2010 ANNUAL REPORT

OWNER-MANAGER CULTURE
ENTREPRENEURSHIP
INNOVATION
FRANCHISE VALUE

FIRSTRAND

Contents

WHEN READING THIS REPORT

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

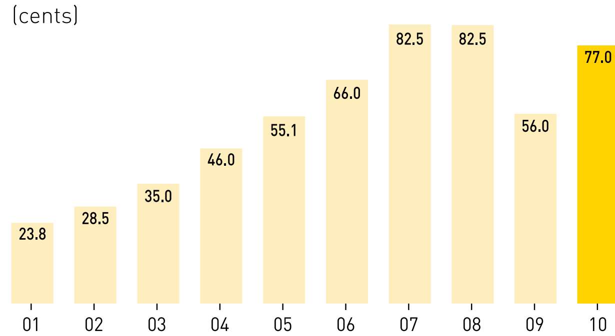
- A description of the Group's strategy and investment proposition.
- A comprehensive and high level overview of the Group's risk profile is included for the first time in the COO & CFO's report. This elevates risk considerations to a strategic level and links financial performance and risk with strategy 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 427 to 430 for ease of reference.

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 startup and development of completely new businesses.

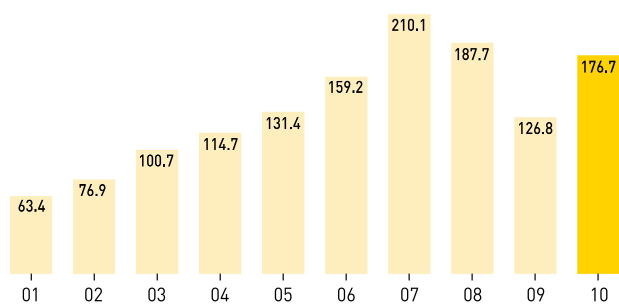
Ordinary dividend per share

(cents)



Diluted normalised earnings per share

(cents)



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

FIRSTRAND'S STRATEGY AND PHILOSOPHY

A powerful recipe for success

FRANCHISE VALUE

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:

- Become a predominant South African player focusing on both existing markets and those markets where we are currently under represented.
- 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.

INNOVATION

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.

ENTREPRENEURSHIP

OWNER-MANAGER CULTURE

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.

FINANCIAL HIGHLIGHTS

R million	2010	2009	% change
Continuing and discontinued operations			
Attributable earnings to shareholders	**9 444**	6 501	45
Headline earnings	**9 453**	6 939	36
Normalised earnings	**9 963**	7 151	39
Diluted headline earnings per share (cents)	**178.3**	133.1	34
Diluted normalised earnings per share (cents)	**176.7**	126.8	39
Ordinary dividend per share (cents)	**77.0**	56.0	38
Normalised return on equity (%)	**18**	14	
Assets under management or administration	**1 006 475**	965 484	4
Normalised net asset value per share (cents)	**1 045.6**	938.4	11
Continuing operations			
Headline earnings	**8 075**	5 490	47
Normalised earnings	**8 569**	5 836	47
Diluted headline earnings per share (cents)	**151.3**	104.6	45
Diluted normalised earnings per share (cents)	**152.0**	103.5	47

FirstRand's financial performance and socio economic value add is underscored by non financial performance indicators. These relate to FirstRand's relationships with its major stakeholders and the Group's contribution to socio economic transformation and Black Economic Empowerment. The table below shows the non financial highlights for the year ended 30 June 2010:

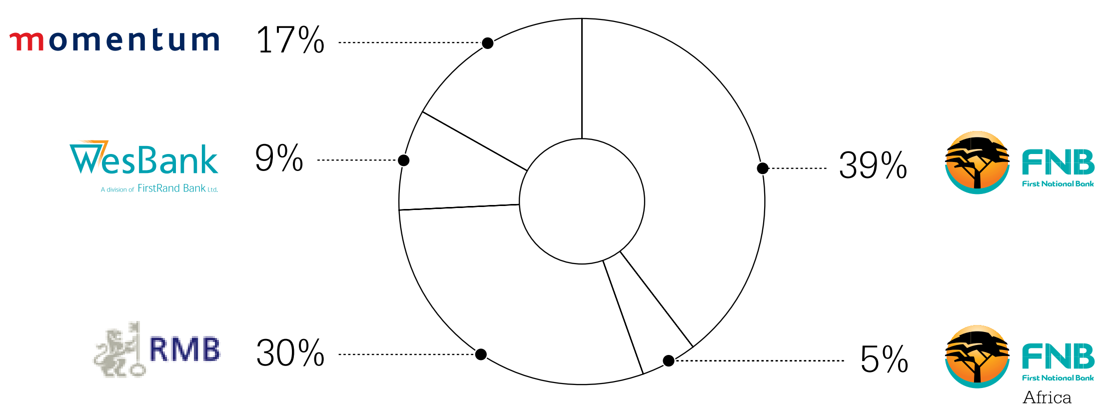
NON FINANCIAL HIGHLIGHTS

	2010	2009	% change
Economic value added to society (R million)	**88 594**	49 671	78
Total workforce	**42 548**	42 783	(1)
% ACI (African, Coloured & Indian) employees (SA)	**67**	66	–
Skills development investment (R million)	**289**	227	27
Retail customers (000)	**13 875**	11 732	18
BBBEE procurement spend (%)[1]	**61%**	53%	–
Carbon emissions (Kw/h – 000)[2]	**330 561**	389 835	(15)
Energy saved (R million)[2]	**4.5**	6.6	(32)

1 Data reflects 2009 calendar year per dti ("Department of Trade and Industry") reporting.
2 2010 figures adjusted to provide like-for-like comparison with 2009 calculations. See page 95 for detail.

GROUP AT A GLANCE

Normalised earnings by franchise 2010



BANKING GROUP	Normalised earnings (R million)		Cost to income ratio (%)		ROE based on normalised earnings (%)		Impairment charge (%)		Non performing loans ("NPLs") (%)		Normalised earnings contribution (%)	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
FNB	**4 303**	3 756	**60.4**	57.5	**32**	26	**1.70**	2.39	**7.8**	8.7	**51**	62
FNB Africa	**524**	514	**56.6**	52.0	**23**	27	**0.37**	0.58	**2.1**	2.5	**6**	9
RMB	**3 261**	1 536	**45.2**	56.6	**24**	12	**0.16**	0.43	**0.9**	1.0	**38**	25
WesBank	**953**	324	**51.9**	53.8	**15**	7	**2.21**	2.86	**5.5**	5.0	**11**	5
Bank support and divisions disclosed elsewhere	**(506)**	(74)	**–**	–	**–**	–	**–**	–	**–**	–	**(6)**	(1)
Total Banking Group	**8 535**	6 056	**57.1**	58.1	**18**	13	**1.30**	1.81	**5.0**	5.6	**100**	100

MOMENTUM	Normalised earnings (R million)		New business (R million)		Funds received from clients (R million)		Net flow of funds (R million)		Embedded value (R million)		Normalised earnings contribution (%)	
	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009	2010	2009
Insurance and asset management operations	**1 530**	1 328	**56 774**	60 470	**65 262**	68 086	**(18 129)**	(34 030)	**17 683**	16 086	**85**	81
Investment income on shareholders' assets	**280**	321	**–**	–	**–**	–	**–**	–	**–**	–	**15**	19
Total Momentum Group	**1 810**	1 649	**56 774**	60 470	**65 262**	68 086	**(18 129)**	(34 030)	**17 683**	16 086	**100**	100

Chairman's statement

BANKS MUST BUILD CONSTRUCTIVE RELATIONSHIPS

When I begin the process of writing my Chairman's statement, I sometimes browse for a quotation relevant to my topic, by someone with more wisdom than myself. This year, for the first time, I googled quotations on banking and it came as somewhat of a surprise to discover that out of the first 150 quotations I found, 99.9% were highly damning of both the principles and institutions of banking.

IN ADDITION, and in some ways even more interesting, almost every US President, from Thomas Jefferson to John F Kennedy, argued rigorously against the power and influence of the banking system. For example Jefferson said; " If the American people ever allow private banks to control the issue of their money, first by inflation and then by deflation, the banks and corporations that will grow up around them, will deprive the people of their property until their children will wake up homeless on the continent their fathers conquered."

It is not so much the fact that many wise people believe that banks are fundamentally "bad" for society that resonates with me, it is more that the relationship between governments and banks is one fraught with conflict but at the same time totally symbiotic, and this has been the case since the days of Aristotle (who also, for the record, held the practice of usury in complete contempt).

One of the most significant results of the financial crisis was that, to quote the Centre for the Study of Financial Innovation ("CSFI"), "the dash by governments to rescue their banks may have staved off a collapse of the system but it has left the banking industry deeply politicised". In the CSFI's highly regarded "Banking Banana Skins 2010", aptly titled "After the Quake", the 400 regulators, bankers and observers of the banking sector who contributed to the survey cited "political interference" as the most significant risk facing banks. According to the survey, political risk has many negative connotations; it can distort commercial judgement by "politicising" lending thus increasing the credit risk profile and it can create moral hazard through a perception that banks are too big to fail and will always be bailed out whatever decisions they take to get to that point.

My own view is that banks hold a very significant place within the economy and, whether we like it or not, governments and their designated regulators will always look to establish the levels of control and influence they believe to be appropriate. This is not necessarily a bad thing, as long as that influence seeks to protect the economy, depositors and shareholders rather than further populist political agendas. Banks globally must make peace with the fact that they face a deep public anger that will take a very long time to dissipate and governments and regulators will use this time to make some far reaching changes to the industry. The ways that some of these changes are implemented may be, by their nature, flawed. Banks will argue against them as they see their wings are increasingly clipped and the cost of increased regulation becomes more onerous. However, many banks brought this upon themselves, by pursuing strategies of excessive leverage and poor credit extension, and they must now face the consequences.

Although the South African banks weathered the storm and emerged in pretty good shape, we do anticipate that some of these changes are likely to materialise locally, particularly given our G20 membership. As an example, the South African Reserve Bank is expected to implement the Basel Committee on Banking Supervision's proposals on capital and liquidity, (the so-called Basel III proposals).

from the desk of...

LAURIE DIPPENAAR [CHAIRMAN]

What has been extremely reassuring is that our government and banks agreed to work together to investigate the impact of these proposals in the local context, particularly given the structural funding issues in the South African banking system. A joint task team was set up to consider issues relating to the lack of retail savings, the disintermediation of banks which resulted from the growth in money market funds and the different regulatory treatment of banks and money market funds.

FirstRand participated in the quantitative impact study that the Basel Committee conducted and preliminary calculations carried out as part of this exercise show that if the current proposals are implemented there would be a reduction in both Tier 1 and total capital adequacy ratios. I am pleased to report however that whilst the new regulatory minimum has not yet been finalised, FirstRand believes it will be adequately capitalised to meet the new requirements.

FirstRand's operating environment – it's still challenging out there for everyone

The macroeconomic environment is another issue that weighs on the minds of bankers, particularly as our earnings are significantly geared to GDP growth. The global economy did stage a recovery during the year under review, driven by the respective radical fiscal and monetary policy responses in many developed economies. However, the positive sentiment associated with the recovery was tempered towards the latter part of the financial year, as it became increasingly evident that global activity will experience severe "growth headwinds" over the next few years.

While emerging markets were not isolated from these events, balance sheets in these economies are generally healthier and in a better position to sustain growth at or above long term growth trends. South Africa lagged the global recovery somewhat, emerging from recession during the third quarter of 2009 with growth supported by significant monetary and fiscal policy stimulus and external trade.

FirstRand's diverse portfolio of banking and insurance businesses produced a strong performance.

The combination of interest rate cuts, the modest recovery inhouse prices (mainly during the latter half of the financial year) and higher equity prices did ease the pressure on consumers. This had a positive impact on retail bad debts, but credit growth remained extremely subdued. Whilst South African corporates have been extremely resilient, investment activity in most sectors is limited.

Group performance – all of our banking franchises did well

Against this difficult, albeit improving, macroeconomic background FirstRand's diverse portfolio of banking and insurance businesses produced a strong performance. Normalised earnings improved 39% to R9.96 billion with a normalised return on equity ("ROE") of 18%.

In trying to unpack this performance, although we did experience some modest topline growth, most of this years' earnings recovery was driven by the reversal of the two most significant negative issues from the previous comparative period. One of these, namely the "unwind" of the bad debts emanating from the large retail lending books, is mainly due to the changing environment. The other, reducing losses from certain offshore trading portfolios within our investment bank relates to the "own goals" I discussed in last year's statement and I would like to spend some time on this issue.

FRANCHISE VALUE

There are many strategies within the Group which are designed to grow revenues in an environment that is expected to be challenging for the topline.

Whilst I do not want to dwell for too long on the past, it does have some relevance to our current strategy. May I remind you of what I said last year; "Going forward there will be an increased focus on client driven activities and a healthier balance between these activities and proprietary trading or investment activities. In addition, secondary market activities will link to client activities or leverage the existing primary market position. Whilst it is likely that this shift may result in lower ROE's, it will improve quality of earnings and reduce volatility and still produce acceptable returns to shareholders".

This shift in focus is particularly relevant to our investment bank's business and you will see in the operational review of RMB on page 43 that they have rigorously followed through on this approach. As part of its strategy to rebalance its business and improve the quality of its earnings, RMB has significantly strengthened its domestic client driven activities and scaled its trading activities in line with its risk appetite framework. This has allowed RMB to proactively manage the trade-offs between earnings, volatility, profitability and growth and I believe this approach will generate the appropriate returns for shareholders and ensure that the "bull market" strategies of the past will not be repeated.

There are many strategies within the Group which are designed to grow revenues in an environment that is expected to be challenging for the topline. The earnings of FNB, our commercial and retail bank, are currently benefiting from the massive reduction in bad debts. However, FNB recognises that once that unwind begins to lose momentum, meaningful and innovative responses will be required. As a result, FNB is aggressively growing its franchise in certain segments of the South African market and expanding its footprint in high growth African markets.

FNB also continues to benefit from a strong focus on efficiencies and sustainable containment of cost growth. This should be of particular interest to those market watchers that believe that the effective management of costs is not in the DNA of FirstRand. Whilst I acknowledge that as an entrepreneurial culture we do get excited about growing the topline, it is important to appreciate the significant progress FNB has made in maintaining cost growth to well below inflation for two years running, with the absolute increase in costs in the year under review the lowest in recent history.

So our banking businesses are in good shape and are taking all the necessary actions to deliver sustainable returns to shareholders. I would now like to turn to our insurance subsidiary, Momentum.

Merging Momentum with Metropolitan – unlocking shareholder value

The earnings of our insurance subsidiary Momentum were helped by a recovery in equity markets, particularly in the first half of the year, combined with a continued strong operational performance. This translated into overall normalised earnings increasing 10% to R1.81 billion with the ROE remaining ahead of Momentum's target at 22%.

During the year under review we announced our intention to merge Momentum with Metropolitan and unbundle the merged entity from FirstRand. Contrary to the endless speculation by press and analysts that FirstRand motivated to unbundle Momentum because we want to clean up our structure and give up on our bancassurance strategy, the merger was actually motivated to FirstRand by Momentum's management and Board. The company needs to pursue new growth initiatives, particularly in the lower income markets, and this is where Metropolitan has built a strong franchise. Much has been said and written on the benefits of the merger, which I do not intend to repeat here. Suffice to say that we consider the creation of a new player in the market to be very exciting from a growth perspective and I reiterate that FirstRand remains fully committed to growing our successful bancassurance business between Momentum and FNB, on a preferred relationship basis.

I recently looked at some data that showed the level of growth Momentum achieved from 1992 – when it merged with RMB, to date. Earnings in 1992 were R21 million compared to this year's number of R1.8 billion representing a compound growth rate of 28%. What this shows is that Momentum has produced excellent returns for FirstRand shareholders over the years, and we have been very fortunate to have an insurance subsidiary of such quality, with an excellent and longstanding management team, in our "stable" for so long.

Bankers' pay – finding the proper alignment of interests

I now want to return briefly to a topic that I discussed in some detail in last year's report – that of remuneration. I am sure if I googled this topic I would find hundreds of blogs dedicated to the vilification of bankers, their hubris and their greed. As a banker myself, it is tough to be self righteous in the face of such strong public anger and the only thing I can say in FirstRand's defence is 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.

In the Report of the Remuneration Committee ("Remco") on page 79 the committee's Chairman, Pat Goss states; "The Group believes that the "deferral" of certain components of performance payments will ensure senior and executive management focus on creating medium to long term value for stakeholders. Therefore during the year under review, for the first time, FirstRand increased the deferral period of a component of variable pay to a period longer than 12 months. 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."

In line with this statement, between 20% and 40% of all performance payments above R1.5 million was deferred in FirstRand shares for two years. In addition 40% of performance payments above R1.5 million made to the FirstRand Executive committee was deferred in FirstRand shares for two years, with more than 40% of performance payments made to the CEO and COO being deferred for two years. I believe that this structure should provide shareholders with comfort that the executive management of this Group are appropriately motivated to grow long term value.

This is further underlined by the proposed purchase by FirstRand senior management of ordinary shares currently owned by the Group's founders, namely myself, GT Ferreira and Paul Harris, at a total value of R398.4 million.

OWNER-MANAGER CULTURE

Much of FirstRand's success since inception can be attributed to the "owner-manager" culture that has been embedded in the Group over many years. This culture has been critical to the spirit of innovation and entrepreneurship that has differentiated the Group from its peers. The transference of ownership of these shares to FirstRand senior management goes some way towards creating the next generation of "owner-managers" to take the businesses forward, and in addition, as senior management's own capital is now at stake, the interests of executives and shareholders continue to be closely aligned.

Looking back briefly before looking forward

Before I conclude my report with a comment on the Group's prospects I would just like to briefly discuss the World Cup. This event proved to be everything we hoped it would be; a positive window on our country in the eyes of the world; a flexion point of immense pride for every South African and, despite the hopes of many a naysayer around the world, an incredibly efficient and well run tournament. Much of the credit for this must rest with FIFA as they provide an extremely tight framework for the host country, characterised by ruthless oversight, non negotiable deadlines and clear accountability. With unwavering political will and strong leadership by Danny Jordaan and his team, South Africa really did rise to the occasion, and hopefully this has finally put to bed the perception that Africa is low tech, undisciplined and corrupt. The stadiums were all finished in time and were world class, matches started on time, supporters weren't mugged every time they visited Soweto, the transport system worked, the TV networks didn't fall down – so many examples of this country's "big match temperament".

I am not the first person to ask why we cannot keep this "delivery" mindset for executing on our other infrastructure plans in the areas of service delivery, electricity and water, which are critical to the long term prosperity of the country. Can we learn and improve on what FIFA gave us? I hope we can, as South Africa is competing with a number of high growth emerging markets for investment flows, and we need to invest in our own capacity to deliver growth in the longer term.

Looking forward, the South African external economic environment seems to have stabilised, but topline growth in the medium term will remain challenging. The unwind of bad debts in the retail franchises will continue to provide support to the Group's current earnings recovery, however growth in advances will remain low as levels of consumer indebtedness are still at historic highs and corporates remain cautious.

Despite these "headwinds", and in line with our strategy, we continue to invest in our infrastructure in South Africa, particularly where significant growth opportunities have been identified and we continue to grow our footprint and client franchise in other selected African markets. In his CEO's report on page 10, Sizwe Nxasana provides more detail on the current execution of this strategy.

In closing...

I would like to thank the FirstRand executive management team and the many people we employ throughout the Group for producing this strong performance in what were challenging conditions. My last words remain for Van Zyl Slabbert, who passed away this year after serving for eight years on our Board. On hearing of his death, someone remarked to me that it felt as though a Prime Minister had died, such was the stature of the man. In the years that he served on the FirstRand Board he made an irreplaceable contribution to our debates, particularly the potential impact of social and political changes on our business. His was a formidable intellect, and both FirstRand and South Africa will miss that wisdom in the years to come.

Laurie Dippenaar
Chairman

CEO's report

IT'S ALL ABOUT DELIVERING A SUSTAINABLE PERFORMANCE OVER THE LONGER TERM

FirstRand's performance this year was most satisfactory and I am extremely pleased that we have regained our position as a leading financial services group, delivering sustainable returns to our shareholders within acceptable levels of volatility. A detailed explanation of our financial performance can be found in the COO & CFO's report on page 14.

One of the most critical aspects of running a business that provides employment to thousands of people and is core to broader socio economic development is ensuring the long term sustainability of that business. As we have seen all too recently, when banks fail the economic stability of nations and indeed the entire global financial system are threatened. This has brought the issue of "sustainability" into sharp focus. Sustainability has been considered somewhat of a "soft" topic until fairly recently, an addendum to the normal course of running a business and relying too heavily on anecdotal evidence rather than measurable benchmarks. This approach is now a thing of the past.

The new King III Code on Corporate Governance in South Africa, which is recognised as a highly progressive standard internationally, calls for integrated sustainability reporting among other governance requirements. Underlying this is the need for management to show how social, economic and environmental issues impact on growth drivers, as well as how they are managing these issues as an inseparable function of business strategy and risk management.

At FirstRand we recognise that delivering our growth objectives is contingent on our approach to sustainability. As a large financial services group, the health of our business depends on a stable political and fiscal environment; our ability to attract the best and most appropriate skills; providing an excellent service to our customers and maintaining constructive relationships with governments, providers of capital and the broader community. All of these considerations are embedded in our strategic thinking and operational execution.

Stakeholders require management to prove the sustainability of their business through a rigorous examination and explanation of the specific linkages between strategy, operational execution, risk management, customer and staff satisfaction, and financial performance. This ultimately represents a truly "integrated" investment picture, and this year's annual report builds on FirstRand's efforts to present such a complete investment picture. I believe this is particularly important for a business such as ours, given the importance of banks to the economies and communities they serve.

Against this background, in my CEO's report this year I would like to cover three topics I believe are key to FirstRand's future success and sustainability, namely our owner-manager culture, our approach to transformation and our strategy. These topics do not in any way represent an exhaustive list but they are aspects of our business that will ensure we thrive as an organisation over the longer term. Elsewhere in the annual report you will find explanations of other key issues such as financial performance and risk management (the COO & CFO's report, starting on page 14),

SIZWE NXASANA [CEO]

operational execution (Review of Operations, pages 35 to 53) and governance (starting on page 55).

FirstRand's "owner-manager" culture – critical to delivering franchise value and superior returns

On the cover of this annual report we list the key components of our investment proposition – through our owner-manager culture and innovation we are successfully building franchise value. I strongly believe that this linkage is a powerful and positive differentiating factor for FirstRand.

Much has been made of the negative aspects of our business model and "empowering" culture, with some commentators suggesting that the losses the Group incurred in 2009 were a direct result of our operating model. Their criticism supposed that our controls became too loose, people were overly empowered and able to ignore risk limits and frameworks. It is important to understand that the disappointing performances from our international portfolios related to poor judgement rather than a breakdown of risk controls. This can happen in a centralised structure as much as in a federal model such as FirstRand's.

FirstRand's owner-manager culture is unique. It is rooted in the belief held by the founders of the Group that if a manager runs a business as if they are an owner, the manager will make decisions that are tightly aligned to the interests of shareholders. They are also likely to be more entrepreneurial and innovative if they take ownership of the success (or failure) of the enterprise.

It is worth spending some time explaining how this owner-manager concept translates practically into financial performance. Last year FNB implemented an initiative designed to put the Group's owner-manager culture to work in its branches. Known as the Associate Model it was designed around global franchising principles. Evidence suggested that a synergistic business relationship between franchisor and franchisee had the ability to release entrepreneurial talent, resulting in:

- increased customer growth and product holding by customers;
- significantly improved customer service and satisfaction;
- engaged and energised staff; and
- sustainable growth in profits.

OWNER-MANAGER CULTURE

FNB embarked on the roll out of the Associate Model early in 2009, identifying the top 20% revenue earning branches and placing the most experienced and proven managers in these branches to run them with an underlying owner-manager mandate.

The table below demonstrates that the owner-manager culture makes a significant difference. All key financial measures such as net profit before tax, cost growth and non interest revenue growth reflect favourably compared with other branches. Customer service and leadership also showed an overall improvement.

Measure	Traditional branch	Associate branch
NPBT growth (excl B/D)	8%	10% ✓
Direct cost growth	8%	5% ✓
NIR growth	9%	10% ✓
Leadership index	80.48	81.61 ✓

This is one of many such initiatives throughout the Group and we believe that they contribute meaningfully to the sustainability of the business. Not only does this approach provide real financial

Our strategic intent is now very clear: to be the African financial services group of choice, creating long term franchise value and delivering superior and sustainable economic returns to shareholders within acceptable levels of volatility.

returns but it also manifests in a strong track record of innovation, our ability to start completely new businesses that often change the shape of entire industries, and the superior ROE that the Group has produced since listing in 1998.

Our culture is also why we are fortunate to attract and retain some of the best people in the financial services industry. One of the statements I made last year in my report was "It is important that FirstRand continues to attract and retain the best industry talent, and key to this is ensuring that the Group's empowering "owner-manager" culture remains intact."

We anticipate that the war for talent will only intensify, particularly as major international banks focus seriously on South Africa and Africa. We are hopeful that the empowering environment we provide to smart, motivated people will result in good retention in the face of inevitable poaching by increasing competition.

Transformation – a genuine approach

A critical component of sustainability is our approach to transformation. We view our role in society as one which must contribute positively and respond effectively to the needs of every country in which we operate. The Group therefore has the objective of conducting business in such a way that its activities help to create better lives for all of the people of South Africa and our other chosen markets. Meeting this broader objective also has positive implications for FirstRand's viability as a business since transformation initiatives help to ensure that we remain an organisation with which present and future decision makers, client bases, employees and other stakeholders can identify positively. At a product and services level we also understand the competitive advantages associated with facilitating socio economic development and demographic transformation within the entire financial services value chain.

One practical example of our integrated approach to transformation is our employment equity and diversity management programme. FirstRand is committed to complying with the letter and the spirit of the Employment Equity Act of South Africa, and moving from procedural compliance to substantive compliance. We strive to acknowledge, understand, accept, value and celebrate differences among our people with respect to age, class, ethnicity, gender, physical and mental ability, race, sexual orientation and spiritual practice. We regard transformation as a strategic imperative and will remove barriers in employment practices, procedures, policies and organisational attitudes for the benefit of the effectiveness of our workforce and the social consciousness of the individuals who comprise it.

Another example, at a product level, is FirstRand's strategy to "take banking to the people" through products such as FNB's cell phone banking and eWallet. These products enable broad access to financial services for customers living in remote areas and the take up has been significant as evidenced in the fact that FNB has two million customers for its cellphone banking product in South Africa.

Our vision for transformation goes beyond compliance and scorecards – it's about making a positive difference in all of the communities we serve.

Our refined strategy – effective execution in SA and gaining traction elsewhere

One of the topics I covered extensively in my report last year was the refinement of Group strategy following FirstRand's relative underperformance in the financial year to June 2009.

FRANCHISE VALUE

Our strategic intent is now very clear: to be the African financial services group of choice, creating long term franchise value and delivering superior and sustainable economic returns to shareholders within acceptable levels of volatility.

This is driven through two clear growth strategies:

- Become a predominant South African player focusing on both existing markets and those markets where the Group is currently under represented.
- Further grow our existing African franchises, 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 continued to make significant progress on these growth plans, which are executed through our operating franchises, and are unpacked in more detail by each franchise in the Review of Operations section on pages 35 to 53.

Given a key aspect of the Group's overall objective is to grow in certain domestic markets where we are currently under represented I would like to focus on two particular strategies we believe will drive growth going forward.

The first is FNB's increased focus on the lower end of the market. During the year FNB continued to invest in its domestic footprint, particularly electronic channels and cellphone banking which has been particularly successful in the mass market where FNB has built a strong franchise in transactional banking but has historically been under represented in lending. This is being addressed through new strategies such as the rollout of the Easy Plan branches and products.

The second relates to our objective to rebalance our portfolio through a greater weighting in the corporate sector, and the creation of a Corporate and Investment Banking Unit ("CIB"). Over the past 10 years FNB Corporate Banking Group ("CBG") and RMB have built excellent independent franchises in transactional banking and investment banking respectively. Through these franchises corporate customers have had access to 'best of breed' solutions spanning the entire spectrum of their banking needs. However, the lack of alignment between RMB and FNB CBG resulted in insufficient coordination of client activities and this will be fully addressed by CIB.

FNB CBG's and RMB's existing management teams and reporting structures have remained fully intact and continue to benefit from separate support functions and operate under two brands. This allows the two businesses to maintain and preserve their respective identities and cultures. However, to manage the interface with the customer we have created a combined "client coverage" team which will focus on maximising value from the full suite of CIB products for our corporate customers and will operate across all of our targeted geographic markets. The team is supported by the existing wholesale credit team, which already services both FNB CBG and RMB clients.

I am confident that this integrated approach to servicing our corporate clients will allow us to enhance service levels, increase our competitive advantage, deliver a superior offering to clients and significantly improve our share of revenues in the corporate, institutional and interbank markets. In support of this strategy we have increased our risk appetite and adjusted certain prudential limits in investment grade and defensive counters.

With regards to our strategy to grow outside South Africa, the Group's international expansion is gaining traction. Our business plans in Nigeria, Zambia, Angola and Tanzania are on track and our China-Africa corridor strategy has resulted in a number of transactions and a healthy deal pipeline going forward. FirstRand India is developing into a meaningful franchise for the Group, focusing equally on investment and trade flows as part of its strategy to build a robust client base.

Our business plans in Nigeria, Zambia, Angola and Tanzania are on track and our China-Africa corridor strategy has resulted in a number of transactions and a healthy deal pipeline going forward.

Looking ahead – we remain cautious

We expect revenue growth in the medium term to remain challenging, despite the improvement in the retail credit environment. Growth in retail advances will remain low as levels of consumer indebtedness persist at historic highs and growth in corporate advances is expected to also be subdued.

Given these anticipated pressures on the topline the Group is extremely cognisant of the need to manage costs and we are focusing on optimising operational leverage across our entire portfolio. We believe there is significant room for improvement.

However, the Group remains committed to growing the "muscle" in its business, even as it cuts as much "fat" out of the system as possible. We will continue to invest in our infrastructure in South Africa, particularly in segments with high growth prospects and growing our footprint and client franchises in other selected African markets will remain a priority.

I believe that the combination of our current growth plans, the quality of our underlying client franchises and the energy and commitment of management and staff will allow the Group to deliver on its strategy over the short, medium and longer term. We have a dynamic and exciting business with a strong and sustainable investment proposition.

Sizwe Nxasana
Chief excecutive officer

COO & CFO's report

ACTIVELY MANAGING A DIVERSE PORTFOLIO THROUGH THE CYCLE

This report represents a high level overview of FirstRand Limited's financial performance, the drivers of that performance – both in terms of macro environment and Group strategy, the composition of the Group's portfolio and its current risk profile.

Performance commentary

Financial performance

FirstRand's diverse portfolio of banking and insurance businesses produced a strong performance. Normalised earnings improved 39% to R9.96 billion with a normalised return on equity ("ROE") of 18%.

GROUP KEY RATIOS

	2010	2009	% change
Normalised earnings (R million)	**9 963**	7 151	39
Normalised return on equity (%)	**18**	14	
Normalised earnings per share (diluted) (cents)	**176.7**	126.8	39

The Banking Group's results for the period under review reflect a significant recovery in profitability in comparison to the 12 month period ended 30 June 2009. The total banking portfolio produced R8.5 billion of normalised earnings, representing an increase of 41% compared to the previous comparative period.

This recovery in earnings was driven mainly by a modest increase in topline and the reversal of the two most significant negative issues from the previous comparative period, namely bad debts emanating from the large retail lending books and losses from certain offshore trading portfolios within the investment bank. Many of the banking operations also showed strong operational performances and a significant private equity realisation positively impacted earnings, despite further impairments that were created against certain portfolios.

Overall impairments decreased 29% from R8.0 billion to R5.7 billion, primarily in the retail franchises of FNB and WesBank, reflecting the positive benefits of the lower interest rate environment. A breakdown of bad debts by product and segment is reflected in the table below.

JOHAN BURGER [COO & CFO]

Percentage of average advances	**6 months to June 2010**	6 months to Dec 2009	6 months to June 2009
Retail	**1.41**	2.08	2.97
– Residential mortgages	**0.73**	1.17	1.76
– Credit card	**5.73**	8.14	12.51
– Vehicle and asset finance	**1.45**	2.20	2.70
Wholesale*	**0.81**	0.71	0.90
Total bad debt ratio	**1.13**	1.51	1.99

** Includes WesBank Business and Corporate.*

In addition, non interest income increased 32% from R20 billion to R26 billion representing a strong recovery in RMB's trading activities and the realisation of Life Healthcare which produced R1.25 billion of profit.

Pressure remained on the net interest income component of the earnings base, due mainly to declining asset growth and the negative impact of lower interest rates on capital and endowment balances. This was, however, partly offset by successful repricing strategies across all lending portfolios.

BANKING GROUP KEY RATIOS

	2010	2009	% change
Normalised earnings (R million)[1]	**8 535**	6 056	41
Normalised return on equity (%)[2]	**18**	13	
Return on assets (%)	**1.24**	0.80	
Credit loss ratio (%)	**1.30**	1.81	
Cost to income ratio (%)	**57.1**	58.1	

1 Before deducting preference share dividends.
2 After deducting preference share dividends and capital.

The earnings of the insurance subsidiary Momentum were positively impacted by a recovery in equity markets, particularly in the first half of the year, combined with a continued strong operational performance. Overall normalised earnings increased 10% to R1.81 billion with the return on equity remaining ahead of Momentum's target at 22% (2009: 23%). Volumes of new savings and retirement annuity business were subdued, as consumers remained under pressure, however, lump sum inflows showed strong growth and FNB insurance continued to perform well.

MOMENTUM KEY RATIOS

	2010	2009	% change
Normalised earnings (R million)	**1 810**	1 649	10
Normalised return on equity (%)	**22**	23	
Return on embedded value (%)	**14.9**	3.3	
CAR cover (times) (before dividend)[1]	**2.1**	1.8	

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

R million	2010	2009	% change
FNB	**4 303**	3 756	14
FNB Africa	**524**	514	2
RMB	**3 261**	1 536	>100
WesBank	**953**	324	>100
Corporate Centre	**(506)**	(74)	(>100)
Banking Group	**8 535**	6 056	41
Momentum Group	**1 810**	1 649	10
FirstRand Limited	**(38)**	(90)	(58)
Dividends paid on non cumulative non redeemable preference shares	**(344)**	(464)	(26)
Total normalised earnings	**9 963**	7 151	39

Performance drivers

The main drivers underlying the Group's performance can be broken down into three key areas; the current macro environment, the continuing reduction in losses from offshore and local legacy portfolios and the successful execution on certain strategies.

Improving macro environment

Whilst the macro environment continues to improve, high levels of consumer indebtedness and corporate capacity remain in the system and this resulted in very subdued lending during the year under review. This in turn placed pressure on net interest income, which was also adversely affected by the negative endowment effect on capital and deposits due to lower average interest rates, as well as the impact of higher term funding costs.

These negatives were offset by a 29% decrease in bad debts, primarily in the large retail lending books of FNB and WesBank. This rapidly improving trend reflects the impact and benefits of the lower interest rate environment and the resultant gradual deleveraging of consumers and contributed R2.4 billion to the Group's pre tax profit.

Reducing legacy portfolios

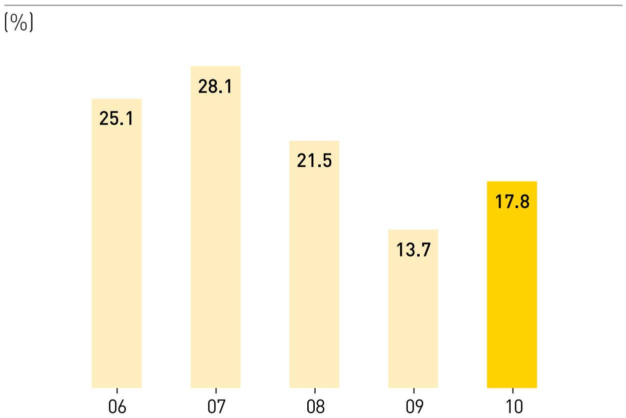
Absolute growth in the Group's non interest income was mainly driven by client/primary market activities, (representing 87% of normalised non interest revenue), however, the significant turnaround in fair value income resulted from reduced losses in RMB's offshore legacy portfolios, which was achieved despite further derisking and write downs in the local Dealstream portfolios.

The remaining portfolio size was R1 739 million at 30 June 2010 (2009: R3 213 million), which management believes is manageable in the overall context of the Group, but it will still take time to realise value.

Banks have to focus on increasing the return on assets part of ROE.

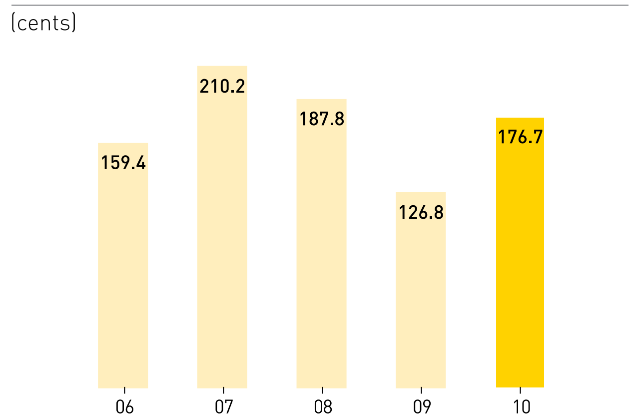
The Group uses certain key performance indicators to monitor progress of strategy. These include:

Normalised ROE



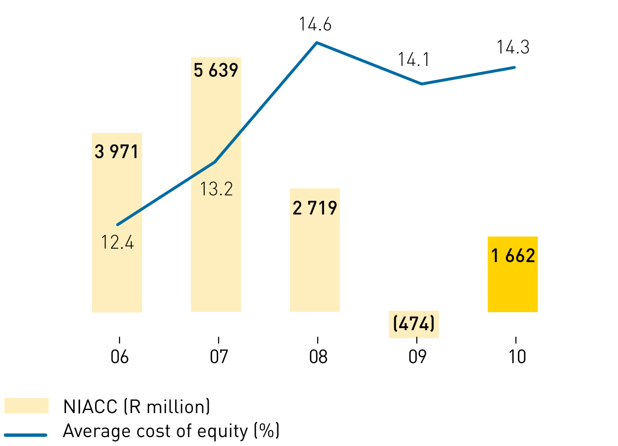
When the Group analyses ROE, it also takes into account the relationship between ROA and gearing levels.

Normalised EPS



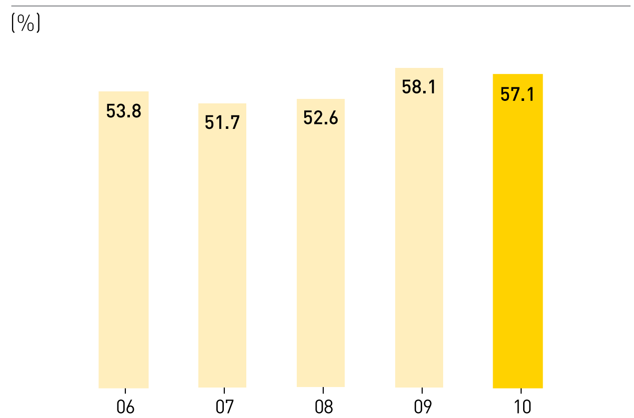
The Group's target is nominal GDP + 3% to 5%.

Net income after cost of capital ("NIACC")



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

Cost to income



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

Refined strategy – rebalancing the portfolio

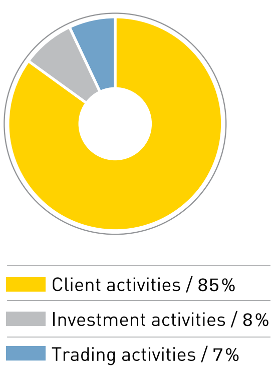
In last year's annual report the Group outlined its refined strategy and addressed specific issues relating to the composition of FirstRand's portfolio at the time. This year the CEO's report updates shareholders on the progress of that strategy (see page 12). The execution of growth plans in South Africa and Africa are explained in further detail by each operating franchise in the review of operations on pages 35 to 53.

A key component of the refined strategy is to improve quality of earnings and reduce volatility and the results for the year under review demonstrate that the Group has started to deliver on this component of its strategy.

Chart 1 (below) shows that the Group's portfolio now exhibits a more appropriate balance between revenues from client, investment and trading businesses compared to three years ago. The growth in revenue from client activities resulted in an improvement in the quality of earnings and was largely driven by a change in strategy in the investment banking franchise. As part of its strategy to rebalance its business and improve the quality of its earnings, RMB strengthened its domestic client driven activities and scaled its trading activities in line with its risk appetite framework. The key objectives of the new risk appetite framework are to manage the trade-offs between earnings, volatility, profitability and growth, and aim for a targeted business mix of 60% client income, 25% investing income and 15% trading income. RMB's current mix can be seen in Chart 2.

Chart 1: Group generating greater proportion of gross revenue from client activities compared to three years ago

2007



2010

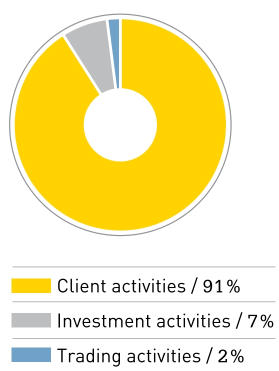
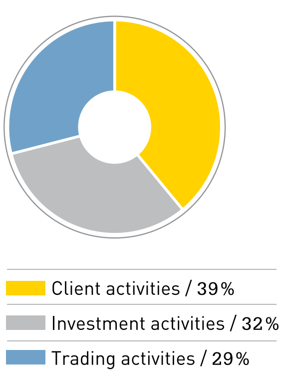
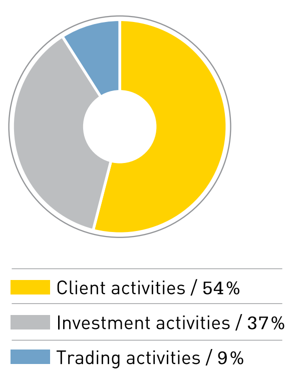


Chart 2: Shift in gross revenue composition of RMB over the past three years

2007



2010

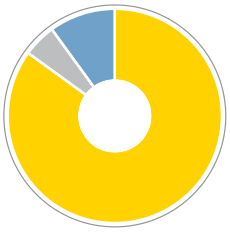


Growing geographical diversification

Approximately 90% of Group earnings are generated in South Africa. As a result, the Group's fortunes are closely linked to that of the South African economy. Given that the medium-term outlook for GDP growth in South Africa is muted, the Group is focused on growing its African franchise, targeting those markets which are expected to deliver above average growth and returns and that will benefit most from China/India/Africa trade and investment flows. Despite the current dominance of South Africa in the Group's earnings profile, Chart 3 below does illustrate some progress in this regard and that the contribution from the rest of Africa is gradually increasing.

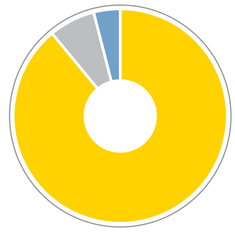
Chart 3: Geographical diversification – change in mix over the past three years

2007



South Africa / 85%	
Rest of Africa / 5%	
International / 10%	

2010



South Africa / 89%	
Rest of Africa / 7%	
International / 4%	

Strategy and risk profile aligned

The strategic planning process

FirstRand believes that effective risk management is of primary importance to the success of the Group 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.

As discussed previously and outlined in detail in the CEO's report, FirstRand's overall objective is to be the African financial services group of choice. To execute on these strategies, the Group will actively assume certain risks – including credit, market and investment risk. As a consequence of its banking activities it also incurs funding and liquidity, operational, interest rate and reputational risk. These risks are predominantly within South Africa and other select African markets.

In addition to the above risks, the Group's strategy can also be affected by external risks such as regulatory changes, political shifts and macroeconomic conditions.

The collective leadership of FirstRand, including the FirstRand CEO, COO and the franchise CEOs, determines the Group's strategy and is accountable for the overall performance of the Group. The strategy is approved by the FirstRand Board. The determination of the Group's strategy is a dynamic process as illustrated by the diagram on the next page. It is designed to achieve superior, sustainable economic returns to shareholders, within acceptable levels of earnings volatility. The Group's strategy is executed through its portfolio of leading franchises. The Group seeks be represented in all significant earnings pools across all chosen market segments playing across the full value chain (lending, transactional, savings and risk taking), therefore, this portfolio must represent the appropriate business mix and risk profile to deliver on this strategy.

On a regular basis, depending on certain macro dynamics or specific internal issues, the Group assesses whether the risk profile or business mix within its portfolio is optimal to deliver on its strategy; if not, it will take actions to adjust accordingly. A recent example of this is RMB's deliberate action to increase its focus on client driven activities rather than proprietary trading or investment activities in both the South African and international operations. In addition, RMB's secondary market activities will link to client activities, or leverage the existing primary market position. Whilst it is likely that this shift may result in slightly lower ROEs, it will improve the quality of earnings, reduce volatility, and still produce superior returns to shareholders. In another example, the large retail books in FNB and WesBank were too exposed to both cyclical and structural dynamics. Both businesses responded by improving the risk profile and repricing for new business. Such adjustments by WesBank and FNB will also reduce earnings volatility.

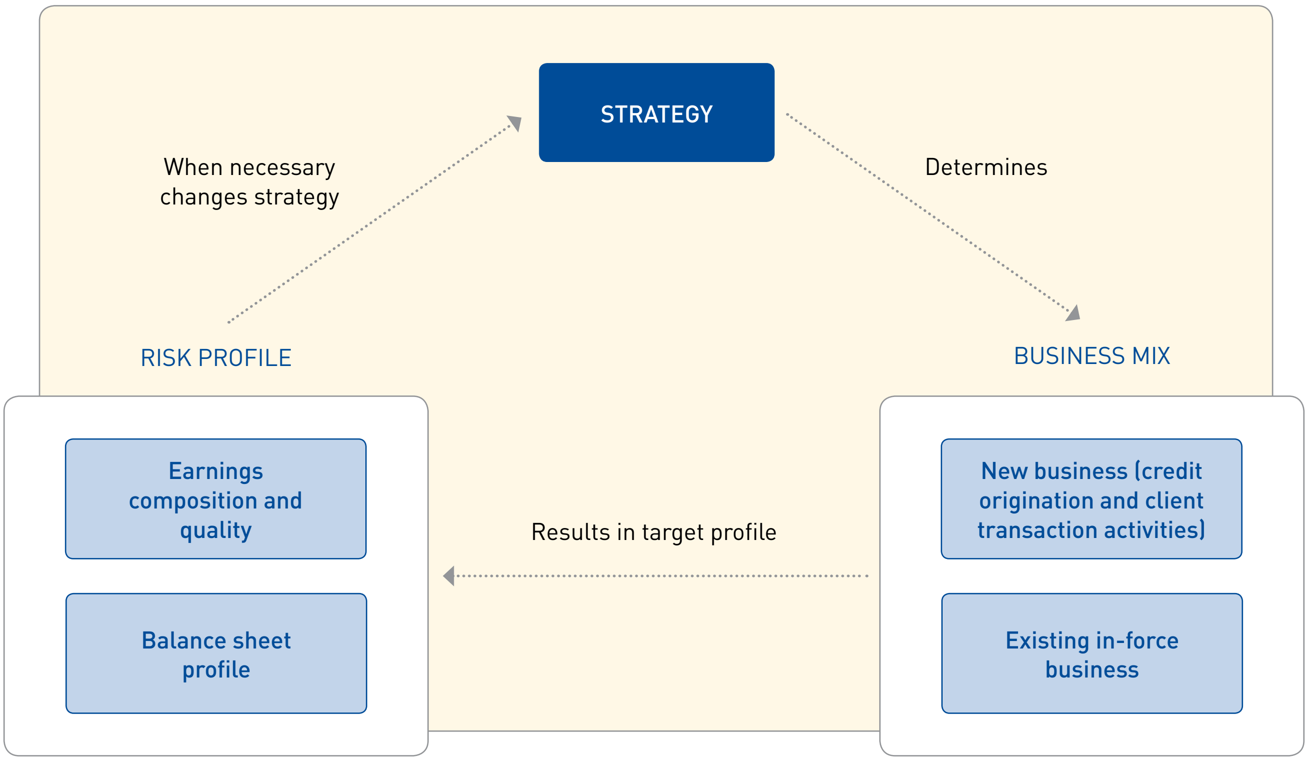
Applying the basic disciplines

A critical objective of the Group is to maintain a robust balance sheet and earnings profile through the cycle. To achieve this, the Group adheres to some basic disciplines:

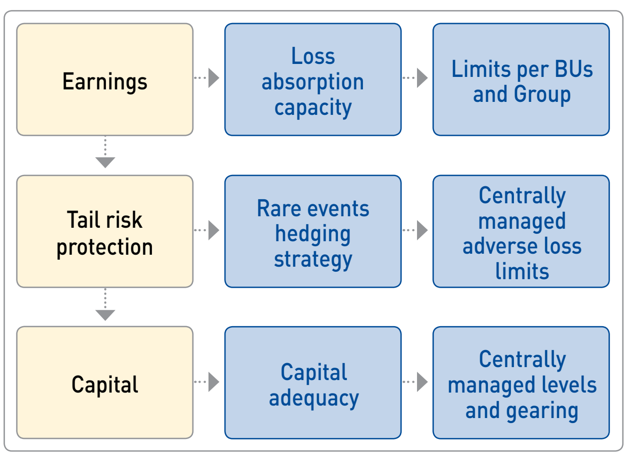
- it holds appropriate levels of core capital;
- manages liquidity prudently;
- manages its diversified portfolio on a holistic basis, utilising natural hedges and business mix to ensure sufficient loss absorbing earnings capacity;
- manages its asset profile in line with risk appetite ranges;
- drives operational efficiencies across its portfolio; and
- rebalances its portfolios for different macro scenarios.

The Group ensures that the quality and diversity of the earnings profile is such that it can absorb losses resulting from risk taking activities.

Determination of Group strategy



As illustrated in the diagram below, the Group views earnings as its first defence against adverse outcomes.



Beyond targeting suitable earnings streams, the Group can also enhance value by understanding, managing and mitigating tail risks to earnings stability. As part of its forecasting process, the Group considers outcomes beyond its core and risk scenarios which might have large adverse effects. As an additional layer of defence against tail risk, the Group also implements certain hedges.

In addition to earnings, capital provides a further buffer against unexpected losses. The Group is appropriately capitalised under a range of normal and severe scenarios, as well as under a range of stress events. The Group aims to back all economic risk with Tier 1 capital, as it offers the only real capacity to absorb losses. Currently, at least 90% of the Tier 1 ratio is equity capital.

Macro shifts impact risk appetite and strategy

Significant shifts in the macro environment are also critical to any strategic adjustments. FirstRand manages its business based on a single "house view" which inputs into the budgeting and forecasting process, informs credit origination strategies, funding strategies and capital stress testing, directs the interest rate positioning of the banking book, and is used for tail risk strategies.

There is a central unit tasked with formulating and communicating this macroeconomic 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.

The Group believes that it is critical to align its strategy with its economic view by focussing on the key macro drivers of earnings. Based on fundamental research the Group assesses the macro-economic environment against the long-run trends and cycles of the economy which are defined as "highways". This allows the

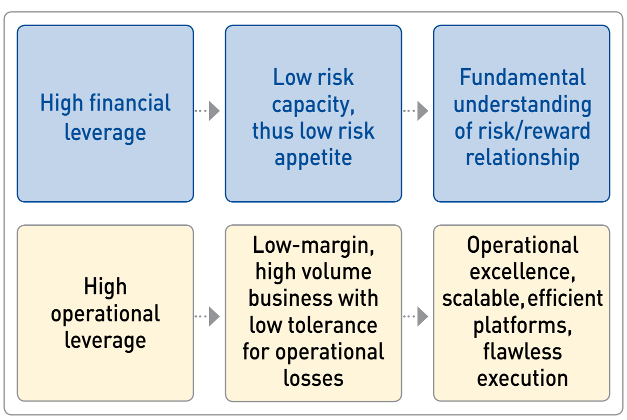
The Group believes that it is critical to align its strategy with its economic view by focussing on the key macro drivers of earnings. Based on fundamental research the Group assesses the macroeconomic environment against the long-run trends and cycles of the economy which are defined as "highways".

Group to take a counter cyclical approach by adjusting strategy when the macro drivers move outside of their respective highways.

By way of an example; the Rand's current strength has introduced a cyclically low inflation and interest rate environment, which in turn has pushed debt servicing cost to a cyclical low. Despite these key data points sitting at the bottom of their respective highways, the Group will adjust its credit origination strategy only on the basis that this reflects a cyclical rather than structural shift.

Refinements to business models

A further focus area is to understand at business unit, franchise and Group level, the relationship between financial/operating leverage, risk capacity/appetite and business mix (or portfolio composition) (see diagram below).



It is an improved understanding of these linkages which led RMB to reconfigure its business model to focus more on client activity and reduce its reliance on trading income (thus improving diversification and loss absorption capacity). These actions have improved the quality of RMB's earnings and enhanced the sustainability of the franchise.

A more thorough understanding of FNB HomeLoans' risk capacity and macroeconomic constraints has enabled management to adjust strategy and risk appetite appropriately, reducing the earnings volatility of the business unit, FNB and the Group overall.

Given the macro growth challenges in its domestic market, the group continues to focus on driving operational leverage. Where business units have high operational volumes, emphasis is being placed on ensuring that platforms are scalable, operational performance is excellent and that risk appetite is appropriate. Management feels that some of its platforms are not achieving optimal operational leverage or efficiency and this is a significant area of focus in the coming financial year.

Group risk profile

Income statement/earnings profile

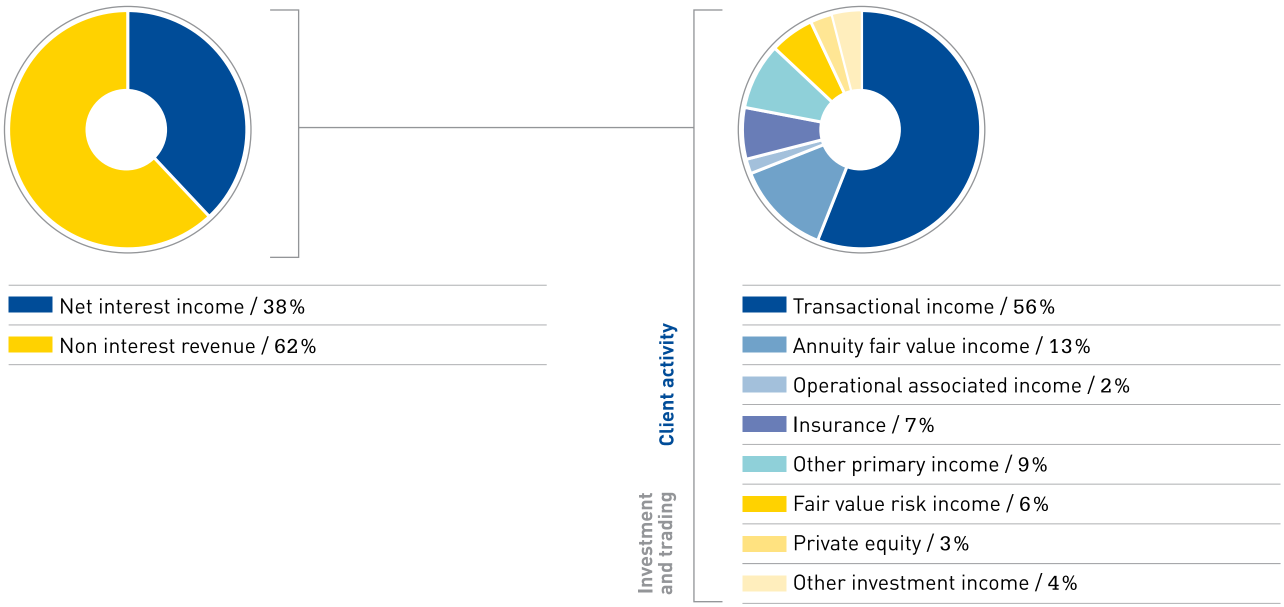
In line with the Group's objective to maintain a well diversified earnings pool across a broad range of business activities, the current earnings profile is made up of revenue relating to credit lending activities (net interest income or "NII") and revenue as a result of transactional and client activities (non interest revenue or "NIR").

Both revenue components are dependent on macroeconomic conditions:

- The interest rate and general credit environment will impact NII in terms of endowment and impairment levels (which are impacted by consumer indebtedness/affordability levels, unemployment, etc.), as well as the level of advances growth.
- Transactional income and fee and commission income (sources of annuity NIR) are more stable although dependent on the level of economic activity.

For the year ended 30 June 2010, normalised gross revenue comprised 38% NII and 62% NIR. The larger proportion of NIR is appropriate as it relates to transactional revenues that have low volatility and stable annuity profiles and this contributes significantly to capacity to absorb the impact of risks resulting from credit lending and other activities. NIR has been stable during the recent financial crisis and continues to grow at acceptable levels.

Gross revenue composition and breakdown of normalised non interest revenue components



Balance sheet structure

FirstRand's earnings are substantially driven by its balance sheet, and, through its integrated balance sheet management approach, the Group ensures appropriate alignment between credit, capital and funding strategies within the appropriate risk framework.

The Group's growth strategy can impact the composition of the balance sheet. The current profile is explained below.

Assets

Loans and advances

Advances resulting from lending activities constitute the largest portion (approximately two thirds) of assets on the Group's balance sheet. More than 90% of these advances relate to the South African market with the performance of the Group's advances thus largely dependent on macroeconomic conditions and the state of the South African economy. Approximately two thirds of advances result from retail lending activities. As a result, adverse conditions such as high interest rates and debt servicing cost, unemployment and asset price shocks could negatively impact the financial performance of the Bank.

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 Bank 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 Bank's portfolio of client deal structuring activities. The majority of these positions are offsetting from a risk profile perspective. The Group also has a private equity investment portfolio of approximately R6 billion.

Liabilities

The Bank'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 – more about this in the Funding and liquidity risk section); and
- short trading positions and derivatives, which represent the accounting based disaggregation relating to deal structuring activities as described in the Assets section above.

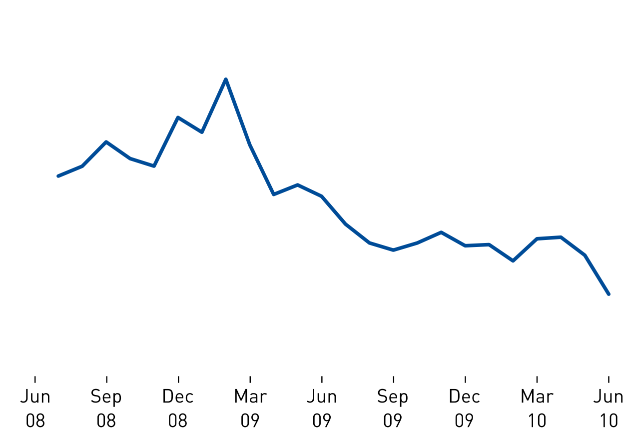
Financial risks

Credit risk

Credit strategy is managed as part of the broader balance sheet management process and is aligned with the Group's view of trends in the wider economy. The Group's 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 164 to 165). These portfolios were also positively impacted by interest rates continuing to trend downwards, income growth and increasing wages. However, job losses also continued, albeit at a slower rate.

Interest rate reductions, which started in 2008 and continued into 2010, resulted in a reduction in NPL inflows and consequently in the credit impairment charges of most retail portfolios (the chart below shows the decline in NPL inflows at FNB HomeLoans, the Group's largest retail lending book). The level of NPLs remained high, however, due to the debt counselling process. As a result of the improvement in credit quality, the Group's retail portfolios now fall within the Group's desired credit appetite ranges.

FNB HomeLoans – trend analysis of new NPLs



Despite the reduction in debt servicing costs as a result of lower interest rates, the subsequent improvement in affordability and underlying asset recovery (e.g. house price growth), 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 the timing and strength of the recovery.

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 FNB Corporate and Transactional Banking; and
- short term money market exposures in FICC.

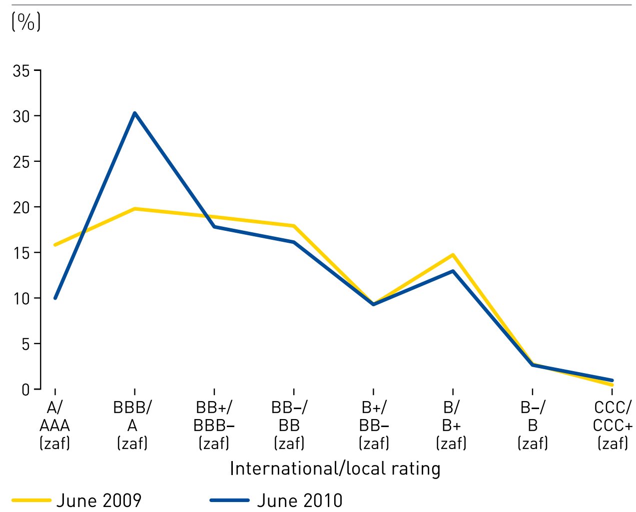
In addition, exposures resulting from financial market activities, such as cash placements by Group Treasury at other institutions, and credit exposure resulting from positive mark-to-market movements on derivatives and securities financing activities (e.g. reverse repos) are also managed as part of 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 Bank'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.
- Counterparty debt capacity: the client's debt capacity, ability and willingness to repay its debt is a key consideration. A counterparty's prudential limit will be capped at its own debt capacity.
- Risk sharing: the Bank's appetite to participate in the counter-part's debt capacity is informed by when, and to what extent, the Bank will share risk with other banks.

The Wholesale portfolio has remained resilient in the face of the market downturn in the year under review, as can be seen in the graph on wholesale credit quality below. The majority of negative credit migrations were experienced in specific subsectors, such as property development and transportation, while most of the exposures in other industries showed resilience against the downturn. The strategy of rebalancing the Wholesale portfolio to more investment-grade lending has also already started paying off. Lending appears likely to remain tepid as corporates maintain high levels of cash and investment spending remains subdued.

Rating distribution – FRB Corporate book



In line with the Group's objective to rebalance its portfolio, it is increasing its exposure to large corporate credit. The existing in-force book, which has been originated by the investment bank, has historically performed well, but, due to the natural run-off profile of these exposures, capacity is available to write more high-quality credit. To support this initiative, the Group has created a corporate and investment banking unit, with an integrated client coverage team and has adjusted certain prudential limits in investment-grade and defensive counters.

Market risk

The financial performance of the bank and its ability to realise positions at a favourable return is dependent on market conditions

The South African market is characterised by a low discretionary savings rate. However, there is a higher degree of contractual savings, which are captured by institutions such as pension funds, provident funds and asset management providers.

and the environment in which it operates. The Bank'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 sits predominantly within the trading activities of RMB with the bulk resulting from activities in equity and fixed income markets in South Africa. As can be seen from the chart showing the daily regulatory trading book earnings vs. 1 day 99% VaR (page 176), the level of risk decreased towards the end of the financial year, mainly reflecting market conditions characterised by decreasing market volatility and reduced opportunities.

Going forward it is expected that RMB's increased focus on corporate client acquisition will result in increased client flows for the trading units, and therefore increased capacity for taking risk.

Equity investment risk

The majority of the Group's investment risk is represented by RMB's private equity portfolio. All private equity investments use an on balance sheet model, as opposed to a third party standalone fund model. This provides RMB with optimal flexibility in terms of timing of investments and realisations.

RMB takes sufficient stakes to allow it to exert a meaningful influence in medium sized counters, and it follows a partnership model. There are a number of different private equity teams, which concentrate on separate sectors and investment styles. This is reflected in the vintage profile of the portfolio and provides investment and realisation flexibility through the cycle and a level of protection from earnings volatility.

The portfolio is equity accounted, which results in lower volatility in the portfolio's earnings stream. The appetite for investment risk has remained constant. There is still significant unrealised value in the private equity portfolios (R1.4 billion at 30 June 2010).

Other sources of equity investment risk include listed equity stakes totalling R1.38 billion at 30 June 2010, and the three large investments acquired by RMB in 2008, following the default of Dealstream (a clearing client), which were written down in the current year, resulting in a significant derisking of this portfolio – the value in use at 30 June 2010 amounted to R320 million (2009: R1 019 million).

Funding and liquidity risk

The South African market is characterised by a low discretionary savings rate. However, there is a higher degree of contractual savings, which are captured by institutions such as pension funds, provident funds and asset management providers. A portion of this translates into wholesale funding for banks, which is more expensive and has a shorter term than traditional retail deposits. All major banks in South Africa are thus reliant on a significant portion of short term, expensive institutional deposits to fund longer dated assets such as mortgages. In other words, liquidity risk in the South African banking system is structurally higher than in most other markets. This situation is to some extent mitigated by the following factors (which helped the country to weather the global financial crisis without any disruptions to the interbank market):

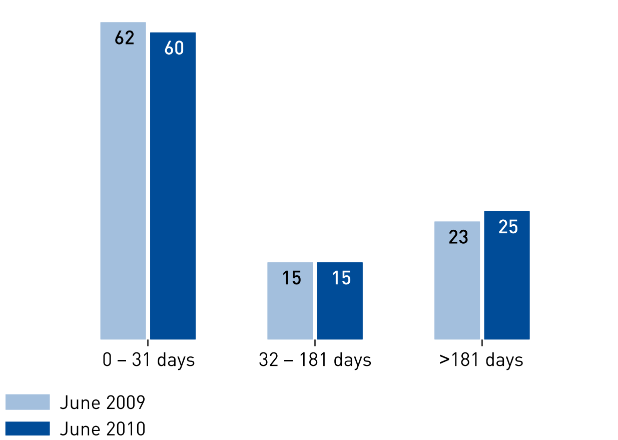
- The so-called "closed rand" system, whereby all rand transactions (whether physical or derivative) have to be cleared and settled in South Africa. FirstRand Bank is one of the major clearing/settlement agents. The payments and settlement system in South Africa is currently only open to registered banks 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 rollover risk).

Against this backdrop, FirstRand's objective is to fund its activities in a sustainable, efficient, diversified and flexible manner, underpinned by strong counterparty relationships. The Group has a strong and stable deposit franchise, which spans the consumer, commercial and corporate segments. Institutional funding represents a third of the Group's total funding. This reliance on funding from the institutional market remains a risk concentration that is actively managed through the holding of appropriate liquidity buffers and continued focus on lengthening the term profile of this funding. The Group conducts scenario and stress simulations to ensure it has a prudent liquidity buffer over and above the minimum statutory requirement. The term structure of liabilities is driven by the funding profile requirements of the Bank, and any associated interest rate risk that arises is managed as part of the banking book's net interest rate profile (discussed in the next section).

Over the past year the Bank continued to lengthen its funding profile (as shown in the chart below), and further increased liquidity buffers.

FirstRand Bank funding profile

(%)



Increased issuance by Government to fund the budget deficit and infrastructure investment places upward pressure on yields, however this has been tempered by the global shift in asset allocation to emerging markets. Liquidity premiums remain at levels higher than previous years but have significantly retraced from their peaks. Where the term is less than one year premiums have moderated as banks favour longer term funding and asset growth is expected to remain subdued.

Interest rate risk in the banking book

Interest rate risk in the banking book is made up of two components, namely 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 currently accounts for approximately 80% of the interest rate risk in the banking book. The negative endowment effect had a severe impact on NII in the year to June 2010, as rates were on average 3.9 percentage points lower than in the comparative period.

The endowment risk is managed as part of the 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. From an interest rate mismatch perspective, the Bank also hedges its residual fixed-rate position, which has been adjusted for optionality (e.g. prepayments).

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 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.

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 almost continuous change or renewal. It is common practice, when implementing change of this nature, to proactively address less than optimal operational procedures with meaningful adjustments to risk management. The Board and management are not satisfied with the current level of operational losses, albeit in line with industry experience, and have therefore embarked on a consistent and disciplined approach of linking business processes to the operational risk and control environment.

Going forward the Group will execute on its stated strategy, leveraging off an existing platform of diverse revenue streams and strong operating franchises. In the process, management aims to rebalance the current portfolio to achieve an appropriate mix.

Risk arising from the changing regulatory environment

The Group is subject to extensive regulation in the environments where it operates. Most notably this includes the Banks Act 94 of 1990 (as amended), the Regulations thereto and the Basel II framework. In terms of the Basel II framework, the Bank is subject to Tier 1 and Tier 2 minimum capital requirements.

The Group continues to monitor developments, search for opportunities to engage with regulators, and assess the impact of regulatory changes on its business operations. Two of the most significant regulatory changes impacting the bank are discussed below.

Basel Committee on Banking Supervision proposals on capital and liquidity

The recent global financial crisis is expected to result in increased political and regulatory pressure on banking systems worldwide. Some of these pressures are likely to materialise in South Africa, particularly given its G20 membership. For example, the South African Reserve Bank ("SARB") is expected to implement the Basel Committee on Banking Supervision ("BCBS") proposals on capital and liquidity.

The impact of the proposed new requirements is expected to be especially significant from a liquidity perspective. Given the structural funding challenges in South Africa, banks would not be able to comply with the net stable funding ratio and liquidity coverage ratio as set out in the original December 2009 proposals. The revisions to the proposals outlined in July 2010 have gone some way in addressing banks' concerns, and the most significant change affecting the South African banking sector relates to the implementation of new liquidity requirements. The Liquid Coverage Ratio ("LCR") will be revised by September 2010 to specifically cater for jurisdictions such as South Africa, where there are not sufficient liquid assets to meet the standard. The implementation of the Net Stable Funding Ratio ("NSFR") has been postponed to 2018. Combined with changed assumptions for run-off rates on deposits, funding for residential mortgages and the treatment of interbank funding, FirstRand views these amendments positively, as they reduce the potential for market disruptions inherent in the original proposals.

Government and industry have agreed to set up a task team to investigate the structural funding issues in the South African banking system. The task team will consider issues relating to the lack of retail savings, the disintermediation of banks which resulted from the growth in money market funds, and the different regulatory treatment of banks and money market funds.

FirstRand participated in the quantitative impact study ("QIS") that the BCBS conducted to assess the impact of the new proposals on banks. Preliminary calculations carried out as part of this exercise show that if the current proposals are implemented there would be a reduction in both the Tier 1 and total capital adequacy ratios. However, FirstRand Bank and the Banking Group would remain well above the current regulatory minimum requirement. Although the new regulations and new regulatory minimum have not yet been finalised, FirstRand believes it will be adequately capitalised to meet the new requirements.

Exchange control reforms

Reforms to exchange control (which involve a shift to a system of prudential regulation) were recently announced, which are part of the National Treasury's ongoing exchange control modernisation policy. Whilst these reforms do not represent the abolition of exchange controls, they are extremely positive developments for South Africa as whole. They introduce greater flexibility and efficiency to foreign exchange transactions, and further strengthen international confidence in South Africa's financial system. This should facilitate, over time, increased foreign flows into and out of the domestic economy. Customers will also benefit as the administrative procedures previously carried out by the SARB will now be managed by Authorised Dealers such as FirstRand Bank (and its divisions FNB and RMB), which means that foreign exchange transactions can now be serviced directly by existing branch networks to a much greater degree.

The introduction of the new exchange control prudential limit, which allows banks to invest up to 25% of adjusted liabilities in foreign currency assets, created new growth opportunities (the Bank's current utilisation is approximately 4%). Increased utilisation of the prudential limit will be subject to the Bank's internal limits and risk appetite.

Conclusion

As a large financial services provider in South Africa, it is imperative that FirstRand establishes a risk and earnings profile that protects it from undesirable volatility in its financial results, which may adversely affect its reputation.

The Group operates in an environment which results in certain balance sheet concentrations, e.g. the reliance of the SA banking market on institutional funding and large/lumpy wholesale credit exposures. In response to these concentrations, the Group aims to safeguard its reputation, targets a credit rating of A-, and manages its balance sheet profile such that it is in line with its peer group.

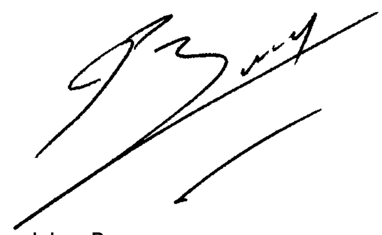
Going forward the Group will execute on its stated strategy, leveraging off an existing platform of diverse revenue streams and strong operating franchises. In the process, management aims to rebalance the current portfolio to achieve an appropriate mix between:

- retail and corporate assets;
- mass, consumer and wealth revenue streams within retail;
- client flows and secondary markets within corporate and investment banking;
- originating assets and liabilities; and
- South Africa and the rest of Africa.

FRANCHISE VALUE

Whilst effective management of risks incurred directly or indirectly is considered a key determinant of successful execution, certain external risk factors can impact on these objectives. The Group constantly monitors all of these risk factors and will adjust its strategy accordingly.

The macro environment going forward is likely to present challenges to topline growth for the Group. Banking earnings are particularly sensitive to domestic GDP growth and the South African economy is driven largely by consumer activity. Domestic households remain highly indebted and advances growth is therefore expected to lag economic activity. Corporate balance sheets continue to be robust, but investment levels remain muted, new employment sluggish, and this could constrain growth in the medium term.



Johan Burger
Chief operating officer and Chief financial officer

Ten year review

R million	2001	2002	2003
Statement of financial position			
Total assets	222 791	374 766	393 674
Advances	102 667	175 161	188 112
Deposits and current accounts	117 559	201 404	215 637
Total equity	14 134	20 306	20 793
Treasury shares	1 272	1 272	1 272
Dividends	1 035	1 415	1 715
Total equity before dividends and treasury shares	16 441	22 993	23 780
Total equity excluding perpetual preference shares	14 134	20 306	20 793
Assets under administration	303 683	473 094	488 242
Income statement			
Earnings attributable to ordinary shareholders	3 056	4 495	4 516
Headline earnings	2 947	4 734	4 847
Normalised earnings	2 947	4 186	5 379
Earnings per share (cents)			
– Basic	56.1	82.5	86.2
– Diluted	56.1	82.5	84.5
Headline earnings per share (cents)			
– Basic	54.1	86.9	92.5
– Diluted	54.1	86.9	90.7
Normalised earnings per share (cents)			
– Basic	54.1	76.9	102.6
– Diluted	54.1	76.9	100.7
Dividends per share (cents)			
– Interim	9.0	13.5	16.5
– Final	10.0	15.0	18.5
Dividend cover	2.8	28.5	35.0
Perpetual preference dividends per share (cents)			
– February	–	–	–
– August	–	–	–
Net asset value per ordinary share	2.60	3.73	3.97
Shares in issue	5 445.3	5 445.3	5 445.3
Weighted average number of shares in issue	5 445.3	5 445.3	5 241.3
Key ratios			
Return on average ordinary equity (%)	24.3	25.2	22.6
Price earnings ratio	13	10	7
Price to book ratio	2.7	2.1	1.9
Market capitalisation (R million)	38 117	41 657	41 602
Closing share price (cents)	700	765	764

2004	2005	2006	2007	2008	2009	**2010**	Compound growth %
424 821	462 231	602 596	721 559	823 944	809 851	**845 240**	13
208 874	221 851	313 885	387 020	446 286	416 488	**434 793**	15
219 061	245 793	332 113	421 568	488 423	478 083	**512 469**	15
23 912	29 910	36 530	43 548	48 689	50 004	**55 951**	14
1 590	3 786	5 792	6 149	6 023	5 976	**6 077**	19
1 956	2 767	3 114	3 795	4 523	3 764	**2 955**	11
27 458	36 463	45 436	53 492	59 235	59 744	**64 983**	15
23 912	26 918	32 011	39 029	44 170	45 485	**51 432**	14
529 039	616 348	794 693	900 148	1 022 088	965 484	**1 006 475**	12
5 676	7 137	8 825	11 511	11 309	6 501	**9 444**	11
5 727	7 129	8 334	10 854	9 922	6 939	**9 453**	11
6 097	7 276	8 958	11 845	10 583	7 151	**9 963**	13
109.3	137.3	171.6	222.9	218.2	124.9	**179.9**	12
106.8	134.5	166.0	216.6	214.1	124.7	**178.1**	12
110.3	137.1	162.1	210.2	191.5	133.3	**180.1**	11
107.7	134.3	156.7	204.2	187.8	133.1	**178.3**	11
117.4	132.4	159.4	210.2	187.8	126.8	**176.7**	12
115.3	131.4	159.2	210.1	187.7	126.8	**176.7**	12
19.3	26.6	32.0	39.5	44.3	34.0	**34.0**	13
26.8	28.5	34.0	43.0	38.2	22.0	**43.0**	15
46.1	55.1	66.0	82.5	82.5	56.0	**77.0**	14
–	228.00	356.00	409.70	477.77	518.94	**342.30**	
–	360.00	363.00	431.00	511.30	423.09	**355.00**	
4.61	5.18	6.22	7.56	8.52	8.74	**9.80**	14
5 476.4	5 613.6	5 634.1	5 635.7	5 637.8	5 637.9	**5 637.9**	
5 192.1	5 199.9	5 142.7	5 163.9	5 182.0	5 206.9	**5 248.2**	
25.4	25.2	25.1	28.1	21.5	13.7	**17.8**	
9	10	11	11	7	11	**10**	
2.2	2.7	2.7	3.0	1.5	1.5	**1.7**	
55 805	77 861	95 216	127 367	74 983	79 269	**101 821**	
1 019	1 387	1 690	2 260	1 330	1 406	**1 806**	

R million	2001	2002	2003
Banking Group			
Return on average ordinary equity (%)	26.0	27.2	22.2
Cost to income ratio (%)	59.9	57.6	57.0
Bad debts as a percentage of advances (%)	0.9	1.1	0.8
Bad debts as a percentage of average advances (%)	1.0	1.1	0.8
Non interest revenue as a percentage of total income (%)	53.7	55.1	42.6
Return on average total assets (%)	1.6	1.6	1.5
Interest margin on average advances (%)	4.8	4.3	5.0
Momentum Group			
Return on average ordinary equity (%)	27.4	28.6	27.0
New business	28 740	31 151	25 975
Funds received from clients	32 751	35 848	30 307
Net flow of funds	4 685	3 724	2 247
Embedded value	10 306	9 532	10 002
Exchange rates			
Rand/US$			
– Closing	8.07	10.31	7.56
– Average	7.42	9.19	8.89
Rand/£			
– Closing	11.35	15.75	12.47
– Average	10.81	14.81	14.12
Statement of financial position[1] US$			
Total assets	33 647	36 350	52 090
Advances	15 290	16 989	24 890
Deposits and current accounts	17 536	19 535	28 532
Total equity	2 056	1 851	2 751
Assets under administration	46 294	45 887	64 603
Income statement[2] US$			
Earnings attributable to ordinary shareholders	482	489	508
Headline earnings	497	515	545
Normalised earnings	465	456	605
Statement of financial position[1] £			
Total assets	23 912	36 350	31 564
Advances	10 866	16 989	15 082
Deposits and current accounts	12 462	19 535	17 289
Total equity	1 461	1 851	1 667
Assets under administration	32 900	45 887	39 146
Income statement[2] £			
Earnings attributable to ordinary shareholders	331	489	320
Headline earnings	341	515	343
Normalised earnings	319	456	381

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.

2004	2005	2006	2007	2008	2009	2010	Compound growth %
24.2	24.2	23.6	27.4	21.5	13.1	**17.8**	
57.5	56.6	53.8	51.7	52.6	58.1	**57.1**	
0.4	0.3	0.4	0.7	1.3	1.9	**1.8**	
0.4	0.3	0.5	0.8	1.2	1.8	**1.3**	
49.1	52.7	56.3	56.5	52.9	50.7	**60.2**	
1.8	1.8	1.7	1.9	1.5	0.8	**1.2**	
4.5	4.3	4.0	4.0	4.1	4.1	**3.7**	
24.3	24.5	24.1	25.3	30.3	22.6	**21.9**	
28 734	42 689	59 403	56 097	65 338	60 470	**56 774**	8
33 171	47 226	64 661	62 268	72 098	68 086	**65 428**	8
727	3 562	2 069	(40 011)	(9 689)	(34 030)	**(18 129)**	–
9 666	11 856	14 438	15 453	16 039	16 086	**17 683**	6
6.18	6.68	7.13	7.07	7.82	7.73	**7.66**	
6.77	6.19	6.44	7.21	7.3	8.88	**7.59**	
11.2	11.97	13.15	14.17	15.6	12.71	**11.48**	
11.83	11.5	11.48	13.99	14.66	14.08	**11.96**	
68 741	69 243	84 516	102 059	105 364	104 794	**110 379**	14
33 798	33 234	44 023	54 741	57 070	53 893	**56 779**	16
35 447	36 820	46 580	59 628	62 458	61 864	**66 923**	16
3 869	4 481	5 123	6 160	6 226	6 470	**7 307**	15
85 605	92 330	111 458	127 319	130 702	124 933	**131 435**	12
838	1 152	1 370	1 597	1 549	732	**1 245**	11
846	1 085	1 260	1 450	1 359	781	**1 246**	11
900	1 175	1 391	1 643	1 450	805	**1 313**	12
37 932	38 622	45 825	50 922	52 817	63 689	**73 657**	13
18 650	18 537	23 870	27 313	28 608	32 749	**37 889**	15
19 560	20 537	25 256	29 751	31 309	37 604	**44 658**	15
2 135	2 499	2 778	3 073	3 121	3 933	**4 876**	14
47 238	51 499	60 433	63 525	65 518	75 940	**87 708**	12
480	621	769	823	771	462	**790**	10
484	585	707	776	677	493	**791**	10
516	633	780	847	722	508	**833**	11

Statement of earnings from continuing and discontinued operations
for the year ended 30 June

R million	2010	2009	% change
Attributable earnings to ordinary equity holders	9 444	6 501	45
Adjusted for:	9	438	(98)
Impairment of goodwill	153	110	
Gain from a bargain purchase	(203)	–	
Loss due to the fair value adjustment of a non current asset held for sale	100	–	
Loss on the disposal of property and equipment	2	4	
(Gain)/loss on the disposal of subsidiaries	(115)	27	
Impairment of assets in terms of IAS 36	175	–	
Impairment of intangible assets	12	71	
Gain on disposal/impairment of available-for-sale assets	(177)	(2)	
Loss on sale of MotorOne Finance advances book	–	203	
Loss on sale of Private Label book	–	39	
Other	4	10	
Tax effects of adjustments	55	(11)	
Non controlling interest adjustments	3	(13)	
Headline earnings	9 453	6 939	36
Adjusted for:	510	212	>100
IFRS 2 Share based payment expense/(income)	241	(120)	
Treasury shares	269	332	
– consolidation of staff share schemes	313	437	
– FirstRand shares held by policyholders and client trading activities	(44)	(105)	
Normalised earnings* (unaudited)	9 963	7 151	39
Segmental normalised earnings			
Banking Group	8 535	6 056	41
FNB Life**	416	334	25
FirstRand Limited (company)	(38)	(90)	(58)
Dividend paid to non cumulative non redeemable preference shareholders	(344)	(464)	(26)
Normalised earnings from continuing operations	8 569	5 836	47
Momentum Group	1 394	1 315	6
Normalised earnings from continuing and discontinued operations*	9 963	7 151	39

* *The definition of normalised earnings is provided on page 33.*
** *For segmental purposes FNB Life is included in Momentum.*

Description of normalised earnings

The Group believes normalised earnings more accurately reflects operational performance. Headline earnings are adjusted to take into account non operational and accounting anomalies.

These adjustments are consistent with those reported at 30 June 2009.

Share based payments and treasury shares: Consolidation of staff share schemes

IFRS 2 – Share-based payments requires that all share based payments transactions for goods or services received must be expensed with effect from financial periods commencing on or after 1 January 2005. FirstRand hedges itself against the price risk of the FirstRand share price in the various staff shares schemes. The staff schemes purchase FirstRand shares in the open market to ensure the company is not exposed to the increase in the FirstRand share price. Consequently, the cost to FirstRand is the funding cost of the purchases of FirstRand's shares by the staff share trusts. These trusts are consolidated and FirstRand shares held by the staff share schemes are treated as treasury shares. For purposes of calculating the normalised earnings, the consolidation entries are reversed and the Group shares held by the staff share schemes are treated as issued to parties external to the Group.

The normalised adjustments:

- add back the IFRS 2 charge; and
- add back the treasury shares to equity.

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

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

In terms of IAS 32, FirstRand Limited shares held by either the Banking Group or the Momentum Group are deemed to be treasury shares for accounting purposes. For the statement of financial position this means that 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 are 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 nor losses on the client trading position or 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 positions and hedge were in respect of a share other than a Group share.

Group structure at 30 June

FIRSTRAND

Listed holding company (FirstRand Limited, JSE: FSR)

100% – FirstRand Bank Holdings Limited

Banking

100%	FirstRand Bank Limited First National Bank[1] Rand Merchant Bank[1] WesBank[1] FirstRand Bank India[2] FirstRand Bank London[2] FirstRand Bank Dubai[3] FirstRand Bank Shanghai[3] FirstRand Bank Nigeria[3] FirstRand Bank Angola[3]
100%	FNB Lesotho
62%	FNB Namibia[6]
100%	FNB Swaziland
70%	FNB Botswana
100%	FNB Moçambique
100%	FNB Zambia
47%	OUTsurance[4]
100%	FNB Insurance Brokers
100%	FirstRand International Ireland Mauritius Australia
100%	eBucks

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

Other activities[5]

90%	RMB Private Equity Holdings
91%	RMB Private Equity
100%	RMB Stockbroking
100%	FirstRand International Wealth Management
40%	Eris Property Holdings
50%	RMB Morgan Stanley
75%	Rentworks
33%	Tracker

100% – Momentum Group Limited*

Insurance and Asset Management

100%	Momentum Insurance[1] FNB Life[1]
85%	Advantage Asset Managers
100%	Momentum Medical Scheme Administrators
100%	AdviceAtWork
100%	RMB Asset Management
100%	Momentum Africa
50%	Momentum Short Term Insurance
49%	Momentum Life Insurance Namibia[6]

Structure shows effective shareholding (consolidated)

1 Division
2 Branch
3 Representative office
4 Effective shareholding in FirstRand Short Term Insurance Holdings Limited
5 For segmental analysis purposes entities included in FRIHL are reported as part of Banking Group Supersegment within the respective franchise results
6 Includes 51% of Momentum Life Insurance Namibia

* The Group has announced the proposed unbundling of Momentum which was approved by shareholders on 28 September 2010, but remains subject to certain conditions precedent being met.

Review of operations

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

MICHAEL JORDAAN [CEO, First National Bank]

FNB – SOUTH AFRICA AND AFRICA

Market dynamics

During the year to June 2010 FNB's operating environment remained challenging. Within South Africa, despite lower interest rates providing some relief to households, the consumer remains highly leveraged and this has resulted in muted retail credit appetite. Corporate demand for credit was also slow, as corporates have strong balance sheets and investment activity remains limited.

The global crisis, particularly the impact of falling commodity prices, continued to have a residual effect on some of the African territories in which FNB operates. Whilst some economic recovery, particularly in Botswana, is evident, this is at a very early stage and foreign currency flows and trade activity have not yet returned to previous levels.

Despite these macro pressures the FNB businesses continued to produce robust profitability, through the proactive management of credit and related impairments, increasing transactional volumes and the containment of operating expenses.

Progress on strategy

FNB's strategy is fully aligned with the overall FirstRand strategy to grow its domestic franchise in market segments where it is currently under represented. 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 a number of operational initiatives during the year under review.

Over the past five years FNB was very successful in growing its franchise in the Mass market and now has over three million customers in this segment. It achieved this through a strong focus on delivering innovative and low cost transactional banking services, however, it remains relatively underweight in lending activities to these customers. To address this "gap" it has now commenced the rollout of its Easy Plan strategy which represents a low cost banking offering to Mass segment customers. The Easy Plan 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.

FRANCHISE VALUE

The Wealth segment also offers growth opportunities and during the year FNB made an offer to acquire 100% of Barnard Jacobs Mellet's ("BJM") highly regarded private client and stockbroking business. FNB will incorporate the businesses and skills of BJM into its Wealth segment which will enable FNB to offer its customers a holistic wealth offering.

FNB already has a successful online share trading offering to its lower, middle and upper income segments via FNB Share Investing.

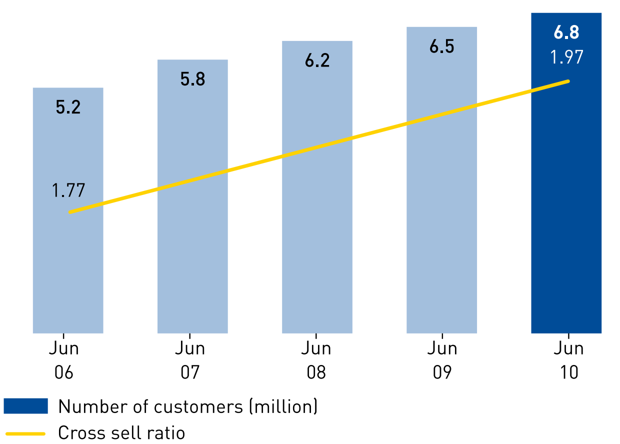
The acquisition will enable bond and equity trades for the its wealthier customers and will result in access to the wealth of experience embedded in BJM. FNB's substantially larger client base in this segment will also see existing BJM customers benefiting from the greater economies of scale and wider delivery platforms across FNB's business units.

In terms of its strategy in Africa, FNB continues to expand its operating platform in Zambia and Moçambique, recently established a representative office in Angola, and is awaiting regulatory approval to establish full banking operations in Tanzania. In line with FirstRand's strategy, FNB is focusing on countries with strong domestic growth potential which are also well positioned to capture flows from Asia, particularly China and India.

Key performance indicators

- Growth in customers and cross sell for FNB South Africa

Growth in customers and cross sell for FNB South Africa

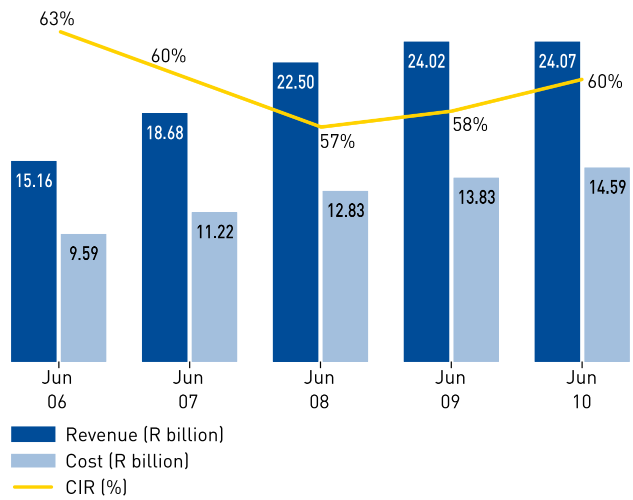


FNB's strategy to focus on customer relationships, supported by appropriate product and channel innovation, continues to produce positive results, as evidenced in the ongoing growth in customer numbers. The success of this strategy is also reflected in the strong improvement in cross sell.

- Revenue and cost to income

FNB continues to benefit from the execution of certain specific strategies in response to the current macro environment which include a strong focus on efficiencies and sustainable containment of cost growth. FNB has maintained cost growth to well below inflation for two years running and the absolute increase in costs in the year under review is the lowest in recent history. Whilst the cost to income ratio has deteriorated year-on-year, this reflects pressure on revenues and FNB believes that the current cost initiatives it is implementing will support profitability in the medium term as topline growth will remain challenging.

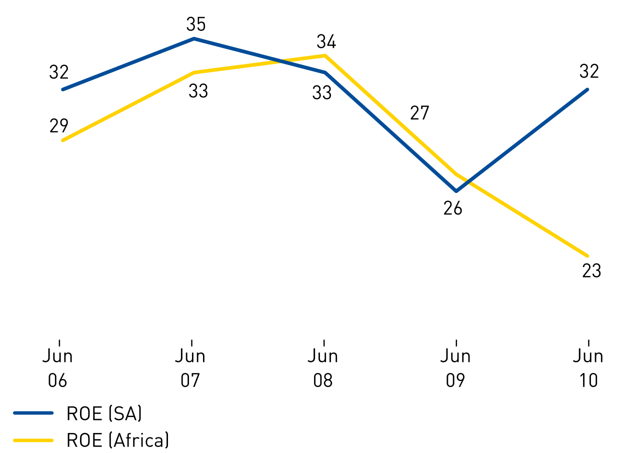
Revenue and cost to income



- ROE – South Africa and Africa

ROE

(%)



ROE is a key performance management ratio for the Group and FNB's ROE remains well above FirstRand's hurdle rate. The turnaround in the South African ROE in the year to June 2010 is largely driven by improved profitability together with efficient capital management.

The deterioration of the Africa ROE results from the additional operating expenses incurred as part of FNB's expansion of its operating footprint.

Financial highlights

	FNB – South Africa			FNB – Africa		
R million	2010	2009	% change	2010	2009	% change
Net interest income	9 512	10 359	(8)	1 590	1 564	2
Non interest revenue	14 518	13 664	6	1 516	1 241	22
Operating expenses	(14 583)	(13 838)	5	(1 763)	(1 460)	21
Income before indirect tax	6 134	5 317	15	1 283	1 252	2
Indirect tax	(301)	(257)	17	(32)	(30)	7
Income before direct tax	**5 833**	**5 060**	**15**	**1 251**	**1 222**	**2**
Normalised earnings	4 303	3 756	17	524	514	2
Gross advances	199 113	204 370	(3)	19 645	17 519	12
Total deposits	194 014	192 550	1	26 626	25 326	5
Assets under management	45 837	41 927	9	1 473	1 280	15
Cost to income (%)	60.4	57.5		56.6	52.0	
NPLs (%)	7.8	8.7		2.1	2.5	
ROE based on normalised earnings (%)	**32**	**26**		**23**	**27**	

Operational highlights

- Cellphone banking's registered customer base reached two million in May 2010 and prepaid sales grew 77%.
- Following the launch of FNB's Easy Plan in August 2009, 15 branches were opened by June 2010.
- Affordable housing advances grew 37% as a result of increased market share and residential development projects initiated by FNB Commercial.
- Send Money (banking without the need for a bank account, only a cellphone number) was launched in November 2009 and transactions through this channel have exceeded R100 million.
- FNB's collaboration with Pay Pal, a global online payment facilitator, went live in March 2010, a first in the South African market.

INNOVATION

Performance commentary – South Africa

FNB produced a strong performance for the year under review with both profit and ROE increasing. These results were driven mainly by a 30% decrease in bad debts and 6% growth in non interest revenue. These positives were, however, partly offset by contracting deposit margins due to the endowment impact, and lower net interest income resulting from lower balance sheet growth.

The decrease in bad debts is in line with expectations and resulted from a strong recovery in FNB HomeLoans and Card. The overall charge and ratio for residential mortgages is detailed below.

R million	Gross advances	Impairment	Impairment to average advances (%)
Affordable Housing	6 260	25	0.46
HomeLoans	108 558	1 181	1.08
Wealth	37 482	210	0.60
Total residential mortgages – June 2010	**152 300**	**1 416**	**0.94**
Residential mortgages – December 2009 (6 months)	149 484	869	1.17
Residential mortgages – June 2009	147 937	2 375	1.62

The increase in non interest revenue reflects good growth in customers as well as higher transactional volumes across all segments. However, revenue continued to be impacted by customers switching to less expensive electronic channels. This was a deliberate FNB strategy to incentivise and educate customers.

Operating expenses growth at below inflation was assisted by the 2.3% decrease in total head count which contained staff cost growth to 6%. However, this benefit was partly offset by higher variable costs associated with increased transactional volumes, property, cash conveyance and collections related expenses, together with the impact of infrastructure and process investments.

Advances were down year-on-year reflecting low levels of retail credit appetite in the Consumer segment as customers continue to deleverage, however, good advances growth was achieved in the Wealth and Mass segments. Corporate advances showed negative growth as corporates are currently cash flush and investment activity remains limited.

Deposit growth was muted due to the allowed setoff of balances in Corporate and Public Sector Banking. Excluding this impact, the deposits increased R3 billion (5%) as a result of growth in current and money market accounts, while the term investment book remained flat.

Segment performance

	FNB		
Income before direct tax R million	2010	2009	% change
Mass segment	**1 161**	1 214	(4)
Consumer segment	**1 722**	(176)	>100
– HomeLoans	**(318)**	(1 753)	(82)
– Card Issuing	**468**	(109)	>100
– Other Consumer	**1 572**	1 686	(7)
Wealth segment	**305**	276	11
Commercial segment	**2 144**	2 777	(23)
Corporate segment	**625**	679	(8)
FNB Other and Support	**(124)**	290	(>100)
FNB – South Africa	**5 833**	**5 060**	**15**
FNB Africa	**1 251**	1 222	2
Total FNB	**7 084**	**6 282**	**13**

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 cutoff between Consumer and Wealth and the transfer of business units.

Mass (Smart Solutions)

Financial highlights R million	2010	2009	% change
Net interest income	**1 071**	1 241	(14)
Non interest revenue	**3 620**	3 260	11
Operating expenses	**(2 991)**	(2 858)	5
Income before direct tax	**1 161**	**1 214**	**(4)**
Bad debts as % of advances	**6.03**	5.90	
NPLs (%)	**6.5**	10.2	
Gross advances	**9 232**	7 496	23
Deposits	**8 592**	8 075	6

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 was mainly impacted by the reduction in interest income due to margin squeeze on the endowment products. Despite increasing competition both advances and non interest revenue 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 88%. Excellent ongoing growth in prepaid airtime turnover and revenue from bancassurance strategies also contributed positively. FNB Life continued to show good growth, despite increased policy lapse rates, with in-force policies increasing 30% to 3.9 million, driven mainly by funeral policies.

The increase in the bad debt charge is in line with management expectations and the final charge is still within tolerance levels. The decrease in NPLs is largely due to the acceleration of the writeoff policy.

A portion of the increase in operating costs resulted from investment in future growth strategies such as Cellphone Banking and Easy Plan.

Consumer

Financial highlights R million	2010	2009	% change
Net interest income	4 217	4 459	(5)
Non interest revenue	4 578	4 213	9
Operating expenses	(4 877)	(4 704)	4
Income before direct tax	**1 722**	**(176)**	**>100**
HomeLoans profit before direct tax	(318)	(1 753)	(82)
Card Issuing profit before direct tax	468	(109)	>100
Bad debts as % of advances	1.74	3.20	
NPLs (%)	8.6	10.5	
Gross advances	122 305	125 865	(3)
Deposits	58 715	55 633	6

Cheque and Transmission products (including overdrafts)
Investments and Equity products
Personal loans (including Student loans)
FNB Insurance Brokers (previously First Link)
eBucks
HomeLoans (including One Account)
Card Issuing
Electronic banking (FNB Online)

This segment focuses on providing banking and insurance solutions to customers with incomes ranging from R100 000 to R1 100 000 per annum as well as certain subsegments (youth and teens, students, graduates and seniors).

The single largest contributor to the Consumer segment's improved performance was the significant decrease in bad debts of over R1.9 billion, due to decreasing NPLs.

NII decreased as a result of low balance sheet growth which reflects the high levels of indebtedness that still prevails in this segment and customers are focusing on deleveraging.

NIR growth reflects good levels of transactional banking activity, driven mainly by growth in customer accounts and increased interchange revenue.

The increase in deposits resulted from solid growth in Current Accounts (+14%) and Notice Deposits (+10%).

HomeLoans

HomeLoans' performance resulted from the significant reduction in NPLs to 9.0% and the bad debts charge reducing R1.1 billion.

Advances contracted as a result of market conditions remaining fairly subdued. Although second half sales were slightly up from that of the first half, new business is expected to remain under some pressure in the medium term.

HomeLoans new business market share steadily improved through 2009 from around 15% to 20%, however, the current origination strategy is resulting in better quality credit. Repricing of new business resulted in improved margins.

Operating expenses declined 13% due to the active focus on cost management as well as restructure benefits which included headcount reductions.

Card Issuing

Card's performance was also largely driven by the reduction in NPLs and bad debts. Non interest revenue growth was excellent given that the active card holder base reduced, and the focus on efficiencies and cost containment resulted in lower operating expenses.

Wealth

Financial highlights R million	2010	2009	% change
Net interest income	867	693	25
Non interest revenue	725	713	2
Operating expenses	(1 067)	(1 054)	1
Income before direct tax	**305**	**276**	**11**
Bad debts as % of advances	0.60	0.21	
NPLs (%)	6.7	6.4	
Gross advances	37 482	32 732	15
Deposits	15 772	16 365	(4)
Assets under management	45 837	41 927	9

RMB Private Bank
FNB Private Clients
FNB Trust Services
Ashburton and FirstRand Trustees

This segment focuses on providing banking and investment solutions to customers with incomes above R1 100 000 per annum as well as certain trust, fiduciary and offshore investment services to all retail customers.

Whilst this segment produced a resilient performance it was impacted by higher bad debts.

Advances increased due to successful new client acquisition and conversions, and this, combined with improved margins due to repricing strategies, resulted in healthy net interest income growth.

Non interest revenue increased only marginally, mainly due to exchange rate fluctuations and subdued growth on value of estates administered, although these were partly offset by robust growth in transactional volumes.

Deposit growth was negatively impacted by higher yields in alternative investments in the current low interest environment and customers focusing on repaying debts.

Operating expenditure was well contained as a result of cost curtailment measures implemented, including a headcount reduction.

Assets under management continue to grow due to good investment selection, despite the negative impact of exchange rate fluctuation.

Commercial segment

Financial highlights R million	2010	2009	% change
Net interest income	**2 913**	3 590	(19)
Non interest revenue	**3 395**	3 344	2
Operating expenses	**(3 693)**	(3 749)	(1)
Income before direct tax	**2 144**	**2 777**	**(23)**
Bad debts as % of advances	**1.60**	1.52	
NPLs (%)	**6.7**	6.0	
Gross advances	**28 590**	27 216	5
Deposits	**63 680**	60 928	5

Small Business, Business and Medium Corporate transactional and overdraft products
Investment products
SMMEs
Commercial property finance
Debtor finance
FNB Leveraged finance, BEE funding, Franchises, Tourism, Agric, Start-ups
SpeedPoint

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

The Commercial segment's performance was negatively impacted by the endowment impact on deposit margins and lower balance sheet growth, contributing to the decline in interest income.

The increase in non interest revenue reflects continued growth in transactional banking and SpeedPoint, although this was offset by lower volumes and a decline in dealing margins in International banking.

Deposit growth was partly driven by increased spend during the 2010 Soccer World Cup™ period, as well as higher deposit balances due to customers limiting investments in working capital or capacity.

Corporate

Financial highlights R million	2010	2009	% change
Net interest income	**549**	577	(5)
Non interest revenue	**1 292**	1 263	2
Operating expenses	**(1 175)**	(1 077)	9
Income before direct tax	**625**	**679**	**(8)**
Bad debts as % of advances	**0.68**	0.59	
NPLs (%)	**0.1**	1.0	
Gross advances	**1 697**	8 373	(80)
Deposits	**33 067**	35 275	(6)

Corporate transactional banking services 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 transactional banking capabilities as well as cash flow optimisation and working capital solutions.

The Corporate segment's performance was affected by low import/export activity due to subdued economic activity.

Interest income decreased due to pressure on margins, as well as a reduction in the average advance balances offset by an effective increase in deposit balances (excluding the impact of LROS setoff).

Non interest revenue growth was achieved despite pricing pressures. However, whilst transactional volume growth was strong in the electronic channels, it remains under pressure in traditional channels.

Deposits (excluding the impact of LROS setoff) increased mainly as a result of lower utilisation of facilities by customers.

To enhance interface with large corporate clients the Corporate segment has been more closely aligned with RMB through the formation of the new Corporate & Investment Banking ("CIB") unit. This unit now has an integrated Client Coverage team, which is mandated to coordinate RMB's and FNB Corporate's combination of products and services to clients.

FNB Other and Support

Included in FNB Other and Support is Public Sector Banking, Branch Banking, Brand (marketing and communication) and Support.

Public Sector Banking

This segment offers transactional banking services and products to National, Provincial and Local Government. Other clients include state owned enterprises, universities and public schools. It also provides working capital and other short and long term finance products.

The public sector market was characterised by increased competitor activity and weaker cash flows in Local Government. However, the business achieved satisfactory growth in deposit balances, excluding the impact of setoff, due mainly to resilient cash flows in National and Provincial Government, and a specific focus on customised client offerings.

Branch Banking

Branch Banking represents the infrastructure through which FNB services most of its 6.8 million customers. Representation points such as branches reduced slightly during the year given the strategy to ensure optimisation of the overall locations, whilst the ATM footprint growth reflects FNB's strategy to migrate customers to low cost, electronic channels.

	FNB – South Africa			FNB – Africa		
Number	2010	2009	% change	2010	2009	% change
Representation points (branches, agencies, Easy Plan)	**657**	687	(4)	**95**	91	4
ATMs	**5 557**	5 311	5	**511**	479	7

Performance Commentary – FNB Africa

The consolidated results of FNB Africa comprise the subsidiaries FNB Botswana, FNB Namibia, FNB Swaziland, FNB Moçambique, FNB Lesotho and FNB Zambia as well as the support centre in Johannesburg and a representative office in Angola.

Overall the African subsidiaries performed well growing profits 2% despite significant investment activity across the portfolio.

FRANCHISE VALUE

As part of its strategy to grow the existing franchise and operating footprint further, FNB invested significantly in Zambia and Moçambique in the year under review. 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 non interest revenue.

FNB Botswana

There are early signs of a recovery in the diamond industry and this, together with continued infrastructure spending, means that the Botswana economy is slowly re-entering a growth phase. FNB Botswana focused on growing its share of the retail market where margins are higher and in the property market where risks are lower.

Net profit before tax in Pula remained flat at P537 million as a result of balance sheet growth and increased transactional volumes offsetting the effect of reduced margins due to declining interest rates. The strengthening of the Rand had a negative impact, with Rand profits declining 8% to R599 million.

Advances increased 18% (25% in Pula), particularly in the retail and property segments, and deposits decreased 9% (4% 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

Increased activity in the mining and quarrying sectors and a continued strong performance in the construction sector are largely driving a moderate economic recovery in Namibia. Against this improving background FNB Namibia's group profits increased 21% to R667 million.

In the banking activities margin pressure was experienced as a result of the declining interest rate cycle and profitability was negatively affected by costs relating to the completion of the core IT system implementation.

Gross advances increased 7% resulting from growth in home loans and personal loans. Surplus liquidity in the market is reducing appetite for lending as well as contributing to the increase in deposits of 14%.

The insurance business benefited from a recovery of world equity markets as this had a positive impact on Momentum's capital portfolio. A lower actual loss ratio resulted in improved growth in the OUTsurance business.

FNB Swaziland

FNB Swaziland performed well in a low growth economic environment. Net profit before tax increased 10% to R104 million as a result of good margins, a healthy credit book with low impairments and good transactional volumes.

Gross advances increased 39% as FNB Swaziland gained market share. Deposits increased 22% as a result of continued good market liquidity.

FNB Moçambique

Significant investment in FNB Moçambique's operating infrastructure continued in the year under review and the network increased from eight to twelve branches with a corresponding increase in staff. This investment is expected to continue in the medium term which will place some pressure on profit growth, but position the business on a strong platform for future growth.

The increased network has resulted in growth in volumes and forex commissions which positively impacted non interest income.

FNB Lesotho

A large portion of FNB Lesotho deposits are from financial institutions. The customer base is showing significant growth which results in strong NIR and net profit before tax.

FNB Zambia

Increased production and significant increases in copper prices, which is also having a positive effect on other sectors, is driving strong economic growth in Zambia. Against this positive backdrop growing its operating infrastructure is a priority for FNB Zambia and currently four branches are in operation.

The deposit base has increased in line with the branch expansion and this is supporting sustainable growth in advances.

Looking forward

The anticipated modest growth in the South African economy will be driven mainly by further investment by government and some improvement in consumption levels. Whilst this is not expected to result in significant growth in advances, as levels of consumer indebtedness are still at historic highs, FNB does expect this increased economic activity to benefit its banking franchises. Corporate credit appetite may increase marginally on the back of modest investment in capacity, however, business volumes overall will remain subdued. FNB will continue to pursue growth in those segments where it is underweight or under represented. However, achieving topline growth will be a challenge and, therefore, cost management remains a key focus for management.

In Africa, FNB will continue to expand its operating footprint supported by its South African platform; FNB Moçambique and FNB Zambia will continue to focus on consolidating newly opened branches and the expansion of new branches, products and services. Opportunities for expansion into East and West Africa as well as the trade corridors to India and China are being investigated.

As part of its strategy to rebalance its business and improve the quality of its earnings RMB continued to strengthen its domestic client driven activities and scale its trading activities in line with its risk appetite framework.

RAND MERCHANT BANK
A division of FirstRand Bank Limited

ALAN PULLINGER [CEO, Rand Merchant Bank]

RAND MERCHANT BANK

Market dynamics

Market conditions remained challenging during the year for a number of RMB's divisions. Investment banking opportunities contracted due to lower levels of corporate activity and increased competition for new transactions. The trading businesses experienced reduced volatility and client flows and overall market volumes were down.

Despite these market pressures RMB delivered a very strong performance. All of its divisions exceeded prior year results resulting in overall profitability increasing significantly and ROE moving back to above hurdle rates.

Progress on strategy

As part of its strategy to rebalance its business and improve the quality of its earnings RMB continued to strengthen its domestic client driven activities and scale its trading activities in line with its risk appetite framework. The key objectives of the new risk appetite framework are to manage the trade-offs between earnings volatility, profitability and sustainable growth. This gives rise to an initial long term targeted business mix of 60% client income, 25% investing income and 15% trading income (see key performance indicators).

In line with the Group's strategy to rebalance its portfolio through a greater weighting in the corporate sector, FirstRand has significantly enhanced client interface across corporate and investment banking through the closer alignment of corporate and investment banking ("CIB") activities. CIB represents greater coordination across RMB and FNB's corporate banking business, whilst preserving the respective strong brand equity and specialist skills within each. A key part of this new approach has been the formation of an integrated Client Coverage team, which is mandated to coordinate and enhance RMB's and FNB Corporate's combination of products and services to clients.

RMB is increasing its exposure to wholesale credit. The existing in-force book has historically performed well but is running off, so capacity now exists to write more high quality credit. To support this initiative RMB adjusted certain prudential limits in investment grade and defensive counters. RMB continues to augment its principal risk trading activities to ensure that it keeps pace with growth in the client business.

RMB also significantly increased its focus on capturing trade and investment flows from the Africa/India/China corridors. The CCB relationship continues to yield promising opportunities with a number of notable transactions completed during the year under review.

India is also beginning to gain traction, and is yielding opportunities for cross border investment banking transactions and fixed income, currency and commodities activity in general. In June 2010, RMB entered into a strategic cooperation agreement with JM Financial Limited, an Indian based boutique, to provide M&A advisory services to Indian clients seeking to make investments into entities or transactions in Africa, and South African and African clients seeking to make investments in entities or transactions in India.

RMB believes this partnership will unlock significant value for both parties by leveraging the individual expertise and sharing distinctive local market knowledge for the benefit of clients, and represents a significant step in furthering RMB's strategy to grow in the Africa/India corridor.

Key performance indicators

As outlined above, RMB's targeted long term business mix is 60% client, 25% investing and 15% trading. The performance targets are a growth rate of nominal GDP plus 4%, appropriate earnings volatility and a target ROE well in excess of cost of capital. The graph below shows the current profile*.

RMB gross revenue mix

* *Mix excludes the legacy portfolios.*

Financial highlights

R million	2010	2009	% change
Income before indirect tax	4 687	2 134	>100
Indirect tax	(64)	(79)	(19)
Income before direct tax	4 623	2 055	>100
Total assets	268 819	275 097	(2)
Cost to income ratio (%)	45.2	56.6	

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

R million	2010	2009	% change
Investment Banking	2 522	2 207	14
FICC[1]	1 006	804	25
Private Equity	1 498	1 028	46
Equity Trading	381	(782)	>100
Other	(784)	(1 202)	35
	4 623	2 055	>100

1 *Included in the comparative period are profits of R75 million relating to the Euroloan business which was transferred to FirstRand Group Treasury on 1 July 2009.*

Operational highlights

RMB continued to maintain a market leading position across many areas. Highlights were the listing of Life Healthcare, the largest IPO in SA history and Anglo Platinum, the largest rights issue in SA history. RMB also dominated the Equity Capital Markets ("ECM") space recording the largest market share of ECM transactions over the year. Further, in the recent Mergermarket survey RMB led the market in M&A activity in the first six months of 2010 both in terms of value of deals and number of deals concluded.

At the 2009 BESA Spire awards RMB won the Best Bond Repo Team, Best Inflation-Linked Debt House, Best Interest Rate Derivatives Sales & Structuring Team and Best General Fixed-Income Analyst.

A number of new innovations were brought to market this year such as the first Exchangeable Bond and the first offshore referenced Credit Linked Note traded locally. The refinancing of the FirstRand Empowerment Trust also saw the largest Chinese participation (CCB) in a BEE transaction.

Performance commentary

Investment Banking

Despite the high base created in the previous year, the Investment Banking Division ("IBD") delivered another strong performance with good contributions from its advisory, debt financing and principal investing activities. The debt financing businesses achieved steady growth in the credit book and related earnings.

Impairments of the portfolio remained stable, with some key workouts and restructures being concluded during the financial year. The debt capital markets business remained steady in market conditions that reflected limited SA corporate borrowing opportunities coupled with reducing credit spreads. The corporate finance advisory business continued to perform extremely well in tough market conditions with a particularly strong contribution from the equity capital markets team. IBD makes strategic principal investments aligned to its business focus and these activities produced strong results through a combination of realisations and revaluations of the portfolio.

The increased focus on the Africa/China business resulted in several significant deals being concluded. These include a R400 million property transaction with a large Chinese transport company and RMB and CCB arranged $40 million funding for the export of copper and cobalt from DRC to China. In addition RMB arranged CCB's participation in the US dollar funding of AngloGold Ashanti.

FICC

FICC experienced a tough first half in an environment characterised by lower proprietary trading profits, uncertainty in the markets, a decline in client flows, tighter margins and a strong Rand. However, the second half showed a much improved performance on the back of better client flows, the conclusion of some large structured transactions and improved proprietary trading profits. In addition, gold related activities benefited from the Euro crisis.

Private Equity

Private Equity performed well on the back of a significant realisation, Life Healthcare, in the second half of the year. This realisation contributed R1.25 billion of profit. Equity accounted earnings remained under pressure, however, positives included an increase in unrealised profits to R1.4 billion (2009: R1.2 billion) and investments of R837 million being made in the past financial year.

Equity Trading

The Equity Trading division performance reflects a complete turnaround from 2009. This performance was driven mainly by the proprietary trading business, strong client business results and the derisking of the international legacy portfolios.

OWNER-MANAGER CULTURE

Other

This includes further significant impairments on the remaining legacy portfolios, particularly in respect of the Dealstream acquired assets.

Looking forward/prospects

Looking forward RMB will continue to execute on its strategy to grow its client franchises and revenues whilst maintaining an appropriate balance with its investment and trading activities. In the coming year it expects to leverage on the early positive signs resulting from closely aligning corporate and investment banking activities.

Leveraging off FNB's operating platforms, RMB will mine further opportunities in Africa, mainly in FICC and investment banking activities. The relationship with CCB is expected to positively contribute to the investment banking deal pipeline and RMB will continue to broaden its product set in India.

WesBank has been developing strategies to grow in fleet management and full maintenance rental opportunities as well as with larger corporate asset finance customers. Additional market share growth in the retail vehicle space is being pursued through new alliances.

WesBank
A division of FirstRand Bank Ltd.

BRIAN RILEY [CEO, WesBank]

WESBANK

Market dynamics

During the year the retail vehicle market showed significant signs of recovery. New vehicle sales tracked up 24% compared to the prior year, with passenger vehicle sales growing 28%. Retail demand for credit increased significantly, although credit worthiness is mixed particularly with regards to affordability.

As expected, corporate demand remains subdued and in those sectors deemed "stressed", WesBank continued to exercise caution, both from an origination and ongoing risk management perspective. These sectors include the construction sector, some agricultural sectors and the logistics and transportation sectors.

Progress of strategy

WesBank's core strategy of partnering with key industry players and representation at the point of sale strengthened through the cycle. Additional alliances were signed with major motor industry partners across the motor, corporate and fleet business divisions, including:

- Volvo (Cars & Trucks);
- Renault;
- Jaguar/Land Rover;
- Hitachi;
- Babcock (Volvo Industrial Equipment);
- Nissan Diesel; and
- Imperial Fleet Services.

In line with the Group strategy to target those domestic segments where its operating franchises may be under represented, WesBank has been developing strategies to grow in fleet management and full maintenance rental opportunities as well as with larger corporate asset finance customers. Additional market share growth in the retail vehicle space is being pursued through new alliances.

WesBank's UK operation, Carlyle, performed well during the year and contributed profit before tax of R120 million. Given the opportunities to unlock significant medium term value from this operation, WesBank took the decision to retain Carlyle as part of its investment portfolio, which consists of other investments primarily of a private equity nature.

WesBank continued to support the asset finance offering in those African jurisdictions where FNB has created or is in the process of creating a presence and will consider other opportunities within FirstRand's targeted strategic international locations.

Two local non performing businesses, namely WorldMark South Africa and Norman Bissett & Associates were successfully exited during the year. These two investments contributed non recurring losses in the current year in excess of R100 million. WesBank also exited from its investment in WorldMark Australia, which was considered to be non core.

Key performance indicators

WesBank considers key performance indicators to be ROE (both on an actual and bad debt normalised basis), cost to income ratio, market share and the expertise indicator (service levels index).

ROE %	2010	2009	2008	2007
Actual results	15	7	12	18

Given the highly 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 and revenue diversification.

%	2010	2009	2008	2007
Overall cost to income	51.9	53.8	53.5	54.4
Lending cost to income	45.7	41.9	41.8	45.1

The cost to income ratio is a key performance for WesBank's core finance business. Whilst in the current year the lending business cost to income has worsened, this has been caused mainly by specific cyclical issues and the decreasing trend is likely to return in the future.

	2010	2009	2008
Net promoter score	59.7	52.1	51.5

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

Financial highlights

R million	2010	2009	% change
Income before indirect tax	1 426	438	>100
Loss on sale of MotorOne Advances book	–	(203)	(100)
Income before indirect tax	1 426	235	>100
Indirect tax	(126)	(105)	20
Income before tax	1 300	130	>100
Advances	92 724	92 274	–
Cost to income ratio (%)	51.9	53.8	–
NPLs (%)	5.5	5.0	(12)

Profits increased significantly over the prior year to R1.3 billion. This performance was due to the commencement of the retail credit unwind, the non recurrence of the loss on sale of the Australian advances book, good cost management, improving interest margins and a strong performance from Carlyle in the UK.

The table below represents the relative contributions from the local and international operations for the current and comparative years.

R million	2010	2009	% change
SA operations	1 095	368	>100
International operations	205	(238)	>100

Operational highlights

- "Perfecting the platform" resulted in increased automation of front end acquisition processes, improving service delivery and decision making. Almost 80% of new business is now originated through electronic channels.
- Cost management initiatives which will benefit the business going forward. Headcount in the core lending business declined

INNOVATION

22% over the past 24 months. This was achieved without compromising on capacity to manage new business volumes as they increase.

- Better risk portfolio management and improved customer pricing across all portfolios.
- The effective management of accounts under debt review means that trends are reflecting a decline in inflows of new accounts under review and an improvement in payment arrangements and repayment behaviour.

Performance commentary

WesBank's overall profitability was impacted positively by an improving retail credit environment. This was countered to an extent by the increased level of defaults in the corporate business. However, there was still a significant improvement in the bad debt charge.

Bad debts in the local lending business decreased 25% from R2.57 billion to R1.95 billion, and from 2.8% to 2.2% of advances. Retail bad debts showed a good improvement, while corporate impairments reflected the opposite trend. The year ahead is expected to show continued reduction in retail provisions and the commencement of an improving trend in corporate bad debts.

NPLs remained high and increased from 5.0% to 5.5%. This was entirely due to the longer period that accounts under debt counselling are remaining as non performing. 31% of total NPLs are now comprised of accounts under debt counselling and adequately provided against.

Within the lending operations new business increased 14% over the comparative year. This comprised a 29% increase in retail new business and a 20% decline 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 of fixed rate business. Improved interest margins were experienced across the retail, corporate and personal loans portfolios.

Non interest revenue grew 5% in the local lending operations as a result of annuity insurance revenues as well as growth in monthly administration fees, which were only introduced in 2007 through the introduction of the National Credit Act. These were offset by the drop in revenues in the discontinued operations. Overall expenses increased 8%, and expenses in the lending business increased 14%, however, 6% of this related to increased profit share payments to alliance partners. There were numerous cost management initiatives across the businesses which resulted in sustainable cost benefits.

The non lending operations contributed R208 million compared with R52 million in the prior year. This was largely due to the improvement in the performance of Direct Axis, the origination business which receives a profit share from the personal loans advances book. The sale of the two non performing investments will result in the non recurrence of losses totalling R100 million in the year ahead.

Carlyle produced profits of R120 million compared with a loss in the prior year of R31 million. This was brought about through an improvement in bad debts, significant repricing in the business, good new business growth and excellent cost management.

Prospects

The current year is expected to see a further unwind of retail bad debt impairments which will continue to impact positively on earnings. As the cycle progresses an improving lending landscape is anticipated across both corporate and retail portfolios. Profitability will also be positively impacted by the non recurrence of losses from the exited underperforming businesses and an ongoing improved performance from Carlyle.

Specific areas of organic growth include mining intragroup synergies whilst cost management and efficiencies remain priorities.

The personal and commercial lines businesses continued to grow market share during the year under review as premium increases were contained below industry inflation.

WILLEM ROOS and **HOWARD ARON** [Joint CEOs, OUTsurance]

FIRSTRAND SHORT TERM INSURANCE HOLDINGS ("FRSTIH")

R million	2010	2009	% change
Normalised earnings	580	654	(11)
Return on equity based on normalised earnings (%)	29	43	
Gross premiums written	5 057	4 242	19
Operating income (including investment returns)	984	975	1
Headline earnings attributable to ordinary shareholders	580	654	(11)
Expense/cost to income ratio (%)	23.7	19.7	
Claims and OUTbonus ratio (%)	58.2	60.5	
Effective percentage holding of FirstRand (%)	47	47	

FRSTIH houses the Banking Group's short term insurance interests, including OUTsurance, Momentum Short Term Insurance ("Momentum STI") and Youi, the startup direct insurance operation in Australia. OUTsurance is the leading direct short term insurance company in South Africa.

The FirstRand Banking Group, through FirstRand Bank Holdings, owns 47% of FRSTIH.

Performance

FRSTIH Group

FRSTIH's South African operations produced excellent results for the year under review growing attributable and headline earnings 20.2% and 16.7% respectively. Momentum STI maintained its profitability and produced strong bottom line growth.

After taking into account Youi's startup loss of R290 million for the year of the Group's attributable and headline earnings is reduced 8.1% and 11.3% respectively.

Youi was launched as a startup direct short term insurer in August 2008. To date the venture has performed in line with expectations.

OUTsurance

Notwithstanding the tough economic conditions, OUTsurance has grown net earned premium income 13.5%. The personal and commercial lines businesses continued to grow market share during the year under review as premium increases were contained below industry inflation.

Expenses, as a percentage of net earned premium income, decreased from 16.1% to 16.0% on the back of contained marketing expenditure.

The claims ratio (including OUTbonus costs) decreased from 60.5% to 58.2% for the year under review. A significant improvement in the claims ratio on the homeowners book contributed strongly to the lower claims ratio. Since the launch of OUTsurance in 1998, the company has rewarded customers with OUTbonuses in excess of R700 million.

Due to most of OUTsurance's investable assets being invested in cash and cash equivalents, the company was exposed to the lower interest rate environment resulting in an 11% decrease in investment income.

OUTsurance Namibia, which was launched in 2007, reached profitability during the year under review.

The recently launched credit life insurance business continues to grow strongly. The underwritten life business, which offers fully fledged life insurance products direct to the public, was launched on 1 August 2010.

ENTREPRENEURSHIP

Focus for the year ahead

- Continue to manage the Youi startup in line with business plan targets to achieve profitability within 5 years from launch;
- Successfully introduce the underwritten life product to the market;
- Broaden the reach of Business OUTsurance; and
- Continued focus on organic growth and operational efficiencies throughout all business units.

Momentum's vision is to transform itself from successful to significant by becoming a leading provider of insurance based financial solutions, with a primary focus on Africa.

momentum

NICOLAAS KRUGER [CEO, Momentum]

MOMENTUM

Market dynamics

Although disposable income of households increased by an annualised 5.1% in the first quarter of 2010, household debt as a percentage of household income remained at historically high levels. Life insurance new business volumes are unlikely to recover significantly until there has been a recovery in employment numbers and a further rebalancing of consumers' balance sheets. Lapses have however started to benefit from the improvement in disposable income.

The 19% recovery in equity markets from the ALSI's level of 22 049 at 30 June 2009 to 26 259 at 30 June 2010 is positive and market volatility has also reduced. Equity markets however lost momentum since the beginning of the year and declined by 5% from 1 January 2010 to 30 June 2010. The average level of the JSE ALSI during the year to 30 June 2010 was 19% higher than the average level during the corresponding period to 30 June 2009.

Developments in the regulatory environment continue to have an impact on the business of Momentum and other life insurers. The Financial Services Board ("FSB") recently communicated their intention to implement a "Treating Customers Fairly" ("TCF") framework in South Africa. TCF has the potential of impacting the entire business of a life insurer, but the FSB has committed to extensive industry consultation to take account of the unique nature of the South African life insurance industry.

Progress on strategy

Momentum's vision is to transform itself from successful to significant by becoming a leading provider of insurance based financial solutions, with a primary focus on Africa.

In order to effectively implement Momentum's current core strategy a number of growth objectives have been developed. An example of recent external growth activity is the proposed merger with Metropolitan which will create the third largest South African insurer by assets. Internal (organic) growth initiatives comprise:

- initiatives related to the "Proactively engaging clients" strategic objective, for example up selling, cross selling, retailisation and loyalty/reward programs;
- objectives in respect of "Process and Financial excellence", for example process innovation, expense management and implementation discipline; and

- diversification initiatives in terms of new segments, channels, products and geographies.

Key performance indicators

Momentum's key performance indicators comprise:

R million	2010	2009	% change
Return on equity based on normalised earnings (%)	21.9	22.6	
CAR Cover (times)	2.1	1.8	
Value of new business	549	544	1
Return on embedded value (%)	14.9	3.3	

The return on equity of 21.9% remained well ahead of the Group's targeted return, whilst the capitalisation level strengthened from 1.8 times the Capital Adequacy Requirement ("CAR") at 30 June 2009, to 2.1 times at 30 June 2010.

The value of the new business written of R549 million for the current year represents a new business margin of 1.8%, compared to the margin of 2% for the prior year. The decline in the new business margin is a result of more conservative actuarial assumptions and a change in the business mix.

The return on embedded value of 15% was impacted positively by both a strong operational performance and improved equity market returns.

Financial highlights

R million	2010	2009	% change
Normalised earnings	1 810	1 649	10
– Group operating profit	1 530	1 328	15
– Investment income on shareholders' assets	280	321	(13)
New business volumes	56 774	60 470	(6)
– Retail	34 547	28 163	23
– Employee benefits	2 546	2 591	(2)
– Asset management	19 681	29 716	(34)

The increase in normalised earnings benefited from the recovery in equity markets and effective cost control, however the lower interest rates did impact negatively on the investment income earned on shareholder capital.

The reduction of 6% in new business inflows is mainly due to lower institutional asset management inflows. The increase of 23% in retail new business inflows was particularly pleasing considering the challenging operating environment.

Operational highlights

The most significant event for 2010 was the announcement of the proposed merger between Momentum and Metropolitan. The combination of these strategically complementary businesses will generate significant value for shareholders.

Expense control was also a key focus area, with total expenses increasing by only 3%.

Performance commentary

Momentum's normalised earnings increased 10% to R1 810 million for the year ended 30 June 2010. The ROE of 21.9% remained well ahead of the targeted return, whilst the capitalisation level strengthened from 1.8 times the CAR at 30 June 2009, to 2.1 times at 30 June 2010.

The operating profit growth of 15% reflects the positive impact of the recovery in equity markets and expense efficiencies arising from the rationalisation and integration of systems in the employee benefits and health businesses.

Momentum's embedded value amounted to R17.7 billion at 30 June 2010. The return on embedded value of 14.9% was impacted positively by both a strong operational performance and improved equity market returns. Momentum's CAR cover of 2.1 times (2.0 times after payment of the final dividend) at 30 June 2010 exceeds the targeted range of 1.4 to 1.6 times CAR.

The Momentum board however remains of the opinion that maintaining a buffer above the targeted range is appropriate in the current economic environment.

Looking forward/prospects

Whilst equity markets have recovered from their lows, there remains uncertainty in these markets as is evidenced by a more recent increase in volatility. The lack of job growth to support the economic recovery remains a concern, as this could have a direct impact on both new business volumes and persistency. Momentum however remains confident that consistent product and service focus, proven distribution partnerships, dynamic brand and dedicated people have positioned it well for the future.

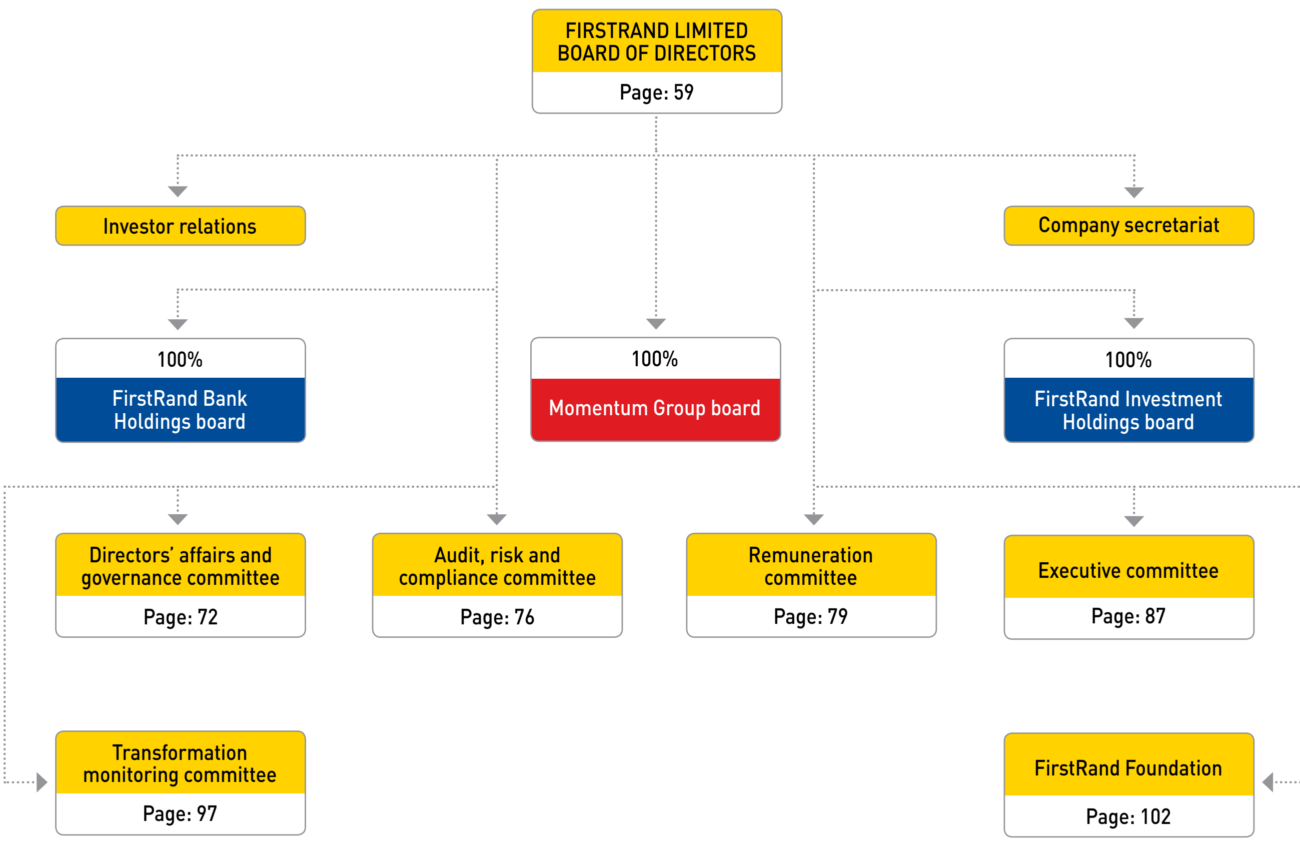
Significant value is expected to be realised for shareholders as a result of the proposed merger with Metropolitan, which, if approved, will create the third largest insurer in South Africa by bringing together strategically complementary businesses. The parties are currently awaiting regulatory and shareholder approval.

Corporate governance

Corporate governance and sustainability

"FirstRand views sustainable development and sustainable profitability as complementary objectives. Excellent corporate governance, effective management of risks and opportunities, robust debate of the business case and a culture of "traditional values, innovative ideas" are the gatekeepers for ensuring that the relationship between sustainable profitability and the well being of FirstRand's stakeholders remains positive over time."

Performance in respect of the Group's financial and non financial objectives is overseen by the Board of directors and its committees. In addition to FirstRand's subsidiary boards, the Board of directors has five committees.



The boards of subsidiary companies are subject to the same corporate governance criteria as the holding company.
FirstRand Board committees include representatives from the subsidiary board committees and, where appropriate, divisional executive management.
The Group structure including major operating divisions and local and international subsidiaries is set out on page 34.

Governance structure effective 1 July 2010

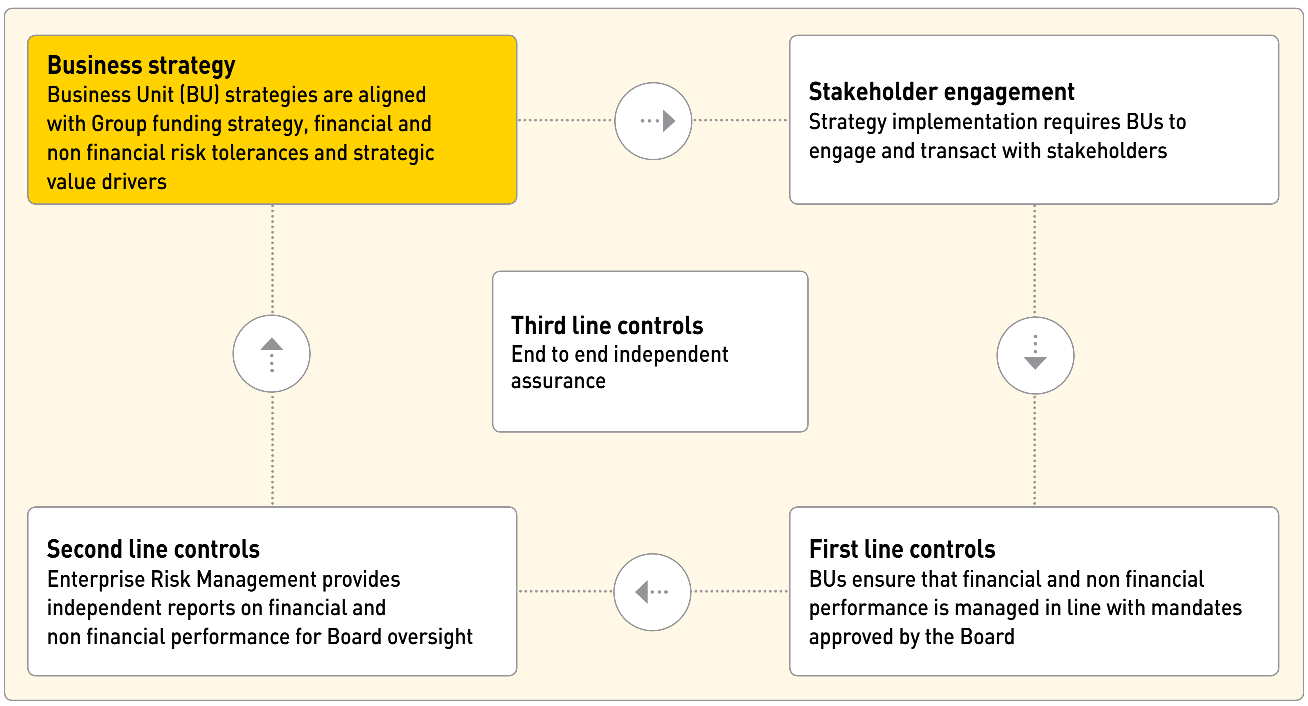
Certain amendments have been made to FirstRand's governance structure in order to accommodate corporate governance provisions applying in terms of the Banks Act of South Africa as a result of FirstRand Limited being registered as a bank controlling company from 1 July 2010. Significant changes include 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 and compliance committee.

INTEGRATED CONTROL FRAMEWORK

At FirstRand corporate sustainability is about business as usual and begins with sustainable profitability and the responsible provision of financial services to all sectors of the local economy and selected international markets.

"The development and implementation of Group strategy is supported by an integrated internal control framework which aligns business strategy with financial value drivers, key non financial performance areas and risk metrics."

During the year under review progress was made in further integrating environmental, social and governance ("ESG") risks within the Group's internal control framework. The outcome of this approach is an even more integrated approach to managing and reporting on the financial and non financial performance of the Group.



FirstRand's Board of directors and its committees provide the highest level of oversight for ensuring that business strategy and risk tolerances are set in line with the realisation of sustainable profitability and the sustainable development of the Group's operating environment. This allows the Group to view every transaction with every stakeholder as a sustainability opportunity.

Economic significance of operations

During the year FirstRand contributed R88.6 billion economic value to shareholders.

BREAKDOWN OF ECONOMIC VALUE ADDED

	2010		2009	
	R million	%	R million	%
Value added by continuing operations				
Net interest income earned by FirstRand Banking Group	10 912	12.3	9 610	20.1
Loss by FirstRand Limited	(205)	(0.2)	(230)	(0.5)
Value added by continuing operations	10 707	12.1	9 380	19.6
Non operating income	27 418	30.9	21 801	45.6
Non operating expenditure	(11 069)	(12.5)	(10 563)	(22.1)
Value added by continuing operations	27 056	30.5	20 618	43.1
Value added by discontinued operations	61 538	69.5	27 233	56.9
Value added by continuing and discontinued operations	88 594	100.0	47 851	100.0
Value added				
To employees				
Salaries, wages and other benefits	15 092	17.0	13 023	27.2
To providers of capital				
Dividends to shareholders	3 299	3.7	4 228	8.8
To government	4 288	4.8	3 710	7.8
Normal tax	3 695		2 993	
Value added tax	431		646	
Capital gains tax	143		59	
Other	19		12	
To policyholders				
Policyholder claims and benefits	57 132	64.5	24 366	50.9
Insurance contracts	6 330		5 939	
Investment contracts	37 187		24 952	
Adjustment to liabilities under investment and insurance contracts	13 615		(6 525)	
To expansion and growth	8 783	9.9	2 524	5.3
Retained income	6 489		2 737	
Depreciation and amortisations	1 766		1 369	
Deferred tax	528		(1 582)	
Value added by continuing and discontinued operations	88 594	100.0	47 851	100.0

Precautionary principle

The application of the precautionary principle means that 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.

COMMUNICATION WITH STAKEHOLDERS

FirstRand has defined its stakeholders as entities and individuals that are significantly affected by its activities and those which have the ability to significantly impact FirstRand's ability to implement strategies and achieve objectives.
FirstRand has identified its stakeholders as government and regulators, shareholders, employees, customers, suppliers, communities and the natural environment.

Operating divisions are empowered to manage stakeholder interfaces in accordance with the particular needs of their businesses and their stakeholders with Group oversight ensuring that approaches are appropriately aligned. Divisional non financial performance and stakeholder engagement information is available in the reports to society from the Group's major operating divisions. These reports are available online: www.firstrandsustain.co.za.

At holding company level FirstRand has stakeholder interfaces with government and regulators, shareholders and investment analysts. FirstRand's stakeholder engagement mechanisms are addressed by the Board committee dealing most directly with the stakeholder group.

Government and regulators

Certain companies within the Group are subject to the oversight of the Registrar of Banks or the Financial Services Board. Compliance with the relevant regulations affecting financial services is regarded as being of the utmost importance.

FirstRand works closely with law makers and regulators to protect its stakeholders' interests, avoid reputational damage and prevent or mitigate the potential negative impact of either new, or changes to existing statutes or regulations.

Shareholders and investment analysts

FirstRand actively distributes information to shareholders and investment analysts through the Stock Exchange News Service ("SENS"), the print media and the company website (www.firstrand.co.za.). Disclosures are based on the principles of openness and substance over form. Following the publication of interim and year end financial results FirstRand presents results, to local and international shareholders and the investment community and answers questions in respect thereof. These occasions also provide an opportunity for shareholders and the investment community to interact directly with the chief executives of FirstRand's major operating divisions. The presentations of both the interim and final results can be viewed live via satellite television and are available on the company website.

Shareholders are notified timeously of the annual general meeting and its agenda where all voting takes place by way of a ballot. Results of the voting are published immediately after the meeting through a SENS announcement. Proceedings of the meeting are not broadcast via satellite television. For this reason electronic voting is not available to shareholders.

Stakeholder policies

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") and the Equator Principles ("EP"). 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 ("NBI"), 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.

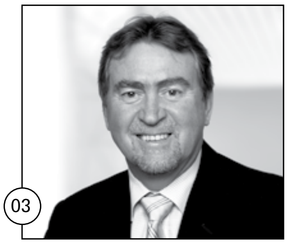
During the year under review FirstRand became a signatory of the United Nations Environment Programme ("UNEP") finance initiative.

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. FirstRand's non financial performance is evaluated independently on an annual basis by the JSE Socially Responsible Investment ("SRI") index.

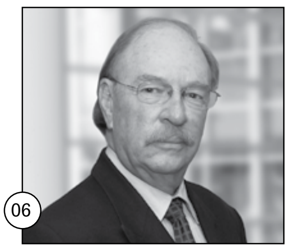
BOARD OF DIRECTORS

"FirstRand's Board of directors is the focal point of the Group's corporate governance structure and has the paramount responsibility of overseeing 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

02

03

04

05

06

07

08

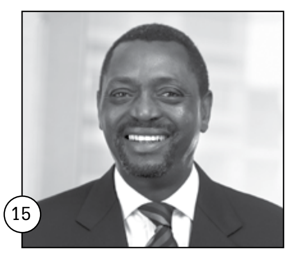
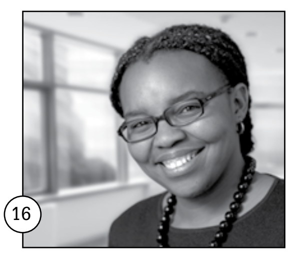
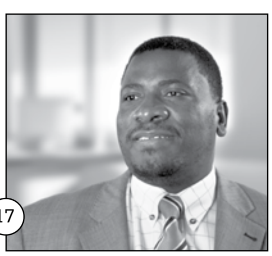
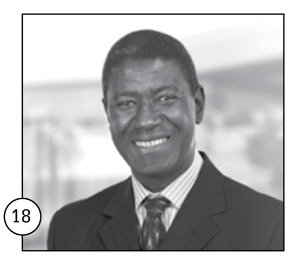
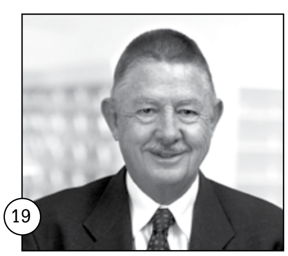
09

10

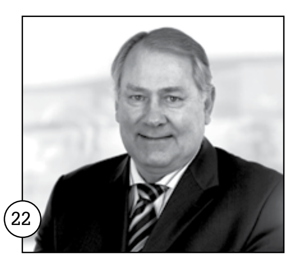
11

12

13

14

15

16

17

18

19

20

21

22

23

Skills and experience

"FirstRand's Board of directors has the necessary depth of knowledge, skill, experience and financial services expertise to oversee the successful development and implementation of FirstRand's business strategy."

01. LAURITZ LANSER DIPPENAAR (61)
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
- FirstRand EMA Holdings Limited (previously FirstRand Bank Holdings Limited)
- FirstRand STI Holdings Limited – chairman
- Momentum Group Limited – chairman
- RMB Asset Management (Proprietary) Limited
- First National Bank*
- Rand Merchant Bank*

Directorships – external
- RMB Holdings Limited

* Divisional board

02. SIZWE ERROL NXASANA (52)
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 Kwa-Zulu Natal. In 1996 he became the founding partner of Nkonki Sizwe Ntsaluba, the first black owned national firm of accountants, and was national managing partner until 1998 when he joined Telkom SA as chief executive officer. He held this position until August 2005.

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

In February 2006 he was appointed as an executive director of FirstRand. Sizwe was appointed CEO of FirstRand in January 2010.

FirstRand – committee memberships
- Audit – ex officio
- Executive – chairman
- FirstRand Foundation – chairman
- Large exposures credit
- Risk, capital management and compliance – ex officio
- Strategic executive – chairman

Directorships – FirstRand Group
- FirstRand Bank Limited – chief executive officer
- FirstRand EMA Holdings Limited (previously FirstRand Bank Holdings Limited)
- FirstRand Investment Holdings (Proprietary) Limited
- Momentum Group Limited
- First National Bank* – chairman
- Rand Merchant Bank* – chairman

Directorships – external
- The Banking Association South Africa

* Divisional board

03. JOHAN PETRUS BURGER (51)
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
- Executive

- Large exposures credit
- Risk, capital management and compliance – ex officio
- Strategic executive

Directorships – FirstRand Group
- FirstRand Bank Limited
- FirstRand EMA Holdings Limited (previously FirstRand Bank Holdings Limited)
- FirstRand Investment Holdings (Proprietary) Limited
- Momentum Group Limited
- First National Bank*
- Rand Merchant Bank*

* Divisional board

04. DEEPAK PREMNARAYEN (64)
Executive
BA Economics (Hons) India
Appointed January 2009

Deepak Premnarayen started his career as a management trainee in 1968 with New India Assurance. He later moved to Citibank and then Reckitt & Coleman in India, where he spent over ten years in sales, marketing and international business development leadership.

In the late 1980's when India began its liberalisation process, he chose to pursue entrepreneurial opportunities, which included launching leading international luxury brands in India and exports of gems and jewellery.

In 1998 he founded the ICS Group to pursue emerging infrastructure development opportunities in India. ICS was subsequently involved in pioneering projects involving public-private partnerships, prominent among which is the publicly held Noida Toll Bridge Company. He continues to serve as the chairman of the ICS Group, which now has broadened its interests to include retail-centric property services, investments and asset management in India.

He has also been a strategic advisor to the wealth management arms of Citibank and CIBC in India.

Mr Premnarayen acts as FirstRand's representative in India and is a member of its advisory board in that country.

Directorships – external
- ICS Group
- Triangle Real Estate India Fund LLC (Mauritius)
- Noida Toll Bridge Company Limited (India)

05. VIVIAN WADE BARTLETT (67)
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 credit
- Remuneration

Directorships – FirstRand Group
- FirstRand Bank Limited
- FirstRand EMA Holdings Limited (previously FirstRand Bank Holdings Limited)
- FirstRand STI Holdings Limited
- Makalani Holdings Limited – chairman
- First National Bank*
- WesBank – chairman*

* Divisional board

06. JURIE JOHANNES HUMAN (JURIE) BESTER (68)
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 the 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
- Remuneration
- Risk, capital management and compliance

Directorships – FirstRand Group
- FirstRand Bank Limited
- FirstRand Ireland Plc

07. DAVID JOHN ALASTAIR CRAIG (62)
Independent non executive
British
Appointed May 1998

David Craig is a private investor with long experience of international investment markets, particularly in specialist areas such as Private Equity, Hedge Funds, Event Driven and other targeted investments across different capital classes of individual companies. Until recently David served as managing director and chief investment officer of Sand Aire Limited, a large multi-family investment management office located in London, with a focus on advanced asset allocation processes. In 1983 he set up IFM Asset

Management, the first major hedge fund group in London, which he ran until the time of its sale in 1994. Prior to that time he was responsible for European Capital Markets activities first for Hambros, the London merchant bank, then for JP Morgan.

FirstRand – committee memberships
– Directors' affairs and governance

Directorships – FirstRand Group
– Rand Merchant Bank*

* Divisional board

Resigned July 2010, and has agreed to serve on the RMB divisional board.

08. LEON CROUSE (57)
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 that 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 in which year he transferred to Switzerland to hold the position of financial controller of Compagnie Financiére 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 founder member of the Vodacom Group executive team. Rembrandt, at the time, held a 5% 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 (Proprietary) Limited
– Remgro Limited
– Total South Africa (Proprietary) Limited

09. PATRICK MAGUIRE GOSS (62)
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.

FirstRand – committee memberships
– Directors' affairs and governance – chairman
– Remuneration – chairman

Directorships – FirstRand Group
– FirstRand Bank Limited
– Rand Merchant Bank*

Directorships – external
– RMB Holdings Limited

* Divisional board

10. NOLULAMO NABAMBISWANO (LULU) GWAGWA (51)
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, where-after 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 – chairperson

Directorships – external
– Lereko Investments (Proprietary) Limited
– Development Bank of South Africa Limited
– Massmart Holdings Limited
– Sun International Limited

11. PAUL KENNETH HARRIS (60)
Non executive
MComm
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 ("RCI") in 1977. RCI acquired control of Rand Merchant Bank ("RMB") 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.

FirstRand – committee memberships
- Directors' affairs and governance

Directorships – FirstRand Group
- FirstRand Bank Limited
- Momentum Group Limited
- RMB Asset Management (Proprietary) Limited

Directorships – External
- Remgro Limited
- RMB Holdings Limited

12. ROGER WILLIAM (ROGER) JARDINE (44)
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 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
- Large exposures credit

Directorships – FirstRand Group
- FirstRand Bank Limited

Directorships – External
- Aveng Limited
- McConnell Dowell Corporation Limited
- Trident Steel Holdings (Proprietary) Limited

13. ETHEL GOTHAMODIMO MATENGE-SEBESHO (55)
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 committee

Directorships – FirstRand Group
- FirstRand Bank Limited
- FNB Credit Guarantee Limited
- Advantage Asset Managers (Proprietary) Limited
- Momentum Ability Limited
- Momentum Structured Insurance Limited
- First National Bank*

Directorships – external
- Finmark Trust
- Women's Development Business
- Botswana Export Development and Investment Authority
- Social Entrepreneurship Foundation

* Divisional board

14. GUGU MOLOI (42)
Independent non executive
BA (Law), MA (Town and Regional Planning),
Diploma (General Management)
Appointed February 2004

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

FirstRand – committee memberships
– Directors' affairs and governance

Resigned July 2010 and has agreed to serve on the FNB divisional board.

15. PAUL NKUNA (58)
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

Directorships – external
– BPSA (Proprietary) Limited
– Metrofile Holdings Limited – chairman
– Mineworkers Investment Company
– Primedia Limited – chairman
– Tracker (Proprietary) Limited

16. AMANDA TANDIWE NZIMANDE (39)
Non executive
BCom CTA (UCT), CA (SA); H DIP Law (Wits)
Appointed May 2005

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 (Proprietary) Limited
– Maemo Motors (Proprietary) Limited
– Masana Petroleum Solutions (Proprietary) Limited
– Mintbrooke Technologies (Proprietary) Limited
– Paracon Holdings Limited
– WDB Investment Holdings (Proprietary) Limited

17. KGOTSO BUNI SCHOEMAN (46)
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 partnership 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 Trust Investments (Proprietary) Limited
– Kagiso Enterprises Rural Private Equity Fund (Proprietary) Limited
– Kagiso Activ Training (Proprietary) Limited
– Kagiso Trust Consultancy (Proprietary) Limited

18. KHEHLA CLEOPAS SHUBANE (54)
Independent non executive
BA (Hons), MBA
Appointed May 1998

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

FirstRand – committee memberships
– Directors' affairs and governance

Directorships – external
– Johannesburg Roads Agency

Resigned July 2010 and has agreed to serve on FNB divisional board.

19. RONALD KEITH (TIM) STORE (67)
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. Since 1997 he has convened a course with the University of Johannesburg (formerly RAU) where he holds an honorary professorship.

He is a member of the board of the National Credit Regulator. 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 credit – chairman
- Risk, capital management and compliance

Directorships – FirstRand Group
- FirstRand Bank Limited
- Rand Merchant Bank*

* Divisional board

20. BENEDICT JAMES VAN DER ROSS (63)
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
- Remuneration committee
- Transformation monitoring

Directorships – FirstRand Group
- FirstRand Bank Limited
- Makalani Holdings Limited
- Momentum Medical Scheme Administrators (Proprietary) Limited – chairman
- Momentum Africa Investments (Proprietary) Limited – chairman
- Momentum Group Limited
- RMB Asset Management (Proprietary) Limited – chairman
- Strategic Real Estate Management (Proprietary) Limited – chairman
- First National Bank*

Directorships – external
- Distell Group Limited
- Lewis Group Limited
- Naspers Limited
- Pick 'n Pay Stores Limited

* Divisional board

21. JAN HENDRIK (HENNIE) VAN GREUNING (57)
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

22. FREDERIK VAN ZYL SLABBERT (69)
Independent non executive
BS, BA (Hons) (cum laude), MA (cum laude), DPhil
Appointed November 2001

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

FirstRand – committee memberships
– Directors' affairs and governance

Directorships – external
– Adcorp Holdings Limited – chairman
– Caxton CTP Publishers and Printers Limited – chairman

Retired November 2009

23. MATTHYS HENDRIK (THYS) VISSER (56)
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
– Kagiso Trust Investments (Proprietary) Limited
– Medi-Clinic Corporation Limited
– PG Group (Proprietary) Limited
– PGSI Limited
– Rainbow Chicken Limited – chairman
– Remgro Limited
– RMB Holdings Limited
– Unilever South Africa Holdings (Proprietary) Limited

BOARD OF DIRECTORS

LAURIE DIPPENAAR, Chairman

ROLE

The fundamental responsibility of the Board is to improve the economic prosperity of the Group over which it has full and effective control.

In terms of its charter, the Board is responsible for oversight of the effective functioning of the Group's internal control framework, approving corporate strategy, major plans of action, monitoring operational performance and appointing the chief executive, chief operating officer and chief financial officer.

"The Board's role includes identifying risks which impact on the Group's sustainability, the monitoring and management of these risks and associated internal controls. These responsibilities include oversight of corporate governance, annual budgets and key performance indicators established in terms of the Group's strategic financial and non financial objectives."

The Board monitors major capital expenditure, acquisitions and disposals and any other matters that are defined as being material. The chief executive is fully accountable to the Board for the day-to-day running of the Group.

2010 HIGHLIGHTS

Focus area	Actions
King III, ethics management and safe whistle blowing	The Directors' affairs and governance committee has overseen measures for ensuring implementation of the King III Code and the institutionalisation of a revised Group Code of ethics and Whistle blowing policy. Steps have also been taken toward a more clearly defined process for alternative dispute resolution. See page 73 for detail.
Effectiveness of integrated internal controls and governance of IT risks	The Audit, risk and compliance committee has overseen the effectiveness of integrated financial and non financial controls. There has been a concerted effort to further strengthen internal controls and systems in order to reduce avoidable operational losses throughout the Group. Steps have also been taken towards enhanced governance of IT risk. See page 77 for detail.
Review of remuneration practices to ensure alignment with shareholder returns	The Remuneration committee has conducted internal and external reviews of remuneration practices and has ensured that FirstRand's remuneration practices are in line with the Financial Stability Board's Principles for Sound Compensation Practices and the Financial Service Authority's remuneration Code of Practice. Special attention has been paid to the alignment of risk and reward to ensure accord between remuneration and shareholder returns with a portion of variable pay being deferred for a period of more than one year for the first time.
Operational efficiencies and leveraging of Group strength	FirstRand's Exco has embarked on a drive to ensure that operational efficiencies are harnessed through leveraging of the Group strength. Steps have been taken to promote the effectiveness of human resource management and procurement functions. Attention has also been paid to the Group's relationship with the natural environment. See page 93 for detail.
BBBEE transformation performance	The Transformation monitoring committee has overseen the successful transition to reporting against the dti CoGP and the implementation of self regulation against key components of the FSC. See page 101 for detail.
Corporate social investment	The FirstRand Foundation has overseen the Group's corporate social investment initiatives and grant making. Special efforts have been made to ensure ongoing engagement with beneficiaries and the monitoring of their progress. See page 103 for detail.

DIRECTOR RESPONSIBILITIES

The 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. Directors are the guardians of the values and ethics of the Company and its subsidiaries. All directors subscribe to the Code of ethics which can be found on the FirstRand website (www.firstrand.co.za) and forms part of FirstRand's Board charter.

In exercising control of the Group, the directors are empowered to delegate. This is done through the boards of the major subsidiaries, their respective chief executives and various board committees including executive committees. A number of FirstRand directors are also directors of the major subsidiaries thereby enhancing reporting between subsidiary boards and FirstRand. The Board committees are structured to ensure that they include representatives from similar subsidiary board committees. This ensures that there is a common understanding across the Group of the strategic imperatives that it faces, how these are managed and the decisions that are being taken in respect thereof.

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 meet separately with management without the attendance of executive directors.

Within the Banking Group non statutory advisory boards representing FirstRand's major banking brands (First National Bank, Rand Merchant Bank and WesBank) provide further comfort to FirstRand's statutory boards.

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 2002 ("King II Code"). The Directors are satisfied that the Group has complied with the provisions and the spirit of the King II Code.

In line with the JSE Listing Requirements and the Code of Corporate Practices contained in the King Report on Corporate Governance for South Africa 2009 ("King III Code") processes are in place to ensure that an independent lead director will be appointed in the new financial year.

BOARD COMPOSITION

FirstRand has a unitary board. Its chairman is non executive, but not independent in terms of the definitions stated below. The Board believes that Mr Dippenaar's specialist knowledge of the financial services industry and of the FirstRand Group makes it appropriate for him to hold this position notwithstanding the fact that he is not regarded as independent in terms of the definition provided. Mr Dippenaar is a major shareholder in RMB Holdings Limited, which owns 30.06% of the issued share capital of FirstRand. Mr Dippenaar relinquished his position as chief executive of FirstRand in November 2005.

A strong independent element of non executive directors exists on FirstRand's Board and those of its major subsidiaries. This provides the necessary objectivity essential for their effective functioning. 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.

Each year one third of FirstRand's non executive directors retire. Three of the directors, Messrs Nkuna and Schoeman and Ms Nzimande represent FirstRand's three Broad Based BBBEE partners. These directors were nominated by the Trusts they represent and their appointment was subject to the approval of the rest of the Board.

The boards of the Group's major subsidiaries and operating divisions are similarly constituted with the necessary mix of skills, experience and diversity. There is also an appropriate mix between executive and non executive appointments.

During the year Messrs DJA Craig and KC Shubane, Dr F van Zyl Slabbert and Ms G Moloi retired from FirstRand's Board of directors. Subsequent to his retirement Dr van Zyl Slabbert passed away. The Board would like to extend its condolences to his family and reconfirm FirstRand chairman Laurie Dippenaar's sentiments that his contribution was immense and the Group is extremely grateful for his service.

Mr Shubane and Ms Moloi's skills and experience will be retained within the Group at FNB's divisional board and Mr Craig remains on RMB's divisional board. From 1 July 2010 new appointments to FirstRand Limited's board include Messrs Bester and Jardine and Ms Matenge-Sebesho who already serve on the board of FirstRand Bank.

SUBSIDIARY BOARDS AND BOARD COMMITTEES

During the year under review FirstRand's three major wholly owned subsidiaries were FirstRand Bank Holdings Limited, Momentum Group Limited and FRIHL. Subsequent to the unbundling of Momentum from FirstRand, FirstRand's wholly owned subsidiaries are FirstRand Bank Limited, FRIHL and FirstRand EMA Holdings Limited, each of which have suitably constituted boards of directors. These boards assist FirstRand Limited's Board in overseeing the activities of FirstRand's operating divisions which are also subject to the oversight of divisional advisory boards and their board committees. The banking activities of foreign operations are subject to the oversight of incountry statutory boards.

Board committees assist the directors in their duties and responsibilities. In addition to the Executive committee ("Exco"), FirstRand's Board has committees to deal with directors' affairs and governance, remuneration, audit, risk compliance and 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. The Transformation monitoring committee includes the three non executive directors representing FirstRand's BEE partners and does not have a majority of independent non executive directors. Independent professional advice necessary to support committee members in performing their duties may be obtained at the Group's expense.

Additional board committees exist at subsidiary level and are established specifically for the purposes of managing risk. These include large exposure and credit committees in the Banking Group and actuarial committees where subsidiaries are involved in insurance related activities. Reappointment 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.

Board committees conduct annual effectiveness surveys, the results of which are reviewed by the Directors' affairs and governance committee.

Definition of independence

For the purpose of this annual 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 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

The Company secretary provides support and guidance to the Board in matters relating to governance and ethical practices across the Group. He assists the Board as a whole and directors individually with detailed guidance as to how their responsibilities should be properly discharged in the best interests of FirstRand. He facilitates, where necessary, induction and training for directors and assists the chief executive in determining the annual meeting timetable.

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

During the year Mr AH Arnott retired from his duties as FirstRand's company secretary. With effect from 31 May 2010 he was replaced by Mr BW Unser who is suitably qualified, empowered and has been the company secretary for FirstRand Bank and FirstRand Bank Holdings since 1998.

Details of directors

The names of the directors, their age, qualifications and other details appear on pages 60 to 69.

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 30.06% (2009: 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 140A of the Companies Act, directors of FirstRand have disclosed the following interests in the Company at 30 June 2010. Where necessary, prior year figures have been amended to reflect the new disclosures required in terms of the JSE listings requirements.

Ordinary shares (audited)

	Direct beneficial	Indirect beneficial	Held by associates	Indirect via RMBH	Total 2010	Percentage holding	Total 2009
Director	('000)	('000)	('000)	('000)	('000)	%	'000
Executive director:							
JP Burger	–	1 837	–	1 735	3 572	0.06	4 176
Non executive directors:							
VW Bartlett	3 693	376	–	–	4 069	0.07	4 069
JJH Bester**	20	–	–	–	20	–	–
LL Dippenaar	2 355	1 200	6	126 960	130 521	2.32	130 521
PM Goss	1	–	–	16 232	16 233	0.29	16 233
PK Harris	1 167	–	2 138	42 185	45 490	0.81	45 310
G Moloi*	1	–	–	–	1	–	1
AP Nkuna	15	–	–	–	15	–	15
KC Shubane*	41	–	–	4	45	–	45
Total	7 293	3 413	2 144	187 116	199 966	3.55	200 370

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

"B" preference shares (audited)

	Indirect beneficial	Total 2010	Percentage holding	Total 2009
Director	('000)	('000)	%	('000)
Non executive director:				
LL Dippenaar	520	520	1.16	520
Total	520	520	1.16	520

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

BOARD PROCEEDINGS AND PERFORMANCE REVIEW

The Board meets 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 234 of the Companies Act are disclosed at every meeting.

Attendance during the year was as follows:

	Sep 2009	Nov 2009	Mar 2010	Mar 2010**	Apr 2010	May 2010
LL Dippenaar – Chairman	√	√	√	√	√	√
SE Nxasana	√	√	√	√	√	√
JP Burger	√	√	√	√	√	√
VW Bartlett	√	√	√	√	A	√
DJA Craig	√	√	√	√	A	√
L Crouse	√	√	√	A	√	√
PM Goss*	√	√	A	A	√	√
NN Gwagwa	√	A	√	A	√	√
PK Harris	√	√	A	√	√	√
G Moloi	√	A	A	√	√	√
AP Nkuna	√	√	√	A	√	√
AT Nzimande	√	√	√	A	√	√
D Premnarayen	√	√	√	√	√	√
KB Schoeman	√	√	√	A	√	√
KC Shubane	√	√	√	√	√	√
RK Store	√	√	√	√	√	√
BJ van der Ross	√	√	√	√	√	√
JH van Greuning	√	√	√	√	√	√
MH Visser	√	√	√	A	√	√

A = Apologies tendered and accepted
** Director granted leave of absence for international travel*
*** Special board meeting*

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, Board of directors

13 September 2010

DIRECTORS' AFFAIRS AND GOVERNANCE COMMITTEE

PAT GOSS, Chairman

COMPOSITION

FirstRand's Directors' affairs and governance committee comprises all of FirstRand's non executive directors and is chaired by Mr Pat Goss who is an independent non executive director.

ROLE

The Directors' affairs and governance committee assists the Board in discharging its responsibilities relative to FirstRand's corporate governance practices.

"Corporate governance is overseen by the Directors' affairs and governance committee and plays an integral role in FirstRand's business philosophy."

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

2010 HIGHLIGHTS

Focus area	Actions
King III and best practice in corporate governance	A gap analysis of current practices compared with those recommended in the King III Code has been conducted and the committee has monitored progress in addressing any deficiencies. Particular attention has been paid to alternative-dispute-resolution and the institutionalisation of a revised Code of ethics and Whistle blowing policy.
Governance effectiveness and succession planning	The committee has undertaken reviews of the effectiveness of the Board of directors and its subcommittees and has implemented sound and effective succession planning at executive level.
Appointment of new directors	The committee has facilitated the appointment of Messrs Bester and Jardine and Ms Matenge-Sebesho to FirstRand's Board of directors.
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. Corporate governance is standardised across the Group to ensure that the highest standards of corporate governance are upheld and monitored at all operations including international operations.

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.

KING III CODE

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 Code").

The King III Code comes into effect for FirstRand from 1 July 2010. During the year under review significant progress has been made in respect of applying the King III Code.

This includes the following:

- Board and Board committee charters will incorporate recommendations made in King III; and
- an action plan for the implementation of King III in cases where gaps have been identified.

Key areas being addressed include:

- enterprise-wide Information Technology (IT) governance;
- the formation of a Group ethics committee;
- the strategic management of sustainability and stakeholder considerations; and
- the development of more clearly defined processes for alternative-dispute-resolution and perceiving business relationships as fundamental to good governance.

GOVERNANCE EFFECTIVENESS

During the year under review the Board and all of its committees conducted evaluations to measure their effectiveness and that of its members.

In addition to overseeing the financial performance of the Group directors' responsibilities include careful consideration of environmental, social and governance issues supporting the realisation of sustainable profits.

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 and is measured against a balanced scorecard, which is described in the Remuneration committee report on page 79. The directors convey to the chairman any concerns that they might have in respect of the performance and conduct of their peers. In terms of the Banks Act the directors of the FirstRand Banking Group Board are subject to formal individual assessment. From 1 July 2010 this provision also applies to the directors of FirstRand Limited.

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 and talent with diverse experience and competence at senior management level. 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. On 9 June 2009 FirstRand announced that Mr SE Nxasana, previously chief executive of FirstRand Bank would succeed Mr PK Harris by also becoming CEO of FirstRand Limited when, as previously indicated, Mr Harris retired on 31 December 2009.

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. This committee is responsible for interviewing the nominee and making recommendations to the rest of the committee as to his or her suitability. During the year the Nominations committee, which comprised Messrs Dippenaar, Goss, van der Ross, and Dr Gwagwa met to consider the nominations received in respect of Messrs Bester and Jardine and Ms Matenge-Sebesho. The meetings were chaired by Mr Goss.

When appointing directors, the Board takes cognisance of its needs in terms of different skills, experience, diversity, size and demographics. A brief CV of each director standing for election or re-election at the annual general meeting accompanies the notice of the meeting contained in the annual report. A staggered rotation of directors ensures continuity of experience and knowledge.

The reappointment of non executive directors is not automatic and is subject to performance and eligibility for reappointment.

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. The directors serving on the board of FirstRand Limited are subject to this regulation from 1 July 2010 as a result of FirstRand becoming a bank controlling company. During the year the Directors' affairs and governance committee oversaw the necessary actions for ensuring compliance with this requirement.

The retirement age for non executive directors is set at 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 the 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.

ETHICS MANAGEMENT FRAMEWORK

Group Ethics Office

During the year the committee oversaw the appointment of a Group ethics officer and formalised ethics management reporting lines within the Regulatory risk management function.

The Group Ethics office reports into Regulatory risk management and is responsible for institutionalising the commitment of top management to run an ethical and responsible business. The practical implementation of this commitment is facilitated through the application of FirstRand's Ethics management framework.

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. The Code addresses duties of care and skill, good faith, honesty and integrity, whistle blowing, 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. 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.

FirstRand Group whistle blowing programme

Renewed emphasis has been placed on the issue of whistle blowing. 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.

Progress is being made in implementing a Group whistle blowing programme designed to enhance the detection of unethical conduct. An external service provider has been appointed to serve as an independent whistle blowing hotline service provider to the Group. These consultants will manage the FirstRand Ethics Line in partnership with the Group Ethics office which will be able to accept confidential or anonymous reports of unethical conduct, including theft, fraud and corruption. A secure email address has also been registered for this purpose.

Anonymous whistle blowing contact lines are:

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

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 was as follows:

	Sep 2009	Mar 2010	Apr 2010	May 2010
	√	A	√	√
LL Dippenaar	√	√	√	√
VW Bartlett	√	√	A	√
DJA Craig	√	√	A	√
L Crouse	√	√	√	√
NN Gwagwa	√	A	√	√
PK Harris	A	A	√	√
G Moloi	√	A	√	A
AP Nkuna	√	√	√	√
AT Nzimande	√	√	A	A
D Premnarayen	√	√	√	√
KB Schoeman	√	√	√	√
KC Shubane	√	√	√	√
RK Store	√	√	√	√
BJ van der Ross	√	√	√	√
JH van Greuning	√	√	√	√
MH Visser	√	√	√	√

A = Apologies tendered and accepted.

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.

PM Goss
Chairman, Directors' affairs and governance committee

13 September 2010

AUDIT, RISK AND COMPLIANCE COMMITTEE

TIM STORE, Chairman

COMPOSITION

The Audit, risk and compliance committee includes representatives of the Group's major subsidiary audit and risk committees and is composed of independent non executive directors.

In addition the chief executive and the chief financial officer attend committee meetings in an ex officio capacity. The external auditors and head of internal audit are present at all committee meetings and meet independently with the non executives as and when required.

ROLE

During the year under review FirstRand's Audit, risk and compliance committee reviewed the findings and reports of the subsidiary company Audit and risk committees and addressed matters of both a Group and a head office nature. All of the subsidiary audit and risk committees have adopted terms of reference approved by their respective boards dealing with membership, structure, authority and duties. During the year the chairman provided reports to the Board on issues addressed by the committee.

2010 HIGHLIGHTS

Focus area	Actions
Future governance of audit, risk and compliance	As a result of FirstRand becoming a bank controlling company from 1 July the committee will be replaced by two separate committees dealing with audit and risk issues respectively. The committee has overseen the implementation of measures necessary to ensure the effective functioning of these two committees.
King III and the governance of IT risks	Steps have been taken towards enhanced governance of Information Technology risk.
Effectiveness of integrated internal controls	The committee has overseen the effectiveness of integrated financial and non financial internal controls. This has included oversight of ESG risks and underlying management controls.
External auditors	The committee has overseen the appointment of the external auditor and has monitored their independence and performance.

Stakeholders are referred to the comprehensive risk management report set out from pages 115 to 231 for a detailed review of the risk and capital management processes and responsibilities undertaken in respect of the activities of FirstRand Bank and Momentum.

Future governance of audit, risk and compliance

The Registrar of Banks has granted approval for FirstRand to be registered as bank controlling company in terms of the Banks Act with effect from 1 July 2010. Consequently, the Audit, risk and compliance committee will be dissolved and two separate committees will be formed namely, the FirstRand Group Audit committee and the FirstRand Group Risk, capital management and compliance committee. Both of these committees will comprise of a majority of non executive members dedicated to monitoring audit and risk issues, the majority of whom are independent.

King III Code

During the year under review the committee updated its charter to ensure that new obligations in terms of the King III Code are met. Among responsibilities addressed by the charter are:

- oversight of the governance of information technology and the management of fraud and IT risk as they relate to financial reporting;
- provision of assurance for risk management processes;
- provision of assurance regarding the integrity of the internal financial control framework;
- oversight of integrated reporting and the provision of assurance for the integrated report; and
- monitoring of ESG risks including matters relating to ethical practices.

These updates are also features of the new committee charters for the Audit and Risk, capital management and compliance committees which replace the Audit, risk and compliance committee.

AUDIT

The committee undertakes statutory and non statutory duties in respect of audit responsibilities. During the year statutory activities have included review of the:

- integrity of the Group's financial statements;
- appropriateness of the expertise and experience of the financial director;
- quality, independence and cost of the statutory audit;
- appointments of the external auditors and the audit partner;
- services of the external auditors, including non audit services;
- independence and objectivity of the external auditors; and
- results of the external audit.

Other activities undertaken during the year include oversight of:

- the effectiveness of internal control systems ;
- the activities and effectiveness of the internal audit function;
- the risk areas of the entities to be covered in the scope of the internal and external audits;
- the adequacy, reliability and accuracy of the financial information provided to management and other users of such information;
- the accounting or auditing concerns identified as a result of the external and internal audits;
- reports from the internal auditors; and
- further integration of internal financial and ESG reporting, including reporting in respect of ethical practices.

The committee is also responsible for:

- communicating any concerns it deems necessary to the board and the external auditors;
- reporting to shareholders at the annual general meeting;
- confirming the internal audit charter and approving the audit plan;
- encouraging communication between members of executive management, the internal auditors and the external auditors;
- conducting investigations within its terms of reference;
- concurring with the appointment of the head of internal audit; and
- setting the principles for using the external auditors for non audit services.

RISK

The committee has:

- ensured that appropriate systems are in place to identify and monitor risks affecting the Group, including risks related to information technology;
- evaluated the adequacy and effectiveness of risk management processes;
- 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 form other organisations and inform operational risk assessments through scenario analyses;
- received reports from subsidiary risk committees; and
- overseen the integration of ESG risks within the Group's risk reporting framework.

COMPLIANCE

The committee has:

- ensured that appropriate systems are in place to identify and monitor compliance with legislation and the Group's Code of ethics;
- evaluated the adequacy and effectiveness of the compliance framework;
- overseen the appointment of a Group Ethics officer; and
- reviewed the effectiveness of the Group's whistle blowing mechanisms.

AUDITOR INDEPENDENCE

At the annual general meeting held in November 2009 shareholders approved the committee's recommendation for the reappointment of PricewaterhouseCoopers Inc as auditors of the Company until the next annual general meeting. Mr Fulvio Tonelli was appointed as the individual registered auditor undertaking the Company's audit for the year under review.

FirstRand believes that the auditors have observed the highest level of business and professional ethics. The committee is satisfied that the auditors have at all times acted with unimpaired independence. Details of fees paid to the external auditors are disclosed in note 4 of the Group annual financial statements, together with details of non audit services provided and the fees paid in respect thereof.

PROCEEDINGS AND PERFORMANCE REVIEW

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

	Sep 2009	Mar 2010	May 2010
RK Store – Chairman	√	√	√
VW Bartlett	√	√	√
BJ van der Ross	√	√	√
JH van Greuning	√	√	√

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

RK Store
Chairman, Audit, risk and compliance committee

13 September 2010

REMUNERATION COMMITTEE

"We are cognisant of the fact there is an expectation from our stakeholders that the Group's remuneration structures will appropriately reflect performance..."

Chairman's statement FSR Annual Report 2009

PAT GOSS, Chairman

Key to the implementation of an effective remuneration strategy and policy is the role of the Remuneration committee which 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.

COMPOSITION

FirstRand's Remuneration committee ("Remco") membership is composed of independent directors. Executives attending Remco meetings do so in an ex officio capacity.

ROLE

The committee assists the Board in discharging its responsibilities relative to remuneration policies and practices, in the FirstRand Group.

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;
- ensuring that compensation outcomes are consistent with risk outcomes; and
- 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 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;
- deferral of variable remuneration for highly paid employees;
- significant investment of senior management in deferred instruments and long term share awards; 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. Therefore the Group's remuneration policy takes account of the diverse needs of the Group's divisions and devolves the implementation of appropriate industry specific remuneration practices in accordance with the Group's remuneration policy.

During the year to June 2010 the Group implemented the following actions pertaining to remuneration. These actions are specifically designed to continuously tighten the link between shareholder returns and executive pay, and between risk and reward.

2010 HIGHLIGHTS

Focus area	Actions
Review of remuneration practices	Remuneration practices were amended in line with the Financial Stability Board's Principles for Sound Compensation Practices and the Financial Service Authority's remuneration Code of Practice.
Aligning risk and reward	Subsequent to amendments to the Group's governance structure, the chairman of the Risk, capital management and compliance committee has been appointed to Remco. This confirms that the risk element of FirstRand's remuneration policy has been duly considered, whilst ensuring appropriate remuneration for risk managers and discouraging risky behaviour.
Deferral of variable pay	In line with its strategy to introduce additional deferral structures into executive management's remuneration, between 20% and 47% of all performance payments above R1.5 million were deferred in FirstRand shares for two years; 40% of performance payments above R1.5 million made to FirstRand Exco members was deferred in FirstRand shares for two years, with more than 45% of performance payments made to the CEO and COO being deferred for two years.
Share incentive schemes	On 25 November 2009 FirstRand shareholders approved the Conditional Share Plan ("CSP") which the Group believes is an appropriate mechanism for high level retention. The cost to shareholders is in line with previous schemes.

DEFERRAL OF VARIABLE PAY

Annual performance related payments are dependent upon a number of key financial, non financial and risk management measures and compensation payout schedules are sensitive to the time horizon of risks. The Group believes that the "deferral" of certain components of performance payments will ensure senior and executive management focus on creating medium to long term value for stakeholders. Therefore during the year under review, for the first time, FirstRand increased the deferral period of a component of variable pay for longer than 12 months.

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.

Profits and losses of different activities of the Bank 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.

2010 deferral structure

		Payment date			
Performance payment	Deferred in shares	Aug 2010	Dec 2010	Jun 2011	Sep 2012
≤ R500k	No	100%	–	–	–
≤ R1.5 million	No	R500k + 33% of balance	33% of balance	33% of balance	–
> R1.5 million	20 – 40% of amount above R1.5 million	R500k + 33% of balance	33% of balance	33% of balance	Shares vest
> R1.5 million (FirstRand Exco members only, excluding executive directors)	40% of amount above R1.5 million	R500k + 33% of balance	33% of balance	33% of balance	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 clawed back in the case of the applicable business unit making a loss during the year in question.

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 conducted investigations to ensure 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.

PricewaterhouseCoopers' Human Resources practice was engaged to provide independent analysis of FirstRand's compliance with the Financial Stability Board's Principles for Sound Compensation Practices and Implementation Standards.

ALIGNING RISK AND REWARD

The chairman of FirstRand's Risk 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 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.

Variable compensation also takes account of the achievement of annual objectives aligning short term performance with the creation of stakeholder value, including customer satisfaction, staff engagement, socio economic development, environmental and ethics performance.

Remuneration practices in respect of employees in the risk functions have recently been reviewed and steps are being 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 the Remco.

EXECUTIVE DIRECTOR REMUNERATION

Executive service contracts

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

Executive performance assessment

The basis for remunerating executive directors 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.

The scorecard for determining the performance related reward for FirstRand's executives measures the effectiveness of strategy implementation through evaluating financial and non financial performance against business performance and business sustainability criteria.

Business performance criteria include value drivers for financial performance and franchise quality and growth. Financial performance uses metrics reflecting delivery on financial objectives within the Group's risk/reward appetite. Franchise quality and growth uses metrics for evaluating alignment with FirstRand's strategic direction, collaboration with other Group companies and delivery on respective business strategy.

Business sustainability criteria include value drivers for customer orientation and employee perspectives. Customer orientation uses metrics for customer and brand appreciation and profitable growth of customer bases. Employee perspectives include metrics for employee satisfaction, internal values and talent management.

Breakdown of 2010 executive performance payments – SE Nxasana

- Cash payment August 2010 / 21%
- Cash payment December 2010 / 16%
- Cash payment June 2011 / 16%
- Shares vest September 2012 / 47%

Breakdown of 2010 executive performance payments – JP Burger

- Cash payment August 2010 / 23%
- Cash payment December 2010 / 16%
- Cash payment June 2011 / 16%
- Shares vest September 2012 / 45%

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.

A detailed description of all schemes currently in place is provided in note 33 to the annual financial statements.

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.

2010 non executive directors' fees relative to 2009

Fee per year (Rand)	2010	2009	% change
Committee chairs			
Board	**825 000**	670 000	23
Directors' affairs and governance	**27 500**	25 500	8
Audit, risk and compliance	**82 000**	76 000	8
Remuneration	**82 000**	76 000	8
Transformation monitoring	**55 000**	50 000	10
Committee members			
Board	**137 000**	127 000	8
Directors' affairs and governance	**13 750**	12 750	8
Audit, risk and compliance	**41 000**	38 000	8
Remuneration	**41 000**	38 000	8
Transformation monitoring	**27 500**	25 500	8

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 fulltime 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 was as follows:

	Jul 2009	Apr 2010	Jun 2010
PM Goss – chairman	√	√	√
VW Bartlett	√	A	√
LL Dippenaar	√	√	A
PK Harris	√	A	√
BJ van der Ross	√	√	√
MH Visser	√	√	√

A = Apologies tendered and accepted.

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.

The Chairman of FirstRand's Risk, capital management and compliance committee has formally reported to the Remco that the risk element of FirstRand's remuneration policy has been duly considered and that the quality of earnings has been taken into consideration when recommending bonus levels.

FirstRand's remuneration policies for the coming financial year will be put to shareholders vote at the annual general meeting to be held on 2 December 2010, details in respect of which are provided on page 439.

PM Goss
Chairman, Remuneration committee

13 September 2010

DIRECTORS' EMOLUMENTS

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

2010 Directors' emoluments

R'000	Services as directors[1] FSR	Group	Cash package[2]	Retirement and medical aid fund contributions	Performance related[3]	Other benefits[4,5]	**Total 2010**	Deferred in FirstRand Shares to 2012[6]
Executive								
JP Burger	57	–	4 699	760	5 520	2 819	**13 855**	4 480
PK Harris (retired December 2009)	–	–	2 643	408	–	–	**3 051**	–
SE Nxasana	57	–	5 101	710	5 820	626	**12 314**	5 180
D Premnarayen[7]	350	910	–	–	–	–	**1 260**	–
Sub total	**464**	**910**	**12 443**	**1 878**	**11 340**	**3 445**	**30 480**	**9 660**
Non executive								
LL Dippenaar (Chairman)	863	2 599	–	–	–	–	**3 462**	–
VW Bartlett	271	964	–	–	–	–	**1 235**	–
DJA Craig	377	144	–	–	–	–	**521**	–
L Crouse	189	474	–	–	–	–	**663**	–
PM Goss	284	424	–	–	–	–	**708**	–
NN Gwagwa	216	–	–	–	–	–	**216**	–
PK Harris	75	510	–	–	–	–	**585**	–
G Moloi	189	–	–	–	–	–	**189**	–
AP Nkuna	216	–	–	–	–	–	**216**	–
AT Nzimande	216	88	–	–	–	–	**304**	–
KB Schoeman	216	–	–	–	–	–	**216**	–
KC Shubane	189	–	–	–	–	–	**189**	–
RK Store	271	1 156	–	–	–	–	**1 427**	–
BJ van der Ross	324	1 770	–	–	–	–	**2 094**	–
JH van Greuning	429	1 445	–	–	–	–	**1 874**	–
F van Zyl Slabbert (deceased March 2010)	113	–	–	–	–	–	**113**	–
MH Visser	189	375	–	–	–	–	**564**	–
Sub total	**4 627**	**9 949**	**–**	**–**	**–**	**–**	**14 576**	**–**
Total	**5 091**	**10 859**	**12 443**	**1 878**	**11 340**	**3 445**	**45 056**	**9 660**

1 *Fees earned by South Africa 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 *"Cash package" includes travel and other allowances.*

3 *"Performance related" payments are in respect of the year ended 30 June 2010, but will be paid (together with an interest factor) in three tranches, during the year ending 30 June 2011.*

4 *Other benefits comprise the profit share entitlement from the Group co-investment scheme (see note 33 to the Group annual financial statements).*

5 *Benefits derived by executive directors in terms of their share option schemes are disclosed below. No options are granted to executive directors who have attained the age of 57 by September of each year. Compensation is paid for the loss of this benefit and is included under other benefits.*

6 *Performance payments deferred in FirstRand shares vest in September 2012. Refer to page 80 for detail.*

7 *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.*

2009 Directors' emoluments

R'000	Services as directors[1] FSR	Services as directors[1] Group	Cash package[2]	Retirement and medical aid fund contributions	Performance related[3]	Other benefits[4,5]	Total 2009
Executive							
JP Burger (appointed January 2009)	–	–	2 149	351	4 590	–	7 090
PK Harris	–	–	4 908	769	4 920	900	11 497
SE Nxasana	–	–	4 427	617	4 860	11	9 915
D Premnarayen (appointed January 2009)[6]	139	533	–	–	–	–	672
Sub total	**139**	**533**	**11 484**	**1 737**	**14 370**	**911**	**29 174**
Non executive							
GT Ferreira (Chairman) (retired November 2008)	373	691	–	–	–	–	1 064
LL Dippenaar – (Chairman) (appointed November 2008)	510	1 807	–	–	–	–	2 317
VW Bartlett	246	895	–	–	–	–	1 141
DJA Craig	360	171	–	–	–	–	531
L Crouse (appointed September 2008)	157	366	–	–	–	–	523
DM Falck (retired September 2008)	37	133	–	–	–	–	170
PM Goss	274	407	–	–	–	–	681
NN Gwagwa	210	–	–	–	–	–	210
G Moloi	180	–	–	–	–	–	180
AP Nkuna	205	–	–	–	–	–	205
AT Nzimande	165	–	–	–	–	–	165
KB Schoeman	213	–	–	–	–	–	213
KC Shubane	180	–	–	–	–	–	180
RK Store	256	941	–	–	–	–	1 197
BJ van der Ross	311	1 718	–	–	–	–	2 029
JH van Greuning (appointed January 2009)	120	606	–	–	–	–	726
F van Zyl Slabbert	140	–	–	–	–	–	140
MH Visser (appointed April 2009)	35	77	–	–	–	–	112
RA Williams (retired September 2008)	43	122	–	–	–	–	165
Sub total	4 015	7 934	–	–	–	–	11 949
Total	4 154	8 467	11 484	1 737	14 370	911	41 123

1 *Fees earned by South Africa 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 *"Cash package" includes travel and other allowances.*

3 *"Performance related" payments are in respect of the year ended 30 June 2009, but will be paid (together with an interest factor) in three tranches, during the year ended 30 June 2010.*

4 *Other benefits comprise the profit share entitlement from the Group co-investment scheme (see note 33 to the Group annual financial statements).*

5 *Benefits derived by executive directors in terms of their share option schemes are disclosed below. No options are granted to executive directors who have attained the age of 57 by September of each year. Compensation is paid for the loss of this benefit and is included under other benefits.*

6 *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.*

EXECUTIVE DIRECTORS' INTERESTS

The current interests of executive directors in share incentive schemes, together with benefits derived from sales and redemptions during the year are as follows:

Directors interests (Audited)

FirstRand Share Incentive Schemes	Opening balance (number of shares)	Strike price (cents)	Expiry date	Granted/ taken up this year (number of shares)	Closing balance (number of shares)	Benefit derived (Rand)
JP Burger	296 070	10.50	2009/10/01	(296 070)	–	1 850 438
	450 000	15.33	2010/10/03	–	450 000	–
	*800 000	16.33	2011/10/01	–	*800 000	–
	*900 000	20.53	2012/10/01	–	*900 000	–
	*1 500 000	14.01	2013/11/03	–	*1 500 000	–
	–	–	2012/09/17	**450 000	**450 000	–
	–	–	2012/09/15	*** 596 519	***596 519	–
Total	**3 946 070**			**750 449**	**4 696 519**	**1 850 438**
PK Harris	394 760	10.50	2009/10/01	(394 760)	–	2 455 447
	540 000	15.33	2010/10/03	(540 000)	–	1 549 800
	*800 000	16.33	2011/10/01	*(800 000)	–	–
Total	**1 734 760**			**(1 734 760)**	**–**	**4 005 247**
SE Nxasana	2 000 000	13.29	2010/10/20	–	2 000 000	–
	*350 000	16.33	2011/10/01	–	*350 000	–
	*1 000 000	20.53	2012/10/01	–	*1 000 000	–
	*2 000 000	14.01	2013/11/03	–	*2 000 000	–
	–	–	2012/09/17	**600 000	**600 000	–
	–	–	2012/09/15	***642 405	***642 405	–
Total	**5 350 000**			**1 242 405**	**6 592 405**	**–**
D Premnarayen	*2 304 577	14.01	2013/03/11	–	*2 304 577	–
Total	**2 304 577**			**–**	**2 304 577**	**–**

** APR*
*** CSP*
**** FSP*

Hurdle rates with regard to the share appreciation rights are disclosed in note 33 of the Group annual financial statements. The strike prices reflected above are those applying at the time that the options or share appreciation rights were granted.

FirstRand management share transaction

On 23 December 2009, the Company announced that, in a private transaction, a group of senior executives in FirstRand has agreed to 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 will receive 3.7 million FirstRand shares and Mr JP Burger 5 million FirstRand shares at a price of R16.06 per share. This transaction should have been executed in the first quarter of 2010 but, due to the Group remaining in a closed period from 1 January 2010 to 13 September 2010, it has not yet been executed.

The transference of ownership of these shares to the senior management of FirstRand aims to ensure that the interests of management and shareholders continue to be closely aligned.

EXECUTIVE COMMITTEE

SIZWE NXASANA, CEO

COMPOSITION

Exco is chaired by FirstRand's chief executive and comprises the chief operating officer, chief executives of the Group's major operating divisions, the heads of Enterprise risk, Regulatory risk, Investor relations and certain other members of senior management.

"FirstRand's Executive committee ("Exco") is a team of individuals with the combination of skills, expertise and experience required for developing and successfully implementing the FirstRand business strategy."

During the year the composition of the committee was expanded to include the heads of FirstRand Human Resources and Capital Management.

ROLE

Exco develops and implements the strategies approved by the Board for managing the business of the Group. Of particular importance is the ongoing development and inculcation of an enduring and widely embraced Group business philosophy and value system which creates an enabling environment in which operating divisions can grow and prosper.

In addition to the focus areas highlighted below the Exco oversees the synchronisation of divisional strategies and the optimisation of the Group's capital base and financial resources. During the year the chief executive and chief operating officer provided regular and detailed reports to the Board on matters of material and strategic impact.

2010 HIGHLIGHTS

Focus area	Actions
King III	Exco has overseen a gap analysis of governance and management practices compared with those recommended in the King III Code. Measures have been taken to address gaps with the oversight of the Directors' affairs and governance committee.
Human resource management	Steps have been taken to promote the effectiveness of human resource management with the creation of the FirstRand Strategic HR portfolio at Group level. Special attention has been paid to skills development, talent management and employment equity.
Customer relationships	Exco has overseen the Group's customer relationships and the implementation of divisional strategies in respect thereof. Special attention has been paid to access to financial services, debt remediation, compliance with customer regulations and customer engagement.
Corporate and Investment Banking	Exco has also overseen the creation of a new Corporate and Investment Banking (CIB) unit to enhance service to corporate customers, increase competitive advantage, deliver a superior offering to clients and significantly improve FirstRand's share of revenues in the corporate, institutional and interbank markets.
Procurement	FirstRand's Exco has embarked on a drive to ensure that operational efficiencies are harnessed through further centralising the procurement function. BEE procurement practices have also been closely monitored by Exco with oversight of the Transformation monitoring committee.
Relationship with the natural environment	Exco has overseen the implementation of internal reporting and controls for ensuring compliance with the Equator Principles and the implementation of Environmental and Social Risk Analysis in affected transactions. Significant progress has also been made in energy management and carbon emissions reductions.

King III Code

During the year Exco amended its charter to include more formal management of obligations set out in the King III Code. Among the provisions made in the charter are:

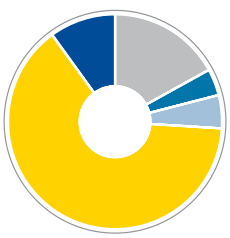
- ensuring the effectiveness of integrated financial and ESG controls;
- ensuring the effective governance of Information Technology;
- embedding processes for monitoring and managing the implementation of the Group's Code of ethics; and
- creating business opportunities through linking sustainability with business strategy.

HUMAN RESOURCE MANAGEMENT

During the year R15.1 billion, 17% of FirstRand's economic value added to stakeholders accrued directly to employees and their dependents.

Economic value to stakeholders

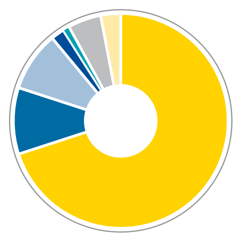
(%)



Employees	17%
Providers of capital	4%
Government	5%
Policyholders	64%
Expansion and growth	10%

Economic value to employees

(%)



Salaries, wages and allowances	70%
Contributions to employee benefit funds	10%
Defined contribution schemes	9%
Defined benefit schemes	2%
Social security levies	1%
Share based payments	5%
Other	3%

FirstRand views human resource management as a line function and seeks to create an environment in which employees can secure their own employability inside or outside the organisation.

Workforce movements

	2010	2009	% change
SA staff complement at 1 July (beginning of financial year)	**39 177**	38 863	1
New appointments	**4 558**	4 996	(9)
Resignations	**(3 557)**	(3 539)	1
Retrenchments	**(449)**	(428)	5
Dismissals	**(511)**	(556)	(8)
Deaths or disability	**(81)**	(78)	4
Other	**(480)**	(81)	493
SA staff complement 30 June (end of financial year)	**38 657**	39 177	(1)
Rest of Africa	**3 563**	3 239	7
Other countries	**328**	367	(11)
Total workforce	**42 548**	42 783	(1)
ACI employees (SA)	**25 787**	25 887	(<1)
ACI as a percentage of SA workforce (%)	**67**	66	<1

During the year macroeconomic forces necessitated that further efficiencies be found in all aspects of the Group's operations. In certain pockets of the organisation this has led to a reduction of staff numbers. Structured processes exist for ensuring that affected employees are redeployed within the organisation as far as is possible. The Group also has processes for assisting employees to take early retirement.

Training and development

In meeting skills development needs FirstRand supports the Business Leadership South Africa CEO Skills Commitment which aims to reinforce the sustained development of South Africa's human capital for meaningfully reducing unemployment, significantly decreasing the number of South Africans living in poverty and sustaining periods of rapid economic growth.

Skills development investment

R million	2010	2009	% change
ACI skills development investment	**193**	141	37
Other skills development investment	**96**	86	12
Total skills development investment	**289**	227	27
ACI skills development investment as % of payroll (%)	**5.0**	1.5	233

Note: skills development investment calculations have been refined to incorporate requirements in terms of the dti definitions.

Training and development

	2010	2009	% change
Average training days per employee	**6**	3 – 6	–
Students supported by FirstRand	**1 497**	1 400	7
Average age of employee graduates and diplomates	**31**	33	(6)
Call centre trainees	**317**	1 800	(82)
Average age of call centre trainees	**38**	29	31
Employee graduates and diplomates leaving the Group	**1 430**	1 700	(16)
Average age of employee graduates and diplomates leaving the Group	**30**	32	(6)

FirstRand has responded to this commitment through:

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

Examples of additional financial services skills development activities include:

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

FirstRand's leadership development initiatives include:

- junior board committees;
- mentoring and coaching by senior executives;
- career enhancement programmes;
- leadership immersion programme;
- junior leadership programme;
- senior management development programme;
- executive development programme; and
- industry specific compliance training.

Talent management and employment equity

Talent management is addressed through processes for attracting, growing, and retaining talent. Effective performance management processes underpin the Group's ability to achieve these objectives. FirstRand is implementing an enterprise wide human resource management information system with a view to continually improving the effectiveness of talent management practices.

Exco is responsible for developing and successfully implementing the Group's Employment Equity policy. Divisional CEOs provide quarterly reports on employment equity performance to the Board via the Transformation monitoring committee.

Detail in respect of the Group's employment equity performance and profile is shown in the Transformation monitoring committee report on page 99.

Operational health and safety ("OHS")

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 expert, to discuss all incidents of non compliance in order to ensure that incidents are resolved and that measures are taken to prevent reoccurrence.

HIV/AIDS

FirstRand has a comprehensive HIV/AIDS policy and management strategy covering all of the Group's workforce. Key elements of the policy address the strategic and proactive management of HIV/AIDS and ensuring that employees have access to holistic and sustainable healthcare programmes.

The policy places special emphasis on divisional engagement surveys, education, prevention, non discrimination, confidentiality, voluntary counselling and testing, incapacity management and sick leave entitlement.

Employee engagement

Methods for employee engagement include face-to-face communication, electronic media, employee surveys, circulars and newsletters and interactive forums. FirstRand employees are entitled to representation by the labour union of their choice and FirstRand engages with employee representatives using similar channels to those used for employees. Employees are enabled to recommend operational improvements to Exco via innovation initiatives such as the FNB Innovator's awards.

FirstRand holds regular seminars on the Group's business philosophy at which newly appointed middle and senior managers can engage the Group chief executive on issues relating to FirstRand's corporate culture and values. The Group holds an annual conference at which senior management, the executive and the Board of directors interact on the setting of strategic direction for the Group.

Employee volunteers

One in five of the Group's employees are involved in voluntary work under the banner "helping people to help themselves". The community initiatives run by FirstRand's Volunteers programme provide employees across the Group with the opportunity to engage in community projects that they find meaningful. The Group's Matched Funding programme and Annual Chairman's Volunteer Recognition Awards programme help to facilitate, support and inspire employees to continue to meet the needs of our community.

Stakeholders are referred to page 104 for a detailed review of the activities of FirstRand's Volunteers programme.

CUSTOMER RELATIONSHIPS

FirstRand's divisions operate in the key sectors of South Africa's financial services market. These are retail and commercial banking, investment and corporate banking, moveable asset finance, life and health insurance, asset management and short term insurance.

Access to financial services

FirstRand's emphasis on innovation encourages new solutions for extending access to financial services to new markets through innovative and convenient channels. The successful migration of customers to convenience non branch banking channels such as cellphone and internet banking has accompanied efficiencies in the delivery of access to financial services.

Retail banking access points

	2010	2009	% change
Retail representation points			
FNB	**657**	687	(4)
FNB Africa	**95**	91	4
Total retail representation points	**752**	778	(3)
ATMs			
FNB	**5 557**	5 311	4
FNB Africa	**511**	479	7
Total ATMs	**6 068**	5 790	5
Total retail banking access points	**6 820**	6 568	4

Retail customer performance indicators

	2010	2009	% change
Total retail customers (000)			
FNB	**6 840**	6 504	5
WesBank	**632**	645	(2)
Momentum (direct customers)	**5 583**	3 900	43
OUTsurance	**820**	683	20
Total retail customers	**13 875**	11 732	18
Customer satisfaction			
FNB (net promoter score) (%)[1]	**36**	35	–
WesBank (net promoter score) (%)[1]	**60**	52	–
OUTsurance (% satisfied customers)	**89**	89	–

1 Net promoter score measures customer satisfaction as a percentage of customers who actively promote the brand.

Corporate and Investment Banking

During the year FirstRand's Exco has overseen the creation of a new integrated Corporate and Investment Banking ("CIB") unit.

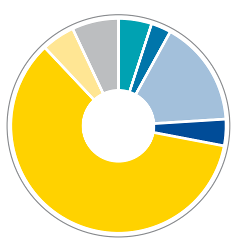
The objectives of the integrated unit are to enhance service to corporate customers, increase coverage and competitive advantage, deliver superior offerings to clients and significantly improve FirstRand's share of revenues in the corporate, institutional and interbank markets.

The new CIB unit has been created through aligning FNB's Corporate Banking Group activities to sit alongside the existing CIB businesses within RMB. A combined Client Coverage team, operating across all targeted geographic markets, was also put in place to maximise value from the full suite of CIB products offered to corporate customers.

Debt remediation

Advances are managed in line with the Group's balance sheet management policy and credit controls, detail of which can be found on pages 114 to 231.

Non performing loans by category



- Overdrafts and managed accounts / 5%
- Card loans / 3%
- Instalment sales / 16%
- Lease payments / 4%
- Home loans / 60%
- Commercial property finance / 5%
- Personal loans / 7%
- Other / 0%

During the year under review 13 208 consumers attended face-to-face financial planning workshops provided by the Group. Debt counselling and rehabilitation processes and consumer education workshops are not purely reactive and aim to prevent over indebtedness through ensuring that customers understand the obligations associated with taking credit.

Rehabilitation of home loan customers is an important focus and the Group assists customers to find financial solutions designed to avoid home repossessions. Detail is available at www.fnb.co.za.

Regulation and compliance

FirstRand and its operating divisions implement a range of procedures for ensuring compliance with regulations dealing with customer relationships. These are overseen by the Group's compliance function, with Board oversight via the Audit, risk and compliance committee. Customer protection provisions for which FirstRand's operating divisions have implemented compliance measures include:

- the National Credit Act;
- the Code of Banking Practice;
- the Financial Intelligence Centres Act;
- the Financial Advisory and Intermediary Services Act; and
- the Promotion of Access to Information Act.

Customer engagement

FirstRand employs a broad range of communication channels for customers. Its operating divisions have the most direct interface with customers and each employs an appropriate mix of communication channels. These channels include face-to-face communication, electronic media, transactional communication, surveys, circulars and newsletters, conferences, media briefings and press releases. Where necessary use is made of independent survey specialists.

SUPPLY CHAIN MANAGEMENT

FirstRand recognises good procurement practice as an effective way of contributing to economic development and the entrenchment of sustainable and ethical business practices within the Group's supply chain.

BEE procurement

R million	2010	2009	% change
BEE procurement spend			
BEE procurement spend	5 387	4 683	15
Other procurement spend	3 514	4 132	(15)
Total procurement spend	8 900	8 815	1
BEE procurement spend as a % of total spend (%)	61	53	–

Data reflects calendar year due to BEE reporting timeframes.

FirstRand's philosophy toward black economic empowerment of suppliers is business and value based and not driven by legal imperatives. FirstRand has a Group wide BEE procurement policy which sets out guidelines for implementing BEE procurement practices. FirstRand's performance in respect of BEE procurement is also measured against the targets set by the dti Codes of Good Practice.

The Group's procurement practices make provision for ensuring that high standards of ethical behaviour are observed by suppliers, with certain minimum performance standards having been set for social and environmental performance.

THE NATURAL ENVIRONMENT

FirstRand defines its direct environmental impacts as the impact on the natural environment resulting directly from operations and activities. Indirect impacts are those which result from the Group's relationships with stakeholders, notably customers and suppliers.

Climate change strategy

"As a developing country we cannot miss the opportunity of transition towards a low carbon economy. Sustainable economic development is not a luxury, but a requirement to strategically position our economy for this century." – Sizwe Nxasana, CEO

FirstRand has formal governance processes which position the Group to take early action on 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.

The scope of FirstRand's carbon footprint calculation is constantly being extended and improved. This means that every year the Group is able to account for more of the carbon emissions attributable to its operations. As a result of the constant extension of this calculation, demonstrating real changes in carbon emissions year-on-year require like-for-like comparisons.

The table below shows FirstRand's carbon emissions in terms of the latest calculation with new items in scope. Comparable scope across 2009/2010 is included to show real changes in emissions during the year.

Carbon emissions and energy management

R million	2010 (New scope)	2010 (Comparable scope)	2009	% change (Comparable scope)
Carbon emissions (Metric tonnes of CO_2 equivalents)[1]				
Fuel use	**295**	265	485	(45)
Business fleet travel	**9 321**	9 321	11 173	(17)
Electricity (owned buildings)	**211 543**	206 101	197 587	4
Electricity (leased buildings)	**99 639**	99 639	173 631	(43)
Paper use	**5 925**	5 709	1 758	225
Business road travel	**7 333**	5 184	302	1 617
Business air travel	**4 386**	4 342	4 899	(11)
Refrigerants	**2 598**	–	Not in scope	Not in scope
Total carbon emissions	**341 040**	**330 561**	**389 835**	**(15)**
Energy used (Kw/h) (000)	**297 855**	**292 572**	**371 218**	**(21)**
Energy saved (Kw/h) (000)	**14 612**	**14 529**	**18 584**	**(22)**
Value of savings (R'000)	**4 708**	**4 463**	**6 632**	**(33)**

1 *All figures reflect the prior financial year due to the duration of the carbon footprint calculation.*

During the year under review FirstRand's energy management performance was recognised when the Group won the Eskom ETA Award for Energy Efficiency in the commercial sector.

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.

FirstRand has set carbon intensity targets in order to monitor and manage its carbon reduction from 10.2 metric tonnes of CO_2 emissions per capita per full time employee in 2009 to 8.6 metric tonnes by 2012. Current emissions are approximately 8.7 metric tonnes of CO_2 emissions per capita per full time employee indicating good progress toward the 2012 target.

Waste management

On average the Group recycles approximately 180 tonnes of waste per month. Processes are in place to ensure more effective enterprise-wide monitoring and reporting in respect of waste management.

INDIRECT ENVIRONMENTAL IMPACT

Equator Principles and Environmental and Social Risk Analysis

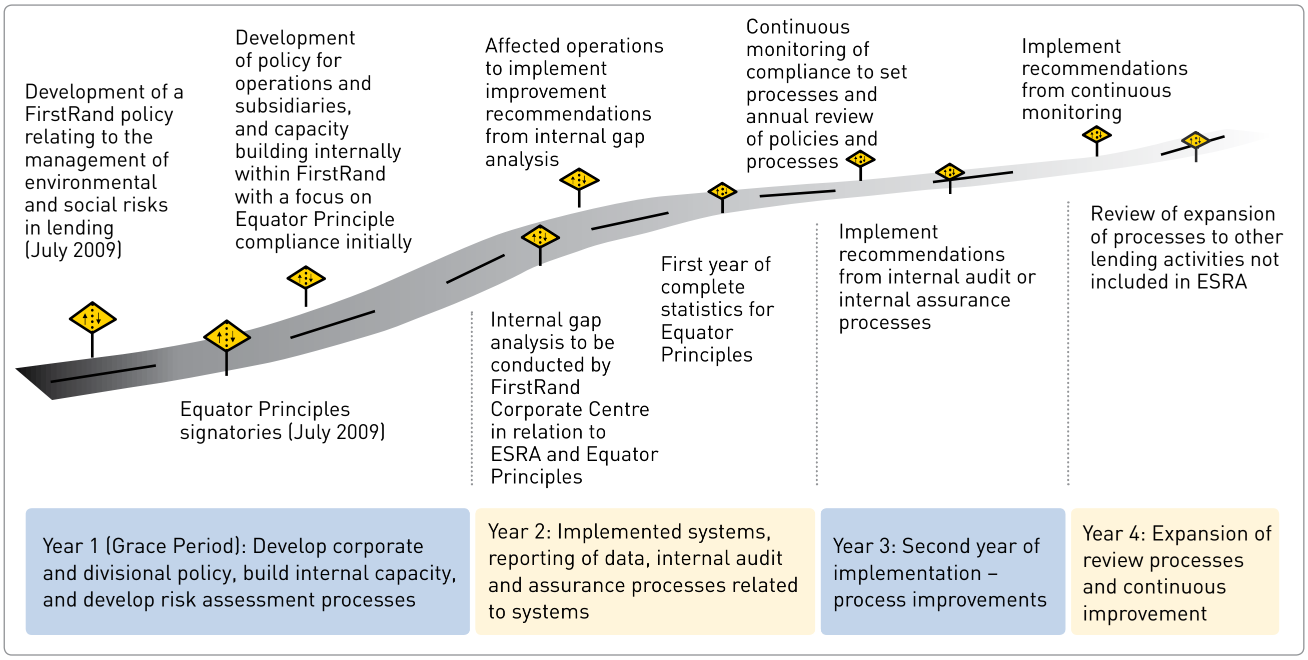
FirstRand became an Equator Principles Finance Institution in July 2009 by becoming a signatory to the Equator Principles. The Equator Principles apply to all structured project finance activities, as defined by Basel II, where the capital costs associated with the project are US$10 million or above.

FirstRand's adoption of the Equator Principles demonstrates the Group's long term commitment to socially responsible banking practices.

The Group has committed to extending Environmental and Social Risk Analysis ("ESRA") practices beyond transactions accounted for in terms of the Equator Principles. The ESRA process is based on the Equator Principles requirements and will form part of the loan application process for the affected lending activities.

The roadmap below details our progress in implementing Equator Principles and ESRA processes.

Equator Principles and ESRA roadmap



For more detail on the Equator and the ESRA processes please visit www.firstrandsusrep.co.za.

Stakeholder engagement

During the year FirstRand engaged with the following external stakeholders in the development and implementation of measures for effectively managing the Group's direct and indirect environmental impacts: The Banking Association of South Africa, Business Unity South Africa, South African National Business Initiative, The British High Commission and The British Commonwealth and Foreign Office, South African Department of Energy, South African Department of Water and Environmental Affairs and the United Nations Environmental Programme Finance Initiative. For more detail regarding our stakeholders and our environmental resource management programs, please visit www.firstrandsusrep.co.za

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

13 September 2010

TRANSFORMATION MONITORING COMMITTEE

BEN VAN DER ROSS, Chairman

COMPOSITION

FirstRand's Transformation monitoring committee comprises non executive directors and executives from FirstRand and its major subsidiaries. The non executive directors include the three representatives from FirstRand's BEE partners. The committee is chaired by an independent non executive director.

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 objectives of the dti Codes of Good Practice ("CoGP") rests with executive management."

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

2010 HIGHLIGHTS

Focus area	Actions
Transformation performance scorecard	The committee has overseen reports from FirstRand's BEE credentials unit, which collates the data and information necessary to complete the scorecard against which the Group's BEE credentials are measured.
Operationalised transformation objectives	The committee has received quarterly reports via divisional chief executives on transformation activities and progress made by their respective operating divisions. The committee has also provided strategic advice to executive management in respect of BEE objectives.
Talent management and employment equity	The committee has reviewed practices for facilitating enhanced talent management and employment equity.
Self regulation on FSC components	The committee has defined processes for self regulation in respect of transformation obligations formerly required in terms of the FSC.

TRANSFORMATION PERFORMANCE SCORECARD

The 2009 calendar year represents the first year of reporting transformation performance against the dti scorecard. The table below describes FirstRand's externally audited performance for the year ending 31 December 2009.

FirstRand dti score

	Score	Symbol	Level
	≥ 100%	AAA+	Level 1
	≤ 85% – 100%	AAA	Level 2
FirstRand score	**≤ 75% – 85%**	**AA**	**Level 3**
	≤ 65% – 75%	A	Level 4
	≤ 55% – 65%	BBB	Level 5
	≤ 45% – 55%	BBB	Level 6
	≤ 40% – 45%	B	Level 7
	≥ 30% but ≤ 40%	C	Level 8
	≤ 30%	D	Non compliant

While accurate comparisons against the Group's 2008 FSC score are not possible, the committee is satisfied that these results represent an improvement on the previous year.

OWNERSHIP AND MANAGEMENT CONTROL

According to the dti CoGP measurements, in December 2009 the audited direct black shareholding in FirstRand's South African operations was 18%.

BBBEE 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") as part of its BEE transaction. 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 by FirstRand in 2007, FRET became the holder of 20.4 million Discovery ordinary shares in addition to the 363.8 million FirstRand ordinary shares it already held.

As part of FirstRand's BBBEE transaction 171.4 million FirstRand shares were issued to black staff. 136.4 million shares were issued to employees, 15 million shares to black non executive directors and 20 million shares to FirstRand's black staff assistance trust which combined constituted 3.55% of FirstRand.

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

Direct BBBEE shareholding

At 31 December 2009	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 BBBEE 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 5 years since the BEE transaction contemplated a 10 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 employees 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 33 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, SE Nxasana, BJ van der Ross, NN Gwagwa, G Moloi, AT Nzimande, N Langa-Royds, P Mjoli, W Jardine and S Sithole 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 as 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% in respect of each year prior to 31 December 2014 during which he/she is not a director.

Staff assistance trust

At the time of the FirstRand BBBEE 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 bursaries and scholarships for these employees and their immediate families.

EMPLOYMENT EQUITY

FirstRand has established, in terms of Sections 16 and 17 of the Employment Equity Act, a Group Employment equity consultative forum which is tasked with monitoring the progress of employment equity plans and interventions of the Group and providing recommendations to the Transformation monitoring committee. Employment equity and diversity management policies which provide clear guidelines for the management of human resource development are in place.

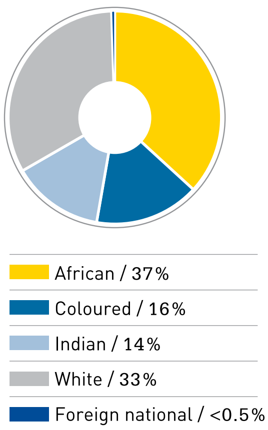
FirstRand addresses disability equity via a Group disability forum. The Group's disability policies address recruitment, performance management, declaration procedures and measures necessary to accommodate special needs of disabled employees. The Disability forum is also responsible for raising awareness in respect 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.

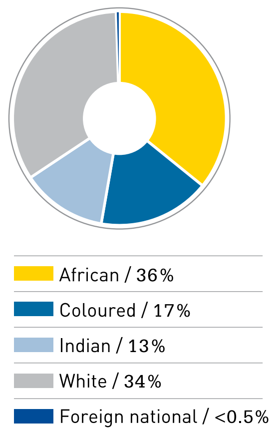
Breakdown of FirstRand's 2010 South African workforce profile

2010	Male				Female				Foreign national		Grand total
Occupational levels	A	C	I	W	A	C	I	W	Male	Female	
Top management	5	1	6	37	4	–	2	5	1	1	62
Senior management	94	36	114	630	60	28	44	237	5	2	1 250
Middle management	803	315	702	2 476	680	644	743	2 189	24	9	8 585
Junior management	1 530	617	738	1 108	2 450	1 849	1 264	3 038	13	5	12 612
Semi skilled	2 843	775	631	855	5 132	1 971	975	2 202	21	3	15 408
Unskilled	347	50	6	7	278	48	2	1	–	1	740
Total permanent	**5 622**	**1 794**	**2 197**	**5 113**	**8 604**	**4 540**	**3 030**	**7 672**	**64**	**21**	**38 657**

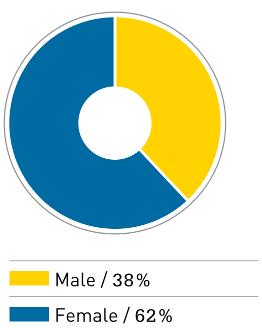
2010 workforce profile by race



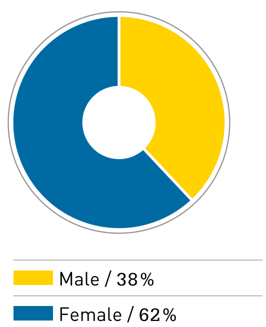
2009 workforce profile by race



2010 workforce profile by gender



2009 workforce profile by gender



The slow down in economic activity during the year impacted 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.

SKILLS DEVELOPMENT

Skills development investment is regarded as a strategic non financial performance area at FirstRand. Detailed disclosure in respect of the Group's skills development performance can be found on page 89 in the report from FirstRand's Exco.

PREFERENTIAL PROCUREMENT

FirstRand's Procurement committee conducts an annual review of BEE companies that have been awarded supplier contracts. Where there have been changes to suppliers' BEE ratings during the year these changes are assessed and necessary actions are taken to ensure adherence to BEE procurement policy.

Detailed disclosure on FirstRand's BEE procurement performance can be found on page 94.

ENTERPRISE DEVELOPMENT

Enterprise development focuses on providing financial and mentoring support to exempt micro enterprises ("EMEs") and BEE qualifying small enterprises ("QSEs').

During the year the committee approved the establishment of an enterprise development fund which will deliver enterprise development financing and support to EMEs and QSEs on behalf of the Group.

SOCIO ECONOMIC DEVELOPMENT

FirstRand has achieved maximum points for the Group's Corporate Social Investment/socio economic development programme. Details of the activities of the FirstRand Foundation can be found on page 102.

SELF REGULATED COMPONENTS (FORMER FSC OBLIGATIONS)

Access to financial services is addressed through:

- extension of service points to rural areas; and
- delivering consumer financial literacy to previously disadvantaged markets.

More detail in respect of access to financial services can be found on page 91.

Empowerment financing

Various leadership roles are taken by FirstRand's operating divisions with regard to empowerment financing depending on their areas of expertise and focus. Empowerment financing includes delivery of low income housing finance, the financing of BEE small and medium sized enterprises and the provision of finance for emerging BEE agriculture. Participation in transformational infrastructure finance in underdeveloped regions is a focus area. BEE transactions include the facilitation of BEE ownership and Equity deals.

PROCEEDINGS AND PERFORMANCE REVIEW

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

	Aug 2009	Nov 2009	Jan 2010	May 2010
BJ van der Ross – Chairman	√	√	√	√
NN Gwagwa	√	√	√	√
AP Nkuna	A	√	√	A
AT Nzimande	√	√	√	√
KB Schoeman	√	√	A	√

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.

BJ van der Ross
Chairman, Transformation monitoring committee

13 September 2010

FIRSTRAND FOUNDATION

SIZWE NXASANA, CEO

COMPOSITION

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

The Foundation is chaired by FirstRand's CEO.

"Given the challenges faced by South African society, FirstRand's CSI strategy is not about marketing or publicity. It is about ensuring change for those who need it most." – SE Nxasana

ROLE

The Foundation is the principal vehicle for FirstRand's direct corporate social investment contribution to society. The Foundation has five funds, one for each of the Group's major brands. Each fund has its own focus running in parallel to those of the other brands and operating in complementary ways.

2010 HIGHLIGHTS

Focus area	Actions
Grant making and beneficiary engagement	The Foundation has overseen the granting of R73 million to beneficiary organisations. Special programmes are in place to ensure ongoing engagement with these organisations.
Employee volunteers	The Foundation provides ongoing funding for FirstRand's employee volunteers initiatives. Since the launch of the programme in 2003, employees have donated over R15 million. This amount has been matched by FirstRand with a further R15 million.
Maths chairs and bursaries	The Foundation has overseen the granting of R10 million in bursaries for 214 student beneficiaries. The Foundation has also overseen an initial R20 million endowment established in 2008 to create maths education chairs at South African universities as part of the tenth anniversary of the formation of FirstRand in 1998.

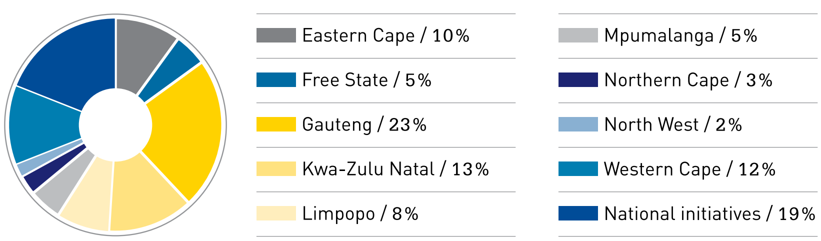
REVIEW OF OPERATIONS

During the 2010 financial year the trustees approved grants across all provinces of the Republic of South Africa to the value of R73 million. A further R1.7 million was made available from separate endowments for the funding of a number of tertiary education scholarships.

Grants and beneficiaries

R'000	2010	2009	% change
Grants made			
Business trust/skills development	–	6 050	–
HIV/AIDS and vulnerable children	12 945	12 831	1
Community care	7 260	7 340	(1)
Education – maths, outreach programmes and early childhood development	13 023	15 066	(14)
Bursaries	10 028	8 472	18
Arts culture and heritage	5 935	6 250	(5)
Environment	3 855	4 982	(23)
Agricultural livelihoods	3 730	4 130	(10)
Prevention of substance abuse	2 300	2 300	0
People with disabilities	7 561	8 236	(8)
Business Against Crime/Heartlines	1 750	1 990	(12)
Policy formulation/advocacy	1 290	1 320	(2)
Employee volunteers matched funds	3 000	4 000	(25)
Total grants made	**72 677**	82 967	(12)

Corporate social investment by province



During the year 205 students received funding for tertiary education and a further 13 for postgraduate study.

Bursaries

	2010	2009	% change
Students receiving funding			
Students receiving funding for tertiary education	205	215	(5)
Students receiving funding for postgraduate study	13	25	(48)
Total number of students receiving funding	**218**	240	(9)

Composition and management

The FirstRand Foundation was established in 1998 and is the dedicated legal vehicle through which FirstRand and its major brands direct social giving to meaningful development initiatives. The Foundation meets quarterly to receive reports from Tshikululu Social Investments, approve grants, review requests for new funding and to receive evaluation reports on projects being supported.

The companies within the FirstRand Group (FirstRand, First National Bank, Momentum, Rand Merchant Bank and WesBank) contribute 1% of their normalised earnings to the FirstRand Foundation, which channels the funds to a variety of causes.

FNB Fund

In line with the vision of being a great business helping to create a better world, FNB views its role within the country as going beyond that of a major player in the business environment. An important element in achieving the goal of helping to create a stronger society is the work of the FNB Fund. The Fund has five flagship programmes to reflect its focus areas:

- tertiary bursary programme;
- community care programme;
- early childhood development programme;
- hospice (HIV/AIDS) programme; and
- secondary schools maths and science initiative.

RMB Fund

As one of South Africa's leading investment banks, RMB continually strives to be a good corporate citizen, and works to secure a sustainable future for its business, communities, the environment and our country. It celebrates South Africa's diversity and heritage, with an emphasis on a richer world for future generations. The RMB Fund's programmes are:

- arts, culture and heritage programme;
- environment programme; and
- maths leadership programme (including the FirstRand Foundation SA Maths Education Chairs Initiative).

WesBank Fund

WesBank believes that the need to empower communities to become selfsupporting is one of the most pressing needs in South Africa. Only in breaking the cycle of poverty and dependence can people regain their dignity and catch a glimpse of a brighter future. The WesBank Fund has developed three flagship programmes:

- agricultural livelihoods programme;
- emergency relief and disaster management programme; and
- substance abuse programme.

Momentum Fund

A philosophy of self belief, and inspiring people to achieve success, forms the driving force behind the Momentum brand. As an enabler of success, the company continually strives to do better for its staff, intermediaries, customers and the community at large. Momentum's social investment initiatives are driven by the Momentum Fund and supported by the Momentum Volunteers Programme. The programmes run by the Momentum Fund are:

- disability programme;
- community orphaned and vulnerable children HIV/AIDS programme; and
- bursary programme.

FirstRand Fund

The FirstRand Fund has a number of strategic education, empowerment and policy partnerships, to best effect the development and empowerment of South African communities on a national scale. The key focus areas of the FirstRand Fund include support for strategic partners like the Business Trust, Business Against Crime and the National Business Initiative. FirstRand also supports the area of policy development through organisations like the Centre for Development and Enterprise. The FirstRand Fund programmes are the:

- strategic partners programme; and
- FirstRand Foundation SA Maths Education Chairs Initiative.

Strategic partners programme

The FirstRand Fund has a number of strategic partnerships. The Fund has entered into meaningful funding relationships with a selected number of partners, on behalf of its group member funds, in order to best effect the development and empowerment of South African communities on a national scale. Support is given to initiatives supported by the FirstRand BEE empowerment partnerships. These investments line up with the overall strategy of the Foundation. The beneficiaries are:

- JB Marks Education Trust Fund (Mineworkers Investment Trust);
- Mineworkers Development Agency (Mineworkers Investment Trust);
- Women's Development Business (WBD Trust); and
- Beyers Naude Schools Development Programme (Kagiso Trust).

Employee volunteers

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. During the year volunteer activities included community river cleanups and tree planting ceremonies. During "Caring for our World Week", 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 were some of the programmes implemented. Since the launch of the programme in 2003, employees have donated over R15 million. This amount has been matched by FirstRand with a further R15 million.

FirstRand Foundation SA Maths Education Chairs Initiative

The FirstRand Foundation SA Maths Education Chairs Initiative is the outcome of the commitment of the FirstRand Foundation, in partnership with the RMB Fund, to mathematics education in South Africa, with a special focus on teacher education and the improvement of learner performance. A national intervention, "Making M4TH5 Count" is a multi-million Rand maths leadership public-private partnership, co-founded by the FirstRand Foundation and the RMB Fund (75%, split 50/50 at R15 million for FirstRand Foundation and R15 million for the RMB Fund) and the Department of Science and Technology (25%, at R10 million) to jointly fund SA mathematics education chairs at leading local universities. The Foundation has approved a special grant of R30 million (to include both FirstRand and RMB) over five years in support of this innovative initiative. This special contribution forms part of the celebration of the Foundation's 10 years of existence.

FirstRand Foundation SA Numeracy and Literacy Chairs Initiative

The South African Numeracy and Literacy Chairs Initiative is an outcome of the commitment of the FirstRand Foundation to numeracy and literacy in the foundation phase of primary school education. It is being implemented in cooperation with the National Research Foundation, which will administer the SA Numeracy and Literacy Chairs Initiative on behalf of the FirstRand Foundation and its partners. The Initiative is being co-funded by the FirstRand Foundation with the RMB Fund (37.5%), the Anglo American Chairman's Fund (37.5%) and the Department of Science and Technology (25%) to the total value of R2 million a year, per chair, for a five year period.

Monitoring and evaluation

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

Some projects lend themselves to easy measurement while others are less easily marked. The FirstRand Foundation assesses projects for funding, and their subsequent delivery, using stringent prefunding tests, along with postfunding reporting assessments, on-site visits, face-to-face engagements, and through the deployment of a dedicated inhouse Monitoring & Evaluation Team using various methodological tools.

PROCEEDINGS AND PERFORMANCE REVIEW

Despite the Foundation experiencing a decrease in contributions it was able to honour all its funding commitments and relationships. The trustees are confident that the Foundation will be able to fulfil its multi-year grant obligations.

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

13 September 2010

INTERNAL AUDIT ASSURANCE STATEMENT

Internal Audit performed an agreed-upon procedures review on the FirstRand Corporate Governance and Sustainability Statement. The scope and focus of the engagement was as follows:

GOVERNANCE REPORT:

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

CONTROL ENVIRONMENT:

- assess the adequacy of the procedures in place for collecting and processing Corporate Governance and Sustainability information;
- assess the adequacy and effectiveness of the controls that have specifically been put in place to generate information for inclusion in the Corporate Governance and Sustainability report;
- confirm that the report is approved and signed off in accordance with agreed approval and sign off processes; and
- assess the adequacy and effectiveness of the controls in place over:
  - alignment of the report with the Global Reporting Initiative's (GRI) G3 guidelines, the JSE Socially Responsible Investment index (SRI), BEE transformation reporting requirements and the King III Code;
  - stakeholder inclusiveness; and
  - boundary setting and completeness.

Based on the results of the work performed on FirstRand's 2010 Corporate Governance and Sustainability Statement, Internal Audit confirms that:

- 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 and misstatements were corrected prior to the finalisation of the report. Additional improvements were recommended to management to reduce potential for anomalies and misstatements in future reports.
- Even though the data collection processes are not formally documented in all instances, reliance is placed on guidance provided by the GRI, the JSE SRI index, BEE transformation reporting requirements and the King III code.
- 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

13 September 2010

FIRSTRAND GROUP

ANNUAL FINANCIAL STATEMENTS

APPROVED

FIRSTRAND GROUP

FIRSTRAND GROUP

FIRSTRAND LIMITED

Directors' responsibility statement

The directors of FirstRand Limited are responsible in terms of the Companies Act for preparation of the annual financial statements in accordance with International Financial Reporting Standards ("IFRS") which fairly present the state of affairs of the Company and the Group, as at the end of the financial year, and the net income and cash flows for the year. In preparing the accompanying financial statements suitable accounting policies have been applied and reasonable estimates made.

The directors have responsibility for ensuring that the Company and the Group keep adequate accounting records which enables them to comply with the Companies Act.

The directors are responsible for the Group's system of internal control. To enable the directors to meet these responsibilities, the Board sets the standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper 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, the directors are of the opinion that the accounting controls are adequate and that the financial records may be relied on in preparing the 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 that any breakdown in the functioning of these controls, resulting in a material loss to the Group has occurred during the year and up to the date of this report.

The directors have reviewed the Company's and the Group's ability to continue as a going concern in the light of the current and anticipated economic conditions. On the basis of this review the directors are satisfied that the Company and the Group have adequate resources to continue in business for the foreseeable future and on this basis they have continued to adopt the going concern basis in the preparation of the annual financial statements.

It is the responsibility of the Group's independent external auditors to report on the presentation of the financial statements. Their unqualified report appears on page 110.

The financial statements of the Group and the Company which appear on pages 232 to 407 and 408 to 426 respectively and specified sections of the risk management report respectively were approved by the Board of directors on September 13, 2010 and are signed on its behalf by:

LL Dippenaar
Chairman
Sandton

SE Nxasana
Chief executive officer

13 September 2010

Group secretary's certification

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

I declare that, to the best of my knowledge, the Company has lodged with the Registrar of Companies all such returns as 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

13 September 2010

Independent auditor's report

TO THE MEMBERS OF FIRSTRAND LIMITED

We have audited the group annual financial statements and annual financial statements of FirstRand Limited which comprise the consolidated and separate statements of financial position as at 30 June 2010, and the consolidated and separate statements of comprehensive income, changes in equity and cash flows for the year then ended, a summary of significant accounting policies and other explanatory notes, the directors' report, as set out on pages 111 to 426, and certain tables defined as "audited" in the risk report on pages 114 to 231.

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 in the manner required by the Companies Act of South Africa. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on 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 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 2010, 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 in the manner required by the Companies Act of South Africa.

PricewaterhouseCoopers Inc
Director: Fulvio Tonelli
Registered auditor
Sandton

13 September 2010

NATURE OF BUSINESS

FirstRand Limited ("FirstRand") 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. While the Group is predominantly South African based, it has operations in Namibia, Swaziland, Botswana, Zambia, Moçambique, 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 34.

GROUP RESULTS

A general review of the financial results of the Group and the operations of its subsidiaries commences on page 35.

The financial results have been prepared in accordance with International Financial Reporting Standards.

Earnings

Headline earnings were as follows:

R million	2010	2009	% change
Banking Group	**8 234**	6 076	36
FNB Life	**416**	334	25
FirstRand Limited	**28**	1	>100
Consolidation of treasury shares	**(259)**	(457)	43
Dividend payment on non cumulative non redeemable preference shares	**(344)**	(464)	26
Headline earnings from continuing operations	**8 075**	5 490	47
Momentum Group	**1 388**	1 324	5
FirstRand shares held by Momentum policyholders	**(10)**	125	>100
Headline earnings from continuing and discontinued operations	**9 453**	6 939	9 453
Diluted headline earnings from continuing and discontinued operations per share (cents)	**178.1**	133.1	

Dividends

Ordinary shares

The following ordinary cash dividends were declared in respect of the 2010 financial year.

Cents per share	2010	2009
Interim (declared 8 March 2010)	**34.00**	34.00
Final (declared 13 September 2010*)	**43.00**	22.00
	77.00	56.00

** The last day to trade in FirstRand shares on a cum-dividend basis in respect of the final dividend will be Friday 8 October 2010 the first day to trade ex-dividend will be Monday 11 October 2010. The record date will be Friday 15 October 2010 and the payment date Monday 18 October 2010. No dematerialisation or rematerialisation of shares may be done during the period Monday 11 October 2010 to Friday 15 October 2010, 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 "B1" preference shares were incorporated in the "B" preference shares effective 4 January 2010. The following dividends have been declared and paid:

Cents per share	2010	2009	
	"B"	"B"	"B1"
Period 26 August 2008 – 23 February 2009		518.9	518.9
Period 24 February 2009 – 31 August 2009		423.1	423.1
Period 1 September 2009 – 22 February 2010	**342.3**		
Period 23 February 2010 – 30 August 2010	**355.0**		
	697.3	942.0	942.0

SHARE CAPITAL

Details of the company's authorised share capital as at 30 June 2010 are shown in note 13 to the company's financial statements.

Ordinary share capital

There were no changes to authorised or issued ordinary share capital during the year.

Preference share capital

There were no changes to authorised preference share capital during the year.

The issued "B1" non cumulative non redeemable preference shares were incorporated in the "B" non cumulative non redeemable preference shares effective 4 January 2010.

SHAREHOLDER ANALYSIS

The following shareholders have a beneficial interest of 5% or more in the issued ordinary shares of the company.

%	2010	2009
RMB Holdings Limited	**30.06**	30.06
Financial Securities Limited (Remgro)	**8.53**	8.53
Public Investment Corporation	**11.77**	9.48
FirstRand Empowerment Trust and related parties	**8.76**	9.49

A further analysis of shareholders is set out on page 435.

EVENTS SUBSEQUENT TO REPORTING DATE

Momentum and Metropolitan

In March 2010 FirstRand, Momentum and Metropolitan announced that an agreement was reached to merge Momentum and Metropolitan to create the third largest listed insurer in South Africa with an embedded value of around R30 billion. To facilitate the transaction and unlock shareholder value, FirstRand will unbundle the new entity. Following implementation of the merger, FirstRand shareholders will hold 59.3% and current Metropolitan shareholders 40.7% of the share capital of the merged entity. Based on this ratio, when FirstRand's stake in the merged entity is unbundled, FirstRand shareholders can expect to receive 16.9 shares in the merged entity for every 100 ordinary shares held in FirstRand. The merger ratio is confirmed based on the consistently calculated embedded values of the two entities as at 31 December 2009.

The new group will be renamed MMI Holdings but this will only apply to the listed entity. The brands of Momentum and Metropolitan will continue to be used in the client-facing businesses, where both have established strong and trusted legacies.

FirstRand believes this is a very positive transaction for shareholders as it brings two businesses together that have created very successful franchises in different but complementary markets and facilitates a significant expansion of the growth prospects for Momentum and Metropolitan.

The Group carefully evaluated the consequences of retaining ownership of the new entity within the FirstRand Group, however, it reached the conclusion that shareholders benefit most from a complete unbundling.

Not only will it unlock any potential value trapped within FirstRand but will also ensure that the new entity has sufficient free float on the JSE and the necessary flexibility to realise its strategic objectives.

Following the unbundling FirstRand remains committed to pursuing the synergistic benefits that exist between banking, insurance and asset management activities with the merged entity, particularly given the success of FNB Insurance and the significant growth opportunities for the new entity. This will be structured as a preferred strategic relationship based on commercial terms.

The merger of Metropolitan and Momentum and the subsequent unbundling of the merged entity by FirstRand is expected to be completed by end of October 2010.

As a result the investment in Momentum Group Limited has been reclassified as a discontinued operation for the 2010 financial results, as required by IFRS 5 Non-current assets held for sale and discontinued operations.

Barnard Jacobs Mellet

On 21 June 2010 FirstRand announced its firm intention to purchase the issued share capital of BJM by way of a scheme of arrangement in terms of section 311 of the Companies Act 61 of 1973, as amended. On 23 August 2010 the scheme meeting held by BJM approved the scheme of arrangement.

In terms of the scheme of arrangement FRIHL, a wholly owned subsidiary of FirstRand Limited will acquire all issued BJM shares for a cash consideration of R4.50 per share. Once the sale has been finalised BJM shares will be delisted.

Legal restructure of FirstRand Group

Effective 1 July 2010, FirstRand Limited became a bank controlling company in terms of the Banks Act. This change was approved by the SARB and shareholders and has resulted in a streamlined operational and governance structure. Refer to page 434 for the new Group structure.

No further matters which are material to the financial affairs of the company and the Group occurred between the statement of financial position date and the date of the approval of the financial statements.

DIRECTORATE

Details of the directors are on page 59.

The late Dr F van Zyl Slabbert retired as an independent non executive director effective 25 November 2009.

Following the Group restructure and the designation of FirstRand as a bank controlling company:

- Mr DJA Craig;
- Mrs G Moloi; and
- Mr KC Schubane,

resigned from the board but have agreed to serve on and have been appointed to FirstRand divisional boards.

The following independent non executive directors who have all served on the FirstRand Bank board for a number of years were also appointed to the FirstRand board, effective 1 July 2010:

- Mr JJH Bester;
- Mr WR Jardine; and
- Mrs EG Matenge-Sebesho.

The board membership of certain FirstRand directors, who had previously served on FirstRand Bank board, is subject to the approval of the Registrar of Banks, in view of FirstRand's status now, as a bank controlling company. These directors, are included in the list of directors on page 437 are:

- Dr NN Gwagwa;
- Mr AP Nkuna;
- Mrs AT Nzimande;
- Mr D Premnarayen; and
- Mr KB Schoeman.

DIRECTORS' INTEREST IN FIRSTRAND

Details of the directors' interest in the issued ordinary and preference shares of FirstRand are on page 70.

DIRECTORS' EMOLUMENTS

Directors' emoluments and their participation in share incentive schemes are on page 84. Further information relating to the determination of directors' emoluments, share option allocations and related matters are contained in the remuneration report on page 84.

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.

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 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 on page 390.

COMPANY SECRETARY AND REGISTERED OFFICES

Mr BW Unser was appointed as company secretary on 1 June 2010 after the retirement of Mr AH Arnott on 31 May 2010. FirstRand's business and postal addresses are on page 437 these are also the address of the company secretary.

SPECIAL RESOLUTIONS DURING 2010

The following special resolutions relating to FirstRand Limited were passed during 2010:

- General repurchase of shares.
- Amendment to the Memorandum of Association of FirstRand Limited to enable it to register as a bank controlling company.
- Amendment to Article of Association enabling FirstRand Limited to register as a bank controlling company.
- Amendment to the Article of Association to change the rights attached to the "B" and "B1" preference shares.

LL Dippenaar	SE Nxasana
Chairman	Chief executive officer

Risk and capital management report

FIRSTRAND LIMITED

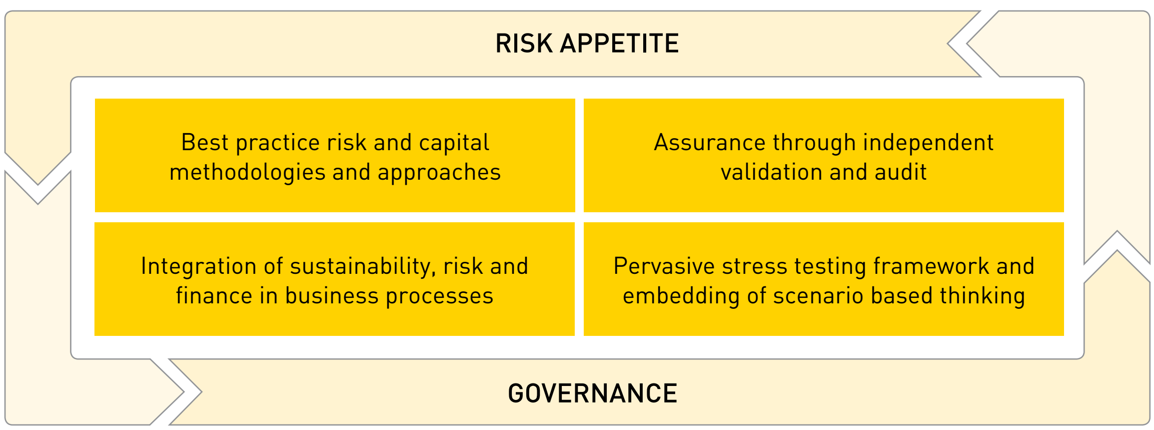
INTRODUCTION

FirstRand's primary business objective is the generation of sustainable profits. The effective management of financial and non financial risk is fundamental to the successful and sustainable realisation of the Group's strategic objectives. 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. As an integrated financial services provider and through a 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 via sustainable earning pools with acceptable earnings volatility.

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



These core components are discussed further in the major sections of this report:

- FirstRand's **risk appetite** frames all organisational decision making and forms the basis for the refinement of risk identification, assessment and management capabilities (see pages 119 and 201).
- A strong **governance** structure and policy framework foster the embedding of risk considerations in existing business processes and ensure that consistent standards exist across the Group's operating units (see pages 122 and 200).
- Best practice **risk and capital methodologies** have been developed in and for the relevant business areas (see pages 123 and 201).
- 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 117).
- The Group is deploying a comprehensive, consistent and integrated approach to **stress testing** that is embedded as a business planning and management tool, emphasising scenario based analyses in all its decision processes (see page 118).
- **Independent oversight, validation and audit functions** ensure a high standard across methodological, operational and process components of the Group's risk and capital management process (see pages 121 and 199).

Separate risk and capital management reports have been prepared for the FirstRand Banking Group Super Segment ("the Banking Group") – pages 116 to 196 – and Momentum Group – pages 197 (a clear distinction is made between current practices in these two entities where appropriate).

FIRSTRAND BANKING GROUP

This section of the risk and capital management report covers the operations of the Banking Group. The Banking Group includes the operations of FirstRand Bank Holdings Limited ("FRBH") and FirstRand Investment Holdings (Pty)Limited ("FRIHL"). Certain banking interests in FRIHL are managed through the operations of the individual banking businesses in FRBH. These, therefore, fall within the scope of risk management in the Banking Group.

Risk in FRBH is managed on a group basis with FirstRand Bank Limited ("FRB") as its major subsidiary. Some differences between the practices, approaches, processes and policies of FRBH and FRB exist and these are highlighted by reference to the appropriate entity, where necessary. All of the information in the risk and capital management report has been audited, except where otherwise indicated.

1. DEFINITIONS

The Banking 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, reputational risk, macroeconomic risk and environmental, social and governance ("ESG") risks.	**Strategic risk** is the risk to current or prospective earnings arising from adverse 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. It is often termed volume and margin risk and relates to the Banking Group's ability to generate sufficient levels of revenue to offset its costs. This includes the risk of adverse changes in the macro and global economic conditions.	123
		Reputational risk is the risk of reputational damage due to compliance failures, pending litigations or bad press reports.	
		Macroeconomic risk is the risk to the business due to changes in macroeconomic conditions, global economic conditions or credit shocks.	
		ESG risks focus on the environmental, social and governance issues which impact the Banking Group's ability to successfully and sustainably implement business strategy.	
Financial risks	Capital management	The Banking 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 and a strong credit rating, ensure confidence in the solvency of the Banking Group during calm and turbulent periods in the economy and financial markets.	125
	Credit risk	Credit risk is the risk of loss due to the non performance of a counterparty in respect of any financial or performance 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, presettlement risk, country risk, concentration risk and securitisation risk.	136
	Counterparty credit risk	Counterparty credit risk is defined as the risk of a counterparty to a bilateral contract, transaction or agreement defaulting prior to the final settlement of the transaction's cash flows.	171
	Market risk	Market risk is the risk of adverse revaluation of any financial instrument as a consequence of changes in market prices or rates.	173
	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.	176

Risk category	Risk components	Definition	Page reference
Financial risks	Foreign exchange and translation risk	**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 positions in foreign exchange, 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.	179
	Funding and 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. This definition of liquidity risk is expanded in the Funding and liquidity risk section on page 180.	180
	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.	187
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, but excludes strategic, business and reputational risks.	192
	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.	195

2. HIGH LEVEL OVERVIEW OF RISK PROFILE

The reader is referred to the COO/CFO report on pages 14 to 27, which provides a high level overview of the Banking Group's risk profile and management approach.

3. INTEGRATED RISK AND CAPITAL MANAGEMENT

Focus on sustainability and integration of risk and finance

A key lesson from the recent developments in the international financial markets is that failure to take a comprehensive and integrated view, not only across different risk types, but also across the traditionally separate functions of risk and finance, substantially increases the risk of financial underperformance or organisational failure.

The Banking 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 driven by financial strength and the Banking Group is adopting a management approach that seeks to balance independent franchises with strong central oversight aimed at ensuring optimal outcomes.

This is necessary since the optimisation of each individual franchise's value does not necessarily ensure the maximisation of the Banking Group's value, given potential natural offsets as well as concentrations across the businesses and efficiency gains available from aggregating, mitigating and managing risks at a Banking Group level, where appropriate.

The franchises are ultimately responsible for maximising risk adjusted returns on a sustainable basis, within the limits of the risk appetite. Significant shifts in the macro environment are also critical to any strategic adjustments. FirstRand manages its business based on a single "house view" which inputs into the budgeting and forecasting process, informs credit origination strategies and capital stress testing, directs the interest rate positioning of the banking book, and is used for tail risk strategies.

There is a central unit tasked with formulating and communicating this macroeconomic view. It provides the business units with a forecast of key variables that impact the financial position 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 is updated on a quarterly basis, or more frequently if required.

Capital Management and Group Treasury within Corporate Centre are responsible for the management of the Banking Group's capital and liquidity position. The capital position provides the final buffer against adverse business performance under extremely severe economic conditions. For the purpose of determining the strategy with respect to capital management actions and the setting of its dividend policy, scenario analyses are extensively employed as supplements to budgets based on consistent planning assumptions and stress scenarios.

The Banking Group, through a combined initiative of its finance, capital and risk functions, continues to integrate financial, capital and risk data and information on a common platform. This information, both actual and through the budget process, is used as a 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, proactive manner on the basis of a consistent, integrated view incorporating aspects of both finance and risk domains.

Internal capital adequacy assessment process

An important lesson learnt by FirstRand from the financial turmoil, is that the Internal Capital Adequacy Assessment Process ("ICAAP") is key to managing its business. ICAAP is not seen as merely meeting regulatory requirements and this process 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;
- embedding the 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 act as early warning signs and triggers so that contingency plans can be implemented; and
- the determination of the capital management strategy and how the organisation will manage its capital including during periods of stress.

Stress testing and scenario based analysis

The evaluation of business plans and strategic options at a Banking Group and business level, as well as the choice of tactical steps towards implementing these plans is a process that is 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 as well as on the basis of unforeseen events is an integral part of the strategy setting and planning and budgeting processes.

The core scenario reflects the Banking 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 Banking Group level with respect to potential deviations from budget and the potential implications for earnings volatility. In addition reverse stress test scenarios provide management and regulators with a structured view on potential developments that may threaten the stability of the institution.

The Banking 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 strongly related to the economic environment or the Banking 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 and the strategy.

Stress testing and scenario analyses have been integrated across the traditionally separate domains of risk and finance.

Risk appetite

The level of risk the Banking 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 FRBH Risk, capital and compliance committee ("RCC committee") and its subcommittees, as described in the Risk governance structure section on page 122.

The risk appetite framework sets out specific principles, objectives and measures that link diverse considerations such as strategy setting, risk considerations, target capitalisation levels and acceptable levels of earnings volatility. As each franchise is ultimately tasked with the generation of sustainable returns, risk appetite acts 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 Banking Group is willing to accept from certain risks that are core to its business; and
- the level of capitalisation it seeks to maintain 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 and together with the primary risk appetite measures, these provide firm boundaries for the organisation's chosen path of growth.

In setting the risk appetite, the Executive committee 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 Banking 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.

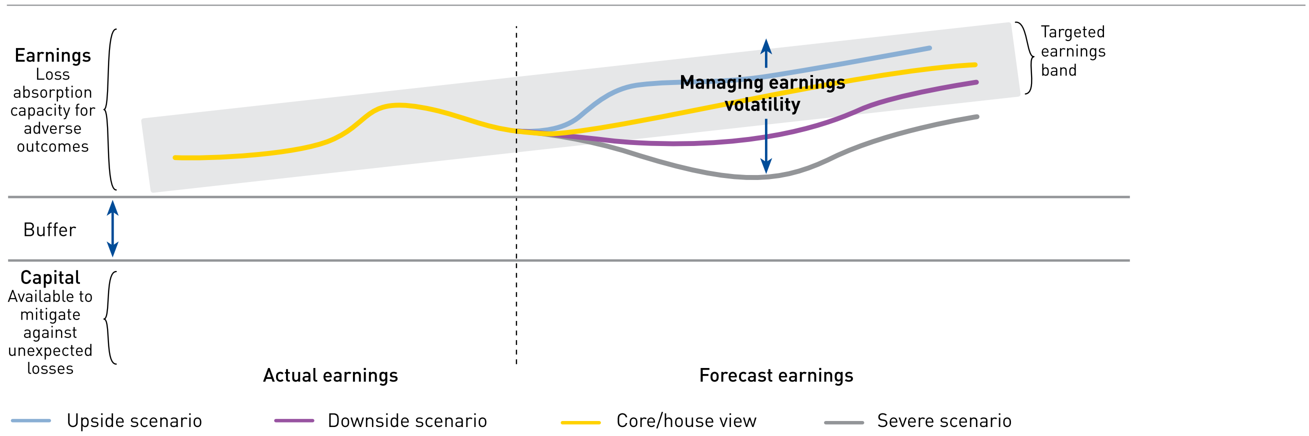
Earnings volatility thresholds were refined for the major risk types and a number of changes to business practices were made to ensure that activities remained within its risk appetite.

Risk appetite measures are included in all 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.

Within the Banking Group context, earnings are seen as the primary source of loss absorption under adverse conditions. The Banking Group's capacity to absorb earnings volatility and fluctuations is therefore supported by the generation of sustainable profits.

The earnings buffer and capital provide protection against unexpected events for stakeholders. The chart below illustrates the strategy to manage earnings volatility through the cycle.

Managing earnings volatility through the cycle



4. RISK MANAGEMENT FRAMEWORK AND GOVERNANCE STRUCTURE

Risk governance

The Banking Group's Board retains ultimate responsibility for ensuring that risks are adequately identified, measured, monitored and managed. FRBH believes that a culture focused on risk paired with an effective governance structure is a prerequisite for managing risk effectively.

In addition, effective risk management 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 Banking Group's operations:

1. 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.

2. Risk control – Business heads are supported in this by deployed risk management functions that are involved in all business decisions and are represented at an executive level across all franchises. These are overseen by an independent, central risk control function, Enterprise Risk Management ("ERM").

3. Independent assurance – The third major control point involves functions providing independent assurance on the adequacy and effectiveness of risk management practices across the Banking Group. These are the internal audit functions at a business and at a Banking Group level.

The risk management structure described above is set out in the Business Performance and Risk Management Framework ("BPRMF"). As a policy of both the Board and the Executive committee, it delineates the roles and responsibilities of key stakeholders in business, support and control functions across the various franchises and the Banking Group. The BPRMF explicitly recognises the three lines of control, illustrated in the chart below.

Lines of risk control in the Banking Group

FIRST LINE OF RISK CONTROL

Head of business: Primary Risk Owner

Embeds risk management as a core discipline and gives consideration to potential risks in business decisions:

- ensures the entity acts in accordance with mandates approved by the Board or its delegated authority;
- indentifies and quantifies key risks to business under normal and stress conditions;
- specifies and implements appropriate risk management processes;
- specifies and implements early warning measures, associated reporting, management and escalation processes;
- implements risk control and mitigation strategies;
- implements corrective actions as required;
- reports risk information to the executive committee and the governance committee structure as appropriate through to the boards; and
- ensures staff understanding of responsibilities in relation to risk management.

Corporate centre functions

Supports business owners, the Board and Executive committee in the implementation of the Banking Group strategy across the portfolio from an operational perspective and comprises:

- **The central unit** tasked with formulating and communicating the Banking Group's macro-economic view and associated risk scenarios, used for planning and stress testing purposes.
- **Group Treasury** is responsible for management of funding and liquidity, interest rate risk in the banking book, exchange control and strategic relations with respect to liquidity and funding.
- **Capital Management** is responsible for capital planning and advises the Board and the executive committee on potential capital actions, dividend strategy and other capital management related topics.

SECOND LINE OF RISK CONTROL

Enterprise Risk Management

Provides independent oversight and monitoring across the Banking Group on behalf of the Board and relevant committees:

- headed by Banking Group CRO who is a member of the executive committee;
- takes ownership of and maintains risk frameworks;
- agrees deployed and divisional risk plans;
- 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 vis-à-vis management of risk exposures to relevant committees;
- ensures appropriate risk skills throughout the Banking Group alongside an appropriate risk management culture for risk taking;
- performs risk measurement validation and maintains risk governance structures; and
- manages regulatory relationships with respect to risk matters.

Deployed segment and divisional risk managers

Support business unit management in identifying and quantifying significant risks:

- divisional risk heads have direct reporting line to Banking Group CRO and head of respective division;
- represented on divisional executive committees, primary focus on risk identification, measurement and control;
- approve 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; and
- ensure all risk management and loss containment activities are performed in a timely manner as agreed with ERM.

Regulatory Risk Management

Ensures that business practices, policies, frameworks and approaches across the organisation are consistent with applicable laws:

Regulatory Risk Management is an integral part of managing risks inherent in the business of banking and forms part of the second line of risk control.

The risks, responsibilities and processes of Regulatory Risk Management are discussed in the regulatory risk section.

THIRD LINE OF RISK CONTROL

Group Internal Audit

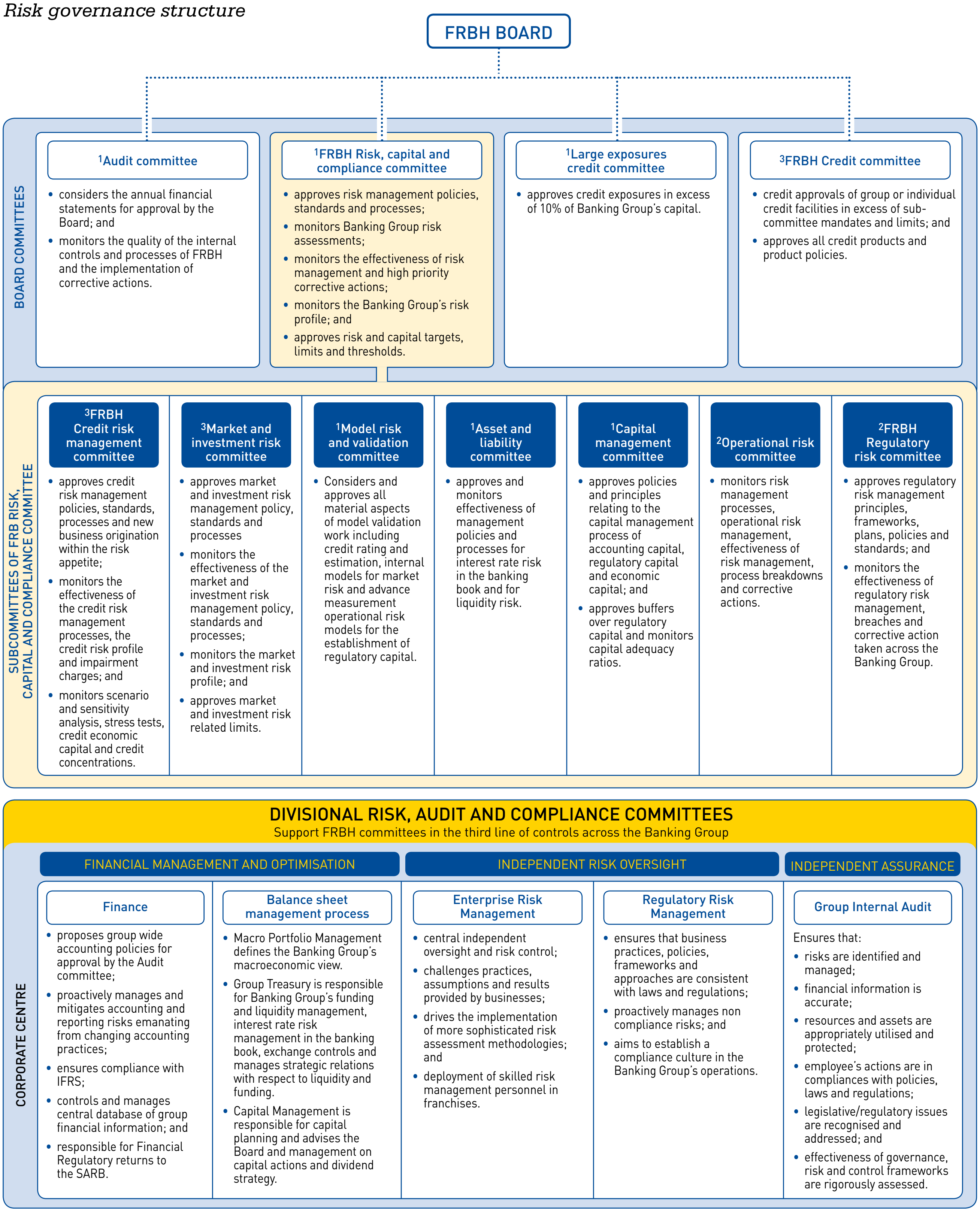
Provides independent assurance of the adequacy and effectiveness of risk management practices:

- headed by Chief Audit Executive and reports to the Board through the FRBH Audit committee chairman;
- reviews risk assessment results of the 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 the RCC committee and the Board;
- monitors results of internal and external audit processes;
- coordinates audit process with ERM, RRM and external auditors;
- attends various governance and management committees to remain informed and align risk based audit approach;
- conducts work in accordance with globally recognised internal audit standards; and
- internal audit practices and activities are annually assessed by external auditors.

The individual franchises: FNB, RMB and WesBank also take responsibility for managing risks in the unregulated entities within FRIHL. These entities are subject to the same risk management policies and procedures of the respective franchises and are governed consistently across the Banking Group. Risks in these entities are, however, reported through the risk governance structure of the Group through the FirstRand Audit, risk and compliance committee.

In line with the Banking Group's corporate governance framework, the FRBH Board retains ultimate responsibility for ensuring that risks are adequately identified, measured, managed and monitored across the banking operations. 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 a non executive board member.*
2 *Chairperson is an independent non executive member.*
3 *Chairperson is executive management. The FRBH Credit and Credit risk management committees have non executive board representation.*

The primary board committee overseeing risk matters in the Banking Group is the FRBH RCC committee. It has delegated responsibility for a number of specialist topics to various subcommittees, as outlined in the chart above. The RCC committee submits its reports and findings to FirstRand's Audit, risk and compliance committee for review. Refer to Audit, risk and compliance committee section on page 76 for a description of its role and responsibilities. The role of the RCC committee and its subcommittees is described further with reference to the applicable governance structures and processes for each particular risk type in the major risk sections. A number of the individual committees' members are non executives, further strengthening the Banking 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 Banking Group. 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 Banking Group.

Regular risk reporting and challenge of current practices

As part of the reporting, challenge, debate and control process, ERM also 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.

The functions of ERM, together with the review by the independent audit functions, ensure that all pertinent risk information is captured accurately, evaluated and escalated appropriately in a timely manner. This enables the Board and its designated committees to retain effective management control over the Banking Group's risk position at all times.

5. RISK PROFILE

The following detailed sections provide in depth descriptions of the approaches, methodologies, models and processes used in the identification and management of capital and 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.

6. STRATEGIC AND BUSINESS RISK

Key developments and focus

Strategic and business risks	Developments under the strategic risk realm include the phased implementation of Oracle HR across the Group to address human resource strategic and governance imperatives. Initial recipients of this were FNB, FirstRand Corporate Centre, RMB, Momentum and FNB Africa. Although the economic climate has improved, the pace of organic growth is slow and cost management remains a key area of focus. As a result, the pace of recruitment is subdued which will put pressure on transformation targets. This is being closely monitored at divisional executive level and by the Transformation committee.
Reputational risk	Banks continue to undergo local and international media scrutiny following the financial crisis. Ongoing emphasis is placed on reputational risk and stakeholder management.
Macroeconomic risk	The slowdown in economic recovery and concerns about sovereign risks globally could undermine stability gains as nations begin to reach the limits of public sector support for the financial system.
ESG risks	During the year FirstRand's operating franchises identified and rated the principal ESG risks affecting each franchise's ability to successfully and sustainably implement business strategy. Regular internal reporting against these risks is integrated into existing risk reporting structures on an ongoing basis.

Introduction and objectives

The risk of choosing of an inappropriate strategy or failing to execute the chosen strategy appropriately is inherent in all business endeavours. The Banking 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 businesses. The objective is to develop and maintain a portfolio that delivers sustainable earnings and thus minimises the chance of any adverse scenario occurring.

Organisational structure and governance

The development and execution of business level strategy is the responsibility of 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 executive management, as well as functions within Corporate Centre, review the external environment, industry trends, potential emerging risk factors, competitors' 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 level of potential business risk faced is assessed. Reports on the results of such 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 for. The risk to earnings on the other hand can be assessed, and this forms an explicit part of the Banking Group's risk appetite and ICAAP.

Business risk is assessed regularly as part of ICAAP. It is managed strategically at a Banking 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 is reviewed to determine whether it is likely that revenues would be insufficient to cover costs in a very 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.

Reputational risk

As a financial services provider, the Banking 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 prosperity and is thus seen as the responsibility of every staff member. Reputational risks can arise from ESG or as a consequence of financial or operational risk events.

The Banking Group's reputation is built on the way in which it conducts its 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 in its operations 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 Banking 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 and 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

During the year an ESG risk management process was adopted. The process involves the identification of the key ESG risks affecting each of the operating franchises. This process informs a view of the top ESG risks affecting the ability to successfully implement business strategy and influences the measures taken for managing, mitigating and avoiding these risks.

The management and reporting of, the most significant ESG risks are integrated into existing risk reporting structures and management frameworks. This process is supported by the inclusion of more extensive non financial reports into existing reporting processes. These provide objective quantitative and qualitative information in respect of ESG performance. Each business unit defines tolerances for its principle ESG risks and action plans for addressing these in line with particular circumstances and risk appetite.

The integrated management of ESG risks within the ERM structure provides the foundation for a focused approach for ensuring that the non financial and stakeholder performance is managed comprehensively and efficiently on a day-to-day basis.

The top five inherent ESG risks are:

- employment equity;
- employee satisfaction;
- customer satisfaction;
- governance effectiveness; and

  Equator Principles compliance.

The impact and likelihood of these risks are evaluated taking into account measures for management, mitigation and avoidance. This residual risk profile demonstrates that all risks with a major potential impact are unlikely to arise given the internal controls in place.

Tolerances and mitigating actions are defined at divisional and Banking Group level and progress in respect of these is tracked through existing risk reporting structures. During the year under review board oversight of these processes was provided by FirstRand's Audit, risk and compliance committee. This committee will be replaced by two committees dealing with audit and risk issues separately from 1 July 2010. The FirstRand Risk, capital and compliance committee will oversee the management of ESG risks and will regularly update the FirstRand Audit committee.

7. CAPITAL MANAGEMENT

Key developments and focus

Capital management continues to focus on maintaining strong solvency levels, with a particular focus on the quality of capital. This is reflected in the Tier 1 ratios for FRB and FRBH which remained above target 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. Performance measurement is aligned with risk 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. During 2010 the Banking Group returned to positive NIACC generation which created value for shareholders. The impact of the new Basel proposals on Tier 1 and total capital adequacy ratios was assessed through the Basel quantitative impact study ("QIS"). The Banking Group will continue to operate above the current regulatory minimum capital requirement if the principles, as included in the broad agreement reached in July 2010, are implemented.

Introduction and objectives

The Banking Group targets a particular earnings profile that will allow it to generate sustainable returns within appropriate levels of volatility.

Sustainability also refers to the business' 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 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 of the Banking Group during calm and turbulent periods in the economy and 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.

The effectiveness of capital allocation decisions and the efficiency of its capital structure are important determinants of the ability to generate returns for shareholders. The Banking 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 Banking Group includes both regulated and unregulated entities. FRBH is the regulated entity and includes all regulated bank subsidiaries and other entities.

Dividends

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.

Organisational structure and governance

Allocating resources, including capital and risk capacity effectively in terms of risk appetite targets and in a manner that maximises value for shareholders is a core competence and key focus area. Sound capital management practices, therefore, form an important component of its overall business strategy.

Capital is freely transferable within the Banking Group, subject to the approval of exchange control authorities for entities outside the common monetary area.

The Board approved capital plan is reviewed as part of the Banking Group's ICAAP, with the stress testing framework being an extension to the process. These processes are under continuous review and refinement and continue to inform the targeted buffer.

Capital adequacy and planning

The year under review

The Banking Group's capital planning process ensures that the total capital adequacy and Tier 1 ratios remain within approved ranges or above target levels across economic and business cycles. FRBH is appropriately capitalised under a range of normal and severe scenarios as well as under a range of stress events.

With increased focus on Tier 1 during the year, FRBH achieved a very strong Tier 1 ratio of 13.5%. Stronger internal capital generation through earnings, offset to an extent by an increase in credit and operational risk weighted assets, led to an overall increase in the Tier 1 and total capital adequacy ratios for FRBH. In the prevailing uncertain environment the Group would prefer to maintain capital ratios at the upper end of its targeted band.

Supply of capital – Tier 1

The Banking 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 higher levels of profitability during the year.

Supply of capital – Tier 2

The current pricing of subordinated bond instruments, the inability of these instruments to absorb losses, and the Banking Group's reduced risk appetite make the issuance of these instruments unattractive at present. Accordingly, no new Tier 2 instruments were issued during the year. It is the Banking Group's intention to redeem all instruments on call date. On 16 August 2010, SARB approval was received to call the FRB01 and FRB02 subordinated bonds on 31 August 2010. The table below provides more detail on the Banking Group's capital instruments.

Characteristics of capital instruments (unaudited unless otherwise indicated)

Capital type	Instrument	Nominal (million)	Rate type	Coupon rate	Maturity rate
Other Tier 1	Non cumulative non redeemable preference share capital**	3 000	Floating	68% of prime	Perpetual
Upper Tier 2	FRBC21	628	Fixed	12%	21 Dec 2018
	FRBC22	440	Floating	3 month JIBAR + 300bps	22 Dec 2018
Lower Tier 2	FRB01*	700	Fixed	13%	31 Aug 2010
(Subordinated bonds)	FRB02*	300	Floating	3 month JIBAR + 71.5bps	31 Aug 2010
	FRB03	1 740	Fixed	9%	15 Sept 2014
	FRB05	2 110	Fixed	9%	21 Dec 2018
	FRB06	1 000	Floating	3 month JIBAR + 65bps	5 Nov 2012
	FRB07	300	Floating	3 month JIBAR + 65bps	6 Dec 2012
	FRB08	100	Floating	3 month JIBAR + 70bps	10 Jun 2016
	FRB09	100	Floating	3 month JIBAR + 70bps	10 Jun 2017
	FNBB001	108	Fixed	11%	1 Dec 2016
	FNB17	260	Fixed	9%	29 Mar 2012

** Approval received from the SARB to call the FRB01 and FRB02 on 31 August 2010.*
*** Audited.*

Demand for capital

With the introduction of Basel II, capital requirements expressed as a percentage of risk weighted assets ("RWA") have become more risk sensitive and more cyclical than under the previous regime. This cyclicality is to a large extent driven by external factors that affect the risk measures across various portfolios and therefore, drive capital requirements.

The overall increase in RWA for both FRBH and FRB was driven predominantly by the following factors:

- credit risk – increased due to volume growth and recalibrations;
- operational risk –increased risk profile for FRB and gross income for other businesses under the Standardised Approach; and
- market risk – derisked financial positions at FRB.

Regulatory developments

The Basel Committee on Banking Supervision ("BCBS") proposals published during 2009 and 2010 in response to the global financial crisis, which would impact bank's capital, focused on:

- strengthening the resilience of the banking sector;
- enhancing the current Basel II framework; and
- revising the market risk framework.

The BCBS conducted a QIS to assess the impact of these proposals on participating banks. The results of this study aim to produce a fully calibrated set of requirements for implementation in 2012. The BCBS announced during July 2010 that it had reached broad agreement on some of the capital and liquidity proposals released during 2009. The full details of the proposals as well as the outcome of the QIS are expected by the end of 2010. A further "Countercyclical capital buffer proposal" was issued in July 2010 with the consultation period closing in September 2010.

FRBH participated in the QIS process and preliminary calculations show a reduction on the Tier 1 and total capital adequacy ratios of the Banking Group, however, both FRB and FRBH remain above the current regulatory minimum. The current proposals form part of the ongoing capital planning of the Banking Group. Targeted capital ratios may be revisited as more information becomes available.

The SARB issued a draft set of regulations due to be implemented at the start of 2012 that currently cover the revised market risk and securitisation frameworks.

Regulatory capital

The targeted capital levels as well as the current ratios at 30 June 2010 are summarised in the table below.

Capital adequacy position

	FRBH		FRB*		Regulatory minimum
R million	Actual	Target	Actual	Target	
Capital adequacy ratio (%)	15.6	12 – 13.5	14.0	11.5 – 13.0	9.5#
Tier 1 ratio (%)	13.5	10.0	11.7	9.5	7.0

** 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 following table shows the composition of regulatory capital (financial resources) for FRBH at 30 June 2010, while the subsequent tables provide a breakdown of RWA and capital requirement.

Composition of qualifying capital and capital ratios of FRBH (unaudited unless otherwise indicated)

	FRBH			
	2010		2009	
R million		%		%
Ordinary shareholders equity as per IFRS*	44 448		41 045	
Less: non qualifying reserves	(1 174)		(2 747)	
Cash flow reserve*	466		285	
Available-for-sale reserve*	(310)		(393)	
Share based payment reserve*	(447)		(502)	
Foreign currency translation reserve*	(647)		(712)	
Other reserves*	(205)		(567)	
Unappropriated profits	(4)		(858)	
Ordinary shareholders equity qualifying as capital	43 274		38 298	
Ordinary share capital and share premium*	6 064		5 672	
Reserves	37 210		32 626	
Non controlling interest*	1 831		1 517	
Non cumulative non redeemable preference shares*	3 100		3 100	
Less: total impairments	(2 089)		(2 303)	
Excess of expected loss over eligible provisions (50%)	(379)		(325)	
First loss credit enhancements in respect of securitisation structures (50%)	(207)		(260)	
Goodwill and other impairments	(1 503)		(1 718)	
Total Tier 1 capital	46 116	13.5	40 612	12.3
Upper Tier 2 instruments	1 068		1 068	
Tier 2 subordinated debt instruments	6 666		6 642	
Other reserves	196		193	
Less: total impairments	(586)		(493)	
Excess of expected loss over eligible provisions (50%)	(379)		(325)	
First loss credit enhancements in respect of securitisation structures (50%)	(207)		(260)	
Other impairments	–		92	
Total Tier 2 capital	7 344	2.1	7 410	2.2
Total qualifying capital and reserves	53 460	15.6	48 022	14.6

** Audited.*

RWA by risk type of FRBH (unaudited)

	FRBH			
	2010		2009	
R million	RWA	Capital requirement#	RWA	Capital requirement#
Credit risk	**246 875**	**23 453**	241 447	22 937
Operational risk	**51 058**	**4 851**	47 125	4 477
Market risk	**10 853**	**1 031**	13 246	1 258
Equity investment risk	**17 729**	**1 684**	13 649	1 297
Other risk	**15 093**	**1 434**	14 037	1 334
Total RWA	**341 608**	**32 453**	329 504	31 303

 # Capital requirement calculated at 9.5% of RWA.

RWA calculation approach for each risk type of the Banking Group

The following table provides a list of the Basel II approaches applied to each risk type for FRB and the other regulated entities of FRBH.

RWA calculation approach for each risk type

Risk type	FRB	Other regulated entities (FRBH)
Credit risk	Advanced Internal Ratings Based Approach ("AIRB")	Standardised Approach
Operational risk	Advanced Measurement Approach ("AMA")	Domestic operations: AMA
		Offshore operations: Standardised Approach
Market risk	Internal Model Approach	Standardised Approach

The following table provides the RWA numbers per Basel II approach for each risk type of FRBH.

RWA numbers per Basel II approach for each risk type (unaudited)

R million	RWA 2010
Credit risk	246 875
AIRB Approach	210 328
Corporate, banks and sovereigns	86 446
SME	37 860
Residential mortgages	39 266
Qualifying revolving retail	9 639
Other retail	32 191
Securitisation exposure	4 926
Standardised Approach	36 547
Equity investment risk	17 729
Standardised Approach	894
Simple risk weighted method	16 835
Operational risk	51 058
Standardised Approach	6 845
AMA	44 213
Market risk*	10 853

** Includes banking and trading book.*

The following table shows the composition of regulatory capital (financial resources) for FRB at 30 June 2010, while the subsequent tables provide a breakdown of RWA and capital requirement.

Composition of qualifying capital and capital ratios of FRB (unaudited unless otherwise indicated)

	FRB*			
	2010		2009	
R million		%		%
Ordinary shareholders equity as per IFRS**	33 085		29 681	
Less: non qualifying reserves	(477)		(1 178)	
Cash flow reserve**	466		337	
Available-for-sale reserve**	(532)		(279)	
Share based payment reserve**	(411)		(532)	
Unappropriated profits	–		(704)	
Ordinary shareholders equity qualifying as capital	32 608		28 503	
Ordinary share capital and share premium**	10 969		10 821	
Reserves	21 639		17 682	
Non cumulative non redeemable preference shares**	3 000		3 000	
Less: total impairments	(2 323)		(1 782)	
Excess of expected loss over eligible provisions (50%)	(379)		(325)	
First loss credit enhancements in respect of securitisation structures (50%)	(45)		–	
Qualifying capital in branches	(1 732)		(1 297)	
Goodwill and other impairments	(167)		(160)	
Total Tier 1 capital	33 285	11.7	29 721	10.7
Upper Tier 2 instruments	1 068		1 068	
Tier 2 subordinated debt instruments	5 914		5 872	
Less: total impairments	(424)		(234)	
Excess of expected loss over eligible provisions (50%)	(379)		(325)	
First loss credit enhancements in respect of securitisation structures (50%)	(45)		–	
Other impairments	–		91	
Total Tier 2 capital	6 558	2.3	6 706	2.4
Total qualifying capital and reserves	39 843	14.0	36 427	13.1

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

RWA by risk type of FRB (unaudited)

	FRB*			
	2010		2009	
R million	**RWA**	**Capital requirement#**	RWA	Capital requirement#
Credit risk	**210 328**	**19 981**	205 472	19 520
Operational risk	**38 223**	**3 631**	35 000	3 325
Market risk	**4 669**	**444**	7 809	742
Equity investment risk	**16 835**	**1 599**	17 469	1 660
Other risk	**13 690**	**1 301**	12 071	1 147
Total RWA	**283 745**	**26 956**	277 821	26 394

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

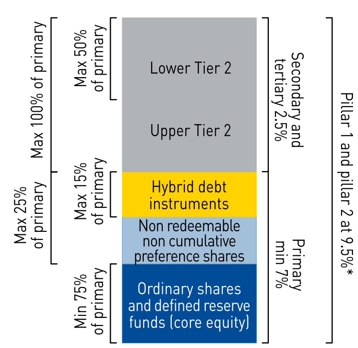
\# *Capital requirement calculated at 9.5% of RWA.*

Capital adequacy position

The graph below depicts the current capital adequacy position for FRBH.

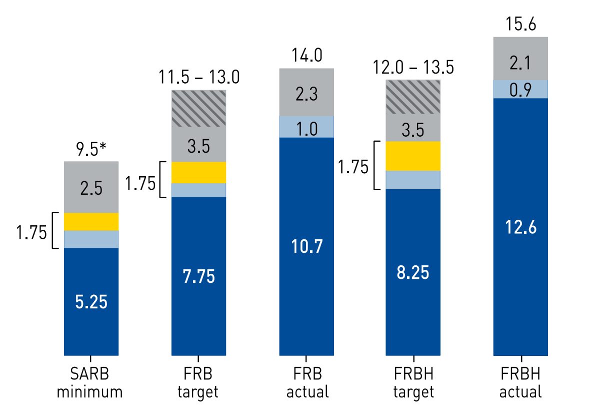
Capital adequacy position and composition of qualifying capital (unaudited)

Minimum capital adequacy



Capital adequacy

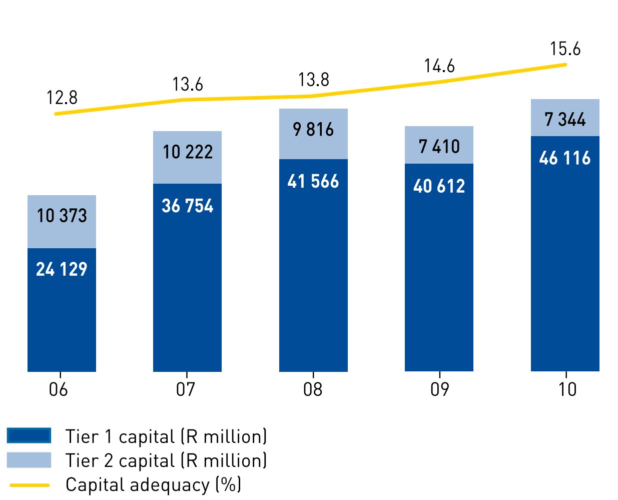
(%)



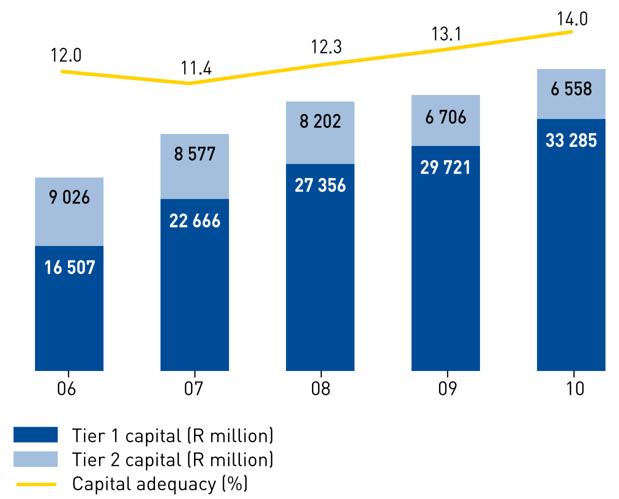
* *Excludes the Bank specific (Pillar 2b) add on and capital floor.*

The graph below provides a historical overview of the capital adequacy for FRBH and FRB.

FRBH regulatory capital position (unaudited)



FRB regulatory capital position (unaudited)



** Information for comparative years – prior to the Basel II implementation on 1 January 2008 – is on a Basel I basis.*

The capital adequacy position of FRBH and its subsidiaries is set out below.

RWA and capital adequacy position for FRBH and its subsidiaries (unaudited)

	2010		2009	
R million	Risk weighted assets	Total capital adequacy %	Risk weighted assets	Total capital adequacy %
Basel II				
FirstRand Bank Holdings Limited*	341 608	15.6	329 504	14.6
FirstRand Bank Limited (South Africa)	283 745	14.0	277 821	13.1
FirstRand Bank UK (London Branch)	5 210	12.8	3 144	21.4
FirstRand India	241	247.5	126	157.2
FirstRand (Ireland) Plc	5 042	31.0	8 355	18.2
RMB Australia Holdings Limited	4 887	21.5	4 611	19.5
FNB (Namibia) Limited	9 910	20.1	–	–
Basel I**				
FNB (Botswana) Limited	6 834	17.4	6 031	19.1
FNB (Lesotho) Limited	228	17.9	214	19.1
FNB (Moçambique) S.A.	699	12.9	466	17.4
FNB (Namibia) Limited	–	–	8 789	20.3
FNB (Swaziland) Limited	1 467	20.9	1 026	24.7
FNB (Zambia) Limited	173	64.5	48	168.0

** FRBH successfully implemented Basel II at the beginning of January 2008. The registered banks in FRBH must comply with the SARB regulations and those of their home regulators, with primary focus placed on Tier 1 capital and total capital adequacy ratios.*

*** Entities operating under Basel II are subject to a minimum capital requirement of 9.5% (excluding the Pillar 2b add on). FNB Africa subsidiaries (excluding FNB (Namibia) Limited) currently report under Basel I – these entities are subject to a 10% minimum capital requirement in terms of local rules, except FNB (Botswana) Limited, where the minimum capital requirement is 15%. These entities also report under Basel II and are included on this basis for the consolidated position of FRBH. FNB (Namibia) Limited implemented Basel II on 1 January 2010.*

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 its risk profile under severe stress conditions. This will provide comfort to a range of stakeholders that the Banking Group 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 Banking Group remains well capitalised in the current environment, with levels of Tier 1 capital exceeding the level of economic capital required. The Banking 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 purposes.

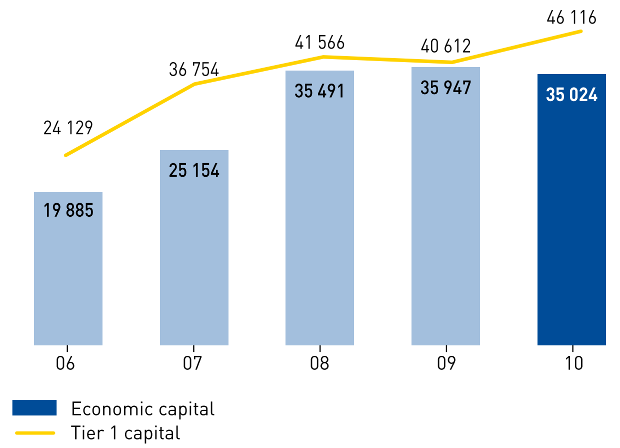
ICAAP assists in the attribution of capital in proportion to the risks inherent in the respective business units with reference to both normal economic circumstances and times of potential stress, which may lead to the realisation of risks not previously considered. This process is also supported by the stress testing and scenario based analysis described on page 118.

The allocation methodology for economic capital is broadly based on the approaches set out as part of the AIRB component of Basel II, with the exception of credit risk, which is considered at a product level. A number of assumptions are necessarily made in the attribution and allocation. These are reviewed periodically and any changes will have a direct impact on business unit level measures such as economic profit or NIACC. The economic capital framework incorporates aspects of the portfolio's composition in its calibration and reflects the effects of risk concentrations and diversification benefits.

The graph below provides an overview of the evolution of economic capital requirements and Tier 1 capital (available financial resources) for FRBH.

Economic capital (unaudited)

(R million)

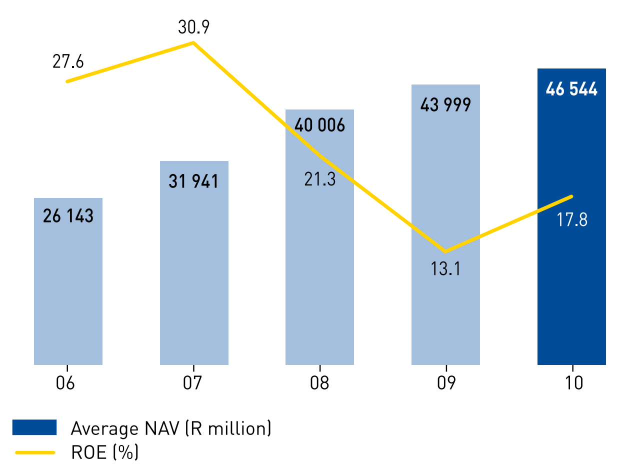


Normalised return on equity

The Banking Group achieved a normalised ROE of 18% compared to 13% for the prior year.

The Banking Group's total shareholders' equity and reserves (excluding non controlling interests) totalled R52 077 million as at 30 June 2010 (2009: R47 213 million). The average ordinary shareholders' equity and reserves for the period amounted to R46 544 million (2009: R43 999 million). Ordinary shareholders' equity comprises share capital and premium, distributable and non distributable reserves.

Normalised return on equity (unaudited)



Economic profit

The Banking Group's performance measures are aligned with risk considerations.

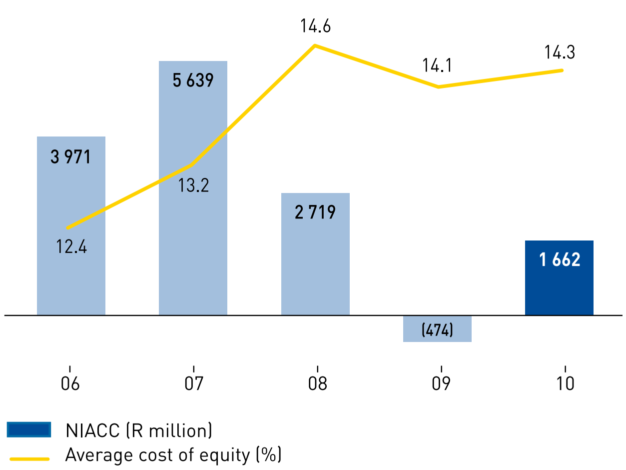
The use of economic profit or NIACC is embedded across the businesses and management culture. As a function of normalised earnings and capital utilised in the businesses, economic profit provides a clear indication of economic value added by a transaction or business unit. Positive internal capital generation through earnings at a marginally higher 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 creation of economic profit over time.

Economic profit and normalised return on equity (unaudited)

R million	2010	2009
Normalised earnings	8 535	6 056
Preference dividends	(230)	(309)
Normalised earnings attributable to ordinary shareholders	8 305	5 747
Charge for capital*	(6 643)	(6 221)
Net economic profit/(loss)**	1 662	(474)
Average ordinary shareholders' equity	46 544	43 999
Return on average ordinary shareholders' equity (%)	17.8	13.1
Average cost of equity (%)	14.3	14.1

* *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 equity (unaudited)



8. CREDIT RISK

Key developments and focus

During the year under review there was significant focus on further refining the risk appetite framework. Bottom up and top down analyses produced risk appetite thresholds for all major business units, which will in the future be monitored at both the business units and the centre. The Banking Group's credit risk appetite and the corresponding origination strategies are continuously refined.

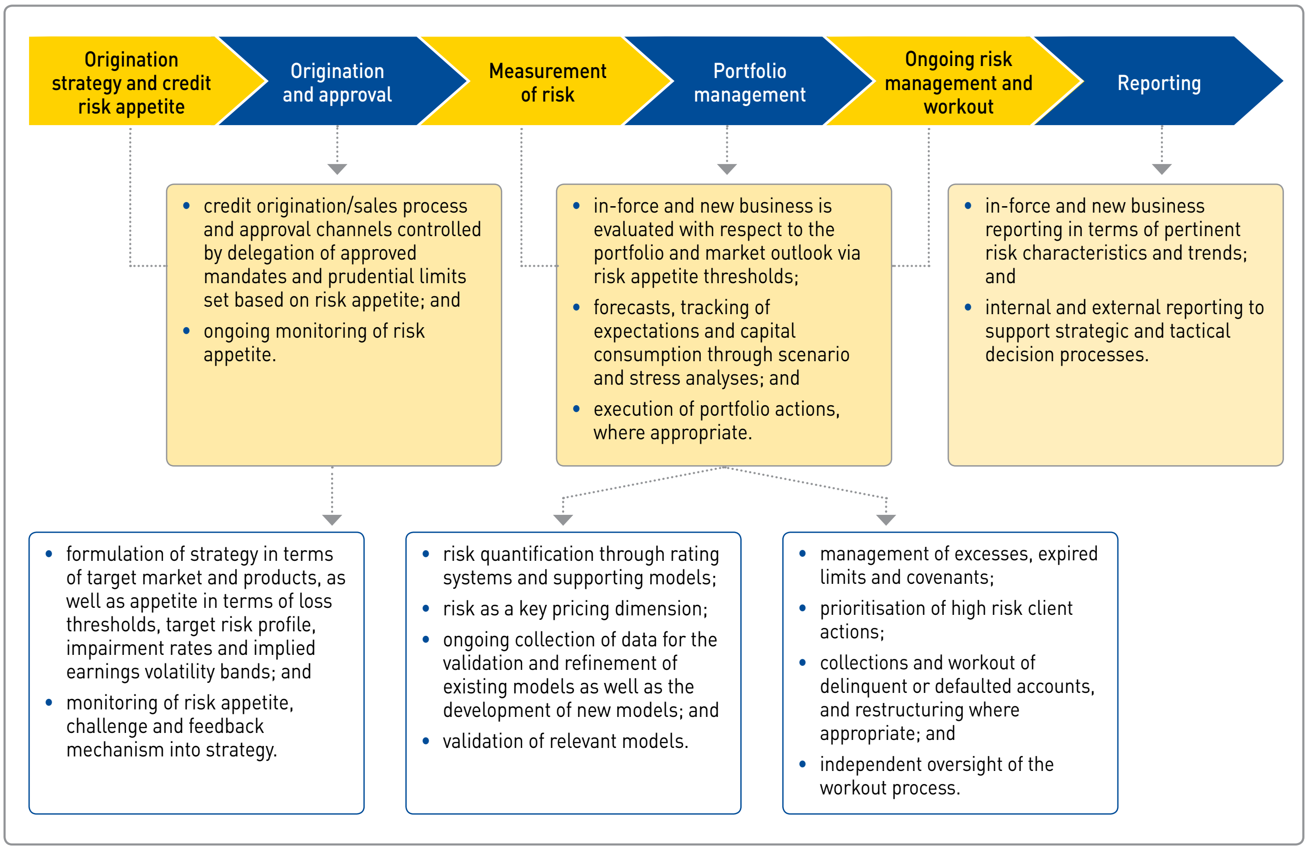
Introduction and objectives

Credit risk is one of the core risks assumed in pursuit of the Banking 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 Banking Group Credit Risk Management ("GCRM") function within ERM and relevant board committees, as well as the unit responsible for the house macro view ("BSM unit") and the Performance Measurement function within Corporate Centre, fulfil this role.

The scope of credit risk identification and management practices across the Banking Group therefore 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 regularly receives and reviews 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 various businesses. 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 integrates with the BPRMF (see page 120).

Two credit focused board committees, the FRBH Credit committee and the Large exposures credit committee as well as two subcommittees of the RCC committee, the FRBH Credit risk management committee and the Model risk and validation 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 122.

The Banking Group Credit Risk Management function ("GCRM")

The GCRM function in ERM provides independent oversight of the credit risk management practices in the deployed risk management functions in the businesses. It is the owner of the CRMF and related policies and monitors the implementation of credit risk related frameworks. In addition, its responsibilities include:

- monitoring of the credit components of the risk appetite framework;
- monitoring and reporting of the credit risk profile;
- reviewing all credit rating systems and independent revalidation of credit rating systems;
- management of relationships with external stakeholders such as relevant regulators with respect to credit matters;
- supervision of the credit impairment process; and
- 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 MPM 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; and
- maintaining the credit governance structure.

Performance Measurement function/BSM unit

The Performance Measurement function and BSM unit within Corporate Centre is responsible for management of the balance sheet with respect to credit risk and fulfils both an operational and a central coordination role. Its mandates include:

- the formulation of the macroeconomic and credit outlook used for planning and stress testing purposes;
- the quantification and allocation of credit economic capital including the credit risk assessment employed for ICAAP and the assessment of appropriate capital buffers;
- active participation in the formulation of credit and origination strategies, in particular with a view to the implementation and management of the Banking Group's credit risk appetite across the business units;
- credit risk related stress testing, scenario analysis and portfolio modelling;
- 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 Banking 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 areas 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 FRB Model building framework. The Banking Group was granted regulatory approval under Basel II for the approaches as shown in the table below.

Basel approach	FRB	Remaining FRBH subsidiaries
AIRB	√	
Standardised Approach		√

Even though only FRB has regulatory approval to use the AIRB Approach, the same or similar models in FRB are applied for the internal assessment of credit risk in the remaining FRBH 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 Banking Group level credit risk assessment where the measures are combined with estimates of correlations between individual counterparties and industries 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 classified it 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 Banking 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		Below B-
FR 95 – 100	100%	D (defaulted)

** Indicative mapping to the international rating scales of Fitch and Standard & Poor's.*

A FirstRand ("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 Banking 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 tends to be more volatile than TTC. PIT PD's 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 Banking 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 an LGD 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 businesses alongside other risk measures.

Specialised lending

Where the Banking 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 obligation is the income generated by the assets (i.e. specialised lending); and
- the PD and LGD cannot be determined.

Specialised lending relates mainly to project and commodity finance. In terms of the slotting approach, the exposure is rated after assessing the risks and mitigants applied to reduce/eliminate the risk and mapped to one of four supervisory categories. Less than 1% of the book is subject to the slotting approach.

Rating process

A consistent rating process is employed across the various businesses, 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, PD's 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.

Rating process of credit portfolios

Portfolio and type of exposures	Description of rating system
Large corporate portfolios (Wholesale: FNB 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 the requirements of Basel II. **Rating process:** • The rating assignment to corporate credit counterparties is based on a detailed individual assessment of the counterparty's creditworthiness. • This assessment is performed through a qualitative analysis of the business and financial risks of the counterparty and is supplemented by internally developed statistical rating models. • The rating models were developed using internal and external data covering more than 10 years. The qualitative analysis is based on the methodology followed by international rating agencies. • The rating assessment is reviewed by the FRBH Credit committee and the rating (and associated PD) is approved by this committee. • 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 the requirements of Basel II. **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 FRBH 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.

Portfolio and type of exposures	Description of rating system
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 FRBH 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 the requirements of Basel II. **SME retail rating process:** • The 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 was 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 ("CCF") are estimated on the basis of the Banking Group's internal historical experience and benchmarked against international studies.
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. **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)**	**Rating process and approach:** • These 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 PD's 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 the 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 for these product types. EAD estimates are based on actual historic EAD, segmented appropriately (e.g. straight vs. budget in the case of credit cards).

Model validation

Rating models are recalibrated and independently validated on an annual basis to ensure validity, efficacy and accuracy. The rating models used across the credit portfolios incorporate an appropriate degree of conservatism, which was achieved through the prudent choice of model parameters and the inclusion of downturn periods such as 2001 and 2007 – 2009 in calibration.

The independent validation of the rating systems is carried out by GCRM in ERM. It is responsible for reviewing all rating systems and a comprehensive revalidation of all material rating systems on an annual basis. An actuarial auditing team in Group Internal Audit ("GIA") carries out additional reviews of the rating systems as well as sample revalidations. The results of these analyses are reported to the Model risk and validation committee. 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 on at least an annual basis 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 a core component of the Banking Group's business, it aims to optimise the amount of credit risk it takes to achieve its return objectives. The mitigation of credit risk is an important component of this process, which begins with the structuring and approval of facilities for only those clients and within those parameters that fall within the risk appetite.

In addition, various instruments are used to reduce exposure in 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 assets financed;
- 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 property financed and the cash flows generated by it;
- working capital facilities in FNB Corporate are often not secured by claims on specific assets, but risk in structured facilities granted by RMB is mitigated by financial or other collateral such as guarantees or credit derivatives; and
- credit risk in RMB's FICC business is mitigated through the use of netting agreements and financial collateral.

The Banking Group employs strict policies governing the valuation and management of collateral across all business areas. Collateral is managed internally so as 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 Banking Group level through the GCRM function of 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 a Banking 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 the respective 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 which are actively monitored and updated on at least a monthly basis;
- restructuring of facilities where appropriate;
- use of credit derivatives;
- an efficient workout; and
- the 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 Cards; and
- revaluation of properties before approval of additional facilities.

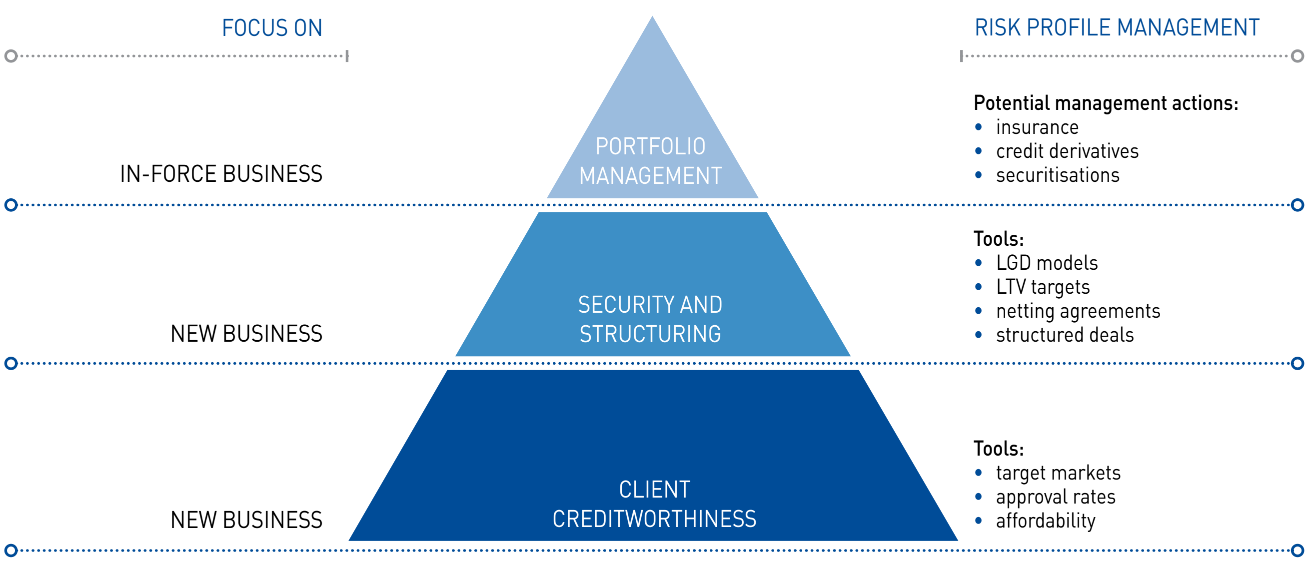
Commercial and other portfolios of clients that fall between the corporate and retail segments are treated in a hybrid manner, dependent on the number of exposures and the size of individual transactions.

Reports on the overall quality of the portfolio are monitored closely at a business unit as well as at a Banking Group level. As indicated previously, the Performance Measurement function within Corporate Centre is actively involved in the determination of credit strategy and required changes thereto, so as to ensure that the credit portfolio is managed within the constraints of the Banking 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, the setting of impairments, in determining capitalisation levels and in determining business strategy, risk appetite and the choice of appropriate return targets. Credit risk tools and measures are used extensively in the determination of the current credit risk profile and credit risk appetite (see chart below).

Use of credit risk tools and measures



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 the Banking Group'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 FRBH 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.	PIT PD, long run LGD and roll rates are used in the derivation of specific, portfolio and 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 the Banking Group'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.

Discussion of credit risk portfolio

Credit strategy is managed as part of the broader balance sheet management process and is aligned with the Banking Group's view of trends in the wider economy. The Banking Group's 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 164 and 165). These portfolios were also positively impacted by interest rates continuing to trend downwards, positive income growth and increasing wages. However, job losses also continued, albeit at a slower rate.

The commercial market remains fragile. Improvement is expected to follow the consumer spending growth recovery.

Retail credit portfolios

Interest rate reductions, which started in 2008 and continued into 2010, resulted in a reduction in NPL inflows (see chart on page 23) and consequently in the credit impairment charges of most retail portfolios. The level of NPLs remained high, however, due to the debt counselling process. As a result of the improvement in credit quality, the Banking Group's retail portfolios now fall within the desired credit appetite ranges.

Despite the reduction in debt servicing costs as a result of lower interest rates, the subsequent improvement in affordability and underlying asset recovery (e.g. house price growth), 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 the timing and strength of the recovery.

Wholesale portfolios

During the year under review the corporate portfolios were resilient, however, lending appears likely to remain tepid as corporates maintain high levels of cash and investment spending remains subdued. Commercial market NPLs and impairments have increased since June 2009 due to the lagged impact of the economic cycle.

Credit assets

The following table provides a breakdown of the Banking Group's credit assets by segment, including off balance sheet items.

Credit assets by type and segment (audited)

R million	2010	2009
Cash and short term funds	22 707	22 018
Money at call and short notice	2 136	1 423
Balances with central banks and guaranteed by central banks	11 513	12 559
Balances with other banks	9 058	8 036
Gross advances	443 750	429 815
FNB	199 113	204 370
FNB Retail	168 659	166 093
FNB Corporate*	1 864	11 415
FNB Commercial	28 590	26 862
WesBank	92 724	92 274
RMB	130 312	112 989
FNB Africa	19 645	17 519
Other	1 956	2 663
Derivatives	39 764	60 229
Debt investment securities (excluding non recourse investments)	90 275	79 218
Accounts receivable	5 706	5 255
Loans to Insurance Group	5 428	6 115
Reinsurance assets	524	287
Credit risk not recognised on the balance sheet	84 024	84 179
Guarantees	24 036	19 085
Acceptances	299	279
Letters of credit	5 541	5 576
Irrevocable commitments	52 809	57 786
Underwriting exposures	–	2
Credit derivatives	1 339	1 451
Total	692 178	687 116

** Includes public sector.*

Reconciliation of gross advances to net advances

R million	2010	2009
Gross advances after interest in suspense	443 750	429 815
Less total impairment (refer Note 11 to the consolidated financial statements on page 289)	(8 972)	(9 591)
	434 778	420 224
Consolidation adjustment	15	(3 736)
Net advances (refer consolidated statement of financial position on page 261)	434 793	416 488

For further information on the fair value of investment securities refer to Note 13 to consolidated financial statements on investment securities and other investments.

Credit quality

Advances are considered past due where specific payment dates were 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 table provides an age analysis of exposures classified as past due as at 30 June 2010.

Age analysis of advances (audited)

	2010						
			Past due but not impaired				
R million	Neither past nor impaired	Renego-tiated but current	1 – 30 days	31 – 60 days	> 60 days	Impaired	Total
Age analysis of advances							
FNB Retail	144 067	783	5 773	2 701	1 717	13 618	168 659
FNB Corporate	1 863	–	–	–	–	1	1 864
FNB Commercial	26 347	–	261	34	21	1 927	28 590
FNB	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	360	408	19 645
RMB	129 409	1	31	17	6	848	130 312
Other	1 928	–	–	–	–	28	1 956
Total	406 167	784	8 791	3 858	2 222	21 928	443 750

	2009						
			Past due but not impaired				
R million	Neither past nor impaired	Renego-tiated but current	1 – 30 days	31 – 60 days	> 60 days	Impaired	Total
Age analysis of advances							
FNB Retail	135 348	2 715	6 481	3 170	2 316	16 063	166 093
FNB Corporate	11 328	–	2	1	–	84	11 415
FNB Commercial	24 979	–	125	60	75	1 623	26 862
FNB	171 655	2 715	6 608	3 231	2 391	17 770	204 370
WesBank	84 423	–	2 212	944	95	4 600	92 274
FNB Africa	15 692	–	946	191	260	430	17 519
RMB	111 367	267	61	20	97	1 177	112 989
Other	2 317	64	16	10	6	250	2 663
Total	385 454	3 046	9 843	4 396	2 849	24 227	429 815

The classification of advances past due follows the standards set out in applicable accounting policies. A distinction is drawn between accounts past due for technical reasons (e.g. insufficient payments due to debit orders not having been updated for changes in interest rates) and normal arrears (i.e. accounts in arrears by one to three full repayments). The split provided in the tables above includes both types of arrear accounts. Total exposure to technical arrears included in this analysis was R4.5 billion (2009: R5.3 billion) and was primarily driven by retail exposures.

Renegotiated advances are advances where, due to the deterioration in a counterparty's financial condition, FRB 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 Banking 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. Reclassification of NPLs into the renegotiated advances category is not allowed.

The renegotiated advances disclosed above include all loans renegotiated to date and for which the renegotiated terms have not yet expired. All of these advances are within 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.

The renegotiated advances exclude any advances where the facility terms were extended or renewed as part of the ordinary course of business on terms and conditions equivalent to the current terms or conditions for new debt with similar risk. The following table presents an analysis of the credit quality of performing advances (i.e. those classified as neither past due nor impaired). Please refer to page 139 for the mapping of FR grades to rating agency scales.

Credit quality of performing advances (audited)

	2010							
		FNB						
R million	Total neither past due nor impaired	Retail	Corporate	Commercial	WesBank	RMB	FNB Africa	Other
FR 1 – 25	76 539	4 864	173	2 347	801	67 607	59	688
FR 26 – 91	307 614	129 645	1 676	23 145	74 824	60 374	16 721	1 228
Above FR 92	22 015	9 558	14	855	9 659	1 428	489	12
Total	**406 168**	**144 067**	**1 863**	**26 347**	**85 284**	**129 409**	**17 269**	**1 928**

	2009							
		FNB						
R million	Total neither past due nor impaired	Retail	Corporate	Commercial	WesBank	RMB	FNB Africa	Other
FR 1 – 25	123 298	49 532	4 730	2 354	1 141	64 076	2	1 463
FR 26 – 91	243 706	81 107	6 598	22 278	72 661	45 391	15 235	436
Above FR 92	18 450	4 709	–	347	10 621	1 900	455	418
Total	385 454	135 348	11 328	24 979	84 423	111 367	15 692	2 317

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. Rating system recalibrations were implemented for the majority of the retail portfolios during the first half of the financial year. The recalibrations incorporated the higher defaults experienced in recent times. This resulted in a once off deterioration in counterparty risk ratings, which explains the migration observed above. Since December 2009, counterparty risk ratings have, however, improved significantly for the majority of the retail portfolios, due to the positive impact from lower interest rates on the existing book and the high quality of new business originated.

The following table provides an overview of the credit quality of other financial assets that are neither past due nor impaired.

Credit quality of other financial assets (audited)

	2010					
R million	**Investment securities***	**Derivatives**	**Cash and short term funds**	**Loans to Insurance Group**	**Re-insurance assets**	**Total**
Credit quality of financial assets (excluding advances) neither past due nor impaired						
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**

	2009					
R million	Investment securities*	Derivatives	Cash and short term funds	Loans to Insurance Group	Re-insurance assets**	Total
Credit quality of financial assets (excluding advances) neither past due nor impaired						
AAA to BBB	26 584	19 162	19 124	6 115	287	71 272
BB, B	52 526	40 594	2 786	–	–	95 906
CCC	102	120	–	–	–	222
Unrated	6	353	108	–	–	467
Total	79 218	60 229	22 018	6 115	287	167 867

** Excludes non recourse investments.*

*** Reinsurance assets arising in the Group's Namibian operations were classified from accounts receivable to a separate line, reinsurance assets, in the statement of financial position.*

Impairment of financial assets and non performing loans

Refer to policy for impairment of financial assets in the Accounting Policy section on page 240 and to Note 12 Impairment of advances on page 294 of the consolidated annual financial statements 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.

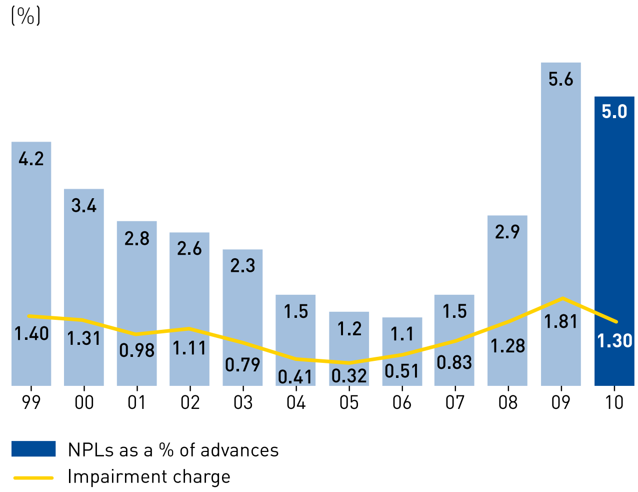
For amortised cost advances, impairments are recognised through the creation of an impairment reserve and an impairment charge in the income statement. For fair value advances, the credit valuation adjustment is charged to the income statement through trading income and recognised as a change to the 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 the recovery.

The graph below shows the history of the credit losses reflected by the impairment charge and non performing loans percentages.

NPLs and impairment history



Impairment charges are reflected before insurance proceeds where applicable.

Fair value sensitivity of wholesale advances due to credit risk

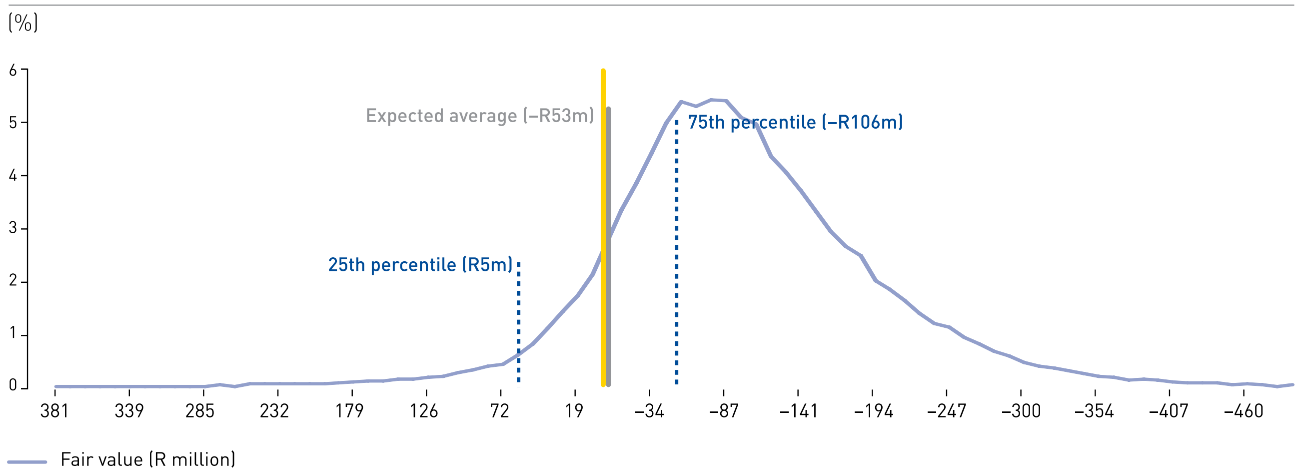
RMB recognises a significant portion of wholesale advances at fair value through profit or loss. The fair value adjustments made to these advances directly impacts the income statement and the value of the advance. For risk management purposes a term structure of default probabilities and migration matrices are used to estimate the fair value impact of changes in credit risk. The matrix contains probabilities of downgrading or upgrading to another rating category.

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 more risky rating grades;
- migration matrices take into account the higher volatility of more risky rating grades;
- rating migration can be positive or negative;
- rating migration is not restricted to 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 R53 million while the fair value impact at the 75th percentile (i.e. a 25% probability of exceeding this value) is a loss of approximately R106 million.

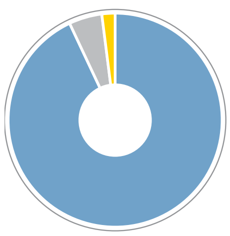
Distribution: fair value impact – long term scenario (audited)



Geographic and industry concentration risk

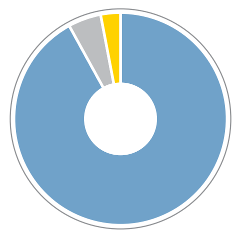
Geographically, most of the Banking Group's exposure originates in South Africa. The following charts provide the geographical and industry split of gross advances after deduction of interest in suspense.

Geographic split by exposure 2010



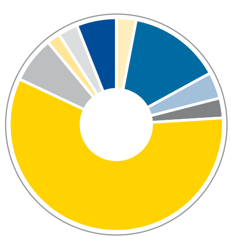
- South Africa / 93%
- Other Africa / 5%
- Rest of the world / 2%

Geographic split by exposure 2009



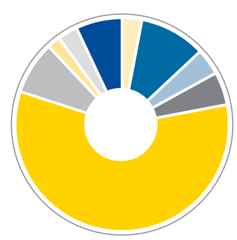
- South Africa / 92%
- Other Africa / 5%
- Rest of the world / 3%

Industry split by exposure 2010



- Agriculture / 3%
- Bank and financial services / 14%
- Building and property development / 4%
- Government, Land Bank and public authorities / 3%
- Individuals / 58%
- Manufacturing and commerce / 7%
- Mining / 2%
- Transport and communication / 3%
- Other services / 6%

Industry split by exposure 2009



- Agriculture / 3%
- Bank and financial services / 10%
- Building and property development / 4%
- Government, Land Bank and public authorities / 5%
- Individuals / 58%
- Manufacturing and commerce / 8%
- Mining / 2%
- Transport and communication / 3%
- Other services / 7%

The Banking Group seeks to establish a balanced portfolio profile and monitors concentrations in the credit portfolio closely.

The following table provides a breakdown of credit exposure across geographies as at 30 June.

Concentration of significant credit exposure (audited)

	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 securities	74 044	7 742	471	–	6 004	999	–	1 015	90 275
Guarantees, acceptances and letters of credit*	26 631	2 608	–	–	282	–	5	350	29 876
Irrevocable commitments*	48 339	3 195	78	–	1 149	38	–	10	52 809

The average advances for the year under review **R418 667 million**

	2009								
R million	South Africa	Other Africa	United Kingdom	Ireland	Other Europe	North America	South America	Other	Total
Advances	393 803	20 965	10 381	381	2 204	320	445	1 316	429 815
Derivatives	37 219	278	12 591	2	8 184	1 874	4	77	60 229
Debt securities	64 174	8 731	357	–	5 005	789	–	162	79 218
Guarantees, acceptances and letters of credit*	22 772	2 153	–	–	–	–	–	15	24 940
Irrevocable commitments*	54 139	3 046	255	13	80	119	8	126	57 786

** Significant off balance sheet exposures.*

Segmental analysis of advances

The following table provides a breakdown of credit exposure by Banking Group segment.

	2010				
R million/%	Advances	NPLs	NPLs as a % of advances	Total impairment charges	Impairments as % of average advances
FNB	199 113	15 546	7.81	3 421	1.70
FNB Retail	169 019	13 674	8.09	2 873	1.71
Residential mortgages	152 300	12 553	8.24	1 416	0.94
FNB HomeLoans (Consumer segment)	108 558	9 737	8.97	1 181	1.08
Wealth	37 482	2 520	6.72	210	0.60
Affordable housing (Mass segment)	6 260	296	4.73	25	0.46
Credit card	10 705	672	6.28	776	6.92
Personal banking	3 042	148	4.87	202	6.18
Mass (secured and unsecured)	2 972	301	10.13	479	16.22
FNB Commercial	28 590	1 927	6.74	446	1.60
FNB Corporate banking	1 697	1	0.06	34	0.68
FNB Other	(193)	(56)	29.02	68	5.45
WesBank	92 724	5 098	5.50	2 048	2.21
WesBank asset backed finance	88 761	4 778	5.38	1 722	1.94
WesBank Retail	53 391	2 882	5.40	929	1.77
WesBank Business and corporate	30 415	1 760	5.79	697	2.21
WesBank International	4 955	136	2.74	96	2.09
WesBank loans	3 963	320	8.07	326	8.47
RMB	130 312	1 126	0.86	195	0.16
FNB Africa	19 645	407	2.07	68	0.37
Corporate centre	1 956	28	1.00	(46)	(2.01)
Total	443 750	22 205	5.00	5 686	1.30

R million/%	2009 Advances	NPLs	NPLs as a % of advances	Total impairment charges	Impairments as % of average advances
FNB	204 370	17 769	8.69	4 920	2.39
FNB Retail	166 093	16 062	9.67	4 545	2.76
Residential mortgages	147 937	13 626	9.21	2 375	1.62
FNB HomeLoans (Consumer segment)	110 642	11 322	10.23	2 295	2.05
Wealth	32 732	2 087	6.38	64	0.21
Affordable housing (Mass segment)	4 563	217	4.76	16	0.38
Credit card	11 726	1 444	12.31	1 355	11.18
Personal banking	3 497	444	12.70	429	12.12
Mass (secured and unsecured)	2 933	548	18.68	386	14.85
FNB Commercial	27 216	1 623	5.96	389	1.52
FNB Corporate banking	8 373	84	1.00	70	0.59
FNB Other	2 688	–	–	(84)	(2.11)
WesBank	92 274	4 600	4.99	2 745	2.86
WesBank asset backed finance	88 536	4 355	4.92	2 222	2.41
WesBank Retail	51 601	2 906	5.63	1 539	2.77
WesBank Business and corporate	32 690	1 273	3.89	505	1.57
WesBank International	4 245	176	4.15	178	4.00
WesBank loans	3 738	245	6.55	523	13.40
RMB	112 989	1 177	1.04	523	0.43
FNB Africa	17 519	430	2.45	96	0.58
Corporate centre	2 663	251	9.43	(260)	(9.91)
Total	429 815	24 227	5.64	8 024	1.81

Basel II disclosure

Credit rating systems and processes used for Basel II

The Banking Group uses the AIRB Approach for the exposures of FRB and the Standardised Approach for all other legal entities in the Banking Group for regulatory capital purposes. Due to the relatively smaller size of the subsidiaries and the scarcity of relevant data, the Banking 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	2010	FirstRand Bank	Regulated bank entities within FNB Africa	London branch and other subsidiaries
Cash and short term funds	22 707	18 832	1 820	2 055
Money at call and short notice	2 136	1 230	555	351
Balances with central banks and guaranteed by central banks	11 513	10 605	898	10
Balances with other banks	9 058	6 997	367	1 694
Gross advances	443 750	404 340	19 645	19 765
FNB	199 113	194 298	–	4 815
FNB Retail	168 659	164 845	–	4 814
FNB Corporate	1 864	1 863	–	1
FNB Commercial	28 590	28 590	–	–
WesBank	92 724	85 937	–	6 787
RMB	130 312	122 382	–	7 930
FNB Africa	19 645	–	19 645	–
Other	1 956	1 723	–	233
Derivatives	39 764	38 843	50	871
Debt investment securities	90 275	73 944	8 328	8 003
Accounts receivable	5 706	2 808	235	2 663
Loans due by holding company and fellow subsidiaries	–	14 396	2 508	(16 904)
Loans to Insurance Group	5 428	1 100	–	4 328
Reinsurance assets	524	–	50	474
Credit risk not recognised on the balance sheet	84 024	76 120	5 380	2 524
Guarantees	24 036	21 986	2 006	44
Acceptances	299	299	–	–
Letters of credit	5 541	5 362	179	–
Irrevocable commitments	52 809	47 503	3 195	2 111
Underwriting exposures	–	–	–	–
Credit derivatives	1 339	970	–	369
Total	692 178	630 383	38 016	23 779

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 Banking 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%	555
10%	–
20%	3 170
35%	7 360
50%	1 101
75%	2 161
100%	23 471
Specific impairments	198
Total	**38 016**

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 being the lowest risk and NPL representing the defaulted exposures.

The graphs provide a summary of the EAD distribution by prescribed counterparty risk bands. The EAD weighted downturn LGD and the EAD weighted PD for the performing and total book are also shown. Comparative information for the prior year is provided in the charts.

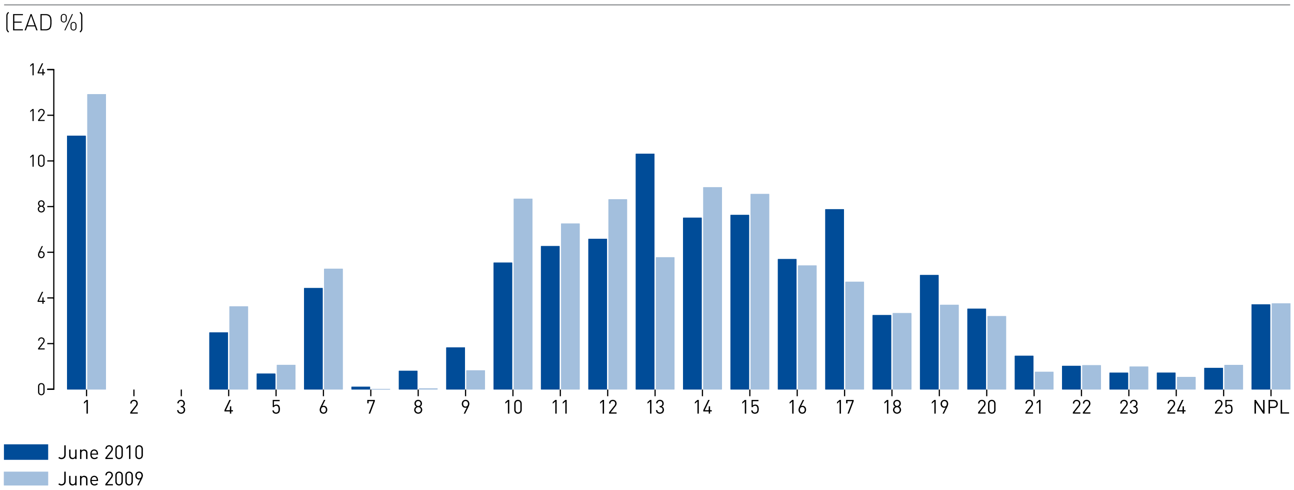
Year-on-year trends will be impacted by the risk migration in the existing book (reflecting changes in the economic environment), quality of new business originated and any model recalibrations implemented during the course of the year.

For the majority of the retail portfolios there was significant positive risk migration since December 2009. This was, however, negated by model recalibrations implemented during the financial year, incorporating relatively high defaults experienced in recent times.

Over the year under review, the performance of the credit portfolio was in line with that of the industry.

The risk profile reflects the revised credit origination strategy that selectively targets areas providing an appropriate risk/return profile in the current economic environment.

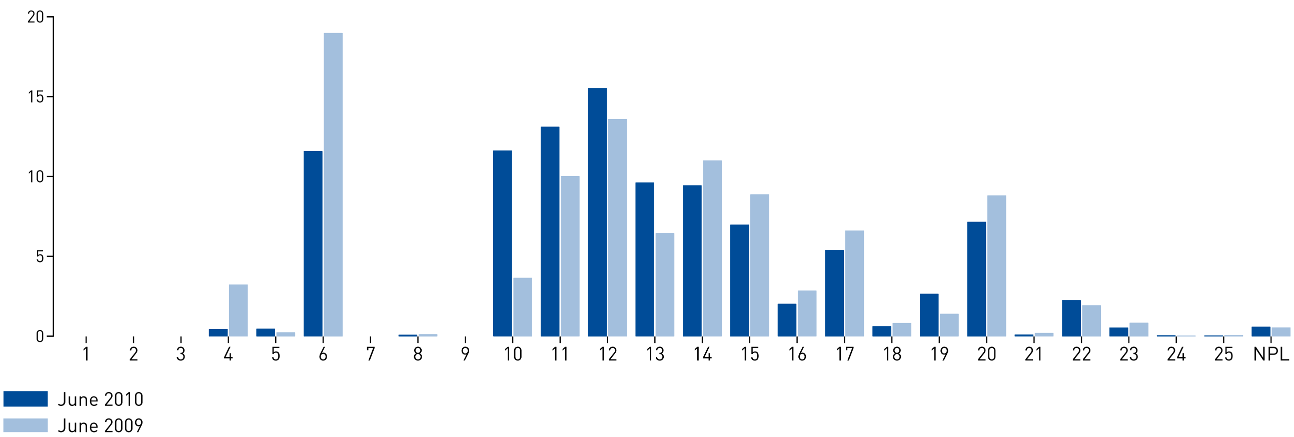
Risk profile for FirstRand Bank: EAD% distribution per Basel risk buckets (unaudited)



EAD weighted performing PD%	2.66%	EAD weighted total book PD%	6.31%
EAD weighted performing LGD%	28.66%	EAD weighted total book LGD%	28.83%
Performing book EL/EAD	0.76%	Total book EL/EAD	1.82%

Risk profile for corporate exposures: EAD% distribution per Basel risk buckets (unaudited)

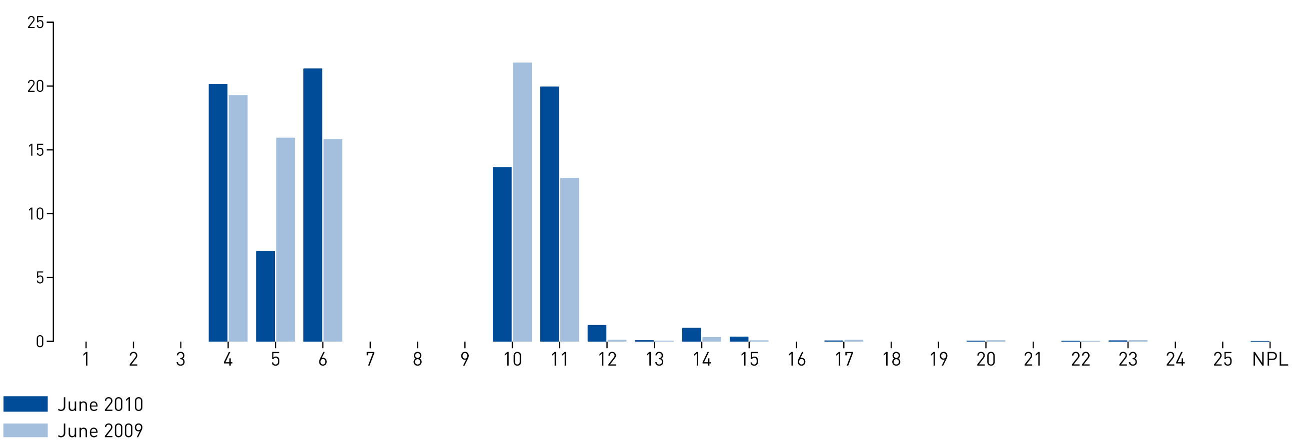
(EAD %)



EAD weighted performing PD%	1.64%	EAD weighted total book PD%	2.52%
EAD weighted performing LGD%	37.35%	EAD weighted total book LGD%	37.37%
Performing book EL/EAD	0.61%	Total book EL/EAD	0.94%

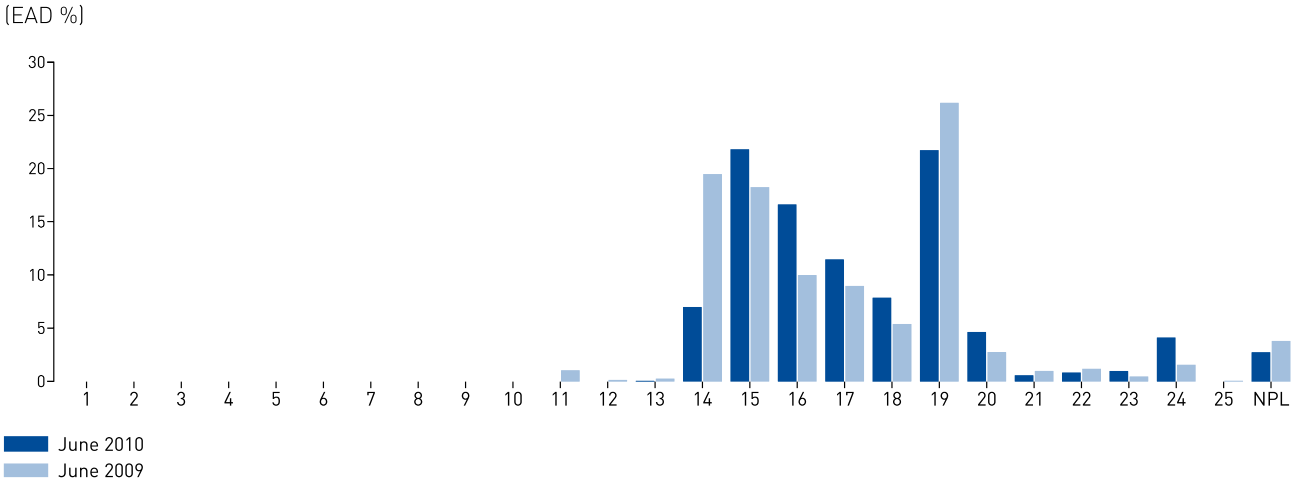
Risk profile for banks exposures: EAD% distribution per Basel risk buckets (unaudited)

(EAD %)



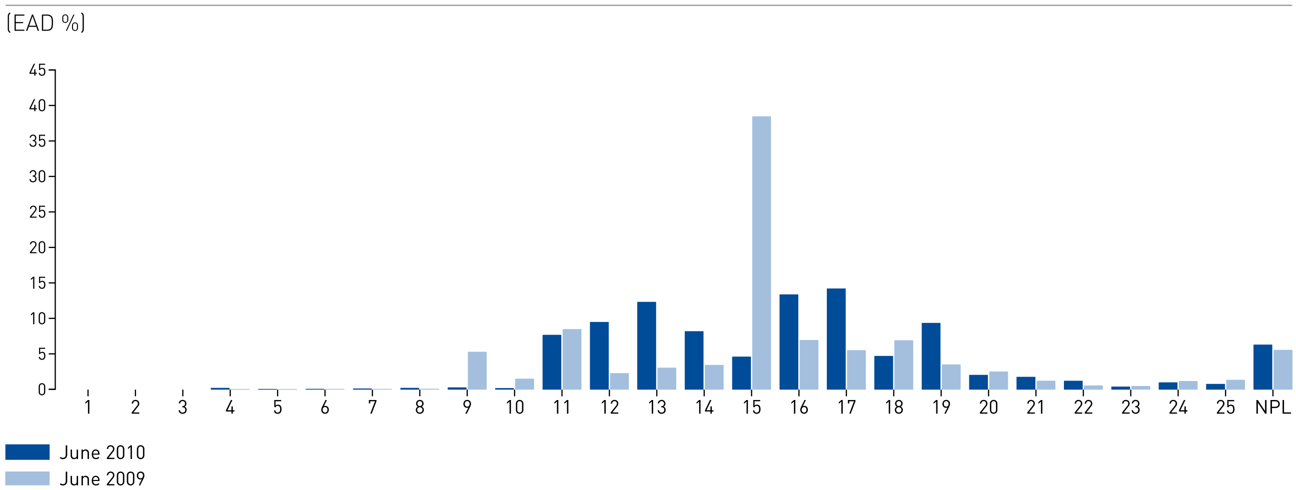
EAD weighted performing PD%	0.14%	EAD weighted total book PD%	0.14%
EAD weighted performing LGD%	32.20%	EAD weighted total book LGD%	32.20%
Performing book EL/EAD	0.05%	Total book EL/EAD	0.05%

Risk profile for SME corporate exposures: EAD% distribution per Basel risk buckets (unaudited)



EAD weighted performing PD%	4.63%	EAD weighted total book PD%	5.58%
EAD weighted performing LGD%	34.69%	EAD weighted total book LGD%	34.75%
Performing book EL/EAD	1.61%	Total book EL/EAD	1.94%

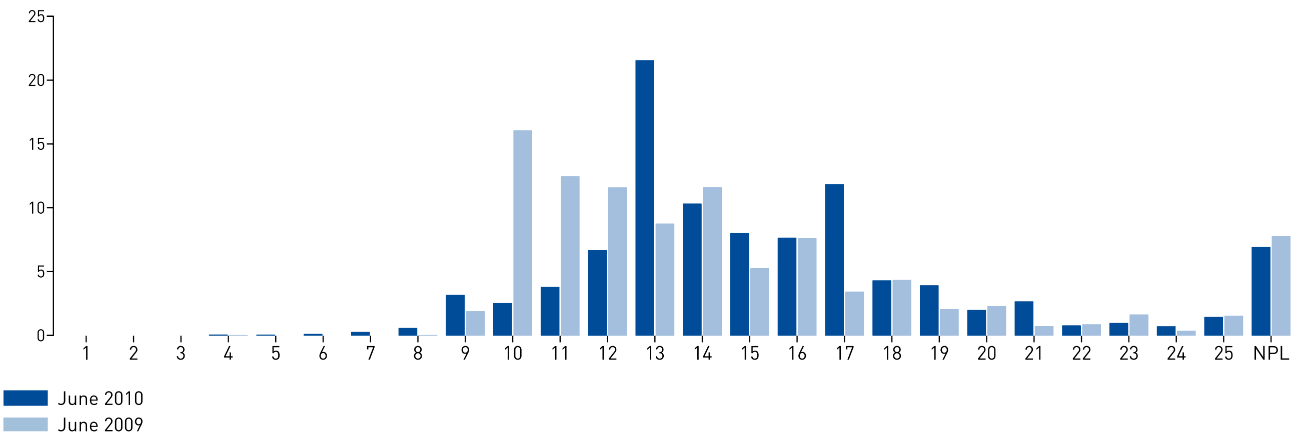
Risk profile for SME retail exposures: EAD% distribution per Basel risk buckets (unaudited)



EAD weighted performing PD%	2.69%	EAD weighted total book PD%	11.06%
EAD weighted performing LGD%	40.44%	EAD weighted total book LGD%	41.17%
Performing book EL/EAD	1.09%	Total book EL/EAD	4.55%

Risk profile for retail mortgage exposures: EAD% distribution per Basel risk buckets (unaudited)

(EAD %)



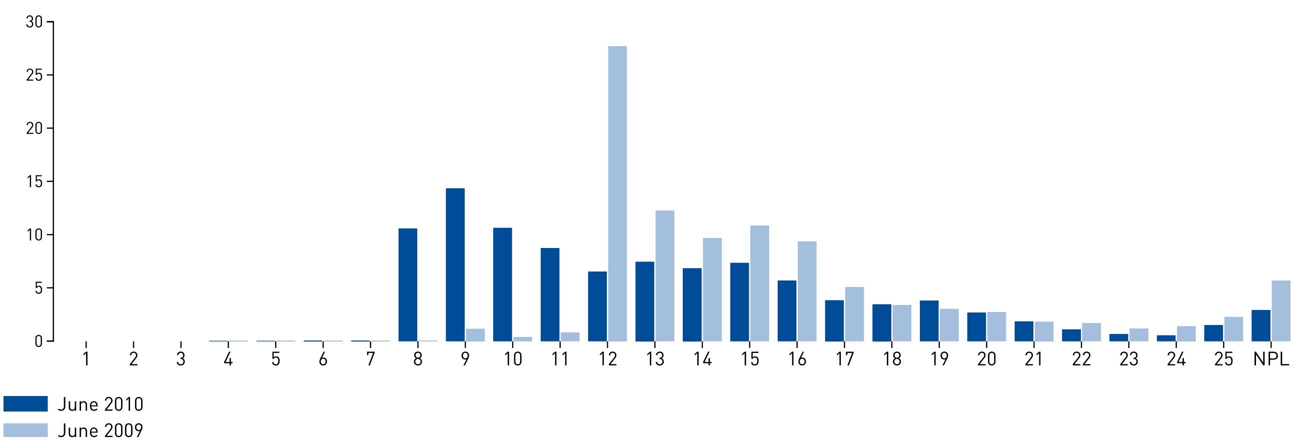
EAD weighted performing PD%	3.47%	EAD weighted total book PD%	13.37%
EAD weighted performing LGD%	13.18%	EAD weighted total book LGD%	13.88%
Performing book EL/EAD	0.46%	Total book EL/EAD	1.86%

The risk profile in the above chart appears to be deteriorating. This is due to rating system recalibrations implemented in September 2009, resulting in an increase in PDs due to the inclusion of the relatively high defaults experienced in recent times.

Subsequent to September 2009, 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. Monthly trend analyses from July 2009 to June 2010 show a once off increase in PDs in September 2009, due to the recalibration, thereafter a consistent decrease due to the positive migration.

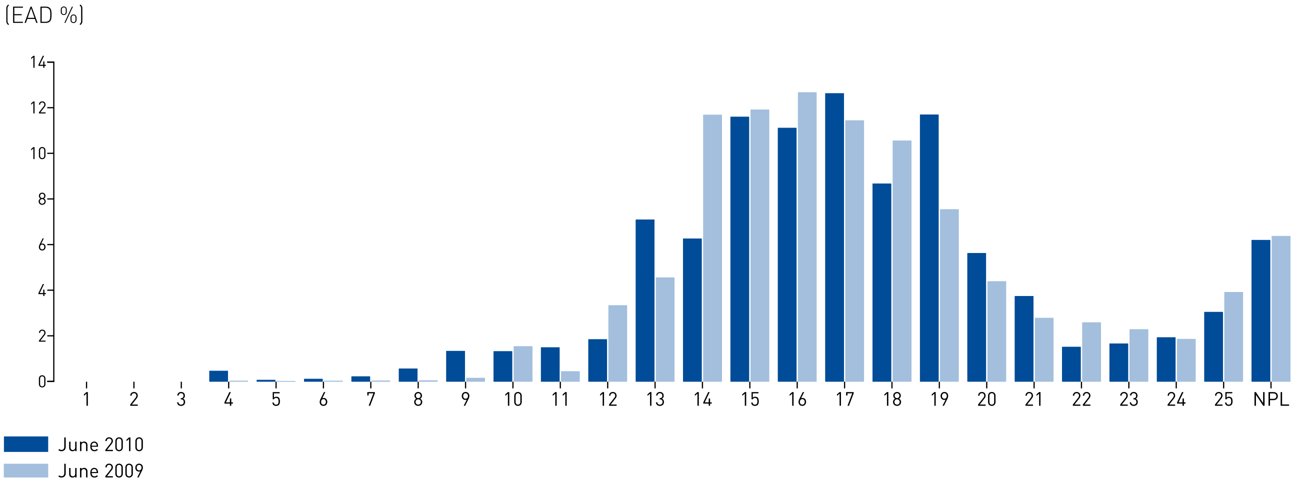
Risk profile for retail revolving credit exposures: EAD% distribution per Basel risk buckets (unaudited)

(EAD %)



EAD weighted performing PD%	2.72%	EAD weighted total book PD%	5.53%
EAD weighted performing LGD%	65.42%	EAD weighted total book LGD%	65.67%
Performing book EL/EAD	1.78%	Total book EL/EAD	3.63%

Risk profile for retail other exposures: EAD% distribution per Basel risk buckets (unaudited)



EAD weighted performing PD%	6.85%	EAD weighted total book PD%	13.07%
EAD weighted performing LGD%	30.43%	EAD weighted total book LGD%	31.12%
Performing book EL/EAD	2.09%	Total book EL/EAD	4.07%

A significant proportion of the retail other asset class is made up of vehicle and asset finance which is secured by the underlying vehicle. As such, the LGD is lower than what would be expected in unsecured other retail portfolios.

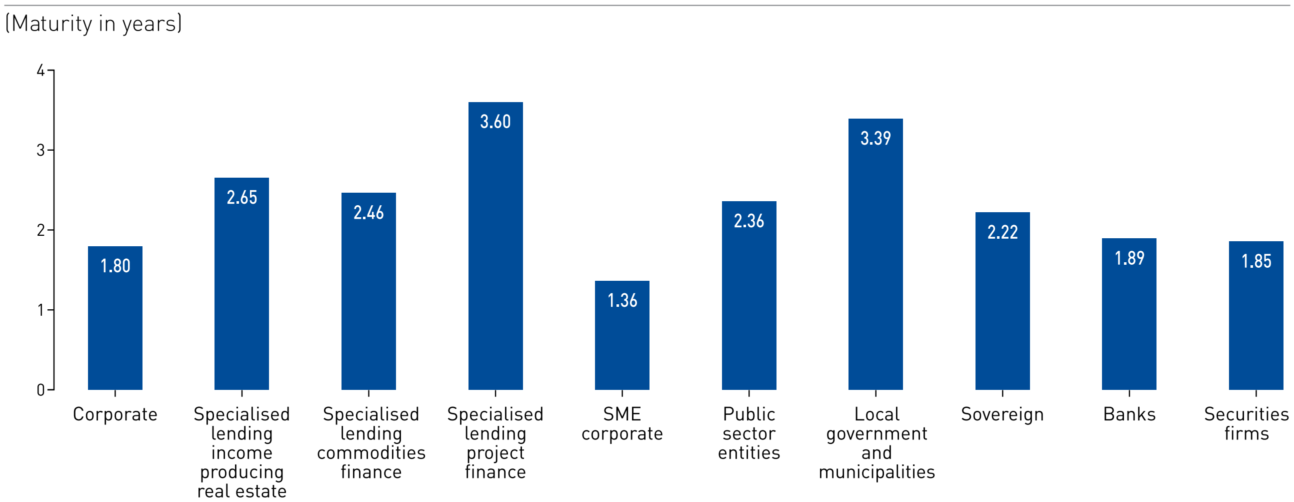
Maturity breakdown

Maturity is defined as the average term to contractual cash flows weighted by the size of each of the cash flows.

Maturity parameters, calculated for each account or exposure, are used as an input in the AIRB regulatory capital calculation for the 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 equal the larger the regulatory capital requirement.

Maturity breakdown of AIRB asset classes within the wholesale credit portfolio is disclosed in the graph below.

Maturity breakdown per wholesale AIRB asset class as at 30 June 2010 (unaudited)



Actual vs expected loss analysis

To provide a meaningful assessment of the effectiveness of the 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.

The 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 2009 and the net specific impairment charge recorded through the income statement for the year ended 30 June 2010 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 2009. 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 FRB. With PD models used for regulatory capital purposes being calibrated to long run default experience, it would be expected that actual losses are larger than regulatory expected losses during the top of the credit cycle and lower than expected losses during the bottom of the credit cycle, as is evident from the table below.

Actual vs expected loss per portfolio segment (unaudited)

	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**

The composition used above differs slightly from that used in the remainder of this section, due to impairment charges being available on business entity level as opposed to AIRB asset class level.

It should also be noted that the regulatory expected loss shown above is based on the regulatory capital models that were applied as at 30 June 2009. The models currently applied have since incorporated the subsequent increase in defaults 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 analysis below, comparing actual and expected outcomes for each of the risk parameters (PD, LGD and EAD) over the year under review.

Expected values are based on regulatory capital models applied as at June 2009. For PDs, this is applied to the total performing book as at June 2009. For LGDs and EADs, it is applied to all facilities that defaulted over the next twelve months.

Actual values are based on actual outcomes over the year July 2009 to June 2010. 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 nominal expected exposure at default (for all accounts that defaulted during the July 2009 – June 2010 time period) to the actual nominal exposure at default for the same accounts. A ratio above 100% indicates an overestimation.

Risk parameters used to determine regulatory expected loss (unaudited)

	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

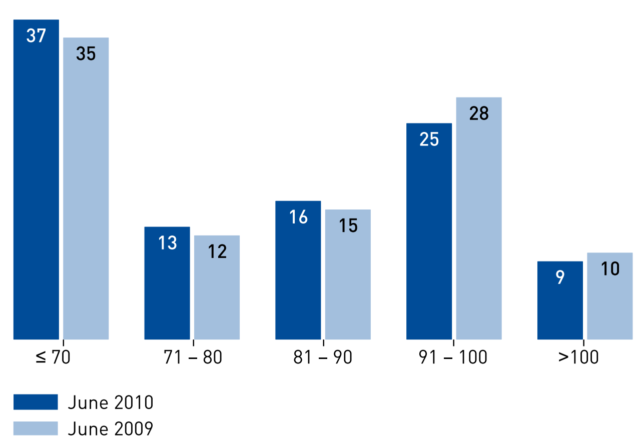
No corporate or bank defaults were experienced during the year under review; hence actual LGDs and EADs are not applicable. PDs used for regulatory capital purposes are based on long run experience and would be anticipated to under predict actual defaults at the top of the credit cycle and over estimate actual defaults at the bottom of the credit cycle. The analysis is based on the regulatory capital models that were applied at 30 June 2009. The models currently being applied have since incorporated the subsequent increase in defaults 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 and expected PDs.

Selected risk analyses

This section provides further information on selected risk analyses of the credit portfolios. The graphs below provide the balance to value distribution for the residential mortgages over time, as well as the aging of the residential mortgages portfolios.

Residential mortgages balance to value – original value (unaudited)

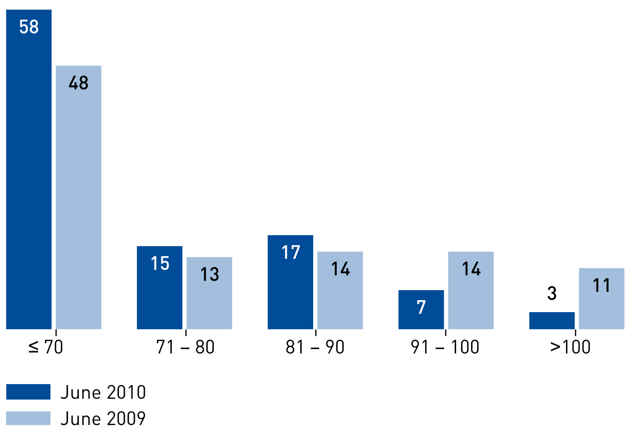
As % of total book (%)



The recent focus on the loan to value ratios for new business resulted in a slight improvement in the balance to original value distribution.

Residential mortgages balance to value – market value (unaudited)

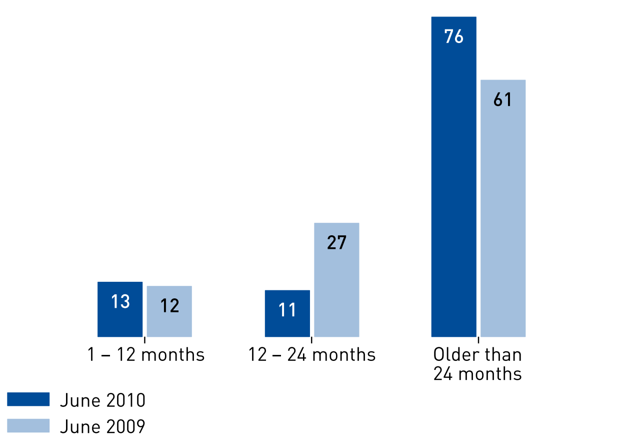
As % of total book (%)



The balance to market value shows a significant proportion of the book in the lower risk category of below 70%.

Residential mortgages age distribution (unaudited)

As % of total book (%)

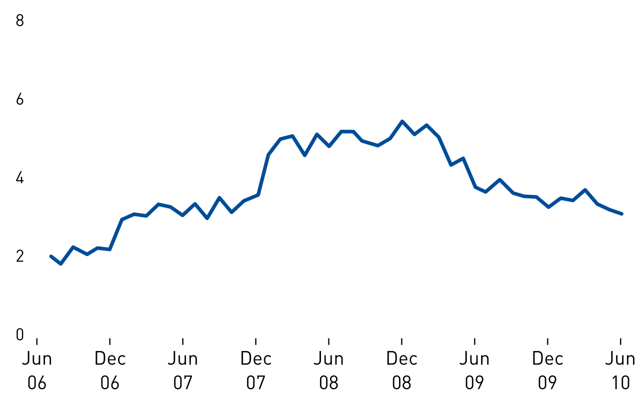


The improvement in the residential mortgages age distribution is a direct result of the reduction in new loans written during the 2009/2010 year due to the credit and pricing policies followed and market demand.

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 percentage of the total advances balance (excluding NPLs).

FNB HomeLoans arrears (unaudited)

(%)

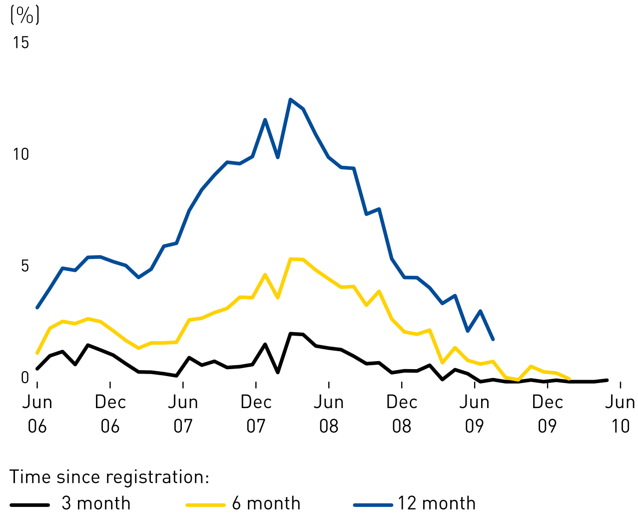


FNB HomeLoans arrears levels have exhibited a decreasing trend in recent months. Similar trends are also observed in the WesBank and Credit card portfolios.

The following graphs provide vintage analyses for FNB HomeLoans and WesBank Retail respectively. Vintage graphs provide the default experience 3, 6 and 12 months after each cohort of business originated. It indicates the impact of origination strategies and the macro environment.

FNB HomeLoans vintage analysis (unaudited)

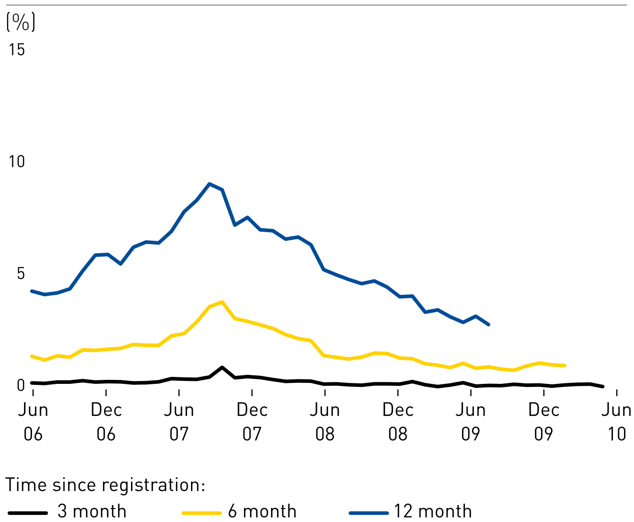
(%)



For FNB HomeLoans the 3, 6 and 12 month cumulative vintage analyses illustrate a marked improvement in the quality of business written since mid 2008, despite further deterioration in macroeconomic conditions. The more recent decreases in the default experience reflect a combination of credit origination strategies and the improvement in macroeconomic conditions.

The Banking Group's South African repossessed properties increased from R178 million (670 properties) at 30 June 2009 to R513 million (1 564 properties) at 30 June 2010.

WesBank retail vintage analysis (unaudited)



The WesBank retail 6- and 12-month cumulative vintage analyses reflect the noticeable improvement in the quality of business written since mid 2007, and the more benign macro environment (i.e. lower rates).

In the asset finance business, repossession and stockholding levels continued to decline relative to the previous comparative period. The gradually reducing trend is likely to continue into the future as the economic environment improves.

9. SECURITISATIONS AND CONDUITS

Key developments and focus

In July 2009, Moody's downgraded all Aaa- and Aa1-rated notes of South African asset backed securities, residential mortgage asset backed securities, commercial mortgage asset backed securities and repackaged securities to Aa2. This was as a result of Moody's downgrading South Africa's local currency ceiling for bonds and deposits to Aa2 from Aaa. This action aligned the global scale structured finance ratings with the revised ceiling. The rating action affected notes in several of the Banking Group's transactions listed on page 168 of this section.

In November 2009 Nitro International Securitisation Company 1 Plc ("Nitro 1 Plc") redeemed the total outstanding notes, which initiated the dissolution of Nitro 1 Plc. A detailed description of the transaction is provided on page 168.

In September 2009 and May 2010 respectively, the Banking Group brought to a successful close Nitro Securitisation 1 (Pty) Limited ("Nitro 1") and Nitro Securitisation 2 ("Nitro 2"), the first and second securitisations of instalment sale agreements originated by WesBank. The objective of the Banking Group to obtain matched term funding at a time when its retail asset book was growing rapidly was achieved. The structures proved resilient despite the recent difficulties experienced in the retail consumer environment. A detailed description of the transaction is provided on page 168.

Introduction and objectives

The Banking Group uses securitisation transactions as a tool to achieve one or more of the following objectives:

- enhance the 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 the special purpose vehicle at carrying value and no gains or losses are recognised. The securitisation entities are subsequently consolidated into FRBH 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 following tables show the traditional and synthetic securitisations currently in place as well as the rating distribution of any exposures retained by the Banking 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 FRB and in each of these transactions FRB acted as originator, servicer and swap counterparty.

Securitisation transactions (unaudited)

R million	Asset type	Year initiated	Expected close	Rating agency	
Traditional securitisations					
Nitro 1	Retail: Auto loans	2006	2009	Moody's	
Nitro 2	Retail: Auto loans	2006	2010	Moody's	
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	
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)	A+ (zaf)	A (zaf)	
Traditional					
At 30 June 2010	**15**	**8**	**–**	**4**	
At 30 June 2009	56	1	–	–	
Synthetic					
At 30 June 2010	**17 991**	**180**	**53**	**–**	
At 30 June 2009	18 083	189	52	4	

It should be noted that while national scale ratings have been used in the information above, global scale equivalent ratings are used for internal risk management purposes.

	Assets securitised	Assets outstanding		Notes outstanding		Retained exposure	
		2010	2009	2010	2009	2010	2009
	16 784	**3 907**	6 206	**4 276**	7 261	**254**	351
	2 000	**–**	181	**–**	245	**–**	5
	5 000	**–**	847	**–**	1 216	**–**	24
	5 000	**736**	1 688	**1 129**	2 095	**39**	73
	1 900	**1 317**	1 439	**1 321**	1 592	**87**	93
	2 884	**1 854**	2 051	**1 826**	2 113	**128**	156
	22 000	**22 000**	22 000	**22 000**	22 000	**19 138**	19 182
	2 000	**2 000**	2 000	**2 000**	2 000	**875**	1 009
	20 000	**20 000**	20 000	**20 000**	20 000	**18 263**	18 173
	38 784	**25 907**	28 206	**26 276**	29 261	**19 392**	19 533

	BBB+ (zaf)	BBB (zaf)	BBB- (zaf)	BB+ (zaf)	BB (zaf)	Not rated	Total
	15	**–**	**–**	**–**	**–**	**210**	**252**
	–	–	–	–	–	294	351
	–	**–**	**–**	**–**	**–**	**914**	**19 138**
	–	–	–	29	2	823	19 182

Downgrades of South African structured finance ratings by Moody's

The Moody's downgrade affected notes in the following FRB transactions:

- Nitro 1 (Classes A14 and A15 downgraded to Aa2).
- Nitro 1 Plc (Classes A downgraded to Aa2).
- Nitro 2 (Classes A12, A13, A14 and A15 downgraded to Aa2).
- Nitro International Securitisation 2 Plc (Classes A downgraded to Aa2).
- Nitro Securitisation 3 (Pty) Limited (Classes A9, A10, A11, A12, A13, A14 and A15 downgraded to Aa2).

Notably, Moody's did point out that the action was not prompted by concerns on the performance of the underlying portfolios. The rating actions were as result of Moody's downgrade of South Africa's local currency ceiling for bonds and deposits to Aa2 from Aaa. This action aligned the global scale structured finance ratings with the revised ceiling.

Dissolution of Nitro International Securitisation Company 1 Plc

Nitro 1 Plc was launched on 27 November 2006 and issued €212 million in Secured Amortising Floating Rate Notes, due in 2012. On the payment date of 16 November 2009, Nitro 1 Plc redeemed the total outstanding notes, which initiated the process of the dissolution of Nitro 1 Plc. The secured parties (other than the note holders, the trustee and the corporate services company) acknowledged and confirmed that the appointment as per the transaction documents had ended. The dissolution of Nitro 1 Plc is expected to be completed in the next financial year.

Exercise of clean up call option for Nitro 1 and 2

Nitro 1 was launched on 28 March 2006 with a size of R2 billion and a 7% subordination below the Aaa rated notes. The subordinated loan of R20 million and the Class D notes (from March 2008) were held by the originator (FRB). There was an excess spread of 2%. By 14 September 2009, notes to the value of R186.5 million were outstanding, representing less than 10% of the outstanding principal amount of the notes on issue date. Nitro 1 redeemed the total outstanding balance by exercising the clean up call option, as outlined in Clause 7.3 of the Offering Circular. All the outstanding notes were redeemed in full on 14 September 2009, which was also the next interest payment date.

Nitro 2 was launched on 8 September 2006 with a size of R5 billion and an 8% subordination below the Aaa rated notes. FRB, the originator, held the subordinated loan of R95 million. There was an excess spread of 1.2%. By 12 May 2010, notes to the value of R440.9 million were outstanding, representing less than 10% of the original principal amount. On 12 May 2010, the next interest payment date, Nitro 2 redeemed the total outstanding balance by exercising the clean up call option as outlined in Clause 7.3 of the Offering Circular.

This brought to a successful close the first and second securitisations of instalment sale agreements originated by WesBank. The objective of the Banking Group to obtain matched term funding at a time when its retail asset book was growing rapidly was achieved. The structures proved resilient despite the recent difficulties experienced in the retail consumer environment.

Investors in both securitisations were able to, without suffering any losses, realise investments earlier than the legal maturity. Given the recent turmoil in credit markets, credit spreads had widened significantly compared to levels at inception of the transactions. The clean up calls enabled investors to benefit from reinvestment opportunities at more attractive credit spreads for similarly rated instruments.

Conduit programmes and fixed income funds

The Banking Group's conduit programmes are debt capital market vehicles, which provide investment grade corporate South African counterparties with an alternative funding source to 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 ordinary credit approval process applicable to any other corporate exposure held by the Banking.

The following tables show the programmes currently in place, the ratings distribution of the underlying assets and the role played by the Banking Group 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					Non recourse investments		Credit enhancement provided	
R million	Underlying assets	Year initiated	Rating agency	Programme size	2010	2009	2010	2009
Conduits								
iNdwa	Corporate and structured finance term loans	2003	Fitch	15 000	**7 373**	7 287	**–**	–
iVuzi	Corporate and structured finance term loans	2007	Fitch	15 000	**5 772**	5 017	**758**	679
Total					**13 145**	12 304	**758**	679
Fixed income fund								
iNkotha	Overnight corporate loans	2006	Fitch	10 000	**2 164**	**3 623**	**–**	**–**
Total					**2 164**	3 623	**–**	–

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 2010	**–**	**1 436**	**633**	**1 487**	**4 683**	**1 480**	**2 592**	**835**	**13 146**
At 30 June 2009	–	1 551	341	2 076	4 640	2 259	1 020	417	12 304
Fixed Income Fund									
At 30 June 2010	**–**	**656**	**–**	**–**	**1 194**	**–**	**116**	**197**	**2 163**
At 30 June 2009	–	1 209	–	–	1 107	–	1 002	305	3 623

FRB'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 an overview of the liquidity facilities issued by FRB.

Liquidity facilities (unaudited)

R million	Transaction type	2010	2009
Transaction			
Own transactions		**10 442**	9 540
iNdwa	Conduit	**5 898**	5 653
iVuzi	Conduit	**4 544**	3 887
Third party transactions	Securitisations	**1 577**	2 160
Total		**12 019**	11 700

** It is important to note that from an accounting perspective, upon consolidation the underlying assets in the entities not recognised on the balance sheet are reconsolidated back onto FRB's balance sheet.*

All liquidity facilities in the transactions given 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 FRB. The conduit programmes are consolidated into FRBH 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	2010	2009	2010	2009	2010	2009
Risk weighted bands						
= <10%	**17 840**	17 840	**122**	122	**–**	–
>10% = <20%	**12 042**	11 724	**88**	92	**–**	–
>20% = <50%	**180**	233	**6**	9	**–**	–
>50% = <100%	**931**	1 013	**66**	57	**–**	–
>100% = <650%	**773**	711	**198**	152	**–**	–
1 250%/deduction	**414**	519	**–**	–	**414**	519
Total	**32 180**	32 040	**480**	432	**414**	519

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 an leasing	Total
Traditional	–	187	38	225
Synthetic	190	–	–	190
Total	190	187	38	415

The Banking Group has not securitised any exposures that were impaired or past due at the time of securitisation. None of the securitisations transactions are subject to the early amortisation treatment.

10. COUNTERPARTY CREDIT RISK

Key developments and focus

During the year under review, focus was placed on the interaction of risk factors in the counterparty risk domain. In depth reviews of the business, clients and processes were undertaken in all the trading areas. Improvements were made where necessary and gaps were filled and a new, more conservative margining methodology was implemented to account for the build up of concentrations and illiquidity. Market risk based stress loss methodologies (liquidity adjusted distressed expected tail loss plus event risk) were further embedded in counterparty risk and margining requirement quantification in line with the recommendations of the BCBS. In the next financial year the consequential risk of trading activities will be subject to an in depth review.

Introduction and objectives

Counterparty credit risk is closely related to credit risk in that it is concerned with a counterparty's ability to satisfy its obligations under a contract that has a positive economic value to a bank at time of settlement. It differs from 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 Banking Group's trading and client execution businesses and the objective of counterparty credit risk management is to ensure that risk is only taken within specified limits in line with the Banking Group's risk appetite framework as mandated by the Board.

Organisational structure and governance

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 Exposure.

In this respect, counterparty credit risk governance aligns closely with the Banking 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 (page 120), and the credit risk governance section (page 137) 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 on establishing appropriate limits at counterparty level.

To this end, appropriate quantification methodologies of potential future exposure over the life of a product, even under distressed market conditions, are developed by a combined credit and market risk team and submitted to technical risk committees for approval.

Individual counterparty risk limit applications are prepared using the approved risk quantification methodologies and assessed and approved at the relevant credit committees, with 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 and desk level reports are used to ensure sufficient limit availability prior to executing additional trades with a counterparty.

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
- 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 respective 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 Finance, risk and capital committee, the ERM function and the RCC committee.

Counterparty credit risk mitigation

Where appropriate, various instruments are used to mitigate the potential exposure to various counterparties. These include financial or other collateral in line with common credit risk practices, as well as netting agreements, guarantees and credit derivatives.

The Banking 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 setoff and the intention to settle on a netted basis exist.

Discussion of the risk profile

The following table provides an overview of the counterparty credit risk arising from derivative and structured finance transactions of FRB.

Composition of counterparty credit risk exposure (unaudited)

R million	2010	2009
Gross positive fair value	90 367	134 055
Netting benefits	(36 693)	(60 925)
Netted current credit exposure before mitigation	53 674	73 130
Collateral value	(43 701)	(54 513)
Netted potential future exposure	14 511	16 328
Exposure at default	24 484	34 945

There was a change in the methodology used to populate the regulatory returns from product type to asset class, which resulted in a decrease from 2009 to 2010 in the netting benefits and the exposure at default.

FRB 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)

	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	–	–	–	–

	2009			
R million	Credit default swaps	Total return swaps	Other	Total
Own credit portfolio				
– protection bought	2 264	–	5 694	7 958
– protection sold	–	–	–	–
Intermediation activities				
– protection bought	–	–	–	–
– protection sold	970	–	–	970

11. MARKET RISK

Key developments and focus

RMB's executive management team refined the approach used to determine market risk appetite and capacity. Absolute loss thresholds for market risk, as defined at the beginning of the financial year, were embedded in daily operational processes and performance against these loss thresholds was successfully monitored throughout the year. For the next financial year the Banking Group will be focusing on updating its market risk stress data set in line with the new regulatory requirements released by the BCBS in July 2009, titled "Revisions to the Basel II market risk framework". Furthermore, the Banking Group is focusing on further integrating its global operations, specifically the African and Indian operations, into the overall market risk management process.

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 Banking 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 risk 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 the appetite for market risk vests with the Board, which also retains independent oversight of the market risk related activities through the RCC committee and its Market and Investment Risk subcommittee ("MIRC").

Separate governance forums, such as the RMB 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 expected tail loss ("ETL") measure and ETL limits. The ETL measure used by RMB is a liquidity adjusted 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. 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, holding periods ranging between 10 to 90 days are used. Historical data sets are chosen to incorporate periods of market stress.

Value at Risk ("VaR") calculations over holding periods of one 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 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 individual 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

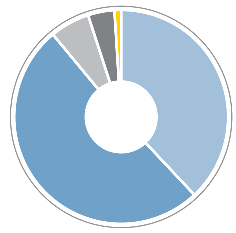
The internal VaR model for general market risk was approved by the regulator for local trading units and is consistent with the methodologies as stipulated under the Basel II framework. For all international legal entities, the Standardised Approach is used for regulatory market risk capital purposes.

Economic capital for market risk is calculated using liquidity adjusted ETL plus an assessment of specific risk.

Discussion of the trading book market risk profile

The following chart shows the distribution of exposures per asset class across the Banking Group's trading activities at 30 June 2010 based on the ETL methodology.

Composition of ETL exposure (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 30 June 2010 reflect a downward trend in the second half of the year, predominantly arising from a reduction of risk exposures in the inflation book and the decision to aggregate equity investment risk positions subject to market price risk into a separate classification reporting category (see equity investment risk section on page 176.)

10 day 99% VaR analysis by instrument (audited)

	2010				2009
R million	Min[1]	Max[1]	Ave	Period end	Period end[2]
Risk type					
Equities	19.0	303.2	130.7	66.4	287.4
Interest rates	38.5	170.3	83.1	53.3	158.0
Foreign exchange	7.1	108.1	34.6	9.0	117.7
Commodities	4.0	52.0	22.3	7.1	71.2
Traded credit	–	3.4	0.4	0.1	8.4
Diversification effect				(52.9)	(263.7)
Diversified total	53.2	420.3	205.8	83.0	379.0

Distressed ETL analysis by instrument (audited)

R million	2010 Min[1]	2010 Max[1]	2010 Ave	2010 Period end	2009 Period end[2]
Risk type					
Equities	104.2	535.9	343.7	160.4	431.8
Interest rates	72.7	836.4	330.6	119.1	525.2
Foreign exchange	16.9	203.7	85.0	20.2	169.7
Commodities	8.3	92.8	40.5	11.1	108.9
Traded credit	0.1	13.7	1.9	1.6	15.0
Diversification effect				(105.4)	(457.2)
Diversified total	134.7	1 081.4	600.1	207.0	793.4

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 *ETL measures for the current period are not directly comparable to those reported in prior periods due to changes in the diversification methodology, as well as the introduction of liquidity adjusted ETL measures and the exclusion of banking book exposures managed by Group Treasury as these are reported under the banking book interest rate risk section. The diversified 90 day ETL measure for the equity investment book subject to market price risk as at 30 June 2010 is R574 million (interest rates: R1.4 million, equities: R588 million, foreign exchange: R56 million).*

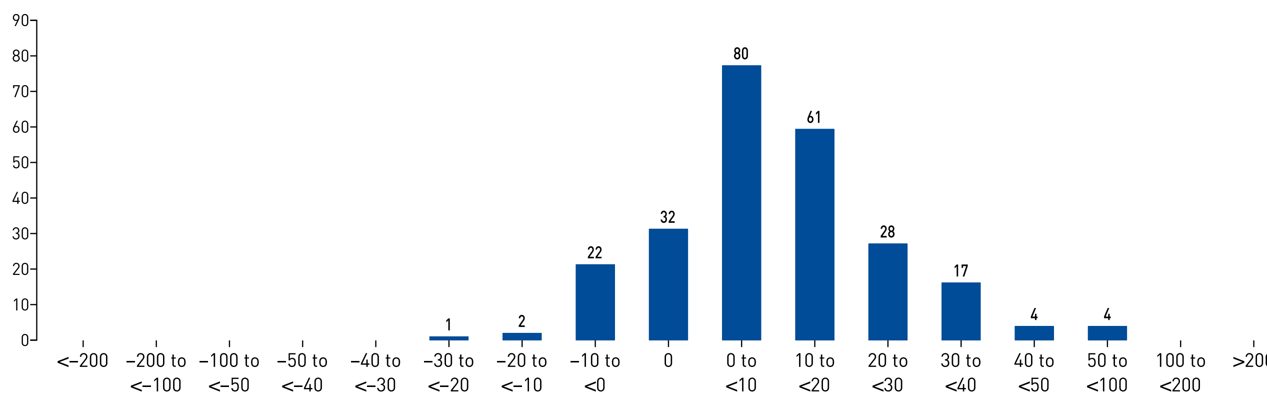
The diversified 1 day 99% VaR as at 30 June 2010 is R43.2 million (interest rates: R21.4 million, equities: R25.0 million, foreign exchange: R6.8 million, commodities: R3.4 million, traded credit: R0.01 million).

Distribution of daily trading earnings from trading units

The histogram below shows the daily revenue for the trading units for the year under review.

Distribution of daily earnings (unaudited)

(Frequency: days in a period)

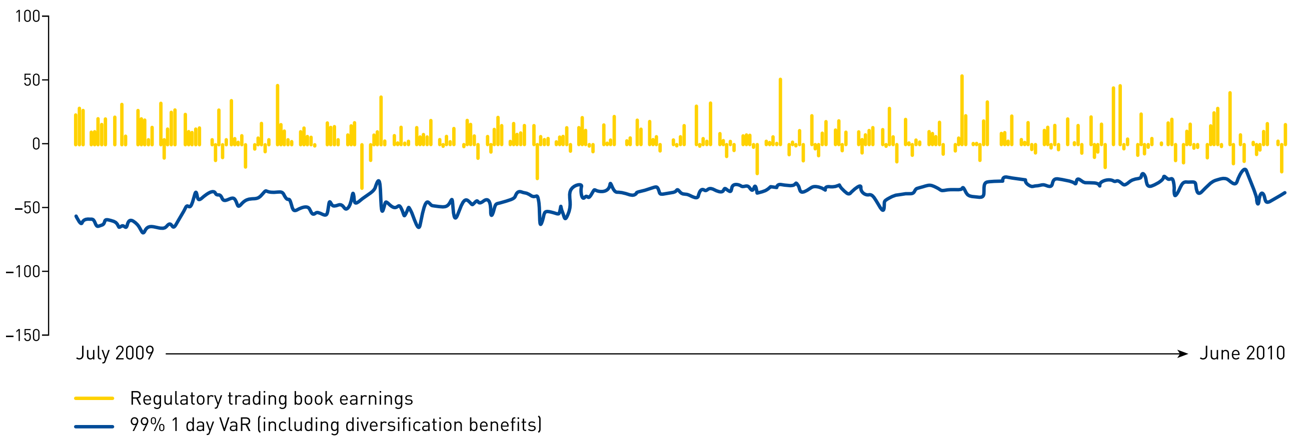


Back testing: daily regulatory trading book earnings and VaR

The Banking 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)

(R million)



Over the year there were no instances of actual trading losses exceeding the corresponding VaR estimate. This implies that the Banking Group's model provided reasonably accurate quantification of market risk.

FirstRand International

FirstRand Ireland Plc ("FRIE") and FirstRand India ("FRIN") hold the most material exposure to market risk amongst the international subsidiaries. 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 year 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 Banking Group's market risk framework. During the year under review, market risk was contained within acceptable limits and was effectively managed by the Banking Group across its African subsidiaries.

12. EQUITY INVESTMENT RISK

Key developments and focus

Governance and investment processes were robust throughout the year and reporting on this asset class received significant focus. The legacy assets suffered diminution in value for a variety of reasons, most notably the continuing risk aversion and consequent illiquidity in global markets. Private Equity division earnings performance was dominated by the Life Healthcare listing. Updated risk appetite and earnings growth targets were set by executive management. In the next financial year, the Banking Group will focus on refining its portfolio based investment stress testing methodologies.

Introduction and objectives

Portfolio investments in equity instruments are primarily undertaken in RMB, but certain equity investments have been made by WesBank and a small residual portfolio is reported and managed by 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 the 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 credit committee, as appropriate.
- The RCC committee and the MIRC are responsible for the oversight of investment risk measurement and management across the Banking Group.
- The RMB CRO, 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 the 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, in 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. The Banking Group seeks to take a number of seats on the company's Board and maintains close oversight through ongoing 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 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.

The consolidated financial statements include the assets, liabilities and results of operations of all equity investments in which the Banking 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 Banking 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 Banking Group has joint control over the economic activity of the joint venture through a contractual agreement.

More detail on accounting policies regarding investments in associates and subsidiaries are discussed in Accounting Policy notes 3 and 4.

Measurement of risk exposures

The Banking 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).

Equity investment risk is measured on an ongoing basis in terms of exposure distribution, regulatory and economic capital requirements, as well as scenario analyses of potential event risks and associated write downs in value.

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 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 utilised 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 will be measured based on a 90 day ETL calculated using RMB's Internal Market Risk Model. The ETL risk measure will be supplemented by a measure of the specific (idiosyncratic) risk of the individual securities per specific risk measurement methodology.

Discussion of the risk profile

The overall macroeconomic environment resulted in low new business volumes during the year under review.

FirstRand, through its RMB division, increased its stake in Makalani Holdings Limited from 26% to 77% as part of Makalani's delisting on 31 May 2010. FirstRand, through its Momentum subsidiary, holds a further 14% stake in Makalani.

The most notable divestment was through the listing of Life Healthcare as discussed in more detail in the RMB operating review on page 45.

A number of listed investment positions were included in the equity investment risk ETL process during the current year, following improvements made in the assessment of underlying liquidity of trading positions, as well as improvements in the quantification of listed investment exposures. These positions were previously reported as part of the trading ETL process. The ETL (on a total listed investment exposure of R1 376 million) amounted to R575 million at 30 June 2010.

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 R375 million on investment fair values.

During the past year RMB's Dealstream portfolio was further derisked through additional impairments raised. This portfolio was taken over in terms of Dealstream's futures clearing agreement and applicable JSE rules when Dealstream, a former clearing client, was placed into default in 2008. RMB continues to hold and manage these exposures as part of its legacy portfolio to realise value over the longer term. Remaining exposures, in the legacy portfolio, amounted to R1 602 million at 30 June 2010 (R3 166 million at 30 June 2009).

Total realised gains for the Banking Group recognised directly in the income statement for the year amounted to R567 million.

The following table provides information relating to equity investments in the banking book of those entities regulated as banks within the Banking Group.

Investment valuations and associated economic capital requirements (unaudited)

	2010			2009		
R million	Publicly quoted	Privately held	Total	Publicly quoted	Privately held	Total
Carrying value disclosed in the balance sheet	2 415	4 106	6 521	2 179	4 861	7 040
Fair value*	2 415	6 708	9 123	2 179	7 958	10 137
Total unrealised gains recognised directly in the balance sheet through equity instead of the income statement**	769	93	862	666	132	798
Latent revaluation gains not recognised in the balance sheet**	–	2 602	2 602	–	3 097	3 097

** Fair values for listed private equity associates based on their values in use exceeded the quoted market prices by R72 million (2009: R511 million).*

*** These unrealised gains or losses are not included in Tier 1 or Tier 2 capital.*

13. FOREIGN EXCHANGE AND TRANSLATION RISK

Key developments and focus

As an authorised dealer in foreign exchange, the Banking Group has a restriction on the gross amount of foreign currency holdings and other foreign exposure it may hold, which is capped at 25 per cent 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 per cent 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. 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 and allowing opportunity for expansion and growth. The internal limits and utilisation are continuously monitored and reviewed when necessary.

The Banking Group's NOFP position is also well within the regulatory limits of approximately $500 million. Senior management has also implemented an internal prudential limit, again well below the regulatory limit but large enough to cater for the hedging, settlement and execution positions of the business units. Group Treasury is the clearer of all currency positions in FirstRand and manages foreign currency related risks and is, therefore, tasked with the responsibility for both the prudential limits on foreign exposure and the overnight open positions.

Introduction and objectives

Foreign exchange risk arises from placement, lending and investing activities in a currency other than the presentation currency, foreign currency funding, from facilitating client foreign exchange transactions and from authorised trading and hedging activities in a currency other than the presentation currency. The objective of foreign exchange risk management is to ensure that currency mismatches are managed within the risk appetite for such risk 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 consequent of having offshore operations. It is not an actively hedged risk in its own right in terms of Banking Group policy.

Organisational structure and governance

Foreign exchange risk results from the activities of all the franchises, but management and consolidation of all these positions occur at present in one of two business units. Client flow is consolidated under and managed by RMB FICC. Foreign currency funding, foreign exposure and currency 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 is overseen by MIRC, a subcommittee of the RCC committee, and mismatch risk is governed through the Asset and liability management committee ("ALCO") process and its International ALCO subcommittee. In addition to the committee structures, business units charged with frontline management of the risks have deployed risk managers within their units who assess the risks on an ongoing basis.

Assessment and management

Group Treasury and RMB's FICC manage the mismatch and open positions on a daily basis within limits. Any breaches are reported through the risk management structures and remediation is monitored by both the deployed risk manager and ERM.

Discussion of risk profile

Over the past year no significant foreign exchange positions have been run apart from the translation risk in strategic foreign investments and 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 Bank and to cater for increased buffers and trading positions for RMB divisions. In addition, the macro foreign exposure of the Banking Group remained far below both regulatory and board limits and there is significant headroom for expansion into foreign assets.

14. FUNDING AND LIQUIDITY RISK

Key developments and focus

During the year, a number of additional measures were taken to further protect the Banking Group against negative stress events:

- During January 2010 an exercise was undertaken in conjunction with members of the Banking Supervision Division of the SARB, external consultants and FirstRand senior executives. The exercise simulated a live stress event (based on a bank specific event) which resulted in a perceived loss of confidence in the Banking Group, and simulated how it would have managed over a four day period. The exercise proved highly successful and this method of readiness testing will be revisited from time to time.
- Liquidity buffers have been enhanced, both in terms of quantum and nature of the assets in the portfolio, which is now predominantly comprised of government treasury bills, stocks and debentures.
- Additional internal sources of stress funding were identified.
- Emerging effects of proposed new legislation, such as Basel III proposals received attention. The Banking Group has been closely engaged with regulatory authorities both locally and internationally in order to gauge the effect on it and the markets in which it operates.
- The international financial position has also been carefully managed, with liquidity buffers placed in European Central Bank stocks considered to be safe havens even under stress conditions.

Overall the Banking Group has not experienced untoward pressure in any of the jurisdictions it operates in.

Introduction and objectives

The Banking Group applies a comprehensive definition of liquidity risk and distinguishes two 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; and
- 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.

The Banking 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 an ancillary framework to the BPRMF, the LRMF is approved by the Board and sets out consistent and comprehensive guidelines for outlining the standards, principles, policies and procedures to be implemented throughout FRBH to effectively identify, measure, report and manage liquidity risk.

The FRBH 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 the FRBH ALCO. FRBH ALCO's primary responsibility is the assessment, control and management of both liquidity and interest rate risk for FRB, FNB Africa and international subsidiaries and branches, either directly or indirectly, through providing guidance, management principles and oversight to the ALM functions and ALCOs in these subsidiaries and branches.

FirstRand Bank Limited

Liquidity risk for FRB (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 Banking Group's liquidity position, exposures and auxiliary information are reported bi-monthly 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 FRBH ALCO, which is the designated governance and risk management forum for liquidity risk.

FNB Africa

Individual ALCOs have been established in each of the FNB African 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 presented to FRBH ALCO on a regular basis and the management and control of liquidity risk in the subsidiaries follow the guidance and principles that have been set out and approved by FRBH ALCO.

International subsidiaries and branches

Similarly, liquidity risk for international subsidiaries is managed on a decentralised basis in line with the Banking Group's LRMF. Each international subsidiary and branch reports into International ALCO, which is a subcommittee of FRBH ALCO and meets on quarterly basis to review and discuss region specific issues and challenges for liquidity and interest rate risk.

An application was lodged with the Financial Services Authority ("FSA") seeking a waiver on a "Wholefirm Liquidity Modification application" basis in respect of dispensation granted where the FSA considers local risk reporting and compliance of the parent bank sufficient to waive FSA requirements for the London branch. The outcome of the application is still pending.

Assessment and management

As indicated in the preceding section, liquidity risk for FRB is managed centrally by a team in Group Treasury. The Banking 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 Banking 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 following are the primary tools and techniques employed for the assessment of liquidity risk:

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. Three forecasting models for this purpose have been developed:

- *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 Banking Group's reputation.

For each of these categories, multiple key risk indicators are defined that highlight potential risks within defined thresholds that distinguish two levels of severity 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 FRBH ALCO and the RCC committee on a monthly and a quarterly basis, respectively.

Stress testing and scenario analysis

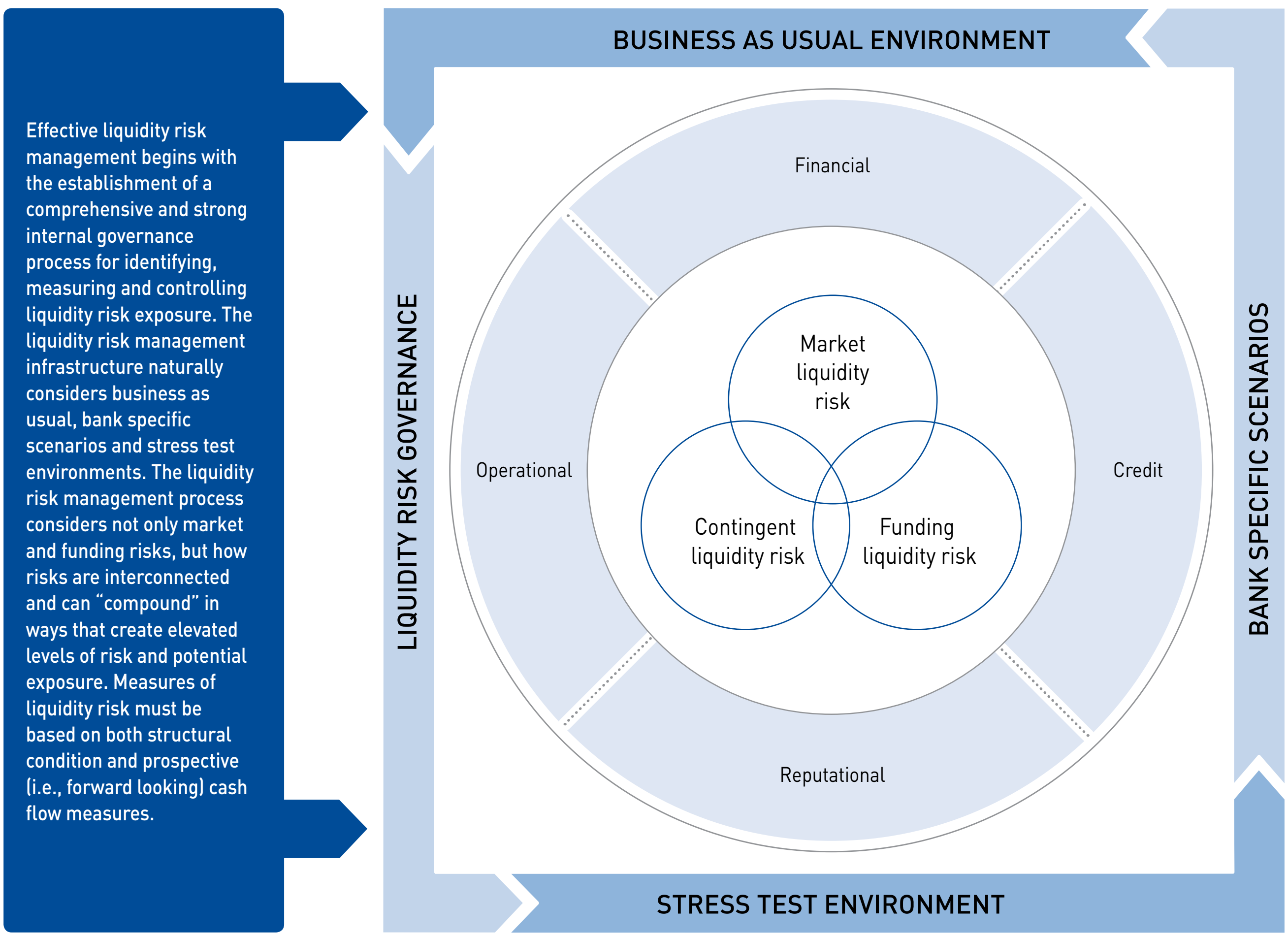
Regular and rigorous stress tests are conducted on the funding profile and liquidity position as part of the overall stress testing framework with a focus on:

- 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 Banking Group.

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 considers not only market and funding risks, but how risks are interconnected and can "compound" in ways that create elevated levels of risk and potential exposure. Measures of liquidity risk must be based on both structural condition and prospective cash flow measures.

Liquidity risk governance



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

MANAGEMENT OF LIQUIDITY RISK		
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 range 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 Banking Group.

Liquidity risk management cycle

These management activities are part of the liquidity risk management cycle, which is illustrated in the chart below.

Liquidity risk management lifecycle

The target liquidity risk profile is determined by the risk appetite framework. It is compared to the current risk profile as set out in the LRMF and evaluated under a range of scenarios and business conditions, including economic and event stresses. These analyses in turn inform the size of liquidity buffers held in excess of statutory requirements. Liquidity buffers are actively managed, high quality, highly liquid assets that are available as protection against unexpected events or market disruptions.

As an outcome of these analyses, the current funding profile is adjusted through a range of short, medium and long term actions to ensure that the Banking Group remains within its chosen risk profile. The cost of these actions is then transferred to the business units through the internal matched maturity funds transfer pricing mechanism. It should be noted in this context that financial transactions using special purpose vehicles are treated as part of the balance sheet and are considered in the liquidity risk management cycle and thus managed consistently and conservatively across the Banking Group.

Regulatory developments

The recent global financial crisis is expected to result in increased political and regulatory pressure on banking systems worldwide. Some of these pressures are likely to materialise in South Africa, particularly given its G20 membership. For example, the SARB is expected to implement the BCBS proposals on capital and liquidity (the so called "Basel III" proposals).

The impact of the proposed new requirements is expected to be especially significant from a liquidity perspective and is discussed in the COO/CFO report on page 14.

Discussion of the risk profile

Undiscounted cash flow

The table below presents the undiscounted cash flows of liabilities and includes all cash outflows related to the 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 in the balance sheet;
- all instruments held for trading purposes are included in the "call to 3 month" bucket and not by contractual maturity because trading instruments are typically held for short periods of time; and
- cash flows relating to principal and associated future coupon payments have been included on an undiscounted basis.

Liquidity cash flows (undiscounted cash flows (audited)

	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

	2009			
		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	496 297	344 588	85 359	66 350
Short trading positions	23 434	23 434	–	–
Derivative financial instruments	55 402	50 639	1 222	3 541
Creditors and accruals	7 007	3 220	2 806	981
Long term liabilities	14 598	99	303	14 196
Policyholder liabilities under insurance contracts	1 669	202	27	1 440
Policyholder liabilities under investment contracts	77	5	8	64
Loans from insurance group	6 396	3 930	32	2 434
Financial and other guarantees	24 942	21 956	1 190	1 796
Facilities not drawn	57 786	48 851	215	8 720

Contractual discounted cash flow analysis

The following table represents the contractual discounted cash flows of assets, liabilities and equity for the Banking 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 as more short term obligations than short term assets tend to mature.

In addition, therefore, to the analysis shown in the table above, the Banking 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 as a framework to manage this mismatch on an ongoing basis.

Contractual discounted cash flow analysis (audited)

	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)	–

	2009			
		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	646 833	248 044	56 664	342 125
Total equity and liabilities	646 833	438 796	86 780	121 257
Net liquidity gap	–	(190 752)	(30 116)	220 868
Cumulative liquidity gap	–	(190 752)	(220 868)	–

As illustrated in the table above, the negative contractual liquidity short term gap has improved in short end on a cumulative basis during the year under review. This is a consequence of the following market conditions and management actions during the year under review:

- growing stable and long term funding;
- building up stress funding buffers both locally and offshore; and
- muted asset growth in the banking sector.

15. INTEREST RATE RISK IN THE BANKING BOOK

Key developments and focus

IRRBB is predominantly driven by the endowment effect caused by liabilities and capital that are rate insensitive. The effect arises where falling interest rates result in lower interest earned, but interest paid does not drop to the same extent. To mitigate the effect, hedges are put into place that protect against falling interest rates. Conversely rising rates result in higher margins (before bad debts) and do not require the same degree of hedging. Hedging can be performed in a number of ways. The two most common are to put derivative instruments into play (usually receive fixed, pay float interest rate swaps) or to structure the financial position to maximise fixed interest receipt product mix. Given the general consensus view held by the market for some time as to the direction of interest rate movements, it was very difficult to hedge economically. Nevertheless, by entering the market at opportune times, some derivatives hedging was achieved. These transactions were timed to mature when the interest rate is expected to turn. In addition, particularly in entities where no derivative markets exist, the structure of the financial position has shifted as indicated. This is particularly the case in the sub Saharan African subsidiaries. The Banking Group also looks for natural hedges between its credit and endowment portfolios, but notes that there are normally large lead and lag effects.

Introduction and objectives

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 positions not recognised in the balance sheet;
- yield curve risk arises when unanticipated changes in the shape of the yield curve adversely affects the income or underlying economic value;
- basis risk arises from an imperfect correlation in the adjustment of the rates earned and paid on different instruments with similar repricing characteristics; and
- optionality is the right, but not the obligation, of the holder to alter the cash flow of the underlying position, which may adversely affect the Banking 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 Banking Group's earnings and capital base. Effective interest rate risk management practices that contain the interest rate risk exposure within prudent levels, as stipulated by the risk appetite, are essential to the safety and soundness of the enterprise. To this end, various board and internal limits exist which limit both current and long term risk taken. Where practical, the 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 financial position and earnings level from potential adverse effects arising from exposure to various components of interest rate risk as described above.

Organisational structure and governance

The control and management of interest rate risk is governed by the Framework for the Management of IRRBB, which is an ancillary framework to the BPRMF. Due to regulatory requirements and the structure of the Banking Group, different management approaches, reports and lines of responsibility exist across the various parts of the Banking Group, as discussed below.

All IRRBB related activities are overseen and reported to the FRBH ALCO, a subcommittee of the RCC committee, as illustrated in the governance structure on page 122. The FRBH 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.

Whilst the margin and performance management aspects of interest rate risk management fall within the purview of the respective businesses and the central Group Treasury function, ERM provides central oversight and control across the activities of the deployed risk management functions and Group Treasury.

Interest rate risk, unlike credit risk, can only be sensibly assessed and managed at an aggregate level. The net interest rate risk profile of the domestic banking book (i.e. FRB, excluding RMB) is centrally managed by the unit responsible for the house macro view in Corporate Centre and Group Treasury.

RMB has a delegated mandate from FRBH ALCO for the management of its interest rate risk (under the market risk framework) as well as for ensuring that the limits of the Banking Group's risk appetite are observed. Interest rate risk management of both Group Treasury and RMB is overseen and controlled by a team in the central ERM function. The RMB banking book interest rate risk exposure was R69.5 million on a 10 day ETL basis at 30 June 2010. The Market risk section of this report provides a description of the ETL methodology on page 173.

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 FRBH ALCO on a monthly basis. International subsidiaries and branches are overseen by the International ALCO, a subcommittee of FRBH ALCO, which provides central oversight and monitoring reflective of each region's specific issues and requirements.

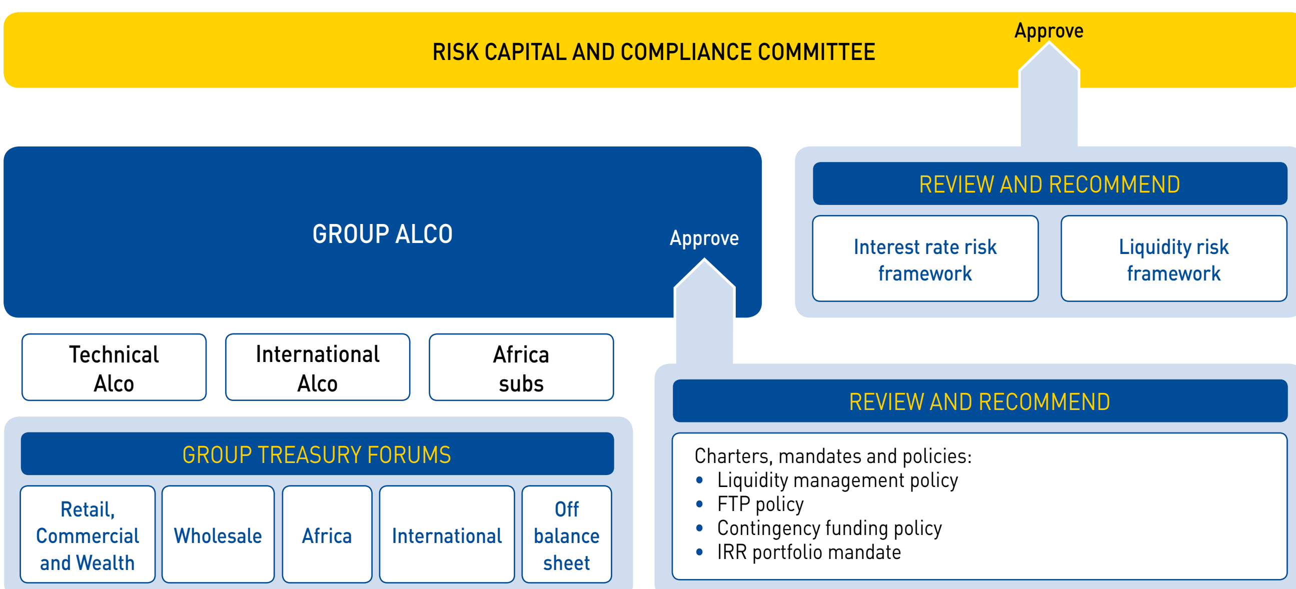
Assessment and management

A number of measurement techniques to quantify interest rate risk as defined above, are employed focusing both on the potential risk earnings as well as the potential impact on overall economic value.

In line with industry practice the pertinent analysis includes parallel rate shocks, yield curve twists, complex stress tests and static repricing gap analysis. Results from these analyses are reported to FRBH ALCO for review on a monthly basis. Additionally, daily MTM positions of the main risk portfolios are monitored daily and all risk measures are managed within defined risk appetite levels.

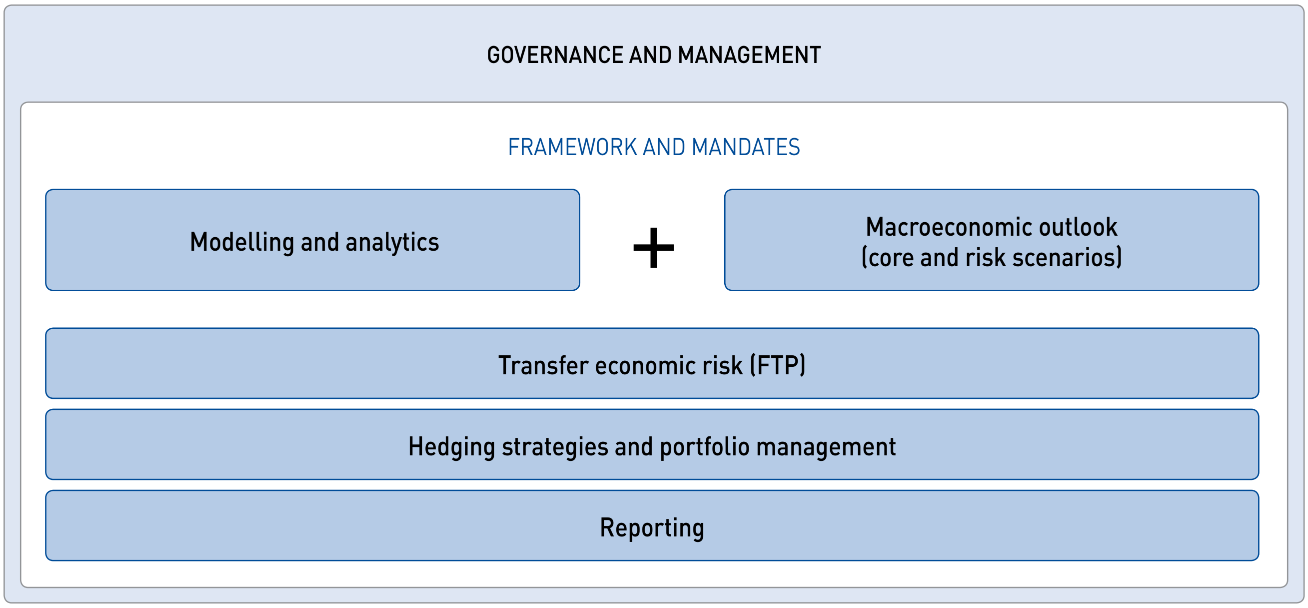
The management and governance of interest rate risk is delegated by FRBH Board to the RCC committee, which in turn delegates the responsibility to ALCO, Group Treasury, RMB and the regional ALCOs as illustrated in the following chart.

Interest rate risk management and governance structure



The Banking Group's activities around the management and assessment of interest rate risk are summarised in the following chart.

Interest rate risk management and assessment



The risk profile is adjusted by changing the composition of the Banking Group's liquid asset portfolio or through derivative transactions where possible based on the interest rate outlook as well as its view on potential other risk factors that may impact its balance sheet. In this respect, it is important to highlight that interest rate risk can, in the Banking 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. The Investment committee ("Invesco") oversees these activities for the domestic banking operations, challenges and debates the macroeconomic view and proposed portfolio actions as well as existing and proposed management strategies from a business perspective.

As indicated in the section covering liquidity risk, the costs of the portfolio level risk management actions are transferred through the internal funds transfer pricing mechanisms and contribute to a suitable measurement of risk adjusted performance across the various businesses.

Cash flow hedge accounting is applied for derivatives used in the hedging strategies for the banking book. 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.

Assumptions relating to loan repayments and behaviour of core deposits

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;
- derivatives 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. Similarly, several interest rate shocks and scenarios are

modelled, with disclosure of the sensitivity to a 200 basis point parallel shift in the yield curve (and assuming no new management action to mitigate the impact).

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 ("NMDs") do not have specific maturities as individual depositors can freely withdraw or place funds. Interest rates associated with these products are administered by the Banking Group, but are not indexed to market rates. NMDs are assumed to reprice overnight since the administered rate can change at any time at the Banking Group's discretion; and
- prime linked products are assumed to reprice immediately whenever the Repo rate changes.

Discussion of the risk 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 net interest income ("NII") to declining interest rates, which represents the largest component of interest rate risk. The Banking Group seeks to use hedges against this exposure, wherever economically feasible. These hedges tend to be predominantly interest rate swaps (receive fixed, pay floating).

The change to the interest rate gap shown in the tables below can be ascribed to this maturing profile of the hedges compared to the period six months ago. The hedges were primarily put in place prior to the commencement of the 2010 financial year.

Repricing schedules for FRBH banking book (audited)

	2010				
	Term to repricing				
R million	<3 months	>3 but ≤6 months	>6 but ≤12 months	>12 months	Non rate sensitive
FirstRand Bank Limited					
Net repricing gap	(14 385)	11 987	15 999	2 085	(15 686)
Cumulative repricing gap	(14 385)	(2 398)	13 601	15 686	–
African subsidiaries					
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	–

	2009				
	Term to repricing				
R million	<3 months	>3 but ≤6 months	>6 but ≤12 months	>12 months	Non rate Sensitive
FirstRand Bank Limited					
Net repricing gap	2 401	14 101	(527)	127	(16 102)
Cumulative repricing gap	2 401	16 502	15 975	16 102	–
African subsidiaries					
Net repricing gap	2 693	212	(479)	1 393	(3 819)
Cumulative repricing gap	2 693	2 905	2 426	3 819	–
Total cumulative repricing gap	5 094	19 407	18 401	19 921	–

This repricing gap analysis excludes the banking books of RMB and the international balance sheet, both of which are separately managed on an ETL and VaR basis.

Sensitivity analysis

Net interest income sensitivity decreased in Rand terms compared to the previous period. The sensitivity is subject to approved internal board limits. Utilisation of the risk limit was well within permitted exposures at year end and throughout the year. Assuming no management action in response to interest rate movements, a hypothetical immediate and sustained parallel decrease of 200 basis points in all interest rates would result in a reduction in projected 12 month NII of R913 million. A similar increase would result in an increase in projected 12 month net interest income of R922 million.

Sensitivity of FRBH projected NII (audited)

	2010		
	Change in projected 12 month NII		
R million	**FRB**	**African subsidiaries**	**FRBH**
Downward 200 bps	**(789)**	**(124)**	**(913)**
Upward 200 bps	**798**	**124**	**922**

	2009		
	Change in projected 12 month NII		
R million	FRB	African subsidiaries	FRBH
Downward 200 bps	(1 111)	(74)	(1 185)
Upward 200 bps	1 123	74	1 197

The NII sensitivity analysis excludes the banking books of RMB and the international balance sheet, both of which are managed separately on a fair value basis.

The following represents the sensitivity of available-for-sale assets and cash flow hedges to interest rate movements. The valuation is based on a static balance sheet and measures the expected decrease or increase in valuation due to a parallel movement in the yield curve of 200 basis points.

Sensitivity of FRBH reported reserves to interest rate movements (audited)

	As % of total shareholders' equity	
	2010	2009
Downward 200 bps	**0.39%**	0.41%
Upward 200 bps	**(0.11%)**	(0.25%)

The NII sensitivity analysis excludes the banking books of RMB and the international balance sheet, both of which are managed separately on a fair value basis.

16. OPERATIONAL RISK

Key developments and focus

During the year the Banking Group continued to refine its operational risk assessment approaches, statistical models and process of capturing and collating relevant internal and external operational risk loss data.

The Banking Group's Information Technology Governance and Information Security Framework ("IT Governance framework") and IT risk assessment methodology is currently being reviewed to ensure coverage of new requirements from King III. Criminal loss levels have reduced during the year under review, however, the risk relating to fraud (including internal fraud and application fraud) and other crimes is increasing. This is managed through a number of specialist fraud combating units and coordinated through the appropriate risk committees.

Introduction and objectives

FRBH has approval from the SARB to apply the AMA for operational risk on a partial use basis from 1 January 2009. This achievement highlights the sound operational risk governance practices across the Banking Group's operations, which are aimed at ensuring the proper identification of all operational risks, mitigation where appropriate and management as part of the business operations.

Unlike other major risk types, operational risk is not assumed deliberately in pursuit of a commensurate return. It exists, to a varying degree, in all organisational activities. Major sources of this risk include:

- fraud;
- recruitment, training and retention of talent;
- operational process reliability;
- information technology and security;
- outsourcing of operations;
- dependence on key suppliers;
- implementation of strategic change;
- integration of acquisitions;
- human error;
- customer service quality; and
- regulatory compliance.

Organisational structure and governance

Operational risk is managed on the basis of the policies, standards, approaches and procedures set out in the Operational Risk Management Framework ("ORMF"), a subframework of the BPRMF, which is a policy of both the Board and Executive committee.

The FRBH 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 framework. To ensure appropriate visibility at board level, the ORC includes two non executive committee members, one of which is a member of the FirstRand Board. Other members include the divisional heads of risk, divisional heads of operational risk and senior personnel of the central ERM function.

As is the case with other risk types, ERM provides independent supervision over the business implementation of the respective frameworks and policies. Apart from operational risk governance, these teams also oversee business continuity, legal risk, information risk services, and forensic services as these are integral to the operational risk management process.

Assessment and management

Operational risk assessment approaches and tools

In line with international best practice, a variety of tools and approaches and management of operational risk is employed. The most pertinent of these are illustrated in the following chart.

Operational risk tools and approaches

OPERATIONAL RISK TOOLS AND APPROACHES		
Risk control self assessments	**Key risk indicators ("KRI")**	**Audit findings**
• Integrated in the business and risk management processes. • Assist risk managers in identifying key risk areas and assess the effectiveness of existing controls. • Other risk self assessments include business continuity self assessments, risk effectiveness reports for IT ("RERIT") and physical security self assessments.	• In place across all businesses as an early warning measure. • Highlight areas of increasing potential exposure to operational risk. • KRI reports are included in regular management reports to support ongoing risk identification and mitigation by the business.	• GIA acts as the third line of risk controls across the organisation . • Verify whether controls in place are appropriate to mitigating risks associated with key and supporting processes. • The number of findings issued and audit findings not resolved before the due date are tracked, monitored and reported on through the risk committee structures.
Internal loss data	**External loss data**	**Incident and issue reporting**
Loss data reporting and analyses are used by risk managers to understand: • the root causes of loss incidents; and • where corrective action should be taken to mitigate losses.	External loss data bases are used to: • derive lessons from other organisations and loss events; and • inform quantitative operational risk assessments through risk scenario analyses.	A a well defined and embedded process for the reporting of incidents and potential issues is in place to: • ensure that operational risk losses can be managed and potentially mitigated; and • facilitate a feedback of any lessons learned into the organisation's operational risk management practices.

Operational risk is recognised as a consequential risk that cannot be avoided or mitigated entirely. Accordingly, frequent operational risk events resulting in small losses are expected as part of business operations (e.g. fraud) and are budgeted for appropriately. The businesses seek to minimise these 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 Banking Group seeks to minimise the incidence and contain the severity within its risk appetite limits.

Given the ever changing and complex nature of its business and its processes, the Banking Group employs a dynamic approach to managing operational risk and this approach results in almost continuous change or renewal. It is common practice, when implementing change of this nature, to proactively address less than optimal operational procedures with meaningful adjustments to risk management. The Board and management are not satisfied with the current level of operational losses, albeit in line with industry experience, and have therefore embarked on a consistent and disciplined approach of linking business processes to the operational risk and control environment.

Basel II – Advanced Measurement Approach

As is the case for other risk types, regulatory and economic capital requirements are established to provide a buffer against very rare and severe loss events. FRBH began applying the AMA under the Basel II framework from 1 January 2009 for the Banking Group's domestic operations. Offshore subsidiaries and operations continue to utilise the Standardised Approach for operational risk, as was the case for all domestic operations until the end of 2008.

The AMA allows the Banking Group to use a sophisticated, statistical model for the calculation of capital requirements, which enables more granular and more accurate, risk based estimates of the capital requirements of all the business lines. 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 were derived through an extensive analysis of the Banking Group's operational risks in consultation with business and risk experts from the respective business lines. All scenarios were subsequently 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 the capital assessment, all scenarios are reviewed, supplemented or updated semi-annually, as appropriate.

The modelled operational risk scenarios are combined with modelled loss data in a simulation engine to derive the annual, aggregate distribution of potential operational risk losses. Regulatory capital requirements are then calculated (for the Banking Group and each franchise) as the potential loss at the 99.9th percentile of the aggregate loss distribution, excluding the effects of insurance, expected loss and potential diversification effects.

Using the AMA capital model, capital requirements are calculated for each franchise on a FRBH level. In order to then allocate capital to FRB the gross income ratio of FRB to FRBH is calculated. This income ratio is then applied to FRBH capital to split FRB specific capital requirements out of the originally calculated Banking Group capital. This split of capital between legal entities is required for regulatory reporting and internal performance measurement.

The loss data used for this purpose 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 risk control function.

Business practices evolve continuously 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 associated capital requirements takes 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 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

As indicated in a preceding section, the ERM function also oversees a number of areas closely related to or integrated with the operational risk management processes. These are described in the following subsections.

Business continuity management

Business continuity management ("BCM") is focused on ensuring that the Banking Group's operations are resilient to the risk of severe disruptions caused by internal failures or external events. The organisation carries out regular reviews of BCM practices, and any disruptions or incidents are regularly reported to a number of relevant risk committees. Over the reporting period, all areas remained at an acceptable status of readiness.

Legal risk

The organisation is counterparty to a large number of contractual agreements and is, therefore, at risk of loss due to deficient contractual arrangements, due to legal liability (civil and criminal) that may be incurred by its inability to enforce its rights or by its failure to address and remedy concerns about proposed changes in applicable law (existing law is covered by compliance risk, managed by RRM).

This risk is managed on the basis of the Legal Risk Management Framework, which prescribes activities such as the monitoring of new legislation, creation of awareness, identification of significant legal risk, as well as the monitoring and managing of the potential impact of these risks. The organisation strives to maintain appropriate procedures, processes and policies that enable it to comply with applicable regulation and that minimise any potential exposure to legal risk. During the year under review there were no significant incidents related to legal risk.

Information risk

The Banking Group's clients entrust it with highly sensitive information and the Banking Group accepts its fiduciary duty to safeguard this information in the course of its business activities. Information risk is the risk of adverse business impacts, including the loss of reputation caused by a failure of data confidentiality, integrity and availability controls and is therefore a key area of ongoing focus.

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

The IT framework clearly defines the objectives for managing information risk, outlines the processes that need to be embedded, managed and monitored across the organisation and it also sets out a measurement framework for information risk across FRBH.

The Information risk team in ERM is tasked with ensuring compliance to the principles set out in the IT framework by developing appropriate policies and validating the implementation in the respective functions across the Banking Group.

Like many other large organisations, a number of new and changing threats across the evolving IT landscape are constantly faced. 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 Banking Group is committed to creating an environment that safeguards its customers, staff and assets through policies, frameworks and actions. To this end, it distributes and communicates its ethics policy to existing staff members on a quarterly basis. The ethics policy reiterates commitment to a stance of "zero tolerance" towards crime. Executive management throughout the Banking Group is committed to living the values of "zero tolerance" and enforcing them stringently.

The organisation 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.

17. REGULATORY RISK

Key developments and focus

The regulatory landscape has changed significantly as a direct consequence of the recent financial crisis. The banking industry, in particular, has experienced a wave of new legislation and regulatory requirements that will impact on areas such as capital adequacy, liquidity, and funding. Key changes include BCBS proposals (capital, liquidity, market risk and compensation), King III, the new Companies Act, the Consumer Protection Act, and proposed amendments to the Banks Act and Regulations, to name but a few. The increased requirements will need significant resources to ensure that the Banking Group responds meaningfully and adjusts its internal processes and procedures to comply with the new requirements. The banking industry is conducting a regulatory impact assessment to determine the cost of compliance and the impact that increased regulation has on the industry.

Introduction and objectives

Regulatory risk management is an integral part of managing the risks inherent in the business of banking. 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 Banking Group therefore aims to establish a compliance culture in its operations that contributes to the overall objective of prudent regulatory compliance and risk management.

The objective of the compliance and regulatory risk management is to ensure that business practices, policies, frameworks and approaches across the organisation are consistent with applicable laws and that any risks to compliance can be identified and managed proactively prior to incurring a potential liability.

It is of paramount importance to ensure compliance with the requirements of the Banks Act 94 of 1990 (as amended) and the Regulations thereto, and to ensure that all non compliance risks identified in this context are addressed and managed in accordance with these rules and regulations and are in line with international best practice.

To achieve this, all staff must be aware of compliance requirements, have a high level of understanding of the regulatory framework applicable to the Banking Group, and they must be aware of the potential regulatory risks to which it is exposed. Ethical behaviour is both a keystone and an important contributor to the success of the entire compliance process. The Banking Group expects all its staff members to maintain standards of honesty, integrity and fair dealing and to act with due skill, care and diligence.

Organisational structure and governance

While the responsibility for ensuring compliance with all relevant laws, internal policies, regulations and supervisory requirements rests with the Board, the role of monitoring, assessing and reporting the status of compliance is delegated by the Board to the Head of RRM. The RRM function carries out its duties in terms of Regulation 49 of the Banks Act, and its mandate is set out in the Compliance Risk Management Framework, a subpolicy of the BPRMF.

Supervision of regulatory risk is provided and managed by a number of committees such as the Regulatory risk committee, the RCC committee and the FRBH Audit committee, which receive detailed reports on the status of compliance and instances of material non compliance from RRM on a regular basis.

The RRM function retains an independent reporting line to the CEO as well as to the Board through its designated committees.

In addition to the centralised RRM function, each of the operating franchises have appointed compliance officers responsible for implementing and monitoring compliance policies and procedures related to their respective franchises.

Assessment and management

The RRM function and the Board mandate prescribe a "zero tolerance" approach to compliance breaches. To achieve this, RRM has implemented appropriate structures, policies, processes and procedures to identify regulatory risks, monitor the management thereof and report on the status 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 FRBH;
- 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.

In support of the Compliance Risk Management Framework, a compliance manual was drafted which also fulfils the function of assisting the businesses in addressing all material compliance risks.

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.

MOMENTUM GROUP

1. RISK MANAGEMENT PHILOSOPHY

The Momentum Board embraces the principles of good corporate governance. Momentum Group's ("Momentum") risk philosophy recognises that managing risk is an integral part of generating sustainable shareholder value and enhancing stakeholder interests. It also recognises that an appropriate balance should be struck between entrepreneurial endeavour and sound risk management practice.

Solvency II

Solvency II is a European principles based and risk focused regulatory regime for European insurance organisations (long term and short term) that is intended to be fully implemented in Europe by October 2012. Solvency II requires a clear and definitive link between the strategy and operations of insurance organisations as well as the risk management elements thereof.

In line with international standards, the Financial Services Board ("FSB") has begun a process to develop a new solvency regime, namely the Solvency Assessment Management ("SAM"), for the South African long term and short term insurance industries. This process is guided by principles around insurance regulation produced by the International Association of Insurance Supervisors ("IAIS") and developments in Europe. The basis of the SAM regime will be the principles of the Solvency II directive, as adopted by the European Parliament, which will be adapted for South African specific circumstances where required. As an overarching principle, the recommendations arising from the SAM Project should meet the requirements of a third country equivalence assessment under Solvency II. The FSB is currently intending to implement both the standardised and internal model approaches under the SAM regime by January 2014 for long term insurers, with proposed implementation of certain Solvency II Pillar II requirements in terms of governance, internal controls and risk management being targeted for 2012.

In response to the requirements of Solvency II/SAM, Momentum initiated a project that will revisit capital and risk management and implement the management, reporting and disclosure requirements as required by the FSB under the SAM regime. Momentum is also represented on the SAM committee, subcommittees and task groups that have been formed to influence and give guidance to new legislation arising from the SAM project.

Solvency II will not only have a significant influence on the regulation of South African insurers in the future, but may also become a global benchmark for insurance regulation.

King III Code

Momentum has noted the recommendations as set out in the King III Code on Corporate Governance in South Africa, which came into effect for financial periods commencing on or after 1 March 2010. Momentum already meets a number of the recommendations as set out in the King III Code as it pertains to risk governance. As part of our review and progress in complying with the King III Code, the sections in this report as they relate to the governance of risk, serves to demonstrate the application of the King III principles or explanation where the code has not yet been applied.

Momentum's status against the King III Code has not yet been verified.

Risk management objectives

Momentum's key risk management objectives are to:

- enhance shareholder value by generating a long term sustainable return on capital;
- ensure the protection of policyholder and investor interests by maintaining adequate solvency levels;
- meet the statutory requirements of the FSB and other regulators;
- ensure that capital and resources are strategically focused on activities that generate the greatest value on a risk adjusted basis; and
- create a competitive long term advantage in the management of the business with greater demonstrated responsibility to all stakeholders.

2. RISK MANAGEMENT APPROACH

Risk management framework

The Business Success and Enterprise Risk Management Framework ("Risk Management Framework") of Momentum governs the risk management process with reference to a matrix of risks inherent to the business, being:

- insurance risk;
- credit risk;
- market and liquidity risk; and
- strategic and operational risk.

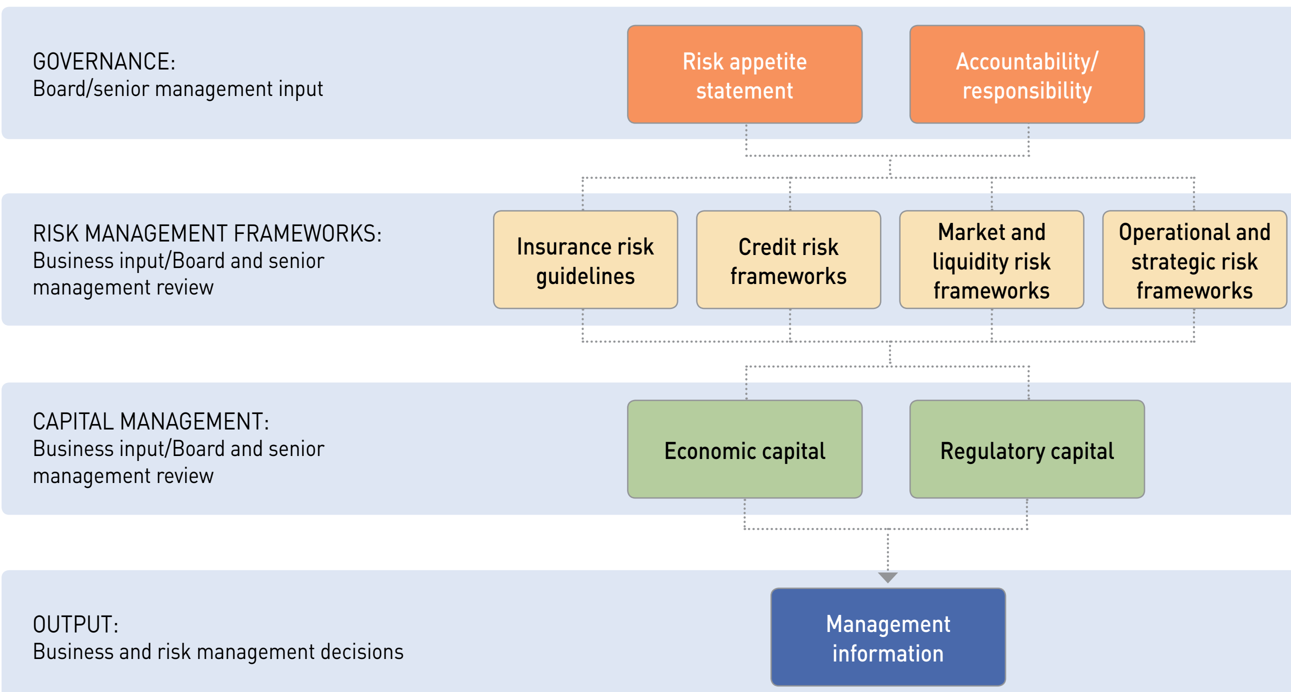
The purpose of the Risk Management Framework is to establish:

- a risk governance structure that clearly allocates roles and responsibilities;

- well defined risk objectives that describe the risk appetite;
- guidance around risk identification, risk assessment, risk monitoring, risk reporting and risk mitigation for all major risk categories affecting the business;
- the role of economic and regulatory capital in the context of risk management; and
- the use of risk related information to further enhance management decisions.

The diagram below describes the link between these elements.

Risk management framework



The principles described in the Risk Management Framework and all of the supporting risk management frameworks apply to all of the divisions, business units and subsidiaries.

Risk governance

Momentum recognises that clear accountability is fundamental to the management of risk. Momentum's Board retains ultimate responsibility for ensuring that risks are adequately identified, measured, monitored and managed. In addition, effective risk management requires multiple points of control or safeguards that should be applied consistently at various levels throughout the organisation. Momentum has adopted the "three lines of control" model for managing risk. This model distinguishes between functions owning and managing risks, functions overseeing risks and functions providing independent assurance.

Risk ownership and management

Momentum's CEO is accountable to the Board for the management of risks and is supported in the management of these by business unit executives and line management. Risk taking is inherent in the business unit activities, and as such, business management assumes the primary responsibility for the risks in its business. In particular, business management and staff within each business unit are responsible for the identification, assessment, management, monitoring and reporting of risks arising within their respective areas.

Risk control and oversight

The Statutory actuary has a duty under the Long Term Insurance Act to ensure that the legal entity remains solvent and able to meet liabilities at all times. The Statutory actuary reports on these matters to the Board, independent auditors and the FSB. An actuarial committee was appointed by the Board to ensure that the technical actuarial aspects specific to insurance companies are debated and reviewed independently.

The CRO and the ERM function provide objective oversight and coordinate the enterprise risk management process. Business unit heads are supported in risk control activities by deployed operational risk management functions. The deployed risk management functions are overseen centrally by Operational Risk Management ("ORM"), that reports to the CRO. A Risk committee is also in operation at Momentum. The committee has been appointed by the Board to approve risk management policies as well as to monitor group risk assessments and the effectiveness of risk management and high priority corrective actions.

Regulatory Risk Management ("RRM") is an integral part of managing risks inherent in the business and forms part of the second line of risk control. The risks, responsibilities and processes of RRM are further discussed in the Regulatory risk management section on page 231.

Independent assurance

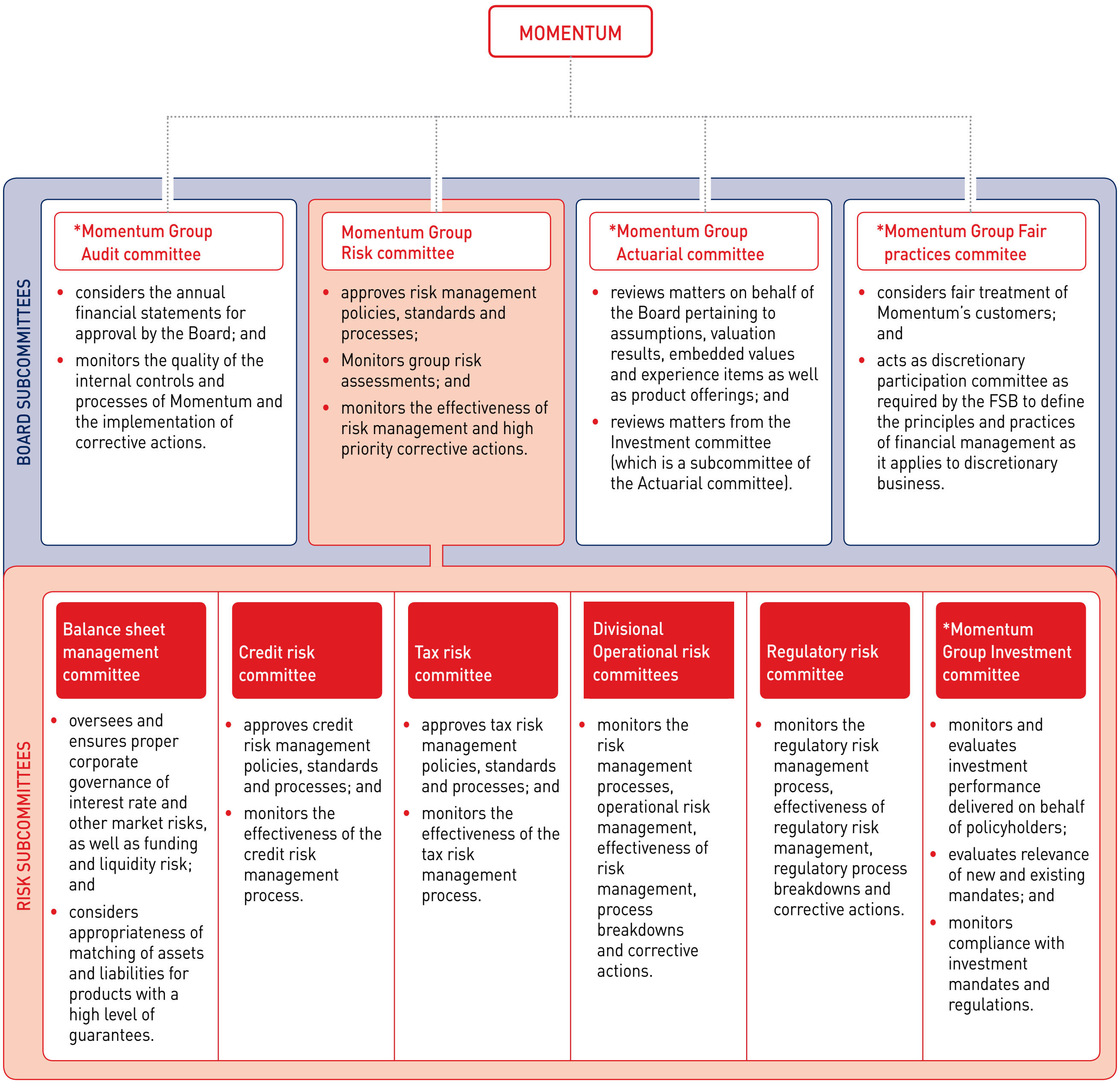
For the year under review, the internal audit function was outsourced to FirstRand GIA.

Independent, objective assurance on the effectiveness of the management of risks across Momentum is provided to Momentum's Board through the FirstRand GIA function, the external auditors and Momentum's Audit committee.

Committee structure

The Momentum Board retains ultimate responsibility to ensure that risks are adequately identified, measured, managed and monitored and discharges its duty through relevant policies and frameworks as well as four board committees and respective subcommittees. The primary board committee overseeing risk matters is the Risk committee. The Risk committee delegated responsibility for a number of specialist topics to a number of specialist risk subcommittees, as illustrated below.

Risk governance structure



* *Denotes chairperson is a board member.*

All subsidiaries, divisions and major business units of Momentum have appropriate governance forums where risk, compliance and audit matters are tabled. The Audit committee, Risk committee and Credit risk committee have non executive representation. The Audit committee meetings are attended by representatives from the external and internal auditors and the independent risk management functions.

The remainder of this report provides a detailed description of the approaches, methodologies, models and processes used in the identification and management of each major risk type. Each section also describes the applicable governance and policy framework.

Risk appetite

Momentum's business as a financial services provider is based on the identification, measurement, pricing, underwriting and management of risk. Momentum does not aim to eliminate risk entirely but to assume and manage it deliberately in a measured, calculated and controlled fashion pursuant to its business objectives.

The risk appetite is formulated by the Board, which also assumes responsibility for ensuring that risks are adequately managed and controlled through the Risk committee and its subcommittees, as described in the governance section on page 200.

The risk appetite finds its primary quantitative expression in the level of capital it seeks to hold as described in the capital management section below.

Risk appetite is calibrated against broader financial targets such as the level of dividend coverage, embedded value and earnings. As a function of the business environment and stakeholders' expectations and together with the primary risk appetite metrics this provides firm boundaries for the organisation's chosen path of growth.

3. STRATEGIC AND BUSINESS RISK

Introduction

Strategic risk is defined as the risk that the current or prospective earnings will be negatively impacted by adverse business decisions or the improper implementation of such decisions. The risk of pursuing an inappropriate strategy or failing to execute the chosen strategy appropriately is a risk inherent in all business endeavours. Momentum's objective is to minimise this risk in the normal course of business.

Business risk is defined as the risk that the earnings and capital will be negatively affected by potential changes in the business environment, client behaviour and technological progress. Business risk, i.e. the risk that volumes and margins may be insufficient to cover the cost base due to factors unrelated to and not captured in other risk types is considered as a potential outcome in the strategic planning process carried out across the businesses. It is Momentum's objective to develop and maintain a portfolio profile that delivers sustainable earnings.

Environmental, social and governance risk is the risk that ESG issues impact on the ability to successfully and sustainably implement business strategy.

Strategic risk governance

The development and execution of business level strategy is the responsibility of the individual business areas subject to approval by the Board, which sets the overall strategy and ensures that strategic objectives set at a business level are consistent with the overall strategy. This includes the approval of any subsequent material changes to strategic plans, approval of acquisitions, significant equity investments and new strategic alliances.

Strategic risk management

Business unit and executive management as well as the central ERM function review the external environment, industry trends, potential emerging risk factors, competitors' actions and regulatory changes as part of the strategic planning process. Through this review Momentum assesses the risk to its earnings and thus the level of potential business risk it faces. Reports on the results of such 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.

4. CAPITAL MANAGEMENT

Allocating resources, including capital and risk capacity in terms of the risk appetite effectively and in a manner that maximises value for shareholders is a core competence and a key focus area for Momentum and, as such, sound capital management practices form an important component of its overall business strategy.

Key objectives

The main objectives with Momentum's capital management are to maintain the optimal level of capital in the most cost efficient way, given Momentum's risk profile and risk appetite. The optimal capital level is achieved through balancing the needs of regulators, rating agencies, policyholders and shareholders. The intention is to hold a capital buffer to give confidence to debt holders, policyholders, regulators and rating agencies. The capital management team strives to achieve the highest possible credit rating in South Africa.

Targeted capital level

Momentum targets an economic capitalisation level range of 1.4 – 1.6 times CAR, which is deemed sufficient to satisfy Momentum's risk appetite towards capital adequacy. Momentum applies stochastic modelling techniques to determine the targeted economic capital level. The targeted economic capital level is set to satisfy Momentum's risk appetite (as approved by the Momentum Board. The risk appetite is defined as the level of capital that will ensure, with a 95% confidence level, that Momentum's will at all times cover the minimum CAR at least 1.0 times over the following 5 years. The stochastic model includes an allowance for capital required in respect of future new business.

Capital developments

The FSB is in the process of formulating a new solvency regime for the South African long term and short term insurance industries to be in line with international standards. The FSB launched its SAM project during 2010 to achieve this aim. The basis of the SAM regime will be the principles of the Solvency II Directive, as adopted by the European Parliament, but adapted to South African specific circumstances where necessary. Momentum participates actively in the development and formulation of the new South African solvency standards and is also reviewing its internal economic capital models in light of local and international developments.

Investment mandate for the shareholders' portfolio

Momentum supports its regulatory capital adequacy ratio ("CAR") with cash or near cash assets, while the balance of the shareholders' assets are invested in a combination of strategic investments and interest bearing assets. RMB Asset Management manages the discretionary cash, held by the shareholders' portfolio, according to a conservative investment mandate.

Capital position

The minimum CAR is determined in accordance with the requirements of the FSB and Professional Guidance Note ("PGN") 104. An economic capitalisation level range of 1.4 – 1.6 times CAR is targeted. At 30 June 2010, CAR was covered 2.1 times by the excess of assets over liabilities (on the statutory valuation basis).

Capital position

R million	2010	2009
Statutory excess over liabilities	8 072	7 108
CAR	3 830	3 843
CAR cover rate (times)	2.1	1.8

The capital position improved over the 12 month period to 30 June 2010. This was mainly the result of the positive contribution from operating profits and the impact of the recovery in equity markets over this period. These beneficial developments were partly offset by the dividends that were paid to FirstRand over the past 12 months. Over the year under review, Momentum paid total dividends amounting to around R840 million, as set out in table below.

Dividend payments

R million	2010
Final dividend for 2009, paid in October 2009	338
Interim dividend for 2010, paid in March 2010	364
Preference share dividends, paid in August 2009 and February 2010	38
Special dividend, paid in April 2010	100
Total dividends paid during 2010	**840**

The slight decrease in CAR reflects the net effect of the growth in the size of the book of business over the year, offset by a slight reduction in investment risk.

The actual capital level at 30 June 2010 is above the upper end of the targeted range. The Board deems it prudent to maintain a buffer above the upper end of the range in recognition of the uncertainty regarding the sustainability of the recent recovery in equity markets. A buffer above the targeted capital range is, therefore, considered appropriate at this stage.

In terms of the merger agreement between Momentum and Metropolitan, Momentum is entitled to pay a final ordinary dividend in September 2010 to FirstRand Limited. The quantum of this dividend will depend on the Metropolitan interim ordinary dividend, payable in September 2010. The ratio between the abovementioned Momentum and Metropolitan ordinary dividends will be the same as the ratio between the embedded values of the two companies, as agreed for the proposed transaction.

Composition of regulatory capital

Given that the Long Term Insurance Act does not allow borrowing, the FSB has not formally limited the extent to which South African life insurance companies can incur debt. In line with FirstRand's guidance, Momentum believes that it is appropriate to operate on a debt to total regulatory capital ratio of below 30%. The table below analyses the sources of total qualifying regulatory capital utilised.

Regulatory capital (unaudited)

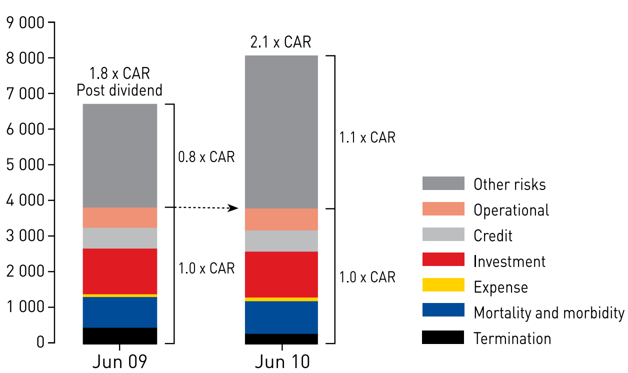
R million	2010	%	2009	%
Tier 1	**7 101**	**88**	6 102	86
– Core Tier 1 (i.e. equity capital)	**6 626**	**82**	5 642	79
– Non cumulative non redeemable preference shares	**475**	**6**	460	7
Subordinated qualifying bond[1]	**971**	**12**	1 006	14
Qualifying statutory capital	**8 072**	**100**	7 108	100

1 *This debt level is within the limit of 30%.*

Composition of the available capital

The bar chart below sets out the main risks covered by Momentum's total available economic capital requirement.

Composition of economic capital (unaudited)



As is evident from the graph, the capital position has improved over the past 12 months, mainly as a result of the recovery in equity markets over this period. At 30 June 2010, Momentum's CAR cover amounted to 2.1 times, compared to the 1.8 times CAR (post dividends) at 30 June 2009. The graph also shows that the absolute level of CAR has decreased marginally from 30 June 2009 to 30 June 2010, due to the net effect of the growth in the size of the book of business over the year, offset by a slight reduction in investment risk.

Credit rating

As part of the annual credit rating review by Fitch, Momentum's credit rating was affirmed during December 2009.

Fitch recently published updated criteria affecting the way that the agency rates hybrid securities. The updated rating criteria mean that most preferred and hybrid securities issued by insurance holding companies and operating companies are downgraded by one notch. The additional notch recognises the going concern loss absorption risk present in these issues which the agency did not explicitly factor into its previous rating methodology for hybrid issues.

In line with the updated rating criteria, Fitch downgraded Momentum's subordinated debt issue by 1 notch from "AA-(zaf)" to "A+ (zaf)" during February 2010.

On 1 April 2010, Fitch placed Momentum on Rating Watch Negative ("RWN"), following the announcement of the proposed merger with Metropolitan. The rationale for placing Momentum's credit ratings on RWN is because Momentum will become part of a standalone entity, if the proposed transaction with Metropolitan is approved.

Return on equity

The active management of Momentum's capital plays an important role to achieve the targeted return on capital set by FirstRand. Momentum achieved a ROE of 21.9% (based on normalised earnings) for the 12 months ended 30 June 2010, compared to 22.6% in the comparative period. The slight decrease in the ROE is mainly due to the increase in the retained capital, which is deemed prudent given the uncertain market outlook.

5. INSURANCE RISK

Introduction

Insurance risk is the risk that future risk claims and expenses will exceed the value placed on insurance liabilities. It occurs due to the uncertainty of the timing and amount of future cash flows arising under insurance contracts. The timing is specifically influenced by future mortality, longevity, morbidity, persistency and expenses about which assumptions are made in order to place a value on the liabilities. Deviations from assumptions will result in actual cash flows differing from those projected in the policyholder liability calculations. As such, each assumption represents a source of uncertainty.

The larger the portfolio of uncorrelated insurance risks, the smaller the relative variability around the expected outcome will be. In addition, a more diversified portfolio of risks is less likely to be affected across the board by a change in any subset of the risks.

Insurance risk governance

The Statutory actuary has a duty under the Long Term Insurance Act to ensure that the legal entity remains solvent and able to meet liabilities at all times. The Statutory actuary reports on these matters to the Board, independent auditors and the FSB. The Momentum Actuarial committee supports him in his responsibility for the oversight of insurance risk. The committee has been appointed by the Board to ensure that the highly technical actuarial aspects specific to insurance companies are debated and reviewed independently.

Insurance risk management

In determining the value of insurance liabilities, assumptions need to be made regarding future rates of mortality, morbidity, termination rates, expenses and investment performance. The uncertainty of these rates may result in actual experience being different from that assumed and hence actual cash flows being different from those projected, and, in the extreme, that the actual claims and benefits exceed the liabilities. The risk is mitigated to an extent through the addition of margins, specifically where there is evidence of moderate or extreme variation in experience.

Insurance events are by nature random and the actual number and amount of claims and benefits could be different from the number and amount of claims and benefits estimated. The larger the portfolio of contracts, the smaller the expected variation between actual and expected experience becomes. In addition, the more diversified a portfolio of risks, the smaller the impact of deviation of actual experience in a particular risk factor, compared to the assumption. The lack of diversification in respect of type and amount of risk can increase insurance risk.

The following table shows the statement of financial position of the insurance operations per type of contract.

Insurance operations per type of contract (audited)

	2010		
R million	Linked/ market related business	Reversionary and smoothed bonus business	Annuities and non participating business
2010			
Assets			
Financial assets less non policyholder liabilities	115 929	20 838	25 691
Liabilities			
Policyholder liabilities under insurance contracts	13 634	7 852	19 423
Policyholder liabilities under investment contracts	94 982	12 183	4 220
Excess assets	7 313	803	2 048
Total	115 929	20 838	25 691

	2009		
R million	Linked/ market related business	Reversionary and smoothed bonus business	Annuities and non participating business
Assets			
Financial assets less non policyholder liabilities	115 141	22 290	21 533
Liabilities			
Policyholder liabilities under insurance contracts	12 630	8 228	18 212
Policyholder liabilities under investment contracts	95 140	12 422	2 666
Excess assets	7 371	1 640	655
Total	115 141	22 290	21 533

Momentum is exposed to the following types of risks as a result of the insurance contracts it issues:

- mortality, longevity and morbidity risk;
- persistency risk;
- expense risk; and
- business volume risk.

The main insurance risks are set out below, as well as the approach to the management of these risks.

Mortality and morbidity risks

The risk that actual experience in respect of the rates of mortality and morbidity may be higher than that assumed in pricing and valuation varies, depending on the terms of different products. The material classes of business most affected by these risks are discussed below.

i. Individual insurance business

Products are sold directly to individuals providing benefits on death and disability, including impairment, or in the event of suffering a critical illness. The main insurance risk relates to the possibility that rates of death or disability may be higher than expected. This may be due to:

- normal statistical variation due to the random nature of insurance events;
- incorrect assumptions regarding future experience;
- natural catastrophes such as floods or earthquakes and unnatural catastrophes such as acts of terrorism;
- the impact of HIV/AIDS or epidemics such as avian bird flu;
- anti selection such as where a client who has a pre-existing condition or disease purchases a product where a benefit will be paid on death or in the event of contracting such a disease;
- the effect of selective withdrawal which means policyholders are less likely to withdraw voluntarily if the cover is more likely to be needed in the foreseeable future;
- economic conditions resulting in more disability claims; and
- concentration risk, which is the risk of a large number of claims from a single event or in a particular geographical area.

For contracts with fixed and guaranteed benefits and fixed future premiums there are no mitigating terms that reduce the risk accepted. Momentum, therefore, employs the following underwriting controls to ensure that only acceptable risks are accepted:

- underwriting, which is the assessment of health risk, hazardous pursuits or financial risk, including the requirement of a negative HIV test as a condition for accepting risk, charging extra premiums or declining cover where applicable based on the outcome of the underwriting and differentiating premiums for risk factors such as age and smoker status;
- appropriate pricing including allowing for known risks based on actual claims experience and making use of profit testing techniques;
- regular review of premium rates and approval of the approach to setting premium rates by the Statutory actuary;
- a guarantee period shorter than the policy term applies to risk business, and enables Momentum to review premium rates on in-force contracts during the life of contracts. The guarantee period on whole life products is generally within the range of 10 to 15 years; and
- appropriate policy conditions, including setting appropriate maximum income replacement ratios in the case of products providing disability benefits, and approval of policy conditions by the Statutory actuary.

The following additional controls and measures are in place in order to ensure that Momentum manages its exposure to mortality and morbidity risk:

- claims assessment processes to ensure only valid claims are paid;
- reserving for AIDS risk in accordance with the guidelines issued by the Actuarial Society of South Africa as set out in PGN 105;
- reinsurance to limit liability on large claims or substandard risks. On individual lives that are medically underwritten and that are not members of employee benefit schemes, 85% of the risk is retained on amounts of cover not exceeding R5 million. Amounts of cover in excess of R5 million are fully reinsured. On employee benefits business, the maximum retention is R4 million per life, with 100% of the excess being reinsured; and
- concentration risk is reduced by diversification of business over a large number of uncorrelated risks and several classes of insurance, as well as by taking out catastrophe reinsurance. The catastrophe reinsurance cover for the current financial year is R485 million in excess of R15 million of the total retained sum assured for any single event involving three or more lives.

The following table shows the concentration of amounts at risk per life and in total, both gross and net of reinsurance as at 30 June 2010. Benefits include those payable on death, as well as both stand alone and accelerated dread disease and disability benefits.

Sum at risk per benefit (audited)

	2010		
Sum at risk per benefit	Number of benefits	Total amount at risk gross of reinsurance R million	Total amount at risk net of reinsurance R million
0 – 50 000	**232 181**	**2 907**	**2 317**
50 001 – 100 000	**50 284**	**3 948**	**3 213**
100 001 – 200 000	**80 874**	**12 048**	**9 485**
200 001 – 500 000	**192 237**	**67 897**	**50 789**
500 001 – 1 000 000	**189 249**	**140 282**	**102 298**
More than 1 000 000	**216 347**	**525 051**	**299 414**
Total	**961 172**	**752 133**	**467 516**

	2009		
Sum at risk per benefit	Number of benefits	Total amount at risk gross of reinsurance R million	Total amount at risk net of reinsurance R million
0 – 50 000	247 884	2 869	2 354
50 001 – 100 000	50 633	3 991	3 275
100 001 – 200 000	84 053	12 585	10 009
200 001 – 500 000	195 620	68 846	51 051
500 001 – 1 000 000	183 533	135 894	97 707
More than 1 000 000	192 140	452 606	255 072
Total	953 863	676 791	419 468

Before reinsurance, 67% (2009: 67%) of the total amount at risk is for sums at risk exceeding R1 million per benefit at 30 June 2010. This reduces to 64% (2009: 61%) if reinsurance is taken into account.

ii. Group risk business

Employee benefit products provide life and disability cover to members of a group, such as employees of companies or members of trade unions. Typical benefits are:

- life insurance (mostly lump sum, but some children and spouse's annuities);
- disability insurance (lump sum and income protection);
- dread disease cover; and
- continuation of insurance option.

The products are, as a rule, quite simple and mostly basic products with a one year renewable term. In most cases the products are compulsory for all employees although it has recently become more common to provide members with a degree of choice when selecting risk benefits.

Underwriting on group business is much less stringent than for individual business as there is typically less scope for anti selection. The main reason for this is that participation in Momentum's insurance programmes is normally compulsory, and as a rule members have limited choice in the level of benefits. Where choice in benefits and levels is offered, this is accompanied by an increase in the level of underwriting to combat anti selection.

Groups are priced using standard mortality and morbidity tables plus an explicit AIDS loading. The price for an individual scheme is adjusted for the following risk factors:

- region;
- salary structure;
- gender structure; and
- industry.

For large schemes (typically 200 or more members), a scheme's past experience is a crucial input in setting rates for the scheme. The larger the scheme the more weight is given to the scheme's past experience.

Rates are guaranteed for one year. Rates may be guaranteed for up to three years on request but will be subject to an additional loading. Claims resulting from active participation in war or from atomic, biological or chemical weapon risks are not paid.

To manage the risk of anti selection, there is an "Actively at Work" clause, which requires members to be actively at work and attending to their normal duties for cover to take effect. This is waived if a scheme is taken over from another insurer for all existing members. In addition, a pre-existing clause applies, which states that no disability benefit will be payable if a member knew about a disabling condition within a defined period before the cover commenced and the event takes place within a defined period after cover has commenced. There is a standard reinsurance treaty in place covering group business.

Lump sum benefits in excess of R4 million and disability income benefits above R30 000 per month are reinsured.

There are some facultative arrangements in place on some schemes where a special structure is required, for example a very high free cover limit or high benefit levels.

In addition, there is a catastrophe treaty in place for both group business and individual business. Such a treaty is particularly important for group risk business as there are considerably more concentrations of risks compared to individual business. The catastrophe reinsurance cover for the current financial year is R485 million in excess of R15 million of the total retained sum assured for any single event involving three or more lives.

An indication of the concentration risk in respect of group business can be obtained by noting that the five largest group schemes contribute 15% to the total risk exposure under group life cover in force at 30 June 2010 (2009:10%).

iii. Individual annuity business

Annuity contracts provide a specified regular income in return for a lump sum consideration. The income is normally provided for the life of the annuitant. In the case of a joint life annuity, the income is payable until the death of the last survivor. The income may furthermore be paid for a minimum guaranteed period and may be fixed or increased at a fixed rate or in line with inflation. The mortality risk in this case is that the annuitants may live longer than assumed in the pricing of the contract. This is known as the risk of longevity.

This risk is managed by allowing for improvements in mortality when pricing and valuing the contracts. Momentum measures deviations of experience from assumptions bi-annually. More detailed actuarial experience investigations are performed (the last detailed investigation was performed in December 2009) and assumptions in pricing for new contracts and valuation of existing contracts are adjusted when necessary. The next detailed investigation will be performed in December 2010.

The following table shows the distribution of number of annuities by total amount per annum.

Distribution of number of annuities (audited)

	2010		2009	
Income category p.a.	Number of annuitants	Amount per annum R million	Number of annuitants	Amount per annum R million
0 to 10 000	55 842	228	60 752	256
10 001 to 50 000	28 984	601	26 246	565
50 001 to 100 000	4 421	304	4 189	288
100 001 to 200 000	1 753	236	1 699	229
200 001+	506	151	534	165
Total	91 506	1 520	93 420	1 503

The largest concentration in terms of the number of annuitants is for small amounts of income per annum. 90% (2009:89%) of the total amount of income payable per year relates to income per annuity of R200 000 or less.

iv. Permanent health insurance business

Momentum also pays Permanent Health Insurance ("PHI") income to disabled employees, the bulk of which are from employee benefit insured schemes. The income payments continue to the earlier of death, recovery or retirement of the disabled employee. There is, therefore, the risk of lower recovery rates or lower mortality rates than assumed, resulting in claims being paid for longer periods. Claims in payment are reviewed annually to ensure claimants still qualify and rehabilitation is managed and encouraged.

Persistency risk

Persistency risk relates to the risk that policyholders may cease or reduce their contributions or withdraw their benefits and terminate their contracts prior to the contractual maturity date of a contract. Expenses such as commission and acquisition expenses are largely incurred at outset of the contract. These upfront costs are expected to be recouped over the term of a contract from fees and charges from the contract. Therefore, if the contract or premiums are terminated before the contractual date, expenses might not have been fully recovered, resulting in losses being incurred. As a result, the amount payable on withdrawal normally makes provision for recouping any outstanding expenses from intermediaries. Losses may, however, still occur if the expenses incurred exceed the value of a policy, which normally happens early on in the term of recurring premium policies or where the withdrawal amount does not fully allow for the recovery of all unrecouped expenses. This may either be due to a regulatory minimum applying, or because of product design.

The recovery of expenses is in line with the regulatory limitations introduced in 2006. Therefore, in addition to setting realistic assumptions with regards to termination rates (rates of withdrawal and lapse) based on actual experience, specific amounts are set aside to cover the expected cost of any lost charges when policyholders cease their premiums or terminate their contracts. In addition, efforts are in place to actively retain customers at risk of departure due to lapse, surrender or maturity.

Effective 1 January 2009, industry commission regulations have been reformed such that the commission paid on many products with investment contracts is more closely aligned to premium collection and terms of the contract. This reduces the risk of non recovery of commission on new policies subsequently cancelled or paid up.

Expense risk

There is a risk that a loss may be experienced due to actual expenses being higher than that assumed when pricing and valuing policies. This may be due to inefficiencies, higher than expected inflation, lower than expected volumes of new business or higher than expected terminations resulting in a smaller in-force book size.

Momentum performs expense investigations annually and sets pricing and valuation assumptions to be in line with actual experience, with allowance for inflation. The inflation assumption furthermore allows for the expected gradual shrinking of the number of policies arising from the run-off of books closed to new business arising from past acquisitions.

Business volume risk

There is a risk that insufficient volumes of new business may be sold to meet the expenses associated with distribution and administration. A significant portion of the new business acquisition costs are variable and relate directly to sales volumes. The fixed cost component can be scaled down if there is an indication of a permanent decline in business volumes. A further mitigating factor is that the distribution channels used to generate new insurance and investment business are also used to distribute other product lines within Momentum, such as health insurance and short term insurance.

Sensitivities

The following table sets out the impact on liabilities of changes in the key valuation assumptions relating to insurance risk. The numbers in the table demonstrate the impact on liabilities if experience deviates from 'best estimate' assumptions in all future years – not only in one given time period.

Liability sensitivities (audited)

R million	2010 Liability	Renewal expenses decrease by 10%	Expense inflation decreases by 1%	Discon-tinuance rates decrease by 10%	Mortality and morbidity decrease by 10%	Investment returns reduce by 1%
Insurance business (as defined under IFRS 4)						
Retail insurance business (excluding annuities)	**21 619**	**21 432**	**21 535**	**21 665**	**21 123**	**21 685**
Annuities (retail and employee benefits)	**17 542**	**17 503**	**17 510**	**17 542**	**17 755**	**18 668**
Employee benefits business	**1 749**	**1 749**	**1 749**	**1 749**	**1 753**	**1 755**
Investment business (as defined under IFRS 4)	**111 385**	**111 413**	**111 417**	**111 449**	**111 421**	**111 608**
Total	**152 295**	**152 097**	**152 211**	**152 405**	**152 052**	**153 716**

R million	2009 Liability	Renewal expenses decrease by 10%	Expense inflation decreases by 1%	Discon-tinuance rates decrease by 10%	Mortality and morbidity decrease by 10%	Investment returns reduce by 1%
Insurance business (as defined under IFRS 4)						
Retail insurance business (excluding annuities)	20 843	20 692	20 750	20 846	20 293	20 903
Annuities (retail and employee benefits)	16 677	16 634	16 634	16 677	16 903	18 057
Employee benefits business	1 549	1 549	1 549	1 549	1 554	1 555
Investment business (as defined under IFRS 4)	110 227	110 222	110 224	110 227	110 227	110 379
Total	149 296	149 097	149 157	149 299	148 977	150 894

The above sensitivities were chosen as representing the main assumptions regarding future experience that is employed in determining Momentum's insurance liabilities. The magnitudes of the variances were chosen to be consistent with the sensitivities shown in the published embedded value report and also to facilitate comparisons with similar sensitivities published by other insurance companies in South Africa.

It is not uncommon to experience one or more of the stated deviations in any given year. There might be some correlation between sensitivities, for instance, changes in investment returns are normally correlated with changes in discontinuance rates. The table above shows the impact of each sensitivity in isolation, without taking into account possible correlations.

The table does not show the financial impact of variances in lump sum mortality and morbidity claims in respect of employee benefit business, because of the annually renewable nature of this class of insurance. An indication of the sensitivity of financial results to mortality and morbidity variances on this class of business can be obtained by noting that a 10% (2009: 10%) increase in mortality and morbidity lump sum benefits paid on employee benefits in any given year will result in a reduction of R79.4 million (2009: R73.7 million) in before tax earnings.

It should be pointed out that the table shows only the sensitivity of liabilities to changes in valuation assumptions. It does not fully reflect the impact of the stated variances to Momentum's financial position. In many instances, changes in the fair value of assets will accompany changes in liabilities. An example of this is the annuity portfolio, where assets and liabilities are closely matched. A change in annuitant liabilities, following a change in long term interest rates will be countered by an almost equal change in the value of assets backing these liabilities, resulting in a relatively modest overall change in net asset value.

6. CREDIT RISK

Introduction

Credit risk is the risk of loss due to non performance of a counterparty in respect of any financial or performance obligation due to deterioration in the financial status of the counterparty. It could also arise from the decrease in value of an asset subsequent to the downgrading of a counterparty.

Credit risk arises from the investment in corporate debt in the shareholders' and guaranteed portfolios as well as linked portfolios and can offset Momentum's financial position (adversely or positively) if the actual experience (on the total portfolio of exposures) is different from the margins allowed for in the asset and liability valuations.

Credit risk governance

Credit risk is managed in terms of the Credit Risk Management Framework, which is an ancillary framework of the Risk Management Framework. The governance of credit risk is comprehensively set out in the Credit Risk Charter. The overall responsibility for the effectiveness of credit risk management processes vests with the Board. The operational responsibility has been delegated to the Risk committee, the Credit risk committee, executive management and the credit risk management function. The Credit risk committee is also responsible for setting and monitoring the credit risk sections of mandates for linked policyholder portfolios.

The Credit risk committee is a subcommittee of the Risk committee and is comprised of executive and non executive members and is chaired by a non executive member. This committee reports to the Risk committee on the effectiveness of credit risk management and provides an overview of the credit portfolio. The Credit risk committee and its subcommittees are responsible for the approval of relevant credit policies and the ongoing review of the credit exposure. This includes the monitoring of the following:

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

Credit risk management

Management recognises and accepts that losses may arise through the inability of corporate debt issuers to service their debt obligations to a larger extent than that assumed in the pricing and valuation models. In order to limit this risk, the Credit risk committee has formulated guidelines regarding the investment in corporate debt instruments, including a framework of limits based on the credit risk appetite, the nature of the exposure, a detailed assessment of the counterparty's financial strength, the prevailing economic environment, industry classification and other qualitative factors.

To achieve the above, an internal credit risk management function performs ongoing management of the credit portfolio. Stochastic portfolio credit risk models are used to gauge the level of portfolio credit risk, consider levels of required capital and identify sources of concentration risk and the implications thereof.

Regular risk management reporting to the Credit risk committee includes credit risk exposure reporting, which contains relevant data on the counterparty, credit limits and ratings (internal and external). Counterparty exposures in excess of set credit limits are monitored and corrective action is taken where required.

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

Concentration risk

Concentration risk is managed at the credit portfolio level. The nature thereof differs according to segment. Concentration risk management in the credit portfolio is based on individual name limits and exposures, which are reported to and approved by the Credit risk committee, and the monitoring of industry concentrations. A sophisticated credit portfolio model has been developed to quantify concentration risk and its potential impact on the credit portfolio.

Portfolio overview

The following represents the total exposure to credit risk (before taking into account any security held).

Total exposure to credit risk (audited)

R million	2010 Insurance	2010 Asset management	2010 Other	2010 Total
Maximum exposure to credit risk before taking into account any collateral held:				
Cash and short term funds	30 489	327	42	30 858
Accounts receivable	1 609	109	31	1 749
– Premium debtors	342	–	–	342
– Commission debtors	102	–	–	102
– Reinsurance debtors	241	–	–	241
– Other	924	109	31	1 064
Investment securities	43 145	28	–	43 173
Derivative financial instruments	6 521	–	–	6 521
Policy loans	642	–	–	642
Reinsurance assets	628	–	–	628
Total	83 034	464	73	83 571

R million	2009 Insurance	2009 Asset management	2009 Other	2009 Total
Maximum exposure to credit risk before taking into account any collateral held:				
Cash and short term funds	40 825	86	56	40 967
Accounts receivable	6 244	104	37	6 385
– Premium debtors	445	–	–	445
– Commission debtors	137	–	–	137
– Reinsurance debtors	212	–	–	212
– Other	5 450	104	37	5 591
Investment securities	33 570	94	–	33 664
Derivative financial instruments	9 455	–	–	9 455
Policy loans	604	–	–	604
Reinsurance assets	8 143	–	–	8 143
Total	98 841	284	93	99 218

Corporate and government debt

A portfolio management approach to credit exposures is adopted. In order to achieve appropriate diversification, limits are applied to individual counterparties and at industry sectors, the number of single obligor exposures within rating categories, and the targeted weighted average rating of the portfolio.

The guaranteed and linked exposure to corporate and government debt amounted to R45.7 billion at 30 June 2010 (2009: R33.6 billion).

Exposure to corporate and government debt (audited)

R million	Banks	RSA Government	Utilities	Mining	Other sectors	Total
2010	**5 138**	**16 599**	**2 077**	**–**	**21 890**	**45 704**
2009	2 325	14 503	2 295	–	14 541	33 664

The exposure to other sectors is spread across 33 industry sectors (2009: 29), with no single sector representing more than 3.70% (2009: 5.6%) of the total corporate debt exposure.

The exposure to banks represents debt, cash on deposit, derivative and other exposures. The largest counterparty exposure is to the RSA Government with R16.6 billion in exposure at 30 June 2010 (2009: R14.5 billion).

The total debt portfolio is spread as follows across the various ZAR rating categories (based on Standard & Poor's rating scale) at 30 June 2010.

Debt portfolio per ZAR rating categories (unaudited)

	2010					
R million	Cash and short term funds	Reinsurance assets	Investment securities	Scrip lending	Derivatives	Total
National scale mapping (International equivalent):						
AAA to BBB- (A to B+)	30 579	599	35 460	4 201	6 521	77 360
BB+ to B- (B+ to B-)	29	–	2 378	–	–	2 407
Below B- (CCC)	–	–	–	–	–	–
Unrated	250	28	6 265	–	–	6 543
Total	**30 858**	**627**	**44 103**	**4 201**	**6 521**	**86 310**

	2009					
R million	Cash and short term funds	Reinsurance assets	Investment Securities	Scrip lending	Derivatives	Total
National scale mapping (International equivalent):						
AAA to BBB- (A to B+)	40 960	8 120	32 498	4 672	9 455	95 705
BB+ to B- (B+ to B-)	6	–	–	–	–	6
Below B- (CCC)	–	–	–	–	–	0
Unrated	1	23	1 166	–	–	1 190
Total	40 967	8 143	33 664	4 672	9 455	96 901

Investment grade

AAA to BBB-: These are obligations which are judged to be of a high credit quality and are subject to low credit risk.

BB+ to B-: These are obligations which are of a medium quality and are subject to moderate credit risk.

Below B-: These are obligations which have a low credit quality. They are considered to be riskier than the other classes.

Commission debtors

Commission debtors arise when upfront commission paid on recurring premium policies is clawed back (on a sliding scale) within the first two years of origination. As the largest portion of new business arises from brokerages that are subsidiaries of A-rated South African banks, the risk of default is low and relates mainly to independent intermediaries.

An impairment of commission debits is made to the extent that these are not considered to be recoverable and a legal recovery process commences. The total provision for commission debtors amounted to R59 million at 30 June 2010 (2009: R42 million), compared with total commission payments of R1 204 million for the year (2009: R1 144 million).

Reinsurance

Momentum only enters into reinsurance treaties with reinsurers registered with the FSB. The reinsurers contracted represent subsidiaries of large international reinsurance companies and no instances of default have yet been encountered.

Regular monthly reconciliations are performed regarding claims against reinsurers and the payment of premiums to reinsurers.

Reinsurance proportions (audited)

	2010		2009	
Reinsurer	Reinsured proportion	International credit rating of reinsurer (Standard & Poor's)	Reinsured proportion	International credit rating of reinsurer (Standard & Poor's)
Swiss Re	37%	A+	47%	A+
General Cologne Re	39%	AA+	24%	AA-
Hannover Re	16%	A	19%	AAA
RGA Re	4%	A-	7%	AA-
Munich Re	3%	A+	–	–
Other	1%	–	3%	–

Policy loan debt

Momentum's policy is to automatically lapse a policy where the policy loan debt exceeds the fund value. There is, therefore, little risk that policy loan debt will remain irrecoverable. The policy is considered to be collateral for the debt. The fair value of the collateral is considered to be the value of the policy as determined in accordance with the accounting policies.

In terms of applicable regulations, the value of the policy loans may not exceed the value of the policy and as a result the policy loans are fully collateralised by assets which Momentum owns. The value of the collateral is the value of the policy which is determined as set out in the accounting policies.

Scrip lending

Momentum lends out selected listed equity holdings. At 30 June 2010 a total of R3 999 million (2009: R4 672 million), or 5% (2009: 8%) of the total equity holding, was out on loan. Fees received for scrip lending are included in fee income.

Collateral, in the form of either cash or fixed interest government bonds, at least equal to the value of scrip on loan is retained on an ongoing basis in order to mitigate the risk of default.

Derivative contracts

Derivative contracts are entered into with A-rated local banks on terms set out by the industry standard International Swaps and

Derivatives Agreements ("ISDA"). In terms of these ISDA agreements, derivative assets and liabilities can be set off with the same counterparty resulting in only the net exposure being included in the overall Group counterparty exposure analysis.

Included in investment securities are amounts relating to corporate debt for which Momentum holds collateral. The fair value of the collateral is determined from time to time using valuation techniques generally accepted for the underlying assets.

7. MARKET RISK

Introduction

Market risk is the risk that Momentum is unable to meet its obligations due to changes in the market value of the assets matching the liabilities, as well as the risk that earnings and/or solvency levels are affected adversely by developments in investment markets.

Market risk comprises the risk of changes in the market values of its assets and liabilities due to changes in rates of exchange of currency, interest rates, property prices and equity prices.

Market risk exists in all trading, banking and investment portfolios. For the purpose of these financial statements market risk is considered to be fully contained within the trading portfolios. Primarily market risk managed through the Balance Sheet Management ("BSM") committee.

Market risk governance

The BSM committee, which is a subcommittee of the Risk committee, provides oversight for interest rate risk, funding and liquidity risk assumed in the balance sheet.

The exposure to financial risks is managed by matching with appropriate assets (as far as this is practically possible). In addition, the Investment committee monitors investment performance achieved on behalf of policyholders, compares performance against benchmarks and evaluates the appropriateness of investment mandates and benchmarks.

Market risk management

For each of the major components of market risk, described in more detail below, Momentum is in the process of improving policies and procedures to manage and monitor each of the major market risk components in terms of its overall risk appetite.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

The majority of currency exposure results from the offshore assets held by policyholders' portfolios to provide the desired international exposure, subject to the limitations imposed by the SARB. The bulk of these assets support linked policyholders' liabilities. This results in the bulk of the currency risk being assumed by policyholders in terms of the policy contracts.

The following assets and liabilities, denominated in foreign currencies, where the currency risk resides with Momentum, are included in the balance sheet.

Shareholders assets and liabilities (audited)

	2010				
R million	GBP	US$	Euro	Other	Total
Assets					
Cash and short term funds	–	–	37	3	40
Investment securities	–	–	869	46	915
Accounts receivable	–	–	3	8	11
Current income tax asset	–	–	–	4	4
Total assets	–	–	909	61	970
Liabilities					
Accounts payable	–	–	2	5	7
Total liabilities	–	–	2	5	7

Assets backing policyholder liabilities (audited)

	2010				
R million	GBP	US$	Euro	Other	Total
Assets					
Cash and short term funds	158	57	55	49	320
Money market investments	520	–	–	–	520
Accounts receivable	1	5	23	50	79
Investment securities	11 398	565	228	5 170	17 360
Property and equipment	1	–	–	3	4
Total assets	12 078	627	306	5 272	18 283
Liabilities					
Accounts payable (including insurance payable)	17	5	46	41	109
Policyholder liabilities under investment contracts	–	–	869	–	869
Policyholder liabilities under insurance contracts	–	–	–	36	36
Total liabilities	17	5	915	77	1 014

Foreign exchange rates (audited)

	2010			
	GBP	US$	Euro	Pula
Foreign exchange rates as at 30 June 2010				
Closing rate	11.4753	7.6576	9.3889	1.0831
Average rate	11.9557	7.5869	10.5087	1.1163

Shareholders' assets and liabilities (audited)

	2009				
R million	GBP	US$	Euro	Other	Total
Assets					
Cash and short term funds	–	–	32	4	36
Investment securities	–	–	–	31	31
Accounts receivable	–	–	13	9	22
Current income tax asset	–	–	–	2	2
Total assets	–	–	45	46	91
Liabilities					
Accounts payable	–	–	7	7	14
Total liabilities	–	–	7	7	14

Assets backing policyholder liabilities (audited)

	2009				
R million	GBP	US$	Euro	Other	Total
Assets					
Cash and short term funds	134	–	26	6	166
Money market investments	311	429	–	–	740
Accounts receivable	2	141	24	36	203
Investment securities	7 184	7 814	770	35	15 803
Property and equipment	3	–	–	3	6
Total assets	7 634	8 384	820	80	16 918
Liabilities					
Accounts payable (including insurance payable)	36	52	29	38	155
Policyholder liabilities under investment contracts	–	–	701	–	701
Policyholder liabilities under insurance contracts	–	–	–	25	25
Total liabilities	36	52	730	63	881

Foreign exchange rates (audited)

	2009			
	GBP	US$	Euro	Pula
Closing rate	12.7137	7.7280	10.8451	1.1484
Average rate	14.0767	8.8806	12.0724	1.2147

Interest rate risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in interest rates, which may result in mismatches between assets and liabilities.

The following sections set out the areas where there is exposure to interest rate risk, as well as how this is managed.

i. Non profit annuity business

An annuity policy pays an income to the annuitant, in return for a lump sum consideration paid on origination of the annuity policy. Income payments may be subject to a minimum period. The income may be fixed, increase at a fixed rate or in line with inflation.

This income is guaranteed and the value of the liability is, therefore subject to interest rate risk, in addition to the risk of longer than anticipated life expectancy. In order to hedge against the interest rate risk, Momentum invests in an actively managed portfolio of government and corporate bonds, promissory notes from banks and swaps with approximately the same duration as the liabilities. The mismatch risk is measured in terms of duration and convexity risk. The portfolio aims to minimise both of these risks. Index linked annuities, which provide increases in line with inflation, are matched with index linked bonds. Where perfect cash flow matching is not possible, interest rate risk is minimised by ensuring the values of assets and liabilities respond similarly to small changes in interest rates and a mismatching liability is raised as a component of the investment stabilisation account. The matching position of the portfolio is considered monthly. The asset managers are motivated, by way of performance fees, to minimise any mismatching risk.

As an indication of the robustness of the asset liability management, it is worth noting that a 25% horizontal shift in the risk free yield curve as at 30 June 2010 would have resulted in a 0.2% move (2009:1.6%) in the interest rate sensitive liability relative to assets. Similar to the annuity portfolio, the liability for PHI payments to disabled employees of insured group schemes is matched by fixed and index linked bonds to protect against interest rate movements.

ii. Guaranteed endowments and structured products

Momentum issues guaranteed endowment policies – the majority of these contracts are five year single premium endowment policies providing guaranteed maturity values. In terms of these contracts, policyholders are not entitled to receive more than the guaranteed maturity value as assured at inception. The obligation is hedged by investing in assets that will provide the required yield at the relevant date and term.

A variation on guaranteed endowment policies are contracts where the capital guarantee is combined with a guaranteed return linked to the returns on local and offshore market indices. The risk associated with the guarantee on these contracts is managed through the purchase of appropriate assets and the risk of the offshore indices is hedged through equity linked notes issued by banks. In addition to these hedging strategies, a portion of the guaranteed endowment policies is reinsured with reputable reinsurers in terms of Momentum reinsurance policies.

To demonstrate the interest rate hedging on guaranteed and structured endowments, it was calculated that, at 30 June 2010, a 25% horizontal shift in the yield curve would have resulted in a 0.25% move (2009: 0.34%) in liabilities relative to assets.

iii. Individual life risk products

These policies mainly represent whole life and term assurance contracts, which provide lump sum benefits on death and disability. The present value of the future fees (included in the premium rates) expected to be earned on this business is capitalised and offset against the liabilities. A long term interest rate is used to calculate the present value of the future fees. Any changes in long term interest rates would therefore result in a change in the value of the negative rand reserves.

iv. Other non profit business

In addition to mortality risk, morbidity risk, expense risk and persistency risk, there is also the risk that investment return experienced may be lower than that assumed when the price of insurance business was determined. Momentum reduces this risk by investing in assets comparable to the nature of these liabilities, such as fixed interest investments.

v. Impact of changes in interest rates

The tables below provide a split of interest bearing assets that are exposed to cash flow interest rate risk and those that are exposed to fair value interest rate risk.

Interest bearing assets (audited)

	2010		
R million	Total	Cash flow interest rate risk	Fair value interest rate risk
Cash and short term funds	22 611	22 611	–
Money market investments	8 247	7 390	857
Investment securities	17 706	46	17 660
Total	**48 564**	**30 047**	**18 517**

	2009		
R million		Cash flow interest rate risk	Fair value interest rate risk
Cash and short term funds	4 014	4 010	4
Money market investments	36 953	33 466	3 487
Investment securities	33 664	3 332	30 332
Total	74 631	40 808	33 823

The table below illustrates the amount where there is a contractual repricing of the coupon interest rate prior to the maturity date.

Contractual repricing (unaudited)

R million	2010	2009
Government and public authority stocks	46	56
Debentures and other loans	–	–
	46	56

Refer to the section on liquidity risk for maturity profiles of interest bearing liabilities.

Property risk

Property risk is the risk that the value of investment properties will fluctuate as a result of changes in the rental market and interest rates. Property investments are made on behalf of policyholders, shareholders and other investment clients and are reflected at market value. Diversification in property type, geographical location and tenant exposure are all used to reduce the risk exposure.

The ability to let investment property as well as the future fair value of investment properties may be affected by the impact of the global financial crisis and the current downturn in the property market. The exposure to direct investment properties is limited through the diversification of assets and ownership of participatory interests in property unit trusts rather than direct ownership of the properties.

Equity risk

Equity risk is the risk that the value of a financial instrument will fluctuate as a result of changes in the market price. Exposure arises from equity investments made on behalf of shareholders and policyholders, including equities backing guaranteed liabilities, minimum investment return guarantees in some universal life products and as a result of fees charged as a percentage of policyholder assets that are invested in equities.

Equities are reflected at market values, which are susceptible to fluctuations. The risks from these fluctuations can be separated into systematic risk (affecting all equity instruments) and specific risk (affecting individual securities). In general, specific risk can be reduced through diversification but systematic risk cannot.

The equity risk is managed by employing the following procedures:

- mandating specialist equity fund managers to invest only in listed equities, where there is an active market and where access is gained to a broad spectrum of financial information relating to the companies invested in;
- diversifying across many securities to reduce specific risk. Diversification is guided by the concentration rules imposed on admissible assets by the Long Term Insurance Act;
- requiring these fund managers to maintain the overall equity exposure within the prudential investment guidelines set by the FSB; and
- considering the risk reward profile of holding equities and assuming appropriate risk in order to obtain higher expected returns on assets.

i. Individual insurance and investment contracts with discretionary participation features

Various product lines in this category are offered with some products closed to new business.

Assets are invested in a balanced mix of local and offshore equities, fixed interest assets, property and cash, according to the asset manager's best investment view. The Investment committee regularly monitors the asset mix and performance to ensure that the expected returns are in line with policyholders' expectations. Separate investment portfolios are managed for smoothed bonus products.

The investment return earned on the underlying assets, after tax and charges, is distributed to policyholders in the form of bonuses in line with product design, policyholders' reasonable expectations, affordability and management discretion. The use of bonuses is a mechanism to smooth returns to policyholders, in order to reduce the risk of volatile investment performance. Any returns not yet distributed are retained in a bonus stabilisation account ("BSA"), for future distribution to policyholders.

In the event of adverse investment performance, such as a sudden or sustained fall in the market value of assets backing smoothed bonus business, the BSA may be negative. In such an event, there are the following options:

- to assume lower bonuses will be declared in future in valuing the liabilities;
- to actually declare lower bonuses;
- a portion of bonuses declared is not guaranteed and in the event of a fall in the market value of assets, Momentum has the right to remove previously declared non guaranteed bonuses. This will only be done if it is believed that markets will not recover in the short term;
- a market value adjuster may be applied in the event of voluntary withdrawal to ensure that withdrawal benefits do not

exceed the market values. This is to protect remaining policyholders;

- the use of short term derivative hedging strategies to protect the funding level against further deterioration due to poor investment performance;
- using funds in the additional BSA to temporarily or permanently top up the BSA on recommendation of the Actuarial committee and approval from the Board. This is a general BSA set aside as a buffer to support all smoothed bonus business. This account is not attributable to any specific class of smoothed bonus business and is not intended for distribution under normal market conditions; and
- in very extreme circumstances, funds may be transferred from the shareholder portfolio into the BSA on a temporary or permanent basis.

ii. Individual contracts offering investment guarantees

Momentum has a book of universal life business that is closed to new business, which offers minimum maturity values based on a specified rate of investment return. This guaranteed rate is around 4.5% p.a. for the bulk of business. This applies to smoothed bonus portfolios as well as certain market linked portfolios. On some smoothed bonus portfolios, there is also a guarantee to policyholders that the annual bonus rate will not be less than a contractual minimum (also around 4.5% per year).

These guarantees are no longer automatically offered on new business. Policyholders do, however, have the option to purchase a minimum guaranteed return of up to 3.5% per annum. The guarantee charge is set at a level that will cover the expected cost of guarantees, including the opportunity cost of additional capital held in respect of these guarantees. Only selected portfolios qualify for this guarantee and the guarantee also applies only for specific terms.

The risk of being unable to meet guarantees is managed by holding a specific liability for minimum maturity values and other guaranteed benefits arising from minimum contractual investment returns in accordance with local actuarial guidance. A stochastic model is used to quantify the reserve required to finance possible shortfalls in respect of minimum maturity values and other guaranteed benefits. The model is calibrated to market data and the liability is calculated every six months. Statutory capital is held in respect of the guarantee risk. The amount of capital is calculated to be sufficient to cover the cost of guarantees in the event of a 30% fall in market value of equities and an adverse move of 25% in interest rates.

iii. Group contracts with discretionary participation features ("DPF")

The Momentum Secure Bonus, Momentum Structured Growth and Momentum Capital Plus portfolios are offered to institutional investors and provide a continuous guarantee on capital and declared bonuses. Bonuses are fully vesting and are declared monthly in advance.

No market value adjuster applies but allowance is made for the payment of benefits over a period of up to 12 months if large collective outflows may prejudice remaining investors. Extensive use is made of derivative instruments to minimise downside market risk in the group DPF portfolios. Because of this strategy, BSAs in respect of group DPF business are small, relative to the bonus stabilisation accounts on individual (retail) business.

Under adverse circumstances the BSA may become negative. To protect equity between different generations of policyholders, the additional BSA may be utilised to temporarily or permanently top up the BSA on recommendation of the Actuarial committee and approval from the Board.

iv. Market related/unit linked business

Market related or unit linked contracts are those invested in portfolios where there is a direct relationship between the returns earned on the underlying portfolio and the returns credited to the contract. These may be investment contracts or insurance contracts and include universal life contracts which also provide cover on death or disability.

Policyholders carry the investment risk; however, Momentum carries a risk of reduced income from fees where these are based on investment returns or the underlying fund value or where investment conditions affect its ability to recoup expenses incurred. Furthermore there is also the reputational risk if actual investment performance is not in line with policyholders' expectations. These risks are managed through the rigorous investment research process applied by Momentum's investment managers, which is supported by technical as well as fundamental analysis.

Sensitivity to market risk

The profit and net asset value is sensitive to market risk as a result of the following:

- insurance contracts issued;
- investment contract business; and
- investments made using the shareholder free reserves.

The following table represents the effect on net profit and equity as a result of plausible changes in market factors which give rise to market risk for each of the categories identified above.

The sensitivities were chosen to be in line with industry practice and sensitivities already performed for other purposes

Sensitivities (audited)

	2010						
	Equity prices		Interest rates		Exchange rates		
	Increase by 10%	Decrease by 10%	Increase by 100 bps	Decrease by 100 bps	Improve by 10%	Worsen by 10%	Combined scenario 1
Net profit after tax for the year	1 721	1 721	1 721	1 721	1 721	1 721	1 721
Change in profit from insurance contracts as a result of the reasonably plausible change[1]	170	(162)	(15)	(18)	(20)	24	(147)
Change in profit from investment contracts as a result of the reasonably plausible change	89	(89)	14	(21)	(10)	11	(65)
Change in profits attributable to asset manager operations	36	(36)	(4)	4	(5)	4	(36)
Change in profit from shareholders free assets as a result of the change:							
– Returns on shareholders assets	–	–	39	(39)	–	–	39
– Gains on available-for-sale financial instruments recycled from equity	–	–	–	–	–	–	–
Net change in profit for the year before stabilisation	295	(288)	33	(73)	35	40	(209)
Impact of stabilisation	(170)	162	5	29	20	(24)	136
Net change in profit for the year after stabilisation	126	(126)	38	(45)	(16)	16	(73)
Net profit for the year after the plausible change	1 847	1 595	1 759	1 676	1 705	1 737	1 648
Effect on equity of the reasonably possible change							
Available-for-sale reserve	–	–	–	–	–	–	–
Foreign currency translation reserve	–	–	–	–	(14)	14	14
Retained earnings							
– Net profit	126	(126)	38	(45)	(16)	16	(73)
– Dividends	(50)	50	(15)	(18)	6	(6)	29
Equity	75	(75)	23	(27)	(24)	24	(30)

1 *Equity prices decrease by 10%, interest rates increase by 100bps, property values decrease by 10% and exchange rates worsen by 10%.*

	2009						
	Equity prices		Interest rates		Exchange rates		
	Increase by 10%	Decrease by 10%	Increase by 100 bps	Decrease by 100 bps	Improve by 10%	Worsen by 10%	Combined scenario 1
Net profit after tax for the year	1 594	1 594	1 594	1 594	1 594	1 594	1 594
Change in profit from insurance contracts as a result of the reasonably plausible change[1]	146	(146)	–	(63)	(25)	25	(158)
Change in profit from investment contracts as a result of the reasonably plausible change	81	(83)	7	(11)	(22)	22	(58)
Change in profits attributable to asset manager operations	30	(31)	(4)	4	1	(1)	(36)
Change in profit from shareholders free assets as a result of the change:							
– Returns on shareholders assets	–	–	39	(39)	–	–	39
– Gains on available-for-sale financial instruments recycled from equity	–	–	–	–	–	–	–
Net change in profit for the year before stabilisation	258	(259)	42	(108)	(46)	46	(213)
Impact of stabilisation	(146)	145	(3)	68	25	(25)	154
Net change in profit for the year after stabilisation	112	(113)	39	(40)	(21)	21	(58)
Net profit for the year after the plausible change	1 706	1 481	1 633	1 554	1 573	1 615	1 536
Effect on equity of the reasonably possible change							
Available-for-sale reserve	–	–	–	–	–	–	–
Foreign currency translation reserve	–	–	–	–	(23)	23	23
Retained earnings							
– Net profit	112	(113)	39	(40)	(21)	21	(58)
– Dividends	(45)	45	(15)	16	8	(8)	23
Equity	67	(68)	23	(24)	(35)	35	(12)

1 *Equity prices decrease by 10%, interest rates increase by 100bps, property values decrease by 10% and exchange rates worsen by 10%.*

The sensitivity ranges represent estimates of a range of plausible (although not equally likely) changes within a 12 month period from the reporting date are prescribed by actuarial professional guidance. It is current market practice in South Africa to disclose these sensitivities.

Using the same sensitivities for the IFRS7 disclosure requirements facilitates comparison with other industry participants.

Market risk sensitivities have been applied as an event on the balance sheet date, 30 June 2010. The change factors were applied to:

- assets at the balance sheet date;
- policyholder liabilities at the balance sheet date; and
- income and expenditure over a 12 month period.

Assets at the balance sheet date were impacted as follows:

- equities and property were revalued, using the relevant market price sensitivities;
- bonds were revalued, using the relevant interest rate sensitivities (parallel shift in the yield curve);

- all offshore asset classes were revalued, using the relevant exchange rate sensitivities; and
- strategic subsidiaries, which are shown at fair value in the company accounts, have been revalued to reflect the relevant equity and interest rate sensitivities.

The impact of the sensitivities on policyholder liabilities was quantified as follows:

- investment accounts were adjusted;
- changes were made to the expected future investment returns and the rate at which cash flows are discounted in the liability calculation; and
- policyholder options and guarantees (including investment guarantees) as described in actuarial PGN110 were revalued.

In determining the impact of the sensitivities on income and expenses over 12 months, the following items were considered:

- fee income that is a function of investment returns;
- asset management fee income that is a function of the amount of assets under management;
- asset management expenditure that is a function of the amount of assets under management;
- interest income; and
- revaluation of shareholder assets (fair value adjustment).

In line with current Momentum practices, the profits from insurance contracts were stabilised. This is particularly relevant for asset price movements away from the long term average, provided that the investment stabilisation accounts have a positive balance.

The calculations were performed in isolation for the separate categories of business and aggregated to indicate the overall effect on Momentum.

The following assumptions are specific to the scenarios presented above:

Equity market value sensitivity:

- the change in equity prices was assumed to be a once off change;
- future dividend yields were assumed to remain unchanged; and
- no change was assumed in expected future returns and discount rates used in valuing liabilities as a result of changes to equity prices.

Interest rate sensitivity:

- the expected future real rates of return were assumed to remain unchanged; and
- future inflation rates were assumed to change in line with interest rates.

Exchange rate sensitivity:

- the value of foreign currency denominated assets were assumed to change as a result of changes in the exchange rates; and
- no changes were assumed in respect of expected future returns and discount rates used in valuing liabilities as a result of changes in the exchange rates.

8. LIQUIDITY RISK

Introduction

Liquidity risk is the risk that Momentum will encounter difficulty in raising liquid funds to meet commitments to policyholders under policy contracts and in respect of other obligations as and when these fall due.

Liquidity risk governance

The Balance sheet management committee which is a subcommittee of the Risk committee provides market risk oversight for interest rate risk, funding and liquidity risk assumed in the balance sheet.

Liquidity risk management

Guaranteed policyholder benefits

Where possible, the expected liability outflow is matched by assets that provide the required cash flows as and when they become payable. Examples of guaranteed benefits that are matched by suitable assets include annuities and guaranteed endowments.

Unitised and smoothed bonus policyholder benefits

These benefits are determined mainly by reference to the market value of underlying assets. On maturity of policy contracts, assets are disposed of in the market, but only to the extent that cash flows into the fund are insufficient to cover the outflow. Assets are generally easy to realise as the assets consist mainly of large listed equity counters, government securities or funds on deposit.

Maturity dates are normally known in advance and cash flow projections are performed to aid in portfolio and cash flow management. Where the product design allows for the payment of an early termination value (i.e. a benefit payment before the contractual maturity date), such value is not normally guaranteed but is determined at the company's discretion (subject to certain minima prescribed by legislation). This limits the loss on early termination. If underlying assets are illiquid, the terms of the policy contract normally allow for a staggered approach to early termination benefit payments. Examples of the latter are contracts that invest in unlisted equity and certain property funds.

When a particular policyholder fund is contracting (i.e. outflows exceed inflows), care is taken to ensure that the investment strategy and unit pricing structure of the fund are appropriate to meet liquidity requirements (as determined by cash flow projections). In practice, such a fund is often merged with cash flow positive funds, to avoid unnecessary constraints on investment freedom.

Other policyholder benefits

Policyholder contracts that provide mostly lump sum risk benefits do not normally give rise to significant liabilities compared to policies that provide mostly savings benefits. Funds supporting risk benefits normally have substantial cash inflows, from which claims can be paid. Accrued liabilities are matched by liquid assets, to meet cash outflows in excess of expected inflows.

On certain large corporate policy contracts, the terms of each individual policy contract takes into account the relevant liquidity requirements. Examples of such contractual provisions include the payment of benefits in specie, or a provision for sufficient lag times between the termination notification and payment of benefits.

Shareholder funds

The only significant shareholders' liability is the callable bond issued during 2005. Shareholders' funds include sufficient cash resources to fund the coupon payments under this bond, and the nominal amount, which is callable in 2014, will be funded from cash resources at that time.

Liquidity risk – policyholders

The following tables indicate the liquidity needs in respect of obligations arising under long term insurance and investment contracts, as defined under IFRS4. The amounts in the table represent the excess of claims and expenses over premium income, expressed in present value terms (i.e. adjusted for the time value of money). Only contractual expected cash flows from the current in-force book have been modelled. Future new business has been ignored. Non contractual cash flows, e.g. those arising from early terminations of policy contracts, have also been ignored.

Cash flows relating to specific policy contract types have been apportioned between future time periods in the following manners:

i. Annuities, guaranteed endowments and PHI claims in payment

These contracts have clearly defined future payment dates. The present values of expected future payments, taking into account expected future life expectancy and guarantee terms, have been apportioned according to when payment falls due.

ii. Unitised and smoothed bonus savings contracts

These contracts provide mainly savings benefits, but may contain elements of death or disability cover. The savings benefits mostly have clearly defined maturity dates and make up the bulk of the liability in respect of this class of business. Policyholder liabilities at the reporting date have, therefore, been apportioned according to contractual maturity dates of the savings benefits. For policies without defined maturity dates, the liability has been apportioned according to the earliest possible date when benefits can be paid without regulatory restrictions.

Early termination payments and lump sum risk benefits have not been treated as contractual obligations.

On this class of business, death or disability before the contractual maturity will cause acceleration of the maturity payment. Such contingent benefit payments have been ignored, as the timing is uncertain and the payments comprise only a small portion of the total liability on this class of business.

iii. Employee benefits investment business

Liabilities have been classified as being payable in less than one year.

iv. Employee benefits risk business

These are mostly short term contracts. It is assumed that all future liabilities will be extinguished between one and five years from the reporting date.

v. Individual risk policies

The bulk of this class of business comprises whole life policies, providing lump sum death or disability benefits. The liabilities in respect of this class of business are assumed to fall due between five and ten years after the reporting date.

vi. Credit life and funeral policies

Claims on these classes of business are mostly met from future premium inflows. Liabilities are small, relative to risk exposure, and are assumed to fall due within one year.

The following maturity profiles have been presented as discounted and estimated analysis in accordance with the management of these financial instruments:

The maturity profile of policyholder liabilities under insurance contracts is set out below.

Period when cash flow becomes due (insurance contracts) (audited)

	2010				
R million	Total	Shorter than 1 year	Between 1 – 5 years	Between 5 – 10 years	Longer than 10 years
Linked (market related) business					
Individual	13 635	891	3 499	2 543	6 702
Employee benefits	–	–	–	–	–
Smoothed bonus business					
Individual	4 843	325	1 231	1 248	2 039
Employee benefits	–	–	–	–	–
With profit reversionary bonus business	3 008	173	715	532	1 588
Non profit business					
Individual	124	195	100	(684)	513
Employee benefits	1 748	1	1 747	–	–
Annuity business	17 541	1 265	8 870	3 023	4 383
Total policyholder liabilities under insurance contracts	40 899	2 850	16 162	6 662	15 225

	2009				
R million	Total	Shorter than 1 year	Between 1 – 5 years	Between 5 – 10 years	Longer than 10 years
Linked (market related) business					
Individual	12 630	648	3 027	2 477	6 478
Employee benefits	–	–	–	–	–
Smoothed bonus business					
Individual	5 186	224	1 174	1 183	2 605
Employee benefits	–	–	–	–	–
With profit reversionary bonus business	3 042	167	741	572	1 562
Non profit business					
Individual	(16)	188	88	(849)	557
Employee benefits	1 550	–	1 550	–	–
Annuity business	16 677	1 203	7 517	2 916	5 041
Total policyholder liabilities under insurance contracts	39 069	2 430	14 097	6 299	16 243

The maturity profile of policyholder liabilities under investment contracts is set out below.

Period when cash flow becomes due (investment contracts) (audited)

	2010				
R million	Total	Shorter than 1 year	Between 1 – 5 years	Between 5 – 10 years	Longer than 10 years
Linked (market related) business					
Individual	63 824	9 897	19 352	7 070	27 505
Employee benefits	32 133	32 087	16	21	9
Smoothed bonus business					
Individual	6 805	470	2 831	1 396	2 108
Employee benefits	5 618	5 618	–	–	–
Non profit business					
Individual	2 819	95	2 705	3	16
Employee benefits	–	–	–	–	–
Annuity business	941	156	328	14	443
Total policyholder liabilities under investment contracts	112 140	48 323	25 232	8 504	30 081

	2009				
R million	Total	Shorter than 1 year	Between 1 – 5 years	Between 5 – 10 years	Longer than 10 years
Linked (market related) business					
Individual	56 893	8 806	18 622	6 390	23 075
Employee benefits	38 290	38 265	17	4	4
Smoothed bonus business					
Individual	7 094	461	2 855	1 462	2 316
Employee benefits	5 285	5 285	–	–	–
Non profit business					
Individual	1 927	359	1 451	21	96
Employee benefits	–	–	–	–	–
Annuity business	738	103	199	13	423
Total policyholder liabilities under investment contracts	110 227	53 279	23 144	7 890	25 914
Net cash outflows expected in respect of insurance and investment contracts					
30 June 2010	**153 039**	**51 173**	**41 394**	**15 166**	**45 306**
30 June 2009	149 296	55 709	37 241	14 189	42 157

The following is the expected maturity analysis of the policyholder assets.

Assets backing policyholder liabilities (audited)

	2010				
R million	Total	Shorter than 1 year	Between 1 – 5 years	Between 5 – 10 years	Longer than 10 years
Cash and short term funds	22 611	22 611	–	–	–
Money market investments	8 247	8 247	–	–	–
Accounts receivable	1 749	1 749	–	–	–
Investment securities	132 042	59 462	13 934	11 584	47 062
Derivative financial instruments	6 521	1 382	4 191	431	517
Reinsurance assets	628	331	106	70	121
Total	171 798	93 782	18 231	12 085	47 700

	2009				
R million	Total	Shorter than 1 year	Between 1 – 5 years	Between 5 5 – 10 years	Longer than 10 years
Cash and short term funds	4 014	4 014	–	–	–
Money market investments	36 953	27 987	6 248	2 466	252
Accounts receivable	6 385	6 383	2	–	–
Investment securities	107 167	82 086	11 282	1 715	12 084
Derivative financial instruments	9 455	1 915	2 905	4 422	213
Reinsurance assets	8 143	7 854	152	47	90
Total	172 117	130 239	20 589	8 650	12 639
Net liquidity gap on policyholder liabilities					
30 June 2010	**(112 141)**	**(42 568)**	**(21 100)**	**(5 578)**	**(42 895)**
30 June 2009	(110 227)	(53 278)	(23 144)	(7 890)	(25 915)

The following table represents the expected cash flows to be made on shareholder liabilities.

Liquidity risk – shareholders (audited)

	2010			
R million	Total	Shorter than 1 year	Between 1 – 5 years	Between 5 – 10 years
Accounts payable (including insurance payables)	14 066	13 211	855	–
Liabilities arising as a result of consolidating collective investment schemes	7 071	7 071	–	–
Derivative financial instruments	956	299	218	439
Interest bearing borrowings	–	–	–	–
Other financial liabilities	1 990	–	190	1 800
Provisions	341	209	132	–
Employee benefit liabilities	(39)	–	–	(39)
Deferred revenue liability	367	3	169	195
Total	24 752	20 793	1 564	2 395

R million	2009 Total	Shorter than 1 year	Between 1 – 5 years	Between 5 – 10 years
Accounts payable (including insurance payables)	16 647	15 362	1 285	–
Liabilities arising as a result of consolidating collective investment schemes	8 114	8 114	–	–
Derivative financial instruments	1 853	1 003	309	541
Interest bearing borrowings	–	–	–	–
Other financial liabilities	1 623	–	148	1 475
Provisions	326	283	38	5
Employee benefit liabilities	47	–	1	46
Deferred revenue liability	322	72	250	–
Total	28 932	24 834	2 031	2 067

The following represents the expected cash flows at the expected maturity dates for the shareholders assets.

Shareholder asset cash flow at maturity (audited)

R million	2010 Total	Shorter than 1 year	Between 1 – 5 years	Between 5 – 10 years
Cash and short term funds	40	40	–	–
Money market investments	–	–	–	–
Accounts receivable	11	8	3	–
Investment securities	10	10	–	–
Total	61	58	3	–

R million	2009 Total	Shorter than 1 year	Between 1 – 5 years	Between 5 – 10 years
Cash and short term funds	36	36	–	–
Money market investments	–	–	–	–
Accounts receivable	22	22	–	–
Investment securities	31	31	–	–
Total	89	89	–	–

Undiscounted maturity analysis

The following table represents the contractual undiscounted amounts payable in respect of liabilities at the earliest date on which those liabilities are payable for all liabilities, except policyholder liabilities under insurance and investment contracts which have been included the section on liquidity risk for policyholders.

Period when cash flow becomes due (audited)

	2010			
		Period when cash flow becomes due		
R million	Total	Shorter than 1 year	Between 1 – 5 years	Between 5 – 10 years
Liabilities				
Accounts payable (including insurance payable)	14 067	13 212	855	–
Liabilities arising to third parties as a result of consolidation	7 071	7 071	–	–
Derivative financial instruments	1 041	321	242	478
Other financial liabilities	2 593	–	290	2 303
Commitments not recognised in the balance sheet	207	59	142	6
Total	24 979	20 663	1 529	2 787

	2009			
		Period when cash flow becomes due		
R million	Total	Shorter than 1 year	Between 1 – 5 years	Between 5 – 10 years
Liabilities				
Accounts payable (including insurance payable)	16 647	15 362	1 285	–
Liabilities arising to third parties as a result of consolidation	8 114	8 114	–	–
Derivative financial instruments	1 810	1 011	287	512
Other financial liabilities	2 249	–	167	2 082
Commitments not recognised in the balance sheet	142	18	95	29
Total	28 962	24 505	1 834	2 623

The balances in the table above will not agree directly with the balances on the balance sheet for the following reasons:

- the amounts included in the table above are contractual undiscounted amounts whereas the balance sheet is prepared using the discounted amounts;
- the table includes contractual cash flows with respect to items not recognised in the balance sheet;
- all instruments held for economic trading purposes are included in the call to 3 months bucket and are 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.

Financial risk inherent in consolidated collective and fund of alternative funds investment schemes

Momentum consolidates a number of collective and fund of alternative funds investment schemes as a result of exercising control over these schemes, and, therefore, the Risk Management Framework is applicable to the risk management of the schemes.

Because of the specific nature of the business of the schemes the risk management principles may be applied differently to managing the risks relevant to the schemes to how the overall financial risks are managed. This section describes how the financial risk management of the schemes differs from the overall financial risk management.

The management company of the scheme has a dedicated independent risk unit that continuously monitors the overall risk of the portfolios against stated mandate limits and the portfolios' risk appetite over time. To avoid conflicts of interest, the unit is separate from the investment team and reports directly to the COO of the management company.

When considering any new investment for a scheme, the risks and expected returns are critical elements in the investment decision. Before an instrument is included in a portfolio, risks are carefully considered at instrument and portfolio level.

A portfolio's market risk appetite is measured as a function of current market conditions and a benchmark which translates into a targeted tracking error which is monitored by the independent risk unit.

Credit and liquidity risk are mitigated through diversification of issuers in line with the policy.

All amounts disclosed include amounts attributable to the consolidated collective and fund of alternative funds investment schemes.

9. OPERATIONAL RISK

Introduction

Momentum defines operational risk as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk but excludes strategic and reputational risk.

Operational risk governance

Ownership of and accountability for operational risk management is of primary importance. Management and staff at every level of the business are accountable for the day-to-day identification, management and monitoring of operational risks.

ORM provides oversight of the effectiveness of the operational risk management processes and assists business unit managers by facilitating the identification and assessment of risks within the business units and subsidiaries. Independent assurance is provided on the management of operational risks by FirstRand Group Internal Audit which follows a risk based audit approach.

Operational risk is managed in terms of the Operational Risk Management Framework ("ORMF"), which is an ancillary framework of the Risk Management Framework.

The Risk forums in the business units are established to oversee the operational risk management process. Monitoring of operational risk occurs through a number of functions.

Operational risk management

Given the ever changing and complex nature of its business and its processes, Momentum employs a dynamic approach to managing operational risk and this approach results in almost continuous change or renewal. It is common practice, when implementing change of this nature, to proactively address less than optimal operational procedures with meaningful adjustments to risk management. The Board and management are not satisfied with the current level of operational losses, albeit in line with industry experience, and have therefore embarked on a consistent and disciplined approach of linking business processes to the operational risk and control environment.

A number of operational risk management methodologies have been developed to deal with the practical implementation of operational risk management challenges. These methodologies are supplemented by a number of risk tools. These include:

- risk self assessments – self assessment to identify and assess risks within the business processes in the business units and subsidiaries;
- internal operational loss data and incident reporting – a process to record and analyse the root cause of losses and incidents;
- key risk indicators ("KRI's") – a process whereby measurable, quantifiable metrics are tracked to assess the level of operational risk and provide early warning indications of potential breakdowns; and
- audit findings – a process whereby internal and external audit findings that have been issued, but not resolved before the due date, are tracked, monitored and reported on through the risk management structures.

Operational risk quantification and capital calculation

The Actuarial Society of South Africa issued revised professional guidance, applicable from 31 December 2008, which addresses the shortcomings in the old statutory CAR formulae. The revised CAR formulae explicitly allow for credit and operational risks.

The profession guidance note requires the statutory actuary to use professional judgement in the quantification of the operational risk capital requirements. The amount of capital required for operational risks is determined using the formulae suggested in the fourth Quantitative Impact Study conducted by the authors of the new Solvency II capital regime that will apply to insurers in the European Union.

Momentum is currently busy with the development of an internal model for quantifying operational risk based on a combination of statistical distribution models (for frequency and severity) applied to internal data and statistical models derived from extreme risk scenarios. The requirements of the Solvency II draft directive are also being taken into account during the development of this model.

As indicated in a preceding section, the ERM function also oversees a number of areas closely related to or integrated with the operational risk management processes. These are described in the following sections.

Business continuity management

Business continuity management focuses on improving the resilience of business operations in order to withstand unexpected disruptions and disasters. Business continuity management is an ongoing process of assessing needs, identifying weaknesses and single points of failure, developing strategies and keeping plans current and tested. The approach involves following an established annual cycle of actions, designed to ensure plans and associated measures are kept relevant and tested.

These risks are monitored by risk forums within the business units and subsidiaries and are escalated to the Risk committee as appropriate.

Information risk

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

Information risk management establishes appropriate good practice and control measures to protect the information assets and to ensure confidentiality, integrity and availability of information. Information risk management assists and drives business entities to establish appropriate good practice and control measures to protect information assets.

The Information Technology Governance and Information Security Framework ("IT Framework") is a customisation of ISACA's Control Objectives for Information and related Technology (COBIT®) framework and the Information Security Forum's Standard of Good Practice.

Due to the changing nature of information risk and information security, Momentum constantly faces new threats and challenges. The risk management structure for information risk is specifically structured to enable and support the measurement of status and the resolution of issues. These risks are currently monitored by risk forums within the business units and subsidiaries and are escalated to the Risk committee as appropriate.

In line with the requirements of King III, an appropriate forum will be established, during the next financial year, to oversee information technology governance.

Fraud and security risks

Momentum is committed to creating an environment that safeguards its people, customers and assets through policies and actions. It operates in an environment where a "zero tolerance" stance to criminal activities is adopted. The environment is enhanced with robust control structures and policies to safeguard the employees, clients and assets.

In this regard, there is reliance on line management and formal structures that include risk management as well as forensic services to enforce the "zero tolerance" attitude. This attitude is further completely underwritten by the senior management and Board. An independently and externally managed best practice fraud hotline (0800 737678) is also in place to provide the means to ensure that actual and/or suspected fraud or irregularities are confidentially and promptly reported.

To reach these goals, there is not only has a code of expected conduct that applies to all staff, but also various mechanisms to create anti crime awareness, as well as mechanisms that assist in the detection of and formal prosecution of offenders.

Legal risk

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

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

10. REGULATORY RISK

Introduction

Regulatory risk is the risk of legal or regulatory sanctions, financial loss, or loss to reputation that it may suffer as a result of its failure to comply with applicable laws.

Regulatory risk governance

Regulatory Risk Management ("RRM") is an integral part of managing the risks inherent in Momentum. Regulatory risk is managed in terms of the Regulatory Risk Management Framework.

Oversight of regulatory risk is provided and managed by a number of committees such as the Regulatory risk committee, the Risk committee and the Audit committee which receives reports from RRM on a regular basis. Momentum has also established a Fair practices committee, and where appropriate, compliance matters are escalated to this forum in addition to the above structures. RRM retains an independent reporting line to the Board through the designated subcommittees.

In addition to the centralised RRM function, each of the business units have appointed compliance officers responsible for assisting with the implementation and monitoring of statutory and regulatory requirements related to their respective business units.

Regulatory risk management

Regulatory risk management is the process of preventing or mitigating the risk of regulatory sanction and financial losses occurring due to fines and penalties incurred or reputational damage because of non adherence to statutes, regulations and industry codes. This includes:

- risk identification through assessing which laws, regulations and supervisory requirements are applicable;
- risk mitigation through the development of compliance risk management plans;
- risk monitoring and review of remedial actions; and
- risk reporting.

In support of the Regulatory Risk Management Framework, a compliance manual has been drafted which also fulfils the function of assisting the businesses in addressing material regulatory risks.

RRM works closely with FirstRand Group Internal Audit, ERM, ORM, internal and external legal advisors, Momentum's Group Tax department, Forensics department, Company secretariat, Group Finance and Actuarial to ensure the effective functioning of the regulatory risk management processes.

11. RISK INSURANCE

Risk insurance is defined as the risk that material unexpected operational losses, arising from non trading risks, are not identified and/or adequately covered by appropriate insurance risk financing structures.

For the year under review, Momentum formed part of FirstRand's global insurance risk financing programme with cover limits that are commensurate with the size and stature of Momentum. The risks written into the programme are bankers blanket bond, computer crime, professional indemnity, directors and officers' liability, assets and various liabilities.

Momentum will continue to monitor developments and ensure that the insurance financing programme is adapted accordingly where appropriate.

Risks arising from fiduciary activities

Investment management and advisory services are provided to third parties. These services result in Momentum making allocation, purchase and sale decisions in respect of a wide range of financial instruments. Those assets that are held in a fiduciary capacity are not included in the financial statements. These arrangements expose Momentum to the risk that it may be accused of misadministration or under performance.

The asset management subsidiaries are required to comply with the risk management framework. These subsidiaries employ risk management techniques which are considered best practice in the industry and constantly monitor actual performance against benchmarks and investigate differences.

1 INTRODUCTION

FirstRand Limited ("the Group") is an integrated financial services company consisting of banking, insurance and asset management and health 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 International Financial Reporting Standards ("IFRS"). The principal accounting policies are consistent in all material aspects with those adopted in the previous year, except for the adoption of:

- IFRS 2 *Share-based Payment* was amended during January 2008. The amendment clarifies that vesting conditions are performance and service conditions only and that cancellations of share options by parties other than the entity are to be accounted for in the same way as cancellations by the entity. This amendment is effective to annual periods commencing on or after 1 January 2009. This amendment has had no significant impact on the Group's results.
- IFRS 2 *Share-based Payment* was amended during June 2009. The amendment clarifies how a share based payment transaction should be measured in a group share-based payment transaction. The amendment effectively replaces IFRIC 11 IFRS 2 – Group and Treasury Share Transactions and IFRIC 8 Group Cash-settled Share-based payment transaction. This amendment is effective to annual periods commencing on or after 1 January 2010. The Group has elected to early adopt the amendments to IFRS 2 for the year end July 2010. This amendment has had no significant impact on the Group's results. Further details are provided in accounting policy note 28.
- IFRS 3 *Business Combinations (revised)* is effective to business combinations for which the acquisition date is on or after the first annual period beginning on or after 1 July 2009. The Standard is to be applied prospectively. The Standard applies to and prescribes the treatment of all transactions entered into by the Group which meet the definition of a business combination. Further details are provided in accounting policy note 3.
- IFRS 7 *Financial Instruments: Disclosures (amended)* was amended in 2008 and these amendments are effective for annual periods commencing on or after 1 January 2009. The amendments require enhanced disclosures about the fair value measurements, and have established a three level hierarchy for making fair value measurements. These enhanced disclosures do not have an impact on the recognition or measurement of amounts relating to financial instruments. The enhanced disclosures are only required for the period in which the amendments are effective and there is no requirement for comparative amounts to be presented in the first year of application of the amendment.
- IFRS 8 *Operating Segments* is effective for annual periods beginning on or after 1 January 2009. This Standard replaces IAS 14 Segment Reporting and requires an entity to report financial and non financial information about its reportable operating segments. The adoption of this Standard will affect disclosures about the operating segments of the Group but will not affect recognition and measurement. Further details are provided in accounting policy note 26.
- IAS 1 *Presentation of Financial Statements (revised)* is effective for annual periods beginning on or after 1 January 2009. The revised Standard prescribes the basis of the presentation of general purpose financial statements, guidelines for their structure and minimum requirements for their content. The adoption of this Standard will affect the presentation of the financial statements for both the current and comparative period, but will not affect recognition and measurement of any amounts recognised in the financial statements.
- IAS 27 *Consolidated and Separate Financial Statements* was amended in 2008. These amendments are effective for annual periods beginning on or after 1 July 2009. The amendments affect the treatment of non controlling interests and transactions with non controlling interests where control in the subsidiary is retained by the Group. The amendments also affect the allocation of losses of a subsidiary to the non controlling interest. All of these changes are to be prospectively applied and do not require the restatement of amounts recognised prior to 1 July 2009. Further details are provided in accounting policy note 3.
- IAS 23 *Borrowing Costs* was amended to remove the option to immediately recognise borrowing costs related to a qualifying asset as an expense and is effective for annual periods commencing on or after 1 January 2009. This amendment does not impact the Group, as it is the Group's accounting policy to capitalise borrowing costs on qualifying assets.
- IAS 32 *Financial Instruments: Presentation* was amended to require that certain puttable financial instruments and financial instruments that impose on the issuer an obligation to deliver a prorata share of the entity only on liquidation as equity. This amendment is applicable for annual periods commencing on or after 1 January 2009. This amendment has had no significant impact on the Group's results and has not resulted in the restatement of prior year numbers.
- IAS 39 *Financial Instruments: Recognition and Measurement* was amended to clarify that inflation may only be hedged in instances where changes in inflation are contractually specified portions of cash flows of a recognised financial instrument. It also clarifies that an entity is permitted to designate purchased or net purchased options as a hedging

instrument in a hedge of a financial or non financial item and to improve effectiveness, an entity is allowed to exclude the time value of money from the hedging instrument. This amendment is applicable for annual periods commencing on or after 1 July 2009 and has had no significant impact on the Group's results.

- 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 2008 is effective for annual periods commencing on or after 1 January 2009. The Group has adopted the amendments made as a result of the annual improvements project for 2008 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 15 *Agreements for the Construction of Real Estate* is effective for annual periods commencing on or after 1 January 2009. This Interpretation clarifies when real estate sales should be accounted for in terms of IAS 11 Construction Contracts or IAS 18 Revenue. This Interpretation is not applicable to the Group.
- IFRIC 16 *Hedges of a Net Investment in a Foreign Operation* is effective for annual periods commencing on or after 1 October 2008. This Interpretation clarifies which risks can be hedged under a hedge in a net investment in a foreign operation and by which entities within the group the hedging instruments can be held in order to qualify as such a hedge. The Group does not currently apply hedge accounting to net investments in foreign operations and therefore this Interpretation is not applicable.
- IFRIC 17 *Distributions of Non cash Assets to Owners* is effective for annual periods beginning on or after 1 July 2009. This Interpretation provides guidance how distributions by the entity of assets other than cash as dividends to owners should be accounted for. The requirements of this Interpretation are to be prospectively applied. This Interpretation has no effect on the current reporting period as no such distributions have been made during the period.
- IFRIC 18 *Transfers of Assets from Customers* is effective for annual periods beginning on or after 1 July 2009. This Interpretation clarifies the accounting treatment of agreements in which an entity receives property, plant and equipment from a customer that must be used to connect the customer to a network or provide the customer with ongoing access to a supply of services or goods. This Interpretation has no effect on the Group's financial statements as no such arrangements have been entered into.
- AC 504 IAS 19 *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction in the South African Pension Fund Environment* is effective for annual periods beginning on or after 1 April 2009. This Interpretation provides guidance to employers on the application of IAS 19 Employee Benefits and IFRIC 14 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction for defined benefit plans in a South African context. This interpretation did not have an effect on the Group's results and has not resulted in the restatement of prior year numbers.

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 48.

All monetary information and figures presented in these consolidated financial statements are stated in millions of Rand (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 unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

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. 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 interest in the subsidiary (also refer to accounting policy 3.3) 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.

3.4 Non controlling interest

Non controlling interests in the net assets of subsidiaries are separately identified and presented from the Group's equity therein. Non controlling interest can initially be measured either at fair value or at the non controlling interest's 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 interest consists of the amount attributed to such interest at initial recognition and the non controlling interest's 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% 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. Investments acquired and held exclusively with the view to dispose of in the near future (within 12 months) are not accounted for using the equity accounting method, but carried at fair value less cost to sell in terms of the requirements of IFRS 5.

The 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 cumulative post acquisition movements are adjusted against the cost 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 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.

The Group discontinues equity accounting 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

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 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, but 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 judgement is required to determine instances where the Group exercises significant influence.

5 INTEREST INCOME AND EXPENSE

The Group recognises interest income and expense in the income statement for instruments measured at amortised cost using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the average expected life of the financial instruments or portfolios of financial instruments.

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;
- funding liabilities that fund amortised cost assets:
- where hedge accounting is applied; and
- interest on intercompany balances.

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 the income statement 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 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 the income statement, 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 a translation gain or loss in the income statement when incurred.

Translation differences on non monetary items, classified as available-for-sale, such as equities are included in the available-for-sale reserve in 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 taken to other comprehensive income.

When a foreign operation is sold or partially disposed of, including partial disposals where the entity retains an interest in the operation, 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 of foreign operations, the Group reattributes the proportionate share of the cumulative exchange differences recognised in other comprehensive income to the non controlling interest 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 up to 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 as part of operating expenditure 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.

Tax in respect of the South African life insurance operation is determined using the four fund method applicable to life insurance companies.

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 expenditures 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 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;
- balances guaranteed by central banks; and
- balances with other banks.

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

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 the income statement in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in 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 in the income statement as gains and losses from investment securities. However, interest calculated on available-for-sale financial assets using the effective interest method is recognised in the income statement as part of interest income. Dividends on available-for-sale equity instruments are recognised in the income statement when the entity's right to receive payment is established and are included in investment income.

The 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 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, it derives fair value from cash flow models or other appropriate valuation models where an active market does not exist. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

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 loans 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 the income statement. Liabilities to customers under other types of investments contracts are measured at amortised cost. If these assets were not designated on initial recognition, they would be classified as available-for-sale and the changes in their fair value would be recognised directly in 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 the income statement.

Financial instruments designated under criteria (ii), include:

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

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, is

1 *The terms merchant banking divisions and RMB are used interchangeably in the annual financial statements.*

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 the income statement as gains and losses from investment securities.

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

15.1.5 Financial liabilities at amortised cost

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

15.1.6 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 30 for a detailed description of the valuation of policyholder liabilities under investment contracts.

15.1.7 Liabilities arising to third parties as a result of consolidating collective investment schemes

A financial liability is recognised for the fair value of external investors' interest where the unit holders have a contractual right to put their units back to the fund. The consolidation of collective investment schemes has no effect on net equity.

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 expires; 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

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.

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 characteristics and performs a collective assessment for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

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

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

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (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 conditions in the historical period that do not exist currently.

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

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

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

15.6.2.1 Past due advances

Advances are considered past due in the following circumstances:

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

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

15.7 Derivative financial instruments and hedging

The 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 the income statement, unless it is a designated and effective hedging instrument.

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

The fair value of non traded derivatives is based on discounted cash flow models and option pricing models as appropriate, the 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 the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. Effective changes in fair value of interest rate swaps and related hedged items are reflected in interest income or interest expense. Effective changes in fair value of currency futures are reflected in non interest income. Any ineffectiveness is recorded 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 the income statement based on a recalculated effective interest rate over the residual period to maturity, unless the hedge item has been derecognised whereby it is released to the income statement. The adjustment of the carrying amount of a hedge equity security remains in retained earnings until disposal of the equity security.

15.7.2 Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in the cash flow hedging reserve in 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 the income statement.

Amounts accumulated in other comprehensive income are reclassified 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 the income statement. 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 the income statement.

Where the forecast transaction or a foreign currency firm commitment results in the recognition of a non financial asset or a liability, the gains and losses previously deferred in 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 the income statement and classifies them as revenue or expense in the periods during which the hedged firm commitment or forecast transaction affects the income statement.

16 COMMODITIES

16.1 Agricultural commodities

Commodities, where the 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 IAS 41.

16.2 Other commodities

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

When the Group acquires commodities 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, 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 derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

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

Freehold properties and properties held under finance 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 the income statement 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 the income statement as net fair value gains on assets at fair value through profit and loss. 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 the income statement over the lease period. The property and equipment acquired are depreciated over the useful life of the assets, unless it is not probable that the 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 the income statement on a straight line basis over the period of the lease. Contingent rentals are expensed in the period incurred. Minimum rentals due after year end are reflected under commitments.

The 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 rate 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 interest of an acquisition over the attributable fair value of the Group's share of the fair value of the identifiable net 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 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 components of the business that is expected to benefit from synergies of the combination and at which management monitors goodwill ("cash generating unit"). Each cash generating unit represents a grouping of assets no higher than a primary business or reporting segment. 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 it as an intangible asset.

The Group carries capitalised software assets at cost less amortisation and any impairment losses. It amortises these assets on a straight line basis at a rate applicable to the expected useful life of the asset. Management reviews the carrying value wherever objective evidence of impairment exists. The carrying value is written down to estimated recoverable amount when a permanent decrease in value occurs. Any impairment is recognised in the income statement when incurred.

20.3 Other intangible assets

The Group generally expenses the costs incurred on internally generated intangible assets such as trademarks, concessions, patents and similar rights and assets, to the income statement in the period in which the costs are incurred. 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, but not exceeding 20 years. Management reviews the carrying value whenever objective evidence of impairment exists. Carrying value is written down to estimated recoverable amount when a permanent decrease in value occurs. Any impairment is recognised in the income statement when incurred.

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

20.4 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 the income statement.

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. Carrying value is written down to estimated recoverable amount when a permanent decrease in value occurs. Any impairment is recognised in the income statement when incurred.

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

20.6 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 the income statement. 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 the income statement together with the deferred gain or loss.

In respect of temporary differences arising from the fair value adjustments on investment properties, deferred 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 liquidity 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 the income statement 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 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 the income statement on an effective interest rate basis.

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

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

Where the Group purchases its own debt, the debt is derecognised from the statement of financial position and any difference between the carrying amount of the liability and the consideration paid is included in trading 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 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

The Group's remuneration schemes are operated through various share trusts. These share trusts are considered to be special purpose vehicles of the Group ("SPVs") and therefore consolidated.

The share trusts purchase FirstRand shares for the various remuneration schemes in the open market to 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 accounts for and 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 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 the income statement, with a corresponding adjustment to equity.

Amounts recognised for services received if the options granted do not vest because of failure to satisfy a vesting condition, are reversed through the income statement. If options are forfeited after the vesting date, an amount equal to the value of the options forfeited is debited against the share based payment reserve and credited against 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 and health operations, non current assets held as investments are not classified as held for sale as the ongoing investment management implies regular purchases and sales in the ordinary course of business.

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

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

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

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

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

Contracts issued by the Group are governed by the South African Long Term Insurance Act 1998.

31.1 Classification of contracts

The contracts issued by the Group transfer insurance risk, financial risk or both. As a result of the differing risks transferred by contracts, for the purposes of valuation and profit recognition, contracts are divided into investment and insurance contracts. Insurance contracts are those contracts that transfer significant insurance risk to the Group, whereas investment contracts transfer financial risk.

The classification of contracts is performed at the inception of each contract. The classification of the contract at inception remains the classification of the contract for the remainder of its lifetime unless the terms of the contract change to such an extent that it necessitates a change in classification.

31.2 Insurance contracts

An insurance contract is one that transfers significant insurance risk to the Group. Significant insurance risk exists when it is expected that the present value of benefits payable in terms of the policy on the occurrence of an insured event will materially differ from the 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. If the difference between the benefit payable on an insured event and a non insured event arises solely from an early termination penalty, the contract is not classified as an insurance contract.

Insurance contracts may transfer financial risk as well as insurance risk. However, in all instances where significant insurance risk is transferred, the contract is classified as an insurance contract.

Certain insurance contracts also contain discretionary participation features ("DPF's").

A DPF entitles the policyholder to receive, as a supplement to guaranteed benefits, additional benefits or bonuses. These additional benefits have the following features:

- the benefits constitute a significant portion of the total contractual benefits payable under each policy;
- the timing and amount of the benefits are at the discretion of the Group; and
- the benefits are contractually based on:
  - the investment performance of a specified pool of assets underlying a specified pool of contracts; or
  - a specified type of contract.

The following types of contracts issued by the Group are classified as insurance contracts:

- insurance policies providing lump sum benefits on death, disability or ill health of the policyholder. These contracts are issued for either a defined period or for the whole life of the policyholder;
- life annuity policies where the policyholder transfers the risk of longevity to the Group;

- policies which provide for retrenchment or funeral cover; and
- policies providing Permanent Health Insurance ("PHI").

The terms of these contracts may also allow for embedded options. These include minimum guaranteed rates of investment return resulting in a minimum level of benefit payable at expiry of the contractual term, after allowing for the cost of risk cover. These embedded options are treated in terms of the company's policies in respect of embedded derivatives unless they themselves meet the definition of an insurance contract.

Insurance contracts and Insurance contracts with DPF are within the scope of IFRS 4 and therefore accounted for in terms of the requirements of IFRS 4 Insurance Contracts.

31.3 Investment contracts

These are contracts that transfer financial risk with no significant insurance risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index prices or other variable.

For the purposes of valuation and profit recognition, investment contracts are further classified into the following sub categories:

31.3.1 Investment contracts with DPF

An investment contract with DPF is an investment contract which contains discretionary participation features. The identification of a DPF in an insurance and investment contract is the same. The distinction between investment and insurance contracts hinges on the transfer of significant insurance risk as described in the "Classification of contracts".

These contracts fall within the scope of IFRS 4 and therefore are accounted for in terms of the requirements of IFRS 4.

The following types of contracts issued by the Group are classified as investment contracts with DPF:

- universal life smoothed bonus policies, where discretionary bonuses are added to the investment account annually; and
- reversionary bonus policies, where discretionary bonuses are added to a guaranteed sum assured, payable at the end of the contract term.

The carrying amounts in respect of the DPF benefits are included as "policyholder liabilities under insurance contracts" in the statement of financial position.

31.3.2 Investment contracts without discretionary participating features

These contracts fall within the scope of IAS 39: Financial Instruments: Recognition and measurement and are accounted for in terms of the requirements of IAS 39. They are further classified as:

- contracts with investment management service components; and
- contracts without investment management service components.

The following two subsections further describe these two product groupings.

31.3.2.1 Contracts with investment management services

These represent investment contracts with services provided to policyholders whereby the Group undertakes to actively manage the investments of the policyholder over the lifetime of the policy contract.

The following types of contracts issued by the Group are classified as investment contracts with investment management services:

- unit linked contracts, where lump sum benefits payable at the end of the contracts' terms, are determined using unit values that reflect the fair value of the assets in the unitised fund underlying the group of policies, multiplied by the number of units attributed to the policyholder; and
- living annuities, where the number of units is payable to policyholders on a monthly basis. The monetary value of the monthly benefit payments is determined by the number of units attributable to the policyholder, multiplied by a unit price determined by the fair value of underlying assets.

These contracts may incorporate embedded options, such as a minimum guaranteed rate of unit price increase credited to a policy over its lifetime. These embedded options are accounted for in terms of the Group's accounting policy for embedded derivatives in insurance contracts unless they themselves meet the definition of an insurance contract.

31.3.2.2 Contracts without investment management services

These are investment contracts where Group does not actively manage the investments of the policyholder over the lifetime of each policy contract. Benefits are guaranteed at inception of the policy contract or linked to the performance of a specified index or pool of assets.

The following types of contracts issued by the Group are classified as investment contracts where no investment management services are rendered:

- guaranteed endowments, where a guaranteed benefit specified at the inception date of the policy is paid at the end of the contract term; and
- certain structured products, where the benefit payable at expiry of the contract is linked to a published market index.

31.4 Valuation and recognition

31.4.1 Insurance contracts (with and without DPF) and investment contracts with DPF

The next section provides detail in respect of the general valuation and profit recognition principles in respect of insurance contracts (with and without DPF) and investment contracts with DPF. The sections following thereafter give more detail on how these valuation assumptions are applied to particular product lines falling within the category.

31.4.2 Principles of valuation and profit recognition

Under IFRS 4, liabilities in respect of insurance and investment (with DPF) contracts are valued according to the requirements of the South African Long Term Insurance Act (1998) and in accordance with professional guidance notes ('PGN") issued by the Actuarial Society of South Africa. Of particular relevance to the liability calculations, are the following actuarial guidance notes:

PGN 104 (Jan 2005): Life Offices – Valuation of Long Term Insurers

PGN 110 (Dec 2007): Reserving for minimum investment return guarantees

PGN 102 (Mar 1995): Life Offices – HIV/AIDS

PGN 105 (Mar 2007): Recommended AIDS extra mortality bases

PGN 106 (Jul 2005): Actuaries and Long Term Insurance in South Africa

These guidance notes are available on the website of the Actuarial Society of South Africa (www.actuarialsociety.co.za).

31.4.3 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 application of this methodology to each significant product type is described below.

The best estimate of the 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 in-force policy book. Differences between the assumptions used at the start and the end of the accounting period give rise to a revised liability quantification.

The effect of policyholder options that would result in a decrease in liabilities were excluded from the liabilities in order to prevent unnecessarily reducing the liabilities. Policyholder options that would result in an increase in the liabilities were incorporated into the valuation on a best estimate basis, as described above.

The expected level of early terminations is incorporated into the liabilities irrespective of whether this leads to an increase or a decrease in the liabilities.

If future experience under a policy contract is exactly in line with the assumptions employed at inception of the contract, the valuation margins will emerge as profits over the duration of a policy contract. This is known as the unwinding of margins.

In addition to the profit recognised at the origination of a policy contract, and the unwinding of margins as the Group is released from the risk, any differences between the best estimate valuation assumptions and actual experience over each accounting period also give rise to profits and losses. These profits and losses emerge over the lifetime of a policy contract. Other sources of profit or loss include the change in liabilities from basis changes (changes in 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.

31.4.4 Recognition

31.4.4.1 Premiums

Premiums receivable from insurance contracts and investment contracts with DPF are recognised as revenue in profit or loss, gross of commission and reinsurance premiums and excluding taxes and levies. Premiums and annuity considerations on insurance contracts are recognised when they are due in terms of the contract. Premium income received in advance is included in trade and other payables (including insurance payables).

31.4.4.2 Benefits and claims

Insurance benefits and claims incurred under insurance contracts and investment contracts with DPF include death, disability, maturity, annuity and surrender payments and are recognised in 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. The estimate of the expected settlement value of claims that are notified but not paid before the reporting date is included in trade and other payables (including insurance payables).

31.4.4.3 Reinsurance premiums

Reinsurance premiums are recognised as an expense in profit or loss when they become due for payment, in terms of the contracts at the undiscounted amounts payable in terms of the contract.

31.4.4.4 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.

31.4.4.5 Liability adequacy test for business for prospective liabilities

Where the liability is calculated based on the present value of the future cash flows in terms of the accounting policies described above, the valuation method projects future net 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 (provided that the assumptions employed are appropriate) and no additional liability adequacy test is required.

31.4.4.6 Liability adequacy test for 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.

31.4.4.7 Acquisition costs

Acquisition costs, disclosed as sales remuneration, for insurance contracts and investment contracts with DPF include all commission and expenses directly related to acquiring new business. The Financial Soundness Valuation methodology implicitly creates a deferred acquisition cost ("DAC") asset by reducing the liabilities to the extent of margins included in the premium, which are intended to recover acquisition costs. Thus, no explicit DAC asset is recognised in the statement of financial position for contracts valued on this basis.

31.5 Application of the above valuation methodology to individual product lines

The preceding paragraphs highlighted the principles followed in valuation and profit recognition in respect of insurance and investment (with DPF) contracts. The next section outlines how these principles are applied to the main product lines within this category. The main product lines are:

- Universal life unit linked or smoothed bonus policies: These policies have unit accounts, similar to unit trust investments. The policies might offer additional life or disability cover. The benefit structure might be a DPF, or unit linked to the fair value of the assets supporting the liabilities. On expiry of the contracts, the fair value of units is paid to policyholders.
- Immediate annuities, which provide regular payments (usually monthly) to policyholders. Payments normally cease on death of the insured life or lives, but different options, such as guaranteed payment periods and maximum payment terms, are offered to policyholders.
- Employee benefits insurance business: The main products on offer within this category are group Permanent Health Insurance cover, which provides regular annuity benefits while an insured is disabled, Consumer Price Index ("CPI") linked annuities, as well as lump sum death and disability benefits.
- Employee benefits investment business: Two DPF unitised pooled funds are offered to policyholders.
- Conventional (reversionary bonus or non profit) policies: These policies do not have unit accounts like universal life products, but rather provide a guaranteed sum assured at death or maturity. The guaranteed payment is augmented by discretionary bonuses if the contract has DPF features. The difference between conventional and universal life DPF policy types is that, on universal life policies, annual bonus additions are made to the policy's investment account, whereas additions of bonuses on conventional policies are made to the lump sum payable on death or maturity.

31.5.1 Universal life unit linked or smoothed bonus policies

Liabilities for individual smoothed bonus and market related "unit linked" business are set equal to the fair value of units attributable to the policyholder at the reporting date. This is the so called unit liability. In addition, the present value of expected future cashflows (income less outgo) in respect of each policy is added or deducted from the unit liability to arrive at the total liability in respect of each universal life policy contract. This adjustment represents the so called Rand liability. If future income is expected to exceed future outgo under a universal life policy contract, the Rand liability is negative, whereas it is positive if future outgo is expected to exceed future income.

Projected future outgo includes claims payments and maintenance expenses, whereas projected future income includes deductions of risk premium and other charges. In performing the projections of future income and outgo, allowance is made for future growth in unit account values at a level consistent with the assumed future market related investment return, after allowing for contractual expense charges and taxation.

Future additions of bonuses to smoothed bonus policies are projected at levels that are consistent with and supported by the assumed rate of investment return, after allowing for contractual expense charges and taxation.

In respect of smoothed bonus universal life policies, bonus stabilisation accounts are also held. Bonus stabilisation reserves have been discussed above, but more detail about these provisions is given in the section below.

31.5.2 Policies with a DPF switching option

On some new generation investment contracts, policyholders have a choice of a wide range of investment funds, including a DPF fund. Policyholders also have the option to switch, without penalty, between smoothed bonus and unit linked funds within the same policy structure. The DPF portions of these policies are valued, using the FSV valuation methodology applicable to universal life DPF policies (as described above), but the capitalised value of discounted charges (net of expenses) on each policy is limited to the value of the DAC asset less deferred revenue liability ("DRL") liability that would have been held, had the whole policy been classified as an investment without DPF investment contract. This is done so that switches between unit linked and smoothed bonus components do not give rise to discontinuities in liabilities held against these contracts.

31.5.3 Immediate annuities

Liabilities for immediate annuities are set equal to the present value of expected future annuity payments and expenses, discounted using an appropriate market related yield curve as at the reporting date. The yield curve is based on risk free securities (either fixed or CPI linked, depending on the nature of the corresponding liability), adjusted for credit and liquidity spreads of the assets actually held in the portfolio and reduced by compulsory and discretionary margins. Explicit liabilities are set aside for expected credit losses, to avoid a reduction in liabilities caused by capitalisation of credit spreads.

31.5.4 Conventional (reversionary bonus or non profit) policies

The liabilities for conventional policies are calculated as the difference between the present values of projected future benefits and expenses, and the present value of projected future premiums, using the best estimated rate of return, plus prescribed margins as per PGN 104. It is assumed that current bonus rates (both reversionary and terminal bonus rates) will be maintained in future.

Profits arising on conventional policy contracts are recognised as described above.

31.6 Employee benefits insurance business

The main liability types in respect of this class of business are:

- discounted cash flow liabilities for PHI claims in payment and CPI linked annuities;
- the liability related to the claims which relate to insurance events which have occurred before year end and thus have been incurred but have not been reported to the Group, is known as the Incurred but not reported ("IBNR") liability claims on group risk benefits;
- unearned premium provisions in respect of risk exposure remaining after the reporting date where premiums relating to the risk have been received before the reporting date; and
- CPI linked annuities.

The liabilities for PHI and other annuity claimants and funeral paid up benefits are calculated using a prospective cash flow method, discounted at a discount rate consistent with the average term of the liabilities and market yields on the assets supporting the liabilities.

Liabilities in respect of IBNR claims are determined, using a basic triangulation or chain ladder method to derive, from past claims run-off patterns, an estimate of the amount of claims that have been incurred but not yet reported. These liabilities are undiscounted.

An unearned premium provision is also held in respect of the portion of premiums received that relate to future risk exposure, which is assumed to be constant over the premium term. This liability is released to profit as Momentum is released from the risk associated with the contracts. These liabilities are measured at the undiscounted value because of the short term nature of the liabilities.

Group CPI linked annuities are valued in the same way as CPI linked annuities on individual life business.

Profits arising on group risk contracts are recognised as premiums received less claims and expenses paid, plus or minus the move in the IBNR and unearned premium provisions over the relevant accounting period.

31.6.1 Employee benefits investment business (with DPF)

The liability in respect of group investment (with DPF) business is set equal to the fair value of the assets supporting the liabilities. The liability is reflected as the face value of policyholders' balances, plus a bonus stabilisation account. The bonus stabilisation account is the difference between the market value of assets and the face value of policyholders' balances.

No discounting of future cashflows (such as premiums, claims and expenses) is performed in respect of this class of business.

31.6.2 Policyholder bonus stabilisation accounts

DPF liabilities (insurance and investment) are adjusted by policyholder bonus stabilisation accounts. Bonus stabilisation accounts have been introduced under the general description of policy contracts issued by the Group in the section preceding the accounting policies.

If the fair value of the assets underlying a smoothed bonus or conventional with profit portfolio is greater than the policyholders' investment accounts (net premiums invested plus declared bonuses), a positive bonus stabilisation account is created which will be used to enhance future bonuses. Conversely, if assets are less than the investment accounts, a negative bonus stabilisation account is created. A negative bonus stabilisation account will be limited to the amount that the Statutory actuary expects will be recovered through the declaration of lower bonuses during the ensuing three years, if investment returns are in line with long term assumptions. Negative bonus stabilisation accounts in excess of 7.5% of the investment accounts are disclosed.

The purpose with bonus stabilisation accounts is therefore to allocate all investment surpluses or deficits to policyholders after deduction of all related contractual charges.

The policyholder bonus stabilisation accounts in respect of the closed Lifegro portfolio and Southern Pre 84 segregated portfolio are set equal to the policyholders' full future entitlement to the assets in these portfolios (which includes not only investment surpluses, but other sources of surplus as well), as per the respective profit share agreements between policyholders and shareholders.

Bonus stabilisation accounts are included in policyholder liabilities under insurance contracts and investment with DPF contracts.

31.6.3 Guaranteed maturity value liabilities

A number of contracts contain embedded derivatives in the form of guaranteed maturity values. The liability in respect of these guarantees is calculated using stochastic modelling techniques, whereby assets and liabilities are projected into the future under a range of possible future investment return scenarios, with parameters calibrated to market data. The expected present value of the cost of the guarantee over and above base liabilities is taken as the liability in respect of the guarantee.

The modelling approach is governed by professional guidance note PGN 110, which sets minimum criteria that the stochastic model should adhere to, being minimum numbers of simulations to be performed and minimum variability characteristics of the stochastic input parameters. The model uses assumptions which are market consistent.

31.6.4 Other options and guarantees

The effect of policyholder options that would result in a decrease in liabilities were excluded from the liabilities in order to prevent unnecessarily reducing the liabilities. Policyholder options that would result in an increase in the liabilities were incorporated into the valuation on a best estimate basis, as described above.

The expected level of early terminations is incorporated into the liabilities irrespective of whether this leads to an increase or a decrease in the liabilities.

The best estimates used to determine the value of the liabilities include estimates that take into account maturity, mortality and disability guarantees, as well as expected lapses and surrenders.

31.7 Discretionary margins

Discretionary margins are held in addition to the compulsory margins. These discretionary margins are used to ensure that profit and risk margins in the premiums are not capitalised prematurely so that profits are recognised in line with product design and in line with the risks borne by the company.

The main discretionary margins utilised in the valuation are as follows:

- Additional bonus stabilisation accounts are held to provide an additional layer of protection for policyholders against the risk of removal of non vested bonuses caused by fluctuations in the values of assets backing smoothed bonus liabilities. This account is in addition to the policyholder bonus stabilisation account described elsewhere, and is not distributed as bonuses to policyholders under normal market conditions. The size of this account is monitored according to the results of stochastic modelling of the investment risk. Excess assets over the size indicated by the results of the stochastic modelling are released as profit.
- For the closed Lifegro portfolio and segregated portion of the Southern Life book, appropriate liabilities are held to reverse the capitalisation of future profits to ensure that the Lifegro profits are recognised in line with the terms of the Lifegro take over agreement and the statute of the Old Southern Segregated Fund.
- An additional margin is held to reduce the risk of future losses, caused by the impact of market fluctuations on capitalised fees and on the assets backing guaranteed liabilities. This liability is built up retrospectively and released if adverse market conditions cause a reduction in the capitalised value of fees or in the value of assets backing guaranteed liabilities.
- Additional prospective margins are held in respect of decrement assumptions and asset related fees on certain product lines to avoid the premature recognition of profits that may give rise to future losses if claims experience turns out to be worse than expected. This allows profits to be recognised in the period in which the risks are borne by the Group.
- An additional margin is held in respect if the investment return assumption used to value annuity benefit payments (both group and individual business). These liabilities are discounted at the risk free rate and the additional margin is held to reflect the potential for credit spreads widening and parameter risk associated with the long end of the yield curve and are related to the extent of corporate debt backing liabilities and the uncertainties relating to long dated liabilities.

31.8 Investment contracts without DPF, with provision of investment management services

Under this category, the Group issues unit linked contracts, where benefits payable are determined using unit values that reflect the fair value of the assets in the unitised fund underlying the group of policies, multiplied by the number of units attributed to the policyholder. Policyholder liabilities for this class of business are set equal to the fair value of the assets in the unitised fund underlying the group of policies, as reflected in the value of units held by each policyholder at the valuation date.

31.8.1 Amounts received and benefits paid

Amounts received under investment contracts, being additional investments by the policyholders, are recorded as deposits to investment contract liabilities whereas benefits incurred are recorded as deductions from investment contract liabilities.

Service fee income on investment management contracts is recognised as and when the services are rendered. Service fee income includes policy administration fees, surrender charges and bid offer spreads on premium allocations. The surrender charges are applied based on regulation 5 issued by the Financial Services Board.

31.8.2 Deferred revenue liability ("DRL")

A DRL is recognised in respect of fees paid at the inception of the contract by the policyholder which are directly attributable to a contract. The DRL is then released to revenue as the investment management services are provided, over the expected duration of the contract, as a constant percentage of expected gross profit margins (including investment income) arising from the contract. The pattern of expected profit margins is based on historical and expected future experience and is updated at the end of each accounting period. The resulting change to the carrying value of the DRL is recognised in revenue.

31.8.3 DAC asset

The DAC asset represents the right to receive future investment management fees. Commissions paid, including trail commissions, and other incremental acquisition costs are incurred when new investment contracts are obtained or existing investment contracts are renewed. These costs, if specifically attributable to an investment contract with an investment management service element, are deferred and amortised over the expected life of the contract, as a constant percentage of expected gross profit margins (including investment income) arising from the contract. The pattern of expected profit margins is based on historical and expected future experience and is updated at the end of each accounting period. The resulting change to the carrying value of the DAC is recognised as an expense in profit or loss. Amortisation of the DAC is done separately for each policy contract. An impairment test is conducted annually at the reporting date on the DAC balance to ensure that the amount will be recovered from future revenue generated by the applicable remaining investment management contracts.

31.8.4 Onerous contracts

The Group recognises a provision for an onerous contract, when the expected benefits to be derived from a contract are lower than the unavoidable costs of meeting the obligations under the contract.

31.8.5 Profit recognition

Profits or losses that accrue to shareholders in respect of investment contracts where investment management services are rendered are equal to fees received during the period concerned plus the movement in the DAC asset and DRL liability, less expenses incurred.

Where these contracts provide for minimum investment return guarantees, provision was made for the fair value of the embedded option. The valuation methodology is the same as the methodology applied to investment guarantees on insurance contracts.

31.9 Investment contracts without DPF, without provision of investment management services

The Group issues single premium investment contracts with fixed and guaranteed terms under this category (guaranteed endowments and term certain annuities)

31.9.1 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.

31.9.2 Amounts received and benefits paid

Amounts received under this class of investment contracts, being additional investments and investment returns, are recorded as deposits to investment contract liabilities whereas benefits paid are recorded as deductions from investment contract liabilities.

31.10 Embedded derivatives in insurance contracts

The Group does not separately measure embedded derivatives that meet the definition of an insurance contract or options to surrender insurance contracts for a fixed amount (or an amount based on a fixed amount and an interest rate). All other embedded derivatives are separated and carried at fair value if they are not closely related to the host insurance contract and meet the definition of a derivative. Embedded derivatives that are separated from the host contract are fair valued through profit or loss.

A number of contracts contain embedded derivatives in the form of guaranteed maturity values. Refer to note 31.6.3.

31.11 Reinsurance contracts

Contracts entered into by the Group with reinsurers under which it is compensated for losses on one or more contracts issued by the Group and that meet the classification requirements for insurance contracts, are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets.

The benefits to which the Group is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short term balances due from reinsurers (classified as loans and receivables), as well as long term receivables (classified as reinsurance assets) that are dependent on the expected claims and benefits arising under the related insurance contracts.

Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the related insurance contracts and in accordance with the terms of each reinsurance contract.

Reinsurance liabilities consist of premiums payable for reinsurance contracts and are recognised as an expense when due.

The Group assesses its reinsurance assets for impairment on an annual basis. If there is objective evidence that the reinsurance asset is impaired, the Group reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in profit or loss for the period. The Group gathers the objective evidence that a reinsurance asset is impaired using the same process adopted for financial assets held at amortised cost. The impairment loss is also calculated following the same method used for these financial assets.

31.12 Receivables and payables related to insurance and investment contracts

Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and insurance contract holders, including amounts due to brokers in respect of trail commission. If there is objective evidence that the insurance receivable is impaired, Group reduces the carrying amount of the insurance receivable accordingly and recognises the impairment loss in profit or loss. Group gathers the objective evidence that an insurance receivable is impaired using the same process adopted for loans and receivables. The impairment loss is also calculated following the same method used for these financial assets.

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 statement of financial position and income statement reclassifications were made:

	Amount as previously reported	Amount as restated	Difference	Explanation
30 June 2008				
Statement of financial position				
Assets				
Accounts receivable	7 806	7 417	(389)	Reinsurance assets arising in the Group's Namibian operations have been classified from accounts receivable to a separate line, reinsurance assets, on the face of the statement of financial position. The reclassification was done to enhance disclosure relating to the insurance operations in Namibia and ensure consistent treatment with the Group's other insurance operations.
Reinsurance assets	550	939	389	Refer to accounts receivable.

No other amounts reported in the statement of financial position or income statement were affected by the above reclassification.

34 RECLASSIFICATION OF PRIOR YEAR NUMBERS *continued*

	Amount as previously reported	Amount as restated	Difference	Explanation
30 June 2009 **Income statement**				
Interest and similar income	60 516	51 735	8 781	Momentum reclassified as a discontinued operation in terms of IFRS 5.
Interest expense and similar charges	(34 526)	(34 446)	(80)	Refer above.
Net interest income before impairment of advances	25 990	17 289	8 701	
Impairment of advances	(8 024)	(8 024)	–	
Net interest income after impairment of advances	17 966	9 265	8 701	
Non interest income	10 649	20 339	(9 690)	Refer above.
Net insurance premium income	6 464	–	6 464	Refer above.
Net claims and benefits paid	(5 939)	–	(5 939)	Refer above.
Increase in value of policyholder liabilities	6 525	(284)	6 809	Refer above.
Income from operations	35 665	29 320	6 345	Refer above.
Operating expenses	(27 933)	(23 028)	(4 905)	Refer above.
Net income from operations	7 732	6 292	1 440	Refer above.
Share of profit of associates and joint ventures	1 590	1 577	13	Refer above.
Profit before tax	9 322	7 869	1 453	Refer above.
Tax	(1 484)	(1 411)	(73)	Refer above.
Net profit from continuing operations	7 838	6 458	1 380	Refer above.
Discontinued operations				
Profit attributable to discontinued operations	–	1 380	(1 380)	Refer above.
Profit for the year	7 838	7 838	–	Reclassification had no impact on profit for the year.
Statement of financial position **Assets**				
Accounts receivable	11 355	11 068	(287)	Reinsurance assets arising in the Group's Namibian operations have been classified from accounts receivable to a separate line, reinsurance assets, on the face of the statement of financial position. The reclassification was done to enhance disclosure relating to the insurance operations in Namibia and ensure consistent treatment with the Group's other insurance operations.
Reinsurance assets	8 143	8 430	287	Refer accounts receivable.
Total equity	52 097	52 097		Reclassification had no impact on net asset value
Statement of cash flows				

As a consequence of the above reclassifications, the cash flow statement has been accordingly restated.

Consolidated income statement
for the year ended 30 June

R million	Notes	2010	2009
Continuing operations			
Interest and similar income	1	38 817	51 735
Interest expense and similar charges	1	(22 467)	(34 446)
Net interest income before impairment of advances		16 350	17 289
Impairment of advances	12	(5 686)	(8 024)
Net interest income after impairment of advances		10 664	9 265
Non interest income	2	26 761	20 339
Decrease/(increase) in value of policyholder liabilities	3	193	(284)
Income from operations		37 618	29 320
Operating expenses	4	(25 311)	(23 028)
Net income from operations		12 307	6 292
Share of profit from associates and joint ventures	16	700	1 577
Profit before tax		13 007	7 869
Tax	5	(3 527)	(1 411)
Profit for the year from continuing operations		9 480	6 458
Discontinued operations			
Profit attributable to discontinued operations	22.1	1 194	1 380
Profit for the year		10 674	7 838
Attributable to:			
Ordinary equity holders		9 444	6 501
Non cumulative non redeemable preference shares		344	464
Equity holders of the Group		9 788	6 965
Non controlling interest		886	873
Profit for the year		10 674	7 838
From continuing operations and discontinued operations			
Earnings per share (cents)			
Basic	6	179.9	124.9
Diluted	6	178.1	124.7
From discontinued operations			
Earnings per share (cents)			
Basic	6	23.8	27.2
Diluted	6	23.6	26.6

Consolidated statement of comprehensive income
for the year ended 30 June

R million	Notes	2010	2009
Profit for the year		**10 674**	7 838
Other comprehensive income			
Cash flow hedges	7	**(226)**	(1 228)
Available-for-sale financial assets		**(69)**	75
Exchange differences on translation of foreign operations		**(74)**	(641)
Share of other comprehensive income of associates after tax and non controlling interest		**39**	73
Other comprehensive income for the year before tax		**(330)**	(1 721)
Income tax relating to components of other comprehensive income	7	**(17)**	263
Other comprehensive income for the year		**(347)**	(1 458)
Total comprehensive income for the year		**10 327**	6 380
Total comprehensive income attributable to:			
Ordinary shareholders		**9 097**	5 064
Non cumulative non redeemable preference shareholders		**344**	464
Equity holders of the Group		**9 441**	5 528
Non controlling interest		**886**	852
Total comprehensive income for the year		**10 327**	6 380

Consolidated statement of financial position
as at 30 June

R million	Notes	2010	Restated 2009	Restated 2008
ASSETS				
Cash and short term funds	9	**27 067**	57 266	53 555
Derivative financial instruments	10	**39 764**	68 608	57 106
Advances	11	**434 793**	416 488	446 286
Investment securities and other investments	13	**117 171**	209 249	220 105
Commodities	14	**2 365**	1 323	1 916
Accounts receivable	15	**5 743**	11 068	7 417
Investments in associates and joint ventures	16	**6 901**	15 294	13 303
Property and equipment	17	**10 018**	10 220	8 859
Deferred tax asset	18	**443**	2 034	1 456
Intangible assets and deferred acquisition costs	19	**2 104**	5 698	4 497
Investment properties	20	**138**	2 156	3 808
Policy loans on insurance contracts		**27**	626	772
Reinsurance assets	21	**524**	8 430	939
Tax asset		**935**	883	833
Non current assets and disposal groups held for sale	22	**197 247**	508	3 092
Total assets		**845 240**	809 851	823 944
EQUITY AND LIABILITIES				
Liabilities				
Deposits and current accounts	23	**512 469**	478 083	488 423
Short trading positions	24	**16 735**	25 002	33 450
Derivative financial instruments	10	**36 035**	55 556	46 595
Creditors and accruals	25	**12 115**	18 217	16 836
Provisions	26	**3 359**	2 961	3 275
Tax liability		**157**	331	666
Post retirement liabilities	27	**2 162**	2 089	1 980
Deferred tax liability	18	**2 132**	3 977	5 372
Long term liabilities	28	**9 183**	12 928	13 941
Policyholder liabilities under insurance contracts	29	**1 868**	40 725	43 417
Policyholder liabilities under investment contracts	30	**101**	109 196	111 344
Liabilities arising to third parties		**–**	8 114	7 283
Deferred revenue liability	31	**–**	322	296
Liabilities directly associated with non current assets classified as held for sale	22	**189 961**	253	–
Total liabilities		**786 277**	757 754	772 878
Equity				
Capital and reserves attributable to equity holders				
Ordinary shares	32	**52**	52	52
Share premium	32	**1 491**	1 300	1 036
Reserves		**49 889**	44 133	43 082
Capital and reserves attributable to ordinary equity holders		**51 432**	45 485	44 170
Non cumulative non redeemable preference shares	32	**4 519**	4 519	4 519
Capital and reserves attributable to equity holders		**55 951**	50 004	48 689
Non controlling interest		**3 012**	2 093	2 377
Total equity		**58 963**	52 097	51 066
Total equity and liabilities		**845 240**	809 851	823 944

Consolidated statement of changes in equity
for the year ended 30 June

R million	Ordinary share capital and ordinary equity holders' funds					
	Share capital	Share premium	**Share capital and share premium**	General risk reserve	Cash flow hedge reserve	Share based payment reserve
Balance as at 30 June 2008	**52**	**1 036**	**1 088**	**8**	**602**	**2 248**
Issue of share capital	–	–	–	–	–	–
Movement in other reserves	–	–	–	1	–	58
Ordinary dividends	–	–	–	–	–	–
Preference dividends	–	–	–	–	–	–
Changes in ownership interest in subsidiaries	–	–	–	–	–	–
Consolidation of treasury shares	–	264	264	–	–	–
Total comprehensive income for the period	–	–	–	–	(894)	–
Balance as at 30 June 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 period	–	–	–	–	(176)	–
Balance as at 30 June 2010	**52**	**1 491**	**1 543**	**12**	**(466)**	**2 487**

	Ordinary share capital and ordinary equity holders' funds							
	Available-for-sale reserve	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	1 365	(185)	37 937	43 082	4 519	2 377	51 066
	–	–	–	–	–	–	13	13
	–	–	(51)	–	8	–	(138)	(130)
	–	–	–	(3 764)	(3 764)	–	(804)	(4 568)
	–	–	–	–	–	(464)	–	(464)
	–	–	(34)	–	(34)	–	(207)	(241)
	–	–	–	(223)	(223)	–	–	41
	–	(615)	72	6 501	5 064	464	852	6 380
	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

Consolidated statement of cash flows
for the year ended 30 June

R million	Notes	2010	Restated 2009
Cash flows from operating activities continuing operations			
Cash receipts from customers	34.2	60 073	66 955
Cash paid to customers, suppliers and employees	34.3	(44 153)	(52 391)
Dividends received		3 148	4 214
Dividends paid	34.7	(3 299)	(3 700)
Dividends paid to non controlling interest		(420)	(804)
Net cash flows from operating activities continuing operations	34.1	15 349	14 274
(Decrease)/increase in income earning assets	34.4	(34 194)	7 507
Decrease/(increase) in deposits and other liabilities	34.5	31 194	(21 321)
Net cash flows from operating funds		(3 000)	(13 814)
Tax paid	34.6	(2 697)	(2 245)
Net cash inflow/(outflow) from operating activities continuing operations		9 652	(1 785)
Net cash (outflow)/inflow from operating activities from discontinued operations		(9 709)	11 546
Cash flows from investing activities continuing operations			
Acquisition of property and equipment		(2 197)	(2 963)
Proceeds from the disposal of property and equipment		389	278
Acquisition of investment properties		(138)	–
Proceeds on the disposal of investments		594	552
Acquisition of subsidiaries	34.8	(982)	(18)
Proceeds on disposal of subsidiary	34.8	537	–
Proceeds on sale of advances books	34.9	22	1 768
Acquisition of associates and joint ventures	34.10	(204)	(1 542)
Proceeds on the disposal of associates and joint ventures	34.10	2 027	508
Acquisition of intangible assets		114	(1 474)
Net cash inflow/(outflow) from investing activities from continuing operations		162	(2 891)
Net cash inflow/(outflow) from investing activities from discontinued operations		33	(2 223)
Cash flows from financing activities continuing operations			
Proceeds from/(repayment of) long term borrowings		1 085	(1 397)
Net cash inflow/(outflow) from financing activities from continuing operations		1 085	(1 397)
Net cash inflow from financing activities from discontinued operations		2 117	491
Net increase in cash and cash equivalents from continuing and discontinued operations		3 340	3 741
Cash and cash equivalents at the beginning of the year	34.11	57 266	53 555
Cash and cash equivalents at the end of the year		60 606	57 296
Cash and cash equivalents acquired*		–	35
Cash and cash equivalents disposed of*		(36)	–
Effect of exchange rate changes on cash and cash equivalents		(95)	(65)
Transfer to non current assets held for sale		(33 408)	–
Cash and cash equivalents at the end of the year	34.11	27 067	57 266

** Cash and cash equivalents sold and bought relate to cash balances held by subsidiaries acquired and sold during the year.*

Consolidated statement of headline earnings and dividends
for the year ended 30 June

	2010	2009
Headline earnings per share (cents)		
- Basic	**180.1**	133.3
- Diluted	**178.3**	133.1
Ordinary dividends per share (cents)		
- Interim	**34.0**	34.0
- Final	**43.0**	22.0
Total dividends per ordinary share (cents)	**77.0**	56.0
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 interest, 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)	**9 453**	6 939
Weighted average number of ordinary shares in issue	**5 248 177 525**	5 206 910 888
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)	**9 453**	6 939
Diluted weighted average number of shares in issue	**5 302 431 206**	5 213 551 371

	2010		2009	
R million	**Gross**	**Net***	Gross	Net*
Headline earnings reconciliation from continuing operations				
Attributable earnings to ordinary equity shareholders	**13 007**	**8 249**	7 869	5 116
Adjusted for				
– Gain on a bargain purchase	**(203)**	**(148)**	–	–
– Loss on the disposal of property and equipment	**2**	**2**	4	4
– (Gain)/loss on the disposal of subsidiaries	**(115)**	**(112)**	27	27
– Impairment of assets in terms of IAS 36	**175**	**175**	–	–
– Impairment of intangible assets	**–**	**–**	117	104
– Gain on disposal/impairment of available-for-sale assets	**(177)**	**(177)**	(2)	(2)
– Loss on sale of MotorOne finance advances book	**–**	**–**	203	203
– Loss on sale of Private Label book	**–**	**–**	39	28
– Other	**4**	**4**	10	10
Headline earnings to ordinary equity shareholders	**12 775**	**8 075**	8 267	5 490
Attributable earnings to ordinary equity shareholders	**1 890**	**1 195**	1 453	1 385
Adjusted for				
– Loss due to the fair value adjustment of a non current asset held for sale	**100**	**100**	–	–
– Impairment of goodwill	**71**	**71**	3	3
– Impairment of intangible assets	**12**	**12**	61	61
Headline earnings to ordinary equity shareholders	**2 073**	**1 378**	1 517	1 449

** Net of tax and non controlling interest.*

Cents	2010	2009
Basic headline earnings per share (cents)	**180.1**	133.3
From continuing operations (cents)	**152.8**	104.8
From discontinued operations (cents)	**27.3**	28.5
Diluted headline earnings per share (cents)	**178.3**	133.1
From continuing operations (cents)	**151.3**	104.6
From discontinued operations (cents)	**27.0**	28.5

	2010	2009
Dividend information		
Dividend on non cumulative non redeemable preference share (cents)		
"B" preference shares		
– 22 February 2010 / 23 February 2009	**342**	519
– 30 August 2010 /31 August 2009	**355**	423
Total "B" preference shares	**697**	942
"B1" preference shares*		
– 23 February 2009	**–**	519
– 31 August 2009	**–**	423
Total "B1" preference shares"	**–**	942
** The "B1" preference shares were incorporated in the "B" preference shares effective 4 January 2010.*		
Dividends declared (R million)		
Ordinary dividends	**4 341**	3 157
Non cumulative non redeemable preference shares	**314**	424

1 ANALYSIS OF INTEREST INCOME AND INTEREST EXPENDITURE

	2010				
R million	Fair value	Amortised cost	Hedging instruments	Non financial assets and liabilities	Total
1.1 Interest and similar income					
Interest on:					
– Advances	–	33 446	–	–	33 446
– Cash and short term funds	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

	2009				
R million	Fair value	Amortised cost	Hedging instruments	Non financial assets and liabilities	Total
Interest on:					
– Advances	77	44 071	–	–	44 148
– Cash and short term funds	172	272	–	–	444
– Investment securities and other investments	4 963	101	–	–	5 064
– Unwinding of discounted present value on non performing loans	–	409	–	–	409
– Accrued on off market advances	–	7	–	–	7
– Other	243	752	399	269	1 663
Interest and similar income	5 455	45 612	399	269	51 735

1 ANALYSIS OF INTEREST INCOME AND INTEREST EXPENDITURE *continued*

R million	2010 Fair value	Amortised cost	Hedging instruments	Non financial assets and liabilities	Total
1.2 Interest expense and similar charges					
Interest on:					
– 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)**

R million	2009 Fair value	Amortised cost	Hedging instruments	Non financial assets and liabilities	Total
Interest on:					
– Deposits from banks and financial institutions	(118)	(854)	–	–	(972)
– Current accounts	(118)	(11 721)	–	–	(11 839)
– Savings deposits	–	(142)	–	–	(142)
– Term deposit accounts	(5 323)	(5 398)	–	–	(10 721)
– Negotiable certificates of deposit	(5 884)	(192)	–	–	(6 076)
– Finance leases	–	–	–	(119)	(119)
– Long term liabilities	(636)	(1 920)	–	–	(2 556)
– Other	(943)	(954)	(95)	(29)	(2 021)
Interest expense and similar charges	(13 022)	(21 181)	(95)	(148)	(34 446)

R million	2010	2009
2 NON INTEREST INCOME		
Fee and commission income		
– Instruments at amortised cost	12 093	11 487
– Instruments at fair value	587	94
– Non financial assets and liabilities	4 378	3 863
Fee and commission income	17 058	15 444
Fair value income		
– Held for trading	2 009	(1 047)
– Designated at fair value through profit or loss	2 047	1 786
– Other	(35)	(92)
Fair value income	4 021	647
Gains less losses from investing activities		
– Designated at fair value through profit or loss	262	(147)
– Available-for-sale	87	(3)
– Other	1 368	699
– Impairment of investment securities and other investments	2	(13)
Gains less loss from investing activities	1 719	536
Other non interest income	3 963	3 712
Total	26 761	20 339
Fee and commission income:		
– Banking fee and commission income	12 413	11 571
– Card commissions	1 748	1 596
– Cash deposit fees	1 437	1 360
– Commissions: bills, drafts and cheques	532	669
– Bank charges	8 696	7 946
– Knowledge based fee and commission income	810	772
– Non banking fee and commission income	3 257	2 673
– Asset management and related fees	578	428
Fee and commission income	17 058	15 444
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.		
Fair value income	4 021	647

R million	2010	2009
2 NON INTEREST INCOME *continued*		
Gains less losses from investing activities		
– Gains on investment securities and other investments	595	612
– Reclassification from other comprehensive income on derecognition/sale of available-for-sale assets	605	2
– Preference share dividends	230	145
– Other dividends received	7	125
– Share of profit of associates and joint ventures (note 16)	700	1 577
– Unrealised profit/(loss) on assets held against employee liabilities	151	(364)
– Net income on non recourse vehicles	–	59
– Gain on disposal of subsidiaries	139	–
– Other investment income	(174)	(30)
– Impairment of investment securities	–	(13)
– Loss on remeasuring the equity interest previously held in the acquiree	(37)	–
– Gain from bargain purchase	203	–
Gross gains less losses from investing activities	2 419	2 113
Less: Profit of associates and joint ventures (disclosed separately on the face of income statement – note 16)	(700)	(1 577)
Gains less losses from investing activities	1 719	536
Other non interest income		
– Gain/(loss) on sale of property and equipment	53	(4)
– Other income	3 910	3 716
Other non interest income	3 963	3 712
Total non interest income	26 761	20 339
3 DECREASE/(INCREASE) IN VALUE OF POLICYHOLDER LIABILITIES		
Fair value adjustment on investment contracts (note 30)	(14)	41
Net transfer to/(from) policyholders under insurance contracts (note 29)	207	(325)
Transfer to policyholder liabilities under insurance contracts	207	(325)
Increase in value of policyholder liabilities	193	(284)

R million	2010	2009
4 OPERATING EXPENSES		
Fee and commission expense	**(167)**	(171)
Auditors' remuneration		
– Audit fees	**(112)**	(106)
– Fees for other services	**(17)**	(18)
– Technical advice	**(1)**	(8)
– Other	**(16)**	(10)
– Prior year under provision	**(1)**	(2)
Auditors' remuneration	**(130)**	(126)
Amortisation of intangible assets		
– Development cost	**(14)**	(10)
– Trademarks	**(57)**	(54)
– Deferred acquisition cost asset	**–**	(8)
– Software	**(94)**	(68)
– Other	**(24)**	(26)
Amortisation of intangible assets	**(189)**	(166)
Depreciation		
– Property	**(389)**	(367)
– Freehold property	**(105)**	(78)
– Leasehold premises	**(284)**	(289)
– Equipment	**(979)**	(871)
– Computer equipment	**(592)**	(544)
– Furniture and fittings	**(158)**	(152)
– Motor vehicles	**(102)**	(62)
– Office equipment	**(127)**	(113)
– Capitalised leased assets	**(62)**	(72)
Depreciation	**(1 430)**	(1 310)
Impairments incurred		
– Goodwill	**(78)**	(73)
– Property and equipment	**(107)**	(13)
– Software	**(4)**	–
– Other	**2**	(10)
Impairments incurred	**(187)**	(96)
Impairments reversed		
– Property and equipment	**–**	1
– Other	**–**	15
Impairments reversed	**–**	16
Operating lease charges		
– Property	**(713)**	(805)
– Equipment	**(177)**	(231)
– Motor vehicles	**(5)**	(13)
Operating lease charges	**(895)**	(1 049)

R million	2010	2009
4 OPERATING EXPENSES *continued*		
Professional fees		
– Managerial	(124)	(61)
– Technical	(527)	(573)
– Other	(266)	(311)
Professional fees	(917)	(945)
Direct staff costs		
– Salaries, wages and allowances	(8 698)	(8 084)
– Contributions to employee benefit funds	(1 308)	(1 218)
– Defined contribution schemes	(1 112)	(990)
– Defined benefit schemes (note 27)	(196)	(228)
– Social security levies	(132)	(117)
– Share based payments (note 33)	(679)	21
– Other	(360)	(516)
Direct staff cost	(11 177)	(9 914)
– Other staff related cost	(1 901)	(1 302)
Total staff cost	(13 078)	(11 216)
Other operating costs		
– Insurance	(195)	(72)
– Advertising and marketing	(979)	(903)
– Maintenance	(868)	(778)
– Property	(624)	(462)
– Computer	(770)	(851)
– Stationery	(232)	(244)
– Telecommunications	(496)	(540)
– Customer loyalty programme	(249)	(212)
– Conveyance of cash	(327)	(278)
– Origination costs	(27)	(26)
– Other operating expenditure	(3 087)	(2 956)
– Total directors' remuneration	(19)	(23)
– Services as directors	(19)	(22)
– Compensation for loss of office	–	(1)
Other operating costs	(7 873)	(7 345)
Value added tax (net)	(431)	(646)
Stamp duties	(14)	(10)
Other	–	36
Indirect tax	(445)	(620)
Total operating expenses	(25 311)	(23 028)

R million	2010	2009
5 TAX		
Direct tax		
Normal tax		
– Current	(2 187)	(1 606)
– Current year	(2 394)	(1 045)
– Prior year adjustment	207	(561)
– Deferred	(555)	724
– Current year	(463)	51
– Prior year adjustment	(92)	673
– Share of associate and joint venture tax (note 16)	(447)	(416)
Total normal tax	(3 189)	(1 298)
Foreign company and withholding tax		
– Current	(445)	(375)
– Current year	(446)	(375)
– Prior year adjustment	1	–
– Deferred tax	148	201
– Current year	151	200
– Prior year adjustment	(3)	1
Total foreign company and withholding tax	(297)	(174)
Secondary tax on companies	17	133
– Current year	(57)	(219)
– Deferred	74	352
– Current year	(22)	(11)
– Prior year adjustment	96	362
– Taxation rate adjustment	–	1
Capital gains tax	(50)	(58)
– Current tax	(51)	(59)
– Deferred tax	1	1
Customer tax adjustment account	(8)	(14)
Total tax	(3 527)	(1 411)

Tax rate reconciliation – South African normal tax	%	%
Effective rate of tax	27.0	18.0
Total tax has been affected by:		
– Non taxable income	7.3	19.0
– Prior year adjustments	1.6	0.1
– Effect of income at capital gains tax rate	(0.4)	(0.7)
– Other non deductible items	(7.0)	(7.2)
Standard rate of South African tax	28.0	28.0

	2010	2009
6 EARNINGS PER SHARE		
Basic		
Basic earnings per share is calculated by dividing the net profit attributable to equity holders of the Group by the weighted average number of ordinary shares in issue during the year, excluding the average number of ordinary shares purchased by the Group and held as treasury shares.		
Earnings attributable to ordinary shareholders (R million)	9 444	6 501
From continuing operations	8 249	5 116
From discontinued operations	1 195	1 385
Weighted average number of ordinary shares in issue	5 248 177 525	5 206 910 888
Basic earnings per share (cents)	179.9	124.9
From continuing operations (cents)	156.1	97.6
From discontinued operations (cents)	23.8	27.3
Diluted		
Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.		
Earnings attributable to ordinary shareholders (R million)	9 444	6 501
From continuing operations	8 249	5 116
From discontinued operations	1 195	1 385
Actual number of shares:		
Shares in issue as at 1 July	5 637 941 689	5 637 830 218
– Outperformance conversion December 2008	–	111 471
Number of shares in issue as at 30 June	5 637 941 689	5 637 941 689
Less: Treasury shares	(393 425 954)	(424 341 687)
– Staff schemes	(164 470 512)	(217 817 733)
– BEE staff trusts	(171 401 072)	(171 401 072)
– Policyholder and mutual funds "deemed treasury shares"	(57 554 370)	(35 122 882)
Number of shares in issue (after treasury shares)	5 244 515 735	5 213 600 002
Weighted average number of shares		
Actual number of shares in issue as at 1 July	5 637 941 689	5 637 830 218
– Outperformance conversion weighting	–	65 025
Weighted average number of shares before treasury shares	5 637 941 689	5 637 895 243
Less: Treasury shares	(389 764 164)	(430 984 355)
– Staff schemes	(181 015 451)	(225 295 065)
– BEE staff trusts	(171 401 072)	(171 401 072)
– Policyholder and mutual funds "deemed treasury shares"	(37 347 641)	(34 288 218)
Weighted average number of shares	5 248 177 525	5 206 910 888
Weighted average number of shares	5 248 177 525	5 206 910 888
Dilution impact		
– Staff schemes	42 815 288	5 455 868
– BEE staff trust	11 438 393	1 184 615
Diluted weighted average number of shares in issue	5 302 431 206	5 213 551 371
Diluted earnings per share (cents)	178.1	124.7
From continuing operations (cents)	154.5	98.1
From discontinued operations (cents)	23.6	26.6

R million	2010	2009
7 DISCLOSURE OF THE COMPONENTS AND TAX EFFECTS OF OTHER COMPREHENSIVE INCOME		
Cash flow hedges (refer to note 10)	**(176)**	(894)
Losses arising during the year	(656)	(829)
Less: Reclassification adjustments for amounts included in profit or loss	430	(399)
Deferred tax	50	334
Available-for-sale financial assets	**(136)**	4
Gains arising during the year	534	73
Less: Reclassification adjustments for amounts included in profit or loss	(605)	(2)
Deferred tax	(67)	(71)
Non controlling interest	2	4
Exchange differences on translating foreign operations	**(74)**	(641)
Losses arising during the year	(52)	(615)
Non controlling interest	(22)	(26)
Share of other comprehensive income of associates after tax and non controlling interest	**39**	73
Other comprehensive income	**(347)**	(1 458)

8 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 232 to page 258 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:

R million	Note	Held for trading	Designated at fair value through profit or loss*	Held-to-maturity investments
ASSETS				
Cash and short term funds	9	–	–	–
Derivative financial instruments	10	39 285	–	–
Advances	11	–	117 387	120
Investment securities and other investments	13	25 897	58 634	254
Commodities	14	2 365	–	–
Accounts receivable	15	–	–	–
Investments in associates and joint ventures	16	–	–	–
Property and equipment	17	–	–	–
Deferred tax asset	18	–	–	–
Intangible assets and deferred acquisition costs	19	–	–	–
Investment properties	20	–	–	–
Policy loans		–	–	–
Reinsurance assets	21	–	–	–
Tax asset		–	–	–
Non current assets and disposal groups held for sale	22	–	–	–
Total assets		**67 547**	**176 021**	**374**
LIABILITIES				
Deposits and current accounts	23	–	233 296	–
Short trading positions	24	16 735	–	–
Derivative financial instruments	10	34 909	–	–
Creditors and accruals	25	–	–	–
Provisions	26	–	–	–
Tax liability		–	–	–
Post retirement liabilities	27	–	–	–
Deferred tax liability	18	–	–	–
Long term liabilities	28	–	1 174	–
Policyholder liabilities under insurance contracts	29	–	–	–
Policyholder liabilities under investment contracts	30	–	101	–
Liabilities directly associated with non current assets classified as held for sale	22	–	–	–
Total liabilities		**51 644**	**234 571**	**–**

** Investment securities designated at fair value through profit and loss include non recourse investments of R16 036 million (2009: R16 165 million). Refer to note 13.*

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
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	218 310	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

8 ANALYSIS OF ASSETS AND LIABILITIES *continued*

R million	Note	Held for trading	Designated at fair value through profit or loss*	Held-to-maturity investments
ASSETS				
Cash and short term funds	9	–	–	–
Derivative financial instruments	10	68 232	–	–
Advances	11	–	95 161	163
Investment securities and other investments	13	38 678	135 089	183
Commodities	14	1 323	–	–
Accounts receivable	15	–	–	–
Investments in associates and joint ventures	16	–	–	–
Property and equipment	17	–	–	–
Deferred tax asset	18	–	–	–
Intangible assets and deferred acquisition costs	19	–	–	–
Investment properties	20	–	–	–
Policy loans on insurance contracts		–	–	–
Reinsurance assets	21	–	–	–
Tax asset		–	–	–
Non current assets and disposal groups held for sale	22	–	–	–
Total assets		108 233	230 250	346
LIABILITIES				
Deposits and current accounts	23	–	207 134	–
Short trading positions	24	25 002	–	–
Derivative financial instruments	10	54 638	–	–
Creditors and accruals	25	–	–	–
Provisions	26	–	–	–
Tax liability		–	–	–
Post retirement liabilities	27	–	–	–
Deferred tax liability	18	–	–	–
Long term liabilities	28	–	2 810	–
Policyholder liabilities under insurance contracts	29	–	–	–
Policyholder liabilities under investment contracts	30	–	109 196	–
Liabilities arising to third parties		–	8 114	–
Deferred revenue liability	31	–	–	–
Liabilities directly associated with non current assets classified as held for sale	22	–	–	–
Total liabilities		79 640	327 254	–

** Investment securities designated at fair value through profit and loss include non recourse investments of R16 036 million (2009: R16 165 million). Refer to note 13.*

	2009						
	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
	57 266	–	–	–	–	–	57 266
	–	–	–	–	376	–	68 608
	320 705	459	–	–	–	–	416 488
	511	34 788	–	–	–	–	209 249
	–	–	–	–	–	–	1 323
	11 068	–	–	–	–	–	11 068
	–	–	–	–	–	15 294	15 294
	–	–	–	–	–	10 220	10 220
	–	–	–	–	–	2 034	2 034
	–	–	–	–	–	5 698	5 698
	–	–	–	–	–	2 156	2 156
	626	–	–	–	–	–	626
	–	–	–	–	–	8 430	8 430
	–	–	–	–	–	883	883
	–	–	–	–	–	508	508
	390 176	35 247	–	–	376	45 223	809 851
	–	–	270 949	–	–	–	478 083
	–	–	–	–	–	–	25 002
	–	–	–	80	838	–	55 556
	–	–	18 217	–	–	–	18 217
	–	–	–	–	–	2 961	2 961
	–	–	–	–	–	331	331
	–	–	–	–	–	2 089	2 089
	–	–	–	–	–	3 977	3 977
	–	–	10 117	–	–	1	12 928
	–	–	–	–	–	40 725	40 725
	–	–	–	–	–	–	109 196
	–	–	–	–	–	–	8 114
	–	–	–	–	–	322	322
	–	–	–	–	–	253	253
	–	–	299 283	80	838	50 659	757 754

R million	2010	2009
9 CASH AND SHORT TERM FUNDS		
Coins and bank notes	4 279	3 738
Money at call and short notice	2 217	3 056
Balances with central banks	11 513	12 559
Balances with other banks	9 058	6 925
Money market investments	–	30 988
Cash and short term funds	27 067	57 266
The carrying value of cash and short term funds approximates the fair value.		
Mandatory reserve balances included above :	10 483	11 661

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.

Refer to note 40 for current and non current analysis for cash and short term funds.

10 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 as hedging instruments are formally designated as hedging instruments as defined in IAS 39.

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

The 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 pricing risk. Derivative instruments become favourable (assets) or unfavourable (liabilities) based on changes in market interest rates. The aggregate notional amount of derivative financial instruments, the extent to which the instruments are favourable or unfavourable, and thus the aggregate fair value can fluctuate significantly, over time.

The Group's detailed risk management strategy, including the use of hedging instruments in risk management, is set out in the risk report on pages 114 to 231 of the annual 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.

10 DERIVATIVE FINANCIAL INSTRUMENTS *continued*

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 excluded from assessing hedge effectiveness. Non qualifying hedging derivatives are entered into for risk management purposes but do not meet the criteria for hedge accounting. These include derivatives managed in conjunction with financial instruments designated at fair value.

Momentum Group

The Momentum Group makes use of derivative instruments in order to achieve exposure to a desired asset spread where liquidity constraints limit the purchase of sufficient physical assets as well as to provide a hedge against a known liability. Derivative contracts are not entered into purely for speculative purposes. The Momentum Group's asset managers have been mandated to enter into derivative contracts on an agency basis, with agreed upon internal controls being instituted to ensure that exposure limits are adhered to. These controls include the regular monitoring of sensitivity analyses designed to measure the behaviour and exposure to derivative instruments under conditions of market stress.

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

Hedging instruments

The Group uses the following financial instruments for hedging purposes:

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

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

The Group hedges interest rate risk in it's statement of financial position using separate risk portfolios. These portfolios are managed under separate mandates, which take into account the underlying risk inherent in each portfolio. Counterparty credit risk is managed centrally by FirstRand Credit.

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

Momentum Group

The Momentum Group decided to hedge the fixed interest payable on its callable notes. The Momentum Group entered into a swap agreement with FirstRand Bank whereby Momentum earns fixed interest and pays variable interest. This was done to match the variable nature of the investment income earned on the shareholders' portfolio.

The Group's fair value hedges principally consist of interest rate and currency swaps that are used to protect against changes in fair value of fixed rate long term financial instruments and non rand denominated financial instruments due to movement in the market interest rates and currency fluctuations. For qualifying fair value hedges, all changes in fair value of the derivative and in the fair value of the item in relation to the risk being hedged are recognised in profit or loss. If the hedge relationship is terminated, the fair value adjustment to the item continues to be reported as part of the basis of the item and is amortised to income as a yield adjustment over the remainder of the hedging period.

Fair value hedges

The Group's fair value hedges principally consist of commodity and interest rate derivatives used to hedge the price risk associated with physical commodity positions and interest rate risk arising on fixed rate financial instruments. 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 should continue to be 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	2010	2009
10 DERIVATIVE FINANCIAL INSTRUMENTS *continued*		
Gains or losses for the period arising from the change in fair value of fair value hedges:		
– on hedging instrument	104	213
– on hedged items attributable to the hedged risk	(105)	(141)
Total	(1)	72

Cash flow hedges

Interest rate derivatives comprising mainly of interest rate swaps are utilised for hedging purposes to eliminate uncertainty and reduce the risk that the Group faces due to volatile interest rates. The Group accepts deposits at variable rates and designates pay fixed interest rate derivatives as cash flow hedges of future interest payments, effectively converting borrowings from floating to fixed rates. The Group also has assets at variable rates and designates receive fixed interest rate derivatives as cash flow hedges of future interest receipts.

These instruments have quarterly resets and settlements.

The amounts of these resets are dependant upon a number of factors including notional amounts, reset rates and reset dates. The maturities of these instruments are negotiated at the time of the deal and are dependant on future yields and maturity profile of the underlying hedged book.

Underlying hedged items have monthly cash flows based on the underlying reference rate.

A single swap cash flow hedges the cumulative change in cash flow for three subsequent months.

The effective portion of changes in fair value of derivatives that are designated and qualify as cash flow hedges 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 the income statement in periods in which movements in the hedged item will affect profit or loss.

When hedging instruments are sold or when the hedge no longer meets the criteria for hedge accounting, the gains or losses continue to be deferred in other comprehensive income and are released to profit or loss as the risks, previously hedged affects profit or loss.

When the hedge risk is no longer expected to occur, the gains or losses deferred in other comprehensive income are released to profit or loss immediately.

R million	2010	2009
Reconciliation of movements in the cash flow hedge reserve		
Opening balance (net of deferred tax)	(292)	602
Amount recognised directly in other comprehensive income during the year	(487)	(607)
Amounts reclassified from other comprehensive income and included in profit or loss for the year	311	(287)
– Gross amount	432	(399)
– Deferred tax	(121)	112
Closing balance	(468)	(292)

10 DERIVATIVE FINANCIAL INSTRUMENTS *continued*

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 hedging instruments were less than the changes on the hedged items, there was ineffectiveness recognised in profit or loss.

R million	2010	2009
Hedge ineffectiveness recognised in the income statement	**20**	–

	2010		2009	
R million	Assets	Liabilities	Assets	Liabilities
Cash flows on the underlying hedged items are expected to impact the profit or loss as follows:				
– 1 – 3 months	**5 061**	**(3 422)**	2 740	(960)
– 3 – 12 months	**3 744**	**(2 763)**	3 109	(1 298)
– 1 – 5 years	**1 321**	**(1 099)**	2 119	(2 722)
– Over 5 years	**–**	**(10)**	3	(2 985)
Total	**10 126**	**(7 294)**	7 971	(7 965)

	2010		2009	
R million	Assets	Liabilities	Assets	Liabilities
Cash flows on the hedging instruments are expected to be released to the profit or loss as follows:				
– 1 – 3 months	**(92)**	**9**	(221)	258
– 3 – 12 months	**(316)**	**414**	(433)	234
– 1 – 5 years	**(239)**	**651**	(365)	190
– Over 5 years	**–**	**39**	–	47
Total	**(647)**	**1 113**	(1 019)	729

10 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

	2010			
	Assets		Liabilities	
R million	Notional	Fair value	Notional	Fair value
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

10 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 40 for current and non current analysis of derivatives.

10 DERIVATIVE FINANCIAL INSTRUMENTS *continued*

	2009			
	Assets		Liabilities	
R million	Notional	Fair value	Notional	Fair value
Qualifying for hedge accounting				
Cash flow hedges				
Interest rate derivatives	27 298	376	32 445	838
– Swaps	27 298	376	32 445	838
Total cash flow hedges	27 298	376	32 445	838
Fair value hedges				
Commodity derivatives	28	–	–	–
– Futures	28	–	–	–
Interest rate derivatives	–	–	1 000	80
– Swaps	–	–	1 000	80
Total fair value hedges	28	–	1 000	80
Total qualifying for hedge accounting	27 326	376	33 445	918
Held for trading				
Currency derivatives	263 978	27 529	248 850	25 404
– Forward rate agreements	63 261	11 275	64 932	10 812
– Swaps	189 280	15 462	174 359	14 118
– Options	8 861	792	7 014	468
– Futures	2 576	–	2 545	6
Interest rate derivatives	3 198 517	28 458	2 933 975	27 185
– Forward rate agreements	2 248 951	7 986	2 069 015	8 387
– Swaps	916 641	20 155	840 949	18 453
– Options	30 658	317	23 047	343
– Futures	2 267	–	964	2
Equity derivatives	19 840	7 161	17 716	599
– Swaps	1 698	95	1 499	89
– Options	18 126	6 578	16 176	503
– Futures	16	488	41	7
Commodity derivatives	6 085	5 066	3 899	1 285
– Forward rate agreements	113	369	101	199
– Swaps	871	242	65	90
– Options	4 596	4 367	3 278	856
– Futures	505	88	455	140
Credit derivatives	2 336	18	3 086	165
Total held for trading	3 490 756	68 232	3 207 526	54 638
Total	3 518 082	68 608	3 240 971	55 556

10 DERIVATIVE FINANCIAL INSTRUMENTS *continued*

	2009					
	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	–	–	27 298	376	27 298	376
Interest rate derivatives	–	–	27 298	376	27 298	376
Fair value hedges	28	–	–	–	28	–
Commodity derivatives	28	–	–	–	28	–
Not qualifying for hedge accounting						
Held for trading	9 573	1 757	3 481 183	66 475	3 490 756	68 232
Currency derivatives	2 576	4	261 402	27 525	263 978	27 529
Interest rate derivatives	4 950	–	3 193 567	28 459	3 198 517	28 459
Equity derivatives	1 642	1 753	18 198	5 407	19 840	7 160
Commodity derivatives	405	–	5 680	5 066	6 085	5 066
Credit derivatives	–	–	2 336	18	2 336	18
Total	9 601	1 757	3 508 481	66 851	3 518 082	68 608

	2009					
	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	–	–	32 445	838	32 445	838
Interest rate derivatives	–	–	32 445	838	32 445	838
Fair value hedges	–	–	1 000	80	1 000	80
Interest rate derivatives	–	–	1 000	80	1 000	80
Not qualifying for hedge accounting						
Held for trading	5 949	10	3 201 577	54 628	3 207 526	54 638
Currency derivatives	2 540	–	246 310	25 404	248 850	25 404
Interest rate derivatives	3 293	7	2 930 682	27 178	2 933 975	27 185
Equity derivatives	84	3	17 632	596	17 716	599
Commodity derivatives	32	–	3 867	1 285	3 899	1 285
Credit derivatives	–	–	3 086	165	3 086	165
Total	5 949	10	3 235 022	55 546	3 240 971	55 556

Refer to note 40 for current and non current analysis of derivatives.

11 ADVANCES

R million	Loans and receivables	Held-to-maturity	Available-for-sale	Designated at fair value through profit or loss	Total
	2010				
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 12)	(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 12)	(8 968)	(4)	–	–	(8 972)
Net advances	316 986	120	300	117 387	434 793

11 ADVANCES *continued*

R million	2010				
	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 12)	(8 968)	(4)	–	–	(8 972)
Net advances	316 986	120	300	117 387	434 793

11 ADVANCES *continued*

	2009				
R million	Loans and receivables	Held-to-maturity	Available-for-sale	Designated at fair value through profit or loss	Total
Sector analysis					
Agriculture	8 026	–	–	3 878	11 904
Banks and financial services	13 530	–	459	24 823	38 812
Building and property development	5 746	–	–	12 793	18 539
Government, Land Bank and public authorities	7 552	–	–	13 276	20 828
Individuals	250 003	178	–	155	250 336
Manufacturing and commerce	23 607	–	–	12 401	36 008
Mining	2 274	–	–	7 185	9 459
Transport and communication	2 308	–	–	10 799	13 107
Other services	19 131	–	–	9 851	28 982
Notional value of advances	332 177	178	459	95 161	427 975
Contractual interest suspended	(1 888)	(8)	–	–	(1 896)
Gross advances	330 289	170	459	95 161	426 079
Impairment of advances (note 12)	(9 584)	(7)	–	–	(9 591)
Net advances	320 705	163	459	95 161	416 488
Geographic analysis (based on credit risk)					
South Africa	308 058	178	459	83 108	391 803
Other Africa	18 957	–	–	2 117	21 074
United Kingdom	3 941	–	–	6 440	10 381
Other	1 221	–	–	3 496	4 717
– Ireland	4	–	–	377	381
– Other Europe	107	–	–	2 097	2 204
– North America	242	–	–	78	320
– South America	2	–	–	443	445
– Australasia	860	–	–	348	1 208
– Other	6	–	–	153	159
Total value of advances	332 177	178	459	95 161	427 975
Contractual interest suspended	(1 888)	(8)	–	–	(1 896)
Gross advances	330 289	170	459	95 161	426 079
Impairment of advances (note 12)	(9 584)	(7)	–	–	(9 591)
Net advances	320 705	163	459	95 161	416 488

11 ADVANCES *continued*

R million	Loans and receivables	Held-to-maturity	Available-for-sale	Designated at fair value through profit or loss	Total
	2009				
Category analysis					
Overdrafts and managed accounts	36 292	–	–	–	36 292
Loans to other financial institutions	2 167	–	–	–	2 167
Card loans	12 961	–	–	–	12 961
Instalment sales	62 600	–	–	–	62 600
Lease payments receivable	22 030	–	–	–	22 030
Property finance	164 533	178	–	2 051	166 762
– Home loans	154 313	178	–	–	154 491
– Commercial property finance	10 220	–	–	2 051	12 271
Personal loans	10 623	–	–	–	10 623
Preference share advances	2 123	–	–	20 116	22 239
Assets under agreement to resell	289	–	–	25 710	25 999
Other	18 559	–	459	47 284	66 302
Notional value of advances	332 177	178	459	95 161	427 975
Contractual interest suspended	(1 888)	(8)	–	–	(1 896)
Gross advances	330 289	170	459	95 161	426 079
Impairment of advances (note 12)	(9 584)	(7)	–	–	(9 591)
Net advances	320 705	163	459	95 161	416 488

Refer to note 40 for current and non current analysis of advances.
Refer to note 41 for information relating to the fair value of advances.

Advances relating to synthetic securitisations:

- Procul is a synthetic securitisation transaction amounting to R2 billion (2009: R2 billion) of WesBank retail instalment sale advances. In terms of the transaction WesBank has transferred the credit risk up to the value of the reference portfolio to Procul, a bankruptcy remote special purpose entity.
- Fresco II is a synthetic securitisation transaction amounting to R20 billion (2009: R20 billion) of the Group 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.

The Group consolidates the 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 R733 million (2009: R2.7 billion) which is non recourse securitised instalment advances.
- Included in home loans above is R3.1 billion (2009: R3.5 billion) which is non recourse securitised home loan advances.

Additional information relating to these transactions are set out in note 39.

11 ADVANCES *continued*

R million	Within 1 Year	Between 1 – 5 years	More than 5 years	Total
2010				
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
2009				
Analysis of instalment sales and lease payments receivable				
Lease payments receivable	9 057	18 517	927	28 501
Suspensive sale instalments receivable	22 366	44 568	2 885	69 819
Sub total	31 423	63 085	3 812	98 320
Less: Unearned finance charges	(4 212)	(8 855)	(623)	(13 690)
Total	27 211	54 230	3 189	84 630

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 R372 million (2009: R386 million).

11 ADVANCES *continued*

Credit risk mitigation

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

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

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

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

12 IMPAIRMENT OF ADVANCES

Significant loans and advances are monitored by the credit committee and impaired according to the Group's impairment policy when an indication of impairment is observed.

The following factors are considered when determining whether there is objective evidence that the asset has been impaired:
- The estimated amount of collateral held against the loans and advances;
- Breaches of loan covenants and conditions;
- The time period of overdue contractual payments;
- 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").

	2010		
	FNB		
R million	Retail	Corporate	Commercial
Analysis of movement in impairment of advances per class of advance			
Opening balance	5 585	302	717
Exchange rate difference	–	–	–
Amounts written off	(4 301)	(230)	(135)
Unwinding of discounted present value on non performing loans	(234)	–	(18)
Reclassifications	–	–	–
Net new impairments created/(released)	3 347	37	452
Acquisitions of subsidiaries	–	–	–
Transfers (to)/from other divisions	(72)	119	(46)
Closing balance	4 325	228	970
New and increased provision	(3 347)	(37)	(452)
Recoveries of bad debts previously written off	406	3	6
Impairment loss recognised in the income statement	(2 941)	(34)	(446)

	2009		
	FNB		
R million	Retail	Corporate	Commercial
Opening balance	3 853	292	461
Exchange rate difference	–	–	–
Amounts written off	(2 603)	(67)	(113)
Unwinding of discounted present value on non performing loans	(367)	–	(32)
Reclassifications	–	–	–
Net new impairments created/(released)	4 702	71	407
Disposals of subsidiaries	–	–	–
Transfers from / (to) other divisions	–	6	(6)
Closing balance	5 585	302	717
New and increased provision	(4 702)	(71)	(407)
Recoveries of bad debts previously written off	241	1	18
Impairment loss recognised in the income statement	(4 461)	(70)	(389)

2010						
WesBank	RMB	FNB Africa	Other	Total impairment	Specific impairment	Portfolio impairment
2 166	330	384	107	9 591	7 206	2 385
(3)	4	(11)	–	(10)	(3)	(7)
(1 998)	(89)	(56)	(27)	(6 836)	(6 826)	(10)
–	–	(5)	4	(253)	(258)	5
–	–	–	–	–	238	(238)
2 394	198	78	(29)	6 477	6 528	(51)
–	3	–	–	3	3	–
40	23	2	(66)	–	–	–
2 599	469	392	(11)	8 972	6 888	2 084
(2 394)	(198)	(78)	29	(6 477)	(6 528)	51
346	3	10	17	791	790	1
(2 048)	(195)	(68)	46	(5 686)	(5 738)	52

2009						
WesBank	RMB	FNB Africa	Other	Total impairment	Specific impairment	Portfolio impairment
1 830	280	377	290	7 383	4 918	2 465
(31)	(19)	(6)	–	(56)	(45)	(11)
(2 508)	(378)	(45)	(164)	(5 878)	(5 839)	(39)
–	–	(17)	7	(409)	(413)	4
–	–	–	–	–	27	(27)
2 876	523	75	(102)	8 552	8 558	(6)
(1)	–	–	–	(1)	–	(1)
–	(76)	–	76	–	–	–
2 166	330	384	107	9 591	7 206	2 385
(2 876)	(523)	(75)	102	(8 552)	(8 558)	6
131	–	(21)	158	528	530	(2)
(2 745)	(523)	(96)	260	(8 024)	(8 028)	4

12 IMPAIRMENT OF ADVANCES *continued*

	2010			
R million	Total value including interest in suspense	Security held	Specific impairments	Contractual interest suspended
Non performing loans by sector				
Agriculture	379	354	27	23
Banks and financial services	371	296	109	42
Building and property development	1 456	892	446	157
Government, Land Bank and public authorities	88	17	34	4
Individuals	18 513	12 976	4 877	1 559
Manufacturing and commerce	905	309	405	112
Mining	96	49	27	5
Transport and communication	352	110	149	17
Other	2 110	686	814	146
Total non performing loans	24 270	15 689	6 888	2 065
Non performing loans by category				
Overdrafts and managed accounts	1 125	402	731	192
Card loans	755	–	523	47
Instalment sales	3 647	681	1 366	261
Lease payments receivable	981	190	381	86
Property finance	14 862	13 099	2 821	1 202
–Home loans	13 739	12 238	2 523	1 061
–Commercial property finance	1 123	861	298	141
Personal loans	1 567	432	729	120
Preference share agreement	25	8	4	9
Other	1 308	877	333	148
Total non performing loans	24 270	15 689	6 888	2 065
Non performing loans by class				
FNB Retail	14 801	12 095	3 366	1 183
FNB Corporate	1	–	1	–
FNB Commercial	2 271	1 477	779	344
Total FNB	17 073	13 572	4 146	1 527
WesBank	5 447	1 043	2 115	349
RMB	1 221	852	287	95
FNB Africa	498	229	199	91
Other (BGT, Capital Centre, other subsidiaries)	31	(7)	141	3
Total non performing loans	24 270	15 689	6 888	2 065
Non performing loans by geographical area				
South Africa	22 985	15 130	6 317	1 885
Other Africa	644	317	250	95
UK	26	6	20	–
Other	615	236	301	85
South America	214	214	–	–
Australasia	401	22	301	85
Total non performing loans	24 270	15 689	6 888	2 065

Net recoverable amount on non performing loans is R15 317 million.

12 IMPAIRMENT OF ADVANCES *continued*

R million	2009 Total value including interest in suspense	Security held	Specific impairments	Contractual interest suspended
Non performing loans by sector				
Agriculture	440	218	24	27
Banks and financial services	422	331	93	16
Building and property development	1 148	579	272	114
Government, Land Bank and public authorities	79	18	26	4
Individuals	20 706	14 692	5 670	1 528
Manufacturing and commerce	1 154	311	413	91
Mining	135	43	48	2
Transport and communication	254	120	76	11
Other	1 785	717	584	103
Total non performing loans	26 123	17 029	7 206	1 896
Non performing loans by category				
Overdrafts and managed accounts	1 174	275	852	199
Card loans	1 546	–	1 086	60
Instalment sales	3 472	802	1 162	190
Lease payments receivable	1 111	276	357	71
Property finance	15 985	14 921	2 610	1 115
–Home loans	15 028	14 022	2 462	1 051
–Commercial property finance	957	899	148	64
Personal loans	1 527	305	806	206
Other	1 308	450	333	55
Total non performing loans	26 123	17 029	7 206	1 896
Non performing loans by class				
FNB Retail	17 323	13 568	4 432	1 260
FNB Corporate	84	–	69	–
FNB Commercial	1 829	1 370	528	206
Total FNB	19 236	14 938	5 029	1 466
WesBank	4 855	1 130	1 575	255
RMB	1 234	428	208	57
FNB Africa	538	250	192	108
Other (BGT, Capital Centre, other subsidiaries)	260	283	202	10
Total non performing loans	26 123	17 029	7 206	1 896
Non performing loans by geographical area				
South Africa	24 671	16 711	6 747	1 737
Other Africa	622	309	218	109
UK	37	9	28	–
Other	793	–	213	50
Europe	100	–	–	–
South America	300	–	–	–
Australasia	393	–	213	50
Total non performing loans	26 123	17 029	7 206	1 896

Net recoverable amount on non performing loans is R17 021 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.

13 INVESTMENT SECURITIES AND OTHER INVESTMENTS

	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

R35 878 million (2009: R37 081 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 fair value of investment securities and other investments is disclosed in note 41.

The Group holds certain interests in collateralised debt obligation structures. The Group has no obligations toward other investors beyond the amounts already contributed. The Group has no management control or influence over these investments which are designated at fair value through profit or loss.

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

13 INVESTMENT SECURITIES AND OTHER INVESTMENTS *continued*

	2009	
R million	Held for trading	Designated at fair value through profit or loss
Total		
Negotiable certificates of deposit	8 068	277
Treasury bills	9 759	6 864
Other government and government guaranteed stock	13 479	18 413
Other dated securities	2 513	17 366
Other undated securities	718	334
Money market investments	–	47 850
Other	4 141	27 820
Total	38 678	118 924
Listed		
Negotiable certificates of deposit	–	277
Treasury bills	–	5 132
Other government and government guaranteed stock	10 888	16 668
Other dated securities	1 865	7 819
Other undated securities	–	151
Other	3 936	21 113
Listed	16 689	51 160
Unlisted		
Negotiable certificates of deposit	8 068	–
Treasury bills	9 759	1 732
Other government and government guaranteed stock	2 591	1 745
Other dated securities	648	9 547
Other undated securities	718	183
Money market investments	–	47 850
Other	205	6 707
Unlisted	21 989	67 764

2009				
Available-for-sale	Loans and receivables	Held-to–maturity	Fair value through profit or loss non recourse investments*	Total
352	100	–	–	8 797
13 626	–	43	–	30 292
16 723	–	56	153	48 824
378	390	7	2 826	23 480
701	21	–	–	1 774
5	–	–	–	47 855
3 003	–	77	13 186	48 227
34 788	511	183	16 165	209 249
–	–	–	–	277
172	–	–	–	5 304
9 662	–	–	153	37 371
–	153	–	287	10 124
701	–	–	–	852
914	–	–	–	25 963
11 449	153	–	440	79 891
352	100	–	–	8 520
13 454	–	43	–	24 988
7 061	–	56	–	11 453
378	237	7	2 539	13 356
–	21	–	–	922
5	–	–	–	47 855
2 089	–	77	13 186	22 264
23 339	358	183	15 725	129 358

13 INVESTMENT SECURITIES AND OTHER INVESTMENTS *continued*

***Fair value through profit or loss on non recourse investments**

Certain investments held by the Group include investment grade commercial paper which is issued by asset backed conduits held by the Group. The Group is deemed to control these assets in terms of SIC 12.

Fair value adjustments on non recourse investments thus 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. 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.
2. iNkotha Investment Limited, a fixed income fund that provides South African institutional investors with short dated investment grade commercial paper. 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.
3. iVuzi Investment Limited, an asset backed conduit that provides South African institutional investors with short dated investment grade commercial paper. 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.
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, comprised of as follows:

R million	2010	2009
Other government and government guaranteed stock	–	153
Investment grade commercial paper	17 590	16 012
Less: Group's share thereof	(1 554)	–
Total non recourse investments	**16 036**	16 165
Analysis of investment securities		
Listed	**52 853**	79 891
Equities	6 761	25 961
Debt	46 092	53 930
Unlisted	**64 318**	129 358
Equities	3 752	8 203
Debt	60 566	121 155
Total	**117 171**	209 249
Valuation of investments		
Market value of listed investments	52 853	79 891
Directors valuation of unlisted investments*	64 318	129 358
Total valuation	**117 171**	209 249

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

Refer to note 40 for current and non current analysis of investment securities and other investments. Refer to note 41 on fair value of financial instruments for the methodologies used to determine the fair value of investment securities and other investments.

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

R million	2010	2009
14 COMMODITIES		
Agricultural stock	872	1 323
Base metals	1 493	–
Commodities	**2 365**	**1 323**

Refer to note 40 for current and non current analysis of commodities.

R million	2010	2009
15 ACCOUNTS RECEIVABLE		
Items in transit	1 650	938
Interest and commissions accrued	73	191
Accounts receivable	3 719	5 117
Premium debtors	–	460
Less: Provision for impairment of premium debtors	–	(14)
Prepayments	301	395
Unsettled trades	–	3 769
Reinsurance debtors	–	212
Accounts receivable	**5 743**	**11 068**

The carrying value of accounts receivable approximates the fair value. Refer to note 40 for current and non current analysis of accounts receivable.

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

	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
Accounts receivable	3 496	1	140	35	32	15	3 719
Prepayments	301	–	–	–	–	–	301
Total	**5 520**	**1**	**140**	**35**	**32**	**15**	**5 743**

	2009						
			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	914	–	24	–	–	–	938
Interest and commissions accrued	191	–	–	–	–	–	191
Accounts receivable	5 009	6	(13)	18	38	59	5 117
Premium debtors	84	–	273	7	96	(14)	446
Prepayments	384	–	–	–	11	–	395
Unsettled trades	3 769	–	–	–	–	–	3 769
Reinsurance debtors	42	–	17	20	98	35	212
Total	10 393	6	301	45	243	80	11 068

16 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

R million	2010	2009
Listed investments		
Investments at cost less amounts written off	622	9 469
Unlisted investments		
Investments at cost less amounts written off	4 174	2 921
Income before tax for the year (continued operations)	700	1 575
Income before tax for the year (discontinued operations)	–	13
Transfer to other reserves	(17)	(14)
Tax for the year (continued operations)(note 5)	(447)	(416)
Dividends received for the year	(574)	(835)
Retained income for the year	(338)	323
Exchange differences	(5)	(86)
(Disposals)/acquisitions	(472)	169
Share of retained income at beginning of the year	2 707	2 301
Share of retained income at end of the year	1 892	2 707
Share of other reserves	213	197
Total retained income and reserves	2 105	2 904
Total carrying value	6 901	15 294
Reconciliation of share of profit from associates and joint ventures to income before tax:		
Income before tax for the year	1 287	1 575
(Impairment)/reversal	(587)	2
Share of profit from associate and joint ventures	700	1 577
Goodwill included in carrying value above		
Gross amount	244	269
Less: Accumulated impairment losses	(29)	–
Goodwill	215	269
Valuation		
Listed investments at market value*	645	8 957
Unlisted investments at directors' valuation**	11 184	10 276
Total valuation	11 829	19 233
Included in unlisted investments		
Shareholder loans	1 320	1 175

** The disposal of Makalani has resulted in the large decrease in listed investments in the current year.*

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

Refer to note 40 for current and non current analysis of investments in associates and joint ventures.

16 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES *continued*

	Nature of business	Issued ordinary shares (R)	Number of ordinary shares held	Year end
Listed				
Collective investment schemes	Collective investment schemes	Various	Various	Various
Emira Property Fund	Property unit trust	3 511 484 000	171 829 797	30 Jun
Crookes Brothers Limited	Agriculture	12 385 000	3 715 500	31 Mar
Kula Gold	Gold exploration	58 412	14 289	30 Jun
Other	Various	Various	Various	Various
Unlisted				
OUTsurance Insurance Company Limited	Insurance	1 584 225 400	33 969 000	30 Jun
Toyota Financial Services (Pty) Limited	Vehicle finance	4 695	1 565	31 Mar
Marsh Holdings SA (Pty) Limited	Insurance brokers	83 333	33 333	31 Dec
Tracker Investment Holdings (Pty) Limited	Vehicle trading	915	297	30 Jun
Private Equity Associates	Various	Various	Various	Various

	Effective holding %		Market value/Group valuation amount		Group carrying value	
R million	**2010**	2009	**2010**	2009	**2010**	2009
Listed						
Makalani Holdings Limited	**–**	26	**–**	536	**–**	536
Emira Property Fund**	**–**	37	**–**	1 744	**–**	1 744
Collective investment schemes	**–**	Various	**–**	6 170	**–**	6 170
Private Equity Associates*	**Various**	Various	**248**	507	**320**	1 019
Crookes Brothers Limited	**30**	–	**139**	–	**150**	–
Kula Gold	**24**	–	**219**	–	**116**	–
Other	**–**	–	**39**	–	**36**	–
Total listed	**54**	63	**645**	8 957	**622**	9 469
Unlisted						
OUTsurance Insurance Company Limited	**47**	47	**3 610**	3 295	**1 138**	765
Toyota Financial Services (Pty) Limited	**33**	33	**1 121**	489	**476**	436
Tracker Investment Holdings (Pty) Limited	**33**	33	**1 280**	706	**650**	559
Marsh Holdings SA (Pty) Limited	**40**	40	**50**	42	**42**	28
Momentum Short Term Insurance Company Limited	**–**	50	**–**	40	**–**	40
Private Equity Associates	**Various**	Various	**4 015**	3 679	**2 945**	2 568
Other	**Various**	Various	**1 108**	2 025	**1 028**	1 429
Total unlisted	**153**	203	**11 184**	10 276	**6 279**	5 825
Total listed and unlisted	**207**	240	**11 829**	19 233	**6 901**	15 294

* *Included in the Private Equity Associates are Vox Telecom Ltd, Simmer and Jack Mines Ltd and Control Instruments Group Ltd. The value in use of these associate investments is R320 million (2009: R1 019 million) and has been used in determining the Group carrying value.*

** *In 2009 Emira and the collective investment schemes were accounted for at fair value through profit or loss in terms of IAS 39. These investments are exempt from the measurement requirements of IAS 28 as they are held in the investment linked insurance funds. In 2010 these investments have been presented as non current assets held for sale.*

16 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES *continued*

Summarised financial information of associates and joint ventures:

	Marsh Holdings (Pty) Limited		Private Equity Associates		OUTsurance Insurance Company Limited		Tracker Investment Holdings (Pty) Limited	
	Associate		Associate		Associate		Associate	
R million	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009
Statement of financial position								
Current assets	**191**	240	**10 568**	10 829	**4 465**	3 448	**241**	190
Non current assets	**90**	44	**26 528**	27 776	**171**	152	**910**	754
Current liabilities	**(177)**	(192)	**(9 091)**	(8 464)	**(2 285)**	(1 887)	**(166)**	(91)
Non current liabilities	**(3)**	(6)	**(13 606)**	(12 884)	**(44)**	–	**(122)**	(137)
Equity	**101**	86	**14 399**	17 257	**2 307**	1 713	**863**	716
Income statement								
After tax profit attributable to the Group	**12**	1	**(271)**	841	**288**	296	**90**	69
Loans to associates – included in investments	**–**	–	**1 307**	1 085	**–**	–	**–**	–
Loans to associates – ordinary loans	**12**	12	**–**	–	**–**	–	**–**	–
Share of associate contingent liabilities	**–**	–	**–**	–	**–**	–	**–**	–

16 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES *continued*

	Toyota Financial Services (Pty) Limited		Collective investment schemes		Emira Property Fund		Crookes Brothers Limited	
	Associate		Associate		Associate		Associate	
R million	**2010**	2009	**2010**	2009	**2010**	2009	**2010**	2009
Statement of financial position								
Current assets	**4 971**	4 964	**–**	261	**–**	450	**280**	–
Non current assets	**9 722**	9 299	**–**	23 665	**–**	7 513	**251**	–
Current liabilities	**(6 913)**	(5 055)	**–**	(333)	**–**	(448)	**(90)**	–
Non current liabilities	**(6 352)**	(7 909)	**–**	–	**–**	(1 829)	**(99)**	–
Equity	**1 428**	1 299	**–**	23 593	**–**	5 686	**342**	–
Income statement								
After tax profit attributable to the Group	**71**	58	**–**	–	**–**	–	**20**	–
Loans to associates – included in investments	**–**	–	**–**	–	**–**	–	**–**	–
Loans to associates – ordinary loans	**313**	176	**–**	–	**–**	–	**–**	–
Share of associate contingent liabilities	**–**	–	**–**	–	**–**	–	**–**	–

16 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES *continued*

Summarised financial information of associates and joint ventures:

	Kula Gold		Makalani Holdings Limited		Other		Total listed and unlisted	
	Associate		Associate		Associates and Joint Ventures		Associates and Joint Ventures	
R million	2010	2009	2010	2009	2010	2009	2010	2009
Statement of financial position								
Current assets	54	–	–	432	5 071	7 627	25 841	28 009
Non current assets	400	–	–	1 984	7 572	20 770	45 644	89 973
Current liabilities	(1)	–	–	(11)	(3 450)	(2 531)	(22 173)	(19 001)
Non current liabilities	(1)	–	–	–	(2 930)	(15 906)	(23 157)	(38 671)
Equity	452	–	–	2 405	6 263	9 960	26 155	60 310
Income statement								
After tax profit attributable to the Group	(15)	–	–	(38)	5	(57)	200	1 208
Loans to associates – included in investments	–	–	–	–	13	90	1 320	1 175
Loans to associates – ordinary loans	–	–	–	–	145	145	470	333
Share of associate contingent liabilities	–	–	–	–	–	–	–	–

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.

17 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
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

	2010			2009		
R million	Cost	Accumulated depreciation and impairments	Carrying amount	Cost	Accumulated depreciation and impairments	Carrying amount
Property	7 824	(1 725)	6 099	7 590	(1 442)	6 148
Freehold property*	4 348	(739)	3 609	3 343	(501)	2 842
Leasehold premises*	3 476	(986)	2 490	4 247	(941)	3 306
Assets held under lease agreements**	1 109	(213)	896	1 079	(103)	976
Equipment*	7 602	(4 579)	3 023	7 463	(4 367)	3 096
Computer equipment	4 303	(3 003)	1 300	4 369	(2 927)	1 442
Furniture and fittings	1 826	(913)	913	1 699	(856)	843
Motor vehicles	608	(225)	383	511	(142)	369
Office equipment	894	(472)	422	826	(400)	426
Capitalised leased assets	(29)	34	5	58	(42)	16
Total	16 535	(6 517)	10 018	16 132	(5 912)	10 220

** 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.*

17 PROPERTY AND EQUIPMENT *continued*

R million	Freehold property	Leasehold premises
Movement in property and equipment – carrying amount		
Carrying amount at 30 June 2008	2 127	3 182
Foreign currency adjustments on translation	(16)	(15)
Additions	736	679
Depreciation charge for period (continuing operations)	(78)	(289)
Depreciation charge for period (discontinued operations)	(20)	(2)
Impairments recognised	–	(6)
Impairments reversed	–	–
Disposals	(105)	(19)
Acquisition/(disposal) of subsidiaries	(50)	24
Other	248	(248)
Carrying amount at 30 June 2009	2 842	3 306
Foreign currency adjustments on translation	(15)	(9)
Additions	1 402	340
Depreciation charge for period	(105)	(284)
Impairments recognised	(48)	–
Disposals	(31)	(1 600)
Acquisition/(disposal) of subsidiaries	(436)	18
Reclassifications*	–	723
Transfer to non current assets held for sale	(438)	(3)
Other	438	(1)
Carrying amount at 30 June 2010	3 609	2 490

** During the current 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 as required in terms of Schedule 4 of the Companies Act is kept at the Group's registered offices. This information will be open for inspection in terms of section 113 of the Companies Act, 1973.

Property occupied for banking operations serves as security for finance lease liabilities.

The circumstances which led to the impairment in the current year were due to the impairment testing performed on buildings and movable leased assets owned by the Group.

The circumstances which led to the reversal of previously recognised impairment losses in the prior year were assets previously written off due to branch closures in previous years have been redeployed in the prior year. There were no reversals in the current year.

Refer to note 28 for liabilities that are related to the finance lease assets.

Refer to note 40 for 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
878	1 472	682	166	338	14	8 859
(22)	(11)	(4)	(3)	(5)	(2)	(78)
170	646	286	288	229	4	3 038
(69)	(544)	(152)	(62)	(113)	(3)	(1 310)
–	(28)	(5)	–	(4)	–	(59)
–	(5)	(2)	–	–	–	(13)
–	–	–	–	1	–	1
–	(107)	(15)	(23)	(18)	(3)	(290)
–	24	55	4	3	–	60
19	(5)	(2)	(1)	(5)	6	12
976	1 442	843	369	426	16	10 220
(5)	(3)	(1)	–	(3)	–	(36)
35	520	244	172	190	(14)	2 889
(60)	(592)	(158)	(102)	(127)	(2)	(1 430)
(57)	(2)	–	–	–	–	(107)
–	(12)	(26)	(54)	(45)	17	(1 751)
–	–	38	–	(7)	(5)	(392)
–	–	–	–	–	–	723
–	(50)	(26)	(3)	(12)	–	(532)
7	(3)	(1)	1	–	(7)	434
896	1 300	913	383	422	5	10 018

18 DEFERRED TAX

R million	2010	2009
Deferred tax		
The movement on the deferred tax account is as follows:		
Deferred tax liability		
Opening balance	**3 977**	5 372
– Exchange rate difference	**(6)**	(5)
– Charge to the income statement (continuing operations)	**(360)**	(1 020)
– Charge to the income statement (discontinued operations)	**–**	149
– STC charge/(release) to the income statement	**24**	(201)
– Acquisitions and disposals	**5**	(106)
– Transfer to non current assets held for sale	**(1 570)**	–
– Deferred tax on amounts charged/(transferred) directly to other comprehensive income	**20**	(272)
– Other	**42**	60
Total credit balance	**2 132**	3 977
Deferred tax asset		
Opening balance	**2 034**	1 456
– Exchange rate difference	**(3)**	11
– (Release)/charge to the income statement (continuing operations)	**(841)**	252
– Charge to the income statement (discontinued operations)	**–**	107
– STC charge to the income statement	**98**	151
– Acquisitions and disposals	**22**	(5)
– Transfer to non current assets held for sale	**(969)**	–
– Deferred tax on amounts (transferred)/charged directly to other comprehensive income	**(3)**	9
– Other	**105**	53
Total debit balance	**443**	2 034
Net balance for the year	**1 689**	1 943

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.

18 DEFERRED TAX *continued*

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

	2010							
R million	Opening balance	Tax charge**	Exchange rate	Transfer to non current assets held for sale	Tax rate adjust-ment	Acquisi-tions and disposals	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
Revaluation 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)
Revaluation 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
Total deferred tax	1 943	407	(3)	(601)	–	(17)	(40)	1 689

*** Tax charge including discontinued operations.*

18 DEFERRED TAX *continued*

R million	2009							
	Opening balance	Tax charge**	Exchange rate	Transfer to non current assets held for sale	Tax rate adjust-ment	Acquisi-tions and disposals	Other	Closing balance
Deferred tax liability								
Tax losses	305	(167)	–	–	–	–	–	138
Provision for loan impairment	(579)	(66)	–	–	–	–	–	(645)
Provision for post retirement benefits	26	89	–	–	–	–	–	115
Other provisions	(338)	169	–	–	–	(14)	25	(158)
Cash flow hedges	203	–	–	–	–	–	(334)	(131)
Fair value adjustments of financial instruments	488	(56)	(1)	–	–	(44)	(421)	(34)
Instalment credit assets	2 254	150	(5)	–	–	–	1	2 400
Accruals	1 141	(800)	–	–	–	–	–	341
Revaluation of available-for-sale securities to other comprehensive income	95	59	–	–	–	–	7	161
Capital gains tax	(305)	(346)	–	–	–	–	821	170
Insurance contracts	1 077	–	–	–	–	–	(1 077)	–
STC	157	(201)	–	–	–	–	–	(44)
Other	848	97	1	–	–	(48)	766	1 664
Total deferred tax liability	5 372	(1 072)	(5)	–	–	(106)	(212)	3 977
Deferred tax asset								
Tax losses	428	(187)	12	–	1	(3)	(10)	241
Provision for loan impairment	58	26	–	–	–	1	–	85
Provision for post retirement benefits	(8)	–	–	–	–	–	–	(8)
Other provisions	105	(32)	–	–	–	–	(1)	72
Cash flow hedges	–	–	–	–	–	–	–	–
Fair value adjustments of financial instruments	(16)	12	–	–	–	–	(1)	(5)
Instalment credit assets	(835)	–	–	–	–	–	–	(835)
Accruals	(794)	2	–	–	–	(5)	–	(797)
Revaluation of available-for-sale securities to other comprehensive income	(5)	1	–	–	–	–	1	(3)
Capital gains	15	40	–	–	–	–	(6)	49
Insurance contracts	590	40	–	–	–	–	–	630
STC	6	151	–	–	–	–	2	159
Other	1 912	457	(1)	–	(1)	2	77	2 446
Total deferred tax asset	1 456	510	11	–	–	(5)	62	2 034
Total deferred tax	3 916	(1 582)	(16)	–	–	(101)	(274)	1 943

*** Tax charge including discontinued operations.*

18 DEFERRED TAX *continued*

R million	2010	2009
Secondary tax on companies (STC)		
Accumulated STC credits	**2 010**	2 030
Deferred tax asset raised	**(74)**	(151)
Credit to profit or loss	**(74)**	(352)
Total reserves		
If the total reserves of R49 889 million as at 30 June 2010 (2009: R44 133 million) were to be declared as dividends, the secondary tax impact at a rate of 10% would be R4 989 million (2009: R4 413 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.		
Deferred tax assets not provided for:		
Tax losses	**151**	362
Temporary difference	**120**	96
Closing balance	**271**	458

The Group has recognised certain deferred tax liabilities on all temporary differences associated with investments in subsidiaries, branches, associates and interest in joint ventures.

Refer to note 40 for current and non current analysis of deferred tax.

19 INTANGIBLE ASSETS AND DEFERRED ACQUISITION COSTS

R million	2010 Cost	2010 Accumulated amortisation and impairments	2010 Carrying amount	2009 Cost	2009 Accumulated amortisation and impairments	2009 Carrying amount
Goodwill						
Movement in goodwill – book value						
Opening balance	2 240	(342)	1 898	1 446	(149)	1 297
Subsidiary balance (disposed)/acquired	(482)	155	(327)	347	(35)	312
Exchange differences	(19)	–	(19)	(62)	–	(62)
Disposals	(21)	(25)	(46)	(2)	–	(2)
Decrease due to goodwill included in a disposal group classified as held for sale (IFRS 5)	(27)	27	–	–	–	–
Additions	68	–	68	511	–	511
Impairment losses (continuing operations)	–	(78)	(78)	–	(104)	(104)
Impairment losses (discontinued operations)	–	–	–	–	(54)	(54)
Transfer to non current assets held for sale	(321)	85	(236)	–	–	–
Closing balance	1 438	(178)	1 260	2 240	(342)	1 898
Software						
Movement in software – book value						
Opening balance	646	(447)	199	544	(408)	136
Subsidiary balance disposed	(7)	5	(2)	–	–	–
Exchange differences	10	(10)	–	(30)	30	–
Disposals	(159)	156	(3)	(36)	7	(29)
Additions	107	–	107	167	–	167
Impairment losses	–	(4)	(4)	–	–	–
Amortisation to the income statement (continuing operations)	–	(94)	(94)	–	(68)	(68)
Amortisation to the income statement (discontinued operations)	–	–	–	–	(8)	(8)
Other	(1)	1	–	1	–	1
Transfer to non current assets held for sale	(116)	84	(32)	–	–	–
Closing balance	480	(309)	171	646	(447)	199
Development costs						
Movement in development costs – book value						
Opening balance	64	(28)	36	46	(16)	30
Subsidiary balance acquired	–	–	–	2	(1)	1
Disposals	(1)	1	–	–	–	–
Additions	4	–	4	14	–	14
Amortisation to the income statement (continuing operations)	–	(14)	(14)	–	(10)	(10)
Other	–	1	1	2	(1)	1
Transfer to non current assets held for sale	(4)	–	(4)	–	–	–
Closing balance	63	(40)	23	64	(28)	36

19 INTANGIBLE ASSETS AND DEFERRED ACQUISITION COSTS *continued*

R million	2010 Cost	2010 Accumulated amortisation and impairments	2010 Carrying amount	2009 Cost	2009 Accumulated amortisation and impairments	2009 Carrying amount
Trademarks						
Movement in trademarks – book value						
Opening balance	663	(147)	516	199	(92)	107
Subsidiary balance acquired/(disposed)	(1)	8	7	34	(3)	31
Exchange differences	(3)	2	(1)	(8)	3	(5)
Additions	3	–	3	437	–	437
Amortisation to the income statement (continuing operations)	–	(57)	(57)	–	(54)	(54)
Other	(1)	–	(1)	1	(1)	–
Closing balance	661	(194)	467	663	(147)	516
Deferred acquisition cost asset						
Movement in deferred acquisition cost assets – book value						
Opening balance	2 635	(907)	1 728	2 214	(607)	1 607
Deferred acquisition costs on new business	–	–	–	421	–	421
Amortisation to the income statement (continuing operations)	–	–	–	–	(8)	(8)
Amortisation to the income statement (discontinued operations)	–	–	–	–	(292)	(292)
Transfer to non current assets held for sale	(2 385)	657	(1 728)	–	–	–
Closing balance	250	(250)	–	2 635	(907)	1 728
Value of in-force business						
Movement in value of in-force business – book value						
Opening balance	1 057	(119)	938	1 057	(81)	976
Amortisation to the income statement (discontinued operations)	–	–	–	–	(38)	(38)
Transfer to non current assets held for sale	(1 057)	119	(938)	–	–	–
Closing balance	–	–	–	1 057	(119)	938
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 – book value						
Opening balance	286	(134)	152	286	(88)	198
Impairment losses (discontinued operations)	–	–	–	–	(13)	(13)
Amortisation to the income statement (discontinued operations)	–	–	–	–	(33)	(33)
Transfer to non current assets held for sale	(286)	134	(152)	–	–	–
Closing balance	–	–	–	286	(134)	152

19 INTANGIBLE ASSETS AND DEFERRED ACQUISITION COSTS *continued*

R million	2010 Cost	2010 Accumulated amortisation and impairments	2010 Carrying amount	2009 Cost	2009 Accumulated amortisation and impairments	2009 Carrying amount
Agency force						
Movement in agency force – book value						
Opening balance	22	(9)	13	22	(6)	16
Amortisation to the income statement (discontinued operations)	–	–	–	–	(2)	(2)
Other	–	–	–	–	(1)	(1)
Transfer to non current assets held for sale	(22)	9	(13)	–	–	–
Closing balance	–	–	–	22	(9)	13
Other						
Movement in other – book value						
Opening balance	365	(147)	218	274	(145)	129
Reclassification	–	–	–	68	1	69
Subsidiary balance disposed	(27)	8	(19)	–	–	–
Exchange differences	(4)	2	(2)	(15)	10	(5)
Disposals	(117)	104	(13)	(2)	4	2
Additions	7	–	7	39	–	39
Impairment charge	–	–	–	–	7	7
Amortisation to the income statement (continuing operations)	–	(24)	(24)	–	(25)	(25)
Other	23	(7)	16	1	1	2
Closing balance	247	(64)	183	365	(147)	218
Total intangible assets						
Goodwill	1 438	(178)	1 260	2 240	(342)	1 898
Software	480	(309)	171	646	(447)	199
Development costs	63	(40)	23	64	(28)	36
Trademarks	661	(194)	467	663	(147)	516
Insurance related intangible assets:						
– Deferred acquisition cost asset	250	(250)	–	2 635	(907)	1 728
– Value in-force business	–	–	–	1 057	(119)	938
– Contractual customer relationships	–	–	–	286	(134)	152
– Agency force	–	–	–	22	(9)	13
Other	247	(64)	183	365	(147)	218
Total intangible assets	3 139	(1 035)	2 104	7 978	(2 280)	5 698

19 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 (business) to which it relates, and is therefore not combined at Group level.

	2010	2009
The CGU's to which the goodwill balance as at 30 June relates to:		
FNB Botswana	**29**	31
FNB Moçambique	**98**	126
FNB Retail	**265**	265
RMB Corvest	**475**	457
RMB Other	**119**	130
WesBank	**234**	583
Other	**40**	70
Momentum	**–**	236
Total	**1 260**	1 898

When testing for impairment, the recoverable amount of a CGU is determined based on value in use calculations. These calculations use cash flow projections 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 growth rate does not exceed the long term average past growth rate for the business in which the CGU operates and the discount rates are as follows:

	Discount rates		Growth rates	
	2010	2009	2010	2009
FNB Botswana	**15.50**	11.50	**8.00**	3.00
FNB Moçambique	**12.00**	9.00	**8.00**	2.00
FNB Retail	**20.00**	18.67	**12.00**	12.00
RMB Corvest	**25.00**	25.00	**6.00**	15.00
RMB Other	*****	*	*****	*
WesBank	**19.94**	18.67	**5.03**	10.00
Other	**–**	10.00	**–**	12.00
Momentum	**–**	14.41	**–**	10.00

** Due to the nature of the entity, the basis used for the impairment calculation is "Fair value less cost to sell" and not the discounted cash flow methodology.*

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.

Included in other intangible assets are assets which the Group has legal ownership over through 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. Refer to note 40 for non current analysis of intangible assets and deferred acquisition costs.

Impairments of computer software R4 million (2009: R nil) relate to a software system that is no longer being used by the Group. The full carrying value of the software no longer being used was impaired.

20 INVESTMENT PROPERTIES

R million	2010	2009
Completed properties		
Fair market value at beginning of the year	2 135	3 808
Net revaluations (included in gains and losses from investing activities – discontinued operations note 2)	–	85
Disposals	(4)	(457)
Transfers under reinsurance agreement entered into with third party	136	(1 301)
Transfer to non current assets held for sale	(2 129)	–
Fair market value at end of year	138	2 135
Leasehold investment properties		
Cost at the beginning of year	21	–
Additions	–	21
Transfer to non current assets held for sale	(21)	–
Total investment properties at end of the period	–	21
Total investment properties	138	2 156
Comprising:		
Office buildings	–	1 749
Shopping malls	–	325
Industrial buildings	138	58
Vacant land	–	24
Total investment properties	138	2 156
The following amounts have been included in the income statement:		
Rental income (included in other operating income – discontinued operations note 2)	–	334
Direct operating expenses arising from investment properties that generate rental income	–	248

Investment properties are acquired for letting to external tenants with the intention to generate future rental income.

Investment properties are valued annually by Eris's registered valuators. The latest date of valuation was 30 June 2009.

The valuation calculations are based on the aggregate of the net annual rents receivable and associated costs, using the discounted cash flow method. The discounted cash flow method takes projected cash flows and discounts them at a rate which is consistent with the comparable market transactions. The discount rates used vary between 10% and 20% (depending on the risks associated with the respective properties).

Any gains or losses arising from changes in fair value are included in the income statement for the year.

The carrying amount of unlet or vacant investment properties for the prior year (R24 million).

Schedules of freehold property and equity investments are open for inspection at the offices of the various group companies in terms of the provisions of the Companies' Act, 1973.

Refer to note 40 for current and non current analysis of investment properties.

21 REINSURANCE ASSETS

R million	2010	2009
Insurance contracts	**524**	862
Short term reinsurance contracts	475	2
Long term reinsurance contracts	49	860
Reinsurance agreement entered into with a third party	–	7 568
Total reinsurance contracts	**524**	8 430
Movements for the year		
Balance at the beginning of the year	8 430	939
Movement in reinsurer's share of insurance liabilities	237	(77)
Reinsurance agreement entered into with a third party	–	7 568
Transfer to non current assets held for sale	(8 143)	–
Total reinsurance assets	**524**	8 430

Refer to note 40 for current and non current analysis of reinsurance assets.

22 NON CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE

22.1 Disposal group held for sale and discontinued operation relating to the unbundling of Momentum

During the current financial year, the Group 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 follows the proposed merger of the Momentum Group and Metropolitan Holdings.

The unbundling transaction resulted in FirstRand 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. The assets and liabilities attributable to the Momentum Group, classified as held for sale, have been separately disclosed on the statement of financial position. In addition the Momentum Group qualifies as a discontinued operation as it is a component of FirstRand that has been classified as held for sale 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 have been presented in the 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 will be accounted for at fair value in line with the requirements of IFRIC 17 Distribution of Non-Cash Assets to Owners. The unbundling transaction will be preceded by the merger transaction, but FirstRand will not take control of the merged entity and as a result will not recognise the merged entity in its financial statements. The merger transaction is 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 it is anticipated that the unbundling transaction will be completed by the end of October 2010.

22 NON CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE *continued*

22.1 Disposal group held for sale and discontinued operation relating to the unbundling of Momentum

Discontinued operations

Income or expense recognised in the income statement relating to the discontinued operations of the Momentum Group:

R million	2010	2009
Interest and similar income	7 466	8 781
Interest expense and similar charges	(1 122)	(80)
Net interest income	6 344	8 701
Non interest income	13 466	(9 690)
Net insurance premium income	7 468	6 464
Net claims and benefits paid	(6 537)	(5 939)
(Increase)/decrease in value of policyholder liabilities	(13 615)	6 809
Income from operations	7 126	6 345
Operating expenditure	(5 268)	(4 905)
Net income from operations	1 858	1 440
Share of profit of associates and joint ventures	32	13
Profit before tax	1 890	1 453
Tax expense	(696)	(73)
Profit after tax	1 194	1 380
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.		
Cash flow information:		
Cash flow from operating activities	(9 709)	11 546
Cash flow from investing activities	33	(2 223)
Cash flow from financing activities	2 117	491
Total cash flows	(7 559)	9 814

Unbundling transaction

The obligation to unbundle the Momentum Group will be recognised by FirstRand when all the conditions precedent are met, as this is when the unbundling becomes unconditional. One of the conditions is approval by FirstRand shareholders, which was obtained on 28 September 2010.

22 NON CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE *continued*

22.1 Disposal group held for sale and discontinued operation relating to the unbundling of Momentum *continued*

R million	2010
ASSETS	
Cash and short term funds	31 826
Derivative financial instruments	7 116
Advances	–
Investment securities and other investments	134 715
Loans and accounts receivables	7 484
Property and equipment	558
Investment properties	2 334
Deferred tax asset	932
Intangible assets	3 113
Other	9 169
Total assets classified as disposal group held for sale	**197 247**
LIABILITIES	
Derivative financial instruments	1 507
Creditors and accruals	22 603
Provisions	341
Tax liability	43
Deferred tax liability	1 719
Post retirement liabilities	73
Long term liabilities	1 990
Policyholder liabilities under insurance contracts	40 896
Policyholder liabilities under investment contracts	111 860
Other	8 929
Total liabilities classified as disposal group held for sale	**189 961**
Net assets of disposal group held for sale	**7 286**

A copy of the Momentum Group financial statements are available on www.firstrand.co.za/annual reports/2010.

22 NON CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE *continued*

22.2 Disposal group held for sale during 2009

In terms of IFRS 5 the assets attributable to Corvest 4 (Pty) Ltd's 65% interest in Merchant Commercial Finance (M Factor's) have been disclosed as separate lines on the balance sheet.

The non current assets held for sale in 2009 relate to the properties attributable to FNB Namibia and investments attributable to the IBD Africa Joint Venture and have been disclosed as separate lines on the balance sheet.

The assets are summarised below:

R million	2009
ASSETS	
Cash and short term funds	58
Advances	262
Loans and accounts receivables	1
Property and equipment	1
Investment properties	23
Deferred tax asset	5
Intangible assets	10
Other	22
Total assets classified as disposal group held for sale	382
LIABILITIES	
Creditors and accruals	4
Provisions	3
Tax liability	1
Long term liabilities	61
Other	184
Total liabilities classified as disposal group held for sale	253
Net assets of disposal group held for sale	129

22.3 Non current assets held for sale

The non current assets held for sale in 2009 relate to the properties attributable to FNB Namibia and investments attributable to the IBD Africa Joint Venture and have been disclosed as separate lines on the statement of financial position.

R million	2010	2009
ASSETS		
Investment securities and other investments	–	63
Property and equipment	–	1
Investment properties	–	62
Total non current assets held for sale	–	126
Total non current assets and disposal groups held for sale	197 247	508

Refer to note 40 for current and non current analysis of non current assets and disposal groups held for sale.

23 DEPOSITS AND CURRENT ACCOUNTS

R million	At amortised cost	Designated at fair value through profit or loss	Total
2010			
Deposits and current accounts			
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**
2009			
Deposits and current accounts			
From banks and financial institutions	4 949	48 963	53 912
– In the normal course of business	4 678	21 223	25 901
– Under repurchase agreements	271	27 740	28 011
From customers	241 484	76 718	318 202
– Current accounts	185 030	1 076	186 106
– Savings accounts	3 382	–	3 382
– Term deposits	53 072	75 642	128 714
Other deposits	24 516	65 490	90 006
– Negotiable certificates of deposit	1 479	42 243	43 722
– Buy backs	–	5 499	5 499
– Other	23 037	17 748	40 785
Non recourse deposits*	–	15 963	15 963
– Total fair value of notes issued	–	17 421	17 421
– Less: Notes acquired by the Banking Group	–	(1 458)	(1 458)
Deposits and current accounts	270 949	207 134	478 083

** Refer to note 13 Investment securities and other investments for description of non recourse investment securities.*

Refer to note 41 for information relating to the fair value of deposits.
Refer to note 40 for a split of current and non current amounts of deposits.
Deposits include amounts raised under repurchase agreements with a carrying value of R41 billion (2009: R33.5 billion).
Refer to note 38 for information about changes in the Group's own credit risk.

24 SHORT TRADING POSITIONS

R million	2010	2009
Government and government guaranteed stock	8 295	15 881
Other dated securities	1 980	4 754
Undated securities	6 460	4 367
Short trading positions	**16 735**	**25 002**
Analysed as follows:		
Listed	14 862	20 883
Unlisted	1 873	4 119
Short trading positions	**16 735**	**25 002**

Short trading positions are carried at fair value. Fair market value for listed securities are their market quoted prices, and for unlisted securities are based on the directors' valuation using suitable valuation methods. Refer to note 41 for information relating to the fair value of short trading positions.

Refer to note 40 for current and non current analysis of short trading positions.

25 CREDITORS AND ACCRUALS

R million	2010	2009
Accrued interest	114	106
Short term portion of long term liabilities (note 28)	1 600	771
Short term portion of finance lease liabilities (note 28)	3	4
Short term portion of share based payments and preference shares (note 28)	2 994	282
Accounts payable and accrued liabilities	6 790	13 431
Accrued benefit payments (including insurance payables)	–	1 276
Deferred income	528	–
Operating lease liability arising from straight lining of lease payments	86	–
Unsettled trades	–	2 347
Creditors and accruals	**12 115**	**18 217**

The carrying value of creditors and accruals approximates the fair value. Refer to note 40 for current and non current analysis of creditors and accruals.

26 PROVISIONS

R million	2010	2009
Staff related provision*		
Opening balance	2 180	3 193
– Subsidiary balances disposed	(20)	1
– Transfer to non current assets held for sale	(119)	–
– Exchange differences	(2)	(26)
– Charge to the income statement (including discontinued operations)	1 901	1 377
– Additional provisions created	1 855	1 436
– Unused amounts reversed	46	(59)
– Utilised	(1 340)	(2 365)
Closing balance	2 600	2 180
Audit fees		
Opening balance	65	43
– Subsidiary balances disposed	(2)	–
– Transfer to non current assets held for sale	(12)	–
– Exchange differences	(1)	–
– Charge to the income statement (including discontinued operations)	112	127
– Additional provisions created	113	129
– Unused amounts reversed	(1)	(2)
– Utilised	(128)	(105)
Closing balance	34	65
Other**		
Opening balance	716	39
– Subsidiary balances acquired	92	1
– Transfer to non current assets held for sale	(195)	–
– Exchange differences	–	(6)
– Charge to the income statement (including discontinued operations)	378	623
– Additional provisions created	437	938
– Unused amounts reversed	(59)	(315)
– Utilised	(266)	59
Closing balance	725	716
Total provisions	3 359	2 961

** Staff related provision consists mainly of provision for leave pay and staff bonuses.*
*** Other provisions consist mainly of provisions for litigation, fraud and restructuring.*

Refer to note 40 for current and non current analysis of provisions.

27 POST RETIREMENT LIABILITIES

27.1 Defined benefit post retirement fund

The Group operates two defined benefit plans; a plan which 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. 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 plans are reflected as a net asset or liability in the statement of financial position.

Details of the defined benefit plan assets and liabilities are as follows:

	2010			2009		
R million	Pension	Medical	Total	Pension	Medical	Total
Post retirement benefit fund liability						
Present value of funded obligation	8 125	1 952	10 077	8 769	1 694	10 463
Fair value of plan assets	(7 490)	–	(7 490)	(8 226)	–	(8 226)
Pension fund deficit	635	1 952	2 587	543	1 694	2 237
Transfer of liability	–	–	–	–	4	4
Unrecognised actuarial gains/(losses)	(440)	24	(416)	(410)	258	(152)
Other	(9)	–	(9)	–	–	–
Post retirement liability	186	1 976	2 162	133	1 956	2 089
The amounts recognised in the income statement are as follows:						
Current service cost	8	34	42	3	31	34
Interest cost	658	136	794	798	153	951
Actuarial loss recognised	2	2	4	118	(17)	101
Expected return on plan assets	(650)	–	(650)	(838)	–	(838)
Limit on assets imposed by IFRS	–	–	–	–	(20)	(20)
Gain on settlement	6	–	6	–	–	–
Total included in staff costs	24	172	196	81	147	228
Movement in post retirement benefit fund liability						
Present value at the beginning of the year	133	1 956	2 089	99	1 881	1 980
Transfer to non current liabilities held for sale	39	(86)	(47)	–	–	–
Exchange differences	(6)	–	(6)	–	–	–
Subsidiary balances disposed	–	–	–	–	(3)	(3)
Amounts recognised in the income statement as above (including discontinued operations)	24	172	196	81	147	228
Benefits paid	–	(66)	(66)	720	(73)	647
Employer contribution	(3)	–	(3)	–	–	–
Employee contribution	(1)	–	(1)	–	–	–
Limit on assets imposed by IFRS	–	–	–	(767)	–	(767)
Transfer of liability	–	–	–	–	4	4
Present value at the end of the year	186	1 976	2 162	133	1 956	2 089

27 POST RETIREMENT LIABILITIES *continued*

27.1 Defined benefit post retirement fund *continued*

R million	2010 Pension	2010 Medical	2010 Total	2009 Pension	2009 Medical	2009 Total
Movement in the fair value of plan assets of the year is as follows:						
Opening balance	8 226	–	8 226	8 188	–	8 188
Transfer to non current assets held for sale	(1 015)	–	(1 015)	–	–	–
Expected return on plan assets	650	–	650	845	–	845
Actuarial gains	169	–	169	189	–	189
Exchange differences	3	–	3	(31)	–	(31)
Employer contributions	30	–	30	–	–	–
Employee contributions	20	–	20	–	–	–
Benefits paid and settlements	(593)	–	(593)	(965)	–	(965)
Closing balance	7 490	–	7 490	8 226	–	8 226
Plan assets comprised of the following:						
Equity	80	–	80	2 991	–	2 991
Debt	6 048	–	6 048	3 970	–	3 970
Other	1 362	–	1 362	1 265	–	1 265
Total	7 490	–	7 490	8 226	–	8 226
Included in plan assets were the following:						
Buildings occupied by the Group with a fair value of	490	–	490	400	–	400
Total	490	–	490	400	–	400
Experience adjustments arising on plan liabilities	(163)	(242)	(405)	–	–	–
Experience adjustments arising on plan assets	169	–	169	–	–	–

27 POST RETIREMENT LIABILITIES *continued*

27.1 Defined benefit post retirement fund *continued*

	2010		2009	
	Pension %	Medical %	Pension %	Medical %
The principal actuarial assumptions used for accounting purposes were:				
Expected return on plan assets	9.25	–	9.00	–
Discount rate	9.00	9.00	9.00	–
Expected rates of salary increases	7.50	–	7.00	–
Long term increase in health cost	7.50	7.50	–	10.00
The effects of a 1% movement in the assumed health cost rate were as follows:				
Effect on the defined benefit obligation (R million)	–	–	–	12.00
Banking Group Fund:				
Effect on the defined benefit obligation (R million)	–	302.80	–	115.90
Effect on the aggregate of the current service cost and interest cost (R million)	–	35.00	–	124.10
Effect on the defined benefit obligation (R million)	–	–	–	9.00
Banking Group Fund:				
Effect on the defined benefit obligation (R million)	–	243.6	–	87.10
Effect on the aggregate of the current service cost and interest cost (R million)	–	28.1	–	89.90
Estimated contributions expected to be paid to the plan in the next annual period (R million)	–	–	776	–
Net increase in rate used to value pensions, allowing for pension increases				
– Momentum Group Fund (%)	–	–	3.00	–
– Banking Group Fund (%)	6.00	–	3.00	–

	2010		2009	
Mortality rate	Active members	Pensioners	Active Members	Pensioners
Pension Fund				
Normal retirement age	60	–	60	–
Mortality rate table used	SA72 –77	PA(90)-2	PA(90)-2	PA(90)-2
Post retirement medical benefits				
Normal retirement age	60	–	60	–
Mortality rate table used(rated down 3 years for females)	PA(90)-3	–	PA(90)-2	PA(90)-2

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.

27 POST RETIREMENT LIABILITIES *continued*

27.1 Defined benefit post retirement fund *continued*

Mortality rate	2010 Pension	2010 Medical	2009 Pension	2009 Medical
The average life expectancy in years of a pensioner retiring at age 65 on the 30 June is as follows:				
– Momentum Group Fund				
Male	*	*	9	–
Female	*	*	13	–
– Banking Group Fund				
Male	21	22	15	16
Female	25	26	19	17
The average life expectancy in years of a pensioner retiring at age 65, 20 years after the reporting date is as follows:				
– Momentum Group Fund				
Male	*	*	6	–
Female	*	*	4	–
– Banking Group Fund				
Male	21	22	15	16
Female	25	26	19	17

** Relates to non current assets and disposal group held for sale.*

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

Five year analysis on total pension and medical post retirement plans

As at 30 June	2010	2009	2008	2007	2006
Present value of defined benefit obligation	10 077	10 463	9 991	11 355	10 146
Fair value of plan assets	(7 490)	(8 226)	(8 188)	(10 079)	(8 460)
Deficit	2 587	2 237	1 803	1 276	1 686

The amount transferred to meet the post retirement benefit liability was made in order to meet the increase in liability as a result of changes to the fund in respect of non clerical staff being included on the scheme and changes in structure to the contribution tables.

The Board agreed that portion of the liability be recognised in 2009.

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

The net discount rate (the difference between the discount rate and the assumed rate of future medical cost inflation) increased by 0.25 percentage points from the previous valuation to the current one. This resulted in a reduction 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 2008. Annual interim actuarial valuations are performed for the trustees and for IAS 19 purposes.

At the last valuation date at 1 July 2008 the fund was financial sound.

27 POST RETIREMENT LIABILITIES *continued*

27.2 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 the 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 the Group itself, in its capacity as an asset manager, rather than by an external entity. In this capacity the Group 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	2010	2009
Post retirement contribution fund liability/asset		
Present value of obligation	9 548	8 170
Fair value of plan assets	(9 548)	(8 170)
Post retirement contribution fund liability	–	–
Movement in post retirement contribution fund liability		
Amounts recognised in the income statement	766	720
Benefits paid	(766)	(720)
Present value at the end of the year	–	–
Movement in the fair value of plan assets of the year is as follows:		
Opening balance	8 170	11 066
Expected return on plan assets	776	1 180
Actuarial gains/(losses)	601	(3 468)
Employer contributions	443	307
Employee contributions	323	413
Benefits paid and settlements	(765)	(1 328)
Closing balance	9 548	8 170
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		
Pension:		
Active members	29 213	31 280
Pensioners	7 977	7 042
Total	37 190	38 322
Medical:		
Active members	6 014	4 875
Pensioners	3 238	3 492
Total	9 252	8 367

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:

	%	%
Equities	10.50	12.14
Other	9.00	12.14
Bonds	7.50	10.64
Cash	10.50	9.14

Refer to note 40 for current and non current analysis of post retirement liabilities.

28 LONG TERM LIABILITIES

R million	2010	2009
Debentures		
120 debentures of R1 million each carrying interest at prime minus 2%[a]	120	120
Debentures	120	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 six monthly in arrears on 30 June and 31 December each year at the prime overdraft rate minus 2%.		
Preference shares		
Authorised		
500 million (2009: 500 million) cumulative redeemable shares with a par value of R0.0001.	–	–
100 million (2009: 100 million) cumulative redeemable shares with a par value of R0.01	–	1
Issued		
The preference shares of FirstRand Investment Holdings (Pty) Limited and FirstRand Bank Holdings Limited have been classified as long term liabilities and comprise the following:		
1 000 (2009: 1 000) A Class redeemable preference shares of 0.0001 cents each at a premium of R9 764.47 per share	11	10
6 400 (2009: 6 600) cumulative redeemable preference shares of 0.01 cents each at a premium of R 99 999.99	–	660
Preference shares subscribed for by third parties[b]	5 686	3 801
The preference shares of FirstRand Bank Ltd have been classified as long term liabilities and comprise the following:		
990 (2009: 830) cumulative redeemable preference shares subscribed for by third parties with par value of R0,0001		
and a premium of R99 999,999 per share[b]	–	83
Less: Portion repayable within 12 months transferred to current liabilities (note 25)	(2 994)	(282)
Preference shares	2 703	4 272
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 currently amounts to 7.17% (2009: 7.49%). These preference shares have been issued on the back of a put option issued by FirstRand Limited.		
Other long term liabilities		
Other long term employee related liabilities		
Unsecured debt securities amortising over the period to 2010[c]	377	629
Secured loan[d]	–	576
Subordinated notes[e]	–	736
Fixed rate bonds[f]	5 109	5 083
Floating rate bond[g]	2 256	2 279
Less: Portion repayable within 12 months transferred to current liabilities (note 25)	(1 600)	(771)
Other long term liabilities	6 142	8 532

c Various local and foreign unsecured loans with nominal interest rates ranging from 0% to 17%.

d This secured loan is repayable on 11 April 2011 and is stated at net present value, using a discount rate of 15.32%.

e The subordinated notes are redeemable in six monthly tranches until 2009 and do not bear interest. The notes were issued at a discount to notional value and bear an effective interest rate of 16.5%.

f The fixed rate bonds mature between 31 August 2010 and 21 December 2018 and bear interest at between 8% and 13%.

g The floating rate bonds mature between 31 August 2010 and 21 December 2018 and the interest varies between 65bps and 300bps above the three month JIBAR rate.

28 LONG TERM LIABILITIES *continued*

R million	2010	2009
Finance lease liabilities		
Not later than 1 year	3	4
Later than 1 year but not later than 5 years	2	3
Total finance lease liabilities	5	7
Future finance charges on finance leases	3	–
Present value of finance lease liability	8	7
Less: Portion repayable within 12 months transferred to current liabilities (note 25)	(3)	(4)
Long term finance lease charges	**5**	**3**
The finance lease liability ended 2009 and is secured over property occupied for banking operations. Repayments are based on a interest rate of 16.64% and are payable six months in advance.		
Share based payment (cash settled)	213	1
Long term liabilities	**9 183**	**12 928**

Refer to note 41 for information relating to the fair value of long term liabilities. Refer to note 17 for assets that secure the finance lease liabilities.

Refer to note 40 for current and non current analysis of long term liabilities.

Refer to note 38 for information about changes in the Group's own credit risk.

29 POLICYHOLDER LIABILITIES UNDER INSURANCE CONTRACTS

R million	2010	2009
Opening balance	40 725	43 417
Transfer to non current assets held for sale	(39 069)	–
Reclassification from policyholder liabilities under insurance contracts (IFRS 4)	–	(42)
Reclassification to reinsurance assets	421	–
Revaluation of liability	–	(104)
Exchange differences	(2)	(2)
Transfer to policyholder liabilities under insurance contracts (discontinued operations – note 3)	–	(2 869)
Transfer to policyholder liabilities under insurance contracts (continuing operations – note 3)	(207)	325
– (Decrease)/increase in retrospective liabilities	(307)	228
– Unwind of discount rate	24	9
– New business	98	183
– Change in economic assumptions	(6)	6
– Change in non economic assumptions	102	(12)
– Expected cash flows	(56)	(37)
– Expected release of margins	(62)	(47)
– Expected variances	–	(5)
Closing balance	**1 868**	**40 725**
Insurance contracts with discretionary participation features	239	8 934
Insurance contracts without discretionary participation features	1 629	31 791
Policyholder liabilities under insurance contracts	**1 868**	**40 725**

29 POLICYHOLDER LIABILITIES UNDER INSURANCE CONTRACTS *continued*

R million	2010	2009
Included in the balance above is the following with respect to short term insurance contracts:		
Gross		
Claims reported and loss adjustment expense	522	365
Claims incurred but not yet reported	72	7
Unearned premium	4	927
Total liability arising from short term insurance contracts	598	1 299
Actuarial liabilities under unmatured policies comprise the following:	%	%
Linked (market related) business – Individual life	6.0	32.3
Smoothed bonus business – Individual life	22.5	13.3
With profits reversionary bonus business	–	7.8
Non profit business		
– Individual life	–	(0.1)
– Employee benefits	–	4.0
Annuity business	65	42.7
Life business		
– Individual life	6.5	–
Total	100.0	100.0

Refer to note 40 for current and non current analysis of policyholder liabilities.
Best estimate valuation assumptions.
Economic assumptions.

Risk free return

The ten year zero coupon risk free yield, derived from SA government bonds, is used as the starting point to determine the gross valuation interest rate for South African Rand (ZAR) denominated businesses. Similarly, the corresponding ten year yield, derived from US Treasury Bills, is used to determine the gross valuation interest rate for the United States Dollar (US$) denominated businesses.

	2010	2009
ZAR ten year zero coupon risk free yield	8.94	9.28
US$ ten year zero coupon risk free yield	*	3.88

Valuation interest rate

The gross valuation interest rate per annum for ZAR denominated businesses 10.5% (2009: 11.4% per annum) was calculated as a weighted investment return, representing the investment returns on a theoretical, balanced notional portfolio consisting of equities, properties, gilt edged stocks, corporate bonds and cash.

Notional portfolio used as at 30 June:	2010	2009
– Equities	60%	60%
– Properties	*	10%
– Government bonds	40%	10%
– Corporate bonds	*	10%
– Cash	*	10%
Assumed performance of other asset classes relative to government bonds:		
– Equities (including overseas equities)	3.5% per annum	3.5% per annum
– Properties	*	+1.0% per annum
– Corporate bonds	*	+0.5% per annum
– Cash	*	-1.0% per annum

** Relates to non current assets and disposal groups held for sale.*

29 POLICYHOLDER LIABILITIES UNDER INSURANCE CONTRACTS *continued*

Rounding to the nearest 0.25% was performed.

Using the same methodology, the gross valuation rate of 2009: 6.00% per annum was determined for US$ denominated business.

Liabilities in the annuity portfolio were valued at the risk free zero coupon yield curve.

Inflation

An expense inflation rate of 6.56% per annum (2009:7.2%) for ZAR denominated business was used to project future renewal expenses. The ZAR inflation rate was derived by deducting the ten year real return on CPI linked government bonds of 2.98% (2009:2.1%) from the risk free rate. US$ inflation was assumed to be 1.8% per annum in the previous year.

Tax

To provide for tax, the gross valuation interest rate expected to be earned in future was reduced appropriately for taxable business and retirement annuity business. These reductions in the investment return represent the expected tax payable on the assumed investment return on the notional policyholders' portfolio, based on the four fund tax dispensation. It was assumed that the Group will remain in an "Excess investment income" position (as opposed to "Excess expense") for the purposes of projecting tax on income and relief on expenses.

Mortality, morbidity and terminations

Demographic assumptions, such as those in respect of future mortality, disability and persistency rates are set based by calibrating standard tables to internal experience investigations. The investigations are performed and assumptions set for individual product lines, but ensuring that assumptions are consistent where experience is not expected to deviate between product lines.

Assumptions in respect of mortality, morbidity and terminations were based on experience investigations performed in June 2009. The investigations covered a period of five years, from 2004 to 2009. The experience on policies and annuities were analysed.

Mortality and disability rates are adjusted to allow for expected deterioration in mortality rates as a result of AIDS and for expected improvements in mortality rates in the case of annuity business. Allowance for AIDS was made according to professional guidance note PGN 105 (July 2007): Minimum requirements for deriving AIDS extra mortality rates, issued by the Actuarial Society of South Africa.

PHI termination of claim rates

Disability claim recovery probabilities are modelled, using the Group Long Term Disability Table ("GLTD"), developed in the United States of America. The table details recovery rates for given:

- Ages;
- Waiting periods; and
- Duration since disability

We adjust the recovery rates for South African circumstances by taking the following proportions of the GLTD rates:

	2010	2009
Year 1:	*	45%
Year 2:	*	85%
Year 3:	*	135%

** Relates to non current assets and disposal group held for sale.*

Where the years represent duration of disability.

Expenses

The sustainable annual renewal expense per policy was based on an analysis of budgeted expenses for the year ending 30 June 2010. The analysis distinguished between renewal and acquisition costs.

Expenses expected to be once off in nature or not relating to long term insurance business were removed from the budgeted expenses.

Asset management expenses were expressed as an annual percentage of assets under management.

Policyholder bonuses

Future additions of discretionary bonuses to smoothed bonus (universal life) policies have been projected at levels that are consistent with and supported by the assumed rate of investment return, after allowing for contractual expense charges and tax.

On conventional policies, it is assumed that current bonus rates (both reversionary and terminal bonus rates) will be maintained in future.

30 POLICYHOLDER LIABILITIES UNDER INVESTMENT CONTRACTS

R million	2010	2009
Opening balance	109 196	110 784
Reclassification from policyholder liabilities under investment contracts (IFRS 4)	–	42
Set off of policy loans as at 1 July	–	560
Subsidiary balances acquired	(36)	–
Movement for the year	1 168	(2 190)
– Deposits received	18	10 030
– Policyholder benefits on investment contracts	(4)	(26 772)
– Fees on investment contracts	(4)	(1 283)
– Movement in policy loans for the year	1 144	–
– Exchange differences	–	34
– Consolidation of cell	–	3
– Fair value adjustment to policyholder liabilities under investment contracts (discontinued operations – note 3)	–	(3 939)
– Fair value adjustment to policyholder liabilities under investment contracts (continuing operations – note 3)	14	(41)
– Employee benefits	–	19 778
– Transfer to non current assets held for sale	(110 227)	–
Closing balance	101	109 196
Investment contracts with discretionary participation features	44	12 815
Investment contracts without discretionary participation features	57	96 381
– With investment management service components	–	93 300
– Without investment management service components	57	3 081
Total policyholder liabilities under investment contracts	101	109 196

30 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
2010					
Linked (market related) business					
– Individual life	**28**	**3**	**9**	**15**	**1**
– Individual life	**16**	**4**	**5**	**3**	**4**
Annuity business	**57**	**6**	**20**	**31**	**–**
Total policyholder liabilities under investment contracts	**101**	**13**	**34**	**49**	**5**
2009					
Linked (market related) business					
– Individual life	56 291	8 809	17 995	6 412	23 075
– Employee benefits	38 290	38 265	17	4	4
Smoothed bonus business					
– Individual life	7 110	465	2 859	1 466	2 320
– Employee benefits	5 285	5 285	–	–	–
Non profit business					
– Individual life	1 440	(128)	1 451	21	96
Annuity business	780	110	215	31	424
Total policyholder liabilities under investment contracts	109 196	52 806	22 537	7 934	25 919

Refer to note 40 for current and non current analysis of policyholder liabilities under investment contracts.

31 DEFERRED REVENUE LIABILITY

R million	2010	2009
Opening balance	322	296
Amount recognised in the income statement during the year	–	(101)
Deferred income relating to new business	–	127
Transfer to non current assets held for sale	(322)	–
Closing balance	–	322

Deferred revenue relates to various income and fees which have been spread over the life of the transaction.

Refer to note 40 for current and non current analysis of deferred revenue liability.

32 SHARE CAPITAL AND SHARE PREMIUM

	2010	
	Number of ordinary shares	Number of "A" preference shares
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	–
"A" Shares		
Opening balance	–	–
– Redeemed during the year	–	
– Converted during the year	–	
Closing balance	–	–
"B" Shares		
Opening balance	–	–
– "B1" preference shares incorporated as "B" preference shares effective 4 January 2010	–	–
Closing balance	–	–
"B1" 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 cent each	5 637 941 689	–
"A" variable rate, convertible, redeemable, cumulative preference shares of 1 cent each	–	–
"B" variable rate, non cumulative non redeemable preference shares of 1 cent each	–	–
"B1" variable rate, non cumulative non redeemable preference shares of 1 cent each	–	–
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		
Non cumulative non redeemable preference shares		
Total		

** Less than R1 million.*

1 The "C" preference shares are variable rate, convertible, non cumulative non redeemable, preference shares. The "D" preference shares are variable rate, cumulative, redeemable preference shares.

The following represents the shareholding of subsidiaries in FirstRand Limited at 30 June:
Momentum Group Limited – held on behalf of policyholders. These shares have been treated as treasury shares.

Share option schemes
The investment in FirstRand Limited by the share incentive schemes have been treated as treasury shares as set out above.
For detail on capital management of the Group please refer to the Capital Management and Regulatory Capital section from pages 125 to page 135, 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	Number of "C" and "D" preference shares[1]	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

2010
%
1.0
6.0

32 SHARE CAPITAL AND SHARE PREMIUM *continued*

	2009	
	Number of ordinary shares	Number of "A" preference shares
Authorised		
Number of shares	6 001 688 450	198 311 550
Issued		
Ordinary shares		
Opening balance	5 637 830 218	–
Conversion of convertible redeemable preference shares	111 471	–
Closing balance	5 637 941 689	–
"A" Shares		
Opening balance	–	3 322 500
– Redeemed during the year	–	(3 211 029)
– Converted during the year	–	(111 471)
Closing balance	–	–
"B" Shares		
Opening balance	–	–
Closing balance	–	–
"B1" Shares		
Opening balance	–	–
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 cent each	5 637 941 689	–
"A" variable rate, convertible, redeemable, cumulative preference shares of 1 cent each	–	–
"B" variable rate, non cumulative non redeemable preference shares of 1 cent each	–	–
"B1" variable rate, non cumulative non redeemable preference shares of 1 cent each	–	–
Treasury shares	(424 341 687)	–
Total issued share capital – closing balance	5 213 600 002	–
Disclosed on the face of the balance sheet		
Ordinary share capital		
Ordinary share premium		
Non cumulative non redeemable preference shares		
Total		

* *Less than R1 million.*

1 *The "C" preference shares are variable rate, convertible, non cumulative non redeemable, preference shares. The "D" preference shares are variable rate, cumulative, redeemable preference shares.*

The following represents the shareholding of subsidiaries in FirstRand Limited at 30 June:
Momentum Group Limited –held on behalf of policyholders. These shares have been treated as treasury shares.

Share option schemes
The investment in FirstRand Limited by the share incentive schemes in existence within the Group have been treated as treasury shares as set out above.
For detail on capital management of the Group please refer to the Capital Management and Regulatory Capital section from pages 125 to page 135, 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.

2009				
Number of "B" and "B1" preference shares	Number of "C" and "D" preference shares[1]	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
–	–	–	22	22
–	–	–	(21)	(21)
–	–	–	(1)	(1)
–	–	–	–	–
30 000 000	–	–	2 992	2 992
30 000 000	–	–	2 992	2 992
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
–	–	–	–	–
30 000 000	–	–	2 992	2 992
15 000 000	–	–	1 527	1 527
–	–	(4)	(5 927)	(5 931)
45 000 000	–	52	5 819	5 871
				52
				1 300
				4 519
				5 871

2009
%
0.6
6.9

33 REMUNERATION SCHEMES

R million	2010	2009
The income statement charge for share based payments is as follows:		
FirstRand share incentive scheme	(11)	46
FNB Botswana	**	2
FNB Namibia	**	3
FirstRand black employee trust	44	65
FirstRand black non executive directors' trust	3	3
FirstRand share appreciation right scheme	306	(140)
Conditional share plan	201	–
Forfeitable share plan	136	–
Charge to income statement	**679**	(21)

*** Amounts less than R500 000.*

The FirstRand share schemes are equity settled schemes, except for the FirstRand Limited share appreciation scheme, which is cash settled.

The FirstRand share incentive scheme was implemented in 2000. The purpose of this scheme is to provide a facility to employees of the FirstRand Group to acquire shares in FirstRand Limited. The primary purpose of this scheme is to appropriately attract, incentivise and retain managers within the FirstRand Group.

The FirstRand share appreciation right scheme was implemented in 2006 to provide selected FirstRand Group employees, including executive directors of the participating companies, the opportunity of receiving incentive remuneration payments based on the increase in the market value of ordinary FirstRand shares. This scheme is better aligned to employment and governance practices currently prevailing in the market.

In line with global best practice and emerging South African practice, the Group adopted new share incentive plans in the current year, i.e. a Conditional ("CSP") and Forfeitable Share Plan ("FSP"). These plans are in line with practices in the UK and with several recently adopted schemes for large JSE listed or dual listed companies.

Description of the schemes

FirstRand share incentive scheme

The rules of the FirstRand share scheme ("the Scheme") are constituted in the FirstRand Limited share trust.

The purpose of the scheme is to increase the proprietary interests of identified employees in the Group's success and to encourage them to render and continue to render their best services to the Group. Options over FirstRand ordinary shares are granted by the trust to these employees.

The FNB Botswana and FNB Namibia schemes are generally aligned to the Scheme in terms of purpose and rules.

The sale of shares arising from the exercise of options may only be exercised as to one third of the total number of options issued after the third year, two thirds after the fourth year and all of the shares on the fifth anniversary of the date of issue.

FirstRand black economic empowerment trusts

FirstRand 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 Limited, 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); and
- 15.0 million shares to the FirstRand black non executive directors' trust (subject to IFRS 2).

33 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; and
- last issue on 30 April 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 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 purpose of this scheme is to provide identified Group employees, including executive directors with the opportunity of receiving incentive remuneration payments based on the increase in the market value of ordinary shares in FirstRand Limited.

Entitlement to incentive remuneration payments is predicated on the achievement of certain key performance objectives which are set by the remuneration committee prior to each grant of appreciation rights to participating employees.

Appreciation rights may only be exercised as to one third of the total number of rights issued after the third, two thirds after the fourth and all of the shares by the fifth anniversary of the date of grant, provided that the performance objectives set for the grant have been achieved.

Conditional share plan

The conditional award comprises a number of full free shares that will vest conditionally over a period of three years. The number of shares that vest is determined by the extend to which the performance conditions are met. Conditional awards will be made annually and vesting will be subject to specified financial and non financial performance, which will be set annually by the Group's Remuneration committee.

Forfeitable share plan

The forfeitable share plan is a remuneration scheme that grants selected employees full free shares which will vest over a period of two years.

Selected employees are awarded shares which are forfeited if the employee leaves the employment of the FirstRand Group before the end of the vesting period of two years. During the two year vesting period the shares are held in trust for the employees and all dividends accrue to the employees for the duration of the vesting period.

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.

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 employment of Group companies in excess of three years, as the value of the underlying investments are expected to realise over a longer time frame.

33 REMUNERATION SCHEMES *continued*

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 46 related parties.

Valuation methodology

FirstRand share incentive scheme

Fair values for the share incentive schemes are calculated at the date of grant 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 option. In the absence of other available data, historical volatility can be used as a proxy for expected volatility.
- The interest rate is the risk free rate of return, recorded on the date of the option grant, on a South African government zero coupon bond of a term equal to the expected life of the option.

Dividend data consists of the following:

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

Employee statistic assumptions:

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

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

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

FirstRand black employee trust

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

Market data consists of the following:

- Volatility is the expected volatility over the period of the option. In the absence of other available data, historical volatility can be used as a proxy for expected volatility.
- The interest rate used was the RMB forward prime curve (extrapolated where necessary) as the funding of the option is linked to the prime lending rate.

Dividend data consists of the following:

- A fixed dividend yield was assumed.

Employee statistic assumptions:

- The weighted average forfeiture rate used is based on historical forfeiture data for this scheme.

FirstRand black non executive directors' trust

The FirstRand Black non executive directors' trust is valued on the same methodology as used for the FirstRand black employee trust, except that a zero % weighted average forfeiture rate was used due to the fact that there are only 11 participants.

Market data consists of the following:

- Volatility is the expected volatility over the period of the option. In the absence of other available data, historical volatility can be used as a proxy for expected volatility.
- The interest rate used was the RMB forward prime curve (extrapolated where necessary) as the funding of the option is linked to the prime lending rate.

Dividend data consists of the following:

- A fixed dividend yield was assumed.

33 REMUNERATION SCHEMES *continued*

FirstRand share appreciation right scheme

The share appreciation right scheme issues are valued as European options using the Black Scholes model. The scheme is cash settled and will thus be repriced at each reporting date.

Market data consists of the following:

- Volatility is the expected volatility over the period of the option. In the absence of other available data, historic volatility could be used as a proxy for expected valuation.
- The interest rate is the risk free rate of return, as recorded on the last day of the financial year, on a swap curve of a term equal to the expected life of the share appreciation right.

FirstRand share appreciation right scheme

Dividend data consists of the following:

- A fixed dividend yield was assumed.

Employee statistic assumptions:

The number of options granted is reduced by the actual staff turnover at year end. This turnover is then assumed to be constant over the period of the options and used to estimate future turnover.

Conditional share plan

The conditional share plan is valued as an European option using the Black Scholes model. 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.
- 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 as an European option using the Black Scholes model. 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.
- A fixed dividend yield was assumed, based on the average historic dividend yield over a similar period.

Employee statistic assumptions:

- No forfeiture rate is used due to the short duration of the scheme.

33 REMUNERATION SCHEMES *continued*

The significant weighted average assumptions used to estimate the fair value of options and share awards granted and the IFRS 2 expenses for the year under review are:

	FirstRand share incentive scheme	FNB Botswana
2010		
Weighted average share 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**
2009		
Weighted average share price (Rand)	7.70 – 19.49	2.80 – 17.5
Expected volatility (%)	27 – 33	11 – 33
Expected option life (years)	5.00	5.00
Expected risk free rate (%)	7.42 – 9.36	7.57 – 14.00
Expected dividend yield (%)	–	–
Expected dividend growth (%)	20.00 – 22.87	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
5.17 – 11.80	12.05 – 24.60	12.28 – 17.60	14.01	0.00	0.00
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 – 9.9	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	–	–	–	–	–
4.20 – 11.55	12.05 – 24.60	12.28 – 17.60	–	–	–
4 – 17	27 – 49	27	–	–	–
5.00	7 –10	10.00	–	–	–
7.89– 14.46	6.91 – 9.9	6.91	–	–	–
–	3.81 – 6.88	3.81	–	–	–
13.00 – 19.00	–	–	–	–	–

33 REMUNERATION SCHEMES *continued*

	2010	
	FirstRand share scheme (FSR shares)	FNB (FSR shares)
Number of options and share awards in force at the beginning of the year (millions)	79.3	–
Granted at prices ranging between (cents)	608 – 1 787	–
Weighted average (cents)	1 351	–
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 during the year (millions)	(42.5)	–
Market value range at date of exercise (cents)	1 438 – 2 100	–
Weighted average share price for the year (cents)	1 778	–
Number of options and share awards cancelled during the year (millions)	(1.8)	–
Granted at prices ranging between (cents)	1 050 – 1 538	–
Weighted average (cents)	1 462	–
Number of options and share awards in force at the end of the year (millions)	35.0	–
Granted at prices ranging between (cents)	1 237 – 1 787	–
Weighted average (cents)	1 522	–
Options and share awards are exercisable over the following periods (first date able to release)		
Financial year 2008/2009 (millions)	9.2	–
Financial year 2009/2010 (millions)	10.4	–
Financial year 2010/2011 (millions)	15.4	–
Financial year 2011/2012 (millions)	–	–
Financial year 2012/2013 (millions)	–	–
Financial year 2013/2014 (millions)	–	–
Financial year 2014/2015 (millions)	–	–
Total	35.0	–

2010				
FirstRand share appreciation right scheme (FSR shares)	FirstRand black employee trust (FSR shares)	FirstRand black non executive directors' trust (FSR shares)	Conditional share plan (FSR shares)	Forfeitable share plan (FSR shares)
253	113	11	–	–
1 138 – 2 305	1 205 – 2 460	1 228 – 1 760	–	–
1 623	1 562	1 276	–	–
0.7	29.6	–	44.6	18.4
1 356 – 1 651	1 365 – 2 026	–	–	–
1 469	2 002	–	–	–
–	–	–	–	–
–	–	–	–	–
–	–	–	–	–
(18.70)	(6.60)	(0.5)	(0.8)	(0.5)
1 401 – 2 233	1 228 – 2 355	1 228	–	–
1 629	1 737	1 228	–	–
235.0	136.0	10.5	43.8	17.9
1 138 – 2 305	1 205 – 2 460	1 228 – 1 760	–	–
1 621	1 624	1 279	–	–
–	–	–	–	–
18.8	–	–	–	–
38.0	–	–	–	–
78.2	–	–	–	16.7
59.7	–	–	43.8	1.2
40.2	–	–	–	–
0.1	136.0	10.5	–	–
235.0	136.0	10.5	43.8	17.9

33 REMUNERATION SCHEMES *continued*

	2010		
	FirstRand (FSR shares)		
Options and share awards 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 – in the money and share awards (millions)			35.0
Total options – out of the money (millions)			0.0
Total options and share awards (millions)			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 **			0.0
		235.0			10.5
		2 156			206
		1 984			214
		2 137			11

33 REMUNERATION SCHEMES *continued*

Options and share awards outstanding (by expiry date)	FirstRand black employee trust 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 – in the money and share awards (millions)			68.0
Total options outstanding – out of the money (millions)			68.0
Total options and share awards (millions)			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

** 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.*

2010			
Conditional share plan**		Forfeitable share plan***	
Expiry date	Outstanding options 2010 Millions	Expiry date	Outstanding awards 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
	0.0		0.0
	43.8		17.9
	–		–
	–		273
	2 058		150

33 REMUNERATION SCHEMES *continued*

Number of options and share awards in force at the beginning of the year (millions)
Granted at prices ranging between (cents)
Weighted average (cents)
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 during the year (millions)
Market value range at date of exercise (cents)
Weighted average share price for the year (cents)
Number of options and share awards cancelled during the year (millions)
Granted at prices ranging between (cents)
Weighted average (cents)
Number of options and share awards in force at the end of the year (millions)
Granted at prices ranging between (cents)
Weighted average (cents)
Options and share awards are exercisable over the following periods (first date able to release)
Financial year 2007/2008 (millions)
Financial year 2008/2009 (millions)
Financial year 2009/2010 (millions)
Financial year 2010/2011 (millions)
Financial year 2011/2012 (millions)
Financial year 2012/2013 (millions)
Financial year 2014/2015 (millions)
Total

	2009				
	FirstRand share scheme (FSR shares)	FNB (FSR shares)	FirstRand share appreciation right scheme (FSR shares)	FirstRand black employee trust (FSR shares)	FirstRand black non executive directors' trust (FSR shares)
	130.8	1.7	145.1	128.1	11.0
	608 – 1 787	424 – 508	1 566 – 2 305	1 228 – 2 520	1 228 – 1 760
	1 172	468	1 849	1 574	1 276
	–	–	133.1	1.4	–
	–	–	1 138 – 1 401	1 205 – 1 650	–
	–	–	1 401	1 432	–
	(40.5)	(1.7)	–	–	–
	1 128 – 1 745	1 135 – 1 680	–	–	–
	1 430	1 430	–	–	–
	(11.0)	–	(25.2)	(16.5)	–
	608 – 1 787	–	1 401 – 2 053	1 228 –2 520	–
	1 367	–	1 748	1 633	–
	79.3	–	253.0	113.0	11.0
	608 – 1 787	–	1 138 – 2 305	1 205 – 2 460	1 228 – 1 760
	1 351	–	1 623	1 562	1 276
	5.9	–	–	–	–
	26.1	–	–	–	–
	30.4	–	20.4	–	–
	16.9	–	41.4	–	–
	–	–	84.3	–	–
	–	–	63.9	–	–
	–	–	43.0	113.0	11.0
	79.3	–	253.0	113.0	11.0

33 REMUNERATION SCHEMES *continued*

	2009		
	FirstRand (FSR shares)		
Options outstanding (by expiry date)	Expiry date	Exercise price (Rand)**	Outstanding options 2009 Millions
	2008/09/17	6.08	0.2
	2009/06/15	8.53	0.0
	2009/10/01	10.50	28.3
	2009/11/15	10.87	0.1
	2010/03/01	12.37	0.3
	2010/03/15	12.32	0.2
	2010/06/15	12.78	*
	2010/10/03	15.33	47.7
	2010/10/20	13.29	2.0
	2010/11/15	15.38	0.3
	2011/03/01	17.08	0.2
	2011/03/15	17.87	*
	2011/06/01	16.09	*
			79.3
Total options and share awards outstanding – in the money			31.1
Total options and share awards outstanding – out of the money			48.2
Total (millions)			79.3
Value of company loans to share option trust at the beginning of the year (R million)			1 909
Value of company loans to share option trust at the end of the year (R million)			1 282
Number of participants			1 328

** Less than R1 million.*
*** Some share appreciation rights granted are subject to other vesting conditions that are highly unlikely to be achieved.*

	2009					
	FirstRand share appreciation right scheme (FSR shares)			FirstRand black non executive directors' trust (FSR shares)		
	Expiry date	Exercise price (Rand)**	Outstanding options 2009 Millions	Expiry date	Exercise price (Rand)	Outstanding options 2009 Millions
	2011/10/01	16.33	59.4	2014/12/31	12.28	10.0
	2011/12/01	18.15	*	2014/12/31	17.60	1.0
	2012/02/27	23.05	0.2			
	2012/03/01	22.33	*			
	2012/03/15	20.88	0.4			
	2012/04/01	22.98	0.6			
	2012/06/15	22.12	0.6			
	2012/10/01	20.53	62.6			
	2013/03/04	17.99	0.1			
	2013/05/01	15.66	0.3			
	2013/11/03	14.01	128.3			
	2014/03/16	11.38	0.1			
	2014/04/01	12.65	0.1			
	2014/05/01	13.05	0.3			
			253.0			11.0
			–**			10.0
			253.0			1.0
			253.0			11.0
			1 906			186
			2 156			206
			2 332			11

33 REMUNERATION SCHEMES *continued*

	2009		
	FirstRand black employee trust		
Options outstanding (by expiry date)	Expiry date	Exercise price (Rand)	Outstanding options 2009 Millions
	2014/12/31	12.05	0.2
	2014/12/31	12.06	0.2
	2014/12/31	12.28	66.6
	2014/12/31	13.05	0.3
	2014/12/31	14.70	0.2
	2014/12/31	14.91	1.0
	2014/12/31	15.66	0.1
	2014/12/31	16.00	*
	2014/12/31	16.42	0.5
	2014/12/31	16.50	0.1
	2014/12/31	17.81	0.1
	2014/12/31	18.62	19.0
	2014/12/31	18.72	0.1
	2014/12/31	19.81	*
	2014/12/31	20.78	*
	2014/12/31	21.50	0.2
	2014/12/31	22.10	*
	2014/12/31	22.34	23.1
	2014/12/31	22.60	0.1
	2014/12/31	22.80	0.5
			112.3
Total options and share awards outstanding – in the money			67.3
Total options and share awards outstanding – out of the money			45.7
Total (millions)			113.0
Value of company loans to share trust at the beginning of the year (R million)			1 714
Value of company loans to share trust at the end of the year (R million)			1 812
Number of participants			12 684

** Less than R1 million.*

R million	2010	2009
34 CASH FLOW INFORMATION		
34.1 Reconciliation of operating profit before income tax to cash flows from operating activities		
Operating profit before income tax (continuing operations)	13 007	7 869
Adjusted for:		
– Depreciation, amortisation and impairment costs	1 488	1 556
– Impairment of advances	5 686	8 024
– Share of profit from associates and joint ventures less dividends received	(126)	(779)
– Unrealised profits on assets held against employee liabilities	(151)	364
– Movement in provisions	2 409	1 892
– Profit/(loss) on disposal of property and equipment	(53)	4
– Loss on disposal of investments	(774)	(376)
– Profit on disposal of subsidiary	(143)	–
– Revaluation reserve	–	–
– Deferred expenses and income	(269)	(32)
– Share based payment expense (continuing operations)	548	36
– Net fair value gains on financial assets through profit or loss	(127)	322
– Movement in policyholder liabilities under investment contracts	–	40
– Transfer to policyholder liabilities under insurance contracts	–	38
– Accruals	126	(138)
– Present value adjustments	(259)	(415)
– Dividends paid	(3 299)	(3 700)
– Profit on disposal of associates	(1 384)	–
– Dividends paid to non controlling interest	(420)	(804)
– Foreign currency translation reserve	55	211
– Goodwill	(203)	–
– Profit on available-for-sale assets and cash flow hedges transferred	(762)	162
Net cash flows from operating activities	**15 349**	14 274
34.2 Cash receipts from customers		
Interest income	39 055	50 740
Fee and commission income	17 058	15 379
Trading and other income	3 767	1 209
Premium less claims	193	(373)
Cash receipts from customers	**60 073**	66 955
34.3 Cash paid to customers, suppliers and employees		
Interest expense	(22 459)	(33 516)
Other operating expenses	(21 694)	(18 875)
Cash paid to customers, suppliers and employees	**(44 153)**	(52 391)
34.4 Increase in income earning assets		
Liquid assets and trading securities	(17 248)	(11 663)
Advances	(16 946)	19 170
Increase in income earning assets	**(34 194)**	7 507

R million	2010	2009
34 CASH FLOW INFORMATION *continued*		
34.5 Increase in deposits and other liabilities		
Term deposits	32 360	2 858
Current deposit accounts	1 004	14 886
Deposits from banks	17 960	(15 761)
Negotiable certificates of deposits	(6 864)	1 557
Savings accounts	(172)	348
Creditors(net of debtors)	3 596	(170)
Other	(16 690)	(25 039)
Increase in deposits and other liabilities	31 194	(21 321)
34.6 Tax paid		
Tax payable and deferred tax at beginning of the year	552	546
Other	1 041	(831)
Charge to income statement	(3 512)	(1 408)
Tax payable and deferred tax at end of the year	(778)	(552)
Tax paid	(2 697)	(2 245)
34.7 Dividends paid		
Charged to retained earnings	(3 299)	(3 700)
Dividends paid	(3 299)	(3 700)
34.8 Acquisitions and proceeds on disposal of subsidiaries		
Proceeds from the disposal of subsidiaries		
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)	–
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	–
Other insignificant disposals		
Proceeds from disposal	106	–
– discharged by cash consideration	106	–
Less: Cash and cash equivalents in subsidiary disposed	58	–
Cash inflow on disposal	48	–

** Less than R1 million.*

R million	2010	2009
34 CASH FLOW INFORMATION *continued*		
34.8 Acquisitions and proceeds on disposal of subsidiaries *continued*		
Consideration for acquisition of subsidiaries		
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)	–
Contract Lease Management (Pty) Limited		
Cost of acquisition	–	18
– discharged by cash consideration	–	18
Less: Cash and cash equivalents in subsidiary acquired		33
Cash inflow on acquisition	–	(15)
Ronald Sewells and Associates		
Cash and cash equivalents in business combination acquired	–	2
Cash outflow on acquisition	–	2
34.9 Proceeds on sale of advances book		
Cost of acquisition	22	1 768
– discharged by cash consideration	22	1 768
Cash inflow on disposal	22	1 768
34.10 Acquisition and proceeds on disposal of associates		
Consideration for acquisition of associates		
Various associates acquired		
Cost of acquisition	276	–
– discharged by non cash consideration (shares issued and loans acquired)	276	–
Cash outflow on acquisition	–	–
Proceeds from the disposal of associates		
Life Healthcare Group Holdings Limited		
Proceeds from disposal	1 989	–
– discharged by cash consideration	1 989	–
Cash inflow on disposal	1 989	–

** Less than R1 million.*

R million	2010	2009
34 CASH FLOW INFORMATION *continued*		
34.10 Acquisition and proceeds on disposal of associates		
Pamodzi Investment Holdings II (Pty) Limited		
Proceeds from disposal	38	–
– discharged by cash consideration	38	–
Cash inflow on disposal	38	–
Carrying amount of investments purchased	(204)	(2 799)
Acquisition of associates	(204)	(2 799)
34.11 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 included in the cash flow statement comprise the following statement of financial position amounts:		
Cash and short term funds	27 067	26 278
Money market investments	–	30 988
Cash and cash equivalents	27 067	57 266

R million	2010	2009
35 CONTINGENCIES AND COMMITMENTS		
Contingencies and commitments		
Guarantees*	24 036	19 085
Acceptances	299	279
Letters of credit	5 541	5 576
Total contingencies	29 876	24 940
Irrevocable commitments	52 809	58 204
Underwriting exposure	–	2
Committed capital expenditure	2 117	1 700
Operating lease commitments	2 239	3 154
Other	3 806	2 871
Contingencies and commitments	90 847	90 871
** Guarantees consist predominantly of endorsements and performance guarantees*		
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 can not 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 which are expected to materialise.	99	129
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:		
– Total contracted for	175	953
– Total not contracted for	1 942	1 101
Made up of the following:		
Capital commitments contracted for at the reporting date but not yet incurred are as follows:		
– Property and equipment and intangible assets	175	568
– Investment securities and other investments	–	385
Capital commitments not yet contracted for at reporting date but have been approved by the directors:		
– Property and equipment and intangible assets	1 942	1 101

Funds to meet these commitments will be provided from Group resources.

35 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 the various branch network channels represented by full service branches, agencies, mini branches and ATM lobbies. The rentals are negotiated on a fixed monthly rental basis, with a percentage contribution of the monthly operating costs.

Escalation clauses are negotiated at market related rates for a period of at least five years with an option to renew for a further five year period. Restrictions are more an exception than the norm.

The leases are non cancellable.

The Group has various operating lease agreements, which may or may not contain renewal options.

	2010		
R million	**Next year**	**2nd to 5th year**	**After 5th year**
Office premises	**704**	**1 370**	**113**
Equipment and motor vehicles	**31**	**19**	**2**
Total operating lease commitments	**735**	**1 389**	**115**

	2009		
R million	Next year	2nd to 5th year	After 5th years
Office premises	986	1 530	173
Recoverable under subleases	(1)	(2)	–
	985	1 528	173
Equipment and motor vehicles	95	371	2
Total operating lease commitments	1 080	1 899	175

Group commitments under operating leases where the Group is the lessor

The minimum future lease payments under non cancellable operating leases on investment properties:

	2010		
R million	**Next year**	**2nd to 5th year**	**After 5th year**
Office premises	**704**	**1 370**	**113**

	2009		
R million	Next year	2nd to 5th year	After 5th year
Office premises	986	1 530	173

R million	2010	2009

36 COLLATERAL PLEDGED AND HELD

36.1 Collateral pledged

R million	2010	2009
The Group has pledged assets as security for the following liabilities:		
Deposits held under repurchase agreements	41 091	33 510
Deposits and current accounts	4 176	7 830
Creditors and accruals	–	8 317
Long term liabilities	–	571
Other	2 119	10 328
Total	47 386	60 556

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.

R million	2010	2009
Assets pledged to secure the above liabilities are carried at and included under the following:		
Cash and short term funds	2 384	6 567
Advances	3 151	8 728
Investment securities and other investments held under repurchase agreements	17 232	29 273
Investment securities and other investments	4 442	2 644
Accounts receivable	48	–
Other	2 490	399
Total	29 747	47 611

36 COLLATERAL PLEDGED AND HELD *continued*

36.2 Collateral held

Under the standard terms for certain of the securities lending arrangements which 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 which it has the ability to sell or repledge in the absence of default by the owner of the collateral:

	2010		2009	
R million	**Fair value of collateral obtained**	**Fair value of collateral sold or re-pledged**	Fair value of collateral obtained	Fair value of collateral sold or re-pledged
Cash and short term funds	**10 795**	**1 836**	8 191	4 539
Advances	**38 108**	**30 119**	25 999	25 710
Investments securities and other investments	**2 137**	**2 138**	3 337	2 892
Accounts receivable	**–**	**–**	3 769	3 769
Total	**51 040**	**34 093**	41 296	36 910

When the Group takes possession of collateral which is not cash or not readily convertible into cash the Group determines a minimum sale amount ("preset sale amount") and auctions the asset for the preset sale amount.

Where the Group is unable to obtain the preset 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	**2010**	2009
Property	**502**	165
Total	**502**	165

37 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 this designation. The table below contains details on the change in credit risk attributable to these instruments.

	2010			
	Change in fair value			
	Due to credit risk			
R million	Carrying value	Mitigated credit risk*	Current period	Cumulative
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)**

	2009			
	Due to credit risk			
R million	Carrying value	Mitigated credit risk*	Current period	Cumulative
Included in advances	95 161	22	(92)	(943)
Included in investment securities and other investments	13 170	–	(48)	(786)
Included in non recourse investments	15 725	–	–	–
Total	124 056	22	(140)	(1 729)

** 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 described below:

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 which result from a change in market factors that give rise to market risk.

The change in fair value due to credit risk is then calculated as the balancing figure, after deducting the movement due to market risk from the total movement in fair value.

Advances

The current and cumulative change in fair value due to changes in credit risk for advances designated at fair value through profit or loss is calculated as the amount of change in fair value that is attributable to changes in credit risk.

The change in credit risk is the difference between fair value of the advances based on the original credit spreads and the fair value of the advances based on the most recent market observable credit spreads.

38 FINANCIAL LIABILITIES DESIGNATED AS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2010			
			Change in fair value due to credit risk	
R million	Fair value	Contractually payable at maturity	Current period	Cumulative
Deposits and current accounts	233 296	217 212	–	2
Fair value through profit or loss non recourse deposits	16 036	16 036	–	–
Long term liabilities	1 174	1 252	8	29
Policyholder liabilities under investment contracts	101	101	–	–
Total	**250 607**	**234 601**	**8**	**31**

	2009			
			Change in fair value due to credit risk	
R million	Fair value	Contractually payable at maturity	Current period	Cumulative
Deposits and current accounts	191 170	186 277	3	3
Fair value through profit or loss non recourse deposits	15 963	18 605	–	–
Long term liabilities	2 810	5 400	21	21
Policyholder liabilities under investment contracts	109 196	110 304	–	–
Liabilities arising from collective investment schemes	8 114	8 114	–	–
Total	327 253	328 700	24	24

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.

39 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.

1. Nitro 1, a bankruptcy remote special purpose entity, has been created to facilitate a securitisation transaction amounting to R2 billion of WesBank retail instalment sale advances. The Group consolidates Nitro 1 under SIC 12 and has therefore not derecognised the securitised assets.
2. Nitro 2, a bankruptcy remote special purpose entity, has been created to facilitate a securitisation transaction amounting to R5 billion of WesBank retail instalment sale advances. The Group consolidates Nitro 2 under SIC 12 and has therefore not derecognised the securitised assets.
3. Nitro 3, a bankruptcy remote special purpose entity, has been created to facilitate a securitisation transaction amounting to R5 billion of WesBank retail instalment sale advances. The Group consolidates Nitro 3 under SIC 12 and has therefore not derecognised the securitised assets.
4. iKhaya 1, a bankruptcy remote special purpose entity, has been created to facilitate a securitisation transaction amounting to R1.9 billion of FNB home loan advances. The Group consolidates iKhaya 1 under SIC 12 and has therefore not derecognised the securitised assets.
5. iKhaya II, a bankruptcy remote special purpose entity, has been created to facilitate a securitisation transaction amounting to R2.9 billion of FNB home loan advances. The Group consolidates iKhaya II under SIC 12 and has therefore not derecognised the securitised assets.

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.

39 DERECOGNITION OF ASSETS, SECURITISATIONS AND OTHER STRUCTURED TRANSACTIONS *continued*

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:

	2010		2009	
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	17 232	18 366	19 403	19 318
Securities lending agreements	–	–	9 870	10 069
Total	17 232	18 366	29 273	29 387

The Group remains exposed to the interest rate risk on the repurchase agreements and market risk on the securities lending agreements.

40 CURRENT/NON CURRENT SPLIT OF AMOUNTS RECOGNISED IN THE STATEMENT OF FINANCIAL POSITION

	2010		
R million	Carrying amount	Current	Non current
ASSETS			
Cash and short term funds	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 and deferred acquisition costs	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 interest	3 012	–	3 012
Total equity and liabilities	**845 240**	**711 038**	**134 202**

40 CURRENT / NON CURRENT SPLIT OF AMOUNTS RECOGNISED IN THE STATEMENT OF FINANCIAL POSITION *continued*

	2009		
R million	Carrying amount	Current	Non current
ASSETS			
Cash and short term funds	57 266	50 512	6 754
Derivative financial instruments	68 608	54 645	13 963
Advances	416 488	134 146	282 342
Investment securities and other investments	209 249	163 230	46 019
Commodities	1 323	1 323	–
Accounts receivable	11 068	10 379	689
Investments in associates and joint ventures	15 294	–	15 294
Property and equipment	10 220	4	10 216
Deferred tax asset	2 034	139	1 895
Intangible assets and deferred acquisition costs	5 698	205	5 493
Investment properties	2 156	–	2 156
Policy loans on insurance contracts	626	–	626
Reinsurance assets	8 430	8 141	289
Tax asset	883	293	590
Non current assets and disposal groups held for sale	508	508	–
Total assets	809 851	423 525	386 326
EQUITY AND LIABILITIES			
Deposits and current accounts	478 083	431 497	46 586
Short trading positions	25 002	25 001	1
Derivative financial instruments	55 556	52 229	3 327
Creditors and accruals	18 217	15 975	2 242
Provisions	2 961	2 721	240
Tax liability	331	306	25
Post retirement liabilities	2 089	64	2 025
Deferred tax liability	3 977	68	3 909
Long term liabilities	12 928	–	12 928
Policyholder liabilities under insurance contracts	40 725	2 675	38 050
Policyholder liabilities under investment contracts	109 196	52 807	56 389
Liabilities arising from collective investment schemes	8 114	8 114	–
Deferred revenue liability	322	72	250
Liabilities directly associated with non current assets classified as held for sale	253	253	–
Shareholders' equity	50 004	–	50 004
Non controlling interest	2 093	–	2 093
Total equity and liabilities	809 851	591 782	218 069

41 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 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 principal 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 which have taken place.

Negotiable certificates of deposit

Where market prices are not available for a specific instrument, fair value is determined using discounted cash flow techniques. Inputs to these models include as far as possible information which is consistent with similar market quoted instruments.

Treasury bills

Treasury bills are valued by means of the Bond Exchange of South Africa ("BESA") bond pricing model using the closing BESA mark to market bond yield.

Government, public and utility stocks

Where market prices are not available the fair value is estimated using quoted market prices of securities with similar credit, maturity and yield characteristics.

Other dated securities

Fair value of other dated securities is determined by using a discounted cash flow model. The discount curve is derived from similar market quoted instruments.

Derivatives

Contracts for difference are valued by using the differential between the market price and the traded price multiplied by the notional amount.

Market prices are obtained from applicable trading exchanges.

Credit derivatives are valued using the discounted cash flow model. Where prices are obtained from the market, individual credit spreads are added.

Option contracts are valued using the Black Scholes model. Inputs are obtained from market observable data. Where prices are obtainable from trading exchanges the value per the exchange is used.

41 FAIR VALUE OF FINANCIAL INSTRUMENTS *continued*

Other dated securities *continued*

Derivatives continued

Forward contracts are valued by discounting the projected cash flows to obtain the present value of the forward contract. Projected cash flows are obtained by subtracting the strike price of the forward contract from the market projected forward value.

Forward rate agreements are valued by means of the discounted cash flow model. The discount rate is determined using a yield curve of similar market traded instruments. The reset rate is determined in terms of the legal agreement.

Swaps are valued by discounting the expected cash flows using discount and forward rates determined from similar market traded instruments. The reset rate of each swaplet is determined in terms of legal documents pertaining to the swap.

Commodity linked instruments are measured by taking into account the price, the location differential, grade differential, silo differential and the discount factor of the most liquidly traded futures linked to the commodity.

Deposits and current accounts

Fair value of deposits and current accounts is determined by discounting future cash flows using a swap curve adjusted for liquidity premiums and business unit margins. The valuation methodology does not take early withdrawals and other behavioural aspect into account.

Call deposits are valued at the undiscounted amount of the cash balance, this is considered appropriate because of the short term nature of these instruments.

Fair valuation will only be applied to deposits that have a maturity profile of longer than 30 days. For all non term products it is assumed that fair value equals amortised cost.

Loans and advances to customers

The Group has elected to designate the term loan book in RMB 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 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 that considers loss given default, tenor and the internal credit committee rating criteria.

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.

Long term liabilities

Fair value of debentures, unsecured debt securities and finance lease liabilities are determined by discounting the future cash flows at market related interest rates.

The fair value of subordinated notes and fixed and floating rate bonds are determined by discounting the future cash flows at market related interest rates.

The fair value of the post retirement funding liability has been calculated based on the value of the corresponding assets, since the value of the liability is limited to the value of the assets in the cell captive.

Liabilities arising with third parties from collective investment schemes

The fair value of these liabilities is the quoted unit price for the collective investment scheme multiplied by the number of units held by third parties.

Policyholder liabilities under investment contracts

Refer to the accounting policies for a description of the valuation of investment contracts.

41 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.

	2010			
R million	Level 1	Level 2	Level 3	Total carrying amount
Assets				
Advances	–	39 478	78 209	117 687
Derivative financial instruments	–	39 733	31	39 764
Investment securities and other investments	48 563	46 286	3 667	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 2 in the current financial year.

41 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.

	2010	
R million	Fair value on June 2009	Gains/(losses) recognised in the income statement
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

Transfers out of level 3 during the year ended June 2010, this related 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 investee company listing their shares in an active market during the year ended 30 June 2010.

	2010					
	Gains/(losses) recognised in other comprehensive income	Purchases and (sales) issues/ (settlements)	Acquisitions of subsidiaries	Transfers into Level 3	Transfer out of Level 3	Fair value on 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

41 FAIR VALUE OF FINANCIAL INSTRUMENTS *continued*

The table below presents the total gains/(losses) relating to financial instrument 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.

	2010		
R million	Gains/ (losses) recognised in the income statement	Gains 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)

41 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.

For all other instruments the carrying value is equal to or a reasonable approximation of the fair value.

R million	2010 Carrying amount	2010 Fair value	2009 Carrying amount	2009 Fair value
Assets				
Total advances at amortised cost	317 106	316 701	320 867	320 867
Total investment securities and other investments	2 619	2 616	673	670
Total assets at amortised cost	319 725	319 317	321 540	321 537
Liabilities				
Total deposits and current accounts at amortised cost	279 174	279 387	270 950	270 708
Long term liabilities	7 795	8 684	11 020	10 315
Total liabilities at amortised cost	286 969	288 071	281 970	281 023

41 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:

	2010	
R million	**Significant unobservable inputs**	
Assets		
Advances	**Credit**	
Derivative financial instruments		
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**	
Short trading positions		
Derivative financial instruments	**Volatilities**	
Long term liabilities		
Policyholder liabilities under investment contracts	**Mortality; surrender; expenses; expense inflation; valuation rate**	
Total financial liabilities 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
	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

42 TRUST ACTIVITIES

R million	2010	2009
Market value of assets held or placed on behalf of customers in a fiduciary capacity	**47 311**	43 207

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 statements.

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.

	2010	2009
Income received from trust and fiduciary services	**1 170**	1 063

43 SEGMENT INFORMATION

43.1 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).

Products and services are provided through the following brands, which include First National Bank, FNB Card, RMB Private Bank, FNB Trust Services and FNB Private Clients.

FNB Africa

FNB Africa comprises the FNB Africa subsidiaries (FNB Botswana, FNB Namibia, FNB Swaziland, FNB Lesotho, FNB Zambia and FNB Moçambique) as well as a support division acting as the strategic enabler, facilitator and coordinator for African expansion undertaken by FNB. FNB Africa provides a range of FNB and RMB products and services to corporates and individuals.

RMB

RMB provides diversified financial services and products, encompassing investment banking, fund management, private wealth management and advisory services. Their customers includes corporates, parastatals and the government. RMB provides equity funding for leveraged and management buyouts, public to private transactions, corporate unbundling, growth opportunities and acquisitions. They also act in an advisory capacity in various transactions including merger and acquisition transactions and BEE transactions. In addition, RMB provides clients with various trading and investment products and services.

RMB comprises the following business units: RMB Private Equity, RMB Equity Trading, Investment Banking, Fixed Income Currency and Commodities.

WesBank

WesBank provides full service instalment credit finance to both the retail and corporate market, including asset based finance, fleet management solutions, personal loans, vehicle recovery, car care products and the financing of capital equipment

Corporate Centre

The Corporate Centre consists of business units that provide support services to the Banking Group. The Corporate Centre can be split into two major business units, Balance Sheet Management and Group Support Services. Balance Sheet Management owns and manages the capital of the Banking Group. Group Support Services provides the brands with various support services and consists of Group Finance, Regulatory Reporting, Human Resources, Information Risk Services, Internal Audit, Enterprise Risk Management and Legal Services.

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.

43 SEGMENT INFORMATION

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 IFRSs, the above mentioned amounts are adjusted in the IFRS adjustments column.

43.2 Geographical segments

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	FirstRand: Africa and Emerging Markets Emerging Markets WesBank OUTsurance
United Kingdom	England Ireland	RMB WesBank FNB
Australasia	Australia	RMB WesBank
Other	Asia (India, China) Middle East (U.A.E) Mauritius Brazil	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.

	2010	2009
Pounds	11.475	12.714
Euro's	9.389	10.845
AUD	6.486	6.231
US$	7.658	7.728

43 SEGMENT INFORMATION *continued*

43.3 Segmental reporting – 2010

R million	FNB	FNB Africa	RMB	WesBank
Continuing operations				
Net interest income before impairment of advances	9 512	1 590	116	4 144
Impairment of advances	(3 421)	(68)	(195)	(2 048)
Net interest income after impairment of advances	6 091	1 522	(79)	2 096
Non interest income	14 518	1 516	8 770	2 868
Increase in value of policyholder liabilities	–	–	–	–
Net income from operations	20 609	3 038	8 691	4 964
Operating expenses	(14 884)	(1 795)	(4 085)	(3 874)
Share of profit from associates and joint ventures	108	8	17	210
Profit before tax	5 833	1 251	4 623	1 300
Tax	(1 545)	(379)	(1 225)	(339)
Profit for the year from continuing operations	4 288	872	3 398	961
Discontinued operations				
Profit attributable to discontinued operations	–	–	–	–
Profit for the year	4 288	872	3 398	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	33 593	268 819	97 357
Total liabilities	199 115	29 544	263 135	95 452

Geographical segments

R million	South Africa	Other Africa	United Kingdom	Australasia
Net interest income	1 512	4 282	4 320	575
Non interest income	26 435	2	446	(116)
Total assets	796 015	33 572	4 036	4 420
Non current assets***	17 632	824	985	516
Total liabilities	745 240	29 462	8 886	2 873

* *Consolidation and IFRS adjustments Banking Group includes divisions disclosed elsewhere.*
** *Other includes FirstRand company, consolidation of treasury shares and consolidation entries.*
*** *Excludes financial instruments,deferred tax assets, post employment benefit assets and rights arising under insurance contracts.*

	Corporate Centre	Consolidation and IFRS adjustments Banking Group*	Banking Group	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
	1 711	(3 243)	26 140	578	43	26 761
	–	–	–	–	193	193
	3 160	(3 410)	37 052	578	(12)	37 618
	(2 104)	1 514	(25 228)	–	(83)	(25 311)
	407	(50)	700	–	–	700
	1 463	(1 946)	12 524	578	(95)	13 007
	(387)	503	(3 372)	(162)	7	(3 527)
	1 076	(1 443)	9 152	416	(88)	9 480
	–	–	–	1 304	(110)	1 194
	1 076	(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	198 866	(6 781)	845 240
	67 440	(56 785)	597 901	190 142	(1 766)	786 277

	Other	Total
	(25)	10 664
	(6)	26 761
	7 197	845 240
	28	19 985
	(184)	786 277

43 SEGMENT INFORMATION *continued*

43.3 Segmental reporting – 2009 *continued*

R million	FNB	FNB Africa	RMB	WesBank
Continuing operations				
Net interest income before impairment of advances	10 359	1 564	362	3 717
Impairment of advances	(4 920)	(96)	(523)	(2 745)
Net interest income after impairment of advances	5 439	1 468	(161)	972
Non interest income	13 664	1 241	4 765	2 588
Decrease in value of policyholder liabilities	–	–	–	–
Net income from operations	19 103	2 709	4 604	3 560
Operating expenses	(14 095)	(1 490)	(3 543)	(3 581)
Share of profit from associates and joint ventures	52	3	994	151
Profit before tax	5 060	1 222	2 055	130
Tax	(1 341)	(396)	(545)	(35)
Profit for the year from continuing operations	3 719	826	1 510	95
Discontinued operations				
Profit attributable to discontinued operations	–	–	–	–
Profit for the year	3 719	826	1 510	95
Income statement includes:				
Depreciation	(855)	(43)	(157)	(178)
Amortisation	(50)	(12)	(33)	(27)
Impairment charges	(14)	–	(26)	(79)
Other non cash provisions	(652)	(91)	(715)	(104)
Statement of financial position includes:				
Investment in associates and joint ventures	134	23	5 279	968
Total assets	206 799	31 640	275 097	94 472
Total liabilities	197 230	28 180	272 646	94 363

Geographical segments

R million	South Africa	Other Africa	United Kingdom	Australasia
Net interest income	1 655	4 607	2 162	851
Non interest income	12 793	4 847	2 607	116
Total assets	716 784	31 711	38 275	1 736
Non current assets***	30 297	762	1 006	624
Total liabilities	712 272	28 207	14 320	2 273

* *Consolidation and IFRS adjustments Banking Group includes divisions disclosed elsewhere.*
** *Other includes FirstRand company, consolidation of treasury shares and consolidation entries.*
*** *Excludes financial instruments,deferred tax assets,post employment benefit assets and rights arising under insurance contracts.*

Corporate Centre	Consolidation and IFRS adjustments Banking Group*	Banking Group	Momentum	Other**	Total
1 857	(225)	17 634	–	(345)	17 289
(50)	310	(8 024)	–	–	(8 024)
1 807	85	9 610	–	(345)	9 265
1 161	(3 659)	19 760	464	115	20 339
–	–	–	–	(284)	(284)
2 968	(3 574)	29 370	464	(514)	29 320
(1 723)	1 377	(23 055)	–	27	(23 028)
393	(16)	1 577	–	–	1 577
1 638	(2 213)	7 892	464	(487)	7 869
(434)	1 451	(1 300)	(130)	19	(1 411)
1 204	(762)	6 592	334	(468)	6 458
–	–	–	1 255	125	1 380
1 204	(762)	6 592	1 589	(343)	7 838
(71)	(6)	(1 310)	–	–	(1 310)
–	(2)	(124)	–	(42)	(166)
–	2	(117)	–	37	(80)
(260)	(119)	(1 941)	–	(186)	(2 127)
797	138	7 339	8 078	(123)	15 294
90 709	(51 884)	646 833	187 656	(24 638)	809 851
53 920	(48 934)	597 405	179 870	(19 521)	757 754

Other	Total
(10)	9 265
(24)	20 339
21 345	809 851
32	32 721
682	757 754

44 SUBSIDIARIES

	Nature of business	Country	Issued ordinary Listed/ unlisted	Issued ordinary Capital R million	Effective holding % 2010	Effective holding % 2009
Significant subsidiaries						
Banking						
First National Bank Holdings (Botswana) Limited	Commercial banking	Botswana	Listed	27	**100**	100
First National Bank of Namibia Limited	Commercial banking	Namibia	Listed	1	**61**	60
First National Bank of Swaziland Limited	Commercial banking	Swaziland	Unlisted	28	**100**	100
FirstCorp Merchant Bank Holdings Limited	Commercial banking	South Africa	Unlisted	10	**100**	100
FirstRand Bank Limited	Commercial and merchant banking	South Africa	Unlisted	4	**100**	100
First National Bank of Lesotho Limited	Commercial banking	Lesotho	Unlisted	39	**100**	100
First National Bank of Zambia Limited	Commercial banking	Zambia	Unlisted	27	**100**	100
FirstRand Moçambique Holdings Limitada	Commercial banking	Moçambique	Unlisted	192	**100**	100
Firstrand Finance Company Limited	Commercial banking	South Africa	Unlisted	69	**100**	100
Non banking						
First National Asset Management and Trust Company (Pty) Limited	Asset management and trust services	South Africa	Unlisted	–	**100**	100
RMB Asset Finance Limited	Merchant banking	South Africa	Unlisted	19	**100**	100
FirstRand International Limited Ireland	International holding company	Guernsey	Unlisted	–	**100**	100
FirstRand (International) Mauritius Limited	Financial services	Mauritius	Unlisted	25	**100**	100
FNB Insurance Brokers Holdings (Pty) Limited	Insurance brokers	South Africa	Unlisted	–	**100**	100
Norman Bisset and Associates (Pty) Limited	Debt collection	South Africa	Unlisted	–	**–**	100
RMB Investment and Advisory (Pty) Limited	Investment and financial services	South Africa	Unlisted	1	**100**	100

44 SUBSIDIARIES *continued*

R million	Group carrying amount 2010	2009
FirstRand Banking Group – Banking		
First National Bank Holdings (Botswana) Limited	**56**	56
First National Bank of Namibia Limited	**94**	94
First National Bank of Swaziland Limited	**17**	17
FirstCorp Merchant Bank Holdings Limited	**34**	54
Firstrand Bank Limited	**8 389**	8 241
FirstRand Moçambique Holdings Limitada	**192**	172
First National Bank of Lesotho Limited	**39**	39
First National Bank of Zambia Limited	**257**	160
FirstRand Banking Group – Non banking		
RMB Asset Finance Limited	**334**	334
FirstRand International Limited Ireland	**2 692**	2 692
First Land Developments Limited	**1**	1
FNB Insurance Brokers Holdings (Pty) Limited	**14**	14
Norman Bisset and Associates (Pty) Limited	**–**	85
RMB Investment and Advisory (Pty) Limited	**1 638**	1 638

	Nature of business	Country of incorporation	Issued ordinary share capital R million	Effective % holding % 2010	% 2009
Subsidiaries (directly held):					
Listed					
Collective investment schemes	Unit trusts	South Africa		*	Various
Unlisted					
Momentum Property Investments (Pty) Limited	Property investments	South Africa		*	100
Momentum Life Assurers Limited	Dormant	South Africa		*	100
Momentum Administration Services (Pty) Limited	Investment administration	South Africa		*	100
Community Property Holdings Limited	Property investments	South Africa		*	–
Momentum Ability Limited	Long term insurance	South Africa		*	100
FirstLife Assurance (Pty) Limited	Long term insurance	Botswana		*	100
AdviceAtWork (Pty) Limited	Employee benefits	South Africa		*	100
Momentum International Multimanagers (Pty) Limited	Multi-management services	South Africa		*	100
RMB Asset Management (Pty) Limited	Asset management	South Africa		*	100
Other unlisted investments in subsidiaries	Various	Various		*	Various

** Relates to non current assets and disposal groups held for sale.*

44 SUBSIDIARIES *continued*

R million	Group carrying amount 2010	Group carrying amount 2009
Momentum		
Collective investment schemes	*	25 732
Momentum Property Investments (Pty) Limited	*	645
Momentum Life Assurers Limited	*	36
Momentum Administration Services (Pty) Limited	*	18
Momentum Medical Scheme Administrators (Pty) Limited	*	(82)
Community Property Holdings Limited	*	–
Momentum Ability Limited	*	29
FirstLife Assurance (Pty) Limited	*	34
AdviceAtWork (Pty) Limited	*	(43)
Momentum International Multimanagers (Pty) Limited	*	225
RMB Asset Management (Pty) Limited	*	1 867
Other unlisted investments in subsidiaries	*	230

** Relates to non current assets and disposal groups held for sale.*

45 ACQUISITION AND DISPOSAL OF SIGNIFICANT SUBSIDIARIES AND ASSOCIATES

Significant acquisitions during the 2010 financial year

45.1 Makalani Holdings Limited

On 31 May 2010, the Group acquired an additional 51.6% interest in Makalani Holdings Limited from 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 interest 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 interest of 8.8% has arisen and been recognised by the Group. The non controlling interest is 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.

45 ACQUISITION AND DISPOSAL OF SIGNIFICANT SUBSIDIARIES AND ASSOCIATES *continued*

Significant acquisitions during the 2010 financial year *continued*

45.1 Makalani Holdings Limited *continued*

Acquired receivables

Details of the acquired receivables are as follows:

	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

45.2 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:

R million	2010 Fair value at acquisition
Identifiable assets acquired and liabilities and contingent liabilities assumed	
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.*

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 payments 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%.

45 ACQUISITION AND DISPOSAL OF SIGNIFICANT SUBSIDIARIES AND ASSOCIATES *continued*

45.2 Macdonald, Mills, O'Haher Employee Benefits (Pty) Limited continued

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 contributed 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.

Significant acquisitions during the 2009 financial year

45.3 Contract Lease Management (Pty) Limited

On 1 April 2009 the Group acquired 100% of Contract Lease Management (Pty) Limited.
Contract Lease Management (Pty) Limited contributed R1 million income to the Group for the period 1 April 2009 to 30 June 2009.
If the acquisition had occurred on 1 July 2008, profit included in the Group would have been R5 million.
The details of the fair values of the assets, liabilities and contingent liabilities acquired and goodwill arising are provided in the table below.

	2009	
R million	Carrying amount before acquisition	Fair value at acquisition
ASSETS		
Cash and short term funds	33	33
Deferred tax asset	2	2
Accounts receivables	17	17
Total assets acquired	52	52
LIABILITIES		
Deposits and current accounts	3	3
Provisions	2	2
Creditors and accruals	29	29
Total liabilities acquired	34	34
Net asset value as at date of acquisition before intangible assets in terms of IFRS 3		18
Net asset value as at date of acquisition		18
Cash consideration		18
Net asset value in excess of cash consideration at acquisition date		–

The fair value of the assets and liabilities acquired are based on the director's valuation.
No acquisition provisions were created.

45 ACQUISITION AND DISPOSAL OF SIGNIFICANT SUBSIDIARIES AND ASSOCIATES *continued*

45.4 Ronald Sewells and Associates

On 30 October 2008, the Group acquired 100% of Ronald Sewells and Associates.
Ronald Sewells and Associates contributed R1 million income to the Group for the period 1 November 2008 to 30 June 2009.
If the acquisition had occurred on 1 July 2008, profit included in the Group would have been R1.1 million.

The details of the fair values of the assets, liabilities and contingent liabilities acquired and goodwill arising are provided in the table below.

	2009	
R million	Carrying amount before acquisition	Fair value at acquisition
ASSETS		
Cash and short term funds	2	2
Property and equipment	1	1
Accounts receivable	5	5
Total assets acquired	8	8
LIABILITIES		
Due to FirstRand Banking Group Companies	5	5
Creditors and accruals	5	5
Total liabilities acquired	10	10
Net asset value as at date of acquisition before intangible assets in terms of IFRS 3		(2)
Net asset value as at date of acquisition		(2)
Cash consideration**		–
Net asset value in excess of cash consideration at acquisition date		(2)

The fair value of the assets and liabilities acquired are based on the director's valuation.

No acquisition provisions were created.

*** Amount has been rounded to the nearest million.*

45 ACQUISITION AND DISPOSAL OF SIGNIFICANT SUBSIDIARIES AND ASSOCIATES *continued*

Significant disposals during the 2010 financial year

Significant disposals of subsidiaries

45.5 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 short term funds	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.*

45 ACQUISITION AND DISPOSAL OF SIGNIFICANT SUBSIDIARIES AND ASSOCIATES *continued*

45.6 WorldMark SA (Pty) Limited

On 1 March 2010, FirstRand Bank Holdings Limited, 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:

R million	2010 Carrying amount at disposal date
ASSETS	
Cash and short term funds	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.*

45.7 WorldMark Holdings (Pty) Limited

On 22 June 2010, FirstRand Bank Holdings Limited, 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 short term funds	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**

45 ACQUISITION AND DISPOSAL OF SIGNIFICANT SUBSIDIARIES AND ASSOCIATES *continued*

Significant disposals of associates

45.8 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**

45.9 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**

Significant disposals during the 2009 financial year

There were no significant disposals of subsidiaries or associates during the 2009 financial year.

46 RELATED PARTIES

The Group defines related parties as:

- The parent company
- Associate companies
- Joint ventures
- Post retirement benefit funds (Pension Funds);
- Key management personnel such as the FirstRand Limited Board of directors and the FirstRand executive committee; and
- Key management personnel includes close family members of key management personnel. Close family members are those family members who may be expected to influence, or be influenced by that individual in dealings with the Group. This may include enterprises which are controlled by these individuals through their majority shareholding or their role as chairman and/or CEO in those companies.

The principal shareholder of the FirstRand Group is RMB Holdings Limited, incorporated in South Africa.

46.1 Subsidiaries

Details of investments in subsidiaries are disclosed in note 44.

Transactions between the Group and its subsidiaries have been eliminated on consolidation and are not disclosed in this note.

46.2 Associates and joint ventures

Details of investments in associate and joint venture companies are disclosed in note 16.

46.3 Details of transactions with relevant related parties appear below:

R million	2010 Principal shareholder	2009 Principal shareholder
Loans and advances		
Opening balance	113	57
Advanced during year	(113)	56
Closing balance	–	113
Deposits		
Opening balance	11	9
Received during year	220	2
Closing balance	231	11
Creditors and accruals		
Opening balance	–	–
Received during year	2	–
Closing balance	2	–
Interest received	100	12
Interest paid	15	–
Dividends paid	939	1 212

46.4 Key management personnel

R million	2010 Principal shareholder	2009 Principal shareholder
Total advances		
Advances in normal course of business by product		
Mortgages		
Opening balance	59	66
Advanced during year	271	405
Repayments during year	(212)	(420)
Interest earned	9	8
Closing balance	127	59

R million	2010 Principal shareholder	2009 Principal shareholder
46 RELATED PARTIES *continued*		
46.4 Key management personnel *continued*		
No impairment has been recognised for loans granted to key management (2009: nil). Mortgage loans are repayable monthly over 20 years.		
Other loans		
Opening balance	1	4
Advanced during year	119	182
Repayments during year	(111)	(186)
Interest earned	–	1
Closing balance	9	1
Instalment finance		
Opening balance	1	2
Advanced during year	2	2
Repayments during year	(1)	(3)
Closing balance	2	1
No impairments have been recognised in respect of instalment finance (2009: nil).		
Credit cards		
Balance 1 July	1	1
Total annual spend	17	29
Repayments	(17)	(29)
Closing balance	1	1
No impairments have been recognised in respect of credit cards held by key management (2009: nil). Interest rates are in line with normal rates charged to customers.		
Deposits		
Deposits by product		
Cheque and current accounts		
Opening balance	6	(115)
Net (withdrawals)/deposits	(11)	124
Net service interest, fees and bank charges	(5)	(3)
Closing balance	(10)	6
Savings accounts		
Opening balance	84	32
Interest income	84	14
Net new investments	8	38
Closing balance	176	84
Other including term deposits		
Opening balance	19	5
Interest income	(18)	1
Net new investments	–	13
Closing balance	1	19

R million	2010 Principal shareholder	2009 Principal shareholder
46 RELATED PARTIES *continued*		
46.4 Key management personnel *continued*		
Insurance and Investment		
Insurance		
Life and disability insurance		
Aggregate insured cover	51	16
Surrender value	1	1
Other insurance		
Premiums received	1	1
Investment products		
Fund value opening balance	541	1 005
Deposits/(withdrawals)	11	(240)
Net investment return credited	107	(220)
Commission and other transaction fees	(6)	(4)
Closing balance	653	541
Other fees		
Financial consulting fees and commissions	5	3
Key management compensation		
Salaries and other short term benefits	141	107
Share based payments	15	30
Total compensation	156	137
Deferred compensation payable in FirstRand shares in October 2012	22	-
A listing of the Board of directors of the Group is on page 437 of the annual report.		
46.5 Post employment benefit plan		
Details of transactions between the Group and the Group's post employment benefit plan are listed below:		
Fee income	1	1
Deposits held with the Banking Group	50	30
Interest expenses	2	2
Value of assets under management	2 483	2 320

47 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

(a) Credit impairment losses on loans and advances

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

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

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

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

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

Estimates of roll rates, loss ratios and similar risk indicators are based on analysis of internal and, where appropriate external data. Estimates of the loss emergence period are made in the context of the nature and frequency of credit assessments performed, availability and frequency of updated data regarding customer creditworthiness and similar factors. Loss emergence periods differ from portfolio to portfolio, but typically range from 1 – 12 months.

(b) Non performing loans

Retail loans are individually impaired if amounts are due and unpaid for three or more months, or if there is evidence before this that the customer is unlikely to repay its obligations in full. WesBank's loans are impaired upon its classification status, i.e. following an event driven approach and specific assessment of the likelihood to repay. Commercial and Wholesale loans are analysed on a case by case basis taking into account breaches of key loan conditions, excesses and similar risk indicators.

Management's estimates of future cash flows on individually impaired loans are based on internal historical loss experience, supplemented by analysis of comparable external data (for Commercial and Wholesale loans) for assets with similar credit risk characteristics. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Refer to note 12 for a detailed analysis of the impairment of advances and the carrying amounts of the specific and portfolio provisions.

(c) 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 41 provides an analysis of the effect of changes in managements' estimates on the fair value of financial instruments.

Refer to note 10 for a detailed analysis of the derivatives and the carrying amounts of the different types of derivative instruments. Note 41 provides additional details on the calculation of fair value of financial instruments not quoted in active markets.

(d) Impairment of available-for-sale equity instruments

The Group determines that available-for-sale equity instruments are impaired and recognised as such in the income statement, when there has been a significant or prolonged decline in the fair value below their cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Group evaluates among other factors, such as the normal volatility in share prices. In addition, impairment may be appropriate when there is evidence of a deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

Where the Group determined that an available-for-sale equity instrument is impaired, the amount of the impairment is recognised in profit or loss.

47 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES *continued*

(e) 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 does control in terms of IFRS. As it can sometimes be difficult to determine whether the Group does control an SPE, it makes judgements about its exposure to the risks and rewards, as well as about its ability to make operational decisions for the SPE in question. In many instances, elements are present that, considered in isolation, indicate control or lack of control over an SPE, but when considered together make it difficult to reach a clear decision. In such cases, the SPE is accounted for based on management's best estimate of the economic reality of the underlying transaction.

Refer to note 39 for more information regarding the Group's synthetic securitisations and the respective carrying amounts.

(f) 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, such difference will impact the income tax and deferred tax provisions in the period in which such determination is made.

Refer to note 5 and 18 for more information regarding the direct and deferred tax charges, assets and liabilities.

(g) 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, being the net present value of the discounted cash flows of the CGU less the tangible net asset value of the CGU. Details of the main assumptions applied in determining the net present value of the CGU are provided in notes to these financial statements.

Refer to note 19 for the impairment loss recorded on goodwill.

(h) Post retirement liabilities

The cost of the benefits and the present value of the defined benefit pension funds and post retirement medical obligations depend on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the charge to the income statement arising from these obligations include the expected long term rate of return on the relevant plan assets, the discount rate and the expected salary and pension increase rates. Any changes in these assumptions will impact the charge to the income statement and may affect planned funding of the pension plans.

The assumptions related to the expected return on plan assets are determined on a uniform basis, considering long term historical returns, assets allocation and future estimations of long term investment returns. The Group determines the appropriate discount rate at the end of each year, which represents the interest rate that should be used to determine the present value of the expected cash outflows required to settle the pension and post retirement medical obligations. In determining the appropriate discount rate, the Group considers the interest rate on high quality corporate bonds and government bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability. The expected salary and pension increase rates are based on inflation rates, adjusted for salary scales and country specific conditions. The inflation rate used is a rate within the government's monetary policy target for inflation and is calculated as the difference between the yields on portfolios of fixed interest government bonds and a portfolio of index linked bonds of a similar term.

Additional information is provided in note 27.

(i) 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 which are based on various assumptions and estimates that require judgment in their application. These assumptions and estimates include expected volatility, expected dividend yield, the discount rate and the expected forfeit or lapse rate.

Refer to note 33 for the detailed information regarding the share based payment expense and the assumptions used in determining the expense, liability and reserve.

(j) Fair value of commodities

The Group is long on certain commodities through the outright purchase of the specific commodity or through a series of OTC forward purchase agreements. Judgement has been applied in determining the fair value of the most recent transactions between market participants that is used to calculate the fair value of the physical commodity positions. In addition, judgement and estimation has been applied in determining the method for calculating the fair value of the commodity forward purchase agreements.

47 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES *continued*

(k) Valuation of policyholder liabilities under insurance contracts

The actuarial value of policyholder liabilities arising from long term insurance contracts is determined using the Financial Soundness Valuation method as described in the actuarial guidance note PGN 104 of the Actuarial Society of South Africa. The method requires the following assumptions:

- the best estimate for a particular assumption is determined;
- prescribed margins are then applied, as required by the Long Term Insurance Act of South Africa and Board Notice 72 issued in terms of the Act; and
- discretionary margins may be applied, as required by the valuation methodology or if the statutory actuary considers such margins necessary to cover the risks inherent in the contracts.

Best estimate assumptions as to mortality and morbidity, expenses, investment income and tax are used that may vary at each reporting date. A margin for adverse deviations is included in the assumptions. Improvements in estimates have a positive impact on the value of the liabilities and related assets, while deteriorations in estimates have a negative impact.

(l) Non controlling interest

Where the Group elects to measure non controlling interest in a business combination at fair value, the fair value is estimated by applying the same principles applied by the Group in the valuation of other listed or unlisted equity instruments adjusted as required for control premiums. Refer to note 41 for further information on the fair value of equity instrument.

48 STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

	The Group will comply with the following new standards and interpretations applicable to its business from the stated effective date.	Effective date
IFRS 1 (amended)	**Amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards ("IFRS 1")** 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 requires enhanced disclosures about the fair value measurement and liquidity risk. This amendment will not have an impact on the Group, as the Group has already adopted IFRS.	Annual periods commencing on or after 1 July 2010
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
IFRIC 19	**Extinguishing Financial Liabilities with Equity Instruments** The interpretation provides guidance on the accounting treatment of transactions where a financial liability is extinguished by the issue of equity instruments. These transactions are often referred to as debt for equity swaps. This amendment is not expected to impact the Group's results significantly.	Annual periods beginning on or after 1 July 2010

48 STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

	The Group will comply with the following new standards and interpretations applicable to its business from the stated effective date.	Effective date
IFRS 9	**Financial Instruments** IFRS is the first phase in the IASB's three part project to replace the current IAS 39 Financial Instruments: Recognition and Measurement. This phase deals with the classification and measurement of financial assets. 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. This standard is not expected to result in material reclassifications however the Group will reconsider the classification of its financial assets into financial assets at amortised cost or fair value.	Annual periods beginning on or after 1 January 2013
IAS 24 (amended)	**Related Party Disclosures** The amendment removes certain of the disclosure requirements for government related entities and clarifies the definition of a related party. This amendment addresses disclosure in the annual financial statements and will not affect recognition and measurement. The impact on the revised disclosure is not expected to be significant.	Annual periods commencing on or after 1 January 2011
IAS 32 (amended)	**Classification of rights issues** 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 the 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. This amendment is not expected to have an impact on the Group.	Annual periods beginning on or after 1 February 2010
Annual Improvements	**Improvements to IFRS** As part of its annual improvements projects, the IASB has issued its editions of annual improvements. The annual improvement projects 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.	
	Annual improvements projects undertaken in the 2009 calender year.	Annual periods commencing on or after 1 January 2010
	Annual improvements projects undertaken in the 2010 calender year.	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
	There are no significant changes in the either of the improvement projects that are expected to affect the Group.	

49 TRANSACTIONS INVOLVING THE LEGAL FORM OF A LEASE

The Group entered into an arrangement with the counterparty for the refurbishment of moveable assets, which are for the exclusive use of the counterparty. The duration of the arrangement is for 14 years and will conclude in May 2016. The transactions are a series of back to back leases, which, although the transactions are structured as leases, are in substance a financing arrangement.

Fees received are recognised annually in non interest income.

Income received for the period amounted to R22 million (2009: R26 million) and is reflected in interest and similar income in the income statement.

FIRSTRAND COMPANY

ANNUAL FINANCIAL STATEMENTS

APPROVED

Statement of comprehensive income
for the year ended 30 June

R million	Notes	2010	2009
Continuing operations			
Interest and similar income	2	10	22
Interest expense and similar charges	2	(4)	(4)
Net interest income		6	18
Non interest income	3	3 989	5 048
– fees and commissions	3	36	26
– gains less losses from investment securities	3	3 953	5 022
Income from operations		3 995	5 066
Operating expenses	4	(100)	(56)
Income before tax		3 895	5 010
Tax	5	(4)	(2)
Profit for the year from continuing operations		3 891	5 008
Discontinued operations			
Loss attributable to discontinued operations		(100)	–
Profit for the year		3 791	5 008
Other comprehensive income		–	–
Total comprehensive income for the year		3 791	5 008
Attributable to:			
Equity holders of the Company		3 447	4 544
Non cumulative non redeemable preference shares		344	464
Total comprehensive income for the year		3 791	5 008

Statement of financial position
as at 30 June

R million	Notes	2010	2009
ASSETS			
Cash and short term funds	7	**61**	56
Loans and accounts receivable	8	**–**	*
Investment in subsidiaries	9	**16 547**	21 449
Property and equipment		*****	*
Deferred tax asset	10	**–**	3
Non current asset held for sale		**5 116**	–
Total assets		**21 724**	21 508
EQUITY AND LIABILITIES			
Liabilities			
Creditors and accruals	11	**74**	59
Tax liability		*****	*
Provisions	12	**14**	4
Long term liabilities	15	**5**	–
Total liabilities		**93**	63
Equity			
Capital and reserves attributable to equity holders			
Ordinary shares	14	**56**	56
Share premium	14	**7 082**	7 082
Reserves		**9 974**	9 788
		17 112	16 926
Non cumulative non redeemable preference shares	14	**4 519**	4 519
Total equity		**21 631**	21 445
Total equity and liabilities		**21 724**	21 508

** Less than R500 000.*

Statement of changes in equity

R million	Ordinary share capital and ordinary shareholders' funds		
	Share capital (Note 14)	Share premium (Note 14)	Retained earnings
Balance at 1 July 2008	**56**	**7 083**	**7 119**
Conversion of convertible redeemable preference shares	*	(1)	–
Total comprehensive income for the year	–	–	4 544
Ordinary dividends	–	–	(4 073)
Preference dividends	–	–	–
Share based payment reserve	–	–	–
Balance at 30 June 2009	**56**	**7 082**	**7 590**
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**

** Less than R500 000.*

Ordinary share capital and ordinary shareholders' funds			Perpetual preference shareholders' funds			
Share based payment reserve	Capital redemption reserve	**Total ordinary shareholders' funds**	Non cumulative preference share capital (Note 14)	Non cumulative preference share premium (Note 14)	**Total preference shareholders' funds**	**Total equity**
2 158	**1**	**16 417**	*****	**4 519**	**4 519**	**20 936**
–	–	(1)	–	–	–	(1)
–	–	4 544	–	464	464	5 008
–	–	(4 073)	–	–	–	(4 073)
–	–	–	–	(464)	(464)	(464)
39	–	39	–	–	–	39
2 197	**1**	**16 926**	*****	**4 519**	**4 519**	**21 445**
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**

Statement of cash flows
for the year end 30 June

R million	Notes	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated by operations	17.1	**3 921**	4 997
Working capital changes	17.2	**15**	–
Net cash flows from operating activities		**3 936**	4 997
Interest received		**10**	22
Interest paid		**(4)**	(4)
Tax paid	17.3	**(7)**	(31)
Net cash inflow from operating activities		**3 935**	4 984
CASH FLOWS FROM INVESTMENT ACTIVITIES			
Increase in investment in subsidiaries		**(320)**	(470)
Redemption of preference share investment in subsidiary		**–**	25
Loan (to)/from subsidiaries		**(109)**	8
Net cash outflow from investment activities		**(429)**	(437)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of long term debt		**–**	(2)
Dividends paid	17.4	**(3 501)**	(4 537)
Net cash outflow from financing activities		**(3 501)**	(4 539)
Increase in cash and cash equivalents		**5**	8
Cash and cash equivalents at the beginning of the year		**56**	48
Cash and cash equivalents at the end of the year		**61**	56

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 232 to 258 of this report.

	2010	
R million	Amortised cost	Total
2 ANALYSIS OF INTEREST INCOME AND EXPENSE		
Interest and similar income		
– Cash and short term funds	10	10
Interest and similar income	10	10
Interest expense an similar charges		
– Borrowed funds	4	4
Interest expense an similar charges	4	4

	2009	
R million	Amortised cost	Total
Interest and similar income		
– Cash and short term funds	22	22
– "A" preference share dividends received	*	*
Interest and similar income	22	22
Interest expense and similar charges		
– Borrowed funds	4	4
– "A" preference share dividends paid	*	*
Interest expense an similar charges	4	4

** Less than R500 000.*

R million	2010	2009
3 ANALYSIS OF NON INTEREST INCOME		
– Fees and commissions		
Fees from subsidiaries^	36	26
Other fees	*	*
Total fees and commissions	36	26
– Gains less losses from investment activities		
– Dividends received from subsidiaries – unlisted shares		
– Ordinary dividends^	3 685	4 661
– Preference dividends^	268	361
Total gains less losses from investment activities	3 953	5 022
Total non interest income	3 989	5 048

^ Non interest income relates to non financial assets and liabilities.
** Less than R500 000.*

R million	2010	2009
4 OPERATING EXPENSES		
Advertising and marketing	2	2
Annual reports	7	9
Auditors remuneration		
– audit fees	4	3
– fees for other services	–	–
– prior year under provision	–	–
Depreciation		
– motor vehicles	*	*
Directors fees paid	5	5
Direct staff costs		
– salaries, wages and allowances	35	20
– contributions to employee benefit funds	2	2
– share based payment expense – refer note 15	16	–
– other	2	*
Travel	2	2
Investor relations	7	5
Rental charges		
– property	1	3
– furniture and equipment	1	1
Professional fees paid to subsidiaries	6	–
Professional fees	3	–
Corporate memberships	1	1
Indirect tax		
– value added tax	3	1
Other	3	2
Total operating expenses	**100**	56
** Less than R500 000.*		
5 TAX		
South African normal taxation		
– Normal tax – current year	1	5
– Deferred – current year	3	–
South African secondary taxation on companies ("STC")	–	(3)
Total tax charge	**4**	2

	Actual R million	2010 %	2009 %
Tax rate reconciliation			
Effective rate of taxation	4	–	–
Total tax has been affected by:			
Dividends received	1 107	28.0	28.0
Non deductible expenses	(17)	–	–
Secondary taxation on companies ("STC") credits	(3)	–	–
Standard rate of taxation	1 091	**28.0**	28.0

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 232 to page 258 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:

	2010			
R million	**Loans and receivables**	**Financial liabilities at amortised cost**	**Non financial assets and liabilities**	**Total**
ASSETS				
Cash and short term funds	**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**

	2009			
R million	Loans and receivables	Financial liabilities at amortised cost	Non financial assets and liabilities	Total
ASSETS				
Cash and short term funds	56	–	–	56
Loans and accounts receivable	*	–	–	*
Investment in subsidiaries	–	–	21 449	21 449
Property and equipment	–	–	*	*
Deferred tax asset	–	–	3	3
Total assets	56	–	21 452	21 508
LIABILITIES				
Creditors and accruals	–	59	–	59
Tax liability	–	–	*	*
Provisions	–	–	4	4
Total liabilities	–	59	4	63

** Less than R500 000.*

R million	2010	2009
7 CASH AND SHORT TERM FUNDS		
Balances with other banks	61	56
Cash and short term funds	**61**	**56**
The carrying value for cash and short term funds approximates the fair value.		
8 LOANS AND ACCOUNTS RECEIVABLES		
Receivables		
Sundry debtors	–	*
Total receivables	**–**	*****
Total loans and accounts receivable	**–**	*****

** 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.

9 INVESTMENT IN SUBSIDIARIES

	Effective percentage holding		Investment of holding company: Amounts owing by/(to) subsidiaries		Shares at net carrying amount		Investment through equity settle share incentive schemes	
	2010 %		2010 R million		2010 R million		2010 R million	
Banking Group								
FirstRand Bank Holdings Limited ("FRBH")								
– Ordinary shares	100	100	196	87	10 110	9 790	–	–
– Non redeemable preference shares	100	100	–	–	3 000	3 000	–	–
Momentum								
Momentum Group Limited								
– Ordinary shares	100	100	–	–	–	4 633	–	–
– Non redeemable preference shares	100	100	–	–	–	500	–	–
FirstRand Investment Holdings (Pty) Limited								
– Ordinary shares	100	100	854	854	2 069	2 069	–	–
FirstRand Empowerment Trust	100	100	–	–	–	–	–	–
Investment through equity settled share incentive scheme	100	100	–	–	–	–	318	516
Total			1 050	941	15 179	19 992	318	516
Total interest in subsidiary							16 547	21 449

R million	2010	2009
9 INVESTMENT IN SUBSIDIARIES *continued*		
Carrying amount at the beginning of the year	19 992	19 547
Movement for the year:		
Increase in investment in FirstRand Banking Group	320	436
Increase in investment in FirstRand Investment Holdings (Pty) Limited	–	34
Redemption of redeemable preference shares in FirstRand Investment Holdings (Pty) Limited	–	(25)
Investment in Momentum Group Limited classified as non current asset held for sale	(5 133)	–
Carrying amount at the end of the year	15 179	19 992

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

R million	2010	2009
10 DEFERRED TAX		
Deferred tax asset		
Tax effects of temporary differences between tax and book value for:		
Deferred tax asset		
Opening balance	3	–
– STC credits	(3)	3
Closing balance	–	3
Movement on deferred tax account is as follows:		
Opening balance	3	–
– Charge to the income statement	(3)	3
Closing balance	–	3

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 R7 884 million as at 30 June 2010 (2009: R7 590 million) were to be declared as dividends, the secondary tax impact at a rate of 10% would be R788 million (2009: R759 million).

R million	2010	2009
11 CREDITORS AND ACCRUALS		
Unclaimed dividends	**28**	26
Sundry creditors	**46**	33
Loan from FirstRand Empowerment Trust	*****	*
Total creditors and accruals	**74**	59
** Less than R500 000.*		
The carrying value of creditors and accruals approximates their fair value at year end.		
12 PROVISIONS		
Staff related provisions*		
Opening balance	**2**	1
Additional provisions created	**11**	1
Utilised during the year	**(1)**	–
Closing balance	**12**	2
** Staff related provision mainly consists of provision for leave pay and staff bonuses.*		
Audit fees		
Opening balance	**2**	5
Additional provisions created	**4**	3
Unused amounts reversed	**(1)**	(1)
Utilised during the year	**(3)**	(5)
Closing balance	**2**	2
Total provisions	**14**	4

R million	2010 Carrying amount	Current	Non current
13 CURRENT/NON CURRENT SPLIT OF AMOUNTS RECOGNISED ON THE STATEMENT OF FINANCIAL POSITION			
ASSETS			
Cash and short term funds	61	61	–
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**

R million	2009 Carrying amount	Current	Non current
ASSETS			
Cash and short term funds	56	56	–
Loans and accounts receivable	*	*	–
Investment in subsidiaries	21 449	–	21 449
Property and equipment	*	–	*
Deferred tax asset	3	3	–
Total assets	21 508	59	21 449
LIABILITIES			
Creditors and accruals	59	–	59
Provisions	4	–	4
Tax liability	*	*	–
Total liabilities	63	*	63

14 SHARE CAPITAL AND SHARE PREMIUM

	2010	
	Number of ordinary shares	Number of "A" preference shares**
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	–
"A" preference shares		
Opening balance	–	–
Closing balance	–	–
"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 non cumulative non redeemable preference shares (1 cent each)	–	–
Total issued share capital and share premium – closing balance	–	–
Disclosed on the face of the statement of financial position		
– Ordinary share capital and share premium	–	–
– Non cumulative non redeemable preference shares	–	–
Total issued share capital and share premium – closing balance	–	–

* *Less than R500 000.*

** *The "A" preference shares are not listed. The "A" preference shares are variable rate, non cumulative, non redeemable preference shares.*

*** *The "B1" preference shares.*

1 *The "C" preference shares are variable rate, convertible, non cumulative redeemable preference shares.*

2 *The "D" preference shares are variable rate, cumulative redeemable preference shares.*

2010					
Number of "B" preference shares***	Number of "C" preference shares[1]	Number of "D" preference shares[2]	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

14 SHARE CAPITAL AND SHARE PREMIUM *continued*

	2009	
	Number of ordinary shares	Number of "A" preference shares**
Authorised		
Number of shares	6 001 688 450	198 311 550
Issued		
Ordinary shares		
Opening balance	5 637 830 218	–
– Conversion of convertible redeemable preference shares	111 471	–
Closing balance	5 637 941 689	–
"A" preference shares		
Opening balance	–	3 322 500
– Redeemed during the year	–	(3 211 029)
– Converted during the year	–	(111 471)
Closing balance	–	–
"B" preference shares		
Opening balance	–	–
Closing balance	–	–
"B1" 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 non cumulative non redeemable preference shares (1 cent each)	–	–
"B1" variable rate non cumulative non redeemable preference shares (1 cent each)	–	–
Total issued share capital and share premium – closing balance	–	–
Disclosed on the face of the statement of financial position		
– Ordinary share capital and share premium	–	–
– Non cumulative non redeemable preference shares	–	–
Total issued share capital and share premium – closing balance	–	–

* *Less than R500 000.*
** *The "A" preference shares are not listed.*
1 *The "C" preference shares are variable rate, convertible, non cumulative redeemable preference shares.*
2 *The "D" preference shares are variable rate, cumulative redeemable preference shares.*

2009					
Number of "B" preference shares	Number of "C" preference shares[1]	Number of "D" preference shares[2]	Share capital R million	Share premium R million	Total R million
100 000 000	100 000 000	100 000 000	–	–	–
–	–	–	56	7 083	7 139
–	–	–	*	(1)	(1)
–	–	–	56	7 082	7 138
–	–	–	*	22	22
–	–	–	*	(21)	(21)
–	–	–	*	(1)	(1)
–	–	–	–	–	–
30 000 000	–	–	*	2 992	2 992
30 000 000	–	–	–	2 992	2 992
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
–	–	–	*	2 992	2 992
–	–	–	*	1 527	1 527
–	–	–	56	11 601	11 657
–	–	–	–	–	7 138
–	–	–	–	–	4 519
–	–	–	–	–	11 657

R million	2010	2009
15 SHARE BASED PAYMENT		
For a detail description of share option schemes and trusts in which FirstRand Limited participates refer to note 33 of the Group annual report.		
The income statement charge for share based payments is as follows:		
FirstRand share incentive scheme	(1)	1
FirstRand black non executive directors' trust	1	1
FirstRand share appreciation right scheme	5	(2)
Conditional share plan	11	–
Forfeitable share plan	*	–
Total share based payment expense	**16**	–
Share based payment liability		
Opening balance	–	2
Income statement charge	5	(2)
Total share based payment liability	**5**	–
** Less than R500 000.*		
16 DIVIDENDS		
Ordinary dividends		
An interim dividend of 34.00 cents (2009: 34.00 cents) per share was declared on 8 March 2010 in respect of the six months ended 31 December 2009.	1 917	1 917
A final dividend of 43.00 cents (2009: 22.00) per share was declared on 13 September 2010 in respect of the six months ended 30 June 2010	2 424	1 240
Total ordinary dividends declared for the year	**4 341**	3 157
"B" preference shares		
An interim dividend of 342.329 cents (2009: 518.94 cents) per share was declared on 27 January 2010 in respect of the six months ended 31 December 2009.	154	156
A final dividend of 354.997 cents (2009: 423.09 cents) per share was declared on 5 August 2010 in respect of the six months ended 30 June 2010	160	127
"B1" preference shares*		
An interim dividend of 518.94 cents per share was declared on 23 February 2009 in respect of the six months ended 31 December 2008.	–	78
A final dividend of 423.09 cents per share was declared on 25 August 2009 in respect of the six months ended 30 June 2009.	–	63
Total preference dividends declared for the year	**314**	424
Total provisions	**14**	4

** The "B1" preference shares were incorporated with the "B" preference shares effective 4 January 2010.*

R million	2010	2009
17 CASH FLOW INFORMATION		
17.1 Cash generated by operations		
Net income before tax attributable to shareholders	3 895	5 010
Adjustment for non cash items	32	5
Interest received	(10)	(22)
Interest paid	4	4
Cash generated by operations	**3 921**	**4 997**
17.2 Working capital changes		
Decrease in loans and accounts receivable	–	27
Decrease in creditors and accruals	15	(27)
Net working capital changes	**15**	**–**
17.3 Tax paid		
Tax payable and deferred tax at beginning of the year	(3)	(26)
Charge to income statement	(4)	(2)
Tax payable and deferred tax at the end of the year	–	(3)
Tax paid	**(7)**	**(31)**
17.4 Dividends paid		
Ordinary dividends		
Final dividend paid on:		
– 19 October 2009 in respect of the year ended 30 June 2009	(1 240)	–
– 27 October 2008 in respect of the year ended 30 June 2008	–	(2 156)
Interim dividend paid on:		
– 6 April 2010 in respect of the period ended 31 December 2009	(1 917)	–
– 6 April 2009 in respect of the period ended 31 December 2008	–	(1 917)
Ordinary dividends paid	**(3 157)**	**(4 073)**
Preference dividends on "B" preference shares		
Final dividend paid on:		
– 31 August 2009 in respect of the year ended 30 June 2009	(127)	–
– 25 August 2008 in respect of the year ended 30 June 2008	–	(153)
Interim dividend paid on:		
– 22 February 2010 in respect of the period ended 31 December 2009	(154)	–
– 23 February 2009 in respect of the period ended 31 December 2008	–	(156)
Preference dividends on "B1" preference shares*		
Final dividend declared on:		
– 31 August 2009 in respect of the year ended 30 June 2009	(63)	–
– 25 August 2008 in respect of the year ended 30 June 2008	–	(77)
Interim dividend declared on:		
– 23 February 2009 in respect of the period ended 31 December 2008	–	(78)
Preference dividends paid	**(344)**	**(464)**
Total dividends paid	**(3 501)**	**(4 537)**

** The "B1" preference shares were incorporated with the "B" preference shares effective 4 January 2010.*

R million	2010	2009

18 RELATED PARTIES

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 parent company.

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:

R million	2010	2009
Interest received	10	22
Fees and commissions earned	–	26
Dividends received	3 953	5 022

18.3 Key management personnel

Please refer to page 400 for detailed disclosure.

19 EVENTS AFTER REPORTING PERIOD

Refer to directors report for detailed events after reporting period.

20 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 2010 no instance of default by a subsidiary had occurred.

Definitions

Companies Act	Companies Act of 1973
Dividend cover	Normalised earnings per share divided by dividend per share.
Diluted normalised earnings per share.	Normalised earnings attributable to ordinary shareholders divided by the weighted average number of shares including treasury shares adjusted for potential dilution effect of Outperformance scheme.
National Credit Act ("NCA")	National Credit Act, No 34 of 2005
Net asset value (R million)	Equity attributable to ordinary shareholders.
Net asset value per share (cents)	Equity attributable to ordinary shareholders divided by number of issued ordinary shares.
Net income after capital charge ("NIACC")	Normalised earnings less the cost of equity times the average ordinary shareholders' equity and reserves.
Normalised earnings (R million)	The Group believes normalised earnings more accurately reflect operational performance. Headline earnings are adjusted to take into account non operational and accounting anomalies. Refer to page 33 for a detailed description of normalised earnings.
Normalised earnings per share (cents)	Normalised earnings attributable to ordinary shareholders divided by the weighted average number of share including treasury shares.
Price earnings ratio (times)	Closing price on 30 June divided by basic normalised earnings per share.
Price to book (times)	Market capitalisation divided by normalised net asset value.
Return on equity ("ROE")	Normalised earnings divided by average normalised ordinary shareholders' equity.
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.

BANKING GROUP	
Bank's Act	Banks Act, No 94 of 1990 as amended
Capital adequacy ratio ("CAR")	Capital divided by risk weighted assets.
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.
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.
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.

MOMENTUM GROUP	
Capital adequacy ratio ("CAR")	The amount by which the Financial Services Board requires an insurer's assets to exceed it liabilities. The assets, liabilities and capital adequacy requirement must be calculated using a method which meets the Financial Services Board's requirements.
Deferred revenue liability ("DRL")	A DRL is recognised in respect of fees paid at the inception of a contract by a policyholder which are directly attributable to a contract. The DRL is then released to revenue as the investment management services are provided, over the expected duration of the contract, as a constant percentage of the expected gross profit margin (including investment income) arising from the contract.

Discretionary participation featured ("DPF")	A DPF entitles the policyholder to receive, as a supplement to guaranteed benefits, additional benefits or bonuses.
Embedded Value	The embedded value is defined as: • the shareholders' net worth, which includes subsidiaries and associates at the directors' valuations; plus • the present value of future profits less the opportunity cost of capital in respect of the in-force insurance business. The value of the in-force insurance business is calculated as the present value of the projected stream of future after tax profits at the calculation date. The opportunity cost of capital reflects the fact that the expected long term investment return on the assets backing the capital adequacy requirements is less than the return assumed to be required by the shareholders, as reflected by the risk discount rate.
Present value of in-force ("PVIF")	PVIF is determined by estimating the net present value of future cash flows from contracts in-force at the date of acquisition.

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
BSA	Bonus stabilisation account
BSM	Balance Sheet Management
CAGR (%)	Compound annual growth rate
CCF	Credit conversion factors
CEO	Chief executive officer
CFO	Chief financial officer
CGT	Capital gains tax
CIS	Corporate Social Investment
COO	Chief operating officer
CPIX	Consumer Price Index
CRMF	Credit risk management framework
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
ERM	Enterprise Risk Management
ESG	Environmental, social and governance risks
ETL	Expected tail loss
FICC	Fixed income, currency and commodities business
FNB	First National Bank
FRB	FirstRand Bank Limited
FRBG	FirstRand Bank Supersegment
FRBH	FirstRand Bank 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	Banking Group credit risk management
GIA	Group internal audit function
IBNR	Incurred but not reported
ICAAP	Internal Capital Adequacy Assessment Process
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	Interet 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
LTV	Loan to value
MIRC	Market and investment risk committee
NIACC	Net income after capital charge
NII	Net interest income
NIR	Non interest revenue
Nitro 1	Nitro Securitisation 1 (Pty) Limited
Nitro 1 Plc	Nitro International Securitisation Company 1 Plc
Nitro 2	Nitro Securitisation 2 (Pty) Limited
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, Compliance and Capital committee
RCSA	Risk and control self assessments
RERIT	Risk effectiveness reports for IT
RMB	Rand Merchant Bank
ROE	Return on equity
RRM	Regulatory risk management
RWA	Risk weighted assets
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

for your attention

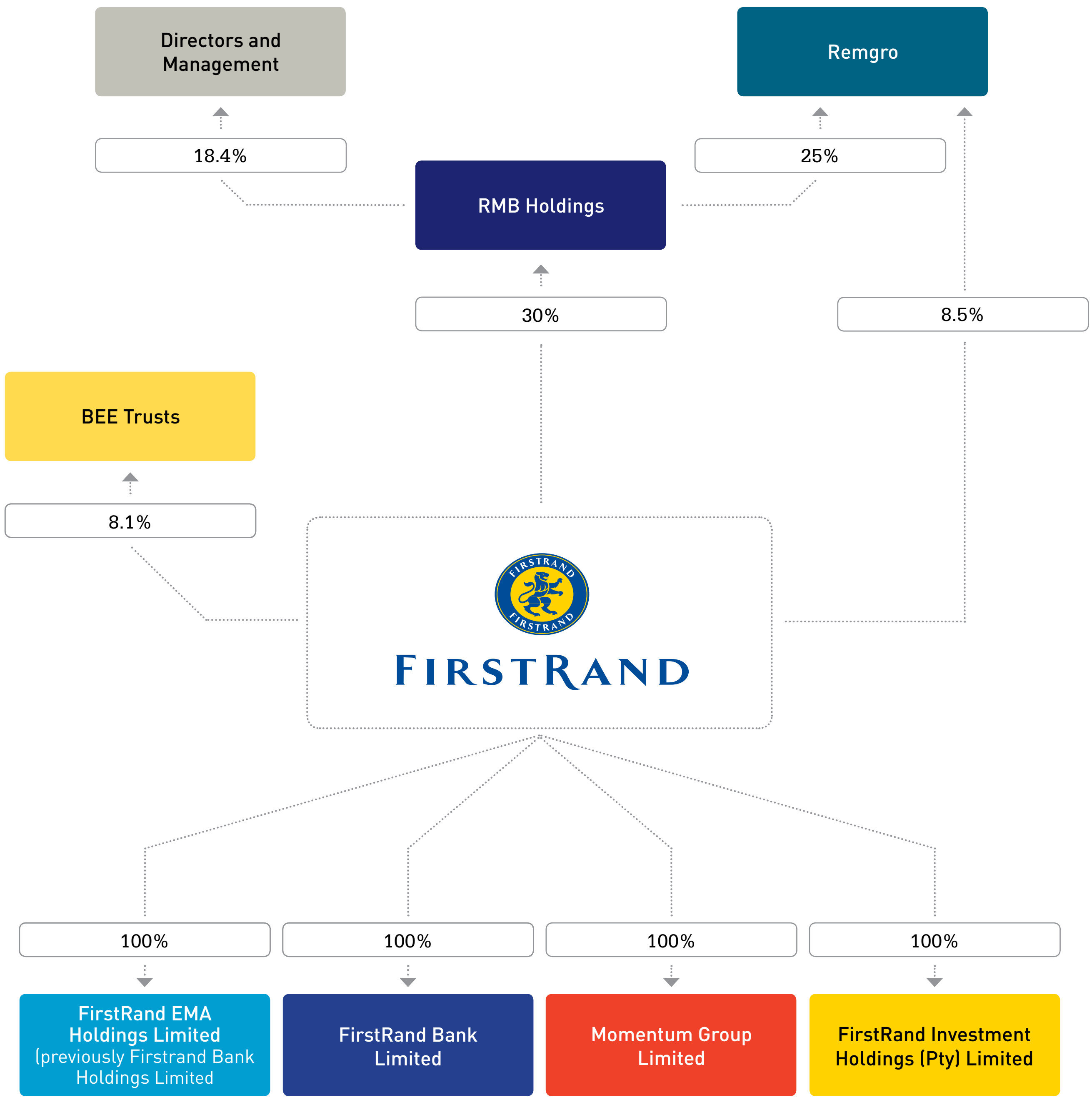
SHAREHOLDERS' INFO

The Annual General Meeting will take place
at 09.00 on 2 December 2010
in the Auditorium, FNB Conference and
Learning Centre, 114 Grayston Drive,
Sandown, Sandton

SHAREHOLDERS' INFO

FIRSTRAND LIMITED

Group ownership structure



Group structure

FIRSTRAND

The listed holding company (FirstRand Limited, JSE: FSR)

100% FirstRand Bank Limited – Banking

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

100% FirstRand EMA Holdings Limited – Emerging Markets

- 100% FNB Lesotho
- 62% FNB Namibia[7]
- 100% FNB Swaziland
- 70% FNB Botswana
- 90% FNB Moçambique
- 100% FNB Zambia
- 47% OUTsurance[4]
- 100% FirstRand International – Mauritius

100% FirstRand Investment Holdings (Pty) Limited ("FRIHL") – Other activities[5]

- 90% RMB Private Equity Holdings
- 91% RMB Private Equity
- 100% RMB Stockbroking
- 100% FirstRand International Wealth Management
- 40% Eris Property Holdings
- 50% RMB Morgan Stanley
- 75% Rentworks
- 33% Tracker
- 100% FirstRand International – Guernsey
- 100% FNB Insurance Brokers

100% Momentum Group Limited* – Insurance and Asset Management

- 100% Momentum Insurance[1]
- FNB Life[1]
- 85% Advantage Asset Managers
- 100% Momentum Medical Scheme Administrators
- 100% AdviceAtWork
- 100% RMB Asset Management
- 100% Momentum Africa
- 50% Momentum Short Term Insurance
- 49% Momentum Life Insurance Namibia[6]

Structure shows effective shareholding (consolidated)

1 Division
2 Branch
3 Representative office
4 Effective shareholding in FirstRand Short Term Insurance Holdings Limited
5 For segmental analysis purposes entities included in FRIHL are reported as part of Banking Group Supersegment within the respective franchise results
6 Includes 51% of Swabou Life

* The Group has announced the proposed unbundling of Momentum which was approved by shareholders on 28 September 2010, but remaining subject to certain conditions precedent being met.

Analysis of ordinary shareholders
as at 30 June 2010

	Shares held 000's	%
Shareholders holding more than 5%		
RMB Holdings	1 694 844	30.06
FirstRand Empowerment trust and related parties	493 653	8.76
Public Investment Commissioner	663 568	11.77
Financial Securities Ltd (Remgro)	481 142	8.53
Sub total	3 333 207	59.12
Other	2 304 735	40.88
Total	**5 637 942**	**100.00**
Shareholder type		
Corporates (RMB Holdings and Remgro)	2 175 986	38.59
Pension Funds	1 111 078	19.71
Insurance Companies and Banks	849 311	15.06
Unit Trusts	715 665	12.69
Individuals	34 539	0.61
Empowerment trusts	457 335	8.11
Employee share trusts	146 331	2.60
Other	147 699	2.63
Total	**5 637 942**	**100.00**

	Number of shareholders	Shares held 000's	%
Public and non public shareholders			
Public	33 330	2 845 420	50.47
Non public			
– Corporates (Remgro and RMBH)	2	2 175 986	38.59
– Directors	9	12 850	0.23
– Empowerment trusts	4	457 355	8.11
– Employee share trusts	1	146 331	2.60
Total	**33 346**	**5 637 942**	**100.00**

	Shares held 000's	%
Geographic Ownership		
South Africa	4 601 285	81.61
International	647 608	11.49
Not analysed	389 049	6.90
Total	**5 637 942**	**100.00**

Performance on the JSE Limited
as at 30 June 2010

	2010	2009
Number of shares in issue (000's)	**5 637 942**	5 637 942
Market prices (cents per share):		
Closing	**1 806**	1 406
High	**2 100**	1 774
Low	**1 388**	1 056
Weighted average (cents per share)	**1 768**	1 422
Closing price/net asset value per share (times)	**1.98**	1.50
Closing price/ basic headline earnings per share (times)	**10.03**	10.55
Volume of shares traded (million)	**3 689**	4 605
Value of shares traded (R million)	**65 236**	65 470
Market capitalisation (R billion)	**101.82**	79.27

Analysis of "B" preference shareholders
at 30 June 2010

	Number of shareholders	Shares held 000's	%
Public and non public shareholders			
Public	7 595	44 480	98.84
Non public			
– Directors	1	520	1.16
	7 596	45 000	100.00

Administration

COMPANY INFORMATION

Directors

LL Dippenaar (Chairman), SE Nxasana (Chief executive officer), JP Burger (Financial director), VW Bartlett, JJH Bester, L Crouse, PM Goss, Dr NN Gwagwa, PK Harris, WR Jardine, EG Matenge-Sebesho AP Nkuna, AT Nzimande, D Premnarayen (Indian), KB Schoeman, RK Store, BJ van der Ross, Dr JH van Greuning, MH Visser

Secretary and registered office

BW Unser
4 Merchant Place
Corner Fredman Drive and Rivonia Road, Sandton 2196

Postal Address
PO Box 786273, Sandton, 2146
Telephone: +27 11 282 1808
Telefax: +27 11 282 8088
Web address : www.firstrand.co.za

Sponsor

(In terms of JSE requirements)
Rand Merchant Bank (a division of FirstRand Bank Limited)

Corporate Finance
1 Merchant Place
Corner Fredman Drive and Rivonia Road
Sandton, 2196
Telephone: +27 11 282 1847
Telefax: +27 11 282 8215

Transfer secretaries – South Africa

Computershare Investor Services (Proprietary) Limited
70 Marshall Street, Johannesburg, 2001

Postal address
PO Box 61051, Marshalltown, 2107
Telephone: +27 11 370 5000
Telefax: +27 11 688 5221

Transfer secretaries – Namibia

Transfer Secretaries (Proprietary) Limited
Shop No 8, Kaiserkrone Centre
Post Street Mall, Windhoek

Postal address
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		
– "B"	FSRP	ZAE 000060141

Namibian Securities Exchange ("NSE")

Ordinary shares	Share code	ISIN code
FirstRand Limited	FSR	ZAE 000066304
FNB Namibia Holdings Limited	FNB	NA 0003475176

Botswana Securities Exchange of South Africa ("BSE")

Ordinary shares	Share code	ISIN code
FNB Botswana Holdings Limited	FNBB	BW 000000066

Bond Exchange of South Africa ("BESA")

Subordinated debt

Issuer	Bond code	ISIN code
FirstRand Bank Limited	FRB01	ZAG000021585
FirstRand Bank Limited	FRB02	ZAG000021593
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
Momentum Group Limited	MGL01	ZAG000029935

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	FRBN01	ZAG000021601
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	FRS30	ZAG000069147
FirstRand Bank Limited	FRS31	ZAG000069154
FirstRand Bank Limited	FRS32	ZAG000070368
FirstRand Bank Limited	FRS33	ZAG000070889

Senior unsecured continued

Issuer	Bond code	ISIN code
FirstRand Bank Limited	FRS34	ZAG000071937
FirstRand Bank Limited	FRS35	ZAG000076852
FirstRand Bank Limited	FRS36	ZAG000077397
FirstRand Bank Limited	FRS37	ZAG000077793
FirstRand Bank Limited	FRS38	ZAG000077983
FirstRand Bank Limited	FRS39	ZAG000078213
FirstRand Bank Limited	FRJ11	ZAG000051111
FirstRand Bank Limited	FRJ14	ZAG000069683
FirstRand Bank Limited	FRJ16	ZAG000073826
FirstRand Bank Limited	FRX11	ZAG000051095
FirstRand Bank Limited	FRX15	ZAG000051103
FirstRand Bank Limited	FRX18	ZAG000076472
FirstRand Bank Limited	FRX24	ZAG000073693
FirstRand Bank Limited	FRX45	ZAG000076480

Inflation-linked bonds

Issuer	Bond code	ISIN code
FirstRand Bank Limited	FRBI01	ZAG000025156
FirstRand Bank Limited	FRBI02	ZAG000025768
FirstRand Bank Limited	FRBI03	ZAG000033473
FirstRand Bank Limited	FRBI04	ZAG000044306
FirstRand Bank Limited	FRBI07	ZAG000055849
FirstRand Bank Limited	FRBI08	ZAG000071523
FirstRand Bank Limited	FRBI23	ZAG000076498
FirstRand Bank Limited	FRBI24	ZAG000077256
FirstRand Bank Limited	FRI11	ZAG000051129
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	FRC05	ZAG000050873
FirstRand Bank Limited	FRC06	ZAG000051178
FirstRand Bank Limited	FRC07	ZAG000051244
FirstRand Bank Limited	FRC08	ZAG000051749
FirstRand Bank Limited	FRC09	ZAG000054347
FirstRand Bank Limited	FRC10	ZAG000054149
FirstRand Bank Limited	FRC11	ZAG000054131
FirstRand Bank Limited	FRC16	ZAG000055914
FirstRand Bank Limited	FRC17	ZAG000056011
FirstRand Bank Limited	FRC29	ZAG000069857
FirstRand Bank Limited	FRC30	ZAG000071697
FirstRand Bank Limited	FRC31	ZAG000071705
FirstRand Bank Limited	FRC32	ZAG000071713
FirstRand Bank Limited	FRC33	ZAG000073701
FirstRand Bank Limited	FRC34	ZAG000073818
FirstRand Bank Limited	FRC35	ZAG000073800
FirstRand Bank Limited	FRC36	ZAG000076217
FirstRand Bank Limited	FRC37	ZAG000076712

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

London stock exchange ("LSE")

European Medium Term Note (EMTN) Programme

Issuer	Bond code	ISIN code
FirstRand Bank Limited	EMTN	XS0306783621

Namibia Securities Exchange ("NSE")

Issuer	Bond code	ISIN code
FNB of Namibia Limited	FNB 17	NA000A0NQ603

FIRSTRAND LIMITED

(Incorporated in the Republic of South Africa)
(Registration number: 1966/010753/06)
Share code: FSR ISIN: ZAE000066304
JSE ISIN: ZAE000060141
NSX Ordinary Share code: FSR
("FirstRand" or "the Company" or "the Group")

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the fourteenth annual general meeting of FirstRand Limited will be held in the Auditorium, FNB Conference and Learning Centre, 114 Grayston Drive, Sandown, Sandton on Thursday, 2 December 2010 at 09:00 to deal with the following matters and, if approved, pass the following resolutions with or without modification:

1. Adoption of Annual Financial Statements

To consider and adopt the audited annual financial statements of the Company and the Group for the year ended 30 June 2010 including the reports of the directors and auditors.

2. Re-election of directors by way of separate resolutions

To re-elect the undermentioned directors who retire in terms of the Company's Articles of Association and who, being eligible, offer themselves for re-election:

2.1 L Crouse

Non executive director
Date of appointment: 16 September 2008

Educational qualifications
- CA (SA)

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

Directorships
- FirstRand Bank Limited
- Remgro Limited
- Total South Africa (Pty) Limited
- Dark Fibre Africa (Pty) Limited

2.2 PM Goss

Non executive director
Date of appointment: 27 May 1998

Educational qualifications
- BEcon (Hons)
- BAccSc (Hons)
- CA (SA)

Board committees
- Directors' affairs and governance (Chair)
- Remuneration (Chair)

Directorships
- FirstRand Bank Limited
- RMB Holdings Limited
- Goss and Co (Pty) Limited

2.3 NN Gwagwa

Non executive director
Date of appointment: 25 February 2004

Educational qualifications
- BA (Fort Hare)
- MTRP (Natal)
- MSc (cum laude) (London)
- PhD (London)

Board committees
- Directors' affairs and governance
- Transformation monitoring (Chair)

Directorships
- FirstRand Bank Limited
- Development Bank of South Africa Limited
- Massmart Holdings Limited
- Sun International Limited

2.4 PK Harris

Non executive director
Date of appointment: 1 July 1992

Educational qualifications
- MComm

Board committees
- Directors' affairs and governance

Directorships
- FirstRand Bank Limited
- Momentum Group Limited
- RMB Asset Management (Pty) Limited
- Remgro Limited
- RMB Holdings Limited

2.5 AP Nkuna

Non executive director
Date of appointment: 3 May 2005

Educational qualifications
- MAP (Wits Business School)

Board committees
- Directors' affairs and governance
- Transformation monitoring

Directorships

- FirstRand Bank Limited
- Tracker (Pty) Limited
- Metrofile Holdings Limited – Chairman
- Primedia Limited – Chairman
- BPSA (Pty) Limited

3 Election of directors by way of separate resolutions

To elect directors appointed since the last annual general meeting.

3.1 JJH Bester

Non executive director

Date of appointment: 1 July 2010

Educational qualifications

- BSc Eng Elect (Pret)
- ISMP (Harvard)

Board committees

- Directors' affairs and governance
- Audit
- Risk, capital management and compliance (Chair)
- Remuneration
- Credit

Directorships

- FirstRand Bank Limited
- FirstRand Ireland Plc

3.2 WR Jardine

Non executive director

Date of appointment: 1 July 2010

Educational qualifications

- BSc (Physics)
- MSc (Radiological Physics)

Board committees

- Directors' affairs and governance
- Large exposures

Directorships

- FirstRand Bank Limited
- Aveng Limited
- McConnell Dowell Corporate Limited
- Trident Steel Holdings (Pty) Limited

3.3 EG Matenge-Sebesho

Non executive director

Date of appointment: 1 July 2010

Educational qualifications

- MBA (Brunel University of London)
- CAIB (SA)

Board committees

- Directors' affairs and governance
- Audit

Directorships

- FirstRand Bank Limited
- Advantage Asset Managers (Pty) Limited
- Momentum Ability Limited
- Momentum Structured Insurance Limited
- Finmark Trust
- Botswana Export Development and Investment Authority

4. Ordinary resolution number 1

Non executive directors' fees for the year to 30 June 2011

4.1 Resolved that:

4.1.1 The fees of the non executive directors, as reflected below be approved for the year to 30 June 2011.

Rand per annum	Proposed Fee
FirstRand Board	
Chairman	1 000 000
Director	137 000
Audit committee	
Member	45 000
Risk, capital management and compliance committee	
Chairman	90 000
Member	45 000
Remuneration committee	
Chairman	90 000
Member	45 000
Directors' affairs and governance committee	
Chairman	30 000
Member	15 000
Transformation monitoring committee	
Chairman	60 000
Member	30 000
Ad hoc meetings (in exceptional circumstances)	2 950

The fees proposed represent a 9% increase on those paid in respect of the financial year to 30 June 2010.

The fee proposed for the Chairman represents an increase of 21% and is part of a multi-year strategy to better align the Chairman fee to those of the comparable fees in the major SA banks.

4.1.2 The fees for non executive directors who are based overseas be at twice the rate applicable to South African based directors.

4.1.3 Dr JH van Greuning be paid a fee of US$ 250 000 per annum for his services as a non executive director.

Dr JH van Greuning, who is based in Washington, USA, is Chairman of the Audit committee, a member of the Directors' affairs and governance committee, a member of the Risk, capital management and compliance committee and also sits on a number of specialist technical risk committees in the Group. He is a globally recognised risk expert, who prior to moving to Washington to take up a position with the World Bank (from which he has now retired) had extensive experience in South Africa in the Bank Supervision Department, including as Registrar of Banks. The fee proposed recognises the considerable expertise that he is able to bring to the Board, its committees, specialist risk committees in the Group and the time spent thereon.

4.2 Following the Group restructure, it is proposed that certain of the activities of Board and the Board committees, currently constituted at the FirstRand Bank Holdings and FirstRand Bank ("the Banking Group") levels be consolidated and single committees, serving the FirstRand Group as a whole be constituted at the FirstRand level. The reconstituted committees will be vested with the accountabilities previously vested in the separate FirstRand and and/or FirstRand Banking Group committees. In addition two committees, previously constituted at the FirstRand Bank Holdings level will be constituted as new committees at the FirstRand level. These are the Risk, Capital Management and Compliance committee (this work was previously undertaken by the FirstRand Audit, Risk and Compliance Committees) and the Large Exposures Committee. It is proposed that once regulatory approval has been received for the Board committee restructure proposal, the Board and committee fees paid at the Banking Group level be added to the FirstRand fees as approved in resolution 4.1.1 to take cognizance of the greater span of authority that will be vested in these committees and their increased work load. The effect of this proposal is that board fees will be paid only at the FirstRand level for directors serving on both the FirstRand Bank and the FirstRand boards and only at the FirstRand level for board committees.

Resolved that:

Contingent upon regulatory approval being received for the proposed consolidation of the existing Banking Group board committees' accountabilities into the single FirstRand committees, fees for non executive directors serving on the boards of FirstRand and FirstRand Bank as well as the FirstRand and FirstRand Bank board committees be consolidated and paid as single fees at the FirstRand level effective from the date of the consolidation of the committees to 30 June 2011.

Rand per annum	FirstRand Fee (as proposed in resolution 4.1.1)	Current FirstRand Bank Fee	Proposed FirstRand Fee effective from committee consolidation
Current fee			
Rand			
Chairman	1 000 000	1 500 000	2 500 000
Director	137 000	207 600	344 600
Audit committee			
Member	45 000	135 000	180 000
Risk, capital management and compliance committee			
Chairman	90 000	360 000	450 000
Member	45 000	135 000	180 000
Remuneration committee			
Chairman	90 000	120 000	210 000
Member	45 000	60 000	105 000
Directors' affairs and governance committee			
Chairman	30 000	50 000	80 000
Member	15 000	25 000	40 000
Transformation monitoring committee			
Chairman	60 000	–	60 000
Member	30 000	–	30 000
Rand per meeting			
Large exposures committee			
Chairman	–	32 000	32 000
Member	–	16 000	16 000

5. Ordinary resolution number 2

Appointment of joint auditors

Resolved that pursuant to the Company's registration as a bank controlling company and as recommended by the Audit Committee, PricewaterhouseCoopers Inc. and Deloitte & Touche be 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 audit committee has recommended and the Board has endorced the proposed appointments.

6. Ordinary resolution number 3

Auditors' remuneration

Resolved that, as recommended by the Audit committee, the directors fix the auditors' remuneration for the year ended 30 June 2011.

7. Ordinary resolution number 4

Place the unissued ordinary shares under the control of the directors

Resolved that the authorised but unissued 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 Companies Act (Act 61 of 1973) as amended ("the Companies Act"), the Banks Act No 94 of 1990 (as amended) ("the Banks Act"), the Articles of Association of the Company and the Listings Requirements of the JSE Limited ("JSE"), when applicable.

Shareholders are asked to note that at 363 746 761, the unissued ordinary shares represent approximately 6% of the authorised share capital.

8. Ordinary resolution number 5

General issue of ordinary shares for cash

Resolved that the Board of directors of the Company be hereby authorised, by way of a renewable general authority, to issue all or any of the authorised but unissued ordinary shares in the capital of the Company for cash as and when they in their discretion deem fit, subject to the Companies Act, the Banks Act, the Articles of Association and the JSE Listings Requirements, when applicable, and the following limitations, namely that:

- this authority shall be valid until the Company's next annual general meeting or for 15 months from the date of this resolution, whichever period is shorter;
- the ordinary shares must be issued to public shareholders as defined by the JSE Listings Requirements and the Namibian Stock Exchange Listings Requirements and not related parties;
- the equity securities which are the subject of 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 may not exceed 5 (five per cent) of the Company's relevant number of equity securities in issue (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, by including the number of any equity securities which may be issued in future arising out of the issue of such 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), 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:
    - Δ less any securities of the class issued, or to be issued in future arising from options/convertible securities issued, during the current financial year;
    - Δ 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
      - « acquisition (which has had final terms announced) may be included as though they were securities in issue at the date of application;
- a maximum discount at which the ordinary shares may be issued is 10% of the weighted average traded price of the Company's ordinary shares measured over 30 business days prior to the date that the price of the issue is determined or agreed by the directors of the Company and the party subscribing for the securities; and
- a paid press announcement giving full details, including the impact on net asset value and earnings per share, will be published at the time of any issue representing, on a cumulative basis within one financial year, 5% or more of the number of ordinary shares in issue prior to that issue, in terms of the JSE Listings Requirements.

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 that in terms of the Company's Articles of Association, the Company's directors be hereby authorised, by way of a general authority, to repurchase issued shares in the Company or to permit a subsidiary of the Company to purchase shares in the Company, as and when deemed appropriate, subject to the Companies Act, the Banks Act and the JSE Listings Requirements, when applicable, and provided:

- that this authority shall be valid until the Company's next annual general meeting provided that it shall not extend beyond 15 months from the date of passing of this special resolution;
- that any such repurchase be effected through the order book operated by the JSE trading system and done without any prior understanding or arrangement between the Company and the counterparty (reported trades are prohibited);
- that a paid press release giving such details as may be required in terms of the JSE Listings Requirements be published when the Company or its subsidiaries have cumulatively repurchased in aggregate 3% of the initial number of the relevant class of shares, and for each 3% in aggregate of the initial number of that class acquired thereafter;
- that a general repurchase may not in the aggregate in any one financial year exceed 10% of the number of shares in the Company's issued share capital as at the beginning of the financial year provided that a subsidiary of the Company may not hold at any one time more than 10% of the number of issued shares of the Company;
- that no repurchases will be effected during a prohibited period as defined in the JSE Listings 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 over SENS prior to the commencement of the prohibited period;
- that at any point in time, the Company may only appoint one agent to effect repurchases on the Company's behalf;
- that, in determining the price at which shares may be repurchased in terms of this authority, the maximum premium permitted be 10% above the weighted average traded price of the shares as determined over the five (5) business days prior to the date of repurchase; and
- before entering the market to proceed with the general repurchase, the Company's sponsor will confirm the adequacy of the Company's and Group's working capital in writing to the JSE.

The Board of directors of the Company has no immediate intention to use this authority to repurchase Company shares. However, the Board is of the opinion that this authority should be in place should it become appropriate to undertake a share repurchase in the future.

Having considered the effect in the event that the maximum allowed repurchase is effected, the directors are of the opinion that:

- the Company and the Group will be able, in the ordinary course of business, to pay its debts for a period of 12 months after the date of the repurchase;
- the assets of the Company and the Group will be in excess of the liabilities of the Company and the Group for a period of 12 months after the date of the repurchase. The assets and liabilities have been recognised and measured for this purpose in accordance with the accounting policies used in the latest audited annual Group financial statements;
- the Company's and the Group's ordinary share capital and reserves will be sufficient for ordinary business purposes for a period of 12 months after the date of the repurchase; and
- the Company and the Group will have sufficient working capital for ordinary business purposes for a period of 12 months after the date of the repurchase.

Reason for and effect of the special resolution number 1

The reason for special resolution number 1 is to grant the Company's directors a general authority, up to and including the date of the following annual general meeting of the Company, to approve the Company's purchase of shares in itself, or to permit a subsidiary of the Company to purchase shares in the Company. The effect of special resolution number 1 is to grant a general authority to the Company's directors accordingly.

For purposes of considering the special resolution and in compliance with Rule 11.26 of the JSE Listings Requirements, the information listed below has been included in the annual report to shareholders for the year ended 30 June 2010 at the places indicated:

- Directors and management – refer pages 111 to 113 of this report;
- Major shareholders – refer page 435 of this report;
- For material changes refer page 112;
- Directors' interest in securities – refer page 70 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 437 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 35 to the financial statements on page 365, in terms of section 11.26 of the Listings Requirements of the JSE, the directors, whose names are given on page 437 of the annual 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 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.

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 Monday, 29 November 2010.

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.

FIRSTRAND

FIRSTRAND LIMITED
(Incorporated in the Republic of South Africa)
(Registration number: 1966/010753/06) Share code: FSR ISIN: ZAE000066304 JSE "B" Preference share code: FSRP
JSE ISIN: ZAE000060141
NSX Ordinary Share code: FSR ("FirstRand" or "the Company" or "the Group")

Form of proxy – ordinary shareholders

for the year ended 30 June 2010

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 2010 annual general meeting of the company to be held in the auditorium, FNB Conference and Learning Centre, Grayston Drive, Sandown on Thursday 2 December 2010 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
Adoption of the audited annual financial statements			
Re-election of directors by way of separate resolutions			
2.1 L Crouse			
2.2 PM Goss			
2.3 NN Gwagwa			
2.4 PK Harris			
2.5 AP Nkuna			
Election of directors by way of separate resolutions			
3.1 JJH Bester			
3.2 WR Jardine			
3.3 EG Matenge-Sebesho			
Ordinary resolution number 1			
Non executive directors' fees for the year to 30 June 2011			
Ordinary resolution number 2			
Appointment of joint auditors			
Ordinary resolution number 3			
Auditors' remuneration			
Ordinary resolution number 4			
Place the unissued ordinary shares under the control of directors			
Ordinary resolution number 5			
General issue of ordinary shares for cash			
Special resolution number 1			
Authority to repurchase company shares			

Signed at on 2010

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 in FirstRand ("member") is entitled to attend and vote at the annual general meeting and to appoint one or more proxies to attend, speak and vote in his/her stead. A proxy need not be a member of the Company.

Every member present in person or by proxy and entitled to vote at the annual general meeting of the Company shall, on a show of hands, have one vote only, irrespective of the number of shares such member holds, but in the event of a poll, every ordinary share in the company shall have one vote.

Instructions on signing and lodging the proxy form:

1. A member may insert the name of a proxy or the names of two alternative proxies of the member's choice in the space/s provided overleaf, with or without deleting "the chairman of the annual general meeting", but any such deletion must be initialled by the member. Should this space be left blank, the chairman of the annual general meeting will exercise the proxy. The person whose name appears first on the proxy form and who is present at the annual general meeting will be entitled to act as proxy to the exclusion of those whose names follow.

2. A member's voting instructions to the proxy must be indicated by the insertion of the number of votes exercisable by that member in the appropriate spaces provided overleaf. Failure to do so shall be deemed to authorise the proxy to vote or to abstain from voting at the annual general meeting, as he/she thinks fit in respect of all the member's exercisable votes. A member or his/her proxy is not obliged to use all the votes exercisable by his/her proxy, but the total number of votes cast, or those in respect of which abstention is recorded, may not exceed the total number of votes exercisable by the member or by his/her proxy.

3. A minor must be assisted by his/her parent or guardian unless the relevant documents establishing his/her legal capacity are produced or have been registered by the transfer secretaries.

4. To be valid the completed proxy forms must 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 Monday 29 November 2010. 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.

Shareholders' diary

REPORTING

Financial year end	30 June
Announcement of results for 2011	13 September 2011
Annual report posted by	End October 2011
Annual general meeting	29 November 2011

DIVIDENDS

Final for 2011	
– Declared	12 September 2011
– Last day to trade cum-dividend	14 October 2011
– First day to trade ex-dividend	17 October 2011
– Record date	21 October 2011
– Payment date	24 October 2011

INTERIM FOR 2011

– Declared	March 2011
– Payable	April 2011

www.firstrand.co.za

FIRSTRAND