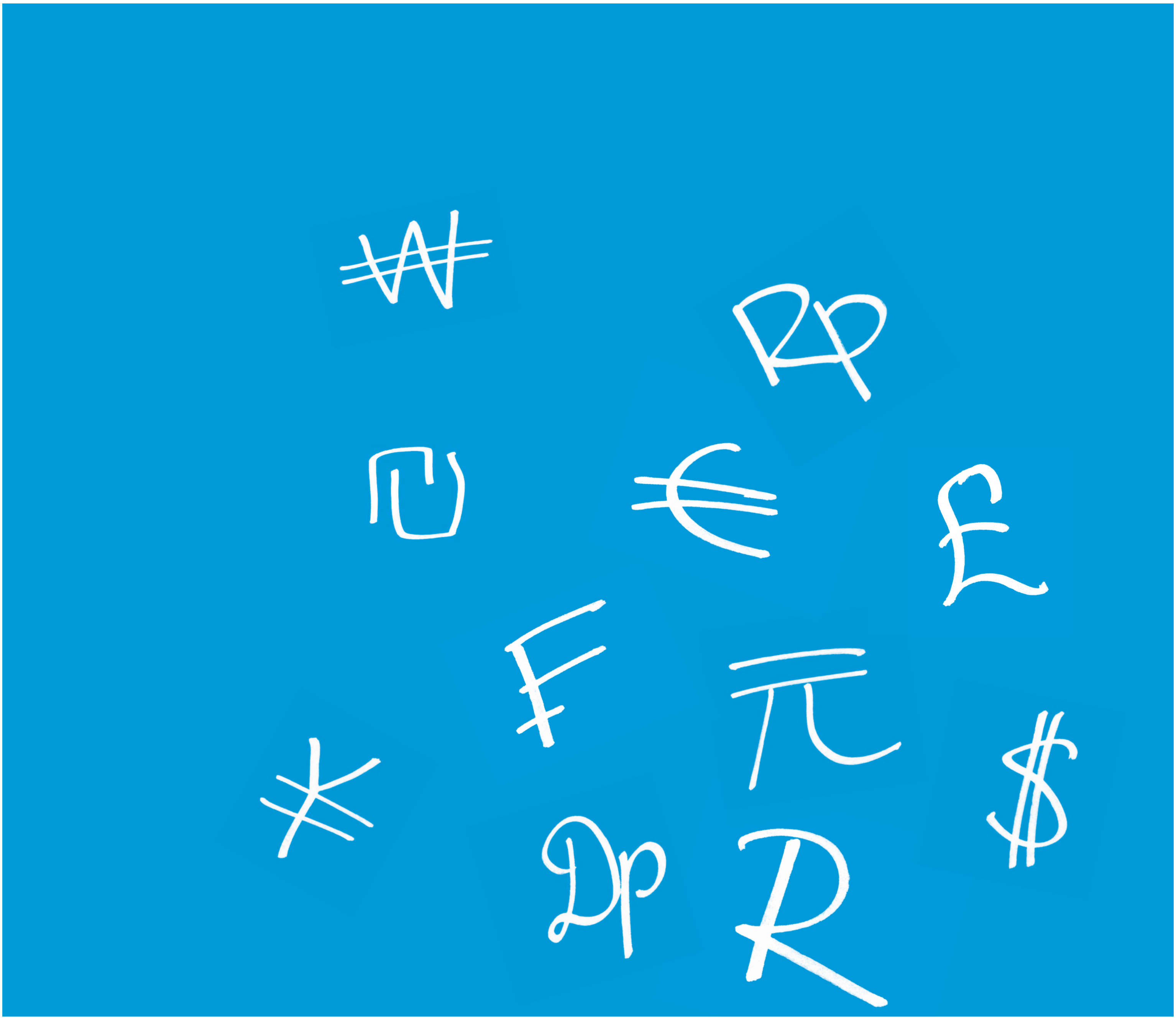


2006 ANNUAL REPORT

FirstRand Bank Limited

FirstRand Bank Limited Annual Report 2006

Contents

GT Ferreira (58) *Non-independent non-executive*
BCom, Hons B(B&A), MBA
Chairman of FirstRand, FirstRand Bank and RMB Holdings and Director of Momentum Group

SE Nxasana (49) *Executive*
BCom, BCompt (Hons), CA(SA)
Chief Executive Officer of FirstRand Bank and Director of FirstRand

VW Bartlett (63) *Non-independent non-executive*
AMP (Harvard), FIBSA
Director of FirstRand and FirstRand Bank

JP Burger (47) *Executive*
BCom (Hons), CA(SA)
Chief Financial Officer of FirstRand and Financial Director of FirstRand Bank

LL Dippenaar (57) *Non-independent non-executive*
MCom CA(SA)
Chairman of Momentum Group and Discovery Holdings, Director of FirstRand, RMB Holdings and FirstRand Bank

DM Falck (60) *Independent non-executive*
CA(SA)
Director of FirstRand, FirstRand Bank and RMB Holdings

PM Goss (58) *Independent non-executive*
BEcon (Hons), BAccSc (Hons), CA(SA)
Director of FirstRand, FirstRand Bank and RMB Holdings

PK Harris (56) *Executive*
MCom
Chief Executive Officer of FirstRand, Director of FirstRand Bank, RMB Holdings and Momentum Group

WR Jardine (41) *Independent non-executive*
BSc, MSc
Director of FirstRand Bank

MW King (69) *Independent non-executive*
CA(SA), FCA
Director of FirstRand, FirstRand Bank and FirstRand International

RK Store (64) *Independent non-executive*
CA(SA)
Director of FirstRand Bank

BJ van der Ross (59) *Independent non-executive*
Dip Law (UCT)
Director of FirstRand, FirstRand Bank and Momentum Group

RA Williams (65) *Independent non-executive*
BA, LLB
Director of FirstRand and FirstRand Bank

During the year, Mr SE Nxasana was appointed CEO of FirstRand Bank Holdings and FirstRand Bank following Mr PK Harris' appointment as CEO of FirstRand Limited

Audit committee
MW King *(Chairman)*
VW Bartlett
DM Falck
RK Store
RA Williams

Risk committee
RK Store *(Chairman)*
DM Falck
MW King
RA Williams

Remuneration committee
PM Goss *(Chairman)*
VW Bartlett
PK Harris
GT Ferreira
MW King
BJ van der Ross
RA Williams

Large Exposures credit committee
RK Store *(Chairman)*
VW Bartlett
JP Burger
SE Nxasana
WR Jardine
BJ van der Ross

Directors' affairs and governance committee
DM Falck *(Chairman)*
VW Bartlett
LL Dippenaar
GT Ferreira
PM Goss
WJ Jardine
MW King
SE Nxasana
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 continue to chair the Bank's board, notwithstanding the fact that he does not fulfil the strict criteria of "independence" as set out in King II. It is also the view of the directors that a strong independent element of non-executive directors exists on the board and that this provides the necessary objectivity essential for its effective functioning. The roles of chairman and chief executive officer are separate with segregated duties.

The board comprises 13 directors of whom three serve in an executive capacity. The directors of the Bank are listed on page 1. Non-executive directors comprise individuals of high calibre with diverse backgrounds and expertise. This ensures that their views carry significant weight in the board's deliberations and decisions.

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

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

Limitation to appointment period

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

COMPANY SECRETARY

The company secretary is suitably qualified and experienced and was appointed by the board in 1998. He is, *inter alia*, responsible for the duties stipulated in section 268G of the Companies Act and the certificate required to be signed in terms of subsection (d) thereof appears on page 24.

1. PHILOSOPHY

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

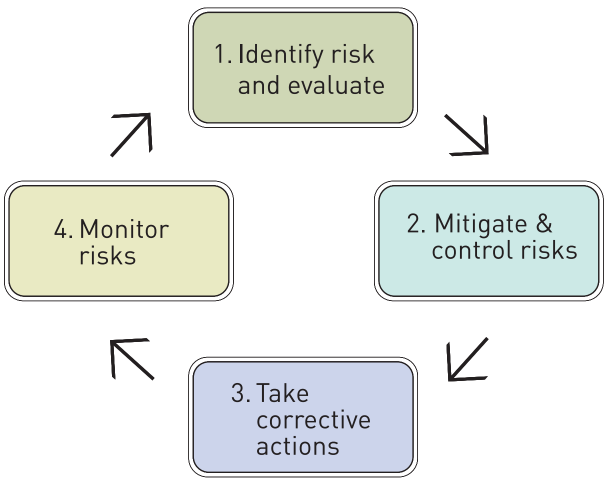
Risk in the FirstRand Banking Group is managed on a group basis. In order to understand the risk philosophy of FirstRand Bank Limited, one needs to understand how risk is managed on a group basis. To facilitate this, an extract from the Banking Group's Risk Management Report has been included below.

2. ENTERPRISE-WIDE RISK MANAGEMENT

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

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

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



The Banking Group adopts the following approach to risk management:

2.1 Implementation of the Risk Management Framework

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

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

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

The risk management processes are monitored by the independent and deployed risk managers and the divisional risk committees. All the business units report on the effectiveness of their risk management processes to their relevant risk management functions and risk committees via a bottom-up process. Consolidated assessments, for each of the main business divisions, are submitted quarterly for review by the FRBG Risk and Compliance Committee.

2.2 Protection of the Banking Group's reputation

The Banking Group protects its reputation by managing and controlling the risks incurred in the course of business. This means avoiding large concentrations or exposures and limiting potential stress losses, not only from credit, market and liquidity risk, but also from operational risk.

2.3 Risk-reward appetite

A business profits from taking risks, but will only generate an acceptable profit commensurate with the risks from its activities if the risks are adequately managed and controlled. The Banking Group's aim is not to eliminate risk, but to achieve an appropriate balance between risk and return, called the risk-reward appetite.

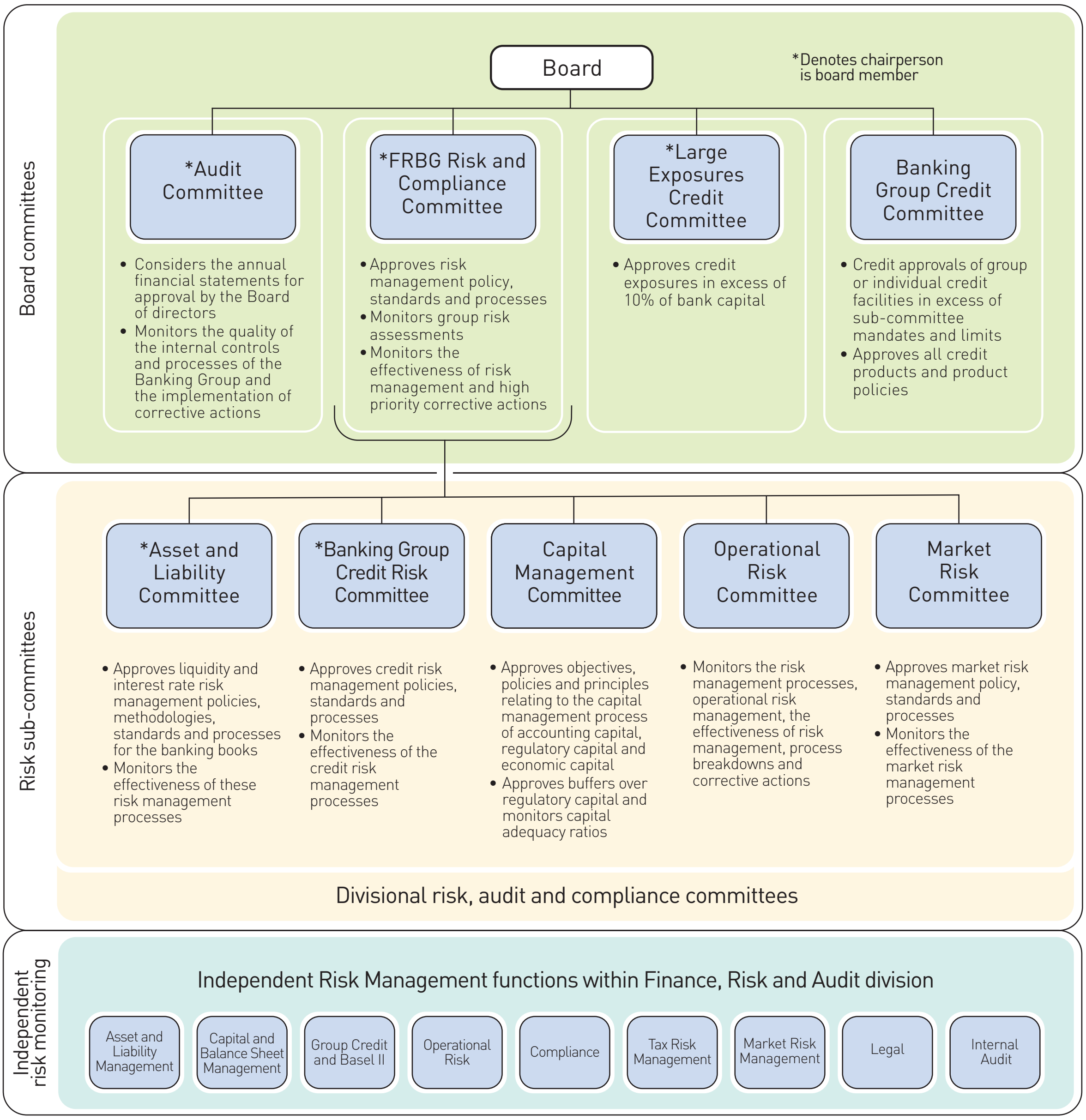
This balance is achieved by controlling risk at the level of individual exposures, at portfolio level and in aggregate, across all risk types and businesses, relative to the risk-reward appetite.

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

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

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

2.4 Governance structures



2.4.1 Responsibility of the Board

The Board of the Banking Group is responsible for oversight of risk management and the quality of internal control systems. The Board is supported in these tasks by the committees of the Board ("Board committees") and their sub-committees and the risk management functions. The diagram on page 4 lists the Board committees and their main responsibilities.

2.4.2 Risk governance structure

The risk management governance structures of the Banking Group cascade down from the Board to the subsidiaries and main divisions and their business units. All subsidiaries, divisions and major business units of the Banking Group have Risk and Audit Committees. All Audit Committees and the FRBG Risk and Compliance Committee have non-executive representation. The FRBG Risk and Compliance Committee and all Audit Committee meetings are attended by representatives from the external and internal auditors and the independent risk management functions. The independent and deployed risk managers attend all Risk Committees as is appropriate.

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

SUCCESSES FOR 2006

- successful implementation of exposure and limit management system for corporate transactional bank facilities;
- implementation of a forward looking VaR calculation for market risk across all trading business units within RMB;
- successfully financing the substantial growth in assets. New funding markets were entered into for the first time, to further diversify our funding base;
- Basel II:
  - incorporation of credit concentration risk into the credit economic capital models for Pillar 2;
  - improved the interest rate risk modelling process;
  - revised the Interest Rate Risk Management Framework in line with international best practice;
  - successful implementation of automated reporting of effectiveness of risk management across the Banking Group;
  - successful implementation of Key Risk Indicator reporting; and
  - improved IT governance and Information Security Frameworks.

FOCUS FOR 2007

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

3. CREDIT RISK

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

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

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

Credit risk is the most significant risk type the Banking Group is exposed to. The contribution of credit risk to the total economic capital of the Banking Group is 72%.

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

3.1. Credit risk governance

The governance of credit risk management is comprehensively set out in the Credit Risk Management Framework and is supplemented by ancillary policies and committee mandates. The overall responsibility for the effectiveness of credit risk management processes vests with the Board of directors. The operational responsibility has been delegated to the FRBG Risk and Compliance Committee and its sub-committees, executive management, operational management and the risk management functions.

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

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

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

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

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

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

3.2 Credit risk management

Credit risk is managed through comprehensive policies and processes that ensure adequate identification, measurement, monitoring and control as well as reporting of credit risk exposure. Based on the Banking Group's credit risk appetite and competitive credit strategies, credit risk is managed with reference to risk-reward principles. The reward is managed through pricing for risk on an individual and portfolio basis.

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

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

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

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

3.3 Credit risk measurement

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

3.3.1 Probability of default ("PD")

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

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

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

3.3.2 Loss given default ("LGD")

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

3.3.3 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.

3.3.4 Expected loss

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

3.3.5 Portfolio level analysis

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

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

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

3.4 Credit risk mitigation

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

3.5 Credit risk concentrations

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

- concentration risk management in the wholesale credit portfolio is based on individual name limits and exposures (which are reported to and approved by the Large Exposure Credit Committee) and the monitoring of industry and country concentrations. A sophisticated simulation portfolio model has been implemented to quantify concentration risk and the potential impact thereof on the credit portfolio;
- for the Commercial (SME level) exposures, the emphasis for concentration risk measurement is on industry distribution; and
- due to the inherent diversification in the retail portfolios, concentrations are managed with reference to collateral concentrations.

Industry and country analysis have been included in the notes to the financial statements (refer notes 10 and 28.3).

3.6 Portfolio overview

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

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

The FR scale is summarised in the following table:

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

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

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

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

3.6.1 Wholesale credit exposures

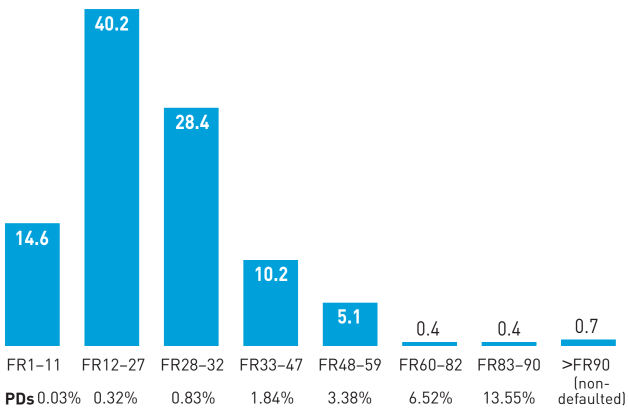
Exposures to corporate, bank and sovereign counterparties are included below. A wide range of products gives rise to the credit exposures, including loan facilities, contingent products and derivative instruments.

3.6.1.1 Description of the rating process

The rating assignment to corporate credit counterparties is based on a detailed individual assessment of the counterparty's credit-worthiness. This assessment is performed through a qualitative analysis of the business and financial risks of the counterparty and is supplemented by an internally developed statistical rating model. The rating model was developed using internal and external data. The qualitative analysis is based on the methodology followed by international rating agencies. The rating assessment is reviewed by the Banking Group Credit Committee and the rating (and associated PD) is approved by this committee.

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

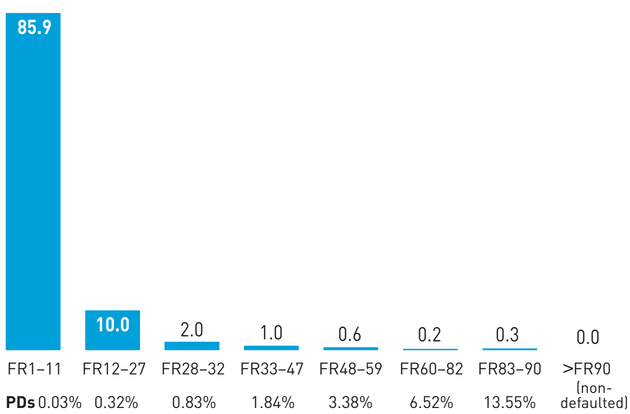
Wholesale – Corporates
Exposure distribution across rating buckets (%)



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

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

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



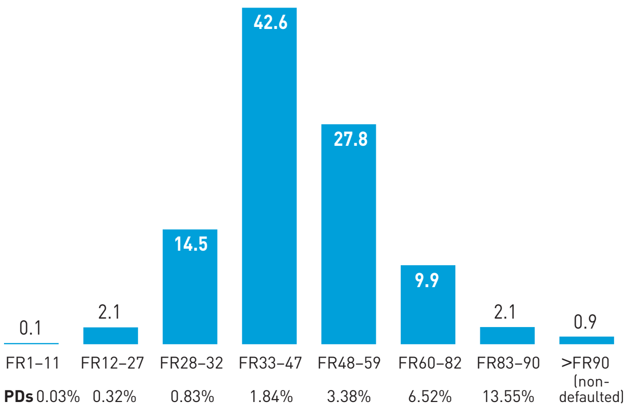
3.6.2 FNB Commercial credit exposures

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

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

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

FNB Commercial
Exposure distribution across rating buckets (%)



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

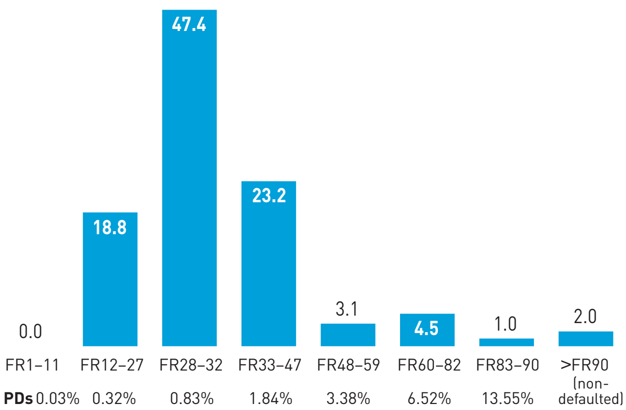
3.6.3 FNB Consumer exposures

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

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

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

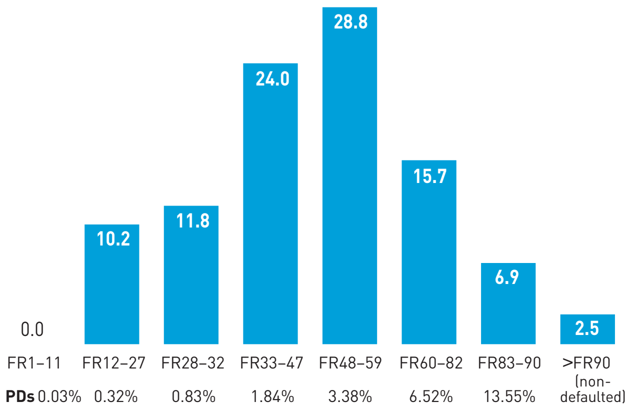
Retail – Mortgages
Exposure distribution across rating buckets (%)



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

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

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

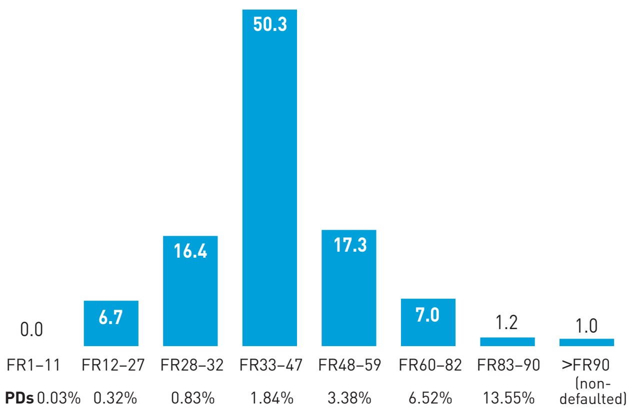


The LGDs for these exposures depend on the level and type of security. Typically, these exposures are unsecured. Due to the unsecured nature of these exposures the LGDs are high and range between 50% and 70% on average.

3.6.4 WesBank exposures

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

WesBank
Exposure distribution across rating buckets (%)



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

3.6.5 Expected loss

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

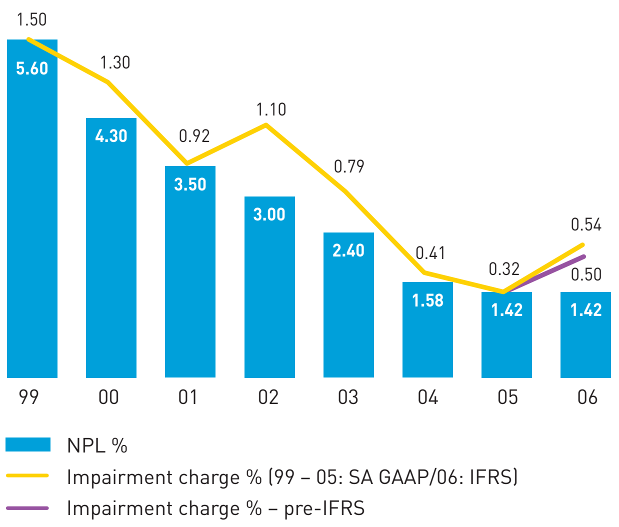
3.6.6 Impaired advances

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

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

NPLs and impairment charge percentages

(%)



Note

Non-performing loans are classified as such based on the definition of default used by the Banking Group. The non-performing loans percentage includes the total value of non-performing loans classified into this category in the current year, as well as those of previous years that are still being collected/worked out. The impairment charge percentage is the bad debt charge to the income statement as a percentage of total average advances in the year based on the application of the Bank's internal provisioning policies and on the accounting basis applicable at the time (SA GAAP prior to 2006).

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

4. MARKET RISK

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

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

Trading in the foreign exchange, interest rate, equity, commodity and credit markets, and derivatives thereof is undertaken in terms of the Market Risk Management Framework which is a policy of the Board and is ancillary to the Business Success and Risk Management Framework. Longer term equity investments, both listed and unlisted, are approved by the Investment Risk Committee on an individual basis and are managed under the Investment Risk Framework.

Market risk exposures are controlled by means of stress loss limits which are approved by the relevant business and risk management functions, the Market Risk Committee (RMB Risk Committee) and RMB Proprietary Board, and ratified by the FRBG Risk and Compliance Committee and the Board of directors.

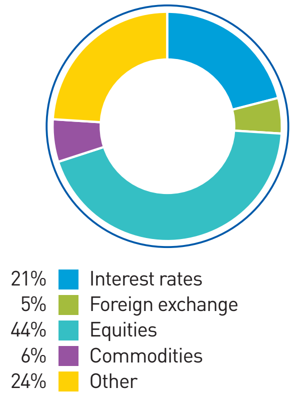
Market risk exposures are quantified daily across all trading activities of the Banking Group and monitored by the business risk managers and the business unit heads. The deployed and independent risk managers at RMB and the internal auditors monitor limit excesses, the causes of any excesses and the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

The market risk management processes are well vested and have functioned effectively for a number of years. The daily risk monitoring and internal audit processes have not identified significant process deficiencies in the 2006 financial year. Process shortcomings which are identified are corrected and the progress with corrective actions is monitored by the risk managers and the Market Risk Committee.

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

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

Market risk stress exposure per risk factor – 30 June 2006



4.1 Quantification of Market Risk Exposures

A Value at Risk ("VaR") methodology is applied in the aggregation of market risk exposures across the different trading activities and across the individual market risk factors.

The VaR risk measure estimates the potential loss over a given holding period (10 days) per a specific confidence interval (99%).

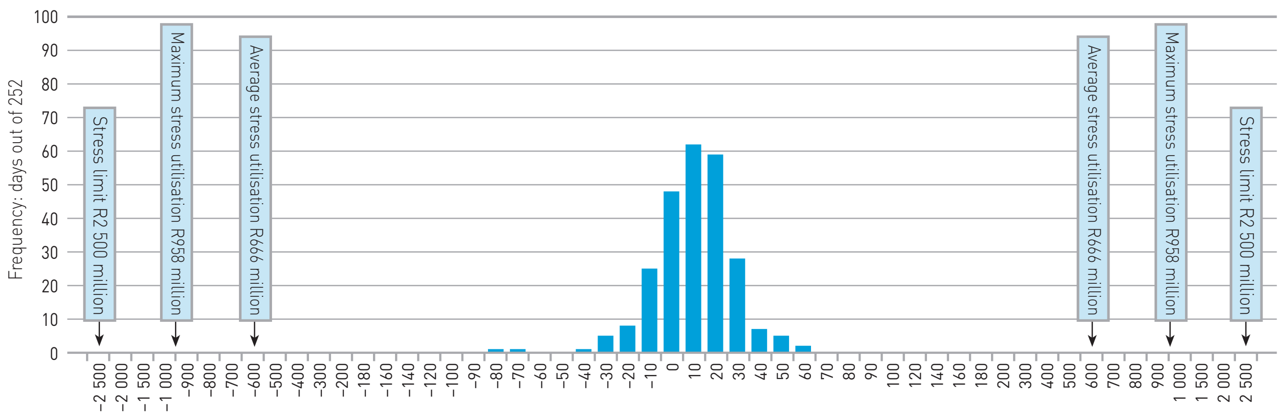
It is notable that in the most instances the maximum risk measurement for each risk factor occurred at year end. This was due to the volatility experienced during May/June 2006. There was a shift in global economic and geopolitical outlook which led to most portfolios restructuring from a market neutral strategy into a directional strategy. Notably in the equity risk factor there was the realisation of an offshore expansion strategy for equities agreed upon in the 2005 financial year.

Trading book Value at Risk analysis (R million)

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

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

Profit and loss
(R million)



5. LIQUIDITY RISK

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

5.1 Management of liquidity risk

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

5.2 Management of the current liquidity position

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

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

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

5.3 Liquidity contingency planning

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

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

6. 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 of interest rates. This risk is a normal part of banking and can be an important source of profitability and shareholder value.

6.1 Interest rate risk management approach

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

The net interest rate risk profile of the bank is managed centrally by the Asset and Liability Management Unit by changing the profile of liquid assets or through derivative instruments, based on the Bank's interest rate outlook with reference to other risk factors impacting the Bank's balance sheet, notably credit risk. The Banking Group's ALCO monitors the risk exposures and the effectiveness of the interest rate risk management and reports to the FRBG Risk and Compliance Committee and the Board.

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

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

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

6.2 Interest rate risk position

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

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

6.2.1 Repricing gap

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

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

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

	Overnight to 3m	4m – 6m	7m – 12m	>12m	Non-rate sensitive
Assets	226 636	(4 139)	6 962	16 893	8 889
Liabilities and equity	207 459	3 572	9 551	13 953	20 707
Net repricing gap	19 177	(7 711)	(2 588)	2 940	(11 818)
Cumulative repricing gap	19 177	11 466	8 878	11 818	–

6.2.2 Net interest income sensitivity

Several interest rate scenarios are modelled to assess their impact on projected earnings in the domestic banking book. For example, a 1% instantaneous, parallel downward (upward) shift in the yield curve is modelled to determine the potential impact on net interest income over the next 12 months. Assuming no management intervention in response to changes in the level of interest rates, the projected net interest income would be reduced (increased) by R479 million (R475 million) in the first 12 months, which represents 3.4% (3.4%) of the projected 12 month net interest income in the domestic banking book.

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

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

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

7. OPERATIONAL RISK

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

7.1 Operational risk management

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

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

OPERATIONAL RISK CATEGORY	SPECIAL RISK FUNCTIONS	FRAMEWORKS
Process Breakdowns and Issues	Operational Risk Management	Operational Risk Management Framework
Business Continuity	Business Continuity Management	Business Continuity Management Policy
Legal	Group Legal Services	Legal Risk Management Framework
Information Risk	Information Risk Services	Information Risk Management Framework
Compliance	Group Compliance	Compliance Management Framework
Anti-fraud, Security	Group Forensic Services	Security Policy
Financial Controls Breakdowns	Corporate Accounting	Financial Risk Management Framework
Human Resources Risk	Human Resources Functions	Human Resources Policy
Insurance	Risk Insurance	Risk Insurance Methodology

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

7.2 Operational risk management tools

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

These include:

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

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

7.3 Operational risk quantification

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

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

7.4 Operational risk categories

7.4.1 Business continuity management

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

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

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

7.4.2 Legal risk

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

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

7.4.3 Information risk management

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

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

7.4.4 Compliance risk

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

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

7.4.5 Anti-fraud and security risks

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

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

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

7.4.6 Insurance risk

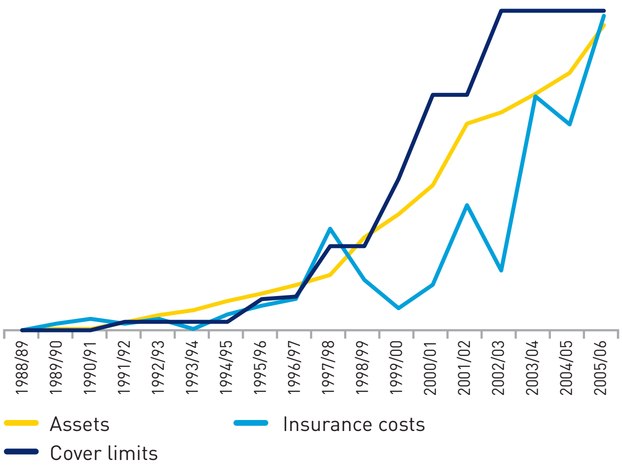
The risk that unexpected losses, which are not business related losses, are not adequately covered by insurance structures.

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

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

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

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



8. INTERNAL AUDIT

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

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

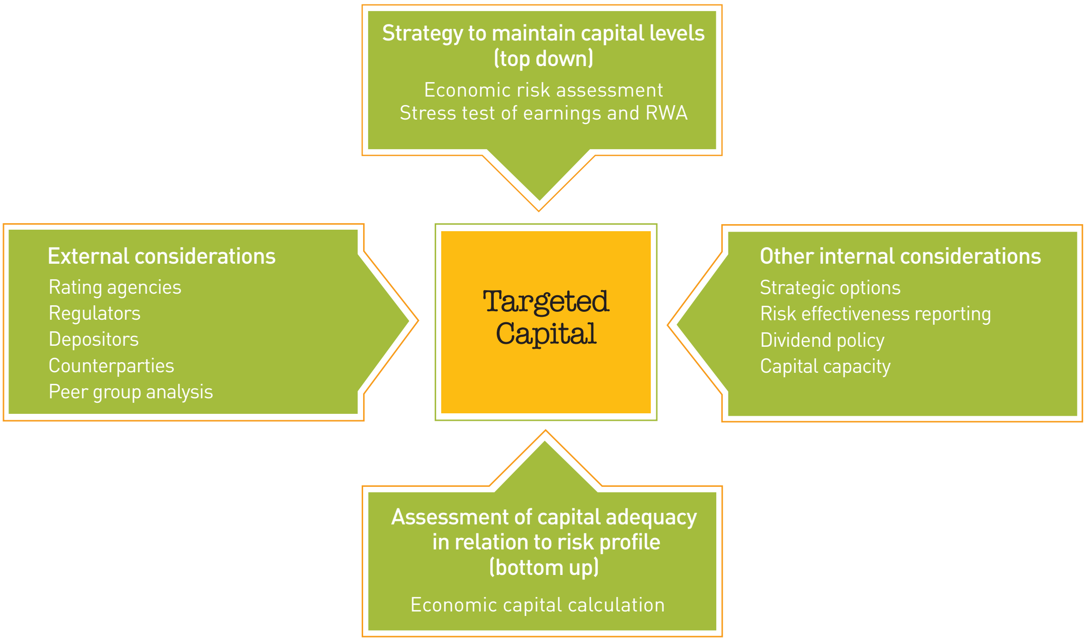
Capital in the FirstRand Banking Group is managed on a group basis. In order to understand the capital management philosophy, one needs to understand how capital is managed on a group basis. To facilitate this, an extract from the Banking Group's Capital Management Report has been included below.

Active capital management remains one of the five growth pillars in the strategy of FirstRand. This is done through the proactive management of the level of capital, the investment of capital and the allocation of capital.

The purpose of the framework is to create objectives, policies and principles relating to the capital management process of book capital (accounting capital), regulatory capital and economic capital. As a result, the framework assesses the overall capital adequacy commensurate with the Bank's risk profile, along with a strategy for maintaining the capital levels.

1. LEVEL OF CAPITAL

The targeted level of capital for the Banking Group is governed by the Internal Capital Adequacy Assessment Process ("ICAAP").



The Banking Group follows a rigorous process to determine the optimal level, which is illustrated below.

The Banking Group is capitalised at the higher of economic and regulatory capital (inclusive of an appropriate buffer). This is done at group level, as well as each of the operating entities within the group. The following targets are documented in the approved FirstRand Capital Management Framework:

FirstRand Bank Limited – 11% to 11.5%

FirstRand Banking Group – 12% to 12.5%

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

ICAAP is part of the new Basel II capital accord Pillar 2 requirements, which call for banks to assess their capital adequacy relative to their overall risk profile. This process will assist regulators in their review of the group's capital adequacy, which is the so-called Supervisory Review and Evaluation Process ("SREP").

The Banking Group's ICAAP document is presented to the Capital Management Committee for review and sign-off. The document is updated annually.

As presented in the diagram above, the Banking Group follows a four-pronged approach in arriving at the targeted capital levels.

Stage One – Assessment of capital adequacy in relation to risk profile (bottom up)

The Banking Group establishes the level of capital based on the weighting ascribed in the Basel II accord for credit, market and operational risk. Additional capital may be required where FirstRand Bank's economic models indicate that risk is not adequately assessed using only Basel II methodology. Finally, items such as interest rate risk in the banking book and insurance risk are also taken into account when arriving at a final number.

Based on our assessment of risk, the Banking Group does not require capital over and above the regulatory amount.

Stage Two – Strategy to maintain capital levels (top down)

This phase of the process gauges the impact of four different economic scenarios (expected, upturn, downturn and extreme downturn) on the level of earnings and capital adequacy. It serves as input on which strategic and tactical decisions can be made, based on observed and anticipated economic conditions.

The risk assessment can be classified into distinct steps:

- Based on an assumed macro-economic scenario the impact on the different risk elements is estimated through the use of historical analysis of the relationship between risk types and economic variables.
- The underlying correlation between the risk types implies an expected change to income and expenditure and therefore gives a scenario specific earnings result.
- The combination of earnings and risk-weighted assets would give an estimate of capital adequacy for the Banking Group as well as the capital capacity available to the Bank.

Capital levels in the Banking Group are sufficient for unexpected up- and downturns in the economy.

Risk exposure under stress conditions

The Banking Group did not experience any unexpected or stress conditions during the past year in the markets in which it operates. The Banking Group assesses the potential impact and losses which it might experience under stress conditions. In the exercise to quantify potential stress losses a number of factors are considered, including:

- a worsening of business conditions which causes a substantial increase in credit losses;
- one or more severe price movements in the financial and commodity markets;
- a substantial rise or fall in interest rates;
- potential currency fluctuations;
- unexpected operational losses; and
- unexpected declines in revenues and increases in operating costs.

The aggregation of potential losses across these factors and based on the underlying assumptions, though the coincidence of such hypothetical events is highly unlikely, yields a range of potential stress losses. The aggregate of these hypothetical losses under extreme stress conditions is substantially less than the annual operating income, before tax, of the Banking Group. This confirms the relatively low risk profile of the Banking Group relative to its income and capital base. Conversely, it demonstrates a very high degree of organisational sustainability and capital adequacy.

Stage Three – Internal considerations

It is not the policy of the Banking Group to keep a "war chest" for future acquisitions. However, there may be circumstances where it makes sense to build up its capital base, eg time may be right to obtain cheaper capital.

In addition, the Banking Group's dividend policies, historical volatility of capital, as well as ability to generate capital (ie capacity) are all taken into account when arriving at an appropriate level of capital.

Stage Four – External considerations

Finally, management considers a number of factors, including expectations of investors and rating agencies, requirements of the SARB, the Banking Group's capital position relative to its peers, as well as the need to maintain flexibility in issuing capital instruments.

2. INVESTMENT OF CAPITAL

The Banking Group invests its capital in near risk free instruments that are managed as part of the liquid assets of the Bank. The capital adequacy ratios for the Bank and the Banking Group are 12.0% and 12.5%, respectively. Refer to the target ranges on page 16.

Share capital and reserves are managed as part of the net interest rate risk profile of the Bank by changing the risk profile of liquid assets or through derivative instruments. For other subsidiaries capital is generally placed in the funding pool, which falls within the mandate of ALCO.

3. ALLOCATION OF CAPITAL

Capital is allocated to business units at the higher of:

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

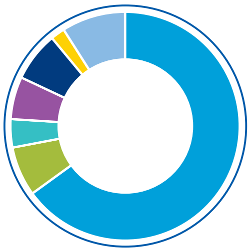
The economic capital allocation methodology is broadly based on the advanced approaches followed under Basel II. The economic capital allocation is widely used in the Banking Group. It is a key input into deal pricing, risk management, the measurement of business performance on a risk adjusted basis,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

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

- credit risk;
- traded market risk;

- equity investment risk;
- structural interest rate risk;
- operational risk; and
- business and other residual risks.

The following graph indicates the economic capital analysis per risk type for 2006:



RETURN ON EQUITY AND CAPITAL ADEQUACY

Return on Equity ("ROE")

The return on equity for the Banking Group is 26.0%, compared to the prior year of 24.2%.

Analysis of shareholders' equity and reserves

Total shareholders' equity and reserves per the Banking Group balance sheet totalled R30 855 million as at 30 June 2006 (2005: R28 575 million). The average ordinary shareholders' equity and reserves for the year amounted to R26 143 million (2005: R22 594 million).

Segmental ROE

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

The tables below provide a summary of the ROE numbers for the main Banking Group business units based on normalised headline earnings (pre-IFRS).

R million	Adjusted normalised earnings**	ROE
For the year ended 30 June 2006		
FNB	**3 749**	**32%**
RMB	**1 933**	**36%**
WesBank	**1 335**	**29%**
FirstRand Africa and Emerging Markets	**378**	**29%**
Group Support Services	**89**	
Total	**7 484**	**29%**
For the year ended 30 June 2005		
FNB	3 208	32%
RMB	1 504	33%
WesBank	1 107	32%
FirstRand Africa and Emerging Markets	313	29%
Group Support Services*	96	
Total	6 228	28%

* *Includes Ansbacher.*
** *Adjusted normalised earnings include the net income on capital earned by the respective divisions.*

Note

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

The capital base used in calculating the segmental ROEs is the higher of regulatory capital (inclusive of target buffer) or economic capital utilisation.

It is important to note that IFRS does not prescribe a methodology for allocating equity or risk capital to business segments, or for the calculation of segment ROEs. Allocating equity involves the use of assumptions, interpretations and techniques that are regularly reviewed and updated as deemed necessary. The allocation of risk capital is based on certain assumptions, interpretations and techniques that quantify economic risks as described in the "allocation of capital" section. Banks that disclose information on similar allocations and related return measures may use different assumptions, interpretations and techniques.

FirstRand subsidiaries continue to have strong credit counterparty 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. These objectives are directly linked into the performance measurement system in place for business units and management.

	Fitch Ratings	Standard and Poor's	Moody's Investor Services
FirstRand Bank Holdings	January 2006	January 2006	
Foreign currency	–	–	
– Long-term	BBB+	–	
– Short-term	F2	–	
– Outlook	Stable	–	
National	–	–	
– Long-term	AA(zaf)	–	
– Short-term	F1+(zaf)	–	
– Outlook	Stable	–	
Individual	B/C	–	
Support	5	–	
Counterparty credit	–	BBB/A-2/Positive	
FirstRand Bank Limited	January 2006	January 2006	January 2005
Foreign currency	–	–	Baa1/Prime-2
– Long-term	BBB+	BBB+	–
– Short-term	F2	A-2	–
– Outlook	Stable	Stable	–
Local currency	–	–	A1/P-1
– Long-term	A-	BBB+	–
– Short-term	–	A-2	–
– Outlook	Positive	Positive	–
National	–	–	–
– Long-term	AA+(zaf)	–	–
– Short-term	F1+(zaf)	–	–
– Outlook	Stable	–	–
Individual	B/C	–	–
Support	2	–	–
Counterparty credit	–	BBB+/A-2/Positive	–
Bank Financial Strength	–	–	C
South African Sovereign ratings	August 2005	August 2005	January 2005
Foreign currency	–	–	Baa1
– Long-term	BBB+	BBB+	–
– Short-term	F2	A-2	–
– Outlook	Stable	Stable	–
Local currency	–	–	A2
– Long-term	A	A+	–
– Short-term	–	A-1	–
– Outlook	Stable	Stable	–
Other short-term	–	–	P-2

In December 2005, Fitch Ratings upgraded FirstRand Bank Limited's National Long Term Rating to AA+ and remarked that "the ratings assigned to FirstRand Bank Holdings Limited and its main operating subsidiary FirstRand Bank Limited reflect a strong South African franchise, consistent earnings track record and improved asset quality".

R million	2006	2005
Regulatory capital		
Tier 1	16 507	12 956
Share capital	376	4
Share premium	3 372	2 612
Non-redeemable non-cumulative preference shares	3 000	3 000
Reserves	10 341	9 961
Less: Impairments	(582)	(2 621)
Tier 2	9 026	5 323
Subordinated debt instruments	6 867	3 503
Qualifying provisions	2 159	1 820
Total regulatory capital %	25 533	18 279
Capital adequacy ratios		
Tier 1	7.7	7.9%
Tier 2	4.3	3.2%
Total	12.0	11.1%

R million Calculation of risk-weighted assets	2006	2005	Risk weighting	Risk-weighted assets 2006	Risk-weighted assets 2005
Banking book	670 474	496 781		210 175	160 924
Cash, own bank and central government advances	123 525	73 259	0%		
Central Securities Depository Participation	268 011	205 267	0%		
Public sector body advances and letters of credit	575	2 185	5% – 10%	42	204
Other bank advances and letters of credit	24 021	27 437	20%	4 804	5 487
Mortgage advances, remittances in transit and performance related guarantees	98 026	66 799	50%	49 013	33 399
Other advances and lending related guarantees	149 006	117 175	100%	149 006	117 175
Counterparty risk exposure	7 310	4 659	100%	7 310	4 659
Trading book	3 382	3 385		3 382	3 385
Position risk	2 336	2 400	100%	2 336	2 400
Counterparty risk exposure	955	972	100%	955	972
Large exposures	91	13	100%	91	13
Total	673 856	500 166		213 557	164 309

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

Basel II will be operational in South Africa from 1 January 2008, with a parallel run during 2007. Under the Basel II regime, the Banking Group's regulatory capital requirement will be determined based on the risk sensitive measurement approaches of Basel II.

The Banking Group has progressed well with the implementation of the requirements of Basel II. It has performed a number of impact assessments on capital levels and operational processes. As indicated in the June 2005 annual report, the intention is to implement the advanced internal ratings based approach for credit risk for the material portfolios in FirstRand Bank. The standardised approach for credit risk will be implemented in the international and African subsidiaries. For operational risk, the standardised or alternative standardised approach will be implemented for FirstRand Bank, with the intention to migrate to the advanced measurement approach during 2009. The international and African subsidiaries will also implement the standardised or alternative standardised approach for operational risk.

CAPITAL IMPACT

The Banking Group has assessed the capital impact of Basel II since 2003. The internal assessments were supplemented with the quantitative impact studies conducted by the industry and submitted to the SARB for analysis. The latest quantitative impact study, QIS 5, has recently been finalised for FirstRand Bank and is currently being completed for the other group entities.

The expected impact based on the above assessments indicates that the overall capital impact of Pillar I is expected to be neutral. The saving on the capital requirement for retail credit assets is almost fully offset by the increased charge in non retail credit risk and operational risk. The increase in the capital charge for non retail credit risk is mostly due to the capital charge for unutilised facilities, whereas the operational risk capital charge is new under Basel II.

A number of issues that could impact capital levels are still outstanding. These include the final position of the SARB on a number of national discretion items, including the minimum capital adequacy percentage and the implementation of supervisory "add-ons" to capital.

PROCESS AND RISK MANAGEMENT IMPACTS

The requirements of Basel II provide a foundation for credit risk measurement that is used extensively in business processes. For all exposures a probability of default, loss given default and exposure at default measure are determined. These measurements or a derivative thereof are used as inputs into a variety of management processes, including pricing, provisioning, capital allocation, and credit risk reporting. FirstRand Bank has completed its internal calibration of these estimates for all material portfolios.

SUCCESSES FOR 2006	FOCUS FOR 2007
• improvements in exposure systems for credit risk management	• further enhancement of underlying exposure and reporting systems
• significant enhancements on the internal capital adequacy assessment process including the credit capital quantification for concentration risk	• application to the SARB for advanced internal ratings based approach approval for credit risk in FirstRand Bank
• incorporation of downturn effects into LGD for affected portfolios	• application to the SARB for internal model approval for market risk
• refinements to a number of rating systems across the Bank including the incorporation of longer data histories and enhanced calibration techniques	• continued development of operational risk quantification models
	• automation of regulatory reporting under Basel II

Directors' responsibility statement

The directors of FirstRand Bank Limited are required to maintain adequate accounting records and to prepare financial statements for each financial year that fairly present the state of affairs of FirstRand Bank Limited at the end of the financial year, and of the results and cash flows for the year. In preparing the accompanying financial statements, International Financial Reporting Standards have been followed. Suitable accounting policies have been applied, and reasonable estimates have been made. The Board approves significant changes to accounting policies and the effects of these are fully explained in the annual financial statements. The financial statements incorporate full and responsible disclosure in line with the FirstRand Bank Limited's philosophy on corporate governance. The external auditors, PricewaterhouseCoopers Inc. and Deloitte & Touche, have audited the financial statements and their unqualified report appears on page 23.

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

The consolidated financial statements for the year ended 30 June 2006, which appear on pages 24 to 103 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

18 September 2006
Sandton

TO THE DIRECTORS OF FIRSTRAND BANK LIMITED

We have audited the financial statements of FirstRand Bank Limited set out on pages 3 to 5 and 24 to 103, for the year ended 30 June 2006. These financial statements are the responsibility of the directors of FirstRand Bank Limited. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements present fairly, in all material respects, the financial position of FirstRand Bank Limited at 30 June 2006 and the results of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of 1973.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Per: J Grosskopf
Director
Registered Auditor

Deloitte & Touche

Deloitte & Touche
Per: W Klaassen
Partner
Registered Auditor

1 November 2006
Sandton

NATURE OF BUSINESS

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

SHARE CAPITAL

The following shares were issued during the period:

Ordinary shares pursuant to the conversion of compulsory convertible debentures.

21 October 2006 1 ordinary share at R2.00

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

DIVIDENDS

Ordinary cash dividends of R2 225 million were paid during the 2006 financial year (2005: R2 573 million).

OWNERSHIP OF THE BANK

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

PROFIT AFTER TAX

Profit after tax amounted to R4 995 million (2005: R3 119 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 Mr SE Nxasana was appointed as CEO of FirstRand Bank Holdings Limited and FirstRand Bank Limited following Mr PK Harris' appointment as CEO of FirstRand Limited.

CONSOLIDATED ACCOUNTS

Group annual financial statements have not been prepared as the Bank is a wholly owned subsidiary of FirstRand Bank Holdings Limited and its ultimate holding company is FirstRand Limited, a company incorporated in South Africa.

POST-BALANCE SHEET EVENTS

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

SHARE PURCHASE/OPTION SCHEME

Details of the investment in the FirstRand Limited ordinary shares by the First National Bank Share Purchase Scheme ("the FNB Scheme") and in the RMB Holdings Limited ordinary shares by the Rand Merchant Bank Share Incentive Scheme ("the RMB Scheme") established for the benefit of employees of the Bank are in note 37 on the annual 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
Administration

INTRODUCTION

The Bank adopts the following accounting policies in preparing its consolidated financial statements.

1. BASIS OF PRESENTATION

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

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

These financial assets and liabilities include:

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

The preparation of audited consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies.

In accordance with the transitional provisions set out in IFRS 1, "First-time Adoption of International Financial Reporting Standards" and other relevant standards, the Bank has applied IFRS in force as at 30 June 2006 in its financial reporting with effect from the Bank's transition date on 1 July 2004, with the exception of the standards relating to financial instruments and insurance contracts which were applied with effect from 1 July 2005. Therefore, the impact of adopting IAS 32, IAS 39 and IFRS 4 are not included in the 2005 comparatives in accordance with IFRS 1. The Bank previously followed South African accounting standards.

As part of the adoption of IFRS, the Bank has changed its accounting policy in respect of the accounting for Joint Ventures, from proportionate consolidation to equity accounting, with effect from 1 July 2004.

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

2. SUBSIDIARY COMPANIES

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

3. 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. Investments acquired and held exclusively with the view to disposal in the near future (12 months) are not accounted for using the equity accounting method, but carried at fair value less cost to sell in terms of the requirements of IFRS 5.

The Bank carries its interest in an associated company in its balance sheet at cost less amounts written off. Associated company results are not equity accounted.

The Bank accounts for interests in jointly controlled entities at cost less amount written off.

4. INTEREST INCOME AND EXPENSE

The Bank recognises interest income and expense in the income statement for all instruments measured at amortised cost using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the average expected life of the financial instruments or portfolios of financial instruments. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the 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.

5. TRADING INCOME

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

6. 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 yield of available-for-sale and amortised cost financial instruments are capitalised and recognised as part of the effective yield 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.

7. 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.

8. FOREIGN CURRENCY TRANSLATION

8.1 Functional and presentation currency

Items included in the financial statements of each of the Bank's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The financial statements are presented in Rand, which is the functional and presentation currency of the holding company of the Bank.

8.2 Transactions and balances

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

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

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

Translation differences on monetary items classified as available–for-sale, such as bonds held at fair value through equity, 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. Foreign currency translation differences on the fair value changes of monetary available-for-sale assets are recognised in the income statement in the year incurred.

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

9. BORROWING COSTS

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

10. DIRECT AND INDIRECT TAXATION

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 taxation rates that have been enacted or substantively enacted by the balance sheet date, in each particular jurisdiction within which the Bank operates.

11. RECOGNITION OF ASSETS

11.1 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 enterprise.

11.2 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 it, but this will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events which are not wholly within the Bank's control.

12. LIABILITIES, PROVISIONS AND CONTINGENT LIABILITIES

12.1 Liabilities and provisions

The Bank recognises liabilities, including provisions, when:

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

12.2 Contingent liabilities

The Bank discloses a contingent liability where:

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

13. SALE AND REPURCHASE AGREEMENTS AND LENDING OF SECURITIES

The financial statements reflect securities sold subject to a linked repurchase agreement ("repos") as trading or investment securities. These instruments are measured at fair value, with changes in fair value reported in the income statement. The counterparty liability is included in deposits from other banks, other deposits, or deposits due to customers, as appropriate.

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

14. 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. 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 from the date of acquisition.

16. FINANCIAL INSTRUMENTS

16.1 General

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

16.2 Financial assets

The Bank classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. Management determines the classification of its investments at initial recognition.

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

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

The 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 to or by it. Otherwise such transactions are treated as derivatives until settlement.

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

16.2.1 Financial assets at fair value through profit or loss

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

A financial asset is classified as a trading instrument if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges.

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

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

- a group of financial assets and/or financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and this is the basis on which information about the assets and/or liabilities is provided internally to the entity's key management personnel; or
- a financial asset or liability containing significant embedded derivatives.

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

16.2.2 Loans and receivables

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

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

16.2.3 Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the 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 assets, the entire category would be tainted and reclassified as available for sale.

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

16.2.4 Available-for-sale

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

The Bank recognises unrealised gains and losses arising from changes in the fair value of available-for-sale assets, in equity. It recognises interest income on these assets as part of interest income, based on the instrument's original effective rate. Interest income is excluded from the fair value gains and losses reported in equity. When the 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.

16.3 Financial liabilities

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

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

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

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

16.4 Embedded derivatives

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

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

Where embedded derivatives meet the criteria for hedge accounting, they are accounted for in terms of the applicable hedge accounting rules (Refer note 9).

16.5 Derecognition of assets and liabilities

The Bank derecognises an asset when the contractual rights to the asset expires, where there is a transfer of the contractual rights that comprise the asset, or the Bank retains the contractual rights of the assets but assumes a corresponding liability to transfer these contractual rights to another party and consequently transfers the 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 shall continue to recognise the transferred asset in its entirety and shall recognise a financial liability for the consideration received. In subsequent periods, the Bank shall recognise 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 shall determine whether it has retained control of the financial asset. In this case:

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

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

17. IMPAIRMENT OF FINANCIAL ASSETS

17.1 General

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

17.2 Assets carried at amortised cost

The 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 (or events) has an adverse impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and 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 collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the 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 and the amount of the loss is recognised in the income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the 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 according to the contractual terms of the assets being evaluated.

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

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

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

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

17.3 Assets carried at fair value

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 profit or loss – is removed from equity and recognised in the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the income statement.

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

18. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING

The 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 and subsequently re-measures these instruments at their fair value.

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

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

The best evidence of the fair value of a derivative at initial recognition is the transaction price (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 1.

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 1 profit/loss") is deferred and released over the life of the instrument. However, where observable market factors that market participants would consider in setting a price subsequently become available, the balance of the deferred day 1 profit/loss is released to income.

The method of recognising the resulting fair value gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Bank designates certain derivatives as either: (1) hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedge); or, (2) hedges 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.

18.1 Fair value hedge

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

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

18.2 Cash flow hedge

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

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

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

The Bank recognises fair value changes of derivatives that are designated and qualify as cash flow hedges and prove to be highly effective in relation to the hedged risk, in the cash flow hedging reserve in equity.

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

19. 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/losses on qualifying cash flow hedges relating to purchases of commodities.

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

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

20. 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 expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably.

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

Freehold properties and properties held under finance lease are further broken down into significant components that are depreciated to their respective residual values over 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	20 years
Computer equipment	3 – 5 years
Furniture and fittings	3 – 10 years
Motor vehicles	5 years
Office equipment	3 – 6 years

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

Repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

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

21. LEASES

21.1 A group company is the lessee

Finance leases

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

Finance leases are capitalised as assets at the fair value of the leased asset at the inception of the lease, or, if lower, at the estimated present value of the underlying lease payments. The 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 charged to 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 shorter of the useful life of the asset or the lease period, on a basis consistent with similar owned fixed assets.

Operating leases

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

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

21.2 A group company is the lessor

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.

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 fixed assets. Rental income is recognised on a straight-line basis over the lease term.

21.3 Instalment credit agreements

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

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

22. INTANGIBLE ASSETS

22.1 Goodwill

Goodwill represents the excess of the cost of an acquisition over the attributable fair value of the Bank's share of the net assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in Intangible assets. Goodwill on acquisitions of associates is included in Investments in associates.

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

For impairment purposes goodwill is allocated to the lowest components of the business that is expected to benefit from synergies of the combination and at which management monitors goodwill ("cash generating unit"). Each cash generating unit represents a grouping of assets no higher than a primary business or reporting segment as contemplated in note 28 on page 34.

22.2 Computer software development costs

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

22.3 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 accounting 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 wherever objective evidence of impairment exists. Carrying value is written down to estimated recoverable amount when a permanent decrease in value occurs. Any impairment is recognised in the income statement when incurred.

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

23. DEFERRED TAXATION

The Bank calculates deferred taxation on the comprehensive basis using the liability method on a balance sheet based approach. It calculates deferred tax liabilities or assets by applying corporate tax rates to the temporary differences existing at each balance sheet date between the tax values of assets and liabilities and their carrying amount, where such temporary differences are expected to result in taxable or deductible amounts in determining taxable income for future periods when the carrying amount of the assets or liabilities are recovered or settled.

The Bank recognises deferred tax assets if the directors of FirstRand Bank Holdings 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 for pensions and other post retirement benefits and tax losses carried forward. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss.

Deferred income tax is provided on temporary differences arising from investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the 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 investments and cash flow hedges, which are charged or credited directly to equity, is also credited or charged directly to equity and is subsequently recognised in the income statement together with the deferred gain or loss.

24. EMPLOYEE BENEFITS

24.1 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 relevant Bank companies, taking account of the recommendations of independent qualified actuaries. For defined benefit plans the pension accounting costs are assessed using the projected unit credit method.

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

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

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

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

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The 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.

24.2 Post-retirement medical benefits

In terms of certain employment contracts, the Bank provides for post-retirement healthcare benefits to qualifying employees and retired personnel by subsidising a portion of their medical aid contributions. The Bank created an independent fund in 1998 to fund these obligations. IAS19 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.

24.3 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.

24.4 Leave pay provision

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

24.5 Recognition of actuarial gains and losses

Actuarial gains or losses occur as a result of:

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

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

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

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

25. BORROWINGS

The Bank initially recognises borrowings, including debentures, at the fair value of the consideration received. Borrowings are subsequently measured at amortised cost. Discounts or premiums on debentures issued are amortised on a basis that reflects the effective yield 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.

26. SHARE CAPITAL

26.1 Share issue costs

Costs directly related to the issue of new shares or options are shown as a deduction from equity.

26.2 Dividends paid

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

26.3 Treasury shares

Where the Company or other members of the consolidated Group purchases the Company's equity share capital, the consideration paid is deducted from total shareholders' equity as treasury shares until they are cancelled. Where such shares are subsequently sold or reissued, any consideration received is included in shareholders' equity.

27. 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.

28. 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.

29. SHARE-BASED PAYMENT TRANSACTIONS

The Bank operates equity-settled share-based compen–sation plans.

The Bank expenses the fair value of the employee services received in exchange for the grant of the options, over the vesting period of the options, as employee costs, with a corresponding credit to a share-based payment reserve. 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.

30. SEGMENT REPORTING

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

- unique products or services ("business segment"), or
- products or services within a particular economic environment ("geographical segment"),

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

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

31. CHANGE IN ACCOUNTING POLICY

The financial impact of the transition to IFRS is detailed on the next page.

INTRODUCTION

The Bank adopted IFRS with effect from 1 July 2005.

The change to IFRS applies to all financial reporting for financial years beginning on or after 1 January 2005. As the Bank publishes comparative information for the previous financial year in its Annual Report, the date of transition to IFRS is 1 July 2004 ("the transition date"), the start of the earliest period that comparative information is presented. The financial statements for the year ended 30 June 2006 include comparative information restated in compliance with IFRS.

The change from SA GAAP to IFRS has primarily impacted the following areas:

- Applying the "incurred loss" basis with respect to credit impairment provisioning as opposed to the "expected loss" basis;
- Expensing the cost of share options awarded to employees and other share-based payment transactions on a fair value basis;
- Revaluing the carrying value of certain properties and adjusting the depreciation methodology used;
- Reallocating certain fees and expenses from non-interest revenue to interest income, and recognising the fees and expenses on an effective yield basis;
- Reclassifying certain instrument between debt and equity; and

TRANSITIONAL ARRANGEMENTS

IFRS 1 – First time adoption of International Financial Reporting Standards ("IFRS 1") sets out the requirements for the initial adoption of IFRS. IFRS 1 requires that accounting policies be adopted that are compliant with IFRS and that these policies be applied retrospectively to all periods presented. However due to cost and practical considerations, certain exemptions are permitted to full retrospective application in preparing the balance sheet at the date of transition on 1 July 2004 ("the transition balance sheet") and the financial information for the year ended 30 June 2005.

The Bank has made the following elections in terms of IFRS 1:

Applicable on 1 July 2004

- *Property and equipment* – Fair value or revaluation as deemed cost: The Bank has elected to use the IFRS 1 election to take the fair value of certain property and equipment on the transition date as the deemed cost where sufficiently detailed historical data relating to the components was not available to enable the restatement under IFRS. However, where detailed historical information was available, the carrying values in terms of SA GAAP on the transition date of components of property and equipment have been used (refer note (a) below);
- *Employee benefits:* The Bank has elected to recognise all cumulative unrecognised actuarial gains and losses on defined benefit plans against opening retained income on 1 July 2004 and to continue to apply the corridor approach to recognising actuarial gains and losses going forward.

The IFRS-transition impacts indicated above on the various financial periods are set out as follows in the respective adjustment column.

Income statement for the year ended 30 June 2005	Appendix 1
Balance sheet as at 1 July 2004	Appendix 2
Balance sheet as at 30 June and 1 July 2005	Appendix 3

Applicable on 1 July 2005 (Retrospectively)

- *Share-based payment transactions:* The Bank has elected to apply the provisions of IFRS 2 – Share-based payments, to all share-based instruments or payments, such as share options, granted on or after 7 November 2002, which have not vested on 1 January 2005 (refer note (b) below), subject to the transitional provision, relating to BEE transactions in IFRIC 8 – Scope of IFRS 2;

Applicable on 1 July 2005 (Prospectively)

- *Financial instruments* – Implementation of IAS 32 and IAS 39: Both IAS 32 and IAS 39 will be adopted from 1 July 2005 with no restatement of comparative figures (comparative figures regarding financial instruments are presented based on current SA GAAP principles in terms of AC 125 and AC 133) (refer notes (c), (d) and (e) below); and

The IFRS-transition impacts indicated above on the various financial periods are set out as follows in the respective adjustment columns:

Balance sheet as at 30 June and 1 July 2005	Appendix 3

Please note that the prospective changes applicable on 1 July 2005 do not impact the tables in appendices 1or 2.

EXPLANATORY NOTES ON SIGNIFICANT ADJUSTMENTS RESULTING FROM THE CONVERSION TO IFRS

The significant differences between SA GAAP and IFRS impacting the Bank's 2005 financial statements are noted below. The quantification of these adjustments is shown in the detailed reconciliations of the balance sheet, the income statement and statement of changes in equity reflected below.

Adjustments implemented with effect from 1 July 2004

Note (a) – IAS 16 – Property, Plant and Equipment ("PPE") – Revaluation of carrying value of properties and the component approach to depreciation

SA GAAP:

Under SA GAAP, land and buildings were not split into its major components when determining or calculating depreciation. Furthermore, the residual value of PPE was determined on recognition, and not assessed on an annual basis.

IFRS:

IAS 16 requires that in determining the annual depreciation charge, an entity needs to reassess the residual value of the depreciable asset on an annual basis. Furthermore, properties need to be split into their major components, each of which needs to depreciated over its useful life to the residual value of the component.

In terms of IFRS 1, the Bank has in certain instances applied the election to use the fair value of certain properties as deemed cost on the transition date. As a result, a portion of depreciation on properties previously recognised in the income statement has been reversed to the opening carrying value of property, with a corresponding increase in equity. The increased depreciable value of property on the transition date resulted in an increase in the depreciation charge during the 2005 financial year.

Financial impact:
The adoption of IAS 16 had the following financial impact:

- An increase of R475 million in the carrying value of property, plant and equipment on 1 July 2004, with a corresponding increase in opening retained income of R440 million after reclassifications and deferred tax; and
- An increase of R2 million in the depreciation charge for the financial year ended 30 June 2005.

Adjustments implemented with effect from 1 July 2005

Note (b) – IFRS 2 – Share-based Payments

SA GAAP:
Under SA GAAP, no direct cost was recognised in respect of the Bank's share option schemes, other than for net funding costs in respect of shares bought in to hedge options granted, and costs incurred to administer the schemes, which were expensed in the year incurred.

IFRS:
In terms of IFRS 2, the Bank recognises an IFRS 2 expense in respect of options over FirstRand Limited shares granted to its employees in return for services rendered by those employees. The IFRS 2 expense is calculated based on the fair value of the options granted or shares awarded on the grant date and is charged to the income statement on an annual basis over the expected vesting period of the options, with corresponding credits to equity.

Financial impact:
The adoption of IFRS 2 had the following financial impact:

- A debit of R17 million to opening retained income on 1 July 2004, with a corresponding credit to equity; and
- An increase in operating expenses of R116 million for the year ended 30 June 2005 with a corresponding credit to equity.

Note (c) – IAS 32/39 – Financial Instrument Classification

SA GAAP:
Under SA GAAP, guidance is given on what constitutes debt and equity (debt/equity classification) with the focus when deciding on the classification of a financial instrument falling on the substance of the contractual agreement on initial recognition as well as the definitions of a financial liability and an equity instrument.

Purchased loans and receivables could not be classified as loans and receivables at amortised cost under SA GAAP as AC 133 required such loans and receivables to be originated. Consequently purchased loans had to be treated as available-for-sale or held-to-maturity financial instruments.

IFRS:
The Bank has elected the IFRS 1 exemption not to restate comparative information in terms of IAS 32 – Financial instruments: Disclosure and presentation, and IAS 39 – Financial instruments: Recognition and measurement. The Bank therefore applied SA GAAP to financial instruments in comparative information.

IFRS provides additional guidance and sets specific principles for distinguishing between what constitutes debt and equity. In certain instances the additional guidance results in financial instruments previously classified as debt being reclassified to equity or compound instruments.

Under IAS 32, differentiation between debt and equity depends on whether there is an obligation to deliver cash or any other financial asset under conditions that are potentially unfavourable to the issuer. Where a transaction may be settled by issuing shares, classification will depend on whether the number of shares to be issued is fixed or variable.

IAS 39 removes the requirement for loans to be originated in order to be classified as loans and receivables at amortised cost. Reclassifying purchased loans to this category simplifies the accounting and hedging rules in respect of the financial instruments. As a result of the change in IAS 39, the Bank has reclassified advances from held-to-maturity advances to loans and advances at amortised cost with effect from 1 July 2005.

Upon initial adoption of IFRS an entity has a once off choice to redesignate any financial instrument into a different category. In limited instances the Bank has used this dispensation to reclassify certain held-to-maturity financial instruments.

Financial impact:
The adoption of IAS 32 and IAS 39 has resulted in the following material reclassifications on 1 July 2005:

- The reclassification of R5 846 million of purchased advances from held-to-maturity advances to advances at amortised cost; and
- The reclassification of a net R510 million of advances from elected fair value advances to advances at amortised cost.

Note (d) – IAS 18/39 – Effective Interest Rate

SA GAAP:
Under SA GAAP, fees and expenses which form an integral part of the effective interest rate on loans and advances carried at amortised cost, should be taken into account in determining the effective yield of loan, and should not be recognised in the income statement on origination of the loan.

IFRS:
This principle has evolved through local and international interpretation and has been carried forward in terms of the requirements of IAS 18 read in conjunction with IAS 39. As such, fees and commissions that are an integral part of the effective yield on a financial instrument, and direct incremental costs associated with origination of a financial instrument are included in the calculation of the effective interest rate and recognised over the expected life of the instrument.

The recognition principles under IFRS affects both the timing of recognition of certain fee income and expenses charged at the initiation of a transaction from up-front to over the expected life of the instrument, as well as the classification of these fees from "Non-interest revenue" and "Operating expenses", to "Interest income".

Fees for service continue to be recognised as and when the service is rendered.

Financial impact:
The change in interpretation resulted in the Bank capitalising R831 million of fees and R658 million of expenses to advances, as well as net expenses of R71 million to accounts receivable on 1 July 2005, with a decrease of R34 million in retained income after deferred tax on 1 July 2005.

Note (e) – IAS 39 – Credit Impairment Provisioning

SA GAAP:
Under SA GAAP (AC 133), the Bank raised *Specific Impairments* in respect of non-performing advances when there was objective evidence that it would not be able to collect all amounts due. The impairment was calculated as the difference between the carrying amount and the recoverable amount, being the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate at inception of the advance.

The Bank further raised *Portfolio Impairments* in respect of performing advances where there was objective evidence that the present value of the expected future cash flows of a portfolio of advances, applying the original effective interest rate, was less than the carrying value of the portfolio of advances.

The Portfolio Impairments were based upon historical patterns of losses in each component of the performing portfolio, taking account of the current economic climate in which the borrowers operate.

IFRS:
IAS 39 introduces changes to Credit Impairment Provisioning practice and accounting by requiring such impairments to be determined on an "incurred loss basis" where there is objective evidence of a loss event after the initial recognition of the loan, rather than on expectations of future losses.

IFRS allows for the creation of Portfolio Impairments on higher risk portions of performing portfolios based on identified loss indicators.

IFRS also implicitly allows for the creation of impairments for losses which are inherent in a portfolio of advances, which have not been specifically identified as impaired, i.e. losses incurred but not yet reported.

The IAS 39 incurred loss methodology by its nature may result in increased credit impairments on certain portfolios. In terms of AC 133, Portfolio Impairments were calculated using the expected cash flows of an entire portfolio of advances with similar credit characteristics. Implicitly, this allowed for certain levels of "cross subsidisation" of credit risk due to certain exposures in a portfolio improving in credit risk since inception, offsetting the exposures which have shown negative migration in credit risk.

IAS 39 specifically requires that an entity calculates impairments with reference only to those items in a portfolio which have shown negative migration in credit risk since inception ("objective evidence of impairment"). Furthermore, it requires the adjustment of historical loss patterns used in determining portfolio impairments for current economic conditions.

In certain instances, the combination of these requirements in certain instances results in higher levels of Portfolio Impairments in terms of IAS 39 in comparison to AC 133 with effect from 1 July 2005.

Financial impact:
The change in credit methodology in terms of IAS 39 results in an increase of R239 million in credit impairments on 1 July 2005.

Note (f) – Other IFRS adjustments
Other IFRS adjustments relate mainly to:

- Other reclassifications required by the respective standards of IFRS.

Other adjustments
As part of the transition to IFRS, limited line item re-classifications have been made to improve disclosure in line with ongoing evolving market practice.

Income statement for the year ended 30 June

R million	Notes	**2006**	2005
Interest and similar income	2	**23 359**	19 894
Interest expenditure and similar charges	3	**(13 820)**	(12 608)
Net interest income before impairment of advances		**9 539**	7 286
Impairment losses on loans and advances	11	**(1 427)**	(572)
Net interest income after impairment of advances		**8 112**	6 714
Non-interest income	4	**12 442**	9 538
Income from operations		**20 554**	16 252
Operating expenditure	5	**(13 556)**	(11 648)
Income before taxation		**6 998**	4 604
Indirect taxation	6	**(408)**	(347)
Profit before taxation		**6 590**	4 257
Direct taxation	7.1	**(1 595)**	(1 138)
Profit attributable to ordinary shareholders		**4 995**	3 119

R million	Notes	2006	2005
ASSETS			
Cash and short-term funds	8	20 104	14 057
Derivative financial instruments	9	34 455	20 500
– qualifying for hedging		253	574
– trading		34 202	19 926
Advances	10	258 046	201 700
– at amortised cost		216 715	163 626
– held-to-maturity		–	5 916
– available-for-sale		538	1 648
– fair value		40 793	30 510
Investment securities and other investments	12	33 502	26 549
Financial securities held for trading		13 828	12 264
Investment securities		19 674	14 285
– originated		185	–
– held-to-maturity		–	10
– available-for-sale		12 119	10 065
– elected fair value		7 370	4 210
Commodities	13	627	395
Loans to insurance group		636	3 658
Accounts receivable	14	1 673	1 241
Investment in associate and joint venture companies	15	724	724
Interest in subsidiary companies	16	13	13
Holding and fellow subsidiary companies	17	24 637	18 738
Property and equipment	18	2 773	2 572
Retirement benefit asset	19	2 467	2 228
Intangible assets	20	43	36
Total assets		379 700	292 411
LIABILITIES AND SHAREHOLDERS' FUNDS			
Liabilities			
Deposits	21	269 862	209 728
– deposit and current accounts		269 862	209 728
Short trading positions	22	20 588	14 037
Derivative financial instruments	9	31 270	15 064
– qualifying for hedging		51	95
– trading		31 219	14 969
Loans from insurance group		3 450	7 956
Creditors and accruals	23	3 820	2 940
Provisions	24	2 193	1 632
Taxation liability		430	104
Post-retirement benefit fund liability	19	1 627	1 417
Deferred taxation liabilities	7	1 804	1 909
Holding and fellow subsidiary companies	17	17 794	17 743
Long-term liabilities	25	7 396	3 349
Total liabilities		360 234	275 879
Equity			
Ordinary shares	26	4	4
Share premium	26	6 372	5 612
Non-distributable reserves	27	2 552	2 712
Distributable reserves		10 538	8 204
Total shareholders' equity		19 466	16 532
Total equity and liabilities		379 700	292 411

Statement of changes in equity for the year ended 30 June

R million	Ordinary share capital and share premium	General risk reserve	Cash flow hedge reserve
Balance as at 30 June 2004 as previously stated	2 494	749	77
Adjusted for IFRS movements:			
– property, plant and equipment	–	–	–
– post-retirement liability	–	–	–
– share-based payments	–	–	–
Restated balance as at 30 June 2004	2 494	749	77
Profit for the period	–	–	–
Preference dividend – 30 July 2004	–	–	–
Final ordinary dividend – 25 October 2004	–	–	–
Final ordinary dividend – 25 October 2005	–	–	–
Interim dividend – 21 February 2005	–	–	–
Interim dividend – 23 March 2005	–	–	–
Interim dividend – 29 April 2005	–	–	–
Interim dividend – 30 June 2005	–	–	–
Interim dividend – 25 February 2005	–	–	–
Transfer from General Risk Reserve (impaired capital reserve)	–	12	–
Revaluation of available for sale assets	–	–	–
Available for sale loss transferred to the income statement	–	–	–
Revaluation of cash flow hedges	–	–	215
Issue of ordinary shares	122	–	–
Issue of non-redeemable preference shares	–	–	–
IFRS share-based payments	–	–	–
Balance as at 30 June 2005	2 616	761	292
Adjusted for IFRS movements:			
– IAS 32/39 reclassification	–	–	–
– effective interest rate	–	–	–
– credit impairment	–	(174)	–
Restated balance as at 1 July 2005	**2 616**	**587**	**292**
Profit for the period	–	–	–
Preference dividend – 31 August 2005	–	–	–
Preference dividend – 27 February 2006	–	–	–
Final ordinary dividend – 21 July 2005	–	–	–
Final ordinary dividend – 31 August 2005	–	–	–
Final ordinary dividend – 21 October 2005	–	–	–
Interim ordinary dividend – 24 March 2006	–	–	–
Interim ordinary dividend – 31 May 2006	–	–	–
Transfer from General Risk Reserve (impaired capital reserve)	–	**130**	–
Revaluation of available for sale assets	–	–	–
Available for sale profit transferred to the income statement	–	–	–
Revaluation of cash flow hedges	–	–	**(174)**
Movement in other non-distributable reserves	–	–	–
IFRS share-based payments	–	–	–
Issue of ordinary shares	**760**	–	–
Balance as at 30 June 2006	**3 376**	**717**	**118**

Available-for-sale reserve	Share-based payment reserve	Other non-distributable reserves	Distributable reserves	Total permanent capital	Preference shares issued to FirstRand companies	Total equity
168	–	1 343	7 512	12 343	–	12 343
–	–	–	440	440	–	440
–	–	–	(176)	(176)	–	(176)
–	17	–	(17)	–	–	–
168	17	1 343	7 759	12 607	–	12 607
–	–	–	3 119	3 119	–	3 119
–	–	–	(89)	(89)	–	(89)
–	–	–	(1 205)	(1 205)	–	(1 205)
–	–	–	(18)	(18)	–	(18)
–	–	–	(2)	(2)	–	(2)
–	–	–	(1 122)	(1 122)	–	(1 122)
–	–	–	(111)	(111)	–	(111)
–	–	–	(47)	(47)	–	(47)
–	–	–	(68)	(68)	–	(68)
–	–	–	(12)	–	–	–
(30)	–	–	–	(30)	–	(30)
45	–	–	–	45	–	45
–	–	–	–	215	–	215
–	–	–	–	122	–	122
–	–	–	–	–	3 000	3 000
–	116	–	–	116	–	116
183	133	1 343	8 204	13 532	3 000	16 532
–	–	–	(7)	(7)	–	(7)
–	–	–	(34)	(34)	–	(34)
–	–	–	(45)	(219)	–	(219)
183	**133**	**1 343**	**8 118**	**13 272**	**3 000**	**16 272**
–	**–**	**–**	**4 995**	**4 995**	**–**	**4 995**
–	**–**	**–**	**(113)**	**(113)**	**–**	**(113)**
–	**–**	**–**	**(107)**	**(107)**	**–**	**(107)**
–	**–**	**–**	**(500)**	**(500)**	**–**	**(500)**
–	**–**	**–**	**(38)**	**(38)**	**–**	**(38)**
–	**–**	**–**	**(759)**	**(759)**	**–**	**(759)**
–	**–**	**–**	**(843)**	**(843)**	**–**	**(843)**
–	**–**	**–**	**(85)**	**(85)**	**–**	**(85)**
–	**–**	**–**	**(130)**	**–**	**–**	**–**
40	**–**	**–**	**–**	**40**	**–**	**40**
(126)	**–**	**–**	**–**	**(126)**	**–**	**(126)**
–	**–**	**–**	**–**	**(174)**	**–**	**(174)**
–	**–**	**2**	**–**	**2**	**–**	**2**
–	**142**	**–**	**–**	**142**	**–**	**142**
–	**–**	**–**	**–**	**760**	**–**	**760**
97	**275**	**1 345**	**10 538**	**16 466**	**3 000**	**19 466**

Cash flow statement for the year ended 30 June

R million	Notes	2006	2005
Cash flows from operating activities	29.1	10 763	6 631
Cash received from customers		35 220	29 086
Interest income		23 206	19 856
Fee and commission income		7 498	6 774
Other income		4 516	2 456
Cash paid to customers and employees		(24 457)	(22 455)
Interest expenditure (excluding debenture interest paid)		(13 250)	(12 206)
Total other operating expenditure (excluding depreciation)		(11 207)	(10 249)
Cash flows from returns on investments and servicing of finance		(176)	(225)
Debenture interest paid		(509)	(466)
Dividends from other investments		322	222
Dividends from associated companies		11	19
Taxation paid	29.3	(1 607)	(1 839)
Cash flows from operating assets and liabilities		(4 450)	(2 888)
Decrease in income-earning assets		(70 940)	(27 020)
Liquid assets and trading securities		(7 186)	(4 688)
Advances		(57 906)	(24 132)
Net funding from fellow subsidiary companies		(5 848)	1 800
Increase in deposits and other liabilities		66 490	24 132
Term deposits		(2 088)	22 209
Current deposit accounts		57 450	(6 431)
Deposits from banks		(9 466)	597
Negotiable certificates of deposit and other deposits		14 173	6 966
Savings accounts		65	113
Short trading positions		6 551	(5 434)
Creditors and accruals net of accounts receivable		(512)	(1 887)
Other		317	7 999
Net cash outflow from operating activities		4 530	1 679
Cash flows from investment activities			
Capital expenditure to maintain operations		(989)	(979)
Purchase of associates		–	(381)
Proceeds from disposal of property and equipment		84	52
Proceeds from disposal of investments		90	98
Proceeds from disposal of subsidiaries		–	5
Net cash outflow from investment activities		(815)	(1 205)
Cash flows from financing activities			
Net proceeds of long-term liabilities		4 017	–
Proceeds from the issue of ordinary shares		760	122
Proceeds from the issue of preference shares		–	3 000
Dividends paid	29.2	(2 445)	(2 662)
Net cash flow from financing activities		2 332	460
Net increase in cash and cash equivalents		6 047	934
Cash and cash equivalents at beginning of the year		14 057	13 123
Cash and cash equivalents at end of the year	8	20 104	14 057

R million	2006	2005
1. ACCOUNTING POLICIES		
The accounting policies of the bank are set out on pages 25 to 37.		
2. INTEREST AND SIMILAR INCOME		
Interest on:		
Advances	20 365	16 326
– at amortised cost	20 320	15 619
– held-to-maturity	–	648
– available-for-sale	45	37
– fair value	–	22
Cash and short-term funds	554	757
Investment securities	694	1 021
Holding and fellow subsidiaries	877	506
Insurance group companies	–	2
Unwind of present value on non-performing loans	60	26
Other	809	1 256
	23 359	19 894
3. INTEREST EXPENSE AND SIMILAR CHARGES		
Interest on:		
Deposits from banks and financial institutions	(46)	(56)
Current accounts	(3 490)	(1 807)
Savings accounts	(30)	(34)
Term deposits	(8 529)	(8 430)
Holding and fellow subsidiaries	(398)	(579)
Loans and debentures	(509)	(466)
To insurance group	(3)	(42)
Other	(815)	(1 194)
	(13 820)	(12 608)

R million	2006	2005
4. NON-INTEREST INCOME		
Fees and commissions		
– Banking fee and commission income	7 340	6 164
Card commissions	816	511
Cash deposit fees	757	667
Commissions – bills, drafts and cheques	346	404
Service fees	2 822	2 407
Other	2 599	2 175
– Knowledge based fee and commission income	275	342
– Non-banking fee and commission income	26	164
– Other	–	310
	7 641	6 980
Fees and commissions expenditure	(143)	(206)
Net fees and commissions	7 498	6 774
Foreign exchange trading	761	625
– Domestic based currency trading	761	625
Treasury trading operations	2 525	1 139
	3 286	1 764
Investment income		
– Profit on realisation of investment banking assets	90	98
– Transfer from revaluation reserve on sale of available for sale assets	–	(45)
– Dividends received from associates	11	19
– Dividends received from other investments	311	203
Investment income	412	275
Other non-interest income		
– Recoveries from subsidiaries	478	502
– Loss on sale of property and equipment	(21)	(16)
– Other income	789	239
	1 246	725
Total non-interest income	12 442	9 538

R million	2006	2005
5. OPERATING EXPENDITURE		
Auditors' remuneration		
– Audit fees	(43)	(32)
– Fees for other services	(10)	(4)
Technical advice	(7)	(3)
Other	(3)	(1)
	(53)	(36)
Amortisation of intangible assets		
– Software	(19)	(14)
– Development costs	(2)	(1)
	(21)	(15)
Depreciation		
– Property	(142)	(111)
Freehold buildings	(31)	(37)
Leasehold premises	(111)	(74)
– Equipment	(527)	(410)
Computer equipment	(379)	(292)
Furniture and fittings	(83)	(71)
Motor vehicles	(13)	(12)
Office equipment	(52)	(35)
	(669)	(521)
Other impairments incurred		
– Property and equipment	(15)	(19)
– Other	(3)	–
	(18)	(19)
Operating lease charges		
– Land and buildings	(555)	(455)
– Equipment	(211)	(185)
– Motor vehicles	(25)	(23)
	(791)	(663)
Directors' emoluments paid		
– Salaries, wages and allowances	(18)	(17)
– Fees for services as directors/consultants	(4)	(2)
	(22)	(19)
Professional fees		
– Managerial	(3)	(1)
– Technical	(137)	(146)
– Other	(191)	(215)
	(331)	(362)
Direct staff costs		
– Salaries, wages and allowances	(4 314)	(3 800)
– Contributions to employee benefit funds	(849)	(836)
– Defined contribution schemes	(838)	(823)
– Defined benefit schemes	(11)	(13)
– Social security levies	(61)	(41)
– Share based payments (refer to note 37)	(142)	(116)
– Other	(488)	(274)
	(5 854)	(5 067)
Staff related costs	(1 158)	(540)
	(7 012)	(5 607)

R million	2006	2005
5. OPERATING EXPENDITURE *continued*		
Other operating costs	(4 639)	(4 406)
– Insurance	(172)	(128)
– Advertising and marketing	(557)	(510)
– Maintenance	(450)	(421)
– Property	(230)	(215)
– Insurance group	(125)	(75)
– Stationery	(180)	(167)
– Telecommunications	(319)	(311)
– eBucks customer reward costs	(190)	(162)
– Holding and fellow subsidiaries	(799)	(378)
– Acquisition costs	(22)	(312)
– Other	(1 595)	(1 727)
Total operating expenditure	(13 556)	(11 648)
6. INDIRECT TAXATION		
Value-added taxation (net)	(339)	(308)
Regional services levy	(62)	(43)
Stamp duties	(1)	–
Other	(6)	4
Total indirect taxation	(408)	(347)
7. TAXATION		
7.1 Direct taxation		
Normal taxation		
– Current	(1 525)	(682)
Current year	(925)	(1 100)
Prior year adjustment	(600)	418
– Deferred	(151)	(398)
Current year	(672)	8
Prior year adjustment	521	(457)
Taxation rate adjustment	–	51
	(1 676)	(1 080)
Secondary taxation on companies	81	(15)
– Current	–	–
– Deferred	81	(15)
Customer tax adjustment account	–	(43)
Total direct taxation	(1 595)	(1 138)
Total direct and indirect taxation	(2 003)	(1 485)
Taxation rate reconciliation – South African Taxation rate reconciliation – South African normal taxation	%	%
Effective rate of taxation	24.2	26.7
Total taxation has been affected by:		
Non-taxable income	8.2	5.2
Prior year adjustment	(1.1)	(0.9)
Taxation rate adjustment	–	1.2
Other permanent differences	(2.3)	(3.2)
Standard rate of South African taxation	29.0	29.0

R million	**2006**	2005

7. TAXATION *continued*

7.2 Deferred taxation

The movement on the deferred taxation account is as follows:

Credit balance		
– Balance at the beginning of the year	**1 909**	1 430
– IFRS Adjustments		
property, plant and equipment	**–**	35
employee benefits	**–**	(76)
effective interest rate	**(68)**	–
credit impairment	**(20)**	–
Restated opening balance	**1 821**	1 389
– Charge to the income statement	**151**	464
– STC charge/(release) to the income statement	**(81)**	15
– Acquisitions and disposals	**–**	121
– Taxation rate adjustment	**–**	(51)
– Other	**(87)**	(29)
Total credit balance	**1 804**	1 909

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

R million	Opening balance	IFRS Adjust-ments	Taxation charge	Other	**Closing balance**
Deferred tax liabilities					
Taxation losses	–	–	(1)	(1)	**(2)**
Provision for loan impairment	18	(20)	(78)	(94)	**(174)**
Provision for post-retirement benefits	(76)	–	45	89	**58**
Other provisions	(19)	–	(6)	(339)	**(364)**
Cash flow hedges	(71)	–	–	149	**78**
Instalment credit agreements	1 267	–	381	(14)	**1 634**
Accruals	623	–	357	(226)	**754**
Revaluation of available-for-sale securities to equity	4	–	(14)	49	**39**
STC	(10)	–	(81)	–	**(91)**
Other	173	(68)	(533)	300	**(128)**
Total deferred taxation liabilities	1 909	(88)	70	(87)	**1 804**

R million	2006	2005
8. CASH AND SHORT-TERM FUNDS		
Coins and bank notes	2 142	2 297
Money at call and short notice	1 178	690
Balances with central banks	6 357	4 860
Balances guaranteed by central banks	–	38
Balances with other banks	10 427	6 172
	20 104	14 057
Fair value		
The carrying value approximates fair value		
Mandatory reserve balances included in above:	6 352	3 494
Banks are required to deposit a minimum average balance, calculated monthly, with the central bank. These deposits bear no or very low interest.		
Money at short notice constitutes amounts withdrawable in 32 days or less.		

9. DERIVATIVE FINANCIAL INSTRUMENTS

The Bank uses the following financial instruments for hedging purposes:

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

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

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

Strategy in using hedging instruments

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

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

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

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

9. DERIVATIVE FINANCIAL INSTRUMENTS *continued*

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

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

	2005 Assets Notional	Assets Fair value	Liabilities Notional	Liabilities Fair value
The Bank utilises the following derivatives for hedging and trading purposes:				
Qualifying for hedge accounting				
Cash flow hedges				
Interest rate derivatives				
– Swaps	13 167	304	3 498	64
Total cash flow hedges	13 167	304	3 498	64
Fair value hedges				
Interest rate derivatives				
– Swaps	5 680	270	1 460	31
Total fair value hedges	5 680	270	1 460	31
Total qualifying for hedge accounting	18 847	574	4 958	95

R million	2005 Assets Notional	Fair value	Liabilities Notional	Fair value
9. DERIVATIVE FINANCIAL INSTRUMENTS *continued*				
Held for trading				
Currency derivatives				
– Forward rate agreements	70 822	2 782	68 187	2 612
– Swaps	106 697	7 773	101 848	4 656
– Options	1 933	222	1 624	26
Total currency derivatives	179 452	10 777	171 659	7 294
Interest rate derivatives				
– Forward rate agreements	91 209	212	77 516	189
– Swaps	152 620	5 396	139 118	5 328
– Options	11 611	76	11 309	82
– Other	166	–	–	–
Total interest rate derivatives	255 606	5 684	227 943	5 599
Equity derivatives				
– Options	14 269	1 409	3 667	343
– Other	113	2	–	–
Total equity derivatives	14 382	1 411	3 667	343
Commodity derivatives				
– Forward rate agreements	4 336	322	4 359	702
– Swaps	175	5	566	30
– Options	8 903	1 686	9 223	921
– Other	85	2	186	80
Total commodity derivatives	13 499	2 015	14 334	1 733
Credit derivatives	5 640	39	–	–
Total held for trading	468 579	19 926	417 603	14 969
Total	487 426	20 500	422 561	15 064

R million	2005 Assets: Derivative instruments Exchange traded Notional	Fair value	Over the counter Notional	Fair value	Total Notional	Fair value
Qualifying for hedge accounting						
Cash flow hedges	–	–	13 167	304	13 167	304
Interest rate derivatives	–	–	13 167	304	13 167	304
Fair value hedges	–	–	5 680	270	5 680	270
Interest rate derivatives	–	–	5 680	270	5 680	270
Held for trading	4 866	1	463 713	19 925	468 579	19 926
Currency derivatives	–	–	179 452	10 777	179 452	10 777
Interest rate derivatives	3 667	1	251 939	5 683	255 606	5 684
Equity derivatives	–	–	14 382	1 411	14 382	1 411
Commodity derivatives	1 199	–	12 300	2 015	13 499	2 015
Credit derivatives	–	–	5 640	39	5 640	39
Total	4 866	1	482 560	20 499	487 426	20 500

	2005					
	Liabilities: Derivative instruments					
	Exchange traded		Over the counter		Total	
R million	Notional	Fair value	Notional	Fair value	Notional	Fair value
9. DERIVATIVE FINANCIAL INSTRUMENTS *continued*						
Qualifying for hedge accounting						
Cash flow hedges	–	–	3 498	64	3 498	64
Interest rate derivatives	–	–	3 498	64	3 498	64
Fair value hedges	–	–	1 460	31	1 460	31
Interest rate derivatives	–	–	1 460	31	1 460	31
Held for trading	3 596	5	414 007	14 964	417 603	14 969
Currency derivatives	–	–	171 659	7 294	171 659	7 294
Interest rate derivatives	2 558	3	225 385	5 596	227 943	5 599
Equity derivatives	–	–	3 667	343	3 667	343
Commodity derivatives	1 038	2	13 296	1 731	14 334	1 733
Total	3 596	5	418 965	15 059	422 561	15 064

	2006					2005
R million	**At amortised cost**	**Held-to-maturity**	**Available-for-sale**	**Fair value**	**Total**	Total
10. ADVANCES						
Sector analysis						
Agriculture	6 150	–	–	54	6 204	4 708
Banks and financial services	6 430	–	538	21 985	28 953	25 744
Building and property development	5 321	–	–	–	5 321	10 420
Government, Land Bank and public authorities	182	–	–	7 303	7 485	5 510
Individuals	158 707	–	–	2	158 709	116 041
Manufacturing and commerce	24 893	–	–	10 395	35 288	23 848
Mining	914	–	–	7	921	3 356
Transport and communication	6 669	–	–	330	6 999	4 546
Other services	10 652	–	–	717	11 369	9 890
Notional value of advances	219 918	–	538	40 793	261 249	204 063
Contractual interest suspended	(435)	–	–	–	(435)	(387)
Gross advances	219 483	–	538	40 793	260 814	203 676
Impairment of advances (note 11)	(2 768)	–	–	–	(2 768)	(1 976)
Net advances	216 715	–	538	40 793	258 046	201 700
Net advances – 2005	163 626	5 916	1 648	30 510	201 700	
Geographic analysis (based on credit risk)						
South Africa	219 746	–	538	30 103	250 387	194 609
Other Africa	62	–	–	123	185	178
United Kingdom	72	–	–	6 512	6 584	9 205
Other	38	–	–	4 055	4 093	71
Total value of advances	219 918	–	538	40 793	261 249	204 063
Contractual interest suspended	(435)	–	–	–	(435)	(387)
Gross advances	219 483	–	538	40 793	260 814	203 676
Impairment of advances (note 11)	(2 768)	–	–	–	(2 768)	(1 976)
Net advances	216 715	–	538	40 793	258 046	201 700
Net advances – 2005	163 626	5 916	1 648	30 510	201 700	

R million	2006 At amortised cost	2006 Held-to-maturity	2006 Available-for-sale	2006 Fair value	2006 Total	2005 Total
10. ADVANCES *continued*						
Category analysis						
Overdrafts and managed accounts	21 999	–	–	–	21 999	23 634
Loans to other financial institutions	87	–	–	4 702	4 789	–
Card loans	9 380	–	–	–	9 380	6 989
Instalment sales	41 201	–	–	–	41 201	34 802
Lease payments receivable	24 994	–	–	–	24 994	18 604
Property finance	97 815	–	–	3 006	100 821	70 378
– Home loans	94 243	–	–	–	94 243	66 645
– Commercial property finance	3 572	–	–	3 006	6 578	3 733
Personal loans	10 136	–	–	–	10 136	3 947
Preference share advances	1 061	–	–	–	1 061	654
Other	12 782	–	538	22 549	35 869	36 570
Collateralised debt obligations	161	–	–	–	161	182
Assets under agreement to resell	302	–	–	10 536	10 838	8 303
Notional value of advances	219 918	–	538	40 793	261 249	204 063
Contractual interest suspended	(435)	–	–	–	(435)	(387)
Gross advances	219 483	–	538	40 793	260 814	203 676
Impairment of advances (note 11)	(2 768)	–	–	–	(2 768)	(1 976)
Net advances	216 715	–	538	40 793	258 046	201 700
Net advances – 2005	163 626	5 916	1 648	30 510	201 700	

Fair value

The carrying value of loans and advances approximate their fair value.

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

R million	2006 Within 1 year	2006 Between 1 and 5 years	2006 More than 5 years	2006 Total	2005 Total
Analysis of instalment sales and lease payments receivable					
Lease payments receivable	6 246	18 749	–	24 995	18 616
Suspensive sale instalments receivable	10 434	31 309	–	41 743	41 973
	16 680	50 058	–	66 738	60 589
Less: Unearned finance charges	(154)	(467)	–	(621)	(7 183)
	16 526	49 591	–	66 117	53 406

R million	Total impairment	Specific impairment	Portfolio impairment	Income statement
	2006			
11. IMPAIRMENT OF ADVANCES				
Analysis of movement in impairment of advances				
Opening balance	1 976	1 440	536	–
IFRS reclassification	(162)	(300)	138	–
IFRS credit impairment	239	89	150	–
IFRS total	77	(211)	288	–
Restated opening balance	2 053	1 229	824	–
Amounts written off	(943)	(941)	(2)	–
Unwinding of discounted present value on non-performing loans	(60)	(60)	–	–
Reclassifications	–	(3)	3	–
Net new impairments created	1 718	1 373	345	(1 718)
– Impairments created	2 565	2 202	363	(2 565)
– Impairments released	(847)	(829)	(18)	847
Net write-off of bad debts	–	–	–	287
Realisation of security	–	–	–	4
Closing balance	2 768	1 598	1 170	(1 427)

R million	Total impairment	Specific impairment	Portfolio impairment	Income statement
	2005			
Opening balance	2 026	1 582	444	–
Amounts written off	(807)	(807)	–	–
Unwinding of discounted present value on non-performing loans	(26)	(26)	–	–
Reclassifications	–	(48)	48	–
Net new impairments created	783	739	44	(783)
– Impairments created	1 277	1 205	72	(1 277)
– Impairments released	(494)	(466)	(28)	494
Recoveries of bad debts	–	–	–	212
Realisation of security	–	–	–	(1)
Closing balance	1 976	1 440	536	(572)

R million	Credit risk	Security held	2006 Contractual interest suspended	Specific impairments	2005 Specific impairments
11. IMPAIRMENT OF ADVANCES *continued*					
Non-performing lendings by sector					
Agriculture	173	99	23	74	47
Banks and financial services	67	20	27	13	111
Building and property development	153	21	41	95	44
Government, Land Bank and public authorities	–	–	–	–	27
Individuals	2 219	745	170	1 044	796
Manufacturing and commerce	629	95	94	287	296
Mining	50	1	10	12	8
Transport and communication	134	7	59	38	36
Other services	118	41	11	35	75
Total	3 543	1 029	435	1 598	1 440
2005 Total non-performing lendings	2 813	850	387	1 440	
Non-performing lendings by category					
Overdrafts and managed account debtors	848	111	181	557	536
Card loans	554	–	34	347	219
Instalment sale	814	103	62	191	181
Lease payments receivable	210	43	16	77	105
Home loans	791	646	78	259	258
Commercial property finance	32	16	16	10	13
Other	294	110	48	157	128
Total	3 543	1 029	435	1 598	1 440
2005 Total non-performing lendings	2 813	850	387	1 440	

R million	2006 Trading	Originated	Held-to-maturity	Available-for-sale	Elected fair value	Total	2005 Total
12. INVESTMENT SECURITIES AND OTHER INVESTMENTS							
Negotiable certificates of deposit	701	–	–	–	–	701	736
Treasury bills	2 358	–	–	15	–	2 373	2 483
Other Government and Government guaranteed stock	4 829	–	–	11 827	–	16 656	15 907
Other dated securities	318	–	–	–	682	1 000	802
Other undated securities	–	–	–	1	188	189	786
Other	5 622	185	–	276	6 500	12 583	5 835
Total – 2006	13 828	185	–	12 119	7 370	33 502	26 549
Total – 2005	12 264	–	10	10 065	4 210	26 549	

12. INVESTMENT SECURITIES AND OTHER INVESTMENTS *continued*

R million	2006 Trading	2006 Originated	2006 Held-to-maturity	2006 Available-for-sale	2006 Elected fair value	2006 Total	2005 Total
Listed							
Negotiable certificates of deposit	–	–	–	–	–	–	–
Treasury bills	–	–	–	–	–	–	–
Other government and government guaranteed stock	4 829	–	–	11 827	–	16 656	13 732
Other dated securities	70	–	–	–	–	70	715
Other undated securities	–	–	–	–	–	–	–
Other	1 391	–	–	15	14	1 420	3 104
Listed – 2006	**6 290**	**–**	**–**	**11 842**	**14**	**18 146**	17 551
Listed – 2005	6 726	–	–	9 790	1 035	17 551	
Unlisted							
Negotiable certificates of deposit	701	–	–	–	–	701	736
Treasury bills	2 358	–	–	15	–	2 373	2 483
Other government and government guaranteed stock	–	–	–	–	–	–	2 175
Other dated securities	248	–	–	–	682	930	87
Other undated securities	–	–	–	1	188	189	786
Other	4 231	185	–	261	6 486	11 163	2 731
Unlisted – 2006	**7 538**	**185**	**–**	**277**	**7 356**	**15 356**	8 998
Unlisted – 2005	5 538	–	10	275	3 175	8 998	

R14 396 million (2005: R12 206 million) of the financial instruments form part of the Bank's liquid asset portfolio in terms of the South African Reserve Bank and other foreign banking regulators' requirements.

The Bank holds certain interests in collateralised debt obligation structures. The Bank has no obligations toward other investors beyond the amounts already contributed. The Bank has no management control or influence over these investments which are recorded at fair value under the available for sale category in the above table.

R million	2006	2005
Analysis of investment securities		
Listed	18 146	17 551
– Equities	1 420	1 383
– Debt	16 726	16 168
Unlisted	15 356	8 998
– Equities	6 936	2 728
– Debt	8 420	6 270
	33 502	26 549
Aggregate market value of listed securities	18 146	17 551
Aggregate directors' valuation of unlisted investments	15 356	8 998
Total	**33 502**	26 549

Held-to-maturity securities are carried at amortised cost in both years.

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

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

R million	2006	2005
13. COMMODITIES		
Agricultural stock	578	377
Other	49	18
Total commodities	627	395
All commodities are carried at fair value.		
14. ACCOUNTS RECEIVABLE		
Items in transit	14	200
Accrued interest	24	60
Other debtors	1 635	981
Total accounts receivable	1 673	1 241
15. INVESTMENT IN ASSOCIATE AND JOINT VENTURE COMPANIES		
Listed investments		
Investments at cost less amounts written off	544	544
Unlisted investments		
Investments at cost less amounts written off	180	180
Total carrying value	724	724
Valuation		
Listed investments at market value	565	544
Unlisted investments at directors' valuation	334	343
Total valuation	899	887

R million	Nature of business	Issued ordinary share capital R	Number of ordinary shares held	Year end
Listed				
Makalani Holdings	Investment holding	625 000 000	5 437 380	30 Jun
Unlisted				
Toyota Financial Services (Pty) Limited	Vehicle finance	4 500	1 485	31 Mar
Natal Lands (Pty) Limited	Property holding	240 000	60 000	31 Dec
Pamodzi Investment Holdings (Pty) Limited	Investment holding	50 000	11 310	31 Aug

R million	Effective holding % 2006	Effective holding % 2005	Market or directors' valuation 2006	Market or directors' valuation 2005	Bank costs less amounts written off 2006	Bank costs less amounts written off 2005
Listed						
Makalani Holdings	22	22	565	544	544	544
Total listed			565	544	544	544
Unlisted						
Natal Lands (Pty) Limited	50	50	1	–	1	1
SBV Services (Pty) Limited	25	25	10	9	10	10
Pamodzi Investment Holdings (Pty) Limited	22.6	20	18	18	18	18
Toyota Financial Services (Pty) Limited	33	33	207	217	150	150
Other	Various	Various	99	99	1	1
Total unlisted			334	343	180	180
Total listed and unlisted			899	887	724	724

R million	2006	2005
16. INTEREST IN SUBSIDIARY COMPANIES		
Shares at cost less amounts written off	13	13

	Nature of business	Issued capital Rand	Effective holding %	Investment in subsidiaries Rand
30 June 2006				
Direct Axis (Pty) Limited	Financial services	13 333	51	11 000 000
RMB Corporate Finance (Pty) Limited	Investment	1 000	100	1 282 762
Other				892 238
				13 175 000
30 June 2005				
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				892 238
				13 175 000

R million	2006	2005
17. HOLDING AND FELLOW SUBSIDIARY COMPANIES		
Amounts due to holding company	(816)	(200)
Amounts due to fellow subsidiary companies	(16 978)	(17 543)
Amounts due to holding and fellow subsidiary companies	(17 794)	(17 743)
Amounts due by holding company	659	760
Amounts due by fellow subsidiary companies	23 978	17 978
Amounts due by holding and fellow subsidiary companies	24 637	18 738
Net amounts due by holding and fellow subsidiary companies	6 843	995

These loans have no fixed terms of repayment and carry varying rates of interest. Loans to fellow subsidiary companies amounting to R11 million are subject to subordination agreements until such time that their assets, fairly valued, exceed their liabilities.

	2006			2005		
R million	Cost	Accumulated depreciation and impairments	Net book value	Cost	Accumulated depreciation and impairments	Net book value
18. PROPERTY AND EQUIPMENT						
Property						
Freehold land and buildings	936	(57)	879	991	(19)	972
Leasehold premises	748	(400)	348	534	(287)	247
	1 684	(457)	1 227	1 525	(306)	1 219
Equipment						
Computer equipment	2 552	(1 596)	956	2 176	(1 351)	825
Furniture and fittings	840	(467)	373	718	(386)	332
Motor vehicles	84	(37)	47	70	(34)	36
Office equipment	339	(169)	170	279	(119)	160
	3 815	(2 269)	1 546	3 243	(1 890)	1 353
Total	5 499	(2 726)	2 773	4 768	(2 196)	2 572

R million	Freehold land and buildings	Leasehold premises	Computer equipment	Furniture and fittings	Motor vehicles	Office equipment
18. PROPERTY AND EQUIPMENT *continued*						
Movement in property and equipment – net book value						
Net book value at 30 June 2004	322	197	703	349	32	123
IFRS adjustment	475	–	–	–	–	–
Cost	108	–	–	–	–	–
Accumulated depreciation	367	–	–	–	–	–
Restated net book value at 30 June 2004	797	197	703	349	32	123
Additions	247	132	437	55	17	91
Depreciation charge for period	(39)	(74)	(292)	(71)	(12)	(35)
IFRS adjustment	2	–	–	–	–	–
Post IFRS depreciation charge for period	(37)	(74)	(292)	(71)	(12)	(35)
Impairments	–	–	(19)	–	–	–
Disposals	(35)	(8)	(4)	(1)	(1)	(19)
Net book value at 30 June 2005	972	247	825	332	36	160
Additions	**23**	**221**	**513**	**138**	**26**	**68**
Depreciation charge for period	**(31)**	**(111)**	**(379)**	**(83)**	**(13)**	**(52)**
Impairments recognised	**–**	**(7)**	**(7)**	**(7)**	**–**	**(6)**
Impairments reversed	**–**	**–**	**12**	**–**	**–**	
Disposals	**(86)**	**(1)**	**(6)**	**(8)**	**(3)**	**(1)**
Other	**1**	**(1)**	**(2)**	**1**	**1**	**1**
Net book value at 30 June 2006	**879**	**348**	**956**	**373**	**47**	**170**

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

R million	**2006**	2005
19. PENSION AND POST-RETIREMENT BENEFITS		
19.1 Post-retirement pension		
Pension liability		
Present value of funded liability	**15 437**	12 316
IFRS transfer	**–**	174
Fair value of plan assets	**(15 263)**	(12 316)
Pension fund deficit	**174**	174
Unrecognised pension fund surplus		
Unrecognised actuarial gains/(losses)	**11**	–
Limitation imposed by IAS 19	**(11)**	–
Retirement benefit liability	**174**	174
The amounts recognised in the income statement are as follows:		
Current service cost	**312**	283
Interest cost	**994**	956
Expected return on plan assets	**(1 011)**	(952)
Net actuarial loss recognised in the year	**–**	(4)
Total included in staff costs	**295**	283

R million	2006	2005
19. PENSION AND POST-RETIREMENT BENEFITS *continued*		
19.1 Post-retirement pension *continued*		
Movement in retirement benefit liability		
Present value at the beginning of the year	174	–
Amounts recognised in the income statement as above	295	283
Contributions paid	(306)	(283)
Limitation imposed by IAS 19	11	
IFRS transfer	–	174
Present value at the end of the year	174	174
The principal actuarial assumptions used for accounting purposes were:		
Discount rate (%)	8.8	8.0
Expected return on plan assets (%)	8.3	8.0
Salary inflation (%)	7.3	5.0
Net interest rate used to value pensions, allowing for pension increases (%)	2.8	5.0
The pension liability includes both defined benefit and defined contribution schemes.		
The Bank has incurred a liability to subsidise the post-retirement medical expenditure of certain of its employees. At 30 June 2006, the actuarially determined liability of the Bank was R1 453 million (2005: R1 243 million).		
In terms of the actuarial report the funded status is 100% and the fund is in a sound financial condition.		
19.2 Post-retirement medical liability		
Present value of unfunded liability	1 593	1 268
IFRS transfer	–	78
Unrecognised actuarial losses	(140)	(103)
Post-retirement medical liability	1 453	1 243
The amounts recognised in the income statement are as follows:		
Current service cost	33	28
Interest cost	102	107
Past service cost	–	61
Actuarial loss recognised	128	–
Total included in staff costs	263	196
Movement in post-retirement medical liability		
Present value at the beginning of the year	1 243	1 020
Amounts recognised in the income statement as above	263	196
Contributions paid	(53)	(51)
IFRS transfer	–	78
Present value at the end of the year	1 453	1 243
The principal actuarial assumptions used for accounting purposes were:		
Discount rate (%)	8.8	8.0
Long-term increase in medical subsidies (%)	7.5	6.0
19.3 Post-retirement benefit fund liability		
Post-retirement pension liability	174	174
Post-retirement medical liability	1 453	1 243
Total post-retirement benefit liability	1 627	1 417
19.4 Pension and post-retirement benefits		
Leave pay insurance policy	569	650
Post-retirement medical assets	1 898	1 578
Total post-retirement benefit assets	2 467	2 228
Number of employees covered	34 009	32 000

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.

R million		2006	2005
20. INTANGIBLE ASSETS			
Software – cost			
Gross amount		97	82
Less: Amortisation		(71)	(52)
		26	30
Movement in software – book value			
Opening balance		30	24
Additions		15	20
Amortisation		(19)	(14)
		26	30
Development costs			
Gross amount		21	8
Less: Amortisation		(4)	(2)
		17	6
Movement in development costs – book value			
Opening balance		6	2
Additions		13	5
Amortisation		(2)	(1)
		17	6
Total intangible assets			
Software		26	30
Development costs		17	6
		43	36

		2006	
	At amortised cost	**Fair value**	**Total**
21. DEPOSITS			
Deposit and current accounts			
From banks and financial institutions	3 021	6 297	9 318
– In the normal course of business	3 021	2 745	5 766
– Under repurchase agreements	–	3 552	3 552
From customers	147 138	44 714	191 852
– Current accounts	102 751	468	103 219
– Savings accounts	1 841	–	1 841
– Term deposits	42 546	44 246	86 792
Other deposits	7 130	61 562	68 692
– Negotiable certificates of deposit	30	28 797	28 827
– Other deposits	7 100	32 765	39 865
	157 289	112 573	269 862

	2005 At amortised cost	2005 Fair value	2005 Total
21. DEPOSITS			
Deposit and current accounts			
From banks and financial institutions	–	18 784	18 784
– In the normal course of business	–	5 896	5 896
– Under repurchase agreements	–	12 888	12 888
From customers	101 538	34 887	136 425
– Current accounts	43 207	2 562	45 769
– Savings accounts	1 776	–	1 776
– Term deposits	56 555	32 325	88 880
Other deposits	2 094	52 425	54 519
– Negotiable certificates of deposit	–	30 891	30 891
– Other deposits	2 094	21 534	23 628
	103 632	106 096	209 728

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

R million	**2006**	2005
22. SHORT TRADING POSITIONS		
Government and government guaranteed	**10 437**	5 510
Other dated securities	**3 524**	2 843
Undated securities	**6 627**	5 684
	20 588	14 037
Analysed as follows:		
Listed	**16 922**	11 211
Unlisted	**3 666**	2 826
	20 588	14 037

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

R million	**2006**	2005
23. CREDITORS AND ACCRUALS		
Accrued interest	**104**	43
Short-term portion of long-term liabilities (note 25)	**30**	–
Other creditors	**3 686**	2 897
	3 820	2 940

All amounts are expected to be settled within twelve months.

R million	2006	2005
24. PROVISIONS		
Leave pay		
– Opening balance	622	610
– Additions	(1)	–
– Charged to the income statement	61	121
– Utilised	(43)	(109)
Closing balance	639	622
Audit fees		
– Opening balance	13	18
– Charged to the income statement	44	32
– Utilised	(44)	(37)
Closing balance	13	13
Other		
– Opening balance	997	641
– IFRS adjustment	26	–
Restated opening balance	1 023	641
Additions	1	–
Charged to the income statement	1 394	818
Utilised	(877)	(462)
Closing balance	1 541	997
Total provisions	2 193	1 632
25. LONG-TERM LIABILITIES		
Preference shares		
Authorised		
500 000 000 (2005: 500 000 000) cumulative redeemable shares with a par value of R0,0001	–	–
Issued		
1 500 (2005:nil) cumulative redeemable shares with a par value of R0,0001 and a premium of R99 999,9999 per share[a]	537	–
	537	–
a These preference shares are redeemable over the next 5 years at the full subscription price. Dividends are paid at variable rates of between 56.0% and 62.5% of the prime interest rate. All issued share capital is fully paid up.		
Subordinated convertible loans	2 349	2 349
Fixed rate bonds[b]	700	700
Floating rate bonds[c]	3 840	300
Less: Portion repayable within 12 months transferred to current liabilities (note 23)	(30)	–
	7 396	3 349

b The fixed rate bonds mature 31 August 2010 and bear interest at 1.2% above the R153 bond rate.

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

R million	2006	2005
26. ORDINARY SHARES AND PREFERENCE SHARES		
Authorised		
2 000 000 ordinary shares of R2 each	4	4
5 000 000 000 redeemable preference shares with a par value of R0,0001 per share[a]	–	–
100 000 000 non-cumulative non-redeemable preference shares with a par value of R0,01 per share	1	–

a These preference shares are redeemable at the company's discretion, at the full subscription price plus any premium determined on redemption. Dividends are paid at a variable rate based on prime.

R million	2006	2005
Issued		
1 758 843 (2005: 1 758 842) ordinary shares with a par value of R2 each	4	4
11 348 (2005: 6 558) redeemable preference shares with a par value of R0,001 per share	–	–
3 000 000 non-cumulative non-redeemable preference shares with a par value of R0,001 per share to Holding Company	–	–
	4	4
All issued share capital is fully paid up.		
Share premium		
1 758 843 (2005: 1 758 842) ordinary shares with a par value of R2 each	3 372	2 612
3 000 000 non-cumulative non-redeemable preference shares with a par value of 1 cent per share to Holding Company	3 000	3 000
	6 372	5 612

	Number of ordinary shares	Number of non-cumulative non-redeemable preference shares	Number of redeemable preference shares
Reconciliation of shares issued			
Shares at 1 July 2004	1 758 305	–	6 278
Issued during the year	537	3 000 000	280
Shares at 30 June 2005	1 758 842	3 000 000	6 558
Issued during the year	1	–	4 790
Shares at 30 June 2006	**1 758 843**	**3 000 000**	**11 348**

R million	2006	2005
27. NON-DISTRIBUTABLE RESERVES		
Cash flow hedging reserve	118	292
Revaluation reserve – available-for-sale instruments	97	183
Capital redemption reserve fund	1 345	1 343
General risk reserve (impaired capital reserve)	717	761
Share-based payment reserve	275	133
	2 552	2 712

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

R million	**2006**	2005
28. CONTINGENCIES AND COMMITMENTS		
Contingencies		
Guarantees*	**12 725**	12 828
Acceptances	**6**	5
Letters of credit	**22 366**	12 021
Irrevocable commitments – original maturity one year or less	**27 336**	14 717
	62 433	39 571

**Guarantees consist predominantly of endorsements and performance guarantees*

Legal proceedings

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

	2006	2005
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:		
Contracted for	**479**	83
Not contracted for	**618**	486

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

R million	**Next year**	**2006 2nd to 5th year**	**After 5th year**
Group commitments under operating leases			
Office premises	**343**	**828**	**120**
Equipment and motor vehicles	**35**	**15**	**–**
	378	**843**	**120**

R million	Next year	2005 2nd to 5th year	After 5th year
Office premises	241	509	113
Equipment and motor vehicles	27	32	–
	268	541	113

R million	2006	2005
29. CASH FLOW INFORMATION		
29.1 Reconciliation of net income from operations to cash flow from operating activities		
Income before taxation	6 998	4 604
Adjusted for:		
– Depreciation, amortisation and impairment costs	708	555
– Impairment of advances	1 427	572
– Revaluation of post-employment benefit assets	(29)	(243)
– Other non-cash provisions and accruals	1 596	869
– Net profit on sale of property and equipment and investments	(69)	(82)
– Revaluation (gain)/loss transferred to available-for-sale securities	(126)	15
– Foreign currency translation reserve	3	–
– Debenture interest paid	509	466
– Dividends from other investments	(322)	(222)
– Dividends from associated companies	(11)	(19)
– IFRS 2 Share-based payments	142	116
– Deferred income	(123)	–
– Deferred expenses	60	–
Cash flows from operating activities	10 763	6 631
29.2 Dividends paid		
Amounts unpaid at beginning of the year	–	–
Charged to distributable reserves	(2 445)	(2 662)
Amounts unpaid at end of the year	–	–
Total dividends paid	(2 445)	(2 662)
29.3 Taxation paid		
Amounts unpaid at beginning of the year	(104)	(914)
Taxation charge per income statement	(1 595)	(1 138)
Customer taxation adjustment	–	43
Deferred taxation included in tax charge	70	413
VAT and other tax charges	(408)	(347)
Amounts unpaid at end of the year	430	104
Total taxation paid	(1 607)	(1 839)

30. RISK MANAGEMENT

30.1 General

The Risk Report of the Bank is contained on pages 3 to 15 ("the Risk Report"). The Risk Report sets out in detail the various risks the Bank is exposed to, as well as the strategy, methodology and instruments used to mitigate these risks.

Risk control policies and exposure limits for the key risk areas of the Bank are approved by the Board, while operational policies and control procedures are approved by the relevant risk committees. Details of the Bank's risk management structure, the risk management methodologies and the various risk committees are set out in page 4 of the Risk Report.

Pages 3 to 5 of the Risk Report form part of the audited financial statements.

30. RISK MANAGEMENT *continued*

30.1 General *continued*

Strategy in using financial instruments

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

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

30.2 Strategy in using hedges

The Bank strategy for using hedges is set out in note 9 above, read with the Risk Report.

30.3 Credit risk management

Credit risk

Credit risk is the risk that a counterparty will be unable to repay amounts when they fall due. In general, the Bank manages its credit risk exposure by placing limits on the acceptable risk exposure to individual borrowers or groups of borrowers, and within geographic and industry segments. Credit risk is monitored on an ongoing basis. Further detail on credit risk management is contained on pages 6 to 10 of the of the Risk Management report.

Significant credit exposures at 30 June 2006 were:

R million	**South Africa**	**Other Africa**	**United Kingdom**	**Ireland**	**Other Europe**	**North America**	**South America**	**Austra-lasia**	**Other**	**Total**
Assets										
Gross Advances	250 387	185	6 584	718	3 317	33	16	7	2	261 249
Contingencies*	33 306	1 075	15	–	144	50	13	2	492	35 097
	283 693	1 260	6 599	718	3 461	83	29	9	494	296 346

Economic sector risk concentrations in respect of advances are set out in note 10.

Significant credit exposures at 30 June 2005 were:

R million	South Africa	Other Africa	United Kingdom	Ireland	Other Europe	North America	South America	Austra-lasia	Other	Total
Assets										
Gross Advances	194 609	178	5 772	1 025	2 408	41	24	–	6	204 063
Contingencies*	20 141	884	141	2 878	317	54	9	2	428	24 854
	214 750	1 062	5 913	3 903	2 725	95	33	2	434	228 917

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

30.4 Market risk

The Bank takes on exposure to market risk. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements. The Bank applies a "value at risk" methodology to estimate the market risk positions held and the maximum losses expected, based upon a number of assumptions for various changes in market conditions. The primary risk control mechanism used for risk control purposes are stress loss test and limits. Further details on the market risk management are set out on pages 10 and 11 of the Risk Report.

30. RISK MANAGEMENT *continued*

30.5 Currency risk management

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

The Bank manages foreign currency exposures in terms of approved limits. The currency position at 30 June 2006 is set out below:

	2006					
R million	Rand	UK£	US$	Euro	Other	Total
Assets						
Cash and short-term funds	15 877	30	4 105	56	36	20 104
Derivative financial instruments	17 362	491	13 773	2 706	123	34 455
– qualifying for hedging	253	–	–	–	–	253
– trading	17 109	491	13 773	2 706	123	34 202
Advances	248 707	30	8 435	866	8	258 046
– at amortised cost	216 659	–	41	15	–	216 715
– held-to-maturity	–	–	–	–	–	–
– available-for-sale	538	–	–	–	–	538
– fair value	31 510	30	8 394	851	8	40 793
Investment securities and other investments	33 482	–	–	–	20	33 502
Financial instruments held for trading	13 808	–	–	–	20	13 828
Investment securities	19 674	–	–	–	–	19 674
– originated	185	–	–	–	–	185
– held-to-maturity	–	–	–	–	–	–
– available-for-sale	12 119	–	–	–	–	12 119
– elected fair value	7 370	–	–	–	–	7 370
Commodities	627	–	–	–	–	627
Loans to Insurance group	632	4	–	–	–	636
Accounts receivable	1 673	–	–	–	–	1 673
Investment in associate and joint venture companies	724	–	–	–	–	724
Interest in subsidiary companies	13	–	–	–	–	13
Holding and fellow subsidiary companies	23 044	742	536		315	24 637
Property and equipment	2 773	–	–	–	–	2 773
Retirement benefit asset	2 467	–	–	–		2 467
Intangible assets	43	–	–	–	–	43
	347 424	1 297	26 849	3 628	502	379 700
Liabilities						
Deposits	256 832	248	11 460	1 252	70	269 862
– deposits and current accounts	256 832	248	11 460	1 252	70	269 862
Short trading positions	20 588	–	–	–	–	20 588
Derivative financial instruments	14 797	458	14 216	1 617	182	31 270
– qualifying for hedging	51	–	–	–	–	51
– trading	14 746	458	14 216	1 617	182	31 219
Loans from insurance group	3 383	26	30	11	–	3 450
Creditors and accruals	3 814	–	6	–	–	3 820
Provisions	2 193	–	–	–	–	2 193
Taxation liability	430	–	–	–	–	430
Post-retirement benefit funds liability	1 627	–	–	–	–	1 627
Deferred taxation liabilities	1 804	–	–	–	–	1 804
Holding and fellow subsidiary companies	17 532	–	252		10	17 794
Long-term liabilities	7 396	–	–	–	–	7 396
Shareholders' equity	19 466	–	–	–	–	19 466
	349 862	732	25 964	2 880	262	379 700

30. RISK MANAGEMENT *continued*

30.5 Currency risk management *continued*

R million	Rand	UK£	US$	Euro	Other	Total
			2005			
Assets						
Cash and short-term funds	9 317	114	4 527	46	53	14 057
Derivative financial instruments	10 466	390	6 162	3 338	144	20 500
– qualifying for hedging	574					574
– trading	9 892	390	6 162	3 338	144	19 926
Advances	193 790	520	6 290	1 072	28	201 700
– originated	163 451	157	18	–	–	163 626
– held-to-maturity	5 916	–	–	–	–	5 916
– available-for-sale	1 648	–	–	–	–	1 648
– fair value advances	22 775	363	6 272	1 072	28	30 510
Investment securities and other investments	26 544	–	–	5	–	26 549
Financial securities held for trading	12 264	–	–	–	–	12 264
Investment securities	14 280	–	–	5	–	14 285
– held-to-maturity	10	–	–	–	–	10
– available-for-sale	10 060	–	–	5	–	10 065
– at elected fair value	4 210	–	–	–	–	4 210
Commodities	395	–	–	–	–	395
Loans to Insurance Group	3 655	3	–	–	–	3 658
Property and equipment	2 572	–	–	–	–	2 572
Accounts receivable	1 241	–	–	–	–	1 241
Investment in associate companies	724	–	–	–	–	724
Interest in subsidiary companies	13	–	–	–	–	13
Holding and fellow subsidiary companies	16 011	343	2 380		4	18 738
Retirement benefit asset	2 228	–	–	–	–	2 228
Intangible assets	36					36
	266 992	1 370	19 359	4 461	229	292 411
Liabilities						
Deposits	205 608	670	2 461	920	69	209 728
– deposit and current accounts	205 608	670	2 461	920	69	209 728
Negotiable deposits						
Short trading positions	14 037	–	–	–	–	14 037
Derivative financial instruments	8 618	249	3 631	2 303	263	15 064
– qualifying for hedging	95	–	–	–	–	95
– trading	8 523	249	3 631	2 303	263	14 969
Loans from insurance group	7 896	19	40	1	–	7 956
Creditors and accruals	2 938	–	2	–	–	2 940
Provisions	1 632	–	–	–	–	1 632
Taxation	104	–	–	–	–	104
Post-retirement benefit fund liability	1 417	–	–	–	–	1 417
Deferred taxation liabilities	1 909	–	–	–	–	1 909
Holding and fellow subsidiary companies	17 730	–	1	1	11	17 743
Long-term liabilities	3 349	–	–	–	–	3 349
Shareholders' equity	16 532	–	–	–	–	16 532
	281 770	938	6 135	3 225	343	292 411

30. RISK MANAGEMENT *continued*

30.6 Interest rate risk management

Interest sensitivity of assets, liabilities and off-balance sheet items – repricing analysis

The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The Board of Directors sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily.

The table below summarises the Bank's exposure to interest rate risks. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by the earlier of repricing or maturity dates.

Further details on the interest rate risk management are set out on pages 12 and 13 in the Risk Report.

The table below summarises the Bank's exposure to interest rate risk, categorised by contractual repricing date.

		2006					
		Interest earning/bearing					
			Term to repricing				
R million	Carrying amount 2006	Demand	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Non-interest earning/bearing
Assets							
Cash and short-term funds	20 104	17 671	400	–	–	–	2 033
Derivative financial instruments	34 455	296	12 009	8 217	2 313	3 469	8 151
– qualifying for hedging	253	–	221	21	11	–	–
– trading	34 202	296	11 788	8 196	2 302	3 469	8 151
Advances	258 046	94 458	27 607	25 306	52 597	58 061	17
– at amortised cost	216 715	91 397	8 143	21 889	40 347	54 922	17
– held-to-maturity	–	–	–	–	–	–	–
– available-for-sale	538	538	–	–	–	–	–
– fair value	40 793	2 523	19 464	3 417	12 250	3 139	–
Investment securities and other investments	33 502	3 337	3 910	5 410	11 634	7 620	1 591
Financial instruments held for trading	13 828	3 076	2 246	1 379	3 687	1 900	1 540
Investment securities	19 674	261	1 664	4 031	7 947	5 720	51
– originated	185	185	–	–	–	–	–
– held-to-maturity	–	–	–	–	–	–	–
– available-for-sale	12 119	44	12	3 707	5 215	3 090	51
– elected fair value	7 370	32	1 652	324	2 732	2 630	–
Commodities	627	–	–	–	–	–	627
Loans to Insurance Group	636	1	3	2	–	–	630
Accounts receivable	1 673	537	8	–	–	–	1 128
Investment in associate and joint venture companies	724	–	–	–	–	244	480
Investment in subsidiary companies	13	–	–	–	–	–	13
Holding and fellow subsidiary companies	24 637	20 607	889	10	731	230	2 170
Property and equipment	2 773	–	–	–	–	–	2 773
Retirement benefit asset	2 467	–	–	–	–	2 467	–
Intangible assets	43	–	–	–	–	–	43
	379 700	136 907	44 826	38 945	67 275	72 091	19 656

30. RISK MANAGEMENT *continued*

30.6 Interest rate risk management *continued*

R million	Carrying amount 2006	2006 Interest earning/bearing Term to repricing Demand	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Non-interest earning/bearing
Liabilities							
Deposits	269 862	150 421	60 852	41 816	15 976	797	–
– deposit and current accounts	269 862	150 421	60 852	41 816	15 976	797	–
Short trading positions	20 588	226	1 172	5 127	11 530	2 218	315
Derivative financial instruments	31 270	297	12 865	8 949	647	235	8 277
– qualifying for hedging	51	–	28	7	15	–	1
– trading	31 219	297	12 837	8 942	632	235	8 276
Loans from Insurance Group	3 450	464	1 368	1 581	24	–	13
Creditors and accruals	3 820	343	72	–	–	–	3 405
Provisions	2 193	–	–	–	–	–	2 193
Taxation liability	430	–	430	–	–	–	–
Post-retirement benefit fund liability	1 627	127	–	–	–	1 500	–
Deferred taxation liabilities	1 804	–	–	–	–	–	1 804
Holding and fellow subsidiary companies	17 794	8 513	518	153	1 206	7 124	280
Long-term liabilities	7 396	507	–	–	6 889	–	–
Shareholders' equity	19 466	–	–	–	–	–	19 466
	379 700	160 898	77 277	57 626	36 272	11 874	35 753
Net interest sensitivity gap		(23 991)	(32 451)	(18 681)	31 003	60 217	(16 097)

		2005					
		Interest earning/bearing					
			Term to repricing				
R million	Carrying amount 2005	Demand	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Non-interest earning/bearing
30. RISK MANAGEMENT *continued*							
30.6 Interest rate risk management *continued*							
Assets							
Cash and short-term funds	14 057	9 142	126	1	–	–	4 788
Derivative financial instruments	20 500	–	702	5 921	6 568	5 898	1 411
– qualifying for hedging	574	–	11	149	414	–	
– trading	19 926	–	691	5 772	6 154	5 898	1 411
Advances	201 700	104 461	29 673	14 507	40 911	12 138	10
– originated	163 626	88 930	22 631	12 477	31 283	8 295	10
– held-to-maturity	5 916	–	1 139	2 030	2 188	559	–
– available-for-sale	1 648	365	–	–	–	1 283	–
– fair value	30 510	15 166	5 903	–	7 440	2 001	–
Investment securities and other investments	26 549	12 274	–	4 914	1 926	6 616	819
Financial securities held for trading	12 264	12 264	–	–	–	–	–
Investment securities and other investments	14 285	10	–	4 914	1 926	6 616	819
– held-to-maturity	10	10	–	–	–	–	–
– available-for-sale	10 065	–	–	3 565	24	6 226	250
– at elected fair value	4 210	–	–	1 349	1 902	390	569
Commodities	395	–	–	–	–	–	395
Loans to Insurance Group	3 658	2 245	348	1 038	1	24	2
Accounts receivable	1 241	19	–	206	–	–	1 016
Investment in associated companies	724	–	–	–	–	–	724
Interest in subsidiary companies	13	–	–	–	–	–	13
Holding and fellow subsidiary companies	18 738	14 495	425	674	2 827	24	293
Property and equipment	2 572	–	–	–	–	–	2 572
Retirement benefit asset	2 228	–	–	–	–	2 228	–
Intangible assets	36	–	–	–	–	–	36
	292 411	142 636	31 274	27 261	52 233	26 928	12 079

R million	Carrying amount 2005	2005 Interest earning/bearing Demand	Term to repricing 1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Non-interest earning/bearing

30. RISK MANAGEMENT
continued

30.6 Interest rate risk management *continued*

R million	Carrying amount 2005	Demand	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Non-interest earning/bearing
Liabilities							
Deposits	209 728	124 281	66 881	12 504	4 816	570	676
– deposit and current accounts	209 728	124 281	66 881	12 504	4 816	570	676
Short trading positions	14 037	5	370	502	1 389	6 087	5 684
Derivative financial instruments	15 064	4	2 046	5 674	4 202	2 795	343
– qualifying for hedging	95	–	3	51	40	–	1
– trading	14 969	4	2 043	5 623	4 162	2 795	342
Loans from Insurance Group	7 956	3 004	–	2 454	2 072	425	1
Creditors and accruals	2 940	147	87	–	–	–	2 706
Provisions	1 632	–	–	–	–	–	1 632
Taxation	104	–	–	–	–	–	104
Post-retirement benefit funds liability	1 417	–	–	–	–	1 417	–
Deferred taxation liabilities	1 909	–	–	–	–	–	1 909
Holding and fellow subsidiary companies	17 743	13 686	–	–	–	–	4 057
Long-term liabilities	3 349	–	–	–	3 349	–	–
Shareholders' equity	16 532	–	–	–	–	–	16 532
	292 411	141 127	69 384	21 134	15 828	11 294	33 644
Net interest sensitivity gap		1 509	(38 110)	6 127	36 405	15 634	(21 565)

30.7 Liquidity risk management

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

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

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

Details on the liquidity risk management process is set out on page 12 in the Risk Report.

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

R million	Carrying amount 2006	2006 Demand	Term to maturity 1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years
30. RISK MANAGEMENT *continued*						
30.7 Liquidity risk management *continued*						
Assets						
Cash and short-term funds	20 104	19 705	399	–	–	–
Derivative financial instruments	34 455	307	8 440	11 237	8 898	5 573
– qualifying for hedging	253	2	11	37	203	–
– trading	34 202	305	8 429	11 200	8 695	5 573
Advances	258 046	25 189	37 508	38 543	98 582	58 224
– at amortised cost	216 715	22 665	17 996	35 000	85 993	55 061
– available-for-sale	538	1	48	126	339	24
– fair value	40 793	2 523	19 464	3 417	12 250	3 139
Investment securities and other investments	33 502	4 925	3 910	5 390	11 657	7 620
Financial instruments held for trading	13 828	4 594	2 246	1 379	3 709	1 900
Investment securities	19 674	331	1 664	4 011	7 948	5 720
– originated	185	185	–	–	–	–
– available-for-sale	12 119	299	12	3 687	5 031	3 090
– elected fair value	7 370	(153)	1 652	324	2 917	2 630
Commodities	627	627	–	–	–	–
Loans to Insurance Group	636	626	3	7	–	–
Accounts receivable	1 673	1 286	244	83	58	2
Investment in associate and joint venture companies	724	172	–	–	10	542
Investment in subsidiary companies	13	–	–	–	–	13
Holding and fellow subsidiary companies	24 637	20 848	1 047	14	2 085	643
Property and equipment	2 773	199	6	15	438	2 115
Retirement benefit asset	2 467	–	–	–	–	2 467
Intangible assets	43	–	4	10	20	9
	379 700	73 884	51 561	55 299	121 748	77 208
Liabilities						
Deposits	269 862	147 435	62 530	43 048	16 022	827
– deposit and current accounts	269 862	147 435	62 530	43 048	16 022	827
Short trading positions	20 588	541	2 881	3 018	11 944	2 204
Derivative financial instruments	31 270	314	9 303	11 539	7 956	2 158
– qualifying for hedging	51	–	1	15	34	1
– trading	31 219	314	9 302	11 524	7 922	2 157
Loans from Insurance Group	3 450	477	1 368	1 581	24	–
Creditors and accruals	3 820	1 816	1 599	31	36	338
Provisions	2 193	400	1 042	579	167	5
Taxation liability	430	–	–	430	–	–
Post-retirement benefit fund liability	1 627	127	–	–	–	1 500
Deferred taxation liabilities	1 804	–	–	–	1 830	(26)
Holding and fellow subsidiary companies	17 794	7 785	630	154	5 087	4 138
Long-term liabilities	7 396	491	–	–	6 905	–
Shareholders' equity	19 466	3 994	172	–	512	14 788
	379 700	163 380	79 525	60 380	50 483	25 932
Net liquidity gap		(89 496)	(27 964)	(5 081)	71 265	51 276

R million	Carrying amount 2006	Demand	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years
	2005					
			Term to maturity			
30. RISK MANAGEMENT *continued*						
30.7 Liquidity risk management *continued*						
Assets						
Cash and short-term funds	14 057	11 307	126	–	–	2 624
Derivative financial instruments	20 500	3	702	5 871	7 969	5 955
– qualifying for hedging	574	–	11	149	414	
– trading	19 926	3	691	5 722	7 555	5 955
Advances	201 700	34 435	23 803	42 045	77 069	24 348
– originated	163 626	19 269	22 631	34 034	65 899	21 793
– held-to-maturity	5 916	–	1 139	2 010	2 223	544
– available-for-sale	1 648	–	33	98	1 507	10
– fair value advances	30 510	15 166	–	5 903	7 440	2 001
Investment securities and other investments	26 549	12 269	–	5 101	8 369	810
Financial securities held for trading	12 264	12 245	–	19	–	–
Investment securities	14 825	24	–	5 082	8 369	810
– held-to-maturity	10	10	–	–	–	–
– available-for-sale	10 065	14	–	3 584	6 467	–
– at elected fair value	4 210	–	–	1 498	1 902	810
Commodities	395	–	395	–	–	–
Loans to insurance Group	3 658	2 245	348	1 040	1	24
Accounts receivable	1 241	485	400	304	50	2
Investment in associated companies	724	20	–	–	10	694
Interest in subsidiary companies	13	–	–	–	–	13
Holding and fellow subsidiary companies	18 738	15 307	425	751	2 221	34
Property and equipment	2 572	526	9	25	565	1 447
Retirement benefit asset	2 228	–	–	–	–	2 228
Intangible assets	36	–	4	11	14	7
	292 411	76 597	26 212	55 148	96 268	38 186
Liabilities						
Deposits	209 728	102 955	66 881	33 764	5 491	637
– deposit and current accounts	209 728	102 955	66 881	33 764	5 491	637
Short trading positions	14 037	5 685	370	506	1 389	6 087
Derivative financial instruments	15 064	–	2 046	5 924	4 300	2 794
– qualifying for hedging	95	–	3	52	40	–
– trading	14 969	–	2 043	5 872	4 260	2 794
Loans from Insurance Group	7 956	122	4 082	1 255	2 072	425
Creditors and accruals	2 940	850	1 237	853	–	–
Provisions	1 632	574	719	339	–	–
Taxation	104	–	–	104	–	–
Post-retirement benefit funds liability	1 417	–	–	–	–	1 417
Deferred taxation liabilities	1 909	–	–	1 316	593	–
Holding and fellow subsidiary companies	17 743	17 743	–	–	–	–
Long-term liabilities	3 349	–	–	–	3 349	–
Shareholders' equity	16 532	–	–	–	–	16 532
	292 411	127 929	75 335	44 061	17 194	27 892
Net liquidity gap		(51 332)	(49 123)	11 087	79 074	10 294

30. RISK MANAGEMENT *continued*

30.8 Fair value of financial instruments

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

R million	Carrying amount 2006	Fair value 2006	Unrecognised gain/(loss) 2006
Assets			
Advances	216 715	216 715	–
Liabilities			
Deposit and current accounts	269 862	269 862	–
Long-term liabilities	7 396	7 396	–
	277 258	277 258	–

Fair value has been determined as follows:

- advances – based on the discounted value of estimated future cash flows, determined based on current market rates;
- held-to-maturity investment securities – market/dealer quotations, if available, or fair value estimations based on market prices for similar instruments with similar credit risks;
- deposits and current accounts – where there is no stated maturity, the amount repayable on demand – in respect of interest bearing liabilities with a fixed maturity, based on discounted cash flow value using market rates on new liabilities with a similar maturity; and
- long-term liabilities – quoted market prices, if available, or based on the discounted cash flow values using market rates for similar instruments with a comparable term to maturity.

31. TRUST ACTIVITIES

The market value of assets held or placed on behalf of customers in a fiduciary capacity amounts to R12 972 million (2005: R10 413 million).

32. SEGMENT INFORMATION

32.1 Primary segments (business)

Divisions	Segment	Brands	Target segment	Description
FNB	Consumer	First National Bank FNB Card, FNB HomeLoans, FirstLink	Individual is 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 Bank (Corporate and Retail Banking)
	Corporate	First National Bank	Large corporates, financial institution and state-owned enterprises	Corporate banking
	FNB Other (Mass, Public Sector Banking, Branch Bank and support)	First National Bank BOB	Government, Individuals in the mass market, universities and schools and includes the Bank infrastructure	Retail banking infrastructure Support services
FNB Africa	FNB Lesotho	First National Bank	Individual is the middle and upper income market, Mid corporate, business and agriculture	Retail banking, Commercial Bank, (Corporate and Retail Banking)
RMB	Investment banking	Rand Merchant Bank RMB Private Equity RMB International RMB Resources RMB Australia	Large corporates, parastatals and government	Merchant and investment banking services
WesBank	Instalment finance	WesBank	Corporates and individuals	Motor vehicle and instalment finance
Group Support	Capital centre			Owns the capital of the Bank and provides Bank support

	FNB				
	Consumer Segment				
R million	HomeLoans	Card Issuing	Personal Banking	Consumer Segment	Corporate
32. SEGMENT INFORMATION *continued*					
32.1 Primary segments business *continued*					
Segment Information					
2006					
Net interest income before impairment of advances	1 298	699	1 306	3 303	315
Impairment losses on loans and advances	(170)	(311)	(76)	(557)	(12)
Net interest income after impairment of advances	1 128	388	1 230	2 746	303
Non-interest income	92	982	1 337	2 411	790
Net income from operations	1 220	1 370	2 567	5 157	1 093
Operating expenditure	(707)	(985)	(1 812)	(3 504)	(836)
Income before taxation	513	385	755	1 653	257
Indirect taxation	(71)	(18)	(78)	(167)	(9)
Income before direct taxation	442	367	677	1 486	248
Direct taxation	(107)	(102)	(151)	(360)	(60)
Profit attributable to ordinary shareholders	335	265	526	1 126	188
Cost to Income (%)	50.9	58.6	68.6	61.3	75.7
Diversity ratio (%)	6.6	58.4	50.6	42.2	71.5
Bad debt charge as a percentage of advances (%)	0.2	3.4	2.8	0.6	0.5
NPL's as a percentage of advances (%)	0.8	5.5	5.0	1.4	17.9
Income statement includes					
Depreciation	(18)	(5)	(121)	(144)	(46)
Amortisation	–	–	–	–	–
Impairment charges	–	–	–	–	8
Balance sheet includes					
Advances (after ISP – before impairments)	79 537	9 192	2 727	91 456	2 319
Non-performing loans	655	504	136	1 295	415
Investment in associate and joint venture companies	–	–	–	–	–
Total deposits	12	1 221	43 853	45 086	22 321
Segment assets (Total)	79 304	8 736	3 026	91 066	2 692
Segment liabilities (external)	724	1 659	44 631	47 014	23 491
Capital expenditure	21	8	119	148	133

Taxation has been allocated on a pro-rata basis.

Wealth	Commercial	Other FNB	Total FNB	RMB	WesBank	Africa and Emerging Markets	Group Support	Total
349	2 088	402	6 457	–	2 860	3	219	**9 539**
(20)	(37)	(100)	(726)	–	(631)	–	(70)	**(1 427)**
329	2 051	302	5 731	–	2 229	3	149	**8 112**
137	1 850	1 937	7 125	2 443	336	35	2 503	**12 442**
466	3 901	2 239	12 856	2 443	2 565	38	2 652	**20 554**
(390)	(2 433)	(1 767)	(8 930)	(1 481)	(1 567)	(56)	(1 522)	**(13 556)**
76	1 468	472	3 926	962	998	(18)	1 130	**6 998**
(14)	(20)	(124)	(334)	(33)	(90)	–	49	**(408)**
62	1 448	348	3 592	929	908	(18)	1 179	**6 590**
(15)	(350)	(84)	(869)	(225)	(220)	4	(285)	**(1 595)**
47	1 098	264	2 723	704	688	(14)	894	**4 995**
80.2	61.8	75.5	65.7	60.6	49.0	147.4	55.9	**61.7**
28.2	47.0	82.8	52.5	100.0	10.5	32.1	92.0	**56.6**
0.1	0.2	8.7	0.6	0.0	0.8	–	0.7	**0.6**
1.2	2.5	13.8	1.9	0.1	1.3	–	0.0	**1.4**
(9)	(32)	(314)	(545)	(40)	(68)	(1)	(15)	**(669)**
(2)	–	–	(2)	(19)	–	–	–	**(21)**
–	(4)	(19)	(15)	–	–	–	(3)	**(18)**
15 978	16 357	1 156	127 266	42 861	77 151	19	10 749	**258 046**
188	415	159	2 472	37	1 033	–	1	**3 543**
–	–	10	10	562	150	–	2	**724**
3 275	47 075	6 420	124 177	30 016	61	91	115 517	**269 862**
16 039	16 301	4 773	130 871	113 695	77 560	60	57 514	**379 700**
15 701	48 757	8 057	143 020	113 695	46 067	54	57 398	**360 234**
25	4	536	846	40	83	3	17	**989**

	FNB				
	Consumer Segment				
R million	HomeLoans	Card Issuing	Personal Banking	Consumer Segment	Corporate
32. SEGMENT INFORMATION *continued*					
32.1 Primary segments business *continued*					
Segment Information					
2005					
Net interest income before impairment of advances	1 055	508	1 090	2 653	319
Impairment losses on loans and advances	(17)	(156)	(27)	(200)	2
Net interest income after impairment of advances	1 038	352	1 063	2 453	321
Non–interest income	149	742	1 028	1 919	964
Net income from operations	1 187	1 094	2 091	4 372	1 285
Operating expenditure	(980)	(807)	(1 342)	(3 129)	(872)
Income before taxation	207	287	749	1 243	413
Indirect taxation	(50)	(15)	(69)	(134)	(8)
Income before direct taxation	157	272	680	1 109	405
Direct taxation	(38)	(69)	(161)	(268)	(98)
Profit attributable to ordinary shareholders	119	203	519	841	307
Cost to Income (%)	81.4	64.6	63.4	68.4	68.0
Diversity ratio (%)	12.4	59.4	48.5	42.0	75.1
Bad debt charge as a percentage of advances (%)	0.0	2.3	1.4	0.3	(0.1)
NPL's as a percentage of advances (%)	0.7	3.9	3.1	1.1	17.6
Income statement includes					
Depreciation	(9)	(4)	(97)	(110)	(40)
Amortisation	(31)	–	–	(31)	–
Impairment charges	–	–	–	–	(19)
Balance sheet includes					
Advances (after ISP – before impairments)	55 447	6 737	2 000	64 184	2 429
Non-performing loans	382	263	62	707	427
Investment in associate and joint venture companies	–	–	–	–	–
Total deposits	–	1 102	38 364	39 466	15 960
Segment assets (Total)	55 343	6 472	2 699	64 514	2 899
Segment liabilities (external)	383	1 482	39 301	41 166	16 921
Capital expenditure	38	4	161	203	46

Taxation has been allocated on a pro-rata basis.

Wealth	Commercial	Other FNB	Total FNB	RMB	WesBank	Africa and Emerging Markets	Group Support	Total
225	1 682	241	5 120	–	2 087	–	79	7 286
(9)	(50)	(21)	(278)	–	(316)	–	22	(572)
216	1 632	220	4 842	–	1 771	–	101	6 714
171	1 662	1 610	6 326	1 377	715	24	1 096	9 538
387	3 294	1 830	11 168	1 377	2 486	24	1 197	16 252
(329)	(2 160)	(1 540)	(8 030)	(1 202)	(1 401)	(28)	(987)	(11 648)
58	1 134	290	3 138	175	1 085	(4)	210	4 604
(10)	(15)	(117)	(284)	(27)	(69)	–	33	(347)
48	1 119	173	2 854	148	1 016	(4)	243	4 257
(12)	(271)	(42)	(691)	(36)	(246)	1	(166)	(1 138)
36	848	131	2 163	112	770	(3)	77	3 119
83.1	64.6	83.2	70.2	87.3	50.0	116.7	84.0	69.2
43.2	49.7	87.0	55.3	100.0	25.5	100.0	93.3	56.7
0.1	0.4	2.9	0.3	0.0	0.5	0.0	(0.2)	0.3
1.6	3.5	4.6	1.9	1.6	0.8	0.0	0.0	1.4
(7)	(6)	(242)	(405)	(47)	(55)	–	(162)	(669)
(1)	–	(1)	(33)	(14)	–	–	32	(15)
–	–	–	(19)	–	–	–	–	(19)
11 769	11 802	735	90 919	35 290	62 789	–	12 702	201 700
187	412	34	1 767	552	493	–	1	2 813
–	–	10	10	562	150	–	2	724
2 473	37 311	5 461	100 671	14 701	76	–	94 280	209 728
11 876	11 538	4 291	95 118	83 771	63 529	2	49 991	292 411
13 837	38 738	6 788	117 450	58 312	40 843	(1)	59 275	275 879
20	8	595	872	80	74	–	(47)	979

33. RELATED PARTIES

FirstRand Bank Limited defines related parties as:

- The parent company: FirstRand Bank Holdings Limited, FirstRand Limited, RMB Holdings Limited and Remgro Limited
- Associate companies and joint venture companies: Refer note 15
- Key management personnel as the FirstRand Bank Holdings Limited board of directors and the Banking Group executive committee.
- Key management personnel includes close family members of key management personnel. Close family members are those family members who may be expected to influence, or be influenced by that individual in dealings with the Banking Group. This may include the individual's spouse/domestic partner and children, domestic partner's children and dependants of individual or domestic partner.
- Enterprises which are controlled by these individuals through their majority shareholding or their role as chairman and/or CEO in those companies
- The ultimate parent of the Banking Group is FirstRand Limited, incorporated in South Africa.

33.1 Subsidiaries

Details of interest in subsidiaries are disclosed in note 16.

Transactions with fellow subsidiaries appear in the table below.

33.2 Associate companies and joint venture companies

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

33.3 Details of transactions with relevant related parties appear below:

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

**Fellow subsidiaries: Discovery Limited, Momentum Limited, FirstRand Investment Holdings Limited and subsidiaries included in note 16.*

R million	2005 Parent	2005 *Fellow subsidiaries
33. RELATED PARTIES *continued*		
Deposits		
Balance 1 July	545	–
Net movement during the year	1 456	–
Balance 30 June	2 001	–
Loans to Insurance Group		
Balance 1 July	1	32
Net movement during the year	1 553	2 072
Balance 30 June	1 554	2 104
Loans from Insurance Group		
Balance 1 July	33	3 561
Net movement during the year	3	4 359
Balance 30 June	36	7 920
Amounts due to holding and fellow subsidiaries		
Balance 1 July	344	17 036
Net movement during the year	(144)	507
Balance 30 June	200	17 543
Amounts due by holding and fellow subsidiaries		
Balance 1 July	941	19 234
Net movement during the year	(181)	(1 256)
Balance 30 June	760	17 978
Interest received	4	504
Interest paid	66	603
Non-interest income	–	520
Operating expenditure	16	439

R million	2006	2005
33. RELATED PARTIES *continued*		
33.4 Key management personnel		
Total advances		
In normal course of business (mortgages, instalment finance, credit cards and other)		
Balance 1 July	43	56
Issued during year	169	62
Repayments during year	(189)	(79)
Interest earned	2	4
Balance 30 June	25	43
Share scheme loans		
Balance 1 July	29	55
Issued during year	(27)	(26)
Balance 30 June	2	29
The FirstRand share schemes are different from other similar schemes in that the underlying shares are bought and an equivalent loan granted.		
Advances in normal course of business by product		
Mortgages		
Balance 1 July	36	54
Issued during year	129	40
Repayments during year	(163)	(62)
Interest earned	1	4
Balance 30 June	3	36
No impairment has been recognised for loans granted to key management (2005: nil). Mortgage loans are repayable monthly over 20 years.		
Other loans		
Balance 1 July	5	2
Issued during year	34	15
Repayments during year	(19)	(12)
Interest earned	1	–
Balance 30 June	21	5
Instalment finance		
Balance 1 July	2	–
Issued during year	–	2
Repayments during year	(1)	–
Balance 30 June	1	2
No impairments have been recognised in respect of instalment finance.		
Credit cards		
Balance 1 July	–	–
Total annual spend	6	5
Repayments	(6)	(5)
Balance 30 June	–	–

No impairments have recognised in respect of credit cards held by key management (2005: nil). Interest rates are in line with normal rates charge to customers.

R million	2006	2005
33. RELATED PARTIES *continued*		
Deposits		
Deposits by product		
Cheque and current accounts		
Credit balance 1 July	7	4
Net deposits and withdrawals	20	4
Net interest, service fees and bank charges	–	(1)
Balance 30 June	27	7
Savings accounts		
Balance 1 July	64	48
Interest income	4	3
Net new investments	(35)	13
Balance 30 June	33	64
Other including term deposits		
Balance 1 July	2	1
Net new (withdrawals)/investments	(2)	1
Balance 30 June	–	2
Insurance and investment		
Insurance		
Life and disability insurance		
Aggregate insured cover	3	3
Premiums received	1	1
Surrender value	1	1
Investment products		
Fund value opening balance	236	148
Deposits	225	29
Net investment return credited	63	61
Commission and other transaction fees	(2)	(2)
Fund closing balance	522	236
Other fees		
Financial consulting fees and commissions	2	1
Key management compensation		
Salaries and other short-term benefits	103	86
Share-based payments	9	7
Total compensation	112	93

A listing of the Board of Directors of the Banking Group is on page 1 of the Annual Report.

33.5 Post employment benefit plan

Details of transactions between the Banking Group and the Banking Group's post-employment benefit plan are listed below:

R million	2006	2005
Fee income	9	8
Deposits held with the Banking Group	10	–
Interest paid	43	46
Value of assets under management	1 898	1 578
Deposits held in bonds and money market	688	585

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

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

(a) Credit impairment losses on loans and advances

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

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

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

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

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

Estimates of roll-rates, loss ratios and similar risk indicators are based on analysis of internal and, where appropriate external data. Estimates of the loss emergence period are made in the context of the nature and frequency of credit assessments performed, availability and frequency of updated data regarding customer creditworthiness and similar factors.

Loss emergence periods differ from portfolio to portfolio but typically range between 1 – 12 months.

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

Non-performing loans

Retail loans are individually impaired if amounts are due and unpaid for three or more months, or if there is evidence before this that the customer is unlikely to repay its obligations in full. Wesbank's loans are impaired upon its classification status, i.e. following an event driven approach and specific assessment of the like hood 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.

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

(b) Fair value of derivatives

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

(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.

(d) Income taxes

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

(e) Financial risk management

The Bank's risk management policies are disclosed on pages 3 to 15 of the Annual Report.

	30 June 2006			30 June 2005		
	Average balance Rm	**Average rate %**	**Interest income/ expen-diture Rm**	Average balance Rm	Average rate %	Interest income/ expen-diture Rm
35. AVERAGE BALANCE SHEET AND EFFECTIVE INTEREST RATES						
Assets						
Cash and short-term funds	15 905	3.5	554	13 592	5.6	757
Derivative financial instruments	26 100	1.0	253	21 054	1.1	229
Advances	228 067	9.0	20 436	187 215	8.8	16 527
Investment securities and other investments	28 935	4.1	1 176	27 115	6.8	1 846
Commodities	705	–	–	420	–	–
Loans to Insurance Group	2 690	–	–	1 540	–	–
Accounts receivable	1 427	4.4	63	1 385	1.9	27
Investment in associate and joint venture companies	724	–	–	506	–	–
Investment in subsidiary companies	13	–	–	14	–	–
Holding and fellow subsidiary companies	21 551	4.1	877	19 788	2.6	508
Property and equipment	2 674	–	–	2 347	–	–
Deferred taxation assets	–	–	–	-	–	–
Retirement benefit asset	2 321	–	–	2 091	–	–
Intangible assets	39	–	–	29	–	–
Total assets	331 151	7.1	23 359	277 096	7.2	19 894

35. AVERAGE BALANCE SHEET AND EFFECTIVE INTEREST RATES *continued*

	30 June 2006 Average balance Rm	30 June 2006 Average rate %	30 June 2006 Interest income/ expen-diture Rm	30 June 2005 Average balance Rm	30 June 2005 Average rate %	30 June 2005 Interest income/ expen-diture Rm
Liabilities and shareholders' funds						
Liabilities						
Deposits	236 405	5.4	12 882	195 560	5.9	11 454
– deposit and current accounts	159 863	–	–	129 610	–	–
Short trading positions	16 603	–	–	14 777	–	–
Derivative financial instruments	21 401	–	9	15 699	–	–
– qualifying for hedging	81	–	–	81	–	–
– trading	21 320	–	–	15 617	–	–
Loans from Insurance Group	5 948	–	–	6 374	–	–
Creditors and accruals	3 216	–	–	2 646	–	–
Provisions	1 887	–	–	1 485	–	–
Taxation liability	154	–	–	463	–	–
Post-retirement benefit fund liability	1 501	–	–	1 334	–	–
Deferred taxation liabilities	1 874	–	–	1 540	–	–
Holding and fellow subsidiary companies	19 054	2.1	401	18 551	3.7	688
Long-term liabilities	5 221	10.1	528	3 401	13.7	466
Total liabilities	313 265	–		261 829	–	
Equity						
Ordinary shares	4	–	–	4	–	–
Share premium	6 119	–	–	4 543	–	–
Non-distributable reserves	2 508	–	–	2 683	–	–
Distributable reserves	9 255	–	–	8 037	–	–
Total outside shareholders' equity	17 886	–		15 267	–	–
Minority interest	–			–		
Total equity	17 886	–		15 267	–	–
Total equity and liabilities	331 151	4.2	13 820	277 096	4.6	12 608

36. STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

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

		Effective date
IAS 19 amendment	**Employee Benefits** The amendment introduces the option of an alternative recognition approach for actuarial gains and losses. It will impose additional recognition requirements for multi-employer plans where sufficient information is available to apply defined benefit accounting. It also adds new disclosure requirements. As the Bank does not intend to change the accounting policy adopted for recognition of actuarial gains and losses and does not participate in any multi-employer plans, adoption of this amendment will only affect the format and extent of disclosures presented. The Bank will apply this amendment from 1 July 2006.	Annual periods commencing on or after 1 January 2006.
IAS 21 amendment	**The Effects of Changes in a Foreign Operation** The amendment clarifies that a group entity that may have a monetary item receivable from or payable to a foreign operation, which is classified in substance as part of the net investment in a foreign operation, may be any subsidiary of the group and not only the parent. The amendment further specifies that the exchange differences arising from the translation of these monetary items will be classified in equity in the consolidated financial statements. The amendment will not have a significant effect on the Bank's results.	Annual periods commencing on or after 1 January 2006.
IAS 39 amendment	**Financial Instruments: Recognition and Measurement – Cash Flow Hedge Accounting of Forecast Intragroup Transactions** The amendment to IAS 39 allows the designation, as a hedged item in consolidated financial statements, of the foreign currency risk of a highly probable forecast intragroup transaction under certain conditions. The Bank will consider the amendment but the application is expected to be limited.	Annual periods commencing on or after 1 January 2006.
IAS 39 amendment	**Financial Instruments: Recognition and Measurement – Fair Value Option** The revisions to IAS 39 restrict the extent to which entities can designate a financial asset or financial liability as at fair value through profit and loss only to specific situations. The amendment is not expected to re§duce the Bank's current application materially.	Annual periods commencing on or after 1 January 2006.
IAS 39 and IFRS 4 amendment	**Financial Instruments: Recognition and Measurement and Insurance Contracts – Financial Guarantee Contracts** Under the revised statements the issuer of a financial guarantee contract would generally measure the contract at: • initially at fair value; and • subsequently at the higher of the amount determined in accordance with IAS 37 and the amount initially recognised (less, when appropriate, cumulative amortisation). The Bank's current policy is substantially in line with this approach and no significant adjustment is expected.	Annual periods commencing on or after 1 January 2006.
IFRIC 4	**Determining Whether an Arrangement Contains a Lease** This interpretation provides guidance on determining whether an arrangement that does not take the legal form of a lease contains a lease and should be accounted for in terms of IAS 17 Leases. An arrangement contains a lease if the fulfilment of the arrangement is dependent on the use of a specific asset or assets, and the arrangement conveys the right to use the asset. This interpretation is substantially in line with the Bank's current application of the standard.	Annual periods commencing on or after 1 January 2006.

36. STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE *continued*

		Effective date
IFRIC 8	**Scope of IFRS 2** This interpretation clarifies that IFRS 2 applies to transactions in which the entity cannot specifically identify the goods or services received in return for a share-based payment, but where other circumstances indicate that goods or services have been received. This interpretation is applicable to FirstRand Limited. FirstRand Limited entered into a BEE transaction in May 2005.	Annual periods commencing on or after 1 January 2006.
IFRIC 9	**Reassessment of Embedded Derivatives** This interpretation clarifies that the assessment of whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative as per IAS 39 is when the entity first becomes a party to the contract, and that a first–time adopter of IFRS assesses the embedded derivative on the basis of conditions that existed at the later of the date it first became party to the contract and the date a reassessment is required. This is not expected to have an impact on the Bank.	Annual periods commencing on or after 1 June 2006.
IFRS 7	**Financial Instruments: Disclosure (including amendments to IAS 1 – Presentation of Financial Statements: Capital Disclosures)** This standard deals with the disclosure of financial instruments, as well as the disclosure of related qualitative and quantitative risks associated with financial instruments. As IFRS 7 will supersede the current disclosure required in IAS 30 and IAS 32, the standard will not impact the results of the Bank, but will result in potentially more disclosure than that currently provided in the Bank's financial statements. The Bank does not intend to adopt this standard early.	Annual periods commencing on or after 1 January 2007.
IFRIC 10	**Interim Financial Reporting and Impairment** This interpretation addresses the interaction between the requirements of IAS 34 and the recognition of impairment losses on goodwill in IAS 36 and certain financial assets in IAS 39, and the effect of that interaction on subsequent interim and annual financial statements. The amendment will not have a significant impact on the Bank's interim results.	Annual periods commencing on or after 1 November 2006.
Other	The following statements are not applicable to the Bank: IFRIC 5 – Rights to interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds. IFRIC 6 – Liabilities arising from Participation in a Specific Market – Waste Electrical and Electronic Equipment. IFRIC 7 – Applying the Restatement Approach under IAS 29 – Financial Reporting in Hyperinflationary Economies. IFRS 6 – Exploration for and Evaluation of Mineral Resources.	Annual periods commencing on or after: 1 January 2006 1 December 2005 1 March 2006 1 January 2006.

37. SHARE OPTION SCHEMES

All FirstRand options are equity settled, with the exception of certain grants which are cash settled.

The following is a summary of all the share incentive schemes at FirstRand Group level:

The FirstRand Share Incentive Scheme

The purpose of this scheme is to provide a facility to employees of the FirstRand Limited Group to acquire shares in FirstRand Limited.

The primary purpose of this scheme is to appropriately attract, incentivise and retain managers within the FirstRand Group.

The BEE Schemes

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

FirstRand made available 171.4 million shares, representing approximately 3.1% of the issued share capital of FirstRand, to its black South African employees. These shares will be made available to the staff trusts, as follows:

- 20.0 million shares to the FirstRand Staff Assistance Trust;
- 136.4 million shares to the Black Employee Trust; and
- 15.0 million shares to the Black Non-Executive Directors' Trust.

The FirstRand Staff Assistance Trust

This trust was formed for the benefit of black South African employees who do not participate on a regular or ongoing basis in the existing FirstRand share incentive schemes.

The FirstRand Staff Assistance Trust will use any monies received by it to fund:

- bursaries for tertiary education specifically for the benefit of black employees and their immediate families;
- healthcare costs for current black employees and their immediate families not covered by medical aid schemes; and
- any other costs incurred by a black employee that the trustees at their sole discretion believe warrants assistance.

The FirstRand Black Employee Trust

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

- an initial allocation of 500 shares to each black employee who, on 31 December 2004, was in the employ of the FirstRand Group and of a good standing. Approximately 17 000 black employees received this allocation, and thereafter;
- black managers, as defined in the Financial Sector Charter, in the FirstRand Group.

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

37. SHARE OPTION SCHEMES *continued*

The FirstRand Black Non–Executive Directors' Trust

The beneficiaries of this trust are the black non–executive directors of the FirstRand Statutory Boards who accept an invitation to participate.

The intention is to appropriately incentivise the black non–executive directors and reward them for their loyalty.

Assumptions

Fair values for the share incentive schemes are calculated at the date of grant using a modification of the Cox-Rubenstein binominal model.

The significant assumptions used to estimate the fair value of the options granted are as follows:

	FirstRand Share Incentive Scheme
Weighted average share price (R)	6.80 – 16.95
Expected volatility	27% – 33%
Expected option life	4 years
Expected risk-free rate	6.8% – 12%
Expected dividend growth	20% – 22.87%

As the options vest in three tranches, it is comparable to each option holder holding three different options, viz:	% vesting
– options that can be exercised between year 3 and year 5;	0.33
– options that can be exercised between year 4 and year 5; and	0.33
– options that can be exercised at the end of year 5	0.33

For valuation purposes, each call option granted has been valued as three Bermudan call options with a number of exercise dates.

The days on which the options can be exercised has been assumed to be the last day that the shares trade cum-dividend.

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

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

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

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

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

The weighted average number of forfeitures is calculated by dividing the sum forfeited by the total number offered, weighted accordingly.

37. SHARE OPTION SCHEMES *continued*

	FirstRand Black Employee Trust
Weighted average share price	R15.43
Initial market value	R12.28
Allocated share cost	R12.34
Expected volatility	27%
Expected option life in years	10
Expected risk-free rate	6.91% – 8.92%
Expected prime interest rate	10.94% – 12.90%
Expected dividend yield	3.8%
Annual employee turnover	3%

Vesting details	% vesting
– options that can be exercised in or after year 1	0
– options that can be exercised after year 2	0
– options that can be exercised after year 3	0.3
– options that can be exercised after year 4	0.4
– options that can be exercised after year 5	0.5
– options that can be exercised after year 6	0.6
– options that can be exercised after year 7	0.7
– options that can be exercised after year 8	0.8
– options that can be exercised after year 9	0.9
– options that can be exercised after year 10	1

FirstRand BEE Trusts

- 50% of the shares were granted upfront
- the remainder of the shares will be allocated within a period of five years from the operative date (such allocations will be made with reference to the then ruling price and may be at a discount not exceeding 10% of the then ruling price)
- funding is at 80% of prime
- 100% of dividends received used to service funding costs
- funding repayable in 10 years
- vesting occurs as follows: after 3 years 30% thereafter an additional 10% until year 10
- if beneficiaries leave: cash settlement is at the sole discretion of the Trustees cash settlement will be at 80% of the entitlement.

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

The following assumptions have been made:

- for the purposes of the valuation, a fixed dividend yield was assumed; and
- as the funding is linked to the prime lending rate, assumptions about future levels of the prime rate need to be made.

The RMB forward prime curve was used (and extrapolated where necessary) to determine the relevant forward prime rates.

- the volatility used in the option pricing model should be an estimate of future volatility of the period of the option. Historic volatilities can often serve as a proxy for future volatility;
- the annual staff turnover rate used for the vesting adjustments is the average annual forfeiture rate on the existing FirstRand share options held by non–white employees; and
- as there are numerous schemes currently within the FirstRand Group, a weighted average forfeiture rate was used based on experience from the current schemes operated by FirstRand.

37. SHARE OPTION SCHEMES *continued*

R million	2006	2005
Income statement charge	(142)	(116)

	FNB (FSR shares)	FirstRand (FSR shares)	RMB (RMBH shares)
Share option schemes 2006			
Number of options in force at the beginning of the year (millions)	11.2	257.4	0.8
Granted at prices ranging between (cents)	325 – 1 069	655 – 1 015	–
Number of options granted during the year (millions)	–	73.7	–
Granted at prices ranging between (cents)	630	1 440 – 1 949	–
Number of options exercised/released during the year (millions)	(4.3)	(66.0)	(0.8)
Market value range at date of exercise/release (cents)	325 – 1 069	1 228 – 2 100	2 445 – 2 697
Number of options cancelled/lapsed during the year (millions)	–	(15.0)	–
Granted at prices ranging between (cents)	630	655 – 1 695	–
Number of options in force at the end of the year (millions)	6.9	250.1	–
Granted at prices ranging between (cents)	325 – 1 069	655 – 1 399	–
Options are exercisable over the following periods (first date able to release)			
Financial year 2005/2006 (millions)	2.4	–	–
Financial year 2006/2007 (millions)	0.3415	50.3	–
Financial year 2007/2008 (millions)	3.987	67.1	–
Financial year 2008/2009 (millions)	0.138	65.1	–
Financial year 2009/2010 (millions)	–	43.7	–
Financial year 2010/2011 (millions)	–	23.9	–
Total	6.9	250.1	–
Options outstanding (by expiry date)			
Financial year 2005/2006 (millions)	–	–	–
Financial year 2006/2007 (millions)	2.4	3.0	–
Financial year 2007/2008 (millions)	0.4	52.0	–
Financial year 2008/2009 (millions)	4.0	64.3	–
Financial year 2009/2010 (millions)	0.1	59.1	–
Financial year 2010/2011 (millions)	–	71.7	–
Total	6.9	250.1	–
Total options outstanding – in the money (millions)	6.9	250.1	–
Total options outstanding – out of the money (millions)	–	–	–
Total	6.9	250.1	–
Value of company loans to share option trust at beginning of the year (R million)	65.3	2 533.8	–
Value of company loans to share option trust at end of the year (R million)	36.3	2 831.4	–
Number of participants	161	2 865	–

37. SHARE OPTION SCHEMES *continued*

Share option schemes 2005

	FNB (FSR shares)	FirstRand (FSR shares)	RMB (RMBH shares)
Number of options in force at the beginning of the year (millions)	21.9	228.3	2.7
Granted at prices ranging between (cents)	325 – 1 069	655 – 1 015	300 – 1 350
Number of options granted during the year (millions)	0.1	67.3	–
Granted at prices ranging between (cents)	630	655 – 1 399	–
Number of options exercised/released during the year (millions)	(10.8)	(22.4)	(1.8)
Market value range at date of exercise/release (cents)	325 – 1 454	655 – 1 399	1 590 – 2 299
Number of options cancelled/lapsed during the year (millions)	–	(15.8)	–
Granted at prices ranging between (cents)	–	655 – 1 399	–
Number of options in force at the end of the year (millions)	11.2	257.4	0.8
Granted at prices ranging between (cents)	325 – 1 069	655 – 1 399	300 – 1 350
Options are exercisable over the following periods (first date able to release)			
Financial year 2005/2006 (millions)	11.2	35.7	0.8
Financial year 2006/2007 (millions)	–	41.8	–
Financial year 2007/2008 (millions)	–	47.6	–
Financial year 2008/2009 (millions)	–	67.2	–
Financial year 2009/2010 (millions)	–	44.0	–
Financial year 2010/2011 (millions)	–	21.1	–
Total	11.2	257.4	0.8

37. SHARE OPTION SCHEMES *continued*

	FNB (FSR shares)	FirstRand (FSR shares)	RMB (RMBH shares)
Options outstanding (by expiry date)			
Financial year 2005/2006 (millions)	–	–	–
Financial year 2006/2007 (millions)	0.4	51.4	0.6
Financial year 2007/2008 (millions)	4.6	74.0	0.2
Financial year 2008/2009 (millions)	0.6	68.8	–
Financial year 2009/2010 (millions)	5.4	63.2	–
Financial year 2010/2011 (millions)	0.2	–	–
Total	11.2	257.4	0.8
Total options outstanding – in the money (millions)	11.2	257.0	0.8
Total options outstanding – out of the money (millions)	–	0.4	–
Total	11.2	257.4	0.8
Value of company loans to share option trust at beginning of the year (R million)	259.2	1 700	46.3
Value of company loans to share option trust at end of the year (R million)	65.3	2 533.8	11.2
Number of participants	181	1 979	28

Income statement for the year ended 30 June 2005

IFRS Reference	R million	SA GAAP
IAS 30 para 10	Interest and similar income	19 894
IAS 30 para 10	Interest expense and similar charges	(12 608)
	Net interest income before impairment of advances	7 286
IAS 30 para 10	Impairment losses on loans and advances	(572)
	Net interest income after impairment of advances	6 714
	Non-interest income	9 538
IAS 30 para 10	– transactional income	6 774
IAS 30 para 10	– net trading income	1 764
IAS 30 para 10	– net investment income	275
IAS 30 para 10	– other non-interest income	741
	– loss on sale of property and equipment	(16)
	Net income from operations	16 252
	Operating expenditure	(11 534)
IAS 1 para 83	**Income before taxation**	4 718
IAS 1 para 81(e)/IAS 27 para 77	Indirect taxation	(347)
	Income before direct taxation	4 371
IAS 1 para 81(e)/IAS 27 para 77	Direct taxation	(1 138)
IAS 1 para 81(f)	**Income after taxation**	3 233
IAS 1 para 82	**Attributable to ordinary shareholders**	3 233

Definitions:

Remeasurement:

Remeasurement refers to any adjustments where IFRS has resulted in a change in the basis of calculating and measuring a balance sheet item or income statement transaction.

Remeasurement also includes adjustment where IFRS requires the grossing up of numbers with no resulting impact in the previously reported net income or net equity.

Reclassification:

Reclassification refers to adjustment where IFRS requires balances or transactions to be disclosed in different lines in the income statement or balance sheet with no resulting impact on the previously reported net income or net equity.

IAS 16 Property, plant and equipment note (a) Remeasurement	IFRS2 Share-based payments note (c) Reclassification	IAS 21 Foreign exchange note (b) Remeasurement	Other IFRS adjustments note (g) Remeasurement	Effect of transition to IFRS	Restated IFRS
–	–	–	–	–	19 894
–	–	–	–	–	(12 608)
–	–	–	–	–	7 286
–	–	–	–	–	(572)
–	–	–	–	–	6 714
–	–	–	–	–	9 538
–	–	–	–	–	6 774
–	–	–	–	–	1 764
–	–	–	–	–	275
–	–	–	–	–	741
–	–	–	–	–	(16)
–	–	–	–	–	16 252
2	(116)	–	–	(114)	(11 648)
–	–	–	–	–	4 604
–	–	–	–	–	(347)
–	–	–	–	–	4 257
–	–	–	–	–	(1 138)
2	(116)	–	–	(114)	3 119
2	(116)	–	–	(114)	3 119

Appendix 2 Reconciliation from previous SA GAAP to IFRS
Opening balance sheet as at IFRS transition date on 1 July 2004

IFRS Reference	R million	Audited Pre IFRS 2004
	ASSETS	
IAS 30 para 19	Cash and short-term funds	13 123
IAS 30 para 19	Derivative financial instruments	17 480
	– qualifying for hedging	268
	– trading	17 212
IAS 30 para 19	Advances	178 122
	– at amortised cost	124 042
	– held-to-maturity	7 003
	– available-for-sale	418
	– fair value	46 659
	Investment securities and other investments	21 861
	Financial securities held for trading	–
IAS 30 para 19	Investment securities	21 861
IAS 30 para 19	– held-to-maturity	–
	– available-for-sale	11 507
	– elected fair value	10 354
	Commodities	418
	Loans to Insurance Group	33
IAS 1 para 69	Accounts receivable	1 586
IAS 1 para 68(e)	Investment in associate and joint venture companies	343
	Investment in subsidiary companies	18
	Holding and fellow subsidiary companies	20 175
	Property and equipment	1 726
AS 1 para 68(n)	Retire benefit asset	1 932
IAS 1 para 68(c)	Intangible assets	26
	Total assets	256 843
	LIABILITIES AND SHAREHOLDERS' FUNDS	
IAS 30 para 19	Deposits	179 102
	– deposit and current accounts	179 102
	Short trading positions	19 471
IAS 30 para 19	Derivative financial instruments	14 120
	– qualifying for hedging	30
	– trading	14 090
	Loans from Insurance Group	3 594
IAS 30 para 10	Creditors and accruals	2 851
IAS 30 para 10	Provisions	1 269
IAS 1 para 68(n)	Taxation liability	914
IAS 1 para 68(k)	Post-retirement benefit fund liability	1 020
IAS 30 para 10	Deferred taxation liabilities	1 430
	Holding and fellow subsidiary companies	17 380
IAS 1 para 68(k)	Long-term liabilities	3 349
	Total liabilities	244 500
	EQUITY	
IAS 1 para 75(e)	Ordinary shares	4
IAS 1 para 75(e)	Share premium	2 490
IAS 1 para 75(e)	Non-distributable reserves	2 337
IAS 1 para 75(e)	Distributable reserves	7 512
	Total shareholders equity	**12 343**
	Total equity and liabilities	256 843

Definitions:

Remeasurement: Remeasurement refers to any adjustments where IFRS has resulted in a change in the basis of calculating and measuring a balance sheet item or income statement transaction. Remeasurement also includes adjustment where IFRS requires the grossing up of numbers with no resulting impact in the previously reported net income or net equity.

Reclassification: Reclassification refers to adjustment where IFRS requires balances or transactions to be disclosed in different lines in the income statement or balance sheet with no resulting impact on the previously reported net income or net equity.

Property, plant and equipment Remeasurement	Employee benefits Remeasurement	Share-based payments Remeasurement	Total IFRS adjustments	New IFRS OB 2004
–	–	–	–	13 123
–	–	–	–	17 480
–	–	–	–	268
–		–	–	17 212
–	–	–	–	178 122
–	–	–	–	124 042
–	–	–	–	7 003
–	–	–	–	418
–	–	–	–	46 659
–	–	–	–	21 861
–	–	–	–	–
–	–	–	–	21 861
–	–	–	–	–
–	–	–	–	11 507
–	–	–	–	10 354
–	–	–	–	418
–	–	–	–	33
–	–	–	–	1 586
–	–	–	–	343
–	–	–	–	18
–	–	–	–	20 175
475	–	–	475	2 201
–	–	–	–	1 932
–	–	–	–	26
475	–	–	475	257 318
–	–	–	–	179 102
–	–	–	–	179 102
–	–	–	–	19 471
–	–	–	–	14 120
–	–	–	–	30
–	–	–	–	14 090
–	–	–	–	3 594
–	–	–	–	2 851
–	–	–	–	1 269
–	–	–	–	914
–	252	–	252	1272
35	(76)	–	(41)	1 389
–	–	–	–	17 380
–	–	–	–	3 349
35	176	–	211	244 711
–	–	–	–	4
–	–	–	–	2 490
–	–	17	17	2 354
440	(176)	(17)	247	7 759
440	(176)	–	264	12 607
475	–	–	475	257 318

Balance sheet as at 30 June and 1 July 2005

IFRS Reference	R million	Audited pre-IFRS 2005	Plant, property and equipment Remeasurement	Employee benefits Remeasurement
	ASSETS			
IAS 30 para 19	Cash and short-term funds	14 057	–	–
IAS 30 para 19	Derivative financial instruments	20 500	–	–
	– qualifying for hedging	574	–	–
	– trading	19 926	–	–
IAS 30 para 19	Advances	201 700	–	–
	– at amortised cost	163 626	–	–
	– held-to-maturity	5 916	–	–
	– available-for-sale	1 648	–	–
	– fair value	30 510	–	–
	Investment securities and other investments	26 549	–	–
	Financial securities held for trading	12 264	–	–
IAS 30 para 19	Investment securities	14 285	–	–
IAS 30 para 19	– held-to-maturity	10	–	–
	– available-for-sale	10 065	–	–
	– elected fair value	4 210	–	–
	Commodities	395	–	–
	Loans to Insurance Group	3 658	–	–
IAS 1 para 69	Accounts receivable	1 241	–	–
IAS 1 para 68(e)	Investment in associate and joint venture companies	724	–	–
	Investment in subsidiary companies	13	–	–
	Holding and fellow subsidiary companies	18 738	–	–
	Property and equipment	2 095	477	–
IAS 1 para 68(n)	Retire benefit asset	2 228	–	–
IAS 1 para 68(c)	Intangible assets	36	–	–
	Total assets	291 934	477	–
	LIABILITIES AND SHAREHOLDERS' FUNDS			
	Liabilities			
IAS 30 para 19	Deposits	209 728	–	–
	– deposit and current accounts	209 728	–	–
	Short trading positions	14 037	–	–
IAS 30 para 19	Derivative financial instruments	15 064	–	–
	– qualifying for hedging	95	–	–
	– trading	14 969	–	–
	Loans from Insurance Group	7 956	–	–
IAS 30 para 10	Creditors and accruals	2 940	–	–
IAS 30 para 10	Provisions	1 632	–	–
IAS 1 para 68(n)	Taxation liability	104	–	–
IAS 1 para 68(k)	Post-retirement benefit fund liability	1 165	–	252
IAS 30 para 10	Deferred taxation liabilities	1 950	35	(76)
	Holding and fellow subsidiary companies	17 743	–	–
IAS 1 para 68(k)	Long-term liabilities	3 349	–	–
	Total liabilities	275 668	35	176
	EQUITY			
IAS 1 para 75(e)	Ordinary shares	4	–	–
	Share premium	2 612	–	–
	Non-distributable reserves	2 579	–	–
IAS 1 para 75(e)	Distributable reserves	8 071	442	(176)
IAS 1 para 75(e)	Total ordinary shareholders' equity	13 266	442	(176)
IAS 1 para 75(e)	Non-redeemable preference shares	3 000	–	–
	Total equity	16 226	442	(176)
	Total equity and liabilities	291 934	477	–

Definitions:

Remeasurement: Remeasurement refers to any adjustments where IFRS has resulted in a change in the basis of calculating and measuring a balance sheet item or income statement transaction. Remeasurement also includes adjustment where IFRS requires the grossing up of numbers with no resulting impact in the previously reported net income or net equity.

Reclassification: Reclassification refers to adjustment where IFRS requires balances or transactions to be disclosed in different lines in the income statement or balance sheet with no resulting impact on the previously reported net income or net equity.

Share-based payments Remeasurement	Total IFRS adjustment Remeasurement	Audited IFRS 2005	IAS 32/ IAS 39 Reclassification	IA18/ IAS 32 Effective interest rate Reclassification	IAS 39 Credit impairment Remeasurement	Total IFRS adjustment Remeasurement	2006 new OB IFRS
–	–	14 057	–	–	–	–	**14 057**
–	–	20 500	–	–	–	–	**20 500**
–	–	574	–	–	–	–	**574**
–	–	19 926	–	–	–	–	**19 926**
–	–	201 700	31	(173)	(239)	(381)	**201 319**
–	–	163 626	6 387	(173)	(239)	5 975	**169 601**
–	–	5 916	(5 846)	–	–	(5 846)	**70**
–	–	1 648	–	–	–	–	**1 648**
–	–	30 510	(510)	–	–	(510)	**30 000**
–	–	26 549	–	–	–	–	**26 549**
–	–	12 664	–	–	–	–	**12 264**
–	–	14 285	–	–	–	–	**14 285**
–	–	10	–	–	–	–	**10**
–	–	10 065	–	–	–	–	**10 065**
–	–	4 210	–	–	–	–	**4 210**
–	–	395	–	–	–	–	**395**
–	–	3 658	–	–	–	–	**3 658**
–	–	1 241	–	71	–	71	**1 312**
–	–	724	–	–	–	–	**724**
–	–	13	–	–	–	–	**13**
–	–	18 738	–	–	–	–	**18 738**
–	477	2 572	–	–	–	–	**2 572**
–	–	2 228	–	–	–	–	**2 228**
–	–	36	–	–	–	–	**36**
–	477	292 411	31	(102)	(239)	(310)	**292 101**
–	–	209 728	12	–	–	12	**209 740**
–	–	209 728	12	–	–	12	**209 740**
–	–	14 037	–	–	–	–	**14 037**
–	–	15 064	–	–	–	–	**15 064**
–	–	95	–	–	–	–	**95**
–	–	14 969	–	–	–	–	**14 969**
–	–	7 956	–	–	–	–	**7 956**
–	–	2 940	–	–	–	–	**2 940**
–	–	1 632	26	–	–	26	**1 658**
–	–	104	–	–	–	–	**104**
–	252	1 417	–	–	–	–	**1 417**
–	(41)	1 909	–	(68)	(20)	(88)	**1 821**
–	–	17 743	–	–	–	–	**17 743**
–	–	3 349	–	–	–	–	**3 349**
–	211	275 879	38	(68)	(20)	(50)	**275 829**
–	–	4	–	–	–	–	**4**
–	–	2 612	–	–	–	–	**2 612**
133	133	2 712	–	–	(174)	(174)	**2 538**
(133)	133	8 204	(7)	(34)	(45)	(86)	**8 118**
–	266	13 532	(7)	(34)	(219)	(260)	**13 272**
–	–	3 000	–	–	–	–	**3 000**
–	266	16 532	(7)	(34)	(219)	(260)	**16 272**
–	477	292 411	31	(102)	(239)	(310)	**292 101**

FirstRand Bank Limited
(Registration No. 1929/001225/06)

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Company Secretary:
BW Unser

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Sunninghill
2157

*Deloitte & Touche**
The Woodlands
20 Woodlands Drive
Woodmead
2199

*National Executive
GG Gelink Chief Executive
AE Swiegers Chief Operating Officer
GM Pinnock Audit
DL Kennedy Tax
L Geeringh Consulting
MG Crisp Financial Advisory
L Bam Strategy
CR Beukman Finance
TJ Brown Clients and Markets
SJC Sibisi Public Sector and Corporate Social Responsibility
NT Mtoba Chairman of the board
J Rhynes Deputy Chairman of the board

A full list of partners and directors is available on request.

www.firstrand.co.za

FirstRand Bank Limited

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