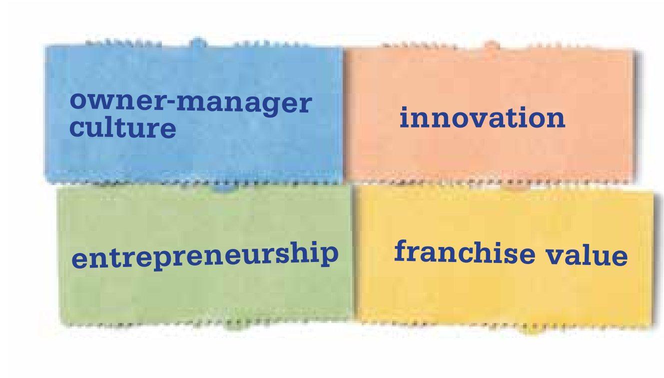
2011

annual integrated report



When reading this report

This year's report includes information, designed to present an "integrated investment picture" to shareholders. This includes:

- A description of the Group's strategy and investment proposition.
- A comprehensive and high level overview of the Group's risk profile is included in the COO & CFO's report. This elevates risk considerations to a strategic level and links financial performance and risk with strategy formulation and overall performance.
- Key performance indicators, both financial and non-financial, which the Group believes are key to benchmarking performance, are included in COO & CFO's report and the review of operations.
- Mini indexes can be found at the beginning of reports.
- A list of abbreviations and definitions has been supplied on pages 393 to 394 for ease of reference.

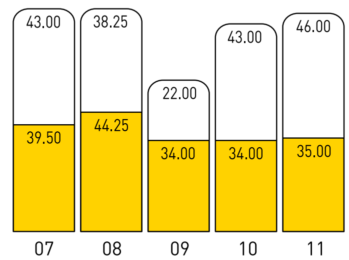
Financial highlights

+27%
Ordinary dividend per share

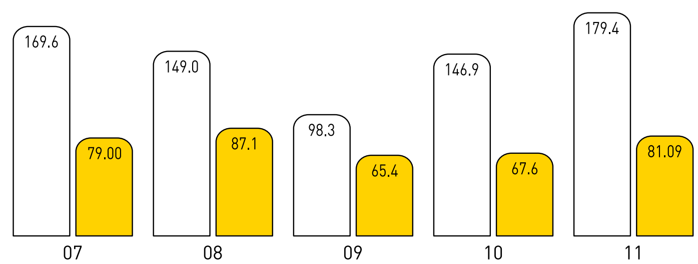
+22%
Diluted normalised earnings per share

+19%
Normalised net asset value per share

Ordinary dividend per share (cents)



Diluted normailsed earnings per share from normalised continuing (cents)



FirstRand is differentiated from its peers by its owner-manager culture and track record for entrepreneurship and innovation. This underpins its objective to build long-term franchise value.

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

The Group has a portfolio branding strategy and there are a number of leading brands within the Group.

FirstRand's strategy and philosophy

THE GROUP'S STRATEGY FOR GROWTH

FirstRand's vision is to be the African financial services group of choice, creating long-term franchise value and delivering superior and sustainable economic returns to our shareholders within acceptable levels of volatility.

This vision is driven through two clear growth strategies:

1. Become a predominant South African player focusing on both existing markets and those markets where we are currently under-represented.
2. Further grow our existing African franchise, targeting those markets that are expected to produce above average domestic growth and are strongly positioned to benefit from the trade and investment flows between Africa and Asia, particularly China and India.

We execute these strategies through our operating franchises. These franchises represent a portfolio of separately branded profit centres and each franchise strives to be a leader in their respective markets through the delivery of:

- superior and sustainable economic profits;
- positive recognition by employees, customers and other stakeholders; and
- flawless execution.

The collective leadership of FirstRand, including the FirstRand CEO, COO and the franchise CEOs, determines the Group strategy and is accountable for the overall performance of the Group. Each franchise then takes ownership of their respective strategies, which are executed within the boundaries of the Group's vision and shared business philosophy. This ensures that the Group generates economic value greater than the sum of its parts.

OUR PHILOSOPHY

We believe in empowering our people to run their businesses as if they are their own. These businesses are aligned through the Group strategy, shared values and principles. Our philosophy is reflected in our owner-manager culture and our track record for entrepreneurship and innovation, our primary points of differentiation from our peers. Accordingly, we encourage our passionate and committed people to balance profit growth with sustainable development.

The demonstration of this philosophy in our business is through:

Our owner-manager culture

FirstRand has an empowering owner-manager culture with a bias for action. Empowerment requires accountability and we are committed to rigorous performance management.

While fully aligned to Group strategy the operating franchises retain ownership of, and accountability for, their strategies, operational decisions and financial performance.

Our commitment to entrepreneurship and innovation

We strive to ensure that innovation is the hallmark of strategic and operational plans. Accordingly, FirstRand recruits and develops entrepreneurial self-starters who have a passion for what they do.

By liberating talented people we have created a legacy of entrepreneurial action that has built excellent businesses.

Our people

FirstRand holds at its core the belief that people are critical to its success. We attract, develop and retain the best industry talent. We empower our people, hold them accountable, and reward them appropriately.

As the champions of FirstRand's values, employees act with integrity and practice fair play. We promote and value diversity among our people, particularly as it contributes to innovative thinking and builds inclusive relationships.

FirstRand's philosophy is underpinned by our belief in the following values and principles:

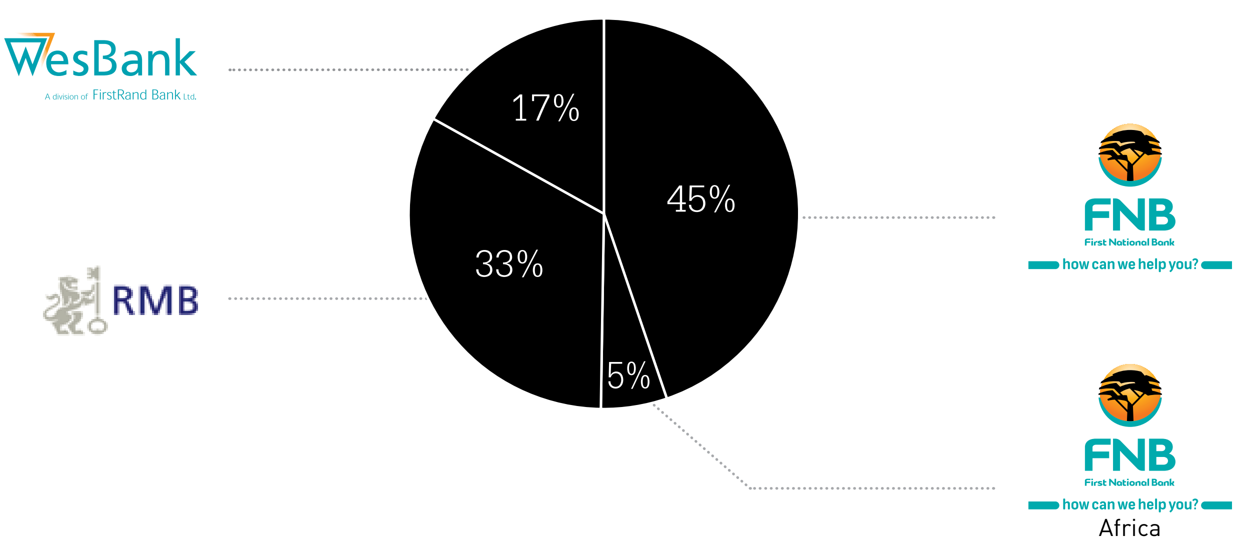
- respecting and empowering individuals;
- collective and individual accountability;
- integrity in our care for the business;
- prudent and accurate scorekeeping;
- ensuring that the business case always prevails through open communication, vigorous debate and participative non-hierarchical decision making;
- being a good corporate citizen – seeing sustainable development and sustainable profit growth as complementary objectives; and
- helping to create a better world that is socially and environmentally viable in the long-term.

Integrated highlights

R million	2011	2010*	% change
CONTINUING AND DISCONTINUED OPERATIONS			
Attributable earnings to ordinary equity holders	**20 065**	9 444	112
Headline earnings	**9 856**	9 453	4
Normalised earnings	**10 805**	9 963	8
Diluted headline earnings per share (cents)	**179.4**	178.3	1
Diluted normalised earnings per share (cents)	**191.6**	176.7	8
Ordinary dividend per share (cents)	**81.0**	77	5
Special dividend per share (cents)	**70.0**	–	>100
Normalised return on equity (%)	**18.6**	18.3	2
Normalised net asset value per share (cents)	**1 044.0**	1 020.0	2
CONTINUING OPERATIONS			
Headline earnings	**9 258**	7 789	19
Normalised earnings	**10 117**	8 283	22
Diluted normalised earnings per share (cents)	**179.4**	146.9	22
NON-FINANCIAL HIGHLIGHTS			
Economic value added to society by continuing operations (R million)	**34 421**	27 056	27
Total workforce (number)	**34 612**	34 904	(1)
South African workforce (number)	**30 600**	31 288	(2)
% ACI employees (SA operations %)	**70**	68	3
Skills development investment (R million)	**271**	216	25
Retail customers (million)	**8.6**	8.2	5
BEE procurement spend (%)	**73**	63	16
Carbon emissions (Kw/h (000))	**280 664**	311 371	(10)

** 2010 data has been restated to exclude Momentum and OUTsurance.*

Normalised earnings by franchise 2011



Group structure

FIRSTRAND

Listed holding company (FirstRand Limited, JSE: FSR)

100% — FirstRand Bank Limited

Banking

- 100% First National Bank[1]
- 100% Rand Merchant Bank[1]
- 100% WesBank[1]
- 100% FirstRand Bank India[2]
- 100% FirstRand Bank London[2]
- 100% FirstRand Bank Dubai[3]
- 100% FirstRand Bank Shanghai[3]
- 100% FirstRand Bank Nigeria[3]
- 100% FirstRand Bank Angola[3]
- 100% FirstRand Bank Kenya[3]

100% — FirstRand EMA Holdings Limited

Africa and emerging markets

- 100% FNB Lesotho
- 58% FNB Namibia
- 100% FNB Swaziland
- 70% FNB Botswana
- 90% FNB Mozambique
- 100% FNB Zambia
- 100% FNB Tanzania
- 100% FirstRand International – Mauritius

100% — FirstRand Investment Holdings (Pty) Limited ("FRIHL")

Other activities[4]

- 96% RMB Private Equity Holdings
- 93% RMB Private Equity
- 100% RMB Stockbroking Operations
- 40% Eris Property Group
- 50% RMB Morgan Stanley
- 100% FirstRand International Wealth Management
- 100% FNB Insurance Brokers
- 100% Barnard Jacobs Mellet Holdings Limited
- 75% Rentworks
- 36% Tracker
- 100% FirstRand International – Guernsey

Structure shows effective consolidated shareholding.

1. Division
2. Branch
3. Representative office
4. For segmental analysis purposes entities included in FRIHL are reported as part of the results of the managing franchise.

owner-manager culture

The Group's owner-manager culture is embedded throughout the business and is key to our relentless focus on long-term value creation. This is further reflected in the alignment between management reward and shareholder returns.

– LAURIE DIPPENAAR

Chairman's statement

Laurie Dippenaar

Chairman

Big picture issues that occupy my mind.

One of the objectives I set myself when I write my statement every year is to reflect my personal perspective on the world we operate within and contemplate some of the "big picture" issues I believe to be relevant to our business and its capacity to deliver appropriate returns to shareholders.

Almost always, these issues are macroeconomic in nature, in other words they are outside of management's control but the business needs to be managed within the context they create.

Last year I talked about how banks need to develop constructive dialogues with government and regulators and that this was something the banks had brought upon themselves through the excesses of 2002 to 2008, as risk, leverage and greed pushed banks, then entire countries, then the world into an unprecedented crisis.

During those "heady" times, banks did not prove that they could be relied on to "self regulate" and therefore the current wave of regulations is likely to continue for some time, particularly given the very low level of trust that exists between the parties. Whilst I do believe that banks have become far more rigorous in the application of risk frameworks, they now need to earn that trust back.

Transparency builds trust

One issue that could hinder the process of banks earning that trust back is the very sensitive topic of bankers' remuneration. Now I did cover this issue briefly last year, and whilst again acknowledging that it is difficult to be self righteous on the topic I do fundamentally believe that as a Group, founded and managed for over 20 years by owner-managers with a significant personal stake in the business, we have always tried to align employee reward with shareholder returns. This continues to be the case, which is why , as outlined last year, we were one of the first SA banks to introduce a large "deferred" component of management remuneration, directly linked to performance. In addition the founders sold a significant block of equity to senior management, and this will certainly focus leadership's minds on shareholder returns.

For the first time this year, as a result of changes to the Companies Act, we have been required to disclose a deeper picture of management remuneration levels than previously. The four year history of guaranteed and performance packages of the franchise CEO's can also now be viewed in the Remuneration committee report on page 83.

Personally I am comfortable with the additional transparency. The absolute levels of our CEO and CFO's packages have been in the public domain for some time and although it has generated some commentary in the press, overall this has been fair and balanced. I think this is partly because FirstRand's remuneration on "a relative" basis to our peers is not out of line, particularly given the superior returns the Group has consistently delivered. Generally our shareholders have supported our performance management practices, and in the Remuneration report itself there are a few key statistics that show that the growth in senior management's remuneration was definitely not out of line with growth in shareholder value.

However, there is no doubt that outside the "relativity" argument, the issue of whether bankers are just paid "too much" remains a hotly debated (and highly emotive) topic. I recently read a series of very interesting articles in the Financial Times that tried to understand the structural issues driving salaries across the world. One of the compelling theories they raised was that the remuneration practices of the banks over the past decade had attracted a disproportionate level of skills to the sector. This probably meant that unfortunately a much smaller number of clever graduates went into engineering or pharmaceutical companies and therefore instead of inventing new life saving drugs or innovations to hold buildings up during earthquakes, those brains ended up inventing the highly sophisticated financial instruments that ultimately created the credit crisis. Intuitively this makes some sense to me, however, I do not believe that such a structural distortion unwinds that rapidly – if at all. Despite all their problems, banks remain gigantic contributors to world economies and therefore they will continue to need skills. It is what those skills focus on creating going forward that is the point and obviously remuneration practices are key to getting this right. Perhaps when we look back ten years out we will see that one key positive of the credit crisis is that it caused a reversal of this structural dislocation, and the world's brain trust shifted back to those other critical industries. We may suddenly see a plethora of innovations in medicine, climate control, engineering and manufacturing coming through. I hope so – a cure for malaria, HIV/AIDS or cancer or a tsunami-proof house would be truly marvellous developments.

The operating environment – some very challenging realities we are responding to

Before I turn to some commentary on the overall performance of the Group I would like to cover how I currently see the macro environment. Banks' earnings are inextricably linked to the health of the economy and currently we are facing some very difficult conditions.

The period before the global financial crisis was characterised by strong economic growth and low macroeconomic volatility (the "great moderation"). It lured all economic players (households, banks, governments) into taking on more risk and greater leverage (more debt). As the world gets rid of the excesses that built up during the great moderation, global growth is expected to remain muted and volatility is expected to remain high.

As I write (it is now the end of September 2011) developed markets have reached stall speed and fears of a global recession have surfaced. There are constant references and reminders in the press of the catastrophic consequences that a systemic event, like a major sovereign default, will have on the global economy. This is all part of the new environment we find ourselves operating in.

Whilst in South Africa, our excesses are being unwound gradually with the economy growing below potential, credit growth lagging economic activity and house prices remaining flat. These issues present huge impediments to earnings growth.

We have been adjusting our business to these realities for some time now and we constantly review our risk appetite to ensure that it is in line with the operating environment. Greater detail on these actions can be found in the rest of the annual integrated report, particularly in the CFO's report on page 16 and the franchise operating reviews pages 30 to 46.

Simplistically put in the following table – on the left read "before the great moderation" on the right read "right now".

Before		After
Aggressive risk appetite	vs	slightly conservative or neutral.
Opened taps to mortgage lending	vs	tightened taps on mortgages.
Under-priced credit for market share	vs	pricing appropriately for credit and happy to lose market share and protect ROE.
Greater reliance on wholesale funding	vs	greater focus on retail deposits.
Started to originate and distribute	vs	origination all on balance sheet.
Acquisitions in international markets	vs	growth outside SA mainly in Africa and Africa/Asian corridors.
More proprietary trading than client revenues	vs	major shift to client revenues.

This is by no means an exhaustive list but they are some very significant actions that management took. They are also critical to us delivering on our strategic intent to create long-term franchise value and deliver superior and sustainable economic returns to shareholders within acceptable levels of volatility. I think it's fair to say that the results of some these actions are already beginning to show up in the performance.

Our performance was a credit to the team

So turning to a brief high level overview of the Group's results for the year, given the trading environment I think these results are extremely impressive. Although the decrease in retail bad debts did contribute significantly to the performance, all three operating franchises, FNB, RMB and WesBank also showed very strong operational performances. This manifested itself in growth in customers and transactional volumes at FNB, strong fee and commission growth at WesBank and RMB benefitted from good deal flow throughout the year.

Our asset margins benefitted from new business re-pricing across the large lending books, although given the significant size of the in-force advances (particularly in residential mortgages) compared to current levels of new business, the benefits will take time to materialise. However, I refer you to my list above – proper pricing for credit clearly underpins improved returns.

The Group's balance sheet showed reasonable overall growth in advances which reflects very strong new business volumes in a number of the lending books. There appears to be a perception, in the media and amongst politicians, that the banks are unwilling to lend, I think some of our new business numbers defy that perception. WesBank alone advanced R57 billion of new loans this year, and even with our more conservative stance on mortgages

"I believe that FirstRand has a very compelling strategy to grow its franchises on the African continent, matched with a highly disciplined approach to protecting shareholder returns."

we advanced R21 billion of new loans. I think this proves that we are also "open for business".

The other key metric worth focusing on for a moment is the Group's cost-to-income ratio, which increased marginally and which really reflects the pressure on the topline, particularly as core costs only increased 8%, some of which can be directly attributed to volume growth.

However the key issue is that Group has decided to bring the calculation of its cost-to-income ratio in line with industry practice. Certain fee and commission income expenses which are directly attributable to the generation of this income are now set off against that income, instead of being included in operating expenses and the effect of this change in methodology is a meaningful reduction in the cost-to-income ratio, which also results in FirstRand now being the most efficient bank relative to the other big four banks, on a truly comparable basis. This is particularly interesting for me because for as long as I can remember, market commentators have opined that the Group's "federal" model makes it vulnerable to duplication and potentially more inefficient than its peers. These commentators also believed that the Group's entrepreneurial culture was not conducive to taking cost management seriously and that topline growth was the only thing that got us excited. Well, as an early architect of the federal model and the culture I feel somewhat vindicated as this change in methodology clearly shows that FirstRand's management team can grow revenues and manage costs as well as its competition.

In summary, on every metric I believe the Group's leadership and every member of their teams should be very proud of these results.

Some growth issues

Looking forward is not a very comfortable pastime currently. It is extremely easy to be deeply pessimistic about the future. There are so many potential fault lines lurking in the world. Although some of these issues do not have a direct impact on our business, South Africa's place in the world means that our destiny remains inextricably linked to the fortunes of Europe, America and Asia.

The important thing is to continue managing the business on the scenarios we see playing out. Whatever happens globally, our own domestic structural issues will result in a period of low GDP growth, high unemployment and increasing inflation. It is most likely that interest rates will not be increased as the fiscal response needs to pull any growth lever it can and this will help ease consumers through what is turning out to be a prolonged de-leveraging process.

Given the growth headwinds we are experiencing in our home market, it makes a great deal of sense to be looking on the broader African continent for pockets of growth. Whilst we need to be realistic about the impact our current African expansion strategy may have on our earnings profile in the short term, there is no doubt that real growth opportunities exist.

Growing "quality" earnings requires patience

In his CEO's report, Sizwe Nxasana provides some additional insight as to how we view growth in Africa. Certainly we are all in agreement that the continent is experiencing a real and sustainable renaissance driven by the hunger for natural resources in China and India and the meaningful progress many African countries have made in terms of political and economic reforms.

I believe that FirstRand has a very compelling strategy to grow its franchises on the African continent, matched with a highly disciplined approach to protecting shareholder returns. As I have commented many times in past reports, FirstRand believes return on equity ("ROE") is the most important measurement of profitable growth for shareholders, and in fact this belief borders on obsession.

What really matters for us is that as we grow in Africa, we create long-term value and returns for our shareholders. We are therefore committed to a highly-disciplined approach, which I believe we demonstrated when we did not proceed with the Sterling Bank transaction in Nigeria. We have a very clear framework where we balance the critical "play-off" between capital deployment, acceptable ROE "drag" and growth. This approach is likely to manifest as an incremental growth strategy in the main, a mixture of greenfields, bolt-on acquisitions and larger acquisitions only within a very strict risk framework.

The Group is very comfortable with this approach and combined with its entrepreneurial culture has developed a strong track record of creating shareholder value through establishing and growing businesses from scratch.

In closing...

I would like to sign off this year with a vote of thanks to Paul Nkuna who retires as the Mineworkers Investment Company representative on the FirstRand Limited Board. Paul has been an incredibly valuable member of the Board since we concluded the Group's BEE Transaction and I wish him good fortune in his retirement. We welcome as his replacement Mary Bomela. All that is left is to say is a heartfelt thank you to the leadership team and every staff member of this Group for a truly exceptional year.

LL Dippenaar

Laurie Dippenaar
Chairman

entrepreneurship

The Group's strategy to grow in Africa reflects its culture of entrepreneurship, as it prefers to start its own businesses and grow incrementally.

– SIZWE NXASANA

CEO's report

Sizwe Nxasana

CEO

A performance built on a sustainable strategy

FirstRand's diverse financial services portfolio produced a strong performance for the year to June 2011. I am extremely pleased with this performance which I believe reflects the quality and resilience of our operating franchises, FNB, RMB and WesBank, all of which produced strong profit growth and returns, reflecting the benefits of their respective growth strategies, both in South Africa and Africa. A detailed explanation of our financial performance can be found in the COO & CFO's report on page 16.

Last year in this report I spent a little time on how we have "hard-wired" the issue of long-term sustainability into our strategic thinking. The Group's ultimate objective is to "create long-term franchise value and deliver superior and sustainable returns to its shareholders" through its strategy to be the African financial services group of choice – for customers, staff and shareholders. When we look at how this strategy manifests across the franchises, there are some key "engines" we focus on as outlined in the table below:

Franchise	Customers	People
To be appropriately represented in all significant earnings pools. Deliver superior financial performance. Maintain financial strength. Strive for excellence in execution.	Drive excellence in customer service. Grow customer bases profitably. Deepen our relationships with existing customers.	Become the most sought after employer and improve diversity.

In the operational reviews on pages 30 to 46 there are explanations from each franchise as to how they are "driving these engines", however at a broader level I would like to cover one in particular – to be "appropriately represented in all significant earnings pools".

The Group is already a very large player in its domestic market and given the subdued growth scenario in the South African economy current, which is expected to continue for the next two to three years, revenues will remain under pressure. Despite its size, however, there remain areas of the domestic market where the Group does not have its "natural" market share, and these pockets of growth are where we continue to focus our efforts.

FNB's EasyPlan strategy has received a great deal of air time during the year. However, it is important to remember that FNB had already been operating successfully in the mass market for many years. Before it even commenced with EasyPlan it had built a very solid franchise of over three million customers on the back of a transactional banking offering represented by its Smart product line. However, it did recognise that its lending in that market was behind some of its competitors, and it was this recognition that resulted in EasyPlan.

EasyPlan is not only a lending strategy, it is supported by a strong transactional banking platform with many innovative electronic channels such as cellphone banking and the Automatic Deposit Terminals ("ADTs") (ATMs where customers can deposit cash or pay bills and which is reflected immediately). These channels are ideally constructed for customers who want cheaper and convenient ways to transfer money and pay their bills. There is no doubt that EasyPlan is contributing to customer acquisition, balance sheet growth and the increase in transactional volumes and revenues, and therefore a good example of a new "earnings" pool.

The other initiative I want to cover here is our strategy to grow in the large corporate space. Previously the Group serviced its large corporate customers through two separate franchises FNB and RMB. FNB Corporate offered transactional banking products and services whereas RMB provided pure investment banking. However, ultimately this was not a sustainable structure as our customers increasingly required a more integrated interface and we were definitely not providing an optimal offering to those customers.

As a first step to resolving this issue, last year FirstRand merged the relationship management teams of FNB and RMB to create an integrated client coverage capability and placed them under common leadership at RMB. This has already yielded benefits across the corporate and investment banking ("CIB") activities of both RMB and FNB. This year we completed a strategic review of the Group's corporate transactional banking activities and this resulted in FNB's Global Transactional Services ("GTS") also moving to RMB. This we believe will ensure that all CIB activities are integrated at a client and product level. Alan Pullinger, CEO of RMB, is now also head of CIB with FNB GTS reporting to him. It is early days but we believe these initial steps will drive good growth in the corporate banking segment, where we are currently under-represented relative to our size and quality of franchise. This initiative is a very important one in that it also reflects the key "customer drivers" of delivering excellence in customer service, growing customer bases profitably and deepening our relationships with existing customers.

Innovation – differentiating us from our peers and key to growth

In last year's report I covered in some detail two topics I believe to be key to FirstRand's future success - our owner-manager culture and transformation. This year I would like to cover the remaining two – innovation and franchise value.

As we state in our business philosophy on page 2 of this report, we strive to ensure that innovation is the hallmark of our strategic and innovative plans. We have been incredibly consistent in our assertion that innovation is a pillar of our business and a differentiating factor in our overall investment proposition. It's probably fair to say that many commentators have been sceptical about how meaningful innovation can be to the bottom line, until now that is.

During the golden years of banking, which ended pretty abruptly with the credit crisis in 2008, there was so much natural growth in the financial system, innovation, customer service and other such differentiators seemed to get lost in the frenzied growth. This has now changed as in times of economic pressure, customers look for value for money and helpful innovations. Therefore in the new era we find ourselves in, we believe that innovation can create serious competitive advantages and strong sources of customer acquisition and retention.

What is true is that innovation can only really happen in an organisation that takes it seriously and creates a culture that allows it to flourish. At FirstRand our owner-manager culture, which is so empowering in its expression, has resulted in the appropriate culture of innovation. So what are the main characteristics of such a culture? I see them as follows:

- forgive/allow mistakes;
- don't protect old ways of doing things;
- be prepared to cannibalise;
- people closest to the issue come up with the best ideas;
- the best ideas come up from the bottom – not from the top; and
- acknowledge, celebrate and reward.

It is globally recognised that Apple is one of the most innovative companies in the world and I found a quote on his philosophy on innovation from the late Steve Jobs, the founder and former CEO.

"Innovation comes from people meeting up in the hallways or calling each other at 10:30 at night with a new idea, or because they realised something that shoots holes in how we've been thinking about a problem. It's *ad hoc* meetings of six people called by someone who thinks he has figured out the coolest new thing ever and who wants to know what other people think of his idea… we are always thinking about new markets we could enter."

This comment resonates with me in that at FirstRand and all its franchises, including FNB, RMB and WesBank, the culture of innovation is definitely anchored around constantly thinking about new markets and innovative ways to service customers. FNB recognises that there needs to be a "new way" and I believe the culture is to ignore legacy thinking, focus on designing a product that best suits new markets and drive inclusive growth. FNB's overall growth strategy has always been to enter new markets and capture new customers with innovative solutions designed specifically for the needs of those customers and innovation has been particularly key to the success of FNB's Mass segment strategy. Cellphone banking was a significant early contributor to the success of its transactional banking offering in the Mass segment and the ADTs that I mentioned earlier are now contributing to the acquisition of EasyPlan customers.

Also, no one waits for ideas to come from the top. It is often the young, not the grey beards, who see things differently, and there has to be a way for them to contribute. One of the ways FNB facilitates this contribution is through FNB Innovators, an internal competition started in 2004 which is designed to formally encourage and support the process of innovation, whilst also helping to build innovation-related competencies internally. During the period 2008 and 2010, the top 50 FNB Innovator finalists added R1.35 billion to FNB's bottom line. During the same period, for every R1 spent on the innovations that made it to the Top 50, a R28 return was generated.

It is also very true that people closest to the issue come up with the best ideas. That is why in addition to FNB Innovators FNB developed its "Minivations" programme to further drive innovative thinking into the business.

A Minivation is an innovation that takes no longer than 3 months to implement. It is therefore typically a smaller innovation however when combined, the cumulative impact of Minivations in terms of helping realising FNB's strategy is significant.

A winning Minivation is awarded eBucks. Out of the 256 Minivations logged since inception in the 2011 financial year, just under a third were deemed to be winners by the respective business units and segments. Most Minivations tracked resulted in 'improved efficiency' or 'improved customer experience' and savings and revenue generated that we are able to account for in relation to Minivations for the 2012 financial year are currently expected to be over R30 million.

Building our franchise in Africa – patience and incrementalism required

In his chairman's statement Laurie comments that there are very compelling reasons for FirstRand to grow in Africa and that our approach will be an incremental growth strategy in the main, a mixture of greenfields, bolt-on acquisitions and larger acquisitions only within a very strict risk framework.

He also comments that we are not prepared to significantly dilute our returns to shareholders in the process. To confirm that assertion, the table below shows that, although expansion is currently diluting the returns we generate from our existing businesses, this level of dilution is acceptable given the growth we expect to generate and the overall ROE remains well within our target range.

Ultimately we aim to build integrated or universal platforms with scale, distribution and deposit franchises as this will deliver sustainable long-term ROEs. To this end the current strategy represents the following activities:

- Accelerate the establishment of comprehensive universal banking operation in existing subsidiaries by ensuring RMB "on-the-ground" presence in established FNB subsidiaries – for example RMB FICC teams deployed into Namibia and Botswana.
- Progressively increase our risk appetite as we prove our capabilities.
- To enter new countries through acquisitions and greenfields as appropriate – for example FNB opened for business in Tanzania and RMB established representative offices in Angola and Kenya.
- Leverage the South African balance sheet by increasing our wholesale credit country limits for cross-border activities in our chosen markets.
- Devise a comprehensive strategy to follow our corporate customers who are also expanding into Africa and actively mine our India-Africa and China-Africa corridors – for example strong deal flow generated for RMB during the year across many African territories and sectors.

RMB continues to leverage off our MOU relationships with China Construction Bank ("CCB") and CAD Fund (China-Africa Development Fund) for our China/India-Africa corridor strategy, which have resulted in a number of deals being consummated. We have also signed a cooperation agreement with The Export and

R million	Advances	Deposits	Profit before tax	ROE %
FNB Namibia	12 623	13 315	788	25
FNB Botswana	7 932	11 156	674	42
FNB Lesotho	126	625	12	18
FNB Swaziland	1 343	1 768	117	25
Established franchises	**22 024**	**26 864**	**1 591**	**30**
FNB Zambia	230	491	(62)	(54)
FNB Mozambique	577	825	(5)	(3)
FNB Tanzania	–	–	(16)	(31)
New franchises	**807**	**1 316**	**(83)**	**(22)**
Africa franchises total	**22 831**	**28 180**	**1 508**	**23**
FNB Africa head office/support	–	–	(48)	(>100)
Total	**22 831**	**28 180**	**1 460**	**21**

Statutory view for subsidiaries shown in table above (including FNB Africa and RMB FICC Africa). Figures are shown pre-minorities and pre-allocations to other franchises.

Import Bank of China ("Exim") in areas of infrastructure projects, mechanical and electronic products, energy, construction, raw materials and mining. The relationships with CAD Fund and Exim are complementary (and not in competition) to our relationship with CCB as these are Chinese government policy banks which are more active in the China-Africa corridor than commercial banks.

So, to sum up, to steadily build out our franchise in Africa, we can acquire, and we can grow organically. All of these options are available to us, and we will execute on all of them.

In Nigeria, current dynamics around consolidation suggest that we would need to make an acquisition, however, as indicated by the termination of our recent talks, we will only do a deal if it makes sense. We are constantly assessing the opportunities available and given how much progress the regulator in Nigeria has made, we feel that more, not less, options continue to be available to us.

Looking forward – it's easy to become gloomy

The operating environment going forward is expected to be characterised by low growth. We have revised our GDP growth numbers down to an average 3.0 – 3.5% for the coming year with risk to the downside, particularly if we get another global financial shock. We anticipate flat interest rates through 2012 and possible cuts if the Rand strengthens, growth risks increase and inflation peaks. Real house prices are likely to remain flat with some downside risk due to the current supply overhang and we expect that real wage increases will continue to moderate and private-sector employment growth to be subdued.

Given this scenario, credit growth is expected to continue to lag nominal GDP and consumption spending will remain the main driver of growth with investment spending remaining slow. This means that retail credit growth will continue to outpace corporate credit growth.

These are the realities that we are facing up to, the "new normal" that we are now operating within – a world of lower growth and more frequent shocks. We have been managing our business to this "new normal" for some time and on page 16 Johan Burger in his COO & CFO's report provides further insight into the actions we have taken to ensure the Group weathers the headwinds we see ahead.

Given the weak economic conditions we are grappling with, improving cost efficiencies whilst investing for growth continues to be an important factor for the Group. In the past driving cost efficiency was by nature not a topic which excited people at FirstRand where revenue growth is typically more exciting, especially if it is driven over a long period of time where "cost reduction fatigue" may set in. However, we cannot afford to "take our foot off the accelerator" in this regard and the trick is to excite people and embed efficiency drives in our DNA as part of doing business. I believe we have made significant progress in this regard and in the operational reviews on pages 30 to 46 it is clear to see that the management teams of the franchises continue to apply their minds to this issue.

So to coin a phrase from one of my colleagues, looking forward I remain very "cautious" about the macro environment but "bullish" about our businesses. Our franchises are in great shape, their growth strategies are delivering and the quality and resilience of their businesses are demonstrated in this year's performance and we expect that to continue in the coming year. I would like to extend my congratulations to every single person who works for the Group for a job well done!

Sizwe Nxasana
Chief executive officer

innovation

The Group's longstanding commitment to driving innovation has become a key differentiating factor and competitive advantage. This is especially important in a market where growth is hard to come by.

– SIZWE NXASANA

COO & CFO's report

Johan Burger

COO & CFO

Group earnings are now above pre-global financial crisis levels. Even more pleasing is the quality of earnings given the larger contribution from client franchises.

+22%
Normalised earnings

+19%
Normalised return on equity (ROE)

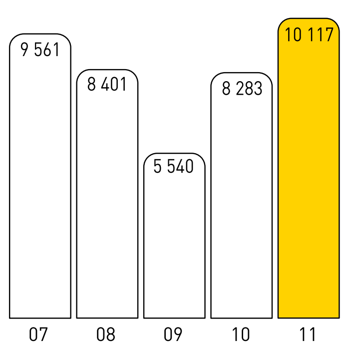
+27%
Dividend per ordinary share

Performance commentary

FINANCIAL PERFORMANCE

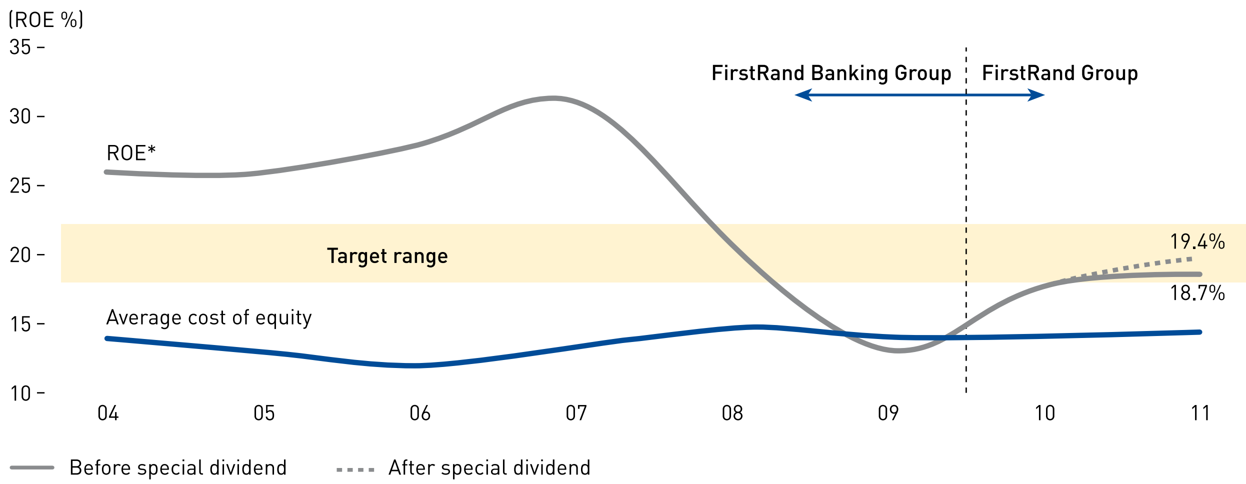
The results are presented on a normalised continuing basis as the Group believes this most accurately reflects economic performance. The normalised continuing operations specifically exclude the profit on the unbundling of Momentum, the earnings contribution of Momentum for the current and comparative years, the profit on disposal of OUTsurance, as well as the earnings contribution of OUTsurance for the current and comparative years.

Group continuing operations – normalised earnings



Group earnings are now above pre-global financial crisis levels. Even more pleasing is the quality of earnings given the larger contribution from client franchises.

Despite a challenging macroeconomic background, FirstRand produced excellent results for the year ended 30 June 2011, achieving normalised earnings from continuing operations of R10 117 million, an increase of 22% on the previous period, and producing a normalised ROE of 18.7% (2010: 17.7%). The ROE has continued to trend upwards, despite lower gearing resulting from higher capital levels and is now within the target range of 18% to 22%.



** ROE from June 2010 onwards is on a continuing basis for FirstRand Group.*

GROUP KEY RATIOS

	Year ended 30 June		
	2011	2010	% change
Normalised earnings* (R million)	**10 117**	8 283	22
Normalised return on equity (%)	**18.7**	17.7	
Diluted normalised earnings per share (cents)	**179.4**	146.9	22
Return on average assets (ROA) (%)	**1.5**	1.3	
Credit loss ratio (%)	**0.93**	1.39	
Net asset value per share (cents)	**1 044.0**	875.9	19
Dividend per share (cents)	**81**	64	27
Tier 1 ratio† (%)	**15.0**	13.5	
Core Tier 1 ratio† (%)	**13.8**	12.6	
Net interest margin (%)	**4.58**	4.58	
Gross advances (R billion)	**475**	446	7

** Includes NCNR preference shares and FirstRand Limited (Company).*

† Comparative value for June 10 is shown for FirstRand Bank Holdings (the Bank controlling company at that time) FirstRand Limited became the Bank controlling company effective July 2010.

A breakdown of earnings from each operating franchise is shown below:

SOURCES OF NORMALISED EARNINGS FROM CONTINUING OPERATIONS

R million	2011	% composition	2010	% composition	% change
Total FNB	5 562	55	4 731	57	18
FNB South Africa	5 022	50	4 276	52	17
FNB Africa	540	5	455	5	19
RMB	3 610	36	3 316	40	9
WesBank	1 862	18	953	12	95
Corporate Centre and consolidation adjustments	(714)	(7)	(335)	(4)	(>100)
FirstRand Limited (company)	98	1	(38)	(1)	>100
NCNR preference dividend	(301)	(3)	(344)	(4)	(13)
Normalised earnings from continuing operations	**10 117**	**100**	8 283	100	22

With regards to the Group's overall income statement, its operating franchises, FNB, RMB and WesBank, continued to show very strong operational performances. Earnings also continued to be positively impacted by the significant decrease in retail bad debts (impairment charge down 34% on the previous period) particularly in the large books of FNB and WesBank, although the absolute rate of reduction flattened in the second six months of the year and has now reached a normalised level. The National Credit Act's debt review process and the resultant lengthened recovery periods mean that absolute levels of non-performing loans ("NPLs") remain high with a significant proportion in NPLs for longer than six months. Provisioning levels remain at prudent levels given level of asset/security values. Major components of NPLs and the bad debt charge are shown in the table below.

	NPLs			NPLs as a % of advances	
R million/%	2011	2010	% change	2011	2010
Retail	**14 286**	17 023	(16)	**5.80**	7.35
Residential mortgages	10 515	12 563	(16)	6.74	8.24
Credit card	446	673	(34)	4.15	6.29
Vehicle and asset finance	2 535	3 018	(16)	3.84	5.17
Other retail	790	769	3	5.85	7.71
Corporate/Wholesale	**5 171**	4 803	8	**2.62**	2.50
FNB Commercial	1 865	1 916	(3)	6.06	6.80
WesBank Business and Commercial	1 490	1 760	(15)	4.79	5.79
FNB Corporate	18	1	>100	0.71	0.06
RMB	1 798	1 126	60	1.35	0.85
FNB Africa	**370**	407	(9)	**1.63**	2.07
Corporate Centre and other	**(37)**	(28)	32	**(0.44)**	(1.42)
Total NPLs	**19 790**	22 205	(11)	**4.17**	4.98
Of which:					
Accrual book	18 053	21 435	(16)	5.15	6.57
Fair value book	1 737	770	>100	1.40	0.64

	Total impairment charge			As a % of average advances	
R million/%	2011	2010	% change	2011	2010
Retail	2 773	4 228	(34)	1.16	1.85
Residential mortgages	1 216	1 420	(14)	0.79	0.95
Credit card	149	776	(81)	1.39	6.92
Vehicle and asset finance	689	1 025	(33)	1.11	1.80
Other retail	719	1 007	(29)	6.12	10.00
Corporate/Wholesale	1 284	1 733	(26)	0.66	0.93
FNB Commercial	334	441	(24)	1.13	1.59
WesBank Business and Commercial	452	697	(35)	1.47	2.21
FNB Corporate	9	34	(74)	0.43	0.68
RMB	489	561	(13)	0.37	0.46
FNB Africa	64	68	(6)	0.30	0.37
Corporate Centre and other	171	23	>100	n/a	n/a
Total	4 292	6 052	(29)	0.93	1.39
Of which:					
Portfolio impairment charge	(210)	315	(>100)	(0.05)	0.07
Specific impairment charge	4 502	5 737	(22)	0.98	1.32

Net interest income before impairment of advances grew 9% on the back of reasonable asset growth and flat margins. The Group's balance sheet showed overall growth in advances of 7% reflecting strong new business origination.

The following portfolios showed particularly good new business volumes:

- unsecured lending in FNB's Mass and Consumer segments – R6 billion;
- RMB's structured lending book – R29 billion;
- WesBank – R57 billion; and
- residential mortgages – R21 billion.

Asset margins benefited from new business repricing across the large lending books, although given the significant size of the in-force advances (particularly in residential mortgages) compared to current levels of new business, the benefits on the mortgage book will take time to materialise. Margins also continued to be impacted by the negative endowment effect on capital and deposits as average interest rates for the financial year were 114bps lower than the previous period.

Overall NIR grew 7% as a result of ongoing customer acquisition and robust transactional volumes at FNB, particularly in electronic channels. WesBank generated strong fee and commission growth and RMB's knowledge-based fee income benefited from good deal flow throughout the year.

Fair value income was robust, underpinned by a strong performance from client activities, benefiting from refinancing opportunities and a strong investment banking deal pipeline during the year.

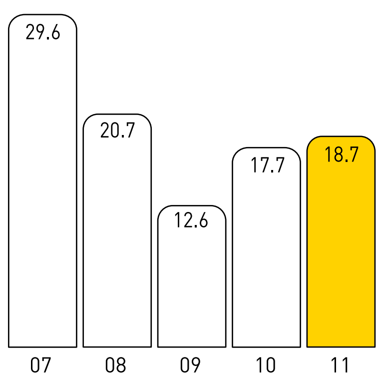
Investment income also contributed strongly, driven by the private equity and resources portfolios of RMB, and profits from the disposal of VISA Inc shares.

Overall group operating expenses reflect good ongoing cost control with costs increasing only 9%.

KEY PERFORMANCE MEASURES

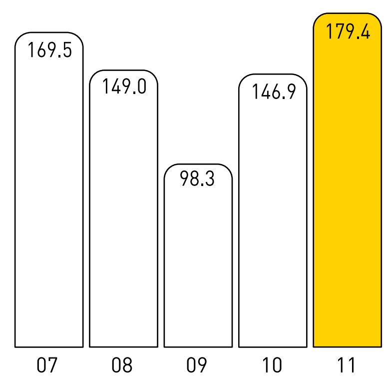
The Group uses certain key performance indicators to monitor progress of strategy. These include:

Normalised ROE (%)



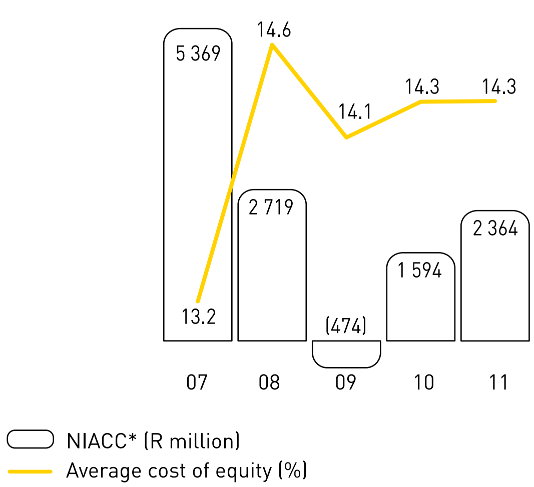
When the Group analyses ROE, it also takes into account the relationship between ROA and gearing levels.

Normalised EPS (cents)



The Group targets earnings growth in excess of nominal GDP.

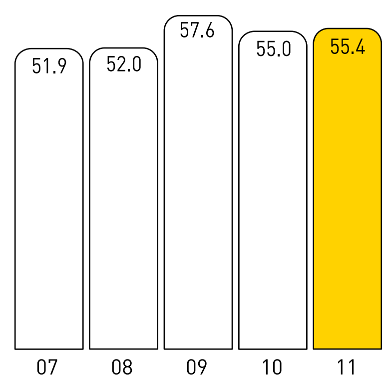
Net income after cost of capital ("NIACC")



Growth in NIACC is the Group's internal benchmark for assessing performance.

* 2007 – 2009 reflects Banking Group supersegment NIACC, whilst 2010 – 2011 figures are for the Group's continuing operations.

Cost-to-income (%)



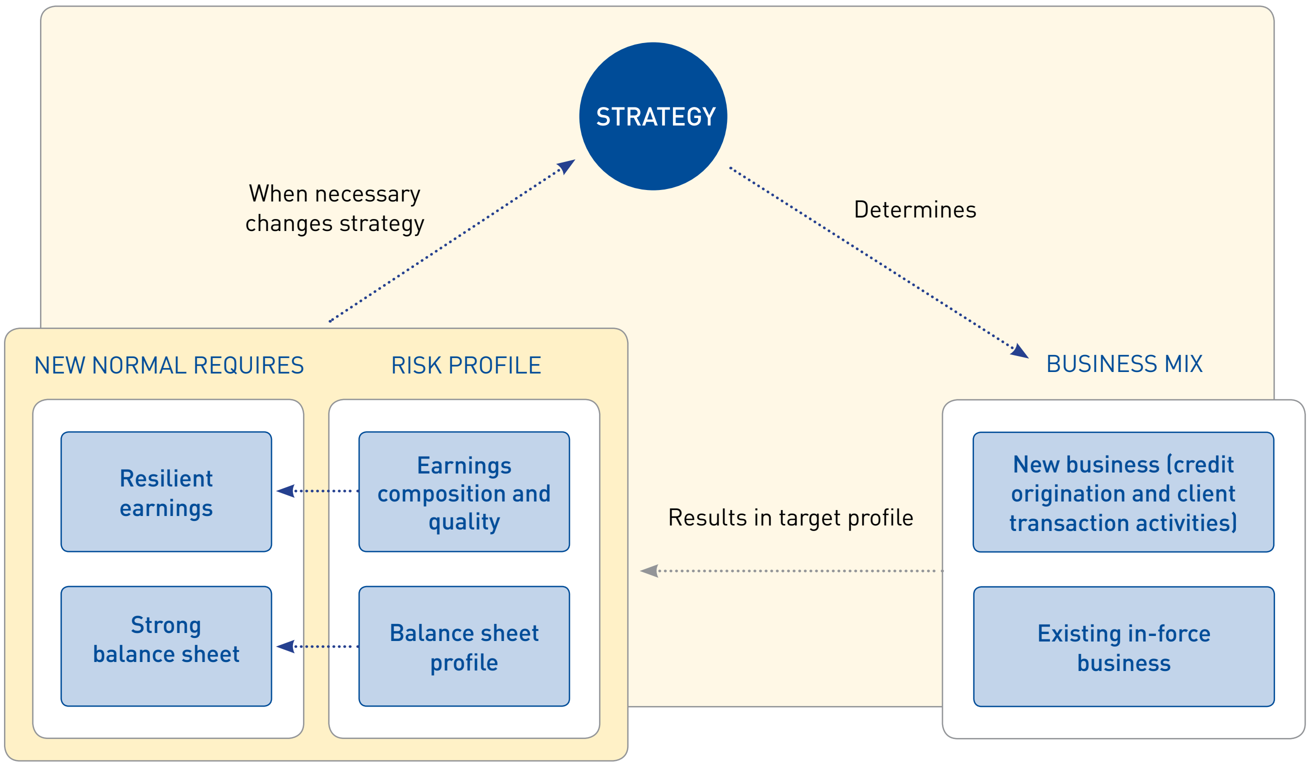
The Group monitors efficiency through the cost-to-income measure, taking into account both revenue and cost growth.

Going forward the Group will, in line with industry practice, set off against income certain fee and commission expenses attributable to that income. This change in methodology will reduce the cost-to-income ratio for the current period to 53.3%.

Aligning strategy with desired risk profile

Effective risk management is a key component of the delivery of sustainable returns to shareholders. It is therefore deeply embedded in the Group's strategic decision making.

THE GROUP'S STRATEGIC PLANNING PROCESS



Although the Group's strategic planning process remains consistent it is also highly dynamic in that it needs to take account of significant shifts in macro and structural issues.

MANAGING THE BUSINESS FOR THE NEW NORMAL

The "new normal" environment

Following the global financial crisis, a new macro environment has emerged. It is characterised by lower returns and greater volatility. This has become generally known as the "new normal".

Over the past two years earnings have benefited from the strong unwind of bad debts. This cycle is nearing its end and in a typical cycle, economic activity and credit growth would pick up to fill this gap.

The current economic cycle is however not proving to be typical. As the excesses that built up during the credit boom unwind, economic growth is expected to remain subdued. The core scenario for the global economy is to "muddle through" as developed markets grow below their potential. This low growth environment will weigh on the Group's revenues which are particularly sensitive to the level of economic activity.

While South Africa's GDP is expected to grow around 3%, this is below its potential and not fast enough to create much-needed jobs. In addition to modest economic growth, consumers remain highly indebted and have used their income growth to maintain consumption levels rather than to reduce debt.

GDP has been driven mainly by consumption expenditure, on the back of strong income growth. Despite high wage costs, corporate earnings have held up well as companies reverted to cost cutting. While corporate balance sheets are healthy, corporates remain cautious and both investment spending and employment are expected to remain slow, which will further delay recovering in the economic cycle.

Despite the lack of aggregate demand, inflation is rising and is expected to reach the upper end of the target band and to remain sticky at those levels. Under normal conditions this would trigger higher interest rates, however, in light of concerns about global economic growth, the SARB may keep rates low for longer.

The Group's strategy since 2008 has been to adjust the earnings profile to replace the high levels of non-repeatable income, driven by trading activities, with annuity income driven by client franchise activities.

This scenario will result in pressure on topline growth, which is compounded by additional pressure from the cost of new regulations and indirect intervention as governments play a more active role in the sector and the broader economy.

Regulatory changes and the resultant implications will ultimately cost "the system", the question remains who is expected to bear that cost, borrowers, depositors or shareholders.

Given these conditions the Group continues to focus on maintaining a strong balance sheet and to target resilient earnings. It maintains conservative capital ratios, keeps appropriate liquidity buffers, has lengthened its funding profile and is focused on increasing its deposit franchise.

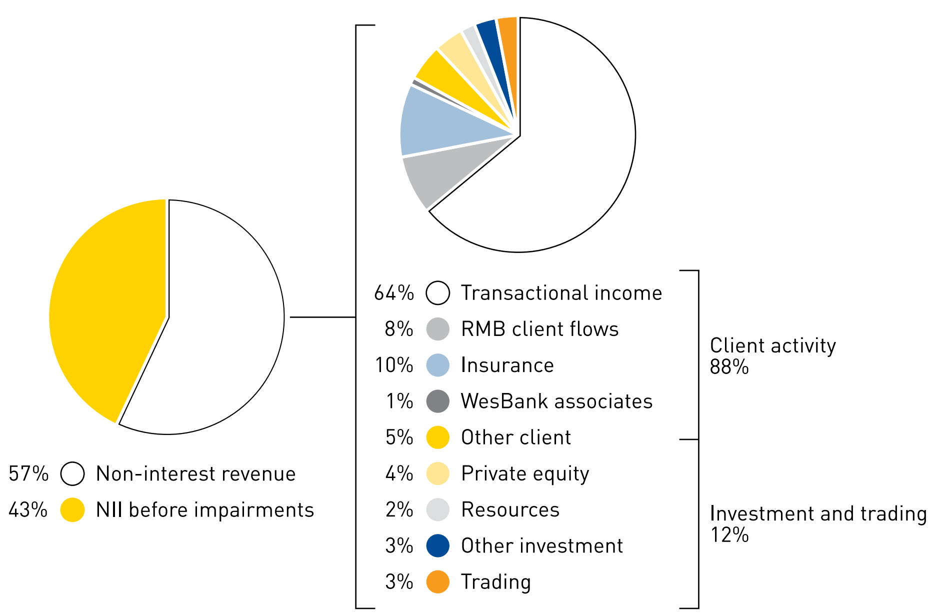
In addition to the maintenance of appropriate buffers, the Group actively mitigates risk by avoiding macro fault lines such as direct exposure to European sovereign and bank debt. Where possible, earnings are also protected against events such as the protection of endowment earnings via interest rate hedges.

EARNINGS RESILIENCE

The Group's strategy since 2008 has been to adjust the earnings profile to replace the high levels of non-repeatable income, driven by trading activities, with annuity income driven by client franchise activities. Whilst this has, over time, resulted in a reduction in ROE, the Group believes the current target ROE of between 18% and 22% is more sustainable.

As can be seen from the diagram below, the strategy has resulted in an earnings profile that reflects 93% of gross revenue derived from client franchise activities (93% client gross revenue = 43% NII + 0.88 (57% NIR)). The Group believes this represents a highly resilient profile, appropriate to its current strategy.

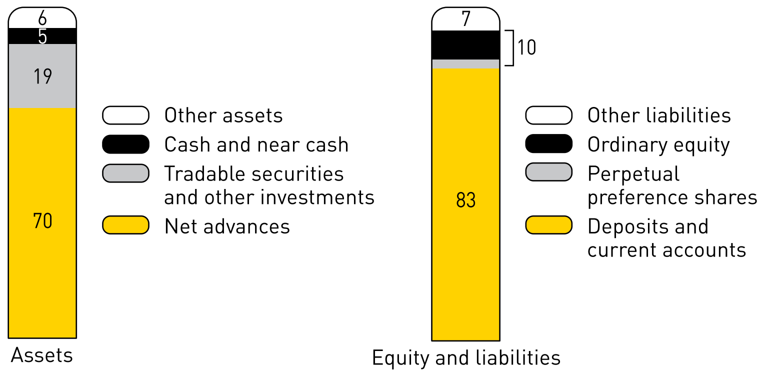
Gross revenue composition and breakdown of normalised non-interest income



STRONG BALANCE SHEET

The Group's growth strategy impacts the composition of the balance sheet. The strategy of the Group has been to improve the quality and resilience of the balance sheet through an integrated balance sheet management approach to ensure alignment between macro outlook, balance sheet risks and capital strategies. The profile is shown in the next diagram.

Balance sheet structure



** Note: Derivative assets and liabilities netted off.*

ASSETS

Loans and advances

Advances resulting from lending activities constitute the largest portion of assets on the Group's balance sheet. More than 90% of these advances relate to the South African market, therefore, growth is largely dependent on the state of the South African economy. More than half of advances result from retail lending activities which are exposed to changes in interest rates, debt service cost, asset prices and unemployment. The corporate and commercial portfolios are more sensitive to GDP.

Trading, investment and liquid assets

Investments, investment securities, derivatives, cash and other assets make up the remainder of the balance sheet. More than half of investment security assets relate to instruments the Group holds in compliance with liquidity and prudential requirements. The remainder of derivatives, investment securities and cash holdings together with corresponding derivative liabilities represent an accounting based disaggregation of the Group's portfolio of client deal structuring activities. The majority of these positions are offsetting from a risk profile perspective.

LIABILITIES

The Group's liabilities are comprised of:

- deposits from its retail, commercial and corporate customers (the nature and term of which are a function of customers' preferences);
- institutional funding (over which the bank can exert more influence, although it is limited by the structural constraints of the market in South Africa – this is covered in more detail in the funding & liquidity risk section below); and
- short trading positions and derivatives, which represent the accounting based disaggregation relating to deal structuring activities as described in the assets section above.

FINANCIAL RISKS

Credit risk

Credit strategy is managed as part of the broader balance sheet management process and is aligned with the Group's view of macroeconomic trends in the wider economy. The Group's origination strategies over the past few years are resulting in improving credit quality across all retail portfolios (as evidenced in the vintage analyses for the large retail portfolios below). These

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The Group's integrated Balance Sheet Management strategy ensures alignment of macro outlook, asset quality and capital levels.

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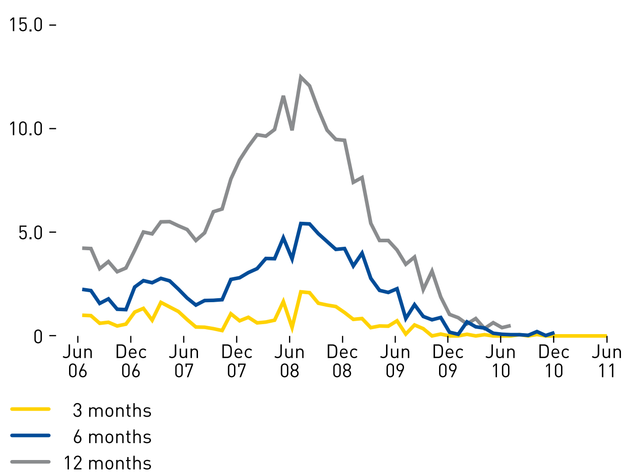
portfolios were also positively impacted by a favourable interest rate environment, income growth and increasing wages.

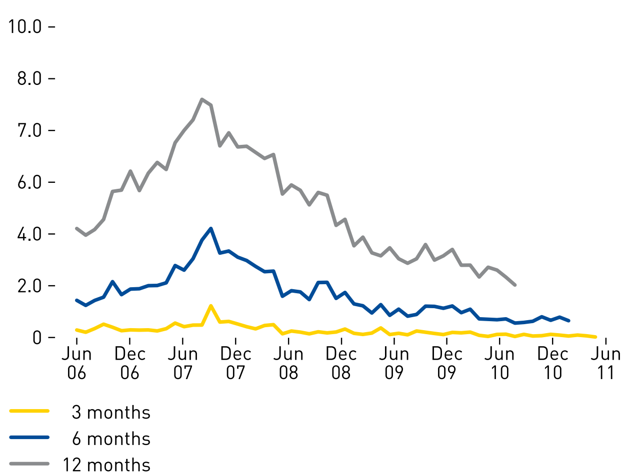
For FNB HomeLoans, the 3, 6 and 12 month cumulative vintage analysis illustrates a marked improvement in the quality of business written since mid 2008. The more recent decreases in the default experience reflect a combination of the credit origination strategies and the favourable interest rate environment.

FNB HomeLoans vintage analysis



The WesBank retail 6 and 12 month cumulative vintage analysis continues to show a noticeable improvement in the quality of business and the favourable interest rate environment.

WesBank retail vintage analysis



Despite the reduction in debt servicing costs as a result of lower interest rates and the subsequent improvement in affordability, credit appetite has not increased considerably. Consumers remain leveraged and vulnerable to shifts in the external economic environment and concerns remain with regards to unemployment prospects and renewed uncertainty around the macroeconomic outlook.

Large corporate credit exposures arise mainly from:

- term-lending activities in RMB's Investment Banking division;
- short-term exposures from overdraft and working capital facilities provided in GTS Corporate and Transactional Banking; and
- short-term money market exposures in RMB's Fixed Income, Currency and Commodity ("FICC") business.

In addition, exposures resulting from financial market activities, such as cash placements by Group Treasury at other institutions, and credit exposure resulting from positive mark-to-market movements on derivatives and securities financing activities (e.g. reverse repos), are also managed as part of the wholesale credit process.

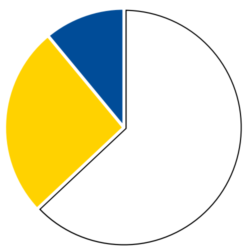
The performance of the Group could be negatively impacted by a large wholesale exposure default. These exposures are, however, diversified and actively managed to mitigate this risk. In addition, risk management processes and prudential limits are in place to limit the loss in the event of default for each exposure. Prudential limits for wholesale credit exposures are set considering the following:

- *Credit risk capacity and appetite:* the Group's own credit risk capacity and appetite for wholesale lending activities has been determined considering an acceptable level of earnings volatility resulting from credit related losses.
- *Counterpart debt capacity:* the client's debt capacity, ability and willingness to repay its debt, remain key consideration. A counterpart's prudential limit will be capped at its own debt capacity.
- *Risk sharing:* the Group's appetite to participate in the counter-part's debt capacity is informed by when, and to what extent, the Group will share risk with other banks.

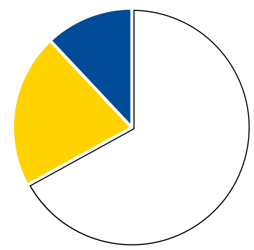
The Wholesale portfolio has remained resilient despite the market downturn in the past few years, including the year under review. The domestic operating environment remains challenging for new business wholesale credit origination. This is due to subdued economic growth and low corporate activity coupled with recent trends of narrowing of credit spreads as demand for credit assets outweighs supply. RMB has, however, been able to participate in a larger percentage of the available deals in the market whilst improving the rating distribution composition of the portfolio as illustrated below.

Wholesale credit portolio ratings composition

Portfolio ratings June 2010



Portfolio ratings June 2011



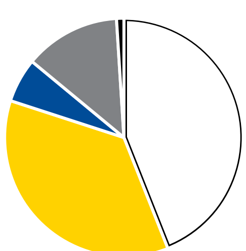
Market risk

The financial performance of the Group and its ability to realise positions at a favourable return is dependent on market conditions and the environment in which it operates. The Group's business in the market risk space is, in the main, affected by the level of underlying market activity and client flows, volatility of underlying markets, and the absence or presence of clearly trending markets.

FirstRand's market risk resides predominantly within the trading activities of RMB. As part of its strategy, RMB has continued to strengthen its domestic client-driven activities and maintain a conservative strategy for proprietary risk taking in line with its risk appetite framework. Proprietary risk taking remains at low levels compared to past history. Trading activities constitute before tax 13% of RMB's and 4% of the Group's pre-tax profit.

The bulk of the Group's market risk results from activities in equity and fixed income markets in South Africa can be seen from the chart below showing the distribution of exposures per asset class across the Group's trading activities at 30 June 2011 based on the expected tail loss ("ETL") market risk measurement methodology.

Composition of ETL exposure for FirstRand Bank (audited)



Going forward it is expected that RMB will continue its focus on corporate client acquisition that will generate increased client flows for the trading units. Proprietary risk taking will remain within defined risk appetite parameters and will be dependent on market conditions.

Equity investment risk

Portfolio investments in equity instruments are primarily undertaken in RMB, but certain equity investments have been made by WesBank, FNB and Corporate Centre. Positions in unlisted investments in RMB are taken mainly through its Private Equity, Resources and Investment Banking divisions, while listed investments are primarily made through the Equities division.

The investment portfolio remained resilient over the past year and overall the quality of the investment portfolio remains acceptable and within risk appetite. The Private Equity division earnings performance was dominated by the realisation of the Davita Trading exposure.

The Group continues to build its private equity portfolio with the view that the current market presents a limited number of attractively priced investment opportunities. Some segments of the portfolio exposed to specific industries and/or geographies have come under pressure given the current macroeconomic environment with impairments being raised in certain instances. Overall unrealised profits for the portfolio remain resilient.

The RMB private equity portfolio is equity accounted, which results in lower volatility in the portfolio's earnings stream. The appetite for investment risk has remained constant.

Funding and liquidity risk

The banking sector in South Africa is characterised by certain structural features, such as a low discretionary savings rate and a higher degree of contractual savings that are captured by institutions such as pension funds, provident funds and providers of asset management services. A portion of these contractual savings translate into institutional funding for banks, which has higher liquidity risk than retail deposits. Given these structural issues, and as a result of the significant growth in risk weighted assets between 2001 and 2007 the overall proportion of institutional funding for SA banks increased. This is reflected in the chart below.

	30 June 2011 (% of funding liabilities)			
Funding source	Total	Short-term	Medium-term	Long-term
Foreign	5	5	3	8
Other	1	1	2	2
Public sector	8	11	9	2
Retail	21	27	20	6
Corporate	21	29	11	9
Institutional	44	27	55	73
Total	100	100	100	100

Source: SA banking sector aggregate SARB BA900 returns (30 June 2011), FirstRand research.

This in turn means that short-term, expensive institutional deposits are utilised to fund longer-dated assets such as mortgages. Liquidity risk in the South African banking system is therefore structurally higher than in most other markets. However, this risk is to some extent mitigated by the following factors that contributed to South Africa's resilience during the recent global financial crisis:

- The so-called "closed Rand" system, whereby all Rand transactions (whether physical or derivative) have to be cleared and settled in South Africa. FirstRand is one of the major clearing/settlement agents. The payments and settlement system in South Africa is currently only open to registered banks in South Africa.
- The institutional funding base is fairly stable as it is, in effect, recycled retail savings.
- The country has a prudential exchange control framework in place.
- South Africa has a low dependence on foreign currency funding (i.e. low roll-over risk).

FirstRand's objective is to fund its activities in a sustainable, diversified, efficient and flexible manner, underpinned by strong counterparty relationships within prudential limits and requirements. The objective is to maintain natural market share, but also to outperform at the margin, which will provide the Group with a natural liquidity buffer.

The Basel III guidelines, published in December, propose two new liquidity metrics: The Liquidity Coverage Ratio ("LCR"), effective 1 January 2015, which measures short-term liquidity stress; and the Net Stable Funding Ratio ("NSFR"), effective 1 January 2018, which measures the stability of long-term structural funding. The Basel Committee on Banking Supervision ("BCBS") has put processes in place to ensure the rigorous and consistent global implementation of the Basel III Framework. The standards will be phased in gradually so that the banking sector can move to the higher liquidity standards while supporting lending to the economy. Both the LCR and the NSFR will be subject to an observation period and will include a review clause to address any unintended consequences.

Currently FirstRand and most of the South African banking industry do not meet the minimum quantitative requirements. This is due to the structural funding issues described above. These issues have been recognised by the South African Regulators, banking industry and National Treasury. In response, and under the guidance of National Treasury, a Structural Funding and Liquidity task team has been established and mandated to assess the impact and subsequently make recommendations to the Finance Ministry on how the banking industry effectively deals with the proposed regulations.

Interest rate risk in the banking book

The two largest components of interest rate risk in the banking book are the endowment effect and interest rate mismatch.

The endowment effect results from a large proportion of "endowment" liabilities (including sticky deposits and equity) that fund variable-rate assets (e.g. prime-linked mortgages), therefore, bank earnings are vulnerable to declining interest rates. The endowment effect accounts for the majority of the interest rate risk in the banking book, which is exposed to further rate cuts. The Group continues to evaluate options to protect this risk on an ongoing basis.

From an interest rate mismatch perspective, the Group also hedges its residual fixed-rate position, which has been adjusted for optionality (e.g. pre-payments).

Capital

The overall capital management objective is to maintain sound capital ratios and a strong credit rating to ensure confidence in the solvency and quality of capital of the Group during calm and turbulent periods in the economy and the financial markets.

FirstRand operated above its targeted capitalisation range with a total capital adequacy of 16.5% and a solid Tier 1 ratio of 15.0% as illustrated below.

	FirstRand		FRB*		Regulatory minimum
	Actual	Target	Actual	Target	
Capital adequacy ratio (%)	16.5	12.0 – 13.5	14.2	11.5 – 13.0	9.5#
Tier 1 ratio (%)	15.0	11.0	12.4	10.5	7.0
Core Tier 1 ratio (%)	13.8	9.5 – 11.0	11.4	9.0 – 10.5	5.3

* *Reflects solo supervision, i.e. FRB excluding branches, subsidiaries and associates.*

\# *The regulatory minimum excludes the bank specific (Pillar 2b) add on and capital floor.*

The optimal level and composition of capital is determined after taking into account business units' organic growth plans – provided financial targets are met – as well as expectations of investors, targeted capital ratios, the issuance of additional capital instruments, the need for appropriate buffers in excess of minimum requirements, rating agencies' considerations and proposed regulatory changes. Allocating resources, including capital and risk capacity effectively in terms of the risk appetite targets and in a manner that maximises value for shareholders is a core competence and a key focus area. Sound capital management practices, therefore, form an important component of the Group's overall business strategy. Moreover, performance measurement is aligned with the allocation of risk and continually enhanced to drive the desired behaviour. The effectiveness of the capital allocation decisions and the efficiency of its capital structure are important determinants of the ability to generate returns for shareholders. The Group seeks to hold limited excesses above the capital required to support its medium-term growth plans (including appropriate buffers for stresses and volatility) and future regulatory changes.

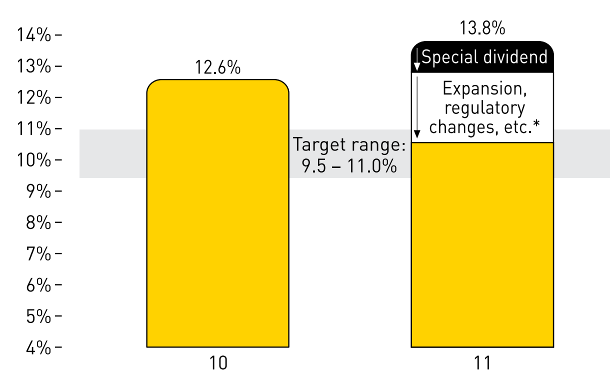
The total capital plan includes a dividend policy, which is set in order to ensure sustainable dividend cover based on sustainable normalised earnings. This also takes into account volatile earnings brought on by fair value accounting, anticipated earnings yield on capital employed, organic growth requirements and a safety margin for unexpected fluctuations in business plans.

In the last 12 months FirstRand's core capital has benefited from several windfalls, the largest of which arose from the sale of OUTsurance. As these windfalls are surplus to the Group's current requirements, a special dividend was declared to return this excess to shareholders.

The Group currently finds itself in an environment of regulatory uncertainty. The final Basel III framework released in December 2010 although comprehensive left a number of key issues unresolved. These guidelines are yet to be incorporated into the South African Reserve Bank ("SARB") regulations. Guidance is expected from the Regulator during the first quarter of 2012. The Group continues to participate in the six-monthly BCBS quantitative impact study, with updated calculations showing that the Bank and the Group will continue to operate above the current regulatory minimum and internal minimum requirements. Although the Basel III proposals have not yet been outlined in the domestic regulations the Group has increased the targeted capital levels in anticipation of the implementation of Basel III.

The Group currently targets a Core Tier 1 ratio of between 9.5% – 11.0% with the current Core Tier 1 ratio being 13.8%. The graph below indicates what strategies the Group will implement to move the current ratio within the targeted range.

Core Tier 1



** Illustrative.*

Performance measurement is on a risk adjusted basis and is continually enhanced to drive the desired behaviour. Economic profit or net income after capital charge ("NIACC") is embedded in the management of the business. For the year ended 30 June 2011, the Group achieved positive NIACC and generated value for shareholders.

NON-FINANCIAL RISKS

Operational risk

Operational risk relates to the risk of loss arising from shortcomings or failures in internal processes, people or systems, or from external events.

Banks have to be able to process large numbers of simple and complex transactions on a daily basis. The ability to process these transactions effectively could be impacted by failure of IT systems, internal or external fraud, large litigation, business disruption or process failure. Disruption in power supply, complex systems and interconnectivity with other financial institutions and exchanges increase the risk of operational failure.

Operational risk could also cause reputational damage, and therefore, efforts to identify, manage and mitigate operational risk should be equally sensitive to reputational risk as well as the risk of financial loss.

The Group manages operational risk using Group-wide control standards supported by commitment of senior management, independent oversight by Enterprise Risk Management ("ERM"), active participation by deployed segment and divisional risk managers, and training of staff in a process of identifying, measuring, monitoring and reporting operational risk. In this process, the Group uses a variety of best-in-class approaches and tools in the assessment and management of operational risk. ERM, a risk management function independent of the revenue-producing units, is also responsible for developing and implementing the framework to manage operational risks, and provides regular reports of operational risk exposures to the board.

Extensive focus and effort has started yielding positive results in terms of reduced operational risk losses and an improved control environment.

Conclusion

As a large financial services provider in South Africa and Africa, it is critical that FirstRand's risk and earnings profile is appropriate in terms of its strategy and the macro environment in which it operates. The Group consistently monitors all external risk factors and adjusts its strategy accordingly.

The Group's core strategy remains consistent to deliver long-term sustainable returns to shareholders, within appropriate levels of volatility. Whilst the operating environment continues to deteriorate and is expected to remain highly uncertain for the current financial year. The Group's strategy to focus on growth in annuity income, particularly transactional revenues, should result in healthy NIR growth particularly given FNB's focus on innovation and customer service delivery and WesBank's strong transactional franchise. In addition the strength of RMB's investing, trading and advisory franchises will continue to contribute. However, growth in retail advances will remain low and, given the current muted levels of business volumes and corporate activity, corporate advances will also continue to be subdued.

Given this scenario, the Group believes it has the appropriate earnings mix and balance sheet strength to navigate the expected challenges. The quality of the Group's operating franchises and their respective strategies domestically and in the rest of Africa should underpin FirstRand's ability to deliver sustainable superior returns over the long-term.

Johan Burger
Chief operating officer and Chief financial officer

franchise value

In this "new normal" operating environment a strong client franchise represents a real underpin to value.

For the Group this is reflected in the quality of its operating divisions the resilience of its earnings and the strength of its balance sheet.

– JOHAN BURGER

Review of operations

Michael Jordaan

CEO, First National Bank

FNB's strategy to focus on customer relationships, supported by appropriate product and channel innovation, as well as targeted pricing strategies, continues to produce positive results.

+17%
Normalised earnings

36%
Return on equity (ROE)

+29%
Decrease in bad debts

FNB – South Africa and Africa

MARKET DYNAMICS

FNB's operating environment continued to be challenging and uncertain, despite sustained low interest and inflation rates. Given these uncertainties, consumers and business remain cautious. The South African private credit extension growth remains muted due to the ongoing high levels of indebtedness, particularly in the middle market, and subdued residential property prices. This has been particularly challenging for customer acquisition and advances growth strategies. Demand for corporate working capital remains slow as corporate balance sheets remain strong and capital investment activity limited.

Sub-Saharan Africa's economic recovery is well under way, although there is variation in the speed of the recovery across the region. In most of the countries, growth is almost back to pre-credit crisis levels. Rising food and fuel prices are fuelling inflation pressures and presenting a challenge to macroeconomic management. Exports are rising, but African economies continue to rely heavily on commodity exports. Despite rebounding sharply in 2010, GDP growth in sub-Saharan Africa is expected to strengthen further in 2011 and 2012.

Against this background FNB continued to focus on building its diversified franchise on the back of customer acquisition, additional services and value-adding initiatives, to produce robust profitability on a sustainable basis. In the short term this will be achieved through the continued proactive management of credit and related impairments, increasing market share in transactional products and driving efficiencies. The medium-term focus will be on driving new innovations, investments in Africa and improved customer value propositions.

FNB has identified certain growth opportunities within the Mass, Wealth and Corporate segments and executed on a number of these and other operational initiatives during the period under review.

Progress on strategy

FNB's strategy, aligned with the overall FirstRand strategy, is to grow its domestic franchise in market segments where it is currently under-represented and target selected African countries for investment. It enters these markets focusing on innovative products and delivery channels, especially favouring electronic platforms.

FNB has identified certain growth opportunities within the Mass, Wealth and Corporate segments and executed on a number of these and other operational initiatives during the period under review.

Over the past five years FNB was very successful in growing its franchise in the Mass market and now has over four million customers in this segment. It achieved this through a strong focus on delivering innovative and low cost transactional banking services. However, despite recent growth, it remains relatively underweight in lending activities to these customers. To address this gap, FNB continues with the rollout of its EasyPlan strategy, which represents a low cost banking offering to Mass segment customers. The EasyPlan branches are well positioned in Mass market activity hubs, are open longer than the traditional branches and are supported by low cost channels for lending, insurance, savings and transactional products and services and have ADTs to satisfy customer cash transactional needs. The FNB EasyPlan offering is competitively priced which should support further growth in this segment.

Effective January 2011, FNB acquired 100% of BJM's highly regarded private client and stockbroking business which has now been integrated with the existing Wealth segment. This now provides customers with a more holistic wealth offering which may ultimately be marketed under the award-winning Ashburton brand.

In the prior year FNB Corporate's relationship management team was integrated with RMB to establish a single CIB Coverage team. Subsequently, the majority of the business units that remained in FNB Corporate were reorganised to form Global Transactional Services ("GTS"). Following a strategic review of the Group's corporate transactional banking activities, it was agreed that FNB GTS and RMB should be under common leadership. As a result, FNB's GTS business remains FNB "branded" but now reports to the CEO of RMB and Head of Corporate and Investment Banking effective 1 July 2011.

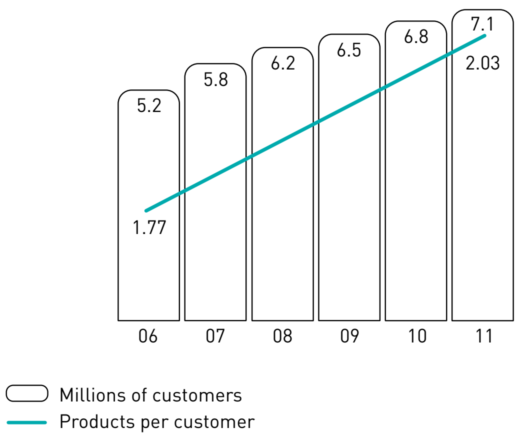
In terms of its growth strategy in Africa, FNB continues to expand its operating platforms in Zambia and Mozambique. Regulatory approval has been obtained in Tanzania for the establishment of a full-service retail and commercial bank which has commenced operations. Alongside other FirstRand franchises, FNB continues to assess opportunities in identified priority countries such as Nigeria and Ghana.

Key performance indicators

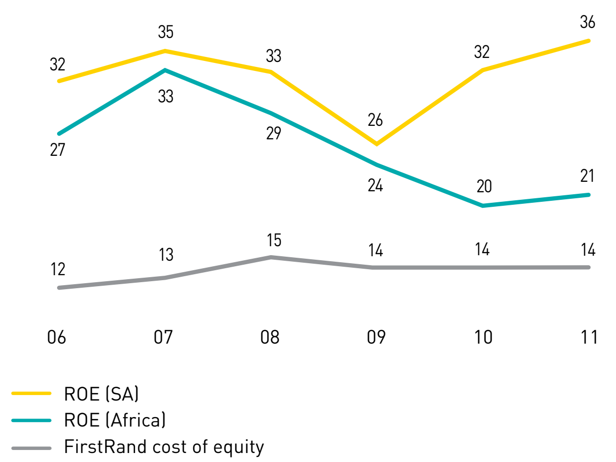
GROWTH IN CUSTOMERS AND CROSS SELL FOR FNB SOUTH AFRICA

FNB's strategy to focus on customer relationships, supported by appropriate product and channel innovation, as well as targeted pricing strategies, continues to produce positive results, as evidenced below with the ongoing growth in customer numbers. Cross sell has improved over the longer term, however, it has remained relatively flat year-on-year largely impacted by new customer acquisition rates as well as customer attrition which is impacted by the negative macro factors such as job losses and slow economic recovery.

Growth in customers and cross sell for FNB South Africa



ROE – South Africa and Africa (%)

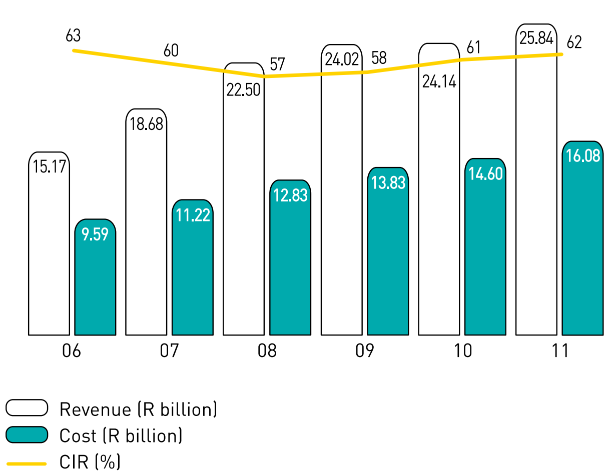


REVENUE AND COST-TO-INCOME RATIO

FNB's overall revenues increased during the period despite the pressure on net interest income ("NII") in the first half of the financial year resulting from low balance sheet growth and the continued negative endowment impact on deposit margins. FNB continues to benefit from the lower cost base created by below inflation cost growth in prior periods, however, the macro pressures on the topline, combined with the investments in growth strategies has resulted in the cost-to-income ratio remaining at similar levels to that reported at half year. FNB continues to believe that the ongoing cost initiatives being implemented will support profitability and ROE in the medium term as revenue growth remains challenging.

In line with FirstRand's decision to bring the calculation of its cost-to-income ratio in line with industry practice FNB will adopt the same methodology in the next financial year.

Revenue and cost-to-income ratio



ROE is a key performance management ratio for the Group and FNB's ROE remains well above FirstRand's cost of equity. The ongoing improvement in the South African ROE in the period to June 2011 is driven largely by improved profitability and the capital impact of lower advances growth together with efficient management of allocated capital.

The ROE for Africa represents the complete Africa portfolio (which includes FICC activities) and is very pleasing at 21% as it includes the significant investment FNB continues to make in building out its franchise in new jurisdictions and reflects the Group's strategy to protect returns as it expands.

Financial highlights

	FNB – South Africa			FNB – Africa		
R million	2011	2010	% change	2011	2010	% change
Net interest income	**9 775**	9 512	3	**1 821**	1 594	14
Non-interest revenue	**15 959**	14 515	10	**1 392**	1 147	21
Operating expenses	**(16 078)**	(14 604)	10	**(1 771)**	(1 503)	18
Income before indirect tax	**7 321**	6 113	20	**1 385**	1 178	18
Indirect tax	**(377)**	(307)	23	**(35)**	(32)	9
Income before direct tax	**6 944**	5 806	20	**1 350**	1 146	18
Normalised earnings	**5 022**	4 276	17	**540**	455	19
Advances	**208 680**	199 113	5	**22 639**	19 645	15
Total deposits	**212 751**	194 014	10	**28 166**	26 628	6
Assets under administration ("AUA")	**89 072**	45 837	94	**1 540**	1 473	5
Cost-to-income (%)	**62.2**	60.5		**55.0**	54.7	
NPLs (%)	**6.4**	7.8		**1.6**	2.1	
ROE based on normalised earnings (%)	**35.7**	31.8		**21.4#**	20.0#	

* *June 2010 finalised results have been restated for the transfer of business units, the significant ones being the transfer of the Forensics and Fraud unit from the FirstRand Corporate Centre to FNB SA and the transfer of the results of the FICC activities in the African jurisdictions to RMB FICC.*

\# *Includes RMB FICC earnings and ROE.*

The rollout of FNB EasyPlan branches resulted in an overall increase in branch representation points, despite a reduction in full service traditional branches given the strategy to ensure optimisation of the overall network, whilst the ATM footprint growth reflects the electronic channel migration strategy. Expansion and investment in infrastructure on the rest of the continent is reflected in the strong growth in representation points and ATMs in FNB Africa.

	FNB – South Africa			FNB – Africa		
	2011	2010	% change	2011	2010	% change
Representation points (branches, agencies, EasyPlan)	**722**	667	8	**101**	95	6
ATMs	**5 906**	5 557	6	**556**	511	9

Operational highlights

- FNB voted the "Best Reputation" among the South African banks by the 2010 Reputation Pulse Survey.
- FNB also voted "Most Innovative Bank", through the 2010 Innovation Agency Banking Innovation Study.
- FNB was rated as first in the recent PwC peer review for internet banking.
- EasyPlan branch representation has increased to 117 points of presence (June 2010: 15) across Gauteng, KwaZulu-Natal, Eastern Cape, Western Cape and Mpumalanga.
- The personal cheque accounts base reflects an 18% growth from June 2010.
- FNB continues to leverage on its successful cell phone banking with three million customers registered to date and its newest offering, eWallet, is generating strong transaction volumes.
- FNB Custody rated by the Global Custodian Magazine as the "Top Rated" provider of clearing, settlement and asset servicing in South Africa for 2010.
- FNB Public Sector Banking awarded the tender for the Gauteng provincial account for the next five years.
- The combined FNB Wealth franchises, RMB Private Bank and FNB Private Clients, were rated top private bank by Euromoney in the current year.

- FNB Namibia received the Chartered Secretaries Southern Africa and JSE Limited award for best sustainable business reporting in 2010.
- FNB Botswana won the Euromoney award and the PwC Best Annual Report award for the Financial Services Sector 2010/2011.
- FNB Swaziland was awarded second place in "The Employer Business Leader of the Year" awards 2011 hosted by the Federation of Swaziland Employers and Chamber of Commerce.

Performance commentary

FNB South Africa produced a strong performance for the year, growing pre-tax profits by 20%. This was underpinned by a 29% decline in bad debts largely emanating from HomeLoans and Card, and a 10% increase in NIR.

FNB's costs for the first half to December 2010 grew at 10.8% and the full year growth is at 10.1%; which is a good performance given the ongoing investment in the business, such as the rollout of the EasyPlan infrastructure from 15 branches at June 2010 to 117.

To date FNB has not followed "a one size fits all" approach to costs particularly given the diversity of its business and it expects to continue with this strategy. In the future, cost tightening can be expected in those business units that are experiencing pressure on performance and cost increases in those business units where investment in growth opportunities continues.

The overall impairments charge and ratios from residential mortgages continued to decline as detailed below, this was despite significant increases in the Wealth segment. These increases were expected given the lag effect of deteriorating credit quality in this segment, combined with a refinement in write-off policy and the process changes in collections.

R million	Advances	Impairment charge	Impairments to average advances %
Affordable Housing	8 197	71	0.98
HomeLoans	106 864	740	0.69
Wealth	40 913	405	1.03
Residential mortgages – June 2011	**155 974**	**1 216**	**0.79**
Residential mortgages – June 2010	152 512	1 420	0.95
Residential mortgages – June 2009	147 937	2 374	1.60

NII increased marginally second half on first half as a result of lower endowment margins and slightly higher advances growth. The growth in NIR includes the annual inflationary price increase but also reflects 3% growth in customers and good growth (14%) in transactional volumes. Migration by customers to less expensive electronic channels continued, reflecting FNB's strategy to encourage customers (particularly through pricing) to use these cheaper channels. As a result, NIR will continue to remain under pressure until the change in channel mix is fully offset by market share gains and a reduction in the cost of physical infrastructure, some of which is evident this year.

Despite interest rates being at 36 year lows, advances growth was muted due to continued deleveraging by over-indebted consumers. The HomeLoans (reduction of 2%) and Card (flat) advances growth indicated that the credit market is still experiencing a slow recovery specifically in the consumer segment or middle market.

Deposit growth of 10% was achieved through a proactive strategy in a low yield market where customers preferred to improve cash holding positions and reduce risk to balance sheets. Current, savings and transmission accounts as well as notice deposits showed good growth of 18% and 30% respectively on the back of transactional market share gains.

SEGMENT PERFORMANCE

Income before direct tax

	FNB – South Africa		
R million	2011	2010	% change
Mass	1 449	1 321	10
Consumer	3 063	1 876	63
– HomeLoans	63	(305)	>100
– Card Issuing	953	518	84
– Other Consumer	2 047	1 663	23
Wealth	130	300	(57)
Commercial	2 135	2 034	5
GTS (formerly Corporate)	530	520	2
FNB Other and Support	(363)	(245)	(48)
FNB – South Africa	**6 944**	5 806	20
FNB Africa	**1 350**	1 146	18
Total FNB	**8 294**	6 952	19

As previously reported, FNB's segment view is not a "pure" indication of FNB's penetration into each segment as it depends on the product segment categorisation as well as internal service level and revenue arrangements. Further, continuous segment refinement occurs, such as the transfer pricing model changes and the transfer of business units. As such the June 2010 results have been restated in order to ensure performance comparability.

MASS (SMART SOLUTIONS)

R million	2011	2010	% change
NII	1 141	1 068	7
NIR	3 991	3 724	7
Operating expenses	(3 169)	(2 930)	8
Income before direct tax	1 449	1 321	10
Impairments as % of advances	4.33	6.03	
NPLs (%)	5.8	6.5	
Advances	12 103	9 233	31
Deposits	9 036	8 592	5

Smart and Mzansi accounts
Microloans (SmartSpend)
Cellphone banking and Prepaid products
Housing Finance (SmartBond & Smart Housing Plan)
FNB Life
FNB Connect
FNB EasyPlan

This segment focuses on individuals earning less than R100 000 per annum and is principally serviced by FNB Smart branded products and services.

The Mass segment's performance reflects limited growth in NII due to margin squeeze on the endowment products, partly offset by interest income growth on the advances products. Despite increasing competition, advances growth was robust reflecting the strong franchise FNB has developed in this market. The increase in advances was driven mainly by growth in affordable housing where sales increased 13%. Excellent ongoing growth in prepaid airtime turnover and revenue from bancassurance strategies also contributed positively. FNB Life continued to perform well despite policy lapse rates, with in-force policies increasing 10% to 4.3 million driven mainly by funeral policies.

The decrease in the bad debt charge is in line with the continued focus on cash collections across the business which resulted in declining early arrears levels.

A significant portion of the increase in operating costs resulted from investment in future growth strategies such as EasyPlan and Cellphone Banking. Other operating costs have been contained to grow in line with inflation.

franchise value

CONSUMER

R million	2011	2010	% change
NII	4 278	4 222	1
NIR	5 555	4 943	12
Operating expenses	(5 645)	(5 091)	11
Income before direct tax	3 063	1 876	63
HomeLoans profit before direct tax	63	(305)	>100
Card Issuing profit before direct tax	953	518	84
Impairments as % of advances	0.87	1.74	
NPLs (%)	6.5	8.6	
Advances	122 215	122 289	<1
Deposits	64 266	58 715	9

Cheque and Transmission products (including overdrafts)
Investments and equity products
Personal loans (including student loans)
FNB Insurance Brokers
eBucks
HomeLoans (including One Account)
Card Issuing
Retail Forex

This segment focuses on providing banking and insurance solutions to customers with income ranging from R100 000 to R1.1 million per annum as well as certain subsegments (youth and teens, students, graduates and seniors).

The improvement in the segment's performance is largely attributable to a recovery in Card Issuing and HomeLoans and a healthy increase in transactional revenues.

The largest positive impact on profits is the significant reduction in bad debts as a result of the decrease in NPLs and arrears and includes Card Issuing's increased post write-off recoveries, benefiting in the current year from the policy change. However, consumers in this segment remain under pressure which could negatively impact improvements in the medium term.

NII increased marginally due to improved advances margins and robust growth on higher margin deposit products offset by the endowment impact of lower interest rates.

The NIR increase is driven by increased activity in the transactional business on the back of an increased number of accounts.

Advances balances declined across all lending categories except personal loans and overdrafts. Personal loan payouts (including student loans) have increased consistently at an average monthly increase of R26 million since September 2010.

Deposit growth is mainly attributable to current accounts and the success of the Flexi Fixed notice deposits campaign.

FNB HomeLoans

The positive turnaround in HomeLoans is due to several macro-economic factors, including low interest and inflation rates, together with improved collection processes and better quality new business.

Advances contracted 2% on flat sales, while write-offs and capital repayments continued to exceed the new business written. New business market share dropped marginally from 20% to 19%.

HomeLoans also benefited from slightly improved margins and decreases in interest suspended. Costs are up R123 million year-on-year mainly due to staff costs. Professional fees are also up due to increased forensic investigation and collection costs.

Card Issuing

Card Issuing delivered a strong performance despite muted customer growth and a static advances book. The strong profit growth can mostly be attributed to the continuing decline in NPLs and arrear balances as a result of improved collection strategies. Post write-off recoveries made a significant positive contribution towards the profit earned. Card turnover remained robust at 9% higher than the previous year and can be attributed to market leading customer loyalty initiatives and value-adds.

WEALTH

R million	2011	2010	% change
NII	**875**	875	–
NIR	**870**	725	20
Operating expenses	**(1 204)**	(1 073)	12
Income before direct tax	**130**	300	(57)
Impairments as % of advances	**1.03**	0.62	
NPLs (%)	**6.8**	6.7	
Advances	**40 913**	37 710	8
Deposits	**19 559**	15 772	24
AUA	**89 072***	45 837	94

** Including BJM.*

RMB Private Bank
FNB Private Clients
FNB Trust Services
Islamic Finance
Ashburton and FirstRand Trustees
BJM

This segment focuses on providing private banking and investment solutions to customers earning an income above R1.1 million per annum as well as certain trust, fiduciary and offshore investment services to all retail customers. New to the segment this year is BJM, which has added a number of additional service offerings for clients including stockbroking.

This segment's profitability was impacted by a more aggressive stance on NPLs and the refinement of the write-off policy, together with a change in collection strategy in light of continuing concerns about self-employed customers. This had a significant impact on bad debts, thus driving down overall profit.

Advances increased due to ongoing new client acquisition and conversions, achieved despite increased pricing and resultant improved margins.

NIR increased strongly due to increases in traditional banking activities and very good growth in international earnings together with BJM being consolidated for the first time (excluding BJM NIR is up 9%). The 12% operating cost increase is largely attributed to the inclusion of BJM; excluding this, the cost increase is in line with inflationary growth at 4%.

Deposit growth was strong despite higher yields in alternative investments in the current low interest environment and customers focusing on repaying debts. The growth was mainly achieved on the back of innovative product offerings.

AUA continues to grow due to good investment selection and despite the negative impact on Ashburton values in Rand terms due to appreciation of the currency. The acquisition of BJM added R40.1 billion to AUA.

COMMERCIAL

R million	2011	2010	% change
NII	**2 955**	2 905	2
NIR	**3 548**	3 334	6
Operating expenses	**(4 005)**	(3 739)	7
Income before direct tax	**2 135**	2 034	5
Impairments as % of advances	**1.13**	1.59	
NPLs (%)	**6.1**	6.8	
Advances	**30 771**	28 178	9
Deposits	**67 421**	63 691	6

Small Business, Business and Medium Corporate transactional and overdraft products
Investment products
SMMEs
Commercial property finance
Debtor finance
FNB Leveraged finance, BEE funding, Niches
Merchant Services (SpeedPoint)

The Commercial segment is the provider of financial solutions, including working capital solutions, structured finance, investment products, transactional banking and term loans to Mid Corporate, Business and Small Business subsegments.

The Commercial segment produced good profit growth given the endowment pressure on deposit margins and sluggish activity levels, particularly in the international banking markets. Bad debts have decreased from the prior year, primarily due to a recovery in the overdraft book.

NIR growth was driven by a strong performance from merchant services as well as in transactional banking. The majority of this growth resulted from an increase in transactions volumes, including cash deposit fee increases due to the rollout of ADT machines, and 4% growth in active accounts.

Advances growth was driven by double digit growth in the Agric subsegment as well as owner-occupied commercial property and leverage and debtors finance. The residential and development finance book has declined due to the focus on unwinding the significant NPLs, resulting in an overall decline in NPLs.

Deposits have shown resilience but growth in investment accounts has been limited. The business strategy of dedicated teams bringing on balances has proven successful but retention remains a constant challenge in the low yield environment. The Money Market Maximiser and the Flexi Fixed Deposit product offerings have been very successful as specific client retention tools.

The increase in operating costs relates to variable costs on the higher transactional volumes, specifically the merchant services business.

GLOBAL TRANSACTIONAL SERVICES ("GTS") (FORMERLY CORPORATE)

R million	2011	2010	% change
NII	**521**	549	(5)
NIR	**1 401**	1 202	17
Operating expenses	**(1 365)**	(1 190)	15
Income before direct tax	**530**	520	2
Impairments as % of advances	**0.43**	0.68	
NPLs (%)	**0.7**	0.1	
Advances	**2 523**	1 697	49
Deposits	**34 361**	33 119	4

Global transactional banking solution and associated working capital solutions
Electronic Cash Solutions (SmartBox)
International banking
Custody services
Hyphen

This segment provides large corporate customers, financial institutions and certain state-owned enterprises, as defined in schedule 2 of the PFMA, with global transactional banking capabilities as well as cash flow optimisation and working capital solutions.

The segment's performance was affected by margin compression due to competitive activity, investment in system enhancements and low import/export activity placing significant pressure on revenue in cross-border payments and trade services.

+18% FNB Africa pre-tax profit

21% FNB Africa ROE

+15% FNB Africa growth in advances

NII was affected by margin pressure due to changes in the client mix of the advances book and a slight negative endowment impact on the deposit book.

NIR growth was linked to increased volumes but at lower margins due to increased competition and changes in product mix to cheaper electronic platforms. In the current economic conditions corporate customers are putting pressure on banks to provide more product functionality and services at a reduced cost.

Operating expenditure increased due to increases in variable costs associated with transactional activity and an increased focus on process and system investments that are expected to deliver new product offerings and cost efficiencies only in the medium term.

FNB OTHER AND SUPPORT

Included in FNB Other and Support are Public Sector, Banking Channels, Brand Management and Support.

Public Sector Banking

The segment provides transactional banking services and products to the three spheres of government namely: national, provincial and local government. Other clients include state-owned enterprises, universities and public schools. It also offers working capital and other short- and long-term finance products.

The segment achieved strong growth in deposit balances but an ongoing focus on strategic pricing and customised solutions remains critical to achieving customer growth.

Performance commentary – FNB Africa

The results of FNB Africa comprise the subsidiaries, FNB Botswana, FNB Namibia, FNB Swaziland, FNB Mozambique, FNB Lesotho and FNB Zambia as well as the support centre. The results of the RMB-managed operations in the subsidiaries are reported under RMB effective from this reporting cycle and as such the results reported below represent only the FNB component of subsidiary results.

R million	2011	2010	% change
Botswana profit before direct tax	**602**	534	13
Botswana profit before direct tax (BWP)	***573***	*479*	*20*
Namibia profit before direct tax	**757**	634	19
Swaziland profit before direct tax	**116**	103	13
Other profit before direct tax	**(125)**	(125)	–
Net profit before direct tax	**1 350**	1 146	18

Overall the African subsidiaries performed well despite significant investment activity across the portfolio resulting in increased operating expenses. As part of its strategy to further grow the existing franchise and operating footprint, FNB has invested significantly in Zambia and Mozambique in the period under review as well as in starting operations in Tanzania. This investment phase is expected to continue in the medium term with a parallel focus on service and electronic delivery channels to increase the customer base and drive up volumes and resultant NIR.

FNB BOTSWANA

The Botswana economy is showing healthy growth with improved commodity exports. FNB Botswana has specifically focused on growing its share of the retail market where margins are higher and the property market where the risks are lower.

The strengthening of the Rand reduced the positive impact of Pula growth with net profit before tax increasing 20% to P573 million, benefiting from balance sheet growth and increased transactional volumes.

Advances increased 24% (26% in Pula) particularly in the retail and property segments, and deposits increased 0.4% (5% in Pula) as the Bank consciously reduced its Bank of Botswana Certificate exposure to establish a more representative market share.

Impairments increased at a slower rate than that of lending as credit quality remains a priority.

FNB NAMIBIA

Indicators of a recovery in domestic demand remain tentative and future improvements will be dependent on the global economic position going forward. Primary sector output held up quite well throughout 2010, with strong performances from the agricultural and mining sectors.

Against this background, FNB Namibia's profits before tax increased 19% to R757 million. The good performance is largely attributed to a healthy credit book and good transactional volumes. In addition, the capital structure was refined in the current year resulting in a special dividend of R455 million.

In the banking activities, margin pressure was experienced as a result of the low interest rate cycle and the slow growth in credit extension.

Gross advances growth originated primarily from mortgages and agricultural loans while surplus liquidity in the market contributed to the increase in deposits.

FNB SWAZILAND

FNB Swaziland performed well in a low growth macro environment. Net profit before tax for the period increased 13% as a result of good margins, a healthy credit book and robust transactional volumes.

Gross advances increased 13% as FNB Swaziland gained market share.

The sovereign risk related to Swaziland has been considered and where appropriate the exposures have been derisked.

FNB MOZAMBIQUE

Continued investment in the FNB Mozambique franchise and infrastructure in the medium term will place pressure on short- to medium-term profit growth, but it will position the business on a strong platform for the future.

The increased network has already resulted in good growth in advances, account numbers and resultant transactional volumes which has positively impacted revenue.

FNB LESOTHO

FNB Lesotho increased profitability due to good client acquisition and increased balance sheet volumes.

FNB ZAMBIA

Increased production in copper combined with significant increases in the copper price, is driving strong economic growth in Zambia. As a result, growing the operating infrastructure remains a priority for FNB Zambia and there are currently five branches in operation.

The deposit base increased in line with the branch expansion and this is supporting sustainable growth in advances. Good client acquisition resulted in substantial balance sheet growth and the business is gaining good traction.

Looking forward

Growth in advances is expected to lag nominal GDP growth as levels of consumer indebtedness are still at historic highs and high unemployment and global volatility remain negative factors. FNB does expect its strong banking franchise to benefit from economic activity and it continues to actively pursue additional growth through various strategies across its segments, particularly in those markets showing above average growth or where FNB is under-represented. However, achieving topline growth will be a challenge and, therefore, cost management and innovation remains a key focus for management.

It is anticipated that the migration to electronic channels will continue to place pressure on both revenue (lower unit pricing on electronic transactions), and cost (leveraging fixed infrastructure), however, ongoing improvements in credit quality, the acquisition of new customers, cost management and the rollout of innovative products and channels that meet customer needs should ensure sustainable returns.

In Africa, FNB will continue to expand its operating footprint supported by its South African platform; FNB Mozambique, FNB Zambia and the new FNB Tanzania will continue to focus on consolidating newly opened branches and the expansion of new branches, products and services.

Alan Pullinger

CEO, Rand Merchant Bank

RAND MERCHANT BANK
A division of FirstRand Bank Limited

Ongoing strategic imperatives remain anchored around strengthening the client franchise both locally and regionally with trading and investing activities being scaled appropriately

+9%
Normalised earnings

29%
Return on equity (ROE)

68%
of gross revenue from client flows

RAND MERCHANT BANK

MARKET DYNAMICS

The global and domestic environment proved challenging in the 12 month period to 30 June 2011. Uncertainty in markets prevailed as ongoing risks associated with US and European sovereign debt levels continued. Whilst emerging countries and specifically the domestic economy fared slightly better, corporate activity remained subdued. Client flows in the equity markets did see improved volumes but the fixed income, currency and commodities arenas were impacted by slower trade and lower business volumes.

These pressures on flows coupled with declining margins, Rand strength and decreased volatility meant that RMB's Equities and FICC business units experienced a difficult year. However, despite these headwinds RMB delivered a strong performance, with excellent results emanating from the Investment Banking and Resources business units.

Progress on strategy

RMB's risk appetite framework remains central to ensuring that its portfolio continues to reflect the appropriate mix of client, trading and investing activities in order to preserve and enhance the quality of earnings. Ongoing strategic imperatives remain anchored around strengthening the client franchise both locally and regionally with trading and investing activities being scaled appropriately.

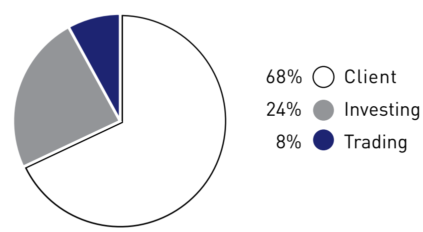
In the current year the integration of RMB and FNB's relationship management teams was completed to create a combined coverage unit ("Coverage"). The cooperation between corporate and investment banking teams improved substantially and lays the foundation for further integration in the year ahead. New client opportunities are tracking in line with expectations and some early benefits of an aligned client focus are being realised.

Good progress has been made on initiatives aimed at growing the African franchise. The focus has been on building investment banking and trading activities in jurisdictions where FNB currently operates as well as capturing trade and investment flows into Africa from key Asian markets such as India and China. During the current year, RMB deployed investment banking and trading resources into FNB's Namibia, Botswana, Zambia and Mozambique operations as well as expanding the Coverage team to include resources focused exclusively on Africa. A number of transactions in key sectors such as resources, commodities, energy and property were concluded in Africa. Representative offices in Angola and Kenya have been commissioned and the Nigerian representative office continues to function as a valuable hub for activities in West African markets.

Key performance indicators

In line with its risk appetite framework, RMB targets a long-term business mix of 60% from client and 40% from proprietary activities (25% investing and 15% trading), with capital allocated to these activities on a similar basis. This framework has proven to be a useful strategic tool to balance the trade off between risk, growth and return thereby ensuring earnings sustainability and has been applied when testing expansionary strategies into the Africa/Asia corridors. The graph below shows the current earnings mix*.

RMB gross revenue mix



** Mix excludes the legacy portfolios.*

Financial highlights

R million	2011	2010	% change
Income before indirect tax[1]	5 027	4 792	5
Indirect tax	(68)	(64)	6
Income before direct tax	**4 959**	4 728	5
Total assets	264 499	269 133	(2)
Cost-to-income ratio (%)	38.7	38.9	

1. Comparatives restated for FICC's share of African subsidiaries' profits of R105 million (2011: R110 million).

The divisional results and comparatives are summarised in the table below:

R million	2011	2010	% change
Private Equity	865	1 498	(42)
Investment Banking	2 727	2 522	8
FICC	1 072	1 111	(4)
Equities	338	381	(11)
Other	(43)	(784)	95
Income before direct tax[1]	**4 959**	4 728	5

1. Comparatives restated for FICC's share of African subsidiaries profits of R105 million (2011: R110 million).

The increased focus on Africa yielded transactions from Ghana, Angola, Mozambique, Ethiopia, Tanzania, Zambia, Namibia and Botswana in key sectors such as resources, oil and gas, infrastructure, transport and logistics, telecommunications, commodities and financial institutions.

Operational highlights

Within South Africa RMB has maintained a market leading position across many investment banking disciplines. In the recent PwC July 2011 Peer Survey RMB was rated 1st in the key investment banking categories of Listings, Structured Finance, BEE deals and Equities.

The advisory business was the top ranked adviser in the Mergers and Acquisitions ("M&A") league tables in the year to December 2010, according to Mergermarket. Dealmakers quarterly statistics for the six months to June 2011 show RMB remained on top cumulatively across M&A and general corporate finance activities. Significant advisory/structuring mandates completed during the year include the merger of Momentum and Metropolitan, the restructure of RMB Holdings, the MTN and Sappi BEE transactions, the recapitalisation and restructure of Brait and the successful listing of the Rebosis Real Estate Fund.

In the equity capital markets RMB consolidated its foremost position in the market and led the majority of listings on the JSE main board in the period. At the 2010 BESA Spire awards RMB won the Best Debt Capital Markets Origination team, Best Bond Repo/Carry Team and the Volumetric Award for Listed Interest Rate Derivatives. At the recent EMEA Finance Achievement awards RMB won Best local currency bond house, Best M&A house in Africa and Best IPO in Africa for Life Healthcare Group Holdings.

Performance commentary

Against the backdrop of a gradual corporate recovery and continued weakness in current flows, RMB reported pre-tax profits of R4 959 million, 5% higher than in the comparative year. This is a pleasing result given the high base in the prior year on account of the Life Healthcare realisation and was achieved despite conservative valuations on lending and private equity portfolios and prudent provisioning. Investment Banking, Private Equity and an improved performance from the Legacy portfolio drove RMB earnings. Results from FICC and Equities were down on the prior period, largely on the back of modest trading revenues in the second half of the year. Cost management remains a focus and benefits have been achieved in the past year.

INVESTMENT BANKING

Investment Banking again delivered a strong performance off a relatively high base, with good contributions from advisory, financing, structuring and principal investing activities. Reflecting RMB's strategy to increase its exposure to investment grade corporate credit, the structured lending book showed continued steady growth and whilst impairments increased slightly over the period, credit quality remains robust. The advisory business performed well with structuring activities in the property sector delivering excellent results.

The increased focus on Africa yielded transactions from Ghana, Angola, Mozambique, Ethiopia, Tanzania, Zambia, Namibia and Botswana in key sectors such as resources, oil and gas, infrastructure, transport and logistics, telecommunications, commodities and financial institutions. Activity in the African-Asian corridors also yielded a number of key transactions with Indian, Middle Eastern and Chinese counterparts.

FICC

Overall client flows have generally remained weak placing FICC's revenues under pressure. Trading volumes showed a mixed picture for the year with results in the second six months struggling to keep pace with the momentum set in the early part of the year. Revenues from the African subsidiaries are up marginally on the comparative period.

PRIVATE EQUITY

Private Equity produced a good result given the base created in the comparative period by the realisation of Life Healthcare. In the current year Corvest realised a gain of R461 million (post-tax and minorities) from the sale of Davita Trading. Revenues from portfolio investments grew strongly, particularly in Ventures and Corvest, reflecting the resilience of the underlying counters. During the year the teams invested some R800 million and continue to look for investing opportunities. Despite the realisation of Davita Trading, significant unrealised value of R1.2 billion remains in the portfolio at 30 June 2011.

EQUITIES

The Equities performance was mixed, with modest growth seen in most client execution businesses, largely on the back of improving equity volumes. Trading performance was lower than expected and conditions are expected to remain challenging. Longer term investing positions performed strongly, benefiting from a number of corporate actions and the upward movement in equity prices.

OTHER

The Resources business performed strongly, driven by substantial realisations on the back of a favourable commodities environment, particularly in gold. The Legacy portfolio losses were significantly lower than in the prior period.

Looking forward

The outlook for the global and local operating environment remains uncertain. Slower growth prospects coupled with sovereign default fears have impacted markets and sentiment remains uneasy. In this climate global trade, business volumes and corporate activity seems likely to remain slow.

Looking forward RMB will continue to execute on its strategy to grow its client franchise and related revenues whilst maintaining an appropriate balance of investing and trading activities. Key strategic initiatives in the coming year to support this strategy are:

- continued focus on opportunities in Africa, leveraging off the FNB operations and Asian corridors;
- realignment of FNB's corporate transactional business alongside RMB to ensure that corporate and investment banking activities are integrated at a client as well as product level; and
- focus on broadening RMB's client base to target opportunities for investment banking services in mid-corporate markets.

Brian Riley

CEO, WesBank

WesBank's overall profitability was positively impacted by better interest margins and an improving credit environment. In addition, new business generation has been driven by the deferred replacement cycle reversal and the improving credit environment.

+95%
Normalised earnings

26%
Normalised ROE

+28%
Growth in new business

WESBANK

MARKET DYNAMICS

During calendar year 2010 retail new vehicle sales increased 25% compared to the prior year. This trend has continued in 2011, with new vehicle sales up more than 15% year-on-year and is expected to continue albeit at a slower rate, as pent up demand caused by the deferment of the vehicle replacement cycle works through the market. Consumer demand for credit increased significantly although quality remains mixed particularly with regard to affordability, resulting in approval levels remaining at similar levels to the prior year.

Although corporate demand remains subdued, there are some early positive signs from a new business origination perspective. WesBank continues to exercise caution from both an origination and ongoing risk management perspective, although there are good opportunities developing in this market.

Progress of strategy

WesBank continues to focus on its core strategy of partnering with key industry players through representation at the point of sale. These alliances, across both the retail and corporate business divisions, delivered strong new business flows.

In line with FirstRand's strategy to target those domestic segments where its operating franchises may be under-represented, WesBank has been executing on specific strategies to grow in fleet management and full maintenance rentals as well as with larger corporate asset finance customers and in the public sector. Initiatives in the larger corporate sector are gaining good traction. Although the opportunities in full maintenance leasing and in the public sector remain meaningful, the lead times to significant revenue inflows are proving longer than anticipated and are only likely to realise over the medium term.

In addition, WesBank is leveraging off the FNB platform and presence in certain African jurisdictions, both established and developing, where asset finance opportunities have been identified. In this regard, WesBank deployed resources to focus on building the asset finance operations in Africa, agreed an operating model with FNB and is in the process of identifying priority market segments and specific strategies in various African countries.

Key performance indicators

WesBank considers key performance indicators to be ROE, cost-to-income ratio, market share and the net promoter score (service levels index).

ROE %	2011	2010	2009	2008
Actual results	**26.3**	15.4	6.7	12.0

Given the cyclical nature of its business, WesBank targets a "through the cycle" ROE of 20-25% and therefore continues to focus on reducing cyclical volatility through better risk profile management, revenue diversification and a far greater correlation between pricing and risk.

%	2011	2010	2009	2008
Overall cost-to-income	**46.5**	51.9	53.8	53.5
Lending cost-to-income	**43.5**	45.7	41.9	41.8

The cost-to-income ratio is a key performance indicator for WesBank's core finance business and the table above shows the ratio trending down from 2008. In the current year the lending business' cost-to-income continued to improve as a result of cost management actions taken over the past several years, and despite increased profit shares payments resulting from improved profit generation.

%	2011	2010	2009	2008
Net promoter score	**61.9**	59.7	52.1	51.5

The net promoter score is based on customer responses and the rating index is a universally used customer satisfaction benchmark. WesBank's scores are considered high against recognised benchmarks internationally and are showing an improving trend.

Financial highlights

R million	2011	2010	% change
Income before indirect tax	**2 714**	1 426	90
Indirect tax	**(166)**	(126)	(32)
Income before tax	**2 548**	1 300	96
Advances	**102 125**	92 724	10
Cost-to-income ratio (%)	**46.5**	51.9	
NPLs (%)	**4.3**	5.5	

Profits increased 96% over the prior year to R2.55 billion. This excellent performance was due to the following key factors:

- the ongoing retail and corporate credit unwind (although this did begin to slow in the second half of the year);
- strong new business origination;
- improved interest margins across all portfolios;
- good cost management;
- strong performance from Carlyle Finance;
- excellent performance in the personal loans business; and
- non-recurrence of losses in prior year in certain non-lending operations.

Operational highlights

New business growth was particularly encouraging, with retail new business increasing 32% and corporate/commercial origination increasing 16% year-on-year. This is testament to the improved origination processes and to the partnership strategy. This production growth did not come at the expense of either price or increasing risk appetite.

Cost management initiatives continue to have a positive impact. Headcount in the core lending business declined 32% over the past 36 months and this was achieved without compromising on the capacity required to manage increased new business volumes.

Effective management of accounts under debt review means that trends continue to reflect a decline in inflows of new accounts under review and an improvement in repayment behaviour.

WesBank's UK operation, Carlyle Finance, produced profits of R221 million compared with R120 million in the prior year. This was achieved through a continued improvement in bad debts, significant widening of interest margins, excellent new business growth and ongoing cost management.

Performance commentary

WesBank's overall profitability was positively impacted by better interest margins and an improving credit environment. In addition, new business generation has been driven by the deferred replacement cycle reversal and the improving credit environment.

Bad debts in the local lending business decreased 38% from R1.95 billion to R1.21 billion, or from 2.2% to 1.32% of advances. Retail and corporate bad debts showed continued strong downward trends. These improvements in bad debts are likely to slow in the new financial year as much of the benefit of the credit unwind has materialised.

Although NPLs remained relatively high during the period under review there was a decrease from 5.5% to 4.3%. This was partly due to lower inflows of accounts under debt review, which inflate NPLs as these remain non-performing for a significantly longer period than regular NPL accounts. In addition, a higher number of existing accounts under debt review were resolved. The number of accounts entering debt review is expected to gradually decrease further, however, this improvement will be offset by the length of time accounts remain in the non-performing category, particularly given the current backlog of cases at the courts.

New business increased 28% over the comparative period. The year-on-year increase comprised a 32% increase in retail new business and a 16% increase in corporate new business. Interest margins showed an improving trend as a result of the focus on written rates as well as the improvement in mix with a higher component of fixed rate business written. Improved interest margins were experienced across all of the portfolios, although further improvement is not expected.

NIR decreased 16%. The loss of revenues following the disposal of WorldMark Australia, WorldMark South Africa and Norman Bissett, which was included in the prior period's results, was offset by improved associate earnings from Toyota Financial Services and Tracker, and increasing monthly administration fees. NIR in the local lending operation increased 36%.

Overall expenses decreased 8%, partly as a result of the disposal of the non-lending subsidiaries. Expenses in the local lending operation increased 17% (excluding the increased profit share payments to alliance partners this increase was 3%). There continue to be numerous cost management initiatives across the businesses which have started to vest and are expected to achieve sustainable operating cost benefits going forward.

The non-lending operations contributed R455 million compared with R208 million in the prior year. This was largely due to the improvement in performance of Direct Axis, the personal loans origination and administration business, and the non-recurring losses relating to the investments disposed of in the prior year.

Looking forward

The forthcoming financial year is expected to see a slower unwind of retail and corporate bad debt impairments and more modest new business origination. An improving lending landscape is anticipated across both corporate and retail portfolios, although WesBank will continue to exercise caution in respect of credit appetite as many retail consumers remain highly leveraged. Book growth is consequently expected to continue at current interest margins.

Five year review continuing and discontinued operations

R million	2007	2008	2009	2010	2011	Compound growth %
Statement of financial position – IFRS						
Total assets	721 559	823 944	809 851	845 240	**697 927**	(1)
Average assets	662 078	772 752	816 898	827 546	**771 584**	4
Net advances	387 020	446 286	416 488	434 793	**464 593**	5
Average advances	350 453	416 653	431 387	425 641	**449 693**	6
Impairment of advances	4 550	7 383	9 591	8 972	**8 022**	15
NPLs	5 879	13 104	24 227	22 205	**19 790**	35
Gross advances before impairments	391 570	453 669	426 079	443 765	**472 615**	5
Deposits and current accounts	421 568	488 423	478 083	512 469	**553 657**	7
Total equity	43 548	48 689	50 004	55 951	**61 150**	9
Treasury shares	6 149	6 023	5 976	6 077	**2 226**	(22)
Dividends	3 795	4 523	3 764	2 955	**4 179**	2
Total equity before dividends and treasury shares	53 492	59 235	59 744	64 983	**67 555**	6
Total ordinary equity	39 029	44 170	45 485	51 432	**56 631**	10
Assets under administration	900 148	1 022 088	965 484	1 006 475	**790 758**	(3)
Income statement – IFRS						
Net interest income before impairment of advances	13 803	16 722	17 289	16 350	**17 369**	6
Impairment of advances	(2 857)	(5 064)	(8 024)	(5 686)	**(3 778)**	7
Non-interest income	20 604	21 405	20 055	26 954	**31 882**	10
Share of profit of associated and joint venture companies	2 013	1 690	1 577	700	**868**	(19)
Operating expenses	(18 914)	(20 696)	(22 408)	(24 865)	**(26 901)**	9
Earnings attributable to ordinary shareholders	11 511	11 309	6 501	9 444	**20 065**	15
Headline earnings	10 854	9 922	6 939	9 453	**9 856**	(2)
Normalised earnings	11 845	10 583	7 151	9 963	**10 805**	(2)
Earnings per share (cents)						
– Basic	222.9	218.2	124.9	179.9	**372.7**	14
– Diluted	216.6	214.1	124.7	178.1	**365.3**	14
Headline earnings per share (cents)						
– Basic	210.2	191.5	133.3	180.1	**183.1**	(3)
– Diluted	204.2	187.8	133.1	178.3	**179.4**	(3)
Normalised earnings per share (cents)						
– Basic	210.2	187.8	126.8	176.7	**191.6**	(2)
– Diluted	210.1	187.7	126.8	176.7	**191.6**	(2)
Dividend per share (cents)	82.5	82.5	56.0	77.0	**81.0**	(0)
Dividend cover-based on headline earnings	2.5	2.3	2.4	2.3	**2.3**	
Dividend cover-based on normalised earnings	2.5	2.3	2.3	2.3	**2.4**	
NCNR preference dividends per share (cents)						
– February	409.70	477.77	518.94	342.30	**313.5**	(6)
– August	431.00	511.30	423.09	355.00	**305.2**	(8)
Net asset value per ordinary share (cents)	755.80	852.37	873.55	980.00	**1 051.82**	9
Shares in issue	5 635.7	5 637.8	5 637.9	5 637.9	**5 637.9**	0
Weighted average number of shares in issue	5 163.9	5 182.0	5 206.9	5 248.2	**5 384.1**	1
Diluted weighted average number of shares in issue	5 314.8	5 283.1	5 213.6	5 302.4	**5 492.8**	1

Five year review continuing and discontinued operations continued

R million	2007	2008	2009	2010	2011	Compound growth %
Key ratios						
Return on ordinary equity based on headline earnings (%)	30.6	23.9	15.5	19.5	**18.2**	
Price earnings ratio based on headline earnings (times)	10.8	6.9	10.6	10.0	**10.8**	
Price to book ratio (times)	3.0	1.6	1.6	1.8	**1.9**	
Market capitalisation (R million)	127 367	74 983	79 269	101 821	**111 913**	(3)
Closing share price (cents)	2 260	1 330	1 406	1 806	**1 985**	(3)
Cost-to-income ratio (%)	51.9	52.0	57.6	56.5	**53.7**	
Impairment charge as % of average advances	0.8	1.2	1.9	1.3	**0.8**	
NPLs as a percentage of gross advances (%)	1.50	2.89	5.69	5.00	**4.19**	
Non-interest income as a percentage of total income (%)	56.6	53.8	51.5	61.3	**63.6**	
Return on average total assets based on headline earnings (%)	1.6	1.3	0.8	1.1	**1.3**	
Interest margin on average advances (%)	3.9	4.0	4.0	3.8	**3.9**	
Exchange rates						
Rand/US$						
– Closing	7.1	7.8	7.7	7.7	**6.8**	
– Average	7.2	7.3	8.9	7.6	**7.0**	
Rand/£						
– Closing	14.2	15.6	12.7	11.5	**10.8**	
– Average	14.0	14.7	14.1	12.0	**11.1**	
Statement of financial position ($)[1]						
Total assets	102 059	105 364	104 794	110 379	**103 044**	0
Advances	54 741	57 070	53 893	56 779	**68 594**	6
Deposits and current accounts	59 628	62 458	61 864	66 923	**81 744**	8
Total equity	6 160	6 226	6 470	7 307	**9 028**	10
Assets under administration	127 319	130 702	124 933	131 435	**116 750**	(2)
Income statement ($)[2]						
Earnings attributable to ordinary shareholders	1 597	1 549	732	1 245	**2 883**	16
Headline earnings	1 450	1 359	781	1 246	**1 416**	(1)
Normalised earnings	1 643	1 450	805	1 313	**1 552**	(1)
Statement of financial position (£)[1]						
Total assets	50 922	52 817	63 689	73 657	**64 396**	6
Advances	27 313	28 608	32 749	37 889	**42 867**	12
Deposits and current accounts	29 751	31 309	37 604	44 658	**51 085**	14
Total equity	3 073	3 121	3 933	4 876	**5 642**	16
Assets under administration	63 525	65 518	75 940	87 708	**72 962**	4
Income statement (£)[2]						
Earnings attributable to ordinary shareholders	823	771	462	790	**1 811**	22
Headline earnings	776	677	493	791	**890**	3
Normalised earnings	847	722	508	833	**975**	4

1. The statement of financial position is converted using the closing rates as disclosed.

2. The income statement is converted using the average rate as disclosed.

Five year review continuing and discontinued operations continued

R million	2007	2008	2009	2010	2011	Compound growth %
CONTINUING						
Earnings attributable to ordinary shareholders	8 682	9 080	4 820	7 963	**9 889**	3
Headline earnings	8 608	7 765	5 194	7 789	**9 258**	2
Normalised earnings	9 561	8 401	5 540	8 283	**10 117**	1
Earnings per share (cents)						
– Basic	168.7	174.2	91.4	150.7	**183.1**	2
– Diluted	163.9	146.1	98.4	149.2	**179.5**	2
Headline earnings per share (cents)						
– Basic	166.2	149.0	98.5	147.4	**171.4**	1
– Diluted	179.9	159.0	98.4	145. 9	**168.0**	(2)
Normalised earnings per share (cents)						
– Basic	169.7	149.0	98.3	146.9	**179.4**	1
– Diluted	169.5	149.0	98.3	146.9	**179.4**	1
Normalised net asset value (R million)	37 346	43 923	44 166	49 382	**58 858**	12
Return on equity based on normalised earnings (%)	29.6	20.7	12.6	17.7	**18.7**	
Cost-to-income ratio %[1]	51.9	52.0	57.6	53.1	**53.3**	

1. Only 2011 and 2010 is normalised per industry practise.

Statement of headline earnings from continuing and discontinued operations – IFRS

for the year ended 30 June

R million	2011	2010	% change
Continuing operations			
Profit from continuing operations	14 244	9 480	50
Non-controlling interests	(1 164)	(887)	31
NCNR preference shares	(301)	(344)	(13)
Attributable earnings to ordinary equity holders	12 779	8 249	55
Adjusted for:	(3 341)	(174)	>100
Gains on disposal of investment securities and other investments	(12)	–	
Gain on disposal/impairment of available-for-sale assets	(341)	(177)	
Gain on disposal of associates or joint ventures	(2 792)	–	
Gain on the disposal of subsidiaries	(571)	(115)	
(Gain)/loss on the disposal of property and equipment	(9)	2	
Impairment of goodwill	96	82	
Impairment of assets in terms of IAS 36	37	175	
Gain from a bargain purchase	(9)	(203)	
Other	–	4	
Tax effects of adjustments	16	55	
Non-controlling interests adjustments	244	3	
Headline earnings from continuing operations	9 438	8 075	17
Discontinued operations			
Profit from discontinued operations	7 283	1 194	>100
Non-controlling interests	3	1	>100
Attributable earnings to ordinary shareholders	7 286	1 195	>100
Adjusted for:	(6 868)	183	(>100)
Profit on dividend in specie	(6 868)	–	
Loss due to the fair value adjustment of a non-current asset held for sale	–	100	
Impairment of goodwill	–	71	
Impairment of intangible assets	–	12	
Normalised earnings from discontinued operations	508	1 894	(64)
Headline earnings from discontinued operations	418	1 378	(70)
Headline earnings from continuing and discontinued operations	9 856	9 453	4

Reconciliation from headline earnings to normalised earnings from continuing and discontinued operations

R million	2011	2010	% change
Headline earnings from continuing operations	9 438	8 075	17
Adjusted for:	859	494	74
IFRS 2 Share-based payment expense	(20)	235	
Treasury shares	418	259	
– Consolidation of share trust	210	313	
– FirstRand shares held by policyholders	208	(54)	
Private equity subsidiary realisations	461	–	
Normalised earnings from continuing operations	10 297	8 569	20
Headline earnings from discontinued operations	418	1 378	(70)
Adjusted for:	90	16	>100
– IFRS 2 Share-based payment expense	–	6	
– FirstRand shares held by policyholders	90	10	
Normalised earnings from continuing and discontinued operations	10 805	9 963	8

Reconciliation of IFRS continuing operations to normalised continuing operations

R million	2011	2010	% change
Attributable earnings to ordinary equity holders (refer page 50)	12 779	8 249	55
OUTsurance equity-accounted income for the year ended 30 June	(180)	(286)	(37)
Profit on sale of OUTsurance	(2 710)	–	(100)
Attributable earnings from continuing normalised operations	9 889	7 963	24
Headline earnings (refer page 50)	9 438	8 075	17
OUTsurance equity-accounted income for the year ended 30 June	(180)	(286)	(37)
Headline earnings from continuing normalised operations	9 258	7 789	19
Normalised earnings per above	10 297	8 569	20
OUTsurance equity-accounted income for the year ended 30 June	(180)	(286)	(37)
Normalised earnings from continuing normalised operations	10 117	8 283	22

Description of difference between normalised and IFRS results – continuing operations

The Group believes normalised results more accurately reflect the economic substance of the Group's performance. The Group's results are adjusted to take into account non-operational and accounting anomalies.

OUTsurance

The Group previously owned 45% of OUTsurance. Effective 4 May 2011 the Group disposed of its shareholding to RMI Holdings Limited. The Group equity accounted for the associate up to 31 December 2010, at which date it was classified as a disposal group held for sale. On a continuing basis the earnings contribution from OUTsurance has been eliminated for both the current and comparative years. OUTsurance was not treated as a discontinued operation in terms of IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. For the continuing results the profit on sale of the associate has been excluded from normalised earnings and from the headline earnings adjustment in terms of Circular 03/2009.

Share-based payments, employee benefits and treasury shares: Consolidation of staff share trust

IFRS 2 Share-based payments requires that all share-based payment transactions for goods or services received must be expensed with effect from financial periods commencing on or after 1 January 2005. IAS 19 Employee Benefits requires that an expense be raised if benefits are expected to be paid to employees in return for services rendered.

In 2005 the Group concluded its BEE transaction; a part of this transaction was that rights were granted to the Group's black South African employees and black non-executive directors of FirstRand. These rights are accounted for as IFRS 2 expenses. FirstRand hedged itself against the price risk of the FirstRand share price in these schemes by buying the shares in the open market in various share trusts. SIC 12 Consolidation – Special Purpose Entities requires that these staff schemes be consolidated by the Group. FirstRand shares held by the staff share schemes are therefore treated as treasury shares.

Due to the unbundling of Momentum Group Limited these share trusts received MMI Holdings Limited shares as a dividend in specie. The rights holder received a FirstRand, as well as a MMI share. The receipt of MMI shares led to the recognition of an employee benefit liability in terms of IAS 19 Employee Benefits. FirstRand hedged itself against the price risk of MMI shares by retaining the MMI shares received as a dividend in specie.

The economic cost to the Group for both the IFRS 2 expense and the employee benefit is the net funding cost paid by the Group on the funding required to buy these shares.

For purposes of calculating the normalised earnings, the share trusts are deconsolidated, the FirstRand shares held by the staff share scheme are treated as issued to parties external to the Group and loans to share trusts are recognised as external loans.

Treasury shares: FirstRand shares held for policyholders and client trading activities

FirstRand shares may be acquired by the Group in specific instances. The Group would invest in FirstRand shares to offset its exposure as a result of a client trading position. Depending on the nature of the client trading position and the resulting risks, FirstRand shares may be held long or sold short by the Group. The Group may invest in FirstRand shares on behalf of its policyholders in terms of policies that offer a linked return.

In terms of IAS 32 Financial Instruments: Presentation, FirstRand Limited shares held by the Group are deemed to be treasury shares for accounting purposes. For the statement of financial position the cost price of FirstRand shares held long is deducted from equity and the consideration received from selling FirstRand shares short is added back to equity. In the income statement all gains and losses on FirstRand shares are reversed.

Changes in the fair value of Group shares and dividends declared on these shares affect the fair value of client trading positions and the liability to policyholders reflected in the statement of financial position, unless the client trading position is itself an equity instrument. The change in the client trading position or liability to policyholders is recognised in the income statement. However, because of the rules relating to treasury shares, the corresponding change in assets held to match the client trading or policyholder liability position is reversed or eliminated. This results in a mismatch in the overall equity and income statement of the Group.

For purposes of calculating normalised earnings, the adjustments described above are reversed and the Group shares held for client trading positions or on behalf of policyholders are treated as issued to parties external to the Group.

Where the client trading position is itself an equity instrument then neither the gains or losses on the client trading position nor the Group shares held to hedge the client trading position are reflected in the income statement or in the fair value on the statement of financial position. For purposes of calculating normalised earnings, adjustments are made to reflect the client trade positions and Group shares to hedge the position as if the client trading position and hedge was in respect of a share other than a treasury share.

Economic hedges

The Group enters into economic interest rate hedging transactions from time to time, which do not qualify for hedge accounting in terms of the requirements of IFRS. The Group has reclassified the fair value changes on these hedging instruments from NIR to net interest income to reflect the economic substance of these hedges.

Fair value annuity income – lending

The Group accounts for the majority of its wholesale advances book within RMB on a fair value basis in terms of IFRS. As a result, the margin on these advances is reflected as part of NIR.

The Group has reclassified the margin relating to the annuity fair value income earned on the RMB wholesale advances book from NIR to net interest income to reflect the economic substance of the income earned on these assets.

The corresponding impairment charge is reallocated from NIR to the impairment charge. Fair value advances are adjusted to reflect the cumulative adjustment.

Consolidated private equity subsidiaries

The Group reflects the operating costs of consolidated private equity subsidiaries net against the income earned as part of NIR, as this more accurately reflects the underlying economic substance of the Group's relationship with these entities.

Private equity subsidiaries realisations

In terms of Circular 03/2009 profits and losses on the sale of subsidiaries are excluded from headline earnings.

The Circular includes specific industry rules. Rule 1 allows entities to include in headline earnings profits or losses on the sale of private equity investments that are associates or joint ventures, which form part of trading or operating activities. However, this exclusion does not apply to profits and losses on the sale of private equity investments that are subsidiaries. The Group has included the profit on the sale of private equity subsidiaries in normalised headline earnings to reflect the nature of these investments.

CORPORATE GOVERNANCE

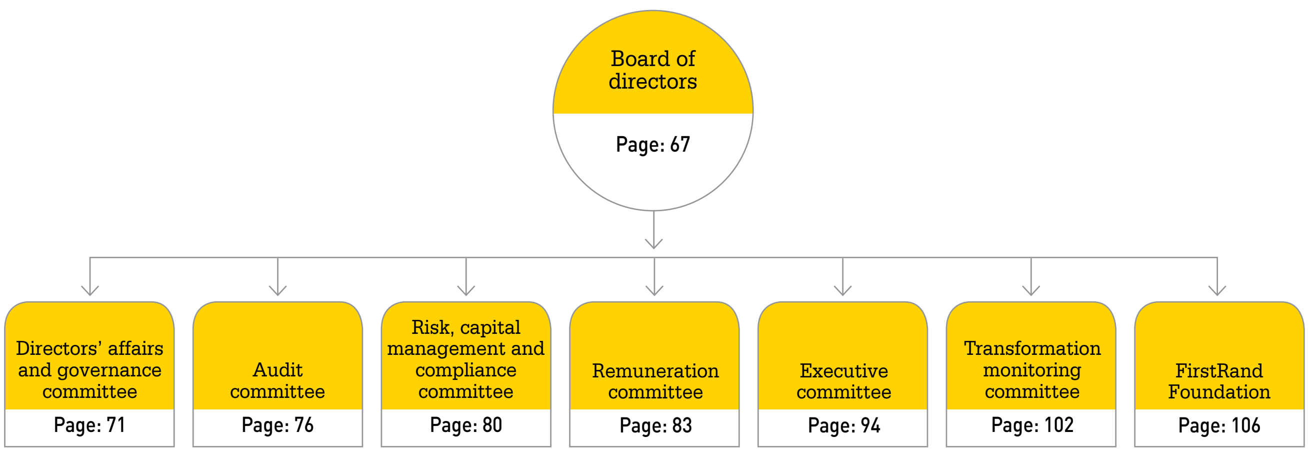
“Excellent corporate governance is fundamental to long-term sustainability”

Governance and sustainability

"FirstRand views corporate governance and corporate sustainability as two sides of the same coin. Excellent corporate governance allows the Group to achieve sustainable profitability and supports the responsible provision of financial services to all sectors of the South African economy and select international markets."

FirstRand's Board of directors and its committees ensure alignment of Group strategy with the systems used to measure, monitor and manage the successful implementation of strategy in the short, medium and long-term.

"Each board committee has a clearly defined set of responsibilities supporting the long-term success of the FirstRand Group."



Governance structure effective 1 July 2010

Certain amendments have been made to FirstRand's governance structure in order to accommodate corporate governance provisions applying in terms of the Banks Act of South Africa as a result of FirstRand Limited being registered as a bank-controlling company from 1 July 2010. Significant changes include the replacement of the Audit, risk and compliance committee with two separate committees dealing with audit and risk issues respectively. These committees are the FirstRand Audit committee and the FirstRand Risk, capital management and compliance committee.

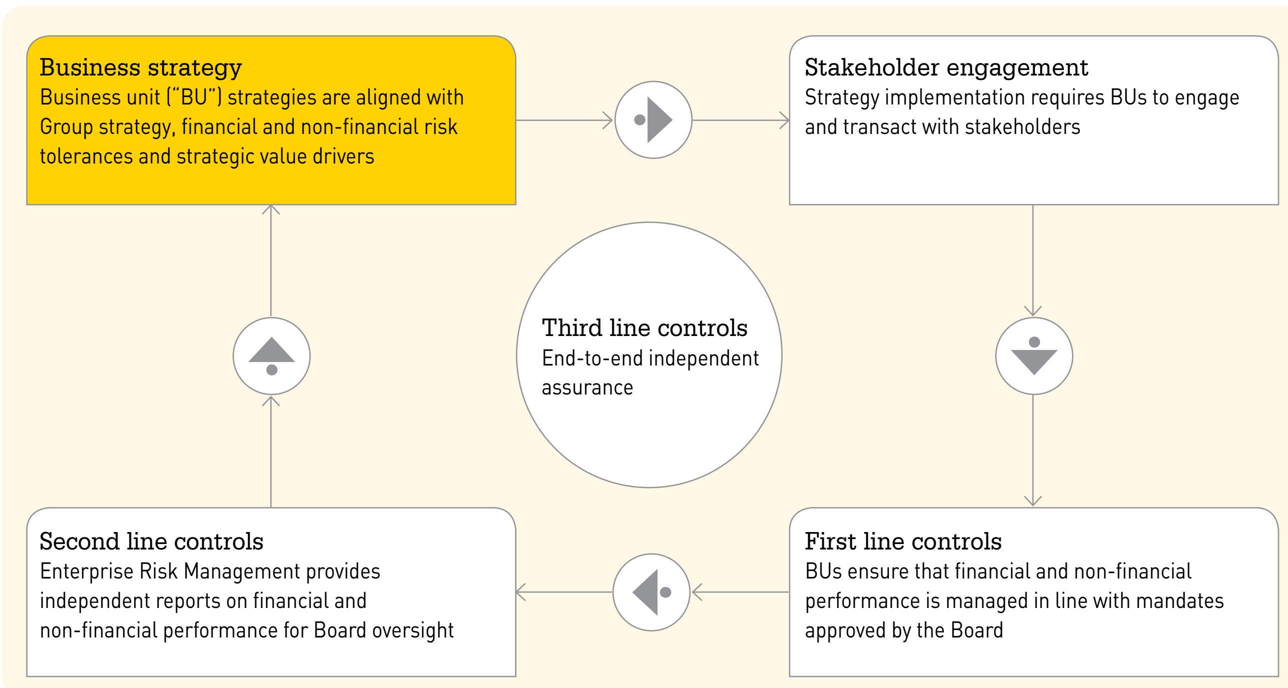
Economic impact

"Since FirstRand's creation in 1998 the Group has reported a cumulative economic impact of R583 billion, and has never reported a decrease in economic value add to society."

	2011		2010	
	R million	%	R million	%
Value added				
Net interest income earned by FirstRand	13 591	32.6	10 664	12.0
Value added by continuing operations	13 591	32.6	10 664	12.0
Non-operating income	32 750	78.5	27 654	31.2
Non-operating expenditure	(11 920)	(28.6)	(11 262)	(12.7)
Value added by continuing operations	34 421	82.5	27 056	30.5
Value added by discontinued operations	7 283	17.5	61 538	69.5
Value added by continuing operations	41 704	100.0	88 594	100.0
To employees				
Salaries, wages and other benefits	14 405	34.6	15 092	17.0
To providers of capital				
Dividends to shareholders	4 480	10.7	3 299	3.7
To government	5 255	12.6	4 288	4.9
Normal tax	4 513		3 695	
Value added tax	538		431	
Capital gains tax	120		143	
Other	84		19	
To policyholders				
Policyholder claims and benefits	2	–	57 132	64.5
Insurance contracts	(75)		6 330	
Investment contracts	77		37 187	
Adjustment to liabilities under investment and insurance contracts	–		13 615	
To expansion and growth	17 562	42.1	8 783	9.9
Retained income	15 886		6 489	
Depreciation and amortisation	1 737		1 766	
Deferred tax	(61)		528	
Value added by continuing operations	41 704	100.0	88 594	100.0

INTEGRATED GOVERNANCE MODEL

"FirstRand's integrated approach to managing financial and non-financial issues enables the alignment of financial and non-financial performance with long-term strategic objectives, risks and value drivers. This means that every transaction with every stakeholder can become an opportunity to create sustainable value."



STAKEHOLDER ENGAGEMENT

"FirstRand has defined its stakeholders as entities and individuals that are significantly affected by its activities and those which can significantly impact its ability to implement strategies and achieve objectives."

	Engagement Mechanisms			
Stakeholder group	Transactional dialogue and official communiqués	Face-to-face ad hoc engagement	Line management/ relationship managers	Regulatory returns
Government and regulators		✓	✓	✓
Shareholders and analysts	✓	✓	✓	✓
Employees	✓	✓	✓	
Customers	✓	✓	✓	
Suppliers	✓	✓	✓	
Communities	✓	✓	✓	
Civil society		✓		

FirstRand's stakeholder policies are developed and implemented at both Group and subsidiary level. In cases where policies are required to address specific needs of business units and their stakeholders, these policies are developed and applied at business unit level with appropriate Group oversight via the Executive committee.

MEMBERSHIPS AND ASSOCIATIONS

FirstRand is a signatory of the United Nations Global Compact ("UNGC"), the Carbon Disclosure Project ("CDP"), the Equator Principles ("EP"), and the United Nations Environment Programme ("UNEP") finance initiative. The Group is actively involved in Black Economic Empowerment ("BEE") through the application of the South African Financial Sector Charter ("FSC") and the Department of Trade and Industry's ("dti") Codes of Good Practice ("CoGP") and participates in the determination of regulatory requirements in respect of BEE through membership of the Banking Association of South Africa. FirstRand is represented at the National Business Initiative, the Centre for Development and Enterprise, and participates in the UNGC South African Advisory committee. In addition FirstRand supports the South African Institute for Race Relations, the Free Market Foundation, the Business Trust and Business Against Crime.

"Representation at these bodies is seen as being strategically important for reinforcing ethical and sustainable business practice and responding to changes in local and international best practice."

Precautionary principle

FirstRand understands the importance of preventing actions based on dangerous assumptions about the sustainable development consequences of business actions. Simultaneous recognition is given to the importance of innovation and trial and error for improving sustainable business processes.

Skills and experience

"FirstRand's Board of directors has the necessary depth of knowledge, skill, experience and financial services expertise to oversee the positive performance of the Group. In discharging their duties FirstRand's directors take the interests of all of the Group's stakeholders into account."

01. **Lauritz Lanser Dippenaar** (62)

Non-executive chairman

MCom, CA (SA)

Appointed May 1998

Laurie Dippenaar graduated from Pretoria University, qualified as a chartered accountant with Aiken & Carter (now KPMG) and spent three years with the Industrial Development Corporation before becoming a co-founder of Rand Consolidated Investments in 1977. Rand Consolidated Investments acquired control of Rand Merchant Bank in 1985 and he became an executive director. He was appointed managing director of Rand Merchant Bank in 1988 which position he held until 1992 when RMB Holdings acquired a controlling interest in Momentum Life Assurers ("MLA"). He served as executive chairman of MLA from 1992 until the formation of FirstRand in 1998. He was appointed as the first chief executive officer of FirstRand and held this position until the end of 2005 when he assumed a non-executive role. He was elected to the position of chairman of FirstRand in November 2008.

FirstRand – committee memberships

- Directors' affairs and governance
- Remuneration

Directorships – FirstRand Group

- FirstRand Bank Limited – chairman
- First National Bank*
- Rand Merchant Bank*

Directorships – external

- FirstRand STI Holdings Limited – chairman
- MMI Holdings Limited – chairman
- RMB Holdings Limited
- Rand Merchant Insurance Holdings Limited

* Divisional board

02. **Sizwe Errol Nxasana** (53)

Chief executive officer

BCom, BCompt (Hons), CA (SA)

Appointed January 2006

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

He joined the board of FirstRand Bank Holdings in 2003 and was appointed chief executive officer with effect from January 2006. In February 2006 he was appointed as an executive director of FirstRand. Sizwe was appointed CEO of FirstRand in January 2010.

FirstRand – committee memberships

- Audit – ex officio
- Ethics
- Executive – chairman
- FirstRand Foundation – chairman
- Large exposures
- Remuneration – ex officio
- Risk, capital management and compliance – ex officio
- Strategic executive – chairman

Directorships – FirstRand Group

- FirstRand Bank Limited – chief executive officer
- FirstRand EMA Holdings Limited
- FirstRand Investment Holdings (Pty) Limited
- First National Bank* – chairman
- Rand Merchant Bank* – chairman

Directorships – external

- MMI Holdings Limited
- The Banking Association South Africa

* Divisional board

03. **Johan Petrus Burger** (52)

Chief financial officer,
Chief operating officer

BCom (Hons), CA (SA)

Appointed January 2009

Johan Burger graduated from Rand Afrikaans University in 1983 and qualified as a chartered accountant after serving articles with PricewaterhouseCoopers Inc. He joined Rand Merchant Bank in

1986 and was appointed an executive director in 1995. Following the formation of FirstRand in 1998, he was appointed financial director of the FirstRand Banking Group. In January 2009 he was appointed to the FirstRand board as financial director and assumed the additional role of Group chief operating officer in June 2009.

FirstRand – committee memberships

- Audit – ex officio
- Credit
- Ethics
- Executive
- Large exposures
- Remuneration – ex officio
- Risk, capital management and compliance – ex officio
- Strategic executive

Directorships – FirstRand Group

- FirstRand Bank Limited
- FirstRand EMA Holdings Limited
- FirstRand Investment Holdings (Pty) Limited
- WesBank*
- First National Bank*
- Rand Merchant Bank*

Directorships – external

- MMI Holdings Limited

* Divisional board

04. Deepak Premnarayen (65)

Executive – refer page 91

BA Economics (Hons) India

Appointed January 2009

Deepak Premnarayen founded the ICS Group in 1998 to pursue emerging infrastructure development opportunities in India after entering the financial advisory services space earlier in the decade. ICS subsequently expanded into the real estate space and now has interests in:

- asset management;
- financial services: banking and corporate finance;
- hospitality;
- property development and management services; and
- architectural design services.

He is currently:

- co-chair of the Confederation of Indian Industry (CII) National Committee on Sports;
- convener for the India-South Africa CEOs Forum;
- member of the CII National committee on Banking;
- member of the CII National Task Force on Financial Inclusion;
- member of the Managing committee of the Indian Merchants Chamber (IMC);
- member of the Audit committee of the Noida Toll Bridge Company Limited; and
- member of the Human resources committee of the Noida Toll Bridge Company Limited.

FirstRand – committee memberships

- Directors' affairs and governance committee

Directorships – FirstRand Group

- FirstRand Bank Limited

Directorships – external

- ICS Group
- Noida Toll Bridge Co. Limited
- Triangle Real Estate India Fund LLC, a real estate fund listed in Mauritius

05. Vivian Wade Bartlett (68)

Independent non-executive

AMP (Harvard), FIBSA

Appointed May 1998

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

FirstRand – committee memberships

- Audit
- Directors' affairs and governance
- Large exposures
- Remuneration
- IT Governance
- Credit portfolio review

Directorships – FirstRand Group

- FirstRand Bank Limited
- Makalani Holdings Limited
- First National Bank*
- WesBank – chairman*
- Co-investment scheme of RMB – trustee

Directorships – external

- FirstRand STI Holdings Limited

* Divisional board

06. Jurie Johannes Human (Jurie) Bester (69)

Independent non-executive

BSc Eng Elect (Pret), ISMP (Harvard)

Appointed July 2010

Jurie Bester is a seasoned banker with a broad range of experience and expertise in banking and financial services, risk management, risk modelling and risk quantification. He was the Head of Risk Management at RMB and Risk and Audit Services of the FirstRand Banking Group from 1997 until he retired from the Group in 2005. Subsequently he served as chairman or a member of a number of risk and audit committees of the FirstRand Banking Group.

FirstRand – committee memberships

- Audit
- Credit
- Directors' affairs and governance
- IT governance – chairman
- Remuneration
- Risk, capital management and compliance – chairman

Directorships – FirstRand Group

- FirstRand Bank Limited
- FirstRand Ireland Plc

07. Leon Crouse (58)

Non-executive

CA (SA)

Appointed September 2008

Leon Crouse studied at the Nelson Mandela Metropolitan University in Port Elizabeth and after obtaining a Certificate in the Theory of Accounting in 1976, he qualified as a chartered accountant in 1977. During his professional career of more than 30 years, he gained financial knowledge and experience by lecturing at the University of Stellenbosch and holding various financial management positions in the sectors of telecommunications, luxury goods, chemicals and clothing and textiles. He joined the former Rembrandt Group in 1986 and in the same year he transferred to Switzerland to hold the position of financial controller of Compagnie Financiere Richemont AG and to be part of the team that unbundled the luxury goods business from the Rembrandt Group to form Richemont and list it on the Swiss, Luxembourg and South African Stock Exchanges. In 1993, as a Rembrandt appointee, he returned to South Africa to become a founding member of the Vodacom Group executive team. Rembrandt, at the time, held a 15% interest in Vodacom. During his nearly 15 year career at Vodacom, he served as general manager finance between 1993 and 1996 and as chief financial officer from 1996 until March 2008. He joined Remgro in April 2008 as designate director: group finance and was appointed to the Remgro board on 18 June 2008.

FirstRand – committee memberships

- Audit
- Directors' affairs and governance
- Risk, capital management and compliance

Directorships – FirstRand Group

- FirstRand Bank Limited

Directorships – external

- Dark Fibre Africa (Pty) Limited
- Remgro Limited
- Total South Africa (Pty) Limited

08. Patrick Maguire Goss (63)

Independent non-executive

BEcon (Hons), BAccSc (Hons), CA (SA)

Appointed May 1998

Pat Goss, after graduating from the University of Stellenbosch, served as President of the Association of Economics and Commerce Students, representing South Africa at The Hague and Basel. He qualified as a chartered accountant with Ernst and Young and subsequently joined the Industrial Development Corporation. Most of his active career was spent in food retailing and the hospitality industry. He has served as a director of various group companies for the past 30 years. A former chairman of the Natal Parks Board, his family interests include Umngazi River Bungalows and other conservation related activities.

He was elected lead independent director by the Board on 27 October 2010.

FirstRand – committee memberships

- Directors' affairs and governance
- Remuneration – chairman

Directorships – FirstRand Group

- FirstRand Bank Limited
- Rand Merchant Bank*

Directorships – external

- RMB Holdings Limited
- Rand Merchant Insurance Holdings Limited

* Divisional board

09. Nolulamo Nobambiswano (Lulu) Gwagwa (52)

Independent non-executive

BA (Fort Hare), MTRP (Natal), MSc (cum laude) (London), PhD (London)

Appointed February 2004

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

FirstRand – committee memberships

- Directors' affairs and governance
- Transformation monitoring – chairman

Directorships – FirstRand Group

- FirstRand Bank Limited

Directorships – external

- Ethics Institute of South Africa
- Lereko Investments (Pty) Limited
- Massmart Holdings Limited
- Sun International Limited

10. Paul Kenneth Harris (61)

Non-executive

M Com

Appointed May 1998

Paul Harris graduated from the University of Stellenbosch and joined the Industrial Development Corporation in 1974. He was a co-founder of Rand Consolidated Investments in 1977. RCI acquired control of Rand Merchant Bank in 1985 and he became an executive director. He spent four years in Australia where he founded Australian Gilt Securities (later to become RMB Australia) and returned to South Africa in 1991 as deputy managing director of RMB. In 1992, he took over as chief executive officer. Subsequent to the formation of FirstRand, he was appointed chief executive officer of FirstRand Bank Holdings in 1999, a position he held until December 2005 when he was appointed chief executive officer of FirstRand. He retired in December 2009 from his executive position in FirstRand.

FirstRand – committee memberships

- Directors' affairs and governance

Directorships – FirstRand Group

- FirstRand Bank Limited

Directorships – external

- MMI Holdings Limited
- Remgro Limited
- RMB Asset Management (Pty) Limited
- RMB Holdings Limited
- Rand Merchant Insurance Holdings Limited

11. William Rodger (Roger) Jardine (45)

Independent non-executive

BSc (Physics), MSc (Radiological Physics)

Appointed July 2010

Roger Jardine was national coordinator of science and technology policy in the department of economic planning of the African National Congress from 1992 to 1995. In 1995, he became the director general of the Department of Arts, Culture, Science and Technology. He was chairman of the board of the CSIR and the Nuclear Energy Corporation between 1999 and 2005. In 1999, Roger joined Kagiso Media Limited as chief executive officer and in 2006 became the chief operating officer of Kagiso Trust Investments. Roger joined Aveng Limited as chief executive officer in July 2008 and is also a director of Aveng (Africa) Limited, McConnell Dowell (Australia) Corporation Limited and Trident Steel Holdings (Pty) Limited. Mr Jardine was appointed to the boards of FirstRand Bank during 2004 and FirstRand Limited during 2010.

FirstRand – committee memberships

- Directors' affairs and governance – chairman
- Large exposures

Directorships – FirstRand Group

- FirstRand Bank Limited

Directorships – external

- Aveng Limited
- McConnell Dowell Corporation Limited
- Sharks (Pty) Limited
- Trident Steel Holdings (Pty) Limited

12. Ethel Gothatamodimo Matenge-Sebesho (56)

Independent non-executive

MBA (Brunel); C.A.I.B (SA)

Appointed July 2010

Ethel Matenge-Sebesho started her career in banking with Standard Chartered Bank Botswana Limited from 1973 to 1996, during which time she studied for an MBA from Brunel University of London. She has considerable experience in banking and financial services, which was acquired in her role as director on the boards of Oikocredit, an international development financial institution based in the Netherlands from 2001 to 2007, Women Finance House Botswana from 1989 to 1996, and Botswana Housing Corporation. In November 1996 as general manager, Housing Institutions in the National Housing Finance Corporation Limited, she was part of the team that pioneered the concept of social housing in South Africa. From April 1998, she has held various management positions in the Home Loan Guarantee Company including marketing solutions for housing and housing finance-related problems to new markets in Africa.

FirstRand – committee memberships

- Audit
- Directors' affairs and governance

Directorships – FirstRand Group

- FirstRand Bank Limited
- First National Bank*

Directorships – external

- Advantage Asset Managers (Pty) Limited
- Botswana Export Development and Investment Authority
- FinMark Trust
- Momentum Ability Limited
- Momentum Alternative Insurance Limited
- Momentum Structured Insurance Limited
- Women's Development Business

* Divisional board

13. Paul Aser Nkuna (59)

Non-executive

MAP (Wits Business School)

Appointed May 2005

Paul Nkuna began his career as a teacher before joining the mining industry in 1977. He joined the National Union of Mineworkers in 1984 and later served as treasurer general. He was instrumental in local government negotiations as chairman of the management committee of the Brakpan Transitional Local Council. He also served in a number of executive structures within local government, including the Gauteng Association of Local Government and the South African Local Government Association. He joined the Mineworkers Investment Company as executive chairman in 1997 and in 2003 became chief executive officer, a position he currently holds.

FirstRand – committee memberships

- Directors' affairs and governance
- Transformation monitoring
- Ethics

Directorships – external

- BPSA Proprietary Limited
- Metrofile Holdings Limited – chairman
- Primedia Limited – chairman
- The Mineworkers Investment Company (Pty) Limited
- Tracker (Pty) Limited

14. Amanda Tandiwe Nzimande (40)

Non-executive

BCom, CTA (UCT), CA (SA);
H DIP Law (Wits)

Appointed February 2008

Tandi Nzimande is the chief financial officer at WDB Investment Holdings, the investment vehicle for the WDB Trust. Her role includes overseeing the financial area of WDB Investment Holdings as well as executing transactions and monitoring of ongoing investment relationships. She qualified in 1996 as a chartered accountant while with KPMG. She was a senior associate in the investment banking division of Deutsche Bank where she spent five years gaining experience in mergers and acquisitions internationally and in South Africa.

FirstRand – committee memberships

- Directors' affairs and governance
- Remuneration
- Transformation monitoring

Directorships – external

- Dinatla Investment Holdings (Pty) Limited
- Maemo Motors (Pty) Limited
- Masana Petroleum Solutions (Pty) Limited
- Paracon Holdings Limited
- WDB Investment Holdings (Pty) Limited

15. **Kgotso Buni Schoeman** (47)

Non-executive

BA Economics, Advanced Financial Management Diploma

Appointed May 2008

Kgotso Schoeman is currently the chief executive officer of Kagiso Trust. He has been involved with the trust for over 14 years. He led the team that developed the new strategy of the trust from being a general conduit grant funding agency to a development and implementing agency in the early education and rural finance development fields. He is currently heading negotiations with the provincial education department and the private sector to secure long-term partnerships for possible national rollout on a programme to improve rural education. He has considerable experience in programme design and management. He has over the past ten years participated as a team member or led a number of projects including: the Alexandra Renewal Programme, the Local Economic Development Study for the Amajuba Municipality in Newcastle, the Impact Study of the SMME Microfinancing sector around the Tshwane area and the Public Participation Process that led to Robben Island gaining world heritage status.

FirstRand – committee memberships

- Directors' affairs and governance
- Transformation monitoring

Directorships – external

- Kagiso Activ Training (Pty) Limited
- Kagiso Enterprises Rural Private Equity Fund (Pty) Limited
- Kagiso Trust Consultancy (Pty) Limited
- Kagiso Trust Investments (Pty) Limited

16. **Ronald Keith (Tim) Store** (68)

Independent non-executive

CA (SA)

Appointed May 2007

Tim Store retired in 2004 from Deloitte, South Africa where he completed his career as chairman of the board of partners. He founded the firm's Financial Institutions Services Team in 1984. In that capacity, he rendered regulatory, risk management and corporate governance consulting services to Southern African banking institutions, central banks and the World Bank. He has had an ongoing interest in training in regulatory, governance and risk management topics relating to banks. He has lectured in this capacity to most South African banks. He was appointed curator for four failed South African banks during the period 1991 to 2004.

FirstRand – committee memberships

- Audit
- Directors' affairs and governance
- Large exposure – chairman
- Risk, capital management and compliance
- Ethics – chairman

Directorships – FirstRand Group

- FirstRand Bank Limited
- Rand Merchant Bank*

* Divisional board

17. **Benedict James van der Ross** (64)

Independent non-executive

Dip Law (UCT)

Appointed May 1998

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

FirstRand – committee memberships

- Directors' affairs and governance
- Large exposures
- Remuneration
- Transformation monitoring
- Ethics

Directorships – FirstRand Group

- FirstRand Bank Limited
- Strategic Real Estate Management (Pty) Limited – chairman
- First National Bank*
- WesBank*

Directorships – external

- Distell Group Limited
- Lewis Group Limited
- MMI Holdings Limited
- Naspers Limited
- Pick 'n Pay Stores Limited

* Divisional board

18. **Jan Hendrik (Hennie) van Greuning** (58)

Independent non-executive

DCom (Economics), DCompt (Accounting Science), CA (SA), CFA

Appointed January 2009

Hennie van Greuning joined the World Bank in 1994 from the South African Reserve Bank where he served as financial manager (1986 – 1989) and Registrar of Banks (1990 – 1994). Prior to this he was a partner with Deloitte, where he spent ten years. During his World Bank career he worked in the Financial Sector Development department as well as the Europe and Central Asia region before moving to the World Bank Treasury, until his retirement in late 2008. He has worked extensively on financial regulatory, securities accounting and operational risk management issues.

His World Bank publication on International Financial Reporting Standards (IFRS – A Practical Guide) has appeared in five editions and he has co-authored "Analysing Banking Risk" (three editions), "Risk Analysis for Islamic Banks" (first edition November 2007) as well as International Financial Statement Analysis (CFA Institute – November 2008). Some of the books have been translated into more than 15 languages.

FirstRand – committee memberships

- Audit – chairman
- Directors' affairs and governance
- Risk, capital management and compliance

Directorships – FirstRand Group

- FirstRand Bank Limited

Directorships – external

- Bank Islam Brunei Darussalam

19. **Matthys Hendrik (Thys) Visser** (57)

Non-executive

BCom (Hons), CA (SA)

Appointed April 2009

Thys Visser is a chartered accountant who qualified with Arthur Young & Company in Cape Town before joining Rembrandt Group Limited where he held a number of positions, including financial director in 1991 and managing director in 1992. He is currently chief executive officer of Remgro Limited.

FirstRand committee memberships

- Directors' affairs and governance
- Remuneration

Directorships – FirstRand Group

- FirstRand Bank Limited

Directorships – external

- Distell Group Limited
- Medi-Clinic Corporation Limited
- PG Group (Pty) Limited
- PGSI Limited
- Rainbow Chicken Limited – chairman
- Rand Merchant Insurance Holdings Limited
- Remgro Limited
- RMB Holdings Limited
- Unilever South Africa Holdings (Pty) Limited

Board of directors

LAURIE DIPPENAAR

Chairman

Role

"FirstRand's Board is the focal point of corporate governance for the Group over which it has full and effective control. The Board provides the highest level of oversight of activities undertaken within the Group and acts as a unique forum for ensuring coordination of, and synergy between, the activities overseen by each of its committees."

Among the Board's day-to-day responsibilities are oversight of the Group's internal risk and control framework, development and implementation of corporate strategy, monitoring operational performance, approving major capital expenditure, acquisitions and disposals and ensuring the effectiveness of governance processes and succession planning.

During the year the Board has placed special emphasis on key areas aimed at strengthening the Group's ability to create and protect sustainable stakeholder value.

Ensuring strategic alignment between the focus areas of each board committee allows FirstRand's governance process to be greater than the sum of its parts.

2011 Highlights

Focus area	Actions
Board effectiveness and ethics management	The Directors' affairs and governance committee has undertaken reviews of the effectiveness of the Board of directors, its subcommittees and individual directors. Special attention has also been paid to succession planning of members and the establishment of a Group Social and ethics committee. The Code of ethics has recently been reviewed and approved by the Board, communicated and distributed to all employees across all levels in the Company. The Code reinforces that all business transactions should be conducted beyond reproach in the spirit of integrity, fairness and unquestionable ethics
Corporate reporting and assurance standards	The Audit committee has reviewed the accounting policies and assurance processes of the Group and is satisfied that they are appropriate and comply with International Financial Reporting Standards. Special attention has been paid to achieving effective Audit committee oversight of integrated financial and non-financial reporting and the leveraging and alignment of internal control processes through the implementation of a combined assurance model.
Accountability, risk management and internal controls	Focus has been placed on enhancing accountability across the Group including international operations. The Risk, capital management and compliance committee has overseen processes for ensuring that Group risk management practices are implemented at all operations. Emphasis has been placed on further refining the Group's Information and technology governance framework. Systems of internal control are implemented and monitored to reduce the risk of error, loss or failure to achieve objectives in an efficient manner.
Aligning remuneration and risk management	The Remuneration committee has sought combined internal and external assurance to confirm that the risk element of the Group's remuneration policy has been duly addressed, whilst ensuring proper remuneration for risk managers and discouraging inappropriate risky behaviour.
Customer relationships and financial stability	Executive committee ("Exco") has taken decisive measures to improve the efficiency and reach of the Group's customer services. Key steps have been taken to enhance the services offered to mainstream, wealth and corporate sector customers while maintaining rigorous controls for ensuring that credit is granted responsibly and capital is managed effectively.

Focus area	Actions
Broad-Based Black Economic Empowerment ("B-BBEE")	The Transformation monitoring committee has overseen the development of strategies for ensuring that the Group continues to move from procedural to substantive compliance with B-BBEE regulations through enhanced efficiency in delivery on B-BBEE objectives.
Social investment and enhanced returns to society	The FirstRand Foundation has overseen the granting of R66 million to beneficiary organisations. Special programmes are in place to ensure coordination of, and sustainable societal returns from, these interventions.

Director responsibilities

"FirstRand ensures that head office best practices are implemented at all operations, including international operations. Statutory in-country boards provide further comfort at major international operations."

In overseeing the positive performance of the Group directors have a fiduciary duty to act in good faith, with due diligence and care in the best interests of the Group and all of its stakeholders. All directors subscribe to the FirstRand Code of ethics which can be found on the FirstRand website (www.firstrand.co.za) and forms part of FirstRand's board charter.

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

The directors of FirstRand and the Group's divisional boards endorse the King Report on Corporate Governance for South Africa 2009 ("King III") and are satisfied that the Group has complied with the provisions and the spirit of King III, with the exception of the composition of the Audit committee, where one of the committee's six members is not independent in terms of the definitions provided.

Board composition

"FirstRand has a unitary board. More than half of its non-executive directors are independent and a strong element of independent directors exists on the boards of the Group's major subsidiaries. The roles of the chairman and chief executive officer are separate and the composition of the Board ensures a balance of authority precluding any one director from exercising unfettered powers of decision making."

Three of the directors, Messrs Nkuna and Schoeman and Ms Nzimande represent FirstRand's three B-BBEE partners. These directors were nominated by the Trusts they represent and their appointment was subject to the standard approval processes applied in terms of the Banks Act and JSE Listing Requirements.

FirstRand's chairman is non-executive, but not independent in terms of the definitions explained below. Mr Dippenaar is a major shareholder in RMB Holdings Limited, which owns 33.89% of the issued share capital of FirstRand. Mr Dippenaar retired as chief executive of FirstRand in November 2005. The Board believes that his specialist knowledge of the financial services industry and of the FirstRand Group makes it appropriate for him to hold this position. In line with the JSE Listing Requirements and the King III code Mr P Goss was appointed the independent lead director during the year.

Subsidiary boards and board committees

"At FirstRand achieving excellence in corporate governance means achieving synergy between procedural rigour and decision making in accordance with the good judgement of individual directors and board committees as a whole. In practice this synergy is enhanced through nurturing a governance culture defined by care, skill, diligence, good faith and trust."

In exercising control of the Group, the directors are empowered to delegate. Board committees assist the directors in their duties and responsibilities. In addition to the Exco, FirstRand's Board has committees to deal with directors' affairs and governance, remuneration, audit, risk, compliance and B-BBEE transformation. These committees have formal charters and report to the Board at regular intervals. With the exception of Exco, board committees are chaired by independent non-executive directors. Re-appointment to the committees is not automatic and is subject to the approval of FirstRand's Directors' affairs and governance committee. When FirstRand directors retire by rotation they automatically retire from the committees on which they serve.

Additional board committees exist at divisional level and are established specifically for the purposes of managing risk.

A number of FirstRand directors are also directors of the Group's divisional advisory boards. FirstRand Limited Board committees are accordingly structured to ensure that they include representatives from similar divisional board committees. This ensures that there is a common understanding across the Group of the strategic imperatives that it faces, how these are managed and the decisions that are being taken in respect thereof.

DEFINITION OF INDEPENDENCE

For the purpose of this integrated report directors are classified as follows:

- executive directors are employed by, or contracted to, FirstRand Limited or any company in the FirstRand Group. This includes directors participating in share incentive schemes;
- non-executive directors are those who represent FirstRand's BEE partners and those who are also directors of RMB Holdings Limited or Remgro Limited and are not classified in that company as independent; and
- independent non-executive directors are all other directors. This includes those directors who participate in the FirstRand black non-executive directors' share trust established as part of FirstRand's BEE transaction.

The Board is satisfied that these classifications do not conflict with those of sections 3.84 (f) of the JSE Listings Requirements.

COMPANY SECRETARY

FirstRand's company secretary assists the Board as a whole and directors individually with detailed guidance as to how their responsibilities should be properly discharged in the best interests of the FirstRand Group and its stakeholders. Where necessary he facilitates induction and training for directors and assists the chief executive in determining the annual meeting timetable.

Mr BW Unser is FirstRand Limited's company secretary. He is suitably qualified and empowered and has been the company secretary for FirstRand Bank and FirstRand Bank Holdings since 1998.

The Company secretary is also the secretary to the board committees and subsidiary boards.

Directors' interests

It is not a requirement of the company's articles of association or the board charter that directors own shares in the company. Certain directors have also disclosed their effective interest in FirstRand as a result of their shareholding in RMB Holdings Limited, which holds 33.89% (2010: 30.06%) of the issued share capital of FirstRand.

According to the register of directors' interest, maintained by FirstRand in accordance with the provisions of Section 75 of the Companies Act, directors of FirstRand have disclosed the following interests in the Company at 30 June 2011. Where necessary, prior year figures have been amended to reflect the new disclosures required in terms of the JSE Listings Requirements.

Ordinary shares (audited)

Director	Direct beneficial ('000)	Indirect beneficial ('000)	Held by associates ('000)	Indirect via RMBH ('000)	Total 2011 ('000)	Percentage holding %	Total 2010 '000
Executive directors and prescribed officers:							
SE Nxasana	642	–	–	–	**642**	0.01	
JP Burger	–	1 907	–	1 675	**3 582**	0.06	3 572
M Jordaan	46	–	–	–	**46**	–	
A Pullinger	1 201	–	–	–	**1 201**	0.02	
Non-executive directors:							
VW Bartlett	3 693	376	–	–	**4 069**	0.07	4 069
JJH Bester*	20	–	–	–	**20**	–	20
LL Dippenaar	5 383	7 526	6	115 586	**128 501**	2.28	130 521
PM Goss	1	–	–	15 671	**15 672**	0.28	16 233
PK Harris	987	3 295	96	39 727	**44 105**	0.78	45 490
G Moloi**	–	–	–	–	**–**	–	1
AP Nkuna***	–	–	–	–	**–**	–	15
KC Shubane**	–	–	–	–	**–**	–	45
Total	11 973	13 104	102	172 659	**197 838**	3.51	199 966

** Appointed 1 July 2010.*
*** Resigned 1 July 2010.*
**** Resigned 31 July 2011.*
Directors' interest remained unchanged from the end of the financial year to the date of this report.

"B" preference shares (audited)

Director	Indirect beneficial ('000)	**Total 2011 ('000)**	Percentage holding %	Total 2010 ('000)
Non-executive director:				
LL Dippenaar	520	**520**	1.16	520
Total	520	**520**	1.16	520

Directors' interest remained unchanged from the end of the financial year to the date of this report.

Board proceedings and performance review

The Board meets at least five times a year. The May meeting includes a review of the strategic plans and resulting budgets for the year ahead. Additional meetings are convened as and when necessary. Directors' interests in contracts in terms of Section 73 of the Companies Act are disclosed at every meeting.

Attendance during the year was as follows:

FSR Board	31 Aug 2010	09 Sep 2010	09 Sep 2010	27 Oct 2010	02 Dec 2010	2 & 3 March 2011	07 Apr 2011	19 May 2011	20 May 2011
Directors									
Non-executive									
LL Dippenaar	R	✓	✓	✓	✓	✓	✓	✓	✓
VW Bartlett	✓	✓	✓	✓	✓	✓	✓	✓	✓
JJH Bester	✓	✓	✓	✓	✓	✓	✓	✓	✓
L Crouse	✓	✓	✓	✓	✓	✓	✓	✓	✓
PM Goss	R	✓	✓	✓	✓	✓	✓	✓	✓
NN Gwagwa	✓	✓	✓	✓	✓	✓	✓	✓	A
PK Harris	R	✓	✓	✓	✓	✓	✓	✓	✓
WR Jardine	✓	A	A	A	✓	✓	✓	✓	✓
EG Matenge-Sebesho	✓	✓	✓	✓	✓	✓	✓	✓	✓
AP Nkuna	✓	✓	✓	✓	✓	A	✓	✓	A
AT Nzimande	A	LOA	LOA	LOA	LOA	✓	✓	✓	✓
D Premnarayen	✓	✓	✓	✓	✓	✓	✓	✓	✓
KB Schoeman	✓	✓	✓	✓	✓	✓	✓	✓	A
RK Store	✓	✓	✓	✓	✓	✓	✓	✓	✓
BJ van der Ross	✓	✓	✓	✓	✓	✓	✓	✓	A
JH van Greuning	✓	✓	✓	✓	✓	✓	✓	✓	✓
MH Visser	R	✓	✓	✓	✓	✓	✓	✓	✓
Executive									
JP Burger	✓	✓	✓	✓	✓	✓	✓	✓	✓
SE Nxasana (CEO)	✓	✓	✓	✓	✓	✓	✓	✓	A

A Apologies tendered and accepted
R Recused
LOA Approved leave of absence

During the year under review FirstRand's Board of directors conducted an effectiveness survey and is satisfied that the committee has met the requirements of its charter.

Signed on behalf of the Board

LL Dippenaar, Chairman
12 September 2011

Directors' affairs and governance committee

ROGER JARDINE

Chairman

Composition

FirstRand's Directors' affairs and governance committee comprises all of FirstRand's non-executive directors and is chaired by Roger Jardine who is an independent non-executive director.

Role

"The committee oversees corporate governance and assists the Board in ensuring that FirstRand implements the highest standards of corporate governance at all operations."

During the year the chairman provided detailed reports to the Board on issues addressed by the committee.

2011 Highlights

Focus area	Actions
Governance effectiveness and succession planning	The committee has undertaken reviews of the effectiveness of the Board of directors and its subcommittees and has ensured sound and effective succession planning at both Board and executive level.
Ethics management	During the year the committee oversaw the establishment of a Social and ethics committee for monitoring the Group's ethics performance.
King III and best practice in corporate governance	The committee has overseen a gap analysis of the Group's governance practices compared with those recommended in the King III and is satisfied that management has taken appropriate measures to address any gaps.
Remuneration of non-executive directors and trading in company shares	The committee has made recommendations to Remco about the remuneration of non-executive directors and has monitored trading in company shares.

Corporate governance ethos

"FirstRand's philosophy upholds the values of ethical behaviour, participative decision making, win-win relationships with all stakeholders and the desire to be a world class financial services company. The Directors' affairs and governance committee ensures that this philosophy is incorporated into the practice of corporate governance at FirstRand."

FirstRand's non-executive directors acknowledge the need for their independence, while recognising the importance of good communication and close cooperation with executive management. FirstRand's annual strategy conference is attended by senior management and all Group directors, including those of the subsidiary companies and divisional boards.

Governance effectiveness

DIRECTOR EVALUATIONS

"Directors' responsibilities include oversight of financial and non-financial value drivers including environmental, social and governance issues impacting the sustainable profitability of the Group."

During the year under review the Board and all of its committees measured their effectiveness and that of their individual members. The directors convey to the chairman any concerns that they might have in respect of the performance and conduct of their peers. As part of these evaluations the independence of all independent non-executive directors is evaluated. This includes, in particular, those who have served for up to nine years non-stop.

The evaluations include an appraisal of the chairman of the Board or committee being evaluated. The performance of the chief executive is also formally evaluated at least once per year against a balanced scorecard, which is described in the Remuneration committee report on page 83. Evaluations conducted for the period under review found no material concerns in respect of Board and board committee performance.

SUCCESSION PLANNING

FirstRand benefits from an extensive pool of people with diverse experience and competence. The Group's non-statutory subsidiary boards are used as a platform for mentoring potential future executive and non-executive directors and developing their knowledge of the FirstRand Group. During the year the Group's executive and board succession plans were updated to take cognisance of developments in the Group's talent pool and future needs.

Based on the measures in place the Board is confident that it is able to identify suitable short-term and long-term replacements from within the Group when the need arises.

Social and ethics committee

"FirstRand has proactively formalised the governance of social and ethics performance through the establishment of a Social and ethics committee ("Secom") and is taking steps to ensure the optimal functioning of Group-wide ethics management processes."

During the year under review the Directors' affairs and governance committee oversaw the establishment of FirstRand's Social and ethics committee. Secom is a statutory Social and ethics committee charged with assisting the Board in ensuring responsible business practices across the FirstRand Group, including international operations.

Secom is composed of independent non-executive directors. The chief executive, financial director, group ethics officer, other members of management and other assurance providers may attend in an ex officio capacity.

During the year under review Secom assisted the group ethics officer in guiding FirstRand's Ethics management framework and further institutionalising its Code of ethics through:

- ensuring safe whistle-blowing throughout the Group;
- facilitating declarations of interest by employees and directors;
- ensuring that responsible competitive practices are observed;
- advising on reputational risk;
- advising the Board on social and ethical matters that could impact the company and its stakeholders;
- facilitating the application of King III in all operations; and
- overseeing the Group's Treating Customers Fairly programme

FIRSTRAND GROUP CODE OF ETHICS

The FirstRand Group Code of ethics is the cornerstone of FirstRand's Ethics management framework.

Upon joining the Group all directors are obliged to sign a pledge to adhere to the FirstRand Group Code of ethics. This Code addresses duties of care and skill, good faith, honesty, integrity and whistle blowing. It also addresses processes for dealing with conflicts of interest and the need to always act in the best interests of the Group. FirstRand does not make donations to political parties. Guidance on political donations and solicitation of gifts is provided in the Code of ethics. No issues of impropriety or unethical behaviour on the part of any of the directors were drawn to the attention of the committee during the year.

King III

The directors of FirstRand and the Group's divisional boards endorse the Code of Corporate Practices and Conduct contained in the King Report on Corporate Governance for South Africa 2009 ("King III").

King III came into effect for FirstRand from 1 July 2010. During the year under review FirstRand's ethics office conducted a gap analysis of corporate governance practices compared with those recommended in the King III code and made recommendations on how gaps should be addressed. Actions taken include the following:

- board and board committee charters updated to incorporate recommendations made in King III;
- more formal and centralised Information Technology governance;
- the formation of the Group Social and ethics committee; and
- the development of more clearly defined processes for alternative dispute resolution.

WHISTLE-BLOWING AND ETHICS HOTLINE

FirstRand encourages safe and effective whistle blowing in the Code of ethics and strives to create an enabling environment for whistle-blowing through oversight of the Directors' affairs and governance committee. The committee has ensured that procedures exist for bringing unethical business practices by directors or employees to the attention of the Board.

An external service provider has been appointed to provide an independent whistle blowing hotline service to the Group. These consultants manage the FirstRand Ethics line in partnership with the Group Ethics office which enables confidential or anonymous reports of unethical conduct, including theft, fraud and corruption. A secure email address has also been registered for this purpose.

The Group has established procedures for addressing disputes of all kinds. During the year under review the Ethics office provided additional guidance to employees on how these processes can be accessed.

Anonymous contact lines are:

Tel SA:	0800003312
Tel UK:	08082387500
Tel India:	0008001007900
Email:	report@firstrandethicsoffice.co.za
Internet:	www.firstrandethicsoffice.com

"SECOM's four guiding principles are:

1. Balance – balanced consideration of ethical performance in business actions and decision making.
2. Transparency – the very purpose of the Ethics committee is to ensure adequate transparency.
3. Accountability – the resolutions of the Ethics committees clearly identify accountable parties.
4. Consistency – clearly defined Secom reporting lines from Ethics committees across the Group ensure consistency."

Appointment of directors

There is a clear policy in place detailing procedures for appointments to the Board. Such appointments are formal and a matter for the Board as a whole, assisted by the Directors' affairs and governance committee. Prior to the appointment of a new director a Nominations committee is appointed in compliance with section 3.84(a) of the JSE requirements. This committee is responsible for interviewing the nominee and making recommendations to the rest of the committee as to his or her suitability.

When appointing directors, the Board takes cognisance of its needs in terms of different skills, experience, diversity, size and demographics. A brief CV of each director standing for election or re-election at the annual general meeting accompanies the notice of the meeting contained in the integrated report. A staggered rotation of directors ensures continuity of experience and knowledge. The reappointment of non-executive directors is not automatic and is subject to performance and eligibility for reappointment.

The retirement age for non-executive directors is age 70 and can be extended if unanimous agreement is reached by the Board that the skills and experience of a director warrants their retention. There is no limit to the number of times that a director can be re-elected to the Board. Non-executive directors are expected to ensure that appointments to boards outside of the FirstRand Group do not impinge on their ability to perform their duties as directors of FirstRand and do not present any material conflicts of interest.

The appointment of all directors to the Board requires the approval of shareholders at the annual general meeting. The directors are accountable and responsible for all the actions of board committees. This is emphasised during the induction training provided to new directors. Other ongoing training and education courses allow them to familiarise themselves with FirstRand's operations, the business environment, their fiduciary duties and responsibilities and the Board's expectations in respect of their commitment and ethical behaviour.

In terms of South African banking regulations all directors of a bank or a bank controlling company must be approved by the South African Reserve Bank. During the year the Directors' affairs and governance committee oversaw the necessary actions for ensuring compliance with this requirement.

Trading in company shares

FirstRand has closed periods prohibiting trade in FirstRand shares by directors, senior executives and participants in the various share incentive schemes. The closed periods commence on 1 January and 1 July and are in-force until the announcement of the interim and year end results. Closed periods also include any period where the company is trading under cautionary or where participants have knowledge of price sensitive information. Similar prohibitions exist in respect of trading in RMB Holdings shares because of the relative importance of FirstRand in the earnings of RMB Holdings. All directors' dealings require the prior approval of the chairman and the company secretary retains a record of all such share dealings and approvals. Trading in securities by employees who are exposed to price sensitive information is subject to the Group's personal account trading rules.

Proceedings and performance review

The committee met four times during the year. Membership and attendance were as follows:

	09 Sept 2010	27 Oct 2010	07 Apr 2011	20 May 2011
VW Bartlett	✓	✓	✓	✓
JJH Bester	✓	✓	✓	✓
L Crouse	✓	✓	✓	✓
LL Dippenaar	✓	✓	✓	✓
PM Goss	✓	✓	✓	✓
NN Gwagwa	✓	✓	✓	✓
PK Harris	✓	✓	✓	✓
WR Jardine (Chairman)	✓	✓	✓	✓
EG Mantenge-Sebesho	✓	✓	✓	✓
AP Nkuna	✓	✓	✓	✓
AT Nzimande	LOA	LOA	✓	✓
D Premnarayen	✓	✓	✓	✓
KB Schoeman	✓	✓	✓	✓
RK Store	✓	✓	✓	✓
BJ van der Ross	✓	✓	✓	✓
JH van Greuning	✓	✓	✓	✓
MH Visser	✓	✓	✓	✓

LOA Approved leave of absence.

The Chairman attends the annual general meeting.

The Directors' affairs and governance committee is satisfied that they, and all board committees, have complied with the requirements of their charters and that all reasonable measures have been taken to ensure that the highest standards of corporate governance have been implemented at all operations.

WR Jardine
Chairman, Directors' affairs and governance committee

12 September 2011

"Strategy is dynamically adjusted to ensure the appropriate risk and return profile"

Audit committee

HENNIE VAN GREUNING

Chairman

"The global economic crisis and subsequent regulatory events have brought the role of audit committees into sharp focus, particularly in the banking industry. In fulfilling its regulatory duties FirstRand's Audit committee ensures that it responds effectively to the evolving nature of risks in the banking environment. In so doing the committee encourages a strong focus on root cause analysis of all events reported."

Composition

FirstRand's Audit committee is composed of non-executive directors, the majority of whom are independent and is chaired by an independent non-executive director. One of the committee members, Mr Crouse is not independent in terms of the definition provided. The committee is therefore not composed exclusively of independent non-executive directors as recommended by King III. It is proposed that Mr Crouse remains a member of the committee. The Board is of the opinion that given the specialist skills and experience, and the knowledge of the FirstRand Group that he is able to bring to its deliberations, Mr Crouse should remain a member of the Audit committee.

FirstRand's chief executive, financial director, chief audit executive, external auditors, heads of finance, risk and compliance and other assurance providers attend committee meetings in an ex officio capacity. The external auditors and chief audit executive meet independently with the non-executive members as and when required.

Role

The Audit committee is appointed by the Board and has a formally approved charter.

"The committee's principal regulatory duties are to oversee the integrity of the Group's internal control environment and ensure that financial statements are appropriate and comply with International Financial Reporting Standards. Strengthening of combined assurance and integrated reporting processes are recognised as areas where the role of the committee can be enhanced to improve the Group's effectiveness in responding to new types of risk."

2011 Highlights

Focus area	Actions
FINANCIAL STATEMENTS	
Accounting policies and reporting standards	Organising of a series of technical accounting workshops sponsored by the CFO's office – enabling committee members to probe deeper into the implications of certain complex financial reporting standards on the Group's financial statements. Review of accounting policies for appropriateness.
Integrated reporting	Reviewing quarterly environmental, social and governance ("ESG") reports describing the Group's non-financial performance to support scrutiny applied to the Group's financial integrity and the sustainability of the going concern.
INTERNAL CONTROLS	
Risk-based internal audit	Alignment of internal audit plans with key areas, analysing the 'root-cause' of audit findings and appropriate management actions.
External auditors	Appointment of the external auditors and approval of the external audit plan.
Aligned assurance processes	Encouraging the integration and leveraging of the various control and governance processes used by the different assurance providers.

Financial statements

"In reviewing FirstRand's annual financial statements the Audit committee increasingly uses analytical review principles to obtain an ongoing and consistent picture of the financial results as the year progresses. This enables a more rigorous and consistent application of mind as the year progresses."

ACCOUNTING STANDARDS AND GOING CONCERN

The Audit committee is acutely aware of the significance of appropriate accounting policies in presenting financial results.

During the year the committee attended several technical sessions to facilitate a thorough understanding of the accounting practices for complex areas and is satisfied that they are in compliance with IFRS. The committee has also reviewed a documented assessment, including key assumptions, prepared by management of the going concern status of the company and has accordingly confirmed to the board that the company will be a going concern for the foreseeable future.

INTEGRATED REPORTING

"The committee receives quarterly ESG reports from management which have enabled it to build a consistent picture of FirstRand's non-financial performance in support of the scrutiny applied to the Group's financial integrity and the sustainability of operations."

The Audit committee foresees that its role in monitoring integrated reporting could change significantly as the discipline matures.

The committee has accordingly invested significant time in overseeing the alignment of FirstRand's internal non-financial reporting processes with the Group's already well established financial reporting processes and control environment.

As part of the above process the committee has considered the conclusion of independent assurance providers in reviewing the reliability and consistency of the sustainability and governance information disclosed in the annual integrated report. The committee has accordingly recommended the integrated report to FirstRand's Board of directors.

Internal controls

INTERNAL AUDIT

"FirstRand's internal audit team has formal governance processes for maintaining alignment of the audit plan with the evolving nature of risks through enterprise-wide combined assurance structures. The Audit committee has placed special emphasis on obtaining a view from internal audit that emphasises both controls and processes that need to be strengthened."

Internal audit is a key independent assurance provider to the Audit committee as it has a unique ability to engage with the latitude, depth and detail of FirstRand's control environment on a daily basis. The committee accordingly recommends the internal audit charter for approval by the Board and approves the annual internal audit plan. The chief audit executive is responsible for reporting on the findings of the internal audit work against the agreed internal audit plan to the Audit committee on a regular basis and has direct access to the audit committee, primarily through its chairman. The committee has accordingly assessed the performance of the chief audit executive and is satisfied that the internal audit function is independent and appropriately resourced, and that the chief audit executive has fulfilled the obligations of the position.

During the year internal audit performed a review of the adequacy and effectiveness of the company's internal control environment, including its internal financial controls and risk management processes. Based on the results of these reviews, internal audit confirmed to the Audit committee that nothing has emerged to indicate material weakness in the risk management and internal control processes including internal financial controls whether from design, implementation or operation (individually or in combination with other weaknesses). This written assessment by internal audit formed the basis for the Audit committee's recommendation in this regard to the Board.

In addition to the above responsibilities internal audit has invested energy in improving the effectiveness and efficiency of the Group's assurance processes going forward.

Combined assurance

"Initial outcomes of the combined assurance work done during the year indicate greater awareness of the potential efficiency of assurance processes through the removal of duplication, more focused risk-based assurance against key control areas and the emergence of a more accurate multi-dimensional picture of the Group's control universe."

ALIGNED ASSURANCE PROCESSES

The Group has established formal enterprise-wide governance structures for enhancing the practice of combined assurance at FirstRand, involving the establishment of combined assurance committees at Group and subsidiary level. These combined assurance committees are chaired by the chief audit executive and have the specific mandate to achieve alignment of the processes adopted by the Group's key assurance areas. This work has involved establishing common end-to-end business process and transaction lifecycle frameworks against which different assurance processes are leveraged.

GOVERNANCE OF RISK

"FirstRand's Audit committee works closely with the Group's Risk committee to identify common control themes and achieve synergy between assurance processes thereby ensuring that, where appropriate, these functions can leverage off one another."

The Audit committee fulfils an oversight role regarding financial reporting risks, internal financial controls, fraud risk and information technology risks as they relate to financial reporting. Several non-executive directors serve on both the Audit and the Risk, capital management and compliance committees.

The 2011 financial year represented the first year in which formal reports were received from FirstRand's chief information officer. The purpose of these reports is to ensure appropriate application of mind to the impact of information systems on the Group's financial reporting processes.

WHISTLE BLOWING

The Audit committee did not receive any concern or complaint relating to the accounting practices and internal audit of the company, the content or auditing of the company's financial statements, the internal financial controls of the company and any other related matter.

Finance function expertise

The Audit committee considers the expertise and experience of the financial director in terms of the JSE Listing Requirements and is satisfied that the appropriate requirements have been met. The Audit committee is also satisfied with the expertise and adequacy of resources of the finance function and experience of the senior members of management responsible for it.

External auditors

At the annual general meeting held in December 2010 shareholders approved the committee's nomination of PricewaterhouseCoopers Inc and Deloitte & Touche as joint auditors of the company until the next annual general meeting. Messrs Tom Winterboer and Kevin Black respectively were appointed as the individual registered auditors undertaking the company's audit for the year under review.

The committee, in consultation with executive management, agreed to the engagement letter, terms of engagement, audit plan and budgeted audit fees for the 2011 financial year.

"The external audit plan was carefully aligned with a risk-based approach, taking cognisance of the internal audit plan and the work plans of the Group's combined assurance community."

There is a formal procedure that governs the process whereby auditors are considered for non-audit services and the committee has pre-approved a service agreement for the provision of these by the external auditors.

The committee is satisfied that the external auditors were independent of the company, as set out in section 90(2) of the Companies Act, which includes consideration of previous appointments of the auditors, the extent of other work undertaken by the auditors for the company and compliance with criteria relating to independence or conflicts of interest as prescribed by the Independent Regulatory Board for Auditors. Requisite assurance was sought and provided by the auditors that internal governance processes within the audit firm support and demonstrate its claim to independence.

Looking forward

"The Audit committee will continue to apply rigor and scrutiny in overseeing the Group's integrated reporting processes and the effectiveness of the internal control environment underpinning these. Management has embraced the combined assurance mechanism to synchronise risk and assurance functions through a focus on root-cause and related management action."

Proceedings and performance review

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

	Sept 2010	Nov 2010	Mar 2011	May 2011
JH van Greuning (Chairman)	✓	✓	✓	✓
VW Bartlett	✓	✓	✓	✓
JJH Bester	✓	✓	✓	✓
L Crouse	✓	✓	✓	✓
RK Store	✓	✓	✓	✓
E Mantenge-Sebesho	✓	✓	✓	✓

During the year under review FirstRand's Audit committee members conducted an effectiveness survey, the results of which were shared with the Board. The Committee confirms that for the period under review, it discharged its duties and responsibilities in accordance with the terms of reference.

JH van Greuning
Chairman, Audit committee

12 September 2011

Risk, capital management and compliance committee

JURIE BESTER

Chairman

Composition

The Risk, capital management and compliance committee ("RCC committee") is composed exclusively of non-executive directors with a majority of independent non-executive directors. Among the attendees are members of the Group's divisional risk committees, the chief executive officer, chief financial officer/chief operating officer, the Group and divisional chief risk officers, the Group audit executive and the head of regulatory risk management who attend meetings in an ex officio capacity.

"The Chairman along with other members of the RCC committee are nominated by the Board which ensures that members have the necessary skills, experience and financial services background to fulfil their duties."

Role

The RCC committee provides independent oversight over the risk, capital management and compliance activities undertaken within the FirstRand Group. This includes ensuring that:

- an effective policy and plan for risk management has been implemented to enhance FirstRand's ability to achieve desired outcomes; and
- FirstRand's risk disclosures are timely, sufficiently detailed and relevant to the Group's stakeholders.

The Committee does not assume the functions of management, which remain the responsibility of the executive directors, officers and other members of senior management.

"During the year FirstRand's RCC committee reviewed reports from the chief risk officer and subsidiary risk committees in ensuring that significant issues are adequately addressed across the Group."

2011 Highlights

Focus area	Actions
International expansion	In line with FirstRand's strategic intent on international expansion of operations the committee has overseen processes for ensuring that corporate centre (head office) risk management practices are implemented at all operations.
Governance of IT risks with reference to King III principles	Steps have been taken towards enhanced governance of IT risk including oversight of the fine tuning of an IT governance framework through the establishment of an IT governance committee.
Synergy between risk and reward	Increased focus has been placed on the alignment of remuneration practices with risk taken by bank employees. This includes recommendations on the remuneration of employees in the risk and control functions.
Identifying and managing sustainability risks	By means of the analysis of potential volatility of earnings against the internal capital adequacy processes under various scenarios the committee quantifies the risk exposures impacting the short, medium and long run viability of the going concern. In addition to the above, environmental, social and governance risks affecting the sustainability of the Group are assessed using both quantitative and qualitative methodologies. Notable progress has been made in monitoring Equator Principles performance.

Stakeholders are referred to the comprehensive risk and capital management report set out from pages 118 to 201 for a detailed review of the risk and capital management processes and responsibilities undertaken by the Group.

Activities undertaken during the year

In addition to the above the committee has undertaken the following during the year:

- approved risk management policies, standards and processes;
- ensured that the risk management plan is widely disseminated throughout the Group and integrated into the day-to-day activities of the Group;
- ensured that management considers and implements appropriate risk responses;
- liaised closely with the Audit committee to exchange information relevant to risk;
- ensured that appropriate systems are in place to identify and monitor risks affecting the Group, including unpredictable risks and those related to information technology;
- monitored fraud risk and conducted trend analysis against internal and external loss data to understand the cause of loss incidents and where corrective action should be taken, to derive lessons from other organisations and inform operational risk assessments through scenario analyses;
- overseen the Group's routine and rigorous stress testing processes used to assess the Group's capital adequacy and to determine the Group's internal policies and exposure limits as approved by the Board;
- overseen further integration of environmental, social and governance risks within the Group's risk reporting framework;
- ensured that appropriate systems are in place to identify and monitor compliance with legislation and the Group's Code of ethics; and
- evaluated the adequacy and effectiveness of the compliance framework.

Proceedings and performance review

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

	13 Sept 2010	15 Nov 2010	22 Feb 2011	10 May 2011	20 May 2011
JJH Bester – Chairman	✓	✓	✓	✓	✓
L Crouse	✓	✓	✓	✓	✓
RK Store	✓	✓	✓	✓	✓
JH van Greuning	✓	✓	✓	✓	✓

During the year under review FirstRand's RCC committee members conducted an effectiveness survey and are satisfied that the committee has met the requirements of its charter.

The chairman is satisfied that the FirstRand Group has the necessary resources, systems, skills and remuneration practices to enable the ongoing effectiveness of the Risk, capital management and compliance functions within the FirstRand Group.

JJH Bester
Chairman, Risk capital management and compliance committee

12 September 2011

"Remuneration is key to encouraging behaviour consistent with creating long-term shareholder value"

Remuneration committee

Pat Goss

Chairman

Composition

FirstRand's Remuneration committee ("Remco") is chaired by an independent non-executive director and is composed of non-executive directors, the majority of whom are independent directors. Executives attending Remco meetings do so in an ex officio capacity.

Role

Remco ensures that the Group's remuneration practices appropriately reflect company performance and are aligned with the interests of shareholders and other stakeholders.

Remco provides oversight of all forms of remuneration and reward to executive directors and senior management including fees, basic and variable pay, other benefits, and share awards. The committee is also responsible for reviewing proposals to the Board and shareholders on non-executive director remuneration.

In discharging its duties Remco aligns remuneration with stakeholder interests through overseeing appropriate adjustments to fixed, variable and long-term remuneration arrangements relative to company performance and industry specific remuneration practices.

As a financial services group, FirstRand's most critical asset, required for delivering on its proposition to customers, is its human resources. Given the war for talent in the financial services arena, rewarding these resources appropriately is key to the sustainability of its business. Its remuneration strategy is accordingly tailored towards:

- attracting, retaining and motivating people with the ability, experience and skill to successfully implement business strategy;
- creating recognisable alignment between rewards for employees, particularly executive directors and senior management, and the risk exposure of shareholders and other stakeholders;
- incentivising employees to deliver consistent performance in line with strategic goals and risk tolerances and rewarding success appropriately;
- delivering compensation that is affordable and reasonable in terms of the value created for shareholders; and
- encouraging behaviour consistent with FirstRand's Code of ethics, business philosophy and corporate culture.

FirstRand is acutely aware of the need to align employee remuneration with shareholder returns and the Group's remuneration policy specifically addresses the following factors to ensure this alignment:

- incentive pools shaped by Group profitability and performance metrics, divisional profitability, risk taken within risk appetite versus reward realised and sustainable future profitability;
- individual performance measured against specific quantitative financial and non-financial performance criteria, individual behaviour and competitive performance;
- incentives which diminish or disappear in the event of poor Group, divisional or business unit performance;
- no multi-year guaranteed incentives, substantial severance arrangements or remuneration linked to revenue generation by formula;
- significant deferral of senior management's variable remuneration into FirstRand shares for a period of two years; and
- transparency to enable stakeholders to make reasonable assessments of reward practices and underlying governance processes.

FirstRand's divisions operate across a variety of financial services activities, each with distinct employment and human resource pressures. The Group's remuneration policy takes account of the diverse needs of the Group's divisions and the implementation of appropriate industry specific remuneration practices in accordance with the Group's remuneration policy.

During the year to June 2011 the Group implemented the following actions pertaining to remuneration. These actions are specifically designed to continuously tighten the link between remuneration and company performance, and specifically between risk and reward.

2011 Highlights

Focus area	Actions
Review of remuneration practices	Remuneration practices were reviewed to ensure alignment with international best practice. Special attention was paid to ensuring the effective application of the Financial Stability Board's Principles for Sound Compensation Practices and the Financial Service Authority's remuneration code of practice.
Aligning risk and reward	The chairman of the Risk, capital management and compliance committee is a Remco member and formally confirms that the risk element of FirstRand's remuneration policy has been duly considered, whilst ensuring appropriate remuneration for risk managers and discouraging inappropriately risky behaviour.
Deferral of variable pay	Between 20% and 40% of all performance payments above R1.5 million are deferred in FirstRand shares for two years, with 40% deferral for Exco members and 30% for other employees earning bonuses in excess of R5 million.

Review of remuneration practices

Remco has access to local and international consultants to ensure that it obtains independent advice on both general and specific remuneration practices.

"During the year Remco ensured alignment between FirstRand's remuneration practices and those recommended by the International Financial Stability Board's Principles for Sound Compensation Practices and the International Financial Service Authority's remuneration code of practice."

Subsequent to local regulatory events in South Africa, the Group has included additional remuneration disclosure relating to those individuals that are defined by the new Companies Act as "prescribed officers". Members of Group Stratco, namely the Group CEO, Group CFO/COO and the CEO's of the Group's operating franchises, FNB, RMB and WesBank are so defined and their remuneration is included as part of the emoluments table on page 90.

In addition to the new Companies Act requirements, King III recommends that companies disclose the three highest paid employees who are not directors. After due consideration of this provision Remco has resolved that the disclosure of FirstRand's prescribed officers' remuneration is sufficient to deal with this recommendation and appropriately demonstrates alignment between remuneration and shareholder returns.

Aligning risk and reward

The chairman of FirstRand's RCC committee has provided formal confirmation that the risk element of FirstRand's remuneration policy has been duly considered and does not encourage risky behaviour.

Remco ensures that total variable compensation does not limit its ability to strengthen its capital base and compensation has been structured to account for all types of risk including credit and liquidity risk.

"The size of the variable compensation pool and its allocation within the Group takes current and potential future risks into account. These include:

- the cost and quantum of capital required to support the risks taken;
- the liquidity risk assumed in the conduct of business; and
- consideration of the timing and certainty of the realisation of accrued, but as yet unrealised, accounting profits included in current earnings."

As part of the Group's internal capital adequacy assessment process ("ICAAP"), three year forecasts are used – taking into account the Basel Pillar 1 and 2 stresses, and future regulatory changes. The ICAAP includes an assessment of the Pillar 1 risk types (i.e. credit, operational, market, equity investment and other risks) and Pillar 2 risk types (i.e. liquidity risk, interest rate risk in the banking book, business risks, etc.). These assessments inform the target capitalisation levels and buffers for the Group. The targeted capitalisation levels inform the capital allocation percentages to the business units. These derive the economic capital requirement for each business unit. All risks within the organisation are taken into account when capital is allocated for performance measurement purposes since outputs from the ICAAP are key inputs into pricing and performance measurement.

"A derivative of the above calculation is net income after cost of capital ("NIACC"), which measures the value added by each business unit after taking into account the cost of capital (i.e. NIACC = earnings less cost of capital). The capital levels used in the cost of capital calculations are based on the higher of net asset value (existing capital) and economic capital (required capital). Therefore the bonus pool allocation incorporates both the earnings generated and risk introduced by the business unit on a current and forward-looking basis."

Reputational and legal risk is dealt with in product acceptance and deal conclusion forums. These are overseen via the governance structure of risk committees, audit committees and review committees. These controls have a bearing on the size of the bonus pool through impacting the quality of business written and therefore the income earned. To the extent that reputational or legal risks result in a financial loss for the bank, these costs would impact the income of the affected business unit and would therefore have a direct bearing on the size of the bonus pool for the period under review.

In addition to the above measures, remuneration practices for employees in the risk functions have recently been reviewed and steps taken to ensure that their remuneration is market related and adequate to attract and retain qualified and skilled staff. The heads of Enterprise Risk Management and Regulatory Risk Management monitor the compensation levels of risk managers across the Group with ultimate oversight provided by the Board via Remco.

Executive remuneration

The basis for remunerating executive directors and prescribed officers is similar to that of senior management and comprises a basic salary plus benefits, an annual performance-related reward and participation in the Group's share incentive schemes.

FirstRand's executive directors and prescribed officers are employed under the Company's standard employment contract. Remuneration is benchmarked against industry peers and is subject to external professional advice when deemed appropriate. The services of the prescribed officers are subject to one month's notice and no protection is provided in the event of an unsolicited takeover.

"Executive remuneration is designed to align with shareholder returns and drive the Group's strategy to create long-term franchise value, through delivering superior and sustainable returns, within acceptable levels of earnings volatility."

For the year to June 2011 FirstRand produced excellent results achieving normalised earnings from continuing operations of R10 117 million, an increase of 22% on the previous period, and producing a normalised ROE of 18.7% (2010: 17.7%).

"In addition to the strategic drivers, remuneration of executive management also takes into account the size, complexity and risk profile of the individual operating franchise and detailed performance score cards cover the following measurements:"

- financial performance
  - growth in profit after tax
  - ROE
  - NIACC;
- risk appetite;
- efficiencies;
- customer service; and
- B-BBEE transformation.

These criteria play out differently in each franchise. A retail franchise has many annuity income streams that require little capital to be deployed to generate profits, whereas the investment banking model requires much greater effort to generate returns. Therefore a key component of the Group's remuneration approach also takes into account industry specific issues, not only absolute numbers.

Looking at the performance of each operating franchise in the table below, the following key financial measurements were achieved.

Profit before tax (R million)	2011	2010	% change	ROE %
FNB	**6 944**	5 806	20	36
RMB	**4 959**	4 728	5	29
WesBank	**2 548**	1 300	96	26

In line with the Group's objective to drive the delivery of long-term franchise value, there are deferral structures within the performance bonus component of remuneration. In addition, the vesting of share-based payments is dependent on the Group achieving certain performance criteria – namely real growth in earnings and a premium over cost of equity. Details of share scheme vesting criteria is disclosed in note 31 of the annual integrated report.

Deferral of variable pay

"Profits and losses of different activities of the Group are deferred over different periods of time. Variable compensation payments are deferred accordingly and payments are not finalised over short periods where risks can manifest over longer periods. For senior executives and all other employees whose actions have a material impact on the risk exposure of the Group, a substantial proportion of compensation is variable and paid on the basis of individual business unit and Group-wide performance indicators."

2011 Deferral structure

Performance payment	Deferred in shares	Payment date			
		Aug 2011	Dec 2011	Jun 2012	Sep 2013
≤ R500k	No	100%	–	–	–
≤ R1.5 million	No	R500k + 33% of balance of cash portion	33% of balance of cash portion	33% of balance of cash portion	–
> R1.5 million	20 – 40% of amount above R1.5 million	R500k + 33% of balance of cash portion	33% of balance of cash portion	33% of balance of cash portion	Shares vest
> R1.5 million (All employees earning variable pay above R5 million)	30% of amount above R1.5 million	R500k + 33% of balance of cash portion	33% of balance of cash portion	33% of balance of cash portion	Shares vest
> R1.5 million (FirstRand and franchise Exco members only)	40% of amount above R1.5 million	R500k + 33% of balance of cash portion	33% of balance of cash portion	33% of balance of cash portion	Shares vest

"There are no guaranteed bonuses for senior positions. Should an employee resign or be dismissed from the Group's employment, unpaid bonus tranches are forfeited. In terms of FirstRand's current policy any unpaid portion of deferred bonuses is withheld in the case of the applicable business unit making a loss during the year in question."

Share incentive schemes

Share incentive schemes operated by the Group are a useful tool in retaining key people and aligning their interests with those of FirstRand's shareholders. All of the share incentive schemes currently in operation within the Group have received the prior approval of FirstRand's shareholders and other stakeholders.

"In order to link remuneration to the time horizon of risk assumed by the Group, the vesting of long-term incentive awards is subject to the satisfying of performance conditions set for, and measured over, a three to five year period. If performance conditions are not satisfied outstanding payments are forfeited.

FirstRand's Remco believes that this period is aligned with the nature of its business and the risks it has to address."

Remco is of the view that the balance between short-term incentives and equity based long-term deferred incentives represents a healthy mix which will encourage focus on sustainability of profits and performance against well defined financial and non financial objectives.

Vesting criteria for the Group's long-term incentive schemes are clearly defined in the schedule of share incentive schemes in note 31 of annual integrated report. These vesting criteria are regularly reviewed and adjusted in line with the prevailing macro environment and to ensure alignment with performance and shareholder returns. Performance hurdles are never adjusted retrospectively, therefore the failure to meet these hurdles results in outstanding share-based payments being forfeited. This is clearly shown under the 2006 award. Performance targets for the 2007 scheme have not to date been met and thus share incentives have not become exercisable. The performance period extends to 30 June 2012.

Non-executive director remuneration

Non-executive directors receive fees for their services as directors and for services provided as members of board committees. These fees vary depending on the role of the committee. Non-executive directors do not qualify for participation in share incentive schemes.

Fees paid to non-executive directors are based on current market practice. The fees are reviewed by the Directors' affairs and governance committee and are approved in advance by shareholders at the annual general meeting.

Basic salaries and benefits

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

New employees joining the Group become members of a defined contribution pension and/or provident fund scheme operated under the control of the relevant governing legislation. All schemes are regularly valued by independent actuaries and are financially sound. Should the actuaries advise of any deficits within the old defined benefit schemes, such deficits are funded to ensure the ongoing soundness of the fund concerned. Retirement funding contributions are charged against expenditure when incurred.

The assets of retirement funds are managed separately from the Group's assets. Boards of trustees of the pension and provident funds include staff and pensioner representatives who oversee the management of the funds and ensure compliance with the relevant legislation.

All full-time employees are required to belong to a medical aid scheme. On retirement, facilities exist for retired employees to join medical aid schemes in their individual capacities. When, as a result of past practice, the Group is required to contribute to post-retirement medical aid costs, the present value of such contributions is calculated and provided for. Current employment practice excludes post-retirement medical aid contributions.

Proceedings and performance review

The committee meets three times per year. Membership and attendance at the meetings held during the year were as follows:

	16 Jul 2010	03 Mar 2011	13 Jun 2011
VW Bartlett	✓	✓	✓
JJH Bester	*	✓	✓
LL Dippenaar	✓	✓	✓
PM Goss – chairman	✓	✓	✓
PK Harris (resigned July 2010)	✓		
AT Nzimande	*	✓	✓
BJ Van der Ross	✓	✓	✓
MH Visser	✓	✓	✓

** Newly appointed members only able to attend from 3 March 2011.*

The chairman attends the annual general meeting.

During the year under review FirstRand's Remuneration committee members conducted an effectiveness survey and are satisfied that the committee has met the requirements of its charter.

"FirstRand's remuneration policies for the coming financial year will be put to shareholders' vote at the annual general meeting to be held on 1 December 2011, details of which are provided in the notice of the annual general meeting."

PM Goss
Chairman, Remuneration committee

12 September 2011

Directors' and prescribed officers' emoluments

Information relating to each director and prescribed officer's remuneration for the year under review and details of share options and dealings in FirstRand shares are set out below:

2011 Directors' and prescribed officers' emoluments (R'000)

	2011			2010		
	Services as directors[1]		Total	Services as directors[1]		Total
R'000	FSR	Group	2011	FSR	Group	2010
Executive director						
D Premnarayen[2]	592	1 038	**1 630**	350	910	1 260
Non-executive directors						
LL Dippenaar (Chairman)	2 079	1 134	**3 213**	863	2 599	3 462
VW Bartlett[3]	630	500	**1 130**	271	964	1 235
DJA Craig (resigned 1 July 2010)	–	–	**–**	377	144	521
JJH Bester[3] (appointed July 2010)	927	1 900	**2 827**	–	2 408	2 408
L Crouse	578	141	**719**	189	474	663
PM Goss[3]	500	136	**636**	284	424	708
NN Gwagwa[3]	378	65	**443**	216	–	216
PK Harris*	327	225	**552**	75	510	585
G Moloi (resigned 1 July 2010)	–	–	**–**	189	–	189
AP Nkuna (resigned 1 July 2010)	–	–	**–**	216	–	216
WR Jardine[3] (appointed July 2010)	412	72	**484**	–	325	325
E Mantenge-Sebesho[3] (appointed July 2010)	456	345	**801**	–	430	430
AT Nzimande	425	130	**555**	216	–	216
KB Schoeman	348	65	**413**	189	–	189
KC Shubane (resigned July 2010)	–	–	**–**	189	–	189
RK Store[3]	816	335	**1 151**	271	1 156	1 427
BJ van der Ross[3]	529	1 254	**1 783**	324	1 770	2 094
JH van Greuning[3]	2 341	308	**2 649**	429	1 445	1 874
F van Zyl Slabbert (deceased March 2010)	–	–	**–**	113	–	113
MH Visser	410	65	**475**	189	375	564
Total non-executive directors	11 156	6 675	**17 831**	4 600	13 024	17 624
Total	11 748	7 713	**19 461**	4 950	13 934	18 884

** PK Harris retired as an executive director on 31 December 2009. His cash package between 1 July 2009 and 31 December 2009 was R3.05 million.*

Executive directors and prescribed officers

R'000	2008	2009	2010	2011	CAGR
SE Nxasana[4, 5]					
Cash package[6]	4 065	4 427	5 101	**6 107**	
Retirement and medical aid contributions	555	617	710	**826**	
Subtotal	**4 620**	**5 044**	**5 811**	**6 933**	**14%**
Performance related[7]	8 100	4 860	5 820	**8 190**	16%[8]
Performance payment deferred in FirstRand shares[9]			5 180	**4 460**	
Total	**12 720**	**9 904**	**16 811**	**19 583**	**15%**
JP Burger[4, 10]					
Cash package[6]	3 756	4 258	4 699	**5 379**	
Retirement and medical aid contributions	610	692	760	**877**	
Subtotal	**4 366**	**4 950**	**5 459**	**6 256**	**13%**
Performance related[7]	7 650	4 590	5 520	**7 470**	14%[8]
Performance payment deferred in FirstRand shares[9]			4 480	**3 980**	
Total	**12 016**	**9 540**	**15 459**	**17 706**	**14%**
M Jordaan					
Cash package[6]	3 286	3 606	3 898	**4 283**	
Retirement and medical aid contributions	692	760	825	**904**	
Subtotal	**3 978**	**4 366**	**4 723**	**5 187**	**9%**
Performance related[7]	8 950	6 265	5 400	**6 360**	2%[8]
Performance payment deferred in FirstRand shares[9]			2 600	**3 240**	
Total	**12 928**	**10 631**	**12 723**	**14 787**	**5%**
A Pullinger[11]					
Cash package[6]	1 281	1 286	1 571	**1 743**	
Retirement and medical aid contributions	213	333	398	**440**	
Subtotal	**1 494**	**1 619**	**1 969**	**2 183**	**13%**
Performance related[7]	18 000	1 050	11 280	**13 416**	6%[8]
Performance payment deferred in FirstRand shares[9]			6 520	**7 944**	
Total	**19 494**	**2 669**	**19 769**	**23 543**	**6%**
B Riley[12]					
Cash package[6]	1 697	2 177	2 315	**2 572**	
Retirement and medical aid contributions	218	275	368	**403**	
Subtotal	**1 915**	**2 452**	**2 683**	**2 975**	**16%**
Performance related[7]	2 762	1 700	3 000	**4 200**	30%[8]
Performance payment deferred in FirstRand shares[9]			1 000	**1 800**	
Total	**4 677**	**4 152**	**6 683**	**8 975**	**24%**

Co-investment scheme

In addition to contractual and performance remuneration, prescribed officers are entitled to participate in a co-investment scheme. Profit share, as shown in the table below, is based on a capital contribution placed at risk by the employee.

R'000	2011	2010
JP Burger[4]	990	2 819
M Jordaan	495	1 409
SE Nxasana[4]	220	626
A Pullinger	1 321	3 758

Notes:

All the executive directors and prescribed officers have a notice period of one month. Non-executive directors are appointed for a period of three years and are subject to the Companies Act 71 of 2008 provisions relating to removal. The retirement age of directors is set at age 70.

1. *Fees earned by South African-based executive directors from FirstRand and its subsidiaries are waived and ceded to companies in the FirstRand Group and do not accrue to them in their private capacity. These fees are not reflected in the above schedule.*
2. *D Premnarayen is classified as an executive director due to his participation in FirstRand's share scheme and does not participate in other executive remuneration arrangements.*
3. *Independent non-executive director.*
4. *These prescribed officers in terms of the Companies Act 71 of 2008 are also executive directors. A prescribed officer is a person who exercises general executive control over and management of the whole or a significant portion of the business and activities of FirstRand.*
5. *Appointed CEO effective 7 January 2010.*
6. *"Cash package" includes travel and other allowances.*
7. *"Performance related" payments are in respect of the year ended 30 June, but are paid (together with an interest factor) in three tranches, during the following year ending 30 June.*
8. *CAGR for performance related payments includes the portion deferred in FirstRand shares.*
9. *Performance payments deferred in FirstRand shares vest in September two years after the award date.*
10. *Appointed COO effective 6 June 2009.*
11. *Appointed CEO of RMB effective 19 August 2008.*
12. *Appointed CEO of WesBank effective 27 November 2006.*

King III

King III requires companies to disclose the three highest paid employees who are not directors. In the Board's view the Group's current disclosure adequately demonstrates the alignment between remuneration and shareholder returns.

Share scheme vesting criteria

Detailed information in respect of vesting criteria for share incentive schemes is disclosed in note 31 to the annual financial statements.

2011 Executive directors' and prescribed officers' interests

	Opening balance (number of shares)	Strike price (cents)	Expiry date	Granted/ taken up this year (number of shares)	Closing balance (number of shares)	Benefit received (Rand)
SE Nxasana*						
FirstRand black employee share trust**	1 000 000	14.9	2014/12/31		1 000 000	
FirstRand black non-executive share trust**	1 000 000	12.3	2014/12/31		1 000 000	
FirstRand Limited share trust ("FSR")	2 000 000	13.3	2010/10/20	(2 000 000)	–	18 427 539***
Share appreciation right ("APR")	350 000	13.5	2011/10/01	–	350 000	–
Share appreciation right ("APR")	1 000 000	17.7	2012/10/01	–	1 000 000	–
Share appreciation right ("APR")	2 000 000	11.2	2013/11/03	–	2 000 000	–
Conditional share plan 2009 ("CSP")	600 000	–	2012/09/17	91 380**	691 380	–
Forfeitable share plan ("FSP")	642 405	–	2012/09/15	–	642 405	–
Forfeitable share plan ("MMIH")	–	–	2012/09/15	108 416	108 416	–
Conditional share plan 2010 ("CSP")	–	–	2013/09/14	600 101	600 101	–
Bonus deferral CSP	–	–	2012/09/13	291 965	291 965	
Subtotal	**8 592 405**			**(908 138)**	**7 684 267**	**18 427 539**
JP Burger*						
FirstRand Limited share trust ("FSR")	450 000	15.3	2010/10/03	(450 000)	–	2 610 045
Share appreciation right ("APR")	800 000	13.5	2011/10/01	–	800 000	–
Share appreciation right ("APR")	900 000	17.7	2012/10/01	–	900 000	–
Share appreciation right ("APR")	1 500 000	11.2	2013/11/03	–	1 500 000	–
Conditional share plan 2009 ("CSP")	450 000	–	2012/09/17	68 535***	518 535	–
Forfeitable share plan ("FSP")	596 519	–	2012/09/15	–	596 519	–
Forfeitable share plan ("MMIH")	–	–	2012/09/15	100 672	100 672	–
Conditional share plan 2010 ("CSP")	–	–	2013/09/14	457 220	457 220	–
Bonus deferral CSP	–	–	2012/09/13	252 510	252 510	
Subtotal	**4 696 519**			**428 937**	**5 125 456**	**2 610 045**
D Premnarayen						
Share appreciation right ("APR")	2 304 577	11.2	2013/11/03	–	2 304 577	–
Subtotal	**2 304 577**			**–**	**2 304 577**	**–**
Prescribed officers						
M Jordaan						
FirstRand Limited share trust ("FSR")	300 000	15.3	2010/10/03	(300 000)	–	1 647 000
Share appreciation right ("APR")	800 000	13.5	2011/10/01	–	800 000	–
Share appreciation right ("APR")	800 000	17.7	2012/10/01	–	800 000	–
Share appreciation right ("APR")	1 000 000	11.2	2013/11/03	–	1 000 000	–
Conditional share plan 2009 ("CSP")	375 000	–	2012/09/17	57 113**	432 113	–
Forfeitable share plan ("FSP")	379 747	–	2011/09/15	–	379 747	–
Forfeitable share plan ("MMIH")	–	–	2011/09/15	64 088	64 088	–
Conditional share plan 2010 ("CSP")	–	–	2013/09/14	372 255	372 255	–
Bonus deferral CSP	–	–	2012/09/13	146 546	146 546	–
Subtotal	**3 654 747**			**340 002**	**3 994 749**	**1 647 000**

	Opening balance (number of shares)	Strike price (cents)	Expiry date	Granted/ taken up this year (number of shares)	Closing balance (number of shares)	Benefit received (Rand)
Alan Pullinger						
FirstRand Limited share trust ("FSR")	400 000	15.3	2010/10/03	(400 000)	–	2 144 000
Share appreciation right ("APR")	550 000	13.5	2011/10/01	–	550 000	–
Share appreciation right ("APR")	250 000	17.7	2012/10/01	–	250 000	–
Share appreciation right ("APR")	1 250 000	11.2	2013/11/03	–	1 250 000	–
Conditional share plan 2009 ("CSP")	375 000	0	2012/09/17	57 113 **	432 113	–
Forfeitable share plan ("FSP")	379 747	0	2011/09/15	–	379 747	–
Forfeitable share plan ("MMIH")	–	0	2011/09/15	64 088	64 088	–
Conditional share plan 2010 ("CSP")	–	0	2013/09/14	372 255	372 255	–
Bonus deferral CSP	–	0	2012/09/13	367 494	367 494	–
Subtotal	**3 204 747**			**460 950**	**3 665 697**	**2 144 000**
Brian Riley						
FirstRand Limited share trust ("FSR")	135 000	15.3	2010/10/03	(135 000)	–	779 571
Share appreciation right ("APR")	135 000	13.5	2011/10/01	–	135 000	–
Share appreciation right ("APR")	165 000	20.2	2012/02/27	–	165 000	–
Share appreciation right ("APR")	400 000	17.7	2012/10/01	–	400 000	–
Share appreciation right ("APR")	1 000 000	11.2	2013/11/03	–	1 000 000	–
Conditional share plan 2009 ("CSP")	270 000	0	2012/09/17	41 121**	311 121	–
Forfeitable share plan ("FSP")	253 165	0	2011/09/15	–	253 165	–
Forfeitable share plan ("MMIH")	–	0	2011/09/15	42 726	42 726	–
Conditional share plan 2010 ("CSP")	–	0	2013/09/14	268 024	268 024	–
Bonus deferral CSP	–	0	2012/09/13	56 364	56 364	–
Subtotal	**2 358 165**			**273 235**	**2 631 400**	**779 571**

Notes:

** Executive director who is also a prescribed officer.*
*** Participation right.*
**** Adjustment made to previous award to ensure value alignment following the Momentum unbundling.*

FirstRand management share transaction

On 23 December 2009, the company announced that, in a private transaction, a group of senior executives in FirstRand agreed to the purchase FirstRand ordinary shares from a consortium of RMBH and FirstRand directors, comprising Messrs GT Ferreira, LL Dippenaar and PK Harris. As a result of this transaction Mr SE Nxasana committed to acquire 3.7 million shares, Mr JP Burger 5 million shares, Mr M Jordaan 5 million shares , Mr A Pullinger 1 million shares and Mr B Riley 2.5 million shares at a price of R16.06 per share. In a subsequent transaction, Mr SE Nxasana committed to acquire an additional 2.9 million shares at R20.85 per share. While these transactions were entered into in the first quarter of 2010, due to the unbundling of Momentum and the corporate restructuring of RMBH Holdings Limited, the process of physical delivery of the shares is still being implemented. The nature of the interests thus acquired are indirect beneficial and have not been included in directors interest table.

Executive committee

Sizwe Nxasana

Chief executive officer

Composition

"FirstRand's executive team comprises individuals with the skill, experience and integrity to responsibly and efficiently deliver financial services to the South African economy and select international markets."

Exco is chaired by the chief executive officer and comprises the financial director and chief operating officer, the chief audit executive, chief executives of the Group's major operating divisions, the chief risk officer, the heads of Regulatory Risk, Investor Relations, Human Resources, Capital Management and certain other members of senior management.

Role

Exco oversees the synchronisation of divisional strategies and the optimisation of the Group's financial and non-financial resources. During the year the chief executive provided regular and detailed reports to the Board on matters of material and strategic significance.

"Of particular importance is the implementation of business strategy in line with the FirstRand philosophy and Code of ethics, which aim to ensure sustainable value creation through achieving synergy between the Group's commercial activities and the socioeconomic development of its operating contexts."

2011 Highlights

Focus area	Actions
Strategy committee ("Stratco")	During the 2010 financial year FirstRand constituted a Stratco with key responsibilities for aligning the strategic objectives of the Group's operating divisions, and the practical implementation thereof. Significant progress was made in respect of these initiatives during the 2011 financial year.
Governance effectiveness and integrated controls	In line with King III special attention has been paid to formalising the Group's combined assurance model to complement existing internal controls promoting financial stability and economic sustainability of all operations, notably new international operations.
Human capital management	The year has seen special attention in two complementary areas. The first has been to ensure that the Group's operating divisions have access to suitably qualified human resources for successfully executing business strategy. This has included careful consideration of succession planning processes, with particular focus on ensuring that all key areas are addressed in resourcing the Group's international expansion efforts. The second focus area has aimed to optimise alignment between remuneration, company performance and sustained value creation, details of which can be found in the Remco report on page 83.
Customer relationships and financial stability	Exco has taken decisive measures to improve the efficiency and reach of the Group's customer services. Important steps have been taken to enhance the services offered to mainstream, wealth and corporate sector customers while maintaining rigorous controls for ensuring that credit is granted responsibly and capital is managed effectively.
Procurement	Measures have been taken to harness efficiencies through a more centralised approach to Group procurement practices. The management of supply chain risk is an important part of the Group's procurement practices, particularly as it regards procurement of IT goods and services from small numbers of highly specialised suppliers.

Stratco

FirstRand's Stratco is composed of the chief executive, the chief financial officer and chief operating officer and the chief executives of the Group's operating divisions. This committee is charged with developing strategy and identifying the strategic priorities for the Group.

In defining the strategic direction of the Group Stratco helps to ensure the leveraging of Group strength when implementing new objectives. Beyond this role Stratco also provides an important platform for ensuring appropriate alignment of existing operational initiatives. Practical examples of such initiatives are detailed throughout this Exco report. These include the further alignment of the Group's human capital programme, enhanced customer service offerings and international expansion projects, and the leveraging of Group strength in a more centralised procurement function.

Governance and integrated controls

"Effective internal financial and non-financial controls ensure that FirstRand is able to identify and manage all issues impacting short, medium- and long-term value creation. To this end the Group has achieved a new level of integration between financial and non-financial controls during the period under review."

In line with King III Exco has formalised the Group's approach to combined assurance. This has involved the establishment of combined assurance committees at Group and franchise level, responsible for defining a common framework against which different specialist functions provide assurance on the Group's financial and non-financial performance. These processes allow for a more coordinated approach to the combined assurance provided to the Board and other stakeholders by management and other assurance providers.

GOVERNANCE OF INFORMATION TECHNOLOGY

During the year Exco has developed a new Group IT governance framework. This framework aims to fine-tune existing IT governance processes through achieving greater alignment of IT strategies, controls and management systems across the Group. The two principal benefits of a more synchronised approach are greater efficiency in the implementation of IT solutions and even more coordinated management of IT-related risks at both divisional and Group level.

INDIRECT ENVIRONMENTAL AND SOCIAL IMPACTS

As a financial services provider FirstRand recognises the significance of indirect environmental and social impacts resulting from lending activities. Having invested in managing our direct environmental and social impacts as a starting point, the Group is now placing special attention on a risk-based approach to effective and efficient management of indirect impacts.

In July 2009 FirstRand became a signatory to the Equator Principles which requires Environmental and Social Risk Analysis ("ESRA") to be applied to all project finance activities with capital costs of US$10 million or above. The Group has subsequently committed to extending ESRA beyond Equator transactions to all transactions involving material environmental or social risks.

During the year the Exco oversaw the 'in-house' development and implementation of systems for monitoring and managing the credit and reputational risk related to the environmental and social performance of FirstRand's clients. More detail on the Group's ESRA and Equator Principles performance is available in the Risk report on page 132.

Human capital management

"At FirstRand every employee has an important role to play in sustaining the positive performance of the Group. Within this view every employee is recognised for their contribution to the sustainability of FirstRand's going concern."

FirstRand's People practices committee facilitates and coordinates the implementation of the Group's human capital strategy via its franchises and their individual business units. This strategy aims to ensure that the Group benefits from the necessary diversity and specialist skills required for successfully implementing business strategy.

A key objective for the year under review has been to ensure that the Group's operating divisions have access to suitably qualified and adequate human resources to successfully execute business strategy. This has included careful consideration of succession planning processes, with particular focus on ensuring that all key areas are addressed in resourcing the Group's international expansion efforts.

Workforce movements

	2011	2010*	% change
SA staff complement at 1 July (beginning of financial year)	**31 288**	32 364	(3)
New appointments	**4 010**	2 863	40
Resignations	**(2 548)**	(2 786)	(9)
Retrenchments	**(177)**	(445)	(60)
Dismissals	**(388)**	(479)	(19)
Deaths or disability	**(64)**	(66)	(3)
Other[1]	**(1 521)**	(163)	>100
SA staff complement 30 June (end of financial year)	**30 600**	31 288	(2)
Rest of Africa	**3 631**	3 288	10
Other countries	**381**	328	16
Total workforce	**34 612**	34 904	(1)
ACI employees (SA)	**21 517**	21 240	(1)
ACI as a percentage of SA workforce (%)	**70**	68	–

Notes:

** 2010 data has been restated to exclude Momentum and OUTsurance.*

1. Other includes secondment, intergroup transfers, retirements and severance. The large variance in 2011 is attributable to increased intergroup staff movements and the introduction of early retirement and severance packages as an alternative to retrenchments. Processes are in place to implement more detailed reporting against these items in 2012.

TALENT MANAGEMENT AND EMPLOYMENT EQUITY

During the year steps were taken to achieve greater alignment between employment equity performance, talent management and skills development. While approximately 70% of the Group's overall workforce is composed of African, Coloured and Indian employees ("ACI"), progress has been slow in achieving a similar demographic at more senior management levels.

This challenge is seen as being symptomatic of the global skills shortage and is not viewed as an exclusively South African issue. The Group has begun implementing a long-term strategy for ensuring that skills development initiatives, career and succession planning are coordinated in a way that will help to develop previously disadvantaged business leaders from within the Group.

FirstRand's Transformation monitoring committee ("TMC") provides formal governance oversight of the Group's employment equity performance in the context of its B-BBEE programme. Stakeholders are referred to the detailed employment equity report on page 103 of the report from the Chairman of the TMC.

FirstRand's skills development investments also support the Business Leadership South Africa CEO Skills Commitment which encourages companies to develop South Africa's skills base by looking "beyond the factory gate". This is done through:

- continuously developing existing skills bases;
- building strong future skills pipelines for expansion and growth;
- opening skills acquisition to those not yet in employment; and
- engaging with government, trade unions, learning institutions and other corporations on responding to South Africa's skills development challenge.

During the year under review FirstRand increased reportable skills development expenditure from R216 million in 2010 to R270 million in 2011.

Skills development investment

R million	2011	2010	% change
ACI skills development investment	**202**	150	35
Other skills development investment	**68**	66	3
Total skills development investment	**270**	216	25
ACI skills development investment as % of payroll (%)	**3**	2	–

Notes:

1. *Data reflects prior year calendar year due to B-BBEE reporting timeframes.*
2. *2010 data has been restated to exclude Momentum and OUTsurance.*
3. *Skills development investment calculations have been refined to incorporate requirements in terms of the dti definitions.*

Training and development

	2011	2010	% change
Average training days per employee	**6**	6	–
Students supported by FirstRand	**3 223**	1 497	>100
Average age of employee graduates and diplomates	**31**	31	–
Call centre trainees	**544**	317	72
Average age of call centre trainees	**30**	28	–
Employee graduates and diplomates leaving the Group	**1 080**	1 430	(24)
Average age of employee graduates and diplomates leaving the Group	**32**	30	–

Examples of additional financial services skills development activities include taking on and developing young black professionals through the following formal programmes:

- BankSETA skills development programme;
- BankSETA Letsema programme; and
- BankSETA Kuyasa programme.

In addition to entry-level programmes FirstRand's leadership development initiatives include:

- junior board committees;
- mentoring and coaching by senior executives;
- career enhancement programmes;
- business leadership programme;
- junior leadership programme;
- senior management development programme;
- BankSETA International Executive Development Programme;
- executive development programme; and
- industry specific compliance training.

OPERATIONAL HEALTH AND SAFETY

FirstRand's operating divisions have officers who monitor health and safety issues and implement measures to ensure optimal health and safety conditions for the Group's employees.

Every quarter FirstRand's divisional heads of compliance meet with subject matter experts, including an occupational health and safety ("OHS") expert, to discuss all incidents of non-compliance in order to ensure that incidents are resolved and that measures are taken to prevent re-occurrence.

OHS performance

	2011	2010	% change
Deaths on duty	**1**	–	–
Reportable injuries on duty	**216**	254	(15)
Total reportable incidents	**217**	254	(15)

During the year under review an FNB staff member died as a result of a criminal attack on a FNB branch. The FirstRand Group extends its sincere condolences to the family and friends of this employee and will continue to work hard to ensure the safety of the Group's banking network through constructive engagement with law enforcement officials.

The Group has a comprehensive HIV/AIDS policy and management strategy covering its entire workforce. The policy places special emphasis on divisional engagement surveys, education, prevention, non-discrimination, confidentiality, voluntary counselling and testing, incapacity management and sick leave entitlement.

Exco aims to ensure that employees have access to holistic and sustainable healthcare programmes and that it provides a work environment that is accommodating of the needs of people living with HIV/AIDS.

Customer relationships and financial stability

"Customer relationships are an opportunity to contribute positively to socio economic development and enable financial inclusion of the economically marginalised. The provision of financial services is complemented with best of breed risk and capital management practices which allow the Group to view every transaction as an opportunity to create sustainable value."

MAINSTREAM ACCESS TO FINANCIAL SERVICES

"The success of innovative convenience banking channels in the mainstream market confirms the Group's view that technology and innovation go hand in hand with banking the unbanked. Such products have also begun forming a more important part of FirstRand's African expansion programme."

FirstRand's emphasis on innovation encourages new solutions for extending financial services to new markets through innovative and convenient channels. Products such as FNB's cellphone and internet banking allow customers to access a large suite of banking services without travelling to a branch or ATM. Other products, like eWallet, allow customers to send money to anybody with a South African cellphone.

In 2005 FNB Cellphone Banking started with 25 customers which reached 3 million during the 2011 financial year, and of these 3 million customers almost 80% earn under R100 000 per year. Since its creation in 2009 more than 500 000 customers have taken up the eWallet facility with an average of R2 million being transferred via eWallet per day – mostly by customers working in cities and sending money to loved ones in rural areas.

Retail banking access points

	2011	2010	% change
Retail representation points (branches, agencies, EasyPlan)			
FNB	**722**	667	8
FNB Africa	**101**	95	6
Total retail representation points	**823**	762	8
ATMs			
FNB	**5 906**	5 557	6
FNB Africa	**556**	511	9
Total ATMs	**6 462**	6 068	6
Total retail banking access points	**7 285**	6 830	7

Retail customer performance indicators

	2011	2010	% change
Total retail customers (million)			
FNB	**7.1**	6.8	4
WesBank	**0.5**	0.6	(17)
FNB Africa	**1.0**	0.8	25
Total retail customers[1]	**8.6**	8.2	5
Customer satisfaction			
FNB (net promoter score) (%)[2]	**41**	36	–
WesBank (net promoter score) (%)[2]	**62**	60	–

1. *2010 total customer figure restated to exclude Momentum and OUTsurance and to include FNB Africa.*
2. *Net promoter score measures customer satisfaction as a percentage of customers who actively promote the brand. Differences across FNB and WesBank are attributed to different industry norms for retail banking and asset finance.*

WEALTH MANAGEMENT

"During the year FirstRand concluded the acquisition of BJM to enhance the stockbroking element of the existing range of services offered to customers in FNB's Wealth Segment."

The largest part of the acquisition was BJM's highly regarded stockbroking business which is being integrated with FNB's existing wealth offering to provide customers with a more holistic wealth product offering. Key benefits of the transaction include a deepened product range, reduced costs through leveraging economies of scale and providing new stockbroking services to existing wealth customers.

CORPORATE AND INVESTMENT BANKING

Exco has ensured the further integration of FirstRand's Corporate and Investment Banking ("CIB") activities through formally aligning FNB's Global Transactional Services ("GTS") and RMB's Investment Banking businesses.

"The Group aims to grow GTS activities and improve efficiency through coordinating client activities, investing in the most effective IT platforms and ensuring that its CIB product offering is world class and particularly attractive to those corporate clients pursuing business opportunities in the Africa-Asia corridor."

In 2010 FirstRand began this integration with the creation of a combined CIB Coverage team. The objectives of the integrated CIB unit are to enhance service to corporate customers, increase coverage, deliver superior offerings to clients and significantly improve FirstRand's share of revenues in the corporate, institutional and interbank markets.

Transactional banking is an important business, particularly in the corporate segment, since it delivers sustainable value creation across the organisation and its client base. Increased focus on this area will allow FirstRand to improve services to corporate clients both inside South Africa and in chosen international markets.

DEBT REMEDIATION

"FirstRand is extremely aware of the important role that it plays in the financial future of its customers and in the financial stability of the economies in which it operates."

The Group has well established processes for assisting over-indebted customers to achieve more sustainable arrangements for their financial affairs. While these processes accommodate formal debt counselling and rehabilitation programmes, special emphasis is placed on preventative measures. Among these are channels for financially distressed customers to approach the Bank for debt consolidation.

Rehabilitation of home loan customers is an important focus and the Group assists customers to find practical solutions to avoid home repossessions. Such engagements are not purely reactive and aim to prevent over indebtedness through ensuring that customers understand the obligations associated with taking credit before loans or a credit extensions are granted.

In addition to the above the Group implements a range of regulatory procedures designed to protect customers from over-indebtedness and other economic risks.

Examples of these regulations include:

- National Credit Act;
- Code of Banking Practice;
- Financial Intelligence Centres Act;

- Financial Advisory and Intermediary Services Act; and
- Promotion of Access to Information Act.

Stakeholders are referred to pages 118 to 201 of the risk report for a comprehensive review of FirstRand's risk and capital management performance and practices.

Supply chain management

"FirstRand recognises B-BBEE procurement practice as an effective way of contributing to economic development and supporting sustainable and ethical business practices within the Group's supply chain. Beyond these benefits good procurement practices also accompany effective cost management."

BEE procurement

	2011	2010	% change
BEE procurement spend	**5 119**	3 927	30
Other procurement spend	**1 927**	2 334	(17)
Total discretionary procurement spend	**7 046**	6 261	13
BEE procurement spend as a % of total spend (%)	**73%**	63%	–

Notes:
1. *Data reflects prior calendar year due to BEE reporting timeframes.*
2. *2010 data adjusted to exclude momentum and OUTsurance.*

During the year the Exco has overseen the further development of a centralised Group procurement function. The principal objectives of this project have been to enhance the Group's B-BBEE procurement spend and leverage efficiencies through economies of scale with improved coordination of procurement activities across the Group and a focus on cost, quality and delivery of goods and services.

The management of supply chain risk is an important part of the Group's procurement practices and special attention has been paid to the management of IT risk, particularly as it regards concentration risk in the procurement of IT goods and services from small numbers of specialist suppliers.

Direct environmental impact

PERFORMANCE AGAINST TARGETS

Energy consumption, and specifically electricity consumption, constitutes one of FirstRand's principal direct environmental impacts. In June 2009 the Group became a signatory of the Energy Efficiency Accord and committed to reducing energy consumption by 12% before 2015.

"Carbon intensity targets have been set to monitor and manage a reduction in carbon emissions from a 2009 baseline of 10.2 metric tonnes of CO_2 emissions per full time employee in 2008 to 8.6 metric tonnes by 2012. Current emissions are approximately 8.4 metric tonnes per full time employee indicating the success of the Group's carbon efficiency programmes."

Direct environmental impact

	2011	2010	% change
Carbon emissions (Metric tonnes of CO_2 equivalents)[1]			
Fuel use	**162**	663	(76)
Business fleet travel	**5 960**	6 935	(14)
Electricity	**249 207**	285 968	(13)
Paper use	**5 949**	5 039	18
Business road travel (hire cars)	**8 591**	4 134	>100
Business air travel	**4 662**	5 050	(8)
Refrigerants	**6 134**	3 582	71
Total carbon emissions	**280 665**	311 371	(10)
Total energy used (Kw/h)(000)	**251 724**	277 639	(9)
Total energy saved (Kw/h)(000) from 2008 baseline	**37 146**	23 402	59
Total value of savings (R'000) from 2008 baseline	**19 254**	9 408	>100
Current actual absolute emissions reductions from a 2008 baseline (%)	**24**	16	50

Performance against targets

	2008	2009	2010	2011	2011 Bench-mark/ Target
Carbon emissions per employee (Metric tonnes)[1]	9.7	8.68	9.95	**9.15**	10.2
Actual emissions reductions from 2008 baseline (%)[2]	–	16	16	**24**	11

Notes:

Prior year data restated to reflect actual financial year and to exclude Momentum and OUTsurance.

1. *Benchmark informed by South African National Average per the Department of Environmental Affairs.*
2. *Target informed by South African Energy Efficiency Accord.*

CLIMATE CHANGE STRATEGY

"FirstRand has formal and well-established governance and management processes that position the Group to take early action on both risks and opportunities related to climate change."

The Group has a climate change policy, Board oversight of climate change performance, senior management responsibility, employee training and public disclosure for the implementation of the Group's climate change strategy.

Proceedings and performance review

FirstRand's Exco meets monthly. During the year under review Exco conducted an effectiveness survey and is satisfied that the committee has met the requirements of its charter.

SE Nxasana
Chief executive officer

12 September 2011

Transformation monitoring committee

LULU GWAGWA

Chairman

B-BBEE is a business imperative at FirstRand. The Group has formal governance and management processes that aim to go beyond compliance through addressing the substantive issues impacting the effective implementation of its transformation strategy. B-BBEE performance is accordingly integrated into the company's remuneration systems, risk and business performance management processes."

FirstRand understands that socioeconomic transformation is in the interests of a healthy society and vibrant business community. Beyond the business imperative, the Group values its contribution to this broader transformative agenda simply because it is the right thing to do.

Composition

FirstRand's Transformation monitoring committee is a subcommittee of the Board charged with overseeing the development and successful implementation of the Group's transformation strategy.

The committee is chaired by an independent non-executive director and comprises non-executive directors and executives from FirstRand and its major subsidiaries.

Role

"The committee monitors the implementation of the Group's strategy for realising its BEE transformation objectives and oversees all transformation-related activities. Responsibility for the implementation of strategies to achieve the Group's transformation objectives rests with executive management."

While adhering to the Department of Trade and Industry ("dti") Codes of Good Practice ("CoGP") is an important aspect of FirstRand's transformation strategy, the Group implements a range of measures that go beyond pure compliance. During the year FirstRand achieved a level 3 rating against the dti CoGP targets. The committee supported management's proactive actions to move from procedural to substantive compliance.

2011 Highlights

Focus area	Actions
Access to financial services	Receiving executive reports on strategies to extend financial services to disadvantaged South Africans with growth in mainstream customers increasing from low cost convenience channels such as cellphone banking and eWallet.
Employment equity and talent management	Overseeing strategies for ensuring that skills development initiatives, career and succession planning are coordinated in a way that will help to develop black business leaders from within the Group.
B-BBEE procurement	Overseeing the development of a strategy to improve B-BBEE procurement performance, with particular attention to black women-owned suppliers.
Transformation scorecard	Overseeing the development and implementation of strategies for achieving targets set out in the dti CoGP.

Transformation performance scorecard

The 2009 calendar year was the first year of reporting transformation performance against the dti scorecard. The table below describes FirstRand's externally verified performance for the year ended 31 December 2010.

DTI codes elements	Target	2011	2010	% change
Equity ownership	20	**12.75**	16.10	(21)
Management control	10	**6.96**	7.05	(1)
Employment equity	15	**11.03**	10.48	5
Skills development	15	**11.04**	10.02	10
Preferential procurement	20	**16.60**	16.70	(1)
Enterprise development	15	**15.00**	15.00	-
Socioeconomic development	5	**5.00**	5.00	-
Total	100	**78.38**	80.35	(2)

Note: Performance reflects prior calendar year due to dti reporting timeframes.

Talent management and employment equity

Breakdown of FirstRand's 2010 South African workforce profile.

	Male				Female				Foreign national		
Occupational levels	A	C	I	W	A	C	I	W	Male	Female	Total
Top management	4	1	5	32	3	1	1	4	3	1	55
Senior management	71	24	108	489	55	25	36	209	5	3	1 025
Middle management	790	296	659	2 079	648	584	657	1 778	25	19	7 535
Junior management	1 449	509	485	737	2 475	1 683	987	2 284	14	13	10 636
Semi skilled	2 107	542	301	322	4 140	1 472	607	1 277	2	4	10 774
Unskilled	298	43	1	3	196	31	0	2	1	0	575
Total permanent	4 719	1 415	1 559	3 662	7 517	3 796	2 288	5 554	50	40	30 600

"During the year macro economic conditions continued to have a negative impact on employment growth and caused certain operating divisions to scale down or place a moratorium on filling positions. This has negatively impacted the employment equity component of FirstRand's BEE transformation performance."

In compliance with Sections 16 and 17 of the Employment Equity Act, the committee oversaw the establishment of a Group Employment equity consultative forum to monitor progress of the Group with the implementation of the employment equity strategy and to provide recommendations in respect thereof. Employment equity and diversity management policies provide clear guidelines for the management of human resource development in the Group.

Plans are in place to improve black representation at management and Board level, particularly in relation to black women.

DISABILITY FORUM

FirstRand addresses disability equity via a Group disability forum. The Group's disability policy addresses recruitment, performance management, declaration procedures and measures necessary to accommodate special needs of disabled employees. The Disability forum is also responsible for raising awareness of the challenges faced by disabled people.

Over the past year FirstRand embarked on an exercise to increase disclosure of disabilities by employees in order to improve accommodation of special needs.

B-BBEE TRANSACTION

In 2005 FirstRand facilitated the acquisition of 6.5% of its issued share capital (363.8 million FirstRand ordinary shares) by the FirstRand Empowerment Trust ("FRET"). The BEE transaction was funded through a combination of BEE capital contributions, vendor and third party funding. Pursuant to the unbundling of Discovery Holdings Limited and Momentum by FirstRand in 2007 and 2010 respectively, FRET became the holder of 20.4 million Discovery and 48.3 million MMI ordinary shares in addition to the 363.8 million FirstRand ordinary shares it already held.

As part of FirstRand's B-BBEE transaction 171.4 million FirstRand shares were issued to black staff, 136.4 million to employees, 15 million to black non-executive directors and 20 million to FirstRand's black staff assistance trust.

FirstRand's BEE partners include broad based trusts, their investment companies and the FirstRand Empowerment Foundation as set out below:

Direct B-BBEE shareholding

At 30 June 2011	Participation in FRET	Effective interest in FirstRand
Funder participation in FRET		
FirstRand Empowerment Foundation	32.3%	1.7%
The Kagiso Charitable Trust	25.8%	1.3%
Kagiso Trust Investment	6.4%	0.3%
The WDB Trust	11.3%	0.6%
WDB Investment Holdings	2.8%	0.1%
The Mineworkers Investment Trust	12.3%	0.6%
MIC Financial Holdings	3.1%	0.2%
Performance linked units	6.0%	0.3%
FRET total	**100.0%**	**5.1%**
Employee share trust		3.5%
Total direct B-BBEE shareholding		8.6%

FIRSTRAND EMPOWERMENT TRUST REFINANCING

At the time of the transaction it was always envisaged that FRET would, subject to it being commercially feasible, refinance the third party funding in 2010 for a further five years since the BEE transaction contemplated a ten year term maturing in 2014.

"In April 2010 FirstRand and FRET announced the successful refinancing of approximately R3.37 billion of existing third party funding. FirstRand and FRET believe that the refinancing will result in an optimal funding structure for the remaining term of the BEE transaction and will result in a robust and sustainable BEE transaction, particularly in light of increased market volatility."

Following the implementation of the refinancing, FRET holds 5.1% of FirstRand.

BLACK EMPLOYEE SHARE TRUST

FirstRand's black South African employees participate in the black employee share trust which holds 136.4 million ordinary shares in FirstRand. Comprehensive details relating to this scheme and other share option schemes, the pricing thereof and the vesting criteria are disclosed in note 31 to the Group annual financial statements.

BLACK NON-EXECUTIVE DIRECTOR PARTICIPATION

Group black non-executive directors are also participants in FirstRand's BEE transaction. KC Shubane (resigned), SE Nxasana, BJ van der Ross, NN Gwagwa, G Moloi (resigned), P Nzimande and R Jardine were each granted rights to 1 million FirstRand ordinary shares in terms of the FirstRand Black non-executive directors' trust deed. Subsequent to the first allocation E Matenge-Sebesho was allocated 1 million shares at a price of R17.60 when she joined the Board of FirstRand Bank in August 2008. In accordance with the rules of the scheme Mr Nxasana has retained his rights since becoming an executive director.

The original rights entitle the non-executive directors to receive the shares on 31 December 2014 at a price of R12.28 per share plus holding and other related costs less dividends received on the shares by the trust. Following the Discovery unbundling the proceeds from the sale of Discovery shares, which would have accrued to the participants, were used to reduce their financing loans.

In the event of a director ceasing to be a director prior to 31 December 2014, the participation rights of that director are reduced by 10% for each year prior to 31 December 2014 during which he/she is not a director.

STAFF ASSISTANCE TRUST

At the time of the FirstRand B-BBEE transaction the staff assistance trust was established. The trust holds 20 million FirstRand shares. Its main objective is to assist black employees of the FirstRand Group with educational, healthcare and other needs. This includes the granting of financial support directly to schools attended by the children of these employees and their immediate families.

Proceedings and performance review

Membership and attendance of FirstRand directors at the committee meetings held during the year were as follows:

	Aug 2009	Nov 2009	Jan 2010	May 2010
NN Gwagwa (Chairman)	✓	✓	✓	✓
AT Nzimande	✓	LOA	✓	✓
AP Nkuna	✓	✓	✓	A
KB Schoeman	✓	A	✓	✓
BJ van der Ross	✓	✓	✓	A

LOA Approved leave of absence.
A Apologies tendered and accepted.

During the year under review FirstRand's Transformation monitoring committee members conducted an effectiveness survey and are satisfied that the committee has met the requirements of its charter.

NN Gwagwa
Chairman, Transformation monitoring committee

12 September 2011

FirstRand Foundation

Sizwe Nxasana

Chairman of the FirstRand Foundation

Composition

The trustees of the FirstRand Foundation comprise six executives from within the Group and five independent trustees with expert knowledge in the areas that the Foundation seeks to support. The Foundation is professionally administered by Tshikululu Social Investments, an independent non-profit corporate social investment consultancy.

Role

"The FirstRand Foundation is today one of the biggest corporate givers in South Africa. Since its creation in 1998 the Foundation has invested almost R800 million in social development."

2011 Highlights

Focus area	Actions
Sustainable engagement with beneficiaries	The Foundation has overseen the granting of R66 million to beneficiary organisations. Special programmes are in place to ensure ongoing engagement with these organisations.
Employee volunteers	The Foundation provides funding for FirstRand's employee volunteer initiatives. Since the launch of the programme in 2003, employees have donated over R19 million. This amount has been matched by FirstRand with a further R19 million.
Monitoring and evaluation	The FirstRand Foundation uses stringent pre-funding tests, along with post-funding reporting assessments, on-site visits, face-to-face engagements and the deployment of a dedicated in-house monitoring and evaluation team.

2011 Grant making

During the 2011 financial year the trustees approved grants across all provinces of the Republic of South Africa to the value of R66 million, this includes scholarships made available from separate endowments for the funding of a number of postgraduate tertiary education scholarships.

"The funding available for grant making is determined by the financial success of the FirstRand Group in any given year since the Group sets aside 1% of its after-tax earnings and distributes this to the Foundation."

R'000	2011	2010	% change
Grants and beneficiaries			
Arts, culture and heritage	**6 020**	5 935	1
Emergency relief	**250**	750	(67)
Maths leadership programme	**5 700**	5 421	5
Environment programme	**4 329**	3 855	12
Community care	**6 150**	5 650	9
Volunteers	**4 000**	3 000	33
Substance abuse programme	**1 300**	2 300	(43)
Strategic partners programme	**7 415**	6040	23
Tertiary bursary programme	**9 150**	8 217	11
Secondary schools maths programme	**1 611**	1 557	3
Early childhood development programme	**5 975**	5 045	18
Hospice HIV/AIDS programme	**6 935**	6 940	–
Maths chairs initiative	**4 500**	–	100
Numeracy chairs initiative	**1 500**	–	100
Food security and agricultural livelihoods Programme	**–**	3 730	(100)
Laurie Dippenaar scholarship	**1 121**	1 050	7
Momentum Dippenaar scholarship	**200**	200	–
Total community investment	**66 156**	59 690	11

• *Reporting format has been amended across all investment categories to align with the programmatic approach adopted by the FirstRand Foundation.*

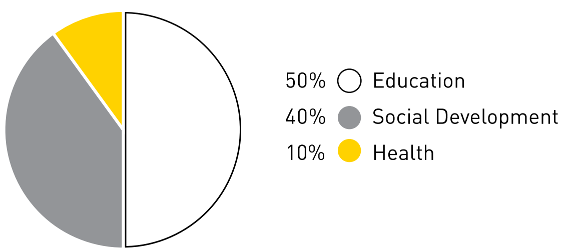
During the year 204 students received funding for tertiary education and a further seven for postgraduate study.

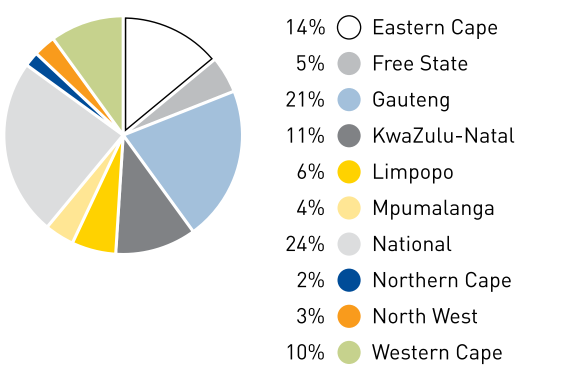
	2011	2010	% change
Bursaries			
Students receiving funding for tertiary education	**204**	205	–
Students receiving funding for postgraduate study	**7**	13	(46)
Total students funded	**211**	218	(3)

INVESTMENT PROFILE

The Foundation's investment profile has evolved since grant making began in 1998. The most notable milestone was in 2006 when the Foundation adopted a programmatic approach, which saw the streamlining of focus areas. This approach involves funding programmes in specific fields of development, enabling engagement with organisations in a structured and meaningful way, with the end result being one of developing high-quality partnerships and having a bigger impact on the projects it supports. This strategy has resulted in the Foundation providing substantial multi-year grants to key partner organisations. The main focus of the Foundation's current investment is education, which absorbs the greatest portion of funding.

Investments by sector and province (%)





Corporate social investment ("CSI") philosophy

The Foundation operates on the understanding that the role of corporate funders, although far smaller than the contributions made by the public sector, is an invaluable one. This is largely due to their ability to engage in a focused, innovative approach to funding successful initiatives in specific areas of development, rather than having to provide funding and support to all organisations across all sectors.

"The FirstRand Foundation is careful to take a realistically optimistic view of our country's challenges and works to increase the opportunities that life presents to people across South Africa, with careful application of social investments whose return is a reduction in the poverty of choice faced by too many South Africans."

In so doing, the FirstRand Foundation works towards a society in which every person is able to choose a life path of increasing prosperity, self esteem, liberty and dignity. Yet CSI, properly done, is notoriously difficult work, and getting the long-term change that we have targeted means approaching it with nuance, some humility, partnerships with societal change agents and an appreciation of the on-the-ground realities faced by so many South Africans who deserve lives of greater independence, comfort and choice.

Achieving meaningful change means identifying and committing to programmes that bring national benefit for the duration. It means grasping the challenge of the long haul in development, and standing by our partners with a clear appreciation of the challenges they face daily, and the victories that overcoming these brings to all South Africans.

Coordinated investments

The Foundation has one fund for each of the Group's franchises which work to complement one another's interventions, carefully choosing those spheres of developmental change in which participation can have actual, long lasting and positive effects through a specialised programmatic approach. These coordinated investments are managed and delivered with the assistance of professional CSI management provided by non-profit CSI specialists, Tshikululu Social Investments.

Stakeholders are referred to the company website (www.firstrand.co.za) for a detailed review of the activities undertaken by each of the Foundations funds.

Employee volunteers

"Approximately one in four FirstRand staff members participate in the Group's employee volunteer programme."

Grants made include matched funding for work done by the FirstRand employee volunteers who give of their time, knowledge, skills and money to a wide range of beneficiaries. Some of the programmes implemented during the year were donations of food and clothing through the Group's "Winter Drive", the funding and installation of bakeries and vegetable tunnels, repairing and painting of schools and homes for the aged and the funding and purchase of soccer equipment for schools across the country. During "Caring for our World Week", volunteer activities also included community river cleanups and tree planting ceremonies.

Since the launch of the programme in 2003, employees have donated over R19 million. This amount has been matched by FirstRand with a further R19 million.

Monitoring and evaluation

Measuring the impact of work undertaken through the Foundation is taken very seriously by the Foundation and its constituent funds.

"The FirstRand Foundation assesses projects for funding, and their subsequent delivery, using stringent pre-funding tests, along with post-funding reporting assessments, on-site visits, face-to-face engagements, and through the deployment of a dedicated in-house monitoring and evaluation team using various measurement tools."

Proceedings and performance review

During the year the Foundation's trustees conducted an effectiveness survey and are satisfied that they have met the requirements of its charter.

SE Nxasana
Chairman, FirstRand Foundation

12 September 2011

Internal audit assurance statement

Internal Audit performed an agreed-upon substantive procedures review on the FirstRand Corporate governance and sustainability statement.

FirstRand applies its own sustainability performance reporting criteria, derived from the Sustainability Reporting Guidelines of the Global Reporting Initiative (G3), the JSE SRI index, BEE transformation reporting requirements and King III. We believe that these criteria are suitable in view of the purpose of our assurance engagement.

The scope and focus of the engagement was as follows:

- identification of material qualitative and quantitative statements in the content of the report; and
- verification of the accuracy and validity of the selected material statements to supporting evidence.

Based on the results of the work performed on FirstRand's 2011 Corporate governance and sustainability statement, Internal Audit confirms that:

- Nothing has come to our attention that causes us to believe that the identified sustainability information selected for our accordance with the defined reporting criteria.
- The level of data accuracy in the report content was found to be within satisfactory levels. Statements included in the report that required improvement were identified and all suggested changes and identified anomalies were corrected prior to the finalisation of the report. Additional improvements were recommended for the further enhancement of sustainability management and reporting within the Group.
- As required by King III, stakeholders were identified and adequately addressed in the report.
- The report content includes information pertaining to the major operating divisions and local and international subsidiaries and is closely aligned to the environmental, social and governance risks identified by FirstRand.

J John
Chief audit executive

12 September 2011

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FirstRand Group

annual financial statements

FIRSTRAND GROUP

Directors' responsibility statement

To the members of FirstRand Limited

The directors of FirstRand Limited are responsible for the preparation of the consolidated and separate annual financial statements in terms of the Companies Act. In discharging this responsibility, the directors rely on management to prepare the consolidated and separate annual financial statements in accordance with IFRS and for keeping adequate accounting and separate records in accordance with the Group's system of internal control. As such, the annual financial statements include amounts based on judgements and estimates made by management.

In preparing the annual financial statements, suitable accounting policies have been applied and reasonable estimates have been made by management. The directors approve significant changes to accounting policies however there was no change to accounting policies during the financial year. The financial statements incorporate full and responsible disclosure in line with the Group's philosophy on corporate governance.

The directors are responsible for the Group's system of internal control. To enable the directors to meet these responsibilities, the directors set the standards for internal control to reduce the risk of error or loss in a cost effective manner. The standards include the appropriate delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. The focus of risk management in the Group is on identifying, assessing, managing and monitoring all known forms of risk across the Group.

Based on the information and explanations given by management and the internal auditors, nothing has come to the attention of the directors to indicate that the internal controls are inadequate and that the financial records may not be relied on in preparing the consolidated and separate annual financial statements in accordance with IFRS and maintaining accountability for the Group's assets and liabilities. Nothing has come to the attention of the directors to indicate any breakdown in the functioning of internal controls, resulting in a material loss to the Group, during the year and up to the date of this report. Based on the effective internal controls implemented by management, the directors are satisfied that the consolidated and separate annual financial statements fairly present the state of affairs of the Group, at the end of the financial year, and the net income and cash flows for the year. Alan Hedding, CA(SA), supervised the preparation of the financial statements for the year.

The directors have reviewed the Group and Company's budget and flow of funds forecast and considered the Group and Company's ability to continue as a going concern in the light of current and anticipated economic conditions. The directors have reviewed the assumptions underlying these budgets and forecasts based on currently available information. On the basis of this review, and in the light of the current financial position and profitable trading history, the directors are satisfied that the Group has adequate resources to continue in business for the foreseeable future. The going concern basis therefore continues to apply and has been adopted in the preparation of the annual financial statements.

It is the responsibility of the Group's independent external auditors, Deloitte & Touche and PricewaterhouseCoopers Inc, to report on the fair presentation of the annual financial statements. Their unqualified report appears on page 114.

The consolidated annual financial statements of the Group, which appear on pages 115 to 392 and specified sections of the risk management report were approved by the Board of directors on 12 September 2011 and are signed on its behalf by:

LL Dippenaar
Chairman

SE Nxasana
Chief executive officer

Sandton

12 September 2011

Group secretary's certification

Declaration by the company secretary in respect of Section 88 (e) of the Companies Act

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

BW Unser
Company secretary

12 September 2011

Independent auditors' report

To the shareholders of FirstRand Limited

We have audited the consolidated annual financial statements and annual financial statements of FirstRand Limited, which comprise the consolidated and separate statements of financial position as at 30 June 2011, and the consolidated and separate statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, and the directors' report, as set out on pages 115 to 392 including certain tables defined as "audited" in the risk report on pages 118 to 201.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

OPINION

In our opinion, the financial statements present fairly, in all material respects, the consolidated and separate financial position of FirstRand Limited as at 30 June 2011, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Deloitte & Touche

Deloitte & Touche
Registered auditor
Per: Kevin Black
Partner

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Registered auditor
Director: Tom Winterboer
Sunninghill

12 September 2011

Directors' report

Nature of business

FirstRand Limited ("FirstRand") is a public company and from 1 July 2010 a registered bank controlling company. It is the holding company of the FirstRand group of companies. These companies are engaged in diverse financial services such as retail, commercial and investment banking, instalment finance, short-term and life insurance.

Whilst the Group is predominantly South African based, it has operations in Namibia, Swaziland, Botswana, Zambia, Mozambique, Tanzania, Lesotho, Mauritius, the United Kingdom, the Middle East, Australia and India.

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

A simplified FirstRand Group organogram is shown on page 5.

Intergrated report

The Board acknowledges its responsibility for the integrity of this integrated report. Guidelines as provided by King III have been adopted in preparation of this integrated report. The Board believes that this report fairly represents the performance of the Group.

Group results

A general review of the financial results of the Group and the operations of its major subsidiaries is provided in the CEO's, COO and CFO's report and review of operations.

Dividends

ORDINARY SHARES

The following ordinary cash dividends were declared in respect of the 2011 financial year.

	Year ended 30 June	
Cents per share	**2011**	2010
Interim (declared 7 March 2011)	**35.00**	34.00
Final (declared 12 September 2011*)	**46.00**	43.00
	81.00	77.00

** The last day to trade in FirstRand shares on a cum-dividend basis in respect of the final dividend will be Friday 7 October 2011, the first day to trade ex-dividend will be Monday 10 October 2011. The record date will be Friday 14 October 2011 and the payment date Monday 17 October 2011. No dematerialisation or rematerialisation of shares may be done during the period Monday 10 October 2011 to Friday 14 October 2011, both days inclusive.*

SPECIAL DIVIDEND

The following special dividend was declared in respect of the 2011 financial year.

	Year ended 30 June	
Cents per share	**2011**	2010
Special (declared 12 September 2011*)	**70.00**	–
	70.00	–

** The last day to trade in FirstRand shares on a cum-dividend basis in respect of the final dividend will be Friday 7 October 2011, the first day to trade ex-dividend will be Monday 10 October 2011. The record date will be Friday 14 October 2011 and the payment date Monday 17 October 2011. No dematerialisation or rematerialisation of shares may be done during the period Monday 10 October 2011 to Friday 14 October 2011, both days inclusive.*

PREFERENCE SHARES

"B" Preference shares

Dividends on the "B" preference shares are calculated at a rate of 68% of the prime lending rate of First National Bank.

The following dividends have been declared and paid:

	Year ended 30 June	
Cents per share	**2011**	2010
Period		
1 September 2009 – 22 February 2010		342.3
23 February 2010 – 30 August 2010		355.0
Period		
31 August 2010 – 28 February 2011	**313.6**	–
1 March 2011 – 29 August 2011	**305.2**	–
	618.8	697.3

Share capital

Details of the company's authorised share capital as at 30 June 2011 are shown in note 30 to the company's financial statements.

ORDINARY SHARE CAPITAL

There were no changes to authorised or issued ordinary share capital during the year.

Directors' report continued

PREFERENCE SHARE CAPITAL

There were no changes to authorised or issued preference share capital during the year.

Shareholder analysis

The following shareholders have a beneficial interest of 5% or more in the issued ordinary shares of the company.

%	Year ended 30 June 2011	2010
RMB Holdings Limited	33.89	30.06
Financial Securities Limited (Remgro)	3.90	8.53
Public Investment Corporation	12.03	11.77
FirstRand Empowerment Trust and related parties	8.13	8.76

A further analysis of shareholders is set out on page 398.

Events subsequent to reporting date

The directors are not aware of any material events that have occurred between the date of the statement of financial position and the date of this report.

Directorate

Details of the Board of directors are on page 67.

On 1 July 2010 after the resignation of Mr DJA Craig, Mrs G Moloi and Mr KC Schubane,the following individuals, Mr JJH Bester, Mr WR Jardine and Mrs EG Matenge-Sebesho were appointed to the FirstRand Limited board.

On 3 August 2011 Mr AP Nkuna, a shareholder representative of FirstRand empowerment partner, Mineworkers Investment Company, announced his retirement and therefore he resigned as a non-executive director effective 31 July 2011.

Subsequently Mrs MS Bomela has joined the FirstRand Board as a shareholder representative of Mineworker Investment Company effective 24 September 2011.

Directors' and prescribed officers' interests in firstrand

Details of the directors' and prescribed officers' interests in the issued ordinary and preference shares of FirstRand are on page 69.

Directors' and prescribed officers' emoluments

Details of directors' and prescribed officers' emoluments and their participation in share incentive schemes are on pages 89 to 93. Further information relating to the determination of directors' and prescribed officers' emoluments, share option allocations and related matters are included in Remco report on page 83.

Audit committee report

The Audit committee report appears on page 76.

Management by third parties

The directors had no interest in any third party or company responsible for managing any of the business activities of the Group except to the extent that they are shareholders in RMB Holdings, which together with Remgro, has management control of FirstRand.

Directors' interest in contracts

During the financial year, no contracts were entered into in which directors or officers of the company had an interest and which significantly affected the business of the Group.

Restructure

The legal restructure as mention in the prior year report which was effective 1 July 2010 when FirstRand became a bank controlling company was implemented successfully.

Disposals

During the current year FirstRand unbundled its interest in Momentum Group Limited after the merger with Metropolitan was completed. The Group will continue its relationship with Momentum. A preferred strategic arrangement based on commercial terms was entered into to manage the relationship going forward.

FirstRand also disposed of its 45% stake in OUTsurance to RMI Holdings Limited for R3 640 million.

Property and equipment

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

Insurance

The Group protects itself against crime risks as well as professional indemnity by carrying large deductibles through a structured insurance risk financing programme. Levels of cover carried are commensurate with the size and stature of the Group.

Subsidiaries and associates

Interests in subsidiary and associate companies which are considered material in the light of the Group's financial position and its results are included in note 15 and note 41.

Company secretary and registered offices

The Company secretary is Mr BW Unser. FirstRand's business and postal addresses are on page 400, these are also the address of the company secretary.

Special resolutions during 2011

The following special resolutions relating to FirstRand Limited and its subsidiaries were passed during 2011:

- authority to repurchase FirstRand shares; and
- increase of FirstRand Bank Limited authorised share capital.

LL Dippenaar
Chairman

SE Nxasana
Chief executive officer

FIRSTRAND GROUP

Risk and capital management report

Overview

FirstRand ("the Group") believes that effective risk management is of primary importance to its success and is a key component of the delivery of sustainable returns to its shareholders. It is therefore deeply embedded in the Group's tactical and strategic decision making.

Risk taking is an essential part of the Group's business and FirstRand thus explicitly recognises risk assessment, monitoring and management as core competencies and important differentiators in the competitive environment in which it operates. Through its portfolio of leading franchises, FirstRand wants to be appropriately represented in all significant earnings pools across all chosen market and risk-taking activities. This entails building revenue streams that are diverse and creating long-term value through sustainable earning pools managed within acceptable earnings volatility parameters.

A high level overview of the Group's risk profile and management approach is included in the COO & CFO's report on pages 16 to 28.

BASEL II PILLAR 3 DISCLOSURE

Regulation 43 of the revised regulations of the Banks Act, 1990 (Act no. 94 of 1990) requires that a bank shall disclose in its annual financial statements and other disclosures to the public, reliable, relevant and timely qualitative and quantitative information that enables users of that information, amongst other things, to make an accurate assessment of the bank's financial condition, including its capital adequacy position, financial performance, business activities, risk profile and risk management practice. This disclosure requirement is commonly known as Pillar 3 of the Basel II Accord. The FirstRand risk and capital management report complies with the disclosure requirements of Basel II Pillar 3.

Effective 1 July 2010, FirstRand replaced FirstRand Bank Holdings Limited ("FRBH") as the regulated bank controlling company. As part of this change, the Group entered into a process to simplify the Group structure, whereby FirstRand Bank Limited ("the Bank") disposed of materially all its subsidiaries and associates to fellow wholly-owned Group subsidiary, FirstRand Investment Holdings (Pty) Limited ("FRIHL"). As of 1 July 2010, the Bank, FirstRand EMA Holdings Limited ("FREMA"), and FRIHL are all regulated as wholly-owned subsidiaries of FirstRand. A simplified diagrammatic representation of the Group structure is provided on page 5. Some differences between the practices, approaches, processes and policies of the Bank and its fellow wholly-owned subsidiaries exist and these are highlighted by a reference to the appropriate entity, where necessary. All the information in the risk and capital management report has been audited, except where otherwise indicated.

For fully consolidated entities in the Group, no difference in the manner in which entities are consolidated for accounting and regulatory purposes exist.

Risk and capital management report continued

Definitions

The Group is exposed to a number of risks that are inherent in its operations. Identifying, assessing, pricing and managing these risks appropriately are core competencies of the individual business areas. Individual risk types are commonly grouped into three broad categories, namely strategic and business risks, financial risks and operational risks.

Risk category	Risk components	Definition	Page reference
Strategic and business risks	Includes strategic risk; business risk; volume and margin risk; reputational risk; and environmental, social and governance ("ESG") risks.	**Strategic risk** is the risk to current or prospective earnings arising from inappropriate business decisions or the improper implementation of such decisions. **Business risk** is the risk to earnings and capital from potential changes in the business environment, client behaviour and technological progress. Business risk is often associated with volume and margin risk and relates to the Group's ability to generate sufficient levels of revenue to offset its costs. **Volume and margin risk** is the risk that the capital base is negatively impacted by a downturn in revenue due to market factors (e.g. margin compression), combined with the risk that the cost base is inflexible.	129
		Reputational risk is the risk of reputational damage due to compliance failures, pending litigations or underperformance or negative media coverage.	
		ESG risks focus on the environmental, social and governance issues which impact the Group's ability to successfully and sustainably implement business strategy.	
Financial risks	Capital management	The Group manages capital by allocating resources effectively in terms of its risk appetite and in a manner that maximises value for shareholders. The overall objective of capital management is to maintain sound capital ratios, a strong credit rating, and to ensure confidence in the solvency of the Group during calm and turbulent periods in the economy and financial markets.	133
	Credit risk	Credit risk is the risk of loss due to the non-performance of a counterparty in respect of any financial or other obligation. For fair value portfolios, the definition of credit risk is expanded to include the risk of losses through fair value changes arising from changes in credit spreads. Credit risk also includes credit default risk, pre-settlement risk, country risk, concentration risk and securitisation risk.	142
	Counterparty credit risk	Counterparty credit risk is defined as the risk of a counterparty to a contract, transaction or agreement defaulting prior to the final settlement of the transaction's cash flows.	177
	Market risk in the trading book	Market risk is the risk of adverse revaluation of any financial instrument as a consequence of changes in market prices or rates.	179
	Equity investment risk	Equity investment risk is the risk of an adverse change in the fair value of an investment in a company, fund or any other financial instrument, whether listed, unlisted or bespoke.	183

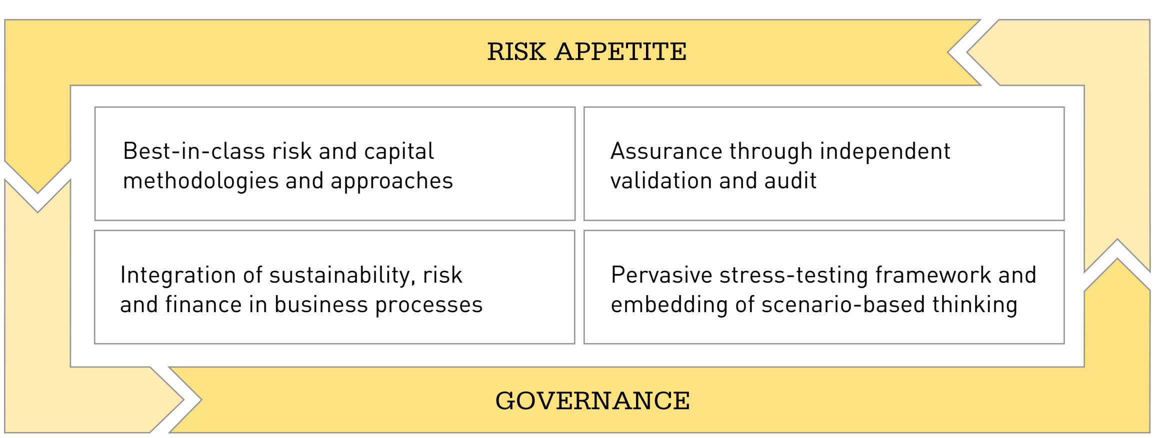
Risk category	Risk components	Definition	Page reference
Financial risks	Foreign exchange and translation risk in the banking book	**Foreign exchange risk** is the risk of losses occurring or a foreign investment's value changing from movements in foreign exchange rates. A bank has net open foreign currency positions and, as such, is exposed to currency risk in its foreign currency positions and foreign investments. **Translation risk** is the risk associated with banks that deal in foreign currencies or hold foreign assets. The greater the proportion of asset, liability and equity classes denominated in a foreign currency, the greater the translation risk.	185
	Liquidity risk	Liquidity risk is the risk that a bank will not be able to meet all payment obligations as liabilities fall due. It is also the risk of not being able to realise assets when required to do so to meet repayment obligations in a stress scenario. The definition of liquidity risk is expanded in the *Liquidity risk* section on page 186.	186
	Interest rate risk in the banking book ("IRRBB")	IRRBB is defined as the sensitivity of a bank's financial position and earnings to unexpected, adverse movements in interest rates.	192
Operational risk	Operational risk	Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes and systems or from external events and human error. It includes fraud and criminal activity (internal and external); project risk; legal risk; business continuity; information and IT risk; process and human resources risk. Strategic, business and reputational risks are excluded from the definition.	196
	Regulatory risk	Regulatory risk is the risk of statutory or regulatory sanction and material financial loss or reputational damage as a result of a failure to comply with any applicable laws, regulations or supervisory requirements.	199

FirstRand's approach to risk and capital management

The Group defines risk widely – as any factor that, if not adequately assessed, monitored and managed, may prevent it from achieving its business objectives or result in adverse outcomes, including damage to its reputation.

FirstRand follows a comprehensive approach to risk and capital management that comprises six core components, illustrated in the chart below.

Components of FirstRand's approach to risk and capital management



Risk and capital management report continued

These core components are discussed further in this report:

- The Group's **risk appetite** frames all organisational decision making and forms the basis for the refinement of risk identification, assessment and management capabilities (see below).
- Best practice **risk and capital methodologies** have been developed in and for the relevant business areas (see page 123).
- An integrated approach to **sustainability and managing risk** was established to facilitate the proactive exchange of information between individual risk areas, and between risk and finance functions (see page 123).
- The Group is deploying a comprehensive, consistent and integrated approach to **stress testing** that is embedded as a usiness planning and management tool, emphasising scenario-based analyses in all its decision processes. Stress testing includes the quantification of potential volatility of earnings under various scenarios and due to event risk. (see page 124).
- A strong **governance structure** and policy framework fosters the embedding of risk considerations in existing business processes and ensures that consistent standards exist across the Group's operating units (see page 127).
- **Independent oversight, validation and audit functions** ensure a high standard across methodological, operational and process components of the Group's risk and capital management processes (see page 126).

RISK APPETITE

The level of risk the Group is willing to take on – its risk appetite – is determined by the Board, which also assumes responsibility for ensuring that risks are adequately managed and controlled through the FirstRand Risk, capital management and compliance committee ("RCC committee") and subcommittees, as described in the *Risk governance structure* section on page 127.

The Group's risk appetite framework sets out specific principles, objectives and measures that link diverse considerations such as strategy, risk, target capitalisation levels and acceptable levels of earnings volatility. As each franchise is ultimately tasked with the generation of sustainable returns, risk appetite limits act as a constraint on the assumption of ever more risk in the pursuit of profits – both in quantum and in kind. For example, a marginal increase in return in exchange for disproportionately more volatile earnings is not acceptable. Similarly, certain types of risk, such as risks to its reputation, are incompatible with the business philosophy and thus fall outside its risk appetite.

In addition to these considerations, risk appetite finds its primary quantitative expression in two measures, namely:

- the level of earnings growth and volatility the Group is willing to accept from certain risks that are core to its business; and
- the level of capitalisation to meet regulatory capital requirements; maintain a capital buffer for unforeseen events and business expansion; and the return achieved on capital allocated.

These two measures define the risk capacity and this expression of risk appetite is calibrated against broader financial targets. As a function of the business environment and stakeholders' expectations, together with the primary risk appetite measures, these provide firm boundaries for the organisation's chosen path of growth.

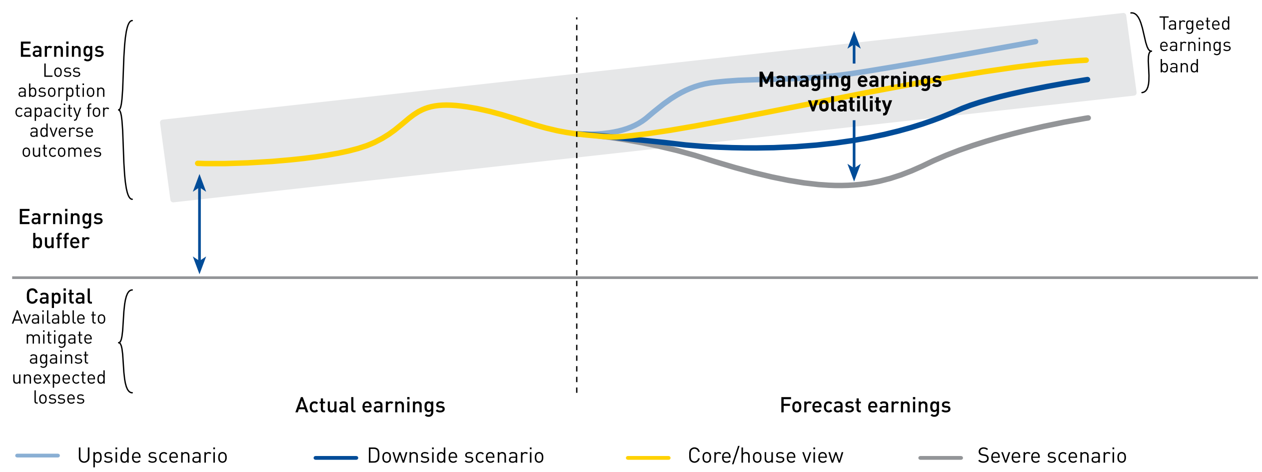
In setting the risk appetite, Executive management ("Exco") and the Board balance the organisation's overall risk capacity with a bottom-up view of the planned risk profile for each business. It is in this process that the Group ultimately seeks to achieve an optimal trade-off between its ability to take on risk and the sustainability of the returns it delivers to its shareholders.

Risk appetite measures are included in risk and management reports across the businesses, as well as at board level. These measures are continually refined as more management information becomes available and stress test results are reported and discussed.

The Group views earnings as the primary defence against adverse outcomes. The earnings buffer and capital base provide protection against unexpected events for stakeholders. FirstRand's capacity to absorb earnings volatility and fluctuations is therefore supported by the generation of sustainable profits.

The chart below illustrates the strategy to manage earnings volatility through the cycle.

Managing earnings volatility through the cycle



RISK AND CAPITAL METHODOLOGIES

The detailed sections commencing on page 129 provide in-depth descriptions of the approaches, methodologies, models and processes used in the identification and management of each major risk. Each section also describes the applicable governance and policy framework and provides an analysis of the respective portfolios and the risk profile with respect to the type of risk under consideration and the capital position.

FOCUS ON SUSTAINABILITY AND INTEGRATION OF RISK AND FINANCE

The Group considers the sustainability of its earnings within acceptable volatility as a core objective and key performance measure. The value of its franchises is ultimately supported by its financial strength and the Group adopts a management approach that seeks to achieve an optimal deployed risk model.

The franchises are ultimately responsible for maximising risk-adjusted returns on a sustainable basis, within the limits of the Group's risk appetite. Shifts in the macro environment are also critical to any strategic adjustments. FirstRand manages its business based on the Group's "house view" which is used for budgeting and forecasting processes, informs credit origination strategies and capital stress testing, directs the interest rate positioning of the banking book, and is used for tail risk strategies.

The Balance Sheet Management ("BSM") unit within the Corporate Centre is the custodian of the macroeconomic house view. It provides the business units with a forecast of key variables that impact the balance sheet and spans a three-year forecast horizon. Given the volatility of the macroeconomic environment, a core forecast and two risk scenarios are presented to the business units for each key variable. A severe scenario is also included for stress testing purposes. These scenarios and forecasts are debated and then communicated to the business units. The outlook is monitored on a daily basis and updated on a quarterly basis, or more frequently if required.

The Capital Management and Group Treasury functions within the Corporate Centre are responsible for the management of the Group's capital and liquidity, respectively. The capital position provides the final buffer against adverse business performance under extremely severe economic conditions.

The Group, through a combined initiative of its finance, treasury, capital and risk functions, continues to integrate financial, treasury, capital and risk data and information on a common platform. This information, both actual and budget, is used as basis for risk, capital and financial analysis and stress testing.

The practices instituted are intended to ensure that capital and liquidity related decisions can be taken in a well coordinated and proactive manner on the basis of a consistent, integrated view incorporating aspects of both finance and risk domains.

INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS

The Group views the internal capital adequacy assessment process ("ICAAP") as key to its risk and capital management processes. The ICAAP allows and facilitates:

- the link between business strategy, risk introduced and capital required to support the strategy;
- the establishment of frameworks, policies and procedures for the effective management of material risks;

Risk and capital management report continued

- embedding a responsible risk culture at all levels in the organisation;
- the effective allocation and management of capital in the organisation;
- the development of plausible stress tests to provide useful information which serves as early warnings/triggers, so that contingency plans can be implemented; and
- the determination of the capital management strategy and how the Group will manage its capital including during periods of stress.

STRESS TESTING AND SCENARIO-BASED ANALYSES

The evaluation of business plans and strategic options at a Group and business level, as well as the choice of tactical steps towards implementing these plans are intrinsically linked to the evaluation and assessment of risk. Thinking through potential scenarios and how these may evolve based on changes in the economic environment, changes in competitors' strategies and potential stress events forms an integral part of the strategy setting, planning and budgeting processes.

As discussed earlier, the core macro scenario reflects the Group's view on the risks that are central to its business, and which it assumes and manages accordingly. In addition, several stress scenarios are prepared to supplement the core view and inform management action at a business and Group level with respect to potential deviations from budget and the potential implications for earnings volatility. Furthermore, reverse stress test scenarios provide management and regulators with a structured view on potential developments that may threaten the stability of the institution.

The Group also recognises the fact that it is exposed to a number of risks that are difficult to anticipate and model and that are, therefore, difficult to manage and mitigate economically. These risks are collectively denoted as 'event risks' and are not necessarily strongly related to the economic environment or the Group's strategy. The stress-testing framework provides for proactive and continuous identification of such potential events, and establishes a process in which these are evaluated, discussed and escalated across the businesses.

Stress testing and scenario analyses have been integrated across the traditionally separate domains of risk and finance.

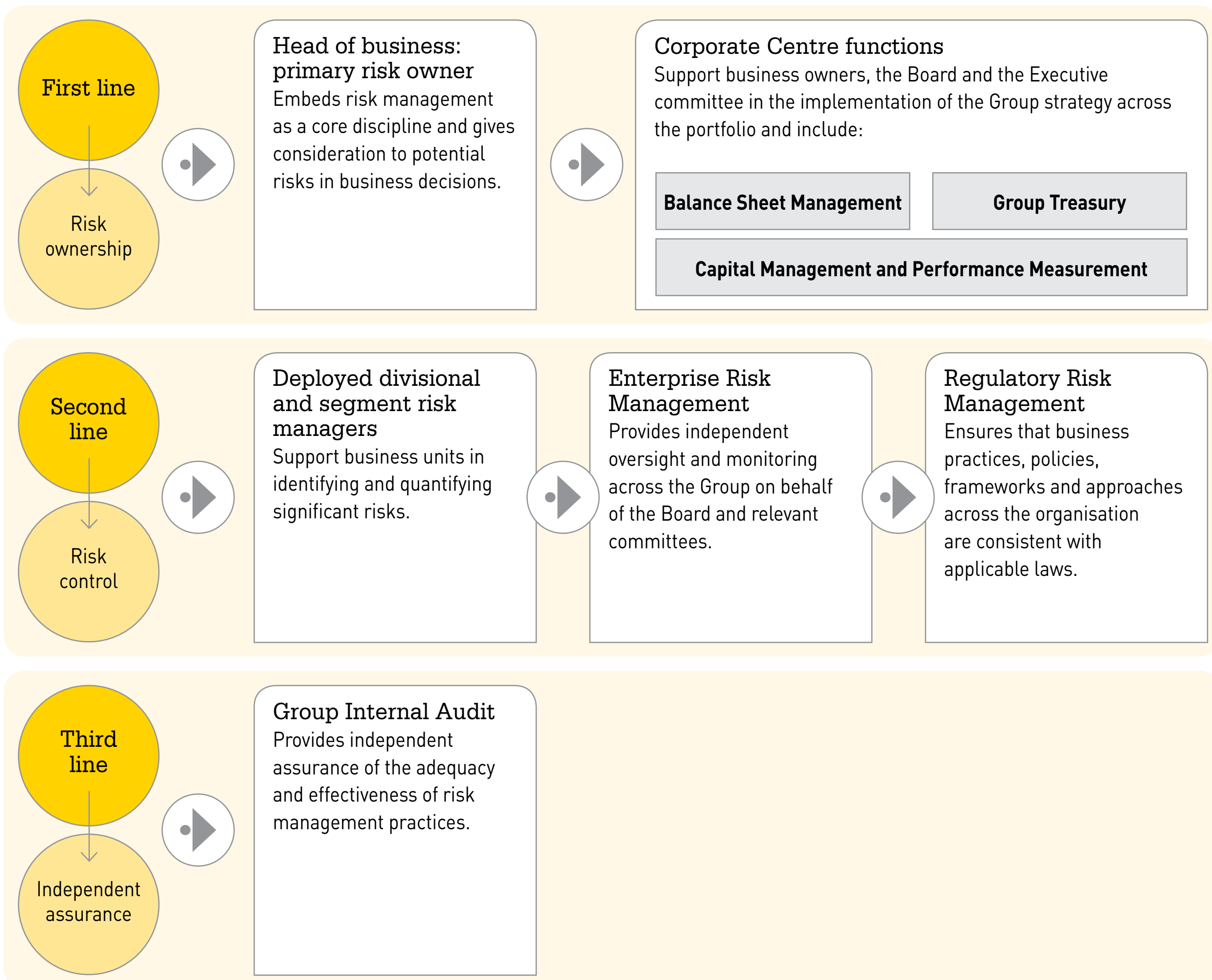
RISK MANAGEMENT FRAMEWORKS AND GOVERNANCE STRUCTURE

Risk governance framework

The Group's Board retains ultimate responsibility for ensuring that risks are adequately identified, measured, monitored and managed. The Group believes that effective risk management is predicated on a culture focused on risk paired with an effective governance structure.

Effective risk management also requires multiple points of control or safeguards that should be applied consistently at various levels throughout the organisation. There are three primary lines of control across the Group's operations illustrated in chart below.

Lines of risk control



The risk management structure is set out in the Group's Business Performance and Risk Management Framework ("BPRMF"). As a policy of both the Board and Exco, it delineates the roles and responsibilities of key stakeholders in business, support and control functions across the various franchises and the Group. The BPRMF explicitly recognises the three lines of control.

First line – risk ownership

Risk taking is inherent in the individual businesses' activities. Business management carries the primary responsibility for the risks in its business, in particular with respect to identifying and managing risk appropriately. In order to achieve this, **the head of each business entity**:

- ensures the entity acts in accordance with mandates approved by the Board or its delegated authority;
- identifies, quantifies and monitors key risks to business under normal and stress conditions;
- implements the strategic and business plans as applicable to the business entity within approved risk appetite parameters;
- specifies the risk management processes whereby the key risks of the entity are managed;
- specifies and implements early warning measures, associated reporting, management and escalation processes;
- implements risk mitigation strategies;
- implements timeous corrective actions and loss control measures as required;
- reports risk information to Exco and the governance committee structure as appropriate through to the Board; and
- ensures staff understands responsibilities in relation to risk management.

Business owners, the Board and Exco are supported in these responsibilities by the **Corporate Centre functions** including BSM, Group Treasury, and Capital Management and Performance Measurement. The responsibilities of these functions are

Risk and capital management report continued

described in the *Focus on sustainability and integration of risk and finance* section on page 123.

Second line – risk control

Business heads are supported in this by **deployed divisional and segment risk management** functions that are involved in all business decisions and are represented at an executive level across all franchises. Franchise heads of risk have a direct reporting line to the Group chief risk officer ("CRO") and the relevant franchise CEO. Franchise and segment risk managers are responsible for risk identification, measurement and control. To this end, they:

- approve, coordinate and monitor risk assessment and risk management processes;
- ensure that board-approved risk policies and risk tools are implemented and adhered to;
- ensure that performance, risk exposures and corrective actions are reported in an appropriate format and frequency;
- monitor appropriate implementation of corrective action;
- identify process flaws and risk management issues and initiate corrective action;
- compile, analyse and escalate risk reports through appropriate governance structures; and
- ensure all risk management and loss containment activities are performed in a timely manner as agreed with Enterprise Risk Management ("ERM").

Divisional and segment risk management activities are overseen by independent, central risk control functions, ERM and Regulatory Risk Management ("RRM").

ERM is headed by the Group CRO who is a member of Exco and provides independent oversight and monitoring across the Group on behalf of the Board and relevant committees. Furthermore ERM:

- takes ownership of and maintains risk frameworks;
- develops the Group's risk management strategy and communicates the risk management strategy plan and requirements to appropriate stakeholders;
- challenges risk profiles through review of risk assessments, evaluation of risk management processes and monitoring of exposures and corrective actions;
- reports risk exposures and performance in relation to management of risk exposures to relevant committees;
- ensures appropriate risk skills throughout the Group alongside an appropriate risk management culture for risk taking;
- performs risk measurement validation and maintains risk governance structures;
- deploys a comprehensive and integrated approach to stress testing; and
- manages regulatory relationships with respect to risk matters.

RRM is an integral part of managing risks inherent in the business of banking and ensures that business practices, policies, frameworks and approaches across the organisation are consistent with applicable laws. The risks, responsibilities and processes of RRM are discussed in the *Regulatory risk* section.

Third line – independent assurance

The third major line of control involves functions providing independent assurance on the adequacy and effectiveness of risk management practices across the Group. These are the internal audit functions at a business and at a Group level. **Group Internal Audit** ("GIA") is headed by the chief audit executive and reports to the Board through the FirstRand Audit committee chairman. To achieve its assigned responsibilities, GIA:

- reviews risk assessment results of business entities;
- assesses compliance with the directives of the BPRMF;
- evaluates the development and implementation of policies and procedures for risk management in line with policies of the Board or relevant committees;
- reviews the integrity, accuracy and completeness of risk reports to RCC committee and the Board;
- monitors results of internal and external audit processes;
- coordinates audit processes with ERM and RRM; and
- attends various governance and management committees to remain informed and align its risk-based audit approach accordingly.

GIA conducts work in accordance with globally recognised internal audit standards and practices and its activities are assessed annually by the external auditors.

Combined assurance

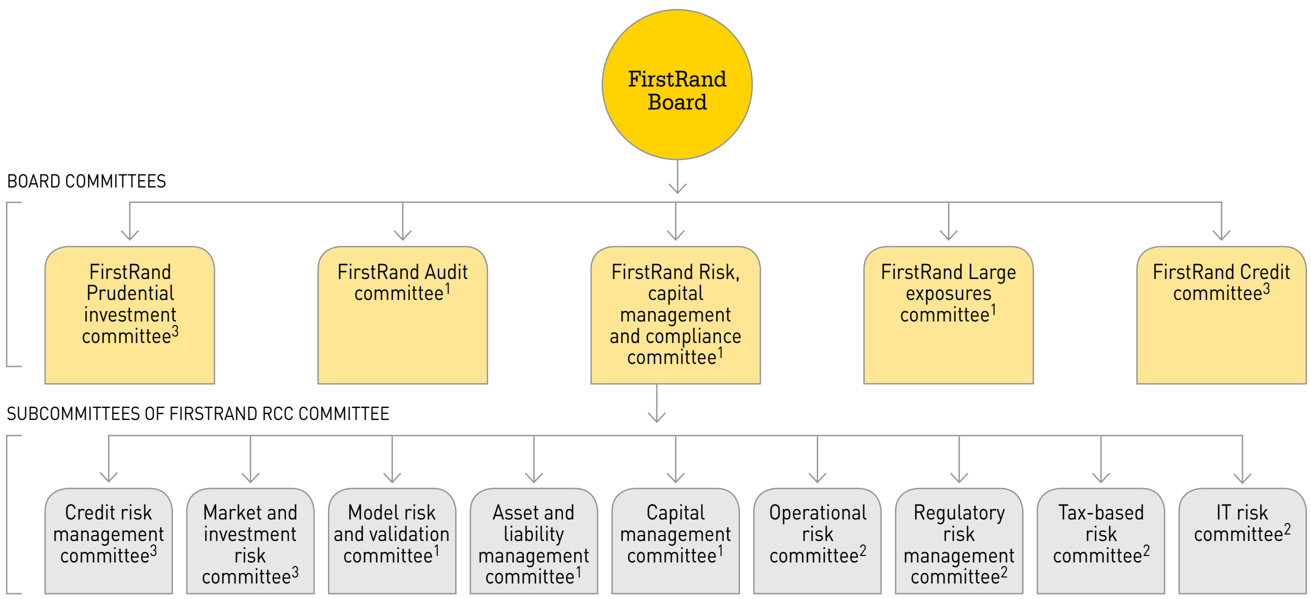
The Audit committee has overseen the establishment of formal enterprise-wide governance structures for enhancing the practice of combined assurance, involving the establishment of combined assurance forums at Group and subsidiary level. These combined assurance forums are specifically mandated to achieve coordination, alignment and integration of risk management and assurance processes within the Group to optimise and maximise the level of risk, governance, and control oversight over the organisation's risk landscape. This work has involved establishing common end-to-end business process and transaction life cycle frameworks against which different assurance processes are leveraged.

The initial outcomes of the combined assurance work completed during the year indicate greater efficiency of assurance processes through the elimination of duplication, more focused risk-based assurance against key control areas and the emergence of a more accurate multidimensional picture of the Group's risk and control universe.

Risk governance structure

In line with the Group's corporate governance framework, the Board retains ultimate responsibility for ensuring that risks are adequately identified, measured, managed and monitored across the Group. The Board discharges its duty through relevant policies and frameworks, as well as several board committees and subcommittees, as illustrated in the chart below.

Risk governance structure



1. *Chairperson is an independent non-executive board member.*
2. *Chairperson is an external member.*
3. *Chairperson is member of senior executive management. The FirstRand Credit and Credit risk management committees have non-executive board representation.*

The primary board committee overseeing risk matters across the Group is the FirstRand RCC committee. It has delegated responsibility for a number of specialist topics to various subcommittees. The RCC committee submits its reports and findings to the Audit committee for review. The responsibilities of the board committees and the subcommittees of the RCC committee are included in the table below.

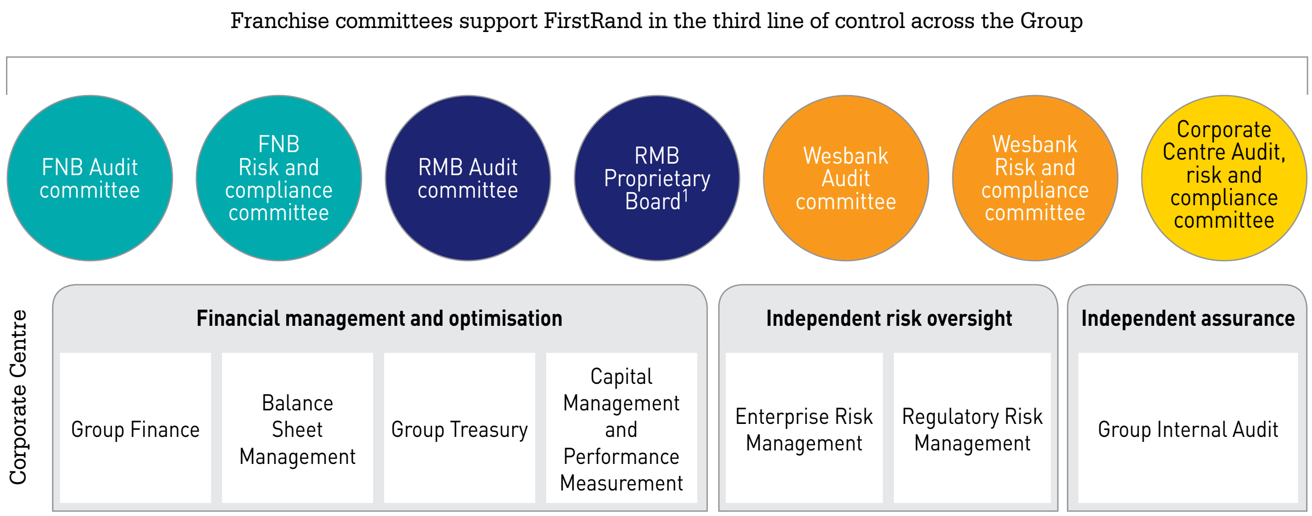
Responsibilities of the committees in the risk governance structure

	Committee	Responsibility
Board committees	FirstRand Prudential investment committee	• ensures investment exposures comply with FirstRand's prudential investment guidelines.
	FirstRand Audit committee	• considers the annual financial statements for approval by the Board; and • monitors the quality of the internal financial controls and processes of FirstRand and the implementation of corrective actions.
	FirstRand Risk, capital management and compliance committee	• approves risk management policies, standards and processes; • monitors Group risk assessments; • monitors the effectiveness of risk management and high priority corrective actions; • monitors the Group's risk profile; and • approves risk and capital targets, limits and thresholds.
	FirstRand Large exposures committee	• approves credit exposures in excess of 10% of the Group's capital.
	FirstRand Credit committee	• credit approvals of group or individual credit facilities in excess of subcommittee mandates and limits; and • approves all wholesale credit policies.

Risk and capital management report continued

	Committee	Responsibility
Subcommittees of the FirstRand RCC committee	Credit risk management committee	• approves credit risk management policies, standards, processes and new business origination within risk appetite; • monitors effectiveness of credit risk management processes, credit risk profile and impairment charges; • monitors scenario and sensitivity analysis, stress tests, credit economic capital and credit concentrations; and • approves all retail and commercial credit policies.
	Market and investment risk committee	• approves market and investment risk management policy, standards and processes; • monitors the effectiveness of market and investment risk management processes; • monitors the market and investment risk profile; and • approves market and investment risk-related limits.
	FSR Model risk and validation committee	• considers and approves all material aspects of model validation work including credit rating and estimation, internal models for market risk and advanced measurement operational risk models for the calculation of regulatory capital requirements.
	Asset and liability committee	• approves and monitors effectiveness of management policies and processes for interest rate risk in the banking book and liquidity risk.
	Capital management committee	• approves policies and principles relating to the management process of accounting, regulatory and economic capital; and • approves buffers over regulatory capital and monitors capital adequacy ratios.
	Operational risk committee	• monitors risk management processes, operational risk management, and effectiveness of risk management, process breakdowns and corrective actions.
	Regulatory risk management committee	• approves regulatory risk management principles, frameworks, plans, policies and standards; and • monitors the effectiveness of regulatory risk management, breaches and corrective action taken across the Group.
	Tax-based risk committee	• monitors tax management processes, effectiveness of tax management process and corrective actions.
	IT risk committee	• approves group-wide information and technology risk policies and standards to ensure the protection of information assets.

Franchise risk governance structure



1. The RMB Proprietary Board is the Risk and regulatory committee for RMB.

The roles of the RCC committee and its subcommittees are further described with reference to the applicable governance structures and processes for each particular risk type in the major risk sections of this report. A number of the individual committee members are non-executive, further strengthening the Group's central, independent risk oversight and control functions.

Additional risk, audit and compliance committees exist in each franchise, the governance structures of which align closely with that of the Group, as illustrated in the chart above. The board committees are typically staffed by members of the respective committees of the individual franchises' boards so as to ensure a common understanding of the challenges businesses face and how these are addressed across the Group.

REGULAR RISK REPORTING AND CHALLENGE OF CURRENT PRACTICES

As part of the reporting, challenge, debate and control process, ERM seeks to drive the implementation of more sophisticated risk assessment methodologies through the design of appropriate policies and processes, including the deployment of skilled risk management personnel in each of the franchises.

ERM, together with the independent review by the Group's internal audit functions, ensure that all pertinent risk information is accurately captured, evaluated and escalated appropriately in a timely manner. This enables the Board and its designated committees to retain effective management control over the Group's risk position at all times.

6. Strategic and business risk

KEY DEVELOPMENTS AND FOCUS

Strategic and business risks	Macroeconomic and business conditions remain challenging with a fair degree of uncertainty. FirstRand continues to monitor strategic and business risks carefully in the current environment and emphasis is placed on indirect contagion that may follow from a worsening developed market sovereign debt crisis.
Environmental, social and governance or ESG risks	2011 is FirstRand's first year of detailed performance reporting against the Equator Principles. Of the 11 deals screened during the period, five were executed of which three are 'Category A' or high risk. The Group has formal governance structures in place for ensuring that risks are managed in line with the Group's predefined tolerances.

Risk and capital management report continued

INTRODUCTION AND OBJECTIVES

Any business runs the risk of choosing an inappropriate strategy or failing to execute its strategy appropriately. The Group's objective is to minimise this risk in the normal course of business.

Business risk is considered in the strategic planning process and as a part of regular and pervasive stress testing and scenario analyses carried out across the Group. The objective is to develop and maintain a portfolio that delivers sustainable earnings thus minimising the chance of adverse outcomes occurring.

ORGANISATIONAL STRUCTURE AND GOVERNANCE

The development and execution of business level strategy is the responsibility of the Strategic executive committee ("Stratco") and the individual business areas, subject to approval by the Board. This includes the approval of any subsequent material changes to strategic plans, budgets, acquisitions, significant equity investments and new strategic alliances.

Business unit and Group executive management, as well as functions within Corporate Centre, review the external environment, industry trends, potential emerging risk factors, competitor actions and regulatory changes as part of the strategic planning process. Through this review, as well as regular scenario planning and stress-testing exercises, the risk to earnings and the level of potential business risk faced are assessed. Reports on the results of these exercises are discussed at various business, risk and board committees and are ultimately taken into account in the setting of risk appetite and in potential revisions to existing strategic plans.

ASSESSMENT AND MANAGEMENT

Strategic risk is not readily quantifiable and is, therefore, not a risk that an organisation can or should hold a protective capital buffer against. The risk to earnings on the other hand can be assessed, and this forms an explicit part of the Group's risk appetite and ICAAP processes.

Business risk is assessed regularly as part of ICAAP. It is managed strategically at a Group level through the development, review and updating of the strategy in light of the organisation's evolving view of the business environment.

For capital purposes the past history of revenues and costs (on a suitably-adjusted basis) are reviewed to determine whether it is likely that revenues would be insufficient to cover costs in a severe scenario. At present, projections indicate an adequate coverage of the projected cost base and no buffer or additional economic capital is therefore held against this risk type.

Volume and margin risk

Volume and margin risk is considered part of strategic planning and is regularly assessed through the Group's management and governance processes and ICAAP. The manifestation of volume and margin risk could result in a situation where the operating income of the Group is insufficient to absorb the variability in income and operating cost.

The analysis of volume and margin risk is a process to determine the relationship between a fixed cost base and a variable income stream and what the impact may be if market developments lead to sudden decreases in income while costs cannot be reduced as quickly or sufficiently to offset the loss of revenue.

For capital purposes, a stress estimate is applied to the calculated cost-to-income variability of the Group (based on a historical analysis). The stressed ratio is then compared to operating income to determine whether volume and margin risk poses a significant threat to the Group's income.

Reputational risk

As a financial services provider, the Group's business is one that is inherently built on trust and close relationships with its clients. Safeguarding its reputation is therefore of paramount importance to ensure continued sustainability and is seen as the responsibility of every staff member. Reputational risk can arise from environmental, social and governance issues or as a consequence of financial or operational risk events.

The Group's reputation is built on the way in which it conducts business, and it protects its reputation by managing and controlling these risks across its operations. It seeks to avoid large risk concentrations by establishing a risk profile that is balanced both within and across risk types. In this respect, potential reputational risks are also taken into account as part of stress-testing exercises. The Group aims to establish a risk and earnings profile within the constraints of its risk appetite and seeks to limit potential stress losses from credit, market, liquidity or operational risks that may otherwise introduce an undesirable degree of volatility in its financial results and adversely affect its reputation.

Environmental, social and governance risk management

FirstRand has formal governance processes for managing ESG risks affecting the Group's ability to successfully implement business strategy. These processes involve the generation of ESG management reports at Group and franchise level, which detail ESG performance on a quarterly basis.

Each franchise defines tolerances for its principal ESG risks and action plans for addressing these in line with particular circumstances and risk appetite. Tolerances and mitigating actions are defined at Group and franchise level, and progress in respect of these is tracked through existing risk reporting structures. Provision is made for the escalation of significant ESG issues to the Board via Exco and RCC and Audit committees.

The impact and likelihood of these risks are evaluated taking into account measures for management, mitigation and avoidance.

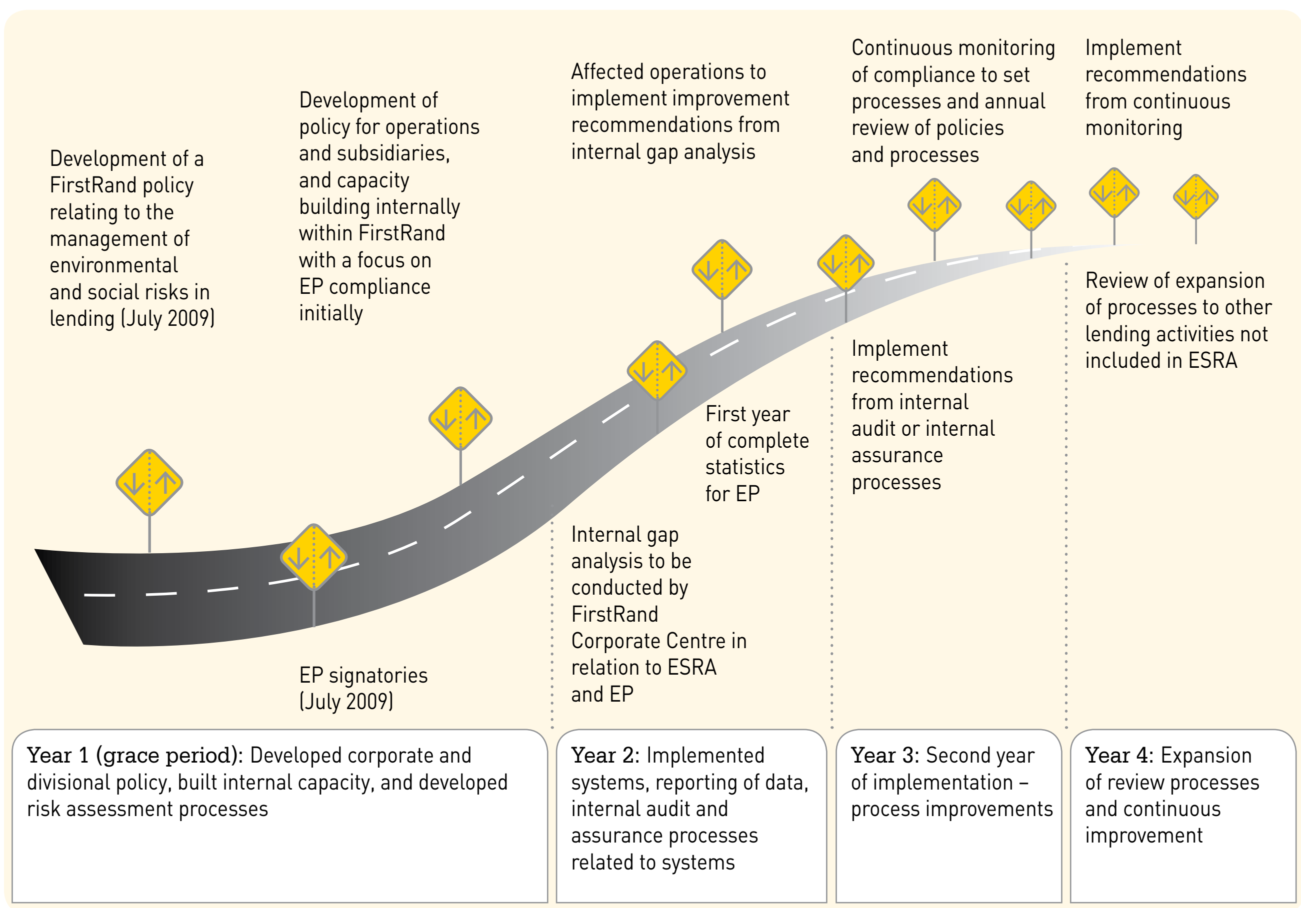
Equator Principles and environmental and social risk analysis ("ESRA")

FirstRand became an Equator Principles finance institution in July 2009. The Equator Principles ("EP") are a risk management framework for determining, assessing and managing environmental and social risks in project finance transactions. EP transactions are all structured project finance activities, as defined by Basel II, where the capital costs associated with the project are US$10 million or above.

During the 2010 financial year, FirstRand extended the ESRA practices beyond EP transactions to commercial, corporate and working capital lending activities where material environmental and social risks may exist.

Equator Principles and ESRA roadmap

FirstRand is currently in the second year of EPs implementation.



Risk and capital management report continued

2011 Equator Principles performance

The Group measures EP performance in line with the International Finance Corporation ("IFC") performance standards as either Category A (high risk), Category B (medium risk) or Category C (low to no risk), per the definitions set out below.

IFC/equator category	Risks/impacts
Category A	Projects with potential significant adverse social or environmental impacts that are diverse, irreversible or unprecedented. Issues relating to these risks may lead to work stoppages, legal authorisations being withdrawn and reputational damage. Examples could include projects involving the physical displacement of the natural environment or communities.
Category B	Projects with potential limited adverse social or environmental impacts that are few in number, generally site specific, largely reversible and readily addressed through mitigation measures. Issues relating to these risks may lead to fines, penalties or legal non-compliances and reputational damage. Examples could include increased use of energy or increased atmospheric emissions.
Category C	Projects with minimal or no social or environmental impacts.

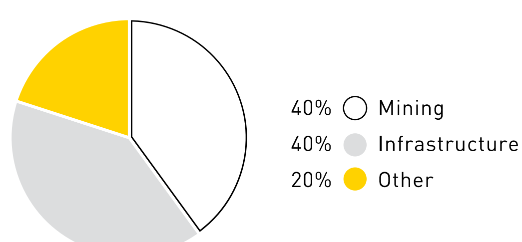
EP category	Projects receiving review at marketing or appraisal stage	Projects fully funded or executed
A (high risk)	5	3
B (medium risk)	2	–
C (low risk)	3	2
Total	10	5

The Group is confident that deals disclosed in the table above have been subjected to appropriate due diligence for environmental and social risks and that, where appropriate, mitigating action plans are in place.

Equator Principle transactions by geography and sector

All of the deals noted in the table above are southern African based projects.

Transaction by sector



EP transactions during the period under review were categorised as falling into the mining sector, infrastructure sector, or "other" – which typically comprise deals related to large commercial property developments. This is not an unusual grouping of sectors in relation to EP due to the financial threshold associated with the EP projects, and the nature of project finance deals within these sectors.

ESRA process going forward

Each of the Group's operating franchises have formalised credit and compliance processes for the implementation of ESRA, with oversight provided by franchise risk and compliance committees, as well as affected credit committees. At a Group level oversight is provided by the RCC committee.

The ESRA implementation process is illustrated in the chart below. The first step in the process involves screening of proposed transactions against an exclusion list of activities that the Group has taken a decision not to finance. Examples include activities involving child labour, human rights abuse, illicit substances or other illegal activities.

ESRA implementation process

Deal origination	Categorisation	Environmental and social risk review	Credit application	Action plan	Monitoring and evaluation
Deals identified and screened against an exclusion list.	Deals categorised by project type, value and ESRA category.	Environmental and social risk assessment informs in-house opinion.	Credit application assessed.	Action plan and covenants defined with client in line with legal documentation.	Ongoing monitoring and evaluation against covenants and legal documents.

Although the evaluation and monitoring of EP transactions is embedded across the Group, continued focus will be given to both awareness training and the effective implementation of the ESRA process. The Waste Management Act is an area of integration into the ESRA processes which will be a focus going forward, particularly as it relates to the review of contamination risk in property financed or taken as security.

For more detail on the EP and ESRA processes please visit www.firstrand.co.za

Capital management

KEY DEVELOPMENTS AND FOCUS

Capital management continues to focus on maintaining strong capital levels, with a particular focus on the quality of capital. This is reflected in the Tier 1 ratios of the Bank and the Group, which remained above targeted levels throughout the year. Tier 1 continued to exceed economic capital requirements for a range of normal and severe scenarios as well as for stress events.

In the last 12 months the Group's core ratio has benefited from several windfalls, the largest of which arose from the sale of OUTsurance. Detailed capital forecasts that include the domestic growth requirements as well as international expansion requirements and proposed regulatory changes have been considered for the next three years. The Group is confident that these windfalls are surplus to the Group's needs and thus a special dividend is declared to return this excess to shareholders. This dividend was paid in October 2011.

The Group currently finds itself in an environment of significant regulatory uncertainty. The final Basel III framework released in December 2010, although comprehensive, left a number of key issues unresolved. These guidelines are yet to be incorporated into the South African Reserve Bank ("SARB") regulations. Guidance is expected from the Regulator during the first quarter of 2012. The Group continues to participate in the six-monthly Basel Committee on Banking Supervision's ("BCBS") quantitative impact study, with updated calculations showing that the Bank and the Group will continue to operate above the current regulatory minimum and internal minimum requirements. Although the Basel III proposals have not yet been outlined in the domestic regulations, the Group has increased the targeted capital levels in anticipation of the implementation of Basel III.

Performance measurement is on a risk-adjusted basis and is continually enhanced to drive the desired behaviour. Economic profit or net income after capital charge ("NIACC") is embedded in the management of the business. For the year ended 30 June 2011, the Group achieved positive NIACC and generated value for shareholders.

Risk and capital management report continued

INTRODUCTION AND OBJECTIVES

The Group seeks to establish and manage a portfolio of businesses and associated risks that will deliver sustainable returns to its shareholders by targeting a particular earnings profile that will allow it to generate returns within appropriate levels of volatility.

Sustainability also refers to the capacity to withstand periods of severe stress characterised by very high levels of unexpected financial and economic volatility, which cannot be mitigated by earnings alone. Capitalisation ratios appropriate to safeguarding its operations and the interests of its stakeholders are therefore maintained. In this respect, the overall capital management objective is to maintain sound capital ratios and a strong credit rating to ensure confidence in the solvency and quality of capital in the Group during calm and turbulent periods in the economy and the financial markets.

The optimal level and composition of capital is determined after taking into account business units' organic growth plans – provided financial targets are met – as well as expectations of investors, targeted capital ratios, future business plans, plans for the issuance of additional capital instruments, the need for appropriate buffers in excess of minimum requirements, rating agencies' considerations and proposed regulatory changes.

Allocating resources effectively (including capital and risk capacity) in terms of the risk appetite targets and in a manner that maximises value for shareholders is a core competence and a key focus area. Sound capital management practices, therefore, form an important component of its overall business strategy. Moreover, performance measurement is aligned with the allocation of risk and continually enhanced to drive the desired behaviour.

The effectiveness of the capital allocation decisions and the efficiency of its capital structure are important determinants of the ability to generate returns for shareholders. The Group seeks to hold limited excesses above the capital required to support its medium-term growth plans (including appropriate buffers for stresses and volatility) and future regulatory changes.

The total capital plan includes a dividend policy, which is set in order to ensure sustainable dividend cover based on sustainable normalised earnings, after taking into account volatile earnings brought on by fair value accounting, anticipated earnings yield on capital employed, organic growth requirements and a safety margin for unexpected fluctuations in business plans.

In the last 12 months FirstRand's core capital has benefited from several windfalls, the largest of which arose from the sale of OUTsurance. Detailed capital forecasts that include the domestic growth requirements as well as international expansion requirements and proposed regulatory changes have been considered for the next three years. The Group is confident that these windfalls are surplus to the Group's needs and thus a special dividend of 70 cents per share is declared to return this excess to shareholders.

CAPITAL ADEQUACY AND PLANNING

The year under review

The capital planning process ensures that the total capital adequacy and Tier 1 ratios remain within the approved ranges or above target levels across the economic and business cycles. FirstRand is appropriately capitalised under a range of normal and severe scenarios as well as a range of stress events.

The Group currently finds itself in an environment of significant regulatory uncertainty. Although many of the Basel III changes have been finalised, these proposals are yet to be outlined in the domestic regulations. Targeted ranges have been increased in anticipation of the implementation of Basel III even though the levels in South Africa are not yet finalised. The current approach to capital levels is conservative and the Group would prefer to maintain strong capital ratios at the upper end of its targeted band.

The board-approved capital plan is reviewed as part of the Group's ICAAP, with the stress-testing framework being an extension of the process. These processes are under continuous review and refinement and continue to inform the targeted buffer.

FirstRand operated above its targeted capitalisation range with a total capital adequacy of 16.5% and solid Tier 1 ratio of 15.0%. Similarly the Bank, excluding subsidiaries and branches, comfortably operated above its target with a total capital adequacy of 14.2% and Tier 1 ratio of 12.4%.

Regulatory developments

The SARB has issued a set of draft regulations which cover the revised market risk and securitisation proposals as per Basel 2.5, as well as introducing a scalar for credit risk. These regulations will be implemented at the beginning of 2012. The draft regulations currently do not make provision for the proposed Basel III framework discussed below.

Enhancements to the Basel II framework ("Basel 2.5")

The BCBS introduced enhancements to the market risk and securitisations framework, effective 1 January 2012. These revisions incorporate new capital requirements to include the effects of stressed markets (stressed Value-at-Risk "VaR"), an incremental risk charge for default and rating migration risk of trading book positions and higher risk weightings for resecuritised exposures.

Basel III

The final Basel III framework "A global regulatory framework for resilient banks and banking systems" was issued in December 2010. The new regulations will be phased in from 1 January 2013 onwards with full compliance of capital levels (including buffers) by 1 January 2019.

Quantitative impact studies are currently being completed by regulators to assess the impact of the new Basel III rules. This exercise will be performed every six months. The Group has been involved in this exercise and current calculations result in lower Tier 1 and total capital adequacy ratios for the Group. However, both FirstRand and the Bank will remain above the current regulatory minimum and internal minimum requirements. The targeted levels may be further revisited once the Basel III proposals are incorporated into the SARB regulations. The Group expects further guidance from the SARB during the first quarter of 2012.

Supply of capital – Tier 1

The Group aims to back all economic risks with Tier 1 capital as it offers the greatest capacity to absorb losses. Consequently, required Tier 1 capitalisation levels are used as the primary driver of performance measurement across the various businesses. Tier 1 capitalisation ratios benefited from strong internal capital generation through earnings as well as realising once-off profits from the sale of investments in OUTsurance and Visa Inc.

Supply of capital – Tier 2

The uncertainty around the Basel III eligibility criteria of Tier 2 instruments made the issuance of these instruments unattractive during the year under review. The Group continues to investigate ways of optimising its capital base and will review the viability of Tier 2 instruments once the Basel III proposals have been incorporated into the SARB regulations.

On 16 August 2010, SARB approval was received to call the FRB01 and FRB02 subordinated debt instruments on 31 August 2010. The table below provides more detail on the Group's capital instruments at 30 June 2011.

Characteristics of capital instruments (unaudited unless otherwise indicated)

Capital type	Instrument	Nominal R million	Actual R million	Rate type	Coupon rate	Maturity date
Other Tier 1	Non-cumulative non-redeemable ("NCNR") preference share capital*	4 519	4 519	Floating	68% of prime	Perpetual
Upper Tier 2	FRBC21	628	601	Fixed	12%	21 Dec 2018
	FRBC22	440	441	Floating	3 month JIBAR + 300bps	21 Dec 2018
Lower Tier 2 (Subordinated debt)	FRB03	1 740	1 788	Fixed	9%	15 Sept 2014
	FRB05	2 110	2 032	Fixed	9%	21 Dec 2018
	FRB06	1 000	1 020	Floating	3 month JIBAR + 65bps	5 Nov 2012
	FRB07	300	304	Floating	3 month JIBAR + 65bps	6 Dec 2012
	FRB08	100	102	Floating	3 month JIBAR + 70bps	10 Jun 2016
	FRB09	100	102	Floating	3 month JIBAR + 70bps	10 Jun 2017
	FNBB001	104	104	Fixed	11%	1 Dec 2011
	FNB17	260	260	Fixed	9%	29 Mar 2012

** Audited.*

Demand for capital

Capital requirements expressed as a percentage of risk-weighted assets ("RWA") remain risk sensitive and cyclical under Basel II. This cyclicality, particularly for credit, is less evident at this point in the cycle.

FirstRand's RWA increased marginally during the year driven mostly by requirements in the Bank. The Bank's overall RWA increase was due to credit risk volume growth. The increase in market risk and operational risk was offset by lower equity investment risk, which was mainly the result of the sale of investment in Visa Inc and the sale of subsidiaries from the Bank to FRIHL (as part of the Group restructure).

Risk and capital management report continued

Regulatory capital

The targeted capital levels, which have been increased, as well as the current ratios at 30 June 2011 are summarised in the table below.

Capital adequacy position

%	FirstRand Actual	FirstRand Target	FirstRand Bank* Actual	FirstRand Bank* Target	Regulatory minimum
Capital adequacy ratio	16.5	12.0 – 13.5	14.2	11.5 – 13.0	9.5#
Tier 1 ratio	15.0	11.0	12.4	10.5	7.0
Core Tier 1 ratio	13.8	9.5 – 11.0	11.4	9.0 – 10.5	5.25

** Reflects solo supervision, i.e. the Bank excluding branches, subsidiaries and associates.*
 # The regulatory minimum excludes the bank specific (Pillar 2b) add on and capital floor.

The following table shows the composition of regulatory capital for FirstRand at 30 June 2011, while the subsequent tables provide a breakdown of RWA and capital requirement.

Composition of qualifying capital and capital ratios (unaudited unless otherwise indicated)

R million	FirstRand At 30 June 2011	%
Ordinary shareholders equity as per IFRS*	56 631	
Less: non-qualifying reserves*	(2 954)	
Cash flow reserve*	451	
Available-for-sale reserve*	(225)	
Share-based payment reserve*	(2 739)	
Foreign currency translation reserve*	(474)	
Other reserves*	33	
Ordinary shareholders equity qualifying as capital	53 677	
Ordinary share capital and share premium*	4 998	
Reserves	48 679	
Non-controlling interests	3 069	
NCNR preference shares*	4 519	
Less: total impairments	(3 521)	
Excess of expected loss over eligible provisions (50%)	(907)	
First loss credit enhancements in respect of securitisation structures (50%)	(247)	
Goodwill and other impairments	(2 367)	
Total Tier 1 capital	57 744	15.0
Upper Tier 2 instruments	1 042	
Tier 2 subordinated debt instruments	5 712	
Other reserves	202	
Less: total impairments	(1 154)	
Excess of expected loss over eligible provisions (50%)	(907)	
First loss credit enhancements in respect of securitisation structures (50%)	(247)	
Total Tier 2 capital	5 802	1.5
Total qualifying capital and reserves	63 546	16.5

** Audited.*

RWA by risk type (unaudited)

R million	FirstRand At 30 June 2011 RWA	Capital requirement*
Credit risk	258 589	24 566
Operational risk	63 649	6 046
Market risk	17 311	1 645
Equity investment risk	20 605	1 957
Other risk	25 036	2 378
Total RWA	**385 190**	**36 592**

** Capital requirement calculated at 9.5% (Pillar 1 of 8% and Pillar 2a of 1.5%) of RWA.*

RWA calculation approach for each risk type

The following table provides a list of the Basel II approaches applied to each risk type for the Bank and the other regulated entities of FirstRand.

RWA calculation approach for each risk type

Risk type	FRB	Other regulated entities
Credit risk	Advanced Internal Ratings Based approach ("AIRB")	Standardised approach
Operational risk	Advanced Measurement approach ("AMA")	Domestic operations: AMA Basic Indicator approach
		Offshore operations: Standardised approach
Market risk	Internal Model approach	Standardised approach
Equity investment risk	Simple Risk Weighted method	Standardised approach
Other risk	Standardised approach	Standardised approach

The following table provides a more detailed breakdown of the RWA numbers per Basel II approach for each risk type of FirstRand.

R million	June 2011
Credit risk	258 589
AIRB approach	226 678
Corporate, banks and sovereigns	92 642
Small and medium enterprises ("SME")	37 584
Residential mortgages	42 388
Qualifying revolving retail	9 003
Other retail	40 481
Securitisation exposure	4 580
Standardised approach	31 911
Equity investment risk	20 605
Simple Risk Weighted method	10 460
Listed	2 914
Unlisted	7 546
Standardised approach	10 145

R million	June 2011
Operational risk	63 649
Standardised approach	9 110
AMA	50 438
Basic Indicator approach	4 101
Market risk*	17 311
Internal Model approach	7 016
Standardised approach	10 295
Other risk	25 036
Standardised approach	25 036
Total RWA	385 190

** Includes banking and trading book.*

Risk and capital management report continued

The following table shows the composition of regulatory capital for the Bank at 30 June 2011, while the subsequent tables provide a breakdown of RWA and capital requirement.

Composition of qualifying capital and capital ratios of FirstRand Bank (unaudited unless otherwise indicated)

	FirstRand Bank*			
R million	June 2011	%	June 2010	%
Ordinary shareholders equity as per IFRS**	37 965		33 085	
Less: non-qualifying reserves**	(333)		(477)	
Cash flow reserve**	452		466	
Available-for-sale reserve**	(443)		(532)	
Share-based payment reserve**	(342)		(411)	
Ordinary shareholders equity qualifying as capital	37 632		32 608	
Ordinary share capital and share premium**	11 459		10 969	
Reserves	26 173		21 639	
NCNR preference shares**	3 000		3 000	
Less: total impairments	(3 295)		(2 323)	
Excess of expected loss over eligible provisions (50%)	(907)		(379)	
First loss credit enhancements in respect of securitisation structures (50%)	(71)		(45)	
Qualifying capital in branches	(1 732)		(1 732)	
Other impairments	(585)		(167)	
Total Tier 1 capital	**37 337**	**12.4**	33 285	11.7
Upper Tier 2 instruments	1 042		1 068	
Tier 2 subordinated debt instruments	5 349		5 914	
Less: total impairments	(978)		(424)	
Excess of expected loss over eligible provisions (50%)	(907)		(379)	
First loss credit enhancements in respect of securitisation structures (50%)	(71)		(45)	
Total Tier 2 capital	**5 413**	**1.8**	6 558	2.3
Total qualifying capital and reserves	**42 750**	**14.2**	39 843	14.0

** Reflects solo supervision, i.e. the Bank excluding branches, subsidiaries and associates.*
*** Audited.*

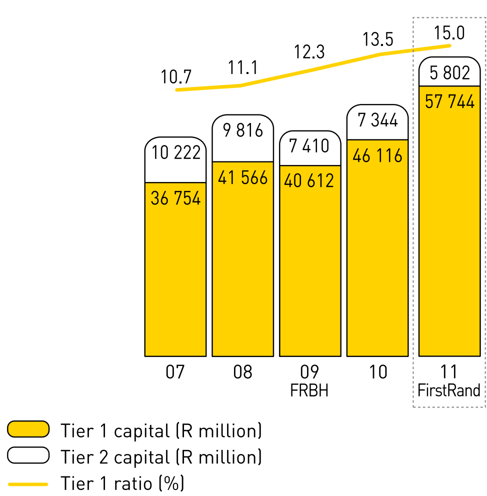
RWA by risk type of FirstRand Bank (unaudited)

	FirstRand Bank*			
	June 2011		June 2010	
R million	RWA	Capital requirement**	RWA	Capital requirement**
Credit risk	**226 678**	**21 534**	210 328	19 981
Operational risk	**42 659**	**4 053**	38 223	3 631
Market risk	**7 016**	**667**	4 669	444
Equity investment risk	**10 460**	**994**	16 835	1 599
Other risk	**14 027**	**1 333**	13 690	1 301
Total RWA	**300 840**	**28 581**	283 745	26 956

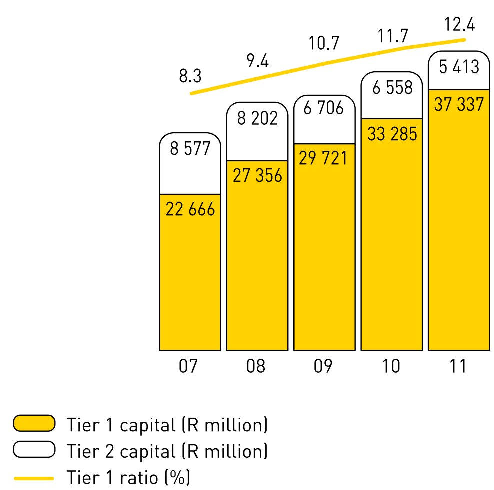
* *Reflects solo supervision, i.e. the Bank excluding branches, subsidiaries and associates.*
** *Capital requirement calculated at 9.5% (Pillar 1 of 8% and Pillar 2a of 1.5%) of RWA.*

The graphs below provide a historical overview of the capital adequacy for FirstRand and the Bank.

FirstRand regulatory capital position (unaudited)



FirstRand Bank regulatory capital position (unaudited)



Information for comparative years – prior to the Basel II implementation on 1 January 2008 – is on a Basel I basis.

Risk and capital management report continued

Capital adequacy position for FirstRand and its subsidiaries

Based on the outcome of detailed stress testing each entity targets a capital level in excess of the regulatory minimum. Capital generated by subsidiaries in excess of targeted levels is returned to FirstRand, usually in the form of dividends. During the year under review, no significant restrictions were experienced on the repayments of such dividends or capital to the Group.

The capital adequacy position of FirstRand and its subsidiaries is set out below.

RWA and capital adequacy position for FirstRand and its subsidiaries

	June 2011		June 2010	
	RWA R million	**Total capital adequacy %**	RWA R million	Total capital adequacy %
Basel II				
Bank controlling company*	**385 190**	**16.5**	341 608	15.6
FirstRand Bank South Africa	**300 840**	**14.2**	283 745	14.0
FirstRand Bank London	**4 718**	**12.5**	5 210	12.8
FirstRand Bank India	**1 296**	**43.0**	241	247.5
FirstRand Ireland	**496**	**24.9**	5 042	31.0
RMB Australia	**5 476**	**24.0**	4 887	21.5
FNB Namibia**	**11 230**	**16.6**	9 910	20.1
Basel I**				
FNB Botswana	**7 678**	**15.7**	6 834	17.4
FNB Lesotho	**236**	**20.0**	228	17.9
FNB Mozambique	**646**	**16.6**	699	12.9
FNB Swaziland	**1 525**	**24.2**	1 467	20.9
FNB Zambia	**348**	**33.0**	173	64.5

* *Effective 1 July 2010, FirstRand became the new regulated entity. Prior to 1 July 2010, FRBH was the bank controlling company. The registered banks in FirstRand must comply with the SARB regulations and those of their home regulators.*

** *Ratios based on local rules.*

Economic capital

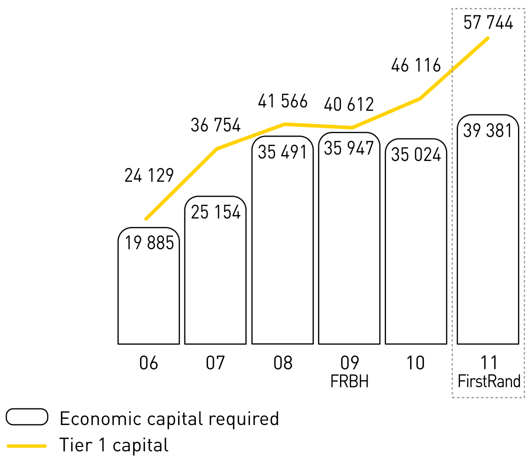
In addition to the regulatory capital requirements disclosed in the previous section, economic capital requirements are also calculated on the basis of a number of internally developed models. Economic capital is defined as the level of capital that must be held commensurate with the Group's risk profile under severe stress conditions. This will provide comfort to a range of stakeholders that it will be able to satisfy all its obligations to third parties with a desired degree of certainty and will continue to operate as a going concern.

Regular reviews of the economic capital position are carried out across the businesses and the Group remains well capitalised in the current environment, with levels of Tier 1 capital exceeding the level of economic capital required. The Group aims to back all economic risks with Tier 1 capital. Furthermore, it uses the allocation of capital based on risk capacity as a steering tool and for performance measurement of business units.

ICAAP assists in the attribution of capital in proportion to the risks inherent in the respective business units with reference to both normal economic circumstances and times of potential stress, which may lead to the realisation of risks not previously considered. This process is also supported by the stress testing and scenario analysis framework described previously.

The graph below provides an overview of the evolution of economic capital requirements and Tier 1 capital for the Group.

Economic capital (unaudited)



NORMALISED RETURN ON EQUITY

The Group achieved a normalised ROE for continuing operations of 18.7% compared to 17.7% for the prior year.

The Group's total normalised ordinary shareholders' equity and reserves (excluding non-controlling interests) totalled R58 858 million as at 30 June 2011 (2010: R49 382 million). The average ordinary shareholders' equity and reserves for the year amounted to R54 120 million (2010: R46 774 million). Ordinary shareholders equity comprises share capital and premium, distributable and non-distributable reserves.

ECONOMIC PROFIT

The Group's performance measures are aligned with risk considerations.

The use of economic profit or net income after capital charge ("NIACC") is embedded across the businesses and management culture. As a function of the normalised earnings and capital utilised in the businesses, economic profit provides a clear indication of the economic value added by a transaction or business unit. Positive internal capital generation through earnings and a consistent cost of equity produced economic value for shareholders during the year under review. The following table and chart provide an overview of the relevant calculation and the creation of economic profit over time for continuing operations of FirstRand on a normalised basis.

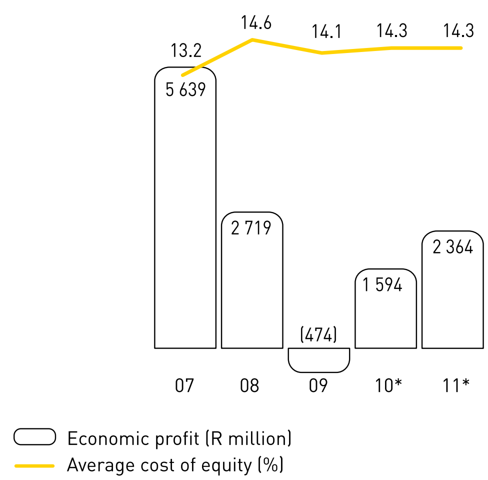
Economic profit and normalised ROE (unaudited)

R million	2011	2010
Normalised earnings attributable to ordinary shareholders	**10 117**	8 283
Charge for capital*	**(7 753)**	(6 689)
Net economic profit**	**2 364**	1 594
Average ordinary shareholders' equity and reserves	**54 120**	46 774
Return on average ordinary shareholders' equity and reserves (%)	**18.7**	17.7
Average cost of equity	**14.3**	14.3

* *Capital charge based on average cost of capital.*

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

Evolution of economic profit and cost of equity



* *June 2010 onwards restated for continuing operations.*

Risk and capital management report continued

Credit risk

KEY DEVELOPMENTS AND FOCUS

During the year under review the Group continued to refine the credit risk appetite framework to ensure that corresponding origination strategies are aligned with and remain within the risk appetite. The Group further focused on strengthening its credit risk management and governance including enhancements to the Group's impairment framework and the retail credit portfolio governance structure; and renewed focus on economic capital measurement with the aim of further integrating this into business processes going forward.

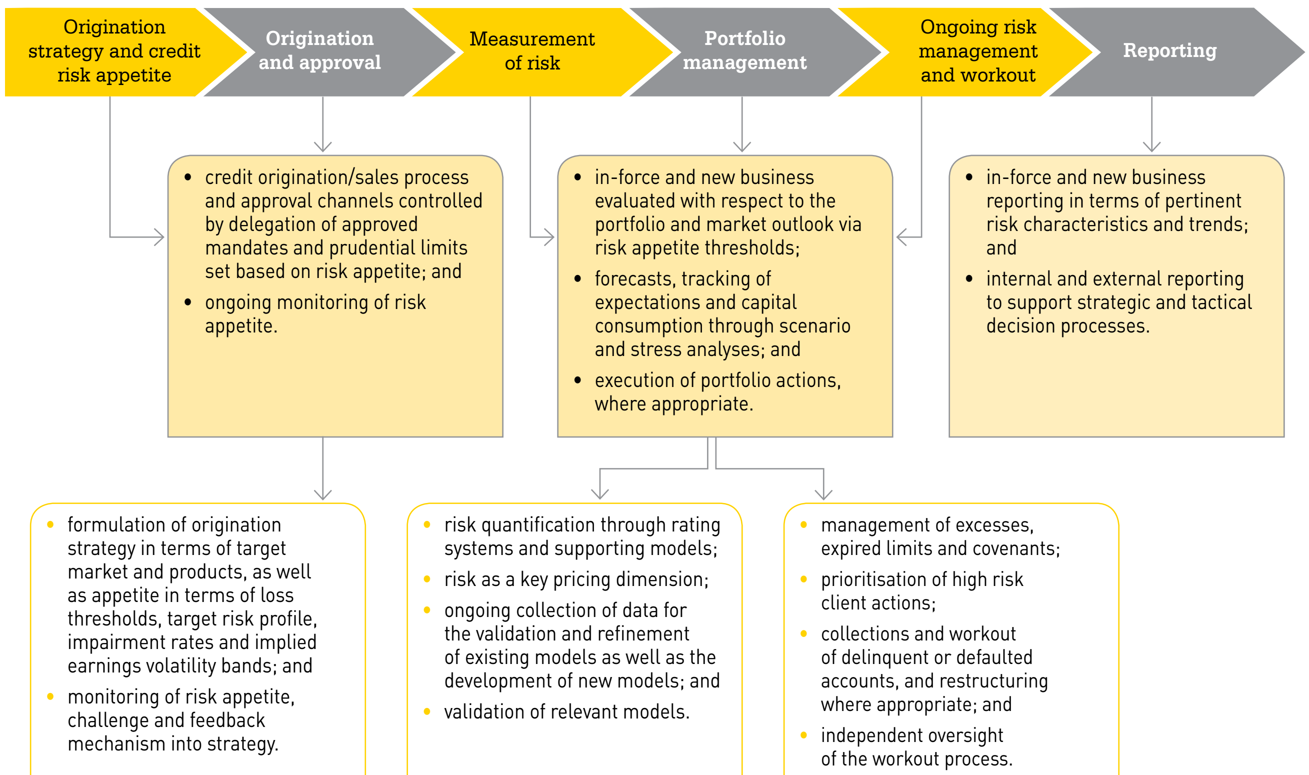
INTRODUCTION AND OBJECTIVES

Credit risk is one of the core risks assumed in pursuit of the Group's business objectives. It is the most significant risk type in terms of regulatory and economic capital requirements. The objectives of its credit risk management practices are two-fold:

- Risk control: Appropriate limits are placed on the assumption of credit risk and steps are taken to ensure the accuracy of credit risk assessments and reports. Deployed and central credit risk management teams fulfil this task.
- Management: Credit risk is taken within the constraints of the risk appetite framework. The credit portfolio is managed at an aggregate level to optimise the exposure to this risk. Business units and deployed risk functions, overseen by the Group Credit Risk Management ("GCRM") function within ERM and relevant board committees, as well as BSM and the Performance Measurement function within the Corporate Centre, fulfil this role.

The scope of credit risk identification and management practices across the Group thus spans the entire credit value chain, as illustrated in the chart below.

Scope of credit risk management and identification practices



ORGANISATIONAL STRUCTURE AND GOVERNANCE

The RCC committee and franchise Exco's regularly receive and review reports on the adequacy and robustness of credit risk identification, management and control processes, as well as on the current and projected credit risk profile across the Group. The credit risk management governance structures, related roles and responsibilities as well as lines of accountability are set out in the credit risk management framework ("CRMF"). Approved by the RCC committee, the CRMF is a policy of the Board and a sub-framework of the BPRMF.

The credit-focused board committees, namely the FirstRand Credit committee, the Large exposures credit committee and the Model risk and validation committee ("MRVC"), as well as the FirstRand Credit risk management committee (a subcommittee of the RCC committee), support the RCC committee in its task. For a description of the role and responsibilities of these committees refer to the *governance structure* on page 127.

The Group Credit Risk Management function

The GCRM function in ERM provides independent oversight of credit risk management practices in the deployed risk management functions. It owns the CRMF and related policies and monitors the implementation of credit risk-related frameworks. In addition, its responsibilities include:

- active participation in the formulation of credit and origination strategies, in particular with a view to the implementation and management of the Group's credit risk appetite across the business units;
- credit risk-related stress testing and scenario analysis;
- monitoring the credit components of the risk appetite framework;
- monitoring and reporting the credit risk profile and default experience;
- quantification of credit economic capital, including the credit risk assessment employed for ICAAP;
- reviewing all credit rating systems and independent revalidation of credit rating systems;

Risk and capital management report continued

- management of relationships with external stakeholders such as relevant regulators with respect to credit matters;
- oversight of the credit impairment process; and
- consolidated regulatory reporting.

The GCRM function is supported by deployed, segment level credit functions that are responsible for the implementation of relevant credit risk frameworks and policies in the various businesses, including the implementation of adequate credit risk controls, processes and infrastructure required to allow for the efficient management of credit risk. Responsibilities specifically include:

- formulation of credit strategy and assessment of business level credit risk appetite (together with BSM and Performance Measurement and within the constraints of the overall credit risk appetite, see below);
- maintaining and monitoring implementation of methodologies, policies, procedures and credit risk management standards;
- validation of credit rating systems and associated processes as well as other decision support tools, such as economic capital, stress testing and provisioning models;
- ownership of the credit regulatory reporting process;
- maintaining the credit governance structure; and
- monitoring of corrective actions.

To support GCRM in the oversight of credit risk management, the Performance Measurement function in the Corporate Centre performs certain functions with respect to credit risk. Its tasks include the assessment, analysis, forecasting and reporting of impairments, and credit risk reporting to stakeholders such as the Credit risk management committee.

ASSESSMENT AND MANAGEMENT

Calculation of internal ratings and rating process

The assessment of credit risk across the Group relies heavily on internally-developed quantitative models for regulatory purposes under Basel II, as well as for addressing business needs.

Credit risk models are widely employed in a number of activities such as the assessment of capital requirements, pricing, impairment calculations and stress testing of the portfolio. All of these models are built on a number of client and facility rating models, in line with Basel II AIRB requirements and the Bank's Model building framework. The Group was granted regulatory approval under Basel II for the approaches as shown in the table below.

Basel approach	FirstRand Bank	Remaining FirstRand subsidiaries
AIRB	✓	
Standardised approach		✓

Even though only the Bank has regulatory approval to use the AIRB approach, the same or similar models to those used in the Bank are applied for the internal assessment of credit risk in the remaining Group subsidiaries on the Standardised approach. The models are used for the internal assessment of the following three primary credit risk components discussed in the following sections:

- probability of default ("PD");
- exposure at default ("EAD"); and
- loss given default ("LGD").

Management of the credit portfolio is heavily reliant on these three credit risk measures. PD, EAD and LGD are inputs into the portfolio and Group-level credit risk assessment where the measures are combined with estimates of correlations between individual counterparties, industries and portfolios to reflect diversification benefits across the portfolio of credit risks.

Probability of default

PD is defined as the probability of a counterparty defaulting on any of its obligations over the next year and is a measure of the counterparty's ability and willingness to repay facilities granted to it. A default, in this context, is defined along two dimensions:

- time driven: the counterparty is in arrears for more than 90 days or three instalments as appropriate; and
- event driven: there is reason to believe that the exposure will not be recovered in full, and has been classified as such (this includes the forfeiting of principal or interest, as well as a restructuring of facilities resulting in an economic loss).

This definition of default is consistently applied across all credit portfolios as well as in the recognition of NPLs for accounting purposes.

For communication and reporting purposes, the Group employs a granular, 100-point, master-rating scale, which has been mapped to the continuum of default probabilities, as illustrated in the table below.

FR rating	Midpoint PD	International scale mapping*
FR 1 – 12	0.04%	AAA, AA, A
FR 13 – 25	0.27%	BBB
FR 26 – 32	0.77%	BB+, BB
FR 33 – 37	1.34%	BB-
FR 38 – 48	2.15%	B+
FR 49 – 60	3.53%	B+
FR 61 – 83	6.74%	B
FR 84 – 91	15.02%	B-
FR 92 – 94	60.46%	Below B-
FR 95 – 100	100%	D (defaulted)

** Indicative mapping to the international rating scales of Fitch and Standard & Poor's.*

An FR rating of 1 is the lowest PD and a FR rating of 100 is the highest. External ratings have also been mapped to the master-rating scale for reporting purposes. These mappings are reviewed and updated on a regular basis.

In line with international best practice, the Group distinguishes between the two measures of PD, both used for the management of exposure to credit risk:

- *Through-the-cycle* ("TTC") PD measures reflect long term, average default expectations over the course of the economic cycle. TTC PDs are typically an input to economic and regulatory capital calculations.
- *Point-in-time* ("PIT") PD measures reflect default expectations in the current economic environment and thus tend to be more volatile than TTC PDs. PIT PDs are typically used in the calculation of impairments for accounting purposes.

Exposure at default

The EAD of a particular facility is defined as the expected exposure to a counterparty through a facility, should the counterparty default over the next year. It reflects commitments made and facilities granted that have not been paid out and that may be drawn over the time period under consideration (i.e. off-balance sheet exposures). It is also a measure of potential future exposure on derivative positions.

Tailored to the respective portfolios and products employed, a number of EAD models are in use across the Group. These have been developed internally and are calibrated to the historical default experience.

Loss given default

LGD is the third major credit risk component estimated on the basis of internal models. It is defined as the economic loss on a particular facility upon default of the counterparty. It is typically expressed as a percentage of exposure outstanding at the time of default.

In most portfolios, LGD is strongly dependent on:

- the type, quality, and level of subordination;
- the value of collateral held compared to the size of the overall exposure; and
- the effectiveness of the recovery process and the timing of cash flows received during the workout or restructuring process.

A number of models are used to assess LGDs across various portfolios. These models were developed internally and the outputs are calibrated to reflect both the internal loss experience, where available, and external benchmarks, where appropriate.

Typically, a distinction is made between the long run expected LGDs and LGDs reflective of downturn conditions. The latter is a more conservative assessment of risk, which incorporates a degree of interdependence between PD and LGD that can be found in a number of portfolios (i.e. instances where deteriorating collateral values are also indicative of higher default risk). It is this more conservative measure of LGD applicable to downturns, which is used in the calculation of regulatory capital estimates.

Expected loss ("EL")

EL, the product of the primary risk measures PD, EAD and LGD, is a forward-looking measure of portfolio or transaction risk. It is used for a variety of purposes across the Group alongside other risk measures.

Specialised lending

Specialised lending relates mainly to project and commodity finance. In terms of the slotting approach, the exposure is rated after assessing the risks and mitigations applied to reduce/ eliminate the risk and mapped to one of four supervisory categories.

Where the Group finances an entity created to finance and/or operate physical assets, the slotting approach is applied where:

- the primary source of repayment of the obligations is the income generated by the assets (i.e. specialised lending); and
- the PD and LGD cannot be determined.

Rating process

A consistent rating process is employed across the Group, differentiated by the type of counterparty and the type of model employed for rating purposes. For example, retail portfolios are segmented into homogeneous pools in an automated process. Based on the internal product level data, PDs are then estimated (and continuously updated) for each pool. The following table summarises the processes and approaches employed and provides an overview of the types of exposures within each of the portfolios.

Risk and capital management report continued

Credit portfolio rating process

Portfolio and type of exposures	Description of rating system
Large corporate portfolios (Wholesale: FNB Corporate, WesBank Corporate, Corporate Centre and RMB) Exposures to private sector counterparties including corporates and securities firms and public sector counterparties. A wide range of products give rise to credit exposure, including loan facilities, structured finance facilities, contingent products and derivative instruments	The default definitions applied in the rating systems are aligned to Basel II requirements. **Rating process:** • Rating assignment to corporate credit counterparties is based on a detailed individual assessment of the counterparty's creditworthiness. • This assessment is performed through a qualitative analysis of the business and financial risks of the counterparty and is supplemented by internally developed statistical rating models. • Rating models were developed using internal and external data covering more than ten years. Qualitative analysis is based on the methodology followed by international rating agencies. • The rating assessment is reviewed by the FirstRand Credit committee and the rating (and associated PD) is approved by this committee. • No overrides of the ratings or the PDs are possible after approval by this committee. • LGD and EAD estimates are based on modelling of a combination of internal and suitably adjusted international data.
Low default portfolios: sovereign and bank exposures (Wholesale: FNB Corporate, Corporate Centre and RMB) Exposures to sovereign and bank counterparties.	The default definitions applied in the rating systems are aligned to Basel II requirements. **Rating process:** • Expert judgement models are used in combination with external rating agency ratings as well as structured peer group analyses which form a key input in the ratings process. The analysis is supplemented by internally developed statistical models. • The calibration of PD and LGD ratings is based on a mapping to external default data as well as credit spread market data. • The rating assessment is reviewed by the FirstRand Credit committee and the rating (as well as the associated PD) is approved by this committee. • No overrides of the ratings or the PDs are possible after approval by this committee.
Specialised lending portfolios (Wholesale: FNB Corporate, RMB and FNB Commercial) Exposures to private-sector counterparties for the financing of income-producing real estate.	The default definitions applied in the rating systems are aligned to the requirements of Basel II. **Rating process:** • The rating system is based on hybrid models using a combination of statistical cash flow simulation models and qualitative scorecards calibrated to a combination of internal data and external benchmarks. • The rating assessment is reviewed by the FirstRand Credit committee and the rating (as well as the associated PD) is approved by this committee. • No overrides of the ratings or the PDs are possible after approval by this committee.
Commercial portfolio (SME corporate and SME retail counterparties in FNB Commercial and WesBank) Exposures to SME clients. A wide range of products give rise to credit exposure, including loan facilities, contingent products and term-lending products.	The default definitions applied in the rating systems are aligned to Basel II requirements. **SME retail rating process:** • The SME retail portfolio is segmented into homogeneous pools and subpools through an automated scoring process using statistical models that incorporate product type, customer behaviour and delinquency status. • PDs are estimated for each subpool based on internal product level history associated with the respective homogeneous pools and subpools. • LGD and EAD estimates are applied on a portfolio level, estimated from internal historical default and recovery experience. **SME corporate rating process:** • PD: Counterparties are scored using Moody's RiskCalc, the output of which is calibrated to internal historical default data. • LGD: Recovery rates are largely determined by collateral type and these have been set with reference to internal historical loss data, external data (Fitch) and Basel II guidelines. • EAD: Portfolio level credit conversion factors ("CCFs") are estimated on the basis of the Group's internal historical experience and benchmarked against international studies.

Portfolio and type of exposures	Description of rating system
Residential mortgages (Retail portfolios in FNB HomeLoans, RMB Private Bank exposures and mortgage exposures in the Mass segment) Exposures to individuals for the financing of residential properties.	**The default definition applied in the rating systems is aligned to the requirements of Basel II.** **Rating process and approach:** • Retail portfolios are segmented into homogeneous pools and subpools through an automated scoring process using statistical models that incorporate product type, loan characteristics, customer behaviour, application data and delinquency status. • PDs are estimated for each subpool based on internal product level history associated with the respective homogeneous pools and subpools. • No overrides of the PDs are possible. The only potential override is not that of the PD, but rather of the automated decision to lend or not. Such overrides may be done on the basis of the credit manager's judgement in a structured process supported by pertinent business reasons. • LGD and EAD estimates are based on subsegmentation with reference to the collateral or product type as well as associated analyses and modelling of historical internal loss data. **Additional notes on qualifying revolving retail exposures:** • These exposures are unsecured and therefore only the efficiency of recovery processes impacts on the level of LGD. • EAD measurement plays a significant role in the assessment of risk due to the typically high level of undrawn facilities that are characteristic of these product types. EAD estimates are based on actual historic EAD, segmented appropriately (e.g. straight vs. budget in the case of credit cards).
Qualifying revolving retail exposures (Retail portfolios in FNB Card, FNB Consumer overdrafts and RMB Private Bank) Exposures to individuals providing a revolving limit through a credit card or overdraft facility.	
Other retail exposures (Retail portfolios in FNB Personal loans, Smart products and WesBank Retail auto finance and Personal loans)	

Model validation

Rating models are recalibrated and independently validated on an annual basis to ensure validity, efficacy and accuracy. Rating models used across the credit portfolios incorporate an appropriate degree of conservatism, achieved through the prudent choice of model parameters and the inclusion of downturn periods such as 2001 and 2007 – 2009 in calibration.

Independent validation of rating systems is carried out by the GCRM function in ERM. It is responsible for reviewing all rating systems, and an annual comprehensive revalidation of all material rating systems. An actuarial auditing team in GIA carries out additional reviews of the rating systems, as well as sample revalidations. The results of these analyses are reported to MRVC. As part of this process, extensive documentation covering all steps of the model development lifecycle from inception through to validation is maintained. This includes:

- developmental evidence, detailing processes followed and data used to set parameters for the model. GCRM is the custodian of these documents, which are updated at least annually by the model-development teams;
- independent validation reports, documenting the process followed during the annual validation exercise as well as results obtained from these analyses; and
- model build and development frameworks are reviewed and, where required, updated annually by GCRM. These frameworks provide guidance, principles and minimum standards which the model development teams are required to adhere to.

Credit risk mitigation

Since the taking and managing of credit risk is core to the Group's business, it aims to optimise the amount of credit risk it takes to achieve its return objectives. Mitigation of credit risk is an important component of this process, beginning with the structuring and approval of facilities for only those clients and within those parameters that fall within risk appetite.

In addition, various instruments are used to reduce exposure in the case of a counterparty default. These include, amongst others, financial or other collateral, netting agreements, guarantees and credit derivatives. The type of security used depends on the portfolio, product or customer segment. For example:

- mortgages and instalment sale finance are secured by the financed assets;
- personal loans, overdrafts and credit card exposures are unsecured or secured by guarantees and suretyships;
- FNB Commercial credit facilities are secured by the assets of the SME counterparties, and commercial property transactions are typically supported by the financed property and associated cash flows;
- working capital facilities in FNB Corporate are often not secured by claims on specific assets, but risk in structured

Risk and capital management report continued

facilities granted by RMB is mitigated by financial or other collateral such as guarantees or credit derivatives; and
- credit risk in RMB's Fixed Income, Currency and Commodities ("FICC") business is mitigated through the use of netting agreements and financial collateral.

The Group employs strict policies governing the valuation and management of collateral across all business areas. Collateral is managed internally to ensure that title is retained over collateral taken over the life of the transaction. All items of collateral are valued at inception of a transaction and at various points throughout the life of the transaction, either through physical inspection or indexation methods, as appropriate. For wholesale and commercial portfolios, valuations are reassessed as part of the annual facility review. For mortgage portfolios, collateral valuations are updated on an ongoing basis through statistical indexation models. For all retail portfolios, collateral is also revalued by physical inspections in the event of default and at the start of the workout process.

Management of concentration risk

Aggregated monitoring of concentration risk takes place at Group level through the GCRM function in ERM and the Performance Measurement function. Concentration risk is managed in the respective credit portfolios as outlined below.

In the wholesale credit portfolio, through:

- single name limits for large exposures;
- evaluation of country and industry concentrations;
- a sophisticated, simulation-based portfolio model;
- securitisation structures; and
- credit derivatives.

In the commercial portfolios through:

- maintaining an appropriate balance of exposures across industries with a view to mitigating residual risks at Group level, where appropriate and economically feasible;
- reliance on a small number of collateral types; and
- monitoring and management in the respective business segments (e.g. exposure to geographical areas and loan-to-value ("LTV") bands for mortgage portfolios).

Monitoring of weak exposures

Credit exposures are actively monitored throughout the life of transactions. As indicated above, the management of credit risk is largely carried out at a business unit level, and, therefore, the processes for the identification and management of weak exposures differ slightly across the various franchises.

Across the wholesale credit portfolios:

- watch lists of high risk clients;
- specific and detailed action plans for each client are actively monitored and updated at least monthly;
- restructuring of facilities where appropriate;
- use of credit derivatives;
- efficient workout; and
- realisation of collateral value in the event of default.

In retail credit portfolios:

- monitoring on a (homogeneous) portfolio basis;
- restructuring of weak exposures to increase the projected realised value;
- reduction or removal of undrawn facilities in areas such as HomeLoans and Credit Card; and
- revaluation of properties before approval of additional facilities.

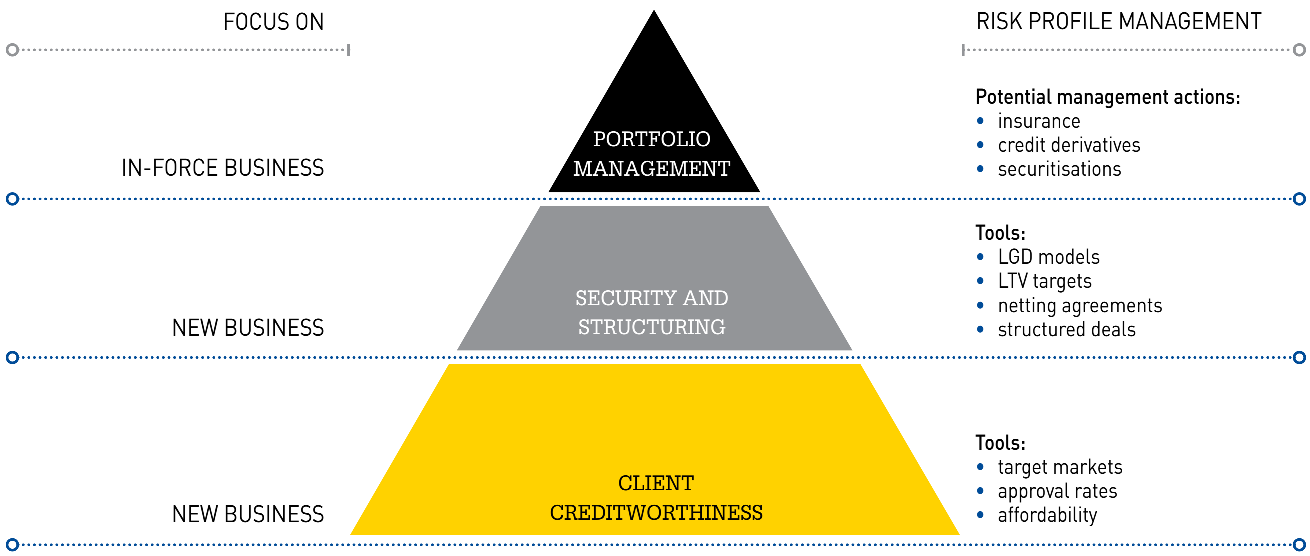
Commercial and other portfolios of clients that fall between the corporate and retail segments are treated in a hybrid manner, dependent on the number of exposures and the size of individual transactions.

Reports on the overall quality of the portfolio are monitored closely at a business unit as well as at a Group level. As indicated previously, the Performance Measurement function within Corporate Centre is actively involved in the determination of credit strategy and required adjustments thereto, so as to ensure that the credit portfolio is managed within the constraints of the Group's credit risk appetite.

Use of credit risk tools and measures

Credit risk measures are used in a large number of business processes, including pricing, setting impairments, in determining capitalisation levels and determining business strategy, risk appetite and the establishing appropriate return targets. Credit risk tools and measures are used extensively in the determination of its current credit risk profile and credit risk appetite (see chart below).

Use of credit risk tools and measures



Risk and capital management report continued

The following table describes the use of credit risk concepts and measures across a number of key areas and business processes related to the management of the credit portfolio.

Use of credit measures in the credit lifecycle

Area	Wholesale	Retail
Credit approval	Ratings form an explicit and integral component of the approval decision, both with respect to the targeted portfolio composition in terms of applicable risk appetite limits (e.g. ratings profile) and with respect to the value proposition based on the projected risk adjusted return on economic capital (for which PD, EAD and LGD are key inputs).	Credit approvals are largely automated on the basis of application scorecards and applicable policy. These are reflective of PD, EAD and LGD.
Determination of individual and portfolio limits	The setting of limits at a client level and the ongoing evaluation of industry and geographical concentrations are key aspects of the determination of the overall credit strategy (see below). Ratings are an important consideration in this process and risk-related limits on the composition of the portfolio are used to ensure compliance with FirstRand's credit risk appetite.	See Wholesale. In addition, retail portfolios are regularly evaluated with respect to modelled vs. actual experience in the setting of credit risk appetite.
Reporting to senior management and the Board	Portfolio reports are collated on an ongoing basis and these are presented to and discussed regularly at relevant business and deployed risk committees. Quarterly portfolio reports are also submitted to the FirstRand Credit risk committee, the Wholesale credit technical committee and the RCC committee.	See Wholesale. Reports are also submitted to the Retail and SME credit risk technical committee and the RCC committee.
Provisioning	PD and LGD estimates are used extensively in the assessment of impairments and thus in the calculation of provisions.	Loss Identification Period ("LIP") PD, long run LGD and roll rates are used in the derivation of specific, portfolio and incurred but not reported ("IBNR") provisions.
Regulatory and economic capital allocation	As the primary credit risk measures PD, EAD and LGD are the most important inputs for both regulatory and economic capital models.	See Wholesale.
Profitability analysis and pricing decisions	The primary risk measures are the core parameters of the pricing calculator used for each transaction. For each application a value proposition section has to be completed that provides a cogent rationale for the transaction on a risk-adjusted basis.	PIT PDs, downturn LGDs and EADs are used in assigning appropriate price points to each risk rating. Profitability is assessed in terms of economic profit.
Credit monitoring and risk management	The monitoring of exposures is dependent on the risk assessment as given by PD, EAD and LGD. FR grades are updated on a regular basis to reflect the organisation's assessment of obligor risk. The risk parameters are also used in FirstRand's portfolio model as well as other tools which attribute additional capital to large transactions or to deals that further increase the concentration of risk in the portfolio.	See Wholesale. Extensive analysis of portfolio and risk movements is carried out on a monthly basis. These are used in portfolio management and credit strategy decisions.
Determination of portfolio and client acquisition strategy	Credit portfolio strategy is driven by the assessment of overall portfolio credit risk, which is based on a portfolio model driven by the primary risk measures. In this context, acquisition and overall strategy are set in terms of appropriate limits so as to ensure that the credit portfolios remain within the overall risk appetite prescribed by the Board.	See Wholesale. Credit models are also used to determine loss thresholds across retail portfolios, which are a direct consideration in the setting of credit risk appetite.
Performance measurement and compensation	The primary risk measures are key parameters for the calculation of deal pricing and are also used in the assessment of economic value added by a transaction or a business unit. From an operational perspective, each deal is evaluated with respect to the value added and compensation structures are tied to the measures.	See Wholesale. By necessity, analyses tend to be carried out at a portfolio level but performance is measured consistently on the basis of capital consumption and economic value added in the form of economic profit.

CREDIT RISK PORTFOLIO

Credit strategy is managed as part of the broader balance sheet management process and is aligned with the Group's view of trends in the wider economy. The current origination strategies are resulting in improving credit quality across all retail portfolios (as evidenced in the vintage analyses for the large retail portfolios on pages 171).

The Group's credit origination strategies, combined with the series of interest rate reductions from 2008 into 2010, have facilitated a reduction in new NPL inflows and credit impairment charges in most retail portfolios. These portfolios were also positively impacted by positive income growth and increased wages.

Although investment spending by business remains subdued, advances growth in the wholesale portfolios remained resilient over the reporting period mainly due to the approval of new investment-grade deals.

Retail credit portfolios

Strong growth was delivered by the vehicle and asset finance portfolio and subsets of the residential mortgages portfolio while the performance of the Africa portfolio has been robust with low credit losses. The level of NPL balances in the secured portfolios remains high due to accounts under debt counselling and the lengthening of recovery processes. FNB HomeLoans' NPL levels were positively impacted by lower new defaults and improved levels of write-offs during the period under review. Lower new defaults drive the substantial improvement in the income statement impairment charge for most retail portfolios. The impairment charge further benefited from increased post write-off recoveries, especially in the unsecured portfolios.

Wholesale portfolios

During the year under review the Group's corporate portfolios were resilient. The inflow of new NPLs increased mainly due to challenges in the commercial property finance sector. These exposures, accounted for on a fair value basis in RMB, are well supported by collateral. This moderated the rise in fair value credit adjustments and resulted in lower coverage.

Credit assets

The following table provides a breakdown of the Group's credit assets by segment, including off-balance sheet exposures.

Credit assets by type and segment (audited)

R million	2011	2010
Cash and short-term funds	29 239	22 707
Money at call and short notice	1 371	2 136
Balances with central banks and guaranteed by central banks	15 660	11 513
Balances with other banks	12 208	9 058
Gross advances	472 615	443 750
FNB[1]	208 680	199 113
FNB Retail	174 906	168 802
FNB Corporate[2]	3 003	2 133
FNB Commercial	30 771	28 178
WesBank	102 125	92 724
RMB	130 958	130 312
FNB Africa	22 639	19 645
Other	8 213	1 956
Derivatives	37 206	39 764
Debt investment securities (excluding non-recourse investments)	89 280	90 275
Accounts receivable	7 289	5 706
Loans to Insurance Group	–	5 428
Reinsurance assets	484	524
Credit risk not recognised on the balance sheet	95 852	84 024
Guarantees	24 727	24 036
Acceptances	289	299
Letters of credit	6 331	5 541
Irrevocable commitments	63 298	52 809
Credit derivatives	1 207	1 339
Total	731 965	692 178

1. Certain portfolios have been restated to reflect the current segmentation of the business.
2. Includes public sector.

Risk and capital management report continued

Reconciliation of gross advances to net advances

R million	2011	2010
Gross advances after interest in suspense	472 615	443 750
Consolidation adjustment	–	15
	472 615	443 765
Less total impairments (refer note 10 of the annual integrated report	(8 022)	(8 972)
Net advances	464 593	434 793

For further information on the fair value of investment securities refer to note 38 of the consolidated financial statements – *Investment securities and other investments.*

Credit quality

Advances are considered past due where a specific payment date was not met, or where regular instalments are required and such payments were not received. A loan payable on demand is classified as overdue where a demand for repayment was served but repayment was not made in accordance with the stipulated requirements.

The following tables provide the age analyses of loans and advances for the Group.

Age analysis of advances (audited)

	2011						
			Past due but not impaired				
R million	Neither past due nor impaired	Renego-tiated but current	1 – 30 days	31 – 60 days	61 – 90 days	Impaired	Total
FNB Retail	153 630	474	5 439	2 633	1 359	11 371	174 906
FNB Corporate[1]	2 983	–	–	–	–	20	3 003
FNB Commercial	28 604	–	165	106	31	1 865	30 771
FNB	185 217	474	5 604	2 739	1 390	13 256	208 680
WesBank	93 879	–	2 812	978	89	4 367	102 125
FNB Africa	21 824	7	326	48	64	370	22 639
RMB[2]	126 752	3 094	12	7	–	1 093	130 958
Other	8 213	–	–	–	–	–	8 213
Total	435 885	3 575	8 754	3 772	1 543	19 086	472 615

1. Includes public sector.
2. Impaired advances for RMB are net of cumulative credit fair value adjustments.

Age analysis of advances (audited) continued

	2010						
			Past due but not impaired				
R million	Neither past due nor impaired	Renego-tiated but current	1 – 30 days	31 – 60 days	61 – 90 days	Impaired	Total
FNB Retail	144 200	783	5 773	2 701	1 717	13 628	168 802
FNB Corporate[1]	2 132	–	–	–	–	1	2 133
FNB Commercial	25 945	–	261	34	21	1 917	28 178
FNB[2]	172 277	783	6 034	2 735	1 738	15 546	199 113
WesBank	85 284	–	1 577	647	118	5 098	92 724
FNB Africa	17 269	–	1 149	459	361	407	19 645
RMB[3]	129 409	1	31	17	6	848	130 312
Other	1 928	–	–	–	–	28	1 956
Total	406 167	784	8 791	3 858	2 223	21 927	443 750

1. Includes public sector.

2. Certain portfolios have been restated to reflect the current segmentation of the business.

3. Impaired advances for RMB are net of cumulative credit fair value adjustments.

Renegotiated advances

Renegotiated advances are advances where, due to the deterioration in a counterparty's financial condition, the Bank granted a concession where the original terms and conditions of the facility were amended. The objective of such an amendment is to mitigate the risks where the current situation could result in the counterparty no longer being able to meet the terms and conditions originally agreed. As part of the risk management and workout approach, the Group enters into arrangements with clients where concessions are made on payment terms (e.g. a reduction in payments for a specified period of time, changes in the payment profile or debt counselling payment plans). There are formally defined eligibility criteria appropriate for individual products to determine when clients are eligible for such arrangements. These accounts are monitored in a separate portfolio in each product segment, and the performance is tracked for management and impairment purposes. The Group does not have a practice to reclassify NPLs into the renegotiated advances category.

Renegotiated advances disclosed above include all loans renegotiated to date and for which the renegotiated terms have not yet expired. All of these advances comply with the revised terms and conditions. These advances are considered as a separate category for purposes of impairments and are not considered with the *neither past due nor impaired* category.

Renegotiated advances exclude any advances where the facility terms were extended or renewed as part of the ordinary course of business on terms and conditions equivalent to the current terms or conditions for new debt with similar risk.

Past due but not impaired

The classification of advances as past due but not impaired follows the standards set out in applicable accounting policies; refer to accounting policy note 15. Advances past due not impaired in the tables above include two types of arrear accounts. These are normal arrears (i.e. accounts in arrears by one up to three full repayments) and technical arrears (e.g. accounts in arrears due to partial payment of the instalment due). Normal arrears are split into the three time buckets provided in the tables above, whereas the majority of technical arrears are in the 1 – 30 days bucket. Exposure to technical arrears of R3.7 billion (2010: R4.5 billion) was included in the advances past due but not impaired total of R14.2 billion (2010: R14.9 billion) and was primarily driven by retail exposures.

Risk and capital management report continued

Credit quality of performing advances (audited)

R million	2011							
	Total neither past due nor impaired	FNB			WesBank	RMB	FNB Africa	Other
		Retail	Corporate[1]	Commercial				
FR 1 – 25	91 994	5 241	257	307	3 373	74 977	224	7 615
FR 26 – 91	320 474	140 543	2 726	25 295	82 434	48 739	20 165	572
Above FR 92	23 417	7 846	–	3 002	8 072	3 036	1 435	26
Total	**435 885**	**153 630**	**2 983**	**28 604**	**93 879**	**126 752**	**21 824**	**8 213**

1. *Includes public sector.*

R million	2010							
	Total neither past due nor impaired	FNB[1]			WesBank	RMB	FNB Africa	Other
		Retail	Corporate[2]	Commercial				
FR 1 – 25	76 494	4 855	173	2 311	801	67 607	59	688
FR 26 – 91	307 639	129 754	1 946	22 792	74 824	60 374	16 721	1 228
Above FR 92	22 034	9 591	13	842	9 659	1 428	489	12
Total	406 167	144 200	2 132	25 945	85 284	129 409	17 269	1 928

1. *Certain portfolios have been restated to reflect the current segmentation of the business.*
2. *Includes public sector.*

Both prior and subsequent to the implementation of recalibrations, the risk profile improved and PDs decreased consistently, due to positive risk migration, with the lower interest rate environment positively impacting the existing portfolio. In addition, stricter lending criteria resulted in higher quality new business being written. Monthly trend analyses from July 2010 to June 2011 show a once-off increase in PDs, due to the recalibrations, thereafter a consistent decrease due to the positive risk migration.

The following tables provide an overview of the credit quality of other financial assets that are neither past due nor impaired.

Credit quality of other financial assets (excluding advances) neither past due nor impaired (audited)

	2011					
R million	Investment securities*	Derivatives	Cash and short-term funds	Loans to Insurance Group	Re-insurance assets	Total
AAA to BBB	43 284	10 767	27 745	–	484	82 280
BB, B	45 876	26 046	1 159	–	–	73 081
CCC	–	85	–	–	–	85
Unrated	120	308	335	–	–	763
Total	89 280	37 206	29 239	–	484	156 209

** Excludes non-recourse investments.*

	2010					
R million	Investment securities*	Derivatives	Cash and short-term funds	Loans to Insurance Group	Re-insurance assets	Total
AAA to BBB	42 954	18 847	19 896	5 428	524	87 649
BB, B	46 023	20 111	2 513	–	–	68 647
CCC	–	108	76	–	–	184
Unrated	1 298	698	222	–	–	2 218
Total	90 275	39 764	22 707	5 428	524	158 698

** Excludes non-recourse investments.*

Risk and capital management report continued

Impairment of financial assets and NPLs

Refer to the policy for *impairment of financial assets* in the accounting policy section on page 209 and to note 11 *Impairment of advances* of the annual integrated report for the analysis of movement in impairment of advances and NPLs.

Adequacy of impairments is assessed through the ongoing review of the quality of the credit exposures. Although credit management and workout processes are similar for amortised cost advances and fair value advances, the creation of impairments for these differs.

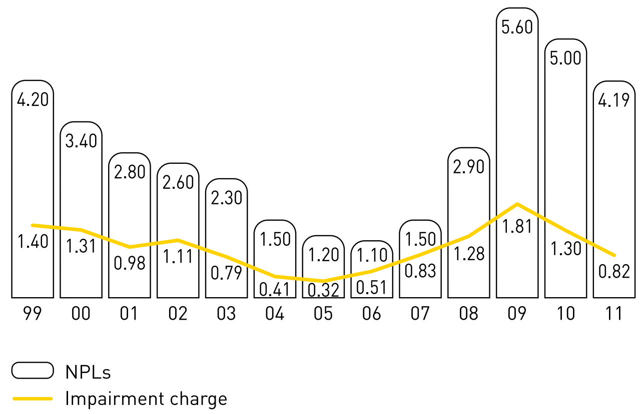
For amortised cost advances, impairments are recognised through the creation of an impairment reserve and an impairment charge in the income statement. For fair value advances, the credit valuation adjustment is charged to the income statement through trading income and recognised as a change to the carrying value of the asset.

Specific impairments are created for non-performing advances for which objective evidence that an incurred loss event will have an adverse impact on the estimated future cash flows from the asset was identified. Potential recoveries from guarantees and collateral are incorporated into the calculation of the impairment figures.

All assets not individually impaired, as described, are included in portfolios with similar credit characteristics (homogeneous pools) and are collectively assessed. Portfolio impairments are created with reference to these performing advances based on historical patterns of losses in each part of the performing book. Points of consideration for this analysis are the level of arrears, arrears roll rates, PIT PDs, LGDs and the economic environment. Loans considered uncollectable are written off against the reserve for loan impairments. Subsequent recoveries against these facilities decrease the credit impairment charge in the income statement in the year of recovery.

The graph below shows the history of the credit losses reflected by the impairment charge and NPLs percentages.

NPLs and impairment history (%) (unaudited)



Impairment charges are reflected before insurance proceeds where applicable.

Fair value sensitivity of wholesale advances due to credit risk

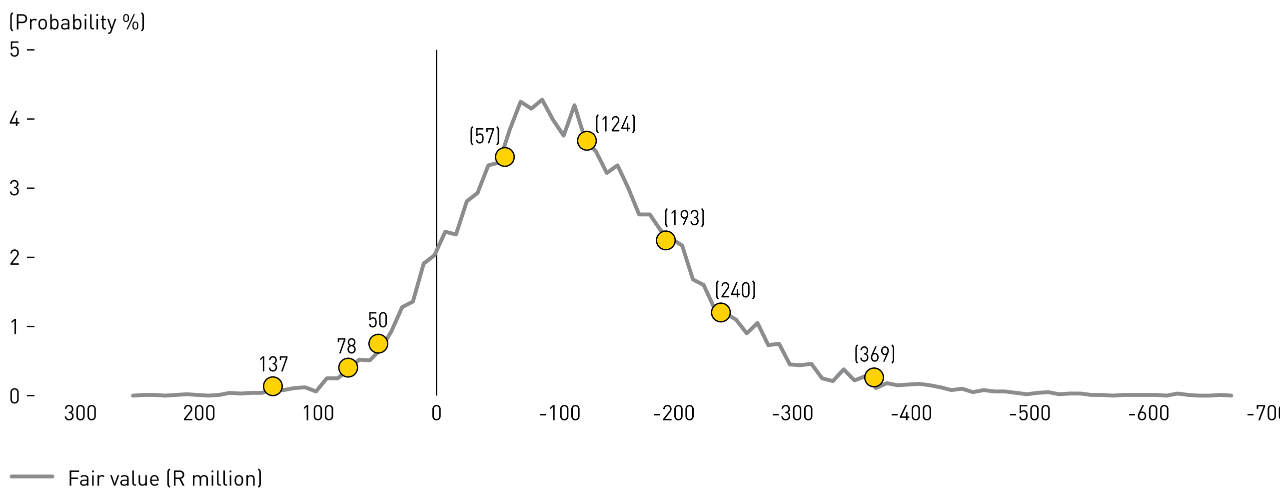
The Investment Banking division within RMB recognises a significant portion of the wholesale advances at fair value through profit or loss. The fair value adjustments made to these advances directly impact the income statement and the value of the advance. For risk management purposes a migration matrix is used to estimate the fair value impact of changes in credit risk. The matrix contains probabilities of downgrading or upgrading to another rating bucket.

The main benefits of using the migration matrix to estimate the fair value impact of credit risk are:

- downgrades are more realistic because better rating grades are less likely to be downgraded compared to riskier rating grades;
- migration matrices take into account higher volatility of riskier rating grades;
- rating migration can be positive or negative;
- rating migration is not restricted by one notch only and, in extreme cases, includes default risk; and
- migration matrices can be based on different economic conditions.

The graph below sets out the fair value impact based on actual observed rating migrations from Standard & Poor's over the long term. Based on this scenario the average fair value impact is a loss of approximately R67 million while the fair value impact at the 90th percentile (i.e. a probability of 10% to exceed this value) is a loss of approximately R193 million.

Distribution: Fair value impact – long-term scenario (audited)

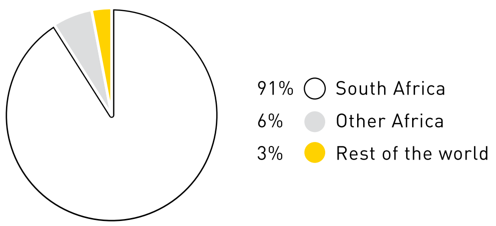


Risk and capital management report continued

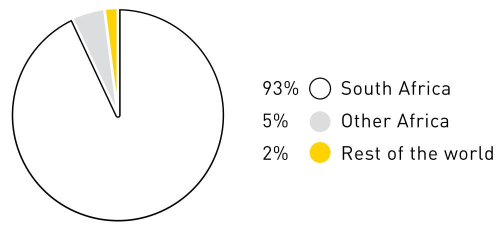
Geographic and industry concentration risk

Geographically, most of the Group's exposure originates in South Africa. The following charts provide the geographical and industry split of gross advances after deduction of interest in suspense.

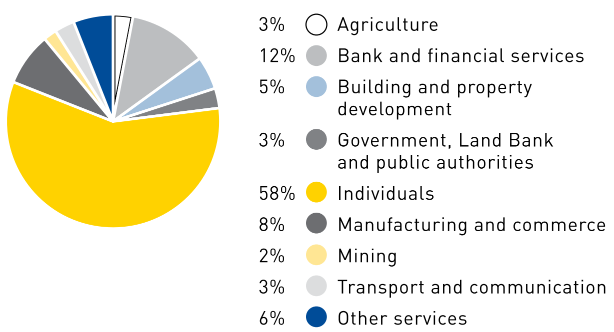
Geographical split by exposure 2011 (audited)



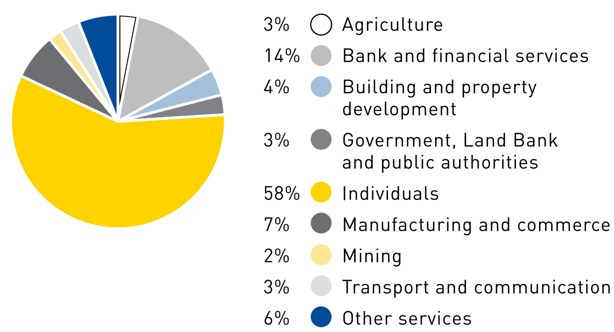
Geographical split by exposure 2010 (audited)



Industry split by exposure 2011 (audited)



Industry split by exposure 2010 (audited)



The Group seeks to establish a balanced portfolio profile and monitors credit concentrations closely. The following tables provide a breakdown of credit exposure across geographies.

Concentration of significant credit exposure (audited)

	2011								
R million	South Africa	Other Africa	United Kingdom	Ireland	Other Europe	North America	South America	Other	Total
Advances	430 377	25 817	11 474	–	2 032	375	171	2 369	472 615
Derivatives	23 198	157	5 611	–	6 215	1 874	40	111	37 206
Debt investment securities	76 223	5 631	468	–	4 538	1 356	–	1 064	89 280
Guarantees, acceptances and letters of credit[1]	26 913	3 204	–	–	546	–	16	668	31 347
Irrevocable commitments[1]	56 901	5 192	363	–	794	9	–	39	63 298

1. Significant off-balance sheet exposures.

	2010								
R million	South Africa	Other Africa	United Kingdom	Ireland	Other Europe	North America	South America	Other	Total
Advances	410 264	22 741	7 186	68	660	819	391	1 621	443 750
Derivatives	26 364	257	6 128	2	5 070	1 696	11	236	39 764
Debt investment securities	74 044	7 742	471	–	6 004	999	–	1 015	90 275
Guarantees, acceptances and letters of credit[1]	26 631	2 608	–	–	282	–	5	350	29 876
Irrevocable commitments[1]	48 339	3 195	78	–	1 149	38	–	10	52 809

1. Significant off-balance sheet exposures.

Average advances per major risk type (unaudited)

R million	2011	2010
Retail credit	289 963	277 300
Africa	21 096	18 469
Wholesale credit	132 274	118 585
Commercial credit	29 263	27 306

Risk and capital management report continued

Segmental analysis of advances (audited)

The table below provides a breakdown credit exposure by FirstRand segment.

R million/%	2011 Advances	NPLs	NPLs as a % of advances	Total impairment charge	Impairments as a % of average advances
FNB	208 680	13 256	6.35	2 444	1.20
FNB Retail	175 231	11 409	6.51	1 934	1.12
Residential mortgages	155 974	10 515	6.74	1 216	0.79
– FNB HomeLoans (Consumer segment)	106 864	7 335	6.86	740	0.69
– Wealth	40 913	2 796	6.83	405	1.03
– Affordable Housing (Mass segment)	8 197	384	4.68	71	0.98
Credit card	10 758	446	4.15	149	1.39
Personal banking	4 593	132	2.87	178	4.66
Mass (Secured and unsecured)	3 906	316	8.09	391	11.37
FNB Commercial	30 771	1 865	6.06	334	1.13
FNB Corporate Banking	2 523	18	0.71	9	0.43
FNB Other	155	(36)	(23.23)	167	>100
WesBank	102 125	4 367	4.28	1 291	1.33
WesBank asset-backed finance	97 124	4 025	4.14	1 141	1.23
– WesBank Retail	59 865	2 492	4.16	607	1.07
– WesBank Business and Commercial	31 109	1 490	4.79	452	1.47
– WesBank International	6 150	43	0.70	82	1.48
WesBank loans	5 001	342	6.84	150	3.35
RMB	130 958	1 798	1.37	(25)	(0.02)
FNB Africa	22 639	370	1.63	64	0.30
Corporate Centre and consolidation adjustments	8 213	(1)	(0.01)	4	0.08
Total	472 615	19 790	4.19	3 778	0.82

	2010				
	Advances	NPLs	NPLs as a % of advances	Total impairment charge	Impairments as a % of average advances
	199 113	15 546	7.81	3 421	1.70
	169 232	13 685	8.09	2 877	1.72
	152 512	12 563	8.24	1 420	0.95
	108 541	9 730	8.96	1 178	1.07
	37 710	2 537	6.73	217	0.62
	6 261	296	4.73	25	0.46
	10 705	673	6.29	776	6.92
	3 043	149	4.90	202	6.18
	2 972	300	10.09	479	16.22
	28 178	1 916	6.80	441	1.59
	1 697	1	0.06	34	0.68
	6	(56)	>100	69	5.12
	92 724	5 098	5.50	2 048	2.21
	88 761	4 778	5.38	1 722	1.94
	53 391	2 882	5.40	929	1.77
	30 415	1 760	5.79	697	2.21
	4 955	136	2.74	96	2.09
	3 963	320	8.07	326	8.47
	130 312	1 126	0.86	195	0.16
	19 645	407	2.07	68	0.37
	1 956	28	1.00	(46)	(2.01)
	443 750	22 205	5.00	5 686	1.30

Risk and capital management report continued

BASEL II DISCLOSURE

Credit rating systems and processes used for Basel II

The Group uses the AIRB approach for the exposures of the Bank and the Standardised approach for all other legal entities in the Group for regulatory capital purposes. Due to the relatively smaller size of the subsidiaries and the scarcity of relevant data, the Group plans to continue using the Standardised approach for the foreseeable future for these portfolios.

The following table provides a breakdown of credit exposure by type, segment and Basel II approach. The figures are based on IFRS accounting standards and differ from the exposure figures used for regulatory capital calculations, which reflect the recognition of permissible adjustments such as the netting of certain exposures.

Credit exposure by type, segment and Basel II approach (unaudited)

		AIRB	Standardised Approach subsidiaries	
R million	2011	FirstRand Bank (SA)	Regulated bank entities within FNB Africa	London branch and other subsidiaries
Cash and short-term funds	**29 239**	24 690	2 574	1 975
Money at call and short notice	**1 371**	1 099	85	187
Balances with central banks and guaranteed by central banks	**15 660**	14 448	1 180	32
Balances with other banks	**12 208**	9 143	1 309	1 756
Gross advances	**472 615**	432 346	22 639	17 630
FNB	**208 680**	205 838	–	2 842
FNB Retail	**174 906**	172 064	–	2 842
FNB Corporate	**3 003**	3 003	–	–
FNB Commercial	**30 771**	30 771	–	–
WesBank	**102 125**	94 614	–	7 511
RMB	**130 958**	125 320	–	5 638
FNB Africa	**22 639**	–	22 639	–
Other	**8 213**	6 574	–	1 639
Derivatives	**37 206**	36 629	11	566
Debt investment securities	**89 280**	76 742	5 731	6 807
Accounts receivable	**7 289**	2 673	362	4 254
Loans due by holding company and fellow subsidiaries	**–**	18 908	1 526	(20 434)
Reinsurance assets	**484**	–	–	484
Credit risk not recognised on the balance sheet	**95 852**	86 839	6 954	2 059
Guarantees	**24 727**	22 022	2 215	490
Acceptances	**289**	289	–	–
Letters of credit	**6 331**	6 043	287	1
Irrevocable commitments	**63 298**	57 278	4 452	1 568
Credit derivatives	**1 207**	1 207	–	–
Total	**731 965**	678 827	39 797	13 341

For portfolios using the Standardised approach, rating scales from Fitch Ratings, Moody's and Standard & Poor's are used. External ratings are not available for all jurisdictions and for certain parts of the portfolio other than corporate, bank and sovereign counterparties. Where applicable, the Group uses its internally developed mapping between FR grade and rating agency grade.

The following table provides the breakdown of exposures rated through the standardised approach in FNB Africa by risk bucket after taking risk mitigation into account.

FNB Africa exposures by risk bucket (unaudited)

Risk bucket	Exposure R million
0%	85
10%	–
20%	4 445
35%	8 361
50%	1 476
75%	2 878
100%	22 388
Specific impairments	165
Total	**39 797**

PD, EAD and LGD profiles

A summary of credit risk parameters as reported for regulatory capital purposes is shown below for each significant AIRB asset class. The parameters reflect through-the-cycle PDs and downturn LGDs. The scale used from 1 – 25 per the Basel II accord is for performing assets, with 1 representing the lowest risk and NPL representing defaulted exposures. The Bank uses EAD-weighted PDs based on the FirstRand master-rating scale (see page 144) which are then mapped to Basel rating buckets (1 – 25) for regulatory reporting purposes.

The graphs provide a summary of the EAD distribution by prescribed counterparty risk bands (Basel risk buckets). The EAD weighted downturn LGD and the EAD weighted PD for the performing and total book are also shown. Comparatives for the prior year are also shown.

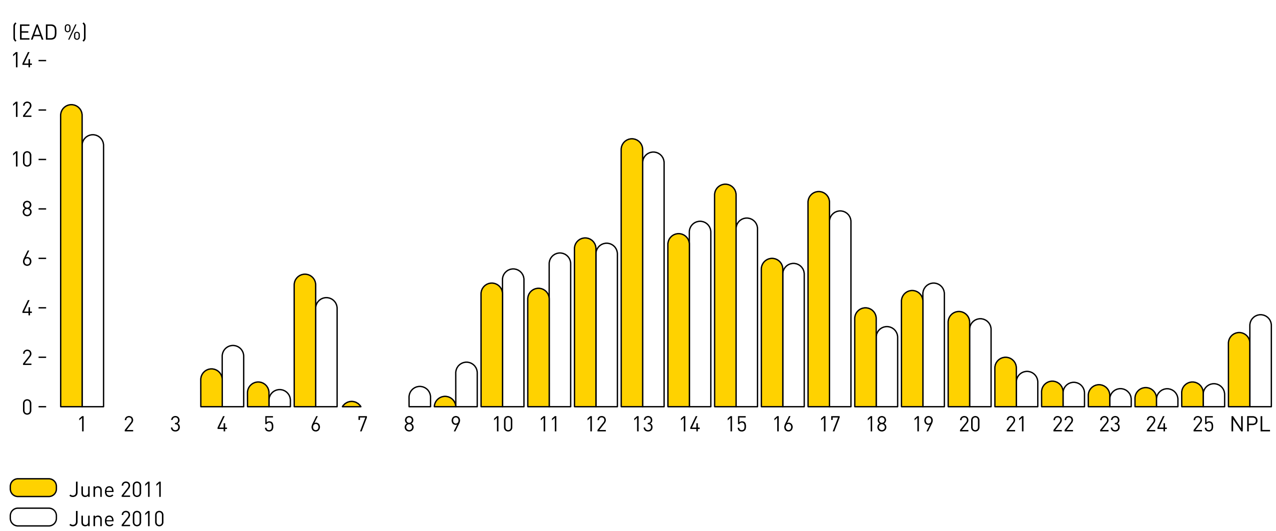
Year-on-year trends will be impacted by the risk migration in the existing book (reflecting changes in the economic environment), quality of new business originated and any model recalibrations implemented during the course of the year.

The majority of the retail portfolios exhibited significant positive risk migration for the period under review. This was, however, negated by model recalibrations implemented during the financial year, incorporating further defaults after the peak of the economic downturn.

The performance of the credit portfolio was in line with that of the industry over the reporting period.

The risk profile reflects the revised credit origination strategy that selectively targets segments providing an appropriate risk/return profile in the current economic environment.

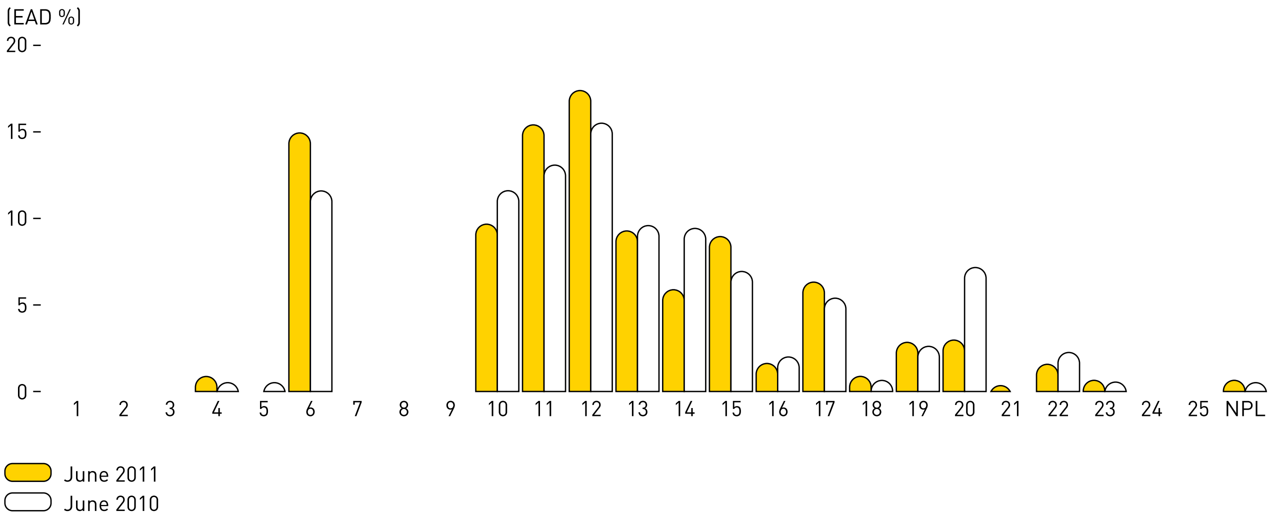
Risk profile for FirstRand Bank: EAD% distribution per Basel risk buckets (unaudited)



Average performing PD %	3.07%	Average total book PD%	6.45%
Average performing LGD%	27.84%	Average total book LGD%	28.10%
Performing book EL/EAD	0.86%	Total book EL/EAD	1.81%

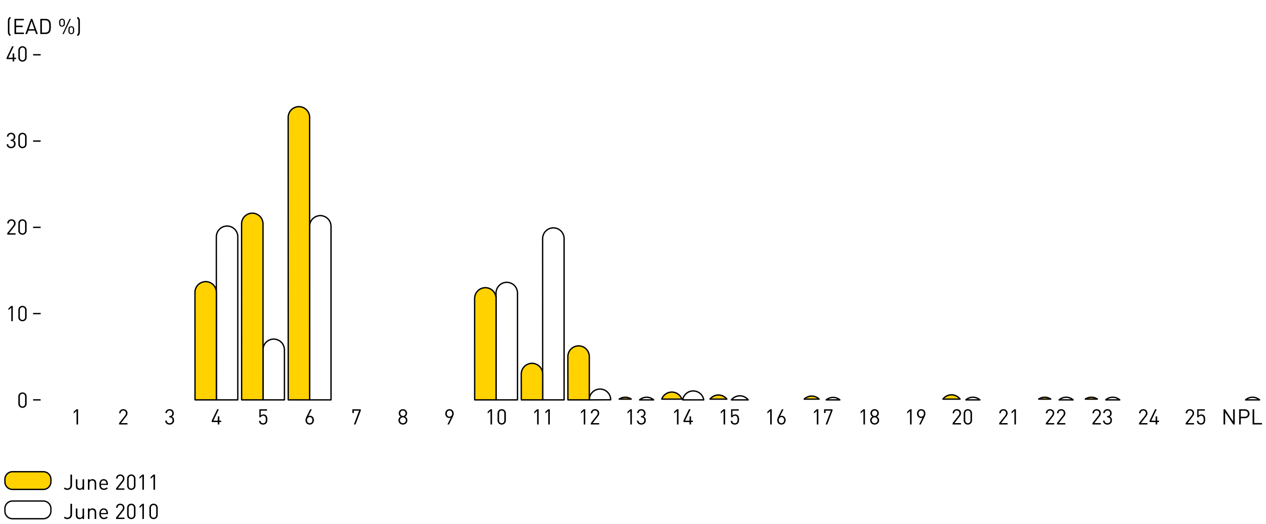
Risk and capital management report continued

Risk profile for corporate exposures: EAD% distribution per Basel risk buckets (unaudited)



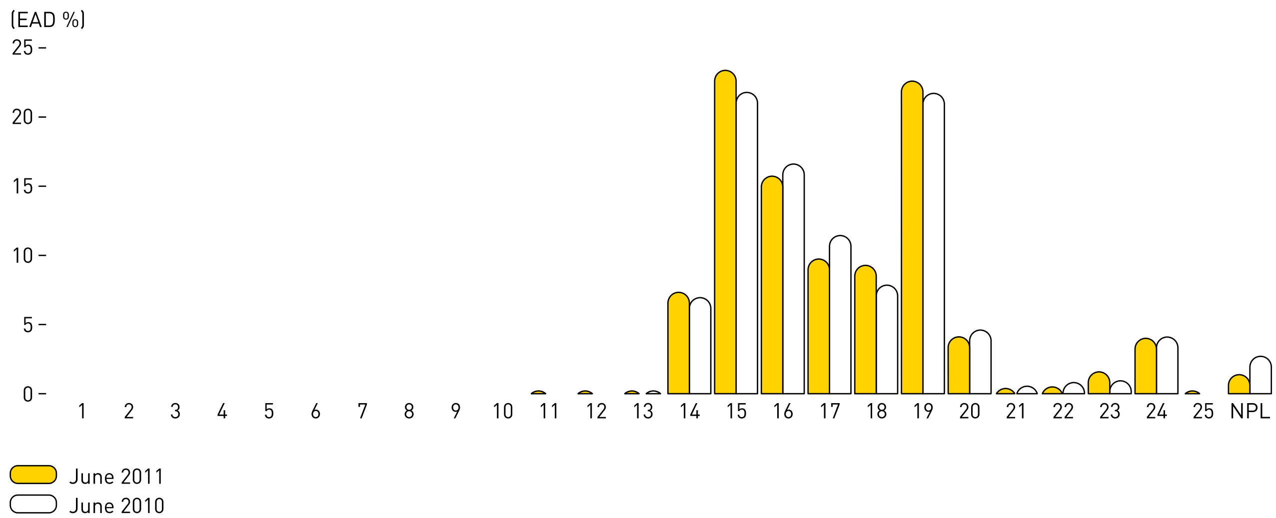
Average performing PD %	1.49%	Average total book PD%	2.34%
Average performing LGD%	36.00%	Average total book LGD%	36.11%
Performing book EL/EAD	0.54%	Total book EL/EAD	0.84%

Risk profile for banks exposures: EAD% distribution per Basel risk buckets (unaudited)



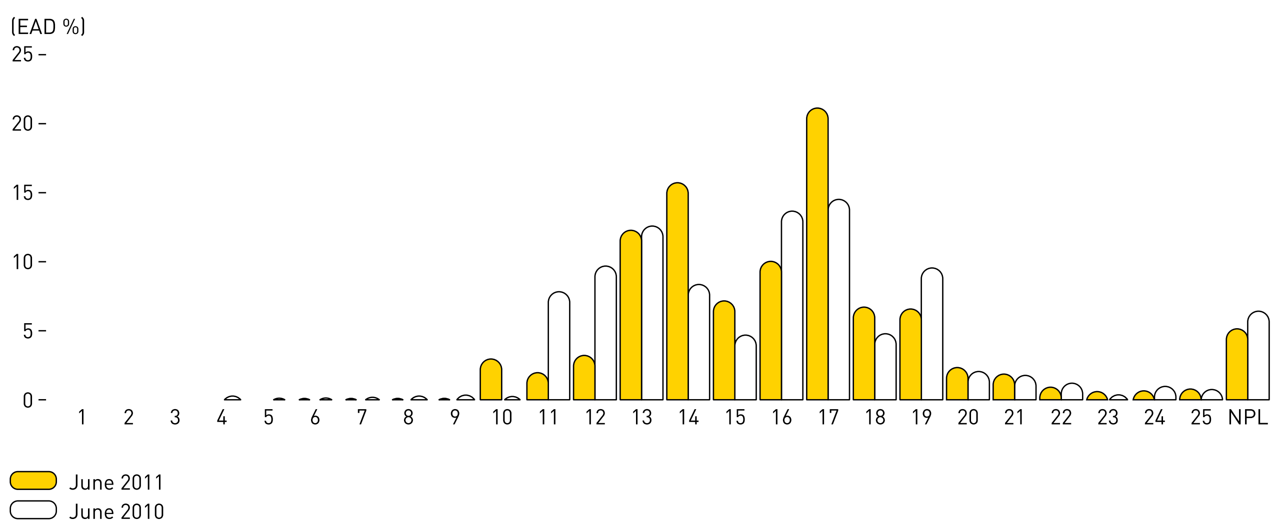
Average performing PD %	0.22%	Average total book PD%	0.22%
Average performing LGD%	32.97%	Average total book LGD%	32.97%
Performing book EL/EAD	0.07%	Total book EL/EAD	0.07%

Risk profile for SME corporate exposures: EAD% distribution per Basel risk buckets (unaudited)



Average performing PD %	4.79%	Average total book PD%	5.77%
Average performing LGD%	33.66%	Average total book LGD%	33.77%
Performing book EL/EAD	1.61%	Total book EL/EAD	1.95%

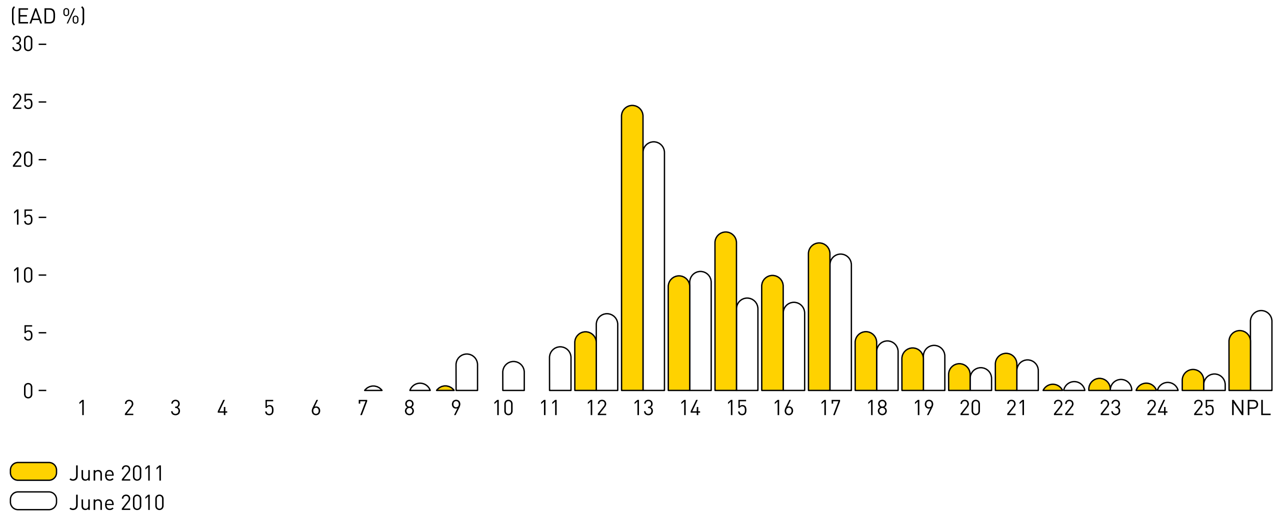
Risk profile for SME retail exposures: EAD% distribution per Basel risk buckets (unaudited)



Average performing PD %	2.74%	Average total book PD%	10.71%
Average performing LGD%	34.17%	Average total book LGD%	35.49%
Performing book EL/EAD	0.94%	Total book EL/EAD	3.80%

Risk and capital management report continued

Risk profile for retail mortgage exposures: EAD% distribution per Basel risk buckets (unaudited)

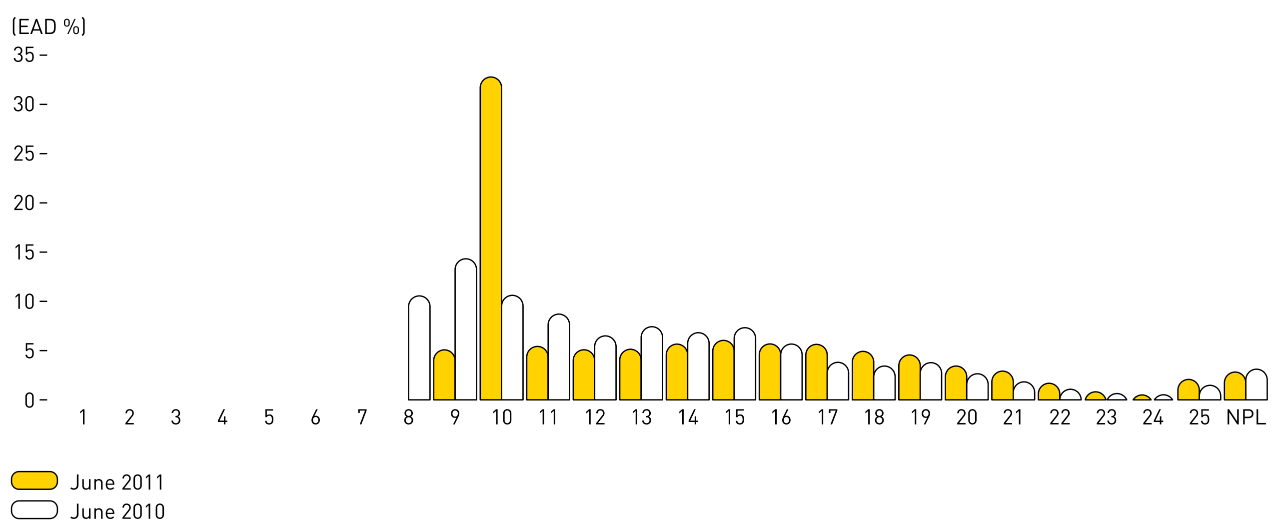


Average performing PD %	3.86%	Average total book PD%	11.40%
Average performing LGD%	12.95%	Average total book LGD%	13.31%
Performing book EL/EAD	0.50%	Total book EL/EAD	1.52%

The deterioration in the risk profile in the above chart is the result of rating system recalibrations (which resulted in an increase in PDs) and not a reflection of deterioration in credit quality.

Both prior and subsequent to the implementation of recalibrations, the risk profile improved and PDs decreased consistently due to positive risk migration, with the lower interest rate environment positively impacting the existing portfolio. In addition, stricter lending criteria resulted in higher quality new business being written. Monthly trend analyses from July 2010 to June 2011 show a once-off increase in PDs, due to the recalibrations, thereafter a consistent decrease due to positive risk migration.

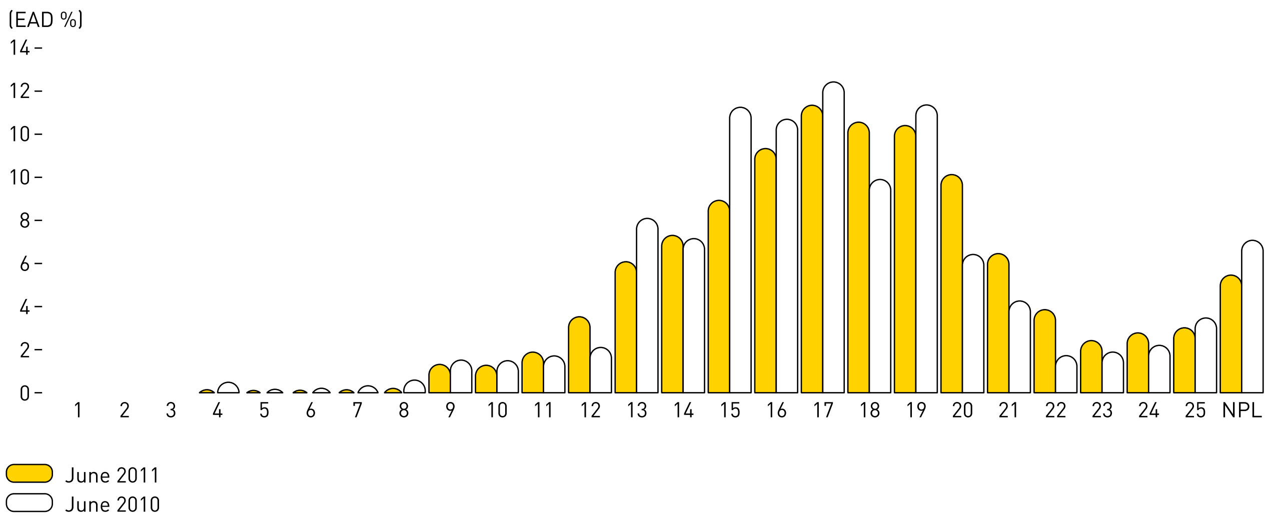
Risk profile for retail revolving exposures: EAD% distribution per Basel risk buckets (unaudited)



Average performing PD %	3.73%	Average total book PD%	6.39%
Average performing LGD%	70.75%	Average total book LGD%	71.08%
Total book EL/EAD	2.64%	Performing book EL/EAD	4.54%

Once again, the deterioration in the risk profile in the chart above is attributed to the recalibrations implemented in October 2010, incorporating the higher defaults experienced recently. With the exception of this once-off increase in PDs, PDs decreased consistently from July 2010 to June 2011 reflecting the effect of lower interest rates.

Risk profile for other retail exposures: EAD% distribution per Basel risk buckets (unaudited)



Average performing PD %	8.33%	Average total book PD%	13.53%
Average performing LGD%	32.40%	Average total book LGD%	33.62%
Performing book EL/EAD	2.70%	Total book EL/EAD	4.55%

A significant proportion of the other retail asset class is made up of vehicle and asset finance, which is secured by the underlying asset. As such, the LGD is lower than what would be expected in unsecured other retail portfolios. As with retail mortgages and retail revolving asset classes, this can be attributed to recalibrations incorporating the higher defaults experienced recently. With the exception of this once-off increase in PDs, PDs decreased consistently from July 2010 to June 2011 reflecting the impact of lower interest rates.

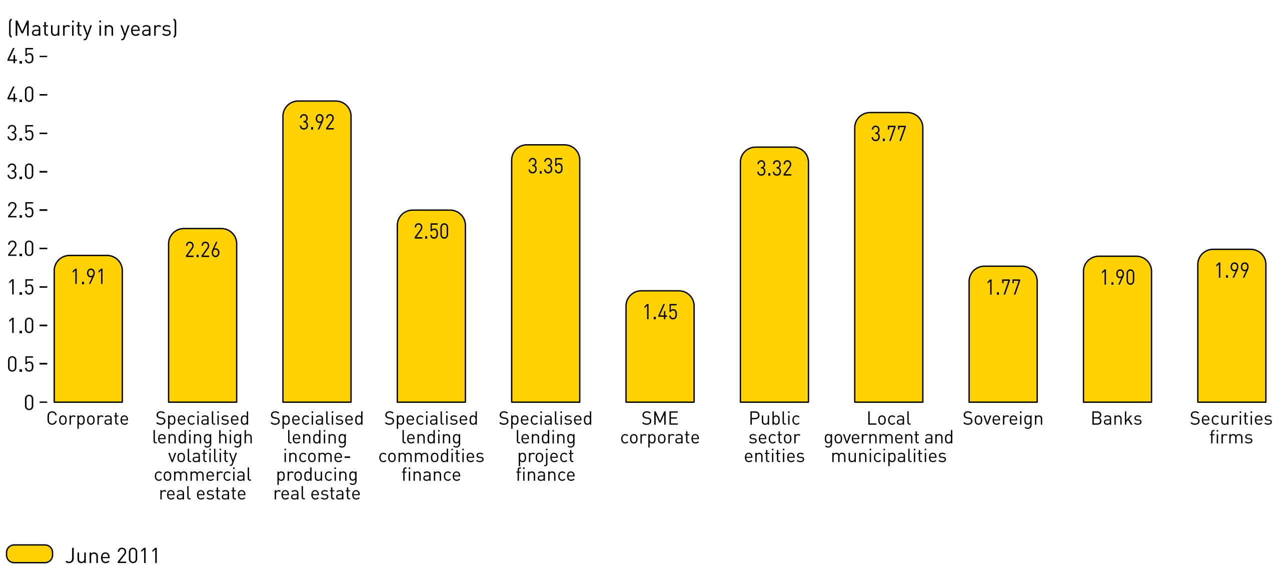
Maturity breakdown

Maturity is defined as the average time at which a bank will receive its contractual payments (cash flows) calculated for each account or exposure weighted by the size of each of the cash flows.

Maturity is used as an input in the AIRB regulatory capital calculation for wholesale portfolios. These are aggregated on an asset class basis for review and reporting purposes. The longer the maturity of a deal, the greater the uncertainty, and all else being equal, the larger the regulatory capital requirement.

Maturity breakdown of AIRB asset classes within the wholesale credit portfolio is disclosed in the chart below.

Maturity breakdown per wholesale AIRB asset class as at 30 June 2011 (unaudited)



Risk and capital management report continued

Actual vs expected loss analysis

To provide a meaningful assessment of the effectiveness of internal ratings-based models, expected loss is compared against losses actually experienced during the year. This is performed for all significant AIRB asset classes.

Expected loss here refers to regulatory expected loss. This provides a one-year forward looking view, based on information available at the beginning of the year.

Risk parameters include:

- PDs, which are calibrated to long-run default experience to avoid regulatory models being skewed to a specific part of the credit cycle;
- LGDs, which are calibrated to select downturn periods to reflect depressed asset prices during economic downturns; and
- EADs.

Actual losses experienced during the year consist of both the level of specific impairments at the start of the year (1 July 2010), and the net specific impairment charge recorded through the income statement for the year as determined by IFRS. The calculation is based on the assumption that the specific provisions raised are a fair estimate of what final losses on defaulted exposures would be, although the length of the workout period creates uncertainty in this assumption.

The measure of actual losses includes specific provisions raised for exposures which defaulted during the year, but which did not exist at 30 June 2010. These exposures are not reflected in the expected loss value described below.

The table below provides the comparison of actual loss to regulatory expected loss for each significant AIRB asset class of the Bank. PDs used for regulatory capital purposes are based on long run experience and would be anticipated to underestimate actual defaults at the top of the credit cycle and overestimate actual defaults at the bottom of the credit cycle, as is evident from the following table.

Actual vs. expected loss per portfolio segment for FirstRand Bank (unaudited)

	2011	
R million	Expected loss	Actual loss
Corporate (corporate, banks and sovereigns)	847	16
SME (SME corporate and SME retail)	1 354	1 189
Residential mortgages	3 102	3 773
Qualifying revolving retail	1 168	1 122
Other retail	790	1 013
WesBank	3 142	3 663
Total	**10 403**	**10 776**

The composition used above differs slightly from that used in the remainder of this section, due to impairments charges being available on business unit level as opposed to AIRB asset class level.

	2010	
R million	Expected loss	Actual loss
Corporate (corporate, banks and sovereigns)	801	187
SME (SME corporate and SME retail)	1 066	977
Residential mortgages	3 163	4 057
Qualifying revolving retail	1 995	2 065
Other retail	987	1 710
WesBank	2 471	3 519
Total	10 483	12 515

It should also be noted that the regulatory expected loss shown above is based on the expected loss derived from the regulatory capital models that were applied as at 30 June 2010. The models currently applied have since incorporated further defaults after the peak of the economic downturn and resulted in an increase in expected losses. A restatement of the above comparison using the capital models currently applied would result in a closer alignment of actual vs. expected losses.

This comparison is supplemented with more detailed analyses below, comparing actual and expected outcomes for each risk parameter (PD, LGD and EAD) over the year under review.

Expected values are based on regulatory capital models applied as at 30 June 2010. For PDs, this is applied to the total performing book as at 30 June 2010. For LGDs and EADs, it is applied to all facilities that defaulted over the subsequent 12 months.

Actual values are based on actual outcomes over the year July 2010 to June 2011. It should be noted that due to the length of the workout period, there is uncertainty in the measure provided for actual LGDs as facilities that default during the year would only have had between 1 and 12 months to recover to date – depending on when the default event occurred.

The EAD estimated to actual ratio is derived as the ratio of expected nominal exposure at default (for all accounts that defaulted during the 2011 financial year) to the actual nominal exposure at default for the same accounts. A ratio above 100% indicates an over-estimation.

Risk parameters used to determine regulatory expected loss for FirstRand Bank (unaudited)

	2011				
	PD		LGD		EAD estimated to actual ratio
Asset class	Estimated %	Actual %	Estimated %	Actual %	%
Corporate, banks and sovereigns[1]	0.88	0.19	24.94	28.28	122.96
SME corporate	4.54	2.15	35.81	14.04	108.56
SME retail	3.40	3.27	36.93	26.98	114.81
Residential mortgages	3.06	3.13	15.46	14.44	104.82
Qualifying revolving retail	2.58	2.64	64.78	66.63	127.53
Other retail	5.89	5.92	33.61	31.73	106.00
Total	2.57	2.18	26.32	24.27	108.08

1. Corporate, banks and sovereigns shown as one asset class to align with the respective asset class in the actual vs expected loss table.

	2010				
	PD		LGD		EAD estimated to actual ratio
Asset class	Estimated %	Actual %	Estimated %	Actual %	%
Corporate	1.55	–	37.73	n/a	n/a
Banks	0.15	–	31.00	n/a	n/a
SME corporate	3.45	4.38	44.98	32.07	110.58
SME retail	3.28	4.43	37.80	15.27	107.85
Residential mortgages	2.68	4.48	18.66	12.66	103.92
Qualifying revolving retail	3.53	3.62	64.47	64.82	122.92
Other retail	7.85	8.13	31.84	35.75	104.94
Total	3.06	3.52	32.04	24.66	106.25

As no defaults were experienced within the banks asset class during the year under review, actual LGDs and EADs could not be calculated for this asset class. PDs used for regulatory capital purposes are based on long-run experience and would be anticipated to underpredict actual defaults at the top of the credit cycle and overestimate actual defaults at the bottom of the credit cycle. The analysis is based on regulatory capital models that were applied at 30 June 2010. The models currently being applied have since incorporated further defaults experienced during the latter part of the recent economic downturn and resulted in an increase in expected losses. The actual PDs and LGDs above, being lower than their respective estimates, reflect the effect of an improving economic cycle.

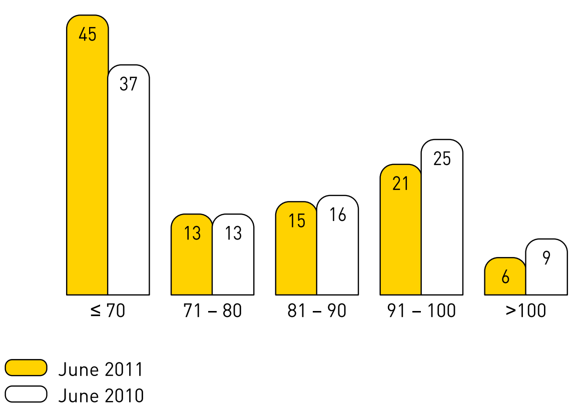
Risk and capital management report continued

SELECTED RISK ANALYSES

This section provides further information on selected risk analyses of the credit portfolios.

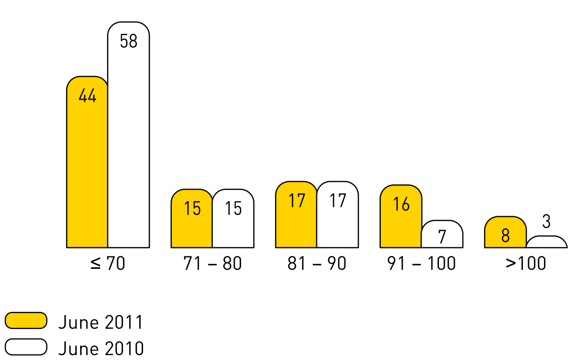
The graphs below provide the balance-to-value distributions and the aging of the residential mortgage portfolios. The recent focus on the loan-to-value ratios for new business resulted in an improvement in the balance-to-original value although the broader strategy is to place more emphasis on the counterparty credit worthiness as opposed to only on the underlying security. However, pressures on market value negatively impacted on the balance-to-market value distribution.

Residential mortgages balance-to-value – original value (%) (unaudited)



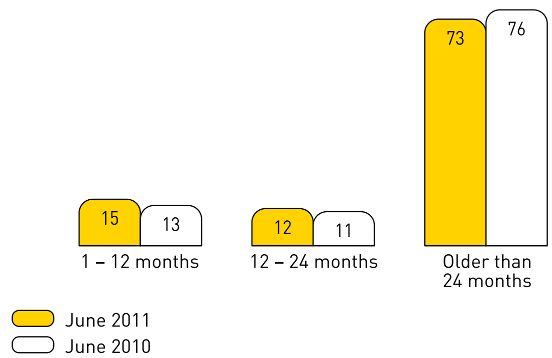
The balance-to-market value shows a significant proportion of the book in the lower risk categories.

Residential mortgages balance-to-value – market value (%) (unaudited)



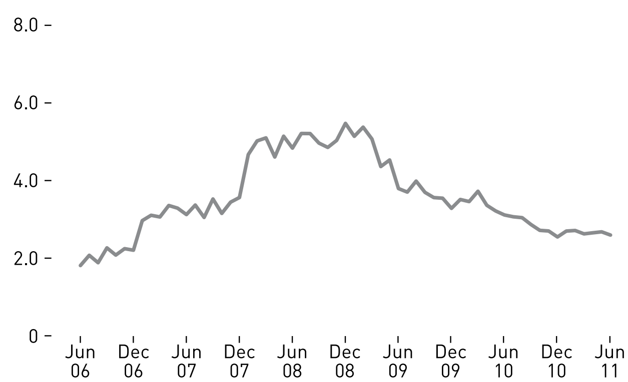
The low levels of new business are evident in the age distribution shown below:

Residential mortgages age distribution (%) (unaudited)



The following graph provides the arrears in the FNB HomeLoans portfolio. It includes arrears where more than one full payment is in arrears expressed as a % of the total advances balance.

FNB HomeLoans arrears (%) (unaudited)

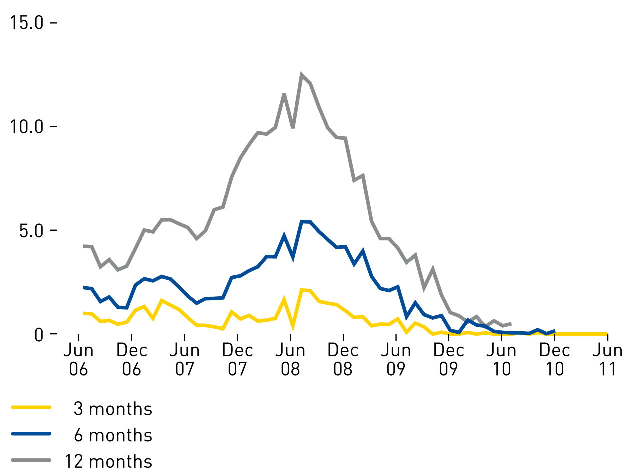


FNB HomeLoans arrears are stabilising. Similar trends are also observed in the WesBank and credit card portfolios.

The following graphs provide the vintage analyses for FNB HomeLoans and WesBank retail. Vintage graphs provide the default experience 3, 6 and 12 months after each origination date. It reflects the impact of origination strategies and the macroeconomic environment.

For FNB HomeLoans, the 3, 6 and 12 month cumulative vintage analysis illustrates a marked improvement in the quality of business written since mid-2008 despite further deterioration in macroeconomic conditions in the succeeding period. The more recent decreases in the default experience reflect a combination of the credit origination strategies and the improvement in macroeconomic conditions.

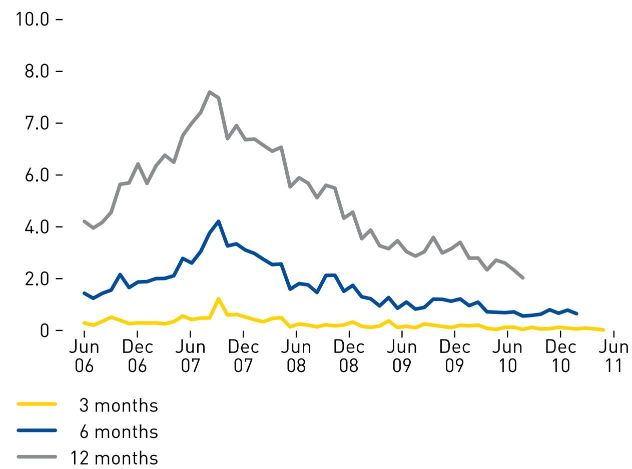
FNB HomeLoans vintage analysis (%) (unaudited)



The Group's South African repossessed properties decreased from R513 million (1 564 properties) at 30 June 2010 to R282 million (1 117 properties) at 30 June 2011.

The WesBank retail 6 and 12 month cumulative vintage analysis continues to show a noticeable improvement in the quality of business written since mid-2007 and the more benign macro environment.

WesBank retail vintage analysis (unaudited)



In the asset finance business, repossession and stock holding levels continue to decline relative to the comparative period. The gradually reducing trend is likely to continue, but at a slower rate.

Risk and capital management report continued

Securitisations and conduits

KEY DEVELOPMENTS AND FOCUS

In October 2010 FirstRand Bank sought and received approval from the SARB to repurchase all outstanding auto loan assets from Nitro Securitisation 3 (Pty) Limited ("Nitro 3"). A detailed description of this action is provided on page 174. The R2.0 billion synthetic auto loan securitisation, Procul (Pty) Ltd ("Procul"), matured successfully in August 2010 (see page 174). There were a number of rating actions on several classes of Fresco 2 notes and iKhaya 1 and 2 notes during the year under review (see page 174 for detail).

In February 2011, the Group closed its first UK auto loan securitisation in order to obtain matched term funding. Turbo Finance plc issued £340 million of notes (see page 174 for further detail on the transaction).

INTRODUCTION AND OBJECTIVES

The Group uses securitisation as a tool to achieve one or more of the following objectives:

- enhance the Bank's liquidity position through the diversification of funding sources;
- match the cash flow profile of assets and liabilities;
- reduce credit risk exposure;
- reduce capital requirements; or
- manage credit concentration risk.

From an accounting perspective, traditional securitisations are treated as sales transactions. At inception, the assets are sold to a special purpose vehicle at carrying value and no gains or losses

Securitisation transactions (unaudited)

R million	Asset type	Year initiated	Expected close	Rating agency
Traditional securitisations				
Nitro 3	Retail: Auto loans	2007	2011	Moody's and Fitch
iKhaya 1	Retail mortgages	2007	2011	Fitch
iKhaya 2	Retail mortgages	2007	2012	Fitch
Turbo Finance	Retail: Auto loans	2011	2013	Moody's and Fitch
Synthetic securitisations				
Procul	Retail: Auto loans	2002	2010	Fitch
Fresco II	Corporate receivables	2007	2013	Fitch
Total				

Rating distribution of retained securitisation exposure (unaudited)

R million	AAA(zaf)	AA+(zaf)	AA(zaf)	A+(zaf)
Traditional				
At 30 June 2011	**596**	**–**	**5**	**–**
At 30 June 2010	15	–	10	–
Synthetic				
At 30 June 2011	**17 839**	**–**	**–**	**–**
At 30 June 2010	17 991	–	180	53

While national scale ratings have been used in the table above, global-scale equivalent ratings are used for internal risk management purposes.

are recognised. The securitisation entities are subsequently consolidated into FRIHL for financial reporting purposes. For synthetic securitisations, the credit derivatives used in the transaction are recognised at fair value, with any fair value adjustments reported in profit or loss.

TRADITIONAL AND SYNTHETIC SECURITISATIONS

The tables below show the traditional and synthetic securitisations currently in place as well as the rating distribution of any exposures retained by the Group. Whilst national scale ratings have been used in this table, global scale equivalent ratings are used for internal risk management purposes. All assets in these vehicles were originated by the Bank and in each of these transactions the Bank acted as originator, servicer and swap counterparty.

	Assets securitised	Assets outstanding		Notes outstanding		Retained exposure	
		2011	2010	2011	2010	2011	2010
	13 404	**5 476**	3 907	**5 474**	4 276	**1 260**	254
	5 000	**–**	736	**–**	1 129	**–**	39
	1 900	**1 164**	1 317	**1 131**	1 321	**84**	87
	2 884	**1 625**	1 854	**1 580**	1 826	**148**	128
	3 620	**2 687**	–	**2 763**	–	**1 028**	–
	22 000	**20 000**	22 000	**20 000**	22 000	**18 262**	19 138
	2 000	**–**	2 000	**–**	2 000	**–**	875
	20 000	**20 000**	20 000	**20 000**	20 000	**18 262**	18 263
	35 404	**25 476**	25 907	**25 474**	26 276	**19 522**	19 392

	A(zaf)	BBB+(zaf)	BBB(zaf)	BB(zaf)	B+(zaf)	Not rated	Total
	4	**–**	**374**	**–**	**–**	**282**	**1 260**
	4	15	–	–	–	210	254
	–	**–**	**–**	**180**	**53**	**190**	**18 262**
	–	–	–	–	–	914	19 138

Risk and capital management report continued

Rating actions by Fitch Ratings ("Fitch")

Fresco 2, which is incorporated under South African law, is a partially-funded synthetic securitisation of a portfolio of South African and international wholesale credit exposures originated by the Bank. At closing on 17 July 2007, Fresco 2 entered into a credit default swap ("CDS") with the Bank, whereby Fresco 2, as the protection seller, purchased the credit risk portfolio from the Bank.

On 12 November 2010, Fitch announced that it had downgraded nine of the eleven tranches of Fresco 2. These downgrades were a result of Fitch's revision of their rating criteria/methodology and were not a reflection of any deterioration in the credit quality of the underlying corporate assets of Fresco 2 or the Bank.

Fitch downgraded Fresco 2 Class A to G tranches and assigned loss severity ("LS") ratings to seven tranches.

The rating actions were as follows:

- Class A1: Downgraded to AA- (zaf) from AAA (zaf), remains on Rating Watch Negative ("RWN").
- Class A2: Downgraded to AA- (zaf) from AAA (zaf), remains on RWN.
- Class B1: Downgraded to BB (zaf) from AA (zaf); Outlook Stable; assigned LS-4.
- Class B2: Downgraded to BB (zaf) from AA (zaf); Outlook Stable; assigned LS-4.
- Class C: Downgraded to B+ (zaf) from A+ (zaf); Outlook Stable; assigned LS-4.
- Class D: Downgraded to B (zaf) from A- (zaf); Outlook Stable; assigned LS-5
- Class E: Downgraded to B (zaf) from BBB (zaf); Outlook Stable; assigned LS-5.
- Class F: Downgraded to B (zaf) from BBB- (zaf); Outlook Stable; assigned LS-5.
- Class G: Downgraded to B- (zaf) from BB (zaf); Outlook Stable; assigned LS-5.

Since closing, the transaction's performance has been in line with expectations.

Exercise of clean-up call option for Nitro 3

Nitro 3 was launched on 17 May 2007 with a size of R5 billion and 11.2% subordination below the Aaa.za rated notes. The subordinated loan of R100 million and the Class D notes (from April 2008) were held by the originator (the Bank). By August 2010, notes to the value of R920.1 million were outstanding, representing some 18% of the outstanding principal amount of the notes on issue date. Due to lower than expected levels of prepayments, the assets of Nitro 3 were not maturing as quickly as the issued notes. Structuring features of the vehicles precluded the raising of additional funding, and limited the use of liquidity facilities to only covering interest payments and not redemptions.

Consequently, in September 2010, the Bank sought and obtained approval from the SARB and note holders to repurchase the Nitro 3 assets, on market-related terms. The repurchase took place on 12 October 2010, and the proceeds were utilised for the early redemption of the outstanding Nitro 3 notes. The objective of the Group to obtain matched term funding at a time when its retail asset book was growing rapidly, had been achieved and the structure proved resilient despite the recent difficulties experienced in the retail consumer environment.

Investors in Nitro 3 were able to realise their investments earlier than the legal maturity, without suffering any losses.

Maturity of Procul

Procul, launched in June 2002, was a R2 billion synthetic securitisation of retail instalment sale automotive loans originated and managed by WesBank. Using a CDS, the transaction provided protection to WesBank on the auto loans up to the value of the portfolio amount. The transaction performed as expected up to its maturity on 31 August 2010. The transaction suffered no losses and all noteholders were repaid in full.

Outlook changes on SA residential mortgage-backed securities ("RMBS")

During August 2010, ten South African RMBS transactions rated by Fitch, including iKhaya 1 and 2, were placed on RWN as a result of a revision of rating methodology.

Turbo Finance plc

In February 2011, the Bank closed its first UK auto loan securitisation. The securitisation is backed by fixed rate auto loan receivables originated by FirstRand Bank (London Branch) under the Carlyle Finance trade name. Turbo Finance plc was set up as a special purpose vehicle and issued £340 million of notes rated by Moody's and Fitch. The following table provides further detail regarding the notes issued.

Tranche	Rating (Moody's/ Fitch)	Amount (£m)	Credit enhance-ment (%)	Coupon
A	Aaa(sf)/ AAA(sf)	246.20	27.60	1m Libor + 185
B	Aa3(sf)/ A(sf)	54.20	11.70	5.50%
C	NR/BB(sf)	34.28	1.60	7.00%[1]
D	NR/NR	5.45	0.00	20.00%
Total		340.14		

1. Represents senior coupon only, subordinated coupon of 8% will also be paid.

The joint lead managers for the transaction were UBS Limited and BNP Paribas, with the latter also providing an interest rate swap for Class A notes. FirstRand Bank, acting through its London branch, acts as servicer of the transaction. The transaction is compliant with Article 122a of the EU Capital Requirement Directive where the Bank chose to use the on-balance sheet retention method to meet the 5% retained interest requirements of Article 122a.

The transaction was structured to obtain matched term funding for the Group, reduce cross-border funding risk, and establish market familiarity with Carlyle's business.

CONDUIT PROGRAMMES AND FIXED-INCOME FUNDS

The Group's conduit programmes are debt capital market vehicles, which provide investment-grade corporate South African counter-parties with an alternative source of funding compared to directly assessing capital markets via their own domestic medium-term debt programmes or traditional bank funding. It also provides institutional investors with highly-rated short-term alternative investments. The fixed income fund is a call-loan bond fund, which offers overnight borrowers and lenders an alternative to traditional overnight bank-lending products on a matched basis.

All the assets originated for the conduit programmes are rigorously evaluated as part of the Group's credit approval processes applicable to any other corporate exposure held by the Group.

The conduit programmes have enjoyed the benefit of more benign liquidity than experienced by the market in general, whilst the demand for borrowings reflected a slowdown in line with general corporate borrowing activity.

The following tables show the programmes currently in place, the ratings distribution of the underlying assets, and the role played by the Bank in each of these programmes. All of these capital market vehicles continue to perform in line with expectations.

Conduits and fixed income funds (unaudited)

Transaction R million	Underlying assets	Year initiated	Rating agency	Programme size	Non-recourse investments 2011	Non-recourse investments 2010	Credit enhancement provided 2011	Credit enhancement provided 2010
Conduits								
iNdwa	Corporate and structured finance term loans	2003	Fitch	15 000	**8 779**	7 373	**–**	–
iVuzi	Corporate and structured finance term loans	2007	Fitch	15 000	**6 741**	5 772	**753**	758
Total				30 000	**15 520**	13 145	**753**	758
Fixed income fund								
iNkotha	Overnight corporate loans	2006	Fitch	10 000	**2 948**	2 163	**–**	–
Total				10 000	**2 948**	2 163	**–**	–

Rating distribution of conduits and fixed income funds (unaudited)

R million	F1+(zaf)	AAA(zaf)	AA+(zaf)	AA(zaf)	AA-(zaf)	A+(zaf)	A(zaf)	A-(zaf)	Total
Conduits									
At 30 June 2011	**–**	**853**	**248**	**4 438**	**5 074**	**1 449**	**2 025**	**1 433**	**15 520**
At 30 June 2010	–	1 435	633	1 487	4 683	1 480	2 592	835	13 145
Fixed income fund									
At 30 June 2011	**–**	**–**	**–**	**969**	**652**	**548**	**453**	**326**	**2 948**
At 30 June 2010	–	656	–	–	1 194	–	116	197	2 163

Risk and capital management report continued

The Bank's role in the conduits and the fixed income fund

Transaction	Originator	Investor	Servicer	Liquidity provider	Credit enhancement provider	Swap counterpart
iNdwa			✓	✓		✓
iNkotha			✓			
iVuzi			✓	✓	✓	✓

All the above programmes continue to perform in line with expectations.

LIQUIDITY FACILITIES

The table below provides a summary of the liquidity facilities provided by the Bank.

Liquidity facilities (unaudited)

R million	Transaction type	2011	2010
Transaction			
Own transactions		12 671	10 442
iNdwa	Conduit	7 159	5 898
iVuzi	Conduit	5 512	4 544
Third party transactions	Securitisations	1 372	1 577
Total		14 043	12 019

All liquidity facilities granted to the transactions in the table above rank senior in terms of payment priority in the event of a drawdown. Economic capital is allocated to the liquidity facility extended to iNdwa and iVuzi as if the underlying assets were held by the Bank. The conduit programmes are consolidated into FRIHL for financial reporting purposes.

ADDITIONAL INFORMATION

The following table provides the securitisation exposures retained or purchased as well as their associated IRB capital requirements per risk band.

Retained or purchased securitisation exposure and the associated regulatory capital charges (unaudited)

	Exposure		IRB capital		Capital deduction	
R million	2011	2010	2011	2010	2011	2010
Risk weighted bands						
= <10%	24 322	17 840	183	122	–	–
>10% = <20%	1 378	12 042	16	88	–	–
>20% = <50%	5 517	180	133	6	–	–
>50% = <100%	4	931	–	66	–	–
>100% = <650%	180	773	114	198	–	–
1 250%/deduction	415	414	–	–	415	414
Total	31 816	32 180	446	480	415	414

The table below provides a summary of the deductions arising from securitisation exposures.

Deductions arising from securitisation exposures (unaudited)

R million	Corporate receivables	Retail mortgages	Retail: instalment sales and leasing	Total
Traditional	–	218	64	282
Synthetic	190	–	–	190
Total	190	218	64	472

The Group did not securitise any exposures that were impaired or past due at the time of securitisation. None of the securitisations transactions are subject to early amortisation treatment.

Counterparty credit risk

KEY DEVELOPMENTS AND FOCUS

During the past financial year, the Group focused on improving the control environment of the securities financing businesses. Amongst other things, the Group instituted a margin methodology more closely aligned with the internal market risk measurement methodology. Deep-dive reviews of all portfolios exposed to counterparty credit risk were also conducted.

In the next financial year, the focus will be on the implementation of a counterparty credit risk-specific framework. This framework will include Basel III requirements in relation to counterparty credit risk and collateral management and the implementation of an industrialised credit valuation adjustment ("CVA") solution. Furthermore, the Group will continue to cooperate with the Regulator to ensure readiness for Basel III.

INTRODUCTION AND OBJECTIVES

Counterparty credit risk is concerned with a counterparty's ability to satisfy its obligations under a contract that has a positive economic value to a bank at any point in time during the life of the contract. It differs from normal credit risk in that the economic value of the transaction is uncertain and dependent on market factors that are typically not under the control of the bank or the client.

Counterparty credit risk is a risk taken mainly in the Group's trading and securities financing businesses, and the objective of counterparty credit risk management is to ensure that risk is appropriately measured, analysed and reported on, and is only taken within specified limits in line with the Group's risk appetite framework as mandated by the Board.

ORGANISATIONAL STRUCTURE AND GOVERNANCE

RMB's credit department is responsible for the overall management of counterparty credit risk and is supported by RMB's portfolio and crossover risk department which is responsible for ensuring that market and credit risk methodologies are consistently applied in the quantification of risk.

Counterparty credit risk is managed on the basis of the principles, approaches, policies and processes set out in the credit risk management framework for wholesale credit exposures.

In this respect, counterparty credit risk governance aligns closely with the Group's credit risk governance framework, with mandates and responsibilities cascading from the Board through the RCC committee to the respective subcommittees as well as deployed and central risk management functions. Refer to the *Risk management framework and governance* section, and the *Credit risk governance* section for more details.

ASSESSMENT AND MANAGEMENT

Quantification of risk exposure

The measurement of counterparty credit risk aligns closely with credit risk measurement practices and is focused both on establishing appropriate limits at counterparty level, as well as on ongoing portfolio risk management.

To this end, appropriate quantification methodologies of potential future exposure over the life of a product, even under distressed market conditions, are developed and approved at the relevant technical committees. The two-way credit (and debit) valuation adjustment is calculated and priced on bespoke transactions.

Individual counterparty risk limit applications are prepared using the approved risk quantification methodologies, and assessed and approved at the dedicated counterparty credit committee, which has appropriate executive and non-executive representation.

All counterparty credit risk limits are subject to annual review, and counterparty exposures are monitored by the respective risk functions on a daily basis. Overall counterparty risk limits are allocated across a number of products. Desk level reports are used to ensure sufficient limit availability prior to executing additional trades with a counterparty.

Risk and capital management report continued

Business and risk management functions share the following responsibilities in this process:

- quantification of exposure and risk, as well as management of facility utilisation within approved credit limits;
- ongoing monitoring of counterparty creditworthiness to ensure early identification of high risk exposures and predetermined facility reviews at certain intervals;
- collateral management;
- management of high risk (watch list) exposures;
- collections and workout process management for defaulted assets; and
- counterparty credit risk reporting.

Limit breaches are dealt with in accordance with the approved excess mandate. Significant limit breaches necessitate reporting to the head of the business unit, the head of risk for the affected business unit and the RMB risk and compliance function. Any remedial actions are agreed amongst these parties and failure to remedy such a breach is reported to the RMB Proprietary Board, ERM and the RCC committee.

As part of the ongoing process of understanding the drivers of counterparty credit risk, regular analysis is carried out on over-the-counter derivative and securities financing portfolios on a "look-through" basis. This portfolio review process seeks to identify concentrations, the hypothetical impact of stress scenarios, and to better understand the interaction of underlying market risk factors and credit exposure. The benefits gained include clearer insight into potential collateral, earnings and capital volatility, and potentially unduly risky trading behaviour by counterparties.

Advanced monitoring of the creditworthiness of developed market counterparty banks is conducted through the real-time analysis of the spreads on listed securities that have been issued by or referencing these banks.

Counterparty credit risk mitigation

Where appropriate, various instruments are used to mitigate the potential exposure to certain counterparties. These include financial or other collateral in line with common credit risk practices, as well as netting agreements, guarantees and credit derivatives.

The Group uses International Swaps and Derivatives Association and International Securities Market Association agreements for the purpose of netting derivative transactions and repurchase transactions respectively. These master agreements as well as associated credit support annexes ("CSA") set out internationally accepted valuation and default covenants, which are evaluated and applied on a daily basis, including daily margin calls based on the approved CSA thresholds.

For regulatory purposes, the net exposure figures are employed in capital calculations, whilst for accounting purposes netting is only applied where a legal right to set off and the intention to settle on a netted basis exist.

Collateral to be provided in the event of a credit rating downgrade

The collateral that would need to be provided in the hypothetical event of a rating downgrade is subject to many factors, not least of which are market moves in the underlying traded instruments, as well as netting of existing positions.

While these variables are not quantifiable, the table below, in addition to showing the effect of counterparty credit risk mitigation, provides a guide to the order of magnitude of the netted portfolio size and collateral placed with FirstRand. In aggregate, all of the positive mark-to-market shown below would need to reverse before FirstRand would be a net provider of collateral.

Counterparty credit risk profile

The following table provides an overview of the counterparty credit risk arising from the Group's derivative and structured finance transactions.

Composition of counterparty credit risk exposure (unaudited)

R million	2011	2010
Gross positive fair value	114 070	90 367
Netting benefits	(38 462)	(36 693)
Netted current credit exposure before mitigation	75 608	53 674
Collateral value	(63 772)	(43 701)
Netted potential future exposure	12 293	14 511
Exposure at default	**24 129**	24 484

The Group employs credit derivatives primarily for the purposes of protecting its own positions and for hedging its credit portfolio, as indicated in the following table.

Credit derivatives exposure (unaudited)

	2011			
R million	Credit default swaps	Total return swaps	Other	Total
Own credit portfolio				
– protection bought	18	–	–	18
– protection sold	3 259	–	–	3 259
Intermediation activities				
– protection bought	46	–	–	46
– protection sold	1 091	–	–	1 091

	2010			
R million	Credit default swaps	Total return swaps	Other	Total
Own credit portfolio				
– protection bought	2 681	–	3 661	6 342
– protection sold	2 594	–	–	2 594
Intermediation activities				
– protection bought	–	–	–	–
– protection sold	–	–	–	–

Market risk in the trading book

KEY DEVELOPMENTS AND FOCUS

During the year under review the basis of expected tail loss ("ETL") measures were changed to a 750-day scenario set incorporating the recent 2008/2009 period of market distress. Market risk ETL is now calculated over 750 unique scenarios at a 99% confidence interval. In addition, improved measures were implemented to manage the Group's concentrated risk exposures across all asset classes, including crossover between risk types. In the 2012 financial year, the Group will focus on preparation for the new Basel 2.5 market risk capital requirements.

INTRODUCTION AND OBJECTIVES

Market risk exists in all trading, banking and investment portfolios, but for the purpose of this report, it is considered as a risk specific to trading portfolios. Substantially all market risk in the Group is taken and managed by RMB. The relevant businesses within RMB function as the centre of expertise with respect to all trading and market risk-related activities and seek to take on, manage and contain market risk within guidelines set out as part of the risk appetite.

Non-trading interest rate risk in the banking book is managed by Group Treasury and is disclosed as part of the *Interest rate in the banking book* section of this report.

ORGANISATIONAL STRUCTURE AND GOVERNANCE

In terms of the market risk framework, a subframework of the BPRMF, responsibility for determining market risk appetite vests with the Board, which also retains independent oversight of market risk-related activities through the RCC committee and its Market and investment risk subcommittee ("MIRC").

Separate governance forums, such as RMB's Proprietary Board, take responsibility for allocating these mandates further, whilst deployed and central risk management functions provide independent control and oversight of the overall market risk process.

ASSESSMENT AND MANAGEMENT

Quantification of risk exposures

Market risk exposures are primarily measured and managed using an ETL measure and ETL limits. The ETL measure used by RMB is a historical simulation measure assessing the average loss beyond a selected percentile. RMB's ETL is based on a confidence interval of 99% and applicable holding periods. Since ETL is adjusted for the trading liquidity of the portfolio, it is referred to as liquidity-adjusted ETL. During the year, holding periods used in the calculation were increased and are now based on an assessment of distressed liquidity of portfolios. As a consequence,

Risk and capital management report continued

holding periods ranging between 10 to 90 days are used. Historical data sets are chosen to incorporate periods of market stress with the recent 2008/2009 stress period incorporated into the historical data set during the year under review.

VaR calculations over holding periods of 1 day and 10 days are used as an additional tool in the assessment of market risk. VaR triggers and absolute loss thresholds are used to highlight positions to be reviewed by management.

Risk concentrations in the market risk environment are controlled by means of appropriate ETL sublimits for individual asset classes and the maximum allowable exposure for each business unit. In addition to the general market risk limits described above, limits covering obligor specific risk were introduced and utilisation against these limits is monitored continuously (based on the regulatory building block approach).

Stress testing

Stress testing provides an indication of potential losses that could occur under extreme market conditions. The ETL assessment provides a view of risk exposures under stress conditions.

Additional stress testing, to supplement the ETL assessment, is conducted using historical market downturn scenarios and includes the use of historical, hypothetical and Monte Carlo-type simulations. The calibrations of the stress tests are reviewed from time to time to ensure that the results are indicative of possible market moves under distressed market conditions. Stress and scenario analyses are reported to and considered regularly by the business unit executive committees and the boards.

Back testing

Back testing is performed in order to verify the predictive ability of the VaR calculations and ensure ongoing appropriateness of the model. The regulatory standard for back testing is to measure daily profits and losses against daily VaR at the 99th percentile. The number of breaches over a period of 250 trading days is calculated, and, should the number exceed that which is considered appropriate, the model will be reassessed for appropriateness.

Regulatory and economic capital for market risk

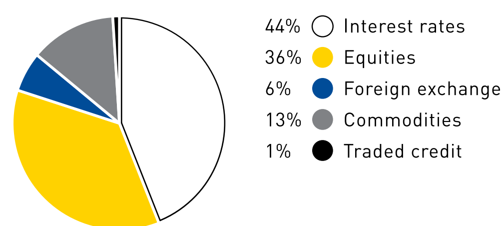
The internal VaR model for general market risk was approved by the SARB for local trading units and is consistent with the methodologies as stipulated under the Basel II framework. For all international legal entities, the Standardised approach is used for regulatory market risk capital purposes.

Economic capital for market risk is calculated using liquidity-adjusted ETL plus an assessment of specific risk.

TRADING BOOK MARKET RISK PROFILE

The following chart shows the distribution of exposures per asset class across the Group's trading activities at 30 June 2011 based on the ETL methodology.

Composition of ETL exposure for FirstRand (audited)



VaR and ETL analysis by risk type

The tables below reflect the VaR over a 10-day holding period and the liquidity adjusted ETL at a 99% confidence level for trading book activities. Results for the year ended 30 June 2011 reflect that the VaR and ETL utilisations were within risk appetite, with the interest rate component of risk being the most dominant over the period under review.

10-day 99% VaR analysis by instrument (audited)

	2011				2010
R million	Min[1]	Max[1]	Ave	Period end	Period end[2]
Risk type					
Equities	33.5	132.5	80.0	33.5	66.4
Interest rates	42.7	138.5	87.0	71.2	53.3
Foreign exchange	9.1	88.2	23.2	17.2	9.0
Commodities	7.0	87.0	44.6	43.0	7.1
Traded credit	0.1	5.4	3.6	4.1	0.1
Diversification effect				(80.6)	(52.9)
Diversified total	65.5	186.7	130.5	88.4	83.0

Distressed ETL analysis by instrument (audited)

	2011				2010
R million	Min[1]	Max[1]	Ave	Period end	Period end[2]
Risk type					
Equities	139.2	301.9	214.5	196.3	160.4
Interest rates	94.7	429.7	237.0	238.8	119.1
Foreign exchange	20.7	136.6	52.0	31.7	20.2
Commodities	15.0	135.2	74.8	72.9	11.1
Traded credit	1.8	8.0	5.7	5.9	1.6
Diversification effect				(185.0)	(105.4)
Diversified total	189.7	512.8	314.3	360.6	207.0

Notes:

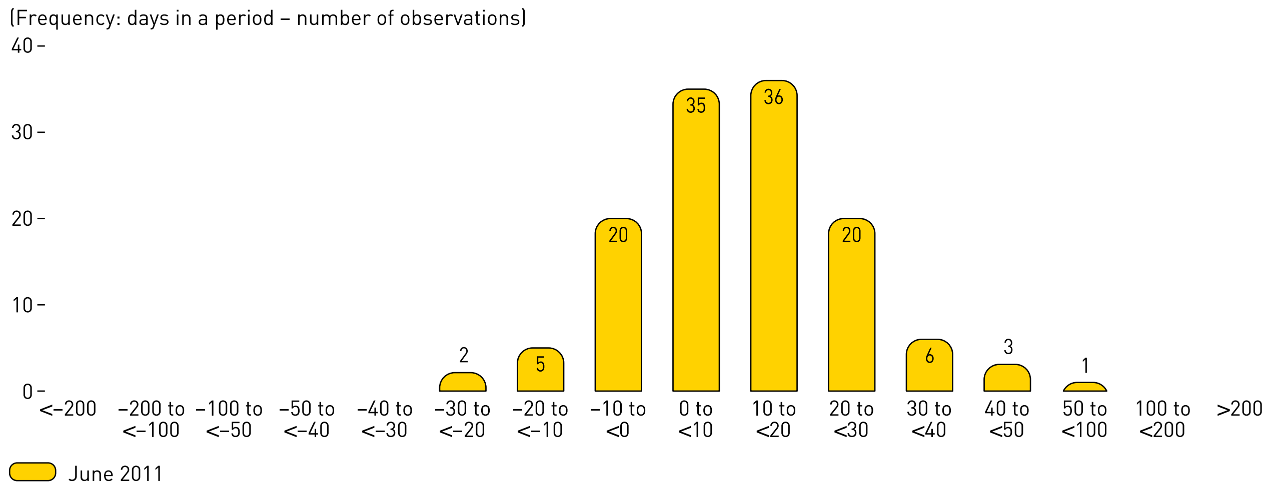
1. *The maxima and minima VaR and ETL figures for each asset class did not necessarily occur on the same day. Consequently, a diversification effect was omitted from the above table.*
2. *The ETL measures as at 30 June 2011 are based on a 750-day scenario, incorporating both the recent 2008/2009 and 2001/2002 stress periods (i.e. two static periods of stress), whereas the ETL measures at 30 June 2010 are based on a 500-day scenario set incorporating only the 2001/2002 period of market distress (i.e. only one static period of stress).*
3. *Interest rate risk in the banking book is excluded from the above analysis and is separately managed and reported (see pages 192 to 196).*
4. *The diversified 90-day ETL measure for the equity investment book subject to market price risk as at 30 June 2011 is R1 297 million (interest rates: R1.7million, equities: R1 357 million, foreign exchange: R64 million).*
5. *The diversified 1-day 99% VaR as at 30 June 2011 is R49 million (interest rates: R32 million, equities: R11 million, foreign exchange: R3 million, commodities: R32 million).*
6. *A revision of the market risk limits for the equity asset class necessitated some portfolio rebalancing. A number of equities positions were reclassified from market risk (short term) to investment risk (long term) in order to better reflect the risk characteristics of the exposures and the time horizon staged for value extraction to materialise.*

Risk and capital management report continued

Distribution of daily trading earnings from trading units

The histogram below shows the daily revenue for the local trading units for the period under review.

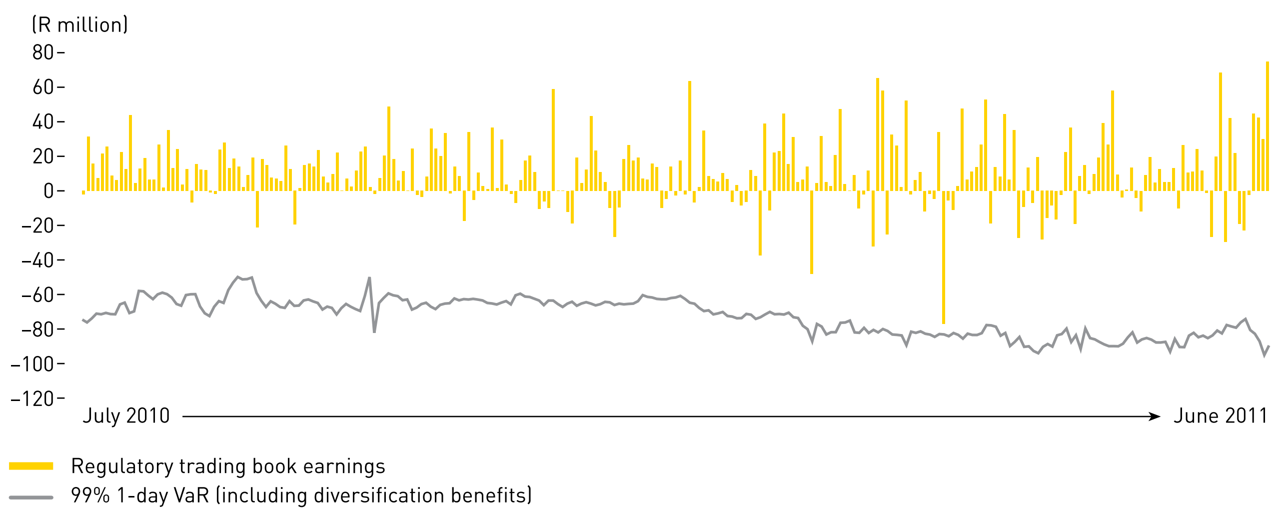
Distribution of daily earnings (unaudited)



Back testing: daily regulatory trading book earnings and VaR

The Group tracks its daily local earnings profile as illustrated in the chart below. Exposures were contained within risk limits during the trading period and the earnings profile is skewed towards profitability.

Back testing: daily regulatory trading book earnings versus 1-day 99% VaR (unaudited)



Over the period under review there were no instances of actual trading losses exceeding the corresponding VaR estimate. This implies that the Group's model provided a reasonably accurate quantification of market risk.

International

FirstRand Ireland plc ("FRIE") and FirstRand Bank India hold the most material exposure to market risk amongst the international operations. The same approach is employed for the measurement and management of market risk as in the local portfolio. Market risk exposures in FRIE have decreased substantially predominantly due to derisking coupled with the decision to wind down the operation. During the period under review, market risk was contained within acceptable limits.

FNB Africa subsidiaries

FNB Namibia and FNB Botswana are the only African subsidiaries with notable exposure to market risk. Market risk is measured and managed in line with the Group's market risk framework. During the period under review, market risk was contained within acceptable limits and was effectively managed in the FNB African subsidiaries.

Equity investment risk

KEY DEVELOPMENTS AND FOCUS

The investment portfolio remained resilient over the past year. Overall the quality of the investment portfolio remains acceptable and within risk appetite. The Private Equity division earnings performance was dominated by the realisation of the Davita Trading exposure. Legacy assets continued to be closely monitored.

An enhanced investment risk management framework was developed and implemented during the year. This framework included refinements on governance, risk appetite quantification, investment valuation and stress testing.

INTRODUCTION AND OBJECTIVES

Portfolio investments in equity instruments are primarily undertaken in RMB, but certain equity investments have been made by WesBank, FNB and Corporate Centre. Positions in unlisted investments in RMB are taken mainly through its Private Equity, Resources and Investment Banking divisions, while listed investments are primarily made through the Equities division.

ORGANISATIONAL STRUCTURE AND GOVERNANCE

The responsibility for determining equity investment risk appetite vests with the Board. The following structures have been established in order to assess and manage equity investment risk:

- The Prudential investment committee ("Investment committee") chaired by the RMB chief investment officer and its delegated subcommittees are responsible for the approval of all portfolio investment transactions in equity, quasi-equity or quasi-debt instruments.
- Where the structure of the investments also incorporate significant components of senior debt, approval authority will also rest with the respective credit committees and the Board's Large exposures committee, as appropriate.
- The RCC and MIRC committees are responsible for the oversight of investment risk measurement and management across the Group.
- The RMB CRO, in consultation with the Group CRO and with support from the deployed and central risk management functions, provides independent oversight and reporting of all investment activities in RMB to the RMB Proprietary Board, as well as MIRC. WesBank's executive management monitors and manages its investments through the financial reporting process.

ASSESSMENT AND MANAGEMENT

Management of exposures

The equity investment risk portfolio is managed through a rigorous evaluation and review process from inception to exit of a transaction. All investments are subject to a comprehensive due diligence, during which a thorough understanding of the target company's business, risks, challenges, competitors, management team and unique advantage or value proposition is developed.

For each transaction, an appropriate structure is put in place which aligns the interests of all parties involved through the use of incentives and constraints for management and the selling party. Where appropriate, the Group seeks to take a number of seats on the company's board and maintains close oversight through monitoring of the company's operations.

The investment thesis, results of the due diligence process, and investment structure are challenged at the Investment committee before final approval is granted. In addition, normal semi-annual reviews of each investment are carried out and crucial parts of these reviews, such as valuation estimates, are independently peer reviewed.

Recording of exposures – accounting policies

IAS 39 requires equity investments to be classified as:

- financial assets at fair value through profit and loss; or
- available-for-sale financial assets.

Refer to note 15 *Financial Instruments* of the accounting policies for a description of the policy.

The consolidated financial statements include the assets, liabilities and results of operations of all equity investments in which the Group, directly or indirectly, has the power to exercise control over the operations for its own benefit.

Equity investments in associates and joint ventures are included in the consolidated financial statements using the equity accounting method. Associates are entities where the Group holds an equity interest of between 20% and 50%, or over which it has the ability to exercise significant influence, but does not control. Joint ventures are entities in which the Group has joint control over the economic activity of the joint venture through a contractual agreement.

Measurement of risk exposures

Risk exposures are measured as the potential loss under stress conditions. A series of standardised stress tests are used to assess potential losses under current market conditions, adverse market conditions, as well as severe stress/event risk. These stress tests are conducted at individual investment and portfolio level.

Risk and capital management report continued

The Group targets an investment portfolio profile which is diversified along a number of pertinent dimensions, such as geography, industry, investment stage and vintage (i.e. annual replacements of realisations).

Stress testing

Economic and regulatory capital calculations are complemented with regular stress tests of market values, and underlying drivers of valuation e.g. company earnings, valuation multiples and assessments of stress resulting from portfolio concentrations.

Regulatory and economic capital

The Basel II Simple risk weight (300% or 400%) approach or the Standardised approach is used for the quantification of regulatory capital.

For economic capital purposes, an approach using market value shocks to the underlying investments is used to assess economic capital requirements for unlisted investments after taking any unrealised profits not taken to book into account.

Where price discovery is reliable, the risk of listed equity investments is measured based on a 90-day ETL calculated using RMB's Internal market risk model. The ETL risk measure is supplemented by a measure of the specific (idiosyncratic) risk of the individual securities per the specific risk measurement methodology.

EQUITY INVESTMENT RISK PROFILE

The listed equity portfolio benefited from the global equity market rally as well as domestic corporate action during the period under review.

The Group continues to build its private equity portfolio with the view that the current market presents a limited number of attractively priced investment opportunities. Some segments of the portfolio exposed to specific industries and/or geographies have come under pressure given the current macroeconomic environment with impairments being raised in certain instances. Overall unrealised profits for the portfolio remain resilient.

A revision of the market risk limits for the equity asset class necessitated some portfolio rebalancing during the year. A number of equities positions (R1 449 million) were reclassified from short-term market risk to long-term market risk in order to better reflect the risk characteristics of the exposures and the time period envisaged for value extraction to materialise. The long-term equity risk ETL calculation was expanded to incorporate these long-term market risk positions together with the investment risk exposures.

Listed long-term market risk and investment risk exposures of R3 333 million (2010: R1 376 million) were included in the long-term equity risk ETL calculation. The ETL on these exposures amounted to R1 297 million (2010: R575 million).

The estimated sensitivity of the remaining investment balances (i.e. those not subject to the equity investment risk ETL process) to a 10% movement in market value is an impact of R169 million (2010: R375 million) on investment fair values.

RMB continues to prudently manage its legacy portfolio of investment assets with no significant new impairments deemed necessary. The strategy remains to hold and manage the legacy exposures to realise value over the longer term.

The cumulative gains realised from the sale of positions held in the Group's banking book during the current financial year amounted to R972 million (2010: R567 million).

The following table provides information relating to equity investments in the banking book of the Group.

Investment valuations and associated economic capital requirements (unaudited)

	2011[1]			2010[1]		
R million	**Publicly quoted investments**	**Privately held**	**Total**	Publicly quoted investments	Privately held	Total
Carrying value disclosed in the balance sheet	**3 236**	**8 068**	**11 303**	2 415	4 106	6 521
Fair value[2]	**3 236**	**10 973**	**14 208**	2 415	6 708	9 123
Total unrealised gains recognised directly in balance sheet through equity instead of the income statement[3]	**49**	**134**	**183**	769	93	862
Latent revaluation gains not recognised in the balance sheet[3]	**–**	**2 905**	**2 905**	–	2 602	2 602
Capital requirement[4]	**493**	**1 459**	**1 952**	534	1 009	1 543

1. *Effective 1 July 2010, FirstRand became the regulated bank controlling company. Prior to 1 July 2010, FRBH was the regulated bank controlling company. The June 2011 figures are therefore not comparable to the June 2010 figures.*
2. *Fair values of listed private equity associates based on their value in use exceeded the quoted market prices by R249 million (2010: R 72 million).*
3. *These unrealised gains or losses are not included in Tier 1 or Tier 2 capital.*
4. *Capital requirement calculated at 9.5% of RWA (excluding the bank specific Pillar 2b add on). In 2010 the capital requirement was calculated at 8%.*

Foreign exchange and translation risk in the banking book

KEY DEVELOPMENTS AND FOCUS

As an authorised dealer in foreign exchange, the Group has a restriction on the gross amount of foreign currency holdings and other foreign exposure it may hold, capped at 25% of its local liabilities. Furthermore, banking regulations regarding the net open forward position in foreign exchange ("NOFP") limits the net open overnight position to no more than 10% of net qualifying capital. The two aspects (gross macro foreign exposure limit and the NOFP) overlay each other and ensure a complementary prudential approach to foreign currency risk management.

INTRODUCTION AND OBJECTIVES

Foreign exchange risk arises from on- and off-balance sheet positions whose valuation in Rand is subject to currency movements. Key activities giving rise to these positions are foreign currency placements, lending and investing activities, the raising of foreign currency funding, and from trading and client facilitation activities in foreign currencies. The objective of foreign exchange risk management is to ensure that currency mismatches are managed within the Group's risk appetite and to ensure that it is overseen and governed in keeping with the risk governance structures.

Translation risk is the risk to the Rand-based South African reported earnings brought about by fluctuations in the exchange rate when applied to the value, earnings and assets of foreign operations. Translation risk is, at present, seen as an unavoidable risk which results from having offshore operations. The Group does not actively hedge this risk.

ORGANISATIONAL STRUCTURE AND GOVERNANCE

Foreign exchange risk results from the activities of all the franchises, but management and consolidation of all these positions occur in one of two business units. Client flow and foreign exchange trading, including daily currency mismatch, are consolidated under and executed by RMB FICC. Foreign currency funding, foreign exposure and liquidity mismatch are consolidated under, and managed by, Group Treasury.

Market risk, foreign exposure and mismatch limits are approved by the Board, and the primary governance body is the RCC committee. Trading risk and the NOFP are overseen by MIRC, a subcommittee of the RCC committee, and mismatch risk is governed through the FirstRand ALCO and International ALCO processes. In addition to the committee structures, business units charged with frontline management of these risks have deployed risk managers within their units who assess and report on these risks on an ongoing basis.

ASSESSMENT AND MANAGEMENT

In addition to the regulatory prudential limit on foreign exposure, the Board has set internal limits on FirstRand's total foreign currency exposure, within the regulatory limit but allowing opportunity for expansion and growth. Internal limits are also set per franchise, taking into account existing foreign asset exposure

Risk and capital management report continued

and future growth plans. Internal limits and utilisation are continuously monitored, and are reviewed when necessary.

The Group's NOFP position is within the regulatory limit of approximately $600 million. Senior management implemented various levels of internal prudential limits, again below the regulatory limit but large enough to cater for the hedging, settlement and execution positions of business units. Group Treasury is the clearer of all currency positions in FirstRand and is therefore tasked with the responsibility for managing the Group's position within all internal and prudential limits. Any breaches are reported through the risk management structures and remediation is monitored by both the deployed risk manager and ERM.

FOREIGN EXCHANGE AND TRANSLATION RISK PROFILE

Over the past year no significant foreign exchange positions have been run, apart from translation risk in strategic foreign investments. Mismatches have been contained well within regulatory limits at all times. The NOFP internal management limit was recently adjusted upwards to cater for increased (unhedged) currency risk related to foreign investment positions held directly by the Group and to cater for increased buffer trading for RMB and Group Treasury trading positions. The macro foreign exposure of the Group remained far below both regulatory and board limits and there is significant headroom for expansion into foreign assets.

Liquidity risk

KEY DEVELOPMENTS AND FOCUS

The banking sector in South Africa is characterised by certain structural features such as a low discretionary savings rate and a higher degree of contractual savings that are captured by institutions such as pension funds, provident funds and providers of asset management services. A portion of these contractual savings translate into wholesale funding for banks which has higher liquidity risk than retail deposits.

Given these structural issues and as a result of the significant growth in risk weighted assets between 2005 and 2007, SA banks' overall proportion of institutional funding increased. This in turn means that short-term, expensive institutional deposits are utilised to fund longer-dated assets such as mortgages. Liquidity risk in the South African banking system is therefore structurally higher than in most other markets.

In December 2010 the BCBS published two documents proposing fundamental reforms to the regulatory capital and liquidity framework (referred to as "Basel III"). The Basel III guidelines propose two new liquidity metrics: the Liquidity Coverage Ratio ("LCR"), effective 1 January 2015, which measures short-term liquidity stress; and the Net Stable Funding Ratio ("NSFR"), effective 1 January 2018, which measures the stability of long-term structural funding. The BCBS committee has put processes in place to ensure the rigorous and consistent global implementation of the Basel III framework. The standards will be phased in gradually so that the banking sector can move to the higher liquidity standards while supporting lending to the economy. Both the LCR and the NSFR will be subject to an observation period and will include a review clause to address any unintended consequences.

Currently FirstRand and most South African banks do not meet the minimum quantitative requirements. This is due to the structural funding issues described. These issues have been recognised by the South African regulators, banking industry and National Treasury. In response, and under the guidance of National Treasury, a Structural funding and liquidity task team has been established and mandated to assess the impact and subsequently make recommendations to the Finance Ministry on how the banking industry will effectively deal with the proposed regulations.

INTRODUCTION AND OBJECTIVES

The Group distinguishes three types of liquidity risk:

- *funding liquidity risk* is the risk that a bank will not be able to effectively meet current and future cash flow and collateral requirements without negatively affecting the normal course of business, financial position or reputation;
- *market liquidity risk* is the risk that market disruptions or lack of market liquidity will cause the bank to be unable (or able, but with difficulty) to trade in specific markets without affecting market prices significantly; and
- mitigation of market and funding liquidity risks is achieved via *contingent liquidity risk* management. Buffer stocks of highly liquefiable assets are held to either be sold into the market or provide collateral for loans to cover any unforeseen cash shortfall that may arise.

The Group's principal liquidity risk management objective is to optimally fund itself under normal and stressed conditions.

ORGANISATIONAL STRUCTURE AND GOVERNANCE

Liquidity risk management is governed by the Liquidity risk management framework ("LRMF"), which provides relevant standards in accordance with regulatory requirements and international best practices. As a subframework to the BPRMF, the LRMF is approved by the Board and sets out consistent and comprehensive standards, principles, policies and procedures to be implemented throughout FirstRand to effectively identify, measure, report and manage liquidity risk.

The Board retains ultimate responsibility for the effective management of liquidity risk. The Board has delegated its responsibility for the assessment and management of this risk to the RCC committee, which in turn delegated this task to FirstRand ALCO. FirstRand ALCO's primary responsibility is the assessment, control and management of both liquidity and interest rate risk for the Bank, FNB Africa and international subsidiaries and branches, either directly or indirectly, through providing guidance, management and oversight to the ALM functions and ALCOs in these subsidiaries and branches.

FirstRand Bank

Liquidity risk for the Bank (RMB, FNB and WesBank) is centrally managed by a dedicated liquidity risk management team in Group Treasury. It is this central function's responsibility to ensure that the liquidity risk management framework is implemented appropriately. ERM provides governance and independent oversight of the central liquidity management team's approaches, models and practices.

The Group's liquidity position, exposures and auxiliary information are reported bimonthly to the Funding executive committee. In addition, management aspects of the liquidity position are reported to and debated by Group Treasury. The liquidity risk management and risk control teams in Group Treasury and ERM also provide regular reports to FirstRand ALCO.

FNB Africa

Individual ALCOs have been established in each of the FNB Africa businesses that manage liquidity risk on a decentralised basis, in line with the principles under delegated mandates from the respective boards. Reports from these committees are regularly presented to FirstRand ALCO and the management and control of liquidity risk in the subsidiaries follows the guidance and principles that have been set out and approved by FirstRand ALCO.

International subsidiaries

Similarly, liquidity risk for international subsidiaries is managed on a decentralised basis in line with the Group's LRMF. Each international subsidiary and branch reports into International ALCO, which is a subcommittee of FirstRand ALCO and meets quarterly to review and discuss region specific issues and challenges for liquidity and interest rate risk.

Dispensation was granted by the Financial Services Authority ("FSA") for a waiver on a "Wholefirm Liquidity Modification application" basis where the FSA considers local risk reporting and compliance of the parent bank sufficient to waive FSA requirements for FirstRand Bank (London branch). FSA reporting commenced from January 2011.

ASSESSMENT AND MANAGEMENT

As indicated in the preceding section, liquidity risk for the Bank is managed centrally by a team in Group Treasury. The Group explicitly acknowledges liquidity risk as a consequential risk that may be caused by other risks as demonstrated by the reduction in liquidity in many international markets as a consequence of the recent credit crisis. The Group is, therefore, focused on continuously monitoring and analysing the potential impact of other risks and events on the funding and liquidity position of the organisation.

Measurement and assessment

The primary tools and techniques employed for the assessment of liquidity risk are discussed below.

Liquidity mismatch analyses

The purpose of these analyses is to anticipate the mismatch between payment profiles of balance sheet items under normal, stressed and contractual conditions. The Group has developed three forecasting models for this purpose:

- Business as usual model: Forecasting the liquidity situation on an ongoing basis. This model provides an estimate of the funds required to be raised under routine circumstances, taking into account behavioural assumptions around the optionality inherent in some products.
- Contractual maturity model: This model provides a forecast of the liquidity position, based on the assumption that assets and liabilities will be liquidated at the contracted date.
- Stress test and event model: This model provides forecasts of the potential outflow of liquidity under extraordinary circumstances, such as times of economic stress or event-related adverse impacts on the Group's reputation.

For each of these categories, multiple key risk indicators are defined that highlight potential risks within defined thresholds. Two levels of severity are defined for each indicator. Monitored on a daily and monthly basis, the key risk indicators may trigger immediate action where required. Their current status and relevant trends are reported to the FirstRand ALCO and RCC committee monthly and quarterly, respectively.

Stress testing and scenario analysis

Regular and rigorous stress tests are conducted on the funding profile and liquidity position as part of the overall stress-testing framework with a focus on:

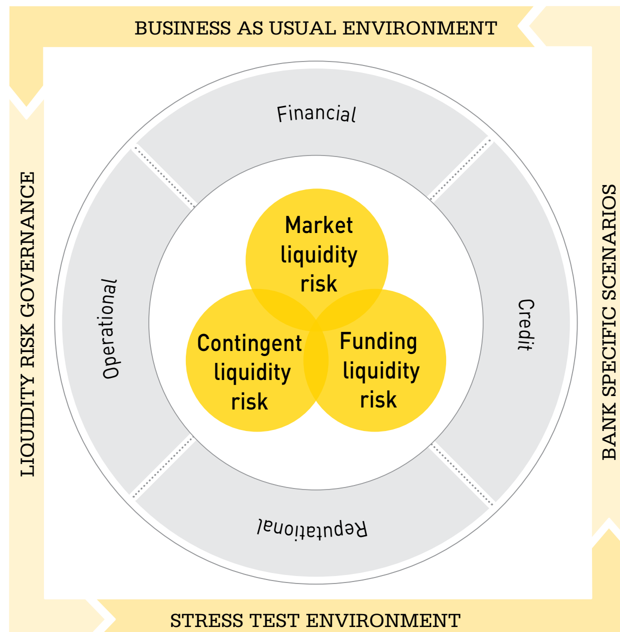
- quantifying the potential exposure to future liquidity stresses;
- analysing the possible impact of economic and event risks on cash flows, liquidity, profitability and solvency position; and
- proactively evaluating the potential secondary and tertiary effects of other risks on the Group.

Risk and capital management report continued

Effective liquidity risk management

Effective liquidity risk management begins with the establishment of a comprehensive and strong internal governance process for identifying, measuring and controlling liquidity risk exposure. The liquidity risk management infrastructure naturally considers business as usual, bank-specific scenarios, and stress test environments. The liquidity risk management process covers market and funding risks, and how risks are interconnected and can "compound" in ways that create elevated levels of risk and potential exposure. Measures of liquidity risk should be based on both structural conditions and prospective cash flow measures.

Liquidity risk management framework



The approach to liquidity risk management distinguishes between structural, daily and contingency liquidity risk, and various approaches are employed in the assessment and management of these on a daily, weekly and monthly basis as illustrated in the chart below:

Aspects of liquidity risk management

Structural LRM	Daily LRM	Contingency LRM
The risk that structural, long-term on- and off-balance sheet exposures cannot be funded timeously or at reasonable cost.	Ensuring that intraday and day-to-day anticipated and unforeseen payment obligations can be met by maintaining a sustainable balance between liquidity inflows and outflows.	Maintaining a number of contingency funding sources to draw upon in times of economic stress.
• liquidity risk tolerance; • liquidity strategy; • ensuring substantial diversification over different funding sources; • assessing the impact of future funding and liquidity needs taking into account expected liquidity shortfalls or excesses; • setting the approach to managing liquidity in different currencies and from one country to another; • ensuring adequate liquidity ratios; • ensuring an adequate structural liquidity gap; and • maintaining a funds transfer pricing methodology and processes.	• managing intraday liquidity positions; • managing the daily payment queue; • monitoring the net funding requirements; • forecasting cash flows; • perform short-term cash flow analysis for all currencies individually and in aggregate; • management of intragroup liquidity; • managing Central Bank clearing; • managing the net daily cash positions; • managing and maintaining market access; and • managing and maintaining collateral.	• managing early warning and key risk indicators; • performing stress testing including sensitivity analysis and scenario testing; • maintaining the product behaviour and optionality assumptions; • ensuring that an adequate and diversified portfolio of liquid assets and buffers are in place; and • maintaining the contingency funding plan.

Liquidity contingency funding planning

The formal contingency funding plan sets out policies and procedures as a blueprint for handling a potential liquidity crisis. Addressing both temporary and long-term liquidity disruptions, it is a comprehensive framework that is tightly integrated with ongoing analyses, stress tests, key risk indicators and early warning systems, as described above. It is reviewed, updated and debated on a regular basis and structured to provide for reliable but flexible administrative structures, realistic action plans and ongoing communication with key external stakeholders and across all levels of the Group.

Cash flow management

The Group has a diversified portfolio of funding sources and has set internal board limits to ensure that there is no concentration risk in one particular sector.

Top ten depositors and funding from associates remained relatively constant at 7% and 2% respectively as a percentage of funding liabilities. The top overnight depositor for June 2011 was 0.8% of the total funding liabilities (2010: 0.5%), well within the internal board limit.

Basel III

The Basel III guidelines, published in December, propose two new liquidity metrics: the LCR, effective 1 January 2015, which measures short-term liquidity stress; and the NSFR, effective 1 January 2018, which measures the stability of long-term structural funding.

The BCBS Committee has put processes in place to ensure the rigorous and consistent global implementation of the Basel III Framework. The standards will be phased in gradually so that the banking sector can move to the higher liquidity standards while supporting lending to the economy. Both the LCR and the NSFR will be subject to an observation period and will include a review clause to address any unintended consequences.

When applying the metrics to the Group's balance sheet at 31 December, both FirstRand and most of the South African banking industry do not meet the minimum quantitative requirements. This is due to the specific structure of funding in the domestic financial services industry, particularly the issue of low discretionary savings, the closed Rand domestic market and the fact that South Africa is an emerging economy.

These structural issues have been recognised by the South African regulators, banking industry and National Treasury. In response, and under the guidance of National Treasury, a Structural funding and liquidity task team has been established and mandated to assess the impact and subsequently make recommendations to the Finance Ministry on how the banking industry will effectively deal with the proposed regulations.

Liquidity risk profile

Undiscounted cash flow

The table below presents the undiscounted cash flows of liabilities and includes all cash outflows related to principal amounts as well as future payments. These balances will not agree with the balance sheet for the following reasons:

- the balances are contractual, undiscounted amounts whereas the balance sheet is prepared using discounted amounts;
- the table includes contractual cash flows with respect to items not recognised on the balance sheet;
- all instruments held for trading purposes are included in the "call to three-month" bucket and not by contractual maturity because trading instruments are typically held for short periods of time; and
- cash flows relating to principal and associated future coupon payments have been included on an undiscounted basis.

Risk and capital management report continued

Liquidity cash flows (undiscounted cash flows) (audited)

	2011			
		Term to maturity		
R million	Carrying amount	Call – 3 months	3 – 12 months	>12 months
Maturity analysis of liabilities based on the undiscounted amount of the contractual payment				
EQUITY AND LIABILITIES				
Liabilities				
Deposits and current accounts	557 256	399 397	69 523	88 336
Short trading positions	12 413	12 413	–	–
Derivative financial instruments	37 028	35 650	884	494
Creditors and accruals	18 838	7 377	2 252	9 209
Long-term liabilities	9 927	–	–	9 927
Policyholder liabilities under insurance contracts	1 047	151	308	588
Policyholder liabilities under investment contracts	93	1	4	88
Loans from Insurance Group	–	–	–	–
Financial and other guarantees	31 346	25 801	3 175	2 370
Facilities not drawn	63 299	38 616	1 433	23 250

	2010			
		Term to maturity		
R million	Carrying amount	Call – 3 months	3 – 12 months	>12 months
Maturity analysis of liabilities based on the undiscounted amount of the contractual payment				
EQUITY AND LIABILITIES				
Liabilities				
Deposits and current accounts	517 551	349 489	89 777	78 285
Short trading positions	16 735	16 735	–	–
Derivative financial instruments	37 034	33 027	2 151	1 856
Creditors and accruals	9 070	5 090	3 665	315
Long-term liabilities	10 719	–	–	10 719
Policyholder liabilities under insurance contracts	2 141	410	48	1 683
Policyholder liabilities under investment contracts	102	7	6	89
Loans from Insurance Group	5 866	3 044	2 303	519
Financial and other guarantees	29 876	23 414	3 511	2 951
Facilities not drawn	52 808	35 725	968	16 115

Contractual discounted cash flow analysis

The following table represents the contractual discounted cash flows of assets, liabilities and equity for the Group. Relying solely on the contractual liquidity mismatch when assessing a bank's maturity analysis would overstate risk, since this represents an absolute worst case assessment of cash flows at maturity.

Due to South Africa's structural liquidity position, banks tend to have a particularly pronounced negative (contractual) gap in the shorter term short-term institutional funds which represent a significant proportion of banks' liabilities, are used to fund long-term assets, for e.g. mortgages.

Therefore, in addition to the analysis in the table above, the Group carries out an adjusted liquidity mismatch analysis, which estimates the size of the asset and liability mismatch under normal business conditions. This analysis is also used to manage this mismatch on an ongoing basis.

Contractual discounted cash flow analysis (audited)

	2011			
		Term to maturity		
R million	Carrying amount	Call – 3 months	3 – 12 months	> 12 months
Maturity analysis of assets and liabilities based on the present value of the expected payment				
Total assets	697 928	260 516	56 392	381 020
Total equity and liabilities	697 928	476 233	73 356	148 339
Net liquidity gap	–	(215 717)	(16 964)	232 681
Cumulative liquidity gap	–	(215 717)	(232 681)	–

	2010			
		Term to maturity		
R million	Carrying amount	Call – 3 months	3 – 12 months	> 12 months
Maturity analysis of assets and liabilities based on the present value of the expected payment				
Total assets	653 155	227 041	68 335	357 779
Total equity and liabilities	653 155	420 436	98 352	134 367
Net liquidity gap	–	(193 395)	(30 017)	223 412
Cumulative liquidity gap	–	(193 395)	(223 412)	–

As illustrated in the table above, during the period under review, the negative contractual liquidity short-term gap deteriorated slightly in the short end on a cumulative basis due to muted asset growth. Management continues to align stress funding buffers both locally and offshore, taking into account prevailing economic and market conditions.

Risk and capital management report continued

Interest rate risk in the banking book

KEY DEVELOPMENTS AND FOCUS

The endowment effect, which results from a large proportion of "endowment" liabilities (including "sticky" deposits and equity) that fund variable-rate assets (e.g. prime-linked mortgages), remains the primary driver of interest rate risk in the banking book, and results in bank earnings being vulnerable to interest rate cuts. The negative endowment effect impacted net interest income ("NII") in the year to June 2011, as rates were on average 114 basis points lower than in the comparative period.

Interest rate risk is managed as part of a holistic balance sheet management approach, in conjunction with other factors, such as credit impairments and balance sheet growth, and in accordance with the Group's house view. If required, the interest rate profile is adjusted through hedging strategies.

INTRODUCTION AND OBJECTIVES

The Group's interest rate risk is managed in two distinct categories:

- Interest rate risk emanating from trading activities is managed on an ETL/VaR basis (refer to the *Market risk in the trading book* section on page 179).
- Interest rate risk in the banking book, as is covered here.

This risk is identified and categorised in the following components:

- interest rate repricing risk arises from the differences in timing between repricing of assets, liabilities and off-balance sheet positions in the banking book;
- yield curve risk arises when unanticipated changes in the shape of the yield curve adversely affects income or underlying economic value;
- basis risk arises from an imperfect correlation in the adjustment of rates earned and paid on different instruments with similar repricing characteristics; and
- optionality, which gives the holder the right, but not the obligation, to alter the cash flow of the underlying position, which may adversely affect the Group's position as the counterparty to such a transaction.

The assumption and management of interest rate risk can be an important source of profitability and shareholder value, but excessive interest rate risk positions may pose a significant threat to the Group's earnings and capital base. Effective interest rate risk management practices should contain interest rate risk exposure within board-approved limits and risk appetite. Limits are expressed in terms of NII sensitivity and, where practical, internal measures also include fair value limits of the banking book instruments that can be fair valued.

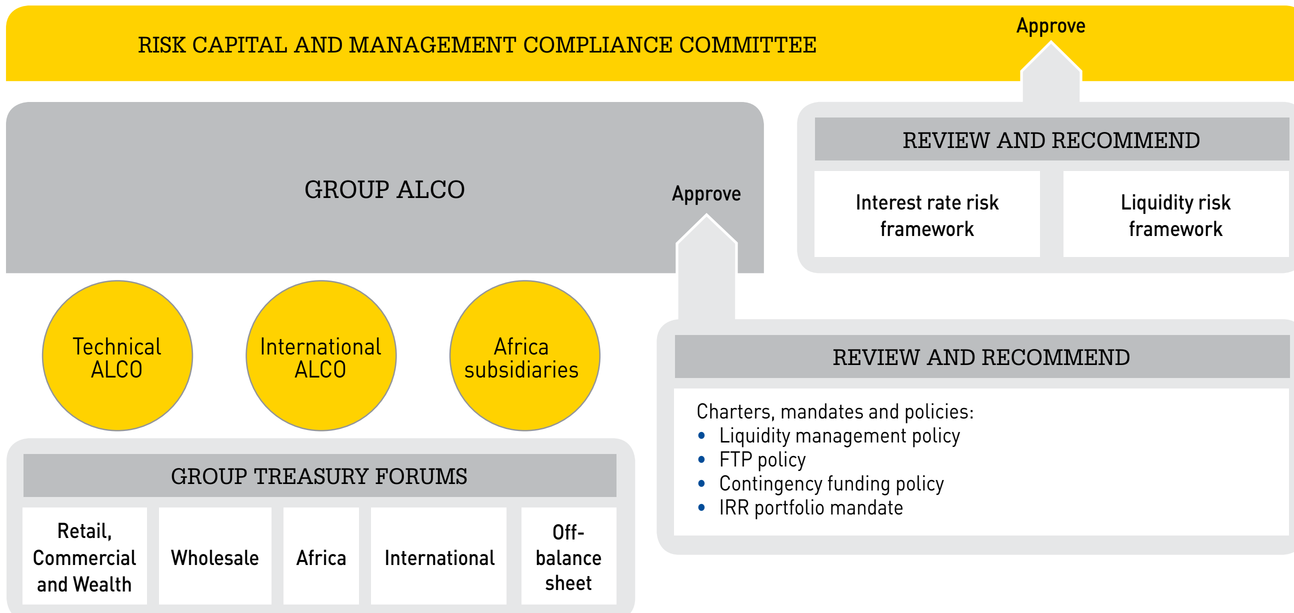
The objective of interest rate risk management is, therefore, to protect the balance sheet and earnings level from potential adverse effects arising from the various interest rate risk types described above.

ORGANISATIONAL STRUCTURE AND GOVERNANCE

The control and management of interest rate risk is governed by the Framework for the Management of IRRBB, a subframework of the BPRMF. Due to regulatory requirements and the structure of the Group, different management approaches, reports and lines of responsibility exist across the various parts of the Group, as outlined below.

The management and governance of interest rate risk in the banking book is delegated by the Board to the RCC committee, which in turn delegates the responsibility to ALCO, Group Treasury, RMB and the regional ALCOs as illustrated in the following chart.

Interest rate risk management and governance structure



All IRRBB related activities are overseen and reported to the FirstRand ALCO, a subcommittee of the RCC committee, as illustrated in the *governance structure*. FirstRand ALCO is also responsible for the allocation of sublimits on the basis of mandates given by the RCC committee and it approves proposed remedial action for any limit breaches, as appropriate.

Interest rate risk, unlike credit risk, can only be adequately assessed and managed at an aggregate level for the banking book. The net interest rate risk profile of the domestic banking book (i.e. FRB, excluding RMB) is centrally managed by Group Treasury subject to oversight and governance from ERM and FirstRand ALCO.

RMB has a delegated mandate from FirstRand ALCO for the management of its IRRBB (in line with the Market risk management framework) as well as for ensuring that the limits of the Group's risk appetite are observed. ERM oversees and controls the management of interest rate risk in the banking books of Group Treasury and RMB. The RMB banking book interest rate risk exposure was R45.9 million on a 10-day ETL basis at 30 June 2011 (2010: R69.5 million). The *Market risk* section of this report provides a description of the ETL methodology.

Individual ALCOs exist in each of the FNB Africa subsidiaries for the purpose of interest rate risk monitoring and management. Relevant reports are submitted by the subsidiaries to FirstRand ALCO on a monthly basis. International subsidiaries and branches are overseen by the International ALCO (a subcommittee of FirstRand ALCO), which provides central oversight and monitoring reflective of each region's specific issues and requirements.

ASSESSMENT AND MANAGEMENT

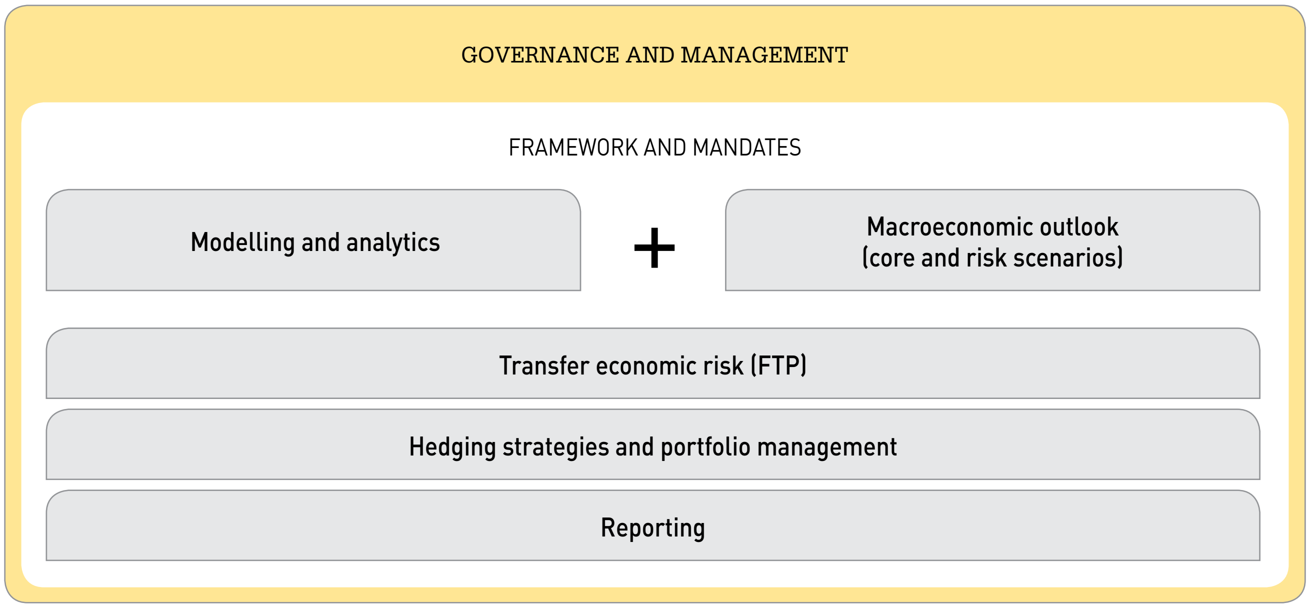
A number of measurement techniques are employed to quantify IRRBB as defined above, focusing both on the potential risk to earnings and the potential impact on overall economic value.

In line with industry practice the analyses cover parallel rate shocks, yield curve twists, complex stress tests and static repricing gap analyses. Results from these analyses are reported to FirstRand ALCO for review on a monthly basis. Additionally hedge positions and strategies are monitored daily, and are managed within defined risk appetite levels.

Risk and capital management report continued

The Group's IRRBB management and assessment activities are summarised in the following chart.

Interest rate risk management and assessment



Interest rate risk is transferred from business units through FTP to be managed centrally by Group Treasury. The risk profile is adjusted by changing the composition of the Group's liquid asset portfolio or through derivative transactions, where possible based on the interest rate outlook, as well as the Group's view on other risk factors that might impact its balance sheet. In this respect, it is important to highlight that interest rate risk can, in the Group's view, only be effectively managed if it is understood in the context of other risks and how the interaction may adversely impact its financial position and, ultimately, its interest rate risk profile.

In addition to measuring and hedging risk at an aggregate (net position) level, individual, large and complex transactions may be hedged at a micro level where appropriate. Management of the interest rate risk profile is carried out within the limits approved by the ALCOs.

An investment committee oversees these activities for the domestic banking operations and proposes portfolio actions.

Cash flow hedge accounting is applied for derivatives used in the interest rate risk hedging strategies. Where hedges do not qualify for this treatment, mismatches may arise due to timing differences in the recognition of income from the fair valued hedges and the underlying exposures, which would be accounted for on an accrual basis.

Modelling assumptions

Modelling assumptions are made that affect both the determination of interest rate risk incurred in the banking book and the hedging activity that takes place in mitigation of the exposures. These include:

- all banking book assets, liabilities and derivative instruments are placed in gap intervals based on their 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;
- new volume points are assigned to balances as and when they mature in order to maintain balance sheet size and mix;
- derivative hedges that mature are not replaced;
- presettlement expectations are factored into the volume and term of hedges for fixed rate lending activities; and
- interest rate risk modelling extends over a five-year time horizon, of which the first 12-month period is disclosed. Several interest rate shocks and scenarios are modelled.

Assumptions are made with respect to the repricing characteristics of instruments that have no explicit contractual repricing or maturity dates:

- non-maturity deposits and transmission account balances ("NMD's") do not have specific maturities as individual depositors can freely withdraw or place funds. Interest rates associated with these products are administered by the Group, but are not indexed to market rates. NMD's are assumed to reprice overnight since the administered rate can change at any time at the Group's discretion; and
- prime-linked products are assumed to reprice immediately whenever the repo rate changes.

IRRBB PROFILE

The natural position of the banking book is asset sensitive, since interest-earning assets tend to reprice faster than interest-paying liabilities in response to interest rate changes. This results in a natural exposure of NII to declining interest rates, which represents the largest component of interest rate risk. The Group seeks to use hedges against this exposure, wherever economically feasible. These hedges tend to be predominantly interest rate swaps (receive fixed, pay floating).

Repricing schedules for the Group's banking book (audited)

	2011				
	Term to repricing				
R million	<3 months	>3 but ≤6 months	>6 but ≤12 months	>12 months	Non-rate sensitive
FirstRand Bank					
Net repricing gap	52 582	(2 746)	(12 145)	(8 061)	(29 630)
Cumulative repricing gap	52 582	49 836	37 691	29 630	–
FNB Africa					
Net repricing gap	5 263	(715)	(562)	642	(4 628)
Cumulative repricing gap	5 263	4 548	3 986	4 628	–
Total cumulative repricing gap	57 845	54 384	41 677	34 258	–

	2010				
	Term to repricing				
R million	<3 months	>3 but ≤6 months	>6 but ≤12 months	>12 months	Non-rate Sensitive
FirstRand Bank					
Net repricing gap	(14 385)	11 987	15 999	2 085	(15 686)
Cumulative repricing gap	(14 385)	(2 398)	13 601	15 686	–
FNB Africa					
Net repricing gap	5 608	(960)	(1 141)	693	(4 200)
Cumulative repricing gap	5 608	4 648	3 507	4 200	–
Total cumulative repricing gap	(8 777)	2 250	17 108	19 886	–

This repricing gap analysis excludes the banking books of RMB and FRB's India and London branches, which are separately managed on a fair value basis.

Risk and capital management report continued

Sensitivity analysis

NII sensitivity increased by R1 273 million compared to the previous year. As explained previously, the Group remains sensitive to downward movement in interest rates. The "endowment" effect was partly hedged in June 2010. The hedges have been reduced in June 2011, resulting in an increased positive gap (and increased sensitivity) as disclosed in the above tables, in line with the Group's macroeconomic outlook.

NII sensitivity is subject to approved internal board limits. Utilisation of the risk limit was well within permitted exposures during and at the end of the year.

Assuming no management action in response to interest rate movements, an instantaneous sustained parallel decrease of 200 basis points in all interest rates would result in a reduction in projected 12-month NII of R2 186 million. A similar increase in interest rates would result in an increase in projected 12-month NII of R2 200 million.

Sensitivity of the Group's projected NII (audited)

	2011		
	Change in projected 12 month NII		
R million	FirstRand Bank	FNB Africa	FirstRand
Downward 200 bps	(2 013)	(173)	(2 186)
Upward 200 bps	2 027	173	2 200

	2010		
	Change in projected 12 month NII		
R million	FirstRand Bank	FNB Africa	FirstRand
Downward 200 bps	(789)	(124)	(913)
Upward 200 bps	798	124	922

This NII sensitivity analysis excludes the banking books of RMB and FRB's India and London branches, which are separately managed on a fair value basis.

Effective 1 July 2010, FirstRand became the regulated bank controlling company. Prior to 1 July 2010, FRBH was the regulated bank controlling company. The 2011 figures for FirstRand are therefore not comparable to the 2010 FRBH figures.

Sensitivity of the Group's reported reserves to interest rate movements (audited)

	2011	2010
Downward 200 bps	(0.51%)	0.39%
Upward 200 bps	0.68%	(0.11%)

Operational risk

KEY DEVELOPMENTS AND FOCUS

During the year under review the Group continued to improve operational process efficiencies and implemented a process-based platform for risk control, identification and assessment. Enhancements to and automation of operational risk measurement tools continue to be a focus area. In the next financial year the Group will continue to embed the combined assurance approach to risk management.

INTRODUCTION AND OBJECTIVES

Operational risk vs. reward is seldom proportional, yet it is an inherent and unavoidable part of doing business and exists, to a varying degree, in all organisational activities.

The Group recognises that operational risk exposure is incurred in generating sustainable profits, but advocates that it only does so within the Group defined risk tolerance levels.

The objective of operational risk management is thus not to eliminate all operational risk exposure but to set a framework for effectively managing and mitigating operational risk within acceptable and approved risk tolerance levels. Management's continued focus on improving process efficiencies is yielding positive business benefits.

ORGANISATIONAL STRUCTURE AND GOVERNANCE

The management of operational risk is governed by the board-approved operational risk management framework ("ORMF") a subframework of the BPRMF. The ORMF prescribes the authorities, governance and monitoring structures, duties and responsibilities, processes, methodologies and standards which have to be implemented and adhered to when managing operational risk.

The Board has delegated its responsibility for the adequate identification and management of operational risk to the RCC committee, which in turn delegated this task to the Operational risk committee ("ORC"), a subcommittee of the RCC committee.

The ORC provides governance, supervision, oversight, and coordination of relevant risk processes as set out in the ORMF. To ensure appropriate visibility at board level, the ORC includes two non-Exco members, one of whom is a board member. Other members include franchise CROs, franchise heads of operational risk and senior personnel of the central ERM function.

In addition, there are governance committees at all levels of the Group (business unit, segment and franchise) that have been designed and established to support the ORC and the RCC in executing their risk management duties and responsibilities.

The central operational risk management team in ERM is responsible for embedding the governance structure across the Group.

ASSESSMENT AND MANAGEMENT

Operational risk assessment approaches and tools

The Group obtains assurance that the principles and standards in the ORMF are being adhered to by the three lines of control model integrated in operational risk management. In this model, business units own the operational risk profile as the first line of control. In the second line of control ERM provides oversight, sets the risk appetite and challenges the risk profile. GIA in the third line of control provides independent assurance of the adequacy and effectiveness of operational risk management practices.

In line with international best practice, a variety of tools and approaches are employed in the management of operational risk. The most pertinent of these are outlined in the following chart.

Operational risk tools and approaches

OPERATIONAL RISK TOOLS AND APPROACHES		
Risk control self assessments ("RCSA")	**Key risk indicators ("KRI")**	**Audit findings**
• Integrated in the day-to-day business and risk management processes. • Used by business and risk managers to identify and monitor key risk areas and assess the effectiveness of existing controls. • Customised RCSA templates have been developed for specialised areas such as IT, business continuity and physical security.	• Used across the Group in all businesses as an early warning measure. • Highlight areas of changing trends in exposures to specific operational risks. • KRI reports are tabled at management and risk governance meetings to ensure that changes in the risk profile are brought to the attention of senior management.	• GIA acts as the third line of risk controls across the Group. • GIA provides an independent view on the effectiveness of existing controls and their effectiveness in mitigating risks associated with key and supporting processes. • Audit findings are tracked, monitored and reported on through the risk committee structures.
Internal/external loss data	**Internal validation**	**Risk scenarios**
• The capturing of loss data is well entrenched within the Group. • Internal loss data reporting and analyses occurs at all levels with specific focus on the root cause analysis and corrective action. • External loss data bases are used to learn from other organisations and as an input to the risk scenario process.	• A Group-wide internal validation is undertaken annually to ensure consistency in the application and output of the various tools. • This process involves a robust challenge of all the risk tools at all levels within the Group. • A report is issued on the final result to the business.	• Risk scenarios are widely used to identify and quantify extreme loss events. • Senior executives of the business actively participate in the bi-annual reviews. • The results are tabled at the appropriate risk committees and used as input to the capital modelling process.

Risk and capital management report continued

In addition to these operational risk tools and approaches, other specialised operational risk tools are used for specific risks, such as business resilience and IT risks. FirstRand also uses an integrated and renowned operational risk system which provides the technology for the automation of certain operational risk functions. This system is well positioned as the core operational risk system, and provides a solid platform for further automation, which is currently a key focus area for operational risk management. Other key objectives include the development, deployment and integration of an integrated risk and performance management solution which includes the implementation of an enhanced RCSA process which has been expanded to include process identification and assessment.

Operational risk losses

As operational risk cannot be avoided or mitigated entirely, frequent operational risk events resulting in small losses are expected as part of business operations (e.g. fraud) and are budgeted for appropriately. Business areas seek to minimise these losses through continuously monitoring and improving relevant business and control practices and processes. Operational risk events resulting in substantial losses occur much less frequently and the Group seeks to minimise these incidences and contain severity within risk appetite limits.

Given the ever-changing and complex nature of its business and processes, the Group employs a dynamic approach to managing operational risk and this approach results in continuous change or renewal. It is common practice, when implementing change of this nature, to address less than optimal operational procedures with meaningful adjustments to risk management. The Board and management continue to refine the consistent and disciplined approach of linking business processes to the operational risk and control environment.

Basel II – Advanced measurement approach

FirstRand began applying AMA under Basel II from 1 January 2009 for the Group's domestic operations. Offshore subsidiaries and operations continue to utilise the standardised approach for operational risk and all previously unregulated entities that are now part of FRIHL utilise the Basic indicator approach.

Under AMA, FirstRand is allowed to use a sophisticated statistical model for the calculation of capital requirements, which enables more granular and accurate risk-based measures of capital for all business units on AMA.

A number of **operational risk scenarios** (covering key risks that, although low in probability, may result in severe losses) and **internal loss data** are the inputs into this model.

- Scenarios are derived through an extensive analysis of the Group's operational risks in consultation with business and risk experts from the respective business units. Scenarios are cross referenced to external loss data, internal losses, the control environment and other pertinent information about relevant risk exposures. To ensure the ongoing accuracy of risk and capital assessments, all scenarios are reviewed, supplemented or updated semi-annually, as appropriate.
- The loss data used for risk measurement, management and capital calculation is collected for all seven Basel II event types across various internal business lines. Data collection is the responsibility of the respective business units and is overseen by the central operational risk function in ERM.

The modelled operational risk scenarios are combined with modelled loss data in a simulation model to derive the annual, aggregate distribution of operational risk losses. Regulatory capital requirements are then calculated (for the Group and each franchise) as the operational VaR at the 99.9th percentile of the aggregate loss distribution, excluding the effects of insurance, expected losses and potential diversification effects.

Capital requirements are calculated for each franchise using the AMA capital model, and then allocated to the legal entities within the Group based on gross income contribution ratios. This split of capital between legal entities is required for internal capital allocation, regulatory reporting and performance measurement.

Business practices continuously evolve and the operational risk control environment is therefore constantly changing as a reflection of the underlying risk profile. The assessment of the operational risk profile and exposures, and associated capital requirements take the following into account:

- changes in the risk profile, as measured by various risk measurement tools;
- material effects of expansion into new markets, new or substantially changed activities as well as the closure of existing operations;
- changes in the control environment – the organisation targets a continuous improvement in the control environment, but deterioration in effectiveness is also possible due to, for example, unforeseen increases in transaction volumes; and
- changes in the external environment, which drives certain types of operational risk.

Management processes

A comprehensive and integrated approach to managing operational risk includes the monitoring of some specialist operational risk processes. These are described below.

Business resilience management

Business resilience management ("BRM") is focused on ensuring that the Group's operations are resilient to the risk of severe disruptions caused by internal failures or external events.

The business continuity practices of the Group are documented in the business resilience, emergency response and incident management policy and supporting standards, which are approved at the Business resilience steering committee a subcommittee of the ORC. The policy requires the development and maintenance of business continuity strategies and plans. It also requires regular business continuity testing to be carried out in all business units.

The Group carries out regular reviews of BRM practices, and any disruptions or incidents are regularly reported to the relevant risk committees. Over the reporting period, all material areas remained at an acceptable status of readiness.

Legal risk

The legal risk management framework addresses and seeks to guide the operations of the Group in areas such as the creation and ongoing management of contractual relationships, the management of disputes, which do or might lead to litigation, the protection and enforcement of property rights, (including intellectual property) and the impact of changes in the law brought about by legislation or the decisions of the courts (unless such changes are covered as part of the compliance programme under RRM).

The legal risk management programme which flows from this is subject to continual review and refinement to ensure that sound operational risk governance practices and solutions are adopted and that it aligns with the Group's overall risk management programme. The legal risk committee, a subcommittee of the ORC, has oversight of legal risk management. During the year under review there were no significant legal risk-related incidents.

Information risk

Information risk is the risk of adverse business impacts, including reputational damage caused by a failure of data confidentiality, integrity and availability controls and is therefore a key area of ongoing focus.

The Group's information technology risk management framework ("IT framework") requires the application of the operational risk tools as discussed above. The tools have been adapted to align with IT standards and best practice. The IT framework is approved by the Technology and information risk management committee, an ORC subcommittee and applies to all operations across the Group.

The IT framework clearly defines the objectives for managing information risk, and outlines the processes that need to be embedded, managed and monitored across the Group.

Like many other large organisations, the Group constantly faces a number of new and changing threats across the evolving IT landscape. The risk monitoring and management structures are designed to enable it to adapt and evolve its risk management strategy with the continuously changing IT environment.

Fraud and security risks

The Group is committed to creating an environment that safeguards customers, staff and assets against fraud or security risks by continually investing in people and processes for both preventative and detective measures.

Oversight and governance of fraud and security risk is ensured via specific frameworks and policies that are applicable across the Group.

The Group utilises a deployed fraud risk management model that requires businesses to institute processes and controls specific and appropriate to its operations within the constraints of a consistent governance framework that is overseen centrally by ERM.

Regulatory risk

KEY DEVELOPMENTS AND FOCUS

The regulatory landscape is dynamic with many changes and enhancements being proposed and introduced by regulators. These emanate, in the main, from international standard-setting bodies responding to the lessons learned from the global financial crisis. South African banking regulation is based on international standards and best practice and is constantly being enhanced in line with the BCBS's reform programme and its ongoing work to strengthen the resilience of banks and the global banking system.

In this regard, the South African banking regulator is in the process of finalising current proposed amendments to the banking legislative framework in its ongoing effort to incorporate measures issued by the various international standard-setting bodies. Amongst others, these new or amended requirements and standards aim to further enhance the safety and soundness of the domestic banking system in support of financial stability. It is anticipated that, going forward, these and other measures will remain focus areas to ensure that the South African legal and regulatory framework pertaining to the banking sector remains effective in strengthening the regulation, supervision and risk management of the banking sector.

FirstRand is supportive of the banking regulator's objectives and endorses improvements in risk management and governance practices as an active participant in the changing regulatory landscape. The same approach is also applied in respect of cooperation with other regulatory authorities and much effort and resources are dedicated in a cost efficient manner in order to reap maximum benefits emanating from the implementation of best practice and the resultant enablement of our business activities.

Risk and capital management report continued

INTRODUCTION AND OBJECTIVES

The Group's RRM function plays an integral part in managing the risks inherent in the business of banking. The Group fosters a compliance culture in its operations that contributes to the overall objective of prudent regulatory compliance and risk management by observing both the spirit and the letter of the law as an integral part of its business activities. The Group embeds and endorses a culture that emphasises standards of honesty and integrity in which the Board and senior management lead by example. The compliance culture also embraces broader standards of integrity and ethical conduct and concerns all employees.

Non-compliance may potentially have serious consequences, which could lead to both civil and criminal liability, including penalties, claims for loss and damages or restrictions imposed by regulatory bodies.

The objective of the RRM function is to ensure that business practices, policies, frameworks and approaches across the organisation are consistent with applicable laws, and that regulatory risks are identified and managed proactively throughout the Group.

It is of paramount importance to ensure compliance with, among other, the provisions of the Banks Act, 1990 (Act No. 94 of 1990 – "the Act") and the Regulations relating to Banks ("the Regulations"), and to ensure that all compliance issues identified in this context are effectively and expeditiously resolved by senior management with the assistance of RRM.

In order to achieve this, all staff members are continually made aware of compliance requirements in order to ensure a high level of understanding and awareness of the regulatory framework applicable to the Group and the potential regulatory risks to which the Group is exposed.

Furthermore, ethical behaviour is both a keystone and an important contributor to the success of the entire compliance process. In view thereof, the Group expects all staff to maintain standards of honesty, integrity and fair dealing and to act with due skill, care and diligence.

ORGANISATIONAL STRUCTURE AND GOVERNANCE

Responsibility for ensuring compliance with all relevant laws, internal policies, regulations and supervisory requirements rests with the Board. In order to assist board members to make informed judgements on whether the Group is managing its regulatory and compliance risks effectively, the Head of RRM has overall responsibility for coordinating the management of the Group's regulatory risk, including monitoring, assessing and reporting on the level of compliance to senior management and the Board. RRM complies with the prescribed requirements in terms of Regulation 49 of the Regulations and its mandate is formalised in the Group's compliance risk management framework.

Governance oversight of the RRM function is conducted by a number of committees such as the RRM committee, the RCC committee and the FirstRand Audit committee, all of which receive regular detailed reports on the level of compliance and instances of material non-compliance from RRM.

The RRM function retains an independent reporting line to the Group CEO as well as to the Board through its designated committees.

In addition to the centralised RRM function, each of the operating franchises have dedicated compliance officers responsible for implementing and monitoring compliance policies and procedures related to their respective franchises.

ASSESSMENT AND MANAGEMENT

The high-level activities of RRM are described in the chart below.

Regulatory risk management activities

<table>
<tr><th>Regulatory risk and ethics strategy development</th><th>Regulatory risk and ethics management</th><th>Centre of excellence</th><th>Relationship management</th></tr>
<tr><td rowspan="2">Defines overall strategy for FirstRand – and ensures alignment of brand strategy</td><td>Performs strategic risk identification, assessment, mitigation and provides assurance</td><td rowspan="2">Provide expertise, advice and guidance</td><td rowspan="3">Provides regulatory liaison and relationship management</td></tr>
<tr><td>Monitors, analyses and reports ethics and regulatory risks</td></tr>
<tr><td rowspan="2">Sets framework, policies, standards for RRM and ethics</td><td>Gathers and manages ethics and regulatory risk data/information</td><td rowspan="2">Facilitates knowledge management, training and awareness</td></tr>
<tr><td>Sets core control functions at FirstRand level for standards/ policy setting</td><td rowspan="3">Stakeholder relationship management (internal and external)</td></tr>
<tr><td rowspan="2">Fosters a culture of ethical conduct and compliance</td><td>Challenges, tests and makes final trade-off decisions at divisional level (dependent on decision rights)</td><td rowspan="2">Runs selected core activities</td></tr>
<tr><td>Ensures sustainability through regulatory risk and ethics strategy</td></tr>
</table>

The RRM function's Board mandate prescribes full compliance with statutes and regulations. To achieve this, RRM has implemented appropriate structures, policies, processes and procedures to identify regulatory and supervisory risks monitor the management thereof and report on the level of compliance risk management to both the Board and the Registrar of Banks. These include:

- risk identification through documenting which laws, regulations and supervisory requirements are applicable to FirstRand;
- risk measurement through the development of risk management plans;
- risk monitoring and review of remedial actions;
- risk reporting; and
- providing advice on compliance-related matters.

Although independent of other risk management and governance functions, the RRM function works closely with GIA, ERM, external audit, internal and external legal advisors and the company secretary's office to ensure the effective functioning of the compliance processes.

Accounting policies

1. Introduction

FirstRand Limited ("the Group") is an integrated financial services company consisting of banking, insurance and asset management operations.

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

2. Basis of presentation

The Group's consolidated financial statements have been prepared in accordance with IFRS. The principal accounting policies are consistent in all material aspects with those adopted in the previous year, except for the adoption of:

- IFRS 1 *First-time Adoption of International Financial Reporting Standards* was amended during January 2010. The amendment provides relief to first-time adopters of International Financial Reporting Standards from providing the additional disclosures introduced in March 2009 by the amendment to IFRS 7 *Improving Disclosures about Financial Instruments*. The additional disclosure requirements included in the amendment to IFRS 7 required enhanced disclosures about fair value measurement and liquidity risk. The amendment does not have an impact on the Group as the Group has already adopted IFRS.
- IAS 32 *Financial Instruments: Presentation* was amended during October 2009. The amendment clarifies the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. The amendment requires rights issues offered pro rata to all of an entity's existing shareholders to be classified as equity instruments regardless of the currency in which the exercise price is denominated. The amendment has had no impact on the Group's results as no such arrangements have been entered into.
- As part of its annual improvements project the IASB made amendments to a number of accounting standards. The aim is to clarify and improve the accounting standards. The improvements include those involving terminology or editorial changes with minimal effect on recognition and measurement. The annual improvements project for 2009 is effective for annual periods commencing on or after 1 January 2010 and the improvements made to IFRS 3 and IAS 27 as part of the 2010 annual improvements project is effective for annual periods commencing on or after 1 July 2010. The Group has adopted these amendments during the current financial year. These amendments have not had a significant impact on the Group's results nor has it resulted in the restatement of prior year numbers.
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* is effective for annual periods commencing on or after 1 July 2010. This interpretation addresses the accounting by an entity when the terms of a financial liability are renegotiated and results in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability. These transactions are often referred to as debt for equity swaps. This interpretation does not address the accounting by the creditor. This interpretation has no effect on the Group's financial statements as no such arrangements have been entered into.

The Group adjusts comparative figures to conform to changes in presentation in the current year. For details refer to accounting policy note 34.

The Group prepares its consolidated financial statements in accordance with the going concern principle using the historical cost basis, except for certain assets and liabilities.

These assets and liabilities include:

- financial assets and liabilities held for trading;
- financial assets classified as available-for-sale;
- derivative financial instruments;
- financial instruments elected to be carried at fair value through profit and loss;
- investment properties valued at fair value;
- employee benefit liabilities, valued using projected unit credit method; and
- policyholder liabilities under insurance contracts that are valued in terms of the Financial Soundness Valuation ("FSV") basis as outlined below.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are outlined in note 44.

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

3. Consolidation

3.1 SUBSIDIARIES

The consolidated financial statements include the assets, liabilities and results of the operations of the holding company and its subsidiaries. Subsidiaries are all companies over which the Group, directly or indirectly, has the power to exercise control over the operations for its own benefit. The Group considers the existence and effect of potential voting rights that are presently exercisable or convertible in determining control. Subsidiaries are consolidated from the date on which the Group acquires effective control. Consolidation is discontinued from the date that control over the subsidiary ceases.

The Group will consolidate a Special Purpose Entity ("SPE") when the substance of the relationship between the Group and the SPE indicates that the Group controls the SPE.

Intercompany transactions, balances and unreaslised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

3.2 CONSOLIDATION OF COLLECTIVE INVESTMENT SCHEMES

The Group consolidates collective investment schemes in which it is considered to have control through its size of investment, voting control or related management contracts. The consolidation principles as described in interests in subsidiaries above are applied.

3.3 BUSINESS COMBINATIONS

The Group uses the acquisition method of accounting to account for the acquisition of subsidiaries. The consideration transferred for the acquisition is measured at the fair value of the assets transferred, equity instruments issued and the liabilities incurred or assumed at the acquisition date. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement and the acquisition date fair value of any existing equity interest held in the subsidiary. The contingent asset or liability is initially measured at fair value at acquisition date. A contingent obligation to pay contingent consideration is classified as equity or liability. The contingent asset or liability is subsequently measured at fair value with fair value changes recognised against the acquisition cost where they qualify as the measurement period adjustment as per IFRS 3 as recognised in accordance with the IFRS applicable to that asset or liability. Contingent consideration that is classified as equity is not remeasured after the acquisition date. Transaction costs are expensed as incurred.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the consideration transferred, the amount of any non-controlling interests in the subsidiary (also refer to accounting policy 3.4) and the acquisition date fair value of any previous equity interest in the subsidiary over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired, in the case of a bargain purchase, the difference is recognised directly in profit or loss.

When control is achieved in stages, each transaction is accounted for separately and the identifiable assets, liabilities and contingent liabilities are measured at fair value at acquisition date

3.4 NON-CONTROLLING INTERESTS

Non-controlling interests in the net assets of subsidiaries are separately identified and presented from the Group's equity therein. Non-controlling interests can initially be measured either at fair value or at the non-controlling interests proportionate share of the subsidiary's identifiable net assets at the acquisition date. This is not an accounting policy election and the Group will apply the choice of measurement basis on an acquisition by acquisition basis.

Subsequently the non-controlling interests consist of the amount attributed to such interest at initial recognition and the non-controlling interests share of changes in equity since the date of the combination

Non-controlling interests are treated as equity participants of the subsidiary company. The Group treats all acquisitions and disposals of its non-controlling interests in subsidiary companies, which does not result in a loss of control, as equity transactions. The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Group.

4. Associates and joint ventures

Associates are entities in which the Group holds an equity interest of between 20% and 50%, but has no control. The Group is presumed to have significant influence where it holds an equity interest of between 20% and 50% Joint ventures are entities in which the Group has joint control over the economic activity of the joint venture, through a contractual agreement. Investments acquired and held exclusively with the view to dispose of in the near future (within 12 months) are not accounted for using the equity accounting method, but are measured at fair value less cost to sell in terms of the requirements of IFRS 5.

The Group includes the results of associates and joint ventures in its consolidated financial statements using the equity accounting method, from the effective date of acquisition to the effective date of disposal. The investment is initially recognised at cost. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss.

Earnings attributable to ordinary shareholders include the Group's share of earnings of associates and joint ventures. Other comprehensive income includes the Group's share of other comprehensive income of associates and joint ventures. The

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cumulative post acquisition movements are adjusted against the carrying amount of the investment in the associate or joint venture.

Goodwill on the acquisition of associates and joint ventures is included in the carrying amount of the investment in associates or joint ventures. The Group assesses at each reporting period whether there is objective evidence in terms of IAS 39 that an investment in an associate or joint venture is impaired. If such evidence of impairment exists, the entire carrying amount, including the goodwill, is tested for impairment in terms of IAS 36.

Equity accounting is discontinued from the date that the Group ceases to have significant influence over the associate or joint venture. The Group measures at fair value any investment it has retained in the entity when significant influence is lost and recognises the resulting gain or loss in profit or loss. The gain or loss is measured as the difference between the fair value of this retained investment and the carrying amount of the original investment at the date significant influence is lost.

After discontinuing equity accounting, the Group accounts for any retained investment in the entity in accordance with the relevant IFRS as appropriate. The Group also applies the requirements of IAS 39 to determine whether there are any indicators of impairment. If such indicators are found to be present the requirements of IAS 36 are applied in testing the investment for impairment and determining the amount of any additional impairment loss with respect to the net investment in the associate or joint venture as well as other exposures to the investee.

The Group does not account for any further losses of the associate or joint venture when the carrying amount of the investment in an associate or joint venture reaches zero, unless it has incurred obligations or guaranteed obligations in favour of the associated undertaking.

The Group resumes equity accounting only after its share of the profits equals the share of losses not recognised. The Group increases the carrying amount of investments with its share of the associate or joint venture's income when equity accounting is resumed.

Unrealised gains on transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's interest in the entity. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the associates and joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

Investment in associates held in policyholder portfolios backing investment linked policyholder liabilities are designated on initial recognition at fair value through profit or loss in terms of the scope exemption in IAS 28.

4.1 COLLECTIVE INVESTMENT SCHEMES

Collective investment schemes in which the Group has less than 50% economic interest, and controls the management company, the Group is presumed to have significant influence over the collective investment scheme and these schemes are accounted for as associates. Significant judgment is required to determine instances where the Group exercises significant influence.

5. Interest income and expense

The Group recognises interest income and expense in profit or loss for instruments measured at amortised cost using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or 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.

Interest income on instruments designated at fair value through profit or loss are included in fair value income except to the extent that the interest relates to:

- the Group's insurance operations;
- the Group's funding operations;
- interest on intercompany balances; and
- where hedge accounting is applied.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument (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 Group suspends the accrual of contractual interest on non-recoverable advances. However, in terms of IAS 39, interest income on impaired advances is thereafter recognised based on the original effective interest rate used to determine the discounted recoverable amount of the advance.

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

6. Fair value income

The Group includes profits or losses, fair value adjustments and interest on trading financial instruments (including derivative instruments that do not qualify for hedge accounting in terms of IAS 39), as well as trading related financial instruments designated at fair value through profit or loss as fair value income in non-interest income. Trading related financial instruments designated at fair value through profit or loss exclude instruments relating to the Group's insurance operations and the Group's funding requirements.

7. Fee and commission income

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

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

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

8. Dividend income

The Group recognises dividends when the Group's right to receive payment is established. This is on the "last day to trade" for listed shares and on the "date of declaration" for unlisted shares. Dividend income includes scrip dividends, irrespective of whether there is an option to receive cash instead of shares, except to the extent that the scrip dividend is viewed as a bonus issue, with no cash alternative and the transaction lacks economic significance.

9. Foreign currency translation

9.1 FUNCTIONAL AND PRESENTATION CURRENCY

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

9.2 TRANSACTIONS AND BALANCES

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

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

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

Foreign currency translation differences on monetary items, such as foreign currency bonds, are not reported as part of the fair value gain or loss in other comprehensive income, but are recognised as fair value income in profit or loss when incurred.

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

9.3 GROUP COMPANIES

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency of the Group are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the actual rates at the dates of the transactions); and
- all resulting exchange differences are recognised as a separate component of other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are recognised in other comprehensive income.

When a foreign operation is sold or partially disposed of and control is lost, the Group's portion of the cumulative amount of the exchange differences relating to the foreign operation which were recognised in other comprehensive income, are reclassified from other comprehensive income to profit or loss when the gain or loss on disposal is recognised. For partial disposals were control is retained, the Group re-attributes the proportionate share of the cumulative exchange differences recognised in other comprehensive income to the non-controlling interests of the foreign operation.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

10. Borrowing costs

The Group capitalises borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset

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up to the date on which construction or installation of the assets is substantially completed. Other borrowing costs are expensed when incurred.

11. Direct and indirect taxes

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

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

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

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

12. Recognition of assets

12.1 ASSETS

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

12.2 CONTINGENT ASSETS

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

13. Liabilities, provisions and contingent liabilities

13.1 LIABILITIES AND PROVISIONS

The Group recognises liabilities, including provisions, when:

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

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

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as an interest expense.

13.2 CONTINGENT LIABILITIES

The Group discloses a contingent liability when:

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

14. Cash and cash equivalents

In the statement of cash flows, cash and cash equivalents comprise:

- coins and bank notes;
- money at call and short notice;
- balances with 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.

15. Financial instruments

15.1 GENERAL

Financial instruments carried on the statement of financial position include all assets and liabilities, including derivative instruments, but exclude investments in associates and joint ventures, commodities, property and equipment, assets and liabilities of insurance operations, deferred tax, tax payable, intangible assets, inventory and post-retirement liabilities. The Group recognises a financial asset or a financial liability in its statement of financial position when it becomes a party to the contractual provisions of the instrument.

The Group classifies its financial assets in the following categories:

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

Financial liabilities are classified in the following categories:

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

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

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

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

The Group recognises purchases and sales of financial instruments that require delivery within the time frame established by regulation or market convention (regular way purchases and sales) at settlement date, which is the date the asset, is delivered or received. Otherwise the fair value of such transactions are recognised on the statement of financial position until settlement.

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

15.1.1 Financial instruments at fair value through profit or loss

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

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

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

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

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

- Various advances to customers, structured notes and other investments that form part of the merchant banking division[1]. These financial instruments have been designated to eliminate the accounting mismatch between these assets and the underlying derivatives and funding instruments. If the assets were not designated at fair value, the mismatch would be as a result of the assets being recognised at amortised cost and the derivatives and funding instruments being recognised at fair value.
- Policyholder assets and liabilities under investment contracts. The liabilities under linked investment contracts have cash flows that are contractually determined with reference to the performance of the underlying assets. The changes in fair value of assets held in linked funds are recognised in profit or loss. Liabilities to customers under other types of investments contracts are measured at amortised cost. If these assets were not designated on initial recognition, they would be classified as available-for-sale and the changes in their fair value would be recognised directly in other comprehensive income. This would result in a significant accounting mismatch, as the movements in the fair value of the policyholder liability are recognised directly in profit or loss.

Financial instruments designated under criteria (ii), include:

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

1. The terms merchant banking divisions and RMB are used interchangeably in the annual financial statements.

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

15.1.2 Loans and receivables

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

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

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

15.1.3 Held-to-maturity investments

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

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

15.1.4 Available-for-sale financial assets

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

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

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

15.1.5 Financial liabilities at amortised cost

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

15.1.6 Policyholder liabilities under investment contracts

The Group accounts for policyholder liabilities under accounting policy investment contracts at fair value through profit and loss. Refer to note 29 for a detailed description of the valuation of policyholder liabilities under investment contracts.

15.2 OFFSETTING FINANCIAL INSTRUMENTS

The Group offsets financial assets and liabilities and reports the net balance in the statement of financial position where:

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

15.3 EMBEDDED DERIVATIVES

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

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

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

15.4 DERECOGNITION

The Group derecognises a financial asset when:

- the contractual rights to the asset expire; or
- where there is a transfer of the contractual rights to receive the cash flows of the financial asset and substantially all of the risks and rewards related to the ownership of the financial asset are transferred; or
- the Group retains the contractual rights of the assets but assumes a corresponding liability to transfer these contractual

1. The terms merchant banking divisions and RMB are used interchangeably in the annual financial statements.

rights to another party and consequently transfers substantially all the risks and benefits associated with the asset.

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

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

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

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

The Group derecognises a financial liability when it is extinguished, i.e. when the obligation specified in the contract is discharged, cancelled or expires. A substantial modification of the terms and conditions of an existing financial liability or part of an existing financial liability is accounted for as an extinguishment of the original financial liability and recognition of a new one.

15.5 SALE AND REPURCHASE AGREEMENTS AND LENDING OF SECURITIES

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

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

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

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

15.6 IMPAIRMENT OF FINANCIAL ASSETS

15.6.1 General

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

15.6.2 Assets carried at amortised cost

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

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

- significant financial difficulty of the issuer or counterparty;
- a breach of contract, such as a default or delinquency in payments of principal or interest;
- it becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties or adverse changes in the market, economic or legal environment in which the entity operates; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be allocated to the individual financial assets in the Group, including:
  - adverse changes in the payment status of issuers or debtors in the Group; or
  - national or local economic conditions that correlate with defaults on the assets in the Group.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk

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characteristics and performs a collective assessment for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in profit or loss. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

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 we elect to foreclose or not.

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

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

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

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

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 profit or loss.

15.6.2.1 Past due advances

Advances are considered past due in the following circumstances:

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

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

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

15.6.2.2 Renegotiated advances

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

15.6.3 Available-for-sale financial assets

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of available for sale financial assets is impaired.

In the case of equity investments classified as available-for-sale, objective evidence of impairment includes information about significant changes with an adverse effect on the environment in which the issuer operates and indicates that the cost of the investment in the equity instrument may not be recovered and a significant or prolonged decline in the fair value of the security below its cost. If any such objective 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 is removed from other comprehensive income and recognised in profit or loss. Impairment losses recognised in profit or loss on equity instruments are not reversed through profit or loss.

In the case of a debt instrument classified as available-for-sale the same objective evidence of impairment as for financial assets measured at amortised cost is considered in determining if an impairment exists. The difference between the acquisition cost and the current fair value less any previous impairment losses recognised in profit or loss is removed from other comprehensive income and recognised in profit or loss. 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 profit or loss.

15.7 DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING

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

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

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

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

Where fair value is determined using valuation techniques whose variables include non-observable market data, the difference between the fair value and the transaction price ("the day one profit or loss") is not recognised in the statement of financial position. These differences are however monitored for disclosure purposes. If observable market factors that market participants would consider in setting a price subsequently become available, the balance of the deferred day one profit or loss is released to profit or loss.

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

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

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

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

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

15.7.1 Fair value hedge

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

If the hedge of an instrument carried at amortised cost, no longer meets the criteria for hedge accounting, the cumulative adjustment to the carrying amount of a hedged item is amortised to profit

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or loss based on a recalculated effective interest rate over the residual period to maturity, unless the hedge item has been derecognised whereby it is released to profit or loss. The adjustment of the carrying amount of a hedged equity security remains in retained earnings until disposal of the equity security.

15.7.2 Cash flow hedge

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

Amounts accumulated in other comprehensive income are re-classified to profit or loss in the periods in which the hedged item will affect profit or loss (for example, when the forecast sale that is hedged takes place) and are recognised as part of non-interest income.

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

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

16. Commodities and base metals

16.1 AGRICULTURAL COMMODITIES

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

16.2 OTHER COMMODITIES AND BASE METALS

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

When the Group acquires commodities and/or base metals as a broker trader in order to benefit from short-term fluctuations in price or to earn a brokers' margin such commodities are measured at fair value less costs to sell and all changes in fair value less costs to sell are recognised in profit or loss in the period of the change.

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

17. Property and equipment

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

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

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

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

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

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

18. Investment properties

The Group classifies investment properties as properties held to earn rental income and/or capital appreciation that are not occupied by the companies in the Group.

Investment properties comprise freehold land and buildings and are carried at fair value. Fair value is based on observable market prices adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available the Group uses valuation methods such as discounted cash flow projections or recent prices on less active markets. These valuations are reviewed annually by a combination of independent and internal valuation experts. Investment properties that are being redeveloped for continuing use as investment property, or for which that market has become less active, continues to be measured at fair value.

Property located on land that is held under an operating lease is classified as investment property as long as it is held for long-term rental yields and is not occupied by the Group. The initial cost of the property is the lower of the fair value of the property and the present value of the minimum lease payments. Subsequent to initial recognition the property is carried at fair value.

When investment properties become owner occupied, the Group reclassifies it to property and equipment, using the fair value at the date of reclassification as the cost, and depreciates it on a straight line basis at rates calculated to reduce the book value of these assets to estimated residual values over the expected useful lives.

Fair value adjustments on investment properties are included in profit or loss as gains less losses from investment activities. These fair value gains or losses are adjusted for any double counting arising from the recognition of lease income on the straight line basis compared to the accrual basis normally assumed in the fair value determination.

The Group carries properties under development at cost, less adjustments to reduce the cost to open market value, if appropriate.

19. Leases

19.1 A GROUP COMPANY IS THE LESSEE

19.1.1 Finance leases

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

Finance leases are capitalised as assets at the fair value of the leased asset at the inception of the lease, or, if lower, at the estimated present value of the underlying lease payments. The Group allocates each lease payment between the liability and finance charges to achieve a constant rate on the finance balance outstanding. The interest component of the finance charge is recognised in profit or loss 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 Group will take ownership of the assets, in which case the assets are depreciated over the shorter of the useful life of the asset or the lease period, on a basis consistent with similar owned property and equipment.

19.1.2 Operating leases

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

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

19.2 A GROUP COMPANY IS THE LESSOR

19.2.1 Finance leases

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

19.2.2 Operating leases

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

19.3 INSTALMENT CREDIT AGREEMENTS

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

The Group 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.

20. Intangible assets

20.1 GOODWILL

Goodwill represents the excess of the consideration transferred, the fair value of the previous equity interests held and the non-controlling interests of an acquisition over the attributable fair value of the Group's share of the fair value of the identifiable net

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assets of the acquired subsidiary or associate at the date of acquisition. Goodwill on the acquisition of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. The goodwill included in the carrying amount of associates is notional.

Goodwill is tested annually for impairment or more frequently if an impairment indicator exists at the reporting date for impairment, and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. 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 component 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. The recoverable amount of a cash generating unit is the higher of fair value less costs to sell and value in use.

20.2 COMPUTER SOFTWARE DEVELOPMENT COSTS

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

The Group carries capitalised software assets at cost less amortisation and any impairment losses. It amortises these assets on a straight line basis at a rate applicable to the expected useful life of the asset. Management reviews the carrying value wherever objective evidence of impairment exists. The carrying value is written down to estimated recoverable amount when a permanent decrease in value occurs. Any impairment is recognised in profit or loss when incurred.

20.3 OTHER INTANGIBLE ASSETS

The Group generally expenses the costs incurred on internally generated intangible assets such as trademarks, patents and similar rights and assets, in profit or loss in the period in which the costs are incurred. The costs incurred on the development of separately identifiable internally generated intangible assets, are capitalised by the Group if:

- the Group is able to demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- it is the Group's intention to complete the intangible asset and use or sell it;
- the Group will be able to use or sell the intangible asset;
- it is probable that the intangible asset will generate future economic benefits;
- adequate technical, financial and other resources are available to complete the development and to use or sell the intangible asset; and
- the expenditure attributable to the intangible asset can be reliably measured.

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

The Group carries capitalised trademarks, patents and similar assets at cost less amortisation and any impairment. It amortises these assets at a rate applicable to the expected useful life of the asset. Management reviews the carrying value whenever objective evidence of impairment exists. Carrying value is written down to estimated recoverable amount when a permanent decrease in value occurs. Any impairment is recognised in profit or loss when incurred. Amortisation and impairments of intangible assets are reflected under operating expenses in profit or loss.

20.4 REACQUIRED RIGHTS

As part of a business combination transaction an acquirer may reacquire a right to use one of its recognised or unrecognised assets for which it had previously granted the right of use to this asset to the entity which becomes its subsidiary. Reacquired rights that arise from these transactions are identifiable intangible assets that the Group recognises separately from goodwill. Reacquired rights are recognised at fair value at acquisition date based on the remaining contractual term of the related contract without taking into consideration the effect of any potential contractual renewals. Where the terms of the contract giving rise to the reacquired rights are favourable or unfavourable relative to current market transactions for the same or similar items, the Group recognises a settlement gain or loss respectively.

Amortisation and impairments of intangible assets are reflected under operating expenses in profit or loss.

20.5 AGENCY FORCE

As a result of certain acquisitions and the application of purchase accounting, the Group carries an agency force intangible asset representing the value of the agency force acquired in the acquisition. The initial carrying value of the agency force is determined by estimating the future value of the new business generated by the agents acquired. The Group amortises the agency force over its expected useful life of ten years.

Management reviews the carrying value whenever objective evidence of impairment exists. The carrying value is written down to estimated recoverable amount when a permanent decrease in value occurs. Any impairment is recognised in profit or loss when incurred.

Amortisation and impairments of intangible assets are reflected under operating expenses in profit or loss.

20.6 CONTRACTUAL CUSTOMER RELATIONSHIPS – RIGHTS TO RECEIVE INVESTMENT MANAGEMENT FEES

Incremental costs paid which are directly attributable to securing the rights to receive fees for investment management services sold with investment contracts are recognised as an intangible asset where they can be identified separately and measured reliably and it is probable that they will be recovered.

The asset represents the Group's contractual right to benefit from providing asset management services and is amortised over the expected life of the contract as a constant percentage of expected gross profit margins. The costs of securing the right to provide asset management services do not include transaction costs relating to the origination of the investment contract. The resulting change to the carrying value of the contractual customer relationship asset is recognised as an expense in profit or loss.

An impairment test is conducted annually at the reporting date on the contractual customer relationship asset balance to ensure that the amount will be recovered from future revenue generated by the applicable remaining investment management contracts.

20.7 VALUE OF IN-FORCE BUSINESS

As a result of certain acquisitions of insurance contracts and the application of purchase accounting, the Group carries a customer contract intangible asset representing the present value of in-force ("PVIF") business acquired. PVIF is determined by estimating the net present value of future cash flows from the contracts in-force at the date of acquisition. The Group amortises PVIF as a constant percentage of expected gross margins, over the estimated life of the acquired contracts. The estimated life is evaluated regularly. The PVIF is carried in the statement of financial position at fair value less any accumulated amortisation and impairment losses.

21. Deferred tax

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

The Group recognises deferred tax assets if the directors of FirstRand 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.

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

Deferred tax related to fair value remeasurement of available-for-sale investments and cash flow hedges, which are charged or credited directly to other comprehensive income, is also credited or charged directly to other comprehensive income and is subsequently recognised in profit or loss together with the deferred gain or loss.

In respect of temporary differences arising from the fair value adjustments on investment properties, deferred tax is provided at the use rate if the property is considered to be a long-term strategic investment or at the capital gains effective rate if recovery is anticipated to be mainly through disposals.

22. Employee benefits

22.1 POST EMPLOYMENT BENEFITS

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

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

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds or in the absence of a deep and liquid

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corporate bond market the yield on government bonds, that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

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

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

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

22.2 POST-RETIREMENT MEDICAL BENEFITS

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

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.

22.3 TERMINATION BENEFITS

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

22.4 LEAVE PAY PROVISION

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

22.5 BONUSES

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

22.6 RECOGNITION OF ACTUARIAL GAINS AND LOSSES

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

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

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

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

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

23. Borrowings

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

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

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

Where the Group purchases its own debt, the debt is derecognised from the statement of financial position and any difference between the carrying amount of the liability and the consideration paid is included in fair value income.

24. Share capital

24.1 SHARE ISSUE COSTS

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

24.2 DIVIDENDS PAID

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

24.3 DISTRIBUTION OF NON-CASH ASSETS TO OWNERS

A dividend payable is recognised when the distributions are appropriately authorised by the shareholders and is no longer at the discretion of the entity. The Group measures the liability to distribute the non-cash assets as a dividend to owners at the fair value of the asset to be distributed. The carrying amount of the dividend payable is remeasured at the end of each reporting period and the settlement date, with changes recognised in equity as an adjustment to the distribution. The difference between the carrying amount of the assets distributed and the fair value of the assets on the date of settlement is recognised in profit or loss for the period.

Distributions of non-cash assets under common control are specifically excluded from the scope of IFRIC 17 and are measured at the carrying amount of the assets to be distributed

24.4 TREASURY SHARES

Where the company or other members of the consolidated Group purchases the company's equity share capital, the consideration paid, including any directly attributable incremental costs, is deducted from total shareholders' equity as treasury shares until they are reissued or sold. Fair value changes recognised in the subsidiary's financial statements on equity investments in the holding entity's shares, are reversed on consolidation and dividends received are eliminated against dividends paid. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental costs, is included in shareholders' equity.

24.3.1 Share trusts

Certain of the Group's remuneration schemes are operated through various share trusts. These share trusts are considered to be SPEs of the Group and therefore consolidated.

The share trusts purchase FirstRand shares for the various remuneration schemes in the open market to economically hedge the Group against price risk of the FirstRand share and to limit the dilutive effect on current shareholders. The purchase of the shares by the share trusts is treated as a reduction in the Group's equity. For purposes of the earnings per share calculation, the weighted average number of shares in issue is reduced by the number of shares held by the share trusts.

25. Acceptances

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

26. Segment reporting

An operating segment is a component of the Group that engages in business activities from which the Group may earn revenues and incur expenses. An operating segment is also a component of the Group whose operating results are regularly reviewed by the chief operating decision maker in allocating resources, assessing its performance and for which discrete financial information is available. The chief operating decision maker has been identified as the chief executive officer of the Group. The Group's identification and measurement of operating segments is consistent with the internal reporting provided to the chief executive officer. The operating segments have been identified and classified in a manner that reflects the risks and rewards related to the segments' specific products and services offered in their specific markets. Additional information relating to each segments' specific products and services, geographical areas and major customers is also provided in the notes to the consolidated financial statements.

Operating segments whose total revenue, absolute profit or loss for the period or total assets are 10% or more of all the segments revenue, profit or loss or total assets, are reported separately.

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

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

27. Fiduciary activities

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

28. Share-based payment transactions

The Group operates equity settled and cash settled share-based compensation plans for employees and historically disadvantaged individuals and organisations. All compensation plans are recognised in accordance with the accounting policy depending on whether it meets the equity settled or cash settled definition.

28.1 EQUITY SETTLED SHARE-BASED COMPENSATION PLANS

The Group expenses the fair value of the employee services received in exchange for the grant of the options, over the vesting

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

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

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

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

28.2 CASH SETTLED SHARE-BASED PAYMENT COMPENSATION PLANS

The Group measures the services received and liability incurred in respect of cash settled share-based payment plans at the current fair value of the liability. The Group remeasures the fair value of the liability at each reporting date until settled. The liability is recognised over the vesting period and any changes in the fair value of the liability are recognised in profit or loss.

29. Disposal groups held for sale

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

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

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

Any impairment losses on initial classification to held for sale are recognised in profit or loss.

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

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

30. Discontinued operations

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

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

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

31. Insurance and Investment contracts

31.1 CLASSIFICATION OF CONTRACTS

An insurance contract is a contract that transfers significant insurance risk to the Group. Significant insurance risk exists when it is expected that the present value of the benefits payable in terms of the policy on the occurrence of an insured event will materially differ from the amount payable had the insured event not occurred. Financial penalties levied on early termination of policy contracts are not taken into account when classifying the contracts.

Contracts that transfer only financial risk and not insurance risk are classified as investment contracts. Financial risk refers to the risk of a possible change in the value of a financial instrument due to a change in interest rates, commodity prices, an index of prices, foreign exchange or other measureable variable. Certain investment contracts issued by the Group contain discretionary participation features ("DPF"). A DPF entitles the policyholder to receive as a supplement to guaranteed benefits, additional benefits or bonuses with the following features:

- the benefits constitute a significant portion of the total contractual benefits payable under each policy;

- the timing and amount of the benefits are at the discretion of the Group; and
- the benefits are contractually based on the investment performance of a specified pool of assets underlying a specified pool of contracts or specified type of contract.

Investment contracts that contain a DPF are accounted for in the same way as insurance contracts.

The classification of contracts is performed at the initial recognition of each contract. The classification of the contract at initial recognition remains the classification of the contract for the remainder of its lifetime unless the terms of the contract change to such an extent that it necessitates a change in classification.

The Group consolidates cell captives when the substance of the arrangement is such that the Group controls the cell captive. Through its subsidiaries and controlled cell captives the Group issues insurance contracts that are classified into two main categories, long and short-term insurance contracts, based on the duration of the risk.

31.2 LONG-TERM INSURANCE CONTRACTS AND INVESTMENT CONTRACTS

31.2.1 Long-term insurance contracts and investment contracts with DPF

The following type of contracts issued by the Group are classified as long-term insurance contracts:

- insurance policies providing lump sum benefits on death or disability of the policyholder;
- life annuities where the policyholder transfers the risk of longevity onto the Group;
- policies that provide for retrenchment or funeral cover; and
- policies providing Permanent Health Insurance.

The terms of these contracts may also allow for embedded options. These include minimum guaranteed rates of investment return after allowing for the cost of risk cover. These embedded options are accounted for in terms of the Group's policies in respect of embedded derivatives.

Liabilities under insurance contracts and investment contracts with DPF are measured in accordance with professional guidance notes ("PGN") issued by the Actuarial Society of South Africa. Of particular relevance to the liabilities are the following PGNs:

- PGN 104 (January 2005): Life Offices – Valuation of Long-term Insurers;
- PGN 110 (December 2007): Reserving for minimum investment return guarantees;
- PGN 102 (March 1995): Life Offices – HIV/AIDS;
- PGN 105 (March 2007): Recommended AIDS extra mortality bases;
- PGN 106 (July 2005): Actuaries and Long-term Insurance in South Africa.

The guidance notes are available on the website of the Actuarial Society of South Africa (www.actuarialsociety.co.za)

31.2.1.1 Valuation

Liabilities are valued in terms of the financial soundness valuation ("FSV") method as described in PGN 104, issued by the Actuarial Society of South Africa.

The FSV method measures the liability at the amount of the best estimate of the future cash flows relating to the insurance contracts plus certain compulsory and discretionary margins. This methodology is applied to each product type depending on the nature of the contract and the associated risks.

The best estimate of future cash flows takes into account current and expected future experience as well as revised expectations of future income, claims and expenditure. The assumptions are applied to the whole policy book. Differences between the assumptions used at the start and end of the period give rise to a revised liability quantification.

The expected level of early terminations is incorporated into the liabilities irrespective of whether this leads to an increase or a decrease in the liabilities.

If future experience under a policy contract is exactly in line with the assumptions employed at the initial recognition of the contract the valuation margins will emerge as profits over the duration of a policy contract. This is known as the unwinding of margins.

In addition to the profit recognised at the origination of a policy contract and the unwinding of margins as the Group is released from risk, any differences between the best estimate valuation assumptions and actual experience over each accounting period also gives rise to profits and losses. These profits and losses emerge over the lifetime of the policy contract. Other sources of profits or loss include the change in liabilities from changes in the long-term valuation assumptions, profits on group business that are recognised as earned and shareholders' share of the cost of bonus for certain segregated DPF pools. Whenever the Group declares a bonus to policyholders on these funds, shareholders receive a portion of the bonus as earnings. A typical split is 90% of the distribution going to policyholders and 10% to shareholders. These gains or losses are recognised in profit or loss in the transfer to policyholder liabilities under insurance contracts line.

31.2.1.2 Discretionary margins

Discretionary margins are held in addition to the compulsory margins. These discretionary margins are used to ensure that profit and risk margins in premiums are not capitalised prematurely so that profits are recognised in line with the product design and in line with the risks borne by the Group.

Accounting policies continued

The main discretionary margins utilised in the valuation are as follows:

- investment stabilisation accounts are held to reduce the risk of future losses, caused by the impact of market fluctuations on capitalised fees and on assets backing guaranteed liabilities;
- additional prospective margins are held in respect of decrement assumptions and asset related fees on certain product lines to avoid the premature recognition of profits that may give rise to future losses if claims experience turns out to be worse than expected; and
- an additional data reserve is held to protect against possible future losses due to data discrepancies.

31.2.1.3 Options and guarantees

The effect of policyholder options that would result in a decrease in liabilities are excluded from the valuation of liabilities in order to prevent unnecessarily reducing the liabilities. Policyholder options that would result in an increase in the liabilities are incorporated into the valuation on a best estimate basis.

The expected level of early termination is incorporated into the liabilities irrespective of whether this leads to an increase or decrease in liabilities. The best estimates used to determine the value of the liabilities include estimates that take into account maturity, mortality and disability guarantees, as well as expected lapses and surrenders.

31.2.1.4 Premium recognition

Premiums receivable from insurance contracts and investment contracts with DPF are recognised in profit or loss gross of commission and reinsurance premiums but net of taxes and levies.

Premium received in advance is included in creditors and accruals.

31.2.1.5 Recognition of claims and benefits

Insurance benefits and claims incurred under insurance contracts and investment contracts with DPF include death, disability, maturity, annuity and surrender payments and are recognised in profit or loss gross of any related reinsurance recoveries. Death, disability and surrender claims are recognised when notified. Maturity and annuity claims are recognised when they are due for payment in terms of the contract. Group life benefits and benefits under health insurance contracts are recognised when they are incurred. The estimate of the expected settlement value of claims that are notified but not paid before the reporting date is included in creditors and accruals.

31.2.1.6 Reinsurance premiums

Reinsurance premiums are recognised as an expense in profit or loss when they become due for payment at the undiscounted amounts due in terms of the contract.

31.2.1.7 Reinsurance recoveries

Reinsurance recoveries are recognised in profit or loss in the same period as the related claim at the undiscounted amount receivable in terms of the contract.

31.2.1.8 Liability adequacy test for business with prospective liabilities

Where the liability is calculated based on the present value of the future cash flows the valuation method projects future income and discounts it back to the valuation date to arrive at the liability. The methodology ensures that the liability will by definition be adequate and no additional liability adequacy test is required.

31.2.1.9 Liability adequacy test for business with retrospective liabilities

For liabilities measured retrospectively a liability adequacy test is performed in order to verify that the liability is sufficient to cover future claims and servicing expenses after the expected future income over the remaining contractual lifetime.

31.2.1.10 Acquisition costs

Acquisition costs for insurance contracts and investment contracts with DPF include all commission and expenses directly related to acquiring new business. The FSV methodology implicitly creates a deferred acquisition cost asset by reducing the liabilities to the extent of margins included in the premium that are intended to recover acquisition costs. Therefore no explicit deferred acquisition cost asset is recognised in the statement of financial position for contracts valued on this basis.

31.2.1.11 Embedded derivatives

The Group does not separately measure embedded derivatives that meet the definition of an insurance contract or options to surrender insurance contracts for a fixed amount (or an amount based on a fixed interest rate). All other embedded derivatives are separated and carried at fair value if they are not closely related to the host insurance contract and meet the definition of a derivative. Embedded derivatives that are separated from the host contract are measured at fair value through profit or loss.

A number of products contain embedded derivatives in the form of guaranteed maturity values. The liability in respect of these guarantees is calculated using stochastic modelling techniques whereby assets and liabilities are projected into the future under a range of possible future investment return scenarios. The model is calibrated to use market consistent assumptions and parameters as at the valuation date.

31.3 SHORT-TERM INSURANCE CONTRACTS

31.3.1 Insurance premium revenue

Gross premiums written comprise the premiums on contracts entered into during the year. Premiums are shown excluding any taxes and levies on the premium. Premiums are shown before the deduction of commission.

Premium revenue relates only to the earned portion of premiums and includes all premiums for the period of risk covered by the policy, regardless of whether or not these are due for payment in the accounting period.

Outward reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct insurance.

31.3.2 Unearned premium provision

The provision for unearned premiums comprises the proportion of gross premiums written which are estimated to be earned in the following or subsequent financial year. This is computed separately for each insurance contract using the method most reflective of any variation in the incidence of risk during the period covered by the contract.

31.3.3 Claims incurred

Claims incurred include claims handling expenses paid during the financial year together with the estimated liability for compensation owed to policyholders or third parties affected by the policyholders. Claims handling expenses include, amongst others, fees incurred for legal expenses, loss adjusters and administration fees.

31.3.4 Policyholder liabilities

Policyholder liabilities comprise a provision for claims reported but not paid and a provision for claims incurred but not reported ("IBNR").

Policyholder liabilities are measured at the best estimate of the ultimate cost of settling all claims incurred, but unpaid at the reporting date, whether reported or not, and related internal and external claims handling expenses. The liability for outstanding claims is calculated by reviewing individual claims and making allowance for claims incurred but not yet reported, the IBNR provision, and the effect of both internal and external foreseeable events, such as changes in claims handling procedures, inflation, judicial trends, legislative changes and past experience and trends. The company does not discount its liability for unpaid claims.

Adjustments to the amounts of policyholder liabilities established in prior years are reflected in the financial statements for the period in which the adjustments are made, and disclosed separately if material. The methods used are reviewed annually.

31.3.5 Liability adequacy test

The net liability recognised for insurance contracts is tested for adequacy by calculating current estimates of all future contractual cash flows and comparing this amount to the carrying value of the liability. Where a shortfall is identified, an additional liability and the related expense is recognised.

31.3.6 Contingency reserve

A reserve is created in respect of the Group's short-term insurance contracts as required by the regulatory authorities. The contingency reserve is calculated as 10% of the net written premiums in terms of the Short-term Insurance Act, 1998.

31.4 REINSURANCE CONTRACTS HELD

The Group seeks reinsurance in the ordinary course of business for the purpose of limiting its net loss potential through the diversification of its risks on both long and short-term insurance contracts. Reinsurance arrangements do not relieve the company from its direct obligations to its policyholders.

Only contracts that give rise to a significant transfer of insurance risk are accounted for as reinsurance. Rights under contracts that do not transfer significant insurance risk are accounted for as financial instruments.

Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the underlying insurance contracts and in accordance with the terms of each reinsurance contract.

The benefits to which the Group is entitled under its reinsurance contracts are recognised as assets. These assets consist of short-term balances due from reinsurers on settled claims (included in accounts receivable) as well as receivables that are dependent on the expected claims and benefits arising under the related insurance contracts (classified as reinsurance assets).

Reinsurance assets are assessed for impairment if there is objective evidence, as a result of an event that occurred after its initial recognition, that the company may not recover all amounts due and that the event has a reliably measurable impact on the amounts that the company will receive from the reinsurer. Any difference between the carrying amount of the reinsurance asset and the recoverable amount is recognised as an impairment loss in profit or loss. The same indicators that are considered when assessing whether a financial asset measured at amortised cost is impaired are considered when assessing whether there is objective evidence of impairment of reinsurance assets.

Reinsurance liabilities comprise premiums payable for reinsurance contracts and are recognised as an expense when they fall due in terms of the contract.

31.5 INVESTMENT CONTRACTS

The Group issues single premium investment contracts with fixed and guaranteed terms under this category (guaranteed endowments and term certain annuities)

Accounting policies continued

31.5.1 Valuation

The liabilities of endowments with guaranteed maturity values are fair valued using a valuation model, as the policies are not traded in an active market. The model values the liabilities as the present value of the maturity values, using appropriate market related yields to maturity net of tax and investment management expenses. If liabilities calculated in this manner fall short of the single premium paid at inception of the policy, the liability is increased to the level of the single premium, to ensure that no profit is recognised at inception. This additional liability is amortised over the lifetime of the policy. The amortisation pattern is such that profits are recognised in line with expected investment returns on the underlying assets supporting the liabilities. The amortisation pattern is determined at point of sale and not re-adjusted during the term of the policy contract.

31.6 RECEIVABLES AND PAYABLES RELATED TO LONG- AND SHORT-TERM INSURANCE CONTRACTS AND INVESTMENT CONTRACTS

Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and policyholders. Receivables are included in the accounts receivable balance on the statement of financial position while payables are included in the creditors and accruals balance.

If there is objective evidence that an amount receivable under an insurance contract is impaired then the Group reduces the carrying amount of the insurance receivable accordingly and recognises the impairment loss in profit or loss. The same indicators that are considered when assessing whether a financial asset measured at amortised cost is impaired are considered when assessing whether there is objective evidence of impairment of receivables related to insurance and investment contracts with DPF.

32. Customer loyalty programmes

The Group operates a customer loyalty programme in terms of which it undertakes to provide goods and services to certain customers. The reward credits are accounted for as a separately identifiable component of the fee and commission income transactions of which they form a part. The consideration allocated to the reward credits is measured at the fair value of the reward credit and recognised over the period in which the customer utilises the reward credits.

Expenses relating to the provision of the reward credits are recognised as an expense as they are incurred.

33. Service concession arrangements

Service concession arrangements are recognised if the Group acts as an operator in the provision of public services. Where the Group has a contractual right to recover the amount receivable in respect of the arrangements from the government organisation the amount receivable is classified as a financial asset and is accounted for in terms of the Group's policy for financial assets. Alternatively, where the Group is entitled to collect the monies for usage from the public the Group recognises an intangible asset. The intangible asset is measured in accordance with the Group's policy for intangible assets and amortised over its useful life. Fee income earned from public usage is included in fee and commission income as it is receivable.

34. Reclassification of prior year numbers

During the financial year the following income statement reclassifications were made:

30 June 2010 Income statement	Amount as previously reported	Amount as restated	Difference	Explanation
Indirect tax	–	(446)	446	The Group has adopted the same presentation for indirect tax as used by FirstRand Bank and as is common in the banking industry. Post the unbundling of Momentum the Group is primarily a banking group and it was considered appropriate to adopt a method of presentation that was consistent with the Group's banking subsidiaries and in line with industry practice.
Operating expenses	(25 311)	(24 865)	(446)	Refer above
Profit for the year	10 674	10 674	–	The reclassification had no effect on profit for the year.

No other amounts reported in the statement of financial position or income statement were affected by the above reclassification.

Consolidated income statement

for the year ended 30 June

R million	Notes	2011	2010
Continuing operations			
Interest and similar income	1	38 187	38 817
Interest expense and similar charges	1	(20 818)	(22 467)
Net interest income before impairment of advances		17 369	16 350
Impairment of advances	11	(3 778)	(5 686)
Net interest income after impairment of advances		13 591	10 664
Non-interest income	2	31 882	26 954
Income from operations		45 473	37 618
Operating expenses	3	(26 901)	(24 865)
Net income from operations		18 572	12 753
Share of profit from associates and joint ventures	15	868	700
Income before tax		19 440	13 453
Indirect tax	4	(614)	(446)
Profit before direct tax		18 826	13 007
Direct tax	4	(4 582)	(3 527)
Profit for the year from continuing operations		14 244	9 480
Discontinued operations			
Profit attributable to discontinued operations	21	415	1 194
Profit after tax on unbundling of discontinued operations	21	6 868	–
Profit for the year		21 527	10 674
Profit attributable to:			
NCNR preference shareholders		301	344
Ordinary equity holders		20 065	9 444
Equity holders of the Group		20 366	9 788
Non-controlling interests		1 161	886
Profit for the year		21 527	10 674
From continuing operations and discontinued operations			
From continuing and discontinued operations			
Earnings per share (cents)			
– Basic	5	372.7	179.9
– Diluted	5	365.3	178.1
From continuing operations			
Earnings per share (cents)			
– Basic	5	236.6	156.1
– Diluted	5	231.9	154.5
From discontinued operations			
Earnings per share (cents)			
– Basic	5	136.1	23.8
– Diluted	5	133.4	23.6

Consolidated statement of comprehensive income

for the year ended 30 June

R million	Notes	2011	2010
Profit for the year		21 527	10 674
Other comprehensive income			
Cash flow hedges		21	(226)
Available-for-sale financial assets		(41)	(69)
Exchange differences on translating foreign operations		(266)	(74)
Share of other comprehensive income of associates and joint ventures after tax and non-controlling interests		35	39
Other comprehensive income for the year before tax		(251)	(330)
Direct tax relating to components of other comprehensive income		(44)	(17)
Other comprehensive income for the year	6	(295)	(347)
Total comprehensive income for the year		21 232	10 327
Total comprehensive income attributable to:			
NCNR preference shareholders		301	344
Ordinary equity holders		19 837	9 097
Equity holders of the Group		20 138	9 441
Non-controlling interests		1 094	886
Total comprehensive income for the year		21 232	10 327

Consolidated statement of financial position

as at 30 June

R million	Notes	2011	2010
ASSETS			
Cash and cash equivalents	8	**34 240**	27 067
Derivative financial instruments	9	**37 206**	39 764
Advances	10	**464 593**	434 793
Investment securities and other investments	12	**124 756**	117 171
Commodities	13	**4 388**	2 365
Accounts receivable	14	**7 289**	5 743
Investments in associates and joint ventures	15	**6 029**	6 901
Property and equipment	16	**10 542**	10 018
Deferred tax asset	17	**560**	443
Post-retirement benefit asset		**2**	–
Intangible assets	18	**1 691**	2 104
Investment properties	19	**203**	138
Policy loans		**–**	27
Reinsurance assets	20	**484**	524
Tax asset		**139**	935
Non-current assets and disposal groups held for sale	21	**5 805**	197 247
Total assets		**697 927**	845 240
EQUITY AND LIABILITIES			
Liabilities			
Deposits and current accounts	22	**553 657**	512 469
Short trading positions	23	**12 413**	16 735
Derivative financial instruments	9	**36 361**	36 035
Creditors and accruals	24	**9 930**	12 115
Provisions	25	**3 621**	3 359
Tax liability		**288**	157
Post-retirement liabilities	26	**2 292**	2 162
Deferred tax liability	17	**2 223**	2 132
Long-term liabilities	27	**6 690**	9 183
Policyholder liabilities under insurance contracts	28	**1 047**	1 868
Policyholder liabilities under investment contracts	29	**94**	101
Liabilities directly associated with non-current assets classified as held for sale	21	**5 092**	189 961
Total liabilities		**633 708**	786 277
Equity			
Ordinary shares	30	**53**	52
Share premium	30	**4 945**	1 491
Reserves		**51 633**	49 889
Capital and reserves attributable to ordinary equity holders		**56 631**	51 432
NCNR preference shares	30	**4 519**	4 519
Capital and reserves attributable to equity holders of the Group		**61 150**	55 951
Non-controlling interests		**3 069**	3 012
Total equity		**64 219**	58 963
Total equity and liabilities		**697 927**	845 240

Consolidated statement of changes in equity

for the year ended 30 June

	Ordinary share capital and ordinary equity holders' funds					
R million	Share capital	Share premium	Share capital and share premium	General risk reserve	Cash flow hedge reserve	Share-based payment reserve
Balance as at 1 July 2009	52	1 300	**1 352**	9	(292)	2 306
Issue of share capital	–	–	**–**	–	–	–
Movement in other reserves	–	–	**–**	–	–	181
Ordinary dividends	–	–	**–**	–	–	–
Preference dividends	–	–	**–**	–	–	–
Transfer to/(from) reserves	–	–	**–**	3	–	–
Changes in ownership interest in subsidiaries	–	–	**–**	–	2	–
Consolidation of treasury shares	–	191	**191**	–	–	–
Total comprehensive income for the year	–	–	**–**	–	(176)	–
Balance as at 30 June 2010	52	1 491	**1 543**	12	(466)	2 487
Issue of share capital	–	–	**–**	–	–	–
Movement in other reserves	–	–	**–**	–	–	341
Ordinary dividends	–	–	**–**	–	–	–
Preference dividends	–	–	**–**	–	–	–
Transfer to/(from) reserves	–	–	**–**	1	–	–
Changes in ownership interest in subsidiaries	–	–	**–**	–	–	–
Consolidation of treasury shares	1	3 454	**3 455**	–	–	–
Total comprehensive income for the year	–	–	**–**	–	15	–
Dividend in specie: unbundling of Momentum	–	–	**–**	–	–	(89)
Balance as at 30 June 2011	53	4 945	**4 998**	13	(451)	2 739

Ordinary share capital and ordinary equity holders' funds							
Available-for-sale reserve	Foreign currency translation reserve	Other reserves	Retained earnings	Reserves attributable to ordinary equity holders	Non-cumulative non-redeemable preference shares	Non-controlling interest	Total equity
1 107	750	(198)	40 451	44 133	4 519	2 093	52 097
–	–	–	–	–	–	7	7
–	–	(440)	150	(109)	–	(62)	(171)
–	–	–	(2 955)	(2 955)	–	(420)	(3 375)
–	–	–	–	–	(344)	–	(344)
–	–	–	(3)	–	–	–	–
–	–	2	(27)	(23)	–	508	485
–	–	–	(254)	(254)	–	–	(63)
(138)	(52)	19	9 444	9 097	344	886	10 327
969	698	(617)	46 806	49 889	4 519	3 012	58 963
–	–	–	–	–	–	7	7
–	–	(8)	48	381	–	(342)	39
–	–	–	(4 179)	(4 179)	–	(583)	(4 762)
–	–	–	–	–	(301)	–	(301)
–	–	–	(1)	–	–	–	–
–	–	12	(34)	(22)	–	46	24
–	–	–	1 074	1 074	–	–	4 529
(80)	(206)	43	20 065	19 837	301	1 094	21 232
(664)	(18)	583	(15 159)	(15 347)	–	(165)	(15 512)
225	474	13	48 620	51 633	4 519	3 069	64 219

Consolidated statement of cash flows

for the year ended 30 June

R million	Notes	2011	2010
Cash generated from operating activities from continuing operations			
Cash receipts from customers	32.2	61 645	60 073
Cash paid to customers, suppliers and employees	32.3	(43 150)	(43 707)
Dividends received		3 491	3 148
Dividends paid	32.7	(4 480)	(3 299)
Dividends paid to non-controlling interests		(583)	(420)
Cash flows from operating activities from continuing operations	32.1	16 923	15 795
Increase in income earning assets	32.4	(38 895)	(34 194)
Increase in deposits and other liabilities	32.5	38 092	31 194
Net cash utilised from operations		(803)	(3 000)
Tax paid	32.6	(3 965)	(3 143)
Net cash from operating activities of continuing operations		12 155	9 652
Net cash outflow from operating activities of discontinued operations		–	(9 709)
Cash flows from investing activities from continuing operations			
Proceeds on disposal of advances		–	22
Acquisition of associates and joint ventures**		(166)	(204)
Proceeds on disposal of associates and joint ventures**		4 092	2 027
Acquisition of subsidiaries**		(450)	(982)
Proceeds on disposal of subsidiaries**		704	537
Acquisition of property and equipment		(2 677)	(2 197)
Proceeds on disposal of property and equipment		583	389
Acquisition of investment properties		(22)	(138)
Proceeds on disposal of investment properties		1	594
Acquisition of intangible assets		(311)	114
Proceeds on disposal of intangible assets		23	–
Net cash inflow from investing activities from continuing operations		1 777	162
Net cash inflow from investing activities from discontinued operations		–	33
Cash flows from financing activities from continuing operations			
(Repayment of)/proceeds from long-term borrowings		(6 725)	1 085
Net cash (outflow)/inflow from financing activities from continuing operations		(6 725)	1 085
Net cash inflow from financing activities from discontinued operations		–	2 117
Net increase in cash and cash equivalents from continuing and discontinued operations		7 207	3 340
Cash and cash equivalents at the beginning of the period		27 067	57 266
Cash and cash equivalents at the end of the period		34 274	60 606
Cash and cash equivalents acquired*		200	–
Cash and cash equivalents disposed of*		(83)	(36)
Effect of exchange rate changes on cash and cash equivalents		(151)	(95)
Transfer to non-current assets held for sale		–	(33 408)
Cash and cash equivalents at the end of the year		34 240	27 067

** Cash and cash equivalents sold and bought relate to cash balances held by subsidiaries acquired and sold during the year.*

*** Refer to note 32 for information on the cash flows arising from the acquisition and disposal of significant subsidiaries,associates and joint ventures.*

Consolidated statement of headline earnings and dividends

for the year ended 30 June

	2011	2010
Headline earnings per share (cents)		
– Basic	**183.1**	180.1
– Diluted	**179.4**	178.3
Ordinary dividends per share (cents)		
– Interim	**35.0**	34.0
– Final	**46.0**	43.0
Total dividends per ordinary share (cents)	**81.0**	77.0
Headline earnings is calculated in terms of Circular 3/2009.		
Basic headline earnings		
Basic headline earnings per share is calculated by dividing the Group's attributable earnings to ordinary equity holders after excluding separately identifiable remeasurements, net of tax and non-controlling interests, by the weighted average number of ordinary shares in issue during the year, excluding the average number of ordinary shares purchased by the Group and held as treasury shares.		
Headline earnings attributable to ordinary shareholders (R million)	**9 856**	9 453
Weighted average number of ordinary shares in issue	**5 384 058 475**	5 248 177 525
Diluted headline earnings		
Diluted headline earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.		
Diluted headline earnings attributable to ordinary shareholders (R million)	**9 856**	9 453
Diluted weighted average number of shares in issue	**5 492 848 142**	5 302 431 206

	2011		2010	
R million	Gross	Net*	Gross	Net*
Headline earnings reconciliation from continuing operations				
Attributable earnings to ordinary equity shareholders	**18 826**	**12 779**	13 007	8 249
Adjusted for				
(Gain)/loss on disposal of investment securities and other investments	**(12)**	**5**	–	–
Gain on disposal/impairment of available-for-sale assets	**(341)**	**(298)**	(177)	(177)
Gain on disposal of associates or joint ventures	**(2 792)**	**(2 755)**	–	–
Gain on the disposal of subsidiaries	**(571)**	**(447)**	(115)	(112)
Loss on the disposal of property and equipment	**(9)**	**34**	2	2
Impairment of goodwill	**96**	**95**	82	82
Impairment of assets in terms of IAS 36	**37**	**34**	175	175
Gain from a bargain purchase	**(9)**	**(9)**	(203)	(148)
Other	**–**	**–**	4	4
Headline earnings to ordinary equity shareholders	**15 225**	**9 438**	12 775	8 075
Headline earnings from discontinued operations				
Attributable earnings to ordinary equity shareholders	**7 286**	**7 286**	1 890	1 195
Adjusted for				
Profit on dividend in specie	**(6 868)**	**(6 868)**	–	–
– Loss due to the fair value adjustment of a non-current asset held for sale	**–**	**–**	100	100
– Impairment of goodwill	**–**	**–**	71	71
– Impairment of intangible assets	**–**	**–**	12	12
Headline earnings to ordinary equity shareholders	**418**	**418**	2 073	1 378
Headline earnings to ordinary equity shareholders continued and discontinued	**15 643**	**9 856**	14 848	9 453

** Net of tax and non-controlling interests.*

Consolidated statement of headline earnings and dividends continued

for the year ended 30 June

Cents	2011	2010
Basic headline earnings per share (cents)	**183.1**	180.1
From continuing operations (cents)	**174.7**	152.8
From discontinued operations (cents)	**8.4**	27.3
Diluted headline earnings per share (cents)	**179.4**	178.3
From continuing operations (cents)	**171.3**	151.3
From discontinued operations (cents)	**8.1**	27.0

	2011	2010
Dividend information		
Dividends declared on NCNR preference share (cents)		
"B" preference share		
– 28 February 2011/22 February 2010	**141**	154
– 29 August 2011/30 August 2010	**137**	160
Total "B" preference share	**278**	314
Dividends declared (R million)		
Ordinary dividends	**4 567**	4 341
Special dividend	**3 947**	–
NCNR preference shares	**298**	314

Notes to the consolidated annual financial statements
for the year ended 30 June

1 Analysis of interest income and interest expenditure

R million	2011 Fair value	Amortised cost	Hedging instruments	Non-financial assets and liabilities	Total
1.1 INTEREST AND SIMILAR INCOME					
– Advances	–	32 676	–	–	32 676
– Cash and cash equivalents	–	619	–	–	619
– Investment securities and other investments	3 665	50	–	–	3 715
– Unwinding of discounted present value on non-performing loans	–	214	–	–	214
– Accrued on off-market advances	–	8	–	–	8
– Other	–	267	527	161	955
Interest and similar income	**3 665**	**33 834**	**527**	**161**	**38 187**

R million	2010 Fair value	Amortised cost	Hedging instruments	Non-financial assets and liabilities	Total
– Advances	–	33 446	–	–	33 446
– Cash and cash equivalents	61	218	–	–	279
– Investment securities and other investments	3 673	115	–	–	3 788
– Unwinding of discounted present value on non-performing loans	–	253	–	–	253
– Accrued on off-market advances	–	8	–	–	8
– Other	100	619	207	117	1 043
Interest and similar income	3 834	34 659	207	117	38 817

Notes to the consolidated annual financial statements continued

for the year ended 30 June

1 Analysis of interest income and interest expenditure *continued*

	2011				
R million	Fair value	Amortised cost	Hedging instruments	Non-financial assets and liabilities	Total
1.2 INTEREST EXPENSE AND SIMILAR CHARGES					
– Deposits from banks and financial institutions	(44)	(521)	–	–	(565)
– Current accounts	(111)	(6 150)	–	–	(6 261)
– Savings deposits	–	(57)	–	–	(57)
– Term deposit accounts	(518)	(4 984)	–	–	(5 502)
– Negotiable certificates of deposit	(2 274)	(3 075)	–	–	(5 349)
– Long-term liabilities	(325)	(734)	–	–	(1 059)
– Other	(332)	(533)	(1 152)	(8)	(2 025)
Interest expense and similar charges	**(3 604)**	**(16 054)**	**(1 152)**	**(8)**	**(20 818)**

	2010				
R million	Fair value	Amortised cost	Hedging instruments	Non-financial assets and liabilities	Total
– Deposits from banks and financial institutions	(43)	(641)	–	–	(684)
– Current accounts	–	(7 050)	–	–	(7 050)
– Savings deposits	–	(68)	–	–	(68)
– Term deposit accounts	(4 246)	(3 639)	–	–	(7 885)
– Negotiable certificates of deposit	(3 443)	(177)	–	–	(3 620)
– Long-term liabilities	(409)	(1 106)	–	–	(1 515)
– Other	(327)	(671)	(639)	(8)	(1 645)
Interest expense and similar charges	(8 468)	(13 352)	(639)	(8)	(22 467)

2 Non-interest income

R million	2011	2010
Fee and commission income		
– Instruments at amortised cost	13 869	12 093
– Instruments at fair value	241	587
– Non-financial assets and liabilities	4 243	4 378
Fee and commission income	18 353	17 058
Fair value income		
– Held for trading	2 921	2 009
– Designated at fair value through profit or loss	2 620	2 047
– Other	93	(35)
Fair value income	5 634	4 021
Gains less losses from investing activities		
– Designated at fair value through profit or loss	365	262
– Available-for-sale	582	87
– Other*	3 493	1 368
– Impairment of investment securities and other investments	–	2
Gains less losses from investing activities	4 440	1 719
Other non-interest income	3 455	4 156
Total	31 882	26 954
Fee and commission income		
– Banking fee and commission income	14 896	13 351
– Card commissions	2 001	1 748
– Cash deposit fees	1 599	1 437
– Commitment fees	281	205
– Commissions: bills, drafts and cheques	522	532
– Exchange commissions	530	597
– Brokerage income	939	938
– Bank charges	9 024	7 894
– Knowledge-based fee and commission income	817	810
– Non-banking fee and commission income	2 399	2 319
– Asset management and related fees	241	578
Fee and commission income	18 353	17 058

Non-banking fee and commission income earned relates to fees and commissions for rendering services to clients other than those related to the banking operations.

This includes commission earned on the sale of insurance products.

** Included in other for 2011 is R2 841 million for the sale of associates.*

Notes to the consolidated annual financial statements continued

for the year ended 30 June

2 Non-interest income *continued*

R million	2011	2010
Fair value income	**5 634**	4 021
Gains less losses from investing activities		
– Gains on investment securities and other investments	12	595
– Reclassification from other comprehensive income on derecognition/sale of available-for-sale assets	341	605
– Gain on disposal of subsidiary	571	139
– Preference share dividends	195	230
Unlisted	195	230
– Other dividends received	55	7
Listed	30	3
Unlisted	25	4
– Share of profit of associates and joint ventures (note 15)	868	700
– Unrealised profit on assets held against employee liabilities	339	151
– Fair value gains on investment properties held at fair value through profit or loss (note 19)	44	–
– Rental income from investment properties (note 19)	10	–
– Gain on disposal of associates	2 841	–
– Other investment income	23	(174)
– Loss on remeasuring the equity interest previously held in the acquiree	–	(37)
– Gain on a bargain purchase	9	203
Gross gains less losses from investing activities	**5 308**	2 419
Less: Share of profit from associates and joint ventures (disclosed separately on the face of the income statement)	(868)	(700)
Gains less losses from investing activities	**4 440**	1 719
Other non-interest income		
– Gain on sale of property and equipment	9	53
– Non-interest income from insurance operations (disclosed separately below)	1 165	350
– Other income	2 281	3 753
Other non-interest income	**3 455**	4 156
Total non-interest income	**31 882**	26 954
Non-interest income from insurance operations		
Premium income	1 691	225
Reinsurance recoveries	13	75
Claims and policyholder benefits	(387)	(143)
Increase in value of policyholder liabilities	(152)	193
Transfer (from)/to policyholder liabilities under insurance contracts (note 28)	(75)	207
Fair value adjustments on policyholder liabilities under investment contracts (note 29)	(77)	(14)
Non-interest income from insurance operations	**1 165**	350

3 Operating expenses

R million	2011	2010
Fee and commission expense	**(243)**	(167)
Auditors' remuneration		
– Audit fees	**(128)**	(112)
– Fees for other services	**(15)**	(17)
– Technical advice	**(1)**	(1)
– Other	**(14)**	(16)
– Prior year under provision	**(2)**	(1)
Auditors' remuneration	**(145)**	(130)
Amortisation of intangible assets		
– Software	**(103)**	(94)
– Development costs	**(10)**	(14)
– Trademarks	**(34)**	(57)
– Other	**(25)**	(24)
Amortisation of intangible assets (note 18)	**(172)**	(189)
Depreciation		
– Property	**(450)**	(389)
– Freehold property	**(142)**	(105)
– Leasehold premises	**(308)**	(284)
– Equipment	**(1 058)**	(979)
– Computer equipment	**(611)**	(592)
– Furniture and fittings	**(175)**	(158)
– Motor vehicles	**(142)**	(102)
– Office equipment	**(130)**	(127)
– Capitalised leased assets and assets held under lease agreements	**(57)**	(62)
Depreciation note (16)	**(1 565)**	(1 430)
Impairments incurred		
– Property and equipment (note 16)	**(71)**	(107)
– Goodwill (note 18)	**(96)**	(78)
– Software	**–**	(4)
– Other	**(56)**	2
Impairments incurred	**(223)**	(187)
Impairments reversed		
– Other (note 18)	**35**	–
Impairments reversed	**35**	–
Operating lease charges		
– Property	**(771)**	(713)
– Equipment	**(160)**	(177)
– Motor vehicles	**(8)**	(5)
Operating lease charges	**(939)**	(895)

Notes to the consolidated annual financial statements continued

for the year ended 30 June

3 Operating expenses *continued*

R million	2011	2010
Professional fees		
– Managerial	**(111)**	(124)
– Technical	**(549)**	(527)
– Other	**(359)**	(266)
Professional fees	**(1 019)**	(917)
Direct staff costs		
– Salaries, wages and allowances	**(9 472)**	(8 698)
– Contributions to employee benefit funds	**(1 454)**	(1 308)
– Defined contribution schemes	**(1 231)**	(1 112)
– Defined benefit schemes (note 26)	**(223)**	(196)
– Social security levies	**(121)**	(132)
– Share-based payments (note 31)	**(696)**	(679)
– Other	**(554)**	(360)
Direct staff cost	**(12 297)**	(11 177)
– Other staff related cost	**(2 108)**	(1 901)
Total staff cost	**(14 405)**	(13 078)
Other operating costs		
– Insurance	**(119)**	(195)
– Advertising and marketing	**(1 074)**	(979)
– Maintenance	**(919)**	(868)
– Property	**(715)**	(624)
– Computer	**(894)**	(770)
– Stationery	**(213)**	(232)
– Telecommunications	**(470)**	(496)
– Cost associated with customer loyalty programmes	**(293)**	(249)
– Conveyance of cash	**(379)**	(327)
– Origination costs	**(39)**	(27)
– Other operating expenditure	**(3 090)**	(3 086)
– Total directors' remuneration	**(20)**	(19)
– Services as directors	**(20)**	(19)
Other operating costs	**(8 225)**	(7 872)
Total operating expenses	**(26 901)**	(24 865)

4 Indirect and direct tax

R million	2011	2010
4.1 INDIRECT TAX		
Value added tax (net)	(538)	(432)
Stamp duties	(20)	(14)
Other	(56)	–
Indirect tax	**(614)**	(446)
4.2 DIRECT TAX		
Normal tax		
– Current	(3 578)	(2 187)
– Current year	(3 808)	(2 394)
– Prior year adjustment	230	207
– Deferred	20	(555)
– Current year	(76)	(463)
– Prior year adjustment	96	(92)
– Share of associate and joint venture tax (note 15)	(337)	(447)
Total normal tax	**(3 895)**	(3 189)
Foreign company and withholding tax		
– Current	(443)	(445)
– Current year	(442)	(446)
– Prior year adjustment	(1)	1
– Deferred tax	(5)	148
– Current year	(17)	151
– Prior year adjustment	12	(3)
Total foreign company and withholding tax	**(448)**	(297)
Secondary tax on companies		
– Current year	(155)	(57)
– Deferred	44	74
– Current year	44	(22)
– Prior year adjustment	–	96
Total secondary tax on companies	**(111)**	17
Capital gains tax		
– Current tax	(122)	(51)
– Deferred tax	2	1
Total capital gains tax	**(120)**	(50)
Customer tax adjustment account	(8)	(8)
Total direct tax	**(4 582)**	(3 527)
Tax rate reconciliation – South African normal tax	%	%
Effective rate of tax	**24.3**	27.0
Total tax has been affected by:		
– Non-taxable income	2.9	7.3
– Prior year adjustments	1.7	1.6
– Effect of income at capital gains tax rate	(0.6)	(0.4)
– Other non-deductible items	(0.3)	(7.5)
Standard rate of South African normal tax	**28.0**	28.0

Notes to the consolidated annual financial statements continued

for the year ended 30 June

5 Earnings per share

R million	2011	2010
Basic Basic earnings per share is calculated by dividing the net profit attributable to equity holders of the Group by the weighted average number of ordinary shares in issue during the year, excluding the average number of ordinary shares purchased by the Group and held as treasury shares.		
Earnings attributable to ordinary shareholders (R million)	20 065	9 444
From continuing operations	12 779	8 249
From discontinued operations	7 286	1 195
Weighted average number of ordinary shares in issue	5 384 058 475	5 248 177 525
Basic earnings per share (cents)	372.7	179.9
From continuing operations (cents)	236.6	156.1
From discontinued operations (cents)	136.1	23.8
Diluted Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.		
Earnings attributable to ordinary shareholders (R million)	20 065	9 444
From continuing operations	12 779	8 249
From discontinued operations	7 286	1 195
Actual number of shares:		
Shares in issue		
Opening balance as at 1 July	5 637 941 689	5 637 941 689
Less: Treasury shares	(189 017 706)	(393 425 954)
– Staff schemes	(16 251 263)	(164 470 512)
– BEE staff trusts	(171 401 072)	(171 401 072)
– Policyholder and mutual funds "deemed treasury shares"	(1 365 371)	(57 554 370)
Number of shares in issue (after treasury shares)	5 448 923 983	5 244 515 735
Weighted average number of shares		
Weighted average number of shares before treasury shares	5 637 941 689	5 637 941 689
Less: Treasury shares	(253 883 214)	(389 764 164)
– Staff schemes	(63 457 590)	(181 015 451)
– BEE staff trusts	(171 401 072)	(171 401 072)
– Policyholder and mutual funds "deemed treasury shares"	(19 024 552)	(37 347 641)
Weighted average number of shares in issue	5 384 058 475	5 248 177 525
Dilution impact		
– Staff schemes	84 813 466	42 815 288
– BEE staff trust	23 976 201	11 438 393
Diluted weighted average number of shares in issue	5 492 848 142	5 302 431 206
Number of shares from continuing operations		
Weighted average number of shares in issue	5 384 058 475	5 248 177 525
Add shares held by Momentum policyholders	17 673 294	35 949 633
Weighted average number of shares in issue	5 401 731 769	5 284 127 158
Dilution impact	108 789 667	54 253 681
Diluted weighted average number of shares in issue	5 510 521 436	5 338 380 839
Diluted earnings per share (cents)	365.3	178.1
From continuing operations (cents)	231.9	154.5
From discontinued operations (cents)	133.4	23.6

6 Disclosure of the components and tax effects of other comprehensive income

R million	2011	2010
Cash flow hedges (refer to note 9)	**15**	(176)
Losses arising during the year	(604)	(656)
Less: Reclassification adjustments for amounts included in profit or loss	625	430
Deferred tax	(6)	50
Available-for-sale financial assets	**(79)**	(136)
Gains arising during the year	299	534
Less: Reclassification adjustments for amounts included in profit or loss	(341)	(605)
Deferred tax	(38)	(67)
Non-controlling interests	1	2
Exchange differences on translating foreign operations	**(266)**	(74)
Losses arising during the year	(206)	(52)
Non-controlling interests	(60)	(22)
Share of other comprehensive income of associates after tax and non-controlling interests	**35**	39
Other comprehensive income	**(295)**	(347)

Notes to the consolidated annual financial statements continued

for the year ended 30 June

7 Analysis of assets and liabilities

Financial assets and financial liabilities are measured either at fair value or at amortised cost. The principal accounting policies on page 202 to page 222 describe how the classes of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognised.

The following table analyses the assets and liabilities in the statement of financial position per category of financial instrument and therefore by measurement basis:

		2011		
R million	Note	Held for trading	Designated at fair value through profit or loss*	Held-to-maturity investments
ASSETS				
Cash and cash equivalents	8	–	–	–
Derivative financial instruments	9	36 711	–	–
Advances	10	–	122 144	90
Investment securities and other investments	12	35 868	58 027	207
Commodities	13	–	–	–
Accounts receivable	14	–	–	–
Investments in associates and joint ventures	15	–	–	–
Property and equipment	16	–	–	–
Deferred tax asset	17	–	–	–
Post-retirement benefit asset	–	–	–	–
Intangible assets	18	–	–	–
Investment properties	19	–	–	–
Reinsurance assets	20	–	–	–
Tax asset		–	–	–
Non-current assets and disposal groups held for sale	21	–	–	–
Total assets		**72 579**	**180 171**	**297**
LIABILITIES				
Deposits and current accounts	22	–	157 206	–
Short trading positions	23	12 413	–	–
Derivative financial instruments	9	35 315	–	–
Creditors and accruals	24	–	–	–
Provisions	25	–	–	–
Tax liability	–	–	–	–
Post-retirement liabilities	26	–	–	–
Deferred tax liability	17	–	–	–
Long-term liabilities	27	–	1 214	–
Policyholder liabilities under insurance contracts	28	–	–	–
Policyholder liabilities under investment contracts	29	–	94	–
Liabilities directly associated with non-current assets classified as held for sale	21	–	–	–
Total liabilities		**47 728**	**158 514**	**–**

2011						
Loans and receivables	Available-for-sale financial assets	Financial liabilities at amortised cost	Derivatives designated as fair value hedging instruments	Derivatives designated as cash flow hedging instruments	Non-financial assets and liabilities	Total
34 240	–	–	–	–	–	34 240
–	–	–	–	495	–	37 206
342 244	115	–	–	–	–	464 593
78	30 576	–	–	–	–	124 756
–	–	–	–	–	4 388	4 388
7 289	–	–	–	–	–	7 289
–	–	–	–	–	6 029	6 029
–	–	–	–	–	10 542	10 542
–	–	–	–	–	560	560
–	–	–	–	–	2	2
–	–	–	–	–	1 691	1 691
–	–	–	–	–	203	203
–	–	–	–	–	484	484
–	–	–	–	–	139	139
–	–	–	–	–	5 805	5 805
383 851	30 691	–	–	495	29 843	697 927
–	–	396 451	–	–	–	553 657
–	–	–	–	–	–	12 413
–	–	–	74	972	–	36 361
–	–	9 930	–	–	–	9 930
–	–	–	–	–	3 621	3 621
–	–	–	–	–	288	288
–	–	–	–	–	2 292	2 292
–	–	–	–	–	2 223	2 223
–	–	5 040	–	–	436	6 690
–	–	–	–	–	1 047	1 047
–	–	–	–	–	–	94
–	–	–	–	–	5 092	5 092
–	–	411 421	74	972	14 999	633 708

Notes to the consolidated annual financial statements continued
for the year ended 30 June

7 Analysis of assets and liabilities *continued*

		2010		
R million	Note	Held for trading	Designated at fair value through profit or loss*	Held-to-maturity investments
ASSETS				
Cash and cash equivalents	8	–	–	–
Derivative financial instruments	9	39 285	–	–
Advances	10	–	117 387	120
Investment securities and other investments	12	25 897	58 634	254
Commodities	13		–	–
Accounts receivable	14	–	–	–
Investments in associates and joint ventures	15	–	–	–
Property and equipment	16	–	–	–
Deferred tax asset	17	–	–	–
Intangible assets	18	–	–	–
Investment properties	19	–	–	–
Policy loans		–	–	–
Reinsurance assets	20	–	–	–
Tax asset		–	–	–
Non-current assets and disposal groups held for sale	21	–	–	–
Total assets		65 182	176 021	374
LIABILITIES				
Deposits and current accounts	22	–	233 296	–
Short trading positions	23	16 735	–	–
Derivative financial instruments	9	34 909	–	–
Creditors and accruals	24	–	–	–
Provisions	25	–	–	–
Tax liability		–	–	–
Post-retirement liabilities	26	–	–	–
Deferred tax liability	17	–	–	–
Long-term liabilities	27	–	1 174	–
Policyholder liabilities under insurance contracts	28	–	–	–
Policyholder liabilities under investment contracts	29	–	101	–
Liabilities directly associated with non-current assets classified as held for sale	21	–	–	–
Total liabilities		51 644	234 571	–

* *Investment securities designated at fair value through profit and loss include non-recourse investments of R17 413 million (2010: R16 036 million). Refer to note 12.*

	2010						
	Loans and receivables	Available-for-sale financial assets	Financial liabilities at amortised cost	Derivatives designated as fair value hedging instruments	Derivatives designated as cash flow hedging instruments	Non-financial assets and liabilities	Total
	27 067	–	–	–	–	–	27 067
	–	–	–	–	479	–	39 764
	316 986	300	–	–	–	–	434 793
	2 365	30 021	–	–	–	–	117 171
	–	–	–	–	–	2 365	2 365
	5 743	–	–	–	–	–	5 743
	–	–	–	–	–	6 901	6 901
	–	–	–	–	–	10 018	10 018
	–	–	–	–	–	443	443
	–	–	–	–	–	2 104	2 104
	–	–	–	–	–	138	138
	27	–	–	–	–	–	27
	–	–	–	–	–	524	524
	–	–	–	–	–	935	935
	–	–	–	–	–	197 247	197 247
	352 188	30 321	–	–	479	220 675	845 240
	–	–	279 173	–	–	–	512 469
	–	–	–	–	–	–	16 735
	–	–	–	56	1 070	–	36 035
	–	–	12 115	–	–	–	12 115
	–	–	–	–	–	3 359	3 359
	–	–	–	–	–	157	157
	–	–	–	–	–	2 162	2 162
	–	–	–	–	–	2 132	2 132
	–	–	7 796	–	–	213	9 183
	–	–	–	–	–	1 868	1 868
	–	–	–	–	–	–	101
	–	–	–	–	–	189 961	189 961
	–	–	299 084	56	1 070	199 852	786 277

Notes to the consolidated annual financial statements continued

for the year ended 30 June

8 Cash and cash equivalents

R million	2011	2010
Coins and bank notes	5 001	4 279
Money at call and short notice	1 371	2 217
Balances with central banks	15 660	11 513
Balances with other banks	12 208	9 058
Cash and cash equivalents	**34 240**	27 067
Mandatory reserve balances included above:	**12 173**	10 483

Banks are required to deposit a minimum average balance, calculated monthly, with the central bank, which is not available for use in the Group's day-to-day operations. These deposits bear little or no interest.

Money at short notice constitutes amounts withdrawable in 32 days or less.

The carrying value of cash and cash equivalents approximates the fair value.

Refer to note 47 for current and non-current analysis of cash and cash equivalents.

9 Derivative financial instruments

USE OF DERIVATIVES

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

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

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

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

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

The Group's detailed risk management strategy, including the use of hedging instruments in risk management, is set out in the risk report on pages 118 to 201 of the annual integrated report.

TRADING DERIVATIVES

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

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

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

9 Derivative financial instruments *continued*

HEDGING INSTRUMENTS

Fair value hedges

The Group's fair value hedges consist of commodity derivatives used to hedge the price risk associated with physical commodity positions and interest rate swaps that hedge the interest rate risk inherent in a fixed rate preference share advance. For qualifying fair value hedges, all changes in fair value of the derivative and in the fair value of the item in relation to the risk being hedged are recognised in profit or loss. Upon discontinuance of the hedging relationship, any fair value adjustments recognised as part of the carrying amount of the hedged item in terms of fair value hedging requirements included in the carrying amount of the item until it is disposed of.

On disposal of the previously hedged item, these fair value adjustments will be realised through profit or loss.

R million	2011	2010
Gains/(losses) for the year arising from the change in fair value of fair value hedges:		
– on hedging instrument	(393)	104
– on hedged items attributable to the hedged risk	385	(105)
Total	(8)	(1)

Cash flow hedges

The Group raises funding and holds assets that bear interest at variable and fixed rates. The mix of interest rates in the Group's assets and liabilities exposes the Group to interest rate risk. Changes in the market interest rates have an impact on the Group's profit or loss. The Group has hedges in place to manage this risk, these hedges are accounted for as cash flow hedges.

The Group hedges this risk using separate portfolios. These portfolios are managed under separate mandates, which take into account the underlying risk inherent in each portfolio. Counterparty credit risk is managed centrally by FirstRand Credit.

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

The Group uses the following derivatives as hedging instruments:

- 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.
- 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.

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

Amounts accumulated in other comprehensive income are released to profit or loss in periods in which movements in the hedged item affect profit or loss.

When hedging instruments are sold or when the hedge no longer meets the criteria for hedge accounting, the cumulative gains or losses remain in other comprehensive income and are released to profit or loss as the risk, previously hedged, affects profit or loss.

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

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9 Derivative financial instruments *continued*

R million	2011	2010
Reconciliation of movements in the cash flow hedge reserve		
Opening balance (net of deferred tax)	(466)	(292)
Amount recognised directly in other comprehensive income during the year	(435)	(487)
Amounts reclassified from other comprehensive income and included in profit or loss for the year	450	311
– Gross amount	625	432
– Deferred tax	(175)	(121)
Other	–	2
Closing balance	(451)	(466)

During the period, the hedging relationship was highly effective and the Group deferred the lesser of changes in fair value on the hedging instruments and changes in fair value on the hedged items. As the changes on the hedged items were less than the changes in fair value on the hedging instrument, a portion of ineffectiveness was recognised in profit or loss.

R million	2011	2010
Hedge ineffectiveness recognised in the income statement	21	20

Cash flows on the underlying hedged items are expected to impact the income statement as follows:

	2011		2010	
R million	Assets	Liabilities	Assets	Liabilities
– 0 – 3 months	1 911	(1 705)	5 061	(3 422)
– 4 – 12 months	5 154	(4 983)	3 744	(2 763)
– 1 – 5 years	2 469	(6 635)	1 321	(1 099)
– Over 5 years	–	(57)	–	(10)
Total	9 534	(13 380)	10 126	(7 294)

Cash flows on the hedging instruments are expected to be released to the income statement as follows:

	2011		2010	
R million	Assets	Liabilities	Assets	Liabilities
– 0 – 3 months	(139)	259	(92)	9
– 4 – 12 months	(435)	538	(316)	414
– 1 – 5 years	(144)	371	(239)	651
– Over 5 years	–	1	–	39
Total	(718)	1 169	(647)	1 113

9 Derivative financial instruments *continued*

	2011			
	Assets		Liabilities	
R million	Notional	Fair value	Notional	Fair value
Qualifying for hedge accounting				
Cash flow hedges				
Interest rate derivatives	34 462	495	54 252	972
– Forward rate agreements	17 130	15	17 240	34
– Swaps	17 332	480	37 012	938
Total cash flow hedges	34 462	495	54 252	972
Fair value hedges				
Interest rate derivatives	–	–	3 942	74
– Swaps	–	–	3 942	74
Commodity derivatives	1 140	–	–	–
– Futures	1 140	–	–	–
Total fair value hedges	1 140	–	3 942	74
Total qualifying for hedge accounting	35 602	495	58 194	1 046
Held for trading				
Currency derivatives	285 883	9 063	272 807	7 180
– Swaps	182 350	5 625	199 185	4 119
– Options	9 842	658	12 519	546
– Futures	93 691	2 780	61 103	2 515
Interest rate derivatives	9 341 576	26 271	9 477 479	26 570
– Forward rate agreements	7 305 573	5 455	7 286 647	5 489
– Swaps	1 455 686	20 094	1 463 662	20 272
– Options	570 020	722	723 944	809
– Futures	10 297	–	3 226	–
Equity derivatives	12 511	408	22 434	841
– Swaps	–	–	3 630	2
– Options	5 561	316	7 805	798
– Futures	6 950	92	10 999	41
Commodity derivatives	24 044	929	32 802	676
– Swaps	4 277	348	7 588	112
– Options	5 164	439	4 516	293
– Futures	14 603	142	20 698	271
Credit derivatives	200	40	1 075	48
Total held for trading	9 664 214	36 711	9 806 597	35 315
Total	9 699 816	37 206	9 864 791	36 361

Notes to the consolidated annual financial statements continued

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9 Derivative financial instruments *continued*

R million	2011					
	Assets: Derivative instruments					
	Exchange traded		Over the counter		Total	
	Notional	Fair value	Notional	Fair value	Notional	Fair value
Qualifying for hedge accounting						
Cash flow hedges	–	–	34 462	495	34 462	495
Interest rate derivatives	–	–	34 462	495	34 462	495
Fair value hedges	1 140	–	–	–	1 140	–
Commodity derivatives	1 140	–	–	–	1 140	–
Not qualifying for hedge accounting						
Held for trading	23 852	–	9 640 362	36 711	9 664 214	36 711
Currency derivatives	–	–	285 883	9 063	285 883	9 063
Interest rate derivatives	10 782	–	9 330 794	26 271	9 341 576	26 271
Equity derivatives	390	–	12 121	408	12 511	408
Commodity derivatives	12 680	–	11 364	929	24 044	929
Credit derivatives	–	–	200	40	200	40
Total	24 992	–	9 674 824	37 206	9 699 816	37 206

R million	2011					
	Liabilities: Derivative instruments					
	Exchange traded		Over the counter		Total	
	Notional	Fair value	Notional	Fair value	Notional	Fair value
Qualifying for hedge accounting						
Cash flow hedges	–	–	54 252	972	54 252	972
Interest rate derivatives	–	–	54 252	972	54 252	972
Fair value hedges	2 405	–	1 537	74	3 942	74
Interest rate derivatives	2 405	–	1 537	74	3 942	74
Not qualifying for hedge accounting						
Held for trading	31 240	–	9 775 357	35 315	9 806 597	35 315
Currency derivatives	–	–	272 807	7 180	272 807	7 180
Interest rate derivatives	3 306	–	9 474 173	26 570	9 477 479	26 570
Equity derivatives	9 533	–	12 901	841	22 434	841
Commodity derivatives	18 401	–	14 401	676	32 802	676
Credit derivatives	–	–	1 075	48	1 075	48
Total	33 645	–	9 831 146	36 361	9 864 791	36 361

Refer to note 47 for current and non-current analysis of derivatives.

9 Derivative financial instruments *continued*

	2010			
	Assets		Liabilities	
R million	Notional	Fair value	Notional	Fair value
Qualifying for hedge accounting				
Cash flow hedges				
Interest rate derivatives	27 417	479	32 653	1 070
– Swaps	27 417	479	32 653	1 070
Total cash flow hedges	27 417	479	32 653	1 070
Fair value hedges				
Commodity derivatives	861	–	–	–
– Futures	861	–	–	–
Interest rate derivatives	–	–	1 530	56
– Swaps	–	–	1 530	56
Total fair value hedges	861	–	1 530	56
Total qualifying for hedge accounting	28 278	479	34 183	1 126
Held for trading				
Currency derivatives	223 515	7 431	202 930	5 193
– Forward rate agreements	2 050	1 003	230	128
– Swaps	162 877	4 299	144 403	3 480
– Options	8 018	547	7 009	308
– Futures	50 570	1 582	51 288	1 277
Interest rate derivatives	5 011 506	25 966	4 849 981	26 091
– Forward rate agreements	3 302 148	4 478	3 293 141	4 634
– Swaps	1 177 248	20 896	1 138 161	20 918
– Options	529 185	592	411 536	539
– Futures	2 925	–	7 143	–
Equity derivatives	11 496	456	13 755	527
– Options	6 063	278	7 363	503
– Futures	5 433	178	6 392	24
Commodity derivatives	18 947	5 316	9 645	2 663
– Swaps	3 551	626	3 166	157
– Options	5 381	4 248	2 748	1 686
– Futures	10 015	442	3 731	820
Credit derivatives	1 416	116	3 043	435
Total held for trading	5 266 880	39 285	5 079 354	34 909
Total	5 295 158	39 764	5 113 537	36 035

Notes to the consolidated annual financial statements continued

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9 Derivative financial instruments *continued*

	2010					
	Assets: Derivative instruments					
	Exchange traded		Over the counter		Total	
R million	Notional	Fair value	Notional	Fair value	Notional	Fair value
Qualifying for hedge accounting						
Cash flow hedges	–	–	27 417	479	27 417	479
Interest rate derivatives	–	–	27 417	479	27 417	479
Fair value hedges	861	–	–	–	861	–
Commodity derivatives	861	–	–	–	861	–
Not qualifying for hedge accounting						
Held for trading	12 900	1	5 253 980	39 284	5 266 880	39 285
Currency derivatives	67	–	223 448	7 431	223 515	7 431
Interest rate derivatives	3 933	–	5 007 573	25 966	5 011 506	25 966
Equity derivatives	303	1	11 193	455	11 496	456
Commodity derivatives	8 597	–	10 350	5 316	18 947	5 316
Credit derivatives	–	–	1 416	116	1 416	116
Total	13 761	1	5 281 397	39 763	5 295 158	39 764

	2010					
	Liabilities: Derivative instruments					
	Exchange traded		Over the counter		Total	
R million	Notional	Fair value	Notional	Fair value	Notional	Fair value
Qualifying for hedge accounting						
Cash flow hedges	–	–	32 653	1 070	32 653	1 070
Interest rate derivatives	–	–	32 653	1 070	32 653	1 070
Fair value hedges	–	–	1 530	56	1 530	56
Interest rate derivatives	–	–	1 530	56	1 530	56
Not qualifying for hedge accounting						
Held for trading	14 094	2	5 065 260	34 907	5 079 354	34 909
Currency derivatives	56	2	202 874	5 191	202 930	5 193
Interest rate derivatives	7 986	–	4 841 995	26 091	4 849 981	26 091
Equity derivatives	5 878	–	7 877	527	13 755	527
Commodity derivatives	174	–	9 471	2 663	9 645	2 663
Credit derivatives	–	–	3 043	435	3 043	435
Total	14 094	2	5 099 443	36 033	5 113 537	36 035

Refer to note 47 for current and non-current analysis of derivatives.

10 Advances

R million	2011 Loans and receivables	Held-to-maturity	Available-for-sale	Designated at fair value through profit or loss	Total
Sector analysis					
Agriculture	10 779	–	–	3 067	13 846
Banks and financial services	9 957	–	–	45 831	55 788
Building and property development	6 923	–	–	17 742	24 665
Government, Land Bank and public authorities	1 837	–	–	13 488	15 325
Individuals	274 070	101	115	828	275 114
Manufacturing and commerce	22 885	–	–	12 477	35 362
Mining	1 093	–	–	10 251	11 344
Transport and communication	2 082	–	–	10 840	12 922
Other services	22 691	–	–	7 620	30 311
Notional value of advances	352 317	101	115	122 144	474 677
Contractual interest suspended	(2 054)	(8)	–	–	(2 062)
Gross advances	350 263	93	115	122 144	472 615
Impairment of advances (note 11)	(8 019)	(3)	–	–	(8 022)
Net advances	342 244	90	115	122 144	464 593
Geographic analysis (based on credit risk)					
South Africa	318 266	101	115	113 877	432 359
Other Africa	23 631	–	–	2 263	25 894
United Kingdom	7 628	–	–	3 846	11 474
Other	2 792	–	–	2 158	4 950
– Other Europe	569	–	–	1 463	2 032
– North America	254	–	–	121	375
– South America	68	–	–	103	171
– Australasia	867	–	–	47	914
– Asia	1 032	–	–	424	1 456
– Other	2	–	–	–	2
Total value of advances	352 317	101	115	122 144	474 677
Contractual interest suspended	(2 054)	(8)	–	–	(2 062)
Gross advances	350 263	93	115	122 144	472 615
Impairment of advances (note 11)	(8 019)	(3)	–	–	(8 022)
Net advances	342 244	90	115	122 144	464 593

Notes to the consolidated annual financial statements continued

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10 Advances *continued*

R million	2011 Loans and receivables	Held-to-maturity	Available-for-sale	Designated at fair value through profit or loss	Total
Category analysis					
Overdrafts and managed accounts	27 019	–	–	–	27 019
Loans to other financial institutions	3 630	–	–	5 844	9 474
Card loans	12 165	–	–	–	12 165
Instalment sales	76 026	–	–	–	76 026
Lease payments receivable	16 480	–	–	–	16 480
Property finance	175 716	101	–	3 247	179 064
– Home loans	164 222	101	–	21	164 344
– Commercial property finance	11 494	–	–	3 226	14 720
Personal loans	15 587	–	–	–	15 587
Preference share advances	2 827	–	–	25 675	28 502
Assets under agreement to resell	916	–	–	29 764	30 680
Investment bank term loans	3	–	–	51 655	51 658
Other	21 948	–	115	5 959	28 022
Notional value of advances	352 317	101	115	122 144	474 677
Contractual interest suspended	(2 054)	(8)	–	–	(2 062)
Gross advances	350 263	93	115	122 144	472 615
Impairment of advances (note 11)	(8 019)	(3)	–	–	(8 022)
Net advances	342 244	90	115	122 144	464 593

10 Advances *continued*

R million	2010 Loans and receivables	Held-to-maturity	Available-for-sale	Designated at fair value through profit or loss	Total
Sector analysis					
Agriculture	9 164	–	–	3 422	12 586
Banks and financial services	11 657	–	–	49 014	60 671
Building and property development	5 334	–	–	14 231	19 565
Government, Land Bank and public authorities	4 272	–	–	9 768	14 040
Individuals	256 494	133	300	144	257 071
Manufacturing and commerce	19 349	–	–	13 700	33 049
Mining	1 582	–	–	7 783	9 365
Transport and communication	1 892	–	–	11 832	13 724
Other services	18 266	–	–	7 493	25 759
Notional value of advances	328 010	133	300	117 387	445 830
Contractual interest suspended	(2 056)	(9)	–	–	(2 065)
Gross advances	325 954	124	300	117 387	443 765
Impairment of advances (note 11)	(8 968)	(4)	–	–	(8 972)
Net advances	316 986	120	300	117 387	434 793
Geographic analysis (based on credit risk)					
South Africa	300 487	133	300	111 244	412 164
Other Africa	21 026	–	–	1 810	22 836
United Kingdom	4 683	–	–	2 503	7 186
Other	1 814	–	–	1 830	3 644
– Ireland	–	–	–	68	68
– Other Europe	143	–	–	517	660
– North America	292	–	–	527	819
– South America	115	–	–	276	391
– Australasia	1 187	–	–	263	1 450
– Other	77	–	–	179	256
Total value of advances	328 010	133	300	117 387	445 830
Contractual interest suspended	(2 056)	(9)	–	–	(2 065)
Gross advances	325 954	124	300	117 387	443 765
Impairment of advances (note 11)	(8 968)	(4)	–	–	(8 972)
Net advances	316 986	120	300	117 387	434 793

Notes to the consolidated annual financial statements continued

for the year ended 30 June

10 Advances *continued*

	2010				
R million	Loans and receivables	Held-to-maturity	Available-for-sale	Designated at fair value through profit or loss	Total
Category analysis					
Overdrafts and managed accounts	26 168	–	–	–	26 168
Loans to other financial institutions	3 023	–	–	2 194	5 217
Card loans	12 013	–	–	–	12 013
Instalment sales	65 899	–	–	–	65 899
Lease payments receivable	18 530	–	–	–	18 530
Property finance	170 351	133	–	3 298	173 782
– Home loans	160 094	133	–	–	160 227
– Commercial property finance	10 257	–	–	3 298	13 555
Personal loans	11 352	–	–	–	11 352
Preference share advances	1 044	–	–	23 537	24 581
Assets under agreement to resell	535	–	–	37 574	38 109
Investment bank term loans	106	–	–	46 795	46 901
Other	18 989	–	300	3 989	23 278
Notional value of advances	328 010	133	300	117 387	445 830
Contractual interest suspended	(2 056)	(9)	–	–	(2 065)
Gross advances	325 954	124	300	117 387	443 765
Impairment of advances (note 11)	(8 968)	(4)	–	–	(8 972)
Net advances	316 986	120	300	117 387	434 793

Advances relating to synthetic securitisations:

- In 2006 WesBank transferred the credit risk relating to retail instalment sale advances of R2 billion to Procul, a bankruptcy remote special purpose entity. On 1 August 2010, the Procul synthetic securitisation transaction matured and all related notes issued to the market were redeemed.
- Fresco II is a synthetic securitisation transaction amounting to R20 billion (2010: R20 billion) of the Group's corporate advances. In terms of the transaction, the Group has transferred the credit risk up to the value of the reference portfolio to Fresco II, a bankruptcy remote special purpose entity.
- Turbo Finance facilitated a securitisation transaction amounting to GBP 341 million of retail instalment sale advances in the United Kingdom relating to the Group's Carlyle division. It was established in September 2010 and issued notes into the market in February 2011.

The Group consolidates the synthetic securitisation vehicles as, in terms of IAS 27 and SIC 12, the Group exercises control over the vehicles.

Advances relating to traditional securitisations:

- Included in instalment sale advances above is R3 billion (2010: R733 million) non-recourse securitised instalment advances.
- Included in home loans above is R2.8 billion (2010: R3.1 billion) non-recourse securitised home loan advances.

Additional information relating to these transactions are set out in note 37.

10 Advances *continued*

R million		2011 Within 1 Year	2011 Between 1 – 5 years	2011 More than 5 years	2011 Total
Analysis of instalment sales and lease payments receivable					
Lease payments receivable		**5 502**	**17 255**	**531**	**23 288**
Suspensive sale instalments receivable		**24 706**	**58 861**	**2 930**	**86 497**
Sub total		**30 208**	**76 116**	**3 461**	**109 785**
Less: Unearned finance charges		**(4 967)**	**(11 719)**	**(593)**	**(17 279)**
Total		**25 241**	**64 397**	**2 868**	**92 506**

	2010 Within 1 Year	2010 Between 1 – 5 years	2010 More than 5 years	2010 Total
Analysis of instalment sales and lease payments receivable				
Lease payments receivable	6 771	17 403	410	24 584
Suspensive sale instalments receivable	22 490	51 084	1 647	75 221
Sub total	29 261	68 487	2 057	99 805
Less: Unearned finance charges	(4 642)	(10 394)	(340)	(15 376)
Total	24 619	58 093	1 717	84 429

Under the terms of the lease agreements, no contingent rentals are payable. These agreements relate to motor vehicles and equipment. The accumulated allowance for uncollectible minimum lease payments receivable included in the allowance for impairments at reporting date is R294 million (2010: R372 million).

Credit risk mitigation

Collateral is an important mitigant of credit risk. Refer to page 118 to page 201 of the Risk Report for the Group's credit risk management strategy with detailed information on credit risk mitigation.

Refer to note 38 for information relating to the fair value of advances.

Refer to note 47 for the current and non-current analysis of advances.

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11 Impairment of advances

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

- Breaches of loan covenants and conditions;
- The time period of overdue contractual payments;
- Actuarial credit models;
- Loss of employment or death of the borrower; and
- The probability of liquidation of the customer.

Where objective evidence of impairment exists, impairment testing is performed based on the loss given default ("LGD"), probability of default ("PD") and exposure at default ("EAD").

	2011		
	FNB		
R million	Retail	Corporate	Commercial
Analysis of movement in impairment of advances per class of advance			
Opening balance	4 325	228	970
Amounts written off	(3 077)	(53)	(284)
Transfers from/(to) other divisions	(62)	51	5
Reclassifications	–	–	–
Exchange rate difference	–	–	–
Unwinding of discounted present value on non-performing loans	(182)	–	(16)
Unwinding of discounted present value on non-performing loans	2 789	12	336
Closing balance	**3 793**	**238**	**1 011**
(Increase)/decrease in provision	(2 789)	(12)	(336)
Recoveries of bad debts previously written off	687	3	3
Impairment loss recognised in profit or loss	**(2 102)**	**(9)**	**(333)**

	2010		
	FNB		
R million	Retail	Corporate	Commercial
Opening balance	5 585	302	717
Exchange rate difference	–	–	–
Amounts written off	(4 301)	(230)	(135)
Unwinding of discounted present value on non-performing	(234)	–	(18)
Reclassifications	–	–	–
Net new impairments created/(released)	3 347	37	452
Acquisitions of subsidiaries	–	–	–
Transfers from/(to) other divisions	(72)	119	(46)
Closing balance	4 325	228	970
(Increase)/decrease in provision	(3 347)	(37)	(452)
Recoveries of bad debts previously written off	406	3	6
Impairment loss recognised in profit or loss	(2 941)	(34)	(446)

	2011						
	FNB Africa	RMB	WesBank	Other	Total impairment	Specific impairment	Portfolio impairment
	392	469	2 599	(11)	8 972	6 888	2 084
	(70)	(299)	(1 730)	(42)	(5 555)	(5 518)	(37)
	–	(6)	(30)	42	–	–	–
	–	–	–	–	–	(140)	140
	(3)	17	(4)	–	10	11	(1)
	(8)	–	–	(8)	(214)	(213)	(1)
	64	(25)	1 616	17	4 809	4 784	25
	375	156	2 451	(2)	8 022	5 812	2 210
	(64)	25	(1 616)	(17)	(4 809)	(4 784)	(25)
	–	–	325	13	1 031	1 031	–
	(64)	25	(1 291)	(4)	(3 778)	(3 753)	(25)

	2010						
	FNB Africa	RMB	WesBank	Other	Total impairment	Specific impairment	Portfolio impairment
	384	330	2 166	107	9 591	7 206	2 385
	(11)	4	(3)	–	(10)	(3)	(7)
	(56)	(89)	(1 998)	(27)	(6 836)	(6 826)	(10)
	(5)	–	–	4	(253)	(258)	5
	–	–	–	–	–	238	(238)
	78	198	2 394	(29)	6 477	6 528	(51)
	–	3	–	–	3	3	–
	2	23	40	(66)	–	–	–
	392	469	2 599	(11)	8 972	6 888	2 084
	(78)	(198)	(2 394)	29	(6 477)	(6 528)	51
	10	3	346	17	791	790	1
	(68)	(195)	(2 048)	46	(5 686)	(5 738)	52

Notes to the consolidated annual financial statements continued

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11 Impairment of advances *continued*

	2011		
R million	Total value	Security held	Specific impairments
Non-performing loans by sector			
Agriculture	453	466	68
Banks and financial services	519	341	204
Building and property development	1 771	1 658	300
Government, Land Bank and public authorities	74	21	34
Individuals	14 161	13 469	4 054
Manufacturing and commerce	635	314	276
Mining	55	40	14
Transport and communication	276	179	76
Other	1 846	671	786
Total non-performing loans	19 790	17 159	5 812
Non-performing loans by category			
Overdrafts and managed accounts	880	590	603
Card loans	483	–	367
Instalment sales	3 479	728	1 549
Lease payments receivable	701	153	323
Property finance	11 667	13 575	2 476
– Home loans	10 567	12 757	2 002
– Commercial property finance	1 100	818	474
Personal loans	546	77	378
Preference share agreement	14	2	12
Investment bank term loans	1 622	1 737	–
Other	398	297	104
Total non-performing loans	19 790	17 159	5 812
Non-performing loans by class			
FNB Retail	11 373	12 716	2 747
FNB Corporate	18	–	18
FNB Commercial	1 865	1 544	895
Total FNB	13 256	14 260	3 660
FNB Africa	370	217	165
RMB	1 798	1 776	8
WesBank	4 367	906	1 975
Other (Group Treasury, Capital Centre and other subsidiaries)	(1)	–	4
Total non-performing loans	19 790	17 159	5 812
Non-performing loans by geographical area			
South Africa	19 057	16 646	5 568
Other Africa	406	253	195
UK	16	1	15
Other	311	259	34
South America	248	248	–
Australasia	63	11	34
Total non-performing loans	19 790	17 159	5 812

Net recoverable amount on non-performing loans is R13 980 million.

11 Impairment of advances *continued*

R million	2010 Total value	2010 Security held	2010 Specific impairments
Non-performing loans by sector			
Agriculture	356	354	27
Banks and financial services	329	296	109
Building and property development	1 299	892	446
Government, Land Bank and public authorities	84	17	34
Individuals	16 954	12 976	4 877
Manufacturing and commerce	793	309	405
Mining	91	49	27
Transport and communication	335	110	149
Other	1 964	686	814
Total non-performing loans	22 205	15 689	6 888
Non-performing loans by category			
Overdrafts and managed accounts	933	402	731
Card loans	708	–	523
Instalment sales	3 386	681	1 366
Lease payments receivable	895	190	381
Property finance	13 660	13 099	2 821
– Home loans	12 678	12 238	2 523
– Commercial property finance	982	861	298
Personal loans	1 447	432	729
Preference share agreement	16	8	4
Other	1 160	877	333
Total non-performing loans	22 205	15 689	6 888
Non-performing loans by class			
FNB Retail	13 629	12 095	3 366
FNB Corporate	1	–	1
FNB Commercial	1 916	1 477	779
Total FNB	15 546	13 572	4 146
FNB Africa	407	229	199
RMB	1 126	852	287
WesBank	5 098	1 043	2 115
Other (Group Treasury Capital Centre and other subsidiaries)	28	(7)	141
Total non-performing loans	22 205	15 689	6 888
Non-performing loans by geographical area			
South Africa	21 100	15 130	6 317
Other Africa	549	317	250
UK	26	6	20
Other	530	236	301
South America	214	214	–
Australasia	316	22	301
Total non-performing loans	22 205	15 689	6 888

Net recoverable amount on non-performing loans is R15 317 million.

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

Notes to the consolidated annual financial statements continued

for the year ended 30 June

12 Investment securities and other investments

R million	2011 Held for trading	2011 Designated at fair value through profit or loss	
Total			
Negotiable certificates of deposit	355	15	
Treasury bills	2 462	20 034	
Other government and government guaranteed stock	15 310	10 303	
Other dated securities	6 207	4 613	
Other undated securities	–	37	
Other	11 534	5 611	
Total	35 868	40 613	
Listed			
Negotiable certificates of deposit	–	15	
Treasury bills	–	6 076	
Other government and government guaranteed stock	15 090	3 964	
Other dated securities	1 054	1 880	
Other	11 447	2 276	
Listed	27 591	14 211	
Unlisted			
Negotiable certificates of deposit	355	–	
Treasury bills	2 462	13 958	
Other government and government guaranteed stock	220	6 339	
Other dated securities	5 153	2 733	
Other undated securities	–	37	
Other	87	3 335	
Unlisted	8 277	26 402	

2011				
Available-for-sale	Loans and receivables	Held-to-maturity	Fair value through profit or loss non-recourse investments*	Total
362	54	–	–	786
8 166	–	120	–	30 782
21 093	–	–	3 572	50 278
3	24	9	12 131	22 987
–	–	–	–	37
952	–	78	1 711	19 886
30 576	78	207	17 414	124 756
–	–	–	–	15
149	–	–	–	6 225
17 471	–	–	760	37 285
–	–	–	3 067	6 001
538	–	–	–	14 261
18 158	–	–	3 827	63 787
362	54	–	–	771
8 017	–	120	–	24 557
3 622	–	–	2 812	12 993
3	24	9	9 064	16 986
–	–	–	–	37
414	–	78	1 711	5 625
12 418	78	207	13 587	60 969

Notes to the consolidated annual financial statements continued

for the year ended 30 June

12 Investment securities and other investments *continued*

	2010	
R million	Held for trading	Designated at fair value through profit or loss
Total		
Negotiable certificates of deposit	2 151	2 269
Treasury bills	564	20 006
Other government and government guaranteed stock	15 241	12 930
Other dated securities	2 989	2 094
Other undated securities	–	59
Other	4 952	5 240
Total	25 897	42 598
Listed		
Negotiable certificates of deposit	–	74
Treasury bills	–	6 953
Other government and government guaranteed stock	14 543	3 736
Other dated securities	1 728	1 180
Other	4 244	1 675
Listed	20 515	13 618
Unlisted		
Negotiable certificates of deposit	2 151	2 195
Treasury bills	564	13 053
Other government and government guaranteed stock	698	9 194
Other dated securities	1 261	914
Other undated securities	–	59
Other	708	3 565
Unlisted	5 382	28 980

** Refer to page 264.*

R33 924 million (2010: R35 878 million) of the financial instruments held for trading form part of the Group's liquid asset portfolio in terms of the South African Reserve Bank and other foreign banking regulators' requirements.

The Group holds certain interests in collateralised debt obligation structures.

2010				
Available-for-sale	Loans and receivables	Held-to-maturity	Fair value through profit or loss non-recourse investments*	Total
93	96	–	–	4 609
9 751	–	156	–	30 477
18 884	–	21	–	47 076
2	288	1	16 036	21 410
–	–	–	–	59
1 291	1 981	76	–	13 540
30 021	2 365	254	16 036	117 171
–	–	–	–	74
128	–	–	–	7 081
13 796	–	–	–	32 075
–	–	–	3 953	6 861
843	–	–	–	6 762
14 767	–	–	3 953	52 853
93	96	–	–	4 535
9 623	–	156	–	23 396
5 088	–	21	–	15 001
2	288	1	12 083	14 549
–	–	–	–	59
448	1 981	76	–	6 778
15 254	2 365	254	12 083	64 318

Notes to the consolidated annual financial statements continued
for the year ended 30 June

12 Investment securities and other investments *continued*

***Non-recourse investments designated at fair value through profit and loss**

Certain investments held by the Group include investment grade commercial paper that is issued by asset-backed conduits held by the Group. The Group is deemed to control these conduits in terms of SIC 12.

Fair value adjustments on non-recourse investments therefore include the effect of fair value changes in this investment grade commercial paper linked to conduits.

The fair value adjustments related to the portion of this commercial paper held by the Group itself is deducted to arrive at the actual fair value adjustment.

The Group has entered into the following conduit transactions:

1. iNdwa Investment Limited, an asset-backed conduit that provides South African institutional investors with short dated investment grade commercial paper.
2. iNkotha Investment Limited, a fixed income fund that provides South African institutional investors with short dated investment grade commercial paper.
3. iVuzi Investment Limited, an asset-backed conduit that provides South African institutional investors with short dated investment grade commercial paper.
4. iNguza Investments Limited is a secured debenture programme that provides South African institutional investors with a debenture linked to a specific underlying credit exposure.

The Group has no obligations toward other investors beyond the amount already contributed. The Group has no management control or influence over these investments which are designated at fair value through profit or loss.

Total fair value adjustments on non-recourse investments, including the adjustments linked to the above conduits, are as follows:

R million	2011	2010
Investment grade commercial paper	18 071	17 590
Less: Group's share thereof	(657)	(1 554)
Total non-recourse investments	**17 414**	16 036
Analysis of investment securities and other investments		
Listed	**63 787**	52 853
Equities	14 262	6 761
Debt	49 525	46 092
Unlisted	**60 969**	64 318
Equities	3 801	3 752
Debt	57 168	60 566
Total	**124 756**	117 171
Valuation of investments		
Market value of listed investments	63 787	52 853
Fair value of unlisted investments*	60 969	64 318
Total valuation	**124 756**	117 171

** The fair values of unlisted investments are determined using valuation techniques.*

Information regarding other investments is kept at the Group's registered offices. This information is open for inspection in terms of the provisions of Section 26 of the Companies Act 71 of 2008.

Refer to note 38 for information relating to the fair value of investments securities and other investments.

13 Commodities

R million	2011	2010
Agricultural commodities	977	820
Base metals	3 411	1 493
Other	–	52
Commodities	**4 388**	2 365

Refer to note 47 for current and non-current analysis of commodities.

14 Accounts receivable

R million	2011	2010
Items in transit	1 518	1 650
Interest and commissions accrued	95	73
Prepayments	372	301
Accounts receivable	5 304	3 719
Accounts receivable	**7 289**	5 743

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

	2011						
			Past due but not impaired				
R million	Neither past due nor impaired	Re-negotiated but current	1 – 30 days	31 – 60 days	> 60 days	Impaired	Total
Items in transit	1 517	–	1	–	–	–	1 518
Interest and commissions accrued	95	–	–	–	–	–	95
Prepayments	372	–	–	–	–	–	372
Accounts receivable	4 986	–	204	51	23	40	5 304
Total	**6 970**	**–**	**205**	**51**	**23**	**40**	**7 289**

	2010						
			Past due but not impaired				
R million	Neither past due nor impaired	Re-negotiated but current	1 – 30 days	31 – 60 days	> 60 days	Impaired	Total
Items in transit	1 650	–	–	–	–	–	1 650
Interest and commissions accrued	73	–	–	–	–	–	73
Prepayments	301	–	–	–	–	–	301
Accounts receivable	3 496	1	140	35	32	15	3 719
Total	5 520	1	140	35	32	15	5 743

The carrying value of accounts receivable approximates the fair value.

Refer to note 47 for the current and non-current analysis of accounts receivable.

Notes to the consolidated annual financial statements continued

for the year ended 30 June

15 Investments in associates and joint ventures

R million	2011	2010
Listed investments		
Investments at cost less amounts written off	320	622
Unlisted investments		
Investments at cost less amounts written off	3 993	4 174
Share of profit from associates and joint ventures	868	700
Transfer to other reserves	–	(17)
Repurchase of shares	(88)	–
Tax for the year (note 4)	(337)	(447)
Dividends received for the year	(395)	(574)
Retained income for the year	48	(338)
Exchange rate differences	(74)	(5)
(Disposals) of associates and joint ventures	(326)	(472)
Share of retained income at beginning of the year	1 939	2 707
Share of retained income at end of the year	1 587	1 892
Share of other reserves	129	213
Total retained income and reserves	1 716	2 105
Total carrying value	6 029	6 901
Reconciliation of share of profit from associates and joint ventures to income before tax:		
Income before tax for the year	1 168	1 287
Impairments of associates and joint ventures	(300)	(587)
Share of profit from associate and joint ventures	868	700
Valuation		
Market value of listed investments	287	645
Fair value of unlisted investments*	8 614	11 184
Total valuation	8 901	11 829
Included in listed investments		
Included in unlisted investments		
Shareholder loans	1 487	1 320

** The fair value of unlisted investments are determined using valuation techniques.*

15 Investments in associates and joint ventures *continued*

	Nature of business	Issued ordinary shares (R)	Number of ordinary shares held	Year end
Listed				
Private Equity Associates	Various	Various	Various	Various
Crookes Brothers Limited	Agriculture	12 385 000	3 784 000	31 Mar
Other	Various	Various	Various	Various
Unlisted				
Toyota Financial Services (Pty) Limited	Vehicle finance	4 695	1 565	31 Mar
Tracker Investment Holdings (Pty) Limited	Vehicle trading	82 375	29 738	30 Jun
Private Equity Associates	Various	Various	Various	Various
RMB Morgan Stanley	Equity sales, trading and research	2	1	30 Jun
Eris Property Group (Pty) Limited	Property services	100 000	40 000	30 Jun
New Seasons Investments	Investment holdings company	136 000	40 000	28 Feb
Weston Atlas Funds	Investment fund	–	–	31 Dec
Sanlam Direct Axis (Pty) Limited	Personal loans	10 000	3 000	31 Dec
Other	Various	Various	Various	Various

	Effective holding %		Market value/Group valuation amount		Group carrying value	
R million	**2011**	2010	**2011**	2010	**2011**	2010
Listed						
Private Equity Associates*	**Various**	Various	**121**	248	**144**	320
Crookes Brothers Limited	**31**	30	**166**	139	**176**	150
Kula Gold**	**–**	24	**–**	219	**–**	116
Other	**–**	Various	**–**	39	**–**	36
Total listed	**–**	–	**287**	645	**320**	622
Unlisted						
OUTsurance Insurance Company Limited**	**–**	47	**–**	3 610	**–**	1 138
Toyota Financial Services (Pty) Limited	**33**	33	**1 189**	1 121	**522**	476
Tracker Investment Holdings (Pty) Limited	**36**	33	**1 253**	1 280	**662**	650
Marsh Holdings SA (Pty) Limited**	**–**	40	**–**	50	**–**	42
Private Equity Associates	**Various**	Various	**4 014**	4 554	**3 318**	3 496
RMB Morgan Stanley	**50**	50	**246**	195	**246**	195
Eris Property Group (Pty) Limited	**40**	40	**440**	135	**89**	67
Weston Atlas Funds	**33**	–	**108**	–	**108**	–
Sanlam Direct Axis (Pty) Limited	**30**	30	**137**	101	**137**	105
New Seasons Investments	**29**	29	**34**	19	**14**	19
Other	**Various**	Various	**1 193**	119	**613**	91
Total unlisted	**–**	–	**8 614**	11 184	**5 709**	6 279
Total listed and unlisted	**–**	–	**8 901**	11 829	**6 029**	6 901

* *Included in the Private Equity Associates are Vox Telecom Ltd, and Control Instruments Group Ltd. The value in use of these associate investments is R144 million (2010: R320 million) and has been used in determining the Group carrying value.*

** *This investment in an associate was disposed of during the current financial year.*

Notes to the consolidated annual financial statements continued

for the year ended 30 June

15 Investments in associates and joint ventures *continued*

Summarised financial information of associates and joint ventures:

R million	Crookes Brothers Limited Associate 2011	2010	Kula Gold Associate 2011	2010	OUTsurance Insurance Company Limited Associate* 2011	2010	Toyota Financial Services (Pty) Limited Associate 2011	2010
Statement of financial position								
Current assets	**304**	280	**–**	54	**–**	4 465	**6 014**	4 971
Non-current assets	**295**	251	**–**	400	**–**	171	**11 496**	9 722
Current liabilities	**(43)**	(90)	**–**	(1)	**–**	(2 285)	**(7 939)**	(6 913)
Non-current liabilities	**(117)**	(99)	**–**	(1)	**–**	(44)	**(8 022)**	(6 352)
Equity	**439**	342	**–**	452	**–**	2 307	**1 549**	1 428
Income statement								
After tax profit attributable to the Group	**26**	20	**1**	(15)	**180**	288	**95**	71
Loans to associates – included in investments	**–**	–	**–**	–	**–**	–	**–**	–
Loans to associates – ordinary loans	**–**	–	**–**	–	**–**	–	**–**	313

15 Investments in associates and joint ventures *continued*

R million	Tracker Investment Holdings (Pty) Limited Associate 2011	2010	Marsh Holdings (Pty) Limited Associate* 2011	2010	Private Equity Associates 2011	2010	RMB Morgan Stanley Joint Venture 2011	2010
Statement of financial position								
Current assets	**137**	241	**–**	191	**8 928**	11 327	**1 413**	1 644
Non-current assets	**900**	910	**–**	90	**16 427**	29 165	**–**	19
Current liabilities	**(263)**	(166)	**–**	(177)	**(6 536)**	(9 638)	**(903)**	(1 275)
Non-current liabilities	**(98)**	(122)	**–**	(3)	**(7 559)**	(12 550)	**(510)**	–
Equity	**676**	863	**–**	101	**11 260**	18 304	**–**	388
Income statement								
After tax profit attributable to the Group	**101**	90	**8**	12	**(5)**	(278)	**50**	62
Loans to associates – included in investments	**–**	–	**–**	–	**1 376**	1 307	**–**	–
Loans to associates – ordinary loans	**–**	–	**–**	12	**173**	32	**–**	–

** Profit attributable to the Group up to the date of sale.*

Notes to the consolidated annual financial statements continued

for the year ended 30 June

15 Investments in associates and joint ventures *continued*

Summarised financial information of associates and joint ventures:

R million	New Seasons Investments Associate 2011	New Seasons Investments Associate 2010	Eris Property Group (Pty) Limited Associate 2011	Eris Property Group (Pty) Limited Associate 2010	Western Atlas Funds Associate 2011	Western Atlas Funds Associate 2010	Sanlam Direct Axis (Pty) Limited Associate 2011	Sanlam Direct Axis (Pty) Limited Associate 2010
Statement of financial position								
Current assets	13	13	423	350	–	–	640	468
Non-current assets	103	97	156	1	328	–	1 424	1 054
Current liabilities	(28)	(19)	(46)	(41)	–	–	(550)	(393)
Non-current liabilities	(63)	(43)	(277)	(138)	–	–	(1 251)	(1 004)
Equity	25	48	256	172	328	–	263	125
Income statement								
After tax profit attributable to the Group	(6)	–	23	64	10	–	41	11
Loans to associates – included in investments	–	–	–	–	–	–	58	–
Loans to associates – ordinary loans	10	–	–	–	–	–	–	–

R million	Other associates and joint ventures 2011	Other associates and joint ventures 2010	Total listed and unlisted associates and joint ventures 2011	Total listed and unlisted associates and joint ventures 2010
Statement of financial position				
Current assets	3 755	1 837	21 627	25 841
Non-current assets	4 091	3 764	35 220	45 644
Current liabilities	(1 977)	(1 175)	(18 285)	(22 173)
Non-current liabilities	(2 942)	(2 801)	(20 839)	(23 157)
Equity	2 927	1 625	17 723	26 155
Income statement				
After tax profit attributable to the Group	7	(125)	531	200
Loans to associates – included in investments	53	13	1 487	1 320
Loans to associates – ordinary loans	92	113	275	470

The most recent audited annual financial statements of associates and joint ventures are used by the Group in applying the equity method of accounting for associates and joint ventures. These are not always drawn up to the same date as the financial statements of the Group.

In instances where significant events occurred between the last financial statement date of an associate and joint venture and the reporting date of the Group, the effect of such events are adjusted for. Where the last reporting date of an associate or joint venture was more than six months before the reporting date of the Group, the Group uses the unaudited management accounts of the associate or joint venture. The Group has applied this principle consistently since adopting the equity accounting method for associates and joint ventures.

16 Property and equipment

The useful life of each asset is assessed individually. The table below provides information on the benchmarks used when assessing the useful life of the individual assets:

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

	2011			2010		
R million	Cost	Accumulated depreciation and impairments	Carrying amount	Cost	Accumulated depreciation and impairments	Carrying amount
Property	8 721	(2 353)	6 368	7 824	(1 725)	6 099
Freehold property*	4 994	(1 123)	3 871	4 348	(739)	3 609
Leasehold premises*	3 727	(1 230)	2 497	3 476	(986)	2 490
Assets held under lease agreements**	931	(216)	715	1 109	(213)	896
Equipment*	8 398	(4 939)	3 459	7 602	(4 579)	3 023
Computer equipment	4 869	(3 391)	1 478	4 303	(3 003)	1 300
Furniture and fittings	1 656	(710)	946	1 826	(913)	913
Motor vehicles	945	(281)	664	608	(225)	383
Office equipment	916	(554)	362	894	(472)	422
Capitalised leased assets	12	(3)	9	(29)	34	5
Total	18 050	(7 508)	10 542	16 535	(6 517)	10 018

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

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

Notes to the consolidated annual financial statements continued

for the year ended 30 June

16 Property and equipment *continued*

R million	Freehold property	Leasehold premises
Movement in property and equipment – carrying amount		
Carrying amount at 1 July 2009	2 842	3 306
Acquisitions	1 402	340
Disposals	(31)	(1 600)
Acquisition/(disposal) of subsidiaries	(436)	18
Reclassifications*	–	723
Exchange rate difference	(15)	(9)
Depreciation charge for period	(105)	(284)
Impairments recognised	(48)	–
Transfer to non-current assets held for sale	(438)	(3)
Other	438	(1)
Carrying amount at 30 June 2010	3 609	2 490
Acquisitions	573	355
Disposals	(239)	(46)
Acquisition/(disposal) of subsidiaries	134	9
Exchange rate difference	5	(4)
Depreciation charge for period	(142)	(308)
Impairments recognised	(54)	–
Other	(15)	1
Carrying amount at 30 June 2011	3 871	2 497

** During the prior year,a structured group transaction matured and it resulted in properties being transferred from capitalised lease properties to freehold properties.*

Information regarding land and buildings is kept at the Group's registered offices. This information will be open for inspection in terms of section 26 of the Companies Act 71 of 2008.

Property occupied for banking operations serves as security for finance lease liabilities. Refer to note 27 for liabilities that are related to the finance lease assets.

R37 million of the impairment of freehold property in the current year is as a result of the decline in certain offshore property markets, where the additional cost to the Group to complete certain building projects is in excess of the expected recoverable amounts of these assets. The remaining impairment is as a result of the decline in the market value of property and asset held under lease agreements. The cost to acquire and repair these assets exceed their market value. The impairment of computer equipment in the current year is as a result of the decline in the market value of this equipment. There were no reversals of previously recognised impairments in the current year.

In the prior year the impairment of freehold property was as a result of impairment testing performed on buildings and movable leased assets owned by the Group. There were no reversals of previously recognised impairments in the prior year.

Refer to note 47 for the current and non-current analysis of property and equipment.

Assets held under lease agreements	Computer equipment	Furniture and fittings	Motor vehicles	Office equipment	Capitalised leased assets	Total
976	1 442	843	369	426	16	10 220
35	520	244	172	190	(14)	2 889
–	(12)	(26)	(54)	(45)	17	(1 751)
–	–	38	–	(7)	(5)	(392)
–	–	–	–	–	–	723
(5)	(3)	(1)	–	(3)	–	(36)
(60)	(592)	(158)	(102)	(127)	(2)	(1 430)
(57)	(2)	–	–	–	–	(107)
–	(50)	(26)	(3)	(12)	–	(532)
7	(3)	(1)	1	–	(7)	434
896	**1 300**	**913**	**383**	**422**	**5**	**10 018**
62	**804**	**244**	**524**	**90**	**25**	**2 677**
(118)	**(14)**	**(33)**	**(101)**	**(21)**	**(2)**	**(574)**
1	**2**	**(3)**	**1**	**1**	**1**	**146**
(56)	**(1)**	**–**	**–**	**1**	**–**	**(55)**
(54)	**(611)**	**(175)**	**(142)**	**(130)**	**(3)**	**(1 565)**
(14)	**(3)**	**–**	**–**	**–**	**–**	**(71)**
(2)	**1**	**–**	**(1)**	**(1)**	**(17)**	**(34)**
715	**1 478**	**946**	**664**	**362**	**9**	**10 542**

Notes to the consolidated annual financial statements continued
for the year ended 30 June

17 Deferred tax

The movement on the deferred tax account is as follows:

R million	2011	2010
Deferred tax liability		
Opening balance	2 132	3 977
– Acquisitions of subsidiaries	–	5
– Exchange rate difference	(3)	(6)
– Charge/(release) to profit or loss (continuing operations)	20	(360)
– STC charge to the profit or loss	26	24
– Deferred tax on amounts charged directly to other comprehensive income	46	20
– Transfer to non-current assets and disposal groups held for sale	–	(1 570)
– Tax rate adjustment	(12)	–
– Other	14	42
Total credit balance	2 223	2 132
Deferred tax asset		
Opening balance	443	2 034
– Acquisitions of subsidiaries	3	22
– Exchange rate difference	–	(3)
– Release to the profit or loss (continuing operations)	(21)	(841)
– STC charge to the profit or loss	70	98
– Deferred tax on amounts (charged)/transferred directly to other comprehensive income	2	(3)
– Transfer to non-current assets and disposal groups held for sale	–	(969)
– Other	63	105
Total debit balance	560	443
Net balance for the year	1 663	1 689

Deferred tax assets and liabilities are offset when the income taxes relate to the same fiscal authority and there is a legal right to set off.

17 Deferred tax *continued*

Deferred tax assets and liabilities and deferred tax charged/(released) to profit or loss are attributable to the following items:

	2011							
R million	Opening balance	Tax (charge)/ release	Exchange rate difference	Transfer to non-current assets and disposal group held for sale	Tax rate adjust-ment	Acquisi-tions/ (disposals) of sub-sidiaries	Other	Closing balance
Deferred tax liability								
Tax losses	165	64	1	–	–	–	–	230
Provision for loan impairment	(494)	(48)	–	–	1	–	(6)	(547)
Provision for post-retirement benefits	91	22	–	–	–	–	–	113
Other provisions	(181)	41	–	–	–	–	1	(139)
Cash flow hedges	(181)	–	–	–	–	–	6	(175)
Fair value adjustments of financial instruments	(23)	40	–	–	–	–	(7)	10
Instalment credit assets	2 280	(400)	(4)	–	(12)	–	–	1 864
Accruals	334	(15)	–	–	–	–	–	319
Reclassification of available-for-sale securities to other comprehensive income	68	(8)	–	–	–	–	40	100
STC	(9)	26	–	–	–	–	(228)	(211)
Other	82	324	–	–	(1)	–	254	659
Total deferred tax liability	2 132	46	(3)	–	(12)	–	60	2 223
Deferred tax asset								
Tax losses	17	17	–	–	–	–	–	34
Provision for loan impairment	33	(5)	–	–	–	–	(6)	22
Provision for post-retirement benefits	(4)	(3)	–	–	–	–	–	(7)
Other provisions	103	1	–	–	–	4	4	112
Fair value adjustments of financial instruments	36	(15)	–	–	–	–	(6)	15
Instalment credit assets	37	–	–	–	–	–	–	37
Accruals	(32)	2	–	–	–	2	1	(27)
Reclassification of available-for-sale securities to other comprehensive income	(6)	–	–	–	–	–	2	(4)
Capital gains	2	2	–	–	–	–	(1)	3
STC	192	70	–	–	–	–	–	262
Other	65	(20)	–	–	–	(3)	71	113
Total deferred tax asset	443	49	–	–	–	3	65	560
Net deferred tax	1 689	(3)	(3)	–	(12)	(3)	(5)	1 663

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17 Deferred tax *continued*

	2010							
R million	Opening balance	Tax (charge)/ release*	Exchange rate difference*	Transfer to non-current assets and disposal group held for sale	Tax rate adjust-ment	Acquisi-tions/ (disposals) of sub-sidiaries	Other	Closing balance
Deferred tax liability								
Tax losses	138	27	–	–	–	–	–	165
Provision for loan impairment	(645)	150	–	–	1	–	–	(494)
Provision for post-retirement benefits	115	(23)	–	–	–	–	(1)	91
Other provisions	(158)	(124)	–	99	1	–	1	(181)
Cash flow hedges	(131)	–	–	–	–	–	(50)	(181)
Fair value adjustments of financial instruments	(34)	4	–	(5)	–	–	12	(23)
Instalment credit assets	2 400	(113)	(6)	–	(2)	–	1	2 280
Accruals	341	(6)	–	–	(1)	–	–	334
Reclassification of available-for-sale securities to other comprehensive income	161	(6)	–	(157)	–	–	70	68
Capital gains tax	170	–	–	(170)	–	–	–	–
STC	(44)	24	–	–	–	–	11	(9)
Other	1 664	(269)	–	(1 337)	1	5	18	82
Total deferred tax liability	3 977	(336)	(6)	(1 570)	–	5	62	2 132
Deferred tax asset								
Tax losses	241	(193)	(3)	(38)	–	10	–	17
Provision for loan impairment	85	(52)	–	–	–	–	–	33
Provision for post-retirement benefits	(8)	4	–	–	–	–	–	(4)
Other provisions	72	126	(1)	(99)	–	4	1	103
Fair value adjustments of financial instruments	(5)	30	–	–	–	–	11	36
Instalment credit assets	(835)	872	–	–	–	–	–	37
Accruals	(797)	765	–	(1)	–	1	–	(32)
Reclassification of available-for-sale securities to other comprehensive income	(3)	–	–	–	–	–	(3)	(6)
Capital gains	49	–	–	(49)	–	–	2	2
Insurance contracts	630	–	–	(630)	–	–	–	–
STC	159	98	–	–	–	6	(71)	192
Other	2 446	(2 393)	1	(152)	–	1	162	65
Total deferred tax asset	2 034	(743)	(3)	(969)	–	22	102	443
Net deferred tax	1 943	407	(3)	(601)	–	(17)	(40)	1 689

** Tax charge or release including discontinued operations.*

17 Deferred tax *continued*

R million	2011	2010
Secondary tax on companies (STC)		
Accumulated STC credits	**4 730**	2 010
Deferred tax asset raised	**473**	201
Total reserves		
If the total reserves of R51 633 million as at 30 June 2011 (2010: R49 889 million) were to be declared as dividends, the secondary tax impact at a rate of 10% would be R4 694 million (2010: R4 535 million).		
Deferred tax not provided for		
Deferred income tax assets are recognised for tax losses carried forward only to the extent that realisation of tax related benefit is probable.		
The Group has recognised deferred tax on deductible temporary differences, unused tax losses and unused tax credits. These losses have no expiry dates and will be utilised as the companies become profitable.		
Deferred tax assets not provided for:		
Tax losses	**100**	151
Temporary difference	**–**	120
Total	**100**	271

The Group has recognised deferred tax liabilities on all temporary differences associated with investments in subsidiaries, branches, associates and interest in joint ventures in the prior year.

Refer to note 47 for current and non-current analysis of deferred tax.

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18 Intangible assets and deferred acquisition costs

The useful life of each intangible asset is assessed individually. The table below provides information on the benchmarks used when assessing the useful lives of the individual intangible assets:

Software	3 years
Development costs	3 years
Trademarks	10 to 20 years
Other	3 to 10 years other than a service concession arrangement, that has a contractual term of 37 years

	2011			2010		
R million	Cost	Accumulated amortisation and impairments	Carrying amount	Cost	Accumulated amortisation and impairments	Carrying amount
Goodwill						
Movement in goodwill – carrying amount						
Opening balance	1 438	(178)	1 260	2 240	(342)	1 898
Acquisitions	5	–	5	68	–	68
Disposals	(14)	9	(5)	(21)	(25)	(46)
(Disposals)/acquisitions of subsidiaries	(2)	1	(1)	(482)	155	(327)
Decrease due to goodwill included in a disposal group classified as held for sale (IFRS 5)	–	–	–	(348)	112	(236)
Exchange rate differences	9	–	9	(19)	–	(19)
Impairment recognised	–	(96)	(96)	–	(78)	(78)
Closing balance	1 436	(264)	1 172	1 438	(178)	1 260
Software						
Movement in software – carrying amount						
Opening balance	480	(309)	171	646	(447)	199
Acquisitions	174	–	174	107	–	107
Disposals	(1)	2	1	(159)	156	(3)
(Acquisitions)/disposals of subsidiaries	4	–	4	(7)	5	(2)
Transfer to non-current assets and disposal groups held for sale	–	–	–	(116)	84	(32)
Exchange rate differences	–	–	–	10	(10)	–
Amortisation for the year	–	(103)	(103)	–	(94)	(94)
Impairment recognised	–	–	–	–	(4)	(4)
Other	–	–	–	(1)	1	–
Closing balance	657	(410)	247	480	(309)	171
Development costs						
Movement in development costs – carrying amount						
Opening balance	63	(40)	23	64	(28)	36
Acquisitions	11	–	11	4	–	4
Disposals	–	–	–	(1)	1	–
Acquisitions of subsidiaries	4	(5)	(1)	–	–	–
Transfer to non-current assets and disposal groups held for sale	–	–	–	(4)	–	(4)
Amortisation for the year	–	(10)	(10)	–	(14)	(14)
Other	–	–	–	–	1	1
Closing balance	78	(55)	23	63	(40)	23

18 Intangible assets and deferred acquisition costs *continued*

R million	2011 Cost	2011 Accumulated amortisation and impairments	2011 Carrying amount	2010 Cost	2010 Accumulated amortisation and impairments	2010 Carrying amount
Trademarks						
Movement in trademarks – carrying amount						
Opening balance	661	(194)	467	663	(147)	516
Acquisitions	–	–	–	3	–	3
Disposals	(10)	9	(1)	–	–	–
(Disposals)/acquisitions of subsidiaries	(424)	68	(356)	(1)	8	7
Reclassification	(23)	17	(6)	–	–	–
Exchange rate differences	(1)	(1)	(2)	(3)	2	(1)
Amortisation for the year	–	(34)	(34)	–	(57)	(57)
Other	–	–	–	(1)	–	(1)
Closing balance	203	(135)	68	661	(194)	467
Deferred acquisition cost asset						
Movement in deferred acquisition cost assets – carrying amount						
Opening balance	250	(250)	–	2 635	(907)	1 728
(Disposals)/acquisitions of subsidiaries	(250)	250	–	–	–	–
Transfer to non-current assets and disposal groups held for sale	–	–	–	(2 385)	657	(1 728)
Closing balance	–	–	–	250	(250)	–
Value of in-force business						
Movement in value of in force business – carrying amount						
Opening balance	–	–	–	1 057	(119)	938
Transfer to non-current assets and disposal groups held for sale	–	–	–	(1 057)	119	(938)
Closing balance	–	–	–	–	–	–
The value of the in-force business and the deferred acquisition costs are amortised at a constant percentage of the expected gross margins of the underlying contract.						
Contractual customer relationships						
Movement in contractual customer relationships – carrying amount						
Opening balance	–	–	–	286	(134)	152
Transfer to non-current assets held for sale	–	–	–	(286)	134	(152)
Closing balance	–	–	–	–	–	–

Notes to the consolidated annual financial statements continued

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18 Intangible assets and deferred acquisition costs *continued*

	2011			2010		
R million	Cost	Accumulated amortisation and impairments	Carrying amount	Cost	Accumulated amortisation and impairments	Carrying amount
Agency force						
Movement in agency force – carrying amount						
Opening balance	–	–	–	22	(9)	13
Transfer to non-current assets and disposal groups held for sale	–	–	–	(22)	9	(13)
Closing balance	–	–	–	–	–	–
Other						
Movement in other – carrying amount						
Opening balance	247	(64)	183	365	(147)	218
Acquisitions	5	–	5	7	–	7
Disposals	(5)	(13)	(18)	(117)	104	(13)
Acquisitions/(disposals) of subsidiaries	3	8	11	(27)	8	(19)
Reclassification	(31)	21	(10)	–	–	–
Exchange rate differences	(1)	1	–	(4)	2	(2)
Amortisation for the year	–	(25)	(25)	–	(24)	(24)
Impairment reversed	–	35	35	–	–	–
Other	–	–	–	23	(7)	16
Closing balance	218	(37)	181	247	(64)	183
Total intangible assets						
Goodwill	1 436	(264)	1 172	1 438	(178)	1 260
Software	657	(410)	247	480	(309)	171
Development costs	78	(55)	23	63	(40)	23
Trademarks	203	(135)	68	661	(194)	467
Insurance related intangible assets:						
– Deferred acquisition cost asset	–	–	–	250	(250)	–
Other	218	(37)	181	247	(64)	183
Total intangible assets	2 592	(901)	1 691	3 139	(1 035)	2 104

Included in other intangible assets are assets that the Group, through the RMB segment, has legal ownership over a service concession arrangement. In terms of the service concession arrangement the Group is entitled to charge the users of the asset for usage, the pricing of which has been established in the terms of the service concession arrangement. The Group has the obligation to maintain the asset in a workable condition and will deliver ownership of the asset to the government at the conclusion of the concession period.

The carrying amount of the intangible asset relating to the service concession arrangement has been estimated taking into account usage levels and the pricing under the arrangement.

During the current year there was a reversal of a previously recognised impairment loss in respect of the service concession arrangement entered into by the Group. The reversal occurred as result of an improvement in the receipts associated with the asset's economic performance being better than expected and a reduction in the risk margin associated with the asset.

The impairment of goodwill in the current year is as a result of the partial disposal of investments in certain subsidiaries of the Group. The partial disposal of these subsidiaries requires the write down of the related portion of goodwill, and in the case of certain private equity investments, this represented the realisation of previously unrealised value of the investments. Impairment of goodwill also occurred as a result of the decline in the future economic benefits expected to be derived from certain investments in subsidiaries of the Group. The circumstances which resulted in this decline were the decrease in the net asset value of these investments.

In the prior year a software system that is no longer being used by the Group was fully impaired.

18 Intangible assets and deferred acquisition costs *continued*

Impairment of goodwill

For impairment testing purposes, goodwill is allocated to cash-generating units (CGU) at the lowest level of operating activity to which it relates, and is therefore not combined at Group level.

The CGU's to which the goodwill balance as at 30 June relate to:

	2011	2010
FNB Botswana	**28**	29
FNB Mozambique	**105**	98
FNB Retail	**431**	265
RMB Corvest	**205**	475
RMB Other	**117**	119
WesBank	**178**	234
Other	**108**	40
Total	**1 172**	1 260

When testing for impairment, the recoverable amount of a CGU is determined as the higher of the fair value less cost to sell and value in use. The fair value less cost to sell is determined as the current market value of the CGU less any costs related to the realisation of the CGU. The value in use is calculated by discounting the estimated future cash flows to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the CGU. The future cash flows are based on financial budgets approved by management covering a one year period. Cash flows beyond one year are extrapolated using the estimated growth rate for the CGU. The period over which management has projected the cash flows ranges between three and five years. The growth rate does not exceed the long-term average past growth rate for the business in which the CGU operates.

The table below shows the discount rate and the growth rate used in calculating the value in use for the CGUs. RMB determines the recoverable amount as the fair value less cost to sell and not based on the value in use due to the nature of the entity.

	Discount rates		Growth rates	
	2011	2010	**2011**	2010
FNB Botswana	**15.00**	15.50	**3.00**	8.00
FNB Mozambique	**19.00**	12.00	**5.00**	8.00
FNB Retail	**18.88**	20.00	**8.00**	12.00
RMB Corvest	**25.00**	25.00	**6.00**	6.00
RMB Other	*****	*	*****	*
WesBank	**18.88**	19.94	**4.00**	5.03
Other	**18.88**	–	**3.00**	–

** The discount rate used is the weighted average cost of capital for the specific segment, adjusted for specific risks relating to the segment. Some of the other assumptions include investment returns, expense inflation rates, tax rates and new business growth.*

Refer to note 47 for the current and non-current analysis of intangible assets.

Notes to the consolidated annual financial statements continued

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19 Investment properties

R million	2011	2010
Completed properties		
Fair market value at beginning of the year	138	2 135
Net revaluations (included in gains and losses from investment activities – note 2)	44	–
Additions	22	–
Disposals	(1)	(4)
Transfers under reinsurance agreement entered into with third party	–	136
Transfer to non-current assets held for sale	–	(2 129)
Fair market value at end of year	203	138
Leasehold investment properties		
Fair value at the beginning of year	–	21
Transfer to non-current assets held for sale	–	(21)
Total investment properties at end of the period	–	–
Total investment properties	203	138
Comprising:		
Office buildings	22	–
Industrial buildings	181	138
Total investment properties	203	138
The following amounts have been included in the income statement:		
Rental income (included in gains and losses from investment activities note 2)	10	–

Investment properties are acquired for letting to external tenants with the intention to generate future rental income and for capital appreciation purposes.

The fair value of investment properties are based on the director's valuation. The fair value was determined with reference to offers received to purchase the property during the year.

An external, independent valuation of the investment properties was not performed during the year.

Information regarding investment properties as required is kept at the Group's registered offices. The information will be open for inspection in terms of section 26 of the Companies Act, 71 of 2008.

Refer to note 47 for the current and non-current analysis of investment properties.

20 Reinsurance assets

R million	2011	2010
Insurance contracts	484	524
Short-term reinsurance contracts	484	475
Long-term reinsurance contracts	–	49
Total reinsurance contracts	484	524
Movements for the year		
Balance at the beginning of the year	524	8 430
Movement in reinsurer's share of insurance liabilities	(40)	237
Transfer to non-current assets held for sale	–	(8 143)
Total reinsurance assets	484	524

Refer to note 47 for current and non-current analysis of reinsurance assets.

21 Non-current assets and disposal groups held for sale

R million	2011	2010
ASSETS		
Cash and cash equivalents	26	31 826
Derivative financial instruments	–	7 116
Investment securities and other investments	1 657	134 715
Loans and accounts receivables	4 053	7 484
Property and equipment	4	558
Investment properties	–	2 334
Deferred tax asset	–	932
Intangible assets	16	3 113
Other	49	9 169
Total assets	5 805	197 247
LIABILITIES		
Derivative financial instruments	–	1 507
Creditors and accruals	4 048	22 603
Provisions	11	341
Tax liability	1	43
Post-retirement liabilities	–	73
Deferred tax liability	–	1 719
Long-term liabilities	–	1 990
Policyholder liabilities under insurance contracts	938	40 896
Policyholder liabilities under investment contracts	94	111 860
Other	–	8 929
Total liabilities classified as disposal group held for sale	5 092	189 961
Net assets of disposal group held for sale	713	7 286

Refer to note 21.1 to 21.3 for a breakdown of the total non-current assets and disposal groups held for sale.

Notes to the consolidated annual financial statements continued

for the year ended 30 June

21 Non-current assets and disposal groups held for sale *continued*

21.1 DISPOSAL GROUPS HELD FOR SALE DURING 2011

Momentum Life Assurance Namibia Ltd

During the current financial year, FNB Namibia Holdings Ltd, a subsidiary of the Group, took a decision to sell its shareholding in Momentum Life Assurance Namibia Ltd. This was necessitated by the merger of the Momentum Group South Africa and Metropolitan Holdings, resulting in the creation of the new entity, MMI Holdings in South Africa.

The pending transaction resulted in FNB Namibia classifying the Momentum Group as a disposal group held for sale in line with the requirements of IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

It is anticipated that the sale transaction will be completed by the end of October 2011.

Analysis of the assets and liabilities included in the disposal group held for sale

R millions	2011
Statement of financial position	
Cash and cash equivalents	26
Accounts receivable	38
Policy loans on investments contracts	25
Investment securities	1 257
Property and equipment	3
Intangible assets	16
Reinsurance assets	17
Total assets	1 382
Liabilities	
Creditors and accruals	34
Policyholder liabilities under investment contracts	94
Provisions	7
Tax liability	1
Post-employment benefit liabilities	*
Policyholder liabilities under insurance contracts	938
Total liabilities	1 074
Net assets of disposal group held for sale	308

** Amount less than R500 000.*

Momentum Namibia was previously included in the FNB Africa segment.

21 Non-current assets and disposal groups held for sale *continued*

21.1 DISPOSAL GROUPS HELD FOR SALE DURING 2011 *continued*

Finsettle Services (Pty) Ltd

Subsequent to the acquisition of BJM during the current year management of the FNB segment took a decision to dispose of Finsettle Services (Pty) Ltd, a division of BJM. Management have begun negotiations with potential buyers and as a result Finsettle Services (Pty) Ltd has been classified as a disposal group held for sale in line with the requirements of IFRS 5.

An impairment loss of R3 million was recognised when Finsettle was classified as a disposal group held for sale. The full impairment loss was allocated to goodwill recognised at acquisition.

Analysis of the assets and liabilities included in the disposal group held for sale

R million	2011
Statement of financial position	
Assets	
Cash and cash equivalents	*
Accounts receivable	4 015
Property and equipment	1
Deferred tax asset	*
Other	7
Total assets	**4 023**
Liabilities	
Creditors and accruals	4 014
Provisions	4
Total liabilities	**4 018**
Net assets of disposal group held for sale	**5**

** Amount less than R500 000.*

21.2 NON-CURRENT ASSETS HELD FOR SALE DURING 2011

This amount relates to non-cumulative non-redeemable preference shares held by the Other segment. MMI Holdings Limited is going to repurchase these shares as part of a share buy back and as such they have been classified as non-current assets held for sale in accordance with IFRS 5.

R million	2011	2010
ASSETS		
Investment securities and other investments	400	–
Total non-current assets held for sale	**400**	–

These preference shares are designated as at fair value through profit or loss.

Notes to the consolidated annual financial statements continued
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21 Non-current assets and disposal groups held for sale *continued*

21.3 DISPOSAL GROUPS HELD FOR SALE DURING 2010

Disposal group held for sale and discontinued operation relating to the unbundling of Momentum

Discontinued operations

During the prior financial year, FirstRand took a decision to unbundle its 100% shareholding in Momentum Group to its shareholders through a dividend in specie. The decision to unbundle the shareholding followed the announcement of a merger of the Momentum Group and Metropolitan Holdings.

The unbundling transaction resulted in FirstRand classifying the Momentum Group as a disposal group held for distribution in line with the requirements of IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. The assets and liabilities attributable to the Momentum Group were classified as held for distribution and separately disclosed in the statement of financial position. In addition, the Momentum Group represents a discontinued operation as it is a component of FirstRand that has been classified as held for distribution and represents a separate major line of business. In line with the requirements of IFRS 5, the income and expenses relating to the Momentum Group are presented in the consolidated income statement and statement of other comprehensive income as a single amount relating to the after tax profit and other comprehensive income relating to discontinued operations.

The dividend in specie was accounted for at fair value in line with the requirements of IFRIC 17 Distribution of Non-Cash Assets to Owners. The unbundling transaction was preceded by the merger transaction, but FirstRand did not take control of the merged entity and as a result did not recognise the merged entity in its financial statements. The merger transaction was entered into solely for the benefit of the FirstRand and Metropolitan Holdings shareholders.

The unbundling transaction was approved by FirstRand shareholders on 28 September 2010 and effective date of the unbundling transaction was 30 November 2010. Upon authorisation of the distribution, FirstRand recognised a dividend payable of R15 billion, being the fair value of the Momentum Group to be distributed.

Income or expense recognised in the income statement relating to the discontinued operations of the Momentum Group:

R million	For the period ended 30 November 2010	2010
Interest and similar income	3 484	7 466
Interest expense and similar charges	(352)	(1 122)
Net interest income	3 132	6 344
Non-interest income	9 666	14 044
Net insurance premium income	3 280	7 468
Net claims and benefits paid	(2 920)	(6 537)
Increase in value of policyholder liabilities	(9 990)	(13 615)
Income from operations	3 168	7 704
Operating expenditure	(2 303)	(5 268)
Net income from operations	865	2 436
Share of profit of associates and joint ventures	22	32
Profit before tax	887	2 468
Tax expense	(298)	(858)
Profit after tax	589	1 610
FNB Life	174	416
Discontinued	415	1 194
Total comprehensive income for the period	589	1 610

At the date that the Momentum Group was classified as held for distribution, its fair value less costs to sell exceeded its consolidated carrying value and no gain or loss was recognised on the classification date.

21 Non-current assets and disposal groups held for sale *continued*

21.3 DISPOSAL GROUPS HELD FOR SALE DURING 2010 *continued*

R million	For the period ended 30 November 2010	2010
Cash flow information:		
Cash flow from operating activities	(7 519)	(9 709)
Cash flow from investing activities	12	33
Cash flow from financing activities	(202)	2 117
Total cash flows	(7 709)	(7 559)
Profit on the unbundling of the Momentum Group		
Fair value of Momentum Group on the date that the dividend was approved	18 356	
Change in fair value of the Momentum Group	(3 009)	
Fair value of the Momentum Group on the date of the unbundling	15 347	
Consolidated carrying value of the Momentum Group at the date of unbundling	(8 479)	
Profit on the unbundling of the Momentum Group	6 868	
Profit after tax on unbundling of discontinued operations	6 868	
Profit after tax from discontinued operations	415	
Profit after tax from unbundling and discontinued operations	7 283	
Analysis of the assets and liabilities included in the disposal group held for distribution		
Statement of financial position		
Assets		
Cash and cash equivalents	23 149	31 826
Derivative financial instruments	7 747	7 116
Investment securities and other investments	154 363	134 715
Loans and accounts receivables	2 410	7 484
Property and equipment	547	558
Deferred tax asset	967	932
Intangible assets and deferred acquisition costs	3 161	3 113
Investment properties	2 260	2 334
Other	6 283	9 169
Total assets	200 887	197 247
Liabilities		
Derivative financial instruments	741	1 507
Creditors and accruals	12 383	22 603
Provisions	253	341
Tax liability	312	43
Post-retirement liabilities	–	73
Deferred tax liability	1 721	1 719
Long-term liabilities	8 399	1 990
Policyholder liabilities under insurance contracts	–	40 896
Policyholder liabilities	163 570	111 860
Other	4 498	8 929
Total liabilities	191 877	189 961
Net assets of disposal group held for sale	9 010	7 286

The Momentum Group was previously disclosed as the Momentum segment in the segment report.

Refer to note 47 for the current and non-current analysis of non-current assets and disposal groups held for sale.

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22 Deposits and current accounts

R million	2011 At amortised cost	2011 Designated at fair value through profit or loss	2011 Total
From banks and financial institutions	32 058	64 175	96 233
– In the normal course of business	32 058	32 201	64 259
– Under repurchase agreements	–	31 974	31 974
From customers	315 269	23 440	338 709
– Current accounts	203 979	3 221	207 200
– Savings accounts	3 785	–	3 785
– Term deposits	107 505	20 219	127 724
Other deposits	49 124	52 177	101 301
– Negotiable certificates of deposit	47 862	23 928	71 790
– Buy backs	–	9 172	9 172
– Other	1 262	19 077	20 339
Non-recourse deposits*	–	17 414	17 414
– Total fair value of notes issued	–	20 568	20 568
– Less: Notes acquired by the group	–	(3 154)	(3 154)
Deposits and current accounts	**396 451**	**157 206**	**553 657**

R million	2010 At amortised cost	2010 Designated at fair value through profit or loss	2010 Total
From banks and financial institutions	13 568	58 304	71 872
– In the normal course of business	13 568	25 917	39 485
– Under repurchase agreements	–	32 387	32 387
From customers	256 819	94 575	351 394
– Current accounts	186 972	138	187 110
– Savings accounts	3 210	–	3 210
– Term deposits	66 637	94 437	161 074
Other deposits	8 786	64 381	73 167
– Negotiable certificates of deposit	2 143	34 715	36 858
– Buy backs	–	8 704	8 704
– Other	6 643	20 962	27 605
Non-recourse deposits*	–	16 036	16 036
– Total fair value of notes issued	–	16 036	16 036
Deposits and current accounts	**279 173**	**233 296**	**512 469**

** Refer to note 12 for a description of non-recourse investment securities.*

Deposits and current accounts include amounts raised under repurchase agreements with a carrying value of R41 billion (2010: R41 billion).

Refer to note 36 for information about changes in the Group's own credit risk.

Refer to note 38 for information relating to the fair value of deposits and current accounts.

Refer to note 47 for the current and non-current analysis of deposits and current accounts.

23 Short trading positions

R million	2011	2010
Government and government guaranteed stock	7 173	8 295
Other dated securities	1 974	1 980
Undated securities	3 266	6 460
Short trading positions	12 413	16 735
Analysed as follows:		
Listed	10 502	14 862
Unlisted	1 911	1 873
Short trading positions	12 413	16 735

Short trading positions are carried at fair value. Refer to note 38 for information relating to the fair value of short trading positions.

Refer to note 47 for the current and non-current analysis of short trading positions.

24 Creditors and accruals

R million	2011	2010
Accrued interest	73	114
Short-term portion of long-term liabilities (note 27)	430	1 600
Short-term portion of finance lease liabilities (note 27)	3	3
Short-term portion from share-based payments and preference shares (note 27)	–	2 994
Accounts payable and accrued liabilities	8 626	6 790
Deferred income	661	528
Operating lease liability arising from straight lining of lease payments	90	86
Payments received in advance	47	–
Creditors and accruals	9 930	12 115

The carrying value of creditors and accruals approximates the fair value.

Refer to note 47 for current and non-current analysis of creditors and accruals.

Notes to the consolidated annual financial statements continued

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25 Provisions

R million	2011	2010
Staff related provision*		
Opening balance	2 600	2 180
– Acquisitions/(disposals) of subsidiaries	22	(20)
– Transfer to non-current assets and disposal groups held for sale	–	(119)
– Exchange rate differences	2	(2)
– Charge to profit or loss	2 108	1 901
– Additional provisions created	2 161	1 855
– Unused provisions reversed	(53)	46
– Utilised	(1 628)	(1 340)
Closing balance	3 104	2 600
Audit fees		
Opening balance	34	65
– Acquisitions/(disposals) of subsidiaries	1	(2)
– Transfer to non-current assets and disposal groups held for sale	–	(12)
– Exchange rate difference	–	(1)
– Charge to profit or loss	128	112
– Additional provisions created	128	113
– Unused provisions reversed	–	(1)
– Utilised	(120)	(128)
Closing balance	43	34
Other**		
Opening balance	725	716
– Acquisitions of subsidiaries	–	92
– Transfer to non-current assets and disposal groups held for sale	(4)	(195)
– Charge to profit or loss	(182)	378
– Additional provisions created	148	437
– Unused provisions reversed	(330)	(59)
– Utilised	(65)	(266)
Closing balance	474	725
Total provisions	3 621	3 359

* *The staff related provision consists mainly of the provision for leave pay, staff bonuses and the liability relating to the MMI shares that the participants in the BEE schemes will receive as a result of the unbundling of Momentum. Further details of this scheme and the vesting conditions related to the scheme are provided in note 31.*

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

Refer to note 47 for the current and non-current analysis of provisions.

26 Post-retirement liabilities

26.1 DEFINED BENEFIT POST-RETIREMENT FUND

The Group operates two defined benefit plans, a plan that provides post employment medical benefits and a pension plan. The pension plan provides retired employees with annuity income after their service. The medical scheme provides retired employees with medical benefits after their service. In terms of these plans, the Group is liable to the employees for specific payments on retirement and for any deficit in the provision of these benefits from the plan assets. The liabilities and assets of these pension plans are reflected as a net asset or liability in the statement of financial position.

Details of the defined benefit plan assets and fund liability are as follows:

	2011			2010		
R million	Pension	Medical*	Total	Pension	Medical*	Total
Post-retirement benefit fund liability						
Present value of funded obligation	8 615	2 321	10 936	8 125	1 952	10 077
Fair value of plan assets	(8 277)	–	(8 277)	(7 490)	–	(7 490)
Pension fund deficit	338	2 321	2 659	635	1 952	2 587
Unrecognised actuarial (losses)/gains	(138)	(229)	(367)	(440)	24	(416)
Other	–	–	–	(9)	–	(9)
Post-retirement liability	200	2 092	2 292	186	1 976	2 162
The amounts recognised in the income statement are as follows:						
Current service cost	–	37	37	8	34	42
Interest cost	674	172	846	658	136	794
Actuarial loss recognised	–	–	–	2	2	4
Expected return on plan assets	(652)	–	(652)	(650)	–	(650)
Gain on settlement	(8)	–	(8)	6	–	6
Total included in staff costs (note 3)	14	209	223	24	172	196
Movement in post-retirement benefit fund liability						
Present value at the beginning of the year	186	1 976	2 162	133	1 956	2 089
Transfer to non-current liabilities held for sale	–	–	–	39	(86)	(47)
Exchange differences	1	2	3	(6)	–	(6)
Amounts recognised in the income statement as above (including discontinued operations)	14	209	223	24	172	196
Benefits paid	–	(92)	(92)	–	(66)	(66)
Employer contribution	(3)	–	(3)	(3)	–	(3)
Employee contribution	(1)	–	(1)	(1)	–	(1)
Settlement of liability	3	(3)	–	–	–	–
Present value at the end of the year	200	2 092	2 292	186	1 976	2 162

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

Notes to the consolidated annual financial statements continued

for the year ended 30 June

26 Post-retirement liabilities *continued*

26.1 DEFINED BENEFIT POST-RETIREMENT FUND *continued*

	2011			2010		
R million	Pension	Medical	Total	Pension	Medical	Total
Movement in the fair value of plan assets of the year is as follows:						
Opening balance	7 490	–	7 490	8 226	–	8 226
Transfer to non-current assets and disposal groups held for sale	–	–	–	(1 015)	–	(1 015)
Expected return on plan assets	661	–	661	650	–	650
Actuarial gains	713	–	713	169	–	169
Exchange differences	(7)	–	(7)	3	–	3
Employer contributions	22	–	22	30	–	30
Employee contributions	3	–	3	20	–	20
Benefits paid and settlements	(605)	–	(605)	(593)	–	(593)
Closing balance	8 277	–	8 277	7 490	–	7 490
Plan assets comprised of the following:						
Equity	157	–	157	80	–	80
Debt	7 359	–	7 359	6 048	–	6 048
Other	761	–	761	1 362	–	1 362
Total	8 277	–	8 277	7 490	–	7 490
Included in plan assets were the following:						
Buildings occupied by the Group with a fair value of	54	–	54	490	–	490
Total	54	–	54	490	–	490
Experience adjustments arising on plan liabilities	(405)	(248)	(653)	(163)	(242)	(405)
Experience adjustments arising on plan assets	706	–	706	169	–	169

26 Post-retirement liabilities *continued*

26.1 DEFINED BENEFIT POST-RETIREMENT FUND *continued*

	2011		2010	
	Pension %	Medical %	Pension %	Medical %
The principal actuarial assumptions used for accounting purposes were:				
Expected return on plan assets	9.0	–	9.3	–
Discount rate	8.5	8.5	9.0	9.0
Expected rates of salary increases	7.6	–	7.5	–
Long-term increase in health cost	–	7.0	7.5	7.5
The effects of a 1% movement in the assumed health cost rate were as follows:				
Increase of 1%				
Effect on the defined benefit obligation (R million)	–	367.2	–	302.8
Effect on the aggregate of the current service cost and interest cost (R million)	–	44.2	–	35.0
Decrease of 1%				
Effect on the defined benefit obligation (R million)	–	296.6	–	243.6
Effect on the aggregate of the current service cost and interest cost (R million)	–	35.2	–	28.1
Estimated contributions expected to be paid to the plan in the next annual period (R million)	827	–	825	–
Net increase in rate used to value pensions, allowing for pension increases				
– Group fund (%)	6.1	–	6.0	–

The expected rate of return over the year is a weighted average of the expected rate of return of the asset classes at the beginning of the year. The weights are based on the actual proportions of market value of assets in each asset class. The expected return per class of assets is:

	2011 %	2010 %
Equities	10.0	10.5
Other	8.5	9.0
Bonds	7.0	7.5
Cash	–	10.5

		2011		2010	
Mortality rate		Active members	Pensioners	Active Members	Pensioners
Pension Fund					
Normal retirement age		60	–	60	–
Mortality rate table used		PA(90)–2	PA(90)–2	SA 72–77	PA(90)–2
Post-retirement medical benefits					
Normal retirement age		60	–	60	–
Mortality rate table used	Active	SA 72–77			
Mortality rate table used (rated down 3 years for females)	Retired	PA(90)–3	PA(90)–3	PA(90)–3	–

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

PA(90)–2 refers to standard actuarial mortality tables for current and prospective pensioners on a defined benefit plan where the chance of dying after early or normal retirement is expressed at each age for each gender.

PA(90)–3 refers to standard actuarial mortality tables for current and prospective pensioners on a defined benefit plan where the chance of dying after early or normal retirement is expressed at each age for each gender.

Notes to the consolidated annual financial statements continued

for the year ended 30 June

26 Post-retirement liabilities *continued*

26.1 DEFINED BENEFIT POST-RETIREMENT FUND *continued*

	2011		2010	
Mortality rate	**Pension**	**Medical**	Pension	Medical
The average life expectancy in years of a pensioner retiring at age 65 on the reporting date is as follows:				
Male	**17**	**17**	21	22
Female	**21**	**21**	25	26
The average life expectancy in years of a pensioner retiring at age 65, 20 years after the reporting date is as follows:				
Male	**17**	**17**	21	22
Female	**22**	**21**	25	26

Five year analysis on total pension and medical post-retirement plans

As at 30 June	**2011**	2010	2009	2008	2007
Present value of defined benefit obligation	**10 936**	10 077	10 463	9 991	11 355
Fair value of plan assets	**(8 277)**	(7 490)	(8 226)	(8 188)	(10 079)
Deficit	**2 659**	2 587	2 237	1 803	1 276

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

The number of employees covered by the two schemes	**2011**	2007
Pension:		
Active members	**28 091**	29 213
Pensioners	**7 734**	7 977
Total	**35 825**	37 190
Medical:		
Active members	**6 794**	6 014
Pensioners	**4 518**	3 238
Total	**11 312**	9 252

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

The net discount rate (the difference between the discount rate and the assumed rate of future medical cost inflation) remained unchanged, therefore there was no change in the liability due to a change in net discount rate. (2010: 0.25 percentage points resulted in an increase in the liability of R36 million).

A full actuarial valuation of the pension fund submission to the Financial Services Board is done every three years, with the last valuation being in 2011. Annual interim actuarial valuations are performed for the trustees and for IAS 19 purposes.

At the last valuation date the fund was financially sound.

26 Post-retirement liabilities *continued*

26.2 DEFINED CONTRIBUTION POST-RETIREMENT FUND

This defined contribution plan is a post-retirement plan in terms of which the Group, in its capacity as employer, is liable to the employees only for the agreed upon contributions payable for services rendered by the employees. At the end of their employment, employees may use the accumulated funds to purchase a pension annuity from the Group.

The assets related to this pension fund are managed by an asset manager. The pension fund holds the assets related to the pension plan and has an obligation to pay over the value of the plan assets as benefits to employees on retirement. These assets and liabilities are not recognised on the statement of financial position as they are only held by the Group in a fiduciary capacity. Disclosures on these assets and liabilities are for information purposes only.

Details of the pension plan assets and the related liability are as follows:

R million	2011	2010
Post-retirement contribution fund liability		
Present value of obligation	9 731	9 548
Fair value of plan assets	(9 731)	(9 548)
Post-retirement contribution fund liability	–	–
Movement in post-retirement contribution fund liability		
Amounts recognised in profit or loss	794	766
Employer contributions	(447)	(445)
Employee contributions	(347)	(321)
Present value at the end of the year	–	–
Movement in the fair value of plan assets of the year is as follows:		
Opening balance	9 548	8 170
Expected return on plan assets	869	776
Actuarial (losses)/gains	(383)	601
Benefits paid and settlements	(1 097)	(765)
Employer contributions	447	443
Employee contributions	347	323
Closing balance	9 731	9 548

Refer to note 47 for the current and non-current analysis of post-retirement liabilities.

Notes to the consolidated annual financial statements continued
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27 Long-term liabilities

R million	2011	2010
Debentures		
120 debentures of R1 million each carrying interest at prime minus 2%[a]	–	120
Debentures*	–	120

a The holder has the right, at any stage after 30 June 2005, to convert the debentures into non-redeemable preference shares.

The debentures will automatically convert into non-redeemable preference shares in the event that such conversion has not already taken place by 30 June 2020. Interest is payable 6 monthly in arrears on 30 June and 31 December each year at the prime overdraft rate minus 2%.

R million	2011	2010
Preference shares		
Authorised		
500 million cumulative redeemable shares with a par value of R0.0001	–	–
100 million cumulative redeemable shares with a par value of R0.01	–	–
Issued		
The preference shares of FirstRand Investment Holdings (Pty) Limited and FirstRand EMA Holdings Limited have been classified as long-term liabilities and comprise the following:		
1 000 A Class redeemable preference shares of 0.0001 cents each at a premium of R9 764.47 per share	–	11
Preference shares subscribed for by third parties[b]	–	5 686
Less: Portion repayable within 12 months transferred to current liabilities (note 24)	–	(2 994)
Preference shares*	–	2 703

b These preference shares are redeemable at the Group's discretion, at the full subscription price. Dividends are paid at a variable rate based on prime and for 2010 it amounted to 7.17%.

These preference shares have been issued on the back of a put option issued by FirstRand Limited.

R million	2011	2010
Other long-term liabilities		
Unsecured debt securities amortising over the period to 2010	–	377
Fixed rate bonds[c]	4 697	5 109
Floating rate bond[d]	1 969	2 256
Less: Portion repayable within 12 months transferred to current liabilities (note 24)	(430)	(1 600)
Other long-term liabilities	6 236	6 142

c The fixed rate bonds mature between 1 December 2011 and 21 December 2018 and bear interest at between 9% and 12%.

d The floating rate bonds mature between 5 November 2012 and 21 December 2018 and the interest varies between 65bps and 300bps above the three month JIBAR rate.

** Amounts relating to debentures and preference shares have been included in deposits and current accounts in the current year. Subsequent to the Group restructure, all long-term liabilities that are not classified as Tier 2 capital for regulatory purposes, are shown as deposits and current accounts.*

Prior to the Group restructure the long-term liabilities comprised the Tier 2 Capital of FirstRand Bank and all other long-term liabilities.

27 Long-term liabilities *continued*

R million	2011	2010
Finance lease liabilities		
Not later than 1 year	3	3
Later than 1 year but not later than 5 years	7	5
Present value of finance lease liability	10	8
Less: Portion repayable within 12 months transferred to current liabilities (note 25)	(3)	(3)
Long-term finance lease charges	7	5
Co-investment schemes		
Co-investment schemes	11	–
Co-investment schemes	11	–
Share-based payment		
Share-based payment (cash settled)	436	213
Share-based payment (cash settled)	436	213
Long-term liabilities	6 690	9 183

Refer to note 16 for assets that secure the finance lease liabilities.
Refer to note 36 for information about changes in the Group's own credit risk.
Refer to note 38 for information relating to the fair value of long-term liabilities.
Refer to note 47 for the current and non-current analysis of long-term liabilities.

28 Policyholder liabilities under insurance contracts

R million	2011	2010
Opening balance	1 868	40 725
Transfer to non-current asset held for sale	(938)	(39 069)
Reclassification to reinsurance assets	(34)	421
Revaluation of liability	60	–
Exchange rate differences	–	(2)
Transfer to/(from) policyholder liabilities under insurance contracts (note 2)	75	(207)
– Increase/(decrease) in retrospective liabilities	75	(307)
– Unwind of discount rate	–	24
– New business	–	98
– Change in economic assumptions	–	(6)
– Change in non-economic assumptions	–	102
– Expected cash flows	–	(56)
– Expected release of margins	–	(62)
Other	16	–
Closing balance	1 047	1 868
Insurance contracts with discretionary participation features	42	239
Insurance contracts without discretionary participation features	1 005	1 629
Policyholder liabilities under insurance contracts	1 047	1 868

Notes to the consolidated annual financial statements continued

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28 Policyholder liabilities under insurance contracts *continued*

R million	2011	2010
Included in the balance on page 297 is the following with respect to short-term insurance contracts:		
Gross		
Claims reported and loss adjustment expense	527	522
Claims incurred but not yet reported	51	72
Unearned premium	159	4
Total liability arising from short-term insurance contracts	**737**	**598**
Actuarial liabilities under unmatured policies comprise the following:	%	%
Linked (market related) business – Individual life	–	6
Smoothed bonus business – Individual life	–	22
Annuity business	55	65
Life business		
– Individual life	30	7
Health insurance business short-term	15	–
Total	**100**	**100**

29 Policyholder liabilities under investment contracts

R million	2011	2010
Opening balance	101	109 196
Disposals of subsidiaries	–	(36)
Movement for the year	77	1 168
– Deposits received	–	18
– Policyholder benefits on investment contracts	–	(4)
– Fees on investment contracts	–	(4)
– Movement in policy loans for the year	–	1 144
– Fair value adjustment to policyholder liabilities under investment contracts (note 2)	77	14
– Transfer to non-current assets on disposal groups held for sale	(94)	(110 227)
– Other	10	–
Closing balance	**94**	**101**
Investment contracts with discretionary participation features	–	44
Investment contracts without discretionary participation features	94	57
Without investment management service components	94	57
Total policyholder liabilities under investment contracts	**94**	**101**

29 Policyholder liabilities under investment contracts *continued*

R million	Total	Shorter than 1 year	Between 1 and 5 years	Between 6 and 10 years	Longer than 10 years
2011					
Annuity business	94	6	21	67	–
Total policyholder liabilities under investment contracts	**94**	**6**	**21**	**67**	**–**
2010					
Linked (market related) business					
– Individual life	28	3	9	15	1
Smoothed bonus business					
– Individual life	16	4	5	3	4
Annuity business	57	6	20	31	–
Total policyholder liabilities under investment contracts	**101**	**13**	**34**	**49**	**5**

Refer to note 47 for the current and non-current analysis of policyholder liabilities under investment contracts.

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for the year ended 30 June

30 Share capital and share premium

	2011		
	Number of ordinary shares	Number of "A" preference shares[1]	
Authorised			
Number of shares	6 001 688 450	198 311 550	
Issued			
Ordinary shares			
Opening balance	5 637 941 689	–	
Conversion of convertible redeemable preference shares	–	–	
Closing balance	5 637 941 689	–	
"B" preference shares			
Opening balance	–	–	
– "B1" preference shares incorporated as "B" preference shares effective 4 January 2010	–	–	
Closing balance	–	–	
Total issued share capital and share premium – closing balance	5 637 941 689	–	
Analysis of total issued share capital closing balance			
Ordinary issued share capital closing balance as above of 1 cent each	5 637 941 689	–	
"B" variable rate, NCNR preference shares of 1 cent each	–	–	
Treasury shares	(189 017 706)	–	
Total issued share capital – closing balance	5 448 923 983	–	
Disclosed on the face of the statement of financial position			
Ordinary share capital			
Ordinary share premium			
NCNR preference shares			
Total			

** Less than R500 000.*

1. *The "A" variable rate cumulative convertible redeemable preference shares are not listed.*
2. *The"B" preference shares are variable rate NCNR preference shares and are listed on the JSE. Dividends on the "B" preference shares are calculated at a rate of 68% of the prime lending rate of banks.*
3. *The "C" preference shares are variable rate convertible non-cumulative redeemable preference shares.*
4. *The "D" preference shares are variable rate cumulative redeemable preference shares.*

	2011
The following represents the shareholding of subsidiaries in FirstRand Limited at 30 June:	%
These shares have been treated as treasury shares.	0.02
Share option schemes	
The investment in FirstRand Limited by the share incentive schemes have been treated as treasury shares as set out above.	3.31
For detail on capital management of the Group please refer to the capital management and regulatory capital section from page 133 to page 141, which form part of the audited financial statements.	
The unissued ordinary shares are under the control of the directors until the next annual general meeting.	

	2011				
	Number of "B" preference shares[2]	Number of "C" and "D" preference shares[3,4]	Share capital R million	Share premium R million	Total R million
	100 000 000	200 000 000	–	–	–
	–	–	56	7 083	7 139
	–	–	*	–	–
	–	–	56	7 083	7 139
	45 000 000	–	*	4 519	4 519
	–	–	–	–	–
	45 000 000	–	*	4 519	4 519
	45 000 000	–	56	11 602	11 658
	–	–	56	7 083	7 139
	45 000 000	–	*	4 519	4 519
	–	–	(3)	(2 138)	(2 141)
	45 000 000	–	53	9 464	9 517
					53
					4 945
					4 519
					9 517

Notes to the consolidated annual financial statements continued
for the year ended 30 June

30 Share capital and share premium *continued*

	2010	
	Number of ordinary shares	Number of "A" preference shares[1]
Authorised		
Number of shares	6 001 688 450	198 311 550
Issued		
Ordinary shares		
Opening balance	5 637 941 689	–
Closing balance	5 637 941 689	–
"B" preference shares		
Opening balance	–	–
– "B1" preference shares incorporated as "B" preference shares effective 4 January 2010	–	–
Closing balance	–	–
"B1" preference shares		
Opening balance	–	–
– "B1" preference shares incorporated as "B" preference shares effective 4 January 2010	–	–
Closing balance	–	–
Total issued share capital and share premium – closing balance	–	–
Analysis of total issued share capital closing balance		
Ordinary issued share capital closing balance as above of 1 cents each	5 637 941 689	–
"B" variable rate, NCNR preference shares of 1 cents each	–	–
Treasury shares	(393 425 594)	
Total issued share capital – closing balance	5 244 516 095	–
Disclosed on the face of the statement of financial position		
Ordinary share capital		
Ordinary share premium		
NCNR preference shares		
Total		

** Less than R500 000.*

1. *The "A" variable rate cumulative convertible redeemable preference shares are not listed.*
2. *The "B1" preference shares were incorporated with the "B" preference shares effective 4 January 2010. The "B" preference shares are variable NCNR preference shares and are listed on the JSE. Dividends on the "B" preference shares are calculated at a rate of 68% of the prime lending rate of banks.*
3. *The "C" preference shares are variable rate convertible NCNR preference shares.*
4. *The "D" preference shares are variable rate cumulative redeemable preference shares.*

	2010
The following represents the shareholding of subsidiaries in FirstRand Limited at 30 June:	%
These shares have been treated as treasury shares.	1.0
Share option schemes	
The investment in FirstRand Limited by the share incentive schemes have been treated as treasury shares as set out above.	6.0
For detail on capital management of the Group please refer to the capital management and regulatory capital section from page 133 to page 141, which form part of the audited financial statements.	
The unissued ordinary shares are under the control of the directors until the next annual general meeting.	

	2010				
	Number of "B" and "B1" preference shares[2]	Number of "C" and "D" preference shares[3,4]	Share capital R million	Share premium R million	Total R million
	100 000 000	200 000 000	–	–	–
	–	–	56	7 227	7 283
	–	–	56	7 227	7 283
	30 000 000	–	*	2 992	2 992
	15 000 000	–	*	1 527	1 527
	45 000 000	–	*	4 519	4 519
	15 000 000	–	–	1 527	1 527
	(15 000 000)	–	–	(1 527)	(1 527)
	–	–	–	–	–
	45 000 000	–	56	11 746	11 802
	–	–	56	7 227	7 283
	45 000 000	–	*	4 519	4 519
	–		(4)	(5 736)	(5 740)
	45 000 000	–	52	6 010	6 062
					52
					1 491
					4 519
					6 062

Notes to the consolidated annual financial statements continued
for the year ended 30 June

31 Remuneration schemes

R million	2011	2010
The charge to profit or loss for share-based payments is as follows:		
FirstRand share incentive scheme	3	(11)
FNB Botswana	1	**
FNB Namibia	1	**
FirstRand black employee trust	52	44
FirstRand black non-executive directors' trust	–	3
FirstRand share appreciation right scheme	225	306
Conditional share plan	345	201
Forfeitable share plan	69	136
Charge/(release) to profit or loss (note 3)	**696**	679

*** Amounts less than R 500 000.*

The various FirstRand share schemes are settled as follows:
Equity settled:
- FirstRand share incentive scheme
- FirstRand black employee trust
- FirstRand black non-executive directors' trust
- Conditional share plan
- Forfeitable share plan

Cash settled:
- FirstRand share appreciation right scheme

The purpose of these schemes is to appropriately attract, incentivise and retain managers within the Group.

The Group adopted new share incentive plans in 2009, a conditional share plan ("CSP") and forfeitable share plan ("FSP"). These plans are in line with practices in the UK and with several adopted schemes for large JSE listed or dual listed companies.

On the date of the unbundling of Momentum, FirstRand will receive no further services from the Momentum employees. As such all of the unvested amounts that related to the share-based payment transactions in which Momentum employees received FirstRand shares were recognised on the date of unbundling. For equity settled schemes the share-based payment reserve relating to these schemes was reclassified to retained earnings and the liability for cash settled schemes was derecognised as part of the unbundling.

Description of the schemes

FirstRand share incentive scheme
The rules of the FirstRand share incentive scheme ("the Scheme") are constituted in the FirstRand share trust. This scheme was implemented in 2000.

One third of the total number of options issued may be exercised after the third year, two-thirds after the fourth year and all of the options vest on the fifth anniversary of the grant date.

The last of the benefits awarded under this scheme vested during the year ended 30 June 2011. The share-based payment reserve relating to these awards was reclassified to retained earnings.

The FNB Botswana and FNB Namibia schemes are generally aligned to this scheme in terms of purpose and rules.

FirstRand black economic empowerment trusts
FirstRand Limited is committed to the process of achieving transformation in South Africa and in creating its transformation initiative sought to ensure that the long-term benefits of the transaction reach the widest possible community of black South Africans.

171.4 million shares, representing approximately 3.1% of the issued share capital of FirstRand, are held by the BEE trusts which have granted participation to black South African directors and employees.

- 20.0 million shares to the FirstRand staff assistance trust
- 136.4 million shares to the FirstRand black employee trust (subject to IFRS 2)
- 15.0 million shares to the FirstRand black non-executive directors' trust (subject to IFRS 2)

Pursuant to the unbundling of Momentum the trusts received MMI shares that will be held by the trusts for the benefit of the participants until the distribution date. These shares are employee benefits that fall within the scope of IAS 19 and as such the portion of the share-based payment reserve that relates to these shares has been reclassified to staff-related provisions, refer note 25.

31 Remuneration schemes *continued*

FirstRand black employee trust

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

The issues of participation rights in the trust was made as follows:

- First issue on 20 July 2005
- Second issue on 1 November 2006
- Third issue on 3 December 2007
- Last issue on 14 May 2010

Distribution to beneficiaries takes place on 31 December 2014.

FirstRand black non-executive directors' trust

The beneficiaries of this trust are the black non-executive directors and those executive directors who were non-executives prior to becoming executives of FirstRand Group companies.

Distribution to beneficiaries takes place on 31 December 2014.

FirstRand share appreciation right scheme

The FirstRand share appreciation right scheme was implemented in 2006 to provide selected FirstRand Group employees, including executive directors of the participating companies, the opportunity of receiving incentive remuneration payments based on the increase in the market value of ordinary FirstRand shares.

One third of the total number of rights issued may be exercised after the third, two thirds after the fourth and all of the shares by the fifth anniversary of the date of grant, provided that the performance objectives set for the grant have been achieved. In any one year where the performance objectives have not been achieved the shares will not vest in that year but will be carried over to the following year, provided that the performance objectives are met in that following year. If performance conditions are not met by year five, the rights will not vest.

During the year ended 30 June 2011 the strike price of the appreciation rights was adjusted to ensure that the fair value of the employee's awards before and after the unbundling of Momentum were the same. The modification was neither beneficial nor detrimental to the employees.

Conditional share plan

The conditional award comprises a number of full shares with no strike price that will vest conditionally after three years. The number of shares that vest is determined by the extent to which the performance conditions are met. Conditional awards are made annually and vesting is subject to specified financial and non-financial performance, set annually by the Group's Remuneration Committee.

During the year ended 30 June 2011 additional conditional awards were granted to FirstRand employees to ensure that the fair value of the employee's awards before and after the unbundling of Momentum were the same. The modification was neither beneficial nor detrimental to the employees.

Forfeitable share plan

The forfeitable share plan is a remuneration scheme that grants selected employees full shares with no strike price that will vest after two years.

Selected employees are awarded shares that are forfeited if the employee leaves the employment of the FirstRand Group before the end of the vesting period. During the vesting period the shares are held in trust for the employees. Dividends earned on the shares during the vesting period form part of the award. As such they accrue to the participants and will be delivered along with the shares at the vesting date.

Due to the unbundling of Momentum Limited from the FirstRand Group in December 2010, participants received MMI Holdings shares to compensate them for loss of value.

Co-investment arrangement

A co-investment arrangement was established whereby certain key executives and decision makers of the Group are allowed to co- invest with FirstRand in certain pre-defined portfolios.

The rationale for the co-investment arrangement includes:

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

Notes to the consolidated annual financial statements continued
for the year ended 30 June

31 Remuneration schemes *continued*

The participants who co-invest with FirstRand buy into existing portfolios at the disclosed fair values and are required to place capital at risk. No additional gearing is provided by FirstRand.

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

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

The Group remuneration committee determines annually:

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

The amounts invested by key management personnel have been included in note 43.

Valuation methodology

FirstRand share incentive scheme

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

Market data consists of the following:

- volatility is the expected volatility over the period of the plan, and historical volatility was 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.

Employee statistic assumptions:

- annual employee turnover is the average annual rate that employees participating in the option scheme are expected to resign before the options have vested.

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

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

Corporate performance targets

The FirstRand Limited Group Remuneration committee ("Remco") sets the corporate performance targets ("CPT's") for the Group's ("FirstRand") long-term incentive schemes, the share appreciation right scheme and conditional share plan. These criteria, which must be met or exceeded to enable vesting, vary from year to year, depending on the conditions prevailing at the time of the award.

The criteria for the schemes are as follows:

2006: FirstRand's normalised earnings per share ("EPS") must grow at a rate per annum which equals or exceeds CPIX plus 10%, measured on a cumulative basis from base year end, 30 June 2006, for the five-year performance period, to enable 100% vesting.

n the event of CPIX plus 10% not being achieved, Remco was entitled to sanction a partial vesting of the appreciation right, to be calculated pro rata to the performance exceeding CPIX.

The performance period for this grant ended on 30 June 2011. During the period the corporate performance targets were not met in full and accordingly 3.98% of the total grant becomes exercisable on 1 October 2011, the balance being forfeited.

2007: FirstRand's normalised EPS must grow at a rate per annum which equals or exceeds CPIX plus 10%, measured on a cumulative basis from base year end, 30 June 2007, for the five-year performance period, to enable 100% vesting.

The performance targets for the period ended 30 June 2011 have not been met and accordingly none of the grant has become exercisable. The performance period endures to 30 June 2012.

n respect of the 2006 and 2007 awards, should CPIX plus 10% not be achieved, Remco may sanction a partial vesting of the appreciation right, which is calculated pro rata to the performance which exceeds CPIX.

2008: FirstRand's normalised EPS must grow at a rate per annum which equals or exceeds CPIX, measured on a cumulative basis from base year end 30 June 2008, to enable 100% vesting. In addition FirstRand's net income after cost of capital ("NIACC") must be positive over the five-year performance period.

31 Remuneration schemes *continued*

2009: FirstRand's normalised EPS must grow at a rate per annum which equals or exceeds CPIX, measured on a cumulative basis from year end 30 June 2009, to enable 100% vesting. In addition FirstRand's NIACC must be positive over the three-year performance period.

2010: FirstRand's normalised EPS growth must equal or exceed South African Nominal GDP (defined as South African GDP plus CPIX) plus 4%, measured on a cumulative basis, from year end 30 June 2010, to enable 100% vesting. In addition NIACC must be positive over the three-year performance period.

Should nominal GDP plus 4% not be achieved, Remco may sanction a partial vesting of conditional shares, which is calculated pro rata to the performance which exceeds nominal GDP.

FirstRand black employee trust

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

Market data consists of the following:

- volatility is the expected volatility over the period of the plan, and historical volatility was used as a proxy for expected volatility; and
- the interest rate used was the RMB forward prime curve (extrapolated where necessary) as the funding of the option is linked to the prime lending rate.

Dividend data consists of the following:

- a fixed dividend yield was assumed.

Employee statistic assumptions:

- the weighted average forfeiture rate used is based on historical forfeiture data for this scheme.

FirstRand black non-executive directors' trust

The FirstRand black non-executive directors' trust is valued on the same methodology as used for the FirstRand black employee trust, except that a zero percentage weighted average forfeiture rate was used due to the fact that there are only 10 participants (2010: 11 participants).

Market data consists of the following:

- volatility is the expected volatility over the period of the plan, and historical volatility was used as a proxy for expected volatility; and
- the interest rate used was the RMB forward prime curve (extrapolated where necessary) as the funding of the option is linked to the prime lending rate.

Dividend data consists of the following:

- a fixed dividend yield was assumed.

FirstRand share appreciation right scheme

The share appreciation right scheme issues are valued using a Cox Ross Rubenstein binomial tree. The scheme is cash settled and will thus be repriced at each reporting date.

Market data consists of the following:

- volatility is the expected volatility over the period of the plan, and historical volatility was used as a proxy for expected volatility; and
- the interest rate is the risk free rate of return, as recorded on the last day of the financial year, on a swap curve of a term equal to the expected life of the share appreciation right.

Dividend data consists of the following:

- management's estimates of future dividends.

Employee statistic assumptions:

The number of rights granted is reduced by the actual staff turnover at year end. This turnover is then assumed to be constant over the period of the grant and used to estimate the expected number of rights which will vest on the vesting date.

Conditional share plan

The conditional share plan is valued using the Black Scholes model with a zero strike price. The scheme is equity settled and is therefore not repriced at each reporting date.

Notes to the consolidated annual financial statements continued

for the year ended 30 June

31 Remuneration schemes *continued*

Market and dividend data consists of the following:

- volatility is the expected volatility over the period of the plan, and historical volatility was used as a proxy for expected volatility;
- the interest rate is the risk free rate of return as recorded on the last day of the financial year, on a swap curve of a term equal to the expected life of the plan; and
- a fixed dividend yield was assumed, based on the average historic dividend yield over a similar period.

Employee statistic assumptions:

- the weighted average forfeiture rate used is based on historical forfeiture data over all schemes.

Forfeitable share plan

The forfeitable share plan is valued using the Black Scholes model. The present value of all declared dividends was added to the value as determined using Black Scholes. The scheme is equity settled and will thus not be repriced at each reporting date.

Market and dividend data consists of the following:

- volatility is the expected volatility over the period of the plan, and historical volatility was used as a proxy for expected volatility;
- the interest rate is the risk free rate of return as recorded on the last day of the financial year, on a swap curve of a term equal to the expected life of the plan; and
- a fixed dividend yield was assumed, based on the average historic dividend yield over a similar period.

The valuation includes assumptions about the valuation of the MMI shares received as a dividend as well as cash dividends on the MMI shares.

Employee statistic assumptions:

No forfeiture rate is used due to the short duration of the scheme.

The significant weighted average assumptions used to estimate the fair value of options and share awards granted are:

	FirstRand share incentive scheme	FNB Botswana
2011		
Weighted average exercise price (Rand)	**12.37 – 17.87**	**2.69 – 15.10**
Expected volatility (%)	**23 – 29**	**13 – 35**
Expected option life (years)	**5**	**5**
Expected risk free rate (%)	**7.42 – 8.02**	**7.29 – 9.45**
Expected dividend yield (%)	**–**	**3.71**
Expected dividend growth (%)	**20.00**	**15.00 – 20.00**
2010		
Weighted average exercise price (Rand)	12.37 – 17.87	2.80 – 15.10
Expected volatility (%)	23 – 29	11 – 33
Expected option life (years)	5	5
Expected risk free rate (%)	7.42 – 8.02	7.57 – 14.00
Expected dividend yield (%)	–	–
Expected dividend growth (%)	20.00	15.00 – 24.00

*** Some share appreciation rights granted are subject to other vesting conditions that are highly unlikely to be achieved.*

	FNB Namibia	FirstRand black employee trust	FirstRand black non-executive directors' trust	FirstRand share appreciation right scheme**	Conditional share plan	Forfeitable share plan
	7.21 –12.26	**12.05 – 24.60**	**12.28 – 17.60**	**8.55 – 13.68**	**–**	**–**
	4.02 – 16.00	**24 – 49**	**23 – 33**	**26 – 38**	**26 – 41**	**23.00**
	5	**5 –10**	**10**	**5**	**3**	**2 – 3**
	7.11 – 9.47	**6.91 – 9.90**	**6.91**	**5.89 – 7.29**	**6.18 – 7.10**	**6.66**
	–	**2.78 – 6.88**	**3.44 – 4.04**	**3.72 – 4.96**	**3.79 – 4.94**	**–**
	13 – 19	**–**	**–**	**–**	**–**	**–**
	5.17 –11.80	12.05 – 24.60	12.28 – 17.60	14.01	–	–
	4.02 – 17.00	24 – 49	23 – 33	34 – 42	42	30
	5	6 –10	10	5	3	2 – 3
	7.05 – 9.47	6.91 – 9.90	6.91	6.72 – 7.49	7.05	7.05
	–	2.78 – 6.88	3.44 – 4.04	4.21 – 4.83	4.82	3.95
	13 – 19	–	–	–	–	–

Notes to the consolidated annual financial statements continued

for the year ended 30 June

31 Remuneration schemes *continued*

	2011		
	FirstRand share scheme (FSR shares)	FirstRand share appreciation right scheme (FSR shares)	
Number of options and share awards in force at the beginning of the year (millions)	35.0	235.0	
Granted at prices ranging between (cents)	1 237 – 1 787	*855 – 2 022	
Weighted average (cents)	1 522	*1 338	
Number of options and share awards granted during the year (millions)	–	–	
Granted at prices ranging between (cents)	–	–	
Weighted average (cents)	–	–	
Number of options and share awards exercised/released during the year (millions)	(34.80)	–	
Market value range at date of exercise/release (cents)	1 860 – 2 238	–	
Weighted average share price for the year (cents)	1 992	–	
Number of options and share awards cancelled/lapsed during the year (millions)	(0.20)	(52.00)	
Granted at prices ranging between (cents)	1 533 – 1 538	855 – 1 770	
Weighted average (cents)	1 533	1 330	
Number of options and share awards in force at the end of the year (millions)	–	183.0	
Granted at prices ranging between (cents)	–	855 – 2 022	
Weighted average (cents)	–	1 341	
Options and share awards are exercisable over the following periods (first date able to release)			
Financial year 2011/2012 (millions)	–	74.2	
Financial year 2012/2013 (millions)	–	77.3	
Financial year 2013/2014 (millions)	–	31.5	
Financial year 2014/2015 (millions)	–	*	
Total	–	183.0	

** This price has been adjusted for the impact of the Momentum unbundling.*

	2011			
	FirstRand black employee trust (FSR shares)	FirstRand black non-executive directors' trust (FSR shares)	Conditional share plan (FSR shares)	Forfeitable share plan (FSR shares)
	136.0	10.5	43.8	17.9
	1 205 – 2 460	1 228 – 1 760	–	–
	1 624	1 279	–	–
	2.1	–	56.5	–
	1 933 – 1989	–	–	–
	1 964	–	–	–
	–	–	–	–
	–	–	–	–
	–	–	–	–
	(23.40)	(1.0)	(11.3)	(3.0)
	1 228 – 2 234	1 228	–	–
	1 612	1 228	–	–
	114.7	9.5	89.0	14.9
	1 205 – 2 460	1 228 – 1 760	–	–
	1 654	1 284	–	–
	–	–	–	13.7
	–	–	47.6	1.2
	–	–	41.4	–
	114.7	9.5	–	–
	114.7	9.5	89.0	14.9

Notes to the consolidated annual financial statements continued

for the year ended 30 June

31 Remuneration schemes *continued*

	2011			
	FirstRand Share Scheme (FSR shares)			
Options and share awards outstanding (by expiry date)	Expiry date	Exercise price (Rand)**	Outstanding options 2011 (Millions)	
Total options – in the money and share awards				
Total options – out of the money				
Total options and share awards				
Value of company loans to share option trust at the beginning of the year (R million)			–	
Value of company loans to share option trust at the end of the year (R million)			–	
Number of participants			–	

** Less than R1 million.*

*** The strike price of the share appreciation rights scheme has been adjusted for the Momentum unbundling. Some share appreciation rights granted are subject to other vesting conditions that are highly unlikely to be achieved.*

	2011						
	FirstRand share appreciation right scheme (FSR shares)			FirstRand black non-executive directors' trust (FSR shares)			
	Expiry date	Exercise price (Rand)**	Outstanding options 2011 (Millions)	Expiry date	Exercise price (Rand)	Outstanding options 2011 (Millions)
	2011/10/01	13.50	41.1	2014/12/31	12.28	8.5
	2011/12/01	15.32	*	2014/12/31	17.60	1.0
	2012/02/27	20.22	0.2			
	2012/03/15	18.05	0.3			
	2012/04/01	20.15	0.6			
	2012/06/15	19.29	0.6			
	2012/10/01	17.70	45.6			
	2013/03/04	15.16	0.1			
	2013/11/03	11.18	93.9			
	2014/03/16	8.55	0.1			
	2014/05/01	10.22	0.3			
	2014/10/01	13.68	0.2			
			183.0			9.5
			96.1			9.5
			86.9			0.0
			183.0			9.5
			1 984			214
			4			224
			1 614			10

Notes to the consolidated annual financial statements continued
for the year ended 30 June

31 Remuneration schemes *continued*

	2011			
	FirstRand black employee trust			
Options and share awards outstanding (by expiry date)	Expiry date	Exercise price (Rand)	Outstanding options 2010 (Millions)	
	2014/12/31	12.05	0.2	
	2014/12/31	12.06	0.2	
	2014/12/31	12.28	51.6	
	2014/12/31	13.05	0.4	
	2014/12/31	13.65	0.1	
	2014/12/31	14.00	0.2	
	2014/12/31	14.70	0.2	
	2014/12/31	14.91	1.0	
	2014/12/31	15.66	0.1	
	2014/12/31	15.88	0.1	
	2014/12/31	16.00	*	
	2014/12/31	16.42	0.5	
	2014/12/31	16.50	*	
	2014/12/31	16.51	0.4	
	2014/12/31	17.37	0.6	
	2014/12/31	17.81	0.1	
	2014/12/31	18.62	11.6	
	2014/12/31	18.72	0.1	
	2014/12/31	19.33	0.1	
	2014/12/31	19.44	1.1	
	2014/12/31	19.81	*	
	2014/12/31	19.89	28.1	
	2014/12/31	21.50	0.2	
	2014/12/31	22.10	0.1	
	2014/12/31	22.34	16.4	
	2014/12/31	22.60	0.1	
	2014/12/31	22.80	0.5	
	2014/12/31	23.35	0.1	
	2014/12/31	23.75	0.1	
	2014/12/31	24.60	0.5	
			114.7	
Total options – in the money and share awards			68.6	
Total options outstanding – out of the money			46.1	
Total options and share awards			114.7	
Value of company loans to share trust at the beginning of the year (R million)			1 888	
Value of company loans to share trust at the end of the year (R million)			1 906	
Number of participants			11 464	

* *Less than R1 million.*

*** *The employees are awarded the shares, there is therefore no strike price associated with the awards made under the conditional or forfeitable share plan.*

	2011			
	Conditional share plan**		Forfeitable share plan***	
	Expiry date	Outstanding options 2011 (Millions)	Expiry date	Outstanding awards 2011 (Millions)
	2012/10/13	5.6	2011/09/15	13.7
	2012/10/17	42.0	2012/09/15	1.2
	2013/10/14	40.8		
	2013/11/01	0.2		
	2013/12/20	0.1		
	2013/12/01	0.1		
	2014/01/01	0.1		
	2014/04/08	0.1		
	2014/04/15	*		
	2014/05/01	*		
		89.0		14.9
		89.0		14.9
		–		–
		89.0		14.9
		–		273
		–		22
		1 990		118

Notes to the consolidated annual financial statements continued

for the year ended 30 June

31 Remuneration schemes *continued*

	2010	
	FirstRand share scheme (FSR shares)	FirstRand share appreciation right scheme (FSR shares)
Number of options and share awards in force at the beginning of the year (millions)	79.3	253
Granted at prices ranging between (cents)	608 – 1 787	1 138 – 2 305
Weighted average (cents)	1 351	1 623
Number of options and share awards granted during the year (millions)	–	0.7
Granted at prices ranging between (cents)	–	1 356 – 1 651
Weighted average (cents)	–	1 469
Number of options and share awards exercised/released during the year (millions)	(42.5)	–
Market value range at date of exercise/release (cents)	1 438 – 2 100	–
Weighted average share price for the year (cents)	1 778	–
Number of options and share awards cancelled/lapsed during the year (millions)	(1.8)	(18.70)
Granted at prices ranging between (cents)	1 050 – 1 538	1 401 – 2 233
Weighted average (cents)	1 462	1 629
Number of options and share awards in force at the end of the year (millions)	35.0	235.0
Granted at prices ranging between (cents)	1 237 – 1 787	1 138 – 2 305
Weighted average (cents)	1 522	1 621
Options and share awards are exercisable over the following periods (first date able to release)		
Financial year 2007/2008 (millions)	9.2	–
Financial year 2008/2009 (millions)	10.4	–
Financial year 2009/2010 (millions)	15.4	–
Financial year 2010/2011 (millions)	–	135.0
Financial year 2011/2012 (millions)	–	59.7
Financial year 2012/2013 (millions)	–	40.2
Financial year 2014/2015 (millions)	–	0.1
Total	35.0	235.0

	2010			
	FirstRand black employee trust (FSR shares)	FirstRand black non-executive directors' trust (FSR shares)	Conditional share plan (FSR shares)	Forfeitable share plan (FSR shares)
	113	11	–	–
	1 205 – 2 460	1 228 – 1 760	–	–
	1 562	1 276	–	–
	29.6	–	44.6	18.4
	1 365 – 2 026	–	–	–
	2 002	–	–	–
	–	–	–	–
	–	–	–	–
	–	–	–	–
	(6.60)	(0.5)	(0.8)	(0.5)
	1 228 – 2 355	1 228	–	–
	1 737	1 228	–	–
	136.0	10.5	43.8	17.9
	1 205 – 2 460	1 228 – 1 760	–	–
	1 624	1 279	–	–
	–	–	–	–
	–	–	–	–
	–	–	–	–
	–	–	–	16.7
	–	–	43.8	1.2
	–	–	–	–
	136.0	10.5	–	–
	136.0	10.5	43.8	17.9

Notes to the consolidated annual financial statements continued

for the year ended 30 June

31 Remuneration schemes *continued*

	2010		
	FirstRand (FSR shares)		
Options outstanding (by expiry date)	Expiry date	Exercise price (Rand)**	Outstanding options 2010 (Millions)
	2010/03/01	12.37	0.1
	2010/10/03	15.33	32.5
	2010/10/20	13.29	2.0
	2010/11/15	15.38	0.1
	2011/03/01	17.08	0.2
	2011/03/15	17.87	*
	2011/06/01	16.09	0.1
			35.0
Total options and share awards outstanding – in the money			35.0
Total options and share awards outstanding – out of the money			–
Total options and share awards			35.0
Value of company loans to share option trust at the beginning of the year (R million)			1 282
Value of company loans to share option trust at the end of the year (R million)			1 093
Number of participants			996

** Less than R1 million.*
*** Some share appreciation rights granted are subject to other vesting conditions that are highly unlikely to be achieved.*

	2010					
	FirstRand share appreciation right scheme (FSR shares)			FirstRand black non-executive directors' trust (FSR shares)		
	Expiry date	Exercise price (Rand)**	Outstanding options 2010 (Millions)	Expiry date	Exercise price (Rand)	Outstanding options 2010 (Millions)
	2011/10/01	16.33	54.4	2014/12/31	12.28	9.5
	2011/12/01	18.15	*	2014/12/31	17.60	1.0
	2012/02/27	23.05	0.2			
	2012/03/15	20.88	0.3			
	2012/04/01	22.98	0.6			
	2012/06/15	22.12	0.6			
	2012/10/01	20.53	57.7			
	2013/03/04	17.99	0.1			
	2013/05/01	15.66	0.3			
	2013/11/03	14.01	119.6			
	2014/03/16	11.38	0.1			
	2014/04/01	12.65	0.1			
	2014/05/01	13.05	0.3			
	2014/06/15	13.56	0.4			
	2014/10/01	16.51	0.3			
			235.0			10.5
			120.8			10.5
			114.2	**		–
			235.0			10.5
			2 156			206
			1 984			214
			2 137			11

Notes to the consolidated annual financial statements continued

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31 Remuneration schemes *continued*

	2010		
	FirstRand black employee trust		
Options outstanding (by expiry date)	Expiry date	Exercise price (Rand)	Outstanding options 2010 (Millions)
	2014/12/31	12.05	0.2
	2014/12/31	12.06	0.2
	2014/12/31	12.28	63.9
	2014/12/31	13.05	0.4
	2014/12/31	13.65	0.1
	2014/12/31	14.00	0.2
	2014/12/31	14.70	0.2
	2014/12/31	14.91	1.0
	2014/12/31	15.66	0.1
	2014/12/31	15.88	0.1
	2014/12/31	16.00	*
	2014/12/31	16.42	0.5
	2014/12/31	16.50	*
	2014/12/31	16.51	0.4
	2014/12/31	17.37	0.6
	2014/12/31	17.81	0.1
	2014/12/31	18.19	*
	2014/12/31	18.62	17.4
	2014/12/31	18.72	0.1
	2014/12/31	19.81	*
	2014/12/31	20.26	28.0
	2014/12/31	21.50	0.2
	2014/12/31	22.10	0.1
	2014/12/31	22.34	20.9
	2014/12/31	22.60	0.1
	2014/12/31	22.80	0.5
	2014/12/31	23.35	0.1
	2014/12/31	23.75	0.1
	2014/12/31	24.60	0.5
			136.0
Total options and share awards outstanding – in the money			68.0
Total options and share awards outstanding – out of the money			68.0
Total options and share awards			136.0
Value of company loans to share trust at the beginning of the year (R million)			1 812
Value of company loans to share trust at the end of the year (R million)			1 888
Number of participants			12 508

*** Some share appreciation rights granted are subject to other vesting conditions that are highly unlikely to be achieved.*

**** The employees are awarded the shares, there is therefore no strike price associated with the awards made under the conditional or forfeitable share plan.*

2010			
Conditional share plan***		Forfeitable share plan***	
Expiry date	Outstanding options 2010 (Millions)	Expiry date	Outstanding options 2010 (Millions)
2012/09/17	43.8	2011/09/15	16.7
		2012/09/15	1.2
	43.8		17.9
	43.8		17.9
	–		–
	43.8		17.9
	–		–
	–		273
	2 058		150

Notes to the consolidated annual financial statements continued
for the year ended 30 June

32 Cash flow information

R million	2011	2010
32.1 RECONCILIATION OF OPERATING PROFIT BEFORE INCOME TAX TO CASH FLOWS FROM OPERATING ACTIVITIES		
Operating profit before income tax (continuing operations)	19 440	13 453
Adjusted for:		
– Depreciation, amortisation and impairment charges	1 925	1 488
– Impairment of advances	3 778	5 686
– Share of profit of associates and joint ventures less dividends received	(473)	(126)
– Unrealised profits on assets held against employee liabilities	(339)	(151)
– Movement in provisions	2 054	2 409
– Gain on disposal of property and equipment	(9)	(53)
– Gain on disposal of investments securities and other investments	(1 542)	(774)
– Gain on disposal of subsidiaries	(571)	(143)
– Revaluation reserve	(44)	–
– Deferred expenses and income	(418)	(269)
– Share-based payment expense	696	548
– Net fair value gains on financial assets through profit or loss	815	(127)
– Accruals	50	126
– Present value adjustments	(220)	(259)
– Dividends paid	(4 480)	(3 299)
– Gain on disposal of associates	(2 841)	(1 384)
– Dividends paid to non-controlling interests	(583)	(420)
– Foreign currency translation reserve	62	55
– Goodwill	(9)	(203)
– Profit on available-for-sale assets and cash flow hedges transferred	(368)	(762)
Cash flows from operating activities	16 923	15 795
32.2 CASH RECEIPTS FROM CUSTOMERS		
Interest income	37 527	39 055
Fee and commission income	18 353	17 058
Trading and other income	5 918	3 767
Premium less claims	(153)	193
Cash receipts from customers	61 645	60 073
32.3 CASH PAID TO CUSTOMERS, SUPPLIERS AND EMPLOYEES		
Interest expense	(20 854)	(22 459)
Other operating expenses	(22 296)	(21 248)
Cash paid to customers, suppliers and employees	(43 150)	(43 707)
32.4 INCREASE IN INCOME EARNING ASSETS		
Liquid assets and trading securities	(4 392)	(17 248)
Advances	(34 503)	(16 946)
Increase in income earning assets	(38 895)	(34 194)

32 Cash flow information *continued*

R million	2011	2010
32.5 INCREASE IN DEPOSITS AND OTHER LIABILITIES		
Term deposits	(33 350)	32 360
Current deposit accounts	20 090	1 004
Deposits from banks	24 361	17 960
Negotiable certificates of deposits	34 932	(6 864)
Savings accounts	575	(172)
Creditors (net of debtors)	296	3 596
Other	(8 812)	(16 690)
Increase in deposits and other liabilities	**38 092**	**31 194**
32.6 TAX PAID		
Tax payable and deferred tax at beginning of the year	778	552
Indirect tax paid	(614)	(446)
Other	304	1 041
Charge to income statement (continuing operations)	(4 582)	(3 512)
Tax payable and deferred tax at end of the year	149	(778)
Tax paid	**(3 965)**	**(3 143)**
32.7 DIVIDENDS PAID		
Charged to retained earnings	(4 480)	(3 299)
Dividends paid	**(4 480)**	**(3 299)**
32.8 ACQUISITIONS AND PROCEEDS ON DISPOSAL OF SIGNIFICANT ASSOCIATES		
Consideration for acquisition of associates		
Various associates acquired		
Cost of acquisition	(199)	(276)
– acquired by cash consideration	(166)	(276)
– acquired by non-cash consideration (shares issued and loans acquired)	(33)	–
Cash outflow on acquisition	**(166)**	**(276)**
Proceeds from the disposal of associates		
Marsh Holdings (Pty) Ltd		
Proceeds from disposal	54	–
– discharged by cash consideration	54	–
Cash inflow on disposal	**54**	**–**
OUTsurance		
Proceeds from disposal	3 608	–
– discharged by cash consideration	3 608	–
Cash inflow on disposal	**3 608**	**–**

Notes to the consolidated annual financial statements continued
for the year ended 30 June

32 Cash flow information *continued*

R million	2011	2010
32.8 ACQUISITIONS AND PROCEEDS ON DISPOSAL OF SIGNIFICANT ASSOCIATES *continued*		
Kula Gold (Pty) Limited		
Proceeds from disposal	243	–
– discharged by cash consideration	243	–
Cash inflow on disposal	243	–
Other insignificant disposals		
Proceeds from disposal	206	106
– discharged by cash consideration	187	106
– discharged by non-cash consideration (shares issued and loans acquired)	19	–
– Less: Cash and cash equivalents in subsidiary disposed	–	58
Cash inflow on disposal	187	48
Life Healthcare Group Holdings Limited		
Proceeds from disposal	–	1 989
– discharged by cash consideration	–	1 989
Cash inflow on disposal	–	1 989
Pamodzi Investment Holdings II (Pty) Limited		
Proceeds from disposal	–	38
– discharged by cash consideration	–	38
Cash inflow on disposal	–	38
Other significant acquisitions		
Carrying amount of associates and joint ventures purchased	(166)	(204)
Cash outflow on acquisitions of associates and joint ventures	(166)	(204)
32.9 ACQUISITIONS AND PROCEEDS ON DISPOSAL OF SIGNIFICANT SUBSIDIARIES		
Proceeds from the disposal of subsidiaries		
Davita Trading (Pty) Ltd		
Proceeds from disposal	704	–
– discharged by cash consideration	704	–
Less: Cash and cash equivalents in subsidiary disposed	(57)	–
Cash inflow on disposal	647	–
Norman Bisset and Associates Holdings (Pty) Limited		
Proceeds from disposal	–	–
– discharged by cash consideration	–	*
Less: Cash and cash equivalents in subsidiary disposed	–	13
Cash outflow on disposal	–	(13)

32 Cash flow information *continued*

R million	2011	2010
32.9 ACQUISITIONS AND PROCEEDS ON DISPOSAL OF SIGNIFICANT SUBSIDIARIES *continued*		
WorldMark SA (Pty) Limited		
Proceeds from disposal	–	164
– discharged by non-cash consideration (intercompany loan written off)	–	164
Less: Cash and cash equivalents in subsidiary disposed	–	2
Cash outflow on disposal	–	(2)
WorldMark Holdings (Pty) Limited		
Proceeds from disposal	–	525
– discharged by cash consideration	–	525
Less: Cash and cash equivalents in subsidiary disposed	–	21
Cash inflow on disposal	–	504
Consideration for acquisition of subsidiaries		
BJM Holdings Limited		
Cost of acquisition	450	–
– discharged by cash consideration	450	–
Less: Cash and cash equivalents in subsidiary acquired	200	–
Cash outflow on acquisition	(250)	–
Makalani Holdings Limited		
Cost of acquisition	–	977
– discharged by cash consideration	–	977
Cash outflow on acquisition	–	(977)
Macdonald, Mills, O'Haher Employee Benefits (Pty) Limited		
Cost of acquisition	–	5
– discharged by cash consideration	–	4
– discharged by non-cash consideration (contingent consideration arrangement)	–	1
Cash outflow on acquisition	–	(4)
32.10 PROCEEDS ON SALE OF ADVANCE BOOK		
Cost of acquisition	–	22
– discharged by cash consideration	–	22
– discharged by non-cash consideration (contingent consideration arrangement)	–	–
Cash inflow on disposal	–	22
32.11 CASH AND CASH EQUIVALENTS		
Cash and cash equivalents consist of cash on hand and balances with banks, and other investments in money market instruments.		
Cash and cash equivalents	34 240	27 067
Cash and cash equivalents	34 240	27 067

Notes to the consolidated annual financial statements continued

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33 Contingencies and commitments

R million	2011	2010
Contingencies and commitments		
Guarantees*	24 727	24 036
Acceptances	289	299
Letters of credit	6 331	5 541
Total contingencies	31 347	29 876
Irrevocable commitments	40 595	34 476
Irrevocable commitments – original maturity more than one year	22 703	18 333
Committed capital expenditure	3 737	2 117
Operating lease commitments	2 355	2 239
Other	11 330	3 806
Contingencies and commitments	112 067	90 847

** Guarantees consist predominantly of endorsements and performance guarantees*

	2011	2010
Other contingencies		
The Group is exposed to various actual or potential claims.		
Legal proceedings		
There are a number of legal or potential claims against the Group, the outcome of which cannot at present be foreseen. These claims are not regarded as material either on an individual or a group basis. Provision is made for all liabilities that are expected to materialise.	63	99
Claims		
– The Group has contingent liabilities in respect of certain outstanding claims	150	150
– The Group 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:		
Capital commitments contracted for at the reporting date but not yet incurred are as follows:		
– Property and equipment and intangible assets	614	175
Capital commitments not yet contracted for at reporting date but have been approved by the directors:		
– Property and equipment and intangible assets	3 123	1 942

Funds to meet these commitments will be provided from Group resources.

33 Contingencies and commitments *continued*

Group commitments under operating leases where the Group is the lessee

The Group's significant operating leases relates to property rentals of office premises and the various branch network channels represented by full service branches, agencies, mini branches and ATM lobbies. The rentals are fixed monthly payments, often including a contingent rental based on a percentage contribution of the monthly operating costs of the premises. Escalation clauses are based on market related rates and vary between 8 and 12 percent.

The leases are usually for a period of one to five years. The leases are non-cancellable and certain of the leases have an option to renew for a further leasing period at the end of the original lease term.

Restrictions are more an exception than the norm and usually relate to the restricted use of the asset for the business purposes specified in the lease contract.

	2011		
R million	**Next year**	**2nd to 5th year**	**After 5th year**
Office premises	**772**	**1 207**	**145**
Equipment and motor vehicles	**93**	**138**	**–**
Total operating lease commitments	**865**	**1 345**	**145**

	2010		
R million	Next year	2nd to 5th year	After 5th years
Office premises	704	1 370	113
Equipment and motor vehicles	31	19	2
Total operating lease commitments	735	1 389	115

Group commitments under operating leases where the Group is the lessor

The minimum future lease payments receivable under non-cancellable operating leases on investment properties and other assets where the Group is the lessor:

	2011		
R million	**Next year**	**2nd to 5th year**	**After 5th year**
Office premises	**109**	**140**	**167**
Equipment and motor vehicles	**213**	**243**	**–**
Other	**4**	**3**	**–**
Total operating lease commitments	**326**	**386**	**167**

	2010		
R million	Next year	2nd to 5th year	After 5th year
Office premises	59	150	232
Equipment and motor vehicles	128	163	–
Other	119	348	74
Total operating lease commitments	306	661	306

Notes to the consolidated annual financial statements continued

for the year ended 30 June

34 Collateral pledged and held

The Group has pledged assets as security for the following liabilities:

R million	2011	2010
34.1 COLLATERAL PLEDGED		
Deposits and current accounts held under repurchase agreements	**41 146**	41 091
Deposits and current accounts	**5 055**	4 176
Deposits and current accounts in securities lending transactions	**5 895**	3 739
Short trading positions	**12 413**	16 735
Other	**2 269**	2 119
Total	**66 778**	67 860

The Group pledges assets under the following terms and conditions:

- Mandatory reserve deposits and current accounts are held with the Central Bank in accordance with statutory requirements. These deposits and current accounts are not available to finance the Group's day-to-day operations.
- Assets are pledged as collateral under repurchase agreements with other banks and non-banks for security deposits and current accounts relating to local futures and options.
- Collateral in the form of cash and other investment securities is pledged when the Group borrows equity securities from third parties. These transactions are conducted under the terms and conditions that are usual and customary to standard securities lending arrangements.

All other pledges are conducted under terms which are usual and customary to lending arrangements.

Assets pledged to secure the above liabilities are carried at and included under the following:

R million	2011	2010
Cash and cash equivalents	**2 269**	2 384
Advances	**–**	3 151
Investment securities and other investments held under repurchase agreements	**18 607**	17 232
Investment securities and other investments	**3 319**	4 442
Accounts receivable	**–**	48
Other	**2 423**	2 490
Total	**26 618**	29 747

34 Collateral pledged and held *continued*

34.2 COLLATERAL HELD

Under the standard terms for certain of the securities lending arrangements and repurchase agreements that the Group enters into, the recipient of collateral has an unrestricted right to sell or repledge the assets in the absence of default but subject to the Group returning equivalent securities on settlement of the transaction.

Collateral the Group holds that it has the ability to sell or repledge in the absence of default by the owner of the collateral:

	2011		2010	
R million	Fair value	Fair value of collateral sold or repledged	Fair value	Fair value of collateral sold or repledged
Cash and cash equivalents	2 584	–	10 795	1 836
Investments securities and other investments	46 180	45 212	55 843	47 854
Total	48 764	45 212	66 638	49 690

When the Group takes possession of collateral that is not cash or not readily convertible into cash, the Group determines a minimum sale amount ("pre-set sale amount") and auctions the asset for the pre-set sale amount.
Where the Group is unable to obtain the pre-set sale amount in an auction the Group will continue to hold the asset while actively marketing it to ensure an appropriate value is obtained.

Collateral taken possession of and recognised on the statement of financial position:

R million	2011	2010
Property	257	502
Equipment	65	–
Total	322	502

Notes to the consolidated annual financial statements continued

for the year ended 30 June

35 Loans and receivables designated as at fair value through profit or loss

Certain instruments designated at fair value through profit or loss would meet the definition for classification as loans and receivables in terms of IAS 39 were it not for the fair value designation i.e. unquoted debt instruments. The table below contains details on the change in credit risk attributable to these instruments.

	2011					
			Change in fair value			
			Of mitigating instrument		Due to credit risk	
R million	Carrying value	Mitigated credit risk*	Current period	Cumu-lative	Current period	Cumu-lative
Included in advances	122 144	(1 673)	(19)	(19)	(135)	(1 320)
Included in investment securities and other investments	26 402	–	–	–	–	–
Included in non-recourse investments	13 587	–	–	–	–	–
Total	**162 133**	**(1 673)**	**(19)**	**(19)**	**(135)**	**(1 320)**

	2010					
			Change in fair value			
			Of mitigating instrument		Due to credit risk	
R million	Carrying value	Mitigated credit risk*	Current period	Cumu-lative	Current period	Cumu-lative
Included in advances	117 387	–	–	–	(484)	(1 332)
Included in investment securities and other investments	25 713	–	–	–	1	(5)
Included in non-recourse investments	12 083	–	–	–	–	–
Total	155 183	–	–	–	(483)	(1 337)

Losses are indicated with a "()".

** The notional amount by which any credit derivatives or similar instruments mitigate the maximum exposure to credit risk.*

Different methods are used to determine the current period and cumulative changes in fair value attributable to credit risk for investment securities and advances. This is due to the differing inherent credit risk of these instruments.

The methods used are:

Advances

The change in credit risk is the difference between fair value of the advances based on the original credit spreads and the fair value of the advances based on the most recent market observable credit spreads.

Investment securities and other investments

The change in fair value for investments designated at fair value through profit or loss is calculated by stripping out the movements that result from a change in market factors that give rise to market risk.

The change in fair value due to credit risk is then calculated as the balancing figure, after deducting the movement due to market risk from the total movement in fair value.

36 Financial liabilities designated as at fair value through profit or loss

	2011			
			Change in fair value due to credit risk	
R million	Fair value	Contractually payable at maturity	Current period	Cumu-lative
Deposits and current accounts	139 792	153 040	–	–
Non-recourse deposits	17 414	16 804	–	–
Long-term liabilities	1 214	1 313	(23)	5
Other	94	94	–	–
Total	**158 514**	**171 251**	**(23)**	**5**

	2010			
			Change in fair value due to credit risk	
R million	Fair value	Contractually payable at maturity	Current period	Cumu-lative
Deposits and current accounts	233 296	217 212	–	2
Non-recourse deposits	16 036	16 036	–	–
Long-term liabilities	1 174	1 252	8	29
Other	101	101	–	–
Total	250 607	234 601	8	31

The current and cumulative change in fair value that is attributable to the movement in credit risk of financial liabilities designated at fair value through profit or loss is determined with reference to changes in the Group's published credit rating.

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37 Derecognition of assets, securitisations and other structured transactions

In the normal course of business the Group enters into transactions in terms of which it transfers financial assets directly to third parties or to special purpose entities ("SPE").

These transfers may give rise to the full or partial derecognition of the financial asset concerned.

- Full derecognition occurs when the Group transfers its contractual right to receive cash flows from the financial assets and substantially all the risks and rewards of ownership. The risks include credit, interest rate, currency, prepayment and other price risks.
- Partial derecognition occurs when the Group sells or otherwise transfers financial assets in such a way that some but not substantially all of the risks and rewards of ownership are transferred but control is retained. These financial assets are recognised on the statement of financial position to the extent of the Group's continuing involvement. The majority of transferred financial assets that do not qualify for derecognition are debt securities given by counterparties as collateral under repurchase agreements or equity securities lent under securities lending agreements.

Securitisation transactions arranged by the Group may also result in the continued recognition of the securitised assets to the extent of the Group's continuing involvement in such assets. In a securitisation transaction, assets or interests in a pool of assets are transferred to a SPE which then issues liabilities to third party investors. Details of securitisations entered into by the Group are provided below. The Group consolidates these securitisation vehicles under SIC 12 and has therefore not derecognised the securitised assets.

The following SPEs are bankruptcy remote SPEs created to facilitate a traditional securitisation transaction related to WesBank retail instalment sale advances:

- Nitro 1 facilitated a securitisation transaction amounting to R2 billion of WesBank retail instalment sale advances. On 14 September 2009, the Nitro 1 securitisation transaction matured and all related notes issued to the market were redeemed.
- Nitro 2 facilitated a securitisation transaction amounting to R5 billion of WesBank retail instalment sale advances. On 12 May 2010, the Nitro 2 securitisation transaction matured and all related notes issued to the market were redeemed.
- Nitro 3 facilitated a securitisation transaction amounting to R5 billion of WesBank retail instalment sale advances. On 12 October 2010, the Nitro 3 securitisation transaction matured and all related notes issued to the market were redeemed.
- Turbo Finance facilitated a securitisation transaction amounting to GBP 341 million of retail instalment sale advances in the United Kingdom relating to the Group's Carlyle division. It was established in September 2010 and issued notes into the market in February 2011.

The following SPEs are bankruptcy remote SPEs created to facilitate a securitisation transaction related to FNB home loan advances:

- iKhaya I facilitated a securitisation transaction amounting to R1.9 billion of FNB home loan advances.
- iKhaya II facilitated a securitisation transaction amounting to R2.9 billion of FNB home loan advances.

The rights and obligations that the Group retains from its continuing involvement in securitisations are initially recorded as an allocation of the fair value of the financial asset between the part that is derecognised and the part that continues to be recognised on the date of transfer.

Continuing involvement may entail retaining the rights to future cash flows arising from the assets after investors have received their contractual terms, providing subordinated interest, continuing to service the underlying asset or entering into derivatives with the securitisation vehicle.

Repurchase agreements, securities lending and securitisation transactions may, depending on the individual arrangement result in the derecognition of the assets and the separate recognition as assets or liabilities, of any rights or obligations created or retained in the transfer.

The table below sets out the asset classes together with the carrying amounts of the assets and associated liabilities for those asset transfers where substantially all of the risks and rewards of the assets have been retained by the Group:

	2011		2010	
R million	Carrying amount of assets	Carrying amount of associated liability	Carrying amount of assets	Carrying amount of associated liability
Assets under agreements to repurchase				
Investment securities and other investments	**18 607**	**15 991**	17 232	18 366
Total	**18 607**	**15 991**	17 232	18 366

The Group remains exposed to the interest rate risk on the repurchase agreements and market risk on the securities lending agreements.

38 Fair value of financial instruments

The fair value of a financial instrument is defined as the amount at which the instrument could be exchanged in a market transaction between knowledgeable willing parties. When determining fair value it is presumed that the entity is a going concern and the fair value is therefore not an amount that represents a forced transaction, involuntary liquidation or a distressed sale.

When determining the fair value of a financial instrument, preference is given to prices quoted in an active market. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis.

If a particular instrument is not traded in an active market the Group uses a valuation technique to determine the fair value of the financial instrument. The valuation techniques employed by the Group include, inter alia, quoted prices for similar assets or liabilities in an active market, quoted prices for the same asset or liability in an inactive market, adjusted prices from recent arm's length transactions, option-pricing models, and discounted cash flow techniques.

The objective of using a valuation technique is to determine what the transaction price would have been at the measurement date. Therefore maximum use is made of inputs that are observable in the market and entity specific inputs are only used when there is no market information available. All valuation techniques take into account the relevant factors that other market participants would have considered in setting a price for the financial instrument and are consistent with accepted methodologies for pricing financial instruments.

The Group classifies instruments measured at fair value using a fair value hierarchy that reflects the significance of the inputs used. The Group's fair value hierarchy has the following levels:

Level 1 – Fair value is determined using unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Fair value is determined using inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 – Fair value is determined using a valuation technique and inputs that are not based on observable market data (i.e. unobservable inputs).

The following principle methods and assumptions are used to determine the fair value of financial instruments:

Investment securities and other investments

Unlisted equities

The fair value of unlisted equities is determined using a price earnings ("P/E") model.

The earnings included in the model are derived from a combination of historical and budgeted earnings depending on the specific circumstances of the entity whose equity is being valued and the relevance and reliability of the available information.

The P/E multiple is derived from current market observations taking into account an appropriate discount for unlisted companies. The valuation of these instruments may be corroborated by a discounted cash flow valuation or by the observation of other market transactions that have taken place.

Negotiable certificates of deposit

Where market prices are not available for a specific instrument, fair value is determined using discounted cash flow techniques. Inputs to these models include information that is consistent with similar market quoted instruments, where available.

Treasury bills

Treasury bills are valued by means of the Bond Exchange of South Africa ("BESA") bond pricing model using the closing BESA mark-to-market bond yield.

Government, public and utility stocks

Where market prices are not available the fair value is estimated using quoted market prices of securities with similar credit, maturity and yield characteristics.

Other dated securities

Fair value of other dated securities is determined by using a discounted cash flow model. The discount curve is derived from similar market quoted instruments.

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38 Fair value of financial instruments *continued*

Derivatives

Market prices are obtained from trading exchanges, when the derivatives are traded. If the derivatives are not traded the following techniques are used:

- Contracts for difference are valued by using the differential between the market price and the traded price multiplied by the notional amount.
- Credit derivatives are valued using the discounted cash flow model. Where prices are obtained from the market, individual credit spreads are added.
- Option contracts are generally valued using the Black Scholes model. Inputs are obtained from market observable data. Where prices are obtainable from trading exchanges the value per the exchange is used.
- Forward contracts are valued by discounting the projected cash flows to obtain the present value of the forward contract. Projected cash flows are obtained by subtracting the strike price of the forward contract from the market projected forward value.
- Forward rate agreements are valued by means of the discounted cash flow model. The discount rate is determined using a yield curve for similar market traded instruments. The reset rate is determined in terms of the legal agreement.
- Swaps are valued by discounting the expected cash flows using discount and forward rates determined from similar market traded instruments. The reset rate of each swaplet is determined in terms of legal documents pertaining to the swap.
- Commodity-linked instruments are measured by taking into account the price, the location differential, grade differential, silo differential and the discount factor of the most liquidly traded futures linked to the commodity.

Deposits and current accounts

Fair value of deposits and current accounts is determined by discounting future cash flows using a swap curve adjusted for liquidity premiums and business unit margins. The valuation methodology does not take early withdrawals and other behavioural aspects into account.

Call deposits are valued at the undiscounted amount of the cash balance. This is considered appropriate because of the short-term nature of these instruments.

The fair value of deposits will only be determined for deposits that have a maturity profile of longer than 30 days. For all non-term products it is assumed that fair value equals amortised cost.

Short trading positions

The fair value of listed short trading positions is their market quoted price. The fair value of unlisted short trading positions are based on the directors' valuation using suitable valuation methods.

Loans and advances to customers

The Group has elected to designate the term loan book in the investment banking division at fair value through profit or loss. The fair value is determined using a valuation technique that uses both inputs that are based on observable market data and unobservable data. The Group also determines the fair value of the amortised cost book for disclosure purposes.

The interest rate component of the valuation uses observable inputs from market interest rate curves. To calculate the fair value of credit the Group uses a valuation methodology based on the credit spread matrix, which considers loss given default, tenor and the internal credit committee rating criteria.

Long-term liabilities

Fair value of debentures, unsecured debt securities and finance lease liabilities are determined by discounting the future cash flows at market related interest rates.

The fair value of subordinated notes and fixed and floating rate bonds are determined by discounting the future cash flows at market related interest rates.

The fair value of the post-retirement funding liability has been calculated based on the value of the corresponding assets, since the value of the liability is limited to the value of the assets in the cell captive.

Policyholder liabilities under investment contracts

Refer to the accounting policies for a description of the valuation of policyholder liabilities under investment contracts.

38 Fair value of financial instruments *continued*

The following table presents the financial instruments recognised at fair value in the consolidated statement of financial position of the Group.

R million	2011 Level 1	Level 2	Level 3	Total carrying amount
Assets				
Advances	–	35 415	86 844	122 259
Derivative financial instruments	–	37 014	192	37 206
Investment securities and other investments	58 477	44 297	4 284	107 058
Total financial assets recognised at fair value	58 477	116 726	91 320	266 523
Liabilities				
Deposits and current accounts	–	136 393	3 399	139 792
Short trading positions	10 502	1 911	–	12 413
Derivative financial instruments	–	36 230	131	36 361
Long-term liabilities	–	1 214	–	1 214
Policyholder liabilities under investment contracts	–	–	94	94
Total financial liabilities at fair value	10 502	175 748	3 624	189 874

There were no transfers of financial instruments between Level 1 and 2 in the current financial year.

R million	2010 Level 1	Level 2	Level 3	Total carrying amount
Assets				
Advances	–	39 477	78 210	117 687
Derivative financial instruments	–	39 733	31	39 764
Investment securities and other investments	48 563	46 287	3 666	98 516
Total financial assets recognised at fair value	48 563	125 497	81 907	255 967
Liabilities				
Deposits and current accounts	83	210 731	3 300	214 114
Short trading positions	14 862	1 873	–	16 735
Derivative financial instruments	–	35 846	189	36 035
Long-term liabilities	–	1 174	–	1 174
Policyholder liabilities under investment contracts	–	36	65	101
Total financial liabilities at fair value	14 945	249 660	3 554	268 159

There were no transfers of financial instruments between Level 1 and Level 2 in the current financial year.

Although the fair value of credit is not significant year-on-year it may become significant in the future. For this reason, together with the fact that South Africa does not have actively traded credit spreads, the Group has classified loans and advances to customers in Level 3 of the fair value hierarchy.

Notes to the consolidated annual financial statements continued

for the year ended 30 June

38 Fair value of financial instruments *continued*

Changes in Level 3 fair value instruments

The Group classifies financial instruments in Level 3 of the fair value hierarchy when the significant inputs into the valuation model are not observable. In addition the valuation model for Level 3 financial instruments typically also relies on a number of inputs that are readily observable either directly or indirectly. Thus, the gains and losses presented below include changes in the fair value related to both observable and unobservable inputs.

The following table shows a reconciliation of the opening and closing balances for financial instruments classified as Level 3 in terms of the fair value hierarchy.

	2011		
R million	Fair value on 30 June 2010	Gains/(losses) recognised in profit or loss	
Assets			
Advances	78 210	6 410	
Derivative financial instruments	31	144	
Investment securities and other investments	3 666	58	
Total financial assets recognised at fair value	**81 907**	**6 612**	
Liabilities			
Deposits and current accounts	3 300	10	
Derivative financial instruments	189	23	
Policyholder liabilities under investment contracts	65	25	
Total financial liabilities at fair value	**3 554**	**58**	

	2010		
R million	Fair value on 30 June 2009	Gains/(losses) recognised in profit or loss	
Assets			
Advances	68 962	5 848	
Derivative financial instruments	16	16	
Investment securities and other investments	3 350	278	
Total financial assets recognised at fair value	72 328	6 142	
Liabilities			
Deposits and current accounts	2 867	(5)	
Derivative financial instruments	443	81	
Policyholder liabilities under investment contracts	45	14	
Total financial liabilities at fair value	3 355	90	

The transfers out of Level 3 during the year ended 30 June 2010 relates to an investment for which fair value was measured using prices for which market-observable information became available during the year. As a result of the Investec company listing their shares in an active market during the year ended 30 June 2010.

2011					
Gains/(losses) recognised in other comprehensive income	Purchases and (sales) issues/ (settlements)	Acquisitions/ (disposals) of subsidiaries	Transfers into Level 3	Transfer out of Level 3	Fair value on 30 June 2011
–	2 205	19	–	–	86 844
–	17	–	–	–	192
(20)	753	(173)	–	–	4 284
(20)	2 975	(154)	–	–	91 320
–	89	–	–	–	3 399
–	(81)	–	–	–	131
–	4	–	–	–	94
–	12	–	–	–	3 624

2010					
Gains/(losses) recognised in other comprehensive income	Purchases and (sales) issues/ (settlements)	Acquisitions/ (disposals) of subsidiaries	Transfers into Level 3	Transfer out of Level 3	Fair value on 30 June 2010
–	1 540	1 860	–	–	78 210
–	(1)	–	–	–	31
17	29	–	–	(8)	3 666
17	1 568	1 860	–	(8)	81 907
–	438	–	–	–	3 300
–	(335)	–	–	–	189
–	6	–	–	–	65
–	109	–	–	–	3 554

Notes to the consolidated annual financial statements continued
for the year ended 30 June

38 Fair value of financial instruments *continued*

The table below presents the total gains/(losses) relating to financial instruments classified in Level 3 that are still held on 30 June. With the exception of interest on funding instruments, all of these gains or losses are recognised in non-interest income.

	2011		
R million	**Gains/ (losses) recognised in the income statement**	**Gains/ (losses) recognised in other comprehensive income**	**Total gains/ (loss)**
Assets			
Advances	**5 397**	**–**	**5 397**
Derivative financial instruments	**150**	**–**	**150**
Investment securities and other investments	**(75)**	**(20)**	**(95)**
Total	**5 472**	**(20)**	**5 452**
Liabilities			
Deposits and current accounts	**19**	**–**	**19**
Derivative financial instruments	**25**	**–**	**25**
Policyholder liabilities under investment contracts	**25**	**–**	**25**
Total	**69**	**–**	**69**

	2010		
R million	Gains/ (losses) recognised in the income statement	Gains/ (losses) recognised in other comprehensive income	Total gains/ (loss)
Assets			
Advances	5 009	–	5 009
Derivative financial instruments	15	–	15
Investment securities and other investments	229	1	230
Total	5 253	1	5 254
Liabilities			
Derivative financial instruments	(40)	–	(40)
Policyholder liabilities under investment contracts	(16)	–	(16)
Total	(56)	–	(56)

38 Fair value of financial instruments *continued*

The following represents the fair values of financial instruments not carried at fair value on the statement of financial position.

	2011		2010	
R million	Carrying amount	Fair value	Carrying amount	Fair value
Assets				
Advances at amortised cost	342 334	342 014	317 106	316 701
Investment securities and other investments	285	285	2 619	2 616
Total assets at amortised cost	342 619	342 299	319 725	319 317
Liabilities				
Deposits and current accounts at amortised cost	396 451	395 405	279 174	279 387
Long-term liabilities	5 040	4 990	7 795	8 684
Total liabilities at amortised cost	401 491	400 395	286 969	288 071

For all other financial instruments the carrying value is equal to or a reasonable approximation of the fair value.

Notes to the consolidated annual financial statements continued

for the year ended 30 June

38 Fair value of financial instruments *continued*

Effect of changes in significant unobservable assumptions in the reasonably possible alternatives

As described above, the fair value of instruments that are classified in Level 3 of the fair value hierarchy is determined using valuation techniques that make use of significant inputs that are not based on observable market data. The inputs into these valuation techniques are derived from all available information and management's judgement. While management believes that these fair values are appropriate they could be sensitive to changes in the assumptions used to derive the inputs. The table below illustrates the sensitivity of the significant inputs when they are changed to reasonably possible alternative inputs:

	2011	
R million	**Significant unobservable inputs**	
Assets		
Advances	**Credit**	
Derivative financial instruments	**Volatilities**	
Investment securities and other investments	**Growth rates and P/E ratios of unlisted investments**	
Total financial assets recognised at fair value		
Liabilities		
Deposits and current accounts	**Credit risk of the cash collateral leg of credit linked notes**	
Derivative financial instruments	**Volatilities**	
Policyholder liabilities under investment contracts	**Mortality; surrender; expenses; expense inflation; valuation rate**	
Total financial liabilities recognised at fair value		

* *The credit migration matrix is used as part of the Group's credit risk management process for the advances measured at fair value through profit or loss. The matrix is a simulation model that contains a matrix of probabilities for downgrading or upgrading to another rating bucket. The migration matrix is based on actual observed rating migrations from S&P over the long-term and is based on the fair value in the 75th percentile.*

** *The deposits and current accounts included in Level 3 of the hierarchy represent the collateral leg of credit linked notes. The most significant unobservable input in determining the fair value of the credit linked notes is the credit risk component. The sensitivity to credit risk has been assessed in the same way as for advances using the credit migration matrix with the deposit representing the cash collateral component thereof.*

2011			
		Reasonably possible alternative fair value	
Reasonably possible changes to significant unobservable inputs	Fair value	Using more positive assumptions	Using more negative assumptions
Credit migration matrix*	86 844	87 174	86 447
Volatilities are increased and decreased by 10%.	192	230	162
Unobservable inputs are increased and decreased by 10%.	4 284	4 651	3 853
	91 320	92 055	90 462
Credit migration matrix**	3 399	3 059	3 738
Volatilities are increased and decreased by 10%.	131	128	134
The assumptions were increased and decreased as follows: mortality – 7.0%; surrenders – 11.1%; expenses and expense inflation – 9.1% and the valuation rate – 2.3%	94	86	104
	3 624	3 273	3 976

Notes to the consolidated annual financial statements continued

for the year ended 30 June

38 Fair value of financial instruments *continued*

	2010	
R million	Significant unobservable inputs	
Assets		
Advances	Credit	
Derivative financial instruments	Volatilities	
Investment securities and other investments	Growth rates and P/E ratios of unlisted investments	
Total financial assets recognised at fair value		
Liabilities		
Deposits and current accounts	Credit risk of the cash collateral leg of credit linked notes	
Derivative financial instruments	Volatilities	
Policyholder liabilities under investment contracts	Mortality; surrender; expenses; expense inflation; valuation rate	
Total financial liabilities recognised at fair value		

* *The credit migration matrix is used as part of the Group's credit risk management process for the advances measured at fair value through profit or loss. The matrix is a simulation model that contains a matrix of probabilities for downgrading or upgrading to another rating bucket. The migration matrix is based on actual observed rating migrations from S&P over the long-term and is based on the fair value in the 75th percentile.*

** *The deposits and current accounts included in Level 3 of the hierarchy represent the collateral leg of credit linked notes. The most significant unobservable input in determining the fair value of the credit linked notes is the credit risk component. The sensitivity to credit risk has been assessed in the same way as for advances using the credit migration matrix with the deposit representing the cash collateral component thereof.*

	2010			
			Reasonably possible alternative fair value	
	Reasonably possible changes to significant unobservable inputs	Fair value	Using more positive assumptions	Using more negative assumptions
	Credit migration matrix*	78 209	78 688	77 561
	Volatilities are increased and decreased by 10%.	31	38	23
	Unobservable inputs are increased and decreased by 10%.	3 667	4 005	3 346
		81 907	82 731	80 930
	Credit migration matrix**	3 300	2 715	3 319
	Volatilities are increased and decreased by 10%.	189	167	201
	The assumptions were increased and decreased as follows: mortality – 7.0%; surrenders – 11.1%; expenses and expense inflation – 9.1% and the valuation rate – 2.3%	65	56	72
		3 554	2 938	3 592

Notes to the consolidated annual financial statements continued

for the year ended 30 June

39 Trust activities

R million	2011	2010
Market value of assets held or placed on behalf of customers in a fiduciary capacity	90 612	47 311
Income received from trust and fiduciary services	1 477	1 170

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

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

40 Segment information

40.1 REPORTABLE SEGMENTS

Set out below is information about the reportable segments of the FirstRand Group, the details of the various products and services provided by each of the reportable segments, its major customers and the basis of preparation of segment information.

FNB

FNB offers a diverse set of financial products and services to the retail and corporate market segments ranging from the consumer, small business and rural corporate markets to large and medium-sized corporates, financial institutions, parastatals and government entities. FNB's products include mortgage loans, credit and debit cards, personal loans and investment products. FNB's services include transactional and deposit taking, card acquiring, credit facilities and FNB distribution channels (namely the **branch network, ATMs, call centres, cell phone and internet channels**).

FNB Africa

A comprehensive range of FNB products and services are offered to retail, corporate and public sector clients through the FNB Africa subsidiaries. FNB Africa comprises the FNB Africa subsidiaries (FNB Namibia, FNB Botswana, FNB Swaziland, FNB Lesotho, FNB Mozambique and FNB Zambia) and a central support division.

RMB

RMB is the investment banking arm of the Bank. RMB's portfolio spans Investment Banking; Fixed Income, Currencies and Commodities (FICC); Equities and Private Equity. RMB services corporate, institutional and public sector clients across all industries.

WesBank

WesBank provides instalment credit finance to both the retail and corporate market and provides both asset-based finance and fleet-management solutions. WesBank's strategy of partnering with motor manufacturers and distributors is a significant factor in the growth of its business and the dominant position that it holds in the financing of motor vehicles. WesBank has operations in the UK and neighbouring African countries.

Corporate Centre

The Corporate Centre includes various centralised risk and finance functions, including Group Treasury, Balance Sheet Management, Capital Management & Performance Measurement, Group Finance, Information & Technology, Enterprise Risk Management, Regulatory Risk Management and Group Internal Audit.

Major customers

In terms of IFRS 8 a customer is regarded as a major customer if the revenue from transactions with this customer exceeds 10% or more of the entity's revenue. The FirstRand Group has no major customer as defined and is therefore not reliant on the revenue from one or more major customers.

Basis of preparation of segment information

The segmental analysis is based on the information reported to management for the respective segments. The information is prepared in terms of IFRS with the exception of certain adjustments that are made to the segment results in order to eliminate the effect of non-taxable income and other segment specific items that impact certain key ratios reviewed by the chief operating decision maker when assessing the operating segments' performance.

In order to ensure that the total segment results, assets and liabilities agree to the amounts reported in terms of IFRS, the above mentioned amounts are adjusted in the IFRS adjustments column.

40 Segment information *continued*

40.2 GEOGRAPHICAL SEGMENTS

Refer to the reportable segment information for a description of the divisions

Segment	Countries included	Divisions included
South Africa	South Africa	FNB RMB OUTsurance WesBank Group Support
Other Africa	Namibia Botswana Swaziland Lesotho Democratic Republic of Congo Zambia Mozambique Tanzania	FirstRand: Africa and emerging markets FNB RMB WesBank
United Kingdom	England	RMB WesBank FNB
Australasia	Australia	RMB
Other	Asia (India, China) Middle East (U.A.E) Mauritius Brazil Ireland	FNB RMB

The following significant exchange rates were used to convert the statement of financial position. Foreign denominated assets and liabilities are converted at the closing rate of exchange.

R million	2011	2010
Pounds	10.831	11.475
Euro's	9.799	9.389
AUD	7.269	6.486
USD	6.773	7.658

Notes to the consolidated annual financial statements continued

for the year ended 30 June

40 Segment information *continued*

40.3 REPORTABLE SEGMENTS – 2011

R million	FNB	FNB Africa	RMB	WesBank
Continuing operations				
Net interest income before impairment of advances	9 775	1 821	163	4 868
Impairment of advances	(2 444)	(64)	25	(1 291)
Net interest income after impairment of advances	7 331	1 757	188	3 577
Non-interest income	15 959	1 392	8 902	2 305
Net income from operations	23 290	3 149	9 090	5 882
Operating expenses	(16 078)	(1 771)	(4 250)	(3 486)
Share of profit from associates and joint ventures	109	7	187	318
Income before tax	7 321	1 385	5 027	2 714
Indirect tax	(377)	(35)	(68)	(166)
Profit for the year before direct tax	6 944	1 350	4 959	2 548
Direct tax	(1 839)	(390)	(1 314)	(677)
Profit for the year from continuing operations	5 105	960	3 645	1 871
Discontinued operations				
Profit attributable to discontinued operations	–	–	–	–
Profit after tax on unbundling of discontinued operations	–	–	–	–
Profit for the year	5 105	960	3 645	1 871
The income statement includes:				
Depreciation	(995)	(86)	(150)	(227)
Amortisation	(67)	(26)	(58)	(22)
Impairment charges	(4)	–	3	(75)
Other non-cash provisions	(691)	(120)	(1 195)	(161)
The statement of financial position includes:				
Investment in associates and joint ventures	351	–	4 589	1 268
Total assets	223 174	35 439	264 499	104 117
Total liabilities	215 901	31 493	258 821	101 171

** Consolidation and IFRS adjustments includes divisions disclosed elsewhere.*

*** Other includes FirstRand company, consolidation of treasury shares and related consolidation entries.*

Geographical segments

R million	South Africa	Other Africa	United Kingdom	Australasia
Net interest income	11 271	1 751	292	70
Non-interest income***	29 912	1 624	259	479
Total assets	647 013	35 813	5 923	3 374
Non-current assets****	16 539	810	85	918
Total liabilities	588 534	31 751	6 804	2 018

**** Includes share of profit from associates and joint ventures.*

***** Excludes financial instruments, deferred tax assets, post-employment benefit assets and rights arising under insurance contracts.*

Corporate Centre	Consolidation and IFRS adjustments	Subtotal	Momentum	Other**	Total
1 176	(293)	17 510	–	(141)	17 369
(1)	(3)	(3 778)	–	–	(3 778)
1 175	(296)	13 732	–	(141)	13 591
1 994	(981)	29 571	–	2 311	31 882
3 169	(1 277)	43 303	–	2 170	45 473
(2 487)	898	(27 174)	–	273	(26 901)
238	9	868	–	–	868
920	(370)	16 997	–	2 443	19 440
98	(63)	(611)	–	(3)	(614)
1 018	(433)	16 386	–	2 440	18 826
(270)	103	(4 387)	–	(195)	(4 582)
748	(330)	11 999	–	2 245	14 244
–	–	–	415	–	415
–	–	–		6 868	6 868
748	(330)	11 999	415	9 113	21 527
(103)	(3)	(1 564)	–	(1)	(1 565)
–	1	(172)	–	–	(172)
(37)	(75)	(188)	–	–	(188)
(219)	359	(2 027)	–	(27)	(2 054)
(161)	(18)	6 029	–	–	6 029
112 057	(1 378)	737 908	–	(39 981)	697 927
76 333	(7 108)	676 611	–	(42 903)	633 708

Other	Total
207	13 591
476	32 750
5 804	697 927
49	18 401
4 601	633 708

Notes to the consolidated annual financial statements continued

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40 Segment information *continued*

40.3 REPORTABLE SEGMENTS – 2010

R million	FNB	FNB Africa	RMB	WesBank
Continuing operations				
Net interest income before impairment of advances	9 512	1 594	112	4 144
Impairment of advances	(3 421)	(68)	(195)	(2 048)
Net interest income after impairment of advances	6 091	1 526	(83)	2 096
Non-interest income	14 515	1 147	8 989	2 868
Net income from operations	20 606	2 673	8 906	4 964
Operating expenses	(14 604)	(1 503)	(4 131)	(3 748)
Share of profit from associates and joint ventures	111	8	17	210
Profit before tax	6 113	1 178	4 792	1 426
Indirect tax	(307)	(32)	(64)	(126)
Profit for the year before direct tax	5 806	1 146	4 728	1 300
Tax	(1 545)	(353)	(1 251)	(339)
Profit for the year from continuing operations	4 261	793	3 477	961
Discontinued operations				
Profit attributable to discontinued operations	–	–	–	–
Profit for the year	4 261	793	3 477	961
Income statement includes:				
Depreciation	(891)	(62)	(173)	(184)
Amortisation	(52)	(37)	(71)	(30)
Impairment charges	(7)	–	(73)	(67)
Other non-cash provisions	(710)	(110)	(1 191)	(113)
Statement of financial position includes:				
Investment in associates and joint ventures	264	26	4 440	1 151
Total assets	204 309	33 279	269 133	97 357
Total liabilities	199 115	29 313	263 366	95 452

* *Consolidation and IFRS adjustments includes divisions disclosed elsewhere.*

** *Other includes FirstRand company, consolidation of treasury shares and related consolidation entries.*

Geographical segments

R million	South Africa	Other Africa	United Kingdom	Australasia
Net interest income	9 021	1 522	231	(126)
Non-interest income***	24 898	1 516	815	362
Total assets	796 000	33 593	4 036	3 423
Non-current assets****	17 632	824	985	508
Total liabilities	745 166	29 544	8 886	2 471

*** *Includes share of profit from associates and joint ventures.*

**** *Excludes financial instruments, deferred tax assets, post-employment benefit assets and rights arising under insurance contracts.*

	Corporate Centre	Consolidation and IFRS adjustments Subtotal	Subtotal	Momentum	Other**	Total
	1 406	(170)	16 598	–	(248)	16 350
	43	3	(5 686)	–	–	(5 686)
	1 449	(167)	10 912	–	(248)	10 664
	1 714	(3 093)	26 140	578	236	26 954
	3 163	(3 260)	37 052	578	(12)	37 618
	(2 164)	1 202	(24 948)	–	83	(24 865)
	404	(50)	700	–	–	700
	1 403	(2 108)	12 804	578	71	13 453
	87	162	(280)	–	(166)	(446)
	1 490	(1 946)	12 524	578	(95)	13 007
	(387)	503	(3 372)	(162)	7	(3 527)
	1 103	(1 443)	9 152	416	(88)	9 480
	–	–	–	1 304	(110)	1 194
	1 103	(1 443)	9 152	1 720	(198)	10 674
	(91)	(29)	(1 430)	–	–	(1 430)
	–	1	(189)	–	–	(189)
	–	(69)	(216)	–	29	(187)
	(192)	(11)	(2 327)	–	(63)	(2 390)
	943	77	6 901	–	–	6 901
	103 454	(54 377)	653 155	196 847	(4 762)	845 240
	67 440	(56 785)	597 901	189 961	(1 585)	786 277

	Other	Total
	16	10 664
	63	27 654
	8 188	845 240
	36	19 985
	210	786 277

Notes to the consolidated annual financial statements continued

for the year ended 30 June

41 Subsidiaries

			Issued ordinary		Effective holding	
	Nature of business	Country	Listed/ unlisted	Capital R million	2011 %	2010 %
Significant subsidiaries						
FirstRand Bank Limited	Commercial and merchant banking	South Africa	Unlisted	4	**100**	100
FirstRand EMA Holdings Limited						
Emerging Markets						
First National Bank of Lesotho Limited	Commercial banking	Lesotho	Unlisted	38	**100**	100
First National Bank of Namibia Holdings Limited	Investment holding	Namibia	Listed	189	**60**	61
First National Bank of Swaziland Limited	Commercial banking	Swaziland	Unlisted	30	**100**	100
First National Bank Holdings (Botswana) Limited	Commercial banking	Botswana	Listed	*	**100**	100
FirstRand Mozambique Holdings Limitada	Commercial banking	Mozambique	Unlisted	136	**100**	100
First National Bank of Zambia Limited	Commercial banking	Zambia	Unlisted	335	**100**	100
First National Bank of Tanzania Limited	Commercial banking	Tanzania	Unlisted	133	**100**	100
FirstRand (International) Mauritius Limited	Financial services	Mauritius	Unlisted	90	**100**	100
FirstRand Investment Holdings (Pty) Limited ("FRIHL")						
Non-banking						
Makalani Holdings Limited	Leverage finance	South Africa	Unlisted	490	**77**	52
Shisa Investments (Pty) Limited***	Investment company	South Africa	Unlisted	*	**100**	100
Rentworks Africa (Pty) Limited	Financial services	South Africa	Unlisted	*	**75**	60
First Auto (Pty) Limited***	Fleet management	South Africa	Unlisted	98	**100**	100
Direct Axis SA (Pty) Limited***	Personal loans	South Africa	Unlisted	*	**65**	65
Contract Lease Management***	Fleet management	South Africa	Unlisted	*	**100**	100
FirstRand Insurance Services Company (Pty) Limited	Insurance services	South Africa	Unlisted	40	**100**	100
Barnard Jacobs Mellet Holdings Limited	Financial services	South Africa	Unlisted	38	**100**	–
FirstRand International Guernsey	Financial services	Guernsey	Unlisted	1 995	**100**	100
RMB Investment and Advisory (Pty) Limited	Investment and financial services	South Africa	Unlisted	2 414	**100**	100
Other**	Various	Various	Unlisted	1 652	**Various**	Various

41 Subsidiaries *continued*

R million	Group carrying amount 2011	2010
Banking operations		
FirstRand Bank Limited	**8 389**	8 389
FirstRand EMA Holdings Limited		
Emerging Markets		
First National Bank of Lesotho Limited	**54**	46
First National Bank of Namibia Holdings Limited	**1 986**	2 151
First National Bank of Swaziland Limited	**364**	307
First National Bank Holdings (Botswana) Limited	**1 197**	1 262
FirstRand Mozambique Holdings Limitada	**137**	94
First National Bank of Zambia Limited	**117**	110
First National Bank of Tanzania Limited	**105**	–
FirstRand (International) Mauritius Limited	**67**	78
FirstRand Investment Holdings (Pty) Limited ("FRIHL")		
Non-banking		
Makalani Holdings Limited	**458**	606
Shisa Investments (Pty) Limited***	*****	*
Rentworks Africa (Pty) Limited	**224**	201
First Auto (Pty) Limited***	**148**	263
Direct Axis SA (Pty) Limited***	**260**	249
Contract Lease Management***	**18**	20
FirstRand Insurance Services Company (Pty) Limited	**254**	40
Barnard Jacobs Mellet Holdings Limited	**24**	–
FirstRand International Guernsey	**2 214**	2 809
RMB Investment and Advisory (Pty) Limited	**5 653**	1 637
Other**	**2 390**	–

** Denotes amounts less than R500 000.*

*** Other includes all internal structures set up to facilitate business e.g. RMB Private Equity Holdings and RMB Stockbroking Operations.*

**** This investment was previously owned by FREMA Group and was sold to FRIH as part of the Group restructure. Refer to note 42.1.*

Notes to the consolidated annual financial statements continued

for the year ended 30 June

42 Acquisition and disposal of significant subsidiaries and associates

42.1 GROUP RESTRUCTURE

The Group completed a legal entity restructure. This restructure was approved by the shareholders and the SARB during November 2009 and the effective date of the transaction was 1 July 2010.

The restructure process was initiated as a result of the Group's need to revise the structure of its existing operations and also impacts the Group's governance structures and the management accounting and statutory financial reporting processes.

As part of the Group restructure transaction, FirstRand Bank Group and FirstRand EMA Holdings Group (previously the FirstRand Bank Holdings Group) disposed of a number of subsidiaries, SPEs and associates to various other Group entities such as FirstRand Investment Holdings and RMB Investment and Advisory. These transactions were accounted for as common control transactions, as these entities were ultimately controlled by the same party, FirstRand, before and after the transaction. These subsidiaries, SPEs and associates were disposed of at their net consolidated carrying value. The consideration received was equal to the net consolidated carrying value.

FirstRand EMA Holdings Group unbundled its investment in FirstRand Bank to FirstRand through a dividend in specie on 1 July 2010. As a result of this transaction, FirstRand is the direct holding company of FirstRand Bank. The unbundling transaction was accounted for at the consolidated carrying value in line with the Group's policy for common control transactions.

Subsequent to the Group restructure the name of the holding company of FirstRand Bank Holdings Group was changed to FirstRand EMA Holdings.

All entities previously included in the consolidated annual financial statements of the Group will continue to be included under the revised structure. The restructure had no impact on the Group's financial position or financial results for the year ended 30 June 2011.

42 Acquisition and disposal of significant subsidiaries and associates *continued*

Significant acquisitions during the 2011 financial year

42.1 BJM HOLDINGS LIMITED

On 1 January 2011, the Group purchased 100% of the issued share capital of BJM and its subsidiaries ("BJM Group") from the existing shareholders. The BJM Group's main activities are stockbroking, wealth management, asset management and broker settlements. The company is incorporated in South Africa.

The proposed acquisition will facilitate expansion of the current wealth business in FNB who intend to use the expertise and insight gained from the acquisition to develop and enhance current business practice and to broaden the existing and prospective client base. It is further envisaged that the acquisition will give the Group a competitive advantage in the marketplace, by virtue of access to a high net worth stockbroking and private client business, which prior to the acquisition was anticipated to be a complex route to pursue.

If the acquisition had occurred on 1 July 2010 the total after tax loss that would have been included in the Group's results amounts to R102 million.

The details of the fair value of assets acquired and liabilities assumed at the acquisition date and the consideration transferred are set out below:

R million	2011 Fair value at acquisition
Assets	
Cash and cash equivalents	200
Accounts receivable	6 400
Property and equipment	17
Deferred tax asset	5
Intangible assets	11
Investment in associates and joint ventures	1
Total assets acquired	6 634
Liabilities	
Creditors and accruals	6 320
Provisions	14
Tax liability	18
Long-term liabilities	1
Total liabilities acquired	6 353
Net identifiable asset value as at date of acquisition	281
The goodwill is calculated as follows:	
Total cash consideration transferred	450
Add: Non-controlling interests at acquisition	–
Less: Net identifiable asset value as at date of acquisition	281
Goodwill	169

Notes to the consolidated annual financial statements continued
for the year ended 30 June

42 Acquisition and disposal of significant subsidiaries and associates *continued*

Significant acquisitions during the 2011 financial year

42.1 BJM HOLDINGS LIMITED *continued*

Details of the acquired receivables are as follows:

	2011		
R million	Fair value of the receivables	Gross contractual amounts receivable	Estimate at acquisition of contractual cash flows not expected to be collected
Accounts receivable	6 400	6 400	–
Total	**6 400**	**6 400**	**–**

Significant disposals during the 2011 financial year

Significant disposals of subsidiaries

42.2 DAVITA TRADING (PTY) LTD

On 31 May 2011 RMB disposed of its 70% shareholding in Davita Trading (Pty) Ltd to Tiger Brands Limited. Davita Trading (Pty) Ltd is a manufacturing company incorporated in South Africa. As a result of the sale the Group lost control of Davita Trading (Pty) Ltd and the entity is no longer consolidated in the financial statements of the Group.

Identifiable assets and liabilities disposed of:

	2011
R million	Carrying amount at disposal date
ASSETS	
Cash and cash equivalents	57
Accounts receivable	157
Property and equipment	31
Deferred tax asset	2
Intangible assets	628
Total assets disposed of	**875**
LIABILITIES	
Creditors and accruals	137
Tax liability	15
Long-term liabilities	498
Total liabilities disposed of	**650**
Net identifiable asset value as at date of disposal	**225**
The gain on disposal is calculated as follows:	
Total cash consideration received	704
Add: Non-controlling share of net asset value at disposal date	104
Less: Net identifiable asset value on disposal	225
Gain on disposal of controlling interest in a subsidiary	**583**

42 Acquisition and disposal of significant subsidiaries and associates *continued*

Significant disposals during the 2011 financial year *continued*

Significant disposals of associates

42.3 OUTsurance

On 4 May 2011, the Group disposed of its shareholding in OUTsurance Insurance Company Limited to third parties for a consideration of R3 608 million. OUTsurance Insurance Company Limited is no longer equity accounted as the Group no longer has significant influence over the entity.

R million	2011
Carrying amount at date of disposal	853
Fair value of consideration received	3 608
Gain on disposal of associate	**2 755**

42.4 MARSH HOLDINGS SA (PTY) LIMITED

On 12 April 2011, the Group disposed of its shareholding in Marsh Holdings SA (Pty) Limited to third parties for a consideration of R66 million. Marsh Holdings SA (Pty) Limited is no longer equity accounted as the Group no longer has significant influence over the entity.

R million	2011
Carrying amount at date of disposal	24
Fair value of consideration received	54
Gain on disposal of associate	**30**

42.5 KULA GOLD (PTY) LIMITED

On 15 November 2010, the Group disposed of its shareholding in Kula Gold (Pty) Limited to third parties for a consideration of R111 million. Kula Gold (Pty) Limited is no longer equity accounted as the Group no longer has significant influence over the entity.

R million	2011
Carrying amount at date of disposal	114
Fair value of consideration received	243
Gain on disposal of associate	**129**

42.6 OTHER

In addition to the above disposals the Group disposed of a number of individually immaterial associates during the year. The following information relates to these disposals:

R million	2011
Carrying amount at date of disposal	279
Fair value of consideration received	206
Loss on disposal of associate	**(73)**

Notes to the consolidated annual financial statements continued

for the year ended 30 June

42 Acquisition and disposal of significant subsidiaries and associates *continued*

Significant acquisitions during the 2010 financial year

42.7 MAKALANI HOLDINGS LIMITED

On 31 May 2010, the Group acquired an additional 51.6% interest in Makalani Holdings Limited from the non-controlling interests increasing its total shareholding from 39.6% to 91.2%. As a result of obtaining this additional interest the Group obtained control of Makalani Holdings Limited.

Makalani Holdings Limited is a mezzanine finance company and is incorporated in South Africa. The primary reason for the business combination was to facilitate the delisting and underwriting of the Makalani Holdings Limited shares by RMB Investment and Advisory (Pty) Limited, a subsidiary of the Group.

Makalani Holdings Limited contributed R2.6 million income to the Group for the period 1 June 2010 to 30 June 2010. If the acquisition had occurred on 1 July 2009, income included in the Group profit would have been R105 million.

The details of the recognised amounts of assets acquired and liabilities assumed at the acquisition date and the consideration transferred are set out below:

Identifiable assets acquired and liabilities and contingent liabilities assumed

R million	2010 Fair value at acquisition
Assets	
Advances	1 860
Investment securities and other investments	24
Amounts due by holding company and fellow subsidiary companies	433
Deferred tax asset	21
Tax asset	4
Total assets acquired	2 342
Liabilities	
Derivative financial instruments	18
Creditors and accruals	3
Provisions	5
Long-term liabilities	161
Total liabilities acquired	187
Net identifiable asset value as at date of acquisition	2 155
The gain on a bargain purchase is calculated as follows:	
Total cash consideration transferred	977
Add: Non-controlling interests at acquisition	494
Add: Fair value of previously held equity interest in acquiree at acquisition date	481
Less: Net identifiable asset value as at date of acquisition	2 155
Gain on a bargain purchase	(203)

The acquisition of Makalani Holdings Limited resulted in a gain on a bargain purchase as the delisting of the company resulted in the shares being acquired at a discount to the net asset value per share.

This gain on a bargain purchase was recognised as part of non-interest income in profit or loss for the year.

Non-controlling interests of 8.8% has arisen and was recognised by the Group. The non-controlling interests are measured at their proportionate share of the acquiree's identifiable net assets at acquisition date.

The fair value of the Group's equity interests in Makalani Holdings Limited was R483 million immediately before the acquisition of the additional equity interests. The gain recognised as a result of remeasuring the previously held interest to fair value at the acquisition date is R67 million and is included in non-interest income in profit or loss for the year.

42 Acquisition and disposal of significant subsidiaries and associates *continued*

Significant acquisitions during the 2010 financial year *continued*

42.7 MAKALANI HOLDINGS LIMITED

Acquired receivables

Details of the acquired receivables are as follows:

R million	Fair value of the receivables	Gross contractual amounts receivable	Estimate at acquisition of contractual cash flows not expected to be collected
Advances	1 860	2 135	275

42.8 MACDONALD, MILLS, O'HAHER EMPLOYEE BENEFITS (PTY) LIMITED

On 1 February 2010, the Group, through Momentum, acquired 100% of Macdonald, Mills, O'Haher Employee Benefits (Pty) Limited from external parties.

Macdonald, Mills, O'Haher Employee Benefits (Pty) Limited is an employee benefits business and is incorporated in South Africa. The primary reason for the business combination was the strategic positioning of AdviceAtWork, a subsidiary of the Group, in the Eastern Cape.

Macdonald, Mills, O'Haher Employee Benefits (Pty) Limited contributed R1 million income to the Group for the period 1 February 2010 to 30 June 2010. If the acquisition had occurred on 1 July 2009, profit included in the Group would have been R3 million.

The details of the recognised amounts of assets acquired and liabilities assumed at the acquisition date and the consideration transferred are set out below:

Identifiable assets acquired and liabilities and contingent liabilities assumed

R million	2010 Fair value at acquisition
Assets	*
Total assets acquired	–
Liabilities	*
Total liabilities acquired	–
Net asset value as at date of acquisition before intangible assets in terms of IFRS 3	*
Intangible assets identified in terms of IFRS 3	3
Net identifiable asset value as at date of acquisition	3
Consideration transferred	
Cash consideration	4
Contingent consideration liability	1
Total consideration transferred	5

** Less than R1 million.*

Notes to the consolidated annual financial statements continued
for the year ended 30 June

42 Acquisition and disposal of significant subsidiaries and associates *continued*

Significant acquisitions during the 2010 financial year *continued*

42.8 MACDONALD, MILLS, O'HAHER EMPLOYEE BENEFITS (PTY) LIMITED

The transaction to acquire Macdonald, Mills, O'Haher Employee Benefits (Pty) Limited included certain contingent consideration arrangements and resulted in the recognition of a contingent consideration liability of R1 million. The contingent consideration arrangement stipulates that the purchase price shall include a final payment to be made 24 months after effective date (1 February 2010). This amount shall be calculated as total purchase price adjusted for any client contracts lost between the effective date and final payment date less the initial payment. Interest at prime rate less 5% shall accrue on the outstanding balance from the effective date until final payment is made.

The potential undiscounted amount of all future payment that could be made under this arrangement ranges between R1.2 million and R1.3 million.

The fair value of the contingent consideration was calculated by applying the calculation per the purchase agreement and discounting this amount at the imputed lending rate of the Group. The fair value estimates are based on a discount rate of 9.25%.

Goodwill is calculated as follows:

R million	2010 Fair value at acquisition
Total consideration transferred	5
Less: Net identifiable asset value as at date of acquisition	3
Goodwill	2

The goodwill of R2 million arising from the acquisition can be attributed to the acquisition of customer lists of Macdonald, Mills, O'Haher Employee Benefits (Pty) Limited in the Eastern Cape region and the future expected business to arise from these lists.

None of the goodwill recognised is expected to be deductible for income tax purposes.

42 Acquisition and disposal of significant subsidiaries and associates *continued*

Significant disposals during the 2010 financial year

42.9 NORMAN BISSET AND ASSOCIATES HOLDINGS (PTY) LIMITED

On 1 April 2010, the Group disposed of its 75% shareholding in Norman Bisset and Associates Holdings (Pty) Limited to the non-controlling interests for a consideration of R1. As a result the Group lost control of the entity and Norman Bisset and Associates Holdings (Pty) Limited is no longer consolidated in the financial statements of the Group.

Summarised financial information of Norman Bisset and Associates Holdings (Pty) Limited as at the date of disposal was as follows:

R million	2010 Carrying amount at disposal date
Assets	
Cash and cash equivalents	13
Accounts receivable	9
Property and equipment	4
Intangible assets	19
Tax asset	27
Total assets disposed of	72
Liabilities	
Creditors and accruals	8
Provisions	2
Deferred tax liability	3
Long-term liabilities	32
Total liabilities disposed of	45
Net asset value at date of disposal	27
Fair value of consideration received	*
Loss on disposal of controlling interest in a subsidiary	(27)

** Less than R1 million.*

Notes to the consolidated annual financial statements continued

for the year ended 30 June

42 Acquisition and disposal of significant subsidiaries and associates *continued*

Significant disposals during the 2010 financial year *continued*

42.10 WORLDMARK SA (PTY) LIMITED

On 1 March 2010, FREMA(FRBH), a subsidiary of the Group, disposed of its 100% shareholding in WorldMark SA (Pty) Limited to third parties for a consideration of R1. As a result the Group lost control of the entity and WorldMark SA (Pty) Limited is no longer consolidated in the financial statements of the Group.

Summarised financial information of WorldMark SA (Pty) Limited at the date of disposal was as follows:

	2010
R million	Carrying amount at disposal date
Assets	
Cash and cash equivalents	2
Commodities	3
Accounts receivable	10
Property and equipment	3
Total assets disposed of	18
Liabilities	
Provisions	4
Amounts due to holding company and fellow subsidiary companies	164
Total liabilities disposed of	168
Net asset value at date of disposal	(150)
Amounts due to holding company and fellow subsidiaries as deemed consideration	164
Loss on disposal of controlling interest in a subsidiary	(14)

** Less than R1 million.*

42 Acquisition and disposal of significant subsidiaries and associates *continued*

Significant disposals during the 2010 financial year *continued*

42.11 WORLDMARK HOLDINGS (PTY) LIMITED

On 22 June 2010, FREMA(FRBH), a subsidiary of the Group, disposed of its 95% shareholding in WorldMark Holdings (Pty) Limited to third parties for a consideration of R525 million.

Summarised financial information of WorldMark Holdings (Pty) Limited at the date of disposal was as follows:

R million	2010 Carrying amount at disposal date
Assets	
Cash and cash equivalents	21
Commodities	41
Accounts receivable	140
Investments in associates and joint ventures	41
Property and equipment	26
Intangible assets	207
Total assets disposed of	476
Liabilities	
Creditors and accruals	51
Provisions	17
Tax liability	31
Amounts due to holding company and fellow subsidiary companies	7
Total liabilities disposed of	106
Net asset value at date of disposal	370
Fair value of consideration received	525
Gain on disposal of controlling interest in a subsidiary	155

Significant disposals of associates

42.12 LIFE HEALTHCARE GROUP HOLDINGS LIMITED

On 10 June 2010, the Group disposed of its shareholding in Life Healthcare Group Holdings Limited to third parties for a consideration of R1 989 million. Life Healthcare Group Holdings Limited is no longer equity accounted as the Group no longer has significant influence over the entity.

R million	2010
Assets	
Carrying amount at date of disposal	608
Fair value of consideration received	1 989
Gain on disposal of an associate	1 381

42.13 PAMODZI INVESTMENT HOLDINGS II (PTY) LIMITED

On 9 March 2010, the Group disposed of its shareholding in Pamodzi Investment Holdings II (Pty) Limited to third parties for a consideration of R38 million. Pamodzi Investment Holdings II (Pty) Limited is no longer equity accounted as the Group no longer has significant influence over the entity.

R million	2010
Assets	
Carrying amount at date of disposal	35
Fair value of consideration received	38
Gain on disposal of an associate	3

Notes to the consolidated annual financial statements continued

for the year ended 30 June

43 Related parties

The Group defines related parties as:
(i) The parent company
(ii) Subsidiary and fellow subsidiaries
(iii) Associate companies
(iv) Joint ventures
(v) Post-retirement benefit funds (pension funds);
(vi) Key management personnel being the FirstRand Limited board of directors and the FirstRand executive committee; and
(vii) Close family members of key management personnel. Close family members are those family members who may be expected to influence, or be influenced by that individual in dealings with the Group.

These may include entities controlled, jointly controlled or significantly influenced by any individual referred to in (vi) and (vii).

The principal shareholder of the FirstRand Group is RMB Holdings Limited, incorporated in South Africa.

43.1 SUBSIDIARIES

Details of investments in subsidiaries are disclosed in note 41. Transactions between the Group and its subsidiaries have been eliminated on consolidation and are not disclosed in this note.

43.2 ASSOCIATES AND JOINT VENTURES

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

43.3 DETAILS OF TRANSACTIONS WITH RELEVANT RELATED PARTIES APPEAR BELOW:

	2011	2010
R million	Principal shareholder	Principal shareholder
Loans and advances		
Opening balance	–	113
Advanced during year	132	(113)
Closing balance	132	–
Deposits		
Opening balance	231	11
Received during year	(216)	220
Closing balance	15	231
Creditors and accruals		
Opening balance	2	–
Received during year	(2)	2
Closing balance	–	2
Interest received	4	100
Interest paid	7	15
Fees and commissions earned/(paid)	10	–
Dividends paid	1 390	939
Dividends in specie	4 566	–

43 Related parties

43.4 KEY MANAGEMENT PERSONNEL

R million	2011 Principal shareholder	2010 Principal shareholder
Total advances		
Advances in normal course of business by product		
Mortgages		
Opening balance	127	59
Advanced during year	350	271
Repayments during year	(336)	(212)
Interest earned	11	9
Closing balance	152	127
No impairment has been recognised for loans granted to key management in the current and prior year. Mortgage loans are repayable monthly over 20 years.		
Other loans		
Opening balance	9	1
Advanced during year	5	119
Repayments during year	(14)	(111)
Closing balance	–	9
Instalment finance		
Opening balance	2	1
Advanced during year	3	2
Repayments during year	(3)	(1)
Closing balance	2	2
No impairments have been recognised in respect of instalment finance in the current and prior year.		
Credit cards		
Opening balance	1	1
Total annual spend	18	17
Repayments	(19)	(17)
Closing balance	–	1
No impairments have been recognised in respect of credit cards held by key management in the current and prior year. Interest rates are in line with normal rates charged to customers.		
Deposits		
Deposits by product		
Cheque and current accounts		
Opening balance	(10)	6
Net deposits/(withdrawals)	22	(11)
Net service interest, fees and bank charges	(1)	(5)
Closing balance	11	(10)

Notes to the consolidated annual financial statements *continued*

for the year ended 30 June

43 Related parties *continued*

43.4 KEY MANAGEMENT PERSONNEL *continued*

R million	2011 Principal shareholder	2010 Principal shareholder
Savings accounts		
Opening balance	176	84
Interest income	(9)	84
Net new investments	9	8
Closing balance	176	176
Other including term deposits		
Opening balance	1	19
Interest income	–	(18)
Closing balance	1	1
Insurance and Investment		
Insurance		
Life and disability insurance		
Aggregate insured cover	58	51
Surrender value	1	1
Other insurance		
Premiums received	–	1
Investment products		
Fund value opening balance	653	541
(Withdrawals)/Deposits	(682)	11
Net investment return credited	62	107
Commission and other transaction fees	(13)	(6)
Closing balance	20	653
Other fees		
Financial consulting fees and commissions	4	5
Key management compensation		
Salaries and other short-term benefits	161	141
Share-based payments	33	15
Total compensation	194	156
Deferred compensation payable in FirstRand shares in October 2013/2012	25	22

A listing of the Board of directors of the Group is on page 400 of the annual integrated report.

43.5 POST-RETIREMENT BENEFIT PLAN

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

R million	2011	2010
Dividend income	1	–
Fee income	3	1
Deposits	175	50
Interest expense	8	2
Value of assets under management	2 830	2 483

44 Critical accounting estimates and judgements in applying accounting policies

In preparing the financial statements, the Group makes estimates and assumptions that affect the reported amounts of assets and liabilities. 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.

44.1 CREDIT IMPAIRMENT LOSSES ON LOANS AND ADVANCES

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

(a) Performing loans

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 FNB 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 FNB Commercial portfolios other indicators such as the existence of high risk accounts, based on internally assigned risk ratings and management judgement, are used, while the Wholesale (includes FNB Corporate and RMB) portfolio assessment includes a judgemental review of individual industries for objective signs of distress.

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

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

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

(b) Non-performing loans

FNB Retail loans are individually impaired if amounts are due and unpaid for three or more months, or if there is evidence before this that the customer is unlikely to repay its obligations in full. WesBank's loans are impaired upon its classification status, i.e. following an event-driven approach and specific assessment of the likelihood to repay. FNB 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 (FNB Commercial and Wholesale loans) for assets with similar credit risk characteristics. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

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

44.2 FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by independent qualified senior personnel. All models are certified before they are used, and models are calibrated and back tested to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data, however, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions could affect the reported fair value of financial instruments. Note 38 provides additional details on the calculation of fair value of financial instruments not quoted in active markets and an analysis of the effect of changes in managements' estimates on the fair value of financial instruments.

44.3 IMPAIRMENT OF AVAILABLE-FOR-SALE EQUITY INSTRUMENTS

The Group determines that available-for-sale equity instruments are impaired and the impairment recognised in profit or loss, when there has been a significant or prolonged decline in the fair value below cost. The determination of what is significant or prolonged requires judgement. In making this judgement, the Group evaluates factors such as, inter alia, the normal volatility in share prices, evidence of a deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

Notes to the consolidated annual financial statements continued

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44 Critical accounting estimates and judgements in applying accounting policies *continued*

44.4 SECURITISATIONS AND SPECIAL PURPOSE ENTITIES

The Group sponsors the formation of special purpose entities ("SPEs") primarily for the purpose of allowing clients to hold investments, for asset securitisation transactions and for buying and selling credit protection. The Group consolidates SPEs that it controls in terms of IFRS. As it can sometimes be difficult to determine whether the Group controls an SPE, it makes judgements about its exposure to the risks and rewards, as well as about its ability to make operational decisions for the SPE. In many instances, elements are present that, considered in isolation, indicate control or lack of control over an SPE, but when considered together make it difficult to reach a clear decision. In such cases, the SPE is accounted for based on management's best estimate of the economic reality of the underlying transaction.

Refer to note 38 for more information regarding the Group's synthetic securitisations and the respective carrying amounts.

44.5 INCOME TAXES

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

Refer to note 4 and 17 for more information regarding the direct and deferred tax charges, assets and liabilities.

44.6 IMPAIRMENT OF GOODWILL

The recoverable amount of goodwill is tested annually for impairment in accordance with the stated accounting policy. The recoverable amount of the cash generating units ("CGU") has been determined based on value in use calculations or fair value less cost to sell. The value in use is calculated as the net present value of the discounted cash flows of the CGU. Details of the main assumptions applied in determining the net present value of the CGU are provided in note 18.

44.7 EMPLOYEE BENEFIT LIABILITIES

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

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

Additional information is provided in the note 26.

44.8 SHARE-BASED PAYMENTS

Share-based payment transactions of the Group are classified as either cash settled or equity settled. The amounts recognised in respect of these share-based payment transactions are determined by applying valuation techniques that are use on various assumptions and estimates that require judgement in their application. These assumptions and estimates include expected volatility, expected dividend yield, the discount rate and the expected forfeiture or lapse rate.

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

Refer to note 31 for the detailed information regarding the share-based payment expense and the assumptions used in determining the expense, liability and reserve.

44.9 FAIR VALUE OF COMMODITIES RECOGNISED IN ACCORDANCE WITH THE BROKER-TRADER EXCEPTION IN IAS 2

The Group is long on certain commodities through the outright purchase of the specific commodity. Judgement has been applied in determining the fair value of the most recent transactions between market participants that is used to calculate the fair value of the physical commodity positions.

45 Standards and interpretations issued but not yet effective

	The Group will comply with the following new standards and interpretations from the stated effective date.	Effective date
IFRIC 14 (amended)	**IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction** The amendment applies in limited circumstances when an entity is subject to minimum funding requirements and makes a voluntary early payment of contributions to cover those requirements. The amendment permits such an entity to treat the benefit of such an early payment as an asset. This amendment is not expected to have an impact to the Group.	Annual periods commencing on or after 1 January 2011
IAS 1 (amended)	**Presentation of Items of Other Comprehensive Income** This amendment was issued to eliminate inconsistencies in the presentation of items in the statement of other comprehensive income. The amendment requires an entity to group the items of other comprehensive income on the basis of whether the amounts will subsequently be reclassified to profit or loss or not i.e. the statement of comprehensive income should be split between items that will be reclassified to profit or loss and items that will not be reclassified to profit or loss. This amendment addresses disclosure in the annual financial statements and will not affect recognition and measurement. The impact of the revised disclosure is not expected to be significant.	Annual periods commencing on or after 1 January 2012.
IAS 12 (amended)	**Income Taxes** IAS 12 requires that deferred tax assets be measured based on whether the entity expects to recover the carrying amount of the asset through use or through sale. This assessment of the method of recovery may be difficult to assess for investment property measured using the fair value model. The amendment provides a practical solution by introducing a presumption that the carrying amount of such investment property will normally be recovered through sale. As a result of the amendment, SIC 21 Income Taxes – Recovery of Revalued Non-Depreciable Assets has been withdrawn. This amendment is not expected to have a significant impact on the Group.	Annual periods commencing on or after 1 January 2012
IAS 19 (revised)	**Employee Benefits** The main changes include the removal of the corridor approach, which allowed entities the option to defer the recognition of actuarial gains and losses on defined benefit plans. The revised standard requires that all remeasurements arising from defined benefit plans be presented in other comprehensive income. It also includes enhanced disclosure requirements for defined benefits plans. The Group is in the process of assessing the impact the revised IAS 19 would have on the financial statements.	Annual periods commencing on or after 1 January 2013
IAS 24 (amended)	**Related Party Disclosures** The amendment removes certain of the disclosure requirements for government related entities, clarifies the definition of a related party and introduces a requirement for entities to disclose commitments to related parties. This amendment addresses disclosure in the annual financial statements and will not affect recognition and measurement. The impact of the revised disclosure is not expected to be significant.	Annual periods commencing on or after 1 January 2011

Notes to the consolidated annual financial statements continued

for the year ended 30 June

45 Standards and interpretations issued but not yet effective

	The Group will comply with the following new standards and interpretations from the stated effective date.	Effective date
IAS 27 (amended)	**Separate Financial Statements** IAS 27 removes the accounting and disclosure requirements for consolidated financial statements as a result of the issue of IFRS 10 and IFRS 12, which establish new consolidation and disclosure standards. IAS 27 (amended) contains accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. This amendment is not expected to have a significant impact on the Group's results.	Annual periods commencing on or after 1 January 2013
IAS 28 (amended)	**Investments in Associates and Joint ventures** IAS 28 Investments in Associates and Joint Ventures (amended) supersedes IAS 28 Investments in Associates as a result of the issue of IFRS 11 and IFRS 12. The new IAS 28 prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. The disclosure requirements relating to these investments are now contained in IFRS 12. This amendment is not expected to have a significant impact on the Group's results.	Annual periods commencing on or after 1 January 2013
IFRS 1 (amended)	**First-time Adoption of International Financial Reporting Standards** The amendments to IFRS 1 are set out in Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters. The first amendment replaces references to a fixed transition date of '1 January 2004' with 'the date of transition to IFRS. This eliminates the need for companies adopting IFRS for the first time to restate derecognition transactions that occurred before the date of transition to IFRS. The second amendment provides guidance on how an entity should resume presenting financial statements in accordance with IFRS after a period when the entity was unable to comply with IFRS because its functional currency was subject to severe hyperinflation. These amendments will not have an impact on the Group as it has already adopted IFRS.	Annual periods commencing on or after 1 July 2011
IFRS 7 (amended)	**Transfers of Financial Assets** The amendments to IFRS 7 requires additional disclosure for financial assets transferred but not derecognised and for financial assets that are derecognised, but the entity retains some form of continuing involvement after the transaction. This amendment will result in additional disclosures in the annual financial statements and will not affect recognition and measurement.	Annual periods commencing on or after 1 July 2011
IFRS 9	**Financial Instruments** IFRS 9 is the first phase in the IASB's three-part project to replace IAS 39 Financial Instruments: Recognition and Measurement. This phase deals with the classification and measurement of financial assets and financial liabilities. Financial assets can be classified as financial assets at amortised cost or fair value. The classification is based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. Financial liabilities can also be classified as financial liabilities at amortised cost or fair value in line with the existing requirements of IAS 39. If an entity elects to measure its financial liabilities at fair value, it should present the portion of the change in fair value due to changes in its own credit risk in other comprehensive income. The Group is in the process of assessing the impact that IFRS 9 would have on the financial statements. Until the process is completed, the Group is unable to determine the significance of the impact of IFRS 9.	Annual periods commencing on or after 1 January 2013.

45 Standards and interpretations issued but not yet effective

	The Group will comply with the following new standards and interpretations from the stated effective date.	Effective date
IFRS 10	**Consolidated Financial Statements** IFRS 10 establishes a new control model for determining which entities should be consolidated. The standard also provides guidance on how to apply the principle of control to specific situations in order to identify whether an investor controls an investee. IFRS 10 supersedes a portion of IAS 27 Separate and Consolidated Financial Statements and SIC 12 Consolidation – Special Purpose Entities. The Group is in the process of assessing the impact that IFRS 10 would have on the financial statements. Until the process is completed, the Group is unable to determine the significance of the impact of IFRS 10.	Annual periods commencing on or after 1 January 2013
IFRS 11	**Joint Arrangements** The standard supersedes IAS 31 Joint Ventures and aims to improve on IAS 31 by establishing accounting principles that are applicable to all joint arrangements. The standard distinguishes between two types of joint arrangements, joint operations and joint ventures. The accounting for joint operations remains unchanged from IAS 31 and all joint ventures should be equity accounted in the financial statements of the venturer. The standard is not expected to have a significant impact on the Group.	Annual periods commencing on or after 1 January 2013
IFRS 12	**Disclosure of Interests in Other Entities** The standard aims to provide consistent disclosure requirements for subsidiaries, joint arrangements, associates and structured entities. IFRS 12 requires disclosure of information that will enable users to evaluate the nature of the risks associated with the interest and the effect of the interest on the financial position, performance and cash flows of the reporting entity. This amendment addresses disclosure in the annual financial statements and will not affect recognition and measurement. The Group is still in the process of assessing the impact of the revised disclosure.	Annual periods commencing on or after 1 January 2013
IFRS 13	**Fair Value Measurement** IFRS 13 was issued in order to eliminate inconsistencies in the guidance on how to measure fair value and disclosure requirements that currently exist under the different IFRS' that require or permit fair value measurement. It provides a fair value hierarchy, which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The Group is in the process of assessing the impact that IFRS 13 would have on the financial statements. Until the process is completed, the Group is unable to determine the significance of the impact of IFRS 13.	Annual periods commencing on or after 1 January 2013
Annual Improvements	**Improvements to IFRS** As part of its annual improvements projects, the IASB has issued its 2010 annual improvement project. The annual improvement project's aim is to clarify and improve the accounting standards. The improvements include those involving terminology or editorial changes with minimal effect on recognition and measurement. There are no significant changes in the improvement projects that are expected to affect the Group.	Annual periods commencing on or after 1 January 2011 except for the improvements to IFRS 3 and IAS 27 that are effective for annual periods commencing on or after 1 July 2010

Notes to the consolidated annual financial statements continued

for the year ended 30 June

46 Transactions involving the legal form of a lease

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

Fees received are recognised annually in non-interest income.

Income received for the year amounted to R33 million (2010: R22 million) and is reflected in interest and similar income in the income statement.

47 Current/non-current split of amounts recognised on the statement of financial position

	2011		
R million	Carrying amount	Current	Non-current
Assets			
Cash and cash equivalents	34 240	34 240	–
Derivative financial instruments	37 206	35 422	1 784
Advances	464 593	137 736	326 857
Investment securities and other investments	124 756	92 464	32 292
Commodities	4 388	4 388	–
Accounts receivable	7 289	6 836	453
Investments in associates and joint ventures	6 029	–	6 029
Property and equipment	10 542	–	10 542
Deferred tax asset	560	3	557
Post-retirement benefit asset	2	–	2
Intangible assets	1 691	–	1 691
Investment properties	203	–	203
Reinsurance assets	484	–	484
Tax asset	139	15	124
Non-current assets and disposal groups held for sale	5 805	5 805	–
Total assets	697 927	316 909	381 018
Equity and liabilities			
Deposits and current accounts	553 657	483 481	70 176
Short trading positions	12 413	12 413	–
Derivative financial instruments	36 361	35 960	401
Creditors and accruals	9 930	9 523	407
Provisions	3 621	2 511	1 110
Tax liability	288	69	219
Post-retirement liabilities	2 292	60	2 232
Deferred tax liability	2 223	13	2 210
Long-term liabilities	6 690	–	6 690
Policyholder liabilities under insurance contracts	1 047	459	588
Policyholder liabilities under investment contracts	94	6	88
Liabilities directly associated with non-current assets classified as held for sale	5 092	5 092	–
Shareholders' equity	61 150	–	61 150
Non-controlling interests	3 069	–	3 069
Total equity and liabilities	697 927	549 587	148 340

47 Current/non-current split of amounts recognised on the statement of financial position *continued*

	2010		
R million	Carrying amount	Current	Non-current
Assets			
Cash and cash equivalents	27 067	27 067	–
Derivative financial instruments	39 764	34 847	4 917
Advances	434 793	136 083	298 710
Investment securities and other investments	117 171	84 440	32 731
Commodities	2 365	2 365	–
Accounts receivable	5 743	5 373	370
Investments in associates and joint ventures	6 901	–	6 901
Property and equipment	10 018	–	10 018
Deferred tax asset	443	118	325
Intangible assets	2 104	–	2 104
Investment properties	138	–	138
Policy loans on insurance contracts	27	–	27
Reinsurance assets	524	8	516
Tax asset	935	37	898
Non-current assets and disposal groups held for sale	197 247	197 247	–
Total assets	845 240	487 585	357 655
Equity and liabilities			
Deposits and current accounts	512 469	454 818	57 651
Short trading positions	16 735	16 735	–
Derivative financial instruments	36 035	34 633	1 402
Creditors and accruals	12 115	11 801	314
Provisions	3 359	2 480	879
Tax liability	157	68	89
Post-retirement liabilities	2 162	72	2 090
Deferred tax liability	2 132	–	2 132
Long-term liabilities	9 183	–	9 183
Policyholder liabilities under insurance contracts	1 868	458	1 410
Policyholder liabilities under investment contracts	101	12	89
Liabilities directly associated with non-current assets classified as held for sale	189 961	189 961	–
Shareholders' equity	55 951	–	55 951
Non-controlling interests	3 012	–	3 012
Total equity and liabilities	845 240	711 038	134 202

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FirstRand Company

annual financial statements

Statement of comprehensive income
for the year ended 30 June

R million	Notes	2011	2010
Continuing operations			
Interest and similar income	2	82	10
Interest expense and similar charges	2	–	(4)
Net interest income		82	6
Non-interest income	3	43 537	3 989
– fees and commission income	3	31	36
– gains less losses from investment securities	3	43 506	3 953
Income from operations		43 619	3 995
Operating expenses	4	(98)	(97)
Income before indirect tax		43 521	3 898
Indirect tax		(3)	(3)
Income before tax		43 518	3 895
Tax	5	(126)	(4)
Profit for the year from continuing operations		43 392	3 891
Discontinued operation			
Profit /(loss) attributable to discontinued operation		10 714	(100)
Profit for the year		54 106	3 791
Other comprehensive income		–	–
Total comprehensive income for the year		54 106	3 791
Attributable to:			
Equity holders of the Company		53 805	3 447
NCNR preference shares		301	344
Total comprehensive income for the year		54 106	3 791

Statement of financial position
as at 30 June

R million	Notes	2011	2010
ASSETS			
Cash and cash equivalents	7	**69**	61
Loans and accounts receivable	8	*****	*
Investment in subsidiaries	9	**55 256**	16 547
Property and equipment		**–**	*
Deferred tax asset	10	**–**	–
Non-current asset held for sale**		**400**	5 116
Total assets		**55 725**	21 724
EQUITY AND LIABILITIES			
Liabilities			
Creditors and accruals	11	**45**	74
Tax liability		**8**	*
Provisions	12	**27**	14
Long-term liabilities	15	**11**	5
Total liabilities		**91**	93
Equity			
Capital and reserves attributable to equity holders			
Ordinary shares	14	**56**	56
Share premium	14	**7 082**	7 082
Reserves		**43 977**	9 974
		51 115	17 112
NCNR preference shares	14	**4 519**	4 519
Total equity		**55 634**	21 631
Total equity and liabilities		**55 725**	21 724

** Less than R500 000.*
*** Refer note 21 of annual integrated report.*

Statement of changes in equity
for the year ended 30 June

R million	Ordinary share capital and ordinary shareholders' funds: Share capital (Note 14)	Share premium (Note 14)	Retained earnings
Balance at 1 July 2009	56	7 082	7 590
Total comprehensive income for the year	–	–	3 447
Ordinary dividends	–	–	(3 157)
Preference dividends	–	–	–
Share-based payment reserve	–	–	4
Balance at 30 June 2010	56	7 082	7 884
Total comprehensive income for the year	–	–	53 805
Ordinary dividends	–	–	(4 398)
Preference dividends	–	–	–
Share-based payment reserve	–	–	2
Dividend in specie: Momentum unbundling	–	–	(15 347)
Balance at 30 June 2011	**56**	**7 082**	**41 946**

** Less than R500 000.*

Ordinary share capital and ordinary shareholders' funds			Perpetual preference shareholders' funds			
Share-based payment reserve	Capital redemption reserve	**Total ordinary equity holders' funds**	Non-cumulative non-redeemable preference share capital (Note 14)	Non-cumulative non-redeemable preference share premium (Note 14)	**Total preference shareholders' funds**	**Total equity**
2 197	1	16 926	*	4 519	4 519	21 445
–	–	3 447	–	344	344	3 791
–	–	(3 157)	–	–	–	(3 157)
–	–	–	–	(344)	(344)	(344)
(108)	–	(104)	–	–	–	(104)
2 089	1	17 112	*	4 519	4 519	21 631
–	–	53 805	–	301	301	54 106
–	–	(4 398)	–	–	–	(4 398)
–	–	–	–	(301)	(301)	(301)
(59)	–	(57)	–	–	–	(57)
–	–	(15 347)	–	–	–	(15 347)
2 030	**1**	**51 115**	*	**4 519**	**4 519**	**55 634**

Statement of cash flows

for the year end 30 June

R million	Notes	2011	2010
Cash generated by operating activities			
Cash flow from operating acitivies	17.1	6 981	3 921
Working capital changes	17.2	(29)	15
Net cash flows from operating activities		6 952	3 936
Interest received		82	10
Interest paid		*	(4)
Tax paid	17.3	(118)	(7)
Dividends paid	17.4	(4 699)	(3 501)
Net cash inflow from operating activities		2 217	434
Cash flow from investing activities			
Increase in investment in subsidiaries		(2 665)	(320)
Proceeds on sale of subsidiary		3 608	–
Increase in loan to subsidiaries		(3 152)	(109)
Net cash outflow from investment activities		(2 209)	(429)
Increase in cash and cash equivalents		8	5
Cash and cash equivalents at the beginning of the year		61	56
Cash and cash equivalents at the end of the year		69	61

** Less than R500 000.*

Notes to the annual financial statements
for the year ended 30 June

1 Summary of significant accounting policies

The annual financial statements of FirstRand Limited ("FirstRand") are prepared according to the same accounting policies used in preparing the consolidated financial statements of the Group. For detailed accounting policies refer to pages 202 to 222 of the 2011 annual integrated report.

	2011	
R million	Amortised cost	Total
2 Analysis of interest income and expense		
Interest and similar income		
– Cash and cash equivalents	82	82
Interest and similar income	82	82

	2010	
R million	Amortised cost	Total
Interest and similar income		
– Cash and short-term funds	10	10
Interest and similar income	10	10
Interest expense and similar charges		
– Borrowed funds	4	4
Interest expense and similar charges	4	4

R million	2011	2010
3 Analysis of non-interest income		
Fees from subsidiaries^	31	36
Other fees	*	*
Total fees and commissions	31	36
Gains less losses from investment activities		
– Dividends received from subsidiaries and unlisted shares		
– Ordinary dividends^	11 397	3 685
– Dividend in specie^ (Refer note 9)	28 383	–
– Preference dividends^	234	268
– Dividends received from listed shares	*	–
– Fair value income on listed shares	*	–
– Other non-interest income		
Profit on sale of subsidiary**	3 492	–
Total gains less losses from investment activities	43 506	3 953
Total non-interest income	43 537	3 989

^ Non-interest income relates to non-financial assets and liabilities.

** Less than R500 000.*

*** This relates to profit on the sale of Firness which contained the OUTsurance investment. At Group level this was treated as a profit on sale of an associate. Refer to note 42 of the annual integrated report of the Group.*

4 Operating expenses

R million	2011	2010
Advertising and marketing	2	2
Annual reports	8	7
Auditors remuneration		
– audit fees	7	4
Depreciation		
– motor vehicles	–	*
Directors fees paid	12	5
Direct staff costs		
– salaries, wages and allowances	36	35
– contributions to employee benefit funds	2	2
– share-based payment expense (refer note 15)	17	16
– other	–	2
Travel	1	2
Investor relations	5	7
Rental charges		
– property	1	1
– furniture and equipment	1	1
Professional fees paid to subsidiaries	–	6
Professional fees	4	3
Corporate memberships	1	1
Other	1	3
Total operating expenses	**98**	97

** Less than R500 000.*

5 Tax

R million	2011	2010
South African normal taxation		
– Normal tax – current year	23	1
– Deferred – current year	–	3
Capital gain tax – current year	103	–
Total tax charge	**126**	4

Tax rate reconciliation	2011 %	2010 %
Effective rate of taxation	–	–
Total tax has been affected by:		
Dividends received	26	28
Taxable accounting capital profit – sale of subsidiary	2	–
Standard rate of taxation	**28**	28

6 Analysis of assets and liabilities by category

Financial assets and financial liabilities are measured on an ongoing basis either at fair value or at amortised cost. The principal accounting policies on page 202 to page 222 of the 2011 annual integrated report describe how the classes of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the financial assets and liabilities in the statement of financial position per category of financial instrument to which they are assigned and therefore by measurement basis:

	2011			
R million	Loans and receivables	Financial liabilities at amortised cost	Non-financial assets and liabilities	Total
ASSETS				
Cash and cash equivalents	69	–	–	69
Loans and accounts receivable	*	–	–	*
Investment in subsidiaries	–	–	55 256	55 256
Non-current asset held for sale	–	–	400	400
Total assets	69	–	55 656	55 725
LIABILITIES				
Creditors and accruals	–	45	–	45
Tax liability	–	–	8	8
Provisions	–	–	27	27
Long-term liabilities	–	11	–	11
Total liabilities	–	56	35	91

	2010			
R million	Loans and receivables	Financial liabilities at amortised cost	Non-financial assets and liabilities	Total
ASSETS				
Cash and cash equivalents	61	–	–	61
Investment in subsidiaries	–	–	16 547	16 547
Non-current asset held for sale	–	–	5 116	5 116
Total assets	61	–	21 663	21 724
LIABILITIES				
Creditors and accruals	–	74	–	74
Tax liability	–	–	*	*
Provisions	–	–	14	14
Long-term liabilities	–	5	–	5
Total liabilities	–	79	14	93

** Less than R500 000.*

7 Cash and cash equivalents

R million	2011	2010
Money at call and short notice	69	61
Cash and cash equivalents	**69**	**61**

The carrying value for cash and short-term funds approximates the fair value.
Refer to note 13 for current and non-current split.

8 Loans and accounts receivables

R million	2011	2010
Sundry debtors	*	–
Total receivables	*****	**–**

** Less than R500 000.*

At the reporting date all loans and accounts receivables are considered to be neither past due nor impaired.
The carrying value of loans and accounts receivable approximates the fair value.
Refer note 13 for current and non-current split.

9 Investment in subsidiaries

			Investment of holding company					
	Effective percentage holding		Amounts owing by/(to) subsidiaries		Shares at net carrying amount		Investment through equity settled share incentive schemes	
	2011 %	2010 %	2011 R million	2010 R million	2011 R million	2010 R million	2011 R million	2010 R million
FirstRand EMA Holdings Limited (previously FirstRand Bank Holdings Limited) ("FREMA")								
– Ordinary shares	100	100	–	196	5 538	10 110	–	–
– Non-redeemable preference shares	100	100	–	–	3 000	3 000	–	–
FirstRand Bank Limited*								
– Ordinary shares	100	–	3 348	–	34 844	–	–	–
FirstRand Investment Holdings (Pty) Limited								
– Ordinary shares	100	100	854	854	7 338	2 069	–	–
FirstRand Empowerment Trust	100	100	–	–	–	–	–	–
Firness International (Pty) Limited	–	–	–	–	–	–	–	–
Investment through equity settled share incentive scheme	100	100	–	–	–	–	334	318
Total			4 202	1 050	50 720	15 179	334	318
Total interest in subsidiaries							55 256	16 547

9 Investment in subsidiaries *continued*

R million	2011	2010
Carrying amount at the beginning of the year	15 179	19 992
Movement for the year:		
Decrease in investment in FirstRand EMA Holdings Limited due to restructure of the Group	(5 972)	–
Investment in FirstRand Bank Limited received as a dividend in specie	28 383	–
Increase in investment in FirstRand Bank Limited due to cost adjustment of FirstRand EMA Holdings Limited	5 972	–
Increase in investment in FirstRand Bank Limited	489	–
Increase in investment in FirstRand EMA Holdings Limited	1 400	320
Increase in investment in FirstRand Investment Holdings (Pty) Limited	5 269	–
Investment in Firness International (Pty) Limited made	117	–
Investment in Firness International (Pty) Limited sold	(117)	–
Investment in Momentum Group Limited classified as non-current asset held for sale	–	(5 133)
Carrying amount at the end of the year	50 720	15 179

The following share trusts are controlled by FirstRand Limited:

- Momentum Life Assurers Limited share trust
- Southern Life Association Limited share scheme
- First National Bank share purchase/option scheme
- FirstRand Limited share trust
- FirstRand staff assistance trust
- FirstRand black employee trust
- FirstRand black non-executive directors trust

The carrying amount of these investments is R nil.

Refer to note 13 for current and non-current split.

** From 1 July 2010 FirstRand became the bank controlling company in term of the Bank's Act. As part of this restructure FirstRand became the direct shareholder of FirstRand Bank Limited. The investment in FirstRand Bank Limited was received as a dividend in specie.*

10 Deferred tax

R million	2011	2010
Deferred tax asset		
Tax effects of temporary differences between tax and book value for:		
Deferred tax asset		
Opening balance	–	3
– STC credits	–	(3)
Closing balance	–	–
Movement on deferred tax account is as follows:		
Opening balance	–	3
– Charge to the income statement	–	(3)
Closing balance	–	–

Deferred income tax assets and liabilities are offset when the income taxes relate to the same fiscal authority and there is a right to offset at settlement.

If the total reserves of R41 946 million as at 30 June 2011 (2010: R7 884 million) were to be declared as dividends, the STC impact at a rate of 10% would be R 4 195 million (2010: R788 million).

11 Creditors and accruals

R million	2011	2010
Unclaimed dividends	31	28
Sundry creditors	14	46
Loan from FirstRand Empowerment Trust	*	*
Total creditors and accruals	**45**	74

** Less than R500 000.*

The carrying value of creditors and accruals approximates their fair value at year end.

12 Provisions

R million	2011	2010
Staff related provisions*		
Opening balance	12	2
Additional provisions created	19	11
Utilised during the year	(11)	(1)
Total staff related provisions	**20**	12
Audit fees		
Opening balance	2	2
Additional provisions created	7	4
Unused amounts reversed	–	(1)
Utilised during the year	(2)	(3)
Total audit fees	**7**	2
Total provisions	**27**	14

** The staff-related provision consists mainly of the provision for leave pay, staff bonuses and the liability relating to the MMI shares that the participants in the BEE schemes will receive as a result of the unbundling of Momentum. Further details of this scheme and the vesting conditions related to the scheme are provided in note 31 of the 2011 annual integrated report of the Group.*

13 Current/non-current split of amounts recognised on the statement of financial position

R million	2011 Carrying amount	Current	Non-current
ASSETS			
Cash and cash equivalents	69	69	–
Loans and accounts receivable	*	*	–
Investment in subsidiaries	55 256	–	55 256
Non-current asset held for sale	400	400	–
Total assets	55 725	469	55 256
LIABILITIES			
Creditors and accruals	45	45	–
Provisions	27	24	3
Tax liability	8	8	–
Long-term liabilities	11	–	11
Total liabilities	91	77	14

** Less than R500 000.*

R million	2010 Carrying amount	Current	Non-current
ASSETS			
Cash and cash equivalents	61	61	–
Loans and accounts receivable	*	*	–
Investment in subsidiaries	16 547	–	16 547
Non-current asset held for sale	5 116	5 116	–
Total assets	21 724	5 177	16 547
LIABILITIES			
Creditors and accruals	74	74	–
Provisions	14	–	14
Tax liability	*	*	–
Long-term liabilities	5	–	5
Total liabilities	93	74	19

** Less than R500 000.*

14 Share capital and share premium

	2011		
	Number of ordinary shares	Number of "A" preference shares[1]	
Authorised			
Number of shares	6 001 688 450	198 311 550	
Issued			
Ordinary shares			
Opening balance	5 637 941 689		
Closing balance	5 637 941 689		
"B" preference shares			
Opening balance			
Closing balance			
Total issued share capital and share premium – closing balance	5 637 941 689	–	
Analysis of total issued share capital at the end of the year			
Ordinary issued share capital at end of year as above (1 cent each)			
"B" variable rate NCNR preference shares (1 cent each)			
Total issued share capital and share premium – closing balance			
Disclosed on the face of the balance sheet			
– Ordinary share capital and share premium			
– NCNR preference shares			
Total issued share capital and share premium – closing balance			

** Less than R500 000.*

1. *The "A" variable rate cumulative convertible redeemable preference shares are not listed.*
2. *The "B" preference shares are variable rate NCNR preference shares and are listed on the JSE.*
3. *The "C" preference shares are variable rate convertible non-cumulative redeemable preference shares.*
4. *The "D" preference shares are variable rate cumulative redeemable preference shares.*

2011					
Number of "B" preference shares[2]	Number of "C" preference shares[3]	Number of "D" preference shares[4]	Share capital R million	Share premium R million	Total R million
100 000 000	100 000 000	100 000 000			
			56	7 082	7 138
			56	7 082	7 138
45 000 000			*	4 519	4 519
45 000 000			*	4 519	4 519
45 000 000			56	11 601	11 657
			56	7 082	7 138
			*	4 519	4 519
			56	11 601	11 657
					7 138
					4 519
					11 657

14 Share capital and share premium *continued*

	2010		
	Number of ordinary shares	Number of "A" preference shares[1]	
Authorised			
Number of shares	6 001 688 450	198 311 550	
Issued			
Ordinary shares			
Opening balance	5 637 941 689		
Closing balance	5 637 941 689		
"B" preference shares			
Opening balance			
– "B1" preference shares incorporated as "B" preference shares effective 4 January 2010			
Closing balance			
"B1" preference shares			
Opening balance			
– "B1" preference shares incorporated as "B" preference shares effective 4 January 2010			
Closing balance			
Total issued share capital and share premium – closing balance	5 637 941 689	–	
Analysis of total issued share capital at the end of the year			
Ordinary issued share capital at end of year as above (1 cent each)			
"B" variable rate NCNR preference shares (1 cent each)			
Total issued share capital and share premium – closing balance			
Disclosed on the face of the balance sheet			
– Ordinary share capital and share premium			
– NCNR preference shares			
Total issued share capital and share premium – closing balance			

* *Less than R500 000.*

1. *The "A" variable rate cumulative convertible redeemable preference shares are not listed.*

2 *The "B1" preference shares were incorporated with the "B" preference shares effective 4 January 2010. The "B" preference shares are variable rate NCNR preference shares and are listed on the JSE.*

3. *The "C" preference shares are variable rate convertible non-cumulative redeemable preference shares.*

4. *The "D" preference shares are variable rate cumulative redeemable preference shares.*

	2010					
	Number of non-redeemable "B" and "B1" preference shares[2]	Number of non-redeemable "C" preference shares[3]	Number of redeemable "D" preference shares[4]	Share capital R million	Share premium R million	Total R million
	100 000 000	100 000 000	100 000 000			
				56	7 082	7 138
				56	7 082	7 138
	30 000 000			*	2 992	2 992
	15 000 000			*	1 527	1 527
	45 000 000			*	4 519	4 519
	15 000 000			*	1 527	1 527
	(15 000 000)			*	(1 527)	(1 527)
	–			*	–	–
	45 000 000			56	11 601	11 657
				56	7 082	7 138
				*	4 519	4 519
				56	11 601	11 657
						7 138
						4 519
						11 657

15 Share-based payment

R million	2011	2010
For a detailed description of share option schemes and trust in which FirstRand Limited participate refer to note 31 of the 2011 annual integrated report of the Group.		
The income statement charge for share-based payments is as follows:		
FirstRand share incentive scheme	–	(1)
FirstRand black non-executive directors trust	1	1
FirstRand share appreciation right scheme	6	5
Conditional share plan	10	11
Forfeitable share plan	–	*
Total share-based payment expense	**17**	**16**
Share-based payment liability		
Opening balance	5	–
Income statement charge	6	5
Total share-based payment liability	**11**	**5**

** Less than R500 000.*

16 Dividends

R million	2011	2010
Ordinary dividends		
An interim dividend of 35.00 cents (2010: 34.00 cents) per share was declared on 7 March 2011 in respect of the six months ended 31 December 2010.	1 973	1 917
A final dividend of 46.00 cents (2010: 43.00 cents) per share was declared on 12 September 2011 in respect of the six months ended 30 June 2011	2 593	2 424
A special dividend of 70.00 cents per share was declared on 12 September 2011 due to the sale of non-core assets.	3 947	–
Total ordinary dividends declared for the year	**8 513**	**4 341**
"B" preference shares		
An interim dividend of 313.545 cents (2010: 342.329 cents) per share was declared on 3 February 2011 in respect of the six months ended 31 December 2010.	141	154
A final dividend of 305.162 cents (2010: 354.997 cents) per share was declared on 4 August 2011 in respect of the six months ended 30 June 2011	137	160
Total preference dividends declared for the year	**278**	**314**

17 Cash flow information

R million	2011	2010
17.1 CASH GENERATED BY OPERATIONS		
Net income before tax attributable to shareholders	43 518	3 895
Adjustment for non-cash items	(32 963)	32
Profit on sale of subsidiary	(3 492)	–
Interest received	(82)	(10)
Interest paid	–	4
Cash generated by operations	6 981	3 921
17.2 WORKING CAPITAL CHANGES		
Increase in loans and accounts receivable	*	–
(Decrease)/increase in creditors and accruals	(29)	15
Net working capital changes	(29)	15
17.3 TAX PAID		
Tax payable and deferred tax at beginning of the year	–	(3)
Charge to income statement	(126)	(4)
Tax payable and deferred tax at the end of the year	8	–
Tax paid	(118)	(7)
17.4 DIVIDENDS PAID		
Ordinary dividends		
Final dividend paid on:		
– 18 October 2010 in respect of the year ended 30 June 2010	(2 424)	–
– 19 October 2009 in respect of the year ended 30 June 2009	–	(1 240)
Interim dividend paid on:		
– 6 April 2010 in respect of the period ended 31 December 2009	–	(1 917)
– 4 April 2011 in respect of the period ended 31 December 2010	(1 974)	–
Ordinary dividends paid	(4 398)	(3 157)
Preference dividends on "B" preference shares		
Final dividend paid on:		
– 30 August 2010 in respect of the year ended 30 June 2010	(160)	–
– 31 August 2009 in respect of the year ended 30 June 2009	–	(127)
Interim dividend paid on:		
– 28 February 2011 in respect of the period ended 31 December 2010	(141)	–
– 22 February 2010 in respect of the period ended 31 December 2009	–	(154)
Preference dividends on "B1" preference shares*		
Final dividend declared on:		
– 31 August 2009 in respect of the period ended 30 June 2009	–	(63)
Preference dividends paid	(301)	(344)
Total dividends paid	(4 699)	(3 501)

** The "B1" preference shares were incorporated with the "B" preference shares effective 4 January 2010.*

18 Related parties

R million	2011	2010
FirstRand Limited defines related parties as:		
– The parent company		
– Associate companies		
– Joint ventures		
– Post-retirement benefit funds (pension funds)		
– Key management personnel are the FirstRand board of directors and the FirstRand executive committee		
– Key management personnel includes close family members of key management personnel. Close family members are those family members who may be expected to influence, or be influenced by that individual in dealings with the Group. This may include:		
– Enterprises which are controlled by these individuals through their majority shareholding or their role as chairman and/or chief executive officer in those companies.		
The principal shareholder of the FirstRand Limited is RMB Holdings Limited, incorporated in South Africa. During the current year FirstRand Limited did not enter directly into transactions with its principal shareholder.		
18.1 SUBSIDIARIES		
Details of interest in subsidiaries as well as loan account balances are disclosed in note 9.		
18.2 DETAILS OF TRANSACTIONS WITH RELEVANT RELATED PARTIES APPEAR BELOW:		
Interest received	**51**	10
Fees and commissions earned	**30**	36
Dividends received	**39 798**	3 953

19 Contingent liabilities

FirstRand Limited provides put options to holders of certain debt instruments issued by its subsidiaries. The term of put option determines that in the instance where the subsidiaries default on the terms of debt instrument agreements, the capital amount of the debt and any accrued dividend will be repaid by FirstRand Limited. At 30 June 2011 and 30 June 2010 no instance of default by a subsidiary had occurred.

Definitions

Normalised earnings	The Group believes normalised earnings more accurately reflects the economic performance. Headline earnings are adjusted to take into account non-operational and accounting anomalies. Refer to pages 52 and 53 for a detailed description of normalised earnings.
Normalised net asset value (R million)	Normalised equity attributable to ordinary equity holders.
Normalised net asset value per share	Normalised equity attributable to ordinary equity holders divided by number of issued ordinary shares.
Normalised earnings per share	Normalised earnings attributable to ordinary equity holders divided by the weighted average number of shares including treasury shares.
Capital adequacy ratio ("CAR")	Capital divided by risk weighted assets.
Risk weighted assets (R million)	Prescribed risk weightings relative to the credit risk of counterparty, operational risk, market risk, equity investment risk and other risk multiplied by on- and off-balance sheet assets.
Return on equity ("ROE")	Normalised earnings divided by average normalised ordinary shareholders' equity.
Price-to-book (times)	Closing share price on 30 June divided by normalised net asset value per share.
Price earnings ratio (times)	Closing price on 30 June divided by basic normalised earnings per share.
Dividend cover	Normalised earnings per share divided by dividend per share.
Loan-to-deposit ratio	Average advances divided by average deposits.
Non-interest revenue to total income (diversity ratio)	Non-interest revenue expressed as a percentage of total income including share of profit from associates and joint ventures.
NPLs as percentage of advances	NPLs expressed as a percentage of average advances.
Impairment charge as % of average advances (credit loss ratio)	Total impairment charge per the income statement divided by the average advances, (average between the opening and closing balance for the year).
Cost-to-income ratio (%)	Operating expenses excluding indirect taxes expressed as a percentage of total income including share of profit from associates and joint ventures.
Industry adjusted cost-to-income ratio %	Fee and commission expenses are reclassified from operating expenses and offset against fee and commission income included in non-interest income. The adjusted operating expenses are expressed as a percentage of adjusted total income including share of profit from associates and joint ventures.
Effective tax rate	Tax per the income statement divided by the income before direct tax per the income statement.
Net income after capital charge ("NIACC")	Normalised earnings less the cost of equity times the average ordinary shareholders' equity and reserves.
Shares in issue (number)	Number of ordinary shares listed on the JSE.
Weighted average number of ordinary shares (number)	The weighted average number of ordinary shares in issue during the year as listed on the JSE.
Exposure at default ("EAD")	Exposure at default is defined as the gross exposure of a facility upon default of a counterparty.
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 as a percentage of the amount outstanding at the time of default.
Probability of default ("PD")	The probability of default is the probability than a counterparty will default within the next year and considers the ability and willingness of the counterparty to repay.

Abbreviations

AIRB	Advanced Internal Ratings Based approach
ALCO	Asset and liability management committee
AMA	Advance Measurement Approach
ASSA	Actuarial Society of South Africa
ATM	Automated teller machine
BCBS	The Basel Committee on Banking Supervision
BEE	Black Economic Empowerment
BPRMF	Business performance and risk management framework
BRM	Business resilience management
BSA	Bonus stabilisation account
BSM	Balance Sheet Management
CAGR (%)	Compound annual growth rate
CCFS	Credit conversion factors
CDS	Credit default swap
CEO	Chief executive officer
CFO	Chief financial officer
CGT	Capital gains tax
CSI	Corporate Social Investment
COO	Chief operating officer
CPIX	Consumer Price Index
CRMF	Credit risk management framework
CRO	Chief risk officer
CSA	Credit Support Annexes
CV	Curriculum Vitae
DAC	Deferred acquisition cost
DPF	Discretionary participation features
DRL	Deferred revenue liability
EAD	Exposure at default
EL	Expected loss
EP	Equator Principles
ERM	Enterprise Risk Management
ESG	Environmental, social and governance risks
ETL	Expected tail loss
Exco	Executive committee
FICC	Fixed income, currency and commodities division
FNB	First National Bank
FRB	FirstRand Bank Limited
FRBG	FirstRand Bank Supersegment
FRBH	FirstRand Bank Holdings Limited
FREMA	FirstRand EMA Holdings Limited
FRIE	FirstRand Ireland Plc
FRIN	FirstRand India
FRIHL	FirstRand Investment Holdings (Pty) Limited
FSA	Financial Services Authority
FSB	Financial Service Board
FSV	Financial Soundness Valuation
FTP	Funds transfer pricing
GCRM	Group Credit Risk Management
GIA	Group Internal Audit function
IBNR	Incurred but not reported
EL	Expected loss
IFC	International Finance Corporation
IFRIC	International Financial Reporting Interpretations Committee

IFRS	International Financial Reporting Standards
IIA	Institute of Internal Audit
IRB	Internal rating based approach
INVESCO	Investment committee
IRRBB	Interest rate risk in the banking book
ISDA	International Swaps and Derivative Association
ISMA	International Securities Market Association
JSE	Johannesburg Stock Exchange
KPI	Key performance indicators
LCR	Liquidity coverage ratio
LGD	Loss given default
LRMF	Liquidity risk management framework
LS	Loss severity
LTV	Loan-to-value
MIRC	Market and investment risk committee
MRVC	Model, risk and validation committee
NCNR	Non-cumulative non-redeemable
NIACC	Net income after capital charge
NII	Net interest income
NIR	Non-interest revenue
Nitro 3	Nitro Securitisation 3 (Pty) Limited
NMD's	Non-maturity deposits and transmission account balances
NOFP	Net open foreign position
NPL	Non-performing loans
NSFR	Net stable funding ratio
ORC	Operational risk committee
ORMF	Operational risk management framework
PD	Probability of default
PE	Price earnings
PGN	Professional Guidance Note
PIT	Point-in-time
PVIF	Present value of in-force
QIS	Basel Quantitative Impact Study
RCC	Risk, capital management and compliance committee
RCSA	Risk and control self assessments
RERIT	Risk effectiveness reports for IT
RMB	Rand Merchant Bank
RMBS	Residential mortgage-backed securities
ROE	Return on equity
RRM	Regulatory risk management
RWA	Risk weighted assets
RWN	Rating watch negative
S&P	Standard and Poor
SARB	South African Reserve Bank
SENS	Stock Exchange News Service
SME	Small and medium enterprise
SPE	Special purpose entity
STC	Secondary tax on companies
TSA	The Standard Based approach
TTC	Through-the-cycle
UK	United Kingdom
US	United States
VaR	Value-at-Risk
WACC(%)	Weighted average cost of capital

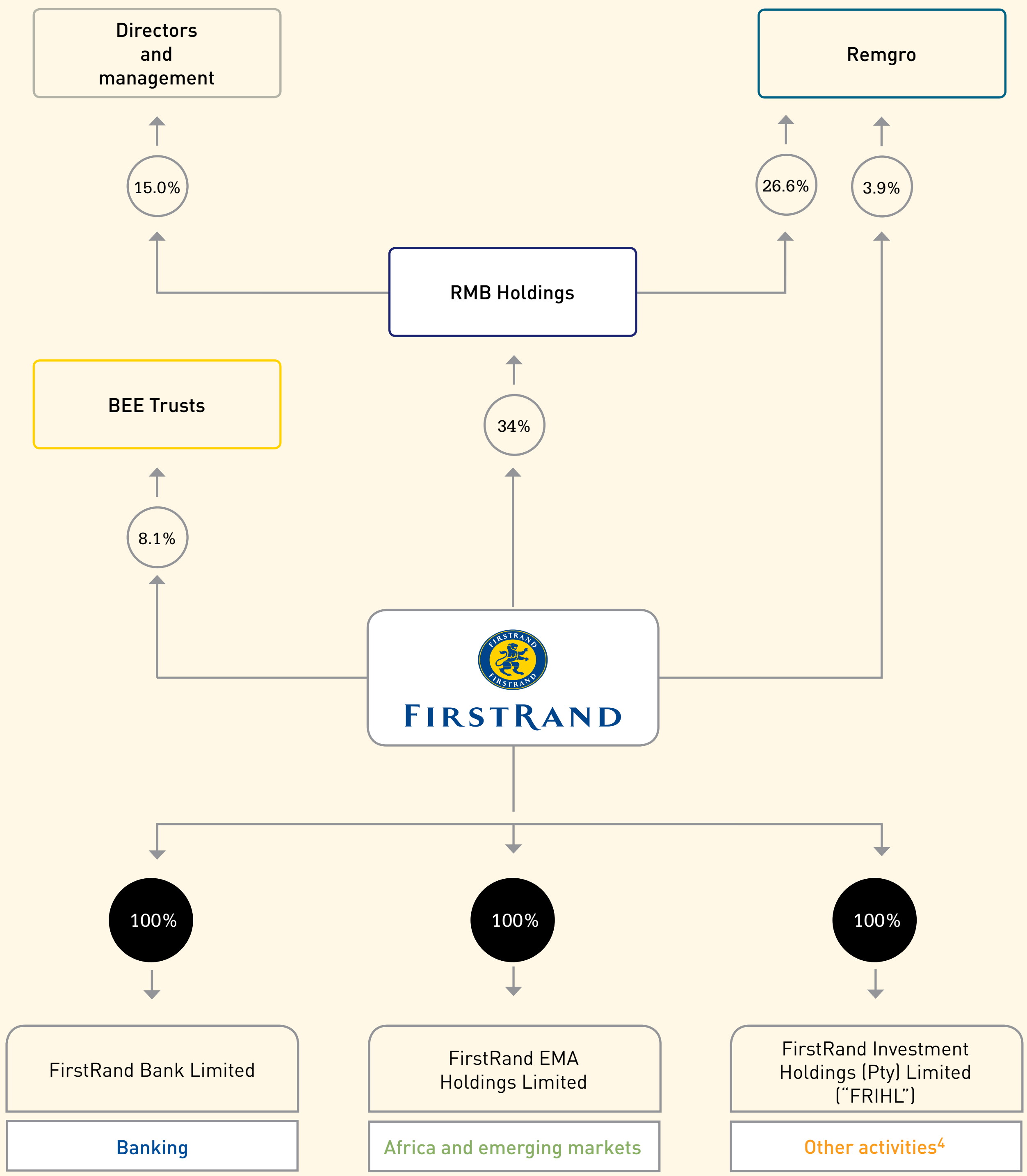
4

Shareholders' info

The Annual General Meeting will take place at 09.00 on 1 December 2011 in the Auditorium, WesBank Office, Enterprise Road, Fairland

FIRSTRAND GROUP

Group ownership structure



Analysis of ordinary shareholders
as at 30 June 2011

	Shares held 000's	%
Shareholders holding more than 5%		
RMB Holdings	1 910 433	33.89
FirstRand empowerment trust and related parties	458 294	8.13
Public Investment Commissioner	678 091	12.03
Financial Securities Ltd (Remgro)	219 805	3.90
Subtotal	3 266 623	57.95
Other	2 371 319	42.05
Total	**5 637 942**	**100.00**
Shareholder type		
Corporates (RMB Holdings and Remgro)	2 130 238	37.78
Pension Funds	1 091 315	19.36
Insurance companies and banks	309 876	5.50
Unit trusts	710 566	12.60
Individuals	35 527	0.63
Empowerment trusts	404 005	7.17
Employee share trusts	54 288	0.96
Other	902 127	16.00
Total	**5 637 942**	**100.00**

	Number of shareholders	Shares held 000's	%
Public and non-public shareholders			
Public	35 476	2 851 573	50.58
Non-public			
– Corporates (Remgro and RMBH)	2	2 130 238	37.78
– Directors and prescribed officers	9	197 838	3.51
– Empowerment trusts	4	404 005	7.17
– Employee share trusts	1	54 288	0.96
Total	**35 492**	**5 637 942**	**100.00**

	Shares held 000's	%
Geographic ownership		
South Africa	4 573 316	81.12
International	698 564	12.39
Not analysed	366 062	6.49
Total	**5 637 942**	**100.00**

Analysis of "B" preference shareholders
at 30 June 2010

	Number of shareholders	Shares held 000's	%
Public and non-public shareholders			
Public	7 475	44 480	98.84
Non-public			
– Directors	1	520	1.16
	7 476	45 000	100.00

Performance on the JSE Securities Exchange South Africa
as at 30 June

	2011	2010
Number of shares in issue (000's)	**5 637 942**	5 637 942
Market prices (cents per share):		
Closing	**1 985**	1 806
High	**2 253**	2 100
Low	**1 817**	1 388
Weighted average	**2 001**	1 768
Closing price/net asset value per share	**1.98**	1.98
Closing price/earnings (headline)	**10.86**	10.03
Volume of shares traded (millions)	**10 320**	3 689
Value of shares traded (R million)	**204 908**	65 236
Market capitalisation (R billion)	**111.91**	101.82

Administration

Directors

LL Dippenaar (Chairman), SE Nxasana (Chief executive officer), VW Bartlett, JJH Bester, JP Burger (Financial director and chief operating officer), L Crouse, PM Goss, Dr NN Gwagwa, PK Harris, WR Jardine, EG Matenge-Sebesho, AT Nzimande, D Premnarayen (Indian), KB Schoeman, RK Store, BJ van der Ross, Dr JH van Greuning, MH Visser

Secretary and registered office

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4 Merchant Place
Corner Fredman Drive and Rivonia Road, Sandton, 2196
PO Box 650149, Benmore, 2010 Telephone: +27 11 282 1808
Telefax: +27 11 282 8088
Web address: www.firstrand.co.za

Sponsor

(In terms of JSE requirements)
Rand Merchant Bank (a division of FirstRand Bank Limited)
Corporate Finance
1 Merchant Place
Corner Fredman Drive and Rivonia Road, Sandton, 2196
Telephone: +27 11 282 1079
Telefax: +27 11 282 8215

Transfer secretaries – South Africa

Computershare Investor Services (Pty) Limited
70 Marshall Street, Johannesburg, 2001
PO Box 61051, Marshalltown, 2107
Telephone: +27 11 370 5000
Telefax: +27 11 688 5221

Transfer secretaries – Namibia

Transfer Secretaries (Pty) Limited
Shop No 8, Kaiserkrone Centre
Post Street Mall, Windhoek
PO Box 2401, Windhoek, Namibia
Telephone: +264 612 27647
Telefax: +264 612 48531

Stock exchanges

JSE LIMITED ("JSE")

Ordinary Shares	Share code	ISIN code
– FirstRand Limited	FSR	ZAE 000066304
Non-cumulative non-redeemable preference shares	**Share code**	**ISIN code**
– "B"	FSRP	ZAE 000060141

NAMIBIAN SECURITIES EXCHANGE ("NSX")

Ordinary shares	Share code	ISIN code
– FirstRand Limited	FST	ZAE 000066304
– FNB Namibia Holdings Limited	FNB	NA 0003475176
Subordinated debt		
– FNB of Namibia Limited	FNB17	NA 000ANQ603

BOTSWANA SECURITIES EXCHANGE OF SOUTH AFRICA ("BSE")

Ordinary Shares	Share code	ISIN code
FNB Botswana Holdings Limited	FNBB	BW 0000000066

JOHANNESBURG STOCK EXCHANGE ("JSE")

Subordinated debt

Issuer	Bond code	ISIN code
FirstRand Bank Limited	FRB03	ZAG000026774
FirstRand Bank Limited	FRB05	ZAG000031337
FirstRand Bank Limited	FRB06	ZAG000045758
FirstRand Bank Limited	FRB07	ZAG000047598
FirstRand Bank Limited	FRB08	ZAG000047796
FirstRand Bank Limited	FRB09	ZAG000047804

Upper Tier II

Issuer	Bond code	ISIN code
FirstRand Bank Limited	FRBC21	ZAG000052283
FirstRand Bank Limited	FRBC22	ZAG000052390

Senior unsecured

Issuer	Bond code	ISIN code
FirstRand Bank Limited	FRBN04	ZAG000041005
FirstRand Bank Limited	FRBN05	ZAG000042169
FirstRand Bank Limited	FRBN06	ZAG000073214
FirstRand Bank Limited	FRBN07	ZAG000073206
FirstRand Bank Limited	FRBZ01	ZAG000049255
FirstRand Bank Limited	FRBZ02	ZAG000072711
FirstRand Bank Limited	FRBZ03	ZAG000080029
FirstRand Bank Limited	FRJ13	ZAG000079823
FirstRand Bank Limited	FRJ14	ZAG000069683
FirstRand Bank Limited	FRJ16	ZAG000073826
FirstRand Bank Limited	FRJ18	ZAG000084187
FirstRand Bank Limited	FRS35	ZAG000076852
FirstRand Bank Limited	FRS36	ZAG000077397
FirstRand Bank Limited	FRS37	ZAG000077793
FirstRand Bank Limited	FRS40	ZAG000078460
FirstRand Bank Limited	FRS42	ZAG000078478
FirstRand Bank Limited	FRS43	ZAG000078643

Issuer	Bond code	ISIN code
FirstRand Bank Limited	FRS44	ZAG000078742
FirstRand Bank Limited	FRS45	ZAG000079252
FirstRand Bank Limited	FRS46	ZAG000079807
FirstRand Bank Limited	FRS47	ZAG000080011
FirstRand Bank Limited	FRS48	ZAG000081456
FirstRand Bank Limited	FRS49	ZAG000081787
FirstRand Bank Limited	FRS50	ZAG000085663
FirstRand Bank Limited	FRS51	ZAG000086117
FirstRand Bank Limited	FRS52	ZAG000086497
FirstRand Bank Limited	FRS53	ZAG000086828
FirstRand Bank Limited	FRS54	ZAG000087032
FirstRand Bank Limited	FRS55	ZAG000087040
FirstRand Bank Limited	FRX14	ZAG000079815
FirstRand Bank Limited	FRX15	ZAG000051103
FirstRand Bank Limited	FRX18	ZAG000076472
FirstRand Bank Limited	FRX24	ZAG000073693
FirstRand Bank Limited	FRX31	ZAG000084195
FirstRand Bank Limited	FRX45	ZAG000076480

Inflation-linked bonds

Issuer	Bond code	ISIN code
FirstRand Bank Limited	FRBI01	ZAG000025156
FirstRand Bank Limited	FRBI03	ZAG000033473
FirstRand Bank Limited	FRBI04	ZAG000044306
FirstRand Bank Limited	FRBI07	ZAG000055849
FirstRand Bank Limited	FRBI08	ZAG000071523
FirstRand Bank Limited	FRBI22	ZAG000079666
FirstRand Bank Limited	FRBI23	ZAG000076498
FirstRand Bank Limited	FRBI28	ZAG000079237
FirstRand Bank Limited	FRBI33	ZAG000079245
FirstRand Bank Limited	FRI15	ZAG000051137

Credit-linked notes

Issuer	Bond code	ISIN code
FirstRand Bank Limited	FRC01	ZAG000049800
FirstRand Bank Limited	FRC04	ZAG000057563
FirstRand Bank Limited	FRC08	ZAG000051749
FirstRand Bank Limited	FRC11	ZAG000054131
FirstRand Bank Limited	FRC16	ZAG000055914
FirstRand Bank Limited	FRC17	ZAG000056011
FirstRand Bank Limited	FRC29	ZAG000069857
FirstRand Bank Limited	FRC35	ZAG000073800
FirstRand Bank Limited	FRC36	ZAG000076217
FirstRand Bank Limited	FRC37	ZAG000076712
FirstRand Bank Limited	FRC40	ZAG000081027
FirstRand Bank Limited	FRC41	ZAG000081670
FirstRand Bank Limited	FRC42	ZAG000081878
FirstRand Bank Limited	FRC43	ZAG000082660
FirstRand Bank Limited	FRC44	ZAG000082926
FirstRand Bank Limited	FRC45	ZAG000082918
FirstRand Bank Limited	FRC46	ZAG000082959
FirstRand Bank Limited	FRC47	ZAG000084310
FirstRand Bank Limited	FRC55	ZAG000085507
FirstRand Bank Limited	FRC57	ZAG000086414

Issuer	Bond code	ISIN code
FirstRand Bank Limited	FRC58	ZAG000086810
FirstRand Bank Limited	FRC59	ZAG000087057
FirstRand Bank Limited	FRC61	ZAG000087347

Senior unsecured callable bonds

Issuer	Bond code	ISIN code
FirstRand Bank Limited	FR002U	ZAG000042748
FirstRand Bank Limited	FR003U	ZAG000042755

Investment security index contracts

Issuer	Bond code	ISIN code
Rand Merchant Bank	RMBI01	ZAG000050865
Rand Merchant Bank	RMBI02	ZAG000052986
Rand Merchant Bank	RMBI03	ZAG000054032
Rand Merchant Bank	RMBI04	ZAG000055013
Rand Merchant Bank	RMBI05	ZAG000055864
Rand Merchant Bank	RMBI06	ZAG000056722
Rand Merchant Bank	RMBI07	ZAG000057910
Rand Merchant Bank	RMBI08	ZAG000072265

Structured Note

Issuer	Bond code	ISIN code
Rand Merchant Bank	OILRMB	ZAE000152732

LONDON STOCK EXCHANGE ("LSE") EUROPEAN MEDIUM TERM NOTE (EMTN) PROGRAMME

Issuer	ISIN code
FirstRand Bank Limited	XS0306783621
FirstRand Bank Limited	XS0635404477

Notice of the annual general meeting

FIRSTRAND LIMITED

(Incorporated in the Republic of South Africa)
(Registration number: 1966/010753/06)
Share Code: (JSE): FSR ISIN: ZAE000066304
JSE "B" Preference Share Code: FSRP ISIN: ZAE000060141
NSX Ordinary Share Code: FST
("FirstRand" or "the Company" or "FSR")

Notice is hereby given that the fifteenth annual general meeting of FirstRand Limited will be held in the Auditorium, WesBank Offices, Enterprise Road, Fairland, on Thursday, 1 December 2011, at 09h00 to deal with such business as may lawfully be dealt with at the meeting and to consider and, if deemed fit, pass, with or without modification, the ordinary and special resolutions set out hereunder in the manner required by the Companies Act, 71 of 2008, as amended ("the Act"), as read with the listings requirements of the JSE Limited.

The Act came into effect on 1 May 2011 ("the effective date"). From the effective date the Company's Memorandum of Association and Articles of Association became known as the Memorandum of Incorporation ("MOI"). In this notice of the annual general meeting, the term MOI is used to refer to the Company's MOI, previously known as the Memorandum of Association and the Articles of Association.

The record date in terms of section 59 of the Act for shareholders to be recorded on the shareholders register of the Company in order to be able to attend, participate and vote at the annual general meeting, is Friday, 25 November 2011. Accordingly, the last day to trade in order to be able to attend, participate and vote at the annual general meeting is Friday, 18 November 2011.

Kindly note that participants at the meeting (including shareholders and proxies) will be required to provide reasonably satisfactory identification before being entitled to attend or participate in a shareholders' meeting. Forms of identification include valid identity documents, driver's licences and passports.

Agenda

1. Presentation of the consolidated audited annual financial statements of the Company (as approved by the Board of directors of the Company), including the reports of the external auditors, audit committee and directors for the financial year ended 30 June 2011, all of which are included in the annual integrated report 2011, distributed as required to shareholders.

2. ORDINARY RESOLUTION NUMBER 1

Re-election of directors
To re-elect, by way of separate resolutions, directors of the Company in accordance with the Act and in terms of articles 83 and 96 of the MOI. The directors proposed, being eligible, have offered themselves for re-election:

2.1 **Lauritz Lanser Dippenaar**
Non-executive
Date of appointment
27 May 1998
Educational qualifications
MCom; CA (SA)
Board committees
Directors' affairs and governance
Remuneration

2.2 **Vivian Wade Bartlett**
Independent non-executive
Date of appointment
27 May 1998
Educational qualifications
AMP (Harvard); FIBSA
Board committees
Audit
Directors' affairs and governance
IT Governance
Large exposures
Remuneration

2.3 **Amanda Tandiwe Nzimande**
Non-executive
Date of appointment
28 February 2008
Educational qualifications
BCom; CTA (UCT); CA (SA); HDip Law (Wits)
Board committees
Directors' affairs and governance
Remuneration
Transformation monitoring

2.4 **Ronald Keith Store**
Independent non-executive
Date of appointment
23 May 2007
Educational qualifications
CA (SA)
Board committees
Audit
Directors' affairs and governance
Ethics
Large exposures
Risk, capital management and compliance

2.5 **Kgotso Buni Schoeman**
Non-executive
Date of appointment
29 May 2008
Educational qualifications
BA Economics, Advanced Financial Management Diploma
Board committees
Directors' affairs and governance
Transformation monitoring

2.6 **Jan Hendrik van Greuning**
Independent non-executive
Date of appointment
1 January 2009
Educational qualifications
DComm (Econs); D Compt (Accounting Science);
CA (SA); CFA
Board committees
Audit
Directors' affairs and governance
Risk, capital management and compliance

Biographical details of these directors are set out in pages 60 to 66 of the annual integrated report.

The percentage of voting rights required for each ordinary resolution contained under this point 2 of the notice to be adopted, is more than 50% (fifty percent) of the voting rights exercised on each resolution.

3. ORDINARY RESOLUTION NUMBER 2

Appointment of joint auditors and the individual registered auditors

Resolved that pursuant to the Company's registration as a bank controlling company and as recommended by the Company's audit committee, PricewaterhouseCoopers Inc. and Deloitte & Touche be and are hereby appointed as joint auditors of the Company until the next annual general meeting and that Messrs Tom Winterboer and Kevin Black respectively be appointed as the individual registered auditors who undertake the audit for the Company for the ensuing year.

The Company's audit committee has recommended and the board of directors of the Company has endorsed the proposed appointments.

The percentage of voting rights required for this ordinary resolution 2 to be adopted, is more than 50% (fifty percent) of the voting rights exercised on the resolution.

4. ORDINARY RESOLUTION NUMBER 3

Auditors' remuneration

Resolved that, as recommended by the Company's audit committee, the directors approve the auditors' remuneration for the Company's financial year ended 30 June 2012.

The percentage of voting rights required for this ordinary resolution 3 to be adopted, is more than 50% (fifty percent) of the voting rights exercised on the resolution.

5. ORDINARY RESOLUTION 4

Appointment of the Company's audit committee members

That shareholders elect the following non-executive directors, as members of the FirstRand audit committee, with effect from the end of this annual general meeting.

Resolved that the following directors comprise the Company's audit committee:

JH van Greuning*
VW Bartlett*
JJH Bester
L Crouse
EG Matenge-Sebesho
RK Store*

* Subject to their re-election as directors, pursuant to ordinary resolution number 1

Biographical details of the non-executive directors offering themselves for election as members of the Company's audit committee are set out on pages 61 to 66 of the annual integrated report.

The percentage of voting rights required for this ordinary resolution 4 to be adopted, is more than 50% (fifty percent) of the voting rights exercised on the resolution.

6. ORDINARY RESOLUTION 5

Endorsement of remuneration policy

Resolved, through a non-binding advisory vote, that the Company's remuneration policy (excluding the remuneration of the non-executive directors and the members of board committees for their services as directors and members of committees), be and is hereby endorsed.

The Company's remuneration report is set out on pages 83 to 88 of the annual integrated report.

In terms of King III, every year, the Company's remuneration policy should be tabled for a non-binding advisory vote at the annual general meeting. The essence of this vote is to enable the shareholders to express their views on the remuneration policies adopted and on their implementation. Shareholders are accordingly requested to endorse the Company's remuneration policy.

7. ORDINARY RESOLUTION NUMBER 6A AND 6B

Place the unissued ordinary and preference shares under the control of the directors

Resolution 6A

Resolved that the authorised but unissued ordinary shares in the capital of the Company be and are hereby placed under the control and authority of the directors of the Company and that the directors of the Company be and are hereby authorised and empowered to allot, issue and otherwise dispose of such shares to such person or persons on such terms and conditions and at such times as the directors of the Company may from time to time and in their discretion deem fit, subject to the provisions of the Act, the Banks Act 94 of 1990 as amended ("the Banks Act"), the MOI and the listings requirements of the JSE Limited ("JSE") and the Namibian Stock Exchange ("NSX"), when applicable.

Shareholders are asked to note that at 363 746 761 ordinary shares, the unissued ordinary share capital of the Company, represents approximately 6% of the authorised ordinary share capital.

Resolution 6B

Resolved that the authorised but unissued "B" preference shares in the capital of the Company be and are hereby placed under the control and authority of the directors of the Company and that the directors of the Company be and are hereby authorised and empowered to allot, issue and otherwise dispose of such "B" preference shares to such person or persons on such terms and conditions and at such times as the directors of the Company may from time to time and in their discretion deem fit, subject to the provisions of the Act, the Banks Act, the MOI and the listings requirements of the JSE and the NSX, when applicable.

The percentage of voting rights required for ordinary resolutions 6A and 6B to be adopted, is more than 50% (fifty percent) of the voting rights exercised on each resolution.

Notice of annual general meeting continued

8. ORDINARY RESOLUTION NUMBER 7

General authority to issue authorised but unissued ordinary shares and all classes of preference shares for cash

Resolved that, subject to the passing of ordinary resolution numbers 6A and 6B, the directors of the Company be and are hereby authorised, by way of a renewable general authority, to issue all or any of the authorised but unissued equity securities in the capital of the Company for cash as and when they in their discretion deem fit, subject to the Act, the Banks Act, the MOI and the listings requirements of the JSE and NSX, when applicable, on the basis that:

- this authority shall be valid until the Company's next annual general meeting or for 15 months from the date of this resolution, whichever period is shorter;
- the equity securities must be issued to public shareholders as defined in the listings requirements of the JSE and the NSX and not related parties;
- the equity securities which are the subject of the issue for cash must be of a class already in issue, or where this is not the case, must be limited to such securities or rights that are convertible into a class already in issue;
- in respect of securities which are the subject of the general issue of shares for cash:
  - in the aggregate in any one financial year the ordinary shares may not exceed 5% of the Company's relevant number of equity securities in issue of that class. (for purposes of determining the securities comprising the 5% number in any one year, account must be taken of the dilution effect, in the year of issue of options/ convertible securities);
  - of a particular class, will be aggregated with any securities that are compulsorily convertible into securities of that class, and, in the case of the issue of compulsorily convertible securities, aggregated with the securities of that class into which they are compulsorily convertible;
  - as regards the number of securities which may be issued, the 5% number for the ordinary shares shall be based on the number of securities of that class in issue added to those that may be issued in future (arising from the conversion of options/convertible securities), at the date of such application:
    - less any securities of the class issued, or to be issued in future arising from options/convertible securities issued, during the current financial year;
    - plus any securities of that class to be issued pursuant to:
      - a rights issue which has been announced, is irrevocable and is fully underwritten; or
      - an acquisition, which has had final terms announced, which may be included as though they were securities in issue at the date of application;
    - a maximum discount at which the ordinary shares and the preference shares may be issued is 10% of the weighted average traded price of such equity securities measured over 30 business days prior to the date that the price of the issue is determined or agreed between the Company and the party subscribing for the securities;
    - a paid press announcement giving full details, including the impact on net asset value and earnings per share, will be published at the time of any issue representing, on a cumulative basis within one financial year, 5% or more of the number of equity securities in issue prior to that issue, in terms of the listings requirements of the JSE.
    - any such general issue is subject to exchange control regulations and approval at that time; and

Approval for this ordinary resolution is obtained by achieving a 75% majority of the votes cast in favour of this resolution at the annual general meeting by all equity security holders present or represented by proxy.

9. SPECIAL RESOLUTION NUMBER 1

Authority to repurchase Company shares

Resolved, as a special resolution of the Company, that the Company and/or its subsidiaries be and are hereby authorised, in terms of a general authority contemplated in section 48 of the Act, read with sections 46, 114 and 115, as amended, to acquire the Company's issued shares from time to time on such terms and conditions and in such amounts as the directors of the Company may from time to time decide, but always subject to the approval, to the extent required, of the Registrar of Banks, the provisions of the Act, the Banks Act, MOI and the listings requirements of the JSE and NSX, and subject to the following conditions:

- this general authority will be valid only until the Company's next annual general meeting, or for 15 months from the date of the passing of this special resolution, whichever is shorter;
- the repurchase of securities will be effected through the main order book operated by the JSE trading system and done without any prior understanding or arrangement between the Company and the counterparty;
- repurchases may not be made at a price greater than 10% above the weighted average of the market value for the securities for the five business days immediately preceding the date on which the date of the repurchase of such securities by the Company. The acquisitions of ordinary shares shall in the aggregate in any one financial year not exceed 10% of the Company's issued ordinary share capital as at the beginning of the financial year;
- a resolution has been passed by the directors of the Company or its subsidiaries authorising the acquisition, and the Company has passed the solvency and liquidity test as set out in section 4 of the Act and that since the application of the solvency and liquidity test by the board there have been no material changes to the financial position of the Group;
- the Company will be in a position to repay its debts in the ordinary course of business for a period of 12 months after the decision by the directors of the Company to repurchase shares in the open market;
- upon entering the market to proceed with the general repurchase, the Company's sponsor has confirmed the adequacy of the Company and the Group's working capital for the purposes of undertaking a general repurchase of shares, in writing to the JSE;

- the assets of the Company will be in excess of the liabilities of the Company for a period of 12 months after the decision by the directors of the Company to repurchase shares in the open market, for which purpose the assets and liabilities will be recognised and measured in accordance with the accounting policies used in the latest audited consolidated annual financial statements;
- the ordinary capital and reserves of the Company will be adequate for ordinary business purpose for the 12 months after the decision by the directors of the Company to repurchase shares in the open market;
- the available working capital will be adequate to continue the operations of the Company for a period of 12 months after the decision by the directors to repurchase shares in the open market;
- neither the Company nor its subsidiaries will repurchase securities during a prohibited period, as defined in paragraph 3.67 of the JSE Listing Requirements, unless they have in place a repurchase programme where the dates and quantities of securities to be traded during the relevant period are fixed (not subject to any variation) and full details of the programme have been disclosed in an announcement on the JSE Limited Securities Exchange News Service ("SENS") prior to the commencement of the prohibited period;
- any such general repurchases are subject to exchange control regulations and approval at that point in time;
- when the Company has cumulatively repurchased 3% of the initial number of the relevant class of securities, and for each 3% in aggregate of the initial number of that class acquired thereafter, an announcement shall be published on SENS and in the financial press; and
- at any point in time the Company shall appoint only one agent to effect any repurchase(s) on its behalf.

The percentage of voting rights required for this special resolution no. 1 to be adopted is at least 75% of the voting rights exercised on the resolution.

Reason for the special resolution no. 1

The reason for special resolution no. 1 is to grant the Company's directors a general authority, up to and including the date of the following annual general meeting of the Company, to approve the Company's purchase of shares in itself, or to permit a subsidiary of the Company to purchase shares in the Company.

The directors of the Company have no immediate intention to use this authority to repurchase Company shares. However, the directors are of the opinion that this authority should be in place should it become appropriate to undertake a share repurchase in the future.

10. SPECIAL RESOLUTION NUMBER 2

Financial assistance to directors, prescribed officers, employee share scheme beneficiaries

Resolved, as a special resolution of the Company, that the directors of the Company may, subject to sections 44 and 45 of the Act and compliance with the requirements of the MOI, the Act and the JSE and NSX Listings Requirements, when applicable, each as presently constituted and as amended from time to time, authorise the Company to provide direct or indirect financial assistance (as contemplated in those sections of the Act) to a director or prescribed officer of the Company or of a related or interrelated company, or to a member of a related or interrelated corporation, or to a person related to any such company, corporation, director, prescribed officer or member on such terms and conditions as the directors of the Company, or any one or more persons authorised by the directors of the Company from time to time for such purpose, provided that no such financial assistance may be provided at any time in terms of this authority after the expiry of two years from the date of the adoption of this special resolution number 2.

The percentage of voting rights required for this special resolution number 2 to be adopted is at least 75% of the voting rights exercised on the resolution.

Reason for special resolution no. 2

The Company funds the long-term incentive schemes in which, executive directors, prescribed officers and identified staff of the Company and related and interrelated companies participate.

11. SPECIAL RESOLUTION NUMBER 3

General authority to provide financial assistance to related companies and interrelated companies

Resolved as a special resolution of the Company that subject to compliance with the JSE Listings Requirements, the Act (specifically the provisions of section 45 of the Act), and the Company's MOI that the shareholders hereby approve of the Company providing, at any time and from time to time during the period of two years commencing on the date of this special resolution, any direct or indirect financial assistance as contemplated in such section of the Act to any one or more related or interrelated companies or corporations (as defined in the Act) of the Company and/or to any one or more members of any such related or interrelated company or corporation, or any one or more persons related to any such company, corporation on such terms and conditions as the directors of the Company, or any one or more persons authorised by the directors of the Company from time to time for such purpose, deems fit.

The percentage of voting rights required for this special resolution number 3 to be adopted is at least 75% of the voting rights exercised on the resolution.

Reason for special resolution no. 3

The reason for special resolution no. 3 is to grant the directors of the Company the authority to provide direct or indirect financial assistance through *inter alia*, the lending of money, guaranteeing of a loan or other obligation and securing any debt or obligation, to its subsidiaries, associates and interrelated companies.

NOTICE TO THE SHAREHOLDERS OF THE COMPANY IN TERMS OF SECTION 45(5) OF THE COMPANIES ACT OF A RESOLUTION ADOPTED BY THE BOARD AUTHORISING THE COMPANY TO PROVIDE SUCH DIRECT OR INDIRECT FINANCIAL ASSISTANCE:

- by the time that this notice of the annual general meeting is delivered to shareholders, the directors would have

Notice of annual general meeting continued

adopted a written resolution ("the Section 45 Resolution") authorising the Company to provide from time to time and at any time during the period of two years from the date that the above special resolution numbers 2 and 3 are adopted, any direct or indirect financial assistance as contemplated in section 45 of the Companies Act to any one or more related or interrelated companies or corporations of the Company and/or to any one or more members of any such related company or corporation and/or to any one or more persons related to any such company or corporation;

- the Section 45 Resolution will only be subject to and only effective to the extent that special resolution numbers 2 and 3 are adopted by shareholders and the provision of any such direct or indirect financial assistance by the Company, pursuant to such resolution, will always be subject to the Board being satisfied that immediately after providing such financial assistance, the Company will satisfy the solvency and liquidity test as referred to in section 45 (3) (b) (i) of the Companies Act and that the terms under which the financial assistance will be given are fair and reasonable to the Company as required in section 45 (3) (b) (ii) of the Companies Act; and
- The Company hereby provides notice of the Section 45 Resolution to shareholders of the Company.

12. SPECIAL RESOLUTION 4

Remuneration of non-executive directors with effect from 1 December 2011

Resolved as a special resolution in terms of section 66(9) of the Act, that the following directors' remuneration (due to the applicable directors for services rendered by them in their capacities as such), be and is hereby approved:

	FSR 2011 Current annual fee	Annual fee with effect 1 December 2011
Board		
Chairman*	2 500 000	3 125 000
Director	345 000	362 000
Audit committee		
Chairman		482 000
(negotiated fee 2011)		
Member	180 000	193 000
Risk, capital management and compliance committee		
Chairman	450 000	482 000
Member	180 000	193 000
Remuneration committee		
Chairman	210 000	225 000
Member	105 000	110 000
Directors' affairs and governance committee		
Chairman	80 000	84 000
Member	40 000	42 000
Large exposures committee		
Chairman	32 000	33 600
Member	16 000	16 800
(per meeting)		
Credit committee		
Chairman		6 300
Member		3 150
(per hour on a preparation and attendance basis)		
Transformation monitoring committee		
Chairman	60 000	108 000
Member	30 000	54 000
Ad hoc work**		
Chairman	5 900	6 200
Member	2 950	3 100

** The chairman will be paid a single fee, covering his activities as Board chairman and for his activities on board committees.*

*** For work of an ad hoc nature on an hourly basis or for work on an ad hoc committee, hourly, on a preparation and attendance basis.*

Directors domiciled outside of South Africa be paid double the approved fees for South African domiciled directors.

The percentage of voting rights required for this special resolution number 4 to be adopted is at least 75% of the voting rights exercised on the resolution.

The reason for special resolution no. 4 is to approve the remuneration of the non-executive directors effective from 1 December 2011.

13. **For the purposes of considering special resolutions and in compliance with Rule 11.26 of the JSE Listings Requirements, the information listed below has been included in the FirstRand Limited annual integrated report to shareholders for the year ended 30 June 2011 at the places indicated:**
    - directors and prescribed officers – refer pages 69 of this report;
    - major shareholders – refer page 116 of this report;
    - for material changes refer page 116;
    - directors' interest in securities – refer page 69 of this report;
    - share capital of the Company – refer note 14 of the Company annual financial statements;
    - the directors, whose names are set out on page 403 of this report, collectively and individually accept full responsibility for the accuracy of the information contained in this special resolution and certify to the best of their knowledge and belief that there are no other facts, the omission of which would make any statement false or misleading and that they have made all reasonable enquiries in this regard; and that this resolution contains all information required by the JSE Listings Requirements;
    - litigation – save as reported in note 33 to the financial statements, in terms of section 11.26 of the JSE Listings Requirements, the directors, whose names are given on page 400 of the annual integrated report of which this notice forms part, are not aware of any legal or arbitration proceedings (including any such proceedings that are pending or threatened, that may have or have had in the previous 12 months, a material effect on the Group's financial position).

    Other than the facts and developments reported on in the annual integrated report, there have been no material changes in the financial position of the Company and its subsidiaries since the date of signature of the audit report and the date of this notice.

14. ETHICS COMMITTEE REPORT

    The FirstRand Ethics committee report is set out in pages 72 to 73 of the annual integrated report, in terms of Regulation 43 (5) (c) of the 2008 Companies Act.

Important notes regarding attendance at the annual general meeting

General

Shareholders wishing to attend the annual general meeting have to ensure beforehand with the transfer secretaries of the Company that their shares are in fact registered in their name.

Certificated members and "own name" dematerialised shareholders

Members who have not dematerialised their shares or who have dematerialised their shares with "own name" registration are entitled to attend and vote at the meeting and are entitled to appoint a proxy or proxies to attend, speak and vote in their stead.

The person so appointed need not be a shareholder. Proxy forms must be forwarded to reach the registered office of the Company/Company's transfer secretaries by 09:00 on Tuesday, 29 November 2011. Before a proxy exercises any rights of a shareholder at the annual general meeting, such form of proxy must be so delivered.

Dematerialised shareholders other than with "own name" registration

Members who have dematerialised their shares, other than those members who have dematerialised their shares with "own name" registration, should contact their Central Securities Depository Participant ("CSDP") or broker in the manner and time stipulated in their agreement:

- to furnish them with their voting instructions; and
- in the event that they wish to attend the meeting, to obtain the necessary authority to do so.

Voting will be by way of a poll and every shareholder of the Company present in person or represented by proxy shall have one vote for every share held in the Company by such shareholder.

Shares held by a share trust or scheme, treasury shares and unlisted shares will not have their votes at the annual general meeting taken into account for the purposes of resolutions proposed in terms of the JSE Listings Requirements.

Summary of shareholder rights

In compliance with the provisions of section 58(8)(b)(i) of the Act, a summary of the rights of a shareholder to be represented by proxy, as set out in section 58 of the Act, is set out immediately below:

- A shareholder entitled to attend and vote at the annual general meeting may appoint any individual (or two or more individuals) as a proxy or as proxies to attend, participate in and vote at the annual general meeting in the place of the shareholder. A proxy need not be a shareholder of the Company.
- A proxy appointment must be in writing, dated and signed by the shareholder appointing a proxy, and, subject to the rights of a shareholder to revoke such appointment (as set out below), remains valid only until the end of the annual general meeting.
- A proxy may delegate the proxy's authority to act on behalf of a shareholder to another person, subject to any restrictions set out in the instrument appointing the proxy.
- The appointment of a proxy is suspended at any time and to the extent that the shareholder who appointed such proxy chooses to act directly and in person in the exercise of any rights as a shareholder.

Notice of annual general meeting continued

The appointment of a proxy is revocable by the shareholder in question cancelling it in writing, or making a later inconsistent appointment of a proxy, and delivering a copy of the revocation instrument to the proxy and to the Company. The revocation of a proxy appointment constitutes a complete and final cancellation of the proxy's authority to act on behalf of the shareholder as of the later of (a) the date stated in the revocation instrument, if any; and (b) the date on which the revocation instrument is delivered to the Company as required in the first sentence of this paragraph.

If the instrument appointing the proxy or proxies has been delivered to the Company, as long as that appointment remains in effect, any notice that is required by the Act or the Company's MOI to be delivered by the Company to the shareholder, must be delivered by the Company to (a) the shareholder, or (b) the proxy or proxies, if the shareholder has (i) directed the Company to do so in writing; and (ii) paid any reasonable fee charged by the Company for doing so.

Attention is also drawn to the "Notes to the form of proxy".

By order of the Board

BW Unser
Company secretary

Sandton
12 September 2011

Transfer secretaries
ComputerShare Investor Services (Pty) Ltd
70 Marshall Street
Johannesburg
2011

Important notes regarding attendance at the annual general meeting

GENERAL

Shareholders wishing to attend the annual general meeting have to ensure beforehand with the transfer secretaries of the Company that their shares are in fact registered in their name.

CERTIFICATED MEMBERS AND "OWN NAME" DEMATERIALISED SHAREHOLDERS

Members who have not dematerialised their shares or who have dematerialised their shares with "own name" registration are entitled to attend and vote at the meeting and are entitled to appoint a proxy or proxies to attend, speak and vote in their stead. The person so appointed need not be a shareholder. Proxy forms must be forwarded to reach the registered office of the Company/Company's transfer secretaries by 09:00 on Tuesday, 29 November 2011.

DEMATERIALISED SHAREHOLDERS OTHER THAN WITH "OWN NAME" REGISTRATION

Members who have dematerialised their shares, other than those members who have dematerialised their shares with "own name" registration, should contact their Central Securities Depository Participant ("CSDP") or broker in the manner and time stipulated in their agreement:

- to furnish them with their voting instructions; and
- in the event that they wish to attend the meeting, to obtain the necessary authority to do so.

Voting will be by way of a poll and every shareholder of the Company present in person or represented by proxy shall have one vote for every share held in the Company by such shareholder.

Shares held by a share trust or scheme, treasury shares and unlisted shares will not have their votes at annual general meetings taken into account for the purposes of resolutions proposed in terms of the JSE Listings Requirements.

Notes

FIRSTRAND LIMITED
(Incorporated in the Republic of South Africa)
(Registration number: 1966/010753/06)
Share code: (JSE); FSR ISIN: ZAE000066304
JSE "B" Preference share code: FSRP
JSE ISIN: ZAE000060141
NSX Ordinary share code: FST
("FirstRand" or "the Company" or "FSR")

Form of proxy – ordinary shareholders

For the year ended 30 June 2011

Only for use by shareholders who have not dematerialised their shares or who have dematerialised their shares with own name registration.

All other dematerialised shareholders must contact their CSDP or broker to make the relevant arrangements concerning voting and/or attendance at the annual general meeting.

For completion by the aforesaid registered members who hold ordinary shares of the Company and who are unable to attend the 2011 annual general meeting of the Company to be held in the Auditorium, WesBank Offices, Enterprise Road, Fairland, on Thursday 1 December 2011 at 09:00 ("the annual general meeting").

I/We,

Of (address)

Being the holder/s of ordinary shares in the Company, hereby appoint (see instruction overleaf)

1. or, failing him/her

2. or, failing him/her

3. the chairman of the annual general meeting, as my/our proxy to attend, speak and vote for me/us and on my/our behalf or to abstain from voting at the annual general meeting of the Company and at any adjournment thereof, as follows (see instructions overleaf).

	Insert an "X" or the number of votes exercisable (one vote per ordinary share)		
	In favour of	Against	Abstain
Ordinary resolution number 1 Re-election of directors by way of separate resolutions LL Dippenaar VW Bartlett AT Nzimande RK Store KB Schoeman JH van Greuning			
Ordinary resolution number 2 Appointment of joint auditors and the individual registered auditors			
Ordinary resolution number 3 Auditors' remuneration			
Ordinary resolution number 4 Appointment of FirstRand Limited Audit committee members JH van Greuning VW Bartlett JJH Bester L Crouse EG Matenge-Sebesho RK Store			
Ordinary resolution number 5 Endorsememt of remuneration policy			
Ordinary resolution number 6A Place the unissued ordinary shares under the control of the directors			
Ordinary resolution number 6B Place the unissued "B" preference shares under the control of the directors			
Ordinary resolution number 7 with a 75% majority vote General authority to directors to issue authorised but unissued ordinary shares for cash			
Special resolution number 1 General authority to repurchase ordinary shares			
Special resolution number 2 Financial assistance to directors, prescribed officers, employee share scheme beneficiaries			
Special resolution number 3 General authority to provide financial assistance to related companies and interrelated companies			
Special resolution number 4 Remuneration of non-executive directors with effect from 1 December 2011			

Signed at on 2011

Signature/s

Assisted by

(where applicable)

PLEASE SEE NOTES ON REVERSE SIDE OF THE FORM

Notes

Use of proxies

A member who holds ordinary shares ("member") is entitled to attend and vote at the annual general meeting and to appoint one or more proxies to attend, speak and vote in his/her stead. A proxy need not be a member of the Company.

Every member present in person or by proxy and entitled to vote at the annual general meeting of the Company shall, on a show of hands, have one vote only, irrespective of the number of shares such member holds, but in the event of a poll, every ordinary share in the Company shall have one vote.

Instructions on signing and lodging the proxy form:

1. A member may insert the name of a proxy or the names of two alternative proxies of the member's choice in the space/s provided overleaf, with or without deleting "the chairman of the annual general meeting", but any such deletion must be initialled by the member. Should this space be left blank, the chairman of the annual general meeting will exercise the proxy. The person whose name appears first on the proxy form and who is present at the annual general meeting will be entitled to act as proxy to the exclusion of those whose names follow.

2. A member's voting instructions to the proxy must be indicated by the insertion of the number of votes exercisable by that member in the appropriate spaces provided overleaf. Failure to do so shall be deemed to authorise the proxy to vote or to abstain from voting at the annual general meeting, as he/she thinks fit in respect of all the member's exercisable votes. A member or his/her proxy is not obliged to use all the votes exercisable by his/her proxy, but the total number of votes cast, or those in respect of which abstention is recorded, may not exceed the total number of votes exercisable by the member or by his/her proxy.

3. A minor must be assisted by his/her parent or guardian unless the relevant documents establishing his/her legal capacity are produced or have been registered by the Transfer Secretaries.

4. To be valid the completed proxy forms must forwarded to reach the Company's transfer secretaries, Computershare Investor Services (Pty) Limited, 70 Marshall Street, Johannesburg, 2001 (PO Box 61051, Marshalltown, 2107), fax number (011) 688 5238 or in Namibia to Transfer Secretaries (Pty) Limited, Shop No 8, Kaiserkrone Centre, Post Street Mall, Windhoek (PO Box 2401, Windhoek, Namibia), fax number +264 6124-8531 by no later than 09:00 on Tuesday 29 November 2011. Proxy forms may only be completed by members who have not dematerialised their shares or who have dematerialised their shares with "own name" registration.

5. Documentary evidence establishing the authority of a person signing a proxy form in a representative capacity must be attached to the proxy form unless previously recorded by the Transfer Secretaries or waived by the chairman of the annual general meeting.

6. The completion and lodging of this proxy form shall not preclude the relevant member from attending the annual general meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof, should such member wish to do so.

7. The completion of any blank spaces overleaf need not be initialled. Any alterations or corrections to this proxy form must be initialled by the signatory/ies.

8. The chairman of the annual general meeting may reject or accept any proxy form which is completed other than in accordance with these instructions provided that he is satisfied as to the manner in which a member wishes to vote.

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