FIRSTRAND
Bank Limited

2008 Annual Report

contents

1	Board of directors and board committees of FirstRand Bank Limited
2	Corporate governance
3	Risk management report
43	Capital management
44	Regulatory capital
47	Credit ratings
48	Directors' responsibility statement
49	Report of the independent auditors
50	Directors' report
51	Accounting policies
64	Income statement
65	Balance sheet
66	Statement of changes in equity
68	Cash flow statement
69	Notes to the annual financial statements
ibc	Administration

GT Ferreira (60) *Non independent non executive Chairman*
BCom, Hons B(B&A), MBA
Chairman of FirstRand, FirstRand Bank and RMB Holdings and Director of Momentum Group

SE Nxasana (51) *Executive*
BCom, BCompt (Hons), CA(SA)
Chief Executive Officer of FirstRand Bank Holdings and director of FirstRand

VW Bartlett (65) *Non independent non executive*
AMP (Harvard), FIBSA
Director of FirstRand and FirstRand Bank Holdings

JJH Bester (66) *Non executive*
B Sc Eng Elect (Pret), ISMP (Harvard)
Director of FirstRand Bank Holdings

JP Burger (49) *Executive*
BCom (Hons), CA(SA)
Chief Financial Officer of FirstRand and Financial Director of FirstRand Bank Holdings

LL Dippenaar (59) *Non executive*
MCom, CA(SA)
Chairman of Momentum Group and Discovery Holdings, Director of RMB Holdings, FirstRand and FirstRand Bank Holdings

DM Falck (62) *Independent non executive*
CA(SA)
Director of FirstRand, FirstRand Bank and RMB Holdings

PM Goss (60) *Independent non executive*
BEcon, (Hons), BAccSc (Hons), CA(SA)
Director of FirstRand, FirstRand Bank Holdings and RMB Holdings

PK Harris (58) *Executive*
MCom
Chief Executive Officer of FirstRand, Director of FirstRand Bank, RMB Holdings, and Momentum Group

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

E Matenge-Sebesho (53) *Independent non executive*
MBA MBA Brunel University of London, CAIB (SA)
Director of FirstRand Bank Holdings

RK Store (66) *Independent non executive*
CA(SA)
Director of FirstRand, FirstRand Bank Holdings and Momentum Group

BJ van der Ross (61) *Independent non executive*
Dip Law(UCT)
Director of FirstRand, FirstRand Bank Holdings and Momentum Group

RA Williams (67) *Independent non executive*
BA, LLB
Director of FirstRand, FirstRand Bank Holdings

During the year Ms Z Rylands resigned and Mr JJH Bester was appointed a director of FirstRand Bank Holdings and FirstRand Bank.

Audit committee

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

Risk committee

RK Store (Chairman)
JJH Bester
DM Falck
WR Jardine
RA Williams

Remuneration committee

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

Large exposures credit

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

Directors' affairs and governance

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

COMPLIANCE STATEMENT

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

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

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

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

BOARD OF DIRECTORS

Responsibilities of directors

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

Composition and frequency of meetings

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

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

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

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

Limitation to appointment period

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

COMPANY SECRETARY

The company secretary is suitably qualified and experienced and was appointed by the board in 1998. He is inter alias, responsible for the duties stipulated in section 268G of the Companies Act and the certificate required to be signed in terms of subsection (d) thereof appears on page 50.

Risk in FirstRand Bank Holdings Limited ("FRBH") is managed on a group basis in line with the business philosophy and risk management strategy of FirstRand Limited. FirstRand Bank Limited ("the Bank") is a major subsidiary of FRBH and in order to understand the risk philosophy of the Bank one needs to understand how risk is managed in FRBH. In order to facilitate this, extracts from the FRBH Risk management report has been included below to explain the management of risk within the Bank.

EXECUTIVE SUMMARY

Introduction

FRBH, one of FirstRand Limited's (or referred to as "the Group") major subsidiaries, subscribes to the business philosophy and risk management strategy of the Group. The Group defines risk as any factor which could prevent the Group from achieving its desired business objectives or result in adverse outcomes, including reputational damage. In line with its business philosophy, the Group recognises that effective risk management and governance is essential to the generation of sustainable profits, to safeguard its reputation, comply with regulations, create a competitive edge and achieve an optimal risk reward profile.

The Group's strategy and its day to day operating activities are underpinned by its risk management framework, which is designed to ensure that all risks across all subsidiaries are appropriately managed within the defined and approved risk reward appetite framework. The board is responsible for oversight of the business performance and risk management activities. The Group's Enterprise Risk Management ("ERM") function has independent oversight and is responsible for driving improvements in risk management. FRBH operates in a specific market that presents particular financial and non financial risks and opportunities, and risk management in FRBH is therefore governed by its own risk management framework, which is also applicable to the Bank.

The Risk Management report reviews in detail FRBH's and the Bank's processes and procedures relating to the identification, management, measurement and reporting for the different risk types and complies with the risk disclosure requirements of Basel II Pillar III and IFRS 7 Financial Instruments: Disclosure ("IFRS 7").

The major risk types faced by FRBH and the Bank include strategic and business risk, credit risk, market risk, liquidity risk, interest rate risk in the banking book, operational risk and compliance risk. For each, the report outlines the definition, governance structures and processes, measurement, management/mitigation and an assessment of the risk.

A brief overview of the most important risks is presented below. For more detail on these as well as information on the types not covered in the executive summary, please refer to the main body of the Risk Management report.

Credit risk

Credit risk constitutes the most significant risk that the Bank is exposed to and its contribution to the total regulatory and economic capital requirement of the Bank is the highest of all risk types. Credit risk is managed within FRBH's risk reward appetite to ensure appropriate capital levels are maintained and that risk is priced for on an individual and portfolio basis.

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

During the year under review the Bank received formal approval from the South African Reserve Bank ("SARB") to use the Basel II Advanced Internal Ratings Based ("AIRB") approach in its calculations of credit risk regulatory capital.

In its transition to the AIRB approach, the Group revised its risk management functions, creating a Group Credit Risk Control function within the Group's ERM division. This function is responsible for credit risk oversight. The Credit Pillar in Balance Sheet Management will now focus only on credit portfolio management ("BSM") focuses on credit portfolio management.

At the end of June 2008, the Bank's advances totalled R407 billion (2007: R343 billion), of which R198 billion (49%) was derived from lending activities within FNB, and R120 billion (30%) from the Bank's investment banking activities within RMB. The advances in the asset finance operations of WesBank totalled R88 billion, which is 22% of the Bank's total advances.

High interest rates and inflation have resulted in pressure on consumers' ability to repay debt. Affordability levels have been negatively influenced by these factors, resulting in further increases in bad debts and lower advances growth. The pressure on the consumer is expected to continue for some time, resulting in further increases in arrears, non performing loans and impairment charges for bad debts. The corporate environment is, however, showing resilience in current market conditions, while there is increased pressure on smaller businesses in the small and medium enterperise ("SME") market due to the economic environment. The Bank manages its credit portfolio actively to minimise the impact of the deteriorating macro economic environment. The focus is on keeping origination strategies in line with risk appetite and implementing credit portfolio hedges where possible. Credit impairment levels are also carefully considered to ensure adequate provisioning levels.

Market risk

RMB has approval from the SARB to measure regulatory market risk capital under the internal model approach, as stipulated in the Basel II Accord. For economic capital measurement, the internal model approach based on distressed expected tail loss ("ETL") is used.

In addition to the distressed ETL and Value At Risk ("VaR") methodologies, the Bank supplements its measurement techniques with defined stress tests and scenario analyses. The calibration of the stress tests are reviewed from time to time, which ensures that the tests are indicative of possible market moves under distressed market conditions and provide additional insight into possible outcomes under stressed market conditions.

Liquidity risk

During the year under review the Bank successfully complied with Basel II principles relating to liquidity risk and funding management. The Bank has a diversified funding mix by term, source and product to protect the Group against concentration risk and to mitigate possible market disruptions. To protect the balance sheet against a stress event, liquidity buffers (in excess of the statutory requirements) were accumulated and maintained over the past financial year. The Bank continues to maintain these buffers and actively manages and monitors these portfolios. Enhancements have been made to the measurement and analytical processes, applying best practice principles to high level international standards. Events in the global banking sector and recent international bank failures were examined to test the conservativeness of the Bank's liquidity risk assumptions and analyses. Processes have also been expanded to the extent that the risks arising from the off balance sheet activities are fully consolidated with the liquidity risk management, measurement and stress testing processes and are managed conservatively from a liquidity risk point of view.

Interest rate risk in the banking book

In line with the objective to protect and enhance the Bank's balance sheet and income statement, interest rate risk in the banking book is managed from an earnings approach over a specified horizon. Changes to economic value are also monitored and managed within defined risk tolerance levels. The net interest rate profile is adjusted by changing the profile of liquid assets or through transactions in derivative instruments. The desired profile is based on the Bank's interest rate outlook with reference to other risk factors impacting the Bank's balance sheet, most notably credit risk.

The natural position of the Bank's banking book remains asset sensitive (positively gapped), since interest earning assets reprice sooner than interest paying liabilities, making the projected net interest income ("NII") vulnerable to a drop in interest rates. The banking book was positioned to benefit from the 250bps repo rate increase over the period.

Operational risk

The Bank obtained approval from the SARB to use the Basel II Standardised Approach ("TSA") for calculating operational risk capital for internal capital allocation as well as regulatory purposes from 1 January 2008. A more sophisticated operational risk quantification and capital calculation methodology has been developed and is being implemented using the Advanced Measurement Approach ("AMA") for operational risk in accordance with Basel II and SARB requirements. An application to use AMA on a partial use basis for the South African operations has been submitted to the SARB during the first quarter of 2008.

Independent monitoring of operational risk occurs through a number of functions within the Group's ERM division, including business continuity management, legal, information risk services, forensic services and operational risk governance.

PHILOSOPHY

The Group's Business Philosophy embodies sustainable business practices and good corporate governance. The values espoused in this philosophy include the importance of being a good corporate citizen, integrity, individual empowerment and personal accountability. In support of accountability all employees of the Group subscribe to the code of ethics which forms part of the Group's Board Charter. Adherence to the code of ethics is a strategic business imperative and a source of competitive advantage.

Management recognises the importance of good communication between non executive directors, executive management, and senior management across the Group to ensure compliance with banking, insurance and other regulations applicable to the Bank and communication with external stakeholders.

In line with the business philosophy, the Group recognises that effective risk management and governance is essential to generate sustainable profits, safeguard its reputation, comply with regulations, create a competitive edge and achieve an optimal risk reward profile.

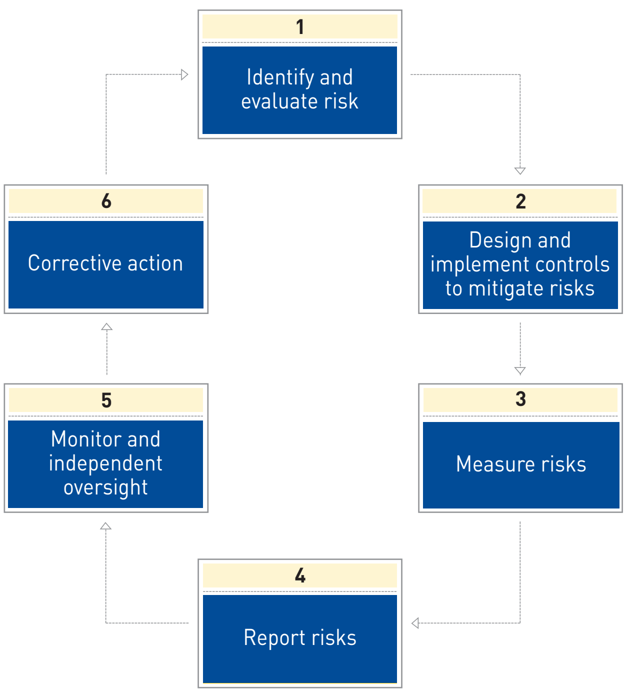
RISK GOVERNANCE

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

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

The FirstRand Limited Audit, Risk and Compliance committee reviews the findings and reports of all the subsidiary boards and subsidiary Audit, Risk and Compliance committees. The Bank's findings and reports are included in FRBH's governance reporting structure. The subsidiary Audit, Risk and Compliance committees review the findings and reports of its sub committees and the independent risk management functions. The independent risk management functions are responsible to ensure that appropriate, effective and efficient business performance and risk management processes, controls and compliance are in place and integrated in the day to day activities.

FRBH has adopted the following approach to risk management which the Bank adheres to:



FRBH's risk management governance structures cascade down from the board to the subsidiaries and main divisions and their business units. Divisional and risk sub committees oversee the risk management processes of FRBH and the Bank.

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

BSM is responsible for balance sheet optimisation and portfolio management of credit risk, interest rate risk, liquidity risk and capital and funding requirements. The Finance and Audit function manages financial reporting, tax risk and legal risk. BSM and the Financial function report to the CFO.

Deployed risk managers in the various divisions and business units are responsible for supporting the implementation of the Risk Management Framework at business unit level. All the business units report on the effectiveness of their risk management processes to their relevant risk management functions and risk committees via a bottom up process. The risk reporting process is designed to provide an appropriate representation of the risk profile. The risk reports for each of the main business divisions are submitted quarterly for review by the FRBH Risk, Compliance and Capital committee ("RCC committee"). The FRBH RCC committee reports on a quarterly basis to the Board of directors.

FRBH has aligned the responsibilities and tasks of the various board committees and sub committees with the recommendations of Basel II.

All FRBH's subsidiaries, divisions and major business units have their own risk and audit committees. All audit committees and the FRBH RCC committee have non executive representation. FRBH RCC committee and all audit committee meetings are attended by representatives from the external and internal auditors and the independent risk management functions. The independent and deployed risk managers attend all risk committees as appropriate.

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

FRBH's governance structure is illustrated in the diagram below:

BOARD

BOARD COMMITTEES

***Audit committee**
- Considers the annual financial statements for approval by the board
- Monitors the quality of the internal controls and processes of FRBH and the implementation of corrective actions

***FRBH Risk, Compliance and Capital committee**
- Approves risk management policies, standards and processes
- Monitors Group risk assessments
- Monitors the effectiveness of risk management and high priority corrective actions
- Monitors the Group's risk profile

***Large Exposures Credit committee**
- Approves credit exposures in excess of 10% of bank capital

®Banking Group Credit committee
- Credit approvals of Group or individual credit facilities in excess of sub committee mandates and limits
- Approves all credit products and product policies

SUB COMMITTEES OF FRBH RISK, COMPLIANCE AND CAPITAL COMMITTEE

©FRBH Credit Portfolio Management committee
- Approves credit risk management policies, standards and processes
- Monitors the effectiveness of the credit risk management processes
- Monitors the Group's credit risk profile

®Market Risk committee
- Approves market risk management policy, standards and processes
- Monitors the effectiveness of the market risk management process
- Monitors the Group's market risk profile

***Model Risk and Validation committee**
- Considers and approves all material aspects of model validation work including credit rating and estimation, internal models for market risk and advance measurement operational risk models

***Asset and Liability committee**
- Approves management policies, methodologies, standards and processes for interest rate risk in the banking book and for liquidity risk in FRBH
- Monitors the effectiveness of these risk management processes

***Capital Management committee**
- Approves objectives, policies and principles relating to the capital management process of accounting capital, regulatory capital and economic capital
- Approves buffers over regulatory capital and monitors capital adequacy ratios

#Operational Risk committee
- Monitors the risk management processes, operational risk management, the effectiveness of risk management, process breakdowns and corrective actions

#Banking Group Compliance committee
- Approves compliance risk management principles, frameworks, plans, policies and standards for the Group
- Monitors the effectiveness of compliance risk management, breaches and corrective action taken across the Group

DIVISIONAL RISK, AUDIT AND COMPLIANCE COMMITTEES

GROUP SUPPORT

INDEPENDENT RISK OVERSIGHT		FINANCIAL MANAGEMENT AND OPTIMISATION	
Enterprise Risk Management	Banking Group Compliance	Finance and Audit functions	Balance Sheet Management

* Denotes chairperson is a non executive board member
\# Denotes chairperson is a non executive non board member
© Denotes chairperson is an executive board member
® Denotes chairperson is executive management. The Banking Group Credit Committee has non executive representation

RISK MANAGEMENT FRAMEWORK

FRBH has adopted its own Risk Management Framework, which is also applicable to the Bank. This framework, a policy of the Board of directors, governs the risk management process and provides a matrix of business, strategic, financial and non financial risks that FRBH will monitor. In terms of this Risk Management Framework, risk management is vested as an integral part of management's functions at all levels of FRBH and includes the management of governance, strategy, business performance, competitiveness, human resources, external factors, processes, information technology, and operational, financial and tax risk.

The risk management framework are based on the experience that:

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

The FRBH risk management framework aims to incorporate risk management processes into the overall management process. Management drives strategy, products, services and processes to generate profits and growth in a sustainable manner. The risk management processes support management by providing checks and balances to ensure sustainability, performance, the achievement of desired objectives and avoidance of adverse outcomes and reputational damage through risk quantification, qualitative assessments, monitoring and the initiation of corrective measures.

The risk management framework complies with statutory and regulatory requirements and are in line with King II and the committee of Sponsoring Organisations ("COSO") requirements. The framework has been reviewed and benchmarked against international best practice and has proved to be thorough, effective and robust in fully supporting enterprise risk management principles.

RISK REWARD APPETITE

FRBH aims to maintain a mix of businesses, business activities, income streams and risk exposures which will ensure that the group will not pierce minimum regulatory capital levels under conditions of severe stress. In addition FRBH aims to maintain its desired credit rating and counterparty status. This is achieved by means of approved strategic and business plans and budgets, risk quantification and risk and capital management processes in accordance with board policies.

Not only does the board aim to preserve capital by means of the aforementioned processes, but also to limit earnings volatility within acceptable levels under all economic and market conditions to avoid loss of confidence or adverse reputational impacts.

Establishing risk appetite and finding an adequate balance between risk and reward is a dynamic process that is built on a blend of qualitative and quantitative, principles, processes and guidelines to set acceptable thresholds for risk appetite.

The principles include, but are not limited to the following:

- the balance sheet of the Bank and FRBH must not be excessively geared (economic risk should be backed with core Tier 1 capital);
- sources of income must be widely diversified across business entities, products, market segments, investments, financial and commodity markets and regions;
- off balance sheet exposures should be limited relative to own capital and funding base;
- risk transfer should be about true risk transfer and not accounting/regulatory arbitrage;
- the potential impact of severe downturn and stress conditions must be identified, measured, quantified, understood and contained in accordance with capital preservation and earnings volatility parameters;
- concentration in risky asset classes must be avoided;
- sources of funding must be diversified; and
- sufficient buffers must be held for capital and liquidity purposes.

PROTECTION OF FRBH'S REPUTATION

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

RISK CATEGORIES

The financial and operational risks for the Bank are discussed in this report. Financial risks include credit risk, market risk, liquidity risk, and interest rate risk. The key non financial and business risks and opportunities for the Bank are identified and discussed in the operational report included in FirstRand's annual report. The non financial business risks and opportunities include issues such as reputation, regulation, transformation, customer relationships and the impact of HIV/AIDS on the customer base. Managing sustainability and reputational risk is a key component of the risk governance process at FRBH and the Bank. The principal risks to which FRBH and the Bank is exposed and which it manages are defined as follows:

Strategic and business risk – Strategic risk is the risk to current or prospective earnings and capital, arising from adverse business decisions or the improper implementation of decisions. Business risk describes the risk FirstRand assumes due to potential changes in general business conditions, such as the Bank's market environment, client behaviour and technological progress. This can affect the Bank's earnings if it fails to adjust quickly or respond to changes in the business environment.

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

Market risk – The risk of revaluation of any financial instrument as a consequence of adverse changes in the market prices or rates exists in all trading, banking and investment portfolios. For the purpose of these financial statements the market risk is considered to be fully contained within the trading portfolios.

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

Interest rate risk in the banking book – Interest rate risk in the banking book is defined as the sensitivity of the balance sheet and income statement to unexpected, adverse movements in interest rates and arises from core banking activities. Changes in interest rates affect earnings by changing net interest income as well as certain non interest income and expenses that are rate sensitive. Changes in interest rates also impact the economic value of assets and liabilities.

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

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

Qualitative risk management information within the following sections forms an integral part of the financial statements and has been audited:

- Credit risk pages 10 to 28
- Market risk pages 28 to 31
- Liquidity risk pages 31 to 37
- Interest rate risk in the banking book pages 37 to 39
- Capital management pages 43 to 46.

The quantitative information included in the pages listed above has not been audited unless otherwise specified.

CAPITAL ADEQUACY REQUIREMENTS

The section on capital management in the CFO report on page 43 provides a description of capital requirements in South Africa and other jurisdictions in which FRBH operates, as well as the process for assessing the adequacy of FRBH's capital.

ACHIEVEMENTS AND FOCUS

2008 ACHIEVEMENTS

ENTERPRISE RISK MANAGEMENT

- Successful implementation of phase II of the Integrated Risk Reporting project.
- Implementation of IFRS 7 risk reporting and disclosure.

Credit risk:

- Formal approval from the SARB to use the advanced internal ratings based ("AIRB") approach for credit risk regulatory capital calculations in the Bank.
- Successful implementation of Banks' Act reporting systems for reporting of credit risk exposure and capital to the SARB.
- Successful implementation of the Basel II Pillar III and IFRS 7 credit risk reporting requirements.
- Enhancement on internal economic capital model implementation including enhancement of stress tests for credit risk and assessment of volatility of credit risk under different scenarios.
- Successful implementation of the revised FRBH risk management functions including the creation of the FRBH Credit Risk control function in ERM and the revised focus in BSM on credit portfolio management.

Market risk:

- Adoption and implementation of the internal model approach to measure regulatory market risk capital.
- Accurate performance of the internal distressed expected tail loss risk measure.

Liquidity risk:

- Successful implementation of Basel II requirements regarding liquidity risk funding and management.
- Successful implementation of a new Basel II approach to measure, manage and monitor liquidity risk
- Successful management of liquidity risk and funding during the credit turmoil and subprime credit crisis in the US and its consequential liquidity concerns.
- Research and case studies of recent bank failures during the credit turmoil were applied to test the conservativeness in the new approach to measure and manage liquidity risk and the results were satisfactory.
- Enhancement of the approach to measure liquidity risk with numerous new Key Risk Indicators in place to depict possible liquidity stresses and risks.

Interest rate risk in the banking book:

- Positioned the book to take advantage of interest rate hikes.
- Transition to Basel II/Basel II progress – in compliance with SARB/Basel II requirements, the BA330 regulatory return went live in January 2008, replacing the previous DI410 submission. The BA330 return is used to disclose the interest rate risk of the domestic banking book to the SARB. The relevant assumptions and methodologies were approved by a technical committee (mandated by the FRBH's Model Risk and Validation ("MRV") committee) and presented and ratified by FRBH Asset and Liability Management committee ("ALCO").

Operational risk:

- Approval from the SARB to use TSA for operational risk.
- Submitted the application to the SARB for AMA for operational risk.

FOCUS AREAS FOR 2009

ENTERPRISE RISK MANAGEMENT

- Refinement of risk appetite.

Credit risk:

- Roll out of the enhanced credit risk appetite and portfolio management processes across FRBH.
- Enhance the dynamic loss forecasting and stress testing process.
- Ongoing enhancement of the credit risk economic capital models.
- Further alignment of the international businesses' credit processes, systems and models with the domestic business.

Market risk:

- Defining and implementing a process of determining stop loss limits at entity level to align with the capital allocation process and market risk limit framework.

Liquidity risk:

- Expand on the dynamic management of liquidity risk through the economic and interest rate cycle to sustain profitability without compromising liquidity risk.

Interest rate risk in the banking book:

- Implementation of new integrated risk software, improvement in the integration of economic value and earnings at risk methodologies in determining economic capital charges.

Operational risk:

- Further refinement of quantification for operational risk capital.
- Further refinement of risk scorecards for risk sensitive operational risk capital.
- Risk optimisation process focusing on convergence of risk tools.

STRATEGIC AND BUSINESS RISK

STRATEGIC RISK IS THE RISK TO CURRENT OR PROSPECTIVE EARNINGS AND CAPITAL, ARISING FROM ADVERSE BUSINESS DECISIONS OR THE IMPROPER IMPLEMENTATION OF DECISIONS. BUSINESS RISK DESCRIBES THE RISK FRBH ASSUMES DUE TO POTENTIAL CHANGES IN GENERAL BUSINESS CONDITIONS, SUCH AS OUR MARKET ENVIRONMENT, CLIENT BEHAVIOUR AND TECHNOLOGICAL PROGRESS.

This can affect our earnings if we fail to adjust quickly or lack in our responsiveness to change in the business environment. In essence it is any risk that can result in FRB not meeting its business performance objectives.

Accountability for strategic risk

The risk is primarily addressed through the development and implementation of an effective strategic plan. The FRBH board is responsible for approving the Bank's objectives and the strategies and plans for achieving those objectives. The FRBH board approves any subsequent material changes in strategic direction, as well as significant acquisitions, mergers, take overs, equity investments and new strategic alliances by the company or its subsidiaries. The Bank's CEO is responsible for the development and implementation of the strategic plan.

Risk identification

The Bank's executive management continually reviews the Bank's strategy, taking into account the business, legal and regulatory environments in which it operates. Executive management identifies and assesses strategic and business opportunities and addresses the associated risks throughout the strategic planning process.

Risk management

Executive management and business unit management monitor the external business environment (industry trends, regulatory changes, customer behaviour, competitors) and report on risks and opportunities through FRBH's risk reporting structure. The Board reviews the performance of FRBH every quarter and ensures that management takes corrective action to address potential strategic and business risks.

CREDIT RISK

CREDIT RISK IS THE RISK OF LOSS DUE TO NON PERFORMANCE OF A COUNTERPARTY IN RESPECT OF ANY FINANCIAL OR PERFORMANCE OBLIGATION DUE TO DETERIORATION IN THE FINANCIAL STATUS OF THE COUNTERPARTY.

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

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

Credit risk is the most significant risk type the Bank is exposed to. The contribution of credit risk to the total regulatory and economic capital requirement of the Bank is also the highest of all risk types.

Credit risk governance

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

The overall responsibility for the effectiveness of credit risk management vests with the board. Through its establishment of formal credit risk management governance structures, the board has delegated the oversight responsibility for credit risk management to FRBH's RCC committee and its sub committees, the credit approval committees and boards of subsidiary companies. Operational responsibility is delegated to executive management and risk functions both at group and business unit level.

The approval of credit vests with FRBH's Credit committee (a sub committee of the Board of directors) and its committee structures. The approval committee approves credit facilities according to delegated mandates. The Large Exposures Credit committee, which is also a sub committee of the board, approves the credit facilities in excess of 10% of capital.

FRBH's RCC committee (a sub committee of the board) approves the Credit Risk Management Framework. It receives and reviews reports that demonstrate the effectiveness of credit risk management and information on the credit risk profile of the Bank. Operational breakdowns or significant weaknesses in the credit risk management process are reported to the committee. It is supported by a sub committee structure which includes FRBH Credit Portfolio Management committee ("Credit Exco"), as well as the MRV committee.

The Credit Exco is responsible for the strategic management of credit risk and the oversight of the credit risk profile of the Group. Its responsibilities include the review of the following:

- macro economic and credit conditions outlook;
- credit risk profile;
- credit portfolio performance, including the appropriateness of loss impairments;
- new business origination including credit risk reward appetite, and adjustments thereto based on the macro cycle;

- sensitivity and scenario analyses, credit economic capital and stress testing; and
- credit concentrations.

The MRV committee is responsible for the oversight of credit risk measurement systems such as the credit rating systems. Reports on the design and operation of the rating systems are submitted to the MRV committee for challenge and approval. All model development and validation frameworks are set by the MRV committee.

The operational roles and functions for credit risk management are fulfilled by both centralised group functions as well as decentralised functions within the business units. During the year under review, the Bank implemented a two tiered structure in the centralised group functions. The new structure provides for a Group Credit Risk Control unit within the ERM division as well as a Credit Portfolio Management function that resides within the BSM division. ERM reports to the CEO, whilst BSM reports to the CFO.

The Group Credit Risk Control function is responsible for the independent oversight of credit segments in the business units and credit portfolio management in BSM. It owns the credit risk management framework and policies and monitors the implementation of the frameworks. Its role also includes the following:

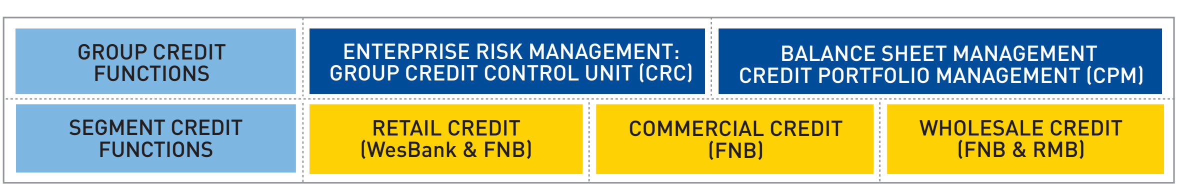
- oversight of the risk reward appetite framework for credit risk;
- monitoring of the credit risk profile of the Bank;
- review of all credit rating systems as well as independent revalidation of material credit rating systems;
- management of the interaction of third party stakeholders such as the Regulator;
- oversight of the aggregate credit impairment process;
- regulatory reporting; and
- risk profile reporting.

The Group Credit Portfolio Management function is responsible for the balance sheet management aspects of credit risk, including the following:

- formulation of macro economic and credit outlook;
- quantification and allocation of credit economic risk and capital including the credit risk assessment used for the internal capital adequacy assessment process and assessment of capital buffer requirements;
- active participation in the credit strategy and origination activities;
- management of the risk appetite implementation across business units;
- credit risk stress testing, scenario analysis and portfolio modelling;
- management of impairments including the impairment reporting, analysis and assessment;
- initiation of structured credit transactions to optimise the balance sheet;
- coordination of the group securitisation process; and
- credit portfolio reporting and analysis for Credit Exco and other stakeholders.

The diagram below shows the group and segment credit functions. The credit segment heads are supported by teams within the business units. These functions are responsible for the operational implementation of credit risk policies. This includes the implementation of sufficient credit risk structures, processes and infrastructure to manage the credit process effectively. These functions are responsible for the operational credit business management including the following:

- formulation of credit strategy and determination of credit appetite;
- provision of strategic support to business unit heads to ensure appropriate origination and effectiveness of returns on risk adjusted capital;
- formulation and implementation of risk policies, procedures, methodologies and standards for credit risk management in each segment;
- development of credit rating systems, processes and other decision support tools and pricing approaches;
- monitoring of the quality of new business origination and the existing portfolio;
- implementation of structures for ongoing risk management including management of collateral and facilities;
- reporting on credit risk profile, pricing trends and other key measures; and
- ongoing management of the credit risk processes and infrastructure.



Credit risk management

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

Based on the Bank's risk reward appetite for credit risk, the risk is managed with reference to such principles including appropriate levels of capital and pricing for risk on an individual and portfolio basis.

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

Processes are in place for the wide range of product and counterparty types in the Bank. Based on product/counterparty characteristics, the credit processes are aligned to manage the specific risk at business unit level. Subsequent to credit approval, all facilities are continually measured, managed and monitored as part of the ongoing credit risk management processes designed at credit segment level. This includes the following:

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

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

Credit risk mitigation

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

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

Policies and processes for collateral valuation and collateral management

Collateral is valued at inception of the credit agreement and subsequently where necessary through physical inspection or index valuation methods. For wholesale and commercial counterparties, collateral is reassessed during the annual review of the counterparty's creditworthiness. For mortgage portfolios, collateral is revalued using an index model on an ongoing basis. For all the retail portfolios, including the mortgage portfolio, collateral is again valued through physical inspection at the time the exposure enters the workout process.

Collateral is managed internally to ensure the Bank's title to the collateral is maintained on an ongoing basis.

The concentrations within credit risk mitigation types, such as property, are monitored and managed within the credit segments' portfolios. FNB HomeLoans and the Wealth segment monitor their exposure to a number of geographical areas, as well as within loan to value bands.

For FirstRand Bank, collateral is taken into account for capital calculation purposes through the determination of the loss given default ("LGD"). The existence of collateral results in a reduced LGD, and the level of the LGD are determined through statistical modelling techniques based on the historical experience of the recovery processes.

Use of netting agreements

The Bank uses International Swaps and Derivative Association ("ISDA") agreements to govern the netting of derivative transactions. All transactions are valued on a daily basis and the appropriate netting of exposures is applied. The master agreement contains internationally accepted valuation and default covenants. For accounting purposes, netting is only applied where there is legal right of setoff and there is an intention to settle on a net basis.

Credit concentration risk management

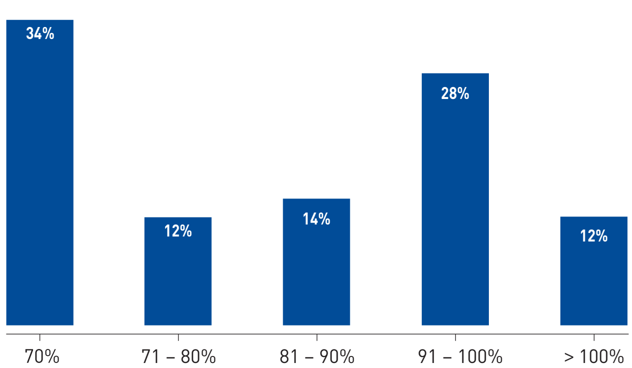
Concentration risk is managed in the credit portfolios, based on the nature of the credit concentration within each segment:

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

Residential mortgages balance to value (unaudited)

The following graph provides the balance to value distribution for the residential mortgages as at 30 June 2008. The graph presents the balance to property value (at application date or physical valuation date) and excludes any non performing loans:

Residential mortgages balance to value



Credit risk measurement

The credit risk measurement models developed internally in the Bank provide the basis for credit risk management in all segments. The models are widely used in the determination of capital levels, pricing, impairment calculations and scenario and stress testing.

Through the implementation of the Basel II requirements for the AIRB approach, the Bank has developed a number of rating systems and risk quantification models. The SARB provided the Bank with approval to use its internal rating models for the assessment of regulatory capital under Basel II.

The risk parameters measured are described below:

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

The probability of default is the probability that a counterparty will default within the next year and considers the ability and willingness of the counterparty to repay. The definition of default is dependent on the earlier of the following two drivers:

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

The definition of default is used in the modelling of credit rating systems described below. The definition of default used for the recognition of non performing loans is similar to the above definition. For some portfolios, the definition used in the credit modelling is slightly more conservative than the definition described above due to the different conventions of day count to determine the time driven component.

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

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

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

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

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

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

The rating assignment process depends on the type of counterparty. The processes vary from an automated score card process in the retail areas to an extensive analysis on an individual basis for corporate counterparties. The retail portfolio is segmented into homogeneous pools through an automated scoring process using statistical models of customer behaviour and application data, delinquency status and other client or product specific parameters. Based on internal product level history associated with the homogeneous pools, the probabilities of default are estimated for each pool. For the Commercial portfolios, counterparties are scored using the Moody's RiskCalc model which output has been calibrated to internal historical default experience. The corporate counterparties are rated through a combination of a detailed individual assessment of the counterparty's creditworthiness and an internally developed statistical rating model. The assessment of the counterparty's creditworthiness is performed through a qualitative analysis of the business and financial risks of the counterparty. The quantitative rating model was developed using internal and external data of more than ten years.

ii. Loss given default ("LGD")

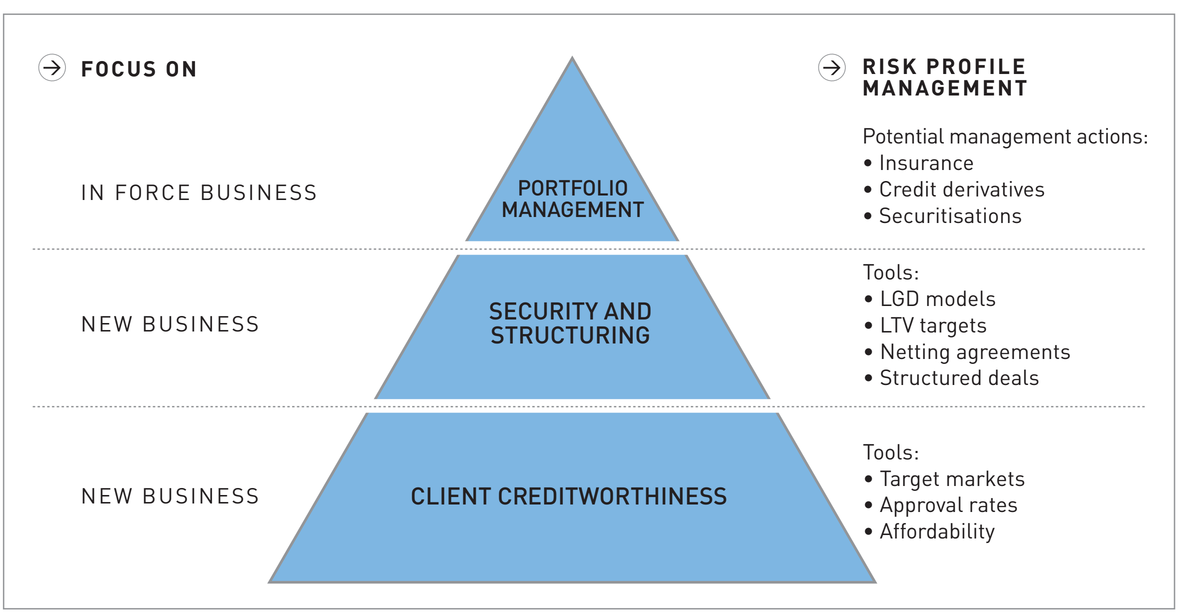
The loss given default is defined as the economic loss that will be suffered on an exposure following default of the counterparty, expressed relative to the amount outstanding at the time of default as a percentage. The recoveries are significantly impacted by the types and levels of collateral held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

iii. Exposure at default ("EAD")

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

Use of credit risk measures

The credit risk measures are used extensively in the Bank's processes for pricing and credit impairments. The assigned ratings are also used in the setting of credit risk appetite. Credit ratings and loss parameters also provide input into the capital assigned and are used to determine the return on risk adjusted capital. The following diagram provides an overview of the elements of the risk appetite and how they interact.



Expected loss

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

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

More information on the credit risk measurement for the current portfolio position is provided in the Risk parameters and Basel II sections below.

Credit portfolio management

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

Portfolio management includes monitoring of the following:

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

Maximum exposure to credit risk (audited)

The table below provides the maximum exposure to credit risk for all balance sheet items where credit risk exposures exist.

	AT 30 JUNE	
R million	2008	2007
Cash and short term funds	19 088	20 589
– Money at call and short notice	828	4 314
– Balances with central banks	10 390	7 969
– Balances with other banks	7 870	8 306
Gross advances	407 196	342 502
Total FNB	197 838	174 546
– FNB Retail	153 021	133 487
– FNB Corporate	20 708	20 968
– FNB Commercial	24 109	20 091
WesBank	87 773	80 671
RMB	120 282	84 237
FNB Africa	78	41
Other	1 225	3 007
Derivatives	48 257	20 174
Investment securities	42 495	24 708
– Listed debt investment securities	19 796	12 142
– Unlisted debt investment securities	22 699	12 566
Accounts receivable	3 186	4 310
Amounts due by holding company and fellow subsidiary companies	28 772	29 357
Loans to Insurance Group	1 841	3 436
Off balance sheet exposures	61 283	63 016
Guarantees	18 340	17 031
Acceptances	1 992	340
Letters of credit	4 668	12 578
Irrevocable commitments	36 057	33 067
Underwriting exposures	226	–
Total	612 118	508 092

Quality of credit exposures (audited)

The table below provides the age analysis of the advances considered past due. Advances are considered past due where a specific expiry date is in place or regular instalments are required and such payments have not been received by the Bank. A loan payable on demand is treated as overdue where a demand for repayment has been served but repayment has not been made in accordance with the demand requirements. Based on the description above, it is mostly residential mortgages, instalment sale products, credit cards and personal loans that are classified as past due in the table below.

	AT JUNE 2008						
			Past due but not impaired				
R million	Neither past due nor impaired	Re-negotiated but current	1 – 30 days	31 – 60 days	60 days	Impaired*	Total
Age analysis of advances							
FNB Retail	122 574	867	14 073	4 375	3 480	7 652	153 021
FNB Corporate	20 526	–	25	17	–	140	20 708
FNB Commercial	23 393	–	107	51	46	512	24 109
FNB	166 493	867	14 205	4 443	3 526	8 304	197 838
WesBank	81 562	–	2 073	771	238	3 129	87 773
RMB	119 917	–	–	–	–	365	120 282
FNB Africa	74	–	–	–	–	4	78
Other	1 224	–	–	–	–	1	1 225
Total	369 270	867	16 278	5 214	3 764	11 803	407 196

* *Impaired advances exclude interest in suspense.*

	AT JUNE 2007						
			Past due but not impaired				
R million	Neither past due nor impaired	Re-negotiated but current	1 – 30 days	31 – 60 days	60 days	Impaired*	Total
Age analysis of advances							
FNB Retail	117 436	422	7 962	2 991	1 706	2 970	133 487
FNB Corporate	20 804	–	7	5	–	152	20 968
FNB Commercial	19 545	–	84	21	94	347	20 091
FNB	157 785	422	8 053	3 017	1 800	3 469	174 546
WesBank	73 769	–	3 955	1 135	302	1 510	80 671
RMB	83 979	–	–	–	–	258	84 237
FNB Africa	40	–	–	–	–	1	41
Other	3 009	–	–	–	–	(2)	3 007
Total	318 582	422	12 008	4 152	2 102	5 236	342 502

* *Impaired advances exclude interest in suspense.*

Advances considered past due is defined in the accounting policies. For internal risk reporting, a distinction is drawn between technical past due or arrear accounts (ie accounts in arrears by less than one payment) which typically arise from small short payments eg debit orders not yet updated for recent interest rate increases or other technical factors, and normal arrears (ie accounts in arrears by 1 – 3 full payments). The past due advances in the tables above includes both technical arrears as well as normal arrears. Total technical arrears included in the past due analysis (mostly relating to retail exposures) amounted to R6.6 billion.

Renegotiated advances are advances where, due to deterioration in the counterparty's financial condition, FirstRand Bank granted a concession where original terms and conditions of the facility were amended. The objective of such amendment is to mitigate the risks where the current situation could result in the counterparty no longer being able to meet the terms and conditions originally agreed.

Renegotiated advances include only those that have been reclassified as *neither past due nor impaired*. In most business units, it is the practice to continue recognition of the renegotiated advances as past due and therefore it is not included above as renegotiated but rather as past due in the table above. Where the advances were reclassified as *neither past due nor impaired*, the adherence to the new terms and conditions are closely monitored. The renegotiated advances exclude any advances where the facility terms were extended or renewed as part of the ordinary course of business on terms and conditions equivalent to the current terms or conditions for new debt with similar risk.

The table below presents an analysis of the credit quality of the *neither past due nor impaired* (ie performing) advances. (Refer to credit risk measurement section above for the FR rating mapping to international scale and average probability of default levels).

	AT JUNE 2008							
		FNB						
R million	Total neither past due nor impaired	Retail	Corporate	Commercial	WesBank	RMB	FNB Africa	Other
FR 1 – 25	98 115	24 399	7 939	3 454	5 236	55 863	–	1 224
FR 26 – 91	258 197	89 434	12 587	19 190	72 878	64 034	74	–
FR ≥92	12 958	8 741	–	749	3 448	20	–	–
Total	369 270	122 574	20 526	23 393	81 562	119 917	74	1 224

	AT JUNE 2007							
		FNB						
R million	Total neither past due nor impaired	Retail	Corporate	Commercial	WesBank	RMB	FNB Africa	Other
FR 1 – 25	97 151	27 808	11 259	1 819	2 147	51 109	–	3 009
FR 26 – 91	218 368	88 183	9 540	16 939	71 127	32 539	40	–
FR ≥92	3 063	1 445	5	787	495	331	–	–
Total	318 582	117 436	20 804	19 545	73 769	83 979	40	3 009

The table below provdes the credit quality of financial assets other than advances. (Refer to credit risk measurement section above for the mapping international scale ratings to average probability of default levels).

	AT JUNE 2008					
R million	Investment securities	Derivatives	Cash and short term funds	Due by FirstRand Banking Group Companies	Due by FirstRand Non-Banking Group Companies	Total
Credit quality of financial assets other than advances neither past due nor impaired						
AAA to BBB	35 518	27 378	18 741	28 772	1 841	112 250
BB, B	6 967	20 858	347	–	–	28 172
CCC	–	21	–	–	–	21
Unrated	10	–	–	–	–	10
Total	42 495	48 257	19 088	28 772	1 841	140 453

R million	Investment securities	Derivatives	Cash and short term funds	Due by FirstRand Banking Group Companies	Due by FirstRand Non Banking Group Companies	Total
	AT JUNE 2007					
Credit quality of financial assets other than advances neither past due nor impaired						
AAA to BBB	23 615	14 808	19 700	29 357	3 436	90 916
BB, B	1 057	5 364	875		–	7 296
CCC	8	–	–	–	–	8
Unrated	28	2	14	–	–	44
Total	24 708	20 174	20 589	29 357	3 436	98 264

For further information on the impaired advances, refer to note 10 in the annual financial statements.

Risk concentrations (audited)

Refer to note 9 in the annual financial statements for an industry distribution and geographical distribution of advances.

Non performing loans ("NPLs") and impairments on advances (audited)

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

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

Risk parameters (unaudited)

The following table provides a summary of the probability of default, loss given default and expected losses for each of the material segments in the Bank.

FRB Risk measures	AT 30 JUNE 2008		
(%)	Through the cycle PD	Long run LGD	Long run EL
FNB HomeLoans	3 – 3.5	15	0.50
Wealth	3 – 3.5	10	0.30
Revolving retail	6.5 – 7	60	4.00
FNB Commercial	3.3	35	1.20
WesBank Retail (Asset Finance)	5.5 – 6.0	20	1.10
WesBank Business and Corporate (Asset Finance)	3.5 – 4.0	15	0.55
WesBank Loans	5.5 – 6.0	70	4.00
Wholesale (RMB and FNB Corporate Banking	0.9	32	0.30

The values in the table above are weighted by drawn exposures and not by facility sizes.

The "through the cycle PD" is the expected default probability over the next year based on a long term time horizon. This value is different from the "point in time PD" which is calibrated over the most recent data history.

The "long run LGD" is the loss given default estimate based on a long term time horizon. This value is less than or equal to the "downturn LGD" which is specifically stressed to reflect downturn conditions.

The "long run EL" is the expected loss when combining the through the cycle PD and the long run LGD with this expected loss expressed as a percentage of drawn exposures.

For capital purposes the through the cycle PD and downturn LGD are used in the capital calculation. For credit impairments, the point in time measurements are used resulting in higher credit losses under the current market conditions.

Further detail regarding the credit rating systems and processes used for Basel II (unaudited)

In terms of Pillar III of Basel II, banks have to disclose to the market information regarding credit risk and the credit rating systems applied in its capital calculations. The section below provides further detail as required by Pillar III on areas not already disclosed above.

The Bank implemented the AIRB approach for the exposures of the Bank. This approach has been approved by the SARB. Basel II was implemented over the past number of years and has been used in the Bank's regulatory capital calculations since 1 January 2008.

Exposures to credit risk

The table below provides the credit exposure of the Bank. The exposures below are the IFRS accounting exposures and not those used for regulatory capital calculations. The exposures used in the regulatory capital calculations are after recognition of regulatory netting and other capital related impacts (unaudited):

Maximum exposure to credit risk (after interest in suspense)

R million	AT JUNE 2008
Cash and short term funds	19 088
– Money at call and short notice	828
– Balances with central banks	10 390
– Balances with other banks	7 870
Gross advances	407 196
FNB	197 838
– FNB Retail	153 021
– FNB Corporate	20 708
– FNB Commercial	24 109
WesBank	87 773
RMB	120 282
FNB Africa	78
Other	1 225
Derivatives	48 257
Investment securities	42 495
– Listed debt investment securities	19 796
– Unlisted debt investment securities	22 699
Accounts receivable	3 186
Amounts due by holding company and fellow subsidiary companies	28 772
Loans to Insurance Group	1 841
Off balance sheet exposures	61 283
Guarantees	18 340
Acceptances	1 992
Letters of credit	4 668
Irrevocable commitments	36 057
Underwriting exposures	226
Total	612 118

The table below profides the geographic distribution of the Bank's material credit exposures (unaudited).

	AT JUNE 2008								
R million	South Africa	Other Africa	United Kingdom	Ireland	Other Europe	North America	South America	Other	Total
Advances	391 058	1 208	9 386	397	5 114	27	1	5	407 196
Derivatives	20 602	593	10 016	10 006	4 603	2 432	–	5	48 257
Debt securities	42 026	60	–	–	–	409	–	–	42 495
Off balance sheet exposures									
Guarantees, acceptances and letters of credit	13 323	3	–	9 808	–	–	–	1 866	25 000
Irrevocable commitments	36 054	3	–	–	–	–	–	–	36 057

The Bank – exposures on the advanced internal rating based approach (unaudited)

The following table summarises the rating PD, LGD and EAD approaches used in the Bank.

Portfolio and type of exposures	Description of rating system
1. ***Large corporate portfolios (Wholesale: FNB Corporate Banking and RMB)*** Exposures to private sector counterparties including corporates, securities firms and public sector counterparties. A wide range of products gives rise to the credit exposures, including loan facilities, structured finance facilities, contingent products and derivative instruments.	The default definitions applied in the rating systems are aligned to the requirements of Basel II. ***Rating process:*** → The rating assignment to corporate credit counterparties is based on a detailed individual assessment of the counterparty's creditworthiness. → This assessment is performed through a qualitative analysis of the business and financial risks of the counterparty and is supplemented by internally developed statistical rating models. → The rating models were developed using internal and external data of more than 10 years. The qualitative analysis is based on the methodology followed by international rating agencies. → The rating assessment is reviewed by the FRBH Credit committee and the rating (and associated PD) is approved by this committee. → After approval by the FRBH Credit committee, no overrides of the rating or probability of default is possible. → LGD and EAD estimates are based on modelling of a combination of internal and suitable adjusted international data. ***Validation methodology:*** Annual validations are performed where ranking and calibrations are assessed using statistical tests as well as expert comparisons. Independent validation is also conducted internally using similar statistical tests which may include full re-estimation of model parameters.
2. ***Low default portfolios: Sovereign and bank rating systems*** ***(Wholesale: FNB Corporate Banking and RMB)*** Exposures to sovereign and bank counterparties.	The default definitions applied in the rating systems are aligned to the requirements of Basel II. ***Rating process:*** → Expert judgment models are used with external rating agency ratings and structured peer group analyses forming key inputs in the ratings process. The analysis is supplemented by internally developed statistical models. → Calibrations of PD and LGD are done using mappings to external default history and calibrations based on credit spread market data.

Portfolio and type of exposures	Description of rating system
	→ The rating assessment is reviewed by the FRBH Credit committee and the rating (and associated PD) is approved by this committee. → After approval by the FRBH Credit committee, no overrides of the rating or probability of default is possible. ***Validation methodology:*** Annual validations are performed where ranking and calibrations are assessed using statistical tests as well as expert comparisons. Independent validation is also conducted internally using similar statistical tests which may include full re-estimation of model parameters.
3. Specialised lending rating systems (Wholesale: FNB Corporate Banking, RMB and FNB Commercial) Exposures to private sector counterparties for the financing of income producing real estate.	The default definitions applied in the rating systems are aligned to the requirements of Basel II. → The rating system is based on hybrid models using a combination of statistical cash flow simulation models and qualitative scorecards calibrated to a combination of internal and benchmark data. → The rating assessment is reviewed by the FRBH Credit committee and the rating (and associated PD) is approved by this committee. → After approval by the FRBH Credit committee, no overrides of the rating or probability of default is possible. ***Validation methodology:*** Annual validations are performed where ranking and calibrations are assessed using statistical tests as well as expert comparisons. Independent validation is also conducted internally using similar statistical tests which may include full re-estimation of model parameters.
4. Commercial portfolio (SME Corporate and SME retail counterparties in FNB Commercial and WesBank) Exposures to SME clients. A wide range of products gives rise to the credit exposures including loan facilities, contingent products, and term lending products.	The default definitions applied in the rating systems are aligned to the requirements of Basel II. **SME Retail** ***Rating process:*** → The retail portfolio is segmented into homogeneous pools and sub pools through an automated scoring process using statistical models that incorporate product type, customer behaviour and delinquency status. → Based on internal product level history associated with the homogeneous pools and sub pools, probabilities of default are estimated for each sub pool. → LGD and EAD estimates are applied on portfolio level, estimated from internal historical default and recovery experience. **SME Corporate** ***Rating process:*** → PD: Counterparties scored using Moody's RiskCalc, of which the output was calibrated to internal historical experience. → LGD: Collateral type determines recovery rate. Recovery rates set with reference to internal historical experience, external data (Fitch) and Basel II guidelines. → EAD: Portfolio level credit conversion factor ("CCF") estimated from internal historical experience and benchmarked against international studies. ***Validation methodology:*** Annual validations are performed where ranking and calibrations are assessed using statistical tests as well as expert comparisons. Independent validation is also conducted internally using similar statistical tests which may include full re-estimation of model parameters.

Portfolio and type of exposures	Description of rating system
5. Residential mortgages (Retail exposure rating systems for FNB HomeLoans, RMB Private Bank exposures and mortgages exposures in the Mass segment) Exposures to individuals for the financing of residential mortgages.	The default definition applied in the rating systems is aligned to the requirements of Basel II. *Rating process and approach:* → The retail portfolio is segmented into homogeneous pools and sub pools through an automated scoring process using statistical models that incorporate product type, loan characteristics, customer behaviour, application data and delinquency status. → Based on internal product level history associated with the homogeneous pools and sub pools, probabilities of default are estimated for each sub pool. → No overrides of the probability of default are possible. The only potential override is not that of the PD, but rather of the automated decision to lend or not. Such overrides are done judgmentally by credit managers in the segments and are supported by business reasons. → LGD and EAD estimates are based on sub segmentation based on the collateral or product type, and associated modelling of internal data history. The loan to value data is used as an input into the rating system. *Validation methodology:* Annual validations are performed where ranking and calibrations are assessed using statistical tests as well as expert comparisons. Independent validation is also conducted internally using similar statistical tests which may include full re-estimation of model parameters.
6. Qualifying revolving retail exposures (Retail exposure rating systems for FNB Card and FNB Consumer overdrafts and RMB Private Bank) Exposures to individuals providing a revolving limit through a credit card or overdraft facility.	The default definitions applied in the rating systems are aligned to the requirements of Basel II. *Rating process and approach:* → The retail portfolio is segmented into homogeneous pools and sub pools through an automated scoring process using statistical models that incorporate product type, bureau data, internal customer behaviour, application data and delinquency status. → Based on internal product level history associated with the homogeneous pools and sub pools, probabilities of default are estimated for each sub pool. → No overrides of the probability of default are possible. The only potential override is not that of the PD, but rather of the automated decision to lend or not. Such overrides are done judgmentally by credit managers in the segments and are supported by business reasons. → LGD and EAD estimates are based on sub segmentation and the respective collateral or product type, and associated modelling of internal data history. In general, the revolving credit exposures are unsecured and therefore only the efficiency of the recovery processes impacts on the level of LGD. The EAD measurement plays a significant role due to the high level of undrawn limits inherent in these product types. The EAD estimate is based on actual historic EAD and is segmented depending on whether the facility is straight or budget (credit card) and utilisation size. *Validation methodology:* Annual validations are performed where ranking and calibrations are assessed using statistical tests as well as expert comparisons. Independent validation is also conducted internally using similar statistical tests which may include full re-estimation of model parameters.

Portfolio and type of exposures	Description of rating system
7. *Other retail exposures (Retail rating systems for FNB Personal Loans, Smart Products and WesBank retail auto finance and personal loans).*	The default definitions applied in the rating systems are aligned to the requirements of Basel II. ***Rating process and approach:*** → The retail portfolio is segmented into homogeneous pools and sub pools through an automated scoring process using statistical models that incorporate product type, customer behaviour, application data and delinquency status. → Based on internal product level history associated with the homogeneous pools and sub pools, probabilities of default are estimated for each sub pool. → No overrides of the probability of default are possible. The only potential override is not that of the probability of default, but rather of the automated decision to lend or not. Such overrides are done judgmentally by credit managers in the segments and are supported by business reasons. → LGD and EAD estimates are based on sub segmentation and the respective collateral or product type, and associated modelling of internal data history. ***Validation methodology:*** Annual validations are performed where ranking and calibrations are assessed using statistical tests as well as expert comparisons. Independent validation is also conducted internally using similar statistical tests which may include full re-estimation of model parameters.

Control mechanisms implemented for credit risk measurement (unaudited)

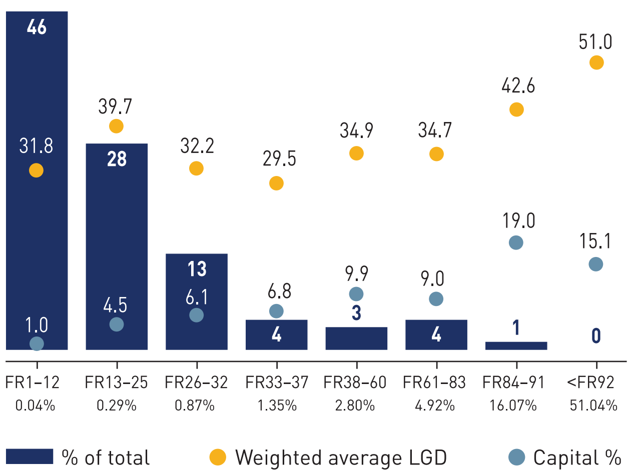
Rating systems are recalibrated and validated independently on an annual basis to ensure their validity and accuracy. The focus remains on the predictive power of the underlying models. The models are appropriately conservative and incorporate data of downturn periods such as 2001 and 2007. The independent validation of the rating systems are conducted by the Group Credit Risk control function in the ERM division. The function is responsible for the review of all rating systems and a comprehensive revalidation of all material rating systems. The rating systems are also reviewed by an actuarial auditing team within Internal Audit, and sampled revalidation is also carried out. The MRV committee, being the board sub committee responsible for the independent oversight and approval of the rating systems, review the results of the independent validations.

The table below provides the Basel II asset classes and the relevant portfolio of the Bank.

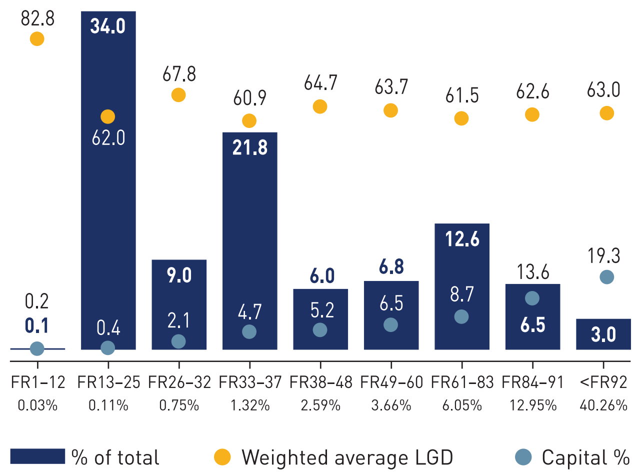
Basel II asset class	FRB portfolio
Corporate, Bank and Sovereign	RMB FNB Corporate Banking Balance Sheet Management
SME corporate and retail	FNB Commercial
Residential mortgages	FNB HomeLoans RMB Private Bank and FNB Private Clients Mortgages in FNB Mass
Qualifying revolving retail	FNB Card FNB Personal Banking (Overdrafts) RMB Private Bank and FNB Private Clients
Other Retail	FNB Mass (secured and unsecured Smart Products) FNB Personal Banking (Personal loans, student loans)
Other Retail SME Corporate	WesBank

The section below provides the exposure distribution per EAD as well as the exposure weighted average TTC PD, LGD and indicative capital ratio for each Basel II asset class. The TTC PD is lower than the PIT PD in the current cycle. The credit conversion factor for the Bank is estimated at 79% for off balance sheet products.

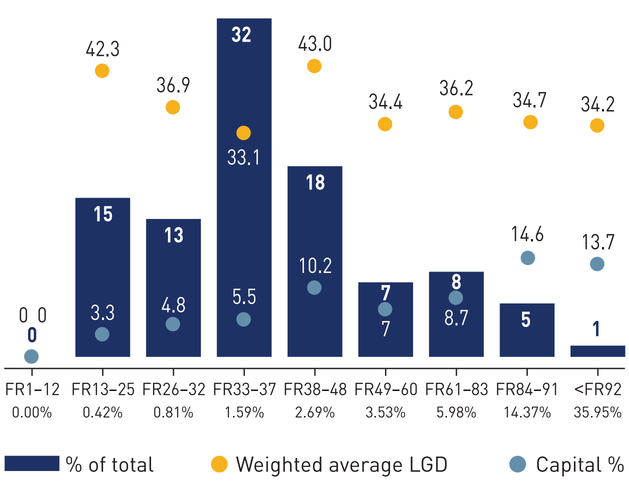
Corporate, bank and sovereign
(%)



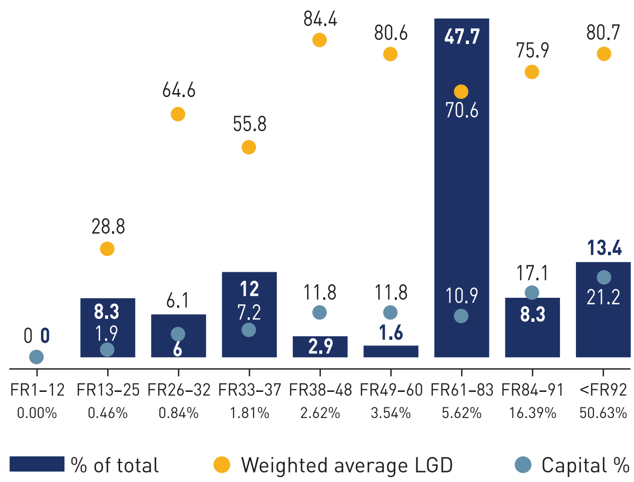
Qualifying revolving retail
(%)



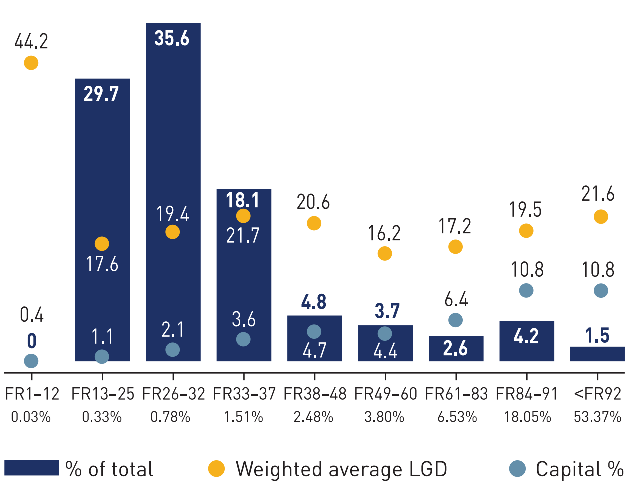
SME exposures (FNB Commercial)
(%)



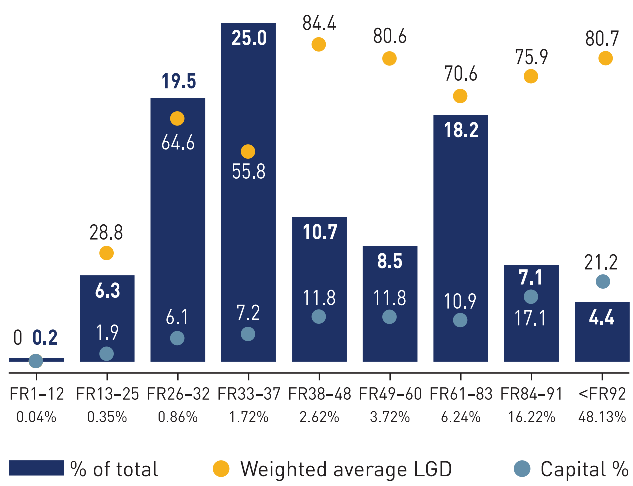
Other retail
(%)



Residential mortgages
(%)



WesBank
(%)



Securitisations (unaudited):

FRBH uses securitisations as a tool to achieve a combination of some or all of the following results:

- enhanced liquidity position through the diversification of funding source;
- matching of cash flow profile of assets and liabilities;
- reduction of balance sheet risk;
- reduction of capital requirements; and
- management of credit concentration risk.

During the year under review, the Bank concluded the FirstRand Enhanced Synthetic Credit Obligation II (Fresco II) securitisation transaction. This was a R20 billion collateralised loan obligation of corporate exposures, structured to enable the Bank to manage the economic and regulatory capital held against its large corporate credit portfolio.

The Bank has in place a number of traditional and synthetic securitisation structures. From an accounting perspective, the traditional securitisation transactions are treated as sales transactions. At inception, the assets are sold by the Bank to the special purpose vehicle at carrying value and no gains or losses are recognised. For the synthetic securitisations, the credit derivative is recognised at fair value, with any fair value adjustments reported in profit or loss. The securitisation entities are consolidated into FRBH.

The two tables below show the exposures arising from securitisation activities split between on balance sheet and off balance sheet:

On Balance Sheet Securitisation Exposures – own transactions

				AT 30 JUNE 2008		
Transaction	Year initiated	Rating agency	Asset type	Assets securitised (R million)	Assets outstanding (R million)	Exposure (R million)
Traditional securitisations						
Nitro 1	2006	Moody's	Retail instalment sales	2 000	534	8
Nitro 2	2006	Moody's	and leasing	5 000	1 897	–
Nitro 3	2007	Moody's and Fitch		5 000	3 088	50
Ikhaya 1	2007	Fitch	Retail mortgages	1 900	1 608	–
Ikhaya 2	2007	Fitch		2 884	2 320	–
Total Traditional securitisations				16 784	9 447	58
Synthetic securitisations			Retail instalment sales			
Procul	2002	Fitch	and leasing	2 000	2 000	1 015
Fresco II	2007	Fitch	Corporate receivables	20 000	20 000	18 159
Total Synthetic securitisations				22 000	22 000	19 174
Total securitisation				38 784	31 447	19 232

All the above transactions continue to perform in line with expectations as detailed in each of the respective offering circulars.

Off Balance Sheet Exposures[1]

			AT 30 JUNE 2008
Transaction	Transaction type	Exposure type	Exposure (R million)
Own transactions			
iNdwa	Conduit	Liquidity facility	9 126
iVuzi	Conduit	Credit enhancement	680
Third party transactions			
Freestone	Securitisation	Liquidity facility	200
Freestone	Securitisation	Liquidity facility	260
ABSA CARS	Securitisation	Liquidity facility	298
ABSA HOMES	Securitisation	Liquidity facility	233
PROPS	Securitisation	Liquidity facility	625
Total			11 422
of which:			
Own transactions			9 806
Third party transactions			1 616

1 *It is important to note that from an accounting perspective, upon consolidation, the underlying assets in the off balance sheet entities are consolidated back onto FRBH balance sheet.*

All the liquidity facilities in the transactions above will rank senior in the priority of payments in the event of a drawdown. As such the inferred rating on the liquidity facility to iNdwa is F1+(zaf), while the inferred ratings on the other liquidity facilities are AAA on a national scale level. Economic capital is allocated to the liquidity facility extended to iVuzi as if the underlying assets are on balance sheet to reflect the risk that these assets may come on balance sheet in a stress scenario.

The tables below show the conduit programmes that have been facilitated by the Bank, in place as at 30 June 2008:

Conduits

Transaction	Underlying assets	Year initiated	Rating agency	Programme size (R million)	Current size of non recourse investments (R million)
iNdwa	Corporate term loans	2003	Fitch	15 000	9 329
iVuzi	Corporate term loans	2007	Fitch	15 000	4 362
Total				30 000	13 691

Other

Transaction	Underlying assets	Year initiated	Rating agency	Programme size (R million)	Current size of non recourse investments (R million)
iNkotha	Call loan bond fund	2006	Fitch	10 000	4 327
Total				10 000	4 327

All the above conduit programs continue to perform in line with the expectations as detailed in each of the respective offering circulars.

The Bank has neither securitised any exposures that were impaired or past due at the time of securitisation nor has it suffered any losses during the current period on the assets that remained on its balance sheet. All the securitisation transactions were subject to the regulatory securitisation framework.

The table below shows the securitisation exposures retained or purchased and the associated internal ratings based capital charge per risk band:

	AT 30 JUNE 2008		
Risk weight bands	AIRB Exposure (R million)	Capital (R million)	Deduction (R million)
=<10%	17 840	129	–
>10% =<20%	10 742	133	–
>20% =<50%	230	9	–
>50% =<100%	1 015	41	–
>100% =<650%	827	218	–
Total	30 654	531	–

None of the securitisations transactions are subject to the early amortisation treatment.

COUNTERPARTY CREDIT RISK (unaudited)

COUNTERPARTY CREDIT RISK IS DEFINED AS THE RISK THAT THE COUNTERPARTY TO A TRANSACTION COULD DEFAULT BEFORE THE FINAL SETTLEMENT OF THE TRANSACTION'S CASH FLOWS. AN ECONOMIC LOSS WOULD OCCUR IF THE TRANSACTIONS OR PORTFOLIO OF TRANSACTIONS WITH THE COUNTERPARTY HAS A POSITIVE ECONOMIC VALUE AT THE TIME OF DEFAULT. THE MARKET VALUE IS UNCERTAIN AND CAN VARY OVER TIME WITH THE MOVEMENT OF UNDERLYING MARKET FACTORS.

Risk governance and management

Counterparty credit risk is managed in terms of the Credit Risk Management Framework for Wholesale Credit Exposure which is a sub framework of the FRBH Credit Risk Management Framework.

Counterparty credit exposure limits are set at a counterparty level in line with the credit risk appetite of FRBH. To accommodate the business requirement of all operating divisions across FRBH (eg WesBank's moveable asset finance division, FNB's transactional banking division and RMB's Investment Banking, Fixed Income Currency and Commodities ("FICC") and Equity Trading divisions) the approved credit risk appetite is allocated to the operating divisions taking into account the credit standing of the obligor and credit pricing considerations.

Counterparty credit risk limit applications are assessed and approved individually. In order to determine the appropriate level of such limits the Bank requires a comprehensive analysis of the counterparty credit risk, including the extent to which the exposure can increase under distressed conditions. This analysis is done by an independent specialist credit analyst, in conjunction with market risk, who recommends a counterparty limit. All limit recommendations are considered and approved by business unit owners who have co-responsibility for ensuring the counterparty credit risks are acceptable, appropriate processes and procedures are in place to monitor and manage the level of credit risk, and the rewards are commensurate for the proposed risks. These recommendations are then motivated to appropriate credit committees comprising executive and non-executive members who are sufficiently independent from the business requesting the credit facility to objectively decide on such a credit facility. All counterparty credit risk limits are reviewed annually and resubmitted to the relevant credit committee for approval. Approved counterparty credit limits may be allocated to various groups of products.

Wherever possible, derivative trading is pursued under international swaps and derivatives association master agreements ("ISDA"), International Securities Market Association ("ISMA") contracts, or Credit Support Annexes ("CSA"). These agreements provide for the ability to settle the net exposures due and payable by both counterparties where there are payables and receivables owing by both counterparties respectively. They also provide for margining or collateral arrangements where appropriate.

Risk measurement and economic capital

Limit and exposure management processes are supported by various management information systems as well as manual intervention processes. A credit risk resource within each business unit ("BU") is responsible for ensuring that limits are monitored and adhered to. Credit risk reports are reviewed on a daily basis by the credit operations staff. These reports are created at the desk level and sent to the dealers who use the report to check limit availability before concluding new transactions. The credit operations staff also checks the daily credit risk reports which will identify any dealing excesses that have arisen. Exposures are monitored both at BU level and in aggregate for FRBH.

Any excess exposure over a sub allocated limit has to be reported to the BU head, the head of BU risk management and RMB Risk and Compliance without delay and corrective actions must be agreed by all parties. Such excess exposure is evaluated taking cognisance of the sub allocated limit and of total actual exposure at FRBH level in relation to the total approved counterparty credit limit at FRBH level. Excesses against sub allocated limits require risk management to identify the cause of the excess (eg dealer non compliance, unexpected market moves, settlement failure, counterparty credit deterioration, etc). It is the responsibility of the dealers to remedy the cause of the excess.

Failure to correct a breach as agreed, or recurrence of the same or similar breaches from desk level upwards, are reported to the RMB Finance, Risk and Capital committee, FRBH ERM division and to the next meeting of the FRBH RCC committee. These committees are responsible for raising these issues to appropriate board forums to take corrective action.

Economic capital is assessed in terms of the AIRB approach to credit risk. However, the estimated exposure at default is measured under the Basel II current exposure method for the Bank.

Counterparty credit risk arising from derivative and structured finance transactions of the Bank (unaudited).

R million	AT 30 JUNE 2008
Gross positive fair value	111 891
Netting benefits	55 087
Netted current credit exposure before mitigation	56 804
Collateral value	17 746
Exposure at default	54 235

Distribution of credit derivatives of the Bank based on nominal values (unaudited).

	AT 30 JUNE 2008			
R million	Credit default swaps	Total return swaps	Other	Total
Own credit portfolio				
– protection bought	2 102	–	4 118	6 220
– protection sold	152	–	–	152
Intermediation activities				
– protection bought	–	–	250	250
– protection sold	970	420	–	1 390

MARKET RISK (audited)

MARKET RISK IS THE RISK OF REVALUATION OF ANY FINANCIAL INSTRUMENT AS A CONSEQUENCE OF ADVERSE CHANGES IN THE MARKET PRICES OR RATES. IT EXISTS IN ALL TRADING, BANKING AND INVESTMENT PORTFOLIOS. FOR THE PURPOSE OF THESE FINANCIAL STATEMENTS MARKET RISK IS CONSIDERED TO BE FULLY CONTAINED WITHIN THE TRADING PORTFOLIOS.

Substantially all market risk within FRBH is taken in RMB as this is the division within FRBH where the market risk taking and management expertise lies.

Market risk governance and management

Market risk is managed in terms of the Market Risk Framework which is a sub framework of FRBH's Risk Management Framework. Trading activities currently include trading in the foreign exchange, interest rate, equities, commodities and credit markets in both physical and derivative instruments.

A two tiered governance structure governs market risk taking activities within FRBH. The first tier consists of determining the appetite of the Bank for market risk taking activities, and the independent prudential oversight attached thereto. The second tier involves the non statutory governance forums that actively oversee the implementation of board policies at the divisional level. Appetite for market risk taking activities is determined by the FRBH Board, with primary independent prudential oversight of market risk then vesting with the FRBH RCC committee. At the divisional level, the RMB Proprietary Board (an executive management committee) has the primary task of strategic risk allocation to the transacting units and ensuring the implementation of the prudential aspects of the board mandate. The RMB Finance, Risk and Capital committee is the market risk committee of RMB and is a sub committee of FRBH RCC committee, and is charged with the independent oversight of market risk within RMB and reports all material aspects of market risk to the FRBH RCC committee. Longer term equity investments, both listed and unlisted, are approved by the Investment committee on an individual basis and are managed under the Investment Risk Framework. Market risk limits are reviewed at least annually.

Market risk measurement

Market risk exposures are limited by means of distressed expected tail loss ("ETL") limits, whilst soft VaR triggers indicate that positions need to be reviewed by management. Both sets of limits are approved by the RMB Proprietary Board and ratified by the FRBH RCC committee and the Board of directors. Risk concentrations are controlled by means of appropriate sub limits attached to both asset class (interest rate, equity, foreign exchange, commodities and traded credit) and business unit maximum allowable exposures.

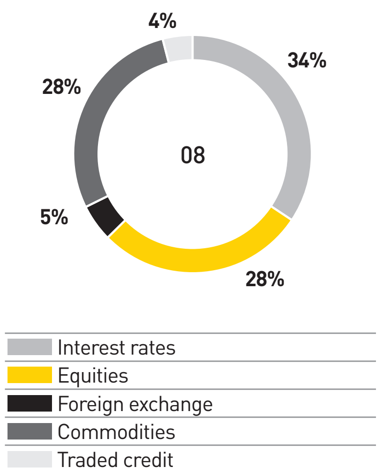
Stress conditions are represented by historic systemic disaster scenarios over which the portfolio is fully revalued. The disaster scenarios have been deliberately set to reflect the illiquid conditions and volatile price movements experienced during a typical systemic breakdown in the markets.

RMB has approval from the SARB to measure regulatory market risk capital under the internal model approach, as stipulated in the Basel II Accord, for the trading book. For internal economic capital measurement, the internal model approach is used and is based on distressed ETL.

In addition to the distressed ETL and VaR methodologies, FRBH supplements its measurement techniques with defined stress tests and scenario analyses across all material risk factors. The calibration of the stress tests are reviewed from time to time to ensure that they are indicative of possible market moves under distressed market conditions and they provide additional insight into possible outcomes under stressed market conditions to the RMB Proprietary Board.

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

The Bank's market risk exposure per risk factor
(audited)



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

Realised market risk exposures

The market risk management processes are well vested and have functioned effectively for a number of years. Notwithstanding this, risk processes are only really properly tested through times of market distress and turmoil. The RMB market risk process functioned well through the recent period of distress, displaying a good deal of robustness and flexibility in carrying out its day to day requirements as well as accommodating the addition of bespoke, PIT requirements. The risk measures, which were predicated on distressed markets, proved in the main, to be well calibrated to cope with the distress over the past year. Neither internal audit nor an external independent model valuator nor the SARB internal model process approval team identified significant process deficiencies in the 2008 financial year. Process shortcomings identified are corrected and the progress with corrective actions is monitored by the risk managers and the RMB Finance, Risk and Capital committee as they arise.

Trading book VaR analysis

The VaR exposures below reflect the aggregate market risk exposure per asset class across different trading activities for the Bank. The VaR risk measure estimates the potential loss over a 10 day holding period at a 99% confidence level. The VaR scenario set comprises the most recent 250 scenarios, as is required for internal model capital regulatory market risk measurement.

Trading book VaR analysis (audited)

	AT 30 JUNE 2008				AT 30 JUNE 2007
R million	Min	Max	Ave	Year end	Year end
Risk Type					
Equities	11.1	267.2	151.2	118.3	97
Interest Rates	41.7	182.3	69.7	65.4	67.8
Foreign Exchange	0.6	51.3	11.5	19.3	13.6
Commodities	18.1	135.6	65.0	115.8	58.9
Traded Credit	–	18.3	2.3	18.2	–
Diversification				(215.7)	(152.3)
Total				**121.4**	**85.0**

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

Stress analysis

A revaluation of the Bank's portfolio is calculated over 500 scenarios of which 250 scenarios represent a distressed market period. Once the current financial crisis plays itself out the distressed scenario set will be supplemented with data from the current market crisis.

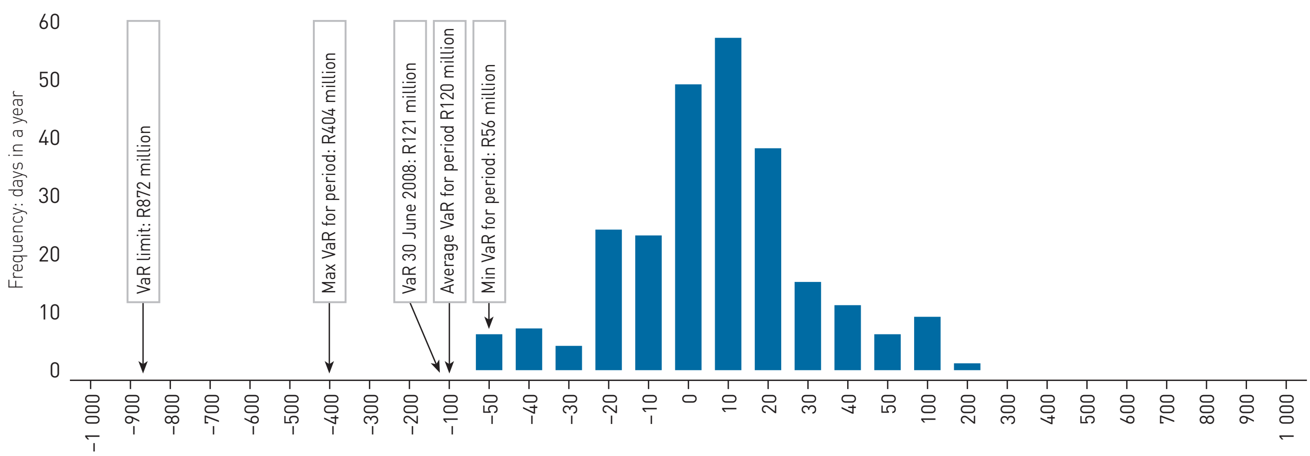
Stress analysis (audited)

	AT 30 JUNE 2008				AT 30 JUNE 2007
R million	Min	Max	Ave	Year end	Year end
Risk Type					
Equities	31.8	403.1	243.1	173.3	178.6
Interest Rates	91.4	525.3	241.7	211.7	131.2
Foreign Exchange	1.8	111.0	23.2	30.9	29.5
Commodities	35.9	229.1	104.1	173.7	89.9
Traded Credit	–	26.3	3.9	26.3	–
Diversification				(410.6)	(263.4)
Total				205.3	165.8

Daily earnings at risk

The graphs below show the daily trading earnings profile for the past year. The distribution is skewed to the profit side. The graph also shows that exposures have been contained within risk limits during the trading year.

Distribution of trading income for the 2008 financial year (unaudited)



Equity positions in the banking book (unaudited):

EQUITY INVESTMENT RISK GENERALLY REFERS TO THE RISK ASSOCIATED WITH THE ACQUISITION OF EQUITY/ OWNERSHIP OR PARTICIPATION IN A LISTED COMPANY OR AN UNLISTED COMPANY OR A START UP.

Risk governance and management

Equity investments are approved by business unit investment committees, the RMB investment committee or the FRBH Large Exposures Credit committee depending on the value of individual investments. The FRBH Large Exposures Credit committee also approves investments comprising both debt and equity portions, irrespective of the percentage split, should the total exceed approved thresholds.

Risk associated with private equity investments is managed through various means. Prior to investing, a comprehensive due diligence is performed for each investment providing a thorough understanding of a business and comfort around its management team. Management incentives and constraints are structured such that the interests of the buyer and those of management are aligned for the success of the investment. In the majority of cases, RMB seeks a seat(s) on the board of the investee company. Investments are further monitored regularly throughout the life of the deal. Investee company financial statements are received and analysed on a regular basis. Personal contact with portfolio companies' management is maintained regularly and any concerns are raised with management at the time.

RMB conducts a bi-annual review of all private equity portfolio companies. Matters such as the valuation of the companies are peer reviewed, and the outlook for the companies and any upcoming events that are deemed potential risks to the value of a company are discussed.

On a portfolio level, risk in the private equity portfolio is managed through the diversification of investments across geography, industry, stage (ie venture capital, leveraged buy-out or structured deals) and vintage (annual replacements of realisations).

Risk on listed equities is managed in accordance with the market risk framework. This includes the role of both management and oversight bodies.

Risk measurement and economic capital

Economic capital for equity exposures held for investment purposes is calculated using a stress test approach similar to the Basel II approach for equity investments, ie applying a risk weighting of 300% and 400% of exposure value for listed and unlisted investments, respectively. A conservative portfolio offset is allowed for unlisted investments that are equity accounted should the carrying value be less than the risk weighted market value.

Where price discovery permits for liquid listed equity positions, the ETL under distressed market conditions is calculated on a standalone basis (per the trading book methodology and scenarios). This measure is used as the economic capital, subject to a floor of 20% of market value on the capital calculation.

Where price discovery into the underlying assets of hedge funds permits for a look though to those underlying assets, the modelling of economic capital is based on such a look through approach as opposed to the simplistic 300% (risk weight) stress tests. The underlying assets are modelled onto FRBH's market risk systems and capital is assigned on a market risk basis, with an appropriate scaling to account for the time taken to liquidate the investment. The look though approach is also applied to the underlying assets of companies where those underlying assets consist entirely of investments with adequate pricing discovery.

Those funds where asset prices or values are not available on a frequent basis are treated in the same manner as unlisted equity investments with the assumption that the valuation provided by the fund is correct as this is the value at which the fund is carried on book.

The following table provides information relating to equity investments in the banking book of the Bank (unaudited).

	AT 30 JUNE 2008		
R million	Publicly quoted investments	Privately held	Total
Carrying value	1 818	3 897	5 715
Fair value*	1 717	4 548	6 265
Total unrealised gains recognised directly in the balance sheet through equity instead of the income statement**	843	92	935
Latent revaluation gains not recognised in the balance sheet**	(101)	651	550
Economic capital held	436	1 247	1 683

* *Fair values of publicly quoted investments were not considered to be materially different from the quoted prices.*
** *These unrealised gains or losses are not included in Tier 1 or Tier 2 capital.*

LIQUIDITY RISK

LIQUIDITY RISK IS THE RISK THAT THE BANK WILL NOT MEET ALL PAYMENT OBLIGATIONS AS LIABILITIES FALL DUE. IT ALSO REPRESENTS THE RISK ASSOCIATED WITH NOT BEING ABLE TO REALISE ASSETS TO MEET DEPOSITOR REPAYMENT OBLIGATIONS IN A STRESS SCENARIO.

Liquidity risk: a broader definition

Due to rapidly changing markets, technologies, governance, accounting policies, and regulatory monitoring, risk management has become more sophisticated, with liquidity risk being no exception. Understanding what the impacts of these factors are on liquidity is extremely important and it starts by broadening the definition of liquidity risk into market liquidity risk and funding liquidity risk. Funding liquidity risk is the risk that the Bank will not be able to effectively meet current and future cash flow and collateral requirements without negatively affecting the normal course of business, the Bank's financial position or its reputation. Market liquidity risk is the risk that market disruptions or lack of market liquidity causes the Bank to be unable (or able, but with difficulty) to trade in specific markets without affecting market prices significantly. Furthermore we also acknowledge that liquidity risk is a consequential risk and continue to monitor and understand possible impacts of other risks and events on the funding and liquidity risk of our organisation. This also comes into place when stress testing and scenario analysis is performed.

Liquidity risk management framework

FRBH's Liquidity Risk Management Framework aims to apply sound principles for managing liquidity risk, based on best-practice international standards. It is designed – in line with Basel II – to identify, measure and manage the liquidity risk position of FRBH. Rapidly changing markets with growing product complexities, changes in the economy, international expansion, the entry of new participants to the market and historical catastrophic consequences due to overexposure to liquidity risk highlight the need for continual reassessment of and improvements to the framework. Hence our obligation to update and review this framework regularly and ensure appropriate liquidity risk management within FRBH. The underlying policies are reviewed regularly by FRBH's BSM division. These policies are also independently approved by the FRBH's ERM division, FRBH ALCO and FRBH's RCC committee.

The liquidity risk management framework covers three broad topics:

- governance and organisational structure for managing liquidity;
- analytical framework for measuring, monitoring, and managing liquidity; and
- stress testing and contingency planning.

FRBH acknowledges that good governance and an effective organisational structure are imperative for the efficient management of liquidity risk.

The BSM division is responsible for the measurement and management of liquidity risk. The ERM division, with a dedicated Asset and Liability oversight team is responsible for independent oversight of liquidity risk and reports to FRBH ALCO.

Liquidity risk measurement

Liquidity risk for FRBH is measured in a combination of daily and monthly procedures for the purpose of determining the Bank's liquidity risk status. As a strategic management tool, this assists dynamically in strategy formulation and tracking of effectiveness. It also provides trend and competitor/market analysis. The liquidity risk measurement processes attempt to analyse and depict liquidity risks for FRBH. The risk measurement processes are classified into the following broad categories:

- diversification (term, source, product);
- off balance sheet exposures;
- available funding resources;
- performance measurement;
- reputation (risks & events);
- regulatory requirements;
- asset quality; and
- other risks/events

Each category has multiple key risk indicators, highlighting the risks and trends on and off balance sheet. Conduits, securitisations, contingent liabilities and undrawn facilities are all included and managed as if on balance sheet. Limits are set on two levels (amber and red) for each key risk indicator. Amber levels indicate a warning signal and possible negative trends and that action required to restore the status to green (depending on tolerance levels). Red levels indicate immediate action required and possibly activating contingency plans. These key risk indicators are monitored regularly (daily and monthly) to enable the BSM division to effectively manage the Banks' liquidity position and are reported monthly to FRBH ALCO and quarterly to the FRBH RCC committee.

Management of liquidity risk

Liquidity risk is managed in terms of the Liquidity Risk Management Framework, which is ancillary to FRBH's Risk Management Framework. Liquidity risk is centrally managed by the BSM division. The liquidity risk management approach firstly includes intraday management (operational liquidity), managing the daily payment queue, forecasting cash flows and factoring in access to central banks. Secondly, tactical liquidity risk management deals with access to unsecured funding sources and the liquidity characteristics of FRBH's asset inventory (asset liquidity). Finally, dynamic liquidity risk measurement and analysis assists in the strategic decision making process, when defining our issuance strategy. The following diagram illustrates the liquidity risk management cycle.

Term funding diversification is considered a very important analysis for liquidity risk. Liquidity risk resides in the short term exposure the Bank faces, where most of FRBH's liabilities mature within one month and relatively few assets mature in that period. To manage this risk, the steps indicated in the diagram above are followed. Determining the liquidity risk target profile is the key starting point. Comparing the current profile with that of the industry and identifying the target risk profile forms part of the measurement process which filters through the liquidity risk management framework. Stress testing is performed to determine how effectively the current and targeted risk profiles would withstand certain stress events at certain severity levels. Stress testing also plays a key role in the methodology for calculating the size of the liquidity buffers, considering FRBH's risk appetite. These unencumbered liquidity risk buffers are in excess of the statutory requirements and are actively managed in portfolios of high quality liquid assets, maintained at suggested levels for protection against any unexpected disruptions. The current funding profile is strategically adjusted to reach the target risk profile by implementing certain short, medium and long term action plans. The wholesale funding market is utilised to correct any strategic adjustment differences. The costs of these strategic decisions are passed on to the respective business units via the internal matched maturity funds transfer pricing models. Once the cycle is complete, the risk profile is reassessed, considering current market and economic conditions as well as risk appetite, and the cycle would start once again.

The following actions are taken within this process to maintain an adequate liquidity risk profile and status:

- industry benchmarking;
- analyse & decrease concentration of short term funding maturities;
- diversify the range of products offered to financial institutions and maintain an appropriate mix of funding sources;
- maintain and manage a portfolio of available liquid securities;
- perform assumptions based sensitivity analyses to assess potential cash flows at risk in stressed conditions;
- maintain liquidity contingency plans;
- monitor sources of funding for contingency funding needs;
- monitor daily cash flow movements across the Bank's various payment streams;
- actively manage the daily settlements and collateral management processes;
- define, measure and monitor key risk indicators;
- define and monitor liquidity risk limits;
- monitor balance sheet liquidity ratios against internal and regulatory requirements;
- maintain an appropriate term mix of funding;
- consider off balance sheet exposure and contagion risks (for example conduits) and manage within appropriate risk appetite levels;
- consider key risk indicators on reputation risk and performance measurement as an integral part of determining the liquidity risk status for the Bank; and
- assess the liquidity risk position on a daily basis to support decision making on liquidity risk and funding management.

Although FRBH also engages in financial transactions utilising special purpose entities, we are not reliant upon these entities to any material extent in terms of our funding and liquidity capacity. These entities (and FRBH's obligations to them) are fully consolidated in our liquidity risk measurement, stress testing and management processes and are managed conservatively from a liquidity risk perspective.

The Bank is adequately funded and able to meet all its current obligations.

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

Management of the bank's funding profile

BUILDING BLOCKS

DIVERSIFICATION	EFFICIENCY	FLEXIBILITY	STRONG RELATIONSHIP
Natural market	Infrastructure	Liquid balance sheet	Segments
Investor base	Cost of funding	Geographical market	Customers
Tenor	Liquidity cost curve	Capacity	Financial Institutions
Maturity	Interest rate curve	Innovation	Credit ratings
Segments	MMMFTP	Platforms	Capital markets
Instruments	Mix of funding		Regulatory
Products			Road shows
Geographic			
Markets			

advances growth or during a liquidity stress scenario. FRBH's funding strategy adapts to an integrated strategic approach to financing activities with regards to funding, contingent funding and capital. The above table sets out the key building blocks of our funding strategy, ie diversification, efficiency, flexibility and relationship management.

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

Liquidity cash flow analysis

Undiscounted cash flows (audited)

	AT 30 JUNE 2008			
	Term to maturity			
R million	Carrying amount	Call – 3 months	3 – 12 months	Over 12 months
Maturity analysis of assets and liabilities based on the undiscounted amount of the contractual payment				
LIABILITIES				
Deposits	431 300	320 608	71 932	38 760
Short trading positions	26 929	26 929	–	–
Derivative financial instruments	47 163	41 287	3 364	2 512
Creditors and accruals	5 374	4 783	251	340
Provisions	2 768	1 075	965	728
Long term liabilities	16 582	67	2 956	13 559
Amounts due to holding company and fellow subsidiary companies	37 001	21 973	1 759	13 269
Loans from Insurance Group	2 767	1 653	662	452
Financial and other guarantees	36 224	24 997	1 347	9 880
Facilities not drawn	36 057	34 441	767	849

	AT 30 JUNE 2007			
		Term to maturity		
R million	Carrying amount	Call – 3 months	3 – 12 months	Over 12 months
Maturity analysis of assets and liabilities based on the undiscounted amount of the contractual payment				
LIABILITIES				
Deposits	381 638	279 626	73 941	28 071
Short trading positions	22 511	22 511	–	–
Derivative financial instruments	24 161	16 507	783	6 871
Creditors and accruals	4 835	4 478	266	91
Provisions	2 817	1 917	287	613
Long term liabilities	10 496	144	340	10 012
Amounts due to holding company and fellow subsidiary companies	13 753	4 003	823	8 927
Loans from Insurance Group	4 461	1 973	998	1 490
Financial and other guarantees	39 692	2 072	7 324	30 296
Facilities not drawn	33 067	31 305	–	1 762

The table above represents the undiscounted cash flows of liabilities for the Bank and includes all cash outflows related to the principle amounts as well as future payments. The balances in the table above will not agree directly with the balances on the balance sheet for the following reasons:

- The amounts included in the table above are contractual undiscounted amounts whereas the balance sheet is prepared using the discounted amounts;
- The table includes contractual cash flows with respect to off balance sheet items which have not been recorded on the balance sheet;
- All instruments held for trading purposes are included in the 'call to 3 month' bucket and not by contractual maturity because trading instruments are typically held for short periods of time; and
- Cash flows relating to principal and associated future coupon payments have been included on an undiscounted basis.

Contractual discounted cash flows (audited):

	AT 30 JUNE 2008			
	Term to maturity			
R million	Carrying amount	Call – 3 months	3 – 12 months	Over 12 months
Maturity analysis of assets and liabilities based on the present value of the expected payment				
Total assets	567 792	201 534	57 714	308 544
Total equity and liabilities	567 792	374 410	90 413	102 969
Net Liquidity gap	–	(172 876)	(32 699)	205 575
Cumulative Liquidity gap	–	(172 876)	(205 575)	–

	AT 30 JUNE 2007			
	Term to maturity			
R million	Carrying amount	Call – 3 months	3 – 12 months	Over 12 months
Maturity analysis of assets and liabilities based on the present value of the expected payment				
Total assets	459 141	174 702	42 275	242 164
Total equity and liabilities	459 141	313 067	64 074	82 000
Net Liquidity gap	–	(138 365)	(21 799)	160 164
Cumulative Liquidity gap	–	(138 365)	(160 164)	–

The table above represents the contractual discounted cash flows of Assets, Liabilities and Equity for the Bank. Relying solely on the contractual liquidity mismatch when looking at a bank's maturity analysis would overstate the risk, since this represents the absolute worst case maturity analysis. As an industry phenomenon in South Africa, banks are particularly negatively gapped (contractually) in the shorter term due to the country's structural liquidity position. This implies that more short term obligations are due than short term assets maturing, hence (in addition to the table above) the Bank's calculation of an adjusted liquidity mismatch analysis, applying the methodology of business under normal circumstances and a framework to manage this mismatch.

Liquidity mismatch analysis

The purpose of liquidity mismatch analysis is to anticipate the maturities in the balance sheet when business is done under normal conditions, ie applying behaviourally adjusted assumptions. This analysis disregards the overstated liquidity risk reflected in the contractual mismatch, when business as usual applies. Through analysis of the various products and business segments on the balance sheet the "business as usual" (BAU) liquidity gap is derived. It describes the liquidity gap of the Bank after taking into account product behavioural assumptions for rolling of maturities and days to realise assets. For example, a cheque account deposit which has an ambiguous maturity is classified as having a contractual maturity profile on demand. The behaviour (under normal circumstances and on a going concern basis) of such an account is, however, of a longer term nature when assuming reinvestment takes place. Similarly the wholesale call loan book has a contractual maturity on call, but a portion of the wholesale call book may not be called upon, due to customer relationship repercussions or other incentives.

Risk profile

FRBH has a diversified funding mix by term, source and product. This balanced portfolio of liabilities is maintained to enable a stable flow of financing and to protect against possible market disruptions. The retail funding base in FNB also provides FRBH with a very valuable and reliable/stable source of funding. Medium and long term funding activities are continually planned by assessing the funding profile of our balance sheet. For this we take the following into account:

- the overall industry profile;
- effective maturities of the asset base;
- obligations that will have to be replaced; and
- the ability to fund ongoing business.

Liquidity contingency planning

Product behavioural assumptions are assessed and stress analyses are performed on the current liquidity position in order to assess potential cash flows at risk. Consideration is given to a variety of appropriate contingency funding mechanisms aimed at ensuring that FRBH remains liquid during stress conditions. In addition, the liquidity risk management team monitors and manages FRBH's portfolio of available liquid sources against these stress assumptions. Given the recent macroeconomic outlook, global focus on bank risks and turmoil in certain financial markets, the Bank has increased the size of the portfolios of high quality liquid assets (over and above the required prudential liquid assets) to be kept as unencumbered liquidity buffers. These liquidity buffers are currently maintained at appropriate levels, given the Bank's risk appetite.

INTEREST RATE RISK IN THE BANKING BOOK

INTEREST RATE RISK IN THE BANKING BOOK IS DEFINED AS THE SENSITIVITY OF THE BALANCE SHEET AND INCOME STATEMENT TO UNEXPECTED, ADVERSE MOVEMENTS IN INTEREST RATES AND CAN BE AN IMPORTANT SOURCE OF PROFITABILITY AND SHAREHOLDER VALUE. EXCESSIVE INTEREST RATE RISK COULD POTENTIALLY POSE A SIGNIFICANT THREAT TO A BANK'S EARNINGS AND CAPITAL BASE, THEREFORE, EFFECTIVE RISK MANAGEMENT THAT MAINTAINS THE RISK WITHIN PRUDENT LEVELS IS ESSENTIAL TO THE SAFETY AND SOUNDNESS OF BANKS.

Banks are typically exposed to the following sources of interest rate risk:

- repricing risk (which arises from the differences in timing between repricing of assets, liabilities and off balance sheet positions);
- yield curve risk (when unanticipated changes in the shape of the yield curve adversely affects a bank's income or underlying economic value);
- basis risk (imperfect correlation in the adjustment of the rates earned and paid on different instruments with similar repricing characteristics); and
- optionality (the right that the holder has to alter the cash flow of the underlying position).

Interest rate risk governance

Interest rate risk in the banking book is managed in terms of FRBH's Framework for the Management of Interest rate risk in the banking book, which is a sub framework of the risk management framework. The framework is reviewed at least annually.

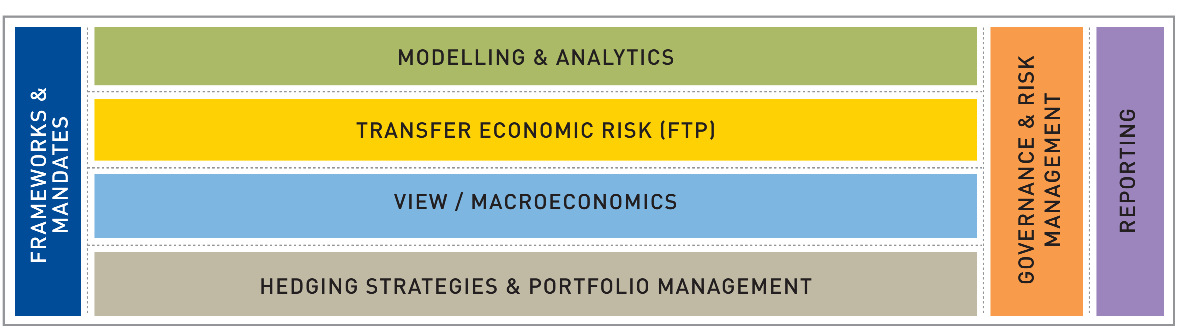
Interest rate risk management is part of FRBH's BSM division. The objective of BSM is to protect and enhance the balance sheet and income statement of FRBH. In line with this objective, interest rate risk in the banking book is managed from an earnings approach over a specified horizon and changes to economic value are monitored and managed within defined risk tolerance levels.

Interest rate risk in the banking book is reported to FRBH ALCO, a sub committee of the board's RCC committee, on a monthly basis. FRBH ALCO is responsible for monitoring the implementation of the interest rate risk management framework and the management of interest rate risk in the banking book across FRBH (ie it monitors the risk exposures and the effectiveness of the interest rate risk management). Interest rate risk that arises from trading activities is managed under the Market Risk Framework.

The board (through FRBH RCC committee) approves overall risk limits for the interest rate risk in the banking book. FRBH ALCO approves additional sub limits. In addition to the monthly risk reporting to FRBH ALCO, any limit breaches and proposed remedies are reported immediately to the Chairperson of FRBH ALCO, the Head of ERM, the Risk Officer for Interest rate risk in the banking book and to the next meeting of the FRBH RCC committee (where deemed appropriate).

Interest rate risk management process

The net interest rate risk profile of the domestic banking book is managed centrally by the Macro Portfolio Management ("MPM") pillar in BSM. The graph below illustrates their portfolio management process. The banking book of RMB is managed separately. It is managed in terms of the Market Risk Framework and limits.



The interest rate profile is adjusted by changing the profile of liquid assets or through transactions in derivative instruments, based on FRBH's interest rate outlook with reference to other risk factors impacting FRBH's balance sheet, most notably credit risk. Risk measurement and hedging is, in general, done at an aggregate level (ie the net interest rate risk profile of the Bank is hedged). Micro hedging is generally reserved for large and complex once off transactions. The management of the interest rate profile is done within the risk limits approved by FRBH ALCO. An investment committee oversees these activities and challenges the macroeconomic view and debates proposed investment strategies.

Where possible, cash flow hedge accounting is applied to derivatives that are used to hedge interest rate risk in the banking book. In cases where hedges do not qualify for cash flow hedge accounting, mismatches may arise due to timing differences in the recognition of income between hedges, which are fair valued, and underlying banking book exposures, which are accounted for on an accrual basis or on a fair value basis (depending on the type of instrument).

Interest rate risk measurement

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

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

Repricing Schedule for the Bank's banking book as at 30 June 2008 (audited)

	Term to repricing				
R million	Within 3 months	After 3 months, but within 6 months	After 6 months, but within 12 months	After 12 months	Non-rate sensitive
Net repricing gap	30 349	4 561	(10 343)	375	(24 942)
Cumulative repricing gap	30 349	34 910	24 567	24 942	–

Note 1: This repricing analysis excludes the banking books of RMB as this is managed on an ETL and VaR basis separately.

Repricing Schedule for the Bank's banking book as at 30 June 2007 (audited)

	Term to repricing				
R million	Within 3 months	After 3 months, but within 6 months	After 6 months, but within 12 months	After 12 months	Non-rate sensitive
Net repricing gap	46 900	(23 771)	(2 710)	(3 593)	(16 825)
Cumulative repricing gap	46 900	23 129	20 419	16 825	–

Note 1: This repricing analysis excludes the banking books of RMB as this is managed on an ETL and VaR basis separately.

Interest rate risk in the RMB banking book is managed as part of Market risk and reported accordingly.

The natural position of the domestic banking book remains asset-sensitive (positively gapped), since interest earning assets reprice sooner than interest paying liabilities. This makes our projected NII vulnerable to a drop in interest rates (as reflected above). The Macro Portfolio Management team positioned the banking book to take advantage of interest rate hikes.

NII is forecast using the current balance sheet position. The NII simulation assumes that there is no management intervention in response to changes in the level of interest rates. The implied forward curve (with spreads where appropriate) is used as the base forecast of rates in the future to facilitate simulation of the base case projected NII for the 12 month forecast horizon. A static balance sheet (based on current position) is used in the modelling of NII to isolate the impact of rate changes on NII by preventing other assumptions relating to volume growth from masking/offsetting the impact of adverse rate movements (that would reduce NII), by increasing NII as a result of growing volumes.

New volume points are assigned to balances as and when they mature to maintain balance sheet size. Derivatives that mature are not replaced as there is no rule based derivative trading strategy which can be used to predict how derivative positions will be replaced. Several assumptions are made with respect to the repricing characteristics of instruments which have no explicit contractual repricing or maturity dates when performing NII simulation:

- non maturity deposits ("NMDs") do not have a specific maturity and individual depositors can freely withdraw or deposit balances. The interest rates associated with these products are administered by the Bank, but not indexed to market rates. Examples of NMDs include current, savings and transmission accounts. NMDs are assumed to reprice overnight since the administered rate can change on any day at the Bank's discretion; and
- prime linked products are assumed to reprice instantaneously when the repo rate changes.

Several interest rate scenarios are modelled to assess their impact on projected earnings in the domestic banking book. For example, a 200 basis point instantaneous, parallel downward (upward) shift in the yield curve is modelled to determine the potential impact on net interest income over the next 12 months (assuming no management intervention to mitigate the impact of changes in the level of interest rates).

Sensitivity of the Bank's projected net interest income as at 30 June 2008 (audited)

	Change in projected 12 month NII as a % of base
Downward 200 bps	(12.06%)
Upward 200 bps	12.20%

Note 2: This NII sensitivity analysis excludes the banking books of RMB as this is managed separately. Mark to market bonds and hedges are excluded.

Sensitivity of the Bank's projected net interest income as at 30 June 2007 (audited)

	Change in projected 12 month NII as a % of base
Downward 200 bps	(11.57%)
Upward 200 bps	11.78%

Note 2: This NII sensitivity analysis excludes the banking books of RMB as this is managed separately. Mark to market bonds and hedges are excluded.

Interest rate risk sensitivity in the RMB banking book is managed as part of Market risk and reported accordingly.

The following represents our sensitivity of available for sale (assets) and cash flow hedges reserves' to interest rate movements (based on a static balance sheet), assessing the expected decrease or increase in valuation due to parallel movements in yield curves.

Sensitivity of the Bank's reported reserves to interest rate movements as at 30 June 2008 (audited)

	As % of total shareholder's equity
Downward 200 bps	(0.48%)
Upward 200 bps	0.60%

Note 3: This sensitivity analysis excludes the banking books of RMB, as this is managed separately.

Sensitivity of the Bank's reported reserves to interest rate movements as at 30 June 2007 (audited)

	As % of total shareholder's equity
Downward 200 bps	1.63%
Upward 200 bps	(1.35%)

Note 3: This sensitivity analysis excludes the banking books of RMB as this is managed separately.

OPERATIONAL RISK (unaudited)

OPERATIONAL RISK IS DEFINED AS THE RISK OF LOSS RESULTING FROM INADEQUATE OR FAILED INTERNAL PROCESSES, PEOPLE AND SYSTEMS OR FROM EXTERNAL EVENTS. THIS DEFINITION INCLUDES LEGAL RISK BUT EXCLUDES STRATEGIC BUSINESS AND REPUTATIONAL RISK.

Operational risk governance

FRBH Operational Risk committee ("ORC") is a sub committee of FRBH RCC committee, and is established to assist the board and the RCC committee in discharging its responsibilities in terms of the management of operational risk across FRBH. Operational risk is managed in terms of the Operational Risk Management Framework ("ORMF"), which is a sub framework of FRBH's Risk Management Framework. The framework covers methodologies and policies that ensure adequate identification, measurement, monitoring, control and reporting of operational risk exposure.

Operational risk management process

Governance and oversight of operational risk is carried out by the ORC. The committee is chaired by an independent non executive member and its membership includes, inter alia, the divisional heads of risk as well as senior members of the ERM division. Independent monitoring of operational risk occurs through a number of ERM functions across FRBH. Examples of these functions include Risk insurance, Legal, Information risk Services, Operational risk governance, and Forensic services. Each of the functions has defined roles, responsibilities and performance objectives to ensure that operational risk is effectively managed and reported across FRBH.

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

Business unit and subsidiary risk managers are responsible for implementing and embedding the operational risk policies, frameworks and methodologies within their business environments. The deployed risk managers and divisional risk committee structures play a key role in monitoring adherence to policies, processes and procedures.

Operational risk management tools

A number of operational risk management tools are used within FRBH to intelligently and proactively deal with the practical implementation of day to day operational risk management. These include:

- **internal loss data** – loss data reporting and analyses are being used by risk managers to understand the root causes of loss incidents and to understand where corrective action needs to be taken to mitigate against losses;
- **external data** – subscription to an external database that is a repository of all global publicly known loss events;
- **key risk indicators** – key risk indicators ("KRI") are being used as an early warning risk management measure to highlight areas of increasing risk exposure. KRI reports are included in management information packs to assist management' in its decision making processes;
- **self assessment** – Risk Effectiveness Reports ("RER") and Risk and Control Self Assessments ("RCSA") are integrated in the risk management process to assist risk managers to identify key risk areas and to assess the effectiveness of the controls in place;
- **incident and issue reporting** – a process of reporting and escalating operational risk incidents and issues through the risk committee structures; and
- **risk scenario analysis** – risk scenarios are used to help management understand where areas of potential severe losses exist.

Operational risk quantification and capital calculation

Operational risk capital is calculated based on the Basel II operational risk TSA for internal capital allocation as well as for regulatory purposes. FRBH obtained approval from the SARB to use TSA for regulatory capital purposes from 1 January 2008.

A more sophisticated operational risk quantification and capital calculation methodology has been developed and is being implemented using the AMA for operational risk in accordance with Basel II and SARB requirements. An application to use AMA on a partial use basis for South African operations was submitted to the SARB during the first quarter of 2008.

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

Business continuity management

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

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

The status of readiness for disruptions is measured through quarterly reporting reflecting the organisation's compliance with the cyclical requirements, eg full testing of plans annually. These are reported through the governance structure to the FRBH RCC committee and the board.

Legal risk

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

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

There were no significant legal risk breakdowns during the year.

Information risk

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

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

The IT Framework:

- defines the objectives for managing IT Governance and Information Security;
- outlines the processes that need to be addressed across FRBH in terms of IT Governance and Security; and
- sets out the measurement framework for IT Governance and Security across FRBH.

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

Fraud and security risks

FRBH is committed to creating an environment that safeguards its customers, staff and assets through policies, frameworks and actions. To this end, FRBH distributes and communicates its Ethics Policy to existing staff members on a quarterly basis. The Ethics Policy reiterates FRBH's commitment to a stance of "zero tolerance" towards crime. Executive management throughout FRBH is committed to living the values of "zero tolerance" and enforce them stringently.

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

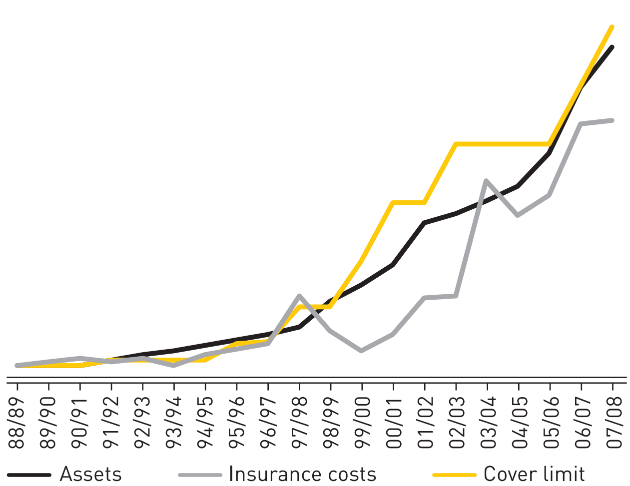
Risk insurance

For many years the Group, which includes all majority owned and management controlled companies, has had a structured approach to insurance risk financing to protect against unexpected material losses arising from non trading risks. These structures are continuously refined and enhanced through the ongoing assessment of changing risk profiles, organisational growth and the monitoring of international insurance markets. The levels and extent of the various covers are also benchmarked annually which is achieved through close working relationships with service providers and association with the ERM division of FRBH.

FirstRand's insurance buying philosophy is to carry as much risk to its own account as is economically viable within the financial resources of the Group, and to only protect itself against catastrophic risks through the use of third party insurance providers. Therefore, considerable self retentions are built into the insurance risk financing structures. The retentions are insured into a dedicated insurance company which enhances the Group's ability to carry risk for its own account.

The financial institutions insurance programme remains the largest of the insurance risk financing structures and, as can be seen from the graph below, the levels of cover have kept pace with FirstRand's growth, whilst total cost is maintained within an acceptable band (unaudited):

Financial institutions insurance programme – increase in assets, insurance cover limit (base 1988/1989)



Developments within the Group continue to be monitored and the risk insurance team ensures that the insurance financing programme is adapted where appropriate.

COMPLIANCE RISK (unaudited)

COMPLIANCE RISK CAN DEFINED AS THE RISK OF LEGAL OR REGULATORY SANCTION, MATERIAL LOSS OR LOSS OF REPUTATION SUFFERED BY A BANK AS A RESULT OF ITS FAILURE TO COMPLY WITH LAWS, REGULATIONS, RULES, RELATED SELF-REGULATORY ORGANISATIONAL STANDARDS AND CODES OF CONDUCT APPLICABLE TO ITS BANKING ACTIVITIES.

Compliance risk management is essential to ensure business success and it is nothing more than best practice management in line with regulatory requirements imposed by law. It promotes confidence with all stakeholders by meeting the expectations of customers, the markets and society as a whole, and aligns the business with international best practices and enables global competitiveness.

FRBH is continuously taking action to further embed compliance in FRBH through a four phase process:

- self assessments and reporting;
- monitoring;
- use of internal audit reports; and
- external independent reviews.

The results of all four phases are reviewed through a strong governance process that starts with the FRBH Compliance committee, through to the FRBH RCC committee and finally to the FRBH Audit committee.

The tone is set at the top by strong pronouncements from FRBH Board, FRBH RCC committee and FRBH Audit committee and Divisional Executives on non compliance as stated in the FRBH Risk Management Framework.

The responsibility to ensure that FRBH complies with all relevant laws, regulations and supervisory requirements rests with the boards of directors, management boards, business entity heads, senior management, management and employees of FRBH, as stipulated by the Risk Management Framework. Compliance risk management is an integral part of the management process. The Risk Management Framework classifies compliance under its governance component which deals with principles, policies, conduct, values, compliance, oversight and the management of performance and includes the following:

- implementing structured and transparent governance structures;
- ensuring compliance with statutes and regulations;
- identifying and managing all risks and measuring the effectiveness of risk management;
- implementing corrective actions to address deficiencies;
- working with lawmakers and regulators to protect our interests, avoiding reputational damage and preventing or

mitigating the potential negative impact of changes in statutes or regulations; and
- ensuring zero tolerance towards non compliance, fraud and criminal activities.

Compliance governance in FRBH is done through a structured and formalised process, which integrates divisional compliance and FRBH structures. Each of FRBH's divisions has its own compliance governance committees, namely a risk and compliance committee and an audit committee. A detailed report of each division's status of compliance is presented to its risk and compliance committee and escalated to its audit committee and divisional board. At FRBH level a report on the status of compliance in all three the operating divisions is tabled at the FRBH RCC committee and escalated to the FRBH Audit committee and board.

Changes in the regulatory environment posed a specific challenge to FRBH during the past year. The implementation of the National Credit Act, No 34 of 2005 and the South African Banks Act, No 94 of 1990, as amended, had a major impact on compliance risk management in FRBH. FRBH, however, successfully implemented both acts. FRBH is actively participating in the formulation of new legislation such as the Consumer Protection Bill and the Protection of Personal Information Bill.

INDEPENDENT ASSURANCE – INTERNAL AUDIT

FRBH Internal Audit is an independent, objective assurance and consulting function designed to add value and improve the organisation's operations.

The internal auditors perform comprehensive process, systems, compliance and business audits across the spectrum of business entities to identify shortcomings and to augment the risk effectiveness self assessments. All audit reports are reviewed by the FirstRand Group Internal Audit Quality Assurance Department as well as at the appropriate audit committees of the business units. Major issues are escalated to higher levels for review. Internal Audit attends the meetings of the FRBH Audit and FRBH RCC committees. Internal Audit also attends various governance and management committees in order to stay abreast of new developments in business and aligns its risk based audit approach accordingly.

Action plans to address identified process weaknesses are agreed with management of the relevant business unit and progress is then monitored by the appropriate risk committees. Internal Audit further conducts independent reviews of risk management functions. These reviews include reviews of the various committees to ensure that they operate effectively and efficiently and comply with the requirements of good corporate governance, Basel II and the Banks Act Regulations.

Internal Audit cooperates with the external auditors through regular liaison with joint audits, and by making available working papers and other relevant information to avoid duplication of effort. The external auditors conduct an assessment of the internal audit function on an annual basis in line with the International Standards of Auditing, ISA 610: Considering the Work of Internal Audit. This standard requires that the external auditors assess the internal audit function in order to determine the use that may be made of the work of internal audit in modifying the nature and timing, and reducing the extent of external audit procedures. The ISA 610 review conducted in April 2008 concluded that reliance can be placed on the work performed by Internal Audit.

CAPITAL SUPPLY AND DEMAND (audited)

Capital serves as a foundation for a bank's future growth and acts as a buffer against unexpected losses.

The most optimal level of capital is achieved after taking into account business units' organic growth requirements, future business plans, provided financial targets are met, as well as expectations of investors, considerations of rating agencies, targeted capital ratios. In addition, capital planning ensures that the Total capital adequacy and Tier 1 ratios remain within the approved range during different economic and business cycles. The targeted and actual total capital adequacy ratios are set out on page 45.

The focus remains on core capital, or normalised net asset value, which it believes is the core of measuring strength, performance and capital requirements. Total capital in the broader sense is further enhanced with the issuance of mezzanine debt capital such as preference shares and subordinated debt, while the Basel II environment allows for the use of hybrid and other innovative instruments.

The approved capital plan for FRBH is reviewed as part of its Internal Capital Adequacy Assessment Process ("ICAAP") and incorporates the expected capital utilisation, capital needs, planned issuance of capital instruments, appropriation of profits and dividend payments, desired level of capital (inclusive of a buffer), international expansion and general contingency planning for dealing with divergences, unexpected events and stress scenarios. It is concluded that FRBH is appropriately capitalised under a range of normal and severe scenarios and stress events. FRB would be included under this plan.

THE YEAR UNDER REVIEW (unaudited)

Credit growth has slowed offering some respite after a sustained period of intensive capital consumption; while the derisking of FRBH's international businesses resulted in a lower capital requirement. Given the deterioration in the credit environment over the past 12 months, FRBH remains vigilant to the effects of procyclicality introduced by Basel II and continues to focus on the level of core equity.

Management has driven a number of capital initiatives during year under review to improve FRB's strong capital position, and to ensure that FRB's sound Tier 1 and Total capital adequacy ratios are maintained.

- In August 2007, FRB concluded Fresco II. This partially funded synthetic securitisation of a portfolio of South African and international corporate credit exposures, relieved R700 million of regulatory capital.
- The inaugural issue of Upper Tier 2 instruments
  - On 22 April 2008, R628 million fixed rate bonds were issued with no maturity date.
  - On 22 April 2008, R440 million variable rate bonds were issued with no maturity date.
- The following subordinated bonds (Lower Tier 2) were issued:
  - On 5 November 2007, R1 billion variable rate bonds were issued with a maturity date of 5 November 2017.
  - On 5 December 2007, R300 million variable rate bonds were issued with a maturity date of 5 December 2017.
  - On 10 December 2007, R200 million variable rate bonds were issued with a maturity date of 10 June 2021.

Basel II (unaudited)

FRBH implemented the International Convergence of Capital Measurement and Capital Standards: A Revised Framework Comprehensive Version (June 2006), referred to as Basel II, at the start of January 2008. The framework aims to align regulatory capital requirements with the Bank's underlying risk profile and risk management processes. Under Basel II, banks are expected to hold capital commensurate with these risks assumed, with focus on:

- Pillar 1 – minimum capital requirement
- Pillar 2 – supervisory review
- Pillar 3 – market discipline

Pillar 1

FRB has received approval from the SARB to use the AIRB approach for credit risk and TSA for operational risk under Basel II. An internal model, as approved by the SARB, is used for market risk. FRB has applied for the AMA for operational risk with targeted implementation during 2009, subject to regulatory approval.

Pillar 2

FRBH has also finalised its ICAAP as part of Pillar 2. In Pillar 2, risks are identified and risk management assessed from a wider perspective to supplement the capital requirements calculated within the scope of Pillar 1. The ICAAP framework was submitted to the SARB in June 2008, and has been approved by the FRBH's RCC committee. Going forward, the ICAAP will be subject to development and annual review.

The stress testing performed as part of the ICAAP estimates the impact of adverse events and formulates the management action required in response to these stress scenarios. The impact of four different economic scenarios as well as four bespoke scenarios on the level of earnings and risk weighted assets have been reviewed. FRBH remains well capitalised given the range of normal and severe scenarios and stress events.

DEDUCTIONS TO QUALIFYING CAPITAL (unaudited)

Under Basel II qualifying capital is impaired with the following items:

- amount of expected losses exceeding total credit impairments. To meet the regulatory definition of expected losses, the difference between the expected loss and provisions is recognised as an impairment against capital. This impairment to capital is divided equally between Tier 1 and Tier 2.

Expected losses under Basel II, relate to losses that would be expected in a downturn scenario over a 12 month period, whereas accounting provisions only address losses incurred at the balance sheet date. This adds a further level of conservatism in a downturn not allowed in terms of the accounting standards.

- any credit enhancement provided in terms of a securitisation structure
  The enhancement is taken as an impairment against capital, again equally split between Tier 1 and Tier 2.
- The previous exclusion of the available for sale and cash flow reserves under Basel I are also classified as non qualifying capital under the new Basel II in South Africa.
- qualifying capital is reduced with the amount of equity accounted earnings held in Outsurance.

CAPITAL FLOOR (unaudited)

As part of the transition to Basel II, banks may allow their capital to fall below Basel I levels subject to the capital floor. This Basel I floor calculation has been introduced to avoid sensitivities around the overall capital levels under Basel II. The absolute level is subject to a floor calculation for the next three years where capital must exceed 95%, 90% and 80% of Basel I capital. The floor calculation is applicable to FirstRand Bank only, with the capital adequacy ratio exceeding the Basel I floor comfortably at 30 June 2008.

REGULATORY CAPITAL

Tier 1, or primary, capital includes share capital, unimpaired reserve funds mainly retained income and perpetual preference shares. Impairments include goodwill, 50% of expected losses over impairments, 50% of first loss credit enhancements in respect of securitisation structures, and other regulatory allowances.

Tier 2, or secondary, capital generally includes redeemable preference share capital, innovative upper Tier 2 instruments with a minimum maturity of ten years and prescribed categories of subordinated debt instrument longer than five years. Impairments include 50% of expected losses over provisions, as well as 50% of first loss credit enhancements in respect of securitisation structures.

The next table shows the composition of regulatory capital for FRB at the end of June 2008 (unaudited).

R million	FRB*
Tier 1	
Ordinary share capital and share premium	7 568
Non redeemable non cumulative preference shares	3 000
Reserves	17 363
Less: Total impairments	(574)
Excess of expected loss over allowable impairment (50%)	(379)
Other impairments	(195)
Total Tier 1 capital	27 357
Tier 2	
Upper Tier 2 instruments	1 068
Tier 2 subordinated debt instruments	7 513
Less: Total impairments	(379)
Excess of expected loss over allowable impairment (50%)	(379)
Total Tier 2 Capital	8 202
Total qualifying capital and reserves	35 559
Capital Adequacy Ratio	12.28

Risk weighted assets by risk type

R million	FRB
Credit risk	200 424
Operational risk	44 352
Market risk	10 369
Equity investment risk	21 042
Other risk	13 467
Total risk weighted assets	289 654

** Reflects solo supervision, ie FRB excluding subsidiaries and associates.*

CAPITAL ADEQUACY RATIOS (audited)

The registered banks in FRBH must comply with the SARB regulations and those of their home regulators. Capital adequacy is measured via three risk based ratios: Core Tier 1 capital, Tier 1 capital, and Total capital.

The Banks Act requires FRB to maintain a minimum level of capital based on risk weighted assets. These minimum requirements are a Tier 1 capital ratio of 7.0% and a Total capital ratio of 9.5% (excluding the bank specific (Pillar 2b) add on). FRB has always held Tier 1 capital and total capital well in excess of these required ratios.

Targeted ratios

The total capital adequacy ratio for FRB is within the target range as shown below. The Core Tier 1 ratio exceeded its targets. FRB aims to remain within the targeted range during upturns and downturns.

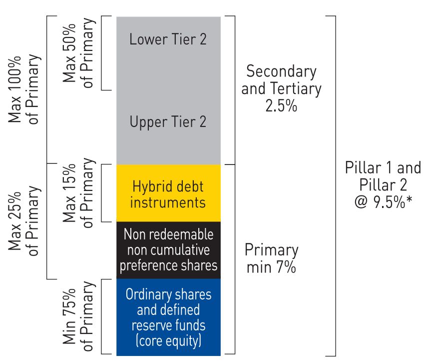
(unaudited)

	FRB		Regulatory
	Actual	Target	minimum
Capital adequacy ratio (%)	12.28	11.5 – 13.0	9.50*
Tier 1 ratio (%)	9.44**	9.50	7.00
Core Tier 1 ratio (%)	8.41	7.75	5.25
Perpetual preference shares as a % of Tier 1 (%)	10.97		<25
Tier 2 subordinated debt as % of Tier 1 (%)	27.46		<50

* *The regulatory minimum excludes the bank specific (pillar 2b) add on.*
** *The Tier 1 target ratio for FRB is exceeded if unappropriated profits of R185 million are included.*

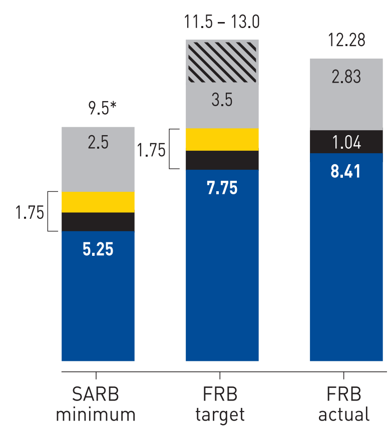
The graph below depicts the capital adequacy position as at 30 June 2008:

Minimum capital adequacy



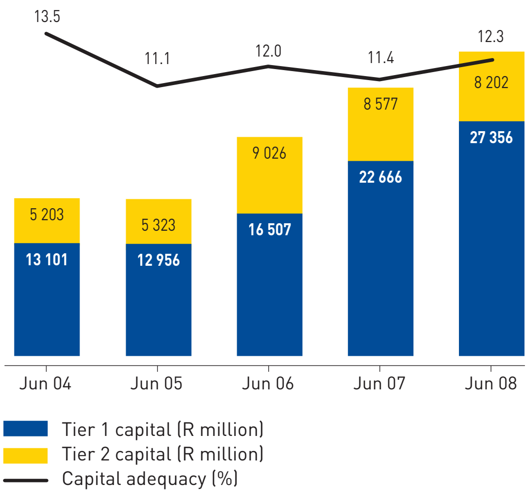
* *Excludes Pillar 2b add on*

Capital adequacy
(%)



The graph below depicts the regulatory capital position over the last five years* (unaudited).

FRB



** June 2007 and prior years reflect Basel I, while June 2008 is based on Basel II.*

Economic capital (unaudited)

Economic capital is defined as the capital which FRBH must hold, commensurate with its risk profile under severe stress conditions, to give comfort to third party stakeholders-shareholders, counterparties and depositors, rating agencies and regulators that it will be able to discharge its obligations to third parties in accordance with an indicated degree of certainty even under stress conditions, and would continue to operate as a going concern entity. The adequacy of the capital base is assessed via economic capital review. FRBH remains well capitalised with current levels of qualifying capital exceeding the economic capital required.

Capital is allocated to business units at the higher of:

- regulatory capital; and
- economic capital

Both measures include an appropriate buffer.

The ICAAP framework assists in the attribution of capital to business units in proportion to the risks inherent in their respective businesses, which also drives the optimisation of returns in terms of risk and reward.

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

The economic capital allocation methodology is broadly based on the advanced approaches followed under Basel II and takes into account the following risk types (Pillar 1 and Pillar 2):

- credit risk – the risk of loss due to non performance of a counterparty in respect of any financial or performance obligation due to a deterioration in the financial status of the counterparty;
- traded market risk – the risk of loss on trading instruments and portfolios due to changes in market prices and rates;
- equity investment risk – the risk associated buying and holding of unlisted and listed shares;
- operational risk – the risk of loss resulting from inadequate or failed internal processes, people,and systems or from external events;
- interest rate risk in the banking book – the risk of changes in the economic value of assets and liabilities due to changes in interest rates; and
- business and other residual risks – the risk of loss due to variances in volumes, prices and costs caused by competitive forces, regulatory changes, reputation and strategic risks.

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

	Fitch Ratings (September 2008)	Standard and Poor's (April 2008)	Moody's Investor Services (April 2008)
FirstRand Bank Limited			
Foreign currency			
– Long term	BBB+	BBB+	Baa1
– Short term	F2	A – 2	P – 2
– Outlook	Stable	Stable	–
Local currency			
– Long term	BBB+	BBB+	A1
– Short term	–	A – 2	P – 1
– Outlook	Stable	Positive	–
National			
– Long term	AA(zaf)	–	Aa1.za
– Short term	F1+(zaf)	–	P – 1.za
– Outlook	Stable	–	–
Individual	B/C	–	–
Support	2	–	–
Counterparty credit (local currency)	–	BBB+/A – 2/Positive	–
Bank Financial Strength	–	–	C
Outlook	–	–	Positive
Sovereign ratings			
Foreign currency			
– Long term	BBB+	BBB+	Baa1
– Short term	F2	A – 2	–
– Outlook	Positive	Stable	Positive
Local currency			
– Long term	A	A+	A2
– Short term	–	A – 1	–
– Outlook	Stable	Stable	Stable

TO THE MEMBERS OF FIRSTRAND BANK LIMITED

The directors of FirstRand Bank Limited are required by the Companies Act to maintain adequate accounting records and to prepare financial statements for each financial year that fairly present the state of affairs of the company at the end of the financial year, and of the results and cash flows for the year. In preparing the accompanying financial statements, International Financial Reporting Standards have been followed, suitable accounting policies have been applied and reasonable estimates have been made. The Board approves significant changes to accounting policies and the effects of these are fully explained in the annual financial statements. The financial statements incorporate full and responsible disclosure in line with the company's philosophy on corporate governance.

The directors have reviewed the company's budget and flow of funds forecast for the year to 30 June 2009. On the basis of this review, and in the light of the current financial position, the directors have no reason to believe that FirstRand Bank Limited will not be a going concern for the foreseeable future. The going concern basis has therefore been adopted in preparing the financial statements.

The company's external auditors, Deloitte & Touche and PricewaterhouseCoopers Inc, have audited the financial statements and their unqualified report appears on page 49.

The financial statements of the company for the year ended 30 June 2008, which appear on pages 10 to 39, 43 to 46 and 50 to 152 respectively, have been approved by the Board of directors and are signed on its behalf by:

JP Burger
Chief Financial Officer

SE Nxasana
Chief Executive Officer

Sandton
6 October 2008

TO THE MEMBERS OF FIRSTRAND BANK LIMITED

We have audited the parent company annual financial statements of FirstRand Bank Limited, which comprise the directors' report, the balance sheet as at 30 June 2008, the income statement, the statement of changes in equity and the cash flow statement for the year then ended, a summary of significant accounting policies, other explanatory notes as set out on pages 50 to 152 and information defined as "audited" in the risk report, as set out on pages 10 to 39 and 43 to 46.

Directors' responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the parent company financial statements present fairly, in all material respects, the financial position of the company as of 30 June 2008, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa.

Deloitte & Touche

Deloitte & Touche
Partner: W Klaassen
Registered Auditor

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Director: J Grosskopf
Registered Auditor

Sandton
6 October 2008

NATURE OF BUSINESS

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

SHARE CAPITAL

The following shares were issued during the period:

22 October 2007	1 ordinary share at R2.00
31 March 2008	1 ordinary share at R2.00

Details of the Bank's share capital are presented in note 27 of the notes to the financial statements.

DIVIDENDS

Ordinary cash dividends of R 4 354 million were paid during the 2008 financial year (2007: R2 655 million).

Dividend of R273 million (2007: R232 million) were paid on non-cumulative non redeemable preference shares.

OWNERSHIP OF THE BANK

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

PROFIT AFTER TAX

Profit after tax amounted to R6 961 million (2007: 5 388 million).

DIRECTORS' INTERESTS IN THE BANK

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

DIRECTORATE

During the year Ms Z Rylands resigned and Mr JJH Bester was appointed as a director of FirstRand Bank Holdings and FirstRand Bank.

CONSOLIDATED FINANCIAL STATEMENTS

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

POST-BALANCE SHEET EVENTS

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

SHARE PURCHASE/OPTION SCHEME

Details of the investment in the FirstRand Limited ordinary shares by the First National Bank Share Purchase Scheme ("the FNB Scheme") and in the RMB Holdings Limited ordinary shares by the Rand Merchant Bank Share Incentive Scheme ("the RMB scheme") established for the benefit of employees of the Bank can be found in note 28 of the financial statements.

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

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

BW Unser
Company Secretary

1 INTRODUCTION

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

2 BASIS OF PRESENTATION

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

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

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

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

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

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

The principal accounting policies are consistent in all material aspects with those adopted in the previous year, except for the adoption of:

- IFRS 7 Financial Instruments: Disclosures which is effective for years commencing on or after 1 January 2007. The Standard deals with the disclosure of financial instruments and the related qualitative and quantitative risks. The statement therefore does not impact the results of the Bank but does impact the disclosure related to financial instruments. Comparative information has been provided where applicable.
- Amendment to IAS 1 Presentation of Financial Statements effective for years commencing on or after 1 January 2007, regarding capital disclosures which requires specific disclosures regarding an entity's objectives, policies and processes for managing capital.
- IFRIC 10 Interim financial reporting and impairment and IFRIC 11 IFRS 2 – Group and Treasury Share transactions, neither of which had an impact on Momentum's results for the year ended 30 June 2008.

The Bank adjusts comparative figures to conform to changes in presentation in the current year. For details refer to accounting policy 30.

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

These financial assets and liabilities include:
- financial assets and liabilities held for trading;
- financial assets classified as available-for-sale;
- derivative financial instruments;
- financial instruments elected to be carried at fair value; and
- employee benefit liabilities, valued using projected unit credit method.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are outlined in note 39.

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

3 SUBSIDIARY COMPANIES

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

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

Investments in subsidiaries held exclusively with the view of disposal in the near future (12 months) are accounted for at the lower of fair value less the cost to sell and its carrying amount in terms of the requirements of IFRS 5. Refer to accounting policy on disposal groups held for sale note 28.

4 ASSOCIATES AND JOINT VENTURES

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

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

5 INTEREST INCOME AND EXPENSE

The Bank recognises interest income and expense in the income statement for instruments measured at amortised cost using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the average expected life of the financial instrument or portfolios of financial instruments. Net interest income on advances and deposits designated at fair value through profit or loss, which are not trading in nature, are recognised in interest income and expense.

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

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

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

6 FAIR VALUE INCOME

The Bank includes profits, losses and fair value adjustments on trading financial instruments (including derivative instruments which do not qualify for hedge accounting in terms of IAS 39) as well as financial instruments designated at fair value through profit or loss, other than advances and deposits not of a trading nature, as fair value income in non interest income as it is earned.

7 FEE AND COMMISSION INCOME

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

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

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

8 DIVIDEND INCOME

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

9 FOREIGN CURRENCY TRANSLATION

9.1 Functional and presentation currency

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

9.2 Transactions and balances

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

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

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

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

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

10 BORROWING COSTS

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

11 DIRECT AND INDIRECT TAX

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

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

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

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

12 RECOGNITION OF ASSETS

12.1 Assets

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

12.2 Contingent assets

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

13 LIABILITIES, PROVISIONS AND CONTINGENT LIABILITIES

13.1 Liabilities and provisions

The Bank recognises liabilities, including provisions, when:

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

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

13.2 Contingent liabilities

The Bank discloses a contingent liability when:

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

14 CASH AND CASH EQUIVALENTS

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

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

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

15 FINANCIAL INSTRUMENTS

15.1 General

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

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

The Bank classifies its financial assets in the following categories:

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

Financial liabilities are classified in the following categories:

- financial liabilities at fair value through profit or loss; and
- financial liabilities at amortised cost.

Management determines the classification of its financial instruments at initial recognition.

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

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

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

The fair values of financial assets quoted in active markets are based on current bid prices. The fair values of financial liabilities quoted in active markets are based on current ask/offer prices. Alternatively, it derives fair value from cash flow models or other appropriate valuation models where an active market does not exist. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants making maximum use of market inputs and relying as little as possible on entity specific inputs.

15.1.1 Financial instruments at fair value through profit or loss

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

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

Financial assets and liabilities are designated on initial recognition as at fair value through profit and loss to the extent that it produces more relevant information because it either:

i. Results in the reduction of measurement inconsistency (or accounting mismatch) that would arise as a result of measuring assets and liabilities and the gains and losses on them on a different basis; or
ii. Is a group of financial assets and/or financial liabilities that is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and this is the basis on which information about the assets and/or liabilities is provided internally to the entity's key management personnel; or
iii. Is a financial asset or liability containing significant embedded derivatives that clearly require bifurcation.

The main financial assets and liabilities designated at fair value through profit and loss under criteria (i) are:

- Various loans to customers, structured notes and other investments that form part of the merchant banking division. The financial instruments have been designated to eliminate the accounting mismatch between these assets, if they were not designated but recognised at amortised cost, and the underlying derivatives and funding instruments that are recognised at fair value.
- Policyholder assets and liabilities under investment contracts. The liabilities under linked investment contracts have cash flows that are contractually determined with reference to the performance of the underlying assets. The changes in fair value of assets held in linked funds are recognised in the income statement. Liabilities to customers under other types of investments contracts are measured at amortised cost. If these assets were not designated on initial recognition, they would be classified as available-for-sale and the changes in their fair value would be recognised directly in equity. This would result in a significant accounting mismatch, as the movements in the fair value of the policyholder liability are recognised directly in the income statement.

Financial instruments designated under criterion (ii), include:

- Certain private equity and other investment securities; and
- Financial assets held to meet liabilities under insurance contracts.

These financial instruments are managed and their performance evaluated on a fair value basis. The Bank has documented risk management and investment strategies designed to manage such assets at fair value, taking into consideration the relationship of assets to liabilities in a way that mitigates market risk. Reports are provided to management on the fair value of the assets.

The Bank recognises fair value adjustments on financial assets designated as at fair value through profit and loss in trading income. Interest income on these assets is included in the fair value adjustment and is included as fair value income in non interest income.

The amount of change during the period and cumulatively, in the fair value of designated loans and receivables and designated financial liabilities that is attributable to changes in their credit risk, is determined as the amount of change in fair value that is not attributable to changes in market conditions that gives rise to market risk, ie currency, interest rate and other price risk.

15.1.2 Loans and receivables

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

- those that the Bank intends to sell immediately or in the near term, which shall be classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss;
- those that the Bank upon initial recognition designates as available for sale; or
- those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as available-for-sale.

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

15.1.3 Held-to-maturity investments

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

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

15.1.4 Available-for-sale financial assets

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

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

Treasury bills, debt securities and equity shares intended to be held on a continuing basis, other than those designated at fair value through profit and loss are classified as available-for-sale.

15.1.5 Financial liabilities at amortised cost

Financial liabilities are measured at amortised cost and interest is recognised over the period of the borrowing using the effective interest method.

15.2 Offsetting financial instruments

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

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

15.3 Embedded derivatives

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

i. their risks and characteristics are not closely related to those of the host contract;
ii. they meet the definition of a derivative; and
iii. the host contract is not carried at fair value, with gains and losses reported in income.

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

15.4 Derecognition of assets and liabilities

The Bank derecognises an asset when:

i. the contractual rights to the asset expires; or
ii. where there is a transfer of the contractual rights that comprise the asset; or
iii. the Bank retains the contractual rights of the assets but assumes a corresponding liability to transfer these contractual rights to another party and consequently transfers substantially all the risks and benefits associated with the asset.

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

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

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

i. if the Bank has not retained control, it derecognises the financial asset and recognises separately as assets or liabilities any rights and obligations created or retained in the transfer; or
ii. if the Bank has retained control, it continues to recognise the financial asset to the extent of its continuing involvement in the financial asset.

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

15.5 Sale and repurchase agreements and lending of securities

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

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

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

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

15.6 Impairments of financial assets

15.6.1 General

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

15.6.2 Assets carried at amortised cost

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

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Bank about the following events:

i. Significant difficulty of the issuer or debtor;
ii. A breach of contract, such as a default or delinquency in payments;
iii. It becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganization;
iv. The disappearance of an active market for that financial asset because of financial difficulties; or
v. Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those asset assets, although the decrease cannot yet be identified with the individual financial assets in the Bank, including:

- Adverse changes in the payment status of issuers or debtors in the Bank; or
- National or local economic conditions that correlate with defaults on the assets in the Bank.

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

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

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

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

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

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

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

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

15.6.2.1 Past due advances

Advances are considered past due in the following circumstances:

- Loans with a specific expiry date (eg term loans etc) are treated as overdue where the principal or interest is overdue and remains unpaid as at the reporting date.
- Consumer loans repayable by regular instalments (eg mortgage loans, personal loans) are treated as overdue when an instalment payment is overdue and remains unpaid as at the reporting date.
- A loan payable on demand is treated as overdue where a demand for repayment has been served on the borrower but repayment has not been made in accordance with the instruction.

In these instances, the full outstanding amount is considered overdue even if part of it is not yet due. The days past due is referenced to the earliest due date of the loan.

The past due analysis is only performed for advances with specific expiry dates or instalment repayment dates or demand loans that have been demanded. The analysis is not applicable to overdraft products or products where no specific due date is determined. The level of riskiness on these types of products is done with reference to the counterparty ratings of the exposures and reported as such.

15.6.2.2 Renegotiated advances

Financial assets that would otherwise be past due or impaired that have been renegotiated, are classified as neither past due nor impaired assets. Renegotiated advances are advances where, due to deterioration in the counterparty's financial condition, the bank granted a concession where original terms and conditions of the facility were amended. Where the advances were reclassified as neither past due nor impaired, the adherence to the new terms and conditions are closely monitored. These assets are considered as part of the collective evaluation of impairment where financial assets are grouped on the basis of similar credit risk characteristics.

15.6.3 Available-for-sale financial assets

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

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

15.7 Derivative financial instruments and hedging

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

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

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

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

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

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

i. hedge of the fair value of recognised assets or liabilities or firm commitments ("fair value hedge"); or,
ii. hedge of highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction ("cash flow hedge").

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

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

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

15.7.1 Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. Effective changes in fair value of interest rate swaps and related hedged items are reflected in interest income or interest expense. Effective changes in fair value of currency futures are reflected in non interest income. Any ineffectiveness is recorded in trading income.

If the hedge, of an instrument carried at amortised cost, no longer meets the criteria for hedge accounting, the cumulative adjustment to the carrying amount of a hedged item is amortised to the income statement based on a recalculated effective interest rate over the residual period to maturity, unless the hedge item has been derecognised whereby it is released to the income statement. The adjustment of the carrying amount of a hedge equity security remains in retained earnings until disposal of the equity security.

15.7.2 Cash flow hedge

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

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

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

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

16 COMMODITIES

16.1 Agricultural commodities

Commodities, where the Bank has a shorter term trading intention, are carried at fair value less cost to sell in accordance with the broker trader exception in IAS 2. The fair values of agricultural commodities are measured in accordance with IAS 41.

16.2 Other commodities

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

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

17 PROPERTY AND EQUIPMENT

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

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

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

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

The periods of depreciation used are as follows:

• Leasehold premises	Shorter of estimated life or period of lease
• Freehold property and property held under finance lease:	
– Buildings and structures	50 years
– Mechanical and electrical	20 years

- – Components 20 years
- – Sundries 3 – 5 years
- Computer equipment 3 – 5 years
- Furniture and fittings 3 – 10 years
- Motor vehicles 5 years
- Office equipment 3 – 6 years

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

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

18 LEASES

18.1 The Bank is the lessee

18.1.1 Finance leases

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

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

18.1.2 Operating leases

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

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

18.2 The Bank is the lessor

18.2.1 Finance leases

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

18.2.2 Operating leases

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

18.3 Instalment credit agreements

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

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

19 INTANGIBLE ASSETS

19.1 Computer software development costs

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

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

19.2 Other intangible assets

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

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

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

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

20 DEFERRED TAX

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

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

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

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

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

21 EMPLOYEE BENEFITS

21.1 Post employment benefits

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

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

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

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

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

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

21.2 Postretirement medical benefits

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

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

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

21.3 Termination benefits

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

21.4 Leave pay provision

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

21.5 Bonuses

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

21.6 Recognition of actuarial gains and losses

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

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

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

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

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

22 BORROWINGS

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

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

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

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

23 SHARE CAPITAL

23.1 Share issue costs

Shares are classified as equity when there is no obligation to transfer cash or assets. Incremental costs directly related to the issue of new shares or options are shown as a deduction from equity.

23.2 Dividends paid

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

23.3 Treasury shares

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

24 ACCEPTANCES

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

25 SEGMENT REPORTING

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

i. unique products or services ("business segment"); or
ii. products or services within a particular economic environment ("geographical segment").

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

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

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

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

26 FIDUCIARY ACTIVITIES

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

27 SHARE BASED PAYMENT TRANSACTIONS

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

27.1 Equity settled share based compensation plans

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

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

Amounts recognised for services received if the options granted do not vest because of failure to satisfy a vesting condition, are reversed through the income statement. If options are forfeited after the vesting date, an amount equal to the value of the options forfeited is debited against the share based payment reserve and credited against retained earnings.

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

27.2 Cash settled share based payment compensation plans

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

28 DISPOSAL GROUPS HELD FOR SALE

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

In light of the Bank's primary business being the provision of banking, insurance and asset management and health operations, non current assets held as investments are not classified as held for sale as the ongoing investment management implies regular purchases and sales in the ordinary course of business.

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

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

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

- its carrying amount before the asset or disposal group was classified as held for sale, adjusted for any depreciation, amortisation or revaluations that would have been recognised had the asset or disposal group not been classified as held for sale and;
- its recoverable amount at the date of the subsequent decision not to sell.

29 DISCONTINUED OPERATIONS

The Bank classifies a component as a discontinued operation when that component has been disposed of, or is classified as held for sale, and:

- it represents a separate major line of business or geographical area of operations;
- is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations;
- is a subsidiary acquired exclusively with a view to resale.

A component of a Bank comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes from the rest of the Bank.

30 RECLASSIFICATION OF PRIOR YEAR NUMBERS

The following line items on the face of the balance sheet have been restated:

R million	As previously reported	As restated	Reason for restatement
Advances	330 392	338 467	Reclassification of preference share advances to align disclosure with nature of assets, industry practice and IFRS 7.
Investment securities or loss	41 072	32 997	Reclassification of preference share advances to align disclosure with nature of assets, industry practice and IFRS 7.
Deposits	347 580	352 641	Reclassification of certain short trading positions and derivatives to deposits, to align with industry practices in terms of IFRS 7.
Short trading positions	27 206	22 511	Reclassification of certain short trading positions and derivatives to deposits, to align with industry practices in terms of IFRS 7.
Derivative financial liabilities	17 599	17 233	Reclassification of certain short trading positions and derivatives to deposits, to align with industry practices in terms of IFRS 7.

INCOME STATEMENT
for the year ended 30 June

R million	Notes	2008	2007
Interest and similar income	1	42 723	35 001
Interest expense and similar charges	1	(31 558)	(23 051)
Net interest income before impairment of advances		11 165	11 950
Impairment of advances	10	(4 457)	(2 564)
Net interest income after impairments of advances		6 708	9 386
Non interest income	2	20 188	14 533
Income from operations		26 896	23 919
Operating expenses	3	(17 513)	(16 314)
Income before tax		9 383	7 605
Indirect tax	4	(488)	(412)
Profit before tax		8 895	7 193
Direct tax	5	(1 934)	(1 805)
Profit for the year		6 961	5 388

BALANCE SHEET
as at 30 June

R million	Notes	2008	2007
ASSETS			
Cash and short term funds	7	21 913	22 707
Derivative financial instruments	8	48 257	20 174
Advances	9	400 621	338 467
Investment securities and other investments	11	52 108	32 997
Commodities	12	1 778	1 060
Accounts receivable	13	3 186	4 310
Investments in associates and joint ventures	14	838	289
Investment in subsidiary companies	15	75	13
Amounts due by holding company and fellow subsidiary companies	16	28 772	29 357
Property and equipment	17	5 154	3 082
Post retirement benefit asset	19	2 771	2 616
Intangible assets	20	122	61
Tax asset		261	–
Non current assets and disposal groups held for sale	21	95	572
Loans to insurance group		1 841	3 436
Total assets		567 792	459 141
EQUITY AND LIABILITIES			
Liabilities			
Deposits	22	415 173	352 641
Short trading positions	23	26 929	22 511
Derivative financial instruments	8	44 313	17 233
Creditors and accruals	24	4 869	4 316
Provisions	25	2 768	2 817
Tax liability		–	805
Post retirement benefit fund liability	19	1 888	1 798
Deferred tax liability	18	2 778	1 741
Long term liabilities	26	10 643	8 217
Amounts due to holding and fellow subsidiary companies	16	26 502	17 928
Loans from insurance group		2 639	4 185
Total liabilities		538 502	434 192
Equity			
Capital and reserves attributable to ordinary equity holders			
Ordinary shares	27	4	4
Share premium	27	7 564	6 161
Retained earnings		16 152	12 837
Reserves		2 570	2 947
		26 290	21 949
Non cumulative non redeemable preference shares	27	3 000	3 000
Capital and reserves attributable to ordinary equity holders		29 290	24 949
Total equity and liabilities		567 792	459 141

	Ordinary share capital and			
R million	Share capital and share premium	General risk reserve	Cash flow hedge reserve	Share based payment reserve
Balance as at 30 June 2006	3 376	717	118	275
Issue of share capital	2 789	–	–	–
Movement in revaluation reserves	–	–	(2)	–
Movement in other reserves	–	–	(51)	–
Profit for the year	–	–	–	–
Ordinary dividends	–	–	–	–
Preference dividends	–	–	–	–
Transfer (to)/from reserves	–	202	–	–
Contribution from parent company	–	–	–	140
Available-for-sale loss transferred to the income statement	–	–	–	–
Balance as at 30 June 2007	6 165	919	65	415
Issue of share capital	1 403	–	–	–
Movement in revaluation reserves	–	–	111	–
Movement in other reserves	–	–	346	(62)
Profit for the year	–	–	–	–
Ordinary dividends	–	–	–	–
Preference dividends	–	–	–	–
Transfer (to)/from reserves	–	(919)	–	–
Contribution from parent company	–	–	–	88
Available-for-sale loss transferred to the income statement	–	–	–	–
Balance as at 30 June 2008	7 568	–	522	441

ordinary shareholders' funds

Available-for-sale reserve	Other reserves	Reserves	Retained earnings	Capital and reserves attributable to equity holders	Total preference shareholders' funds	Total
97	1 345	2 552	10 538	16 466	3 000	19 466
–	–	–	–	2 789	–	2 789
126	–	124	–	124	–	124
–	–	(51)	–	(51)	–	(51)
–	–	–	5 388	5 388	–	5 388
–	–	–	(2 655)	(2 655)	–	(2 655)
–	–	–	(232)	(232)	–	(232)
–	–	202	(202)	–	–	–
–	–	140	–	140	–	140
(20)	–	(20)	–	(20)	–	(20)
203	1 345	2 947	12 837	21 949	3 000	24 949
–	–	–	–	1 403	–	1 403
443	–	554	–	554	–	554
–	–	284	62	346	–	346
–	–	–	6 961	6 961	–	6 961
–	–	–	(4 354)	(4 354)	–	(4 354)
–	–	–	(273)	(273)	–	(273)
–	–	(919)	919	–	–	–
–	–	88	–	88	–	88
(384)	–	(384)	–	(384)	–	(384)
262	1 345	2 570	16 152	26 290	3 000	29 290

CASH FLOW STATEMENT

for the year ended 30 June

R million	Notes	2008	2007
Cash flows from operating activities			
Cash receipts from customers	29.2	59 566	49 183
Cash paid to customers, suppliers and employees	29.3	(46 543)	(35 972)
Net cash flows from operating activities	29.1	13 023	13 211
Increase in income earning assets	29.4	(75 562)	(63 927)
Increase in deposits and other liabilities	29.5	65 366	55 531
Net cash utilised by operations		(10 196)	(8 396)
Tax paid	29.6	(2 428)	(1 896)
Net cash inflow from operating activities		399	2 919
Cash flows from investment activities			
Dividends from other investments		1 511	166
Dividends from associates and joint ventures		36	51
Purchase of property and equipment		(3 080)	(1 041)
Proceeds from the disposal of property and equipment		225	29
Proceeds from (acquisition)/disposal of investments		30	(81)
Acquisition of subsidiaries		(62)	–
Purchase of associates and joint ventures		(34)	(112)
Proceed from Visa listing		993	
Purchase of intangible assets		(121)	–
Net cash outflow from investment activities		(502)	(988)
Cash flows from financing activities			
Proceeds from long term liabilities		2 533	770
Proceeds from share issue		1 403	2 789
Dividends paid	29.7	(4 627)	(2 887)
Net cash (outflow)/inflow from financing activities		(691)	672
Net (decrease)/increase in cash and cash equivalents		(794)	2 603
Cash and cash equivalents at the beginning of the year	29.8	22 707	20 104
Cash and cash equivalents at the end of the year	29.8	21 913	22 707

1 ANALYSIS OF INTEREST INCOME, INTEREST EXPENDITURE AND NON INTEREST INCOME

1.1 Interest and similar income

	2008			
R million	Fair value	Amortised cost	Hedging instruments	Total
Interest on:				
– Advances	89	36 560	–	36 649
– Cash and short term funds	–	140	–	140
– Investment securities	1 572	–	–	1 572
– Unwinding of discounted present value on non performing loans	–	120	–	120
– Amounts due by holding company and fellow subsidiaries	875	983	–	1 858
– Loans to insurance group	23	–	–	23
– Other	701	1 506	154	2 361
Interest and similar income	3 260	39 309	154	42 723

	2007			
R million	Fair value	Amortised cost	Hedging instruments	Total
Interest on:				
– Advances	64	29 257	–	29 321
– Cash and short term funds	–	2 134	–	2 134
– Investment securities	910	2	–	912
– Unwinding of discounted present value on non performing loans	–	82	–	82
– Amounts due by holding company and fellow subsidiaries	97	1 121	–	1 218
– Loans to insurance group	27	32	–	59
– Other	814	419	42	1 275
Interest and similar income	1 912	33 047	42	35 001

1 ANALYSIS OF INTEREST INCOME, INTEREST EXPENDITURE AND NON INTEREST INCOME continued

1.2 Interest expense and similar charges

	2008			
R million	Fair value	Amortised cost	Non financial assets and liabilities	Total
– Deposits from banks and financial institutions	(218)	(926)	–	(1 144)
– Current accounts	(6)	(10 057)	–	(10 063)
– Savings deposits	–	(57)	–	(57)
– Term deposit accounts	(7 435)	(4 880)	–	(12 315)
– Negotiable certificates of deposit	(3 746)	–	–	(3 746)
– Debentures	(727)	(167)	–	(894)
– Amounts due by holding company and fellow subsidiaries	(1 387)	(574)	–	(1 961)
– Loans from insurance group	–	(130)	–	(130)
– Other	(240)	(987)	(21)	(1 248)
Interest expense and similar charges	(13 759)	(17 778)	(21)	(31 558)

	2007			
R million	Fair value	Amortised cost	Non financial assets and liabilities	Total
Interest on:				
– Deposits from banks and financial institutions	(391)	(109)	–	(500)
– Current accounts	(329)	(4 995)	–	(5 324)
– Savings deposits	–	(42)	–	(42)
– Term deposit accounts	(8 639)	(5 896)	–	(14 535)
– Debentures	(288)	(430)	–	(718)
– Amounts due by holding company and fellow subsidiaries	(129)	(846)	–	(975)
– Loans from insurance group	–	(21)	–	(21)
– Other	(741)	(182)	(13)	(936)
Interest expense and similar charges	(10 517)	(12 521)	(13)	(23 051)

	2008	2007
1 ANALYSIS OF INTEREST INCOME, INTEREST EXPENDITURE AND NON INTEREST INCOME continued		
1.3 Non interest income		
Fee and commission income		
– Instruments at amortised cost	7 181	8 567
– Instruments at fair value	–	4
– Non financial assets and liabilities	3 078	1 199
Fee and commission income	10 259	9 770
Fair value income		
– Held for trading	5 463	2 673
– Designated at fair value	633	–
– Other	893	656
Fair value income	6 989	3 329
Gains less losses from investment activities		
– Designated at fair value	1 015	(53)
– Available-for-sale	9	(30)
– Other	94	217
Gains less losses from investment activities	1 118	134
Other non interest income	1 822	1 300
Total	20 188	14 533
2 NON INTEREST INCOME		
Fee and commission income:		
– Banking fee and commission income	9 316	9 164
– Card commissions	1 274	1 144
– Cash deposit fees	1 054	895
– Commissions: bills, drafts and cheques	543	358
– Service fees	3 789	3 333
– Other commissions	2 656	3 434
– Knowledge based fee and commission income	781	566
– Non banking fee and commission income	62	40
– Other	100	–
Fee and commission income	10 259	9 770

Non banking fee and commission earned relate to fees and commissions earned for rendering services to clients other than those related to the banking operations. This includes commission earned on the sale of insurance products.

R million	2008	2007
2 NON INTEREST INCOME continued		
Fair value income:		
– Foreign exchange trading	893	656
– Treasury trading operations	5 463	2 673
– Designated at fair value through profit or loss	633	–
Fair value income	6 989	3 329
Included in gains and losses from fair value income:		
Dividend income on trading securities	1 453	2 539
Foreign exchange net trading income includes gains and losses from spot and forward contracts, options, futures, and translated foreign currency assets and liabilities. Trading operations include interest rate instruments and equity trading income.		
Interest rate instruments includes the results of making markets in instruments in government securities, corporate debt securities, money market instruments, interest rate and current swaps, options and other derivatives. Equity trading income includes the results of making markets globally in equity securities and equity derivatives such as swaps, options, futures and forward contracts.		
Gains less losses from investment activities		
– Gains/(losses) on investment securities designated at fair value through profit or loss	1 015	(53)
– Transfer (to)/from revaluation reserve on sale of available-for-sale assets	9	(30)
– Dividends received	94	217
Gains less losses from investment activities	1 118	134
Other non interest income		
– Gain/(loss) on sale of property and equipment	6	(6)
– Recoveries from subsidiaries	865	671
– Other income	951	635
Other non interest income	1 822	1 300
Total non interest income	20 188	14 533

R million	2008	2007
3 OPERATING EXPENSES		
Fee and commission expense	(195)	(180)
Auditors' remuneration		
– Audit fees	(59)	(48)
– Fees for other services	(8)	(8)
– Technical advice	–	(1)
– Other	(8)	(7)
Auditors' remuneration	(67)	(56)
Amortisation of intangible assets		
– Software	(52)	(17)
– Development costs	(4)	(7)
Amortisation of intangible assets	(56)	(24)
Depreciation		
– Property	(185)	(144)
– Freehold property	(37)	(34)
– Leasehold premises	(148)	(110)
– Equipment	(585)	(547)
– Computer equipment	(399)	(401)
– Furniture and fittings	(82)	(69)
– Motor vehicles	(32)	(20)
– Office equipment	(72)	(57)
Depreciation	(770)	(691)
Other impairments incurred		
– Property and equipment	(24)	(17)
– Software	(4)	–
Other impairments incurred	(28)	(17)
Impairments reversed		
– Property and equipment	5	8
Impairments reversed	5	8
Operating lease charges		
– Property	(779)	(776)
– Equipment	(227)	(204)
– Motor vehicles	(16)	(21)
Operating lease charges	(1 022)	(1 001)
Professional fees		
– Managerial	(1)	–
– Technical	(394)	(346)
– Other	(253)	(170)
Professional fees	(648)	(516)

R million	2008	2007
3 OPERATING EXPENSES continued		
Direct staff costs		
– Salaries, wages and allowances	(5 631)	(4 751)
– Contributions to employee benefit funds	(921)	(996)
– Defined contribution schemes	(1 018)	(993)
– Defined benefit schemes	97	(3)
– Social security levies	(79)	(72)
– Share based payments	(106)	(239)
– Other	(534)	(356)
Direct staff cost	(7 271)	(6 414)
– Staff related cost	(1 817)	(1 802)
Total staff cost	(9 088)	(8 216)
Other operating costs		
– Insurance	(242)	(170)
– Advertising and marketing	(666)	(681)
– Maintenance	(612)	(541)
– Property	(349)	(257)
– Computer	(549)	(529)
– Stationery	(200)	(188)
– Telecommunications	(399)	(352)
– eBucks customer rewards	(232)	(203)
– Conveyance of cash	(208)	(169)
– Origination costs	(45)	(42)
– Other operating expenditure	(1 648)	(1 581)
– Total directors' remuneration	(47)	(22)
– Fees for services as directors/consultants	(7)	(4)
– Salaries, wages and allowance	(40)	(18)
– Intergroup expenses	(446)	(885)
Other operating costs	(5 643)	(5 620)
Research and development expenditure	(1)	(1)
Total operating expenses	(17 513)	(16 314)
4 INDIRECT TAX		
Value added tax (net)	(469)	(385)
Regional services levy	(1)	(5)
Stamp duties	(2)	(2)
Other	(16)	(20)
Total indirect tax	(488)	(412)

R million	2008	2007
5 TAX		
Direct tax		
Normal tax		
– Current	(856)	(1 857)
– Current year	(1 247)	(1 600)
– Prior year adjustment	391	(257)
– Deferred	(1 021)	62
– Current year	(752)	(198)
– Prior year adjustment	(334)	260
– Tax rate adjustment	65	–
Total normal tax	(1 877)	(1 795)
Foreign company and withholding tax		
– Current	(1)	–
– Current year	(1)	–
Total foreign company and withholding tax	(1)	–
Secondary tax on companies	(56)	(10)
– Current	(18)	–
– Deferred	(38)	(10)
– Current year	(38)	(10)
Direct tax	(1 934)	(1 805)

The rate of STC was changed from 12.5% to 10% in October 2007 as a result of Revenue Laws amended by the Minister of Finance.

The rate of corporate tax was changed from 29% to 28% in February 2008 as a result of the revenue laws amended by the Minister of Finance.

Tax rate reconciliation – South African normal tax	%	%
Effective rate of tax	21.7	25.1
Total tax has been affected by:		
– Non taxable income	11.5	12.1
– Prior year adjustments	0.6	–
– Tax rate adjustment	0.7	–
– Other permanent differences	(5.9)	(8.2)
– Other taxes	(0.6)	–
Standard rate of South African tax	28.0	29.0

6 ANALYSIS OF ASSETS AND LIABILITIES

Financial assets and financial liabilities are measured on an ongoing basis either at fair value or at amortised cost. The principal accounting policies on pages 51 to 63 describe how the classes of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the financial assets and liabilities in the balance sheet per category of financial instrument to which they are assigned and therefore by measurement basis:

				2008
R million	Held for trading	Designated at fair value through profit or loss	Loans and receivables	Available-for-sale financial assets
ASSETS				
Cash and short term funds	–	–	21 913	–
Derivative financial instruments	47 249	–	–	–
Advances	–	94 119	305 829	673
Investment securities and other investments	33 357	8 080	–	10 671
Commodities	1 778	–	–	–
Accounts receivable	–	–	3 186	–
Investment in associate and joint ventures	–	–	–	–
Investment in subsidiary companies	–	–	–	–
Amounts due by holding company and fellow subsidiary companies	412	–	28 360	–
Property and equipment	–	–	–	–
Post retirement benefit asset	–	–	–	–
Intangible assets and deferred acquisition costs	–	–	–	–
Tax asset	–	–	–	–
Non current assets and disposal groups held for sale	–	–	–	–
Loans to insurance group	–	–	1 841	–
Total assets	82 796	102 199	361 129	11 344
LIABILITIES				
Deposits	–	165 008	–	–
Short trading positions	26 929	–	–	–
Derivative financial instruments	43 791	–	–	–
Creditors and accruals	–	–	–	–
Provisions	–	–	–	–
Post retirement benefit fund liability	–	–	–	–
Deferred tax liability	–	–	–	–
Long term liabilities	–	2 090	–	–
Amounts due to holding and fellow subsidiary companies	999	–	–	–
Loans from insurance group	–	–	–	–
Total liabilities	71 719	167 098	–	–

Financial liabilities at amortised cost	Derivatives designated as cash flow hedging instruments	Non financial assets and liabilities	Total
–	–	–	21 913
–	1 008	–	48 257
–	–	–	400 621
–	–	–	52 108
–	–	–	1 778
–	–	–	3 186
–	–	838	838
–	–	75	75
–	–	–	28 772
–	–	5 154	5 154
–	–	2 771	2 771
–	–	122	122
–	–	261	261
–	–	95	95
–	–	–	1 841
–	1 008	9 316	567 792
250 165	–	–	415 173
–	–	–	26 929
–	522	–	44 313
4 869	–	–	4 869
–	–	2 768	2 768
–	–	1 888	1 888
–	–	2 778	2 778
8 436	–	117	10 643
25 503	–	–	26 502
2 639	–	–	2 639
291 612	522	7 551	538 502

6 ANALYSIS OF ASSETS AND LIABILITIES continued

	2007			
R million	Held for trading	Designated at fair value through profit or loss	Loans and receivables	Available-for-sale financial assets
ASSETS				
Cash and short term funds	–	–	22 707	–
Derivative financial instruments	20 047	–	–	–
Advances	16 465	51 619	269 643	740
Investment securities and other investments	24 259	1 171	–	7 567
Commodities	1 060	–	–	–
Accounts receivable	–	–	4 310	–
Investment in associate and joint ventures	–	–	–	–
Investment in subsidiary companies	–	–	–	13
Amounts due by holding company and fellow subsidiary companies	862	–	28 495	–
Property and equipment	–	–	–	–
Post retirement benefit asset	–	–	–	–
Intangible assets and deferred acquisition costs	–	–	–	–
Non current assets and disposal groups held for sale	–	–	–	–
Loans to insurance group	–	–	3 436	–
Total assets	62 693	52 790	328 591	8 320
LIABILITIES				
Deposits	–	140 227	–	–
Short trading positions	22 511	–	–	–
Derivative financial instruments	17 205	–	–	–
Creditors and accruals	–	–	–	–
Provisions	–	–	–	–
Tax liability	–	–	–	–
Post retirement benefit fund liability	–	–	–	–
Deferred tax liability	–	–	–	–
Long term liabilities	–	2 000	–	–
Amounts due to holding and fellow subsidiary companies	1 626	–	–	–
Loans from insurance group	–	–	–	–
Total liabilities	41 342	142 227	–	–

Financial liabilities at amortised cost	Derivatives designated as cash flow hedging instruments	Non financial assets and liabilities	Total
–	–	–	22 707
–	127	–	20 174
–	–	–	338 467
–	–	–	32 997
–	–	–	1 060
–	–	–	4 310
–	–	289	289
–	–	–	13
–	–	–	29 357
–	–	3 082	3 082
–	–	2 616	2 616
–	–	61	61
–	–	572	572
–	–	–	3 436
–	127	6 620	459 141
212 414	–	–	352 641
–	–	–	22 511
–	28	–	17 233
4 316	–	–	4 316
–	–	2 817	2 817
–	–	805	805
–	–	1 798	1 798
–	–	1 741	1 741
6 118	–	99	8 217
16 302	–	–	17 928
4 185	–	–	4 185
243 335	28	7 260	434 192

R million	2008	2007
7 CASH AND SHORT TERM FUNDS		
Coins and bank notes	2 825	2 118
Money at call and short notice	828	4 314
Balances with central banks	10 390	7 969
Balances with other banks	7 870	8 306
Cash and short term funds	21 913	22 707
Fair value of balance presented		
The carrying value approximates the fair value.		
Mandatory reserve balances included in above:	10 390	7 944

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

8 DERIVATIVE FINANCIAL INSTRUMENTS

Use of derivatives

The Bank transacts in derivatives for three purposes: to create risk management solutions for clients, for proprietary trading purposes, and to manage and hedge the Bank's own risk. For accounting purposes, derivative instruments are classified as held either for trading or hedging. Derivatives that are held as hedging instruments are formally designated as hedging instruments as defined in IAS 39.

All other derivatives are classified as held for trading. The held for trading classification includes two types of derivative instruments; those used in sales and trading activities, and those that do not meet the qualifying criteria for hedge accounting. The second type of held for trading category includes derivatives managed in conjunction with financial instruments designated at fair value.

The Bank's derivative activities give rise to significant open positions in portfolios of derivatives. These positions are managed constantly to ensure that they remain within acceptable risk levels, with offsetting deals being utilised to achieve this where necessary.

Whilst the Bank employs the same credit risk management procedures to approve the potential credit exposures for derivatives as are used for traditional lending, the calculations and procedures used to assess credit risk for derivatives are more complex.

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

The Bank's detailed risk management strategy, including the use of hedging instruments in risk management, is set out in the Risk Management Report of the Risk Report on pages 3 to 42 of the Annual Report ("the Risk Report").

Please refer to note 35 for information on how the fair value of derivatives is determined.

Trading derivatives

Most of the Bank's derivative transactions relate to sales and trading activities. Sales activities include the structuring and marketing of derivative products to customers to enable them to take, transfer, modify or reduce current or expected risks. Trading activities in derivatives are entered into principally for the purpose of generating profits from short term fluctuations in price or margin.

Positions may be traded actively or be held over a period of time to benefit from expected changes in currency rates, interest rates, equity prices or other market parameters. Trading includes market making, positioning and arbitrage activities. Market making entails quoting bid and offer prices to other market participants for the purpose of generating revenues based on spread and volume; positioning means managing market risk positions in the expectation of benefiting from favourable movements in prices, rates or indices; arbitrage involves identifying and profiting from price differentials between markets and products.

As mentioned above, other derivatives classified as held for trading include non qualifying hedging derivatives, ineffective hedging derivatives and the component of hedging derivatives that are excluded from assessing hedge effectiveness. Non qualifying hedging derivatives are entered into for risk management purposes but do not meet the criteria for hedge accounting. These include derivatives managed in conjunction with financial instruments designated at fair value.

Hedging instruments

The Bank hedges interest rate risk in the Bank's balance sheet using separate risk portfolios. These portfolios are managed under separate mandates, which take into account the underlying risk inherent in each portfolio. Counterparty credit risk is managed centrally by FirstRand Credit.

The inherent complexity of interest rate risks in the Bank balance sheet and consequently in each portfolio, requires that interest rate risk be analysed and managed using various analytical tools and frameworks. While each analytical process may highlight a different aspect of interest rate risk, each analytical tool is intended to corroborate and support the overall interest rate risk management objectives of the Bank.

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

Rand overnight deposits

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

The Bank uses the following financial instruments for hedging purposes:

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

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

Fair value hedges

The Bank's fair value hedges principally consist of commodity and interest rate derivatives used to hedge the price risk associated with physical commodity positions and interest rate products. For qualifying fair value hedges, all changes in fair value of the derivative and in the fair value of the item in relation to the risk being hedged are recognised in profit or loss. If the hedge relationship is terminated, the fair value adjustment to the item continues to be reported as part of the basis of the item and will be realised upon sale of the hedged item.

R million	2008	2007
Gains or losses for the period arising from the change in fair value of fair value hedges:		
– on hedging instrument	514	15
– on hedged items attributable to the hedged risk	(432)	(16)
Total	82	(1)

Cash flow hedges

These instruments have quarterly resets and settlements.

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

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

When the hedged risk is no longer expected to occur, the gains or losses deferred in equity are released to profit and loss immediately.

R million	2008	2007
8 DERIVATIVE FINANCIAL INSTRUMENTS continued		
Cash flow hedges continued		
Reconciliation of movements in the cash flow hedge reserve		
Opening balance (net of deferred tax)	65	118
Amount recognised directly in equity during the year	111	(2)
Amounts removed from equity and included in the income statement for the year	346	(51)
– Gross amount	502	(72)
– Deferred tax	(156)	21
Closing balance	522	65

During the period, the hedging relationship was highly effective and the Group deferred the lesser of changes in fair value of the hedging instruments and changes in fair value on the hedged items. As the changes on the hedging instruments were less than the changes in fair value on the hedged items, no ineffectiveness was recognised in profit or loss.

	2008		2007	
R million	Assets	Liabilities	Assets	Liabilities
Hedge ineffectiveness recognised in the income statement				
Cash flows on the underlying hedged items are expected to impact the income statement as follows:				
– 1 – 3 months	1 110	(1 648)	176	(121)
– 3 – 12 months	2 234	(3 744)	401	(269)
– 1 – 5 years	2 731	(4 691)	424	(284)
– Over 5 years	205	(170)	–	–
Total	6 280	(10 253)	1 001	(674)
Cash flows on the hedging instruments are expected to be released to the income statement as follows:				
– 1 – 3 months	(152)	261	(143)	123
– 3 – 12 months	(290)	566	(322)	271
– 1 – 5 years	(307)	651	(373)	314
– Over 5 years	(18)	15	–	–
Total	(767)	1 493	(838)	708

A split of current and non current amounts can be found in note 43.

8 DERIVATIVE FINANCIAL INSTRUMENTS continued

Cash flow hedges continued

The following forecast transactions for which cash flow hedge accounting has been applied are no longer expected to occur:

	Assets		Liabilities	
R million	Notional	Fair value	Notional	Fair value
2008				
Qualifying for hedge accounting				
Cash flow hedges				
Interest rate derivatives	81 401	1 008	44 730	522
– Swaps	81 401	1 008	44 730	522
Total cash flow hedges	81 401	1 008	44 730	522
Fair value hedges				
Commodity derivatives	704	–	1 110	–
– Futures	704	–	1 110	–
Total fair value hedges	704	–	1 110	–
Total qualifying for hedge accounting	82 105	1 008	45 840	522
Held for trading				
Currency derivatives	399 607	16 316	336 926	10 522
– Forward rate agreements	163 867	2 763	179 571	3 661
– Swaps	218 878	6 030	143 455	4 583
– Options	16 661	6 712	13 483	1 420
– Futures	201	811	417	858
Interest rate derivatives	2 926 336	27 643	2 742 699	27 827
– Forward rate agreements	1 841 487	5 324	1 751 835	5 982
– Swaps	665 540	20 530	576 845	19 952
– Options	389 753	1 571	385 974	1 579
– Futures	29 556	218	28 045	314
Equity derivatives	18 787	723	28 979	2 765
– Options	12 237	491	21 645	2 624
– Futures	6 550	232	7 334	141
Commodity derivatives	15 875	2 553	4 949	2 299
– Swaps	10 037	1 402	2 507	817
– Options	1 036	676	547	149
– Futures	4 802	475	1 895	1 333
Credit derivatives	2 291	14	1 586	378
Total held for trading	3 362 896	47 249	3 115 139	43 791
Total	3 445 001	48 257	3 160 979	44 313

8 DERIVATIVE FINANCIAL INSTRUMENTS continued

Cash flow hedges continued

	Assets: Derivative instruments					
	Exchange traded		Over the counter		Total	
R million	Notional	Fair value	Notional	Fair value	Notional	Fair value
2008						
Qualifying for hedge accounting						
Cash flow hedges	–	–	81 401	1 008	81 401	1 008
Interest rate derivatives	–	–	81 401	1 008	81 401	1 008
Fair value hedges	704	–	–	–	704	–
Commodity derivatives	704	–	–	–	704	–
Not qualifying for hedge accounting						
Held for trading	10 880	166	3 352 016	47 083	3 362 896	47 249
Currency derivatives	–	–	399 607	16 316	399 607	16 316
Interest rate derivatives	4 970	–	2 921 366	27 643	2 926 336	27 643
Equity derivatives	4 871	166	13 916	557	18 787	723
Commodity derivatives	1 039	–	14 836	2 553	15 875	2 553
Credit derivatives	–	–	2 291	14	2 291	14
Total	11 584	166	3 433 417	48 091	3 445 001	48 257

	Liabilities: Derivative instruments					
	Exchange traded		Over the counter		Total	
R million	Notional	Fair value	Notional	Fair value	Notional	Fair value
2008						
Qualifying for hedge accounting						
Cash flow hedges	–	–	44 730	522	44 730	522
Interest rate derivatives	–	–	44 730	522	44 730	522
Fair value hedges	1 110	–	–	–	1 110	–
Commodity derivatives	1 110	–	–	–	1 110	–
Not qualifying for hedge accounting						
Held for trading	11 690	159	3 103 449	43 632	3 115 139	43 791
Currency derivatives	–	–	336 926	10 522	336 926	10 522
Interest rate derivatives	3 460	2	2 739 239	27 825	2 742 699	27 827
Equity derivatives	7 031	157	21 948	2 608	28 979	2 765
Commodity derivatives	1 199	–	3 750	2 299	4 949	2 299
Credit derivatives	–	–	1 586	378	1 586	378
Total	12 800	159	3 148 179	44 154	3 160 979	44 313

8 DERIVATIVE FINANCIAL INSTRUMENTS continued

Cash flow hedges continued

	Assets		Liabilities	
R million	Notional	Fair value	Notional	Fair value
2007				
Qualifying for hedge accounting				
Cash flow hedges				
Interest rate derivatives	32 781	127	11 400	28
– Swaps	32 120	122	11 400	28
– Options	661	5	–	–
Total qualifying for hedge accounting	32 781	127	11 400	28
Held for trading				
Currency derivatives	197 607	7 432	171 644	4 526
– Forward rate agreements	76 527	2 163	68 857	2 125
– Swaps	119 544	5 123	101 438	2 287
– Options	1 536	146	1 338	114
– Futures	–	–	11	–
Interest rate derivatives	1 039 800	8 290	1 053 878	7 846
– Forward rate agreements	636 854	1 727	679 746	1 427
– Swaps	342 823	6 096	332 868	6 061
– Options	57 208	465	37 913	356
– Futures	2 915	2	3 351	2
Equity derivatives	5 559	243	33 922	1 037
– Forward rate agreements	2	2	–	–
– Options	1 289	80	24 522	(9)
– Futures	4 268	161	9 400	1 046
Commodity derivatives	12 948	4 057	19 381	3 792
– Forward rate agreements	3 185	111	9 029	1 329
– Swaps	276	3	932	32
– Options	8 792	3 938	7 491	2 426
– Futures	695	5	1 929	5
Credit derivatives	1 070	25	150	4
Total held for trading	1 256 984	20 047	1 278 975	17 205
Total	1 289 765	20 174	1 290 375	17 233

8 DERIVATIVE FINANCIAL INSTRUMENTS continued

Cash flow hedges continued

	Assets: Derivative instruments					
	Exchange traded		Over the counter		Total	
R million	Notional	Fair value	Notional	Fair value	Notional	Fair value
2007						
Qualifying for hedge accounting						
Cash flow hedges	–	–	32 781	127	32 781	127
Interest rate derivatives	–	–	32 781	127	32 781	127
Not qualifying for hedge accounting						
Held for trading	7 246	11	1 249 738	20 036	1 256 984	20 047
Currency derivatives	–	–	197 607	7 432	197 607	7 432
Interest rate derivatives	5 392	5	1 034 408	8 285	1 039 800	8 290
Equity derivatives	1 147	–	4 412	243	5 559	243
Commodity derivatives	707	6	12 241	4 051	12 948	4 057
Credit derivatives	–	–	1 070	25	1 070	25
Total	7 246	11	1 282 519	20 163	1 289 765	20 174

	Liabilities: Derivative instruments					
	Exchange traded		Over the counter		Total	
R million	Notional	Fair value	Notional	Fair value	Notional	Fair value
2007						
Qualifying for hedge accounting						
Cash flow hedges	–	–	11 400	28	11 400	28
Interest rate derivatives	–	–	11 400	28	11 400	28
Not qualifying for hedge accounting						
Held for trading	13 264	9	1 265 711	17 196	1 278 975	17 205
Currency derivatives	11	–	171 633	4 526	171 644	4 526
Interest rate derivatives	3 351	3	1 050 527	7 843	1 053 878	7 846
Equity derivatives	7 900	1	26 022	1 036	33 922	1 037
Commodity derivatives	2 002	5	17 379	3 787	19 381	3 792
Credit derivatives	–	–	150	4	150	4
Total	13 264	9	1 277 111	17 224	1 290 375	17 233

Included in loans to/from insurance group are derivates of:

	2008		2007	
	Assets		Assets	
	Notional	Fair value	Notional	Fair value
Loans due from insurance group	**7 261**	**837**	28 802	1 015

	2008		2007	
	Liabilities		Liabilities	
	Notional	Fair value	Notional	Fair value
Loans due to insurance group	**9 365**	**2 587**	2 738	496

R million	2008 Total fair value Loans and receivables	Available-for-sale	Held for trading	Designated at fair value through profit or loss	Total
9 ADVANCES					
Sector analysis					
Agriculture	7 419	–	–	168	7 587
Banks and financial services	16 729	673	–	44 316	61 718
Building and property development	2 953	–	–	9 304	12 257
Government, Land Bank and public authorities	10 887	–	–	8 211	19 098
Individuals	224 534	–	–	142	224 676
Manufacturing and commerce	29 723	–	–	10 717	40 440
Mining	2 552	–	–	9 009	11 561
Transport and communication	2 077	–	–	6 732	8 809
Other services	16 457	–	–	5 520	21 977
Notional value of advances	313 331	673	–	94 119	408 123
Contractual interest suspended	(927)	–	–	–	(927)
Gross advances	312 404	673	–	94 119	407 196
Impairment of advances (note 10)	(6 575)	–	–	–	(6 575)
Net advances	305 829	673	–	94 119	400 621
Geographic analysis (based on credit risk)					
South Africa	312 731	673	–	78 581	391 985
Other Africa	496	–	–	713	1 209
United Kingdom	42	–	–	9 344	9 386
Other	62	–	–	5 481	5 543
– Ireland	2	–	–	395	397
– Other Europe	50	–	–	5 064	5 114
– North America	4	–	–	22	26
– South America	1	–	–	–	1
– Australasia	4	–	–	–	4
– Other	1	–	–	–	1
Total value of advances	313 331	673	–	94 119	408 123
Contractual interest suspended	(927)	–	–	–	(927)
Gross advances	312 404	673	–	94 119	407 196
Impairment of advances (note 10)	(6 575)	–	–	–	(6 575)
Net advances	305 829	673	–	94 119	400 621

R million	2008 Total fair value: Loans and receivables	Available-for-sale	Held for trading	Designated at fair value through profit or loss	Total
9 ADVANCES continued					
Category analysis					
Overdrafts and managed accounts	47 316	–	–	–	47 316
Loans to other financial institutions	6 344	–	–	3 103	9 447
Card loans	12 805	–	–	–	12 805
Instalment sales	53 054	–	–	–	53 054
Lease payments receivable	23 766	–	–	–	23 766
Property finance	139 842	–	–	2 066	141 908
– Home loans	133 405	–	–	–	133 405
– Commercial property finance	6 437	–	–	2 066	8 503
Personal loans	14 490	–	–	–	14 490
Preference share advances	2 344	–	–	15 727	18 071
Other	12 791	673	–	42 754	56 218
Assets under agreement to resell	579	–	–	30 469	31 048
Notional value of advances	313 331	673	–	94 119	408 123
Contractual interest suspended	(927)	–	–	–	(927)
Gross advances	312 404	673	–	94 119	407 196
Impairment of advances (note 10)	(6 575)	–	–	–	(6 575)
Net advances	305 829	673	–	94 119	400 621

R million	2007 Total fair value: Loans and receivables	Available-for-sale	Held for trading	Designated at fair value through profit or loss	Total
Sector analysis					
Agriculture	6 475	–	647	–	7 122
Banks and financial services	14 120	740	15 018	18 266	48 144
Building and property development	3 202	–	13	8 029	11 244
Government, Land Bank and public authorities	9 959	–	2	9 598	19 559
Individuals	203 229	–	5	154	203 388
Manufacturing and commerce	24 147	–	59	8 058	32 264
Mining	676	–	–	3 635	4 311
Transport and communication	4 251	–	–	717	4 968
Other services	8 085	–	721	3 162	11 968
Notional value of advances	274 144	740	16 465	51 619	342 968
Contractual interest suspended	(466)	–	–	–	(466)
Gross advances	273 678	740	16 465	51 619	342 502
Impairment of advances (note 10)	(4 035)	–	–	–	(4 035)
Net Advances	269 643	740	16 465	51 619	338 467

	2007				
	Total fair value				
R million	Loans and receivables	Available-for-sale	Held for trading	Designated at fair value through profit or loss	Total
9 ADVANCES continued					
Geographic analysis (based on credit risk)					
South Africa	272 128	740	1 433	45 940	320 241
Other Africa	57	–	15	141	213
United Kingdom	1 925	–	5 509	5 149	12 583
Other	34	–	9 508	389	9 931
– Ireland	2	–	1 124	–	1 126
– Other Europe	23	–	8 384	291	8 698
– North America	4	–	–	–	4
– South America	1	–	–	5	6
– Australasia	3	–	–	–	3
– Other	1	–	–	93	94
Total value of advances	274 144	740	16 465	51 619	342 968
Contractual interest suspended	(466)	–	–	–	(466)
Gross advances	273 678	740	16 465	51 619	342 502
Impairment of advances (note 10)	(4 035)	–	–	–	(4 035)
Net advances	269 643	740	16 465	51 619	338 467
Category analysis					
Overdrafts and managed accounts	46 811	–	1 350	–	48 161
Loans to other financial institutions	117	–	–	1 602	1 719
Card loans	12 311	–	–	–	12 311
Instalment sales	40 218	–	–	–	40 218
Lease payments receivable	28 729	–	–	–	28 729
Property finance	119 577	–	–	1 746	121 323
– Home loans	114 946	–	–	–	114 946
– Commercial property finance	4 631	–	–	1 746	6 377
Personal loans	13 071	–	–	–	13 071
Preference share advances	2 308	–	–	8 075	10 383
Other	10 602	740	15 115	22 392	48 849
Assets under agreement to resell	400	–	–	17 804	18 204
Notional value of advances	274 144	740	16 465	51 619	342 968
Contractual interest suspended	(466)	–	–	–	(466)
Gross advances	273 678	740	16 465	51 619	342 502
Impairment of advances (note 10)	(4 035)	–	–	–	(4 035)
Net advances	269 643	740	16 465	51 619	338 467

A split of current and non current advances can be found in note 43.

9 ADVANCES continued

Advances relating to synthetic securitisations are:

- Procul is a synthetic securitisation transaction amounting to R2.0 billion (2006: R2.0 billion) of WesBank retail instalment sale advances. In terms of the transaction WesBank has transferred the credit risk up to the value of the reference portfolio to Procul, a bankruptcy remote special purpose vehicle.
- Fresco II is a synthetic securitisation transaction amounting to R20 billion of FirstRand Bank Limited corporate advances. In terms of the transaction, FirstRand Bank Limited has transferred the credit risk up to the value of the reference portfolio to Fresco II, a bankruptcy remote special purpose entity.

The Bank from time to time enters into transactions whereby advances are securitised. Please refer to Note 34 for more information of these transactions

R million	Within 1 year	Between 1 and 5 years	More than 5 years	Total
2008				
Analysis of instalment sales and lease payments receivable				
Lease payments receivable	6 465	17 017	364	23 846
Suspensive sale instalments receivable	19 083	50 114	1 075	70 272
Subtotal	25 548	67 131	1 439	94 118
Less: Unearned finance charges	(4 672)	(12 361)	(265)	(17 298)
Total	20 876	54 770	1 174	76 820
2007				
Analysis of instalment sales and lease payments receivable				
Lease payments receivable	7 778	20 881	79	28 738
Suspensive sale instalments receivable	13 210	36 857	140	50 207
Subtotal	20 988	57 738	219	78 945
Less: Unearned finance charges	(2 697)	(7 273)	(28)	(9 998)
Total	18 291	50 465	191	68 947

Under the terms of the lease agreements, no contingent rentals are payable. These agreements relate to motor vehicles and equipment. The accumulated allowance for uncollectible minimum lease payments receivable included in the allowance for impairments at the balance sheet date is R452 million (2007: R250 million).

9 ADVANCES continued

Collateral is an important mitigant of credit risk. In accordance with the Bank credit risk management strategy. The following principle types of collateral are held as security for monies lent by the Bank:

- Vehicle finance: Vehicles subject to the finance agreement normally serve as collateral. In general, vehicles which make up the collateral can be sold when the customer has defaulted under the agreement and a notice of default has been issued. Where more than 1/3 of all instalments have been paid, legal judgement has to be passed before vehicles can be repossessed. For some products, titles over vehicles are held by the Bank. Title only passes to the customer once repayments reach a specified level.
- Resource and property finance: Collateral consists of first and second mortgages over property, individual's pension plans, employer and personal guarantees, loss insurance purchased by the client as well as fixed and floating charges over mining assets and business. The collateral can only be sold or exercised on default by the customer.
- Personal loans, overdrafts and credit card exposures are generally unsecured or secured via guarantees and suretyships.
- Agricultural finance: Collateral includes grain, barley, sorghum and fertilisers held at various storage facilities and warehouses.
- Securities lending: Collateral held is in the form of cash and investment securities. The level of collateral held is monitored individually on a daily basis to ensure the adequacy of the collateral balance held.

The collateral is valued at inception of the credit agreement and subsequently in specific circumstances for example, when the advance becomes a non performing loan or when the Bank is to sell the asset on auction. No physical valuation is performed between these two dates.

The valuation at inception is based on physical inspection or index valuation methods. Updated valuations are performed using index valuation models or by revaluing security during the counterparty review process for SME and large corporate counter parties.

10 IMPAIRMENT OF ADVANCES

Significant loans and advances are monitored by the credit division and impaired according to the FirstRand impairment policy when an indication of impairment is observed.

The following factors are considered when determining whether there is objective evidence that the asset has been impaired:

- The estimated amount of collateral held against the loans and advances;
- Breaches of loan covenants and conditions;
- The time period of overdue contractual payments;
- Loss given default (LGD), probability of default (PD) and exposure at default (EAD);
- Actuarial credit models;
- Loss of employment or death of the borrower; and
- The probability of liquidation of the customer.

10 IMPAIRMENT OF ADVANCES continued

	FNB		
R million	Retail	Corporate	Commercial
Analysis of movement in impairment of advances per class of advance			
Opening balance	2 065	233	325
Amounts written off	(1 159)	(24)	(50)
Unwinding of discounted present value on non performing loans	(84)	–	(36)
Reclassifications	–	–	–
Net new impairments created	2 864	100	207
– impairments created	3 311	100	207
– impairments released	(447)	–	–
Transfers from/(to) other divisions	(4)	(17)	15
Closing balance	3 682	292	461
New and increased provision	(2 864)	(100)	(207)
Recoveries of bad debts previously written off	217	9	6
Loss on sale of property in possession	4	–	–
Impairment loss recognised in the income statement	(2 643)	(91)	(201)

	FNB		
R million	Retail	Corporate	Commercial
Opening balance	1 182	395	295
Amounts written off	(638)	(119)	(64)
Unwinding of discounted present value on non performing loans	(59)	–	(23)
Reclassifications	–	–	–
Net new impairments created	1 581	19	126
– impairments created	2 164	95	349
– impairments released	(583)	(76)	(223)
Transfers from/(to) other divisions	(1)	(62)	(9)
Closing balance	2 065	233	325
New and increased provision	(1 581)	(19)	(126)
Recoveries of bad debts previously written off	173	9	13
Loss on sale of property in possession	3	–	–
Impairment loss recognised in the income statement	(1 405)	(10)	(113)

2008						
WesBank	RMB	FNB Africa	Other	Total impairment	Specific impairment	Portfolio impairment
951	465	1	(5)	4 035	2 224	1 811
(1 311)	–	–	(7)	(2 551)	(2 558)	7
–	–	–	–	(120)	(120)	–
–	–	–	–	–	126	(126)
2 004	25	4	7	5 211	4 502	709
2 004	25	4	7	5 658	4 949	709
–	–	–	–	(447)	(447)	–
–	(380)	–	386	–	–	–
1 644	110	5	381	6 575	4 174	2 401
(2 004)	(25)	(4)	(7)	(5 211)	(4 502)	(709)
117	–	–	401	750	750	–
–	–	–	–	4	4	–
(1 887)	(25)	(4)	394	(4 457)	(3 748)	(709)

2007						
WesBank	RMB	FNB Africa	Other	Total impairment	Specific impairment	Portfolio impairment
627	269	–	–	2 768	1 598	1 170
(885)	(20)	1	161	(1 564)	(1 564)	–
–	–	–	–	(82)	(82)	–
–	–	–	–	–	(111)	111
1 209	38	–	(60)	2 913	2 383	530
574	45	–	(60)	3 167	2 615	552
635	(7)	–	–	(254)	(232)	(22)
–	178	–	(106)	–	–	–
951	465	1	(5)	4 035	2 224	1 811
(1 209)	(38)	–	60	(2 913)	(2 383)	(530)
114	37	–	–	346	346	–
–	–	–	–	3	3	–
(1 095)	(1)	–	60	(2 564)	(2 034)	(530)

10 IMPAIRMENT OF ADVANCES continued

	2008			
R million	Total value including interest in suspense	Securities and recoverable amounts	Specific impairments	Contractual interest suspended
Non performing lendings by sector				
Agriculture	93	74	35	17
Banks and financial services	64	28	29	5
Building and property development	104	28	93	11
Government, Landbank and public authorities	280	8	13	3
Individuals	10 924	4 807	3 572	776
Manufacturing and commerce	486	110	231	65
Mining	31	2	8	2
Transport and communication	158	42	26	5
Other	590	137	167	43
Total non performing lendings	12 730	5 236	4 174	927
Non performing lendings by category				
Overdrafts and managed accounts	667	149	471	92
Loans to other financial institutions	–	–	–	–
Card loans	1 655	–	1 082	151
Instalment sales	1 968	337	674	98
Lease payments receivable	1 044	161	380	52
Property finance	6 112	4 432	1 071	441
– Home loans	5 993	4 343	1 040	417
– Commercial property finance	119	89	31	24
Personal loans	901	151	476	88
Other	383	6	20	5
Total non performing lendings	12 730	5 236	4 174	927
Non performing lendings by class				
FNB Retail	8 302	4 388	2 585	650
FNB Corporate	140	–	121	–
FNB Commercial	625	349	291	113
Total FNB	9 067	4 737	2 997	763
WesBank	3 293	499	1 157	164
RMB	365	–	20	–
FNB Africa	4	–	–	–
Other (BGT, Capital Centre, other subsidiaries)	1	–	–	–
Total non performing lendings	12 730	5 236	4 174	927
Non performing lendings by geographical area				
South Africa	12 716	5 236	4 164	927
Other Africa	14	–	10	–
Total non performing lendings	12 730	5 236	4 174	927

The net recoverable amount on non performing loans is R7 629 million.

For asset finance the total security value reflected represents only the realisation value estimates of the vehicles repossessed at the date of repossession. Where the repossessions have not occurred yet the realisation value of the vehicle is estimated using internal models and is included as part of the recoveries total.

10 IMPAIRMENT OF ADVANCES continued

R million	Total value including interest in suspense	Securities and recoverable amounts	Specific impairments	Contractual interest suspended
	2007			
Non performing lendings by sector				
Agriculture	141	91	43	18
Banks and financial services	40	9	11	5
Building and property development	93	22	31	12
Government, Landbank and public authorities	239	–	–	–
Individuals	4 223	3 554	1 711	285
Manufacturing and commerce	651	117	295	118
Mining	11	2	2	3
Transport and communication	127	18	34	11
Other	177	27	97	14
Total non performing lendings	5 702	3 840	2 224	466
Non performing lendings by category				
Overdrafts and managed accounts	681	116	463	97
Card loans	969	–	630	69
Instalment sales	999	152	335	68
Lease payments receivable	450	77	171	31
Property finance	1 801	3 370	314	145
– Home loans	1 776	3 356	306	132
– Commercial property finance	25	14	8	13
Personal loans	524	98	273	50
Preference share advances	–	–	–	–
Other	278	27	38	6
Total non performing lendings	5 702	3 840	2 224	466
Non performing lendings by class				
FNB Retail	3 207	3 397	1 311	237
FNB Corporate	184	–	130	32
FNB Commercial	432	213	191	85
Total FNB	3 823	3 610	1 632	354
WesBank	1 620	230	616	110
RMB	258	–	–	–
FNB Africa	1	–	1	–
Other (BGT, Capital Centre, other subsidiaries)	–	–	(25)	2
Total non performing lendings	5 702	3 840	2 224	466
Non performing lendings by geographical area				
South Africa	5 696	3 840	2 220	466
Other Africa	6	–	4	–
Total non performing lendings	5 702	3 840	2 224	466

The net recoverable amount on non performing loans is R3 012 million.

For asset finance the total security value reflected represents only the realisation value estimates of the vehicles repossessed at the date of repossession. Where the repossessions have not occurred yet the realisation value of the vehicle is estimated using internal models and is included as part of the recoveries total.

11 INVESTMENT SECURITIES AND OTHER INVESTMENTS

Refer to note 35 Fair value of financial instruments for the methodologies used to determine the fair value of investment securities and other investments.

	2008			
	Total fair value			
R million	Held for trading	Designated at fair value through profit or loss	Available-for-sale	Total
Total				
Negotiable certificates of deposit	7 046	–	–	7 046
Treasury bills	9 249	–	4 268	13 517
Other government and government guaranteed stock	12 640	166	5 279	18 085
Other dated securities	2 796	484	–	3 280
Other	1 626	7 430	1 124	10 180
Total	33 357	8 080	10 671	52 108
Listed				
Treasury bills	922	–	–	922
Other government and government guaranteed stock	11 948	166	5 279	17 393
Other dated securities	1 022	68	–	1 090
Other	1 410	611	843	2 864
Listed	15 302	845	6 122	22 269
Unlisted				
Negotiable certificates of deposit	7 046	–	–	7 046
Treasury bills	8 327	–	4 268	12 595
Other government and government guaranteed stock	692	–	–	692
Other dated securities	1 774	416	–	2 190
Other	216	6 819	281	7 316
Unlisted	18 055	7 235	4 549	29 839

11 INVESTMENT SECURITIES AND OTHER INVESTMENTS continued

	2007			
	Total fair value			
R million	Held for trading	Designated at fair value through profit or loss	Available-for-sale	Total
Total				
Negotiable certificates of deposit	905	–	–	905
Treasury bills	9 858	–	39	9 897
Other government and government guaranteed stock	5 788	–	7 197	12 985
Other dated securities	261	458	–	719
Other undated securities	5	–	1	6
Other	7 442	713	330	8 485
Total	24 259	1 171	7 567	32 997
Listed				
Other government and government guaranteed stock	4 804	–	7 197	12 001
Other dated securities	114	–	–	114
Other undated securities	5	–	–	5
Other	1 377	38	45	1 460
Listed	6 300	38	7 242	13 580
Unlisted				
Negotiable certificates of deposit	905	–	–	905
Treasury bills	9 858	–	39	9 897
Other government and government guaranteed stock	984	–	–	984
Other dated securities	147	458	–	605
Other undated securities	–	–	1	1
Other	6 065	675	285	7 025
Unlisted	17 959	1 133	325	19 417

R24 745 million (2007: R17 862 million) of the financial instruments held for trading form part of the Bank's liquid asset portfolio in terms of the South African Reserve Bank and other foreign banking regulators requirements.

R million	2008	2007
11 INVESTMENT SECURITIES AND OTHER INVESTMENTS continued		
Analysis of investment securities		
Listed		
	22 269	13 580
Equities	2 473	1 438
Debt	19 796	12 142
Unlisted		
	29 839	19 417
Equities	7 140	6 851
Debt	22 699	12 566
Total	52 108	32 997
Valuation of investments		
Market value of listed investments	22 269	13 580
Directors' valuation of unlisted investments	29 839	19 417
Total valuation	52 108	32 997

The directors' valuation of unlisted investments is considered to be fair value.

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

Details of current and non current investment securities are outlined in note 43.

R million	2008	2007
12 COMMODITIES		
Agricultural stock	1 603	964
Other	175	96
Commodities	1 778	1 060

R million	2008	2007
13 ACCOUNTS RECEIVABLE		
Accounts receivable	3 016	4 307
– Items in transit	416	1 957
– Interest and commissions accrued	98	38
– Other	2 502	2 312
Prepayments	170	3
Accounts receivable	3 186	4 310
Fair value of receivables	3 186	4 310

The credit quality of the above balances is provided in the table below:

	2008						
			Past due but not impaired				
R million	Neither past due nor impaired	Renegotiated but current	1 – 30 days	31 – 60 days	>60 days	Impaired	Total
Items in transit	416	–	–	–	–	–	416
Accrued interest	98	–	–	–	–	–	98
Other	2 639	–	28	3	2	–	2 672
Total	3 153	–	28	3	2	–	3 186

	2008						
			Past due but not impaired				
R million	Neither past due nor impaired	Renegotiated but current	1 – 30 days	31 – 60 days	>60 days	Impaired	Total
Items in transit	1 957	–	–	–	–	–	1 957
Accrued interest	38	–	–	–	–	–	38
Other	2 062	8	111	7	127	–	2 315
Total	4 057	8	111	7	127	–	4 310

R million	2008	2007
14 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES		
Listed investments		
Investments at cost less amounts written off	544	–
Unlisted investments		
Investments at cost less amounts written off	294	289
Total carrying value	838	289
Valuation		
Listed investments at market value	493	–
Unlisted investments at directors' valuation	944	697
Total valuation	1 437	697

	Nature of business	Issued ordinary share capital	Number of ordinary shares held	Year end
Listed				
Makalani Holdings Limited	Investment holding	21 352 568	5 480 885	30-Jun
Unlisted				
SBV Services (Pty) Limited	Logistics	3 000	750	30-Jun
Toyota Financial Services (Pty) Limited	Vehicle finance	4 695	1 565	31-Mar
Langa Lokulunga Investment Holdings (Pty) Limited	Investment holding	100	15	

* = Unlisted shares costs are less than R1.

	Effective Holding %		Valuation amount		Carrying amount	
R million	2008	2007	2008	2007	2008	2007
Listed						
Makalani Holdings Limited[1]	25.67	22.44	493	–	544	–
Total listed			493	–	544	–
[1]Makalani was disclosed as a current asset held for sale in 2007						
Unlisted						
SBV Services (Pty) Limited	25	25	64	75	35	10
Pamodzi Investment Holdings (Pty) Limited	–	23	–	75	–	18
Toyota Financial Services (Pty) Limited	33	33	663	330	215	215
Langa Lokulunga Investment Holdings (Pty) Limited	–	15	3	3	4	4
Other	–	Various	214	214	40	42
Total unlisted			944	697	294	289
Total listed and unlisted			1 437	697	838	289

15 INTEREST IN SUBSIDIARY COMPANIES

R million	2008	2007
Shares at cost less amounts written off	75	13

	Nature of business	Issued capital	Effective holding	Investment in subsidiaries
		Rand	%	Rand
30 June 2008				
Direct Axis (Pty) Limited	Financial services	13 333	51	11 000 000
RMB Corporate Finance (Pty) Limited	Investment	1 000	100	1 282 762
First Auto (Pty) Limited	Financial services	97 900 121	75	35 025 090
Thabo Ekgolo (Pty) Ltd	Property	100	25	7 500 000
Meletse Golf Estate (Pty) Ltd	Property	100	25	8 450 000
Monteriva Investments 17 (Pty) Ltd	Property	100	20	10 000 000
Other	Various			1 274 058
				74 531 910
30 June 2007				
Direct Axis (Pty) Limited	Financial services	13 333	51	11 000 000
RMB Corporate Finance (Pty) Limited	Investment	1 000	100	1 282 762
Other	Various			892 238
				13 175 000

16 AMOUNTS DUE BY/(TO) HOLDING AND FELLOW SUBSIDIARY COMPANIES

R million	2008	2007
Amounts due to holding company	(869)	(526)
Amounts due to fellow subsidiary companies	(25 633)	(17 402)
Amounts due to holding and fellow subsidiary companies	(26 502)	(17 928)
Amounts due by holding company	1 609	472
Amounts due by fellow subsidiary companies	27 163	28 885
Amounts due by holding and fellow subsidiary companies	28 772	29 357
Net amounts due by/(to) holding and fellow subsidiary companies	2 270	11 429

These loans have no fixed terms of repayment and carry varying rates of interest. Loans to fellow subsidiary companies amounting to R357 million (2007: R7 million) are subject to subordination agreements until such time that their assets fairly valued, exceed their liabilities.

Included in above are the following:

	Amounts due by fellow subsidiary companies		Amounts due to fellow subsidiary companies	
R million	Notional	Fair value	Notional	Fair value
2008				
Amounts due by/(to) fellow subsidiaries includes derivative instruments of	15 755	412	10 015	999
2007				
Amounts due by/(to) fellow subsidiaries includes derivative instruments of	13 053	862	31 821	1 626

	2008		
R million	Gross carrying amount	Accumulated depreciation and impairments	Net carrying amount
17 PROPERTY AND EQUIPMENT			
Property	3 441	(508)	2 933
Freehold land and buildings*	1 207	(125)	1 082
Leasehold premises*	2 234	(383)	1 851
Equipment*	4 977	(2 756)	2 221
Computer equipment	3 149	(1 919)	1 230
Furniture and fittings	1 120	(554)	566
Motor vehicles	204	(71)	133
Office equipment	504	(212)	292
Total	8 418	(3 264)	5 154

* Assets utilised by the Group in the normal course of operations to provide services.

** Assets which are owned by the Banking Group and leased to third parties under operating leases as part of the Group's revenue generating operations.

	Property	
R million	Freehold land and buildings	Leasehold premises
Movement in property and equipment – net carrying amount		
Net carrying amount at 30 June 2006	879	348
Additions	120	172
Depreciation charge for period	(34)	(110)
Impairments recognised	–	(8)
Impairments reversed	–	–
Disposals	(10)	–
Other	–	1
Net carrying amount at 30 June 2007	955	403
Additions	345	1 596
Depreciation charge for period	(37)	(148)
Impairments recognised	–	(1)
Impairments reversed	–	–
Disposals	(181)	–
Other	–	1
Net carrying amount at 30 June 2008	1 082	1 851

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

2007		
Gross carrying amount	Accumulated depreciation and impairments	Net carrying amount
1 683	(325)	1 358
1 045	(90)	955
638	(235)	403
4 208	(2 484)	1 724
2 875	(1 830)	1 045
855	(459)	396
130	(49)	81
348	(146)	202
5 891	(2 809)	3 082

Equipment				
Computer equipment	Furniture and fittings	Motor vehicles	Office equipment	Total
956	373	47	170	2 773
491	100	57	101	1 041
(401)	(69)	(20)	(57)	(691)
1	(7)	–	(3)	(17)
8	–	–	–	8
(11)	(2)	(2)	(10)	(35)
1	1	(1)	1	3
1 045	**396**	**81**	**202**	**3 082**
623	**270**	**87**	**159**	**3 080**
(399)	**(82)**	**(32)**	**(72)**	**(770)**
(5)	**(17)**	**–**	**(1)**	**(24)**
–	**–**	**–**	**5**	**5**
(34)	**–**	**(3)**	**(1)**	**(219)**
–	**(1)**	**–**	**–**	**–**
1 230	**566**	**133**	**292**	**5 154**

R million	2008	2007
18 DEFERRED TAX		
Deferred tax		
The movement on the deferred tax account is as follows:		
Deferred tax liability		
Opening balance	1 741	1 804
– Charge to the income statement	1 086	(62)
– STC charge/(release) to the income statement	38	10
– Tax rate adjustment	(65)	–
– Deferred tax on amounts charged/(transferred) directly to equity	(22)	(11)
Total credit balance	**2 778**	**1 741**
Net balance for the year	**2 778**	**1 741**

Deferred tax assets and liabilities and deferred tax charged/(released) to the income statement are attributable to the following items:

	2008				
R million	Opening balance	Tax charge	Tax rate adjustment	Other	Closing balance
Deferred tax liability					
Provision for loan impairment	(382)	(195)	–	–	(577)
Provision for post retirement benefits	14	12	–	–	26
Other provisions	(648)	434	–	–	(214)
Cash flow hedges	57	76	–	70	203
Instalment credit assets	1 870	367	(31)	(1)	2 205
Accruals	896	278	(32)	(1)	1 141
Revaluation of available-for-sale securities to equity	24	(4)	–	(92)	(72)
STC	(113)	38	–	3	(72)
Other	23	118	(2)	(1)	138
Total deferred tax liability	**1 741**	**1 124**	**(65)**	**(22)**	**2 778**

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

19 POST RETIREMENT BENEFIT FUND LIABILITIES

The Bank operates two benefit plans, the pension contribution plan and the medical defined benefit plan. A pension plan which provides retired employees with an annuity income after their service and a medical scheme which provides retired employees with medical benefits.

	2008			2007		
R million	Pension	Medical	Total	Pension	Medical	Total
Post retirement benefit fund liability						
Present value of funded obligation	18 162	1 344	19 506	18 294	1 813	20 107
Fair value of plan assets	(17 620)	–	(17 620)	(18 728)	–	(18 728)
Pension fund deficit	542	1 344	1 886	(434)	1 813	1 379
Transfer of liability	–	–	–	–	–	–
Unrecognised actuarial gains/(losses)	(404)	406	2	608	(189)	419
Post retirement liability	138	1 750	1 888	174	1 624	1 798
The amounts recognised in the income statement are as follows:						
Current service cost	283	45	328	334	38	372
Interest cost	590	140	730	1 290	125	1 415
Actuarial loss recognised	–	–	–	–	13	13
Expected return on plan assets	(631)	–	(631)	(1 298)	–	(1 298)
Total included in staff costs	242	185	427	326	176	502
Movement in post retirement benefit fund liability						
Present value at the beginning of the year	174	1 624	1 798	174	1 453	1 627
Amounts recognised in the income statement as above	242	185	427	326	176	502
Benefits paid	(278)	(59)	(337)	(315)	(58)	(373)
Limitation imposed by IAS 19	–	–	–	(11)	–	(11)
Settlement of liability	–	–	–	–	53	53
Present value at the end of the year	138	1 750	1 888	174	1 624	1 798
Movement in the fair value of plan assets of the year is as follows:						
Opening balance	18 728	–	18 728	15 263	–	15 263
Expected return on plan assets	1 755	–	1 755	1 239	–	1 239
Actuarial (losses)/gains	(1 824)	–	(1 824)	3 175	–	3 175
Employer contributions	371	–	371	258	–	258
Employee contributions	276	–	276	258	–	258
Benefits paid and settlements	(1 686)	–	(1 686)	(1 465)	–	(1 465)
Closing balance	17 620	–	17 620	18 728	–	18 728
Plan assets comprised of the following:						
Equity	10 205	–	10 205	11 363	–	11 363
Debt	7 266	–	7 266	1 143	–	1 143
Other	149	–	149	6 222	–	6 222
Total	17 620	–	17 620	18 728	–	18 728
Included in plan assets were the following:						
FirstRand Limited ordinary shares with a fair value of:	285	–	285	499	–	499
Property occupied by the Bank with a fair value of:	520	–	520	386	–	386
Total	805	–	805	885	–	885

19 POST RETIREMENT BENEFIT FUND LIABILITIES continued

R million	Pension %	Medical %	Pension %	Medical %
The principal actuarial assumptions used for accounting purposes were:				
Expected return on plan assets				
– Bank Fund	11.5	–	9.5	–
Discount rate				
– Bank Fund	10.8	10.8	8.5	8.5
Expected rates of salary increases				
– Bank Fund	9.3	–	7.0	–
Long term increase in health cost				
– Bank Fund	–	9.0	–	7.3
The effects of a 1% movement in the assumed health cost rate were as follows:				
Increase of 1%				
Effect on the aggregate of the current service cost and interest cost	–	117.5	–	–
Effect on the defined benefit obligation	–	116.0	–	–
Decrease of 1%				
Effect on the aggregate of the current service cost and interest cost	–	86.0	–	85.4
Effect on the defined benefit obligation	–	87.3	–	82.5
Net increase in rate used to value pensions, allowing for pension increases				
– Bank Fund	–	–	–	(0.25)

	Active members	Pensioners	Active members	Pensioners
Mortality rate				
Pension Fund				
Normal retirement age	60	–	60	–
Mortality rate table used	PA(90)-1	PA(90)-1	Fund Specific	PA(90)-1
Post retirement medical benefits				
Normal retirement age	60	–	60	–
Mortality rate table used	PA(90)-1	PA(90)-1	SA72-77	PA(90)-1

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

PA(90)-1 refers to standard actuarial mortality tables for current and prospective pensioners on a defined benefit plan where the chance of dying after early or normal retirement is expressed at each age for each gender.

19 POST RETIREMENT BENEFIT FUND LIABILITIES continued

	2008		2007	
	Pension	Medical	Pension	Medical
Mortality rate The average life expectancy in years of a pensioner retiring at age 65 on the balance sheet date is as follows:				
Male	14.75	16.00	15.00	15.00
Female	18.71	17.00	19.00	19.00
The average life expectancy in years of a pensioner retiring at age 65, 20 years after the balance sheet is as follows:				
Male	14.75	16.00	15.00	15.00
Female	18.71	17.00	19.00	19.00

The Bank has set aside certain assets against these liabilities. The assets are managed and invested to achieve a return which reflects the growth in the underlying liability.

Five year analysis on total pension and medical post retirement plans

As at 30 June	2008	2007	2006	2005	2004
Present value of defined benefit obligation	19 506	20 107	17 030	13 836	10 915
Fair value of plan assets	(17 620)	(18 728)	(15 263)	(12 316)	(9 643)
Deficit	1 886	1 379	1 767	1 520	1 272

The Bank has set aside certain assets against these liabilities. The assets are managed and invested to achieve a return which reflects the growth in the underlying liability.

The amount transferred to meet the post retirement benefit liability was made in order to meet the increase liability as a result of changes to the fund in respect of non clerical staff being included on the scheme and changes in structure to the contribution tables. The board agreed that portion of the liability be recognised in this financial year.

R million	2008	2007
Post retirement benefit asset		
Pension and post retirement benefits		
Leave pay insurance policy	2 493	386
Post retirement medical asset	278	2 230
Total post retirement benefit asset	2 771	2 616

The Pension Fund provides a pension that can be purchased with the member's Fund Credit (equal to member and employer contributions of 7.5% of pensionable salary each year, plus net investment returns). Death, ill health and withdrawal benefits are also provided.

The employer's post employment health care liability consists of a commitment to pay a portion of the members' post employment medical scheme contributions. This liability is also generated in respect of dependants who are offered continued membership of the medical scheme on the death of the primary member. Members employed on or after the 1 December 1998 do not qualify for a post employment medical subsidy.

The net discount rate (the difference between the discount rate and the assumed rate of future medical cost inflation) increased by 0.5 percentage points from the previous valuation to the current one. This resulted in a reduction in the liability of R62 million.

A full actuarial valuation of the pension fund submission to the Financial Services Board is done every 3 years, with the last valuation being in 2005. Annual interim actuarial valuations are performed for the trustees and for IAS 19 purposes. At last valuation date the fund was financially sound.

The number of employees covered by the two schemes are:

	2008	2007
Pension	5 353	7 117
Medical	31 170	28 996

20 INTANGIBLE ASSETS

	2008			2007		
R million	Gross	Accumulated amortisation and impairments	Net	Gross	Accumulated amortisation and impairments	Net
Software						
Movement in software – book value						
Opening Balance	123	(88)	35	97	(71)	26
Additions	121	–	121	26	–	26
Impairment losses	–	(4)	(4)	–	–	–
Amortisation to the income statement	–	(52)	(52)	–	(17)	(17)
Closing balance	244	(144)	100	123	(88)	35
Development costs						
Movement in development costs – book value						
Opening Balance	37	(11)	26	21	(4)	17
Disposals	(17)	4	(13)	–	–	–
Additions	10	–	10	16	–	16
Amortisation to the income statement	–	(4)	(4)	–	(7)	(7)
Closing balance	30	(11)	19	37	(11)	26
Other						
Additions	3	–	3	–	–	–
Closing balance	3	–	3	–	–	–
Total intangible assets						
Software	244	(144)	100	123	(88)	35
Development costs	30	(11)	19	37	(11)	26
Other	3	–	3	–	–	–
Total intangible assets	277	(155)	122	160	(99)	61

21 NON CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE

Description of disposal group held for sale.

In terms of IFRS 5 – Non current Assets Held for Sale and Discontinued Operations, the assets attributable to RMB Private equity division have been disclosed as separate lines on the balance sheet as they meet the IFRS 5 definition of non current assets or disposal group held for sale. IFRS 5 does not require comparative information to be reclassified.

Disposal group held for sale

R million	2008	2007
ASSETS		
Investment securities and other investments	95	572
Total assets classified as disposal group held for sale	95	572
Net assets of disposal group held for sale	95	572

22 DEPOSITS

R million	At amortised cost	Designated at fair value through profit or loss	Held for trading	Total
2008				
Deposits				
Deposit and current accounts				
From banks and financial institutions	33 088	30 329	–	63 417
– In the normal course of business	33 088	12 721	–	45 809
– Under repurchase agreements	–	17 608	–	17 608
From customers	213 931	65 874	–	279 805
– Current accounts	156 480	2 620	–	159 100
– Savings accounts	1 843	–	–	1 843
– Term deposits	55 608	63 254	–	118 862
Other deposits	3 146	68 805	–	71 951
– Negotiable certificates of deposit	21	41 086	–	41 107
– Buy backs	–	2 955	–	2 955
– Other	3 125	24 764	–	27 889
Deposits and current accounts	**250 165**	**165 008**	**–**	**415 173**
2007				
Deposits				
Deposit and current accounts				
From banks and financial institutions	16 851	22 449	–	39 300
– In the normal course of business	16 851	12 074	–	28 925
– Under repurchase agreements	–	10 375	–	10 375
From customers	192 078	49 554	–	241 632
– Current accounts	137 864	217	–	138 081
– Savings accounts	1 957	–	–	1 957
– Term deposits	52 257	49 337	–	101 594
Other deposits	3 485	68 224	–	71 709
– Negotiable certificates of deposit	30	40 215	–	40 245
– Buy backs	–	2 621	–	2 621
– Other	3 455	25 388	–	28 843
Deposits and current accounts	212 414	140 227	–	352 641

R million	2008	2007
Geographic analysis (based on counterparty risk)		
South Africa	390 067	332 473
Other Africa	2 927	3 292
United Kingdom	17 947	11 209
Other	4 232	5 667
– Ireland	118	94
– Other Europe	3 451	4 512
– North America	250	585
– South America	36	29
– Australasia	157	107
– Other	220	340
Total deposits before notes acquired by Group	**415 173**	352 641
Deposits include amounts raised under repurchase agreements with a carrying value of R20 563 million (2007: R12 996 million).		
Deposits by insurance group	**572**	910

A current and non current split can be found in note 43.

R million	2008	2007
23 SHORT TRADING POSITIONS		
Short trading positions		
Government and government guaranteed	23 813	20 769
Other dated securities	3 003	1 576
Undated securities	113	166
Short trading positions	26 929	22 511
Analysed as follows:		
Listed	23 985	20 932
Unlisted	2 944	1 579
Short trading positions	26 929	22 511
Fair value of balance disclosed	26 929	22 511
Short trading positions are carried at fair value. Fair market value for listed securities are their market quoted prices, and for unlisted securities are based on the directors' valuation using suitable valuation methods.		
Refer Note 35 for a description of the valuation methods employed for unlisted equities.		
24 CREDITORS AND ACCRUALS		
Accrued interest	106	146
Short term portion of long term liabilities (note 26)	173	48
Accounts payable and accrued liabilities	4 590	4 122
Creditors and accruals	4 869	4 316

R million	2008	2007
25 PROVISIONS		
Staff related provisions*		
Opening balance	2 388	1 800
– Subsidiary balances acquired/disposed	–	(23)
– Charge to the income statement	1 817	2 040
– Additional provisions created	1 929	2 277
– Unused amounts reversed	(112)	(237)
– Utilised	(1 772)	(1 429)
Closing balance	2 433	2 388

* *Staff related provisions mainly consist of the provision for leave pay and staff bonuses.*

R million	2008	2007
Audit fees		
Opening balance	11	13
– Subsidiary balances acquired/disposed	–	(8)
– Charge to the income statement	59	48
– Additional provisions created	59	48
– Unused amounts reversed	–	–
– Utilised	(64)	(42)
Closing balance	6	11
Other**		
Opening balance	418	380
– Subsidiary balances acquired/disposed	–	30
– Charge to the income statement	(63)	300
– Additional provisions created	234	623
– Unused amounts reversed	(297)	(323)
– Utilised	(26)	(292)
Closing balance	329	418
Total provisions	2 768	2 817

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

A current and non current split can be found in note 43.

R million	2008	2007
26 LONG TERM LIABILITIES		
Issued		
The preference shares of FirstRand Bank Ltd have been classified as long term liabilities and comprise the following:		
1 720 (2007:1 671) cumulative redeemable preference shares subscribed for by third parties with par value of R0,0001 and a premium of R99 999,999 per share[a]	172	167
Preference shares	**172**	**167**
a These preference shares are redeemable at the company's discretion, at the full subscription price. Dividends are paid at a variable rate based on prime and currently amounts to 7.8%.		
Subordinated convertible loans[b]	2 349	2 349
Fixed rate bonds[c]	1 288	700
Floating rate bond[d]	6 890	4 950
Less: Portion repayable within 12 months transferred to current liabilities (note 24)	(173)	(48)
Other long term liabilities	**10 354**	**7 951**
b The subordinated convertible loans convert to ordinary shares in 2009, the holder being FirstRand Bank Holdings Limited.		
c The fixed rate bonds mature 31 August 2010 and bear interest at 1.2% above the R153 bond rate.		
d The floating rate bonds mature 31 August 2010 and bear interest at 0.715% above the three month JIBAR rate.		
Share based payment (cash settled)	117	99
Long term liabilities	10 643	8 217

R million	2008	2007
27 SHARE CAPITAL AND SHARE PREMIUM		
Ordinary shares and preference shares		
Ordinary shares		
Authorised		
2 000 000 million shares with a par value of R2 per share	4	4
Issued – fully paid up		
1 758 847 million (2007: 1 758 845 million) ordinary shares with a par value of R2 per share.	4	4
All issued share capital is fully paid up.		
Ordinary share premium	7 564	6 161
Total issued ordinary share capital and share premium	7 568	6 165
Non cumulative non redeemable preference shares		
Authorised		
100 000 000 million non cumulative non redeemable preference shares with a par value of R0.01 per share	1	1
Issued fully paid up		
3 000 000 (2007: 3 000 000) non cumulative non redeemable preference shares with par value of R0.01 per share to holding company	–	–
The non cumulative non redeemable preference shares were issued at varying interest rates which are linked to the prime lending rate as determined by FirstRand Bank Limited.		
Non cumulative non redeemable preference share premium	3 000	3 000
Total issued non cumulative non redeemable preference share capital and share premium	3 000	3 000
Total issued share capital and share premium	10 568	9 165

	Number of ordinary shares	Number of non cumulative non redeemable preference shares
Reconciliation of shares issued		
Shares at 1 July 2006	1 758 843	3 000 000
Issued during the year	2	–
Shares at 30 June 2007	1 758 845	3 000 000
Issued during the year	2	–
Shares at 30 June 2008	1 758 847	3 000 000

For detail on capital management of the Bank please refer to the Capital Management and Regulatory Capital section from page 43 to page 46, which form part of the audited financial statements.

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

R million	2008	2007
28 REMUNERATION SCHEMES		
The income statement charge for share based payments is as follows:		
FirstRand Share Incentive Scheme	52	75
FirstRand Black Employee Trust	35	66
FirstRand Black Non Executive Directors' Trust	1	–
FirstRand Share Appreciation Right Scheme	18	98
Charge to income statement	106	239

Share option schemes

The FirstRand share option schemes are equity settled schemes, except for the FirstRand Limited equity or cash settled share appreciation rights scheme which is cash settled.

The FirstRand share appreciation right scheme was implemented in 2006 to provide selected FirstRand Group employees, including executive directors of the participating companies, the opportunity of receiving incentive remuneration payments based on the increase in the market value of ordinary FirstRand shares.

This scheme is better aligned to employment and governance practices currently prevailing in the market.

Description of the trusts

FirstRand share incentive scheme

The rules of the FirstRand share scheme ("the Scheme") are constituted in the FirstRand Limited share trust.

The purpose of the scheme is to increase the proprietary interests of identified employees in the Group's success and to encourage them to render and continue to render their best services to the Group. Options over FirstRand ordinary shares are granted by the trust to these employees.

The FNB Botswana and FNB Namibia schemes are generally aligned to the Scheme in terms of purpose and rules.

The sale of shares arising from the exercise of options may only be exercised as to one third of the total number of options issued after the third year, two thirds after the fourth year and all of the shares on the fifth anniversary of the date of issue.

FirstRand black economic empowerment trusts

FirstRand is committed to the process of achieving transformation in South Africa and in creating its transformation initiative sought to ensure that the long term benefits of the transaction reach the widest possible community of black South Africans.

171.4 million shares, representing approximately 3.1% of the issued share capital of FirstRand, are held by the BEE trusts which have granted participation to black South African directors and employees.

- 20.0 million shares to the FirstRand staff assistance trust
- 136.4 million shares to the FirstRand black employee trust (subject to IFRS 2)
- 15.0 million shares to the FirstRand black non executive directors' trust (subject to IFRS 2)

FirstRand black employee trust

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

The first issue of participation rights in the trust was made on 20 July 2005, the second issue was done on 1 November 2006, and a further issue of participation rights were granted on 3 December 2007.

The remainder will be granted at the discretion of the directors.

Distribution to beneficiaries takes place at 31 December 2014.

FirstRand black non executive directors' trust

The beneficiaries of this trust are the black non executive and those executive directors who were non executives prior to becoming executives of FirstRand Group companies.

Distribution to beneficiaries takes place at 31 December 2014.

FirstRand Limited equity or cash settled share appreciation right scheme (FirstRand share appreciation right scheme)

The purpose of this scheme is to provide identified Group employees, including executive directors with the opportunity of receiving incentive remuneration payments based on the increase in the market value of ordinary shares in FirstRand Limited. These payments may, on election by the participant be paid in cash or settled by the delivery of FirstRand ordinary shares.

Entitlement to incentive remuneration payments is predicated on the achievement of certain key performance objectives which are set by the remuneration committee prior to each grant of appreciation rights to participating employees.

Appreciation rights may only be exercised as to one third of the total number of rights issued after the third, two thirds after the fourth and all of the shares by the fifth anniversary of the date of grant, provided that the performance objectives set for the grant have been achieved.

Co-investment arrangement

A co-investment arrangement was established in 2007 whereby certain key executives and decision makers of FirstRand are allowed to co-invest with FirstRand in certain pre defined portfolios.

The rationale for the co-investment arrangement includes:

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

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

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

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

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

The FirstRand remuneration committee determines annually:

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

The amounts invested by key management personnel have been included in note related parties

Market data consists of the following:

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

Dividend data consists of the following:

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

Employee statistic assumptions:

- Annual employee turnover is the average annual rate that employees participating in the option scheme are expected to leave before the options have vested.

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

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

FirstRand black employee trust

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

Market data consists of the following:

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

Dividend data consists of the following:

A fixed dividend yield was assumed.

Employee statistic assumptions:

- The weighted average forfeiture rate used is based on historical forfeiture data for this scheme.

FirstRand black non executive directors' trust

The FirstRand Black non executive directors' trust is valued on the same methodology as used for the FirstRand black employee trust, except that a zero % weighted average forfeiture rate was used due to the fact that there are only 11 participants.

28 REMUNERATION SCHEMES continued

Market data consists of the following:

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

Dividend data consists of the following:

A fixed dividend yield was assumed.

FirstRand Limited equity or cash settled share appreciation right scheme

The share appreciation right scheme issues are valued as European options using the Black Scholes model. The scheme is cash settled and will thus be repriced at each reporting date.

Market data consists of the following:

- Volatility is the expected volatility over the period of the option. In the absence of other available data, historic volatility could be used as a proxy for expected valuation.
- The interest rate is the risk free rate of return, as recorded on the last day of the financial year, on a swap curve of a term equal to the expected life of the share appreciation right.

Dividend data consists of the following:

A fixed dividend yield was assumed.

Employee statistic assumptions:

The number of options granted is reduced by the actual staff turnover at year end. This turnover is then assumed to be constant over the period of the options and used to estimate future turnover.

Dividend data consists of the following:

A fixed dividend yield was assumed.

Employee statistic assumptions:

The number of options granted is reduced by the actual staff turnover at year end. This turnover is then assumed to be constant over the period of the options and used to estimate future turnover.

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

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

	FirstRand share incentive scheme	FirstRand black employee trust	FirstRand black non executive directors' trust	FirstRand share appreciation right scheme
2008				
Weighted average share price (Rands)	6.80 – 19.49	12.28 – 23.55	12.28 – 17.60	16.33 – 23.05
Expected volatility (%)	27 – 33	27 – 35	27.00	34.62
Expected option life (years)	5	10	10	5
Expected risk free rate (%)	6.80 – 12.00	6.91 – 9.9	6.91	12.48 – 13.35
Expected dividend yield (%)	–	3.81 – 5.57	3.81	6.54
Expected dividend growth (%)	20.00 – 22.87	–	–	–
2007				
Weighted average share price (Rands)	6.80 – 18.70	15.43 – 18.62	–	22.60
Expected volatility (%)	27 – 33	27	–	35.0
Expected option life (years)	5	10	–	5.0
Expected risk free rate (%)	6.8 – 12.00	6.91 – 9.90	–	9.47
Expected dividend yield (%)	–	3.81	–	3.20
Expected dividend growth (%)	20.00 – 22.87	–	–	–

28 REMUNERATION SCHEMES continued

	2008				
	FirstRand (FSR shares)	FNB (FSR shares)	FirstRand share appreciation right scheme (FSR shares)	FirstRand black employee trust (FSR shares)	FirstRand black non executive directors' trust
Number of options in force at the beginning of the year (millions)	142.8	3.3	59.9	91	–
Granted at prices ranging between (cents)	655 – 1 609**	424 – 562**	1 633 – 2 305**	1 228 – 2 520	–
Weighted average (cents)	1 060**	471**	1 650**	1 377	–
Number of options granted during the year (millions)	–	–	60	26.6	3
Granted at prices ranging between (cents)	–	–	1 799 – 2 053	1470 – 2 355	1 228 – 1 760
Weighted average (cents)	–	–	2 053	2 227	1 405
Number of options exercised/released during the year (millions)	(40.2)	(1.6)	–	–	–
Market value range at date of exercise/ release (cents)	1 280 – 2 626	1 310 – 2 625	–	–	–
Weighted average share price for the year (cents)	1 974	1 974	–	–	–
Number of options cancelled/lapsed during the year (millions)	(6.1)	–	(6.2)	(8.6)	–
Granted at prices ranging between (cents)	608 – 1 533	–	1 633 – 2 053	1 228 – 2 520	–
Weighted average (cents)	1 191	–	1 755	1 543	–
Number of options in force at the end of the year (millions)	96.5	1.7	113.7	109	3
Granted at prices ranging between (cents)	608 – 1 609	424 – 508	1 633 – 2 305	1 228 – 2 520	1 228 – 1 760
Weighted average (cents)	1 188	468	1 856	1 574	1 405
Options are exercisable over the following periods (first date able to release)					
Financial year 2006/2007 (millions)	2.9	1.7	–	–	–
Financial year 2007/2008 (millions)	10.5	–	–	–	–
Financial year 2008/2009 (millions)	40.2	–	–	–	–
Financial year 2009/2010 (millions)	27.5	–	18.6	–	–
Financial year 2010/2011 (millions)	15.5	–	37.9	–	–
Financial year 2011/2012 (millions)	–	–	37.9	–	–
Financial year 2012/2013 (millions)	–	–	19.3	–	–
Financial year 2014/2015 (millions)	–	–	–	109	3
Total	96.6	1.7	113.7	109	3

28 REMUNERATION SCHEMES continued

Options outstanding (by expiry date)	FirstRand (FSR shares)			FNB (FSR shares)		
	Expiry date	Exercise price (Rands)	Outstanding options 2008 Millions	Expiry date	Exercise price (Rands)	Outstanding options 2008 Millions
	2008/09/17	6.08	20.0	2008/10/15	4.68	0.8
	2009/06/15	8.53	*	2009/03/24	4.66	0.9
	2009/10/01	10.50	29.5	2009/05/01	5.08	*
	2009/11/15	10.87	0.1	2009/05/31	4.24	*
	2010/03/01	12.37	0.3	2009/08/01	5.05	*
	2010/03/15	12.32	0.2			
	2010/06/15	12.78	*			
	2010/10/03	15.33	44.3			
	2010/10/20	13.29	2.0			
	2010/11/15	15.38	0.2			
	2011/06/01	16.09	*			
			96.6			1.7
Total options outstanding – in the money (millions)			52.1			1.7
Total options outstanding – out of the money (millions)			44.5			–
Total (millions)			96.6			1.7
Value of company loans to share option trust at the beginning of the year (R million)			2 369			28
Value of company loans to share option trust at the end of the year (R million)			1 513			20
Number of participants			1 245			39

** = less than R1 million*

FirstRand share appreciation Right scheme (FSR shares)			FirstRand black employee trust			FirstRand black non executive directors' trust (FSR shares)		
Expiry date	Exercise price (Rands)	Outstanding options 2008 Millions	Expiry date	Exercise price (Rands)	Outstanding options 2008 Millions	Expiry date	Exercise price (Rands)	Outstanding options 2008 Millions
2011/10/01	16.33	54.0	2014/12/31	12.28	64.9	2014/12/31	12.28	2.0
2011/12/01	18.15	*	2014/12/31	14.70	0.1	2014/12/31	17.60	1.0
2012/02/27	23.05	0.2	2014/12/31	14.91	1.0			
2012/03/01	22.33	*	2014/12/31	15.66	0.1			
2012/03/15	20.88	0.3	2014/12/31	16.00	*			
2012/04/01	22.98	0.6	2014/12/31	17.81	0.1			
2012/06/15	22.12	0.6	2014/12/31	18.62	16.3			
2012/10/01	20.53	57.9	2014/12/31	18.72	0.1			
2013/03/04	17.99	0.1	2014/12/31	19.81	*			
			2014/12/31	20.78	*			
			2014/12/31	21.50	0.2			
			2014/12/31	22.10	*			
			2014/12/31	22.34	24.4			
			2014/12/31	22.60	0.1			
			2014/12/31	22.80	0.5			
			2014/12/31	23.35	*			
			2014/12/31	23.55	0.1			
			2014/12/31	23.75	0.1			
			2014/12/31	24.60	0.9			
			2014/12/31	25.20	0.1			
		113.7			109.0			3.0
		–			64.9			2.0
		113.7			44.1			1.0
		113.7			109.0			3.0
		–						
		–						
		1 563			11 623			3

28 REMUNERATION SCHEMES continued

Options outstanding (by expiry date)	FirstRand (FSR shares)			FNB (FSR shares)		
	Expiry date	Exercise price (Rands)	Outstanding options 2008 Millions	Expiry date	Exercise price (Rands)	Outstanding options 2008 Millions
	16/09/2007	6.55	18.5	01/02/2008	6.96	0.1
	15/11/2007	7.85	0.2	15/10/2008	6.30	1.5
	17/03/2008	6.80	1.0	30/10/2008	7.24	0.1
	31/05/2008	7.45	–	24/03/2009	6.28	1.3
	14/06/2008	7.72	0.1	01/05/2009	6.70	0.1
	17/09/2008	7.70	33.3	31/05/2009	5.86	0.1
	15/06/2009	10.15	0.2	01/08/2009	6.67	*
	01/10/2009	12.12	38.4	01/10/2009	6.20	0.1
	15/11/2009	12.49	0.1			
	01/03/2010	13.99	0.2			
	15/03/2010	13.94	0.2			
	15/06/2010	14.40	0.1			
	03/10/2010	16.95	48.2			
	20/10/2010	14.91	2.0			
	15/11/2010	17.00	0.2			
	01/06/2011	17.71	0.1			
			142.8			3.3
Total options outstanding – in the money (millions)			142.8			3.3
Total options outstanding – out of the money (millions)			–			–
Total (millions)			142.8			3.3
Value of company loans to share option trust at the beginning of the year (R million)			2 831			44.0
Value of company loans to share option trust at the end of the year (R million)			2 369			28.6
Number of participants			1 489			79

** = less than R1 million.*

FirstRand share appreciation Right scheme (FSR shares)			FirstRand black employee trust		
Expiry date	Exercise price (Rands)	Outstanding options 2008 Millions	Expiry date	Exercise price (Rands)	Outstanding options 2008 Millions
01/10/2011	17.95	58.2	31/12/2014	12.28	70.3
01/03/2012	24.67	0.2	31/12/2014	14.91	1.0
15/03/2012	22.50	0.3	31/12/2014	19.81	*
01/04/2012	24.60	0.6	31/12/2014	20.78	0.1
15/06/2012	23.74	0.6	31/12/2014	17.20	*
			31/12/2014	18.62	19.0
			31/12/2014	17.81	0.1
			31/12/2014	22.80	0.50
		59.9			91.0
		58.5			90.5
		1.4			0.5
		59.9			91.0
		–			
		–			
		1 212			12 210

28 REMUNERATION SCHEMES continued

	2007			
	FirstRand (FSR shares)	FNB (FSR shares)	FirstRand share appreciation right scheme (FSR shares)	FirstRand black employee trust (FSR shares)
Number of options in force at the beginning of the year (millions)	178.6	6.9	–	81.6
Granted at prices ranging between (cents)	655 – 1 771	325 – 1 069	–	1228 – 2078
Weighted average (cents)	1 136	530	–	1232
Number of options granted during the year (millions)	–	–	62.6	21.7
Granted at prices ranging between (cents)	–	–	1 795 – 2 460	1 781 – 2 280
Weighted average (cents)	–	–	1 811	1 871
Number of options exercised/released during the year (millions)	(27.1)	(3.6)	–	–
Market value range at date of exercise/release (cents)	1 637 – 2 600	1 650 – 2 524	–	–
Weighted average share price for the year (cents)	2 088	2 088	–	–
Number of options cancelled/lapsed during the year (millions)	(8.7)	–	(2.7)	(12.3)
Granted at prices ranging between (cents)	655 – 1 695	–	1 795	1 228 – 1 862
Weighted average (cents)	1 275	–	1 795	1350
Number of options in force at the end of the year (millions)	142.8	3.3	59.9	91.0
Granted at prices ranging between (cents)	655 – 1 771	586 – 724	1 795 – 2 460	1 228 – 2 280
Weighted average (cents)	1 208	633	1 811	1 371
Options are exercisable over the following periods (first date able to release)				
Financial year 2006/2007 (millions)	11.8	3.3	–	–
Financial year 2007/2008 (millions)	40.3	–	–	–
Financial year 2008/2009 (millions)	44.1	–	–	–
Financial year 2009/2010 (millions)	29.9	–	20.0	–
Financial year 2010/2011 (millions)	16.7	–	20.0	–
Financial year 2011/2012 (millions)	–	–	19.9	–
Financial year 2014/2015 (millions)	–	–	–	91.0
Total	142.8	3.3	59.9	91.0

R million	2008	2007
29 CASH FLOW INFORMATION		
29.1 Reconciliation of operating profit before income tax to cash flows from operating activities		
Operating profit before income tax	9 383	7 605
Adjusted for:		
– Depreciation, amortisation and impairment costs	878	724
– Impairment of advances	4 457	2 564
– Associate earnings less dividends received	–	(51)
– Movement in provisions	1 813	2 388
– (Profit)/loss on disposal of property and equipment	(6)	6
– Profit on disposal of investments	(1 023)	53
– Revaluation reserve	(62)	22
– Deferred expenses and income	(312)	(181)
– Share based payment expense	106	239
– Net fair value gains on assets through profit or loss	(419)	–
– Accruals	(100)	28
– Present Value adjustments	(120)	–
– Foreign currency translation reserve	13	–
– Profit on available-for-sale assets and cash flow hedges transferred	(38)	(20)
– Dividends from other investments	(1 547)	(166)
Net cash flows from operating activities	(13 023)	13 211
29.2 Cash receipts from customers		
Interest income	42 398	34 756
Fee and commission income	10 259	9 770
Trading and other income	6 909	4 657
Cash receipts from customers	59 566	49 183
29.3 Cash paid to customers, suppliers and employees		
Interest expense	(31 598)	(22 291)
Other operating expenses	(14 945)	(13 681)
Cash paid to customers, suppliers and employees	(46 543)	(35 972)
29.4 Increase in income earning assets		
Liquid assets and trading securities	(18 423)	(7 423)
Advances	(66 298)	(51 918)
Net funding from fellow subsidiary companies	9 159	(4 586)
Increase in income earning assets	(75 562)	(63 927)
29.5 Increase in deposits and other liabilities		
Term deposits	17 268	14 802
Current deposit accounts	21 019	12 053
Deposits from banks	24 117	24 921
Negotiable certificates of deposits	862	3 017
Savings accounts	(114)	116
Creditors, net of debtors	1 819	(3 981)
Other	395	4 603
Increase in deposits and other liabilities	65 366	55 531

R million	2008	2007
29 CASH FLOW INFORMATION continued		
29.6 Tax paid		
Indirect tax paid	(488)	(412)
Tax payable and deferred tax at beginning of the year	(805)	(430)
Other	1	(2)
Deferred tax included in tax charge	1 059	(52)
Charge to income statement	(1 934)	(1 805)
Tax payable and deferred tax at end of the year	(261)	805
Tax paid	(2 428)	(1 896)
29.7 Dividends paid		
Charged to distributable reserves	(4 627)	(2 887)
Dividends paid	(4 627)	(2 887)
29.8 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	21 913	22 707
Cash and cash equivalents	21 913	22 707
30 CONTINGENCIES AND COMMITMENTS		
Contingencies and commitments		
Guarantees*	18 340	17 031
Acceptances	1 992	340
Letters of credit	4 668	12 578
Underwriting exposures	226	–
Committed capital expenditure	584	282
Lease payments	1 726	1 554
Irrevocable commitments	36 057	33 067
Other	8 688	7 907
Total contingencies and commitments	72 281	72 759

** Guarantees consist predominantly of endorsements and performance guarantees.*

R million	2008	2007
30 CONTINGENCIES AND COMMITMENTS continued		
Other contingencies		
The Bank is exposed to various actual or potential claims.		
Legal proceedings		
There are a number of legal or potential claims against the Bank, the outcome of which can not at present be foreseen. These claims are not regarded as material either on an individual or a Bank basis. Provision is made for all liabilities which are expected to materialise.		
Claims		
– The Bank has contingent liabilities in respect of certain outstanding claims	150	150
– The Bank has reciprocal claims against other institutions. These claims qualify as contingent assets.	(134)	(134)
Commitments		
Commitments in respect of capital expenditure and long term investments approved by directors:		
– Total contracted for	584	282
– Total not contracted for	541	216
Made up of the following:		
– Capital commitments contracted for at the balance sheet date but not yet incurred are as follows:		
– Property and equipment	584	282
– Capital commitments not yet contracted for at balance sheet date but have been approved by the directors:		
– Property and equipment	541	216

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

30 CONTINGENCIES AND COMMITMENTS continued

Bank commitments under operating leases where the Bank is the lessee

The Bank's significant operating leases relates to property rentals of the various branch network channels represented by full service branches, agencies, mini branches and ATM lobbies. The rentals are negotiated on a fixed monthly rental basis, with a percentage contribution of the monthly operating costs. Escalation clauses are negotiated at market related rates for a period of at least five years with an option to renew for a further five year period. Restrictions are limited and these have an insignificant impact on the contingencies and commitments.

The leases are non cancellable.

The Bank has various operating lease agreements, which may or may not contain renewal options.

	2008		
R million	Next year	2nd to 5th year	After 5th year
Office premises	464	1 080	60
Equipment and motor vehicles	68	44	10
Total operating lease commitments	532	1 124	70

	2007		
	Next year	2nd to 5th year	After 5th year
Office premises	420	957	127
Equipment and motor vehicles	17	33	–
Total operating lease commitments	437	990	127

R million	2008	2007
31 COLLATERAL PLEDGED AND HELD		
31.1 Collateral pledged		
The Bank has pledged assets as security for the following liabilities:		
Deposits	20 563	12 996
Other	5 201	3 410
Total	25 764	16 406

The Bank pledges assets under the following terms and conditions:
Mandatory reserve deposits are also held with the Central Bank in accordance with statutory requirements. These deposits are not available to finance the Bank's day-to-day operations.
Assets are pledged as collateral under repurchase agreements with other banks and for security deposits relating to local futures and options.
Collateral in the form of cash and other investment securities is pledged when the Bank borrows equity securities from third parties.
These transactions are conducted under the terms and conditions that are usual and customary to standard securities lending arrangements.
All other pledges are conducted under terms which are usual and customary to lending arrangements.

R million	2008	2007
Assets pledged to secure the above liabilities are carried at and included under the following:		
Investment securities and other securities	6 162	7 165
Total	6 162	7 165

31 COLLATERAL PLEDGED AND HELD continued

31.2 Collateral held

Under the standard terms for certain of the securities lending arrangements which the Bank enters into the recipient of collateral has an unrestricted right to sell or repledge the assets in the absence of default but subject to the Bank returning equivalent securities on settlement of the transaction.

	2008		2007	
R million	Fair Value	Fair value of collateral sold or re-pledged	Fair Value	Fair value of collateral sold or re-pledged
Collateral the Bank holds which it has the ability to sell or repledge in the absence of default by the owner of the collateral				
Advances	31 048	14 401	18 204	5 831
Commodities	579	–	400	–
Other	1	–	–	–
Total	31 628	14 401	18 604	5 831

When the Bank takes possession of collateral which is not cash or not readily convertible into cash the Bank determines a minimum sale amount ("pre-set sale amount") and auctions the asset for the pre-set sale amount. Where the Bank is unable to obtain the pre-set sale amount in an auction the Bank will continue to hold the asset while actively marketing it to ensure an appropriate value is obtained.

R million	2008	2007
Collateral taken possession of and recognised on the balance sheet		
Vehicles	499	230
Total	499	230

32 LOANS AND RECEIVABLES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

As described in the accounting policies instruments which meet the criteria to be designated at fair value through profit or loss are accounted for as such. Certain instruments classified in this manner would meet the definition for classification as loans and receivables in terms of IAS 39 were it not for this designation. The table below contains details on the change in credit risk attributable to these instruments.

			Change in fair value			
			Of mitigating instrument		Due to credit risk	
R million	Carrying value	Mitigated credit risk*	Current period	Cumulative	Current period	Cumulative
2008						
Included in advances	94 119	2 326	62	88	417	1 023
Included in investment securities	8 080	166	16	16	5	5
Total	102 199	2 492	78	104	422	1 028
2007						
Included in advances	51 619	570	21	21	(216)	466
Included in investment securities	1 171	–	–	–	–	–
Total	52 790	570	21	21	(216)	466

* *Amount by which any related credit derivatives or similar instruments mitigate the maximum exposure to credit risk.*

32 LOANS AND RECEIVABLES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS continued

Different methods are used to determine the current period and cumulative changes in fair value attributable to credit risk for investment securities and advances. This is due to the differing inherent credit risk of these instruments. The methods used are described below:

Investment Securities

The change in fair value for investments designated at fair value through profit or loss is calculated by stripping out the movements which result from a change in market factors that give rise to market risk. The change in fair value due to credit risk is then calculated as the balancing figure, after deducting the movement due to market risk from the total movement in fair value.

Advances

The current and cumulative change in fair value due to changes in credit risk for advances designated at fair value through profit or loss is calculated as the amount of change in fair value that is attributable to changes in credit risk. The change in credit risk is the difference between fair value of the advances based on the original credit spreads and the fair value of the advances based on the most recent market observable credit spreads.

33 FINANCIAL LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

	2008	
R million	Fair value	Contractually payable at maturity
Deposits and current accounts	165 008	171 457
Long term liabilities	2 090	2 172
Total	**167 098**	**173 629**

	2007	
R million	Fair value	Contractually payable at maturity
Deposits and current accounts	140 227	134 794
Long term liabilities	2 000	2 000
Total	142 227	136 794

The current and cumulative change in fair value that is attributable to credit risk of financial liabilities designated at fair value through profit or loss is determined with reference to changes in the Bank's published credit rating.

34 DERECOGNITION OF ASSETS, SECURITISATIONS AND OTHER STRUCTURED TRANSACTIONS

In the normal course of business the Bank enters into transactions in terms of which it transfers financial assets directly to third parties or to special purpose entities. These transfers may give rise to the full or partial derecognition of the financial asset concerned.

- Full derecognition occurs when the Bank transfers its contractual right to receive cash flows from the financial assets and substantially all the risks and rewards of ownership. The risks include credit, interest rate, currency, prepayment and other price risks.
- Partial derecognition occurs when the Bank sells or otherwise transfers financial assets in such a way that some but not substantially all of the risks and rewards of ownership are transferred but control is retained.

These financial assets are recognised on the balance sheet to the extent of the Bank's continuing involvement.

The majority of transferred financial assets that do not qualify for derecognition are debt securities given by counterparties as collateral under repurchase agreements or equity securities lent under securities lending agreements.

Securitisation transactions arranged by the Bank may also result in the continued recognition of the securitised assets to the extent of the Bank's continuing involvement in such assets.

34 DERECOGNITION OF ASSETS, SECURITISATIONS AND OTHER STRUCTURED TRANSACTIONS continued

In a securitisation transaction, assets or interests in a pool of assets are transferred to a special purpose entity ("SPE") which then issues liabilities to third party investors.

The rights and obligations that the Bank retains from its continuing involvement in securitisations are initially recorded as an allocation of the fair value of the financial asset between the part that is derecognised and the part that continues to be recognised on the date of transfer. The following is an analysis of the carrying amount of financial assets, to the extent of the Bank's continuing involvement, that qualified for partial derecognition, and their associated liabilities.

Continuing involvement may entail retaining the rights to future cash flows arising from the assets after investors have received their contractual terms, providing subordinated interest, continuing to service the underlying asset or entering into derivatives with the securitisation vehicle.

Repurchase agreements, securities lending and securitisation transactions may, depending on the individual arrangement result in the derecognition of the assets and the separate recognition as assets or liabilities, of any rights or obligations created or retained in the transfer.

The table below sets out the asset classes together with the carrying amounts of the assets and associated liabilities for those asset transfers where substantially all of the risks and rewards of the assets have been retained by the Bank:

	2008		2007	
R million	Carrying amount of assets	Carrying amount of associated liability	Carrying amount of assets	Carrying amount of associated liability
Assets under agreements to repurchase				
Investment securities	6 162	6 064	7 165	5 973
Total	6 162	6 064	7 165	5 973

The Bank remains exposed to the interest rate risk on the repurchase agreements and market risk on the securities lending agreements.

35 FAIR VALUE OF FINANCIAL INSTRUMENTS

The Bank determines fair value with the maximum possible use of quoted market prices and/or observable market data as indicated in the accounting policy note. If market prices are not available or the market for a financial instrument is not active, fair value is determined by using valuation technique that make maximum use of market inputs.

Where market inputs are not available, non observable market inputs are used to determine the fair value, based on the Bank's best estimate. Such inputs include risk premiums, liquidity discount rates, credit risk, volatilities and correlations. Valuation techniques applied by the Bank and that incorporates non observable market inputs include, inter alia, discounted cash flows, earnings multiples, the underlying net asset value of the business and recent similar transactions. Refer below for a description of the principle methods and assumptions used to determine the fair value of financial instruments.

Changes in the Bank's best estimate of the non observable inputs could affect the reported fair values recognised on balance sheet and the movement in fair values recognised in the income statement. However, changing these inputs to reasonably possible alternatives is not likely to change the fair value significantly. The total amount of the change in fair value estimated using a valuation technique not based on non observable market data that was recognised in the income statement for the year ended 30 June 2008 was a loss of R390 million (2007: R210 million profit).

The following describes the principle methods and assumptions used to determine the fair value of financial instruments:

Investments securities

Unlisted equities

The fair value of unlisted equities is determined using a price earnings (P/E) model.

The earnings included in the model are derived from a combination of historical and budgeted earnings depending on the specific circumstances of the entity whose equity is being valued and the relevance and reliability of the available information.

The P/E multiple is derived from current market observations taking into account an appropriate discount for unlisted companies. The valuation of these instruments may be corroborated by a discounted cash flow valuation or by the observation of other market transactions which have taken place.

Negotiable certificates of deposit

Where market prices are not available for a specific instrument fair value is determined using discounted cash flow techniques. Inputs to these models include as far as possible information which is consistent with similar market quoted instruments.

Treasury bills

Treasury bills are valued by means of the Bond Exchange of South Africa ("BESA") bond pricing model using the closing BESA mark to market bond yield.

Government, public and utility stocks

Where market prices are not available the fair value is estimated using quoted market prices of securities with similar credit, maturity and yield characteristics.

Other dated securities

Fair value of other dated securities is determined by using a discounted cash flow model. The discount curve is derived from similar market quoted instruments.

35 FAIR VALUE OF FINANCIAL INSTRUMENTS continued

Derivatives

Contracts for difference are valued by using the differential between the market price and the traded price multiplied by the notional amount.

Market prices are obtained from applicable trading exchanges.

Credit derivatives are valued using the discounted cash flow model. Where prices are obtained from the market individual credit spreads are added.

Option contracts are valued using the Black Scholes model. Inputs are obtained from market observable data. Where prices are obtainable from trading exchanges the value per the exchange is used.

Forward contracts are valued by discounting the projected cash flows to obtain the present value of the forward contract. Projected cash flows are obtained by subtracting the strike price of the forward contract from the market projected forward value.

Forward rate agreements are valued by means of the discounted cash flow model. The discount rate is determined using a yield curve of similar market traded instruments. The reset rate is determined in terms of the legal agreement.

Swaps are valued by discounting the expected cash flows using discount and forward rates determined from similar market traded instruments. The reset rate of each swaplet is determined in terms of legal documents pertaining to the swap.

Commodity linked instruments are measured by taking into account the price, the location differential, grade differential, silo differential and the discount factor of the most liquidly traded futures linked to the commodity.

Deposits and current accounts

Fair value of deposits and current accounts is determined by discounting future cash flows using a swap curve adjusted for liquidity premiums and business unit margins. The valuation methodology does not take early withdrawals and other behavioural aspects into account

Call deposits are valued at the undiscounted amount of the cash balance, this is considered appropriate because of the short term nature of these instruments.

Fair valuation will only be applied to deposits having a maturity profile of longer than 30 days. For all non term products it is assumed that fair value will equal the amortised cost.

Loans and advances to customers

The fair value of advances is the present value of the expected future cash flows determined using an appropriate discount rate adjusted for the credit spreads where necessary.

Projected cash flows, taking into account behaviour, loss given default and probability of default are grouped according to their maturity dates.

The discount rate for fixed interest rate instruments is adjusted by an appropriate risk premium while floating rate cash flows are discounted by means of a yield curve representing the projected cash flows.

Long term liabilities

Fair value of debentures, unsecured debt securities and finance lease liabilities are determined by discounting the future cash flows at market related interest rates.

The fair value of subordinated notes and fixed and floating rate bonds are determined by discounting the future cash flows at market related interest rates.

The fair value of the post retirement funding liability has been calculated based on the value of the corresponding assets, since the value of the liability is limited to the value of the assets in the cell captive.

Liabilities arising from third parties as a result of consolidating collective investment schemes

The fair value of these liabilities is the quoted unit price for the collective investment scheme multiplied by the number of units held by third parties.

35 FAIR VALUE OF FINANCIAL INSTRUMENTS CONTINUED

Refer to the Accounting policies for a description of the valuation of investment contracts.

	2008	
R million	Carrying value	Fair value
Assets		
Total advances at amortised cost	305 829	303 875
Liabilities		
Total deposits and current accounts at amortised cost	250 165	248 668
Long term liabilities	8 436	8 308

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

For all other instruments the carrying value is equal to or a reasonable approximation of the fair value.

	2007	
R million	Carrying value	Fair value
Assets		
Total advances at amortised cost	269 643	269 848
Liabilities		
Total deposits and current accounts at amortised cost	212 414	212 082
Long term liabilities	6 118	6 044

R million	2008	2007
36 TRUST ACTIVITIES		
Other	24 059	19 502
Market value of assets held or placed on behalf of customers in a fiduciary capacity	24 059	19 502
The Bank provides custody, trustee, corporate administration, investment management and advisory services to third parties, which involves the Bank making allocation and purchase and sale decisions in relation to a wide range of financial statements. Those assets that are held in a fiduciary capacity are not included in these financial statements. Some of these arrangements involve the Bank accepting targets for benchmark levels of returns for the assets under the Bank's care.		
Income received from trust and fiduciary services	83	98

37 SEGMENT INFORMATION

37.1 Primary segments (business)

Divisions	Segment	Brands	Target segment	Description
FNB	Consumer	First National Bank FNB Card, FNB Home Loans, First Link eBucks	Individuals in the middle and upper income market Home Loans Card Issuing	Retail banking Insurance broking Rewards programme Support
	Wealth	RMB Private Bank FNB Trust Services FNB Private Clients	High net worth individuals	Retail banking Wealth management Trust services
	Commercial	First National Bank	Mid corporate, business and agriculture	Commercial banking (Corporate and Retail Banking)
	Corporate	First National Bank	Large corporates, financial institutions and state owned enterprises	Corporate banking
	FNB Other (Mass, Public Sector Banking, Branch Banking and support)	First National Bank BOB	Government, individuals in the Mass market, universities and schools and includes the banking infrastructure	Retail banking Infrastructure Support services
FNB Africa	African subsidiaries	FNB Namibia, FNB Botswana, FNB Swaziland	Corporates and individuals	Corporate and retail banking
RMB	RMB Private equity	RMB	Smaller corporates	Investment in private equity businesses
	RMB Equity Trading	RMB	Large corporates, parastatals and government	Trading in equity instruments.
	Investment Banking	RMB		Investment banking services
	FICC	RMB	Large corporates, parastatals and government	Fixed income and currency products.
	Other	RMB	Large corporates, parastatals and government	Other investment and merchant banking services.
FirstRand short term insurance	Short term insurance	OUTsurance	Corporates and individuals	Short term insurance
WesBank	Instalment finance	WesBank	Corporates and individuals	Motor vehicle and instalment finance
Group support	Capital centre			Owns the capital of the Banking Group and provides banking support

37 SEGMENT INFORMATION continued

37.2 Primary segments (business)

FirstRand Bank LTD segmental reporting for June 2008

		Consumer segment			
R million	Mass	Home-Loans	Card issuing	Other consumer	Consumer segment
Net interest income before impairment of advances	843	1 176	1 129	2 035	4 340
Impairment of advances	(166)	(971)	(1 084)	(311)	(2 366)
Net interest income after impairment of advances	677	205	45	1 724	1 974
Non interest income	2 895	178	1 366	1 895	3 439
Net income from operations	3 572	383	1 411	3 619	5 413
Operating expenses	(2 373)	(814)	(1 282)	(2 242)	(4 338)
Income before taxation	1 199	(431)	129	1 377	1 075
Indirect taxation	(11)	(44)	(9)	(94)	(147)
Income before direct taxation	1 188	(475)	120	1 283	928
Direct taxation	(315)	126	(32)	(340)	(246)
Income after taxation	873	(349)	88	943	682
Cost to Income (%)	63.5	60.1	51.4	57.0	55.8
Diversity ratio (%)	77.4	13.1	54.7	48.2	44.2
Bad debt charge as a percentage of average advances (%)	8.10	0.96	8.87	8.55	2.03
NPLs as a percentage of advances (%)	13.0	4.7	11.8	7.6	5.5
Income statement includes					
Depreciation	(85)	(5)	(1)	(140)	(146)
Amortisation	(0)	–	–	(8)	(8)
Impairment charges	–	–	–	(5)	(5)
Other non cash provisions	(25)	(15)	(10)	(115)	(140)
Balance sheet includes					
Advances (after ISP – before impairments)	2 269	107 126	12 516	3 582	123 224
– Normal advances	2 269	107 126	12 516	3 582	123 224
Advances net of LROS	2 269	107 126	12 516	3 582	123 224
LROS adjustment	–	–	–	–	–
Non performing loans	335	5 371	1 633	304	7 308
Investment in associated companies	–	–	–	–	–
Total deposits	7 748	103	1 252	49 872	51 227
Deposits net of LROS	7 748	103	1 252	49 872	51 227
LROS adjustment	–	–	–	–	–
Total assets	2 896	105 827	11 234	3 806	120 867
Total liabilities	7 878	159	1 301	50 630	52 090
Capital expenditure	276	71	1	302	374
– Property and equipment	276	71	1	292	364
– Intangible assets	–	–	–	10	10

The segmental analysis is based on the management accounts for the respective segments.

FNB									
Wealth	Commercial	Corporate	FNB Other and support	Total FNB	FNB Africa	RMB	WesBank	Group support	Total
752	3 586	425	114	10 060	12	369	3 579	(2 855)	11 165
(88)	(201)	(91)	(24)	(2 936)	(4)	(25)	(1 887)	395	(4 457)
664	3 385	334	90	7 124	8	344	1 692	(2 460)	6 708
300	2 815	1 326	371	11 146	44	5 917	555	2 526	20 188
964	6 200	1 660	461	18 270	52	6 261	2 247	66	26 896
(590)	(3 268)	(1 011)	(490)	(12 070)	(82)	(2 758)	(1 941)	(663)	(17 513)
374	2 932	649	(29)	6 201	(30)	3 503	306	(597)	9 383
(13)	(20)	(14)	(140)	(345)	(1)	(49)	(124)	31	(488)
361	2 912	635	(169)	5 856	(31)	3 454	182	(566)	8 895
(96)	(771)	(168)	45	(1 551)	9	(915)	(48)	572	(1 934)
265	2 141	467	(124)	4 304	(22)	2 539	134	7	6 961
56.1	51.1	57.7	100.9	56.9	146.4	43.9	47.0	(201.4)	55.9
28.5	44.0	75.7	76.5	52.6	78.6	94.1	13.4	(768)	64.4
0.36	0.91	0.64	0.36	1.58	6.72	0.02	2.24	(18.67)	1.19
2.2	2.1	0.9	–	4.2	5.1	0.3	3.6	0.1	2.9
(17)	(10)	(69)	(315)	(642)	–	(35)	(67)	(26)	(770)
(4)	(6)	(2)	(2)	(22)	–	(32)	(3)	1	(56)
–	–	(4)	(19)	(28)	–	–	–	5	(23)
(95)	(104)	(107)	(244)	(715)	(11)	(939)	(74)	(74)	(1 813)
27 528	24 109	15 424	5 284	197 838	78	120 282	87 773	1 225	407 196
27 528	24 109	15 424	5 284	197 838	78	120 282	87 773	1 225	407 196
27 528	23 766	2 792	(289)	179 290	78	120 282	87 773	1 225	388 648
–	343	12 632	5 573	18 548	–	–	–	–	18 548
659	625	140	–	9 067	4	365	3 293	1	12 730
–	–	–	–	–	–	435	217	186	838
15 347	58 357	43 201	16 587	192 467	387	88 669	35	133 615	415 173
15 347	58 014	30 569	11 014	173 919	387	88 669	35	133 615	396 625
–	343	12 632	5 573	18 548	–	–	–	–	18 548
27 553	23 746	16 701	9 221	200 984	207	210 658	87 225	68 718	567 792
15 433	58 556	44 981	18 008	196 946	398	209 103	11 227	120 828	538 502
49	47	115	796	1 657	11	78	118	1 350	3 214
40	24	110	794	1 608	11	78	118	1 265	3 080
9	23	5	2	49	–	–	–	85	134

37 SEGMENT INFORMATION continued

37.2 Primary segments (business)

		Consumer segment			
R million	Mass	Home-Loans	Card issuing	Personal banking	Consumer segment
Net interest income before impairment of advances	658	1 472	850	1 600	3 922
Impairment of advances	(221)	(247)	(575)	(142)	(964)
Net interest income after impairment of advances	437	1 225	275	1 458	2 958
Non interest income	2 499	167	1 168	1 706	3 041
Net income from operations	2 936	1 392	1 443	3 164	5 999
Operating expenses	(1 969)	(737)	(1 324)	(1 996)	(4 057)
Income before taxation	967	655	119	1 168	1 942
Indirect taxation	(1)	(38)	(10)	(97)	(145)
Income before direct taxation	966	617	109	1 071	1 797
Direct taxation	(211)	(134)	(24)	(233)	(391)
Income after taxation	755	483	85	838	1 406
Cost to Income (%)	62.4	45.0	65.6	60.4	58.3
Diversity ratio (%)	79.2	10.2	57.9	51.6	43.7
Bad debt charge as a percentage of average advances (%)	14.44	0.29	5.44	4.45	0.96
NPLs as a percentage of advances (%)	15.5	1.5	7.4	3.6	2.2
Income statement includes					
Depreciation	(82)	(3)	(0)	(142)	(145)
Amortisation	–	–	–	–	–
Impairment charges	–	–	–	(2)	(2)
Other non cash provisions	(17)	(11)	(19)	(87)	(117)
Balance sheet includes					
Advances (after ISP – before impairments)	1 832	94 314	11 935	3 694	109 943
– Normal advances	1 832	94 314	11 935	3 694	109 943
Advances net of LROS	1 832	94 314	11 935	3 694	109 943
LROS adjustment	–	–	–	–	–
Non performing loans	303	1 527	954	148	2 629
Investment in associated companies	–	–	–	–	–
Total deposits	7 432	40	1 303	42 652	43 995
Deposits net of LROS	7 432	40	1 303	42 652	43 995
LROS adjustment	–	–	–	–	–
Total assets	2 331	93 787	11 190	3 994	108 971
Total liabilities	7 545	112	1 362	43 022	44 496
Capital expenditure	89	10	8	174	192
– Property and equipment	89	10	8	174	192
– Intangible assets	–	–	–	–	–

The segmental analysis is based on the management accounts for the respective segments.

FNB									
Wealth	Commercial	Corporate	FNB Other and support	Total FNB	FNB Africa	RMB	WesBank	Group support	Total
631	2 663	420	(43)	8 251	7	244	3 578	(130)	11 950
(47)	(114)	(10)	(172)	(1 528)	–	(1)	(1 094)	59	(2 564)
584	2 549	410	(215)	6 723	7	243	2 484	(71)	9 386
229	2 546	1 114	305	9 734	40	3 136	479	1 144	14 533
813	5 095	1 524	90	16 457	47	3 379	2 963	1 073	23 919
(528)	(2 898)	(962)	(350)	(10 764)	(64)	(2 424)	(1 950)	(1 112)	(16 314)
285	2 197	562	(260)	5 693	(17)	955	1 013	(39)	7 605
(12)	(14)	(12)	(131)	(315)	–	(43)	(105)	51	(412)
273	2 183	550	(391)	5 378	(17)	912	908	12	7 193
(59)	(476)	(120)	85	(1 172)	(234)	(199)	(198)	(2)	(1 805)
214	1 707	430	(306)	4 206	(251)	713	710	10	5 388
61.4	55.6	62.7	133.6	59.8	136.2	71.7	48.1	109.7	61.6
26.6	48.9	72.6	116.4	54.1	85.1	92.8	12	113	54.9
0.25	0.62	0.07	1.86	0.94	–	–	1.39	(1.68)	0.82
1.1	1.7	1.2	–	2.0	2.4	0.3	1.9	(0.1)	1.5
(16)	(7)	(78)	(257)	(585)	(2)	(28)	(65)	(11)	(691)
(3)	–	–	–	(3)	–	(21)	–	–	(24)
–	–	9	(17)	(10)	(1)	–	–	2	(9)
(74)	(110)	(104)	(385)	(807)	–	(866)	(87)	(628)	(2 388)
21 712	20 091	12 834	8 134	174 546	41	84 237	80 671	3 007	342 502
21 712	20 091	12 834	8 134	174 546	41	84 237	80 671	3 007	342 502
21 712	19 797	2 969	325	156 577	41	84 237	80 671	3 007	324 533
–	294	9 865	7 809	17 969	–	–	–	–	17 969
275	432	184	–	3 823	1	258	1 620	–	5 702
–	–	–	–	–	–	456	217	(384)	289
12 645	50 577	36 730	16 880	168 259	159	58 456	434	125 333	352 641
12 645	50 283	26 865	9 071	150 290	159	58 456	434	125 333	334 672
–	294	9 865	7 809	17 969	–	–	–	–	17 969
21 722	19 815	13 881	12 857	179 577	238	145 387	81 694	52 245	459 141
12 751	50 771	37 729	18 245	171 537	257	113 778	3 832	144 788	434 192
34	17	109	558	999	6	53	35	(10)	1 083
34	17	109	558	999	6	53	35	(52)	1 041
–	–	–	–	–	–	–	–	42	42

38 RELATED PARTIES

The Banking Group defines related parties as:

- The parent company
- Associate companies
- Joint ventures
- Key management personnel as the FirstRand Bank Holdings Ltd board of directors and the Bank executive committee
- Close family members of key management personnel (individual's spouse/domestic partner and children; domestic partner's children and dependants of individual or domestic partner). This may include:
- Enterprises which are controlled by these individuals through their majority shareholding or their role as chairman and/or CEO in those companies

The Bank is controlled by FirstRand Bank Holdings Ltd, (incorporated in South Africa) which owns 100% of the ordinary shares. The ultimate parent of the Bank is FirstRand Limited, incorporated in South Africa.

38.1 Subsidiaries

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

The rationale for the co investment arrangement includes:

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

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

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

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

38.2 Associates and joint ventures

Details of investments in associate and joint venture companies are disclosed in note 14.

During the year the Bank and its subsidiaries, in the ordinary course of business, entered into various transactions with associates and joint ventures on terms that are not more favourable than those arranged with third parties.

38 RELATED PARTIES continued

38.3 Details of transactions with relevant related parties appear below:

	2008	
R million	Parent	Fellow subsidiaries
Loans and advances		
Balance 1 July	354	–
Issued during year	(297)	–
Balance 30 June	57	–
Deposits		
Balance 1 July	8	–
Received during year	1	–
Balance 30 June	9	–
Loans to insurance group		
Balance 1 July	135	3 301
Issued during year	(135)	–
Repayments during year	–	(1 460)
Balance 30 June	–	1 841
Loans from insurance group		
Balance 1 July	41	4 144
Issued during year	157	–
Repayments during year	–	(1 703)
Balance 30 June	198	2 441
Amounts due to holding and fellow subsidiaries		
Balance 1 July	526	17 402
Issued during year	343	8 231
Balance 30 June	869	25 633
Amounts due from holding and fellow subsidiaries		
Balance 1 July	472	28 885
Issued during year	1 137	–
Repayments during year	–	(1 722)
Balance 30 June	1 609	27 163
Interest received	18	1 863
Interest paid	33	2 058
Non interest income	11	1 083
Operating expenditure	17	429
Dividends paid	(4 627)	–

38 RELATED PARTIES continued

38.3 Details of transactions with relevant related parties appear below continued:

The following derivatives are included in loans to/from the insurance group

	2008		2007	
	Assets		Assets	
	Notional	Fair value	Notional	Fair value
Loan to insurance group	7 261	837	28 802	1 015

	2008		2007	
	Liabilities		Liabilities	
	Notional	Fair value	Notional	Fair value
Loan from insurance group	9 365	2 587	2 738	496

	2007	
	Parent	Fellow subsidiaries
Loans and advances		
Balance 1 July	36	–
Issued during year	318	–
Balance 30 June	354	–
Deposits		
Balance 1 July	6	–
Issued during year	2	–
Balance 30 June	8	–
Loans to insurance group		
Balance 1 July	8	628
Repayments during year	127	2 673
Balance 30 June	135	3 301
Loans from insurance group		
Balance 1 July	36	3 414
Issued during year	5	730
Repayments during year	–	–
Balance 30 June	41	4 144
Amounts due to holding and fellow subsidiaries		
Balance 1 July	816	16 978
Issued during year	–	424
Repayments during year	(290)	–
Balance 30 June	526	17 402

38 RELATED PARTIES continued

38.3 Details of transactions with relevant related parties appear below continued:

	2007	
	Parent	Fellow subsidiaries
Amounts due from holding and fellow subsidiaries		
Balance 1 July	659	23 978
Issued during year	–	4 907
Repayments during year	(187)	–
Balance 30 June	472	28 885
Interest received	29	1 269
Interest paid	12	984
Non interest income	–	879
Operating expenditure	14	870
Dividends paid	(2 887)	–

R million	2008	2007
38.4 Key management personnel		
Total advances		
In normal course of business (mortgages, other, instalment finance and credit cards)		
Balance 1 July	**87**	25
Issued during year	**329**	312
Repayments during year	**(373)**	(256)
Interest earned	**8**	6
Balance 30 June	**51**	87
No impairment has been recognised for loans granted to key management (2007: nil). Mortgage loans are repayable monthly over 20 years.		
Share scheme loans		
Balance 1 July	**–**	2
Issued during the year	**–**	–
Repayments during year	**–**	(2)
Interest earned	**–**	–
Balance 30 June	**–**	–
The FirstRand share schemes are different from other similar schemes in that the underlying shares are bought and an equivalent loan granted.		
Advances in course of business by product.		
Mortgages		
Balance 1 July	**82**	3
Issued during year	**201**	228
Repayments during year	**(245)**	(154)
Interest earned	**7**	5
Balance 30 June	**45**	82

R million	2008	2007
38 RELATED PARTIES continued		
38.4 Key management personnel continued		
No impairment has been recognised for loans granted to key management (2007: nil). Mortgage loans are repayable monthly over 20 years.		
Other loans		
Balance 1 July	3	21
Issued during year	109	82
Repayments during year	(110)	(101)
Interest earned	1	1
Balance 30 June	3	3
Instalment finance		
Balance 1 July	2	1
Issued during year	2	2
Repayments during year	(2)	(1)
Balance 30 June	2	2
No impairments have been recognised in respect of instalment finance (2007: R nil)		
Credit cards		
Total annual spend	17	11
Repayments	(16)	(11)
Balance 30 June	1	–
No impairments have been recognised in respect of credit cards held by key management. Interest rates are in line with normal rates charged to customers.		
Cheque and current accounts		
Credit balance 1 July	20	27
Net deposits and withdrawals	(111)	(7)
Interest income	(10)	–
Balance 30 June	(101)	20
Savings deposits		
Credit balance 1 July	41	33
Interest income	3	4
Net new investments	(13)	4
Balance at 30 June	31	41
Other including term deposits		
Balance 1 July	32	–
Interest income	1	2
Net new withdrawals/investments	(28)	30
Balance 30 June	5	32
Insurance and investment		
Insurance		
Life and disability insurance		
Aggregate insured cover	1	1
Surrender value	–	2
Other insurance		
Claims paid	1	–
	2	3

R million	2008	2007
38 RELATED PARTIES continued		
38.4 Key management personnel continued		
Investment products		
Fund value opening balance	1 042	522
Deposits	(62)	163
Net investment return credited	19	360
Commission and other transaction fees	(4)	(3)
Fund closing balance	995	1 042
Other fees		
Financial consulting fees and commissions	5	1
Key management compensation		
Salaries & other short term benefits	133	128
Share based payments	82	39
Total compensation	215	167
A listing of the board of directors of the Bank is on page 1 of the annual report.		
38.5 Post retirement benefit plan		
Details of transactions between The Bank and the Bank's post retirement benefit plan is listed below:		
Insurance premium	20	–
Fee income	1	9
Deposits held with the Bank	30	1
Interest expenses	1	33
Value of assets under management	2 534	2 230
Deposits held in bonds and money market	–	454

39 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

(a) Credit impairment losses on loans and advances

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

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

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

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

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

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

Non performing loans

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

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

Refer to note 10 for a detailed analysis of the impairment of advances and the carrying amounts of the specific and portfolio provisions.

National Credit Act ("NCA")

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

(b) Fair value of derivatives

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

Refer to notes 8 for a detailed analysis of the derivatives and the carrying amounts of the different types of derivative instruments. Note 35 provides additional

39 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES continued

details on the calculation of fair value of financial instruments not quoted in active markets.

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

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

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

(d) Securitisations and special purpose entities

The Bank sponsors the formation of special purpose entities ("SPEs") primarily for the purpose of allowing clients to hold investments, for asset securitisation transactions and for buying and selling credit protection. The Bank consolidates SPEs that it does control in terms of IFRS. As it can sometimes be difficult to determine whether the Bank does control an SPE, it makes judgements about its exposure to the risks and rewards, as well as about its ability to make operational decisions for the SPE in question. In many instances, elements are present that, considered in isolation, indicate control or lack of control over an SPE, but when considered together make it difficult to reach a clear decision. In such cases, the SPE is accounted for based on management's best estimate of the economic reality of the underlying transaction.

Refer to note 34 for more information regarding the Bank's synthetic securitisations and the respective carrying amounts.

(e) Income taxes

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

Refer to note 4 & 5 for more information regarding the direct and deferred tax charges, assets and liabilities.

(f) Financial risk management

The Bank's risk management policies are disclosed in the Risk Report on pages 3 to 42 of the annual report. The repricing analysis on pages 38 to 39 forms part of the audited annual financial statements.

(g) Employee benefit liabilities

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

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

Additional information is provided in note 19.

(h) Share based payments

Share based payment costs arise from the issue of share options to employees. These share options are classified as equity settled share based payments and as such, the fair value cost is determined on date of grant on an actuarial basis using a number of assumptions. These assumptions used in determining the fair value cost

39 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES continued

include expected volatility, expected dividend yield, the discount rate and the expected forfeit of lapse rate. In accordance with the principles of valuing equity settled share based payments, only a change in the actual experience of forfeits compared to the estimated forfeit rate assumption, will impact on the charge in the income statement. All other assumptions are determined at grant date and are not amended.

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

Refer to note 28 for the detailed information regarding the share based payment expense and the assumptions used in determining the expense, liability and reserve.

(i) Fair value of commodities

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

40 STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

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

		Effective date
IFRIC 12	**Service Concession Arrangements** The interpretation addresses the accounting by private sector operators involved in the provision of public sector infrastructure assets and services. This interpretation is not applicable to the Group.	Annual periods commencing on or after 1 March 2008
IFRIC 13	**Customer Loyalty Programmes** The interpretation requires entities to allocate some of the proceeds of the initial sale to the award credits (such as 'points' or travel miles) and recognise that portion of the proceeds as revenue only when the entity has fulfilled its obligations. An entity may fulfil its obligation by supplying awards themselves or engaging a third party to do so. This interpretation is not expected to have a significant impact on the Bank's results.	Annual periods commencing on or after 1 July 2008
IFRIC 14	**IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction** This interpretation addresses the interaction between the minimum funding requirement and the limit on the measurement of the defined asset or liability. To determine the limit, the interpretation requires an entity to measure any economic benefits available to them through either refunds or reduction in future contributions. The impact of this interpretation on the Group is not considered to be significant.	Annual periods commencing on or after 1 March 2009
IFRIC 15	**Real Estate Sales** The interpretation clarifies when real estate sales should be accounted for in terms of IAS 11 Construction Contracts or IAS 18 Revenue. The interpretation is not applicable to the Group.	Annual periods commencing on or after 1 January 2009
IFRIC 16	**Hedges of a Net Investment of a Foreign Operation** The interpretation clarifies which risks can be hedged under a hedge of the net investment in a foreign operation and by which entities within the Group the hedging instruments can be held in order to qualify as a hedge of a net investment in a foreign operation. The Group does not currently apply hedge accounting to net investments in foreign operations.	Annual periods commencing on or after 1 October 2008
IFRS 1 and IAS 27 (revised)	**Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate** The amendments to IFRS 1 allow first time adopters of IFRS 1 to use a deemed cost option for determining the cost of an investment in a subsidiary, jointly controlled entity or associate. This amendment will not impact the Group as the Group adopted IFRS in full in the financial year ending 30 June 2006. Consequently, IFRS 1 is no longer appropriate.	Annual periods commencing on or after 1 January 2009

40 STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE continued

		Effective date
IFRS 2 (amended)	**Vesting Conditions and Cancellations** The amendments to IFRS 2 clarify that vesting conditions are performance conditions and service conditions only. The amendment also clarifies that cancellations of share options by parties other than the entity are to be accounted for in the same way as cancellations by the entity. This amendment is not expected to impact the Group's results significantly.	Annual periods commencing on or after 1 January 2009
IFRS 3 and IAS 27 (revised)	**Revision to IFRS 3 Business Combinations and IAS 27 Consolidated and Separate Financial Statements** The revised IFRS 3 retains the current basic requirements. The most significant amendments are that the acquisition related costs will now be recognised as an expense in the income statement when incurred, rather than including it in goodwill. The revised IFRS 3 also states that contingent consideration must be recognised and measured at fair value at the acquisition date. Subsequent changes in fair value are recognised in accordance with other IFRSs, usually in the income statement rather than by adjusting goodwill. The amendment to IAS 27 requires that changes in a parent's ownership interest in a subsidiary that does not result in a loss of control to be accounted for within equity. The amendments are expected to affect the Group's accounting for business combinations that arise after the effective date. The amendments to IAS 27 will necessitate a prospective change in accounting policy for the Group in respect of transactions with minority shareholders.	Annual periods commencing on or after 1 July 2009
IFRS 8	**Operating Segments** IFRS 8 replaces IAS 14 Segment Reporting. IFRS 8 requires an entity to report financial and descriptive information about its reportable operating segments. Operating segments are components of an entity about which separate financial information is available and that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and assessing performance. The standard addresses disclosure in the annual financial statements and will not affect recognition and measurement. The impact on the revised disclosure is not expected to be significant.	Annual periods commencing on or after 1 January 2009
IAS 1 (revised)	**Presentation of Financial Statements** The main change in the revised IAS 1 is the requirement to present all non owner transactions in the statement of comprehensive income. The amendment also requires two sets of comparative numbers to be provided for the financial position in any year where there has been a restatement or reclassification of balances. The amendments will not affect the financial position or results of the Group but will introduce some changes to the presentation of the financial position, changes in equity and financial results of the Group.	Annual periods commencing on or after 1 January 2009

40 STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE continued

		Effective date
IAS 23 (amended)	**Borrowing Costs** The amendment removes the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. The capitalisation of borrowing costs as part of the cost of such assets is therefore now required. The Group's accounting policy is to capitalise borrowing costs on a qualifying asset. The amendment will therefore not have an effect on the Group's results.	Annual periods commencing on or after 1 January 2009
IAS 32 (amended)	**Financial Instruments Puttable at Fair value** The amendment to IAS 32 requires the classification of certain puttable financial instruments and financial instruments that impose on the issuer an obligation to deliver a pro rata share of the entity only on liquidation as equity. The amendments sets out specific criteria that are to be met to present the instruments as equity together with related disclosure requirements. This amendment is not expected to have an impact to the Group.	Annual periods commencing on or after 1 January 2009
IAS 39 (amended)	**Eligible Hedged Items** The amendment clarifies that inflation may only be hedged in instances where changes in inflation are contractually specified portions of cash flows of a recognised financial instrument. It also clarifies that an entity is permitted to designate purchased or net purchased options as a hedging instrument in a hedge of a financial or non financial item and to improve effectiveness, an entity is allowed to exclude the time value of money from the hedging instrument. This amendment is not expected to have a significant impact to the Group.	Annual periods commencing on or after 1 July 2009
Annual Improvements	**Annual Improvements Project** As part of its first annual improvements projects, the IASB has issued its edition of annual improvements. The annual improvement project's aim is to clarify and improve the accounting standards. The improvements include those involving terminology or editorial changes with minimal effect on recognition and measurement. There are no significant changes in the current year's improvement that will affect the Group.	Annual periods commencing on or after 1 January 2009

41 TRANSACTIONS INVOLVING THE LEGAL FORM OF A LEASE

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

Fees received are recognised annually in non interest income.

Income received for the period amounted to R37 million (2007: R60 million) and is reflected in interest and similar income in the consolidated income statement.

42 AVERAGE BALANCE SHEET AND EFFECTIVE INTEREST RATES

	2008			2007		
	Average balance	Average rate	Interest income/ expenses	Average balance	Average rate	Interest income/ expenses
R million	Rm	%	Rm	Rm	%	Rm
ASSETS						
Cash and short term funds	24 105	6.0	1 454	21 575	10.6	2 283
Derivative financial instruments	31 948	0.5	154	27 077	0.2	42
Advances	373 883	9.9	36 860	304 720	9.5	28 943
Investment securities and other investments	41 617	5.7	2 374	37 578	6.5	2 456
Commodities	1 011	–	–	834	–	–
Accounts receivable	3 797	–	–	2 879	–	–
Investment in associate and joint venture companies	653	–	–	607	–	–
Investment in subsidiary companies	42	–	–	13	–	–
Amounts due by holding company and fellow subsidiary companies	28 889	6.4	1 858	22 394	5.4	1 218
Property and equipment	3 827	–	–	2 906	–	–
Post retirement benefit asset	2 699	–	–	2 539	–	–
Intangible assets and deferred acquisition costs	87	–	–	47	–	–
Tax asset	87	–	–	–	–	
Non current assets and disposal groups held for sale	222	–	–	191	–	–
Loans to insurance group	2 800	0.8	23	1 517	3.9	59
Total Assets	**515 667**	**8.3**	**42 723**	424 876	8.2	35 001
EQUITY AND LIABILITIES						
Liabilities						
Deposits	388 105	7.6	29 315	315 264	6.8	21 472
Short trading positions	24 537	–	–	24 558	–	–
Derivative financial instruments	29 218	–	–	25 311	–	–
Creditors and accruals	4 616	0.5	21	4 083	0.3	13
Provisions	2 552	–	–	2 438	–	–
Tax liability	361	–	–	567	–	–
Post retirement benefit fund liability	1 847	–	–	1 758	–	–
Deferred tax liability	2 186	–	–	1 728	–	–
Amounts due to holding company and fellow subsidiary companies	21 802	5.5	1 198	15 147	6.4	975
Long term liabilities	9 512	9.4	894	8 011	7.1	570
Loans from insurance group	3 655	3.6	130	3 952	0.5	21
Total liabilities	**488 391**	**6.5**	**31 558**	402 817	5.7	23 051
Equity						
Capital and reserves attributable to the Banking Group's equity holders						
Ordinary shares	4	–	–	4	–	–
Share premium	6 886	–	–	7 631	–	–
Retained earnings	14 713	–	–	11 770	–	–
Reserves	2 674	–	–	2 654	–	–
Non cumulative non redeemable preference shares	3 000	–	–	–	–	–
Total shareholders' equity	**27 277**	**–**	**–**	22 059	–	–
Total equity and liabilities	**515 668**	**6.1**	**31 558**	424 876	5.4	23 051

43 CURRENT/NON CURRENT SPLIT OF AMOUNTS RECOGNISED ON THE BALANCE SHEET

	2008		
	Term to maturity		
R million	Carrying amount	Current	Non current
ASSETS			
Cash and short term funds	21 913	21 913	–
Derivative financial instruments	48 257	21 001	27 256
Advances	400 621	165 542	235 079
Investment securities and other investments	52 108	33 885	18 223
Commodities	1 778	1 778	–
Accounts receivable	3 186	3 003	183
Investment in associate and joint ventures	838	–	838
Investment in subsidiary companies	75	26	49
Property and equipment	5 154	–	5 154
Post retirement benefit asset	2 771	–	2 771
Intangible assets and deferred acquisition costs	122	–	122
Tax asset	261	261	–
Non current assets and disposal groups held for sale	95	95	–
Amounts due by holding company and fellow subsidiary companies	28 772	11 744	17 028
Loans to insurance group	1 841	–	1 841
Total assets	**567 792**	**259 248**	**308 544**
EQUITY AND LIABILITIES			
Deposits	415 173	386 272	28 901
Short trading positions	26 929	26 929	–
Derivative financial instruments	44 313	18 881	25 432
Creditors and accruals	4 869	4 849	20
Provisions	2 768	2 040	728
Post retirement benefit fund liability	1 888	–	1 888
Deferred tax liability	2 778	2 178	600
Long term liabilities	10 643	–	10 643
Amounts due to holding company and fellow subsidiary companies	26 502	21 386	5 116
Loans from insurance group	2 639	2 288	351
Shareholders' equity	29 290	–	29 290
Total equity and liabilities	**567 792**	**464 823**	**102 969**

43 CURRENT/NON CURRENT SPLIT OF AMOUNTS RECOGNISED ON THE BALANCE SHEET continued

	2007		
		Term to maturity	
R million	Carrying amount	Current	Non current
ASSETS			
Cash and short term funds	22 707	22 707	–
Derivative financial instruments	20 174	9 707	10 467
Advances	338 467	131 949	206 518
Investment securities and other investments	32 997	24 246	8 751
Commodities	1 060	1 060	–
Accounts receivable	4 310	4 151	159
Investment in associate and joint ventures	289	–	289
Investment in subsidiary companies	13	–	13
Property and equipment	3 082	–	3 082
Post retirement benefit asset	2 616	–	2 616
Intangible assets and deferred acquisition costs	61	–	61
Non current assets and disposal groups held for sale	572	–	572
Amounts due by holding company and fellow subsidiary companies	29 357	21 334	8 023
Loans to insurance group	3 436	1 823	1 613
Total assets	459 141	216 977	242 164
EQUITY AND LIABILITIES			
Deposits	352 641	321 176	31 465
Short trading positions	22 511	22 511	–
Derivative financial instruments	17 233	8 585	8 648
Creditors and accruals	4 316	4 084	232
Provisions	2 817	2 209	608
Tax liability	805	805	–
Post retirement benefit fund liability	1 798	–	1 798
Deferred tax liability	1 741	–	1 741
Long term liabilities	8 217	–	8 217
Amounts due to holding company and fellow subsidiary companies	17 928	15 297	2 631
Loans from insurance group	4 185	2 474	1 711
Shareholders' equity	24 949	–	24 949
Total equity and liabilities	459 141	377 141	82 000

FirstRand Bank Limited

(Registration No. 1929/001225/06)

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L Geeringh Consulting
L Bam Corporate Finance
CR Beukman Finance
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NT Mtoba Chairman of the board
CR Qually Deputy Chairman of the board

A full list of partners and directors is available on request.

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Bank Limited

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