22**	25
Other – Other		
Opening balance	**727**	734
Subsidiary balances acquired	**168**	–
Exchange differences	**18**	4
Additions	**38**	306
Charge to the income statement	**1 743**	584
Utilised	**(1 200)**	(901)
Unused amounts reversed	**(5)**	–
Closing balance	**1 489**	727
Total provisions	**2 407**	1 567

30. SHARE CAPITAL AND SHARE PREMIUM

Authorised
Ordinary shares – number
Issued
Ordinary shares
– At beginning of year
– Issued during the year
– At end of year
"A" shares
– At beginning of year
– Redeemed during the year
– Converted during the year
– At end of year
"B" shares
– At beginning of year
– At end of year
"B1" Shares
– At beginning of year
– Issued during the year
– Issue costs
– At end of year
Total issued share capital at end of year
Analysis of total issued share capital at end of year:
Ordinary issued share capital at end of year as above (ordinary share of 1 cent each)
"A" variable rate, convertible, redeemable, cumulative preference shares of 1 cent each
"B" variable rate, non-cumulative non-redeemable preference shares of 1 cent each
"B1" variable rate, non-cumulative non-redeemable preference shares of 1 cent each
Preference shares presented under creditors
Shares held by share trusts
Total issued share capital at end of year
Disclosed on the face of balance sheet
Ordinary share capital and share premium
Non-cumulative non-redeemable preference shares

** Less than R1 million.*

2006						
No of ordinary shares	No of “A” shares	No of “B” shares	No of “B1” shares	Share capital Rm	Share premium Rm	Total Rm
5 928 000 000	272 000 000	100 000 000	100 000 000			
5 613 566 954	–	–	–	56	8 426	8 482
20 553 549	–	–	–	–	165	165
5 634 120 503	–	–	–	56	8 591	8 647
–	47 905 000	–	–	1	361	362
–	(12 223 951)	–	–	*	(95)	(95)
–	(20 553 549)	–	–	*	(165)	(165)
–	15 127 500	–	–	1	101	102
–	–	30 000 000	–	–	2 992	2 992
–	–	30 000 000	–	–	2 992	2 992
–	–	–	–	–	–	–
–	–	–	15 000 000	–	1 531	1 531
–	–	–	–	–	(4)	(4)
–	–	–	15 000 000	–	1 527	1 527
5 634 120 503	15 127 500	30 000 000	15 000 000	57	13 211	13 268
–	–	–	–	56	8 591	8 647
–	–	–	–	1	101	102
–	–	–	–	*	2 992	2 992
–	–	–	–	*	1 527	1 527
–	–	–	–	(1)	(101)	(102)
(449 689 562)	–	–	–	(6)	(5 006)	(5 012)
5 184 430 941	15 127 500	30 000 000	15 000 000	50	8 104	8 154
						3 635
						4 519
						8 154

30. SHARE CAPITAL AND SHARE PREMIUM *continued*

Authorised
Ordinary shares – number
Issued
Ordinary shares
– At beginning of year
– Issued during the year
– Issue costs
– Bought back during the year
– At end of year
"A" shares
– At Beginning of year
– Redeemed during the year
– Converted during the year
– At end of year
"B" shares
– At beginning of year
– Issued during the year
– Issue costs
– At end of year
Total issued share capital at end of year
Analysis of total issued share capital at end of year:
Ordinary issued share capital at end of year as above (ordinary share of 1 cent each)
"A" variable rate, convertible, redeemable, cumulative preference shares of 1 cent each
"B" variable rate, non-cumulative non-redeemable preference shares of 1 cent each
"B1" variable rate, non-cumulative non-redeemable preference shares of 1 cent each
Preference shares presented under creditors
Shares held by share trusts
Total issued share capital at end of year
Disclosed on the face of balance sheet
Ordinary share capital and share premium
Non-cumulative non-redeemable preference shares

** Less than R1 million.*

2005						
No of ordinary shares	No of "A" shares	No of "B" shares	No of "B1" shares	Share capital Rm	Share premium Rm	Total Rm
5 928 000 000	272 000 000	100 000 000	100 000 000	–	–	–
5 476 374 833	–	–	–	55	8 432	8 487
137 241 971	–	–	–	1	–	–
–	–	–	–	–	(5)	(5)
(49 850)	–	–	–	–	(1)	(1)
5 613 566 954	–	–	–	56	8 426	8 482
–	81 725 000	–	–	1	632	633
–	(15 578 029)	–	–	*	(271)	(271)
–	(18 241 971)	–	–	*	–	*
–	47 905 000	–	–	1	361	362
–	–	–	–	–	–	–
–	–	30 000 000	–	*	3 000	3 000
–	–	–	–	–	(8)	(8)
–	–	30 000 000	–	–	2 992	2 992
5 613 566 954	47 905 000	30 000 000	–	57	11 612	11 669
–	–	–	–	56	8 426	8 482
–	–	–	–	1	361	362
–	–	–	–	–	2 992	2 992
–	–	–	–	–	–	–
	–	–	–	(1)	(361)	(362)
(426 596 034)	–	–	–	(5)	(4 081)	(4 086)
5 186 970 920	47 905 000	30 000 000	–	51	7 337	7 388
						4 396
						2 992
						7 388

31. SHARE OPTION SCHEMES

FirstRand options are equity settled. The following is a summary of the share incentive schemes at FirstRand Group level.

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 shares, representing approximately 3.1% of the issued share capital of FirstRand, to its black South African employees. These shares will be 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; and
- 15.0 million shares to the Black Non-executive Directors' trust.

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 schemes. The focus on this scheme will be on:

- an initial allocation of 500 shares to each black employee who on 31 December 2004 was in the employment of the FirstRand Group and of a good standing. Approximately 17 000 black employees received this allocation and thereafter black managers, as defined in the Financial Sector Charter, in the FirstRand Group.

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

50% 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).

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

Vesting occurs as follows: after 3 years 30% will vest and thereafter an additional 10% will vest each year until all shares have vested.

The FirstRand Black Non-executive Directors' Trust

The beneficiaries of this trust are the black non-executive directors of the FirstRand Statutory Boards who accept an invitation to participate.

Valuation methodology

Fair values for the share incentive schemes, are calculated at the date of grant using a modification of the Cox-Rubenstein binominal model.

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

Market data consists of the following:

- Volatility is the expected volatility over the period of the option. In the absence of other available data, historic volatility could 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.

31. SHARE OPTION SCHEMES *continued*

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/forfeiture pattern.

The material assumptions used in the valuation of the IFRS 2 expense and fair values are:

	FirstRand share incentive scheme	FNB Botswana	FNB Namibia	FirstRand Black Employee Trust
The significant assumptions used to estimate the fair value of the options granted are as follows:				
Weighted average share price	6.80 – 16.95	7.75	4 – 6	15.43
Expected volatility	27% – 33%	11%	8 – 11%	27%
Expected option life in years	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%	15%–19%	15%

Income statement charges

R million	**2006**	2005
The income statement charge for share-based payments is as follows:		
FirstRand Share Incentive Scheme	**116.91**	87.58
FNB Botswana	*	*
FNB Namibia	*	*
FirstRand Black Employee Trust	**61.81**	–
The fair value of options granted in the financial periods is as follows:		
FirstRand Share Incentive Scheme	**536.08**	298.92
FNB Botswana	**0.13**	0.01
FNB Namibia	**1.24**	0.06
FirstRand Black Employee Trust	**311.45**	–

* *Less than R1million*

	2006	2005
31. SHARE OPTION SCHEMES *continued*		
Share option detail		
FirstRand Share Incentive Scheme		
Number of options in force at the beginning of the year (millions)	**257.4**	228.3
Weighted average (cents)	**1 035**	1 006
Number of options granted during the year (millions)	**80.6**	67.2
Weighted average (cents)	**1 663**	1 174
Number of options exercised/released during the year (millions)	**65.5**	22.4
Weighted average share price for the year (cents)	**1 617**	1 285
Number of options cancelled/lapsed during the year (millions)	**23.3**	15.8
Weighted average (cents)	**926**	796
Number of options in force at the end of the year (millions)	**249.2**	257.4
Weighted average (cents)	**1 115**	1 035

Expiry date	Exercise price R	**Options outstanding 2006 million**	Options outstanding 2005 million
11/10/2005	6.74	**–**	0.1
15/11/2006	7.66	**0.3**	0.5
01/10/2007	7.86	**0.2**	0.4
15/11/2007	7.85	**1.2**	1.2
17/03/2008	6.80	**2.1**	2.7
31/05/2008	7.45	**1.9**	3.4
17/06/2008	7.72	**0.4**	0.5
16/09/2008	6.55	**48.0**	65.2
17/09/2008	7.70	**64.1**	68.6
09/04/2009	6.90	**0.7**	50.4
15/06/2009	10.15	**0.3**	0.3
01/10/2009	12.12	**58.1**	62.5
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	**68.5**	–
20/10/2010	14.91	**2.0**	–
15/11/2010	17.00	**0.3**	–
01/03/2011	18.70	**0.4**	–
01/06/2011	17.71	**0.1**	–
		249.2	256.4
Total options outstanding – in the money (millions)		**179.9**	257.0
Total options outstanding – out of the money (millions)		**69.3**	0.4
Total (millions)		**249.2**	4 211.5
Value of company loans to share option trust the beginning of the year (R million)		**3 578**	1 700
Value of company loans to share option trust the end of the year (R million)		**4 211**	2 534
Number of participants		**2 124**	1 979

The FirstRand Black Employee Trust

The FirstRand Black Employee Trust has issued 91.8 million options at R12.28 to qualifying employees on 19 October 2005. These options have an expiry date of 19 October 2015. 30% of these options will vest on 19 October 2008 and 10% will vest after each full year thereafter. 16 500 employees received shares under this offer. At the end of the year, the value of the loans to the share trust was R1 837 million.

R million	2006	2005
32. POLICYHOLDERS' LIABILITIES UNDER INVESTMENT CONTRACTS		
Balance at the beginning of the year	48 844	39 784
Reclassification from policyholder liabilities under insurance contracts (IFRS 4)	17 017	–
Revaluation upon adoption of IFRS	1 330	–
Reclassification (to)/from policyholder liabilities	–	(28)
Set off of policy loans as at 1 July 2005	(530)	–
Subsidiary balances acquired	3 408	–
Movement for the year	23 651	9 088
Net premium income on investment contracts	33 992	12 194
Policyholder benefits on investment contracts	(23 513)	(10 452)
Fees for asset manager services rendered	(1 384)	(571)
Movement in policy loans for the year	5	–
Exchange differences	6	–
Consolidation of cell	60	–
Fair value adjustment to policyholder liabilities under investment contracts	14 485	7 917
Balance at the end of the year	93 720	48 844
Investment contracts with discretionary participation features	13 882	–
Investment contracts without discretionary participation features		
– With investment management service components	74 891	–
– Without investment management service components	4 947	–
Total Policyholder liabilities under investment contracts	93 720	–
Current	13 289	8 184
Non-current	80 431	40 660
Policyholder liabilities under investment contracts	93 720	48 844

32. POLICYHOLDERS' LIABILITIES UNDER INVESTMENT CONTRACTS *continued*

	Total	Shorter than 1 year	Between 1 and 5 years	Between 5 and 10 years	Longer than 10 years
30 June 2006					
Linked (market related) business					
Individual life	43 483	6 462	15 959	5 220	15 842
Employee benefits	34 044	4 586	12 878	8 461	8 119
Smoothed-bonus business					
Individual life	7 135	636	2 227	1 838	2 434
Employee benefits	5 775	574	1 753	1 412	2 036
With-profits					
Non-profit business					
Individual life	2 506	1 006	1 499	1	–
Employee benefits	–	–	–	–	–
Annuity business	777	25	223	34	495
Total policyholder liabilities under investment contracts	93 720	13 289	34 539	16 966	28 926
30 June 2005					
Linked (market related) business					
Individual life	26 969	2 839	13 064	2 081	8 985
Employee benefits	15 695	4 015	6 187	3 122	2 371
Smoothed-bonus business					
Individual life	616	41	406	64	105
Employee benefits	4 663	1 259	1 789	979	636
Non-profit business					
Individual life	–	–	–	–	–
Employee benefits	–	–	–	–	–
Annuity business	901	30	368	41	462
Total policyholder liabilities under investment contracts	48 844	8 184	21 814	6 287	12 559

R million	2006	2005
33. POLICYHOLDER LIABILITIES UNDER INSURANCE CONTRACTS		
Balance at beginning of year	**48 989**	42 468
Reclassification from policyholder liabilities under insurance contracts (IFRS 4)	**(17 017)**	–
Reclassification from policyholder liabilities under investment contracts	**–**	28
Reclassification to reinsurance assets	**13**	236
Subsidiary balances acquired	**4 922**	–
Transfer from cell owner to policyholder liabilities under insurance contracts	**–**	31
Exchange differences	**(7)**	–
Transfer to policyholder liabilities under insurance contracts	**3 877**	6 234
Fair value adjustment to policyholder liabilities under investment contracts	**(40)**	2
Premiums received on investment contracts	**4**	2
Fees on investment contracts	**(1)**	–
Balance at the end of the year	**40 740**	49 001
Insurance contracts with discretionary participation features	**9 105**	–
Insurance contracts without discretionary participation features	**31 635**	–
Policyholder liabilities under insurance contracts	**40 740**	–
Current	**2 072**	–
Non-current	**38 668**	–
Policyholder liabilities under insurance contracts	**40 740**	–
Actuarial liabilities under unmatured policies comprise the following:	**%**	%
Linked (market related) business – Individual life	**33.0**	33.4
Smoothed bonus business – Individual life	**15.0**	21.2
With-profits reversionary bonus business	**8.0**	4.9
Non-profit business		
Individual life	**1.5**	7.3
Employee benefits	**7.3**	5.0
Annuity business	**34.0**	27.5
Life business		
Individual life	**0.5**	0.3
Employee benefits	**0.3**	0.2
Health insurance business short-term	**0.4**	0.2
	100	100

33. POLICYHOLDER LIABILITIES UNDER INSURANCE CONTRACTS *continued*

The amounts above are based on the actuarial valuations of Momentum Group Limited, Discovery Holdings Limited and Sage Life Limited as at 30 June 2006 and Momentum Group Limited as at 30 June 2005.

Below are the main assumptions that were used in determining the liabilities in respect of insurance contracts as at 30 June 2006.

Best estimate valuation assumptions

Economic assumptions

Risk-free return

The ten-year zero-coupon risk-free yield derived from S.A. government bonds is used as the starting point to determine the gross valuation interest rate for South African Rand (ZAR) denominated business. Similarly the corresponding ten-year yield derived from U.S. Treasury Bills is used to determine the gross valuation interest rate for United States Dollar (US$) denominated business.

ZAR ten-year zero-coupon risk-free yield: 8.87% per annum (30 June 2005: 8.35% per annum)
US$ ten-year zero-coupon risk-free yield: 5.3% per annum (30 June 2005: 4.4% per annum)

Valuation interest rate

The gross valuation interest rate of 10.0% per annum for ZAR denominated business (30 June 2005: 9.5% per annum) was calculated as a weighted investment return representing the investment returns on a theoretical balanced notional portfolio consisting of equities, properties, government bonds, corporate bonds and cash.

Notional portfolio used as at 30 June 2006:

Equities	60%
Properties	10%
Government bonds	10%
Corporate bonds	10%
Cash	10%

Assumed performance of other asset classes relative to government bonds:

Equities (including overseas equities)	+2.0% per annum
Properties	+1.0% per annum
Corporate bonds	+0.5% per annum
Cash	-2.0% per annum

Rounding to the nearest 0.25% was performed.

Using the same methodology the gross valuation rate of 6.5% per annum (30 June 2005: 5.75% per annum) was determined for US$ denominated business.

Liabilities in the annuity portfolio were valued at the risk-free zero-coupon yield curve adjusted for a credit and liquidity spread.

Inflation

An expense inflation rate of 7.0% per annum for ZAR denominated business was used to project future renewal expenses. The ZAR inflation rate was derived by deducting the 10-year real return on CPI-linked government bonds of 2.7% (30 June 2005: 3.1%) from the risk-free rate and adding an allowance for salary inflation and increases in unit costs of 0.75% per annum. Rounding to the nearest 0.25% was performed. US$ inflation was assumed to be 3.5% per annum (30 June 2005: 2.75% per annum) thus maintaining the same 3% margin relative to the valuation rate of return (compared to ZAR expense inflation). A real rate of return of 3.0% per year was used to value CPI-linked annuity payments.

Tax

To provide for tax, the gross valuation interest rate expected to be earned in future was reduced appropriately for taxable business and retirement annuity business. These reductions in the investment return represent the expected tax payable on the assumed investment return on the notional policyholders' portfolio, based on the four-fund tax dispensation. It was assumed that Momentum will remain in an "excess investment income" position (as opposed to "excess expense") for the purposes of projecting tax on income and relief on expenses.

Mortality, morbidity and terminations

Demographic assumptions, such as those in respect of future mortality, disability and persistency rates are set by calibrating standard tables to internal experience investigations. The investigations are performed and assumptions set for individual product lines, but ensuring that assumptions are consistent where experience is not expected to deviate between product lines.

Assumptions in respect of mortality morbidity and terminations were based on experience investigations performed in June 2006. The investigations covered a period of five years from 2001 to 2006. The experience on policies and annuities was analysed.

Mortality and disability rates are adjusted to allow for expected deterioration in mortality rates as a result of Aids and for expected improvements in mortality rates in the case of annuity business. Allowance for AIDS was made according to professional guidance notes PGN 102 (March 1995): Life Offices – HIV/AIDS and PGN 105 (Nov 2002): Recommended AIDS extra mortality bases issued by the Actuarial Society of South Africa.

33. POLICYHOLDER LIABILITIES UNDER INSURANCE CONTRACTS *continued*

PHI termination of claim rates

Disability claim recovery probabilities are modelled using the Group Long-term Disability Table (GLTD) developed in the United States of America. The table details recovery rates for given ages, waiting periods and durations since disability.

Momentum adjusts the recovery rates for South African circumstances by taking the following proportions of the GLTD rates:
Year 1: +40%
Year 2: +80%
Year 3: +130%
where the years represent duration of disability.

Expenses

The sustainable annual renewal expense per policy was based on an analysis of budgeted expenses for the year ending 30 June 2007. The allocation between renewal and acquisition costs was based on an activity-based expense analysis performed during 2005.

Expenses expected to be once-off in nature or not relating to long-term insurance business were removed from the budgeted expenses.

Asset management expenses were expressed as an annual percentage of assets under management.

Policyholder bonuses

Future additions of discretionary bonuses to smoothed bonus (universal life) policies have been projected at levels that are consistent with and supported by the assumed rate of investment return, after allowing for contractual expense charges and taxation.

On conventional policies, it is assumed that current bonus rates (both reversionary and terminal bonus rates) will be maintained in future.

Compulsory margins

The compulsory margins to best-estimate assumptions are detailed in actuarial professional guidance note PGN104 and are intended to provide a minimum level of financial resilience in the liabilities to ensure that profits are not recognised prematurely. The following prescribed margins were applied to the best-estimate assumptions applicable to individual life business:

Assumption	Margin
Mortality	7.5% – increase to assumption for assurance – decrease to assumption for annuities
Morbidity	10% – increase to best-estimate assumption
Medical	15% – increase to best-estimate assumption
Lapses	25% (e.g. if best estimate is 10% the margin is 2.5%) – increase or decrease, depending on which alternative increases liabilities
Surrenders	10% – increase or decrease, depending on which alternative increases liabilities
Terminations for disability income benefits in payment	10% – decrease to best-estimate assumption
Expenses	10% – increase to best-estimate assumption
Expense inflation	10% (of estimated escalation rate) – increase to best-estimate assumption
Charge against investment return	25 basis points reduction in the management fee or an equivalent asset-based or investment performance-based margin; 25 basis points reduction in the assumed rate of future investment return on contracts that do not have an asset-based or investment performance-based fee

33. POLICYHOLDER LIABILITIES UNDER INSURANCE CONTRACTS *continued*

Discretionary margins

As described in the accounting policies, discretionary margins are used to prevent the premature capitalisation of profit. The specific discretionary margins that are added to the best-estimate assumptions are as follows:

- Cost-of-capital charges levied against smoothed-bonus portfolios are not capitalised against current liabilities but are recognised as and when they are earned. This avoids the premature recognition of income that is required to mitigate the additional cost of capital required to support smoothed-bonus liabilities.
- An asset charge, equal to 10% of investment return is levied on some universal-life linked and smoothed-bonus policies. Not all income arising from this asset-based charge is discounted against the liability but is recognised as and when it is earned.
- Additional margins are held in respect of mortality and disability claims assumptions as well as termination assumptions on certain individual life product lines. This allows risk profits to be recognised in the period in which the risks are borne by the company.
- A margin of 10% is added to expected group PHI claims termination rates to reduce the risk of premature recognition of profits from uncertain claim termination experience.
- A margin of 10% is added to group IBNR liabilities.
- Other discretionary liabilities, not described above, have been outlined under the accounting policies.

R million	**2006**	2005
34. LIABILITIES ARISING TO THIRD PARTIES AS A RESULT OF CONSOLIDATING COLLECTIVE INVESTMENT SCHEMES		
Emira Property Fund	**1 573**	1 027
Other consolidated collective schemes	**152**	–
Closing balance	**1 725**	1 027
35. DEFERRED REVENUE LIABILITY		
Amount recognised at 1 July 2005 in terms of IFRS 4 and IAS 18	**227**	–
Amount recognised in the income statement during the year	**(18)**	–
Deferred income relating to new business	**26**	–
Subsidiary balances acquired	**13**	–
Closing balance	**248**	–
Current	**58**	–
Non-current	**190**	–
Total	**248**	–
36. CONTINGENCIES AND COMMITMENTS		
Commitments		
Guarantees*	**14 232**	13 923
Acceptances	**6**	479
Letters of credit	**22 517**	12 063
Approved but not contracted for	**159**	155
Total	**36 914**	26 620
Irrevocable commitments	**29 031**	16 253
Total	**65 945**	42 873

** Guarantees consist predominantly of endorsements and performance guarantees.*

Other commitments

Commitments in respect of capital expenditure and long-term investments approved by directors:		
– Contracted for	**486**	144
– Not contracted for	**653**	573

Funds to meet these commitments will be provided from Group resources.

Commitments under derivative instruments

Option contracts, financial futures contracts and interest rate swap agreements have been entered into in the normal course of business in order to achieve the required hedging of policyholder liabilities. In terms of the group's accounting policies, these instruments are stated at fair value. The fair value movement of these derivative instruments are included in the income statement.

R million	2006	2005
36. CONTINGENCIES AND COMMITMENTS *continued*		
Contingencies		
The Group is exposed to various actual or potential claims.		
Legal proceedings		
There are a number of legal or potential claims against the Group, the outcome of which cannot at present be foreseen. These claims are not regarded as material either on an individual or group basis.		
Provision is made for all liabilities which are expected to materialise.		
Claims		
The Group has contingent liabilities in respect of certain outstanding claims	150	230
The Group has reciprocal claims against other institutions. These claims qualify as contingent assets	(134)	(214)
The group is a lessor of investment properties:		
The minimum future lease payments under non-cancellable operating leases on these investment properties are set out below:		
Not later than one year	38	37
Later than one year and not later than five years	159	175
Later than five years	97	143
	294	355

	2006 Next year	2006 2nd to 5th year	2006 After 5th year
Operating lease commitments			
Group commitments under operating leases			
Office premises	432	1 123	237
Equipment and motor vehicles	90	15	–
	522	1 138	237

	2005 Next year	2005 2nd to 5th year	2005 After 5th year
Office premises	368	883	312
Equipment and motor vehicles	87	92	1
	455	975	313

R million	2006	2005
37. DISCONTINUED OPERATION		
Discontinued operations		
During June 2003, the FirstRand Board of directors announced its intention to dispose of the Ansbacher (UK) Group ("Ansbacher") as a whole or in part. The decision was based on the fact that over time Ansbacher had become non-core to the strategic focus of the Group. Ansbacher is a multi-jurisdictional, wealth management group, delivering tailored financial solutions internationally. Ansbacher has operations in the United Kingdom, Cayman Islands, Bahamas, Channel Islands and Switzerland.		
FirstRand announced on 1 July 2004 that it had reached agreement with Qatar National Bank ("QNB"), a bank listed on the Qatar, to dispose of all of the issued share capital in Ansbacher to QNB, at a premium to the net asset value of the business.		
Summarised financial information on Ansbacher (excluding the retained businesses) is set out below:		
Interest income	–	234
Interest expenditure	–	(177)
Net interest income before impairment of advances	–	57
Impairment of advances	–	(1)
Net interest income after impairment of advances	–	56
Non-interest income	–	115
Net income from operations	–	171
Operating expenditure	–	(206)
Income before taxation	–	(35)
Taxation	–	(2)
Loss after taxation	–	(37)
Other information		
Assets	–	7 731
Liabilities	–	6 770
Capital expenditure	–	11
Depreciation	–	18
Cash flow from operating activities	–	(469)
Cash flow from investing activities	–	(4)
Cash flow from financing activities	–	–
A reconciliation of the loss on disposal		
Proceeds on disposal	–	1 019
Net asset value of Ansbacher at date of disposal	–	(961)
Disposal expenses	–	(125)
Net loss from disposal after tax	–	(67)

** The Group elected to use the IFRS 1 election to restate the foreign currency translation reserve credit in equity to zero on 1 July 2004, with a corresponding increase in opening retained income. As a result, the profit on disposal of a discontinued operation of R346 million, reduced by R413 million to a loss on disposal of R47 million for the financial year ended 30 June 2005.*

R million	2006	2005
38. CASH FLOW INFORMATION		
38.1 Reconciliation of operating profit before income tax to cash flows from operating activities		
Operating profit before income tax	15 028	11 317
Adjusted for:		
Depreciation, amortisation and impairment costs	1 115	862
Amortisation of advances	1 415	706
Unrealised profits on assets held against liabilities	(321)	(296)
Movement in provisions	840	224
Loss on disposal of property and equipment	19	–
Profit on disposal of investments	(418)	–
Foreign currency losses	252	455
Revaluation reserve	266	436
Deferred expenses	15	–
Share-based payment expense	202	32
Net fair value gains on assets through profit and loss	(16 965)	(14 771)
Movement in policyholder liabilities under investment contracts	23 520	17 686
Transfer to policyholder liabilities under insurance contracts	2 855	6 102
Dividends paid	(3 651)	(2 835)
Consolidation of Share trusts	(109)	(2 327)
Net cash flows from operating activities	24 059	17 591
38.2 Cash receipts from customers		
Interest income	30 395	27 505
Fee and commission revenue	14 088	11 835
Trading and other income	1 812	–
Premium income	7 758	8 111
	54 053	47 451
38.3 Cash paid to customers, employees and suppliers		
Interest expense	15 383	14 321
Total operating expenses	12 287	13 692
	27 670	28 013
38.4 Increase in income-earning assets		
Liquid assets and trading securities	(29 185)	(9 567)
Advances	(69 019)	(20 484)
	(98 204)	(30 051)
38.5 Increase in deposits and other liabilities		
Term deposits	8 362	12 212
Current deposit accounts	60 273	(6 668)
Deposits from banks	(12 089)	2 862
Negotiable certificates of deposits	1 441	7 959
Savings accounts	29	260
Creditors net of debtors	942	3 109
Other	21 322	2 515
	80 280	22 249
38.6 Taxation paid		
Taxation payable and deferred taxation at beginning of the year	(3 350)	(3 038)
Charged to income statement	(5 040)	(3 610)
Taxation payable and deferred taxation at end of the year	5 133	3 350
	(3 257)	(3 298)

R million	2006	2005
38. CASH FLOW INFORMATION *continued*		
38.7 Proceeds on disposal of subsidiary		
FirstRand disposed of 6.7 million shares in Discovery Holdings Limited during September 2005 for a cash consideration of R67 million.		
Value of shares	**30**	–
Profit on disposal	**37**	–
Net cash inflow	**67**	–
FirstRand disposed of its entire shareholding in Ansbacher (UK) Group with effect from 1 November 2004.		
Details of the net assets disposed of are set out below:		
Loans and advances	**–**	3 984
Investments	**–**	1 609
Cash and cash equivalents	**–**	1 335
Other assets	**–**	803
Total assets	**–**	7 731
Deposits	**–**	5 846
Other liabilities	**–**	924
Total liabilities	**–**	6 770
Net assets disposed of	**–**	961
Proceeds from disposal	**–**	1 019
Less: Cash and cash equivalents sold	**–**	(1 335)
Net cash inflow	**–**	(316)
38.8 Proceeds on disposal of associate		
Momentum disposed of its 34% shareholding in African Life Assurance Company limited for a cash consideration of R882 million.		
Momentum disposed of its 40% shareholding in Futuregrowth Asset Management (Pty) Limited for a cash consideration of R26 million.		
The total cash received for associated companies disposed of can be summarised as follows:		
– African Life Assurance Company Limited	**881**	–
– Futuregrowth Asset Management (Pty) Limited	**26**	–
Total cash consideration for associated companies disposed of	**907**	–
Carrying amount of investments sold	**(765)**	–
Profit on sale of associated companies	**142**	–
38.9 Cash and cash equivalents		
Cash and cash equivalents consist of cash on hand and balances with banks and other investments in money market instruments. Cash and cash equivalents included in the cash flow statement comprise the following balance sheet amounts:		
Cash and short-term funds	**30 323**	24 890
Money market investments	**16 361**	11 427
	46 684	36 317

39. RISK MANAGEMENT

This note must be read in conjunction with the risk management report set out on pages 84 to 118. Pages 84 to 86 and pages 97 to 118 form part of the audited financial statements.

BANKING GROUP

39.1 Strategy in using financial instruments

By its nature, the Banking Group's activities are principally related to the use of financial instruments including derivatives. The Banking Group 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 Banking Group 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 Banking Group 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 Banking Group places trading limits on the level of exposure than can be taken in relation to both overnight and intra-day positions. With the exception of specific hedging arrangements, foreign exchange and interest rate exposures associated with these derivatives are normally offset by entering into counterbalancing positions, thereby controlling the variability in the net cash amounts required to liquidate market positions.

39.2 Strategy in using hedges

The Banking Group strategy for using hedges is set out in note 9 above, and is also dealt with in the risk management report.

39.3 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 Banking Group manages its credit risk exposure by placing limits on the acceptable risk exposure to individual borrowers or groups of borrowers, and within geographic and industry segments. Credit risk is monitored on an ongoing basis. Further detail on credit risk management is contained on pages 85 to 91 of the risk management report.

Significant credit exposures at 30 June 2006 were:

R million	South Africa	Other Africa	United Kingdom	Ireland	Other Europe	North America	South America	Australasia	Other	Total
Assets										
Total advances	265 739	14 028	7 425	935	5 923	1 812	343	1 525	3	297 733
Contingencies	38 771	2 105	15	–	144	50	13	101	492	41 691
	304 510	16 133	7 440	935	6 067	1 862	356	1 626	495	339 424

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

Significant credit exposures at 30 June 2005 were:

R million	South Africa	Other Africa	United Kingdom	Ireland	Other Europe	North America	South America	Australasia	Other	Total
Assets										
Total advances	206 640	12 068	5 827	1 063	2 659	345	93	722	23	229 440
Contingencies	20 293	1 653	141	2 945	317	54	9	436	617	26 465
	226 933	13 721	5 968	4 008	2 976	399	102	1 158	640	255 905

39.4 Market risk

The Banking Group 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 Banking Group 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 tests and limits. Further details on the market risk management are set out on pages 92 and 93 of the risk management report.

39. RISK MANAGEMENT *continued*

39.5 Currency risk management

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

The Banking Group manages foreign currency exposures in terms of approved limits. The currency position at 30 June 2006 is set out below:

			2006			
R million	Rand	UK£	US$	Euro	Other	Total
Assets						
Cash and short-term funds	20 746	465	5 467	80	952	27 710
Derivative financial instruments	17 459	537	14 403	2 780	202	35 381
– qualifying for hedging	254	–	172	–	2	428
– trading	17 205	537	14 231	2 780	200	34 953
Advances	263 254	307	15 649	2 341	12 480	294 031
– at amortised cost	225 773	52	1 023	160	12 317	239 325
– held-to-maturity	713	–	–	–	–	713
– available-for-sale	523	–	–	–	–	523
– elected fair value	36 245	255	14 626	2 181	163	53 470
Investment securities and other investments	50 954	844	8 269	1 335	9 326	70 728
Financial instruments held for trading	21 074	834	3 124	963	4 020	30 015
Investment securities	29 880	10	5 145	372	5 306	40 713
– held-to-maturity	–	–	–	–	92	92
– available-for-sale	12 399	3	1 425	120	4 965	18 912
– elected fair value	8 687	7	3 720	252	249	12 915
– non-recourse investments	8 794	–	–	–	–	8 794
Commodities	644	–	2	–	30	676
Loans to Insurance Group	1 108	26	139	–	1	1 274
Accounts receivable	2 631	21	426	6	402	3 486
Investment in associate and joint venture companies	3 238	–	273	–	138	3 649
Property and equipment	4 075	1	11	–	242	4 329
Deferred taxation asset	197	79	–	–	84	360
Intangible assets	410	–	11	–	343	764
	364 716	2 280	44 650	6 542	24 200	442 388
Liabilities						
Deposits	282 161	606	18 070	2 606	16 079	319 522
– deposit and current accounts	273 367	606	18 070	2 606	16 079	310 728
– elected fair value non-recourse deposits	8 794	–	–	–	–	8 794
Short trading positions	24 722	–	2,631	258	653	28 264
Derivative financial instruments	15 715	517	14 669	1,819	252	32 972
– qualifying for hedging	51	–	100	6	5	162
– trading	15 664	517	14 569	1 813	247	32 810
Loans from Insurance Group	3 981	113	196	17	–	4 307
Creditors and accruals	9 044	13	603	4	437	10 101
Provisions	1 651	76	62	3	193	1 985
Taxation liability	528	4	3	(33)	52	554
Post-retirement benefit fund liability	1 557	10	–	–	30	1 597
Deferred taxation liabilities	2 629	–	1	5	89	2 724
Policyholder liabilities under insurance contracts	178	–	–	–	147	325
Long-term liabilities	4 764	17	2 534	–	489	7 804
Shareholders' equity	25 187	13	3 727	(21)	1 949	30 855
Minority interest	1 378	–	–	–	–	1 378
	373 495	1 369	42 496	4 658	20 370	442 388

39. RISK MANAGEMENT *continued*

39.5 Currency risk management *continued*

R million	Rand	UK£	US$	Euro	Other	Total
			2005			
Assets						
Cash and short-term funds	13 974	651	7 859	330	586	23 400
Derivative financial instruments	12 587	786	8 534	5 497	348	27 752
– qualifying for hedging	574	1	235		1	811
– trading	12 013	785	8 299	5 497	347	26 941
Advances	203 773	611	8 871	1 994	11 187	226 436
– at amortised cost	168 374	178	372	5	11 131	180 060
– held-to-maturity	7 449	–	–	–	–	7 449
– available-for-sale	874	–	–	746	28	1 648
– elected fair value	27 076	433	8 499	1 243	28	37 279
Investment securities and other investments	40 103	1 348	6 933	1 682	1 812	51 878
Financial instruments held for trading	15 307	1 053	2 409	1 363	606	20 738
Investment securities	24 796	295	4 524	319	1 206	31 140
– held-to-maturity	431	–	413	–	167	1 011
– available-for-sale	10 271	207	2 746	166	995	14 385
– elected fair value	5 913	88	1 365	153	44	7 563
– non-recourse investments	8 181	–	–	–	–	8 181
Commodities	311	–	96	–	32	439
Loans to Insurance Group	6 633	3	632	–	–	7 268
Accounts receivable	2 249	1	248	1	320	2 819
Investment in associate and joint venture companies	2 600	155	28	–	153	2 936
Property and equipment	3 754	1	16	–	244	4 015
Deferred taxation asset	484	–	–	26	9	519
Intangible assets	198	–	25	–	275	498
	286 666	3 556	33 242	9 530	14 966	347 960
Liabilities						
Deposits	226 887	846	7 869	1 420	10 062	247 084
– deposit and current accounts	218 706	846	7 869	1 420	10 062	238 903
– elected fair value non-recourse deposits	8 181	–	–	–	–	8 181
Short trading positions	16 797	623	1 351	1 038	110	19 919
Derivative financial instruments	12 092	1 171	8 531	3 154	519	25 467
– qualifying for hedging	94	–	153	2	–	249
– trading	11 998	1 171	8 378	3 152	519	25 218
Loans from Insurance Group	9 312	52	59	1	–	9 424
Creditors and accruals	6 431	75	474	15	318	7 313
Provisions	1 218	24	7	22	86	1 357
Taxation liability	57	–	12	–	35	104
Post-retirement benefit fund liability	1 466	10	–	–	28	1 504
Deferred taxation liabilities	2 678	–	–	26	53	2 757
Policyholder liabilities under insurance contracts	109	–	–	–	–	109
Long-term liabilities	2 507	1	336	–	512	3 356
Shareholders' equity	22 913	–	3 577	251	1 834	28 575
Minority interest	580	–	219	–	192	991
	303 047	2 802	22 435	5 927	13 749	347 960

39. RISK MANAGEMENT *continued*

39.6 Interest rate risk management

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

The Banking Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The Board of directors sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily.

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

Further details on the interest rate risk management are set out on pages 93 and 94 in the risk management report.

The table below summarises the Banking Group's exposure to interest rate risk, categorised by contractual repricing date.

	2006						
		Interest earning/bearing					
			Term to repricing				
R million	Carrying amount 2006	Demand	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Non-interest earning/bearing
Assets							
Cash and short-term funds	27 710	24 617	657	–	200	–	2 236
Derivative financial instruments	35 381	297	12 254	8 262	2 097	4 059	8 412
– qualifying for hedging	428	–	395	21	11	–	1
– trading	34 953	297	11 859	8 241	2 086	4 059	8 411
Advances	294 031	102 880	39 931	27 503	58 996	63 394	1 327
– at amortised cost	239 325	97 091	15 472	22 684	43 611	59 144	1 323
– held-to-maturity	713	–	135	–	15	563	–
– available-for-sale	523	523	–	–	–	–	–
– elected fair value	53 470	5 266	24 324	4 819	15 370	3 687	4
Investment securities and other investments	70 728	4 254	11 445	10 326	20 189	13 438	11 076
Financial instruments held for trading	30 015	3 337	2 612	3 209	7 277	2 700	10 880
Investment securities	40 713	917	8 833	7 117	12 912	10 738	196
– held-to-maturity	92	20	20	52	–	–	–
– available-for-sale	18 912	262	4 663	4 859	5 609	3 434	85
– elected fair value	12 915	145	2 266	730	4 140	5 523	111
– non-recourse investments	8 794	490	1 884	1 476	3 163	1 781	–
Commodities	676	17	–	–	–	–	659
Loans to Insurance Group	1 274	157	16	2	–	–	1 099
Accounts receivable	3 486	648	50	7	3	–	2 778
Investment in associate and joint venture companies	3 649	–	–	–	–	–	3 649
Property and equipment	4 329	–	–	–	–	–	4 329
Deferred taxation asset	360	–	–	–	–	–	360
Intangible assets	764	–	–	–	–	–	764
	442 388	132 870	64 353	46 100	81 485	80 891	36 689

39. RISK MANAGEMENT *continued*

39.6 Interest rate risk management *continued*

R million	Carrying amount 2006	Demand	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Non-interest earning/bearing
	2006						
		Interest earning/bearing					
			Term to repricing				
Liabilities							
Deposits	319 522	161 896	77 455	49 712	17 284	1 013	12 162
– deposit and current accounts	310 728	161 896	73 456	44 917	17 284	1 013	12 162
– elected fair value non-recourse deposits	8 794	–	3 999	4 795	–	–	–
Short trading positions	28 264	–	1 220	5 264	14 777	3 158	3 805
Derivative financial instruments	32 972	399	13 368	9 071	1 070	235	8 829
– qualifying for hedging	162	–	136	8	17	–	1
– trading	32 810	399	13 232	9 063	1 053	235	8 828
Loans from Insurance Group	4 307	734	1 886	1 581	24	–	82
Creditors and accruals	10 101	1 003	856	446	395	249	7 152
Provisions	1 985	1 858	88	–	–	–	39
Taxation liability	554	76	431	30	–	–	17
Post-retirement benefit fund liability	1 597	1	–	55	185	1 356	–
Deferred taxation liabilities	2 724	–	–	–	–	–	2 724
Policyholder liabilities under insurance contracts	325	–	–	–	–	–	325
Long-term liabilities	7 804	–	–	–	4 971	2 833	–
Shareholders' equity	30 855	–	–	–	–	–	30 855
Minority interest	1 378	–	–	–	–	–	1 378
	442 388	165 962	95 304	66 159	38 706	8 844	67 408
Net interest sensitivity gap		(30 751)	(30 951)	(20 059)	42 779	72 047	(30 719)

39. RISK MANAGEMENT
continued

39.6 Interest rate risk management *continued*

	2005						
		Interest earning/bearing					
			Term to repricing				
R million	Carrying amount 2005	Demand	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Non-interest earning/ bearing
Assets							
Cash and short-term funds	23 400	17 866	188	147	14	68	5 117
Derivative financial instruments	27 752	20	7 002	6 558	6 797	5 904	1 471
– qualifying for hedging	811	–	17	376	414	–	4
– trading	26 941	20	6 985	6 182	6 383	5 904	1 467
Advances	226 436	97 406	47 688	23 209	44 556	13 321	256
– at amortised cost	180 060	95 992	25 505	14 850	33 778	9 713	222
– held-to-maturity	7 449	727	1 139	2 687	2 304	592	–
– available-for-sale	1 648	365	33	–	–	1 250	–
– elected fair value	37 279	322	21 011	5 672	8 474	1 766	34
Investment securities and other investments	51 878	2 644	10 669	8 322	10 326	12 000	7 917
Financial instruments held for trading	20 738	2 275	5 972	769	3 888	2 408	5 426
Investment securities	31 140	369	4 697	7 553	6 438	9 592	2 491
– held-to-maturity	1 011	14	10	183	16	34	754
– available-for-sale	14 385	255	763	5 534	504	6 837	492
– elected fair value	7 563	100	987	995	2 543	1 693	1 245
– non-recourse investments	8 181	–	2 937	841	3 375	1 028	–
Commodities	439	13	420	–	–	–	6
Loans to Insurance Group	7 268	2 378	593	1 669	404	24	2 200
Accounts receivable	2 819	58	339	–	5	–	2 417
Investment in associates and joint venture companies	2 936	–	–	–	–	–	2 936
Property and equipment	4 015	–	–	–	–	–	4 015
Deferred taxation asset	519	–	–	–	–	–	519
Intangible assets	498	–	–	–	–	–	498
	347 960	120 385	66 899	39 905	62 102	31 317	27 352

R million	Carrying amount 2005	Demand	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Non-interest earning/ bearing
	2005						
		Interest earning/bearing					
			Term to repricing				

39. RISK MANAGEMENT
continued

39.6 Interest rate risk management *continued*

Liabilities							
Deposits	247 084	130 788	78 617	18 455	10 087	4 418	4 719
– deposit and current accounts	238 903	130 788	73 658	17 036	8 866	3 836	4 719
– elected fair value non-recourse deposits	8 181	–	4 959	1 419	1 221	582	–
Short trading positions	19 919	238	602	1 221	2 589	6 087	9 182
Derivative financial instruments	25 467	40	10 335	6 292	4 204	2 801	1 795
– qualifying for hedging	249	–	44	124	40	–	41
– trading	25 218	40	10 291	6 168	4 164	2 801	1 754
Loans from Insurance Group	9 424	4 068	2 487	–	2 077	425	367
Creditors and accruals	7 313	281	1 263	–	107	221	5 441
Provisions	1 357	–	–	–	–	–	1 357
Taxation	104	–	–	–	–	–	104
Post-retirement benefit fund liability	1 504	–	–	–	–	–	1 504
Deferred taxation liabilities	2 757	–	–	–	–	–	2 757
Policyholder liabilities under insurance contracts	109	–	–	–	–	–	109
Long-term liabilities	3 356	–	–	–	2 995	361	–
Minority interest	991	–	–	–	–	–	991
Shareholders' equity	28 575	–	–	–	–	–	28 575
	347 960	135 415	93 304	25 968	22 059	14 313	56 901
Net interest sensitivity gap		(15 030)	(26 405)	13 937	40 043	17 004	(29 549)

39.7 Liquidity risk management

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

The matching and controlled mismatching of maturities and interest rates of assets and liabilities is fundamental to the management of the Banking Group. It is unusual for banks to be completely matched since business transactions are often of uncertain terms and 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 Banking Group and its exposure to changes in interest rates and exchange rates.

Details on the liquidity risk management process is set out on page 93 of the risk management report.

The table below sets out the maturity analysis of the Banking Group'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.

		2006				
			Term to maturity			
R million	Carrying amount 2006	Demand	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years
39. RISK MANAGEMENT *continued*						
39.7 Liquidity risk management *continued*						
Assets						
Cash and short-term funds	27 710	26 997	513	200	–	–
Derivative financial instruments	35 381	435	8 604	11 301	8 774	6 267
– qualifying for hedging	428	1	13	42	282	90
– trading	34 953	434	8 591	11 259	8 492	6 177
Advances	294 031	29 491	46 229	41 470	109 067	67 774
– at amortised cost	239 325	24 214	21 762	36 525	93 322	63 502
– held-to-maturity	713	–	135	–	15	563
– available-for-sale	523	–	34	126	339	24
– elected fair value	53 470	5 277	24 298	4 819	15 391	3 685
Investment securities and other investments	70 728	14 995	11 448	10 386	20 694	13 205
Financial instruments held for trading	30 015	13 987	2 612	3 378	7 299	2 739
Investment securities	40 713	1 008	8 836	7 008	13 395	10 466
– held-to-maturity	92	20	57	15	–	–
– available-for-sale	18 912	352	4 666	4 629	5 966	3 299
– elected fair value	12 915	146	2 229	888	4 266	5 386
– non-recourse investments	8 794	490	1 884	1 476	3 163	1 781
Commodities	676	647	27	2	–	–
Loans to Insurance Group	1 274	782	31	7	446	8
Accounts receivable	3 486	2 266	736	322	157	5
Investment in associate and joint venture companies	3 649	172	–	3	1 967	1 507
Property and equipment	4 329	278	6	15	1 513	2 517
Deferred taxation asset	360	1	17	74	208	60
Intangible assets	764	62	4	10	185	503
	442 388	76 126	67 615	63 790	143 011	91 846
Liabilities						
Deposits	319 522	160 646	77 060	50 151	19 023	12 642
– deposit and current accounts	310 728	160 646	73 061	45 356	19 023	12 642
Negotiable deposits						
– elected fair value non-recourse deposits	8 794	–	3 999	4 795	–	–
Short trading positions	28 264	3 846	2 929	3 154	15 191	3 144
Derivative financial instruments	32 972	528	9 549	11 981	8 511	2 403
– qualifying for hedging	162	–	12	19	70	61
– trading	32 810	528	9 537	11 962	8 441	2 342
Loans from Insurance Group	4 307	746	1 886	1 581	24	70
Creditors and accruals	10 101	5 059	3 085	591	1 139	227
Provisions	1 985	306	685	701	259	34
Taxation liability	554	4	97	392	60	1
Post-retirement benefit fund liability	1 597	–	–	54	377	1 166
Deferred taxation liabilities	2 724	–	8	47	2 026	643
Policyholder liabilities under insurance contracts	325	–	–	–	178	147
Long-term liabilities	7 804	–	–	–	4 080	3 724
Shareholders' equity	30 855	–	–	–	–	30 855
Minority interest	1 378	–	–	–	–	1 378
	442 388	171 135	95 299	68 652	50 868	56 434
Net liquidity gap		(98 510)	(25 798)	(3 281)	92 201	35 388

39. RISK MANAGEMENT *continued*

39.7 Liquidity risk management *continued*

	2005					
			Term to maturity			
R million	Carrying amount 2005	Demand	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years
Assets						
Cash and short-term funds	23 400	16 045	188	14	4 436	2 717
Derivative financial instruments	27 752	24	7 002	6 129	8 342	6 255
– qualifying for hedging	811	–	17	150	446	198
– trading	26 941	24	6 985	5 979	7 896	6 057
Advances	226 436	20 974	47 688	42 210	87 142	28 422
– at amortised cost	180 060	20 366	25 505	35 791	72 929	25 469
– held-to-maturity	7 449	(22)	1 139	2 643	2 346	1 343
– available-for-sale	1 648	–	33	98	1 507	10
– elected fair value	37 279	630	21 011	3 678	10 360	1 600
Investment securities and other investments	51 878	5 781	8 325	8 233	18 218	11 321
Financial instruments held for trading	20 738	4 832	5 972	486	3 887	5 561
Investment securities	31 140	949	2 353	7 747	14 331	5 760
– held-to-maturity	1 011	493	10	154	354	
– available-for-sale	14 385	456	763	3 777	7 914	1 475
– elected fair value	7 563	–	987	631	2 688	3 257
– non-recourse investments	8 181	–	593	3 185	3 375	1 028
Commodities	439	19	420	–	–	–
Loans to Insurance Group	7 268	2 390	2 937	–	604	1 337
Accounts receivable	2 819	1 450	339	1 030	–	–
Investment in associated companies	2 936	–	–	–	968	1 968
Property and equipment	4 015	94	–	34	1 630	2 257
Deferred taxation asset	519	–	–	9	310	200
Intangible assets	498	–	–	15	132	351
Total assets	347 960	46 777	66 899	57 674	121 782	54 828
Liabilities						
Deposits	247 084	110 880	78 617	36 448	12 939	8 200
– deposit and current accounts	238 903	110 880	73 658	35 029	11 718	7 618
– elected fair value non-recourse deposits	8 181	–	4 959	1 419	1 221	582
Short trading positions	19 919	7 055	602	548	3 498	8 216
Derivative financial instruments	25 467	121	10 335	6 169	5 826	3 016
– qualifying for hedging	249	–	44	52	57	96
– trading	25 218	121	10 291	6 117	5 769	2 920
Loans from Insurance Group	9 424	129	2 487	3 818	2 488	502
Creditors and accruals	7 313	2 092	1 263	3 301	110	547
Provisions	1 357	330	–	907	53	67
Taxation	104	–	–	37	67	–
Post-retirement benefit fund liability	1 504	–	–	18	–	1 486
Deferred taxation liabilities	2 757	793	–	1 512	452	–
Minority interest	991	–	–	–	–	991
Policyholder liabilities under insurance contracts	109	–	–	–	–	109
Long-term liabilities	3 356	–	–	–	3 356	–
Shareholders' equity	28 575	–	–	–	–	28 575
Total liabilities	347 960	121 400	93 304	52 758	28 789	51 709
Net liquidity gap		(74 623)	(26 405)	4 916	92 993	3 119

39. RISK MANAGEMENT *continued*

39.8 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	Carrying amount 2006	Fair value 2006
Assets		
Advances		
– at amortised cost	239 325	239 325
– held-to-maturity	713	713
Investment securities		
– held-to-maturity	92	92
	240 130	240 130
Liabilities		
Deposit and current accounts	310 728	310 728
Long-term liabilities	7 804	7 804
	318 532	318 532

Fair value has been determined as follows:

- advances – based on the discounted value of estimated future cash flows, determined based on current market rates;
- held-to-maturity investment securities – market/dealer quotations, if available, or fair value estimations based on market prices for similar instruments with similar credit risks;
- deposits and current accounts – where there is no stated maturity, the amount repayable on demand – in respect of interest bearing liabilities with a fixed maturity, based on discounted cash flow value using market rates on new liabilities with a similar maturity; and
- long-term liabilities – quoted market prices, if available, or based on the discounted cash flow values using market rates for similar instruments with a comparable term to maturity. There is no difference between carrying value of the assets reflected above.

There is no difference in the carrying value and fair value of the assets reflected above.

39. RISK MANAGEMENT

continued

39.9 Average balance sheet and effective interest rates

	30 June 2006 Average balance Rm	30 June 2006 Average rate %	30 June 2006 Interest income/ expen-diture Rm	30 June 2005 Average balance Rm	30 June 2005 Average rate %	30 June 2005 Interest income/ expen-diture Rm
Assets						
Cash and short-term funds	23 993	4.08	979	24 200	4.74	1 148
Derivative financial instruments	31 649	0.97	308	34 448	0.42	145
Advances	256 777	8.76	22 491	214 759	9.27	19 904
– amortised cost	210 993	10.57	22 293	162 267	10.75	17 437
– held-to-maturity	1 026	14.62	150	6 583	14.45	951
– available-for-sale	1 343	3.57	48	2 627	15.84	416
– elected fair value	43 415	–	–	43 282	2.54	1 100
Investment securities and other investments	58 242	3.35	1 949	49 100	3.71	1 824
Commodities	750	–	–	711	–	
Loans to Insurance Group	5 004	0.36	18	3 885	1.39	54
Accounts receivable	3 367	7.04	237	2 862	10.48	300
Investment in associate and joint venture companies	3 281	–	–	2 526	–	–
Intangible assets	588	–	–	464	–	–
Investment property	–	–	–	–	–	–
Property and equipment	4 151	–	–	3 998	–	–
Retirement benefit asset	–	–	–	–	–	–
Deferred taxation assets	457	–	–	746	–	–
Total assets	388 259	6.69	25 982	337 699	6.73	23 375
Liabilities and shareholders' funds						
Liabilities						
Deposits	278 454	5.15	14 345	236 599	5.57	13 170
Short trading positions	22 866	–	–	19 997	–	–
Derivative financial instruments	28 945	0.20	57	32 486	0.35	115
Loans from Insurance Group	7 245	0.15	11	5 559	0.52	29
Creditors and accruals	8 268	0.74	61	7 163	0.95	68
Provisions	1 725	–	–	1 358	–	–
Taxation liability	219	–	–	798	–	–
Post-retirement benefit fund liability	1 562	–	–	1 421	–	–
Deferred taxation liabilities	2 686	–	–	1 876	–	–
Policyholder liabilities under insurance contracts	190	–	–	99	–	–
Long-term liabilities	5 371	11.41	613	4 022	13.25	533
Total liabilities	357 531	4.22	15 087	311 378	4.47	13 915

	30 June 2006			30 June 2005		
	Average balance Rm	Average rate %	Interest income/ expen-diture Rm	Average balance Rm	Average rate %	Interest income/ expen-diture Rm

39. RISK MANAGEMENT *continued*

39.9 Average balance sheet and effective interest rates *continued*

	Average balance Rm	Average rate %	Interest income/ expen-diture Rm	Average balance Rm	Average rate %	Interest income/ expen-diture Rm
Equity						
Capital and reserves attributable to the Banking Group's equity holders						
Ordinary shares	106	–	–	106	–	–
Share premium	1 632	–	–	1 626	–	–
Non-distributable reserves	2 384	–	–	2 347	–	–
Distributable reserves	21 651	–	–	18 446	–	–
Non-redeemable preference shares	3 100	–	–	2 033	–	–
Cumulative redeemable preference shares	697	–	–	815	–	–
Total ordinary shareholders' equity	29 570	–	–	25 373	–	
Minority interest	1 158	–	–	947	–	–
Total equity	30 728	–	–	26 320	–	
Total equity and liabilities	388 259	3.89	15 087	337 698	4.12	13 915

MOMENTUM GROUP

39.10 Currency risk management

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The majority of currency exposure within the Group results from the offshore assets held by policyholder portfolios to provide the desired international exposure, subject to the limitations imposed by the South African Reserve Bank. The largest portion of these assets are backing linked policyholder liabilities, this results in the majority of the currency risk being passed to the policyholder in terms of the policy agreement.

The following assets and liabilities, denominated in foreign currencies, where the currency risk resides with the Group, are included in the group balance sheet:

Shareholders' assets and liabilities

as at 30 June 2006

	GBP	US$	Euro	Other	Total
Assets					
Cash and cash equivalents	138	166	9	3	316
Debentures and other loans	36	–	–	–	36
Equity investments	3	86	–	–	89
Derivative assets	1	–	–	–	1
Investment assets	178	252	9	3	442
Loans and receivables	51	41	7	2	101
Current income tax asset	3	–	–	–	3
Intangible assets	9	–	–	–	9
Property, plant and equipment	22	–	–	–	22
Total assets	263	293	16	5	577

	GBP	US$	Euro	Other	Total

39. RISK MANAGEMENT *continued*

39.10 Currency risk management *continued*

	GBP	US$	Euro	Other	Total
Liabilities					
Accounts payable	81	24	5	4	114
Provisions	11	2	–	–	13
Taxation	6	2	–	–	8
Deferred revenue liability	6	–	–	–	6
Long-term liabilities	15	–	–	–	15
Total liabilities	119	28	5	4	156

Assets backing policyholder liabilities
as at 30 June 2006

	GBP	US$	Euro	Other	Total
Assets					
Money market investments	54	1 427	378	203	2 062
Loans and receivables	–	1	–	8	9
Government and public authority stocks	12	1 354	66	75	1 507
Equity investments	289	5 833	324	282	6 728
Debentures and other loans	–	13	–	–	13
Derivative financial instruments	87	1 623	120	36	1 866
Total assets	442	10 251	888	604	12 185
Liabilities					
Accounts payable	–	3	–	16	19
Long-term liabilities	–	–	–	3	3
Policyholder liabilities under investment contracts	–	66	–	–	66
Policyholder liabilities under insurance contracts	–	–	–	8	8
Total liabilities	–	69	–	27	96

Foreign exchange rates
as at 30 June 2006

	GBP	US$	Euro	Pula
Closing rate	13.1545	7.1325	9.1007	1.1840
Average rate	11.4478	6.4407	7.8536	1.1622

Shareholders' assets and liabilities
as at 30 June 2005

	GBP	US$	Euro	Other	Total
Assets					
Cash and cash equivalents	130	22	75	–	227
Debentures and other loans	34	–	–	–	34
Derivative assets	4	–	–	–	4
Investment assets	168	22	75	–	265
Loans and receivables	179	120	–	–	299
Intangible assets	8	241	–	–	249
Property and equipment	23	–	1	–	24
Total assets	378	383	76	–	837

39. RISK MANAGEMENT *continued*

39.10 Currency risk management *continued*

	GBP	US$	Euro	Other	Total
Liabilities					
Current liabilities	201	34	18	–	253
Provisions	7	–	–	–	7
Taxation	6	1	–	–	7
Long-term liabilities	9	447	–	–	456
Total liabilities	223	482	18	–	723

Assets backing policyholder liabilities
as at 30 June 2005

	GBP	US$	Euro	Other	Total
Assets					
Money market investments	36	150	31	116	333
Loans and receivables	–	2	–	3	5
Government and public authority stocks	81	799	604	392	1 876
Equity investments	922	2 531	841	3 134	7 428
Derivative financial instruments	46	856	6	–	908
Total assets	1 085	4 338	1 482	3 645	10 550
Liabilities					
Accounts payable	–	1	–	8	9
Policyholder liabilities under investment contracts	–	23	–	–	23
Policyholder liabilities under insurance contracts	–	–	–	7	7
Total liabilities	–	24	–	15	39

Foreign exchange rates
as at 30 June 2005

	GBP	US$	Euro	Pula
Closing rate	11.9682	6.6755	8.0700	1.2230
Average rate	11.5011	6.1944	7.8773	1.3223

39.11 Interest rate risk management

Assets backing policyholder liabilities

2006		**Maturity date**				
	Total	**Shorter than 1 year**	**Between 1 and 5 years**	**Between 5 and 10 years**	**Longer than 10 years**	**Effective interest rate**
Cash and cash equivalents	2 331	2 331	–	–	–	6.99%
Money market investments	14 852	14 794	18	40	–	7.53%
Government and public authority stocks	17 348	5 178	2 623	2 175	7 372	8.03%
Debentures and other loans*	10 663	5 103	2 480	1 995	1 085	10.77%
	45 194	27 406	5 121	4 210	8 457	8.26%

* *Included in debentures and other loans is the following lease debtor (R million).*

	Total

39. RISK MANAGEMENT *continued*

39.11 Interest rate risk management *continued*

	Total
Lease payments receivable	563
Less: unearned finance charges	(109)
Net lease debtor	454
Total of minimum lease payments (R million)	
Receivable within:	
One year	563
Between one and five years	–
	563
Present value of minimum lease payments (R million)	
Receivable within:	
One year	454
Between one and five years	–
	454

Shareholder assets

2006		**Maturity date**				
	Total	**Shorter than 1 year**	**Between 1 and 5 years**	**Between 5 and 10 years**	**Longer than 10 years**	**Effective interest rate**
Cash and cash equivalents	1 119	1 119	–	–	–	6.99%
Money market investments	2 030	2 030	–	–	–	7.53%
Government and public authority stocks	288	148	123	1	16	8.03%
Debentures and other loans	642	36	606	–	–	10.77%
	4 079	3 333	729	1	16	7.93%

Total effect on earnings attributable to ordinary shareholders if interest rates change by 1 percentage point: R29 million

Assets backing policyholder liabilities

2005		Maturity date				
	Total	Shorter than 1 year	Between 1 and 5 years	Between 5 and 10 years	Longer than 10 years	Effective interest rate
Cash and cash equivalents	984	984	–	–	–	6.90%
Money market investments	9 226	8 765	353	108	–	7.40%
Government and public authority stocks	14 872	1 202	1 803	1 751	10 116	7.70%
Debentures and other loans*	11 232	4 282	3 316	2 460	1 174	10.90%
	36 314	15 233	5 472	4 319	11 290	8.40%

** Included in debentures and other loans is the following lease debtor (R million).*

	Total
Lease payments receivable	1 071
Less: unearned finance charges	(211)
Net lease debtor	860
Total of minimum lease payments (R million)	
Receivable within:	
One year	508
Between one and five years	563
	1 071

	Total

39. RISK MANAGEMENT *continued*

39.11 Interest rate risk management *continued*

Present value of minimum lease payments (R million)	Total
Receivable within:	
One year	406
Between one and five years	454
	860

2005	Maturity date					
	Total	Shorter than 1 year	Between 1 and 5 years	Between 5 and 10 years	Longer than 10 years	Effective interest rate
Shareholder assets						
2005						
Cash and cash equivalents	650	650	–	–	–	6.90%
Money market investments	2 201	2 163	38	–	–	7.40%
Government and public authority stocks	91	44	28	19	–	7.70%
Debentures and other loans	565	34	–	–	531	10.90%
	3 507	2 891	66	19	531	7.88%

Total effect on earnings attributable to ordinary shareholders if interest rates change by 1 percentage point: R25 million.

The tables below provide a split of interest bearing assets that are exposed to cash flow interest rate risk and those that are exposed to fair value interest rate risk.

R million	**Total**	**Cash flow interest rate risk**	**Fair value interest rate risk**
2006			
Cash and cash equivalents	**3 450**	**3 208**	**242**
Money market investments	**16 882**	**15 914**	**968**
Government and public authority stocks	**17 636**	**139**	**17 497**
Debentures and other loans	**11 305**	**–**	**11 305**
Total interest bearing assets	**49 273**	**19 261**	**30 012**
2005			
Cash and cash equivalents	1 634	1 634	–
Money market investments	11 427	10 116	1 311
Government and public authority stocks	14 963	–	14 963
Debentures and other loans	11 797	–	11 797
	39 821	11 750	28 071

The table below illustrates the amount where there is a contractual repricing of the coupon interest rate prior to the maturity date:

	2006	2005
Government and public authority stocks	**1 385**	(438)
Debentures and other loans	**7**	7
	1 392	(431)

DISCOVERY GROUP

Financial instrument risks

39.12 Currency risk management

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

Discovery operates internationally and its exposures to foreign exchange risk arise primarily with respect to the US dollar and the UK pound. As a result, foreign exchange risk arises from net investments in foreign operations.

Discovery manages short-term foreign currency exposures. Forward exchange contracts are utilised to reduce exposure to currency risk and are designated as cash flow hedges.

39. RISK MANAGEMENT *continued*

39.12 Currency risk management *continued*

The following assets and liabilities, denominated in foreign currencies, where the currency risk resides with Discovery, are included in the Group balance sheet:

30 June 2006	Rand	GBP	US$	Euro	Other	Total
Insurance and investment contracts						
Assets						
Intangible assets including deferred acquisition costs	1	1	–	–	–	2
Financial assets	–					
– Equity investments	367	11	19	12	15	424
– Government and public authority stocks	44	–	2	4	2	52
– Money market	142	–	4	2	–	148
– Equity linked notes	21	–	–	–	–	21
Reinsurance assets	32	–	–	–	–	32
Cash and cash equivalents	389	–	–	–	–	389
Total assets	996	12	25	18	17	1 068
Liabilities						
Liabilities arising from insurance contracts	306	20	138	–	–	464
Financial liabilities						
– Investment contracts at fair value through profit and loss	604	–	–	–	–	604
Total liabilities	910	20	138	–	–	1 068
Shareholders						
Assets						
Property and equipment	175	2	9	–	–	186
Intangible assets	46	10	8	–	–	64
Assets arising from insurance contracts	2 463	–	–	–	–	2 463
Investment in associate company	7	–	–	–	–	7
Financial assets						
– Equity investments	1 046	11	46	58	15	1 176
– Government and public authority stocks	45	1	129	3	3	181
– Money market	50	5	5	2	1	63
– Equity linked notes	56	–	–	–	–	56
– Loans and receivables	358	63	138	–	–	559
Deferred income tax	41	–	–	–	–	41
Cash and cash equivalents	726	95	112	–	–	933
Total assets	5 013	187	447	63	19	5 729
Equity						
Share capital and share premium	1 348	–	–	–	–	1 348
Reserves/(losses)	3 891	(246)	(781)	–	–	2 864
Total equity	5 239	(246)	(781)	–	–	4 212
Liabilities						
Liabilities arising from reinsurance contracts	29	–	–	–	–	29
Borrowings at amortised cost	42	–	119	–	–	161
Deferred income tax	518	–	–	–	–	518
Deferred revenue	203	–	–	–	–	203
Provisions	36	–	–	–	–	36
Trade and other payables	341	37	144	–	–	522
Current income tax liabilities	48	–	–	–	–	48
Total liabilities	1 217	37	263	–	–	1 512
Total equity and liabilities	6 456	(209)	(518)	–	–	5 729

30 June 2006	Rand	GBP	US$	Euro	Other	Total
39. RISK MANAGEMENT *continued*						
39.12 Currency risk management *continued*						
30 June 2005						
Insurance and investment contracts						
Assets						
Intangible assets including deferred acquisition costs	–	1	–	–	–	1
Financial assets						
– Equity investments	294	10	13	9	11	337
– Government and public authority stocks	26	1	6	5	2	40
– Money market	100	–	5	1	–	106
Reinsurance assets	19	–	–	–	–	19
Cash and cash equivalents	289	–	–	–	–	289
Total assets	728	12	24	15	13	792
Liabilities						
Liabilities arising from insurance contracts	248	2	59	–	–	309
Financial liabilities						
– Investment contracts at fair value through profit and loss	483	–	–	–	–	483
Total liabilities	731	2	59	–	–	792

30 June 2005	Rand	GBP	US$	Euro	Other	Total
Shareholders						
Assets						
Property and equipment	214	2	3	–	–	219
Intangible assets	38	–	7	–	–	45
Assets arising from insurance contracts	1 881	–	–	–	–	1 881
Investment in associates	4	–	–	–	–	4
Financial assets						
– Equity investments	784	11	34	82	11	922
– Government and public authority stocks	25	1	113	5	2	146
– Money market	47	–	5	1	–	53
– Loans and receivables	482	9	65	–	–	556
Deferred income tax	35	–	–	–	–	35
Cash and cash equivalents	428	112	87	–	–	627
Total assets	3 938	135	314	88	13	4 488
Equity						
Share capital and share premium	1 336	–	–	–	–	1 336
Reserves/(losses)	2 657	(133)	(637)	–	–	1 887
Minority interest	–	–	67	–	–	67
Total equity	3 993	(133)	(570)	–	–	3 290
Liabilities						
Liabilities arising from reinsurance contracts	31	–	–	–	–	31
Borrowings at amortised cost	42	–	94	–	–	136
Deferred income tax	323	–	–	–	–	323
Deferred revenue	254	–	–	–	–	254
Provisions	27	–	3	–	–	30
Trade and other payables	294	17	96	–	–	407
Current income tax liabilities	17	–	–	–	–	17
Total liabilities	988	17	193	–	–	1 198
Total equity and liabilities	4 981	(116)	(377)	–	–	4 488

39. RISK MANAGEMENT *continued*

39.13 Interest rate risk management

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

Investments in government and utility stocks and money market securities and deposits are managed by qualified asset managers.

As can be seen from the following table, a majority of the non-equity investments are short term in nature thereby limiting Discovery's interest rate risk. The following assets will be affected by changes in market interest rates:

2006	Total	Shorter than 1 year	Between 1 and 5 years	Between 5 and 10 years	Longer than 10 years
Insurance and investment contracts:					
Cash and cash equivalents	389	389	–	–	–
Money market	148	148	–	–	–
Government and public authority stocks	52	8	21	11	12
	589	545	21	11	12
Shareholders:					
Cash and cash equivalents	933	933	–	–	
Money market	58	58			
Government and public authority stocks	181	136	22	11	12
	1 172	1 127	22	11	12
2005					
Insurance and investment contracts:					
Cash and cash equivalents	289	289	–	–	–
Money market	106	106	–	–	–
Government and public authority stocks	40	16	10	6	8
	435	411	10	6	8
Shareholders:					
Cash and cash equivalents	627	627	–	–	–
Money market	53	53	–	–	–
Government and public authority stocks	146	123	9	6	8
	826	803	9	6	8

R million	2006	2005

40. TRANSACTIONS INVOLVING THE LEGAL FORM OF A LEASE

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

Income received for the period amounted to R63 million and is reflected in interest and similar income in the consolidated income statement.

41. TRUST ACTIVITIES

The market value of assets held or placed on behalf of customers in a fiduciary capacity amounts to R25 331 million (2005: R21 494 million).

42. SCRIP LENDING ARRANGEMENTS

The Group has mandated its asset managers to enter into scrip lending arrangements on its behalf. The market value of scrip out on loan is monitored on a daily basis. No significant exposure to credit risk, liquidity risk or cash flow risk has resulted from the scrip lending activities of the Group.

Because any scrip out on loan is subject to a repurchase agreement, the loan agreement is recorded at the same value as the underlying scrip and no sale of scrip is recorded.

The value at which the loan is recorded corresponds with the group's accounting policy relating to the specific class of asset.

Fees earned from scrip lending and dividends received on scrip out on loan are accounted for under investment income.

The following table represents details of the equities on loan at 30 June:

R million	2006	2005
Market value	9 967	3 297
Value of collateral	10 148	4 644
– cash	4 067	3 666
– bonds, fixed deposits and money market	4 732	552
– equities	1 349	426
Collateral cover %	102%	141%

43. SUBSIDIARIES AND ASSOCIATES

	Nature of business	Country of incorporation	Listed/ Unlisted	Issued ordinary capital R million	Effective Holding % **2006**	Effective Holding % 2005
Significant subsidiaries						
Banking						
First National Bank Holdings (Botswana) Limited	Commercial banking	Botswana	Listed	28	**100**	100
First National Bank of Namibia Limited	Commercial banking	Namibia	Listed	1	**61**	60
First National Bank of Swaziland Limited	Commercial banking	Swaziland	Unlisted	28	**100**	100
FirstCorp Merchant Bank Holdings Limited	Commercial banking	South Africa	Unlisted	10	**100**	100
FirstRand Bank Limited	Commercial and merchant banking	South Africa	Unlisted	4	**100**	100
Saambou Bank Limited	Commercial banking	South Africa	Unlisted		**100**	100
Non-banking						
First National Asset Management & Trust Company (Pty) Limited	Asset management and trust services	South Africa	Unlisted		**100**	100
RMB Asset Finance Limited	Merchant banking	South Africa	Unlisted	19	**100**	100
FirstRand International Limited	International holding company	Guernsey	Unlisted	–	**100**	100
First Land Developments Limited	Property company	South Africa	Unlisted	1	**100**	100
FNB Equipment Finance (Pty) Limited	Equipment and finance	South Africa	Unlisted	–	**100**	100
FirstRand (International) Mauritius Limited	Financial services	Mauritius	Unlisted	250	**100**	100
Firstlink Insurance Brokers Holdings (Pty) Limited	Insurance brokers	South Africa	Unlisted	–	**100**	100
RMB Private Equity (Pty) Limited	Investment and financial services	South Africa	Unlisted	–	**94**	94
RMB Private Equity Holdings (Pty) Limited	Investment and financial services	South Africa	Unlisted	–	**88**	88
Indwa Investments Limited	Investment and financial services	South Africa	Unlisted	–	**n/a**	n/a

43. SUBSIDIARIES AND ASSOCIATES *continued*

	Nature of business	Country of incorporation	Listed/ Unlisted	Issued ordinary capital R million	Effective holding % **2006**	Effective holding % 2005
Insurance						
Emira Property Fund	Property company	South Africa	Listed	1 425	**39**	46
RMB Financial Services Fund	Unit trusts	South Africa	Listed	–	**69**	60
RMB Industrial Fund	Unit trusts	South Africa	Listed	–	**66**	44
RMB Structured Equity Fund	Unit trusts	South Africa	Listed	–	**91**	85
Sage Group Limited	Insurance services	South Africa	Unlisted	4	**100**	–
Southern Life Special Investments (Pty) Limited	Investment business	South Africa	Unlisted	–	**100**	100
Momentum Property Investments (Pty) Limited	Property company	South Africa	Unlisted	–	**100**	100
Momentum Life Assurers Limited	Dormant	South Africa	Unlisted	3	**100**	100
Momentum Administration Services (Pty) Limited	Investment business	South Africa	Unlisted	–	**100**	100
Momentum Healthcare (Pty) Limited	Health administration services	South Africa	Unlisted	–	**100**	100
African Life Health (Pty) Limited	Health administration services	South Africa	Unlisted	3	**100**	–
Community Property Holdings Limited	Property company	South Africa	Unlisted	2	**100**	100
Momentum Collective Investments (Pty) Limited	Unit trusts	South Africa	Unlisted	6	**100**	100
Momentum Ability Limited	Insurance services	South Africa	Unlisted	10	**100**	100
FirstLife Assurance (Pty) Limited	Insurance services	Botswana	Unlisted	3	**100**	100
Lekana Employee Benefit Solutions (Pty) Limited	Employee benefits services	South Africa	Unlisted	–	**70**	70
Momentum International Multimanagers (Pty) Limited	Multi-management	South Africa	Unlisted	–	**95**	90
Momentum Netherlands BV	Financial services	Netherlands	Unlisted	–	**100**	100
FirstRand Asset Management (Pty) Limited	Asset management	South Africa	Unlisted	–	**100**	100
Health						
Discovery Life Limited	Insurance services	South Africa	Unlisted	1 016	**100**	100
Discovery Health (Pty) Limited	Administration and managed care services	South Africa	Unlisted	*	**100**	100
Vitality Healthstyle (Pty) Limited	Health and lifestyle benefits	South Africa	Unlisted	*	**100**	100
Destiny Health Inc	Short-term health insurance	USA	Unlisted	768	**98**	98
Discovery Nominees (Pty) Limited	Dormant	South Africa	Unlisted	**	**100**	100
Discovery Offshore Holdings Limited	International holding company	United Kingdom	Unlisted	331	**100**	100

R million	Group carrying amount 2006	2005
43. SUBSIDIARIES AND ASSOCIATES *continued*		
Banking		
First National Bank Holdings (Botswana) Limited	**56**	56
First National Bank of Namibia Limited	**33**	33
First National Bank of Swaziland Limited	**17**	17
FirstCorp Merchant Bank Holdings Limited	**35**	54
FirstRand Bank Limited	**2 796**	2 104
Non-banking		
First National Asset Management and Trust Company (Pty) Limited	**–**	–
RMB Asset Finance Limited	**334**	334
FirstRand International Limited	**1 142**	1 446
First Land Developments Limited	**1**	1
Emira Property Fund	**5**	5
RMB Financial Services Fund	**31**	250
RMB Industrial Fund	**14**	14
RMB Structured Equity Fund	**–**	–
Indwa Investments Limited	**–**	–
Insurance		
Emira Property Fund	**963**	861
RMB Financial Services Fund	**152**	119
RMB Industrial Fund	**74**	60
RMB Structured Equity Fund	**20**	14
Sage Group Limited	**738**	–
Southern Life Special Investments (Pty) Limited	**1 105**	1 089
Momentum Property Investments (Pty) Limited	**718**	508
Momentum Life Assurers Limited	**36**	36
Momentum Administration Services (Pty) Limited	**66**	51
Momentum Healthcare (Pty) Limited	**(207)**	(238)
African Life Health (Pty) Limited	**104**	–
Community Property Holdings Limited	**94**	38
Momentum Collective Investments (Pty) Limited	**61**	13
Momentum Ability Limited	**14**	13
FirstLife Assurance (Pty) Limited	**10**	5
Lekana Employee Benefit Solutions (Pty) Limited	**109**	41
Momentum International Multimanagers (Pty) Limited	**199**	91
Momentum Netherlands BV	**293**	83
FirstRand Asset Management (Pty) Limited	**2 867**	(17)
Health		
Discovery Life Limited	**1 282**	1 148
Discovery Health (Pty) Limited	**117**	*
Vitality Healthstyle (Pty) Limited	**3**	*
Destiny Health Inc	**–**	578
Discovery Nominees (Pty) Limited	******	**
Discovery Offshore Holdings Limited	**85**	276

44. DIVISIONAL INFORMATION

Consolidated balance sheet

R million	Banking Group 30 June 2006	Banking Group 30 June 2005	Momentum Group 30 June 2006	Momentum Group 30 June 2005	Discovery Group 30 June 2006	Discovery Group 30 June 2005
ASSETS						
Cash and short-term funds	**27 710**	23 400	**3 450**	1 634	**1 251**	804
Money Market Investments	**–**	–	**16 882**	11 427	**–**	–
Advances	**294 031**	226 436	**–**	–	**–**	–
Derivative financial instruments	**35 381**	27 752	**17 195**	12 043	**–**	–
Investment securities other investments	**70 728**	51 878	**109 018**	80 011	**2 116**	1 604
Commodities	**676**	439	**–**	–	**–**	–
Investment properties	**28**	13	**6 257**	4 159	**–**	–
Policy loans on insurance contracts	**–**	–	**118**	–	**–**	–
Policy loans on investment contracts	**–**	–	**–**	530	**–**	–
Reinsurance assets	**–**	–	**260**	217	**32**	19
Insurance assets incl unit linked assets	**–**	–	**–**	–	**2 463**	1 881
Loans and receivables	**4 760**	10 087	**2 899**	2 006	**544**	512
Investments in associates and joint venture companies	**3 649**	2 936	**1 323**	2 620	**91**	145
Taxation	**–**	–	**7**	118	**–**	–
Amortised intangibles	**764**	498	**3 199**	619	**55**	45
Property and equipment	**4 301**	4 002	**382**	391	**184**	217
Total deferred tax (debit)	**360**	519	**642**	40	**41**	35
Investment in subsidiaries	**–**	–	**–**	–	**–**	–
Total assets	**442 388**	347 960	**161 632**	115 815	**6 777**	5 262
SHAREHOLDERS' EQUITY AND LIABILITIES						
LIABILITIES						
Deposits	**319 522**	247 084	**–**	–	**–**	–
Short trading positions	**28 264**	19 919	**–**	–	**–**	–
Derivative financial instruments	**32 972**	25 467	**8 687**	4 797	**–**	–
Creditors and accruals	**14 408**	16 737	**5 842**	4 193	**845**	739
Reinsurance liabilities	**–**	–	**–**	–	**24**	31
Liabilities under investment contracts	**–**	–	**93 105**	48 350	**604**	483
Policyholder liabilities under insure contracts	**325**	109	**39 965**	48 585	**450**	307
Liabilities arising to third parties	**–**	–	**1 725**	1 027	**–**	–
Deferred revenue liability	**–**	–	**248**	–	**–**	–
Post-retirement funding liability	**1 597**	1 504	**38**	229	**–**	–
Debentures and Long Term Liabilities	**7 804**	3 356	**2 226**	1 701	**40**	42
Provisions	**1 985**	1 357	**384**	178	**36**	30
Taxation liability	**554**	104	**369**	50	**48**	17
Total deferred tax (credit)	**2 724**	2 757	**1 917**	797	**518**	323
Total liabilities	**410 155**	318 394	**154 506**	109 907	**2 565**	1 972
Minority interest	**1 378**	991	**33**	145	**–**	67
Shareholders' equity	**30 855**	28 575	**7 093**	5 763	**4 212**	3 223
Ordinary share capital and premium	**1 738**	1 738	**1 041**	1 041	**1 348**	1 336
Non-cumulative non-redeemable preference shares	**3 100**	3 000	**500**	–	**–**	–
Cumulative redeemable preference shares	**–**	1 045	**–**	–	**–**	–
Distributable reserves	**23 279**	20 216	**4 842**	4 408	**2 224**	1 557
Non-distributable reserves	**2 738**	2 576	**710**	314	**640**	330
Total shareholders' equity and liabilities	**442 388**	347 960	**161 632**	115 815	**6 777**	5 262

FirstRand Ltd company 30 June 2006	FirstRand Ltd company 30 June 2005	Consolidation of treasury shares 30 June 2006	Consolidation of treasury shares 30 June 2005	Sub-total 30 June 2006	Sub-total 30 June 2005	Consolidation 30 June 2006	Consolidation 30 June 2005	30 June 2006	30 June 2005
536	67	**–**	–	**32 947**	25 905	**(2 624)**	(1 015)	**30 323**	24 890
–	–	**–**	–	**16 882**	11 427	**(521)**	–	**16 361**	11 427
2 309	–	**(5 279)**	(4 471)	**291 061**	221 965	**15**	(114)	**291 076**	221 851
–	–	**–**	–	**52 576**	39 795	**(14 642)**	–	**37 934**	39 795
–	1 045	**132**	161	**181 994**	134 699	**(8 146)**	(936)	**173 848**	133 763
–	–	**–**	–	**676**	439	**–**	–	**676**	439
–	–	**–**	–	**6 285**	4 172	**(144)**	–	**6 141**	4 172
–	–	**–**	–	**118**	–	**–**	–	**118**	–
–	–	**–**	–	**–**	530	**–**	–	**–**	530
–	–	**–**	–	**292**	236	**–**	–	**292**	236
–	–	**–**	–	**2 463**	1 881	**(697)**	–	**1 766**	1 881
757	398	**(102)**	(360)	**8 858**	12 643	**(2 812)**	(1 095)	**6 046**	11 548
7	6	**(1)**	–	**5 069**	5 707	**–**	–	**5 069**	5 707
–	–	**–**	–	**7**	118	**–**	–	**7**	118
167	122	**–**	–	**4 185**	1 284	**(109)**	(106)	**4 076**	1 178
–	–	**–**	–	**4 867**	4 610	**144**	–	**5 011**	4 610
–	24	**–**	–	**1 043**	618	**–**	(24)	**1 043**	594
15 348	14 867	**–**	–	**15 348**	14 867	**(15 348)**	(14 867)	**–**	–
19 124	16 529	**(5 250)**	(4 670)	**624 671**	480 896	**(44 884)**	(18 157)	**579 787**	462 739
–	–	**(258)**	(276)	**319 264**	246 808	**(1 424)**	(1 015)	**317 840**	245 793
–	–	**–**	–	**28 264**	19 919	**(2 297)**	–	**25 967**	19 919
–	82	**–**	–	**41 659**	30 346	**(19 289)**	(82)	**22 370**	30 264
153	340	**(22)**	1	**21 226**	22 010	**(4 378)**	1 247	**16 848**	23 257
–	–	**–**	–	**24**	31	**–**	–	**24**	31
–	–	**–**	–	**93 709**	48 833	**11**	11	**93 720**	48 844
–	–	**–**	–	**40 740**	49 001	**–**	–	**40 740**	49 001
–	–	**–**	–	**1 725**	1 027	**–**	–	**1 725**	1 027
–	–	**–**	–	**248**	–	**–**	–	**248**	–
–	–	**–**	–	**1 635**	1 733	**–**	–	**1 635**	1 733
2 768	2 744	**(621)**	(361)	**12 217**	7 482	**(1 641)**	(2 475)	**10 576**	5 007
2	2	**–**	–	**2 407**	1 567	**–**	–	**2 407**	1 567
53	14	**–**	–	**1 024**	185	**–**	–	**1 024**	185
–	–	**–**	–	**5 159**	3 877	**–**	–	**5 159**	3 877
2 976	3 181	**(901)**	(636)	**569 301**	432 819	**(29 018)**	(2 313)	**540 283**	430 505
–	–	**–**	–	**1 411**	1 203	**1 563**	1 121	**2 974**	2 324
16 148	13 347	**(4 349)**	(4 034)	**53 959**	46 874	**(17 429)**	(16 964)	**36 530**	29 910
8 672	8 507	**(4 719)**	(4 086)	**8 080**	8 536	**(4 445)**	(4 140)	**3 635**	4 396
4 519	2 993	**–**	–	**8 119**	5 993	**(3 600)**	(3 001)	**4 519**	2 992
–	–	**–**	–	**–**	1 045	**–**	(1 045)	**–**	–
2 926	1 825	**(54)**	149	**33 217**	28 155	**(8 363)**	(7 871)	**24 854**	20 284
31	22	**424**	(97)	**4 543**	3 145	**(1 021)**	(907)	**3 522**	2 238
19 124	16 528	**(5 250)**	(4 670)	**624 671**	480 896	**(44 884)**	(18 157)	**579 787**	462 739

44. DIVISIONAL INFORMATION

continued

Consolidated income statement

R million	Banking Group 30 June 2006	Banking Group 30 June 2005	Momentum Group 30 June 2006	Momentum Group 30 June 2005	Discovery Group 30 June 2006	Discovery Group 30 June 2005
Net interest income	10 895	9 460	4 263	3 766	151	55
Interest and similar income	25 982	23 375	4 529	4 015	175	120
Interest expense and similar charges	(15 087)	(13 915)	(266)	(249)	(24)	(65)
Impairment losses on loans and advances	(1 411)	(706)	–	–	–	–
Net fee and commission income	9 255	8 188	1 834	717	1 061	956
Fee and commission income	9 417	8 385	2 853	1 763	1 969	1 670
Fee and commission expense	(162)	(197)	(1 019)	(1 046)	(908)	(714)
Net insurance premium income	37	29	4 487	5 940	2 298	1 454
Insurance premium revenue	37	29	4 967	6 250	2 754	1 832
Premium ceded to reinsurers	–	–	(480)	(310)	(456)	(378)
Net claims and benefits paid	–	–	(5 186)	(8 287)	(988)	(574)
Gross claims and benefits paid on insurance contracts	–	–	(5 531)	(8 523)	(1 344)	(825)
Reinsurance recoveries	–	–	345	236	356	251
Gains and losses from banking and trading activities	4 346	2 187	–	–	–	–
Gains and losses from investment activities	756	497	18 173	15 485	260	156
Other operating income	1 118	725	557	466	654	523
Increase in fair value of policyholder liabilities under insurance contracts	–	–	(17 846)	(13 897)	416	450
FV adjustments to financial liabilities	–	–	(530)	(232)	–	–
Net operating income	24 996	20 380	5 752	3 958	3 852	3 020
Operating expense	(14 875)	(12 498)	(2 557)	(1 839)	(2 639)	(2 030)
Other operating expenses	(14 819)	(12 487)	(2 557)	(1 839)	(2 639)	(2 030)
Other impairments	(56)	(11)	–	–	–	–
Share of profit of associated and joint venture companies	1 259	987	148	204	(117)	(115)
Income before discontinued operations	11 380	8 869	3 343	2 323	1 096	875
Profit/(Loss) on disposal of discontinued operations	–	(67)	–	–	–	–
Operating profit before income tax	11 380	8 802	3 343	2 323	1 096	875
Taxation expense	(3 481)	(2 541)	(1 413)	(966)	(430)	(327)
Profit for the year	7 899	6 261	1 930	1 357	666	548
Attributable to:						
Non-cumulative non-redeemable preference shareholders						
Equity holders of the Company	7 260	5 967	1 909	1 341	437	356
Minority interest	639	294	21	16	229	192
	7 899	6 261	1 930	1 357	666	548
Earnings per share (cents)						
Diluted earnings per share (cents)						

FirstRand Ltd company 30 June 2006	FirstRand Ltd company 30 June 2005	Consolidation of treasury shares 30 June 2006	Consolidation of treasury shares 30 June 2005	Sub-total 30 June 2006	Sub-total 30 June 2005	Consolidation 30 June 2006	Consolidation 30 June 2005	30 June 2006	30 June 2005
(117)	(97)	(180)	–	15 012	13 184	–	–	15 012	13 184
13	(5)	(180)	–	30 519	27 505	(124)	–	30 395	27 505
(130)	(92)	–	–	(15 507)	(14 321)	124	–	(15 383)	(14 321)
–	–			(1 411)	(706)	–	–	(1 411)	(706)
7	17	–	–	12 157	9 878	(148)	–	12 009	9 878
7	17	–	–	14 246	11 835	(158)	–	14 088	11 835
–	–	–	–	(2 089)	(1 957)	10	–	(2 079)	(1 957)
								–	–
–	–	–	–	6 822	7 423	–	–	6 822	7 423
–	–	–	–	7 758	8 111	–	–	7 758	8 111
–	–	–	–	(936)	(688)	–	–	(936)	(688)
								–	–
–	–	–	–	(6 174)	(8 861)	–	–	(6 174)	(8 861)
–	–	–	–	(6 875)	(9 348)	–	–	(6 875)	(9 348)
–	–	–	–	701	487	–	–	701	487
				–	–	–	–	–	–
–		–	–	4 346	2 187	3	–	4 349	2 187
236	20	(200)	(155)	19 225	16 003	–	–	19 225	16 003
2	1	–	–	2 331	1 715	(63)	–	2 268	1 715
–	–	–	–	(17 430)	(13 447)	–	–	(17 430)	(13 447)
–	–	–	–	(530)	(232)	–	–	(530)	(232)
128	(59)	(380)	(155)	34 348	27 144	(208)	–	34 140	27 144
(70)	(91)	–	–	(20 141)	(16 458)	(261)	(378)	(20 402)	(16 836)
(70)	(91)	–	–	(20 085)	(16 447)	(261)	(378)	(20 346)	(16 825)
–	–	–	–	(56)	(11)	–	–	(56)	(11)
–	–			1 290	1 076	–	–	1 290	1 076
58	(150)	(380)	(155)	15 497	11 762	(469)	(378)	15 028	11 384
–	–	–	–	–	(67)			–	(67)
58	(150)	(380)	(155)	15 497	11 695	(469)	(378)	15 028	11 317
(185)	(154)	–	–	(5 509)	(3 988)	469	378	(5 040)	(3 610)
(127)	(304)	(380)	(155)	9 988	7 707	–	–	9 988	7 707
274	68			274	68	–	–	274	68
(401)	(372)	(380)	(155)	8 825	7 137	–	–	8 825	7 137
–	–	–	–	889	502	–	–	889	502
(127)	(304)	(380)	(155)	9 988	7 707	–	–	9 988	7 707
								171.6	137.3
								166.0	134.5

45. SEGMENTAL REPORTING

	FirstRand Banking Group							
	FNB							
	Consumer segment							
	Personal banking	Home loans	Card issuing	Total consumer segment	Wealth	Commercial	Corporate	FNB Other
Segmental income statement information:								
Segmental operating income (definition is the same for geographical segment)	3 048	1 325	1 370	5 743	572	4 432	1 711	2 440
Intercompany eliminations	–	–	–	–	–	–	–	–
Total revenue	3 048	1 325	1 370	5 743	572	4 432	1 711	2 440
Net operating income	921	626	385	1 932	116	1 851	642	613
Share of profits of associates and joint venture companies	–	–	–	–	–	–	–	10
Profit for the year	609	400	265	1 274	74	1 323	457	358
Segmental balance sheet information:								
Segmental assets	3 050	81 390	8 736	93 176	16,050	17 001	11 153	6 021
Associates	33	–	–	33	–	–	–	–
Total assets	3 083	81 390	8 736	93 209	16 050	17 001	11 153	6 021
Total external segmental liabilities	–	–	–	–	–	–	–	–
Other segment items								
Depreciation	128	18	5	151	13	32	54	314
Amortisation	2	–	–	2	–	4	8	–
Impairment charges – other assets	–	–	–	–	–	–	–	–
Impairment charges – loans	–	–	–	–	–	–	–	–

	FirstRand Banking Group							
	FNB							
	Consumer segment							
	Personal banking	Home loans	Card issuing	Total Consumer segment	Wealth	Commercial	Corporate	FNB Other
Segmental income statement information:								
Segmental operating income (definition is the same for geographical segment)	2 619	1 204	1 094	4 917	451	3 841	1 555	1 958
Intercompany eliminations	–	–	–	–	–	–	–	–
Total revenue	2 619	1 204	1 094	4 917	451	3 841	1 555	1 958
Net operating income	777	632	287	1 696	86	1 546	512	345
Share of profits of associates and joint venture companies	(2)	–	–	(2)	–	–	–	13
Profit for the year	528	433	203	1 164	57	1 141	377	196
Segmental balance sheet information:								
Segmental assets	2 668	57 994	6 472	67 134	12 695	13 630	13 410	4 915
Associates	16	–	–	16	–	–	–	10
Total assets	2 684	57 994	6 472	67 150	12 695	13 630	13 410	4 925
Total external segmental liabilities	–	–	–	–	–	–	–	–
Other segmental items								
Depreciation	81	9	4	94	10	6	54	247
Amortisation	4	–	–	4	–	–	–	–
Impairment charges – other assets	–	–	–	–	–	–	19	–
Impairment charges – loans	–	–	–	–	–	–	–	–

2006

						Momentum		**Discovery**				
Total FNB	**RMB**	**Africa and emerging markets**	**WesBank**	**Group support***	**Banking Group total**	**Insu-rance**	**Asset manage-ment**	**Health**	**Life**	**Vitality**	**Head office**	**Total**
14 898	3 424	1 436	3 135	2 103	24 996	6 220	965	2 946	1 768	654	125	37 674
–	–	–	–	–	–	–	–	–	–	–	(588)	(588)
14 898	3 424	1 436	3 135	2 103	24 996	6 220	965	2 946	1768	654	(463)	37 086
5 154	1 843	761	1 306	1 057	10 121	4 903	849	2 084	1170	598	(461)	19 264
10	765	–	253	231	1 259	144	4	(117)	–	–	–	1 290
3 486	1 861	551	1 059	942	7 899	1 578	352	115	516	35	(507)	9 988
143 401	162 355	19 200	80 000	37 432	442 388	159 138	1 171	1 488	5008	187	13 873	623 253
33	2 379	3	152	1 082	3 649	1 323	–	91	–	–	–	5 063
143 434	164 734	19 203	80 152	38 514	446 037	160 461	1 171	1 579	5008	187	13 873	628 316
–	126 018	17 167	1 977	264 993	410 155	–	–				2 074	412 229
564	47	29	68	61	769	60	7	87	2	–	–	925
14	–	7	–	47	68	54	–	21	4	–	–	147
–	2	–	–	58	60	–	–	2	–	–	–	62
–	–	–	–	–	–	–	–	12	3	1	–	16

2005

						Momentum		Discovery				
Total FNB	RMB	Africa and emerging markets	WesBank	Group support*	Banking Group total	Insu-rance	Asset manage-ment	Health	Life	Vitality	Head office	Total
12 722	2 691	1 266	2 537	1 164	20 380	4 645	812	2 225	1 278	521	(59)	29 802
–	–	–	–	–	–	–	–	–	–	–	(533)	(533)
12 722	2 691	1 266	2 537	1 164	20 380	4 645	812	2 225	1 278	521	(592)	29 269
4 185	1 526	628	1,071	472	7 882	3 256	702	1 744	802	474	(214)	14 646
11	364	26	110	476	987	195	9	(115)	–	–	–	1 076
2 935	1 306	314	788	313	5 656	1 108	249	142	374	32	(459)	7 102
111 784	101 346	13 041	63 564	57 954	347 689	112 178	1 017	1 122	3 903	129	11 858	477 896
26	20	3	152	2 735	2 936	2 606	14	145	–	–	–	5 701
111 810	101 366	13 044	63 716	60 689	350 625	114 784	1 031	1 267	3 903	129	11 858	483 597
–	50 064	11 103	1 111	256 116	318 394	–	–	–	–	–	2 545	320 939
411	39	31	51	93	625	46	7	109	4	–	–	791
4	–	–	–	29	33	4	–	21	2	–	–	60
19	–	66	–	(74)	11	–	–	–	–	–	–	11
–	–	–	–	–	–	–	–	5	–	5	–	10

46. SIGNIFICANT SUBSIDIARIES AND ASSOCIATES ACQUISITION AND DISPOSALS

The following subsidiaries were acquired during the year ended 30 June 2006:

2006 – Sage Group Limited Acquisition

Effective 12 September 2005, the Group acquired 100% of the ordinary share capital of Sage Group Limited. The fair value of the assets, liabilities and contingent liabilities as at the date of acquisition were as follows:

R million	
ASSETS	
Financial assets	
Cash and cash equivalents	805
Money market investments	1 025
Loans and receivables	171
Government and public authority stocks	2 503
– available-for-sale	199
– at elected fair value through profit and loss	2 304
Policy loans	108
Equity investments	7 457
– available-for-sale	263
– at elected fair value through profit and loss	7 194
Deferred taxation	92
Intangible assets	7
Deferred acquisition cost asset	5
Investment properties	346
Property, plant and equipment	18
	12 537
LIABILITIES	
Financial liabilities	
Accounts payable	(939)
Liabilities arising to third parties as a result of consolidating collective investment schemes	(3 163)
Policyholder liabilities under investment contracts	(3 408)
Provisions	(168)
Current income tax liabilities	(38)
Deferred taxation	(22)
Employee benefits liabilities	(25)
Deferred revenue liability	(13)
Policyholder liabilities under insurance contracts	(4 922)
	(12 698)
Net asset value as at date of acquisition before intangible assets in terms of IFRS 3	(161)
Intangible assets identified in terms of IFRS 3	
Value of in-force intangible asset	1 057
Agency force intangible asset	22
Client contracts intangible asset	78
Deferred tax on intangible assets	(336)
Net asset value as at date of acquisition after intangible assets in terms of IFRS 3	660
Cash consideration	(645)
Net asset value in excess of cash consideration	15

The net asset value in excess of the cash consideration was recognised under other operating income.

Included in the group results is an amount of R173 million earnings attributable to ordinary shareholders since the effective date of the acquisition of Sage Group Limited.

46. SIGNIFICANT SUBSIDIARIES AND ASSOCIATES ACQUISITION AND DISPOSALS *continued*

2006 – African Life Health Acquisition

Effective 9 February 2006, the Group acquired 100% of the ordinary share capital of African Life Health (Pty) Limited. The fair value of the assets, liabilities and contingent liabilities as at the date of acquisition were as follows:

R million	
ASSETS	
Financial assets	
Cash and cash equivalents	23
Loans and receivables	69
Current income tax asset	1
Deferred taxation	2
Intangible assets	5
Goodwill	76
Property, plant and equipment	17
	193
LIABILITIES	
Financial liabilities	
Accounts payable	(60)
Other financial liabilities	(9)
Employee benefits liabilities	(8)
Current income tax liabilities	(6)
	(83)
Net asset value as at date of acquisition before intangible assets in terms of IFRS 3	110
Intangible assets identified in terms of IFRS 3 – Client contracts intangible asset	126
Deferred tax on intangible asset	(36)
Net asset value as at date of acquisition after intangible assets in terms of IFRS 3	200
Cash consideration	(193)
Net asset value in excess of cash consideration	7

The net asset value in excess of the cash consideration was recognised other operating income.

Included in the group results is an amount of R6 million earnings attributable to ordinary shareholders since the effective date of the acquisition of African Life Health (Pty) Limited.

2006 – Additional shares acquired in Advantage Asset Managers (Pty) Limited

The Group acquired MCubed's 42.5% shareholding in Advantage Asset Managers (Pty) Limited effective 31 March 2006 for a consideration of R144 million. This increased Momentum's shareholding in Advantage Asset Managers (Pty) Limited to 85%.

The total amount paid in cash for subsidiaries acquired for the year ended 30 June 2006 is:

Sage Group	(645)
African Life Health	(193)
Additional stake in Advantage Asset Managers	(144)
	(982)

2005 – Acquisition of Advantage Asset Managers (Pty) Limited

The Group acquired 42.5% shareholding in Advantage Asset Managers (Pty) Limited effective 12 January 2005.

The fair value of the assets and liabilities as at the date of acquisition were as follows:

Intangible asset	79
Minority shareholders' interest	(112)
Net asset value as at date of acquisition	(33)
Cash consideration	72
Goodwill	105

R million

46. SIGNIFICANT SUBSIDIARIES AND ASSOCIATES ACQUISITION AND DISPOSALS *continued*

2005 – Acquisition of Sovereign Health (Pty) Limited

Effective 1 June 2005, the Group acquired 100% of the ordinary share capital of Sovereign Health (Pty) Limited.

The fair value of the assets and liabilities as at the date of acquisition were as follows:

Cash and cash equivalents	4
Loans and receivables	16
Intangible assets	102
Property and equipment	6
Current liabilities	(13)
Provisions	(6)
Long-term liabilities	(2)
Net asset value as at date of acquisition	107
Cash consideration	195
Goodwill	88

The total amount paid in cash for subsidiaries and associates acquired in 2005 is:

RMB International Channel Islands	(11)
Advantage Asset Managers (Pty) Limited	(72)
Sovereign Health (Pty) Limited	(195)
	(278)

2006 – Disposals of subsidiaries

Momentum Leben

Effective 31 May 2006, the Group sold its 100% share of Momentum Leben's ordinary share capital for a cash consideration of R49 million.

The value of the assets and liabilities as at the date of sale were as follows:

ASSETS	
Financial assets	
Cash and cash equivalents	52
Property, plant and equipment	2
	54
LIABILITIES	
Financial liabilities	
Accounts payable	(4)
Policyholder liabilities under insurance contracts	(1)
	(5)
Net asset value sold	(49)
Cash consideration	49
Profit on sale of subsidiary	–

2006 – Disposals of associated companies

African Life Assurance Company and Futuregrowth Asset Management

Effective 1 December 2005, the Group disposed of its 34% shareholding in African Life Assurance Company Limited for a cash consideration of R882 million.

Effective 1 October 2005, the Group disposed of its 40% shareholding in Futuregrowth Asset Management (Pty) Limited for a cash consideration of R26 million.

The total cash received for associated companies disposed of can be summarised as follows:

– African Life Assurance Company Limited	881
– Futuregrowth Asset Management (Pty) Limited	26
Total cash consideration for associated companies disposed of	907
Carrying amount of investments sold	(765)
Profit on sale of associated companies	142

FirstRand Limited ("FirstRand") and its subsidiaries ("the Group"), has prepared its consolidated financial statements under South African Statements of Generally Accepted Accounting Practice ("SA GAAP") for the financial year ended 30 June 2005.

In accordance with the Listings Requirements of the JSE Limited ("JSE"), the Group adopted International Financial Reporting Standards, International Accounting Standards and interpretations issued by the International Financial Reporting Interpretation Committee and its predecessor body (collectively referred to as "IFRS") with effect from 1 July 2005.

The change to IFRS applies to all financial years beginning on or after 1 January 2005. As FirstRand publishes comparative information for the previous financial year in its Annual Report, the date of transition to IFRS is 1 July 2004 ("the transition date"), the start of the earliest period for which comparative information is presented. The financial statements for the year ended 30 June 2006 will, therefore, include comparative information restated in compliance with IFRS, subject to certain exemptions to full retrospective adoption as set out in this document.

TRANSITIONAL ARRANGEMENTS

IFRS 1 – First-time Adoption of International Financial Reporting Standards ("IFRS 1") sets out the requirements for the initial adoption of IFRS. IFRS 1 requires that accounting policies be adopted that are compliant with IFRS and that these policies be applied retrospectively to all periods presented. However, due to cost and practical considerations, certain exemptions are permitted to full retrospective application in preparing the balance sheet on the transition date ("the transition balance sheet") and the financial information for the year ended 30 June 2005.

The Group has made the following elections in terms of IFRS 1:

Applicable on 1 July 2004 (Retrospectively)

- Property, plant and equipment ("PPE"): Fair value or revaluation as deemed cost: The Group has elected to use the IFRS 1 election to use the fair value of certain property and equipment on the transition date as the deemed cost where sufficiently detailed historical data relating to the components was not available to enable the restatement under IFRS. However, where detailed historical information was available, the carrying values in terms of SA GAAP on the transition date of components of property and equipment have been used (refer note (b) below);
- Foreign currency translation reserve: The Group has elected to use the IFRS 1 exemption to restate the cumulative foreign currency translation reserve for all foreign operations to zero through opening retained earnings on the transition date (refer note (a) below);
- Business combinations: The Group has elected that business combinations prior to 1 July 2004 (transition date) should not be restated to comply with IFRS 3 – Business Combinations. As a result, the amortised carrying value of goodwill at 30 June 2004 is regarded as the IFRS compliant carrying value on 1 July 2004; and
- Employee benefits: The Group has elected to recognise all cumulative unrecognised actuarial gains and losses on defined benefit plans against opening retained income on 1 July 2004 and to continue to apply the corridor approach to recognising actuarial gains and losses going forward (see note (g) below).

Applicable on 1 July 2005 (Retrospectively)

- Share-based payment transactions: The Group has elected to apply the provisions of IFRS 2 – Share-based Payments, to all share-based instruments or payments, such as share options, granted on or after 7 November 2002, which have not vested on 1 January 2005 (refer note (c) below), except for the Group's BEE transitional which will only be accounted for in terms of the transitional provision of IFRIC 8 – Scope of IFRS 2 in the 2007 financial year. Consequently, the Group accounted for its BEE transaction in terms of AC 125 and AC 133 in its 2005 financial year.

Applicable on 1 July 2005 (Prospectively)

- Financial instruments – Implementation of IAS 32 and IAS 39: Both IAS 32 and IAS 39 will be adopted from 1 July 2005 with no restatement of comparative figures (comparative figures regarding financial instruments are presented based on current SA GAAP principles in terms of AC 125 and AC 133) (refer notes (d), (e) and (f) below) and;
- IFRS 4 – Insurance Contracts – the standard will be adopted from 1 July 2005 with no restatement of comparative figures, (refer notes (h), (j), (k) and (m)).

EXPLANATORY NOTES ON SIGNIFICANT ADJUSTMENTS RESULTING FROM THE CONVERSION TO IFRS

The significant differences between SA GAAP and IFRS impacting the Group's financial statements are noted below. The quantification of these adjustments is shown in the detailed reconciliations of the balance sheet, income statement and statement of changes in equity.

Adjustments implemented with effect from 1 July 2004

Note (a) – IAS 21 – Foreign Currency Translation Reserve

SA GAAP:

Under SA GAAP, foreign entities were distinguished between Independent foreign entities and Integrated foreign operations. On consolidation, foreign currency translation differences on Independent entities were taken directly to equity, whilst currency translation differences arising from the translation of Integrated operations were recognised in the income statement.

IFRS:

IAS 21 removes the distinction between Independent foreign entities and Integrated foreign operations. It introduces the concept of "functional currency", which is the currency of the primary economic environment in which an entity operates. The Group's presentation currency is South African Rand. The foreign currency translation effect of the results of the international entities included in the Group from their respective functional currencies to Rand, is recorded directly against equity. This change will remove the foreign currency translation impact previously reported under SA GAAP from the income statement of the Group.

Financial impact:
The Group has elected to use the IFRS 1 election to restate the Foreign Currency Translation Reserve of R465 million credit in equity to zero on 1 July 2004, with a corresponding increase in opening retained income.

As a result, the profit on disposal of a discontinued operation of R346 million, has reduced by R413 million to a loss on sale of R67 million for the financial year ended 30 June 2005. Gross translation gains of R315 million previously reflected in the income statement for the financial year ended 30 June 2005 (31 December 2004: R60 million loss), have been credited directly to the Foreign Currency Translation Reserve under IFRS. Consequently, the financial impact of the change in accounting treatment is equity neutral.

Local interpretation of AC 112 permitted integral foreign operations to have a different functional currency to that of its parent. With the explicit statement in the revised IAS 21 stating the opposite, all integral foreign operations with a functional currency other than Rand were re-evaluated and determined to be foreign entities at 1 July 2004.

As the previously classified integral operations contained primarily monetary items, this change has no impact on equity.

Note (b) – IAS 16 – Property, Plant and Equipment ("PPE") – The component approach to depreciation SA GAAP:
SA GAAP:
Under SA GAAP, buildings were not split into their major components when determining or calculating depreciation. Furthermore, the residual value of PPE was determined on recognition, and not assessed on an annual basis.

IFRS:
IAS 16 requires that in determining the annual depreciation charge, an entity needs to reassess the residual value of the depreciable asset on an annual basis. Furthermore, properties need to be split into their major components, each of which needs to be depreciated over its useful life to the residual value of the component.

In terms of IFRS 1, the Group has in certain instances applied the election to use the fair value of certain properties as deemed cost on the transition date. As a result, a portion of depreciation on properties previously recognised in the income statement has been reversed to the opening carrying value of property, with a corresponding increase in equity. The increased depreciable value of property on the transition date resulted in an increase in the depreciation charge during the 2005 financial year.

Financial impact:
The adoption of IAS 16 had the following financial impact:

- An increase of R280 million in the carrying value of property, plant and equipment on 1 July 2004, with a corresponding increase in opening retained income of R246 million after reclassifications and deferred tax; and
- An increase of R32 million in the depreciation charge for the financial year ended 30 June 2005 (31 December 2004: R14 million increase).

Adjustments implemented with effect from 1 July 2005

Note (c) – IFRS 2 – Share-based Payments
SA GAAP:
Under SA GAAP, no direct cost was recognised in respect of the Group's share option schemes, other than for net funding costs in respect of shares bought in to hedge options granted, and costs incurred to administer the schemes, which were expensed in the year incurred.

IFRS:
In terms of IFRS 2, the Group recognises an IFRS 2 expense in respect of options over FirstRand Limited shares granted to its employees in return for services rendered by those employees. The IFRS 2 expense is calculated based on the fair value of the options granted or shares awarded on the grant date and is charged to the income statement on an annual basis over the expected vesting period of the options, with corresponding credits to equity.

Financial impact:
The adoption of IFRS 2 had the following financial impact: The cumulative impact of the Group's equity settled schemes on opening retained earnings at 1 July 2004 is a decrease of R26 million. There is a credit of R25 million to a share-based payment reserve and a net R1 million credit to liabilities. The effect on profit for 30 June 2005 is a decrease of R153 million. An amount of R33 million was charged to the income statement for the six months ended 31 December 2004.

Note (d) – IAS 32/39 – Financial Instrument Classification
SA GAAP:
Under SA GAAP, guidance was given on what constituted debt and equity (debt/equity classification) with the focus on the classification of a financial instrument falling on the substance of the contractual agreement on initial recognition as well as the definitions of a financial liability and an equity instrument. Purchased loans and receivables could not be classified as loans and receivables at amortised cost under SA GAAP as AC 133 required such loans and receivables to be originated. Consequently, purchased loans had to be treated as available-for-sale or held-to-maturity financial instruments.

IFRS:
The Group has elected the IFRS 1 exemption not to restate comparative information in terms of IAS 32 – Financial Instruments: Disclosure and Presentation, and IAS 39 – Financial Instruments: Recognition and Measurement. The Group therefore applied SA GAAP to financial instruments in the comparative information.

IFRS provides additional guidance and sets specific principles for distinguishing between what constitutes debt and equity. In certain instances the additional guidance results in financial instruments previously classified as debt being reclassified to equity or compound instruments.

Under IAS 32, differentiation between debt and equity depends on whether there is an obligation to deliver cash or any other financial asset under conditions that are potentially unfavourable to the issuer. Where a transaction may be settled by issuing shares, classification will depend on whether the number of shares to be issued is fixed or variable. IAS 39 removes the requirement for loans to be originated in order to be classified as loans and receivables at amortised cost. Reclassifying purchased loans to this category simplifies the accounting and hedging rules in respect of the financial instruments. As a result of the adoption of IAS 39, the Group has reclassified advances from held-to-maturity advances to loans and advances at amortised cost with effect from 1 July 2005. Upon initial adoption of IFRS an entity has a once off choice to redesignate any financial instrument into a different category. In limited instances the Group has used this dispensation to reclassify certain held-to-maturity financial instruments.

Financial impact:
The adoption of IAS 32 and IAS 39 has resulted in the following material reclassifications on 1 July 2005:

- The reclassification of R5.8 billion of purchased advances from held-to-maturity loans to loans and advances at amortised cost;
- The reclassification of a net R510 million of advances from elected fair value loans to loans and advances at amortised cost; and
- Reclassification of R93 million in margin deposits from cash and short-term funds to accounts receivable.

Note (e) – IAS 18/39 – Effective Interest Rate
SA GAAP:
Under SA GAAP, fees and expenses which form an integral part of the effective interest rate on loans and advances carried at amortised cost, should be taken into account in determining the effective yield of the loan, and should not be recognised in the income statement on origination of the loan.

IFRS:
This principle has evolved through local and international interpretation and has been carried forward in terms of the requirements of IAS 18 read in conjunction with IAS 39. As such, fees and commissions that are an integral part of the effective yield on a financial instrument, and direct incremental costs associated with origination of a financial instrument are included in the calculation of the effective interest rate and recognised over the expected life of the instrument. Certain additional fees and expenses that were not considered to be part of the effective interest rate on loans and advances carried at amortised cost under SA GAAP, need to be recognised on an effective yield basis under IFRS.

The recognition principles under IFRS affect both the timing of recognition of certain fee income and expenses charged at the initiation of a transaction from up-front to over the expected life of the instrument, as well as the classification of these fees from "Non-interest revenue" and "Operating expenses", to "Interest income". Fees for service continue to be recognised as and when the service is rendered.

Financial impact:
The change in interpretation resulted in the Group capitalising R846 million of fees and R660 million of expenses to loans and advances on 1 July 2005, with a decrease of R46 million in retained income after deferred tax on 1 July 2005.

Note (f) – IAS 39 – Credit Impairment
SA GAAP:
Under SA GAAP (AC 133), the Group raised Specific Impairments in respect of non-performing advances when there was objective evidence that it would not be able to collect all amounts due. The impairment was calculated as the difference between the carrying amount and the recoverable amount, being the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate at inception of the advance. The Group further raised Portfolio Impairments in respect of performing advances where there was objective evidence that the present value of the expected future cash flows of a portfolio of advances, applying the original effective interest rate, was less than the carrying value of the portfolio of advances.

The Portfolio Impairments were based upon historical patterns of losses in each component of the performing portfolio, taking account of the current economic climate in which the borrowers operate.

IFRS:
IAS 39 introduces changes to credit impairment practices and accounting by requiring such impairments to be determined on an "incurred loss" basis where there is objective evidence of a loss event after the initial recognition of the loan, rather than on expectations of future losses.

IFRS allows for the creation of Portfolio Impairments on higher risk portions of performing portfolios based on identified loss indicators. IFRS also implicitly allows for the creation of impairments for losses which are inherent in a portfolio of advances, which have not been specifically identified as impaired, ie losses incurred but not yet reported.

The IAS 39 incurred loss methodology by its nature may result in increased credit impairments on certain portfolios. In terms of AC 133, Portfolio Impairments were calculated using the expected cash flows of an entire portfolio of advances with similar credit characteristics. Implicitly, this allowed for certain levels of "cross subsidisation" of credit risk due to certain exposures in a portfolio improving in credit risk since inception, offsetting the exposures which have shown negative migration in credit risk. IAS 39 specifically requires that an entity calculates impairments with reference only to those items in a portfolio which have shown negative migration in credit risk since inception (objective evidence of impairment). Furthermore, it requires the adjustment of historical loss patterns used in determining portfolio impairments for current economic conditions. The combination of these requirements in certain instances result in higher levels of Portfolio Impairments in terms of IAS 39 in comparison to AC 133 with effect from 1 July 2005.

Financial impact:
The change in credit methodology in terms of IAS 39 results in an increase of R312 million in credit impairments on 1 July 2005.

Note (g) – Employee Benefits
SA GAAP:
Under SA GAAP, an entity measuring its defined benefit liability, should recognise a portion of its actuarial gains and losses as income if the net cumulative unrecognised actuarial gains and losses at the end of the previous period exceeded the greater of:

- 10% of the present value of the defined benefit obligation at that date before deducting plan assets; and
- 10% of the fair value of any plan assets at that date.

IFRS:
IFRS 1 states that a first-time adopter of IFRS may elect to recognise all cumulative unrecognised actuarial gains and losses against opening retained earnings at the date of transition to IFRS. The Group will continue to apply the corridor approach to recognising actuarial gains and losses going forward.

Financial impact:
The cumulative unrecognised actuarial gains on defined benefit plans at 30 June 2004 amounted to R141 million (net of deferred taxation). Opening retained earnings on 1 July 2004 have therefore been increased by this amount with a corresponding increase in assets.

Note (h) – Policy Loans
SA GAAP:
Loans granted to policyholders were disclosed as separate assets under AC 121.

IFRS:
Loans with a legal right of set-off and where the intention and ability is to settle the policy loan and policy liability on a net basis, can be offset in terms of IFRS. These affected loans have been reclassified from investment assets and have been set off against policyholder liabilities.

Financial impact:
As at 1 July 2005, policy loans amounting to R530 million have been set off against the policyholder liabilities under investment contracts.

Note (i) – Reinsurance
Contracts entered into with reinsurers under which the Group is compensated for losses on one or more contracts issued by the Group and which meets the classification requirements for insurance contracts are classified as long-term reinsurance contracts.

SA GAAP:
Previously, policyholder liabilities were reduced by the value of the claims expected to be recoverable from the reinsurer. Only the net liabilities were reflected on the balance sheet.

IFRS:
With local implementation of SA GAAP modified, policyholder liabilities and shown gross of any reinsurance and reinsurance contracts are reflected as assets. The Group assesses its long-term reinsurance assets for impairment. If there is objective evidence that the reinsurance asset is impaired, the carrying amount is reduced to its recoverable amount and the impairment loss is recognised in the income statement.

Financial impact:
As at 30 June 2005, an amount of R217 million has been disclosed separately as a reinsurance asset with a corresponding increase in policyholder liabilities under insurance contracts. As at 31 December 2004 and 30 June 2005, the reinsurance asset amounted to R224 million and R177 million respectively.

Note (j) – IFRS 4 – Insurance Contracts
SA GAAP:
Under SA GAAP, policyholder contracts that transfer significant insurance risk are classified as insurance contracts. Significant insurance risk exists if there is a plausible scenario in which an event affecting the policyholder or other beneficiary will cause a significant change in the present value of the the Group's cash flows arising from that contract. These contracts are valued in terms of the Financial Soundness Valuation ("FSV") basis contained in PGN 104 issued by the Actuarial Society of South Africa. Policyholder contracts that do not transfer significant insurance risk are classified as investment contracts and reflected in the financial statements at fair value, with changes in fair value being accounted for in the income statement. The premium income and benefit payments relating to these investment contracts have been excluded from the income statement and accounted for directly against the liability. The fair value adjustment to investment contracts and the fees earned from these products have been disclosed separately in the income statement. The FSV techniques in terms of SA GAAP

allows for the reduction of policyholder liabilities arising from the capitalisation of future fees used to recover acquisition costs, thereby allowing an insurer to hold lower liabilities early on in the life of a policy. All other expenses, commission and indirect expenses such as development and marketing and administration expenses are expensed as they are incurred.

IFRS:
IFRS 4 does not affect the measurement of insurance contracts. The Financial Soundness Valuation ("FSV") basis remains applicable. Phase II of the insurance project will affect the measurement of insurance contracts in future. One of the aims of IFRS 4 is to treat investment business written by a life insurer in the same way as similar products offered by other institutions. AC 133 under SA GAAP already requires a distinction to be made between investment and insurance contracts. IFRS 4 has refined the definitions of insurance and investment contracts.

The Group has therefore re-examined the classification of all their contracts between investment and insurance, under IFRS 4 definition criteria. This has resulted in a larger part of the Group's insurance business being classified as investment than was previously the case.

Investment contracts have been further subdivided into three categories, namely:

1. Investment contracts with discretionary participation features ("DPF");
2. Investment contracts with investment management services; and
3. Investment contracts without investment management services.

Investment contracts with DPF include contracts under which the timing of the allocation of investment returns to policyholders is at the discretion of the insurer, eg smoothed-bonus business. Investment contracts with DPF are excluded from the new requirements until Phase II, ie these investment contracts are treated in the same way as insurance contracts and are valued using the current FSV basis.

Investment contracts with investment management services refer to contracts under which all benefits are linked to the assets underlying the contract. Investment-linked living annuities are also categorised as investment contracts, because the policyholders carry the investment as well as the longevity risks. Investment contracts without investment management services are contracts where benefits are guaranteed, either in nominal terms or by direct reference to an index such as the FTSE-JSE All Share Index. IFRS 4 scopes out the second and third types of investment contracts mentioned above, ie investment contracts with investment management services and investment contracts with guaranteed benefits and the measurement thereof falls under IAS 18 and IAS 39.

In terms of the new standards, insurers may no longer capitalise future fees in respect of investment contracts. The Group has therefore reversed its capitalised fees that were previously allowed in terms of SA GAAP, and replaced it with the intangible asset described below.

Under IAS 18, increment costs that are directly attributable to acquiring new, or renewing existing investment management service contracts, are capitalised by setting up a DAC asset. The DAC asset is amortised over the expected life of the contracts, using the expected gross profit method. An impairment test is conducted annually on the DAC balance to ensure that the amount will be recovered from future revenue from the applicable remaining investment contracts.

Deferred revenue is recognised when fees, which are directly attributable to a contract, are charged in advance of the contractual services being rendered. The deferred revenue is then recognised as revenue when the services are provided over the expected duration of the contract, using the expected gross profit method.

The net effect of the new standards is that profit recognition on investment contracts is delayed. Total profits over the lifetime of investment contracts will not change, but the incidence of the emergence of profits over time will change. Due to the reclassification of certain insurance contracts to investment contracts under IFRS 4, the liability was increased by R55 million as the measurement basis under IAS 39 differs from the measurement basis under PGN 104.

Financial impact:
The adjustment to opening retained earnings as at 1 July 2005 was a net debit of R343 million. This comprised the following:

- The recognition of a deferred revenue liability of R227 million;
- Reversal of capitalised fees and other fair value adjustments resulting in an increase in policyholder liabilities under investment contracts of R1 330 million;
- A deferred tax asset of R452 million raised for the above; and
- The recognition of a DAC asset of R1 073 million and the related deferred tax liability of R311 million.

In addition, as a reclassification the total assets and liabilities decreased by R31 million as at 30 June 2005.

Note (k) – Consolidation of Collective Investment Schemes/Consolidated separate financial statements

SA GAAP:
The Group elected to consolidate material collective investment schemes where the Group held more than 50% of the units in the scheme.

IFRS:
IFRS requires the consolidation of certain collective investment schemes, which were previously recognised at fair value in the balance sheet. A financial liability is recognised for the fair value of external investors' interest where the issued units of the fund are classified as financial liabilities in terms of IFRS. In all other

instances, the interest of external investors are recognised as minority shareholders' interest.

Financial impact:
The consolidation of unit trusts has resulted in an increase in assets and liabilities of R128 million as at 1 July 2005. There has been no change to the NAV of the Group. In addition, as a reclassification, the income statement of Discovery was consolidated on a line-by-line basis for the year ended 30 June 2005.

Note (l) – Other Adjustments

- Adjustments on commodity inventory of a joint venture that will in future be fair valued under the broker-trader exemption in IAS 2 – Inventories (included in the adjustment for joint ventures in the note below);
- A change in the accounting policy for joint ventures that will in future be equity accounted as opposed to being proportionately consolidated, resulting in a net reclassification of R74 million from the various balance sheet line items to Investments in associates on 1 July 2004 (30 June 2005: R156 million; 31 December 2004: R96 million) and an increase in equity accounted income of R110 million for the year ended 30 June 2005 (31 December 2004: R22 million increase);
- Cash equivalents which are held in investment portfolios have been reclassified to investments. In line with IAS 7, cash equivalents only include items held for the purpose of meeting short term cash commitments rather than for investing or other purposes; and
- Other reclassifications required by the respective standards of IFRS.

Note (m) – IAS 32/IFRS 4 – Elimination of Treasury
Shares and other inter company balances in policyholder funds

SA GAAP:
In SA life insurance accounting, assets held on behalf of policyholders were considered to be "ring-fenced" for the benefit of policyholders as the risks and rewards of these shares accrue to the policyholders . As such, shares in Group companies held on behalf of policyholders in the insurance operation were previously not classified as treasury shares in accordance with AC 121: Disclosure in the Financial Statements of Long-term Insurers ("AC 121") and industry practice.

IFRS:
As a result of the issue of IFRS 4 – Insurance Contracts, the SA GAAP statement dealing with the insurance industry ("AC 121") was revoked.

Insurance assets are now subject to IAS 39 – Financial Instruments: Recognition and Measurement and IAS 32 – Financial Instruments: Disclosure and Presentation. As a result, shares held by policyholders in Group companies are accounted for as equity instruments.

In terms of IAS 32, the cost price of any FirstRand Limited shares held by policyholders within the Momentum and Discovery groups are now eliminated against equity and any changes in fair value are eliminated from the income statement. In terms of economic and actuarial principles, the insurance operations maintain a matching position to ensure the risk profile of liabilities to policyholders is matched by the underlying shares. The classification of policyholders' investments in the shares of group companies as treasury shares for accounting purposes, does not consider the relationship between the policyholder liabilities and shares held to meet these liabilities and consequently the corresponding policyholder liability is not similarly adjusted. This introduces a mismatch between assets and liabilities which is charged against equity.

Financial impact:
The application of IAS 32 to these shares on 1 July 2005 reduced share capital and share premium by R296 million, distributable reserves by R360 million and investments by R656 million. In addition, as a reclassification, other policyholder assets and liabilities of R15 523 million were eliminated on 1 July 2005.

Consolidated income statement

Prepared in accordance with IFRS

	Audited 30 June 2005			
	SA GAAP	Reclassify	Remeasure	IFRS
Net interest income	14 600	(1 379)	(37)	13 184
Interest and similar income	28 808	(1 261)	(42)	27 505
Interest expense and similar charges	(14 208)	(118)	5	(14 321)
Impairment losses on loans and advances	(706)	–	–	(706)
Net fee and commission income	8 227	1 680	(29)	9 878
Fee and commission income	11 055	780	–	11 835
Fee and commission expense	(2 828)	900	(29)	(1 957)
Net insurance premium income	6 839	584	–	7 423
Insurance premium revenue	7 074	1 037	–	8 111
Premium ceded to reinsurers	(235)	(453)	–	(688)
Net claims and benefits paid	(8 648)	(213)	–	(8 861)
Gross claims and benefits paid on insurance contracts	(8 811)	(537)	–	(9 348)
Reinsurance recoveries	163	324	–	487
Gains and losses from banking and trading activities	2 502	(315)	–	2 187
Gains and losses from investment activities	7 625	8 375	3	16 003
Other operating income	814	961	(60)	1 715
Increase in fair value of policyholder liabilities	(5 820)	(7 627)	–	(13 447)
Fair value adjustment to financial liabilities	–	(232)	–	(232)
Net operating income	25 433	1 834	(123)	27 144
Operating expense	(14 184)	(2 525)	(127)	(16 836)
Share of profit of associated and joint venture companies	988	(22)	110	1 076
Income before discontinued operations	12 237	(713)	(140)	11 384
Profit/(Loss) on disposal of discontinued operations	346	(413)	–	(67)
Operating profit before income tax	12 583	(1 126)	(140)	11 317
Taxation expense	(3 959)	365	(16)	(3 610)
Profit for the year	8 624	(761)	(156)	7 707
Attributable to:				
Non-cumulative non-redeemable preference shareholders	68	–	–	68
Equity holders of the Company	8 023	(729)	(157)	7 137
Minority interest	533	(32)	1	502
	8 624	(761)	(156)	7 707
Basic earnings per share (cents)	154.3			137.3
Diluted earnings per share (cents)	151.2			134.5

Definitions

Remeasurement:

Remeasurement refers to adjustments where IFRS has resulted in a change in the basis of calculating and measuring a balance sheet item or income statement transaction.

Remeasurement also includes adjustment where IFRS requires the grossing up of numbers with no resulting impact on the previously reported net income or net equity.

Reclassification:

Reclassification refers to adjustments where IFRS requires balances or transactions to be disclosed in different lines in the income statement or balance sheet with no resulting impact on the previously reported net income or net equity.

Analysis of remeasure column in income statement

Audited 30 June 2005

R million	IAS 16 Plant, property and equipment (b)	IFRS 2 Share-based payments (c)
Net interest income	–	–
Interest and similar income	–	–
Interest expense and similar charges	–	–
Impairment losses on loans and advances	–	–
Net fee and commission income	–	(20)
Fee and commission income	–	–
Fee and commission expense	–	(20)
Net insurance premium income	–	–
Insurance premium revenue	–	–
Premium ceded to reinsurers	–	–
Net claims and benefits paid	–	–
Gross claims and benefits paid on insurance contracts	–	–
Reinsurance recoveries	–	–
Gains and losses from banking and trading activities	–	–
Gains and losses from investment activities	–	3
Increase in fair value of policyholder liabilities	–	–
Other operating income	–	–
Net operating income	–	(17)
Operating expense	31	135
Other operating expenses	31	135
Other impairments	–	–
Share of profit of associated and joint venture companies	–	–
Income before discontinued operations	(31)	(152)
Profit/(Loss) on disposal of discontinued operations	–	–
Operating profit before income tax	(31)	(152)
Taxation expense	–	(1)
Profit for the year	(31)	(153)

IAS 32/IAS 39 Debt/Equity classification (d)	IAS 18/IAS 39 Effective interest rate (e)	IAS 21 Foreign exchange	IAS 19 Post-retirement liability (g)	IAS 39 Credit impairment provisioning (f)	Other IFRS adjustments (l)	Total
–	–	–	–	–	(37)	(37)
–	–	–	–	–	(42)	(42)
–	–	–	–	–	5	5
–	–	–	–	–	–	–
–	–	–	–	–	(9)	(29)
–	–	–	–	–	–	–
–	–	–	–	–	(9)	(29)
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	3
–	–	–	–	–	–	–
–	–	–	–	–	(60)	(60)
–	–	–	–	–	(106)	(123)
–	–	–	–	–	(39)	127
–	–	–	–	–	(39)	127
–	–	–	–	–	–	–
–	–	–	–	–	110	110
–	–	–	–	–	43	(140)
–	–	–	–	–	–	–
–	–	–	–	–	43	(140)
–	–	–	–	–	(15)	(16)
–	–	–	–	–	28	(156)

Analysis of reclassify column in income statement

Audited 30 June 2005

R million	IAS 27 Consolidated separate financial statements (k)	IAS 16 Plant, property and equipment (b)
Net interest income	24	–
Interest and similar income	47	–
Interest expense and similar charges	(23)	–
Impairment losses on loans and advances	–	–
Net fee and commission income	(245)	–
Fee and commission income	833	–
Fee and commission expense	(1 078)	–
Net insurance premium income	543	–
Insurance premium revenue	686	–
Premium ceded to reinsurers	(143)	–
Net claims and benefits paid	(218)	–
Gross claims and benefits paid on insurance contracts	(317)	–
Reinsurance recoveries	99	–
Gains and losses from banking and trading activities	–	–
Gains and losses from investment activities	59	–
Other operating income	–	–
Increase in fair value of policyholder liabilities	170	–
Fair value adjustment to financial liabilities	–	–
Net operating income	333	–
Operating expense	–	–
Share of profit of associated and joint venture companies	–	–
Income before discontinued operations	333	–
Profit/(Loss) on disposal of discontinued operations	–	–
Operating profit before income tax	333	–
Taxation expense	(116)	–
Profit for the year	217	–

IFRS 2	IAS 32/IAS 39	IAS 18/IAS 39	IAS 21	IFRS 4		
Share-based payments (c)	Debt/Equity classification (d)	Effective interest rate (e)	Foreign exchange (a)	Insurance contracts (j)	Other IFRS adjustments (l)	Total
–	–	–	–	(1 387)	(16)	(1 379)
–	–	–	–	(1 302)	(6)	(1 261)
–	–	–	–	(85)	(10)	(118)
–	–		–	–	–	–
–	–	–	–	1 769	156	1 680
–	–	–	–	(53)		780
–	–	–	–	1 822	156	900
–	–	–	–	46	(5)	584
–	–	–	–	356	(5)	1 037
–	–	–	–	(310)	–	(453)
–	–	–	–	2	3	(213)
–	–	–	–	(223)	3	(537)
–	–	–	–	225		324
–	–	–	(315)	–	–	(315)
–	–	–	–	8 316	–	8 375
–	–	–	–	961	–	961
–	–	–	–	(7 797)	–	(7 627)
–	–	–	–	(232)	–	(232)
–	–	–	(315)	1 678	138	1 834
–	–	–	–	(2 525)	–	(2 525)
–	–	–	–	95	(117)	(22)
–	–	–	(315)	(752)	21	(713)
–	–	–	(413)	–	–	(413)
–	–	–	(728)	(752)	21	(1 126)
–	–	–	–	503	(22)	365
–	–	–	(728)	(249)	(1)	(761)

Consolidated balance sheet

Prepared in accordance with IFRS

R million	IFRS 30 June 2005	Audited 1 July 2005 Reclassify	Remeasure	IFRS 1 July 2005
ASSETS				
Cash and short-term funds	24 890	(93)	–	24 797
Money market investments	11 427	–	–	11 427
Advances	221 851	31	(498)	221 384
– originated	175 475	6 387	(498)	181 384
– held-to-maturity	7 449	(5 846)	–	1 603
– available-for-sale	1 648	–	–	1 648
– fair value	37 279	(510)	–	36 769
Investment securities and other investments	133 763	(7 200)	(649)	125 914
Financial instruments held for trading	20 728	(1 657)	7	19 078
Investment securities	104 854	(5 543)	(656)	98 655
– held-to-maturity	2 880	–	–	2 880
– available-for-sale	16 100	(100)	(17)	15 983
– elected fair value	85 874	(5 443)	(639)	79 792
Non-recourse investments	8 181	–	–	1 181
Commodities	439	–	–	439
Investment properties	4 172	–	–	4 172
Policy loans originated	530	(530)	–	–
Reinsurance assets	236	–	–	236
Insurance assets including unit-linked assets	1 881	(664)	–	1 217
Loans and receivables	11 548	97	77	11 722
Investments in associated companies	5 707	(12)	–	5 695
Taxation	118	–	–	118
Deferred taxation	594	–	–	594
Derivative financial instruments	39 795	(7 635)	452	32 612
– qualifying for hedging	811	–	452	1 263
– trading	38 984	(7 635)	–	31 349
Intangible assets	1 178	–	1 073	2 251
Property and equipment	4 610	–	–	4 610
Total assets	**462 739**	**(16 006)**	**455**	**447 188**
SHAREHOLDERS' EQUITY AND LIABILITIES				
LIABILITIES				
Deposits	245 793	(883)	–	244 910
– deposits and current accounts	237 888	(883)	–	237 005
– non-recourse deposits	7 905	–	–	7 905
Short trading positions	19 919	(2 297)	227	17 849
Provisions	1 567	38	–	1 605
Taxation	185	–	–	185
Derivative financial instruments	30 264	(12 332)	–	17 932
– qualifying for hedging	249	–	–	249
– trading	30 015	(12 332)	–	17 683
Creditors and accruals	23 257	4	11	23 272
Post-retirement fund liabilities	1 733	–	–	1 733
Debentures and long term liabilities	5 007	(100)	–	4 907
Deferred taxation liabilities	3 877	–	202	4 079
Reinsurance liabilities	31	–	–	31
Insurance contract liabilities, including unit-linked liabilities	1 027	124	–	1 151
Policyholder liabilities	97 845	(530)	1 330	98 645
– under investment contracts	48 844			48 844
– under insurance contracts	49 001	(530)	1330	49 801
Total liabilities	430 505	(15 976)	1 770	416 299
Outside shareholders' interest	2 324	–	(18)	2 306
Shareholders' equity				
Ordinary share capital and share premium	4 396	–	(296)	4 100
Reserves	22 522	(30)	(1 001)	21 491
– Distributable reserves	20 178	(30)	(827)	19 321
– Non-distributable reserves	2 344	–	(174)	2 170
Non-cumulative non-redeemable preference shares	2 992	–	–	2 992
Total shareholders' equity	**29 910**	**(30)**	**(1 297)**	**28 583**
Total shareholders' equity and liabilities	**462 739**	**(16 006)**	**455**	**447 188**

Audited 30 June 2005				Audited 1 July 2004			
SA GAAP	Reclassify	Remeasure	IFRS	SA GAAP	Reclassify	Remeasure	IFRS
36 546	(11 653)	(3)	24 890	40 253	(13 323)	(3)	26 927
–	11 427	–	11 427	–	13 170	–	13 170
222 495	(528)	(116)	221 851	208 874	–	(159)	208 715
176 019	(528)	(16)	175 475	141 627	–	(16)	141 611
7 449	–	–	7 449	8 971	–	–	8 971
1 648	–	–	1 648	4 499	–	–	4 499
37 379	–	(100)	37 279	53 777	–	(143)	53 634
130 128	3 630	5	133 763	105 949	153	4	106 106
20 728	–	–	20 728	9 660	–	–	9 660
101 219	3 630	5	104 854	89 774	153	4	89 931
1 822	1 058	–	2 880	1 706	–	–	1 706
15 355	740	5	16 100	19 234	56	4	19 294
84 042	1 832	–	85 874	68 834	97	–	68 931
8 181	–	–	8 181	6 515	–	–	6 515
618	–	(179)	439	702	–	(118)	584
4 159	13	–	4 172	3 648	–	–	3 648
530	–	–	530	554	–	–	554
	236	–	236	–	177	–	177
2 169	(288)	–	1 881	1 403	–	–	1 403
16 020	(4 507)	35	11 548	8 865	–	35	8 900
3 768	1 783	156	5 707	2 815	–	74	2 889
118	–	–	118	174	–	1	175
575	6	13	594	1 029	5	14	1 048
39 727	68	–	39 795	45 485	–	–	45 485
811	–	–	811	4 798	–	–	4 798
38 916	68	–	38 984	40 687	–	–	40 687
1 145	1	32	1 178	660	–	1	661
4 233	8	369	4 610	4 456	23	425	4 904
462 231	**196**	**312**	**462 739**	**424 867**	**205**	**274**	**425 346**
245 793	–	–	245 793	225 576	–	–	225 576
237 612	276	–	237 888	219 061	–	–	219 061
8 181	(276)	–	7 905	6 515	–	–	6 515
19 919	–	–	19 919	23 286	–	–	23 286
1 569	2	(4)	1 567	1 345	(75)	(1)	1 269
193	–	(8)	185	1 414	–	7	1 421
30 264	–	–	30 264	40 783	–	–	40 783
249	–	–	249	4 606	–	–	4 606
30 015	–	–	30 015	36 177	–	–	36 177
23 128	53	76	23 257	14 052	–	21	14 073
1 516	(38)	255	1 733	1 402	75	255	1 732
6 432	(1 359)	(66)	5 007	7 104	(656)	(66)	6 382
3 919	–	(42)	3 877	2 098	–	(41)	2 057
	31	–	31	–	–	–	–
	1 027	–	1 027	–	696	–	696
97 352	493	–	97 845	81 969	177	–	82 146
48 508	336	–	48 844	42 337	177	–	42 514
48 844	157	–	49 001	39 632	–	–	39 632
430 085	209	211	430 505	399 029	217	175	399 421
2 290	9	25	2 324	1 823	8	19	1 850
4 396	–	–	4 396	6 767	–	–	6 767
22 468	(22)	76	22 522	17 248	(20)	80	17 308
20 575	(423)	26	20 178	15 208	445	169	15 822
1 893	401	50	2 344	2 040	(465)	(89)	1 486
2 992	–	–	2 992	–	–	–	–
29 856	**(22)**	**76**	**29 910**	**24 015**	**(20)**	**80**	**24 075**
462 231	**196**	**312**	**462 739**	**424 867**	**205**	**274**	**425 346**

Analysis of remeasure column in balance sheet
Prepared in accordance with IFRS as at 1 July 2005

R million	IAS 16 Property, plant and equipment (b)	IFRS 2 Share-based payments (c)
ASSETS		
Cash and short-term funds	–	–
– Banking	–	–
– Insurance	–	–
Advances	–	–
– originated	–	–
– held-to-maturity	–	–
– available-for-sale	–	–
– elected fair value	–	–
Investment securities and other investments	–	–
Financial instruments held for trading	–	–
Investment securities and other investments	–	–
– held-to-maturity	–	–
– available-for-sale	–	–
– elected fair value	–	–
Commodities	–	–
Non-recourse investments	–	–
Investment properties	–	–
Policy loans originated	–	–
Reinsurance assets	–	–
Insurance assets including unit-linked assets	–	–
Loans and receivables	–	–
Investments in associated companies	–	–
Taxation	–	–
Deferred taxation	–	–
Derivative financial instruments	–	–
– qualifying for hedging	–	–
– trading	–	–
Intangible assets	–	–
– Banking	–	–
– Insurance	–	–
Property and equipment	–	–
Total assets	**–**	**–**
SHAREHOLDERS' EQUITY AND LIABILITIES	–	–
LIABILITIES	–	–
Deposits	–	–
– deposits and current accounts	–	–
– non-recourse deposits	–	–
Short trading positions	–	–
Provisions	–	–
Taxation	–	–
Derivative financial instruments	–	–
– qualifying for hedging	–	–
– trading	–	–
Creditors and accruals	–	–
Post-retirement fund liabilities	–	–
Debentures and long-term liabilities	–	–
Deferred taxation liabilities	–	–
Reinsurance liabilities	–	–
Insurance contract liabilities, including unit-linked liabilities	–	–
Policyholder liabilities	–	–
– under insurance contracts	–	–
– under investment contracts	–	–
Total liabilities	–	–
Shareholders' equity	–	–
Ordinary share capital and share premium	–	–
Reserves	–	–
– Distributable reserves	–	–
– Non-distributable reserves	–	–
Non-cumulative non-redeemable preference shares	–	–
Minority interest	–	–
Total shareholders' equity	**–**	**–**
Total shareholders' equity and liabilities	**–**	**–**

IAS 32 Treasury shares (m)	IAS 18/IAS 39 Effective interest rate (e)	IAS 21 Foreign exchange (a)	IAS 39 Credit impairment (f)	IAS 18/IFRS 4 Revenue recognition (j)	Other IFRS adjustments (l)	Total remeasure
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	(186)	–	(312)	–	–	(498)
–	(186)	–	(312)	–	–	(498)
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
(656)	–	–	7	–	–	(649)
	–	–	7	–	–	7
(656)	–	–	–	–	–	(656)
–	–	–	–	–	–	–
(17)	–	–	–	–	–	(17)
(639)	–	–	–	–	–	(639)
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	77	–	–	–	–	77
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	452	–	452
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	1 073	–	1 073
–	–	–	–	–	–	–
–	–	–	–	1 073	–	1 073
–	–	–	–	–	–	–
(656)	**(109)**	**–**	**(305)**	**1 525**	**–**	**455**
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	227	–	227
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	11	–	–	–	–	11
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	(74)	–	(35)	311	–	202
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	1 330	–	1 330
–	–	–	–	–	–	–
–	–	–	–	1 330	–	1 330
–	(63)	–	(35)	1 868	–	1 770
–	–	–	–	–	–	
(296)	–	–	–	–	–	(296)
(360)	(46)	–	(252)	(343)	–	(1 001)
(360)	(46)	–	(78)	(343)	–	(827)
–	–	–	(174)	–	–	(174)
–	–	–	–	–	–	–
–	–	–	(18)	–	–	(18)
(656)	**(46)**	**–**	**(270)**	**(343)**	**–**	**(1 315)**
(656)	**(109)**	**–**	**(305)**	**1 525**	**–**	**455**

Analysis of reclassify column in balance sheet
Prepared in accordance with IFRS as at 1 July 2005

R million	IAS 32 Policy loans (h)	IAS 27 Collective investment schemes (k)
ASSETS		
Cash and short-term funds	–	–
– Banking	–	–
– Insurance	–	–
Advances	–	–
– originated	–	–
– held-to-maturity	–	–
– available-for-sale	–	–
– elected fair value	–	–
Investment securities and other investments	–	91
Financial instruments held for trading	–	–
Investment securities and other investments	–	91
– held-to-maturity	–	–
– available-for-sale	–	–
– elected fair value	–	91
Commodities	–	–
Non-recourse investments	–	–
Investment properties	–	–
Policy loans originated	(530)	–
Reinsurance assets	–	–
Insurance assets including unit-linked assets	–	33
Loans and receivables	–	4
Investments in associated companies	–	–
Taxation	–	–
Deferred taxation	–	–
Derivative financial instruments	–	–
– qualifying for hedging	–	–
– trading	–	–
Intangible assets	–	–
– Banking	–	–
– Insurance	–	–
Property and equipment	–	–
Total assets	(530)	128
SHAREHOLDERS' EQUITY AND LIABILITIES		
LIABILITIES		
Deposits	–	–
– deposits and current accounts	–	–
– non-recourse deposits	–	–
Short trading positions	–	–
Provisions	–	–
Taxation	–	–
Derivative financial instruments	–	–
– qualifying for hedging	–	–
– trading	–	–
Creditors and accruals	–	4
Post-retirement fund liabilities	–	–
Debentures and long-term liabilities	–	–
Deferred taxation liabilities	–	–
Reinsurance liabilities	–	–
Insurance contract liabilities, including unit-linked liabilities	–	124
Policyholder liabilities	(530)	–
– under insurance contracts	–	–
– under investment contracts	(530)	–
Total liabilities	(530)	128
Shareholders' equity	–	–
Ordinary share capital and share premium	–	–
Reserves	–	–
– Distributable reserves	–	–
– Non-distributable reserves	–	–
Non-cumulative non-redeemable preference shares	–	–
Minority interest	–	–
Total shareholders' equity	–	–
Total shareholders' equity and liabilities	(530)	128

IAS 32/IAS 39 Reclassification (d)	IAS 32/IFRS 4 IAS 3/IAS 39 Effective interest rate (e)	IAS 27 Inter company (m)	IAS 39 Credit impairment provisioning (f)	Foreign exchange (a)	Other IFRS adjustments (l)	Total reclassify
(93)	–	–	–	–	–	(93)
(93)	–	–	–	–	–	(93)
	–	–	–	–	–	
31	–	–	–	–	–	31
6 387	–	–	–	–	–	6 387
(5 846)	–	–	–	–	–	(5 846)
–	–	–	–	–	–	–
(510)	–	–	–	–	–	(510)
–	–	(7 191)	–	–	(100)	(7 200)
–	–	(1 657)	–	–	–	(1 657)
–	–	(5 534)	–	–	(100)	(5 543)
–	–	–	–	–	–	–
–	–	–	–	–	(100)	(100)
–	–	(5 534)	–	–	–	(5 443)
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	(530)
–	–	–	–	–	–	–
–	–	(697)	–	–	–	(664)
93	–	–	–	–	–	97
(12)	–	–	–	–	–	(12)
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	(7 635)	–	–	–	(7 635)
–	–	–	–	–	–	–
–	–	(7 635)	–	–	–	(7 635)
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–		–
19	–	(15 523)	–	–	(100)	(16 006)
11	–	(894)	–	–	–	(883)
11	–	(894)	–	–	–	(883)
–	–	–	–	–	–	–
–	–	(2 297)	–	–	–	(2 297)
38	–	–	–	–		38
–	–	–	–	–	–	–
–	–	(12 332)	–	–	–	(12 332)
–	–	–	–	–	–	–
–	–	(12 332)	–	–	–	(12 332)
–	–	–	–	–	–	4
–	–	–	–	–		–
–	–	–	–	–	(100)	(100)
–	–	–	–	–	–	
–	–	–	–	–	–	–
–	–	–	–	–	–	124
–	–	–	–	–	–	(530)
–	–	–	–	–	–	–
–	–	–	–	–	–	(530)
49	–	(15 523)	–	–	(100)	(15 976)
–	–	–	–	–	–	
–	–	–	–	–	–	–
(30)	–	–	–	–	–	(30)
(30)	–	–	–	–	–	(30)
–	–	–	–	–	–	–
–	–	–	–	–	–	
–	–	–	–	–	–	–
(30)	–	–	–	–	–	(30)
19	–	(15 523)	–	–	(100)	(16 006)

Analysis of remeasure column in balance sheet

Prepared in accordance with IFRS at 30 June 2005

R million	IAS 16 Property, plant and equipment (b)	IFRS 2 Share-based payments (c)	IAS 32/IAS 39 Reclassification (d)
ASSETS			
Cash and short-term funds	–	–	–
– Banking	–	–	–
– Insurance	–	–	–
Advances	–	–	–
– originated	–	–	–
– held-to-maturity	–	–	–
– available-for-sale	–	–	–
– elected fair value	–	–	–
Investment securities and other investments	–	–	–
Financial instruments held for trading	–	–	–
Investment securities and other investments	–	–	–
– held-to-maturity	–	–	–
– available-for-sale	–	–	–
– elected fair value	–	–	–
Commodities	–	–	–
Non-recourse investments	–	–	–
Investment properties	–	–	–
Policy loans originated	–	–	–
Reinsurance assets	–	–	–
Insurance assets including unit-linked assets	–	–	–
Loans and receivables	–	–	–
Investments in associated companies	–	–	–
Taxation	–	–	–
Deferred taxation	–	–	–
Derivative financial instruments	–	–	–
– qualifying for hedging	–	–	–
– trading	–	–	–
Intangible assets	–	–	–
– Banking	–	–	–
– Insurance	–	–	–
Property and equipment	249	–	–
Total assets	249	–	–
SHAREHOLDERS' EQUITY AND LIABILITIES	–	–	–
LIABILITIES	–	–	–
Deposits	–	–	–
– deposits and current accounts	–	–	–
– non-recourse deposits	–	–	–
Short trading positions	–	–	–
Provisions	–	–	–
Taxation	–	–	–
Derivative financial instruments	–	–	–
– qualifying for hedging	–	–	–
– trading	–	–	–
Creditors and accruals	–	–	–
Post-retirement fund liabilities	–	–	–
Debentures and long-term liabilities	–	–	–
Deferred taxation liabilities	34	–	–
Reinsurance liabilities	–	–	–
Insurance contract liabilities, including unit-linked liabilities	–	–	–
Policyholder liabilities	–	–	–
– under insurance contracts	–	–	–
– under investment contracts	–	–	–
Total liabilities	34	–	–
Minority interest	(1)	–	–
Shareholders' equity	–	–	–
Ordinary share capital and share premium	–	–	–
Reserves	216	–	–
– distributable reserves	216	(161)	–
– non-distributable reserves	–	161	–
Non-cumulative non-redeemable preference shares	–	–	–
Total shareholders' equity	215	–	–
Total shareholders' equity and liabilities	249	–	–

IAS 18/IAS 39 Effective interest rate (e)	IAS 21 Foreign exchange (a)	IAS 39 Credit impairment provisioning (f)	IAS 32 Policy loans and other (h)/(i)	IAS 19 Post-retirement liability (g)	Other IFRS adjustments (l)	Total remeasure
–	–	–	–	–	(3)	(3)
–	–	–	–	–	(3)	(3)
–	–	–	–	–	–	–
–	–	–	–	–	(116)	(116)
–	–	–	–	–	(16)	(16)
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	(100)	(100)
–	–	–	–	–	(174)	(174)
–	–	–	–	–	–	–
–	–	–	–	–	5	5
–	–	–	–	–	–	–
–	–	–	–	–	5	5
–	–	–	–	–	–	–
–	–	–	–	–	(179)	(179)
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	38	(3)	35
–	–	–	–	–	156	156
–	–	–	–	–	–	–
–	–	–	–	–	13	13
–	–	–	–	–	–	–
–	–	–		–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	32	32
–	–	–	–	–	32	32
–	–	–	–	–	–	–
–	–	–	–	–	120	369
–	–	–	–	38	25	312
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	(4)	(4)
–	–	–	–	–	(8)	(8)
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	76	76
–	–	–	–	255	–	255
–	–	–	–	–	(66)	(66)
–	–	–	–	(76)	–	(42)
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	179	(2)	211
–	–	–	–	–	26	25
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	(141)	1	76
–	114	–	–	(141)	(2)	26
–	(114)	–	–		3	50
–	–	–	–	–	–	–
–	–	–	–	(141)	27	101
–	–	–	–	38	25	312

Analysis of reclassify column in balance sheet

Prepared in accordance with IFRS at 30 June 2005

R million	IAS 16 Property, plant and equipment (b)	IFRS 2 Share-based payments (c)	IAS 32/IAS 39 Reclassification (d)	IAS 18/IAS 39 Effective interest rate (e)
ASSETS				
Cash and short term funds	–	–	–	–
– Banking	–	–	–	–
– Insurance	–	–	–	–
Advances	–	–	–	–
– originated	–	–	–	–
– held-to-maturity	–	–	–	–
– available-for-sale	–	–	–	–
– fair value	–	–	–	–
Investment securities and other investments	–	–	–	–
Financial instruments held for trading	–	–	–	–
Investment securities and other investments	–	–	–	–
– held-to-maturity	–	–	–	–
– available-for-sale	–	–	–	–
– elected fair value	–	–	–	–
Commodities	–	–	–	–
Non-recourse investments	–	–	–	–
Investment properties	–	–	–	–
Policy loans originated	–	–	–	–
Reinsurance assets	–	–	–	–
Insurance assets, including unit-linked assets	–	–	–	–
Loans and receivables	–	–	–	–
Investments in associated companies	–	–	–	–
Taxation	–	–	–	–
Deferred taxation	–	–	–	–
Derivative financial instruments	–	–	–	–
– qualifying for hedging	–	–	–	–
– trading	–	–	–	–
Intangible assets	–	–	–	–
– Banking	–	–	–	–
– Insurance	–	–	–	–
Property and equipment	–	–	–	–
Total assets	–	–	–	–
SHAREHOLDERS' EQUITY AND LIABILITIES				
LIABILITIES				
Deposits	–	–	–	–
– deposits and current accounts	–	–	–	–
– non-recourse deposits	–	–	–	–
Short trading positions	–	–	–	–
Provisions	–	–	–	–
Taxation	–	–	–	–
Derivative financial instruments	–	–	–	–
– qualifying for hedging	–	–	–	–
– trading	–	–	–	–
Creditors and accruals	–	–	–	–
Post-retirement fund liabilities	–	–	–	–
Debentures and long-term liabilities	–	–	–	–
Deferred taxation liabilities	–	–	–	–
Reinsurance liabilities	–	–	–	–
Insurance contract liabilities, including unit-linked liabilities	–	–	–	–
Policyholder liabilities	–	–	–	–
– under insurance contracts	–	–	–	–
– under investment contracts	–	–	–	–
Total liabilities	–	–	–	–
Minority interest	–	–	–	–
Shareholders' equity				
Ordinary share capital and share premium	–	–	–	–
Reserves	–	–	–	–
– distributable reserves	–	(20)	–	–
– non-distributable reserves	–	20	–	–
Non-cumulative non-redeemable preference shares	–	–	–	–
Total shareholders' equity	–	–	–	–
Total shareholders' equity and liabilities	–	–	–	–

IAS 21 Foreign exchange (a)	IAS 39 Credit impairment provisioning (f)	IAS 31 Joint units (l)	Money market and other (k)	IAS 32 Policy loans adj. (h)/(i)	Other IFRS adjustments	IFRS 4 Insurance contracts (j)	Total Reclassify
–	–	(112)	(159)	–	–	45	(226)
–	–	–	–	–	–	–	–
–	–	(112)	(159)	–	–	45	(226)
–	–	–		–	–	(528)	(528)
–	–	–	–	–	–	(528)	(528)
–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–
–	–	–	159	–	–	3 471	3 630
–	–	–	–	–	–	–	–
–	–	–	159	–	–	3 471	3 630
–	–	–	–	–	–	1 058	1 058
–	–	–	53	–	–	687	740
–	–	–	106	–	–	1 726	1 832
–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–
–	–	–	–	–	–	13	13
–	–	–	–	–	–	–	–
–	–	–	–	217	–	19	236
–	–	–	–	–	–	(288)	(288)
–	–	(46)	–	–	–	(4 461)	(4 507)
–	–	142	–	–	–	1 641	1 783
–	–	–	–	–	–	–	–
–	–	–	–	–	5	1	6
–	–	–	–	–	–	68	68
–	–	–	–	–	–	–	–
–	–	–	–	–	–	68	68
–	–	–	–	–	–	1	1
–	–	–	–	–	–	1	1
–	–	–	–	–	–	–	–
–	–	(2)	–	–	23	(13)	8
–	–	(18)	–	217	28	(31)	196
–	–	–	–	–	–	–	–
–	–	–	–	–	–	276	276
–	–	–	–	–	–	(276)	(276)
–	–	–	–	–	–	–	–
–	–	–	–	–	–	2	2
–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–
–	–	–	–	–	–	–	–
–	–	(18)	–	–	–	71	53
–	–	–	–	–	–	(38)	(38)
–	–	–	–	(1 027)	41	(373)	(1 359)
–	–	–	–	–	–	–	–
–	–	–	–	–	–	31	31
–	–	–	–	1 027	–	–	1 027
–	–	–	–	217	–	276	493
–	–	–	–	217	–	119	336
–	–	–	–	–	–	157	157
–	–	(18)	–	217	41	(31)	209
–	–	–	–	–	9	–	9
–	–	–	–	–			–
–	–	–	–	–	(22)	–	(22)
(263)	–	–	–	–	(34)	–	(317)
263	–	–	–	–	12	–	295
–	–	–	–	–	–	–	–
–	–	–	–	–	(22)	–	(22)
–	–	(18)	–	217	28	(31)	196

Analysis of remeasure column in balance sheet

Prepared in accordance with IFRS as at 1 July 2004

R million	IAS 16 Property, plant and equipment (b)	IFRS 2 Share-based payments (c)
ASSETS		
Cash and short-term funds	–	–
– Banking	–	–
– Insurance	–	–
Advances	–	–
– originated	–	–
– held-to-maturity	–	–
– available-for-sale	–	–
– elected fair value	–	–
Investment securities and other investments	–	–
Financial instruments held for trading	–	–
Investment securities and other investments	–	–
– held-to-maturity	–	–
– available-for-sale	–	–
– elected fair value	–	–
Commodities	–	–
Non-recourse investments	–	–
Investment properties	–	–
Policy loans originated	–	–
Reinsurance assets	–	–
Insurance assets including unit-linked assets	–	–
Loans and receivables	–	–
Investments in associated companies	–	–
Taxation	–	1
Deferred taxation	–	–
Derivative financial instruments	–	–
– qualifying for hedging	–	–
– trading	–	–
Intangible assets	–	–
– Banking	–	–
– Insurance	–	–
Property and equipment	280	–
Total assets	280	1
SHAREHOLDERS' EQUITY AND LIABILITIES		
LIABILITIES		
Deposits	–	–
– deposits and current accounts	–	–
– non-recourse deposits	–	–
Short trading positions	–	–
Provisions	–	3
Taxation	–	–
Derivative financial instruments	–	–
– qualifying for hedging	–	–
– trading	–	–
Creditors and accruals	–	–
Post-retirement fund liabilities	–	–
Debentures and long-term liabilities	–	–
Deferred taxation liabilities	35	–
Reinsurance liabilities	–	–
Insurance contract liabilities, including unit-linked liabilities	–	–
Policyholder liabilities	–	–
– under insurance contracts	–	–
– under investment contracts	–	–
Total liabilities	35	3
Minority interest	(1)	(1)
Shareholders' equity	–	–
Ordinary share capital and share premium	–	–
Reserves	246	(1)
– Distributable reserves	246	(26)
– Non-distributable reserves	–	25
Non-cumulative non-redeemable preference shares	–	–
Total shareholders' equity	245	(2)
Total shareholders' equity and liabilities	280	1

IAS 32/IAS 39 Reclassification (d)	IAS 18/IAS 39 Effective interest rate (e)	IAS 21 Foreign exchange (a)	IAS 39 Credit impairment provisioning (f)	IAS 19 Post- retirement liability (g)	 Other IFRS adjustments (l)	 Total remeasure
–	–	–	–	–	(3)	(3)
–	–	–	–	–	(3)	(3)
–	–	–	–	–	–	–
–	–	–	–	–	(159)	(159)
–	–	–	–	–	(16)	(16)
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	(143)	(143)
–	–	–	–	–	(114)	(114)
–	–	–	–	–	–	–
–	–	–	–	–	4	4
–	–	–	–	–	–	–
–	–	–	–	–	4	4
–	–	–	–	–	–	–
–	–	–	–	–	(118)	(118)
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	38	(3)	35
–	–	–	–	–	74	74
–	–	–	–	–	–	1
–	–	–	–	–	14	14
–	–	–	–	–	–	–
–	–	–	–	–	–	
–	–	–	–	–	–	
–	–	–	–	–	1	1
–	–	–	–	–	1	1
–	–	–	–	–	–	–
–	–	–	–	–	145	425
–	–	–	–	38	(45)	274
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	(4)	(1)
–	–	–	–	–	7	7
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	21	21
–	–	–	–	255	–	255
–	–	–	–	–	(66)	(66)
–	–	–	–	(76)	–	(41)
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	179	(42)	175
–	–	–	–	–	21	19
–	–	–	–	–	–	
–	–	–	–	–	–	–
–	–	–	–	(141)	(24)	80
–	–	114	–	(141)	(24)	169
–	–	(114)	–	–	–	(89)
–	–	–	–	–	–	–
–	–	–	–	(141)	(24)	80
–	–	–	–	38	(45)	274

Analysis of reclassify column in balance sheet

Prepared in accordance with IFRS as at 1 July 2004

R million	IAS 16 Property, plant and equipment (b)	IFRS 2 Share-based payments (c)	IAS 32/IAS 39 Re-classification (d)
ASSETS			
Cash and short-term funds	–	–	–
– *Banking*	–	–	–
– *Insurance*	–	–	–
Advances	–	–	–
– originated	–	–	–
– held-to-maturity	–	–	–
– available-for-sale	–	–	–
– elected fair value	–	–	–
Investment securities and other investments	–	–	–
Financial instruments held for trading	–	–	–
Investment securities and other investments	–	–	–
– held-to-maturity	–	–	–
– available-for-sale	–	–	–
– elected fair value	–	–	–
Commodities	–	–	–
Non-recourse investments	–	–	–
Investment properties	–	–	–
Policy loans originated	–	–	–
Reinsurance assets	–	–	–
Insurance assets including unit-linked assets	–	–	–
Loans and receivables	–	–	–
Investments in associated companies	–	–	–
Taxation	–	–	–
Deferred taxation	–	–	–
Derivative financial instruments	–	–	–
– qualifying for hedging	–	–	–
– trading	–	–	–
Intangible assets	–	–	–
– Banking	–	–	–
– Insurance	–	–	–
Property and equipment	–	–	–
Total assets	–	–	–
SHAREHOLDERS' EQUITY AND LIABILITIES			
LIABILITIES			
Deposits	–	–	–
– deposits and current accounts	–	–	–
– non-recourse deposits	–	–	–
Short trading positions	–	–	–
Provisions	–	–	–
Taxation	–	–	–
Derivative financial instruments	–	–	–
– qualifying for hedging	–	–	–
– trading	–	–	–
Creditors and accruals	–	–	–
Post-retirement fund liabilities	–	–	–
Debentures and long-term liabilities	–	–	–
Deferred taxation liabilities	–	–	–
Reinsurance liabilities	–	–	–
Insurance contract liabilities, including unit-linked liabilities	–	–	–
Policyholder liabilities	–	–	–
– under insurance contracts	–	–	–
– under investment contracts	–	–	–
Total liabilities	–	–	–
Minority interest	–	–	–
Shareholders' equity			
Ordinary share capital and share premium	–	–	–
Reserves	–	–	–
– Distributable reserves	–	–	–
– Non-distributable reserves	–	–	–
Non-cumulative non-redeemable preference shares	–	–	–
Total shareholders' equity	–	–	–
Total shareholders' equity and liabilities	–	–	–

IAS 18/IAS 39 Effective interest rate (e)	IAS 21 Foreign exchange (a)	IAS 39 Credit impairment provisioning (f)	IAS 7 Money market units (l)	IAS 32 Policy loans and other (h)/(i)	Other IFRS adjustments (l)	Total Reclassify
–	–	–	(153)	–	–	(153)
–	–	–	–	–	–	–
–	–	–	(153)	–	–	(153)
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	153	–	–	153
–	–	–	–	–	–	–
–	–	–	153	–	–	153
–	–	–	–	–	–	–
–	–	–	56	–	–	56
–	–	–	97	–	–	97
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	177	–	177
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	5	5
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–		–	23	23
–	–	–	–	177	28	205
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	
–	–	–	–	–	(75)	(75)
–	–	–	–	–	–	
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–	–	75	75
–	–	–	–	–	(656)	(656)
–	–	–	–	–	–	–
–	–	–	–	–	–	–
–	–	–	–		696	696
–	–	–	–	177	–	177
–	–	–	–	177	–	177
–	–	–	–	–	–	–
–	–	–	–	177	40	217
–	–	–	–	–	8	8
–	–	–	–	–	–	–
–	–	–	–	–	(20)	(20)
–	465	–	–	–	(20)	445
–	(465)	–	–	–	–	(465)
–	–	–	–	–	–	–
–	–	–	–	–	(20)	(20)
–	–	–	–	177	28	205

Reconciliation of consolidated statement of changes in equity

Prepared in accordance with IFRS

R million	Attributable to equity holders Share capital and share premium	Non-distributable reserves
Previously reported balance at 1 July 2004	6 767	2 040
Adjusted for income statement movements:	–	–
– property, plant and equipment	–	–
– post-retirement liability	–	–
– share-based payments	–	25
– foreign exchange	–	(579)
– Other IFRS adjustments	–	–
As reported under IFRS at 1 July 2004	6 767	1 486
Previously reported balance at 30 June 2005	4 396	1 893
Adjusted for income statement movements:	–	–
– property, plant and equipment	–	–
– post-retirement liability	–	–
– share-based payments	–	181
– foreign exchange	–	149
– Other IFRS adjustments	–	15
As reported under IFRS at 30 June 2005	4 396	2 238
1 July 2005 adjustments:	4 396	2 238
– debt/equity classification	–	–
– effective interest rate	–	–
– credit impairment provisioning	–	(174)
– IFRS 4	–	–
– other IFRS adjustments	(296)	–
As reported under IFRS at 1 July 2005	4 100	2 064

of the Group			Perpetual preference shareholders' funds			
Distributable reserves	Minority interest	Total ordinary shareholders' equity	Non-cumulative preference share capital	Non-cumulative preference share premium	Total preference shareholders' funds	Total shareholders' equity
15 208	1 823	25 838	–	–	–	25 838
–	–	–	–	–	–	–
246	(1)	245	–	–	–	245
(141)	–	(141)	–	–	–	(141)
(26)	(1)	(2)	–	–	–	(2)
579	–	–	–	–	–	–
(44)	29	(15)	–	–	–	(15)
15 822	1 850	25 925	–	–	–	25 925
20 575	2 290	29 154	–	2 992	2 992	32 146
			–	–	–	–
216	(1)	215	–	–	–	215
(141)	–	(141)	–	–	–	(141)
(181)	–	–	–	–	–	–
(149)	–	–	–	–	–	–
(36)	35	14	–	–	–	14
20 284	2 324	29 242	–	2 992	2 992	32 234
20 284	2 324	29 242	–	2 992	2 992	32 234
(30)	–	(30)	–	–	–	(30)
(46)	–	(46)	–	–	–	(46)
(78)	(18)	(270)	–	–	–	(270)
(343)	–	(343)	–	–	–	(343)
(360)	–	(656)	–	–	–	(656)
19 427	2 306	27 897	–	2 992	2 992	30 889

Income statement for the year ended 30 June

R million	Notes	Company **2006**	Company 2005
Net interest income		**(6)**	27
Interest and similar income	9	**16**	66
Interest expense and similar charges	9	**(22)**	(39)
Net gains from investment activities		**38**	–
Other operating income	10	**5 044**	3 124
Net operating income		**5 076**	3 151
Operating expenses		**(67)**	(76)
Operating expenses	11	**(56)**	(63)
Indirect taxation	12	**(11)**	(13)
Operating profit before income tax		**5 009**	3 075
Taxation expense	13	**(185)**	(167)
Profit for the year		**4 824**	2 908
Attributable to:			
Equity holders of the Company		**4 550**	2 840
Non-cumulative non-redeemable preference shares		**274**	68

R million	Notes	Company **2006**	Company 2005
ASSETS			
Cash		**37**	36
Loans and accounts receivables	2	**130**	375
Investment in subsidiaries	3	**16 086**	13 427
Deferred taxation	4	**–**	24
Property and equipment		*****	*
Total assets		**16 253**	13 862
SHAREHOLDERS' EQUITY AND LIABILITIES			
Liabilities			
Derivative financial instruments	5	**–**	82
Creditors and accruals		**56**	53
Long-term liabilities	6	**102**	362
Taxation liability		**51**	14
Total liabilities		**209**	511
Shareholders' equity			
Ordinary share capital and share premium	7	**8 647**	8 482
Preference share capital and preference share premium	7	**4 519**	2 992
Distributable reserves		**2 878**	1 877
Total shareholders' equity		**16 044**	13 351
Total shareholders' equity and liabilities		**16 253**	13 862

** Less than R500 000.*

Statement of changes in equity for the year ended 30 June continued

	Ordinary share capital and ordinary		
R million	Share capital (note 7)	Share premium (note 7)	Distributable reserves
Balance at 1 July 2004	55	8 432	15 004
IFRS adjustments: Reversal of equity accounted earnings#	–	–	(13 192)
Restated balance at 1 July 2004	55	8 432	1 812
Issue of share capital	1	–	–
Reduction of share capital	*	(1)	–
Share issue expense	–	(5)	–
Currency translation differences	–	–	–
Movement in revaluation reserves	–	–	(1)
Movement in other reserves	–	–	–
Earnings attributable to shareholders	–	–	2 840
Ordinary dividends	–	–	(2 922)
Preference dividends	–	–	–
Transfer (to)/from reserves	–	–	148
Balance at 30 June 2005	56	8 426	1 877
Balance at 1 July 2005	56	8 426	1 877
Issue of share capital	*	165	(165)
Share issue expense	–	–	–
Movement in other reserves	–	–	8
Earnings attributable to shareholders	–	–	4 550
Ordinary dividends	–	–	(3 397)
Preference dividends	–	–	–
Share-based payment reserve	–	–	(4)
Balance at 30 June 2006	**56**	**8 591**	**2 869**

** Less than R500 000.*
 # Refer to note 15 for a detailed explanation on the IFRS changes processed.

shareholders' funds		Perpetual preference shareholders' funds			
Non-distributable reserves	Total ordinary shareholders' funds	Non-cumulative preference share capital (note 7)	Non-cumulative preference share premium (note 7)	Total preference shareholders' funds	Total shareholders' funds
2 179	25 670	–	–	–	25 670
(2 031)	(15 223)	–	–	–	(15 223)
148	10 447	–	–	–	10 447
–	1	*	3 000	3 000	3 001
–	(1)	–	–	–	(1)
–	(5)	–	(8)	(8)	(13)
–	–	–	–	–	–
–	(1)	–	–	–	(1)
–	–	–	–	–	–
–	2 840	–	68	68	2 908
–	(2 922)	–	–	–	(2 922)
–	–	–	(68)	(68)	(68)
(148)	–	–	–	–	–
*	10 359	*	2 992	2 992	13 351
*	10 359	*	2 992	2 992	13 351
–	–	*	1 530	1 530	1 530
–	–	–	(3)	(3)	(3)
*	8	–	–	–	8
–	4 550	–	274	274	4 824
–	(3 397)	–	–	–	(3 397)
–	–	–	(274)	(274)	(274)
9	5	–	–	–	5
9	**11 525**	*****	**4 519**	**4 519**	**16 044**

Cash flow statement for the year ended 30 June

R million	Notes	Company **2006**	Company 2005
Cash flows from operating activities			
Cash generated by operations	14.1	**4 941**	3 175
Working capital changes	14.2	**248**	(41)
Cash inflow from operations		**5 189**	3 134
Taxation paid	14.3	**(125)**	(189)
Dividends paid	14.4	**(3 671)**	(2 990)
Net cash (outflow)/inflow from operating activities		**1 393**	(45)
Cash flows from investment activities			
Investment in subsidiaries		**(528)**	(3 083)
Loan to subsidiaries		**(2 131)**	(3)
Net cash outflow from investment activities		**(2 659)**	(3 086)
Cash flows from financing activities			
Repayments of long-term liabilities		**(260)**	–
Loan from subsidiaries		**–**	164
Proceeds from issue of ordinary shares		**–**	1
Share issue expense written off against ordinary share premium		**–**	(5)
Proceeds from issue of preference shares		**1 530**	3 000
Share issue expense written off against preference share premium		**(3)**	(8)
Net cash inflow from financing activities		**1 267**	3 152
Increase in cash and cash equivalents		**1**	21
Cash and cash equivalents at the beginning of the year		**36**	15
Cash and cash equivalents at the end of the year		**37**	36

R million	Company **2006**	Company 2005
1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES		
The annual financial statements of FirstRand Limited are prepared according to the same accounting policies used in preparing the consolidated financial statements of FirstRand Limited. For detailed accounting policies refer to pages 119 to 137 of this report.		
2. LOANS AND RECEIVABLES		
Receivables		
Dividends receivable ("A" preference shares)	7	13
Sundry debtors	21	*
	28	13
Loans		
Loan to/(from) share trusts		
OutPerformance Share Incentive Scheme loan		
Total amount outstanding	102	362
Short-term portion	38	257
Long-term portion	64	105
This loan is repayable by the FirstRand Limited Trust upon conversion of the preference shares into ordinary shares. If the conditions for conversion are not met, the loan and preference shares will be cancelled. The return on the loan is linked to the preference share dividend.		
Loan from FirstRand Empowerment Trust	*	–
	102	362
Total loans and receivables	130	375

	Effective percentage holding		Investment of holding company: Shares at net carrying amount		Amounts owing by/(to) subsidiaries		Total	
	2006 %	2005 %	**2006 Rm**	2005 Rm	**2006 Rm**	2005 Rm	**2006 Rm**	2005 Rm
3. INVESTMENT IN SUBSIDIARIES								
Banking Group								
FirstRand Bank Holdings Limited (FRBH)								
– Ordinary shares	100	100	5 895	5 895	(3)	(1 548)	5 892	4 347
– Non-redeemable preference shares	100	100	3 000	3 000	–	–	3 000	3 000
Momentum								
Momentum Group Limited	100	100	5 133	4 633	–	14	5 133	4 647
Discovery								
Discovery Holdings Limited	63.3	65	1 436	1 408	–	–	1 436	1 408
FirstRand Investment Holdings Limited	100	100	25	25	600	–	625	25
			15 489	14 961	597	(1 534)	16 086	13 427

R million	Company 2006	Company 2005
3. INVESTMENT IN SUBSIDIARIES *continued*		
Carrying amount of shares at the beginning of the year	**14 961**	27 216
Movement for the year:		
Investment in FRBH non-redeemable preference shares	**–**	3 000
Net acquisition of Discovery	**28**	83
Investment in Momentum perpetual preference shares	**500**	–
Goodwill on acquisition (transfer to intangible assets)	**–**	(75)
Reversal of reserve accounting by subsidiaries	**–**	(39)
IFRS adjustment: reversal of equity accounting earnings	**–**	(15 224)
Carrying amount of shares at the end of the year	**15 489**	14 961

The following share trusts are controlled by FirstRand Limited:
- Momentum Life Assurers Limited Share Trust
- Southern Life Association Limited Share Scheme
- First National Bank Share Purchase /Option Scheme
- FirstRand Limited Share Trust
- RMB Share Trust
- FirstRand Staff Assistance Trust
- FirstRand Black Employee Trust
- FirstRand Black Non-Executive Directors Trust

The carrying amount of these investments is nil, except for the loan to the FirstRand Limited Share Trust which is disclosed in note 2.

R million	Company 2006	Company 2005
4. DEFERRED TAXATION		
Deferred income tax assets and liabilities are offset when the income taxes relate to the same fiscal authority and there is a right to offset at settlement. The following amount is disclosed:		
Deferred tax asset	**–**	24
Tax effects of temporary differences between tax and book value for:		
Change in fair value and derivative financial instrument	**–**	24
Balance as previously reported:	**24**	8
Income statement charge	**(24)**	16
Closing balance at the end of the year	**–**	24

R million	Company **2006**	Company 2005
5. DERIVATIVE FINANCIAL INSTRUMENTS		
Held for trading		
Equity option at fair value	–	82
Comprises of 6 700 000 Discovery Holdings Limited ordinary share options at a strike price of 'R10.00 per option expiring on 30 September 2005. A premium of R 2.1 million was received. A market price of R 22.00 was used in the valuation of the option on 30 June 2005.		
6. LONG-TERM LIABILITIES		
OutPerformance Share Incentive Scheme liability		
Total amount outstanding	**102**	362
Short-term portion	**38**	257
Long-term portion	**64**	105
This liability represents the preference shares issued in terms of the OutPerformance Share Incentive Scheme.		

7. SHARE CAPITAL AND SHARE PREMIUM

Authorised
Ordinary shares – number
Issued
Ordinary shares
– At beginning of year
– Issued during the year
– At end of year
"A" shares
– At beginning of year
– Redeemed during the year
– Converted during the year
– At end of year
"B" shares
– At beginning of year
– At end of year
"B1" shares
– At beginning of year
– Issued during the year
– Issue costs
– At end of year
Total issued share capital at end of year
Analysis of total issued share capital at end of year:
Ordinary issued share capital at end of year as above (ordinary share of 1 cents each)
"A" variable rate, convertible, redeemable, cumulative preference shares of 1 cent each
"B" variable rate, non-cumulative non-redeemable preference shares of 1 cent each
"B1" variable rate, non-cumulative non-redeemable preference shares of 1 cent each
Preference shares presented under creditors
Total issued share capital at end of year
Disclosed on the face of balance sheet
Ordinary share capital and share premium
Non-cumulative non-redeemable preference shares

** Less than R1 million.*

2006						
No of ordinary shares	No of "A" shares	No of "B" shares	No of "B1" shares	Share capital Rm	Share premium Rm	Total Rm
5 928 000 000	272 000 000	100 000 000	100 000 000			
5 613 566 954	–	–	–	56	8 426	8 482
20 553 549	–	–	–	–	165	165
5 634 120 503	–	–	–	56	8 591	8 647
–	47 905 000	–	–	1	361	362
–	(12 223 951)	–	–	*	(95)	(95)
–	(20 553 549)	–	–	*	(165)	(165)
–	15 127 500	–	–	1	101	102
–	–	30 000 000	–	–	2 992	2 992
–	–	30 000 000	–	–	2 992	2 992
–	–	–	–	–	–	–
–	–	–	15 000 000	–	1 531	1 531
–	–	–	–	–	(4)	(4)
–	–	–	15 000 000	–	1 527	1 527
5 634 120 503	15 127 500	30 000 000	15 000 000	57	13 211	13 268
–	–	–	–	56	8 591	8 647
–	–	–	–	1	101	102
–	–	–	–	*	2 992	2 992
–	–	–	–	*	1 527	1 527
–	–	–	–	(1)	(101)	(102)
5 634 120 503	15 127 500	30 000 000	15 000 000	56	13 110	13 166
						8 647
						4 519
						13 166

7. SHARE CAPITAL AND SHARE PREMIUM *continued*

Authorised
Ordinary shares – number
Issued
Ordinary shares
– At beginning of year
– Issued during the year
– Issue costs
– Bought back during the year
– At end of year
"A" shares
– At beginning of year
– Redeemed during the year
– Converted during the year
– At end of year
"B" shares
– At beginning of year
– Issued during the year
– Issue costs
– At end of year
Total issued share capital at end of year
Analysis of total issued share capital at end of year:
Ordinary issued share capital at end of year as above (Ordinary share of 1 cents each)
"A" variable rate, convertible, redeemable, cumulative preference shares of 1 cent each
"B" variable rate, non-cumulative non-redeemable preference shares of 1 cent each
"B1" variable rate, non-cumulative non-redeemable preference shares of 1 cent each
Preference shares presented under creditors
Total issued share capital at end of year
Disclosed on the face of balance sheet
Ordinary share capital and share premium
Non-cumulative non-redeemable preference shares

** Less than R1 million.*

	2005						
	No of ordinary shares	No of "A" shares	No of "B" shares	No of "B1" shares	Share capital Rm	Share premium Rm	Total Rm
	5 928 000 000	272 000 000	100 000 000	100 000 000	–	–	–
	5 476 374 833	–	–	–	55	8 432	8 487
	137 241 971	–	–	–	1	–	1
	–	–	–	–	–	(5)	(5)
	(49 850)	–	–	–	–	(1)	(1)
	5 613 566 954	–	–	–	56	8 426	8 482
	–	81 725 000	–	–	1	632	633
	–	(15 578 029)	–	–	*	(271)	(271)
	–	(18 241 971)	–	–	*	–	*
	–	47 905 000	–	–	1	361	362
	–	–	–	–	–	–	–
	–	–	30 000 000	–	*	3 000	3 000
	–	–	–	–	–	(8)	(8)
	–	–	30 000 000	–	*	2 992	2 992
	5 613 566 954	47 905 000	30 000 000	–	57	11 779	11 836
	–	–	–	–	56	8 426	8 482
	–	–	–	–	1	361	362
	–	–	–	–	–	2 992	2 992
	–	–	–	–	–	–	–
	–	–	–	–	(1)	(361)	(362)
	5 186 970 920	47 905 000	30 000 000	–	56	11 418	11 474
							8 482
							2 992
							11 474

R million	Company **2006**	Company 2005
8. DIVIDENDS		
Ordinary dividends		
An interim dividend of 32 cents (2005: 26.6 cents) per share was declared on 27 March 2006 in respect of the six months ended 31 December 2005.	**1 797**	1 457
A final dividend of 34 cents (2005: 28.5 cents) per share was declared on 19 September 2006 in respect of the six months ended 30 June 2006.	**1 916**	1 600
	3 713	3 057
Preference dividends		
"B" preference shares		
An interim dividend of 356 cents (2005: 228 cents) per share was declared on 27 February 2006 in respect of the six months ended 31 December 2005.	**107**	68
A final dividend of 363 cents (2005: 360 cents) per share was declared on 28 August 2006 in respect of the six months ended 30 June 2006.	**109**	108
"B1" preference shares		
An interim dividend of 356 cents (2005: nil cents) per share was declared on 27 February 2006 in respect of the six months ended 31 December 2005.	**53**	–
A final dividend of 363 cents (2005: 37 cents) per share was declared on 28 August 2006 in respect of the six months ended 30 June 2006.	**54**	6
	323	182
9. NET INTEREST INCOME		
Interest and similar income:		
– Cash	**1**	31
– Preference share dividends received	**15**	35
	16	66
Interest expense and similar charges		
– Borrowed funds	**7**	4
– Preference share dividends paid	**15**	35
	22	39
10. OTHER OPERATING INCOME		
Dividends received from subsidiaries – unlisted shares:		
Ordinary dividends	**4 716**	3 092
Preference dividends	**238**	68
Fees from subsidiaries	**8**	17
Other investment income:		
Other fees	*****	1
Fair value adjustment on derivative financial instruments	**82**	(54)
	5 044	3 124

R million	Company **2006**	Company 2005
11. OPERATING EXPENSES		
Included in management and administration expenses are the following:		
Advertising and promotions	**3**	2
Annual reports	**6**	5
Auditors' remuneration		
Audit fees – current year	**2**	*
Depreciation charge	*****	*
Directors fees paid	**3**	2
Donations	**12**	*
Investor relations	**2**	2
Operating lease charges		
Land and buildings	**2**	1
Furniture and equipment	**1**	–
Personnel costs	**7**	8
Professional fees paid to subsidiaries	**6**	38
Share-based payment expense	**4**	–
Other	**8**	5
Total management and administration expenses	**56**	63
12. INDIRECT TAXATION		
Regional services council levies	**7**	5
Value-added tax	**4**	8
	11	13
13. TAXATION		
South African normal taxation		
Current	**7**	*
Deferred	**24**	(16)
South African secondary taxation on companies ("STC")	**154**	183
Total taxation	**185**	167
Tax rate reconciliation	%	%
Effective rate of taxation	**3.7**	5.5
Dividends received	**28.7**	30.1
Non-deductible expenses	**(0.3)**	(0.6)
Secondary taxation on companies ("STC")	**(3.1)**	(6.0)
Standard rate of taxation	**29.0**	29.0

** Less than R500 000.*

R million	Company **2006**	Company 2005
14. CASH FLOW INFORMATION		
14.1 Cash generated by operations		
Net operating profit before income tax	**5 009**	3 075
Adjustment for non-cash items	**(68)**	100
Cash generated by operations	**4 941**	3 175
14.2 Working capital changes		
(Increase)/decrease in current assets	**245**	(48)
Increase/(decrease) in current liabilities	**3**	7
Net working capital changes	**248**	(41)
14.3 Taxation paid		
Balance at the beginning of the year	**(14)**	(7)
Taxation charged for the year	**(161)**	(168)
Balance at the end of the year	**50**	(14)
Taxation paid	**(125)**	(189)
14.4 Dividends paid		
Ordinary dividends		
Final dividend declared on:		
– 24 October 2005 in respect of the year ended 30 June 2005	**(1 600)**	–
– 14 September 2004 in respect of the year ended 30 June 2004	**–**	(1 465)
Interim dividend declared on:		
– 27 March 2006 in respect of the period ended 31 December 2005	**(1 797)**	–
– 01 March 2005 in respect of the period ended 31 December 2004	**–**	(1 457)
Ordinary dividends paid	**(3 397)**	(2 922)
Preference dividends on “B” preference shares		
Final dividend declared on:		
– 29 August 2005 in respect of the year ended 30 June 2005	**(108)**	–
Interim dividend declared on:		
– 27 February 2006 in respect of the period ended 31 December 2005	**(107)**	–
– 01 March 2005 in respect of the period ended 31 December 2004	**–**	(68)
Preference dividends on “B1” preference shares		
Final dividend declared on:		
– 29 August 2005 in respect of the year ended 30 June 2005	**(6)**	–
Interim dividend declared on:		
– 27 February 2006 in respect of the period ended 31 December 2005	**(53)**	–
Preference dividends paid	**(274)**	(68)
Dividends paid	**(3 671)**	(2 990)

R million	Company 2005
15. RESTATEMENT OF INCOME STATEMENT UNDER CONVERSION TO IFRS	
Earnings attributable to shareholders as previously reported (30 June 2005)	8 401
Equity accounted earnings: reversal	(5 493)
Earnings attributable to shareholders as reported	2 908

IAS 27 – Investment in subsidiaries carried at cost

SA GAAP:
The Company elected to equity account earnings from subsidiaries in the Company annual financial statements.

IFRS:
IFRS requires investments in subsidiaries to be carried at cost or fair value. The Company elected to carry investments in subsidiaries at cost.

Financial impact:
The reversal of the equity accounted earnings previously recorded in the Company annual financial statements resulted in a decrease of R13 253 million of retained earnings and a decrease of R1 970 million of non-distributable reserves. The total impact on equity was a decrease of R15 223 million.

DETAILS OF DIRECTORS

The names of the directors, their age, qualifications and other details appear on pages 64 to 67 of this report.

Directors' emoluments

Remuneration and fees

Payments to directors during the year for services rendered are as follows:

	FSR R000's	Services as directors Group R000's	Cash package R000's	Retirement and medical aid fund contributions R000's	Other benefits R000's	Performance related R000's	**Total 2006 R000's**	Total 2005 R000's
Executive								
LL Dippenaar			1 812	384	1 090	–	**3 286**	9 850
PK Harris			3 848	598	1 130	7 000	**12 576**	9 850
SE Nxasana			1 762	238	–	3 250	**5 250**	–
Sub Total			7 422	1 220	2 220	10 250	**21 112**	19 700
Non-Executive								
GT Ferreira (Chairman)	600	1 152					**1 752**	1 345
VW Bartlett	149	645					**794**	529
DJA Craig	124	103					**227**	256
LL Dippenaar	79	465					**544**	–
DM Falck	124	365					**489**	459
PM Goss	186	361					**547**	464
NN Gwagwa	149	–					**149**	151
MW King	226	1 783					**2 009**	999
YI Mahomed	141	–					**141**	20
G Moloi	124	–					**124**	118
AP Nkuna	147	–					**147**	20
SEN Sebotsa	141	136					**277**	20
KC Shubane	124	–					**124**	118
BJ van der Ross	243	1 096					**1 339**	998
F van Zyl Slabbert	124	–					**124**	118
RA Williams	158	482					**640**	541
Sub Total	2 839	6 588					**9 427**	6 156
Total	2 839	6 588	7 422	1 220	2 220	10 250	**30 539**	25 856

1. *"Cash package" includes travel and other allowances.*
2. *"Other benefits" comprise a payment arising from the finalisation of a incentive transaction entered into with Rand Merchant Bank during 1998.*
3. *"Performance related" payments are in respect of the year ended 30 June 2006, but will be paid (together with an interest factor) in three tranches, during the year ending 30 June 2007.*
4. *Fees earned by executive directors from FirstRand and its subsidiaries are waived and ceded to companies in the FirstRand Group and do not accrue to them in their private capacity. These fees are not reflected in the above schedule.*
5. *Prior to being appointed an executive director of the FirstRand Group, Mr Nxasana earned fees totalling R192 000, while serving as a non-executive director of a FirstRand Group subsidiary.*

In addition the Executive Directors participate in Group Share Incentive Schemes. Their participation is subject to the specific approval of the FirstRand Remuneration Committee and allocations are done on pricing parameters consistent with those extended to other senior executives.

The current interests of Executive Directors in Share Incentive Schemes, together with benefits derived from sales and redemptions are as follows:

FirstRand Share Option Scheme	Opening balance (number of shares)	Strike price (cents)	Expiry date	Granted/ taken up this year (number of shares)	Forfeited this year (number of shares)	Closing balance (number of shares)	Benefit derived (Rand)
LL Dippenaar	2 598 659	690	9/4/2006	(1 694 000)	904 659	–	22 869 000
	1 973 800	655	17/9/2007	(657 933)	1 315 867	–	6 395 109
	493 450	770	16/9/2008	–	493 450	–	–
	394 760	1212	1/10/2009	–	394 760	–	–
	5 460 669	69	(2 351 900)	–	3 108 736	–	29 264 109
PK Harris	2 598 659	690	9/4/2006	(2 598 659)	–	–	36 511 159
	1 973 800	655	17/9/2007	(657 933)	–	1 315 867	9 474 235
	493 450	770	16/9/2008	–	–	493 450	–
	394 760	1212	1/10/2009	–	–	394 760	–
	540 000	1695	20/9/2010	–	–	540 000	–
	6 000 669			(3 256 592)	–	2 744 077	45 985 394
SE Nxasana	–	1491	20/10/2010	2 000 000	–	2 000 000	–

Outperformance scheme (FirstRand preference shares)	Opening balance	Price cents	Expiry date	Redeemed this year	Forfeited this year	Benefit derived (rand)	Closing balance
LL Dippenaar	500 000	815	1/4/2006	–	500 000	–	–
PK Harris	500 000	815	1/4/2006	500 000	–	7 181 436	–

At 31 December 2005, Mr LL Dippenaar stepped down as CEO of FirstRand and assumed a non-executive role. In terms of the rules of the FirstRand Share Option Scheme and those of the OutPerformance Scheme, all unvested options at that date were forfeited.

Messrs KC Shubane, SE Nxasana and BJ van der Ross and Mesdames NN Gwagwa and G Moloi were granted rights to 1 000 000 FirstRand ordinary shares in terms of the FirstRand Black Non-Executive Directors' Trust Deed. The rights entitle the non-executive directors to receive the shares on 31 December 2014 at a price of R12.28 per share plus holding and other related costs less dividends received on the shares by the Trust. In the event of a director ceasing to be a director prior to 31 December 2014, the participation rights of that director are reduced by 10% in respect of each year prior to 31 December 2014 during which he/she is not a director. During the year under review the Trust Deed was amended to allow non-executive directors who are appointed to executive positions within the Group to retain their rights. The Trust owns 15 000 000 FirstRand ordinary shares.

When Mr SE Nxasana was appointed chief executive of FirstRand Bank Holdings, he became entitled to participate in the Black Employee Share Trust. The rules relating to the Trust are the same as those which apply to the Black Non-Executive Directors' Trust. Mr Nxasana was granted 1 000 000 shares by the Trustees at a price of R14.91.

In terms of the scheme risks Mr LL Dippenaar forfeited unvested options upon assuming a non-executive position.

Directors' Interests

According to the Register of Directors' interest, maintained by FirstRand in accordance with the provisions of section 140A of the Companies Act, directors of FirstRand have disclosed the following interest in the company at 30 June 2006.

Certain directors have also disclosed their effective interest in FirstRand as a result of their shareholding in RMB Holdings Limited, which company holds 30.2% (2005: 29.6%)of the issued share capital of FirstRand.

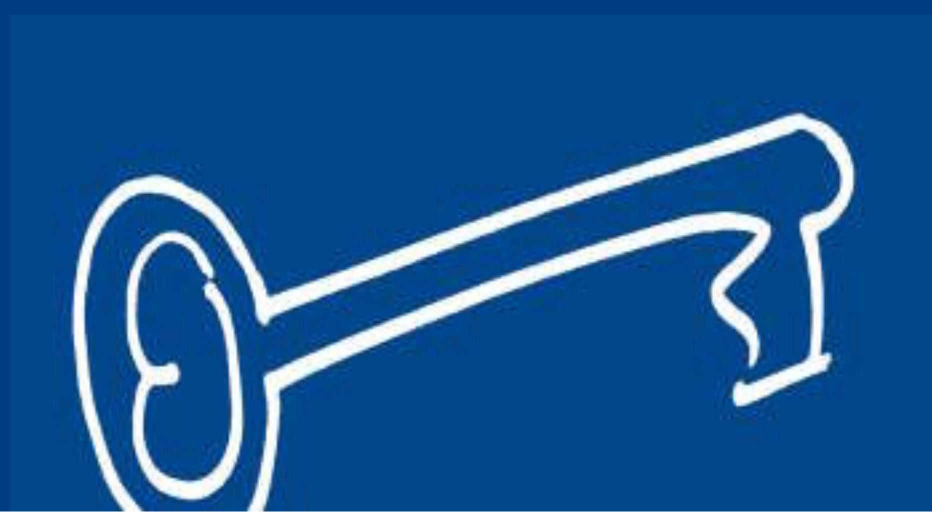
Ordinary shares

000's	Direct beneficial	Indirect beneficial	Indirect non-beneficial	Indirect via RMBH	**Total 2006**	Total 2005
VW Bartlett	3 693	376	–	–	**4 069**	4 069
DJA Craig	–	–	–	–	**–**	–
LL Dippenaar	–	3 180	375	128 898	**132 453**	127 540
DM Falck	–	–	–	–	**–**	–
GT Ferreira	–	–	–	122 976	**122 976**	122 107
PM Goss	1	–	–	16 215	**16 216**	15 894
NN Gwagwa	–	–	–	–	**–**	–
PK Harris	–	1 220	–	42 939	**44 159**	42 879
MW King	–	21	–	43	**64**	63
YI Mahomed	–	–	–	–	**–**	–
G Moloi	1	–	–	–	**1**	–
AP Nkuna	28	–	–	–	**28**	–
SE Nxasana	–	–	–	–	**–**	–
SEN Sebotsa	–	–	–	–	**–**	–
KC Shubane	41	–	–	–	**41**	41
BJ van der Ross	–	–	–	–	**–**	–
F v Z Slabbert	–	–	–	–	**–**	–
RA Williams	–	54	–	–	**54**	54
Total	**3 764**	**4 851**	**375**	**311 071**	**320 061**	**312 647**

B Preference Shares

000's	Direct Beneficial	Indirect Beneficial	Indirect via RMBH	**Total 2006**	Total 2005
LL Dippenaar	–	250 000	–	**250 000**	250 000
MW King	–	40	–	**40**	40
RA Williams	–	4	–	**4**	4
Total	**–**	**250 044**	**–**	**250 044**	**250 044**

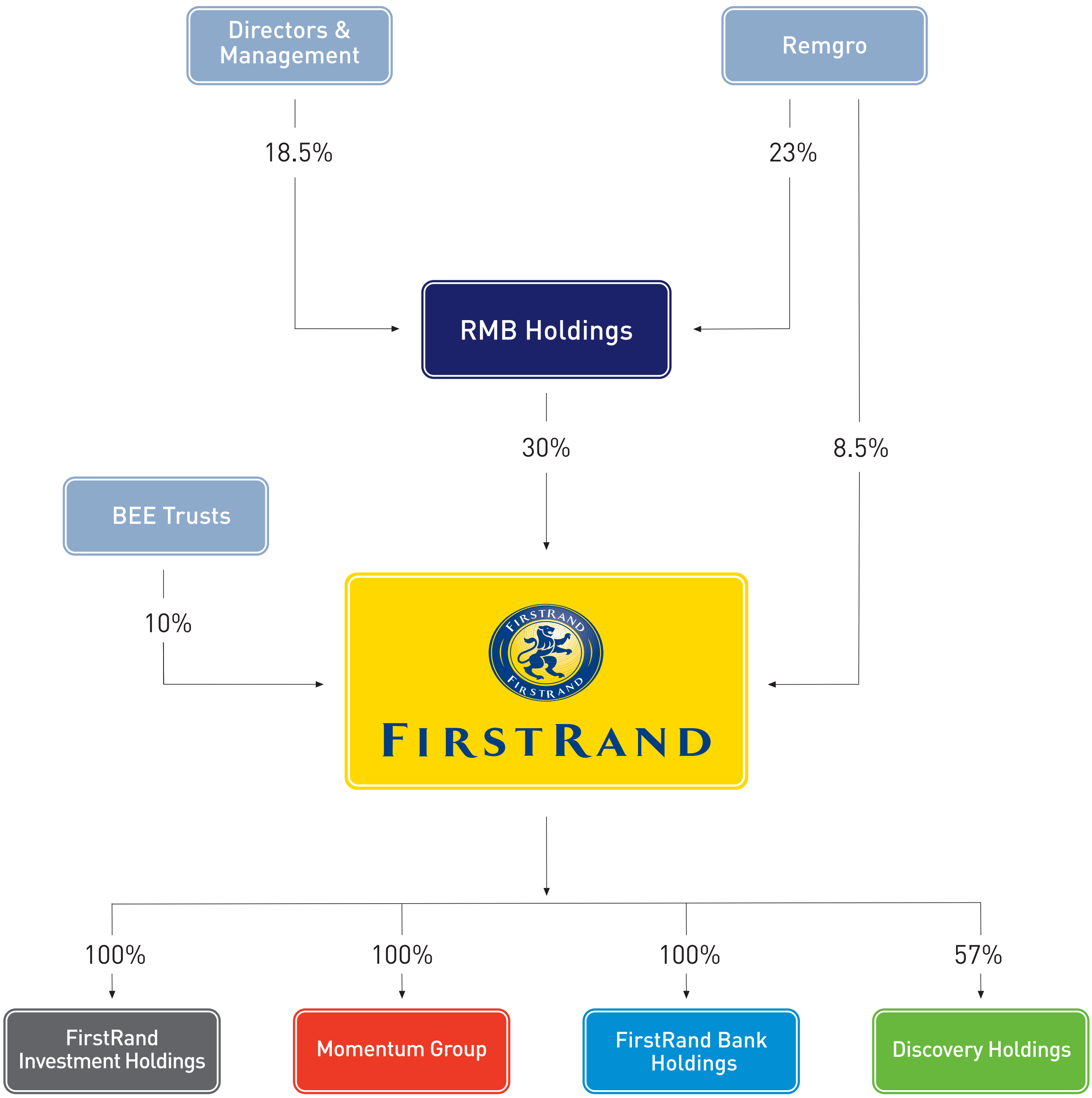
Note: Holdings in 2006 exclude holdings of spouses and children.



SHAREHOLDERS INFORMATION

Contents

Indicates actual shareholdings



Analysis of shareholders as at 30 June 2006

	Shares held 000's	%
Shareholders holding more than 5%		
RMB Holdings Limited	1 694 844	30.08
Financial Securities Limited (Remgro)	481 142	8.54
Public Investment Corporation	487 772	8.66
FirstRand empowerment trust	363 800	6.46
Employee share trusts	282 499	5.01
Sub-total	3 310 057	58.75
Other	2 324 064	41.25
Total	5 634 121	100.00
Shareholder type		
Corporates (RMB Holdings and Remgro)	2 175 986	38.62
Pension funds	871 749	15.47
Insurance companies and banks	898 198	15.94
Unit trusts	426 298	7.57
Other managed funds	332 161	5.90
Individuals	112 029	1.99
Empowerment funds	535 201	9.50
Employee share trusts	282 499	5.01
Total	5 634 121	100.00

	Number of shareholders	Shares held 000's	%
Public and non-public shareholders			
Public	27 841	3 166 646	56.21
Non-public			
– Corporates (Remgro and RMBH)	2	2 175 986	38.62
– Directors	9	8 990	0.16
– Share trusts	3	282 499	5.01
Total	27 855	5 634 121	100.00

	Shares held 000's	%
Geographic ownership		
South Africa	4 819 990	85.55
International	814 221	14.45
Total	5 634 121	100

Performance on the JSE as at 30 June

	2006 000's	2005 000's
Number of shares in issue (000's)	**5 634 121**	5 613 567
Market prices (cents per share):		
Closing	**1 690**	1 387
High	**2 120**	1 480
Low	**1 365**	965
Weighted average	**1 786**	1 244
Closing price/normalised net asset value per share	**2.52**	2.40
Closing price/earnings (diluted normalised earnings)	**10.78**	10.56
Volume of shares traded (millions)	**2 771**	2 044
Value of shares traded (R millions)	**49 491**	25 423
Market capitalisation (R billions)	**95.22**	77.86

FirstRand Limited

(Registration No 1966/010753/06)
Share code: FSR ISIN code ZE0000 66304 ("FSR")

Company secretary
AH Arnott, BCom, CA (SA)

Registered office
4th Floor, 4 Merchant Place
Corner of Fredman Drive and Rivonia Road,
Sandton 2196

Postal address
PO Box 786273, Sandton, 2146
Telephone: +27 11 282 1808
Telefax: +27 11 282 8088
Web address: www.firstrand.co.za

Sponsor

(In terms of JSE requirements)
Rand Merchant Bank
(a division of FirstRand Bank)
Corporate Finance
1 Merchant Place
Corner of Fredman Drive and Rivonia Road
Sandton 2196
Telephone: +27 11 282 1075
Telefax: +27 11 282 8215

Transfer secretaries

Computershare Investor Services 2004 (Pty) Limited
70 Marshall Street, Johannesburg 2001

Postal address
PO Box 61051, Marshalltown 2107
Telephone: +27 11 370 5000
Telefax: +27 11 688 5221

Transfer secretaries – Namibia

Transfer Secretaries (Pty) Limited
Shop No 12
Kaiserkrone Centre
Post Street Mall
Windhoek

Postal address
PO Box 2401, Windhoek, Namibia
Telephone +264 61227647
Telefax: +264 61248531

REPORTING

Financial year end	30 June
Announcement of results for 2006	19 September 2006
Annual report posted by	End October 2006
Annual general meeting	23 November 2006

DIVIDENDS

Final for 2006	
– Declared	19 September 2006
– Last day to trade cum-dividend	13 October 2006
– First day to trade ex-dividend	16 October 2006
– Record date	20 October 2006
– Payment date	23 October 2006

INTERIM FOR 2007

– Declared	February 2007
– Payable	March 2007

FIRSTRAND LIMITED

(Incorporated in the Republic of South Africa)
(Registration number: 1966/010753/06)
Share Code: FSR
ISIN: ZAE000066304

("FirstRand" or "the Company")

Notice is hereby given that the ninth Annual General Meeting of FirstRand Limited will be held in the auditorium, FNB Training Centre, Grayston Drive, Sandton on Thursday 23 November 2006 at 09:00 to, if approved, pass the following resolutions with or without modification:

1. Ordinary resolution number 1

Approval of annual financial statements

Resolved that the audited annual financial statements of the company and the Group for the year ended 30 June 2006 be accepted and approved.

2. Ordinary resolution number 2

Final Dividend

To note and confirm the final dividend of 34,0 cents per ordinary share declared on 19 September 2006.

3. Ordinary resolution number 3

Election of directors

To appoint directors in the positions of the under-mentioned directors who retire in terms of the company's Articles of Association and who, being eligible, offer themselves for re-election:

3.1 Lauritz Lanser Dippenaar (57)

Non-executive director
Date of appointment: May 1998

Educational qualifications
- MCom
- CA (SA)

Directorships
- Discovery Holdings
- FirstRand Bank Holdings
- FirstRand STI Holdings
- RMB Asset Management
- RMB Holdings

3.2 Vivian Wade Bartlett (63)

Non-executive director

Date of appointment: May 1998

Educational qualifications
- AMP (Harvard)
- FIBSA

Directorships
- CEMEA Regional Visa International
- FirstRand Bank Holdings
- Makalani Holdings
- FirstRand STI Holdings

3.3 David John Alastair Craig (58)*

Independent non-executive director
Date of appointment: May 1998
**British*

Directorships
- Northbridge Management
- Sand Aire Limited

3.4 Patrick Maguire Goss (59)

Independent non-executive director
Date of appointment: May 1998

Educational qualifications
- BECon (Hons)
- BAccSc (Hons)
- CA (SA)

Directorships
- AVI Limited
- FirstRand Bank Holdings
- Lewa Wildlife Conservancy (Kenya)
- RMB Holdings

3.5 Benedict James van der Ross (59)

Independent non-executive director
Date of appointment: May 1998

Educational qualifications
- Dip Law (UCT)

Directorships
- FirstRand Bank Holdings
- Lewis Stores
- Makalani Holdings
- Momentum Group
- Nasionale Pers
- Pick 'n Pay Stores
- RMB Asset Management
- Strategic Real Estate Management

4. Ordinary Resolution number 4

Appointment of Directors

To ratify the appointment of the director appointed during the year and who retires in terms of the company's Articles of Association and being eligible offers himself for re-election.

4.1 Sizwe Errol Nxasana (48)

Non-executive director
Date of appointment: January 2006

Educational qualifications
- BCom
- BCompt (Hons)
- CA (SA)

Directorships

- FirstRand Bank Holdings – CEO
- Zenex Trust

5. Ordinary resolution number 5

Approval of directors' remuneration for the year to June 2006

Resolved that the remuneration of the directors as reflected on page 280 to the financial statements be approved.

6. Ordinary resolution number 6

Approval of directors' fees for the year to June 2007

Resolved that the fees of the directors, increased by approximately 5% as reflected below be approved for the year to June 2007.

	Per annum
FirstRand Board	
Chairman	R630 000
Director	R120 000
Audit Committee	
Chairman	R72 000
Member	R36 000
Remuneration Committee	
Chairman	R72 000
Member	R36 000
Directors' Affairs and Governance Committee	
Chairman	R24 000
Member	R12 000
Financial Sector Charter Monitoring Committee	
Chairman	R47 000
Member	R24 000
Ad hoc meetings (in exceptional circumstances)	R2 200 per hour

7. Ordinary resolution number 7

Approval of re-appointment of auditors

Resolved that PricewaterhouseCoopers Inc be re-appointed as auditors of the company until the next annual general meeting.

8. Ordinary resolution number 8

Approval of auditors' remuneration

Resolved that the directors fix and pay the auditors' remuneration for the year ended 30 June 2006.

9. Ordinary resolution number 9

Place the authorised but unissued ordinary shares under the control of the directors

Resolved that all the authorised but unissued ordinary shares in the company be and are hereby placed under the control of the directors as a general authority until the forthcoming annual general meeting and that they be and are hereby authorised to allot and issue shares in the company upon such terms and conditions as the directors in their discretion deem fit, subject to the Companies Act (Act 61 of 1973), as amended ("the Companies Act"), the Articles of Association of the company and the JSE Limited ("JSE") Listings Requirements. The issuing of shares granted under this authority will be limited to FirstRand's existing contractual obligations to issue shares required to be issued for the purpose of carrying out the terms of the existing FirstRand share incentive schemes.

10. Ordinary resolution number 10

General authority to issue ordinary shares for cash

Resolved that the board of directors of the company be hereby authorised, by way of a renewable general authority, to issue ordinary shares in the authorised but unissued ordinary share capital of the company for cash as and when they in their discretion deem fit, subject to the Companies Act, the Articles of Association and the Listings Requirements of the JSE, when applicable, and the following limitations, namely that:

- this authority shall be valid until the company's next annual general meeting or for 15 months from the date of this resolution, whichever period is shorter;
- the ordinary shares must be issued to public shareholders as defined by the JSE Listings Requirements and the Namibian Stock Exchange Listings Requirements and not related parties;
- the equity securities which are the subject of this issue for cash must be of a class already in issue or where this is not the case, must be limited to such securities or rights that are convertible into a class already in issue;
- the ordinary shares which are the subject of the issue for cash may not exceed 10% in the aggregate in any one financial year of the number of equity shares in issue of that class;

- a maximum discount at which the ordinary shares may be issued is 10% of the weighted average traded price of the company's ordinary shares measured over 30 business days prior to the date that the price of the issue is determined or agreed by the directors of the company; and
- a paid press announcement giving full details, including the impact on net asset value and earning per share, will be published at the time of any issue representing, on a cumulative basis within one financial year, 5% or more of the number of ordinary shares in issue prior to that issue.

Approval for this ordinary resolution is obtained by achieving a 75% majority of the votes cast in favour of this resolution at the annual general meeting by all equity security holders present or represented by proxy.

11. Special resolution number 1

General authority to repurchase company shares

Resolved that in terms of the company's Articles of Association, the company's directors be hereby authorised, by way of a general authority, to repurchase issued shares in the company or to permit a subsidiary of the company to purchase shares in the company, as and when deemed appropriate, subject to the Company's Act, the Articles of Association and the JSE Listing Requirements where applicable and the following limitations:

- that this authority shall be valid until the company's next annual general meeting provided that it shall not extend beyond fifteen (15) months from the date of this annual general meeting;
- that any such repurchase be effected through the order book operated by the JSE trading system and done without any prior understanding or agreement between the company and the counterparty;
- that a paid press release giving such details as may be required in terms of the JSE Listings Requirements be published when the company or its subsidiaries have repurchased in aggregate 3% of the initial number of shares in issue, as at the time that the general authority was granted, and for each 3% in aggregate of the initial number of shares which is acquired thereafter;
- that a general repurchase may not in the aggregate in any one financial year exceed 10% of the number of shares in the company's issued share capital as at the beginning of the financial year provided that a subsidiary of the company may not hold at any one time more than 10% of the number of issued shares of the company;
- that no repurchases will be effected during a prohibited period as defined in the JSE Listing Requirements;
- that at any point in time, the company may only appoint one agent to effect repurchases on the company's behalf;
- that the company may only undertake a repurchase of securities if, after such repurchase the shareholder spread requirements of the company comply with the JSE Listings Requirements; and
- that, in determining the price at which shares may be repurchased in terms of this authority, the maximum premium permitted be 10% above the weighted average traded price of the shares as determined over the five (5) days prior to the date of repurchase.

The board of directors of the company ("the board") has no immediate intention to use this authority to repurchase company shares. However, the board is of the opinion that this authority should be in place should it become appropriate to undertake a share repurchase in the future.

The board of directors of the company undertake that they will not implement any such repurchases while this general authority is valid, unless the sponsor to the company provides a letter to the JSE on the adequacy of working capital prior to any repurchases being implemented on the open market of the JSE, confirming that, for a period of 12 months from the date of the repurchase of such shares:

- the company and the Group will be able to repay their debts in the ordinary course of business;
- the consolidated assets of the company and the Group, fairly valued according to GAAP and IFRS and on a basis consistent with the last financial year of the company, exceed their consolidated liabilities;
- the company and the Group have adequate share capital and reserves for ordinary business purposes; and
- the company and the Group have sufficient working capital for ordinary business purposes.

Reason for and effect of the special resolution number 1

The reason for special resolution number 1 is to grant the company's directors a general authority, up to and including the date of the following annual general meeting of the company, to approve the company's purchase of shares in itself, or to permit a subsidiary of the company to purchase shares in the company. The effect of special resolution number 1 is to grant a general authority to the company's directors accordingly.

For purposes of considering the special resolution and in compliance with Rule 11.26 of the JSE Listings Requirements, the information listed below has been included in the annual report, in which this notice of annual general meeting is included, at the places indicated:

- Directors and management – refer pages 64 to 68 of this report;
- Major shareholders – refer page 286 of this report;
- No material changes to report on;
- Directors' interest in securities – refer pages 281 to 282 of this report;
- Share capital of the company – refer pages 188 to 191 of this report;
- The directors, whose names are set out on pages 64 to 67 of this report, collectively and individually accept full responsibility for the accuracy of the information contained in this special resolution and certify that to the best of their knowledge and belief that there are no other facts, the omission of which would make any statement false or misleading and that all reasonable queries to ascertain has been made and that this resolution contains all the information required by the JSE Listing Requirements; and
- Litigation – save as reported in note 36 to the financial statements of the FirstRand Group on page 201, there are no legal or arbitration proceedings (including any such proceedings that are pending or threatened of which the company is aware) which may have or have had in the previous 12 months, a material effect on the Group's financial position.

By order of the Board of Directors.

AH Arnott
BCom, CA(SA)

Company Secretary

19 September 2006

Important notes regarding attendance at the annual general meeting

General
Shareholders wishing to attend the annual general meeting have to ensure beforehand with the Transfer Secretaries of the company that their shares are in fact registered in their name.

Certificated members
Members who have not dematerialised their shares or who have dematerialised their shares with "own name" registration are entitled to attend and vote at the meeting and are entitled to appoint a proxy or proxies to attend, speak and vote in their stead. The person so appointed need not be a member. Proxy forms must be forwarded to reach the registered office of the company/company's transfer secretaries forty eight hours prior to the meeting.

Dematerialised shareholders
Members who have dematerialised their shares, other than those members who have dematerialised their shares with "own name" registration, should contact their Central Securities Depository Participant (CSDP) or broker in the manner and time stipulated in their agreement:

- to furnish them with their voting instructions; and
- in the event that they wish to attend the meeting, to obtain the necessary authority to do so.

On a show of hands, every member of the company present in person or represented by proxy shall have one vote only. On a poll, every member of the company shall have one vote for every share held in the company by such member.

FIRSTRAND LIMITED
(Incorporated in the Republic of South Africa)
(Registration number: 1966/010753/06)
Share Code: FSR ISIN: ZAE000066304
("FirstRand" or "the Company")

Only for use by members who have not dematerialised their shares or members who have dematerialised their shares with own name registration.

All other dematerialised shareholders must contact their CSDP or broker to make the relevant arrangements concerning voting and/or attendance at the annual general meeting.

For completion by the aforesaid registered members who hold ordinary shares of the company and who are unable to attend the 2006 annual general meeting of the company to be held in the FNB Training Centre, Grayston Drive, Sandton on Thursday 23 November 2006 at 09:00 ("the annual general meeting").

I/We, ____________________

Of (address) ____________________

Being the holder/s of ____________________

ordinary shares in the company, hereby appoint (see instruction overleaf)

1. ____________________ or, failing him/her
2. ____________________ or, failing him/her
3. the chairperson of the annual general meeting, as my/our proxy to attend, speak and vote for me/us and on my/our behalf or to abstain from voting at the annual general meeting of the company and at any adjournment thereof, as follows.

	Insert an "X" or the number of votes exercisable (one vote per ordinary share)		
	In favour of	Against	Abstain
Ordinary resolution number 1 Adoption of annual financial statement			
Ordinary resolution number 2 Final dividend			
Ordinary resolution number 3 Re-election of directors			
3.1 Lauritz Lanser Dippenaar			
3.2 Vivian Wade Bartlett			
3.3 David John Alistair Craig			
3.4 Patrick Maguire Goss			
3.5 Benedict James van der Ross			
Ordinary resolution number 4 Election of director			
4.1 Sizwe Errol Nxasana			
Ordinary resolution number 5 Approval of directors' remuneration for the year to June 2006			
Ordinary resolution number 6 Approval of directors' fees for the year to June 2007			
Ordinary resolution number 7 Approval of re-appointment of auditors			
Ordinary resolution number 8 Approval of auditors' remuneration			
Ordinary resolution number 9 Place unissued shares under the control of directors			
Ordinary resolution number 10 General authority to issue shares for cash			
Special resolution number 1 General authority to repurchase company shares			

Signed at __________ on __________ 2006

Signature/s ____________________

Assisted by ____________________
(where applicable)

PLEASE SEE NOTES ON REVERSE SIDE OF THE FORM

USE OF PROXIES

A member who holds ordinary shares in FirstRand ("member") is entitled to attend and vote at the annual general meeting and to appoint one or more proxies to attend, speak and vote in his/her stead. A proxy need not be a member of the company.

Every member present in person or by proxy and entitled to vote at the annual general meeting of the company shall, on a show of hands, have one vote only, irrespective of the number of shares such member holds, but in the event of a poll, every ordinary share in the company shall have one vote.

Instructions on signing and lodging the proxy form:

1. A member may insert the name of a proxy or the names of two alternative proxies of the member's choice in the space/s provided overleaf, with or without deleting "the chairman of the annual general meeting", but any such deletion must be initialled by the member. Should this space be left blank, the chairman of the annual general meeting will exercise the proxy. The person whose name appears first on the proxy form and who is present at the annual general meeting will be entitled to act as proxy to the exclusion of those whose names follow.
2. A member's voting instructions to the proxy must be indicated by the insertion of the number of votes exercisable by that member in the appropriate spaces provided overleaf. Failure to do so shall be deemed to authorise the proxy to vote or to abstain from voting at the annual general meeting, as he/she thinks fit in respect of all the member's exercisable votes. A member or his/her proxy is not obliged to use all the votes exercisable by his/her proxy, but the total number of votes cast, or those in respect of which abstention is recorded, may not exceed the total number of votes exercisable by the member or by his/her proxy.
3. A minor must be assisted by his/her parent or guardian unless the relevant documents establishing his/her legal capacity are produced or have been registered by the Transfer Secretaries.
4. To be valid the completed proxy forms must be forwarded to reach the company's transfer secretaries, Computershare Investor Services 2004 (Pty) Limited, 70 Marshall Street, Johannesburg, 2001 (PO Box 61051, Marshalltown, 2107), fax number (011) 688 5238 or in Namibia to Transfer Secretaries (Pty) Limited, Shop No 12, Kaiserkrone Centre, Post Street Mall, Windhoek (PO Box 2401, Windhoek, Namibia), fax number +264 61 24-8531 by no later than 09:00 on Tuesday 21 November 2006. Proxy forms may only be completed by members who have not dematerialised their shares or who have dematerialised their shares with "own name" registration.
5. Documentary evidence establishing the authority of a person signing a proxy form in a representative capacity must be attached to the proxy form unless previously recorded by the Transfer Secretaries or waived by the chairman of the annual general meeting.
6. The completion and lodging of this proxy form shall not preclude the relevant member from attending the annual general meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof, should such member wish to do so.
7. The completion of any blank spaces overleaf need not be initialled. Any alterations or corrections to this proxy form must be initialled by the signatory/ies.
8. The chairman of the annual general meeting may reject or accept any proxy form which is completed other than in accordance with these instructions provided that he is satisfied as to the manner in which a member wishes to vote.

The text of this report is printed on paper made from bagasse – which is fibrous residue of sugar cane processing. It is completely wood and acid free.

STUDIO 5

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