2009 ANNUAL REPORT

FIRSTRAND

FIRSTRAND LIMITED

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When reading this report

A list of abbreviations and definitions have been supplied on pages 391 to 394 for ease of reference.

Integrated reporting

The primary objective of the FirstRand Group is the generation of sustainable profits. FirstRand takes the view that the interests of shareholders and other stakeholders coincide in the long run. This integrated report aims to provide a balanced and reasonable representation of the financial and non financial performance of the Group for the financial year to 30 June 2009.

THIS REPORT COVERS THE AUDITED FINANCIAL RESULTS OF FIRSTRAND LIMITED ("FIRSTRAND" OR "THE GROUP") FOR THE YEAR ENDED 30 JUNE 2009 and deals with the financial and operating performance of its main business units. The Group consists of a portfolio of leading financial services franchises; these are First National Bank ("FNB"), the retail and commercial bank, Rand Merchant Bank ("RMB"), the investment bank, WesBank, the instalment finance business, OUTsurance, the short term insurer and Momentum, the life insurance business.

FINANCIAL HIGHLIGHTS

Continuing and discontinued operations

	Year ended 30 June		
R million	**2009**	2008	% change
Attributable earnings to ordinary shareholders	**6 501**	11 309	(43)
Headline earnings	**6 939**	9 922	(30)
Normalised earnings (unaudited)	**7 151**	10 583	(32)
Ordinary dividend per share (cents)	**56.0**	82.5	(32)
Normalised net asset value per share (cents) (unaudited)	**938.4**	915.9	2
Normalised return on equity (%) (unaudited)	**14**	22	

Continuing operations (pro forma)

Headline earnings	**6 939**	9 737	(29)
Normalised earnings (unaudited)	**7 151**	10 398	(31)

FirstRand's financial performance and socio economic value added is underscored by non financial performance highlights. Non financial performance indicators 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 includes the non financial highlights for the year ended 30 June 2009.

NON FINANCIAL HIGHLIGHTS (UNAUDITED)

	Year ended 30 June		
	2009	2008	% change
Total workforce (number)	**42 783**	42 370	1
South African workforce (number)	**39 177**	38 863	1
African, Coloured and Indian ("ACI") employees (South Africa) (number)	**26 066**	25 057	4
Retail customers (number '000)[1]	**11 733**	11 459	2
Incidents of serious crime (number)[2]	**84**	162	(48)
Incidents of serious crime: financial loss (R'000)[2]	**6 111**	10 516	(42)
BBBEE procurement spend (R million)	**4 683**	4 084	15
BBBEE procurement spend as % of total procurement (%)[3]	**53**	51	
Corporate social investment (R'000)[3]	**82 967**	96 814	(14)
Financial Sector Charter score (%)	**94**	93	

During the year carbon emissions amounted to 403 725 metric tonnes, and a total of 18 584 000 kilowatt hours was saved, which led to a R6.6 million cost saving.

1 *Excludes FNB Africa.*
2 *SA Retail Banking: FNB South Africa.*
3 *Data reflects calendar year as per the Financial Sector Charter transformation report (FSC Score).*

FIRSTRAND LIMITED

Listed on the JSE and the Namibian Stock Exchange, FirstRand Limited is an integrated financial services group providing a comprehensive range of products and services to the South African market and niche products in certain international markets. FirstRand Limited is one of the largest financial services groups in South Africa by market capitalisation.

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

The Group is differentiated by its portfolio branding strategy and there are a number of leading financial services franchises within the Group, such as Rand Merchant Bank ("RMB"), First National Bank ("FNB"), WesBank, Momentum and OUTsurance.

•

Market capitalisation as at 30 June 2009 was R79.3 billion (2008: R75.0 billion)

•

FirstRand employs 42 783 people, 39 177 in South Africa, 3 239 in the rest of Africa and 367 in other countries.

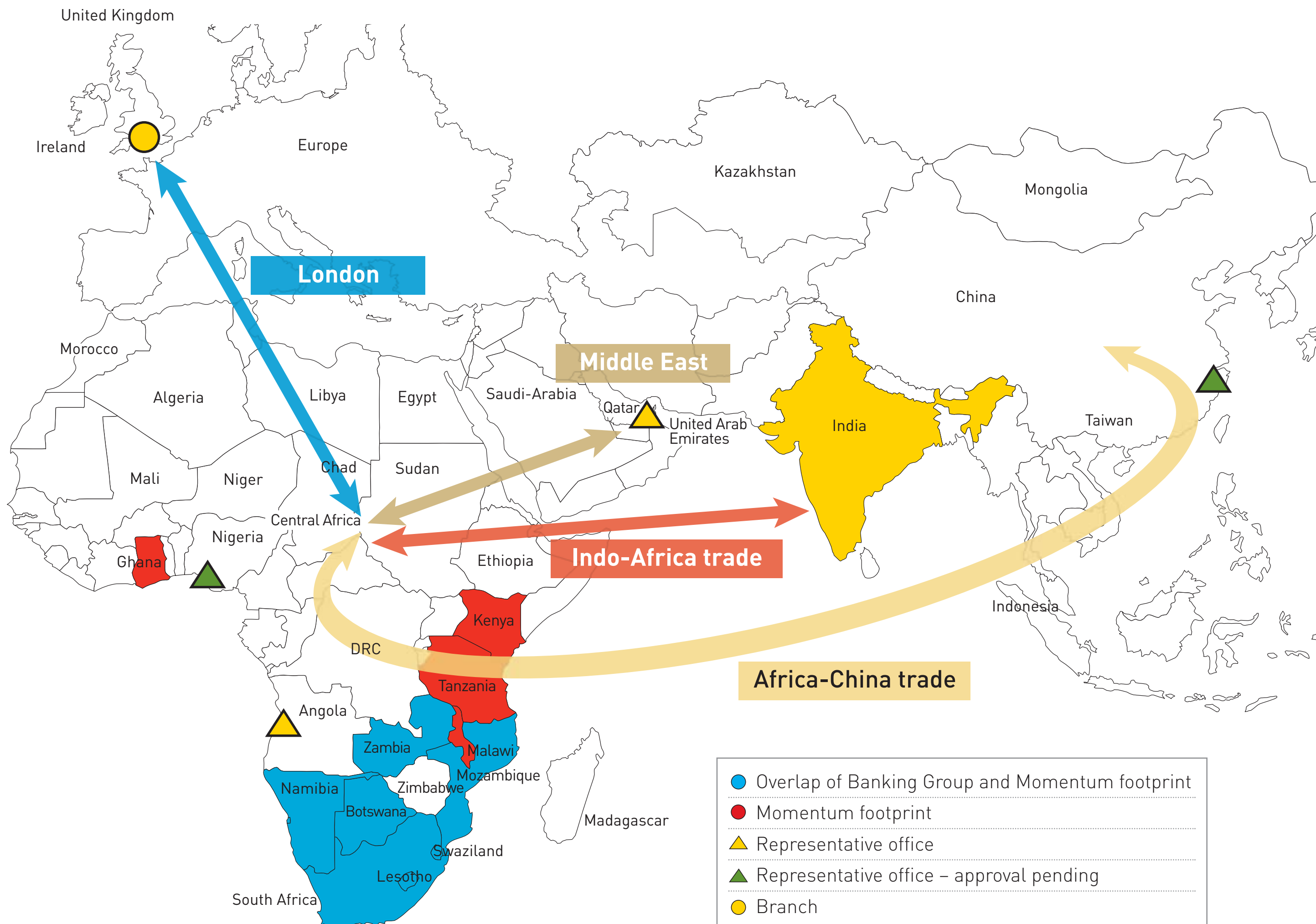
THE GROUP'S STRATEGIC OBJECTIVES

- Committed to unlocking the benefits of the integrated financial services strategy
- Consolidate its position as a leading African financial services group
- Achieve the appropriate balance between client driven activities and proprietary trading or investment businesses
- Improve quality of earnings and reduce volatility

RE-FOCUSED INTERNATIONAL STRATEGY

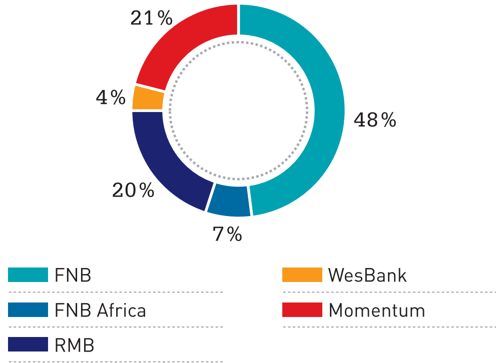
- Operate in markets that strengthen the Group's position as a leading African financial services group
- Focus on Africa and key African-Asian corridors
  - FirstRand India as the bank of choice for Indian entities seeking to do business in SADEC and the greater African region
  - China Construction Bank strategic agreement provides strong support to investment banking activities in Africa
- In the medium to long term consider expanding into selected markets on the other side of trade corridors where a competitive advantage exists
- Utilise the London branch & Middle East presence as sources of capital, funding and deal origination

CORE OPERATING FOOTPRINT



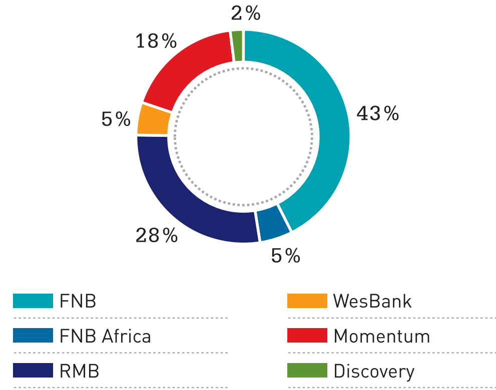
RESULTS HIGHLIGHTS

Normalised earnings by franchise 2009



FNB
FNB Africa
RMB
WesBank
Momentum

Normalised earnings by franchise 2008



FNB
FNB Africa
RMB
WesBank
Momentum
Discovery

The Group's operating brands are presented below

BANKING GROUP

FNB

FNB Africa

RMB

WesBank

Banking Group Support

Total Banking Group

MOMENTUM

Insurance and asset management operations

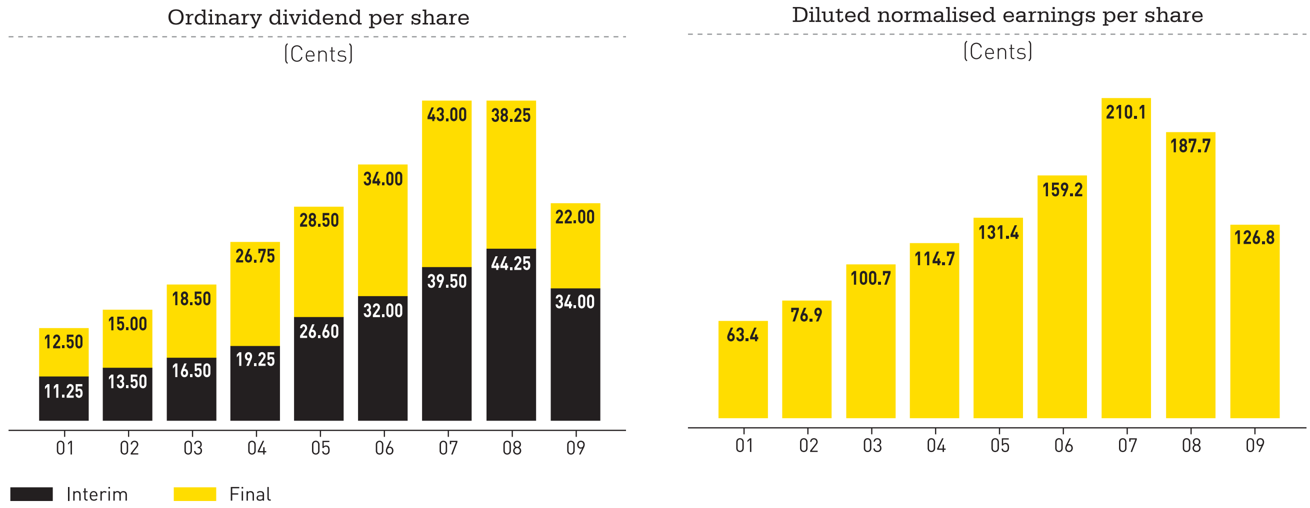
Investment income on shareholders' assets

Total Momentum Group

DISCOVERY

Discovery

In November 2007, FirstRand unbundled all of its 57% shareholding in Discovery. The results to 30 June 2008 outlined in the table above include four months of contribution from Discovery only.



Normalised earnings (R million)		Cost to income ratio (%)		ROE based on normalised earnings (%)		Impairment charge (%)		Non performing loans ("NPLs") (%)		Normalised earnings contribution (%)	
2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
3 756	4 654	57.5	57.3	26	33	2.39	1.55	8.7	4.2	62	53
514	499	52.0	46.9	27	34	0.58	0.72	2.5	2.5	9	6
1 536	3 008	56.6	42.8	12	25	0.43	0.19	1.0	0.7	25	34
324	573	53.8	53.5	7	12	2.86	2.09	5.0	3.2	5	6
(74)	80	–	–	–	–	–	–	–	–	(1)	1
6 056	8 814	58.1	52.6	13	21	1.81	1.19	5.6	2.9	100	100

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 (R million)	
2009	2008	2009	2008	2009	2008	2009	2008	2009	2008	2009	2008
1 328	1 741	60 470	65 338	68 086	72 098	(34 030)	(9 689)	16 086	16 039	81	87
321	263	–	–	–	–	–	–	–	–	19	13
1 649	2 004	60 470	65 338	68 086	72 098	(34 030)	(9 689)	16 086	16 039	100	100

Normalised earnings (R million)	
2009	2008
–	185

Chairman's statement

LAURIE DIPPENAAR [CHAIRMAN]

In his Chairman's statement last year, my erstwhile colleague and co-founder of FirstRand, GT Ferreira, remarked that he was glad he was handing me the Chairmanship of the Group, "after, and not before the most difficult year of our short history". Whilst I appreciate his sentiments he proved to be wrong about the year to June 2008 being the most difficult in the Group's short history. The year under review, to June 2009, proved to be much worse, with FirstRand's diverse portfolio of banking and insurance businesses producing a disappointing performance. Normalised earnings decreased 32% to R7.1 billion with a normalised return on equity ("ROE") of 14% compared to 22% in the previous comparative period.

There are two fundamental reasons for this performance. The first relates to the extremely difficult macro environment, and banks in general are true bell weathers of economic health.

Whilst the global economy has continued to stabilise the outlook remains challenging. The Anglo Saxon banks and respective economies have been saved from calamitous collapse by unprecedented government interventions, the US consumer is not spending but saving and governments all over the world have mortgaged the future at the expense of the tax payer. The unwinding of the massive fiscal and monetary stimulus packages, coupled with rebuilding of balance sheets, particularly in the Anglo Saxon economies, will weigh on global demand for a protracted period. It is expected that the East will emerge stronger than the West.

The South African economy is still facing significant difficulties. Job losses are increasing and the manufacturing sector is still contracting. All of these pressures have a negative impact on banks' earnings.

The South African Reserve Bank has continued to reduce interest rates and this is positive in the medium to long term as it eventually

results in the reduction of bad debts and non performing loans and improved customer affordability levels. However the short term impact is negative on the margins of the banks' deposits as well as the banks' income on the capital endowment, in other words the benefit to earnings from improving bad debts "lags" the decline in gross interest turn on liabilities. The "endowment impact" has been enormous on the income statements of the local banks.

In the near term house prices are expected to remain under pressure, resulting in depressed recovery rates on mortgage security. Wholesale lending portfolios, which have been resilient for a large part of the economic downturn, are still showing signs of stress and it is not clear that the worst is over.

However, all our peers are operating in this same environment and whilst most of them have also reported significant declines in earnings for the period to June 2009, FirstRand fared worse. This relative underperformance is due to our "own goals" which were a direct result of some flawed strategies within the operating franchises of the Banking Group. In retrospect these strategies can now be seen as "bull market" strategies, and they quickly unravelled with the global crisis.

In some cases these were successful strategies for a number of years. RMB's equities trading business based in the UK, which hit our earnings last year, delivered significant positive returns for two years and on the face of it seemed to be a successful foray into the international equity markets. The skills we deployed had certainly proved themselves in the local markets and appeared to have a competitive advantage initially, however, the positions were ultimately too large and we underestimated just how quickly liquidity could dry up in an extremely severe financial crisis.

The same could be said for the Special Projects International ("SPJi") division within RMB, which also appeared, two years ago, to have a compelling three pronged strategy in the international markets:

- focusing on offshore credit assets leveraging off RMB's fundamental credit skills;
- investing in various asset classes in countries that appeared to have above average growth opportunities; and
- investing in an Indian equity fund to capture the expected growth in the economy.

However, when the global credit and equity markets collapsed, these investments moved to a position of disadvantage. With no franchise value underpin, everything came down to the vagaries of the market, resulting in large losses mainly driven by mark-to-market impairments and lack of liquidity.

What is clear from all of this is that our investment and trading businesses did not travel well. Whilst the global crisis was unexpected and unprecedented in scale and depth, a combination of a lack of a real competitive advantage, no underpin of client flows and no franchise value meant that the earnings streams from these strategies were not only unsustainable, but significant losses were inevitable as liquidity disappeared. These businesses have been closed. The offshore equities portfolio is written down to approximately $18 million, however the legacy portfolios of SPJi will be with us for a while. They are illiquid and valuations are very difficult and as markets remain volatile further mark-to market losses may be incurred.

Other strategies in offshore markets also proved over time to be unsustainable. WesBank's Australian lending business could not fund itself once the securitisation market disappeared, an example of how important it is to have a deposit franchise in a foreign country, particularly if you want to lend.

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, BOTH IN THE SOUTH AFRICAN AND INTERNATIONAL OPERATIONS.

A result of these painful experiences is a fundamental shift in the Group's overall strategy in its banking franchises. 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, both in the South African and international operations. 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 ROEs, it will improve quality of earnings and reduce volatility, and still produce acceptable returns to shareholders.

With specific reference to our international expansion, the Group will only enter into selected high growth emerging markets where we believe we have a competitive advantage and a "reasonable expectation to win". The one geography outside South Africa where the Group has successfully grown a sustainable business is the African continent and this is where we will focus our efforts, with the objective of becoming one of the pre-eminent African financial services groups. In his report on page 13 the CEO designate Sizwe Nxasana provides more detail on how the Group plans to execute on this strategy.

The changes that we plan to implement at both a strategic and operational level include re-defining the role of the "centre" of

the Group. There are many benefits to a federal model such as ours, and it is particularly important to fostering an entrepreneurial and innovative culture. However it is important that the centre ensures alignment of the independent operating franchises within Group strategy, and this is an issue that is currently receiving significant focus from the Group's executive management.

It is also important to recognise that the role of the centre is not only about operational efficiencies and regulatory oversight. In a group that sees a competitive advantage in its integrated strategy, the centre's coordination role is critical. It is possible that we are still not leveraging off all of the revenue opportunities that currently exist in and between our businesses. We believe that the structural changes we are making will allow us to better evaluate our approach to opportunities between the existing franchises. In the past, the franchises may have been left to pursue these individually, in the future the centre will take a more rigorously coordinated approach that avoids a duplication of mandates and ensures that not only the franchise, but the Group overall, can benefit. The value of the Group is not only the simple sum of the values of our individual franchises, but the value that we can create by having these individual businesses work together in a tightly integrated manner. This will allow us to capture more of our clients' business and to do so more efficiently than our competitors can.

The creation of Johan Burger's Chief Operating Officer ("COO") portfolio is critical to unlocking the benefits of integration and in his report he outlines some of the existing and new mandates he will be utilising to pursue the opportunities that we believe exist.

Whilst on the subject of management portfolios, it is appropriate to cover an issue that has been top of mind for our shareholders in recent years, namely the eventual shift from an "owner managed" to a "professional managed" business. This has finally transpired with the retirement of Paul Harris as CEO of FirstRand Limited at the end of this calendar year.

Our philosophy regarding management succession is that when one person moves on and a different person takes over it is not the end of one race and the start of another. It is rather like a relay race where "the baton is passed" from the incumbent to the new manager. In order to maintain continuity and momentum the person passing the baton runs alongside the person receiving the baton before and after passing it over. I believe that the retirement of the founders from executive management roles and the requisite succession planning, has been a seamless process. The empowering culture of the Group has ensured a deep and experienced pool of talent and in addition has attracted individuals of exceptional calibre, such as our CEO designate Sizwe Nxasana.

This brings me to the delicate subject of incentivisation, reward and remuneration.

Worldwide the remuneration of bankers features prominently in the media and the speeches of politicians. The global banking industry's pay structures pre the crisis were deemed to incentivise excessive risk taking, and remuneration has been cited as one of the major reasons for the crisis itself. Unacceptable "golden parachutes" resulted in outgoing bank CEOs being vilified by irate citizens, particularly in the UK and USA, and pay structures last year were contained by poor performances and forgone executive bonuses. We are cognisant of the fact there is an expectation from our stakeholders that the Group's remuneration structures will appropriately reflect performance, and be in line with shareholder returns (or lack thereof).

THE EMPOWERING CULTURE OF THE GROUP HAS ENSURED A **DEEP AND EXPERIENCED POOL OF TALENT** AND IN ADDITION HAS ATTRACTED INDIVIDUALS OF EXCEPTIONAL CALIBER, SUCH AS OUR CEO DESIGNATE SIZWE NXASANA.

The Group is extremely aware of the need to align employee remuneration with shareholder returns. At a board level I can report that the Chairman and the board members of FirstRand Limited waived increases that had been approved by shareholders at the 2008 Annual General Meeting. At an executive management level, Paul Harris Group CEO, Sizwe Nxasana Banking Group CEO and Johan Burger COO, all experienced 40% decreases in their performance bonuses (see page 66 of this report). Other senior management suffered severe reductions in bonuses or, in the case of loss making divisions, zero bonuses. In addition, the 2006 and 2007 Share Appreciation Right grants will now never vest due to the failure to meet normalised earnings per share hurdle rates. The employees of the Group are experiencing the same loss of value that FirstRand shareholders experienced. This is appropriate in an organisation that has consistently believed in the alignment between the needs of shareholders and management, and one that believes in rewarding true performance.

Despite the downturn, the "war for talent" continues. The Group has therefore taken the decision, subject to shareholder approval at the Annual General Meeting, to implement a Conditional Share Plan which is not expected to exceed the cost of the current Share Appreciation Rights (Share Option) Scheme. In addition, a special offering of Conditional Shares will be made

to the people we believe will shape the future of the Group. This is an extremely restricted share offer and the Group believes that it is the appropriate mechanism for high level retention.

An important regulatory change that will commence implementation during the new financial year is that FirstRand Limited be registered as the bank controlling company instead of FirstRand Bank Holdings. For some time we have been the only financial services group in South Africa where the bank itself is ultimately controlled by an entity that is not registered as a bank controlling entity. The proposed change, which is to be presented to shareholders for approval at the Annual General Meeting, provides us with the appropriate mechanism to come into line with the rest of the industry. This change in regulatory oversight is appropriate and will not impact the execution of the Group's stated strategy, it will however provide the Group with an opportunity to streamline some of its governance structures.

Despite all of the difficulties we have faced and grappled with this past year, FirstRand's board and management are committed to rebuilding the Group's status with its shareholders. It is clear from feedback we have received directly from investors that the series of negative surprises from the Group throughout 2008 and 2009 created the impression that senior management were not in control of all aspects of the business, especially the risk frameworks. Given this perception, combined with our view that further unexpected volatility in financial markets cannot be ruled out, the Group has elevated the profile of risk management and the ERM function during the past 12 months. The Head of Enterprise Risk Management has been appointed to the Banking Group's executive committee and reports directly to the CEO. Risk management and risk appetite is receiving increased focus at senior management levels.

The performance of the last 18 months, whilst deeply disappointing, does not detract from the robust and established business that we have grown over the last decade. The board and management believe that the actions that are now being taken are an appropriate response to both the mistakes made in the past and the challenging environment we face going forward.

There is no doubt that the year to June 2010 will continue to be difficult with many of the current challenges remaining until the end of 2009 and we anticipate continued subdued economic growth both locally and internationally. By the third quarter of next year, barring any unforeseen circumstances, FirstRand should experience a "mild" turn around as we continue to manage legacy portfolios, and non performing loans and bad debts start to unwind. However, there are many landmines out there – fiscal deficits, inflation fears and imbalances throughout the world – and South Africa is not immune to any of these. Against this background the Group will focus on maintaining a strong balance sheet, preserve its precious capital and execute on its strategy.

WE HAVE A HIGHLY DIVERSIFIED EARNINGS BASE AND **ONE OF THE BEST MANAGEMENT TEAMS IN THE BUSINESS OF BANKING AND INSURANCE** AND THESE ATTRIBUTES WILL BE KEY TO OUR FUTURE SUCCESS. I FEEL CONFIDENT THAT THE GROUP WILL CONTINUE TO SERVE ITS SHAREHOLDERS WELL.

We have certainly felt the effects of this deep and difficult cycle and it has left us wiser and, although slightly bruised, in many ways stronger, and it is important to remember what remains intact. Our entrepreneurial culture, our track record of innovation and the strength of our franchises cannot be disputed. We have a highly diversified earnings base and one of the best management teams in the business of banking and insurance and these attributes will be key to our future success. I feel confident that the Group will continue to serve its shareholders well.

In closing, I would like to propose a vote of thanks to the three directors who retired during the year. Firstly GT Ferreira, who handed over the Group Chairmanship to me in November 2008. GT was Chairman of FirstRand Limited from its inception in 1998, and did an exceptional job steering the business through its first 10 years. I would also like to thank both Robbie Williams, who has also been a non executive director since the creation of FirstRand Limited, and Dennis Falck, for their valuable contributions over the years. Finally I would like to thank FirstRand's outgoing CEO, Paul Harris, whose tenure at the helm coincided with the most challenging financial and economic crisis since the Second World War. Paul's immense energy, vision and true entrepreneurial spirit have been central to the success of this Group, which should not be judged on the past two years – but the past 30 years – and we are extremely fortunate that his knowledge and wisdom will remain available to the Group in his capacity as a non executive.

Laurie Dippenaar
Chairman

Report by retiring CEO

PAUL HARRIS [RETIRING CEO]

INTRODUCTION

In 1931 Keynes famously wrote that "a sound banker is not one who foresees danger and avoids it, but one who, when he is ruined, is ruined in a conventional way along with his peers so that no-one can really blame him." Well the FirstRand Group does not always do things in a conventional way but has weathered a very tough cycle and a particularly challenging year, and is not ruined! In line with its peers, it has been impacted by the high levels of bad debts in the consumer lending books as expected at this point in the cycle. It has also been hurt by losses in its offshore trading portfolios – as expected given the massive volatility in those markets following the credit crisis. However, the Group is in great shape to capitalise on an improving environment.

FIRSTRAND'S UNIQUE CORPORATE CULTURE

Whilst the Group subscribes to sound banking practices there has always been a strong bias for innovation and entrepreneurialism both of which are deeply embedded in the corporate culture of FirstRand. The Group coined the phrase "greenfields" to describe its approach of growing new ventures from scratch. This approach has spawned some major businesses that have contributed significantly to the Group's performance over the years. The bigger ones are RMB Asset Management, RMB Private Bank, RMB Private Equity, Discovery and OUTsurance. The Group still focuses on "greenfields" and there are currently a number of new and fledgling businesses that are expected to be major contributors in the future.

Another characteristic that differentiates FirstRand is the relentless focus on maintaining and inculcating the unique

corporate culture that has developed over many years. Senior management conducts workshops, almost on a monthly basis, aimed at embedding the culture. Under the new management team there will be changes in strategy but the essence of the corporate culture will remain. As GT Ferreira once said, "each successive CEO receives this jewel which they polish and pass on to the next person".

Central to the culture is that FirstRand is an employee-centric organisation that believes in empowering, rather than controlling people. The Group coined the phrase – "owner-manager" – to describe its culture. It means that the appropriate strategic framework is provided and then management is empowered to run their divisions with a minimum of bureaucratic interference.

THE GROUP COINED THE PHRASE – "OWNER-MANAGER" – TO DESCRIBE ITS CULTURE. IT MEANS THAT **THE APPROPRIATE STRATEGIC FRAMEWORK IS PROVIDED** AND THEN MANAGEMENT IS EMPOWERED TO RUN THEIR DIVISIONS WITH A MINIMUM OF BUREAUCRATIC INTERFERENCE.

The Group also remains committed to its multi-branding strategy, another point of differentiation, as it believes in creating champion brands in specific market segments. Alignment, cross sell and cost rationalisation remain important, however, separate brands are more powerful because customers identify with them more strongly. For example, despite FirstRand having a torrid time in the press, recently FNB was voted Number 1 Retail Banking brand in the Sunday Times survey of national brands and RMB swept the boards in the PwC peer group survey and The Dealmakers awards.

FirstRand has always emphasised the benefits of diversification derived from the portfolio of franchises. Therefore while they may not all fire at the same time, what is important is that on aggregate they do well, which has generally been the case. It is important that failure in some divisions, in any particular year, does not bring the house down.

Important to the Group's culture is to "tell it like it is" and consequently it is conservative in its financial reporting. The Group, does not "spin" to its shareholders, sometimes to its detriment. For example, FirstRand was the first bank to warn that performance would be hit hard by the financial crisis and at that time its view was considered controversial and overly bearish by some commentators and shareholders. For the Group however, the deteriorating macro environment came as no surprise, and over time this conservatism, or rather realism, has proved to be accurate and appropriate.

CONVENTIONAL WISDOM OF THE DAY

Looking back it is clear that one of the most difficult challenges facing a CEO is navigating the corporate ship through the conventional wisdom of the day. The investment themes and fads of the day often test managements' resolve and are constant distractions.

In the early days of FirstRand the conventional wisdom was that the branch network of commercial banks was a liability. It was all about internet banking and telephone banking. Branches were too costly. However banks eventually discovered that customers want all the channels, especially the branches. So the branch legacy became an asset, which in FNB's case is a particularly good asset.

The dot-com boom and outsourcing were also fads. Banks needed to have a dot-com strategy and outsource parts of the business. Those that didn't were considered "has-beens" with the favoured banks developing "convergent IT strategies", but the "dot-com bust" taught everyone that technology and the Internet are merely enablers and not the true drivers of sustainable growth in earnings and returns.

And then the big fad - that nearly tripped up the world's financial system – was the obsession with ROE. It turned out that the best way to improve ROE was to maximise leverage and reduce E. When the crash came it brought the financial system to its knees. Fortunately, Southern African banks showed some restraint and no South African bank ever risked "the house" as some of the foreign banks did. This crisis is the worst in living memory. It is a breach of the 100 year flood line. As it turned out, the Group had allocated too much capital to overseas investment and trading and given the unexpected severity of the crisis, lost even more than had been allocated. However, FirstRand was not beaten by the opposition. All the international banks that were also in those activities were swept away by the market crash. Many of them bet, and lost, the "house". FirstRand didn't bet the house, benefited from its diverse portfolio of businesses and lives to fight another day.

The conventional wisdom from about 2004 to 2007 was that banks were judged by market share of advances. Share prices responded after the publication of monthly BA returns. As it turned out the worst vintages for bad debts in this cycle were 2006 to 2008. FirstRand did tighten credit criteria towards the end of the cycle but still suffered from those same vintages, along with its local peers.

Added to this has been the pressure from politicians and the press regarding lending. First it was to provide more debt to the public under the guise of providing widespread "access to finance". Then there was the "accusation" that banks lent recklessly and now the pressure is again to lend more because banks are accused of "strangling the economy".

John Kenneth Galbraith was correct when he said: "The enemy of conventional wisdom is not ideas, but the march of events."

The $64 question of course is how the conventional wisdoms of today will turn out. Are the things that companies are doing today achievable and sustainable? FirstRand management and its board make decisions that are believed to be in the best interests of the company even if they fly in the face of conventional wisdom. The Group encourages its people to question conventional thinking and be innovative. Also, while it is difficult to ignore short term share price performance, it is important to have the fortitude and discipline to ignore the pressure to do things that intuitively don't make sense.

LESSONS LEARNT FROM THE GLOBAL FINANCIAL CRISIS

A big lesson that was learnt from the crisis is that in good times, when making money is easy, things tend to get loose. As Laurie Dippenaar once said "if you don't have a burglary you stop switching on the alarm and stop locking doors". When the cycle turns, bad and sloppy practices are exposed. This is the time to cleanse the system, improve risk management and capital allocation processes and eliminate the fat. This is what has been the Group's strong focus over the past year.

Another lesson is that minimum capital requirements and provisioning proved to be counter cyclical. FirstRand's bad debt provisions, because of the mechanistic manner in which they are calculated, were the lowest at the top of the cycle and highest at the bottom of the cycle. It should have been the other way round. Hopefully the accounting profession will come to its senses and find ways to allow banks to tuck away reserves for rainy days.

The Group recognises the value of its client franchises and operating brands because they provide sustainable earnings. However, the Group will not ignore the substantial but more volatile profit opportunities from investments and trading, focused in areas in which it has established client franchises. Trading and investing is part of FirstRand's DNA and has been a major contributor to the NAV. The Group will continue to pursue these activities but within the more robust process of determining risk appetite and capital allocation.

The Group strives to have a balance in its team. A successful soccer team has good forwards, sweepers, backs and a goalie. If too many goals are let in, then strengthen the defense. However, scoring goals requires good strikers. A match cannot be won with 11 goalies and nor with 11 strikers. FirstRand has improved its defensive line but not at the expense of its forward line.

FUTURE UNDER A NEW CHAIRMAN AND CEO

The new leadership team has put in the hard yards in realigning the strategy post the crisis and there is no doubt that shareholders will reap the rewards.

The Group's philosophy on management succession is that it is like a relay race. The incumbent runs alongside the person taking the baton, hands it over and then continues to run alongside the new runner until he is in his stride. It must be a seamless process and this is what GT Ferreira and I have done in handing over as Chairman and CEO respectively to Laurie Dippenaar and Sizwe Nxasana.

The Group is extremely fortunate to have an excellent board that works very well together under the chairmanship of Laurie Dippenaar. He brings a wealth of experience and is a master at focusing on the real business issues thereby bringing the best out of people.

Sizwe Nxasana is a highly respected leader both internally and externally with an empowering but firm style that is so appropriate at FirstRand. Under him he has a talented and experienced leadership corps that is settled and has a great team spirit. Johan Burger is the consummate banker, respected by all. The franchise CEOs Michael Jordaan, Alan Pullinger, Brian Riley, Nicolaas Kruger and Willem Roos are all on top of their games.

FirstRand has created an environment that breeds good leaders and there are lots of them coming through. The Group's unique corporate culture has been deeply bedded down and it is apparent that even if one considers this to be a "soft issue" when doing business, it has been central to FirstRand's success. Whilst it is appropriate that the new management team stamp their own character and personality on the Group, the essence of the values and corporate culture will prevail.

In conclusion, may I thank the two Chairmen I have served under, GT Ferreira and Laurie Dippenaar, and the board for its support and guidance. Finally, I wish to pay tribute to the fantastic leadership and staff of the greater FirstRand Group for their invaluable contribution to making FirstRand such a special company.

PK Harris

Chief executive officer
(retiring)

Report by CEO designate

SIZWE NXASANA [CEO DESIGNATE]

INTRODUCTION

FirstRand's relative underperformance in the year to June 2009 prompted a review of the Group's strategy and operating model. FirstRand has been a successful integrated financial services group since its formation in 1998, however, recently the Group's performance has been significantly impacted by the size of its exposures in offshore trading and principal investment activities which have borne the brunt of the world financial crisis.

For the Group to reclaim its former leading position, its strategy and to some extent its operating structure, needs to evolve in anticipation of changing trends and in response to the dynamic environment in which it operates.

As management moves from the "founding fathers" to professional managers, the Group has to retain the key characteristics which have made it successful whilst recognising that certain changes are required to produce the next phase of its growth.

FIRSTRAND'S REFINED STRATEGY

Analysing where the Group significantly underperformed, a few key issues were identified. The global financial crisis exposed flaws in RMB's principal investment activities offshore where,

FOR THE GROUP TO RECLAIM ITS FORMER LEADING POSITION, ITS STRATEGY AND TO SOME EXTENT ITS OPERATING STRUCTURE, NEEDS TO **EVOLVE IN ANTICIPATION OF CHANGING TRENDS AND IN RESPONSE** TO THE DYNAMIC ENVIRONMENT IN WHICH THE GROUP OPERATES.

in retrospect, RMB did not have a meaningful competitive advantage in the international markets where its Equity Trading and SPJi divisions operated. In addition, some of WesBank's credit mono-line businesses offshore, such as Carlyle in the UK and MotorOne Finance in Australia, which relied on expensive and sometimes unavailable wholesale and capital markets funding, have been shown to be unsustainable. Finally, risk management needed strengthening.

The 2010 financial year represents an opportunity for the Group to consolidate and refocus. Given the implications of the turmoil in global banking the Group will refine its strategy to achieve a few key objectives, namely:

- become one of the leading African financial services groups;
- through a portfolio of leading franchises, be represented in all significant earnings pools across all chosen market segments playing across the full value chain (lending, transactional, savings and risk-taking);
- effectively leverage off all Group operating platforms and building blocks;
- operate within a shared business philosophy and Group strategy;
- build revenue streams that are diverse and create long term franchise value; and
- deliver sustainable economic profits and returns to shareholders within acceptable volatility.

THE MAIN TENET OF THE INTERNATIONAL GROWTH STRATEGY REMAINS INTACT: **ENTER INTO SELECTED HIGH GROWTH EMERGING MARKETS WHERE THE GROUP BELIEVES IT HAS A COMPETITIVE ADVANTAGE**.

These objectives reflect the inherent strength of the Group's franchises which will now operate within a tighter Group strategy which in turn will ensure greater alignment between the franchises themselves.

The operating franchises remain committed to being the leading franchises in their markets and will focus on growing sustainable economic profits (more important than market share) and excellence in execution with a bias for action.

It is important therefore 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. In addition, the Group's focus on entrepreneurship and innovation will remain one of the Group's primary points of differentiation.

As outlined in the Chairman's statement, going forward there will be an increased focus on building franchises based on client driven activities rather than proprietary trading or investment activities in international operations. In addition, the Group's secondary market activities will link to client activities or leverage the existing primary market position. The Group has already exited the offshore activities of equities trading and SPJi. However, it will continue with the investment businesses represented by the private equity operation in Australia and RMB Resources, as in both of these businesses there is a long track record of successful asset origination, and a demonstrated competitive advantage.

The Group will continue to de-risk its balance sheet and preserve capital. This shift may result in lower ROEs and less dramatic earnings growth than the Group has experienced in the past, however, it will improve quality of earnings and reduce volatility, and still produce acceptable returns to shareholders.

The Group continues to refine its international strategy in line with the need to grow the business whilst preserving capital. The main tenet of the international growth strategy remains intact: enter into selected high growth emerging markets where the Group believes it has a competitive advantage.The approach is appropriate given the impact of the current financial crisis on the global banking industry and the need to prioritise international expansion activities given the scarcity of capital.

Going forward Africa will be the primary focus and FirstRand will use its position in other markets to provide support to its strategy in Africa.

From an operational perspective the Group will focus on leveraging off existing operating platforms in Africa such as client bases, balance sheet, infrastructure, systems and products and services. FNB will be the primary platform for banking in Africa, with WesBank and RMB utilising the platform when appropriate. However, there may be jurisdictions where a different operating platform will provide better opportunities, therefore the Group will remain flexible in its approach.

Momentum has built a presence in 11 African countries and will also look for opportunities to collaborate with FNB. There has been some early progress in Namibia where the life insurance subsidiary of FNB's Namibian operation, which is the current market leader in the entry-level segment, has now added Momentum's Myriad life-cover offering to its suite of products.

"Greenfields" remains FirstRand's primary entry approach. However, the Group will consider corporate action and the acquisition of appropriate operating platforms in order to accelerate the international expansion strategy.

FirstRand's strategy in India will, in the medium term, support the African expansion activities. FirstRand India opened its doors on 2 April 2009 as a licensed branch of FirstRand Bank, and will operate as a scheduled commercial bank targeting the Indo-Africa trade corridor as an entry strategy into India.

The aim is to establish FirstRand India as the bank of first choice for Indian entities seeking to do business in SADEC and the greater Africa region. India and Africa have very strong political and economic ties and trade in the Indo-Africa corridor is expected to increase substantially in the future. India's exports

to Africa amounted to US$11 billion in 2008 and India's imports from Africa were US$14.9 billion in the same period. The largest African trading partners for India include South Africa, Nigeria, Kenya, Angola, Ghana, Tanzania and Mozambique. FNB and RMB have targeted opportunities in Nigeria, Tanzania and Angola in the short-to-medium term, and Ghana and Kenya in the medium-to-long term. This will further strengthen FirstRand India's positioning as a major financial services player in the Indo-Africa corridor.

The Group is currently awaiting regulatory approval for a representative office in Angola, has received conditional approval for a representative office in Nigeria and plans to commence full banking services in Tanzania in the near future. It is also actively looking at opportunities in other selected East and West African markets.

FirstRand India is focused on building a client franchise which operates actively in the corridor, including corporates, financial institutions and government institutions. Its activities will be investment banking, international banking and fixed income and currency and commodity trading.

FirstRand's position as a leading player in Africa as well as being one of the first banks from Africa to enter India, represents a competitive advantage in dominating the Indo-Africa trade corridor.

In addition, FirstRand has identified the China-Africa trade corridor as a growth opportunity and post the year end announced a strategic cooperation agreement with China Construction Bank Corporation ("CCB"), the second largest bank globally by market capitalisation. The Group believes that this cooperation agreement represents a meaningful step in FirstRand's strategy to grow more aggressively in the African continent. CCB provides a significant balance sheet to support FirstRand's investment banking franchise, RMB, which has already completed transactions in 39 countries throughout Africa. FirstRand and CCB are well positioned to participate in the large transactions and investment opportunities expected to emerge in the continent.

FIRSTRAND CORPORATE CENTRE

A number of changes at the centre have and are being made to improve the coordination of the Group's overall strategy and determine and drive the international strategy, which was previously almost entirely formulated and executed at franchise level. A Strategy committee has been formed with its primary task to define the Group strategy. The creation of the COO position will ensure a tighter coordination of strategy execution between the centre and the operating franchises. In his report on page 16, Johan Burger outlines in more detail the mandate and portfolio of the COO.

The Group is very unique in terms of its structure and culture and this translates into a strategy differentiated from its peers. The Group remains committed to its integrated financial services strategy. It believes that in the "new world" of financial services there is more, not less, value to be extracted for shareholders from increased integration between the asset origination capabilities of banks and the gathering of funds by life companies and asset managers. The Group's operating model is particularly well suited to participate in all the profit pools associated with financial services.

PEOPLE AND TRANSFORMATION

FirstRand believes that its people are its single most important resource and will only operate in a market where it can deploy the best talent which shares the FirstRand business values. The Group recruits and develops entrepreneurial self-starters that have a passion for what they do. It empowers them, holds them accountable, and rewards them appropriately.

THE GROUP VALUES DIVERSITY IN ITS PEOPLE, PARTICULARLY WHEN IT CONTRIBUTES TO INNOVATIVE THINKING.

FirstRand strives to acknowledge, understand, accept, value, and celebrate differences among its people with respect to age, class, ethnicity, gender, physical and mental ability, race, sexual orientation, and spiritual practice.

FirstRand is committed to complying with both the letter and the spirit of the Employment Equity Act and the dti Code of Good Practice on Broad Based Black Economic Empowerment, and to move beyond procedural compliance to substantive compliance. The Group regards transformation as a critical business imperative.

Sizwe Nxasana

Chief executive officer
(designate)

Report by COO & CFO

JOHAN BURGER [COO & CFO]

This report represents a high level overview of FirstRand Limited's financial performance, its Balance Sheet Management ("BSM") strategies and how these underpin the overall strategies of the Group and the operating franchises, and the scope and mandate of the newly formed COO portfolio.

Both the BSM strategies and the objectives and deliverables of the COO's portfolio must be seen in the context of the Group's refined strategy, which is covered in detail in both the Chairman's Report on page 6 and the Report of the CEO Designate on page 13.

Financial performance

The Group has experienced its most difficult year, which is reflected in the disappointing financial performance.

Operating in a very difficult macro background, exacerbated by losses from certain international strategies which have now been terminated, FirstRand's diverse portfolio of banking and insurance businesses produced pro forma normalised earnings down 31% to R7.2 billion with a normalised return on equity ("ROE") of 14% compared to 22% in the prior year.

GROUP KEY RATIOS

	Year ended 30 June		%
Unaudited	**2009**	2008	change
Pro forma normalised earnings (R million)	**7 151**	10 398	(31)
Normalised return on equity (%)	**14**	22	

The Group's corporate and commercial banking franchises which operate in the primary and secondary markets, produced acceptable performances, as did the retail franchises, despite the difficult consumer credit cycle. However, the absolute size of retail bad debts, particularly in the residential mortgages portfolio, combined with the losses emanating from the legacy portfolios in the investment bank, significantly impacted overall profitability. The total banking portfolio produced R6.1 billion of normalised earnings, representing a 31% decline on the previous comparative period. Its normalised ROE also declined to 13% (2008: 20%).

BANKING GROUP KEY RATIOS

	Year ended 30 June		%
Unaudited	2009	2008	change
Normalised earnings[1] (R million)	**6 056**	8 814	(31)
Normalised return on equity[2] (%)	**13**	21	
Return on assets (%)	**0.80**	1.50	
Credit loss ratio[3] (%)	**1.81**	1.28	
Cost to income ratio (%)	**58.1**	52.6	

1 *Before deducting preference share dividends.*
2 *After deducting preference share dividends and capital.*
3 *2008 impairment charge after deducting credit insurance amounted to 1.19%.*

The earnings of the insurance subsidiary Momentum were negatively affected by the significant decline and volatility of the equity markets. However, the operational performance remained robust due to the inherent resilience of Momentum's business model, with continued new business growth in the retail and employee benefits businesses. Solid growth in investment income was generated on shareholders' funds resulting from the capital preservation strategy. Overall normalised earnings declined 18% to R1 649 million, with the return on equity at 23%.

MOMENTUM KEY RATIOS

	Year ended 30 June		%
Unaudited	2009	2008	change
Normalised earnings (R million)	**1 649**	2 004	(18)
Normalised return on equity (%)	**23**	30	
Return on embedded value (%)	**3.3**	15	
CAR cover (times) (before dividend)[1]	**1.8**	1.6	

1 *The comparative is pro forma in line with the revised CAR formula that became effective during the current year.*

A breakdown on earnings from the operating franchises is shown below.

	Year ended 30 June		%
Unaudited	2009	2008	change
FNB	**3 756**	4 654	(19)
FNB Africa	**514**	499	3
RMB	**1 536**	3 008	(49)
WesBank	**324**	573	(43)
Group Support	**(74)**	80	>100
Banking Group	**6 056**	8 814	(31)
Momentum Group	**1 649**	2 004	(18)
FirstRand Limited	**(90)**	(11)	>100
Dividends paid on non cumulative non redeemable preference shareholders	**(464)**	(409)	13
	7 151	10 398	(31)

Detailed reviews of the financial and operating performances of the Group's franchises can be found on pages 28 to 48.

FIRSTRAND HAS REFINED ITS OVERALL STRATEGY WITH **THE KEY OBJECTIVE OF IMPROVING BOTH THE QUALITY AND SUSTAINABILITY OF ITS EARNINGS** AND THEREFORE CREATE MORE SHAREHOLDER VALUE OVER THE LONG TERM.

Refined Group Strategy and the role of the COO

As outlined in detail in the CEO Designate Report, given the earnings volatility that the Group has experienced between 2007 and 2009, FirstRand has refined its overall strategy with the key objective of improving both the quality and sustainability of its earnings and therefore create more shareholder value over the long term.

To reiterate, the key components of this refined strategy are:

- through a portfolio of leading franchises, be represented in all significant earnings pools across all chosen market segments playing across the full value chain (lending, transactional, savings and risk-taking)
- effectively leverage off all Group operating platforms and building blocks;
- operate within a shared business philosophy and Group strategy;
- build revenue streams that are diverse and create long term franchise value; and

- deliver sustainable economic profits and returns to shareholders within acceptable volatility.

As stated in the CEO Designate Report the Group remains committed to its integrated financial services strategy as it believes that in the "new world" of financial services there is value to be extracted for shareholders from increased integration between the asset origination capabilities of banks and the gathering of funds by life companies and asset managers. The Group's operating model will provide a platform to participate in all the profit pools associated with lending, transactional and savings activities.

Given this strategic intent one of the key mandates of the COO's portfolio is to systematically and rigorously exploit untapped revenue opportunities presented by the integrated model, particularly those between the separate operating franchises.

The value of the franchises themselves is related to their financial strength, competitive product offerings and ability to generate a particular sustainable return in exchange for a given level of risk. A franchise that is able to generate a higher return for a comparable level of risk to that taken by a competitor is clearly more valuable. Accordingly, one of the Group's objectives is to foster "best-in-class" franchises wherever possible.

However the value of FirstRand is not only the simple sum of the values of the individual franchises' product offerings and returns, but the value that can be created by ensuring these individual businesses work together in a tightly integrated manner.

The COO is also mandated to harness efficiencies from the integration of platforms, processes and functions shared by the individual franchises.

Enhancing performance by realising efficiencies is a process that has already started and initial benefits are likely to be substantial. The Group is currently analysing its investment needs compared to estimated savings and benefits and also any required changes in existing processes. Subsequent phases, such as the continued integration of operational platforms, operating processes and finance systems are naturally more challenging and will require more time, but these should deliver long-run benefits that go beyond simple cost savings. Ultimately the Group seeks to manage and direct its portfolio of businesses much more nimbly and more effectively.

Within the context of the broader Group strategy to play across the profit pools represented by the financial services universe, the COO is also mandated to identify activities that the current portfolio does not cover, and work with the franchises to enter new markets with the appropriate support from the centre.

Holistically and actively managing the earnings profile ultimately relates to creating the optimal structure of the Group's business portfolio, the allocation of resources, risk capacity and the determination of the growth/expansion strategy. The Group benefits from and ultimately creates value for shareholders on the basis of natural hedges in its portfolio that should reduce the overall volatility of its earnings.

Performance measurement and the allocation of capital will be key to ensuring the delivery of an optimal earnings profile.

HOLISTICALLY AND ACTIVELY MANAGING THE EARNINGS PROFILE ULTIMATELY RELATES TO CREATING THE OPTIMAL STRUCTURE OF THE GROUP'S BUSINESS PORTFOLIO, THE ALLOCATION OF RESOURCES, RISK CAPACITY AND THE DETERMINATION OF THE GROWTH/EXPANSION STRATEGY.

The role of the Centre in managing the risk profile of the balance sheet

As outlined in the Chairman's statement many of the changes the Group plans to implement at both a strategic and operational level include redefining the role of the "centre" of the Group. Whilst the Group believes in the benefits of a federal model as it is particularly important to an entrepreneurial and innovative culture, the centre must ensure alignment of the independent franchises with Group strategy and within appropriate risk and performance frameworks.

The centre has ultimate responsibility for the strategic direction of the Group. Furthermore, the centre defines the appropriate risk appetite for the Group and provides a balance sheet and capital strategy to drive financial synergies, ie optimal cost of capital and debt as well as an optional earnings profile.

The Group's earnings are substantially driven by the Group's balance sheet – either directly in the form of net interest income or indirectly in the form of fee income, which is in turn ultimately based on credit activities or trading and advisory services that can be tied to the strength of the Group's franchise and its market position.

For example, setting and executing an appropriate credit strategy – with respect to the existing portfolio and with respect to the origination of new assets – is a potential source of substantial value. A number of changes have been made in this area over the last 12 months and the existing teams in BSM ensure that the Group's core macro economic outlook is translated appropriately into adjustments to the credit strategy and linked into capital and funding considerations. In this respect a productive cycle of evaluating the portfolio vis-à-vis the macro view, adjusting the origination strategy, identifying potential areas for additional hedges and executing these respectively, has been put in place with strong involvement between both the business and the central functions.

Aligning BSM and operating franchise strategies

The overall objective of BSM is to maintain a robust balance sheet and earnings profile "through the cycle". The Group formulates a "core" macro view which is designed to ensure alignment between business strategy and more specific credit, capital and funding strategies within the appropriate risk framework. Going forward the Group plans to ensure greater integration between BSM and the operating franchises as this will ensure a more sustainable growth trend in earnings and returns.

This diagram indicates the actions taken within the past 12 months that have created an integrated effort between the BSM strategies and the franchise strategies and operations.

Integrated approach	Sustainable growth	Response
Earnings	Business strategy	• BU strategy aligned with group funding strategy • Review of business strategy • Exit certain secondary market activities • Build franchise vs risk income • Improve participation in all profit pools • Efficiencies • Improved top down risk appetite • Originate within one macro view
Tail risk protection	Rare events hedging strategy	• Corporate event risk • House price protection • Endowment hedge • Other financial market hedges
Capital	Capital adequacy	• Economic risk covered by permanent tier 1 capital • Take account of pro-cyclicality through targeted bands • Stress testing

The macro view

FirstRand has implemented a single house view to manage both its balance sheet and operating franchise activities. The macro view is a key input into the budgeting and forecasting process, informs credit origination strategies and capital stress testing, directs the interest rate positioning of the banking book and endowment portfolios and is used for tail risk strategies.

BSM is tasked with formulating and communicating this macro economic 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 macro economic environment, a core forecast and two risk scenarios are presented to the business units for each key variable. A severe scenario is also forecast for balance sheet and income statement stress testing purposes. BSM draws on its own research, research from the Group's economists and the research of external research providers in formulating these scenarios and forecasts. Once formulated, the scenarios and forecasts are debated and then communicated to business units.

Credit portfolios are evaluated by analysing the in-force portfolio performance against the current economic environment as set out by the BSM macro economic view. Thereafter strategic and tactical origination decisions are made based on the core view, taking cognisance of the risk view to align portfolios' performances to the Group's overall risk appetite and strategic intent. The positioning of the banking book is also evaluated against the macro view and positioned to optimise earnings against the background of the interest rate forecast, the expected credit environment and the Group's risk appetite.

The macro economic scenarios are also utilised for stress testing purposes. All four scenarios are used in the corporate centre to test the impact of the macro scenarios on the capital and liquidity position and on earnings. The results of the stress testing inform strategy and management actions to mitigate the impact on the balance sheet and income statement.

Credit

The Group has refined its credit risk management approach over the past 18 months and strategies have been put in place for the management of the "in-force" credit portfolio, and for new business origination.

A key area of focus for the "in-force" credit book is careful monitoring of early warning triggers for potential retail delinquencies or corporate credit deterioration. This allows for pro-active identification of potential problem accounts and remedial actions to be taken early on. For example, this has allowed for pro-active restructuring of corporate exposures to improve the credit position. The improvements made to the retail workout process over the past year have also already resulted in a more efficient and effective workout process.

New business origination continues to be closely linked to the Group's medium term macro economic view. This has allowed for more active lending in selected market segments in recent months, given the improved macro economic outlook.

To mitigate the risk of too low loan growth, and the potential spill-over that this may have in exacerbating the economic crisis, the Group is currently looking at a number of initiatives in terms of credit strategy to capture an appropriate level of new business.

Whilst the Group's current new business strategy remains cautious given the house view of lower economic growth, there are a number of areas in the market which still represent the appropriate risk return even in the current market environment. For this reason, the Group is looking to selectively target such areas for more active lending and to ensure that its credit policies are appropriately aligned to this goal, without compromising on the overall credit quality criteria that has been set.

Recent focus areas and actions include:

- an assessment and careful identification of inherently more defensive industries in the large corporate arena where the banking franchises can lend more actively,
- a combination of measures in residential mortgages including:
  - refocusing business origination to lower risk customers;
  - changing the channel mix of business through originating more via branches than through originators. This is a deliberate strategy as existing customers have historically been of a better risk quality;
  - re-contracting of arrangements with mortgage originators to ensure a better alignment of interest in terms of the risk management and cost of loans submitted for approval through this channel;
  - improved granular pricing in home loans resulting in an improvement of average margin relative to prime on new business. New business margin has ranged between prime minus 0.8% to prime minus 1.2% over the last 6 months, compared to prime minus 1.5% for parts of 2007/2008;
  - recognising the benefits from recent interest rate cuts in the assessment of customer affordability, but maintaining an overall conservative approach to affordability on other expense items; and
  - adjusting the loan to value criteria for new loans therefore not applying an "across the board" approach of required deposits but to consider more carefully the circumstances of customers in good standing.

FirstRand maintains its overall cautious stance on new credit origination. However, it will continue to identify attractive sub-sectors in the overall credit market where it can lend more actively without compromising on its credit standards.

Liquidity and funding

The funding and liquidity strategy is integrated within the BSM functions and the strategies of the underlying franchises. The Group funding strategy is to build a very strong retail and commercial deposit franchise and to ensure a flexible and diversified funding base with a strong liquidity underpin.

Domestically the banking sector has a structural reliance on wholesale funding, which is more expensive and short term in nature, therefore the Group aims to create a more balanced funding profile over time. Given the short term nature of wholesale funding, in order to ensure liquidity and a lengthening of the term profile, the Group has built appropriate liquidity buffers, and aims to decrease the reliance on wholesale funding through innovative retail products.

During the year, the Group reduced its international balance sheet asset position, increased liquidity buffers and matched funded the profile to underlying assets. The international balance sheet was surplus funded.

The Group recognises that its international expansion strategy requires an appropriate funding strategy. Given the changes in international markets the Group cannot be competitive if reliant on wholesale funding, therefore matched funding, or the creation/acquisition of a localised deposit franchise in some chosen markets, will be key.

The international platforms in the UK, Dubai and Australia support the funding of the Group's international strategy in so far as they facilitate corporate client business, trade finance and treasury flows.

Tail risk

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 that have large, adverse effects. While earnings absorb expected losses, capital provides a buffer against unexpected losses. As an additional layer of defence against tail risk, the Group has also, in the past, implemented macro economic hedges and endowment hedges with some success.

Capital management

During the global financial crisis the Group met its goal of operating at the upper end of its targeted capitalisation range. Recent events in the international financial markets have increased the focus of stakeholders on both the level and quality of capital in banks. The Group aims to back all economic risks with Tier 1 capital as it offers the greatest capacity to absorb losses. Currently at least 90% of the Tier 1 ratio is equity capital.

The Group is appropriately capitalised under a range of normal and severe scenarios as well as under a range of stress events. It aims to operate within its risk appetite and the associated limits in terms of earnings volatility and the variability of returns on capital in excess of the weighted average cost of capital.

Within the insurance business specifically, the reformulated targeted capital range satisfies the same risk appetite as the previous targeted range and reflects a conservative investment strategy for capital.

SOUTH AFRICAN BANKS HAVE HISTORICALLY REMAINED RELATIVELY UN-GEARED COMPARED TO INTERNATIONAL PEERS. THEREFORE REGULATORY **PRESSURES TO INCREASE TIER 1 CAPITAL LEVELS ARE LIKELY TO HAVE ONLY A MARGINAL IMPACT ON BANKING ROE'S.**

With the introduction of Basel II, capital requirements have become more risk sensitive and thus more cyclical than under the previous regime. This cyclicality is to a large extent driven by external factors that affect the Group's risk measures across various portfolios and that thus drive its capital requirements. In 2008, the targeted capital ratios were raised and at the same time a range for total capital adequacy was introduced, which allows the Group's capital ratios to move within a range through the cycle. The Group expects to operate at the upper end of the range in favourable conditions and for levels to move lower when the cycle turns.

South African banks have historically remained relatively un-geared compared to international peers. Therefore regulatory pressures to increase Tier 1 capital levels are likely to have only a marginal impact on banking ROEs.

The crisis in the financial markets resulted in many banks, including FirstRand, incurring losses in international trading and investment portfolios. This has led to questions from stakeholders regarding lower ROEs going forward as banks reduce risk appetite. From a FirstRand perspective, the component of ROE represented by offshore trading and investment activities, even at the earnings peak, was between 2% and 3% of the Group's total ROE. The Group remains in the business of market and investment risk as it has a particularly good track record in local primary markets. However, as outlined in the CEO Designate Report, these activities will refocus to markets where the business has a real competitive advantage.

The real issue when considering sustainable ROEs going forward is the ability to price appropriately for credit. The current downturn has clearly demonstrated that large parts of the credit market were systematically underpriced in recent years. The Group's ability to price new lending at significantly improved margins is expected to offset higher funding costs and capital levels and should provide support to ROEs going forward.

Johan Burger
Chief operating officer and
Chief financial officer

R million	1999	2000	2001	2002	2003
Balance sheet					
Total assets	202 064	222 791	271 431	374 766	393 674
Advances	93 718	102 667	123 343	175 161	188 112
Deposit and current accounts	115 392	117 559	141 461	201 404	215 637
Total equity	11 014	14 134	16 585	20 306	20 793
Treasury shares	1 272	1 272	1 272	1 272	1 272
Dividend	844	1 035	1 157	1 415	1 715
Total equity before dividend and treasury shares	13 130	16 441	19 014	22 993	23 780
Total equity excluding perpetual preference share capital	11 014	14 134	16 585	20 306	20 793
Assets under administration	255 412	303 683	373 452	473 094	488 242
Income statement					
Earnings attributable to ordinary shareholders	2 489	3 056	3 575	4 495	4 516
Headline earnings	2 483	2 947	3 689	4 734	4 847
Normalised earnings	2 483	2 947	3 450	4 186	5 379
Earnings per share (cents)					
– Basic	45.7	56.1	65.7	82.5	86.2
– Diluted	45.7	56.1	65.7	82.5	84.5
Headline earnings per share (cents)					
– Basic	45.6	54.1	67.7	86.9	92.5
– Diluted	45.6	54.1	67.7	86.9	90.7
Normalised earnings per share (cents)					
– Basic	45.6	54.1	63.4	76.9	102.6
– Diluted	45.6	54.1	63.4	76.9	100.7
Dividends per share (cents)					
– Interim	7.5	9.0	11.3	13.5	16.5
– Final	8.0	10.0	12.5	15.0	18.5
	15.5	19.0	23.8	28.5	35.0
Dividend cover	2.9	2.8	2.7	2.7	2.9
Perpetual preference dividend per share (cents)					
– February	–	–	–	–	–
– August	–	–	–	–	–
Net asset value per ordinary share	2.02	2.60	3.05	3.73	3.97
Shares in issue	5 445.3	5 445.3	5 445.3	5 445.3	5 445.3
Weighted average number of shares in issue	5 445.3	5 445.3	5 445.3	5 445.3	5 241.3
Key Ratios					
Return on average ordinary equity (%)	24.4	24.3	23.3	25.2	22.6
Price earnings ratio	15	13	14	10	7
Price to book ratio	3.4	2.7	2.8	2.1	1.9
Market capitalisation (R million)	37 573	38 117	46 884	41 657	41 602
Closing share price (cents)	690	700	861	765	764

2004	2005	2006	2007	2008	**2009**	Compound growth %
424 821	462 231	602 596	721 559	823 944	**809 851**	15
208 874	221 851	313 885	387 020	446 286	**416 488**	16
219 061	245 793	332 113	421 568	488 423	**478 083**	15
23 912	29 910	36 530	43 548	48 689	**50 004**	16
1 590	3 786	5 792	6 149	6 023	**5 976**	17
1 956	2 767	3 114	3 795	4 523	**3 764**	16
27 458	36 463	45 436	53 492	59 235	**59 744**	16
23 912	26 918	32 011	39 029	44 170	**45 485**	15
529 039	616 348	794 693	900 148	1 022 088	**965 484**	14
5 676	7 137	8 825	11 511	11 309	**6 501**	10
5 727	7 129	8 334	10 854	9 922	**6 939**	11
6 097	7 276	8 958	11 845	10 583	**7 151**	12
109.3	137.3	171.6	222.9	218.2	**124.9**	11
106.8	134.5	166.0	216.6	214.1	**124.7**	11
110.3	137.1	162.1	210.2	191.5	**133.3**	11
107.7	134.3	156.7	204.2	187.8	**133.1**	11
117.4	132.4	159.4	210.2	187.8	**126.8**	11
115.3	131.4	159.2	210.1	187.7	**126.8**	11
19.3	26.6	32.0	39.5	44.3	**34.0**	16
26.8	28.5	34.0	43.0	38.2	**22.0**	11
46.1	55.1	66.0	82.5	82.5	**56.0**	14
2.5	2.4	2.4	2.5	2.3	**2.3**	
–	228.00	356.00	409.70	477.77	**518.94**	
–	360.00	363.00	431.00	511.30	**423.09**	
4.61	5.18	6.22	7.56	8.52	**8.74**	16
5 476.4	5 613.6	5 634.1	5 635.7	5 637.8	**5 637.9**	
5 192.1	5 199.9	5 142.7	5 163.9	5 182.0	**5 206.9**	
25.4	25.2	25.1	28.1	21.5	**13.7**	
9	10	11	11	7	**11**	
2.2	2.7	2.7	3.0	1.5	**1.5**	
55 805	77 861	95 216	127 367	74 983	**79 269**	
1 019	1 387	1 690	2 260	1 330	**1 406**	

R million	1999	2000	2001	2002	2003
Banking Group					
Return on average ordinary equity (%)	20.7	25.0	26.0	27.2	22.2
Cost to income ratio (%)	61.5	60.3	59.9	57.6	57.0
Bad debts as a percentage of advances (%)	1.5	1.3	0.9	1.1	0.8
Bad debts as a percentage of average advances (%)	2.9	1.4	1.0	1.1	0.8
Other operating income as a percentage of total income (%)	52.8	55.5	52.9	53.9	44.4
Return on average total assets (%)	1.2	1.5	1.6	1.6	1.5
Interest margin on average advances (%)	4.9	4.8	4.8	4.3	5.0
Momentum Group					
Return on average ordinary equity (%)	22.4	25.0	27.4	28.6	27.0
New business	29 153	30 594	28 740	31 151	25 975
Funds received from clients	32 628	34 461	32 751	35 848	30 307
Net flow of funds	13 399	12 439	4 685	3 724	2 247
Embedded value	8 340	9 391	10 306	9 532	10 002
Exchange rates					
Rand/US$					
– Closing	6.03	6.77	8.07	10.31	7.56
– Average	5.95	6.40	7.42	9.19	8.89
Rand/£					
– Closing	9.51	10.26	11.35	15.75	12.47
– Average	9.63	9.88	10.81	14.81	14.12
Balance Sheet[1] US$					
Total Assets	33 510	32 896	33 647	36 350	52 090
Advances	15 542	15 159	15 290	16 989	24 890
Deposit and current accounts	19 136	17 358	17 536	19 535	28 532
Total equity	1 827	2 087	2 056	1 851	2 751
Assets under administration	42 357	44 841	46 294	45 887	64 603
Income Statement[2] US$					
Earnings attributable to ordinary shareholders	418	477	482	489	508
Headline earnings	417	460	497	515	545
Normalised earnings	417	460	465	456	605
Balance Sheet[1] £					
Total Assets	21 259	21 717	23 912	36 350	31 564
Advances	9 860	10 008	10 866	16 989	15 082
Deposit and current accounts	12 140	11 459	12 462	19 535	17 289
Total equity	1 159	1 378	1 461	1 851	1 667
Assets under administration	26 871	29 602	32 900	45 887	39 146
Income Statement[2] £					
Earnings attributable to ordinary shareholders	258	309	331	489	320
Headline earnings	258	298	341	515	343
Normalised earnings	258	298	319	456	381

1 The balance sheet is converted using the closing rate as disclosed.
2 The income statement is converted using the average closing rate as disclosed.

2004	2005	2006	2007	2008	**2009**	Compound growth %
24.2	24.2	23.6	27.4	21.5	**12.9**	
57.5	56.6	53.8	51.7	52.6	**58.1**	
0.4	0.3	0.4	0.7	1.3	**1.8**	
0.4	0.3	0.5	0.8	1.2	**1.8**	
49.6	55.1	59.0	59.8	55.3	**52.8**	
1.8	1.8	1.7	1.9	1.5	**0.8**	
4.5	4.3	4.0	4.0	4.1	**4.1**	
24.3	24.5	24.1	25.3	30.3	**22.6**	
28 734	42 689	59 403	56 097	65 338	**60 470**	8
33 171	47 226	64 661	62 268	72 098	**68 086**	8
727	3 562	2 069	40 011	9 689	**34 030**	10
9 666	11 856	14 438	15 453	16 039	**16 086**	7
6.18	6.68	7.13	7.07	7.82	**7.73**	
6.77	6.19	6.44	7.21	7.30	**8.88**	
11.20	11.97	13.15	14.17	15.60	**12.71**	
11.83	11.50	11.48	13.99	14.66	**14.08**	
68 741	69 243	84 516	102 059	105 364	**104 794**	12
33 798	33 234	44 023	54 741	57 070	**53 893**	13
35 447	36 820	46 580	59 628	62 458	**61 864**	12
3 869	4 481	5 123	6 160	6 226	**6 470**	13
85 605	92 330	111 458	127 319	130 702	**124 933**	11
838	1 152	1 370	1 597	1 549	**732**	6
846	1 085	1 260	1 450	1 359	**781**	6
900	1 175	1 391	1 643	1 450	**805**	7
37 932	38 622	45 825	50 922	52 817	**63 699**	12
18 650	18 537	23 870	27 313	28 608	**32 759**	13
19 560	20 537	25 256	29 751	31 309	**37 604**	12
2 135	2 499	2 778	3 073	3 121	**3 933**	13
47 238	51 499	60 433	63 525	65 518	**75 940**	11
480	621	769	823	771	**462**	6
484	585	707	776	677	**493**	7
516	633	780	847	722	**508**	7

R million	2009	% composition	2008	% composition	% change
FNB	**3 756**	**53**	4 654	44	(19)
RMB	**1 536**	**21**	3 008	28	(49)
WesBank	**324**	**5**	573	5	(43)
FNB Africa	**514**	**7**	499	5	3
Momentum	**1 328**	**18**	1 741	17	(24)
Group Support	**247**	**3**	343	3	(28)
Banking Group	**(74)**		80		
Momentum Group	**321**		263		
FirstRand Limited (Company)	**(90)**	**(1)**	(11)	–	>100
Dividend payment to non cumulative non redeemable preference shareholders	**(464)**	**(6)**	(409)	(4)	13
Normalised earnings from continuing operations (unaudited)	**7 151**	**100**	10 398	98	(31)
Discovery	**–**	**–**	185	2	(100)
Normalised earnings from continuing and discontinued operations (unaudited)[1]	**7 151**	**100**	10 583	100	(32)

1 *Refer below for description of normalised earnings.*
2 *For a detailed reconciliation on normalised earnings refer to note 46.*

DESCRIPTION OF NORMALISED EARNINGS

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

These unaudited adjustments are consistent with those reported at 30 June 2008.

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 share 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 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:

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

Treasury shares: FirstRand shares held by policyholders

FirstRand shares held by Momentum Group are invested for the risk and reward of its policyholders, not its shareholders, and consequently the Group's shareholders are not exposed to the fair value changes on these shares. In terms of IAS 32, FirstRand Limited shares held by Momentum Group on behalf of policyholders are deemed to be treasury shares for accounting purposes. The corresponding movement in the policyholder liabilities is, however, not eliminated, resulting in a mismatch in the overall equity and income statement of the Group.

Increases in the fair value of Group shares and dividends declared on these shares increases the liability to policyholders. The increase in the liability to policyholders is accounted for in the income statement. The increase in assets held to match the liability position is eliminated. For purposes of calculating normalised earnings, the adjustments described above are reversed and the Group shares held on behalf of policyholders are treated as issued to parties external to the Group.

FIRSTRAND

The listed holding company

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]
- 100% → FNB Lesotho
- 59% → FNB Namibia[6]
- 100% → FNB Swaziland
- 70% → FNB Botswana
- 100% → FNB Moçambique
- 100% → FNB Zambia
- 47% → OUTsurance[3]
- 100% → FNB Insurance Brokers
- 100% → FirstRand International
  - – Ireland
  - – Mauritius
  - – Australia
- 100% → eBucks

100%

FirstRand Investment Holdings (Proprietary) Limited

Unregulated activities[4]

- 82% → RMB Private Equity Holdings
- 87% → RMB Private Equity
- 100% → RMB Stockbroking[5]
- 100% → FirstRand International Wealth Management
- 40% → Eris Property Holdings
- 50% → RMB Morgan Stanley
- 65% → Rentworks
- 33% → Tracker

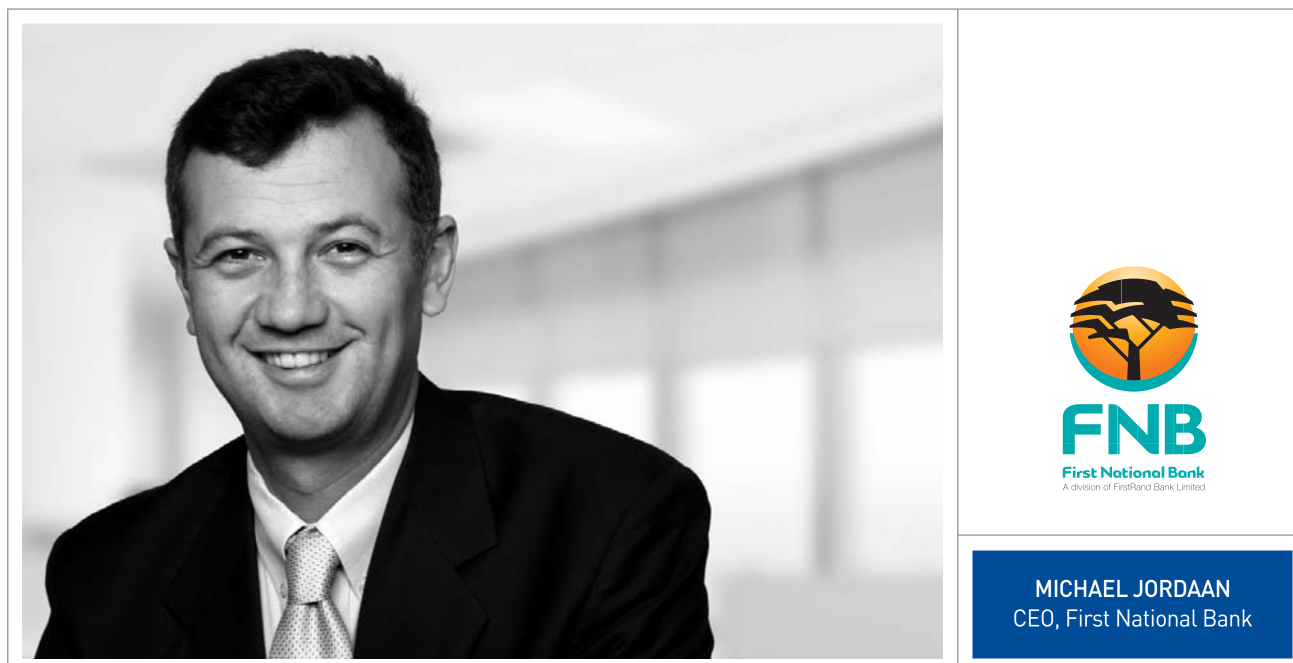
100%

Momentum Group Limited

Insurance & Asset Management

- 100% → Momentum Insurance[1]
  - FNB Insurance[1]
- 85% → Advantage Asset Managers
- 100% → Momentum Medical Scheme Administrators
- 100% → AdviceAtWork
- 100% → RMB Asset Management
- 100% → Momentum Africa
- 50% → Momentum Short Term Insurance
- 35% → Swabou Life

1 Division
2 Branch
3 Effective shareholding in FirstRand Short Term Insurance Holdings Limited
4 For segmental analysis purposes, entities included in FirstRand Investment Holdings are reported as part of Banking Group Supersegment within the respective franchise results
5 Regulated by the JSE
6 Includes 65% of Swabou Life



MICHAEL JORDAAN
CEO, First National Bank

FNB – SOUTH AFRICA

R million	Year ended 30 June 2009	2008	% change
Normalised earnings	**3 756**	4 654	(19)
Return on equity based on normalised earnings (%)	**26**	33	
Income before indirect tax	**5 317**	6 698	(21)
Indirect tax	**(257)**	(353)	(27)
Income before direct tax	**5 060**	6 345	(20)
Advances	**204 370**	207 658	(1)
Total deposits	**192 550**	192 467	–
Assets under management	**41 927**	48 198	(13)
Cost to income ratio (%)	**57.5**	57.3	
Non performing loans (%)	**8.7**	4.2	

R million	Year ended 30 June 2009	2008	% change
Mass	**1 215**	1 160	5
Consumer segment	**(292)**	1 159	(>100)
– HomeLoans	**(1 754)**	(381)	(>100)
– Card (Issuing)	**(108)**	106	(>100)
– Other Consumer	**1 570**	1 434	9
Wealth segment	**298**	444	(33)
Commercial segment	**2 723**	2 908	(6)
Corporate segment	**776**	676	15
FNB Other and Support	**340**	(2)	>100
Total FNB	**5 060**	6 345	(20)

INTRODUCTION

The year under review remained difficult given elevated levels of consumer indebtedness, a recessionary operating environment and high levels of local and global economic uncertainty. FNB's performance was satisfactory, given the challenging economic conditions during the year, and can be ascribed to the following:

- a diversified retail portfolio which continued to show good growth in non interest revenue and deposits;
- whilst the retail lending portfolios experienced continued increases in non performing loans ("NPLs") and bad debts, the arrears in the mortgages book (which is the most significant) appear to have reached a plateau;
- stringent credit strategies resulted in better quality of new business written in retail lending books, particularly credit cards and mortgages;
- strong franchises in the Commercial and Corporate segments continued to deliver profitability, although the Commercial segment's deposit margins were negatively impacted by the endowment effect of reducing interest rates; and
- a relentless focus on cost management resulted in an increase of only 6% in operating expenses.

CHANGES IN STRUCTURE AND SEGMENTATION

The FNB ATM business was transferred from the Mass segment to FNB Other and Support (Branch Banking) with effect from 1 July 2008. The historical results have been restated accordingly.

As previously reported, FNB's segment view is not a "pure" indication of FNB's penetration into each segment as it depends on the categorisation of products into segments, as well as internal service level and revenue arrangements. In addition segmentation refinements, such as increasing the segmentation cut off due to market changes is ongoing.

THE YEAR UNDER REVIEW

FNB produced a satisfactory set of results in challenging economic circumstances with profit before tax decreasing 20% from R6 345 million to R5 060 million. The return on equity remained robust at 26%.

Interest income decreased 1%, impacted by the following issues:

- increasing NPLs on which interest is suspended;
- lower balance sheet growth, specifically in retail advances; and
- negative endowment effect of reducing interest rates on deposit margins.

Bad debts increased to 2.39% (2008: 1.55%) of average advances. This increase is in line with expectations, given the significant change in the economic environment and the "lag" between

STRINGENT CREDIT STRATEGIES RESULTED IN BETTER QUALITY OF NEW BUSINESS WRITTEN IN RETAIL LENDING BOOKS, PARTICULARLY CREDIT CARDS AND MORTGAGES.

interest rate cuts and the reduction of bad debts. The increase also reflects the reduction in advances growth combined with the result of "set off" in specific instances within the corporate segment (representing a decrease in advances and deposits of approximately R7 billion).

The increase in the bad debt charge was largely driven by residential mortgages at 1.63% (2008: 0.84%) of average advances. FNB HomeLoans represents the largest component of residential mortgages as detailed in the table below.

R million	Advances	Impairment charge	Bad debts to average advances (%)
Affordable Housing	4 563	16	0.38
FNB HomeLoans	110 428	2 287	2.05
Wealth	32 968	77	0.25
Total residential mortgages	**147 959**	**2 380**	**1.63**

Card Issuing's bad debts as a percentage of average advances increased to 11.18% (2008: 8.87%). Card Issuing's bad debt charge incorporates R145 million arising from the decision to write off NPLs after six months (previously 12 months).

Non interest revenue increased 11% on the back of 4% growth in customer numbers to 6.5 million, below inflationary price increases as well as increased transactional volumes.

Operating expenses increased only 6%. This below inflation increase is the result of a 5% decrease in total head count which contained staff cost growth to 6%. This was, however, partly offset by variable costs associated with increased volumes, higher property expenses, ongoing investment in the brand (FIFA sponsorship), together with infrastructure investments and the cost of process improvements. Costs relating to collections activities, insurance, fraud and related losses continued to increase.

Despite good growth in money market accounts (+18%) and total consumer deposits increasing R6 billion (+8%), overall deposits remained at R193 billion. This was due to the impact of allowed set off of LROS gross up and daily volatility on corporate deposits, which resulted in a R8 billion or 18% decrease.

Advances decreased R3 billion or 2% to R204 billion, with the Corporate segment (-R7 billion) and FNB HomeLoans (-R2 billion) the main contributors to the decline, while the Mass, Wealth and Commercial segments delivered double digit increases. Growth in residential mortgages of R3 billion was significantly down compared to the previous financial year.

Assets under management decreased 13% to R42 billion on the back of significantly larger declines in both local and international markets.

SEGMENT PERFORMANCE

Mass (Smart Solutions)
Smart and Mzansi accounts
Microloans (SmartSpend)
Cellphone banking and Prepaid products
Housing finance (SmartBond & Smart Housing Plan)
FNB Life
FNB Connect

This segment focuses on individuals earning less than R81 000 per annum and is principally serviced by FNB Smart branded products and services.

The segment performed well during the year under review with profit before tax increasing 5% from R1 160 million to R1 215 million.

The main driver of this segment's performance was strong growth in interest income, which increased 13%. This was mainly as a result of advances increasing 22% to R8 billion and deposits growing 5% to R8 billion. The advances growth relates to the SmartSpend, Smart Housing Plan and SmartBond products, where new business increased 12%.

Non interest revenue growth was also strong at 20% driven by an overall 7% increase in revenue generating transactions, including debit card transactions (+22%). Strong growth in prepaid airtime (+70%) and revenue from loan products (+50%) also contributed positively. The active account base marginally increased to 3.5 million which contributed to the overall transactional volume growth.

Impairment charges were contained at approximately R402 million (2008: R190 million) despite the economic climate. The bad debt charge at 5.90% (2008: 3.81%) of average advances remains below expectations.

Operating costs increased 17% driven mainly by growth in variable costs relating to increased transactional volumes as well as collection activities and ongoing investment costs, including the launch of FNB Connect. InContact SMS volumes grew 24% to 655 million for the year.

By June 2009 cellphone banking had over 1.5 million registered customers. The use of this channel provides convenience and cost efficiencies to customers and, in conjunction with InContact, is expected to further increase market share of prepaid airtime sales.

FNB Life continued to show good growth, however, given the current economic environment, policy lapse rates have increased. The in-force policies currently total 3 million representing a 15% growth on June 2008, driven by exceptional volumes in funeral policies. This was offset by declines in products that may be viewed as non essential, such as Law-on-Call and Personal Accident where high lapse rates are being experienced.

BY JUNE 2009 CELLPHONE BANKING HAD OVER 1.5 MILLION REGISTERED CUSTOMERS. THE USE OF THIS CHANNEL PROVIDES CONVENIENCE AND COST EFFICIENCIES TO CUSTOMERS AND, IN CONJUNCTION WITH INCONTACT, IS EXPECTED TO FURTHER INCREASE MARKET SHARE OF PREPAID AIRTIME SALES.

Consumer
Cheque & Transmission products (including overdrafts)
Investments & equity products
Personal loans (including Student loans)
FNB Insurance Brokers
eBucks
HomeLoans (including One Account)
Card Issuing

This segment focuses on providing financial services solutions to customers with incomes ranging from R81 000 to R1 million per annum as well as certain sub segments (youth and teens, students, graduates and seniors).

The segment continued to face extremely challenging trading conditions and recorded a loss before taxation of R292 million. This decline is largely attributable to FNB HomeLoans which recorded a loss of R1 754 million.

The single largest contributor to the loss was the significant increase in bad debts to R4 066 million (2008: R2 410 million) or 3.19% (2008: 1.99%) of average advances as a result of the increase in NPLs to 10.5% (2008: 5.4%) of advances.

Interest income declined 2% to R4 422 million as a result of the increase in interest suspended on NPLs, higher liquidity costs and lower balance sheet growth.

Non interest revenue grew 8%. The lack of growth in transactional volumes reflects the very high levels of customer debt in this segment and that disposable income is under significant pressure.

Advances decreased 3% to R126 billion with a slowdown across all lending categories.

Deposits grew 7% to R55 billion driven by growth in money market accounts (13%) and fixed deposits (7%), offset by lower growth in current account balances.

The increase in operational expenses was contained at 2% as a result of certain efficiency and cost saving initiatives. However, these were to some extent offset by the impact of higher inflation together with costs associated with increased collections activity.

FNB HomeLoans

Several factors, including the previous high average interest rates, high inflation, declining property values, low customer affordability levels and the introduction of the National Credit Act ("NCA") contributed to the residential property market deteriorating further during the year.

FNB HomeLoans reported a loss of R1 754 million for the year. This loss was driven by the significant rise in the bad debt charge to R2 287 million resulting from an increase in NPL balances to over R11 billion and substantial increases in interest suspended. Increased cost of funding also placed pressure on margins. The impact of the recent reductions in interest rates, together with improved collections processes, has started to have a marginal benefit on NPLs, with the month of June 2009 reflecting a slight decrease in net NPLs for the first time.

Advances contracted 2% to R110 billion, which resulted from new sales declining 71% and re-advances declining 8%, and sales are expected to remain under pressure.

FNB HomeLoans' overall new business market share decreased to 15.5% (2008: 16.5%) as a direct result of the deliberate origination strategy to shift new business mix towards lower risk customers. FNB's market share of these lower risk customers increased during the year.

Non interest revenue remained relatively flat as increased pricing and bancassurance profit share were offset by reduced volumes and lower One Account transactional activity.

Operating expenses declined 13% due to the active focus on cost management which included headcount reductions and increased collections efficiency.

Card Issuing

Card Issuing incurred a loss of R108 million (2008: R106 million profit) mainly due to a change in its write off policy. Excluding the impact of this change in policy, Card Issuing generated a profit before tax of R37 million.

The bad debt charge of R1 355 million (2008: R1 084 million) represents 11.18% (2008: 8.87%) of average advances. Excluding the impact of the change in the write off policy, the bad debt charge would have been 9.98% of average advances. NPLs increased to 12.3% (2008: 11.8%) of advances.

Interest income increased 5% to R1 182 million. Despite the decrease in advances of 6% the margin was higher than in the comparative period as a result of active margin management. Non interest revenue increased 6% on the back of market share increases of spend at point of sale, together with annual pricing adjustments.

Operating expenses increased 6%. The containment of operating expenses below inflation was achieved through a focus on efficiencies and cost containment.

Wealth

RMB Private Bank
FNB Private Clients
FNB Trust Services
FirstRand International Wealth Management ("FRIWM")

The wealth segment's profit before tax decreased 33% to R298 million due to slower revenue growth and higher investment cost. Strong annuity income, a sound balance sheet and continued focus on achieving revenue diversification while focusing on efficiencies has continued to support the operating fundamentals of this segment. Profit before tax reduced 29% at RMB Private Bank while FNB Private Clients decreased profits 2%. FNB Trust Services increased profits 7%.

Interest income declined 5% to R721 million, despite the strong growth in advances (20%) and deposits (12%). This decline was due to the negative endowment impact on deposit margins, increased funding costs and interest suspended on NPLs.

Bad debts decreased to 0.25% (2008: 0.36%) of average advances largely due to a mix change in arrears and NPLs towards lower loan to value residential credit facilities. NPLs increased to 6.5% (2008: 2.2%) of advances, primarily as a result of the refinement of the NPL definition.

Non interest revenue grew 4%, positively impacted by the significant focus on banking related income, specifically international banking, but offset by negative growth in asset management fees due to the turmoil in the equity markets. Net new business inflows were positive despite the 13% drop in assets under management.

Operating expenditure increased 17% largely due to higher staff and investment costs.

Commercial

SMMEs, Small Business, Business and Mid Corporate
Overdraft and transactional products
Investment products
Term loan financing including Commercial Property Finance
Niches: Agric, BEE funding, Franchises, Tourism and Start-ups

This segment provides financial solutions, including working capital, structured finance, investment products, transactional banking and term loans to mid corporate and business customers.

The segment produced satisfactory results given the challenging economic environment with profit before tax decreasing 6%.

Interest income remained flat due to increasing NPLs requiring interest to be suspended, the impact of higher funding costs, lower balance sheet growth, and in particular, the endowment impact. Bad debts increased to R389 million or 1.53% (2008: 0.91%) of average advances. NPLs increased to 6.0% (2008: 2.1%) of advances mainly due to a significant increase in the NPLs for commercial property finance.

Non interest revenue growth of 13% was mainly attributable to electronic banking (+21%), core banking solutions (+13%) and Speedpoint (+9%). International banking's non interest revenue growth was subdued at 9% mainly due to a slowdown in import/export activities.

Operating costs increased 12% primarily driven by variable costs associated with increased volumes, but partly offset by a decrease in headcount and a focus on property and asset optimisation.

As a result of the ongoing strategic focus to attract and retain deposits, balances increased 4% to R61 billion. Money market products were the main contributor to the growth due to the higher rates and transactional functionality of these products.

Advances increased 11% to R27 billion driven by positive growth in overdrafts, agricultural loans and commercial property.

Corporate

Corporate transactional banking services and associated working capital solutions
Speedpoint (Card acquiring)
Bulk cash
Electronic banking
International banking
Custody services

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 assistance in order to optimise cash flow and working capital requirements.

Profit before tax grew 15%, mainly as a result of strong growth in interest income (26%) and contained operating expenditure (+3%).

Bad debts as a percentage of average advances improved to 0.58% (2008: 0.64%) while NPLs as percentage of advances increased slightly to 0.96% (2008: 0.91%). Both ratios need to be seen against the decrease in advances of R7 billion to R9 billion (or 43%). Excluding LROS gross up, advances increased R400 million or 16%, mainly driven by higher utilisation of working capital facilities.

Deposits decreased R8 billion or 18% to R35 billion, however, before LROS setoff, deposits decreased 2% to R30 billion. Margins experienced some erosion in order to attract these deposits, exacerbated further by competitor activity and client pressure.

Non interest revenue was flat mainly due to the downturn of the economic cycle. The electronic channels continued to contribute to growth with volume increases of 13% in FNB Online and 9% in SpeedPoint. This was however offset by below inflation pricing increases and volatile global and equity markets negatively impacting international banking and custody activities. FNB Online developed and implemented new product offerings that increased sales to both existing and new clients and SpeedPoint increased its footprint of point of sale devices 14%.

FNB Other and Support

Included in FNB Other and Support is public sector banking, branch banking, marketing, human resources and support services.

Public Sector Banking

The segment offers transactional banking services and products to the three spheres of Government namely 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 continued strong cash flows in government entities for a greater part of this period. This resulted in satisfactory growth of deposit balances (+22%).

FNB's focused approach to the public sector market continued to yield positive results in the form of business gained and retained. Profit before tax increased 47% and this was achieved through a focus on customised client offerings backed by service excellence.

Branch Banking (including Self Service Channel)

Branch Banking represents the infrastructure through which FNB services its 6.4 million customers. The table below shows that whilst there was a decrease in its representation points due to the continual rationalisation of branches, FNB continued to grow its ATM network in line with the strategy to enhance client self service capabilities.

	Year ended 30 June		%
	2009	2008	change
Representation points (Branches, agencies, Bank on Wheels, etc)*	**687**	712	(4)
ATMs	**5 311**	4 800	11

**Approximately 24% (2008: 26%) of FNB's points of representation are positioned in designated Financial Sector Charter communities.*

THE YEAR AHEAD

FNB will continue to focus on its objective to produce sustainable ROE's and profit growth through a combination of innovative, customer orientated financial services solutions and convenient, efficient, value added services.

The following will receive specific attention:

- improvement in customer services levels;
- enhancing customer profitability by increasing share of wallet and increased cross-sell;
- refinement of FNB's collections practices and processes;
- continuation of the efficiency drive and in particular cost management;
- credit origination through own channels; and
- investment in infrastructure and innovation.

FNB believes its close association with the *FIFA 2010 World Cup* will enable it to actively grow the customer base, leverage existing customer relationships and cement the basis for sustainable growth well beyond 2010.

FNB AFRICA

The consolidated results of FNB Africa comprise the subsidiaries FNB Botswana, FNB Namibia, FNB Swaziland, FNB Moçambique, FNB Lesotho and since 1 April 2009, the greenfields start up FNB Zambia as well as the support centre in Johannesburg.

	Year ended 30 June		%
R million	**2009**	2008	change
Normalised earnings	**514**	499	3
Return on equity based on normalised earnings (%)	**27**	34	
Income before indirect tax	**1 252**	1 090	15
Indirect tax	**(30)**	(27)	11
Income before tax (before VISA and Swabou profits)	**1 222**	1 063	15
Add: VISA and Swabou profits	–	93	
Income before direct tax	**1 222**	1 156	6
Attributable earnings	**516**	533	(3)
Advances	**17 519**	15 755	11
Total deposits	**25 326**	23 867	6
Cost to income ratio (%)	**52.0**	46.9	
Non performing loans (%)	**2.5**	2.5	

Infrastructure

	Year ended 30 June		%
R million	**2009**	2008	change
Representation points (branches, agencies)	**91**	82	11
ATMs	**479**	421	14

INTRODUCTION

The global economic crisis, particularly the impact of falling commodity prices, had a strong influence on the economies of Botswana and Namibia. Growth in these markets slowed, resulting in increased unemployment and a reduction of foreign currency flows and trade activity. Government spending came under pressure and current account deficits increased.

Strict monetary policies in all the countries have resulted in declining inflation and interest rates, placing pressure on margins, particularly in the second half of the financial year. However, the FNB businesses continued to produce robust profitability, firstly through focusing on maintaining credit quality through the proactive management of the credit books, and secondly, on increasing volumes and non interest revenue.

THE YEAR UNDER REVIEW

FNB Africa

Net income before tax increased 6% for the year to R1 222 million due to strong results from FNB Botswana and FNB Swaziland with moderate growth in FNB Namibia. Continued investment in FNB Moçambique together with the start up of FNB Zambia has, as expected, moderated the overall portfolio performance and this investment in growing FNB's African infrastructure will continue over the next few years. Service and electronic delivery will remain a focus in order to increase the customer base and drive up volumes and resultant non interest revenue.

Despite a slower demand for credit in the second half of the year, gross advances increased 11% and deposits increased 6% from the prior year. The focus on credit quality resulted in the overall bad debts charge decreasing 9% whilst the non performing loans, as a percentage of advances remained static at 2.5%.

FNB Botswana

The year under review was characterised by mixed economic conditions. During the first half of the financial year, inflation was at an all time high, as a result of rising fuel and food prices and high interest rates. Despite this, general demand for products and services remained high. However, in October 2008 the first

signs of economic stress emerged and the second half of the financial year proved to be far more challenging for business.

Buoyed by demand in the first half of the financial year, net income before tax increased 24% (19% in Pula) to R654 million (P538 million) as a result of good margins (particularly in the first six months) as well as increased transactional volumes. The Rand's weakness against the Pula positively impacted profit growth.

Advances increased 6% (11% in Pula) predominantly on the back of the expanded retail network and deposits grew by 2% (7% in Pula).

In line with the deteriorating economic conditions, the impairment charge increased from 0.5% to 0.9%. This was mainly in the retail market due to job losses in the mining industry. Impairments have recently stabilised mainly due to the bank's focus on credit quality and some benefits from the slowly increasing demand for commodities.

FNB Namibia

As the largest diversified financial services provider of banking, assurance, insurance, portfolio and asset management, FNB Namibia felt the effects of a slowing economy. Despite the tough operating environment, however, normalised headline earnings (excluding the profits on VISA and Swabou profits in the prior year) increased 7% on the previous year whilst net income before tax decreased 3% to R551 million (this was in part due to the high base created by inclusion of VISA and Swabou profits in the comparative period to June 2008). On the banking side, margin pressure resulted from the declining interest rate cycle. Profitability was also impacted by investment in IT infrastructure and these costs will continue to be felt over the next two years. The decline in world equity markets also had an impact on the capital portfolio of Swabou Life further dampening the Group's profit growth.

Gross advances increased 14% due to increased utilisation of commercial and corporate lines and deposits increased 6% with continued reliance on wholesale funding demonstrating significant fluctuations due to asset managers moving funds to and from South Africa.

FNB Namibia's impairments have been low over the past few years and this trend improved despite the difficult economic conditions, mainly due to the ongoing conservative approach by management in the origination strategies as well as the repayment of some sizable exposures from the public sector and the fishing industry which is showing signs of recovery.

FNB Swaziland

FNB Swaziland performed well despite low asset growth and a lacklustre economic environment. Net income before tax increased 28% to R95 million as a result of good margins, a healthy credit book with low impairments and good transactional volumes.

Gross advances increased 5% given the weak demand for credit and borrowers using excess liquidity to reduce their own debt. Deposits increased 47% as a result of good market liquidity, resulting from increased wholesale deposits emanating from pension fund investment repatriation from South Africa as legislated by Swaziland law.

FNB Moçambique

With the focus on expanding the business, substantial investment was made in the branch network with a corresponding increase in staff. This investment phase is likely to continue over the next few years which will constrain profitability in the short term, but create a sound platform for the future. The branch network doubled during the year and good growth in non interest revenue was driven predominantly by sustained transaction volumes and strong foreign exchange commission.

FNB Lesotho

Gross advances in FNB Lesotho increased (off a low base) as the business is expanding market share. A large portion of FNB Lesotho's deposits are from financial institutions and the customer base is showing significant growth.

FNB Zambia

FNB Zambia commenced operations on 1 April 2009. The business currently has two branches and growing the infrastructure is a priority for the next two years. Significant investment has already been made, including the development of the Hogan core banking system for a multi-currency environment, as well as satellite technology.

NEW INITIATIVES

Opportunities for expansion into East and West Africa are being investigated.

THE YEAR AHEAD

The focus for the year ahead is to manage the current franchises within the context of a tough economic climate with specific focus on:

- stringent credit management and risk monitoring across all the subsidiaries, to ensure robust and sustainable lending portfolios;
- continued expansion of products and services utilising the existing South African product houses and operating platforms; and
- on-going investment in infrastructure in Moçambique and Zambia.

ALAN PULLINGER
CEO, Rand Merchant Bank

RMB

R million	Year ended 30 June 2009	2008	% change
Normalised earnings	**1 536**	3 008	(49)
Return on equity based on normalised earnings (%)	**12**	25	
Income before indirect tax	**2 134**	4 265	(50)
Indirect tax	**(79)**	(61)	30
Income before direct tax	**2 055**	4 204	(51)
Total assets	**275 097**	296 433	(7)
Cost to income ratio (%)	**56.6**	42.8	

Performance

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

R million	Year ended 30 June 2009	2008*	% change
Private Equity	**1 028**	1 846	(44)
Investment Banking	**2 207**	2 059	7
Fixed Income, Currency and Commodities ("FICC")	**804**	1 483	(46)
Equity Trading	**(782)**	(1 412)	45
Other	**(1 202)**	228	(>100)
	2 055	4 204	(51)

**Restated to reflect international debt and investment portfolio losses under "Other".*

INTRODUCTION

RMB reported profits before tax of R2 055 million for the year to June 2009, 51% lower than the previous year. Throughout the period primary market activities ie client focussed advisory, financing and execution, showed good growth whilst most secondary market activities ie. proprietary trading delivered disappointing performances in challenging domestic and international markets.

The Investment Banking division ("IBD") produced good results growing profits 7% despite the challenging base created in the previous year. The Private Equity and FICC divisions, however, were down 44% and 46% respectively on the prior year.

The Equity Trading division reported further losses of R782 million, largely attributable to the de-risking of the residual international trading portfolios and the default of Dealstream, a futures clearing client.

The performance of the residual legacy portfolios of the SPJ International business, which has been closed, is reported under "Other" though these positions are being managed down by IBD and FICC. A managed exit from these positions continues but losses of R775 million were reported though losses were lower in the second half.

Notwithstanding ongoing investments in systems and platforms, strong focus on cost management resulted in an increase of only 3% in operating expenses.

THE YEAR UNDER REVIEW

Private Equity

The Private Equity division reported a net profit before tax of R1 028 million for the year, 44% down on its prior year performance. Three large realisations, Stocks Building Africa (Pty) Ltd (July), Alstom SA (Pty) Ltd (August) and Idwala Industrial Holdings (Pty) Ltd (December) were executed in the first half of the year contributing to a strong first half result (R1 213 million profit). No realisations were reported in the second half of the financial year and impairments were raised on some investments. Associate earnings declined to R547 million. The unrealised profit in the portfolio decreased to R1 210 million (2008: R1 960 million), largely due to the significant realisations concluded during the first half of the financial year.

Investment Banking

The Investment Banking division recorded a net profit before tax of R2 207 million (2008: R2 059 million), a commendable performance in a challenging market. Corporate activity and lending remained strong and a number of significant deals were concluded. These included three large BEE transactions, advising on the sale of assets by BHP Billiton and the Remgro unbundling.

Deal flow during the year covered a wide range of sectors with the strongest contributions coming from the Corporate Finance, Resources, Property Finance, Leveraged Finance and Debt Capital Markets teams. Overall, the client franchise remains strong and a healthy deal pipeline has been maintained. However medium term prospects are dampened in some areas by declining business confidence, the slowdown in debt capital markets and prevailing difficult economic conditions.

THE INVESTMENT BANKING DIVISION RECORDED A COMMENDABLE PERFORMANCE IN A CHALLENGING MARKET. CORPORATE ACTIVITY AND LENDING REMAINED STRONG **AND A NUMBER OF SIGNIFICANT DEALS WERE CONCLUDED**.

FICC

FICC reported a net profit before tax of R804 million, 46% down on the prior financial year (2008: R1 483 million), despite reporting strong first half results. FICC's performance in the latter half of the financial year was adversely impacted by losses in the local fixed income markets. Impairments were also raised and costs incurred on the closure of the Brazilian structured trade business. The client sales, structuring and execution business all benefited from good flows and higher margins.

Equity Trading

The Equity Trading division concluded another difficult year reporting a net loss before tax of R782 million, impacted by two major factors.

Further losses, as anticipated, were incurred on the offshore exposures as the remaining positions were closed out.

In the first six months losses were incurred on the default of Dealstream, a futures clearing client. This resulted in impairments of R219 million being raised against the defaulting broker, as well as mark-to-market losses of R116 million on the portfolios which were subsequently acquired. Three large positions were not closed out and are being treated as private equity investments with a view to realising value over the longer term and are now being accounted for as associates. The circumstances leading to the default were found to have been exacerbated by a period of extreme volatility in local markets (post the collapse of Lehman Brothers), inadequate margining, and fraudulent activities on the part of the broker. A full review of the remaining futures clearing clients, margins and positions, particularly in illiquid counters, has been conducted and following a process of increasing the required margins, no further issues were raised.

Following a number of management interventions over the past year the division has been substantially refocused and the remaining core business of local trading, client execution and agency activities was profitable over the year despite volatile local equity markets.

THE SHIFT IN FOCUS TO PRIMARY MARKET ACTIVITIES IN SOUTH AFRICA AND AFRICA WILL PLACE THE CORE BUSINESS ON A STRONG FOOTING MOVING FORWARD.

Other

As reported for the half year to 31 December 2008, significant losses were incurred on the residual legacy positions of the SPJ International business. Mark to market losses and valuation declines of R775 million were reported on these legacy positions during the year under review as global markets continued to deteriorate, particularly in the latter half of 2008. Losses in the second half were substantially lower than the first half. The remaining illiquid positions, which are predominantly in developed market investment grade credits, international property and an Indian special situations fund, total around USD224 million at current valuations. RMB Resources reported a small profit for the year under review.

The balance of the negative contribution was attributable to Head Office and operational transformation costs.

THE YEAR AHEAD

During the year there has been an increased focus on primary market activities. Secondary market activities, particularly in international markets have been scaled back considerably, or in many cases discontinued. Although residual international exposures arising from these discontinued secondary market activities have lead to disappointing losses, the shift in focus to primary market activities in South Africa and Africa will place the core business on a strong footing moving forward.

Strong client relationships, access to client flows and an outstanding reputation for product excellence and innovation are cornerstones of the primary market activities, and RMB was particularly pleased to be rated first in all areas of investment banking – Listings, Mergers & Acquisitions, BEE deals and Structured Finance in the 2009 PricewaterhouseCoopers Banking Peer Survey.

BRIAN RILEY
CEO, WesBank

WESBANK

R million	Year ended 30 June 2009	2008	% change
Normalised earnings	**324**	573	(43)
Return on equity based on normalised earnings (%)	**7**	12	
Income before indirect tax	**438**	863	(49)
Loss on sale of MotorOne Finance advances book	**(203)**	–	–
	235	863	(73)
Indirect tax	**(105)**	(129)	19
Income before direct tax	**130**	734	(82)
Advances WesBank Consolidated	**92 274**	99 949	(8)
Cost to income ratio (%) WesBank Consolidated	**52.1**	53.5	
Cost to income ratio (%) WesBank South Africa	**41.9**	41.8	
Non performing loans (%)	**5.0**	3.2	

INTRODUCTION

The motor industry continues to endure a very tough cycle. Trading conditions during the year have been severe, as local and global markets felt the effects of slowing economic growth, declining retail and corporate expenditure and continued high levels of consumer debt. These pressures, combined with high new vehicle price inflation, have resulted in new vehicle sales declining by over 30% year on year with a similar trend emerging in the Corporate sector. Job losses have also materialised, resulting in additional pressure in the Consumer sector.

The recent interest rate decreases will eventually provide debt servicing relief to consumers, but given the generally high level of indebtedness the de-leveraging process is proving to be more protracted than in previous cycles.

WesBank's overall profitability was negatively impacted by significant increases in credit defaults in the local lending business. The compounding effect of declining demand and pressure on consumer affordability levels resulted in continued contraction of the advances book. Excluding the R203 million loss on the disposal of the MotorOne Finance advances book in Australia (incurred during the first half of the financial year), overall profits compared to the prior year declined 55% to R333 million. In addition, an impairment of goodwill charge of R78 million, relating to local non lending subsidiaries, was recognised in the current year. This charge falls outside of headline earnings.

The table below represents the relative contributions from local and international operations:

Divisional analysis of income before tax

	Year ended 30 June		%
R million	**2009**	2008	change
SA operations	**368**	918	(60)
International operations*	**(238)**	(184)	29
Total	**130**	734	(82)

*International operations include a R203 million loss on sale of the MotorOne Finance advances book.

THE RECENT INTEREST RATE DECREASES WILL EVENTUALLY PROVIDE DEBT SERVICING RELIEF TO CONSUMERS, BUT GIVEN THE GENERALLY HIGH LEVEL OF INDEBTEDNESS THE DE-LEVERAGING PROCESS IS PROVING TO BE MORE PROTRACTED THAN IN PREVIOUS CYCLES.

THE YEAR UNDER REVIEW

South African operations

WesBank's local operations produced net income before tax of R368 million, a decline of 60% over the comparative period. Whilst this performance is disappointing, it is not unexpected in a credit cycle that has deteriorated to this extent. The table below reflects the half yearly earnings performances from December 2007 to June 2009 and suggests that the "bottom" of the current cycle has been reached, and improved profitability, albeit gradual, can be expected.

Six month periods	December 2007	June 2008	December 2008	**June 2009**
R million	701	217	153	**215**

The charge for bad debts, as a percentage of advances, was 2.80% (R2.57 billion), compared to 2.03% (R1.95 billion) in the comparative period. The worse than anticipated current cycle has been exacerbated by higher security realisation losses and an increasing number of customer abscondences and provisions arising out of insurance cancellations. There has also been a steep increase in commercial and wholesale impairments over the comparative period. Corporate bad debt levels have increased considerably over the period under review (from 0.72% in the

The decline in earnings for the current year under review is attributable to the higher provisions evident in both the retail and wholesale portfolios. The bad debt performance on both a 12 month and six month basis is reflected in the table below.

	Year ended 30 June			Six months ended			
	2009	2008	% change	**June 2009**	December 2008	June 2008	December 2007
Bad debts (R million)	**2 567**	1 946	32	**1 336**	1 231	1 234	712
Bad debt %	**2.80**	2.03	38	**2.97**	2.61	2.53	1.53

six month period ended December 2008 as opposed to 2.43% for the six month period ended June 2009). This is indicative of the shift in stress from the consumer to the corporate environment. On a rolling six monthly basis, there has been an improvement in bad debts in WesBank's retail book reflecting improving trends in arrears and better quality recent new business, which is performing very well.

Non performing loans have increased to 4.99% from 3.2% in the previous year. A major factor contributing to this increase is the sharp rise in the number of customers undergoing the National Credit Act debt review procedure. This review procedure prolongs the collections process and accounts for 0.7% of the total 4.99% non performing loans. The balance of the increase is caused by delayed write offs resulting from extended collections actions, typical in a cycle of this nature.

New business has been negatively impacted by lower demand in both the Retail and Corporate sectors. Total new business written was R36.5 billion, 19% down compared to R45.0 billion in the prior year. Retail new business declined 15% year on year, with corporate new business declining 26%.

Interest margins have remained fairly flat year on year, with the continued pressure on funding and liquidity costs being offset by improvements in written rates.

Within the lending business, non interest income grew 5%. This growth was driven by WesBank's fleet operations and the growth in monthly administration fees, which were only introduced for business originated from June 2007. Operating expenses in the lending business grew 1% year on year. Cost management remains a key focus area, with sustainable cost reductions arising from digitisation and efficiency improvements and an overall 13% reduction in headcount during the year under review. Cost to income and cost to asset ratios remained flat year on year, but more as a result of declining advance levels.

WesBank has, over a number of years, developed a number of non lending businesses that are complementary to its core business, providing related services and products to retail and corporate customers. The key operations include Direct Axis (the marketing arm of personal loans products), Tracker (the vehicle recovery and telematics business), Rentworks (the rentor of IT and other assets), WorldMark (the car care product retailer) and Norman Bissett & Associates (the third party external collections operation). These businesses contributed R52 million to the net income of WesBank for the year under review. This contribution is after impairment to goodwill of R78 million, the bulk of which was raised against Norman Bissett & Associates. The comparative period contribution from the non lending operations was R72 million.

International operations

WesBank's International operations include the performance of the Carlyle Finance operation in the UK, as well as the residual Australian portfolio.

Whilst Carlyle Finance produced a good operational performance its results were impacted by the current economic downturn in the UK and funding pressures. Carlyle produced a loss before tax of R31 million, representing a small improvement over the prior year.

During the current year, the MotorOne Finance advances book in Australia was disposed of, resulting in a consequent loss of R203 million. There remains a small residual loan portfolio (approximately R110 million), which is being administered and run down on an outsourced basis. In addition the portfolio includes WorldMark, which will in future be managed by RMB's in-country private equity operation, as the investment is no longer seen as core to WesBank.

Given the current global outlook, WesBank has decided to concentrate international expansion activities on asset financing opportunities in African territories in support of existing FirstRand franchises.

THE YEAR AHEAD

WesBank is a cyclical business, sensitive to the effects of reducing production and increasing arrears, particularly in a sharp economic downturn. This credit cycle has been particularly severe and has had a material impact on profitability. There are however early signs of a revival and profitability is unlikely to deteriorate further, notwithstanding the risks associated with potential job losses and additional corporate distress. The WesBank business model and footprint remains in place, has withstood the worst of economic cycles and is well positioned to benefit from an improvement in trading conditions.

THE WESBANK BUSINESS MODEL AND FOOTPRINT REMAINS IN PLACE, HAS WITHSTOOD THE WORST OF ECONOMIC CYCLES AND IS WELL POSITIONED TO BENEFIT FROM AN IMPROVEMENT IN TRADING CONDITIONS.

WILLEM ROOS
CEO, OUTsurance

FIRSTRAND SHORT TERM INSURANCE HOLDINGS ("FRSTIH")

R million	Year ended 30 June 2009	2008	% change
Normalised earnings	**654**	574	14
Return on equity based on normalised earnings (%)	**43**	46	
Gross premiums written	**4 242**	3 598	18
Operating income (including investment returns)	**975**	852	14
Headline earnings attributable to ordinary shareholders	**654**	574	14
Expense/cost to income ratio (%)	**19.7**	16.8	
Claims and OUTbonus ratio (%)	**60.5**	62.0	
Effective percentage holding of FirstRand (%)	**47**	47	

INTRODUCTION

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.

THE YEAR UNDER REVIEW

Group

In light of the prevailing economic conditions and the startup losses of Youi, the FRSTIH Group produced satisfactory financial results for the year under review by growing attributable earnings by 10% and headline earnings by 14%.

The South African operations produced excellent results by growing attributable and headline earnings by 19% and 23% respectively. Momentum STI, the Group's joint venture with Momentum Limited, generated its maiden full year profit.

Youi, the Group's start up venture in Australia was launched on 1 August 2008 and produced a loss before tax of R87 million for the financial year. Since launch, Youi has performed in line with expectations.

OUTsurance

OUTsurance managed to grow net earned premium income by 14%. Premium increases were contained below inflation and industry averages resulting in an expansion in market share in both the Personal and Commercial lines businesses.

The claims ratio (including OUTbonus costs) decreased from 61.7% to 60.5% on the back of favourable weather conditions compared to those experienced in the 2008 financial year.

The recessionary conditions contributed to the short term insurance industry experiencing higher claims ratios in the year under review. OUTsurance has, however, continued to maintain its profit margin confirming the competitiveness of its low cost direct business model and scientific rating approach.

OUTSURANCE MANAGED TO GROW NET EARNED PREMIUM INCOME BY 14%. PREMIUM INCREASES WERE CONTAINED BELOW INFLATION AND INDUSTRY AVERAGES RESULTING IN AN EXPANSION IN MARKET SHARE IN BOTH THE PERSONAL AND COMMERCIAL LINES BUSINESSES.

Expenses, as a percentage of net earned premium income, increased from 14.1% to 16.1%. Higher marketing costs, infrastructure expansion and additional staff costs incurred to build capacity contributed to the higher expense ratio.

Investment income grew 10%, initially benefitting from the high interest rate environment, but coming under pressure in the latter six months of the financial year in line with rapidly slowing market interest rates. As most of the investible assets are invested in cash and near cash instruments, OUTsurance was not exposed to market volatility associated with the financial turmoil.

During the year under review, OUTsurance successfully launched its long term insurance offering with a credit life product.

THE YEAR AHEAD

- Further entrench the Youi brand in the Australian market and manage claims ratios and management costs to levels which will ensure future profitability;
- Develop and launch the fully underwritten life product offering;
- Continued focus on organic growth and operational efficiencies throughout all business units; and
- Further extending the reach of Business OUTsurance by product enhancements and marketing initiatives.

NICOLAAS KRUGER
CEO, MOMENTUM

MOMENTUM

R million	Year ended 30 June 2009	2008	% change
Normalised earnings	**1 649**	2 004	(18)
Return on equity based on normalised earnings (%)	**23**	30	
Annualised new business	**8 078**	8 405	(4)
Value of new business (restated)	**544**	596	(9)

INTRODUCTION

Momentum's results for the year ended 30 June 2009 were characterised by the following:

- the negative impact of the significant decline and increased volatility in equity markets, particularly in the first half of the financial year;
- despite the tough economic environment, the return on equity remained very satisfactory;
- the strengthening of the level of capitalisation and the protection provided by the conservative capital investment strategy;
- solid growth in investment income on shareholders' funds resulting from the capital preservation strategy;
- excellent results from FNB Insurance;
- new business volumes held up well in the retail and employee benefits businesses, however inflows into the asset management operations have reduced. Overall new business margins remained satisfactory; and
- the solid operational performance reflected in the embedded value exceeded the negative impact of the investment markets, resulting in a positive embedded value profit.

Summarised results

R million	Year ended 30 June 2009	2008	% change
Normalised earnings[1]	**1 649**	2 004	(18)
– Group operating profit	**1 328**	1 741	(24)
– Investment income on shareholders' assets	**321**	263	22
Group headline earnings	**1 658**	1 979	(16)
Return on equity (%)	**22.6**	30.3	
New business volumes	**60 470**	65 338	(7)
– Retail	**33 493**	34 270	(2)
– Employee benefits	**2 591**	2 287	13
– Asset management	**24 386**	28 781	(15)
Value of new business[2]	**544**	596	(9)
New business margins (%)[2,3]	**2.0**	2.1	
Embedded value[2]	**16 086**	16 039	–
Return on embedded value (%)[4]	**3.3**	15.2	
CAR cover (times)[5]	**1.8**	1.6	

1 *Normalised earnings represent Group headline earnings adjusted for the impact of non operational items and accounting anomalies.*
2 *The comparatives are pro forma in line with changes required by the revised Actuarial Guidance Note PGN107.*
3 *Calculated as the value of new business as % of present value of future premiums.*
4 *Represents the embedded value profit as % of opening embedded value.*
5 *The comparative is pro forma in line with the revised CAR formula that became effective during the current year.*

THE YEAR UNDER REVIEW

Momentum's normalised earnings declined 18% to R1 649 million, mainly due to the negative impact of the significant drop in equity markets during the financial year. Despite the decline in earnings, the return on equity of 23% was very pleasing, and Momentum's capitalisation level strengthened to a satisfactory 1.8 times the Capital Adequacy Requirement ("CAR"). It is also pleasing to note that the earnings for the second half of the year represented a 23% increase over the first half earnings.

Group operating profit declined 24% to R1 328 million. As mentioned in the first half results, approximately two-thirds of Momentum's operating profit is exposed to investment market returns, where the most significant exposure is to equity markets. The JSE Allshare Index reduced by 28% during the financial year under review, with a commensurate downward impact on asset based fees. The results from FNB Insurance were particularly pleasing, and although there was some negative impact on persistency arising from pressure on consumers, the business benefited from good continued growth in sales to the mass market client base of FNB. The investment income on shareholders' assets benefited from the Group's capital preservation strategy, which resulted in higher levels of interest-bearing instruments to back the Group's economic capital requirement.

THE SOLID OPERATIONAL PERFORMANCE REFLECTED IN THE EMBEDDED VALUE EXCEEDED THE NEGATIVE IMPACT OF THE INVESTMENT MARKETS, RESULTING IN A POSITIVE EMBEDDED VALUE PROFIT.

Although annualised new business volumes were 4% lower, recurring premium new business increased 9% whilst lump sum inflows reduced 8%. During the second half of the financial year the impact of the current recession on the real economy became apparent, and new business volumes in the retail discretionary savings and retirement annuity businesses declined. Lapse rates have also increased due to the pressure on disposable income. Sales of individual risk products remained strong. The employee benefits new business continued to show strong growth, with the success of Momentum's umbrella fund pension product continuing, along with improved Group risk new business. Lump sum inflows in the retail business showed mixed results, with strong unit trust and guaranteed annuity sales being countered by lower discretionary endowment sales and a significant decline in offshore linked product sales due to the international economic slowdown.

Momentum is proud to have been awarded the Financial Intermediaries Association ("FIA") award for the Long term Investment Product Supplier of the year, for the third successive year.

New business margins reduced slightly from 2.1% in 2008 to 2.0% in 2009. The satisfactory operational performance in the embedded value exceeded the negative impact of the decline in equity markets, resulting in a positive return on embedded value of 3.3%.

Momentum's previous targeted economic capital range of between 1.7 and 1.9 times CAR was reformulated following the introduction of the FSB's revised CAR methodology. After taking into account the guidance issued by the Actuarial Society of South Africa regarding allowances for credit and operational risks, the targeted economic capital range was reformulated to between 1.4 and 1.6 times CAR. Although the level of 1.8 times CAR (after the final dividend payment) exceeds the upper limit of this range, the Board of Momentum is of the opinion that this buffer is appropriate in the current market conditions.

DETAILED COMMENTARY ON PERFORMANCE

The following table reflects the main components of Group earnings:

Reconciliation of earnings

R million	Year ended 30 June 2009	2008	% change
Earnings attributable to equityholders	**1 594**	2 002	(20)
Adjusted for:			
Profit on sale of Southern Life Namibia book	**–**	(22)	100
Impairment of intangible assets	**61**	–	–
Impairment of goodwill	**3**	–	–
Profit on sale of subsidiary	**–**	(1)	100
Headline earnings	**1 658**	1 979	(16)
Adjusted for:			
IFRS 2 share based payment	**(9)**	25	>(100)
Normalised earnings	**1 649**	2 004	(18)

The main contributors to the normalised earnings are set out in the following table:

Normalised earnings

R million	Year ended 30 June 2009	2008	% change
Group operating profit[1]	**1 328**	1 741	(24)
Momentum	**994**	1 459	(32)
FNB Insurance	**334**	282	18
Investment income on shareholders' assets	**321**	263	22
Normalised earnings	**1 649**	2 004	(18)

1 *Previously the results of RMBAM were disclosed separately, however as from 1 July 2008 RMBAM is included with Momentum's other investment businesses under a single investment cluster.*

Group operating profit

Group operating profit declined 24% to R1 328 million, mainly as a result of lower asset based fees. The drop in asset values due to equity market weakness was the main contributor to the decline in fees. In addition, the net outflow of funds in the asset management operations also contributed to declining fee levels, although good progress is being made in reducing expenses in these businesses. Underwriting profits in the individual life business continued to make a positive contribution to earnings, along with good claims experience in the FNB Insurance business. The overall lapse experience deteriorated, however this related mainly to the discretionary savings business which was impacted more severely by the economic slowdown. Employee benefits underwriting margins remained under pressure from increased claims volumes, which appear to be linked to the impact of deteriorating economic conditions on employer groups.

The following table summarises the new business generated by the Momentum insurance operations:

New business

R million	Year ended 30 June 2009	2008	% change
Recurring premiums	**2 257**	2 079	9
– Retail	**1 239**	1 308	(5)
– Employee benefits	**517**	406	27
– FNB Insurance	**501**	365	37
Lump sums	**58 213**	63 259	(8)
– Retail[1]	**31 753**	32 597	(3)
– Employee benefits[2]	**2 074**	1 881	10
– Asset management[2]	**24 386**	28 781	(15)
Total new business inflows	**60 470**	65 338	(7)
Annualised new business inflows[3]	**8 078**	8 405	(4)

1 *The new business generated by RMBUT, which was previously disclosed as part of asset management new business, is now included in retail lump sum inflows. New business sourced from Momentum Group's Linked Investment Service Provider has been excluded from the comparative unit trust inflows, as these flows are already included in the local linked product inflows. The new business inflow for 30 June 2008 has therefore been reduced by R2 840 million.*

2 *The new business generated by Advantage, which was previously included in employee benefits lump sums, is now included in asset management lump sums.*

3 *Represents new recurring premium inflows plus 10% of lump sum inflows.*

Overall recurring premium sales increased 9%, which is pleasing given the current economic climate. The decline in retail recurring premium sales is mainly due to the impact of increased pressure on consumers, and the changes in commission regulations on savings and retirement products from 1 January 2009. The demand for individual risk products remained strong. New business in the employee benefits business continued its strong growth, with both the umbrella fund and Group risk products expanding their market presence. The penetration of the FNB Insurance business into the mass market client base of FNB has improved markedly during the year.

Retail lump sum sales showed a marginal decline of 3%, with the solid increases in unit trust and local linked product sales respectively, being countered by lower sales of annuity, endowment savings and offshore linked products.

Momentum's agency distribution initiative continued to increase its contribution to overall annualised new business inflows to 21%, compared with 18% in 2008. In addition, FNB brokers currently contribute 15% of annualised new business inflows, compared with 14% in 2008.

Momentum's healthcare business administered a total of 553 200 lives at 30 June 2009. This represents an increase of 16% compared to 30 June 2008, and includes 98 900 lives administered as part of a new restricted scheme take-on at 1 January 2009. The Momentum Health open scheme membership, which is included in the overall lives under administration, totalled 178 400 at 30 June 2009.

Inflows into the asset management operations showed a reduction of 15%. The focus for most of the year was on the communication with and retention of existing clients through this time of market uncertainty. The net outflow of funds in this business was mainly due to the withdrawal of a total of R30 billion by two significant clients in the second half of the financial year, as referred to in the half year results commentary.

Investment income on shareholders' assets

The investment income earned on shareholders' assets increased 22% to R321 million. The investment mandate for these assets has remained unchanged during the year under review, with the economic capital being backed by a mix of cash and near-cash investments as well as the Group's investment in subsidiary operations at net asset value. The main reason for the healthy increase in investment income is a higher level of capital following the decision not to pay an interim dividend to FirstRand, and marginally higher average interest rates.

Marketing and administration expenses

Total normalised marketing and administration expenses (excluding impairment charges and once-off costs) increased 8% to R3 billion. Included in these once-off costs are the system integration expenses in the employee benefits and health businesses, and the additional expenses associated with the take-on of a new restricted medical scheme administration contract. The expense efficiencies associated with the system integration and other expense savings initiatives will start emerging during the new financial year.

CAPITAL MANAGEMENT

During the current year the FSB requirements for the calculation of CAR were changed to include an allowance for credit and operational risk. This had the effect of increasing the pro forma CAR at 30 June 2008 from R2 825 million to R3 775 million. Momentum's CAR increased from the pro forma R3 775 million at 30 June 2008 to R3 843 million at 30 June 2009. The statutory surplus increased from R6 114 million at 30 June 2008 to R7 108 million at 30 June 2009, resulting in a CAR cover of 1.8 times at 30 June 2009, compared with a pro forma CAR cover of 1.6 times at 30 June 2008. In the light of the improved capital position, the Board of Momentum has decided to resume the payment of dividends and has recommended the payment of a final dividend of R338 million to FirstRand, which will result in a post dividend CAR cover of 1.8 times.

RESULTS OF THE EMBEDDED VALUE CALCULATION

The embedded value of Momentum increased slightly from R16.0 billion at 30 June 2008 to R16.1 billion at 30 June 2009. A satisfactory operational performance exceeded the negative impact of equity market weakness, resulting in a marginal growth in embedded value. The analysis of the main components of the embedded value is reflected in the following table:

Embedded value

	At 30 June	Pro forma at 30 June[1]	Originally disclosed
R million	**2009**	2008	2008
Ordinary shareholders' net worth	**8 564**	7 701	7 701
Net value of in-force insurance business	**7 522**	8 338	8 307
• Present value of future profits	**9 243**	9 931	9 271
• Cost of capital at risk	**(1 721)**	(1 593)	(964)
Embedded value attributable to ordinary shareholders	**16 086**	16 039	16 008

1 *The company embedded value at 30 June 2008 has been restated to take account of the impact on the opening embedded value of the new guidance note PGN107. The new guidance note applies to Momentum's current financial year.*

The following table reflects a breakdown of the movement in embedded value for the year:

Embedded value movement

R million	Year ended 30 June 2009
Embedded value at 1 July 2008 (restated)	16 039
Embedded value profit	523
– Factors related to operational performance[1]	2 045
– Factors related to market conditions[2]	(1 522)
Dividends paid	(476)
Embedded value at 30 June 2009	**16 086**

1 *Includes the value of new business, the expected return on in-force business and operating experience variations.*
2 *Includes the investment return on the adjusted net worth, investment variations and economic assumption changes.*

The return on embedded value amounts to 3.3% on the opening embedded value (after adjusting for the impact of the changes introduced by PGN107). The pleasing contribution from the operational performance (including positive operating experience variances) more than compensated for the negative impact of weaker equity markets and the decline in the directors' valuation of strategic subsidiaries, resulting in an embedded value profit of R523 million.

The embedded value of new business decreased 9% to R544 million, after adjusting the comparative value of new business to take account of the impact of PGN107 on a like-with-like basis. The new business margin of 2.0% decreased slightly from the margin of 2.1% for the prior year.

GROUP ASSETS UNDER MANAGEMENT OR ADMINISTRATION

The Momentum Group managed or administered total assets of R301.4 billion at 30 June 2009 compared with R347.7 billion at 30 June 2008. The decline in assets was due to the exposure to the weaker equity markets, together with a net outflow of asset management funds. The following table provides an analysis of the assets managed or administered:

Assets under management or administration

	Year ended 30 June		%
R billion	**2009**	2008	change
On balance sheet assets	**187.7**	187.8	–
Segregated third party funds	**73.0**	117.5	(38)
Collective investment scheme assets managed	**21.4**	22.1	(3)
Assets under management	**282.1**	327.4	(14)
Linked product assets under administration[1]	**19.3**	20.3	(5)
Total assets under management or administration	**301.4**	347.7	(13)

1 *Excludes business written by Momentum Group's Linked Investment Service Provider on the life company's balance sheet, as these assets are reflected under on balance sheet assets above. Total linked product assets under administration amounted to R50 billion (June 2008: R49 billion).*

Net flow of funds

The overall net outflow of funds increased from R10 billion in 2008 to R34 billion in 2009. Retail and employee benefits net inflows remained positive at R3.8 billion and R1.8 billion respectively, mainly as a result of strong lump sum inflows, especially in unit trust products. These positive inflows are particularly pleasing given the current economic conditions. The increase in the asset management net outflows is mainly due to two large client withdrawals.

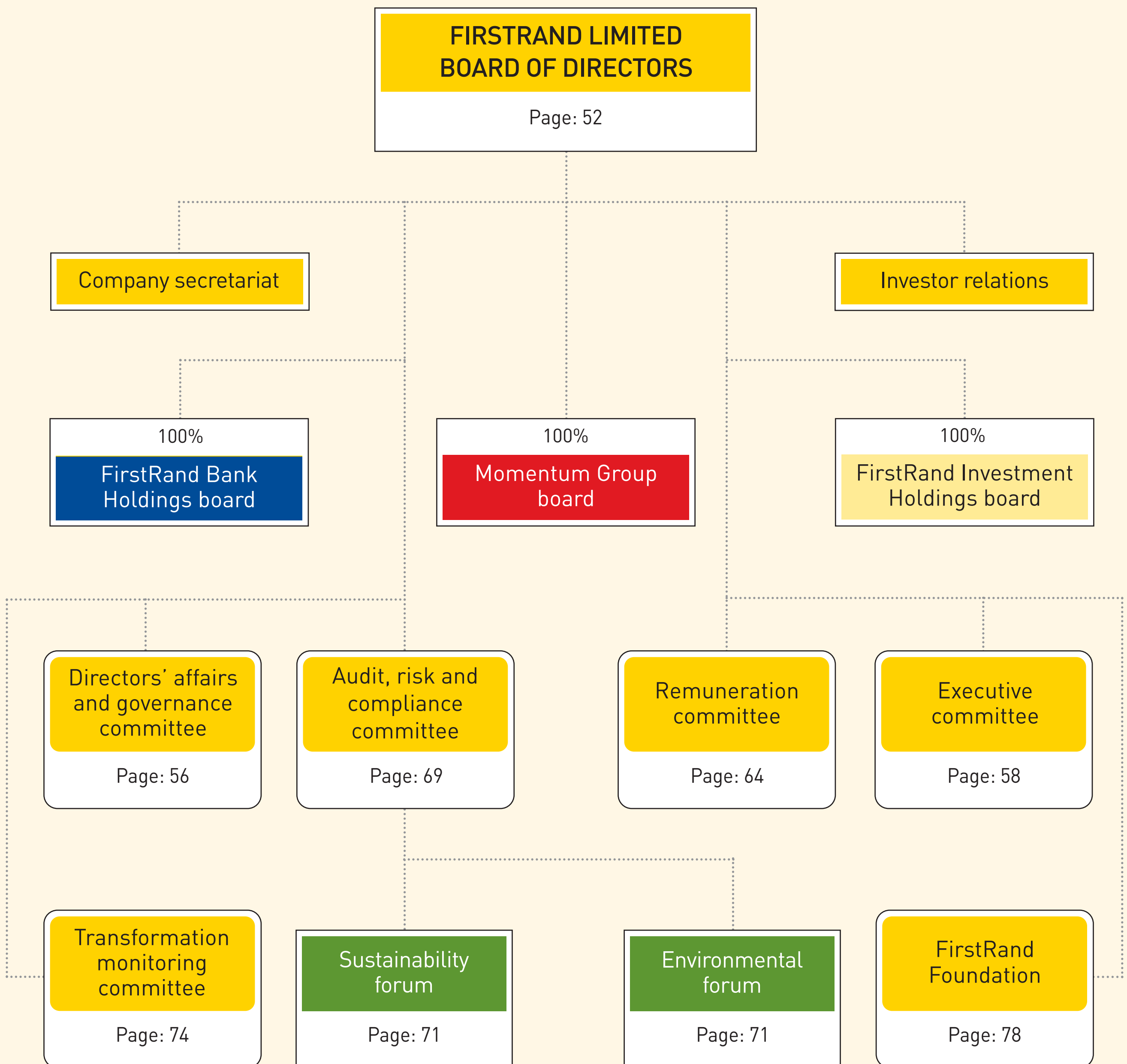
GOVERNANCE AND SUSTAINABILITY

FirstRand views sustainable development and sustainable profit growth 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 welfare of FirstRand's stakeholders remains positive over time.

FirstRand's financial and non financial performance objectives are overseen by the Board of directors and its committees.

GOVERNANCE STRUCTURE AND PERFORMANCE DISCLOSURE

In addition to FirstRand's subsidiary boards, FirstRand's Board of directors has five committees. The diagram below provides a reference guide for the disclosures addressed in this report from the chairman of each committee.



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 27.

CORPORATE GOVERNANCE ETHOS

Corporate governance is overseen by the Directors' affairs and governance committee and plays an integral role in FirstRand's business philosophy. 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 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 FirstRand's high standards for corporate governance are implemented and monitored at all operations. The same high standards are exported when conducting business internationally.

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 of the Group's directors, including directors of the subsidiary companies and divisional boards.

The directors of FirstRand and the Group's divisional boards endorse the Code of Corporate Practices and Conduct contained within 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.

FirstRand's directors have reviewed the King Committee's Code on Governance 2009 ("King III Code") and are satisfied that the Group's governance structures will accommodate any new recommendations.

STAKEHOLDER COMMUNICATION

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.

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.

Operating divisions are empowered to manage stakeholder interfaces in accordance with the particular needs of their businesses and their stakeholders. Divisional sustainability performance and stakeholder engagement information is available in the sustainability reports of the Group's major operating divisions. These reports are available online: www.firstrandsustain.co.za.

The Group does not make all stakeholder policies available on the internet.

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.

The investor relations department is headed by the director of investor relations. Her duties include oversight of all corporate communications.

MEMBERSHIPS AND ASSOCIATIONS

FirstRand is a signatory of the United Nations Global Compact ("UNGC"), the Carbon Disclosure Project ("CDP") and has adopted the Equator Principles ("EP") for the 2010 financial year starting 1 July 2009. 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 South African Banking Association.

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. Representation at these bodies is seen as being strategically important for reinforcing ethical and sustainable business practice and responding to changes to 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. In 2008 FirstRand was listed on the JSE SRI index as a low environmental impact organisation, meeting the SRI requirements for social, environmental, governance and sustainability performance.

ECONOMIC VALUE ADDED

FirstRand's activities generate economic value for the socio economic contexts in which the Group operates. In 2009 the Group generated R49 671 million for society through value accruing directly to its stakeholders.

The creation of economic value is accompanied by quantitative and qualitative impacts which form part of the Group's broader socio economic impact and extended value add to society. These impacts are described in more detail throughout this report and in the sustainability reports of FirstRand's major operating divisions.

The table below summarises the economic value added by the Group over the last 5 years.

5 Year value added statement

R million	**2009**	2008	2007	2006	2005
To employees	**13 023**	12 594	11 917	10 230	7 882
To providers of capital	**4 228**	4 932	4 143	4 998	2 885
To government	**3 710**	3 862	5 085	4 306	2 387
To policyholders	**26 186**	42 255	64 276	57 348	34 362
To expansion and growth	**2 524**	7 539	9 365	6 027	7 539
Total value added	**49 671**	71 182	94 786	82 909	55 055

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.

Role

The directors have a fiduciary duty to act in good faith, with due diligence and care, and in the best interests of the Group and all of its stakeholders. They 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.

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 appointing the chief executive and financial director, approving corporate strategy, major plans of action, policies and procedures and the monitoring of operational performance. This includes identifying risks which impact on the Group's sustainability, the monitoring and management of these risks and associated internal controls, corporate governance and key performance indicators established in terms of the Group's business plans, including non financial indicators and annual budgets. It monitors major capital expenditure, acquisitions and disposals and any other matters that are defined as material. The chief executive is fully accountable to the Board for the day to day running of the Group.

In exercising control of the Group, the directors are empowered to delegate. This is in line with the Group's federal and decentralised management philosophy and is done through the boards of the major subsidiaries and 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. Reports from the subsidiaries and board committees are regularly reviewed by the respective boards.

Within the Banking Group non statutory divisional boards representing FirstRand's major banking brands (First National Bank, Rand Merchant Bank and WesBank) provide further comfort to FirstRand's statutory boards. The governance and composition of the divisional boards is the same as that which applies to those of the holding company.

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.

Composition

FirstRand has a unitary Board. Its chairman is non executive, but not independent in terms of the definitions stated below. At the annual general meeting in November 2008, Mr Ferreira, who had been chairman of the Board since the creation of FirstRand in 1998, retired. The Board unanimously approved the appointment of Mr Dippenaar to replace him. The Board believes that, as was the case with his predecessor, 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 in terms of the definition provided, he is not regarded as independent. Mr Dippenaar is the chairman of the boards of FirstRand's Banking Group and Momentum Group and 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 the FirstRand 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. The composition of the Board ensures a balance of authority and precludes any one director from exercising unfettered powers of decision making.

Each year one third of FirstRand's non executive directors retire. At 30 June 2009 FirstRand's Board comprised of 20 directors. Four of the directors are executive, a further six are defined as non executive but not independent while the balance are classified as independent non executive directors. Included among the directors are two foreign nationals. The Board includes three women. Eight of the directors are classified as black in terms of the Financial Sector Charter. Three of the directors, Mr Nkuna, Mr Schoeman and Ms Nzimande represent FirstRand's three broad based Black Economic Empowerment 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 appointments made to the Board during the year will require the approval of shareholders at the forthcoming annual general meeting.

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. The appointment of directors to the Banking Group requires the prior approval of the Registrar of Banks.

Board proceedings

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:

	Sept 2008	Nov 2008	Mar 2009	Apr 2009	May 2009
GT Ferreira (Chairman) – Retired November 2008	√	√	–	–	–
LL Dippenaar – Chairman – Appointed December 2008	√	√	√	√	√
VW Bartlett	√	√	√	A	√
JP Burger – Appointed January 2009	–	–	√	√	√
DJA Craig	√	√	√	√	A
L Crouse – Appointed September 2008	√	√	√	√	√
DM Falck – Retired September 2008	√	–	–	–	–
PM Goss	√	√	√	√	√
NN Gwagwa	√	√	√	√	√
PK Harris	√	√	√	√	√
G Moloi	√	√	√	√	√
AP Nkuna	√	A	√	√	√
SE Nxasana	√	√	√	√	√
AT Nzimande	√	√	√	√	√
D Premnarayen – Appointed January 2009	–	–	√	√	√
KB Schoeman	√	√	√	√	√
KC Shubane	√	√	√	√	√
RK Store	√	√	√	√	√
BJ van der Ross	√	√	√	√	√
JH van Greuning – Appointed January 2009	–	–	√	√	A
F van Zyl Slabbert	√	A	√	√	√
MH Visser – Appointed April 2009	–	–	–	√	√
RA Williams – Retired September 2008	√	–	–	–	–

A = Apologies tendered and accepted.

Subsidiary boards and board committees

FirstRand has three major wholly owned subsidiaries. These are FirstRand Bank Holdings Limited, Momentum Group Limited and FirstRand Investment Holdings (Pty) Limited. The boards of FirstRand Bank Holdings and Momentum Group are subject to the oversight of the relevant regulatory authorities which include the South African Reserve Bank and the Financial Services Board.

Board committees assist the directors in their duties and responsibilities. In addition to the Executive committee ("Exco"), FirstRand's Board committees have been appointed to deal with directors' affairs and governance, remuneration, audit, risk and compliance and transformation. These committees have formal charters and report to the Board of directors at quarterly board meetings. With the exception of the Exco they are chaired by independent non executive directors and have a majority of independent non executive directors as members. 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 the performance of 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 which exist where subsidiaries are involved in insurance related activities.

When FirstRand directors retire by rotation they automatically retire from the committees on which they serve. Their reappointment to the committees is not automatic and is subject to the approval of FirstRand's Directors' affairs and governance committee.

Annual effectiveness surveys are carried out by the board's committees, 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;
- 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 black 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 38.84 (f) of the JSE listing requirements.

Company secretary

Adrian Arnott was appointed Company secretary on 25 November 2002. He is suitably qualified , empowered and has access to the Group's secretarial resources. 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.

Details of directors

The names of the directors, their age, qualifications and other details appear on page 84.

Directors' interests

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 2009. Where necessary, prior year figures have been amended to reflect the new disclosures in respect of the JSE listings requirements.

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% (2008: 30.06%) of the issued share capital of FirstRand.

Ordinary shares (audited)

000's	Direct Beneficial	Indirect Beneficial	Held by Associates	Indirect via RMBH	**Total 2009**	Total 2008
VW Bartlett	3 693	376	–	–	4 069	4 069
JP Burger[1]	–	2 441	–	1 735	4 176	–
LL Dippenaar	2 355	1 200	6	126 960	130 521	130 521
GT Ferreira[2]	–	–	–	–	–	122 217
PM Goss	1	–	–	16 232	16 233	16 233
PK Harris	987	2 042	96	42 185	45 310	44 145
G Moloi	1	–	–	–	1	1
AP Nkuna	15	–	–	–	15	28
KC Shubane	41	–	–	4	45	45
RA Williams[3]	–	–	–	–	–	54
Total	7 093	6 059	102	187 116	200 370	317 313

"B" Preference shares (audited)

000's	Direct Beneficial	Indirect Beneficial	**Total 2009**	Total 2008
LL Dippenaar	–	**520**	**520**	520
PM Goss	–	–	–	49
RA Williams[3]	–	–	–	4
Total	–	**520**	**520**	573

Directors' interests have remained unchanged since the end of the financial year to the date of this report.
1 Appointed: January 2009.
2 Retired: November 2008.
3 Retired: September 2008.

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

14 September 2009

DIRECTORS' AFFAIRS AND GOVERNANCE COMMITTEE

Composition

The Directors' affairs and governance committee comprises all the non executive directors and is chaired by an independent non executive director.

Role

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

During the period under review the committee:

- monitored the effectiveness of the Board of directors and its subcommittees;
- ensured sound and effective succession planning at executive level;
- oversaw trading in Company shares;
- oversaw the appointment of new directors;
- made recommendations to shareholders about the remuneration of non executive directors; and
- monitored and controlled matters relating to ethical corporate practices and whistle blowing.

Proceedings

The committee met twice during the year. Membership and attendance was as follows:

	Sept 2008	Mar 2009
PM Goss Chairman	√	√
VW Bartlett	√	√
DJA Craig	√	√
L Crouse – Appointed September 2008	–	√
LL Dippenaar	√	√
DM Falck – Retired September 2008	√	–
GT Ferreira – Retired November 2008	√	–
NN Gwagwa	√	√
G Moloi	√	√
AP Nkuna	√	√
AP Nzimande	√	√
KB Schoeman	√	√
KC Shubane	√	√
RK Store	√	√
BJ van der Ross	√	√
JH van Greuning – Appointed January 2009	–	√
F van Zyl Slabbert	√	√
MH Visser – Appointed April 2009	–	–
RA Williams – Retired September 2008	√	–

The chairman attends the annual general meeting.

Performance evaluation

The Board and all its committees conducted evaluations to measure their effectiveness during the year. Directors' responsibilities include positive performance in respect of environmental, social and governance issues. No material concerns were identified in these evaluations.

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 section of this report on page 64. The directors are aware of the need to 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.

Succession planning

FirstRand benefits from an extensive pool of people 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, currently chief executive of FirstRand Bank will succeed Mr PK Harris by also becoming CEO of FirstRand Limited when, as previously indicated, Mr Harris retires on 31 December 2009.

Trading in Company shares

FirstRand has closed periods prohibiting trade in FirstRand shares by directors, senior executives and participants in the various share option 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.

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 of Messrs Ferreira, Dippenaar, Goss, van der Ross and Dr Gwagwa met to consider the nominations received in respect of Messrs Burger, Crouse, Premnarayen, van Greuning and Visser. 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 re-appointment of non executive directors is not automatic and is subject to performance and eligibility for re-appointment. The retirement age for non executive directors is set at age 70 across the Group in respect of its South African operations. 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 non FirstRand Group boards do not impinge on their ability to perform their duties as directors of FirstRand and do not present any potential conflicts of interest.

No director has an automatic right to a position on the FirstRand Board. 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 in 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.

Fees for services as directors

During the year the Directors' affairs and governance committee reviewed the fees paid to non executive directors and made recommendations to FirstRand's shareholders in respect thereof. At the request of the non executive directors the increase in fees approved by the shareholders for the year under review was not paid.

Ethics

Upon joining the Group all directors are obliged to sign a Code of ethics which forms part of the Board charter. FirstRand's Code of ethics 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 cooperates with EthicsSA in the production of their report – South African Corporate Ethics Indicators and uses the findings of the survey to inform the management of ethics within the Group.

The making or acceptance of payments, other than declared remuneration, gifts and entertainment as consideration to act or fail to act in a certain way is prohibited. Directors are required to disclose any potential conflicts of interests.

FirstRand does not make donations to political parties and the issue of political donations and solicitation of gifts is addressed by FirstRand's Code of ethics.

Renewed emphasis has been placed on the issue of whistle blowing. FirstRand encourages whistle blowing in the Code of ethics and creates 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.

FirstRand has an anonymous whistle blowing alert line (+27 [0] 11 352 4029) which is monitored by two senior members of Group forensic services.

No issues of improprietary or unethical behaviour on the part of any of the directors were drawn to the attention of the committee during the year.

The Directors' affairs and governance committee is satisfied that they, and all board committees, have complied with their mandates.

PM Goss

Chairman, Directors affairs and governance committee

14 September 2009

EXECUTIVE COMMITTEE

Composition

The Executive committee ("Exco") is chaired by the chief executive officer of FirstRand. FirstRand's Exco comprises the chief executives of the Group's major operating divisions, the chief operating officer and certain members of senior management. During the year the composition of the committee was expanded to include the heads of Enterprise risk management and Regulatory risk management.

The members of FirstRand's Exco are listed on page 88.

Role

FirstRand's Exco implements the strategies approved by the FirstRand board for managing the affairs of the Group. Of particular importance is the ongoing development and inculcation of an enduring and widely embraced Group value system which creates an enabling environment in which operating units can grow and prosper.

During the year under review the committee oversaw:

- the optimisation of the Group's human resources;
- the Group's customer relationships; and
- the optimisation of the Group's supply chain.

Detail in respect of these activities is shown below. In addition FirstRand's Exco:

- oversaw the day-to-day operational management of FirstRand's operating divisions;
- synchronised strategies of the operating divisions;
- optimised the Group's capital base and financial resources;
- reported to the Board on matters of material and strategic impact;
- assured compliance with FirstRand's Code of ethics within the Group's operating divisions ;
- managed the Group's image and acted as custodians of the FirstRand brand; and
- monitored the financial, social, and environmental performance of FirstRand's operating divisions.

Proceedings

FirstRand's Exco meets monthly.

HUMAN RESOURCE MANAGEMENT

FirstRand employs 42 783 staff, 92 % of whom are employed in South Africa. 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.

During the 2009 financial year macro economic 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.

South African workforce movement

	2009
Staff complement at 1 July 2008	38 863
New appointments	4 996
Resignations	(3 539)
Retrenchments	(428)
Dismissals	(556)
Deaths or disability	(78)
Other	(81)
Staff complement at 30 June 2009	39 177
Salaries and benefits (R million)	13 023

Total workforce

	2009	2008	2007
South Africa	**39 177**	38 863	39 726
Rest of Africa	**3 239**	2 992	2 626
Other countries	**367**	515	530
Total workforce	**42 783**	42 370	42 882

Detail in respect of the Group's employment equity profile is shown on page 75.

Training and development

FirstRand's operating divisions are empowered to tailor their approach to training and development according to their specific contexts and needs.

FirstRand supports the Business Leadership South Africa CEO Skills Commitment. The Skills Commitment 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.

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
- collaborating with government, trade unions, learning institutions and other corporations in responding to South Africa's skills development challenge.

Appropriate measurement systems are being developed to facilitate improved measurements in terms of this commitment. Comparatives are not shown in the table below as 2009 is the first year of detailed reporting in respect thereof.

Skills development investment

	2009
Total skills development investment (R million)[1]	227
ACI skills development investment (R million)[1]	141
ACI skills development investment as % of total payroll[1]	1.5
Average training days per employee	3 – 6
Students supported by FirstRand[2]	1 400
Employee graduates and diplomates[2]	14 000
Average age of employee graduates and diplomates	33
Call centre trainees[2]	1 800
Average age of call centre trainees	29
Employee graduates and diplomates leaving employ of FirstRand[2]	1 700
Average age of employee graduates and diplomates leaving employ of FirstRand	32

1 *Data reflects calendar year.*
2 *Best estimate.*

FirstRand's response to the development of critical and scarce skills is detailed below.

Critical skills development

Critical skill	Response
Accountants	Bursaries
Actuaries	Bursaries
Corporate managers	Graduate recruitment programmes
Risk & compliance	Risk learnerships
Financial planning training	FNB's Practical university of banking
Underwriters	Momentum's Underwriting school

Examples of additional financial services industry skills development activities facilitated or supported by FirstRand include:

- INSETA skills development programme
- BankSETA Letsema programme
- BankSETA Kuyasa programme
- Further education and training Certificate in short term insurance
- Asset based finance training

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
- industry specific compliance training

Detail in respect of divisional skills development performance is available in the sustainability reports of FirstRand's major operating divisions.

Talent management

Talent management is addressed by 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.

Health and safety

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

Every quarter FirstRand Banking Group'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 re-occurrence.

Similar processes exist at Momentum Group and OUTsurance, with board level oversight for Group health and safety via the Audit, risk and compliance committee.

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 ensure 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, forums, 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 operating 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.

FirstRand 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.

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. In terms of FirstRand's business philosophy, the Group is emphatic about good customer service but does not try to be all things to all people. FirstRand believes in market segmentation, target market selection and strict target market focus. Operating divisions seek long term, mutually beneficial relationships with loyal and satisfied client bases.

FirstRand's operating divisions each have a unique customer value proposition related to the specific needs and characteristics of their target markets. Economic, social and regulatory trends dictate certain overarching themes which influence how the Group manages its responsibilities towards customers.

FirstRand's commitment to the responsible provision of financial services is demonstrated through:

- responding timeously to the material issues raised by customers and other stakeholders;
- compliance with regulatory measures relating to customer service and responsible provision of financial services; and
- a framework of internal checks and balances including processes dealing with financial and non financial risks.

FirstRand's operating divisions conduct tailored customer satisfaction studies, details of which can be found in the divisional sustainability reports.

FirstRand subscribes to the concept of financial inclusion and the extension of access to financial services for previously unserved markets. Performance is measured against transformation targets which are detailed on page 74.

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 ("NCA");
- the Code of Banking Practice;
- the Financial Intelligence Centres Act ("FICA");
- the Financial Advisory and Intermediary Services Act ("FAIS"); and
- the Promotion of Access to Information Act.

Detail concerning divisional implementation of these regulations can be found in the individual sustainability reports of FirstRand's major operating divisions.

Retail banking and insurance indicators in respect of the Group's customer relationships are detailed below.

Retail customer indicators

	2009	2008	2007
FNB South Africa			
Number of customers (000)	**6 504**	6 264	5 800
Buzz Barometer score (%)[1]	**35**	34	35
Banking Ombudsman complaints[2]	**702**	1 104	886
Incidents of serious crime	**84**	162	*
Incidents of serious crime: financial loss (R 000)	**6 111**	10 516	*
Representation points	**687**	712	688
ATMs	**5 311**	4 800	4 561
FNB Africa			
Representation points	**91**	82	75
ATMs	**478**	423	409
WesBank			
Number of customers (000)	**645**	661	374
Customer satisfaction (%)	**53**	72	69
Momentum			
Direct customers (000)	**3 900**	3 875	*
Zimele policies	**63 324**	40 145	*
OUTsurance			
Number of customers (000)	**683**	659	600
Satisfied customers (%)	**89**	86	86

1 Net promoter score in a range of -100 to 100.
2 Data reflects calendar year.
**Comparative not available.*

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.

Information and feedback obtained via these communication channels is addressed by the operating division concerned. In cases where stakeholder feedback warrants escalation to senior levels of management, FirstRand's governance structure provides channels for oversight of the information by the board of directors via the Exco.

AWARDS AND SPONSORSHIPS

AWARDS

FirstRand Limited

- 2009 Finanical Mail/EmpowerDEX Top Empowerment Companies Awards: top 10 empowered listed company
- 2009 Topco Media and Metropolitain Oliver Empowerment Awards: top empowered company in financial services
- 2009 Top 500 Companies BEE Certificate: CSI expenditure, percentage black female employees, percentage black employees, black directors, black non executive directors, accreditations, turnover and turnover per employee

FNB

- 2009 Sunday Times Top Brands Awards: Top Retail Banking Brand voted by South African consumers
- 2009 Topco Media and Metropolitain Oliver Empowerment Award: winner Sustainability and Beyond
- 2009 Celent Model Bank of the Year Award: FNB Cellphone banking
- 2009 Limpopo Govan Mbeki Award: FNB Affordable housing finance partnership with the Polokwane Housing association
- 2009 Ernst & Young Raging Bull award for Best Offshore Global Asset Allocation Fund: Ashburton Euro Asset Management Fund

FNB Africa

- 2009 ICSA/JSE best Annual Report Award: regional listed companies outside South Africa (FNB Namibia)

RMB

- 2009 PricewaterhouseCoopers Strategic and Emerging Issues in South African Banking (2009): investment banking categories – BEE deals, listings, mergers & acquisitions ("M & A"), structured finance and prime broking
- 2009 Ernst & Young Survey: M & A deals and top advisor on highest value of M & A deals
- 2008 DealMakers Awards: deal of the year (Richemont-Remgro restructuring), M & A (transaction value 2008), general corporate finance (transaction flow 2008), private equity (deal of the year 2008: Alstom), DealMaker of the year 2008
- Project Finance Magazine awards: Africa public private partnership deal of the year for the Lekki Epe Expressway in Lagos, Nigeria, and Africa refinancing deal of the year for structuring the refinancing of the N3 toll road between Gauteng and Kwa-Zulu Natal

WesBank

- 2009 Deloitte's Best Company to Work for: winner large company category
- 2009 SAPOA Awards: winner for innovative excellence in property development (Fairland building)

Momentum

- 2009 Financial Intermediary Association: long term investment product supplier of the year
- World Finance Insurance Awards: insurance company of the year (South Africa)

SPONSORSHIPS

FNB

- 2010 FIFA World Cup and 2009 Confederations Cup
- Dance Umbrella for dance and choreography
- SA Ballet
- Joburg Art Fair
- FNB/Momentum sponsorship of Varsity Cup university rugby tournament and classic clashes schoolboy rugby

RMB

- Starlight Classics open air concerts

WesBank

- WesBank Trees initiative involving planting of 200 trees per month in communities around the country to offset carbon emissions from motor vehicles

Momentum

- Kaya Biz business and financial planning radio talk show on Kaya FM

OUTsurance

- OUTsurance pointsmen project in collaboration with Johannesburg Metro Police Department places trained pointsmen at Johannesburg's busiest intersections

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 value chain. During the year under review FirstRand took steps to further centralise the procurement function with a view to achieving procurement efficiencies and influencing the sustainable business practices and BEE credentials of suppliers.

In dealing with suppliers FirstRand seeks fair transactions and endeavors to promote small and emerging businesses through procuring from them and encouraging them to meet the requirements set out in the Group's procurement policies.

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.

Progress continues to be made with the establishment of an enterprise wide procurement function. This part of the Group's operations will deal with pricing, contract management, transformation issues and overall procurement efficiencies, while ensuring fair business practices with all of the Group's suppliers. This will also result in enhanced communication with suppliers.

Procurement spending

Years ended 31 December	**2009**	2008	2007
Total procurement spend (R million)	**8 815**	8 008	6 712
BBBEE procurement spend (R million)	**4 683**	4 084	2 970
BBBEE spend/total spend (%)	**53**	51	44

All data reflects prior calendar year.

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

PK Harris
Chief executive officer
(retiring)

14 September 2009

REMUNERATION COMMITTEE

Composition

Remuneration committee ("Remco") membership is composed of non executive directors. The CEO of FirstRand attends in an ex officio capacity.

Role

FirstRand has a remuneration philosophy that promotes commitment to the meeting of organisational goals and recognises individual contribution to the achievement of those goals.

During the period under review the committee:

- approved remuneration strategy for executive directors and senior management including, but not limited to, basic salary, benefits in kind, performance based incentives, pension and other benefits;
- reviewed the process for and approval of annual salary increases;
- evaluated the performance and rewarding of executive directors and senior executives; and
- reviewed a new share options scheme for consideration by the shareholders.

No executive director is involved in the setting of his own remuneration.

Proceedings

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

	Jul 2008	Jun 2009	Jul 2009
PM Goss (Chairman)	√	√	√
VW Bartlett – Appointed September 2008	–	√	√
LL Dippenaar	A	√	√
GT Ferreira – Retired November 2008	√	–	–
BJ van der Ross	√	√	√
RA Williams – Resigned September 2008	√	–	–
MH Visser – Appointed July 2009	–	–	√

A = Apologies tendered and accepted.

The chairman attends the annual general meeting.

Remuneration philosophy

FirstRand divisions operate in a number of sectors within the financial services industry. Each of these sectors has its own distinct employment practices and unique human resource pressures. To recognise and address the diverse needs of the Group's divisions, FirstRand follows a practice of devolving the design and implementation of appropriate "industry specific" remuneration strategies.

FirstRand's Remco oversees and coordinates the Group's remuneration strategy, ensuring its appropriateness across all divisions.

Remuneration strategy

Within the divisional framework referred to above, remuneration structures for employees include:

- basic salary plus benefits;
- annual performance related rewards; and
- share incentive schemes.

The performance of the executive team and senior management is measured against pre-determined financial and non financial goals. Scorecards and peer group performance assessments are used where appropriate.

Where employees belong to recognised trade unions, appropriate bargaining platforms exist and from time to time remuneration is reviewed by independent consultants to ensure that they remain appropriate and in line with best practice.

Basic salary 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.

All fulltime employees are members of defined benefit or defined contribution pension and/or provident fund schemes operated under the control of the relevant governing legislation. New employees joining the Group become members of a defined contribution pension and/or provident fund scheme. All schemes are regularly valued by independent actuaries and are in a financially sound position. Should the actuaries advise of any deficits within the 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. Where, as the result of past practice, the Group is required to contribute towards post retirement medical aid costs, the present value of such contributions is calculated and provided for. Current employment practice excludes post retirement Group medical aid contributions.

Performance related payments

Where appropriate, annual performance related payments are made to employees. The level of such payments is dependent upon a number of key measures including the contribution of

the individual to benchmarks relating to financial targets such as return on equity and growth in earnings for the business unit concerned. Also included in the scorecard are measurements relating to the meeting of employment equity targets, compliance with legislation, the results of customer satisfaction surveys and innovation. The payment of bonuses is always subject to the discretion of management and bonuses are not formula driven. There is no guarantee in respect of bonuses for senior positions. In certain business units, bonus payments take place in tranches during the 12 months following the financial year to which they relate. Notwithstanding such deferral, the bonuses are provided for in full in the current year's expenditure. Should an employee resign or be dismissed from the Group's employment, unpaid bonus tranches are forfeited. Bonuses are not capped at any particular level.

Group share incentive schemes

Share incentive schemes operated by the Group are a powerful tool in aligning the interests of staff 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 maximum of 564 million ordinary shares of FirstRand may be allocated to the schemes. At 30 June 2009 share options/rights granted under incentive schemes represented 8% of FirstRand's ordinary shares in issue.

The share incentive schemes historically operated by the Group have fallen into two main categories:

- a series of conventional share option schemes (collectively the "FirstRand share option schemes"); and
- FirstRand's Outperformance share scheme, in terms of which participants were rewarded only if the performance of the FirstRand share price exceeds that of the FINI 15 over a 60 month period. This scheme has ended.

For options issued subsequent to 30 June 2006, the essence of the FirstRand share option schemes has been refined to take cognisance of further developments in corporate governance and the impact of changes flowing from the implementation of International Financial Reporting Standards ("IFRS"). Options issued since then involve share appreciation rights and the achievement of vesting hurdles which are based on real growth in earnings. Allocations and the time horizon of the schemes currently in use are reviewed annually.

New share scheme

During the year FirstRand's Remco reviewed a new share incentive scheme which aligns with the latest international best practice. The scheme recommends award levels based on role and responsibility, performance and potential and involves a full share award which retains value in unfavourable market conditions and is set in line with market benchmarks.

The cost to shareholders of the new scheme will be in line with the existing share incentive schemes.

Real growth in earnings is the primary vesting measure alongside Net Income after Cost of Capital ("NIACC"), with earnings measured over a three year rolling period. Provision is made for non financial performance, risk management and compliance with regulations within the Threshold or "Gatekeeper" conditions for the vesting of shares.

The scheme will be put to shareholders for approval at the forth coming annual general meeting.

Executive director remuneration

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.

Executive director participation in Group share incentive schemes is subject to the specific approval of the FirstRand Remco and allocations are done on pricing parameters consistent with those extended to other senior executives.

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 peer group companies 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 a hostile take over.

The scorecard for determining the performance related reward for FirstRand's chief executive evaluates the creation of stakeholder value in respect of business performance and business sustainability performance.

Business performance criteria include return on capital, earnings growth, share price performance, strategy development, continuous improvement and enterprise risk management.

Business sustainability criteria include internal and external stakeholder perspectives. External stakeholder perspectives are stakeholder relations, social responsibility, vision, strategy congruence and major corporate policies. Also measured are investor and board relations, company image and positioning and communications strategy. Internal stakeholder perspectives are executive leadership development, succession planning, corporate governance and corporate culture and ethics.

The scorecard incorporates value metrics for all value drivers and performance in respect of business performance and business sustainability is evaluated with a weighting of 70% – 30% respectively.

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. As indicated earlier in this report, at the request of FirstRand's non executive directors the increase in fees approved by the shareholders for the year under review at the annual general meeting in November 2008, was not paid.

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.

Directors' emoluments (audited)

2009	Services as directors FSR[3] R000's	Group R000's	Cash package[1] R000's	Retirement and medical aid fund contributions R000's	Performance related[2] R000's	Other benefits[4,5] R000's	Total 2009 R000's
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)	139	533	–	–	–	–	672
Subtotal	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
Subtotal	4 015	7 934	–	–	–	–	11 949
Total	4 154	8 467	11 484	1 737	14 370	911	41 123

1 *"Cash package" includes travel and other allowances.*
2 *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 ending 30 June 2010.*
3 *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.*
4 *Other benefits comprise the profit share entitlement from the Group co-investment scheme (see note 35 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.*

Directors' emoluments (audited) continued

2008	Services as directors FSR R000's	Services as directors Group R000's	Cash package[1] R000's	Retirement and medical aid fund contributions R000's	Performance related[2] R000's	Other benefits[3,4,5] R000's	Total 2008 R000's
Executive							
PK Harris	–	–	4 495	705	8 200	2 000	15 400
SE Nxasana	–	–	4 065	555	8 100	128	12 848
Subtotal	–	–	8 560	1 260	16 300	2 128	28 248
Non executive							
GT Ferreira (chairman)	705	1 426	–	–	–	–	2 131
VW Bartlett	197	923	–	–	–	5 000	6 120
DJA Craig	175	–	–	–	–	–	175
LL Dippenaar	213	1 177	–	–	–	–	1 390
DM Falck	175	417	–	–	–	–	592
PM Goss	264	391	–	–	–	–	655
NN Gwagwa	201	–	–	–	–	–	201
YI Mahomed (deceased)	145	–	–	–	–	–	145
G Moloi	175	–	–	–	–	–	175
AP Nkuna	201	–	–	–	–	–	201
AT Nzimande (appointed)	66	116	–	–	–	–	182
KB Schoeman (appointed)	24	–	–	–	–	–	24
SEN Sebotsa (resigned)	118	198	–	–	–	–	316
KC Shubane	175	–	–	–	–	–	175
RK Store	265	1 139	–	–	–	–	1 404
BJ van der Ross	301	1 447	–	–	–	–	1 748
F van Zyl Slabbert	140	–	–	–	–	–	140
RA Williams	213	477	–	–	–	–	690
Subtotal	3 753	7 711	–	–	–	5 000	16 464
Total	3 753	7 711	8 560	1 260	16 300	7 128	44 712

1 *"Cash package" includes travel and other allowances.*
2 *"Performance related" payments are in respect of the year ended 30 June 2008, but were paid (together with an interest factor) in three tranches, during the year ending 30 June 2009.*
3 *Fees earned by 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.*
4 *Other benefits comprise the profit share entitlement from the Group co-investment scheme (see note 35 to the Group annual financial statements). The amount reflected as accruing to Mr Bartlett relates to a payment made in recognition of the outstanding work done by him in chairing the VISA listing.*
5 *No options are granted to executive directors who have attained the age of 57 by September of each year, however a payment is made in lieu thereof.*

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	(Taken up)/ Granted this year (number of shares)	Closing balance (number of shares)	Benefit derived (Rand)
JP Burger	131 586	608	16/9/2008	(131 586)	–	1 339 545
	296 070	1050	1/10/2009	–	296 070	
	450 000	1533	3/10/2010	–	450 000	
	*800 000	1633	1/10/2011	–	*800 000	
	*900 000	2053	1/10/2012	–	*900 000	
	–	1401	3/11/2013	*1 500 000	*1 500 000	
Total	2 577 656			1 368 414	3 946 070	1 339 545
PK Harris	164 483	608	16/9/2008	(164 483)	–	1 672 792
	394 760	1050	1/10/2009	–	394 760	
	540 000	1533	3/10/2010	–	540 000	
	*800 000	1633	1/10/2011	–	*800 000	
Total	1 899 243			(164 483)	1 734 760	1 672 792
SE Nxasana	2 000 000	1329	20/10/2010	–	2 000 000	
	*350 000	1633	1/10/2011	–	*350 000	
	*1 000 000	2053	1/10/2012	–	*1 000 000	
	–	1401	3/11/2013	*2 000 000	*2 000 000	
Total	3 350 000			2 000 000	5 350 000	
D Premnarayen	–	1401	3/11/2013	*2 304 577	2 304 577	
Total	–			2 304 577	2 304 577	

**Share appreciation rights ("APR").*

Hurdle rates with regard to the share appreciation rights are disclosed in note 35 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.

No new options or share appreciation rights were granted to Mr Harris as he attained the age of 57. An additional payment has been made to him to recognise the value of options not awarded. On retirement at the age of 60 all options will vest and Mr Harris will be required to take transfer.

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.

PM Goss
Chairman, Remuneration committee

14 September 2009

AUDIT, RISK AND COMPLIANCE COMMITTEE

Composition

The Audit, risk and compliance committee includes the chairpersons of the Group's major subsidiary audit committees. In addition the Board deems it appropriate that the chief executive and the chief financial officer should attend all 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

FirstRand's Audit, risk and compliance committee reviews the findings and reports of the subsidiary company Audit, risk and compliance committees and addresses matters of both a Group and a head office nature. All the committees have adopted terms of reference approved by their respective boards dealing with membership, structure, authority and duties. The chairman provides reports to the board in respect of issues addressed by the committee.

Stakeholders are referred to the comprehensive risk management reports set out for the FirstRand Banking Group from pages 101 to 162 and for Momentum Group from pages 163 to 197.

During the period under review the committee has addressed key responsibilities in respect of audit, risk and compliance:

Audit

The committee has reviewed the following:

- the integrity of the Group's financial statements;
- the appropriateness of the expertise and experience of the financial director when appointed;
- the quality, independence and cost of the statutory audit;
- the appointments of the external auditors and the audit partner;
- the services of the external auditors;
- the effectiveness of the internal control systems ;
- the effectiveness of the internal audit function;
- the risk areas of the entity 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;
- compliance with legal and regulatory provisions;
- the activities of the internal audit function;
- the independence and objectivity of the external auditors;
- the results of the external audit function; and
- reports from the internal auditors.

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 auditors' charter and approving the audit plan;
- encouraging communication between members of executive management, the internal auditors and the external auditors;
- conducting investigations within the 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

- 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;
- received reports from subsidiary risk committees;
- provided board level oversight for the management of sustainability issues;
- monitored actions carried out for ensuring effective management of environmental risks and compliance with environmental regulations; and
- provided board level oversight for developments in respect of the adoption of the Equator Principles and the implementation of environmental, social and governance ("ESG") risk and compliance reporting processes.

Compliance

- ensured that appropriate systems are in place to identify and monitor compliance with the law and codes of conduct;
- evaluated the adequacy and effectiveness of compliance controls; and
- ensured that appropriate mechanisms exist for whistle blowing.

Proceedings

The independent auditor attends all committee meetings and the annual general meeting of shareholders. The individual registered auditor responsible for the audit is required to be replaced every five years. The committee meets with the auditors independently of executive management as and when they deem it necessary.

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

	Sept 2008	Mar 2009	May 2009
RK Store – Chairman and Chairman of the Banking Group audit committee	√	√	√
BJ van der Ross – Chairman of the Insurance Group audit committee	√	A	√
VW Bartlett	√	√	√

A = Apologies tendered and accepted.

The FirstRand chief executive, chief financial officer, head of risk, head of compliance, the internal auditor and the Group's auditors were present at all meetings.

The chairman attends the annual general meeting.

Auditor independence

At the annual general meeting held in November 2008 shareholders approved the committee's recommendation for the re-appointment 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 7 of the Group annual financial statements, together with details of non audit services provided and the fees paid in respect thereof.

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

14 September 2009

SUSTAINABILITY FORUM

Composition

FirstRand's Sustainability forum is attended by members of the Group's Transformation and sustainability unit, the Group environmental health and safety officer, representatives from the Group's enterprise risk management office, the Group energy manager and sustainability managers from each of the Group's major operating divisions.

Role

FirstRand's Sustainability forum identifies sustainability issues and develops management approaches to these before integrating the appropriate management processes into the day to day operations of business units. In discharging its responsibilities the forum provides a focal point for coordinating sustainability activities across the Group.

During the year the forum facilitated:

- the integration of ESG risk reporting processes into the enterprise risk management function;
- alignment between sustainability reporting processes and recommendations of the King III code, the GRI G3 guidelines, and the JSE SRI index;
- the production of an integrated annual report and major operating divisions' sustainability reports;
- the rollout and integration of sustainability reporting and ESG risk management processes to the Group's Africa operations;
- the introduction and application of the precautionary principle toward new projects;
- the improved flow of environmental performance information to the Audit, risk and compliance committee;
- participation in the JSE SRI index; and
- the defining of sustainability objectives for the year ahead.

The forum has identified the following as key sustainability objectives for the year ahead:

- further refined and integrated environmental, social and governance risk reporting processes;
- further integration of financial and non financial reporting to stakeholders;
- implementation of further Group-wide energy efficiencies;
- implementation of the Group's carbon management strategy; and
- incremental improvement on sustainability objectives addressed in divisional sustainability reports.

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. The sustainability forum takes cognisance of these factors when performing its responsibilities and when implementing the precautionary principle.

Proceedings

The committee meets four times a year. Proceedings are reported to the Audit, risk and compliance committee.

ENVIRONMENTAL FORUM

Composition

Members of FirstRand's Environmental forum include risk and compliance officers, legal experts, business unit managers, communications and public relations officers and environmental specialists.

Role

FirstRand's Environmental forum sets strategic objectives for environmental management and coordinates the realisation of these objectives.

During the past year the forum:

- identified the most important environmental performance indicators on the basis of international best practice and materiality to the Group's operating divisions and their stakeholders;
- oversaw the adoption of the Equator Principles, and implementation of measures for compliance with them;
- developed guidelines for materials and waste management;
- developed and implemented strategies for energy management;
- measured carbon emissions and implemented FirstRand's carbon management strategy;
- facilitated management of FirstRand's indirect environmental impact; and
- facilitated environmental reporting and compliance with environmental regulations.

The challenge of encouraging staff to use environmental resources prudently and to understand the importance of protecting the natural environment is ongoing. In so doing FirstRand aims to ensure that environmental principles adopted in the workplace are practiced in the homes and communities in which the Group's employees live.

Proceedings

The environmental forum meets six times per year.

Environmental performance indicators

	2009
Carbon emissions (Metric T)	
Fuel use	485
Business fleet travel	25 063
Electricity (Owned buildings)	197 586
Electricity (Leased buildings)	173 631
Paper use	1 758
Business road travel	302
Business air travel	4 899
Total carbon emissions	**403 724**
Energy saved (Kw/h '000)	**18 584**
Value of savings (R'000)	**6 632**

2008 comparative data is not shown due to the extension of the scope of FirstRand's carbon footprint calculation for 2009.

Direct impact

Materials and waste management

Various waste management procedures exist at divisional level, and are detailed in the sustainability reports of FirstRand's operating divisions.

FirstRand is implementing measures for ensuring compliance with the provisions of the National Environmental Management Waste Act.

Water management

FirstRand's operations are not water intensive. Where possible water consumption is managed and reduced by FirstRand's operating divisions. These initiatives are disclosed in divisional sustainability reports.

FirstRand's environmental forum has given consideration to a more comprehensive water management programme. An appropriate programme will be adopted when an acceptable best practice framework has been identified.

Carbon emissions and carbon management strategy

FirstRand's carbon footprint is measured annually by external auditors PricewaterhouseCoopers. FirstRand's most recent carbon footprint measurement concerns the 2008 financial year and represents an improvement on the previous year's calculation through the extension of its scope. The 2008 carbon footprint calculation includes more comprehensive data on business, fleet, road and air travel and paper use. In addition to this the scope for electricity use was extended to include new buildings.

FirstRand's CO2e per capita are 10.2 metric tonnes per annum and the Group's carbon reduction strategy will aim to reduce per capita emissions to 9 metric tonnes CO2e.

FirstRand's carbon management strategy will seek to further reduce the Group's carbon footprint through:

- reducing energy consumption by 11% before 2012;
- having ecologically friendly features facilitating conservative use of natural resources in new buildings;
- changing paper intensive processes to paperless ones, in as far as it is reasonably practicable; and
- using video and telephone conferencing facilities to reduce travel.

Energy management

FirstRand's energy savings during the year under review amount to 18 584 210 kWh which equals an energy saving of approximately 5%. Efficiencies realised equate to a R6.6 million saving with once off implementation costs of R12.2 million. The financing of energy saving projects is structured in relation to the energy savings realised.

The use of energy contributes 92% of the Group's carbon footprint. Energy efficiency measures are applied in all operating divisions to reduce the Group's carbon footprint, increase financial efficiencies and reduce consumption of electricity from the national energy grid. Current initiatives include the installation of 2 342 motion sensors, 26 159 energy efficient lamps and reductions in the use of after hours lighting. Other initiatives being implemented concern, among others, air conditioning, IT and hot water efficiencies.

Planned initiatives include the piloting of deep retrofitting of key buildings with energy efficient fixtures in accord with the Clinton Climate Initiative and extending the reach of existing projects to new premises.

Energy efficiency initiatives are facilitated for all operating divisions by the Group energy manager and progress is reported to the Audit, risk and compliance committee via the Environmental forum.

Indirect impact

Environmental Management System ("EMS")

FirstRand's indirect environmental impacts relate primarily to the impacts that the activities of customers and suppliers have on the natural environment. While it is not possible to accurately describe the Group's indirect environmental impact, FirstRand ensures that appropriate mechanisms are in place to monitor and control operational, legislative and regulatory risks in respect of their environmental performance. The application of legislative requirements in respect of environmental impact assessments for project finance transactions is an important component of this process.

FirstRand manages environmental and social impacts related to the activities of customers by applying the principles of the EMS. The EMS is a set of internally established policies, common procedures and resources that enable FirstRand to reasonably ensure that the environmental and social risks associated with projects are screened and that the Group will be able to advise clients on appropriate mitigation measures for managing these risks.

The EMS includes an environmental and social risk assessment process that determines the environmental and social impacts and risks associated with proposed project finance deals. Depending on the nature and scale of the project, the assessment may include a full scale environmental and social assessment or application of environmental siting, pollution standards, design criteria or construction standards.

The EMS is based on the Equator Principles framework and forms an important part of the internal risk reporting and screening process for compliance with the Equator Principles, details of which are provided below. Information which the EMS seeks to ascertain in respect of project finance deals includes the following:

- the project's categorisation in terms of the Equator Principles guidelines;
- areas of non compliance with Equator Principles guidelines;
- the existence and quality of compliance documentation analysing environmental and social risks;
- whether the project is regularly monitored for environmental and social compliance infringements; and
- the existence and quality of recommendations set out in the environmental impact assessments.

Oversight of issues addressed by management in respect of the EMS is provided by the Audit, risk and compliance committee.

Equator Principles

FirstRand has adopted the Equator Principles for the financial year starting on 1 July 2009. The adoption of the Equator Principles has both operational and strategic benefits for the Group. FirstRand has robust principles for managing environmental and social risks related to project finance transactions. Examples of these risks are risk to reputation, legal risk, credit risk, operational risk and varying degrees of overlap between these risks.

Additional benefits associated with adopting the Equator Principles relate to demonstrating FirstRand's alignment with international best practice in project finance transactions both locally and internationally.

TRANSFORMATION MONITORING COMMITTEE

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 Financial Sector Charter ("FSC"), and Department of Trade and Industry ("dti") Codes of Good Practice ("CoGP") rests with executive management.

During the year under review the committee:

- received reports from FirstRand's Transformation unit, which collates the data and information necessary to complete the "scorecard" against which the Group's transformation performance is measured;
- received quarterly reports via divisional chief executives on the transformation activities and progress of their respective operating divisions;
- provided strategic advice to executive management on how to achieve transformation objectives;
- reviewed Group practices for facilitating transformation and employment equity;
- reviewed reports to the Department of Labour ("DoL") on the implementation of the Employment Equity Act; and
- revised the committee's charter to be more encompassing of socio economic transformation objectives falling outside of regulatory requirements.

Proceedings

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

	Aug 2008	Nov 2008	Jan 2009	May 2009
B van der Ross – Chairman	A	√	√	√
NN Gwagwa	√	√	√	√
AP Nkuna	√	√	√	√
AT Nzimande	√	A	√	√
KB Schoeman	√	√	√	A

A = Apologies tendered and accepted.

Transformation performance: Financial Sector Charter scorecard

The results shown below demonstrate FirstRand's performance against the FSC scorecard for the 2008 calendar year and have been independently audited by Sizwe Ntsaluba VSP. The year under review represents the final year of a five year reporting period for FirstRand's performance against the transformation objectives set out in the FSC. From 2009 onward FirstRand will also report performance in respect of transformation objectives against the dti CoGP.

Transformation scorecard

Charter Component	Target	FirstRand Score
HR Development	20.00	**19.91**
Employment equity	15.00	**15.00**
Skills development	3.00	**2.91**
Learnerships	2.00	**2.00**
Procurement and enterprise development	15.00	**15.00**
Access to financial services	8.00	**6.00**
Origination	8.00	**6.45**
Consumer education	2.00	**2.00**
Empowerment Financing	22.00	**22.00**
BEE transactions	5.00	**5.00**
Targeted investments	17.00	**17.00**
Ownership	14.00	**12.00**
Control: Board	3.00	**3.00**
Control: Executive management	5.00	**5.00**
Corporate social investment	3.00	**3.00**
Total	100.00	**94.36**

Human resource development

During the year FirstRand established, in terms of Sections 16 and 17 of the Employment Equity Act, a Group Employment equity forum which is tasked with monitoring the progress of employment equity plans and interventions of the Group. The forum makes recommendations to the Transformation monitoring committee. Employment equity and diversity management policies which provide clear guidelines for the management of human resources development across the Group 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.

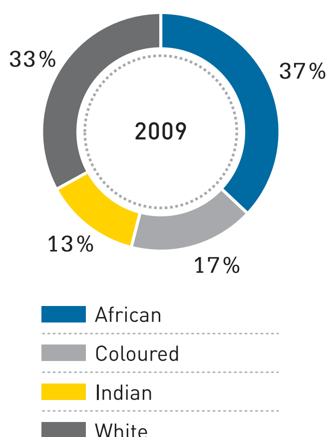
FirstRand's Employment equity forum's strategies take cognisance of targets agreed with the DoL.

The Group's workforce profile as at the end of June 2009 is shown below:

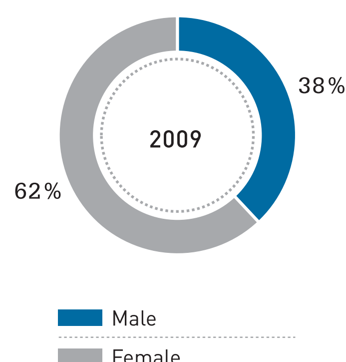
South African workforce profile

Occupational levels	Male				Female				Foreign Nationals		Total
	A	C	I	W	A	C	I	W	Male	Female	
Top management	6	1	4	39	5	0	2	6	3	0	66
Senior management	83	35	97	662	49	23	42	261	4	3	1 259
Professionally qualified and experienced specialists and mid-management	301	109	325	1 507	197	112	251	922	3	2	3 729
Skilled technical and academically qualified workers, junior management, supervisors, foremen, and superintendents	2 045	853	1 095	2 152	2 921	2 476	1 765	4 549	6	6	17 868
Semi-skilled and discretionary decision making	2 836	750	608	815	5 045	2 036	1 023	2 330	10	4	15 457
Unskilled and defined decision making	382	56	4	4	295	53	2	1	1	0	798
Total permanent	5 653	1 804	2 133	5 179	8 512	4 700	3 085	8 069	27	15	39 177
Total 2008	5 579	1 780	1 967	5 420	8 112	4 679	2 940	8 321	47	18	38 863

Workforce profile by race



Workforce profile by gender



BBBEE procurement and enterprise development

During the calendar year ended 31 December 2008, FirstRand spent R4.7 billion with suppliers with appropriate BEE credentials. This represented 53% of the Group's discretionary spend.

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

Enterprise development focuses on providing financial and mentoring support to exempt micro enterprises ("EMEs") and BEE qualifying small enterprises ("QSEs'). Under the FSC enterprise development is classed as a component of the procurement pillar.

Access to financial services

Access to financial services is addressed through:

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

Empowerment financing

Empowerment financing objectives are realised through the facilitation of BEE ownership and equity deals. 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.

Ownership and control

According to the dti CoGP measurements, in December 2008 the audited total direct black shareholding in FirstRand was 18.7% with black women representing 9.4%. These percentages relate to South African investors.

Broad based Trusts

Included in FirstRand's black shareholding are FirstRand's BEE partners and certain broad based charitable trusts which they administer. Also included is the FirstRand Empowerment Foundation with a mandate to promote the education and professional development of historically disadvantaged South Africans. The holdings by these trusts and companies of FirstRand ordinary shares at 30 June 2009 was as follows:

	Number of shares
Kagiso Charitable Trust	93 120 000
Kagiso Trust Investment (Pty) Limited	23 280 000
Mineworkers' Investment Trust	44 500 000
MIC Financial Holdings (Pty) Limited	11 000 000
The WDB Trust	40 560 000
WDB Investment Holdings (Pty) Limited	10 140 000
The FirstRand Empowerment Foundation	117 500 000
Total	340 100 000

Participation by black employees

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 35 to the Group annual financial statements.

The FirstRand staff assistance trust provides help for black employees with education and health related needs. The holding in this trust at 30 June 2009 were 20 million ordinary shares.

Participation by black non executive directors

Group black non executive directors are also participants in FirstRand's BEE transaction.

Messrs KC Shubane, SE Nxasana and BJ van der Ross and Mesdames NN Gwagwa and G Moloi were each granted rights

to 1 million FirstRand ordinary shares in terms of the FirstRand Black non executive directors' trust deed. 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. The trust owns 15 million FirstRand ordinary shares, 11 million of which have been issued to the participants. In terms of the trust deed, executive directors who were previously non executive directors, are entitled to retain their interests in the trust upon their appointment to the executive.

Corporate social investment

FirstRand has achieved maximum points in respect of the Group's Corporate Social Investment programme. Details of the activities of the FirstRand Foundation can be found on page 78.

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

14 September 2009

FIRSTRAND FOUNDATION/FIRSTRAND FOUNDATION EDUCATIONAL TRUST ("THE FOUNDATION")

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 nine executives from within the Group and four independent trustees with expert knowledge in the areas that the Foundation seeks to support. Eight of the trustees are black and five are female. The Foundation is chaired by the incoming FirstRand CEO.

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 major brands. Each fund has its own focus running in parallel to those of the other brands and operating in complementary ways.

"The Foundation is not about winning business but about making a difference in peoples' lives" – SE Nxasana

Proceedings

The Foundation meets quarterly to approve grants, review requests for new funding and to receive evaluation reports on projects being supported.

Review of Operations

During the 2009 financial year the trustees approved grants across all provinces of the Republic of South Africa to the value of R83 million. A further R4.9 million was made available from separate endowments for the funding of two maths education chairs and a number of tertiary education scholarships.

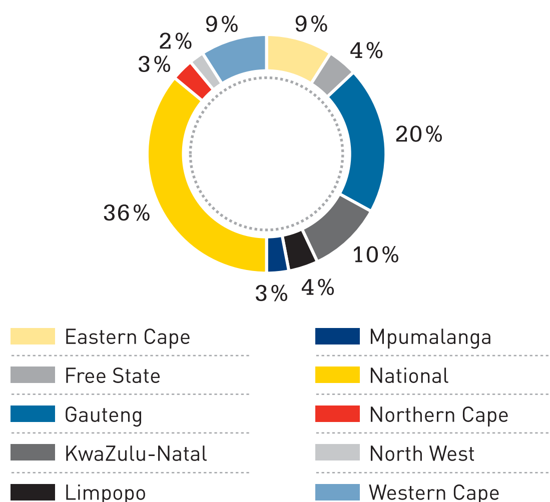
Details of grants approved are as follows:

R'000	2009	2008	2007
Business trust/Skills development	**6 050**	6 236	7 477
HIV/AIDS and Vulnerable children	**12 831**	10 421	7 602
Community care	**7 340**	12 563	13 313
Education – Maths, Outreach programmes and Early childhood development	**15 066**	18 503	32 226
Bursaries	**8 472**	6 665	1 000
Arts, culture and heritage	**6 250**	8 270	3 177
Environment	**4 982**	5 624	2 864
Agricultural livelihoods	**4 130**	3 610	3 265
Substance abuse	**2 300**	2 300	–
People with disabilities	**8 236**	10 862	10 952
Business Against Crime/Heartlines	**1 990**	8 150	1 114
Policy formulation/Advocacy	**1 320**	610	661
Employee volunteers matched funds	**4 000**	3 000	2 500
Total grants	**82 967**	96 814	86 151

Corporate social investment

Grants made are funded by annual contributions from the FirstRand Group equal to 1% of the normalised after tax profits relating to South African operations. The Foundation held general endowments to the value of R66 million at 30 June 2009. Further dedicated endowments totalling R48.6 million are used to fund specific bursaries and scholarships and the recently established FirstRand Maths education chairs at two South African universities. The separately funded bursaries and scholarships are for post graduate study both locally and internationally. The invested funds are professionally managed by RMB Asset Management and RMB Private Bank. FirstRand's African subsidiaries have similar corporate social investment programmes.

Over the last three years the trustees, with the assistance of Tshikululu Social Investments have consolidated their focus areas and sought to introduce multi-year funding with partners who represent best practice organisations in their specific areas of expertise. This consolidation process was completed in the year under review. The Foundation now has approximately 225 partners. The streamlined programme focus has allowed for more meaningful engagement with the sectors and recipients. While the multi-year funding results in building stronger relationships, it also provides a certain level of security to the organisations which are then able to focus on the work at hand.



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 house-building, donations of food and clothing, funding and installation of bakeries and vegetable tunnels, repairing and painting schools and homes for the aged and tree planting. It is estimated that 25% of the Group's staff are involved in voluntary work under the banner "helping people to help themselves".

As part of the tenth anniversary of the formation of FirstRand in 1998, a R20 million endowment funded by the Foundation and RMB was established to create maths education chairs at three South African universities. This initiative receives the support of the Department of Science and Technology who will contribute 25% towards the costs of each of the chairs. Appointments to two of these chairs have been confirmed at Rhodes University and the University of the Witwatersrand.

The Foundation's programme includes national workshops for beneficiaries aimed at sharing knowledge and expertise with a view to increasing the impact of the grants made and the effectiveness of the organisations being supported.

The activities of the Foundation and the role of its trustees are subject to the same corporate governance and ethics principles applied to the FirstRand board of directors and all its subsidiaries and committees.

The consolidation process has meant that over the last three years the Foundation has made significant investments in its areas of focus:

- R30 million towards helping people with disabilities (Momentum);
- helped an estimated 25 000 people through the support of Hospice (FNB);
- R13 million towards projects aimed at protecting the environment (RMB); and
- R11 million in agricultural livelihoods programmes (WesBank).

During the year 215 students received funding for tertiary education and a further 25 for post-graduate study.

Certain of the Group's advertising activities include sponsorships for community based initiatives. These are detailed on page 62.

The reduction in earnings of the FirstRand Group in the 2009 financial year will mean a lower contribution to the Foundation than in the prior year. The trustees are confident that the Foundation will be able to fulfil its multi-year grant obligations notwithstanding the lower income.

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

14 September 2009

COMBINED ASSURANCE

Assurance process

FirstRand has commissioned the following independent sources to provide assurance and commentary on its 2009 Corporate Governance and Sustainability Statement:

- BEE transformation performance has been externally audited by SizweNtsaluba VSP;
- FirstRand's carbon footprint data has been externally prepared by PricewaterhouseCoopers Inc; and
- Group Internal Audit performed a limited review of the statements and quantitative data contained in the Corporate Governance and Sustainability Statement.

Internal Audit Assurance statement

Based on the results of the work performed, FirstRand's 2009 Corporate Governance and Sustainability Statement:

- provides confidence in the information presented within the report. The level of data accuracy was found to be within acceptable limits, but additional improvements were recommended to management to reduce potential for minor anomalies and misstatements;
- appropriately reflects environmental, social and economic performance achieved during the period;
- represents a fair statement of FirstRand's corporate social responsibility initiatives; and
- contains quantitative data which is free from material misstatement.

Notwithstanding that the data collection process is sufficiently transparent, FirstRand shows continued improvement and refinement on its method of collecting data for the Corporate Governance and Sustainability Statement to ensure an even more accurate result. All suggested changes were satisfactorily addressed by FirstRand management prior to finalising the report.

Overall, the report is an appropriate representation of FirstRand's corporate governance and sustainability performance during the reporting period, based on the limited material sampling approach applied to the assurance engagement.

J John
Chief audit executive

14 September 2009

FirstRand's non financial accounting policies are aligned to the Global Reporting Initiative's ("GRI") G3 guidelines, incorporating recommendations set out in the King Committee on Governance's Code of Governance Principles for South Africa (2009) (King III Code), the JSE Socially Responsible Investment ("SRI") index, and the BEE transformation requirements set out by the Financial Sector Charter, and the Department of Trade and Industry's ("dti") Codes of Good Practice.

Disclosures relating to non financial issues have been selected from those recommended in the GRI G3 Guidelines, the GRI Financial sector supplement, the JSE SRI index criteria, the FSC and dti criteria. The principles of materiality and stakeholder inclusiveness have been employed to ensure that non financial disclosures are material and relevant.

Material topics are defined as those reflecting significant economic, environmental and social impacts, or those that would influence the decisions of the company's stakeholders. These topics are addressed in order of priority based on their materiality, and relevance to stakeholders.

Data measurement techniques are replicable, and information is not reported if the margin for error is believed to substantially influence the ability of stakeholders to make informed decisions about the company's performance. Measurement techniques, estimates and underlying assumptions are described when it is materially necessary to do so.

FirstRand contributes positively to socio economic development by empowering employees through the payment of salaries and wages; by paying dividends to the providers of capital; by supporting regulatory capacities through paying taxes; by providing claims and benefits to policyholders; and by extending the provision of financial services through expanding and improving the Group's operations.

	2009		2008	
	R million	%	R million	%
Value added				
Net interest income earned by FirstRand Banking Group	9 610	20.1	12 034	16.9
Net premium income and fees earned by Momentum	40 067	83.7	47 857	67.2
Net income earned by Discovery	–	–	234	0.3
Net (loss)/profit by FirstRand Limited	(295)	(0.6)	100	0.2
Value added by Group	49 382	103.2	60 225	84.6
Non operating income	11 366	23.8	22 977	32.3
Non operating expenditure	(12 897)	(27.0)	(12 020)	(16.9)
Value added by Group	47 851	100.0	71 182	100.0
To employees				
Salaries, wages and other benefits	13 023	27.2	12 594	17.7
To providers of capital				
Dividends to shareholders	4 228	8.8	4 932	6.9
To government	3 710	7.8	3 862	5.4
Normal tax	2 993		3 105	
Value added tax	646		504	
Regional services levy	–		1	
Capital gains tax	59		315	
Other	12		(63)	
To policyholders				
Policyholder claims and benefits	24 366	50.9	42 255	59.4
Insurance contracts	5 939		5 530	
Investment contracts	24 952		36 024	
Adjustment to liabilities under investment and insurance contracts	(6 525)		701	
To expansion and growth	2 524	5.3	7 539	10.6
Retained income	2 737		6 786	
Depreciation	1 369		1 020	
Deferred tax	(1 582)		(267)	
	47 851	100.0	71 182	100.0

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1. **LAURITZ LANSER DIPPENAAR {60}** *Non executive chairman*
MComm, 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 ("RCI") in 1977. RCI acquired control of Rand Merchant Bank ("RMB") in 1985 and he became an executive director. He was appointed managing director of RMB in 1988 which position he held until 1992 when RMB Holdings ("RMBH") acquired a controlling interest in Momentum Life Assurers ("Momentum"). He served as executive chairman of that company from 1992 until the formation of FirstRand in 1998. He was appointed as the first chief executive 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 Limited in November 2008.

FirstRand – committee memberships
Directors' affairs and governance
Remuneration
Directorships – FirstRand Group
First National Bank*
FirstRand Bank Holdings (Pty) Limited – chairman
FirstRand STI Holdings Limited – chairman
Momentum Group Limited – chairman
Rand Merchant Bank*
RMB Asset Management (Pty) Limited
Directorships – external
RMB Holdings Limited
**Divisional Board*

2. **PAUL KENNETH HARRIS {59}** *Chief executive officer (retiring)*
MComm / Appointed May 1998

Paul Harris graduated from the University of Stellenbosch and joined the Industrial Development Corporation. 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. He will retire from his executive position at the end of December 2009.

FirstRand – committee memberships
Audit, risk and compliance – ex officio
Executive – chairman
Directorships – FirstRand Group
FirstRand Bank Holdings Limited
FirstRand Investment Holdings (Pty) Limited
First National Bank*
Momentum Group Limited
Rand Merchant Bank*
RMB Asset Management (Pty) Limited
Directorships – External
Remgro Limited
RMB Holdings Limited
**Divisional Board*

3. **SIZWE ERROL NXASANA {51}** *Chief executive officer: FirstRand Bank, Chief executive officer (designate) FirstRand Limited*
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 an executive director of FirstRand. FirstRand has announced that Sizwe will be taking over from Paul Harris the role of CEO FirstRand Limited when Paul retires at the end of December 2009.

FirstRand – committee memberships
Executive
Stratco
FirstRand Foundation – chairman
Directorships – FirstRand Group
First National Bank*
FirstRand Bank Holdings Limited – Chief executive officer
FirstRand Investment Holdings Limited
Momentum Group Limited
Rand Merchant Bank*
**Divisional Board*

4. **VIVIAN WADE BARTLETT {66}** *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 membership
Audit, risk and compliance
Directors' affairs and governance
Remuneration
Directorships – FirstRand Group
First National Bank*
FirstRand Bank Holdings Limited
FirstRand STI Holdings Limited
Makalani Holdings Limited – chairman
WesBank – chairman*
**Divisional Board*

5. **JOHAN PETRUS BURGER {50}** *Chief operating officer and Chief financial 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 Board of FirstRand Limited as financial director and assumed the additional role of Group chief operating officer in June 2009.

FirstRand – committee membership
Audit, risk and compliance – ex officio
Executive
Directorships – FirstRand Group
FirstRand Bank Holdings Limited
FirstRand Investment Holdings Limited
First National Bank*
Momentum Group Limited
Rand Merchant Bank*
**Divisional Board*

6. **DAVID JOHN ALASTAIR CRAIG {61}** *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 membership
Directors' affairs and governance
Directorships – FirstRand Group
Rand Merchant Bank*
**Divisional Board*

7. **LEON CROUSE {56}** *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 Board on 18 June 2008.

FirstRand – committee membership
Directors' affairs and governance
Directorships – FirstRand Group
FirstRand Bank Holdings Limited
Directorships – external
Remgro Limited
RMB Holdings Limited
Total South Africa (Pty) Limited

8. **PATRICK MAGUIRE GOSS {61}** *Independent non executive*
BEcon (Hons), BAccSc (Hons), CA(SA) / Appointed May 1998

Pat Goss, after graduating from the University of Stellenbosch, qualified as a chartered accountant with Ernst and Young and subsequently joined the Industrial Development Corporation. 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
Nominations
Directorships – FirstRand Group
FirstRand Bank Holdings Limited
Rand Merchant Bank*
Directorships – external
RMB Holdings Limited
**Divisional Board*

9. **NOLULAMO (LULU) GWAGWA {50}** *Independent non executive*
BA (Fort Hare), MTRP (Natal), MSc (cum laude) (London), PhD (London) / Appointed February 2004

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

FirstRand – committee membership
Directors' affairs and governance
Transformation monitoring
Directorships – external
Development Bank of South Africa Limited
Massmart Holdings Limited
Sun International Limited

10. **GUGU MOLOI {41}** *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 membership
Directors' affairs and governance

11. **ASER PAUL NKUNA {57}** *Non executive*
AMP (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 ("GALA") and the South African Local Government Association ("SALGA"). 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
Council for Geoscience
Metrofile Holdings Limited – chairman
Primedia Limited – chairman

12. **AMANDA TANDIWE NZIMANDE {38}** *Non executive*
CA(SA), BCom (UCT), Certified Theory in Accounting (UCT), Diploma in Company Law (Wits) / Appointed February 2008

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

FirstRand – committee membership
Directors' affairs and governance
Transformation monitoring
Directorships – external
Paracon Holdings
Masana Petroleum Solutions

13. **DEEPAK PREMNARAYEN {63}** *Executive*
BA Economics (Hons) / 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 80'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.

Until recently he was a member of the Confederation of Indian Industry's National Committee for Infrastructure and co-chairperson of the India Calling Committee of the Indian Merchants Chamber. 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
Director of various companies in India, Singapore and Mauritius.

14. **KGOTSO BUNI SCHOEMAN {45}** *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 13 years. He led the team that developed the new strategy of the trust from being a general conduit grant funding agency to a development and implementing agency in the early education and rural finance development fields. He is currently heading negotiations with the provincial education department and the private sector to secure long term partnerships for a possible national rollout of 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 Micro-financing sector around the Tshwane area and the Public Participation Process that led to Robben Island gaining world heritage status.

FirstRand – committee membership
Directors' affairs and governance
Transformation monitoring
Directorships – external
Kagiso Trust Investments
Kagiso Enterprises Rural Private Equity Fund
Johannesburg Housing Company

15. **KHEHLA CLEOPAS SHUBANE {53}** *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
RMB Holdings Limited

16. **RONALD KEITH (TIM) STORE {66}** *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 ("FIST") 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.

Tim 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 and chairs the FirstRand Banking Group's Audit committee.

He was appointed curator for four failed South African Banks during the period 1991 to 2004.

FirstRand – committee membership
Audit, risk and compliance – chairman
Directors' affairs and governance
Directorships – FirstRand Group
FirstRand Bank Holdings Limited
Rand Merchant Bank*
**Divisional Board*

17. **BENEDICT JAMES VAN DER ROSS {62}** *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
Audit, risk and compliance
Directors' affairs and governance
Transformation monitoring committee – chairman
Remuneration committee
Directorships – FirstRand Group
First National Bank*
FirstRand Bank Holdings Limited
Makalani Holdings Limited
Momentum Medical Scheme Administrators (Pty) Limited – chairman
Momentum Africa Investments (Pty) Limited – chairman
Momentum Group Limited
RMB Asset Management (Pty) Limited – chairman
Strategic Real Estate Management (Pty) Limited – chairman
(managers of the EMIRA Property Fund)
Directorships – external
Corridor Infrastructure Developments (Pty) Limited
Distell Group Limited
Lewis Group Limited
Naspers Limited
Pick 'n Pay Stores Limited
**Divisional Board*

18. **JAN HENDRIK VAN GREUNING (56)** *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 fifteen languages.

FirstRand – committee memberships
Audit, risk and compliance
Directors' affairs and governance
Directorships – FirstRand Group
FirstRand Bank Holdings Limited

19. **FREDERIK VAN ZYL SLABBERT {69}** *Independent non executive*
BS, BA (Hons) (cum laude), MA (cum laude), DPhil / Appointed November 2001

Frederik van Zyl Slabbert is 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 is currently a political analyst. He holds Honorary Doctorates from the Simon Fraser University in Canada, the University of Natal and the University of the Free State. He is the author of a number of books dealing with demographics and change in South Africa and is 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

20. **MATTHYS HENDRIK VISSER {55}** *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 Membership
Directors' affairs and governance
Directorships – FirstRand Group
FirstRand Bank Holdings Limited
Directorships – External
Distell Group Limited
Kagiso Trust Investments (Pty) Limited
Medi-Clinic Corporation Limited
Nampak Limited
PG Group (Pty) Limited
Rainbow Chicken Limited – chairman
Remgro Limited
RMB Holdings Limited
Unilever South Africa Holdings (Pty) Limited

Paul Harris {59}
MComm
CEO: FirstRand

Sizwe Nxasana {51}
BCom, BCompt (Hons), CA (SA)
CEO: FirstRand Banking Group and
CEO Designate: FirstRand

Johan Burger {50}
BCom (Hons), CA(SA)
COO: FirstRand
CFO: FirstRand

Derek Carstens {59}
BEcon (Hons), MA (Cantab)
Director of Brands

Michael Jordaan {41}
MComm (Economics)
Ph.D (Banking Supervision)
CEO: First National Bank

Theunie Lategan {52}
DCom, CA (SA)
Advanced Diploma Banking
CEO and Country Manager
Representative Office India

Elizabeth Maepa {58}
BCom, CAIB
CEO: FNB Public Sector Banking

Gilbert Swats {48}
B Juris, LLB
Head: Regulatory Risk Management

Nicolaas Kruger {41}
BCom, FFA, FASSA
CEO: Momentum Group

Jan Lubbe {38}
CA (SA), MComm, MBA
Chief risk officer

Sam Moss {48}
BA (Hons) UK; MA (Exeter University)
Director of Investor Relations:
FirstRand

Yatin Narsai {43}
B.Sc Hons
CEO: FNB Personal Banking and CIO

Alan Pullinger {43}
MComm, CA (SA), CFA
CEO: Rand Merchant Bank

Brian Riley {52}
FHA Diploma, AEP (Unisa), AMP
(Harvard)
CEO: WesBank

Willem Roos {37}
BCom (Hons), FIA
CEO: OUTsurance

FIRSTRAND

FIRSTRAND GROUP

FIRSTRAND GROUP

FIRSTRAND LIMITED

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Abbreviations

The directors of FirstRand Limited are responsible in terms of the Companies Act for the 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 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 92.

The financial statements of the Group and the Company which appear on pages 198 to 370 and 372 to 390 respectively and specified sections of the risk management report were approved by the Board of directors on September 14, 2009 and are signed on its behalf by:

LL Dippenaar
Chairman
Sandton

14 September 2009

PK Harris
Chief executive officer
(retiring)

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.

AH Arnott
Company secretary

14 September 2009

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 balance sheets as at 30 June 2009, and the consolidated and separate income statements, the consolidated and separate statements of changes in equity and consolidated and separate cash flow statements for the year then ended, and a summary of significant accounting policies and other explanatory notes, and the directors' report, as set out on pages 93 to 95 and from 198 to 390 and certain tables defined as "audited" in the risk report on pages 96 to 197.

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 controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on 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 controls 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 controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the 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 2009, 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 Incorporated
Director: Fulvio Tonelli
Registered Auditor
Johannesburg

14 September 2009

NATURE OF BUSINESS

FirstRand Limited ("FirstRand") is the holding company of the FirstRand Group of companies. These companies are engaged in diverse financial services activities in the areas of retail, corporate, investment and merchant banking, life and health insurance, employee benefits, short-term insurance and asset and property management. While the Group is predominantly South African based, it has operations in the neighbouring countries, the United Kingdom, the Middle East, Australia and India.

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

A simplified FirstRand Group organogram is shown on page 27.

GROUP RESULTS

A general review of the financial results of the Group and the operations of its subsidiaries commences on page 28.

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

Earnings

Headline earnings were as follows:

R million	**2009**	2008
Banking Group	**6 076**	8 701
Momentum Group	**1 658**	1 979
Discovery Group	**–**	185
FirstRand Limited	**1**	(14)
Consolidation of treasury shares	**(332)**	(520)
Dividend payment on non cumulative non redeemable preference shares	**(464)**	(409)
Headline earnings	**6 939**	9 922
Diluted headline earnings per share (cents)	**133.1**	187.8

Dividends

Ordinary shares

The following ordinary cash dividends were declared in respect of the 2009 financial year:

Cents per share	**2009**	2008
Interim (declared 9 March 2009)	**34.00**	44.25
Final (declared 14 September 2009*)	**22.00**	38.25
	56.00	82.50

**The last day to trade in FirstRand shares on a cum-dividend basis in respect of the final dividend will be Friday 9 October 2009 and the first day to trade ex-dividend will be Monday 12 October 2009. The record date will be Friday 16 October 2009 and the payment date Monday 19 October 2009. No dematerialisation or rematerialisation of shares may be done during the period Monday 12 October 2009 and Friday 16 October 2009, both days inclusive.*

Preference shares

"A" preference shares

Dividends on the "A" preference shares are calculated at a rate of 65% of the prime lending rate of First National Bank. No dividends were paid during the year. Dividends in respect of the prior year were as follows:

For the six months to 31 December 2007:	R1 473 060
For the six months to 30 June 2008:	R1 040 335

"B" preference shares

Dividends on the "B" and "B1" preference shares are calculated at a rate of 68% of the prime lending rate of First National Bank. The following dividends have been declared and paid:

	2009		2008	
Cents per share	**"B"**	**"B1"**	"B"	"B1"
Period 28 August 2007 – 25 February 2008			477.7	477.7
Period 26 February 2008 – 25 August 2008			511.3	511.3
Period 26 August 2008 – 23 February 2009	**518.9**	**518.9**		
Period 24 February 2009 – 31 August 2009	**423.1**	**423.1**		
Total	**942.0**	**942.0**	989.00	989.0

SHARE CAPITAL

Authorised – ordinary and preference share capital

Details of the Company's authorised share capital as at 30 June 2009 are shown in note 34 to the financial statements.

After the conversions of the "A" preference shares (referred to below), the authorised share capital was as follows:

Number of shares	2009	2008
Ordinary shares	**6 001 688 450**	6 001 576 979
"A" preference shares	**198 311 550**	198 423 021

Issued – ordinary share capital

During the year the following changes were made to the issued ordinary share capital of the Company.

On 2 December 2008, FirstRand converted 111 471 "A" variable rate, convertible, redeemable, cumulative preference shares issued by the Company in terms of the FirstRand Outperformance Share Incentive Scheme into the same number of ordinary shares.

Issued – preference share capital

During the year under review the following changes were made to the issued preference share capital of the Company:

"A" preference shares
The following "A" preference shares were either redeemed or converted in terms of the Outperformance Scheme:

Date	Number of shares	Premium
Redemptions		
1 November 2008	832 500	R6.53
27 November 2008	2 378 529	R6.53
Conversions		
2 December 2008	111 471	R6.53

The Outperformance Scheme was started in October 2002. The above transactions in terms of the scheme were the last and the scheme is now terminated.

"B" and "B1" preference shares
There were no changes during the year to the number of "B" and "B1"preference shares in issue.

SHAREHOLDER ANALYSIS

(Disclosure in terms of section 140A (8 (a)) of the Companies Act.)

Based on information disclosed by STRATE and investigations conducted on behalf of the Company, the following shareholders have a beneficial interest of 5% or more in the issued ordinary shares of the Company.

%	2009	2008
RMB Holdings Limited	**30.06**	30.06
Financial Securities Limited (Remgro)	**8.53**	8.53
Public Investment Corporation	**9.48**	9.48
FirstRand Empowerment Trust and related parties	**9.49**	9.49

A further analysis of shareholders is set out on page 398.

DIRECTORATE

Details of the directors are on page 84.

Messrs DM Falck and RA Williams retired from the Board on 11 September 2008 and on 28 November 2008 Mr GT Ferreira retired as a director and chairman of the Board.

The following appointments were made during the financial year.

L Crouse	Non executive	16 September 2008
JP Burger	Executive	1 January 2009
D Premnarayen	Executive	1 January 2009
JH van Greuning	Independent non executive	1 January 2009
MH Visser	Non executive	1 April 2009

The appointment of Mr Crouse was approved by the shareholders at the annual general meeting held on 27 November 2008. The appointment of the remaining four new directors will need to be confirmed at the forthcoming annual general meeting scheduled for 25 November 2009.

The directors unanimously elected Mr LL Dippenaar chairman of the Board following the retirement of Mr Ferreira.

The name of the company secretary and FirstRand's business and postal addresses are on page 399.

DIRECTORS' INTEREST IN FIRSTRAND

(Disclosure in terms of paragraph 8.63 (d) of the Listings Requirements of the JSE.)

Details of the directors' interest in the issued ordinary and preference shares of FirstRand are on pages 54 to 55.

DIRECTORS' EMOLUMENTS

Directors' emoluments and their participation in share incentive schemes are on page 66 to 68. Further information relating to the determination of directors' emoluments, share option allocations and related matters are contained in the remuneration report on page 64.

INTEREST OF DIRECTORS AND OFFICERS

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. 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.

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 and carries levels of cover commensurate with the size and stature of the organisation.

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 27.

COMPANY SECRETARY AND REGISTERED OFFICES

AH Arnott was appointed company secretary on 25 November 2002. The address of the company secretary is that of the registered office as stated on page 399.

EVENTS SUBSEQUENT TO BALANCE SHEET DATE

No matters material to the financial affairs of the Company and the Group occurred between the balance sheet date and the date of the approval of the annual financial statements.

LL Dippenaar
Chairman

PK Harris
Chief executive officer
(retiring)

FIRSTRAND LIMITED

INTRODUCTION

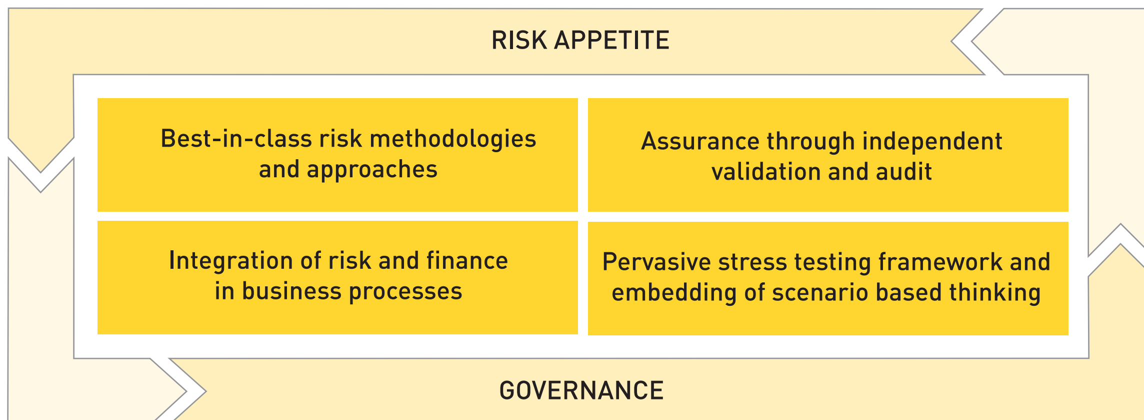
FirstRand's ("the Group") primary business objective is the generation of sustainable profits. As an integrated financial services company, risk taking is an essential part of the Group's business and FirstRand Limited thus explicitly recognises risk assessment, monitoring and management as core competencies and important differentiators in the competitive environment it operates in.

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.

As a company built on a strong and pervasive "owner-manager culture", the adherence to the validity, methodology and scope of risk management is deeply embedded in the Group's tactical and strategic decision making. Accordingly capital is seen as a scarce resource and the imperative to protect its reputation means that risk is considered in a holistic and integrated manner.

The current economic crisis precipitated by the turmoil in the world's financial markets and the failure of financial institutions internationally has dramatically underscored the need for an integrated risk and capital management approach alongside the renewed emphasis on sustainable earnings. Consequently, the Group has adopted a comprehensive approach to risk and capital management that comprises six core components, illustrated graphically 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 Group's continuing efforts to improve its risk identification, assessment and management capabilities. The articulation of risk appetite is closely related to the level of earnings volatility the Group is willing to accept, its target capitalisation level and the allocation of capital and risk capacity (see page 101 and 163). Sound capital management practices are a core component of the Group's business strategy and support the management of its businesses within risk appetite constraints.
- A strong governance structure and policy framework fosters the embedding of risk considerations in existing business processes and ensures that consistent standards across the Group's operating units exist (see pages 101, 104 and 166).
- Best practice risk methodologies have been developed in and for the respective business areas. These have been modelled on existing and emerging best practice in the global financial services industry and are constantly reviewed, challenged and enhanced by deployed and central risk management teams (see page 113 and 163).
- An integrated approach to managing risk has been established to facilitate the pro-active exchange of information between individual risk areas and between risk and finance functions. In doing so, the organisation aims to eliminate any "risk silo" thinking across different risk types and ensure an increasing integration of the traditionally separate domains of risk and finance (see page 105).
- 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. This will enable FirstRand to draw on strong expertise in individual risk areas and the finance functions to ensure optimal decision making in pursuit of stable, growing and sustainable earnings (see pages 106).

- Independent oversight, validation and audit functions ensure a high standard across methodological, operational and process components of the Group's risk and capital management efforts. These functions independently review and challenge deployed and centralised risk, business and support functions and are directly responsible for providing board members with assurance that the Group remains within its chosen risk appetite and adheres to the standards and practices set by the Board (see page 106).

The remainder of this introductory section provides the Group's perspective on the recent financial crisis as well as an overview of the major risks it is exposed to and the steps taken to strengthen risk management practices on the basis of lessons taken from the international financial markets. Each of the core components mentioned above is described in more detail in the main section of this risk and capital management report, alongside a detailed discussion of the risk profile for the banking and insurance operations. Separate risk management reports have been prepared for FirstRand Bank Holdings Limited ("FRBH"), which is referred to as "the Banking Group" or "the bank" and the Momentum Group, which is referred to as "Momentum" or "the Insurance Group" to reflect the different nature of the respective businesses (a clear distinction is made between current practices in these two entities where appropriate).

The financial crisis in context

The current economic and financial crisis is rooted in the gradual build up and explosive unwinding of global macro economic imbalances, which was ultimately triggered by the deflation of the United States of America ("US") housing market. Although initially confined to the US with the impact limited to a reduction in liquidity and mark-to-market losses on certain credit assets, the consequential knock on effects on securitised assets and derivatives quickly spread to all major markets by the middle of 2008.

The severe reduction in liquidity as a consequence of sharply reduced interbank lending also led to deposit runs on banks in a number of economies, culminating in the collapse, government bailout, forced sale or forced merger of a number of large financial institutions in the US and in Europe. The seizure of credit markets, precipitated by the virtually unprecedented drop in banks' risk appetite, began to fully feed through to the remainder of the global economy in the second half of 2008.

The South African economy was exposed to similar macro economic imbalances, but has not experienced a comparable seizure of credit markets due mostly to the following factors, namely:

- South African banks had very little exposure to toxic credit assets tied to the US housing bubble, thus reducing the potential negative impact on their portfolios' credit quality and capitalisation levels;
- the local banking sector has been much less reliant on offshore borrowing and deposits. Accordingly, liquidity and funding pressures have been manageable compared to international markets;
- the correction in South African real estate prices has been orderly to date; and
- South African banks tend to be less geared than international financial institutions.

Nevertheless, the domestic market is not insulated from global macro economic and financial shocks. The Group did experience pressure with respect to its international and domestic exposure, namely:

- mark-to-market losses on international assets;
- a scarcity of international funding and, consequently, sharply increased international funding costs, in particular for US dollars; trading losses in international portfolios where the sharp reduction in market liquidity required the aggressive marking down of assets; and
- wholesale funding costs in the domestic market increased moderately.

For the Banking Group, defaults in the retail sector picked up sharply as a consequence of the relatively high levels of consumer indebtedness. This increase in defaults, combined with the general slowdown in economic activity, reduced the bank's ability to realise value from collateral, in particular in the motor vehicle space. In addition further pressure on the Banking Group's revenue resulted from a reduction in transaction volumes across the board.

Momentum has been primarily affected through the reduction in economic activity across South Africa. As in the banking operations, the crisis has clearly highlighted the need for close monitoring of counterparty health and for close cooperation across risk functions and between risk and business.

The Group expects the South African economic environment to remain challenging over the next reporting period. The recovery in the retail sector is expected to be gradual as lower inflation and interest rates mitigate the economic downturn over time. Default rates in retail portfolios are expected to remain at elevated levels, while credit risk will likely migrate to corporate and commercial portfolios in line with the downturn in economic output.

The Group has taken a number of steps over the period under review to address these challenges and mitigate the negative impact of the financial and economic crisis. It has strengthened its market risk processes considerably to limit the potential losses, which may emanate from market illiquidity and positions in proprietary trading and counterparty credit risk areas. These are discussed in more detail in the following section covering individual risk types as well as aspects of governance, the setting of risk appetite and the embedding of stress testing in the planning and budgeting process, discussed from page 101 onwards.

Major risk factors and recent developments

The Group is exposed to a number of risks that are inherent in its operations. Identifying, assessing, pricing and managing these risks appropriately are core competencies of the individual business areas. Individual risk types are commonly grouped into three broad categories, namely financial risks, operational risks and strategic risks.

This section provides a brief summary of the major risk types as well as the changes in measurement and management approaches implemented over the period under review, as appropriate. Further information and an analysis of the respective risk profiles can be found in the detailed risk sections from page 114 onwards.

Credit risk

Credit risk, in terms of the potential impact on earnings and associated capital requirements, is the most significant risk type for the Group.

The Group remains focused on detailed analyses of the credit portfolio with respect to the organisation's credit risk appetite, which enables it to continuously align its efforts to rebalance the portfolio with its core macro economic outlook. These efforts are a continuation of portfolio actions initiated in the past that include the refinement of Loan-to-Value ("LTV") criteria for the mortgage and asset finance businesses, amongst others.

Changes to the determination of credit strategy and the origination process have been implemented. These are now the joint responsibility of the individual business areas and the central Balance Sheet Management ("BSM") function. These steps aim to ensure consistency across credit origination practices in the Group as well as a granular implementation of and alignment with the Group's credit risk appetite. In addition, centralised cross risk type management as part of the BSM function in the Chief Operating Officer ("COO") portfolio is intended to facilitate a consistent and integrated approach to managing credit, market and liquidity risk.

Further methodological refinements to credit scoring models across various business areas are in progress and sophisticated macro economic credit stress testing models have been implemented as part of the wider stress testing framework. These models are being embedded as vital components of strategic and tactical decision making processes and are already being used as inputs into the planning and budgeting process.

Market and equity investment risk

In line with improvements in measuring market risk internationally and in anticipation of forthcoming regulatory requirements, the Group's efforts are focused on integrating market and credit risk considerations more closely. One example of this is the development and implementation of an internal model for measuring specific risk, ie the idiosyncratic credit risk component not commonly captured by traditional Value at Risk ("VaR") models. Further refinements to the Expected Tail Loss ("ETL") measurement methodology used in the bank's internal capital models are currently under development.

Over the period under review, a number of steps have been taken to strengthen market risk controls. The most noteworthy of these are the implementation of absolute loss thresholds that supplement traditional VaR limits and the inclusion of a liquidity adjustment in the ETL methodology, reflecting lessons taken from international markets where the rapid reduction in market depth (liquidity) has led to unprecedented market risk losses driven by mark-to-market ("MTM") accounting requirements.

Changes to the equity investment risk measurement methodology are also planned to reflect an increased emphasis by the business on the pro-active management of the investment portfolio through the economic cycle.

Counterparty credit risk

The sudden and unprecedented failure of several large international financial institutions has highlighted the importance of pro-active and resolute counterparty risk measurement practices. In response to these events the Group has strengthened the level of communication and cooperation between all risk functions that contribute to the assessment of this risk type so as to ensure that all relevant factors are taken into account for purposes of assessing and pricing this risk.

Additional refinements were made to the methodologies used for calculating Potential Future Exposure ("PFE") values, in particular with respect to the valuation and application of collateral held against counterparty exposures. These methodological refinements were complemented by revisions and improvements to the RMB Equities Trading business unit's credit risk governance framework and the implementation of additional dealing guidelines as well as increased monitoring and management of exposures through the crisis.

Liquidity risk

The Group's international balance sheet has been negatively affected by the global financial crisis, leading to a severe reduction in liquidity in a number of markets and a sharp increase in funding costs internationally. As a consequence, the Group has elected to de-risk its overseas surplus funds over

the reporting period, investing these only in highly liquid and very high quality assets such as treasury bills of European central banks.

The Group's experience in the domestic market has been largely benign with spill over effects from the international crisis contained to an escalation in the term premium for funding (which has remained high over the reporting period). In line with industry practice, the Group continues to comply with the Basel Committee on Banking Supervision's *Principles for Sound Liquidity Risk Management and Supervision.* In addition, liquidity buffers have been increased substantially and the portfolios of highly liquid securities in which these buffers have been placed continue to be the focus of pro-active management and close monitoring.

Interest rate risk in the banking book

Interest rate risk management practices have remained focused on putting in place and managing appropriate hedges to protect the Group's income statement and balance sheet through the declining interest rate cycle. Over the reporting period, the Group's exposure to interest rate risk remained within the limits imposed by the board as part of the Group's risk appetite.

The Group's interest rate risk management strategy has been aligned closely with the stress testing framework over the reporting period and rate movements have been successfully managed on the basis of the Group's core planning scenario. Hedging decisions have also been supported by scenario and stress analyses, with a number of positions taken to mitigate potential tail risks in the interest rate cycle. Over the reporting period the Group experienced no disruptions in the domestic market with respect to its interest rate risk management efforts, although its ability to transact at an economic rate was at times impaired by market predictions of larger rate reductions than those that ultimately materialised.

Operational risk

FirstRand Bank Limited received approval from the South African Reserve Bank ("SARB") to adopt the Advanced Measurement Approach ("AMA") for operational risk on a partial use basis from 1 January 2009. The bank recognises the significance of operational risk and remains focused on improving the measurement, management and reporting of this risk across all its operations.

Sophisticated risk assessment approaches and statistical models are a part of this effort as is the ongoing review of controls and management frameworks to ensure their effectiveness. In support of the operational risk modelling approaches, the bank seeks to capture and collate relevant internal and external operational risk loss data. During the period under review the bank has been accepted as a member of the Operational Riskdata Exchange Association ("ORX"), which greatly enhances its access to high quality loss event data and thus improves the sophistication and accuracy of the risk assessment models for operational risk.

Risks in the Insurance Group

The FirstRand Group's insurance operations are exposed to credit, market, liquidity, operational, compliance, insurance, tax, strategic and business risks as well as risks arising from fiduciary duties. In response to the international financial crisis Momentum implemented a number of steps to protect its capital base from potential adverse effects the crisis may have on its operations. The focus of the operation's risk control and management activities remains on the continuous improvement of existing practices and the implementation of new regulatory directives.

Over the period under review, the Insurance Group completed significant projects in the credit, tax and operational risk space with respect to the implementation of new risk assessment models (credit), the rollout of new systems (tax) and the quantification of new statutory capital requirements (credit and operational).

Enterprise risk management

The Enterprise Risk Management ("ERM") functions provide central independent oversight and risk control as part of the Group's risk governance structure, both in the banking and the insurance operations. As part of the Group's efforts to continuously strengthen and advance its risk measurement and management practices a number of changes have been implemented over the period under review.

These were aimed at strengthening the independence of the risk control functions and at increasing the effectiveness of risk assessment and monitoring practices. The mandate of the Banking and Insurance Group ERM functions, respective reporting lines and the emphasis on assuring independent oversight through the staffing of non executive directors on all relevant risk and audit boards across the Group are discussed further in the risk governance sections of this report (pages 101 and 163).

Group risk governance

The Group's overall governance structure is described in detail on pages 104 and 167. It sets out the respective roles and responsibilities as well as delegation mechanisms of the board across the businesses. The appropriate identification and management of risk and the setting of risk appetite is the board's responsibility, which it discharges through various committees and the boards of the individual franchises. Risk governance approaches and practices necessarily differ across the banking and insurance operations and therefore separate risk governance sections have been prepared for FRBH and for Momentum (see pages 101 and 163).

Risk management: Income statement and balance sheet

The Group considers risk management to be an integral part of the management of the Group's balance sheet and income statement. To this end, risk adjusted versions of the income statement are considered regularly as part of the Banking Group's ongoing stress testing and scenario planning process, as well as in the evaluation of performance across the various businesses. *The Integration of risk and finance* and *The Stress testing and scenario based planning* sections provide more information on this. Furthermore, the relevant governance and management processes are also discussed in the detailed risk sections, as appropriate. (For example, the management of the balance sheet from a risk perspective is largely covered in the Credit risk section of this report, see page 114).

FIRSTRAND BANKING GROUP

This report covers the operations of FRBH, which is referred to as "the Banking Group" or "the bank" in the following sections. Certain banking interests in FirstRand Investment Holdings Limited. ("FRIHL") are managed through the operations of the individual banking businesses in FRBH. Therefore, these fall within the scope of risk management in the Banking Group. Some differences between the practices, approaches, processes and policies of FRBH and FirstRand Bank Limited ("FRB") exist and these are highlighted by a 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.

RISK APPETITE

The Banking Group's business as a financial intermediary is based on the identification, measurement, pricing, and ultimately the taking and management of risk. It does not aim to eliminate risk entirely but to assume it deliberately in a measured, calculated and controlled fashion pursuant to its business objectives.

The level of risk the bank is willing to take on – its risk appetite – is determined by the Banking Group's board, which also assumes responsibility for ensuring that risks are adequately managed and controlled through the its Risk, capital and compliance committee ("RCC") and its subcommittees, as described in the FRBH risk governance section below.

The Banking Group's 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 business 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 Group's business philosophy and thus fall outside its risk appetite.

In addition to these considerations, risk appetite finds its primary quantitative expression in two metrics, namely:

- the level of earnings 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.

These two metrics define the bank's risk capacity and this expression of risk appetite is calibrated against broader financial targets such as the level of dividend coverage and acceptable levels of impairment rates. As a function of the business environment and stakeholders' expectations, and together with the primary risk appetite metrics, these provide firm boundaries for the organisation's chosen path of growth.

Thus, in setting the Banking Group's 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 bank 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.

In practice, the bank has increased its target capitalisation levels in response to the recent financial crisis and remains comfortably within these higher target ranges. Furthermore, earnings volatility thresholds have been refined for the bank's major risk types and a number of changes to business practices were made to ensure that activities remain within its risk appetite. These include:

- the credit origination strategy has been adjusted where portfolios had migrated outside the target risk profile (see Credit risk, page 114);
- proprietary trading activities have been reduced in line with new earnings volatility targets (see Market risk, page 143);
- additional liquidity buffers have been implemented and are managed conservatively in response to the financial crisis (see Liquidity risk, page 187);
- as a key area of focus for the board, ongoing awareness and extensive education sessions on risk appetite are being held at all levels of the organisation; and
- risk appetite measures are included in all management reports across the businesses, as well as at board level, and significant efforts aimed at refining risk thresholds and extending management information in this regard are under way. The results of ongoing stress testing exercises are regularly reported, compared and discussed in light of the Banking Group's risk appetite targets and limits.

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 and, as such, business management carries the primary responsibility for the risks in its business, in particular with respect to identifying and managing it appropriately.
2. Risk control – Business heads are supported in this by deployed risk management functions that are involved in all business decisions and that are represented at executive level across all franchises. These are overseen by an independent, central risk control function, namely 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 and external auditors who are also present at relevant board committee meetings.

The risk management and governance structure explicitly recognises these lines of control and embeds them as a policy of the FRBH board. The following three sections discuss this risk management and governance framework and the associated committee structures in more detail.

Risk management framework

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 of FRBH, it delineates the roles and responsibilities of key stakeholders in business, support and control functions across the various franchises and the Banking Group.

As indicated previously, the BPRMF stipulates that the head of each business unit is responsible for managing risk in line with the BPRMF and other relevant frameworks of the Banking Group or divisional boards. Therefore, it emphasises the embedding of risk management as a core discipline and the requirement for giving explicit consideration to potential risks in all business decisions in line with the Group's focus on ensuring the sustainability of earnings. Business ownership of risk and responsibility for risk management constitutes the first line of control applied across the Group.

The heads of individual businesses are supported in this task by deployed risk management functions that participate in all business decisions. The heads of risk for the individual franchises have a direct reporting line to the bank's Chief Risk Officer ("CRO"), but also retain a second reporting line into the head of the respective franchise. Deployed risk functions are thus partners of the business. They are represented on the respective franchises' executive committees and are involved in strategy setting and business decision making while remaining independent from a governance perspective with a primary focus on risk identification, measurement and control. The deployed risk management functions are overseen centrally by ERM and together form the second line of risk controls across the bank.

ERM is headed by the Banking Group CRO who reports to the Chief executive officer ("CEO") and who is also a member of the Executive committee and plays an active role in the setting of bank strategy. To ensure the independence of deployed risk management functions, the following also fall within the purview of the ERM function:

- agreeing deployed and divisional risk plans;
- reporting and escalating risk matters;
- reviewing skill placement at divisional level and below; and
- performance assessment and remuneration of risk personnel.

The third line of control is provided by the Group Internal Audit function ("GIA") at the level of individual businesses and at a Banking Group level. GIA reports to the board through the FRBH audit committee, and provides assurance on the implementation of risk frameworks and the integrity, accuracy and completeness of risk reports submitted to the individual boards and the Banking Group board risk, capital and compliance committee.

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 risk management policies and procedures of the respective franchises and are governed consistently across the bank. Risks in these entities are, however, reported through the risk governance structure of the Group through the FirstRand Audit, risk and compliance committee.

Lines of risk control in the bank

First Line of Risk Controls

HEAD OF BUSINESS: PRIMARY RISK OWNER

Ensure that the entity acts in accordance with mandates approved by the board:

- Identify and quantify key risks to business under normal and stress conditions
- Specify and implement appropriate risk management processes
- Specify and implement early warning measures as well as associated reporting, management and escalation processes
- Implement risk control and mitigation strategies
- Implement corrective actions as required
- Report risk information to the Executive committee and the governance committee structure as appropriate through to the board
- Ensure all staff understand their responsibilities in relation to risk management

Second Line of Risk Controls

ENTERPRISE RISK MANAGEMENT ("ERM")

Provide independent oversight and monitoring across the Banking Group on behalf of the board and relevant committees:

- Take ownership of and maintain risk frameworks
- Challenge risk profile through reviews of risk assessments, evaluation of risk management processes and monitoring of exposures and corrective actions
- Report risk exposures and performance vis-à-vis management of risk exposures to relevant committees
- Maintain risk governance committee structures
- Ensure appropriate risk skills throughout the Group alongside an appropriate risk management culture for risk taking
- Perform risk measurement validation and maintain risk governance structures
- Manage regulatory relationships with respect to risk matters

▲

DEPLOYED, SEGMENT AND DIVISIONAL RISK MANAGERS

Support business unit management in identifying and quantifying significant risks:

- 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 exposure and corrective actions are reported in an appropriate format and frequency
- Monitor appropriate implementation of corrective action
- Identify process flaws and risk management issues, initiate corrective action
- Ensure all risk management and loss containment activities are performed in a timely manner as agreed with ERM

Third Line of Risk Controls

INTERNAL AUDIT

Provide independent assurance of the adequacy and effectiveness of risk management practices:

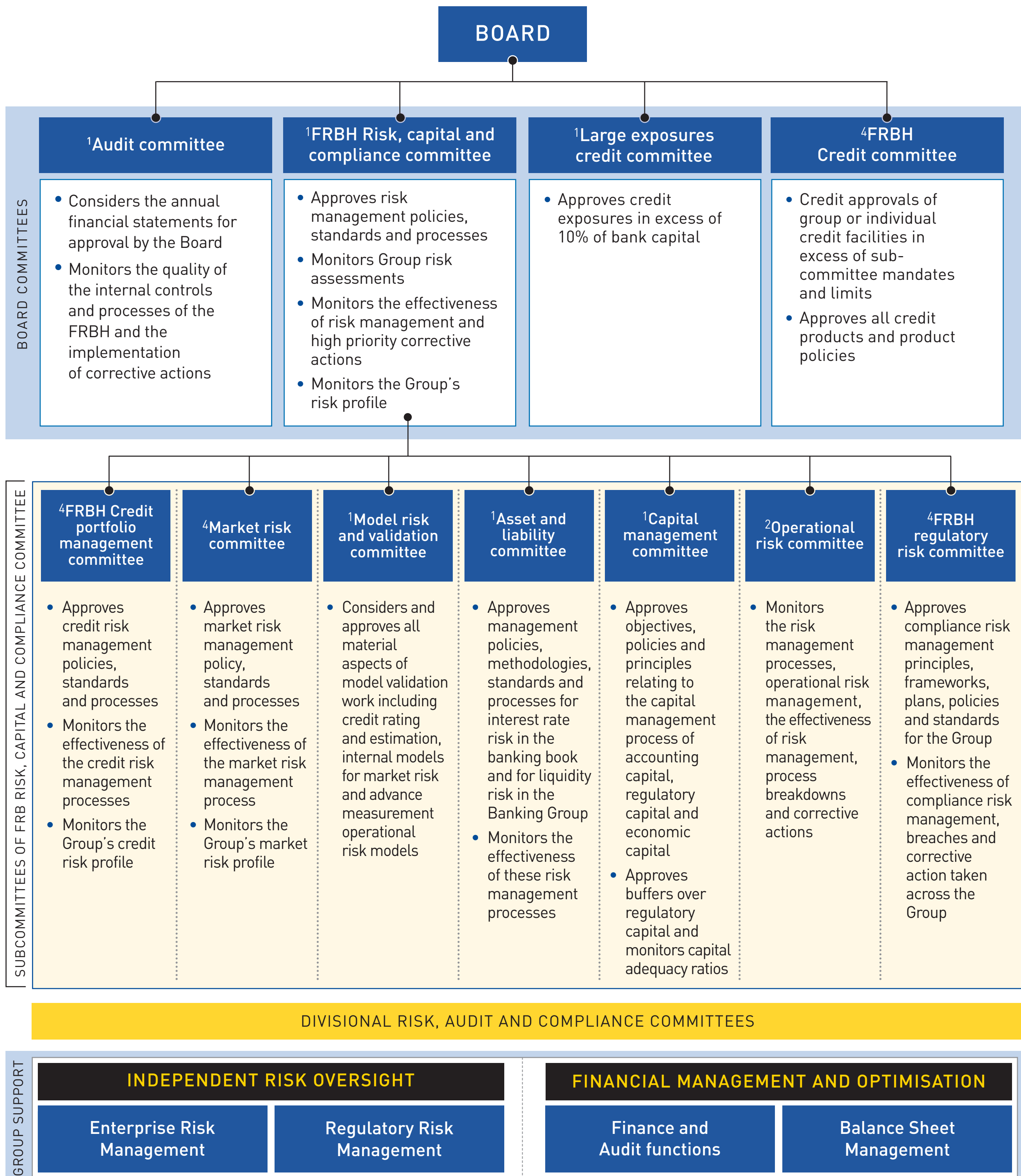
- Review risk assessment results of the business entities
- Assessment of compliance with the directives of the BPRMF
- Evaluation of the development and implementation of policies of the board of relevant committees
- Review of the integrity, accuracy and completeness of risk reports to the RCC and the board

{p104}

Committee structure

In line with the 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 four board committees and their respective subcommittees, as illustrated graphically in the chart below:

Risk governance structure and committees



1 *Denotes chairperson is a non executive board member.*
2 *Denotes chairperson is a non executive non board member.*
3 *Denotes chairperson is an executive board member.*
4 *Denotes chairperson is executive management. The Banking Group Credit committee has non executive board representation.*

The primary board committee overseeing risk matters in the Banking Group is the FRBH Risk, capital and compliance committee ("RCC"). It has delegated responsibility for a number of specialist topics to various subcommittees, as outlined in the chart above. The role of the RCC and its subcommittees is described further with reference to the applicable governance structures and processes for a particular risk type in each of the major risk sections. A number of the individual committees' members are non executives, further strengthening the bank's central, independent risk oversight and control functions.

Additional risk, audit and compliance committees exist in each franchise, whose governance structures generally align closely with that of the bank as illustrated above. The Banking Group 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.

The FRBH Audit committee provides independent assurance on a range of topics and oversees the third line of controls across the banking operations, as set out in the BPRMF. In this task, it relies on the audit committees in the individual franchises as well as the FRBH Audit committee and the deployed audit functions. These audit committees, as well as the RCC, have non executive representation and representatives from the Group's external auditors and the independent risk management functions attend all committee meetings.

In addition to the independent risk management and oversight functions, the board as well as the Executive committee rely on the Group BSM function, which is tasked with supporting the implementation of Banking Group strategy across the portfolio from an operational perspective. As such, the Macro Portfolio Management ("MPM") team within BSM plays a vital role in defining the bank's core macro economic view and associated risk scenarios, which are used for planning and stress testing purposes. The Credit Portfolio Management team plays an active role in the determination of suitable risk appetite constraints for individual credit portfolios and in the setting of credit strategy across the bank to ensure that credit portfolios remain within their targeted risk profile. The Capital Management function within BSM retains responsibility for capital planning and it advises the Board as well as the Executive committee on potential capital actions, dividend strategy and other capital management related topics.

Extensive, regular risk reporting and challenge of current practices

The governance model outlined in the preceding sections and the Banking Group's focus on embedding risk-oriented thinking in all its business processes are the basis for pro-actively identifying, managing and mitigating risks across the bank. Deployed risk managers support the implementation of risk management policies and frameworks in the businesses and continuously evaluate the effectiveness of the relevant risk identification, monitoring and management processes. Reports on the effectiveness of these processes and controls are submitted to the RCC on at least a quarterly basis.

In order to ensure the integrity of the information presented, ERM challenges the practices, assumptions and results provided by the businesses and the deployed risk managers. As part of this 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.

Together with the review by the independent audit functions this ensures 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 bank's risk position at all times.

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 domains of risk and finance, substantially increases the risk of financial underperformance or organisational failure.

The Group considers the sustainability of its earnings as a core objective and key performance metric. The value of its franchises is ultimately driven by their financial strength and the bank is thus adopting a management approach that seeks to balance independent franchises with strong central oversight aimed at ensuring optimal outcomes across the Banking Group.

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 recent creation of the COO portfolio is a major step in this direction (see page 16). The franchises are ultimately responsible for maximising risk adjusted returns on a sustainable basis, ie within the confines of the bank's risk appetite. Centralised business functions within BSM such as MPM support these efforts by providing consistent assumptions and planning scenarios, modelling and forecasting methods and tools (such as detailed risk adjusted income statements) as well as a structured challenge and debate process that is integrated with the strategy setting and budgeting process for the Banking Group.

Through the centralisation of the integrated risk and finance view on the bank's performance, as well as its budgets and

plans, these functions also allow the Banking Group to target a more resilient earnings profile and to take actions that address residual risks that are not adequately offset once aggregated at Banking Group level. Such actions may be related to specific credit hedges, may involve macro economic hedges that seek to provide indirect mitigation of earnings at risk in certain businesses; or they may involve the procurement of insurance against other operational risks where this is judged to be economically sensible.

These central functions are also responsible for the management of the Banking Group's capital and liquidity position, which provide the final buffer against insufficient business performance under extremely severe economic conditions. For the purpose of determining the bank's strategy with respect to capital management actions and the setting of its dividend policy, scenario analyses are employed extensively as supplements to budgets based on consistent planning assumptions and stress scenarios.

A disjointed view on risk and its interaction with more traditional accounting aspects of financial institutions' businesses (eg MTM requirements) has been an important driver of the recent financial crisis. The practices instituted at the Group are intended to ensure that capital and liquidity related decisions can be taken in a well coordinated and pro-active manner on the basis of a consistent, integrated view incorporating aspects of both finance and risk domains, should the need arise.

STRESS TESTING AND SCENARIO BASED PLANNING

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 bank's strategy setting process.

Over the past year, the Banking Group has implemented a comprehensive stress testing framework that formalises the application of scenario based thinking and stress analyses in its business processes. The design of this stress testing framework built on and consolidated practices that already existed in various businesses as well as the established risk functions.

The most important reflection of these practices is the usage of stress analyses in the planning and budgeting process where all businesses are required to base their forecasts on a consistent set of planning assumptions.

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. The framework also provides for the definition and execution of reverse stress tests to provide management and regulators with a structured view on potential developments that may threaten the stability of the institution.

The bank also recognises the fact that it is exposed to a number of risks that are difficult to anticipate and model, and that are thus hard to manage and mitigate economically. These risks are collectively denoted as "event risks" and tend not to be strongly related to the economic environment or the bank's strategy. The stress testing framework provides for the pro-active and continuous identification of such potential events and it establishes a process in which these are evaluated, discussed and escalated across the businesses and the Banking Group.

As indicated in the preceding section, stress testing and scenario analyses have been integrated across the traditionally separate domains of risk and finance. They are an important tool for management decision making on a range of topics, including strategy setting and risk appetite considerations.

AUDIT

GIA provides independent assurance to the FRBH board through its Audit committee. The function is led by the Group audit executive who reports to the Group COO while also retaining an independent functional reporting line into the Chairman of the FRBH Audit committee who is a non executive member of the FRBH board.

The Chief audit executive has direct, unrestricted access to the Chief executive officer of the Banking Group, the executives in the respective franchises as well as all FirstRand functions, records, property and personnel.

With respect to risk and capital management, the GIA forms the third line of assurance and control across the organisation and oversees all processes related to financial risks and internal controls, financial reporting and the monitoring of the results of internal and external audit processes. It is responsible for ensuring that:

- risks are appropriately identified and managed;
- significant financial, managerial and operational information is accurate, reliable and timely;
- resources and assets are effectively and efficiently utilised and adequately protected;
- employees' actions are in compliance with policies, standards, procedures and applicable laws and regulations;
- significant legislative or regulatory issues impacting the organisation are recognised and addressed appropriately;
- the adequacy and effectiveness of the organisation's corporate governance, risk and control frameworks are assessed rigorously; and

- processes for controlling and managing its activities and associated risks are adequate.

GIA coordinates its efforts with the other control and monitoring functions – ERM, Regulatory Risk Management ("RRM") and external auditors. As indicated in the governance section, GIA representatives attend all Audit and RCC committee meetings across the Banking Group. In addition, GIA also attends various governance and management committees in order to remain informed about new developments in the business and to align its risk based audit approach accordingly.

The GIA team conducts audit work, or any other task, in accordance with the internal auditing standards set by the globally recognised Institute of Internal Auditing ("IIA"). This requires compliance with the Standards for Professional Practice of Internal Auditing ("SPPIA"), in particular, the codes of conduct and ethics that are promulgated from time to time by relevant professional bodies, and any other corporate governance initiatives.

To ensure a consistent standard of quality and detail, all audit reports are reviewed by the GIA Quality Assurance Department in addition to the respective audit committees in the business units. Internal audit practices and activities are also assessed independently by the external auditors on an annual basis, in line with the International Standards of Auditing, ISA 610: *Considering the Work of Internal Audit*. This standard requires that the external auditors assess GIA in order to determine the use that may be made of the work of internal audit in modifying the nature and timing, and in reducing the extent of external audit procedures.

CAPITAL MANAGEMENT

Allocating resources, including capital and risk capacity effectively, in terms of the Banking Group's risk appetite and in a manner that maximises value for shareholders, is a core competence and a key focus area for the bank and, as such, sound capital management practices form an important component of its overall business strategy.

Strategic overview

The Group seeks to establish and manage a portfolio of businesses and risks that will deliver sustainable returns to its shareholders. In doing so, the Group targets a particular earnings profile that will allow it to generate these 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. The Group therefore maintains capitalisation ratios appropriate to safeguard its operations and the interests of its stakeholders. 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 bank and the insurer during calm and turbulent periods in the world economy and the financial markets.

The optimal level and composition of capital is determined after taking into account business units' organic growth plans – provided financial targets are met – as well as expectations of investors, targeted capital ratios, future business plans, plans for the issuance of additional capital instruments, the need for appropriate buffers in excess of minimum requirements and considerations of rating agencies.

The efficacy of the Banking Group's capital allocation decisions and the efficiency of its capital structure are important determinants of its ability to generate returns for shareholders. The bank seeks to hold limited excesses above the capital required to support its short term growth plans (including appropriate buffers).

The Capital Management Framework sets out the bank's objectives, guiding principles, processes and approaches for capital management and in doing so it aims to satisfy the needs of a range of stakeholders such as shareholders, debt holders, clients and regulators. It is updated on an annual basis and also governs the continuous evaluation process around potential capital injections in support of strategic growth initiatives.

Capital adequacy position (unaudited)

	FRBH		FRB[2]		
	Actual	Target	Actual	Target	Regulatory minimum
Capital adequacy ratio (%)	14.57	12.0 – 13.5	13.11	11.5 – 13.0	9.50[1]
Tier 1 ratio (%)	12.33	10.00	10.70	9.50	7.00

**Ratios above exclude unappropriated profits of R704 million and R858 million for FRB and FRBH, respectively.*

1 The regulatory minimum excludes the bank specific (Pillar 2b) add on.

2 Reflects solo supervision, ie FRB excluding branches, subsidiaries and associates.

The bank's capital planning efforts ensure that the Total Capital Adequacy and Tier 1 ratios remain within the approved ranges or above target levels across the economic and business cycle. In light of the volatility and distress evident in financial markets internationally, FRBH is pleased to have successfully managed to meet its goal of operating at the upper end of its targeted capitalisation range during times of financial and economic stress.

The targeted capital ratios for both FRBH and FRB (excluding subsidiaries and branches) were increased in June 2008 and these new levels have been achieved. FRBH targets a Tier 1 ratio of 10%, up from 9.25%, and well above the regulatory minimum of 7%. The actual Tier 1 ratio for FRBH was 12.33%. Similarly, FRB is also operating above its Tier 1 target of 9.5%, at 10.70%. The targeted capital levels as well as the current ratios are summarised in the table on the previous page.

The board approved capital plan for FRBH is reviewed as part of the Banking Group's Internal Capital Adequacy Assessment Process ("ICAAP"). It incorporates the expected capital utilisation, capital needs, planned issuance of capital instruments, appropriation of profits and dividend payments, desired level of capital (inclusive of buffer), international expansion and general contingency planning for dealing with divergences, unexpected events and stress scenarios.

The ICAAP was successfully completed in September 2008, with a positive result given under the Supervisory Review and Evaluation Process ("SREP") by the SARB. The annual review of the ICAAP forms an integral part of the capital management process of FRBH. As part of the ICAAP, the bank also assesses the potential impact of various stress scenarios on the level of earnings and Risk Weighted Assets ("RWA"). These analyses are an extension of its stress testing framework as well as ongoing scenario and risk identification analyses carried out across the businesses (see page 106).

The bank is appropriately capitalised under a range of normal and severe scenarios as well as under a range of stress events. It aims to operate within its risk appetite and the associated limits in terms of earnings volatility and the variability of returns on capital in excess of the weighted average cost of capital.

The year under review (unaudited unless otherwise indicated)

Recent events in the international financial markets have increased the focus of stakeholders on both the level and quality of capital in banks. As indicated above, FRBH has strengthened its capital adequacy ratios significantly, with a Tier 1 ratio of 12.33% and a total capital adequacy ratio of 14.57%. This compares to 11.13% and 13.75% in 2008, respectively. The core Tier 1 ratio was strengthened to 11.38% in June 2009 (2008: 10.30%) despite pressure on profitability during the year under review. The overall increase in the Tier 1 ratio is largely a function of the conversion of convertible debt instruments to ordinary shares as well as the reduction of the total RWA discussed below.

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 were primarily affected by lower levels of profitability over the year under review, the payments of dividends (albeit in line with the decline in earnings), as well as the required regulatory adjustment reflecting the excess of expected losses over provisions raised for the bank. Further increases in the regulatory impairment for FRB were driven by the capital injections into the London and India branches.

Supply of capital – Tier 2

During the year under review, the FRBH board took a decision to exercise an option to convert the FRB1999 debentures to ordinary shares. This constituted an early exercise of the conversion option, which had an original maturity date of June 2009 (board decision date: 17 November 2008). The conversion resulted in an increase of the Tier 1 ratio with a corresponding decline in the Tier 2 ratio.

The current pricing of subordinated bond instruments, the limited ability of such instruments to absorb losses and the bank's reduced risk appetite, make the issuance of these instruments unattractive at present. Accordingly, no new Tier 2 instruments were issued during the year under review. The Banking Group has not experienced any disruptions in the domestic debt markets and it will continue to consider subordinated debt instruments as part of its long term funding strategy, with the aim of maintaining Tier 2 capitalisation levels and therefore issuances within the range set out above, while not exposing the bank to excessive roll over risk. It is the intention of the bank to redeem all instruments on call date. The following graph provides an overview of the maturity profile of the instruments currently outstanding:

Demand for capital

Tier 2 maturity profile (unaudited)

(R million)

With the introduction of Basel II, capital requirements expressed as a percentage of RWA have become more risk sensitive and thus more cyclical than under the previous regime. This cyclicality is to a large extent driven by external factors that affect the bank's risk measures across various portfolios and thus drive its capital requirements.

While credit RWAs for FRB have continued to increase as a result of a deteriorating economic environment, the overall RWA position for FRB and FRBH has improved, driven by a number of initiatives implemented over the year under review. These savings have led to a marked decline in the level of overall RWA which lifted the Tier 1 and total capital adequacy ratios during the year.

The overall decline in RWAs took place mainly in the second half of the year and was predominantly driven by the following factors:

- credit risk – lower economic activity and credit re-risking (see page 114 onward);
- operational risk – AMA was implemented and applied for all domestic operations from March 2009 onwards, (see page 158 onward); and
- equity investment and market risk – the Banking Group continued to de-risk its balance sheet domestically and internationally, (see pages 147 and 143).

The following table shows the composition of regulatory capital (financial resources) for FRBH and FRB at 30 June 2009, while the subsequent tables provide a breakdown of risk weighted assets and the approaches to calculate them:

Composition of qualifying capital (unaudited unless otherwise indicated)

	FRBH		FRB*	
R million	**2009**	2008	**2009**	2008*
Tier 1				
Ordinary share capital and share premium*	**5 672**	5 236	**10 821**	7 568
Minority interest*	**1 517**	1 771	**–**	–
Non redeemable non cumulative preference shares*	**3 100**	3 100	**3 000**	3 000
Reserves	**32 626**	33 748	**17 682**	17 363
Less: Total impairments	**(2 303)**	(2 289)	**(1 782)**	(575)
Excess of expected loss over eligible provisions (50%)	**(325)**	(379)	**(325)**	(379)
First loss credit enhancements in respect of securitisation structures (50%)	**(260)**	(283)	**–**	–
Qualifying capital in branches	**–**	–	**(1 297)**	–
Goodwill and other impairments	**(1 718)**	(1 627)	**(160)**	(196)
Total Tier 1 capital	**40 612**	41 566	**29 721**	27 356
Tier 2				
Upper Tier 2 instruments	**1 068**	1 188	**1 068**	1 068
Tier 2 subordinated debt instruments	**6 642**	9 004	**5 872**	7 513
Other reserves	**193**	286	**–**	–
Less: Total impairments	**(493)**	(662)	**(234)**	(379)
Excess of expected loss over eligible provisions (50%)	**(325)**	(379)	**(325)**	(379)
First loss credit enhancement in respect of securitisation structures (50%)	**(260)**	(283)	**–**	–
Other impairments	**92**	–	**91**	–
Total Tier 2 capital	**7 410**	9 816	**6 706**	8 202
Total qualifying capital and reserves	**48 022**	51 382	**36 427**	35 558

**Audited.*

Risk weighted assets by risk type (unaudited)

	FRBH		FRB*	
R million	**2009**	2008	**2009**	2008
Credit risk	**241 447**	256 567	**205 472**	200 424
Operational risk	**47 125**	56 472	**35 000**	44 352
Market risk	**13 246**	17 710	**7 809**	10 369
Equity investment risk	**13 649**	25 653	**17 469**	21 042
Other risk	**14 037**	17 182	**12 071**	13 467
Total risk weighted assets	**329 504**	373 584	**277 821**	289 654

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

Risk weighted assets for each risk type are calculated as indicated in the table below:

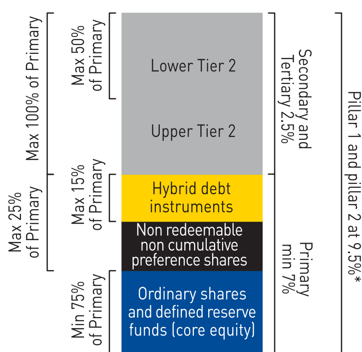
RWA calculation approach for each risk type

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

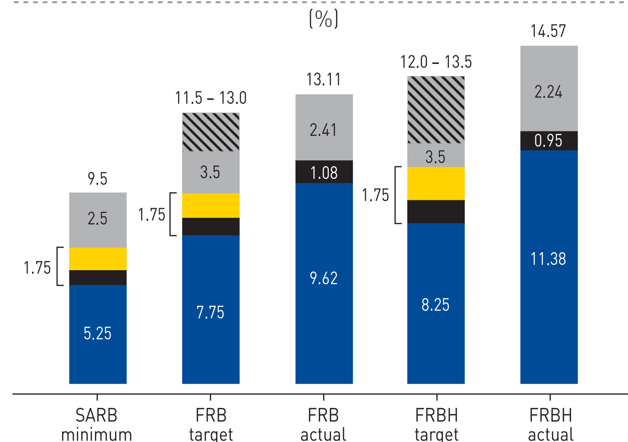
**Approval for the application of the AMA was given by the SARB from 1 January 2009. Due to the quarterly regulatory submission cycle, RWA figures only reflect this change in approach from March onwards. Prior to March 2009, RWA were calculated on the Standardised Approach.*

The charts below depict the current capital adequacy position:

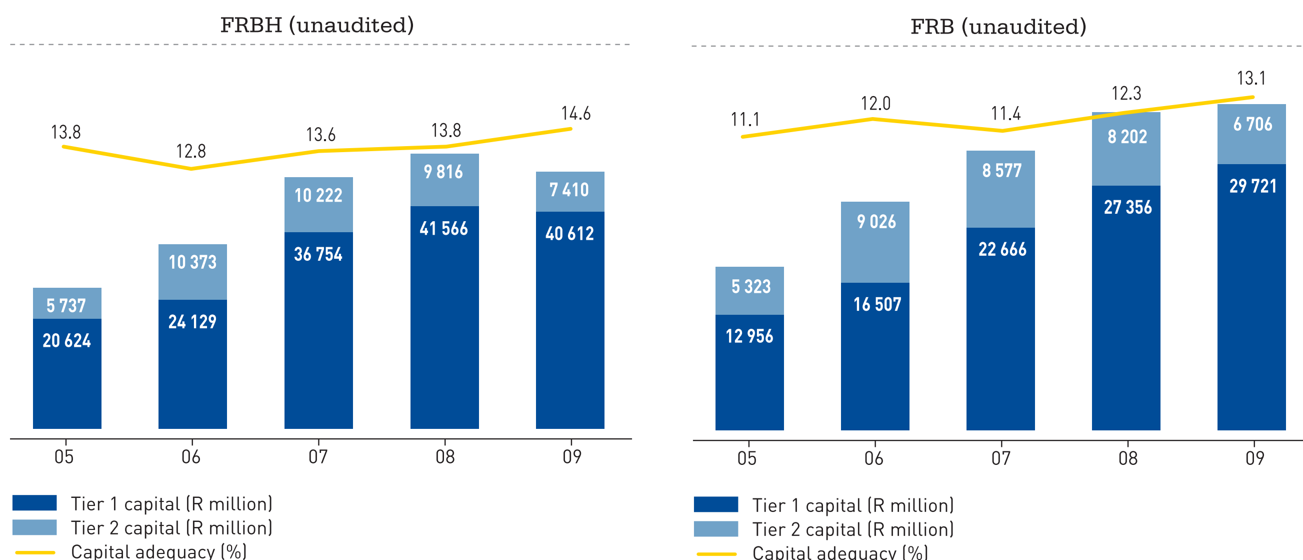
Minimum capital adequacy (unaudited)



Capital adequacy (unaudited)



The graphs below indicate the regulatory capital position of FRBH and FRB:



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)

	2009		2008	
R million	Risk weighted assets	Total capital adequacy %	Risk weighted assets	Total capital adequacy %
Basel II				
FirstRand Bank Holdings Limited*	329 504	14.57	373 584	13.75
FirstRand Bank Limited (South Africa)	277 821	13.11	289 654	12.28
FirstRand Bank UK (London branch)	3 144	21.35	–	–
FirstRand India	126	157.15	–	–
FirstRand (Ireland) PLC	8 355	18.15	18 625	16.97
RMB Australia Holdings Limited	4 611	19.53	7 917	15.71
Basel I**				
FNB (Botswana) Limited	6 031	19.05	5 468	15.28
FNB (Lesotho) Limited	214	19.08	–	–
FNB (Moçambique) S.A.	466	17.43	454	15.12
FNB (Namibia) Limited	8 789	20.31	7 518	20.73
FNB (Swaziland) Limited	1 026	24.69	888	21.04
FNB (Zambia) Limited	48	168.00	–	–

**Note: 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). The FNB Africa subsidiaries currently report under Basel I. These entities also report under Basel II and are included on this basis for the consolidated position of FRBH.*

Economic capital

In addition to the regulatory capital requirements disclosed in the previous section, the bank also calculates its economic capital requirements on the basis of a number of internally developed models. It defines economic capital as the level of capital it must hold, commensurate to its risk profile under severe stress conditions, to give comfort to a range of stakeholders that it will be able to satisfy all its obligations to third parties with a desired degree of certainty, and that it would continue to operate as a going concern.

Regular reviews of the economic capital position are carried out across the businesses. The Banking Group remains well capitalised in the current environment, with levels of Tier 1 capital exceeding the level of economic capital required. As indicated in the preceding section, the bank aims to back all economic risks with Tier 1 capital. Furthermore, it uses the allocation of capital as a steering tool and as one expression of risk capacity used for performance measurement purposes.

To this end, and considering the need for achieving an adequate return on all capital held by the bank, capital is allocated to business units as the maximum of the following, including a buffer, namely:

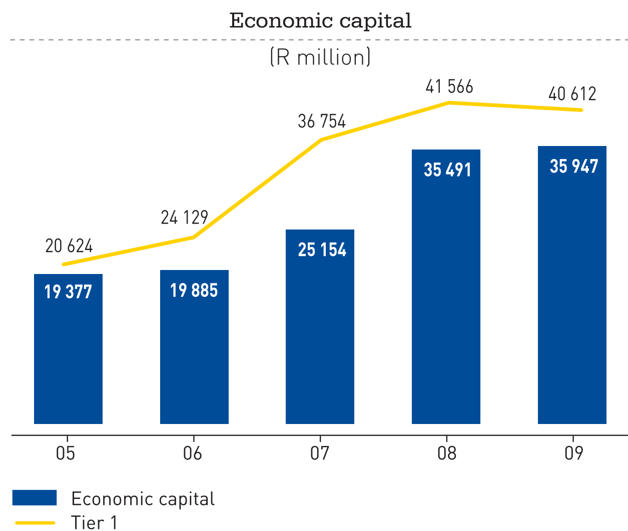
- regulatory capital;
- economic capital; and
- net asset value (shareholder funds).

The 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 Banking Group's stress testing and scenario analysis framework described on page 106.

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 methodologies. These are reviewed periodically and any changes will have a direct impact on business unit level measures such as economic profit or net income after capital charge ("NIACC"). The economic capital framework incorporates aspects of the portfolio's composition in its calibration and reflects the effects of risk concentrations (eg large exposures and industry concentrations) and diversification benefits.

The graph below provides an overview of the evolution of economic capital requirements and Tier 1 capital (available financial resources):

Evolution of economic capital requirements and qualifying Tier 1 capital (unaudited)



Return on equity and economic profit

The Banking Group achieved a return on equity ("ROE") of 13% compared to 21% for the prior year.

Total shareholders' equity and reserves (excluding minority interests) per the Banking Group's balance sheet totalled R47 213 million as at 30 June 2009 (2008: R47 011 million). The average ordinary shareholders' equity and reserves for the year amounted to R43 999 million (2008: R40 006 million).

Segmental ROE

For the purposes of segmental ROE reporting, ordinary shareholders' funds have been attributed to segments based on actual ordinary shareholders' funds utilised by divisions and separate legal entities.

The allocation of the legal entities' ordinary shareholders' funds across segments involves the use of assumptions, interpretations and techniques that are regularly reviewed and updated as deemed necessary. Banks that disclose information on similar allocations and related return measures may use different assumptions, interpretations and techniques.

The table below provides a summary of the ROE numbers for the main segments based on normalised earnings for the year ended June:

Normalised earnings and ROE (unaudited)

	2009		2008
R million	Normalised earnings*	ROE %	ROE %
FNB	**3 737**	**26**	33
FNB Africa	**514**	**27**	34
RMB	**1 514**	**12**	25
WesBank	**315**	**7**	12
Group Support	**(333)**	**–**	–
Total	**5 747**	**13**	21

**Normalised earnings include the net income on capital earned by the respective divisions less Group Support costs and the cost of preference shares.*

Economic profit

As indicated previously, the bank considers the identification and management of risk a core competence and it has therefore aligned its performance measures with risk considerations where appropriate. The use of economic profit or NIACC has been embedded across the businesses and management culture.

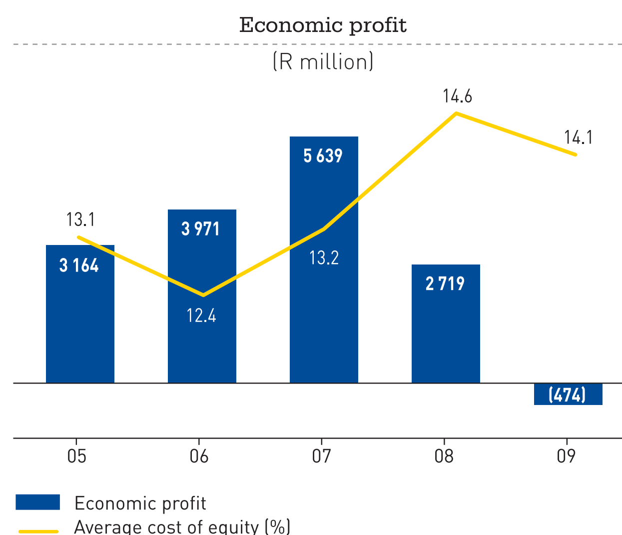
As a function of the normalised earnings and capital utilised in the businesses, economic profit provides a clear indication of the economic value added by a transaction or business unit. Due to the deteriorating economic environment, economic value creation has been negatively affected during the year. The following table and chart provide an overview of the relevant calculation and the creation of economic profit over time:

Economic profit and ROE (unaudited)

	Year ended June	
R million	2009	2008
Normalised earnings	**6 056**	8 814
Preference dividends	**(309)**	(273)
Normalised earnings attributable to ordinary shareholders	**5 747**	8 541
Charge for capital*	**(6 221)**	(5 822)
Net economic (loss)/profit	**(474)**	2 719
Average ordinary shareholders' equity	**43 999**	40 006
Return on average ordinary shareholders' equity (%)	**13.1**	21.3

**The capital charge is based on an average cost of equity of 14.1% (2008:14.6%).*
Economic profit = normalised earnings – (average cost of equity x average ordinary shareholders' equity and reserves).

Evolution of economic profit and ROE (unaudited)



RISK METHODOLOGIES

As indicated in the introduction to this risk and capital management report, the Banking Group considers the development and embedding of best-in-class risk assessment and management methodologies and models as a requirement for effective risk management practices that can support the bank in attaining its strategic objectives.

The following sections provide a detailed description of the approaches, methodologies, models and processes used in the identification and management of each major risk. Each section also describes the applicable governance and policy framework and provides an analysis of the respective portfolios and the Banking Group's risk profile with respect to the type of risk under consideration.

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.

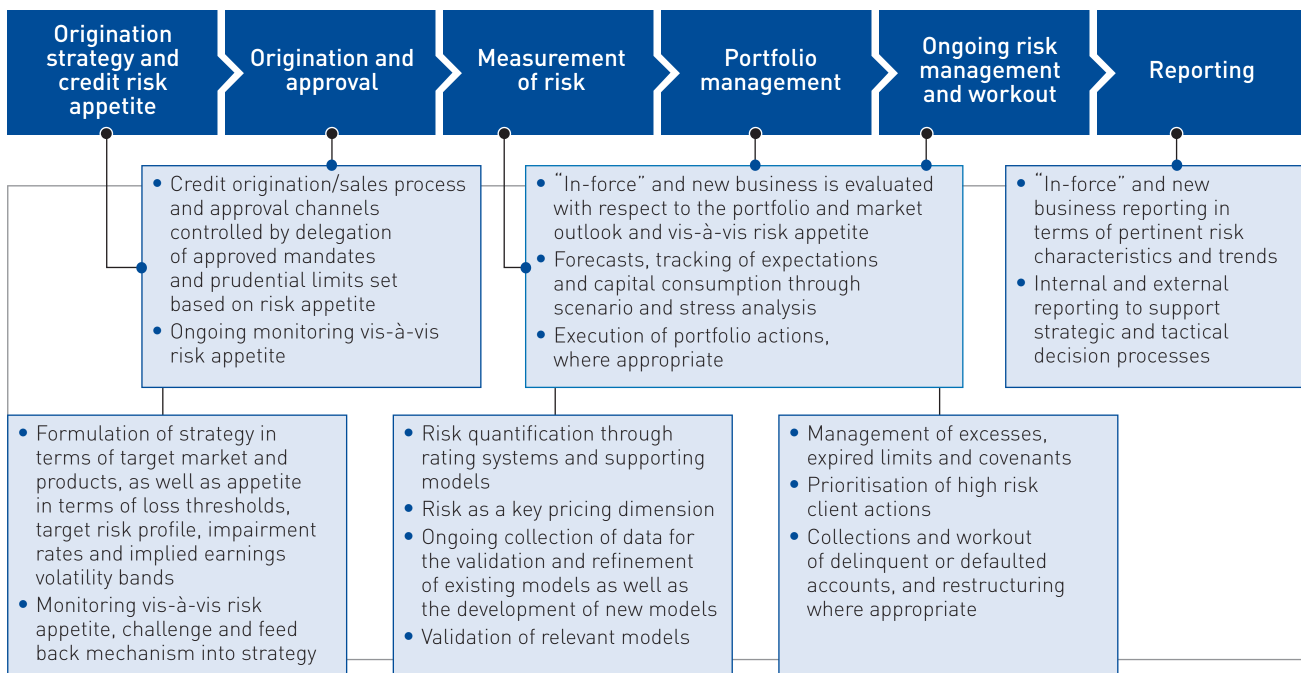
Introduction and objectives

Credit risk is one of the core risks the bank assumes in pursuit of its business objectives. It is the most significant risk type in terms of regulatory and economic capital requirements. The objectives of the bank's credit risk management practices are two-fold:

1. Risk control: Appropriate limits need to be placed on the assumption of credit risk and steps have to be taken to ensure the accuracy of credit risk assessments and reports. Deployed and central credit risk management teams fulfil this task.
2. Management: Credit risk needs to be taken within the constraints of the Banking Group's risk appetite framework and the credit portfolio is managed at an aggregate level to optimise the Group's exposure to this risk. The business units and the deployed risk functions, overseen by the central ERM function and relevant board committees, as well as the Credit Portfolio Management ("CPM") team in the BSM function 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



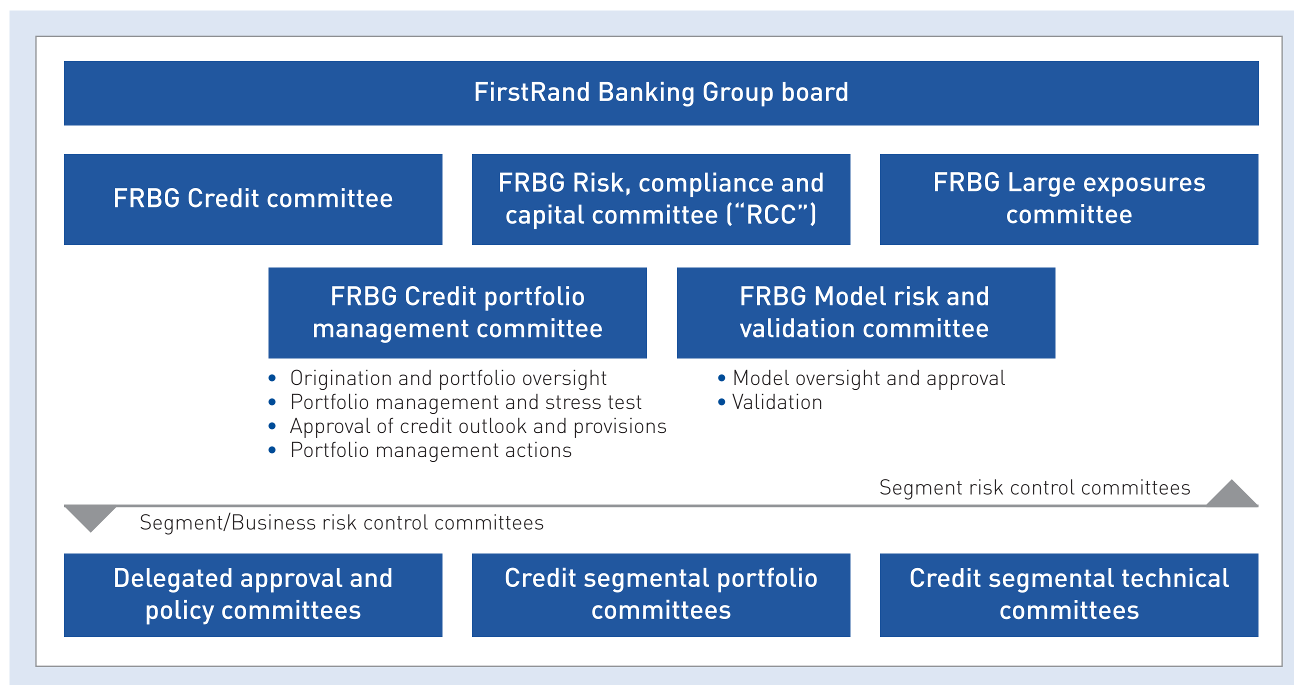
Organisational structure and governance

As described in the risk governance section (page 101) the ultimate responsibility for the identification and adequate management of risks rests with the board, which has delegated its responsibility for overseeing credit risk to the RCC, its respective subcommittees and the boards of the Banking Group's subsidiaries. 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, the CRMF is a policy of the board and integrates with the BPRMF (see page 102). As the primary risk governance body in the bank, the RCC regularly receives and reviews reports on the adequacy and robustness of credit risk identification, management and control processes, as well as reports on the current and projected credit risk profile across the various businesses.

Two credit focused board committees, the Banking Group Credit committee and the Large Exposures Credit committee as well as two subcommittees of the RCC, the FirstRand Banking Group Credit portfolio risk committee and the Model risk and validation committee, support the RCC in this task. This is illustrated graphically in the chart below.

Credit risk governance structure and committees



The Credit portfolio risk committee ("Credit Exco") is responsible for the management of the credit risk profile at a strategic level through the review of reports and the execution of specific actions on:

- the macro economic outlook generally, and the forecasts of credit conditions specifically;
- the credit risk profile and the performance of the credit portfolio, in particular with respect to the appropriate level of impairment charges;
- new business origination with reference to the bank's credit risk appetite and suitable adjustments on the basis of the macro cycle;
- scenario and sensitivity analyses, stress tests and credit economic capital; and
- credit concentrations.

The Model risk and validation committee fulfils a supervisory role with respect to credit risk measurement systems such as the bank's rating models. It regularly reviews, challenges and approves reports on the design and operation of these systems and it retains ownership of the Banking Group's model development and validation frameworks.

As indicated in the Risk governance section (page 101), three primary lines of risk control have been established across the bank's operations. Deployed and central risk management functions are the second tier of this control structure.

The Group Credit Risk Management ("GCRM") function in ERM provides independent oversight of the credit risk management practices in the deployed risk management functions in the businesses and of the CPM function in BSM. 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 Banking Group's risk appetite framework;
- monitoring of the bank's credit risk profile and reporting thereof;
- review of all credit rating systems and the independent re-validation of material credit rating systems;
- management of the 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. Their responsibilities specifically include:

- formulation of credit strategy and assessment of business level credit risk appetite (together with CPM and within the

constraints of the bank's overall credit risk appetite, see below);

- maintaining and monitoring implementation of methodologies, policies, procedures and credit risk management standards;
- independent 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.

The CPM function in BSM, on the other hand, is responsible for management of the balance sheet with respect to credit risk and thus fulfils both an operational and a central coordination role. Its mandate includes:

- the formulation of the macro economic 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 the 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 bank's credit risk appetite across the business units;
- credit risk related stress testing, scenario analysis and portfolio modelling;
- assessment of impairments, its analysis, forecasting and reporting;
- the coordination of the bank's securitisation process as well as the design and initiation of structured credit transactions aimed at optimising the credit risk profile and the balance sheet; and
- credit risk reporting to stakeholders such as the Credit portfolio risk committee.

Credit risk assessment: Calculation of internal ratings and rating process

The assessment of credit risk across the bank relies heavily on internally developed quantitative models for regulatory purposes under Basel II, as well as for addressing business needs.

Credit risk models are employed widely in a number of areas such as the assessment of capital requirements, pricing, impairment calculations and the 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. FRB has been granted regulatory approval for the use of its internal models under the AIRB approach. The remaining FRBH subsidiaries are utilising the Standardised Approach for regulatory reporting purposes under the Basel II framework, even though the same or similar models are applied for the internal assessment of the three primary credit risk components, as outlined in the following sections.

Probability of default ("PD")

The probability of default 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; and
- Event-driven: the bank has 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 for the bank).

The bank applies this definition of default consistently across all credit portfolios as well as in the recognition of non performing loans for accounting purposes.

For communication and reporting purposes, the Group employs a granular, 100 point, master rating scale to which the continuum of default probabilities has been mapped, as illustrated in the table below:

Mapping of FR grades to rating agency scales (unaudited)

FR rating	Mid-point PD	International scale mapping*
FR 1 – 12	0.04%	AAA, AA, A
FR 13 – 25	0.27%	BBB
FR 26 – 32	0.77%	BB+, BB
FR 33 – 37	1.34%	BB-
FR 38 – 48	2.15%	B+
FR 49 – 60	3.53%	B+
FR 61 – 83	6.74%	B+
FR 84 – 91	15.02%	B-
FR 92 – 94		Below B-
FR 95 – 100	100%	D (defaulted)

**Indicative mapping to the international rating scales of Fitch and Standard and Poor's.*

A FirstRand ("FR") rating of 1 denotes the lowest PD, and an FR rating of 100 the highest. External ratings have also been mapped to the master rating scale for reporting purposes and these mappings are reviewed and updated on a regular basis.

In line with international best practice, the Group distinguishes between point-in-time ("PIT") and through-the-cycle ("TTC") measures of PD. PIT PDs reflect default expectations in the

current economic environment and thus tend to be more volatile than TTC PD measures which reflect long term, average default expectations over the course of the economic cycle. Both measures are used for the management of the business and the exposure to credit risk. For example, PIT PDs are typically used in the calculation of impairments for accounting purposes whereas TTC PDs are an input to economic and regulatory capital calculations, providing for a more stable assessment of capital requirements through the business cycle.

Exposure at default ("EAD")

The exposure at default of a particular facility is defined as the expected exposure the bank may have to a counterparty through the facility, should the counterparty default over the next year. It reflects commitments made and facilities granted by the bank that have not been paid out and that may be drawn over the time period under consideration (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 bank's historical default.

Loss given default ("LGD")

Loss given default is the third major credit risk component estimated by the bank on the basis of its internal models. It is defined as the economic loss the bank is expected to suffer on a particular facility upon default of the counterparty, and it is typically expressed as a percentage of exposure outstanding at the time of default.

In most portfolios, the LGD is strongly dependent on the type, quality, and level of subordination and value of collateral held by the bank compared to the size of the overall exposure as well as 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 for the assessment of LGD across various portfolios, which have been developed internally and whose outputs are calibrated to reflect both the bank's internal loss experience, where available, as well as external benchmarks, where appropriate.

Typically, a distinction is made between the long run expected LGD and a 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 (ie 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 by the Banking Group.

Rating process

The bank employs a consistent rating process across the various businesses, differentiated by the type of counterparty and thus the type of model employed for rating purposes. For example, retail portfolios are segmented into homogenous pools in an automated process based on statistical models of customer behaviour, data gathered from customer applications, a client's delinquency status and other client or product specific parameters. Based on the bank's internal product level data, probabilities of default are then estimated (and continuously updated) for each pool.

A combination of external models, such as Moody's RiskCalc, and internally developed models are used in the commercial and corporate portfolios, where clients are typically scored on the basis of their financial strength and PDs are estimated based on historical internal default data. For larger counterparties in the corporate portfolios, as well as for complex bespoke transactions, detailed individual assessments are carried out within a framework that combines qualitative and quantitative analyses with the output of internally developed statistical models, which have been calibrated to the bank's internal and external data, covering more than ten years.

The following table summarises the processes and approaches employed and it provides an overview of the types of exposures within each of the Banking Group's portfolios:

Credit portfolios and rating process

Portfolio and type of exposures	Description of rating system
Large corporate portfolios (Wholesale: FNB Corporate, BSM 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 credit-worthiness. • 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, BSM 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.
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.

<table>
<thead>
<tr><th>Portfolio and type of exposures</th><th>Description of rating system</th></tr>
</thead>
<tbody>
<tr>
<td>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.</td>
<td>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.
• Probabilities of default 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:
• Counterparties are scored using Moody’s RiskCalc, the output of which has been calibrated to internal historical default data.
• 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.
• Portfolio level credit conversion factors (“CCF”) are estimated on the basis of the bank’s internal historical experience and benchmarked against international studies.</td>
</tr>
<tr>
<td>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.</td>
<td rowspan="3">The default definition applied in the rating systems is aligned to the requirements of Basel II.

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.
• Probabilities of default are estimated for each subpool based on internal product level history associated with the respective homogeneous pools and subpools.
• No overrides of the PDs are possible. The only potential override is not that of the PD, but rather of the automated decision to lend or not. Such overrides may be done on the basis of credit managers’ 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 (eg straight vs budget in the case of credit cards).</td>
</tr>
<tr>
<td>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.</td>
</tr>
<tr>
<td>Other retail exposures
(Retail portfolios in FNB Personal Loans, Smart Products and WesBank retail auto finance and personal loans)</td>
</tr>
</tbody>
</table>

Model validation

The bank's rating models are recalibrated and independently validated on an annual basis to ensure their validity, efficacy and accuracy. The rating models used across the credit portfolios incorporate an appropriate degree of conservatism, which has been achieved through the prudent choice of model parameters and the inclusion of downturn periods such as 2001 and 2007/2008 in their calibration.

The independent validation of the bank's rating systems is carried out by the Group Credit Risk Management function in Enterprise Risk Management. It is responsible for the review of all rating systems and a comprehensive revalidation of all material rating systems on an annual basis. An actuarial auditing team in GIA carries out additional reviews of the rating systems as well as sample revalidations. The results of these analyses are reported to 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 the processes followed and the data used to construct and parameterise 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 the 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 that the model development teams have to adhere to.

Credit risk management

The management of individual credit exposures and the credit portfolio as a whole is a core competence of the bank with commensurate responsibilities shared across business and risk teams as well as deployed and central functions. The individual businesses seek to optimise the risk/return profile of their respective credit portfolios and control their risk exposure through the processes and within the risk appetite constraints set out by the bank.

Central risk control functions provide the appropriate oversight of this management process and the CPM team in BSM seeks to optimise the overall credit portfolio so as to ensure that diversification effects are duly reflected when evaluating the risk profile against risk appetite constraints and managing the portfolio against these limits.

The primary components of the management process are thus shared and consist of control mechanisms, risk mitigation strategies, approaches to managing credit risk concentrations and a consistent framework for the monitoring of weak and high risk exposures.

Control mechanisms

As indicated in the credit risk governance section, risk control is exercised primarily by deployed and central risk management functions. Group Credit Risk Management, as part of the ERM function, is the ultimate owner of credit risk relevant frameworks and policies and provides oversight of their implementation by the deployed risk management personnel.

Additionally, it facilitates credit risk control through the production of relevant reports for the board, senior management and the regulator. A third component of its mandate is the independent validation of credit risk rating systems across the bank. As indicated in the preceding section, the team seeks to ensure that credit rating systems are appropriately conservative and that their calibration is sufficiently reflective of periods of economic downturn. An actuarial team in GIA carries out additional reviews and pertinent documentation is ultimately submitted to the Model risk and validation committee for approval.

Mitigation

Since the taking and managing of credit risk is a core component of the bank'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 Group's risk appetite.

In addition, various instruments are used to reduce the bank's 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 typically depends on the portfolio, product or customer segment, for example:

- mortgage and instalment sale finance are secured by the assets financed;
- personal loans, overdrafts and credit card exposures are generally unsecured or secured by guarantees and suretyships;
- FNB Commercial credit facilities tend to be 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 typically 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 bank employs strict policies governing the valuation and management of collateral across all business areas. Collateral is managed internally so as to ensure that the bank retains title 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 re-valued by physical inspections in the event of default and at the start of the workout process.

Management of concentration risk

Concentration risk is managed in the respective credit portfolios with aggregate monitoring taking place at Banking Group level through the GCRM and CPM functions in ERM and BSM respectively.

In the wholesale credit portfolio, concentrations are managed primarily through single name limits for large exposures as well as the evaluation of country and industry concentrations. The assessment of credit concentrations and their potential impact on this portfolio is based on a sophisticated, simulation based portfolio model. The Banking Group also uses securitisation structures and credit derivatives to manage concentration risk, as discussed in the governance section with respect to the CPM function's mandate.

In commercial portfolios, the bank is focused on 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. Due to the inherent diversification of retail portfolios, credit risk concentrations in these segments are largely driven by the reliance on a small number of collateral types. These concentrations are monitored and managed in the respective business segments (eg exposure to geographical areas and 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 are maintained alongside specific and detailed action plans for each client. These are actively monitored and updated on at least a monthly basis through the respective credit committees in the business area. The bank seeks to reduce or mitigate its exposure to such clients through the restructuring of facilities where appropriate, through the use of credit derivatives, and ultimately, through an efficient workout and the realisation of collateral value in the event of default.

In retail credit portfolios, weak exposures are monitored on a (homogeneous) portfolio basis. Certain weak exposures are restructured to increase the projected realised value for the bank. Additionally, the Banking Group typically reduces or removes undrawn facilities in areas such as HomeLoans and credit cards, or requires further 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 CPM team in Balance Sheet Management 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 bank's credit risk appetite.

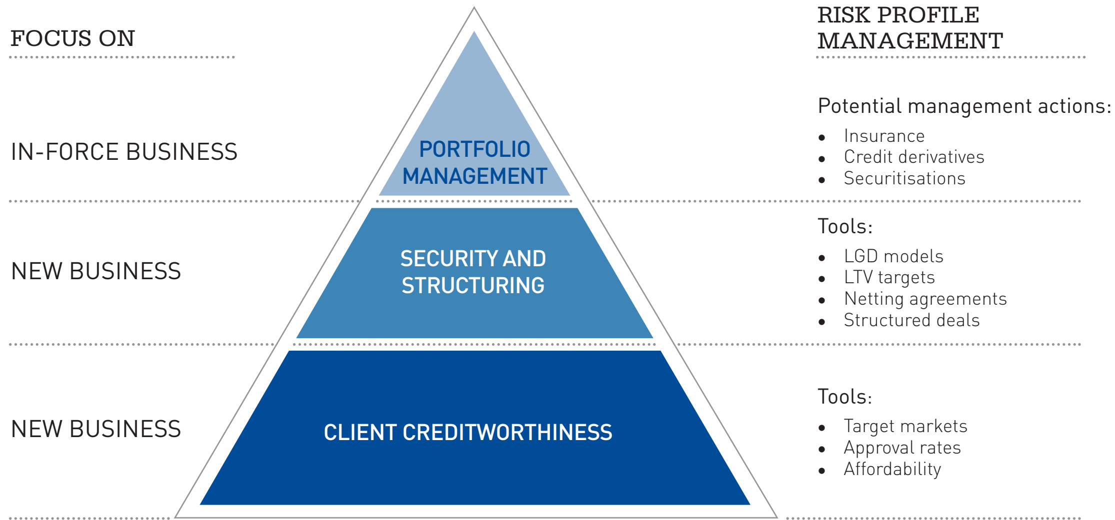
Use of credit risk measures

The bank uses credit risk measures in a large number of business processes, including pricing, the setting of impairments, in determining capitalisation levels, and in determining overall business strategy, risk appetite and the choice of appropriate return targets.

As the largest risk type in terms of regulatory and economic capital requirements, credit is a particularly prominent component of the bank's risk appetite framework. Credit risk tools and measures are used extensively in the determination of its current credit risk profile as well as its credit risk appetite (see on the following page).

Management of the credit portfolio is also heavily reliant on the credit risk measures discussed in the preceding sections. In this context, PD, EAD and LGD are inputs into the portfolio and Banking Group level credit risk assessment where they are combined with estimates of correlations between individual counterparties and industries to reflect diversification benefits across the bank's portfolio of credit risks.

Use of credit measures



Expected loss ("EL"), the product of the primary risk metrics PD, EAD and LGD, is a forward looking measure of portfolio or transaction risk. It is used for a variety of purposes across the business alongside the other risk measures. The following table describes the usage of risk concepts and metrics 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 (eg 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).Rating is an important consideration in this process and risk related limits on the composition of the portfolio are used to ensure compliance with the bank'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 board RCC.	See Wholesale. Reports are also submitted to the Retail and SME Credit risk technical committee and the board RCC.
Provisioning	PD and LGD estimates are used extensively in the assessment of impairments and thus in the calculation of provisions.	PIT, long run LGD and roll rates are used in the derivation of specific, portfolios and IBNR provisions.
Regulatory and economic capital allocation	The primary credit risk metrics 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 metrics 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 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 (NIACC).

Use of credit measures in the credit lifecycle (continued)

AREA	WHOLESALE	RETAIL
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 obligator 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 bank's portfolio.	See Wholesale. Extensive analysis of portfolio and risk movements are carried out on a monthly basis, which are used in portfolio management and credit strategy decisions.
Determination of portfolio and client acquisition strategy	Credit portfolio strategy is driven by the Bank's assessment of overall portfolio credit risk, which is based on a portfolio model driven by the primary risk metrics. In this context, acquisition and overall strategy are sent in terms of appropriate limits so as to ensure that the credit portfolio remains 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 management and compensation	The primary risk metrics are key parameters for the calculation of deal pricing and they 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 metrics.	See Wholesale. By necessity analyses tend to be carried out at a portfolio level but performance are measured consistently on the basis of capital consumption and economic value added in the form of economic profit.

Discussion of the credit portfolio

As indicated in the introduction to this risk and capital management report, the bank continues to lend across all sectors and products, albeit with a continued focus on mitigating heightened levels of credit risk caused by the current economic downturn. Credit criteria have been tightened carefully over the reporting period, in particular in the mortgage portfolio where more stringent customer affordability assessments are carried out, but also in the Commercial and Corporate segments where cash flow stress tests are applied. Paired with lower credit demand and lower application quality, this has resulted in lower lending volumes across the franchises.

The Banking Group's aggregate credit strategy remains cautious given its core macro economic view of lower expected economic growth and uncertainties around further job losses in the South African economy. The bank expects the current industry trend of moderating demand and supply of credit relative to recent years to continue over the short term.

There are, however, a number of areas that offer attractive risk and return opportunities for the bank in the current environment and it has therefore aligned its credit strategy and associated policies to selectively target these opportunities without compromising on the set of overall credit quality criteria stipulated in its credit risk appetite.

Retail credit portfolios

During the period under review interest rate reductions did not yet result in a meaningful decrease in arrears and non performing loan levels. The increase in non performing loans reported in this section is largely driven by the residential mortgage book, constituting approximately half of the reported total non performing loans figure.

The reduction in interest rates in recent months is expected to provide some support for consumer cash flows, which is expected to contribute to a moderation in retail credit impairments going forward. This moderation should, however, be considered in relation to the likely time required for the repair of consumers' balance sheets as well as the expected negative GDP growth in the short term that may result in further income or job losses.

Wholesale portfolios

The SME and the Corporate sectors are expected to remain vulnerable to the slowdown in economic activity, with default risk for large corporate clients expected to remain at elevated levels. For the period under review, the wholesale environment has shown resilience to the economic downturn, with the exception of small business portfolios, which are highly correlated with the retail market. The increase in impairment charges and non performing loan figures for the Wholesale portfolio thus relate primarily to the bank's commercial portfolio as well as the Dealstream default.

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	2009	2008
Cash and short term funds	**22 018**	24 737
– Money at call and short notice	**1 423**	2 214
– Balances with central banks and guaranteed by central banks	**12 559**	11 762
– Balances with other banks	**8 036**	10 761
Gross advances	**429 815**	456 539
FNB	**204 370**	207 658
– FNB Retail	**166 093**	162 841
– FNB Corporate	**11 415**	20 708
– FNB Commercial	**26 862**	24 109
WesBank	**92 274**	99 949
RMB	**112 989**	130 591
FNB Africa	**17 519**	15 755
Other	**2 663**	2 586
Derivatives	**60 229**	49 104
Investment securities	**79 218**	58 578
Accounts receivable	**5 542**	5 869
Loans to Insurance Group	**6 115**	6 561
Credit risk not recognised on the balance sheet	**84 179**	90 257
Guarantees	**19 085**	19 713
Acceptances	**279**	1 992
Letters of credit	**5 576**	4 843
Irrevocable commitments	**57 786**	63 483
Underwriting exposures	**2**	226
Credit derivatives	**1 451**	–
Total	**687 116**	691 645

Credit quality

Advances are considered past due where a specific payment date has not been met or where regular instalments are required and such payments have not been received. A loan payable on demand is classified as overdue where a demand for repayment has been served but repayment has not been made in accordance with the stipulated requirements. The following table provides an age analysis of exposures classified as past due as at 30 June:

Age analysis of advances (audited)

R million	Neither past due nor impaired	Re-negotiated but current	2009 Past due but not impaired 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

**Including public sector.*

R million	Neither past due nor impaired	Re-negotiated but current	2008 Past due but not impaired 1 – 30 days	31 – 60 days	> 60 days	Impaired	Total
Age analysis of advances							
FNB Retail	131 035	876	14 735	4 611	3 606	7 978	162 841
FNB Corporate*	20 526	–	25	17	–	140	20 708
FNB Commercial	23 393	–	107	51	46	512	24 109
FNB	174 954	876	14 867	4 679	3 652	8 630	207 658
WesBank	93 508	–	2 195	808	257	3 181	99 949
FNB Africa	14 533	–	590	106	137	389	15 755
RMB	129 442	126	133	23	10	857	130 591
Other	2 539	–	–	–	–	47	2 586
Total	414 976	1 002	17 785	5 616	4 056	13 104	456 539

**Including public sector.*

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 (eg insufficient payments due to debit orders not having been updated for changes in interest rates) and normal arrears (ie 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 R5.3 billion (R6.6 billion in 2008) and was primarily driven by retail exposures.

Renegotiated advances are advances where, due to deterioration in the counterparty's financial condition, FRB granted a concession where original terms and conditions of the facility were amended. The objective of such amendment is to mitigate the risks where the current situation could result in the counterparty no longer being able to meet the terms and conditions originally agreed. As part of the bank's risk management and workout approach, the bank enters into arrangements with clients where concessions are made on payment terms (eg a reduction in payments for a specified period of time, changes in the payment profile, or debt counselling payment plans). The bank has formally defined eligibility criteria appropriate for individual products to determine when clients are eligible for such arrangements. The bank carefully monitors these accounts as a separate portfolio in each product segment, and track the performance for purpose of management and impairments. The bank does not allow reclassification of non performing loans into the renegotiated advances category.

The renegotiated advances disclosed above include all loans that have been renegotiated to date. 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 or impairments 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 (ie those classified as neither past due nor impaired). Please refer to page 116 for the mapping of FR grades to agency rating scales.

Credit quality of performing advances (audited)

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**	**0**	**347**	**10 621**	**1 900**	**455**	**418**
Total	**385 454**	**135 348**	**11 328**	**24 979**	**84 423**	**111 367**	**15 692**	**2 317**

2008								
		FNB						
R million	Total neither past due nor impaired	Retail	Corporate	Commercial	WesBank	RMB	FNB Africa	Other
FR 1 – 25	100 959	25 639	7 939	3 454	5 371	56 629	309	1 618
FR 26 – 91	299 779	96 170	12 587	19 190	84 451	72 365	14 095	921
Above FR 92	14 238	9 226	–	749	3 686	448	129	–
Total	414 976	131 035	20 526	23 393	93 508	129 442	14 533	2 539

**The renegotiated advances disclosed above include all loans that have been renegotiated to date. All of these advances are within the revised terms and conditions.*

The following table provides an overview of the credit quality of the Banking Group's other financial assets that are neither past due nor impaired:

Credit quality of other financial assets (neither past due nor impaired) (audited)

R million	Investment securities*	Derivatives	Cash and short term funds	Loans to Insurance Group	Total
	2009				
Credit quality of financial assets (excluding advances) neither past due nor impaired					
AAA to BBB	**26 584**	**19 162**	**19 124**	**6 115**	**70 985**
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**	**167 580**

R million	Investment securities*	Derivatives	Cash and short term funds	Loans to Insurance Group	Total
	2008				
Credit quality of financial assets (excluding advances) neither past due nor impaired					
AAA to BBB	48 444	28 074	23 445	6 561	106 524
BB, B	9 822	20 943	615	–	31 380
CCC	283	82	–	–	365
Unrated	29	5	677	–	711
Total	58 578	49 104	24 737	6 561	138 980

**Excludes non recourse investments.*

Non performing loans and impaired advances

The bank assesses the adequacy of impairments through the ongoing review of the quality of the credit exposures. Although credit management and workout processes are similar for amortised cost advances and for fair value advances, the creation of impairments for these differs.

For amortised cost advances, impairments are recognised through the creation of an impairment reserve through 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.

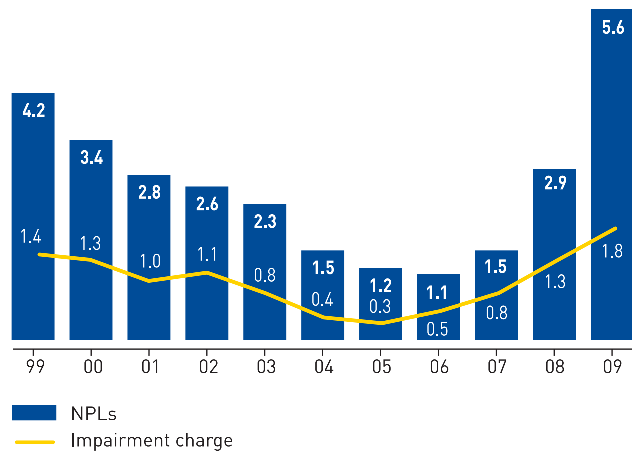
Specific impairments are created for non performing advances for which objective evidence that an incurred loss event will have an adverse impact on the estimated future cash flows from the asset, has been identified. Potential recoveries from guarantees and collateral are incorporated into the calculation 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 uncollectible 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 illustrates the evolution of non performing loans as a percentage of total advances and impairment charges for the last decade.

Evolution of non performing loans and impairments (unaudited)

NPLs and impairment charge as a % of average advances



The classification of non performing loans used in this analysis is based on the bank's definition of default. The impairment charge is calculated as the bad debt charge to the income statement divided by the total average advances for the reporting period. It is based on the bank's internal provisioning policies and on the accounting regulations applicable at the time (SA GAAP prior to 2006). The impairment charge rates for 2008 and 2009 are calculated prior to recognising the effects of credit insurance.

Risk concentrations

The bank 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:

Exposure breakdown by geography (audited)

	2009								
Concentration risk of significant credit exposures 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	–	163	79 219
Off balance sheet exposures									
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

	2008								
Concentration risk of significant credit exposures R million	South Africa	Other Africa	United Kingdom	Ireland	Other Europe	North America	South America	Other	Total
Advances	411 890	18 847	14 594	1 764	5 701	454	1 512	1 777	456 539
Derivatives	20 754	812	10 052	10 006	4 675	2 655	–	150	49 104
Debt securities	48 557	8 392	465	–	–	789	–	375	58 578
Off balance sheet exposures									
Guarantees acceptances and letters of credit	25 102	1 345	–	–	–	–	–	101	26 548
Irrevocable commitments	61 141	2 072	60	–	–	76	–	134	63 483

Segmental analysis of advances

The following table provides a breakdown of credit exposure by Banking Group segment:

Segmental breakdown of exposures (audited)

	For the year ended June 2009			
R million	Advances	Non performing loans	NPL as a % of advances	Total impairment charge
FNB	204 370	17 769	8.69	4 920
FNB Retail	166 093	16 062	9.67	4 545
Residential mortgages	147 959	13 625	9.21	2 380
– FNB HomeLoans (Consumer segment)	110 428	11 278	10.21	2 287
– Wealth	32 968	2 130	6.46	77
– Affordable Housing (Mass segment)	4 563	217	4.76	16
Credit card	11 726	1 444	12.31	1 355
Personal banking	3 476	445	12.80	424
Mass (secured and unsecured)	2 932	548	18.69	386
FNB Commercial	26 862	1 623	6.04	389
FNB Corporate Banking	8 727	84	0.96	70
FNB Other	2 688	–	–	(84)
WesBank	92 274	4 600	4.99	2 745
WesBank asset backed finance	88 536	4 355	4.92	2 222
– WesBank Retail	51 601	2 906	5.63	1 539
– WesBank Business and Corporate	32 690	1 273	3.89	505
– WesBank International	4 245	176	4.15	178
WesBank loans	3 738	245	6.55	523
RMB	112 989	1 177	1.04	523
FNB Africa	17 519	430	2.45	96
Group Support	2 663	251	9.43	(260)
Total	429 815	24 227	5.64	8 024

Impairments as a % of average advances	For the year ended June 2008 Advances	Non performing loans	NPL as a % of advances	Total impairment charge	Impairments as a % of average advances
2.39	207 658	8 630	4.16	3 004	1.55
2.76	162 841	7 978	4.90	2 688	1.78
1.63	144 476	5 933	4.11	1 122	0.84
2.05	113 092	5 185	4.58	1 014	0.96
0.25	27 528	601	2.18	88	0.36
0.38	3 856	147	3.81	20	0.68
11.18	12 516	1 482	11.84	1 084	8.87
12.01	3 582	271	7.57	312	8.58
14.85	2 267	292	12.88	170	8.30
1.53	24 109	512	2.12	201	0.91
0.58	15 424	140	0.91	91	0.64
(2.11)	5 284	–	–	24	0.36
2.86	99 949	3 181	3.18	2 072	2.09
2.41	95 881	3 033	3.16	1 643	1.73
2.77	59 654	2 246	3.77	1 342	2.24
1.57	31 573	735	2.33	175	0.59
4.00	4 654	52	1.12	126	2.28
13.40	4 068	148	3.64	429	10.57
0.43	130 591	857	0.66	221	0.19
0.58	15 755	389	2.47	105	0.72
(9.91)	2 586	47	1.82	56	1.75
1.81	456 539	13 104	2.87	5 458	1.28

Credit rating systems and processes used for Basel II

The Banking Group is utilising the AIRB approach for the exposures of FRB and the Standardised Approach for all other legal entities in the Banking Group, for the purpose of calculating regulatory capital requirements. Due to the small size of the subsidiaries and the scarcity of relevant data, the bank 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, Basel II approach and Banking Group segment. The figures given here 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:

Exposure by type, segment and Basel II approach (unaudited)

			Standardised Approach subsidiaries	
R million	2009	FirstRand Bank AIRB	Regulated bank entities within FNB Africa	Other subsidiaries
Cash and short term funds	**22 018**	17 369	1 494	3 155
– Money at call and short notice	**1 423**	875	414	134
– Balances with central banks and guaranteed central banks	**12 559**	10 836	760	963
– Balances with other banks	**8 036**	5 658	320	2 058
Gross advances	**429 815**	390 007	17 519	22 289
FNB	**204 370**	198 987	–	5 383
– FNB Retail	**166 093**	160 344	–	5 749
– FNB Corporate	**11 415**	11 781	–	(366)
– FNB Commercial	**26 862**	26 862	–	–
WesBank	**92 274**	83 871	–	8 403
RMB	**112 989**	105 754	–	7 235
FNB Africa	**17 519**	–	17 519	–
Other	**2 663**	1 395	–	1 268
Derivatives	**60 229**	59 426	95	708
Debt investment securities	**79 218**	62 507	9 115	7 596
Accounts receivable	**5 542**	2 318	872	2 352
Amounts due by holding company and fellow subsidiaries	**–**	15 002	1 721	(16 723)
Loans to Insurance Group	**6 115**	1 640	–	4 475
Credit risk not recognised on the balance sheet	**84 179**	77 149	4 904	2 126
Guarantees	**19 085**	17 273	1 725	87
Acceptances	**279**	279	–	–
Letters of credit	**5 576**	5 436	140	–
Irrevocable commitments	**57 786**	53 139	3 039	1 608
Underwriting	**2**	2	–	–
Credit derivatives	**1 451**	1 020	–	431
Total	**687 116**	625 418	35 720	25 978

For portfolios using the Standardised Approach, the agency rating scales from Fitch Ratings, Moody's and Standard and 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 bank 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%	414
10%	–
20%	3 025
35%	6 330
50%	914
75%	2 107
100%	22 737
Specific impairments	193
Total	35 720

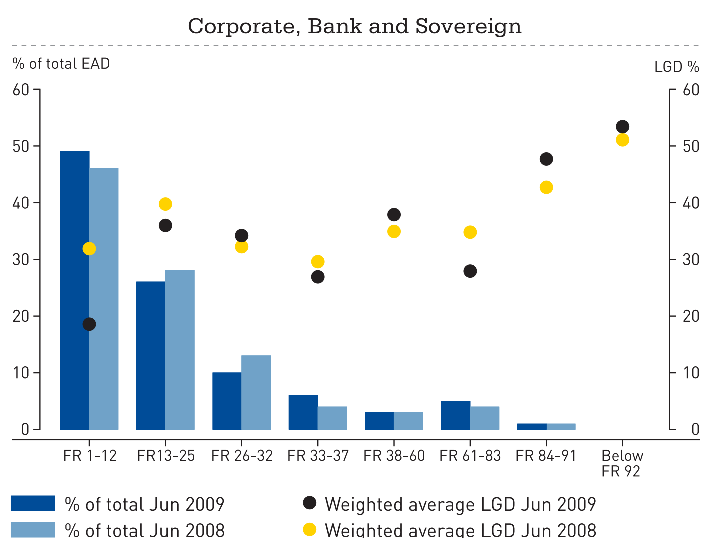
PD, EAD and LGD profiles

The following graphs provide a summary of the EAD distribution by Banking Group segment, bucketed by FR grade. They also show the EAD weighted downturn LGD and the EAD weighted PD. The associated capital requirements are given in the corresponding tables provided below each graph. Comparative information for the prior year has also been provided in the charts and in the tables.

Over the period under review, the performance of the credit portfolio has been in line with that of the industry.

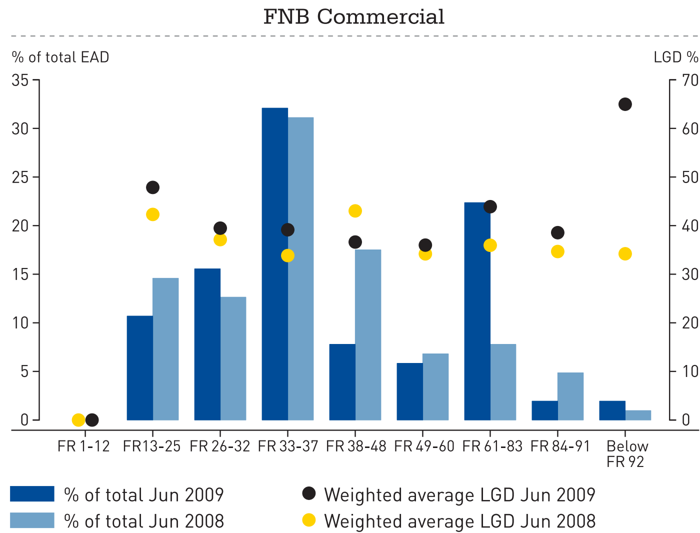
Capital requirements as given by RWAs, have evolved in line with movements in the primary risk parameters, notably shifts in LGD. This is a reflection of the Banking Group's revised credit strategy that selectively targets areas that provide an appropriate risk and return profile in the current economic environment.

Risk profile for corporate, bank and sovereign exposures (unaudited)



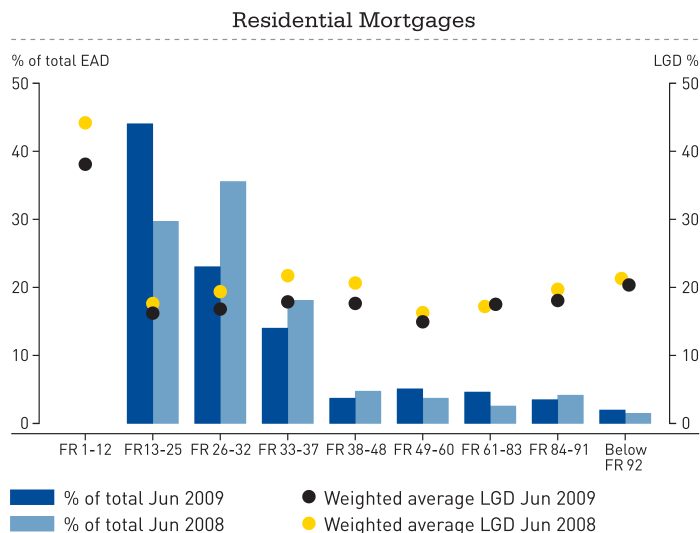
Measure	FR 1 – 12	FR13 – 25	FR 26 – 32	FR 33 – 37	FR 38 – 60	FR 61 – 83	FR 84 – 91	Below FR 92
Weighted average PD Jun 2009	0.02%	0.29%	0.88%	1.35%	2.80%	6.50%	16.23%	53.38%
Weighted average PD Jun 2008	0.04%	0.29%	0.87%	1.35%	2.80%	4.92%	16.07%	51.04%
Capital % Jun 2009	0.56%	3.76%	6.12%	5.89%	10.07%	9.50%	23.42%	14.92%
Capital % Jun 2008	1.03%	4.47%	6.11%	6.82%	9.86%	8.99%	18.99%	15.16%

Risk profile for FNB Commercial exposures (unaudited)



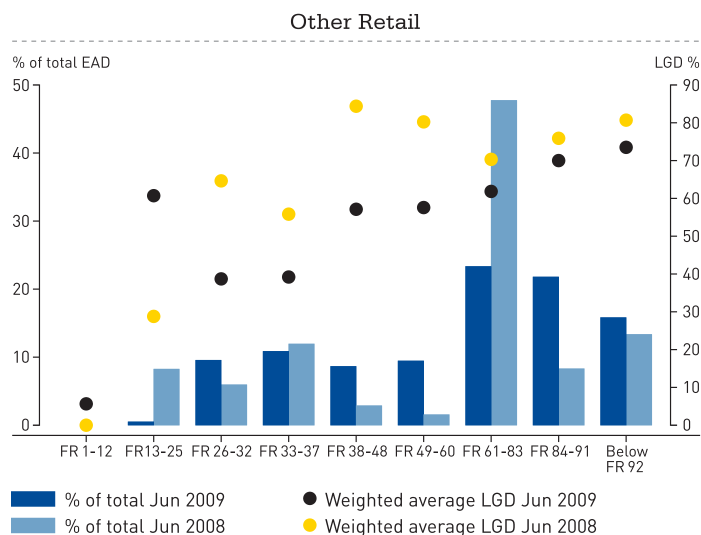
Measure	FR 1 – 12	FR13 – 25	FR 26 – 32	FR 33 – 37	FR 38 – 60	FR 61 – 83	FR 84 – 91	Below FR 92
Weighted average PD Jun 2009	0.00%	0.30%	0.90%	1.43%	2.51%	3.64%	4.89%	12.55%
Weighted average PD Jun 2008	0.00%	0.42%	0.81%	1.59%	2.69%	3.53%	5.98%	14.37%
Capital % Jun 2009	0.00%	2.34%	5.56%	6.03%	7.36%	7.30%	11.94%	11.79%
Capital % Jun 2008	0.00%	3.31%	4.84%	5.55%	10.18%	7.04%	8.68%	14.62%

Risk profile for residential mortgage exposures (unaudited)



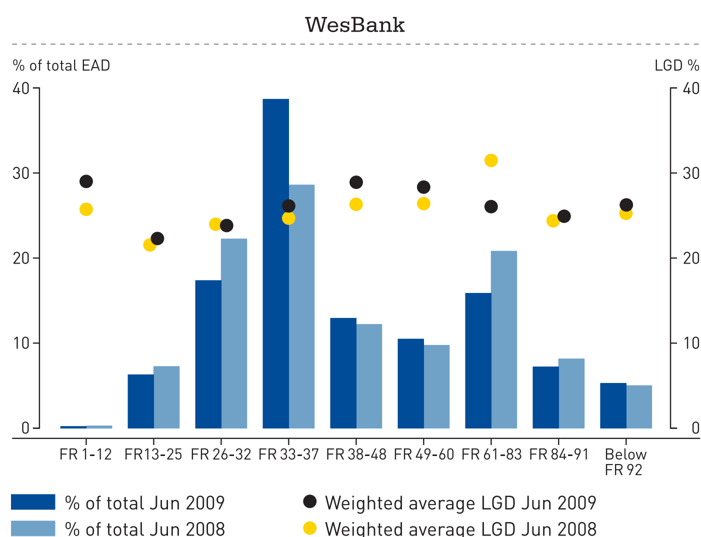
Measure	FR 1 – 12	FR13 – 25	FR 26 – 32	FR 33 – 37	FR 38 – 60	FR 61 – 83	FR 84 – 91	Below FR 92
Weighted average PD Jun 2009	0.03%	0.32%	0.80%	1.54%	2.48%	3.82%	6.24%	16.60%
Weighted average PD Jun 2008	0.03%	0.33%	0.78%	1.51%	2.48%	3.80%	6.53%	18.05%
Capital % Jun 2009	0.34%	0.90%	1.71%	2.83%	3.81%	3.94%	6.06%	9.10%
Capital % Jun 2008	0.00%	1.05%	2.08%	3.61%	4.73%	4.44%	6.42%	10.77%

Risk profile for other retail exposures (unaudited)



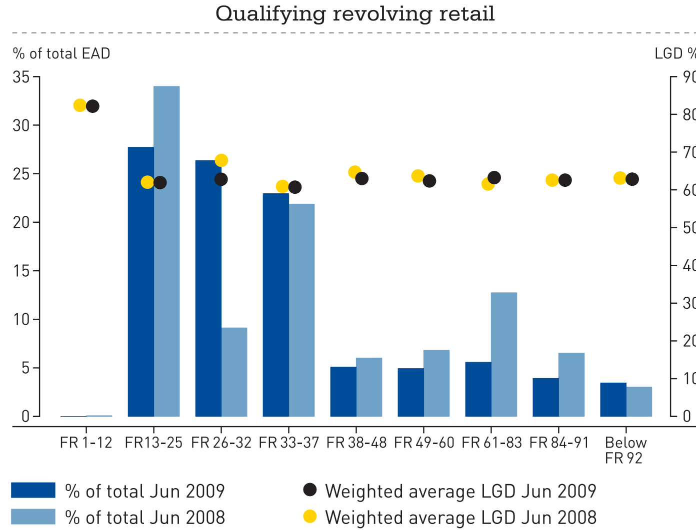
Measure	FR 1 – 12	FR13 – 25	FR 26 – 32	FR 33 – 37	FR 38 – 60	FR 61 – 83	FR 84 – 91	Below FR 92
Weighted average PD Jun 2009	0.05%	0.44%	0.89%	1.44%	2.61%	3.69%	5.28%	15.36%
Weighted average PD Jun 2008	0.00%	0.46%	0.84%	1.81%	2.62%	3.54%	5.62%	16.39%
Capital % Jun 2009	0.08%	4.12%	3.41%	4.42%	7.39%	7.91%	8.94%	13.54%
Capital % Jun 2008	0.00%	1.95%	6.10%	7.21%	11.85%	11.79%	10.91%	17.14%

Risk profile for WesBank exposures (unaudited)



Measure	FR 1 – 12	FR13 – 25	FR 26 – 32	FR 33 – 37	FR 38 – 60	FR 61 – 83	FR 84 – 91	Below FR 92
Weighted average PD Jun 2009	0.06%	0.40%	0.86%	1.53%	2.56%	3.60%	5.55%	14.47%
Weighted average PD Jun 2008	0.04%	0.35%	0.86%	1.72%	2.62%	3.72%	6.24%	16.22%
Capital % Jun 2009	0.49%	1.43%	2.25%	3.17%	3.99%	4.11%	4.19%	4.89%
Capital % Jun 2008	0.27%	1.33%	2.34%	3.27%	3.85%	4.06%	6.32%	5.84%

Risk profile for qualifying revolving retail exposures (unaudited)



Measure	FR 1 – 12	FR13 – 25	FR 26 – 32	FR 33 – 37	FR 38 – 60	FR 61 – 83	FR 84 – 91	Below FR 92
Weighted average PD Jun 2009	0.06%	0.44%	0.80%	1.58%	2.54%	3.47%	6.16%	14.22%
Weighted average PD Jun 2008	0.03%	0.11%	0.75%	1.32%	2.59%	3.66%	6.05%	12.95%
Capital % Jun 2009	0.31%	1.28%	3.59%	4.89%	5.74%	9.43%	9.52%	14.02%
Capital % Jun 2008	0.19%	0.40%	2.12%	4.71%	5.19%	6.55%	8.72%	13.63%

The following table provides the portfolio weighted average performing PD and LGD per Basel II asset class (TTC PDs and downturn LGDs):

Weighted PD and LGD per Basel II asset class (unaudited)

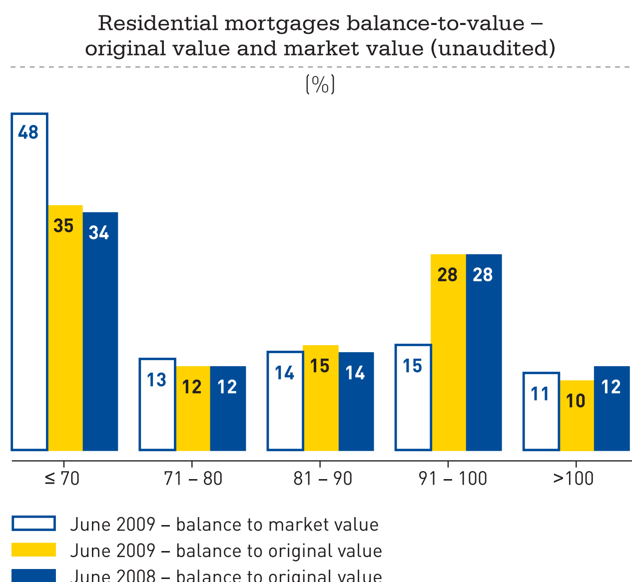
	Weighted average performing PD	Weighted average performing PD	**Weighted average LGD**	Weighted average LGD
	2009	2008	**2009**	2008
Corporate, bank and sovereign	**0.87%**	0.77%	**32.46%**	34.27%
SME exposures	**3.00%**	3.09%	**41.41%**	37.23%
Residential mortgages	**2.65%**	2.61%	**16.79%**	19.20%
Qualifying revolving retail	**3.50%**	3.64%	**62.10%**	62.60%
Other retail	**12.9%**	11.24%	**59.97%**	67.37%
WesBank	**4.94%**	5.32%	**25.99%**	25.91%

Selected risk analyses

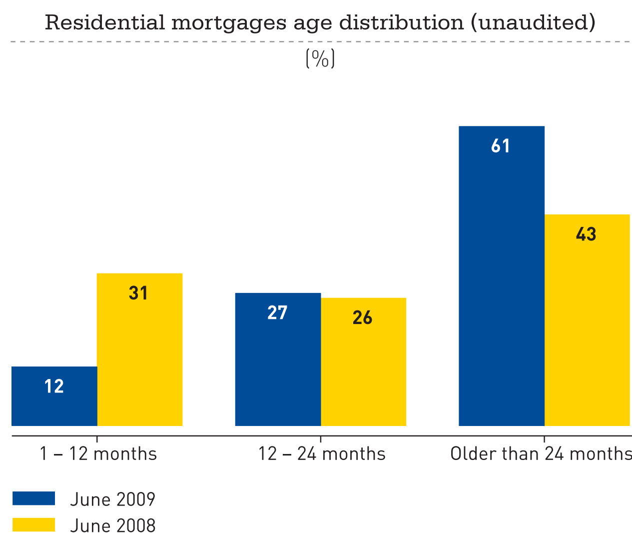
This section provides further information on selected risk analyses of the relevant parts of the bank's credit portfolio.

The two graphs below show the evolution of the balance to value distribution for the residential mortgages over time as well as the age distribution of the residential mortgages portfolios. As indicated above, the bank has implemented a number of steps targeting a specific portfolio profile. Accordingly, the recent focus on certain loan-to-value ratios for new business has resulted in a slight improvement in the balance to original value measures. The balance to market value shows a significant proportion of the book in the lower risk category where the loan-to-value is lower than 70%.

Residential mortgages balance-to-value – original value and market value (unaudited)



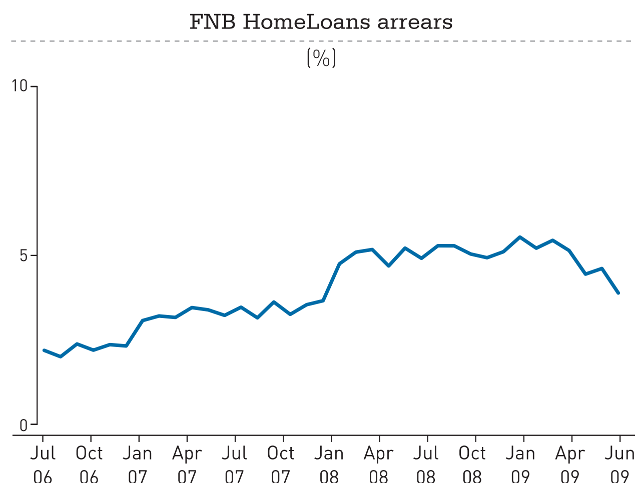
Residential mortgages age distribution (unaudited)



The improvement in the residential mortgages age distribution is a direct result of the reduction in new loans written during the period under review in line with the adjusted credit and pricing strategies alluded to previously.

The evolution of arrears in the FNB HomeLoans portfolio (unaudited)

FNB HomeLoans arrears



Exposure to facilities more than one, but less than three, payments in arrears as a percentage of total advances (unaudited).

As indicated in this chart, the bank has experienced a slight decrease in arrears over the last months of the reporting period. This is mirrored in the FNB HomeLoans portfolio as well as in the WesBank and Credit Card portfolios.

The following graphs provide a vintage analysis for FNB HomeLoans and WesBank Retail respectively. Vintage graphs represent a cohort analysis and illustrate the default experience three, six and twelve months after each origination date.

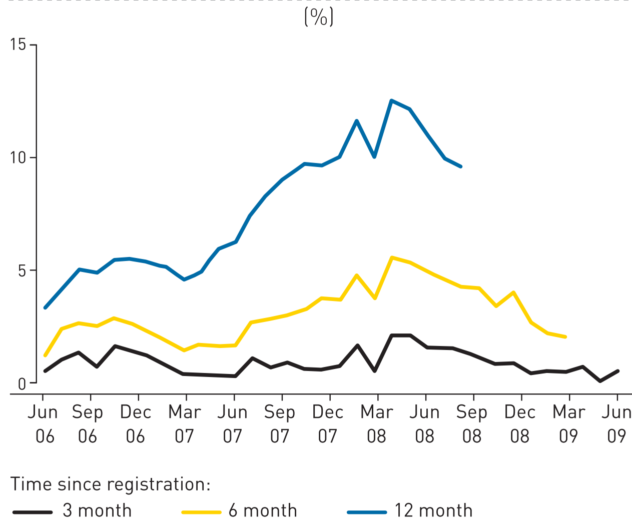
For FNB HomeLoans, the three, six and twelve month cumulative vintage analysis shows a marked reduction in defaults for these cohorts. This improvement in portfolio quality is due to changes in the origination strategy as well as general market conditions.

In the asset finance business, repossession and stock holding levels have also decreased significantly from their peaks last year. This gradual reduction is expected to continue should the economic pressures ease further over time.

In light of the ongoing pressure on collateral values (especially HomeLoans), as well as to prevent an undue negative impact on the resale market, the bank applies a multi strategy approach for mortgage recoveries. This includes special arrangements with certain customers to allow them to restructure their finances over a twelve month period, a quick sell process to assist with the sale of houses so as to support customer de-gearing and a re-evaluation of the bank's Properties in Possession strategy.

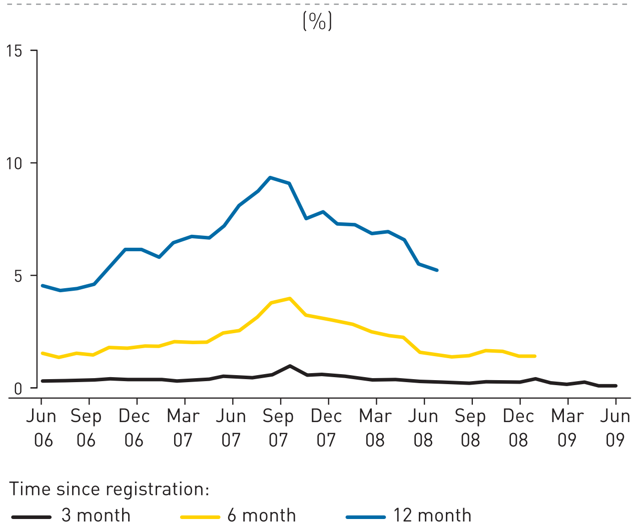
The Banking Group's domestic repossessed properties portfolio had a carrying value of R178 million at 30 June 2009 (R34 million at 30 June 2008), consisting of 670 properties (210 at 30 June 2008).

FNB HomeLoans vintage analysis (unaudited)



Mortgage portfolio default rates 3, 6 and 12 months after origination, based on the actual number of defaults expressed as a percentage of total business originated in the cohort.

WesBank Retail vintage analysis (unaudited)



WesBank default rates 3, 6 and 12 months after origination, based on the actual number of defaults expressed as a percentage of total business originated in the cohort.

Securitisations and conduits

The Banking Group uses securitisation transactions as a tool to achieve one or more of the following objectives:

- enhancing the liquidity position through the diversification of funding sources;
- matching of the cash flow profile of assets and liabilities;
- reduction of balance sheet credit risk;
- reduction of capital requirements; and
- management of 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. Subsequently, the securitisation entities are 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 bank. 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 the bank acted as originator, servicer as well as swap counterparty.

Securitisation transactions (unaudited)

Transaction	Asset type	Year initiated	Expected close	Rating agency	Assets securi-tised	Assets outstanding		Notes outstanding		Retained exposure	
R million						**2009**	2008	**2009**	2008	**2009**	2008
Traditional securitisations					**16 784**	**6 206**	9 447	**7 261**	10 851	**351**	374
Nitro 1	Retail: Auto loans	2006	2009	Moody's	**2 000**	**181**	534	**245**	712	**5**	15
Nitro 2	Retail: Auto loans	2006	2010	Moody's	**5 000**	**847**	1 897	**1 216**	2 484	**24**	49
Nitro 3	Retail: Auto loans	2007	2011	Moody's and Fitch	**5 000**	**1 688**	3 088	**2 095**	3 566	**73**	125
Ikhaya 1	Retail mortgages	2007	2011	Fitch	**1 900**	**1 439**	1 608	**1 592**	1 749	**93**	52
Ikhaya 2	Retail mortgages	2007	2012	Fitch	**2 884**	**2 051**	2 320	**2 113**	2 340	**156**	133
Synthetic securitisations					**22 000**	**22 000**	22 000	**22 000**	22 000	**19 182**	19 274
Procul	Retail: Auto loans	2002	2010	Fitch	**2 000**	**2 000**	2 000	**2 000**	2 000	**1 009**	1 015
Fresco II	Corporate receivables	2007	2013	Fitch	**20 000**	**20 000**	20 000	**20 000**	20 000	**18 173**	18 259
Total					**38 784**	**28 206**	31 447	**29 261**	32 851	**19 533**	19 648

Retained securitisation exposure (unaudited)

R million	AAA(zaf)	AA(zaf)	A+(zaf)	A(zaf)	BBB-(zaf)	BB+(zaf)	BB(zaf)	Not rated	**Total**
Traditional									
2009	**56**	**1**	**–**	**–**	**–**	**–**	**–**	**294**	**351**
2008	55	1	–	–	–	–	–	318	374
Synthetic									
2009	**18 083**	**189**	**52**	**4**	**–**	**29**	**2**	**823**	**19 182**
2008	18 060	186	52	4	29	50	67	826	19 274

Conduit programs and fixed income funds

The bank's conduit programs are debt capital market vehicles, which provide investment grade corporate South African counterparties with an alternative funding source to traditional bank funding. They also provide 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 programs are rigorously evaluated as part of the ordinary credit approval process applicable to any other corporate exposure held on the bank's balance sheet.

The following tables show the programmes currently in place as well as the ratings distribution of the underlying assets and the role played by the bank in each of these programmes. All of these capital market vehicles continue to perform in line with expectations.

Conduits and Fixed Income Funds (unaudited)

Transaction	Underlying assets	Year initiated	Rating agency	Program size	Non recourse investments		Credit enhancement provided	
R million					**2009**	2008	**2009**	2008
Conduits								
iNdwa	Corporate and Structured Finance term loans	2003	Fitch	15 000	**7 287**	9 329	**–**	–
iVuzi	Corporate and Structured Finance term loans	2007	Fitch	15 000	**5 017**	4 362	**679**	680
Total				30 000	**12 304**	13 691	**679**	680
Fixed Income fund								
iNkotha	Overnight Corporate loans	2006	Fitch	10 000	**3 623**	4 327	**–**	–
Total				10 000	**3 623**	4 327	**–**	–

Ratings distribution of conduit and fixed income fund assets (unaudited)

R million	F1+(zaf)	AAA(zaf)	AA+(zaf)	AA(zaf)	AA-(zaf)	A+(zaf)	A(zaf)	A-(zaf)	**Total**
Conduits									
2009	**–**	**1 552**	**341**	**2 076**	**4 640**	**2 259**	**1 020**	**416**	**12 304**
2008	1 247	2 053	1 647	914	4 605	2 260	822	143	13 691
Fixed Income Fund									
2009	**–**	**1 209**	**–**	**–**	**1 107**	**–**	**1 002**	**305**	**3 623**
2008	–	1 015	–	–	1 561	681	767	303	4 327

The bank's role in the conduits and the fixed income fund

Transaction	Originator	Investor	Servicer	Liquidity provider	Credit enhancement provider	Swap counterpart
iNdwa			√	√		√
iNkotha			√			
iVuzi				√	√	√

Liquidity facilities

The tables provide an overview of the liquidity facilities issued by the Banking Group:

All liquidity facilities in the transactions given in the table below rank senior in terms of payment priority in the event of a draw-down. Economic capital is allocated to the liquidity facility extended to iNdwa and iVuzi as if the underlying assets were held on the bank's balance sheet to reflect the risk that these assets may have to be brought onto the balance sheet in a stress scenario. The conduit programs are consolidated into FRBH for financial reporting purposes.

Liquidity facilities (unaudited)[1]

		Exposure	
		2009	2008
Transaction	Transaction type	**R million**	R million
Own transactions		**9 540**	13 682
iNdwa	Conduit	**5 653**	9 126
iVuzi	Conduit	**3 887**	4 556
Third party transactions	Securitisations	**2 160**	1 616
Total		**11 700**	15 298

1 *It is important to note that from an accounting perspective, upon consolidation, the underlying assets in the off balance sheet entities are reconsolidated back onto the Banking Group's balance sheet.*

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 associated regulatory capital requirements (unaudited)

R million	Exposure		IRB capital		Capital deduction	
Risk weight bands	**2009**	2008	**2009**	2008	**2009**	2008
<10%	**17 840**	17 840	**122**	122	**–**	–
>10% = <20%	**11 724**	10 742	**92**	126	**–**	–
>20% = <50%	**233**	230	**9**	9	**–**	–
>50% = <100%	**1 013**	1 015	**57**	39	**–**	–
>100% = <650%	**711**	827	**152**	206	**–**	–
1 250%/Deduction	**519**	566	**–**	–	**519**	566
Total	**32 040**	31 220	**432**	502	**519**	566

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 & leasing	Total
Traditional	–	222	197	419
Synthetic	100	–	–	100
Total	100	222	197	519

The bank has not securitised any exposures that were impaired or past due at the time of securitisation. None of the securitisation transactions are subject to the early amortisation treatment.

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.

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 the 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.

It is a risk commonly taken in the Banking Group's trading operations and the objective of counterparty credit risk management is thus to ensure that risk is only taken within specified limits in line with the bank'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. This framework is a subcomponent of the Banking Group's Credit Risk Management Framework, which is ancillary to the BPRMF, as discussed in the preceding section on credit risk (see page 114).

In this respect, counterparty credit risk governance aligns closely with the bank's credit risk governance framework, with mandates and responsibilities cascading from the board, through the RCC to the respective subcommittees as well as deployed and central risk management functions. Refer to the FRBH risk governance section, page 101, and the credit risk governance section, page 114, for more details.

Counterparty credit risk assessment and management

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, counterparty risk limit applications are assessed and approved individually, based on a comprehensive analysis of potential exposure, including exposure under distressed conditions. A credit specialist, in conjunction with the market risk team, typically carries out this analysis and submits a recommendation to the appropriate credit committee for discussion and potential approval.

These recommendations are then discussed and tabled for approval 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 typically 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 pre-determined 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.

Any limit breaches necessitate immediate 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 have to be agreed amongst these parties and failure to remedy such breaches are reported to the RMB Finance, risk and capital committee, the ERM function and the Banking Group's RCC.

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 utilises International Swaps and Derivatives Association ("ISDA") and International Securities Market Association ("ISMA") 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.

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 as at 30 June 2009:

Composition of counterparty credit risk exposure (unaudited)

R million	
Gross positive fair value	134 055
Netting benefits	60 864
Netted current credit exposure before mitigation	73 130
Collateral value	54 513
Exposure at default	34 945

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:

Exposure to credit derivatives (unaudited)

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

MARKET RISK

Market risk is the risk of adverse revaluation of any financial instrument as a consequence of changes in market prices or rates.

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 the RMB function as the bank's 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 bank's risk appetite.

Risks related to market factors and rate movements in credit and investment portfolios are managed as part of the credit, counterparty credit and equity investment risk management processes.

Organisational structure and governance

Market risk is taken and managed on the basis of the Banking Group's Market Risk Framework, which is a subframework of the BPRMF. It sets out a governance structure consistent with the overall risk management approach of the Banking Group as well as applicable lines of accountability, reporting procedures and policies.

Responsibility for determining the bank's appetite for market risk vests with the board, which also retains independent oversight of the market risk related activities through the RCC

and its Market and Investment risk subcommittee. Separate governance forums, such as the RMB Proprietary board, take responsibility for allocating these mandates further while deployed and central risk management functions provide independent control of identification, assessment and management approaches and processes. Refer to the governance chart on page 104.

Market risk assessment and management

Market risk exposures are assessed and managed against limits calculated on the basis of liquidity adjusted distressed expected tail losses ("ETLs"). Additional soft liquidity adjusted VAR triggers are used to highlight positions that need to be reviewed by management.

The recent crisis has clearly demonstrated the need to move beyond simplistic VaR measures and, most importantly, to incorporate the risks inherent in potentially illiquid positions. The basis for the liquidity adjusted ETL limits is thus a scenario set pertinent to the individual structure or transaction under consideration. As indicated in the preceding section, both sets of limits are approved by the RMB Proprietary board and the RCC.

Risk concentrations in the market risk environment are controlled by means of appropriate sublimits for individual asset classes (interest rate, equity, foreign exchange, commodities and traded credit) and the maximum allowable exposure for each business unit. In addition to the general market risk limits described above, limits covering obligor-specific risk have been introduced and utilisation against these limits is monitored continuously (based on the regulatory building block approach).

In summary, the assessment and management process can be described as follows:

- exposures are quantified daily and monitored against the respective limits as described above by the business unit and central risk management functions;
- the causes of any limit breaches are investigated immediately and relevant reports are escalated to the respective business and risk heads as well as the independent risk control functions and board committees with corrective action, as appropriate;
- risk management also tracks and reports daily P&L movements and their attribution to individual risk factors to ensure that all risk exposure is appropriately identified; and
- absolute loss thresholds have been introduced to ensure an automatic, staggered de-risking of positions.

Market risk assessment practices have also been aligned with the Banking Group's stress testing framework and regular portfolio wide analyses are conducted on the basis of systemic stresses representative of illiquid conditions and heightened volatility characteristic of historical market downturn scenarios. A distressed ETL measure for the whole portfolio is calculated based on a full re-valuation on the basis of pertinent risk factor movements.

In addition to the distressed ETL and VaR methodologies, the bank supplements its measurement techniques with defined stress tests and scenario analyses across all material risk factors. The calibrations of the stress tests are reviewed from time to time to ensure that they 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, and are seen as a valuable tool in determining business strategy with respect to the assumption of market risk going forward.

Consistent regulatory and business management approaches

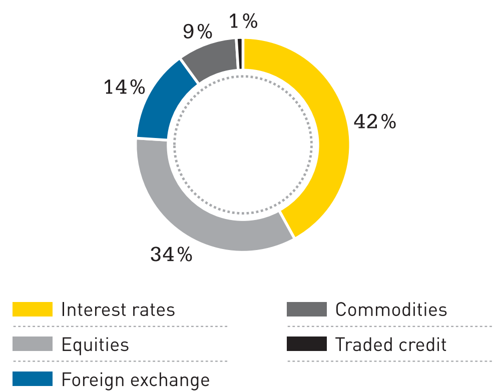
The Banking Group has approval from the SARB to measure regulatory general market risk capital under the internal model approach, as stipulated in the Basel II framework, for the domestic trading book. As such the market risk assessment and management practices described above are consistent with the methodology used for the management of business on a day to day basis.

For all international legal entities, the Standardised Approach is used for regulatory market risk capital purposes although the internal model based approach on distressed ETL is used for internal economic capital measurement and business management.

Discussion of the market risk profile and analysis of the trading book (audited)

The Banking Group is active in all principal traded markets and thus seeks to maintain a balance of exposure to individual risk factors in line with its core view and planning outlook. The following pie chart shows the distribution of exposures per asset class across the bank's trading activities at 30 June 2009 based on the distressed ETL methodology:

Composition of VaR exposure



VaR analysis

The VaR risk measure estimates the potential loss over a 10-day holding period at a 99% confidence level. The scenario set used in the calculation of these figures comprises the most recent 250 days, as required for regulatory capital measurement purposes under the internal model based approach. The following table provides the aggregate risk exposure per asset class across different trading activities:

VaR analysis by instrument (audited)

	2009				2008
R million	Min	Max	Ave	Year end	Year end
Risk type					
Equities	142.7	411.9	247.2	287.4	233.8
Interest rates	65.3	229.1	123.5	158.0	100.7
Foreign exchange	26.8	170.9	82.5	117.7	69.0
Commodities	16.4	122.7	69.0	71.2	119.8
Traded credit	1.2	59.2	22.4	8.4	46.5
Diversification				(263.7)	(243.7)
Total				379.0	326.1

VaR calculations are validated on a daily basis through a comparison of 1-day VaR figures (at the 99% confidence level) to actual trading profits or losses for the particular day.

Market risk stress analysis (distressed ETL)

The portfolio is also re-valued over a set of 500 scenarios of which 250 represent a distressed market period. The scenario set is supplemented with additional relevant data points over time, including, for example, the period of the current financial crisis, as and when appropriate. The following table provides a summary of distressed ETL figures by asset class, based on a 10-day liquidity horizon over a 99% confidence level:

Distressed ETL analysis by instrument (audited)

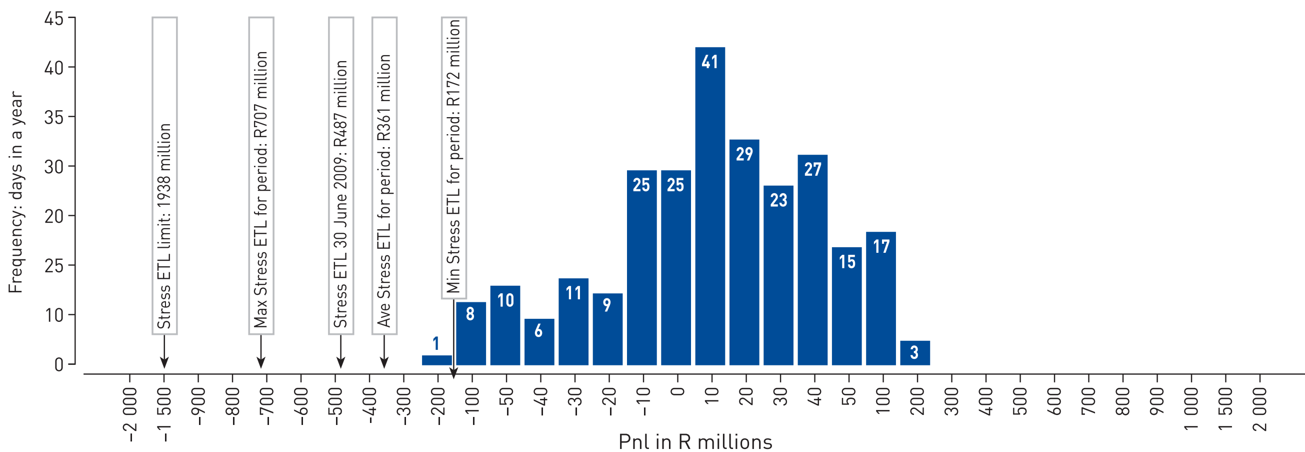
	2009				2008
R million	Min	Max	Ave	Year end	Year end
Risk type					
Equities	229.2	639.4	387.8	431.8	346.4
Interest rates	181.2	561.1	346.6	525.2	270.1
Foreign exchange	45.8	267.6	131.9	169.7	124.6
Commodities	24.8	193.3	107.7	108.9	180.5
Traded credit	4.1	93.3	27.6	15.0	67.6
Diversification				(457.3)	(390.8)
Total				793.3	598.4

Daily earnings at risk

The bank tracks its daily earnings profile from trading activities as illustrated graphically in the chart below. In the period under review the bank experienced heightened income volatility resulting from more volatile market conditions. Exposures have, however, been contained within risk limits during the trading period and the earnings profile has been skewed towards profitability.

Daily VaR distribution for local divisions (unaudited)

Distribution of trading income for the year ended 30 June 2009 for local divisions



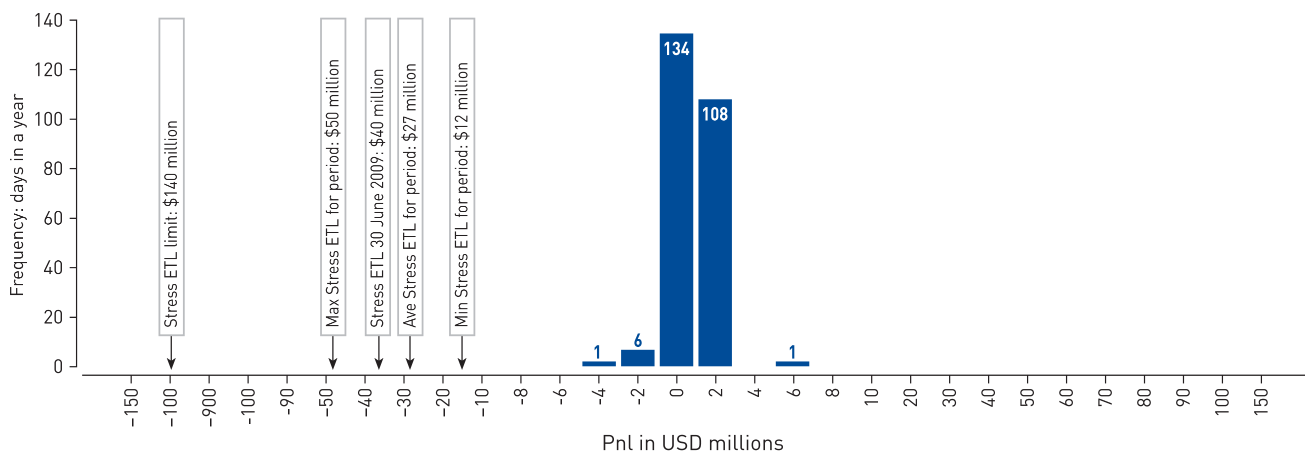
FirstRand International

FirstRand Ireland plc ("FRIE") holds the most material exposure to market risk amongst the international subsidiaries. The same distressed ETL and VaR methodologies are employed for the measurement and management of risk as in the South African portfolio. FRIE utilises additional stress scenarios and market risk monitoring processes specific to its portfolio. The market risk limits for each business area are set by the FRIE board.

The distribution of trading income provided in the chart below reflects a reduced level of volatility compared to the previous reporting period, which resulted from the de-risking of the offshore trading book.

Daily VaR distribution for FRIE (unaudited)

Distribution of trading income for the year ended 30 June 2009 for offshore divisions



FNB Africa subsidiaries

FNB Namibia and FNB Botswana hold the most material exposure to market risk in the African subsidiaries. Both employ stress test methodology to estimate the potential maximum losses expected in their portfolios. Their respective market risk positions are monitored by a designated, independent risk manager within RMB. During the period under review, market risk has been contained within acceptable limits and has been managed effectively by the Banking Group across its African subsidiaries. Refer to page 154 of the Interest rate risk in the banking book section for qualitative risk disclosure.

EQUITY INVESTMENT RISK

Equity investment risk generally denotes the risk associated with the acquisition (complete or partial) of an ownership interest in a listed or unlisted company and the potential adverse change in value of this investment.

Introduction and objectives

Equity investments can be a substantial source of value for shareholders as part of a balanced portfolio of risks as set out in the bank's overall risk appetite statement. The objective of equity investment risk management is thus the identification, assessment, monitoring and management of risks associated with the bank's investments so as to ensure that the aggregate risk to its earnings remains within acceptable limits.

Over the reporting period RMB placed Dealstream, a clearing client, into default and took over its portfolio under its futures clearing agreement and applicable JSE rules. Due to market liquidity constraints and the relative size of the holdings, three large investments in the portfolio, namely Vox Telecom Limited, Simmer & Jack Mines Limited and Control Instruments Limited were retained. These are now held in and managed as part of RMB's Private Equity portfolio with a view to realising value over the longer term and therefore fall within the purview of the risk management framework set out in the following sections.

Organisational structure and governance

The primary responsibility for the assessment and management of equity investment risk vests with the board and its designated subcommittees. Approval authority for taking equity investment risk has been delegated to the respective business unit investment committees, eg the RMB Investment committee under a delegated mandate from the board and the RCC. As the structure of the bank's investments may also incorporate significant components of debt, approval authority also rests with the respective credit committees and the board's Large exposures credit committee, as appropriate.

Equity investment risk assessment and management

Equity investment risk is assessed primarily in terms of regulatory and economic capital requirements as well as scenario analyses of potential event risks and associated write downs in value.

For the assessment of economic capital requirements, an approach similar to that employed for Basel II purposes is utilised – ie applying a risk weighting of 300% and 400% to the exposure for listed and unlisted investments, respectively. For unlisted investments that are equity accounted, a conservative offset is employed should the carrying value fall below the market value by a specified margin.

Where price discovery is possible for listed positions, an ETL under distressed market conditions is calculated on a standalone basis and used for economic capital purposes, subject to a floor of 20% of market value. Similarly, in the case of investments in funds, the modelling of economic capital requirements is based on a look through where this is feasible, where the individual exposure represents less than 5% of the fund's total value, and where RMB did not provide the seed capital for the fund. The distressed ETL figure used for economic capital purposes is supplemented by a specific risk add on of 12% in line with Basel II requirements. Funds for which frequently updated asset prices are not available are classified as unlisted investments and assessed as indicated above.

The bank holds additional capital buffers against the potential of adverse revaluations of its investment portfolios, which are calculated on the basis of scenario and stress analyses. These analyses have been integrated with the Banking Group's overall stress testing framework (see page 106). For example, stress tests are carried out simulating the staggered write down of the three largest investment exposures to determine the largest potential marginal impact on existing capital requirements, which in turn is used to determine the appropriate level of buffers held.

The 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 the bank develops a thorough understanding of the target company's business, risks, challenges, competitors, management team and unique advantage or value proposition.

For each transaction an appropriate structure is put in place that aligns the interests of all parties involved through the use of incentives and constraints for management and the selling party. The bank typically seeks to take a number of seats on the respective company's board and maintains close oversight through the ongoing monitoring of the company's operations. In addition, normal semi annual reviews are carried out and crucial parts of these reviews such as valuation estimates are independently peer reviewed.

To reduce and manage risk within acceptable constraints, the Banking Group targets a diversified investment portfolio profile along a number of pertinent dimensions such as geography, industry, investment stage and vintage (ie annual replacements of realisations).

Discussion of the equity investment risk profile

As indicated in a preceding section, RMB took over significant positions in Vox Telecom Limited, Simmer and Jack Mines Ltd. and Control Instruments Limited, which are now managed as part of RMB's private equity portfolio. These holdings are monitored on a daily basis as part of the bank's market risk monitoring process. Capital requirements for these positions are, however, calculated on the basis of the equity investment risk framework, reflecting the bank's long term exit strategy.

The following table provides information relating to equity investments in the banking book of those entities regulated as banks within the Group as at 30 June 2009:

Investment valuations and associated economic capital requirements (unaudited)

R million	Publicly quoted	Privately held	Total
Carrying value disclosed in balance sheet	2 179	4 861	7 040
Fair value*	2 179	7 958	10 137
Total unrealised gains recognised directly in the balance sheet through equity instead of the income statement**	666	132	798
Latent revaluation gains not recognised in the balance sheet**	–	3 097	3 097
Economic capital held	474	1 176	1 650

**Fair values for listed private equity associates based on their values in use exceeded the quoted market prices by R511 million.*
***These unrealised gains or losses are not included in Tier 1 or Tier 2 capital.*

LIQUIDITY RISK

Liquidity risk is the risk that the bank will not 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.

Introduction and objectives

The Banking Group applies a comprehensive definition of liquidity risk and further distinguishes two types of liquidity that may pose a risk, namely:

1. Funding liquidity, which relates to the risk that the bank will be unable to meet current and/or future cash flow or collateral requirements without adversely affecting the normal course of business, its financial position or its reputation; and
2. Market liquidity, which relates to the risk that the bank may be unable to trade in specific markets or that it may only be able to do so with difficulty due to market disruptions or a lack of market liquidity.

The principal objective of the bank's liquidity risk management efforts is to optimally fund the Banking Group under normal and stressed conditions.

Organisational structure and governance

Liquidity risk management efforts are 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 with respect to the following:

- governance (strategy as well as control and oversight of liquidity risk);
- principles for the management of liquidity risk;
- systems for measuring, monitoring and reporting liquidity exposures and risks as well as disclosure requirements and policies; and
- contingency funding plans.

The board of FRBH 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 a subcommittee of the RCC, the FRBH Asset and liability management committee ("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 or 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 the BSM function. It is this central function's responsibility to ensure that the liquidity risk management framework is implemented appropriately, ie that suitable measurement and management tools are in place to control liquidity risk and to support relevant decision processes at the Banking Group level. ERM provides governance and independent oversight of the central liquidity management team's approaches, models and practices.

The Group's liquidity position, exposures and auxiliary information are reported bi-monthly to the Funding executive committee. In addition, management aspects of the Banking Group's liquidity position are reported to and debated at the

BSM committee. The liquidity risk management and risk control teams in BSM 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 Africa businesses that manage liquidity risk on a decentralised basis in line with the Banking Group's principles under delegated mandates from their 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 follows the guidance and principles that have been set out and approved by FRBH ALCO.

International subsidiaries

Similarly, liquidity risk for international subsidiaries is managed on a decentralised basis in line with the Banking Group's LRMF. Each of the international subsidiaries and branches reports into the International ALCO, which is a subcommittee of FRBH ALCO and meets on a monthly basis to review and discuss region specific issues and challenges for liquidity and interest rate risk.

Liquidity risk assessment and management

As indicated in the preceding section, liquidity risk for FRB is managed centrally by a team in BSM. 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 credit crisis. The bank has remained largely unaffected by these events, as highlighted in the introduction to this report. Therefore, the Banking Group is 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. The bank has developed three forecasting models for this purpose:

1. Business as usual model: Forecasting the Banking Group's liquidity situation on an ongoing basis. This model provides an estimate of the funds the Banking Group is required to raise under routine circumstances, taking into account behavioural assumptions around the optionality inherent in some products on the balance sheet.
2. 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.
3. 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.

Early warning systems and key risk indicators

As indicated above, liquidity risk is considered to be a consequential risk that may be driven by a number of variables unrelated to the structural composition of the balance sheet and may thus not be easily quantified and summarised. Therefore, the Banking Group employs an early warning system composed of a number of key metrics and indicators to assess potential risks to its liquidity position. The indicators monitored in this regard can be grouped broadly as follows:

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

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 RCC on a monthly and a quarterly basis, respectively.

Stress testing and scenario analysis

Regular and rigorous stress tests are conducted on the bank's funding profile and liquidity position as part of the bank's overall stress testing framework with a focus on:

- quantifying the Banking Group's potential exposure to future liquidity stresses;
- analysing the possible impact of economic and event risks on cash flows, the liquidity, profitability and solvency position; and
- pro-actively evaluating the potential secondary and tertiary effects of other risks on the bank.

Management

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
• 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 • Maintaining a funds transfer pricing methodology and process	• 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 • 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 • Maintaining the Contingency Funding Plan

Structural liquidity risk management

Structural liquidity risk denotes the risk that structural, long term on and off balance sheet exposures cannot be funded timeously or at reasonable cost. Risk management in this area therefore seeks to maintain an appropriately balanced asset and liability structure to avoid undue pressure on current or future sources of liquidity. The liquidity management team is responsible for determining the Banking Group's liquidity strategy and for establishing its liquidity risk tolerance, subject to approval by FRBH ALCO and the board. In doing so, the team retains responsibility for maintaining adequately diversified sources of funding in terms of instrument type, term, geography, counter-party and currency.

Daily liquidity risk management

The team is responsible for 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. This also includes responsibility for the management of daily payment queues, Central Bank clearing systems as well as the maintenance of collateral and the statutory liquid asset inventory.

Contingency liquidity risk management

The Banking Group seeks to maintain a number of contingency funding sources that it is able to draw upon in times of economic stress. To this end, the liquidity risk management team carries out stress analyses to determine the possible impact of various scenarios on the bank's cash flows, liquidity, profitability and solvency position on a regular basis. The team also maintains and monitors early warning systems and key risk indicators, which it reports on to the funding EXCOs and FRBH ALCO, as appropriate.

Liquidity contingency funding planning

The Banking Group's 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 as well as ongoing communication with key external stakeholders and across all levels of the Group.

Liquidity risk management lifecycle

These management activities are subsumed in the liquidity risk management cycle, which is illustrated in the chart below:

The target liquidity risk profile is determined by the Banking Group's 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 as described variously in the preceding points. 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 longer term actions to ensure that the Banking Group remains within its chosen risk profile. The cost of these actions is then passed on to the businesses through the internal matched maturity funds transfer pricing mechanism. It should be noted in this context that financial transactions utilising special purpose vehicles are treated as if they are part of the bank's balance sheet and are considered in the liquidity risk management cycle and thus managed consistently and conservatively across the Banking Group.

Discussion of the liquidity risk profile

The table below presents the undiscounted cash flows of liabilities for the Banking Group and includes all cash outflows related to the principal amounts as well as future payments. These balances will not concur directly with the balance sheet for the following reasons:

- they are contractual, undiscounted amounts whereas the balance sheet is prepared using the discounted amounts;
- the table includes contractual cash flows with respect to off balance sheet items which have not been recorded on the balance sheet;
- all instruments held for trading purposes are included in the "call to 3 months" bucket and not by contractual maturity as 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 flow analysis (undiscounted cash flow 2009) (audited)

	2009			
		Term to maturity		
R million	Carrying amount	Call – 3 months	3 – 12 months	Over 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

	2008			
		Term to maturity		
R million	Carrying amount	Call – 3 months	3 – 12 months	Over 12 months
Maturity analysis of liabilities based on the undiscounted amount of the contractual payment				
EQUITY AND LIABILITIES				
Liabilities				
Deposits and current accounts	514 537	368 146	81 167	65 224
Short trading positions	33 689	33 689	–	–
Derivative financial instruments	48 521	42 229	3 441	2 851
Creditors and accruals	8 614	3 210	3 584	1 820
Long term liabilities	24 165	1 343	586	22 236
Policyholder liabilities under insurance contracts	1 378	5	379	994
Policyholder liabilities under investment contracts	108	6	5	97
Loans from Insurance Group	6 381	3 521	712	2 148
Financial and other guarantees	38 061	26 434	1 502	10 125
Facilities not drawn	63 483	60 621	1 308	1 555

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.

Therefore, in addition 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)

	2009			
		Term to maturity		
R million	Carrying amount	Call – 3 months	3 – 12 months	Over 12 months
Maturity analysis of assets and liabilities based on the present value of the expected payment				
Total assets	**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)**	**–**

	2008			
		Term to maturity		
R million	Carrying amount	Call – 3 months	3 – 12 months	Over 12 months
Maturity analysis of assets and liabilities based on the present value of the expected payment				
Total assets	658 094	237 200	65 570	355 324
Total equity and liabilities	658 094	404 957	101 376	151 761
Net liquidity gap	–	(167 757)	(35 806)	203 563
Cumulative liquidity gap	–	(167 757)	(205 563)	–

As illustrated in the table above, the negative contractual liquidity short term gap has remained relatively unchanged on a cumulative basis during the year under review. This is a consequence of the following market conditions and management actions:

- Compared to conditions experienced by banks internationally, the domestic funding environment has remained fairly calm. There are a variety reasons for this, including the insulated nature of the South African payments system, the effects of exchange controls and the lower gearing of South African banks.
- Asset growth in the banking sector has been muted over the year under review.
- The bank has undertaken efforts to grow retail and term funding during the year under review.
- The roll over risk of international buffer stock of liquidity has been reduced by placing these as investments in European Central Bank Treasury Bills.
- The bank has built up further stress funding buffers both locally and overseas during the year under review.

INTEREST RATE RISK IN THE BANKING BOOK

Interest rate risk in the banking book ("IRRBB") is defined as the sensitivity of the balance sheet and income statement to unexpected, adverse movements in interest rates.

The Group identifies and categorises this risk further in the following components:

- repricing risk arises from the differences in timing between repricing of assets, liabilities and off balance sheet positions;
- yield curve risk arises when unanticipated changes in the shape of the yield curve adversely affect the bank's 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 bank's position as the counterparty to such a transaction.

Introduction and objectives

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 bank's earnings and capital base. Effective interest rate risk management practices that contain the Banking Group's interest rate risk exposure within prudent levels, as stipulated by its risk appetite, is essential to the safety and soundness of the enterprise.

The objective of interest rate risk management is therefore to protect the balance sheet and income statement 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 bank, as discussed below.

All IRRBB related activities are overseen and reported to the Banking Group's board through FRBH ALCO, a subcommittee of the RCC, as illustrated on page 104. FRBH ALCO is also responsible for the allocation of sublimits on the basis of mandates given by the RCC, 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 BSM function, ERM provides central oversight and control across the activities of the deployed risk management functions and BSM.

Interest rate risk, unlike credit risk, can only be sensibly assessed and managed at an aggregate level. Therefore, the net interest rate risk profile of the domestic banking book (ie FRB, excluding RMB) is centrally managed by the Macro Portfolio Management team in BSM. In this respect, BSM is responsible for ensuring that adequate processes and controls are in place to quantify and manage the interest rate risk position by ensuring that the framework and relevant regulations are adhered to.

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. The interest rate risk management efforts of both BSM and RMB are overseen and controlled by a team in the central ERM function.

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.

IRRBB assessment and management

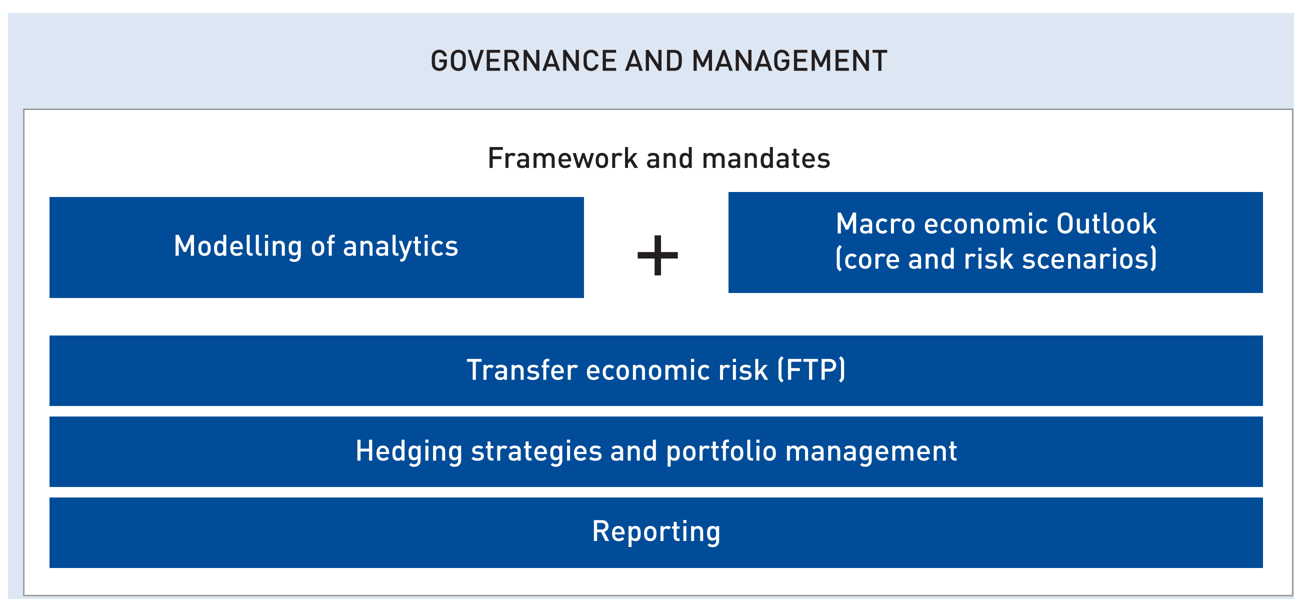
The Banking Group employs a number of measurement techniques to quantify interest rate risk as defined above, focusing both on the potential risk earnings as well as the potential impact on overall economic value.

In line with industry practice the pertinent analyses include parallel rate shocks, yield curve twists, complex stress tests and static repricing gap analyses. 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 tolerance levels.

The management of interest rate risk has been delegated by FRBH ALCO to BSM, RMB and the regional ALCOs as described above.

The Banking Group's activities around the assessment and management of interest rate risk have been summarised graphically in the following chart:

Components of the interest rate risk management approach



As alluded to previously, the interest rate profile is modelled and analysed at an aggregate level, in line with the principles and standards set out in the respective risk framework. The risk profile is typically adjusted by changing the composition of the Banking Group's liquid asset portfolio or through derivative transactions where possible based on the Banking Group's 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 their interaction may adversely impact its balance sheet 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 macro economic 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 these 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.

The Banking Group applies cash flow hedge accounting for derivatives used in the aforementioned 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.

Discussion of the interest rate risk profile

The Banking Group's 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 to a natural exposure of net interest income to periods of falling interest rates, which represents the largest component of interest rate risk to the bank. The bank seeks to employ 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 hedging activity in response to the change in interest rates over the reporting period. The decrease in the positive gap in the "within 3 months" category is driven by the increased pay floating leg of the swaps used for hedging purposes.

Repricing schedule for the FRBH banking book (audited)

R million	Within 3 months	After 3 months, but within 6 months	After 6 months, but within 12 months	After 12 months	Non rate Sensitive
			2009		
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**	**–**

R million	Within 3 months	After 3 months, but within 6 months	After 6 months, but within 12 months	After 12 months	Non rate Sensitive
			2008		
FirstRand Bank Limited					
Net repricing gap	30 349	4 561	(10 343)	375	(24 942)
Cumulative repricing gap	30 349	34 910	24 567	24 942	–
African Subsidiaries					
Net repricing gap	2 503	505	(556)	693	(3 144)
Cumulative repricing gap	2 503	3 008	2 452	3 145	–
Total cumulative repricing gap	32 852	37 918	27 019	28 087	–

Note: *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.*

Net interest income sensitivity has reduced in Rand terms compared to last year. The sensitivity is subject to approved internal board limits. Utilisation of the risk limit was well within permitted exposures at year end and during the year.

Sensitivity of the FRBH projected NII 2009 (audited)

	2009		
	FRB	African Subsidiaries	FRBH
R million	Change in projected 12 month NII	Change in projected 12 month NII	Change in projected 12 month NII
Downward 200 bps	(1 111)	(74)	(1 185)
Upward 200 bps	1 123	74	1 198

	2008		
	FRB	African Subsidiaries	FRBH
R million	Change in projected 12 month NII	Change in projected 12 month NII	Change in projected 12 month NII
Downward 200 bps	(1 423)	(71)	(1 494)
Upward 200 bps	1 438	71	1 509

Note: *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 only 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 the FRB reported reserves to interest rate movements as at 30 June 2009 (audited)

R million	As % of total shareholders' equity
Downward 200 bps	0.41%
Upward 200 bps	(0.25%)

Note: *The sensitivity analysis excludes the banking books of RMB and the International balance sheet, both of which are managed separately on a fair value basis.*

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

R million	As % of total shareholders' equity
Downward 200 bps	(0.48%)
Upward 200 bps	0.60%

Note: *The sensitivity analysis excludes the banking books of RMB and the International balance sheet, both of which are managed separately on a fair value basis.*

OPERATIONAL RISK

Operational risk denotes the risk of loss resulting from inadequate or failed internal processes, controls and systems, human factors or from external events.

Introduction and objectives

Over the reporting period FRB obtained approval from the SARB to adopt 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 bank's operations, which are aimed at ensuring the proper identification of all operational risks, their mitigation where appropriate and their 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;
- regulatory compliance;
- recruitment;
- training and retention of talent;
- operational process reliability;
- information technology security;
- outsourcing of operations;
- dependence on key suppliers;
- implementation of strategic change;
- integration of acquisitions;
- human error;
- customer service quality;
- regulatory compliance; and
- social and environmental impacts.

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 sub framework 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 Operational risk committee ("ORC"), a subcommittee of the RCC. The ORC provides governance, supervision, oversight, and coordination of relevant risk processes as set out in the framework. To ensure appropriate visibility at a board level, the ORC includes two non executives, one of which is a member of the board. Other members include the divisional heads of risk and senior personnel of the central ERM function.

As is the case with other risk types, ERM provides independent supervision over the businesses' 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.

Operational risk assessment and management

In line with international best practice, Banking Group employs a variety of approaches and tools in the assessment of operational risk. The most pertinent of these are:

- key risk indicators ("KRIs") – KRIs have been put in place across all businesses as an early warning measure to highlight areas of increasing potential exposure to operational risk. KRI reports are included in regular management reports to support ongoing risk identification and mitigation efforts by the business;
- self assessments – risk and control self assessments ("RCSA") are integrated in the business and risk management processes to assist risk managers in identifying key risk areas and to 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;
- audit findings – GIA acts as the third line of risk controls across the organisation and audit findings are used to verify whether controls put in place by the businesses are acceptable in mitigating the risks associated with their key and supporting processes. The number of findings issued, as well as audit findings that have not been resolved before the due date, are tracked, monitored and reported on through the risk committee structures;
- internal loss data – loss data reporting and analyses are used by risk managers to understand the root causes of loss incidents and to understand where corrective action should be taken to mitigate losses;
- external data – external loss data bases are used to derive lessons from other organisations and loss events and to inform quantitative operational risk assessments through risk scenario analyses; and
- incident and issue reporting – 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 to facilitate a feedback of any lessons learned into the organisation's operational risk management practices.

The Banking Group recognises that operational risk is a consequential risk that it cannot avoid or mitigate entirely. Accordingly, frequent operational risk events resulting in small losses are expected as part of business operations (eg fraud) and are budgeted for appropriately. The businesses seek to minimise these through continuously monitoring and improving relevant business and control practices. Operational risk events resulting in substantial losses occur much less frequently and the Group seeks to minimise their incidence and contain their severity within its risk appetite limits.

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. FRB began applying the AMA under the Basel II framework from 1 January 2009 for the bank's domestic operations. Other subsidiaries and offshore operations continue to utilise the Standardised Approach for operational risk, as was the case for all domestic operations until the beginning of this year.

The AMA allows the bank to employ a sophisticated, statistical model based approach for the estimation of capital requirements, which enables more granular and more accurate estimates of the capital requirements associated with the operational risks in each business. A number of operational risk scenarios covering key risks that, although low in probability, may result in severe losses are the basis for this model. These scenarios were derived through an extensive analysis of the bank's operations in consultation with business experts from the respective areas. All scenarios were subsequently cross-referenced to external loss data, internal losses, the control environment and other pertinent information about relevant business processes. To ensure the ongoing efficacy of the capital assessment, all scenarios are reviewed, supplemented or updated semi-annually, as appropriate.

The internal loss scenarios are combined with loss data in a simulation engine to derive the distribution of potential operational risk losses. Regulatory and economic capital requirements are then calculated as the potential loss at the 99.9% confidence level, excluding the effects of insurance and potential diversification effects.

The loss data used for this purpose is collected for all seven Basel II event types across various 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 risk profile parameters, such as applicable loss estimates, which are evaluated continuously;
- 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.

For management and performance measurement purposes, aggregate operational risk capital figures are broken down to lower levels of the organisation on the basis of a risk scorecard that has been aligned to the risk scenarios, control assessments and internal loss experience.

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 reported regularly to a number of relevant risk committees so that they can be integrated with future BCM efforts. 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).

The Group manages this risk on the basis of its 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 period 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 Group accepts its fiduciary duty to safeguard this information in the course of its business activities. Information risk, ie the risk of adverse business impacts, including the loss of reputation caused by a failure of data confidentiality, integrity and availability controls 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 Group. The IT framework is approved by the Technology and Information Management Risk committee ("TIMCO"), a subcommittee of the Operational Risk committee 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 their implementation in the respective functions across the Banking Group.

Like many other large organisations, the Group constantly faces a number of new and changing threats across the evolving IT landscape. The risk monitoring and management structures are designed to enable it to adapt and evolve its risk management strategy with the continuously changing IT environment.

Fraud and security risks

The Group is committed to creating an environment that safeguards 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 the Group's 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 their operations within the constraints of a consistent governance framework that is overseen centrally by ERM.

STRATEGIC AND BUSINESS RISK

Strategic risk denotes the risk to current or prospective earnings arising from adverse business decisions or the improper implementation of such decisions. Business risk denotes the risk to earnings and capital due to 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.

Introduction and objectives

The risk of choosing 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 as a potential outcome in the strategic planning process and it is also considered as a part of regular and pervasive stress testing and scenario analyses carried out across the businesses. The Banking Group's objective is to develop and maintain a portfolio that delivers sustainable earnings and thus minimises the chance of such an 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, which sets the Banking Group's overall strategy and ensures that strategic objectives set at a business level are consistent with its overall strategy. This includes the approval of any subsequent material changes to strategic plans, acquisitions, significant equity investments and new strategic alliances.

Business unit and executive management, as well as the central BSM and ERM functions, 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 through regular scenario planning and stress testing exercises, the Banking Group 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.

Strategic and business risk assessment and management

Strategic risk, as defined above, 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 the Group's earnings on the other hand can be assessed, and this forms an explicit part of the Banking Group's risk appetite and internal capital adequacy assessment processes (including the regulatory ICAAP).

Business risk is a residual risk (to the extent that its impact is not captured by other risk types) and is assessed regularly as part of the ICAAP. It is managed strategically at a Banking Group level through the development, review and updating of the strategic plan in light of the organisation's evolving view of the business environment.

For capital purposes, the Banking Group reviews the past history of revenues and costs on a suitably adjusted basis to determine whether it is likely that revenues would be insufficient to cover costs in a very severe scenario. At present, FirstRand's projections indicate an adequate coverage of the projected cost base, and no economic capital is therefore held against this risk type.

As a financial services provider FirstRand's business is one that is inherently built on trust and close relationships with its clients. Safeguarding the Banking Group's reputation is therefore of paramount importance to ensure its continued prosperity and is thus seen as the responsibility of every staff member. Reputational risks can arise from environmental, social and governance issues or as a consequence of financial or operational risk events.

The Banking Group's reputation is built on the way in which it conducts its business and protects its reputation by managing and controlling these risks across its operations. It thus 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, which are a component of the planning and strategy setting processes. As indicated in the introduction of this report, the Banking Group aims to establish a risk and earnings profile within the constraints of its risk appetite and thus seeks to limit potential stress losses from credit, market, liquidity and operational risks that may otherwise introduce undesirable volatility in its financial results and adversely affect its reputation.

REGULATORY RISK

Regulatory risk denotes the risk of legal or regulatory sanction and material financial loss or reputational damage as a result of a failure by the Banking Group or any part thereof to comply with any applicable laws, regulations or supervisory requirements.

Introduction and objectives

RRM 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 Banking Group's compliance and regulatory risk management efforts is thus 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 pro-actively 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. Therefore 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 their 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 Compliance committee, the RCC 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 divisions have appointed compliance officers responsible for implementing and monitoring compliance polices and procedures related to their respective divisions.

Regulatory risk assessment and management

The RRM function and its board mandate prescribe a "zero tolerance" approach to compliance breaches. To achieve this RRM have 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. This includes:

- 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 has been 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, RRM 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

RISK MANAGEMENT PHILOSOPHY

The Momentum board embraces the principles of good corporate governance. Momentum's 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.

Risk management objectives

Momentum's key risk management objectives are to:

- manage 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 Financial Services Board ("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.

Risk appetite

Momentum's business as a financial intermediary is based on the identification, measurement, pricing, taking and management of risk. Momentum does not aim to eliminate risk entirely but to assume it deliberately in a measured, calculated and controlled fashion pursuant to its business objectives.

The level of risk Momentum 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 board's Risk committee and its subcommittees, as described in the Governance section on page 166.

Momentum's risk appetite finds its primary quantitative expression in the level of capitalisation it seeks to maintain 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.

CAPITAL MANAGEMENT

Allocating resources, including capital and risk capacity in terms of Momentum's 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.

Investment mandate for the shareholders' portfolio

Momentum supports its regulatory Capital Adequacy Requirement ("CAR") with cash or near cash assets, while the balance of the shareholders' assets is 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

Momentum previously targeted an economic capitalisation level range of 1.7 – 1.9 times CAR. During 2008, the Actuarial Society of South Africa ("ASSA") issued revised professional guidance for the calculation of the regulatory minimum capital adequacy requirement. The revised CAR formulae, which now explicitly allow for credit and operational risks, applied to Momentum for the first time during the 2009 financial year. ASSA has also revised the professional guidance for the quantification of the capital required in respect of minimum investment return guarantees. In the past, Momentum allowed for these risks in its targeted economic capitalisation level.

Given that the revised CAR formulae now explicitly allow for operational and credit risks, Momentum had to reformulate its targeted economic capitalisation level. Under the new CAR formulae, the reformulated targeted economic capitalisation level range reduced to 1.4 – 1.6 times CAR. This targeted capitalisation level satisfies the same risk appetite towards capital as the previous targeted range.

At 30 June 2009, Momentum's CAR was covered 1.8 times by the excess of assets over liabilities on the statutory valuation basis.

Statutory excess over liabilities (unaudited)

R million	2009	2009 Pro forma (unaudited)	2008 Published
Statutory excess over liabilities	7 108	6 114	6 114
CAR	3 843	3 775	2 826
CAR cover rate (times)	1.8	1.6	2.2

Momentum's pro forma capital position at 30 June 2008 (based on the revised CAR formulae), was 1.6 times CAR. At 31 December 2008, Momentum published a CAR cover level of 1.4 times CAR. This capital level was at the lower end of the reformulated targeted range.

Over the six month period from 30 June 2008 to 31 December 2008, the Global Financial Crisis resulted in equity markets reducing by almost 30%, long term interest rates reduced by 3% and equity volatilities increased to near all time highs. The combination of these events in effect represented a capital-stress scenario (ie an event in the "tail of the distribution"), and it was therefore expected that such an event would result in Momentum's capital position being close to the lower end of its targeted range. The robustness of Momentum's capital structure and the efficiency of its capital management were reinforced by the global financial crisis.

At 30 June 2009, Momentum's CAR cover amounted to 1.8 times CAR. Momentum's capital position therefore improved over the year under review. This is due to the larger proportional increase in excess assets compared to the increase in CAR over the year under review.

The increase in CAR was mainly due to an increase in the capital required in respect of minimum investment return guarantees. The increase in the excess assets resulted from the positive contribution by Momentum's attributable earnings, as well as the dividend holiday that Momentum was granted during the March 2009 dividend cycle.

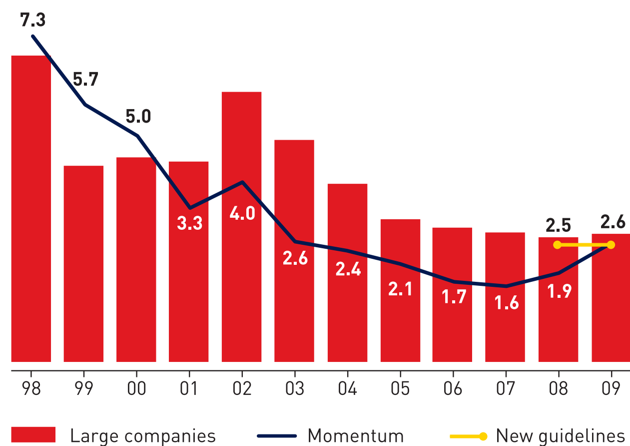
The capital position at 30 June 2009 is above the upper end of the reformulated targeted range, which allows Momentum to pay a final ordinary dividend (of R329.8 million) to FirstRand Limited in October 2009. This dividend represents a dividend cover of 2.5 times based on 50% of the 2009 normalised earnings.

Following the payment of the proposed dividend (as well as the cost of STC thereon), Momentum's capital level will remain at 1.8 times CAR. Momentum's board deems it prudent to maintain a buffer above the upper end of the range in recognition of the uncertain market conditions.

Capital efficiency

The graph below illustrates the improvements in Momentum's capital efficiency over the past number of years, as well as the impact of the revised CAR formulae at 30 June 2009. The capital efficiency is measured by expressing CAR as a percentage of Momentum's total policyholder liabilities. Not all the results of the large companies at 30 June 2009 were available at the time of writing. For those companies for which the results were not yet available, the ratio at 31 December 2008 was used.

Improvements in Momentum's capital efficiency (unaudited)



The comparison in the graph above illustrates that, historically, Momentum's insurance business tended to be less capital intensive than the average of the large South African insurance companies.

The reduction in the CAR (as a percentage of liabilities), from 1998 to 2007 mainly resulted from a more capital efficient liability mix, as well as the positive impact of good investment performance. The increase in the ratio in 2008 (from 1.6% in 2007 to 1.9% in 2008), was due to a reduction in policyholder bonus stabilisation accounts ("BSA") (given the relatively low growth in equity markets over this period), as well as the increased capital requirement for minimum benefits under certain products, in line with regulations that followed the Statement of Intent.

The introduction of the revised CAR formulae at 31 December 2008 has increased the absolute level of CAR, which will increase the ratio of CAR as a percentage of liabilities going forward. It is therefore not relevant to compare the ratio at 30 June 2009 to the historical ratios.

At 30 June 2009, the CAR as a percentage of liabilities amounted to 2.6%. The pro forma ratio at 30 June 2008 (based on the revised CAR formulae), of 2.5%, is also shown in the graph above. The slight increase in the ratio over the 12 months to 30 June 2009 was mainly due to the reduction in the BSA, given the weak equity market performance over the year under review, as well as the increase in the capital held in respect of minimum investment guarantees.

Composition of regulatory capital

The FSB has not formally limited the extent to which South African life insurance companies can incur debt on their balance sheets. 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 by Momentum as at 30 June 2009.

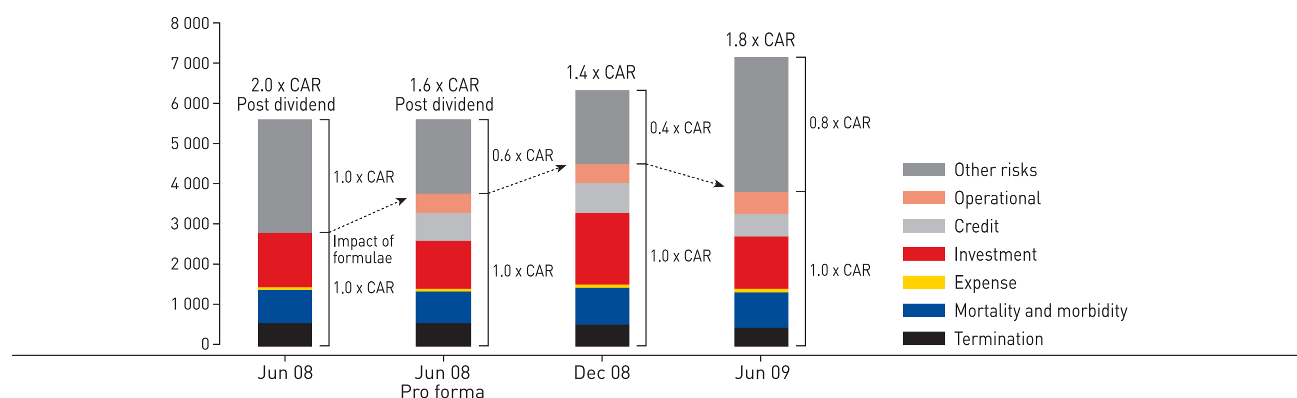
Regulatory capital (unaudited)

	2009		2008	
R million		%	Post dividend	%
Tier 1	**6 102**	**86**	4 577	82
– Core Tier 1 (equity capital)	**5 642**	**79**	4 077	73
– Non redeemable preference shares	**460**	**7**	500	9
Subordinated qualifying bond[1]	**1 006**	**14**	1 036	18
Qualifying statutory capital	**7 108**	**100**	5 613	100

1 *This debt level is within the limit of 30%.*

The bar chart below sets out how the main risks contribute to Momentum's total economic capital requirement:

Composition of economic capital (unaudited)



The position at 30 June 2008 represents the contribution of the main risks to Momentum's total economic capital requirement after the payment of the October 2008 dividend, based on the old CAR formulae.

The 30 June 2008 pro forma numbers are based on the 30 June 2008 post dividend position, but restating CAR based on the revised CAR formulae. The increase in the absolute value of CAR is evident from the graph. Applying the revised CAR formulae, Momentum's CAR cover at 30 June 2008 would have amounted to 1.6 times CAR (as opposed to 2.0 times CAR under the previous CAR formulae).

At 30 June 2009, Momentum's CAR cover amounted to 1.8 times, which represents a significant improvement over the 1.4 times CAR that was published on 31 December 2008. The decrease in the absolute amount of CAR, from 31 December 2008 to 30 June 2009, is evident from the graph and is mainly the result of the decrease in the capital required in respect of minimum investment return guarantees, as well as Momentum's ongoing capital management initiatives.

Momentum's credit rating

As part of the ongoing management of Momentum's capital position, the annual review of Momentum's credit rating was conducted by FitchRatings ("Fitch") during November 2008.

Fitch affirmed Momentum's credit ratings on 31 March 2009. The National Insurer Financial Strength ("IFS") and National Long Term Ratings were affirmed at "AA+(zaf)" and "AA(zaf)", respectively. The credit rating of Momentum's subordinated debt was also affirmed at "AA-(zaf)". The Outlooks for the IFS and National Long Term Ratings were, however, changed to Negative from Stable, which is consistent with the change in outlook of Momentum's main competitors that are also rated by Fitch.

Return on equity

The active management of Momentum's capital plays an important role to achieve the targeted return on capital set by FirstRand Limited. The return on equity ("ROE") for the 12 months ended 30 June 2009 amounted to 22.6% (based on normalised earnings), compared to 30.8% in the comparative period. The decrease in the ROE is mainly due to the impact of the adverse market conditions experienced during the year under review.

RISK GOVERNANCE

Momentum recognises that clear accountability is fundamental to the management of risk. The risk governance model distinguishes between functions owning and managing risks, functions overseeing risks and functions providing independent assurance.

Risk management

Momentum's board retains ultimate responsibility for the total process of risk management. Momentum's Chief Executive is accountable to the board for the management of risks facing Momentum and is supported in the management of these risks by business unit executives and line management. 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 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 is also in operation at Momentum. 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.

The Chief Risk Officer and the ERM function provide objective oversight and coordinate the enterprise risk management process. Individual business units are supported in the execution of their risk management responsibilities by deployed risk management functions. The deployed risk management functions are overseen centrally by ERM.

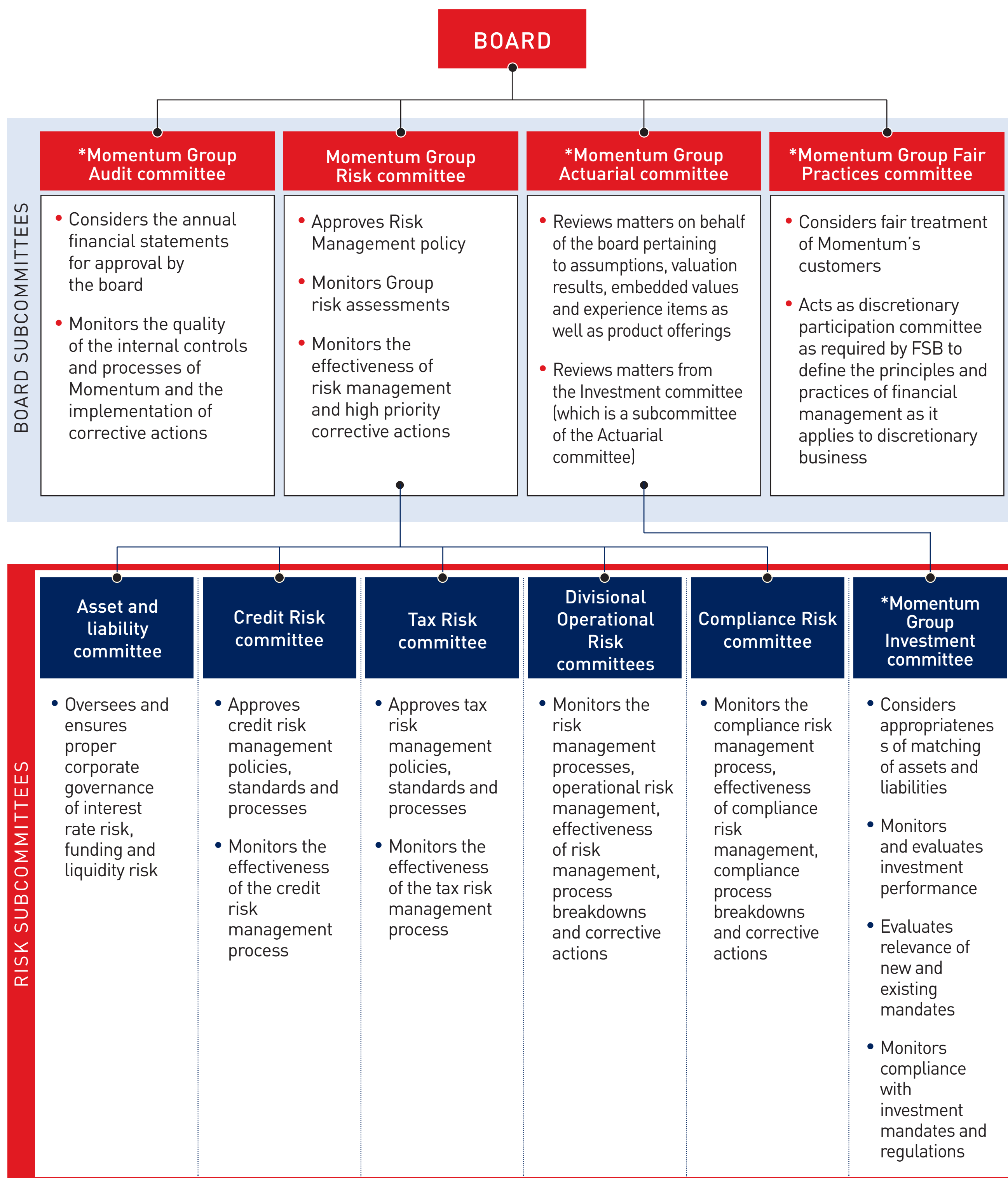
Independent assurance

Independent, objective assurance on the effectiveness of the management of risks across Momentum is provided to Momentum's board through the FirstRand Group Internal Audit function, the external auditors and Momentum's Audit committee.

Committee structure

The Momentum board retains ultimate responsibility for ensuring that risks are adequately identified, measured, managed and monitored across the Group. The board discharges its duty through relevant policies and frameworks as well as four board committees and their respective subcommittees. The primary board committee overseeing risk matters is the Momentum Risk committee. The Risk committee has delegated responsibility for a number of specialist topics to a number of specialist risk subcommittees, as illustrated on the following page.

All subsidiaries, divisions and major business units of Momentum have appropriate governance forums where risk, compliance and audit matters are tabled. Momentum's Audit committee and Momentum's Risk committee have non executive representation. Momentum's Audit committee meetings are attended by representatives from the external and internal auditors and the independent risk management functions.



*Denotes chairperson is a board member.

RISK MANAGEMENT FRAMEWORK

The Business Success and Enterprise Risk Management Framework ("Risk Management Framework") of Momentum, governs the risk management process and provides a matrix of risks inherent to the business of Momentum, being:

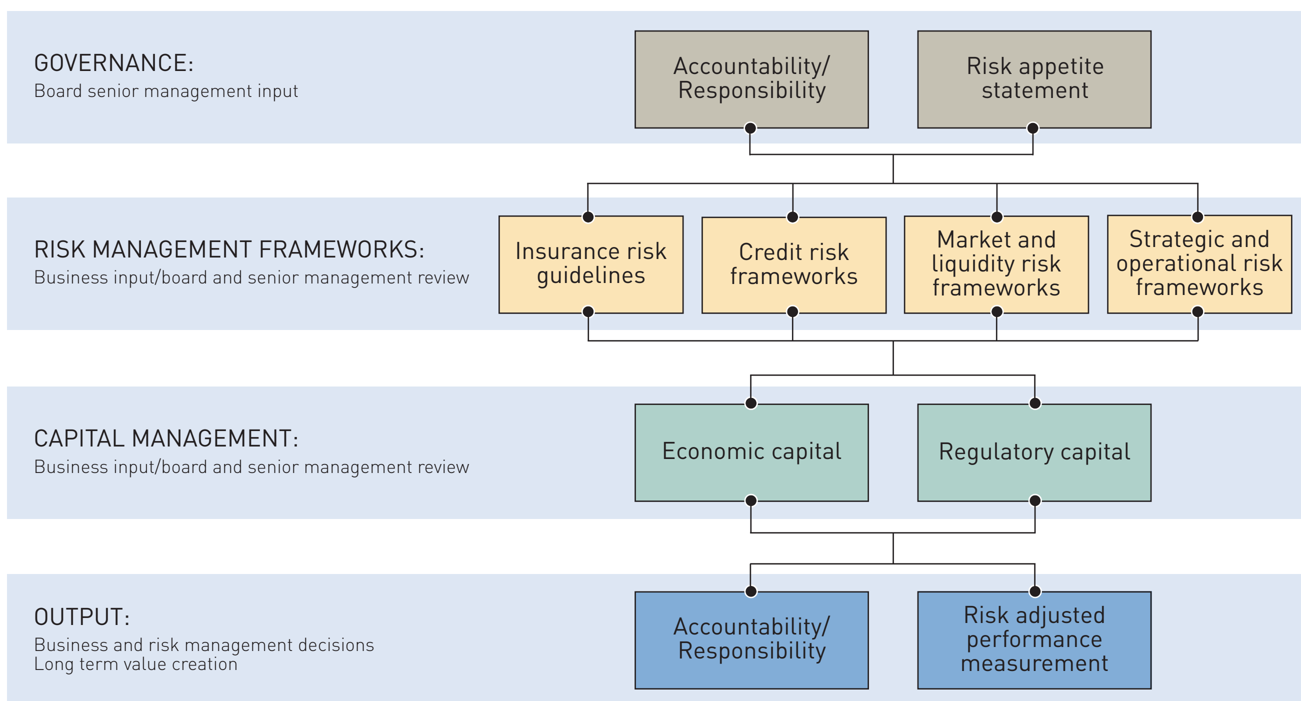
- insurance risk;
- credit risk;
- market and liquidity risk; and
- strategic and operational risk.

The purpose of the Risk Management Framework for Momentum is to establish:

- a risk governance structure that clearly allocates roles and responsibilities;
- well defined risk objectives that articulate the company's 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 of Momentum.

The following sections provide 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.

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 the Statutory Actuary 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 balance sheet of the insurance operations per type of contract:

Insurance operations per type of contract (audited)

	2009		
R million	Linked/ market related business	Reversionary and smoothed bonus business	Annuities and non participating business
At 30 June 2009			
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

	2008		
R million	Linked/ market related business	Reversionary and smoothed bonus business	Annuities and non participating business
Assets			
Financial assets less non policyholder liabilities	117 318	23 396	19 150
Liabilities			
Policyholder liabilities under insurance contracts	15 593	9 917	16 472
Policyholder liabilities under investment contracts	95 289	13 252	2 575
Excess assets	6 436	227	103
Total	117 318	23 396	19 150

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 Momentum's 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 what is 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 they are more likely to need the cover 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 by Momentum. Therefore Momentum 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 Professional Guidance Note ("PGN") 105;
- reinsurance to limit Momentum's liability on particularly large claims or substandard risks. On all individual pure risk business, Momentum reinsures 30% of the mortality risk and 35% of the morbidity risk. The maximum retention on aggregate mortality and morbidity risks on any one life is R3 million. During the course of the financial year, the reinsurance agreement on individual pure risk business was altered for all new policies written. Under the new arrangement, 15% of mortality and morbidity risk is reinsured with maximum retention on aggregate for any one life of R5 million; 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. Momentum's catastrophe reinsurance cover for the current financial year is R450 million in excess of R50 million for any single event involving three or more lives, in respect of both individual and group business, with a second layer of R35 million in excess of R15 million in respect of group business.

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 2009. Benefits include those payable on death, as well as both standalone and accelerated dread disease and disability benefits.

Sum at risk per benefit (audited)

	2009		
	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**

	2008		
	Number of benefits	Total amount at risk gross of reinsurance R million	Total amount at risk net of reinsurance R million
0 – 50 000	233 480	2 252	2 006
50 001 – 100 000	46 579	3 739	3 090
100 001 – 200 000	86 258	12 957	10 171
200 001 – 500 000	202 295	70 956	51 244
500 001 – 1 000 000	178 437	131 219	91 526
More than 1 000 000	168 610	379 641	207 007
Total	915 659	600 764	365 044

Before reinsurance 67% of the total amount at risk is for sums at risk exceeding R1 million per benefit at 30 June 2009. This reduces to 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 become more common recently 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. Momentum does not pay claims resulting from active participation in war or from atomic, biological or chemical weapon risks.

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 we take over a scheme 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 Momentum's "group risk" business as there are considerably more concentrations of risks compared to individual business. Momentum's catastrophe reinsurance cover for the current financial year is R450 million in excess of R50 million for any single event involving three or more lives, in respect of both individual and group business, with a second layer of R35 million in excess of R15 million in respect of group business.

An indication of the concentration risk in respect of group business can be obtained by noting that the five largest group schemes contribute 10% to the total risk exposure under group life cover in force at 30 June 2009 (2008:10%).

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.

Momentum manages this risk by allowing for improvements in mortality when pricing and valuing the contracts. Momentum measures deviations of experience from assumptions bi-annually. Momentum also performs more detailed actuarial experience investigations (the last detailed investigation was performed in June 2007) and adjusts assumptions in pricing for new contracts and valuation of existing contracts when necessary. The next detailed investigation will be performed in September 2009.

The following table shows the distribution of number of annuities by total amount per annum.

Distribution of number of annuities (audited)

	2009		2008	
Income category per annum	**Number of annuitants**	**Amount per annum R million**	Number of annuitants	Amount per annum R million
0 to 10 000	**60 752**	**256**	62 405	258
10 001 to 50 000	**26 246**	**565**	25 890	555
50 001 to 100 000	**4 189**	**288**	4 071	280
100 001 to 200 000	**1 699**	**229**	1 631	218
200 001+	**534**	**165**	404	114
Total	**93 420**	**1 503**	94 401	1 425

The largest concentration in terms of the number of annuitants is for small amounts of income per annum. 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. However, losses may 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 Momentum's 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 Momentum may experience a loss due to actual expenses being higher than those 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 Momentum may not sell sufficient volumes of new business 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 our "best estimate" assumptions in all future years – not only in one given time period.

Liability sensitivities (audited)

	2009					
R million	Liability	Renewal expenses decrease by 10%	Expense inflation decreases by 1%	Discontinuance 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

		2008				
R million	Liability	Renewal expenses decrease by 10%	Expense inflation decreases by 1%	Discontinuance 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)	26 303	26 240	26 273	26 306	25 869	26 184
Annuities (retail and employee benefits)	13 999	13 744	13 620	13 999	14 290	15 337
Employee benefits business	1 680	1 680	1 680	1 680	1 680	1 680
Investment business (as defined under IFRS 4)	111 116	111 047	111 052	111 116	111 086	111 268
Total	153 098	152 711	152 625	153 101	152 925	154 469

The above sensitivities were chosen, because they represent the main assumptions regarding future experience that Momentum employs in determining its insurance liabilities. The magnitudes of the variances were chosen to be consistent with the sensitivities shown in Momentum's 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% increase in mortality and morbidity lump sum benefits paid on employee benefits in any given year will result in a reduction of R73.7 million in the before tax earnings of Momentum.

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.

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.

Credit risk governance

Credit risk in Momentum is managed in terms of the Credit Risk Management Framework, which is a subframework of Momentum's 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 of directors. The operational responsibility has been delegated to Momentum's 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 Momentum Risk committee and is comprised of executive and non executive members and is chaired by a non executive member. This committee reports to Momentum's Risk committee on the effectiveness of credit risk management and provides an overview

of the credit portfolio of Momentum. The Momentum Credit Risk committee and its subcommittees are responsible for the approval of relevant credit policies and the ongoing review of the credit exposure of Momentum. 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 occur through the inability of corporate debt issuers to service their debt obligations. 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 Momentum's 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 function performs ongoing risk management of the credit portfolio. This is made possible by the use of stochastic portfolio credit risk modelling in order to gauge the level of portfolio credit risk, consider levels of capital and identify sources of concentration risk and the implications thereof.

Regular risk management reporting to Momentum's 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 simulation portfolio model has been implemented to quantify concentration risk and its potential impact on the credit portfolio.

The following represents Momentum's total exposure to credit risk (before taking into account any security held):

Portfolio overview (audited)

	2009			
R million	Insurance	Asset management	Other	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

R million	2008 Insurance	Asset management	Other	Total
Maximum exposure to credit risk before taking into account any collateral held:				
Cash and short term funds	30 754	307	93	31 154
Accounts receivable	2 011	109	38	2 158
– Premium debtors	399	–	–	399
– Commission debtors	59	–	–	59
– Reinsurance debtors	180	–	–	180
– Other	1 373	109	38	1 520
Investment securities	42 194	–	–	42 194
Derivative financial instruments	10 892	–	–	10 892
Policy loans	753	–	–	753
Reinsurance assets	550	–	–	550
Total	87 154	416	131	87 701

Corporate and government debt

Momentum adopts a portfolio management approach to credit exposures. In order to achieve appropriate diversification, limits are applied at industry sector level, the number of single obligor exposures within rating categories, and the targeted weighted average rating of the portfolio.

Momentum's total exposure to corporate and government debt amounted to R33.6 billion at 30 June 2009 (2008: R42.1 billion):

Exposure to corporate and government debt (audited)

R million	Banks	RSA Government	Utilities	Mining	Other sectors	Total
2009	**2 325**	**14 503**	**2 295**	**–**	**14 541**	**33 664**
2008	8 488	11 203	4 275	22	18 206	42 194

The exposure to "other sectors" is spread across 29 industry sectors, with no single sector representing more than 5.6% of the total corporate debt exposure.

The exposure to banks represents debt, cash on deposit, derivative and other exposures to the largest A rated banks in South Africa. The largest counterparty exposure is to the South African Government with R14.5 billion in exposure at 30 June 2009 (2008: R11.2 billion).

The total debt portfolio is spread as follows across the various ZAR rating categories (based on Standard and Poor's rating scale) at 30 June 2009:

Debt portfolio per ZAR rating categories (unaudited)

	2009					
R million	Cash and short term funds	Reinsurance assets	Investment securities	Script 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
B+ to B- (B+ to B-)	6	–	–	–	–	6
Below B- (CCC)	–	–	–	–	–	–
Unrated	1	23	1 166	–	–	1 190
Total	**40 967**	**8 143**	**33 664**	**4 672**	**9 455**	**96 901**

	2008					
R million	Cash and short term funds	Reinsurance assets	Investment securities	Script lending	Derivatives	Total
National scale mapping (International equivalent):						
AAA to BBB- (A to B+)	31 154	549	42 177	8 897	10 829	93 606
B+ to B- (B+ to B-)	–	–	17	–	63	80
Below B- (CCC)	–	–	–	–	–	–
Unrated	–	1	–	–	–	1
Total	31 154	550	42 194	8 897	10 892	93 687

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 Momentum's 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 debtors 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 R42 million at 30 June 2009 (2008: R26 million), compared with total commission payments of R1 144 million for the year (2008: R1 475 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)

	2009		2008	
Reinsurer	Reinsured proportion	International credit rating of reinsurer (Standard and Poor's)	Reinsured proportion	International credit rating of reinsurer (Standard and Poor's)
Swiss Re	**47%**	**A+**	48%	AA-
General Cologne Re	**24%**	**AA-**	18%	AAA
Hannover Re	**19%**	**AAA**	23%	AA-
RGA Re	**7%**	**AA-**	8%	AA-
Other	**3%**		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 therefore 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.

Policy loans are secured by policies issued by Momentum. In terms of the regulations applicable to Momentum, 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 Momentum accounting policies.

Script lending

Momentum lends out listed equity holdings. At 30 June 2009 a total of R4 672 million (2008: R8 896 million), or 8% (2008: 11%) of the total equity holding, was out on loan. Fees received for script 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

Momentum enters into derivative contracts 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 setoff 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.

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 a decrease in the net asset value due to a decline in the fair value of shareholder assets.

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. Substantially market risk within Momentum is managed in the investment management division in Momentum as this is where the market risk taking and management expertise lies.

Market risk governance

The Asset and Liability committee which is a subcommittee of the Momentum Risk committee provides market risk oversight for interest rate risk, funding and liquidity risk assumed on Momentum's balance sheet.

Momentum, with the assistance of the Momentum Investment committee, measures the exposure to financial risks by matching the assets held by Momentum with the liabilities payable by Momentum. In addition, the Momentum Investment committee monitors investment performance of all investment portfolios, 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 within Momentum results from the offshore assets held by policyholders' portfolios to provide the desired international exposure, subject to the limitations imposed by the SARB. The largest portions of these assets back linked policyholders' liabilities. This results in the majority of the currency risk being passed on to the policyholder in terms of the policy agreement.

The following assets and liabilities, denominated in foreign currencies, where the currency risk resides with Momentum, are included in Momentum's balance sheet:

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, plant 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

Shareholders' assets and liabilities (audited)

	2008				
R million	GBP	US$	Euro	Other	Total
Assets					
Cash and short term funds	41	–	–	6	47
Investment securities	–	–	–	31	31
Investment assets	41	–	–	37	78
Accounts receivable	2	–	–	7	9
Deferred taxation	–	–	–	3	3
Total assets	43	–	–	47	90
Liabilities					
Accounts payable					
Provisions	24	–	–	2	26
Taxation	7	–	–	1	8
Deferred revenue liability	–	–	–	1	1
Total liabilities	31	–	–	4	35

Assets backing policyholder liabilities (audited)

	2008				
R million	GBP	US$	Euro	Other	Total
Assets					
Cash and short term funds	178	116	53	9	356
Money market investments	11	254	22	–	287
Accounts receivable	122	31	5	34	192
Investment securities	188	11 408	737	102	12 435
Property, plant and equipment	13	–	–	4	17
Derivative financial instruments	–	2	–	–	2
Total assets	512	11 811	817	149	13 289
Liabilities					
Accounts payable (including insurance payable)	153	33	–	13	199
Policyholder liabilities under investment contracts	100	696	227	–	1 023
Policyholder liabilities under insurance contracts	–	–	–	18	18
Total liabilities	253	729	227	31	1 240

Foreign exchange rates (audited)

	2008			
	GBP	US$	Euro	Pula
Closing rate	15.6010	7.8226	12.3452	1.1949
Average rate	14.6642	7.3006	10.8654	1.1662

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 Momentum's assets and liabilities.

The following sections set out the areas where Momentum is exposed to interest rate risk, as well as how this is managed.

i. Non profit annuity business

An annuity pays an income to the annuitant for life, in return for a lump sum consideration paid on origination of the annuity. Income payments may be subject to a minimum period. The income may be fixed, or increase at a fixed rate or in line with inflation.

Momentum guarantees this income and 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 of the same duration as the liabilities. The mismatch risk is measured in terms of duration and convexity risk. The asset manager 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. In a monthly meeting with the asset managers, the matching position of the portfolio is considered as well as the need for corrective action. 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 2009 would have resulted in a 1.6% (2008:1.4%) move in the liability relative to assets. Similar to the annuity portfolio, the liability for Permanent Health Insurance payments to disabled employees of insured group schemes is matched by fixed and index linked bonds to protect Momentum 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 guaranteed at inception. Momentum hedges the risk of being unable to meet the guaranteed maturity value by investing in assets that will provide the required yield at the relevant durations.

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. Momentum manages the risk associated with the guarantee on these contracts 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 2009, a 25% horizontal shift in the yield curve would have resulted in a 0.34% (2008: 0.1%) move 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 capitalized and offset against the liabilities. The present value of the future fees therefore represents an asset on Momentum's balance sheet (ie the negative rand reserves). The 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)

		2009	
R million	**Total**	**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**

		2008	
R million	Total	Cash flow interest rate risk	Fair value interest rate risk
Cash and short term funds	4 919	4 919	0
Money market investments	26 234	19 946	6 288
Investment securities	42 194	–	42 194
Total	73 347	24 865	48 482

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	**2009**	2008
Government and public authority stocks	**56**	–
Debentures and other loans	**–**	–
Total	**56**	–

Refer to the section on liquidity risk on page 187 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 of Momentum 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. Momentum has limited its exposure to direct investment properties 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.

Equity 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.

Momentum manages its equity risk 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

Momentum offers various product lines in this category. Some of these products have been 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 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, Momentum has 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% pa 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).

Momentum no longer automatically offers these guarantees 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.

Momentum manages the risk of being unable to meet guarantees 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. Momentum also holds statutory capital 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 ("MSB"), Momentum Structured Growth ("MSG") and Momentum Capital Plus ("MCP") 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, BSA in respect of group DPF business are small, relative to the BSA 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. There is furthermore 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

Momentum's 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)

	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)	(0)	(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:			39	(39)			39
– 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	257	(260)	42	(109)	(46)	46	(213)
Impact of stabilisation	(146)	145	(3)	68	25	(25)	154
Net change in profit for the year after stabilisation	111	(115)	39	(41)	(21)	21	(59)
Net profit for the year after the plausible change	1 705	1 479	1 633	1 553	1 573	1 615	1 535
Effect on equity of the reasonably possible change							
Available-for-sale reserve	–	–	–	–	–	–	–
Foreign currency translation reserve	–	–	–	–	(23)	23	23
Retained earnings	67	(68)	23	(24)	(13)	13	(35)
– 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 by 100 bps, 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	2 002	2 002	2 002	2 002	2 002	2 002	2 002
Change in profit from insurance contracts as a result of the reasonably plausible change[1]	–	–	(48)	48	–	–	(48)
Change in profit from investment contracts as a result of the reasonably plausible change	87	(94)	(13)	10	(33)	31	(76)
Change in profits attributable to asset manager operations	33	(33)	(2)	2	(7)	7	(28)
Change in profit from shareholders free assets as a result of the change	–	–	21	(21)	–	–	21
– Returns on shareholders assets	–	–	21	(21)	–	–	21
– Gains on available-for-sale financial instruments recycled from equity	–	–	–	–	–	–	–
Net change in profit for the year as a result of the reasonably plausible change	120	(127)	(42)	39	(40)	38	(131)
Net profit for the year after the plausible change	2 122	1 875	1 960	2 041	1 962	2 040	1 871
Effect on equity of the reasonably possible change							
Available-for-sale reserve	–	–	–	–	–	–	–
Foreign currency translation reserve	–	–	–	–	–	–	–
Retained earnings	72	(76)	(25)	23	(24)	23	(78)
– Net profit	120	(127)	(42)	39	(40)	38	(131)
– Dividends	(48)	51	17	(16)	16	(15)	53
Equity	72	(76)	(25)	23	(24)	23	(78)

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 twelve 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 IFRS 7 disclosure requirements facilitates comparison with other industry participants.

Market risk sensitivities have been applied as an event on the balance sheet date, 30 June 2009. 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 professional guidance note 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.

LIQUIDITY RISK

Introduction

Liquidity risk is the risk that Momentum will encounter difficulty in raising funds to meet commitments to policyholders under policy contracts and in respect of other obligations.

Liquidity risk governance

The Asset and Liability committee which is a subcommittee of Momentum Risk committee provides market risk oversight for interest rate risk, funding and liquidity risk assumed on Momentum's balance sheet.

Investments are made in assets which are expected to provide cash flows that match liability outflows as and when they are expected to occur – this is monitored by the Momentum Investment committee.

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 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 they 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 (ie 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 allows 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 (ie 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 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. Momentum 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 IFRS 4). The amounts in the table represent the excess of claims and expenses over premium income, expressed in present value terms (ie 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 (eg 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 they become payable.

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. They 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 their timing is uncertain and they 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 has been 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 have been 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 have been 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)

	2009				
R million	Total	Shorter than 1 year	Between 1 and 5 years	Between 5 and 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	8 228	391	1 915	1 755	4 167
Employee benefits	–	–	–	–	–
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**

	2008				
R million	Total	Shorter than 1 year	Between 1 and 5 years	Between 5 and 10 years	Longer than 10 years
Linked (market related) business					
Individual	15 547	817	3 580	2 643	8 507
Employee benefits	46	46	–	–	–
Smoothed bonus business					
Individual	9 917	548	2 095	2 144	5 130
Employee benefits	–	–	–	–	–
Non profit business					
Individual	817	131	62	61	563
Employee benefits	1 677	–	1 677	–	–
Annuity business	13 978	1 075	5 995	2 398	4 510
Total policyholder liabilities under insurance contracts	41 982	2 617	13 409	7 246	18 710

The maturity profile of policyholder liabilities under investment contracts is set out below:

Period when cash flow becomes due (investment contracts) (audited)

	2009				
R million	Total	Shorter than 1 year	Between 1 and 5 years	Between 5 and 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**

	2008				
R million	Total	Shorter than 1 year	Between 1 and 5 years	Between 5 and 10 years	Longer than 10 years
Linked (market related) business					
Individual	59 089	7 402	21 355	6 683	23 649
Employee benefits	36 760	36 751	9	–	–
Smoothed bonus business					
Individual	8 040	753	2 524	2 068	2 695
Employee benefits	5 212	5 212	–	–	–
Non profit business					
Individual	1 752	623	963	29	137
Employee benefits	–	–	–	–	–
Annuity business	823	95	156	12	560
Total policyholder liabilities under investment contracts	111 676	50 836	25 007	8 792	27 041
Net cash outflows expected in respect of insurance and investment contracts					
30 June 2009	**149 856**	**56 269**	**37 241**	**14 189**	**42 158**
30 June 2008	153 658	52 892	38 416	16 039	45 752

The following is the expected maturity analysis of the policyholder assets:

Assets backing policyholder liabilities (audited)

	2009				
R million	Total	Shorter than 1 year	Between 1 and 5 years	Between 5 and 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

	2008				
R million	Total	Shorter than 1 year	Between 1 and 5 years	Between 5 and 10 years	Longer than 10 years
Cash and short term funds	4 872	4 133	368	371	–
Money market investments	26 234	21 899	4 039	296	–
Accounts receivable	2 148	2 084	64	–	–
Investment securities	126 930	82 422	10 321	34 187	–
Derivative financial instruments	10 892	1 324	6 945	2 623	–
Reinsurance assets	550	250	139	161	–
Total	171 626	112 112	21 876	37 638	–
Net liquidity gap on policyholder liabilities					
30 June 2009	**(110 227)**	**(53 278)**	**(23 144)**	**(7 890)**	**(25 915)**
30 June 2008	(111 676)	(50 836)	(25 007)	(35 834)	–

The following table represents the expected cash flows to be made on shareholder liabilities:

Liquidity risk – shareholders (audited)

	2009			
R million	**Total**	**Shorter than 1 year**	**Between 1 and 5 years**	**Between 5 and 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	**1853**	**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**

	2008			
R million	Total	Shorter than 1 year	Between 1 and 5 years	Between 5 and 10 years
Accounts payable (including insurance payables)	9 426	8 722	704	–
Liabilities arising as a result of consolidating collective investment schemes	7 283	7 283	–	–
Derivative financial instruments	4 190	3 884	235	71
Interest bearing borrowings	114	27	87	–
Other financial liabilities	974	–	129	845
Provisions	246	204	42	–
Employee benefit liabilities	179	99	80	–
Deferred revenue liability	296	21	275	–
Total	22 708	20 240	1 552	916

The following represents the expected cash flows at the expected maturity dates for the shareholders' assets:

Shareholder asset cash flow at maturity (audited)

	2009			
R million	Total	Shorter than 1 year	Between 1 and 5 years	Between 5 and 10 years
Cash and short term funds	36	36	–	–
Money market investments	–	–	–	–
Accounts receivable	22	22	–	–
Investment securities	31	31	–	–
Total	89	89	–	–

	2008			
R million	Total	Shorter than 1 year	Between 1 and 5 years	Between 5 and 10 years
Cash and short term funds	47	47	–	–
Money market investments	–	–	–	–
Accounts receivable	9	9	–	–
Investment securities	31	31	–	–
Total	87	87	–	–

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 in the section on liquidity risk for policyholders.

Period when cash flow becomes due (audited)

	2009			
R million	Total	Shorter than 1 year	Between 1 and 5 years	Between 5 and 10 years
Liabilities				
Accounts payable (including insurance payable)	16 647	15 362	1 285	–
Liabilities arising to third parties as a result of consolidating	8 114	8 114	–	–
Collective investment schemes	–	–	–	–
Derivative financial instruments	1 810	1 011	287	512
Other financial liabilities	2 249	–	167	2 082
Finance lease liabilities	–	–	–	–
Off balance sheet commitments	142	18	95	29
Total	28 962	24 505	1 834	2623

	2008			
R million	Total	Shorter than 1 year	Between 1 and 5 years	Between 5 and 10 years
Liabilities				
Accounts payable (including insurance payable)	9 426	8 722	704	–
Liabilities arising to third parties as a result of consolidating	7 283	7 283	–	–
Collective investment schemes	–	–	–	–
Derivative financial instruments	6 636	3 998	1 866	772
Other financial liabilities	2 130	224	321	1 585
Finance lease liabilities	114	27	87	–
Off balance sheet commitments	305	126	179	–
Total	25 894	20 380	3 157	2 357

The balances in the table above will not agree directly with the balances on the balance sheet for the following reasons:

- the amounts included in the table above are contractual undiscounted amounts whereas the balance sheet is prepared using the discounted amounts;
- the table includes contractual cash flows with respect to off-balance sheet items which have not been recorded on the balance sheet;
- all instruments held for 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 a 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 Momentum's 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 of Momentum is managed. This section describes how the financial risk management of the schemes is different from the financial risk management for Momentum overall.

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.

STRATEGIC AND BUSINESS RISK

Introduction

Strategic risk is defined as the risk that the current or prospective earnings will be negatively impacted as a result of adverse business decisions or the improper implementation of such decisions. The risk of choosing 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 as a result of potential changes in the business environment, client behaviour and technological progress. Business risk, ie the risk that volumes and margins may be insufficient to cover Momentum's 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.

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 Momentum's overall strategy and ensures that strategic objectives set at a business level are consistent with overall Momentum strategy. This includes the approval of any subsequent material changes to strategic plans, the 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.

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.

ERM provides oversight of the effectiveness of Momentum's 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 the FirstRand Internal Audit team. The FirstRand Internal audit function follows a risk based audit approach.

Operational risk is managed in terms of the Operational Risk Management Framework ("ORMF"), which is a subframework of the Risk Management Framework.

The Risk forums in the business units of Momentum are established to oversee the operational risk management process. Monitoring of operational risk occurs through a number of functions across Momentum.

Operational risk management

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 ("KRIs") – a process whereby measurable, quantifiable metrics are tracked to assess the level of operational risk and provide early warning indications of potential breakdowns.

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 capital adequacy requirement ("CAR") formulae. The revised CAR formulae allow explicitly for credit and operational risks.

The profession guidance note requires the statutory actuary to use his 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 ("QIS4") 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 subsections.

Business continuity management

Business continuity management in Momentum 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 a well 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 Momentum Risk committee as appropriate.

Information risk

Momentum defines information risk 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 of Momentum and to ensure confidentiality, integrity and availability of Momentum's information. Information risk management assists and drives business entities of Momentum to establish appropriate good practice and control measures to protect the information assets of Momentum.

The Information Technology Governance and Information Security Framework ("IT Risk Management 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 Momentum.

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 monitored by Risk forums within the business units and subsidiaries and are escalated to the Momentum Risk committee as appropriate.

Fraud and security risks

Momentum is committed to creating an environment that safeguards its people, customers and assets through policies and actions.

Momentum operates in an environment where we adopt a "zero tolerance" stance to criminal activities. Momentum enhances this environment with robust control structures and policies to safeguard the employees, clients and assets of Momentum.

In this regard Momentum relies 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 Momentum 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, Momentum has not only 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

Momentum defines legal risk 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.

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.

Momentum forms 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' & Officers' Liability, Assets and various Liabilities.

Momentum will continue to monitor developments and ensure that the insurance financing programme is adapted accordingly where appropriate.

COMPLIANCE RISK

Introduction

Momentum defines compliance risk as the risk of legal or regulatory sanctions, material financial loss, or loss to reputation that the group may suffer as a result of its failure to comply with applicable laws, regulations, codes of conduct and standards of good practice.

Compliance risk governance

Compliance Risk Management is an integral part of managing the risks inherent in Momentum. Compliance risk is managed in terms of Momentum's Compliance Risk Management Framework. The Compliance Risk Management function retains an independent reporting line to the board through the designated subcommittees.

Momentum has also established a Fair Practices committee, and where appropriate, compliance matters are escalated to this forum in addition to the above structures.

Compliance risk management

The Compliance Risk Management function 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 in Momentum to the board and the regulatory authorities. This includes:

- identification through documenting which laws, regulations and supervisory requirements are applicable to Momentum;
- risk measurement through the development of compliance risk management plans;
- risk monitoring and review of remedial actions;
- risk reporting; and
- providing advice on compliance related matters.

To support the Compliance Risk Management Framework, a Momentum compliance manual has been drafted to assist the business in addressing all material compliance risks.

Although independent of other risk management and governance functions, the Compliance Risk Management function works closely with Internal Audit, Enterprise Risk Management, external audit, internal and external legal advisors, group tax, forensics, and the Company Secretariat to ensure the effective functioning of the compliance processes.

Risks arising from fiduciary activities

Momentum provides investment management and advisory services 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 underperformance.

The asset management subsidiaries of Momentum are required to comply with the Risk Management Framework of Momentum. 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, 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:

- IFRIC 12 *Service Concession Arrangements* which is effective for annual periods beginning on or after 1 January 2008. The Interpretation provides guidance on the treatment of assets arising from service concession arrangements. Refer to paragraph 33 of the accounting policies for further details.
- IFRIC 13 *Customer Loyalty Programmes* which is effective for annual periods beginning on or after 1 July 2008. The Interpretation applies to the accounting for customer loyalty award credits that the entity grants to its customers that customers can redeem in future. The Interpretation impacts the revenue recognition related to the sales transaction and further details are provided in paragraph 32 of the accounting policies.
- IFRIC 14 *The Limit on a Defined Benefit Asset, Minimum Funding Requirements* and their Interaction is effective for annual periods beginning on or after 1 January 2008. This Interpretation provides guidance on the measurement of defined benefit assets. As a result of the fact that the Group has not recognised a defined benefit asset the Interpretation does not have any impact on the Group's results.

The Group adjusts comparative figures to conform to changes in presentation in the current year. For details refer to accounting policy paragraph 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 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 consolidated 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 50 of the annual report.

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

3 CONSOLIDATION

The consolidated financial statements include the assets, liabilities and results of the operations of the holding company and its subsidiaries. Subsidiaries are companies in 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 effective date of disposal.

Minority shareholders are not treated as equity participants. Therefore, all acquisitions of minority interests or disposals by the Group of its minority interests in subsidiary companies, where control is maintained, are treated as transactions with external parties. Any differences between the purchase price and the book value of a minority interest acquired, is recorded as goodwill or in cases where the book value exceeds the purchase price, in the income statement for the period. All profits and losses as a result of a disposal of an interest in subsidiaries to minorities, where control is maintained subsequent to disposal, are recorded in the income statement for the period.

The Group consolidates a special purpose entity ("SPE") when the substance of the relationship between the Group and the SPE indicates that the Group controls the SPE.

The Group uses the purchase method of accounting to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective

of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

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.

3.1 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.

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. Reserves include the Group's share of post acquisition movements in reserves 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. Investments in associates and joint ventures are assessed annually for impairment in accordance with IAS 36.

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 applies the requirements of IAS 39 to determine whether it is necessary to recognise 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 increases the carrying amount of investments with its share of the associate or joint venture's income when equity accounting is resumed. The Group resumes equity accounting only after its share of the profits equals the share of losses not recognised.

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 significant influence through the management company, are accounted for as associates.

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. Net interest income on advances and deposits designated at fair value through profit or loss, which are not trading in nature, is recognised in interest income and expense.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the 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. This difference between the discounted and undiscounted recoverable amount is released to interest income over the expected collection period of the advance.

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

6 FAIR VALUE INCOME

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

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 income 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.

9 FOREIGN CURRENCY TRANSLATION

9.1 Functional and presentation currency

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

Translation differences on non monetary items, classified as available-for-sale, such as equities are included in the fair value reserve in equity 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 balance sheet presented are translated at the closing rate at the date of that balance sheet;
- 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 equity.

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 shareholders' equity. When a foreign operation is sold or partially disposed of, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

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 and regional services levies.

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 balance sheet 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 cash flow statement, cash and cash equivalents comprise:

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

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

15 FINANCIAL INSTRUMENTS

15.1 General

Financial instruments carried on the balance sheet include all assets and liabilities, including derivative instruments, but exclude investments in associates and joint ventures, commodities, property and equipment, assets and liabilities of insurance operations, deferred tax, tax payable, intangible assets, inventory and post retirement liabilities. The Group recognises a financial asset or a financial liability on its balance sheet when and only 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 equity, until the financial asset is derecognised or impaired, at which time the cumulative gain or loss previously recognised in equity is recognised in the income statement as gains and losses from investment securities. However, interest calculated on available-for-sale financial assets using the effective interest method is recognised in the income statement as part of interest income. Dividends on available-for-sale equity instruments are recognised in the income statement when the entity's right to receive payment is established and are included in investment income.

The 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 such transactions are treated as derivatives until settlement.

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

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:

- 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
- 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
- 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. 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 investment contracts are measured at amortised cost. If these assets were not designated on initial recognition, they would be classified as available-for-sale and the changes in their fair value would be recognised directly in equity. This would result in a significant accounting mismatch, as the movements in the fair value of the policyholder liability are recognised directly in the income statement.

Financial instruments designated under 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 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 equity. It recognises interest income on these assets as part of interest income, based on the instrument's original effective interest rate. Interest income is excluded from the fair value gains and losses reported in equity. When the advances and receivables or investment securities are disposed of or impaired, the related accumulated fair value adjustments are included in the income statement as gains and losses from investment securities.

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

15.1.5 Financial liabilities at amortised cost

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

15.1.6 Policyholder liabilities under investment contracts

The Group accounts for policyholder liabilities under investment contracts at fair value through profit and loss. Refer to section 31.4 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 balance sheet where:

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

15.3 Embedded derivatives

The 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 income.

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

15.4 Derecognition

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, ie when the obligation specified in the contract is discharged, cancelled or expires.

15.5 Sale and repurchase agreements and lending of securities

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

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

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

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

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

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the 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 impair-

ment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

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

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

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (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 (eg term loans) are treated as overdue where the principal or interest is overdue and remains unpaid as at the reporting date.
- Consumer loans repayable by regular instalments (eg mortgage loans, personal loans) are treated as overdue when an instalment payment is overdue and remains unpaid as at the reporting date.
- A loan payable on demand is treated as overdue where a demand for repayment has been served on the borrower but repayment has not been made in accordance with the instruction.

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

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

15.6.2.2 Renegotiated advances

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

15.6.3 Available-for-sale financial assets

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial

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

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

15.7 Derivative financial instruments and hedging

The 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 balance sheet at fair value. Derivatives are subsequently remeasured at their fair value with all movements in fair value recognised in the income statement, unless it is a designated and effective hedging instrument.

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

The fair value of non traded derivatives is based on discounted cash flow models and option pricing models as appropriate, the 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 (ie the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (ie without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the 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 deferred and released over the life of the instrument. However, where observable market factors that market participants would consider in setting a price subsequently become available, the balance of the deferred day one profit or loss is released to income.

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 non distributable reserve in equity. 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 equity are recycled to the income statement in the periods in which the hedged item will affect profit or loss (for example, when the forecast sale that is hedged takes place) 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 equity at that time remains in equity and is recognised when the forecast transaction is recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

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

16 COMMODITIES

16.1 Agricultural commodities

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

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 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 or losses 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 cost of an acquisition over the attributable fair value of the Group's share of the 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.

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. Internally generated intangible assets which are separately identifiable, where the costs can be reliably measured and where the Group is expected to derive a future benefit for more than one accounting period is capitalised.

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 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.

20.5 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.

20.6 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 on the expected life of the contract 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 balance sheet 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 balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

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

The 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 balance sheet.

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

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

22.3 Termination benefits

The Group recognises termination benefits as a liability in the balance sheet and as an expense in the income statement when it has a present obligation relating to termination. The 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 balance sheet 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.

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 balance sheet date are not recognised but disclosed as a post balance sheet 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

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

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

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

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

Assets, liabilities, 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 intersegment revenues and transfers as if the transactions were with third parties at current market prices. Tax is allocated to a particular segment on a pro-rata basis.

Funding is provided to business units and segments based 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 these 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 balance sheet 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 retained earnings.

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

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, 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 the 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 ("DPFs").

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 subcategories:

31.3.1 Investment contracts with DPFs

An investment contract with DPFs 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 DPFs:

- Universal life smoothed bonus policies, where discretionary bonuses are added to the investment account annually.
- 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" on the balance sheet.

31.3.2 Investment contracts without DPFs

These contracts fall within the scope of IAS 39: *Financial Instruments: Recognition and measurement* ("IAS 39") 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 Company'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 the 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.
- 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 DPFs) and Investment contracts with DPFs

The next section provides detail in respect of the general valuation and profit recognition principles in respect of insurance contracts (with and without DPFs) and investment contracts with DPFs. 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 DPFs) 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 ("ASSA"). 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 DPFs 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 DPFs 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 balance sheet 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 DPFs 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 deferred acquisition cost asset is recognised in the balance sheet 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 DPFs) 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 ("PHI") 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 DPFs 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 balance sheet date. This is the so called unit liability. In addition, the present value of expected future cash flows (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") that would have been held, had the whole policy been classified as an investment without a DPF investment contract. This is done so that switches between unit linked and smoothed bonus components do not give rise to the discontinuances 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 balance sheet 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 Permanent Insurance ("PHI") claims 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 balance sheet date where premiums

relating to the risk have been received before the balance sheet 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 DPFs)

The liability in respect of group investment (with DPFs) 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 cash flows (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 1984 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 Company.
- An additional margin is held in respect of the investment return assumption used to value annuity benefit payments (both Group and individual business) to reflect the potential for credit spread widening. These liabilities are discounted at the risk free rate and the additional margin reflects parameter risk associated with the long end of the yield curve and are related to the extent of corporate debt booking liabilities and the uncertainties relating to long dated liabilities.

31.8 Investment contracts without DPFs, 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 is 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 DPFs, 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 paragraph 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 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 reinsured insurance contracts.

Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured 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. If there is objective evidence that the insurance receivable is impaired, the 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 RESTATEMENT OF PRIOR YEAR NUMBERS

During the financial year, the following balance sheet and income statement reclassifications were made mainly as a result of enhanced processes and systems adopted within Momentum Group:

	Amount as previously reported	Amount as restated	Difference	Explanation
30 June 2008				
Income statement				
Interest and similar income	55 009	54 993	(16)	Consolidation of funds previously fair valued.
Non interest income	22 471	22 490	19	Refer above.
Operating expenses	(26 189)	(26 192)	(3)	Refer above.
Profit for the year	13 033	13 033	–	Restatements had no impact on profit for the year.
Balance sheet				
Assets				
Cash and short term funds	48 486	53 555	5 069	Consolidation of funds previously fair valued.
Derivative financial instruments	64 314	57 106	(7 208)	Offset criteria in IAS 32 has been met.
Investment securities and other investments	214 353	220 105	5 752	Offset criteria in IAS 32 has not been met.
Accounts receivable	8 093	7 806	(287)	Consolidation of funds previously fair valued.
Policy loans on insurance contracts	212	772	560	Offset criteria in IAS 32 has not been met.
Liabilities				
Derivative financial instruments	51 595	46 595	(5 000)	Offset criteria in IAS 32 has been met.
Creditors and accruals	13 051	16 836	3 785	Net adjustment relating to offset criteria not being met and consolidation of certain funds previously fair valued.
Policyholder liabilities under investment contracts	110 784	111 344	560	Offset criteria in IAS 32 has not been met.
Liabilities arising from collective investment schemes	2 742	7 283	4 541	Consolidation of funds previously fair valued.
Total equity	51 066	51 066	–	Restatements had no impact on the net asset value.
Cash flow statement				
As a consequence of the above restatements, the cash flow statement has been accordingly restated.				

CONSOLIDATED INCOME STATEMENT

for the year ended 30 June

R million	Notes	2009	Restated 2008
Continuing operations			
Interest and similar income	1	60 516	54 993
Interest expense and similar charges	1	(34 526)	(31 830)
Net interest income before impairment of advances		25 990	23 163
Impairment of advances	14	(8 024)	(5 064)
Net interest income after impairment of advances		17 966	18 099
Non interest income	2	10 649	22 490
Net insurance premium income	3	6 464	5 374
Net claims and benefits paid	4	(5 939)	(5 530)
Decrease/(increase) in value of policyholder liabilities	5	6 525	(701)
Income from operations		35 665	39 732
Operating expenses	7	(27 933)	(26 192)
Net income from operations		7 732	13 540
Share of profit from associates and joint ventures	18	1 590	1 662
Profit before tax		9 322	15 202
Tax	8	(1 484)	(3 037)
Profit for the year from continuing operations		7 838	12 165
Discontinued operations			
Profit attributable to discontinued operations	53	–	868
Profit for the year		7 838	13 033
Attributable to:			
Non cumulative non redeemable preference shareholders		464	409
Ordinary shareholders		6 501	11 309
Equity holders of the Group		6 965	11 718
Minority interest		873	1 315
Profit for the year		7 838	13 033
From continuing operations and discontinued operations			
Earnings per share (cents)			
Basic	9	124.9	218.2
Diluted	9	124.7	214.1
From continuing operations			
Earnings per share (cents)			
Basic	9	124.9	204.2
Diluted	9	124.7	200.3

CONSOLIDATED BALANCE SHEET

as at 30 June

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R million	Notes	2009	Restated 2008
ASSETS			
Cash and short term funds	11	**57 266**	53 555
Derivative financial instruments	12	**68 608**	57 106
Advances	13	**416 488**	446 286
Investment securities and other investments	15	**209 249**	220 105
Commodities	16	**1 323**	1 916
Accounts receivable	17	**11 355**	7 806
Investments in associates and joint ventures	18	**15 294**	13 303
Property and equipment	19	**10 220**	8 859
Deferred tax asset	20	**2 034**	1 456
Intangible assets and deferred acquisition costs	21	**5 698**	4 497
Investment properties	22	**2 156**	3 808
Policy loans		**626**	772
Reinsurance assets	23	**8 143**	550
Tax asset		**883**	833
Non current assets and disposal groups held for sale	24	**508**	3 092
Total assets		**809 851**	823 944
EQUITY AND LIABILITIES			
Liabilities			
Deposits	25	**478 083**	488 423
Short trading positions	26	**25 002**	33 450
Derivative financial instruments	12	**55 556**	46 595
Creditors and accruals	27	**18 217**	16 836
Provisions	28	**2 961**	3 275
Tax liability		**331**	666
Post retirement benefit fund liability	29	**2 089**	1 980
Deferred tax liability	20	**3 977**	5 372
Long term liabilities	30	**12 928**	13 941
Policyholder liabilities under insurance contracts	31	**40 725**	43 417
Policyholder liabilities under investment contracts	32	**109 196**	111 344
Liabilities arising from collective investment schemes		**8 114**	7 283
Deferred revenue liability	33	**322**	296
Liabilities directly associated with non current assets and disposal groups held for sale	24	**253**	–
Total liabilities		**757 754**	772 878
Equity			
Capital and reserves attributable to ordinary equity holders			
Ordinary shares	34	**52**	52
Share premium	34	**1 300**	1 036
Reserves attributable to ordinary equity holders		**44 133**	43 082
Capital and reserves attributable to ordinary equity holders		**45 485**	44 170
Non cumulative non redeemable preference shares	34	**4 519**	4 519
Capital and reserves attributable to equity holders		**50 004**	48 689
Minority interest		**2 093**	2 377
Total equity		**52 097**	51 066
Total equity and liabilities		**809 851**	823 944

R million	Share capital	Share premium	Share capital and share premium	General risk reserve	Cash flow hedge reserve	Share based payment reserve
Balance as at 30 June 2007	**51**	**2 338**	**2 389**	**1 351**	**131**	**2 365**
Conversion of convertible redeemable preference shares	1	–	1	–	–	–
Currency translation differences	–	–	–	–	–	–
Movement in revaluation reserves	–	–	–	–	132	–
Movement in other reserves	–	–	–	–	–	111
Profit for the year	–	–	–	–	–	–
Ordinary dividends	–	–	–	–	–	–
Preference dividends	–	–	–	–	–	–
Transfer (to)/from reserves	–	–	–	(1 343)	–	(77)
Effective change of shareholding in subsidiary	–	(1)	(1)	–	–	–
Subsidiary sold/unbundled Discovery	–	(1 201)	(1 201)	–	–	(151)
Contribution from parent company	–	–	–	–	–	–
Non distributable reserves of associates	–	–	–	–	–	–
Reserve movements transferred to the income statement	–	–	–	–	339	–
Consolidation of share trusts	–	(100)	(100)	–	–	–
Balance as at 30 June 2008	**52**	**1 036**	**1 088**	**8**	**602**	**2 248**
Issue of share capital	–	–	–	–	–	–
Currency translation differences	–	–	–	–	–	–
Movement in revaluation reserves	–	–	–	–	(607)	–
Movement in other reserves	–	–	–	–	–	(61)
Profit for the year	–	–	–	–	–	–
Ordinary dividends	–	–	–	–	–	–
Preference dividends	–	–	–	–	–	–
Effective change of shareholding in subsidiary	–	–	–	–	–	–
Contribution from parent company	–	–	–	–	–	–
Non distributable reserves of associates	–	–	–	–	–	–
Reserve movements transferred to the income statement	–	–	–	1	(287)	119
Consolidation of share trusts	–	264	264	–	–	–
Balance as at 30 June 2009	**52**	**1 300**	**1 352**	**9**	**(292)**	**2 306**

Available-for-sale reserve	Currency translation reserve	Other reserves	Retained earnings	Reserves attributable to ordinary equity holders	Non cumulative non redeemable preference shares	Minority interest	Total equity
1 184	**585**	**(588)**	**31 612**	**36 640**	**4 519**	**3 672**	**47 220**
–	–	–	–	–	–	–	1
–	780	–	–	780	–	56	836
737	–	(15)	–	854	–	(60)	794
–	–	62	–	173	–	32	205
–	–	–	11 309	11 309	409	1 315	13 033
–	–	–	(4 523)	(4 523)	–	(692)	(5 215)
–	–	–	–	–	(409)	–	(409)
–	–	–	1 420	–	–	–	–
–	–	(48)	(57)	(105)	–	141	35
(426)	–	385	(2 051)	(2 243)	–	(2 100)	(5 544)
–	–	–	–	–	–	12	12
–	–	19	–	19	–	1	20
(388)	–	–	–	(49)	–	–	(49)
–	–	–	227	227	–	–	127
1 107	**1 365**	**(185)**	**37 937**	**43 082**	**4 519**	**2 377**	**51 066**
–	–	–	–	–	–	13	13
–	(615)	–	–	(615)	–	(26)	(641)
(66)	–	6	–	(667)	–	29	(638)
–	–	52	–	(9)	–	(163)	(172)
–	–	–	6 501	6 501	464	873	7 838
–	–	–	(3 764)	(3 764)	–	(804)	(4 568)
–	–	–	–	–	(464)	–	(464)
	–	(34)	–	(34)	–	(207)	(241)
–	–	–	–	–	–	1	1
–	–	72	–	72	–	1	73
(43)	–	–	–	(210)	–	(1)	(211)
109	–	(109)	(223)	(223)	–	–	41
1 107	**750**	**(198)**	**40 451**	**44 133**	**4 519**	**2 093**	**52 097**

R million	Notes	2009	Restated 2008
Cash flows from operating activities			
Cash receipts from customers	36.2	86 572	74 049
Cash paid to customers, suppliers and employees	36.3	(58 029)	(56 282)
Dividends received		6 743	4 461
Dividends paid	36.7	(4 228)	(4 932)
Dividends paid to minority shareholders		(804)	(692)
Net cash flows from operating activities	36.1	30 254	16 604
Increase/(decrease) in income earning assets	36.4	12 721	(68 569)
(Decrease)/increase in deposits and other liabilities	36.5	(29 537)	66 860
Net cash flows from operating funds		(16 816)	(1 709)
Tax paid	36.6	(3 677)	(4 715)
Net cash inflow from operating activities		9 761	10 180
Cash flows from investment activities			
Acquisition of property and equipment		(3 038)	(4 056)
Proceeds from the disposal of property and equipment		293	2 329
Acquisition of investment properties		(457)	(1 706)
Proceeds on disposal of investment properties		–	375
Proceeds on the disposal of investments		552	182
Acquisition of subsidiaries	36.8	(18)	(1 526)
Proceeds on disposal of subsidiary	36.8	–	697
Acquisition of associates and joint ventures	36.8	(2 799)	(3 623)
Proceeds on the disposal of associates and joint ventures		508	1 439
Proceeds on sale of advances books		1 768	–
Acquisition of intangible assets		(1 923)	(678)
Net cash outflow from investment activities		(5 114)	(6 567)
Cash flows from financing activities			
(Repayment of)/proceeds from long term liabilities		(906)	3 129
Net cash (outflow)/inflow from financing activities		(906)	3 129
Net increase in cash and cash equivalents		3 741	6 742
Cash and cash equivalents at the beginning of the year	36.9	53 555	46 952
Cash and cash equivalents at the end of the year		57 296	53 694
Cash and cash equivalents acquired*		35	139
Cash and cash equivalents disposed of*		–	(695)
Effect of exchange rate changes on cash and cash equivalents		(65)	417
Cash and cash equivalents at the end of the year	36.9	57 266	53 555

**Cash and cash equivalents sold and bought relate to cash balances held by subsidiaries acquired and sold during the year.*

R million	2009	2008
Headline earnings per share (cents)		
– Basic	**133.3**	191.47
– Diluted	**133.1**	187.81
Ordinary dividend per share (cents)		
– Interim	**34.0**	44.25
– Final	**22.0**	38.25
Total dividend per ordinary share (cents)	**56.0**	82.50
Headline earnings is calculated in terms of Circular 8/2007.		
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 minority 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.		
Earnings attributable to ordinary shareholders (R million)	**6 939**	9 922
Weighted average number of ordinary shares in issue	**5 206 910 888**	5 181 964 244
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.		
Earnings attributable to ordinary shareholders (R million)	**6 939**	9 922
Diluted weighted average number of shares in issue	**5 213 551 371**	5 283 101 659

	2009		2008	
R million	**Gross**	**Net***	Gross	Net*
Headline earnings reconciliation				
Banking Group	**7 892**	**5 702**	13 314	9 544
Momentum Group	**1 759**	**1 594**	2 466	2 002
Discovery Group	**–**	**–**	374	234
FirstRand Limited (Company) and consolidation entries	**465**	**1**	351	276
Consolidation of share trusts	**(435)**	**(437)**	(517)	(335)
Dividend payment of non cumulative non redeemable preference shares	**(464)**	**(464)**	(409)	(409)
Consolidation of treasury shares: policyholders	**105**	**105**	(3)	(3)
Attributable earnings to ordinary equity holders	**9 322**	**6 501**	15 576	11 309
Adjusted for				
– Profit on sale of available-for-sale financial instruments	**(2)**	**(2)**	(98)	(55)
– Profit on sale of shares in subsidiary and associate	**27**	**27**	(678)	(598)
– Net asset value in excess of purchase price of subsidiaries	**–**	**–**	(24)	(24)
– (Profit)/loss on sale of property and equipment	**4**	**4**	(4)	(3)
– Loss on sale of MotorOne Advances book	**203**	**203**	–	–
– Visa listing	**–**	**–**	(1 052)	(853)
– Loss on sale of Private Label book	**39**	**28**	–	–
– Impairment of intangible assets	**181**	**168**	137	117
– Other	**10**	**10**	29	29
Headline earnings to ordinary equity holders	**9 784**	**6 939**	13 886	9 922

**Net of tax and minority interest.*

	2009	2008
Dividend information		
Dividend on non cumulative non redeemable preference share (cents)		
"B" preference share		
– 23 February 2009/25 February 2008	**519**	478
– 31 August 2009/25 August 2008	**423**	511
Total "B" preference share	**942**	989
"B1" preference share		
– 23 February 2009/25 February 2008	**519**	478
– 31 August 2009/25 August 2008	**423**	511
Total "B1" preference share"	**942**	989
Dividends declared (R million)		
Ordinary dividends	**1 240**	4 650
Non cumulative non redeemable preference shares	**424**	445

1 ANALYSIS OF INTEREST INCOME AND INTEREST EXPENDITURE

	2009				
R million	Fair value	Amortised cost	Hedging instruments	Non financial assets and liabilities	Total
1.1 Interest and similar income					
Interest on:					
– Advances	77	44 071	–	–	44 148
– Cash and short term funds	–	3 951	–	–	3 951
– Investment securities	9 397	101	–	–	9 498
– Unwinding of discounted present value on non performing loans	–	409	–	–	409
– Accrued on off market advances	–	7	–	–	7
– Other	543	1 259	399	302	2 503
Interest and similar income	10 017	49 798	399	302	60 516

	2008				
R million	Fair value	Amortised cost	Hedging instruments	Non financial assets and liabilities	Total
Interest on:					
– Advances	183	42 581	–	–	42 764
– Cash and short term funds	21	2 805	–	–	2 826
– Investment securities	5 013	32	–	–	5 045
– Unwinding of discounted present value on non performing loans	–	211	–	–	211
– Accrued on off market advances	–	8	–	–	8
– Other	2 955	971	154	59	4 139
Interest and similar income	8 172	46 608	154	59	54 993

1 ANALYSIS OF INTEREST INCOME AND INTEREST EXPENDITURE (continued)

	2009				
R million	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	(118)	(484)	–	–	(602)
– Current accounts	(117)	(11 466)	–	–	(11 583)
– Savings deposits	–	(142)	–	–	(142)
– Term deposit accounts	(5 323)	(5 398)	–	–	(10 721)
– Negotiable certificates of deposit	(5 884)	(192)	–	–	(6 076)
– Finance leases	–	–	–	(141)	(141)
– Long term liabilities	(636)	(1 920)	–	–	(2 556)
– Other	(1 080)	(1 496)	(95)	(34)	(2 705)
Interest expense and similar charges	**(13 158)**	**(21 098)**	**(95)**	**(175)**	**(34 526)**

	2008				
R million	Fair value	Amortised cost	Hedging instruments	Non financial assets and liabilities	Total
Interest on:					
– Deposits from banks and financial institutions	(269)	(1 241)	–	–	(1 510)
– Current accounts	(15)	(10 969)	–	–	(10 984)
– Savings deposits	–	(121)	–	–	(121)
– Term deposit accounts	(4 582)	(5 710)	–	–	(10 292)
– Negotiable certificates of deposit	(3 746)	(137)	–	–	(3 883)
– Finance leases	–	–	–	(70)	(70)
– Long term liabilities	(266)	(2 109)	–	–	(2 375)
– Other	(1 622)	(908)	(9)	(56)	(2 595)
Interest expense and similar charges	(10 500)	(21 195)	(9)	(126)	(31 830)

R million	2009	2008
2 NON INTEREST INCOME		
Fee and commission income		
– Instruments at amortised cost	11 478	8 352
– Instruments at fair value	2 271	1 379
– Non financial assets and liabilities	4 248	6 940
Fee and commission income	17 997	16 671
Fair value income		
– Held for trading	(1 717)	549
– Designated at fair value	(14 254)	(1 522)
– Other	(46)	–
Fair value income	(16 017)	(973)
Gains less losses from investment activities		
– Designated at fair value	2 212	3 045
– Available-for-sale	150	9
– Other	1 258	1 123
– Impairment of investment securities	(13)	–
Gains less loss from investment activities	3 607	4 177
Other non interest income	5 062	2 615
Total	10 649	22 490
Fee and commission income:		
– Banking fee and commission income	11 831	11 206
– Card commissions	1 596	1 401
– Cash deposit fees	1 360	1 139
– Commissions: bills, drafts and cheques	669	577
– Bank charges	8 206	8 089
– Knowledge based fee and commission income	772	776
– Non banking fee and commission income	3 077	2 419
– Asset management and related fees	1 753	1 763
– Fees for health administration	463	457
– Amortisation of deferred revenue liability	101	50
Fee and commission income	17 997	16 671

Non banking fee and commission 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:		
– Foreign exchange trading	61	54
– Treasury trading operations	(1 778)	495
– Designated at fair value through profit or loss	(14 254)	(1 522)
– Other	(46)	–
Fair value income	(16 017)	(973)

2 NON INTEREST INCOME (continued)

Foreign exchange net trading income includes gains and losses from spot and forward contracts, options, futures and translated foreign currency assets and liabilities. Trading operations include interest rate instruments and equity trading income.

Interest rate instruments includes the results of making markets in instruments in government securities, corporate debt securities, money market instruments, interest rate and currency swaps, options and other derivatives. Equity trading income includes the results of making markets globally in equity securities and equity derivatives such as swaps, options, futures and forward contracts.

R million	2009	2008
Gains less losses from investment activities		
– Gains on investment securities	854	3 086
– Transfer from revaluation reserve on sale of available-for-sale assets	2	7
– Preference share dividends	93	110
Listed	22	–
Unlisted	71	110
– Other dividends received	2 557	372
Listed	1 356	255
Unlisted	1 201	117
– Share of profit of associates and joint ventures (note 18)	1 590	1 662
– Unrealised profit on assets held against employee liabilities	(364)	263
– Net income on non recourse vehicles	59	69
– Fair value gains on investment properties held at fair value through profit or loss	85	120
– Rental income from investment properties	334	150
– Impairment of investment securities	(13)	–
Gross gains less losses from investment activities	5 197	5 839
Less: Profit of associates and joint ventures (disclosed separately on the face of income statement)	(1 590)	(1 662)
Gains less losses from investment activities	3 607	4 177
Included in dividend income above are dividends from participation of insurance vehicles of R nil million (2008: R 387 million).		
Other non interest income		
– Gain on sale of property and equipment	3	4
– Excess of fair value of net assets acquired over the fair value of consideration paid (negative goodwill)	–	24
– Other income	5 059	2 587
Other non interest income	5 062	2 615
Total non interest income	10 649	22 490

R million	2009	2008
3 NET INSURANCE PREMIUM INCOME		
Long term insurance contracts		
Individual life	5 031	4 699
– Single premiums	47	205
– Recurring premiums	4 334	3 952
– Annuities	650	542
Employee benefits	1 946	1 254
– Single premiums and investment lump sums	644	6
– Recurring premiums	1 302	1 248
Health	181	–
– Recurring premiums	181	–
Total insurance premium revenue	7 158	5 953
Insurance premium ceded to reinsurers		
Long term insurance contracts	(694)	(579)
– Individual life	(643)	(549)
– Employee benefits	(51)	(30)
Total insurance premium ceded to reinsurers	(694)	(579)
Net insurance premium income from long term insurance contracts	6 464	5 374
Broken up as follows:		
– Long term insurance contracts	6 283	5 374
– Health	181	–
Net insurance premium income	6 464	5 374
4 NET CLAIMS AND BENEFITS PAID		
Benefits paid in respect of long term insurance contracts		
Individual life	(3 745)	(3 529)
– Death	(1 248)	(1 001)
– Disability	(282)	(204)
– Maturities	(1 196)	(1 172)
– Surrenders	(1 019)	(1 152)
Lump sum annuities	(1 325)	(1 428)
– Annuities paid	(1 259)	(1 396)
– Commutations	(66)	(32)
Total benefits paid in respect of individual life business	(5 070)	(4 957)
Employee benefits		
– Death	(667)	(683)
– Disability	(364)	(316)
– Scheme terminations and member withdrawals	(130)	(3)
– Annuities	(200)	(114)
Total benefits paid in respect of employee benefits business	(1 361)	(1 116)

R million	2009	2008
4 NET CLAIMS AND BENEFITS PAID (continued)		
Health		
– Gross claims	(168)	–
Total benefits paid in respect of health business	(168)	–
Gross claims and benefits paid on insurance contracts	(6 599)	(6 073)
Insurance benefits recovered from reinsurers		
Long term insurance contracts		
– Individual life	598	475
– Employee benefits	62	68
– Health	–	(21)
Short term insurance contract	–	21
Total insurance benefits recovered from reinsurers	660	543
Total net claims and benefits paid	(5 939)	(5 530)
5 INCREASE/(DECREASE) IN VALUE OF POLICYHOLDER LIABILITIES		
Fair value adjustment on investment contracts (note 32)	3 980	(3 934)
Net transfer to/from policyholders under insurance contracts (note 31)	2 545	3 233
Transfer to policyholder liabilities under insurance contracts	2 545	3 233
Increase in value of policyholder liabilities	6 525	(701)
6 FAIR VALUE ADJUSTMENT TO FINANCIAL LIABILITIES		
Included in non interest income is fair value adjustment to liabilities arising to third parties as a result of the consolidation of collective investment schemes.		
Other consolidated collective investment schemes	1 820	258
Fair value adjustment to financial liabilities	1 820	258
7 OPERATING EXPENSES		
Detailed disclosure on directors' emoluments and directors' interests are supplied in tables designated as "audited" in the Corporate Governance and Sustainability report pages 52 to 81.		
Fee and commission expense	(1 346)	(1 372)
Auditors' remuneration		
– Audit fees	(127)	(109)
– Fees for other services	(23)	(24)
– Technical advice	(8)	(6)
– Other	(15)	(18)
– Prior year under provision	(6)	(8)
Auditors' remuneration	(156)	(141)
Amortisation of intangible assets		
– Deferred acquisition cost asset	(300)	(365)
– Software	(76)	(85)
– Value of in-force business	(38)	(36)
– Contractual customer relationships	(33)	(33)
– Other	(91)	(42)
Amortisation of intangible assets	(538)	(561)

7 OPERATING EXPENSES (continued)

R million	2009	2008
Depreciation		
– Property	(389)	(263)
– Freehold property	(98)	(109)
– Leasehold premises	(291)	(154)
– Equipment	(908)	(688)
– Computer equipment	(572)	(461)
– Furniture and fittings	(157)	(100)
– Motor vehicles	(62)	(41)
– Office equipment	(117)	(86)
– Capitalised leased assets	(72)	(69)
Depreciation	**(1 369)**	(1 020)
Impairments incurred		
– Goodwill	(158)	(33)
– Property and equipment	(13)	(26)
– Software	–	(83)
– Other	(23)	–
Impairments incurred	**(194)**	(142)
Impairments reversed		
– Property and equipment	1	5
– Other	15	–
Impairments reversed	**16**	5
Operating lease charges		
– Property	(888)	(716)
– Equipment	(239)	(219)
– Motor vehicles	(14)	(18)
Operating lease charges	**(1 141)**	(953)
Professional fees		
– Managerial	(109)	(126)
– Technical	(585)	(570)
– Other	(351)	(313)
Professional fees	**(1 045)**	(1 009)
Direct staff costs		
– Salaries, wages and allowances	(9 446)	(8 191)
– Contributions to employee benefit funds	(1 382)	(1 355)
– Defined contribution schemes	(1 154)	(1 184)
– Defined benefit schemes	(228)	(171)
– Social security levies	(128)	(121)
– Share based payments	29	(143)
– Other	(719)	(792)
Direct staff cost	**(11 646)**	(10 602)
– Staff related cost	(1 377)	(1 992)
Total staff cost	**(13 023)**	(12 594)

R million	2009	2008
7 OPERATING EXPENSES (continued)		
Other operating costs		
– Insurance	(170)	(192)
– Advertising and marketing	(964)	(934)
– Maintenance	(832)	(710)
– Property	(678)	(495)
– Computer	(1 084)	(1 071)
– Stationery	(262)	(255)
– Telecommunications	(610)	(580)
– Customer loyalty programme	(343)	(232)
– Conveyance of cash	(278)	(214)
– Origination costs	(26)	(52)
– Other operating expenditure	(3 242)	(3 054)
– Total directors' remuneration	(28)	(58)
– Services as directors	(27)	(58)
– Compensation for loss of office	(1)	–
Other operating costs	(8 517)	(7 847)
Value added tax (net)	(646)	(504)
Regional services levy	–	(1)
Stamp duties	(10)	(16)
Other	36	(37)
Indirect tax	(620)	(558)
Total operating expenses	(27 933)	(26 192)
8 TAX		
Direct tax		
Normal tax		
– Current	(1 981)	(2 614)
– Current year	(1 627)	(3 043)
– Prior year adjustment	(354)	429
– Deferred	683	(122)
– Current year	17	345
– Prior year adjustment	666	(538)
– Tax rate adjustment	–	71
– Share of associate and joint venture tax (note 18)	(416)	(362)
Total normal tax	(1 714)	(3 098)
Foreign company and withholding tax		
– Current	(376)	(60)
– Current year	(376)	162
– Prior year adjustment	–	(222)
– Deferred tax	201	16
– Current year	200	18
– Prior year adjustment	1	(2)
Total foreign company and withholding tax	(175)	(44)

R million	2009	2008
8 TAX (continued)		
Secondary tax on companies	132	(140)
– Current	(220)	(69)
– Deferred	352	(71)
– Current year	(11)	(62)
– Prior year adjustment	362	(9)
– Taxation rate adjustment	1	–
Capital gains tax	287	129
– Current tax	(59)	(315)
– Deferred tax	346	444
Customer tax adjustment account	(14)	–
Direct tax	(1 484)	(3 153)
Retirement fund tax	–	116
Total tax	(1 484)	(3 037)

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

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

Tax rate reconciliation – South African normal tax	%	%
Effective rate of tax	16.0	20.0
Total tax has been affected by:		
– Non taxable income	16.0	17.5
– Foreign tax rate differential	–	(0.1)
– Prior year adjustments	0.1	1.3
– Tax rate adjustment	–	1.5
– Effect of income at capital gains tax rate	(0.6)	(0.2)
– Other permanent differences	(3.5)	(12.0)
Standard rate of South African tax	28.0	28.0

9 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.

R million	2009	2008
Earnings attributable to ordinary shareholders (R million)	6 501	11 309
From continuing operations	6 501	10 581
From discontinued operations	–	728
Weighted average number of ordinary shares in issue	5 206 910 888	5 181 964 244
Basic earnings per share (cents)	124.9	218.2
From continuing operations (cents)	124.9	204.2
From discontinued operations (cents)	–	14.0

R million	2009	2008
9 EARNINGS PER SHARE (continued)		
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)	**6 501**	11 309
From continuing operations	**6 501**	10 581
From discontinued operations	**–**	728
Actual number of shares:		
Shares in issue as at 1 July	**5 637 830 218**	5 635 715 676
– Outperformance conversion December 2008/November 2007	**111 471**	1 302 100
– Outperformance conversion May 2008	**–**	812 442
Number of shares in issue as at 30 June	**5 637 941 689**	5 637 830 218
Less: Treasury shares	**(424 341 687)**	(456 949 451)
– Staff schemes	**(217 817 733)**	(244 971 470)
– BEE staff trusts	**(171 401 072)**	(171 401 072)
– Policyholder and mutual funds "deemed treasury shares"	**(35 122 882)**	(40 576 909)
Number of shares in issue (after treasury shares)	**5 213 600 002**	5 180 880 767
Weighted number of shares		
Actual number of shares as at 1 July	**5 637 830 218**	5 635 715 676
Adjustments	**65 025**	894 965
– Outperformance conversion	**65 025**	894 965
Weighted average number of shares before treasury shares	**5 637 895 243**	5 636 610 641
Less: Treasury shares	**(430 984 355)**	(454 646 397)
– Staff schemes	**(225 295 065)**	(252 261 709)
– BEE staff trusts	**(171 401 072)**	(171 401 072)
– Policyholder and mutual funds "deemed treasury shares"	**(34 288 218)**	(30 983 616)
Weighted average number of shares	**5 206 910 888**	5 181 964 244
Weighted average number of shares	**5 206 910 888**	5 181 964 244
Dilution impact		
– Outperformance conversion	**–**	1 501 133
– Staff schemes	**5 455 868**	71 285 985
– BEE staff trust	**1 184 615**	28 350 297
Diluted weighted average number of shares in issue	**5 213 551 371**	5 283 101 659
Diluted earnings per share (cents)	**124.7**	214.1
From continuing operations (cents)	**124.7**	200.3
From discontinued operations (cents)	**–**	13.8

10 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 pages 202 to 207 describe how the classes of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognised.

The following table analyses the financial assets and liabilities in the balance sheet per category of financial instrument to which they are assigned and therefore by measurement basis:

R million	Note	Held for trading	Designated at fair value through profit or loss	Held-to-maturity investments
ASSETS				
Cash and short term funds	11	–	–	–
Derivative financial instruments	12	68 232	–	–
Advances	13	–	95 161	163
Investment securities and other investments	15	38 678	135 089	183
Commodities	16	1 323	–	–
Accounts receivable	17	–	–	–
Investment in associate and joint ventures	18	–	–	–
Property and equipment	19	–	–	–
Deferred tax asset	20	–	–	–
Intangible assets and deferred acquisition costs	21	–	–	–
Investment properties	22	–	–	–
Policy loans on insurance contracts		–	–	–
Reinsurance assets	23	–	–	–
Tax asset		–	–	–
Non current assets and disposal groups held for sale	24	–	–	–
Total assets		**108 233**	**230 250**	**346**
LIABILITIES				
Deposits	25	–	207 134	–
Short trading positions	26	25 002	–	–
Derivative financial instruments	12	54 638	–	–
Creditors and accruals	27	–	–	–
Provisions	28	–	–	–
Tax liability	–	–	–	–
Post retirement benefit fund liability	29	–	–	–
Deferred tax liability	20	–	–	–
Long term liabilities	30	–	2 810	–
Policyholder liabilities under insurance contracts	31	–	–	–
Policyholder liabilities under investment contracts	32	–	109 196	–
Liabilities arising from collective investment schemes		–	8 114	–
Deferred revenue liability	33	–	–	–
Liabilities directly associated with non current assets and disposal groups held for sale	24	–	–	–
Total liabilities		**79 640**	**327 254**	**–**

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
11 355	–	–	–	–	–	11 355
–	–	–	–	–	15 294	15 294
–	–	–	–	–	10 220	10 220
–	–	–	–	–	2 034	2 034
–	–	–	–	–	5 698	5 698
–	–	–	–	–	2 156	2 156
626	–	–	–	–	–	626
–	–	–	–	–	8 143	8 143
–	–	–	–	–	883	883
–	–	–	–	–	508	508
390 463	35 247	–	–	376	44 936	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

10 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	11	–	–	–
Derivative financial instruments	12	56 053	–	–
Advances	13	–	99 674	308
Investment securities and other investments	15	43 638	154 887	600
Commodities	16	1 916	–	–
Accounts receivable	17	–	–	–
Investment in associate and joint ventures	18	–	–	–
Property and equipment	19	–	–	–
Deferred tax asset	20	–	–	–
Intangible assets and deferred acquisition costs	21	–	–	–
Investment properties	22	–	–	–
Policy loans on insurance contracts		–	–	–
Reinsurance assets	23	–	–	–
Tax asset		–	–	–
Non current assets and disposal groups held for sale	24	–	–	–
Total assets		101 607	254 561	908
LIABILITIES				
Deposits	25	–	192 787	–
Short trading positions	26	33 450	–	–
Derivative financial instruments	12	45 844	–	–
Creditors and accruals	27	–	–	–
Provisions	28	–	–	–
Tax liability		–	–	–
Post retirement benefit fund liability	29	–	–	–
Deferred tax liability	20	–	–	–
Long term liabilities	30	–	2 997	–
Policyholder liabilities under insurance contracts	31	–	–	–
Policyholder liabilities under investment contracts	32	–	111 343	–
Liabilities arising from collective investment schemes		–	7 283	–
Deferred revenue liability	33	–	–	–
Total liabilities		79 294	314 410	–

Investment securities designated at fair value through profit and loss includes non recourse investments of R16 165 (2008: R19 269).

2008						
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
53 555	–	–	–	–	–	53 555
–	–	–	–	1 053	–	57 106
345 631	673	–	–	–	–	446 286
–	20 980	–	–	–	–	220 105
–	–	–	–	–	–	1 916
7 806	–	–	–	–	–	7 806
–	–	–	–	–	13 303	13 303
–	–	–	–	–	8 859	8 859
–	–	–	–	–	1 456	1 456
–	–	–	–	–	4 497	4 497
–	–	–	–	–	3 808	3 808
772	–	–	–	–	–	772
–	–	–	–	–	550	550
–	–	–	–	–	833	833
–	–	–	–	–	3 092	3 092
407 764	21 653	–	–	1 053	36 398	823 944
–	–	295 636	–	–	–	488 423
–	–	–	–	–	–	33 450
–	–	–	230	521	–	46 595
–	–	16 837	–	–	–	16 837
–	–	–	–	–	3 275	3 275
–	–	–	–	–	666	666
–	–	–	–	–	1 980	1 980
–	–	–	–	–	5 372	5 372
–	–	10 794	–	–	150	13 941
–	–	–	–	–	43 417	43 417
–	–	–	–	–	–	111 343
–	–	–	–	–	–	7 283
–	–	–	–	–	296	296
–	–	323 267	230	521	55 156	772 878

R million	2009	2008
11 CASH AND SHORT TERM FUNDS		
Coins and bank notes	**3 738**	3 158
Money at call and short notice	**3 056**	3 911
Balances with central banks	**12 559**	11 761
Balances with other banks	**6 925**	11 599
Money market investments	**30 988**	23 126
Cash and short term funds	**57 266**	53 555
The carrying value of cash and short term funds approximates the fair value.		
Mandatory reserve balances included above:	**11 661**	11 177

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.

12 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, overtime.

The Group's detailed risk management strategy, including the use of hedging instruments in risk management, is set out on pages 96 to 197 of the Risk Report.

12 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Trading derivatives

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

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

As mentioned above, other derivatives classified as held for trading include non qualifying hedging derivatives, ineffective hedging derivatives and the 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.

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.

Hedging instruments

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

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

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.

12 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Rand overnight deposits

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

The 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.

Fair value hedges

The Group's fair value hedges principally consist of commodity derivatives and interest rate derivatives used to hedge the price risk associated with physical commodity positions and interest rate products.

For qualifying fair value hedges, all changes in fair value of the derivative and in the fair value of the item in relation to the risk being hedged are recognised in profit or loss.

If the hedge relationship is terminated, the fair value adjustment to the item continues to be reported as part of the basis of the item and will be realised upon sale of the hedged item.

R million	**2009**	2008
Gains or losses for the period arising from the change in fair value of fair value hedges:		
– on hedging instrument	**213**	403
– on hedged items attributable to the hedged risk	**(141)**	(304)
Total	**72**	99

Cash flow hedges

These instruments have quarterly resets and settlements.

Interest rate derivatives comprising mainly of interest rate swaps and government securities 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.

The amounts of these resets are dependent 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 dependent 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 equity. The gain or loss relating to the ineffective portion is released to income.

Amounts accumulated in equity are released to the income statement in periods in which 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 equity 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 equity are released to profit or loss immediately.

R million	2009	2008
12 DERIVATIVE FINANCIAL INSTRUMENTS (continued)		
Reconciliation of movements in the cash flow hedge reserve		
Opening balance (net of deferred tax)	**602**	131
Amount recognised directly in equity during the year	**(607)**	132
Amounts removed from equity and included in the income statement for the year	**(287)**	339
– Gross amount	**(399)**	495
– Deferred tax	**112**	(156)
Disposal of subsidiaries	**–**	(2)
Other	**–**	2
Closing balance	**(292)**	602

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, no ineffectiveness was recognised in profit or loss.

	2009		2008	
R million	Assets	Liabilities	Assets	Liabilities
Cash flows on the underlying hedged items are expected to impact the income statement as follows:				
– 1 – 3 months	**2 740**	**(960)**	1 110	(1 648)
– 3 – 12 months	**3 109**	**(1 298)**	2 234	(3 744)
– 1 – 5 years	**2 119**	**(2 722)**	2 731	(4 691)
– Over 5 years	**3**	**(2 985)**	205	(170)
Total	**7 971**	**(7 965)**	6 280	(10 253)

	2009		2008	
R million	Assets	Liabilities	Assets	Liabilities
The cash flows on the hedging instruments are expected to be released to the income statement as follows:				
– 1 – 3 months	**(221)**	**258**	(152)	261
– 3 – 12 months	**(433)**	**234**	(290)	566
– 1 – 5 years	**(365)**	**190**	(307)	651
– Over 5 years	**–**	**47**	(18)	15
Total	**(1 019)**	**729**	(767)	1 493

12 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

12 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

12 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

	2008			
	Assets		Liabilities	
R million	Notional	Fair value	Notional	Fair value
Qualifying for hedge accounting				
Cash flow hedges				
Interest rate derivatives	83 575	1 053	44 730	521
– Swaps	83 575	1 053	44 730	521
Total cash flow hedges	83 575	1 053	44 730	521
Fair value hedges				
Commodity derivatives	704	–	1 110	–
– Futures	704	–	1 110	–
Interest rate derivatives	–	–	1 000	230
– Swaps	–	–	1 000	230
Total fair value hedges	704	–	2 110	230
Total qualifying for hedge accounting	84 279	1 053	46 840	751
Held for trading				
Currency derivatives	401 332	16 370	338 616	10 663
– Forward rate agreements	164 913	2 799	180 408	3 708
– Swaps	219 071	6 035	144 296	4 617
– Options	17 147	6 725	13 495	1 503
– Futures	201	811	417	835
Interest rate derivatives	2 932 644	30 238	2 750 758	29 635
– Forward rate agreements	1 841 487	5 325	1 751 835	5 982
– Swaps	669 721	21 127	583 433	21 730
– Options	391 752	3 568	385 997	1 602
– Futures	29 684	218	29 493	321
Equity derivatives	24 585	6 366	24 653	2 353
– Swaps	(570)	(1 197)	2 134	3 312
– Options	18 462	7 245	14 813	(1 212)
– Futures	6 693	318	7 706	253
Commodity derivatives	18 574	2 899	7 517	2 623
– Swaps	10 038	1 402	2 507	817
– Options	3 628	1 002	3 001	461
– Futures	4 908	495	2 009	1 345
Credit derivatives	6 047	180	3 924	570
Total held for trading	3 383 182	56 053	3 125 468	45 844
Total	3 467 461	57 106	3 172 308	46 595

12 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

	2008					
	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	2 174	44	81 401	1 009	83 575	1 053
– Interest rate derivatives	2 174	44	81 401	1 009	83 575	1 053
Fair value hedges	704	–	–	–	704	–
– Commodity derivatives	704	–	–	–	704	–
Not qualifying for hedge accounting						
Held for trading	17 403	3 848	3 365 779	52 205	3 383 182	56 053
– Currency derivatives	473	–	400 859	16 370	401 332	16 370
– Interest rate derivatives	7 044	2 020	2 925 600	28 218	2 932 644	30 238
– Equity derivatives	8 510	1 809	16 075	4 557	24 585	6 366
– Commodity derivatives	1 376	18	17 198	2 881	18 574	2 899
– Credit derivatives	–	1	6 047	179	6 047	180
Total	20 281	3 892	3 447 180	53 214	3 467 461	57 106

	2008					
	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	–	–	44 730	521	44 730	521
– Interest rate derivatives	–	–	44 730	521	44 730	521
Fair value hedges	1 110	–	1 000	230	2 110	230
– Interest rate derivatives	–	–	1 000	230	1 000	230
– Commodity derivatives	1 110	–	–	–	1 110	–
Not qualifying for hedge accounting						
Held for trading	22 024	8 901	3 113 444	46 943	3 125 468	45 844
– Currency derivatives	758	91	337 858	10 572	338 616	10 663
– Interest rate derivatives	11 653	6 806	2 749 105	32 829	2 750 758	29 635
– Equity derivatives	8 215	1 998	16 438	355	24 653	2 353
– Commodity derivatives	1 398	6	6 119	2 617	7 517	2 623
– Credit derivatives	–	–	3 924	570	3 924	570
Total	23 134	8 901	3 159 174	47 694	3 172 308	46 595

13 ADVANCES

	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 14)	(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 14)	(9 584)	(7)	–	–	(9 591)
Net advances	320 705	163	459	95 161	416 488

13 ADVANCES (continued)

	2009				
R million	Loans and receivables	Held-to-maturity	Available-for-sale	Designated at fair value through profit or loss	Total
Category analysis					
Overdrafts and managed accounts	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
Other	18 559	–	459	47 284	66 302
Assets under agreement to resell	289	–	–	25 710	25 999
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 14)	(9 584)	(7)	–	–	(9 591)
Net advances	320 705	163	459	95 161	416 488

	2008				
R million	Loans and receivables	Held-to-maturity	Available-for-sale	Designated at fair value through profit or loss	Total
Sector analysis					
Agriculture	8 030	–	–	969	8 999
Banks and financial services	16 852	–	673	43 899	61 424
Building and property development	5 668	–	–	9 578	15 246
Government, Land Bank and public authorities	11 529	–	–	8 974	20 503
Individuals	251 468	257	–	142	251 867
Manufacturing and commerce	33 681	–	–	13 118	46 799
Mining	3 616	–	–	9 213	12 829
Transport and communication	3 254	–	–	7 807	11 061
Other services	20 075	67	–	5 974	26 116
Notional value of advances	354 173	324	673	99 674	454 844
Contractual interest suspended	(1 168)	(7)	–	–	(1 175)
Gross advances	353 005	317	673	99 674	453 669
Impairment of advances (note 14)	(7 374)	(9)	–	–	(7 383)
Net advances	345 631	308	673	99 674	446 286

13 ADVANCES (continued)

R million	Loans and receivables	Held-to-maturity	Available-for-sale	Designated at fair value through profit or loss	Total
	2008				
Geographic analysis (based on credit risk)					
South Africa	330 698	324	673	78 291	409 986
Other Africa	16 711	–	–	2 226	18 937
United Kingdom	4 937	–	–	9 657	14 594
Other	1 827	–	–	9 500	11 327
– Ireland	2	–	–	1 762	1 764
– Other Europe	50	–	–	5 651	5 701
– North America	46	–	–	408	454
– South America	191	–	–	1 321	1 512
– Australasia	1 537	–	–	–	1 537
– Other	1	–	–	358	359
Total value of advances	354 173	324	673	99 674	454 844
Contractual interest suspended	(1 168)	(7)	–	–	(1 175)
Gross advances	353 005	317	673	99 674	453 669
Impairment of advances (note 14)	(7 374)	(9)	–	–	(7 383)
Net advances	345 631	308	673	99 674	446 286
Category analysis					
Overdrafts and managed accounts	49 758	–	–	–	49 758
Loans to other financial institutions	6 395	–	–	1 994	8 389
Card loans	14 124	–	–	–	14 124
Instalment sales	65 122	–	–	–	65 122
Lease payments receivable	24 576	–	–	–	24 576
Property finance	159 147	257	–	1 945	161 349
– Home loans	149 700	257	–	–	149 957
– Commercial property finance	9 447	–	–	1 945	11 392
Personal loans	15 946	–	–	–	15 946
Preference share advances	2 406	–	–	15 728	18 134
Other	15 937	67	673	51 160	67 837
Collateralised debt obligation	–	–	–	–	–
Assets under agreement to resell	762	–	–	28 847	29 609
Notional value of advances	354 173	324	673	99 674	454 844
Contractual interest suspended	(1 168)	(7)	–	–	(1 175)
Gross advances	353 005	317	673	99 674	453 669
Impairment of advances (note 14)	(7 374)	(9)	–	–	(7 383)
Net advances	345 631	308	673	99 674	446 286

Advances relating to synthetic securitisations are:

- Procul is a synthetic securitisation transaction amounting to R2.0 billion (2008: R2.0 billion) of WesBank retail instalment sale advances. In terms of the transaction WesBank has transferred the credit risk up to the value of a reference portfolio to a bankruptcy remote special purpose vehicle.
- Fresco II is a synthetic securitisation transaction amounting to R20 billion (2008: R20 billion) of FirstRand Bank Limited corporate advances. In terms of the transaction, FirstRand Bank Limited has transferred the credit risk up to the value of the reference portfolio to Fresco, 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.

13 ADVANCES (continued)

Advances relating to traditional securitisations are:

- Included in instalment sale advances above is R2.7 billion (2008: R5.6 billion) which is non recourse securitised instalment advances.
- Included in home loans above is R3.5 billion (2008: R3.9 billion) which is non recourse securitised home loan advances.

Additional information relating to these transactions are set out in note 41.

R million	Within 1 year	Between 1 and 5 years	More than 5 years	Total
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**
Subtotal	**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**
2008				
Analysis of instalment sales and lease payments receivable				
Lease payments receivable	8 505	25 982	370	34 857
Suspensive sale instalments receivable	19 167	52 331	1 074	72 572
Subtotal	27 672	78 313	1 444	107 429
Less: Unearned finance charges	(4 741)	(12 727)	(265)	(17 733)
Total	22 931	65 586	1 179	89 696

Under the terms of the lease agreements, no contingent rentals are payable. These agreements relate to motor vehicles and equipment. The accumulated allowance for uncollectible minimum lease payments receivable included in the allowance for impairments at the balance sheet date is R386 million (2008: R452 million).

Collateral is an important mitigant of credit risk. In accordance with the Group credit risk management strategy the following principal 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 one 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 counterparties.

14 IMPAIRMENT OF ADVANCES

Significant loans and advances are monitored by the credit committee and impaired according to the Group 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").

	FNB		
R million	Retail	Corporate	Commercial
2009			
Analysis of movement in impairment of advances per class of advance			
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	4 702	71	407
– impairments created	6 760	110	809
– impairments released	(2 058)	(39)	(402)
Acquisitions/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)**
2008			
Opening balance	2 155	233	325
Exchange rate difference	–	–	–
Amounts written off	(1 166)	(24)	(50)
Unwinding of discounted present value on non performing loans	(95)	–	(36)
Reclassifications	–	–	–
Net new impairments created	2 934	100	207
– impairments created	3 466	100	207
– impairments released	(532)	–	–
Acquisitions/disposals of subsidiaries	26	–	–
Transfers from/(to) other divisions	(1)	(17)	15
Closing balance	3 853	292	461
New and increased provision	(2 934)	(100)	(207)
Recoveries of bad debts previously written off	218	9	6
(Profit)/loss on sale of property in possession	4	–	–
Impairment loss recognised in the income statement	(2 712)	(91)	(201)

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)
5 807	617	153	(3)	14 253	13 793	460
(2 931)	(94)	(78)	(99)	(5 701)	(5 235)	(466)
(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
1 072	475	289	1	4 550	2 749	1 801
21	24	8	–	53	45	8
(1 509)	(117)	(56)	33	(2 889)	(2 864)	(25)
–	–	(18)	(62)	(211)	(209)	(2)
–	–	–	–	–	129	(129)
2 248	182	114	28	5 813	5 019	794
2 239	231	107	29	6 379	5 526	853
9	(49)	7	(1)	(566)	(507)	(59)
–	–	40	1	67	49	18
(2)	(284)	–	289	–	–	–
1 830	280	377	290	7 383	4 918	2 465
(2 248)	(182)	(114)	(28)	(5 813)	(5 019)	(794)
175	(39)	9	367	745	745	–
–	–	–	–	4	4	–
(2 073)	(221)	(105)	339	(5 064)	(4 270)	(794)

14 IMPAIRMENT OF ADVANCES (continued)

	2009			
R million	Total value including interest in suspense	Security held	Specific impairments	Contractual interest suspended
Non performing lendings 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 lendings	26 123	17 029	7 206	1 896
Non performing lendings 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 lendings	26 123	17 029	7 206	1 896
Non performing lendings 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 lendings	26 123	17 029	7 206	1 896
Non performing lendings 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 lendings	26 123	17 029	7 206	1 896

Net recoverable amount on non performing loans is R16 743 million.

14 IMPAIRMENT OF ADVANCES (continued)

R million	2008 Total value including interest in suspense	Security held	Specific impairments	Contractual interest suspended
Non performing lendings by sector				
Agriculture	121	75	37	17
Banks and financial services	66	29	26	6
Building and property development	592	62	216	141
Government, Land Bank and public authorities	281	8	13	3
Individuals	11 688	5 374	3 895	854
Manufacturing and commerce	646	129	381	97
Mining	33	3	9	3
Transport and communication	163	44	29	7
Other	689	146	312	47
Total non performing lendings	14 279	5 870	4 918	1 175
Non performing lendings by category				
Overdrafts and managed accounts	803	180	677	131
Loans to other financial institutions				
Card loans	1 658	–	1 102	154
Instalment sales	2 053	365	766	105
Lease payments receivable	1 066	165	395	54
Property finance	6 774	4 993	1 240	511
– Home loans	6 655	4 904	1 209	487
– Commercial property finance	119	89	31	24
Personal loans	928	161	532	94
Other	997	6	206	126
Total non performing lendings	14 279	5 870	4 918	1 175
Non performing lendings by class				
FNB Retail	8 663	4 679	2 695	684
FNB Corporate	140	–	121	–
FNB Commercial	625	349	291	113
Total FNB	9 428	5 028	3 107	797
WesBank	3 345	523	1 287	165
RMB	982	16	191	123
FNB Africa	478	217	198	90
Other (BGT, Capital Centre, other subsidiaries)	46	86	135	–
Total non performing lendings	14 279	5 870	4 918	1 175
Non performing lendings by geographical area				
South Africa	13 151	5 629	4 434	965
Other Africa	513	217	205	90
UK	52	24	40	–
Other	563	–	239	120
Europe	78	–	–	–
Australasia	485	–	239	120
Total non performing lendings	14 279	5 870	4 918	1 175

The net recoverable amount on non performing loans is R7 991 million. The disclosure of recoverable amount of fair value non performing loans has been aligned with the accrual on non performing loan disclosure in the current year. The net recoverable amount on non performing loans disclosed previously was R8 186 million.

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

15 INVESTMENT SECURITIES AND OTHER INVESTMENTS

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

R million	Held for trading
Total	
Negotiable certificates of deposit	8 068
Treasury bills	9 759
Other government and government guaranteed stock	13 479
Other dated securities	2 513
Other undated securities	718
Money market investments	–
Other	4 141
Total	38 678
Listed	
Negotiable certificates of deposit	–
Treasury bills	–
Other government and government guaranteed stock	10 888
Other dated securities	1 865
Other undated securities	–
Other	3 936
Listed	16 689
Unlisted	
Negotiable certificates of deposit	8 068
Treasury bills	9 759
Other government and government guaranteed stock	2 591
Other dated securities	648
Other undated securities	718
Money market investments	–
Other	205
Unlisted	21 989

2009					
Designated at fair value through profit or loss	Available-for-sale	Loans and receivables	Held-to-maturity	*Fair value through profit or loss non recourse investments	Total
277	352	100	–	–	8 797
6 864	13 626	–	43	–	30 292
18 413	16 723	–	56	153	48 824
17 366	378	390	7	2 826	23 480
334	701	21	–	–	1 774
47 850	5	–	–	–	47 855
27 820	3 003	–	77	13 186	48 227
118 924	34 788	511	183	16 165	209 249
277	–	–	–	–	277
5 132	172	–	–	–	5 304
16 668	9 662	–	–	153	37 371
7 819	–	153	–	287	10 124
151	701	–	–	–	852
21 113	914	–	–	–	25 963
51 160	11 449	153	–	440	79 891
–	352	100	–	–	8 520
1 732	13 454	–	43	–	24 988
1 745	7 061	–	56	–	11 453
9 547	378	237	7	2 539	13 356
183	–	21	–	–	922
47 850	5	–	–	–	47 855
6 707	2 089	–	77	13 186	22 264
67 764	23 339	358	183	15 725	129 358

15 INVESTMENT SECURITIES AND OTHER INVESTMENTS (continued)

R million	Held for trading	Designated at fair value through profit or loss
Total		
Negotiable certificates of deposit	7 046	110
Treasury bills	9 253	–
Other government and government guaranteed stock	15 886	12 191
Other dated securities	3 669	16 380
Other undated securities	–	12 776
Money market investments	–	48 238
Other	7 784	45 923
Total	43 638	135 618
Listed		
Treasury bills	922	–
Other government and government guaranteed stock	15 102	10 389
Other dated securities	1 022	7 519
Other undated securities	–	38
Other	6 577	29 503
Listed	23 623	47 449
Unlisted		
Negotiable certificates of deposit	7 046	110
Treasury bills	8 331	–
Other government and government guaranteed stock	784	1 802
Other dated securities	2 647	8 861
Other undated securities	–	12 738
Money market investments	–	48 238
Other	1 207	16 420
Unlisted	20 015	88 169

R37 081 million (2008: R27 300 million) of the financial instruments held for trading form part of the Group's liquid asset portfolio in terms of the South African Reserve Bank and other foreign banking regulators requirements.

The Group holds certain interests in collateralised debt obligation structures. 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 recorded at fair value under the available-for-sale category in the above table.

2008				
Available-for-sale	Loans and receivables	Held-to-maturity	*Fair value through profit or loss non recourse investments	Total
55	–	–	–	7 211
4 901	–	65	–	14 219
11 765	–	57	146	40 045
72	–	–	2 958	23 079
1 022	–	403	–	14 201
2	–	–	–	48 240
3 163	–	75	16 165	73 110
20 980	–	600	19 269	220 105
92	–	–	–	1 014
5 284	–	–	146	30 921
6	–	–	48	8 595
1 022	–	–	–	1 060
1 079	–	75	–	37 234
7 483	–	75	194	78 824
55	–	–	–	7 211
4 809	–	65	–	13 205
6 481	–	57	–	9 124
66	–	–	2 910	14 484
–	–	403	–	13 141
2	–	–		48 240
2 084	–	–	16 165	35 876
13 497	–	525	19 075	141 281

15 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 recorded at fair value under the available-for-sale category.
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 recorded at fair value under the available-for-sale category.
3. iVuzi Investment Limited, an asset backed conduit that provides South African institutional investors with short dated investment-grade commercial paper is consolidated. 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 recorded at fair value under the available-for-sale category.
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 recorded at fair value under the available-for-sale category.

Total fair value adjustments on non recourse investments, including the adjustments linked to the above conduits, is comprised as follows:

R million	2009	2008
Other government and government guaranteed stock	153	146
Investment grade commercial paper	16 012	21 276
Less: Group's share thereof	–	(2 153)
Total non recourse investments	**16 165**	19 269
Analysis of investment securities		
Listed	**79 891**	78 824
Equities	25 961	37 160
Debt	53 930	41 664
Unlisted	**129 358**	141 281
Equities	8 203	14 319
Debt	121 155	126 962
Total	**209 249**	220 105
Valuation of investments		
Market value of listed investments	79 891	78 824
Directors' valuation of unlisted investments	129 358	141 281
Total valuation	**209 249**	220 105

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

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

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

R million	**2009**	2008
16 COMMODITIES		
Agricultural stock	**1 323**	1 777
Other	**–**	139
Commodities	**1 323**	1 916
17 ACCOUNTS RECEIVABLE		
Items in transit	**938**	586
Interest and commissions accrued	**191**	(144)
Accounts receivable	**5 404**	6 398
Premium debtors	**460**	413
Less: Provision for impairment of premium debtors	**(14)**	(4)
Prepayments	**395**	373
Unsettled trades	**3 769**	–
Reinsurance debtors	**212**	184
Accounts receivable	**11 355**	7 806

The carrying value approximates the fair value.

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

	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**
Accrued interest	**191**	**–**	**–**	**–**	**–**	**–**	**191**
Accounts receivable	**9 575**	**6**	**277**	**45**	**243**	**80**	**10 226**
Total	**10 680**	**6**	**301**	**45**	**243**	**80**	**11 355**

	2008						
			Past due but not impaired				
R million	Neither past due nor impaired	Re-negotiated but current	1 – 30 days	31 – 60 days	> 60 days	Impaired	Total
Items in transit	586	–	–	–	–	–	586
Accrued interest	(149)	–	1	–	4	–	(144)
Accounts receivable	6 671	7	442	125	56	63	7 364
Total	7 108	7	443	125	60	63	7 806

18 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

R million	2009	2008
Listed investments		
Investments at cost less amounts written off	9 469	7 211
Unlisted investments		
Investments at cost less amounts written off	2 921	3 699
Income before tax for the year	1 588	1 720
Transfer to other reserves	(14)	(6)
Tax for the year (note 8)	(416)	(362)
Dividends received for the year	(835)	(924)
Retained income for the year	323	428
Exchange differences	(86)	41
Disposals and acquisitions	169	240
Share of retained income at beginning of the year	2 301	1 592
Share of retained income at end of the year	2 707	2 301
Share of other reserves	197	92
Total retained income and reserves	2 904	2 393
Total carrying value	15 294	13 303
Reconciliation of share of profit from associate and joint ventures to income before tax:		
Income before tax for the year	1 588	1 720
Reversal/(impairment)	2	(58)
Share of profit from associate and joint ventures	1 590	1 662
Goodwill included in carrying value above		
Gross amount	269	203
Less: Accumulated impairment losses	–	–
Goodwill	269	203
Movement in goodwill		
Opening balance	203	54
Exchange differences	22	7
Acquisitions	75	53
Disposals	(31)	89
Closing balance	269	203
Valuation		
Listed investments at market value	8 957	7 159
Unlisted investments at directors' valuation	10 276	11 970
Total valuation	19 233	19 129
Included in unlisted investments		
Shareholder loans	1 175	1 596

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

18 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (continued)

	Nature of business	Issued ordinary shares (R)	Number of ordinary shares held	Year end
Listed				
Makalani Holdings Limited	Investment holding	21 352 568	5 480 885	30-Jun
Collective investment schemes	Collective investment schemes	Various	Various	Various
Emira Property Fund	Property Unit Trust	3 511 484 000	171 829 797	30-Jun
Other	Various	Various	Various	Various
Unlisted				
OUTsurance Insurance Company Limited	Insurance	33 901 000	1 584 225 400	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
Tembisa Plaza Share Block (Pty) Limited	Share block-shopping centre	1 000	–	30-Jun

	Effective holding %		Market value/Group valuation amount		Group carrying value	
R million	**2009**	2008	**2009**	2008	**2009**	2008
Listed						
Makalani Holdings Limited	**26**	26	**536**	493	**536**	611
Emira Property Fund[1]	**37**	37	**1 744**	1 482	**1 744**	1 482
Collective investment schemes	**Various**	Various	**6 170**	5 184	**6 170**	5 184
Private Equity Associates*	**Various**	Various	**507**	–	**1 019**	–
Total listed	**63**	63	**8 957**	7 159	**9 469**	7 277
Unlisted						
OUTsurance Insurance Company Limited	**47**	47	**3 295**	1 323	**765**	675
Toyota Financial Services (Pty) Limited	**33**	33	**489**	663	**436**	377
Tracker Investment Holdings (Pty) Limited	**33**	33	**706**	840	**559**	480
Marsh Holdings SA (Pty) Limited	**40**	40	**42**	44	**28**	28
Momentum Short Term Insurance Company Limited	**50**	50	**40**	28	**40**	28
Tembisa Plaza Share Block (Pty) Limited	**–**	50	**–**	50	**–**	50
Private Equity Associates	**Various**	Various	**3 679**	6 632	**2 568**	2 910
Other	**Various**	Various	**2 025**	2 390	**1 429**	1 478
Total unlisted	**203**	253	**10 276**	11 970	**5 825**	6 026
Total listed and unlisted	**266**	316	**19 233**	19 129	**15 294**	13 303

1 *Emira is accounted for at fair value in terms of IAS 28 as it is held in the insurance linked funds.*

**Included in the Private Equity Associates are Vox Telecom Limited, Simmer and Jack Mines Limited and Control Instruments Group Limited. The value in use of these associate investments is R1 019 million and has been used in determining the Group carrying value.*

18 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (continued)

Summarised financial information of associates:

	Marsh Holdings (Pty) Limited		Makalani Holdings Limited		Private Equity Associates		OUTsurance Insurance Company	
	Associate		Associate		Associate		Associate	
R million	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008
Balance sheet								
Current assets	**240**	235	**432**	141	**10 829**	12 082	**3 448**	1 096
Non current assets	**44**	101	**1 984**	2 433	**27 776**	21 820	**152**	1 998
Current liabilities	**(192)**	(199)	**(11)**	(27)	**(8 464)**	(9 315)	**(1 887)**	(217)
Non current liabilities	**(6)**	(38)	**–**	–	**(12 884)**	(13 918)	**–**	(58)
Equity	**86**	99	**2 405**	2 547	**17 257**	10 669	**1 713**	2 819
Income statement								
After tax profit attributable to the Group	**1**	5	**(38)**	80	**841**	874	**296**	268
Loans to associates – included in investments	**–**	–	**–**	–	**1 085**	1 507	**–**	–
Loans to associates – ordinary loans	**12**	12	**–**	–	**–**	–	**–**	–
Share of associate contingent liabilities	**–**	–	**–**	–	**–**	–	**–**	–

18 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (continued)

	Tracker Investment		Toyota Financial Services (Pty) Limited		Collective investment schemes		Emira Property Fund	
	Associate		Associate		Associate		Associate	
R million	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008
Balance sheet								
Current assets	**190**	198	**4 964**	4 486	**261**	756	**450**	300
Non current assets	**754**	720	**9 299**	9 337	**23 665**	28 589	**7 513**	7 492
Current liabilities	**(91)**	(136)	**(5 055)**	(6 207)	**(333)**	(550)	**(448)**	(491)
Non current liabilities	**(137)**	(146)	**(7 909)**	(6 490)	**–**	–	**(1 829)**	(1 540)
Equity	**716**	636	**1 299**	1 126	**23 593**	28 795	**5 686**	5 761
Income statement								
After tax profit attributable to the Group	**69**	56	**58**	58	**–**	–	**–**	–
Loans to associates – included in investments	**–**	–	**–**	–	**–**	–	**–**	–
Loans to associates – ordinary loans	**–**	–	**176**	1 870	**–**	–	**–**	–
Share of associate contingent liabilities	**–**	–	**–**	–	**–**	–	**–**	–

18 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (continued)

Summarised financial information of associates:

	Tembisa Plaza Share Block (Pty) Limited		Other	
	Associate		Associates & Joint Ventures	
R million	**2009**	2008	**2009**	2008
Balance sheet				
Current assets	**–**	–	**7 627**	8 509
Non current assets	**–**	118	**20 770**	17 919
Current liabilities	**–**	(42)	**(2 531)**	(6 899)
Non current liabilities	**–**	(11)	**(15 906)**	(11 920)
Equity	**–**	65	**9 960**	7 609
Income statement				
After tax profit attributable to the Group	**–**	–	**(57)**	17
Loans to associates – included in investments	**–**	–	**90**	89
Loans to associates – ordinary loans	**–**	–	**145**	–
Share of associate contingent liabilities	**–**	–	**–**	–

The most recent audited annual financial statements of associates are used by the Group in applying the equity method of accounting for associates. 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 the financial statement date of the Group, the effect of such events are adjusted for. Where the last statement date of an associate or joint venture was more than six months before the financial statement date of the Group, the Group uses the unaudited management accounts of the associate. The Group has applied this principle consistently since adopting the equity accounting method for associates.

19 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

	2009			2008		
R million	Cost	Accumulated depreciation and impairments	Carrying amount	Cost	Accumulated depreciation and impairments	Carrying amount
Property	7 590	(1 442)	6 148	6 317	(1 008)	5 309
Freehold land and buildings*	3 343	(501)	2 842	2 398	(271)	2 127
Leasehold premises*	4 247	(941)	3 306	3 919	(737)	3 182
Assets held under lease agreements**	1 079	(103)	976	911	(33)	878
Equipment*	7 463	(4 367)	3 096	6 430	(3 758)	2 672
Computer equipment	4 369	(2 927)	1 442	4 053	(2 581)	1 472
Furniture and fittings	1 699	(856)	843	1 399	(717)	682
Motor vehicles	511	(142)	369	270	(104)	166
Office equipment	826	(400)	426	647	(309)	338
Capitalised leased assets	58	(42)	16	61	(47)	14
Total	16 132	(5 912)	10 220	13 658	(4 799)	8 859

**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.*

19 PROPERTY AND EQUIPMENT (continued)

R million	Freehold land and buildings	Leasehold premises
Movement in property and equipment – carrying amount		
Carrying amount at 30 June 2007	2 025	2 226
Foreign currency adjustments on translation	4	4
Additions	560	1 729
Depreciation charge for period	(109)	(154)
Impairments recognised	(2)	(1)
Impairments reversed	–	–
Disposals	(259)	–
Disposal of subsidiary	(70)	(148)
Reclassifications	–	(454)
Other	(22)	(20)
Carrying amount at 30 June 2008	**2 127**	**3 182**
Foreign currency adjustments on translation	**(16)**	**(15)**
Additions	**736**	**679**
Depreciation charge for period	**(98)**	**(291)**
Impairments recognised	**–**	**(6)**
Impairments reversed	**–**	**–**
Disposals	**(105)**	**(19)**
Disposal of subsidiary	**(50)**	**24**
Other	**248**	**(248)**
Carrying amount at 30 June 2009	**2 842**	**3 306**

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

Property occupied for banking operations serves as security for finance lease liabilities.

During June 1999 the Group sold certain immovable assets and then entered into a lease back agreement. The initial period of the lease is for nine years and 11 months and concludes in 2009. The rentals payable in terms of the lease escalate annually. There are two options, each to renew the lease for a period of ten years.

At the end of the lease period, the Group will acquire effective control of the property owning company as a result of the structure of the arrangement.

The unguaranteed residual values that may accrue to the benefit of the lessor is not material within the Group.

The circumstances which led to the impairment in the current year were as follows:

Impairments recognised in the current year relate to the disclosure of certain FNB branches. Assets which could not be redeployed to other FNB branches and have no future economic benefits were written off.

The circumstances which led to the reversal of previously recognised impairment losses in the current year were as follows:

Previously recognised impairments were reversed as assets previously written off due to branch disclosures in the prior year have been redeployed in the current year.

	Assets held under lease agreements	Computer equipment	Furniture and fittings	Motor vehicles	Office equipment	Capitalised leased assets	Total
	–	1 255	532	115	245	13	6 411
	28	4	2	2	2	1	47
	402	734	344	102	179	6	4 056
	(69)	(461)	(100)	(41)	(86)	–	(1 020)
	–	(5)	(17)	–	(1)	–	(26)
	–	–	–	–	5	–	5
	–	(42)	(3)	(6)	(2)	(4)	(316)
	–	(53)	(74)	(6)	(5)	–	(356)
	454	–	–	–	–	–	–
	63	40	(2)	–	1	(2)	58
	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)	**(572)**	**(157)**	**(62)**	**(117)**	**(3)**	**(1 369)**
	–	**(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**

20 DEFERRED TAX

R million	2009	2008
Deferred tax		
The movement on the deferred tax account is as follows:		
Deferred tax liability		
Opening balance	**5 372**	6 279
– Exchange rate difference	**(5)**	11
– Charge to the income statement (including discontinued operations)	**(871)**	494
– STC (release)/charge to the income statement	**(201)**	52
– Acquisitions and disposals	**(106)**	(785)
– Tax rate adjustment	**–**	(103)
– Deferred tax on amounts charged directly to equity	**(272)**	(9)
– Other	**60**	(567)
Total credit balance	**3 977**	5 372
Deferred tax asset		
Opening balance	**1 456**	1 306
– Exchange rate difference	**11**	(31)
– (Release)/charge to the income statement (including discontinued operations)	**359**	(246)
– STC release to the income statement	**151**	19
– Acquisitions and disposals	**(5)**	80
– Tax rate adjustment	**–**	31
– Deferred tax on amounts charged directly to equity	**9**	6
– Other	**53**	291
Total debit balance	**2 034**	1 456
Net balance for the year	**1 943**	3 916

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.

20 DEFERRED TAX (continued)

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

	2009						
R million	Opening balance	Tax charge	Exchange rate	Tax rate adjustment	Acquisitions 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 equity	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 equity	(5)	1	–	–	–	1	(3)
Capital gains tax	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

20 DEFERRED TAX (continued)

	2008						
R million	Opening balance	Tax charge	Exchange rate	Tax rate adjustment	Acquisitions and disposals	Other	Closing balance
Deferred tax liability							
Tax losses	–	76	–	–	(721)	950	305
Provision for loan impairment	(462)	(193)	–	–	–	76	(579)
Provision for post retirement benefits	90	12	–	–	–	(76)	26
Other provisions	–	507	–	–	(1)	(844)	(338)
Cash flow hedges	57	76	–	–	–	70	203
Fair value adjustments of financial instruments	1 367	2	–	(5)	8	(884)	488
Instalment credit assets	1 908	375	2	(31)	–	–	2 254
Accruals	896	278	–	(32)	–	(1)	1 141
Revaluation of available-for-sale securities to equity	66	(4)	–	–	(63)	96	95
Capital gains tax	130	(435)	–	–	–	–	(305)
Insurance contracts	1 077	–	–	–	–	–	1 077
STC	–	37	–	2	(9)	127	157
Other	1 150	(237)	9	(37)	1	(38)	848
Total deferred tax liability	6 279	494	11	(103)	(785)	(524)	5 372
Deferred tax asset							
Tax losses	279	122	21	(8)	–	14	428
Provision for loan impairment	126	(21)	3	–	–	(50)	58
Provision for post retirement benefits	12	1	–	(1)	–	(20)	(8)
Other provisions	–	1	5	(3)	(14)	116	105
Cash flow hedges	–	–	–	–	–	–	–
Fair value adjustments of financial instruments	8	(13)	1	–	–	(12)	(16)
Instalment credit assets	(916)	(2)	–	–	–	83	(835)
Accruals	(773)	(19)	–	–	4	(6)	(794)
Revaluation of available-for-sale securities to equity	(1)	1	–	–	–	(5)	(5)
Capital gains tax	6	9	–	–	–	–	15
Insurance contracts	583	7	–	–	–	–	590
STC	–	–	–	–	(4)	10	6
Other	1 982	160	1	(19)	(66)	(146)	1 912
Total deferred tax asset	1 306	246	31	(31)	(80)	(16)	1 456
Total deferred tax	4 973	248	(20)	(72)	(705)	(508)	3 916

R million	2009	2008
20 DEFERRED TAX (continued)		
20.1 Secondary tax on companies ("STC")		
(Credit)/charge to the income statement	(352)	71

Total reserves

If the total reserves of R44 133 million as at 30 June 2009 (2008: R43 082 million) were to be declared as dividends, the secondary tax impact at a rate of 10% (2008: 10%) would be R4 413 million (2008: R4 308 million).

20.2 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 benefits is probable.

The Group has recognised deferred tax on deductible temporary differences, unused tax losses and unused tax credits.

R million	2009	2008
Deferred tax assets not provided for:		
Tax losses	362	365
Temporary difference	96	119
Closing balance	458	484

The Australia, Ireland and WorldMark businesses have tax losses which have not been recognised. These losses have no expiry dates and will be utilised as the companies become profitable.

Deferred income tax liabilities have not been established for the withholding tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries, as such amounts are permanently reinvested.

The Group has recognised certain deferred tax liabilities on all temporary differences associated with investments in subsidiaries, branches, associates and interest in joint ventures.

21 INTANGIBLE ASSETS AND DEFERRED ACQUISITION COSTS

	2009			2008		
R million	Cost	Accumulated amortisation and impairments	Carrying amount	Cost	Accumulated amortisation and impairments	Carrying amount
Goodwill						
Movement in goodwill – book value						
Opening balance	1 446	(149)	1 297	1 265	(116)	1 149
Subsidiary balance acquired/(disposed)	347	(35)	312	91	–	91
Exchange differences	(62)	–	(62)	67	–	67
Disposals	(2)	–	(2)	–	–	–
Additions	511	–	511	23	–	23
Impairment losses	–	(158)	(158)	–	(33)	(33)
Other	–	–	–	–	1	1
Closing balance	2 240	(342)	1 898	1 446	(148)	1 298
Software						
Movement in software – book value						
Opening balance	544	(408)	136	392	(226)	166
Subsidiary balance acquired/(disposed)	–	–	–	(17)	10	(7)
Exchange differences	(30)	30	–	35	(27)	8
Disposals	(36)	7	(29)	(4)	2	(2)
Additions	167	–	167	138	–	138
Impairment losses	–	–	–	–	(83)	(83)
Amortisation to the income statement	–	(76)	(76)	–	(85)	(85)
Other	1	–	1	–	1	1
Closing balance	646	(447)	199	544	(408)	136
Development costs						
Movement in development costs – book value						
Opening balance	46	(16)	30	259	(145)	114
Subsidiary balance acquired/(disposed)	2	(1)	1	(235)	130	(105)
Disposals	–	–	–	(19)	4	(15)
Additions	14	–	14	41	–	41
Amortisation to the income statement	–	(10)	(10)	–	(5)	(5)
Other	2	(1)	1	–	–	–
Closing balance	64	(28)	36	46	(16)	30

21 INTANGIBLE ASSETS AND DEFERRED ACQUISITION COSTS (continued)

	2009			2008		
R million	Cost	Accumulated amortisation and impairments	Carrying amount	Cost	Accumulated amortisation and impairments	Carrying amount
Trademarks						
Movement in trademarks – book value						
Opening balance	199	(92)	107	163	(74)	89
Subsidiary balance acquired/(disposed)	34	(3)	31	34	–	34
Exchange differences	(8)	3	(5)	4	(1)	3
Additions	437	–	437	–	–	–
Amortisation to the income statement	–	(54)	(54)	–	(20)	(20)
Other	1	(1)	–	(2)	3	1
Closing balance	663	(147)	516	199	(92)	107
Deferred acquisition cost asset						
Movement in deferred acquisition cost assets – book value						
Opening balance	2 214	(607)	1 607	1 702	(242)	1 460
Subsidiary balance acquired/(disposed)	–	–	–	(15)	–	(15)
Deferred acquisition costs on new business	421	–	421	527	–	527
Amortisation to the income statement	–	(300)	(300)	–	(365)	(365)
Closing balance	2 635	(907)	1 728	2 214	(607)	1 607
Value of in force business						
Movement in value of in force business – book value						
Opening balance	1 057	(81)	976	1 057	(45)	1 012
Amortisation to the income statement	–	(38)	(38)	–	(36)	(36)
Closing balance	1 057	(119)	938	1 057	(81)	976

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.

21 INTANGIBLE ASSETS AND DEFERRED ACQUISITION COSTS (continued)

R million	2009 Cost	2009 Accumulated amortisation and impairments	2009 Carrying amount	2008 Cost	2008 Accumulated amortisation and impairments	2008 Carrying amount
Contractual customer relationships						
Movement in contractual customer relationships – book value						
Opening balance	286	(88)	198	286	(55)	231
Impairment charge	–	(13)	(13)	–	–	–
Amortisation to the income statement	–	(33)	(33)	–	(33)	(33)
Closing balance	286	(134)	152	286	(88)	198
Agency force						
Movement in agency force – book value						
Opening balance	22	(6)	16	22	(4)	18
Amortisation to the income statement	–	(2)	(2)	–	(2)	(2)
Other	–	(1)	(1)	–	–	–
Closing balance	22	(9)	13	22	(6)	16
Other						
Movement in other – book value						
Opening balance	274	(145)	129	175	(112)	63
Reclassification	68	1	69	–	(1)	(1)
Subsidiary balance acquired/(disposed)	–	–	–	42	(3)	39
Exchange differences	(15)	10	(5)	15	(12)	3
Disposals	(2)	4	2	–	–	–
Additions	39	–	39	43	–	43
Impairment charge	–	7	7	–	–	–
Amortisation to the income statement	–	(25)	(25)	–	(17)	(17)
Other	1	1	2	(1)	–	(1)
Closing balance	365	(147)	218	274	(145)	129
Total intangible assets						
Goodwill	2 240	(342)	1 898	1 446	(148)	1 298
Software	646	(447)	199	544	(408)	136
Development costs	64	(28)	36	46	(16)	30
Trademarks	663	(147)	516	199	(92)	107
Insurance related intangible assets:						
– Deferred acquisition cost asset	2 635	(907)	1 728	2 214	(607)	1 607
– Value of in-force business	1 057	(119)	938	1 057	(81)	976
– Contractual customer relationships	286	(134)	152	286	(88)	198
– Agency force	22	(9)	13	22	(6)	16
Other	365	(147)	218	274	(145)	129
Total intangible assets	7 978	(2 280)	5 698	6 088	(1 591)	4 497

Refer to note 42 for current and non current analysis.

21 INTANGIBLE ASSETS AND DEFERRED ACQUISITION COSTS (continued)

R million	2009	2008
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.		
The CGUs to which the goodwill balance as at 30 June relates to:		
FNB Botswana	**31**	32
FNB Moçambique	**126**	143
FNB	**265**	270
RMB Corvest	**457**	10
RMB Other	**130**	51
WesBank	**583**	478
Other	**70**	17
Momentum	**236**	297
Total	**1 898**	1 298

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	
	2009	2008	**2009**	2008
FNB Botswana	**11.50**	11.50	**3.00**	5.00
FNB Moçambique	**9.00**	8.00	**2.00**	32.00
FNB Retail	**18.67**	6.75	**12.00**	12.00
RMB	**25.00**	20.00	**15.00**	9.00
WesBank	**18.67**	13.00	**10.00**	5.00
Other	**10.00**	14.00	**12.00**	5.00
Momentum	**14.41**	14.41	**10.00**	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.

R million	2009	2008
22 INVESTMENT PROPERTIES		
Completed properties		
Fair market value at beginning of the year	**3 808**	2 356
Net revaluations (included in gains and losses from investment activities – note 2)	**85**	120
Additions	**–**	1 706
Disposals	**(457)**	(374)
Transfers under reinsurance agreement entered into with third party	**(1 301)**	–
Fair market value at end of year	**2 135**	3 808
Properties under development	**21**	–
Additions	**21**	–
Total investment properties	**2 156**	3 808
Comprising:		
Office buildings	**1 749**	1 904
Shopping malls	**325**	1 797
Industrial buildings	**58**	107
Vacant land	**24**	–
Total investment properties	**2 156**	3 808
The following amounts have been included in the income statement:	**582**	340
Rental income (included in other operating income – note 2)	**334**	150
Direct operating expenses arising from investment properties that generate rental income	**248**	190

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 as at 30 June 2009 was R24 million (2008: R nil million).

Schedules of freehold property and equity investments are open for inspection at the Group's office in terms of the provisions of the Companies Act, 1973.

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.

R million	2009	2008
23 REINSURANCE ASSETS		
Insurance contracts	575	550
Life reinsurance contracts	575	550
Reinsurance agreement entered into with a third party	7 568	–
Total reinsurance contracts	8 143	550
Movements for the year		
Balance at the beginning of the year	550	595
Movement in reinsurer's share of insurance liabilities	25	(45)
Reinsurance agreement entered into with a third party	7 568	–
Total reinsurance assets	8 143	550

24 NON CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE

In terms of IFRS 5 – Non current Assets Held for Sale and Discontinued Operations, the assets attributable to Corvest 4 (Pty) Limited'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 2008 Non current Assets Held for Sale and Discontinued Operations were attributable to the WorldMark Holdings (Pty) Limited's advances book and investments in Alstom SA (Pty) Limited and Stocks and Stocks Limited.

The assets are summarised below:

R million	2009	2008
24.1 Disposal group held for sale		
ASSETS		
Cash and short term funds	58	–
Advances	262	2 690
Investment securities and other investments	–	95
Loans and accounts receivables	1	–
Property and equipment	1	–
Investment properties	23	–
Deferred tax asset	5	–
Intangible assets	10	–
Other	22	307
Total assets classified as disposal group held for sale	382	3 092
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	3 092
24.2 Non current assets held for sale		
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	508	3 092

R million	At amortised cost	Designated at fair value through profit or loss	Total
25 DEPOSITS			
2009			
Deposits			
Deposit 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**
2008			
Deposits			
Deposit and current accounts			
From banks and financial institutions	34 352	35 321	69 673
– In the normal course of business	34 234	17 713	51 947
– Under repurchase agreements	118	17 608	17 726
From customers	234 256	65 854	300 110
– Current accounts	168 600	2 620	171 220
– Savings accounts	3 034	–	3 034
– Term deposits	62 622	63 234	125 856
Other deposits	27 028	72 343	99 371
– Negotiable certificates of deposit	1 660	40 505	42 165
– Buy backs	–	2 955	2 955
– Other	25 368	28 883	54 251
Non recourse deposits*	–	19 269	19 269
– Total fair value of notes issued	–	21 422	21 422
– *Less:* Notes acquired by the Banking Group	–	(2 153)	(2 153)
Deposits and current accounts	295 636	192 787	488 423

Bold values as printed for 2009.

**Refer to note 15 Investment securities and other investments for a description of non recourse investment securities.*

Refer to note 43 for information relating to the fair value.
Refer to note 42 for a split of current and non current amounts.
Deposits include amounts raised under repurchase agreements with a carrying value of R33.5 billion (2008: R20.7 billion).

R million	2009	2008
26 SHORT TRADING POSITIONS		
Short trading positions		
Government and government guaranteed	**15 881**	24 103
Other dated securities	**4 754**	6 625
Undated securities	**4 367**	2 722
Short trading positions	**25 002**	33 450
Analysed as follows:		
Listed	**20 882**	26 737
Unlisted	**4 119**	6 713
Short trading positions	**25 001**	33 450

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 fair value note 43 for a description of the valuation methods employed for unlisted equities.

R million	2009	2008
27 CREDITORS AND ACCRUALS		
Accrued interest	**106**	220
Short term portion of long term liabilities (note 30)	**771**	550
Short term portion of financial leases (note 30)	**4**	281
Short term portion from share based payments and preference shares (note 30)	**282**	156
Accounts payable and accrued liabilities	**13 431**	14 277
Accrued benefit payments (including insurance payables)	**1 276**	1 352
Unsettled trades	**2 347**	–
Creditors and accruals	**18 217**	16 836

Refer to note 42 for current and non current analysis. The carrying value approximates fair value.

28 PROVISIONS

R million	2009	2008
Staff related provision*		
Opening balance	3 193	3 485
– Subsidiary balances acquired/(disposed)	1	(63)
– Exchange differences	(26)	41
– Charge to the income statement (including discontinued operations)	1 377	1 991
– Additional provisions created	1 436	2 411
– Unused amounts reversed	(59)	(420)
– Utilised	(2 365)	(2 261)
Closing balance	2 180	3 193

Staff related provision mainly consists of provisions for leave pay and staff bonuses.

R million	2009	2008
Audit fees		
Opening balance	43	35
– Exchange differences	–	1
– Charge to the income statement (including discontinued operations)	127	109
– Additional provisions created	129	109
– Unused amounts reversed	(2)	–
– Utilised	(105)	(102)
Closing balance	65	43
Other**		
Opening balance	39	78
– Subsidiary balances acquired/(disposed)	1	68
– Exchange differences	(6)	9
– Charge to the income statement (including discontinued operations)	623	3
– Additional provisions created	938	340
– Unused amounts reversed	(315)	(337)
– Utilised	59	(119)
Closing balance	716	39
Total provisions	2 961	3 275

***Other provisions mainly consists of provisions for litigation, fraud and restructuring.*

For expected settlement date refer to note 42.

29 POST RETIREMENT LIABILITIES

The Group operates both a defined benefit plan and a defined contribution plan.

29.1 Defined benefit post retirement fund

The Group operates two defined benefit plans, a medical plan 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 balance sheet.

Details of the defined benefit plan assets and liabilities are as follows:

	2009			2008		
R million	Pension	Medical	Total	Pension	Medical	Total
Post retirement benefit fund liability						
Present value of funded obligation	8 769	1 694	10 463	8 521	1 470	9 991
Fair value of plan assets	(8 226)	–	(8 226)	(8 188)	–	(8 188)
Pension fund deficit	543	1 694	2 237	333	1 470	1 803
Transfer of liability	–	4	4	–	–	–
Unrecognised actuarial gains/(losses)	(410)	258	(152)	(234)	411	177
Post retirement liability	133	1 956	2 089	99	1 881	1 980
The amounts recognised in the income statement are as follows:						
Current service cost	3	31	34	7	48	55
Interest cost	798	153	951	701	159	860
Actuarial loss recognised	118	(17)	101	22	–	22
Expected return on plan assets	(838)	–	(838)	(785)	–	(785)
Limit imposed by IAS 19 p 58(b)	–	(20)	(20)	19	–	19
Total included in staff costs	81	147	228	(36)	207	171
Movement in post retirement benefit fund liability						
Present value at the beginning of the year	99	1 881	1 980	136	1 746	1 882
Exchange differences	–	–	–	1	–	1
Subsidiary balances sold	–	(3)	(3)	–	–	–
Amounts recognised in the income statement as above	81	147	228	(37)	207	170
Benefits paid	720	(73)	647	(1)	(72)	(73)
Limitation imposed by IAS 19	(767)	–	(767)	–	–	–
Transfer of liability	–	4	4	–	–	–
Present value at the end of the year	133	1 956	2 089	99	1 881	1 980

29 POST RETIREMENT LIABILITIES (continued)

29.1 Defined benefit post retirement fund (continued)

	2009			2008		
R million	Pension	Medical	Total	Pension	Medical	Total
Movement in the fair value of plan assets of the year is as follows:						
Opening balance	8 188	–	8 188	9 050	–	9 050
Expected return on plan assets	845	–	845	786	–	786
Actuarial (losses)/gains	189	–	189	(1 117)	–	(1 117)
Exchange differences	(31)	–	(31)	(14)	–	(14)
Employer contributions	–	–	–	–	–	–
Employee contributions	–	–	–	–	–	–
Benefits paid and settlements	(965)	–	(965)	(545)	–	(545)
Closing balance	8 226	–	8 226	8 188	–	8 188
Plan assets comprised of the following:						
Equity	2 991	–	2 991	3 782	–	3 782
Debt	3 970	–	3 970	2 639	–	2 639
Other	1 265	–	1 265	1 768	–	1 768
Total	8 226	–	8 226	8 189	–	8 189
Included in plan assets were the following:						
FirstRand Limited ordinary shares with a fair value of:	–	–	–	285	–	285
Buildings occupied by the Group with a fair value of:	400	–	400	520	–	520
Total	400	–	400	805	–	805

29 POST RETIREMENT LIABILITIES (continued)

29.1 Defined benefit post retirement fund (continued)

	Pension %	Medical %	Pension %	Medical %
The principal actuarial assumptions used for accounting purposes were:				
Expected return on plan assets				
– Momentum Group Fund	**9.00**	**–**	14.20	–
Discount rate				
– Momentum Group Fund	**9.00**	**–**	11.00	11.00
Expected rates of salary increases				
– Momentum Group Fund	**7.00**	**–**	10.75	–
Long term increase in health cost				
– Momentum Group Fund	**–**	**10.00**	–	9.75
The effects of a 1% movement in the assumed health cost rate were as follows:				
Increase of 1%				
– Momentum Group Fund				
Effect on the aggregate of the current service cost and interest cost				
Effect on the defined benefit obligation	**–**	**12.00**	–	–
– Banking Group Fund				
Effect on the defined benefit obligation	**–**	**115.90**	–	116.02
Effect on the aggregate of the current service cost and interest cost	**–**	**124.10**	–	117.49
Decrease of 1%				
– Momentum Group Fund				
Effect on the aggregate of the current service cost and interest cost				
Effect on the defined benefit obligation	**–**	**9.00**	–	–
– Banking Group Fund				
Effect on the defined benefit obligation	**–**	**87.10**	–	86.01
Effect on the aggregate of the current service cost and interest cost	**–**	**89.90**	–	87.29
Estimated contributions expected to be paid to the plan in the next annual period	**776**			
Net increase in rate used to value pensions, allowing for pension increases				
– Momentum Group Fund	**3.00**	**–**	–	–
– Banking Group Fund	**3.00**	**1.00**	–	–

Mortality rate	Active members	Pensioners	Active members	Pensioners
Pension Fund				
Normal retirement age	**60**	**–**	60	–
Mortality rate table used	**PA(90)-2**	**PA(90)-2**	PA(90)-1	PA(90)-1
Post retirement medical benefits				
Normal retirement age	**60**	**–**	60	–
Mortality rate table used	**PA(90)-2**	**PA(90)-2**	PA(90)-1	PA(90)-1

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

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

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.

29 POST RETIREMENT LIABILITIES (continued)

29.1 Defined benefit post retirement fund (continued)

	2009		2008	
Mortality rate	**Pension**	**Medical**	Pension	Medical
The average life expectancy in years of a pensioner retiring at age 65 on the balance sheet date is as follows:				
– Momentum Group Fund				
Male	**9**	**–**	16	–
Female	**13**	**–**	20	–
– Banking Group Fund				
Male	**15**	**16**	15	16
Female	**19**	**17**	19	17
The average life expectancy in years of a pensioner retiring at age 65, 20 years after the balance sheet is as follows:				
– Momentum Group Fund				
Male	**6**	**–**	16	–
Female	**4**	**–**	20	–
– Banking Group Fund				
Male	**15**	**16**	15	16
Female	**19**	**17**	19	17

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	**2009**	2008	2007	2006	2005
Present value of defined benefit obligation	**10 463**	9 991	11 355	10 146	7 791
Fair value of plan assets	**(8 226)**	(8 188)	(10 079)	(8 460)	(6 522)
Deficit	**2 237**	1 803	1 276	1 686	1 269

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 a portion of the liability be recognised in this financial year.

The employer's post employment healthcare 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 R35 985 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 01 July 2008 the fund was financially sound.

29 POST RETIREMENT LIABILITIES (continued)

29.1 Defined benefit post retirement fund (continued)

	2009	2008
The number of employees		
Pension:		
Active members	**31 280**	31 170
Pensioners	**7 042**	7 218
Total	**38 322**	38 388
Medical:		
Active members	**4 875**	5 353
Pensioners	**3 492**	3 813
Total	**8 367**	9 166

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	12.14%
Other	12.14%
Bonds	10.64%
Cash	9.14%

29 POST RETIREMENT LIABILITIES (continued)

29.2 Defined contribution post retirement fund

This defined contribution plan is a pension plan which provides retired employees with annuity income after their service. In terms of this plan, 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 and not for any deficits of the fund assets in providing benefits to the employees after service.

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 balance sheet as they are only held by the Group in a fiduciary capacity. Disclosure on these assets and liabilities are disclosed for information purposes only.

Details of the pension plan assets and the related liability are as follows:

R million	2009	2008
Post retirement contribution fund liability/asset		
Present value of obligation	8 170	11 066
Fair value of plan assets	(8 170)	(11 066)
Post retirement contribution fund liability	–	–
Movement in post retirement contribution fund liability		
Amounts recognised in the income statement	720	277
Benefits paid	(720)	(277)
Present value at the end of the year	–	–
Movement in the fair value of plan assets of the year is as follows:		
Opening balance	11 066	11 263
Expected return on plan assets	1 180	1 124
Actuarial (losses)/gains	(3 468)	(720)
Employer contributions	307	370
Employee contributions	413	275
Benefits paid and settlements	(1 328)	(1 246)
Closing balance	8 170	11 066

In prior years the assets and liabilities of the pension contribution fund, as reflected above, were included as part of the plan assets and liabilities of the pension defined benefit plan under note 29.1 above.

The sum of the assets and liabilities balances for the comparatives under notes 29.1 and 29.2 is the total as reported in the prior year annual financial statements.

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.

R million	2009	2008
30 LONG TERM LIABILITIES		
Debentures		
120 debentures of R1 million each carrying interest at prime minus 2%[a]	120	120
Debentures	**120**	120
The instrument above relates to debentures which are convertible into non redeemable preference shares.		

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%.

R million	2009	2008
Preference shares		
Authorised		
500 million (2008: 500 million) cumulative redeemable shares with a par value of R0.0001.	*	*
100 million (2008: 100 million) cumulative redeemable shares with a par value of R0.01	1	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:		
1 001 (2008: 1 000) B Class redeemable preference shares of 0.0001 cents each at a premium of R9 764.47 per share	10	9
6 600 (2008: 6 400) cumulative redeemable preference shares of 0.01 cents each at a premium of R99 999.99	660	640
Preference shares subscribed for by third parties[b]	3 801	3 494
The preference shares of FirstRand Bank Limited have been classified as long term liabilities and comprise the following:		
830 (2008:1 720) cumulative redeemable preference shares subscribed for by third parties with par value of R0,0001 and a premium of R99 999,999 per share[a]	83	172
Less: Portion repayable within 12 months transferred to current liabilities (note 27)	(282)	–
Preference shares	**4 272**	4 315

b These preference shares are redeemable at the Company's discretion, at the full subscription price. Dividends are paid at a variable rate based on prime and currently amounts to 7.49% (2008:10.54%). These preference shares have been issued on the back of a past option issued by FirstRand Limited.

**Less than R1 million.*

R million	2009	2008
30 LONG TERM LIABILITIES (continued)		
Other long term liabilities		
Other long term employee related liabilities		
Unsecured debt securities amortising over the period to 2009[a]	629	463
Secured loan[b]	576	10
Subordinated notes[c]	736	1 053
Fixed rate bonds[d]	5 083	4 979
As previously disclosed	–	700
Reclassification from floating rate bonds	–	3 479
Reclassification from securitisation	–	800
Floating rate bond[e]	2 279	2 909
As previously disclosed	–	7 319
Reclassification to fixed rate bonds	–	(3 479)
Reclassification to other long term liabilities	–	(931)
Securitisation[f]	–	–
As previously disclosed	–	972
Reclassification to preference shares	–	(172)
Reclassification to fixed rate bonds	–	(800)
Other long term liabilities	–	291
Less: Portion repayable within 12 months transferred to current liabilities (note 27)	(771)	(550)
Other long term liabilities	8 532	9 155

a Various local and foreign unsecured loans with nominal interest rates ranging from 0% to 17%.
b This secured loan is repayable on 11 April 2011 and is stated at net present value, using a discount rate of 15.32%.
c 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%.
d The fixed rate bonds mature between 31 August 2010 and 21 December 2018 and bear interest at between 8% and 13%.
e The floating rate bonds mature 31 August 2010 21 December 2018 and bear interest at 65bps and 300bps above the three month JIBAR rate.
f These notes bear interest at an average rate of 9%, with the earliest maturity date of 12 September 2006 and latest maturity date of 12 December 2009.

R million	2009	2008
Finance lease liabilities		
Not later than 1 year	4	298
Later than 1 year and not later than 5 years	3	201
Total finance lease liabilities	7	499
Future finance charges on finance leases	–	(17)
Present value of finance lease liability	7	482
Less: Portion repayable within 12 months transferred to current liabilities (note 27)	(4)	(281)
Long term finance lease charges	3	201

The finance lease liability extends to 2009 and is secured over property occupied for banking operations. Repayments are based on an interest rate of 16.64% and are payable six months in advance.

R million	2009	2008
Share based payment (cash settled)	1	150
Long term liabilities	12 928	13 941

Refer to note 43 for information relating to the fair value. Refer to note 19 for assets that secure the finance lease liabilities. Refer to note 42 for current and non current analysis.

R million	2009	2008
31 POLICYHOLDER LIABILITIES UNDER INSURANCE CONTRACTS		
Opening balance	43 417	46 979
Reclassification from policyholder liabilities under insurance contracts (IFRS 4)	(42)	–
Reclassification to reinsurance assets	–	3
Subsidiary balances acquired	–	618
Subsidiary balances disposed	–	(1 376)
Revaluation of liability	(104)	43
Exchange differences	(1)	1
Other	–	382
Transfer to policyholder liabilities under insurance contracts (note 5)	(2 545)	(3 233)
– (Decrease)/increase in retrospective liabilities	(3 000)	1 298
– Unwind of discount rate	1 455	1 305
– New business	1 266	417
– Change in economic assumptions*	1 134	(1 988)
– Change in non economic assumptions	(138)	(299)
– Expected cash flows	(3 418)	(3 651)
– Expected release of margins	(930)	(743)
– Expected variances	1 086	428
Closing balance	**40 725**	43 417
Insurance contracts with discretionary participation features	8 934	10 875
Insurance contracts without discretionary participation features	31 791	32 542
Policyholder liabilities under insurance contracts	**40 725**	43 417

Refer to note 42 for current and non current analysis.

**The large change in economic assumptions changes arose mainly from whole life risk policies and guaranteed or structured products such as annuities, guaranteed endowments and PHI claims in payment. Liabilities on these product lines are very sensitive to movements in long term interest rates. The latter change significantly over the 2009 financial year. However, it should be noted that Momentum matches liabilities on most of these product lines with assets that tend to react to changes in interest rates in the same manner as the liabilities do.*

Included in the balance above is the following with respect to short term insurance contracts:

	2009	2008
Gross		
Claims reported and loss adjustment expense	365	(13)
Claims incurred but not yet reported	7	9
Unearned premium	927	–
Total liability arising from short term insurance contracts	**1 299**	(4)

	2009	2008
Actuarial liabilities under unmatured policies comprise the following:	%	%
Linked (market related) business – Individual life	32.3	37.1
Smoothed bonus business – Individual life	13.3	23.6
With profits reversionary bonus business	7.8	–
Non profit business		
– Individual life	(0.1)	1.9
– Employee benefits	4.0	4.0
Annuity business	42.7	33.4
Total	**100.0**	100.0

The amounts above are based on the actuarial valuations of Momentum Group Limited at 30 June 2009.

31 POLICYHOLDER LIABILITIES UNDER INSURANCE CONTRACTS (continued)

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.

	2009	2008
ZAR ten year zero coupon risk free yield	**9.28**	10.85
USD ten year zero coupon risk free yield	**3.88**	3.97

Valuation interest rate

The gross valuation interest rate of 11.4% per annum for ZAR denominated businesses (2008: 13% 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:	2009	2008
– Equities	**60%**	60%
– Properties	**10%**	10%
– Government bonds	**10%**	10%
– Corporate bonds	**10%**	10%
– Cash	**10%**	10%
Assumed performance of other asset classes relative to government bonds:		
– Equities (including overseas equities)	**3.5% per annum**	+2.0% per annum
– Properties	**+1.0% per annum**	+1.0% per annum
– Corporate bonds	**+0.5% per annum**	+0.5% per annum
– Cash	**-1.0% per annum**	-2.0% per annum

Rounding to the nearest 0.25% was performed.

Using the same methodology, the gross valuation rate of 6.00% per annum (2008: 6.10% 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 7.2% per annum 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 2.1% (2008:2.2%) from the risk free rate and adding an allowance for salary inflation and increases in unit costs of 0.75% per annum. Rounding to the nearest 0.25% was performed. US$ inflation was assumed to be 1.8% per annum (2008: 2.60% per annum), thus maintaining the same 2.5% margin relative to the valuation rate of return (compared to ZAR expense inflation). The real curve was used to value CPI linked annuity payments.

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.

31 POLICYHOLDER LIABILITIES UNDER INSURANCE CONTRACTS (continued)

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:

	2009	2008
Year 1	**45%**	+40%
Year 2	**85%**	+80%
Year 3	**135%**	+130%

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 ended 30 June 2009. 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.

31 POLICYHOLDER LIABILITIES UNDER INSURANCE CONTRACTS (continued)

Compulsory margins

The compulsory margins to best estimate assumptions are detailed in actuarial professional guidance note PGN104 and are intended to provide a minimum level of financial resilience in the liabilities to ensure that profits are not recognised prematurely.

The following prescribed margins were applied to the best estimate assumptions applicable to individual life business:

Assumption	Margin
– Mortality	7.5% – increase to assumption for assurance – decrease to assumption for annuities
– Morbidity	10% – increase to best estimate assumption
– Medical	15% – increase to best estimate assumption
– Lapses	25% (eg if best estimate is 10%, the margin is 2.5%) – increase or decrease, depending on which alternative increases liabilities
– Surrenders	10% – increase or decrease, depending on which alternative increases liabilities
– Terminations for disability – Income benefits in payment	10% – decrease to best estimate assumption
– Expenses	10% – increase to best estimate assumption
– Expense inflation	10% (of estimated escalation rate) – increase to best estimate assumption
– Charge against investment return	– 25 basis points reduction in the management fee or an equivalent asset based or investment performance based margin; – 25 basis points reduction in the assumed rate of future investment return on contracts that do not have an asset based or investment performance based fee

Discretionary margins

As described in the accounting policies, discretionary margins are used to prevent the premature capitalisation of profit. The specific discretionary margins that are added to the best estimate assumptions are as follows:

Cost of capital charges levied against smoothed bonus portfolios are not capitalised against current liabilities, but are recognised as and when they are earned. This avoids the premature recognition of income that is required to mitigate the additional cost of capital required to support smoothed bonus liabilities.

An asset charge, equal to 10% of investment return, is levied on some universal life linked and smoothed bonus policies. Not all income arising from this asset based charge is discounted against the liability, but is recognised as and when it is earned.

Additional margins are held in respect of mortality and disability claims assumptions, as well as termination assumptions, on certain individual life product lines. This allows risk profits to be recognised in the period in which the risks are borne by the Company.

A margin of 15% is added to expected Group PHI claims termination rates, to reduce the risk of premature recognition of profits from uncertain claim termination experience.

Other discretionary liabilities, not described above, have been outlined under the accounting policies.

32 POLICYHOLDER LIABILITIES UNDER INVESTMENT CONTRACTS

R million	2009	2008
Opening balance	110 784	111 806
Reclassification from policyholder liabilities under investment contracts (IFRS 4)	42	–
Set off of policy loans as at 1 July	560	(7)
Subsidiary balances acquired	–	21
Subsidiary balances disposed	–	(735)
Movement for the year	(2 190)	259
– Deposits received	10 030	11 839
– Policyholder benefits on investment contracts	(26 772)	(36 024)
– Fees on investment contracts	(1 283)	(1 460)
– Movement in policy loans for the year	–	14
– Exchange differences	34	120
– Consolidation of cell	3	–
– Fair value adjustment to policyholder liabilities under investment contracts (note 5)	(3 980)	3 934
– Employee benefits	19 778	21 836
Closing balance	**109 196**	**111 344**
Investment contracts with discretionary participation features	12 815	14 494
Investment contracts without discretionary participation features	96 381	96 850
– With investment management service components	93 300	93 594
– Without investment management service components	3 081	3 256
Total policyholder liabilities under investment contracts	**109 196**	**111 344**

32 POLICYHOLDER LIABILITIES UNDER INVESTMENT CONTRACTS (continued)

R million	Total	Shorter than 1 year	Between 1 and 5 years	Between 5 and 10 years	Longer than 10 years
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**
2008					
Linked (market related) business					
– Individual life	58 671	7 405	21 054	6 705	23 507
– Employee benefits	36 761	36 751	10	–	–
Smoothed bonus business					
– Individual life	8 057	756	2 528	2 073	2 700
– Employee benefits	5 212	5 212	–	–	–
Non profit business					
– Individual life	1 752	623	963	29	137
Annuity business	891	99	166	24	602
Total policyholder liabilities under investment contracts	111 344	50 846	24 721	8 831	26 946

R million	2009	2008
33 DEFERRED REVENUE LIABILITY		
Opening balance	**296**	387
Amount recognised in the income statement during the year	**(101)**	(50)
Deferred income relating to new business	**127**	109
Subsidiary balances acquired/(disposed)	**–**	(150)
Closing balance	**322**	296

Deferred revenue relates to various income and fees which have been spread over the life of the transaction.

34 SHARE CAPITAL AND SHARE PREMIUM

	Number of ordinary shares
Authorised	
Ordinary shares – number	6 001 688 450
Issued	
Ordinary shares	
Opening balance	5 637 830 218
Conversion of convertible redeemable preference shares	111 471
Unbundling of Discovery	
Closing balance	5 637 941 689
"A" shares	
Opening balance	–
– Redeemed during the year	–
– Converted during the year	–
Closing balance	–
"B" shares	
Opening balance	–
Closing balance	–
"B1" shares	
Opening balance	–
Closing balance	–
Total issued share capital – closing balance	–
Analysis of total issued share capital closing balance:	
Ordinary issued share capital closing balance as above (ordinary shares of 1 cents 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)	–
Preference shares disclosed under liabilities	–
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.*

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 "deemed 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 for FirstRand Banking Group from pages 107 to 113 and Momentum Group from page 163 to page 166 respectively, 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 "A" preference shares	Number of "B" and "B1" preference shares	Number of "C" and "D" preference shares	Share capital R million	Share premium R million	Total R million
198 311 550	100 000 000	200 000 000	–	–	
–	–	–	56	7 227	7 283
–	–	–	*	–	–
	–				
–	–	–	56	7 227	7 283
3 322 500	–	–	–	22	22
(3 211 029)	–	–	–	(21)	(21)
(111 471)	–	–	–	(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

34 SHARE CAPITAL AND SHARE PREMIUM (continued)

	Number of ordinary shares
Authorised	
Ordinary shares – number	6 001 576 979
Issued	
Ordinary shares	
Opening balance	5 635 715 676
Conversion of convertible redeemable preference shares	2 114 542
Unbundling of Discovery	–
Closing balance	5 637 830 218
"A" shares	
Opening balance	–
– Redeemed during the year	–
– Converted during the year	–
Closing balance	–
"B" shares	
Opening balance	–
Closing balance	–
"B1" shares	
Opening balance	–
Closing balance	–
Total issued share capital – closing balance	5 637 830 218
Analysis of total issued share capital closing balance:	
Ordinary issued share capital closing balance as above (ordinary shares of 1 cents each)	5 637 830 218
"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)	–
Preference shares disclosed under liabilities	–
Treasury shares	(456 949 451)
Total issued share capital – closing balance	5 180 880 767
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.*

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 "deemed 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 for FirstRand Banking Group from page 107 to page 113 and Momentum Group from page 163 to page 166 respectively, 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.

2008					
Number of "A" preference shares	Number of "B" and "B1" preference shares	Number of "C" and "D" preference shares	Share capital R million	Share premium R million	Total R million
198 423 021	100 000 000	200 000 000	–	–	–
-	–	–	56	8 427	8 483
-	–	–	*	–	–
-	–	–	–	(1 200)	(1 200)
-	–	–	56	7 227	7 283
8 767 500	–	–	1	58	59
(3 330 458)	–	–	(1)	(22)	(23)
(2 114 542)	–	–	–	(14)	(14)
3 322 500	–	–	–	22	22
–	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
3 322 500	45 000 000	-	56	11 768	11 824
–	–	–	56	7 227	7 283
3 322 500	–	–	–	22	22
-	30 000 000	–	–	2 992	2 992
–	15 000 000	–	–	1 527	1 527
–	–	–	–	(22)	(22)
–	–	–	(4)	(6 191)	(6 195)
3 322 500	45 000 000	–	52	5 555	5 607
–	–	–	–	–	52
–	–	–	–	–	1 036
–	–	–	–	–	4 519
–	–	–	–	–	5 607

2008
%
0.7
7.4

35 REMUNERATION SCHEMES

R million	2009	2008
The income statement charge for share based payments is as follows:		
FirstRand share incentive scheme	46	69
FNB Botswana	2	1
FNB Namibia	3	2
FirstRand black employee trust	65	42
FirstRand black non executive directors' trust	3	5
FirstRand share appreciation right scheme	(148)	23
Momentum subsidiary scheme	–	1
Charge to income statement	**(29)**	143

Share option schemes

The FirstRand share option schemes are equity settled schemes, except for the FirstRand Limited share appreciation scheme which is cash settled.

The FirstRand share appreciation right scheme was implemented in 2006 to provide selected FirstRand Group employees, including executive directors of the participating companies, the opportunity of receiving incentive remuneration payments based on the increase in the market value of ordinary FirstRand shares.

This scheme is better aligned to employment and governance practices currently prevailing in the market.

Description of the trusts

FirstRand share incentive scheme

The rules of the FirstRand share scheme ("the Scheme") are constituted in the FirstRand Limited share trust.

The purpose of the scheme is to increase the proprietary interests of identified employees in the Group's success and to encourage them to render and continue to render their best services to the Group. Options over FirstRand ordinary shares are granted by the trust to these employees.

The FNB Botswana and FNB Namibia schemes are generally aligned to the Scheme in terms of purpose and rules.

The sale of shares arising from the exercise of options may only be exercised as to one third of the total number of options issued after the third year, two thirds after the fourth year and all of the shares on the fifth anniversary of the date of issue.

FirstRand black economic empowerment trusts

FirstRand is committed to the process of achieving transformation in South Africa and in creating its transformation initiative sought to ensure that the long term benefits of the transaction reach the widest possible community of black South Africans.

171.4 million shares, representing approximately 3.1% of the issued share capital of FirstRand, are held by the BEE trusts which have granted participation to black South African directors and employees.

- 20.0 million shares to the FirstRand staff assistance trust
- 136.4 million shares to the FirstRand black employee trust (subject to IFRS 2)
- 15.0 million shares to the FirstRand black non executive directors' trust (subject to IFRS 2)

FirstRand black employee trust

This trust was set up specifically for the benefit of the black employees. The participation in this trust is in addition to participation in any existing FirstRand share incentive scheme.

The first issue of participation rights in the trust was made on 20 July 2005, the second issue was done on 1 November 2006, and a further issue of participation rights were granted on 3 December 2007.

Distribution to beneficiaries takes place at 31 December 2014.

FirstRand black non executive directors' trust

The beneficiaries of this trust are the black non executive and those executive directors who were non executives prior to becoming executives of FirstRand Group companies.

Distribution to beneficiaries takes place at 31 December 2014.

35 REMUNERATION SCHEMES (continued)

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.

Co-investment arrangement

A co-investment arrangement was established whereby certain key executives and decision makers of FirstRand are allowed to co-invest with FirstRand in certain pre defined portfolios.

The rationale for the co-investment arrangement includes:

- Alignment of management and shareholder objectives;
- Retention of key employees and decision makers; and
- Attracting new talent in a highly competitive market.

The participants who co-invest with FirstRand buy into 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.

Where losses are incurred, participants share in the losses to the full extent of their capital committed and profits made on these portfolios.

The co-investment arrangement encourages a long term perspective and commitment from employees. The arrangement also encourages executives to remain in the employ of the FirstRand Group companies in excess of three years, as the value of the underlying investments are expected to realise over a longer time frame.

The FirstRand remuneration committee determines annually:

- The portfolios in which co-investment will be allowed;
- The level of co-investment allowed; and
- Which key executives and decision makers qualify for co-investment.

The amounts invested by key management personnel have been included in note 49.

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 date, 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;

35 REMUNERATION SCHEMES (continued)

- The last dividend date is the ex date of the last dividend; and
- The dividend growth is the annual expected dividend growth, which should be based on publicly available information.

Employee statistic assumptions:

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

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

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

FirstRand black employee trust

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

Market data consists of the following:

- Volatility is the expected volatility over the period of the option. In the absence of other available date, 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.

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.

Dividend data consists of the following:

- A fixed dividend yield was assumed.

35 REMUNERATION SCHEMES (continued)

Employee statistic assumptions:

- The number of options granted is reduced by the actual staff turnover at year end. This turnover is then assumed to be constant over the period of the options and used to estimate future turnover.

The significant weighted average assumptions used to estimate the fair value of options granted and the IFRS 2 expenses for the year under review are:

	FirstRand share incentive scheme	FNB Botswana	FNB Namibia	FirstRand black employee trust	FirstRand black non executive directors' trust	FirstRand share appreciation right scheme**
2009						
Weighted average share price (Rands)	**7.70 – 19.49**	**2.80 – 17.5**	**4.20 11.55**	**12.05 – 24.60**	**12.28 – 17.60**	**–**
Expected volatility (%)	**27 – 33**	**11 – 33**	**4 – 17**	**27 – 49**	**27**	**–**
Expected option life (years)	**5.00**	**5.00**	**5.00**	**7 –10**	**10.00**	**–**
Expected risk free rate (%)	**7.42 – 9.36**	**7.57 – 14.00**	**7.89 – 14.46**	**6.91 – 9.9**	**6.91**	**–**
Expected dividend yield (%)	**–**	**–**	**–**	**3.81 – 6.88**	**3.81**	**–**
Expected dividend growth (%)	**20.00 – 22.87**	**15.00 – 24.00**	**13.00 – 19.00**	**–**	**–**	**–**
2008						
Weighted average share price (Rands)	6.80 – 19.49	2.80 – 15.10	4.00 – 8.23	12.28 – 23.55	12.28 – 17.60	16.33 – 23.05
Expected volatility (%)	27 – 33	11 – 33	4 – 17	27 – 35	27.00	34.62
Expected option life (years)	5.00	5.00	5.00	10.00	10.00	5.00
Expected risk free rate (%)	6.80 – 12.00	8.68 – 11.85	7.89 – 14.46	6.91 – 9.90	6.91	12.48 – 13.35
Expected dividend yield (%)	–	–	–	3.81 – 5.57	3.81	6.54
Expected dividend growth (%)	20 – 23	17 – 24	15 – 19	–	–	–

***Share appreciation rights granted are subject to other vesting conditions that are highly unlikely to be achieved.*

35 REMUNERATION SCHEMES (continued)

Number of options in force at the beginning of the year (millions)
Granted at prices ranging between (cents)
Weighted average (cents)
Number of options granted during the year (millions)
Granted at prices ranging between (cents)
Weighted average (cents)
Number of options exercised/released during the year (millions)
Market value range at date of exercise/release (cents)
Weighted average share price for the year (cents)
Number of options cancelled/lapsed during the year (millions)
Granted at prices ranging between (cents)
Weighted average (cents)
Number of options in force at the end of the year (millions)
Granted at prices ranging between (cents)
Weighted average (cents)
Options are exercisable over the following periods (first date able to release)
Financial year 2006/2007 (millions)
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 (FSR shares)	Southern Life (FSR shares)	FNB share trust (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

35 REMUNERATION SCHEMES (continued)

Options outstanding (by expiry date)	FirstRand (FSR shares)		
	Expiry date	Exercise price (Rands)	Outstanding options 2008 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 outstanding – in the money (millions)			31.1
Total options outstanding – out of the money (millions)			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.*
***Share appreciation rights granted are subject to other vesting conditions that are highly unlikely to be achieved.*

FirstRand share appreciation right scheme (FSR shares)			FirstRand black non executive directors' trust (FSR shares)		
Expiry date	Exercise price (Rands)	Outstanding options 2008 Millions	Expiry date	Exercise price (Rands)	Outstanding options 2008 Millions
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

35 REMUNERATION SCHEMES (continued)

	2009		
	FNB		
	Expiry date	Exercise price (Rands)	Outstanding options 2009 Millions
	2008/10/15	4.68	–
	2009/03/24	4.66	–
	2009/05/01	5.08	–
	2009/05/31	4.24	–
	2009/08/01	5.05	–
			–
Total options outstanding – in the money (millions)			–
Total options outstanding – out of the money (millions)			–
Total (millions)			–
Value of Company loans to share option trust at the beginning of the year (R million)			20
Value of Company loans to share option trust at the end of the year (R million)			–
Number of participants			–

**Less than R1 million.*

FirstRand black employee trust		
Expiry date	Exercise price (Rands)	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
		67.3
		45.7
		113.0
		1 714
		1 812
		12 684

35 REMUNERATION SCHEMES (continued)

Number of options in force at the beginning of the year (millions)
Granted at prices ranging between (cents)
Weighted average (cents)
Number of options granted during the year (millions)
Granted at prices ranging between (cents)
Weighted average (cents)
Number of options exercised/released during the year (millions)
Market value range at date of exercise/release (cents)
Weighted average share price for the year (cents)
Number of options cancelled/lapsed during the year (millions)
Granted at prices ranging between (cents)
Weighted average (cents)
Number of options in force at the end of the year (millions)
Granted at prices ranging between (cents)
Weighted average (cents)
Options are exercisable over the following periods (first date able to release)
Financial year 2006/2007 (millions)
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

***Adjusted for Discovery unbundling.*

	2008					
	FirstRand (FSR shares)	Southern Life (FSR shares)	FNB share trust (FSR shares)	FirstRand share appreciation right scheme (FSR shares)	FirstRand black employee trust (FSR shares)	FirstRand black non executive directors' trust (FSR shares)
	199.8	0.2	3.3	79.9	107.5	11.0
	655 – 1 787 **	648 – 1 029	424 – 562 **	1 633 – 2 305 **	1 228 – 2 280	1 228 – 1 760
	1 043 **	661	471 **	1 646 **	1 385	1 272
	–	–	–	74.7	30.9	1.0
	–	–	–	1 566 – 2 053	1 470 – 2 355	2 185
	–	–	–	2 051	2 228	2 185
	(58.0)	(0.2)	(1.6)	–	–	–
	1 280 – 2 626	1 590 – 2 450	1 310 – 2 625	–	–	–
	1 974	1 974	1 974	–	–	–
	(11.0)	–	–	(9.5)	(10.3)	(1.0)
	608 – 1 787	–	–	1 633 – 2 053	1 228 – 2 520	2 185
	1 195	–	–	1 738	1 569	2 185
	130.8	–	1.7	145.1	128.1	11.0
	608 – 1 787	–	424 – 508	1 566 – 2 305	1 228 – 2 355	1 228 – 2 760
	1 172	–	468	1 849	1 574	1 276
	4.3	–	1.7	–	–	–
	15.7	–	–	–	–	–
	54.3	–	–	–	–	–
	36.4	–	–	24.2	–	–
	20.1	–	–	48.4	–	–
	–	–	–	48.4	–	–
	–	–	–	24.1	–	–
	–	–	–	–	128.1	11.0
	130.8	–	1.7	145.1	128.1	11.0

35 REMUNERATION SCHEMES (continued)

Options outstanding (by expiry date)	FirstRand (FSR shares)		
	Expiry date	Exercise price (Rands)**	Outstanding options 2008 Millions
	2008/09/17	6.08	29.2
	2009/06/15	8.53	*
	2009/10/01	10.50	40.6
	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	57.9
	2010/20/03	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	*
			130.8
Total options outstanding – in the money (millions)			72.4
Total options outstanding – out of the money (millions)			58.4
Total (millions)			130.8
Value of Company loans to share option trust at the beginning of the year (R million)			2 369
Value of Company loans to share option trust at the end of the year (R million)			1 909
Number of participants			1 633

**Less than R1 million.*
***Adjusted for Discovery unbundling.*

FirstRand share appreciation right scheme (FSR shares)			FirstRand black non executive directors' trust (FSR shares)		
Expiry date	Exercise price (Rands)**	Outstanding options 2008 Millions	Expiry date	Exercise Price (Rands)	Outstanding options 2008 Millions
2011/10/01	16.33	70.9	2014/12/31	12.28	10.0
2011/12/01	18.15	*	014/12/31	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	72.0			
2013/03/04	17.99	0.1			
2013/05/01	15.66	0.3			
		145.1			11.0
		–			10.0
		145.1			1.0
		145.1			11.0
		1 185			201
		1 906			186
		1 976			11

35 REMUNERATION SCHEMES (continued)

	2008		
	FNB		
	Expiry date	Exercise price (Rands)	Outstanding options 2008 Millions
	2008/10/15	4.68	0.8
	2009/03/24	4.66	0.9
	2009/05/01	5.08	*
	2009/05/31	4.24	*
	2009/08/01	5.05	*
			1.7
Total options outstanding – in the money (millions)			1.7
Total options outstanding – out of the money (millions)			–
Total (millions)			1.7
Value of Company loans to share option trust at the beginning of the year (R million)			28
Value of Company loans to share option trust at the end of the year (R million)			20
Number of participants			39

**Less than R1 million.*

FirstRand black employee trust		
Expiry date	Exercise price (Rands)	Outstanding options 2008 Millions
2014/12/31	12.28	75.2
2014/12/31	14.70	0.1
2014/12/31	14.91	1.0
2014/12/31	15.66	0.1
2014/12/31	16.00	*
2014/12/31	17.81	0.1
2014/12/31	18.62	22.0
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	27.5
2014/12/31	22.60	0.1
2014/12/31	22.80	0.5
2014/12/31	23.35	*
2014/12/31	23.55	0.1
2014/12/31	23.75	0.1
2014/12/31	24.60	0.9
2014/12/31	25.20	0.1
		128.1
		75.2
		52.9
		128.1
		1 829
		1 714
		12 997

36 CASH FLOW INFORMATION

36.1 Reconciliation of operating profit before income tax to cash flows from operating activities

R million	2009	2008
Operating profit before income tax (continuing operations)	9 322	15 202
Total operating profit before tax	9 322	15 202
Adjusted for:		
– Depreciation, amortisation and impairment costs	2 087	1 718
– Impairment of advances	8 024	5 064
– Associate earnings less dividends received	(755)	(738)
– Unrealised profits on assets held against employee liabilities	364	(263)
– Movement in provisions	2 126	2 103
– Profit on disposal of property and equipment	(3)	(2 013)
– (Loss)/profit on disposal of investments	(376)	316
– Revaluation reserve	27	(171)
– Deferred expenses and income	(22)	(464)
– Share based payment expense (continuing operations)	58	143
– Net fair value gains on assets through profit or loss	15 594	1 456
– Movement in policyholder liabilities under investment contracts	3 341	–
– Transfer to policyholder liabilities under insurance contracts	(3 958)	–
– Accruals	(590)	375
– Present value adjustments	(415)	(219)
– Dividends paid	(4 228)	(4 932)
– Consolidation of share trusts	–	(227)
– Dividends paid to minority shareholders	(804)	(692)
– Foreign currency translation reserve	304	(149)
– Goodwill	–	(24)
– Profit on available-for-sale assets and cash flow hedges transferred	158	119
Net cash flows from operating activities	30 254	16 604

36.2 Cash receipts from customers

R million	2009	2008
Interest income	59 766	54 939
Fee and commission income	17 997	15 013
Trading and other income	2 489	4 719
Premium less claims	6 320	(622)
Cash receipts from customers	86 572	74 049

R million	2009	2008

36 CASH FLOW INFORMATION (continued)

36.3 Cash paid to customers, suppliers and employees

	2009	2008
Interest expense	(34 640)	(31 922)
Other operating expenses	(23 389)	(24 360)
Cash paid to customers, suppliers and employees	**(58 029)**	(56 282)

36.4 Increase/(decrease) in income earning assets

	2009	2008
Liquid assets and trading securities	(6 975)	(9 085)
Advances	19 696	(59 484)
Increase/(decrease) in income earning assets	**12 721**	(68 569)

36.5 (Decrease)/increase in deposits and other liabilities

	2009	2008
Term deposits	2 858	19 667
Current deposit accounts	14 886	24 429
Deposits from banks	(15 761)	20 415
Negotiable certificates of deposits	1 557	1 012
Savings accounts	348	52
Creditors, net of debtors	(64)	3 437
Other	(33 361)	(2 152)
(Decrease)/increase in deposits and other liabilities	**(29 537)**	66 860

36.6 Tax paid

	2009	2008
Tax payable and deferred tax at beginning of the year	167	(1 334)
Other	(1 808)	(177)
Charge to income statement (continuing operations)	(1 484)	(3 037)
Tax payable and deferred tax at end of the year	(552)	(167)
Tax paid	**(3 677)**	(4 715)

36.7 Dividends paid

	2009	2008
Charged to distributable reserves	(4 228)	(4 932)
Dividends paid	**(4 228)**	(4 932)

36 CASH FLOW INFORMATION (continued)

36.8 Acquisitions and proceeds on disposal of subsidiaries

R million	2009	2008
Discovery Limited disposal		
FirstRand Limited unbundled Discovery Holdings Limited on 7 November 2007.		
Discontinued operation (note 53)	–	494
Net cash inflow	–	494
RMB Properties disposal		
Cost of disposal	–	203
– discharged by cash consideration	–	203
Less: Cash and cash equivalents in subsidiary disposed	–	245
Cash outflow on disposal	–	(42)
BDC Moçambique		
Cost of acquisition	–	139
– discharged by cash consideration	–	139
Cost of additional 10%	–	18
Less: Cash and cash equivalents in subsidiary acquired	–	17
Cash outflow on acquisition	–	122
Transnet finance		
Cost of acquisition	–	1 179
– discharged by cash consideration	–	1 179
Less: Cash and cash equivalents in subsidiary acquired	–	–
Cash outflow on acquisition	–	1 179
Rentworks		
Cost of acquisition	–	208
– discharged by cash consideration	–	208
Less: Cash and cash equivalents in subsidiary acquired	–	122
Cash outflow on acquisition	–	86
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 inflow on acquisition	2	–
Proceeds on sale of advances book		
Cost of acquisition	1 768	–
– discharged by cash consideration	1 768	–
Cash inflow on disposal	1 768	–
Acquisition on disposal of associates		
Carrying amount of investments purchased	(2 799)	(3 623)
Acquisition on disposal of associates	(2 799)	(3 623)

R million	2009	2008
36 CASH FLOW INFORMATION (continued)		
36.9 Cash and cash equivalents		
Cash and cash equivalents consist of cash on hand and balances with banks, and other investments in money market instruments. Cash and cash equivalents included in the cash flow statement comprise the following balance sheet amounts:		
Cash and short term funds	26 278	30 429
Money market investments	30 988	23 126
Cash and cash equivalents	57 266	53 555
37 CONTINGENCIES AND COMMITMENTS		
Contingencies and commitments		
Guarantees*	19 085	19 713
Acceptances	279	1 992
Letters of credit	5 576	4 843
Total contingencies	24 940	26 548
Irrevocable commitments	44 815	48 559
Irrevocable commitments – original maturity more than one year	13 389	14 924
Underwriting exposure	2	226
Committed capital expenditure	1 700	687
Operating lease commitments	3 154	2 070
Other	2 871	7 747
Contingencies and commitments	90 871	100 761

**Guarantees consist predominantly of endorsements and performance guarantees.*

	2009	2008
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	129	77
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	953	687
– Total not contracted for	1 101	626
Made up of the following:		
– *Capital commitments contracted for at the balance sheet date but not yet incurred are as follows:*		
– Property and equipment	568	687
– Investment securities	385	–
– *Capital commitments not yet contracted for at balance sheet date but have been approved by the directors:*		
– Property and equipment	1 101	626
Funds to meet these commitments will be provided from Group resources.		

37 CONTINGENCIES AND COMMITMENTS (continued)

Group commitments under operating leases where the Group is the lessee

The Group's significant operating leases relate 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.

		2009	
R million	**Next year**	**2nd to 5th year**	**After 5th year**
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**

		2008	
R million	Next year	2nd to 5th year	After 5th year
Office premises	580	1 188	71
	580	1 188	71
Equipment and motor vehicles	68	44	10
Total operating lease commitments	648	1 232	81

Group commitments under operating leases where the Group is the lessor

The minimum future lease payments under non cancellable operating leases on investment properties:

		2009	
R million	**Next year**	**2nd to 5th year**	**After 5th year**
Office premises	**986**	**1 530**	**173**

		2008	
R million	Next year	2nd to 5th year	After 5th year
Office premises	580	1 188	71

38 COLLATERAL PLEDGED AND HELD

38.1 Collateral pledged

R million	2009	2008
The Group has pledged assets as security for the following liabilities:		
Deposits held under repurchase agreements	33 510	20 681
Deposits	7 830	–
Creditors and accruals	8 317	–
Long term liabilities	571	–
Other	10 328	12 984
Total	60 556	33 665

The Group pledges assets under the following terms and conditions:

Mandatory reserve deposits are held with the Central Bank in accordance with statutory requirements. These deposits 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 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	2009	2008
Assets pledged to secure the above liabilities are carried at and included under the following:		
Cash and short term funds	6 567	–
Advances	8 728	–
Investment securities and other securities held under repurchase agreements	29 273	6 162
Investment securities and other securities	2 644	–
Other	399	–
Total	47 611	6 162

38 COLLATERAL PLEDGED AND HELD (continued)

38.2 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.

	2009		2008	
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
Collateral the Group holds which it has the ability to sell or repledge in the absence of default by the owner of the collateral				
Cash and short term funds	**8 191**	**4 539**	–	–
Investment securities	**25 999**	**25 710**	29 609	14 519
Other securities	**3 337**	**2 892**	–	–
Commodities	**–**	**–**	579	–
Accounts receivable	**3 769**	**3 769**	–	–
Total	**41 296**	**36 910**	30 188	14 519

When the Group takes possession of collateral which is not cash or not readily convertible into cash the Group determines a minimum sale amount ("pre-set sale amount") and auctions the asset for the pre-set sale amount.

Where the Group is unable to obtain the pre-set sale amount in an auction the Group will continue to hold the asset while actively marketing it to ensure an appropriate value is obtained.

R million	**2009**	2008
Collateral taken possession of and recognised on the balance sheet		
Property	**165**	41
Total	**165**	41

39 LOANS AND RECEIVABLES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

Certain instruments designated at fair value through profit a 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.

			Change in fair value			
			Of mitigating instrument		Due to credit risk	
R million	**Carrying value**	**Mitigated credit risk***	**Current period**	**Cumulative**	**Current period**	**Cumulative**
2009						
Included in advances	**95 161**	**22**	**–**	**–**	**(92)**	**(943)**
Included in investment securities	**13 170**	**–**	**–**	**–**	**(48)**	**(786)**
Included in non recourse investments	**15 725**	**–**	**–**	**–**	**–**	**–**
Total	**124 056**	**22**	**–**	**–**	**(140)**	**(1 729)**

			Change in fair value			
			Of mitigating instrument		Due to credit risk	
R million	Carrying value	Mitigated credit risk*	Current period	Cumulative	Current period	Cumulative
2008						
Included in advances	99 674	2 517	62	88	(424)	(1 105)
Included in investment securities	13 534	166	16	16	(78)	(51)
Included in non recourse investments	19 075	–	–	–	–	–
Total	132 283	2 683	78	104	(502)	(1 156)

**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

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.

40 FINANCIAL LIABILITIES DESIGNATEDAT FAIR VALUE THROUGH PROFIT OR LOSS

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**

2008				
			Change in fair value due to credit risk	
R million	Fair value	Contractually payable at maturity	Current period	Cumulative
Deposits and current accounts	173 518	178 750	–	–
Fair value through profit or loss non recourse deposits	19 269	22 463	–	–
Long term liabilities	2 997	3 246	–	–
Policyholder liabilities under investment contracts	111 344	110 094	–	–
Liabilities arising from collective investment schemes	2 472	2 472	–	–
Total	309 600	317 025	–	–

The current and cumulative change in fair value that is attributable to credit risk of financial liabilities designated and fair value through profit or loss is determined with reference to changes in the Group's published credit rating.

41 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.

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 balance sheet 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.

41 DERECOGNITION OF ASSETS, SECURITISATIONS AND OTHER STRUCTURED TRANSACTIONS (continued)

In a securitisation transaction, assets or interests in a pool of assets are transferred to a special purpose entity ("SPE") which then issues liabilities to third party investors. 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. The following is an analysis of the carrying amount of financial assets, to the extent of the Group's continuing involvement, that qualified for partial derecognition, and their associated liabilities:

Continuing involvement may entail retaining the rights to future cash flows arising from the assets after investors have received their contractual terms, providing subordinated interest, continuing to service the underlying asset or entering into derivatives with the securitisation vehicle.

Repurchase agreements, securities lending and securitisation transactions may, depending on the individual arrangement result in the derecognition of the assets and the separate recognition as assets or liabilities, of any rights or obligations created or retained in the transfer.

The table below sets out the asset classes together with the carrying amounts of the assets and associated liabilities for those asset transfers where substantially all of the risks and rewards of the assets have been retained by the Group:

	2009		2008	
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	**19 403**	**19 318**	6 162	8 971
Securities lending agreements	**9 870**	**10 069**	8 747	8 747
Total	**29 273**	**29 387**	14 909	17 718

The Group remains exposed to the interest rate risk on the repurchase agreements and market risk on the securities lending agreements.

42 CURRENT/NON CURRENT SPLIT OF AMOUNTS RECOGNISED ON THE BALANCE SHEET

	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
– qualifying for hedge accounting	376	39	337
– held for trading	68 232	54 606	13 626
Advances	416 488	134 146	282 342
Investment securities and other investments	209 249	163 230	46 019
Financial instruments held for trading	38 678	38 678	–
Investment securities	170 571	124 552	46 019
Commodities	1 323	1 323	–
Accounts receivable	11 355	10 666	689
Investment in associate 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	8 143	7 854	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	478 083	431 497	46 586
– deposits and current accounts	462 120	416 319	45 801
– fair value through profit and loss non recourse deposits	15 963	15 178	785
Short trading positions	25 002	25 001	1
Derivative financial instruments	55 556	52 229	3 327
– qualifying for hedge accounting	918	150	768
– held for trading	54 638	52 079	2 559
Creditors and accruals	18 217	15 975	2 242
Provisions	2 961	2 721	240
Tax liability	331	306	25
Post retirement benefit fund liability	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 to third parties	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
Minority interest	2 093	–	2 093
Total equity and liabilities	809 851	591 782	218 069
Net liquidity gap	–	(168 257)	168 257

42 CURRENT/NON CURRENT SPLIT OF AMOUNTS RECOGNISED ON THE BALANCE SHEET (continued)

	2008		
R million	Carrying amount	Current	Non current
ASSETS			
Cash and short term funds	53 555	49 348	4 207
Derivative financial instruments	57 106	21 740	35 366
– qualifying for hedge accounting	1 053	201	852
– held for trading	56 053	21 539	34 514
Advances	446 286	176 583	269 703
Investment securities and other investments	220 105	141 119	78 986
Financial instruments held for trading	43 638	27 597	16 041
Investment securities	176 467	113 522	62 945
Commodities	1 916	1 916	–
Accounts receivable	7 806	6 969	837
Investment in associate and joint ventures	13 303	270	13 033
Property and equipment	8 859	157	8 702
Deferred tax asset	1 456	500	956
Intangible assets and deferred acquisition costs	4 497	801	3 696
Investment properties	3 808	6	3 802
Policy loans on insurance contracts	772	560	212
Reinsurance assets	550	250	300
Tax asset	833	701	132
Non current assets and disposal groups held for sale	3 092	1 023	2 069
Total assets	823 944	401 943	422 001
EQUITY AND LIABILITIES			
Deposits	488 423	436 351	52 072
– deposits and current accounts	469 154	417 082	52 072
– fair value through profit and loss non recourse deposits	19 269	19 269	–
Short trading positions	33 450	29 728	3 722
Derivative financial instruments	46 595	15 821	30 774
– qualifying for hedge accounting	751	110	641
– held for trading	45 844	15 711	30 133
Creditors and accruals	16 837	15 154	1 683
Provisions	3 275	2 856	419
Tax liability	666	592	74
Post retirement benefit fund liability	1 980	56	1 924
Deferred tax liability	5 372	2 332	3 040
Long term liabilities	13 941	456	13 485
Policyholder liabilities under insurance contracts	43 417	3 311	40 106
Policyholder liabilities under investment contracts	111 343	50 846	60 497
Liabilities arising to third parties	7 283	7 283	–
Deferred revenue liability	296	21	275
Shareholders' equity	48 689	57	48 632
Minority interest	2 377	(4)	2 381
Total equity and liabilities	823 944	564 860	259 084
Net liquidity gap	–	(162 917)	162 917

43 FAIR VALUE OF FINANCIAL INSTRUMENTS

The Group determines fair value with the maximum possible use of quoted market prices and/or observable market data as indicated in the accounting policy note. If market prices are not available or the market for a financial instrument is not active, fair value is determined by using valuation techniques that make maximum use of market inputs.

Where market inputs are not available, non observable market inputs are used to determine the fair value, based on the Group's best estimate. Such inputs include risk premiums, liquidity discount rates, credit risk, volatilities and correlations. Valuation techniques applied by the Group and that incorporates non observable market inputs include, inter alia, discounted cash flows, earnings multiples, the underlying net asset value of the business and recent similar transactions. Refer below for a description of the principal methods and assumptions used to determine the fair value of financial instruments.

The fair value of advances is determined by the bank's internal corporate credit valuation model as the vast majority of the advances are not traded in the market. This model takes into account changes in market interest rates as well as credit spreads with the latter mainly driven by internal credit ratings mapped to S&P default probabilities. The adjustment due to credit risk is not a significant component of the overall valuation to the balance sheet and income statement.

Changes in the Group's best estimate of the non observable inputs could affect the reported fair values recognised on balance sheet and the movement in fair values recognised in the income statement. However, changing these inputs to reasonably possible alternatives is not likely to change the fair value significantly. The total amount of the change in fair value estimated using a valuation technique based on non observable market data that was recognised in the income statement for the year ended 30 June 2009 was a profit/loss of R24 million (2008: R212 million).

The fair value of advances is determined by the bank's internal corporate credit valuation model as the vast majority of the advances are not traded in the market. This model takes into account changes in market interest rates as well as credit spreads with the latter mainly driven by internal credit ratings mapped to S&P default probabilities. The adjustment due to credit risk is not a significant component of the overall valuation to the balance sheet and income statement.

The following principal methods and assumptions are used to determine the fair value of financial instruments:

Investments securities

Unlisted equities

The fair value of unlisted equities is determined using a price earnings ("P/E") model.

The earnings included in the model are derived from a combination of historical and budgeted earnings depending on the specific circumstances of the entity whose equity is being valued and the relevance and reliability of the available information.

The P/E multiple is derived from current market observations taking into account an appropriate discount for unlisted companies. The valuation of these instruments may be corroborated by a discounted cash flow valuation or by the observation of other market transactions which have taken place.

Negotiable certificates of deposit

Where market prices are not available for a specific instrument, fair value is determined using discounted cash flow techniques. Inputs to these models include as far as possible information which is consistent with similar market quoted instruments.

Treasury bills

Treasury bills are valued by means of the Bond Exchange of South Africa ("BESA") bond pricing model using the closing BESA mark-to-market bond yield.

Government, public and utility stocks

Where market prices are not available the fair value is estimated using quoted market prices of securities with similar credit, maturity and yield characteristics.

Other dated securities

Fair value of other dated securities is determined by using a discounted cash flow model. The discount curve is derived from similar market quoted instruments.

43 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Derivatives

Contracts for difference are valued by using the differential between the market price and the traded price multiplied by the notional amount. Market prices are obtained from applicable trading exchanges.

Credit derivatives are valued using the discounted cash flow model. Where prices are obtained from the market, individual credit spreads are added.

Option contracts are valued using the Black Scholes model. Inputs are obtained from market observable data. Where prices are obtainable from trading exchanges the value per the exchange is used.

Forward contracts are valued by discounting the projected cash flows to obtain the present value of the forward contract. Projected cash flows are obtained by subtracting the strike price of the forward contract from the market projected forward value.

Forward rate agreements are valued by means of the discounted cash flow model. The discount rate is determined using a yield curve of similar market traded instruments. The reset rate is determined in terms of the legal agreement.

Swaps are valued by discounting the expected cash flows using discount and forward rates determined from similar market traded instruments. The reset rate of each swaplet is determined in terms of legal documents pertaining to the swap.

Commodity linked instruments are measured by taking into account the price, the location differential, grade differential, silo differential and the discount factor of the most liquidly traded futures linked to the commodity.

Deposits and current accounts

Fair value of deposits and current accounts is determined by discounting future cash flows using a swap curve adjusted for liquidity premiums and business unit margins. The valuation methodology does not take early withdrawals and other behavioural aspects into account.

Call deposits are valued at the undiscounted amount of the cash balance, this is considered appropriate because of the short term nature of these instruments.

Fair valuation will only be applied to deposits that have a maturity profile of longer than 30 days. For all non term products it is assumed that fair value will equal the amortised cost.

Loans and advances to customers

The fair value of advances is the present value of the expected future cash flows determined using an appropriate discount rate adjusted for credit spreads where necessary.

Projected cash flows, taking into account behaviour, loss given default and probability of default are grouped according to their maturity dates.

The discount rate for fixed interest rate instruments is adjusted by an appropriate risk premium while floating rate cash flows are discounted by means of a yield curve which represents the projected cash flows.

Long term liabilities

Fair value of debentures, unsecured debt securities and finance lease liabilities are determined by discounting the future cash flows at market related interest rates.

The fair value of subordinated notes and fixed and floating rate bonds are determined by discounting the future cash flows at market related interest rates.

The fair value of the post retirement funding liability has been calculated based on the value of the corresponding assets, since the value of the liability is limited to the value of the assets in the cell captive.

Liabilities arising to third parties as a result of consolidating collective investment schemes

The fair value of these liabilities is the quoted unit price for the collective investment scheme multiplied by the number of units held by third parties.

Policyholder liabilities under investment contracts

Refer to the accounting policies for a description of the valuation of investment contracts.

43 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

For all other instruments the carrying value is equal to or a reasonable approximation of the fair value.

	2009	
R million	Carrying value	Fair value
Assets		
Total investment securities at amortised cost	673	670
Total financial assets at amortised cost	673	670
Liabilities		
Total deposits and current accounts at amortised cost	270 950	270 708
Long term liabilities	11 020	10 315
Total financial liabilities at amortised cost	281 970	281 023

	2008	
R million	Carrying value	Fair value
Assets		
Total advances at amortised cost	345 939	344 664
Total investment securities at amortised cost	600	657
Total financial assets at amortised cost	346 539	345 321
Liabilities		
Total deposits and current accounts at amortised cost	295 636	294 086
Long term liabilities	10 794	10 046
Total financial liabilities at amortised cost	306 430	304 132

44 TRUST ACTIVITIES

R million	2009	2008
Market value of assets held or placed on behalf of customers in a fiduciary capacity	**43 207**	34 352

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.

R million	2009	2008
Income received from trust and fiduciary services	**1 063**	1 235

45 SEGMENT INFORMATION

45.1 Primary segments (business)

Divisions	Segment	Brands	Target segment	Description
FNB	Consumer	First National Bank, FNB Card, FNB HomeLoans, First Link, eBucks	Individuals in the middle and upper income market Home Loans Card Issuing	Retail banking Insurance Broking Rewards programme Support
	Wealth	RMB Private Bank FNB Trust Services FNB Private Clients	High net worth individuals	Retail banking Wealth management Trust services
	Commercial	First National Bank	Mid corporate, business and agriculture	Commercial Banking (Corporate and Retail Banking)
	Corporate	First National Bank	Large corporates, financial institutions and state owned enterprises	Corporate banking
	FNB Other (Mass, Public Sector Banking, Branch Banking and support)	First National Bank BOB	Government, individuals in the Mass market, universities and schools and includes the banking infrastructure	Retail Banking Infrastructure Support services
FNB Africa	African subsidiaries	FNB Namibia FNB Botswana FNB Swaziland FNB Lesotho FNB Zambia FirstRand Moçambique	Corporates and individuals	Corporate and retail banking
RMB	RMB Private equity	RMB	Smaller corporates	Investment in private equity businesses
	RMB Equity Trading	RMB	Large corporates, parastatals and government	Trading in equity instruments.
	Investment Banking	RMB		Investment banking services
	FICC	RMB	Large corporates, parastatals and government	Fixed income and currency products
	Other	RMB	Large corporates, parastatals and government	Other investment and merchant banking services
FirstRand Short Term Insurance	Short term insurance	OUTsurance	Corporates and individuals	Short term insurance
WesBank	Instalment finance	WesBank	Corporates and individuals	Motor vehicle and instalment finance
Group Support	Capital centre			Owns the capital of the Banking Group and provides banking support
Momentum	Insurance and asset management operations	Momentum, Advantage, AdviceAtWork and RMBAM	Corporates and individuals	Provides long term risk and investment products and domestic and international asset management products to corporates and individuals

45 SEGMENT INFORMATION (continued)

45.2 Secondary segments (geographic)

Refer to the primary segment information for a description of the divisions.

Segment	Countries included	Divisions included
South Africa	South Africa	FNB RMB OUTsurance WesBank Group Support
Other Africa	Namibia Botswana Swaziland Lesotho Democratic Republic of Congo Zambia Mozambique	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 balance sheet. Foreign denominated assets and liabilities are converted at the closing rate of exchange.

	2009	2008
Pounds	**12.714**	15.601
Euro's	**10.845**	12.345
AUD	**6.231**	7.524
USD	**7.728**	7.823

45 SEGMENT INFORMATION (continued)

45.3 Segmental reporting (continued)

Business segment

		Consumer segment			
	Mass	Home-Loans	Card Issuing	Other Consumer	Consumer Segment
2009					
Segmental income statement information:					
Segmental operating income	4 099	(1 044)	1 273	4 303	4 532
Intercompany eliminations	–	–	–	–	–
Total income	4 099	(1 044)	1 273	4 303	4 532
Net operating income	1 247	(1 734)	(101)	1 647	(188)
Share of profits from associates and joint ventures companies	–	33	–	–	33
Profit for the year	893	(1 289)	(79)	1 153	(215)
Segmental balance sheet information:					
Segmental assets	7 182	107 632	10 477	3 660	121 769
Associates and joint venture companies	–	25	–	38	63
Total assets	7 182	107 657	10 477	3 698	121 832
Total external segmental liabilities	8 338	94	1 161	55 082	56 337
Other segment items					
Depreciation	(9)	(11)	(2)	(159)	(172)
Amortisation	–	–	–	(12)	(12)
Impairment charges – other assets	–	–	–	–	–

**FirstRand Limited Company, share trusts and consolidation entries.*

FirstRand Banking Group				
Wealth	Commercial	Corporate	FNB Other	FNB
1 375	6 410	1 859	828	19 103
–	–	–	–	–
1 375	6 410	1 859	828	19 103
310	2 741	791	416	5 317
–	–	–	19	52
219	2 002	570	250	3 719
33 135	26 295	10 099	8 185	206 665
–	–	–	71	134
33 135	26 295	10 099	8 256	206 799
17 487	61 031	36 511	17 526	197 230
(31)	(12)	(85)	(546)	(855)
(7)	(9)	(5)	(17)	(50)
–	–	–	(14)	(14)

45 SEGMENT INFORMATION (continued)

45.3 Segmental reporting (continued)

Business segment (continued)

	FirstRand Banking Group			
	FNB Africa	RMB	WesBank	Group support
2009				
Segmental income statement information:				
Segmental operating income	2 709	4 604	3 560	(172)
Intercompany eliminations	–	–	–	–
Total income	2 709	4 604	3 560	(172)
Net operating income	1 252	2 134	235	(216)
Share of profits from associates and joint ventures companies	3	994	151	377
Profit for the year	826	1 510	95	754
Segmental balance sheet information:				
Segmental assets	31 617	269 818	93 504	37 890
Associates and joint venture companies	23	5 279	968	935
Total assets	31 640	275 097	94 472	38 825
Total external segmental liabilities	28 180	272 646	94 363	4 986
Other segment items				
Depreciation	(43)	(157)	(178)	(77)
Amortisation	(12)	(33)	(27)	(2)
Impairment charges – other assets	–	(26)	(79)	2

**FirstRand Limited Company, share trusts and consolidation entries.*

Business segment

	South Africa	Other Africa	United Kingdom	Australasia
Segmental income	78 198	4 847	2 607	116
Segmental expenses	(69 823)	(3 105)	(2 850)	(599)
Segmental assets	716 784	31 711	38 275	1 736
Segmental liabilities	712 272	28 207	14 320	2 273
Segmental capital expenditure	3 672	232	302	–

Divisions disclosed elsewhere	Banking Group	Momentum	Other*	Total
(434)	29 370	7 048	(753)	35 665
–	–	–	–	–
(434)	29 370	7 048	(753)	35 665
(434)	8 288	1 759	(725)	9 322
–	1 577	22	(9)	1 590
(312)	6 592	1 589	(343)	7 838
–	639 494	179 578	(24 515)	794 557
–	7 339	8 078	(123)	15 294
–	646 833	187 656	(24 638)	809 851
–	597 405	179 870	(19 521)	757 754
–	(1 310)	(59)	–	(1 369)
–	(124)	(404)	(10)	(538)
–	(117)	(78)	17	(178)

Other	Total
(24)	85 744
(45)	(76 422)
21 345	809 851
682	757 754
–	4 206

45 SEGMENT INFORMATION (continued)

45.3 Segmental reporting (continued)

Business segment (continued)

	Consumer segment			
	FNB Mass	Home-Loans	Card Issuing	Other Consumer
2008				
Segmental income statement information:				
Segmental operating income	3 614	502	1 411	4 058
Intercompany eliminations	–	–	–	–
Total income	3 614	502	1 411	4 058
Net operating income	1 186	(335)	116	1 516
Share of profits from associates and joint ventures companies	–	(7)	–	7
Profit for the year	853	(280)	78	1 054
Segmental balance sheet information:				
Segmental assets	5 835	111 908	11 234	3 954
Associates and joint venture companies	–	(7)	–	37
Total assets	5 835	111 901	11 234	3 991
Total external segmental liabilities	7 956	191	1 301	51 355
Other segment items				
Depreciation	(6)	(6)	(1)	(150)
Amortisation	–	–	–	(15)
Impairment charges – other assets	–	–	–	(5)

**FirstRand Limited Company, share trusts and consolidation entries.*

FirstRand Banking Group					
FNB					
Consumer Segment	Wealth	Commercial	Corporate	FNB Other	FNB
5 971	1 373	6 209	1 727	797	19 691
–	–	–	–	–	–
5 971	1 373	6 209	1 727	797	19 691
1 297	459	2 928	692	136	6 698
–	–	–	–	25	25
852	326	2 138	497	(2)	4 664
127 096	27 689	23 748	16 868	10 083	211 319
30	–	–	–	63	93
127 126	27 689	23 748	16 868	10 146	211 412
52 847	15 531	58 557	45 016	17 921	197 828
(157)	(23)	(10)	(78)	(393)	(667)
(15)	(4)	(6)	(2)	(1)	(28)
(5)	–	–	(4)	(14)	(23)

45 SEGMENT INFORMATION (continued)

45.3 Segmental reporting (continued)

Business segment (continued)

	FirstRand Banking Group			
	FNB Africa	RMB	WesBank	Group Support
Segmental income statement information:				
Segmental operating income	2 314	6 526	4 081	911
Intercompany eliminations	–	–	–	–
Total income	2 314	6 526	4 081	911
Net operating income	1 183	4 265	863	1 227
Share of profits from associates and joint ventures companies	7	1 092	159	407
Profit for the year	859	3 090	539	1 866
Segmental balance sheet information:				
Segmental assets	29 405	291 513	107 473	11 870
Associates and joint venture companies	8	4 920	858	635
Total assets	29 413	296 433	108 331	12 505
Total external segmental liabilities	26 160	292 091	108 323	(15 837)
Other segment items				
Depreciation	(33)	(60)	(143)	(58)
Amortisation	(19)	(31)	(44)	(3)
Impairment charges – other assets	–	–	(104)	(10)

**FirstRand Limited Company, share trusts and consolidation entries.*

Business segment

Geographical segment

	South Africa	Other Africa	United Kingdom	Australasia
Segmental income	83 204	3 762	998	908
Segmental expenses	(64 363)	(2 728)	(1 645)	(1 430)
Segmental assets	707 929	30 516	39 442	7 319
Segmental liabilities	685 092	32 219	37 398	742
Segmental capital expenditure	4 115	–	–	–

Divisions disclosed elsewhere	Banking Group	Momentum	Discovery	Other*	Total
(374)	33 149	7 450	–	(867)	39 732
–	–	–	–	–	–
(374)	33 149	7 450	–	(867)	39 732
(374)	13 862	2 466	–	(1 126)	15 202
–	1 690	20	–	(48)	1 662
(269)	10 749	1 996	374	(86)	13 033
–	651 580	180 845	–	(37 868)	794 557
–	6 514	6 941	–	1 839	15 294
–	658 094	187 786	–	(36 029)	809 851
–	608 565	181 020	–	(31 831)	757 754
–	(961)	60	–	(468)	(1 369)
–	(125)	443	–	(856)	(538)
–	(137)	(3)	–	3	(137)

Other	Total
(2 363)	86 509
(273)	(70 439)
38 738	823 944
17 427	772 878
–	4 115

46 DIVISIONAL INFORMATION

Consolidated income statement for the year ended 30 June

	Banking Group		Momentum Group		Discovery Group	
R million	**2009**	2008	**2009**	2008	**2009**	2008
Continued operations						
Net interest income	**17 634**	17 098	**8 560**	6 441	**–**	–
Impairment of advances	**(8 024)**	(5 064)	**–**	–	**–**	–
Net interest income after impairment of advances	**9 610**	12 034	**8 560**	6 441	**–**	–
Non interest income	**19 760**	21 115	**(8 937)**	1 785	**–**	–
Net insurance premium income	**–**	–	**6 555**	5 392	**–**	–
Net claims and benefits paid	**–**	–	**(5 939)**	(5 530)	**–**	–
Decrease/(increase) in value of policyholder liabilities	**–**	–	**6 809**	(638)	**–**	–
Income from operations	**29 370**	33 149	**7 048**	7 450	**–**	–
Operating expenses	**(23 055)**	(21 525)	**(5 311)**	(5 004)	**–**	–
Share of profit of associates and joint ventures	**1 577**	1 690	**22**	20	**–**	–
Profit before tax	**7 892**	13 314	**1 759**	2 466	**–**	–
Tax	**(1 300)**	(2 565)	**(170)**	(470)	**–**	–
Net profit from continuing operations	**6 592**	10 749	**1 589**	1 996	**–**	–
Discontinued operations						
Profit after tax from discontinued operation	**–**	–	**–**	–	**–**	374
Profit for the year	**6 592**	10 749	**1 589**	1 996	**–**	374
Attributable to:						
Non cumulative non redeemable preference shareholders	**309**	273	**52**	45	**–**	–
Equity holders of the Group	**5 393**	9 271	**1 542**	1 957	**–**	234
Minority interests	**890**	1 205	**(5)**	(6)	**–**	140
Attributable earnings to shareholders	**5 702**	9 544	**1 594**	2 002	**–**	234
Headline earnings adjustments	**374**	(843)	**64**	(23)	**–**	(49)
Profit on disposal of available-for-sale assets	**(2)**	(7)	**–**	–	**–**	(91)
Profit on sale of Southern Life Namibia book	**–**	–	**–**	(22)	**–**	–
Loss/(profit) on sale of shares in subsidiary and associate	**27**	(107)	**–**	(1)	**–**	–
Net asset value in excess of purchase price of subsidiary	**–**	(24)	**–**	–	**–**	–
Loss/(profit) on disposal of property and equipment	**4**	(4)	**–**	–	**–**	–
Loss on sale of MotorOne Finance advances book	**203**	–	**–**	–	**–**	–
Loss on sale of Private Label book	**39**	–	**–**	–	**–**	–
Impairment of intangible assets	**–**	104	**61**	–	**–**	–
Impairment of goodwill	**117**	33	**3**	–	**–**	–
VISA deal	**–**	(1 052)	**–**	–	**–**	–
Other	**10**	29	**–**	–	**–**	–
Total tax effects of adjustments	**(11)**	169	**–**	–	**–**	12
Total minority interest of adjustments	**(13)**	16	**–**	–	**–**	30
Headline earnings	**6 076**	8 701	**1 658**	1 979	**–**	185
Normalised earnings adjustments	**(20)**	113	**(9)**	25	**–**	–
Discovery BEE transaction	**–**	–	**–**	–	**–**	5
IFRS 2 share based expense	**(20)**	113	**(9)**	25	**–**	12
Treasury shares	**–**	–	**–**	–	**–**	(17)
– adjustment for effective shareholding in Discovery	**–**	–	**–**	–	**–**	(17)
– consolidation of staff share schemes	**–**	–	**–**	–	**–**	–
– FirstRand shares held by policyholders	**–**	–	**–**	–	**–**	–
Normalised earnings	**6 056**	8 814	**1 649**	2 004	**–**	185

FirstRand		Consolidation of treasury shares		Subtotal		Consolidation		Total	
2009	2008	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008
18	27	**(340)**	(381)	**25 872**	23 185	**118**	(22)	**25 990**	23 163
–	–	**–**	–	**(8 024)**	(5 064)	**–**	–	**(8 024)**	(5 064)
18	27	**(340)**	(381)	**17 848**	18 121	**118**	(22)	**17 966**	18 099
9	43	**11**	(132)	**10 843**	22 811	**(194)**	(321)	**10 649**	22 490
–	–	**–**	–	**6 555**	5 392	**(91)**	(18)	**6 464**	5 374
–	–	**–**	–	**(5 939)**	(5 530)	**–**	–	**(5 939)**	(5 530)
–	–	**–**	–	**6 809**	(638)	**(284)**	(63)	**6 525**	(701)
27	70	**(329)**	(513)	**36 116**	40 156	**(451)**	(424)	**35 665**	39 732
(10)	(67)	**(1)**	(7)	**(28 377)**	(26 603)	**444**	411	**(27 933)**	(26 192)
–	–	**–**	–	**1 599**	1 710	**(9)**	(48)	**1 590**	1 662
17	3	**(330)**	(520)	**9 338**	15 263	**(16)**	(61)	**9 322**	15 202
(16)	(17)	**(2)**	–	**(1 488)**	(3 052)	**4**	15	**(1 484)**	(3 037)
1	(14)	**(332)**	(520)	**7 850**	12 211	**(12)**	(46)	**7 838**	12 165
–	454	**–**	182	**–**	1 010	**–**	(142)	**–**	868
1	440	**(332)**	(338)	**7 850**	13 221	**(12)**	(188)	**7 838**	13 033
464	409	**–**	–	**825**	727	**(361)**	(318)	**464**	409
(463)	31	**(332)**	(338)	**6 140**	11 155	**361**	154	**6 501**	11 309
–	–	**–**	–	**885**	1 339	**(12)**	(24)	**873**	1 315
(463)	31	**(332)**	(338)	**6 501**	11 473	**–**	(164)	**6 501**	11 309
–	(454)	**–**	(182)	**438**	(1 551)	**–**	164	**438**	(1 387)
–	–	**–**	–	**(2)**	(98)	**–**	–	**(2)**	(98)
–	–	**–**	–	**–**	(22)	**–**	22	**–**	-
–	(485)	**–**	(227)	**27**	(820)	**–**	142	**27**	(678)
–	–	**–**	–	**–**	(24)	**–**	–	**–**	(24)
–	–	**–**	–	**4**	(4)	**–**	–	**4**	(4)
–	–	**–**	–	**203**	–	**–**	–	**203**	–
–	–	**–**	–	**39**	–	**–**	–	**39**	–
–	–	**–**	–	**61**	104	**–**	–	**61**	104
–	–	**–**	–	**120**	33	**–**	–	**120**	33
–	–	**–**	–	**–**	(1 052)	**–**	–	**–**	(1 052)
–	–	**–**	–	**10**	29	**–**	–	**10**	29
–	31	**–**	45	**(11)**	257	**–**	–	**(11)**	257
–	–	**–**	–	**(13)**	46	**–**	–	**(13)**	46
(463)	(423)	**(332)**	(520)	**6 939**	9 922	**–**	–	**6 939**	9 922
(91)	3	**332**	520	**212**	661	**–**	–	**212**	661
–	–	**–**	–	**–**	5	**–**	–	**–**	5
(91)	3	**–**	–	**(120)**	153	**–**	–	**(120)**	153
–	–	**332**	520	**332**	503	**–**	–	**332**	503
–	–	**–**	–	**–**	(17)	**–**	–	**–**	(17)
–	–	**437**	517	**437**	517	**–**	–	**437**	517
–	–	**(105)**	3	**(105)**	3	**–**	–	**(105)**	3
(554)	(420)	**–**	–	**7 151**	10 583	**–**	–	**7 151**	10 583

46 DIVISIONAL INFORMATION (continued)

Consolidated balance sheet for the year ended 30 June

R million	Banking Group		Momentum Group	
	2009	2008	**2009**	2008
ASSETS				
Cash and short term funds	**25 756**	27 895	**40 967**	31 153
Derivative financial instruments	**60 229**	49 104	**9 455**	10 892
Advances	**420 224**	449 156	**–**	–
Investment securities and other investments	**105 745**	96 995	**107 167**	126 961
Commodities	**1 323**	1 916	**–**	–
Accounts receivable	**5 542**	5 869	**6 385**	2 157
Investments in associates and joint ventures	**7 339**	6 514	**8 078**	6 941
Investment in subsidiary companies	**–**	–	**–**	–
Property and equipment	**9 488**	8 063	**532**	596
Deferred tax asset	**1 063**	631	**969**	825
Intangible assets and deferred acquisition costs	**2 694**	1 470	**3 102**	3 126
Investment properties	**–**	–	**2 156**	3 808
Policy loans	**23**	19	**604**	753
Reinsurance assets	**–**	–	**8 143**	550
Tax asset	**842**	809	**40**	24
Non current assets held for sale	**450**	3 092	**58**	–
Loans to Insurance Group	**6 115**	6 561	**–**	–
Loans to other Group companies	**–**	–	**–**	–
Total assets	**646 833**	658 094	**187 656**	187 786
EQUITY AND LIABILITIES				
Liabilities				
Deposits	**489 746**	496 074	**–**	–
Short trading positions	**23 434**	33 688	**–**	–
Derivative financial instruments	**54 436**	45 653	**1 853**	4 190
Creditors and accruals	**6 680**	7 783	**12 854**	9 033
Provisions	**2 680**	3 023	**326**	246
Tax liability	**243**	205	**71**	434
Post retirement benefit fund liability	**2 042**	1 938	**47**	42
Deferred tax liability	**2 407**	3 532	**1 570**	1 840
Long term liabilities	**7 976**	9 512	**1 623**	1 088
Policyholder liabilities under insurance contracts	**1 655**	1 435	**39 069**	41 982
Policyholder liabilities under investment contracts	**77**	108	**110 227**	111 676
Liabilities arising to third parties	**–**	–	**8 114**	7 283
Deferred revenue liability	**–**	–	**322**	296
Liabilities directly associated with non current assets classified as held for sale	**253**	–	**–**	–
Loans from Insurance Group	**5 776**	5 614	**–**	–
Loans from other Group companies	**–**	–	**3 794**	2 910
Total liabilities	**597 405**	608 565	**179 870**	181 020
Equity				
Capital and reserves attributable to equity holders				
Ordinary shares	**106**	106	**9**	9
Share premium	**7 634**	7 164	**1 032**	1 032
Reserves	**36 371**	36 616	**6 254**	5 229
Capital and reserves attributable to ordinary equity holders	**44 111**	43 886	**7 295**	6 270
Non cumulative non redeemable preference shares	**3 100**	3 100	**500**	500
Cumulative redeemable preference shares	**2**	25	**–**	–
Capital and reserves attributable to equity holders	**47 213**	47 011	**7 795**	6 770
Minority interest	**2 215**	2 518	**(9)**	(4)
Total equity	**49 428**	49 529	**7 786**	6 766
Total equity and liabilities	**646 833**	658 094	**187 656**	187 786

FirstRand		Consolidation of treasury shares		Subtotal		Consolidation		Total	
2009	2008	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008 (restated)
–	–	–	–	66 723	59 048	(9 457)	(5 493)	57 266	53 555
–	–	–	–	69 684	59 996	(1 076)	(2 890)	68 608	57 106
–	–	–	–	420 224	449 156	(3 736)	(2 870)	416 488	446 286
–	–	(299)	(345)	212 613	223 611	(3 364)	(3 506)	209 249	220 105
–	–	–	–	1 323	1 916	–	–	1 323	1 916
16	21	25	9	11 968	8 056	(613)	(250)	11 355	7 806
–	–	–	–	15 417	13 455	(123)	(152)	15 294	13 303
19 992	19 547	–	–	19 992	19 547	(19 992)	(19 547)	–	–
–	–	–	–	10 020	8 659	200	200	10 220	8 859
3	–	–	–	2 035	1 456	(1)	–	2 034	1 456
–	–	–	–	5 796	4 596	(98)	(99)	5 698	4 497
–	–	–	–	2 156	3 808	–	–	2 156	3 808
–	–	–	–	627	772	(1)	–	626	772
–	–	–	–	8 143	550	–	–	8 143	550
–	–	–	–	882	833	1	–	883	833
–	–	–	–	508	3 092	–	–	508	3 092
4 018	4 715	–	–	10 133	11 276	(10 133)	(11 276)	–	–
981	–	2	265	983	265	(983)	(265)	–	–
25 010	24 283	(272)	(71)	859 227	870 092	(49 376)	(46 148)	809 851	823 944
–	–	–	–	489 746	496 074	(11 663)	(7 651)	478 083	488 423
–	–	(124)	(90)	23 310	33 598	1 692	(148)	25 002	33 450
–	–	–	–	56 289	49 843	(733)	(3 248)	55 556	46 595
296	78	2	27	19 832	16 921	(1 615)	(85)	18 217	16 836
4	6	–	–	3 010	3 275	(49)	–	2 961	3 275
–	26	–	–	314	665	17	1	331	666
–	–	–	–	2 089	1 980	–	–	2 089	1 980
–	–	–	–	3 977	5 372	–	–	3 977	5 372
3 664	3 595	–	–	13 263	14 195	(335)	(254)	12 928	13 941
–	–	–	–	40 724	43 417	1	–	40 725	43 417
–	–	–	–	110 304	111 784	(1 108)	(440)	109 196	111 344
–	–	–	–	8 114	7 283	–	–	8 114	7 283
–	–	–	–	322	296	–	–	322	296
–	–	–	–	253	–	–	–	253	–
24	1	326	4 483	6 126	10 098	(6 126)	(10 098)	–	–
–	–	5 500	1 532	9 294	4 442	(9 294)	(4 442)	–	–
3 988	3 706	5 704	5 952	786 967	799 243	(29 213)	(26 365)	757 754	772 878
56	56	(4)	(4)	167	167	(115)	(115)	52	52
7 082	7 083	(5 927)	(6 190)	9 821	9 089	(8 521)	(8 053)	1 300	1 036
9 365	8 919	(45)	171	51 945	50 935	(7 812)	(7 853)	44 133	43 082
16 503	16 058	(5 976)	(6 023)	61 933	60 191	(16 448)	(16 021)	45 485	44 170
4 519	4 519	–	–	8 119	8 119	(3 600)	(3 600)	4 519	4 519
–	–	–	–	2	25	(2)	(25)	–	–
21 022	20 577	(5 976)	(6 023)	70 054	68 335	(20 050)	(19 646)	50 004	48 689
–	–	–	–	2 206	2 514	(113)	(137)	2 093	2 377
21 022	20 577	(5 976)	(6 023)	72 260	70 849	(20 163)	(19 783)	52 097	51 066
25 010	24 283	(272)	(71)	859 227	870 092	(49 376)	(46 148)	809 851	823 944

47 SUBSIDIARIES

	Nature of business	Country	Issued ordinary Listed/ unlisted	Capital R million	Effective holding % 2009	% 2008
Significant subsidiaries						
Banking						
First National Bank Holdings (Botswana) Limited	Commercial banking	Botswana	Listed	28	**100**	100
First National Bank of Namibia Limited	Commercial banking	Namibia	Listed	1	**60**	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	–	**100**	100
First National Bank of Zambia Limited	Commercial banking	Zambia	Unlisted	–	**100**	100
FirstRand Moçambique Holdings Limitada	Commercial banking	Mozambique	Unlisted	157	**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**	100
RMB Investment and Advisory (Pty) Limited	Investment and financial services	South Africa	Unlisted	1	**100**	100

R million	Group carrying amount 2009	2008
FirstRand Banking Group – Banking		
First National Bank Holdings (Botswana) Limited	**56**	56
First National Bank of Namibia Limited	**94**	32
First National Bank of Swaziland Limited	**17**	17
FirstCorp Merchant Bank Holdings Limited	**54**	54
FirstRand Bank Limited	**8 241**	6 988
FirstRand Moçambique Holdings Limitada	**172**	157
First National Bank of Lesotho Limited	**39**	18
First National Bank of Zambia Limited	**160**	24
FirstRand Banking Group – Non banking		
RMB Asset Finance Limited	**334**	334
FirstRand International Limited Ireland	**2 692**	2 727
First Land Developments Limited	**1**	1
FNB Insurance Brokers Holdings (Pty) Limited	**14**	14
Norman Bisset and Associates (Pty) Limited	**85**	85
RMB Investment and Advisory (Pty) Limited	**1 638**	1 604

47 SUBSIDIARIES (continued)

	Nature of business	Country of incorporation	Issued ordinary R million	Effective holding % 2009	Effective holding % 2008
Subsidiaries (directly held):					
Listed					
Collective investment schemes	Unit trusts	South Africa	–	**Various**	Various
Unlisted					
Momentum Property Investments (Pty) Limited	Property investments	South Africa	–	**100**	100
Momentum Life Assurers Limited	Dormant	South Africa	3	**100**	100
Momentum Administration Services (Pty) Limited	Investment administration	South Africa	–	**100**	100
Community Property Holdings Limited	Property investments	South Africa	2	**–**	100
Momentum Ability Limited	Long-term insurance	South Africa	10	**100**	100
FirstLife Assurance (Pty) Limited	Long term insurance	Botswana	3	**100**	100
AdviceAtWork (Pty) Limited	Employee benefits	South Africa	–	**100**	100
Momentum International Multimanagers (Pty) Limited	Multi-management services	South Africa	–	**100**	100
RMB Asset Management (Pty) Limited	Asset management	South Africa	–	**100**	100
Other unlisted investments in subsidiaries	Various	Various	Various	**Various**	Various

R million	Group carrying amount 2009	Group carrying amount 2008
Momentum		
Collective investment schemes	**25 732**	15 639
Momentum Property Investments (Pty) Limited	**645**	877
Momentum Life Assurers Limited	**36**	36
Momentum Administration Services (Pty) Limited	**18**	13
Momentum Medical Scheme Administrators (Pty) Limited	**(82)**	(109)
Community Property Holdings Limited	**–**	333
Momentum Ability Limited	**29**	23
FirstLife Assurance (Pty) Limited	**34**	27
AdviceAtWork (Pty) Limited	**(43)**	(63)
Momentum International Multimanagers (Pty) Limited	**225**	305
RMB Asset Management (Pty) Limited	**1 867**	2 399
Other unlisted investments in subsidiaries	**230**	305

48 ACQUISITION AND DISPOSAL OF SIGNIFICANT SUBSIDIARIES AND ASSOCIATES

Significant acquisitions during the 2009 financial year

48.1 Contract Lease Management (Pty) Limited

On 1 April 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 receivable	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 directors' valuation
No acquisition provisions were created

48 ACQUISITION AND DISPOSAL OF SIGNIFICANT SUBSIDIARIES AND ASSOCIATES (continued)

48.2 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, plant 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 directors' valuation

No acquisition provisions were created

***Amount has been rounded to the nearest million.*

48 ACQUISITION AND DISPOSAL OF SIGNIFICANT SUBSIDIARIES AND ASSOCIATES (continued)

Significant acquisitions during the 2008 financial year

48.1 Banco de Desenvolvimento e Commercia SARL ("BDC") Moçambique

On 24 July 2007, the Banking Group acquired 80% of Banco Desenvolvemento e Comercio with an effective date of 31 July 2007 through a wholly owned subsidiary FirstRand Moçambique Holdings Limitada.

The existing operations have been rebranded to FNB Moçambique.

FirstRand Moçambique Holdings Limitada contributed R15 million profit to the Banking Group for the period August to June 2008.

If the acquisition had taken place on 1 July 2007, the profit contribution would have been R14.6 million.

The details of the fair values of the assets, liabilities and contingent liabilities acquired and goodwill arising are provided in the table below.

	2008	
R million	Carrying amount before acquisition	Fair value at acquisition
Assets		
Cash and short term funds	17	17
Investments	58	57
Loans and advances – at amortised cost	314	302
Property and equipment	17	18
Other assets	28	31
Total assets acquired	434	425
Liabilities		
Other financial liabilities	352	352
Other liabilities	22	24
Total liabilities acquired	374	376
Net asset value as at date of acquisition before intangible assets in terms of IFRS 3		49
Less: Minority share of the net asset value		(10)
Intangible assets identified in terms of IFRS 3		–
Deferred tax on intangible asset		–
Net asset value as at date of acquisition		39
Cash consideration		139
Net asset value in excess of cash consideration at acquisition date		(100)
On 19 November 2007 the Banking Group acquired an additional 10% of the shares in FNB Moçambique for R18 million based on the purchase value as the initial acquisition transaction.		
This generated a further R12 million goodwill.		
Goodwill at acquisition date		100
Goodwill arising on acquisition of additional 10% shareholding		12
Total goodwill		112

The goodwill is attributable to obtaining control in the existing company and its banking operations in Moçambique.

The fair value assets and liabilities acquired are based on market values and an indication of future benefits expected to flow from these assets.

Intangible assets have not been recognised for this acquisition.

48 ACQUISITION AND DISPOSAL OF SIGNIFICANT SUBSIDIARIES AND ASSOCIATES (continued)

48.2 Transnet lending

On 26 September 2007, the Banking Group acquired 100% of the Transnet Lending division.

Transnet Lending contributed R67.0 million profit to the Banking Group for the period 30 June 2008. If the acquisition had occurred on 1 July 2007, the profit included in the Banking Group would have been R75.2 million.

The details of the fair values of the assets, liabilities and contingent liabilities acquired and goodwill arising are as follows:

	2008	
R million	Carrying amount before acquisition	Fair value at acquisition
Assets		
Loans and advances	1 490	1 323
Trade receivables	29	29
Property, plant and equipment	12	12
Total assets acquired	1 531	1 364
Liabilities		
Provisions	161	161
Total liabilities acquired	161	161
Net asset value as at date of acquisition before intangible assets in terms of IFRS 3		1 203
Net asset value as at date of acquisition		1 203
Cash consideration		1 179
Net asset value in excess of cash consideration		24

No intangible assets were identified in terms of IFRS 3. The excess net asset value is attributable to future restructuring costs. The fair value of assets and liabilities acquired are based on discounted cash flows.

Impairment provisions created at acquisition of R28 million are included above.

48 ACQUISITION AND DISPOSAL OF SIGNIFICANT SUBSIDIARIES AND ASSOCIATES (continued)

48.3 Rentworks

The Banking Group acquired 65% of Rentworks with an effective date of 1 October 2007.

The Company has contributed profit before tax of R88.2 million to the Group since acquisition. If the acquisition had occurred on 1 July 2007, the Company would have contributed profit before tax of R 122.6 million.

The details of the fair values of the assets, liabilities and contingent liabilities acquired and goodwill arising are as follows:

	2008	
R million	Carrying amount before acquisition	Fair value at acquisition
Assets		
Cash and cash equivalents	122	122
Loans and advances	214	214
Property, plant and equipment	2	2
Total assets acquired	338	338
Liabilities		
Accounts payable	161	161
Total liabilities acquired	161	161
Net asset value as at date of acquisition before intangible assets in terms of IFRS 3		177
Intangible assets identified in terms of IFRS 3		(62)
Minority interest		55
Net asset value as at date of acquisition		170
Cash consideration		208
Net asset value in excess of cash consideration		(38)

The goodwill is attributable to the expected realisation of future secondary income on assets currently under rental contracts.

Intangible assets recognised consist of the Rentworks brand name, customer list and inhouse developed software. No acquisition provisions were created.

48 ACQUISITION AND DISPOSAL OF SIGNIFICANT SUBSIDIARIES AND ASSOCIATES (continued)

R million	2008
Significant disposals	
RMB Properties	
Effective 2 April 2008, the Banking Group sold 60% of its shareholding in RMB Properties (Pty) Limited to a consortium consisting of management and BEE partners for a cash consideration of R203 million resulting in the Banking Group losing control of RMB Properties.	
Summarised financial information of RMB Properties as at the date of sale were as follows:	
Assets	
Cash and short term funds	245
Investment securities	24
Accounts receivable	77
Investment properties	70
Properties held for resale	15
Property, plant and equipment	4
Total assets	435
Liabilities	
Creditors and accruals	76
Shareholders for dividends	155
Current tax and VAT liabilities	32
Deferred tax liability	1
Long term liabilities	5
Total liabilities	269
Net asset value	166
60% of net asset value sold	100
Consideration received	203
Profit on sale of controlling interest of a subsidiary	103
Proceeds from sale discharged by cash	203
Less: Cash and cash equivalents in subsidiary sold	245
Net cash inflow on sale	(42)

No significant disposals during the current year by the Group.

49 RELATED PARTIES

The FirstRand Group defines related parties as:

- The parent company
- Associate companies
- Joint ventures
- Post retirement benefit funds (Pension Funds)
- Key management personnel as the FirstRand Limited 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 CEO in those companies.

The principal shareholder of the FirstRand Group is RMB Holdings Limited, incorporated in South Africa.

49.1 Subsidiaries

Details of interest in subsidiaries are disclosed in note 47.

Transactions between FirstRand Group and its subsidiaries have been eliminated on consolidation and are not disclosed in this note.

49.2 Associates and joint ventures

Details of investments in associate and joint venture companies are disclosed in note 18.

49.3 Details of transactions with relevant related parties appear below:

R million	2009 Principal shareholder	2008 Principal shareholder
Loans and advances		
Opening balance	57	354
Advanced during year	56	–
Repayments during year	–	(297)
Closing balance	113	57
Deposits		
Opening balance	9	8
Received during year	2	1
Closing balance	11	9
Interest received	12	18
Dividends paid	1 212	1 463

49 RELATED PARTIES (continued)

49.4 Key management personnel (continued)

R million	2009	2008
Total advances		
In normal course of business (mortgages, other, instalment finance and credit cards)		
Opening balance	**73**	138
Advanced during year	**618**	424
Repayments during year	**(638)**	(500)
Interest earned	**9**	11
Closing balance	**62**	73
Advances in normal course of business by product		
Mortgages		
Opening balance	**66**	132
Advanced during year	**405**	248
Repayments during year	**(420)**	(324)
Interest earned	**8**	10
Closing balance	**59**	66
No impairment has been recognised for loans granted to key management (2008: R nil). Mortgage loans are repayable monthly over 20 years.		
Other loans		
Opening balance	**4**	4
Advanced during year	**182**	155
Repayments during year	**(186)**	(156)
Interest earned	**1**	1
Closing balance	**1**	4
Instalment finance		
Opening balance	**2**	2
Advanced during year	**2**	2
Repayments during year	**(3)**	(2)
Closing balance	**1**	2
No impairments have been recognised in respect of instalment finance		
Credit cards		
Opening balance	**1**	–
Total annual spend	**29**	19
Repayments	**(29)**	(18)
Closing balance	**1**	1

No impairments have recognised in respect of credit cards held by key management (2008: R nil). Interest rates are in line with normal rates charged to customers.

49 RELATED PARTIES (continued)

49.4 Key management personnel (continued)

R million	2009	2008
Deposits		
Deposits by product		
Cheque and current accounts		
Opening balance	(115)	35
Net deposits and withdrawals	124	(139)
Net service interest, fees and bank charges	(3)	(11)
Closing balance	6	(115)
Savings accounts		
Opening balance	32	55
Interest income	14	(26)
Net new investments	38	3
Closing balance	84	32
Other including term deposits		
Opening balance	5	33
Interest income	1	(29)
Net new investments	13	1
Closing balance	19	5
Insurance and investment		
Insurance		
Life and disability insurance		
Aggregate insured cover	16	1
Surrender value	1	1
Other insurance		
Premiums received	1	1
Claims paid	–	1
Investment products		
Fund value opening balance	1 005	1 054
Deposits/withdrawals	(240)	(63)
Net investment return credited	(220)	19
Commission and other transaction fees	(4)	(5)
Closing balance	541	1 005

49 RELATED PARTIES (continued)

49.4 Key management personnel (continued)

R million	2009	2008
Other fees		
Financial consulting fees and commissions	3	5
Key management compensation		
Salaries and other short term benefits	107	166
Share based payments	30	114
Total compensation	137	280

A listing of the Board of directors of the FirstRand Group is on page 399 of the Annual Report.

49.5 Post employment benefit plan

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

R million	2009	2008
Insurance premium	–	20
Fee income	1	1
Deposits held with the Banking Group	30	30
Interest expenses	2	1
Value of assets under management	2 320	2 534

50 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 balance sheet 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 subsegment of the performing portfolio. The decrease in future cash flows is primarily estimated based on analysis of historical loss and recovery rates for comparable subsegments of the portfolio.

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

Estimates of roll rates, loss ratios and similar risk indicators are based on analysis of internal and, where appropriate external data. Estimates of the loss emergence period are made in the context of the nature and frequency of credit assessments performed, availability and frequency of updated data regarding customer creditworthiness and similar factors. Loss emergence periods differ from portfolio to portfolio, but typically range from 1 – 12 months.

Non performing loans

Retail loans are individually impaired if amounts are due and unpaid for three or more months, or if there is evidence before this that the customer is unlikely to repay its obligations in full. WesBank's loans are impaired upon its classification status, ie following an event driven approach and specific assessment of the likelihood to repay. Commercial and Wholesale loans are analysed on a case by case basis taking into account breaches of key loan conditions, excesses and similar risk indicators.

Management's estimates of future cash flows on individually impaired loans are based on internal historical loss experience, supplemented by analysis of comparable external data (for Commercial and Wholesale loans) for assets with similar credit risk characteristics. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Refer to note 14 for a detailed analysis of the impairment of advances and the carrying amounts of the specific and portfolio provisions.

National Credit Act ("NCA")

The NCA came into effect on 1 June 2007 and has impacted the Group's levels of credit impairment. Specifically, the NCA had an impact on the judgements and estimates made regarding the default ratios and the recovery periods (resulting from debt counselling programmes and outcomes).

50 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (continued)

(b) Fair value of derivatives

The fair value of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by independent qualified senior personnel. All models are certified before they are used, and models are calibrated and back tested to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data, however, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions could affect the reported fair value of financial instruments. Note 43 provides an analysis of the effect of changes in managements' estimates on the fair value of financial instruments.

Refer to note 12 for a detailed analysis of the derivatives and the carrying amounts of the different types of derivative instruments. Note 43 provides additional details on the calculation of fair value of financial instruments not quoted in active markets.

(c) 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, the normal volatility in share prices. In addition, impairment may be appropriate when there is evidence of a deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

The Group determined that the impairment of available-for-sale equity instruments were not appropriate for the year under review.

(d) Securitisations and special purpose entities

The 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 13 for more information regarding the Group's synthetic securitisations and the respective carrying amounts.

(e) 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 notes 8 and 20 for more information regarding the direct and deferred tax charges, assets and liabilities.

(f) Financial risk management

The Group's risk management policies are disclosed in the Risk Report on pages 96 to 197 of the Annual Report. The repricing analysis on page156 forms part of the audited annual financial statements.

50 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (continued)

(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 21 for the impairment loss recorded on goodwill.

(h) Employee benefit liabilities

The cost of the benefits and the present value of the defined benefit pension funds and post retirement medical obligations depend on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the charge to the income statement arising from these obligations include the expected long term rate of return on the relevant plan assets, the discount rate and the expected salary and pension increase rates. Any changes in these assumptions will impact the charge to the income statement and may affect planned funding of the pension plans.

The assumptions related to the expected return on plan assets are determined in a uniform basis, considering long term historical returns, assets allocation and future estimations of long term investment returns. The Group determines the appropriate discount rate at the end of each year, which represents the interest rate that should be used to determine the present value of the expected cash outflows required to settle the pension and post retirement medical obligations. In determining the appropriate discount rate, the Group considers the interest rate on high quality corporate bonds and government bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability. The expected salary and pension increase rates are based on inflation rates, adjusted for salary scales and country specific conditions. The inflation rate used is a rate within the government's monetary policy target for inflation and is calculated as the difference between the yields on portfolios of fixed interest government bonds and a portfolio of index linked bonds of a similar term.

Additional information is provided in the note 29.

(i) Share based payments

Share based payment costs arise from the issue of share options to employees. These share options are classified as equity settled share based payments and as such, the fair value cost is determined on date of grant on an actuarial basis using a number of assumptions. These assumptions used in determining the fair value cost include expected volatility, expected dividend yield, the discount rate and the expected forfeit of lapse rate. In accordance with the principles of valuing equity settled share based payments, only a change in the actual experience of forfeits compared to the estimated forfeit rate assumption, will impact on the charge in the income statement. All other assumptions are determined at grant date and are not amended.

The expected volatility assumption is determined based on a ruling historical volatility over the expected life of the options and comparable financial information. The expected dividend yield is determined based on historical dividend yields and management's estimates. The discount rate is based on zero coupon government bonds and have terms to maturity consistent with the assumed life of the share option. The expected forfeit rate has been based on historical experience and management estimates.

Refer to note 35 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.

50 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 balance sheet 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.

51 STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

	The Group will comply with the following new standards and interpretations applicable to its business from the stated effective date.	Effective date
IFRIC 15	**Agreements for the Construction of Real Estate** The interpretation clarifies when real estate sales should be accounted for in terms of IAS 11 Construction Contracts or IAS 18 Revenue. The interpretation is not applicable to the Group.	Annual periods commencing on or after 1 January 2009
IFRIC 16	**Hedges of a Net Investment of a Foreign Operation** The interpretation clarifies which risks can be hedged under a hedge of the net investment in a foreign operation and by which entities within the Group the hedging instruments can be held in order to qualify as a hedge of a net investment in a foreign operation. The Group does not currently apply hedge accounting to net investments in foreign operations.	Annual periods commencing on or after 1 October 2008
IFRIC 17	**Distribution of Non cash Assets to Owners** The interpretation clarifies how an entity should measure distribution of assets other than when it pays cash dividends to its owners. At present there is diversity in practice when accounting for these dividends payable. These assets will be measured at their fair value, and the difference between the fair value and the carrying value will be recorded in the profit or loss for the period. The impact of this interpretation on the Group is not considered to be significant.	Annual periods commencing on or after 1 July 2009
IFRIC 18	**Transfers of Assets from Customer** The interpretation clarifies how an entity should treat items of property, plant and equipment from its customers that must be used to connect those customers to a network and provide them with ongoing access to a supply of commodities such as electricity, gas or water. An entity could also receive cash from customers for the acquisition or construction of such items of property, plant and equipment. This interpretation applies to the accounting for such transfers. The interpretation is not applicable to the Group.	Annual periods commencing on or after 1 July 2009
IFRS 1 and IAS 27 (revised)	**Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate** The amendments to IFRS 1 allow first-time adopters of IFRS 1 to use a deemed cost option for determining the cost of an investment in a subsidiary, jointly controlled entity or associate. This amendment will not impact the Group as the Group adopted IFRS in full in the financial year ended 30 June 2006. Consequently, IFRS 1 is no longer appropriate.	Annual periods commencing on or after 1 January 2009
IFRS 2 (amended)	**Vesting Conditions and Cancellations** The amendments to IFRS 2 clarify that vesting conditions are performance conditions and service conditions only. The amendment also clarifies that cancellations of share options by parties other than the entity are to be accounted for in the same way as cancellations by the entity. This amendment is not expected to impact the Group's results significantly.	Annual periods commencing on or after 1 January 2009

51 STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE (continued)

	The Group will comply with the following new standards and interpretations applicable to its business from the stated effective date.	Effective date
IFRS 2 (amended)	**Group Cash settled Share based Payment Transactions** The amendments clarify how an individual subsidiary in a group should account for some share based payment arrangements in its own financial statements. In these arrangements, the subsidiary receives goods or services from employees or suppliers but its parent or another entity in the group must pay those suppliers. The amendments make clear that: An entity that receives goods or services in a share based payment arrangement must account for those goods or services no matter which entity in the group settles the transaction, and no matter whether the transaction is settled in shares or cash. The amendment is not expected to impact the Group's results significantly.	Annual periods commencing on or after 1 January 2010
IFRS 3 and IAS 27 (revised)	**Revision to IFRS 3 Business Combinations and IAS 27 Consolidated and Separate Financial Statements** The revised IFRS 3 retains the current basic requirements. The most significant amendments are that the acquisition related costs will now be recognised as an expense in the income statement when incurred, rather than including it in goodwill. The revised IFRS 3 also states that contingent consideration must be recognised and measured at fair value at the acquisition date. Subsequent changes in fair value are recognised in accordance with other IFRSs, usually in the income statement rather than by adjusting goodwill. The amendment to IAS 27 requires that changes in a parent's ownership interest in a subsidiary that does not result in a loss of control to be accounted for within equity. The amendments are expected to affect the Group's accounting for business combinations that arise after the effective date. The amendment to IAS 27 requires that transactions with minorities be accounted for in equity, will require a prospective change in accounting policy for the Group in line with the amended transitional provisions.	Annual periods commencing on or after 1 July 2009
IFRS 7	**Financial Instruments: Disclosures** The amendments to IFRS 7 will require enhanced disclosures about fair value measurements and liquidity risk. The amendment addresses disclosure in the annual financial statements and will not affect recognition and measurement.	Annual periods commencing on or after 1 January 2009
IFRS 8	**Operating Segments** IFRS 8 replaces IAS 14 Segment Reporting. IFRS 8 requires an entity to report financial and descriptive information about its reportable operating segments. Operating segments are components of an entity about which separate financial information is available and that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and assessing performance. The standard addresses disclosure in the annual financial statements and will not affect recognition and measurement. The impact on the revised disclosure is not expected to be significant.	Annual periods commencing on or after 1 January 2009

51 STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE (continued)

	The Group will comply with the following new standards and interpretations applicable to its business from the stated effective date.	Effective date
IAS 1 (revised)	**Presentation of Financial Statements** The main change in the revised IAS 1 is the requirement to present all non owner transactions in the statement of comprehensive income. The amendment also requires two sets of comparative numbers to be provided for the financial position in any year where there has been a restatement or reclassification of balances. The amendments will not affect the financial position or results of the Group but will introduce some changes to the presentation of the financial position, changes in equity and financial results of the Group.	Annual periods commencing on or after 1 January 2009
IAS 23 (amended)	**Borrowing Costs** The amendment removes the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. The capitalisation of borrowing costs as part of the cost of such assets is therefore now required. The Group's accounting policy is to capitalise borrowing costs on a qualifying asset. The amendment will therefore not have an affect on the Group's results.	Annual periods commencing on or after 1 January 2009
IAS 32 (amended)	**Financial Instruments Puttable at Fair Value** The amendment to IAS 32 requires the classification of certain puttable financial instruments and financial instruments that impose on the issuer an obligation to deliver a pro-rata share of the entity only on liquidation as equity. The amendments sets out specific criteria that are to be met to present the instruments as equity together with related disclosure requirements. This amendment is not expected to have an impact to the Group.	Annual periods commencing on or after 1 January 2009
IAS 39 (amended)	**Eligible Hedged Items** The amendment clarifies that inflation may only be hedged in instances where changes in inflation are contractually specified portions of cash flows of a recognised financial instrument. It also clarifies that an entity is permitted to designate purchased or net purchased options as a hedging instrument in a hedge of a financial or non financial item and to improve effectiveness, an entity is allowed to exclude the time value of money from the hedging instrument. This amendment is not expected to have a significant impact to the Group.	Annual periods commencing on or after 1 July 2009
Annual Improvements	**Annual Improvements Project** As part of its 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 project undertaken in the 2008 calendar year. Annual improvements project undertaken in the 2009 calendar year. There are no significant changes in either of the improvement projects that are expected to affect the Group.	Annual periods commencing on or after 1 January 2009 Annual periods commencing on or after 1 January 2010

52 TRANSACTIONS INVOLVING THE LEGAL FORM OF A LEASE

The Group entered into an arrangement with the counterparty for the refurbishment of moveable assets, which are for the exclusive use of the counterparty. The duration of the arrangement is for 14 years and will conclude in May 2016. The transactions are a series of back to back leases, which, although the transactions are structured as leases, are in substance a financing arrangement.

Fees received are recognised annually in non interest income.

Income received for the year amounted to R26 million (2008: R37 million) and is reflected in interest and similar income in the consolidated income statement.

53 DISCONTINUED OPERATIONS

Discontinued operations

FirstRand's strategy of owning two insurance companies, Discovery and Momentum, has been consistently monitored by the Boards of FirstRand, Discovery and Momentum. This strategy has produced significant shareholder value as both businesses were able to balance growth in market share with increasing levels of competition.

However, with Discovery's launch of an investment business and Momentum's ambition in the healthcare sector, a decision was taken to sell 21 569 301 Discovery shares and to unbundle the balance of 316 357 337 Discovery shares. Management and shareholders approved the transaction on 7 November 2007. From this date onwards FirstRand no longer had any investment in Discovery.

An analysis of the results of the Discovery Group Limited operations is set out below:

R million	2009	Four months ended 7 November 2008
Interest and similar income	–	52
Interest expense and similar charges	–	(7)
Net interest income	–	45
Non interest income	–	1 182
Net insurance premium income	–	865
Net claims and benefits paid	–	(342)
Increase in value of policyholder liabilities	–	257
Income from operations	–	2 007
Operating expenditure	–	(1 397)
Net income from operations	–	610
Share of profit of associates and joint ventures	–	(57)
Profit before tax	–	553
Tax expense	–	(179)
Profit after tax	–	374
Cash flow information:		
Cash flow from operating activities	–	524
Cash flow from investing activities	–	(420)
Cash flow from financing activities	–	(224)
Total cash flows	–	(120)

53 DISCONTINUED OPERATIONS (continued)

R million	2009	As at 7 November 2007
Balance sheet		
Total assets	–	9 062
Total liabilities	–	3 431
A reconciliation of the profit on disposal of Discovery Group Limited:		
Proceeds on disposal	–	1 184
Net asset value at date of disposal and unbundling of Discovery Group Limited	–	(605)
Unbundling and disposal expenses	–	–
Goodwill realised	–	(9)
Profit before tax on unbundling and sale of Discovery	–	570
Tax	–	(76)
Net profit from disposal/unbundling of Discovery Group Limited	–	494
Profit after tax of discontinued operation	–	374
Profit after tax from discontinued operation	–	868

Discovery was previously shown as the “Discovery Segment” in note 45.

54 SUBSEQUENT EVENTS

No matters which are material to the financial affairs of the Company and the Group occurred between the balance sheet date and the date of the approval of the financial statements.

FIRSTRAND

FINANCIAL STATEMENTS

FirstRand Limited

R million	Notes	2009	2008
Interest and similar income	2	22	33
Interest expense and similar charges	2	(4)	(3)
Net interest income		18	30
Non interest income	3	5 048	9 125
– fees and commissions	3	26	21
– gains less losses from investment securities	3	5 022	8 618
– profit on sale of subsidiary	3	–	486
Income from operations		5 066	9 155
Operating expenses	4	(56)	(72)
Income before tax		5 010	9 083
Tax	5	(2)	(44)
Profit for the year		5 008	9 039
Attributable to:			
Equity holders of the Company		4 544	8 630
Non cumulative non redeemable preference shares		464	409
Profit for the year		5 008	9 039

BALANCE SHEET
as at 30 June

{p373}

R million	Notes	2009	2008
ASSETS			
Cash and short term funds	7	**56**	48
Loans and accounts receivable	8	*****	27
Investment in subsidiaries	9	**21 449**	20 975
Property and equipment		*****	*
Deferred tax asset	10	**3**	–
Total assets		**21 508**	21 050
EQUITY AND LIABILITIES			
Liabilities			
Creditors and accruals	11	**63**	86
Tax liability		**–**	26
Long term liabilities	12	**–**	2
Total liabilities		**63**	114
Equity			
Capital and reserves attributable to equity holders			
Ordinary shares	13	**56**	56
Share premium	13	**7 082**	7 083
Reserves		**9 788**	9 278
		16 926	16 417
Non cumulative non redeemable preference shares	13	**4 519**	4 519
Total equity		**21 445**	20 936
Total equity and liabilities		**21 508**	21 050

**Less than R500 000.*

STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June

{p374}

R million	Share capital (note 13)	Share premium (note 13)	Retained earnings
	Ordinary share capital and		
Balance at 1 July 2007	**56**	**8 426**	**3 397**
Conversion of convertible redeemable preference shares	*	–	–
Earnings attributable to ordinary shareholders	–	–	8 630
Ordinary dividends	–	–	(4 918)
Preference dividends	–	–	–
Unbundling of Discovery	–	(1 343)	–
Share based payment reserve	–	–	10
Balance at 30 June 2008	**56**	**7 083**	**7 119**
Balance at 1 July 2008	**56**	**7 083**	**7 119**
Issue of share capital	–	–	–
Conversion of convertible redeemable preference shares	*	(1)	–
Share issue expense	–	–	–
Earnings attributable to ordinary shareholders	–	–	4 544
Ordinary dividends	–	–	(4 073)
Preference dividends	–	–	–
Unbundling of Discovery	–	–	–
Share based payment reserve	–	–	–
Balance at 30 June 2009	**56**	**7 082**	**7 590**

**Less than R500 000.*

ordinary shareholders' funds			Perpetual preference shareholders' funds			
Share based payment reserve (note 14)	Capital redemption reserve	Total ordinary shareholders' funds	Non cumulative preference share capital (note 13)	Non cumulative preference share premium (note 13)	Total preference shareholders' funds	Total equity
2 126	**1**	**14 006**	*****	**4 519**	**4 519**	**18 525**
–	–	*	–	–	–	*
–	–	8 630	–	409	409	9 039
–	–	(4 918)	–	–	–	(4 918)
–	–	–	–	(409)	(409)	(409)
–	–	(1 343)	–	–	–	(1 343)
32	–	42	–	–	–	42
2 158	**1**	**16 417**	*****	**4 519**	**4 519**	**20 936**
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**

CASH FLOW STATEMENT
for the year ended 30 June

R million	Notes	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated by operations	16.1	4 993	8 567
Working capital changes	16.2	4	33
Net cash flows from operating activities		4 997	8 600
Interest received		22	33
Interest paid		(4)	(3)
Tax paid	16.3	(31)	(88)
Net cash inflow from operating activities		4 984	8 542
CASH FLOWS FROM INVESTMENT ACTIVITIES			
Increase in investment in subsidiaries		(470)	(3 270)
Redemption of preference share investment in subsidiary		25	–
Proceeds on sale of subsidiary		–	577
Loan from/(to) subsidiaries		8	(492)
Net cash outflow from investment activities		(437)	(3 185)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of long term debt		(2)	(23)
Dividends paid	16.4	(4 537)	(5 327)
Net cash outflow from financing activities		(4 539)	(5 350)
Increase in cash and cash equivalents		8	7
Cash and cash equivalents at the beginning of the year		48	41
Cash and cash equivalents at the end of the year		56	48

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 198 to 221 of this report.

2 ANALYSIS OF INTEREST INCOME AND EXPENSE

	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 and similar charges	**4**	**4**

	2008	
R million	Amortised cost	Total
Interest and similar income		
– Cash and short term funds	30	30
– "A" preference share dividends received	3	3
Interest and similar income	33	33
Interest expense and similar charges		
– "A" preference share dividends paid	3	3
Interest expense and similar charges	3	3

**Less than R500 000.*

3 ANALYSIS OF NON INTEREST INCOME

R million	2009	2008
– Fees and commissions		
Fees from subsidiaries^	26	21
Other fees	*	*
Total fees and commissions	**26**	21
– Gains less losses from investment activities		
– Dividends received from subsidiaries – unlisted shares		
– Ordinary dividends^	4 661	8 300
– Preference dividends^	361	318
– Other non interest income		
Profit on sale of subsidiary (refer to note 53 of Annual Report)	–	486
Total gains less losses from investment activities	**5 022**	8 618
Total non interest income	**5 048**	8 639

^Non interest income relates to non financial assets and liabilities.
**Less than R500 000.*

R million	2009	2008
4 OPERATING EXPENSES		
Advertising and marketing	2	5
Annual reports	9	7
Auditors' remuneration		
– Audit fees	3	4
– Fees for other services	–	1
Depreciation		
– Motor vehicles	*	*
Directors' fees paid	5	4
Direct staff costs		
– Salaries, wages and allowances	20	15
– Contributions to employee benefit funds	2	2
– Share based payment expense (refer to note 14)	–	3
– Other	*	*
Investor relations	5	5
Rental charges		
– Property	3	3
– Furniture and equipment	1	1
Professional fees paid to subsidiaries	–	7
Professional fees	–	4
Indirect tax		
– Value added tax	1	4
Other	5	7
Total operating expenses	**56**	72

**Less than R500 000.*

R million	2009	2008
5 TAX		
South African normal taxation		
– Normal tax – current year	5	8
– Deferred – current year	–	5
South African secondary taxation on companies ("STC")	(3)	1
Capital gains tax – current year	–	30
Total tax charge	**2**	44

Tax rate reconciliation	Actual R million	2009 %	2008 %
Effective rate of taxation	2	–	–
Total tax has been affected by:			
Dividends received	1 406	28.0	28.0
Non deductible expenses	(8)	–	(2.0)
Secondary taxation on companies ("STC") credits	3	–	–
Taxable accounting capital profit – sale of subsidiary	–	–	2.0
Standard rate of taxation	1 403	**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 pages 202 to 207 describe how the classes of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the financial assets and liabilities in the balance sheet per category of financial instrument to which they are assigned and therefore by measurement basis:

	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
Tax asset	–	–	–	–
Total assets	56	–	21 452	21 508
LIABILITIES				
Creditors and accruals	–	63	–	63
Tax liability	–	–	–	–
Long term liabilities	–	–	–	–
Total liabilities	–	63	–	63

	2008			
R million	Loans and receivables	Financial liabilities at amortised cost	Non financial assets and liabilities	Total
ASSETS				
Cash and short term funds	48	–	–	48
Loans and accounts receivable	27	–	–	27
Investment in subsidiaries	–	–	20 496	20 496
Property and equipment	–	–	*	*
Total assets	75	–	20 496	20 571
LIABILITIES				
Creditors and accruals	–	86	–	86
Tax liability	–	–	26	26
Long term liabilities	–	2	–	2
Total liabilities	–	88	26	114

**Less than R500 000.*

R million	2009	2008
7 CASH AND SHORT TERM FUNDS		
Balances with other banks	56	48
Cash and short term funds	**56**	**48**
The carrying value approximates the fair value.		
8 LOANS AND ACCOUNTS RECEIVABLES		
Receivables		
Dividends receivable ("A" preference shares)	–	5
Sundry debtors	*	*
Total receivables	*	5
Loans		
Outperformance Share Incentive Scheme loan		
Short term portion of loan to share trust	–	22
Total loans	–	22
Total loans and accounts receivable	*	27
Fair value of loans and accounts receivable	*	27

At the balance sheet date all loans and accounts receivable are considered to be neither past due nor impaired.
The carrying value approximates the fair value.

**Less than R500 000.*

	Investment of holding company							
	Effective percentage holding		Amounts owing by/(to) subsidiaries		Shares at net carrying amount		Investment through equity settle share incentive schemes	
	2009 %	2008 %	**2009 R million**	2008 R million	**2009 R million**	2008 R million	**2009 R million**	2008 R million
9 INVESTMENT IN SUBSIDIARIES								
Banking Group								
FirstRand Bank Holdings Limited								
– Ordinary shares	**100**	100	**87**	165	**9 790**	9 354	**–**	–
– Non redeemable preference shares	**100**	100	**–**	–	**3 000**	3 000	**–**	–
Momentum								
Momentum Group Limited								
– Ordinary shares	**100**	100	**–**	–	**4 633**	4 633	**–**	–
– Non redeemable preference shares	**100**	100	**–**	–	**500**	500	**–**	–
FirstRand Investment Holdings (Pty) Limited								
– Ordinary shares	**100**	100	**854**	784	**2 069**	2 035	**–**	–
– Redeemable preference shares	**–**	100	**–**	–	**–**	25	**–**	–
FirstRand Empowerment Trust	**100**	100	**–**	–	**–**	–	**–**	–
Investment through equity settled share incentive scheme	**100**	100	**–**	–	**–**	–	**516**	479
Total			**941**	949	**19 992**	19 547	**516**	479
Total interest in subsidiary							**21 449**	20 975
Carrying amount at the beginning of the year							**19 547**	17 620
Movement for the year:								
Disposal/unbundling of Discovery							**–**	(1 435)
Increase in investment in FirstRand Banking Group							**436**	1 327
Increase in investment in FirstRand Investment Holdings (Pty) Limited							**34**	2 035
Redemption of redeemable preference shares in FirstRand Investment Holdings (Pty) Limited							**(25)**	–
Carrying amount at the end of the year							**19 992**	19 547

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. The loan to the FirstRand Limited share trust which is disclosed in note 8 was repaid during the current year.

R million	2009	2008
10 DEFERRED TAX		
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.		
The following amount is disclosed:		
Deferred tax asset	–	–
Tax effects of temporary differences between tax and book value for:		
Deferred tax asset		
Opening balance	–	5
– STC credits	3	(5)
Closing balance	3	–
Movement on deferred tax account is as follows:		
Opening balance	–	5
– Charge to the income statement	3	(5)
Closing balance	3	–

If the total reserves of R7 590 million as at 30 June 2009 (2008: R8 799 million) were to be declared as dividends, the secondary tax impact at a rate of 10% would be R759 million (2008: R380 million).

R million	2009	2008
11 CREDITORS AND ACCRUALS		
Unclaimed dividends	**26**	24
Dividends payable ("A" preference shares)	**–**	5
Sundry creditors	**37**	35
Loan from FirstRand Empowerment Trust	*****	*
Short term portion of long term liability (note 12)	**–**	22
Total creditors and accruals	**63**	86
The carrying value of creditors and accruals approximates their fair value at year end.		
**Less than R500 000.*		
12 LONG TERM LIABILITIES		
Outperformance Share Incentive Scheme liability		
Total Outperformance share incentive scheme liability	**–**	22
Short term portion disclosed under creditors and accruals	**–**	(22)
Long term portion	**–**	–
This liability represents the preference shares issued in terms of the Outperformance Share Incentive Scheme.		
Other		
Share based payments (cash settled) (note 14)	**–**	2
Total long term liabilities	**–**	2

	2009	
	Number of ordinary shares	Number of "A" preference shares**
13 SHARE CAPITAL AND SHARE PREMIUM		
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)		
"A" variable rate convertible redeemable cumulative preference shares (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)		
Preference shares presented under long term liabilities		
Total issued share capital and share premium – closing balance		
Disclosed on the face of the balance sheet		
– 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.*

2009					
Number of non redeemable "B" and "B1" preference shares	Number of non redeemable "C" preference shares	Number of redeemable "D" preference shares	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

	2008	
	Number of ordinary shares	Number of "A" preference shares**
13 SHARE CAPITAL AND SHARE PREMIUM (continued)		
Authorised		
Number of shares	6 001 576 979	198 423 021
Issued		
Ordinary shares		
Opening balance	5 635 715 676	
– Conversion of convertible redeemable preference shares	2 114 542	
– Unbundling of Discovery		
Closing balance	5 637 830 218	
"A" preference shares		
Opening balance		8 767 500
– Redeemed during the year		(3 330 458)
– Converted during the year		(2 114 542)
Closing balance		3 322 500
"B" preference shares		
Opening balance		
Closing balance		
"B1" preference shares		
Opening balance		
Closing balance		
Total issued share capital and share premium – closing balance	5 637 830 218	3 322 500
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)		
"A" variable rate convertible redeemable cumulative preference shares (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)		
Preference shares presented under long term liabilities		
Total issued share capital and share premium – closing balance		
Disclosed on the face of the balance sheet		
– 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.*

2008					
Number of non redeemable "B" and "B1" preference shares	Number of non redeemable "C" preference shares	Number of redeemable "D" preference shares	Share capital R million	Share premium R million	Total R million
100 000 000	100 000 000	100 000 000			
			56	8 426	8 482
			*	–	*
			–	(1 343)	(1 343)
			56	7 083	7 139
			1	58	59
			(1)	(22)	(23)
			*	(14)	(14)
			*	22	22
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	11 624	11 680
			56	7 083	7 139
			–	22	22
			–	2 992	2 992
			–	1 527	1 527
			–	(22)	(22)
			56	11 602	11 658
					7 139
					4 519
					11 658

R million	2009	2008
14 SHARE BASED PAYMENTS		
For a detail description of share option schemes and trust in which FirstRand Limited participate refer to note 35 of the Group Annual Report.		
The income statement charge for share based payments is as follows:		
FirstRand share incentive scheme	1	3
FirstRand black non executive directors' trust	1	–
FirstRand share appreciation right scheme	(2)	*
Total share based payment	–	3
** Less than R500 000*		
15 DIVIDENDS		
Ordinary dividends		
An interim dividend of 34.00 cents (2008: 44.25 cents) per share was declared on 9 March 2009 in respect of the six months ended 31 December 2008	1 917	2 494
A final dividend of 22.00 cents (2008: 38.25 cents) per share was declared on 14 September 2009 in respect of the six months ended 30 June 2009	1 240	2 156
Total ordinary dividends declared for the year	3 157	4 650
"B" preference shares		
An interim dividend of 518.94 cents (2008: 477.77 cents) per share was declared on 23 February 2009 in respect of the six months ended 31 December 2008	156	143
A final dividend of 423.09 cents (2008: 511.3 cents) per share was declared on 25 August 2009 in respect of the six months ended 30 June 2008	127	153
"B1" preference shares		
An interim dividend of 518.94 cents (2008: 477.77 cents) per share was declared on 23 February 2009 in respect of the six months ended 31 December 2008	78	72
A final dividend of 423.09 cents (2008: 511.3 cents) per share was declared on 25 August 2009 in respect of the six months ended 30 June 2008	63	77
Total preference dividends declared for the year	424	445

R million	2009	2008
16 CASH FLOW INFORMATION		
16.1 Cash generated by operations		
Net income before tax attributable to shareholders	5 010	9 083
Adjustment for non cash items	1	–
Profit on sale of subsidiary	–	(486)
Interest received	(22)	(33)
Interest paid	4	3
Cash generated by operations	4 993	8 567
16.2 Working capital changes		
Decrease in current assets	27	35
Decrease in current liabilities	(23)	(2)
Net working	4	33
16.3 Tax paid		
Tax payable and deferred tax at beginning of the year	(26)	(18)
Charge to income statement	(2)	(44)
Tax payable and deferred tax at the end of the year	(3)	(26)
Tax paid	(31)	(88)
16.4 Dividends paid		
Ordinary dividends		
Final dividend paid on:		
– 27 October 2008 in respect of the year ended 30 June 2008	(2 156)	–
– 22 October 2007 in respect of the year ended 30 June 2007	–	(2 424)
Interim dividend paid on:		
– 6 April 2009 in respect of the period ended 31 December 2008	(1 917)	–
– 31 March 2008 in respect of the period ended 31 December 2007	–	(2 494)
Ordinary dividends paid	(4 073)	(4 918)
Preference dividends on "B" preference shares		
Final dividend paid on:		
– 25 August 2008 in respect of the year ended 30 June 2008	(153)	–
– 25 August 2007 in respect of the year ended 30 June 2007	–	(129)
Interim dividend paid on:		
– 23 February 2009 in respect of the period ended 31 December 2008	(156)	–
– 25 February 2008 in respect of the period ended 31 December 2007	–	(143)
Preference dividends on "B1" preference shares		
Final dividend declared on:		
– 25 August 2008 in respect of the year ended 30 June 2008	(77)	–
– 25 August 2007 in respect of the year ended 30 June 2007	–	(65)
Interim dividend declared on:		
– 23 February 2009 in respect of the period ended 31 December 2008	(78)	–
– 25 February 2008 in respect of the period ended 31 December 2007	–	(72)
Preference dividends paid	(464)	(409)
Total dividends paid	(4 537)	(5 327)

R million	2009	2008

17 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 prior year FirstRand Limited sold 3 209 301 Discovery Group Limited shares at R26.77 to RMB Holdings. During the current year FirstRand Limited did not enter directly into transactions with its parent company.

17.1 Subsidiaries

Details of interest in subsidiaries as well as loan account balances are disclosed in note 9.

17.2 Details of transactions with relevant related parties appear below:

R million	2009	2008
Interest received	22	30
Fees and commissions earned	26	21
Dividends received	5 022	8 618

17.3 Key management personnel

Please refer to note 49 of the Group Annual Report for detailed disclosure.

18 SUBSEQUENT EVENTS

No matter which is material to the financial affairs of the Company occurred between the balance sheet date and the date of the approval of the annual financial statements.

19 CONTINGENT LIABILITIES

FirstRand Limited provides put options to holders of certain debt instruments issued by its subsidiaries. The term of the 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 2009 no instance of default by a subsidiary had occurred.

Companies Act	Companies Act, Act 61 of 1973 as amended
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.
King Code 2002/the Code	King Report on Corporate Governance for South Africa 2002.
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	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	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 26 for a detailed description of normalised earnings.
Normalised earnings per share	Normalised earnings attributable to ordinary shareholders divided by the weighted average number of shares 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.
Profit attributable to ordinary shareholders (R million)	Profit for the year less dividend paid on non cumulative non redeemable preference shares and minorities.
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 that 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. For the current period Momentum's CAR was calculated using the statutory basis. A revised CAR formula has been issued by the Actuarial Society of South Africa and will come into effect on 31 December 2008.
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 features ("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.

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
BCM	Business continuity management
BEE	Black Economic Empowerment
BPRMF	Business Performance and Risk Management Framework
BSA	Bonus stabilisation account
BSM	Balance Sheet Management
CAGR (%)	Compound annual growth rate
CEO	Chief executive officer
CFO	Chief financial officer
CGT	Capital gains tax
CIS	Corporate Social Investment
COO	Chief operating officer
CPIX	Consumer Price Index
CPM	Capital portfolio management
CRMF	Credit risk management framework
CRO	Chief risk officer
CSA	Credit Support Annexes
CV	Curriculum Vitae
DAC	Deferred acquisition cost
DPF	Discretionary participation features
DRL	Deferred revenue liability
EAD	Exposure at default
ERM	Enterprise Risk Management
ETL	Expected tail loss
FNB	First National Bank
FRB	FirstRand Bank Limited
FRBG	FirstRand Banking Group Supersegment
FRBH	FirstRand Bank Holdings Limited
FRIHL	FirstRand Investment Holdings (Pty) Limited
FSB	Financial Services Board
FSV	Financial Soundness Valuation
FTP	Funds transfer pricing
GIA	Group Internal Audit function
ICAAP	Internal Capital Adequacy Assessment Process
IBNR	Incurred but not reported
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IIA	Institute of Internal auditing
Invesco	Investment committee

IRB	Internal rating based approach
ISDA	International Swaps and Derivative Association
ISMA	International Securities Market Association
JSE	Johannesburg Stock Exchange
KRI	Key risk indicators
LGD	Loss given default
LRMF	Liquidity risk management framework
LTV	Loan to value
MMMFTP	Marginal matched maturity funds transfer pricing
MPM	Macro Portfolio Management
MTM	Mark-to-market
NCNR	Non cumulative non redeemable
NIACC	Net income after capital change
NII	Net interest income
NMD	Non maturity deposit
NPL	Non performing loans
ORC	Operational risk committee
ORMF	Operational risk management framework
PD	Probability of default
PE	Price earnings
PFE	Potential future exposure
PGN	Professional Guidance Note
PIT	Point-In-Time
PVIF	Present value of in-force
RCC	Risk, Capital and Compliance committee
RCSA	Risk and control self assessments
RERIT	Risk effectiveness reports for IT
RMB	Rand Merchant Bank
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
SPPIA	Standards for Professional Practice of Internal Auditing
STC	Secondary tax on companies
TSA	The Standard Based Approach
UK	United Kingdom
US	United States
VaR	Value at risk
WACC (%)	Weighted average cost of capital

FIRSTRAND

SHAREHOLDERS' INFORMATION

The annual general meeting
will take place at 09:00
on 25 November 2009
in the Auditorium, WesBank Offices,
Enterprise Road, Fairland.

SHAREHOLDERS' INFORMATION

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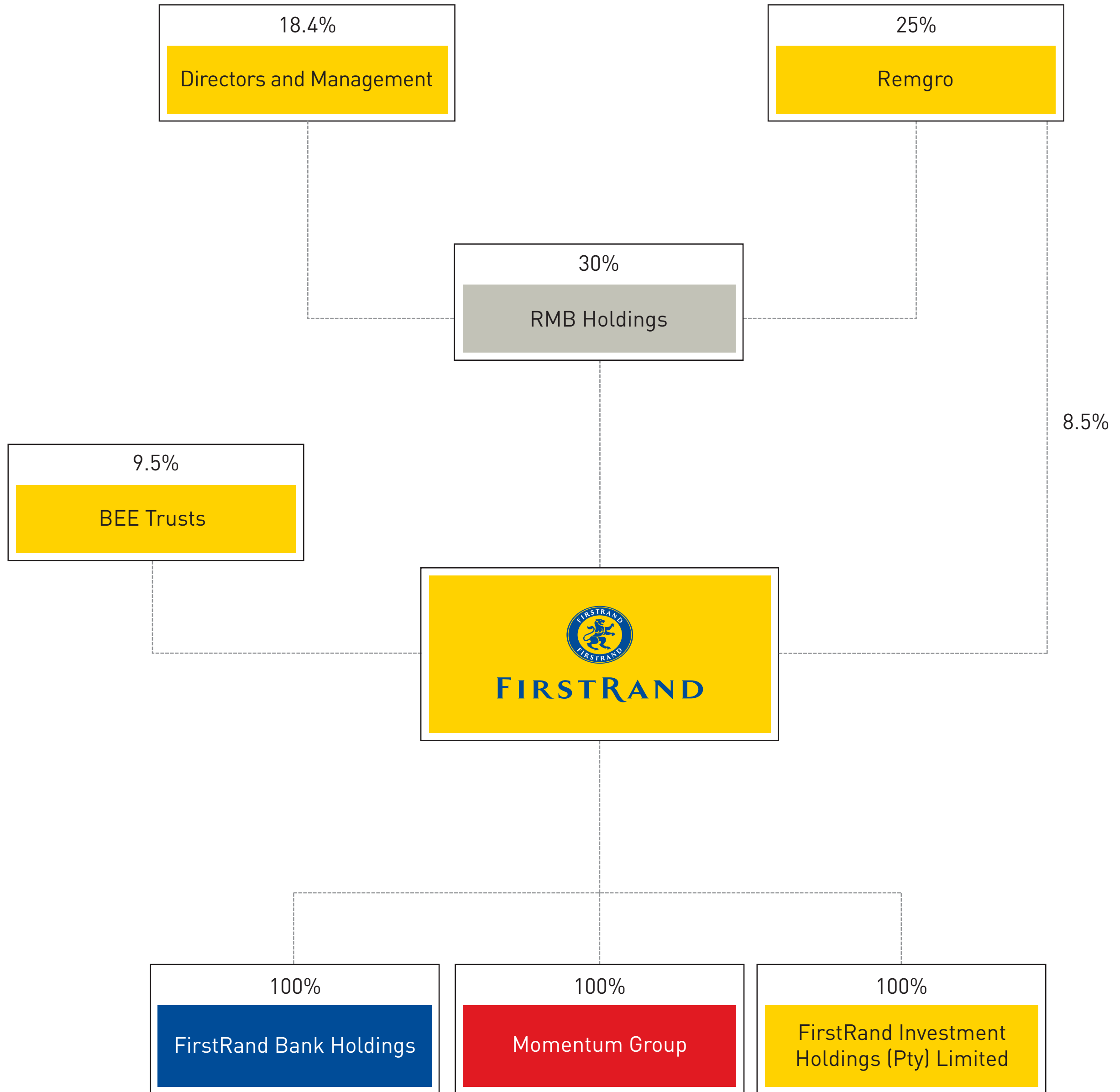

ANALYSIS OF SHAREHOLDERS
as at 30 June

	Number of shareholders	Shares held 000's	%
Shareholders holding more than 5%			
RMB Holdings		1 694 844	30.06
FirstRand Empowerment Trust and related parties		535 201	9.49
Public Investment Commissioner		503 153	8.92
Financial Securities Limited (Remgro)		481 142	8.53
Subtotal		3 214 340	57.00
Other		2 423 602	43.00
Total		**5 637 942**	**100.00**
Shareholder type			
Corporates (RMB Holdings and Remgro)		2 175 986	38.60
Pension Funds		959 639	17.02
Insurance Companies and Banks		445 517	7.90
Unit Trusts		688 538	12.21
Individuals		59 938	1.07
Empowerment Trusts		535 201	9.49
Employee Share Trusts		217 818	3.86
Other		555 305	9.85
Total		**5 637 942**	**100.00**
Public and non-public shareholders			
Public	33 319	2 695 683	47.82
Non public			
– Corporates (Remgro and RMBH)	2	2 175 986	38.59
– Directors	8	13 254	0.24
– Empowerment Trusts	4	535 201	9.49
– Employee Share Trusts	1	217 818	3.86
Total	**33 334**	**5 637 942**	**100.00**
Geographic ownership			
South Africa		4 657 558	82.61
International		579 036	10.27
Not Analysed		401 348	7.12
Total		**5 637 942**	**100.00**

PERFORMANCE ON THE JSE SECURITIES EXCHANGE SOUTH AFRICA
as at 30 June 2009

000's	**2009**	2008
Number of shares in issue (000's)	**5 637 942**	5 637 830
Market prices (cents per share):		
Closing	**1 406**	1 330
High	**1 774**	2 628
Low	**1 056**	1 271
Weighted average	**14.22**	19.21
Closing price/net asset value per share	**1.50**	1.45
Closing price/earnings (headline)	**10.56**	6.95
Volume of shares traded (millions)	**4 605**	3 888
Value of shares traded (R millions)	**65 470**	74 692
Market capitalisation (R billions)	**79.27**	74.98

DIRECTORS

LL Dippenaar (Chairman), PK Harris (Chief executive officer), SE Nxasana (Chief executive officer designate), VW Bartlett, JP Burger (Financial director), DJA Craig (British), L Crouse, PM Goss, Dr NN Gwagwa, G Moloi, AP Nkuna, AT Nzimande, D Premnarayen (Indian), KB Schoeman, KC Shubane, RK Store, BJ van der Ross, Dr JH van Greuning, Dr F van Zyl Slabbert, MH Visser.

SECRETARY AND REGISTERED OFFICE

AH Arnott, BCom, CA(SA)
4th Floor, 4 Merchant Place
1 Fredman Drive, 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
Cnr Fredman Drive and Rivonia Road
Sandton, 2196
Telephone: +27 11 282 1847
Telefax: +27 11 282 8215

TRANSFER SECRETARIES – SOUTH AFRICA

Computershare Investor Services (Pty) 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 (Pty) Limited
Shop No 12, 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
"B1"	FSP	ZAE 000070900

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	BW000000066

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	FRBZ01	ZAG000049255
FirstRand Bank Limited	FRS08	ZAG000057324
FirstRand Bank Limited	FRS09	ZAG000057332
FirstRand Bank Limited	FRS10	ZAG000057340
FirstRand Bank Limited	FRS11	ZAG000057357
FirstRand Bank Limited	FRS12	ZAG000057365
FirstRand Bank Limited	FRS14	ZAG000058942

Senior unsecured continued

Issuer	*Bond code*	*ISIN code*
FirstRand Bank Limited	FRS15	ZAG000058959
FirstRand Bank Limited	FRS16	ZAG000058967
FirstRand Bank Limited	FRS17	ZAG000058975
FirstRand Bank Limited	FRS18	ZAG000058991
FirstRand Bank Limited	FRS20	ZAG000067943
FirstRand Bank Limited	FRS21	ZAG000067950
FirstRand Bank Limited	FRS22	ZAG000067968
FirstRand Bank Limited	FRS23	ZAG000067976
FirstRand Bank Limited	FRS24	ZAG000067984
FirstRand Bank Limited	FRS25	ZAG000067992
FirstRand Bank Limited	FRS26	ZAG000068008
FirstRand Bank Limited	FRS27	ZAG000068016
FirstRand Bank Limited	FRS28	ZAG000068024
FirstRand Bank Limited	FRS29	ZAG000068032
FirstRand Bank Limited	FRJ11	ZAG000051111
FirstRand Bank Limited	FRX11	ZAG000051095
FirstRand Bank Limited	FRX15	ZAG000051103

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	FRBI05	ZAG000050626
FirstRand Bank Limited	FRBI07	ZAG000055849
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	FRC13	ZAG000055526
FirstRand Bank Limited	FRC15	ZAG000055708
FirstRand Bank Limited	FRC16	ZAG000055914
FirstRand Bank Limited	FRC17	ZAG000056011
FirstRand Bank Limited	FRC18	ZAG000056631
FirstRand Bank Limited	FRC19	ZAG000057472
FirstRand Bank Limited	FRC22	ZAG000062290
FirstRand Bank Limited	FRC26	ZAG000065277
FirstRand Bank Limited	FRC27	ZAG000065335

Index-linked 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

London Stock Exchange ("LSE")

European Medium Term Note (EMTN) programme

Issuer	*Bond code*	*ISIN code*
FirstRand Bank Limited	EMTN	XS0306783621

REPORTING

Financial year end	30 June
Announcement of results for 2009	15 September 2009
Annual report posted by	End October 2009
Annual general meeting	25 November 2009

DIVIDENDS

Final for 2009	
– Declared	14 September 2009
– Last day to trade cum-dividend	9 October 2009
– First day to trade ex-dividend	12 October 2009
– Record date	16 October 2009
– Payment date	19 October 2009

INTERIM FOR 2010

– Declared	March 2010
– Payable	April 2010

FINAL FOR 2010

– Declared	September 2010
– Payable	October 2010

FIRSTRAND LIMITED

(Incorporated in the Republic of South Africa)
(Registration number: 1966/010753/06)
Group Share Code: FSR Group ISIN: ZAE000066304
JSE "B" Preference Share Code: FSRP
JSE ISIN: ZAE000060141
JSE "B1" Preference Share Code: FSPP
JSE ISIN: ZAE000070900
NSX Ordinary Share Code: FSR
("FirstRand" or "the Company" or "the Group")

Notice is hereby given that the twelth Annual General Meeting of FirstRand Limited will be held in the Auditorium, WesBank Offices, Enterprise Road, Fairland on Wednesday 25 November 2009 at 09:00 to deal with the following matters and, if approved, to pass the following ordinary and special 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 2009 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 Companys Articles of Association and who, being eligible, offer themselves for re-election:

1.1 Lauritz Lanser Dippenaar (60)

Non executive chairman
Date of appointment: May 1998
Educational qualifications
- MComm
- CA(SA)

Directorships
FirstRand Group
- FirstRand Bank Holdings Limited – chairman
- FirstRand Short Term Insurance Limited – chairman
- Momentum Group Limited – chairman
- RMB Asset Management (Pty) Limited

RMB Holdings Limited

1.2 Vivian Wade Bartlett (66)

Independent non executive
Date of appointment: May 1998
Educational qualifications
- AMP (Harvard)
- FIBSA

Directorships
FirstRand Group
- FirstRand Bank Holdings Limited
- FirstRand Short Term Insurance Limited
- Makalani Holdings Limited – chairman

1.3 David John Alistair Craig (61) (British)

Independent non executive
Date of appointment: May 1998
Mr Craig is a private investor with long experience of the international investment markets.

1.4 Ronald Keith Store (66)

Independent non executive
Date of appointment: May 2007
Educational qualifications
- CA(SA)

Directorships
FirstRand Group
- FirstRand Bank Holdings Limited

1.5 Benedict James van der Ross (62)

Independent non executive
Date of appointment: May 1998
Educational qualifications
- Dip Law (UCT)

Directorships
FirstRand Group
- FirstRand Bank Holdings Limited
- Makalani Holdings Limited
- Momentum Group Limited
- Momentum Healthcare (Pty) Limited – chairman
- RMB Asset Management (Pty) Limited – chairman
- Strategic Real Estate Management (Pty) Limited – chairman (managers of the EMIRA Property Fund)

Distell Group Limited
Lewis Group Limited
Naspers Limited
Pick n Pay Stores Limited

3. Election of directors by way of separate resolutions

To elect directors appointed during the year.

3.1 Johan Petrus Burger (50)

Financial director
Date of appointment: January 2009
Educational qualifications
- BCom (Hons)
- CA(SA)

Directorships
FirstRand Group
- FirstRand Bank Holdings Limited
- Momentum Group Limited
- FirstRand Investment Holdings (Pty) Limited

The Audit committee has satisfied itself that Mr Burger has the appropriate expertise and experience to fulfil

the role of Financial director. The committee has, as required in terms of Section 3.84 (h) of the JSE Listings Requirements, taken cognisance of Mr Burgers performance as Chief financial officer of the Company prior to his appointment as Financial director.

3.2 ***Deepak Premnarayen (63) (Indian)***

Executive

Date of appointment: January 2009

Educational qualifications

- BA Economics (Hons)

Directorships

FirstRand Group

- FirstRand India Advisory board – chairman

Director of various companies in India, Singapore and Mauritius

3.3 ***Jan Hendrik van Greuning (56)***

Independent non executive

Date of appointment: January 2009

Educational qualifications

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

Directorships

FirstRand Group

- FirstRand Bank Holdings Limited

3.4 ***Matthys Hendrik Visser (55)***

Non executive

Date of appointment: April 2009

Educational qualifications

- BCom (Hons)
- CA(SA)

Directorships

FirstRand Group

- FirstRand Bank Holdings Limited

Distell Group Limited

Kagiso Trust Investments (Pty) Limited

Medi-Clinic Corporation Limited

Nampak Limited

PG Group (Pty) Limited

Rainbow Chicken Limited – chairman

Remgro Limited

RMB Holdings Limited

Unilever South Africa Holdings (Pty) Limited

4. Ordinary resolution number 1

Non executive directors fees for the year to 30 June 2010

"Resolved that the fees of the non executive directors, as reflected below, be approved for the year to 30 June 2010."

	Proposed Fee
FirstRand Board	
Chairman	825 000
Director	137 000
Audit committee	
Chairman	82 000
Member	41 000
Remuneration committee	
Chairman	82 000
Member	41 000
Directors Affairs and Governance committee	
Chairman	27 500
Member	13 750
Financial Sector Charter Compliance committee	
Chairman	54 000
Member	27 500
Ad hoc meetings (in exceptional circumstances)	2 700

Non executive directors who are based overseas (USA, UK and India) receive fees at twice the rate applicable to South African based directors.

During the year ended 30 June 2009, the non executive directors, including the chairman, waived the increases that had been approved at the 2008 annual general meeting.

The fees proposed above represent an 8% increase on those paid in respect of the financial year ended 30 June 2008. The fee proposed for the chairman represents an increase of 23% and is part of a multi-year strategy to bring the chairmans fee into line with those of his comparable peers at the other major banks in South Africa.

5. Ordinary resolution number 2

Re-appointment of auditors

"Resolved that, as recommended by the Audit committee, PricewaterhouseCoopers Inc be re-appointed as auditors of the Company until the next annual general meeting and that Mr Fulvio Tonelli be appointed as the individual registered auditor who undertakes the audit for the Company for the year to 30 June 2010."

6. Ordinary resolution number 3

Auditors remuneration

"Resolved that, as recommended by the Audit committee, the directors fix the auditors remuneration for the year to 30 June 2010."

7. Ordinary resolution number 4

Placing of 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 Articles of Association of the Company ("the Articles of Association") and the Listings Requirements of the JSE Limited ("JSE Listings Requirements"), when applicable."

Shareholders are asked to note that at 14 September 2009, the unissued ordinary share capital of the Company represented 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 and is 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 Articles of Association and the JSE Listings Requirements, when applicable, and the following limitations, namely that:

- this authority shall be valid until the Companys 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;
- 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% of the Companys relevant number of equity securities in issue of that class (for purposes of determining the securities comprising the 5% number in any one year, account must be taken of the dilution effect, in the year of issue of options/-convertible securities, 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:
    - less any securities of the class issued, or to be issued in future arising from options/convertible securities issued, during the current financial year;
    - plus any securities of that class to be issued pursuant to:
      - * a rights issue which has been announced, is irrevocable and is fully underwritten; or
      - * acquisition (which has had final terms announced) may be included as though they were securities in issue at the date of application;
- the maximum discount at which the ordinary shares may be issued is 10% of the weighted average traded price of the Companys 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 earning 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. Ordinary resolution number 6

General issue of preference shares for cash

"Resolved that the Board of directors of the Company be and is hereby authorised, by way of a renewable general authority, to issue all or any of the authorised but unissued "B" variable rate, non cumulative, non redeemable preference shares in the capital of the Company for cash as and when they in their discretion deem fit, subject to the Companies 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 Companys next annual general meeting or for 15 months from the date of this resolution, whichever period is shorter; and

- a paid press announcement giving full details, including the impact on net asset value and earning 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.

10. Ordinary resolution number 7

Adoption of the FirstRand Limited Conditional Share Plan 2009

"Resolved that the FirstRand Conditional Share Plan 2009 ("CSP"), be and is hereby approved and adopted and that the directors of the Company be and are hereby authorised to do all such things as are necessary to implement and/or facilitate the operation of the aforementioned CSP."

The details of the CSP are incorporated in separate CSP rules which have been available for inspection at the Companys registered office for fourteen (14) days prior to the annual general meeting.

The salient features of the CSP are as follows :

In line with global best practice and emerging South African practice, the Company intends to adopt a new share incentive plan, namely a CSP. The CSP is in line with practices in the UK and with several recently adopted schemes for large JSE listed or dual listed companies.

The CSP will include participation by executive directors and selected employees of the Group. The purpose of the CSP is to recognise contributions made by selected employees and to provide for an incentive for their continuing relationship with the Group, by providing them with the opportunity of receiving shares in the Company. The CSP also supports the principle of alignment of employee and shareholder interests with performance conditions governing the vesting of shares and potential ownership of shares.

The conditional award comprises a number of full free shares that vest conditionally over a period of at least three years. The number of shares that vest is determined by the extent 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 conditions. The performance conditions will be stated in the award letter and will be set by the Remuneration committee on an annual basis.

The intent of the CSP is that the cost to shareholders of the annual awards will be of a similar value to the existing FirstRand Share Appreciation Rights Scheme.

The *modus operandi* of the CSP will be to purchase shares in the market to settle the benefits and existing shareholders will therefore not be diluted. The number of shares allocated in terms of all share plans operated by the Company, including the new CSP, may not exceed 563 794 168 shares (equating to approximately 10%) of the current issued ordinary share capital of the Company.

Shareholders are asked to note that the CSP is not a Schedule 14 scheme as contemplated in the JSE Listings Requirements (and is accordingly not subject to JSE regulations).

11. Special resolution number 1

General repurchase of Company shares

"Resolved that in terms of the Articles of Association, the Companys directors be and are 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 following limitations, namely that:

- this authority shall be valid until the Companys next annual general meeting, provided that it shall not extend beyond fifteen (15) months from the date of passing of this special resolution;
- 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);
- 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;
- a general repurchase may not in the aggregate in any one financial year exceed 10% of the number of shares in the Companys 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;
- no repurchases will be effected during a prohibited period as defined in the JSE Listings Requirements unless the Company has 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;
- at any point in time, the Company may only appoint one agent to effect repurchases on the Companys behalf;

- the Company may only undertake a repurchase of securities if, after such repurchase, the shareholder spread requirements of the Company comply with the JSE Listings Requirements;
- in determining the price at which shares may be repurchased in terms of this authority, the maximum premium permitted is 10% above the weighted average traded price of the shares as determined over the five (5) business days prior to the date of repurchase;
- the sponsor to the Company provides a letter to the JSE on the adequacy of working capital in terms of section 2.12 of the JSE Listings Requirements prior to any repurchases being implemented on the open market of the JSE; and
- such repurchase shall be subject to the Companies Act and the applicable provisions of the JSE Listings Requirements."

The Board of directors of the Company ("the Board") 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 Companys and the Groups 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 special resolution number 1

The reason for special resolution number 1 is to grant the Companys directors a general authority, up to and including the date of the following annual general meeting of the Company, to approve the Companys 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 Companys 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 2009 at the places indicated:

- Directors and management – refer pages 84 to 88 of this report;
- Major shareholders – refer page 398 of this report;
- For material changes refer page 95 of this report;
- Directors interest in securities – refer pages 54 to 55 of this report;
- Share capital of the Company – refer note 34 of the Group annual report;
- The directors, whose names are set out on page 399 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; and
- Litigation – save as reported in note 37 to the financial statements on page 323 of the FirstRand Group, in terms of section 11.26 of the Listings Requirements of the JSE, the directors, whose names are given on page 389 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 Groups 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.

12. Special resolution number 2

Amendments to the Memorandum of Association

"Resolved that the Memorandum of Association of the Company be and is hereby amended, with effect from 1 July 2010, by replacing the current paragraphs 2, 3, 4, 5 and 6 with the following new paragraphs.

1. **Purpose describing the main business**

The main business which the Company is to carry on is that of an investment holding company in the financial services sector and other related sectors, and to carry on the business of a bank controlling company in terms of

the Banks Act, No. 94 of 1990, and the regulations thereto, as amended from time to time ("the Banks Act").

2. **Main object**

The main object of the Company is to carry on the business of an investment holding company in the financial services sector and other related sectors, and to carry on the business of a bank controlling company in terms of the Banks Act.

3. **Ancillary objects excluded**

None of the specific ancillary objects referred to in Section 33(1) of the Companies Act (No 61 of 1973) ("the Companies Act") are excluded from the unlimited ancillary objects of the Company, save to the extent to which they are inconsistent with the Banks Act.

4. **Powers**

(a) None of the specific powers or part of any powers of the Company are excluded from the plenary powers or powers set out in Schedule 2 of the Companies Act, save to the extent to which they are excluded in terms of the Banks Act.

(b) None of the specific powers or part of any specific powers of the Company set out in Schedule 2 to the Companies Act are qualified under Section 34 of the Companies Act, save to the extent to which they are qualified in terms of the Banks Act.

5. **Conditions**

The special conditions which apply to the Company and the requirements additional to those prescribed in the Companies Act for their alteration are the following:

Those conditions imposed in terms of the Banks Act, and then only for so long as and to the extent that the Banks Act is applicable to the Company, including but without limiting the generality of the aforegoing:

(i) the Company may not acquire or establish either within or outside the Republic, any subsidiaries, joint ventures, branch offices, divisions, trusts or other financial or business undertakings, other interests and representative offices of banks or controlling companies other than subject to the provisions of the Banks Act;

(ii) the Company shall not acquire or hold shares in long term or short term insurance companies as defined in the Long Term Insurance Act No. 52 of 1998 and the Short Term Insurance Act No. 53 of 1998 respectively, other than in accordance with the limitations and provisions of the Banks Act; and

(iii) the Company may not do anything which would contravene any provision of the Banks Act which applies to the Company and the Company shall comply at all times with any restrictions imposed on it in terms of the permitted investments, advances and business practices applicable to the Company in terms of the Banks Act."

Reason for and effect of special resolution number 2

The reason for special resolution number 2 is to amend the Companys Memorandum of Association, with effect from 1 July 2010, to enable it to apply to be registered as a controlling company in respect of a bank in terms of the Banks Act. The effect of special resolution number 2 is to amend the Memorandum of Association of the Company accordingly.

13. Special resolution number 3

Amendments to the Articles of Association

"Resolved that the Articles of Association of the Company be and are hereby amended, with effect from 1 July 2010, as follows:

1. Article 1 be amended by inserting the following new definitions, with their meanings opposite them:

"the Banks Act"	the Banks Act, 1990, and the regulations thereto, as amended from time to time;
"the Registrar of Banks"	the Registrar of Banks designated under Section 4 of the Banks Act;

2. Article 4 be amended by inserting the following new article 4A:

"4A The Company is a controlling company in respect of a bank as defined in terms of the Banks Act.

4A.1 These articles and all of its contents shall apply subject to and be interpreted in conjunction with, any applicable provision in the Banks Act, or any regulations, notices or instructions issued in terms of the Banks Act which have the power of statute, or any lawful directive, circular or guidance note issued by the Registrar of Banks which is binding on the Company in law and to which the Company is subject (each an "Applicable Provision" for purposes of this Article 4A).

4A.2 To the extent that any provision or part of any provision in these articles irreconcilably conflicts with any peremptory Applicable Provision, such Applicable Provision shall prevail."

3. Article 5.1 be amended by inserting the words "Subject to the provisions of the Banks Act," (and replacing the upper case "A" with a lower case "a") at the beginning of this paragraph.

4. Article 5.2 be amended by inserting the words "Subject to any limitation imposed by the Banks Act," (and replacing the upper case "T" with a lower case "t") at the beginning of this paragraph.

5. Article 5 be amended by inserting the following new Article 5.4:

"5.4 Notwithstanding any contrary provision contained in these articles, the Company may not do anything, conduct any branch or conduct any kind of business, other than subject to the limitations and provisions of the Banks Act, for so long as the Banks Act is applicable to the Company."

6. Article 40 be amended by inserting the words "and the Banks Act," after the words "imposed by the Act" in the first sentence of this paragraph.

7. Article 71 be amended by inserting the following new Article 71.3:

"71.3 The powers of directors set out in these articles shall be subject to the applicable limitations and provisions of the Banks Act."

8. Article 86 be amended by inserting the following sentence at the end of this paragraph:

Notwithstanding any contrary provision contained in these articles, the appointment of directors shall be subject to the provisions of the Banks Act."

9. Article 90 be amended by inserting the words "Subject to the provisions of the Banks Act, and" (and replacing the upper case "W" with a lower case "w") at the beginning of this paragraph.

10. Article 127 be amended by inserting the words "and the Banks Act" at the end of this paragraph."

Reason for and effect of special resolution number 3
The reason for special resolution number 3 is to amend the Companys Articles of Association, with effect from 1 July 2010, to enable it to apply to be registered as a controlling company in respect of a bank in terms of the Banks Act. The effect of special resolution number 3 is to amend the Articles of Association of the Company accordingly.

14. Special resolution number 4

Special resolutions affecting the rights attaching to the "B" and "B1" preference shares

Noted that as special resolution number 4 affects the rights attaching to the "B" preference shares and the "B" preference shares which were designated by the Company and listed on the JSE Limited as "B1" preference shares ("the "B1" preference shares"), the holders of the "B" preference shares and the "B1" preference shares are entitled to vote on this special resolution. A separate proxy form has been provided for the holders of the "B" preference shares and the holders of the "B1" preference shares.

Further noted that as special resolution number 4 amounts to a modification, alteration or variation of the terms of the "B" preference shares and the "B1" preference shares, that modification, alteration or variation will need to be effected with the prior written consent of the Company and the sanction of resolutions of the holders of each of the "B" preference shares and the "B1" preference shares, passed at separate general meetings of each of those holders (in accordance with the provisions of Article 8.3.13.1 of the Articles of Association of the Company). The separate general meeting of the holders of the "B" preference shares will be held in the Auditorium, WesBank Offices, Enterprise Road, Fairland on Wednesday 25 November 2009 at 09:30 or as soon thereafter as this annual general meeting shall have been concluded and the separate general meeting of the holders of the "B1" preference shares will be held in the Auditorium, WesBank Offices, Enterprise Road, Fairland on Wednesday 25 November 2009 at 09:45 or as soon thereafter as the separate general meeting of the holders of the "B" preference shares shall have been concluded.

Amendments to the Articles of Association

"Resolved that, subject to the passing of the resolutions to be proposed at the separate general meetings of the holders of each of the "B" preference shares and "B" preference shares which were designated by the Company and listed on the JSE Limited as "B1" preference shares to be held after this annual general meeting, the Articles of Association of the Company be and are hereby amended as follows:

1. Article 8.3.1 be amended by deleting the existing Article 8.3.1 in its entirety and inserting the following new Article 8.3.1 in place thereof:

"8.3.1 The "B" preference shares shall confer on the holders thereof the right, on a winding-up of the Company, to the repayment, out of the surplus assets of the Company, of the nominal capital paid up thereon and a premium (calculated by dividing the total premium paid up in respect of all of the "B" preference shares then in issue by the total number of "B" preference shares then in issue), together with the payment of all arrear dividends (being dividends that have been declared but not paid) calculated to the date of repayment of capital, in priority to the ordinary shares of the Company and any other class of shares of the Company not ranking in priority to or pari passu with the "B" preference shares, but shall have no further right to participate in the profits or assets of the Company."

2. Article 8.3.3 be amended by deleting the existing Article 8.3.3 in its entirety and inserting the following new Article 8.3.3 in place thereof:

"8.3.3 In respect of each issue of "B" preference shares, the "B" preference shares shall have the special rights and privileges as set out in this Article 8.3 and shall constitute the same class of preference share (and all existing "B" preference shares and "B" preference shares which were designated by the Company and listed on the JSE Limited as "B1" preference shares, in issue, shall henceforth constitute the same class of preference share).

3. Article 8.3.6 be amended by deleting the existing Article 8.3.6 in its entirety and inserting the following new Article 8.3.6 in place thereof:

"8.3.6 Save for the first "B" preference dividend, the "B" preference dividend shall, if declared, be due and payable six monthly in arrear, on the last Monday in February and the last Monday in August of each year or such other dates in each year, being approximately six months apart, as may be determined by the directors in their sole discretion, in respect of each allotment and issue of the "B" preference shares, provided that if any such date is not a business day then it shall be the immediately succeeding date which is a business day and provided further that if any such date is not permissible in terms of the requirements of any stock exchange on which the "B" preference shares may be listed at any time then it shall be the nearest date which is so permissible ("the dividend dates"), to "B" preference shareholders registered on the business day immediately preceding each dividend date (a "business day" being any day other than a Saturday, Sunday or proclaimed public holiday). The first "B" preference dividend, if declared, shall be in respect of the initial period from the issue date to the immediately following dividend date (both days inclusive), and thereafter in respect of each period preceding a dividend date (including the first day and the last day of such period). The "B" preference dividends shall, if declared, be paid on each dividend date."

4. Article 8.3.7 be amended by deleting the existing Article 8.3.7 in its entirety and inserting the following new Article 8.3.7 in place thereof:

"8.3.7 The "B" preference dividend for each of the "B" preference shares shall, subject to Article 8.3.9, be calculated in arrear in accordance with the following formula:

$$A = \frac{B \times C \times D \times E}{365}$$

Where:

A = the "B" preference dividend per "B" preference share;

B = 68% (sixty eight percent);

C = the average prevailing interest rate (percent, per annum compounded monthly) from time to time published by FirstRand Bank Limited as being its minimum overdraft rate (as certified by any manager of FirstRand Bank Limited whose appointment and designation need not be proved) ("the prime rate") expressed as a percentage over the number of days of the relevant period for which the dividend is payable but ignoring, for purposes of this calculation, any change in the prime rate between the date on which a dividend is declared and the dividend date (being the date on which it is due and payable);

D = the number of days of the relevant period for which the "B" preference dividend is payable;

E = R100 (one hundred Rand), being the deemed issue price of each of the "B" preference shares."

Reason for and effect of special resolution number 4

The reason for special resolution number 4 is to amend the Articles of Association of the Company (by amending the rights and privileges attaching to the "B" preference shares in the capital of the Company, as set out in Article 8.3 of the Articles of Association of the Company). The rights and privileges attaching to the "B" preference shares are amended in the following respects:

- As the Company has issued and may issue further "B" preference shares at different issue prices, Article 8.3.1 now provides that, in the event of a winding-up of the Company, each "B" preference shareholder shall receive out of the surplus assets of the Company *inter alia* an amount equal to the nominal capital paid up on such "B" preference shares and a premium (calculated by dividing the total premium paid up in respect of all of the "B" preference shares then in issue by the total number of "B" preference shares then in issue).

  Prior to this amendment, on a winding-up of the Company the "B" preference shares which were designated by the Company and listed on the JSE Limited as "B1" preference shares ("the "B1" preference shares") conferred the right to receive out of the surplus assets of the Company a return of share premium in an amount which differed from that which would have been received by "B" preference shareholders, as the "B" preference shares and the "B1" preference shares were issued at different share premiums.

- As all of the "B" preference shares will effectively have the same rights and privileges, Article 8.3.3 now provides that each issue of "B" preference shares shall constitute the same class of preference share (and that all existing "B" preference shares and "B1" preference shares in issue shall henceforth constitute the same class of preference share).

- Article 8.3.6 now provides that the "B" preference dividends shall, if declared, be due and payable on the last Monday in February and the last Monday in August of each year provided, however, that if this dividend date is not permissible in terms of the requirements of any stock exchange on which the "B" preference shares may be listed at any time, then it shall be the nearest date which is so permissible.

- Article 8.3.7 now provides that the rate payable in respect of the "B" preference shares shall be 68% of the prime rate which shall be calculated on a deemed

issue price of R100, notwithstanding the actual issue price of any "B" preference share. Consequently, notwithstanding the actual issue price at which any "B" preference share may be issued at any time, each and every "B" preference shareholder will receive the same "B" preference dividend.

The effect of special resolution number 4 is to amend the Articles of Association of the Company accordingly.

As a consequence of the aforesaid amendments, the Company will re-designate the "B1" preference shares as "B" preference shares.

Shareholders have been advised that Secondary Tax on Companies is in the process of being replaced by a "dividend tax". In this regard, shareholders are directed to the SENS announcement published by the Company on 27 February 2007 and reminded that, should the Company wish to compensate the holders of the "B" preference shares for the dividend tax this would require further amendment of the Articles of Association of the Company and therefore the approval of the holders of the ordinary shares and the "B" preference shares.

Shareholders are further advised that the Company has obtained a Binding Class Ruling from South African Revenue Services, dated 15 July 2009, in respect of the proposed re-designation of the "B1" preference shares as "B" preference shares, which states that such re-designation will not be a capital gains tax event for the holders of the "B1" preference shares on the basis that the variation of rights does not constitute a "disposal" as defined in paragraph 1 of the Eighth Schedule to the Income Tax Act. A copy of this ruling will be provided to shareholders, on request.

By order of the Board of directors

AH Arnott
BCom, CA(SA)
Company secretary

14 September 2009

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 annual general 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 Transfer Secretaries of the Company not less than 48 (forty eight) hours prior to the meeting excluding Saturdays, Sundays and public holidays.

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 the agreement with their CSDP:

- to furnish the CSDP with their voting instructions; and
- in the event that they wish to attend the annual general 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.

FIRSTRAND

FORM OF PROXY – ORDINARY SHAREHOLDERS

{p411}

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 JSE "B1" Preference Share Code: FSPP JSE ISIN: ZAE000070900 NSX Ordinary Share Code: FSR
("FirstRand" or "the Company" or "the Group")

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 2009 annual general meeting of the Company to be held in the Auditorium, WesBank Offices, Enterprise Road, Fairland on Wednesday 25 November 2009 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 instruction 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			
1.1 Lauritz Lanser Dippenaar			
1.2 Vivian Wade Bartlett			
1.3 David John Alistair Craig			
1.4 Ronald Keith Store			
1.5 Benedict James van der Ross			
Election of directors by way of separate resolutions			
2.1 Johan Petrus Burger			
2.2 Deepak Premnarayen			
2.3 Jan Hendrik van Greuning			
2.4 Matthys Hendrik Visser			
Ordinary resolution number 1 Non executive directors fees for the year to 30 June 2010			
Ordinary resolution number 2 Re-appointment of auditors			
Ordinary resolution number 3 Auditors remuneration			
Ordinary resolution number 4 Placing of the unissued ordinary shares under the control of directors			
Ordinary resolution number 5 General issue of ordinary shares for cash			
Ordinary resolution number 6 General issue of preference shares for cash			
Ordinary resolution number 7 Adoption of the FirstRand Limited Conditional Share Plan 2009			
Special resolution number 1 General repurchase of Company shares			
Special resolution number 2 Amendments to the Memorandum of Association			
Special resolution number 3 Amendments to the Articles of Association (Banks Act)			
Special resolution number 4 Amendments to the Articles of Association ("B" preference shares)			

Signed at on 2009

Signature/s

Assisted by
(where applicable) PLEASE SEE NOTES ON REVERSE SIDE OF THE FORM

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 members 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 members 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 members 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 be forwarded to reach the Companys 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 12, Kaiserkrone Centre, Post Street Mall, Windhoek (PO Box 2401, Windhoek, Namibia), fax number +264 6124-8531 by no later than 09:00 on Monday 23 November 2009. 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.

FIRSTRAND

FORM OF PROXY – "B" AND "B1" PREFERENCE SHAREHOLDERS

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 JSE "B1" Preference Share Code: FSPP JSE ISIN: ZAE000070900 NSX Ordinary Share Code: FSR
("FirstRand" or "the Company" or "the Group")

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 "B" and "B1" preference shares of the Company and who are unable to attend the 2009 annual general meeting of the Company to be held in the Auditorium, WesBank Offices, Enterprise Road, Fairland on Wednesday 25 November 2009 at 09:00 ("the annual general meeting").

I/We,

Of (address)

Being the holder/s of "B" and/or "B1" preference 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 instruction overleaf).

	Insert an "X" or the number of votes exercisable (one vote per "B" or "B1" preference share)		
	In favour of	Against	Abstain
Special resolution number 4 Amendments to the Articles of Association ("B" preference shares)			

Signed at on 2009

Signature/s

Assisted by
(where applicable)

PLEASE SEE NOTES ON REVERSE SIDE OF THE FORM

USE OF PROXIES

A member who holds "B" or "B1" preference 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 in a poll at the annual general meeting of the Company shall have one vote for every "B" or "B1" preference share held.

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 members 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 members 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 members 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 be forwarded to reach the Companys 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 12, Kaiserkrone Centre, Post Street Mall, Windhoek (PO Box 2401, Windhoek, Namibia), fax number +264 6124-8531 by no later than 09:00 on Monday 23 November 2009. 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.

FIRSTRAND LIMITED

(Incorporated in the Republic of South Africa)
(Registration number: 1966/010753/06)
JSE "B" Preference Share Code: FSRP
JSE ISIN: ZAE000060141
("FirstRand" or "the Company" or "the Group")

1. Introduction and rationale

FirstRand "B" preference shareholders are referred to the announcement which was released on SENS on 22 September 2009.

FirstRand currently has in issue two separate classes of preference shares, namely "B" preference shares and "B" preference shares which were designated by the Company and listed on the JSE Limited as "B1" preference shares ("the "B1" preference shares"). Both classes have the same economic rights and privileges, save that upon a winding-up of the Company, the "B1" preference shares confer the right to receive out of the surplus assets of the Company a return of share premium in an amount which differs from that which would be received by "B" preference shareholders, as the "B" preference shares and the "B1" preference shares were issued at different share premiums. However, for reasons unknown to the Company, from time to time the "B" preference shares and "B1" preference shares trade at different share prices on the JSE Limited ("JSE").

In order to eliminate this pricing disparity and to remove any market perception that the "B" preference shares and "B1" preference shares are economically different FirstRand proposes a merger of the rights and privileges attaching to the "B" preference shares and the "B1" preference shares and a consequent re-designation of the "B1" preference shares as "B" preference shares ("the proposed re-designation"). The proposed re-designation, if approved, will enhance the liquidity of the "B" preference shares and the "B1" preference shares and also enable the Company to issue further "B" preference shares without designating such preference shares as a separate class with multiple share codes on the JSE. In effect, the "B1" preference share class will cease to exist.

The proposed re-designation requires that the Articles of Association of the Company be amended by way of a special resolution, the terms of which are set out in the accompanying notice of general meeting.

2. Conditions precedent

The proposed re-designation is subject to:

- approval by shareholders in annual general meeting and by the holders of "B" preference shares and the holders of "B1" preference shares in separate general meetings ("general meetings") of the special resolution authorising the specific amendments to the rights and privileges attaching to the "B" preference shares which are contained in the Company's Articles of Association; and
- registration of the special resolutions by the Companies and Intellectual Property Registration Office.

3. The salient dates for the proposed re-designation are as follows:

Salient dates	2009/2010
Forms of proxy to be received by the Transfer Secretaries by no later than 09:00 on	Monday, 23 November
The annual general meeting to be held at 09:00 on	Wednesday, 25 November
The general meeting of "B" preference shareholders to be held at 09:30 on	Wednesday, 25 November
The general meeting of "B1" preference shareholders to be held at 09:45 on	Wednesday, 25 November
Results of the annual general meeting and general meetings released on SENS on	Wednesday, 25 November
Finalisation announcement released on SENS on	Friday, 18 December
Last date to trade in "B1" preference shares to be eligible for the proposed re-designation on	Thursday, 31 December
"B1" preference shares suspended on the JSE from commencement of trading on	Monday, 4 January
Commencement of trading of the re-designated "B" preference shares under ISIN ZAE000060141 (Share code: FSRP) on	Monday, 4 January
Form of surrender to be submitted by no later than 12:00 on	Friday, 8 January
Record date for the proposed re-designation on	Friday, 8 January
"B" preference share certificates posted to "B1" preference shareholders who hold their shares in certificated form (provided that old share certificate/s have been surrendered to the Transfer Secretaries by 12:00 on record date) on	Monday, 11 January
"B" preference shares credited to dematerialised "B1" preference shareholders accounts held at their CSDP or broker and share balances updated on	Monday, 11 January
Listing of "B1" preference shares on the JSE terminated at commencement of trading on	Monday, 11 January

"B1" preference share certificates may not be dematerialised or rematerialised after Thursday, 31 December 2009.

These dates are subject to amendment. Any amendments will be published on SENS.

By order of the Board of directors

AH Arnott
BCom, CA(SA)
Company secretary

14 September 2009

FIRSTRAND LIMITED

(Incorporated in the Republic of South Africa)
(Registration number: 1966/010753/06)
JSE "B" Preference Share Code: FSRP
JSE ISIN: ZAE000060141
("FirstRand" or "the Company" or "the Group")

Notice is hereby given that a general meeting of "B" preference shareholders of FirstRand will be held in the Auditorium, WesBank Offices, Enterprise Road, Fairland on Wednesday, 25 November 2009 at 09:30 (or as soon thereafter as the annual general meeting of FirstRand has been concluded) to, if approved, pass the following resolution with or without modification:

Resolution

"Approval of terms of special resolution number 4 passed at the annual general meeting of the Company

"Resolved that, subject to the passing of the resolution to be proposed at the separate general meeting of the holders of the "B" preference shares which were designated by the Company and listed on the JSE Limited as "B1" preference shares ("the "B1" preference shares") to be held after this separate general meeting of the holders of the "B" preference shares, as a resolution to be passed in terms of Article 8.3.13.1 of the Articles of Association of the Company, the terms of special resolution number 4 passed at the annual general meeting of the Company held in the Auditorium at Wesbank, Enterprise Road, Fairland on 25 November 2009 at 09:00 be and are hereby approved."

Article 8.3.13.1 of the Articles of Association of the Company requires a 75% majority of votes to be cast in favour of the resolution at the separate general meeting by the "B" preference shareholders present or represented by proxy.

The terms of special resolution number 4 are:

Amendments to the Articles of Association

"Resolved that, subject to the passing of the resolutions to be proposed at the separate general meetings of the holders of each of the "B" preference shares and the "B" preference shares which were designated by the Company and listed on the JSE Limited as "B1" preference shares to be held after this annual general meeting, the Articles of Association of the Company be and are hereby amended as follows:

1. Article 8.3.1 be amended by deleting the existing Article 8.3.1 in its entirety and inserting the following new Article 8.3.1 in place thereof:

"8.3.1 The "B" preference shares shall confer on the holders thereof the right, on a winding-up of the Company, to the repayment, out of the surplus assets of the Company, of the nominal capital paid up thereon and a premium (calculated by dividing the total premium paid up in respect of all of the "B" preference shares then in issue by the total number of "B" preference shares then in issue), together with the payment of all arrear dividends (being dividends that have been declared but not paid) calculated to the date of repayment of capital, in priority to the ordinary shares of the Company and any other class of shares of the Company not ranking in priority to or *pari passu* with the "B" preference shares but shall have no further right to participate in the profits or assets of the Company."

2. Article 8.3.3 be amended by deleting the existing Article 8.3.3 in its entirety and inserting the following new Article 8.3.3 in place thereof:

"8.3.3 In respect of each issue of "B" preference shares, the "B" preference shares shall have the special rights and privileges as set out in this Article 8.3 and shall constitute the same class of preference share (and all existing "B" preference shares and "B" preference shares which were designated by the Company and listed on the JSE Limited as "B1" preference shares, in issue, shall henceforth constitute the same class of preference share)."

3. Article 8.3.6 be amended by deleting the existing Article 8.3.6 in its entirety and inserting the following new Article 8.3.6 in place thereof:

"8.3.6 Save for the first "B" preference dividend, the "B" preference dividend shall, if declared, be due and payable six monthly in arrear, on the last Monday in February and the last Monday in August of each year or such other dates in each year, being approximately six months apart, as may be determined by the Directors in their sole discretion, in respect of each allotment and issue of the "B" preference shares, provided that if any such date is not a business day then it shall be the immediately succeeding date which is a business day and provided further that if any such date is not permissible in terms of the requirements of any stock exchange on which the "B" preference shares may be listed at any time then it shall be the nearest date which is so permissible ("the dividend dates"), to "B" preference shareholders registered on the business day immediately preceding each dividend date (a "business day" being any day other than a Saturday, Sunday or proclaimed public holiday). The first "B" preference dividend, if declared, shall be in respect of the initial period from the issue date to the immediately following dividend date (both days inclusive), and thereafter in respect of each period preceding a dividend date (including the first day and the last day of such period). The "B" preference dividends shall, if declared, be paid on each dividend date."

4. Article 8.3.7 be amended by deleting the existing Article 8.3.7 in its entirety and inserting the following new Article 8.3.7 in place thereof:

"8.3.7 The "B" preference dividend for each of the "B" preference shares shall, subject to Article 8.3.9, be calculated in arrear in accordance with the following formula:

$$A = \frac{B \times C \times D \times E}{365}$$

Where:

A = the "B" preference dividend per "B" preference share;

B = 68% (sixty eight percent);

C = the average prevailing interest rate (percent, per annum compounded monthly) from time to time published by FirstRand Bank Limited as being its minimum overdraft rate (as certified by any manager of FirstRand Bank Limited whose appointment and designation need not be proved) ("the prime rate") expressed as a percentage over the number of days of the relevant period for which the dividend is payable but ignoring, for purposes of this calculation, any change in the prime rate between the date on which a dividend is declared and the dividend date (being the date on which it is due and payable);

D = the number of days of the relevant period for which the "B" preference dividend is payable;

E = R100 (one hundred Rand), being the deemed issue price of each of the "B" preference shares."

Reason for and effect of special resolution number 4

The reason for special resolution number 4 is to amend the Articles of Association of the Company (by amending the rights and privileges attaching to the "B" preference shares in the capital of the Company, as set out in Article 8.3 of the Articles of Association of the Company). The rights and privileges attaching to the "B" preference shares are amended in the following respects:

- As the Company has issued and may issue further "B" preference shares at different issue prices, Article 8.3.1 now provides that, in the event of a winding-up of the Company, each "B" preference shareholder shall receive out of the surplus assets of the Company, *inter alia*, an amount equal to the nominal capital paid up on such "B" preference shares and a premium (calculated by dividing the total premium paid up in respect of all of the "B" preference shares then in issue by the total number of "B" preference shares then in issue).
- Prior to this amendment, on a winding-up of the Company the "B" preference shares which were designated by the Company and listed on the JSE Limited as "B1" preference shares ("the "B1" preference shares") conferred the right to receive out of the surplus assets of the Company a return of share premium in an amount which differed from that which would have been received by "B" preference shareholders, as the "B" preference shares and the "B1" preference shares were issued at different share premiums.
- As all of the "B" preference shares will effectively have the same rights and privileges, Article 8.3.3 now provides that each issue of "B" preference shares shall constitute the same class of preference share (and that all existing "B" preference shares and "B1" preference shares in issue shall henceforth constitute the same class of preference share).
- Article 8.3.6 now provides that the "B" preference dividends shall, if declared, be due and payable on the last Monday in February and the last Monday in August of each year provided, however, that if this dividend date is not permissible in terms of the requirements of any stock exchange on which the "B" preference shares may be listed at any time, then it shall be the nearest date which is so permissible.
- Article 8.3.7 now provides that the rate payable in respect of the "B" preference shares shall be 68% of the prime rate, which shall be calculated on a deemed issue price of R100, notwithstanding the actual issue price of any "B" preference share. Consequently, notwithstanding the actual issue price at which any "B" preference share may be issued at any time, each and every "B" preference shareholders will receive the same "B" preference dividend.

The effect of special resolution number 4 is to amend the Articles of Association of the Company accordingly.

As a consequence of the aforesaid amendments, the Company will re-designate the "B1" preference shares as "B" preference shares.

"B" preference shareholders have been advised that Secondary Tax on Companies is in the process of being replaced by a "dividend tax". In this regard, "B" preference shareholders are directed to the SENS announcement published by the Company on 27 February 2007 and reminded that, should the Company wish to compensate the holders of the "B" preference shares for the dividend tax this would require further amendment of the Articles of Association of the Company and therefore the approval of the holders of the ordinary shares and the "B" preference shares.

"B" preference shareholders are further advised that the Company has obtained a Binding Class Ruling from South African Revenue Services, dated 15 July 2009, in respect of the proposed re-designation of the "B1" preference shares as "B" preference shares, which states that such re-designation will not be a capital gains tax event for the holders of the "B1" preference shares on the basis that the variation of rights does

not constitute a "disposal" as defined in paragraph 1 of the Eighth Schedule to the Income Tax Act. A copy of this ruling will be provided to shareholders, on request.

By order of the Board of directors

AH Arnott
BCom, CA(SA)
Company secretary

14 September 2009

ACTION REQUIRED BY "B" PREFERENCE SHAREHOLDERS

"B" preference shareholders wishing to attend the "B" general meeting have to ensure beforehand with the Transfer Secretaries of the Company that their "B" preference shares are in fact registered in their name.

"B" preference shareholders who have not dematerialised their shares or have dematerialised their shares with "own name" registration are entitled to attend and vote at the "B" general meeting and are entitled to appoint a proxy or proxies to attend, speak and vote in their stead. The person appointed need not be a "B" preference shareholder.

Proxy forms must be forwarded to reach the Company's Transfer Secretaries by no later than 48 hours (forty eight hours) prior to the "B" general meeting excluding Saturdays, Sundays and public holidays.

"B" preference shareholders who have dematerialised their shares must contact their Central Securities Depository Participant ("CSDP") or broker in the manner and time stipulated in the agreement with their CSDP or broker:

- to furnish the CSDP or broker with their voting instructions; and
- in the event that they wish to attend the "B" general meeting, to obtain the necessary authority to do so.

Voting will be by way of a poll and every "B" preference shareholder of the Company present in person or represented by proxy shall have one vote for every "B" preference share held in the Company by such "B" preference shareholder.

FORM OF PROXY – "B" PREFERENCE SHAREHOLDERS

FIRSTRAND LIMITED

(Registration number: 1966/010753/06)
JSE "B" Preference Share Code: FSRP JSE ISIN: ZAE000060141
("FirstRand" or "the Company")

Only for use by "B" preference shareholders who have not dematerialised their "B" preference shares or who have dematerialised their "B" preference shares with own name registration.

All other dematerialised "B" preference shareholders must contact their CSDP or broker to make the relevant arrangements concerning voting and/or attendance at the general meeting for "B" preference shareholders ("the "B" general meeting").

For completion by the aforesaid registered members who hold "B" preference shares of the Company and who are unable to attend the "B" general meeting of the Company to be held in the Auditorium, WesBank Offices, Enterprise Road, Fairland on Wednesday 25 November 2009 at 09:30 (or as soon thereafter as the annual general meeting of the Company has been concluded).

I/We,

Of (address)

Being the holder/s of "B" preference shares in the Company, hereby appoint (see instruction overleaf)

1. or, failing him/her

2. or, failing him/her

3. the chairman of the "B" 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 "B" 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 "B" preference share)		
	In favour of	Against	Abstain
Resolution Approval of the terms of special resolution number 4 passed at the annual general meeting of the Company			

Signed at on 2009

Signature/s

Assisted by
(where applicable)

PLEASE SEE NOTES ON REVERSE SIDE OF THE FORM

USE OF PROXIES

A member who holds "B" preference shares in FirstRand ("member") is entitled to attend and vote at the "B" 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.

Voting will be by way of a poll and accordingly every "B" preference 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 "B" general meeting", but any such deletion must be initialled by the member. Should this space be left blank, the chairman of the "B" general meeting will exercise the proxy. The person whose name appears first on the proxy form and who is present at the "B" 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 "B" 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 Company's Transfer Secretaries.
4. To be valid, the completed proxy form must be 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 12, Kaiserkrone Centre, Post Street Mall, Windhoek (PO Box 2401, Windhoek, Namibia), fax number +264 6124-8531 by no later than 09:00 on Monday 23 November 2009. Proxy forms may only be completed by members who have not dematerialised their "B" preference shares or who have dematerialised their "B" preference 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 "B" general meeting.
6. The completion and lodging of this proxy form shall not preclude the relevant member from attending the "B" 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 "B" 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.

FIRSTRAND LIMITED

(Incorporated in the Republic of South Africa)
(Registration number: 1966/010753/06)
JSE "B1" Preference Share Code: FSPP
JSE ISIN: ZAE000070900
("FirstRand" or "the Company")

1. Introduction and rationale

FirstRand "B1" preference shareholders are referred to the announcement which was released on SENS on 22 September 2009.

FirstRand currently has in issue two separate classes of preference shares, namely "B" preference shares and "B" preference shares which were designated by the Company and listed on the JSE Limited as "B1" preference shares ("the "B1" Preference Shares"). Both classes have the same economic rights and privileges, save that upon a winding-up of the Company, the "B1" preference shares confer the right to receive out of the surplus assets of the Company a return of share premium in an amount which differs from that which would be received by "B" preference shareholders, as the "B" preference shares and the "B1" preference shares were issued at different share premiums. However, for reasons unknown to the Company, from time to time the "B" preference shares and "B1" preference shares trade at different share prices on the JSE Limited ("JSE").

In order to eliminate this pricing disparity and to remove any market perception that the "B" preference shares and "B1" preference shares are economically different, FirstRand proposes a merger of the rights and privileges attaching to the "B" preference shares and the "B1" preference shares and a consequent re-designation of the "B1" preference shares as "B" preference shares ("the proposed re-designation"). The proposed re-designation, if approved, will enhance the liquidity of the "B" preference shares and the "B1" Preference Shares and also enable the Company to issue further "B" preference shares without designating such preference shares as a separate class with multiple share codes on the JSE. In effect, the "B1" preference share class will cease to exist.

The proposed re-designation requires that the Articles of Association of the Company be amended by way of a special resolution, the terms of which are set out in the accompanying notice of general meeting.

2. Conditions precedent

The proposed re-designation is subject to:

- approval by shareholders in annual general meeting and by the holders of "B" preference shares and the holders of "B1" preference shares in separate general meetings ("general meetings") of the special resolution authorising the specific amendments to the rights and privileges attaching to the "B" preference shares which are contained in the Company's Articles of Association, and
- registration of the special resolution by the Companies and Intellectual Property Registration Office.

3. The salient dates for the proposed re-designation are as follows:

Salient dates	2009/2010
Forms of proxy to be received by the Transfer Secretaries by no later than 09:00 on	Monday, 23 November
The annual general meeting to be held at 09:00 on	Wednesday, 25 November
The general meeting of "B" preference shareholders to be held at 09:30 on	Wednesday, 25 November
The general meeting of "B1" preference shareholders to be held at 09:45 on	Wednesday, 25 November
Results of the annual general meeting and general meetings released on SENS on	Wednesday, 25 November
Finalisation announcement released on SENS on	Friday, 18 December
Last date to trade in "B1" preference shares to be eligible for the proposed re-designation on	Thursday, 31 December
"B1" preference shares suspended on the JSE from commencement of trading on	Monday, 4 January
Commencement of trading of the re-designated "B" preference shares under ISIN ZAE000060141 (Share code: FSRP) on	Monday, 4 January
Form of surrender to be submitted by no later than 12:00 on	Friday, 8 January
Record date for the proposed re-designation on	Friday, 8 January
"B" preference share certificates posted to "B1" preference shareholders who hold their shares in certificated form (provided that old share certificate/s have been surrendered to the Transfer Secretaries by 12:00 on record date) on	Monday, 11 January
"B" preference shares credited to dematerialised "B1" preference shareholders accounts held at their CSDP or broker and share balances updated on	Monday, 11 January
Listing of "B1" preference shares on the JSE terminated at commencement of trading on	Monday, 11 January

"B1" preference share certificates may not be dematerialised or rematerialised after Thursday, 31 December 2009.

These dates are subject to amendment. Any amendments will be published on SENS.

By order of the Board of directors

AH Arnott
BCom, CA(SA)
Company secretary

14 September 2009

FIRSTRAND LIMITED

(Incorporated in the Republic of South Africa)
(Registration number: 1966/010753/06)
JSE "B1" Preference Share Code: FSPP
JSE ISIN: ZAE000070900
("FirstRand" or "the Company")

Notice is hereby given that a general meeting of "B1" preference shareholders of FirstRand will be held in the Auditorium, WesBank Offices, Enterprise Road, Fairland on Wednesday, 25 November 2009 at 09:45 (or as soon thereafter as the general meeting of "B" preference shareholders has been concluded) to, if approved, pass the following resolution with or without modification:

Resolution

Approval of terms of special resolution number 4 passed at the annual general meeting of the Company

"Resolved that, subject to the passing of the resolution to be proposed at the separate general meeting of the holders of the "B" preference shares to be held before this separate general meeting of the holders of the "B" preference shares which were designated by the Company and listed on the JSE Limited as "B1" preference shares ("the "B1" preference shares"), as a resolution to be passed in terms of Article 8.3.13.1 of the Articles of Association of the Company, the terms of special resolution number 4 passed at the annual general meeting of the Company held in the Auditorium at Wesbank, Enterprise Road, Fairland on 25 November 2009 at 09:00 be and are hereby approved."

Article 8.3.13.1 of the Articles of Association of the Company requires a 75% majority of votes to be cast in favour of the resolution at the separate general meeting by the "B1" preference shareholders present or represented by proxy.

The terms of special resolution number 4 are:

Amendments to the Articles of Association

"Resolved that, subject to the passing of the resolutions to be proposed at the separate general meetings of the holders of each of the "B" preference shares and the "B" preference shares which were designated by the Company and listed on the JSE Limited as "B1" preference shares to be held after this annual general meeting, the Articles of Association of the Company be and are hereby amended as follows:

1. Article 8.3.1 be amended by deleting the existing Article 8.3.1 in its entirety and inserting the following new Article 8.3.1 in place thereof:

"8.3.1 The "B" preference shares shall confer on the holders thereof the right, on a winding-up of the Company, to the repayment, out of the surplus assets of the Company, of the nominal capital paid up thereon and a premium (calculated by dividing the total premium paid up in respect of all of the "B" preference shares then in issue by the total number of "B" preference shares then in issue), together with the payment of all arrear dividends (being dividends that have been declared but not paid) calculated to the date of repayment of capital, in priority to the ordinary shares of the Company and any other class of shares of the Company not ranking in priority to or *pari passu* with the "B" preference shares but shall have no further right to participate in the profits or assets of the Company."

2. Article 8.3.3 be amended by deleting the existing Article 8.3.3 in its entirety and inserting the following new Article 8.3.3 in place thereof:

"8.3.3 In respect of each issue of "B" preference shares, the "B" preference shares shall have the special rights and privileges as set out in this Article 8.3 and shall constitute the same class of preference share (and all existing "B" preference shares and "B" preference shares which were designated by the Company and listed on the JSE Limited as "B1" preference shares, in issue, shall henceforth constitute the same class of preference share)."

3. Article 8.3.6 be amended by deleting the existing Article 8.3.6 in its entirety and inserting the following new Article 8.3.6 in place thereof:

"8.3.6 Save for the first "B" preference dividend, the "B" preference dividend shall, if declared, be due and payable six monthly in arrear, on the last Monday in February and the last Monday in August of each year or such other dates in each year, being approximately six months apart, as may be determined by the Directors in their sole discretion, in respect of each allotment and issue of the "B" preference shares, provided that if any such date is not a business day then it shall be the immediately succeeding date which is a business day and provided further that if any such date is not permissible in terms of the requirements of any stock exchange on which the "B" preference shares may be listed at any time then it shall be the nearest date which is so permissible ("the dividend dates"), to "B" preference shareholders registered on the business day immediately preceding each dividend date (a "business day" being any day other than a Saturday, Sunday or proclaimed public holiday). The first "B" preference dividend, if declared, shall be in respect of the initial period from the issue date to the immediately following dividend date (both days inclusive), and thereafter in respect of each period preceding a dividend date (including the first day and the last day of such period). The "B" preference dividends shall, if declared, be paid on each dividend date."

4. Article 8.3.7 be amended by deleting the existing Article 8.3.7 in its entirety and inserting the following new Article 8.3.7 in place thereof:

"8.3.7 The "B" preference dividend for each of the "B" preference shares shall, subject to Article 8.3.9, be calculated in arrear in accordance with the following formula:

$$A = \frac{B \times C \times D \times E}{365}$$

Where:

A = the "B" preference dividend per "B" preference share;

B = 68% (sixty eight percent);

C = the average prevailing interest rate (percent, per annum compounded monthly) from time to time published by FirstRand Bank Limited as being its minimum overdraft rate (as certified by any manager of FirstRand Bank Limited whose appointment and designation need not be proved) ("the prime rate") expressed as a percentage over the number of days of the relevant period for which the dividend is payable but ignoring, for purposes of this calculation, any change in the prime rate between the date on which a dividend is declared and the dividend date (being the date on which it is due and payable);

D = the number of days of the relevant period for which the "B" preference dividend is payable;

E = R100 (one hundred Rand), being the deemed issue price of each of the "B" preference shares."

Reason for and effect of special resolution number 4

The reason for special resolution number 4 is to amend the Articles of Association of the Company (by amending the rights and privileges attaching to the "B" preference shares in the capital of the Company, as set out in Article 8.3 of the Articles of Association of the Company). The rights and privileges attaching to the "B" preference shares are amended in the following respects:

- As the Company has issued and may issue further "B" preference shares at different issue prices, Article 8.3.1 now provides that, in the event of a winding-up of the Company, each "B" preference shareholder shall receive out of the surplus assets of the Company, *inter alia*, an amount equal to the nominal capital paid up on such "B" preference shares and a premium (calculated by dividing the total premium paid up in respect of all of the "B" preference shares then in issue by the total number of "B" preference shares then in issue).

  Prior to this amendment, on a winding-up of the Company the "B" preference shares which were designated by the Company and listed on the JSE Limited as "B1" preference shares ("the "B1" preference shares") conferred the right to receive out of the surplus assets of the Company a return of share premium in an amount which differed from that which would have been received by "B" preference shareholders, as the "B" preference shares and the "B1" preference shares were issued at different share premiums.

- As all of the "B" preference shares will effectively have the same rights and privileges, Article 8.3.3 now provides that each issue of "B" preference shares shall constitute the same class of preference share (and that all existing "B" preference shares and "B1" preference shares in issue shall henceforth constitute the same class of preference share).

- Article 8.3.6 now provides that the "B" preference dividends shall, if declared, be due and payable on the last Monday in February and the last Monday in August of each year provided, however, that if this dividend date is not permissible in terms of the requirements of any stock exchange on which the "B" preference shares may be listed at any time, then it shall be the nearest date which is so permissible.

- Article 8.3.7 now provides that the rate payable in respect of the "B" preference shares shall be 68% of the prime rate, which shall be calculated on a deemed issue price of R100, notwithstanding the actual issue price of any "B" preference share. Consequently, notwithstanding the actual issue price at which any "B" preference share may be issued at any time, each and every "B" preference shareholder will receive the same "B" preference dividend.

The effect of special resolution number 4 is to amend the Articles of Association of the Company accordingly."

As a consequence of the aforesaid amendments, the Company will re-designate the "B1" preference shares as "B" preference shares.

"B1" preference shareholders have been advised that Secondary Tax on Companies is in the process of being replaced by a "dividend tax". In this regard, "B" preference shareholders are directed to the SENS announcement published by the Company on 27 February 2007 and reminded that, should the Company wish to compensate the holders of the "B" preference shares for the dividend tax this would require further amendment of the Articles of Association of the Company and therefore the approval of the holders of the ordinary shares and the "B" preference shares.

"B1" preference shareholders are further advised that the Company has obtained a Binding Class Ruling from South African Revenue Services, dated 15 July 2009, in respect of the proposed re-designation of the "B1" preference shares as "B" preference shares, which states that such re-designation will not be a capital gains tax event for the holders of the "B1" preference shares on the basis that the variation of rights does not constitute a "disposal" as defined in paragraph 1 of the Eighth Schedule to the Income Tax Act. A copy of this ruling will be provided to shareholders, on request.

By order of the Board of directors

AH Arnott
BCom, CA(SA)
Company secretary

14 September 2009

"B1" preference shareholders wishing to attend the "B1" general meeting have to ensure beforehand with the Transfer Secretaries of the Company that their "B1" preference shares are in fact registered in their name.

If you have not dematerialised your "B1" preference shares and therefore hold documents of title in respect of your "B1" preference shares:

– "B1" preference shareholders who have not dematerialised their "B1" preference shares or have dematerialised their "B1" preference shares with "own name" registration are entitled to attend and vote at the "B1" general meeting and are entitled to appoint a proxy or proxies to attend, speak and vote in their stead. The person appointed need not be a "B1" preference shareholder.

– Proxy forms must be forwarded to reach the Company's Transfer Secretaries by no later than 48 hours (forty eight hours) prior to the "B1" general meeting excluding Saturdays, Sundays and public holidays.

– Certificated holders of "B1" preference shares in FirstRand are required to surrender their documents of title prior to the record date, which is expected to be Friday, 8 January 2009. The documents of title so surrendered will be held in trust by the Transfer Secretaries on behalf of the registered "B1" preference shareholder by the Transfer Secretaries pending the proposed re-designation of the Company's "B1" preference shares as "B" preference shares becoming operative.

– In the event that the proposed re-designation does not become operative, the Transfer Secretaries will, within five business days of such event, return the documents of title to the certificated "B1" preference shareholders, by registered post, at the risk of such "B1" preference shareholder.

If you have dematerialised your "B1" preference shares or have dematerialised your "B1" preference shares with "own name" registration:

"B1" preference shareholders who have dematerialised their "B1" preference shares must contact their Central Securities Depository Participant ("CSDP") or broker in the manner and time stipulated in the agreement with their CSDP or broker:

– to furnish the CSDP or broker with their voting instructions; and

– in the event that they wish to attend the "B1" general meeting, to obtain the necessary authority to do so.

Voting

Voting will be by way of a poll and every "B1" preference shareholder of the Company present in person or represented by proxy shall have one vote for every "B1" preference share held in the Company by such "B1" preference shareholder.

FIRSTRAND

FORM OF PROXY – "B1" PREFERENCE SHAREHOLDERS

FIRSTRAND LIMITED

(Registration number: 1966/010753/06)
JSE "B1" Preference Share Code: FSPP JSE ISIN: ZAE000070900
("FirstRand" or "the Company")

Only for use by "B1" preference shareholders who have not dematerialised their "B1" preference shares or who have dematerialised their "B1" preference shares with own name registration.

All other dematerialised "B1" preference shareholders must contact their CSDP or broker to make the relevant arrangements concerning voting and/or attendance at the general meeting for "B1" preference shareholders ("the "B1" general meeting").

For completion by the aforesaid registered members who hold "B1" preference shares of the Company and who are unable to attend the "B1" general meeting of the Company to be held in the Auditorium, WesBank Offices, Enterprise Road, Fairland on Wednesday 25 November 2009 at 09:45 (or as soon thereafter as the "B" general meeting has been concluded).

I/We, ______________________________

Of (address) ______________________________

Being the holder/s of ______________ "B1" preference shares in the Company, hereby appoint (see instruction overleaf)

1. ______________________________ or, failing him/her

2. ______________________________ or, failing him/her

3. the chairman of the "B1" 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 "B1" 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 "B1" preference share)		
	In favour of	Against	Abstain
Resolution Approval of the terms of special resolution number 4 passed at the annual general meeting of the Company			

Signed at ______________ on ______________ 2009

Signature/s ______________________________

Assisted by ______________________________
(where applicable)

PLEASE SEE NOTES ON REVERSE SIDE OF THE FORM

USE OF PROXIES

A member who holds "B1" preference shares in FirstRand ("member") is entitled to attend and vote at the "B1" 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.

Voting will be by way of a poll and accordingly every "B1" preference 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 "B1" general meeting", but any such deletion must be initialled by the member. Should this space be left blank, the chairman of the "B1" general meeting will exercise the proxy. The person whose name appears first on the proxy form and who is present at the "B1" 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 "B1" general meeting, as he/she thinks fit in respect of all the 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 Company's Transfer Secretaries.
4. To be valid, the completed proxy form must be 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 12, Kaiserkrone Centre, Post Street Mall, Windhoek (PO Box 2401, Windhoek, Namibia), fax number +264 6124-8531 by no later than 09:00 on Monday 23 November 2009. Proxy forms may only be completed by members who have not dematerialised their "B1" preference shares or who have dematerialised their "B1" preference 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 "B1" general meeting.
6. The completion and lodging of this proxy form shall not preclude the relevant member from attending the "B1" general meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof, should such "B1" preference shareholder 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 "B1" general meeting may reject or accept any proxy form which is completed other than in accordance with these instructions provided that he is satisfied as to the manner in which a member wishes to vote.

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FIRSTRAND LIMITED

(Registration number: 1966/010753/06)
JSE "B1" Preference Share Code: FSPP JSE ISIN: ZAE000070900
("FirstRand" or "the Company")

THE SURRENDER OF DOCUMENTS OF TITLE IS ONLY APPLICABLE TO CERTIFICATED HOLDERS OF "B1" PREFERENCE SHARES IN FIRSTRAND

This form is attached for the convenience of certificated holders of "B1" preference shares in FirstRand ("B1" preference shareholder/s") who are required to surrender their documents of title prior to the record date, which is expected to be Friday 8 January 2009.

The documents of title so surrendered will be held in trust by the Transfer Secretaries on behalf of the registered "B1" preference shareholder by the Transfer Secretaries pending the proposed re-designation of the Company's "B1" preference shares as "B" preference shares ("the proposed re-designation") becoming operative.

In the event that the proposed re-designation does not become operative, the Transfer Secretaries will, within five business days of such event, return the documents of title to the certificated "B1" preference shareholders, by registered post, at the risk of such "B1" preference shareholder.

Notes:

1. A separate form is required for each certificated "B1" preference shareholder.
2. Part A must be completed by all certificated "B1" preference shareholders who return this form.
3. No receipts will be issued for documents of title lodged unless specifically requested.

The Transfer Secretaries

By hand

Computershare Investor Services (Pty) Limited
Ground Floor
70 Marshall Street
Johannesburg
2001

By post

Computershare Investor Services (Pty) Limited
PO Box 61763
Marshalltown
2107

FORM OF SURRENDER AND TRANSFER FOR CERTIFICATED "B1" PREFERENCE SHAREHOLDERS

Dear Sirs

I/We hereby surrender and enclose the "B1" preference share certificates, certificated transfer deeds and/or other documents of title, details of which have been completed in section 5 below, in respect of my/our holding of "B1" preference shares in FirstRand.

PART A – All certificated "B1" preference shareholders must please complete Part A of this form (in BLOCK CAPITALS)

1. Surname or Name of corporate body
2. First names (in full)
3. Title (Mr/Mrs/Miss/etc)
4. Address to which the "B" preference share certificates should be posted (if different from the registered address)*

Tel (   )

5. "B1" preference share certificates and/or other documents of title surrendered

Name of registered holder (separate form for each holder)	Certificate number/s (in numerical order)	Number of "B1" preference shares

General notes:

1. Any alteration to this form must be signed in full and not initialled.
2. If this form is signed under a power of attorney, then such power of attorney or a notarially certificated copy hereof, must be sent with this form for noting (unless it has already been noted by FirstRand or the Transfer Secretaries of FirstRand).
3. Where the certificated "B1" preference shareholder is a company or a close corporation, unless it has already been registered with FirstRand or the Transfer Secretaries, a certificated copy of the directors' or shareholders' resolution authorising the signing of this form must be submitted if so requested by FirstRand.
4. Where there are joint holders of any certificated "B1" preference shares, only that holder whose name stands first in the register in respect of such shares need sign this form.

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FIRSTRAND

www.firstrand.co.za