1999 Annual Report

FirstRand Limited

FirstRand Limited

"the FirstRand Group"

Contents for FirstRand Limited

Strijdom van der Merwe is perhaps the only landscape artist in this country. His art captures the essence of nature, as it moves in a cycle of continuous change. An understanding of nature and the sensitivity to know how to change the landscape, in which light to view it, and which moment in the tides to introduce it, is what makes his art so rare and different.

FIRSTRAND LIMITED

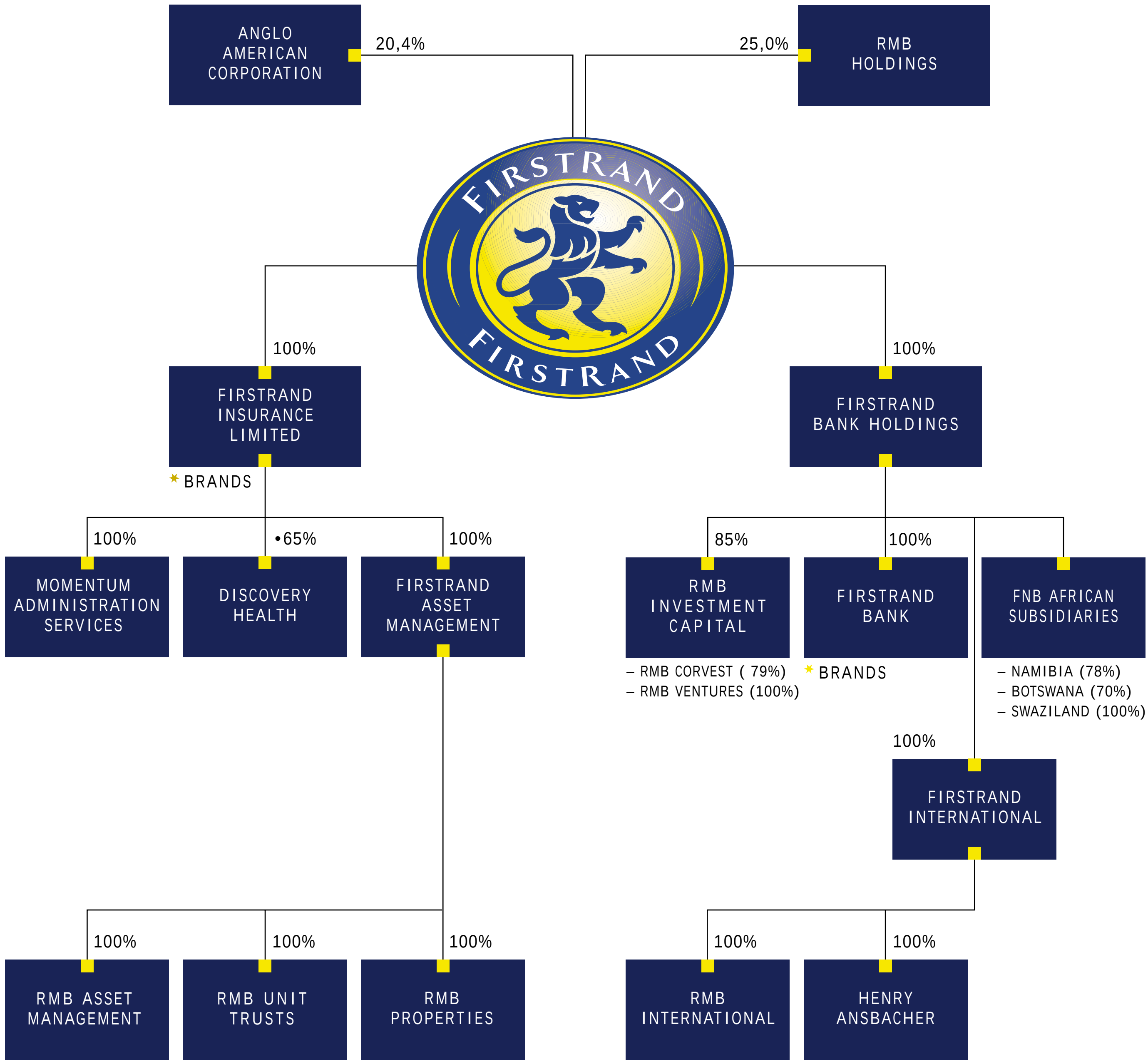
"THE FIRSTRAND GROUP"

Contents for FirstRand Limited

Strijdom van der Merwe is perhaps the only landscape artist in this country. His art captures the essence of nature, as it moves in a cycle of continuous change. An understanding of nature and the sensitivity to know how to change the landscape, in which light to view it, and which moment in the tides to introduce it, is what makes his art so rare and different.

Daring to be different

Group structure



* MOMENTUM LIFE
SOUTHERN LIFE
MOMENTUM EMPLOYEE BENEFITS

* RAND MERCHANT BANK (RMB)
FIRST NATIONAL BANK (FNB)
BOB
ORIGIN
ANSBACHER
WESBANK

• *Shareholding subsequent to the Discovery listing*

Financial highlights

Merger milestones

- New operating structures in place
- Crossholdings eliminated
- Major savings achieved
- Group adequately and efficiently capitalised

Financial achievements

- Return on average equity 24,5%
- Total profits after tax R2,5 billion
- Headline earnings per share increased by 65%
- Increase in pro forma headline earnings 32%

Funds under management

R'million	1999	1998
Banking Group	143 714	138 418
Insurance Group	55 546	56 274
Total on-balance sheet assets	199 260	194 692
Off-balance sheet assets managed and administered on behalf of clients	56 152	43 213
	255 412	237 905

Within investment areas such as linked product companies and the management of certain pension fund assets, the group acts in a fiduciary capacity that results in the holding of assets on behalf of clients. As these are not assets of the group, they are not reflected on the balance sheet, but are detailed above under "off-balance sheet assets managed and administered on behalf of clients".

Presentation of accounts

These financial statements have been prepared on the assumption that the proposed Group structure was in place for the entire year under review. To allow the shareholders to gain a better understanding of the activities of the Group, and the contribution of the component parts, financial statements have been prepared in respect of each of the Insurance and Banking Groups. In addition, a consolidated set of financial statements is included in respect of the FirstRand Group of Companies.

Chunking the FirstRand Group

First National Equities
First Bowring Insurance Brokers
Premium Credit
Corporate Bank
First National
First National Insurance
Personal Bank
Private Bank
Properties
First Trust
FirstCard
WesBank
BoB
FirstNet
First Commerce
First express

Rand Merchant Bank
Rand Merchant Bank Treasury
Rand Merchant Bank Special Projects
Rand Merchant Bank Corporate Finance
Rand Merchant Bank Investment Banking
Rand Merchant Bank Economic Empowerment
RMB Resources
RMB Equity Capital

FirstRand is a unique "federation" of business entities, held together by a shared business philosophy which has its roots in an entrepreneurial culture. Its components are distinctly autonomous with an owner-manager culture. They are first league players that focus on their area of expertise and are able to leverage off the skills of their team mates. There is an interdependence that is clearly understood due to the vigorous debate of the business case – which option generates the maximum sustainable profitability.

SOUTHERN UNIT TRUSTS

SOUTHERN LIFE

SOUTHERN ASSET MANAGEMENT

Discovery Health

ORIGIN
The Merchant Bank for Individuals

Futuregrowth

MC2 SOLUTIONS

HENRY ANSBACHER

MOMENTUM ADVISORY SERVICE

MOMENTUM EMPLOYEE BENEFITS

MOMENTUM ADMINISTRATION SERVICES

MOMENTUM LIFE

MOMENTUM DISTRIBUTION SERVICES

The financial services group with the heartbeat of a merchant bank

FIRSTRAND

First National Bank of Namibia

First National Bank of Botswana

First National Bank of Swaziland

FNB

RMB UNIT TRUSTS

RMB ASSET MANAGEMENT

RMB SECURITIES

RMB VENTURES

RMB CORVEST

RMB INTERNATIONAL

RMB PROPERTIES

BOARD OF DIRECTORS FIRSTRAND LIMITED

Gerrit Thomas Ferreira (51)
BCom (Hons), B (B&A), MBA
Chairman

Michael Wallis King (62)
CA(SA), FCA
Deputy Chairman

Lauritz Lanser Dippenaar (50)
MCom, CA(SA)
Chief Executive Officer

Barry Hilton Adams (63)
CA(SA)

Vivian Wade Bartlett (56)
AMP (Harvard), FIBSA
Deputy Chief Executive Officer
of FirstRand Banking Group

David John Alistair Craig* (51)

Patrick Maguire Goss (51)
BEcon (Hons), BAccSc (Hons), CA(SA)

Paul Kenneth Harris (49)
MCom
Chief Executive Officer for
FirstRand Banking Group

Sathyandraneth Ragunanan Maharaj (64)
BA, BAdmin

George Rupert Pardoe (42)
BA (Hons) (Cum Laude)

Khehla Cleopas Shubane (43)
BA (Hons)

Benedict James van der Ross (52)
Dip Law (UCT)

Robert Albert Williams (58)
BA, LLB

* British

For detailed information of directors
refer to Appendix 2 page 178.

From left to right

back: V W Bartlett, S R Maharaj, D J A Craig, G R Pardoe *middle:* R A Williams, P K Harris, B J van der Ross, B H Adams
front: L L Dippenaar, P M Goss, G T Ferreira, M W King, K C Shubane

Executive committee

Adrian Arnott (52)
BCom, CA(SA), PMD (Harvard)
Chief Financial Officer
FirstRand Limited

Viv Bartlett (56)
AMP (Harvard), FIBSA
Deputy Chief Executive Officer
FirstRand Bank Limited

Derek Carstens (50)
BEcon (Hons), MA (Cantab)
Director of brands and Chairman
of Consumer Banking

Peter Cooper (43) (ex officio)
BCom(Hons), CA(SA), HDip tax
Strategic Development Executive
RMB Holdings Limited

Laurie Dippenaar (50)
MCom, CA(SA)
Chief Executive Officer
FirstRand Limited

Adrian Gore (35)
BSc (Hons), FFA
Chief Executive Officer
Discovery Health Limited

Paul Harris (49)
MCom
Chief Executive Officer
FirstRand Bank Limited

Rowan Hutchison (52)
B (B&A)
Chief Executive Officer
FirstRand Asset Management

Hillie Meyer (41)
BCom, FIA, AMP (Oxford)
Managing Director
FirstRand Insurance Limited

From left to right

seated: Neville Nightingale, Adrian Gore, Laurie Dippenaar, Adrian Arnott

standing: Derek Carstens, Rowan Hutchison, Hillie Meyer, Peter Cooper, Willie Willers, Paul Harris, Viv Bartlett

Neville Nightingale (54)
FIAC, PMD (Harvard)
Chairman, Transitional HR Committee
First National Bank

Willie Willers (57)
BCom, MBA, Dip Labour Relations
Chairman, Bancassurance

- The single most important characteristic which differentiates FirstRand is that it has the "heartbeat of a merchant bank".
- Entrepreneurial spirit and innovation, empowerment and decentralised decision-making, profit centre focus and minimal bureaucracy, are the pervasive and dominant qualities of the ethos of the Group.
- It is the stated objective of the centre to play an enabling and facilitating role rather than a controlling role thereby ensuring that the whole is greater than the sum of the parts.
- It is also appropriate to acknowledge the enormous progress that has been achieved since the merger was announced.
- We will focus on benefits which flow from the Group's unique corporate and management structure.

FirstRand Limited is a diversified financial services group with investments mainly in banking and insurance created by the merger in April 1998 of the financial services interests of the RMB Holdings Group and Anglo American Corporation.

Results

The results of the FirstRand Group in its first full year of trading should be seen against a background influenced by events in global financial markets and internally by the demands of the merger.

Group earnings totalled R2,5 billion representing an increase of 32% on the pro forma earnings for the previous year. Approximately 75% of these earnings are attributable to banking operations and 25% to insurance and asset management-related activities. Total assets under management now exceed R255 billion.

These results, regarded by the FirstRand Board as particularly pleasing, are analysed in considerable detail elsewhere in this report to shareholders.

Heartbeat of a merchant bank

We believe the single most important characteristic which differentiates FirstRand from other major, domestic financial services groups and similar groups globally, is that it has the "heartbeat of a merchant bank". Traditionally, all over the world, merchant and investment banks have been subsidiaries of monolithic commercial banks and insurance companies. In these circumstances the merchant banks have had to battle to ensure that their "merchant banking" culture is not swamped by the more staid commercial banking or insurance culture of their parent company.

In the FirstRand Group we are in the unique position that RMB Holdings, which has been entrusted with the management of the group, has its roots in merchant banking, thereby giving the whole group "the heartbeat of a merchant bank". It means the *generic qualities* associated with merchant banking, namely entrepreneurial spirit and innovation, empowerment and decentralised decision-making, profit centre focus and minimal bureaucracy, are the pervasive and dominant qualities of the ethos of the Group.

Big and small

The individual business units comprising the FirstRand Group enjoy the obvious benefits of size, such as a large balance sheet, credibility and large customer bases and infrastructures to leverage off. At the same time they are empowered to run their "chunked" business units as autonomous profit centres with minimal interference from the centre. This is a *proven* business model in the FirstRand Group, a philosophy that is lived and applied daily and does not fall into the trap of being flavour of the month. It is the stated objective of the centre to play an *enabling and facilitating* role rather than a controlling role thereby ensuring that the whole is greater than the sum of the parts. FirstRand is not a monolithic battleship but a fleet of 100 destroyers.

FirstRand's aversion to expensive, non-value-adding structures at the centre is well known. It is gratifying to note that the after-tax cost of the FirstRand "centre" is only 0,4% of our Group's after-tax profit.

We dare to reward attitude

Attitude is the magical beginning of success.

The merger

It is also appropriate to acknowledge the enormous progress that has been achieved since the merger was announced. There were three dimensions to the merger. Firstly, the merging of the fourth and fifth biggest life assurers in South Africa. The second dimension was the simultaneous merger of two merchant banks, namely Rand Merchant Bank and FirstCorp. The third dimension of the merger was the sweeping restructuring of a retail bank. Each of the three dimensions of the merger on its own constituted a mammoth task and challenge. Collectively they demanded an almost superhuman effort from the leadership core of the Group. Achieving all our major merger milestones in a short space of time while at the same time recording excellent results in the first full year of the merger, is a tribute to the commitment, determination and resilience of the talented leaders of the FirstRand Group.

The merger, which was large even by world standards, has been completed in the very short space of the eighteen months. Therefore in future we will no longer focus on reporting the progress of the merger but rather on the transformation of the merged entities and the achievement of the benefits which flow from the Group's unique corporate and management structure. A feature of the Group's corporate and management structure is that it:

- largely eliminates the limitations imposed on operations by minority shareholders;
- allows the Group to optimise opportunities that arise from the trend to convergence in the financial services industry; and
- leverages the Group's unique combination of intellectual know-how and skills over a broad spectrum of financial services and products.

During the year under review the FirstRand Executive Committee focused on three important issues.

Firstly, procedures were put in place to migrate the FirstRand business philosophy into the Group companies. In essence this philosophy involves transforming the major business units into profit centres and grouping these centres into synergistic clusters. It also involves the movement away from a centralised management structure to an environment characterised by decentralised decision-making, accountability and an entrepreneurial spirit. Profit centres are charged for the capital required. The spreading of this philosophy throughout the restructured Group was done using workshops and, in the case of the bank, satellite TV broadcasts to 30 000 employees. Opportunities for substantial improvements in operational efficiencies are becoming apparent as the business philosophy begins to make an impact.

- We believe leveraging the intellectual skills in the FirstRand Group across operations is going to have as great an impact on future profits as leveraging the huge customer base.
- We can look back on the results of the Group in its first full year of trading as a merged entity with a great deal of satisfaction.
- The spotlight in the year ahead will be firmly on the retail banking activities.
- In the Insurance Group, there remains scope for further efficiency and productivity improvements.
- We are confident of delivering above-average real growth in earnings per share in the year ahead.

Secondly, major management changes were made to ensure that the leadership qualities and skills of the senior management teams in the different business units are appropriate to implement the strategic vision of the business units.

Thirdly, time was spent addressing the well-established trend of convergence of products and services in the financial services industry. We believe the narrow Eurocentric model of bancassurance, which implies selling more insurance products through a bank's distribution network, is merely a component of the much bigger picture.

Convergence

There are many financial services groups in South Africa seeking to exploit the convergence trend. In our view, two of the most significant barriers to entry to riding the convergence wave and entering new markets in the financial services industry, are expertise (intellectual capital) and the loyal customer bases of the existing players in that industry.

The shortage of industry-specific expertise is much greater in South Africa than in other countries which have historically provided good educational opportunities to all sections of the community. It is therefore vital that FirstRand leverages its scarce intellectual resources over as wide a base as possible. Fortunately the FirstRand Group structure facilitates this. We believe leveraging the intellectual skills in the FirstRand Group across operations is going to have as great an impact on future profits as leveraging the huge customer base we have. We have already had proven success combining the skills of Rand Merchant Bank with those of Momentum Life to produce innovative insurance products as well as structuring and sourcing assets for Momentum's annuity portfolio. Actuarial skills can be used to price credit risk for our banks and even design and manage loyalty programmes in a retail bank. We are striving to combine the intellectual skills and physical resources of banking and insurance to change the rules of the game in both industries over time.

In the "narrow sense" of bancassurance referred to earlier, our focus over the past year has been on establishing the right foundation for bancassurance rather than trying to write new business. We also embarked on a number of specific initiatives which fall within the ambit of bancassurance.

With regard to short-term insurance, we expanded the mandate of First National Insurance ("FNI"), FNB's "in-house" short-term insurer. Previously FNI provided bricks and mortar cover to customers with mortgages provided by FNB. This mandate has now been expanded to provide cover for household content and motor vehicles to the FNB customer base.

First Bowring (FNB's in-house insurance broker) has approximately 62 000 personal lines customers. It used to provide an end-to-end administrative service to these customers on behalf of short-term insurers (including claims processing). This was not cost effective and it will be handing back that administrative function to the underwriter. As part of that process it is placing the domestic lines cover of 12 000 of those customers with FNI. All 12 000 of these customers are FNB account holders. FNI's focus will be to provide a wider range of domestic cover specifically to the FNB client base.

On the life side, the first step was to move First Bowring's approximately 240 financial consultants and advisors out of First Bowring and into the client gateways like First Commerce, FNB Personal Bank and FNB Rural Bank. Half the commission the financial advisors earn from their selling activities will go to the branches rather than First Bowring. Therefore, there is a far greater incentive for the branch manager to support and provide leads to the financial advisors.

In the year ahead we will ensure that the profile of the financial advisor matches the profile of the client gateway in which he is operating. We also intend to expand the number of independent financial advisors.

Two long-term savings products aimed at education and retirement have been launched on a pilot basis and are being sold under the FNB brand by salaried consultants. These new age products which break "the mould" of traditional life insurance products, are easy to understand and represent a valuable addition to the suite of products offered to our customers. Initial results of the pilot project are encouraging.

It is important to note that the profit contribution of bancassurance, in the conventional sense of the word, is viewed at the margin. Every R25 million additional profit we are able to generate in this manner adds an extra 1% to our overall profit growth. The Banking Group already receives approximately 10% of its total profits from insurance-related activities.

Operating environment

We can look back on the results of the Group in its first full year of trading as a merged entity with a great deal of satisfaction. These results which are reviewed in detail elsewhere in this report.

The collapse of the equity market during the first half of the financial year impacted the Insurance Group's profits, where earnings are strongly influenced by the value of assets under management.

The results of the Banking Group were negatively impacted, when domestic interest rates were increased substantially in response to the external environment. This placed business and consumers under severe pressure, leading to an increase in bad debts and substantially dampening demand for credit.

Against this background, the results for the year under review are regarded as excellent.

We now turn to the year ahead. The mergers of the two life insurance companies and the two merchant banks have been put to bed. Therefore the spotlight in the year ahead will be firmly on the retail banking activities.

The restructuring of the retail banking activities is expected, over the medium term, to unlock human potential, improve efficiency ratios, eliminate loss-making activities and exploit the significant potential for improved service and profitability.

After the success of the initial cost-cutting exercise in the Insurance Group, there remains scope for further efficiency and productivity improvements.

Notwithstanding business risks relating to the advent of the millennium, there is a reasonable prospect for a further decline in interest rates and a more positive stock market sentiment. Both are key drivers of profitability in the FirstRand Group. Consequently, we are well positioned to deliver above-average real growth in earnings per share in the year ahead.

We are mindful of our responsibility towards nation building and the communities in which we operate. As part of our commitment to good corporate citizenship, the Board has approved the establishment of the FirstRand Foundation. The Foundation will be funded by contributions from the operating companies to the extent of approximately 1% of after-tax profits. The Foundation's Board of Trustees, comprising group executives and independent trustees, will oversee our social investment policy.

During the year Mr Jan Calitz, previously Managing Director of Southern Life, retired from the Board. Mr Calitz was employed by the Southern for more than 20 years and played a valuable role in the creation of the FirstRand Group. In his place we are privileged to be able to welcome former Minister of Transport, Mr Mac Maharaj, to the FirstRand and FirstRand Bank boards. He is an incisive strategic thinker who will undoubtedly make a valuable contribution to the deliberations of the Board. Mr Maharaj has kindly consented to devote extra time to the Group over and above the time required for his responsibilities as a non-executive director.

Thanks

Mr Neal Chapman retired as Chairman of First National Bank in May 1999, thereby ending an association with the bank that spanned thirty seven years. His valuable contribution to the bank, firstly as a full-time executive and then as Chairman, is appreciated by everybody who worked closely with him. He was a businessman who always retained a strong sense of community spirit and was a gentleman at all times.

The excellent results and the success of the merger are a monument to the commitment, enthusiasm and work ethic of our staff and their leaders. We salute them.

G T Ferreira	L L Dippenaar
Chairman	*Chief Executive Officer*

- There have been no significant changes in accounting policies during the year.
- The vision was to create a new group of companies structured with critical mass to take advantage of the convergence of products in the financial services industry without the limitations imposed by minorities in operating companies.
- In the new structure FirstRand will be a pure holding company with two wholly and directly owned investments namely FirstRand Insurance Limited and FirstRand Bank Holdings Limited.
- These financial statements have been prepared on the assumption that the proposed group structure was in place for the entire year under review.

Basis of preparation

There have been no significant changes in accounting policies during the year. The actuarial valuations of Southern have been aligned with those of Momentum, and have been calculated in accordance with the guidelines issued by the Actuarial Society of South Africa with regard to the Financial Soundness Valuation of life assurance companies.

Re-structuring of operations following the establishment of FirstRand

FirstRand Limited ("FirstRand") was established with effect from 1 April 1998. This followed a decision by Anglo American Corporation ("AAC") and RMB Holdings Limited ("RMBH") to merge their respective financial services interests. The major companies involved at the time were the listed entities First National Bank Holdings of Southern Africa Limited ("FNBH") and The Southern Life Association Limited ("Southern"), which were controlled by AAC and Momentum Life Assurers Limited ("Momentum"), the holding company of Discovery Health Limited ("Discovery") and Rand Merchant Bank Limited ("RMB"). This annual report contains the results of the FirstRand Group for the first full year of trading to 30 June 1999.

Momentum was used as the vehicle to effect the merger. In terms of the schemes of arrangement, Southern and FNBH shareholders received 675 Momentum shares in exchange for every 100 shares held. In addition, Momentum raised R5,1 billion by way of a rights issue in terms of which 572,7 million shares were issued at a price of 900 cents per share. The principal purpose of the rights issue was to facilitate the elimination of the cross-holdings that existed between Southern and FNBH.

Momentum changed its name to FirstRand Limited and was listed on the Johannesburg Stock Exchange on 25 May 1998 and on the Namibian Stock Exchange on 26 May 1998.

The vision was to create a new group of companies structured with critical mass to take advantage of the convergence of products in the financial services industry without the limitations imposed by minorities in operating companies.

To achieve this, the following were necessary :

- the establishment of two separate groups comprising insurance and asset management related activities and those of banking
- the elimination of the cross-holdings between FNBH and Southern
- the elimination of the 40% interest in RMB held by Momentum policyholders
- the merging of RMB and FNB to form FirstRand Bank Limited
- the merging of Momentum into Southern to form FirstRand Insurance Limited
- a review of the capital needs of the two groups to ensure that they are properly funded
- compliance with Reserve Bank and Financial Services Board regulations
- introduction of a common set of values to be known as the FirstRand Business Philosophy

We dare to cast away the rule book

To be innovative is a mindset, not guidelines in a book. Therefore even great linear thinking is regarded as unbalanced without imagination.

The R5,1 billion raised by FirstRand at the time of the merger was utilised as follows:

Purchase of 40% of RMB from Momentum policyholders	R1,7 billion
Purchase of 27,6% of Southern held by FNB	R2,1 billion
Additional capital allocated to RMB	R0,2 billion
Capital allocated to the Insurance Group	R1,0 billion
Expenses relating to the merger	R0,1 billion
	R5,1 billion

As at 30 June 1999 all of these steps had been achieved with the exception of the merging of Momentum into Southern. This merger has the approval in principal of the Financial Services Board and is to be with effect from 1 July 1999. The merger is subject to the approval of the High Court and is anticipated to be approved early in the year 2000. In the new structure FirstRand will be a pure holding company with two wholly and directly owned investments namely FirstRand Insurance Limited and FirstRand Bank Holdings Limited.

Basis of presentation

For the year to 30 June 1999, Momentum Life operated as a division of FirstRand Limited. To comply with statutory requirements, a set of financial statements of FirstRand (trading as Momentum) is attached as appendix 1.

These financial statements have been prepared on the assumption that the proposed group structure was in place for the entire year under review. Further details of the financial performance of the Banking and Insurance Groups are presented in the reports by their respective chief financial officers later in these annual financial statements.

We have attempted to present the information on our performance in the clearest possible way, whilst fully complying with the Companies Act and the requirements of accounting standards.

Consistent with holding company financial statements, the consolidated income statement and balance sheet, will not equal the sum of the subsidiaries' results due to various consolidation adjustments put through in the consolidation working papers, and not through the books of the Group companies.

An attempt has been made in the annual report to reconcile the subsidiaries' results to the group accounts by noting consolidation adjustments.

Where the adjustments are material to the understanding of the group results, either a contra note is indicated or a brief explanation given. Where the adjustments are not considered material the narration "consolidation adjustment" will appear.

- The Group has implemented capital allocation principles which allows it to compare the returns being achieved by each part of the business.
- The capital adequacy ratio of the Banking Group is 10,5%.
- The free reserves of the Insurance Group exceed the statutory capital adequacy reserves 1,7 times.
- The dividend cover in the Banking and Insurance Groups will be managed so as to ensure that the operating subsidiaries are self-funding with regard to further expansion.

Allocation of capital

Decisions relating to the allocation of capital between the Insurance and Banking Groups rest at the FirstRand Executive committee level. The Group has implemented capital allocation principles which allow it to compare the returns being achieved by each part of the business with the capital that is required to support that operation. This gives a more appropriate return on capital than can be achieved by taking a broader view of the group. Identifying the capital requirements of the different business operations also permits the Executive committee to focus on maximising the expected return on any excess capital which might become available from time to time.

At 30 June 1999 FirstRand received a special dividend of R2 billion from the Banking Group. This followed the merging of the primary operations of RMB and FNB to form FirstRand Bank, and an assessment of the Banking Group capital structure to ensure maximum returns to shareholders.

The restructuring of the Banking Group's capital resulted in a change in the ratio of primary to secondary capital of 60% to 40%, which is in line with international norms. It is believed that this is a more appropriate capital mix for the Bank since it effectively reduces the gap between economic and regulatory capital requirements, given the risk profile of the Banking Group. It also optimises the utilisation of shareholders' funds. The capital adequacy ratio (CAR) for the FirstRand Bank Holdings Group remains constant at 10,5% as the restructuring represented a movement between classes of capital within the overall Banking Group.

As part of the restructuring of the Insurance Group, the R2 billion cash dividend received from the Banking Group will be transferred from FirstRand together with policyholder assets and liabilities of Momentum to Southern, which has been renamed FirstRand Insurance. Also to be transferred will be Momentum's strategic investments including Discovery Health and FirstRand Asset Management. In exchange Southern's 13,3% stake in FirstRand Bank Holdings will be transferred to FirstRand.

If the above had taken place at 30 June 1999, the free reserves of the Insurance Group would be 1,7 times the minimum capital adequacy requirements.

This reallocation of capital is an example of the value and flexibility that arises from FirstRand's unique group structure.

Summary of results

Return on equity

The return on average equity for the year ended 30 June 1999 was 24,5%. Movements relating to FirstRand shareholder equity are analysed on page 33 of this report.

Earnings

Total consolidated earnings of the group after tax, and allowing for minorities totalled R2 489 million. These earnings can be apportioned as to approximately 25% in respect of insurance business and 75% in respect of banking business. These earnings are summarised as follows:

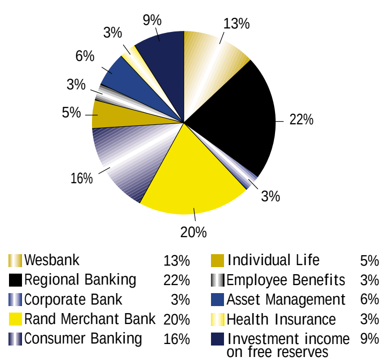
	Actual 1999	Actual 1998	Pro forma 1998	% change over pro forma
Net income after tax attributable to shareholders				
Banking operations	1 898	418	1 343	+41%
Insurance operations	638	187	531	+20%
Interest on rights issue proceeds	–	83	–	
Holding company expenses	(47)	–	–	
Total	2 489	688	1 874	32%
Headline earnings per share (cents)	45,6	27,6	34,4	32%
Dividends per share (cents)	15,5	10,39		49%

Earnings in respect of the year ended 30 June 1999 are not comparable with those for the year ended 30 June 1998 since the latter results comprise the Momentum Group's earnings for twelve months to 30 June 1998 and the earnings of FNBH and Southern for the three months since acquisition. The Momentum Group's earnings include 60% of RMB's earnings for nine months to 31 March 1998 and 100% for three months to 30 June 1998.

The pro forma earnings assume that the capital raised earned a return of 10% pa after tax and acknowledge the revised method of accounting for the earnings of the Southern.

Source of earnings

These earnings are further analysed in the pie chart set out below:



Dividend policy

It is the intention that FirstRand will act as a conduit for dividends received from subsidiaries. The dividend policy is intended to provide a form of active capital management, providing a strong cash flow discipline within the group. In respect of the year under review, the dividend cover in the Insurance Group was 2,2 times and that in the Banking Group 3,2 times. The average for FirstRand is 2,95 times.

Shareholder information

During the period under review, the FirstRand share price ranged between a low of 380 cents per share and a high of 1060 cents per share. The closing price at 30 June 1999 was 690 cents per share (1998: 910 cps). An analysis of shareholders and statistics relating to trades in FirstRand shares is available on page 182.

Following the Johannesburg Stock Exchange's reclassification of counters, FirstRand is listed under the Banking Section.

Management of risks

Financial

Financial risks relating to changes in interest rates, equity prices and foreign exchange rates, as well as counterparty credit and liquidity risks are managed in the appropriate businesses. The details of this activity are presented in the Banking and Insurance Groups' financial statements.

Year 2000

The Group has engaged in a comprehensive review programme for its IT systems, aimed at eliminating any problems which might arise from date change issues. Further details are presented in the Insurance and Banking Groups' annual reports. The cost of compliance is not material to the results of the Group.

Financial forecast

The issue at 30 June 1999 of convertible debentures by the Banking Group, and the reallocation of R2 billion of capital from the Banking Group to the Insurance Group by way of a dividend will impact on the earnings of the respective subsidiary groupings. This transfer of capital is not expected to impact negatively on the total earnings of the Group.

Summary

The establishment of an integrated group without the encumbrance of minority shareholdings at the operating level will stand the Group in good stead as it embarks on the next phase in creating a premier financial services group capable of generating superior growth in shareholder wealth in the next millennium

A H Arnott
Chief Financial Officer

Endorsement of the Code of Corporate Practices and Conduct

The FirstRand Group is committed to the principles of good corporate citizenship. Good corporate citizenship includes a commitment to corporate governance.

This commitment provides stakeholders with the assurance that the Group's affairs are being managed in an ethical, transparent and responsible manner, after taking into consideration appropriate risk parameters.

Furthermore, in recognition of the need to conduct the affairs of the Group in accordance with the highest standards of corporate governance, the directors of FirstRand and its various subsidiaries endorse the Code of Corporate Practices and Conduct as recommended in the King Report. The mechanisms that ensure good governance are discussed in more detail below.

Interpretation

FirstRand Limited is the holding company for the Banking and Insurance Groups. Each of these two groups has its own board of directors, executive committee, audit and remuneration committees that monitor the respective Group's operations. Details of the corporate governance procedures of the Banking Group are on page 78 of this annual report, while those of the Insurance Group can be found on page 129.

Board of Directors

Chairman – The chairman is a non-executive director of the company. The roles of chairman and chief executive officer are separate.

Composition and frequency of meetings

FirstRand has a unitary board. The board comprises thirteen directors, of whom only the Chief Executive Officer serves in an executive capacity. The profiles of all directors are contained in appendix 2. Non-executive directors, including two executives from the Banking Group, comprise individuals with diverse backgrounds and expertise which enable them to bring independent judgement to board decisions.

The board meets once a quarter. Additional meetings are convened when major issues need to be resolved between scheduled meetings. The board retains full and effective control over the company by way of an Executive Committee (Exco). The Exco comprises the CEO of FirstRand Limited as well as certain executives of the operating subsidiaries. The directors of FirstRand are listed on page 7 of this annual report. The Executive Committee members are listed on page 8.

Limitation to appointment period

One-third of non-executive directors retire by rotation annually. The Chief Executive Officer is appointed by separate contract. The retirement of directors of the company is set at age 70.

Board subcommittees

To assist the board in discharging its responsibility for corporate governance, a number of committees have been established. Board committees established by Group companies all have specific terms of reference and are accountable to the various boards.

Audit Committee

The Audit Committee of FirstRand includes the chairmen of the various Group company audit committees. Its function is to review the findings and reports of the Group audit committees, the effectiveness of the internal audit operations and the external auditors.

These committees are mainly responsible for reviewing the internal and external audit reports and assisting the boards of directors in fulfilling their responsibilities in terms of the Companies Act.

The respective firms of external auditors in the Group as well as the internal auditors have unrestricted access to the various audit committees.

The members of the FirstRand Audit committee are:

B H Adams (Chairman)
L L Dippenaar
M W King
G R Pardoe
R B Savage

Remuneration Committee

The Remuneration Committee comprises the chairmen of the remuneration committees of the main operating subsidiaries. The committee approves the remuneration of executives and employees of the company and certain Group CEOs. It is also responsible for the policy of the Group's share incentive schemes.

In terms of remuneration policy, the Group seeks to provide rewards and incentives for the remuneration of its executives and employees that reflect the performance and are aligned with the objectives of the Group.

The Group executives are appointed to enhance the level of skills and experience appropriate to the needs of the businesses in the Group. Independent external studies and comparisons are used to ensure that rewards are linked to both individual and Group performance.

The remuneration of executive directors comprise both current reward and future entitlements. Consistent with the Group's remuneration practice for senior staff, executive directors receive salaries and benefits, performance linked payments and share options. Each of the elements of remuneration is further detailed below:

- Executive directors in the Group receive a salary and benefits that reflect their management responsibilities and their experience and reward individual performance. Salaries are reviewed annually by reference to performance and the market.
- Executive directors participate in various share incentive schemes.
- Executive directors in the Group participate in various pension and provident fund schemes. They are also members of the medical aid fund linked to their particular Group company.

Non-executive directors receive fees for their services as directors and for services on the various board committees.

The members of the FirstRand remuneration committee are:

G T Ferreira

M W King

Employee empowerment

Code of ethics

Various similar codes of ethics exist within the FirstRand Group. A process is currently under way to align these with the determined core values of the FirstRand Group. Each code requires the board and employees of FirstRand and its subsidiary companies to conduct themselves with honesty and integrity in all business practices so as to achieve the highest standards of behaviour.

The company operates a closed period from the beginning of each half-year to the announcement of its interim and final results in which period directors and employees of the company and the main operating subsidiaries may not deal in the company's shares.

Employee participation

The FirstRand Group relies on the commitment of its management and employees to ensure the highest levels of service delivery.

The commitment is nurtured by the continued development of innovative reward and incentive programmes that focus on long and short-term operational and strategic goals. The empowerment of employees has been enhanced further through the emphasis of teamwork instead of a hierarchical structure, which places unnecessary constraints on employees and inhibits idea sharing.

Equal opportunities

The FirstRand Group is committed to providing employment in an equitable manner to members of all communities. The Group endorses the philosophy of affirmative action as an integral part of its strategic plans. As such, a number of initiatives within the different Group companies are currently being implemented.

Year 2000 compliance

Critical operational systems in the Group's banking and insurance activities have been and are being tested. A system change freeze from mid-1999 has enabled the rigorous testing required to give confidence to the Banking Group. In the Insurance Group, Momentum systems have been thoroughly tested and the Southern systems are being converted to those of Momentum. This will result in certain mission critical systems being finalised during the final quarter of 1999.

Costs associated with the 2000 project have been expensed in the current year or charged against provisions established for this purpose.

Every effort has been made to ensure that the systems are compliant. The Group has contributed both financially and in terms of human resources to helping Government and local authorities with their compliance requirements.

In an endeavour to enhance the quality of life of all South Africans, substantial funding for social development was made available by the major subsidiaries of the FirstRand Group during the past financial year.

FNB, Rand Merchant Bank, Momentum Life, the Southern Life Foundation and Discovery Health collectively contributed some R20 million in support of a wide spectrum of socially relevant projects across the nation.

These encompassed special focus areas such as HIV/AIDS and environmental concerns to enterprise programmes, education, arts and culture, health and welfare, social transformation initiatives and charity. Although the range and focus of each fund differed in certain respects, a sense of common purpose was evident.

Education

The education sector received by far the largest allocation of resources. Our response to the education crisis was to strengthen and build on existing relationships whilst seeking out new and innovative partnerships. A notable project, sponsored in part by the Southern Life Foundation, was the READ Organisation's StoryKit 2005 series which provides teachers with a practical guideline for understanding outcomes-based education (OBE) and implementing curriculum 2005.

FNB continued to provide large-scale funding to tertiary institutions whilst Rand Merchant Bank and Momentum Life invested in a range of projects with an emphasis on skills training, financial and other literacy. Momentum Life's Insurance and Investment College, now in its fourth year of operation, is contributing towards the knowledge and skills base of the financial sector as well as creating an entry point for programme graduates into Group companies. Thirty-five College graduates are currently employed within FirstRand. A special initiative on the part of the Group was a commitment of R2 million towards the Xolilizwe High School near Umtata which will facilitate expansion into the area of technical and skills training.

Health and welfare

FNB and the Southern Life Foundation made substantial funding available to a number of non-government organisations (NGOs) involved in the fight against HIV/AIDS. The majority of these programmes have taken the form of educational/prevention interventions that have had a significant, cost-effective impact. All sectors of the community need to become involved in the effort to lower the number of new infections (currently estimated to be 1 600 per day).

Health and welfare projects generally were well supported across all funds. FNB and Rand Merchant Bank made substantial contributions to the Red Cross Children's Hospital Trust whilst important contributions were directed at rural and urban health care improvement programmes. Examples of these are the Rural Health Initiative (RHI) and the training of community health committees and the Alexandra Health Clinic. Vision care also featured strongly, with indispensable projects such as the Institute of Ophthalmology at Medunsa and the Community Eye Care Clinic at RAU receiving much needed funding for their respective activities.

Arts and culture

Arts and culture were not neglected and whilst not a major investment area for the funds overall, a diverse suite of projects ranging in scope from dance to choirs, cultural festivals and celebration of language, were supported. Rand Merchant Bank assisted the National Symphony Orchestra and the KwaZulu-Natal Philharmonic Orchestra to extend their respective development programmes.

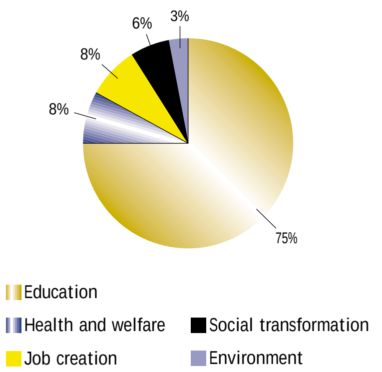
Crime prevention

There was significant support for crime prevention and peace initiatives. Rand Merchant Bank and FNB made large investments in Business Against Crime, an organisation which in partnership with stakeholders in the private sector and government is addressing issues of crime prevention in South Africa.

Opportunity and job creation

All funds made meaningful investments in opportunity creation (enterprise) projects, examples of which include Get Ahead, the Start-Up Fund and Triple Trust. Rural job creation initiatives were also supported with encouraging results; there is potential for stimulating economic advancement and unlocking of new markets for rural craft and produce.

In support of the Business Initiative on Job Creation and Human Capacity Development, the Group recently confirmed a pledge of R11,5 million to the National Business Trust in respect of the year 2000. It is hoped that the contribution of business generally will give impetus to the process of opportunity creation and assist in the consolidation of our new democracy.



FIRSTRAND LIMITED
GROUP ANNUAL FINANCIAL STATEMENTS

for the year ended 30 June 1999

Contents for the FirstRand Group Annual Financial Statements

Directors' responsibility statement

Directors' responsibility to the members of FirstRand Limited

The directors of FirstRand are required by the Companies Act to maintain adequate accounting records and to prepare financial statements for each financial year which fairly present the state of affairs of the Company and the Group at the end of the financial year, and of the results and cash flows for the period. In preparing the accompanying financial statements, generally accepted accounting practices have been followed, suitable accounting policies have been used and reasonable estimates have been made. The financial statements incorporate full and responsible disclosure, in line with the group's philosophy on corporate governance.

The directors have reviewed the Group's budget and flow of funds forecast for the year to 30 June 2000. On the basis of this review, and in the light of the current financial position, the directors have no reason to believe that FirstRand 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 below.

The directors of group companies are responsible for the group's systems of internal control, which include internal financial controls in the various subsidiaries that are designed to provide reasonable, but not absolute, assurance against material misstatement and loss. The group maintains internal financial controls to provide assurance regarding:

- Safeguarding of assets against unauthorised use or disposition; and
- The maintenance of proper accounting records and the reliability of financial information used within the business, or for publication.

The controls contain self-monitoring mechanisms, and actions are taken to correct deficiencies as they are identified. Even an effective system of internal control, no matter how well designed, has inherent limitations, including the possibility of circumvention of the overriding of controls. An effective system of internal control therefore aims to provide reasonable assurance with respect to the reliability of financial information and, in particular, the presentation of financial statements. Further, because of changes in conditions, the effectiveness of internal financial controls may vary over time.

The financial statements of the Group and the Company for the year ended 30 June 1999, which appear on pages 24 to 43 and 164 to 177 respectively, have been approved by the Board of Directors and are signed on its behalf by:

G T Ferreira	L L Dippenaar
Chairman	*Chief Executive Officer*

Sandton
17 September 1999

Report of the independent auditors

To the members of FirstRand Limited

We have audited the annual financial statements and Group annual financial statements of FirstRand Limited set out on pages 24 to 43 and 164 to 177 for the year ended 30 June 1999. 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.

Scope

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

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

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

Audit opinion

In our opinion, the financial statements fairly present, in all material respects, the financial position of the Group and the Company at 30 June 1999, and the results of its operations and cash flows for the year then ended in accordance with generally accepted accounting practice, and in the manner required by the Companies Act.

PricewaterhouseCoopers Incorporated
Chartered Accountants (SA)
Registered Accountants and Auditors
Sandton, 17 September 1999

NATURE OF BUSINESS

FirstRand Limited ("FirstRand") is listed on the Johannesburg Stock Exchange and the Namibian Stock Exchange and is the holding company of the FirstRand Group of Companies, which comprise diverse financial services activities in the areas of retail, corporate, investment and merchant banking, life insurance, employee benefits, health insurance and asset management.

The banking activities of the Group are consolidated in the wholly-owned subsidiary, FirstRand Bank Holdings Limited (previously First National Bank Holdings Limited) while the insurance activities will, with effect from 1 July 1999, be consolidated in the wholly-owned FirstRand Insurance Limited (previously The Southern Life Association Limited ("Southern Life")).

A schedule of Group subsidiaries is set out on page 177.

SHARE CAPITAL

There was no change in the authorised and issued ordinary share capital of the company during the year.

The unissued shares remain under the control of the directors until the forthcoming annual general meeting.

The share premium account was reduced to R8 432 085 657 by an amount of R3 597 620 relating to share issue expenses.

DIVIDENDS

The following ordinary cash dividends were declared for the 1999 financial year.

	1999 cents per share	1998 cents per share
Interim (declared 23 February 1999)	7,5	3,22
Second interim	–	2,67
Final (declared 17 September 1999)*	8,0	4,50
	15,5	10,39

* *The final dividend will become payable on 29 October 1999 to all shareholders registered on 15 October 1999.*

DIRECTORS AND SECRETARY

The names of the directors are on page 7 and the name and address of the company secretary appear on the inside back cover.

In terms of the Articles of Association of the company, one third of the directors retire by rotation each year.

The following directors retire by rotation in 1999, but are all eligible and available for re-election:

Messrs B H Adams, G T Ferreira, P K Harris and K C Shubane.

Mr J R Calitz resigned on 31 October 1998. Mr S R Maharaj was appointed on 17 September 1999, and retires in terms of the Articles of Association of the company but is eligible and available for re-election at the annual general meeting.

DIRECTORS' INTEREST

The aggregate number of FirstRand shares directly and indirectly held by directors of the company amounts to 325,1 million (1998: 351,7 million) shares which represents 5,97% (1998: 6,46%) of the issued share capital of the company.

HOLDING COMPANY

FirstRand has no holding company. The principal shareholders are Anglo American Corporation ("AAC") (20,4%) and RMB Holdings Limited ("RMBH") (25%). There was no change in these interests during the year. In terms of a shareholder's agreement between AAC and RMBH, RMBH has management control of FirstRand.

POST-BALANCE SHEET RESTRUCTURING

For the year ended 30 June 1999, Momentum Life operated as a division of FirstRand. To finalise the structures envisaged at the time of the merger announcement, the operations of Momentum Life will be merged with those of Southern Life, by transferring the assets and liabilities of Momentum Life to Southern Life with effect from 1 July 1999 Southern Life has subsequently changed its name to FirstRand Insurance Limited. This will ensure that FirstRand will become an investment holding company with two wholly-owned and directly held subsidiaries operating in insurance and banking.

The Financial Services Board has approved the transfer in principle, which now requires the approval of the High Court in terms of Section 37 of the Long-term Insurance Act. Court approval is expected early in the new calendar year.

The transfer will facilitate further rationalisation of operations in the Insurance Group and should ensure improved service to policyholders. There will be no impact on the net asset value of FirstRand.

Subject to the approval of the High Court, as per above, the Memorandum and Articles of Association of FirstRand will be amended to reflect its status as an investment holding company and to incorporate changes resulting from the Companies Amendment Act No 37 of 1999.

These changes will require the approval of the shareholders at the annual general meeting scheduled for 22 November 1999.

Shareholders' approval will also be sought to deregister FirstRand as a bank holding company as this responsibility now rests with FirstRand Bank Holdings Limited.

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 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.

P F de Beer
Company Secretary

BASIS OF PREPARATION

The financial statements have been prepared on the going-concern basis, using the historical cost concept, except for insurance investments and certain banking assets which are stated at fair value, in accordance with the generally accepted practice of accounting for insurance and banking companies and the Companies Act, 1973. The principal accounting policies of the Group set out below are consistent in all material respects with those adopted in the previous year, except where specifically noted.

CONSOLIDATION

The Group financial statements comprise the financial statements of FirstRand Limited and its subsidiaries.

The results of subsidiaries are included from the effective dates of acquisition to the effective dates of disposal. The assets and liabilities acquired are assessed and included in the balance sheet at their estimated fair value to the Group.

Such fair values are reviewed and amended as appropriate in financial years subsequent to the acquisition.

Where material, adjustments are made to update consolidated results and balances of subsidiaries that have financial year-ends which differ from that of the Group.

INVESTMENT IN SUBSIDIARIES

FirstRand's investment in subsidiaries is reflected at the attributable net asset value of the subsidiaries. This is achieved by applying equity accounting principles.

GOODWILL

Goodwill represents the excess of the purchase consideration of shares over the attributable fair value of the net assets acquired, and is capitalised and amortised on the straight-line basis over the period of expected benefit, limited to 20 years.

Where the fair value of net assets of subsidiaries at date of acquisition exceed the cost of shares acquired, the excess is treated as a non-distributable reserve, pending recognition on an appropriate basis.

FOREIGN CURRENCY TRANSLATION

The assets and liabilities of foreign subsidiary companies, regarded as independent entities, are expressed in South African rand at rates of exchange ruling at year-end. Gains and losses arising on translation of independent entities are reflected in a non-distributable reserve.

The assets and liabilities of foreign subsidiary companies, regarded as an integral part of the entities' operations, are translated at historic rates.

In both the above cases, capital and reserves are translated at historical rates and income statement items are translated at the weighted average rate for the year. Assets and liabilities denominated in foreign currencies are translated into South African currency at the rates of exchange ruling at the balance sheet date, or where covered by forward exchange contracts, at the relevant contract rates. Unrealised differences on assets and liabilities are recognised in the income statement in the period in which they arise.

Foreign exchange trading positions, including spot and forward contracts, are valued at current market rates and the resultant profits and losses are accounted for in the income statement.

DEFERRED TAXATION

Deferred taxation is provided for on the liability method using the comprehensive basis in respect of all material timing differences between the accounting and taxation treatment of income and expenditure items. Account is only taken of taxation assets arising from taxation losses where the recovery of such losses, in the opinion of the directors, are assured beyond reasonable doubt.

RETIREMENT BENEFITS

The Group has established 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. These funds are registered in terms of the Pension Funds Act, 1956, and membership is compulsory for all Group employees. The cost of providing retirement benefits is determined using the accrued benefit valuation method.

Current service costs are written off immediately, while past service costs, experience adjustments, changes in actuarial assumptions and plan amendments are expensed over the expected remaining working lives of employees. In the case of retired employees, the costs are written off immediately.

In terms of certain employment contracts, the Group makes provision for post-retirement healthcare benefits to qualifying employees and retired personnel by subsidising a portion of the medical aid contributions. The entitlement to these benefits is usually based on the employee remaining in service to retirement age and the completion of a minimum service period. Valuations of these obligations are carried out by qualified actuaries.

Leased assets

Leases of property and equipment where the Group assumes substantially all the benefits and risks of ownership are classified as finance leases, and are capitalised in terms of the underlying asset category.

Other leases are classified as operating leases. Obligations incurred under operating leases are charged to the income statement in equal instalments over the period of the lease.

Derivative instruments

Included in derivative instruments are financial futures, options, swaps and forward rate agreements.

Derivative instrument contracts are entered into for hedging purposes as well as to facilitate asset allocation. During the lives of these contracts, they are reflected at market value within the appropriate asset category, with all unrealised changes in value being charged to the income statement. The profit or loss realised upon exercise, expiry or close out of the contract, is accounted for in the income statement when incurred.

Accounting policies specific to the banking operations

Net interest income

Interest income and expenditure excluding that arising from trading activities is recognised on a time proportion basis, applying the effective yield on the assets and liabilities. Accrual of interest on an advance is suspended when its recovery is doubtful. Interest income includes interest earned on investments.

Fixed assets

Freehold land and buildings are not depreciated as they are held for investment purposes. Office furniture, equipment and motor vehicles are depreciated on the straight-line basis at rates which are calculated to reduce the book value of these assets to estimated residual values over their expected useful lives.

Debentures

Discounts or premiums on debentures issued are amortised on a basis which reflects the effective yield on the debenture over its effective life span. Interest paid is brought to account on an effective interest rate basis.

Related party transactions

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

Investments

Financial assets held for trading purposes are revalued to fair value. The fair values of listed assets are determined by reference to quoted market rates, and in the case of unlisted assets, the fair value is the amount for which assets could be exchanged or settled between knowledgeable, willing parties in an arm's length transaction. Any fair value differences are recognised in the income statement.

Financial assets held for investment purposes are stated at book value less any permanent diminution in value, and profits and losses are recognised on realisation. In determining the book value of investments, financial assets with a fixed redemption date are stated at original cost plus accrued interest. Other investments are stated at original cost. Where the original cost contains premiums or discounts on purchase, such amounts are amortised on a straight-line basis over the period to redemption. Securities are transferred between investment and trading portfolios at market value.

Associated companies

Associated companies are those companies in which the group holds a long-term equity interest and over which it has the ability to exercise significant influence.

The post-acquisition results of associated companies have been included in the Group financial statements using the equity accounting method, from the effective dates of acquisition until the effective dates of disposal.

The Group's share of earnings of associates is included in earnings attributable to ordinary shareholders.

Instalment credit agreements

Instalment credit agreements are regarded as financing transactions and the total rentals and installments receivable thereunder, less unearned finance charges, are included in advances. Finance charges are computed using the effective interest rates as detailed in the contracts and are credited to revenue in proportion to capital balances outstanding.

Doubtful advances

Advances are stated after deduction of amounts that, in the opinion of the directors, are required as specific and general provisions. Specific provisions are made against identified doubtful advances and contingencies. In addition, a general provision is maintained to cover potential losses that, although not specifically identified, may be present in any bank's portfolio of advances. The aggregate provisions made during the year, less amounts released and recoveries of advances previously written off, are charged to the income statement.

Accrual of interest on an advance is suspended when a specific provision is made, or when, in other cases, its recovery is doubtful. Irrecoverable advances are written off when the extent of the loss incurred has been confirmed.

Repurchase and resale agreements

Where the Banking Group sells a financial asset from its portfolio, subject to a repurchase agreement, the financial asset continues to be recorded as an asset, and the consideration received is included under deposit and current accounts, since the risk of ownership remains with the Group. The value at which the asset is recorded in the financial statements corresponds with the Group's accounting policy applicable to that class of asset.

Conversely, where a financial asset is purchased subject to a resale agreement, the consideration paid is included under advances. The securities are not recorded on the balance sheet, since ownership does not pass to the Group.

Assets and liabilities subject to repurchase agreements entered into by a foreign subsidiary are disclosed as a net position.

ACCOUNTING POLICIES SPECIFIC TO THE INSURANCE OPERATIONS

Investments

The policy of the Insurance Group is to reflect long-term investments on the valuation bases set out below:

Stocks and debentures

Government and public authority stocks, debentures and other loan stocks, all fixed-interest stocks, and funds on deposit stocks, including redeemable preference shares, are stated at market value.

Mortgages and other loans

Mortgages and other loans are reflected at par or redemption value, after making provision for any anticipated losses.

Property investments

Property investments include fixed property and investments in property companies, and are stated at a valuation based on open market values.

Investments in property companies are shown at a value based on the valuation of the underlying net asset values, after revaluation of fixed properties.

Properties in the process of being developed are valued at development costs incurred, less adjustments to reduce the costs to open market value.

Equity investments

Listed equity investments and unit trust funds are stated at market value and repurchase prices respectively. Unlisted investments are stated at directors' valuation with reference to fair values based on accepted valuation methodologies.

Associated companies

Associated companies are those companies in which the Insurance Group holds a long-term equity interest and over which it has the ability to exercises significant influence.

Investments in associates are held as long-term investments and are not accounted for on the equity basis, as these investments are revalued in accordance with the accounting policies applicable to equity investments.

Fixed assets

Computer equipment, furniture, other equipment and motor vehicles are stated at historic cost less accumulated depreciation, calculated on a straight-line basis over their expected useful lives.

Property investments are reflected as investment assets, and as such are not disclosed as part of fixed assets. These investments are stated in accordance with the accounting policy under investments set out above.

Borrowing costs

Borrowing costs, incurred in respect of assets that require a substantial period to construct or install, are capitalised up to the date that the construction or installation of the assets is substantially complete.

Scrip lending

Scrip lending transactions entered into by the Insurance Group are subject to repurchase agreements and, as such, the loan agreement is recorded at the same value as the underlying asset and no sale of scrip is recorded.

The value at which the loan is recorded corresponds with the Insurance Group's accounting policy relating to equities, as set out under Investment above.

Dividends received on scrip out on loan, as well as fees received for scrip lending transactions, are accounted for as investment income in the income statement.

Profit recognition

The operating surpluses are determined in accordance with the guidance note on Financial Soundness Valuations issued by the Actuarial Society of South Africa, PGN104.

The operating surpluses arising from participating and non-participating life insurance business are determined by the annual actuarial valuation. These surpluses are arrived at after taking into account the increase in actuarial liabilities under unmatured policies, provisions for policyholder bonuses and adjustments to contingency and other reserves within the life insurance funds. Any unappropriated surplus is carried forward as the balance of excess in the life insurance fund.

Premium income

Premium income is reflected net of reinsurance premiums.

Individual life investment funds, lump sums, annuities and single premiums are accounted for when the collection of the premiums in terms of the policy contract is reasonably assured.

All other individual life premiums are accounted for when they become due and payable.

In the employee benefits division, risk premiums and pure endowment scheme premiums are accounted for when they become due and payable. Other premiums are accounted for on a cash receipt basis.

Net investment income

Investment income comprises interest, dividends and net rental income. Dividends are accounted for as at the last day of registration in respect of listed shares, and on the date of declaration in respect of unlisted shares. Dividend income includes shares received in terms of capitalisation issues, irrespective of whether there is an option to receive cash in lieu of shares.

Interest and other investment income are accounted for on an accrual basis.

Policyholder benefits

Policyholder benefit payments are shown net of reinsurance recoveries and are accounted for when claims are intimated.

Taxation

Taxation in respect of the South African life insurance operations is determined using the four fund method applicable to life assurance companies.

Commission

Commission payments are net of reinsurance commission received. Life insurance business commissions are expensed as incurred. Commissions of the health insurance subsidiary are paid annually in advance and are amortised over a period of twelve months from the date they are incurred.

Marketing and administration expenses

Marketing and administration expenses include head office and branch administration expenditure, marketing and development expenditure as well as all other non-commission related expenditure, and are expensed as incurred.

BALANCE SHEET

as at 30 June 1999

R'million	Notes	Group 1999	Group 1998
ASSETS			
Banking operations		133 795,7	125 264,3
Cash and short-term funds	3	11 684,2	10 186,6
Short-term negotiable securities	4	10 642,1	10 573,4
Investment in trading securities	5	13 468,8	7 898,0
Repurchase agreements	5.1	58,8	80,6
Advances	6	93 718,1	94 955,4
Other investments	7	1 012,5	372,3
Associated companies	8	149,0	130,5
Clients' liabilities under acceptances	22	3 062,2	1 067,5
Insurance operations		53 186,9	54 487,3
Government and public authority stocks	9	5 233,8	7 032,3
Mortgages, debentures and other loans	10	4 488,4	3 628,1
Equity investments	11	31,408,6	29 876,8
Property investments	12	3 388,4	3 973,8
Policy loans	13	507,4	546,7
Funds on deposit	14	8 160,3	9 429,6
Property and equipment	15	3 582,8	3 557,1
Current assets	16	8 694,8	11 383,1
Total assets		199 260,2	194 691,8
LIABILITIES AND SHAREHOLDERS' FUNDS			
LIABILITIES			
Deferred taxation	17	1 157,6	1 104,3
Deposits and current accounts	18	115 391,5	118 121,7
Long-term liabilities	19	2 313,4	652,3
Life insurance funds	20	51 718,6	50 350,0
Current liabilities	21	14 084,7	13 622,8
Liabilities to clients under acceptances	22	3 062,2	1 067,5
Total liabilities		187 728,0	184 918,6
Outside shareholders' interest	23	518,3	428,8
SHAREHOLDERS' FUNDS			
Reserves	24	2 177,4	504,3
Convertible debentures	25	350,0	350,0
Ordinary share capital and share premium	26	8 486,5	8 490,1
Total shareholders' funds		11 013,9	9 344,4
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		199 260,2	194 691,8
Contingencies	31	10 220,4	10 916,2

INCOME STATEMENT

for the year ended 30 June 1999

R'million	Notes	Group 1999	Group 1998
Net income after tax			
Banking operations		1 954,7	429,9
Insurance operations		666,1	205,4
Interest on rights issue proceeds		–	83,6
Holding company expenses		(47,4)	–
Total net income after tax	27	2 573,4	718,9
Earnings attributable to outside shareholders of:			
Banking operations		(56,6)	(12,0)
Insurance operations		(28,3)	(18,5)
Net income after tax attributable to ordinary shareholders		2 488,5	688,4
Ordinary dividends	28	(844,0)	(347,5)
Retained income for the year		1 644,5	340,9
Distributable reserve at beginning of year		281,1	301,0
		1 925,6	641,9
Capitalisation award	29	–	(343,0)
Transfer to reserves	24	(19,8)	(17,8)
Distributable reserve at end of year		1 905,8	281,1
Earnings per share (cents)	30	45,7	27,4
Headline earnings per share (cents)	30	45,6	27,6
Dividend per share (cents)		15,5	10,4
NET INCOME AFTER TAX ATTRIBUTABLE TO ORDINARY SHAREHOLDERS IS ANALYSED BETWEEN EXISTING, DISCONTINUED AND ACQUIRED OPERATIONS AS FOLLOWS:			
Existing operations (twelve months)		2 488,5	314,0
Banking operations		1 898,1	109,8
Insurance operations		637,8	204,2
Holding company expenses		(47,4)	–
Discontinued operation			
Insurance operations		–	(17,3)
Net income before acquired operations		2 488,5	296,7
Net income from acquired banking operations (three months)		–	308,1
Net income from rights issue proceeds		–	83,6
Net income after tax attributable to ordinary shareholders		2 488,5	688,4

Cash flow statement

for the year ended 30 June 1999

R'million	Notes	Group 1999	Group 1998
Cash flows from operating activities			
Cash generated by operations	33.1	13 148,9	2 812,3
Working capital changes	33.2	2 957,6	531,9
Cash inflow from operations		16 106,5	3 344,2
Normal tax paid	33.3	(1 031,2)	(315,1)
Dividends paid	33.4	(653,4)	(98,8)
Net cash inflow from operating activities		14 421,9	2 930,3
Cash flows from investment activities			
Banking investment activities	33.5	(7 932,3)	1 256,6
Insurance investment activities	33.6	(7 330,0)	(586,0)
Proceeds on disposal of joint venture		–	127,4
Investment in associates		(18,5)	5,5
Net purchase of equipment		(570,3)	(184,3)
Net cash inflow/(outflow) from investment activities		(15 851,1)	619,2
Cash flows from financing activities			
Proceeds from issue of ordinary shares	33.7	(3,6)	5 035,2
Repayment of long-term borrowings		–	(28,8)
Proceeds from long-term borrowings		1 661,1	–
Net cash inflow from financing activities		1 657,5	5 006,4
Net increase in cash and cash equivalents		228,3	8 555,9
Cash and cash equivalents at beginning of period		19 616,2	2 650,9
Cash and cash equivalents acquired/disposed of		–	8 409,4
Cash and cash equivalents at end of period	33.8	19 844,5	19 616,2

STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 1999

	Retained earnings (Note 24) Rm	Non-distributable reserves (Note 24) Rm	Convertible debentures (Note 25) Rm	Share capital and share premium (Note 26) Rm	Total share-holders' funds Rm
1998					
Balance at beginning of the year	301,0	49,8	350,0	432,9	1 133,7
Net gains or losses not recognised in the income statement	–	155,6	–	–	155,6
Earnings attributable to shareholders	688,4	–	–	–	688,4
Dividends	(347,5)	–	–	–	(347,5)
Capitalisation award	(343,0)	–	–	422,5	79,5
Transfer (to)/from reserves	(17,8)	17,8	–	–	–
Issue of share capital	–	–	–	9 197,6	9 197,6
Share issue expenses	–	–	–	(119,1)	(119,1)
Excess of cost of subsidiary investment over attributable net asset value	–	–	–	(1 443,8)	(1 443,8)
Balance at end of the year	281,1	223,2	350,0	8 490,1	9 344,4
1999					
Balance at beginning of the year	281,1	223,2	350,0	8 490,1	9 344,4
Net gains or losses not recognised in the income statement	–	28,6	–	–	28,6
Earnings attributable to shareholders	2 488,5	–	–	–	2 488,5
Dividends	(844,0)	–	–	–	(844,0)
Transfer (to)/from reserves	(19,8)	19,8	–	–	–
Share issue expenses	–	–	–	(3,6)	(3,6)
Balance at end of the year	1 905,8	271,6	350,0	8 486,5	11 013,9

1. ACCOUNTING POLICIES
The accounting policies of the Group are set out on pages 26 to 29.

2. TURNOVER
Turnover is a concept not relevant to the business of banking and insurance.

R'million	Reference	Group 1999	Group 1998
3. CASH AND SHORT-TERM FUNDS			
Banking operations	Banking note 3	11 684,2	10 186,6
4. SHORT-TERM NEGOTIABLE SECURITIES			
Banking operations	Banking note 4	10 651,9	10 583,1
Consolidation adjustment		(9,8)	(9,7)
		10 642,1	10 573,4
5. INVESTMENT AND TRADING SECURITIES			
Banking operations	Banking note 5	13 468,8	7 898,0
5.1 Repurchase agreements			
Banking operations	Banking note 9	58,8	80,6
6. ADVANCES			
Banking operations	Banking note 6	93 824,4	95 126,7
Consolidation adjustment		(106,3)	(171,3)
		93 718,1	94 955,4
7. OTHER INVESTMENTS			
Banking operations	Banking note 11	1 012,5	372,3
8. ASSOCIATED COMPANIES OF BANKING OPERATIONS			
Banking operations	Banking note 10	149,0	130,5
9. GOVERNMENT AND PUBLIC AUTHORITY STOCKS			
Insurance operations	Insurance page 142	5 233,8	7 032,3
10. MORTGAGES, DEBENTURES AND OTHER LOANS			
Insurance operations	Insurance page 142	5 574,0	3 628,1
Elimination of intergroup balance – see note 19		(1 085,6)	–
		4 488,4	3 628,1
11. EQUITY INVESTMENTS			
Insurance operations	Insurance note 3	31 408,6	32 578,9
Elimination of crossholding between Southern Life and FNB		–	(2 702,1)
		31 408,6	29 876,8

R'million	Reference	Group 1999	Group 1998
12. Property investments			
Insurance operations	Insurance note 4	3 388,4	3 973,8
13. Policy loans			
Insurance operations	Insurance page 142	507,4	546,7
14. Funds on deposit			
FirstRand Limited		10,1	3 252,0
Insurance operations	Insurance page 142	9 064,6	6 177,6
Elimination of intergroup balance – see note 18		(914,4)	–
		8 160,3	9 429,6
15. Fixed assets			
Bank operations	Banking note 12	3 431,1	3 431,5
Insurance operations	Insurance note 5	165,4	139,3
Consolidation adjustment – net		(13,7)	(13,7)
		3 582,8	3 557,1
16. Current assets			
Banking operations	Banking note 8	6 567,0	9 735,7
Insurance operations	Insurance note 6	2 200,3	1 648,8
Consolidation adjustment – net		(72,5)	(1,4)
		8 694,8	11 383,1
17. Deferred taxation			
Banking operations	Banking note 15	1 158,5	1 101,7
Insurance operations	Insurance note 7	(0,9)	2,6
		1 157,6	1 104,3
18. Deposits and current accounts			
Banking operations	Banking note 13	116 305,9	115 938,6
Elimination of intergroup balance – see note 14		(914,4)	–
Intercompany balance on purchase of FNBH's shares in Southern Life			2 183,1
		115 391,5	118 121,7

R'million	Reference	Group 1999	Group 1998
19. LONG-TERM LIABILITIES			
Banking operations	Banking note 16	3 224,9	479,8
Elimination of intergroup balance – see note 10		(1 085,6)	–
Insurance operations	Insurance note 9	274,1	272,5
Consolidation adjustment		(100,0)	(100,0)
		2 313,4	652,3
20. LIFE INSURANCE FUNDS			
Insurance operations	Insurance note 10	51 708,0	50 303,0
Consolidation adjustment		10,6	47,0
		51 718,6	50 350,0
21. CURRENT LIABILITIES			
Dividends payable		435,6	245,0
STC		34,1	–
Elimination of intercompany dividends		(468,9)	–
Banking operations			
Creditors and accruals	Banking note 14	11 724,8	10 962,5
Insurance operations	Insurance note 8	2 353,2	2 410,9
Consolidation adjustment – net		5,9	4,4
		14 084,7	13 622,8
22. LIABILITIES TO CLIENTS UNDER ACCEPTANCES			
Banking operations	Banking page 84	3 062,2	1 067,5
23. OUTSIDE SHAREHOLDERS' INTEREST			
Banking operations	Banking page 84	393,5	251,2
Insurance operations	Insurance page 142	124,8	177,6
		518,3	428,8

R'million	Reference	Group 1999	Group 1998
24. Reserves			
Distributable reserve			
Retained income at beginning of year		281,1	301,0
Retained income for year		2 488,5	688,4
Dividend for the current year		(844,0)	(347,5)
Capitalisation award		–	(343,0)
Transfer to non distributable reserves		(19,8)	(17,8)
Retained income at the end of the year		1 905,8	281,1
Share election reserve			
Balance at beginning of year		–	64,4
Dividends provided			
Shares issued		–	(64,4)
Balance at end of year		–	–
Non-distributable reserves			
Non-distributable reserves relating to:			
Banking operations		254,7	216,6
Equity accounted earnings of associates		18,6	10,5
Other reserves in associated companies		1,7	0,2
Currency translation reserve		157,3	178,9
Revaluation of investments		1,1	–
Other		76,0	27,0
Insurance operations		16,9	6,6
Unrealised surplus on revaluation of investment assets		4,0	3,7
Currency translation reserve		(1,0)	0,9
Other		13,9	2,0
Balance at end of year		271,6	223,2
Total reserves		2 177,4	504,3
Movement for the year in non-distributable reserves:			
Balance at beginning of year		223,2	49,8
Transfer from income statement relating to:		19,8	17,8
Banking operations		8,1	46,5
Insurance operations		11,7	4,4
Discontinued operation		–	(33,1)
Currency translation reserve		(23,5)	179,7
Unrealised surplus on revaluation of investments		2,9	(12,9)
Other		49,2	(11,2)
Balance at end of year		271,6	223,2
25. Convertible debentures			
Insurance operations	Insurance note 12	350,0	350,0

R'million	Group 1999	Group 1998
26. ORDINARY SHARE CAPITAL AND SHARE PREMIUM		
Ordinary share capital		
Authorised		
6 500 000 000 ordinary shares of 1 cent each (1998: 6 500 000 000)	65,0	65,0
Issued		
Balance at beginning of year:		
5 445 303 089 ordinary shares of 1 cent each (1998: 1 353 008 450)	54,4	13,5
Shares issued during the year:		
Capitalisation awards		
44 497 020 ordinary shares of 1 cent each	–	0,4
Issued in terms of rights issue		
572 696 739 ordinary shares of 1 cent each	–	5,7
Issues for subsidiaries acquired		
3 475 100 880 ordinary shares of 1 cent each	–	34,8
	54,4	54,4
Share premium		
Balance at beginning of year	8 435,7	419,4
Arising on issue of ordinary shares:		
Capitalisation awards	–	422,1
Issued in terms of rights issue	–	5 148,6
Issued for subsidiaries acquired	–	4 008,5
Share issue expenses	(3,6)	(119,1)
Excess of cost of investment in subsidiary over attributable net asset value*	–	(1 443,8)
	8 432,1	8 435,7
	8 486,5	8 490,1
*The above set-off relates to approval received on 24 February 1999 in terms of an application to the High Court for a capital reduction in terms for section 84 of the Companies Act (Act 61 of 1973). The excess relates to the purchase, by shareholders, of the 40% shareholding in Rand Merchant Bank Limited previously held by the Momentum policyholder portfolios.		
Ordinary share capital and share premium		
	%	%
The following represents the shareholding of subsidiaries in FirstRand Limited at 30 June 1999:		
Southern Life Association Limited – held on behalf of policyholders	4,3	4,4

Share option schemes

Details of the investment in FirstRand by the share incentive schemes in existence within the Group are set out on page 39. These schemes comprise the Momentum Life Assurers Limited Share Trust (Momentum Life), The Southern Life Association Limited Share Scheme (Southern Life) and the First National Bank Share Purchase/Option Scheme ("FNB").

	Momentum Life	Southern Life	FNB
26. Ordinary share capital and share premium (continued)			
1999			
Number of options in force at end of year (millions)	56,6	13,6	125,1
Granted at prices ranging between (cents)	165 – 990	93 – 1 029	40 – 1 069
Number of options granted during year (millions)	33,5	0,0	31,5
Granted at prices ranging between (cents)	527 – 990	N/A	385 – 1 045
Number of options exercised/released during year (millions)	12,1	12,8	5,9
Market value range at date of exercise/release (cents)	519 – 940	385 – 1 045	591 – 1 045
Number of remaining shares available for future options (millions)	4,1	40,4	4,2
Value of company loan to share option trust (R million)	301,7	139,1	636,4
The abovementioned figures for Southern Life and FNB take account of the exchange ratio of 675 FirstRand shares for every 100 Southern Life/FNB shares.			
1998			
Number of options in force at end of year (millions)	35,2	26,4	99,5
Granted at prices ranging between (cents)	85 – 910	93 – 1 029	40 – 1 069
Number of options granted during year (millions)	6,5	0,6	0,1
Granted at prices ranging between (cents)	700 – 910	1 029	1 026 – 1 069
Number of options exercised/released during year (millions)	13,9	3,7	5,7
Market value range at date of exercise/release (cents)	700 – 1 215	888 – 1 071	905 – 1 069
Number of remaining shares available for future options (millions)	33,2	28,5	5,4
Value of company loan to share option trust (R million)	395,2	161,1	480,1

R'million	Group 1999	Group 1998
27. NET INCOME AFTER TAX ATTRIBUTABLE TO SHAREHOLDERS		
Net income after tax is stated after charging the following:		
Directors' emoluments paid		
Executive directors		
Salaries, pension and medical aid contributions	14,1	9,6
Non-executive directors		
Fees for services as directors/consultants	1,6	0,3
	15,7	9,9
Directors' emoluments paid by:		
Company	0,9	2,3
Subsidiaries	14,8	7,6
	15,7	9,9
28. DIVIDENDS		
Ordinary dividends		
An interim dividend of 7,50 cents (1998: 3,22 cents) per share was declared on 23 February 1999 in respect of the six months ended 31 December 1998 payable to shareholders registered in the books of the company at the close of business on 19 March 1999.	408,4	49,8
A second interim dividend of 2,67 cents per share was declared on 24 April 1998, payable to shareholders registered on 8 May 1998.	–	52,7
A final dividend of 8,0 cents (1998: 4,5 cents) per share was declared on 17 September 1999, payable to shareholders registered on 15 October 1999.	435,6	245,0
	844,0	347,5
29. CAPITALISATION AWARD		
Distributable reserves of R343 million were capitalised by way of the issue of 32 781 164 shares in the ratio of 1,692 shares for every 100 shares registered in the name of shareholders on 8 May 1998.	–	343,0

R'million	Reference	Group 1999	Group 1998
30. Earnings per share			
Attributable earnings basis			
Earnings per share is based on the net income after tax attributable to ordinary shareholders and the weighted number of ordinary shares in issue, Earnings attributable to ordinary shareholders amounted to R2 488,6 million (1998: R688,4 million) and the weighted average number of ordinary shares in issue during the year amounted to 5 445 303 089 (1998: 2 509 989 723).			
Headline earnings basis			
Headline earnings per share is based on the net income after tax attributable to ordinary shareholders, adjusted for items of a non-trading nature, and the weighted average number of ordinary shares in issue.			
Headline earnings reconciliation			
Net income after tax attributable to ordinary shareholders		2 488,5	688,4
Portion of goodwill written off		1,8	–
Loss on disposal of subsidiary and joint venture		5,8	5,4
Release of provisions made on disposal of joint venture		(14,5)	–
Profit on sale of strategic investments		–	(0,6)
Headline earnings attributable to ordinary shareholders		2 481,6	693,2
31. Contingencies and commitments			
Banking operations	Banking note 22	10 220,4	10 916,2

32. Related parties

Major shareholders

The major shareholders of FirstRand Limited are AAC and RMBH. Both of these companies are incorporated in South Africa.

Transactions with directors

There are no material transactions with directors other than the directors' emolument detailed in note 27.

Transactions with entities in the Group

FirstRand Limited is the ultimate controlling entity in the Group. The company advanced, repaid and received loans from other entities in the Group during the current and previous financial years.

Fixed interest securities and derivative instruments

FirstRand Insurance Group invests from time to time in fixed interest securities and derivative instruments issued by FirstRand Bank. These assets are acquired at market rates in accordance with the Group accounting policy. Due to the fact that these assets are acquired to back liabilities to policyholders under unmatured policies, they are not eliminated upon consolidation. The aggregate value of these instruments amounted to R2,0 billion at 30 June 1999.

Broker commissions

As part of the distribution of insurance products through intermediaries, the Insurance Group makes use of First Bowring (Pty) Limited, a subsidiary of FirstRand Bank, to distribute products to clients. The commissions paid to First Bowring by related parties amounted to R43,7 million for the year to 30 June 1999.

R'million	Group 1999	Group 1998
33. CASH FLOW INFORMATION		
33.1 Cash generated by operations		
Net profit before taxation	3 521,6	1 050,2
Adjustment for non-cash items	9 627,3	1 762,1
	13 148,8	2 812,3
33.2 Working capital changes		
Current assets		
Decrease/(increase) in items in transit	1 413,0	(661,7)
Increase in accrued interest	(135,1)	(26,0)
Increase in accounts receivable	(1 013,3)	(819,5)
Decrease/(increase) in other debtors	5 516,4	(2 718,9)
Increase in accrued investment income	(507,2)	(276,2)
Decrease/(increase) in premium debtors	24,4	(45,2)
	5 298,2	(4 547,5)
Current liabilities		
Increase in accrued interest	51,6	47,3
Increase in accounts payable	2 968,1	276,0
(Decrease)/increase in other creditors	(5 068,9)	4 486,3
(Decrease)/increase in outstanding benefit payments	(158,5)	190,3
Decrease in debentures	(100,0)	–
Increase in derivative financial instruments	31,7	–
(Decrease)/increase in provisions	(64,6)	79,5
	(2 340,6)	5 079,4
Net working capital changes	2 957,6	531,9
33.3 Taxation paid		
Balance at beginning of year	(374,7)	(79,6)
Balances of subsidiaries acquired/disposed of	–	(279,8)
Taxation charged for the year	(1 033,0)	(330,4)
Balance at end of year	376,5	374,7
Taxation paid	(1 031,2)	(315,1)
33.4 Dividends paid		
Balance at beginning of year	(245,0)	(11,4)
Ordinary dividends declared	(844,0)	(347,5)
Shares issued in lieu of dividends	–	79,5
Transfer (from)/to share election reserve	–	(64,4)
Balance at end of year	435,6	245,0
Dividends paid	(653,4)	(98,8)

R'million	Group 1999	Group 1998
33. Cash flow information (continued)		
33.5 Banking investment activities		
(Increase)/decrease in:		
Short-term negotiable securities	(68,7)	(2 088,6)
Investment in trading securities	(5 570,8)	(3 264,5)
Advances	881,4	(7 517,9)
Repurchase agreements	21,8	49,0
Other investments	(465,8)	(72,4)
	(5 202,1)	(12 894,4)
Deposits and current accounts	(2 730,2)	14 151,0
Net (increase)/decrease in banking investment activities	(7 932,3)	1 256,6
33.6 Insurance investment activities		
(Increase)/decrease in		
Government and public authority stocks	2 298,1	220,0
Mortgages, debentures and other loans	(1 123,0)	(516,5)
Equity investments	(8 736,0)	(283,3)
Property investments	191,7	37,9
Policy loans	39,2	(44,1)
	(7 330,0)	(586,0)
33.7 Proceeds from issue of ordinary shares		
By the company	–	5,154,3
Share issue expenses	(3,6)	(119,1)
	(3,6)	5 035,2
33.8 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	11 684,2	10 186,6
Funds on deposit	8 160,3	9 429,6
	19 844,5	19 616,2

FirstRand Banking Group

"FRBG" or the "Banking Group"

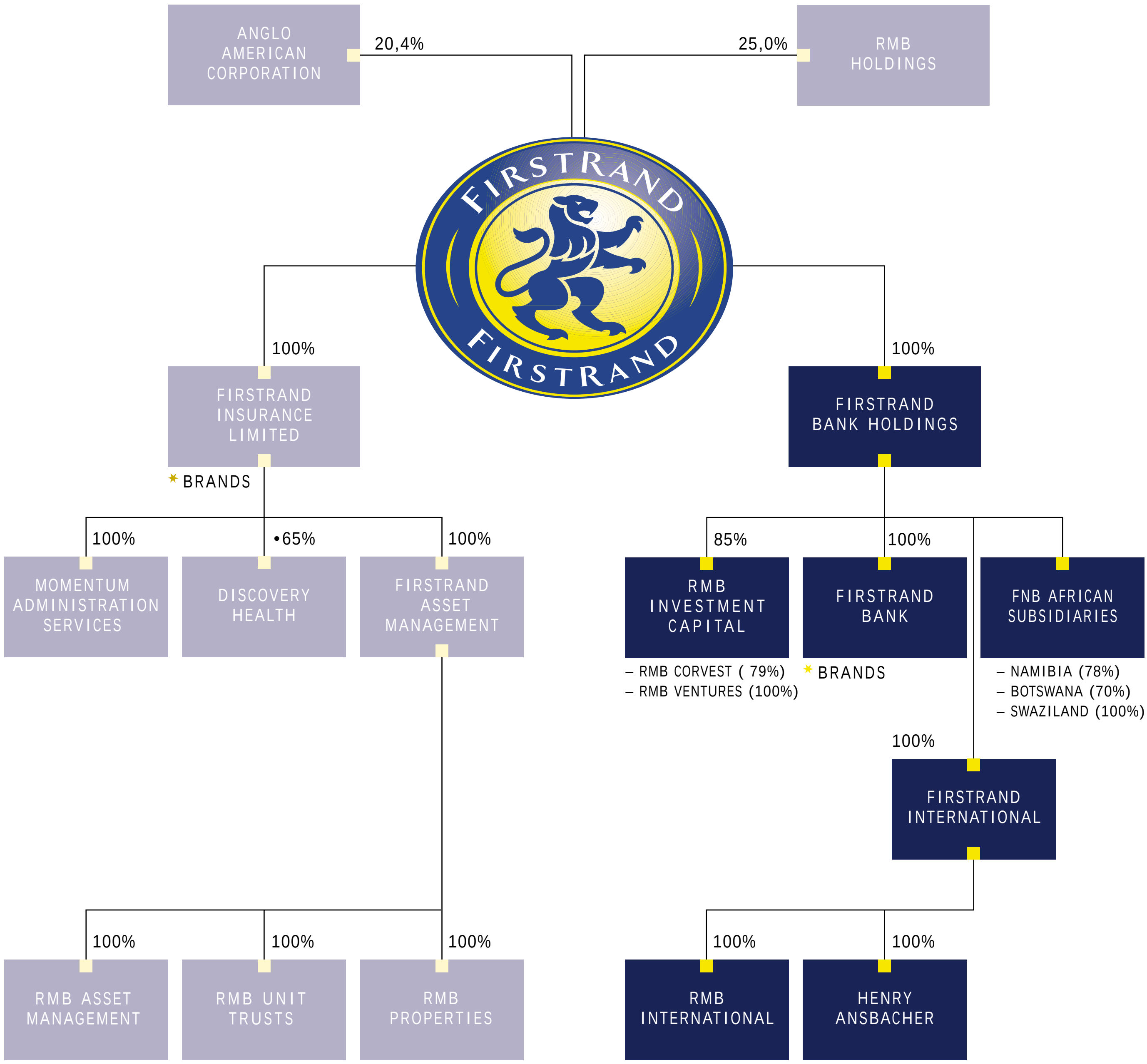
Contents for the FirstRand Banking Group

Strijdom van der Merwe is perhaps the only landscape artist in this country. His art captures the essence of nature, as it moves in a cycle of continuous change. An understanding of nature and the sensitivity to know how to change the landscape, in which light to view it, and which moment in the tides to introduce it, is what makes his art so rare and different.

We dare to think small

By chunking into profit centres, each business group is developed by a stand-alone management team, focusing on its own bottom line.

GROUP STRUCTURE



* MOMENTUM LIFE
SOUTHERN LIFE
MOMENTUM EMPLOYEE BENEFITS

* RAND MERCHANT BANK (RMB)
FIRST NATIONAL BANK (FNB)
BOB
ORIGIN
ANSBACHER
WESBANK

• *Shareholding subsequent to the Discovery listing*

Financial highlights

- Increase in headline earnings after adjustment for additional capital +30%
- Increase in earnings attributable to shareholders +46%
- Increase in net interest income +21%
- Increase in other income +19%

Five-year review

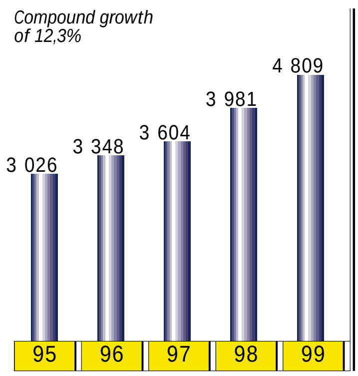
for the year ended 30 June

		Pro forma for 12 months			
R'million	1999	1998	1997	1996	1995
Balance sheet					
Total assets	143 909,9	138 612,5	113 593,4	100 127,7	85 573,3
Advances	93 824,4	95 126,7	83 420,9	73 058,7	64 296,7
Deposits	116 305,9	115 938,6	98 202,5	86 327,4	72 661,4
Shareholders' funds	8 040,1	8 811,2	6 502,0	5 494,6	4 630,7
Income statement					
Net interest income	4 808,5	3 980,6	3 604,4	3 348,1	3 025,9
Charge for bad and doubtful debts	(1 362,8)	(1 169,6)	(847,9)	(569,9)	(408,2)
Other operating income	5 156,0	4 339,5	3 522,9	2 923,2	2 343,7
Operating expenditure	(6 086,4)	(5 232,9)	(4 403,2)	(4 003,3)	(3 472,1)
Earnings attributable to ordinary shareholders	1 898,1	1 302,6	1 435,3	1 096,5	936,1
	%	%	%	%	%
Ratios					
Return on average equity	20,1	19,8	23,9	21,7	21,7
Efficiency ratio	61,1	62,9	61,8	63,8	64,7
Bad debt charge as a % of advances	1,4	1,3	1,1	0,8	0,7
Other operating income as a % of total income	51,7	52,2	49,4	46,6	43,6
Return on average assets	1,3	1,0	1,3	1,2	1,2
Interest margin on average total assets	3,3	3,1	3,4	3,6	3,9
Interest margin on average advances	5,0	4,4	4,6	4,9	5,3

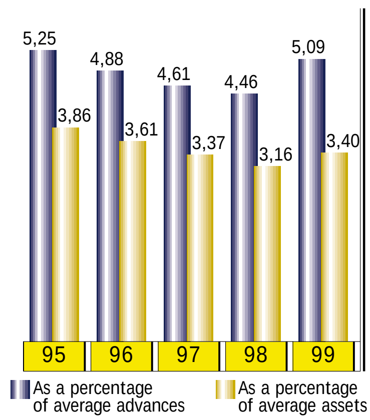
Interest income and expenditure

Interest income increased by 26,0 per cent whilst interest expenditure increased by 27,7 per cent resulting in an increase in net interest income of 20,8 per cent. Adjusted for the capital injection during the course of the year, interest income increased by 25,0 per cent, and net interest income by 17,0 per cent. The turmoil in international markets resulted in a rapid increase in interest rates during the first three months of the year under review causing interest margins to come under pressure. The pressure on margins was exacerbated by unhedged fixed rate retail lending in the period preceding the increase in interest rates. The subsequent decline in interest rates during the later nine months has, however, resulted in margins improving. The improvement is expected to continue into the new financial year. Traditionally, margins are measured as a percentage of average assets (gold bar), however a more meaningful measure is to measure margins as a percentage of average advances (blue bar). This eliminates tradings assets from the calculation, the income from which is included in "Other income".

Net interest income (Rm)



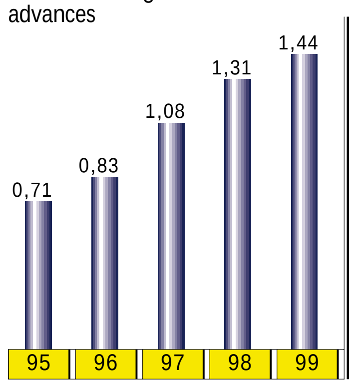
Interest margin (%)



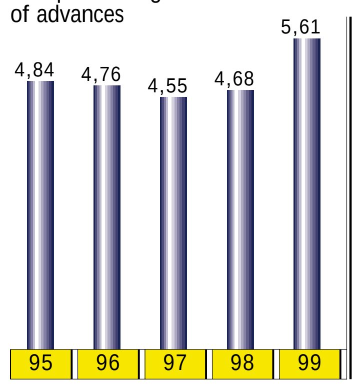
Loans and doubtful debts

The charge to the income statement for bad and doubtful debts increased by 16,5 per cent to R1 362,8 million reflecting the continued impact of high real rates of interest on borrowers. This charge represents 1,4 per cent (1998: 1,3 per cent) of average advances. As at 30 June 1999, balance sheet provisions expressed as a percentage of advances amounted to 3,5 per cent (1998: 3,1 per cent). At the time of the merger, the banking group deemed it prudent to create an additional general provision for bad debts of R600 million. The provision was created in the light of turmoil in the financial markets and the consequential pressure on borrowers. As at 30 June 1999, R144 million of specific provisions relating to emerging market debt had been charged against the provision. The sharp increase in non-performing loans, although worrying, stems directly from the interest rate spike which occurred earlier in the year. The subsequent decrease in rates has seen the situation improve, and indications are that this trend should continue into the new year.

Bad debt charge as a % of advances



Non-performing loans as a % of advances

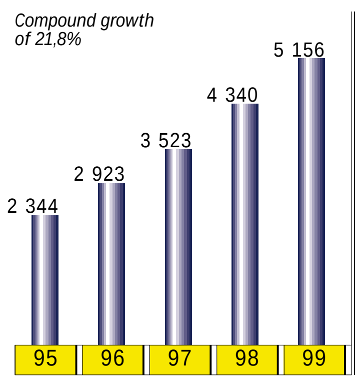


Other operating income

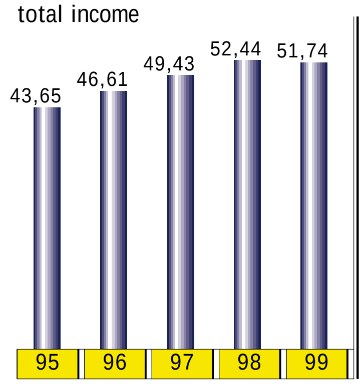
Other operating income rose by 18,8 per cent to R5 156,0 million (1998: R4 339,5 million), which represents 51,7 per cent of total income (1998: 52,2 per cent) making the Banking Group less dependent on interest margin. Although this represents a slight decrease on the prior year, the ratio is distorted by the additional interest income referred to earlier. The Banking Group is satisfied with a ratio which exceeds 50 per cent.

Trading income from treasury and merchant banking activities accounted for a substantial portion of the 18,8 per cent increase.

Other operating income (Rm)



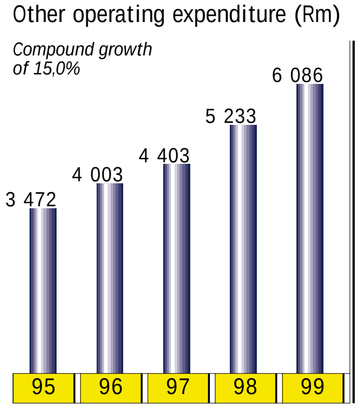
Other income as a % of
total income



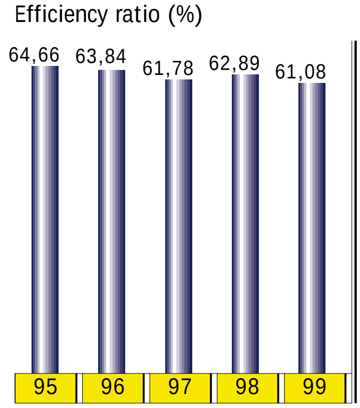
Other operating expenditure

The increase in operating expenditure of 16,3 per cent to R6 086,4 million (1998: R5 232,9 million) includes non-recurring computer expenditure (R120,5 million) and professional fees (R106,9 million) incurred in relation to business transformation. A further R68 million is attributable to start-up expenses relating to new operations, which were expensed during the period, which is in line with FirstRand Group accounting policies. If these items are excluded, the increase would have been 10,7 per cent. The Banking Group's cost to income ratio improved to 61,1 per cent from 62,9 per cent, although this only returned the Banking Group to the 1997 pre-transformation levels. The focus in the year was essentially on strategic planning, restructuring, and the appropriate allocation of revenue and costs into profit centres. These processes are now almost complete which will enable the division to concentrate on revenue enhancement and cost control. The result of focus in this area at divisional level will enable the Banking Group to significantly improve on its efficiency ratio.

Other operating expenditure (Rm)



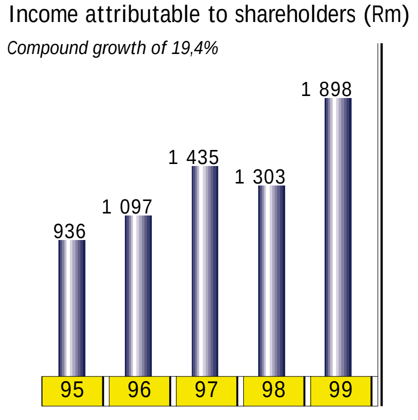
Efficiency ratio (%)

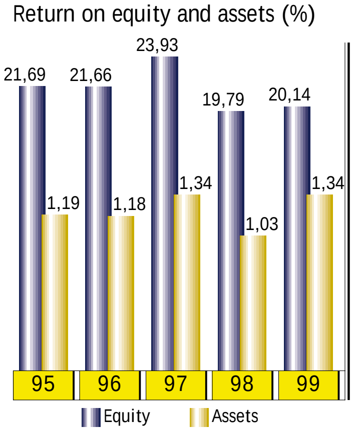


Operating profit

The Banking Group's operating profit for the year under review exceeded expectations, in spite of the pressure on interest margins experienced during the first quarter of the financial year. The Banking Group's merchant banking trading operations have prospered from market volatility prevailing during the period under review. The earnings attributable to shareholders of R1 898,1 million (1998: R1 302,6 million) represents an increase of 45,7 per cent. If interest earned on the additional capital and the proceeds on the sale of Southern Life are excluded, earnings reflect a pro forma increase of 30,2 per cent, or compound five-year growth of 16,3 per cent.

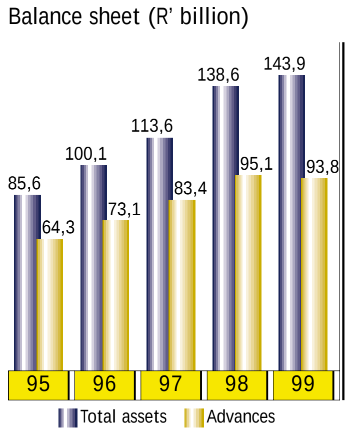
Return on equity and return on assets have both reversed their previous downward trends. In June 1999, the Banking Group received SARB approval for the reorganisation of its capital structure, and on 30 June 1999, returned R2 000 million in capital to FirstRand Limited via a special dividend. On 30 June 1999, a convertible loan of R2 billion was raised on a private placing. The loan bears interest at a variable rate linked to prime, and is convertible at the option of the issuer after ten years. Return on equity for the Banking Group would have been 20,7 per cent had the loan capital been in place for the period commencing 1 July 1998.





Balance sheet

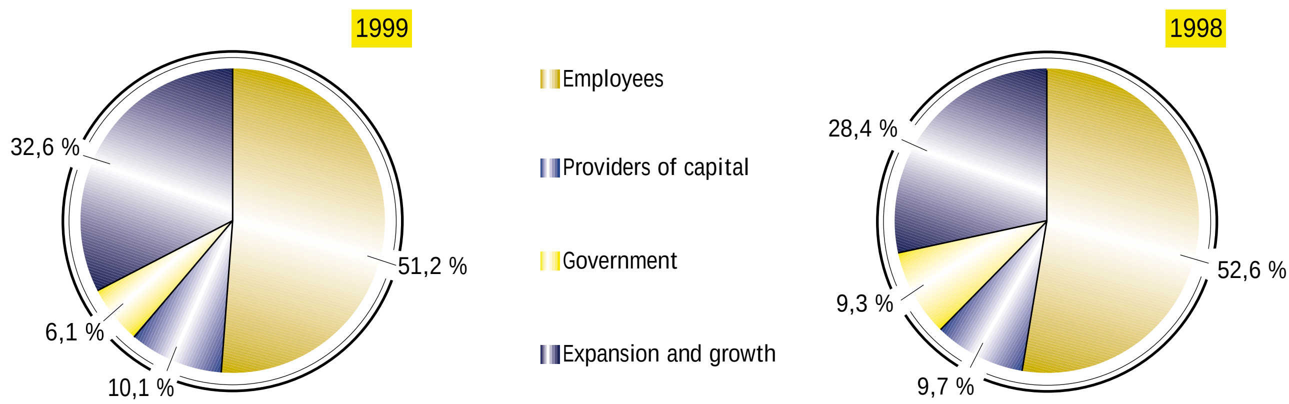
The balance sheet reflected pedestrian growth, with total assets growing by 3,8 per cent and advances declining by 1,4 per cent. Although disappointing, this is in line with expectations, considering the shock delivered to consumer and business confidence by the interest rate spike in the early part of the financial year. This, coupled with a changed emphasis in the Banking Group from asset growth to asset quality and return on capital is the primary reason for the lower growth.



Value added statement

for the year ended 30 June 1999

	Group 1999 R'million	Group 1999 %	Group 1998 R'million	Group 1998 %
Value added				
Income earned by providing banking services	20 287,4		4 171,0	
Cost of services	(16 841,7)		(3 468,4)	
Value added by banking services	3 445,7		702,6	
Non-operating income	5 112,2		1 574,6	
Other non-operating expenditure	(2 504,9)		(649,3)	
Value added	6 053,0		1 627,9	
To employees				
Salaries, wages and other benefits	3 100,2	51,2	856,2	52,6
To providers of capital				
Dividend to shareholders	611,2	10,1	158,4	9,7
To government				
Normal taxation	157,3	2,6	65,0	4,0
Value added tax	172,7	2,8	55,0	3,4
Regional services levy	39,5	0,6	9,3	0,6
Other	4,9	0,1	21,0	1,3
To expansion and growth				
Retained income	1 286,9	21,3	314,4	19,3
Depreciation	481,3	8,0	121,8	7,5
Deferred taxation	199,0	3,3	26,8	1,6
	6 053,0	100,0	1 627,9	100,0



For comparative purposes, the following adjustments have been made to the above numbers:

– R88,0 million in dividends paid during the current financial year, but relating to the prior year have been reallocated to the relevant years,

– R2 000 million dividend paid in terms of the capital reorganisation has been excluded.

Board of directors
FirstRand Bank Holdings Limited

G T Ferreira (51)
BCom (Hons), B (B&E), MBA
Chairman of FirstRand Bank and FirstRand Limited and Director of FirstRand Insurance

M W King (62)
CA(SA), FCA
Deputy Chairman of FirstRand Bank and FirstRand Limited and Director of FirstRand Insurance

P K Harris (49)
MCom
Chief Executive Officer of FirstRand Bank, Director of FirstRand Limited and FirstRand Insurance

V W Bartlett (56)
FIBSA, AMP (Harvard)
Deputy Chief Executive Officer of FirstRand Bank, Director of FirstRand Limited and FirstRand Insurance

M P C Brogan (49) *
FCA
Chairman Henry Ansbacher Group of Companies
* Australian

J P Burger (40)
CA(SA)
Financial Director of FirstRand Bank

L L Dippenaar (50)
MCom, (CA)SA
Chief Executive Officer of FirstRand Limited and Executive Chairman of FirstRand Insurance

D G K Fish (52)
CA(SA)

J W Gafney (65)
CTC, CA(SA)

P M Goss (51)
BEcon (Hons), B AccSc (Hons), CA(SA)
Director of FirstRand Limited

S R Maharaj (64)
BA, BAdmin
Director of FirstRand Limited

G R Pardoe (42)
BA (Hons)
Director of FirstRand Limited

R B Savage (56)
MCom, CA(SA)

Dr A S Vahed (64)
DCom (Hons), UDW (Hons), DEcon (Natal)

R A Williams (58)
BA, LLB
Director of FirstRand Limited

From left to right

back: J P Burger, M P C Brogan, R A Williams, P M Goss, J W Gafney *row second from back:* D G K Fish, G R Pardoe, S R Maharaj, L L Dippenaar
middle: R B Savage, Dr A S Vahed, V W Bartlett *front:* G T Ferreira, P K Harris, M W King

EXECUTIVE MEMBERS

Viv Bartlett (56)
Harvard AMP
Banking Group Deputy CEO, Chairman of ALCO and Custodian of the FNB Brand

Bradley Bothma (49)
BCom, CA(SA), MBA (Wits), Diploma of Project Management, Final Banking Diplomas
CEO, FNB First Commerce

Johan Burger (40)
BCom (Hons), CA(SA)
Financial Director and Chairman, Finance, Risk and Compliance Cluster

Derek Carstens (50)
BEcon (Hons), MA (Cantab)
Chairman, Branding Committee and Consumer Banking Cluster

LP Collet (38)
BBusSc (Hons), MBA, CFA, AMP
Chairman, Merchant Banking Cluster

Laurie Dippenaar (50)
MCom, CA(SA)
CEO, FirstRand Limited

Grant Dunnington (39)
BSc Engineering, BCom (Hons)
Chairman, Generic Support Services Cluster

Paul Harris (49)
MCom
Banking Group CEO and Chairman, RMB Divisional Board

Pat Lamont (45)
BCom, MBA, FIB (SA)
CEO, Emerging Markets including Micro-Credit & SME

Theunie Lategan (42)
DCom, CA(SA), Dip Adv Banking
CEO, FNB Corporate Bank

Wendy Lucas-Bull (46)
BSc
Chairman, Process Cluster and Strategic Project Review Committee

From left to right

standing: Ronnie Watson, Rudolf Pretorius, Zweli Manyathi, Norman Slack, Billy Wellsted, Andrew Lumsden

seated: Dave Stewart, Willie Willers, Pat Lamont, John Moses

From left to right

standing: Viv Bartlett, Paul Harris, Grant Dunnington, Wendy Lucas-Bull, Derek Carstens, EB Nieuwoudt, Theunie Lategan, Bradley Bothma

seated: Johan Burger, Laurie Dippenaar, Neville Nightingale, LP Collet

Andrew Lumsden (44)
BCom, CAIB (SA)
CEO, Distribution and Basic Banking Product House

Zweli Manyathi (37)
BCom (Hons)
CEO, FNB First Express

John Moses (54)
BSc (Hons), CAIB (SA)
Chairman, Regional Banking Cluster

EB Nieuwoudt (38)
MCom
Group Treasurer and Chairman, Corporate, Business & Commercial Cluster

Neville Nightingale (54)
FIAC, PMD (Harvard)
Chairman, Transitional HR Committee and responsible for the change process

Rudolf Pretorius (37)
BCompt (Hons)
Chairman, Mortgage Cluster and Private Banking Cluster

Norman Slack (55)
Institute of Bankers Finals, AEP (Unisa)
CEO, Branch Network & Operations

Richard Spilg (42)*
BCom, CA(SA), ACA, H Dip Tax
CEO, Ansbacher (UK)

Dave Stewart (54)
Institute of Bankers Examinations
CEO, FNB FirstCard

Ronnie Watson (52)
AMP (Harvard)
Chairman, Moveable Asset Finance Cluster, CEO Wesbank

Billy Wellsted (55)
CEO, FNB First National

Willie Willers (55)
BCom, MBA, Diploma in Labour Relations (UNISA), Personnel Practitioner
Chairman, Consumer Banking Cluster and Bancassurance Cluster

*Absent

- In the FirstRand Banking Group we have coined the phrase "juggerniche" to describe what we believe is a unique combination of the benefits of being both "big" and of being "niched".

- We needed to fundamentally transform the way the Banking Group was managed.

- Our new business philosophy is the key to unlocking the pent-up energy of our employees.

- In February 1999 we announced a radical change to the organisational structure of the Banking Group.

The massive changes caused by technology, de-regulation, globalisation, the rising power of the consumer and the unprecedented attack on the banking value chain by non-traditional entrants have changed the landscape in financial services forever. International firms have responded by merging to get "bigger" in pursuit of economies of scale or by adopting the focused "niche" strategies of the very organisations that are attacking their business.

The creation of FirstRand Bank Limited in June 1999 created the third largest bank by assets in South Africa, which makes us a juggernaut in the South African context. On the other hand, our business philosophy gives our Group the "heartbeat of a merchant bank", because it is the philosophy of a niche player.

In the FirstRand Banking Group we have coined the phrase "juggerniche" to describe what we believe is a unique combination of the benefits of being both "big" and of being "niched". We have committed ourselves to inculcating this philosophy throughout the Banking Group, which will totally transform and uniquely position us to meet the challenges and exploit the tremendous opportunities that the rapidly changing environment presents. We are already a long way down this path.

The creation of small, autonomous but interdependent business units (the "chunking" of the organisation) results in a portfolio of empowered, accountable and profitable "niche" businesses that deal with each other at arm's length. This ensures a profit focus and eliminates cross-subsidisation so that only the divisions that are profitable or have the potential to be profitable survive and resources are directed at those that give the highest return on capital. "Chunking" devolves management accountability to the business unit level, where we believe it should lie.

The "Cultural Revolution"

Our starting point was the realisation that we needed to fundamentally transform the way the Banking Group was managed. We had to move from being an organisation managed by control systems to an organisation guided by a common set of values. In this way we intend creating the type of "owner-manager culture" prevalent in niched businesses. We therefore devoted much time and energy in taking the best out of RMB and FNB to articulate a FirstRand business philosophy which has been "bought into" at all levels.

One of the first exercises was to determine the level of understanding of the new business philosophy and to establish a starting point against which to monitor progress. To achieve this, an anonymous capabilities survey of the attitudes and beliefs of the staff of the entire Banking Group was performed. These results provided sobering reading, indicating that the old FNB corporate culture was stifling creativity and leading to a frustrated workforce. Many of the functions performed by the "corporate centre" were perceived as not adding value, and in some areas the management were seen to be out of touch with the staff. Yet there are several areas of excellence in the Banking Group, and the level of loyalty and the eagerness to accept change was heartening. I feel that we are pushing on an open door, and that our new business philosophy is the key to unlocking the pent-up energy of our employees.

To enhance internal communications we ran two distinct series of two-day

We dare to trust our people

Participative, non hierarchic decision-making with vigorous debate of the business case lies at the core of the way we do business.

workshops. The first was aimed at examining the FirstRand business philosophy in depth and understanding the resultant implications on the business. A total of nine workshops brought around 400 of the most senior management to a point where they understand the required cultural and operational changes.

The second set of workshops was for those individuals who had been identified as agents of change in their workplaces, irrespective of their positions. A total of around 1 500 staff members thereby gained an understanding of the necessity for the cultural changes from these workshops. These change agents lead workplace forums called "do-it" groups, where issues around the new philosophy and the workplace are debated by all staff members, and unresolved questions are directed to the management board. In this way we make meaningful contact with every employee.

Furthermore, in order to introduce the senior management of the Banking Group to all employees and to inculcate the business philosophy we introduced a new method of communication – the Business Broadcasts. These consist of regular live broadcasts via the digital satellite TV channel, DSTV, to all branches throughout the country. In one of the early broadcasts we introduced an incentive scheme to all levels of staff, based on self-assessment against targets that staff members set for themselves.

The transformation programme is already making a noticeable impact. I believe that this "revolution" will have a profound impact on the way our staff approach their jobs. This will enable us to achieve our goal of becoming a truly customer-centric organisation as staff behaviour becomes an embodiment of our brand values.

Merger progress – operationally

In February 1999 we announced a radical change to the organisational structure of the Banking Group. We established that it could be "chunked" into about 70 focused profit centres. These profit centres were provisionally grouped into 11 Clusters of strategically aligned businesses. As the strategic process has unfolded, the number of profit centres has grown to about 80, and the number of Clusters to 14.

To involve a broader spectrum of management in the planning process and to devolve responsibility to people who have the requisite experience, skills and knowledge, we created a Strategic Review

- We will be measuring all business units on their risk-adjusted return on notional capital.
- We decided that we could exploit the interdependencies between business units by operating under a single legal entity.
- On 30 June 1999 a total of R2 000 million of secondary capital was raised.
- The Banking Group increased after-tax profits by 46,6% over the pro forma performance of 1998.
- RMB achieved record profits this year from all divisions, despite the tough trading conditions.

Committee ("SRC") for each Cluster. It is responsible for the management of the strategic planning process of each Cluster. A "Programme Office" maps and sequences the various strategic initiatives and the strategic planning process. Profit centre management is held accountable for the implementation of their strategic plans. The strategic plans of several of the large businesses have been approved to date, and we plan to have them all approved within the new financial year.

A consequence of "chunking" the organisation into many profit centres is that management information systems must measure performance at divisional levels, in addition to the overall Group level. A model for such a performance measurement system is being developed under the guidance of the Chief Financial Officer. We will be measuring all business units on their risk-adjusted return on notional capital, and have established appropriate transfer pricing mechanisms to ensure that all businesses will be charged for the capital and funding they use, at a market-related price. Although this will take some considerable effort to implement, the benefit of measuring the true economic profitability of each unit allows for meaningful management decision-making and a focus on the true revenue and cost drivers.

We decided that we could exploit the interdependencies between business units and the large balance sheet best by operating under a single legal entity, FirstRand Bank Limited. This is a purely legal structure, as the various businesses will continue to operate under their existing valuable brands. The process involved transferring all trading instruments and portfolios, credit lines, assets and liabilities on one day, 30 June 1999, into one balance sheet, which was achieved without disruption to our customers and counterparties.

On 30 June 1999 a total of R2 000 million of secondary capital was raised to optimise the capital structure in line with international norms. The net effect is a 60:40 ratio primary to secondary capital ratio for FirstRand Bank. This will enhance the return on shareholders' equity in the future.

Divisional performance and achievements

THE BANKING GROUP AS A WHOLE

The Banking Group increased after-tax profits by 46,6% over the pro forma performance of 1998. Return on average equity amounted to 20,1%, which is satisfactory but below our target of 30% per annum. The turmoil in the emerging markets impacted on interest margins in the earlier part of the financial year. While the prime rate dropped from a high of 25,5% to 16,5% by August 1999, the still high real interest rates placed both consumers and businesses under considerable pressure. This in turn impacted on the growth of advances as well as the level of bad debt provisioning.

Notwithstanding the squeeze on interest margins which followed the interest rate increases, the Banking Group was able to increase its interest margin from 3,1% to 3,3% on average total assets. Other operating income rose by 18,8%, representing 51,7% of total income. The Banking Group also achieved a reduction in the cost to income ratio from 62,9% to 61,1%. We believe that the "chunking" process will result in this ratio being driven down by focusing on the revenue and cost drivers at divisional level.

Asset growth was low at 3,8% versus a market increase of 12,5%, which implies a loss of market share. We have signalled via our philosophy that asset growth and market share on their own are not important to us. What is important is an asset composition that provides risk-adjusted profitability. It is therefore possible and in fact likely that we will be exiting certain lending activities that do not provide acceptable risk-adjusted profitability. In the short term this could result in lower or even negative asset growth, which will be balanced by an increase in profitability.

The charge to the income statement for bad and doubtful debts increased by 16,5% to R1 362 million, representing 1,4% of average advances. Balance sheet provisions amounted to 3,5% of advances. At the time of the merger an additional general provision of R600 million was raised against potential bad debts arising from the emerging markets crisis. As at 30 June 1999, a total of R144 million was used to fully provide against certain trade-related exposures to South American and Asian banks that became problematic as a result of the crisis. It is anticipated that certain of these provisions may be recovered. The balance of the R600 million special provision has been retained in the general provision for bad debts.

Our focus this year will be on implementing the structure of "chunking" the business into profit centres broadly characterised as product houses, customer gateways, delivery channels and generic service providers. This will involve further refinement of our market segmentation model and work on our management information systems that will enable us to accurately measure the profitability of the profit centres.

Rand Merchant Bank

RMB achieved record profits this year from all divisions, despite the tough trading conditions. RMB TREASURY had a particularly successful year. In addition to dealing with the enormous task of successfully completing the merger of the Treasury divisions of FNB and RMB, it also encountered very high levels of market volatility. The fact that it still made record profits highlighted the strength of the Treasury's risk management systems. The deployment of support functions into the division, as opposed to being part of a centralised support function, has provided dealers with a deeper understanding of the operational, credit and market risks associated with their portfolios. The revenues from annuity and arbitrage trading rose satisfactorily. The merged Treasury has been expanded by the introduction of a fully-fledged commodities business, and the introduction of client dealing capabilities in the four major South African geographic regions. Significant cost benefits have been realised by the rationalisation of IT systems and a lower personnel complement. The funding of the Banking Group is the responsibility of a newly created division known as the Banking Group Treasury. This business will move into a different dealing room and will report to the Treasurer.

The INVESTMENT BANKING interests of the Group were reorganised in the course of the year. FirstCorp Capital Investors was the pre-eminent private equity business in South Africa and at the time of the merger it was felt that the management of third party funds unduly restricted the flexibility of the other private equity businesses in the Group. Consequently we sold 51% of the business to management, renamed it Ethos and maintained an investment of some R73 million in Ethos. The operations of RMB Corvest and RMB Ventures cover the remainder of the private equity market in South Africa, making the holding company, RMB Investment Capital, one of the largest players in this market, with over 30 dedicated professionals and over 100 investments. RMB Ventures also was established in Australia this year, and has already completed several promising transactions. RMB Investment Banking is an excellent example of the FirstRand philosophy of operating across the entire private equity market in several focused niche businesses.

RMB SPECIAL PROJECTS had a bumper year, executing several multi-disciplinary structured debt transactions, with the flagship deal being the financing of the N3 tollroad. The merger has resulted in a broadened scope of business which now includes structured finance, project finance, structured trade finance, securitisation and international finance. Special Projects was rated by its peers in the most recent PricewaterhouseCoopers survey as the premier structured finance house in South Africa.

RMB CORPORATE FINANCE is the fourth RMB profit centre and was rated top of the Ernst & Young league tables for the third year running. The business is managed as one international business, with the revenues and costs of the offices in Melbourne, Sydney, London and Johannesburg being managed as a single global business. This is congruent with our strategy of delivering seamless independent advice to our South African client base, wherever their business takes them. The division is also investigating the opportunities that arise from the FNB

POSITIONING OF PROFIT CENTRES WITHIN CLUSTERS

CORPORATE	BUSINESS & COMMERCIAL	PRIVATE BANKING	CONSUMER BANKING	REGIONAL BANKING	PROPERTY FINANCE	MOVEABLE ASSETS FINANCE
CSSD	First Factors	FNB Private Bank	FNB Personal Bank	FNB First National	FNB Home Loans	WesBank
Vostro's	Specialised Trade Services	Ansbacher Investment Managers	FNB First Express	FNB Botswana	FNB Commercial and Industrial	FNB First Auto
Trade	International Trade Solutions	Ansbacher Trust Services	FNB First Trust	FNB Swaziland	FNB Assessors	Sewells
Swift	Electronic Solutions		Cashpower	FNB Namibia	FNB Properties in Possession	
ICAMS	Premium Credit				Origin	
SmartBox	Small/Medium Enterprise					
Treasury Outsourcing						
Corporate Account Services						
Corporate Gateway						
Government Gateway						
Financial Institutions						

RE-POSITIONING SUCCESSFUL OPERATING BUSINESSES

MERCHANT BANKING	INTER-NATIONAL	PROCESS UNITS	BANKING GROUP TREASURY	GENERIC SERVICES	FINANCE, RISK AND HEAD OFFICE	BANC-ASSURANCE
RMB Special Projects	FirstRand International	FirstCard	ALCO	Firstlaw	Accounting/ MIS	First National Insurance
RMB Corporate Finance	Henry Ansbacher	Basic Banking Products	Funding	Communications	Credit Management	First Bowring
RMB Treasury	RMB Australia	Distribution – Branches – ATMs – Electronic – Call Centre	Customer Dealing	Catering	Risk Management	FNB Unit Trusts
RMB Investment Banking	RMB Energy	First Direct	Exchange Control	Premises	Taxation	
RMB Resources		Corporate Electronic Solutions		HR Consulting	Company Secretary	
RMB Economic Empowerment Unit		First Recovery		Supply Management	Compliance	
		IT			Investor Relations	
		FirstNet			Internal Audit	
		CMS			Rating Agencies	
					Regulatory Reporting	

- Our non-merchant banking international operations have been consolidated under the umbrella of FirstRand International Limited.
- FNB Corporate is now a stand-alone division of the Banking Group with its own divisional board, chief executive officer and management team.
- WesBank has had a record year.
- I am confident that the Property Finance Cluster that incorporates FNB Properties and Origin can turn around from losses to profits in the new financial year.
- The re-branding of all our private banking operations as Henry Ansbacher is scheduled for later in the new year.

Corporate client base and from the FNB African banking subsidiaries. The provision of appropriate corporate finance services to the FNB First Commerce customer base is also being investigated. Major transactions in which the division played a role in the year include the listings of Avis, Energy Africa and Forbes Group.

FirstRand International

Our non-merchant banking international operations have been consolidated under the umbrella of FirstRand International Limited. The entities in this Cluster include the Henry Ansbacher Group and the non-merchant banking operations of RMB International. The Henry Ansbacher Group has exited various businesses where it did not have a sustainable competitive advantage, such as corporate lending in the UK, Zurich and Hong Kong, and is now focused on private and specialist offshore banking services. It operates in a number of offshore jurisdictions, and has a strong capital base.

New international ventures include the establishment of Momentum Administration Services ("MAS") in the United Kingdom, the incorporation of Nufcor International Limited in the UK, which is a joint venture with Anglogold engaged in trading nuclear fuels, and the establishment of a private equity business in Australia. These initiatives comply with our philosophy of only entering international markets in focused areas where we are confident of having a competitive advantage or where we can protect and grow our domestic business.

FNB Corporate

FNB Corporate is now a stand-alone division of the Banking Group with its own divisional board, chief executive officer and management team. Market conditions resulted in significant margin squeeze and increased corporate risks, adversely affecting revenues. The strategic response has been to create several business units within FNB Corporate, focused on creating client value. Further refinement of the market segmentation and relationship models will be coupled with the building of a strong credit culture and effective management information systems. I believe that the groundwork done over the past year positions the division to be a significant contributor to profits in the future.

Consumer Banking

This Cluster houses the activities of FNB First Commerce, FNB Personal Bank, FNB First Express and FNB First Trust.

FNB FIRST COMMERCE has been established as a focused division concentrating on business and commercial clients below the market of FNB Corporate, which essentially focuses on large listed corporates. Its activities are built around commercial suites in appropriately located areas that only deal with its customer base. It made a major contribution to profits and is anticipated to increase its profits in the future due to the added focus on its market segment.

FNB PERSONAL BANK caters for individuals in the middle market. Its market share is disappointing and this will be a major focus area this year. Work needs to be done on market segmentation to provide more focus on sub-segments and the brand has to be focused on providing a better customer offering.

FNB FIRST EXPRESS has recently been established to cater for the needs of all market segments that require fast, efficient and simple banking products that are delivered via multiple delivery channels. The initial product offering will be finalised this year. This is a major market that we intend targeting aggressively.

Process Unit Cluster

In a major departure from the way the Group and other commercial banks manage IT and IT-enabled processes, we have placed all these activities in a separate independent Cluster. They are grouped together because IT is the strategic common denominator. These divisions provide services on a commercial basis to other divisions of the Group. Central to our philosophy is that the role of centralised IT is minimised and all IT functions that are relevant and differentiate specific divisions are deployed into these divisions. This reorganisation should be completed in the new year and as a result we anticipate significant cost savings and better value on our IT spend.

In line with the strategy to group IT-enabled processes, the Cluster includes First Commerce's Basic Banking product house which provides all core banking products, all the delivery channels, as well as the Payments and Interbank area.

Also in this Cluster is FIRSTCARD, which turned around from losses in the previous year to profits in the year under review. This was achieved by focusing on operational efficiencies, tighter management of costs and exiting non-profitable lines of business. Further strategic reviews will be undertaken in this year to appropriately position the division in the card market that is confronted by rapid technological changes.

WesBank

In spite of the depressed vehicle market and the recession, WesBank has had a record year. Market share has increased to over 35% and monthly new business volumes have exceeded R1 billion twice this year. The cost to income ratio stands at a noteworthy 49% and bad debts have been reduced from 1,4% to 1,2% of advances. The recent Capabilities Study illustrated the high staff morale and commitment to excellence in WesBank. Its strategy of dominating the point of sale via its relationships with dealers and manufacturers has paid off handsomely. This is a truly excellent division that is committed, understands its business and has the leadership and management to continue excelling in the future.

Property Finance Cluster

FNB PROPERTIES reported a loss for the financial year. The loss was a consequence of a margin squeeze arising from the high interest rates experienced as a result of the international emerging markets crisis in the first quarter of the financial year. This impacted both on the bad debt experience and contributed to low sales growth, which put further pressure on profits. We are in a sense fortunate that our share of this market, at about 10%, is below our "natural" market share of about 20%. ORIGIN has been incorporated into the Property Finance Cluster and will continue to focus on the "premium" segment of the individual market. Origin is marginally behind on its original business plan targets, mainly as a result of the difficult market conditions of the past year and the disruption caused by the merger. I am, however, confident that the Property Finance Cluster that incorporates FNB Properties and Origin can turn around from losses to profits in the new financial year.

Private Banking

The Private Banking Cluster consists of FNB Private Bank, the private client investment advisors Henry Ansbacher Investment Managers and Henry Ansbacher Trust Services. The re-branding of all our private banking operations as Henry Ansbacher is scheduled for later in the new year. We anticipate having the most comprehensive range of services in this market, which is made all the more attractive by our link with the offshore operations of the Henry Ansbacher Group.

Insurance

FIRST NATIONAL INSURANCE reported both an underwriting and an investment profit, although both below budget. This performance was due to adverse weather conditions in Durban and Cape Town in the first quarter of 1999, and the clean-up of the investment portfolio. First National Insurance has absorbed some staff from FIRST BOWRING to administer a portion of First Bowring's personal lines book of business. In the corporate market the joint venture between Marsh and McLemmon Company Incorporated and First Bowring was signed and we expect to gain significant benefits from this venture in the future. First Bowring itself will now focus on the short-term insurance needs of the personal lines and commercial customer. A Bancassurance team has motivated the introduction of two new products into the FNB delivery channels. They are in test mode but the early results are very promising.

- We believe that it is critical to our future success that we have the right calibre of leadership in the Banking Group.
- We expect that we will exit unprofitable markets and intend to establish positions of dominance in those markets where we hold a competitive advantage and can achieve sustainable profits.
- The inculcation of our business philosophy is expected over the medium term to unlock the human potential, create an empowered, entrepreneurial environment, improve efficiency ratios, eliminate loss-making activities and exploit the significant potential for improved service and profitability in the market.
- We recognise that there is no turning back, and look forward to being a uniquely structured world-class financial services company in the new millennium.

FNB First National

FNB First National, our non-metropolitan banking division, posted excellent profits for the financial year. This was in the main due to a favourable interest turn, a containment of costs and growth in non-interest revenue. In addition, lower interest rates and a more positive economic outlook have been favourable for consumer prices for agricultural commodities. We intend consolidating our dominant position in this segment of the market while being mindful that the potential changes that are affecting the metropolitan areas will inevitably be felt in the non-metropolitan areas, albeit slightly later.

African subsidiaries

FNB BOTSWANA had a good year, in spite of some large provisions for bad debts. It remains a dominant force in the Botswana market.

FNB NAMIBIA did not meet budget, due to the depressed economic situation in that country. Non-performing loans remain unacceptably high, but an action plan is in place to address this problem. The erosion of market share is being addressed by an extensive advertising campaign. The excellent cost to income ratio of 40,9% is even better than that for the previous year.

FNB SWAZILAND experienced a high incidence of fraud and has had to increase its credit provisioning. Whilst the cost to income ratio remains high at 84%, action plans have been implemented to restructure and downsize the operation.

Generic Services Cluster and Finance, Risk & Head Office Cluster

These two Clusters provide services to other internal profit centres that are their clients. Generic Services consist of the two human resource divisions being a consulting unit and a unit that does payroll and pension administration, the premises, catering, legal, supply management and Group communications divisions, all of which are separate profit centres. The Finance, Risk & Head Office Cluster is responsible for Group financial services, risk management and internal audit.

New management structures and appointments

A single management board is mandated by the statutory board of FirstRand Bank Limited to manage the Banking Group. The board has also issued mandates to Group Credit, Audit, Remuneration and Risk Committees, tasked with overseeing these functions. These committees have the appropriate non-executive appointees to ensure good corporate governance.

Our 'federation' of profitable "niche" businesses receives strategic guidance and co-ordination from the FirstRand Banking Group executive management team. The role of this team is to eliminate duplications, approve strategic plans, manage interdependencies and monitor business unit performance against agreed targets.

The management skills required to manage the Group in the new competitive environment are not necessarily exclusively those nurtured by commercial banks in the past. New appointments have been made, of people with a more diverse range of skills that will complement the significant skills that we have in traditional banking. We have been fortunate to obtain the services of the former managing director of one of South Africa's largest advertising agencies as well as the former Minister of Transport, among others. We believe that it is critical to our future success that we have the right calibre of leadership in the Banking Group.

Prospects for the Banking Group

Management will be placing emphasis in the coming year on the bedding down of the agreed strategies, and the measurement of performance against those targets. We will build further on the strategic asset of our strong brands. We expect that, as time goes by, we will exit unprofitable markets and intend to establish positions of dominance in those markets where we hold a competitive advantage and can achieve sustainable profits.

The inculcation of our business philosophy is expected over the medium term to unlock the human potential, create an empowered, entrepreneurial environment, improve efficiency ratios, eliminate loss-making activities and exploit the significant potential for improved service and profitability in the market.

We expect that by the end of the new financial year we will see the synergies from the cross-selling of financial services between the insurance and banking arms of FirstRand Limited, resulting in increased profits. We expect, however, that these synergies will be a natural consequence of the convergence of the financial services industry and we expect to be well-positioned to respond to our customers' changing needs. We expect to see a turnaround to profit at many of the poorly performing profit centres, as the spotlight falls on their performance. We are investigating an unconventional approach to e-commerce, and have a team working on the development of a viable and value-adding micro-lending business.

When comparing the position we were in last year with where we are now, it is evident that we have made tremendous strides. This is a testament to the commitment and dedication of our management and staff.

We are in the process of changing the heartbeat of the Banking Group. We feel that from the significant progress made to date that we have the mandate from our staff to move forward even faster. We recognise that there is no turning back, and look forward to being a uniquely structured world-class financial services company in the new millennium.

P K Harris
Chief Executive Officer

- These financial statements relate to the consolidated banking operations of FirstRand Limited.
- The primary operations of FNB and RMB were combined as divisions of FirstRand Bank Limited with effect from 30 June 1999.
- It is pleasing to report excellent results given the background of turmoil in international and local markets.
- R215 million in primary capital and R2 000 million in secondary capital was introduced into the Banking Group, optimising the capital structure.

These financial statements relate to the banking interests of FirstRand Limited (FirstRand) and should be read in conjunction with the report on FirstRand Limited.

The legal structure of the Banking Group was finalised on 30 June 1999. These financials have, however, been prepared as though the Group had been in place for the full financial year.

The Banking Group

During the year, the Minister of Finance approved the establishment of a banking entity now known as FirstRand Bank Limited. The primary operations of First National Bank of Southern Africa (FNB) and Rand Merchant Bank (RMB) were combined as divisions of this entity with effect from 30 June 1999. First National Bank Holdings Limited (FNBH), the holding company of FirstRand Bank Limited, changed its name to FirstRand Bank Holdings Limited.

The consolidated figures in this report include the operations of FNB, RMB, FNB's banking operations in Namibia, Botswana and Swaziland and the Banking Group's investment banking operations. In addition, they include the earnings of RMB's international operations and those relating to the Henry Ansbacher Group of Companies.

Operating environment

Turmoil in international and emerging markets impacted significantly on the South African economy and financial markets during the year under review. The prime lending rate during the first half of the year increased to a record 25,5%, severely squeezing interest margins. These high interest rates also placed individuals and businesses under considerable pressure. This, in turn, impacted on the growth in advances in the consumer market and the bad debt experience. The board, therefore, deemed it prudent to increase the level of specific provisions and maintain the prudent level of the overall bad debt provisioning.

The increased volatility in the financial markets presented opportunities to the Banking Group's trading operations. RMB's robust and real time risk management systems allowed the treasury division to successfully weather the volatile markets, while fully exploiting the trading opportunities that were offered.

Notwithstanding this period of external uncertainty, the Banking Group was able to make considerable progress in restructuring. The merchant banking operations of FNB's corporate and investment banking group were successfully merged with those of RMB. The process of re-aligning those parts of the Banking Group that focus on the consumer market with appropriate market segments continues.

It is pleasing to report excellent results given the background of volatile financial markets amid the merger of the operations of RMB and FNB.

Capital structure

The formation of FirstRand Bank Limited enabled management to review the greater FirstRand Group's optimal capital structure and thereby ensure maximum returns to shareholders. In June 1998, RMB received a capital injection of R215 million and, in September 1998, FNB received R2 183 million, being the proceeds on the sale of its investment in The Southern Life Association Limited. This resulted in the capital structure of the Banking Group being skewed in favour of tier 1 capital

We dare to relinquish authority

When authority is removed, accountability is embraced by our people with insight and commitment.

which, from the viewpoint of both the FirstRand Group and the Banking Group, was not optimal. It was, however, agreed that the additional tier 1 capital would be retained in the Banking Group pending a comprehensive review of the capital structure, and the regulatory approval of the proposed alternative structure.

In June 1999, the Banking Group received regulatory approval for the proposed capital restructure and returned R2 000 million in capital to FirstRand via a special dividend. On 30 June 1999, secondary capital in the form of a subordinated convertible loan of R2 000 million was raised. The loan bears interest at a variable rate linked to the prime lending rate, and is convertible at the option of the issuer after ten years.

The Banking Group's capital adequacy ratio is 10,5% compared with 10,2% at 30 June 1998. Capital efficiency has always been a primary objective of the FirstRand Group. It is Banking Group policy to leverage capital subject to the capital adequacy ratio remaining in excess of 10%. In terms of the new capital structure, primary and secondary capital will be split on a 60:40 ratio.

	Actual 1999 Rm	Pro forma 1998[1] Rm	Increase %
Earnings attributable to ordinary shareholders (per income statement)	1 898	1 303	46
Pro forma interest on net capital allocated to the Banking Group	–	40[3]	–
	1 898	1 343	41
Pro forma interest on issue of the subordinated convertible loan	(150)[2]	–	–
Headline earnings attributable to shareholders	1 748	1 343	30

On the assumption that the capital restructure was implemented on 1 July 1997, the pro forma increase in earnings attributable to shareholders amounted to 30%.

The headline earnings of R1 748 million serve as the basis for comparative figures going forward.

1 Pro forma results based on performance were FNB and RMB previously consolidated

2 The Banking Group had effective use of an additional capital amount of R2 000 million for a period of nine months. The assumed return on the capital is 10% after tax

3 The Banking Group retains additional capital of R398 million after the capital restructuring. For comparative purposes, the Banking Group is assumed to have had this capital from 1 July 1997, with the assumed return on capital being 10% after tax. This results in an adjustment to comparatives of R40 million. The capital was included in the Banking Group results for the 1999 financial year.

- The Banking Group achieved earnings of R1 898 million for 1999 (pro forma 1998: R1 303 million), an increase of 46%.
- Management believes that the Banking Group provisions, representing 3,5% of advances (1998: 3,1%) are conservative.
- The focus in 1999 was essentially on strategic planning, restructuring, and the appropriate allocation of revenue and costs into profit centres.

The table below sets out the effect on income had the revised capital structure been in place for the full period.

	Actual June 1999 Rm	After capital restructure June 1999 Rm
Attributable earnings	1 898	1 748
Average shareholders' equity	9 426	7 426
Return on average shareholders' equity (%)	20,1	23,5

The adjusted attributable earnings is calculated by deducting interest earned on the capital held for the period, and average shareholders equity is calculated excluding the R2 000 million capital.

Financial overview

The Banking Group, notwithstanding the operating environment referred to above, achieved excellent results with earnings for the year totalling R1 898 million.

The actual results of the previous year, represent RMB for a 12-month period and FNBH for a three-month period. Pro forma comparative figures, representing an aggregation of the accounts of the FNB Group and RMB, reflect earnings for the year to 30 June 1998 of R1 303 million. After adjusting for the capital restructuring, the Banking Group reflected an increase of 30% in attributable headline earnings for the year.

	Actual 1999 Rm	Pro forma 1998[1] Rm
Interest income	20 288	16 104
Interest expenditure	(15 479)	(12 123)
Net interest income	4 809	3 981
Charge for bad and doubtful debts	(1 363)	(1 170)
	3 446	2 811
Other operating income	5 156	4 339
Net interest and other operating income	8 602	7 150
Other operating expenditure	(6 087)	(5 233)
Net operating income before taxation	2 515	1 917
Taxation	(573)	(593)
Income after taxation	1 942	1 324
Equity accounted earnings	13	16
	1 955	1 340
Earnings attributable to outside shareholders	(57)	(37)
Earnings attributable to ordinary shareholders	1 898	1 303

[1]*Pro forma results based on performance were FNB and RMB previously consolidated. These have not been audited.*

The key financial ratios for the Banking Group are set out below:

	Actual June 1999 %	Pro forma June 1998 %
Return on average equity	20,1	19,8
Interest margin (on average total assets)	3,3	3,1
Interest margin (on average advances)	5,0	4,4
Efficiency ratio	61,1	62,9
Bad debt charge as a % of average advances	1,4	1,3
General and specific bad debt provision as a % of advances	3,5	3,1
Other operating income as a % of total income	51,7	52,2

Notwithstanding the initial squeeze on interest margins which followed the interest rate increase, the Banking Group was able to increase its interest margin from 3,1% to 3,3% on average total assets and on average advances from 4,4% to 5,0%.

Increased trading income from treasury and merchant banking activities ensured that the Banking Group's ratio of other operating income to total income remained above 50%.

The Banking Group's efficiency ratio has continued to improve during the year under review. However, the current year's expenditure figures include non-recurring expenditure relating to the merger and the restructuring of the business as well as start up costs relating to new operations which are expensed in line with the FirstRand Group's accounting policies.

The focus in 1999 was essentially on strategic planning, restructuring, and the appropriate allocation of revenue and costs into profit centres. These processes are now almost complete, which will enable the divisions to concentrate on revenue enhancement and cost control. An analysis of the Banking Group's bad debt provisions are detailed below. The board is of the opinion that the Banking Group's bad debt provisions are conservative.

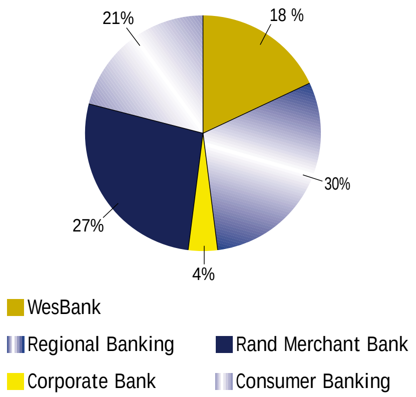
	June 1999 Rm	June 1998 Rm	Increase %
Charge to the income statement	1 363	1 170	16
Balance sheet	3 250	2 894	12
• General provision	1 113	1 171	(5)
• Specific provision	2 137	1 723	24
	As a % of advances		
	%		%
Balance sheet	3,5		3,1
• General provision	1,2		1,2
• Specific provision	2,3		1,9

At the time of the merger, the Banking Group deemed it prudent to create a general provision for bad debts of R600 million. The provision was created to address the contagion effect of turmoil in the financial markets and the consequent pressure on borrowers. As at 30 June 1999, the provision had been utilised as follows:

	June 1999 Rm	June 1998 Rm
Opening balance	600	–
Increase in provision	–	600
Utilisation – specific emerging market provisions	(144)	–
Closing balance	456	600

The emerging market provisions of R144 million have been created against trade related exposures to South American and Asian banks, which have arisen as a direct consequence of the uncertainty that prevailed in emerging markets. It was decided to fully provide against these exposures, where defaults have occurred subsequent to our previous reporting period. It is nevertheless anticipated that certain of these amounts will be recovered. The balance has been retained in the general provision for bad debts. Any recoveries of the emerging market specific provisions referred to above will be transferred back to the general provision and will not be credited to the income statement.

The divisional performance analysis of Banking Group profits on an after-tax basis is analysed below:



Year 2000

Prior to the creation of the FirstRand Group, both the RMB Group and the FNB Group had commenced extensive Year 2000 projects. In view of both the progress made on the respective projects and the substantial differences in the operating systems of the two groups, the decision was taken to maintain the projects independent of each other, albeit with regular liaison between the project teams.

FNB Group

Since late 1996 the bank has been running a dedicated multi-disciplinary Year 2000 team under Group Project Director and Divisional General Manager, Eddie Blight, with the objective of auditing the complete IT environment, establishing the extent of the Year 2000 problem, rectifying affected systems and implementing the upgrades.

The project started in 1996 and encompassed many phases. In terms of the Year 2000 project macro plan, the following milestones were achieved:

- Impact analysis of Natural/Adabas systems
- Select vendor for Cobol systems
- Impact analysis/planning phase
- Solution analysis
- Critical software fixes
- Hardware upgrades
- Non-critical software fixes

FNB is confident that, on 1 January 2000, it will be business as usual for the Banking Group's customers in South Africa and around the world.

The project director and his deputy have reported directly to Banking Group deputy CEO Viv Bartlett, and that progress is reported to the Audit Committee and the Board of Directors on a regular basis.

To ensure a successful project, FNB has been acutely aware of the need to involve not only relevant players within the bank but also business partners, customers and the community at large. In addition, FNB shares information and ideas with its international affiliates, other banks and the IT community in South Africa and worldwide.

FNB has also co-sponsored a number of Government initiatives to help ensure the country and authorities are prepared for the millennium. Other activities are being undertaken to help ensure customers have full confidence in the bank's levels of Y2K compliancy.

RMB Group

RMB has taken steps to ensure Year 2000 compliance of its IT environment and other related systems. This compliance is applicable to both internal systems and those that could have any effect on external parties.

RMB is confident that the Year 2000 will not lead to any interruption of our normal business activities or services.

Rand Merchant Bank launched its Year 2000 project in October 1997.

A project team was established under the guidance of an executive officer.

The project plan covered the following phases:

- Internal awareness campaign
- Inventory of all systems (including non-IT systems)
- Vendor certification
- Impact assessment
- Identification of mission critical systems
- Development of project plan and test strategy for each system
- Rectification of non-compliant systems
- Testing
- Implementation of system changes and testing of these changes
- Full integration testing
- Contingency planning

April 1999 saw the successful completion of an intensive 18-month project to implement the Year 2000 compliance of our mission critical systems.

Risk management is a key focus of the management processes within the Banking Group, its divisions, business units and support operations.

The risk management process is aimed at the spectrum of risks to which a bank is exposed. These risks include domestic and sovereign credit risk, the funding, liquidity and interest rate risks attached to the banking book, market risks inherent in the trading activities in the financial and commodity markets, business and operational risks which include the security of our staff, assets and information, business disruption, legal documentation or contractual risk, technology (including Y2K compliance), systems failure, data storage and integrity, settlement, payment and processing risk, reputational risk and compliance with statutory and regulatory requirements.

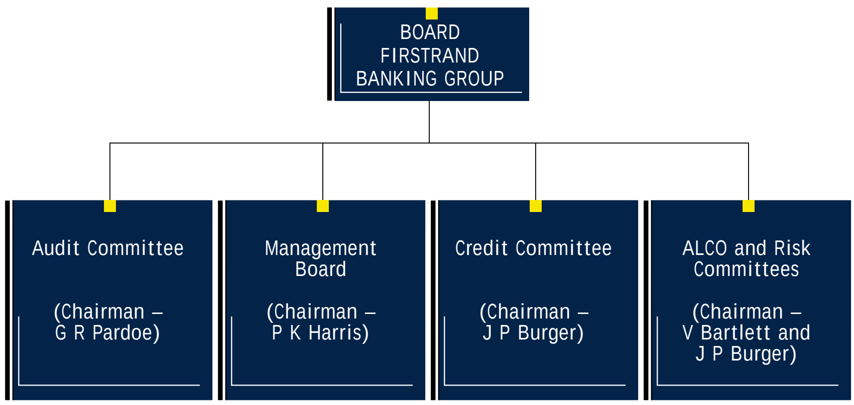
The objective of risk management is to identify all risks and risk control short-comings, to evaluate and quantify these risks and to manage them to either eliminate or control the impact of adverse occurrences to yield the desired outcomes within acceptable risk parameters.

Risk management structure

Risk is managed and monitored within a risk management framework of the Board of Directors by the committees of the Board, executive and operational management, the independent risk and compliance functions and the risk management functions of the operational units.

By using a structure of independent and deployed risk management functions, the Banking Group aims to minimise risk by combining the advantages of independent monitoring, coordination and standards, with specialised risk management functions. Risk management functions are integrated within the business and operational activities, and add value to operations because of their specialised knowledge of the business processes.

Committees of the Board



The Banking Group Board has constituted a number of Board committees to which it has delegated management and risk monitoring and control functions under specific mandates.

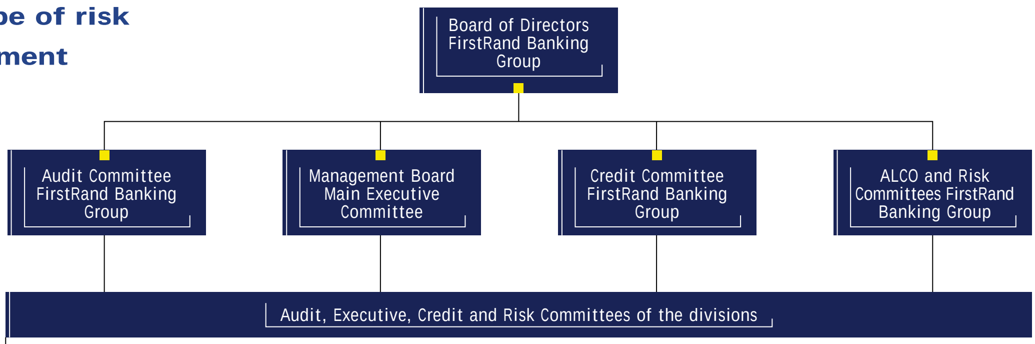
The Management Board is the main Executive Committee of the Banking Group. The Banking Group Audit Committee monitors the internal and external audit processes and the Banking Group Credit Committee oversees credit risk management.

The Banking Group Risk Committee monitors the general risk management process, operational market risk and insurance while the Banking Group ALCO Committee is responsible for the setting of prudential guidelines for liquidity and interest rate risk in the banking book.

The aforementioned committees of the Banking Group Board delegate specific functions to the Management, Audit and Risk Committees of the divisions and are accountable to the Banking Group Board for the execution of the delegated functions by the Divisional Committees in accordance with their mandates.

This structure gives effect to the Banking Group Board's risk management strategy to deploy risk management throughout the Banking Group, while maintaining a strong independent function responsible for risk monitoring, policies and standards.

The scope of risk management



	Risk Control Functions and Processes				
	Internal Audit	Operational Risk	Credit Risk	Market Risk	Liquidity Risk and Interest Rate Risk in the Banking Book
Corporate	✶	✶	✶		✶
Business and Commercial	✶	✶	✶		✶
Private Banking	✶	✶	✶		✶
Consumer Banking	✶	✶	✶		✶
Regional Banking	✶	✶	✶		✶
Property Finance	✶	✶	✶		✶
Moveable Assets Finance	✶	✶	✶		✶
Merchant Banking	✶	✶	✶	✶	✶
International	✶	✶	✶	✶	✶
Process Units	✶	✶			
Banking Group Treasury	✶	✶	✶	✶	✶
Generic Services	✶	✶			
Finance, Risk and Head Office	✶	✶			
Banc-assurance	✶	✶			

Credit risk

The risk of loss as a result of a counterparty defaulting in respect of a loan commitment, settlement or other financial obligation is controlled by credit risk management processes vested within the various business units.

The credit risk management processes are structured to address the exposure risks of each business unit in the most appropriate manner.

Personal and small business credit exposures are authorised by means of a variety of different processes designed to suit the specific lending division. In our instalment credit and credit card divisions, exposures to personal clients are approved by means of credit scoring processes. In all other instances, facilities are approved by credit or lending officers acting according to formal credit authorisation mandates. In each business unit, *large credit exposures* will be approved by the relevant credit committee.

The facility limits for the *larger public sector, corporate and other credit exposures* are approved by credit committees. The committees are composed of non-executives and executives who are selected to provide the appropriate skills to the relevant committee suited to the type of credit facilities which the committee will be required to approve. Detailed credit proposals are submitted to these committees for approval with supporting presentations on the structure of the transaction, project viability, industry sector and country exposure. All credit proposals to the committee are sponsored by a credit analyst and an account executive. The proposals are presented to the Banking Group Credit Committee by the independent credit risk management function which will make recommendations as to security and collateral requirements and changes to the structure to reduce the credit exposure of the bank.

As a further improvement to the credit risk management process the Banking Group is expanding its credit scoring and grading methodology to assist with the credit assessment process for medium and large business, commercial, corporate and public sector risks.

A specially constituted committee is reviewing the credit selection and credit risk exposure management processes used by the various divisions of the Banking Group. It is anticipated that this committee will reinforce the scoring and grading methodologies and recommend the implementation of a credit portfolio management approach by the various lending divisions. This will enable the bank to balance its credit exposures more finely to reduce concentration risk and to achieve a desired geographical and sectoral spread. Furthermore, it is planned to use statistical methods to establish the provisions required for expected losses and to model potential credit loss distributions to quantify the variability of credit losses.

Appropriate benchmarks will be established for expected credit losses according to market segment. Credit portfolio management will aim at achieving these credit quality targets and the success of the credit risk management process will be measured against these benchmarks.

Liquidity and interest rate risk management in the banking book

The funding requirements resulting from the asset and liability maturity mismatches emanating from the lending divisions and the interest rate risk, being the risk of loss of income as a result of changes in interest rates and the difference in the interest rate re-pricing profiles of assets and liabilities, are identified by consolidating the balance sheets of the various lending activities to provide a liquidity and interest rate risk exposure for the bank as a whole.

These risks are monitored by the Banking Group's Asset and Liability Management Committee ("ALCO") at its monthly meetings and are managed according to the policies, strategies and liquidity and interest rate exposure limits established by the committee. The ALCO Committee is assisted by the ALCO Support Group and the decisions of the committee are executed by the Funding and ALCO desks which are managed by the Treasury division of Rand Merchant Bank.

Interest rate risk is quantified by calculating the effect on net interest income and on bank equity of a 1 per cent change in the general level of interest rates. The bank calculates the projected change in bank equity over a forecast period based on the most likely, high and low interest rates scenarios for the period.

Lending divisions who run interest rate risk do so within formal risk exposure limits and in accordance with appropriate risk monitoring and reporting requirements. The Banking Group is currently implementing a Matched Maturity Funds Transfer Pricing system, which will enable us to separate the income from lending activities from that earned from interest rate repricing mismatches for the bank as a whole and also for the individual lending divisions.

The Banking Group makes a clear distinction between interest rate arising from the balance sheet management of trading versus banking activities in its Risk Management Process.

The *Banking Book* is defined as all assets and liabilities that are intended to be held to maturity in order that they generate an income over time. It is this balance sheet that is subject to management by ALCO. The balance sheet items that are acquired for trading purposes (the *Trading Book*) is managed by mark-to-market and risk quantification methodologies that form part of the market risk management process.

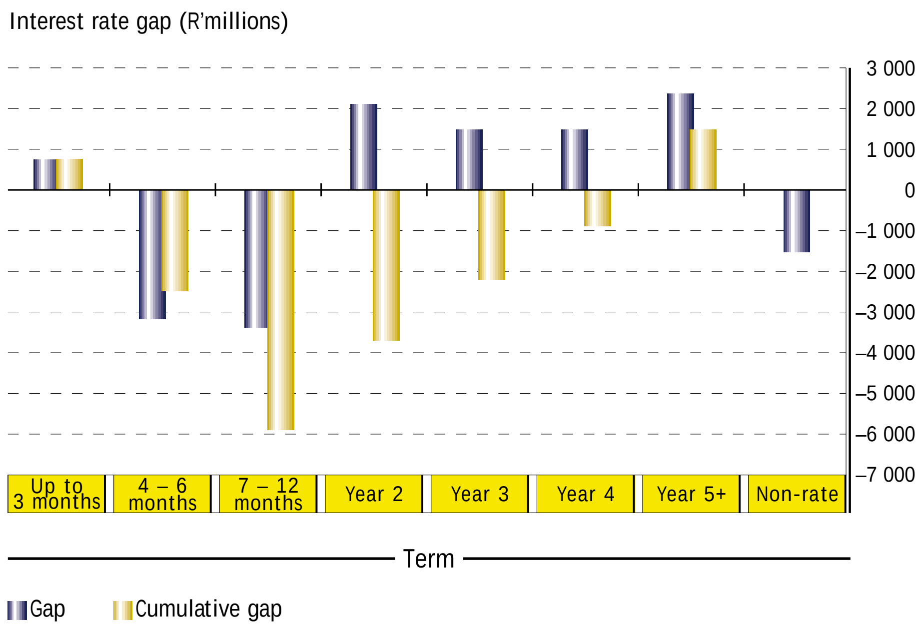
The *Banking Book* currently comprises the following major Strategic Business Units:

WesBank
First Commerce
First National
Bob Bank
First Express
FirstCard
FNB Properties
Personal Bank
Corporate Banking
The Banking Book at RMB

Separate ALCO functions exist within First National Bank of Namibia and Henry Ansbacher. In addition, an International ALCO has recently been established to manage the foreign currency balance sheets.

Interest rate gap

The graph below represents the interest rate risk of the Banking Book, as at the end of the financial year, in the form of a traditional interest rate gap. Both the actual gap and cumulative gaps are shown as at the end of June 1999.



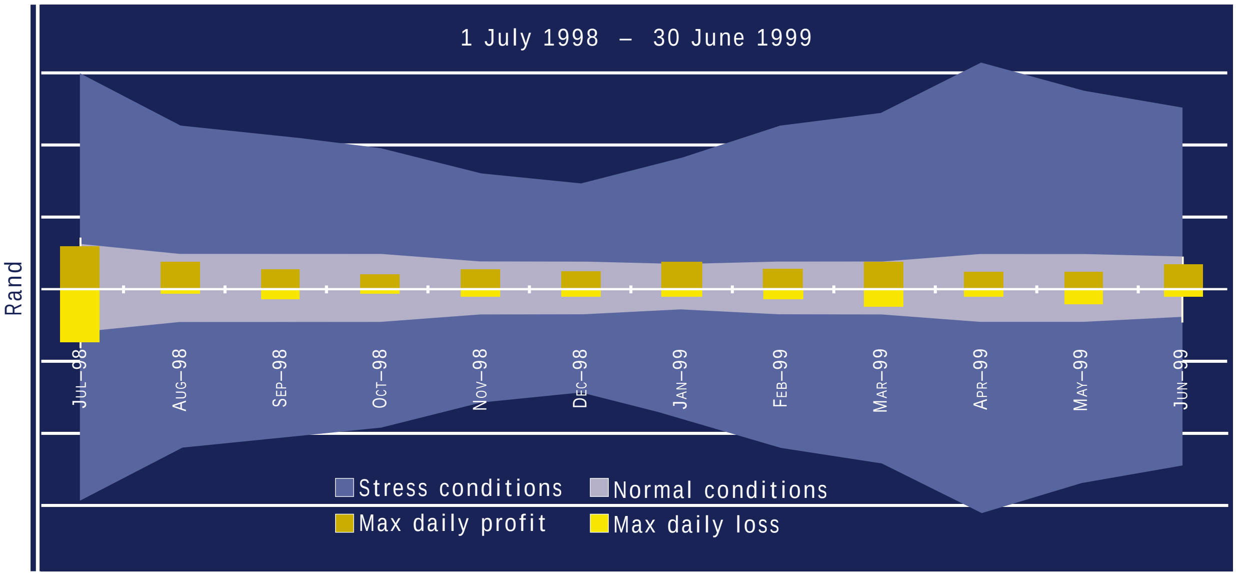
Market risk

The Banking Group trades actively in the financial and commodity markets, mainly through the Treasury division of Rand Merchant Bank. The risk of loss due to adverse movements in rates and prices of currencies, interest rates in the domestic and international capital and money markets, equities, gold and other metals, commodities and option volatilities is controlled by setting stress loss exposure limits for each trading desk which are approved by the Risk Committee of Rand Merchant Bank and the Banking Group Board. Exposure limits are linked to expected returns. Trading results are compared with risk exposures to monitor the effectiveness of the risk-taking activities.

Stress exposures are determined by calculating the potential losses which would be incurred on open positions should rates, prices and volatilities change according to specified ranges, which are set to reflect potential market movements under stress conditions. Stress exposures are monitored daily by the business unit and independent risk managers and corrective actions agreed with the trading desks, if required.

Trading profits and losses are compared with the calculated exposures under stress and normal market conditions in order to confirm the integrity of the risk measurement methodology and to report the level of risk to the Banking Group Risk Committee and the Banking Group Board. The following graph shows the highest daily profits and losses by month over the past financial year to 30 June 1999 for the Treasury division of Rand Merchant Bank compared with the amounts at risk or exposures under stress and normal market conditions for the relevant days. The analysis shows two outliers which indicate that risk was well controlled over the period with the amount at risk being measured at the 99 per cent confidence level.

Treasury market risk



OPERATIONAL RISK

Operational risk includes all business risks with the exception of credit, liquidity and interest rate risk in the Banking Book and market risk and is the risk of loss due to process breakdown, theft and fraud. These risks include the security of our people, assets and information, business disruption, legal documentation or contractual risk, technology, systems failure, data storage and integrity, settlement, payment and processing risk, reputational risk and compliance with statutory and regulatory requirements.

The Banking Group implements extensive security measures throughout the Banking Group for the protection of our personnel and our clients and the safeguarding of our information and physical, financial and intellectual assets in order to combat the high level of criminal activities which is an unfortunate element of the banking environment.

Operational risk control shortcomings are identified by the line managers, through the internal audit process and through incidences of process breakdown. Appropriate corrective actions are implemented to improve these controls. Internal audit activities support the risk control process while providing the Banking Group Board with a mechanism to satisfy their statutory and corporate governance responsibilities.

Where possible, the Banking Group is protected against large losses that might result from fire or other natural disasters, crime and legal liability, through a structured insurance risk finance programme.

J P Burger
Chief Financial Officer

Capital adequacy statement of registered banks within the Group

Capital adequacy

The capital base of a bank provides the foundation for lending, off-balance sheet transactions and other activities. The capital adequacy of banks is measured in terms of the Banks Act requirements. Under these regulations banks are required to maintain a minimum level of capital based on their risk adjusted assets and off-balance sheet transactions. As at 30 June 1998, South African banks were required to hold capital equal to a minimum of 8 per cent of risk adjusted assets. Subsequent to the 1998 year-end, the South African Reserve Bank implemented new Capital Adequacy Requirements ("CAR") against market risks in the trading book. Capital has to be held against trading assets as calculated using risk models. At 30 June 1999, the capital held against the trading assets of the Banking Group was R1 500 million.

R'million	1999	1998
Regulatory capital		
Tier 1		
Share capital	106,0	106,0
Share premium	1 331,9	1 331,9
Capital redemption reserve	1,1	1,1
Retained income	5 147,5	5 730,0
Less: Impairments	–	(229,4)
Less: Allocated to trading activities	(853,5)	–
Total tier 1 capital available to banking activities	5 733,0	6 939,6
Tier 2		
Subordinated debt instruments	3 663,9	1 207,0
General provision	974,7	1 016,0
Less: Allocated to trading activities	(750,0)	–
Total tier 2 capital available for banking activities	3 888,6	2 223,0
	9 621,6	9 162,6
Tier 1	6,3%	7,7%
Tier 2	4,2%	2,5%
	10,5%	10,2%

R'million	Balance 1999	Balance 1998	Risk weight %	Risk adjusted balance 1999	Risk adjusted balance 1998
Risk adjusted assets and off-balance sheet exposures					
Cash, own bank and central government advances	14 598,1	23 986,4	0	–	–
Letters of credit and unutilised facilities on behalf of public sector bodies	95,7	349,4	5	4,8	17,5
Public sector body advances	2 232,0	2 796,0	10	223,2	279,6
Other bank advances and letters of credit	15 809,3	17 123,4	20	3 161,9	3 424,7
Mortgage advances, remittances in transit and letters of credit	25 893,4	24 031,6	50	12 946,7	12 015,8
Other advances	75 366,4	74 460,2	100	75 366,4	74 460,2
	133 994,9	142 747,0		91 703,0	90 197,8

The King Code of Corporate Practices and Conduct

The FirstRand Banking Group recognises that companies with high standards of corporate governance are more likely to gain the confidence and support of investors and other stakeholders. To fulfil corporate responsibilities and achieve financial objectives an effective system of corporate governance, based on local and international generally accepted corporate practices, is essential. The board of FRBG is committed to maintaining the standards of integrity, accountability and openness advocated in the King Report on Corporate Governance.

The directors endorse, and, for the period under review, have applied the Code of Corporate Practices and Conduct set out in the King Report.

Board of Directors

Composition and frequency of meetings

The Board meets regularly, monitors executive management and retains full and effective control over the Banking Group. The clearly established divisions of responsibility within each member company of the Group ensure a balance of power and authority. No individual has unfettered powers to make decisions.

The chairman of the Board is a non-executive director. The Board comprises non-executive directors of sufficient calibre and number for their views to carry significant weight in board decisions.

To ensure that the direction and control of the Banking Group is firmly in the Board's hands it has a formal schedule of matters which have to be referred to it for decision. Additional reliance is placed on executive management to ensure that all relevant matters are referred to the Board. There are agreed procedures for directors to follow in the execution of their duties. This includes taking independent professional advice, if necessary, at the Banking Group's expense.

All directors have access to the advice and services of the Banking Group Secretary who is responsible to the Board. The Banking Group Secretary must ensure that the Board follows procedures and the rules and regulations that apply. If there is any question of the Banking Group Secretary being removed from his duties it would be a matter to be considered by the Board as a whole.

Non-executive directors offer independent judgement on strategic issues, use of resources, key appointments and standards of conduct.

The majority of our non-executive directors are independent of management and, apart from their fees and shareholding, they are substantially free of any business or other relationship which could materially interfere with their independent judgement. If a potential conflict of interest arises, the non-executive directors concerned recuse themselves from the related decision-making processes.

The Banking Group's non-executive directors are appointed for specified terms and their re-appointment is not automatic.

They are selected through a formal process. Both this process and the appointment of directors are matters to be considered by the Board as a whole. Their fees reflect the time which they commit to the Group's business.

The Banking Group's Chief Executive Officer, Deputy Chief Executive Officer and Chief Financial Officer are executive directors on the Board.

Board subcommittees

Audit Committee

The Board appoints a minimum of three non-executive directors to the Banking Group Audit Committee. There are currently three non-executive directors on the committee, one of whom is the chairman of the committee. The committee has written terms of reference which set out its authority and duties. The external and internal auditors have free access to the chairman of the committee. It meets periodically with management and the internal and external auditors to review the financial statements and accounting policies, systems of internal financial control, the interim financial information, the effectiveness of the internal audit function and to discuss the auditors' findings. The external auditors are appointed each year based on the recommendations of the Audit Committee.

Internal audit

The internal audit function is independent of management. It examines and evaluates the Banking Group's activities with the objective of assisting members of executive management with the effective discharge of their responsibilities. The internal audit function reviews the reliability and integrity of financial and operating information, the systems of internal control, the means of safeguarding assets, the efficient management of the Banking Group's resources, and the conduct of its operations. The head of internal audit has unrestricted access to the chairman of the Banking Group Audit Committee. Independent auditors, KPMG, have been appointed to perform certain elements of the internal audit function, bolstering the skills base of the in-house internal auditors. KPMG is encouraged to communicate on a regular basis with both the Audit Committee and the external auditors.

Remuneration Committee

The Remuneration Committee consists mainly of non-executive directors. The purpose of the committee is to ensure that the Banking Group's directors and senior executives are fairly rewarded for their individual contributions to the Banking Group's overall performance.

Internal financial control

Internal financial control comprises the methods and procedures designed and implemented by management to assist in achieving the objectives of safeguarding assets, preventing and detecting error and fraud, ensuring the accuracy and completeness of accounting records and the timely preparation of reliable financial information.

In terms of Regulation 37(5) of the Banks Act the directors of the banks within the Banking Group are required to report to the Registrar of Banks on the banks' systems of internal controls relating to financial and regulatory reporting and their compliance with the Banks Act and Regulations.

Such a report is substantially contained in the statement on the Responsibility of Directors for Annual Financial Statements and in the Report of the Audit Committee to the shareholders and other users of the financial statements.

Management maintains adequate accounting records and has developed, and continues to maintain, an effective system of internal financial controls. Such a system reduces, but cannot eliminate, the possibility of fraud and error.

The directors report that the Banking Group's internal financial controls and systems are designed to provide reasonable assurance as to the integrity and reliability of the financial statements and to adequately safeguard, verify and maintain accountability of its assets. These controls are based on established written policies and procedures and are implemented by trained, skilled personnel with an appropriate segregation of duties. The controls are monitored throughout the Banking Group. To ensure that the Banking Group's business practices are conducted in a manner which in all reasonable circumstances is above reproach, all employees are required to maintain the highest ethical standards.

Nothing has come to the attention of the directors to indicate that any material breakdown in the functioning of these controls, procedures and systems has occurred during the year under review.

Code of conduct

The Banking Group has a written code of conduct. The code commits the Banking Group and its employees to the highest ethical and professional standards, and has the total commitment of the Board and the Chief Executive Officer. All senior employees, all employees in sensitive areas and all executive directors have signed the code, and are required to re-sign annually.

Going concern

The directors are satisfied that the Banking Group has adequate resources to continue in operation for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the accounts.

In performing its functions the committee takes account of market trends and the need to retain key members of the management team.

Regulatory environment

The Bank Supervision Department of the South African Reserve Bank is responsible for the effective supervision of banks. In doing so it contributes towards a stable and efficient payments and banking system. The supervisory environment promotes sound risk management in banks, together with corporate governance, transparency and full disclosure.

Year 2000 compliance

The Year 2000 project teams throughout the Banking Group are on target to ensure that all mission critical accounting and operational systems situated in the major business units in the Banking Group are Year 2000 compliant. The Year 2000 project team is managed by the head of internal audit, who has unrestricted access to the chairman of the Banking Group Audit Committee.

FirstRand Banking Group Annual Financial Statements

for the year ended 30 June 1999

Contents for the FirstRand Banking Group Annual Financial Statements

Directors' responsibility statement

The preparation and presentation of the annual financial statements of the FirstRand Banking Group and all other information included in this annual report are the responsibility of the directors. The information provided in this annual report complies with generally accepted accounting principles as well as prevailing practices in the banking industry. In discharging their responsibilities, both for the integrity and fairness of these statements, the directors rely on systems of internal control and risk management procedures applied by management.

Based on the information and explanations given by management and the external auditors, the directors are of the opinion that:

- the internal controls are adequate;
- the financial records may be relied upon in the preparation of the financial statements;
- appropriate accounting policies, supported by reasonable and prudent judgements and estimates, have been applied; and
- the annual financial statements fairly present the results and financial position of the group.

The annual financial statements are prepared on a going concern basis and nothing has come to the attention of the directors to indicate that the Banking Group will not remain a going concern.

The group annual financial statements, which appear on pages 38 to 63, were approved by the Board of Directors and are signed on its behalf by:

G T Ferreira
Chairman

P K Harris
Chief Executive Officer

Sandton
17 September 1999

Report of the independent auditors

To the directors of FirstRand Limited

We have audited the annual financial statements of the FirstRand Banking Group set out on pages 38 to 63 for the year ended 30 June 1999. These financial statements are the responsibility of the directors of FirstRand Limited. Our responsibility is to express an opinion on these financial statements based on our audit.

Scope

We conducted our audit in accordance with statements of South African Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material mis-statement. An audit includes:

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

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

Audit opinion

In our opinion, the Group financial statements fairly present, in all material respects, the financial position of the FirstRand Banking Group at 30 June 1999 and of the results of its operations and cash flows for the year then ended in accordance with generally accepted accounting practice.

Without qualifying our opinion, we draw attention to the basis of preparation of these financial statements as set out in the accounting policies on page 38.

Deloitte & Touche

Deloitte & Touche
Chartered Accountants (SA)
Registered Accountants and Auditors
Sandton, 17 September 1999

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Incorporated
Chartered Accountants (SA)
Registered Accountants and Auditors
Sandton, 17 September 1999

BASIS OF PRESENTATION

The annual financial statements have been prepared on the historical cost basis, except as disclosed below, in conformity with generally accepted accounting practice. The principal accounting policies as set out below are consistent in all material respects with those adopted in the previous year.

The group financial statements have been prepared on the basis and the assumption that the operating structure of the FirstRand Banking Group as set out on page 2 was in place for the entire year ended 30 June 1999.

CONSOLIDATION POLICIES

Basis of consolidation

The financial statements of the Banking Group include the results of the companies and their subsidiaries, except for companies used as conduits to increase the security for advances. Income accruing on such investments is accounted for only to the extent of dividends received, and any losses arising are fully provided for in the Banking Group statements.

Arm's length transactions with Banking Group companies are not eliminated on consolidation.

Goodwill

Goodwill represents the excess of the purchase consideration of shares over the attributable fair value of the net assets acquired, and is capitalised and amortised on the straight-line basis over the period of expected benefit, limited to 20 years.

VALUATION AND OTHER ACCOUNTING POLICIES

Net interest income

Interest income and expenditure excluding those arising from trading activities are recognised on a time proportion basis, applying the effective yield on the assets and liabilities. Accrual of interest on an advance is suspended when its recovery is considered doubtful. Interest income includes interest earned on investments.

Fixed assets

Freehold land and buildings are not depreciated as they are held for investment purposes. Office furniture, equipment and motor vehicles are depreciated on the straight-line basis at rates which are calculated to reduce the book value of these assets to estimated residual values over their expected useful lives.

Debentures

Discounts or premiums on debentures issued are amortised on a basis which reflects the effective yield on the debenture over its effective life span. Interest paid is brought to account on an effective interest rate basis.

Related party transactions

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

Foreign currency translation

The assets and liabilities of foreign subsidiary companies, regarded as independent entities, are expressed in South African rand at rates of exchange ruling at year-end. Gains and losses arising on translation of independent entities are reflected in a non-distributable reserve.

The assets and liabilities of foreign subsidiary companies, regarded as an integral part of the entities operations, are translated at historic rates. Gains and losses arising on translation of these entities are recognised in the income statement.

In both the above cases, capital and reserves are translated at historical rates and income statement items are translated at the weighted average rate for the year.
Assets and liabilities denominated in foreign currencies are translated into South African currency at the rates of exchange ruling at the balance sheet date, or where covered by forward exchange contracts, at the relevant contract rates. Unrealised differences on assets and liabilities are recognised in the income statement in the period in which they arise.

Foreign exchange trading positions, including spot and forward contracts, are valued at current market rates and the resultant profits and losses are accounted for in the income statement.

Investments

Financial assets held for trading purposes are revalued to fair value. The fair values of listed assets are determined by reference to quoted market rates, and in the case of unlisted assets, the fair value is the amount for which assets could be exchanged or settled between knowledgeable, willing parties in an arm's length transaction. Any fair value differences are recognised in the income statement.

Financial assets held for investment purposes are stated at book value less any permanent diminution in value, and profits and losses are recognised on realisation. In determining the book value of investments, financial assets with a fixed redemption date are stated at original cost plus accrued interest. Other investments are stated at original cost. Where the original cost contains premiums or discounts on purchase, such amounts are amortised on a straight-line basis over the period to redemption. Securities are transferred between investment and trading portfolios at market value.

Associated companies

Associated companies are those companies in which the group holds a long-term equity interest and over which it has the ability to exercise significant influence.

The post-acquisition results of associated companies have been included in the Group financial statements using the equity accounting method, from the effective dates of acquisition until the effective dates of disposal.

The Group's share of earnings of associates is included in earnings attributable to ordinary shareholders.

Deferred taxation

Deferred taxation is accounted for on the comprehensive basis in respect of all material timing differences between the accounting and taxation treatment of income and expenditure items. Account is only taken of taxation assets arising from taxation losses where the recovery of such losses, in the opinion of the directors, is assured beyond reasonable doubt.

Retirement benefits

The Group has established 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. These funds are registered in terms of the Pension Funds Act, 1956, and membership is compulsory for all Group employees. The cost of providing retirement benefits is determined using the accrued benefit valuation method.

Current service costs are written off immediately, while past service costs, experience adjustments, changes in actuarial assumptions and plan amendments are expensed over the expected remaining working lives of employees. In the case of retired employees, the costs are written off immediately.

In terms of certain employment contracts, the Group makes provision for post-retirement healthcare benefits to qualifying employees and retired personnel by subsidising a portion of the medical aid contributions. The entitlement to these benefits is usually based on the employee remaining in service up to retirement age and the completion of a minimum service period. Valuations of these obligations are carried out by qualified actuaries.

Leased assets

Leases of equipment where the group assumes substantially all the benefits and risks of ownership are classified as finance leases, and are capitalised in terms of the underlying asset category.

Other leases are classified as operating leases. Obligations incurred under operating leases are charged to the income statement in equal instalments over the period of the lease.

Instalment credit agreements

Instalment credit agreements are regarded as financing transactions and the total rentals and instalments receivable thereunder, less unearned finance charges, are included in advances. Finance charges are computed using the effective interest rates as detailed in the contracts and are credited to revenue in proportion to capital balances outstanding.

Derivative instruments

Included in derivative instruments are financial futures, options, swaps and forward rate agreements. Derivative instruments held for trading purposes are stated at fair value, which includes a provision for the effects of market risk in the portfolios where the bid/offer spreads for long-dated derivative instruments are considered to be significant.

Profits and losses on derivative instruments, both realised and unrealised, are included in income as incurred, except for those instruments designated as hedges. Profits and losses related to derivative instruments that are designated as hedges are deferred and recognised on the same basis as the hedged asset or liability.

Doubtful advances

Advances are stated after deduction of amounts that, in the opinion of the directors, are required as specific and general provisions. Specific provisions are made against identified doubtful advances and contingencies. In addition, a general provision is maintained to cover potential losses that, although not specifically identified, may be present in any bank's portfolio of advances. The aggregate provisions made during the year, less amounts released and recoveries of advances previously written off, are charged to the income statement.

Accrual of interest on an advance is suspended when a specific provision is made, or when, in other cases, its recovery is doubtful. Irrecoverable advances are written off when the extent of the loss incurred has been confirmed.

Repurchase and resale agreements

Where the banking group sells a financial asset from its portfolio, subject to a repurchase agreement, the financial asset continues to be recorded as an asset, and the consideration received is included under deposit and current accounts, since the risk of ownership remains with the group. The value at which the asset is recorded in the financial statements corresponds with the Group's accounting policy applicable to that class of asset.

Conversely, where a financial asset is purchased subject to a resale agreement, the consideration paid is included under advances. The securities are not recorded on the balance sheet, since ownership does not pass to the group.

Assets and liabilities subject to repurchase agreements entered into by a foreign subsidiary are disclosed as a net position.

Balance sheet

as at 30 June 1999

R'million	Notes	Group 1999	Group 1998
Assets			
Liquid assets			
Cash and short-term funds	3	11 684,2	10 186,6
Short-term negotiable securities	4	10 651,9	10 583,1
		22 336,1	20 769,7
Investment and trading securities	5	13 468,8	7 898,0
Net securities under agreement to resell	9	58,8	80,6
Advances	6 & 7	93 824,4	95 126,7
Debtors	8	6 567,0	9 735,7
		136 255,1	133 610,7
Associated companies	10	149,0	130,5
Other investments	11	1 012,5	372,3
Fixed assets	12	3 431,1	3 431,5
Clients' liabilities under acceptances		3 062,2	1 067,5
Total assets		143 909,9	138 612,5
Liabilities and shareholders' fund			
Liabilities			
Deposit and current accounts	13	116 305,9	115 938,6
Creditors and accruals	14	11 724,8	10 962,5
		128 030,7	126 901,1
Deferred taxation	15	1 158,5	1 101,7
Debentures and long-term liabilities	16	3 224,9	479,8
Liabilities to clients under acceptances		3 062,2	1 067,5
Total liabilities		135 476,3	129 550,1
Outside shareholders' interest		393,5	251,2
Shareholders' funds			
Reserves	17	7 934,1	8 705,2
Share capital	18	106,0	106,0
		8 040,1	8 811,2
		143 909,9	138 612,5
Contingencies and commitments	22	10 220,4	10 916,2

Income statement

for the year ended 30 June 1999

R'million	Notes	Group 1999	Group 1998
Interest income	19.1	20 287,4	4 171,0
Interest expenditure	19.2	(15 478,9)	(3 147,3)
Net interest income		4 808,5	1 023,7
Charge for bad and doubtful debts	19.3	(1 362,8)	(321,1)
Net interest income after bad and doubtful debts		3 445,7	702,6
Other operating income	19.4	5 156,0	1 575,6
Net interest and other operating income		8 601,7	2 278,2
Other operating expenditure	19.5	(6 086,4)	(1 627,3)
Net operating income before taxation		2 515,3	650,9
Loss on sale of investments	19.6	–	(0,1)
Exceptional items	19.7	–	960,3
Income before taxation		2 515,3	1 611,1
Taxation	15	(573,4)	(177,2)
Income after taxation		1 941,9	1 433,9
Equity accounted earnings	10	12,8	11,1
Net income		1 954,7	1 445,0
Earnings attributable to outside shareholders		(56,6)	(12,0)
Earnings attributable to ordinary shareholders	17	1 898,1	1 433,0
Dividends	20	(2 699,2)	(70,4)
Transfer to non-distributable reserves	17	(8,1)	(46,5)
Retained income for the year		(809,2)	1 316,1
Earnings			
– Attributable	21	1 898,1	1 433,0
– Headline	21	1 748,1	472,7

Cash flow statement

for the year ended 30 June 1999

R'million	Notes	Group 1999	Group 1998
Cash flows from operating activities			
Cash received from customers	23.1	24 072,7	5 665,4
Cash paid to customers and employees	23.2	(21 123,3)	(4 578,7)
Net cash inflow from operating activities		2 949,4	1 086,7
Cash flows from returns on investments and servicing of finance			
Debenture interest paid		(94,0)	(71,4)
Dividends received	23.3	208,7	41,8
Dividends paid	23.4	(2 399,8)	(58,4)
Net cash flows from returns on investments and servicing of finance		(2 285,1)	(88,0)
Taxation paid	23.5	(423,9)	(207,1)
Cash flows from investment activities			
Purchase of fixed assets		(1 688,2)	(172,4)
Proceeds from sale of other investments		(484,4)	(10,4)
Proceeds from sale of fixed assets		1 230,7	17,6
Net cash outflow from investment activities		(941,9)	(165,2)
Cash flows from financing activities			
Proceeds from/(redemption of) debenture issues and long-term liabilities		2 745,1	(106,9)
Issue of shares		–	214,5
Minority shareholders		85,8	101,2
Cash flows from financing activities		2 830,9	208,8
Banking investment activities			
Increase in income-earning assets	23.6	(6 310,4)	(10 260,5)
Increase in deposits and other liabilities	23.7	5 678,6	12 350,7
Net cash (outflow)/inflow from banking investment activities		(631,8)	2 090,2
Net increase in cash and cash equivalents		1 497,6	2 925,4
Cash and cash equivalents at beginning of the year		10 186,6	450,6
Cash and cash equivalents acquired		–	6 810,6
Cash and cash equivalents at end of the year		11 684,2	10 186,6

STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June 1999

R'million	Notes	Share capital	Share premium	Reserves	Retained profits	Total equity
Balance at 1 July 1997						
– as previously reported		106,0	1 117,5	398,6	5 109,0	6 731,1
Currency translation differences	17	–	–	549,6	–	549,6
Dividend for 1998		–	–	–	(70,4)	(70,4)
Net income		–	–	–	1 433,0	1 433,0
Transfer to banking reserves	17	–	–	–	(46,5)	(46,5)
Issue of share capital		–	214,4	–	–	214,4
Balance at 30 June 1998		106,0	1 331,9	948,2	6 425,1	8 811,2
Balance at 1 July 1998						
– as previously reported		106,0	1 331,9	948,2	6 425,1	8 811,2
Currency translation differences	17	–	–	(21,6)	–	(21,6)
Dividend for 1999		–	–	–	(2 699,2)	(2 699,2)
Net profit		–	–	–	1 898,1	1 898,1
Transfer to banking reserves	17	–	–	–	(8,1)	(8,1)
Movement in other non-distributable reserves	17	–	–	59,7	–	59,7
Balance at 30 June 1999		106,0	1 331,9	986,3	5 615,9	8 040,1

1. ACCOUNTING POLICIES
The accounting policies of the Group are set out on pages 38 and 39.

2. TURNOVER
Turnover is a concept not relevant to the business of banking.

R'million	Group 1999	Group 1998
3. CASH AND SHORT-TERM FUNDS		
Coin and bank notes	1 687,4	1 773,8
Money at call and short notice	9 060,6	8 260,2
Balances with central banks	936,2	152,6
	11 684,2	10 186,6
Money at short notice constitutes amounts withdrawable in 32 days or less.		
4. SHORT-TERM NEGOTIABLE SECURITIES		
Bills	150,2	401,8
Negotiable certificates of deposit	5 298,1	4 294,7
Treasury bills	4 266,2	3 802,6
Other	937,4	2 084,0
	10 651,9	10 583,1
Investment portfolio	6 328,4	5 831,1
Trading portfolio	4 323,5	4 752,0
Total short-term negotiable securities	10 651,9	10 583,1
5. INVESTMENTS AND TRADING SECURITIES		
Government and government guaranteed:		
Maturing within 1 year	3 065,8	1 298,3
Maturing after 1 year but within 5 years	1 727,6	4 203,3
Maturing after 5 years	6 033,1	621,8
Book value	10 826,5	6 123,4
Valuation	10 823,7	6 094,7
Other dated securities:		
Maturing within 1 year	1 349,2	258,3
Maturing after 1 year but within 5 years	56,3	543,0
Maturing after 5 years	274,1	9,2
Book value	1 679,6	810,5
Valuation	1 678,6	822,1

R'million	Group 1999	Group 1998
5. Investment and trading securities (continued)		
Undated securities:		
Book value	962,7	964,1
Valuation	962,7	1 046,4
Total book value	13 468,8	7 898,0
Total market value or directors' valuation	13 465,0	7 963,2
Analysis of investment and trading securities:		
Listed		
Book value	10 461,9	6 731,1
Market value	10 466,0	6 796,6
Unlisted		
Book value	3 006,9	1 166,9
Directors' valuation	2 999,0	1 166,6
Total book value	13 468,8	7 898,0
Total market value or directors' valuation	13 465,0	7 963,2
Investment portfolio (at cost)	3 785,6	4 019,7
Trading portfolio (at market value)	9 683,2	3 878,3
Total investment and trading securities	13 468,8	7 898,0
Market prices of listed investments are those as quoted on the Johannesburg Stock Exchange or as certified by the Public Investment Commissioner.		

R'million	Notes	Group 1999	Group 1998
6. ADVANCES			
Sector analysis:			
Individuals		44 996,8	37 431,7
Banks and financial services		13 861,7	12 352,6
Manufacturing and commerce		18 325,0	24 402,8
Building and property development		5 248,1	6 716,4
Transport and communication		2 515,0	2 682,8
Government, Landbank and public authorities		1 294,1	8 368,5
Agriculture		2 069,3	2 562,1
Mining		1 752,4	1 483,7
Other services		8 205,3	2 994,8
		98 267,7	98 995,4
Interest suspended	7	(1 193,6)	(974,9)
		97 074,1	98 020,5
Doubtful debt provisions (specific and general)	7	(3 249,7)	(2 893,8)
Advances after doubtful debt provisions		93 824,4	95 126,7
Geographic analysis:			
South Africa		88 179,0	91 237,8
Europe		5 098,9	3 377,2
Namibia		2 184,4	2 220,6
Botswana		1 285,1	958,2
Swaziland		288,3	226,7
Other		38,4	–
		97 074,1	98 020,5
Category analysis:			
Overdrafts and managed account debtors		24 218,0	22 791,0
Home loans		18 805,9	18 687,7
Instalment sales		14 097,4	13 613,8
Lease payments receivable		7 691,1	7 233,0
Offshore loans		8 016,8	8 477,1
Bills and bankers' acceptances		4 143,4	9 139,6
Card loans		2 998,4	2 650,9
Other advances		17 103,1	15 427,4
		97 074,1	98 020,5
Maturity analysis:			
Maturing within 1 year		46 039,2	52 408,3
Maturing after 1 year but within 5 years		27 870,2	22 303,6
Maturing after five years		23 164,7	23 308,6
		97 074,1	98 020,5
The maturity analysis of advances is based on the remaining periods to contractual maturity from year end.			

R'million	Notes	Group 1999	Group 1998
7. **Doubtful debt provisions**			
Balance at beginning of the year		(2 893,8)	(107,0)
Subsidiary balances acquired		–	(2 622,1)
Amounts written off		1 104,4	173,7
		(1 789,4)	(2 555,4)
Recoveries of amounts previously written off		(97,5)	(17,3)
Charge to income statement	19.3	(1 362,8)	(321,1)
Balance at end of the year		(3 249,7)	(2 893,8)
Analysis			
Specific provision		(2 137,2)	(1 722,6)
General provision		(1 112,5)	(1 171,2)
	6	(3 249,7)	(2 893,8)

Analysis of non-performing advances

R'million	Credit risk	Security held	Interest suspended	Provision
By sector:				
Individuals	2 948,9	1 187,0	698,8	1 012,9
Manufacturing and commerce	1 180,4	282,9	267,6	609,2
Banks and financial services	157,2	25,2	36,7	124,0
Agriculture	138,7	54,2	39,2	29,8
Building and property development	639,8	172,7	100,0	251,0
Transport and communication	101,7	29,9	26,0	42,6
Mining	9,6	1,5	2,6	2,0
Other services	122,0	33,7	22,7	65,7
Total	5 298,3	1 787,1	1 193,6	2 137,2
1998 total non-performing lendings	4 182,2	1 263,5	974,9	1 722,6
By category:				
Overdraft and managed account debtors	2 188,0	539,5	564,3	1 013,0
Home loans	1 501,5	1 031,2	274,2	344,9
Instalment sales	623,9	99,2	149,2	246,3
Lease payments receivable	216,8	36,2	45,6	81,1
Card loans	261,5	–	111,7	135,8
Offshore loans	–	–	–	0,3
Other advances	506,6	81,0	48,6	315,8
Total	5 298,3	1 787,1	1 193,6	2 137,2
1998 total non-performing lendings	4 182,2	1 263,5	974,9	1 722,6

R'million	Group 1999	Group 1998
8. DEBTORS		
Items in transit	157,9	1 570,9
Accrued interest	274,7	139,6
Accounts receivable	2 749,9	1 736,6
Other debtors	3 384,5	6 288,6
	6 567,0	9 735,7
9. NET SECURITIES UNDER AGREEMENT TO RESELL		
Securities purchased under agreements to resell	5 278,3	7 113,2
Securities sold under agreements to repurchase	(5 219,5)	(7 032,6)
	58,8	80,6
A foreign subsidiary company which is a securities trader registered with the Australian Securities Commission, concludes reciprocal agreements in government and semi-government gilts with third parties as a short-term money market trader. These agreements are unique to the Australian trading environment. They are short-term (2 days), carry no pricing risk and are concluded under a guaranteed settlement/delivery mechanism.		
10. ASSOCIATED COMPANIES		
Listed investments:		
Cost less amounts written off	–	76,6
Unlisted investments:		
Cost less amounts written off	96,0	15,1
Total cost less amounts written off	96,0	91,7
Income for the year	23,6	15,0
Dividends received for the year	(10,8)	(3,9)
Equity accounted earnings	12,8	11,1
Share of retained income at beginning of the year	31,6	20,5
Share of retained income at end of the year	44,4	31,6
Share of other reserves	8,6	7,2
Total retained income and reserves	53,0	38,8
Total carrying value	149,0	130,5
Valuation		
Listed investments at market value	–	213,2
Unlisted investments at directors' valuation	326,4	23,1
Total valuation	326,4	236,3
A detailed schedule of associated companies appears in note 25.		

R'million	Group 1999	Group 1998
11. OTHER INVESTMENTS		
Listed investments		
Book value	227,6	88,0
Market value	158,1	317,7
Unlisted investments		
Book value	784,9	284,3
Directors' valuation	912,0	413,6
Total book value	1 012,5	372,3
Total market or directors' valuation	1 070,1	731,3
A detailed schedule of other investments appears in note 26.		

R'million	Cost	Accumulated depreciation	Net book value
12. FIXED ASSETS			
Summary of fixed assets			
1999			
Group property			
Freehold land and buildings	947,0	(36,1)	910,9
Leasehold premises	1 405,7	(228,6)	1 177,1
	2 352,7	(264,7)	2 088,0
Equipment			
Computer equipment	2 166,6	(1 531,2)	635,4
Furniture and fittings	947,6	(480,8)	466,8
Motor vehicles	399,0	(203,0)	196,0
Office equipment	106,1	(61,2)	44,9
	3 619,3	(2 276,2)	1 343,1
Total	5 972,0	(2 540,9)	3 431,1
1998			
Group property			
Freehold land and buildings	1 828,3	(40,0)	1 788,3
Leasehold premises	428,8	(191,8)	237,0
	2 257,1	(231,8)	2 025,3
Equipment			
Computer equipment	3 444,0	(2 060,4)	1 383,6
Furniture and fittings	19,1	(6,4)	12,7
Motor vehicles	0,9	(0,5)	0,4
Office equipment	16,8	(7,3)	9,5
	3 480,8	(2 074,6)	1 406,2
Total	5 737,9	(2 306,4)	3 431,5

R'million	Freehold land and buildings	Leasehold premises	Equipment
12. FIXED ASSETS (CONTINUED)			
Movements in fixed assets			
Cost at beginning of the year	1 828,3	428,8	3 480,8
Additions	103,7	1 074,9	509,6
Disposals	(1 019,4)	(66,6)	(255,2)
Transfers and other movements	34,4	(31,4)	(115,9)
Cost at end of the year	947,0	1 405,7	3 619,3
Accumulated depreciation at beginning of the year	(40,0)	(191,8)	(2 074,6)
Depreciation charge for the year	(5,0)	(28,3)	(448,0)
Disposals	9,1	14,0	205,6
Transfers and other movements	(0,2)	(22,5)	40,6
Accumulated depreciation at end of the year	(36,1)	(228,6)	(2 276,2)
Net book value at end of the year	910,9	1 177,1	1 343,1

Included in the freehold land and buildings are bank properties held under leasehold agreements. A register of the properties owned is available for inspection at the registered office.

R'million	Group 1999	Group 1998
13. DEPOSIT AND CURRENT ACCOUNTS		
Time deposits	46 195,8	50 536,9
Current deposit accounts	32 990,7	28 820,4
Deposits from banks	17 621,6	20 974,4
Negotiable certificates of deposit	15 401,9	11 303,8
Savings accounts	4 095,9	4 303,1
	116 305,9	115 938,6
Geographic analysis		
South Africa	100 333,3	104 619,6
Europe	11 010,2	7 401,7
Namibia	2 192,1	1 984,5
Botswana	2 079,1	1 614,9
Swaziland	336,0	317,9
Other	355,2	–
	116 305,9	115 938,6

R'million	Group 1999	Group 1998
13. DEPOSIT AND CURRENT ACCOUNTS (CONTINUED)		
Maturity analysis		
Withdrawable on demand	56 672,2	63 447,6
Maturing within 1 month	25 985,5	25 705,0
Maturing after 1 month but within 6 months	17 968,2	17 071,3
Maturing after 6 months but within 12 months	11 637,5	7 148,0
Maturing after 12 months	4 042,5	2 566,7
	116 305,9	115 938,6
The maturity analysis of deposit and current accounts is based on the remaining periods to contractual maturity from year end.		
14. CREDITORS AND ACCRUALS		
Accrued interest	168,5	116,9
Accounts payable	4 566,1	1 585,7
Dividends payable	338,6	39,2
Debentures	–	100,0
Taxation	147,6	188,2
Other creditors	6 504,0	8 932,5
	11 724,8	10 962,5
15. TAXATION		
Analysis of deferred taxation		
Difference between tax and book value of:		
Instalment credit agreements	842,3	907,1
General provision	(206,0)	(239,8)
Accruals	557,0	–
Taxation losses	(49,4)	(6,2)
Equipment	3,9	40,4
Other	10,7	400,2
Total deferred taxation	1 158,5	1 101,7
Charge for the year		
Income and related taxation		
South African normal taxation		
Current	(88,5)	(65,0)
Deferred	(177,1)	(31,4)
Taxation charge	(265,6)	(96,4)
Foreign company and withholding taxation		
Current	(68,8)	–
Deferred	(13,0)	–
Taxation charge	(81,8)	–
Deferred tax rate adjustment	(8,9)	–
Total income and related taxation	(356,3)	(96,4)

R'million	Group 1999	Group 1998
15. TAXATION (CONTINUED)		
Total income and related taxation	(356,3)	(96,4)
Transaction and other taxation		
Financial services levy	(0,1)	(0,1)
Value-added taxation (net)	(172,7)	(55,0)
Regional services levy	(39,5)	(9,3)
Stamp duties	(4,8)	(12,1)
Secondary tax on companies	1,4	(4,5)
Other	(1,4)	0,2
Total transaction and other taxation	(217,1)	(80,8)
Total taxation	(573,4)	(177,2)
Estimated taxation losses available for set-off against future taxable income	–	16,9
	%	%
Taxation rate reconciliation		
Effective rate of taxation	22,8	19,2
Total taxation has been affected by:		
Non-taxable income	8,3	6,0
Other permanent differences	(1,1)	9,8
Standard rate of taxation	30,0	35,0

R'million		
Special taxation provision at beginning of the year	47,4	79,8
Special taxation provision charge	–	(32,4)
Special taxation provision at end of the year	47,4	47,4

A subsidiary of the FirstRand Banking Group was notified by the Commissioner for Inland Revenue that, in his opinion, certain interest received on funds sourced from outside the Republic should be deemed to be from a local source and therefore subject to South African income tax. FirstRand Bank does not concur with this view and the matter is being contested. It is considered prudent accounting practice to provide for this disputed liability and the special taxation provision reflected above has accordingly been raised. The current year movement has been included in the normal taxation charge for the year.

R'million	Group 1999	Group 1998
16. DEBENTURES AND LONG-TERM LIABILITIES		
16.1 Debentures		
Non-redeemable subordinated debentures		
Prime minus 3%	100,0	100,0
Prime minus 2%	120,0	120,0
	220,0	220,0
RMB 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%.		
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%.		
16.2 Long-term liabilities		
Unsecured debt securities amortising over the period to 2005	259,8	465,1
Subordinated convertible loan	2 000,0	–
Long-term loan	995,8	–
Less: Portion repayable within 12 months transferred to current liabilities	(250,7)	(205,3)
	3 004,9	259,8
Total debentures and long-term liabilities	3 224,9	479,8
The debt securities are unsecured, with interest being payable six-monthly in arrears at rates that vary between 16,74% and 17% per annum.		
The subordinated convertible loan is redeemable in 2009 and bears interest at 16,5% semi-annually. The loan is convertible into ordinary shares at the option of the holder at any time prior to redemption.		
The long-term loan extends to 2009. Repayments are based on an interest rate of 16,64% and are payable six-monthly in advance.		

R'million	Notes	Group 1999	Group 1998
17. RESERVES			
Distributable reserves			
Retained income at beginning of the year		6 425,1	5 109,0
Retained income for the year		1 898,1	1 433,0
Dividend for the current year	20	(2 699,2)	(70,4)
Transfer to banking reserves		(8,1)	(46,5)
Retained income at end of the year		5 615,9	6 425,1
Share premium			
Share premium at end of the year		1 331,9	1 331,9
Non-distributable reserves			
Equity accounted earnings of associates		44,4	31,6
Other reserves in associated companies		8,6	7,2
Currency conversion reserve		528,0	549,6
Revaluation of investments		1,1	–
Other		404,2	359,8
		986,3	948,2
Total reserves at end of the year		7 934,1	8 705,2

R'million	Number of shares (million)	Ordinary shares	Total
18. SHARE CAPITAL			
Issued share capital			
at 30 June 1997	454,3	106,0	106,0
Issue of shares	–	–	–
at 30 June 1998	454,3	106,0	106,0
Issue of shares	–	–	–
at 30 June 1999	454,3	106,0	106,0
Authorised			
Total authorised share capital at year end			
– with a par value of 20 cents per share	550,0	110,0	110,0
– with a par value of 1 rand per share	20,0	20,0	20,0
The unissued ordinary shares are under the control of the directors until the next annual general meeting.			

R'million	Notes	Group 1999	Group 1998
19. Analysis of income and expenditure			
19.1 Interest income			
Interest on:			
Advances		18 210,2	3 769,6
Balances with banks and short-term funds		521,8	107,9
Short-term negotiable securities		942,5	171,6
Investment and trading securities		3,7	–
– Listed		407,2	85,4
– Unlisted		4,6	31,2
Other		197,4	5,3
		20 287,4	4 171,0
19.2 Interest expenditure			
Interest on:			
Deposit accounts		(11 176,6)	(2 326,3)
Current deposit accounts		(3 657,7)	(587,0)
Savings accounts		(301,2)	(65,4)
Debentures		(94,0)	(71,4)
Deposits from banks		(82,6)	(97,2)
Other		(166,8)	–
		(15 478,9)	(3 147,3)
19.3 Charge for bad and doubtful debts	7	(1 362,8)	(321,1)
Net interest income after bad and doubtful debts		3 445,7	702,6
19.4 Other operating income			
Commission earnings		3 087,5	788,6
Exchange earnings		417,8	168,0
Investment banking		174,4	56,6
Profit on sale of fixed assets		23,4	4,8
Dividends from other investments		197,9	37,9
Dividends from associated companies		10,8	3,9
Trading income		391,2	158,7
Other income		853,0	357,1
		5 156,0	1 575,6

R'million	Group 1999	Group 1998
19. ANALYSIS OF INCOME AND EXPENDITURE (CONTINUED)		
19.5 Other operating expenditure		
Auditors' remuneration		
Audit fees	(29,2)	(4,8)
Fees for other services	(1,0)	(1,5)
	(30,2)	(6,3)
Depreciation		
Freehold buildings	(5,0)	(1,3)
Leasehold premises	(28,3)	(7,1)
Equipment:		
Computer equipment	(279,9)	(83,3)
Furniture and fittings	(78,7)	(3,4)
Motor vehicles	(71,2)	(22,8)
Office equipment	(18,2)	(3,9)
	(481,3)	(121,8)
Operating lease charges		
Land and buildings	(216,8)	(55,9)
Equipment	(10,3)	(4,7)
Motor vehicles	–	(0,4)
	(227,1)	(61,0)
Professional fees		
Managerial	(22,1)	(0,9)
Technical and other	(213,6)	(58,6)
	(235,7)	(59,5)
Staff costs		
Salaries, wages and allowances	(2 632,9)	(805,1)
Contribution to pension and other staff funds	(300,9)	(20,2)
Social security levies	(12,7)	–
Other	(153,7)	(30,9)
	(3 100,2)	(856,2)
Other costs	(2 011,9)	(522,5)
Other operating expenditure	(6 086,4)	(1 627,3)
Net operating income before taxation	2 515,3	650,9
19.6 Loss on sale of investments		
Other	–	(0,1)
	–	(0,1)

R'million	Group 1999	Group 1998
19. ANALYSIS OF INCOME AND EXPENDITURE (CONTINUED)		
19.7 Exceptional items		
Capital profit on disposal of Southern Life Association Limited	–	1 600,0
Fair value provision	–	(639,7)
	–	960,3
20. DIVIDENDS		
Final dividend – 1998		
A final dividend relating to First National Bank of South Africa Limited for the period ended 30 June 1998 was paid on 10 October 1998	88,0	–
Interim dividend		
An interim dividend was paid on 31 March 1999	272,6	31,2
Capital restructuring dividend		
A capital restructuring dividend was paid on 30 June 1999	2 000,0	–
Final dividend – 1999		
A final dividend has been proposed for payment on 29 October 1999	338,6	39,2
	2 699,2	70,4
21. EARNINGS ATTRIBUTABLE TO SHAREHOLDERS		
Attributable earnings basis		
The calculation of the earnings is based on the earnings attributable to ordinary shareholders. Earnings attributable to ordinary shareholders amounted to R1 898,1 million (1998 – R1 433,0 million).		
Headline earnings basis		
The calculation of the headline earnings is based on earnings attributable to ordinary shareholders adjusted by items of a non-trading nature and capital injections during the year.		
Headline earnings reconciliation		
Earnings attributable to ordinary shareholders	1 898,1	1 433,0
Less: Profit on sale of investments	–	(960,3)
Less: Calculated benefit of additional capital	(150,0)	–
Headline earnings	1 748,1	472,7
A detailed analysis of headline earnings calculated on a pro forma basis is contained in the Chief Financial Officer's Report. Refer page 22.		

R'million	Group 1999	Group 1998
22. CONTINGENCIES AND COMMITMENTS		
Contingencies:		
Guarantees	10 001,0	8 662,6
Credits	219,4	2 253,6
	10 220,4	10 916,2
No material losses are anticipated as a result of these transactions other than losses for which provision has been made in the financial statements.		
Commitments		
Commitments in respect of capital expenditure and long-term investments approved by directors:		
Contracted for	102,8	18,3
Not contracted for	14,0	11,2
Funds to meet these commitments will be provided from Group resources.		

Commitments under derivative instruments:

Option contracts, financial futures contracts, forward rate and interest rate swap agreements and other financial instruments have been entered into in the normal course of business. In terms of the Group's accounting policies these instruments are stated at fair value. Profit and losses both realised and unrealised are included in income.

	Next year	2nd year	3rd year and thereafter
Group commitments under leases:			
Office premises	269,6	245,1	1 890,0
Recoverable under subleases	(11,6)	(8,7)	(33,0)
	258,0	236,4	1 857,0
Equipment and motor vehicles	9,2	3,2	4,2
	267,2	239,6	1 861,2

R'million	Group 1999	Group 1998
23. CASH FLOW INFORMATION		
23.1 Cash received from customers:		
Interest income	20 287,4	4 171,0
Commission and exchange earnings	3 087,5	788,6
Other income	697,8	705,8
Total cash received from customers	24 072,7	5 665,4
23.2 Cash paid to customers and employees:		
Interest expenditure (excluding debenture interest)	(15 384,9)	(3 075,8)
Total other operating expenditure (excluding depreciation)	(5 738,4)	(1 502,9)
Total cash paid to customers and employees	(21 123,3)	(4 578,7)
23.3 Dividends received:		
Dividends from subsidiary companies	–	–
Dividends from other investments	197,9	37,9
Dividends from associated companies	10,8	3,9
Total dividends received	208,7	41,8
23.4 Dividends paid:		
Amounts unpaid at beginning of the year	(39,2)	(27,2)
Charged to the income statement	(2 699,2)	(70,4)
Amounts unpaid at end of the year	338,6	39,2
Total dividends paid	(2 399,8)	(58,4)
23.5 Taxation paid:		
Amounts unpaid at beginning of the year	(188,2)	(38,2)
Taxation charge – current	(157,3)	(65,0)
Financial services levy	(0,1)	(0,1)
Transaction taxes	(217,0)	(76,4)
Other	(8,9)	(8,9)
Balance acquired	–	(206,7)
Amounts unpaid at end of the year	147,6	188,2
Total taxation paid	(423,9)	(207,1)
23.6 (Increase)/decrease in income-earning assets:		
Net securities under agreement to resell	21,8	49,0
Investment and trading securities	(7 634,3)	(4 271,3)
Advances	1 302,1	(6 038,2)
Net increase in income-earning assets	(6 310,4)	(10 260,5)

R'million	Group 1999	Group 1998
23. CASH FLOW INFORMATION (CONTINUED)		
23.7 Increase/(decrease) in deposits and other liabilities		
Balance acquired	–	(95 821,4)
Deposits with banks	(3 352,8)	2 260,3
Current deposit accounts	4 170,3	25 344,4
Savings accounts	(207,2)	4 303,1
Time deposits	(4 341,1)	51 433,8
Negotiable certificates of deposit	4 098,1	10 490,7
Creditors net of debtors	3 316,5	(718,5)
Other	1 994,8	15 058,3
Net increase in deposits and other liabilities	5 678,6	12 350,7

Name	Nature of business	Issued ordinary share capital R	Effective holding % 1999	Effective holding % 1998	Investment R' million 1999	Investment R' million 1998	Indebtedness R' million 1999	Indebtedness R' million 1998
24. SUBSIDIARY COMPANIES								
Banking								
Rand Merchant Bank Limited	Merchant banking	18 947 000	100,0	100,0	870,5	903,2	–	–
FirstRand Bank Limited	Commercial and merchant banking	3 454 200	100,0	100,0	1 236,4	1 236,4	(83,1)	(62,1)
Henry Ansbacher Holdings Limited	Private and specialised banking	127 000	100,0	100,0	369,1	369,1	–	–
First National Bank Holdings (Botswana) Limited	Commercial banking	27 913 468	100,0	100,0	56,3	56,3	–	–
FirstRand International Limited	International holding company	95 120 535	100,0	100,0	143,1	143,1	40,0	40,0
First National Bank of Southern Africa Limited	Commercial banking	10 001 000	100,0	100,0	54,4	54,4	42,1	42,1

General information in respect of subsidiaries as required in terms of the Fourth Schedule of the Companies Act is detailed in respect of those subsidiaries where the financial position or results are material to the Group.

It is considered that the disclosure in these statements of such information in respect of the remaining subsidiaries would entail expense out of proportion to the value to members. All subsidiaries have co-terminus year-ends.

Name	Nature of business	Year end	Issued ordinary capital R	Number of ordinary shares held	Effective holding % 1999	1998	Group carrying amount R'million 1999	1998	Group cost less amounts written off R'million 1999	1998
25. Associated companies										
Listed										
FBC Holdings Limited	General banking	31 March	–	–	–	25,95	–	81,1	-	76,6
Unlisted										
Zeda Car (Pty) Limited	Leasing	31 March	50	25	50,0	50,0	21,5	15,1	-	–
Infrastructure Finance Corporation Limited	Funding	31 December	798 000	175 000	21,9	20,0	20,2	10,0	18,3	10,0
Ocean Container Holdings (Pty) Limited	Container leasing	31 January	1 000	500,0	50,0	50,0	6,5	6,5	0,5	0,5
Ethos Holdings	Equity fund	30 June	300 000 000	149 970 000	49,9	–	73,0	–	73,0	–
Mobile Acceptances (Pty) Limited	Leasing	30 June	700 000	182 000	26,0	26,0	3,0	–	0,4	–
Other							24,8	17,8	3,8	4,6
							149,0	130,5	96,0	91,7

General information in respect of associated companies as required in terms of the Fourth Schedule of the Companies Act is detailed in respect of those associated companies where the financial position or results are material to the Group.

It is considered that the disclosure in these statements of such information in respect of the remaining associated companies would entail expense out of proportion to the value to members.

R'million	Effective holding % 1999	1998	Group cost less amounts written off R'000 1999	1998
26. Other investments				
Listed				
United Energy PLC	5,0	5,0	2,4	3,2
Morkels Retail Group Limited	0,3	0,3	–	1,2
Unispin Holdings Limited	2,0	2,0	3,1	3,1
Syfrets and Commercial Limited	1,2	1,2	4,8	4,8
Toco Holdings Limited	42,0	–	76,0	–
Sentry Group Limited	17,0	21,5	18,9	18,9
Lenco Investment Holdings	4,9	4,9	11,0	11,0
Lenco Holdings	2,4	2,4	9,5	9,5
Other			101,9	36,3
Total listed other investments			227,6	88,0

R'million	Effective holding % 1999	Effective holding % 1998	Group cost less amount written off R'000 1999	Group cost less amount written off R'000 1998
26. OTHER INVESTMENTS (CONTINUED)				
Unlisted				
Namibian Breweries Limited	Pref shares	Pref shares	84,4	88,1
Small Business Development Corporation Limited	2,1	2,1	6,0	6,0
New Farmers Development Corporation	2,0	2,0	1,0	1,0
Inmins SA (Pty) Limited	24,5	24,5	3,0	3,0
Net 1 Applied Technology Holdings Limited	4,2	–	20,9	–
Preference Shares – IBD	Pref shares	–	20,0	–
Pac Creative (Pty) Limited	38,0	–	17,7	–
Jersey General Group Holdings Limited	19,2	–	85,6	–
Plessey Asia Pacific (Pty) Limited	51,1	–	8,8	–
Other			537,5	186,2
Total unlisted other investments			784,9	284,3
Total other investments			1 012,5	372,3
Total market or directors' valuation			1 070,1	731,3

27. PENSION FUND AND POST-RETIREMENT MEDICAL BENEFITS

The Group provides for retirement benefits by making payments to various pension funds which are independent of the Group. The funds are subject to the Pension Funds Act, 1956 which requires an actuarial valuation every three years. They were last valued on 1996 and were found to be financially sound by independent consulting actuaries. Contributions by the Group to the pension funds are charged to profits.

An actuarial surplus in the pension fund crystallised when the nature of the fund changed from a defined benefit scheme to a defined contribution scheme. Over a period of time a portion of this surplus will be utilised to create a separate fund which will fully meet post-retirement medical benefits of both existing staff and pensioners. This will be done with the agreement of the representative trade union and the trustees of the fund.

28. TRUST ACTIVITIES

The market value of assets held or placed on behalf of customers in a fiduciary capacity amounts to R68 033,9 million (1998 – R69 582,6 million).

R'million	Rand	UK£	US$	Other	Total
29. Group currency profile					
Cash and short-term funds	8 353,2	109,3	1 835,8	1 385,9	11 684,2
Short-term negotiable securities	7 117,1	1 181,6	1 522,5	830,7	10 651,9
Investment and trading securities	11 482,6	174,7	1 545,5	266,0	13 468,8
Repurchase agreements	–	–	58,8	–	58,8
Advances	79 933,5	1 322,8	8 449,0	4 119,1	93 824,4
Debtors	3 240,8	109,1	3 078,7	138,4	6 567,0
Associated companies	144,1	–	–	4,9	149,0
Other investments	733,7	2,1	191,9	84,8	1 012,5
Fixed assets	3 117,0	114,0	47,7	152,4	3 431,1
Client liabilities under acceptances	2 941,4	–	30,8	90,0	3 062,2
Assets	117 063,4	3 013,6	16 760,7	7 072,2	143 909,9
Deposit and current amounts	94 640,2	2 065,7	13 850,9	5 749,1	116 305,9
Creditors and accruals	7 689,5	114,9	3 536,3	384,1	11 724,8
Deferred taxation	1 087,0	–	0,8	70,7	1 158,5
Debentures and long-term liabilities	2 328,3	–	854,0	42,6	3 224,9
Outside shareholders' interest	126,6	–	102,4	164,5	393,5
Reserves	5 892,7	1 120,1	392,7	528,6	7 934,1
Share capital	106,0	–	–	–	106,0
Liabilities to clients under acceptances	2 941,4	–	30,8	90,0	3 062,2
Liabilities and shareholders' funds	114 811,7	3 300,7	18 767,9	7 029,6	143 909,9
Net currency positions	–	(261,6)	(1 792,4)	96,6	(1 957,4)
Off-balance sheet items					
Foreign exchange contracts	–	(71,1)	1 547,8	(149,8)	1 326,9
Options held	–	(24,4)	796,7	(48,4)	723,9
Other	–	–	63,9	(18,2)	45,7
Group currency profile – 1999	–	(357,1)	616,0	(119,8)	139,1
Currency conversion guide: 1 Pound sterling = R9,49; 1 US dollar = R6,03					

FirstRand Insurance Group

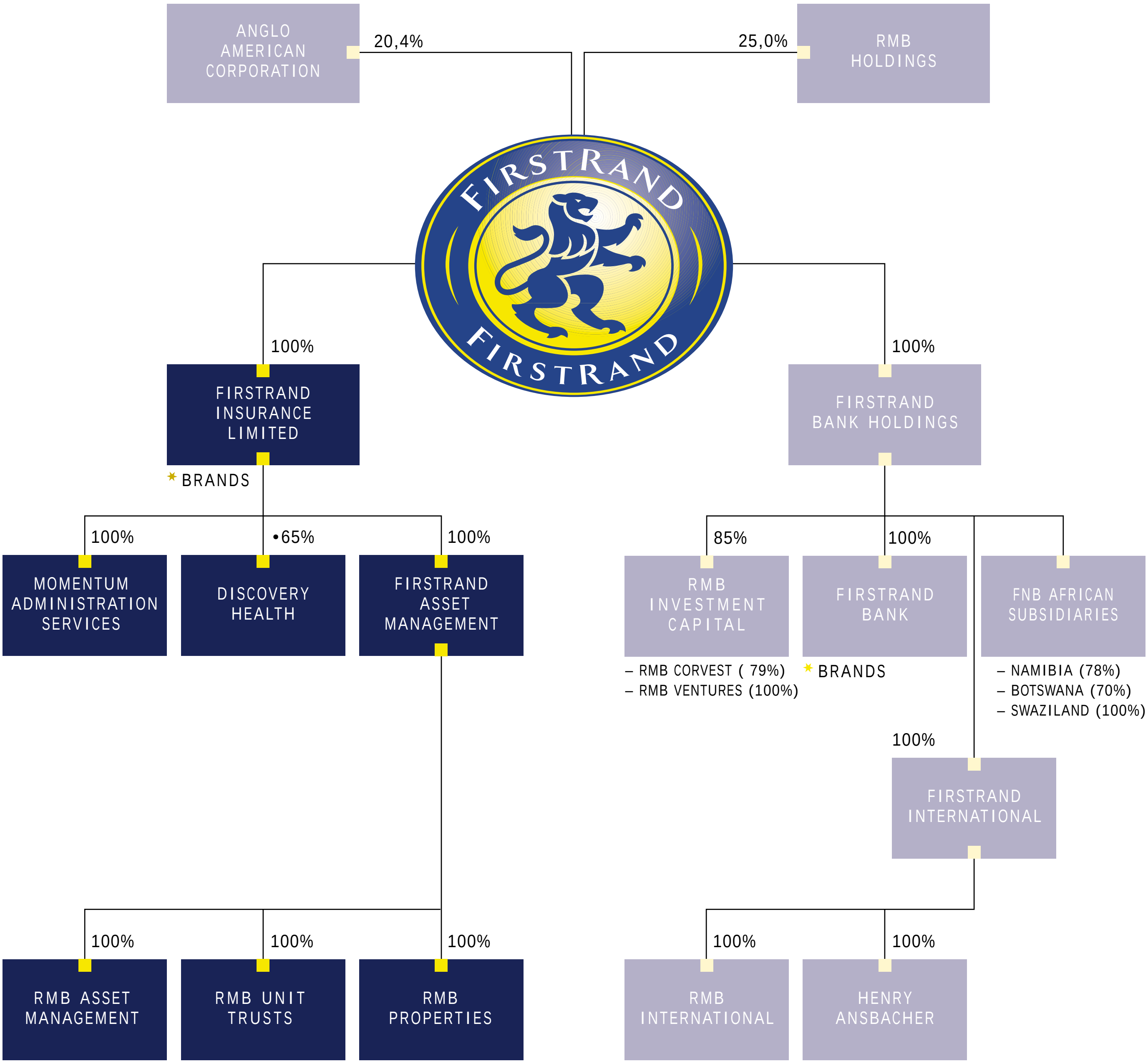
"the Insurance Group"

Contents for the FirstRand Insurance Group

We dare to end the hierarchy

Our owner-manager culture carries with it individual responsibility for success made possible by complete empowerment of our staff

Group structure



* MOMENTUM LIFE
SOUTHERN LIFE
MOMENTUM EMPLOYEE BENEFITS

* RAND MERCHANT BANK (RMB)
FIRST NATIONAL BANK (FNB)
BOB
ORIGIN
ANSBACHER
WESBANK

• *Shareholding subsequent to the Discovery listing*

Financial highlights

- Increase in operating profit over pro forma +73%
- Increase in Group headline earnings over pro forma +19%
- Funds received from clients increased by 31% to R33 billion
- Assets under management and administration increased by 15% to R114 billion
- Estimated sustainable Group cost savings resulting from the merger of R260 million per annum
- Embedded value of new business R311 million for the Group

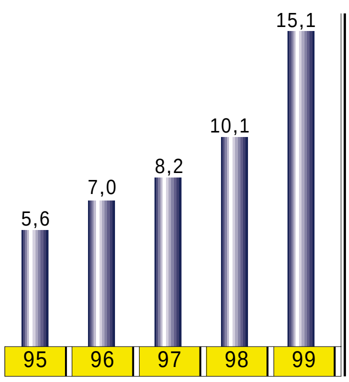
Five-year review

for the year ended 30 June

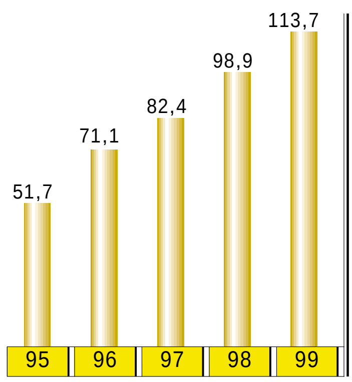
R'million	(2) 1995	(2) 1996	(2) 1997	(3) 1998	(4) 1999	Compound growth %
Group premium income						
Individual Life	3 480,2	4 024,5	4 959,8	5 683,8	7 091,3	19,5
Single premiums	1 820,5	1 988,3	2 561,9	2 975,2	4 303,2	24,0
Recurring premiums	1 659,7	2 036,2	2 397,9	2 708,6	2 788,1	13,9
Employee benefits (1)	2 062,5	2 853,8	2 886,7	3 252,6	6 194,5	31,6
Single premiums	1 084,0	1 683,9	1 728,6	1 966,0	4 872,7	45,6
Recurring premiums	978,5	1 169,9	1 158,1	1 286,6	1 321,8	7,8
Health business	50,5	122,7	330,6	1 113,9	1 847,7	>100
Total premium income	5 593,2	7 001,0	8 177,1	10 050,3	15 133,5	28,3
Group assets under management and administration						
Total assets per balance sheet	38 558,4	48 202,5	52 450,4	55 725,5	57 543,4	10,5
Off-balance sheet assets managed on behalf of clients	13 178,4	22 878,8	29 972,9	43 213,0	56 152,0	43,7
Total assets under management and administration	51 736,8	71 081,3	82 423,3	98 938,5	113 695,4	21,8

(1) The 1999 figure includes transfers from off-balance sheet funds of R3,3 billion (1998: R0,5 billion).
(2) Comprises the aggregation of the audited figures of Southern Life to 31 March and those of Momentum Life to 30 June.
(3) Comprises the audited figures for Momentum Life to 30 June 1998 and the pro forma figures for Southern Life to 30 June 1998.
(4) Comprises the audited figures for Momentum Life and Southern Life to 30 June 1999.

Group premium income growth (Rbn)



Group assets under management (Rbn)



From left to right

back: A Gore, *second from back:* D J Loch Davis, B H Adams, W F E Bragg, M W Spicer, A Arnott, *middle:* B J van der Ross, R J Hutchison, J D Krige, M W King, V W Bartlett, W E Lucas-Bull, P N Bardill, R B Gouws, *second from front:* P K Harris, A J Ardington, G T Ferreira, L L Dippenaar, *front:* H P Meyer

L L Dippenaar (50)
MCom, CA(SA)
Executive Chairman of FirstRand Insurance, Chief Executive Officer of FirstRand Limited and Director of FirstRand Bank.

B H Adams (63)
CA(SA)
Chairman of the FirstRand Limited and FirstRand Insurance audit committees.

A J Ardington (59)
BSc (Hons), MA (Oxford)
Policyholder trustee.

A H Arnott (52)
BCom, CA(SA), PMD (Harvard)
Chief Financial Officer of FirstRand Limited.

P N Bardill (49)
BA, MA, Dip Human Resources Management
Policyholder trustee.

V W Bartlett (56)
AMP (Harvard)
Director of FirstRand Limited and Deputy Chief Executive Officer of FirstRand Bank.

W F E Bragg (58)
CA (CFA)

G T Ferreira (51)
BCom (Hons), B(B&A), MBA
Chairman of FirstRand Limited and FirstRand Bank.

A Gore (35)
BSc (Hons), FFA
Chief Executive Officer of Discovery Health.

R B Gouws (56)
BSc, FFA, AMP (Oxford)
Chairman of the Actuarial Committee.

P K Harris (49)
MCom
Director of FirstRand Limited and Chief Executive Officer of FirstRand Bank.

R J Hutchison (52)
BCom (Hons), B(B&A), MBA
Executive Chairman of FirstRand Asset Management.

M W King (62)
CA(SA), FCA
Deputy Chairman of FirstRand Limited and FirstRand Bank.

J D Krige (50)
MCom, FFA, AMP (Harvard)
Deputy Chairman of FirstRand Insurance.

D J Loch Davis (68)
LLB (Hons) (London)
Chairman of the policyholder trust.

W E Lucas-Bull (46)
BSc

H P Meyer (41)
BCom, FIA, AMP (Oxford)
Managing Director of FirstRand Insurance.

M W Spicer (46)
MA (Rhodes)

B J van der Ross (52)
Dip Law (UCT)
Director of FirstRand Limited.

Committees

Audit Committee
B H Adams (chairman)
D J Loch Davis
H P Meyer
B J van der Ross

Remuneration Committee
M W King (Chairman)
B H Adams
L L Dippenaar

Actuarial Committee
R B Gouws (Chairman)
H P Meyer
N A S Kruger
P G M Truyens

Executive committees
Insurance executive committee

Adrian Arnott (52)
BCom, CA(SA), PMD (Harvard)
Chief Financial Officer of FirstRand Limited. Director of Momentum Employee Benefits and FirstRand Asset Management.

Danie Botes (35)
BCompt
Head of IT and Policy Administration for Momentum Life and Southern Life.

Don Brown (47)
BSc (Hons), FIA, FILPA
Managing Director of Momentum Employee Benefits.

Laurie Dippenaar (50)
MCom, CA(SA)
Executive Chairman of FirstRand Insurance. Chairman of Discovery Health and FirstRand Asset Management.

Eddie Engelage (53)
BSc, AIA, GILPA
Head of Marketing: Momentum Life and Southern Life.

Peter Göbel (35)
BCom (Hons)
Chief Executive Officer of Momentum Administration Services.

Niel Krige (50)
MCom, FIA, AMP (Harvard)
Deputy Chairman of FirstRand Insurance and RMB Properties. Director of FirstRand Asset Management and Chairman of Momentum Employee Benefits.

Hillie Meyer (41)
BCom, FIA, AMP (Oxford)
Managing Director of FirstRand Insurance. Director of Discovery Health.

Kobus Sieberhagen (40)
MA (Clin Psych), DPhil, AMP (Oxford)
Head of Momentum Distribution Services.

From left to right

Frans Truter, Laurie Dippenaar, Hillie Meyer, Adrian Arnott, Kobus Sieberhagen, Trevor Strydom, Peter Göbel, Llewellyn van Rensburg, Riaan van Dyk, Paul Truyens, Ferdi van Heerden, Eddie Engelage, Danie Botes *(seated)*, Don Brown *(standing)*, Niel Krige

Trevor Strydom (44)
Head of Marketing and Distribution: Momentum Administration Services.

Frans Truter (44)
BCom (Hons), CA(SA), AMP (Oxford)
Chief Financial Officer of FirstRand Insurance and head of Financial and Actuarial Solutions. Director of Discovery Health.

Paul Truyens (52)
BA, BSc, FIA
Statutory Actuary of Southern Life.

Riaan van Dyk (33)
BSc, FFA, ASA
Head of Momentum Advisory Service.

Ferdi van Heerden (36)
BSc (Hons)
Head of Business Development for Momentum Life and Southern Life.

Llewellyn van Rensburg (44)
BCom, FIA, AMP (Oxford)
Chairman of Momentum Administration Services and Director of Momentum Employee Benefits and FirstRand Asset Management.

ASSET MANAGEMENT EXECUTIVE COMMITTEE

From left to right

Laurie Dippenaar, Alberto Bottega, Rowan Hutchison, Peter Mountford, Bryan Jackson, Anton Raath

Alberto Bottega (57)
MSc, PhD (Phys)
Chief Investment Officer of Southern Asset Management.

Laurie Dippenaar (50)
MCom, CA(SA)
Executive Chairman of FirstRand Insurance. Chairman of FirstRand Asset Management.

Rowan Hutchison (52)
BCom (Hons), B(B&A), MBA
Executive Chairman of FirstRand Asset Management.

Bryan Jackson (53)
BCom, LLB
Managing Director of RMB Properties.

Peter Mountford (42)
MCom, BAcc, CA(SA), HDip Tax
Chief Operations Officer of RMB Asset Management and Executive Chairman of RMB Unit Trusts.

Anton Raath (44)
BCom, CA(SA), HDip Acc
Chief Operations Officer of Southern Asset Management.

MOMENTUM LIFE

SOUTHERN LIFE

MOMENTUM EMPLOYEE BENEFITS

MOMENTUM ADMINISTRATION SERVICES

Insurance operations

Activities

The products offered by Momentum Life and Southern Life span the entire range of individual life products, including risk cover, savings plans and retirement plans, available in both local as well as offshore portfolios.

Momentum Employee Benefits is a leading player in the group risk market and also provides administrative, investment and consulting services to the retirement benefit industry.

Momentum Administration Services provides packaged unit trust-linked investments based on flexible and transparent investment vehicles. These investments are available in both local as well as offshore unit trust funds.

Highlights

- Operating profit after tax increased by 85% over pro forma
- Expense savings of R245 million identified resulting from the merger
- Individual Life single premium income increased by 26%
- New linked-product sales of R3,7 billion

RMB ASSET MANAGEMENT

RMB UNIT TRUSTS

SOUTHERN UNIT TRUSTS

Futuregrowth

RMB PROPERTIES

Asset management operations

Activities

RMB Asset Management ("RMBAM") and Southern Asset Management ("SAM") provide wholesale fund management services, unit trust fund management and offshore fund management services. These services are provided to the Insurance Group, as well as to segregated third-party funds.

Subsequent to 30 June 1999, RMBAM and SAM have announced that they will fully integrate their operations and will in future operate under a single brand, being RMB Asset Management.

RMB Unit Trusts and The Southern Unit Trust Company market and administer a broad range of local and offshore unit trust funds, as well as unique, structured investment products.

Futuregrowth is an empowerment vehicle enabling pension funds to achieve a broader ownership of corporate South Africa through specialist funding vehicles, including the funding of infrastructure projects.

RMB Properties ("RMBP") manages the property portfolio of the Insurance Group, as well as properties of third parties. In addition, RMBP is involved in property development, structured property transactions and property leasing and trading.

Highlights

- Earnings after tax increased by 56% to R136 million
- Increase of 37% in assets managed on behalf of third parties
- Annual expense savings of R15 million achieved with the merger

---

Discovery Health

Leaders in Health Care Financing

Health insurance operations

Activities

Discovery Health finances and manages healthcare and related risks. It has pioneered the Medical Savings Account, as well as a unique loyalty programme called Vitality. In addition, Destiny enables members to save for post-retirement medical costs.

Highlights

- Earnings after tax increased by 69% to R91 million
- New premium income increased by 85% to R1,1 billion
- Now provides healthcare cover to more than 500 000 people

- We took bold steps and set ambitious targets to bed down the merger as quickly as possible.
- All business units contributed to an exceptional increase of 73% in the Insurance Group's operating profit over the pro forma figure for 1998.
- Total annualised new business inflows increased by 35% to R29,1 billion.

The FirstRand Insurance Group performed well during a year that was dominated by the merger activities following the formation of FirstRand barely a year ago. We were keenly aware of the fact that a merger's success or failure is very often directly related to the number of months it takes from start to finish. We therefore took bold steps and set ambitious targets to bed down the merger as quickly as possible, and all merger objectives were met. The Insurance Group's market share was increased in most markets and maintained in others, while significant expense savings were achieved. The group structure was simplified and the Insurance Group was established, comprising the FirstRand Group's insurance and asset management activities.

A major event during the year was the crash in stock markets at the end of August 1998. It had a significant impact, not only on assets under management and therefore fee income, but also on client behaviour. Our client service focus allowed us to cope with the administrative workload following the crash, and our diverse products ensured that we could cater for the changes in client needs during the period of market volatility.

Financial results

Group earnings

The total headline earnings after tax of the Insurance Group amounted to R631 million for the year to 30 June 1999. This compares with the actual Insurance Group headline earnings for 1998 of R192 million. The reason for the significant increase is that the 1998 figure represents twelve months' results of the Momentum Life Group and includes only three months' results of the Southern Life Group from 1 April 1998 to 30 June 1998.

The headline earnings of R631 million represents a 19% increase compared with the pro forma earnings of R531 million. All the business units contributed to an exceptional increase of 73% in the Insurance Group's operating profit over the comparable pro forma figure for 1998. These results are gratifying, considering the significant demands of the merger of the Momentum Life and Southern Life groups, as well as the adverse impact of the August 1998 market crash on the results.

The operating profit represents 64% of the total Insurance Group profit, with the balance arising from investment income on free reserves. The main components of the operating profit are as follows:

	Actual 1999 Rm	Pro forma 1998 Rm	% change
Individual life	127	51	>100
Employee benefits	78	60	30
Asset management	136	87	56
Health insurance	64	36	78
Total FirstRand Insurance operating profit	405	234	73

Individual life operating profit more than doubled to R127 million. This is due to the expense savings relating to the rationalisation initiatives following the merger, as well as the healthy growth in new business.

Employee benefits increased operating profit by 30% to R78 million. Risk business was the most significant contributor to this performance.

The contribution to operating profit by our asset management activities increased by 56% to R136 million. This was the result of a significant growth of 37% in off-balance sheet assets under management,

We dare to be obsessive

Loyal and satisfied clients with whom we have a win-win relationship are an obsession within the Group.

as well as expense savings of R15 million as a result of the merger.

The contribution from health insurance increased by 78% to R64 million. This resulted from the excellent growth in new business, as well as the sound risk management practices of Discovery Health.

Flow of funds

During the year, the Insurance Group received funds totalling R33,4 billion. This represents a 31% increase over the comparable pro forma figure for 1998. The growth in individual single premiums, the surging health insurance business, as well as the growth in new, segregated third- party funds placed with the Insurance Group's asset managers, were particularly pleasing. Total annualised new business inflows for the Insurance Group increased by 35% over the pro forma figure for the previous year.

The Insurance Group paid out a total of R20,7 billion to clients during the year to 30 June 1999, an increase of 2% over the equivalent pro forma 1998 figure. It was encouraging to note that the employee benefit withdrawals have been reduced substantially compared with the 1998 experience.

Total assets managed or administered by the Insurance Group amounted to R113,7 billion compared to R98,9 billion a year ago, an increase of 15%. The most pleasing aspect of this increase was a 37% increase in assets managed on behalf of third parties.

Actuarial valuations

An embedded value calculation was performed for the first time for Momentum Life and Southern Life respectively as at 30 June 1999. The embedded value of the Insurance Group was calculated as R8 340 million.

The embedded value of new business produced by the Group was also calculated. The embedded value of new insurance business was R104 million, which included an embedded value loss of R60 million for field force new business. The embedded value of Discovery Health's new business of R318 million is particularly pleasing.

The excess of assets over liabilities of FirstRand Insurance on the financial soundness basis was calculated as R5 731 million as at 30 June 1999. This excess increased marginally from the pro forma excess of R5 682 million as at 30 June 1998. The capital adequacy requirements of the Insurance Group were covered 1,7 times by the excess of assets over liabilities. FirstRand Insurance is therefore in a sound financial position and adequately capitalised for the foreseeable future.

Overview of FirstRand Insurance Divisions

Life Insurance

The Insurance Group follows a multi-distribution strategy for individual life products. Distribution is currently through

- The combined market share of Momentum Life and Southern Life was maintained for new recurring life business and increased for all other product lines despite the demands of the merger.

- We made excellent progress in converting Southern Life's data and programs to Momentum Life's systems.

- We are on target with our objective to reduce annual management expenses for the combined life insurance operations by R230 million through synergies and improved cost-effectiveness.

- Momentum Distribution Services has contributed significantly to the Group's growth through its ability to distribute different but complementary products offered by Group companies.

Momentum Distribution Services to independent intermediaries for the Momentum Life brand, and through the Southern Life field force using the Southern Life brand. Initiatives are under way to also distribute First National Bank ("FNB") branded insurance products through the appropriate bank outlets in the FNB group.

We have been successful at containing any negative impact of the merger on operations. It is easy to underestimate the magnitude of this merger, the biggest insurance merger yet in the history of this country. The following merger milestones were achieved during the year:

- The management structures and operations of the life insurance businesses of the two groups were streamlined and fully integrated.
- The combined market share of Momentum Life and Southern Life was maintained for new recurring life business and increased for all other product lines despite the demands of the merger.
- New product ranges were successfully launched for both Momentum Life and Southern Life shortly after the announcement of the merger. These were tailored for the market segments targeted by the two brands.
- Southern Life administration has been centralised in Cape Town with the closure of the administration unit in the centre of Johannesburg as well as the closure of the Southern Life Namibian operation. This was achieved without an increase in staff numbers in Cape Town.
- We made excellent progress in converting Southern Life's data and programs to Momentum Life's systems. The first four phases of this six-phase project have been successfully completed. This included:
  - the installation of the required hardware and network infrastructure for the enlarged group;
  - the consolidation of all document images and electronic workflow data and systems on the common infrastructure;
  - the conversion of annuity records and programs to the Momentum Life system;
  - the enhancement of the Momentum Life systems to cope with all the individual life products of the combined group.

  The two final phases of the conversion project are planned for the first half of the new financial year.
- Annual savings of R80 million in expenditure resulting from the merger have already been achieved despite certain discontinuing costs incurred in this year. We are on target with our objective to reduce annual management expenses for the combined life insurance operations by R230 million through synergies and improved cost-effectiveness. This cost saving is more than a third of total individual life management expenses.
- We made significant progress in measuring, monitoring and managing Southern Life's profits, and analysed the profitability of different product lines and distribution channels.
- We determined the capital requirements for the combined Insurance Group and finalised the structure of the Group following the elimination of cross-holdings between Southern Life and FNB. We made good progress in merging the insurance business of

Momentum Life and Southern Life in terms of section 37 of the Long-term Insurance Act.

- The employment conditions of all our employees were standardised.

It is pleasing to note that total individual life premium income increased by 13% to R5,5 billion for 1999. This includes single premium income which increased by 26% to R2,7 billion. This is a clear indication that Momentum Life continues to lead the market with innovative single premium products and competitive annuities. Following the market crash, investors favoured guaranteed products and portfolios that offer currency diversification. Total recurring premium income increased marginally, despite the demands of the merger and the sweeping repositioning and restructuring of the distribution channels of Southern Life. The effect of this restructuring can be seen in the decline of 7% in new annualised recurring premium income from R520 million to R483 million. This represents a combination of a satisfactory increase of 6% in broker recurring premium production and a reduction of 46% in the field force production. During the second half of the financial year, recurring premium new business showed a very pleasing upsurge, resulting in a 10% increase over the new business for the first half of the year.

The increase in intermediary sales through Momentum Distribution Services and the reduction in agent sales through the Southern Life field force reduced our dependency on the less profitable business written by the Southern Life field force. During the past year, independent intermediaries were the source of 86% of recurring premium sales and 98% of single premium and annuity sales.

The severe market conditions, particularly the high level of interest rates, forced many policyholders to cancel their insurance contracts prematurely. This resulted in an increase of 33% in individual life surrender payments. We launched a client retention strategy to counter the unsatisfactorily high early termination occurrence.

Although we took steps to limit the impact of the merger, service levels in certain areas dropped to unsatisfactory levels. This was particularly evident at Great Westerford, where it affected our Southern Life clients. However, we are confident that the building blocks are in place that will enable us to rapidly lead the industry again as far as service standards are concerned.

Momentum Distribution Services

This is the business unit responsible for distributing a range of financial services products to financial advisers in the retail market. Momentum Distribution Services has, since it became an autonomous profit centre five years ago, Insurance contributed significantly to the Insurance Group's growth through its ability to distribute different but complementary products offered by Group companies.

Momentum Distribution Services absorbed the Southern Life Broker Division during the first quarter of the financial year. The new business sourced from intermediaries increased for all product lines, compared with the combined Insurance Group figures for the previous year. This was achieved despite the inevitable disruption brought about by the merger process, as well as the fact that less than half the Southern Life Broker Division staff complement was offered positions at Momentum Distribution Services. The increases in new intermediary business (if compared to the combined production of Southern Life and Momentum Life for the previous year) for the different product lines demonstrate a healthy all-round performance:

- Individual life single premiums increased by 26%
- Individual life new recurring premiums increased by 6%
- Health insurance new premiums increased by 85%
- Unit trust sales increased by 8%
- Linked investment product sales increased by 21%

Southern Life field force

The Southern Life field force was radically transformed over the past 18 months. The management structure was streamlined, the branch infrastructure trimmed, the performance requirements for agents increased and business lines that were not viable discontinued. In an attempt to improve the effectiveness of the field force as well as the quality of the business, agents were reduced from 750 on 1 July 1998 to 400 on 30 June 1999. The drastic changes impacted negatively on staff morale and therefore also on sales production. New recurring premium business reduced by 46%, and single premium and annuity business by 28%.

The Southern Life field force is suffering significant losses as is evident from the negative embedded value of R60 million in respect of its new business for the past year. Although the profitability has already improved compared with the previous year, steps are being taken to improve it further.

- Momentum Employee Benefits had a very pleasing year in the risk market, and consolidated its position as a market leader in the disability insurance market.
- Momentum Administration Services has launched an international initiative with FirstRand International's subsidiary, Henry Ansbacher.
- The competitiveness of our asset management activities, the quality of the people and the integrity and efficiency of the investment process are vital components of the wider Group's affairs.
- Discovery Health continues to deliver excellent results, increasing its profit by 69% and its premium income by 66%.

Momentum Employee Benefits

The focus was on consolidating the merged operations under the Momentum Employee Benefits brand. The operations, which were largely complementary in nature, were integrated into four business units, each with its own target market. In establishing the new structure, non-essential functions were eliminated and unprofitable business terminated. A total of 620 small, unprofitable schemes were terminated which will lead to an expected cost saving of R10 million per annum. Further benefits will flow from consolidating the different administration systems currently used by the four business units. Planning for this is at an advanced stage.

Total employee benefits premium income, incorporating investment-only business, has been maintained at pre-merger 1998 levels. Single premium income increased by 1% and recurring premiums by 3%. New annualised recurring premiums increased by 17%. Benefits paid to policyholders reduced by 37% to R4,8 billion, largely as a result of the significant reduction in transfers of pension fund assets to other investment managers.

We had a very pleasing year in the risk market, and consolidated our position as a market leader in the disability insurance market. We are developing our risk skills to take advantage of a broader range of opportunities. These include initiatives in the health and human resources fields.

Financial and Actuarial Solutions ("FAS")

FAS is responsible for the umbrella financial, actuarial and risk management functions in the Insurance Group, as well as for corporate finance transactions.

FAS was actively involved in the restructuring of the Insurance Group to create FirstRand Insurance Limited. Other major projects included the determination of the capital requirements of the Insurance Group and the elimination of the cross-holding in FNB. The Southern Life profit recognition basis was changed to the more conservative basis of Momentum Life, the financial soundness valuation methodology and approach used for the two companies were aligned, the sophistication of financial measurement improved, and the embedded value of the combined Insurance Group was determined.

Corporate Advisory Services, which is part of the FAS profit centre, is staffed by a small team of highly qualified professionals who specialise in structuring tailored insurance products. They had an outstanding year and made a significant contribution to the operational profit of the insurance operations.

Overview of FirstRand Insurance subsidiaries

Momentum Administration Services ("MAS")

MAS specialises in packaging and administering unit trust-linked products. It continues to be a leader in the linked-product industry, with total new funds for the year amounting to R3,7 billion, an increase of 21% compared with the previous year. This was in spite of a severe decline in new inflows during the months immediately following the market crash. MAS was the first linked-product company to introduce wrap funds, and at the financial year-end had wrap funds of R1,3 billion under management .

A significant achievement during the year was the completion of the merger of

MAS with IMC, Southern Life's linked-product provider, within two months after the decision to merge the two businesses. There was a smooth transfer of client records, and savings of R15 million in annual expenses were achieved. The different fee structures of the two companies were rationalised to a common basis for all clients.

The stock market volatility led to an increase in client enquiries and transactions. We weathered the difficult conditions, and ended the year with our reputation for service excellence intact.

MAS has launched an international initiative with FirstRand International's subsidiary, Henry Ansbacher. The first step in this initiative was the introduction of a range of linked products for Henry Ansbacher clients. A service centre was established in London, making extensive use of MAS systems and expertise. The first new business proposals have already been processed. It is expected that this initiative will be profitable in its third year of operation.

Momentum Advisory Service, a registered portfolio manager, was established in June 1998 and serves as the Insurance Group's independent investment research house. It fulfils the following functions in the Group:

- As "adviser to the adviser" it provides investment advice to financial intermediaries supporting the Insurance Group.
- It provides performance attribution and risk analysis services to companies in the Insurance Group, as well as to external clients.
- It is responsible for all multi-management investment functions in the Insurance Group, both locally and offshore.

FirstRand Asset Management

FirstRand Asset Management is the holding company of the Insurance Group's asset management operations, comprising RMB Properties, RMB Asset Management, Southern Asset Management and their respective unit trust companies. Subsequent to 30 June 1999, RMB Asset Management and Southern Asset Management have announced that they will fully integrate their operations and will in future operate under a single brand, namely RMB Asset Management.

The Insurance Group's asset management activities produced very pleasing results. All the business units contributed to the increase of 56% in profit compared with the pro forma profit for 1998. The recovery in investment markets from the lows of August 1998 masked the fact that market levels, and thus fees, on typical balanced funds were lower than the previous year for seven of the twelve months of this financial year. Southern Asset Management's profitability improved significantly following a market-related review of the fees relating to the management of Southern Life's assets, as well as cost savings achieved following the merger.

It is pleasing to report that the Group achieved a net gain in funds managed. Of the total assets of R98,0 billion managed by FirstRand Asset Management, some R47,0 billion represent assets of the Insurance Group. The balance represents assets managed on behalf of third parties such as pension and provident funds, as well as unit trusts. The competitiveness of our asset management activities, the quality of the people and the integrity and efficiency of the investment process are vital components of the wider group's affairs.

The dynamics and volatility of the South African investment market over the last year have been dramatic. This volatility has been rendered more acute by the reality that 30 June 1999 culminated in an average SA pension fund reflecting a cumulative three-year return of 10,5% per annum. Our own investment performance regrettably has been, at best, average for a large category of the portfolios managed. While certain portfolios have performed well, notably all the Momentum Life portfolios and the RMB Unit Trust stable of unit trusts, we need to see a broad-based improvement. Looking ahead, we are confident and committed to an improvement in relative performance and continual product innovation.

Futuregrowth, a division of Southern Asset Management, maintained its pre-eminent position as an empowerment vehicle, matching pension fund investment mandates with specialist vehicles facilitating a broader ownership of corporate South Africa, and funding infrastructure projects.

RMB Properties, responsible for the management of the Insurance Group's property portfolio of some R3 billion, played a key role in optimising the property requirements of the wider group. It performs the same role for R1,5 billion of external portfolios to which it has been appointed. These activities have also facilitated property development activities.

Discovery Health

Our investment in Discovery Health continues to deliver excellent results. Discovery Health increased its profit by 69% and its premium income by 66%. New business grew by 85%. The company now delivers healthcare cover to more than 500 000 people.

- The year ahead offers the exciting prospect of listing Discovery Health on the JSE.
- The merging of the insurance and asset management activities of the Momentum Life Group and the Southern Life Group has been substantially completed.
- The satisfaction of client needs and their fair treatment remains our highest priority.
- In future, return on capital will be the primary benchmark for performance measurement of business units.

The past year saw the promulgation of the new Medical Schemes Act. Regulations that further define the Act will be finalised in the coming months. Discovery Health worked closely and constructively with the Department of Health to help formulate these regulations. Discovery Health is particularly well positioned to understand this new environment and to interpret the requirements for sustainable growth and financial strength.

The company enhanced its service levels and services offered in a year of incredible growth. It furthermore enhanced its Vitality wellness programme for the benefit of its clients. The continuous drive for excellent customer service, quality medical management and financial prudence ensured that Discovery Health remains at the forefront of the healthcare industry.

During the year, Discovery Health launched an initiative in North America. This greenfields operation offers Discovery Health's unique solutions for sustainable healthcare financing problems to a new market.

The year ahead offers the exciting prospect of listing Discovery Health on the JSE. The listing will enhance the company's profile, and will assist in attracting and retaining intellectual capital.

Prospects

We report with confidence that the merging of the insurance and asset management activities of the Momentum Life Group and the Southern Life Group has been substantially completed. The ingenuity, commitment and resourcefulness of our employees were tested to the limit. They rose to the occasion and it is gratifying to report that all the immediate merger objectives were met. The focus will now move to exploiting the enhanced strengths of the combined group.

The foundation of discipline and innovation on which the Insurance Group is built, will continue to shape our future strategies. The following strategic views will be relevant for the foreseeable future:

- The satisfaction of client needs and their fair treatment remains our highest priority.
- Capital is a strategic resource, which requires a disciplined management programme to ensure effective deployment. In future, return on capital will be the primary benchmark for performance measurement of business units.
- While direct marketing presents exciting opportunities, spurred by the rapid pace of developments in information technology and communication, the provision of expert advice through a financial adviser will remain a need in a market with more and more products on offer of ever increasing complexity.

The competitive landscape will continue to change over the next few years. We are well positioned to take advantage of these changes. Our initiatives include developing products that address the shortcomings of traditional insurance products, exploring new distribution opportunities, inside and outside the FirstRand Group, pursuing joint initiatives between Group companies to take advantage of the blurring of traditional boundaries between industries, as well as entering suitable new markets for our products and services.

L L Dippenaar
Chairman

H P Meyer
Managing Director

Basis of preparation of financial statements

The attached financial statements relate to the insurance interests of the FirstRand Limited Group, and should be read in conjunction with the report on FirstRand Limited.

The activities of the Insurance Group include the operations of Momentum Life and Southern Life, Momentum Administration Services (MAS), FirstRand Asset Management and Discovery Health.

All segmental information provided is based on the following groupings:

LIFE INSURANCE OPERATIONS –
Comprise the operations of Momentum Life, Southern Life, Momentum Employee Benefits and MAS.

ASSET MANAGEMENT OPERATIONS –
Comprise FirstRand Asset Management, which includes the operations of RMB Asset Management and Southern Asset Management, incorporating the unit trust operations of RMB Unit Trusts and Southern Unit Trust Company, as well as the operations of RMB Properties.

HEALTH INSURANCE OPERATIONS –
Comprise the operations of Discovery Health.

INVESTMENT INCOME ON FREE RESERVES –
Consists of interest and dividend income on shareholders' free reserves.

The flow of funds and earnings are disclosed on a segmental basis. This segmental basis presents financial information by functional area as opposed to information by statutory entity.

The Insurance Group annual financial statements have been prepared on the basis that the Insurance Group will be proceeding with a court application in terms of Section 37 of the Long-term Insurance Act, in terms of which the life insurance operations of Momentum Life (currently residing in FirstRand Limited) will be transferred to The Southern Life Association Limited. Southern Life was recently renamed FirstRand Insurance Limited. The annual financial statements assume that the operating structure of the Insurance Group, as set out on page 110, was in place for the entire year ended 30 June 1999.

The comparative figures for 1998 represent the consolidated balance sheets of the Momentum Life and Southern Life groups as at 30 June 1998. The income statement comparatives for 1998 reflect the results of the Momentum Life Group for a full year to 30 June 1998, but only three months' results for the Southern Life Group from 1 April 1998 to 30 June 1998.

Pro forma figures

To afford a more meaningful comparison, pro forma comparative figures have been calculated for the year ended 30 June 1998. These pro forma figures comprise the audited financial information of the Momentum Life Group to 30 June 1998, as well as the unaudited financial information of the Southern Life Group for the twelve months ended 30 June 1998. In addition, the pro forma earnings assume that the final capital allocation of the FirstRand rights issue proceeds, and the corresponding earnings thereon, had resided in the Insurance Group for the entire year. The pro forma earnings for 1998 calculated on the above basis amounted to R531 million.

Profit recognition basis

During the year, we aligned the profit recognition approach and methodology of Southern Life with the more conservative profit recognition approach applied by Momentum Life. The disclosed life insurance profits consist of the operating surpluses released by the financial soundness valuation plus the investment income on free reserves. Capital appreciation or depreciation on free reserves does not form part of the disclosed profits. The 1998 pro forma earnings calculated for Southern Life are consistent with this profit recognition approach.

Group headline earnings

The total headline earnings of the Insurance Group increased by 19% to R631 million compared with the pro forma earnings. The main components of this increase are:

	Actual 1999 Rm	Pro forma 1998 Rm	% change
Headline earnings from:			
Group operating profit	405	234	73
Investment income on free reserves	226	297	(24)
Group headline earnings	631	531	19

The performance of the operational units that contributed to the increase in operating profit by 73% to R405 million, is explained in more detail in the Chairman's and Chief Executive's report elsewhere in this annual report. The investment income on free reserves is explained below.

Investment income on free reserves

The investment income on free reserves was earned on the rights issue proceeds allocated to the Insurance Group. The reason for the reduction compared with the pro forma earnings of 1998 is that the calculation of the pro forma earnings assumed interest on rights issue capital of R2,95 billion allocated to the Insurance Group for a full year, at an after-tax yield of 10% per annum. The actual allocation occurred later than originally anticipated, and while there was no loss of income to the FirstRand Group, the later allocation resulted in actual earnings on the rights issue proceeds being lower in the Insurance Group.

The capital injected into the Insurance Group has replaced the 13,3% holding Southern Life had in FNB Holdings. This capital injection is currently invested in a combination of R2,0 billion in cash and fixed-interest instruments, and R0,95 billion in a balanced portfolio. The Insurance Group strategy is to invest a significant portion of shareholders' free reserves in growth assets where the emphasis is not on achieving a high income yield, but rather a superior composite yield comprising capital growth and income. It is the intention to reassess the deployment of the R2 billion in cash and fixed-interest instruments, and to actively seek attractive growth assets, which could result in lower earnings on free reserves in the short to medium term. However, the embedded value will reflect the enhanced shareholder value that growth assets will bring about.

New business

Total new business inflows amounted to R29,1 billion, which represents an increase of 35% compared with the pro forma figure. The significant increase in lump-sum inflows, as well as the impressive growth in Discovery Health's new business, indicates the Insurance Group's move towards broader based financial services business as opposed to only inflows from traditional life insurance products.

New business	Actual 1999 Rm	Pro forma 1998 Rm	% change
Annualised recurring premiums	1 684	1 209	39
Individual life[1]	483	520	(7)
Employee benefits	125	107	17
Health insurance	1 076	582	85
Lump sum inflows	27 469	20 345	35
Individual life premium income	2 709	2 154	26
Employee benefits premium income	1 485	1 467	1
Linked product sales[2]	3 728	3 083	21
Unit trust sales	3 977	3 667	8
New segregated third-party funds	15 570	9 974	56
Total new business inflows	29 153	21 554	35

1 New individual life recurring premiums exclude new business received through premium increases which amounted to R180 million.

2 Includes sales of products on the life insurance balance sheet amounting to R1,6 billion (1998: R0,8 billion).

All transfers between on and off-balance sheet funds have been excluded from the above.

Funds received from clients

A total of R33,4 billion was received from clients during the year under review. Nearly three quarters of the inflow of funds originated from off-balance sheet activity, being segregated third-party funds, linked products and unit trusts.

Funds received	Actual 1999 Rm	Pro forma 1998 Rm	% change
Individual life premium income	5 497	4 863	13
Single premiums[1]	2 709	2 154	26
Recurring premiums	2 788	2 709	3
Employee benefit premium income	2 807	2 754	2
Single premiums	1 485	1 467	1
Recurring premiums	1 322	1 287	3
Health insurance premium income	1 848	1 114	66
Linked product sales[2]	3 728	3 083	21
Unit trust sales	3 977	3 667	8
New segregated third-party funds	15 570	9 974	56
Total funds received	33 427	25 455	31

1 Single premiums exclude funds retained through the extension of the policy term, amounting to R364 million (1998 : R307 million).

2 Includes sales of products on the life insurance balance sheet amounting to R1,6 billion (1998: R0,8 billion).

All transfers between on and off-balance sheet funds have been excluded from the above.

Payments to clients

Payments to clients totalled R20,7 billion during the year under review. The reduction of 37% in withdrawals by on-balance sheet pension funds, as well as a 16% reduction in segregated third-party fund withdrawals, contributed to a higher level of fund retention during 1999.

Overall individual life benefit payments increased by only 10%, despite the negative effects of the increased interest rates, and a 33% increase in individual life

We dare to bite the bullet

In every instance the business case prevails. Difficult decisions are made upfront. Sentiment and history give way to a strong profit motive.

surrenders. The increased size of the Discovery Health book has resulted in a commensurate increase in claims payments.

The market turmoil experienced during the second half of 1998 resulted in significant increased withdrawals of linked product and unit trusts funds.

Payments to clients	Actual 1999 Rm	Pro forma 1998 Rm	% change
Individual life	5 045	4 566	10
Employee benefits	4 791	7 579	(37)
Health insurance	1 418	741	91
Linked products [1]	2 043	756	>100
Unit trusts	3 631	2 109	72
Segregated third-party funds	3 816	4 522	(16)
Total payments to clients	20 744	20 273	2

1 Includes outflows relating to products on the life insurance balance sheet amounting to R0,3 billion (1998 : R0,2 billion).

All transfers between on and off-balance sheet funds have been excluded from the above.

Assets under management

Total assets managed or administered by the Insurance Group amounted to R113,7 billion compared to R98,9 billion a year ago, an increase of 15%.

Assets under management and administration	1999 Rm	1998 Rm	% change
On-balance sheet assets	57 543	55 725	3
Assets managed on behalf of third parties	45 698	33 448	37
Unit trust funds managed	4 765	4 572	4
Assets under management	108 006	93 745	15
Linked product assets under administration[1]	5 689	5 193	10
Total assets under management and administration	113 695	98 938	15

1 Excludes business written by the Insurance Group's linked-product supplier on the life insurance balance sheet, amounting to R2,3 billion (1998: R1,3 billion), as these assets are reflected under on-balance sheet assets above.

Capital management

Allocation of capital

The allocation of the rights issues proceeds to the Banking Group and Insurance Group has been completed. The Insurance Group has received R2,95 billion of the total rights issue proceeds raised at the time of the creation of FirstRand Limited. This amount was applied in removing the 13,3% FNBH cross-holding originally held by Southern Life. In addition, the Insurance Group received R1,7 billion for the policyholders' share of 40% of Rand Merchant Bank. As this amount replaced a policyholder investment, it had no impact on the shareholders' capital or free reserves in the Insurance Group.

Return on capital

During the past financial year, the appropriate capital structure of the Insurance Group was reviewed. It was decided that the Insurance Group should operate on a lean and efficient capital structure while at the same time ensuring that the business and structuring requirements are met.

The capital adequacy requirements of the restructured FirstRand Insurance were calculated as R3 293 million as at 30 June 1999. These capital adequacy requirements were covered 1,7 times by the excess of assets over liabilities of FirstRand Insurance as at 30 June 1999. FirstRand Insurance is in a sound financial position and adequately capitalised for the foreseeable future.

It is the intention to allocate capital in the new financial year to all the business units in the Insurance Group. The purpose of this will be to enable the more efficient use of capital and to place greater emphasis on the return on capital as the primary benchmark for performance measurements of business units.

Financial soundness valuation

The financial soundness valuation for FirstRand Insurance (which comprises Momentum Life and Southern Life) is set out on page 134 and reflects an excess of assets over liabilities of R5 731 million at 30 June 1999. The excess of assets over liabilities reflects the capital position of the restructured FirstRand Insurance Group.

Embedded value

An embedded value calculation was performed for the first time for Momentum Life and Southern Life respectively as at 30 June 1999. No comparative numbers were calculated as at 30 June 1998. The embedded value is an estimate of the economic value of a company, excluding any goodwill that may be attributed to the company as a result of the value of new business or other intangible factors. The embedded value report detailing the methodology and assumptions is reflected on page 159 of this annual report.

The embedded value calculation includes FirstRand Insurance's attributable portion of the embedded value of Discovery Health, which is reflected as part of shareholders' net assets. This attributable portion amounts to R0,9 billion.

Group embedded value at 30 June 1999	Rm
Shareholders' net assets	5 731
Strategic Group Investments[1]	2 170
Other shareholder assets	3 561
Net value of in-force business	2 609
Gross value of in-force business	3 019
Less: Opportunity cost of capital adequacy requirements	(410)
Embedded value	8 340

Value of new business	Rm
Life insurance (before opportunity cost of capital)	119
Broker distribution channel	135
Field force distribution channel	(60)
Employee benefits	44
Less: Opportunity cost of capital adequacy requirements	(15)
Life insurance	104
Discovery Health [2]	207
Value of new business	311

1 The Strategic Group Investments include Discovery Health (R0,9 billion), FirstRand Asset Management (R1,1 billion), and MAS (R160 million).

2 Represents the portion attributable to FirstRand Insurance. The total value of new business of Discovery Health amounted to R318 million.

Transfer of insurance business

The insurance business of Momentum Life and Southern Life will be merged in terms of Section 37 of the Long-term Insurance Act, to create FirstRand Insurance Limited. The intended effective date is 1 July 1999, subject to approval by the High Court of South Africa. This will not affect our branding strategy, which is to use our strong brands in the markets where they are considered appropriate.

Dividend

It is the intention of the Group to grow dividends in line with earnings growth, based on a dividend cover in the range of 1,5 to 2,5 times. In determining the appropriate dividend, factors such as the level and trend of future profits on a medium and long-term basis, as well as the contributions from the various operating units, are taken into account.

A total dividend of R291 million for the year was paid by the Insurance Group to FirstRand Limited. This equates to a dividend cover of 2,2 times.

F J C Truter

Chief Financial Officer: FirstRand Insurance

Endorsement of the Code of Corporate Practices and Conduct

The Insurance Group is committed to good corporate citizenship and to open corporate governance.

This commitment provides stakeholders with the assurance that the Insurance Group's affairs are being managed in an ethical, transparent and responsible manner, after taking into consideration prudently determined risk parameters.

Furthermore, in recognition of the need to conduct the affairs of the Insurance Group in accordance with the highest standards of corporate governance, the directors have endorsed the Code of Corporate Practices and Conduct recommended in the King Report on Corporate Governance. The directors are satisfied that the Insurance Group has observed and applied the Code consistently during the period under review. The mechanisms that ensure good corporate governance are discussed in more detail below.

Board of directors

Composition and frequency of meetings

The FirstRand Insurance Limited board ("the Board") comprises nineteen directors, of whom three serve in an executive capacity, while the remaining sixteen hold non-executive positions. Four of the non-executive directors are nominated by the Southern Life Policyholders' Trust. The majority of non-executive directors are independent of management and free from any business or other relationship that could materially interfere with their exercising independent judgement. Furthermore, the non-executive directors comprise individuals from a wide range of backgrounds and skills that enable their views to carry significant weight in the Board's deliberations and decisions.

The Board sets the strategic direction and monitors the financial performance, while retaining full and effective control over the Insurance Group. The Board plans to meet at least eight times in the next financial year. When major issues that need to be resolved arise, additional board meetings will be convened.

Limitation and appointment period

The non-executive directors are appointed for specified terms, subject to re-election and to Companies Act provisions relating to removal, and retire by rotation every three years. The re-appointment of non-executive directors is not automatic. The retirement age of directors is set at age 70. Details of the directorate of FirstRand Insurance are listed on page 113 of this annual report.

Board subcommittees

To assist the Board in discharging its collective responsibility for corporate governance, a number of committees have been established to which certain of the Board's responsibilities have been delegated. These committees all have specific terms of reference and are accountable to the Board. The chairmen of these committees report to the Board. The committees are composed of individuals with a mix of skills, experience and other qualities appropriate to their roles. More specifically, these committees are:

Executive committees

Management responsibility for the day-to-day operations is delegated to the various executive committees, operating within each major business unit in the Insurance Group. These executive committees consist of the senior management within each business unit, and meet regularly during the year.

Audit committees

There are two audit committees in the FirstRand Insurance Group, one for FirstRand Insurance and subsidiaries (excluding Discovery Health) and a separate audit committee for Discovery Health. The audit committees assist the Board in discharging its responsibilities to safeguard assets, maintain adequate accounting records and develop and maintain effective systems of internal control.

The audit committees are responsible for evaluating the effectiveness of the Risk and Compliance Management function in the Insurance Group. The committees' duties also include maintaining transparent appropriate relationships with the external auditors and reviewing the scope and results of the statutory audit and the auditors' independence and objectivity. Both the Risk and Compliance managers and external auditors have unrestricted access to the audit committees, and report to the committees periodically throughout the year.

The Board's audit committees consist of a majority of independent non-executive directors, with a non-executive director, who is a chartered accountant, as chairman, and meet at least three times a year. Members of senior management attend these meetings to assist the committees in effectively implementing their mandates.

Remuneration committee

The remuneration committee consists of three members of whom two are non-executive directors, while the one non-executive director acts as chairman. The committee's main purpose is to ensure that the executive directors and senior management in the Insurance Group are remunerated appropriately, and that remuneration scales in general are market related.

Actuarial committee

Ensuring the financial soundness of an insurer is an important part of the fiduciary responsibility of the insurer and the approved valuators. An actuarial committee is in operation to assist the board and the valuators in this regard. A non-executive director, who is a consulting actuary, chairs this committee. The statutory actuaries of Momentum Life and Southern Life are members, as is the managing director of FirstRand Insurance, who is also an actuary. The actuarial committee has a written charter that clearly sets out its responsibilities and objectives.

In addition, an independent actuary, who is in the employ of the Insurance Group's external auditors' UK practice, performs a high-level review of the actuarial valuation methodology in the Insurance Group.

Going concern

In view of the strength of the year-end actuarial balance sheet the directors are of the opinion that the Insurance Group has adequate resources to continue in business for the foreseeable future. Accordingly, it is appropriate to continue adopting the going-concern basis in preparing the accounts.

Internal control mechanisms

The Board is ultimately responsible for establishing, maintaining and monitoring the effectiveness of the Insurance Group's system of internal financial control. Management is responsible for the implementation and maintenance of these controls, established in order to provide reasonable assurance as to:

- The maintenance of proper accounting records and the reliability of financial information used within the business or for publication.
- Compliance with applicable laws and regulations.
- The detection and minimisation of significant risks associated with fraud, potential liability and loss.
- The safeguarding of assets against unauthorised use or disposition.
- Transactions being executed only in accordance with management authority.

The key procedures that have been implemented are designed to provide effective internal financial control, are based on established procedures which are applied by trained, skilled individuals with an appropriate segregation of duties. The system of internal control is continually monitored and improved throughout the Insurance Group. These procedures can be summarised as follows:

- Control environment – clear management responsibilities are established for the executive directors and the heads of each profit centre.
- Risk management – profit centre management have clear responsibilities for the identification of risks facing their businesses, and for implementing procedures to limit and monitor risks.
- Information and control systems – the Insurance Group has a comprehensive process of annual budgets and detailed monthly reporting. The executive committees review the annual budget of each profit centre and the Board of Directors approves the budgets as part of its normal responsibilities. Non-financial key performance indicators in relation to key business objectives and risks are included in the process.

As for all systems of internal control, the effectiveness of internal control systems in the Insurance Group are subject to inherent limitations, including the possibility of human error and the deliberate overriding of controls. Accordingly, it must be recognised that any internal control system can provide only reasonable and not absolute assurance against any material misstatement or loss.

During the year under review, nothing came to the attention of the directors to indicate that any material breakdown in the functioning of these financial controls, procedures and systems had occurred which could result in material losses, contingencies or uncertainties that would require disclosure in the financial statements.

Risk and Compliance Management

The Insurance Group operates on the philosophy that the primary responsibility for risk management lies with the management and employees of each profit centre or subsidiary. To this extent, Risk and Compliance managers are responsible for facilitating Control and Risk Self-Assessment (CRSA) programmes in each profit centre. CRSA is an internationally recognised practice. They are also responsible for normal, internal audit work to help the Insurance Group to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

The Risk and Compliance Management functions of the Insurance Group report directly to the two respective audit committees, and the Risk and Compliance Managers have unrestricted access to the chairmen of the audit committees.

Employee empowerment

Code of ethics

Directors and employees are required to observe the highest ethical standards ensuring that business practices are conducted in a manner which, in all reasonable circumstances, is beyond reproach.

Employee participation

As with most major financial services groups, the Insurance Group relies on the commitment of its management and employees to ensure the highest levels of service delivery.

This commitment is nurtured by continued development through training and innovative reward and incentive programmes that focus on long and short-term operational and strategic goals. The empowerment of employees has been enhanced further through the emphasis on a teamwork approach instead of a hierarchical structure, which places unnecessary constraints on employees and inhibits idea sharing.

Equal opportunities

The Insurance Group is committed to providing employment in an equitable manner to members of all communities, regardless of their race or gender. The Insurance Group endorses the philosophy of affirmative action as an integral part of its business plans. As such, a number of initiatives within the different group companies are currently in progress.

Year 2000 compliance

The Insurance Group relies extensively on information technology as a mission-critical component of business solutions, and is dependent on the capability of software and hardware applications to function properly.

Year 2000 work groups are currently ensuring that all accounting and operational systems situated in each major business unit in the Group are being made Year 2000 compliant.

The conversion of the Southern Life systems to the Momentum Life IT platform resulted in certain of the mission- critical systems being revised during the last quarter of 1999. However, Year 2000 testing is undertaken as part of the overall testing of converted systems, and business contingency plans are being put in place to ensure that this risk is mitigated.

The overall cost of compliance has been expensed in the current year, and is not considered to be material in relation to the results of the Insurance Group.

The Year 2000 work groups communicate with business partners and agents of the Insurance Group to ensure that these third parties are addressing Year 2000 compliance. No material non-compliance has been identified that would indicate that business partners and agents that are critical to the continuation of group business will not be Year 2000 ready.

FirstRand Insurance Group Annual Financial Statements

for the year ended 30 June 1999

Contents for the FirstRand Insurance Group Annual Financial Statements

Directors' responsibility statement

The directors of FirstRand Limited are required to maintain adequate accounting records and to prepare financial statements for each financial year that fairly present the state of affairs of the Insurance Group at the end of the financial year, and of the results and cash flows for the period. In preparing the accompanying financial statements, generally accepted accounting practices 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 philosophy on corporate governance. The external auditors, PricewaterhouseCoopers Inc, have audited the financial statements and their unqualified report appears below.

The financial statements for the year ended 30 June 1999 which appear on pages 134 to 158, have been approved by the Board of Directors and are signed on its behalf by:

L L Dippenaar

G T Ferreira
Chairman

L L Dippenaar
Chief Executive Officer

Sandton
17 September 1999

Report of the independent auditors

To the directors of FirstRand limited

We have audited the annual financial statements of FirstRand Insurance Group (a division of FirstRand Limited), set out on pages 134 to 158, for the year ended 30 June 1999. These financial statements are the responsibility of the directors of FirstRand Limited. Our responsibility is to express an opinion on these financial statements based on our audit.

Scope

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

An audit includes:

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

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

Audit opinion

In our opinion, the financial statements fairly present, in all material respects, the financial position of the FirstRand Insurance Group at 30 June 1999 and the results of its operations and cash flows for the year then ended in accordance with generally accepted accounting practice.

Without qualifying our opinion, we draw attention to the basis of preparation of these financial statements, as set out in the accounting policies on page 138.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Incorporated
Chartered Accountants (SA)
Registered Accountants and Auditors
Sandton, 17 September 1999

Statement of actuarial values of assets and liabilities of FirstRand Insurance

as at 30 June 1999

R'million	Notes	Actual 1999	Pro forma 1998
Value of assets	2	56 229	54 042
Policyholder liabilities	3, 4	50 498	48 360
Surplus	5, 6	5 731	5 682
Represented by:			
Share capital and share premium		1 041	1 041
Convertible debentures		350	350
Reserves		1 692	1 168
Balance of excess		2 648	3 123
Surplus	5, 6	5 731	5 682
Capital adequacy requirements	7	3 293	1 791

Report by the statutory actuaries

We have conducted an actuarial valuation of the assets and liabilities of FirstRand Insurance according to generally accepted actuarial standards, and with due allowance for the reasonable benefit expectations of policyholders. We certify that FirstRand Insurance was financially sound as at 30 June 1999, after allowing for bonuses to policyholders and dividends to shareholders.

In our opinion, the statement of actuarial values of assets and liabilities, read together with the financial statements, fairly presents the financial position of FirstRand Insurance.

N A S Kruger	P G M Truyens
FFA FASSA	*FIA FASSA*
Statutory actuary	*Statutory actuary*
Momentum Life	*Southern Life*

15 September 1999
Centurion

NOTES TO THE STATEMENT OF ACTUARIAL VALUES OF ASSETS AND LIABILITIES OF FIRSTRAND INSURANCE

as at 30 June 1999

1. INTRODUCTION

This statement of actuarial values of assets and liabilities provides a description of the actuarial valuation methods and assumptions used for the financial soundness valuation of FirstRand Insurance. The valuation results of FirstRand Insurance represent the combined valuation results of the insurance businesses of Momentum Life and Southern Life.

We used the same financial soundness valuation methodology and approach for Momentum Life and Southern Life for purposes of the financial soundness valuations as at 30 June 1998 and 30 June 1999. This statement of actuarial values of assets and liabilities has been prepared on a pro forma basis, assuming that the group structure set out on page 110 of this annual report was in place as at 30 June 1998 and 30 June 1999.

This statement has been prepared in accordance with the guidelines issued by the Actuarial Society of South Africa with regard to financial soundness valuations.

2. VALUE OF ASSETS

Assets were taken at market value, except for unlisted subsidiaries where directors' valuations were used. The value of assets represents the net assets per the balance sheet, adjusted for the directors' valuation of unlisted subsidiaries. The directors' valuation of the unlisted subsidiaries is disclosed on page 158 of the annual financial statements.

3. VALUATION ASSUMPTIONS

This section describes the best-estimate valuation assumptions used for purposes of the financial soundness valuation of the policy liabilities. The first-tier margins set out in Professional Guidance Note (PGN) 104 of the Actuarial Society of South Africa, as well as certain second-tier margins described below, were added to the best-estimate assumptions for purposes of the liability valuation.

Investment return

The investment return assumption of 17,0% per annum (before tax) was determined with reference to the market interest rate on South African government stocks at the valuation date. A notional long-term asset distribution was used to calculate a weighted average expected investment return, by adding the following premiums/(discounts) to the market interest rate of 15,6% per annum on South African government stocks as at 30 June 1999.

	% premium/(discount) pa
Equities	2,0
Properties	1,0
Government stocks	0,0
Other fixed-interest stocks	0,5
Cash	(1,0)

Expense inflation rate

The assumed future expense inflation assumption of 13,0% per annum was determined based on an assumed long-term differential relative to the assumed future investment return assumption of 17,0% per annum.

Expenses

The maintenance expense assumptions were based on the results of recently conducted internal expense investigations. The expense assumptions are at a level sufficient to support the existing business on a going-concern basis.

Mortality, morbidity and discontinuance rates

The assumptions regarding future mortality, morbidity and discontinuance rates were based on the results of recent internal experience investigations. Allowance was also made for AIDS on a basis consistent with the recommendations of Professional Guidance Note (PGN) 105 of the Actuarial Society of South Africa.

3. VALUATION ASSUMPTIONS (continued)

Second-tier margins

The following second-tier margins were allowed for in the valuation:

- Investment stabilisation reserves are held as a buffer against the impact of market fluctuations on the assets backing non-profit liabilities;
- Shareholder stabilisation reserves are held as a buffer against the impact of market fluctuations on the assets backing smoothed-bonus liabilities;
- An additional margin was added to the early termination assumptions on certain blocks of policies.

4. LIABILITY VALUATION METHODOLOGY

Universal life policies

Liabilities for individual universal life policies (smoothed bonus and market related) were calculated as the fund accounts allocated to the policies, reduced by the difference between the present value of projected future risk premiums and other charges, and the present value of projected future risk benefits and expenses. Allowance was made for future growth in fund accounts at a level consistent with the assumed future market-related interest rate, after allowing for contractual expense charges and taxation.

Conventional policies

The liabilities for conventional policies were calculated as the difference between the present value of projected future benefits and expenses, and the present value of projected future premiums. Allowance was made for future bonuses at an assumed long-term sustainable bonus rate.

Policyholder bonus stabilisation reserves

Smoothed-bonus liabilities were adjusted by policyholder bonus stabilisation reserves. The policyholder bonus stabilisation reserves in the closed Lifegro portfolio and Southern Life's pre-1984 Segregated portfolio were calculated as these policyholders' full future entitlement to the surplus assets in these respective portfolios. The policyholder bonus stabilisation reserves of the remainder of the Southern Life smoothed-bonus portfolio and the Momentum Life smoothed-bonus portfolio consist of accrued investment surpluses/(shortfalls) in these portfolios.

Immediate annuities

For immediate annuities, liabilities were calculated as the present value of expected future annuity payments and expenses, at market-related interest rates according to an appropriate yield curve on the valuation date.

Employee benefits investment contracts

For employee benefits investment contracts where benefits are directly linked to the performance of an underlying investment portfolio, liabilities were taken as the market value of the underlying assets.

Other classes

The liabilities for certain minor classes of business were determined by using approximate valuation methods.

5. Pro forma surplus of FirstRand Insurance as at 30 June 1998

The pro forma surplus of FirstRand Insurance as at 30 June 1998 was calculated as the sum of the surpluses of Momentum Life and Southern Life, after allowing for the impact of the restructuring of FirstRand Insurance.

The published surplus of FirstRand Limited (previously Momentum Life) as at 30 June 1998 amounted to R13 944 million. In order to arrive at the pro forma surplus of FirstRand Insurance as at 30 June 1998, the surplus should be adjusted as follows:

- RMB and FNB, which were included at directors' valuations of R4 465 million and R3 122 million respectively, now form part of FirstRand Bank. An amount of R7 587 million should therefore be excluded from the surplus;
- Southern Life was included at directors' valuation of R1 381 million in the published surplus of FirstRand Limited. This directors' value for Southern Life should be excluded, since Southern Life's surplus of R3 753 million as at 30 June 1998 is included separately;
- An amount of R2 950 million of the rights issue proceeds was used to eliminate Southern Life's shareholding in FNB;
- A number of refinements in the valuation basis reduced Momentum Life's surplus by R97 million.

Pro forma surplus of FirstRand Insurance	R'million
Published surplus of FirstRand Limited (previously Momentum Life)	13 944
Exclusion of directors' valuation of RMB and FNB	(7 587)
Exclusion of directors' valuation of Southern Life	(1 381)
Elimination of Southern Life's shareholding in FNB	(2 950)
Impact of changes in valuation basis on Momentum Life's surplus	(97)
Momentum Life's restated surplus as at 30 June 1998	1 929
Southern Life's surplus as at 30 June 1998	3 753
Pro forma surplus of FirstRand Insurance as at 30 June 1998	5 682

6. Reconciliation of surplus

	R'million
Surplus as at 30 June 1998	5 682
Operating profit (after tax)	412
Investment income on surplus (free reserves)	226
Capital depreciation on surplus (free reserves)	(298)
Dividends	(291)
Surplus as at 30 June 1999	5 731

7. Capital adequacy requirements

Capital adequacy requirements are necessary to provide a cushion against the impact of possible adverse deviations in actual future experience from that assumed in the financial soundness valuation. The capital adequacy requirements, which were determined in accordance with the guidelines of the Actuarial Society of South Africa, were calculated as R3 293 million (1998: R1 791 million pro forma).

The excess of assets over liabilities is sufficient to cover the capital adequacy requirements. In determining the capital adequacy requirements, allowance was made for the anticipated management action that will reduce the financial impact of the assumed adverse circumstances.

BASIS OF PREPARATION

These group financial statements have been prepared on the basis that the Insurance Group will be proceeding with a court application in terms of Section 37 of the Long-term Insurance Act, in terms of which the life insurance operations of Momentum Life will be transferred from FirstRand Limited to FirstRand Insurance Limited (previously The Southern Life Association Limited). The attached annual financial statements have been prepared on this pro forma basis, and assume that the operating structure of the Insurance Group as set out on page 110 was in place for the entire year ended 30 June 1999.

PRESENTATION

The financial statements have been prepared on the going-concern basis, based on the fair value of assets and liabilities, in accordance with the generally accepted practice of accounting for insurance companies and the Companies Act. The principal accounting policies of the Insurance Group set out below are consistent in all material respects with those adopted in the previous year, except where specifically noted.

CONSOLIDATION

The group financial statements comprise the financial statements of FirstRand Insurance and its subsidiaries.

The results of subsidiaries are included from the effective dates of acquisition to the effective dates of disposal. The assets and liabilities acquired are assessed and included in the balance sheet at their estimated fair values to the Insurance Group. Such values are reviewed and amended as appropriate in the financial year subsequent to the acquisition.

Where material, adjustments are made to update consolidated results and balances of subsidiaries that have financial year-ends that differ from that of the Insurance Group.

GOODWILL

Goodwill represents the excess of the purchase consideration of shares in subsidiaries over the attributable fair value of the net assets acquired, and is capitalised and amortised on the straight-line basis over the period of expected benefit, limited to 20 years.

Where the fair value of net assets of subsidiaries at date of acquisition exceed the cost of shares acquired, the excess is treated as a non-distributable reserve, pending recognition on an appropriate basis.

FOREIGN CURRENCY TRANSLATION

The assets and liabilities of foreign subsidiary companies, regarded as independent entities, are expressed in South African rand at rates of exchange ruling at year-end. Gains and losses arising on translation of independent entities are reflected in a non-distributable reserve.

The assets and liabilities of foreign subsidiary companies, regarded as an integral part of the entities operations, are translated at historic rates.

In both the above cases, capital and reserves are translated at historical rates and income statement items are translated at the weighted average rate for the year.

Assets and liabilities denominated in foreign currencies are translated into South African currency at the rates of exchange ruling at the balance sheet date or, where covered by forward exchange contracts, at the relevant contract rates. Unrealised differences on assets and liabilities are recognised in the income statement in the period in which they arise, and are subsequently transferred to the life insurance fund.

INVESTMENTS

The policy of the Insurance Group is to reflect long-term investments on the valuation bases set out below:

Stocks and debentures

Government and public authority stocks, debentures and other loan stocks, all fixed-interest stocks, and funds on deposit stocks, including redeemable preference shares, are stated at market value.

Mortgages and other loans

Mortgages and other loans are reflected at par or redemption value, after making provision for any anticipated losses.

Property investments

Property investments include fixed property and investments in property companies, and are stated at a valuation based on open-market values.

Investments in property companies are shown at a value based on the valuation of the underlying net asset values, after revaluation of fixed properties.

Properties in the process of being developed are valued at development costs incurred, less adjustments to reduce the costs to open market value.

Equity investments

Listed equity investments and unit trust investments are stated at market value and repurchase prices respectively. Unlisted investments are stated at directors' valuation with reference to fair values based on accepted valuation methodologies.

Associated companies

Associated companies are those companies in which the Insurance Group holds a long-term equity interest and over which it has the ability to exercise significant influence.

Investments in associates are held as long-term investments and are not accounted for on the equity basis, as these investments are revalued in accordance with the accounting policies applicable to equity investments.

Deferred taxation

Deferred taxation is accounted for on the comprehensive basis in respect of all material timing differences between the accounting and taxation treatment of income and expenditure items. Account is taken only of taxation assets arising from taxation losses where the recovery of such losses, in the opinion of the directors, is assured beyond reasonable doubt.

Retirement benefits

The Insurance Group has established 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. All funds are registered in terms of the Pension Funds Act, 1956, and membership is compulsory for all Group employees. The cost of providing retirement benefits is determined using the accrued-benefit valuation method.

Current service costs are written off immediately, while past service costs, experience adjustments, changes in actuarial assumptions and plan amendments are expensed over the expected remaining working lives of employees. In the case of retired employees, the costs are written off immediately.

In terms of certain employment contracts, the Insurance Group makes provision for post-retirement healthcare benefits to qualifying employees and retired personnel by subsidising a portion of the medical aid contributions. The entitlement to these benefits is usually based on the employee remaining in service up to retirement age and the completion of a minimum service period. Valuations of these obligations are carried out by qualified actuaries.

Leased assets

Leases of property and equipment where the Insurance Group assumes substantially all the benefits and risks of ownership are classified as finance leases, and are capitalised in terms of the underlying asset category.

Other leases are classified as operating leases. Obligations incurred under operating leases are charged to the income statement in equal instalments over the period of the lease.

FIXED ASSETS

Computer equipment, furniture, other equipment and motor vehicles are stated at historic cost less accumulated depreciation, calculated on a straight-line basis over their expected useful lives.

Property investments are reflected as investment assets and, as such, are not disclosed as part of fixed assets. These investments are stated in accordance with the accounting policy under investments set out above.

BORROWING COSTS

Borrowing costs, incurred in respect of assets that require a substantial period to construct or install, are capitalised up to the date that the construction or installation of the assets is substantially complete.

DERIVATIVE INSTRUMENTS

Included in derivative instruments are financial futures, options, swaps and forward rate agreements.

Derivative instrument contracts are entered into for hedging purposes as well as to facilitate asset allocation. During the lives of these contracts, they are reflected at market value within the appropriate asset category, with all unrealised changes in value being charged to the income statement. The profit or loss realised on exercise, expiry or close out of the contract, is accounted for in the income statement when incurred, and subsequently transferred to the life insurance fund.

SCRIP LENDING

Scrip lending transactions entered into by the Insurance Group are subject to repurchase agreements and, as such, the loan agreement is recorded at the same value as the underlying asset and no sale of scrip is recorded.

The value at which the loan is recorded corresponds with the Insurance Group's accounting policy relating to equities, as set out under Investments above.

Dividends received on scrip out on loan, as well as fees received for scrip lending transactions, are accounted for as investment income in the income statement.

PROFIT RECOGNITION

Operating surpluses are determined in accordance with the Professional Guidance Note on Financial Soundness Valuations issued by the Actuarial Society of South Africa, PGN104.

The operating surpluses arising from life and health insurance business are determined by the annual actuarial valuation. These surpluses are arrived at after taking into account the increase in actuarial liabilities under unmatured policies, provisions for policyholder bonuses and adjustments to contingency and other reserves within the life insurance funds. Any unappropriated surplus is carried forward as the balance of excess in the life insurance fund.

PREMIUM INCOME

Premium income is reflected net of reinsurance premiums.

Individual life investment funds, lump sums, annuities and single premiums are accounted for when the collection of the premiums in terms of the policy contract is reasonably assured.

All other individual life premiums are accounted for when they become due and payable.

In the employee benefits division, risk premiums and pure endowment scheme premiums are accounted for when they become due and payable. Other premiums are accounted for on a cash receipt basis.

Net investment income

Investment income comprises interest, dividends and net rental income. Dividends are accounted for as at the last day of registration in respect of listed shares, and on the date of declaration in respect of unlisted shares. Dividend income includes shares received in terms of capitalisation issues, irrespective of whether there is an option to receive cash in lieu of shares.

Interest and other investment income are accounted for on an accrual basis.

Policyholder benefits

Policyholder benefit payments are shown net of reinsurance recoveries and are accounted for when claims are intimated.

Taxation

Taxation in respect of the South African life insurance operations is determined using the four fund method applicable to life insurance companies.

Commission

Commission payments are net of reinsurance commission received. Life insurance business commissions are expensed as incurred. Commissions of the health insurance subsidiary are paid annually in advance and are amortised over a period of twelve months from the date they are incurred.

Marketing and administration expenses

Marketing and administration expenses include head office and branch administration expenditure, marketing and development expenditure as well as all other non-commission related expenditure, and are expensed as incurred.

Balance sheet

as at 30 June 1999

R'million	Notes	Group 1999	Group 1998
Assets			
Government and public authority stocks		5 233,8	7 032,3
Mortgages, debentures and other loans		5 574,0	3 628,1
Equity investments	3	31 408,6	32 578,9
Property investments	4	3 388,4	3 973,8
Policy loans		507,4	546,7
Funds on deposit		9 064,6	6 177,6
Investment assets		55 176,8	53 937,4
Fixed assets	5	165,4	139,3
Current assets	6	2 200,3	1 648,8
Deferred taxation	7	0,9	–
Total assets		57 543,4	55 725,5
Liabilities and shareholders' funds			
Liabilities			
Current liabilities	8	2 353,2	2 410,9
Deferred taxation	7	–	2,6
Long-term liabilities	9	274,1	272,5
Life insurance fund	10	51 708,0	50 303,0
Total liabilities		54 335,3	52 989,0
Outside shareholders' interest		124,8	177,6
Shareholders' funds			
Reserves	11	1 692,1	1 167,7
Convertible debentures	12	350,0	350,0
Share capital and share premium	13	1 041,2	1 041,2
Total shareholders' funds		3 083,3	2 558,9
		57 543,4	55 725,5

INCOME STATEMENT

for the year ended 30 June 1999

R'million	Notes	Group 1999	Group 1998
Income after taxation	14	666,1	205,4
Earnings attributable to outside shareholders		(28,3)	(18,5)
Earnings attributable to ordinary shareholders		637,8	186,9
Dividends		(290,8)	(98,4)
Transfer (to)/from non-distributable reserves		(11,7)	28,7
Retained earnings for the year		335,3	117,2
Earnings			
Attributable basis	15	637,8	186,9
Headline earnings basis	15	630,9	192,3
Comprising the following:			
Life insurance		207,0	92,6
Asset management		135,6	75,1
Health insurance		62,2	36,5
Short-term insurance		–	(11,9)
Investment income on free reserves		226,1	–

Cash flow statement

for the year ended 30 June 1999

R'million	Notes	Group 1999	Group 1998
Cash flows from operating activities			
Cash generated by operations	A	10 031,2	2 760,8
Working capital changes	B	(786,9)	(205,3)
		9 244,3	2 555,5
Taxation paid	C	(372,0)	(143,1)
Dividends paid	D	(160,5)	(98,4)
Net cash inflow from operating activities		8 711,8	2 314,0
Cash flows from investment activities			
Investment activities			
Government and public authority stocks		2 298,1	220,0
Mortgages, debentures and other loans		(2 208,5)	(516,5)
Equity investments		(6 034,2)	119,5
Property investments		191,7	37,9
Policy loans		39,3	(44,2)
Proceeds on disposal of joint venture		–	127,4
Net purchase of fixed assets		(112,8)	(24,6)
Net cash outflow from investment activities		(5 826,4)	(80,5)
Cash flows from financing activities			
Proceeds from increase in long-term liabilities		1,6	145,0
Net cash inflow from financing activities		1,6	145,0
Net increase in cash and cash equivalents		2 887,0	2 378,5
Cash and cash equivalents at beginning of the year		6 177,6	2 200,3
Cash and cash equivalents acquired		–	1 598,8
Cash and cash equivalents at end of the year		9 064,6	6 177,6

Notes to the cash flow statement

for the year ended 30 June 1999

R'million	Notes	Group 1999	Group 1998
A. Cash generated by operations			
Premium income	16	15 133,5	7 038,0
Investment income	17	3 987,4	1 832,9
Total income		19 120,9	8 870,9
Policyholder benefits	18	12 586,9	6 539,1
Marketing and administration expenses		780,7	528,0
Life insurance		614,6	423,4
Health insurance		166,1	104,6
Commissions		652,4	339,3
Taxation	19	419,4	168,7
Total outgo		14 439,4	7 575,1
Income less outgo		4 681,5	1 295,8
Realised profits and losses on sale of investments and unrealised changes in long-term investment values		(2 610,4)	(259,4)
Transfer to the life insurance fund	10	(1 405,0)	(831,0)
Income after taxation (as per income statement)		666,1	205,4
Outside shareholders' interest		(28,3)	(18,5)
Earnings attributable to ordinary shareholders		637,8	186,9
Adjustments for non-cash items and taxation:			
Unrealised changes in long-term investment values		7 356,5	1 819,4
Transfer to the life fund and other non-cash items		1 617,5	585,8
Taxation		419,4	168,7
Cash generated by operations		10 031,2	2 760,8
B. Working capital changes			
Net increase in current assets		(551,5)	(446,4)
Net (decrease)/increase in current liabilities		(235,4)	241,1
Net working capital changes		(786,9)	(205,3)
C. Taxation paid			
Balance at beginning of the year		(141,5)	(42,8)
Balances of subsidiaries acquired/(disposed of)		–	(73,1)
Taxation charged for the year		(419,4)	(168,7)
Balance at end of the year		188,9	141,5
Taxation paid		(372,0)	(143,1)
D. Dividends paid			
Ordinary dividends declared		(290,8)	(98,4)
Balance at end of the year		130,3	–
Dividends paid		(160,5)	(98,4)

Statement of changes in equity

for the year ended 30 June 1999

R'million	Retained earnings (Note 11)	Non-distributable reserves (Note 11)	Convertible debentures (Note 12)	Share capital and share premium (Note 13)	Total shareholders' funds
1998					
Balance at beginning of the year	1 043,9	49,3	350,0	1 041,2	2 484,4
Net gains or losses not recognised in the income statement	–	(14,0)	–	–	(14,0)
Earnings attributable to shareholders	186,9	–	–	–	186,9
Dividends	(98,4)	–	–	–	(98,4)
Transfer to/(from) reserves	28,7	(28,7)	–	–	–
Balance at end of the year	1 161,1	6,6	350,0	1 041,2	2 558,9
1999					
Balance at beginning of the year	1 161,1	6,6	350,0	1 041,2	2 558,9
Net gains or losses not recognised in the income statement	–	177,4	–	–	177,4
Earnings attributable to shareholders	637,8	–	–	–	637,8
Dividends	(290,8)	–	–	–	(290,8)
Transfer to/(from) reserves	(11,7)	11,7	–	–	–
Balance at end of the year	1 496,4	195,7	350,0	1 041,2	3 083,3

1. ACCOUNTING POLICIES

The accounting policies of the Insurance Group are set out on pages 138 to 141.

2. TURNOVER

Turnover is a concept not relevant to the business of insurance. Fee income generated by the asset management operations, as well as non-insurance fee income, are included in investment income.

R'million	Group 1999	Group 1998
3. EQUITY INVESTMENTS		
Listed – at market value	29 473,7	27 668,7
Unlisted	1 934,9	4 910,2
Unlisted – at directors' valuation	1 798,6	4 910,2
Unamortised goodwill	136,3	–
	31 408,6	32 578,9

Equity investments include investments in associated companies by the insurance operations, which are not equity accounted, but are reflected at fair value in accordance with the accounting policy relating to equity investments.

The unamortised goodwill represents the excess of the purchase price of additional shares in Discovery Health over the attributable net asset value. The balance will be amortised against income over the expected period of benefit.

The ten largest listed equity holdings held on behalf of policyholders in the insurance operations comprise the following (in alphabetical order): ABSA, African Life, Anglo American, Bidvest Group, Dimension Data, FirstRand, FirstRand International SICAV, Imperial, Investec, RMB Holdings

	Group 1999	Group 1998
	%	%
Investments in listed shares were distributed as follows:		
Mining	1	1
Gold	1	1
Financial – Mining houses	4	4
Financial – Other	28	29
Industrial	25	35
Overseas instruments	23	16
Unit trusts	16	13
Other	2	1
	100	100

R'million	Group 1999	Group 1998
4. PROPERTY INVESTMENTS		
Fixed property	3 189,9	3 823,3
Listed property equities	198,5	150,5
	3 388,4	3 973,8

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.

R'million	Group 1999	Group 1998
5. FIXED ASSETS		
Cost at beginning of the year	434,2	153,4
Subsidiary balances acquired/disposed of	–	269,1
Additions	150,6	42,7
Disposals	(72,7)	(31,2)
Transfers and other movements	(9,5)	0,2
Cost at end of the year	502,6	434,2
Accumulated depreciation at beginning of the year	294,7	103,2
Subsidiary balances acquired/disposed of	–	168,9
Depreciation (net of disposals)	42,5	22,8
Accumulated depreciation at end of the year	337,2	294,9
Net book value at end of the year	165,4	139,3
A reconciliation of the movement in the book value of fixed assets is not provided as it is not considered to be material in relation to the Group's activities. Approximately 90% of fixed assets are represented by computer and other equipment.		
6. CURRENT ASSETS		
Accrued investment income	1 543,2	1 036,0
Premium debtors	167,7	192,1
Other debtors	489,4	420,7
	2 200,3	1 648,8
7. DEFERRED TAXATION		
Balance at beginning of the year	(2,6)	(2,1)
Subsidiary balances acquired	–	0,5
Charge for the year	3,5	(1,0)
Balance at end of the year	0,9	(2,6)
A deferred taxation liability amounting to R160 million (1998: R196 million) has been recognised in the actuarial valuation and is included in the life insurance fund in note 10. This liability has been assessed and is considered adequate.		
8. CURRENT LIABILITIES		
Outstanding benefit payments	1 063,1	1 221,6
Creditors	842,1	854,4
Provisions	48,8	93,4
Fair value provisions	80,0	100,0
Taxation	188,9	141,5
Dividends payable	130,3	–
	2 353,2	2 410,9

R'million	Group 1999	Group 1998
9. LONG-TERM LIABILITIES		
Property – management subsidiary	80,3	72,1
The loan is unsecured and bears interest at rates agreed upon from time to time. There are no fixed terms of repayment.		
Capitalised lease commitments	–	26,9
Provision for post-retirement medical expenses	193,8	193,8
Other long-term loans	–	8,2
	274,1	301,0
Less: Current portion transferred to current liabilities	–	(28,5)
	274,1	272,5
10. LIFE INSURANCE FUND		
The movements in the life insurance fund for the year are as follows:		
Balance at beginning of the year	50 303,0	17 994,6
Subsidiary balances acquired	–	31 477,4
Transfer from income statement	1 405,0	831,0
Balance at end of the year	51 708,0	50 303,0
Actuarial liabilities under unmatured policies comprise the following:	%	%
Linked (market-related) business		
Individual life	31,1	30,8
Employee benefits	26,1	24,4
Smoothed-bonus business		
Individual life	16,4	17,1
Employee benefits	7,0	11,1
With-profits reversionary bonus business	4,5	4,9
Non-profit business		
Individual life	3,2	0,8
Employee benefits	1,6	1,2
Annuity business	9,5	9,1
Health business	0,6	0,6
	100,0	100,0

The above percentages are based on the actuarial valuations of Momentum Life, Southern Life and Discovery Health at 30 June 1999.

The life funds of the Insurance Group at 30 June 1999 exceeded the amount of the actuarial value of liabilities under policies and contracts at that date. The change in the actuarial value of policy liabilities includes amounts relating to policyholders' participation in surplus by way of reversionary and other bonuses.

R'million	Group 1999	Group 1998
11. RESERVES		
Retained earnings		
Retained earnings at beginning of the year	1 161,1	1 043,9
Earnings attributable to ordinary shareholders	637,8	186,9
Dividend for the year	(290,8)	(98,4)
Transfer (to)/from non-distributable reserves	(11,7)	28,7
Retained earnings at end of the year	1 496,4	1 161,1
Non-distributable reserves		
Profit on Group restructuring	178,8	–
Unrealised surplus on revaluation of investment assets	4,0	3,7
Currency conversion reserve	(1,0)	0,9
Other	13,9	2,0
	195,7	6,6
Total reserves	1 692,1	1 167,7
12. CONVERTIBLE DEBENTURES		
Fixed rate unsecured subordinated compulsorily convertible debentures	350,0	350,0
These debentures are convertible into 3% non-redeemable non-cumulative preference shares of the company at the option of the debenture holders at any time after 30 June 2008. Any debentures not converted by 30 June 2021 will be compulsorily converted on that date. The debentures bear interest payable six-monthly in arrears, at an effective rate of 18,3% per annum.		
13. SHARE CAPITAL AND SHARE PREMIUM		
The company's authorised and issued share capital and share premium are made up as follows:		
Share capital		
Authorised		
225 000 000 ordinary shares of 5 cents each	11,3	11,3
1 special class A share of 5 cents	–	–
Issued		
189 695 508 ordinary shares of 5 cents each	9,5	9,5
1 special class A share of 5 cents	–	–
The unissued shares are under the control of the directors until the next annual general meeting.		
Share premium	1 031,7	1 031,7
Share capital and share premium	1 041,2	1 041,2

R'million	Group 1999	Group 1998
14. INCOME AFTER TAXATION		
Income after taxation is stated after charging the following:		
Auditors' remuneration		
Audit fees – current year	5,3	3,0
– underprovision prior year	0,8	0,2
Fees for other services	0,8	–
	6,9	3,2
Professional fees		
Actuarial	3,2	1,3
Technical and other	28,4	9,9
	31,6	11,2
Depreciation		
Equipment – owned	86,6	32,9
Equipment – leased	–	0,3
Vehicles – owned	0,1	0,1
	86,7	33,3
Operating lease charges		
Land and buildings	3,4	7,2
Equipment	52,0	31,3
	55,4	38,5
Staff costs		
Salaries, wages and allowances	370,3	188,9
Contribution to pension and other staff funds	44,0	25,2
Social security levies	1,6	0,7
Other	15,8	8,5
	431,7	223,3
15. EARNINGS ATTRIBUTABLE TO SHAREHOLDERS		
Attributable earnings basis		
The calculation of earnings is based on the earnings attributable to ordinary shareholders, which amounted to R637,8 million (1998: R186,9 million).		
Headline earnings basis		
The calculation of headline earnings is based on earnings attributable to ordinary shareholders adjusted by items of a non-trading nature during the year.		
Headline earnings reconciliation		
Earnings attributable to ordinary shareholders	637,8	186,9
Add: Portion of goodwill written off	1,8	–
Add: Loss on disposal of subsidiary and joint venture	5,8	5,4
Less: Release of provisions made on disposal of joint venture	(14,5)	–
Headline earnings attributable to ordinary shareholders	630,9	192,3
A detailed analysis of headline earnings calculated on a pro forma basis is contained in the Chief Financial Officer's Report, refer page 125 of this annual report.		

R'million	Group 1999	Group 1998
16. PREMIUM INCOME		
Individual life	6 478,4	3 412,1
Single premiums	917,8	426,5
Recurring premiums	2 788,1	1 523,7
Unit linked annuities	1 708,8	961,1
Annuities	1 063,7	500,8
Corporate business		
Investment funds	612,9	563,7
Total premiums received in respect of individual life business	7 091,3	3 975,8
Health business	1 847,7	1 113,9
Gross premium income	2 144,5	1 270,9
Less: Reinsurance premiums and medical scheme contributions	(296,8)	(157,0)
Employee benefits	6 194,5	1 948,3
Single premiums and investment lump sums	1 484,5	1 045,9
Transfers from off-balance sheet funds	3 388,2	499,4
Recurring premiums	1 321,8	403,0
Total premium income	15 133,5	7 038,0
Funds retained through the extension of the policy term amounted to R364,0 million (1998: R306,6 million). These funds are not included in the individual life single premium income figures above.		
17. INVESTMENT INCOME		
Investment income earned in respect of:		
Dividends – listed shares	465,0	274,7
Dividends – unlisted shares	48,2	25,5
Net rental income from properties	219,5	79,9
Interest-bearing investments	3 165,1	1 403,1
Income from subsidiaries equity accounted	89,6	49,7
	3 987,4	1 832,9
The income from subsidiaries equity accounted can be analysed as follows:		
Gross income	493,6	432,5
Less: Expenditure	(404,0)	(382,8)
	89,6	49,7

R'million	Group 1999	Group 1998
18. Policyholder benefits		
Individual life business		
Benefits in respect of individual life policies	2 988,9	1 231,3
Death	455,1	236,0
Disability	83,9	41,7
Maturities	1 183,7	473,7
Surrenders	1 266,2	479,9
Benefits in respect of unit linked annuities	268,0	125,5
Lump sum annuities	1 574,9	746,6
Annuities paid	1 545,2	684,1
Commutations	29,7	62,5
Corporate business	481,1	108,8
Surrenders	12,3	11,3
Maturities	468,8	97,5
Total benefits paid in respect of individual life business	5 312,9	2 212,2
Health business		
Gross claims	895,9	468,0
Medical savings accounts	798,6	420,4
Less: Claims recoveries	(290,9)	(149,5)
	1 403,6	738,9
Withdrawal benefits	14,4	2,5
Total benefits paid in respect of health business	1 418,0	741,4
Employee benefits business		
Benefits in respect of risk and administration business	3 405,0	1 262,3
Death	369,7	124,4
Disability	135,9	39,4
Maturities	141,9	39,1
Member withdrawals	564,8	110,7
Scheme terminations and investment withdrawals	2 105,7	927,5
Annuities	87,0	21,2
Investment funds	2 451,0	2 323,2
Withdrawals	1 385,7	2 301,2
Transfers to off-balance sheet funds	1 065,3	22,0
Total benefits paid in respect of employee benefits business	5 856,0	3 585,5
Total benefits paid	12 586,9	6 539,1

R'million	Group 1999	Group 1998
19. TAXATION		
Charge for the year		
SA normal taxation	159,9	60,7
Current	132,0	71,2
Deferred	(3,5)	1,1
Adjustment for prior years	31,4	(11,6)
Retirement fund taxation	141,7	32,6
Secondary taxation on companies ("STC")	20,1	22,9
Stamp duty	20,5	6,5
Other taxes and levies	77,2	46,0
	419,4	168,7
Current taxation is determined by applying the four fund method of taxation applicable to life insurers.		
Other taxes and levies consist of Greater Metropolitan Transitional Council and Financial Services Board levies, the Levy on Financial Services and Value-added Tax.		

20. Financial instruments

Fair values

The carrying amounts of all assets backing policyholder liabilities reflect the fair values of the asset concerned. Similarly, the actuarial valuation of policyholder liabilities represents the fair value of the contractual liability under unmatured policies.

Assets making up the shareholders' free reserves have been reflected at fair values in determining the surplus attributable to shareholders.

Derivative instruments

The Insurance Group uses derivative instruments in order to achieve the following:
– exposure to a desired asset spread where liquidity constraints limit the purchase of sufficient physical assets;
– in order to provide a hedge against a known liability.

Under no circumstances are derivative contracts entered into purely for speculative purposes.

The Insurance Group's asset managers have been mandated to enter into derivative contracts on an agency basis with agreed upon internal controls being instituted to ensure that exposure limits are adhered to. These controls include the regular monitoring of sensitivity analyses designed to measure the behaviour and exposure to derivative instruments under conditions of market stress.

Risk management and capital adequacy

The Risk and Compliance Management function is responsible to ensure that material financial risks related to transactions in financial instruments are mitigated by adequate controls and compliance with Insurance Group policies.

The following represents a summary of the more significant financial risks to which the Insurance Group is exposed:

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate owing to changes in foreign exchange rates.

Most of the currency exposure in the Insurance Group results from the offshore assets held by policyholders' portfolios through the asset swap mechanism facilitated by the South African Reserve Bank ("SARB"). These assets are utilised to provide policyholder portfolios with the desired international exposure subject to the limitations imposed by the SARB.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate owing to changes in market interest rates.

The most significant concentration of interest rate risk in the Insurance Group resides with the immediate annuity portfolios where a guaranteed interest rate is provided to an annuitant. This guaranteed interest rate is matched to an appropriate asset profile with the overall liability profile being matched on a regular basis to minimise the interest rate mismatching risk.

Market risk

Market risk is the risk that the value of a financial instrument will fluctuate owing to changes in market prices, irrespective of whether those changes were caused by circumstances particular to the Insurance Group itself or to the investment market in general.

One of the main focus areas in the Insurance Group is to maximise returns for policyholders by stock selection based on market timing. Where specific contractual guarantees have been provided to policyholders, these are protected against market fluctuations by investing in assets matching the liability profile.

Credit risk

Credit risk is the risk that a counterparty to a financial instrument will default on its obligation to the Insurance Group, thereby causing financial loss to the Insurance Group.

20. FINANCIAL INSTRUMENTS (CONTINUED)

Credit risk (continued)

All counterparty exposures are reviewed and approved by the FirstRand Bank credit committee. This committee also monitors the overall levels of Insurance Group exposure to individual counterparties to ensure that concentrations of credit risk are managed in terms of appropriate guidelines.

Liquidity risk

Liquidity risk is the risk that the Insurance Group will encounter difficulty in raising funds to meet commitments to policyholders under policy contracts.

All policyholder funds are invested in assets that match the reasonable benefit expectations of policyholders. This 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.

Underwriting risk

Underwriting risk is the risk that the actual exposure to mortality and morbidity risks will exceed the best estimates of the statutory valuator.

The statutory valuator performs regular investigations into actual mortality and morbidity experience with the best-estimate assumptions being adjusted accordingly. All mortality risks above a set retention limit are reinsured. All applications for mortality or morbidity cover are evaluated against strict underwriting criteria and are accompanied by compulsory HIV testing in the case of mortality cover above set limits.

21. SCRIP LENDING ARRANGEMENTS

The Insurance 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, with a minimum level of collateral required equal to 105% of the market value. No significant exposure to credit risk, liquidity risk or cash-flow risk has resulted from the scrip lending activities of the Insurance Group.

The following table represents details of the equities on loan as at 30 June 1999:

R'million	
Market value	3 146
Value of collateral	3 359
Cash	2 255
Bonds and money market	1 104
Collateral cover (%)	107

22. RELATED PARTIES

Holding company

The holding company of FirstRand Insurance is FirstRand Limited, which, in turn, has two major shareholders namely Anglo American plc and RMB Holdings.

Property leases

Certain Group companies have entered into property lease agreements with its property management subsidiary, RMB Properties. These leases are based on market-related terms and conditions with total rentals received from related parties amounting to R30,7 million for the year ended 30 June 1999.

22. Related parties (continued)

Assets under management

FirstRand Asset Management, a subsidiary of FirstRand Insurance, has been mandated to manage assets on behalf of certain related parties of the Group. The total assets under management on behalf of related parties amounted to R46 360,6 million at 30 June 1999.

Distribution of products

Momentum Distribution Services ("MDS"), a division of FirstRand Insurance, distributes the products of Discovery Health, Momentum Administration Services and RMB Unit Trusts in addition to those of Momentum Life. Fees received from these related parties for the distribution of products amounted to R57,4 million for the year.

All the above intergroup transactions are negotiated on an arm's length basis.

Transactions with directors

There were no material transactions with directors during the year to 30 June 1999.

23. Contingencies and commitments

No material capital commitments existed on 30 June 1999 and no material legal claims had been instituted against the Insurance Group at that date.

Commitments under derivative instruments

Option contracts, financial futures contracts and interest rate swap agreements were entered into in the normal course of business in order to achieve the required hedging of policyholder liabilities. In terms of the Insurance Group's accounting policies, these instruments are stated at fair value or, where not listed, at valuation. Both realised and unrealised profits and losses are included in the income statement and subsequently transferred to or from the life insurance fund.

24. Retirement benefit information

Staff pension funds

All full-time employees in the Insurance Group are members of either defined benefit pension funds or defined contribution schemes that are governed by the Pension Funds Act. At the latest valuations carried out, independent actuaries found that the defined benefit funds were financially sound, with the exception of the Southern Life Administration and Marketing Staff Pension Fund. The last valuation of this fund at 1 October 1998 revealed a deficit of R43,9 million and a 93% ratio of actuarial value of assets to liabilities, which arose primarily due to adverse market conditions. The actuary recommended that the current rate of 10,1% of pensionable salaries be increased to 15,66% in order to meet the ongoing accrual of benefits. A further valuation will be carried out as at 1 July 1999 in order to assess the financial condition of the fund after the recovery in equity markets and to set the stage for allowing members the option of transferring their accrued benefits to the FirstRand Insurance Staff Pension Fund, a defined contribution fund, as at 1 January 2000.

Contributions to the pension funds are charged against expenditure when incurred. Any deficits advised by the actuaries are funded either immediately or through increased contributions to ensure the ongoing soundness of the funds.

The assets of these schemes are held in administered trust funds separated from the Insurance Group's assets. Scheme assets primarily consist of listed shares, fixed income securities and property investments.

Medical aid benefits

In certain instances the Insurance Group provides for medical aid contributions beyond the date of normal retirement. The present value of expected future medical aid contributions relating to existing pensioners has been determined and the liability provided for. The present value of expected future medical aid contributions relating to current employees is charged against expenditure over the service period of such employees.

25. Post-balance sheet events

Effective 1 July 1999, MC Squared Solutions (Pty) Limited, a subsidiary of FirstRand Insurance, was sold to the FirstRand Banking Group.

26. ANALYSIS OF INVESTMENT IN SUBSIDIARIES AND ASSOCIATE

	Investment by holding company							
	Effective % holding		Amounts owing by/(to) subsidiaries		Group carrying amount		Directors' valuation	
	1999	1998	1999	1998	1999	1998	1999	1998
	%	%	Rm	Rm	Rm	Rm	Rm	Rm
Subsidiaries (directly held):								
Southern Life Special Investments (Pty) Limited	100	100	278,9	327,2	2 516,3	3 663,4	2 516,3	3 663,4
Southern Asset Management (Pty) Limited	100	100	23,7	34,3	53,0	33,4	110,0	100,0
Momentum Property Investments (Pty) Limited	100	100	485,1	479,9	262,1	304,5	262,1	304,5
Momentum Life Assurers Limited (previously Lifegro Assurance Limited)	100	100	(56,1)	(56,1)	56,1	56,1	56,1	56,1
Momentum Administration Services (Pty) Limited	100	100	44,8	23,0	3,3	2,6	160,0	100,0
Momentum Trust Limited	100	100	4,4	3,4	0,4	0,4	0,4	0,4
Discovery Health Limited	75	67	0,5	(0,8)	228,8	87,0	925,0	550,0
MC^2 Solutions (Pty) Limited	100	100	52,8	31,9	(37,1)	(25,7)	120,0	(25,7)
RMB Asset Management (Pty) Limited	100	100	25,1	7,9	140,4	81,3	925,0	650,0
RMB Properties (Pty) Limited	100	100	11,4	10,7	14,2	3,0	50,0	26,0
			870,6	861,4	3 237,5	4 206,0	5 124,9	5 424,7
Associate:								
African Life Assurance Company Limited	21	21			1 314,0	1 355,7		

1. **Scope of the embedded value**

This report sets out the embedded value and the value of new insurance business of FirstRand Insurance. The scope of the embedded value comprises the insurance businesses of Momentum Life and Southern Life, as well as the various operating subsidiaries of FirstRand Insurance, as set out in the group structure on page 110 of this annual report.

2. **Definition of embedded value**

An embedded value is an estimate of the value of the company, excluding any goodwill that may be attributed to the value of future new business.

The embedded value is defined as:

- the shareholders' net assets (as disclosed in the actuarial balance sheet on page 134 of this annual report);
- plus the value of in-force insurance business less the opportunity cost of holding capital adequacy requirements in respect of the in-force insurance business.

The value of the in-force insurance business is calculated as the present value of the projected stream of future after-tax profits of the insurance business in force at the calculation date. The opportunity cost of holding the projected future capital adequacy requirements reflects the fact that the expected long-term investment return on the assets backing the capital adequacy requirements is less than the return required by the shareholders, as reflected by the risk discount rate.

3. **Embedded value results**

Embedded value (Table 1) R'million	30 June 1999
Shareholders' net assets	5 731
Net value of in-force insurance business:	2 609
Gross value of in-force insurance business	3 019
Opportunity cost of capital adequacy requirements	(410)
Embedded value	8 340

Notes

- *The directors' valuations of the subsidiaries Momentum Administration Services, Discovery Health, Southern Asset Management and RMB Asset Management form part of the shareholders' net assets reflected above. More details regarding the directors' valuations of the unlisted subsidiaries are disclosed on page 158 of the annual financial statements.*

- *Comparative embedded value results for FirstRand Insurance as at 30 June 1998 were not calculated.*

4. **Value of new business**

The value of new business is a measure of the value added to the company as a result of writing new business. The value of new business is calculated as the present value (at point of sale) of the projected stream of future after-tax profits of the new insurance business sold during the financial year, after allowing for initial expenses. The value of new business is also appropriately reduced by the opportunity cost of holding the necessary capital adequacy requirements for new business.

Value of new business (Table 2) R'million	Year ended 30 June 1999
Life insurance (before opportunity cost of capital):	119
• Field force distribution channel	(60)
• Broker distribution channel	135
• Employee benefits business	44
Opportunity cost of capital adequacy requirements	(15)
Value of new business	104

Note:
The value of new business reflected above excludes the value of FirstRand Insurance's attributable share of the new business written by Discovery Health. The total value of Discovery Health's new business amounted to R318 million.

5. Sensitivity to the risk discount rate

The risk discount rate appropriate to an investor depends on the investor's own requirements, tax position and perception of the risks associated with the realisation of the future insurance profits of FirstRand Insurance. The sensitivity of the embedded value and the value of new business to changes in the risk discount rate, is illustrated below:

Embedded value (Table 3) R'million	30 June 1999 Risk discount rate 18%	19%	20%
Shareholders' net assets	5 731	5 731	5 731
Net value of in-force insurance business:	2 889	2 609	2 346
• Gross value of in-force insurance business	3 178	3 019	2 865
• Opportunity cost of capital adequacy requirements	(289)	(410)	(519)
Embedded value	8 620	8 340	8 077

Value of new business (Table 4) R'million	Year ended 30 June 1999 Risk discount rate 18%	19%	20%
Value of new business	131	119	108
Opportunity cost of capital adequacy requirements	(11)	(15)	(19)
Value of new business	120	104	89

Note:
The value of new business reflected above excludes the value of FirstRand Insurance's attributable portion of the new business written by Discovery Health.

6. ASSUMPTIONS

The same best-estimate assumptions were used for the purpose of the embedded value calculations and the financial soundness valuation of FirstRand Insurance. The main assumptions used in the embedded value calculations are described below:

The economic assumptions used were as follows:	% pa
Risk discount rate	19,0
Investment returns (before tax)	17,0
Expense inflation rate	13,0

The investment return assumption of 17% per annum was determined with reference to the market interest rate on South African government stocks at the valuation date. A notional long-term asset distribution was used to calculate a weighted expected investment return, by adding the following premiums/(discounts) to the market interest rate of 15,6% per annum on South African government stocks as at 30 June 1999.

	% premium/(discount) pa
Equities	2,0
Properties	1,0
Government stocks	0,0
Other fixed interest stocks	0,5
Cash	(1,0)

The assumed future expense inflation assumption of 13,0% per annum was determined, based on an assumed long-term differential relative to the assumed future investment return assumption of 17,0% per annum.

Mortality, morbidity and discontinuance rates

The assumptions regarding future mortality, morbidity and discontinuance rates were based on the results of recent experience investigations. Allowance was also made for AIDS on a basis consistent with the recommendations of Professional Guidance Note (PGN) 105 of the Actuarial Society of South Africa.

Expenses

The maintenance expense assumptions were based on the results of recently conducted internal expense investigations. The expense assumptions are at a level sufficient to support the existing business on a going-concern basis.

Premium indexation arrangements

The embedded value of in-force business includes the expected value of future premium increases resulting from premium indexation arrangements on in-force business, by using an expected take-up rate based on the results of recent experience investigations. The value of new business includes the expected value of future premium increases resulting from premium indexation arrangements on the new business written during the financial year ended 30 June 1999.

Directors' valuations

The same directors' valuations were used for the unlisted subsidiaries for purposes of the embedded value and the financial soundness valuation of FirstRand Insurance.

The directors' valuations of RMB Asset Management and Southern Asset Management as at 30 June 1999 exclude the value of any profits derived from managing assets on the balance sheet of FirstRand Insurance. The value of asset management profits in respect of assets on the balance sheet of FirstRand Insurance was included in the value of in-force insurance business and the value of new business.

The directors' valuation of Discovery Health was equated to FirstRand Insurance's share of the embedded value of Discovery Health as at 30 June 1999. The directors' valuation of Discovery Health is included in the shareholders' net-assets component of the embedded value of FirstRand Insurance.

Reserving bases

It was assumed that the current financial soundness valuation bases of calculating the policyholder liabilities would continue unchanged in future.

6. ASSUMPTIONS (continued)

Surrender and paid-up bases

It was assumed that the current surrender and paid-up bases would be maintained in future.

Tax

Allowance was made for future tax based on the current tax dispensation.

7. SENSITIVITIES

This section illustrates the effect of different assumptions on the value of in-force insurance business and the value of new business. For each sensitivity illustrated, all other assumptions have been left unchanged.

Value of in-force insurance business (Table 5) R'million	Value of in-force business	Increase	% increase over base value
Base value (refer to table 1 on page 159)	2 609		
Future expenses reduce by 10%	2 797	188	7
Expense inflation reduces from 13% to 12%	2 748	139	5
Policy discontinuance rates reduce by 10%	2 645	36	1
Mortality experience improves by 10%	2 996	387	15

Value of new business (Table 6) R'million	Value of new business	Increase	% increase over base value
Base value (refer to table 2 on page 160)	104		
Future expenses reduce by 10%	120	16	15
Expense inflation reduces from 13% to 12%	116	12	12
Policy discontinuance rates reduce by 10%	110	6	6

The above tables show the impact of improvements in the experience assumptions. The effect of an equivalent deterioration in the experience assumptions would be to reduce the values by an amount approximately equal to the increases shown above.

8. REVIEW BY THE INDEPENDENT ACTUARIES

Woodrow Milliman, a firm of international consulting actuaries, have reviewed in detail the methodology and assumptions underlying the calculation of the embedded value and the value of new life insurance business. They are satisfied that, based on the information supplied to them by FirstRand Insurance, the methodology and assumptions are appropriate for the purpose of including the embedded value in this report, that these have been determined in accordance with generally accepted actuarial principles and that the approach has been applied consistently across the different business units.

9. Embedded value of Discovery Health

The salient results of the Discovery embedded value calculations are as follows:

	R'million
Shareholders' net assets	296
Value of in-force insurance business	908
Embedded value	1 204
Value of new business	318

The economic assumptions used in the calculation of the embedded value of Discovery Health are set out below:	% pa
Risk discount rate	21,0
Investment returns (before tax)	14,0
Expense inflation rate	11,0

Hymans Robertson, a firm of international consulting actuaries, reviewed the calculation of the embedded value and the value of new business of Discovery Health.

Appendix 1
Balance sheet
at 30 June 1999

R'million	Notes	Company 1999	Company 1998
Assets			
Investments		36 248,3	29 374,2
Government and public authority stocks		2 564,8	2 915,7
Mortgages, debentures and other loans		4 597,9	2 491,3
Equity investments	1	12 153,0	9 533,5
Property investments	2	309,0	331,5
Policy loans		145,8	166,0
Subsidiaries	3,22	9 501,0	6 416,3
Funds on deposits		6 976,8	7 519,9
Fixed assets	4	36,3	9,1
Current assets	5	1 208,1	795,8
Total assets		37 492,7	30 179,1
Liabilities and shareholders' funds			
Liabilities			
Current liabilities	6	819,6	551,2
Life insurance fund	7	25 659,2	20 283,5
Total liabilities		26 478,8	20 834,7
Shareholders' funds			
Reserves	8	2 177,4	504,3
Convertible debentures	9	350,0	350,0
Ordinary share capital and share premium	10	8 486,5	8 490,1
Total shareholders' funds		11 013,9	9 344,4
		37 492,7	30 179,1

Appendix 1
Income statement
for the year ended 30 June 1999

R'million	Notes	Company 1999	Company 1998
Income			
Premium income	11	9 297,7	4 897,9
Net investment income	12	4 299,6	1 943,5
		13 597,3	6 841,4
Outgo			
Policyholder benefits	13	4 911,2	3 979,6
Taxation	14	279,2	130,1
Management and administration expenses	15	244,7	160,3
Commissions		282,3	214,7
		5 717,4	4 484,7
Income less outgo		7 879,9	2 356,7
Capital appreciation on policyholders' and shareholders' assets for the year		(15,7)	742,5
Transfer to the life fund		(5 375,7)	(2 410,8)
Earnings attributable to ordinary shareholders		2 488,5	688,4
Ordinary dividends	16	(844,0)	(347,5)
Capitalisation award	17	–	(343,0)
Transfer to reserves	8	(19,8)	(17,8)
Retained income for the year		1 624,7	(19,9)
Earnings per share (cents)	18	45,7	27,4
Headline earnings per share (cents)	18	45,6	27,6
Dividend per share (cents)		15,5	10,4

Appendix 1
Cash flow statement

for the year ended 30 June 1999

R'million	Notes	Company 1999	Company 1998
Cash flows from operating activities			
Cash generated by operations	A	13 127,3	1 600,7
Working capital changes	B	(410,2)	(104,1)
Cash inflow/(outflow) from operations		12 717,1	1 496,6
Taxation paid	C	(203,5)	(88,2)
Dividends paid	D	(653,4)	(98,8)
Net cash inflow from operating activities		11 860,2	1 309,6
Cash flows from investment activities			
Investment activities	E	(8 943,4)	(809,6)
Proceeds from disposal of joint venture		–	127,4
Net investment in subsidiaries		(3 415,1)	(207,8)
Net purchase of fixed assets		(41,2)	(3,4)
Net cash outflow from investment activities		(12 399,7)	(893,4)
Cash flows from financing activities			
Proceeds from issue of ordinary shares	F	(3,6)	5 035,2
Net cash (outflow)/inflow from financing activities		(3,6)	5 035,2
Total net (decrease)/increase in cash and cash equivalents		(543,1)	5 451,4
Cash and cash equivalents at beginning of the year		7 519,9	2 068,5
Cash and cash equivalents at end of the year		6 976,8	7 519,9

Appendix 1
Notes to the cash flow statement

for the year ended 30 June 1999

R'million	Company 1999	Company 1998
A. **Net income after taxation attributable to shareholders**	2 488,5	688,4
Adjustment for non-cash items and taxation	10 638,8	912,3
	13 127,3	1 600,7
B. **Working capital changes**		
Current assets		
Increase in accrued investment income	(385,4)	(149,4)
Decrease/(increase) in premium debtors	24,5	(39,0)
Increase in other debtors	(51,4)	(6,8)
	(412,3)	(195,2)
Current liabilities		
Increase in outstanding benefit payments	19,5	15,8
Increase in creditors	1,2	58,2
(Decrease)/increase in other provisions	(18,6)	17,1
	2,1	91,1
Net working capital changes	(410,2)	(104,1)
C. **Taxation paid**		
Balance at beginning of the year	(76,6)	(34,7)
Taxation charged for the year	(279,2)	(130,1)
Balance at end of the year	152,3	76,6
Taxation paid	(203,5)	(88,2)
D. **Dividends paid is reconciled to the amounts disclosed in the cash flows as follows:**		
Balance at beginning of the year	(245,0)	(11,4)
Dividends and capitalisation awards	(844,0)	(347,5)
Shares issued in lieu of dividends	–	79,5
Transfer (from)/to share election reserve	–	(64,4)
Amount unpaid at end of the year	435,6	245,0
Dividends paid	(653,4)	(98,8)
E. **Investment activities**		
Decrease in government and public authority stocks	484,8	157,3
Increase in mortgages, debentures and other loans	(2 373,1)	(541,9)
Increase in equity investments	(7 093,0)	(282,8)
Decrease/(increase) in property investments	17,7	(109,0)
Decrease/(increase) in policy loans	20,2	(33,2)
	(8 943,4)	(809,6)
F. **Proceeds from issue of ordinary shares**		
Gross proceeds from issue of ordinary shares	–	5 154,3
Share issue expenses	(3,6)	(119,1)
	(3,6)	5 035,2

Appendix 1

Statement of changes in equity

for the year ended 30 June 1999

	Retained earnings (Note 8) Rm	Non-dis-tributable reserves (Note 8) Rm	Convertible debentures (Note 9) Rm	Share capital and share premium (Note 10) Rm	Total share-holders' funds Rm
1998					
Balance at beginning of the year	301,0	49,8	350,0	432,9	1 133,7
Net gains or losses not recognised in the income statement	–	155,6	–	–	155,6
Earnings attributable to shareholders	688,4	–	–	–	688,4
Dividends	(347,5)	–	–	–	(347,5)
Capitalisation award	(343,0)	–		422,5	79,5
Transfer (to)/from reserves	(17,8)	17,8	–	–	–
Issue of share capital	–	–	–	9 197,6	9 197,6
Share issue expenses	-	–	–	(119,1)	(119,1)
Excess of cost of subsidiary investment over attributable net asset value	–	–	–	(1 443,8)	(1 443,8)
Balance at end of the year	281,1	223,2	350,0	8 490,1	9 344,4
1999					
Balance at beginning of the year	281,1	223,2	350,0	8 490,1	9 344,4
Net gains or losses not recognised in the income statement	–	28,6	–	–	28,6
Earnings attributable to shareholders	2 488,5	–	–	–	2 488,5
Dividends	(844,0)	–	–	–	(844,0)
Transfer (to)/from reserves	(19,8)	19,8	–	–	–
Share issue expenses	–	–	–	(3,6)	(3,6)
Balance at end of the year	1 905,8	271,6	350,0	8 486,5	11 013,9

R'million	Company 1999	Company 1998
1. Equity investments		
Listed – at market value	11 556,7	9 143,5
Unlisted	596,3	390,0
Unlisted – at directors' valuation	460,0	390,0
Unamortised goodwill	136,3	–
	12 153,0	9 533,5
Equity investments include investments in associated companies which are not equity accounted, but are reflected at fair value in accordance with the accounting policy relating to equity investments.		
The unamortised goodwill represents the excess of the purchase price of additional shares in Discovery Health over the attributable net asset value. The balance will be amortised over the expected period of benefit against income.		
The ten largest listed equity holdings of FirstRand comprise the following (in alphabetical order): ABSA, Anglo American, Bidvest Group, Dimension Data, FirstRand, Imperial, Investec, JD Group, Remgro, RMB Holdings.		
Investment in listed shares were distributed as follows:	%	%
Mining	1	2
Gold	1	1
Financial – Mining houses	5	6
Financial – Other	22	22
Industrial	31	38
Overseas investments via asset swaps	14	11
Unit trusts	23	17
Other	3	3
	100	100
2. Property investments		
Fixed property	297,4	304,8
Listed property equities	11,6	26,7
	309,0	331,5
A register detailing the fixed property is available for inspection at the company's registered address.		
3. Investment in subsidiaries		
Shares at net asset value	8 934,4	5 915,1
Amounts owing by subsidiaries	566,6	501,2
	9 501,0	6 416,3

R'million	Company 1999	Company 1998
4. FIXED ASSETS		
Computers, furniture, equipment and motor vehicles		
Cost	132,4	91,2
Accumulated depreciation	96,1	82,1
Net book value	36,3	9,1
5. CURRENT ASSETS		
Accrued investment income	1 094,5	709,1
Premium debtors	41,7	66,2
Other debtors	71,9	20,5
	1 208,1	795,8
6. CURRENT LIABILITIES		
Outstanding benefit payments	67,4	47,9
Dividends payable	435,6	245,0
Creditors	153,4	152,2
Provisions	10,9	29,5
Taxation	152,3	76,6
	819,6	551,2
7. LIFE INSURANCE FUND		
The movements in the life insurance fund for the year are as follows:		
Balance at beginning of year	20 283,5	17 872,7
Transfer from income statement	5 375,7	2 410,8
Balance at end of year	25 659,2	20 283,5
Actuarial liabilities under unmatured policies comprise the following:		
	%	%
Linked (market related) business		
Individual life	34,3	32,3
Employee benefits	32,6	29,7
With-profits (smooth bonus) business		
Individual life	19,9	28,3
Employee benefits	0,1	0,1
Reversionary bonus business	1,6	0,1
Non-profit business		
Individual life	2,4	1,2
Employee benefits	0,4	0,3
Annuity business	8,7	8,0
	100,0	100,0
The life fund at 30 June 1999 exceeded the actuarial value of liabilities under policies and contracts at that date. The change in the actuarial value of policy liabilities includes amounts relating to policyholders' participation in surplus by way of reversionary and other bonuses.		

R'million	Company 1999	Company 1998
8. RESERVES		
Retained earnings		
Retained earnings at beginning of the year	281,1	301,0
Earnings attributable to ordinary shareholders	2 488,5	688,4
Dividend for the year	(844,0)	(347,5)
Capitalisation award	–	(343,0)
Transfer to non-distributable reserves	(19,8)	(17,8)
	1 905,8	281,1
Non-distributable reserves		
Non-distributable reserves relating to:		
Banking operations	254,7	216,6
Equity accounted earnings of associates	18,6	10,5
Other reserves in associated companies	1,7	0,2
Currency conversion reserve	157,3	178,9
Other	77,1	27,0
Insurance operations	16,9	6,6
Unrealised surplus on revaluation of investment assets	4,0	3,7
Currency conversion reserve	(1,0)	0,9
Other	13,9	2,0
	271,6	223,2
Total reserves	2 177,4	504,3
9. CONVERTIBLE DEBENTURES		
Fixed rate unsecured subordinated compulsorily convertible debentures.	350,0	350,0
The debentures are convertible into 3% non-redeemable non-cumulative preference shares of the company at the option of the debenture holders at any time after 30 June 2008. Any debentures not converted by 30 June 2021 will be compulsorily converted on that date. The debentures bear interest, payable semi-annually in arrears, at an effective rate of 18,3% per annum.		

R'million	Company 1999	Company 1998
10. ORDINARY SHARE CAPITAL AND SHARE PREMIUM		
Share capital		
Authorised		
6 500 000 000 ordinary shares of 1 cent each (1998: 6 500 000 000)	65,0	65,0
Issued		
Balance at beginning of the year:		
5 445 303 089 ordinary shares of 1 cent each (1998: 1 353 008 450)	54,4	13,5
Shares issued during the year		
Capitalisation awards:		
44 497 020 ordinary shares of 1 cent each	–	0,4
Issued via rights issue		
572 696 739 ordinary shares of 1 cent each	–	5,7
Issued in lieu of the acquisition of subsidiaries		
3 475 100 880 ordinary shares of 1 cent each	–	34,8
	54,4	54,4
Share premium		
Balance at beginning of year	8 435,7	419,4
Arising on the issue of ordinary shares		
Capitalisation awards	–	422,1
Issued via rights issue	–	5 148,6
Issued in lieu of the acquisition of subsidiaries	–	4 008,5
Share issue expenses	(3,6)	(119,1)
Excess of cost of subsidiary investment over attributable net asset value	–	(1 443,8)
	8 432,1	8 435,7
Ordinary share capital and share premium	8 486,5	8 490,1
Share option scheme		
Number of options in force at end of year (millions)	56,6	35,2
Granted at prices ranging between (cents)	165 – 990	85 – 910
Number of options granted during year (millions)	33,5	6,5
Price at which granted (cents)	527 – 990	700 – 910
Number of options exercised/released during year (millions)	12,1	13,9
Market value range at date of exercise (cents)	519 – 940	700 – 1 215
Number of remaining shares available for future options (millions)	4,1	33,2
Value of company loan to share option trust (R million)	301,7	395,2

R'million	Company 1999	Company 1998
11. Premium income		
Individual life	4 391,1	2 799,2
Single premiums	627,8	414,3
Recurring premiums	1 233,4	1 124,7
Unit linked annuities	1 593,6	821,0
Annuities	936,3	439,2
Corporate business		
Investment funds	564,5	563,7
Total premiums received in respect of individual life business	4 955,6	3 362,9
Employee benefits business	4 342,1	1 535,0
Investment lump sums	838,1	969,6
Transfer from off-balance sheet funds	3 388,2	499,4
Recurring premiums	115,8	66,0
Total premium income	9 297,7	4 897,9
Funds retained through the extension of the policy term amounted to R364,0 million (1998: R306,6 million). These funds are not included in the individual life single premium income figures above.		
12. Investment income		
Investment income earned in respect of:		
Dividends – listed shares	178,6	220,7
Dividends – unlisted shares	2 372,5	23,4
Net rental income from property investments	15,0	11,3
Interest-bearing investments and income from subsidiaries	1 733,5	1 688,1
	4 299,6	1 943,5

R'million	Company 1999	Company 1998
13. Policyholder benefits		
Individual life business		
Benefits in respect of individual life policies	1 029,1	826,7
Death	166,1	172,5
Disability	27,9	30,9
Maturities	269,3	302,8
Surrenders	565,8	320,5
Benefits in respect of unit linked annuities	268,0	125,5
Lump sum annuities	610,8	530,6
Annuity paid	581,1	485,6
Commutations	29,7	45,0
Corporate business	481,1	108,8
Surrenders	12,3	11,3
Maturities	468,8	97,5
Total benefits paid in respect of individual life business	2 389,0	1 591,6
Employee benefits business		
Benefits in respect of risk and administration business	71,2	64,8
Death	38,3	24,8
Disability	13,5	11,7
Maturities	0,2	4,0
Member withdrawals	9,9	6,2
Scheme terminations and investment withdrawals	8,3	16,5
Annuities	1,0	1,6
Investment funds	2 451,0	2 323,2
Withdrawals	1 385,7	2 301,2
Transfers to off-balance sheet funds	1 065,3	22,0
Total benefits paid in respect of employee benefits business	2 522,2	2 388,0
Total benefits paid	4 911,2	3 979,6
14. Taxation		
South African normal taxation		
Current	94,6	70,0
Adjustment for prior years	–	(32,2)
Secondary taxation on companies ("STC")	54,2	22,0
Retirement fund taxation	63,3	30,3
Stamp duty	17,8	4,9
Other taxes and levies	49,3	35,1
	279,2	130,1
Other taxes and levies consist of Greater Metropolitan Transitional Council levies, Financial Services Board levies, the levy on financial services and value-added tax.		

R'million	Company 1999	Company 1998
15. Marketing and administration expenses include:		
Auditors' remuneration		
Audit fees – current year	1,0	0,7
– underprovision prior year	0,9	–
Fees for other services	0,6	0,1
	2,5	0,8
Depreciation		
Equipment – owned	13,9	7,2
Equipment – leased	–	0,1
Vehicles – owned	0,1	0,1
	14,0	7,4
Operating lease charges		
Land and buildings	3,4	5,4
Equipment	2,7	1,9
	6,1	7,3
Interest paid		
Convertible debentures	70,0	70,0
16. Dividends		
An interim dividend of 7,5 cents (1998: 3,22 cents) per share was declared on 23 February 1999, payable to shareholders registered on 19 March 1999	408,4	49,8
A second interim dividend of 2,67 cents per share was declared on 24 April 1998, payable to shareholders registered on 8 May 1998	–	52,7
A final dividend of 8 cents (1998: 4,5 cents) per share was declared on 17 September 1999, payable to shareholders registered on 15 October 1999	435,6	245,0
	844,0	347,5
17. Capitalisation award		
Distributable reserves of R343 million were capitalised by way of the issue of 32 781 164 shares in the ratio of 1,692 shares for every 100 shares registered in the name of shareholders on 8 May 1998	–	343,0

R'million	Company 1999	Company 1998
18. EARNINGS PER SHARE		
Attributable earnings basis		
Earnings per share is based on the earnings attributable to ordinary shareholders and the weighted number of ordinary shares in issue. Earnings attributable to ordinary shareholders amounted to R2 488,5 million (1998: R688,4 million) and the weighted average number of ordinary shares in issue during the year amounted to 5 445 303 089 (1998: 2 509 989 723).		
Headline earnings basis		
Headline earnings per share is based on the earnings attributable to ordinary shareholders, adjusted for items of a non-trading nature, and the weighted average number of ordinary shares in issue.		
Headline earnings reconciliation		
Earnings attributable to ordinary shareholders	2 488,5	688,4
Add: Portion of goodwill written off	1,8	–
Add: Loss on disposal of subsidiary and joint venture	5,8	5,4
Less: Release of provisions made on disposal of joint venture	(14,5)	–
Less: Profit on sale of strategic investments	–	(0,6)
Headline earnings attributable to ordinary shareholders	2 481,6	693,2

19. POST-RETIREMENT BENEFITS

Staff pension fund

All full–time employees of the company are members of either a defined benefit pension fund or a defined contribution pension fund which are governed by the Pension Funds Act. At the latest valuations carried out, independent actuaries found that the defined benefit fund was financially sound. Contributions to the pension funds are charged against expenditure when incurred. Any deficits advised by the actuaries are funded either immediately or through increased contributions to ensure the ongoing soundness of the fund.

The assets of these schemes are held in administered trust funds separated from the company's assets. Scheme assets primarily consist of listed shares, fixed income securities and property investments.

Medical aid benefits

In certain instances, the company provides for medical aid contributions beyond the date of normal retirement. The present value of expected future medical aid contributions relating to existing pensioners has been determined and the liability provided for. The present value of expected future medical aid contributions relating to current employees is charged against expenditure over the service period of such employees.

20. COMPARATIVE FIGURES

Comparative figures are restated where necessary to afford proper comparison.

21. DEFERRED TAXATION

A deferred taxation liability amounting to R68,7 million (1998: R60 million) has been recognised by the valuator in the actuarial valuation and is included in the life insurance fund in note 7. This liability has been assessed and is considered adequate. No additional liability has been raised for deferred taxation in the financial statements.

	Effective percentage holding 1999 %	1998 %	Investment of holding company: Amounts owing by/(to) subsidiaries 1999 Rm	1998 Rm	Shares at net asset value 1999 Rm	1998 Rm
22. Analysis of investment in subsidiaries						
Banking operations						
FirstRand Bank Holdings Limited	100	100	(1,4)	1,3	5 736,0	4 024,7
Insurance operations						
The Southern Life Association Limited	100	100	–	–	2 530,2	1 381,2
Momentum Property Investments (Pty) Limited	100	100	485,1	479,9	262,1	304,5
Momentum Life Assurers Limited (previously Lifegro Assurance Limited)	100	100	(56,1)	(56,1)	56,1	56,1
Momentum Administration Services (Pty) Limited	100	100	44,8	23,0	3,3	2,6
Momentum Trust Limited	100	100	4,4	3,4	0,4	0,4
Discovery Health Limited	75	67	0,5	(0,8)	228,8	87,0
MC^2 Solutions (Pty) Limited	100	100	52,8	31,9	(37,1)	(25,7)
RMB Asset Management (Pty) Limited	100	100	25,1	7,9	140,4	81,3
RMB Properties (Pty) Limited	100	100	11,4	10,7	14,2	3,0
			568,0	499,9	3 198,4	1 890,4
					8 934,4	5 915,1
Total interest in subsidiaries					9 501,0	6 416,3
The above represents those subsidiaries where the financial position or results are material to the company.						

Gerrit Thomas Ferreira (51)
Chairman BCom (Hons), B (B&A), MBA

"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 and was a co-founder of Rand Consolidated Investments Limited ("RCI") in 1977. RCI acquired control of Rand Merchant Bank Limited ("RMB") in 1985 and he was Managing Director of RMB from 1985 to 1988 after which he was elected as Chairman. He is also Chairman of RMB Holdings Limited and FirstRand Bank Holdings Limited. He serves on several other boards, including Anglo American Corporation of South Africa Limited, the Industrial Development Corporation and Glenrand MIB Limited.

Michael Wallis King (62)
Deputy Chairman CA(SA), FCA

Mike King was educated at St John's College and the University of the Witwatersrand, and qualified as a chartered accountant with Deloittes (now Deloitte and Touche). In 1961 he joined Union Acceptances Limited (now Nedcor Investment Bank). He was Deputy Managing Director from 1972 to 1974 when he left to join Anglo American Corporation of South Africa Limited. He became Deputy Chairman of the Corporation in 1997 and Vice- Chairman of Anglo American plc in 1999, and is also a member of both companies' executive committees. He is a director of a number of group companies.

Lauritz Lanser Dippenaar (50)
Chief Executive Officer MCom, CA(SA)

Laurie Dippenaar graduated from Pretoria University, qualified as a chartered accountant with Aiken & Carter and spent a few years with the Industrial Development Corporation before becoming co-founder of Rand Consolidated Investments Limited ("RCI"). RCI acquired control of Rand Merchant Bank Limited ("RMB") in 1985 and he became an Executive Director. He was appointed Managing Director in 1988, which position he held until 1992 when RMB Holdings Limited ("RMBH") acquired a controlling interest in Momentum Life Assurers Limited, the fifth largest insurance company in South Africa, and he was appointed as Executive Chairman of that company, a position he held until being appointed Chief Executive Officer of FirstRand Limited. He is also a Director of RMBH as well as various other group companies.

Barry Hilton Adams (63)
CA(SA)

Barry Adams is a chartered accountant who retired as Country Managing Partner of Arthur Andersen in 1991. He has been a Non-Executive Director of RMB Holdings Limited since 1993 and has also served on the boards of the main group companies as well as being Chairman of the FirstRand audit committee. He is also a Non-Executive Director of a number of other companies including CG Smith Limited, Tiger Oats Limited, Adcock Ingram Limited, Glenrand MIB Limited and Chairman of Specialised Outsourcing Limited and South African National Roads Agency Limited.

Vivian Wade Bartlett (56)
AMP (Harvard), FIBSA

Viv Bartlett started his career with Barclays Bank DCO South Africa which became First National Bank of SA Limited in 1987. After some four years of overseas secondments he returned to South Africa in 1972 where he has served as General Manager and Managing Director in various group companies until being appointed as Group Managing Director and Chief Executive Officer of First National Bank of SA Limited in 1996. He now holds the position of Deputy Chief Executive Officer of FirstRand Bank Limited and is also a Director of FirstRand Bank Holdings Limited and FirstRand Insurance Limited, as well as various other group companies.

David John Alistair Craig (51)
British

David Craig was educated at Ampleforth College, York, UK whereafter he joined Hambros Bank and ultimately held the position of Director – International Capital Markets Division until 1979 when he left to join JP Morgan Securities. In 1983, holding the position of Deputy Chief Executive (Chief Executive Designate), he left to take up the position of Group Managing Director at IFM Trading Limited. Since 1996 he has been an Executive of Culross Global Management and serves as Non-Executive Director of Savills plc in the UK. He is also a founder and Chief Executive Officer of OperadiO.com Limited and a director of ukphonebook.com Limited, both based in the UK.

Patrick Maguire Goss (51)
BEcon (Hons), BAccSc (Hons), CA(SA)

Pat Goss, after graduating from the University of Stellenbosch, served as president of the Association of Economics and Commerce Students (AISEC), representing South Africa in the Hague and Basle. He thereafter qualified as a chartered accountant with Ernst and Whinney and then joined the Industrial Development Corporation. In 1977 he was a co-founder of Rand Consolidated Investments Limited ("RCI"). A former Chairman of the Natal Parks Board, his family interests include Umngazi River Bungalows and Boxer Cash and Carry (Pty) Limited. He has been a Non-Executive Director of RMB Holdings Limited and Rand Merchant Bank Limited since 1985 and other prominent board memberships include Anglovaal Industries Limited, Sentry Group Limited, McCarthy Retail Limited and Relyant Retail Limited.

Paul Kenneth Harris (49)
MCom

Paul Harris graduated from the University of Stellenbosch and joined the Industrial Development Corporation where he served for a number of years. He was a co-founder of Rand Consolidated Investments Limited ("RCI"). RCI acquired control of Rand Merchant Bank Limited ("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 where he was appointed Deputy Managing Director of RMB. In 1992 he took over as Managing Director and Chief Executive Officer. He has now been appointed as the Chief Executive Officer of FirstRand Bank Limited and also serves on the boards of various other group companies.

Sathyandraneth Ragunanan Maharaj (64)
BA, BAdmin

"Mac" Maharaj graduated at Natal University and studied law for two years at the London School of Economics. He obtained his second degree from the University of South Africa while imprisoned on Robben Island. He has been politically active all his life, having been an activist, a detainee, political prisoner, an exile and an underground commander, and then a negotiator and finally a cabinet minister in South Africa's first democratically elected government. In 1985 he was elected to the National Executive Committee of the African National Congress, in which position he still serves. He retired from parliament and government after the 1999 general elections and was thereafter appointed to the boards of FirstRand and FirstRand Bank Holdings Limited.

George Rupert Pardoe (42)
BA (Hons) (Cum Laude)

Rupert Pardoe was educated at Diocesan College (Bishops) in Cape Town and graduated at the University of Cape Town. He completed his honours degree, cum laude, at the University of South Africa and did one year's post-graduate research in political economy at the University of Paris before joining the Anglo American Corporation of South Africa Limited ("AAC") in 1981. Part of his training involved secondment to a firm of stockbrokers on the Johannesburg Stock Exchange and to merchant bankers, SG Warburg & Company Limited, in London. He was appointed Finance Director of Anglo American Industrial Corporation in 1995 and has been Finance Director of AAC since 1997. He is Chairman of the audit committees of FirstRand Bank Holdings Limited and Rand Merchant Bank.

Khehla Cleopas Shubane (43)
BA (Hons)

Khehla Shubane graduated at the University of the Witwatersrand and then registered at the University of the North. He was arrested for political reasons and spent five years on Robben Island, whereafter he was employed at Liberty Life for a short tenure. He served on various political organisations until joining the Centre for Political Studies in 1988. He has been the co-author of several political publications and is a member of the Board of the Open Society Foundation for South Africa, Board of Control for the Centre for Policy Studies and the Board of the National Housing Forum. He has been a Director of RMB Holdings Limited, Rand Merchant Bank Limited and Momentum Life Assurers Limited since 1993.

Benedict James van der Ross (52)
Dip Law (UCT)

Ben van der Ross completed a Diploma in Law at the University of Cape Town, whereafter he was admitted to the Cape Side Bar as an Attorney and Conveyancer. Thereafter he practised for his own account for 16 years. He became an Executive Director with the Urban Foundation for five years up to 1990 and thereafter of the Independent Development Trust where he was Deputy Chief Executive Officer from 1995 to 1998. He was appointed to the board of The Southern Life Association Limited in 1986 and is also a Non-Executive Director of SA Rail Commuter Corporation and Nasionale Pers Beperk. He is also Chairman of Stocks Hotels & Resorts (Cape) Holdings (Pty) Limited and its subsidiary, as well as Western Cape Property Company Limited.

Robert Albert Williams (58)
BA, LLB

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 Oats Limited and in 1985 assumed Chairmanship of CG Smith Foods and Tiger Oats Limited and was appointed to the board of Barlow Rand Limited. He also became Chairman of Illovo Sugar Limited, and is currently Vice-Chairman of CG Smith Limited. He has been on the board of First National Bank of Southern Africa Limited since 1988 and also serves on the board of Mutual & Federal Assurance Company Limited.

Notice is hereby given that the second annual general meeting of FirstRand Limited will be held in the auditorium, 18th Floor, 1 Merchant Place, corner Fredman Drive and Rivonia Road, Sandton on 22 November 1999 at 09:30.

AGENDA

1. To receive and consider the annual financial statements for the year ended 30 June 1999 and the reports of the directors and the auditors thereon.

2. To elect directors in the place of the following directors who retire in terms of the articles of association of the company:

Messrs B H Adams, G T Ferreira, P K Harris, S R Maharaj and K C Shubane

These directors are all eligible and available for re-election.

3. To confirm the directors' fees paid by the company for the year ended 30 June 1999 and to determine any change therein for the year commencing 1 July 1999.

4. To re-appoint Pricewaterhouse-Coopers Incorporated as auditors of the company until the forthcoming annual general meeting.

5. To authorise the directors to fix and pay the auditors' remuneration for the year ended 30 June 1999.

6. Special business

6.1 To consider and, if approved, pass the following resolutions, with or without amendments, to give effect to the restructuring of the Group as described in the directors' report with or without amendment:

6.1.1 As ordinary resolutions:

Resolved

6.1.1.1 that FirstRand Limited ("the company") enter into and conclude an agreement with FirstRand Insurance Limited (previously the Southern Life Association Limited) ("the purchaser") for the transfer of all long-term life insurance business conducted by the company under the name "Momentum Life" in providing or undertaking to provide benefits under long-term insurance policies in the Republic of South Africa as at 1 July 1999 (or any other date as the directors might decide), and consisting of the assets, liabilities and commitments, including life assets, life liabilities and life commitments, as defined, and contractual and/or delictual rights and liabilities, actual and contingent in respect thereof in exchange for 57 816 414 ordinary par value shares of 20 cents each in the share capital of FirstRand Bank Holdings Limited (formerly First National Bank Holdings Limited). This transaction is to be effected in terms of section 37 of the Long-term Insurance Act, 1998 ("the Long-term Insurance Act"). A copy of the proposed agreement is available for inspection at the registered office of the company.

6.1.1.2 that the company execute and shall procure that there is executed all and any documents, instruments, deeds and agreements whatsoever (including, without limitation, any such documents, deeds, instruments, court applications and/or applications to the Commissioner for South African Revenue Service) which are necessary in order to ensure that the entire transaction is concluded, becomes unconditional and is duly implemented as such.

6.1.1.3 that a director of the company be and is hereby authorised on behalf of the company to sign all and any documents, instruments, deeds and agreements whatsoever which may be necessary (including the bringing of a court application) in order to procure that the contents of the above resolutions are carried into effect, together with the power to effect any amendments to any of the aforesaid documents, deeds, instruments or other agreements prior to signature thereof which are necessary or desirable for the purposes of the aforegoing, and generally to do or cause to be done on behalf of the company whatsoever shall be requisite as fully and effectually and to all intents and purposes as if the company were personally represented and acting therein as may be necessary to ensure that the entire transaction is concluded, becomes unconditional and is duly implemented.

6.1.2 As a special resolution (subject to the sanction of the High Court to implement the section 37 transfer contemplated per 6.1.1 above)

Resolved

That in terms of sections 55, 56 and 62 of the Companies Act, 1973, as amended ("the Act"), the company adopt the new memorandum and articles of association tabled at the meeting and signed by the chairman for purposes of identification, in place of the company's existing memorandum and articles of association.

The reason and effect of this special resolution is to change the main objects and powers of the company from that of an insurance company to that of an investment holding company and also to incorporate the changes brought about in the Act by the Companies Amendment Act, No 37 of 1999.

6.2 To consider and, if approved, pass the following special resolution, with or without amendments, to give a general authority until the forthcoming annual general meeting for the company to repurchase its own shares:

Resolved

That subject to the provisions of the Companies Act, 61 of 1973, as amended, and the listings requirements of the Johannesburg Stock Exchange, the board of directors be authorised, up to and including the date of the following annual general meeting, to approve the purchase of its own shares by the company provided that:

- the general authority shall not extend beyond 15 months from the date of this resolution;

- the general authority to repurchase be limited to a maximum of 10% of the company's issued share capital of that class at the time the authority is granted;

- the repurchases must not be made at a price more than 5% above the weighted average of the market value for the securities for the five business days immediately preceding the date of repurchases;

- the consolidated assets of the company, fairly valued in accordance with generally accepted accounting practice, will be in excess of the consolidated liabilities of the company;

- the company will have adequate capital; and

- the working capital of the company will be adequate for the next year's operations.

The reason and effect of this special resolution is to enable the board of directors, up to and including the date of the next annual general meeting, to approve the purchase of its own shares by the company, subject to the limitations included in the special resolution.

6.3 To consider and, if approved, pass the following special resolution, with or without amendment, to deregister the company as a bank controlling company:

Resolved

That the company applies to the Registrar of Banks in terms of section 47 of the Banks Act, 94 of 1990 ("the Banks Act") to cancel the registration of the company as a controlling company in respect of a bank with effect from the date of registration of this special resolution or December 1999, whichever is earlier.

The reason and effect of this special resolution is to deregister the company as a bank controlling company in terms of the Banks Act because, in terms of the revised structure of the Group, the company no longer directly controls any bank registered in terms of the Banks Act.

6.4 To consider and, if approved, pass the following resolutions as ordinary resolutions, with or without amendment, placing the unissued shares under control of the directors and giving a specific authorisation for the directors to issue shares for cash:

Resolved

6.4.1 that the unissued shares in the company be and are hereby placed under control of the directors until the forthcoming annual general meeting and that they be and are hereby authorised to issue any such shares as they may deem fit subject to the Companies Act, 1973, and the articles of association of the company.

6.4.2 that the directors of the company be given the specific authority in terms of the listings requirements of the Johannesburg Stock Exchange ("the JSE") to issue shares for cash as and when situations arise subject to 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 months from the date of this annual general meeting;

- that a paid press announcement giving full details, including the impact on net asset value and earnings per share, will be published at the time of any issue representing, on a cumulative basis, within one financial year, 5% or more of the number of ordinary shares in issue prior to the issue;

- that issues in the aggregate in any one financial year will not exceed 10% of the number of ordinary shares of the company's share capital provided further that such issues shall not in aggregate in any three-year period exceed 15% of the company's issued ordinary share capital;

- that, in determining the price at which an issue of shares will be made in terms of this authority, the maximum discount permitted will be 10% of the weighted average traded price of the ordinary shares on the JSE, as determined over the thirty days prior to the date of the issues determined or agreed by the directors; and

- that the issue must be made to public shareholders as defined by paragraph 4.22 of the listings requirements of the JSE.

Please note

1. A member entitled to attend and vote at the annual general meeting is entitled to appoint a proxy (who need not be a member of the company) to attend, speak and, on a poll, to vote in his stead.

2. In the event of a poll, a shareholder or his proxy shall have one vote for every share held.

3. The signed proxy must reach the offices of the company not later than 48 hours before commencement of the meeting.

By order of the board

P F de Beer
Company Secretary

17 September 1999

Analysis of shareholding

Range of shareholding (Per shareholders register)			Number of shareholders	% of shareholders	Number of shares	% of shares
1	–	1 000	12 305	47,54	7 109 715	0,13
1001	–	10 000	11 001	42,50	35 025 429	0,64
10 001	–	50 000	1 956	7,56	40 108 596	0,74
50 001	–	100 000	279	1,08	19 144 830	0,35
100 001	–	500 000	228	0,88	48 109 468	0,88
500 001	–	1 000 000	46	0,18	34 813 998	0,64
1 000 001	–	5 000 000	40	0,15	80 967 624	1,49
5 000 001	–	over	29	0,11	5 180 023 429	95,13
			25 884	100,00	5 445 303 089	100,00

Analysis of major shareholding

Name	Number of shares	% of issued shares
RMB Holdings Limited	1 362 766 806	25,03
Anglo American Corporation of SA Limited	1 112 539 217	20,43
Standard Bank Nominees (Tvl) (Pty) Limited	808 081 274	14,84
First National Nominees (Pty) Limited	468 173 108	8,60
Nedcor Bank Nominees (Pty) Limited	382 348 572	7,02
CMB Nominees (Pty) Limited	218 498 892	4,01
De Beers Holdings (Pty) Limited	167 543 133	3,08

RMB Holdings Limited and Anglo American Corporation of SA Limited are the only shareholders who beneficially hold more than 5% of the issued ordinary shares in the company. The nominee companies mentioned above are registered shareholders in the company, but hold the shares on behalf of other beneficial owners, none of which individually own more than 5%.

Performance on the Johannesburg Stock Exchange

for the year ended 30 June 1999

	1999	1998*
Shares traded ('000)	1 318 444	96 183
Price (cents):		
Highest	1 060	1 140
Lowest	380	825
Closing price	690	910

** 1998 statistics for period 25 May 1998 to 30 June 1998*

PROXY FORM

(REG NO 66/10753/06)

I/We, the undersigned

of

being the registered holder/s of

ordinary shares in FirstRand Limited, hereby appoint (see note 1)

1. or failing him

2. or failing him

3. the chairman of the meeting, as my/our proxy to be present and act on my/our behalf, speak and, on a poll, vote on my/our behalf as indicated below at the annual general meeting of shareholders of the company to be held at 09:30 on Monday, 22 November 1999, and at any adjournment thereof (see note 2).

	Number of votes (one vote per ordinary share)		
	In favour of	Against	Abstain
1. Resolution to adopt the annual financial statements			
2. Resolution to re-elect the retiring directors who are available for re-election			
3. Resolution to confirm the directors' fees and determine changes therein			
4. Resolution to reappoint the auditors			
5. Resolution to authorise the directors to fix and pay the auditors' remuneration			
6.1.1 Ordinary resolutions to approve the restructuring of the Group in terms of the section 37 of the Long-term Insurance Act, 1998			
6.1.2 Special resolution to adopt a new memorandum and articles of association			
6.2 Special resolution giving general authority until the next annual general meeting for the company to repurchase its own shares			
6.3 Special resolution to apply for the deregistration as a bank controlling company			
6.4.1 Resolution to place unissued shares under the control of the directors			
6.4.2 Resolution giving specific authority in terms of the listing requirements of the JSE for directors to issue ordinary shares for cash			

Instructions to my/our proxy are indicated by the number of shares written in the appropriate boxes.

1999

Signature of registered shareholder (assisted by me as applicable)

Date

Notes

1. Each ordinary shareholder is entitled to appoint one or more proxies (none of whom need be a member of the company) to attend, speak and, on a poll, vote in place of that ordinary shareholder at the general meeting, by inserting the name of a proxy or the names of two alternate proxies of the ordinary shareholder's choice in the space provided, with or without deleting "the chairman of the general meeting". The person whose name stands first on the form of proxy and who is present at the general meeting will be entitled to act as proxy to the exclusion of those whose names follow.

2. An ordinary shareholder's instructions to the proxy must be indicated by the insertion of the relevant number of votes exercisable by that ordinary shareholder in the appropriate box/es provided. Failure to comply with the above will be deemed to authorise the chairman of the general meeting, if he is the authorised proxy, to vote in favour of the resolutions at the general meeting, or any other proxy to vote or to abstain from voting at the general meeting, as he deems fit, in respect of all the ordinary shareholder's votes exercisable thereat.

3. An ordinary shareholder or his proxy is not obliged to vote in respect of all the ordinary shares held or represented by him but the total number of votes for or against the resolutions in respect of which any abstention is recorded may not exceed the total number of votes to which the ordinary shareholder or this proxy is entitled.

4. Forms of proxy must be lodged with or posted to Computershare Services Limited, 4th Floor, Edura Building, 41 Fox Street, Johannesburg, 2001 (PO Box 61051, Marshalltown, 2107), to be received not later than 12:00 on Friday, 19 November 1999.

5. The completion and lodging of this form of proxy will not preclude the relevant ordinary shareholder from attending the general meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof should such ordinary shareholder wish to do so.

Shareholders' diary

Reporting

Financial year-end	*30* June 1999
Announcement of results for 1999	21 September 1999
Annual report for 1999 posted by	29 October 1999
Annual general meeting	22 November 1999

Dividends

Final for 1999	
• Declared	17 September 1999
• Last registration date	15 October 1999
• Payable	29 October 1999
Interim for 2000	
• Declared	February 2000
• Payable	March 2000

Administration

Registered office and head office

17th Floor
1 Merchant Place
Corner Fredman Drive and Rivonia Road
Sandton
2199

(PO Box 786273, Sandton, 2146)
Telephone (011) 282-8000
Telefax (011) 282-8065

Secretary

P F de Beer (FCIS)

Statutory valuators of finance operations

N A S Kruger
P G M Truyens

Auditors

PricewaterhouseCoopers Incorporated
2 Eglin Road
Sunninghill
2157

Administration

Bankers

First National Bank
Rand Merchant Bank
ABSA Bank

Transfer secretaries

Computershare Services Limited
3rd Floor, Edura Building
41 Fox Street
Johannesburg
2001

(PO Box 61051, Marshalltown, 2107)

GRAPHICOR
18457

www.firstrand.co.za

FirstRand 17th Floor 1 Merchant Place, Cnr Fredman Drive & Rivonia Road Sandton 2196, PO Box 786273, Sandton 2146
South Africa Telephone +27 11 282 1808 Telefax +27 11 282 8065 FirstRand Limited Reg. No. 66/10753/06