annual report

FOR THE YEAR ENDED 30 JUNE 2010

FIRSTRAND
Bank Limited

ANNUAL REPORT 30 JUNE 2010 FIRSTRAND

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FIRSTRAND
Bank Limited
1929/001225/06 Share code: FSR ISIN: ZAE 0000066304 ("FSR")
Certain companies within the FirstRand Group are Authorised Financial Services Providers
This circular is available on our website:

www.firstrand.co.za

email questions to: asktheCFO@firstrand.co.za

Board of directors and board committees of FirstRand Bank Limited

VW Bartlett (67) (Independent non executive director)
AMP (Harvard), FIBSA
Director of FirstRand and FirstRand Bank Holdings

JJH Bester (68) (Independent non executive director)
BSc Eng Elect (Pret), ISMP (Harvard)
Director of FirstRand Bank Holdings

JP Burger (51) (Financial director)
CA (SA)
Financial director of FirstRand and
FirstRand Bank Holdings,
Director of Momentum Group

L Crouse (57) (Independent non executive director)
BCom(Acc), Cert theory of Acc, CA(SA)
Director of FirstRand and FirstRand Bank Holdings

LL Dippenaar (61) (Non independent non executive director) *Chairman*
MCom, CA(SA)
Chairman of Momentum Group, FirstRand and
FirstRand Bank Holdings, Director of RMB Holdings

PM Goss (62) (Independent non executive director)
BEcon, (Hons), B (AccSc) (Hons), CA(SA)
Director of FirstRand, FirstRand Bank Holdings and
RMB Holdings

PK Harris (60) (Non independent non executive director)
MCom
Director of FirstRand, FirstRand Bank Holdings,
RMB Holdings and Momentum Group

WR Jardine (44) (Independent non executive director)
BSc, MSc
Director of FirstRand Bank Holdings

EG Matenge-Sebesho (55) (Independent non executive director)
CAIB (SA), MBA
Director of FirstRand Bank Holdings

SE Nxasana (52) (Chief executive officer)
bCom, BCompt (Hons), CA(SA)
Chief executive officer of FirstRand,
FirstRand Bank Holdings,
Director of FirstRand, FirstRand Bank Holdings
and Momentum Group

RK Store (67) (Independent non executive director)
CA(SA)
Director of FirstRand and FirstRand Bank Holdings

BJ van der Ross (63) (Independent non executive director)
Dip Law (UCT)
Director of FirstRand, FirstRand Bank Holdings and
Momentum Group

JH van Greuning (57) (Independent non executive director)
CA(SA), CA(Canada), CFA, Dr Acc Sc, Dr Economics
Director of FirstRand and FirstRand Bank Holdings

MH Visser (56) (Non independent non executive director)
B Comm, B Comm(Hons), CA(SA)
Director of FirstRand and FirstRand Bank Holdings

Audit committee
JH van Greuning (Chairman effective 1 July 2010)
RK Store (Chairman to 30 June 2010)
WV Bartlett
L Crouse
EG Matenge-Sebesho

Risk, capital management and compliance committee
JJH Bester (Chairman)
L Crouse
RK Store
JH van Greuning

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

Directors' affairs and governance committee
WR Jardine (Chairman)
VW Bartlett
JJH Bester
L Crouse
LL Dippenaar
PM Goss
PK Harris
EG Matenge-Sebesho
RK Store
BJ van der Ross
JH van Greuning
MH Visser

Credit committee
JP Burger
JJH Bester

Corporate governance

COMPLIANCE STATEMENT

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

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

Furthermore, in recognition of the need to conduct the affairs of the Bank according to the highest standards of corporate governance, in the interests of investor protection, the directors of FirstRand Bank endorse the Code of Corporate Practices and Conduct recommended in the King II Report on Corporate Governance for South Africa 2002 ("King II") as well as the Code of Conduct on Corporate Governance for South Africa (2009) (King III). The directors are satisfied that the Bank has observed and applied the King II Code consistently during the year under review and committed to compliance with the principles of King III as from the effective date.

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

BOARD OF DIRECTORS

Responsibilities of directors

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

Composition and frequency of meetings

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

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

The board operates in terms of an approved Charter which includes a formal schedule of matters it oversees. The board meets quarterly. Two further meetings are scheduled to approve the annual financial statements and to review the strategic plans and the resulting budgets. Additional meetings are convened as and when necessary.

The board has an approved Directors' Code of Conduct which is aligned to best practice. Board members have access to accurate, relevant and timely information. Any director may call on the advice and services of the company secretary, who gives guidance on legislative or procedural matters. Directors are also entitled to seek independent professional advice, at the Bank's expense, in support of their duties.

An annual assessment of the board and its committees are conducted and is referred back to the board and its committees for actions identified.

Limitation to appointment period

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

COMPANY SECRETARY

The company secretary is suitably qualified and experienced and was appointed by the board in 1998. He is, inter alia, responsible for the duties stipulated in section 268G of the Companies Act and the certificate required to be signed in terms of subsection (d) thereof appears on page 84.

Risk and capital management report

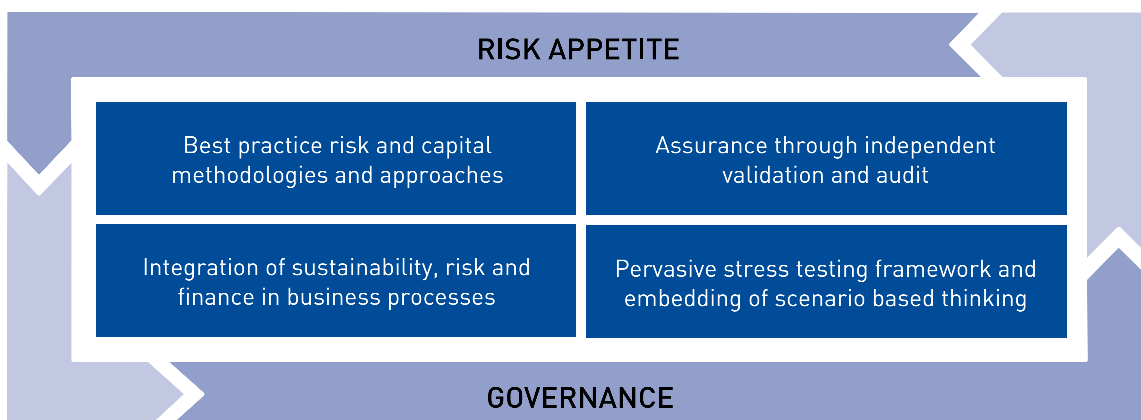
1. INTRODUCTION

This risk and capital management report covers the operations of the FirstRand Bank Limited ("the Bank" or "FRB"). FRB is a wholly owned subsidiary of FirstRand Bank Holdings Limited ("FRBH" or "the Banking Group"), which in turn is a wholly owned subsidiary of FirstRand (or "the Group"). Risk in the Banking Group is managed on a group basis and in order to understand the risk philosophy and risk management practice of FRB, an extract of the Banking Group's risk and capital management report is included. Some differences between the practices, approaches, processes and policies of FRBH and FRB exist and these are highlighted by reference to the appropriate entity, where necessary. All of the information in the risk and capital management report from page 13 to 81 has been audited, except where otherwise indicated.

FirstRand's primary business objective is the generation of sustainable profits. The effective management of financial and non financial risk is seen as being fundamental for the successful and sustainable realisation of the Group's strategic objectives. Risk taking is an essential part of the Group's business and FirstRand thus explicitly recognises risk assessment, monitoring and management as core competencies and important differentiators in the competitive environment in which it operates. As an integrated financial services provider and through a portfolio of leading franchises, FirstRand wants to be appropriately represented in all significant earnings pools across all chosen market and risk taking activities. This entails building revenue streams that are diverse and creating long-term value via sustainable earning pools with acceptable earnings volatility.

The Group defines risk widely – as any factor that, if not adequately assessed, monitored and managed, may prevent it from achieving its business objectives or result in adverse outcomes, including damage to its reputation. FirstRand follows a comprehensive approach to risk and capital management that comprises six core components, illustrated in the chart below.

Components of FirstRand's approach to risk and capital management



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

- FirstRand's **risk appetite** frames all organisational decision making and forms the basis for the refinement of risk identification, assessment and management capabilities (see page 14).
- A strong **governance** structure and policy framework foster the embedding of risk considerations in existing business processes and ensure that consistent standards exist across the Group's operating units (see page 15).
- Best practice **risk and capital methodologies** have been developed in and for the relevant business areas (see page 18).
- An integrated approach to **sustainability and managing risk** was established to facilitate the proactive exchange of information between individual risk areas and between risk and finance functions (see page 13).
- The Group is deploying a comprehensive, consistent and integrated approach to **stress testing** that is embedded as a business planning and management tool, emphasising scenario based analyses in all its decision processes (see page 14).
- **Independent oversight, validation and audit functions** ensure a high standard across methodological, operational and process components of the Group's risk and capital management process (see page 17).

2. DEFINITIONS

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

Risk category	Risk components	Definition	Page reference
Strategic and business risks	Includes strategic risk, business risk, reputational risk, macroeconomic risk and environmental, social and governance ("ESG") risks.	**Strategic risk** is the risk to current or prospective earnings arising from adverse business decisions or the improper implementation of such decisions. **Business risk** is the risk to earnings and capital from potential changes in the business environment, client behaviour and technological progress. It is often termed volume and margin risk and relates to the Banking Group's ability to generate sufficient levels of revenue to offset its costs. This includes the risk of adverse changes in the macro and global economic conditions.	18
		Reputational risk is the risk of reputational damage due to compliance failures, pending litigations or bad press reports.	
		Macroeconomic risk is the risk to the business due to changes in macroeconomic conditions, global economic conditions or credit shocks.	
		ESG risks focus on the environmental, social and governance issues which impact the Banking Group's ability to successfully and sustainably implement business strategy.	
Financial risks	Capital management	The Banking Group manages capital by allocating resources effectively in terms of its risk appetite and in a manner that maximises value for shareholders. The overall objective of capital management is to maintain sound capital ratios and a strong credit rating, ensure confidence in the solvency of the Banking Group during calm and turbulent periods in the economy and financial markets.	20
	Credit risk	Credit risk is the risk of loss due to the non performance of a counterparty in respect of any financial or performance obligation. For fair value portfolios, the definition of credit risk is expanded to include the risk of losses through fair value changes arising from changes in credit spreads. Credit risk also includes credit default risk, presettlement risk, country risk, concentration risk and securitisation risk.	26
	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.	57
	Market risk	Market risk is the risk of adverse revaluation of any financial instrument as a consequence of changes in market prices or rates.	59
	Equity investment risk	Equity investment risk is the risk of an adverse change in the fair value of an investment in a company, fund or any other financial instrument, whether listed, unlisted or bespoke.	62

Risk category	Risk components	Definition	Page reference
Financial risks	Foreign exchange and translation risk	**Foreign exchange risk** is the risk of losses occurring or a foreign investment's value changing from movements in foreign exchange rates. A bank has net open positions in foreign exchange, and as such is exposed to currency risk in its foreign currency positions and foreign investments. **Translation risk** is the risk associated with banks that deal in foreign currencies or hold foreign assets. The greater the proportion of asset, liability and equity classes denominated in a foreign currency, the greater the translation risk.	65
	Funding and liquidity risk	Liquidity risk is the risk that a bank will not be able to meet all payment obligations as liabilities fall due. It is also the risk of not being able to realise assets when required to do so to meet repayment obligations in a stress scenario. This definition of liquidity risk is expanded in the Funding and liquidity risk section on page 66.	66
	Interest rate risk in the banking book ("IRRBB")	IRRBB is defined as the sensitivity of the statement of financial position and income statement to unexpected, adverse movements in interest rates for the Banking Group, excluding the investment bank, RMB, which sensitivity is reflected under market risk..	72
Operational risk	Operational risk	Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes and systems or from external events and human error. It includes fraud and criminal activity (internal and external), project risk, legal risk, business continuity, information and IT risk, process and human resources risk, but excludes strategic, business and reputational risk.	77
	Regulatory risk	Regulatory risk is the risk of statutory or regulatory sanction and material financial loss or reputational damage as a result of a failure to comply with any applicable laws, regulations or supervisory requirements.	80

3. EXECUTIVE SUMMARY

FirstRand's growth strategy

FirstRand believes that effective risk management is of primary importance to the success of the Group and is a key component of the delivery of sustainable returns to its shareholders. It is therefore deeply embedded in the Group's tactical and strategic decision making.

FirstRand's overall objective is to be the African financial services group of choice. To achieve this objective the Group is focusing on two separate but parallel growth strategies.

- Expanding its domestic franchise into "white spaces" or other profit pools of financial services where the franchises are currently under represented, such as retail banking in the mass and wealth markets, and its increasing exposure to certain investment grade and defensive corporate counterparts. In the process the Group hopes to rebalance its asset portfolio and grow its client franchises more rapidly than its secondary markets businesses.
- Further grow its existing African franchise, targeting those markets that are expected to produce above average growth domestically and are strongly positioned to benefit from the trade and investment flows between Africa and Asia, particularly China and India.

To execute on these strategies the Group will actively assume certain risks - including credit, market and investment risk. As a consequence of its banking activities it also incurs funding and liquidity, operational, interest rate and reputational risks. These risks are predominantly within South Africa and other select African markets.

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

The collective leadership of FirstRand, including the FirstRand CEO, COO and the franchise CEOs, determine the Group's strategy and are accountable for the overall performance of the Group. The strategy is approved by the FirstRand board. The determination of the Group's strategy

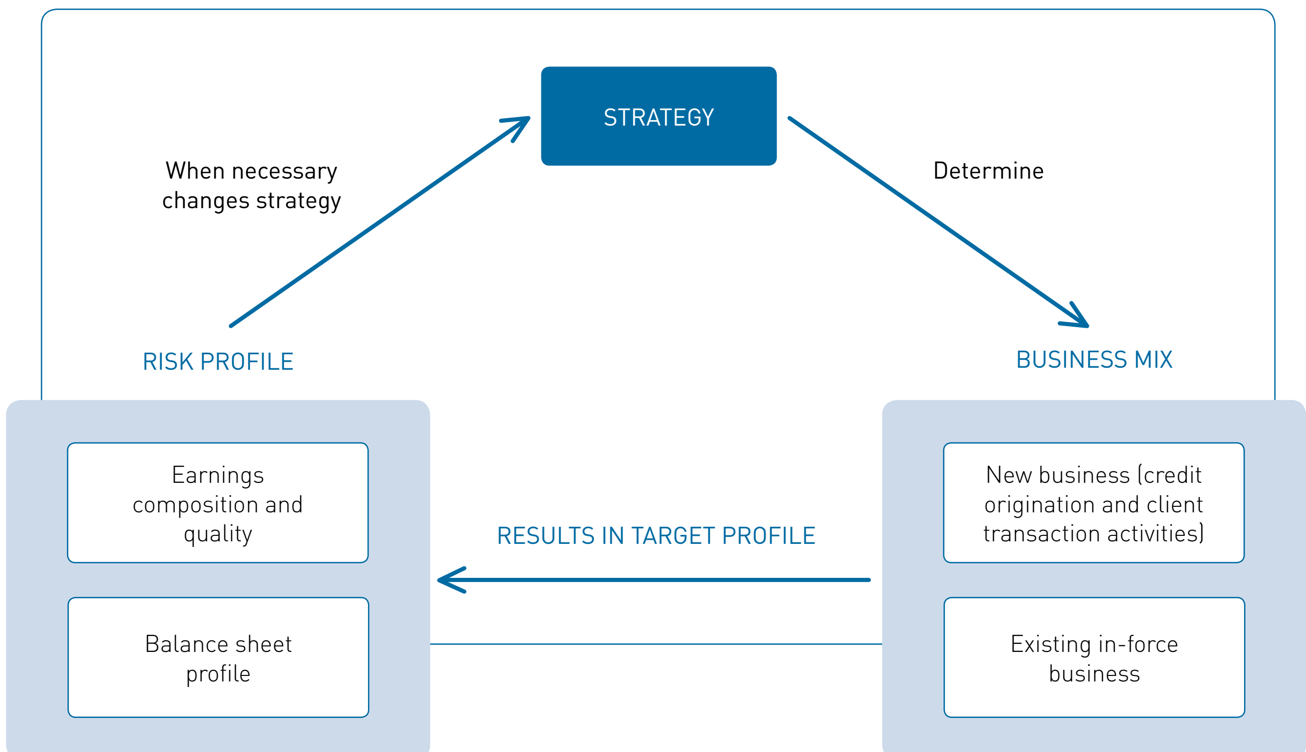
is a dynamic process (as illustrated by the diagram below). It is designed to achieve superior, sustainable economic returns to shareholders, within acceptable levels of earnings volatility. The Group's strategy is executed through its portfolio of leading franchises. The Group seeks to be represented in all significant earnings pools across all chosen market segments playing across the full value chain (lending, transactional, savings and risk taking), therefore, this portfolio must represent the appropriate business mix and risk profile to deliver on this strategy.

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

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

There is a central unit tasked with formulating and communicating this macroeconomic view. It provides the business units with a forecast of key variables that impact the balance sheet and spans a three year forecast horizon. Given the volatility of the macroeconomic environment, a core forecast and two risk scenarios are presented to the business units for each key variable. A severe scenario is also included for stress testing purposes.

The unit draws on its own research, research from the divisions' economists and that of external research providers in formulating these scenarios and forecasts. Once formulated, the scenarios and forecasts are debated and then communicated to the business units. The outlook is monitored on a daily basis and is updated on a quarterly basis, or more frequently if required.



Risk management governance and structure

Effective risk management requires multiple points of control or safeguards applied at various levels throughout the organisation. The Group applies three primary lines of risk control across its operations:

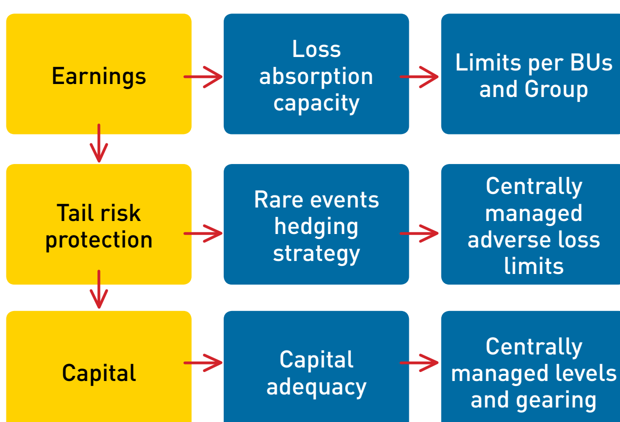
1. Risk ownership is assigned to the head of each franchise and business unit.
2. Risk control and oversight are assigned to the deployed segment and divisional risk managers, Enterprise Risk Management ("ERM") and Regulatory Risk Management.
3. Independent assurance is assigned to Group Internal Audit.

Refer to page 16 of the Risk management framework and governance section for a description of the roles and responsibilities within the three lines of risk control model.

The Group seeks to monitor and control its risk exposures through a variety of separate but complementary financial, credit, operational, compliance and legal reporting systems. Furthermore, a number of committees are responsible for monitoring risk exposures and for general oversight of the risk management process. These committees and their subcommittees meet regularly and consist of senior executives of both revenue producing businesses and independent departments.

Segregation of duties and management oversight are key components of the Group's risk management process. The Risk governance section of this report provides a comprehensive overview of the various committees and structures (refer to page 17).

Risk capacity



Risk capacity

A critical objective of the Group is to maintain a robust financial position and earnings profile through the cycle. The quality and diversity of the earnings profile must be such that it can absorb losses resulting from risk taking activities.

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

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

In addition to earnings, capital provides a further buffer against unexpected losses. The Banking Group is appropriately capitalised under a range of normal and severe scenarios, as well as under a range of stress events. The Banking Group aims to back all economic risk 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.

Income statement/earnings profile

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

Both revenue components are dependent on macroeconomic conditions:

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

For the year ended 30 June 2010, gross revenue comprised 36% (R11 748 million) NII and 64% (R21 278 million) NIR. The larger proportion of NIR is appropriate as it relates to transactional revenues that have low volatility and stable annuity profiles and this contributes significantly to capacity to absorb the impact of risks resulting from credit lending and other activities. NIR has been stable during the recent financial crisis and continues to grow at acceptable levels.

Balance sheet structure

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

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

Assets

Loans and advances

Advances resulting from lending activities constitute the largest portion (approximately 70%) of assets on the Group's balance sheet. Approximately 97% of these advances relate to the South African market with the performance of the Bank's advances thus largely dependent on macroeconomic conditions and the state of the South African economy. Approximately two thirds of advances result from retail lending activities. As a result, adverse conditions such as high interest rates and debt servicing cost, unemployment and asset price shocks could negatively impact the financial performance of the Bank.

Trading, investment and liquid assets

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

Liabilities

The Bank's liabilities are comprised of:

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

Financial risks

Credit risk

Credit strategy is managed as part of the broader balance sheet management process and is aligned with the Group's view of trends in the wider economy. The Group's current origination strategies are resulting in improving credit quality across all retail portfolios (as evidenced in the vintage analyses for the large retail portfolios on page 50). These portfolios were also positively impacted by interest rates continuing to trend downwards, positive income growth and increasing wages. However, job losses also continued, albeit at a slower rate.

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

FNB HomeLoans – trend analysis of new NPLs

Despite the reduction in debt servicing costs as a result of lower interest rates, the subsequent improvement in affordability and underlying asset recovery (e.g. house price growth), credit appetite has not increased considerably. Consumers remain leveraged and vulnerable to shifts in the external economic environment and concerns remain with regards to unemployment prospects and the timing and strength of the recovery.

Large corporate credit exposures arise mainly from

- term lending activities in RMB's Investment Banking division;
- short term exposures from overdraft and working capital facilities provided in FNB Corporate and Transactional Banking; and
- short term money market exposures in FICC.

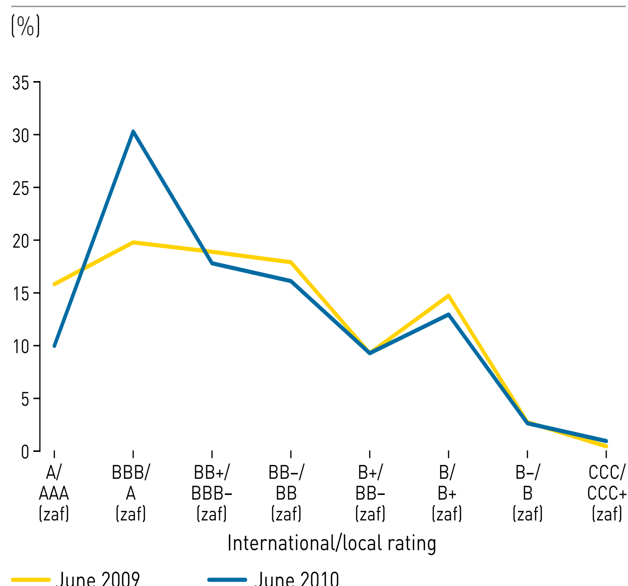
In addition, exposures resulting from financial market activities, such as cash placements by Group Treasury at other institutions, and credit exposure resulting from positive mark to market movements on derivatives and securities financing activities (e.g. reverse repos), are also managed as part of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

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

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

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

Rating distribution – FRB Corporate book



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

Market risk

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

FirstRand's market risk sits predominantly within the trading activities of RMB. As part of its strategy to rebalance its business and improve the quality of its earnings, RMB has continued to strengthen its domestic client driven activities and scale its trading activities in line with its risk appetite framework. The key objectives of the new risk appetite framework are to manage the trade offs between earnings, volatility, profitability and growth, and aim for a long term targeted business mix of 60% client income, 25% investing income and 15% trading income. Trading activity currently represents 8% of RMB's gross revenue mix.

To achieve the appropriate balance in its revenue mix, RMB is moving to a model whereby it leverages its primary client-facing businesses in support of its secondary markets business. This is expected to result in less earnings volatility from the trading businesses, which is represented in the chart showing the distribution of daily earnings from the trading units (page 61).

The bulk of the Group's market risk results from activities in equity and fixed income markets in South Africa. As can be seen from the chart showing the daily regulatory trading book earnings vs 1 day 99% VaR (page 62), the level of risk decreased towards the end of the financial year, mainly reflecting market conditions characterised by decreasing market volatility and reduced opportunities.

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

Equity investment risk

Portfolio investments in equity instruments are undertaken in RMB. In addition, there are strategic equity investments undertaken in FNB, WesBank and the Corporate Centre. Unlisted investments in RMB are mainly taken through its Investment Banking division, whilst listed investments are primarily made through the Equities division.

All investments are subject to a due diligence process, which is reviewed and challenged at the Investment committee prior to the granting of final approval. In addition, normal semi annual reviews are carried out and crucial parts of these reviews, such as valuation estimates, are independently peer reviewed.

Listed investment positions were included in the Banking Group's equity investment risk ETL process during the current year, following improvements made in the assessment of underlying liquidity of trading positions, as well as improvements in the quantification of listed investment exposures. These positions were previously reported as part of the trading ETL process. The risk measure is based on a 90 day ETL calculated using RMB's Internal Market Risk Model and is supplemented by a measure of the specific (idiosyncratic) risk of the individual securities per the Banking Group's specific risk measurement methodology. The Listed equity investment ETL (on a total listed investment exposure of R1.063 billion) amounted to R375 million at 30 June 2010.

Equity investment risk also includes the three investments acquired by RMB in 2008 following the default of Dealstream (a clearing client). These investments were written down in the current year which resulted in a significant derisking of this portfolio. RMB continues to hold and manage these exposures as part of its legacy portfolio to realise value over the longer term. The value in use of the Dealstream portfolio amounted to R320 million at 30 June 2010 (R1 019 million at 30 June 2009).

Funding and liquidity risk

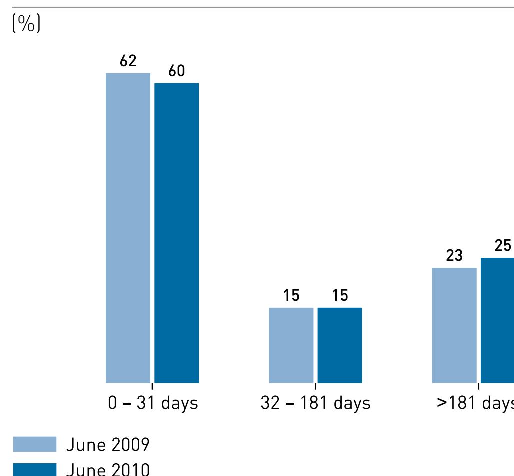
The South African market is characterised by a low discretionary savings rate. However, there is a high degree of contractual savings, which are captured by institutions such as pension funds, provident funds and asset management providers. A portion of this translates into wholesale funding for banks,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

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

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

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

FirstRand Bank funding profile



Increased government funding requirements will continue to impact the South African market in the medium term. Infrastructure requirements will also see increasing borrowing from state owned enterprises further increasing the supply of issuance. Against a backdrop of regulatory pressure to reduce levels of maturity transformation, South African banks will have to compete to secure funds, exerting pressure on yields. However, the Bank's balance sheet growth projections are in line with nominal GDP growth, which should not put undue pressure on funding obligations, but the reliance on institutional funding as a percentage of total finding is expected to remain. The Group expects the cost of liquidity and term funding to remain high compared with previous years.

Interest rate risk in the banking book

Interest rate risk in the banking book is made up of two components, namely the endowment effect and interest rate mismatch.

The endowment effect results from a large proportion of "endowment" liabilities (including sticky deposits and equity) that fund variable rate assets (e.g. Prime linked mortgages), therefore bank earnings are vulnerable to declining interest rates. The endowment effect currently accounts for 80% of the interest rate risk in the banking book. The negative endowment effect had a severe impact on NII in the year to June 2010, as rates were on average 3.9 percentage points lower than in the comparative period.

The endowment risk is managed as part of the holistic balance sheet management approach, in conjunction with other factors such as credit impairments and balance sheet growth and according to the Group's house view. If required, the interest rate profile is adjusted through hedging strategies. From an interest rate mismatch perspective, the Bank also hedges its residual fixed rate position, which has been adjusted for optionality (e.g. prepayments).

Non financial risks

Operational risk

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

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

Given the ever changing and complex nature of its business and its processes, the Group employs a dynamic approach to managing operational risk and this approach results in almost continuous change or renewal. It is common practice, when implementing change of this nature, to proactively address less than optimal operational procedures with meaningful adjustments to risk management. The board and management are not satisfied with the current level of operational losses, albeit in line with industry experience and has therefore embarked on a consistent and disciplined approach of linking business processes to the operational risk and control environment.

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

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

Risk arising from the changing regulatory environment

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

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

Basel Committee on Banking Supervision proposals on capital and liquidity

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

expected to implement the Basel Committee on Banking Supervision ("BCBS") proposals on capital and liquidity.

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

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

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

Exchange control reforms

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

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

Conclusion

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

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

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

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

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

The macro environment going forward is likely to present challenges to topline growth for the Group. Banking earnings are particularly sensitive to domestic GDP growth and the South African economy is driven largely by consumer activity. Domestic households remain highly indebted and advances growth is therefore expected to lag economic activity. Corporate

balance sheets continue to be robust, but investment levels remain muted, new employment sluggish, and this could constrain growth in the medium term.

4. INTEGRATED RISK AND CAPITAL MANAGEMENT

Focus on sustainability and integration of risk and finance

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

The Banking Group considers the sustainability of its earnings within acceptable volatility as a core objective and key performance measure. The value of its franchises is ultimately driven by financial strength and the Banking Group is adopting a management approach that seeks to balance independent franchises with strong central oversight aimed at ensuring optimal outcomes.

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

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

There is a central unit tasked with formulating and communicating this macroeconomic view. It provides the business units with a forecast of key variables that impact the financial position and spans a three year forecast horizon. Given the volatility of the macroeconomic environment, a core forecast and two risk scenarios are presented to the business units for each key variable. A severe scenario is also included for stress testing purposes. These scenarios and forecasts are debated and then communicated to the business units. The outlook is monitored on a daily basis and is updated on a quarterly basis, or more frequently if required.

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

The Banking Group, through a combined initiative of its finance, capital and risk functions, continues to integrate financial, capital and risk data and information on a common platform. This information, both actual and through the budget process, is used as a basis for risk, capital and financial analysis and stress testing.

The practices instituted are intended to ensure that capital and liquidity related decisions can be taken in a well coordinated and proactive manner on the basis of a consistent, integrated view incorporating aspects of both finance and risk domains.

Internal capital adequacy assessment process

An important lesson learnt by FirstRand from the financial turmoil, is that the Internal Capital Adequacy Assessment Process ("ICAAP") is key to managing its business. ICAAP is not seen as merely meeting regulatory requirements and this process allows and facilitates:

- the link between business strategy, risk introduced and capital required to support the strategy;
- the establishment of frameworks, policies and procedures for the effective management of material risks;
- embedding the risk culture at all levels in the organisation;
- the effective allocation and management of capital in the organisation;
- the development of plausible stress tests to provide useful information which act as early warning signs and triggers so that contingency plans can be implemented; and
- the determination of the capital management strategy and how the organisation will manage its capital including during periods of stress.

Stress testing and scenario based analysis

The evaluation of business plans and strategic options at a Banking Group and business level, as well as the choice of tactical steps towards implementing these plans is a process that is intrinsically linked to the evaluation and assessment of risk. Thinking through potential scenarios and how these may evolve based on changes in the economic environment, changes in competitors' strategies as well as on the basis of unforeseen events is an integral part of the strategy setting and planning and budgeting processes.

The core scenario reflects the Banking Group's view on the risks that are central to its business and which it assumes and manages accordingly. In addition, several stress scenarios are prepared to supplement the core view and inform management action at a business and Banking Group level with respect to potential deviations from budget and the potential implications for earnings volatility. In addition reverse stress test scenarios provide management and regulators with a structured view on potential developments that may threaten the stability of the institution.

The Banking Group also recognises the fact that it is exposed to a number of risks that are difficult to anticipate and model and that are, therefore, difficult to manage and mitigate economically. These risks are collectively denoted as 'event risks' and are not strongly related to the economic environment or the Banking Group's strategy. The stress testing framework provides for proactive and continuous identification of such potential events and establishes a process in which these are evaluated, discussed and escalated across the businesses and the strategy.

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

Risk appetite

The level of risk the Banking Group is willing to take on – its risk appetite – is determined by the board, which also assumes responsibility for ensuring that risks are adequately managed and controlled through its Risk, capital and compliance committee ("RCC committee") and its sub-committees, as described in the Risk governance structure section on page 17.

The risk appetite framework sets out specific principles, objectives and measures that link diverse considerations such as strategy setting, risk considerations, target capitalisation levels and acceptable levels of earnings volatility. As each franchise is ultimately tasked with the generation of sustainable returns, risk appetite acts as a constraint on the assumption of ever more risk in the pursuit of profits – both in quantum and in kind. For example, a marginal increase in return in exchange for disproportionately more volatile earnings is not acceptable. Similarly, certain types of risk, such as risks to its reputation, are incompatible with the business philosophy and thus fall outside its risk appetite.

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

- the level of earnings growth and volatility the Banking Group is willing to accept from certain risks that are core to its business; and
- the level of capitalisation it seeks to maintain and the return achieved on capital allocated.

These two measures define the risk capacity and this expression of risk appetite is calibrated against broader financial targets. As a function of the business environment and stakeholders' expectations and together with the primary risk appetite measures, these provide firm boundaries for the organisation's chosen path of growth.

In setting the risk appetite, the executive committee and the board balance the organisation's overall risk capacity with a bottom up view of the planned risk profile for each business. It is in this process that the Banking Group ultimately seeks to achieve an optimal trade off between its ability to take on risk and the sustainability of the returns it delivers to its shareholders.

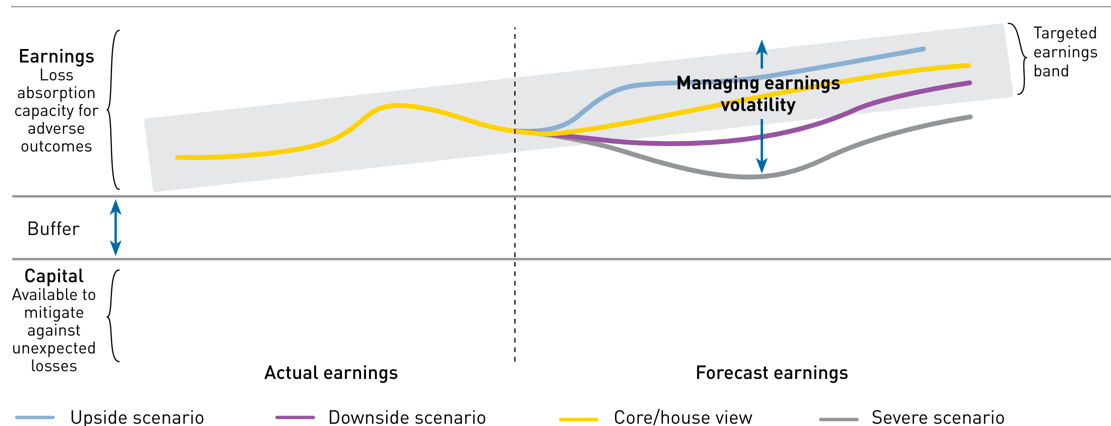
During the financial crisis the Banking Group increased its target capitalisation levels and still remains comfortably within these higher target ranges. Furthermore, earnings volatility thresholds were refined for the major risk types and a number of changes to business practices were made to ensure that activities remained within its risk appetite.

Risk appetite measures are included in all management reports across the businesses, as well as at board level. These measures are continually refined as more management information is available and stress test results are reported and discussed.

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

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

Managing earnings volatility through the cycle



5. RISK MANAGEMENT FRAMEWORK AND GOVERNANCE STRUCTURE

Risk governance

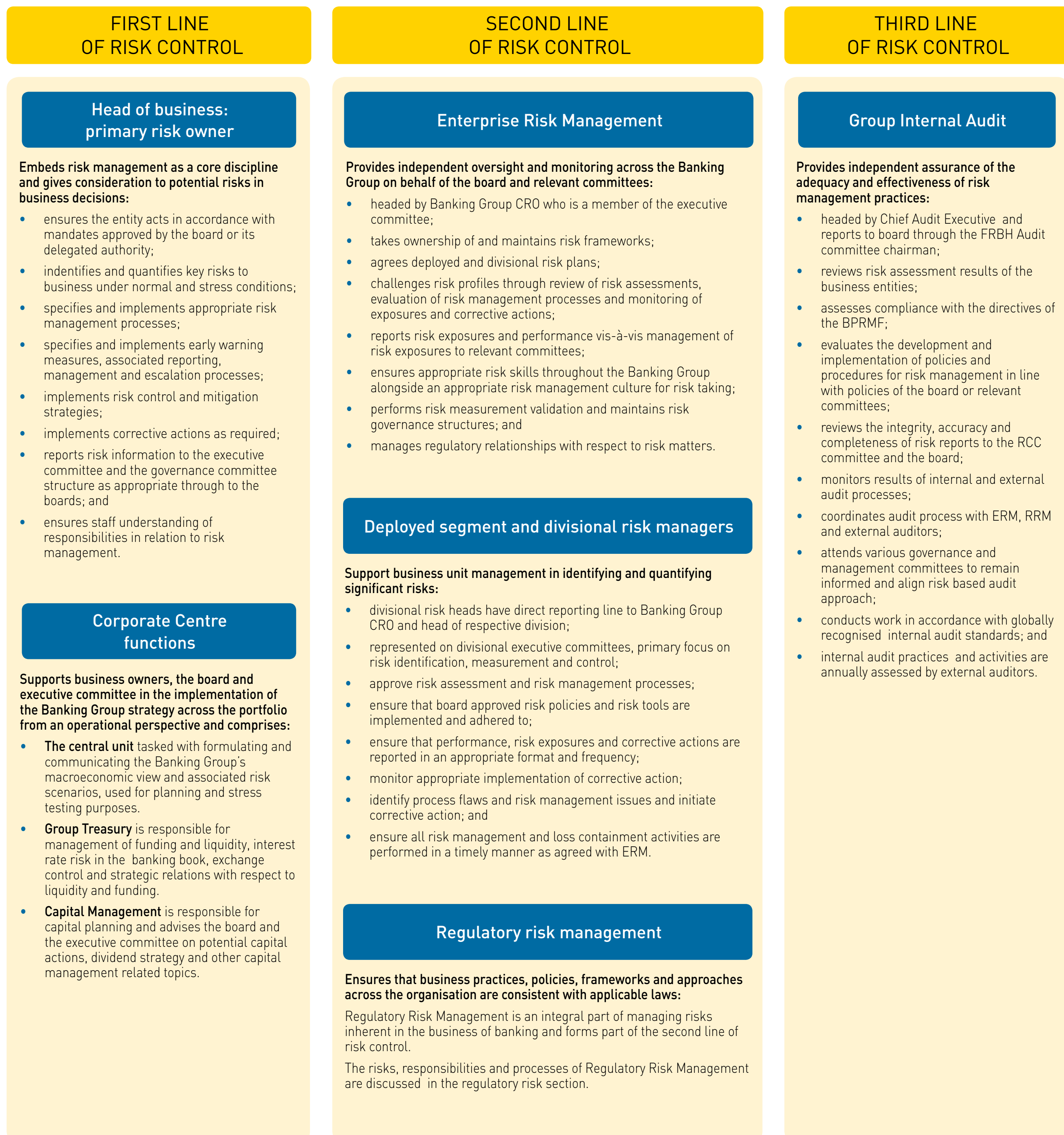
The Banking Group's board retains ultimate responsibility for ensuring that risks are adequately identified, measured, monitored and managed. FRBH believes that a culture focused on risk paired with an effective governance structure is a prerequisite for managing risk effectively.

In addition, effective risk management requires multiple points of control or safeguards that should be applied consistently at various levels throughout the organisation. There are three primary lines of control across the Banking Group's operations:

1. Risk ownership – Risk taking is inherent in the individual businesses' activities. Business management carries the primary responsibility for the risks in its business, in particular with respect to identifying and managing risk appropriately.
2. Risk control – Business heads are supported in this by deployed risk management functions that are involved in all business decisions and are represented at an executive level across all franchises. These are overseen by an independent, central risk control function, ERM.
3. Independent assurance – The third major control point involves functions providing independent assurance on the adequacy and effectiveness of risk management practices across the Banking Group. These are the internal audit functions at a business and at a Banking Group level.

The risk management structure described above is set out in the Business Performance and Risk Management Framework ("BPRMF"). As a policy of both the board and the executive committee, it delineates the roles and responsibilities of key stakeholders in business, support and control functions across the various franchises and the Banking Group. The BPRMF explicitly recognises the three lines of control, illustrated in the chart on page 16.

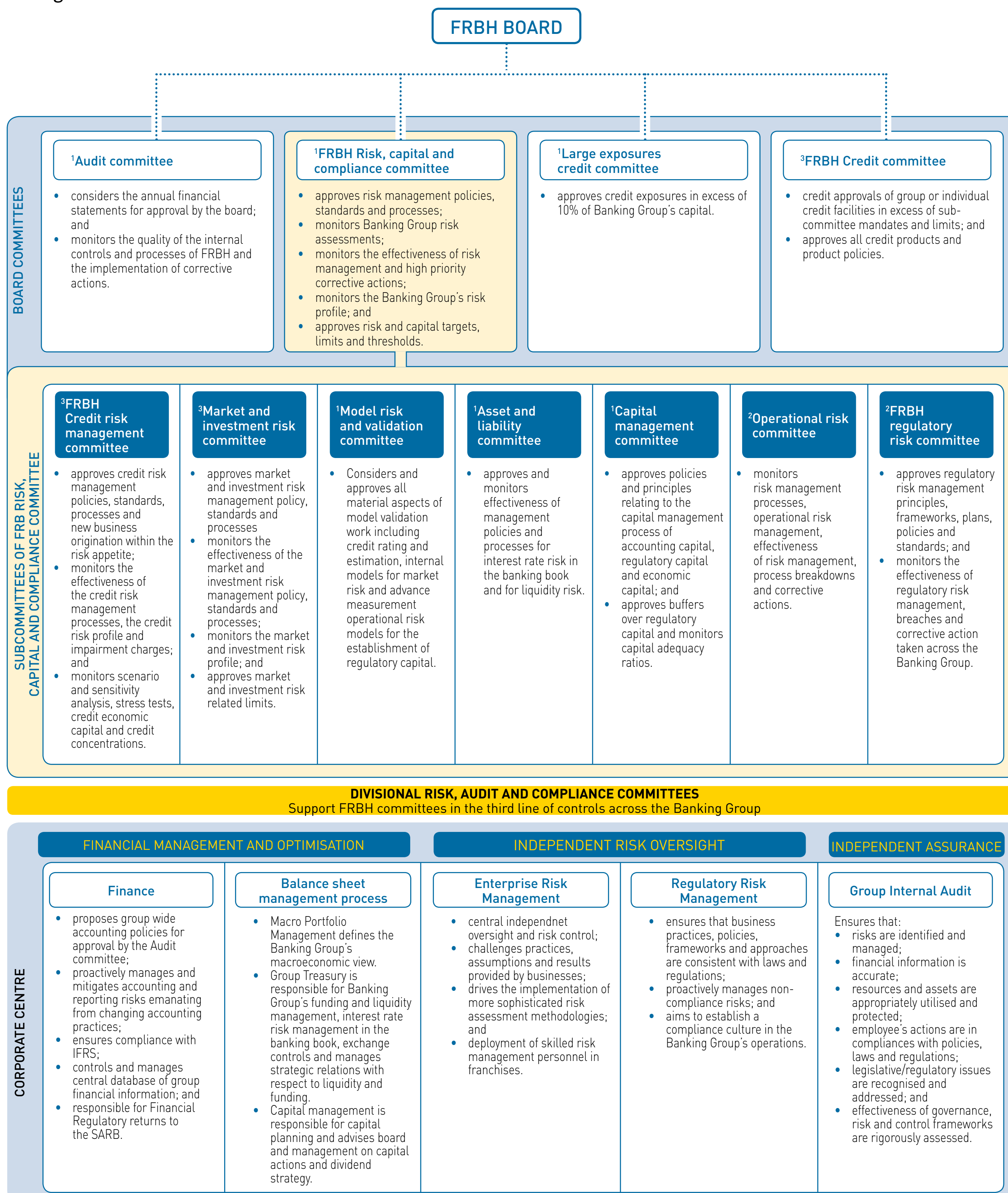
Risk management – lines of risk control in the Banking Group



The individual franchises: FNB, RMB and WesBank also take responsibility for managing risks in the unregulated entities within FirstRand Investment Holdings Limited ("FRIHL"). These entities are subject to the same risk management policies and procedures of the respective franchises and are governed consistently across the Banking Group. Risks in these entities are, however, reported through the risk governance structure of the Group through the FirstRand Audit, risk and compliance committee.

In line with the Banking Group's corporate governance framework, the FRBH board retains ultimate responsibility for ensuring that risks are adequately identified, measured, managed and monitored across the banking operations. The board discharges its duty through relevant policies and frameworks as well as several board committees and subcommittees, as illustrated in the chart below.

Risk governance structure



1 Chairperson is a non executive board member.
2 Chairperson is an independent non executive member.
3 Chairperson is executive management. The FRBH Credit and Credit risk management committee have non executive board representation.

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

Additional risk, audit and compliance committees exist in each franchise, the governance structures of which align closely with that of the Banking Group. The board committees are typically staffed by members of the respective franchise committees so as to ensure a common understanding of the challenges businesses face and how these are addressed across the Banking Group.

Regular risk reporting and challenge of current practices

As part of the reporting, challenge, debate and control process, ERM also seeks to drive the implementation of more sophisticated risk assessment methodologies through the design of appropriate policies and processes, including the deployment of skilled risk management personnel in each of the franchises.

The functions of ERM, together with the review by the independent internal audit functions, ensure that all pertinent risk information is captured accurately, evaluated and escalated appropriately in a timely manner. This enables the board and its designated committees to retain effective management control over the risk position at all times.

6. RISK PROFILE

The following detailed sections provide in depth descriptions of the approaches, methodologies, models and processes used in the identification and management of capital and each major risk. Each section also describes the applicable governance and policy framework and provides an analysis of the respective portfolios and the risk profile with respect to the type of risk under consideration and the capital position.

7. STRATEGIC AND BUSINESS RISK

Key developments and focus

Strategic and business risks	Developments under the strategic risk realm include the phased implementation of Oracle HR across the Group to address human resource strategic and governance imperatives. Initial recipients of this were FNB, FirstRand Corporate Centre, RMB, Momentum and FNB Africa. Although the economic climate has improved, the pace of organic growth is slow and cost management remains a key area of focus. As a result, the pace of recruitment is subdued which will put pressure on transformation targets. This is being closely monitored at divisional executive level and by the Transformation committee.
Reputational risk	Banks continue to undergo local and international media scrutiny following the financial crisis. Ongoing emphasis is placed on reputational risk and stakeholder management.
Macroeconomic risk	The slowdown in economic recovery and concerns about sovereign risks globally could undermine stability gains as nations begin to reach the limits of public sector support for the financial system.
Environmental, social and governance ("ESG") risks	During the year FirstRand's operating franchises identified and rated the principal ESG risks affecting each franchise's ability to successfully and sustainably implement business strategy. Regular internal reporting against these risks is integrated into existing risk reporting structures on an ongoing basis.

Introduction and objectives

The risk of choosing an inappropriate strategy or failing to execute the chosen strategy appropriately is inherent in all business endeavours. The Banking Group's objective is to minimise this risk in the normal course of business.

Business risk is considered in the strategic planning process and as a part of regular and pervasive stress testing and scenario analyses carried out across the businesses. The objective is to develop and maintain a portfolio that delivers sustainable earnings and thus minimises the chance of any adverse scenario occurring.

Organisational structure and governance

The development and execution of business level strategy is the responsibility of the individual business areas, subject to approval by the board. This includes the approval of any subsequent material changes to strategic plans, budgets, acquisitions, significant equity investments and new strategic alliances.

Business unit and executive management, as well as functions within Corporate Centre, review the external environment, industry trends, potential emerging risk factors, competitors' actions and regulatory changes as part of the strategic planning process. Through this review, as well as regular scenario planning and stress testing exercises, the risk to earnings and level of potential business risk faced is assessed. Reports on the results of such exercises are discussed at various business, risk and board committees and are ultimately taken into account in the setting of risk appetite and in potential revisions to existing strategic plans.

Assessment and management

Strategic risk is not readily quantifiable and is, therefore, not a risk that an organisation can or should hold a protective capital buffer for. The risk to earnings on the other hand can be assessed, and this forms an explicit part of the Banking Group's risk appetite and ICAAP.

Business risk is assessed regularly as part of ICAAP. It is managed strategically at a Banking Group level through the development, review and updating of the strategy in light of the organisation's evolving view of the business environment.

For capital purposes the past history of revenues and costs on a suitably adjusted basis are reviewed to determine whether it is likely that revenues would be insufficient to cover costs in a very severe scenario. At present, projections indicate an adequate coverage of the projected cost base and no buffer or additional economic capital is therefore held against this risk type.

Reputational risk

As a financial services provider, the Banking Group's business is one that is inherently built on trust and close relationships with its clients. Safeguarding its reputation is therefore of paramount importance to ensure continued prosperity and is thus seen as the responsibility of every staff member. Reputational risks can arise from ESG 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 seeks to avoid large risk concentrations by establishing a risk profile in its operations that is balanced both within and across risk types. In this respect, potential reputational risks are also taken into account as part of stress testing exercises. The Banking Group aims to establish a risk and earnings profile within the constraints of its risk appetite and seeks to limit potential stress losses from credit, market, liquidity and operational risks that may otherwise introduce an undesirable degree of volatility in its financial results and adversely affect its reputation.

Environmental, social and governance risk management

During the year an ESG risk management process was adopted. The process involves the identification of the key ESG risks affecting each of the operating franchises. This process informs a view of the top ESG risks affecting the ability to successfully implement business strategy and influences the measures taken for managing, mitigating and avoiding these risks.

The management and reporting of, the most significant ESG risks are integrated into existing risk reporting structures and management frameworks. This process is supported by the inclusion of more extensive non financial reports into existing reporting processes. These provide objective quantitative and qualitative information in respect of ESG performance. Each business unit defines tolerances for its principle ESG risks and action plans for addressing these in line with particular circumstances and risk appetite.

The integrated management of ESG risks within the ERM structure provides the foundation for a focused approach for ensuring that the non financial and stakeholder performance is managed comprehensively and efficiently on a day to day basis.

The top five inherent ESG risks are:

- employment equity;
- employee satisfaction;
- customer satisfaction;
- governance effectiveness; and
- Equator Principles compliance.

The impact and likelihood of these risks are evaluated taking into account measures for management, mitigation and avoidance. This residual risk profile demonstrates that all risks with a major potential impact are unlikely to arise given the internal controls in place.

Tolerances and mitigating actions are defined at divisional and Banking Group level and progress in respect of these is tracked through existing risk reporting structures. During the year under review board oversight of these processes was provided by FirstRand's Audit, risk and compliance committee. This committee will be replaced by two committees dealing with audit and risk issues separately from 1 July 2010. The FirstRand Risk, capital and compliance committee will oversee the management of ESG risks and will regularly update the FirstRand Audit committee.

8. CAPITAL MANAGEMENT

Key developments and focus

Capital management continues to focus on maintaining strong solvency levels, with a particular focus on the quality of capital. This is reflected in the Tier 1 ratios for FRB which remained above target levels throughout the year. Tier 1 continued to exceed economic capital requirements for a range of normal and severe scenarios as well as for stress events. Performance measurement is aligned with risk and is continually enhanced to drive the desired behaviour. Economic profit or net income after capital charge ("NIACC") is embedded in the management of the business. During 2010 the Banking Group returned to positive NIACC generation which created value for shareholders. The impact of the new Basel proposals on Tier 1 and total capital adequacy ratios was assessed through the Basel QIS. The Banking Group will continue to operate above the current regulatory minimum capital requirement if the principles, as included in the broad agreement reached in July 2010, are implemented.

Introduction and objectives

The Banking Group targets a particular earnings profile that will allow it to generate sustainable returns within appropriate levels of volatility.

Sustainability also refers to the business' capacity to withstand periods of severe stress characterised by very high levels of unexpected financial and economic volatility, which cannot be mitigated by earnings alone. Capitalisation ratios appropriate to safeguarding its operations and the interests of its stakeholders are maintained. In this respect, the overall capital management objective is to maintain sound capital ratios and a strong credit rating to ensure confidence in the solvency of the Banking Group during calm and turbulent periods in the economy and financial markets.

The optimal level and composition of capital is determined after taking into account business units' organic growth plans – provided financial targets are met – as well as expectations of investors, targeted capital ratios, future business plans, plans for the issuance of additional capital instruments, the need for appropriate buffers in excess of minimum requirements, rating agencies' considerations and proposed regulatory changes.

The effectiveness of the capital allocation decisions and the efficiency of its capital structure are important determinants of the ability to generate returns for shareholders. The Banking Group seeks to hold limited excesses above the capital required to support its medium term growth plans (including appropriate buffers for stresses and volatility) and future regulatory changes.

Dividends

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

Organisational structure and governance

Allocating resources, including capital and risk capacity effectively in terms of the risk appetite targets and in a manner that maximises value for shareholders is a core competence and a key focus area. Sound capital management practices, therefore, form an important component of its overall business strategy.

Capital is freely transferable within the Banking Group, subject to the approval of exchange control authorities for entities outside the common monetary area.

The board approved capital plan is reviewed as part of the Banking Group's ICAAP, with the stress testing framework being an extension to the process. These processes are under continuous review and refinement and continue to inform the targeted buffer.

Capital adequacy and planning

The year under review

The Banking Group's capital planning process ensures that the total capital adequacy and Tier 1 ratios remain within the approved ranges or above target levels across economic and business cycles. The Bank is appropriately capitalised under a range of normal and severe scenarios as well as under a range of stress events.

With increased focus on Tier 1 during the year, FRB achieved a very strong Tier 1 ratio of 11.7%. Stronger internal capital generation through earnings, offset to an extent by an increase in credit and operational risk weighted assets led to an overall increase in the Tier 1 and total capital adequacy ratios for FRB. In the prevailing uncertain environment the Bank would prefer to maintain capital ratios at the upper end of its target band.

Supply of capital – Tier 1

The Banking Group aims to back all economic risks with Tier 1 capital as it offers the greatest capacity to absorb losses. Consequently, required Tier 1 capitalisation levels are used as the primary driver of performance measurement across the various businesses. Tier 1 capitalisation ratios benefited from higher levels of profitability during the year.

Supply of capital – Tier 2

The current pricing of subordinated bond instruments, the inability of these instruments to absorb losses, and the Banking Group's reduced risk appetite make the issuance of these instruments unattractive at present. Accordingly, no new Tier 2 instruments were issued during the year. It is the Banking Group's intention to redeem all instruments on call date. On 16 August 2010, SARB approval was received to call the FRB01 and FRB02 subordinated bonds on 31 August 2010. The table below provides more detail on the Bank's capital instruments.

Characteristics of capital instruments (unaudited unless otherwise indicated)

Capital type	Instrument	Nominal (million)	Rate type	Coupon rate	Maturity rate
Other Tier 1	Non cumulative non redeemable preference share capital**	3 000	Floating	68% of prime	Perpetual
Upper Tier 2	FRBC21	628	Fixed	12%	21 Dec 2018
	FRBC22	440	Floating	3 month JIBAR + 300bps	22 Dec 2018
Lower Tier 2	FRB01*	700	Fixed	13%	31 Aug 2010
(Subordinated bonds)	FRB02*	300	Floating	3 month JIBAR + 71.5bps	31 Aug 2010
	FRB03	1 740	Fixed	9%	15 Sept 2014
	FRB05	2 110	Fixed	9%	21 Dec 2018
	FRB06	1 000	Floating	3 month JIBAR + 65bps	5 Nov 2012
	FRB07	300	Floating	3 month JIBAR + 65bps	6 Dec 2012
	FRB08	100	Floating	3 month JIBAR + 70bps	10 Jun 2016
	FRB09	100	Floating	3 month JIBAR + 70bps	10 Jun 2017

** Approval received from the SARB to call the FRB01 and FRB02 on 31 August 2010.*
*** Audited.*

Demand for capital

With the introduction of Basel II, capital requirements expressed as a percentage of risk weighted assets ("RWA") have become more risk sensitive and more cyclical than under the previous regime. This cyclicality is to a large extent driven by external factors that affect risk measures across various portfolios and therefore, drive capital requirements.

The overall increase in RWA for FRB was driven predominantly by the following factors:

- credit risk – increased due to volume growth and recalibrations;
- operational risk – increased risk profile; and
- market risk – derisked financial positions at FRB.

Regulatory developments

The BCBS proposals published during 2009 and 2010 in response to the global financial crisis, which would impact bank's capital, focused on:

- strengthening the resilience of the banking sector;
- enhancing the current Basel II framework;
- revising the market risk framework.

The BCBS conducted a QIS to assess the impact of these proposals on participating banks. The results of this study aim to produce a fully calibrated set of requirements for implementation in 2012. The BCBS announced during July 2010 that it had reached broad agreement on some of the capital and liquidity proposals released during 2009. The full details of the proposals as well as the outcome of the QIS are expected by the end of 2010. A further 'Countercyclical capital buffer proposal' was issued in July 2010 with the consultation period closing in September 2010.

FRBH participated in the QIS process and preliminary calculations show a reduction in the Tier 1 and total capital adequacy ratios, however, FRB remains above the current regulatory minimum. The current proposals form part of the ongoing capital planning of the Banking Group. Targeted capital ratios may be revisited as more information becomes available.

The SARB has issued a draft set of regulations due to be implemented at the start of 2012 that currently cover the revised market risk and securitisation frameworks.

Regulatory capital

The targeted capital levels as well as the current ratios at 30 June 2010 are summarised in the table below.

Capital adequacy position (unaudited)

	FRB*		Regulatory minimum
R million	**Actual**	**Target**	
Capital adequacy ratio (%)	14.0	11.5 – 13.0	9.5#
Tier 1 ratio (%)	11.7	9.5	7.0

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

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

The following table shows the composition of regulatory capital (financial resources) for FRB at 30 June 2010, while the subsequent tables provide a breakdown of RWA and capital requirement.

Composition of qualifying capital and capital ratios of FRB (unaudited unless otherwise indicated)

	FRB*			
	June 2010		June 2009	
R million		%		%
Ordinary shareholders equity as per IFRS**	33 085		29 681	
Less: non qualifying reserves	(477)		(1 178)	
Cash flow reserve**	466		337	
Available-for-sale reserve**	(532)		(279)	
Share based payment reserve**	(411)		(532)	
Unappropriated profits	–		(704)	
Ordinary shareholders equity qualifying as capital	32 608		28 503	
Ordinary share capital and share premium**	10 969		10 821	
Reserves	21 639		17 682	
Non cumulative non redeemable preference shares**	3 000		3 000	
Less: total impairments	(2 323)		(1 782)	
Excess of expected loss over eligible provisions (50%)	(379)		(325)	
First loss credit enhancements in respect of securitisation structures (50%)	(45)		–	
Qualifying capital in branches	(1 732)		(1 297)	
Goodwill and other impairments	(167)		(160)	
Total Tier 1 capital	**33 285**	**11.7**	29 721	10.7
Upper Tier 2 instruments	1 068		1 068	
Tier 2 subordinated debt instruments	5 914		5 872	
Less: total impairments	(424)		(234)	
Excess of expected loss over eligible provisions (50%)	(379)		(325)	
First loss credit enhancements in respect of securitisation structures (50%)	(45)		–	
Other impairments	–		91	
Total Tier 2 capital	**6 558**	**2.3**	6 706	2.4
Total qualifying capital and reserves	**39 843**	**14.0**	36 427	13.1

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

RWA by risk type of FRB (unaudited)

	FRB*			
	June 2010		June 2009	
R million	RWA	Capital requirement#	RWA	Capital requirement#
Credit risk	210 328	19 981	205 472	19 520
Operational risk	38 223	3 631	35 000	3 325
Market risk	4 669	444	7 809	742
Equity investment risk	16 835	1 599	17 469	1 660
Other risk	13 690	1 301	12 071	1 147
Total RWA	**283 745**	**26 956**	277 821	26 394

* *Reflects solo supervision, i.e. FRB excluding branches, subsidiaries and associates.*
# *Capital requirement calculated at 9.5% of RWA.*

RWA calculation approach for each risk type of FRB

The following table provides the RWA numbers per Basel II approach for each risk type.

RWA numbers per Basel II approach for each risk type (unaudited)

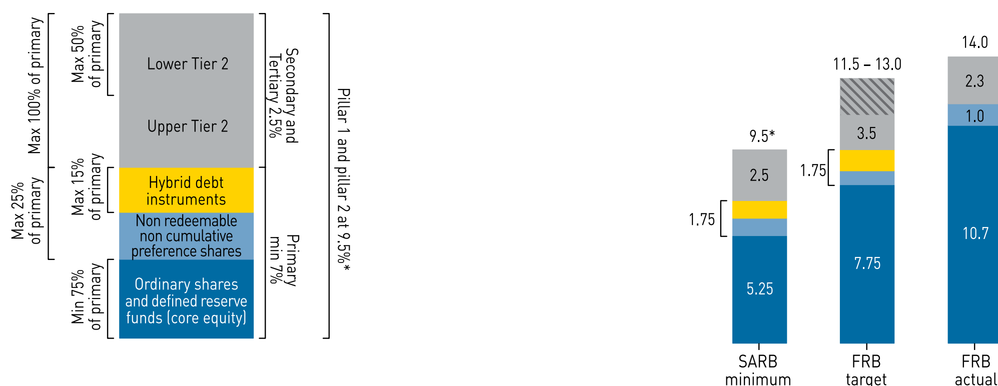
R million	2010
Credit risk	
Advanced Internal Rating Based Approach ("AIRB")	210 328
Corporate, banks and sovereigns	86 446
SME	37 860
Residential mortgages	39 266
Qualifying revolving retail	9 639
Other retail	32 191
Securitisation exposure	4 926
Equity investment risk	16 835
Simple risk weighted method	16 835
Operational risk	38 223
Advanced Measurement Approach ("AMA")	38 223
Market risk*	4 669
Internal Model Approach	4 669

** Includes banking and trading book.*

Capital adequacy position

The graph below depicts the current capital adequacy position for FRB.

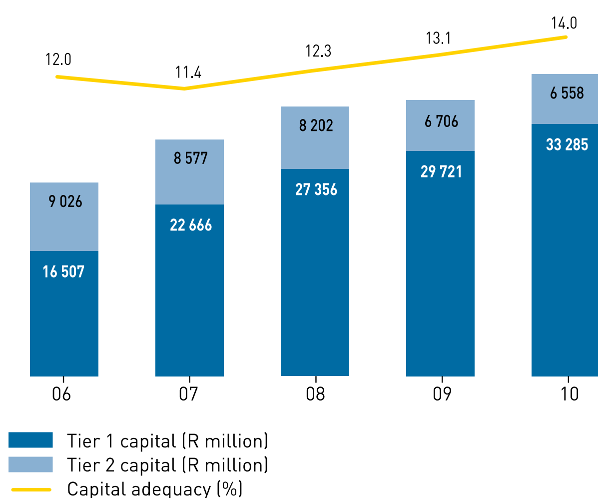
Capital adequacy position and composition of qualifying capital (unaudited)



* *Excludes the Bank specific (Pillar 2b) add on and capital floor.*

The graph below provides a historical overview of the capital adequacy for FRB.

FRB regulatory capital position (unaudited)



* *Information for comparative years - prior to the Basel II implementation on 1 January 2008 – is on a Basel I basis.*

Economic capital

In addition to the regulatory capital requirements disclosed in the previous section, economic capital requirements are also calculated on the basis of a number of internally developed models. Economic capital is defined as the level of capital that must be held commensurate with its risk profile under severe stress conditions. This will provide comfort to a range of stakeholders that the Banking Group will be able to satisfy all its obligations to third parties with a desired degree of certainty and will continue to operate as a going concern.

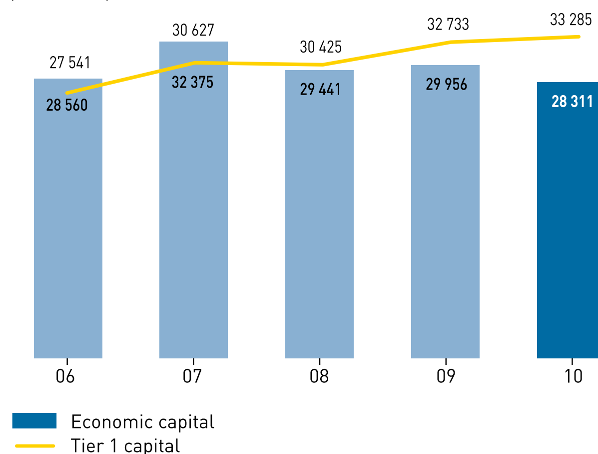
Regular reviews of the economic capital position are carried out across the businesses and FRB remains well capitalised in the current environment, with levels of Tier 1 capital exceeding the level of economic capital required. The Banking Group aims to back all economic risks with Tier 1 capital. Furthermore, it uses the allocation of capital based on risk capacity as a steering tool and for performance measurement purposes.

ICAAP assists in the attribution of capital in proportion to the risks inherent in the respective business units with reference to both normal economic circumstances and times of potential stress, which may lead to the realisation of risks not previously considered. This process is also supported by the stress testing and scenario based analysis described on page 14.

The allocation methodology for economic capital is broadly based on the approaches set out as part of the AIRB component of Basel II, with the exception of credit risk, which is considered at a product level. A number of assumptions are necessarily made in the attribution and allocation. These are reviewed periodically and any changes will have a direct impact on business unit level measures such as economic profit or NIACC. The economic capital framework incorporates aspects of the portfolio's composition in its calibration and reflects the effects of risk concentrations and diversification benefits. The graph below provides an overview of the evolution of economic capital requirements and Tier 1 capital (available financial resources) for FRB.

Economic capital (unaudited)

(R million)



Economic profit

The Banking Group's performance measures are aligned with risk considerations.

The use of economic profit or NIACC is embedded across the businesses and management culture. As a function of normalised earnings and capital utilised in the businesses, economic profit provides a clear indication of economic value added by a transaction or business unit. Positive internal capital generation through earnings at a marginally higher cost of equity produced economic value for shareholders during the year under review.

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Key developments and focus

During the year under review there was significant focus on further refining the risk appetite framework. Bottom up and top down analyses produced risk appetite thresholds for all major business units, which will in the future be monitored at both the business units and the centre. The Banking Group's credit risk appetite and the corresponding origination strategies are continuously refined.

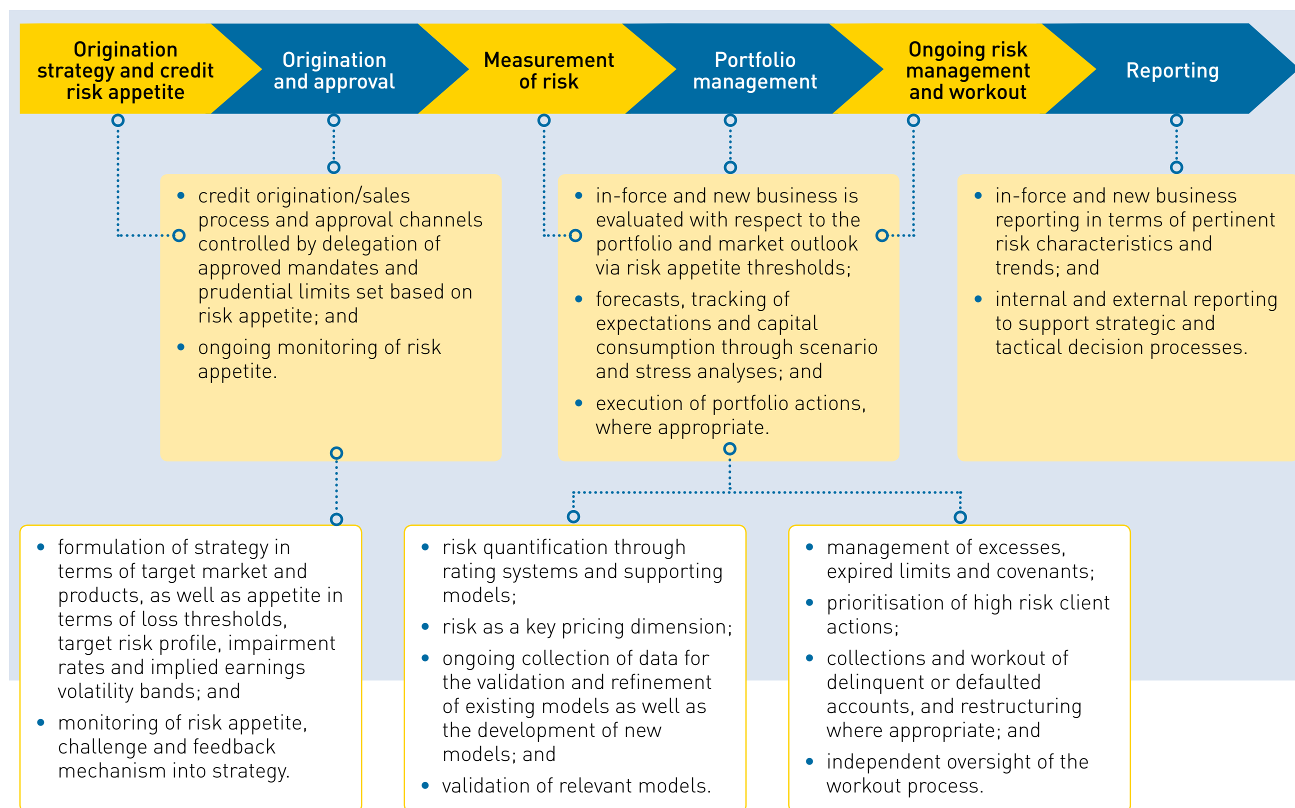
Introduction and objectives

Credit risk is one of the core risks assumed in pursuit of the Banking Group's business objectives. It is the most significant risk type in terms of regulatory and economic capital requirements. The objectives of its credit risk management practices are two fold:

- **Risk control:** Appropriate limits are placed on the assumption of credit risk and steps are taken to ensure the accuracy of credit risk assessments and reports. Deployed and central credit risk management teams fulfil this task.
- **Management:** Credit risk is taken within the constraints of the risk appetite framework. The credit portfolio is managed at an aggregate level to optimise the exposure to this risk. Business units and deployed risk functions, overseen by the Banking Group Credit Risk Management ("GCRM") function within ERM and relevant board committees, as well as unit responsible for the house macro view and the Performance Measurement and BSM functions within Corporate Centre, fulfil this role.

The scope of credit risk identification and management practices across the Banking Group therefore spans the entire credit value chain, as illustrated in the chart below.

Scope of credit risk management and identification practices



Organisational structure and governance

The RCC committee regularly receives and reviews reports on the adequacy and robustness of credit risk identification, management and control processes, as well as reports on the current and projected credit risk profile across the various businesses. The credit risk management governance structures, related roles and responsibilities as well as lines of accountability are set out in the Credit Risk Management Framework ("CRMF"). Approved by the RCC committee, the CRMF is a policy of the board and integrates with the BPRMF (see page 17).

Two credit focused board committees, the FRBH Credit committee and the Large exposures credit committee as well as two subcommittees of the RCC committee, the FRBH Credit risk management committee and the Model risk and validation committee, support the RCC committee in its task. For a description of the role and responsibilities of these committees refer to the governance structure on page 17.

The Banking Group Credit Risk Management function

The GCRM function in ERM provides independent oversight of the credit risk management practices in the deployed risk management functions in the businesses. It is the owner of the CRMF and related policies and monitors the implementation of credit risk related frameworks. In addition, its responsibilities include:

- monitoring of the credit components of the risk appetite framework;
- monitoring and reporting of the credit risk profile;
- reviewing all credit rating systems and independent revalidation of credit rating systems;
- management of relationships with external stakeholders such as relevant regulators with respect to credit matters;
- supervision of the credit impairment process; and
- regulatory reporting.

The GCRM function is supported by deployed, segment level credit functions that are responsible for the implementation of relevant credit risk frameworks and policies in the various businesses, including the implementation of adequate credit risk controls, processes and infrastructure required to allow for the efficient management of credit risk. Responsibilities specifically include:

- formulation of credit strategy and assessment of business level credit risk appetite (together with MPM and Performance Measurement and within the constraints of the overall credit risk appetite, see below);
- maintaining and monitoring implementation of methodologies, policies, procedures and credit risk management standards;
- validation of credit rating systems and associated processes as well as other decision support tools, such as economic capital, stress testing and provisioning models;
- ownership of the credit regulatory reporting process; and
- maintaining the credit governance structure.

Performance Measurement function/BSM unit

The Performance Measurement function within Corporate Centre is responsible for management of the balance sheet with respect to credit risk and fulfils both an operational and a central coordination role. Its mandate includes:

- the formulation of the macroeconomic and credit outlook used for planning and stress testing purposes;
- the quantification and allocation of credit economic capital including the credit risk assessment employed for ICAAP and the assessment of appropriate capital buffers;
- active participation in the formulation of credit and origination strategies, in particular with a view to the implementation and management of the Banking Group's credit risk appetite across the business units;
- credit risk related stress testing, scenario analysis and portfolio modelling;
- assessment, analysis, forecasting and reporting of impairments; and
- credit risk reporting to stakeholders such as the Credit risk management committee.

Assessment and management

Calculation of internal ratings and rating process

The assessment of credit risk across the Banking Group relies heavily on internally developed quantitative models for regulatory purposes under Basel II, as well as for addressing business needs.

Credit risk models are widely employed in a number of areas such as the assessment of capital requirements, pricing, impairment calculations and 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 and the FRB Model building framework. FRB has been granted regulatory approval for the use of its internal models under the AIRB approach.

The internal models are used for the internal assessment of the following three primary credit risk components discussed in the following sections:

- probability of default ("PD");
- exposure at default ("EAD"); and
- loss given default ("LGD").

Management of the credit portfolio is heavily reliant on these three credit risk measures. PD, EAD and LGD are inputs into the portfolio and Banking Group level credit risk assessment where the measures are combined with estimates of correlations between individual counterparties and industries to reflect diversification benefits across the portfolio of credit risks.

Probability of default

PD is defined as the probability of a counterparty defaulting on any of its obligations over the next year and is a measure of the counterparty's ability and willingness to repay facilities granted to it. A default, in this context, is defined along two dimensions:

- time driven: the counterparty is in arrears for more than 90 days or three instalments as appropriate; and
- event driven: there is reason to believe that the exposure will not be recovered in full, and has classified it as such (this includes the forfeiting of principal or interest as well as a restructuring of facilities resulting in an economic loss.

This definition of default is applied consistently across all credit portfolios as well as in the recognition of NPLs for accounting purposes.

For communication and reporting purposes, the Banking Group employs a granular, 100 point, master rating scale which has been mapped to the continuum of default probabilities, as illustrated in the table below.

Mapping of FR grades to rating agency scales (unaudited)

FR rating	Midpoint PD	International scale mapping*
FR 1 – 12	0.04%	AAA, AA, A
FR 13 – 25	0.27%	BBB
FR 26 – 32	0.77%	BB+, BB
FR 33 – 37	1.34%	BB-
FR 38 – 48	2.15%	B+
FR 49 – 60	3.53%	B+
FR 61 – 83	6.74%	B
FR 84 – 91	15.02%	B-
FR 92 - 94		Below B-
FR 95 - 100	100%	D (defaulted)

* *Indicative mapping to the international rating scales of Fitch and Standard & Poor's.*

A FirstRand ("FR") rating of 1 is the lowest PD and a FR rating of 100 is the highest. External ratings have also been mapped to the master rating scale for reporting purposes. These mappings are reviewed and updated on a regular basis.

In line with international best practice, the Banking Group distinguishes between the two measures of PD, both used for the management of exposure to credit risk:

- Through the cycle ("TTC") PD measures reflect long-term, average default expectations over the course of the economic cycle. TTC PD's are typically an input to economic and regulatory capital calculations.
- Point in time ("PIT") PD measures reflect default expectations in the current economic environment and thus tends to be more volatile than TTC. PIT PD's are typically used in the calculation of impairments for accounting purposes.

Exposure at default

The EAD of a particular facility is defined as the expected exposure to a counterparty through a facility, should the counterparty default over the next year. It reflects commitments made and facilities granted that have not been paid out and that may be drawn over the time period under consideration (i.e. exposures not recognised in the statement of financial position). It is also a measure of potential future exposure on derivative positions.

Tailored to the respective portfolios and products employed, a number of EAD models are in use across the Banking Group. These have been developed internally and are calibrated to the historical default experience.

Loss given default

LGD is the third major credit risk component estimated on the basis of internal models. It is defined as the economic loss on a particular facility upon default of the counterparty. It is typically expressed as a percentage of exposure outstanding at the time of default.

In most portfolios, LGD is strongly dependent on:

- the type, quality, and level of subordination;
- the value of collateral held compared to the size of the overall exposure; and
- the effectiveness of the recovery process and the timing of cash flows received during the workout or restructuring process.

A number of models are used to assess LGDs across various portfolios. These models were developed internally and the outputs are calibrated to reflect both the internal loss experience, where available, and external benchmarks, where appropriate.

Typically, a distinction is made between long run expected LGDs and an LGD reflective of downturn conditions. The latter is a more conservative assessment of risk, which incorporates a degree of interdependence between PD and LGD that can be found in a number of portfolios (i.e. instances where deteriorating collateral values are also indicative of higher default risk). It is this more conservative measure of LGD applicable to downturns, which is used in the calculation of regulatory capital estimates.

Expected loss ("EL")

EL, the product of the primary risk measures PD, EAD and LGD, is a forward looking measure of portfolio or transaction risk. It is used for a variety of purposes across the businesses alongside other risk measures..

Specialised lending

Where the Banking Group finances an entity created to finance and/or operate physical assets, the slotting approach is applied where:

- the primary source of repayment of the obligation is the income generated by the assets (i.e. specialised lending); and
- the PD and LGD cannot be determined.

Specialised lending relates mainly to project and commodity finance. In terms of the slotting approach the exposure is rated after assessing the risks and mitigants applied to reduce/eliminate the risk and mapped to one of four supervisory categories. Less than 1% of the book is subject to the slotting approach.

Rating process

A consistent rating process is employed across the various businesses, differentiated by the type of counterparty and the type of model employed for rating purposes. For example, retail portfolios are segmented into homogeneous pools in an automated process. Based on the internal product level data, PD's are then estimated (and continuously updated) for each pool. The following table summarises the processes and approaches employed and provides an overview of the types of exposures within each of the portfolios.

Rating process of credit portfolios

Portfolio and type of exposures	Description of rating system
Large corporate portfolios (Wholesale: FNB Corporate, Corporate Centre and RMB) Exposures to private sector counterparties including corporates and securities firms and public sector counterparties. A wide range of products give rise to credit exposure, including loan facilities, structured finance facilities, contingent products and derivative instruments.	The default definitions applied in the rating systems are aligned to the requirements of Basel II. **Rating process:** • The rating assignment to corporate credit counterparties is based on a detailed individual assessment of the counterparty's creditworthiness. • This assessment is performed through a qualitative analysis of the business and financial risks of the counterparty and is supplemented by internally developed statistical rating models. • The rating models were developed using internal and external data covering more than 10 years. The qualitative analysis is based on the methodology followed by international rating agencies. • The rating assessment is reviewed by the FRBH Credit committee and the rating (and associated PD) is approved by this committee. • No overrides of the ratings or the PDs are possible after approval by this committee. • LGD and EAD estimates are based on modelling of a combination of internal and suitably adjusted international data.
Low default portfolios: sovereign and bank exposures (Wholesale: FNB Corporate, Corporate Centre and RMB) Exposures to sovereign and bank counterparties.	The default definitions applied in the rating systems are aligned to the requirements of Basel II. **Rating process:** • Expert judgement models are used in combination with external rating agency ratings as well as structured peer group analyses which form a key input in the ratings process. The analysis is supplemented by internally developed statistical models. • The calibration of PD and LGD ratings is based on a mapping to external default data as well as credit spread market data. • The rating assessment is reviewed by the FRBH Credit committee and the rating (as well as the associated PD) is approved by this committee. • No overrides of the ratings or the PDs are possible after approval by this committee.
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.

Portfolio and type of exposures	Description of rating system
Commercial portfolio (SME corporate and SME retail counterparties in FNB Commercial and WesBank) Exposures to SME clients. A wide range of products give rise to credit exposure, including loan facilities, contingent products and term lending products.	The default definitions applied in the rating systems are aligned to the requirements of Basel II. **SME retail rating process:** • The retail portfolio is segmented into homogeneous pools and subpools through an automated scoring process using statistical models that incorporate product type, customer behaviour and delinquency status. • PDs are estimated for each subpool based on internal product level history associated with the respective homogeneous pools and subpools. • LGD and EAD estimates are applied on a portfolio level, estimated from internal historical default and recovery experience. **SME corporate rating process:** • PD: Counterparties are scored using Moody's RiskCalc, the output of which was calibrated to internal historical default data. • LGD: Recovery rates are largely determined by collateral type and these have been set with reference to internal historical loss data, external data (Fitch) and Basel II guidelines. • EAD: Portfolio level credit conversion factors ("CCF") are estimated on the basis of the Banking Group's internal historical experience and benchmarked against international studies.
Residential mortgages (Retail portfolios in FNB HomeLoans, RMB Private Bank exposures and mortgage exposures in the Mass segment) Exposures to individuals for the financing of residential properties. **Qualifying revolving retail exposures (Retail portfolios in FNB Card, FNB Consumer overdrafts and RMB Private Bank)** Exposures to individuals providing a revolving limit through a credit card or overdraft facility. **Other retail exposures (Retail portfolios in FNB Personal Loans, Smart Products and WesBank retail auto finance and personal loans)**	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. • PDs are estimated for each subpool based on internal product level history associated with the respective homogeneous pools and subpools. • No overrides of the PDs are possible. The only potential override is not that of the PD, but rather of the automated decision to lend or not. Such overrides may be done on the basis of the credit manager's judgement in a structured process supported by pertinent business reasons. • LGD and EAD estimates are based on subsegmentation with reference to the collateral or product type as well as associated analyses and modelling at historical internal loss data. **Additional notes on qualifying revolving retail exposures:** • These exposures are unsecured and therefore only the efficiency of the recovery processes impacts on the level of LGD. • EAD measurement plays a significant role in the assessment of risk due to the typically high level of undrawn facilities that are characteristic for these product types. EAD estimates are based on actual historic EAD, segmented appropriately (e.g. straight vs. budget in the case of credit cards).

Model validation

Rating models are recalibrated and independently validated on an annual basis to ensure validity, efficacy and accuracy. The rating models used across the credit portfolios incorporate an appropriate degree of conservatism, which was achieved through the prudent choice of model parameters and the inclusion of downturn periods such as 2001 and 2007 – 2009 in calibration.

The independent validation of the rating systems is carried out by GCRM in ERM. It is responsible for reviewing all rating systems and a comprehensive revalidation of all material rating systems on an annual basis. An actuarial auditing team in Group Internal Audit ("GIA") carries out additional reviews of the rating systems as well as sample revalidations. The results of these analyses are reported to the Model risk and validation committee. As part of this process, extensive documentation covering all steps of the model development lifecycle from inception through to validation is maintained. This includes:

- developmental evidence, detailing processes followed and data used to set parameters for the model. GCRM is the custodian of these documents, which are updated on at least an annual basis by the model development teams;
- independent validation reports, documenting the process followed during the annual validation exercise as well as results obtained from these analyses; and
- model build and development frameworks are reviewed and, where required, updated annually by GCRM. These frameworks provide guidance, principles and minimum standards which the model development teams are required to adhere to.

Credit risk mitigation

Since the taking and managing of credit risk is a core component of the Banking Group's business, it aims to optimise the amount of credit risk it takes to achieve its return objectives. The mitigation of credit risk is an important component of this process, which begins with the structuring and approval of facilities for only those clients and within those parameters that fall within the risk appetite.

In addition, various instruments are used to reduce the exposure in case of a counterparty default. These include, amongst others, financial or other collateral, netting agreements, guarantees and credit derivatives. The type of security used depends on the portfolio, product or customer segment, for example:

- mortgages and instalment sale finance are secured by the assets financed;
- personal loans, overdrafts and credit card exposures are unsecured or secured by guarantees and suretyships;
- FNB Commercial credit facilities are secured by the assets of the SME counterparties, and commercial property transactions are typically supported by the property financed and the cash flows generated by it;
- working capital facilities in FNB Corporate are often not secured by claims on specific assets, but risk in structured facilities granted by RMB is mitigated by financial or other collateral such as guarantees or credit derivatives; and
- credit risk in RMB's Fixed Income, Currency and Commodities ("FICC") business is mitigated through the use of netting agreements and financial collateral.

The Banking Group employs strict policies governing the valuation and management of collateral across all business areas. Collateral is managed internally so as to ensure that title is retained over collateral taken over the life of the transaction. All items of collateral are valued at inception of a transaction and at various points throughout the life of the transaction, either through physical inspection or indexation methods, as appropriate. For wholesale and commercial portfolios, valuations are reassessed as part of the annual facility review. For mortgage portfolios, collateral valuations are updated on an ongoing basis through statistical indexation models. For all retail portfolios, collateral is also revalued by physical inspections in the event of default and at the start of the workout process.

Management of concentration risk

Aggregated monitoring of concentration risk takes place at Banking Group level through the GCRM function of ERM and the Performance Measurement function. Concentration risk is managed in the respective credit portfolios as outlined below.

In the wholesale credit portfolio through:

- single name limits for large exposures;
- evaluation of country and industry concentrations;
- a sophisticated, simulation based portfolio model;
- securitisation structures; and
- credit derivatives.

In the commercial portfolios through:

- maintaining an appropriate balance of exposures across industries with a view to mitigating residual risks at a Banking Group level, where appropriate and economically feasible;
- reliance on a small number of collateral types; and
- monitoring and management in the respective business segments (e.g. exposure to geographical areas and loan to value ("LTV") bands for mortgage portfolios).

Monitoring of weak exposures

Credit exposures are actively monitored throughout the life of the respective transactions. As indicated above, the management of credit risk is largely carried out at a business unit level, and, therefore, the processes for the identification and management of weak exposures differ slightly across the various franchises.

Across the wholesale credit portfolios:

- watch lists of high risk clients;
- specific and detailed action plans for each client which are actively monitored and updated on at least a monthly basis;
- restructuring of facilities where appropriate;
- use of credit derivatives;
- an efficient workout; and
- the realisation of collateral value in the event of default.

In retail credit portfolios:

- monitoring on a (homogeneous) portfolio basis;
- restructuring of weak exposures to increase the projected realised value for the Banking Group;
- reduction or removal of undrawn facilities in areas such as HomeLoans and Credit Cards; and
- revaluation of properties before approval of additional facilities.

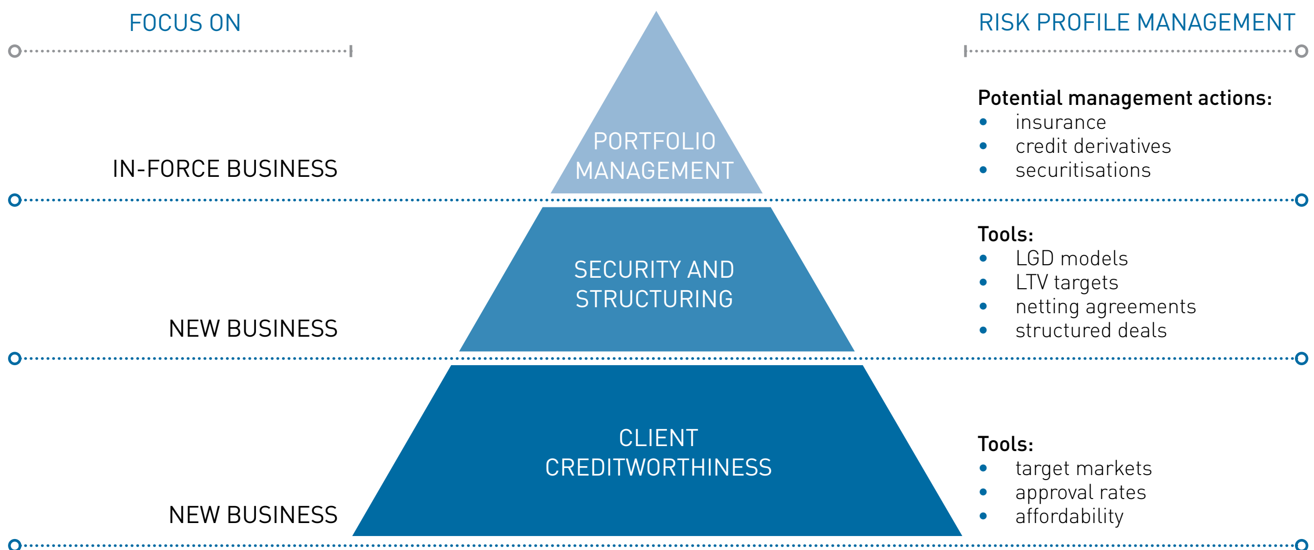
Commercial and other portfolios of clients that fall between the corporate and retail segments are treated in a hybrid manner, dependent on the number of exposures and the size of individual transactions.

Reports on the overall quality of the portfolio are monitored closely at a business unit as well as at a Banking Group level. As indicated previously, the Performance Measurement function within Corporate Centre is actively involved in the determination of credit strategy and required changes thereto, so as to ensure that the credit portfolio is managed within the constraints of the Banking Group's credit risk appetite.

Use of credit risk tools and measures

Credit risk measures are used in a large number of business processes, including pricing, the setting of impairments, in determining capitalisation levels and in determining overall business strategy, risk appetite and the choice of appropriate return targets. Credit risk tools and measures are used extensively in the determination of the current credit risk profile and credit risk appetite (see chart on next page).

Use of credit risk tools and measures



The following table describes the use of credit risk concepts and measures across a number of key areas and business processes related to the management of the credit portfolio.

Use of credit measures in the credit lifecycle

Area	Wholesale	Retail
Credit approval	Ratings form an explicit and integral component of the approval decision, both with respect to the targeted portfolio composition in terms of applicable risk appetite limits (e.g. ratings profile) and with respect to the value proposition based on the projected risk adjusted return on economic capital (for which PD, EAD and LGD are key inputs).	Credit approvals are largely automated on the basis of application scorecards and applicable policy. These are reflective of PD, EAD and LGD.
Determination of individual and portfolio limits	The setting of limits at a client level and the ongoing evaluation of industry and geographical concentrations are key aspects of the determination of the overall credit strategy (see below). Ratings are an important consideration in this process and risk related limits on the composition of the portfolio are used to ensure compliance with the Banking Group's credit risk appetite.	See Wholesale. In addition, retail portfolios are regularly evaluated with respect to modelled vs. actual experience in the setting of credit risk appetite.
Reporting to senior management and the board	Portfolio reports are collated on an ongoing basis and these are presented to and discussed regularly at relevant business and deployed risk committees. Quarterly portfolio reports are also submitted to the FRBH Credit risk committee, the Wholesale credit technical committee and the RCC committee.	See Wholesale. Reports are also submitted to the Retail and SME credit risk technical committee and the RCC committee.
Provisioning	PD and LGD estimates are used extensively in the assessment of impairments and thus in the calculation of provisions.	PIT PD, long run LGD and roll rates are used in the derivation of specific, portfolio and IBNR provisions.
Regulatory and economic capital allocation	As the primary credit risk measures PD, EAD and LGD are the most important inputs for both regulatory and economic capital models.	See Wholesale.

Area	Wholesale	Retail
Profitability analysis and pricing decisions	The primary risk measures are the core parameters of the pricing calculator used for each transaction. For each application a value proposition section has to be completed that provides a cogent rationale for the transaction on a risk adjusted basis.	PIT PDs, downturn LGDs and EADs are used in assigning appropriate price points to each risk rating. Profitability is assessed in terms of economic profit.
Credit monitoring and risk management	The monitoring of exposures is dependent on the risk assessment as given by PD, EAD and LGD. FR grades are updated on a regular basis to reflect the organisation's assessment of obligor risk. The risk parameters are also used in the Banking Group's portfolio model as well as other tools which attribute additional capital to large transactions or to deals that further increase the concentration of risk in the portfolio.	See Wholesale. Extensive analysis of portfolio and risk movements is carried out on a monthly basis. These are used in portfolio management and credit strategy decisions.
Determination of portfolio and client acquisition strategy	Credit portfolio strategy is driven by the assessment of overall portfolio credit risk, which is based on a portfolio model driven by the primary risk measures. In this context, acquisition and overall strategy are set in terms of appropriate limits so as to ensure that the credit portfolios remain within the overall risk appetite prescribed by the board.	See Wholesale. Credit models are also used to determine loss thresholds across retail portfolios, which are a direct consideration in the setting of credit risk appetite.
Performance measurement and compensation	The primary risk measures are key parameters for the calculation of deal pricing and are also used in the assessment of economic value added by a transaction or a business unit. From an operational perspective, each deal is evaluated with respect to the value added and compensation structures are tied to the measures.	See Wholesale. By necessity, analyses tend to be carried out at a portfolio level but performance is measured consistently on the basis of capital consumption and economic value added in the form of economic profit.

Discussion of credit risk portfolio

Portfolio discussion

Credit strategy is managed as part of the broader balance sheet management process and is aligned with the Banking Group's view of trends in the wider economy. The Banking Group's current origination strategies are resulting in improving credit quality across all retail portfolios (as evidenced in the vintage analyses for the large retail portfolios on page 50). These portfolios were also positively impacted by interest rates continuing to trend downwards, positive income growth and increasing wages. However, job losses also continued, albeit at a slower rate.

The commercial market remains fragile. Improvement is expected to follow the consumer spending growth recovery.

Retail credit portfolios

Interest rate reductions, which started in 2008 and continued into 2010, resulted in a reduction in NPL inflows (see on page 50) and consequently in the credit impairment charges of most retail portfolios. The level of NPLs remained high, however, due to the debt counselling process. As a result of the improvement in credit quality, the Banking Group's retail portfolios now fall within the desired credit appetite ranges.

Despite the reduction in debt servicing costs as a result of lower interest rates, the subsequent improvement in affordability and underlying asset recovery (e.g. house price growth), credit appetite has not increased considerably. Consumers remain leveraged and vulnerable to shifts in the external economic environment and concerns remain with regards to unemployment prospects and the timing and strength of the recovery.

Wholesale portfolios

During the year under review the corporate portfolios were resilient, however, lending appears likely to remain tepid as corporates maintain high levels of cash and investment spending remains subdued. Commercial market NPLs and impairments have increased since June 2009 due to the lagged impact of the economic cycle.

Credit assets

The following table provides a breakdown of the Bank's credit assets by segment, including items not recognised in the statement of financial position.

Credit assets by type and segment (audited)

R million	2010	2009
Cash and short term funds	**18 907**	17 645
– Money at call and short notice	**1 230**	875
– Balances with central banks and guaranteed by central banks	**10 615**	10 837
– Balances with other banks	**7 062**	5 933
Gross advances	**409 331**	393 916
FNB	**194 298**	198 989
– FNB Retail	**163 845**	160 712
– FNB Corporate	**1 863**	11 415
– FNB Commercial	**28 590**	26 862
WesBank	**90 611**	86 730
RMB	**122 621**	106 146
Other	**1 801**	2 051
Derivatives	**38 944**	59 523
Investment securities (excluding non recourse investments)	**75 489**	62 915
Accounts receivable	**2 855**	2 350
Loans due by holding company and fellow subsidiaries	**14 443**	15 241
Loans to Insurance Group	**1 101**	1 651
Credit risk not recognised in the statement of financial position	**77 309**	77 177
Guarantees*	**21 986**	17 273
Acceptances	**299**	279
Letters of credit	**5 362**	5 436
Irrevocable commitments	**48 692**	53 167
Underwriting exposures	**–**	2
Credit derivatives	**970**	1 020
Total	**638 379**	630 418

* *Guarantees exclude guarantees of R4 068 million (June 2009: R5 337 million) granted to other Firstrand Group Companies.*

For further information on the fair value of investment securities refer to Note 11 to consolidated financial statements on investment securities and other investments.

Credit quality

Advances are considered past due where a specific payment date is not met or where regular instalments are required and such payments were not received. A loan payable on demand is classified as overdue where a demand for repayment was served but repayment was not made in accordance with the stipulated requirements. The following table provides an age analysis of exposures classified as past due as at 30 June 2010.

Age analysis of advances (audited)

	2010						
			Past due but not impaired				
R million	Neither past nor impaired	Re-negotiated but current	1 – 30 days	31 – 60 days	>60 days	Impaired	Total
Age analysis of advances							
FNB Retail	139 983	776	5 570	2 596	1 671	13 249	163 845
FNB Corporate	1 862	–	–	–	–	1	1 863
FNB Commercial	26 347	–	261	34	21	1 927	28 590
FNB	168 192	776	5 831	2 630	1 692	15 177	194 298
WesBank	83 615	–	1 471	603	24	4 898	90 611
RMB	122 243	–	–	–	–	378	122 621
Other	1 801	–	–	–	–	–	1 801
Total	**375 851**	**776**	**7 302**	**3 233**	**1 716**	**20 453**	**409 331**

	2009						
			Past due but not impaired				
R million	Neither past nor impaired	Re-negotiated but current	1 – 30 days	31 – 60 days	>60 days	Impaired	Total
Age analysis of advances							
FNB Retail	130 915	2 623	6 233	3 050	2 242	15 649	160 712
FNB Corporate	11 327	–	3	1	–	84	11 415
FNB Commercial	24 979	–	125	60	75	1 623	26 862
FNB	167 221	2 623	6 361	3 111	2 317	17 356	198 989
WesBank	79 241	–	2 108	915	35	4 431	86 730
RMB	105 694	–	–	–	–	452	106 146
Other	2 051	–	–	–	–	–	2 051
Total	354 207	2 623	8 469	4 026	2 352	22 239	393 916

The classification of advances past due follows the standards set out in applicable accounting policies. A distinction is drawn between accounts past due for technical reasons (e.g. insufficient payments due to debit orders not having been updated for changes in interest rates) and normal arrears (i.e. accounts in arrears by one to three full repayments). The split provided in the tables above includes both types of arrear accounts. Total exposure to technical arrears included in this analysis was R4.2 billion (2009: R5 billion) and was primarily driven by retail exposures.

Renegotiated advances are advances where, due to the deterioration in a counterparty's financial condition, FRB granted a concession where the original terms and conditions of the facility were amended. The objective of such an amendment is to mitigate the risks where the current situation could result in the counterparty no longer being able to meet the terms and conditions originally agreed. As part of the risk management and workout approach, the Bank enters into arrangements with clients where concessions are made on payment terms (e.g. a reduction in payments for a specified period of time, changes in the payment profile, or debt counselling payment plans). There are formally defined eligibility criteria appropriate for individual products to determine when clients are eligible for such arrangements. These accounts are monitored in a separate portfolio in each product segment and the performance is tracked for management and impairment purposes. Reclassification of NPLs into the renegotiated advances category is not allowed.

The renegotiated advances disclosed above include all loans renegotiated to date and for which the renegotiated terms have not yet expired. All of these advances are within the revised terms and conditions. These advances are considered as a separate category for purposes of impairments and are not considered with the *Neither past due nor impaired* category.

The renegotiated advances exclude any advances where the facility terms were extended or renewed as part of the ordinary course of business on terms and conditions equivalent to the current terms or conditions for new debt with similar risk. The following table presents an analysis of the credit quality of performing advances (i.e. those classified as neither past due nor impaired). Please refer to page 52 for the mapping of FR grades to rating agency scales.

Credit quality of performing advances (audited)

	2010						
		FNB					
R million	Total neither past due nor impaired	Retail	Corporate	Commercial	WesBank	RMB	Other
FR 1 – 25	75 724	4 821	173	2 347	738	67 011	634
FR 26 – 91	279 160	125 796	1 675	23 145	73 296	54 081	1 167
Above FR 92	20 967	9 366	14	855	9 581	1 151	–
Total	375 851	139 983	1 862	26 347	83 615	122 243	1 801

	2009						
		FNB					
R million	Total neither past due nor impaired	Retail	Corporate	Commercial	WesBank	RMB	Other
FR 1 – 25	118 758	46 897	4 730	2 354	597	62 130	2 050
FR 26 – 91	217 992	79 309	6 597	22 278	68 430	41 377	1
Above FR 92	17 457	4 709	–	347	10 214	2 187	–
Total	354 207	130 915	11 327	24 979	79 241	105 694	2 051

Year-on-year trends will be impacted by the risk migration in the existing book (reflecting changes in the economic environment), quality of new business originated and any model recalibrations implemented during the course of the year. Rating system recalibrations were implemented for the majority of the retail portfolios during the first half of the financial year. The recalibrations incorporated the higher defaults experienced in recent times. This resulted in a once off deterioration in counterparty risk ratings, which explains the migration observed above. Since December 2009, counterparty risk ratings have, however, improved significantly for the majority of the retail portfolios, due to the positive impact from lower interest rates on the existing book and the high quality of new business originated.

The following table provides an overview of the credit quality of the Bank's other financial assets that are neither past due nor impaired.

Credit quality of other financial assets (audited)

R million	Investment securities*	Derivatives	Cash and short-term funds	Amounts due by fellow subsidiary companies	Loans to Insurance Group	Total
	2010					
Credit quality of financial assets (excluding advances) neither past due nor impaired						
AAA to BBB	**32 373**	**18 762**	**16 867**	**14 443**	**1 101**	**83 546**
BB, B	**43 116**	**20 125**	**2 013**	**–**	**–**	**65 254**
CCC	**–**	**37**	**25**	**–**	**–**	**62**
Unrated	**–**	**20**	**2**	**–**	**–**	**22**
Total	**75 489**	**38 944**	**18 907**	**14 443**	**1 101**	**148 884**

R million	Investment securities*	Derivatives	Cash and short-term funds	Amounts due by fellow subsidiary companies	Loans to Insurance Group	Total
	2009					
Credit quality of financial assets (excluding advances) neither past due nor impaired						
AAA to BBB	17 392	18 972	16 409	15 241	1 651	69 665
BB, B	45 523	40 500	1 189	–	–	87 212
CCC	–	49	–	–	–	49
Unrated	–	2	47	–	–	49
Total	62 915	59 523	17 645	15 241	1 651	156 975

** Excludes non recourse investments.*

Impairment of financial assets and non-performing loans

Refer to policy for impairment of financial assets in the *Accounting Policy* section on page 92 and to Note 10.2 *Impairment of advances* on page 130 of the consolidated annual financial statements for the analysis of movement in impairment of advances and NPLs.

Adequacy of impairments is assessed through the ongoing review of the quality of the credit exposures. Although credit management and workout processes are similar for amortised cost advances and 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 and an impairment charge in the income statement. For fair value advances, the credit valuation adjustment is charged to the income statement through trading income and recognised as a change to the carrying value of the asset.

Specific impairments are created for non performing advances for which objective evidence that an incurred loss event will have an adverse impact on the estimated future cash flows from the asset was identified. Potential recoveries from guarantees and collateral are incorporated into the calculation of the impairment figures.

All assets not individually impaired, as described, are included in portfolios with similar credit characteristics (homogeneous pools) and are collectively assessed. Portfolio impairments are created with reference to these performing advances based on historical patterns of losses in each part of the performing book. Points of consideration for this analysis are the level of arrears; arrears roll rates, PIT PDs, LGDs and the economic environment. Loans considered uncollectable are written off against the reserve for loan impairments. Subsequent recoveries against these facilities decrease the credit impairment charge in the income statement in the year of the recovery.

Fair value sensitivity of wholesale advances due to credit risk

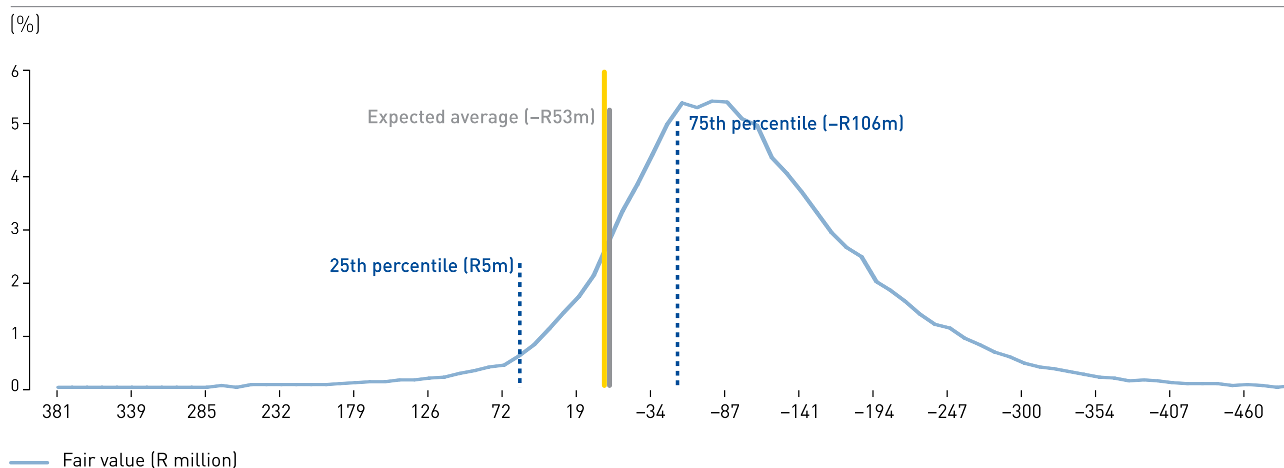
RMB recognises a significant portion of the wholesale advances at fair value through profit or loss. The fair value adjustments made to these advances directly impacts the income statement and the value of the advance. For risk management purposes a term structure of default probabilities and migration matrices are used to estimate the fair value impact of changes in credit risk. The matrix contains probabilities of downgrading or upgrading to another rating category.

The main benefits of using the migration matrix to estimate the fair value impact of credit risk are:

- downgrades are more realistic because better rating grades are less likely to be downgraded compared to more risky rating grades;
- migration matrices take into account the higher volatility of more risky rating grades;
- rating migration can be positive or negative;
- rating migration is not restricted by one notch only and in extreme cases includes default risk; and
- migration matrices can be based on different economic conditions.

The graph below sets out the fair value impact based on actual observed rating migrations from Standard & Poor's over the long term. Based on this scenario the average fair value impact is a loss of approximately R53 million while the fair value impact at the 75th percentile (i.e. a 25% probability of exceeding this value) is a loss of approximately R106 million.

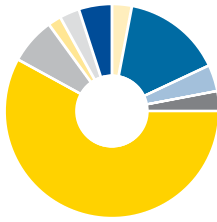
Distribution: fair value impact – long-term scenario (audited)



Geographic and industry concentration risk

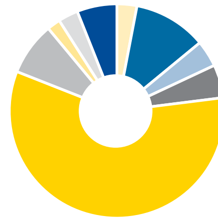
Geographically, 97% in 2010 (2009: 96%) of the Bank's exposure originates in South Africa. The following charts provide the industry split of gross advances after deduction of interest in suspense.

Industry split by exposure 2010



- Agriculture / 3%
- Bank and financial services / 15%
- Building and property development / 4%
- Government, Land Bank and public authorities / 3%
- Individuals / 58%
- Manufacturing and commerce / 7%
- Mining / 2%
- Transport and communication / 3%
- Other services / 5%

Industry split by exposure 2009



- Agriculture / 3%
- Bank and financial services / 11%
- Building and property development / 4%
- Government, Land Bank and public authorities / 5%
- Individuals / 58%
- Manufacturing and commerce / 8%
- Mining / 2%
- Transport and communication / 3%
- Other services / 6%

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 at 30 June.

Concentration of significant credit exposure (audited)

	2010								
R million	South Africa	Other Africa	United Kingdom	Ireland	Other Europe	North America	South America	Other	Total
Advances	398 942	2 145	6 785	–	524	489	–	446	409 331
Derivatives	26 257	57	6 083	2	5 054	1 448	–	43	38 944
Debt securities	67 429	–	250	–	6 004	936	–	870	75 489
Guarantees, acceptances and letters of credit*	26 606	423	–	–	282	–	5	331	27 647
Irrevocable commitments*	47 519	–	24	–	1 149	–	–	–	48 692

	2009								
R million	South Africa	Other Africa	United Kingdom	Ireland	Other Europe	North America	South America	Other	Total
Advances	379 997	2 243	8 994	305	1 924	42	2	409	393 916
Derivatives	37 125	40	12 439	2	8 148	1 745	4	20	59 523
Debt securities	57 485	–	–	–	5 005	425	–	–	62 915
Guarantees, acceptances and letters of credit*	22 699	289	–	–	–	–	–	–	22 988
Irrevocable commitments*	52 867	7	135	13	80	27	8	30	53 167

** Significant exposures not recognised in the statement of financial position.*

Basel II disclosure

Credit rating systems and processes used for Basel II

The Banking Group uses the AIRB approach for the exposures of FRB and the Standardised Approach for all other legal entities in the Banking Group for regulatory capital purposes. Due to the relatively smaller size of the subsidiaries and the scarcity of relevant data, the Banking Group plans to continue using the Standardised Approach for the foreseeable future for these portfolios.

The following table provides a breakdown of credit exposure by type, segment and Basel II approach. The figures are based on IFRS accounting standards and differ from the exposure figures used for regulatory capital calculations, which reflect the recognition of permissible adjustments such as the netting of certain exposures.

Credit exposure by type, segment and Basel II approach (unaudited)

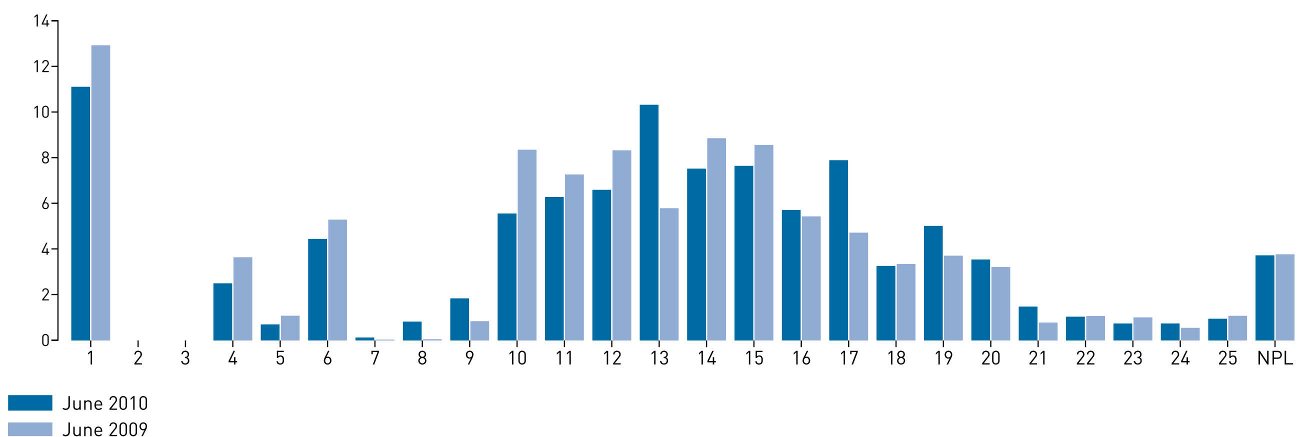
		AIRB	Standardised approach
R million	2010	FirstRand Bank	Offshore branches
Cash and short term funds	**18 907**	18 832	75
– Money at call and short notice	**1 230**	1 230	–
– Balances with central banks and guaranteed by central banks	**10 615**	10 605	10
– Balances with other banks	**7 062**	6 997	65
Gross advances	**409 331**	404 340	4 991
FNB	**194 298**	194 298	–
– FNB Retail	**163 845**	163 845	–
– FNB Corporate	**1 863**	1 863	–
– FNB Commercial	**28 590**	28 590	–
WesBank	**90 611**	85 937	4 674
RMB	**122 621**	122 382	239
Other	**1 801**	1 723	78
Derivatives	**38 944**	38 843	101
Debt investment securities	**75 489**	73 944	1 545
Accounts receivable	**2 855**	2 808	47
Loans due by holding company and fellow subsidiaries	**14 443**	14 396	47
Loans to Insurance Group	**1 101**	1 100	1
Credit risk not recognised in the statement of financial position	**77 309**	76 120	1 189
Guarantees	**21 986**	21 986	–
Acceptances	**299**	299	–
Letters of credit	**5 362**	5 362	–
Irrevocable commitments	**48 692**	47 503	1 189
Credit derivatives	**970**	970	–
Total	**638 379**	630 383	7 996

PD, EAD and LGD profiles

A summary of credit risk parameters as reported for regulatory capital purposes is shown below for each significant AIRB asset class. The parameters reflect through the cycle PDs and downturn LGDs. The scale used from 1 – 25 per the Basel II accord is for performing assets, with 1 being the lowest risk and NPL representing the defaulted exposures.

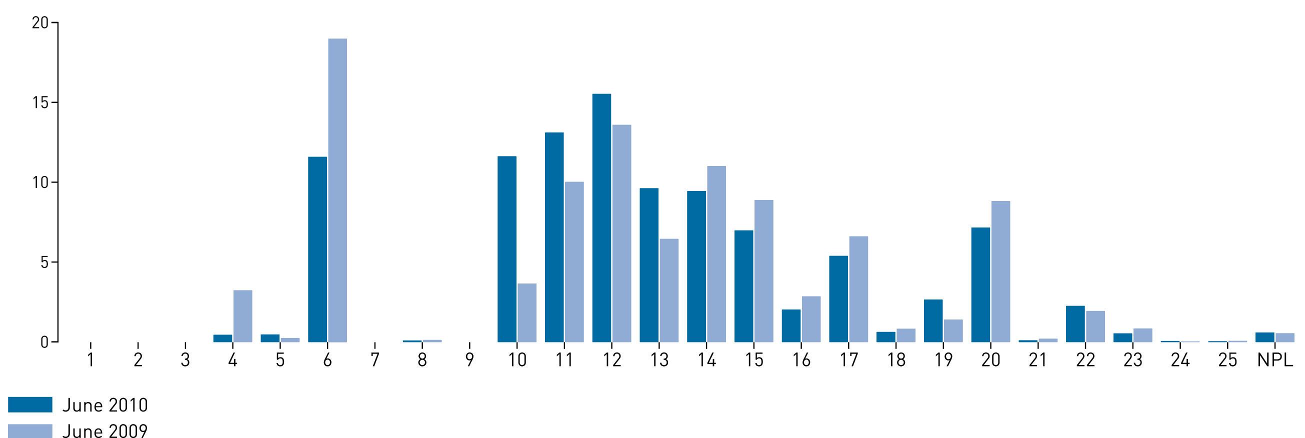
The graphs provide a summary of the EAD distribution by prescribed counterparty risk bands. The EAD weighted downturn LGD and the EAD weighted PD for the performing and total book are also shown. Comparative information for the prior year is provided in the charts.

Risk profile for FirstRand Bank: EAD% distribution per Basel risk buckets (unaudited)



EAD weighted performing PD%	2.66%	EAD weighted total book PD%	6.31%
EAD weighted performing LGD%	28.66%	EAD weighted total book LGD%	28.83%
Performing book EL/EAD	0.76%	Total book EL/EAD	1.82%

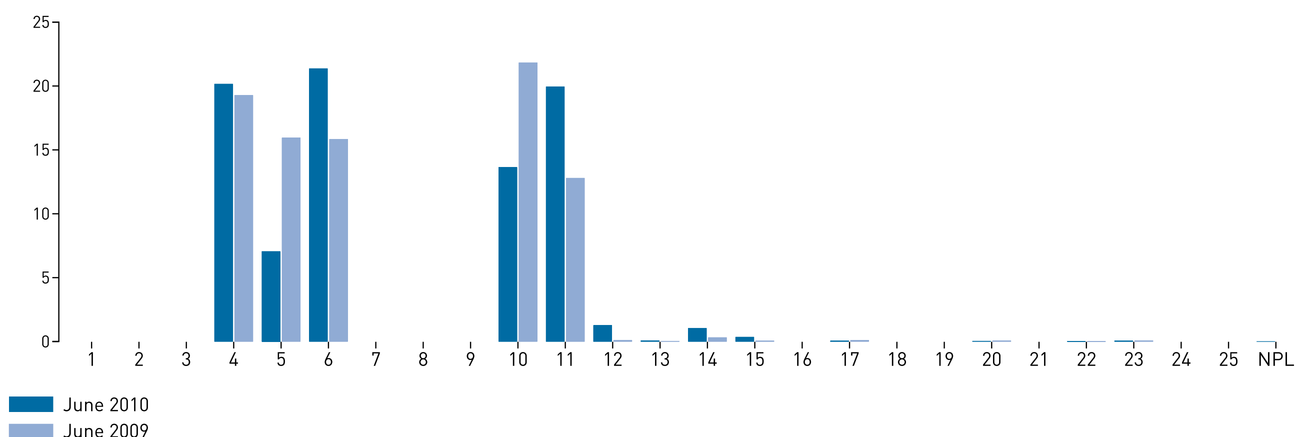
Risk profile for Corporate exposures: EAD% distribution per Basel risk buckets (unaudited)



EAD weighted performing PD%	1.64%	EAD weighted total book PD%	2.52%
EAD weighted performing LGD%	37.35%	EAD weighted total book LGD%	37.37%
Performing book EL/EAD	0.61%	Total book EL/EAD	0.94%

Risk profile for banks exposures: EAD% distribution per Basel risk buckets (unaudited)

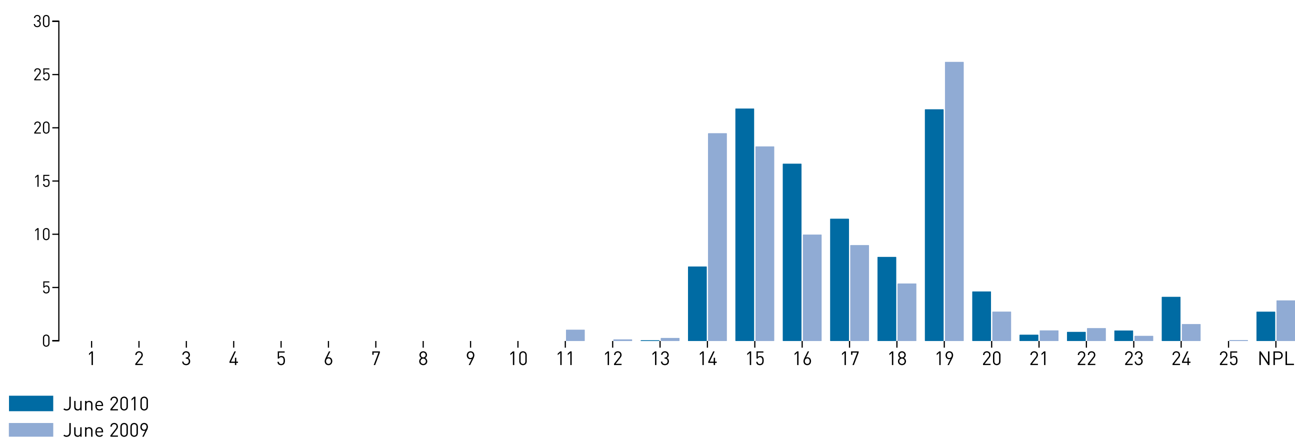
(EAD %)



EAD weighted performing PD%	0.14%	EAD weighted total book PD%	0.14%
EAD weighted performing LGD%	32.20%	EAD weighted total book LGD%	32.20%
Performing book EL/EAD	0.05%	Total book EL/EAD	0.05%

Risk profile for SME coporate exposures: EAD% distribution per Basel risk buckets (unaudited)

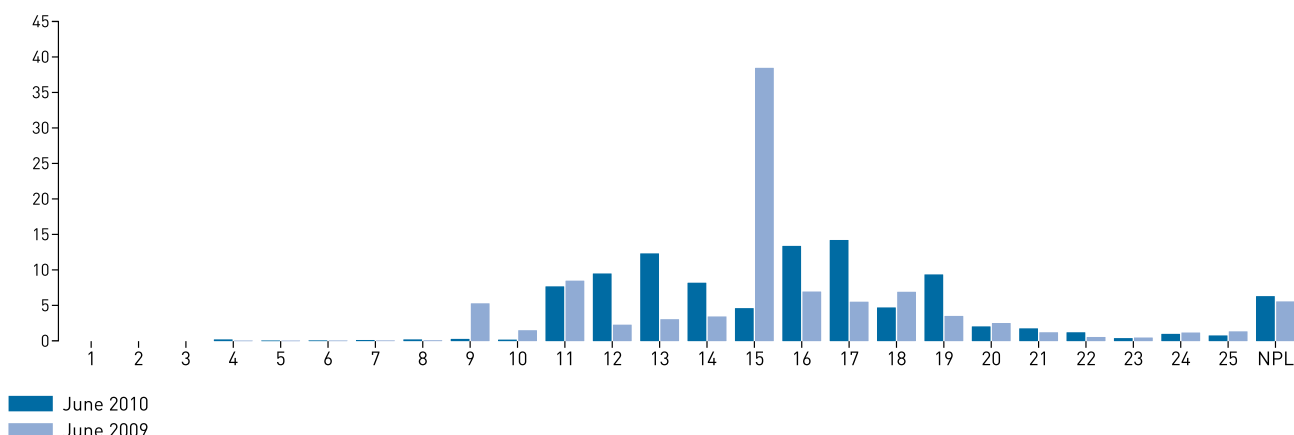
(EAD %)



EAD weighted performing PD%	4.63%	EAD weighted total book PD%	5.58%
EAD weighted performing LGD%	34.69%	EAD weighted total book LGD%	34.75%
Performing book EL/EAD	1.61%	Total book EL/EAD	1.94%

Risk profile for SME retail exposures: EAD% distribution per Basel risk buckets (unaudited)

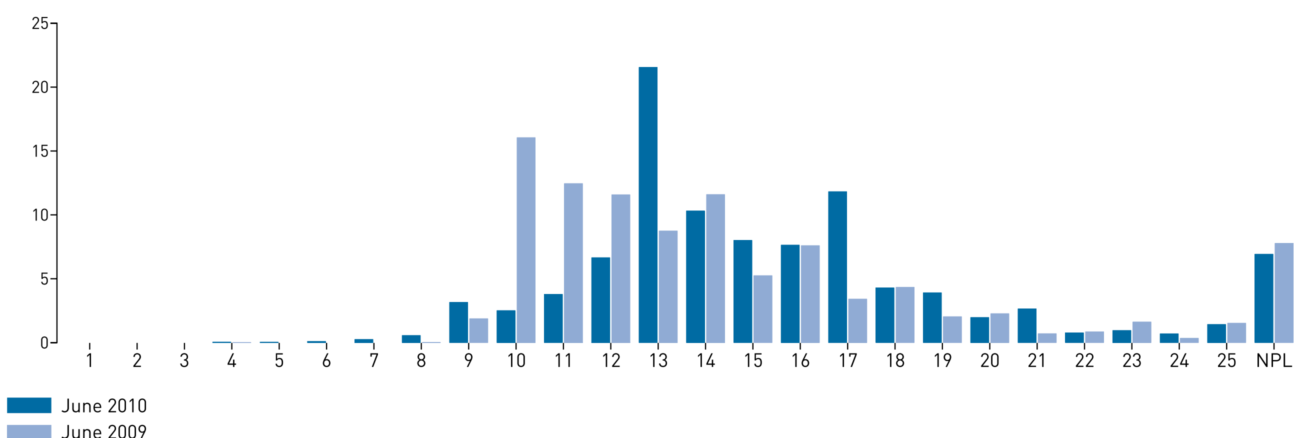
(EAD %)



EAD weighted performing PD%	2.69%	EAD weighted total book PD%	11.06%
EAD weighted performing LGD%	40.44%	EAD weighted total book LGD%	41.17%
Performing book EL/EAD	1.09%	Total book EL/EAD	4.55%

Risk profile for retail mortgage exposures: EAD% distribution per Basel risk buckets (unaudite)

(EAD %)



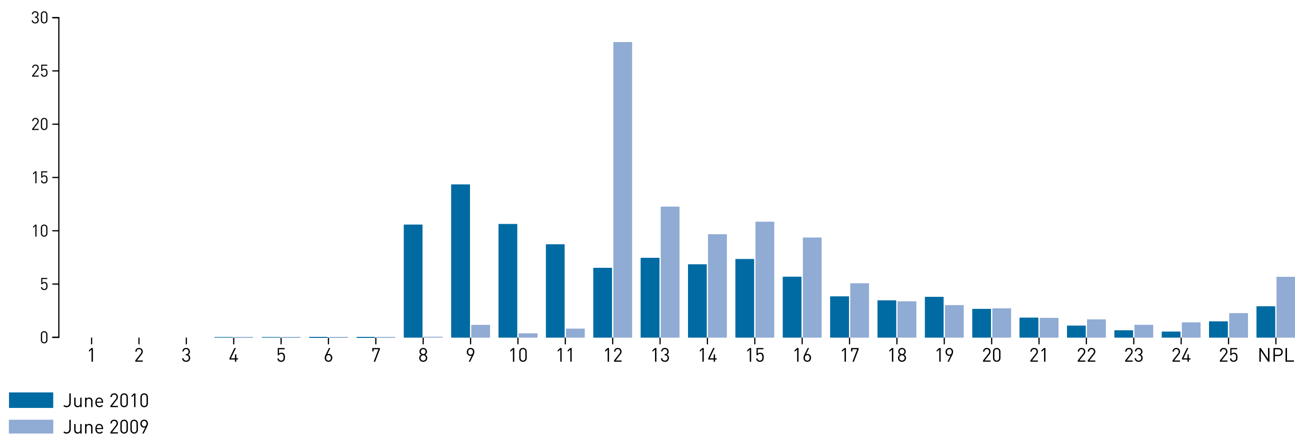
EAD weighted performing PD%	3.47%	EAD weighted total book PD%	13.37%
EAD weighted performing LGD%	13.18%	EAD weighted total book LGD%	13.88%
Performing book EL/EAD	0.46%	Total book EL/EAD	1.86%

The risk profile in the above chart appears to be deteriorating. This is due to rating system recalibrations implemented in September 2009, resulting in an increase in PDs due to the inclusion of the relatively high defaults experienced in recent times.

Subsequent to September 2009, the risk profile improved and PDs decreased consistently, due to positive risk migration, with the lower interest rate environment positively impacting the existing portfolio. In addition, stricter lending criteria resulted in higher quality new business. Monthly trend analyses from July 2009 to June 2010 show a once off increase in PDs in September 2009, due to the recalibration, thereafter a consistent decrease due to the positive migration.

Risk profile for retail revolving credit exposures: EAD% distribution per Basel risk buckets (unaudited)

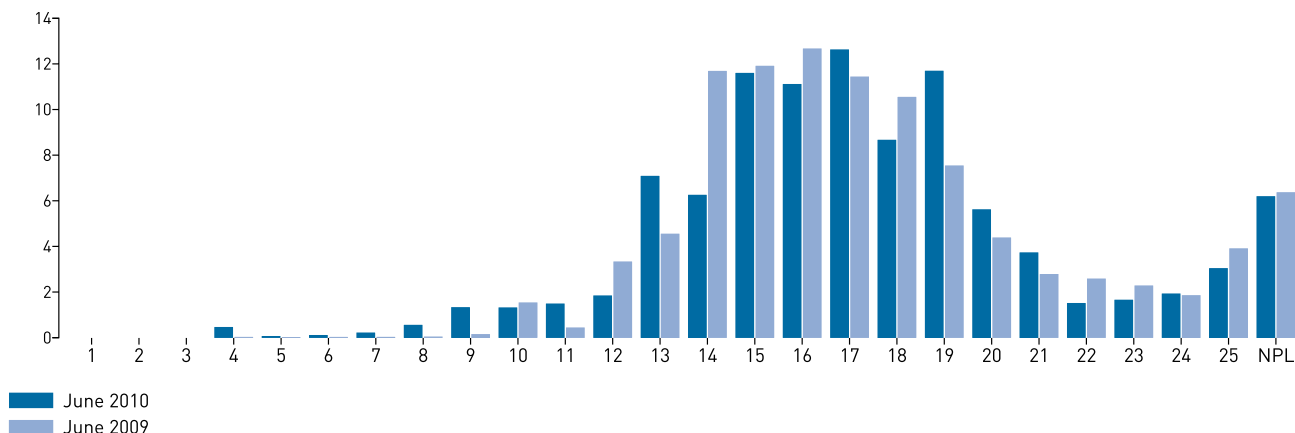
(EAD %)



EAD weighted performing PD%	2.72%	EAD weighted total book PD%	5.53%
EAD weighted performing LGD%	65.42%	EAD weighted total book LGD%	65.67%
Performing book EL/EAD	1.78%	Total book EL/EAD	3.63%

Risk profile for retail other exposures: EAD% distribution per Basel risk buckets (unaudited)

(EAD %)



EAD weighted performing PD%	6.85%	EAD weighted total book PD%	13.07%
EAD weighted performing LGD%	30.43%	EAD weighted total book LGD%	31.12%
Performing book EL/EAD	2.09%	Total book EL/EAD	4.07%

A significant proportion of the retail other asset class is made up of vehicle and asset finance which is secured by the underlying vehicle. As such, the LGD is lower than what would be expected in unsecured other retail portfolios.

Maturity breakdown

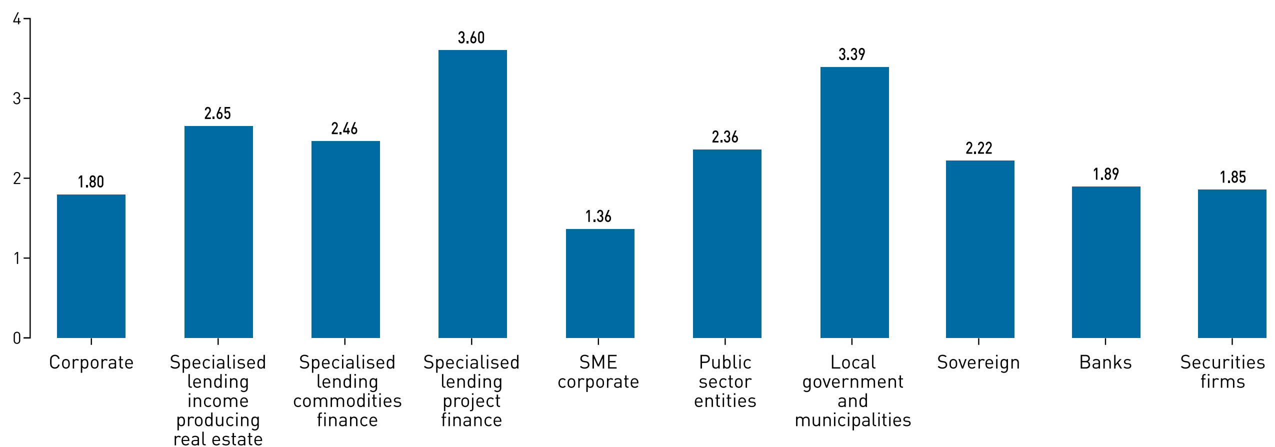
Maturity is defined as the average term to contractual cash flows weighted by the size of each of the cash flows.

Maturity parameters, calculated for each account or exposure, are used as an input in the AIRB regulatory capital calculation for the wholesale portfolios. These are aggregated on an asset class basis for review and reporting purposes. The longer the maturity of a deal, the greater the uncertainty, and all else equal the larger the regulatory capital requirement.

Maturity breakdown of AIRB asset classes within the wholesale credit portfolio is disclosed in the graph below.

Maturity breakdown per wholesale AIRB asset class as at 30 June 2010 (unaudited)

(Maturity in years)



Actual vs expected loss analysis

To provide a meaningful assessment of the effectiveness of the internal ratings based models, expected loss is compared against losses actually experienced during the year. This is performed for all significant AIRB asset classes.

Expected loss here refers to regulatory expected loss. This provides a one year forward looking view, based on information available at the beginning of the year.

The risk parameters include:

- PDs, which are calibrated to long run default experience to avoid regulatory models being skewed to a specific part of the credit cycle;
- LGDs, which are calibrated to select downturn periods to reflect depressed asset prices during economic downturns; and
- EADs.

Actual losses experienced during the year consist of both the level of specific impairments at the start of the year 1 July 2009 and the net specific impairment charge recorded through the income statement for the year ended 30 June 2010 as determined by IFRS. The calculation is based on the assumption that the specific provisions raised are a fair estimate of what final losses on defaulted exposures would be, although the length of the workout period creates uncertainty in this assumption.

The measure of actual losses includes specific provisions raised for exposures which defaulted during the year, but which did not exist at 30 June 2009. These exposures are not reflected in the expected loss value described below.

The table below provides the comparison of actual loss to regulatory expected loss for each significant AIRB asset class of FRB. With PD models used for regulatory capital purposes being calibrated to long run default experience, it would be expected that actual losses are larger than regulatory expected losses during the top of the credit cycle and lower than expected losses during the bottom of the credit cycle, as is evident from the following table.

Actual vs expected loss per portfolio segment (unaudited)

	2010	
R million	Expected loss	Actual loss
Corporate (corporate, banks and sovereigns)	801	187
SME (SME corporate and SME retail)	1 066	977
Residential mortgages	3 163	4 057
Qualifying revolving retail	1 995	2 065
Other retail	987	1 710
WesBank	2 471	3 519
Total	10 483	12 515

The composition used above differs slightly from that used in the remainder of this section, due to impairment charges being available on business entity level as opposed to AIRB asset class level.

It should also be noted that the regulatory expected loss shown above is based on the regulatory capital models that were applied as at 30 June 2009. The models currently applied have since incorporated the subsequent increase in defaults and resulted in an increase in expected losses. A restatement of the above comparison using the capital models currently applied would result in a closer alignment of actual and expected losses.

This comparison is supplemented with more detailed analysis below, comparing actual and expected outcomes for each of the risk parameters (PD, LGD and EAD) over the year under review.

Expected values are based on regulatory capital models applied as at June 2009. For PDs, this is applied to the total performing book as at June 2009. For LGDs and EADs it is applied to all facilities that defaulted over the next twelve months.

Actual values are based on actual outcomes over the year June 2009 to June 2010. It should be noted that due to the length of the workout period, there is uncertainty in the measure provided for actual LGDs as facilities that default during the year would only have had between 1 and 12 months to recover to date – depending on when the default event occurred.

The EAD estimated to actual ratio is derived as the ratio of nominal expected exposure at default (for all accounts that defaulted during the July 2009 – June 2010 time period) to the actual nominal exposure at default for the same accounts. A ratio above 100% indicates an overestimation.

Risk parameters used to determine regulatory expected loss (unaudited)

	2010				
	PD		LGD		EAD estimated to actual ratio
Asset class	Estimated %	Actual %	Estimated %	Actual %	%
Corporate	1.55	–	37.73	n/a	n/a
Banks	0.15	–	31.00	n/a	n/a
SME corporate	3.45	4.38	44.98	32.07	110.58
SME retail	3.28	4.43	37.80	15.27	107.85
Residential mortgages	2.68	4.48	18.66	12.66	103.92
Qualifying revolving retail	3.53	3.62	64.47	64.82	122.92
Other retail	7.85	8.13	31.84	35.75	104.94
Total	3.06	3.52	32.04	24.66	106.25

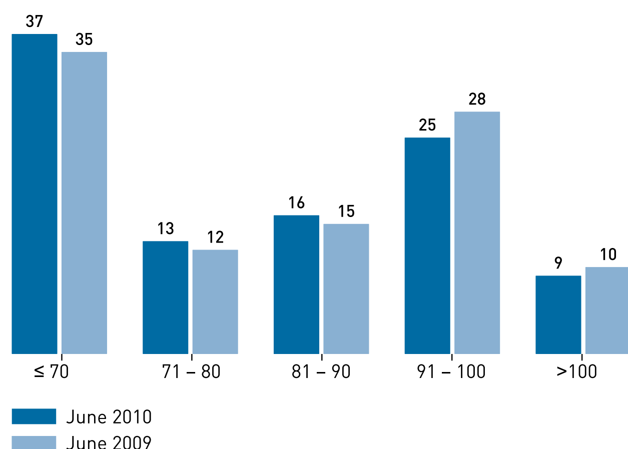
No corporate or bank defaults were experienced during the year under review; hence actual LGDs and EADs are not applicable. PDs used for regulatory capital purposes are based on long run experience and would be anticipated to under predict actual defaults at the top of the credit cycle and overestimate actual defaults at the bottom of the credit cycle. The analysis is based on the regulatory capital models that were applied at 30 June 2009. The models currently being applied have since incorporated the subsequent increase in defaults and resulted in an increase in expected losses. A restatement of the above comparison using the capital models currently applied would result in a closer alignment of actual and expected PDs.

Selected risk analyses

This section provides further information on selected risk analyses of the credit portfolios. The graphs below provide the balance to value distribution for the residential mortgages over time, as well as the aging of the residential mortgages portfolios.

Residential mortgages balance to value – original value (unaudited)

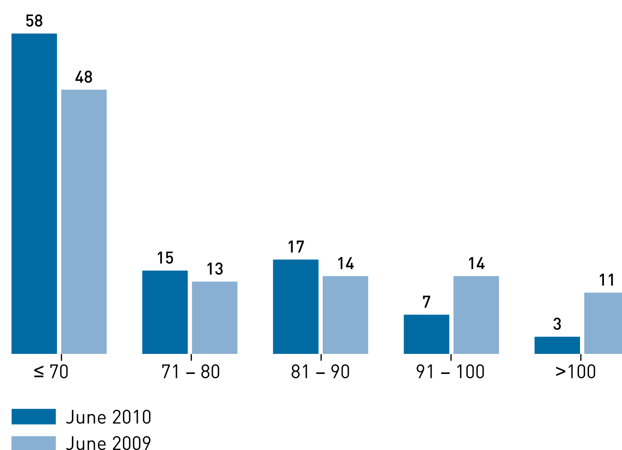
As % of total book (%)



The recent focus on the loan to value ratios for new business resulted in a slight impairment in the balance to original value distribution.

Residential mortgages balance to value – market value (unaudited)

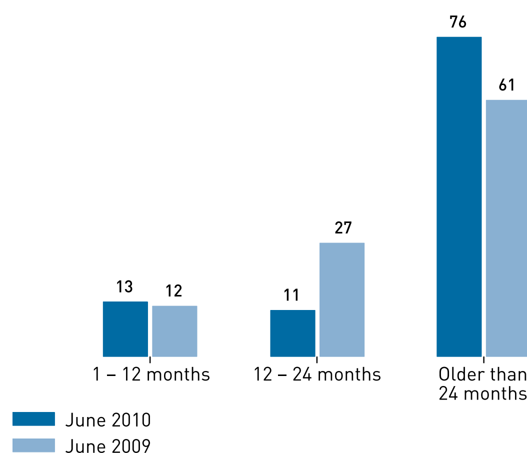
As % of total book (%)



The balance to market value shows a significant proportion of the book in the lower risk category of below 70%.

Residential mortgages age distribution (unaudited)

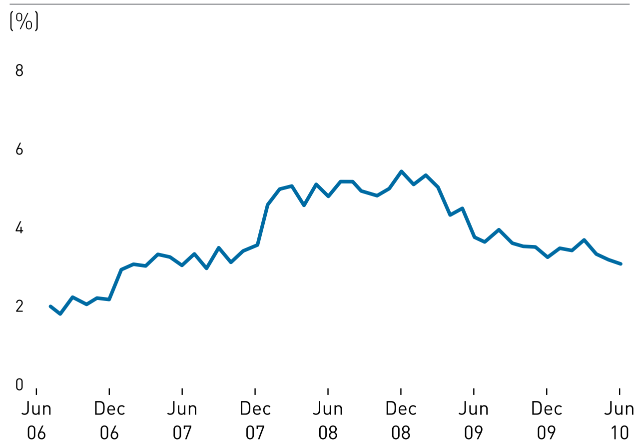
As % of total book (%)



The improvement in the residential mortgages age distribution is a direct result of the reduction in new loans written during the 2009/2010 year due to the credit and pricing policies followed and market demand.

The following graph provides the arrears in the FNB HomeLoans portfolio. It includes arrears where more than one full payment is in arrears expressed as a percentage of the total advances balance (excluding NPLs).

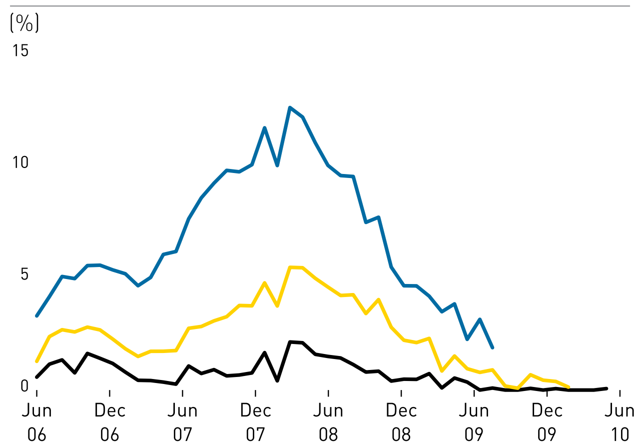
FNB HomeLoans arrears (unaudited)



FNB HomeLoans arrears levels have exhibited a decreasing trend in recent months. Similar trends are also observed in the WesBank and Credit card portfolios.

The following graphs provide vintage analyses for FNB HomeLoans and WesBank retail, respectively. Vintage graphs provide the default experience 3, 6 and 12 months after each cohort of business originated. It indicates the impact of origination strategies and the macro environment.

FNB HomeLoans vintage analysis (unaudited)

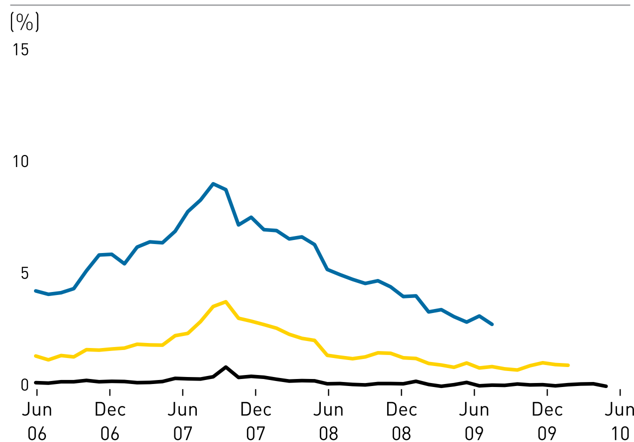


Time since registration:
3 month 6 month 12 month

For FNB HomeLoans the 3, 6 and 12 month cumulative vintage analyses illustrate a marked improvement in the quality of business written since mid 2008, despite further deterioration in macro conditions. The more recent decreases in the default experience reflect a combination of credit origination strategies and the improvement in macro conditions.

The Bank's repossessed properties increased from R178 million (670 properties) at 30 June 2009 to R513 million (1 564 properties) at 30 June 2010.

WesBank retail vintage analysis (unaudited)



Time since registration:
3 month 6 month 12 month

The WesBank retail 6- and 12-month cumulative vintage analyses reflect the noticeable improvement in the quality of business written since mid 2007, and the more benign macro environment (i.e. lower rates).

In the asset finance business, repossession and stock-holding levels continued to decline relative to the previous comparative period. The gradually reducing trend is likely to continue into the future as the economic environment improves.

10. SECURITISATIONS AND CONDUITS

Key developments and focus

In July 2009, Moody's downgraded all Aaa- and Aa1-rated notes of South African asset backed securities, residential mortgage asset backed securities, commercial mortgage asset backed securities and repackaged securities to Aa2. This was as a result of Moody's downgrading South Africa's local currency ceiling for bonds and deposits to Aa2 from Aaa. This action aligned the global scale structured finance ratings with the revised ceiling. The rating action affected notes in several of the Banking Group's transactions are listed on page 54 of this section.

In November 2009 Nitro International Securitisation Company 1 Plc ("Nitro 1 Plc") redeemed the total outstanding notes, which initiated the dissolution of Nitro 1 Plc. A detailed description of the transaction is provided on page 54.

In September 2009 and May 2010 respectively, the Banking Group brought to a successful close Nitro Securitisation 1 (Pty) Limited ("Nitro 1") and Nitro Securitisation 2 (Pty) Limited ("Nitro 2"), the first and second securitisations of instalment sale agreements originated by WesBank. The objective of the Banking Group to obtain matched term funding at a time when its retail asset book was growing rapidly was achieved. The structures proved resilient despite the recent difficulties experienced in the retail consumer environment. A detailed description of the transaction is provided on page 54.

Introduction and objectives

The Banking Group uses securitisation transactions as a tool to achieve one or more of the following objectives:

- enhance the liquidity position through the diversification of funding sources;
- match the cash flow profile of assets and liabilities;
- reduce credit risk exposure;
- reduce capital requirements; or
- manage credit concentration risk.

From an accounting perspective, traditional securitisations are treated as sales transactions. At inception, the assets are sold to the special purpose vehicle at carrying value and no gains or losses are recognised. The securitisation entities are subsequently consolidated into FRBH for financial reporting purposes. For synthetic securitisations, the credit derivatives used in the transaction are recognised at fair value, with any fair value adjustments reported in profit or loss.

Traditional and synthetic securitisations

The following tables show the traditional and synthetic securitisations currently in place as well as the rating distribution of any exposures retained by the Banking Group. Whilst national scale ratings have been used in this table, global scale equivalent ratings are used for internal risk management purposes. All assets in these vehicles were originated by FRB and in each of these transactions FRB acted as originator, servicer and swap counterparty.

Securitisation transactions (unaudited)

R million	Asset type	Year initiated	Expected close	Rating agency	
Traditional securitisations					
Nitro 1	Retail: Auto loans	2006	2009	Moody's	
Nitro 2	Retail: Auto loans	2006	2010	Moody's	
Nitro 3	Retail: Auto loans	2007	2011	Moody's and Fitch	
Ikhaya 1	Retail mortgages	2007	2011	Fitch	
Ikhaya 2	Retail mortgages	2007	2012	Fitch	
Synthetic securitisations					
Procul	Retail: Auto loans	2002	2010	Fitch	
Fresco II	Corporate receivables	2007	2013	Fitch	
Total					

Rating distribution of retained securitisation exposure (unaudited)

R million	AAA(zaf)	AA (zaf)	A+ (zaf)	A (zaf)	
Traditional					
At 30 June 2010	**15**	**9**	**–**	**4**	
At 30 June 2009	56	1	–	–	
Synthetic					
At 30 June 2010	**17 991**	**180**	**51**	**–**	
At 30 June 2009	18 083	189	53	4	

It should be noted that while national scale ratings have been used in the information above, global scale equivalent ratings are used for internal risk management purposes.

Assets securititsed	Assets outstanding		Notes outstanding		Retained exposure	
	2010	2009	2010	2009	2010	2009
16 784	**3 907**	6 206	**4 276**	7 261	**42**	351
2 000	**–**	181	**–**	245	**–**	5
5 000	**–**	847	**–**	1 216	**–**	24
5 000	**736**	1 688	**1 129**	2 095	**15**	73
1 900	**1 317**	1 439	**1 321**	1 592	**27**	93
2 884	**1 854**	2 051	**1 826**	2 113	**–**	156
22 000	**22 000**	22 000	**22 000**	22 000	**18 948**	19 182
2 000	**2 000**	2 000	**2 000**	2 000	**875**	1 009
20 000	**20 000**	20 000	**20 000**	20 000	**18 073**	18 173
38 784	**25 907**	28 206	**26 276**	29 261	**18 990**	19 533

BBB+ (zaf)	BBB (zaf)	BBB- (zaf)	BB+ (zaf)	BB (zaf)	Not rated	Total
15	**–**	**–**	**–**	**–**	**–**	**43**
–	**–**	–	**–**	–	2	59
–	**–**	**–**	**–**	**–**	**726**	**18 948**
–	–	–	29	3	724	19 085

Downgrades of South African structured finance ratings by Moody's

The Moody's downgrade affected notes in the following FRB transactions:

- Nitro 1 (Classes A14 and A15 downgraded to Aa2).
- Nitro 1 Plc (Classes A downgraded to Aa2).
- Nitro 2 (Classes A12, A13, A14 and A15 downgraded to Aa2).
- Nitro International Securitisation 2 Plc (Classes A downgraded to Aa2).
- Nitro Securitisation 3 (Pty) Limited (Classes A9, A10, A11, A12, A13, A14 and A15 downgraded to Aa2).

Notably, Moody's did point out that the action was not prompted by concerns on the performance of the underlying portfolios. The rating actions were as result of Moody's downgrade of South Africa's local currency ceiling for bonds and deposits to Aa2 from Aaa. This action aligned the global scale structured finance ratings with the revised ceiling.

Dissolution of Nitro International Securitisation Company 1 Plc

Nitro 1 Plc was launched on 27 November 2006 and issued €212 million in Secured Amortising Floating Rate Notes, due in 2012. On the payment date of 16 November 2009, Nitro 1 Plc redeemed the total outstanding notes, which initiated the process of the dissolution of Nitro 1 Plc. The secured parties (other than the note holders, the trustee and the corporate services company) acknowledged and confirmed that the appointment as per the transaction documents had ended. The dissolution of Nitro 1 Plc is expected to be completed in the next financial year.

Exercise of clean up call option for Nitro 1 and 2

Nitro 1 was launched on 28 March 2006 with a size of R2 billion and a 7% subordination below the Aaa rated notes. The subordinated loan of R20 million and the Class D notes (from March 2008) were held by the originator (FRB). There was an excess spread of 2%. By 14 September 2009, notes to the value of R186.5 million were outstanding, representing less than 10% of the outstanding principal amount of the notes on issue date. Nitro 1 redeemed the total outstanding balance by exercising the clean up call option, as outlined in Clause 7.3 of the Offering Circular. All the outstanding notes were redeemed in full on 14 September 2009, which was also the next interest payment date.

Nitro 2 was launched on 8 September 2006 with a size of R5 billion and an 8% subordination below the Aaa rated notes. FRB, the originator, held the subordinated loan of R95 million. There was an excess spread of 1.2%. By 12 May 2010, notes to the value of R440.9 million were outstanding, representing less than 10% of the original principal amount. On 12 May 2010, the next interest payment date, Nitro 2 redeemed the total outstanding balance by exercising the clean up call option as outlined in Clause 7.3 of the Offering Circular.

This brought to a successful close the first and second securitisations of instalment sale agreements originated by WesBank. The objective of the Banking Group to obtain matched term funding at a time when its retail asset book was growing rapidly was achieved. The structures proved resilient despite the recent difficulties experienced in the retail consumer environment.

Investors in both securitisations were able to, without suffering any losses, realise investments earlier than the legal maturity. Given the recent turmoil in credit markets, credit spreads had widened significantly compared to levels at inception of the transactions. The clean up calls enabled investors to benefit from reinvestment opportunities at more attractive credit spreads for similarly rated instruments.

Conduit programmes and fixed income funds

The Banking Group's conduit programmes are debt capital market vehicles, which provide investment grade corporate South African counterparties with an alternative funding source to traditional bank funding. It also provides institutional investors with highly rated short term alternative investments. The fixed income fund is a call loan bond fund, which offers overnight borrowers and lenders an alternative to traditional overnight bank lending products on a matched basis.

All the assets originated for the conduit programmes are rigorously evaluated as part of the ordinary credit approval process applicable to any other corporate exposure held by the Banking Group's.

The following tables show the programmes currently in place, the ratings distribution of the underlying assets and the role played by the Banking Group in each of these programmes. All of these capital market vehicles continue to perform in line with expectations.

Conduits and fixed income funds (unaudited)

Transaction R million	Underlying assets	Year initiated	Rating agency	Programme size	Non recourse investments 2010	Non recourse investments 2009	Credit enhancement provided 2010	Credit enhancement provided 2009
Conduits								
iNdwa	Corporate and structured finance term loans	2003	Fitch	15 000	**7 373**	7 287	**–**	–
iVuzi	Corporate and structured finance term loans	2007	Fitch	15 000	**5 772**	5 017	**758**	679
Total					**13 145**	12 304	**758**	679
Fixed income fund								
iNkotha	Overnight corporate loans	2006	Fitch	10 000	**2 164**	**3 623**	**–**	–
Total					**2 164**	3 623	**–**	–

Rating distribution of conduits and fixed income funds (unaudited)

R million	F1+ (zaf)	AAA (zaf)	AA+ (zaf)	AA (zaf)	AA- (zaf)	A+ (zaf)	A (zaf)	A- (zaf)	Total
Conduits									
At 30 June 2010	**–**	**1 436**	**633**	**1 487**	**4 683**	**1 480**	**2 592**	**835**	**13 146**
At 30 June 2009	–	1 551	341	2 076	4 640	2 259	1 020	417	12 304
Fixed Income Fund									
At 30 June 2010	**–**	**656**	**–**	**–**	**1 194**	**–**	**116**	**197**	**2 163**
At 30 June 2009	–	1 209	–	–	1 107	–	1 002	305	3 623

FRB's role in the conduits and the fixed income fund

Transaction	Originator	Investor	Servicer	Liquidity provider	Credit enhancement provider	Swap counterpart
iNdwa			√	√		√
iNkotha			√			
iVuzi			√	√	√	√

All the above programmes continue to perform in line with expectations.

Liquidity facilities

The table below provides an overview of the liquidity facilities issued by FRB.

Liquidity facilities (unaudited)

R million	Transaction type	2010	2009
Transaction			
Own transactions		**10 442**	9 540
iNdwa	Conduit	**5 898**	5 653
iVuzi	Conduit	**4 544**	3 887
Third party transactions	Securitisations	**1 577**	2 160
Total		**12 019**	11 700

* *It is important to note that from an accounting perspective, upon consolidation the underlying assets in the entities not recognised on the statement of financial position are reconsolidated back onto FRB's statement of financial position.*

All liquidity facilities in the transactions given in the table above, 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 by FRB. The conduit programmes are consolidated into FRBH for financial reporting purposes.

Additional information

The following table provides the securitisation exposures retained or purchased as well as their associated IRB capital requirements per risk band.

Retained or purchased securitisation exposure and the associated regulatory capital charges (unaudited)

	Exposure		IRB capital		Capital deduction	
R million	2010	2009	2010	2009	2010	2009
Risk weighted bands						
= <10%	**17 840**	17 840	**122**	122	**–**	–
>10% = <20%	**12 042**	11 724	**88**	92	**–**	–
>20% = <50%	**180**	233	**6**	9	**–**	–
>50% = <100%	**931**	1 013	**66**	57	**–**	–
>100% = <650%	**773**	711	**198**	152	**–**	–
1 250%/deduction	**90**	–	**–**	–	**90**	–
Total	**31 856**	31 521	**480**	432	**90**	–

The table below provides a summary of the deductions arising from securitisation exposures.

Deductions arising from securitisation exposures (unaudited)

R million	Corpotate receivables	Retail mortgages	Retail: instalment sales an leasing	Total
Traditional	–	187	–	187
Synthetic	190	–	–	190
Total	190	187	38	377

The Bank has not securitised any exposures that were impaired or past due at the time of securitisation. None of the securitisations transactions are subject to the early amortisation treatment.

11. COUNTERPARTY CREDIT RISK

Key developments and focus

During the year under review, focus was placed on the interaction of risk factors in the counterparty risk domain. In-depth reviews of the business, clients and processes were undertaken in all the trading areas. Improvements were made where necessary and gaps were filled and a new, more conservative margining methodology was implemented to account for the build up of concentrations and illiquidity. Market risk based stress loss methodologies (liquidity adjusted distressed expected tail loss plus event risk) were further embedded in counterparty risk and margining requirement quantification in line with the recommendations of the BCBS. In the next financial year the consequential risk of trading activities will be subject to an in depth review.

Introduction and objectives

Counterparty credit risk is closely related to credit risk in that it is concerned with a counterparty's ability to satisfy its obligations under a contract that has a positive economic value to a bank at time of settlement. It differs from credit risk in that the economic value of the transaction is uncertain and dependent on market factors that are typically not under the control of the bank or the client.

Counterparty credit risk is a risk taken mainly in the Banking Group's trading and client execution businesses and the objective of counterparty credit risk management is to ensure that risk is only taken within specified limits in line with the Banking Group's risk appetite framework as mandated by the board.

Organisational structure and governance

Counterparty credit risk is managed on the basis of the principles, approaches, policies and processes set out in the Credit Risk Management Framework for Wholesale Credit Exposure.

In this respect, counterparty credit risk governance aligns closely with the Banking Group's credit risk governance framework, with mandates and responsibilities cascading from the board through the RCC committee to the respective subcommittees as well as deployed and central risk management functions. Refer to the *Risk management framework and governance* structure section (page 17) and the *credit risk governance* section (page 26) for more details.

Assessment and management

Quantification of risk exposure

The measurement of counterparty credit risk aligns closely with credit risk measurement practices and is focused on establishing appropriate limits at counterparty level.

To this end, appropriate quantification methodologies of potential future exposure over the life of a product, even under distressed market conditions, are developed by a combined credit and market risk team and submitted to technical risk committees for approval.

Individual counterparty risk limit applications are prepared using the approved risk quantification methodologies and assessed and approved at the relevant credit committees, with appropriate executive and non executive representation.

All counterparty credit risk limits are subject to annual review and counterparty exposures are monitored by the respective risk functions on a daily basis. Overall counterparty risk limits are allocated across a number of products and desk level reports are used to ensure sufficient limit availability prior to executing additional trades with a counterparty.

Business and risk management functions share the following responsibilities in this process:

- quantification of exposure and risk as well as management of facility utilisation within approved credit limits;
- ongoing monitoring of counterparty creditworthiness to ensure early identification of high risk exposures and predetermined facility reviews at certain intervals;
- collateral management;
- management of high risk (watch list) exposures;
- collections and workout process management for defaulted assets; and
- credit risk reporting.

Limit breaches are dealt with in accordance with the approved Excess Mandate. Significant limit breaches necessitate reporting to the head of the business unit, the head of risk for the respective business unit and the RMB risk and compliance function. Any remedial actions are agreed amongst these parties and failure to remedy such a breach is reported to the RMB Finance, risk and capital committee, the ERM function and the RCC committee.

Counterparty credit risk mitigation

Where appropriate, various instruments are used to mitigate the potential exposure to various counterparties. These include financial or other collateral in line with common credit risk practices, as well as netting agreements, guarantees and credit derivatives.

The Banking Group uses International Swaps and Derivatives Association and International Securities Market Association agreements for the purpose of netting derivative transactions and repurchase transactions respectively. These master agreements as well as associated Credit Support Annexes ("CSA") set out internationally accepted valuation and default covenants, which are evaluated and applied on a daily basis, including daily margin calls based on the approved CSA thresholds.

For regulatory purposes, the net exposure figures are employed in capital calculations, whilst for accounting purposes netting is only applied where a legal right to setoff and the intention to settle on a netted basis exist.

Discussion of the risk profile

The following table provides an overview of the counterparty credit risk arising from derivative and structured finance transactions of FRB.

Composition of counterparty credit risk exposure (unaudited)

R million	2010	2009
Gross positive fair value	**90 367**	134 055
Netting benefits	**(36 693)**	(60 925)
Netted current credit exposure before mitigation	**53 674**	73 130
Collateral value	**(43 701)**	(54 513)
Netted potential future exposure	**14 511**	16 328
Exposure at default	**24 484**	34 945

There was a change in the methodology used to populate the regulatory returns from product type to asset class, which resulted in a decrease from 2009 to 2010 in the netting benefits and the exposure at default.

FRB employs credit derivatives primarily for the purposes of protecting its own positions and for hedging its credit portfolio, as indicated in the following table.

Credit derivatives exposure (unaudited)

R million	2010			
	Credit default swaps	**Total return swaps**	**Other**	**Total**
Own credit portfolio				
– protection bought	**2 681**	**–**	**3 661**	**6 342**
– protection sold	**2 594**	**–**	**–**	**2 594**
Intermediation activities				
– protection bought	**–**	**–**	**–**	**–**
– protection sold	**–**	**–**	**–**	**–**

R million	2009			
	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

12. MARKET RISK

Key developments and focus

RMB's executive management team refined the approach used to determine market risk appetite and capacity. Absolute loss thresholds for market risk, as defined at the beginning of the financial year, were embedded in daily operational processes and performance against these loss thresholds was successfully monitored throughout the year. For the next financial year the Banking Group will be focusing on updating its market risk stress data set in line with the new regulatory requirements released by the BCBS in July 2009, titled "Revisions to the Basel II market risk framework". Furthermore, the Banking Group is focusing on further integrating its global operations, specifically the African and Indian operations, into the overall market risk management process.

Introduction and objectives

Market risk exists in all trading, banking and investment portfolios but for the purpose of this report, it is considered as a risk specific to trading portfolios. Substantially all market risk in the Banking Group is taken and managed by RMB. The relevant businesses within RMB function as the centre of expertise with respect to all trading and market risk related activities and seek to take on, manage and contain market risk within guidelines set out as part of the risk appetite.

Non trading interest rate risk in the banking book is managed by Group Treasury and is disclosed as part of the interest rate risk in the banking book section of this report.

Organisational structure and governance

In terms of the market risk framework, a subframework of the BPRMF, responsibility for determining the appetite for market risk vests with the board, which also retains independent oversight of the market risk related activities through the RCC committee and its Market and Investment Risk subcommittee ("MIRC").

Separate governance forums, such as the RMB Proprietary board, take responsibility for allocating these mandates further whilst deployed and central risk management functions provide independent control and oversight of the overall market risk process.

Assessment and management

Quantification of risk exposures

Market risk exposures are primarily measured and managed using an expected tail loss ("ETL") measure and ETL limits. The ETL measure used by RMB is a liquidity adjusted historical simulation measure assessing the average loss beyond a selected percentile. RMB's ETL is based on a confidence interval of 99% and applicable holding periods. During the year holding periods used in the calculation were increased and are now based on an assessment of distressed liquidity of portfolios. As a consequence, holding periods ranging between 10 to 90 days are used. Historical data sets are chosen to incorporate periods of market stress.

Value at Risk ("VaR") calculations over holding periods of one day and 10 days are used as an additional tool in the assessment of market risk. VaR triggers and absolute loss thresholds are used to highlight positions reviewed by management.

Risk concentrations in the market risk environment are controlled by means of appropriate ETL sublimits for individual asset classes and the maximum allowable exposure for each business unit. In addition to the general market risk limits described above, limits covering obligor-specific risk were introduced and utilisation against these limits is monitored continuously (based on the regulatory building block approach).

Stress testing

Stress testing provides an indication of potential losses that could occur under extreme market conditions. The ETL assessment provides a view of risk exposures under stress conditions.

Additional stress testing, to supplement the ETL assessment, is conducted using historical market downturn scenarios and includes the use of historical, hypothetical and Monte Carlo type simulations. The calibrations of the stress tests are reviewed from time to time to ensure that the results are indicative of possible market moves under distressed market conditions. Stress and scenario analyses are reported to and considered regularly by the individual executive committees and the boards.

Back testing

Back testing is performed in order to verify the predictive ability of the VaR calculations and ensure ongoing appropriateness of the model. The regulatory standard for back-testing is to measure daily profits and losses against daily VaR at the 99th percentile. The number of breaches over a period of 250 trading days is calculated, and, should the number exceed that which is considered appropriate, the model will be reassessed for appropriateness.

Regulatory and economic capital for market risk

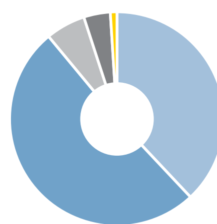
The internal VaR model for general market risk was approved by the regulator for local trading units and is consistent with the methodologies as stipulated under the Basel II framework. For all international legal entities, the standardised approach is used for regulatory market risk capital purposes.

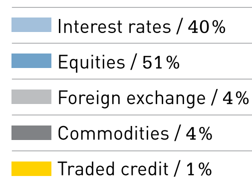
Economic capital for market risk is calculated using liquidity adjusted ETL plus an assessment of specific risk.

Discussion of the trading book market risk profile

The following chart shows the distribution of exposures per asset class across the Banking Group's trading activities at 30 June 2010 based on the ETL methodology.

Composition of ETL exposure (audited)





VaR and ETL analysis by risk type

The tables below reflect the VaR over a 10 day holding period and the liquidity adjusted ETL at a 99% confidence level for trading book activities. Numbers for 30 June 2010 reflect a downward trend in the second half of the year, predominantly arising from a reduction of risk exposures in the inflation book and the decision to aggregate equity investment risk positions subject to market price risk into a separate classification reporting category (see equity investment risk section on page 62).

10 day 99% VaR analysis by instrument (audited)

	2010				2009
R million	Min[1]	Max[1]	Ave	Period end	Period end[2]
Risk type					
Equities	17.5	140.1	66.4	63.0	146.5
Interest rates	36.6	161.7	79.8	49.3	146.5
Foreign exchange	5.1	50.0	14.2	6.2	37.9
Commodities	4.0	52.0	22.3	7.1	65.7
Traded credit	–	1.9	0.1	0.1	0.6
Diversification effect				(51.4)	(213.5)
Diversified total	49.3	215.3	128.9	74.3	183.8

Distressed ETL analysis by instrument (audited)

	2010				2009
R million	Min[1]	Max[1]	Ave	Period end	Period end[2]
Risk type					
Equities	95.7	331.6	202.9	145.3	219.8
Interest rates	69.2	826.4	324.8	112.9	510.4
Foreign exchange	9.5	60.2	24.1	11.8	46.5
Commodities	8.3	92.8	40.5	11.1	99.9
Traded credit	0.1	13.7	1.8	1.6	304.0
Diversification				(102.5)	(392.7)
Diversified total	119.9	821.5	426.8	180.3	487.3

Notes:

1 The maxima and minima VaR and ETL figures for each asset class did not necessarily occur on the same day. Consequently, a diversification effect was omitted from the above table.

2 ETL measures for the current period are not directly comparable to those reported in prior periods due to changes in the diversification methodology, as well as the introduction of liquidity adjusted ETL measures and the exclusion of banking book exposures managed by Group Treasury as these are reported under the banking book interest rate risk section. The diversified 90 day ETL measure for the equity investment book subject to market price risk as at 30 June 2010 is R375 million (equities: R390 million, foreign exchange: R42 million).

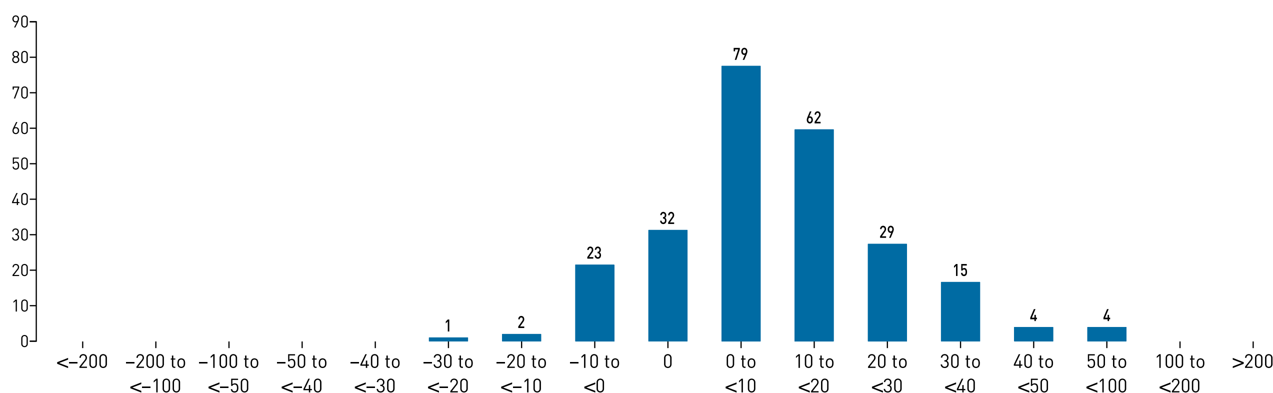
The diversified 1 day 99% VaR as at 30 June 2010 is R39.7 million (interest rates: R20.8 million, equities: R23.7 million, foreign exchange: R3.5 million, commodities: R3 million, traded credit: R0.01 million).

Distribution of daily trading earnings from trading units

The histogram below shows the daily revenue for the trading units for the year under review.

Distribution of daily earnings (unaudited)

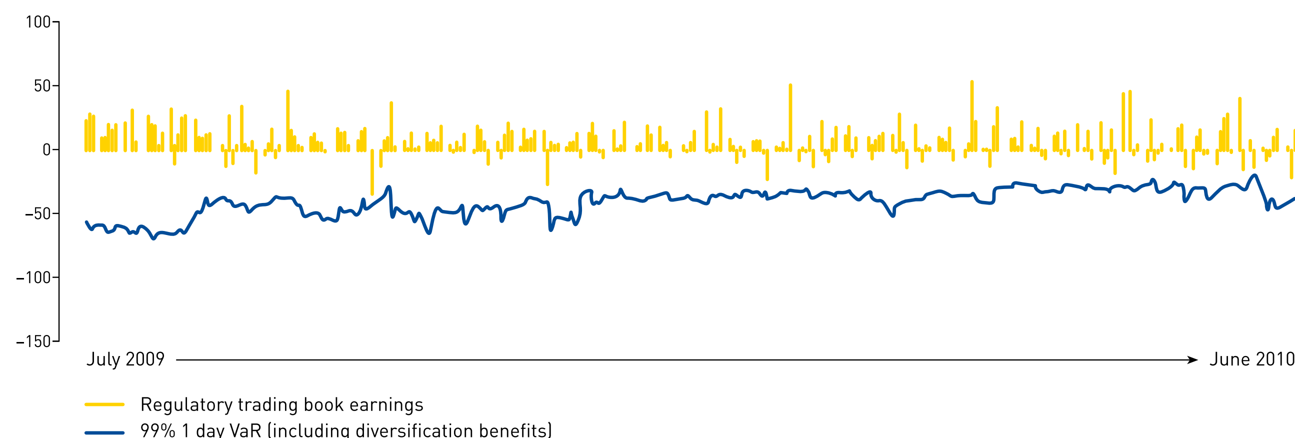
(Frequency: days in a period)



Back testing: daily regulatory trading book earnings and VaR

The Banking Group tracks its daily local earnings profile as illustrated in the chart below. Exposures were contained within risk limits during the trading period and the earnings profile is skewed towards profitability.

Back testing: daily regulatory trading book earnings versus 1 day 99% VaR (unaudited)



Over the year there were no instances of actual trading losses exceeding the corresponding VaR estimate. This implies that the Banking Group's model provided reasonably accurate quantification of market risk.

13. EQUITY INVESTMENT RISK

Key developments and focus

Governance and investment processes were robust throughout the year and reporting on this asset class received significant focus. The legacy assets suffered diminution in value for a variety of reasons, most notably the continuing risk aversion and consequent illiquidity in global markets. Updated risk appetite and earnings growth targets were set by executive management. In the next financial year, the Banking Group will focus on refining its portfolio based investment stress testing methodologies.

Introduction and objectives

Portfolio investments in equity instruments are primarily undertaken in RMB, but certain equity investments have been made by WesBank and a small residual portfolio is reported and managed by Corporate Centre. Positions in unlisted investments in RMB are taken mainly through its Resources and Investment Banking divisions, while listed investments are primarily made through the Equities division.

Organisational structure and governance

The responsibility for determining equity investment risk appetite vests with the board. The following structures have been established in order to assess and manage equity investment risk:

- The Prudential Investment Committee ("Investment committee"), chaired by the RMB Chief investment officer and its delegated subcommittees are responsible for the approval of all portfolio investment transactions in equity, quasi equity or quasi debt instruments.
- Where the structure of the investments also incorporate significant components of senior debt, approval authority will also rest with the respective credit committees and the board's Large exposures credit committee, as appropriate.
- The RCC committee and the MIRC are responsible for the oversight of investment risk measurement and management across the Banking Group.
- The RMB CRO, with support from the deployed and central risk management functions, provides independent oversight and reporting of all investment activities in RMB to the RMB Proprietary Board, as well as the MIRC. WesBank's executive management monitors and manages its investments through the financial reporting process.

Assessment and management

Management of exposures

The equity investment risk portfolio is managed through a rigorous evaluation and review process from inception to exit of a transaction. All investments are subject to a comprehensive due diligence in which a thorough understanding of the target company's business, risks, challenges, competitors, management team and unique advantage or value proposition is developed.

For each transaction an appropriate structure is put in place which aligns the interests of all parties involved through the use of incentives and constraints for management and the selling party. The Banking Group seeks to take a number of seats on the company's board and maintains close oversight through ongoing monitoring of the company's operations.

The investment thesis, results of the due diligence process, and investment structure are challenged at the Investment committee before final approval is granted. In addition, normal semi annual reviews are carried out and crucial parts of these reviews, such as valuation estimates, are independently peer reviewed.

Recording of exposures – accounting policies

IAS 39 requires equity investments to be classified as:

- financial assets at fair value through profit and loss; or
- available-for-sale financial assets.

The consolidated financial statements include the assets, liabilities and results of operations of all equity investments in which the Banking Group, directly or indirectly, has the power to exercise control over the operations for its own benefit.

Equity investments in associates and joint ventures are included in the consolidated financial statements using the equity accounting method. Associates are entities where the Banking Group holds an equity interest of between 20% and 50%, or over which it has the ability to exercise significant influence, but does not control. Joint ventures are entities in which the Banking Group has joint control over the economic activity of the joint venture through a contractual agreement.

More detail on accounting policies regarding investments in associates and subsidiaries are discussed in Note 14 and 15 of the Banking Group's consolidated financial statements.

Measurement of risk exposures

The Bank targets an investment portfolio profile which is diversified along a number of pertinent dimensions, such as geography, industry, investment stage and vintage (i.e. annual replacements of realisations).

Equity investment risk is measured on an ongoing basis in terms of exposure distribution, regulatory and economic capital requirements, as well as scenario analyses of potential event risks and associated write downs in value.

Stress testing

Economic and regulatory capital calculations are complemented with regular stress tests of market values, and underlying drivers of valuation e.g. company earnings, valuation multiples and assessments of stress resulting from portfolio concentrations.

Regulatory and economic capital

The Basel II simple risk weight (300% or 400%) approach or Standardised approach is used for the quantification of regulatory capital.

For economic capital purposes an approach using market value shocks to the underlying investments is utilised to assess economic capital requirements for unlisted investments after taking any unrealised profits not taken to book into account.

Where price discovery is reliable, the risk of listed equity investments will be measured based on a 90 day ETL calculated using RMB's Internal Market Risk Model. The ETL risk measure will be supplemented by a measure of the specific (idiosyncratic) risk of the individual securities per specific risk measurement methodology.

Discussion of the risk profile

The overall macroeconomic environment resulted in low new business volumes during the year under review.

The Bank, through its RMB division, increased its stake in Makalani Holdings Limited from 26% to 77% as part of Makalani's delisting on 31 May 2010.

A number of listed investment positions were included in the equity investment risk ETL process during the current year, following improvements made in the assessment of underlying liquidity of trading positions, as well as improvements in the quantification of listed investment exposures. These positions were previously reported as part of the trading ETL process. The ETL (on a total listed investment exposure of R1 063 million) amounted to R375 million at 30 June 2010.

The estimated sensitivity of the remaining investment balances (i.e. those not subject to the equity investment risk ETL process) to a 10% movement in market value is an impact of R318 million on investment fair values.

During the past year RMB's Dealstream portfolio was further derisked through additional impairments raised. This portfolio was taken over in terms of Dealstream's futures clearing agreement and applicable JSE rules when Dealstream, a former clearing client, was placed into default in 2008. RMB continues to hold and manage these exposures as part of its legacy portfolio to realise value over the longer term. Remaining exposures in the legacy portfolio, which are all equity accounted for, amounted to R415 million at 30 June 2010 (R1 088 million at 30 June 2009).

Total realised gains for the Bank recognised directly in the income statement for the year amounted to R249 million.

The following table provides information relating to equity investments in the banking book of those entities regulated as banks within FRB.

Investment valuations and associated economic capital requirements (unaudited)

	2010			2009		
R million	**Publicly quoted**	**Privately held**	**Total**	Publicly quoted	Privately held	Total
Carrying value disclosed in balance sheet	**2 127**	**2 614**	**4 741**	1 917	2 930	4 847
Fair value*	**2 127**	**3 712**	**5 839**	1 917	3 314	5 231
Total unrealised gains recognised directly in the balance sheet through equity instead of the income statement**	**747**	**172**	**919**	630	63	693
Latent revaluation gains not recognised in the balance sheet**	**–**	**1 098**	**1 098**	–	384	384

* *Fair values for listed private equity associates based on their values in use exceeded the quoted market prices by R85 million (2009 – R224 million).*

** *These unrealised gains or losses are not included in Tier 1 or Tier 2 capital.*

12. FOREIGN EXCHANGE AND TRANSLATION RISK

Key developments and focus

As an authorised dealer in foreign exchange, the Banking Group has a restriction on the gross amount of foreign currency holdings and other foreign exposure it may hold, which is capped at 25 per cent of its local liabilities. Furthermore, banking regulations regarding the net open forward position in foreign exchange ("NOFP") limits the net open overnight position to no more than 10 per cent of net qualifying capital. The two aspects (gross macro foreign exposure limit and the NOFP) overlay each other and ensure a complementary prudential approach to foreign currency risk management. In addition to the regulatory prudential limit on foreign exposure, the board has set internal limits on FirstRand's total foreign currency exposure, within the regulatory limit and allowing opportunity for expansion and growth. The internal limits and utilisation are continuously monitored and reviewed when necessary.

The Banking Group's NOFP position is also well within the regulatory limits of approximately $500 million. Senior management has also implemented an internal prudential limit, again well below the regulatory limit but large enough to cater for the hedging, settlement and execution positions of the business units. Group Treasury is the clearer of all currency positions in FirstRand and manages foreign currency related risks and is, therefore, tasked with the responsibility for both the prudential limits on foreign exposure and the overnight open positions.

Introduction and objectives

Foreign exchange risk arises from placement, lending and investing activities in a currency other than the presentation currency, foreign currency funding, facilitating client foreign exchange transactions and authorised trading and hedging activities in a currency other than the presentation currency. The objective of foreign exchange risk management is to ensure that currency mismatches are managed within the risk appetite and to ensure that it is overseen and governed in accordance with the appropriate risk governance structures.

Translation risk is the risk to the Rand based South African reported earnings brought about by fluctuations in the exchange rate when applied to the value, earnings and assets of foreign operations. Translation risk is, at present, seen as an unavoidable risk consequent of having offshore operations. It is not an actively hedged risk in its own right in terms of Banking Group policy.

Organisational structure and governance

Foreign exchange risk results from the activities of all the franchises, but management and consolidation of all these positions occur at present in one of two business units. Client flow is consolidated under and managed by RMB FICC. Foreign currency funding, foreign exposure and currency mismatch are consolidated under and managed by Group Treasury.

Market risk, foreign exposure and mismatch limits are approved by the board and the primary governance body is the RCC committee. Trading risk is overseen by MIRC, a subcommittee of the RCC committee, and mismatch risk is governed through the Asset and liability management committee ("ALCO") process and its International ALCO subcommittee. In addition to the committee structures, business units charged with frontline management of the risks have deployed risk managers within their units who assess the risks on an ongoing basis.

Assessment and management

Group Treasury and RMB FICC manage the mismatch and open positions on a daily basis within limits. Any breaches are reported through the risk management structures and remediation is monitored by both the deployed risk manager and ERM.

Discussion of risk profile

Over the past year no significant foreign exchange positions have been run apart from the translation risk in strategic foreign investments and mismatches have been contained well within regulatory limits at all times. The NOFP internal management limit was recently adjusted upwards to cater for increased (unhedged) currency risk related to foreign investment positions held directly by the Bank and to cater for increased buffers and trading positions for RMB divisions. In addition, the macro foreign exposure of the Banking Group remained far below both regulatory and board limits and there is significant headroom for expansion into foreign assets.

13. FUNDING AND LIQUIDITY RISK

Key developments and focus

During the year, a number of additional measures were taken to further protect the Banking Group against negative stress events:

- During January 2010 an exercise was undertaken in conjunction with members of the Banking Supervision Division of the SARB, external consultants and FirstRand senior executives. The exercise simulated a live stress event (based on a bank specific event) which resulted in a perceived loss of confidence in the Banking Group, and simulated how it would have managed over a four day period. The exercise proved highly successful and this method of readiness testing will be revisited from time to time.
- Liquidity buffers have been enhanced, both in terms of quantum and nature of the assets in the portfolio, which is now predominantly comprised of government treasury bills, stocks and debentures.
- Additional internal sources of stress funding were identified.
- Emerging effects of proposed new legislation, such as Basel III proposals received attention. The Banking Group has been closely engaged with regulatory authorities both locally and internationally in order to gauge the effect on it and the markets in which it operates.
- The international financial position has also been carefully managed, with liquidity buffers placed in European Central Bank stocks considered to be safe-havens even under stress conditions.

Overall the Banking Group has not experienced untoward pressure in any of the jurisdictions it operates in.

Introduction and objectives

The Banking Group applies a comprehensive definition of liquidity risk and distinguishes two types of liquidity risk:

- funding liquidity risk is the risk that a bank will not be able to effectively meet current and future cash flow and collateral requirements without negatively affecting the normal course of business, financial position or reputation; and
- market liquidity risk is the risk that market disruptions or lack of market liquidity will cause the Banking Group to be unable (or able, but with difficulty) to trade in specific markets without affecting market prices significantly.

The Banking Group's principal liquidity risk management objective is to optimally fund itself under normal and stressed conditions.

Organisational structure and governance

Liquidity risk management is governed by the Liquidity Risk Management Framework ("LRMF"), which provides relevant standards in accordance with regulatory requirements and international best practices. As an ancillary framework to the BPRMF, the LRMF is approved by the board and sets out consistent and comprehensive guidelines for outlining the standards, principles, policies and procedures to be implemented throughout FRBH to effectively identify, measure, report and manage liquidity risk.

The FRBH board retains ultimate responsibility for the effective management of liquidity risk. The board has delegated its responsibility for the assessment and management of this risk to the RCC committee, which in turn delegated this task to the FRBH ALCO. FRBH ALCO's primary responsibility is the assessment, control and management of both liquidity and interest rate risk for FRB, and international branches, either directly or indirectly, through providing guidance, management principles and oversight to the ALM functions and ALCOs in these subsidiaries and branches.

FirstRand Bank Limited

Liquidity risk for FRB (RMB, FNB and WesBank) is centrally managed by a dedicated liquidity risk management team in Group Treasury. It is this central function's responsibility to ensure that the liquidity risk management framework is implemented appropriately. ERM provides governance and independent oversight of the central liquidity management team's approaches, models and practices.

The Banking Group's liquidity position, exposures and auxiliary information are reported bimonthly to the Funding executive committee. In addition, management aspects of the liquidity position are reported to and debated by Group Treasury. The liquidity risk management and risk control teams in Group Treasury and ERM also provide regular reports to FRBH ALCO, which is the designated governance and risk management forum for liquidity risk.

Assessment and management

As indicated in the preceding section, liquidity risk for FRB is managed centrally by a team in Group Treasury. The Banking Group explicitly acknowledges liquidity risk as a consequential risk that may be caused by other risks as demonstrated by the reduction in liquidity in many international markets as a consequence of the recent credit crisis. The Banking Group is, therefore, focused on continuously monitoring and analysing the potential impact of other risks and events on the funding and liquidity position of the organisation.

Measurement and assessment

The following are the primary tools and techniques employed for the assessment of liquidity risk:

Liquidity mismatch analyses

The purpose of these analyses is to anticipate the mismatch between payment profiles of statement of financial position items under normal, stressed and contractual conditions. Three forecasting models for this purpose have been developed:

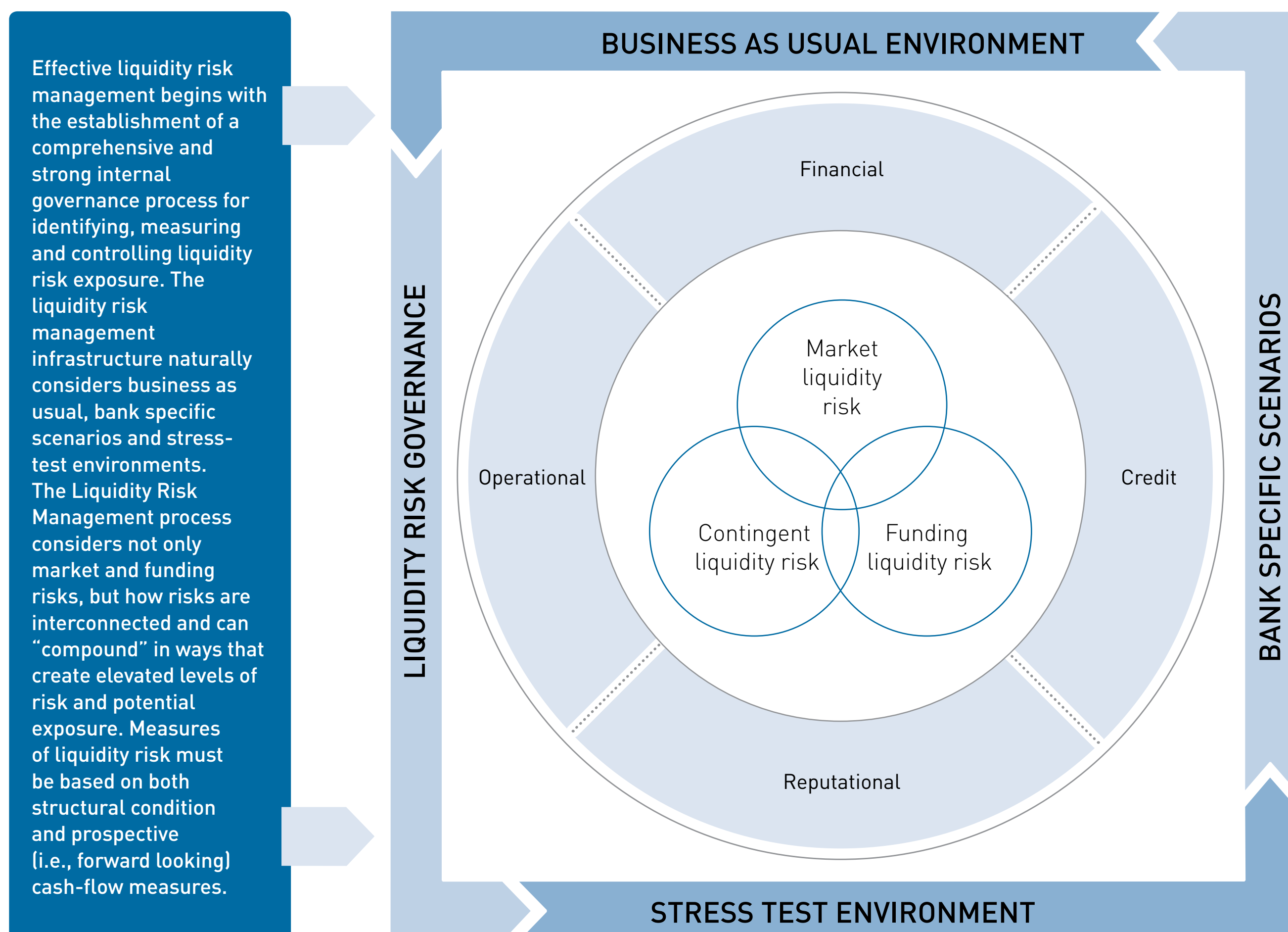
- *Business as usual model:* Forecasting the liquidity situation on an ongoing basis. This model provides an estimate of the funds required to be raised under routine circumstances, taking into account behavioural assumptions around the optionality inherent in some products.
- *Contractual maturity model:* This model provides a forecast of the liquidity position based on the assumption that assets and liabilities will be liquidated at the contracted date.
- *Stress test and event model:* This model provides forecasts of the potential outflow of liquidity under extraordinary circumstances such as times of economic stress or event related adverse impacts on the Banking Group's reputation.

For each of these categories, multiple key risk indicators are defined that highlight potential risks within defined thresholds that distinguish two levels of severity for each indicator. Monitored on a daily and monthly basis, the key risk indicators may trigger immediate action where required. Their current status and relevant trends are reported to the FRBH ALCO and the RCC committee on a monthly and a quarterly basis, respectively.

Stress testing and scenario analysis

Regular and rigorous stress tests are conducted on the funding profile and liquidity position as part of the overall stress testing framework with a focus on:

- quantifying the potential exposure to future liquidity stresses;
- analysing the possible impact of economic and event risks on cash flows, liquidity, profitability and solvency position; and
- proactively evaluating the potential secondary and tertiary effects of other risks on the Banking Group.



The approach to liquidity risk management distinguishes between structural, daily and contingency liquidity risk, and various approaches are employed in the assessment and management of these on a daily, weekly and monthly basis as illustrated in the chart below.

Aspects of liquidity risk management

MANAGEMENT OF LIQUIDITY RISK		
Structural LRM	Daily LRM	Contingency LRM
The risk that structural, long term on and off balance sheet exposures cannot be funded timeously or at reasonable cost.	Ensuring that intraday and day-to-day anticipated and unforeseen payment obligations can be met by maintaining a sustainable balance between liquidity inflows and outflows.	Maintaining a number of contingency funding sources to draw upon in times of economic stress.
• liquidity risk tolerance; • liquidity strategy; • ensuring substantial diversification over different funding sources; • assessing the impact of future funding and liquidity needs taking into account expected liquidity shortfalls or excesses; • setting the approach to managing liquidity in different currencies and from one country to another; • ensuring adequate liquidity ratios; • ensuring an adequate structural liquidity gap; and • maintaining a funds transfer pricing methodology and processes.	• managing intraday liquidity positions; • managing the daily payment queue; • monitoring the net funding requirements; • forecasting cash flows; • perform short term cash flow analysis for all currencies individually and in aggregate; • management of intra group liquidity; • managing Central Bank clearing; • managing the net daily cash positions; • managing and maintaining market access; and • managing and maintaining collateral.	• managing early warning and key risk indicators; • performing stress testing including sensitivity analysis and scenario testing; • maintaining the product behaviour and optionality assumptions; • ensuring that an adequate and diversified portfolio of liquid assets and buffers are in place; and • maintaining the Contingency Funding Plan.

Liquidity contingency funding planning

The formal contingency funding plan sets out policies and procedures as a blueprint for handling a potential liquidity crisis. Addressing both temporary and long range liquidity disruptions, it is a comprehensive framework that is tightly integrated with ongoing analyses, stress tests, key risk indicators and early warning systems, as described above. It is reviewed, updated and debated on a regular basis and structured to provide for reliable but flexible administrative structures, realistic action plans, and ongoing communication with key external stakeholders and across all levels of the Banking Group.

Liquidity risk management cycle

These management activities are part of the liquidity risk management cycle, which is illustrated in the following chart.

Liquidity risk management lifecycle

The target liquidity risk profile is determined by the risk appetite framework. It is compared to the current risk profile as set out in the LRMF and evaluated under a range of scenarios and business conditions, including economic and event stresses. These analyses in turn inform the size of liquidity buffers held in excess of statutory requirements. Liquidity buffers are actively managed, high quality, highly liquid assets that are available as protection against unexpected events or market disruptions.

As an outcome of these analyses, the current funding profile is adjusted through a range of short, medium and long term actions to ensure that the Banking Group remains within its chosen risk profile. The cost of these actions is then transferred to the business units through the internal matched maturity funds transfer pricing mechanism. It should be noted in this context that financial transactions using special purpose vehicles are treated as part of the balance sheet and are considered in the liquidity risk management cycle and thus managed consistently and conservatively across the Banking Group.

Regulatory developments

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

The impact of the proposed new requirements is expected to be especially significant from a liquidity perspective and is discussed in the Executive summary on page 11.

Discussion of the risk profile

Undiscounted cash flow

The table below presents the undiscounted cash flows of liabilities and includes all cash outflows related to the principal amounts as well as future payments. These balances will not agree with the statement of financial position for the following reasons:

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

Liquidity cash flows (undiscounted cash flows) (audited)

	2010			
		Term to maturity		
R million	Carrying amount	Call – 3 months	3 – 12 months	>12 months
Maturity analysis of liabilities based on the undiscounted amount of the contractual payment				
EQUITY AND LIABILITIES				
Liabilities				
Deposits and current accounts	472 431	322 389	83 765	66 277
Short trading positions	7 469	7 469	–	–
Derivative financial instruments	36 330	32 345	2 150	1 835
Creditors and accruals	6 185	4 573	1 502	110
Long term liabilities	10 195	–	–	10 195
Amounts due to holding and fellow subsidiary companies	22 976	17 375	798	4 803
Policyholder liabilities under insurance contracts	–	–	–	–
Policyholder liabilities under investment contracts	–	–	–	–
Loans from Insurance Group	3 469	1 544	1 406	519
Financial and other guarantees	27 646	22 541	3 436	1 669
Facilities not drawn	48 692	32 677	914	15 101

	2009			
		Term to maturity		
R million	Carrying amount	Call – 3 months	3 – 12 months	>12 months
Maturity analysis of liabilities based on the undiscounted amount of the contractual payment				
EQUITY AND LIABILITIES				
Liabilities				
Deposits and current accounts	446 790	319 170	83 717	43 903
Short trading positions	14 427	14 427	–	–
Derivative financial instruments	54 821	50 396	1 143	3 282
Creditors and accruals	4 559	3 777	782	–
Long term liabilities	11 519	–	29	11 490
Amounts due to holding and fellow subsidiary companies	18 153	10 016	286	7 851
Policyholder liabilities under insurance contracts	–	–	–	–
Loans from Insurance Group	3 585	3 585	–	–
Financial and other guarantees	22 989	20 498	886	1 605
Facilities not drawn	53 167	44 635	132	8 400

Contractual discounted cash flow analysis

The following table represents the contractual discounted cash flows of assets, liabilities and equity for the Bank. Relying solely on the contractual liquidity mismatch when assessing a bank's maturity analysis would overstate risk, since this represents an absolute worst case assessment of cash flows at maturity.

Due to South Africa's structural liquidity position, banks tend to have a particularly pronounced negative (contractual) gap in the shorter term, as more short term obligations than short term assets tend to mature.

In addition, therefore, to the analysis shown in the table above, the Bank carries out an adjusted liquidity mismatch analysis, which estimates the size of the asset and liability mismatch under normal business conditions. This analysis is also used as a framework to manage this mismatch on an ongoing basis.

Contractual discounted cash flow analysis (audited)

	2010			
		Term to maturity		
R million	Carrying amount	Call – 3 months	3 – 12 months	> 12 months
Maturity analysis of assets and liabilities based on the present value of the expected payment				
Total assets	576 386	196 980	65 642	313 764
Total equity and liabilities	576 386	385 394	88 673	102 319
Net liquidity gap	–	(188 414)	(23 031)	211 445
Cumulative liquidity gap	–	(188 414)	(211 445)	–

	2009			
		Term to maturity		
R million	Carrying amount	Call – 3 months	3 – 12 months	> 12 months
Maturity analysis of assets and liabilities based on the present value of the expected payment				
Total assets	564 847	223 103	43 410	298 334
Total equity and liabilities	564 847	399 301	81 801	83 745
Net liquidity gap	–	(176 198)	(38 391)	214 589
Cumulative liquidity gap	–	(176 198)	(214 589)	–

As illustrated in the table above, the negative contractual liquidity short term gap has improved in short end on a cumulative basis during the year under review. This is a consequence of the following market conditions and management actions during the year under review:

- growing stable and long term funding;
- building up stress funding buffers both locally and offshore; and
- muted asset growth in the banking sector.

14. INTEREST RATE RISK IN THE BANKING BOOK

Key developments and focus

IRRBB is predominantly driven by the endowment effect caused by liabilities and capital that are rate insensitive. The effect arises where falling interest rates result in lower interest earned, but interest paid does not drop to the same extent. To mitigate the effect, hedges are put into place that protect against falling interest rates. Conversely rising rates result in higher margins (before bad debts) and do not require the same degree of hedging. Hedging can be performed in a number of ways. The two most common are to put derivative instruments into play (usually receive fixed, pay float interest rate swaps) or to structure the financial position to maximise fixed interest receipt product mix. Given the general consensus view held by the market for some time as to the direction of interest rate movements, it was very difficult to hedge economically. Nevertheless, by entering the market at opportune times, some derivatives hedging was achieved. These transactions were timed to mature when the interest rate is expected to turn. In addition, particularly in entities where no derivative markets exist, the structure of the statement of financial position has shifted as indicated. This is particularly the case in the sub Saharan African subsidiaries. The Banking Group also looks for natural hedges between its credit and endowment portfolios, but notes that there are normally large lead and lag effects.

Introduction and objectives

This risk is identified and categorised in the following components:

- interest rate repricing risk arises from the differences in timing between repricing of assets, liabilities and positions not recognised in the statement of financial position;
- yield curve risk arises when unanticipated changes in the shape of the yield curve adversely affects the income or underlying economic value;
- basis risk arises from an imperfect correlation in the adjustment of the rates earned and paid on different instruments with similar repricing characteristics; and
- optionality is the right, but not the obligation, of the holder to alter the cash flow of the underlying position, which may adversely affect the Banking Group's position as the counterparty to such a transaction.

The assumption and management of interest rate risk can be an important source of profitability and shareholder value, but excessive interest rate risk positions may pose a significant threat to the Banking Group's earnings and capital base. Effective interest rate risk management practices that contain the interest rate risk exposure within prudent levels, as stipulated by the risk appetite, are essential to the safety and soundness of the enterprise. To this end, various board and internal limits exist which limit both current and long term risk taken. Where practical, the internal measures also include fair value limits of the banking book instruments that can be fair valued.

The objective of interest rate risk management is, therefore, to protect the financial position and earnings level from potential adverse effects arising from exposure to various components of interest rate risk as described above.

Organisational structure and governance

The control and management of interest rate risk is governed by the Framework for the Management of IRRBB, which is an ancillary framework to the BPRMF. Due to regulatory requirements and the structure of the Banking Group, different management approaches, reports and lines of responsibility exist across the various parts of the Banking Group, as discussed below.

All IRRBB related activities are overseen and reported to FRBH ALCO, a subcommittee of RCC committee, as illustrated in the governance structure on page 17. The FRBH ALCO is also responsible for the allocation of sublimits on the basis of mandates given by the RCC committee and it approves proposed remedial action for any limit breaches, as appropriate.

Whilst the margin and performance management aspects of interest rate risk management fall within the purview of the respective businesses and the central Group Treasury function, ERM provides central oversight and control across the activities of the deployed risk management functions and Group Treasury.

Interest rate risk, unlike credit risk, can only be sensibly assessed and managed at an aggregate level. The net interest rate risk profile of the domestic banking book (i.e. FRB, excluding RMB) is centrally managed by the unit responsible for the house macro view in Corporate Centre and Group Treasury.

RMB has a delegated mandate from FRBH ALCO for the management of its interest rate risk (under the market risk framework) as well as for ensuring that the limits of the Banking Group's risk appetite are observed. Interest rate risk management of both Group Treasury and RMB is overseen and controlled by a team in the central ERM function. The RMB banking book interest rate risk exposure was R67.6 million on a 10 day ETL basis at 30 June 2010. *The* Market risk section of this report provides a description of the ETL methodology on page 59.

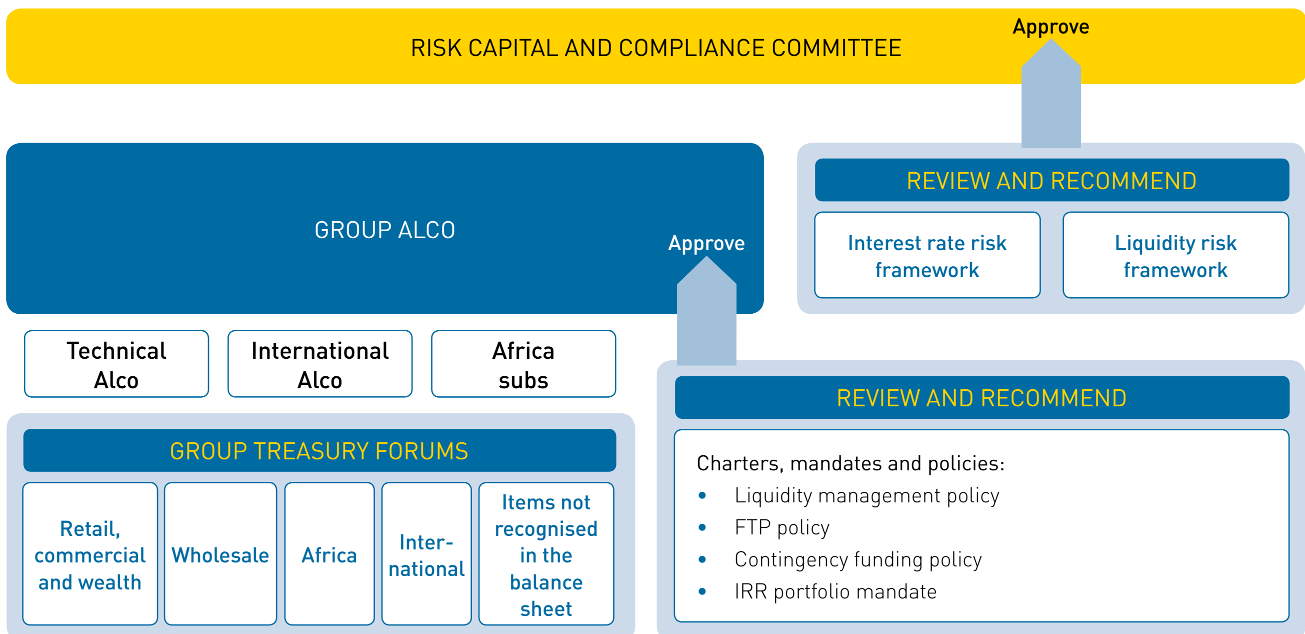
Assessment and management

A number of measurement techniques to quantify interest rate risk as defined above, are employed focusing both on the potential risk earnings as well as the potential impact on overall economic value.

In line with industry practice the pertinent analysis includes parallel rate shocks, yield curve twists, complex stress tests and static repricing gap analysis. Results from these analyses are reported to FRBH ALCO for review on a monthly basis. Additionally, daily MTM positions of the main risk portfolios are monitored daily and all risk measures are managed within defined risk appetite levels.

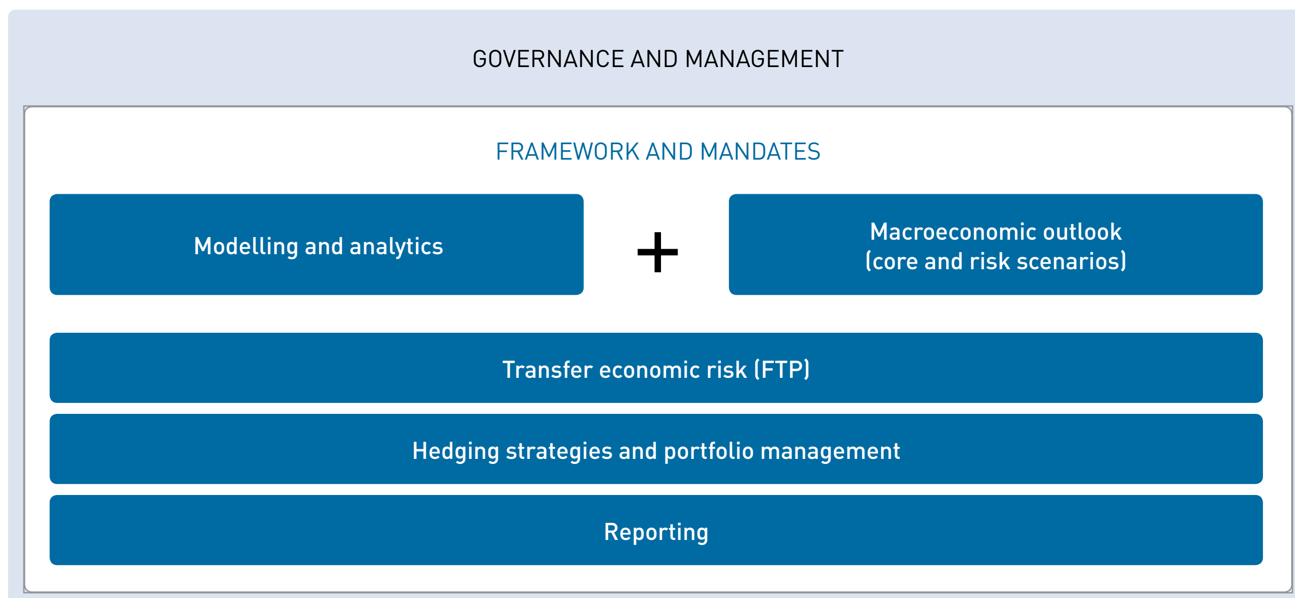
The management and governance of interest rate risk is delegated by FRBH board to RCC committee, which in turn delegates the responsibility to ALCO, Group Treasury, RMB and the regional ALCOs as illustrated in the following chart.

Interest rate risk management and governance structure



The Banking Group's activities around the management and assessment of interest rate risk are summarised in the following chart.

Interest rate risk management and assessment



The risk profile is adjusted by changing the composition of the Banking Group's liquid asset portfolio or through derivative transactions where possible based on the interest rate outlook as well as its view on potential other risk factors that may impact its balance sheet. In this respect, it is important to highlight that interest rate risk can, in the Banking Group's view, only be effectively managed if it is understood in the context of other risks and how the interaction may adversely impact its financial position and, ultimately, its interest rate risk profile.

In addition to measuring and hedging risk at an aggregate (net position) level, individual, large and complex transactions may be hedged at a micro level where appropriate. Management of the interest rate risk profile is carried out within the limits approved by the ALCOs. The Investment committee ("Invesco") oversees these activities for the domestic banking operations, challenges and debates the macroeconomic view and proposed portfolio actions as well as existing and proposed management strategies from a business perspective.

As indicated in the section covering liquidity risk, the costs of the portfolio level risk management actions are transferred through the internal funds transfer pricing mechanisms and contribute to a suitable measurement of risk adjusted performance across the various businesses.

Cash flow hedge accounting is applied for derivatives used in the hedging strategies for the banking book. Where hedges do not qualify for this treatment, mismatches may arise due to timing differences in the recognition of income from the fair valued hedges and the underlying exposures, which would be accounted for on an accrual basis.

Assumptions relating to loan repayments and behaviour of core deposits

Modelling assumptions are made that affect both the determination of interest rate risk incurred in the banking book and the hedging activity that takes place in mitigation of the exposures. These include:

- all banking book assets, liabilities and derivative instruments are placed in gap intervals based on their repricing characteristics;
- instruments which have no explicit contractual repricing or maturity dates are placed in gap intervals according to management's judgement and analysis, based on the most likely repricing behaviour;
- new volume points are assigned to balances as and when they mature in order to maintain balance sheet size and mix;

- derivatives hedges that mature are not replaced;
- presettlement expectations are factored into the volume and term of hedges for fixed rate lending activities; and
- interest rate risk modelling extends over a five year time horizon, of which the first 12 month period is disclosed. Similarly, several interest rate shocks and scenarios are modelled, with disclosure of the sensitivity to a 200 basis point parallel shift in the yield curve (and assuming no new management action to mitigate the impact).

Assumptions are made with respect to the repricing characteristics of instruments that have no explicit contractual repricing or maturity dates:

- non maturity deposits and transmission account balances ("NMD's") do not have specific maturities as individual depositors can freely withdraw or place funds. Interest rates associated with these products are administered by the Bank, but are not indexed to market rates. NMD's are assumed to reprice overnight since the administered rate can change at any time at the Bank's discretion; and
- prime linked products are assumed to reprice immediately whenever the Repo rate changes.

Discussion of the risk profile

The natural position of the banking book is asset sensitive, since interest earning assets tend to reprice faster than interest paying liabilities in response to interest rate changes. This results in a natural exposure of net interest income ("NII") to declining interest rates, which represents the largest component of interest rate risk. The Banking Group seeks to use hedges against this exposure, wherever economically feasible. These hedges tend to be predominantly interest rate swaps (receive fixed, pay floating).

The change to the interest rate gap shown in the tables below can be ascribed to this maturing profile of the hedges compared to the period six months ago. The hedges were primarily put in place prior to the commencement of the 2010 financial year.

Repricing schedules for FRB banking book (audited)

	2010				
	Term to repricing				
R million	<3 months	>3 but ≤6 months	>6 but ≤12 months	>12 months	Non rate Sensitive
FirstRand Bank Limited					
Net repricing gap	(14 385)	11 987	15 999	2 085	(15 686)
Cumulative repricing gap	(14 385)	(2 398)	13 601	15 686	–

	2009				
	Term to repricing				
R million	<3 months	>3 but ≤6 months	>6 but ≤12 months	>12 months	Non rate Sensitive
FirstRand Bank Limited					
Net repricing gap	2 401	14 101	(527)	127	(16 102)
Cumulative repricing gap	2 401	16 502	15 975	16 102	–

This repricing gap analysis excludes the banking books of RMB and the international statement of financial position, both of which are separately managed on an ETL and VaR basis.

Sensitivity analysis

Net interest income sensitivity decreased in Rand terms compared to the previous period. The sensitivity is subject to approved internal board limits. Utilisation of the risk limit was well within permitted exposures at year end and throughout the year. Assuming no management action in response to interest rate movements, a hypothetical immediate and sustained parallel decrease of 200 basis points in all interest rates would result in a reduction in projected 12 month NII of R789 million. A similar increase would result in an increase in projected 12 month net interest income of R798 million.

Sensitivity of FRB projected NII (audited)

Change in projected 12 month NII R million	2010
Downward 200 bps	**(789)**
Upward 200 bps	**798**

Change in projected 12 month NII R million	2009
Downward 200 bps	(1 111)
Upward 200 bps	1 123

The NII sensitivity analysis excludes the banking books of RMB and the international balance sheet, both of which are managed separately on a fair value basis.

The following represents the sensitivity of available-for-sale assets and cash flow hedges to interest rate movements. The valuation is based on a static statement of financial position and measures the expected decrease or increase in valuation due to a parallel movement in the yield curve of 200 basis points.

Sensitivity of FRB reported reserves to interest rate movements (audited)

As % of total shareholders' equity %	2010
Downward 200 bps	**0.39%**
Upward 200 bps	**(0.11%)**

As % of total shareholders' equity %	2009
Downward 200 bps	0.41%
Upward 200 bps	(0.25%)

The NII sensitivity analysis excludes the banking books of RMB and the international balance sheet, both of which are managed separately on a fair value basis.

15. OPERATIONAL RISK

Key developments and focus

During the year the Banking Group continued to refine its operational risk assessment approaches, statistical models and process of capturing and collating relevant internal and external operational risk loss data.

The Banking Group's Information Technology Governance and Information Security Framework ("IT Governance framework") and IT risk assessment methodology is currently being reviewed to ensure coverage of new requirements from King III. Criminal loss levels have reduced during the year under review, however, the risk relating to fraud (including internal fraud and application fraud) and other crimes is increasing. This is managed through a number of specialist fraud combating units and coordinated through the appropriate risk committees.

Introduction and objectives

FRBH has approval from the SARB to apply the AMA for operational risk on a partial use basis from 1 January 2009. This achievement highlights the sound operational risk governance practices across the Banking Group's operations, which are aimed at ensuring the proper identification of all operational risks, mitigation where appropriate and management as part of the business operations.

Unlike other major risk types, operational risk is not assumed deliberately in pursuit of a commensurate return. It exists, to a varying degree, in all organisational activities. Major sources of this risk include:

- fraud;
- recruitment, training and retention of talent;
- operational process reliability;
- information technology and security;
- outsourcing of operations;
- dependence on key suppliers;
- implementation of strategic change;
- integration of acquisitions;
- human error;
- customer service quality; and
- regulatory compliance.

Organisational structure and governance

Operational risk is managed on the basis of the policies, standards, approaches and procedures set out in the Operational Risk Management Framework ("ORMF"), a 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 RCC committee which in turn delegated this task to the Operational risk committee ("ORC"), a subcommittee of the RCC committee. The ORC provides governance, supervision, oversight, and coordination of relevant risk processes as set out in the framework. To ensure appropriate visibility at board level, the ORC includes two non executive committee members, one of which is a member of the FirstRand board. Other members include the divisional heads of risk, divisional heads of operational risk and senior personnel of the central ERM function.

As is the case with other risk types, ERM provides independent supervision over the business implementation of the respective frameworks and policies. Apart from operational risk governance, these teams also oversee business continuity, legal risk, information risk services, and forensic services as these are integral to the operational risk management process.

Assessment and management

Operational risk assessment approaches and tools

In line with international best practice, a variety of tools and approaches and management of operational risk is employed. The most pertinent of these are illustrated in the chart below.

Operational risk tools and approaches

OPERATIONAL RISK TOOLS AND APPROACHES		
Risk control self assessments	**Key risk indicators ("KRI")**	**Audit findings**
• Integrated in the business and risk management processes. • Assist risk managers in identifying key risk areas and assess the effectiveness of existing controls. • Other risk self assessments include business continuity self assessments, risk effectiveness reports for IT ("RERIT") and physical security self assessments.	• In place across all businesses as an early warning measure. • Highlight areas of increasing potential exposure to operational risk. • KRI reports are included in regular management reports to support ongoing risk identification and mitigation by the business.	• GIA acts as the third line of risk controls across the organisation . • Verify whether controls in place are appropriate to mitigating risks associated with key and supporting processes. • The number of findings issued and audit findings not resolved before the due date are tracked, monitored and reported on through the risk committee structures.
Internal loss data	**External loss data**	**Incident and issue reporting**
Loss data reporting and analyses are used by risk managers to understand: • the root causes of loss incidents; and • where corrective action should be taken to mitigate losses.	External loss data bases are used to: • derive lessons from other organisations and loss events; and • inform quantitative operational risk assessments through risk scenario analyses.	A a well defined and embedded process for the reporting of incidents and potential issues is in place to: • ensure that operational risk losses can be managed and potentially mitigated; and • facilitate a feedback of any lessons learned into the organisation's operational risk management practices.

Operational risk is recognised as a consequential risk that cannot be avoided or mitigated entirely. Accordingly, frequent operational risk events resulting in small losses are expected as part of business operations (e.g. fraud) and are budgeted for appropriately. The businesses seek to minimise these through continuously monitoring and improving relevant business and control practices and processes. Operational risk events resulting in substantial losses occur much less frequently and the Banking Group seeks to minimise the incidence and contain the severity within its risk appetite limits.

Basel II – Advanced Measurement Approach

As is the case for other risk types, regulatory and economic capital requirements are established to provide a buffer against very rare and severe loss events. FRBH began applying the AMA under the Basel II framework from 1 January 2009 for the Banking Group's domestic operations. Offshore subsidiaries and operations continue to utilise the Standardised Approach for operational risk, as was the case for all domestic operations until the end of 2008.

The AMA allows the Banking Group to use a sophisticated, statistical model for the calculation of capital requirements, which enables more granular and more accurate, risk based estimates of the capital requirements of all the business lines. A number of operational risk scenarios (covering key risks that, although low in probability, may result in severe losses) and internal loss data are the inputs into this model. Scenarios were derived through an extensive analysis of the Banking Group's operational risks in consultation with business and risk experts from the respective business lines. All scenarios were subsequently cross referenced to external loss data, internal losses, the control environment and other pertinent information about relevant risk exposures. To ensure the ongoing accuracy of the capital assessment, all scenarios are reviewed, supplemented or updated semi annually, as appropriate.

The modelled operational risk scenarios are combined with modelled loss data in a simulation engine to derive the annual, aggregate distribution of potential operational risk losses. Regulatory capital requirements are then calculated

(for the Banking Group and each franchise) as the potential loss at the 99.9th percentile of the aggregate loss distribution, excluding the effects of insurance, expected loss and potential diversification effects.

Using the AMA capital model, capital requirements are calculated for each franchise on a FRBH level. In order to then allocate capital to FRB the gross income ratio of FRB to FRBH is calculated. This income ratio is then applied to FRBH capital to split FRB specific capital requirements out of the originally calculated Banking Group capital. This split of capital between legal entities is required for regulatory reporting and internal performance measurement.

The loss data used for this purpose is collected for all seven Basel II event types across various internal business lines. Data collection is the responsibility of the respective business units and is overseen by the central risk control function.

Business practices evolve continuously and the operational risk control environment is therefore constantly changing as a reflection of the underlying risk profile. The assessment of the operational risk profile and associated capital requirements takes the following into account:

- changes in the risk profile, as measured by various risk measurement tools;
- material effects of expansion into new markets, new or substantially changed activities as well as the closure of existing operations;
- changes in the control environment – the organisation targets a continuous improvement in the control environment, but deterioration is also possible due to, for example, unforeseen increases in transaction volumes; and
- changes in the external environment, which drives certain types of operational risk.

Management processes

As indicated in a preceding section, the ERM function also oversees a number of areas closely related to or integrated with the operational risk management processes. These are described in the following subsections

Business continuity management

Business Continuity Management ("BCM") is focused on ensuring that the Banking Group's operations are resilient to the risk of severe disruptions caused by internal failures or external events. The organisation carries out regular reviews of BCM practices, and any disruptions or incidents are regularly reported to a number of relevant risk committees. Over the reporting period, all areas remained at an acceptable status of readiness.

Legal risk

The organisation is counterparty to a large number of contractual agreements and is, therefore, at risk of loss due to deficient contractual arrangements, due to legal liability (civil and criminal) that may be incurred by its inability to enforce its rights or by its failure to address and remedy concerns about proposed changes in applicable law (existing law is covered by compliance risk, managed by RRM).

This risk is managed on the basis of the Legal Risk Management Framework, which prescribes activities such as the monitoring of new legislation, creation of awareness, identification of significant legal risk, as well as the monitoring and managing of the potential impact of these risks. The organisation strives to maintain appropriate procedures, processes and policies that enable it to comply with applicable regulation and that minimise any potential exposure to legal risk. During the year under review there were no significant incidents related to legal risk.

Information risk

The Banking Group's clients entrust it with highly sensitive information and the Banking Group accepts its fiduciary duty to safeguard this information in the course of its business activities. Information risk is the risk of adverse business impacts, including the loss of reputation caused by a failure of data confidentiality, integrity and availability controls and is therefore a key area of ongoing focus.

The organisation's Information Technology Governance and Information Security Framework ("IT framework") is a customisation of ISACA's *Control Objectives for Information and related Technology* ("COBIT®") framework and the Information Security Forum's Standard of Good Practice for the Banking Group. The IT framework is approved by the Technology and Information Management Risk committee, a subcommittee of the ORC and applies to all operations within FRBH.

The IT framework clearly defines the objectives for managing information risk, outlines the processes that need to be embedded, managed and monitored across the organisation and it also sets out a measurement framework for information risk across FRBH.

The Information risk team in ERM is tasked with ensuring compliance to the principles set out in the IT framework by developing appropriate policies and validating the implementation in the respective functions across the Banking Group.

Like many other large organisations, a number of new and changing threats across the evolving IT landscape are constantly faced. The risk monitoring and management

structures are designed to enable it to adapt and evolve its risk management strategy with the continuously changing IT environment.

Fraud and security risks

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

The organisation utilises a deployed fraud risk management model that requires businesses to institute processes and controls specific and appropriate to its operations within the constraints of a consistent governance framework that is overseen centrally by ERM.

16. REGULATORY RISK

Key developments and focus

The regulatory landscape has changed significantly as a direct consequence of the recent financial crisis. The banking industry, in particular, has experienced a wave of new legislation and regulatory requirements that will impact on areas such as capital adequacy, liquidity, and funding. Key changes include BCBS (capital, liquidity, market risk and compensation), King III, the new Companies Act, the Consumer Protection Act, and proposed amendments to the Banks Act and Regulations, to name but a few. The increased requirements will need significant resources to ensure that the Banking Group responds meaningfully and adjusts its internal processes and procedures to comply with the new requirements. The banking industry is conducting a regulatory impact assessment to determine the cost of compliance and the impact that increased regulation has on the industry.

Introduction and objectives

Regulatory risk management is an integral part of managing the risks inherent in the business of banking. Non compliance may have potentially serious consequences, which could lead to both civil and criminal liability, including penalties, claims for loss and damages or restrictions imposed by regulatory bodies. The Banking Group therefore aims to establish a compliance culture in its operations that contributes to the overall objective of prudent regulatory compliance and risk management.

The objective of the compliance and regulatory risk management is to ensure that business practices, policies, frameworks and approaches across the organisation are consistent with applicable laws and that any risks to compliance can be identified and managed proactively prior to incurring a potential liability.

It is of paramount importance to ensure compliance with the requirements of the Banks Act 94 of 1990 (as amended) and the Regulations thereto, and to ensure that all non compliance risks identified in this context are addressed and managed in accordance with these rules and regulations and are in line with international best practice.

To achieve this, all staff must be aware of compliance requirements, have a high level of understanding of the regulatory framework applicable to the Banking Group, and they must be aware of the potential regulatory risks to which it is exposed. Ethical behaviour is both a keystone and an important contributor to the success of the entire compliance process. The Banking Group expects all its staff members to maintain standards of honesty, integrity and fair dealing and to act with due skill, care and diligence.

Organisational structure and governance

While the responsibility for ensuring compliance with all relevant laws, internal policies, regulations and supervisory requirements rests with the board, the role of monitoring, assessing and reporting the status of compliance is delegated by the board to the Head of RRM. The RRM function carries out its duties in terms of Regulation 49 of the Banks Act, and its mandate is set out in the Compliance Risk Management Framework, a subpolicy of the BPRMF.

Supervision of regulatory risk is provided and managed by a number of committees such as the Regulatory risk committee, the RCC committee and the FRBH Audit committee, which receive detailed reports on the status of compliance and instances of material non compliance from RRM on a regular basis.

The RRM function retains an independent reporting line to the CEO as well as to the board through its designated committees.

In addition to the centralised RRM function, each of the operating franchises have appointed compliance officers responsible for implementing and monitoring compliance policies and procedures related to their respective franchises.

Assessment and management

The RRM function and its board mandate prescribe a "zero tolerance" approach to compliance breaches. To achieve this, RRM has implemented appropriate structures, policies, processes and procedures to identify regulatory risks, monitor the management thereof and report on the status of compliance risk management to both the board and the Registrar of Banks. These include:

- risk identification through documenting which laws, regulations and supervisory requirements are applicable to FRBH;
- risk measurement through the development of risk management plans;
- risk monitoring and review of remedial actions;
- risk reporting; and
- providing advice on compliance related matters.

In support of the Compliance Risk Management Framework, a compliance manual was drafted which also fulfils the function of assisting the businesses in addressing all material compliance risks.

Although independent of other risk management and governance functions, the RRM function works closely with GIA, ERM, external audit, internal and external legal advisors and the Company secretary's office to ensure the effective functioning of the compliance processes.

Directors' responsibility statement

TO THE MEMBERS OF FIRSTRAND BANK LIMITED

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

The directors have reviewed the FirstRand Banking Group's budget and flow of funds forecast for the year to 30 June 2011. On the basis of this review, and in the light of the current financial position, the directors have no reason to believe that FirstRand Bank Limited and its subsidiaries will not be a going concern for the foreseeable future. The going concern basis has therefore been adopted in preparing the financial statements.

The group's external auditors, Deloitte & Touche and PricewaterhouseCoopers Inc, have audited the financial statements and their unqualified report appears on page 83.

The financial statements of the Bank for the year ended 30 June 2010 which appear on pages 84 to 196 and 13 to 81, have been approved by the board of directors and are signed on its behalf by:

SE Nxasana
Chief executive officer

JP Burger
Chief financial officer

Sandton
10 September 2010

Audit and risk committee report

The Audit and risk committee has pleasure in submitting this report, as required in terms of the Companies Act of South Africa ("Companies Act").

The functions of the Audit committee are described on page 17 of the risk management framework and governance structure section of the risk report. The Audit and risk committee has satisfied itself that the external auditors are independent of the Company and are thereby able to conduct their audit functions without any influence from the Company.

JH van Greuning
Chairman of the Audit committee

Sandton
10 September 2010

Independent auditors' report

TO THE MEMBERS OF FIRSTRAND BANK LIMITED

We have audited the accompanying parent company annual financial statements of FirstRand Bank Limited, which comprise the statement of financial position as at 30 June 2010, the income statement, statement of comprehensive income, the statement of changes in equity and statement of cash flows for the year then ended, a summary of significant accounting policies, other explanatory notes as set out on pages 84 to 196, information defined as "audited" in the risk report, as set out on pages 13 to 81, and the directors' report.

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.

Auditors' responsibility

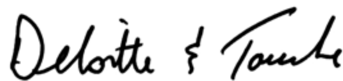
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, 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 annual financial statements.

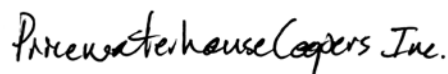
We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the annual financial statements present fairly, in all material respects, the financial position of the company as at 30 June 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa.



Deloitte & Touche
Partner: K Black
Registered auditor



PricewaterhouseCoopers Inc.
Director: J Grosskopf
Registered auditor

Sandton
10 September 2010

Directors' report

NATURE OF BUSINESS

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

SHARE CAPITAL

The following shares were issued during the period:
30 October 2009 – 1 ordinary share at a par value of R2.00

Details of the FirstRand Bank Limited's share capital are presented in note 26 of the financial statements.

DIVIDENDS

Ordinary cash dividends of R2 267 million were paid during the 2010 financial year (2009: R2 823 million).

Dividends of R230 million (2009: R309 million) were paid on non cumulative non redeemable preference shares.

OWNERSHIP OF FIRSTRAND BANK LIMITED

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

PROFIT AFTER TAX

Profit after tax amounted to R5 570 million
(2009: R3 886 million).

POST BALANCE SHEET EVENTS

The FirstRand Limited Group has commenced a legal entity restructuring process.

DIRECTORS' INTERESTS IN FIRSTRAND BANK LIMITED

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

DIRECTORATE

During the year there has been no change to the board of directors.

CONSOLIDATED FINANCIAL STATEMENTS

The group financial statements have been prepared as outlined in note 2, Basis of preparation, of the accounting policies.

SHARE PURCHASE/OPTION SCHEME

Details of the investment in FirstRand Limited ordinary shares by the First National Bank Share Purchase Scheme ("the FNB Scheme") established for the benefit of employees of the Bank can be found in note 27 of the financial statements.

Declaration by the company secretary in respect of section 268G (d) of the Act

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

BW Unser
Company secretary

Accounting policies

1. INTRODUCTION

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

2. BASIS OF PRESENTATION

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

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

In the consolidated financial statements, subsidiary under-takings (which are companies that the Group, directly or indirectly, has an interest of more than half of the voting rights or has power to exercise control over the operations) have been consolidated. The consolidated financial statements can be obtained on request from the company secretary.

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

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

- IFRS 2 Share based Payments was amended during January 2008. The amendment clarifies that vesting conditions are performance and service conditions only and that cancellations of share options by parties other than the entity are to be accounted for in the same way as cancellations by the entity. This amendment is effective to annual periods commencing on or after 1 January 2009. This amendment has had no significant impact on the Bank's results.
- IFRS 2 Share based Payments was amended during June 2009. The amendment clarifies how a share based payment transaction should be measured in a group share-based payment transaction. The amendment effectively replaces IFRIC 11 IFRS 2 Group and Treasury Share Transactions and IFRIC 8 Group Cash-settled Share-based payment transaction. This amendment is effective to annual periods commencing on or after 1 January 2010. The FRBH Group has elected to early adopt the amendments to IFRS 2 for the year end June 2010. This amendment has had no significant impact on the FRBH Group's results and did not necessitate the restatement of numbers reported in prior periods. Further details are provided in accounting policy note 27.
- IFRS 3 Business Combinations (revised) is effective to business combinations for which the acquisition date is on or after the first annual period beginning on or after 1 July 2009. The Standard is to be applied prospectively. The Standard applies to and prescribes the treatment of all transactions entered into by the Bank which meet the definition of a business combination. Further details are provided in accounting policy note 3.
- IFRS 7 Financial Instruments: Disclosures (amended) was amended in 2008 and these amendments are effective for annual periods commencing on or after 1 January 2009. The amendments require enhanced disclosures about the fair value measurements, and have established a three level hierarchy for making fair value measurements. These enhanced disclosures to do not have an impact on the recognition or measurement of amounts relating to financial instruments. The enhanced disclosures are only required for the period in which the amendments are effective and there is no requirement for comparative amounts to be presented in the year of application of the amendment. The adoption of this Standard will affect disclosures about the operating segments of the Bank but will not affect recognition and measurement. Further details are provided in accounting policy note 15.
- IFRS 8 Operating Segments is effective for annual periods beginning on or after 1 January 2009. This Standard replaces IAS 14 Segment Reporting and requires an entity to report financial and non financial information about its reportable operating segments. The adoption of this Standard will affect disclosures about the operating segments of the Bank but will not affect recognition and measurement. Further details are provided in accounting policy note 25.
- IAS 1 Presentation of Financial Statements (revised) is effective for annual periods beginning on or after 1 January 2009. The revised Standard prescribes the basis of the presentation of general purpose financial statements, guidelines for their structure and minimum requirements for their content. The adoption of this Standard will affect the presentation of the financial statements for both the current and comparative period, but will not affect recognition and measurement of any amounts recognised in the financial statements.
- IAS 23 Borrowing Costs was amended to remove the option to immediately recognise borrowing costs related to a qualifying asset as an expense and is effective for annual periods commencing on or after 1 January 2009. This amendment does not impact the Bank, as it is the Bank's accounting policy to capitalise borrowing costs on qualifying assets

- IAS 27 Consolidated and Separate Financial Statements was amended in 2008. These amendments are effective for annual periods beginning on or after 1 July 2009. The amendments affect the treatment of non controlling interest and transactions with non controlling interests where control in the subsidiary is retained by the Bank. The amendments also affect the allocation of losses of a subsidiary to the non controlling interest. All of these changes are to be prospectively applied and do not require the restatement of amounts recognised prior to 1 July 2009. Further details are provided in accounting policy note 3.
- IAS 32 Financial Instruments: Presentation was amended to require that certain puttable financial instruments and financial instruments that impose on the issuer an obligation to deliver a pro rata share of the entity only on liquidation as equity. This amendment is applicable for annual periods commencing on or after 1 January 2009. The amendment has had no significant impact on the Bank's results and has not resulted in the restatement of prior year numbers.
- IAS 39 Financial Instruments: Recognition and Measurement was amended to clarify that inflation may only be hedged in instances where changes in inflation are contractually specified portions of cash flows of a recognised financial instrument. It also clarifies that an entity is permitted to designate purchased or net purchased options as a hedging instrument in a hedge of a financial or non financial item and to improve effectiveness, an entity is allowed to exclude the time value of money from the hedging instrument. This amendment is applicable for annual periods commencing on or after 1 July 2009 and has had no significant impact on the Bank's results.
- As part of its annual improvements project, the IASB made amendments to a number of accounting standards. The aim is to clarify and improve the accounting standards. The improvements include those involving terminology or editorial changes with minimal effect on recognition and measurement. The annual improvements project for 2008 is effective for annual periods commencing on or after 1 January 2009. The Bank has adopted the amendments made as a result of the annual improvements project for 2008 during the current financial year. These amendments have not had a significant impact on the Bank's results nor has it resulted in the restatement of prior year numbers.
- IFRIC 15 Agreements for the Construction of Real Estate is effective for annual periods commencing on or after 1 January 2009. This Interpretation clarifies when real estate sales should be accounted for in terms of IAS 11 Construction Contracts or IAS 18 Revenue. This Interpretation is not applicable to the Group.
- IFRIC 16 Hedges of a Net Investment in a Foreign Operation is effective for annual periods commencing on or after 1 October 2008. This Interpretation clarifies which risks can be hedged under a hedge if a net investment in a foreign operation and by which entities within the group the hedging instruments can be held in order to qualify as such a hedge. The Group does not currently apply hedge accounting to net investments in foreign operations and therefore this Interpretation is not applicable.
- IFRIC 17 Distributions of Non cash Assets to Owners is effective for annual periods beginning on or after 1 July 2009. This Interpretation provides guidance how distributions by the entity of assets other than cash as dividends to owners should be accounted for. The requirements of this Interpretation are to be prospectively applied. This Interpretation has no effect on the current reporting period as no such distributions have been made during the period.
- IFRIC 18 Transfers of Assets from Customers is effective for annual periods beginning on or after 1 July 2009. This Interpretation clarifies the accounting treatment of agreements in which an entity receives property, plant and equipment from a customer that must be used to connect the customer to a network or provide the customer with ongoing access to a supply of services or goods. This Interpretation has no effect on the Bank financial statements as no such arrangements have been entered into.
- AC 504 IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction in the South African Pension Fund Environment is effective for annual periods beginning on or after 1 April 2009. This Interpretation provides guidance to employers on the application of IAS 19 Employee Benefits and IFRIC 14 IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction for defined benefit plans in a South African context. This interpretation did not have an effect on the Bank's results and has not resulted in the restatement of prior year numbers.

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

These assets and liabilities include:

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

- employee benefit liabilities, valued using projected unit credit method; and
- policyholder liabilities under insurance contracts that are valued in terms of the Financial Soundness Valuation ("FSV") basis as outlined below.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are outlined in note 38.

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

3. SUBSIDIARY COMPANIES

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

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

4. ASSOCIATES AND JOINT VENTURES

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

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

5. INTEREST INCOME AND EXPENSE

The Bank recognises interest income and expense in the income statement for instruments measured at amortised cost using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the average expected life of the financial instruments or portfolios of financial instruments.

Interest income on instruments designated at fair value through profit or loss are included in fair value income except to the extent that the interest relates to:

- funding liabilities that fund amortised cost assets;
- where hedge accounting is applied; and
- interest on intercompany balances.

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

From an operational perspective, the Bank suspends the accrual of contractual interest on non recoverable advances. However, in terms of IAS 39, interest income on impaired advances is thereafter recognised based on the original effective interest rate used to determine the discounted recoverable amount of the advance.

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

6. FAIR VALUE INCOME

The Bank includes profits or losses, fair value adjustments and interest on trading financial instruments (including derivative instruments that do not qualify for hedge accounting in terms of IAS 39), as well as trading related financial instruments designated at fair value through profit or loss as fair value income in non interest income. Trading related financial instruments designated at fair value through profit or loss exclude instruments relating to the Bank's funding requirements.

7. FEE AND COMMISSION INCOME

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

Certain fees and transaction costs that form an integral part of the effective interest rate of available-for-sale and amortised cost financial instruments are capitalised and recognised as part of the effective interest rate of the financial instrument

over the expected life of the financial instruments. These fees and transaction costs are recognised as part of the net interest income and not as non interest revenue.

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

8. DIVIDEND INCOME

The Bank recognises dividends when the Bank's right to receive payment is established. This is on the "last day to trade" for listed shares and on the "date of declaration" for unlisted shares. Dividend income includes scrip dividends, irrespective of whether there is an option to receive cash instead of shares, except to the extent that the scrip dividend is viewed as a bonus issue and the transaction lacks economic significance.

9. FOREIGN CURRENCY TRANSLATION

9.1 Functional and presentation currency

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

9.2 Transactions and balances

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

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

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

Foreign currency translation differences on monetary items, such as foreign currency bonds are not reported as part of the fair value gain or loss in other comprehensive income, but are recognised as a translation gain or loss in the income statement when incurred.

Translation differences on non monetary items classified as available for sale, such as equities, are included in the available for sale reserve in other comprehensive income.

10. BORROWING COSTS

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

11. DIRECT AND INDIRECT TAX

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

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

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

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

12. RECOGNITION OF ASSETS

12.1 Assets

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

12.2 Contingent assets

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

13. LIABILITIES, PROVISIONS AND CONTINGENT LIABILITIES

13.1 Liabilities and provisions

The Bank recognises liabilities, including provisions, when:

- 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 obligation as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

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 Bank discloses a contingent liability when:

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

14. CASH AND CASH EQUIVALENTS

In the statement of cash flows, cash and cash equivalents comprise:

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

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

15. FINANCIAL INSTRUMENTS

15.1 General

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

The Bank recognises financial assets and financial liabilities on its statement of financial position when the Bank becomes a party to the contractual provisions of the instrument.

The Bank classifies its financial assets in the following categories:

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

Financial liabilities are classified in the following categories:

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

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

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

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

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

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

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

Financial instruments designated under criteria (ii), include:

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

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

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

The amount of change during the period and cumulatively, in the fair value of designated loans and receivables and designated financial liabilities that is attributable to changes in their credit risk, is determined as the amount of change in fair value that is not attributable to changes in market conditions that gives rise to market risk, 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 Bank intends to sell immediately or in the near term, which shall be classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss;
- those that the Bank upon initial recognition designates as available-for-sale; or
- those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as available-for-sale.

1 The terms Merchant Banking and RMB are used interchangeably in the annual financial statements.

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

15.1.3 Held to maturity investments

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

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

15.1.4 Available-for-sale financial assets

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

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

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

15.1.5 Financial liabilities at amortised cost

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

15.2 Offsetting financial instruments

The Bank offsets financial assets and liabilities and reports the net balance in the statement of financial position where:

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

15.3 Embedded derivatives

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

- 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 comprehensive income.

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

15.4 Derecognition of assets and liabilities

The Bank derecognises an asset when:

- 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 Bank retains the contractual rights of the assets but assumes a corresponding liability to transfer these contractual rights to another party and consequently transfers substantially all the risks and benefits associated with the asset.

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

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

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

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

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

15.5 Sale and repurchase agreements and lending of securities

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

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

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

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

15.6 IMPAIRMENTS OF FINANCIAL ASSETS

15.6.1 General

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

15.6.2 Assets carried at amortised cost

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

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

- significant difficulty of the issuer or debtor;
- a breach of contract, such as a default or delinquency in payments;
- 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
- 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 identified with 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 Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and performs a collective assessment for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

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

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 Bank's grading process that considers asset type, industry, geographical location, collateral type, past due status and other relevant factors). Those characteristics are relevant to the estimation of future

cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due in accordance with the contractual terms of the assets being evaluated.

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

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

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

15.6.2.1 Past due advances

Advances are considered past due in the following circumstances:

- loans with a specific expiry date (e.g. term loans etc.) are treated as overdue where the principal or interest is overdue and remains unpaid as at the reporting date.
- consumer loans repayable by regular instalments (e.g. 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 performed for disclosure purposes. This analysis is only performed for advances with specific expiry dates or instalment repayment dates or demand loans that have been demanded. The analysis is not applicable to overdraft products or products where no specific due date is determined. The level of riskiness on these types of products is done with reference to the counterparty ratings of the exposures and reported as such.

15.6.2.2 Renegotiated advances

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

15.6.3 Available-for-sale financial assets

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

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

15.7 Derivative financial instruments and hedging

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

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

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

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

Where fair value is determined using valuation techniques whose variables include non observable market data, the difference between the fair value and the transaction price ("the day one profit or loss") is not recognised in the statement of financial position. These differences are however kept track of for disclosure purposes. 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 profit or loss.

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

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

15.7.1 Fair value hedge

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

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

15.7.2 Cash flow hedge

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

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

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in other comprehensive income at that time remains in other comprehensive income and is recognised when the forecast transaction is recognised

in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the income statement.

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

16. COMMODITIES

16.1 Agricultural commodities

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

16.2 Other commodities

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

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

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

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

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of financial position 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. LEASES

18.1 The Bank is the lessee

18.1.1 Finance leases

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

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

18.1.2 Operating leases

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

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

18.2 The Bank is the lessor

18.2.1 Finance leases

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

18.2.2 Operating leases

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

18.3 Instalment credit agreements

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

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

19. INTANGIBLE ASSETS

19.1 Computer software development costs

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

The Bank carries capitalised software assets at cost less amortisation and any impairment losses. It amortises these assets on a straight line basis at a rate applicable to the expected useful life of the asset. Management reviews the carrying value wherever objective evidence of impairment exists. The carrying value is written down to estimated recoverable amount when a permanent decrease in value occurs. Any impairment is recognised in the income statement when incurred.

19.2 Other intangible assets

The Bank generally expenses the costs incurred on internally generated intangible assets, such as trademarks, concessions, patents and similar rights and assets, to the income statement in the period in which the costs are incurred. The costs incurred on the development of separately identifiable internally generated intangible assets, are capitalised by the Bank if:

- the Bank is able to demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- its the Bank's intention to complete the intangible asset and use or sell it;
- the Bank will be able to use or sell the intangible asset;
- it is probable that the intangible asset will generate future economic benefits;
- adequate technical, financial and other resources are available to complete the development and to use or sell the intangible asset; and
- the expenditure attributable to the intangible asset can be reliably measured.

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

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

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

20. DEFERRED TAX

Deferred income tax in provided in full, using the liability method on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the financial statement. However, the deferred income tax is

not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affect neither accounting nor taxable profit nor loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

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

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

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

21. EMPLOYEE BENEFITS

21.1 Post employment benefits

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

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

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

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

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

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

21.2 Post retirement medical benefits

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

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

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

21.3 Termination benefits

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

21.4 Leave pay provision

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

21.5 Bonuses

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

21.6 Recognition of actuarial gains and losses

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

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

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

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

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

22. BORROWINGS

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

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

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

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

23. SHARE CAPITAL

23.1 Share issue costs

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

23.2 Dividends paid

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

Distributions of non cash assets

The Bank accounts for non cash distributions of assets to its owners in line with the requirements of IFRIC 17. A liability to pay the non cash dividend is recognised when the dividend is approved by the Bank's shareholders. The liability to distribute non cash assets is measured at the fair value of the assets to be distributed on the date that the liability is initially recognised. The liability is remeasured at each reporting date and the difference is recognised in equity. Upon settlement the difference between the dividend paid and the carrying value of the net assets distributed is recognised in profit or loss for the period.

Distributions of non cash assets under common control are specifically excluded from the scope of IFRIC 17 and are measured at the carrying amount of the assets to be distributed.

23.3 Treasury shares

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

24. ACCEPTANCES

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

25. SEGMENT REPORTING

An operating segment is a component of the Bank that engages in business activities from which the Bank may earn revenues and incur expenses. An operating segment is also a component of the Bank whose operating results are regularly reviewed by the chief operating decision maker in

allocating resources, assessing its performance and for which discrete financial information is available. The chief operating decision maker has been identified as the chief executive officer of the Bank. The Bank identification and measurement of operating segments is consistent with the internal reporting provided to the chief executive officer. The operating segments have been identified and classified in a manner that reflects the risks and rewards related to the segments' specific products and services offered in their specific markets. Additional information relating to each segments' specific products and services, geographical areas and major customers is also provided in the notes to the financial statements.

Operating segments whose total revenue, absolute profit or loss for the period or total assets are 10% or more of all the segments revenue, profit or loss or total assets, are reported separately.

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

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

26. FIDUCIARY ACTIVITIES

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

27. SHARE BASED PAYMENT TRANSACTIONS

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

For share based payment transactions that are settled in the equity of the parent or another group company or settled in cash where the amount is based on the equity of the parent or another group company, the Bank measures the goods or services received as either an equity settled or cash settled share based payment transaction by assessing the nature of the awards and its own rights and obligations.

The Bank measures the goods or services received as an equity settled share based payment transaction when:

- the awards granted are its own equity instruments; or
- the entity has no obligation to settle the share based payment transaction.

In all other circumstances, the Bank measures the goods or services received as a cash settled share based payment transaction.

Where group transactions involve repayment arrangements that require the Bank to pay another group entity for the provision of a share based payment, the intragroup repayment arrangements do not affect the classification of the share based payment transaction as cash or equity settled.

27.1 Equity settled share based compensation plans

The Bank expenses the fair value of the employee services received in exchange for the grant of the options, over the vesting period of the options, as employee costs, with a corresponding credit to equity 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 statement of financial position date, the Bank revises its estimate of the number of options expected to vest. The Bank recognises the impact of the revision of original estimates, if any, in the income statement, with a corresponding adjustment to equity.

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

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

27.2 Cash settled share based payment compensation plans

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

28. DISPOSAL GROUPS HELD FOR SALE

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

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

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

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

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

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

29. DISCONTINUED OPERATIONS

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

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

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

30. CUSTOMER LOYALTY PROGRAMMES

The Bank 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.

31. SERVICE CONCESSION ARRANGEMENTS

Service concession arrangements are recognised if the Bank acts as an operator in the provision of public services. Where the Bank 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 Bank policy for financial assets. Alternatively, where the FRBH Group is entitled to collect the monies for usage from the public the Bank recognises an intangible asset. The intangible asset is measured in accordance with the Bank 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.

32. CHANGE IN ACCOUNTING POLICIES

There were no changes to the accounting policies in the 2010 financial year.

Income statement

for the year ended 30 June

R million	Notes	2010	2009
Interest and similar income	1.1	35 130	46 733
Interest expense and similar charges	1.2	(23 382)	(34 805)
Net interest income before impairment of advances		11 748	11 928
Impairment of advances	10.2	(5 115)	(7 578)
Net interest income after impairments of advances		6 633	4 350
Non interest income	2	21 278	18 336
Income from operations		27 911	22 686
Operating expenses	3	(20 680)	(18 322)
Income before tax		7 231	4 364
Indirect tax	4	(403)	(395)
Profit before tax		6 828	3 969
Direct tax	5	(1 258)	(83)
Profit for the year		5 570	3 886
Attributable to:			
Non cumulative non redeemable preference shareholders		230	309
Ordinary shareholders		5 340	3 577
Profit for the year		5 570	3 886

Statement of comprehensive income

for the year ended 30 June

R million	Notes	2010	2009
Profit for the year		**5 570**	3 886
Other comprehensive income			
Cash flow hedges	6	**(180)**	(1 193)
Available-for-sale financial assets	6	**338**	76
Exchange differences on translating foreign operations	6	**(3)**	(288)
Other comprehensive income for the year before tax		**155**	(1 405)
Income tax relating to components of other comprehensive income	6	**(37)**	275
Other comprehensive income for the year	6	**118**	(1 130)
Total comprehensive income for the year		**5 688**	2 756
Total comprehensive income attributable to:			
Non cumulative non redeemable preference shareholders		**230**	309
Ordinary shareholders		**5 458**	2 447
Total comprehensive income for the year		**5 688**	2 756

Statement of financial position
at 30 June

R million	Notes	2010	2009
ASSETS			
Cash and short term funds	8	**22 745**	20 980
Derivative financial instruments	9	**38 944**	59 523
Advances	10.1	**401 279**	384 938
Investment securities and other investments	11	**79 979**	67 102
Commodities	12	**2 365**	1 276
Accounts receivable	13	**2 855**	2 350
Investments in associates	14	**1 167**	1 580
Investments in subsidiary companies	15	**279**	279
Amounts due by holding company and fellow subsidiary companies	16	**14 443**	15 241
Property and equipment	17	**7 816**	6 795
Post retirement benefit asset	19	**2 483**	2 447
Intangible assets	20	**189**	216
Tax asset		**741**	469
Loans to Insurance Group		**1 101**	1 651
Total assets		**576 386**	564 847
EQUITY AND LIABILITIES			
Liabilities			
Deposits and current accounts	21	**453 758**	427 441
Short trading positions	22	**7 469**	14 427
Derivative financial instruments	9	**35 285**	53 842
Creditors and accruals	23	**6 171**	4 512
Provisions	24	**2 725**	2 067
Post retirement liabilities	19	**2 105**	2 005
Deferred tax liability	18	**1 702**	1 803
Long term liabilities	25	**6 284**	6 743
Amounts due to holding company and fellow subsidiary companies	16	**21 868**	16 164
Loans from Insurance Group		**3 394**	3 585
Total liabilities		**540 761**	532 589
Equity			
Capital and reserves attributable to ordinary equity holders			
Ordinary shares	26	**4**	4
Share premium	26	**10 965**	10 817
Reserves attributable to equity holders		**21 656**	18 437
Total ordinary equity holder's funds		**32 625**	29 258
Non cumulative non redeemable preference shares	26	**3 000**	3 000
Total equity		**35 625**	32 258
Total equity and liabilities		**576 386**	564 847

Statement of changes in equity

for the year ended 30 June

R million	Share capital	Share premium	Share capital and share premium	Cash flow hedge reserve
Balance as at 30 June 2008	**4**	**7 564**	**7 568**	**522**
Issue of share capital	–	3 253	3 253	–
Ordinary dividends	–	–	–	–
Preference dividends	–	–	–	–
Contribution from parent company	–	–	–	–
Total comprehensive income for the year	–	–	–	(859)
Balance as at 30 June 2009	**4**	**10 817**	**10 821**	**(337)**
Issue of share capital	–	148	148	–
Ordinary dividends	–	–	–	–
Preference dividends	–	–	–	–
Transfer (to)/from reserves	–	–	–	–
Contribution from parent company	–	–	–	–
Total comprehensive income for the year	–	–	–	(130)
Balance as at 30 June 2010	**4**	**10 965**	**10 969**	**(467)**

Share based payment reserve	Available-for-sale reserve	Currency translation reserve	Other reserves	Retained earnings	Reserves attributable to ordinary equity shareholders	Non cumulative preference share capital	Total equity
441	262	–	1 345	16 152	18 722	3 000	29 290
–	–	–	–	–	–	–	3 253
–	–	–	–	(2 823)	(2 823)	–	(2 823)
–	–	–	–	–	–	(309)	(309)
91	–	–	–	–	91	–	91
–	17	(288)	–	3 577	2 447	309	2 756
532	279	(288)	1 345	16 906	18 437	3 000	32 258
–	–	–	–	–	–	–	148
–	–	–	–	(2 267)	(2 267)	–	(2 267)
–	–	–	–	–	–	(230)	(230)
(149)	–	–	–	149	–	–	–
28	–	–	–	–	28	–	28
–	251	(3)	–	5 340	5 458	230	5 688
411	530	(291)	1 345	20 128	21 656	3 000	35 625

Statement of cash flows
for the year ended 30 June

R million	Notes	2010	2009
Cash flows from operating activities			
Cash receipts from customers	28.2	**53 343**	61 201
Cash paid to customers, suppliers and employees	28.3	**(39 886)**	(50 881)
Net cash flows from operating activities	28.1	**13 457**	10 320
Increase in income earning assets	28.4	**(27 016)**	(3 737)
Increase/(decrease) in deposits and other liabilities	28.5	**19 202**	(1 304)
Dividends paid	28.7	**(2 497)**	(3 132)
Net cash utilised by operations		**(10 311)**	(8 173)
Tax paid	28.6	**(2 071)**	(1 387)
Net cash inflow from operating activities		**1 075**	760
Cash flows from investing activities			
Dividends from other investments		**2 354**	3 237
Dividends from associates		**87**	46
Acquisition of property and equipment		**(2 397)**	(2 794)
Proceeds from the disposal of property and equipment		**208**	130
Acquisition of subsidiaries		**–**	(231)
Proceeds on disposal of subsidiaries		**–**	35
Acquisition of associates		**(19)**	(732)
Proceeds on disposal of associates		**34**	–
Proceeds on disposal of investment securities		**410**	2
Net acquisition of intangible assets		**(75)**	(171)
Proceeds on disposal of advances		**22**	24
Net cash inflow/(outflow) from investing activities		**624**	(454)
Cash flows from financing activities			
Net repayment of long term liabilities		**(82)**	(4 492)
Proceeds from share issue		**148**	3 253
Net cash inflow/(outflow) from financing activities		**66**	(1 239)
Net increase/(decrease) in cash and cash equivalents		**1 765**	(933)
Cash and cash equivalents at the beginning of the year		**20 980**	21 913
Cash and cash equivalents at the end of the year	28.8	**22 745**	20 980

Notes to the annual financial statements

for the year ended 30 June

1. ANALYSIS OF INTEREST INCOME AND INTEREST EXPENDITURE

R million	2010 Fair value	Amortised cost	Hedging instruments	Non financial assets and liabilities	Total
1.1 Interest and similar charges					
Interest on:					
– Advances	–	30 235	–	–	30 235
– Cash and short term funds	–	184	–	–	184
– Investment securities and other investments	3 139	–	–	–	3 139
– Unwinding of discounted present value on non performing loans	–	248	–	–	248
– Amounts due by holding company and fellow subsidiary companies	223	356	–	–	579
– Other	72	449	207	17	745
Interest and similar income	**3 434**	**31 472**	**207**	**17**	**35 130**

R million	2009 Fair value	Amortised cost	Hedging instruments	Non financial assets and liabilities	Total
Interest on:					
– Advances	–	39 308	–	–	39 308
– Cash and short term funds	–	204	–	–	204
– Investment securities and other investments	4 151	–	–	–	4 151
– Unwinding of discounted present value on non performing loans	–	391	–	–	391
– Amounts due by holding company and fellow subsidiary companies	438	1 009	–	–	1 447
– Other	196	510	399	127	1 232
Interest and similar income	4 785	41 422	399	127	46 733

1. ANALYSIS OF INTEREST INCOME AND INTEREST EXPENDITURE *continued*

	2010				
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	(43)	(574)	–	–	(617)
– Current accounts	–	(6 306)	–	–	(6 306)
– Savings deposits	–	(34)	–	–	(34)
– Term deposit accounts	(6 724)	(3 116)	–	–	(9 840)
– Negotiable certificates of deposit	(3 443)	–	–	–	(3 443)
– Long term liabilities	(203)	(606)	–	–	(809)
– Amounts due to holding company and fellow subsidiary companies	(704)	(388)	–	–	(1 092)
– Loans from Insurance Group	(96)	(10)	–	–	(106)
– Other	(326)	(169)	(639)	(1)	(1 135)
Interest expense and similar charges	(11 539)	(11 203)	(639)	(1)	(23 382)

	2009				
R million	Fair value	Amortised cost	Hedging instruments	Non financial assets and liabilities	Total
Interest on:					
– Deposits from banks and financial institutions	(117)	(219)	–	–	(336)
– Current accounts	(118)	(11 030)	–	–	(11 148)
– Savings deposits	–	(65)	–	–	(65)
– Term deposit accounts	(8 012)	(4 618)	–	–	(12 630)
– Negotiable certificates of deposit	(5 884)	–	–	–	(5 884)
– Long term liabilities	(312)	(1 072)	–	–	(1 384)
– Amounts due to holding company and fellow subsidiary companies	(1 189)	(528)	–	–	(1 717)
– Loans from Insurance Group	(202)	(190)	–	–	(392)
– Other	(832)	(416)	–	(1)	(1 249)
Interest expense and similar charges	(16 666)	(18 138)	–	(1)	(34 805)

2. NON INTEREST INCOME

R million	2010	2009
Fee and commission income		
– Instruments at amortised cost	**10 909**	10 251
– Non financial assets and liabilities	**2 815**	2 563
Fee and commission income	**13 724**	12 814
Fair value income		
– Held for trading	**2 719**	1 870
– Designated at fair value through profit and loss	**3 178**	2 077
– Other	**6**	–
Fair value income	**5 903**	3 947
Gains less losses from investing activities		
– Designated at fair value	**43**	35
– Available-for-sale	**51**	99
– Other	**175**	122
Gains less losses from investing activities	**269**	256
Other non interest income	**1 382**	1 319
Total	**21 278**	18 336

2. NON INTEREST INCOME *continued*

R million	2010	2009
Fee and commission income:		
– Banking fee and commission income	11 275	10 720
– Card commissions	1 550	1 419
– Cash deposit fees	1 317	1 230
– Commissions: bills, drafts and cheques	508	639
– Bank charges	7 900	7 432
– Knowledge based fee and commission income	762	722
– Non banking fee and commission income	908	721
– Other	779	651
Fee and commission income	13 724	12 814
Non banking fee and commission income earned relate to fees and commissions earned for rendering services to clients other than those related to the banking operations. This includes commission earned on the sale of insurance products.		
Fair value income	5 903	3 947
Included in gains and losses from fair value income:		
Dividend income on trading securities	2 257	3 066
Gains less losses from investing activities		
– Gains on investing activities	410	2
– Transfer from other comprehensive income on sale/derecognition of available-for-sale assets	31	–
– Preference share dividends	4	22
– Listed shares	4	22
– Dividends from associates	87	46
– Listed and unlisted shares	87	46
– Dividends from subsidiaries	78	51
– Unlisted shares	78	51
– Other dividends received	15	96
– Listed shares	3	74
– Unlisted shares	12	22
– Other investment income	42	29
– Impairment of associates/investment securities	(398)	10
Gains less losses from investing activities	269	256
Other non interest income		
– Loss on sale of property and equipment	(4)	(9)
– Recoveries from subsidiaries and fellow subsidiaries	621	719
– Other income	765	609
Other non interest income	1 382	1 319
Total non interest income	21 278	18 336

3. OPERATING EXPENSES

R million	2010	2009
Fee and commission expense	**(165)**	(199)
Auditors' remuneration		
– Audit fees	**(84)**	(77)
– Fees for other services	**(9)**	(9)
– Technical advice	**–**	(1)
– Other	**(9)**	(8)
– Prior year over provision	**1**	3
Auditors' remuneration	**(92)**	(83)
Amortisation of intangible assets		
– Trademarks	**(5)**	(4)
– Software	**(82)**	(65)
– Development costs	**(7)**	(6)
– Other	**(3)**	(3)
Amortisation of intangible assets	**(97)**	(78)
Depreciation		
– Property	**(336)**	(310)
– Freehold property	**(82)**	(43)
– Leasehold premises	**(254)**	(267)
– Equipment	**(816)**	(712)
– Computer equipment	**(513)**	(445)
– Furniture and fittings	**(103)**	(112)
– Motor vehicles	**(89)**	(54)
– Office equipment	**(111)**	(101)
– Capitalised leased assets	**(2)**	(1)
Depreciation	**(1 154)**	(1 023)
Other impairments incurred		
– Property and equipment	**–**	(13)
– Software	**(4)**	–
Other impairments incurred	**(4)**	(13)
Other impairments reversed		
– Property and equipment	**–**	1
– Other	**–**	1
Impairments reversed	**–**	2
Operating lease charges		
– Property	**(715)**	(988)
– Equipment	**(165)**	(259)
– Motor vehicles	**(3)**	(11)
Operating lease charges	**(883)**	(1 258)
Professional fees		
– Managerial	**(22)**	(8)
– Technical	**(468)**	(513)
– Other	**(245)**	(267)
Professional fees	**(735)**	(788)

3. OPERATING EXPENSES *continued*

R million	2010	2009
Direct staff costs		
– Salaries, wages and allowances	(7 101)	(6 367)
– Contributions to employee benefit funds	(1 174)	(1 082)
– Defined contribution schemes	(1 005)	(896)
– Defined benefit scheme (note 19)	(169)	(186)
– Social security levies	(104)	(90)
– Share based payments	(544)	26
– Other	(293)	(352)
Direct staff cost	(9 216)	(7 865)
– Other staff related cost	(1 700)	(1 137)
Total staff cost	(10 916)	(9 002)
Other operating costs		
– Insurance	(207)	(176)
– Advertising and marketing	(697)	(620)
– Maintenance	(755)	(681)
– Property	(463)	(341)
– Computer	(653)	(632)
– Stationery	(193)	(202)
– Telecommunications	(386)	(430)
– Customer loyalty programmes	(294)	(246)
– Conveyance of cash	(317)	(269)
– Origination costs	(25)	(21)
– Other operating expenditure	(2 211)	(1 930)
– Intergroup expenses	(433)	(331)
Other operating costs	(6 634)	(5 879)
Research and development expenditure	–	(1)
Total operating expenses	(20 680)	(18 322)
Included in staff expenditure and other operating expenditure are the following amounts:		
Directors' emoluments		
Payments made to directors during the year for services rendered are as follows:		
Executive directors	(23)	(20)
– Salaries and performance payments	(20)	(18)
– Company contributions to pension and medical aid funds	(1)	(1)
– Share based payments	(2)	(1)
Non executive directors	(7)	(7)
– Services as directors of FirstRand Bank Limited	(7)	(7)
Total	(30)	(27)

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

The details of directors that are up for reelection in the next annual general meeting with their unexpired term of service are as follows:

LL Dippenaar

EG Matnege-Sebesho

RK Store

BJ van der Ross

MH Visser

JH van Greuning

4. INDIRECT TAX

R million	2010	2009
Value added tax (net)	**(403)**	(393)
Stamp duties	**–**	(1)
Other	**–**	(1)
Total indirect tax	**(403)**	(395)

5. DIRECT TAX

R million	2010	2009
Normal tax		
– Current	**(1 396)**	(785)
– Current year	**(1 600)**	(223)
– Prior year adjustment	**204**	(562)
– Deferred	**162**	501
– Current year	**276**	(172)
– Prior year adjustment	**(114)**	673
Total normal tax	**(1 234)**	(284)
Secondary tax on companies		
– Deferred	**(24)**	201
– Current year	**(24)**	201
Total secondary tax on companies	**(24)**	201
Total direct tax	**(1 258)**	(83)
Tax rate reconciliation – South African normal tax	**%**	**%**
Effective rate of tax	**18.4**	2.1
Total tax has been affected by:		
– Non taxable income	**10.7**	23.0
– Prior year adjustments	**1.3**	2.8
– Other non deductable items	**(1.4)**	(5.0)
– Other taxes	**(1.0)**	5.1
Standard rate of South African tax	**28.0**	28.0

6. DISCLOSURE OF THE COMPONENTS AND TAX EFFECTS OF OTHER COMPREHENSIVE INCOME

R million	2010	2009
Cash flow hedges (refer to note 9)	**(130)**	(859)
Losses arising during the year	**(612)**	(794)
Less: Reclassification adjustments for gains/(losses) included in profit or loss	**432**	(399)
Deferred tax	**50**	334
Available-for-sale financial assets	**251**	17
Gains arising during the year	**369**	76
Less: Reclassification adjustments for losses included in profit or loss	**(31)**	–
Deferred tax	**(87)**	(59)
Exchange differences on translating foreign operations	**(3)**	(288)
Losses arising during the year	**(3)**	(288)
Other comprehensive income	**118**	(1 130)

7. ANALYSIS OF ASSETS AND LIABILITIES

Financial assets and financial liabilities are measured on an ongoing basis either at fair value or at amortised cost. The principal accounting policies on page 85 to page 100 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 financial liabilities in the statement of financial position per category of financial instrument to which they are assigned and therefore by measurement basis:

R million	Notes	Held for trading	Designated at fair value through profit or loss
ASSETS			
Cash and short term funds	8	–	–
Derivative financial instruments	9	**38 465**	–
Advances	10.1	–	**111 975**
Investment securities and other investments	11	**18 545**	**37 890**
Commodities	12	**2 365**	–
Accounts receivable	13	–	–
Investments in associates and joint ventures	14	–	–
Investments in subsidiary companies	15	–	–
Amounts due by holding company and fellow subsidiary companies	16	**113**	–
Property and equipment	17	–	–
Post retirement benefit asset	19	–	–
Intangible assets	20	–	–
Tax asset		–	–
Loans to Insurance Group		–	–
Total assets		**59 488**	**149 865**
LIABILITIES			
Deposits and current accounts	21	–	**206 293**
Short trading positions	22	**7 469**	–
Derivative financial instruments	9	**34 215**	–
Creditors and accruals	23	–	–
Provisions	24	–	–
Post retirement liabilities	19	–	–
Deferred tax liability	18	–	–
Long term liabilities	25	–	**904**
Amounts due to holding company and fellow subsidiary companies	16	**86**	–
Loans from Insurance Group		–	–
Total liabilities		**41 770**	**207 197**

2010						
Held-to-maturity investments	Loans and receivables	Available-for-sale financial assets	Financial liabilities at amortised cost	Derivatives designated as hedging instruments	Non financial assets and liabilities	Total
–	22 745	–	–	–	–	22 745
–	–	–	–	479	–	38 944
121	288 883	300	–	–	–	401 279
–	–	23 544	–	–	–	79 979
–	–	–	–	–	–	2 365
–	2 855	–	–	–	–	2 855
–	–	–	–	–	1 167	1 167
–	–	–	–	–	279	279
–	14 330	–	–	–	–	14 443
–	–	–	–	–	7 816	7 816
–	–	–	–	–	2 483	2 483
–	–	–	–	–	189	189
–	–	–	–	–	741	741
–	1 101	–	–	–	–	1 101
121	329 914	23 844	–	479	12 675	576 386
–	–	–	247 465	–	–	453 758
–	–	–	–	–	–	7 469
–	–	–	–	1 070	–	35 285
–	–	–	6 171	–	–	6 171
–	–	–	–	–	2 725	2 725
–	–	–	–	–	2 105	2 105
–	–	–	–	–	1 702	1 702
–	–	–	4 864	–	516	6 284
–	–	–	21 782	–	–	21 868
–	–	–	3 394	–	–	3 394
–	–	–	283 676	1 070	7 048	540 761

7. ANALYSIS OF ASSETS AND LIABILITIES *continued*

R million	Notes	Held for trading	Designated at fair value through profit or loss
ASSETS			
Cash and short term funds	8	–	–
Derivative financial instruments	9	59 147	–
Advances	10.1	–	93 443
Investment securities and other investments	11	30 238	13 327
Commodities	12	1 276	–
Accounts receivable	13	–	–
Investments in associate and joint ventures	14	–	–
Investments in subsidiary companies	15	–	–
Amounts due by holding company and fellow subsidiary companies	16	838	–
Property and equipment	17	–	–
Post retirement benefit asset	19	–	–
Intangible assets	20	–	–
Tax asset		–	–
Loans to Insurance Group		–	–
Total assets		91 499	106 770
LIABILITIES			
Deposits and current accounts	21	–	189 726
Short trading positions	22	14 427	–
Derivative financial instruments	9	53 004	–
Creditors and accruals	23	–	–
Provisions	24	–	–
Post retirement liabilities	19	–	–
Deferred tax liability	18	–	–
Long term liabilities	25	–	1 870
Amounts due to holding company and fellow subsidiary companies	16	277	–
Loans from Insurance Group		–	–
Total liabilities		67 708	191 596

2009						
Held-to-maturity investments	Loans and receivables	Available-for-sale financial assets	Financial liabilities at amortised cost	Derivatives designated as hedging instruments	Non financial assets and liabilities	Total
–	20 980	–	–	–	–	20 980
–	–	–	–	376	–	59 523
163	290 873	459	–	–	–	384 938
–	–	23 537	–	–	–	67 102
–	–	–	–	–	–	1 276
–	2 350	–	–	–	–	2 350
–	–	–	–	–	1 580	1 580
–	–	–	–	–	279	279
–	14 403	–	–	–	–	15 241
–	–	–	–	–	6 795	6 795
–	–	–	–	–	2 447	2 447
–	–	–	–	–	216	216
–	–	–	–	–	469	469
–	1 651	–	–	–	–	1 651
163	330 257	23 996	–	376	11 786	564 847
–	–	–	237 715	–	–	427 441
–	–	–	–	–	–	14 427
–	–	–	–	838	–	53 842
–	–	–	4 512	–	–	4 512
–	–	–	–	–	2 067	2 067
–	–	–	–	–	2 005	2 005
–	–	–	–	–	1 803	1 803
–	–	–	4 873	–	–	6 743
–	–	–	15 887	–	–	16 164
–	–	–	3 585	–	–	3 585
–	–	–	266 572	838	5 875	532 589

8. CASH AND SHORT TERM FUNDS

R million	2010	2009
Coins and bank notes	3 838	3 335
Money at call and short notice	1 230	875
Balances with central banks	10 615	10 837
Balances with other banks	7 062	5 933
Cash and short term funds	22 745	20 980
The carrying value of cash and short term funds approximates the fair value.		
Mandatory reserve balances included in the above	10 527	10 837

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

Refer to note 41 for an analysis of the current and non current portions.

9. DERIVATIVE FINANCIAL INSTRUMENTS

Use of derivatives

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

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

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

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

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

The Bank's detailed risk management strategy, including the use of hedging instruments in risk management, is set out in the Risk Management Report on pages 13 to 81 of the Annual Report ("the Risk Report").

Please refer to note 34 for information on how the fair value of derivatives is determined.

Trading derivatives

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

Positions may be traded actively or be held over a period of time to benefit from expected changes in currency rates,

interest rates, equity prices or other market parameters. Trading includes market making, positioning and arbitrage activities. Market making entails quoting bid and offer prices to other market participants for the purpose of generating revenues based on spread and volume; positioning means managing market risk positions in the expectation of benefiting from favourable movements in prices, rates or indices; arbitrage involves identifying and profiting from price differentials between markets and products.

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

Hedging instruments

The Bank hedges interest rate risk in its statement of financial position using separate risk portfolios. These portfolios are managed under separate mandates, which take into account the underlying risk inherent in each portfolio. Counterparty credit risk is managed centrally by FirstRand Credit.

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

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

Fair value hedges

The Bank's fair value hedges principally consist of commodity 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. Upon discontinuance of the hedging relationship, any fair value adjustments recognised as part of the carrying amount of the hedged fair value hedging requirements should continue to be included in the carrying amount of the item until they are disposed of. On disposal of the previously hedged item these fair value adjustments will be realised through profit or loss.

R million	2010	2009
Gains or losses for the period arising from the change in fair value of fair value hedges:		
– on hedging instrument	120	63
– on hedged items attributable to the hedged risk	(120)	(63)
Total	**–**	–

9. DERIVATIVE FINANCIAL INSTRUMENTS *continued*

Cash flow hedges

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

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

Interest rate derivatives comprising mainly of interest rate swaps are utilised for hedging purposes to eliminate uncertainty and reduce the risk that the Bank faces due to volatile interest rates. The Bank accepts deposits at variable rates and designates pay fixed interest rate derivatives as cash flow hedges of future interest payments, effectively converting borrowings from floating to fixed rates. The Bank also has assets at variable rates and designates receive fixed interest rate derivatives as cash flow hedges of future interest receipts.

R million	2010	2009
Reconcilliation of movements in the cash flow hedge reserve		
Opening balance (net of deferred tax)	**(337)**	522
Amount recognised directly in other comprehensive income during the year	**(441)**	(572)
Amounts removed from other comprehensive income and included in profit or loss for the year	**311**	(287)
– gross amount	**432**	(399)
– deferred tax	**(121)**	112
Closing balance	**(467)**	(337)
During the current year the hedging relationship was not highly effective and hedge ineffectiveness of R20 million (2009: R nil) was recognised in profit or loss for the year.		
Hedge ineffectiveness recognised in the income statement	**20**	–

9. DERIVATIVE FINANCIAL INSTRUMENTS *continued*

	2010		2009	
R million	**Assets**	**Liabilities**	Assets	Liabilities
Cash flows after tax on the underlying hedged items are expected to impact the income statement as follows:				
– 1 – 3 months	**5 061**	**(3 422)**	2 740	(960)
– 4 – 12 months	**3 744**	**(2 763)**	3 109	(1 298)
– 1 – 5 years	**1 321**	**(1 099)**	2 119	(2 722)
– Over 5 years	**–**	**(10)**	3	(2 985)
Total	**10 126**	**(7 294)**	7 971	(7 965)
Cash flows after tax on the hedging instruments are expected to be released to the income statement as follows:				
– 1 – 3 months	**(92)**	**9**	(221)	258
– 4 – 12 months	**(316)**	**414**	(433)	234
– 1 – 5 years	**(239)**	**651**	(365)	190
– Over 5 years	**–**	**39**	–	–
Total	**(647)**	**1 113**	(1 019)	682

9. DERIVATIVE FINANCIAL INSTRUMENTS *continued*

	Assets		Liabilities	
R million	Notional	Fair value	Notional	Fair value
2010				
Qualifying for hedge accounting				
Cash flow hedges				
Interest rate derivatives	27 417	479	32 653	1 070
– Swaps	27 417	479	32 653	1 070
Total cash flow hedges	27 417	479	32 653	1 070
Fair value hedges				
Commodity derivatives	861	–	–	–
– Futures	861	–	–	–
Total fair value hedges	861	–	–	–
Total qualifying for hedge accounting	28 278	479	32 653	1 070
Held for trading				
Currency derivatives	222 838	7 339	202 052	5 128
– Forward rate agreements	1 821	959	94	94
– Swaps	162 802	4 299	144 059	3 468
– Options	8 013	539	7 004	312
– Futures	50 202	1 542	50 895	1 254
Interest rate derivatives	5 011 890	25 890	4 850 424	26 097
– Forward rate agreements	3 302 148	4 478	3 293 141	4 634
– Swaps	1 177 633	20 821	1 138 603	20 924
– Options	529 185	591	411 537	539
– Futures	2 924	–	7 143	–
Equity derivatives	11 181	350	13 045	403
– Options	5 748	172	6 653	379
– Futures	5 433	178	6 392	24
Commodity derivatives	15 512	4 770	6 509	2 155
– Swaps	3 550	625	3 166	157
– Options	2 326	3 870	1 016	1 448
– Futures	9 636	275	2 327	550
Credit derivatives	1 284	116	2 673	432
Total held for trading	5 262 705	38 465	5 074 703	34 215
Total	5 290 983	38 944	5 107 356	35 285

9. DERIVATIVE FINANCIAL INSTRUMENTS *continued*

	Assets: Derivative instruments					
	Exchange traded		Over the counter		**Total**	
R million	Notional	Fair value	Notional	Fair value	**Notional**	**Fair value**
2010						
Qualifying for hedge accounting						
Cash flow hedges	–	–	27 417	479	27 417	479
– Interest rate derivatives	–	–	27 417	479	27 417	479
Fair value hedges	861	–	–	–	861	–
– Commodity derivatives	861	–	–	–	861	–
Not qualifying for hedge accounting						
Held for trading	12 827	–	5 249 878	38 465	5 262 705	38 465
– Currency derivatives	–	–	222 838	7 339	222 838	7 339
– Interest rate derivatives	3 933	–	5 007 957	25 890	5 011 890	25 890
– Equity derivatives	298	–	10 883	350	11 181	350
– Commodity derivatives	8 596	–	6 916	4 770	15 512	4 770
– Credit derivatives	–	–	1 284	116	1 284	116
Total	13 688	–	5 277 295	38 944	5 290 983	38 944

	Liabilities: Derivative instruments					
	Exchange traded		Over the counter		**Total**	
R million	Notional	Fair value	Notional	Fair value	**Notional**	**Fair value**
2010						
Qualifying for hedge accounting						
Cash flow hedges	–	–	32 653	1 070	32 653	1 070
– Interest rate derivatives	–	–	32 653	1 070	32 653	1 070
Not qualifying for hedge accounting						
Held for trading	14 038	–	5 060 665	34 215	5 074 703	34 215
– Currency derivatives	–	–	202 052	5 128	202 052	5 128
– Interest rate derivatives	7 986	–	4 842 438	26 097	4 850 424	26 097
– Equity derivatives	5 878	–	7 167	403	13 045	403
– Commodity derivatives	174	–	6 335	2 155	6 509	2 155
– Credit derivatives	–	–	2 673	432	2 673	432
Total	14 038	–	5 093 318	35 285	5 107 356	35 285

	Assets		Liabilities	
R million	Notional	Fair value	Notional	Fair value
2009				
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 hedged	27 298	376	32 445	838
Fair value hedges				
Commodity derivatives	28	–	–	–
– Futures	28	–	–	–
Total fair value hedges	28	–	–	–
Total qualifying for hedge accounting	27 326	376	32 445	838

9. DERIVATIVE FINANCIAL INSTRUMENTS *continued*

	Assets		Liabilities	
R million	Notional	Fair value	Notional	Fair value
2009				
Held for trading				
Currency derivatives	261 883	27 293	247 732	25 252
– Forward rate agreements	62 643	11 141	64 314	10 677
– Swaps	188 925	15 447	174 357	14 118
– Options	7 739	705	6 521	457
– Futures	2 576	–	2 540	–
Interest rate derivatives	3 119 143	26 471	3 088 759	25 587
– Forward rate agreements	2 217 843	7 498	2 224 430	7 815
– Swaps	879 483	18 822	842 736	17 552
– Options	21 817	151	21 593	220
Equity derivatives	43 226	592	45 365	921
– Forward rate agreements	4 043	3	10 961	4
– Swaps	16 340	193	8 190	135
– Options	20 576	390	25 438	782
– Futures	2 267	6	776	–
Commodity derivatives	5 708	4 777	3 613	1 084
– Forward rate agreements	113	369	101	198
– Swaps	871	241	65	90
– Options	4 318	4 167	3 001	656
– Futures	406	–	446	140
Credit derivatives	1 978	14	2 657	160
Total held for trading	3 431 938	59 147	3 388 126	53 004
Total	3 459 264	59 523	3 420 571	53 842

9. DERIVATIVE FINANCIAL INSTRUMENTS *continued*

	Assets: Derivative instruments					
	Exchange traded		Over the counter		Total	
R million	Notional	Fair value	Notional	Fair value	Notional	Fair value
2009						
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	7 558	–	3 424 380	59 147	3 431 938	59 147
– Currency derivatives	2 576	–	259 307	27 293	261 883	27 293
– Interest rate derivatives	1 500	–	3 117 643	26 471	3 119 143	26 471
– Equity derivatives	3 076	–	40 150	592	43 226	592
– Commodity derivatives	406	–	5 302	4 777	5 708	4 777
– Credit derivatives	–	–	1 978	14	1 978	14
Total	7 586	–	3 451 678	59 523	3 459 264	59 523

	Liabilities: Derivative instruments					
	Exchange traded		Over the counter		Total	
R million	Notional	Fair value	Notional	Fair value	Notional	Fair value
2009						
Qualifying for hedge accounting						
Cash flow hedges	–	–	32 445	838	32 445	838
– Interest rate derivatives	–	–	32 445	838	32 445	838
Not qualifying for hedge accounting						
Held for trading	5 675	–	3 382 451	53 004	3 388 126	53 004
– Currency derivatives	2 540	–	245 192	25 252	247 732	25 252
– Interest rate derivatives	850	–	3 087 909	25 587	3 088 759	25 587
– Equity derivatives	2 254	–	43 111	921	45 365	921
– Commodity derivatives	31	–	3 582	1 084	3 613	1 084
– Credit derivatives	–	–	2 657	160	2 657	160
Total	5 675	–	3 414 896	53 842	3 420 571	53 842

Refer to note 37 for information on related party derivatives.

Refer to note 41 for an analysis of the current and non current portions.

10. ADVANCES AND IMPAIRMENT OF ADVANCES

10.1 Advances

	2010				
R million	Loans and receivables	Held-to-maturity	Available-for-sale	Designated at fair value through profit or loss	Total
Sector analysis					
Agriculture	8 405	–	–	2 863	11 268
Banks and financial services	11 412	–	–	48 785	60 197
Building and property development	2 227	–	–	14 010	16 237
Government, Land Bank and public authorities	3 674	–	–	9 684	13 358
Individuals	240 025	133	300	144	240 602
Manufacturing and commerce	16 011	–	–	12 162	28 173
Mining	708	–	–	7 312	8 020
Transport and communication	1 341	–	–	10 493	11 834
Other services	14 944	–	–	6 522	21 466
Notional value of advances	298 747	133	300	111 975	411 155
Contractual interest suspended	(1 816)	(8)	–	–	(1 824)
Gross advances	296 931	125	300	111 975	409 331
Impairment of advances (Note 10.2)	(8 048)	(4)	–	–	(8 052)
Net advances	288 883	121	300	111 975	401 279
Geographic analysis (based on credit risk)					
South Africa	292 910	133	300	107 423	400 766
Other Africa	937	–	–	1 208	2 145
United Kingdom	4 683	–	–	2 102	6 785
Other	217	–	–	1 242	1 459
– Other Europe	117	–	–	407	524
– North America	–	–	–	489	489
– Australasia	24	–	–	263	287
– Other	76	–	–	83	159
Total value of advances	298 747	133	300	111 975	411 155
Contractual interest suspended	(1 816)	(8)	–	–	(1 824)
Gross advances	296 931	125	300	111 975	409 331
Impairment of advances (Note 10.2)	(8 048)	(4)	–	–	(8 052)
Net advances	288 883	121	300	111 975	401 279
Category analysis					
Overdrafts and managed accounts	22 962	–	–	–	22 962
Loans to other financial institutions	2 971	–	–	2 130	5 101
Card loans	10 744	–	–	–	10 744
Instalment sales	62 693	–	–	–	62 693
Lease payments receivable	17 529	–	–	–	17 529
Property finance	154 687	133	–	3 298	158 118
– Home loans	146 763	133	–	–	146 896
– Commercial property finance	7 924	–	–	3 298	11 222
Personal loans	8 825	–	–	–	8 825
Preference share advances	1 078	–	–	22 522	23 600
Investment bank term loans	87	–	–	44 403	44 490
Assets under agreement to resell	535	–	–	37 574	38 109
Other	16 636	–	300	2 048	18 984
Notional value of advances	298 747	133	300	111 975	411 155
Contractual interest suspended	(1 816)	(8)	–	–	(1 824)
Gross advances	296 931	125	300	111 975	409 331
Impairment of advances (Note 10.2)	(8 048)	(4)	–	–	(8 052)
Net advances	288 883	121	300	111 975	401 279

10.1 Advances *continued*

R million	Loans and receivables	Held-to-maturity	Available-for-sale	Designated at fair value through profit or loss	Total
	2009				
Sector analysis					
Agriculture	7 372	–	–	3 020	10 392
Banks and financial services	13 320	–	459	28 397	42 176
Building and property development	3 010	–	–	12 682	15 692
Government, Land Bank and public authorities	6 975	–	–	13 169	20 144
Individuals	231 396	178	–	155	231 729
Manufacturing and commerce	20 818	–	–	11 112	31 930
Mining	1 547	–	–	6 891	8 438
Transport and communication	1 753	–	–	9 305	11 058
Other services	15 326	–	–	8 712	24 038
Notional value of advances	301 517	178	459	93 443	395 597
Contractual interest suspended	(1 673)	(8)	–	–	(1 681)
Gross advances	299 844	170	459	93 443	393 916
Impairment of advances (Note 10.2)	(8 971)	(7)	–	–	(8 978)
Net advances	290 873	163	459	93 443	384 938
Geographic analysis (based on credit risk)					
South Africa	297 540	178	459	83 500	381 677
Other Africa	975	–	–	1 268	2 243
United Kingdom	2 950	–	–	6 044	8 994
Other	52	–	–	2 631	2 683
– Ireland	4	–	–	301	305
– Other Europe	24	–	–	1 901	1 925
– North America	7	–	–	35	42
– South America	2	–	–	–	2
– Australasia	9	–	–	348	357
– Other	6	–	–	46	52
Total value of advances	301 517	178	459	93 443	395 597
Contractual interest suspended	(1 673)	(8)	–	–	(1 681)
Gross advances	299 844	170	459	93 443	393 916
Impairment of advances (Note 10.2)	(8 971)	(7)	–	–	(8 978)
Net advances	290 873	163	459	93 443	384 938
Category analysis					
Overdrafts and managed accounts	33 264	–	–	–	33 264
Loans to other financial institutions	2 116	–	–	1 074	3 190
Card loans	11 825	–	–	–	11 825
Instalment sales	56 413	–	–	–	56 413
Lease payments receivable	21 062	–	–	–	21 062
Property finance	149 034	178	–	2 051	151 263
– Home loans	141 542	178	–	–	141 720
– Commercial property finance	7 492	–	–	2 051	9 543
Personal loans	8 856	–	–	–	8 856
Preference share advances	2 061	–	–	20 030	22 091
Assets under agreement to resell	289	–	–	25 710	25 999
Other	16 597	–	459	44 578	61 634
Notional value of advances	301 517	178	459	93 443	395 597
Contractual interest suspended	(1 673)	(8)	–	–	(1 681)
Gross advances	299 844	170	459	93 443	393 916
Impairment of advances (Note 10.2)	(8 971)	(7)	–	–	(8 978)
Net advances	290 873	163	459	93 443	384 938

Refer to note 41 for an analysis of the current and non current portions.

The fair value of advances are disclosed in note 34.

10.1 Advances *continued*

R million	Within 1 year	Between 1 and 5 years	More than 5 years	Total
2010				
Analysis of instalment sales and lease payments receivable				
Lease payments receivable	6 465	15 345	394	22 204
Suspensive sale instalments receivable	21 706	49 785	1 644	73 135
Sub total	28 171	65 130	2 038	95 339
Less: Unearned finance charges	(4 487)	(10 290)	(340)	(15 117)
Total	23 684	54 840	1 698	80 222
2009				
Analysis of instalment sales and lease payments receivable				
Lease payments receivable	7 003	15 990	927	23 920
Suspensive sale instalments receivable	20 123	44 999	3 002	68 124
Sub total	27 126	60 989	3 929	92 044
Less: Unearned finance charges	(4 275)	(9 650)	(644)	(14 569)
Total	22 851	51 339	3 285	77 475

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 reporting date is R372 million (2009: R386 million).

Advances relating to synthetic securitisations are:

- Procul is a synthetic securitisation transaction amounting to R2.0 billion (2009: R2.0 billion) of WesBank retail instalment sale advances. In terms of the transaction WesBank has transferred the credit risk up to the value of the reference portfolio to Procul, a bankruptcy remote special purpose vehicle.
- Fresco II is a synthetic securitisation transaction amounting to R20 billion (2009: R20 billion) of FirstRand Bank Limited corporate advances. In terms of the transaction, the Bank has transferred the credit risk up to the value of the reference portfolio to Fresco II, a bankruptcy remote special purpose entity.

Credit risk mitigation

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

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

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

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

10.2 Impairment of advances

Significant loans and advances are monitored by the credit division and impaired according to the Bank impairment policies 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**
Analysis of movement in impairment of advances per class of advance			
Opening balance	**5 467**	**303**	**718**
Exchange rate difference	**–**	**–**	**–**
Amounts written off	**(4 253)**	**(230)**	**(135)**
Unwinding of discounted present value on non performing loans	**(230)**	**–**	**(18)**
Reclassifications	**–**	**–**	**–**
Net new impairments created	**3 307**	**37**	**452**
Transfers (to)/from other divisions	**(71)**	**118**	**(47)**
Closing balance	**4 220**	**228**	**970**
New and increased provision	**(3 307)**	**(37)**	**(452)**
Recoveries of bad debts previously written off/ (write off)	**407**	**3**	**6**
Impairment loss recognised in the income statement	**(2 900)**	**(34)**	**(446)**

	FNB		
R million	Retail	Corporate	Commercial
Opening balance	3 682	292	461
Exchange rate difference	–	–	–
Amounts written off	(2 585)	(67)	(113)
Unwinding of discounted present value on non performing loans	(360)	–	(31)
Reclassifications	–	–	–
Net new impairments created	4 649	72	407
Acquisitions/disposals	81	–	–
Transfers from/(to) other divisions	–	6	(6)
Closing balance	5 467	303	718
New and increased provision	(6 638)	(111)	(809)
Less provisions released rehabilitated bad debts	1 989	40	402
Recoveries of bad debts previously written off	241	1	18
Impairment loss recognised in the income statement	(4 408)	(70)	(389)

2010						
WesBank	RMB	FNB Africa	Other	Total impairment	Specific impairment	Portfolio impairment
2 063	146	–	281	8 978	6 444	2 534
(6)	–	–	–	(6)	(3)	(3)
(1 934)	–	–	–	(6 552)	(6 556)	4
–	–	–	–	(248)	(248)	–
–	–	–	–	–	225	(225)
2 330	15	–	(261)	5 880	6 179	(299)
–	20	–	(20)	–	–	–
2 453	181	–	–	8 052	6 041	2 011
(2 330)	(15)	–	261	(5 880)	(6 179)	299
350	1	–	(2)	765	765	–
(1 980)	(14)	–	259	(5 115)	(5 414)	299

2009						
WesBank	RMB	FNB Africa	Other	Total impairment	Specific impairment	Portfolio impairment
1 644	110	5	381	6 575	4 174	2 401
(7)	–	–	–	(7)	(3)	(4)
(2 393)	(219)	–	–	(5 377)	(5 375)	(2)
–	–	–	–	(391)	(391)	–
–	–	–	–	–	27	(27)
2 762	255	–	(100)	8 045	7 954	91
57	–	(5)	–	133	58	75
–	–	–	–	–	–	–
2 063	146	–	281	8 978	6 444	2 534
(5 671)	(335)	–	–	(13 564)	(13 013)	(551)
2 909	80	–	99	5 519	5 059	460
207	–	–	–	467	471	(4)
(2 555)	(255)	–	99	(7 578)	(7 483)	(95)

10.2 Impairment of advances *continued*

	2010			
R million	Total value including interest in suspense	Security held	Specific impairments	Contractual interest suspended
Non performing loans by sector				
Agriculture	155	133	25	21
Banks and financial services	369	295	107	41
Building and property development	1 026	839	173	60
Government, Land Bank and public authorities	87	17	34	4
Individuals	17 644	12 438	4 467	1 449
Manufacturing and commerce	785	288	317	95
Mining	81	44	18	4
Transport and communication	273	81	104	14
Other	2 060	663	796	136
Total non performing loans	22 480	14 798	6 041	1 824
Non performing loans by category				
Overdrafts and managed accounts	944	332	513	155
Card loans	711	–	478	39
Instalment sales	3 500	676	1 305	245
Lease payments receivable	970	187	377	86
Property finance	14 220	12 559	2 683	1 121
– Home loans	13 097	11 698	2 385	980
– Commercial property finance	1 123	861	298	141
Personal loans	1 494	427	676	112
Preference share advances	25	8	4	9
Other	616	609	5	57
Total non performing loans	22 480	14 798	6 041	1 824
Non performing loans by class				
FNB Retail	14 390	11 734	3 276	1 139
FNB Corporate	1	–	1	–
FNB Commercial	2 270	1 477	779	344
Total FNB	16 661	13 211	4 056	1 483
WesBank	5 236	1 012	1 980	338
RMB	583	575	5	3
Total non performing loans	22 480	14 798	6 041	1 824
Non performing loans by geographical area				
South Africa	22 396	14 736	6 021	1 824
Other Africa	58	56	–	–
UK	26	6	20	–
Total non performing loans	22 480	14 798	6 041	1 824

The net recoverable amount on non performing loans is R14 413 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 yet occurred, the realisation value of the vehicle is estimated using internal models and is included as part of the recoveries total.

10.2 Impairment of advances *continued*

R million	2009 Total value including interest in suspense	Security held	Specific impairments	Contractual interest suspended
Non performing loans by sector				
Agriculture	131	118	21	26
Banks and financial services	422	331	91	16
Building and property development	663	480	93	23
Government, Land Bank and public authorities	78	18	25	4
Individuals	19 668	13 835	5 232	1 436
Manufacturing and commerce	923	300	324	73
Mining	119	34	26	1
Transport and communication	159	53	54	7
Other	1 757	701	578	95
Total non performing loans	23 920	15 870	6 444	1 681
Non performing loans by category				
Overdrafts and managed accounts	990	211	641	149
Card loans	1 504	–	1 048	54
Instalment sales	3 334	801	1 045	179
Lease payments receivable	1 099	270	354	68
Property finance	15 080	13 996	2 484	1 026
– Home loans	14 123	13 097	2 336	962
– Commercial property finance	957	899	148	64
Personal loans	1 439	299	750	199
Other	474	293	122	6
Total non performing loans	23 920	15 870	6 444	1 681
Non performing loans by class				
FNB Retail	16 874	13 144	4 342	1 225
FNB Corporate	84	–	69	–
FNB Commercial	1 829	1 370	528	206
Total FNB	18 787	14 514	4 939	1 431
WesBank	4 681	1 070	1 479	250
RMB	452	286	26	–
Total non performing loans	23 920	15 870	6 444	1 681
Non performing loans by geographical area				
South Africa	23 881	15 861	6 415	1 681
Other Africa	1	–	1	–
UK	37	9	28	–
Other	1	–	–	–
Total non performing loans	23 920	15 870	6 444	1 681

The net recoverable amount on non performing loans is R15 685 million.

11. INVESTMENT SECURITIES AND OTHER INVESTMENTS

	2010			
	Total fair value			
R million	Held for trading	Designated at fair value through profit or loss	Available-for-sale	Total
Total				
Negotiable certificates of deposit	2 151	1 983	38	4 172
Treasury bills	394	19 913	8 686	28 993
Other government and government guaranteed stock	13 225	11 374	13 541	38 140
Other dated securities	2 279	1 623	–	3 902
Other	496	2 997	1 279	4 772
Total	18 545	37 890	23 544	79 979
Listed				
Treasury bills	–	6 953	–	6 953
Other government and government guaranteed stock	13 027	2 180	13 541	28 748
Other dated securities	1 021	1 386	–	2 407
Other	363	1 122	781	2 266
Listed	14 411	11 641	14 322	40 374
Unlisted				
Negotiable certificates of deposit	2 151	1 983	38	4 172
Treasury bills	394	12 960	8 686	22 040
Other government and government guaranteed stock	198	9 194	–	9 392
Other dated securities	1 258	237	–	1 495
Other	133	1 875	498	2 506
Unlisted	4 134	26 249	9 222	39 605

11. INVESTMENT SECURITIES AND OTHER INVESTMENTS *continued*

	2009			
	Total fair value			
R million	Held for trading	Designated at fair value through profit or loss	Available-for-sale	Total
Total				
Negotiable certificates of deposit	8 068	–	–	8 068
Treasury bills	9 759	6 864	12 747	29 370
Other government and government guaranteed stock	9 797	2 556	9 657	22 010
Other dated securities	1 769	1 243	–	3 012
Other undated securities	–	15	–	15
Other	845	2 649	1 133	4 627
Total	30 238	13 327	23 537	67 102
Listed				
Treasury bills	–	5 132	–	5 132
Other government and government guaranteed stock	7 382	2 556	9 657	19 595
Other dated securities	1 176	1 240	–	2 416
Other	651	794	662	2 107
Listed	9 209	9 722	10 319	29 250
Unlisted				
Negotiable certificates of deposit	8 068	–	–	8 068
Treasury bills	9 759	1 732	12 747	24 238
Other government and government guaranteed stock	2 415	–	–	2 415
Other dated securities	593	3	–	596
Other undated securities	–	15	–	15
Other	194	1 855	471	2 520
Unlisted	21 029	3 605	13 218	37 852

R24 475 million (2009: R26 186 million) of the financial instruments form part of the Bank's liquid asset portfolio in terms of the South African Reserve Bank and other foreign banking regulators requirements.

11. INVESTMENT SECURITIES AND OTHER INVESTMENTS *continued*

R million	2010	2009
Analysis of investment securities		
Listed	**40 374**	29 250
Equities	**2 020**	1 818
Debt	**38 354**	27 432
Unlisted	**39 605**	37 852
Equities	**2 470**	2 369
Debt	**37 135**	35 483
Total	**79 979**	67 102
Valuation of investments		
Market value of listed investments	**40 374**	29 250
Directors valuation of unlisted investments*	**39 605**	37 852
Total valuation	**79 979**	67 102

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

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

12. COMMODITIES

	2010	2009
Agricultural stock	**872**	1 276
Base metals	**1 493**	–
Total commodities	**2 365**	1 276

Refer to note 41 for an analysis of the current and non current portions.

13. ACCOUNTS RECEIVABLE

R million	2010	2009
Accounts receivable	**2 647**	2 109
– Items in transit	**1 625**	546
– Interest and commissions accrued	**54**	41
– Other	**968**	1 522
Prepayments	**208**	241
Accounts receivable	**2 855**	2 350

The carrying value of accounts receivable approximates the fair value.

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

	2010						
		Past due but not impaired					
R million	Neither past nor impaired	Renego-tiated but current	1 – 30 days	31 – 60 days	>60 days	Impaired	Total
Items in transit	1 625	–	–	–	–	–	1 625
Accrued interest	54	–	–	–	–	–	54
Other	1 006	–	108	25	24	13	1 176
Total	**2 685**	**–**	**108**	**25**	**24**	**13**	**2 855**

13. ACCOUNTS RECEIVABLE *continued*

R million	2009						
		Past due but not impaired					
	Neither past nor impaired	Renego-tiated but current	1 – 30 days	31 – 60 days	>60 days	Impaired	Total
Items in transit	522	–	24	–	–	–	546
Accrued interest	41	–	–	–	–	–	41
Other	1 747	–	10	3	3	–	1 763
Total	2 310	–	34	3	3	–	2 350

Refer to note 41 for an analysis of the current and non current portions.

14. INVESTMENTS IN ASSOCIATES

R million	**2010**	2009
Listed investments		
Investments at cost less amounts written off*	**332**	1 275
Unlisted investments		
Investments at cost less amounts written off	**835**	305
Total carrying value	**1 167**	1 580
Valuation		
Listed investments at market valuation	**248**	1 043
Unlisted investments at directors' valuation**	**1 933**	689
Total valuation	**2 181**	1 732

* *On 1 June 2010 Makalani Holdings delisted and became an unlisted associate of the Bank.*
** *The directors' valuation of unlisted investments is considered to be the fair value.*

	Nature of business	**Issued ordinary share capital**	**Number of ordinary shares held**	**Year end**
Unlisted				
Makalani Holdings Ltd*	Investment holding	21 506 308	5 480 885	30 June
SBV Services (Pty) Ltd	Logistics	3 000	750	30 June
Bankserve	Payments finance	800	185	30 June
Toyota Financial Services (Pty) Ltd	Vehicle finance	4 695	1 565	31 March
Private Equity Associates	Various	Various	Various	Various

14. INVESTMENTS IN ASSOCIATES *continued*

	Effective holding %		Market/valuation amount		Carrying amount	
R million	2010	2009	2010	2009	2010	2009
Listed						
Makalani Holdings Ltd*	–	26	–	536	–	544
Private Equity Associates**	–	–	248	507	332	731
Total listed			248	1 043	332	1 275
Unlisted						
SBV Services (Pty) Ltd***	25	25	64	64	35	35
Pamodzi Investment Holdings (Pty) Ltd	–	23	–	15	–	15
Toyota Financial Services (Pty) Ltd***	33	33	1 121	489	215	215
Makalani Holdings Ltd***	25	–	548	–	544	–
Other	Various	Various	200	121	41	40
Total unlisted			1 933	689	835	305
Total listed and unlisted			2 181	1 732	1 167	1 580

* *On 1 June 2010 Makalani Holdings delisted and became an unlisted associate of the Bank.*
** *Included in Private Equity Associates are Vox Telecom Ltd, Simmer and Jack Mines Ltd and Control Instruments Group Ltd. The value in use of these associate investments is R320 million (2009: R1 019 million).*
*** *These investments will be sold to FirstRand Investment Holding (Pty) Ltd subsequent to the reporting date. Refer to note 42.*

Refer to note 41 for an analysis of the current and non current portions.

15. INVESTMENTS IN SUBSIDIARY COMPANIES

R million	2010	2009
Shares at cost less amounts written off	279	279

30 June 2010	Nature of business	Issued capital Rand	Effective holding %	Investment in subsidiaries Rand
Direct Axis (Pty) Ltd* and**	Financial services	13 249	66	120 985 648
Contract Lease Management (Pty) Ltd**	Maintenance leasing	100	100	18 000 000
First Auto (Pty) Ltd**	Financial services	97 900 121	100	139 925 090
Other	Various			393 879
				279 304 617
30 June 2009				
Direct Axis (Pty) Ltd*	Financial services	13 249	66	120 985 648
Contract Lease Management (Pty) Ltd	Maintenance leasing	100	100	18 000 000
First Auto (Pty) Ltd	Financial services	97 900 121	100	139 925 090
Other	Various			491 912
				279 402 650

* *Direct Axis (Pty) Ltd share capital number is after consolidation of the share trust which holds the company's shares.*
** *These investments will be sold to FirstRand Investment Holdings (Pty) Ltd subsequent to the reporting date. Refer to note 42.*

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

R million	2010	2009
Amounts due to holding company	(266)	(51)
Amounts due to fellow subsidiary companies	(21 602)	(16 113)
Amounts due to holding and fellow subsidiary companies	**(21 868)**	(16 164)
Amounts due by holding company	373	533
Amounts due by fellow subsidiary companies	14 070	14 708
Amounts due by holding and fellow subsidiary companies	**14 443**	15 241
Net amounts due to holding and fellow subsidiary companies	**(7 425)**	(923)

These loans have no fixed terms of repayment and carry varying rates of interest. Loans to fellow subsidiary companies amounting to R20 million (2009: R165 million) are subject to subordination agreements until such time that their assets, fairly valued, exceed their liabilities.

Included in the above amounts are the following	Amounts due by fellow subsidiary companies		Amounts due to fellow subsidiary companies	
	Notional	Fair value	Notional	Fair value
2010				
Derivative instruments	315	113	698	86
2009				
Derivative instruments	12 649	838	7 335	277

17. PROPERTY AND EQUIPMENT

The useful life of each asset is assessed individually. The table below provides information on the benchmarks used when assessing the useful life of the individual assets:

Leasehold premises	**Shorter of estimated life or period of lease**
Freehold property and property held under finance lease	
– Buildings and structures	50 years
– Mechanical and electrical	20 years
– Components	20 years
– Sundries	3 – 5 years
Computer equipment	3 – 5 years
Furniture and fittings	3 – 10 years
Motor vehicles	5 years
Office equipment	3 – 6 years

R million	2010 Cost	2010 Accumulated depreciation and impairments	2010 Carrying amount	2009 Cost	2009 Accumulated depreciation and impairments	2009 Carrying amount
Property	6 353	(1 107)	5 246	5 015	(810)	4 205
Freehold property	3 379	(239)	3 140	2 205	(167)	2 038
Leasehold premises	2 974	(868)	2 106	2 810	(643)	2 167
Equipment	6 470	(3 900)	2 570	5 935	(3 345)	2 590
Computer equipment	3 804	(2 625)	1 179	3 545	(2 295)	1 250
Furniture and fittings	1 372	(692)	680	1 272	(634)	638
Motor vehicles	533	(186)	347	438	(105)	333
Office equipment	753	(393)	360	670	(307)	363
Capitalised leased assets	8	(4)	4	10	(4)	6
Total	12 823	(5 007)	7 816	10 950	(4 155)	6 795

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

17. PROPERTY AND EQUIPMENT *continued*

	Property	
R million	Freehold property	Leasehold premise
Movement in property and equipment – carrying amount		
Carrying amount at 30 June 2008	**1 082**	**1 851**
Foreign currency adjustments on translation	–	(6)
Additions	1 002	609
Acquisitions through business combinations	–	2
Depreciation charge for the period	(43)	(267)
Impairments recognised	–	(6)
Impairments reversed	–	–
Disposals	(4)	(11)
Intergroup transfers	–	(3)
Other	1	(2)
Carrying amount at 30 June 2009	**2 038**	**2 167**
Foreign currency adjustments on translation	**–**	**(5)**
Additions	**1 214**	**266**
Depreciation charge for the period	**(82)**	**(254)**
Disposals	**(31)**	**(67)**
Other	**1**	**(1)**
Carrying amount at 30 June 2010	**3 140**	**2 106**

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.

The circumstances which led to the impairment in the prior year were the closure of certain FNB branches. Assets which could not be redeployed to other FNB branches and had no future economic benefits were written off.

The circumstances which led to the reversal of previously recognised impairment losses in the prior year were due to branch closures in previous years which were redeployed in the prior year.

Refer to note 25 for liabilities that are related to the finance lease assets.

Refer to note 41 for an analysis of the current and non current portions.

	Equipment					
	Computer equipment	Furniture and fittings	Motor vehicles	Office equipment	Capitalised leased assets	Total
	1 230	**566**	**133**	**292**	**–**	**5 154**
	(3)	–	–	–	(1)	(10)
	546	194	270	172	1	2 794
	23	3	–	1	8	37
	(445)	(112)	(54)	(101)	(1)	(1 023)
	(5)	(2)	–	–	–	(13)
	–	–	–	1	–	1
	(96)	(10)	(16)	(1)	(1)	(139)
	1	(1)	–	–	–	(3)
	(1)	–	–	(1)	–	(3)
	1 250	**638**	**333**	**363**	**6**	**6 795**
	(2)	**–**	**–**	**–**	**(1)**	**(8)**
	450	**167**	**153**	**145**	**2**	**2 397**
	(513)	**(103)**	**(89)**	**(111)**	**(2)**	**(1 154)**
	(6)	**(21)**	**(50)**	**(36)**	**(1)**	**(212)**
	–	**(1)**	**–**	**(1)**	**–**	**(2)**
	1 179	**680**	**347**	**360**	**4**	**7 816**

18. DEFERRED TAX

R million	2010	2009
Deferred tax		
The movement on the deferred tax account is as follows:		
Deferred tax liability		
Opening balance	1 803	2 778
– Charge to the income statement	(162)	(501)
– STC charge/(release) to the income statement	24	(201)
– Deferred tax on amounts charged/(transferred) directly to other comprehensive income	37	(275)
– Other	–	2
Total credit balance	1 702	1 803
Net balance for the year	1 702	1 803

Deferred tax assets and liabilities are offset when the income taxes relate to the same fiscal authority and there is a legal right to setoff.

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

	2010			
R million	Opening balance	Tax change	Other	Closing balance
Deferred tax liability				
Provision for loan impairment	(636)	173	–	(463)
Provision for post retirement benefits	109	(7)	–	102
Other provisions	75	(110)	–	(35)
Cash flow hedges	(131)	–	(50)	(181)
Instalment credit assets	2 277	(150)	–	2 127
Accruals	351	(39)	–	312
Revaluation of available-for-sale securities to other comprehensive income	(12)	–	87	75
Unrecognised STC credits	(271)	10	24	(237)
Other	41	(39)	–	2
Total deferred tax liability	1 803	(162)	61	1 702

18. DEFERRED TAX *continued*

R million	2009			
	Opening balance	Tax change	Other	Closing balance
Deferred tax liability				
Provision for loan impairment	(577)	(60)	1	(636)
Provision for post retirement benefits	26	83	–	109
Other provisions	(214)	288	1	75
Cash flow hedges	203	–	(334)	(131)
Fair value adjustments of financial instruments	–	(59)	59	–
Instalment credit assets	2 205	72	–	2 277
Accruals	1 141	(791)	1	351
Revaluation of available-for-sale securities to other comprehensive income	(72)	59	1	(12)
(Derecognition)/recognition as a result of a business combination	(72)	(201)	2	(271)
Other	138	(93)	(4)	41
Total deferred tax liability	2 778	(702)	(273)	1 803

Total reserves

If the total reserves of R21 656 million (2009: R18 437 million) as at 30 June 2010 were to be declared as dividends, the secondary tax impact at a rate of 10% would be R1 969 million (2009: R1 676).

Refer to note 41 for an analysis of the current and non current portions.

19. POST RETIREMENT LIABILITIES

The Bank operates both defined benefit plans and defined contribution plans for employees.

19.1 Defined benefit post retirement fund

The Bank operates two defined benefit plans, a plan which provides post employment medical benefits and a pension plan. The pension plan provides retired employees with annuity income after their service. The medical scheme provides retired employees with medical benefits. In terms of these plans, the Bank is liable to the employees for specific payments on retirement and for any deficit in the provision of these benefits from the plan assets. The liabilities and assets of these plans are reflected as a net asset or liability in the statement of financial position.

19.1 Defined benefit post retirement fund *continued*

Details of the defined benefit plan assets and the fund liabilities are as follows:

	2010			2009		
R million	Pension	Medical	Total	Pension	Medical	Total
Post retirement benefit fund liability						
Present value of funded obligation	7 952	1 902	9 854	7 720	1 567	9 287
Fair value of plan assets	(7 332)	–	(7 332)	(7 099)	–	(7 099)
Pension fund deficit	620	1 902	2 522	621	1 567	2 188
Unrecognised actuarial (losses)/gains	(440)	23	(417)	(448)	265	(183)
Post retirement liability	180	1 925	2 105	173	1 832	2 005
The amounts recognised in the income statement are as follows:						
Current service cost	4	33	37	3	27	30
Interest cost	653	133	786	716	139	855
Actuarial (losses)/gains recognised	–	(7)	(7)	42	(17)	25
Expected return on plan assets	(647)	–	(647)	(724)	–	(724)
Total included in staff costs	10	159	169	37	149	186
Movement in post retirement benefit fund liability						
Present value at the beginning of the year	174	1 832	2 006	138	1 750	1 888
Employer contributions	(3)	–	(3)	–	–	–
Employee contributions	(1)	–	(1)	–	–	–
Amounts recognised in the income statement as above	10	159	169	37	149	186
Benefits paid	–	(66)	(66)	(2)	(67)	(69)
Present value at the end of the year	180	1 925	2 105	173	1 832	2 005
Movement in the fair value of plan assets of the year is as follows:						
Opening balance	7 099	–	7 099	6 555	–	6 555
Expected return on plan assets	646	–	646	724	–	724
Actuarial gains	170	–	170	285	–	285
Employer contributions	3	–	3	1	–	1
Employee contributions	1	–	1	1	–	1
Benefits paid and settlements	(587)	–	(587)	(467)	–	(467)
Closing balance	7 332	–	7 332	7 099	–	7 099
The actual return on plan assets was:	8%	–		10%	–	
Plan assets comprised the following:						
Equity	–	–	–	2 932	–	2 932
Debt	6 035	–	6 035	3 388	–	3 388
Other	1 297	–	1 297	779	–	779
Total	7 332	–	7 332	7 099	–	7 099
Included in plan assets were the following:						
Property occupied by the Bank with a fair value of	490	–	490	400	–	400
Total	490	–	490	400	–	400

19.1 Defined benefit post retirement fund *continued*

	2010		2009	
	Pension %	**Medical %**	Pension %	Medical %
The principal actuarial assumptions used for accounting purposes were:				
Expected return on plan assets				
– Bank fund	**9.3**	**–**	10.0	–
Discount rate				
– Bank fund	**9.0**	**9.0**	9.0	9.0
Expected rates of salary increases				
– Bank fund	**7.5**	**–**	8.0	–
Long term increase in health cost				
– Bank fund	**–**	**7.5**	–	8.0
The effects of a 1% movement in the assumed health cost rate were as follows:		**R million**		**R million**
Increase of 1%				
Effect on the aggregate of the current service cost and interest cost	**–**	**34.8**	–	124.6
Effect on the defined benefit obligation	**–**	**298.9**	–	116.0
Decrease of 1%				
Effect on the aggregate of the current service cost and interest cost	**–**	**27.8**	–	90.1
Effect on the defined benefit obligation	**–**	**240.5**	–	87.0
Contributions expected to be paid into the plan in the next financial period (R million)	**825**	**–**	776	–
Net increase in rate used to value pensions, allowing for pension increases				
– Bank fund	**6**	**–**	3	–

		2010		2009	
		Active members	**Pensioners**	Active members	Pensioners
Mortality rate					
Pension Fund					
Normal retirement age		**60**	**–**	60	–
Mortality rate table used		**PA(90)-2**	**PA(90)-2**	PA(90)-2	PA(90)-2
Normal retirement age		**60**	**–**	60	–
Mortality rate table used	Active	**SA 72-77**	**PA(90)-2**	PA(90)-2	PA(90)-2
	Retired	**PA(90)-3**			

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

PA(90)-2 refers to standard actuarial mortality tables for current and prospective pensioners on a defined benefit plan where the chance of dying after early or normal retirement is expressed at each age for each gender.

19.1 Defined benefit post retirement fund *continued*

	2010		2009	
	Pension	**Medical**	Pension	Medical
Mortality rate				
The average life expectancy in years of a pensioner retiring at age 65, on the reporting date is as follows:				
Male	**15**	**17**	15	16
Female	**19**	**21**	19	17
The average life expectancy in years of a pensioner retiring at age 65, 20 years after the reporting date is as follows:				
Male	**15**	**17**	15	16
Female	**19**	**21**	19	17

Five year analysis on total pension and medical post retirement plans

R million	2010	2009	2008	2007	2006
Present value of defined benefit obligation	**9 854**	9 287	8 440	9 873	8 799
Fair value of plan assets	**(7 332)**	(7 099)	(6 555)	(8 494)	(7 032)
Deficit	**2 522**	2 188	1 885	1 379	1 767

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:

%	2010	2009
– Equities	**10.50**	10.37
– Other	**10.50**	10.37
– Bonds	**9.00**	8.87
– Cash	**7.50**	7.37

19.2 Defined contribution post retirement fund

This defined contribution plan is a post employment plan in terms of which the Bank, in its capacity as employer, is liable to the employees only for the agreed upon contributions payable for services rendered by the employees. At the end of their employment, employees may use the accumulated funds to purchase a pension annuity.

The assets related to this pension fund are managed by the Bank itself, in its capacity as an asset manager, rather than by an external entity. In this capacity the Bank holds the assets related to the pension plan and has an obligation to pay over the value of the plan assets as benefits to employees on retirement. These assets and liabilities are not recognised on the statement of financial position as they are only held by the Bank 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	2010	2009
Post retirement contribution fund liability/asset		
Present value of obligation	**9 548**	8 170
Fair value of plan assets	**(9 548)**	(8 170)
Post retirement contribution fund liability	**–**	–
Movement in post retirement contribution fund liability		
Amounts recognised in the income statement	**766**	720
Benefits paid	**(766)**	(720)
Present value at the end of the year	**–**	–
Movement in the fair value of plan assets of the year is as follows:		
Opening balance	**8 170**	11 065
Expected return on plan assets	**776**	1 180
Actuarial losses	**601**	(3 468)
Employer contributions	**443**	413
Employee contributions	**323**	307
Benefits paid and settlements	**(766)**	(1 327)
Closing balance	**9 547**	8 170

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

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

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 the fund was financially sound.

19.2 Defined contribution post retirement fund *continued*

R million	2010	2009
Pension:		
Active members	**28 849**	30 166
Pensioners	**7 671**	7 018
Total	**36 520**	37 184
Medical:		
Active members	**6 014**	4 747
Pensioners	**3 238**	3 250
Total	**9 252**	7 997

Post retirement medical asset

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

The amount transferred to meet the post retirement benefit liability was made in order to meet the increase liability as a result of changes to the fund in respect of non clerical staff being included on the scheme and changes in structure to the contribution tables.

R million	2010	2009
Post retirement benefit asset		
Pension and post retirement benefits		
Leave pay insurance policy	**–**	156
Post retirement medical asset	**2 483**	2 291
Total post retirement benefit asset	**2 483**	2 447

Refer to note 41 for an analysis of the current and non current portions.

20. INTANGIBLE ASSETS

	2010			2009		
R million	Cost	Accumulated amortisation and impairments	Carrying amount	Cost	Accumulated amortisation and impairments	Carrying amount
Software						
Movement in software – book value						
Opening balance	367	(209)	158	244	(144)	100
Disposals	(13)	10	(3)	(29)	–	(29)
Additions	74	–	74	152	–	152
Impairment losses*	–	(4)	(4)	–	–	–
Amortisation to the income statement	–	(82)	(82)	–	(65)	(65)
Closing balance	428	(285)	143	367	(209)	158
Development costs						
Movement in development costs – book value						
Opening balance	37	(18)	19	30	(11)	19
Additions	2	–	2	6	–	6
Amortisation to the income statement	–	(7)	(7)	–	(6)	(6)
Other	–	–	–	1	(1)	–
Closing balance	39	(25)	14	37	(18)	19
Trademarks						
Movement in trademarks – book value						
Opening balance	36	(15)	21	–	–	–
Subsidiary balance acquired/(disposed)	–	–	–	40	(13)	27
Exchange differences	(4)	2	(2)	(4)	2	(2)
Amortisation to the income statement	–	(5)	(5)	–	(4)	(4)
Other	1	(1)	–	–	–	–
Closing balance	33	(19)	14	36	(15)	21
Other						
Movement in other – book value						
Opening balance	27	(9)	18	3	–	3
Subsidiary balance acquired/(disposed)	–	–	–	21	(7)	14
Exchange differences	(2)	1	(1)	(2)	1	(1)
Additions	3	–	3	5	–	5
Amortisation to the income statement	–	(3)	(3)	–	(3)	(3)
Other	1	–	1	–	–	–
Closing balance	29	(11)	18	27	(9)	18
Total intangible assets						
Software	428	(285)	143	367	(209)	158
Development costs	39	(25)	14	37	(18)	19
Trademarks	33	(19)	14	36	(15)	21
Other	29	(11)	18	27	(9)	18
Total intangible assets	529	(340)	189	467	(251)	216

* *Impairments of computer software of R4 million (2009: R nil) relate to a system that is no longer being used by the Bank. The full carrying value of the software no longer being used was impaired.*

Refer to note 41 for an analysis of the current and non current portions.

21. DEPOSITS AND CURRENT ACCOUNTS

R million	At amortised cost	Designated at fair value through profit or loss	Total
2010			
Deposit and current accounts			
From banks and financial institutions	12 813	55 730	68 543
– In the normal course of business	12 813	23 343	36 156
– Under repurchase agreements	–	32 387	32 387
From customers	234 025	89 392	323 417
– Current accounts	171 945	138	172 083
– Savings accounts	1 897	–	1 897
– Term deposits	60 183	89 254	149 437
Other deposits	627	61 171	61 798
– Negotiable certificates of deposit	4	34 715	34 719
– Buy backs	–	8 704	8 704
– Other	623	17 752	18 375
Deposits and current accounts	**247 465**	**206 293**	**453 758**
2009			
Deposit and current accounts			
From banks and financial institutions	6 778	49 345	56 123
– In the normal course of business	6 778	21 605	28 383
– Under repurchase agreements	–	27 740	27 740
From customers	229 735	76 170	305 905
– Current accounts	172 597	1 527	174 124
– Savings accounts	1 992	–	1 992
– Term deposits	55 146	74 643	129 789
Other deposits	1 202	64 211	65 413
– Negotiable certificates of deposit	13	42 243	42 256
– Buy backs	–	5 499	5 499
– Other	1 189	16 469	17 658
Deposits and current accounts	237 715	189 726	427 441

Deposits include amounts raised under repurchase agreements with a carrying value of R41 091 million (2009: R33 239 million).

The Bank repurchased R2 137 million (2009: R3 337 million) of notes issued into the market during the year. These notes have been pledged as security in terms of a repurchase transaction to an external counterparty.

R million	2010	2009
Deposits by Insurance Group	**2 516**	2 731

Refer to note 41 for an analysis of the current and non current portions.

The fair value of deposits and current accounts are disclosed in note 34.

Refer to note 32 for information about changes in the Bank's own credit risk.

22. SHORT TRADING POSITIONS

R million	2010	2009
Short trading positions		
Government and government guaranteed	**7 360**	13 955
Other dated securities	**107**	472
Undated securities	**2**	–
Short trading positions	**7 469**	14 427
Analysed as follows:		
Listed	**7 469**	14 326
Unlisted	**–**	101
Short trading positions	**7 469**	14 427

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.

The fair values of short trading positions are disclosed in note 34.

Refer to note 41 for an analysis of the current and non current portions.

23. CREDITORS AND ACCRUALS

R million	2010	2009
Accrued interest	**61**	54
Short term portion of long term liabilities (note 25)	**1 602**	709
Accounts payable and accrued liabilities	**4 508**	3 749
Creditors and accruals	**6 171**	4 512

The carrying value of creditors and accruals approximates the fair value.

Refer to note 41 for an analysis of the current and non current portions.

24. PROVISIONS

R million	2010	2009
Staff related provisions*		
Opening balance	1 756	2 433
– Subsidiary balances acquired	–	10
– Exchange differences	–	(3)
– Charge to the income statement	1 700	1 137
– Additional provisions created	1 703	1 159
– Unused amounts reversed	(3)	(22)
– Utilised	(1 164)	(1 821)
Closing balance	2 292	1 756
Audit fees		
Opening balance	32	6
– Subsidiary balances acquired	–	1
– Charge to the income statement	83	77
– Additional provisions created	84	79
– Unused amounts reversed	(1)	(2)
– Utilised	(103)	(52)
Closing balance	12	32
Other**		
Opening balance	279	329
– Charge to the income statement	165	69
– Additional provisions created	183	223
– Unused amounts reversed	(18)	(154)
– Utilised	(23)	(119)
Closing balance	421	279
Total provisions	2 725	2 067

* *Staff related provisions consist mainly of provision for leave pay and staff bonuses.*
** *Other provisions mainly consist of provisions for litigation, fraud and restructuring.*

Refer to note 41 for an analysis of the current and non current portions.

25. LONG TERM LIABILITIES

R million	2010	2009
Preference shares		
Authorised		
500 million (2009: 500 million) cumulative redeemable shares with a par value of R0,0001		
Issued		
The preference shares of FirstRand Bank Ltd have been classified as long term liabilities and comprise the following:		
0 (2009: 1 595) cumulative redeemable preference shares subscribed for by third parties with par value of R0,0001 and a premium of R99 999,9999 per share (disclosed at fair value)	58	166
Less: Portion disclosed in deposits	–	(83)
	58	83
Less: Portion repayable within 12 months transferred to current liabilities (note 23)	–	(25)
Less: Redeemed shares	(58)	–
Preference shares	–	58
Fixed rate bond[a]	5 109	5 083
	5 109	5 083
Floating rate bond[b]	2 256	2 279
	2 256	2 279
Less: Portion repayable within 12 months transferred to current liabilities (note 23)	(1 599)	(680)
Other long term liabilities	5 766	6 682

a The fixed rate bonds mature between 31 August 2010 and 21 December 2018 and bear interest at between 8% and 13%.

b The floating rate bonds mature 31 August 2010 and 21 December 2018 and bear interest at 65bps and 300bps above the three month JIBAR rate.

R million	2010	2009
Finance lease liabilities		
Not later than 1 year	3	4
Later than 1 year and not later than 5 years	2	3
Total finance lease liabilities	5	7
Refer to note 17 for assets that secure the finance lease liabilities.		
Future finance charges on finance leases		
Present value of finance lease liability	5	7
Less: Portion repayable within 12 months transferred to current liabilities (note 23)	(3)	(4)
Long term finance lease charges	2	3
Share based payment (cash settled)	516	–
Total long term liabilities	6 284	6 743

The fair value of long term liabilities are disclosed in note 34.

Refer to note 41 for an analysis of the current and non current portions.

Refer to note 32 for information about changes in the Bank's own credit risk.

26. SHARE CAPITAL AND SHARE PREMIUM

R million	2010	2009
Ordinary shares and preference shares		
Ordinary shares		
Authorised		
2 000 000 shares with a par value of R2 per share	4	4
Issued – fully paid up		
1 866 831 (2009: 1 866 830) ordinary shares with a par value of R2 per share.	4	4
All issued share capital is fully paid up.		
Ordinary share premium	10 965	10 817
Total issued ordinary share capital and share premium	10 969	10 821
Non cumulative non redeemable preference shares		
Authorised		
100 000 000 million non cumulative non redeemable preference shares with a par value of R0,01 per share	1	1
Issued fully paid up		
3 000 000 (2009: 3 000 000) non cumulative non redeemable preference shares with par value of R0,01 per share to the Holding Company	–	–
The non cumulative non redeemable preference shares were issued at varying interest rates which are linked to the prime lending rate as determined by FirstRand Bank Ltd		
Non cumulative non redeemable preference share premium	3 000	3 000
Total issued non cumulative non redeemable preference share capital and share premium	3 000	3 000
Total issued share capital and share premium	13 969	13 821

	Number of ordinary shares	Number of non cumulative non redeemable preference shares
Reconciliation of shares issued		
Shares at 1 July 2008	1 758 847	3000 000
Issued*	107 983	–
Shares at 30 June 2009	**1 866 830**	**3000 000**
Shares at 1 July 2009	1 866 830	3000 000
Issued during the year	1	–
Shares at 30 June 2010	**1 866 831**	**3000 000**

* *107 981 million debentures converted to ordinary shares during the 2009 year of assessment.*

For detail on capital management of the Bank please refer to the Capital Management section from page 20 to page 25, 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.

27. REMUNERATION SCHEMES

R million	2010	2009
The income statement charge for share based payments is as follows:		
FirstRand Share Incentive Scheme	**(8)**	35
FirstRand Black Employee Trust	**36**	55
FirstRand Black Non Executive Directors' Trust	**1**	1
FirstRand Share Appreciation Right Scheme	**243**	(117)
Conditional share plan	**163**	–
Forfeitable share plan	**109**	–
Charge/(release) to income statement	**544**	(26)

The FirstRand Limited share option schemes are equity settled schemes, except for the FirstRand Limited share appreciation rights scheme, Conditional Share Plan and Forfeitable Share Plan which are cash settled.

The FirstRand Limited share incentive scheme was implemented in 2000. The purpose of the scheme is to provide a facility to employees of the FirstRand Group to acquire shares in FirstRand Limited. The primary purpose of the scheme is to appropriately attract, incentivise and retain managers within the FirstRand Group.

The FirstRand Limited share appreciation right scheme was implemented in 2006 to provide selected FirstRand Bank 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 Limited shares. This scheme is better aligned to employment and governance practices currently prevailing in the market.

In line with global best practice and emerging South African practice, the Group adopted a new share incentive plan in the current year namely a Conditional Share Plan ("CSP") and a Forfeitable Share Plan ("FSP"). The CSP and FSP are in line with practices in the UK and with several recently adopted schemes for large JSE listed or dual listed companies.

Description of the schemes

FirstRand share incentive scheme

The rules of the FirstRand share scheme ("the scheme") are constituted in the FirstRand Limited share trust.

The purpose of the scheme is to increase the proprietary interests of identified employees in the FirstRand Group's success and to encourage them to render and continue to render their best services to the Bank. Options over FirstRand Limited ordinary shares are granted by the trust to these employees.

The sale of shares arising from the exercise of options may only be exercised as to one third of the total number of options issued after the third year, two thirds after the fourth year and all of the shares on the fifth anniversary of the date of issue.

FirstRand black economic empowerment trusts

FirstRand Limited is committed to the process of achieving transformation in South Africa and in creating its transformation initiative sought to ensure that the long term benefits of the transaction reach the widest possible community of black South Africans.

171.4 million shares, representing approximately 3.1% of the issued share capital of FirstRand Limited, are held by the BEE trusts which have granted participation to black South African directors and employees.

- 20.0 million shares to the FirstRand staff assistance trust.
- 136.4 million shares to the FirstRand Black Employee Trust (subject to IFRS 2).
- 15.0 million shares to the FirstRand Black Non Executive Directors' Trust (subject to IFRS 2).

27. REMUNERATION SCHEMES *continued*

FirstRand Black Employee Trust

This trust was set up specifically for the benefit of the black employees. The participation in this trust is in addition to participation in any existing FirstRand share incentive scheme.

The issues of participation rights in the trust was made as follows:

- first issue on 20 July 2005
- second issue on 1 November 2006
- third issue on 3 December 2007
- last issue on 30 April 2010

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.

Distribution takes place at 31 December 2014.

FirstRand Share Appreciation Right Scheme

The purpose of this scheme is to provide identified Bank 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 Group's 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 year, two thirds after the fourth year and all of the shares by the fifth anniversary of the date of grant, provided that the performance objectives set for the grant have been achieved.

Conditional share plan

The conditional award comprises a number of full free shares that will vest conditionally over a period of three years. The number of shares that vest is determined by the 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, which will be set annually by the Group's Remuneration committee.

Forfeitable share plan

The forfeitable share is a remuneration scheme that grants selected employees full free shares which will vest over a period of two years.

Selected employees are awarded shares which are forfeited if the employee leaves the employment of the FirstRand Group before the end of the vesting period of two years. During the two year vesting period the shares are held in trust for the employees and all dividends accrue to the employees for the duration of the vesting period.

Coinvestment arrangement

A coinvestment arrangement was established whereby certain key executives and decision makers of the FirstRand Group are allowed to coinvest with FirstRand Limited in certain pre defined portfolios.

The rationale for the coinvestment 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 coinvest with FirstRand Limited buy into the 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 coinvestment arrangement encourages a long term perspective and commitment from employees. The arrangement also encourages executives to remain in the employ of the FirstRand group of companies in excess of three years, as the value of the underlying investments are expected to realise over a longer time frame.

The FirstRand Group Remuneration Committee determines annually:

- The portfolios in which coinvestment will be allowed;
- The level of coinvestment allowed; and
- Which key executives and decision makers qualify for co-investment.

The amounts invested by key management personnel have been included in note 37 Related parties.

27. REMUNERATION SCHEMES *continued*

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;
- The last dividend date is the ex date of the last dividend; and
- The dividend growth is the annual expected dividend growth, which should be based on publicly available information.

Employee statistic assumptions:

- Annual employee turnover is the average annual rate that employees participating in the option scheme are expected to leave before the options have vested.
- The number of iterations is the number to be used in the binomial model, which is limited to 500.
- The weighted average number of forfeitures is based on the major grants as these grants have a more reliable forfeiture pattern.

FirstRand black employee trust

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

Market data consists of the following:

- Volatility is the expected volatility over the period of the option. In the absence of other available data, historical volatility can be used as a proxy for expected volatility.
- The interest rate used was the RMB forward prime curve (extrapolated where necessary) as the funding of the option is linked to the prime lending rate.

Dividend data consists of the following:

- A fixed dividend yield was assumed.

Employee statistic assumptions:

- The weighted average forfeiture rate used is based on historical forfeiture data for this scheme.

FirstRand black non executive directors' trust

The FirstRand Black non executive directors' trust is valued on the same methodology as used for the FirstRand black employee trust, except that a zero % weighted average forfeiture rate was used due to limited participants in the scheme.

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 is therefore 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 was used as a proxy.
- 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.

27. 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.

Conditional share plan

The conditional share plan is valued as an European option using the Black Scholes model. The scheme is cash settled and will thus be repriced at each reporting date.

Market and dividend data consists of the following:

- Volatility is the expected volatility over the period of the plan, and historical volatility was used as a proxy for expected volatility.
- The interest rate is the risk free rate of return as recorded on the last day of the financial year, on a swap curve of a term equal to the expected life of the plan.
- A fixed dividend yield was assumed, based on the average historic dividend yield over a similar period.

Employee statistic assumptions:

The weighted average forfeiture rate used is based on historical forfeiture data over all schemes.

Forfeitable share plan

The forfeitable share plan is valued as an European option using the Black Scholes model. The scheme is cash settled and will thus be repriced at each reporting date.

Market and dividend data consist of the following:

- Volatility is the expected volatility over the period of the plan, and historical volatility was used as a proxy for expected volatility.
- The interest rate is the risk free rate of return as recorded on the last day of the financial year, on a swap curve of a term equal to the expected life of the plan.
- A fixed dividend yield was assumed, based on the average historic dividend yield over a similar period.

Employee statistic assumptions:

- No forfeiture rate is used due to the short duration of the scheme.

27. REMUNERATION SCHEMES *continued*

The significant weighted average assumptions used to estimate the fair value of options and share awards granted and the IFRS 2 expenses for the year under review are:

	FirstRand Share Incentive Scheme	FirstRand Black Employee Trust	FirstRand Black Non Executive Directors' Trust	FirstRand Share Apprecia-tion Right Scheme**	Conditional share plan	Forfeitable share plan
2010						
Weighted average share price (Rands)	**12.37 – 16.09**	**12 .05 – 24.60**	**12.28 – 17.60**	**14.01**	**–**	**–**
Expected volatility (%)	**23 – 29**	**27 – 49**	**23 – 33**	**34 – 42**	**42**	**30**
Expected option life (years)	**5**	**7 – 10**	**10**	**5**	**3**	**2 – 3**
Expected risk free rate (%)	**7.50 – 8.02**	**6.91 – 9.9**	**6.91**	**6.72 – 7.49**	**7.05**	**7.05**
Expected dividend yield (%)	**–**	**3.81 – 6.88**	**3.44 – 4.04**	**4.21 – 4.83**	**4.82**	**3.95**
Expected dividend growth (%)	**20**	**–**	**–**	**–**	**–**	**–**
2009						
Weighted average share price (Rands)	7.70 – 19.49	12.05 – 24.60	12.28 – 17.60	–	–	–
Expected volatility (%)	27 – 33	27 – 49	27	–	–	–
Expected option life (years)	5	7 – 10	10	–	–	–
Expected risk free rate (%)	7.42 – 9.36	6.91 – 9.9	6.91	–	–	–
Expected dividend yield (%)	–	3.81 – 6.88	3.81	–	–	–
Expected dividend growth (%)	20.00 – 22.87	–	–	–	–	–

** *Some share appreciation rights granted are subject to other vesting conditions that are highly unlikely to be achieved.*

27. REMUNERATION SCHEMES *continued*

	FirstRand (FSR shares)	FNB (FSR shares)
Number of options and share awards in force at the beginning of the year (millions)	61.6	–
Granted at prices ranging between (cents)	608 – 1 609	–
Weighted average (cents)	1 353	–
Number of options and share awards granted during the year (millions)	–	–
Granted at prices ranging between (cents)	–	–
Weighted average (cents)	–	–
Number of options and share awards exercised/released during the year (millions)	(33.6)	–
Market value range at date of exercise/release (cents)	1 438 – 2 100	–
Weighted average share price for the year (cents)	1 778	–
Number of options and share awards cancelled/lapsed during the year (millions)	(2.6)	–
Granted at prices ranging between (cents)	1 050 – 1 533	–
Weighted average (cents)	1 389	–
Number of options and share awards in force at the end of the year (millions)	25.4	–
Granted at prices ranging between (cents)	1 237 – 1 609	–
Weighted average (cents)	1 533	–
Options and share awards are exercisable over the following periods (first date able to release)		
Financial year 2007/2008 (millions)	–	–
Financial year 2008/2009 (millions)	6.4	–
Financial year 2009/2010 (millions)	7.4	–
Financial year 2010/2011 (millions)	11.6	–
Financial year 2011/2012 (millions)	–	–
Financial year 2012/2013 (millions)	–	–
Financial year 2013/2014 (millions)	–	–
Financial year 2014/2015 (millions)	–	–
Total	25.4	–

	2010				
	FirstRand Share Appreciation Right scheme (FSR shares)	FirstRand Black Employee Trust (FSR shares)	FirstRand Black Non Executive Directors' Trust	Conditional share plan	Forfeitable share plan
	206	94.4	3	–	–
	1 138 – 2 305	1 205 – 2 460	1 228 –1 760	–	–
	1 619	1 557	1 405	–	–
	0.3	29.6	–	36.5	15.2
	1 651	1 305 – 2 026	–	–	–
	1 651	2 002	–	–	–
	–	–	(1)	–	–
	–	–	1 228	–	–
	–	–	1 228	–	–
	(20.5)	(8.1)	–	(0.8)	(0.5)
	1 401 – 2 233	1 228 – 2 355	–	–	–
	1 628	1 727	–	–	–
	185.8	115.9	2	35.7	14.7
	1 138 – 2 305	1 205 – 2 460	1 228 – 1 760	–	–
	1 617	1 667	1 494	–	–
	–	–	–	–	–
	–	–	–	–	–
	14.6	–	–	–	–
	29.5	–	–	–	–
	61.8	–	–	–	14.1
	47.3	–	–	35.7	0.6
	32.5	–	–	–	–
	0.1	115.9	2	–	–
	185.8	115.9	2	35.7	14.7

27. REMUNERATION SCHEMES *continued*

	2010								
	FirstRand (FSR shares)			FirstRand (FSR shares)			FirstRand Share Appreciation Right Scheme (FSR shares)		
Options and share awards outstanding (by expiry date)	Expiry date	Exercise price (Rand)	Outstanding options 2010 Million	Expiry date	Exercise price (Rand)	Outstanding options 2009 Million	Expiry date	Exercise price (Rand)	Outstanding options 2009 Million
							2011/10/01	16.33	42.1
							2011/12/01	18.15	*
							2012/02/27	23.05	0.2
	2010/03/01	12.37	0.1				2012/03/15	20.88	0.3
							2012/04/01	22.98	0.6
							2012/06/15	22.12	0.6
							2012/10/01	20.53	44.3
	2010/10/03	15.33	25.2				2013/03/04	17.99	0.1
							2013/11/03	14.01	96.9
							2014/03/16	11.38	0.1
	2010/11/15	15.38	0.1				2014/05/01	13.05	0.3
							2014/10/01	16.51	0.3
	2011/06/01	16.09	0.1						
			25.5			–			185.8
Total options – in the money and share awards (millions)			25.4			–			97.5
Total options outstanding – out of the money (millions)			0.0			–			88.3**
Total options and share awards (millions)			25.4			–			185.8
Value of company loans to share option trust at the beginning of the year (R million)			1 282			20			2 156
Value of company loans to share option trust at the end of the year (R million)			901			–			1 984
Number of participants			740			–			1 694

* *Less than R1 million.*

** *Some share appreciation rights granted are subject to other vesting conditions that are highly unlikely to be achieved.*

*** *The employees are awarded the shares, there is therefore no strike price associated with the awards made under the conditional or forfeitable share plan.*

	2010									
	FirstRand Black Employee Trust			FirstRand Black Non Executive Directors' Trust (FSR shares)			Conditional share plan (FSR shares)***		Forfeitable share plan (FSR shares)***	
	Expiry date	Exercise price (Rand)	Outstanding options 2009 Million	Expiry date	Exercise price (Rand)	Outstanding options 2009 Million	Expiry date	Outstanding options 2010 Million	Expiry date	Outstanding options 2010 Million
	2014/12/31	12.05	0.2	2014/12/31	12.28	1.0			2011/09/15	14.1
	2014/12/31	12.06	0.2	2014/12/31	17.60	1.0			2012/09/15	0.6
	2014/12/31	12.28	52.5							
	2014/12/31	13.05	0.4							
	2014/12/31	13.65	0.1							
	2014/12/31	14.00	0.2							
	2014/12/31	14.70	0.2							
	2014/12/31	15.66	0.1							
	2014/12/31	15.88	0.1							
	2014/12/31	16.00	*							
	2014/12/31	16.42	0.5							
	2014/12/31	16.50	*							
	2014/12/31	16.51	0.4							
	2014/12/31	17.37	0.6							
	2014/12/31	17.81	0.1							
	2014/12/31	18.19	*							
	2014/12/31	18.62	12.8							
	2014/12/31	18.72	0.1							
	2014/12/31	19.81	*							
	2014/12/31	20.26	28.0							
	2014/12/31	21.50	0.2							
	2014/12/31	22.10	0.1							
	2014/12/31	22.34	17.8							
	2014/12/31	22.60	0.1							
	2014/12/31	22.80	0.5							
	2014/12/31	23.35	0.1							
	2014/12/31	23.75	0.1							
	2014/12/31	24.60	0.5				2012/09/17	35.7		
			115.9			2.0		35.7		14.7
			55.7			2.0		35.7		14.7
			60.2			–		–		–
			115.9			2.0		35.7		14.7
			1 812			206		–		–
			1 888			214		–		273
			11 165			3		1 561		121

27. REMUNERATION SCHEMES *continued*

	FirstRand (FSR shares)
Number of options in force at the beginning of the year (million)	96.6
Granted at prices ranging between (cents)	608 – 1 609
Weighted average (cents)	1 188
Number of options granted during the year (million)	–
Granted at prices ranging between (cents)	–
Weighted average (cents)	–
Number of options exercised/released during the year (million)	(27.6)
Market value range at date of exercise/release (cents)	1 128 – 1 745
Weighted average share price for the year (cents)	1 430
Number of options cancelled/lapsed during the year (million)	(7.4)
Granted at prices ranging between (cents)	608 – 1533
Weighted average (cents)	1 379
Number of options in force at the end of the year (million)	61.6
Granted at prices ranging between (cents)	608 – 1 609
Weighted average (cents)	1 353
Options are exercisable over the following periods (first date able to release)	
Financial year 2006/2007 (million)	–
Financial year 2007/2008 (million)	4.4
Financial year 2008/2009 (million)	20.3
Financial year 2009/2010 (million)	23.6
Financial year 2010/2011 (million)	13.3
Financial year 2011/2012 (million)	–
Financial year 2012/2013 (million)	–
Financial year 2013/2014 (million)	–
Financial year 2014/2015 (million)	–
Total	61.6

2009			
FNB (FSR shares)	FirstRand Share Application Rights Scheme (FSR shares)	FirstRand Black Employee Trust (FSR shares)	FirstRand Black Non Executive Directors' Trust
1.7	113.7	109.0	3.0
424 – 508	1 633 – 2 305	1 228 – 2 520	1 228 – 1 760
468	1 856	1 574	1 405
–	111.1	1.4	–
–	1 138 – 1401	1 205 – 1 605	–
–	1 401	1 432	–
(1.7)	–	–	–
1 135 – 1 680	–	–	–
1 430	–	–	–
–	(18.8)	(16.0)	–
–	1 401 – 2 053	1 228 –2 520	–
–	1 733	1 642	–
–	206.0	94.4	3.0
–	1 138 – 2 305	1 205 – 2 460	1 228 – 1 760
–	1 619	1 557	1 405
–	–	–	–
–	–	–	–
–	–	–	–
–	16.1	–	–
–	32.9	–	–
–	68.7	–	–
–	52.5	–	–
–	35.8	–	–
–	–	94.4	3.0
–	206.0	94.4	3.0

27. REMUNERATION SCHEMES *continued*

Options outstanding (by expiry date)	FirstRand (FRS shares)			FNB (FSR shares)		
	Expiry date	Exercise price (Rand)	Outstanding options 2009 Million	Expiry date	Exercise price (Rand)	Outstanding options 2009 Million
	2008/09/17	6.08	0.2			
	2009/10/01	10.50	21.2			
	2009/11/15	10.87	0.1			
	2010/03/01	12.37	0.2			
	2010/03/15	12.32	0.2			
	2010/06/15	12.78	0.1			
	2010/10/03	15.33	37.3			
	2010/10/20	13.29	2.0			
	2010/11/15	15.38	0.2			
	2011/06/01	16.09	0.1			
			61.6			–
Total options – in the money and share awards (million)			24.0			–
Total options outstanding – out of the money (million)			37.6			–
Total options and share awards (million)			61.6			–
Value of company loans to share option trust at the beginning of the year (R million)			1 513			20
Value of company loans to share option trust at the end of the year (R million)			1 282			–
Number of participants			1 025			–

* *Less than R1 million.*

** *Share appreciation rights granted are subject to other vesting conditions that are highly unlikely to be achieved.*

	FirstRand Share Application Rights Scheme			FirstRand Black Employee Trust			FirstRand Black Non Executive Directors*		
	Expiry date	Exercise price (Rand)	Outstanding options 2009 Million	Expiry date	Exercise price (Rand)	Outstanding options 2009 Million	Expiry date	Exercise price (Rand)	Outstanding options 2009 Million
	2011/10/01	16.33	46.6	2014/12/31	12.05	0.2	2014/12/31	12.28	2.0
	2011/12/01	18.15	0.1	2014/12/31	12.06	0.2	2014/12/31	17.60	1.0
	2012/02/27	23.05	0.2	2014/12/31	12.28	56.2			
	2012/03/01	22.33	*	2014/12/31	13.05	0.3			
	2012/03/15	20.88	0.4	2014/12/31	14.70	0.2			
	2012/04/01	22.98	0.6	2014/12/31	14.91	1.0			
	2012/06/15	22.12	0.6	2014/12/31	15.66	0.1			
	2012/10/01	20.53	50.1	2014/12/31	16.00	*			
	2013/03/04	17.99	0.1	2014/12/31	16.42	0.5			
	2013/11/03	14.01	106.9	2014/12/31	16.50	0.1			
	2014/03/16	11.38	0.1	2014/12/31	17.81	0.1			
	2014/05/01	13.05	0.3	2014/12/31	18.62	14.0			
				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	0.1			
				2014/12/31	22.34	19.7			
				2014/12/31	22.60	0.1			
				2014/12/31	22.80	0.5			
				2014/12/31	23.35	0.1			
				2014/12/31	23.55	0.1			
				2014/12/31	23.75	0.1			
				2014/12/31	24.60	0.5			
			206.0			94.4			3.0
			–**			56.9			2.0
			206			37.5			1.0
			206			94.4			3.0
			1 906			1 714.0			186.0
			2 156			1 812.0			205.5
			1 891			11 350.0			3

28. CASH FLOW INFORMATION

R million	2010	2009
28.1 Reconciliation of operating profit before income tax to cash flows from operating activities		
Operating profit before income tax	7 231	4 364
Adjusted for:		
– Depreciation, amortisation and impairment costs	1 653	1 102
– Impairment of advances	5 115	7 578
– Movement in provisions	1 948	1 283
– Loss on disposal of property and equipment	4	9
– (Profit)/loss on disposal of investments	(391)	29
– Deferred expenses and income	(398)	(247)
– Share based payment income/(expense)	544	(26)
– Net fair value loss on financial assets through profit or loss	6	303
– Accruals	(6)	5
– Present value adjustments	(248)	(391)
– Foreign currency translation reserve	8	(7)
– Profit/(loss) on available for sale assets and cash flow hedges transferred	432	(399)
– Dividends from other investments	(2 441)	(3 283)
Net cash flows from operating activities	13 457	10 320
28.2 Cash receipts from customers		
Interest income	34 049	46 223
Fee and commission income	13 724	12 814
Trading and other income	5 570	2 164
Cash receipts from customers	53 343	61 201
28.3 Cash paid to customers, suppliers and employees		
Interest expense	(22 953)	(34 857)
Other operating expenses	(16 933)	(16 024)
Cash paid to customers, suppliers and employees	(39 886)	(50 881)
28.4 Increase in income earning assets		
Liquid assets and trading securities	(12 663)	(15 221)
Advances	(20 855)	8 291
Net funding from fellow subsidiary companies	6 502	3 193
Increase in income earning assets	(27 016)	(3 737)
28.5 Increase/(decrease) in deposits and other liabilities		
Term deposits	19 648	10 927
Current deposit accounts	(2 041)	15 024
Deposits from banks	12 420	(7 294)
Negotiable certificates of deposits	(7 537)	1 149
Savings accounts	(95)	149
Creditors, net of debtors	269	1 225
Other	(3 462)	(22 484)
Increase/(decrease) in deposits and other liabilities	19 202	(1 304)

28. CASH FLOW INFORMATION *continued*

R million	2010	2009
28.6 Tax paid		
Indirect tax paid	(403)	(395)
Tax receivable at beginning of the year	469	261
Deferred tax included in tax charge	(138)	(702)
Charge to income statement	(1 258)	(83)
Tax refundable at end of the year	(741)	(469)
Other	–	1
Tax paid	(2 071)	(1 387)
28.7 Dividends paid		
Charged to distributable reserves	(2 497)	(3 132)
Dividends paid	(2 497)	(3 132)
28.8 Cash and cash equivalents		
Cash and cash equivalents consist of cash on hand and balances with banks, and other investments in money market instruments. Cash and cash equivalents included in the cash flow statement comprise the following statement of financial position amounts:		
Cash and short term funds	22 745	20 980
Cash and cash equivalents	22 745	20 980

29. CONTINGENCIES AND COMMITMENTS

R million	2010	2009
Contingencies and commitments		
Guarantees*	26 054	22 610
Acceptances	299	279
Letters of credit	5 362	5 436
Total contingencies	31 715	28 325
Underwriting exposures	–	2
Committed capital expenditure	2 026	1 466
Lease payments	1 889	2 370
Irrevocable commitments	48 692	53 167
Other	5 078	4 180
Total contingencies and commitments	89 400	89 510

* *Guarantees consist predominantly of endorsements and performance guarantees.*

* *Guarantees reported above include guarantees of R4 068 million (June 2009: R5 337 million) granted to other FirstRand Group Companies.*

29. CONTINGENCIES AND COMMITMENTS *continued*

R million	2010	2009
Other contingencies		
The Bank is exposed to various actual or potential claims.		
Legal proceedings		
There are a number of legal or potential claims against the Bank, the outcome of which cannot at present be foreseen. These claims are not regarded as material either on an individual or a Bank basis. Provision is made for all liabilities which are expected to materialise.	44	129
Claims		
– The Bank has contingent liabilities in respect of certain outstanding claims.	150	150
– The Bank has reciprocal claims against other institutions. These claims qualify as contingent assets.	(134)	(134)
Commitments		
Commitments in respect of capital expenditure and long term investments approved by directors:		
– Total contracted for	165	304
– Total not contracted for	1 861	947
Made up of the following:		
Capital commitments contracted for at the reporting date but not yet incurred are as follows:		
– Property and equipment and intangible assets	165	304
Capital commitments not yet contracted for at the reporting date but have been approved by the directors:		
– Property and equipment and intangible assets	1 861	947

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

Bank commitments under operating leases where the Bank is the lessee:

The Bank'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 limited and these have an insignificant impact on the contingencies and commitments.

The leases are non cancellable.

The Bank has various operating lease agreements, which may or may not contain renewal options.

	2010		
R million	Next year	2nd to 5th year	After 5th year
Office premises	614	1 064	15
Equipment and motor vehicles	55	39	2
Total operating lease commitments	669	1 103	17

	2009		
R million	Next year	2nd to 5th year	After 5th year
Office premises	871	1 122	39
Recoverable under subleases	(1)	(2)	–
Equipment and motor vehicles	75	139	2
Total operating lease commitments	945	1 259	41

30. COLLATERAL PLEDGED AND HELD

R million	2010	2009
30.1 Collateral pledged		
The Bank has pledged assets as security for the following liabilities:		
Deposits held under repurchase agreements	**41 091**	33 239
Other	**1 874**	6 275
Total	**42 965**	39 514

The Bank pledges assets under the following terms and conditions:
Mandatory reserve deposits are also held with the central bank in accordance with statutory requirements. These deposits are not available to finance the Bank's day to day operations.

Assets are pledged as collateral under repurchase agreements with other banks and for security deposits relating to local futures and options.

Collateral in the form of cash and other investment securities is pledged when the Bank borrows equity securities from third parties.

These transactions are conducted under the terms and conditions that are usual and customary to standard securities lending arrangements.

All other pledges are conducted under terms which are usual and customary to lending arrangements.

R million	2010	2009
Assets pledged to secure the above liabilities are carried at and included under the following:		
Cash and short term funds	**1 874**	6 429
Investment securities and other securities held under repurchase agreements	**17 232**	19 132
Total	**19 106**	25 561

30.2 Collateral held

Under the standard terms for certain of the securities lending arrangements which the Bank enters into, the recipient of collateral has an unrestricted right to sell or repledge the assets in the absence of default but subject to the Bank returning equivalent securities on settlement of the transaction.

Collateral the Bank holds which it has the ability to sell or repledge in the absence of default by the owner of the collateral

	2010		2009	
R million	Fair value	Fair value of collateral sold or repledged	Fair value	Fair value of collateral sold or repledged
Cash and short term funds	**10 795**	**1 836**	8 183	–
Advances	**38 108**	**30 119**	25 999	25 710
Investment securities	**2 137**	**2 137**	3 337	2 892
Total	**51 040**	**34 092**	37 519	28 602

When the Bank takes possession of collateral which is not cash or not readily convertible into cash the Bank determines a minimum sale amount ("pre set sale amount") and auctions the asset for the pre set sale amount. Where the Bank is unable to obtain the pre set sale amount in an auction the Bank will continue to hold the asset while actively marketing it to ensure an appropriate value is obtained.

30. COLLATERAL PLEDGED AND HELD *continued*

30.2 Collateral held *continued*

Collateral taken possession of and recognised on the statement of financial position

R million	2010	2009
Property	**502**	165
Total	**502**	165

31. LOANS AND RECEIVABLES DESIGNATED AS AT FAIR VALUE THROUGH PROFIT OR LOSS

Certain instruments designated at fair value meet the definition for classification as loans and receivables in terms of IAS 39 were it not for this designation.

The table below contains details on the change in credit risk attributable to these instruments.

			2010			
			Change in fair value			
			Of mitigating instruments		Due to credit risk	
R million	Carrying value	Mitigated credit risk*	Current period	Cumulative	Current period	Cumulative
Included in advances	**111 975**	**–**	**–**	**–**	**(439)**	**(1 175)**
Included in investment securities	**24 375**	**–**	**–**	**–**	**–**	**–**
Total	**136 350**	**–**	**–**	**–**	**(439)**	**(1 175)**

			2009			
			Change in fair value			
			Of mitigating instruments		Due to credit risk	
R million	Carrying value	Mitigated credit risk*	Current period	Cumulative	Current period	Cumulative
Included in advances	93 443	22	–	–	(37)	(736)
Included in investment securities	13 327	–	–	–	–	–
Total	106 770	22	–	–	(37)	(736)

* *The notional amount by which any credit derivatives or similar instruments mitigate the maximum exposure to credit risk. Losses are indicated with a ( ).*

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 modelled credit spreads.

32. FINANCIAL LIABILITIES DESIGNATED AS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2010			
			Change in fair value due to credit risk	
R million	**Fair value**	**Contractually payable at maturity**	**Current period**	**Cumulative**
Deposits and current accounts	**206 293**	**206 064**	**–**	**2**
Long term liabilities	**904**	**1 047**	**8**	**29**
Total	**207 197**	**207 111**	**8**	**31**

	2009			
			Change in fair value due to credit risk	
R million	Fair value	Contractually payable at maturity	Current period	Cumulative
Deposits and current accounts	189 726	182 416	3	3
Long term liabilities	1 870	1 849	21	21
Total	191 596	184 265	24	24

The current and cumulative change in fair value that is attributable to credit risk of financial liabilities designated at fair value through profit or loss is determined with reference to changes in the Bank's published credit rating.

33. DERECOGNITION OF ASSETS, SECURITISATIONS AND OTHER STRUCTURED TRANSACTIONS

In the normal course of business the Bank enters into transactions in terms of which it transfers financial assets directly to third parties or to special purpose entities. These transfers may give rise to the full or partial derecognition of the financial asset concerned.

- Full derecognition occurs when the Bank transfers its contractual right to receive cash flows from the financial assets and substantially all the risks and rewards of ownership. The risks include credit, interest rate, currency, prepayment and other price risks.
- Partial derecognition occurs when the Bank sells or otherwise transfers financial assets in such a way that some but not substantially all of the risks and rewards of ownership are transferred but control is retained.

These financial assets are recognised on the statement of financial position to the extent of the Bank's continuing involvement.

The majority of transferred financial assets that do not qualify for derecognition are debt securities given to counterparties as collateral under repurchase agreements or equity securities lent under securities lending agreements.

The table below sets out the asset classes together with the carrying amounts of the assets and associated liabilities for those asset transfers where substantially all of the risks and rewards of the assets have been retained by the Bank:

	2010		2009	
R million	**Carrying amount of assets**	**Carrying amount of associated liability**	Carrying amount of assets	Carrying amount of associated liability
Assets under agreements to repurchase				
Investment securities	**17 232**	**18 366**	19 132	19 048
Total	**17 232**	**18 366**	19 132	19 048

The Bank remains exposed to the interest rate risk on the repurchase agreements and market risk on the securities lending agreements.

34. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of a financial instrument is defined as the amount at which the instrument could be exchanged in a market transaction between knowledgeable willing parties. When determining fair value it is presumed that the entity is a going concern and the fair value is therefore not an amount that represents a forced transaction, involuntary liquidation or a distressed sale.

When determining the fair value of a financial instrument, preference is given to prices quoted in an active market. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis.

If a particular instrument is not traded in an active market the Bank uses a valuation technique to determine the fair value of the financial instrument. The valuation techniques employed by the Bank include quoted prices for similar assets or liabilities in an active market, quoted prices for the same asset or liability in an inactive market, adjusted prices from recent arm's length transactions, option pricing models and discounted cash flow techniques.

The objective of using a valuation technique is to determine what the transaction price would have been at the measurement date. Therefore maximum use is made of inputs that are observable in the market and entity specific inputs are only used when there is no market information available. All valuation techniques take into account the relevant factors that other market participants would have considered in setting a price for the financial instrument and are consistent with accepted methodologies for pricing financial instruments.

The Bank classifies instruments measured at fair value using a fair value hierarchy that reflects the significance of the inputs used. The Bank's fair value hierarchy has the following levels:

Level 1 – Fair value is determined using unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Fair value is determined using inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (derived from prices); and

Level 3 – Fair value is determined using a valuation technique and inputs that are not based on observable market data (i.e. unobservable inputs).

The following principal methods and assumptions are used to determine the fair value of financial instruments:

Investment securities

Unlisted equities

The fair value of unlisted equities is generally determined using a price earnings (P/E) model.

The earnings included in the model are derived from a combination of historical and budgeted earnings depending on the specific circumstances of the entity whose equity is being valued and the relevance and reliability of the available information.

The P/E multiple is derived from current market observations taking into account an appropriate discount for unlisted companies. The valuation of these instruments may be corroborated by a discounted cash flow valuation or by the observation of other market transactions which have taken place.

Negotiable certificates of deposit

Where market prices are not available for a specific instrument, fair value is determined using discounted cash flow techniques. Inputs to these models include as far as possible information which is consistent with similar market quoted instruments.

Treasury bills

Treasury bills are valued by means of the Bond Exchange of South Africa ("BESA") bond pricing model using the closing BESA mark to market bond yield.

Government, public and utility stocks

Where market prices are not available the fair value is estimated using quoted market prices of securities with similar credit, maturity and yield characteristics.

Other dated securities

Fair value of other dated securities is determined by using a discounted cash flow model. The discount curve is derived from similar market quoted instruments.

Derivatives

Contracts for difference are valued by using the differential between the market price and the traded price multiplied by the notional amount.

Market prices are obtained from applicable trading exchanges.

Credit derivatives are valued using the discounted cash flow model. Where prices are obtained from the market, individual credit spreads are added.

Option contracts are valued using the Black Scholes model. Inputs are obtained from market observable data. Where prices are obtainable from trading exchanges the value per the exchange is used.

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 swap leg is determined in terms of legal documents pertaining to the swap.

Commodity linked instruments are measured by taking into account the price, the location differential, grade differential, silo differential and the discount factor of the most liquidly traded futures linked to the commodity.

Deposits and current accounts

Fair value of deposits and current accounts is determined by discounting future cash flows using a swap curve adjusted for liquidity premiums and business unit margins. The valuation methodology does not take early withdrawals and other behavioural aspect into account.

Call deposits are valued at the undiscounted amount of the cash balance, this is considered appropriate because of the short term nature of these instruments.

Fair valuation will only be applied to deposits that have a maturity profile of longer than 30 days. For all non term products it is assumed that fair value equals the amortised cost.

Loans and advances to customers

The Bank has elected to designate the term loan book in the Investment Banking Division at fair value through profit or loss. The fair value is determined using a valuation technique that uses both inputs that are based on observable market data and unobservable data.

The interest rate component of the valuation uses observable inputs from market interest rate curves. To calculate the fair value of credit the Bank uses a valuation methodology based on the credit spread matrix, that considers loss given default, tenor and the internal credit committee rating criteria.

Although the fair value of credit is not significant year on year it may become significant in the future. For this reason, together with the fact that South Africa does not have actively traded credit spreads, the Bank has classified loans and advances to customers in Level 3 of the fair value hierarchy.

Long term liabilities

Fair value of debentures, unsecured debt securities and finance lease liabilities are determined by discounting the future cash flows at market related interest rates.

The fair value of subordinated notes and fixed and floating rate bonds are determined by discounting the future cash flows at market related interest rates.

The fair value of the post retirement funding liability has been calculated based on the value of the corresponding assets, since the value of the liability is limited to the value of the assets in the cell captive.

Liabilities arising on third parties from collective investment schemes

The fair value of these liabilities is the quoted unit price for the collective investment scheme multiplied by the number of units held by third parties.

Policyholder liabilities under investment contracts

Refer to the accounting policies for a description of the valuation of investment contracts.

34. FAIR VALUE OF FINANCIAL INSTRUMENTS *continued*

The following table presents the financial instruments recognised at fair value in the statement of financial position of the Bank.

	2010			
R million	Level 1	Level 2	Level 3	Total carrying amount
Assets				
Advances	–	38 541	73 734	112 275
Derivative financial instrument	–	38 944	–	38 944
Investment in securities and other investments	39 978	38 290	1 711	79 979
Amounts due by holding company and fellow subsidiary companies	–	113	–	113
Total financial assets recognised at fair value	39 978	115 888	75 445	231 311
Liabilities				
Deposits	–	203 276	3 017	206 293
Short trading positions	7 469	–	–	7 469
Derivative financial instruments	–	35 152	133	35 285
Long term liabilities	–	904	–	904
Amounts due to holding company and fellow subsidiary companies	–	86	–	86
Total financial liabilities at fair value	7 469	239 418	3 150	250 037

There were no transfers out of Level 2 and into Level 1, or out of Level 1 and into Level 2, during the year ended June 2010.

Changes in Level 3 fair value instruments

The Bank classifies financial instruments in Level 3 of the fair value hierarchy when the significant inputs to the valuation model are not observable. In addition to the valuation model for Level 3, financial instruments typically also rely on a number of inputs that are readily observable either directly or indirectly. Thus, the gains and losses presented below include changes in the fair value related to both observable and unobservable inputs.

The following table shows a reconciliation of the beginning and ending balances for financial instruments classified as Level 3 in terms of the fair value hierarchy:

	2010				
R million	Fair value on June 2009	Gains or losses recognised in the income statement	Gains or losses recognised in other comprehensive income	Purchases, sales, issues and settlements	Fair value on June 2010
Assets					
Advances	65 460	5 713	–	2 561	73 734
Investment securities and other investments	1 437	173	10	91	1 711
Total financial assets recognised at fair value	66 897	5 886	10	2 652	75 445
Liabilities					
Deposits	2 561	(5)	–	461	3 017
Derivative financial instruments	381	87	–	(335)	133
Total financial liabilities at fair value	2 942	82	–	126	3 150

During the year ended June 2010 there were no transfers out of or into Level 3.

34. FAIR VALUE OF FINANCIAL INSTRUMENTS *continued*

The table below presents the total gains/(losses) relating to financial instruments classified in Level 3 that are still held on 30 June. The Bank includes these gains or losses (including derivative instruments that do not qualify for hedge accounting in terms of IAS39), as well as trading related financial instruments designated at fair value through profit or loss as fair value income in non interest income. Trading related financial instruments designated at fair value through profit or loss exclude instruments relating to the Bank's insurance operations and the Bank's funding requirements.

	2010		
R million	Gains or losses recognised in the income statement	Gains or losses recognised in other comprehensive income	Total gains or loss
Assets			
Advances	4 853	–	4 853
Investment securities and other investments	120	5	125
Total	4 973	5	4 978
Liabilities			
Derivative financial instruments	(94)	–	(94)
Total	(94)	–	(94)

The following represents the fair values of financial instruments not carried at fair value on the statement of financial position.

For all other instruments the carrying value is equal to or a reasonable approximation of the fair value.

	2010	
R million	Carrying value	Fair value
Assets		
Total advances at amortised cost	**288 883**	288 472
Total assets at amortised cost	**288 883**	288 472
Liabilities		
Total deposits and current accounts at amortised cost	**247 466**	247 685
Long term liabilities	**4 864**	4 636
Total liabilities at amortised cost	**252 330**	252 321

34. FAIR VALUE OF FINANCIAL INSTRUMENTS *continued*

Effect of changes in significant unobservable assumptions in the reasonably possible alternatives

As described above, the fair value of instruments that are classified in Level 3 of the fair value hierarchy is determined using valuation techniques that make use of significant inputs that are not based on observable market data. The inputs into these valuation techniques are derived from all available information and management's judgement. While management believes that these fair values are appropriate they could be sensitive to changes in the assumptions used to derive the inputs. The table below illustrates the sensitivity of the significant inputs when they are changed to reasonably possible alternative inputs:

	2010				
				Reasonably possible alternative fair value	
R million	Significant unobservable inputs	Reasonably possible changes to significant unobservable inputs	Fair value	Using more positive assumptions	Using more negative assumptions
Assets					
Advances	Credit	Credit migration matrix*	**73 734**	**73 754**	**73 516**
Investment in securities and other investments	Growth rates and P/E ratios of unlisted investments	Unobservable inputs are increased and decreased by 10%.	**1 711**	**1 819**	**1 603**
Total financial assets recognised at fair value			**75 445**	**75 573**	**75 119**
Liabilities					
Deposits	Credit risk of the cash collateral leg of credit linked notes	Credit migration matrix**	**3 017**	**2 715**	**3 319**
Derivative financial instruments	Volatilities	Volatilities are increased and decreased by 10%.	**133**	**109**	**147**
Total financial liabilities at fair value			**3 150**	**2 824**	**3 466**

* *The credit migration matrix is used as part of the Bank's credit risk management process for the advances measured at fair value through profit or loss. The matrix is a simulation model that contains a matrix of probabilities for downgrading or upgrading to another rating bucket. The migration matrix is based on actual observed rating migrations from S&P over the long term and is based on the fair value in the 75th percentile.*

** *The deposits included in Level 3 of the hierarchy represent the collateral leg of credit linked notes. The most significant unobservable input in determining the fair value of the credit linked notes is the credit risk component. The sensitivity to credit risk has been assessed in the same way as for advances using the credit migration matrix with the deposit representing the cash collateral component thereof.*

35. TRUST ACTIVITIES

R million	2010	2009
Market value of assets held or placed on behalf of customers in a fiduciary capacity	**27 344**	24 146
The Bank provides custody, trustee, corporate administration, investment management and advisory services to third parties, which involves the Bank making allocation and purchase and sale decisions in relation to a wide range of financial statements.		
Those assets that are held in a fiduciary capacity are not included in these financial statements.		
Some of these arrangements involve the Bank accepting targets for benchmark levels of returns for the assets under the Bank's care.		
Income received from trust and fiduciary services	**90**	–

36. SEGMENT INFORMATION

36.1 Reportable segments

Set out below is information about the reportable segments of the Bank, the details of the various products and services by each of the reportable segments, its major customers and the basis of preparation of segment information.

FNB

FNB offers a diverse set of financial products and services to the retail and corporate market segments, ranging from the consumer, small business and rural corporate markets to large and medium sized corporates, financial institutions, parastatals and government entities. FNB's products include mortgage loans, credit and debit cards, personal loans and investment products. FNB's services include transactional and deposit taking, card acquiring, credit facilities and FNB distribution channels (namely the branch network, ATMs, call centres, cell phone and internet channels).

Products and services are provided through the following brands, which includes First National Bank, FNB Card, RMB Private Bank, FNB Trust Services and FNB Private Clients.

FNB Africa

FNB Africa comprises the FNB Africa subsidiaries (FNB Botswana, FNB Namibia, FNB Swaziland, FNB Lesotho, FNB Zambia and FNB Moçambique) as well as a support division acting as the strategic enabler, facilitator and coordinator for African expansion undertaken by FNB. FNB Africa provides a range of FNB and RMB products and services to corporates and individuals.

RMB

RMB provides diversified financial services and products, encompassing investment banking, fund management, private wealth management and advisory services. Their customers includes corporates, parastatals and the government. RMB provides equity funding for leveraged and management buyouts, public to private transactions, corporate unbundling, growth opportunities and acquisitions. They also act in an advisory capacity in various transactions including merger and acquisition transactions and BEE transactions. In addition, RMB provides clients with various trading and investment products and services.

RMB comprises the following business units RMB Private Equity, RMB Equity Trading, Investment Banking, Fixed Income Currency and Commodities.

WesBank

WesBank provides full service instalment credit finance to both the retail and corporate market, including asset based finance, fleet management solutions, personal loans, vehicle recovery, car care products and the financing of capital equipment.

Corporate Centre

The Corporate Centre consists of business units that provides support services to the Banking Group. The Corporate Centre can be split into two major business units, Balance Sheet Management and Group Support Services. Balance Sheet Management owns and manages the capital of the Banking Group. Group Support Services provides the brands with various support services and consists of Group Finance, Regulatory Reporting, Human Resources, Information Risk Services, Internal Audit, Enterprise Risk Management and Legal Services.

Major customers

In terms of IFRS 8 a customer is regarded as a major customer, if the revenue from transactions with this customer exceeds 10% or more of the entity's revenue. The Bank Ltd Group has no major customer as defined and is therefore not reliant on the revenue from one or more major customers.

Basis of preparation of segment information

The segmental analysis is based on the information reported to management for the respective segments. The information is prepared in terms of IFRS with the exception of certain adjustments that are made to the segment results in order to eliminate the effect of non taxable income and other segment specific items that impact certain key ratios reviewed by the chief operating decision maker when assessing the operating segment's performance.

In order to ensure that the total segment results, assets and liabilities agree to the amounts reported in terms of IFRSs, the above mentioned amounts are adjusted in the IFRS adjustments column.

36. SEGMENT INFORMATION *continued*

36.1 Reportable segments *continued*

R million	FNB	FNB Africa
Net interest income before impairment of advances	9 315	(3)
Impairment of advances	(3 380)	–
Net interest income after impairment of advances	5 935	(3)
Non interest income	13 565	154
Net income from operations	19 500	151
Operating expenses	(13 850)	(212)
Income before taxation	5 650	(61)
Indirect taxation	(300)	–
Income before direct taxation	5 350	(61)
Direct taxation	(1 417)	–
Income after taxation	3 933	(61)
The income statement includes		
Depreciation	(873)	–
Amortisation	(45)	–
Impairment charges	–	–
Other non cash provisions	(661)	(10)
The statement of financial position includes		
Advances (after ISP – before impairments)	194 298	–
Investment in associated companies	36	–
Total assets	198 895	18
Total liabilities	198 257	78

The segmental analysis is based on the management accounts for the respective segments.

2010					
	RMB	WesBank	Corporate Centre	Elimination and IFRS adjustments	Total
	196	4 037	1 027	2 824	11 748
	(15)	(1 980)	–	260	(5 115)
	181	2 057	1 027	2 564	6 633
	5 769	957	322	511	21 278
	5 950	3 014	1 349	(2 053)	27 911
	(2 874)	(2 402)	(2 250)	908	(20 680)
	3 076	612	(901)	(1 145)	7 231
	(59)	(126)	83	(1)	(403)
	3 017	486	(818)	(1 146)	6 828
	(799)	(129)	(1 259)	2 346	(1 258)
	2 218	357	(2 077)	1 200	5 570
	(62)	(130)	(90)	1	(1 154)
	(40)	(13)	–	1	(97)
	(402)	–	–	–	(402)
	(822)	(83)	(469)	97	(1 948)
	122 621	90 611	1 923	(122)	409 331
	916	215	1	(1)	1 167
	196 398	90 501	91 129	(555)	576 386
	195 122	90 023	62 775	(5 494)	540 761

36. SEGMENT INFORMATION *continued*

36.1 Reportable segments *continued*

R million	FNB	FNB Africa
Net interest income before impairment of advances	10 071	(2)
Impairment of advances	(4 867)	–
Net interest income after impairment of advances	5 204	(2)
Non interest income	12 718	98
Net income from operations	17 922	96
Operating expenses	(13 013)	(130)
Income before taxation	4 909	(34)
Indirect taxation	(249)	–
Income before direct taxation	4 660	(34)
Direct taxation	(1 235)	10
Income after taxation	3 425	(24)
Income statement includes		
Depreciation	(832)	(1)
Amortisation	(41)	–
Impairment charges	(23)	–
Other non cash provisions	(605)	(6)
Statement of financial position includes		
Advances (after ISP – before impairments)	198 989	–
Investment in associated companies	–	–
Total assets	200 977	28
Total liabilities	196 454	62

2009					
	RMB	WesBank	Corporate Centre	Elimination and IFRS adjustments	Total
	327	3 637	758	(2 863)	11 928
	(255)	(2 555)	100	(1)	(7 578)
	72	1 082	858	(2 864)	4 350
	4 012	729	379	400	18 336
	4 084	1 811	1 237	(2 464)	22 686
	(2 105)	(2 083)	(1 510)	519	(18 322)
	1 979	(272)	(273)	(1 945)	4 364
	(66)	(102)	23	(1)	(395)
	1 913	(374)	(250)	(1 946)	3 969
	(507)	99	66	1 484	(83)
	1 406	(275)	(184)	(462)	3 886
	(44)	(99)	(49)	2	(1 023)
	(29)	(9)	–	1	(78)
	(12)	(2)	–	26	(11)
	(463)	(58)	(278)	127	(1 283)
	106 146	86 730	2 051	–	393 916
	1 180	215	185	–	1 580
	204 497	86 293	71 383	1 669	564 847
	205 003	86 672	43 284	1 114	532 589

36. SEGMENT INFORMATION *continued*

36.2 Geographic segments

Refer to the reportable segment information for a description of the divisions.

Segment	Countries included	Divisions included
South Africa	South Africa	FNB RMB WesBank Corporate Centre
United Kingdom	England Ireland	RMB WesBank FNB
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.

	2010	2009
Pounds	**11.475**	12.714
Rupee	**0.164**	0.162

	2010			
R million	**South Africa**	**United Kingdom**	**Asia**	**Total**
Net interest income	**6 413**	**210**	**10**	**6 633**
Non-interest income	**21 178**	**69**	**31**	**21 278**
Total assets	**569 514**	**5 881**	**991**	**576 386**
Non current assets*	**10 084**	**100**	**8**	**10 192**
Total liabilities	**533 428**	**6 939**	**394**	**540 761**

	2009			
R million	South Africa	United Kingdom	Asia	Total
Net interest income	4 534	(186)	2	4 350
Non-interest income	18 064	272	–	18 336
Total assets	559 817	4 803	227	564 847
Non current assets*	9 214	118	7	9 339
Total liabilities	527 134	5 427	28	532 589

** Excludes financial instruments, deferred tax assets, post-employment benefit assets and rights arising under insurance contracts.*

37. RELATED PARTIES

The Bank defines related parties as:

- The parent company
- Associate companies
- Joint ventures
- Key management personnel as the FirstRand Bank Holdings Ltd board of directors and the Bank executive committee
- Close family members of key management personnel (individual's spouse/domestic partner and children; domestic partner's children and dependants of individual or domestic partner). This may include enterprises which are controlled by these individuals through their majority shareholding or their role as chairman and/or CEO in those companies.

The Bank is controlled by FirstRand Bank Holdings Ltd (incorporated in South Africa) which owns 100% of the ordinary shares. The ultimate parent of the Bank is FirstRand Limited, incorporated in South Africa.

37.1 Subsidiaries

Details of investments in subsidiaries are disclosed in note 15.

Refer below for details of transactions with subsidiaries and fellow subsidiaries.

37.2 Associates and joint ventures

Details of investments in associates are disclosed in note 14.

During the year the Bank and its subsidiaries, in the ordinary course of business, entered into various transactions with associates and joint ventures on terms that are not more favourable than those arranged with third parties.

37.3 Details of transactions with relevant related parties appear below

	2010	
R million	Parent	Fellow subsidiaries
Loans and advances		
Balance 1 July	113	–
Advanced during year	(113)	–
Balance 30 June	–	–
Deposits		
Balance 1 July	11	–
Received during year	220	–
Balance 30 June	231	–
Loans to Insurance Group		
Balance 1 July	–	1 651
Repayments during year	–	(550)
Balance 30 June	–	1 101
Loans from Insurance Group		
Balance 1 July	127	3 458
Advanced during year	115	–
Repayments during year	–	(306)
Balance 30 June	242	3 152
Amounts due to holding and fellow subsidiaries		
Balance 1 July	51	16 113
Advanced during year	215	5 489
Balance 30 June	266	21 602

37. RELATED PARTIES *continued*

37.3 Details of transactions with relevant related parties appear below *continued*

R million	2010 Parent	2010 Fellow subsidiaries
Amounts due from holding and fellow subsidiaries		
Balance 1 July	533	14 708
Repayments during year	(160)	(638)
Balance 30 June	373	14 070
Interest received	16	563
Interest paid	–	1 092
Non interest income	–	719
Operating expenditure	–	433
Dividends paid	(2 267)	–

The following related party derivatives are included in:

	2010		2009	
	Derivative instruments (Note 9) Assets		Loan to Insurance Group Assets	
R million	Notional	Fair value	Notional	Fair value
Loan to Insurance Group	175 652	913	1 312	64

	2010		2009	
	Derivative instruments (Note 9) Liabilities		Loan from Insurance Group Liabilities	
R million	Notional	Fair value	Notional	Fair value
Loan from Insurance Group	177 570	1 347	2 561	412

37. RELATED PARTIES *continued*

37.3 Details of transactions with relevant related parties appear below *continued*

	2009	
R million	Parent	Fellow subsidiaries
Loans and advances		
Balance 1 July	57	–
Advanced during year	56	–
Balance 30 June	113	–
Deposits		
Balance 1 July	9	–
Received during year	2	–
Balance 30 June	11	–
Loans to Insurance Group		
Balance 1 July	–	1 841
Repayments during year	–	(190)
Balance 30 June	–	1 651
Loans from Insurance Group		
Balance 1 July	198	2 441
Advanced during year	–	1 017
Repayments during year	(71)	–
Balance 30 June	127	3 458
Amounts due to holding and fellow subsidiaries		
Balance 1 July	869	25 633
Repayments during year	(818)	(9 520)
Balance 30 June	51	16 113
Amounts due from holding and fellow subsidiaries		
Balance 1 July	1 609	27 163
Repayments during year	(1 076)	(12 455)
Balance 30 June	533	14 708
Interest received	53	1 394
Interest paid	–	1 717
Non interest income	–	719
Operating expenditure	–	331
Dividends paid	(3 132)	–

37. RELATED PARTIES *continued*

37.4 Key management personnel

R million	2010	2009
Total advances		
In normal course of business (mortgages, other, instalment finance and credit cards)		
Balance 1 July	31	51
Advanced during year	1 704	501
Repayments during year	(1 611)	(526)
Interest earned	9	5
Balance 30 June	133	31
The FirstRand share schemes are different from other similar schemes in that the underlying shares are bought and an equivalent loan granted.		
Advances in course of business by product.		
Mortgages		
Balance 1 July	29	45
Advanced during year	294	363
Repayments during year	(203)	(383)
Interest earned	9	4
Balance 30 June	139	29
No impairment has been recognised for loans granted to key management (2009: R nil). Mortgage loans are repayable monthly over 20 years.		
Other loans		
Balance 1 July	1	3
Advanced during year	1 392	115
Repayments during year	(1 391)	(118)
Interest earned	–	1
Balance 30 June	2	1
Instalment finance		
Balance 1 July	–	2
Advanced during year	1	1
Repayments during year	(1)	(3)
Balance 30 June	–	–
No impairments have been recognised in respect of instalment finance (2009: R nil)		
Credit cards		
Balance 1 July	1	1
Total annual spend	17	22
Repayments	(17)	(22)
Balance 30 June	1	1

No impairments have been recognised in respect of credit cards held by key management (2009: Rnil). Interest rates are in line with normal rates charged to customers.

37. RELATED PARTIES *continued*

37.4 Key management personnel *continued*

R million	2010	2009
Cheque and current accounts		
Credit balance 1 July	**(35)**	(101)
Net deposits and withdrawals	**29**	69
Interest income	**(5)**	(3)
Balance 30 June	**(11)**	(35)
Savings deposits		
Credit balance 1 July	**83**	31
Interest income	**7**	13
Net new investments	**84**	39
Balance at 30 June	**174**	83
Other including term deposits		
Balance 1 July	**18**	5
Interest income	**–**	1
Net new (withdrawals)/investments	**(17)**	12
Balance 30 June	**1**	18
Insurance and investment		
Insurance		
Life and disability insurance		
Aggregate insured cover	**51**	15
Surrender value	**1**	1
	52	16
Investment products		
Fund value opening balance	**539**	995
Deposits	**18**	(232)
Net investment return credited	**107**	(220)
Commission and other transaction fees	**(6)**	(4)
Fund closing balance	**658**	539
Other fees		
Financial consulting fees and commissions	**5**	3
Key management compensation		
Salaries and other short-term benefits	**135**	84
Share based payments	**15**	21
Total compensation	**150**	105

A listing of the board of directors of the Bank can be found on page 1 of the annual report.

37.5 Post retirement benefit plan

Details of transactions between the Bank and the Bank's post retirement benefit plan is listed below:

	2010	2009
Fee income	**1**	1
Deposits held with the Bank	**50**	30
Interest expenses	**2**	2
Value of assets under management	**2 483**	2 320

38. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

(a) Credit impairment losses on loans and advances

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

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

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

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

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

Estimates of roll rates, loss ratios and similar risk indicators are based on analysis of internal and, where appropriate external data. Estimates of the loss emergence period are made in the context of the nature and frequency of credit assessments performed, availability and frequency of updated data regarding customer creditworthiness and similar factors. Loss emergence periods differ from portfolio to portfolio, but typically range from 1 – 12 months.

Non performing loans

Retail loans are individually impaired if amounts are due and unpaid for three or more months, or if there is evidence before this that the customer is unlikely to repay its obligations in full. WesBank's loans are impaired upon its classification status, i.e. following an event driven approach and specific assessment of the likelihood to repay. Commercial and Wholesale loans are analysed on a case by case basis taking into account breaches of key loan conditions, excesses and similar risk indicators.

Management's estimates of future cash flows on individually impaired loans are based on internal historical loss experience, supplemented by analysis of comparable external data (for Commercial and Wholesale loans) for assets with similar credit risk characteristics. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Refer to note 10.2 for a detailed analysis of the impairment of advances and the carrying amounts of the specific and portfolio impairments.

(b) Fair value of financial instruments

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

Refer to note 9 for a detailed analysis of the derivatives and the carrying amounts of the different types of derivative instruments. Note 34 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 Bank determines that available-for-sale equity instruments are impaired and recognised as such in the income statement, when there has been a significant or prolonged decline in the fair value below their cost. This determination of what is significant or prolonged requires judgement. In making this judgement the Bank evaluates, among other factors, the normal volatility in share prices. In addition, impairment may be appropriate when there is evidence of a deterioration in the financial health of the investee, an industry and sector performance, changes in technology, and operational and financing cash flows.

Where the Bank determines that an available-for-sale equity instrument is impaired the amount of the impairment is recognised in profit or loss.

(d) Securitisations and special purpose entities

The Bank sponsors the formation of special purpose entities ("SPEs") primarily for the purpose of allowing clients to hold investments, for asset securitisation transactions and for buying and selling credit protection. The Bank consolidates SPEs that it does control in terms of IFRS. As it can sometimes be difficult to determine whether the Bank does control an SPE, it makes judgements about its exposure to the risks and rewards, as well as about its ability to make operational decisions for the SPE in question. In many instances, elements are present that, considered in isolation, indicate control or lack of control over an SPE, but when considered together make it difficult to reach a clear decision. In such cases, the SPE is accounted for based on management's best estimate of the economic reality of the underlying transaction.

Refer to note 10.1 for more information regarding the Bank's synthetic securitisations and the respective carrying amounts.

(e) Income taxes

The Bank is subject to direct tax in a number of jurisdictions. There may be transactions and calculations for which the ultimate tax determination has an uncertainty during the ordinary course of business. The Bank recognises liabilities based on objective estimates of the amount of tax that may be due. Where the final tax element of 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 4, 5 and 18 for more information regarding the direct, indirect and deferred tax charges, assets and liabilities.

(f) Financial risk management

The Bank's risk management policies are disclosed in the Risk Report on pages 13 to 81 of the annual report. The repricing analysis on pages 75 to 76 forms part of the audited annual financial statements.

(g) Employee benefit liabilities

The cost of the benefits and the present value of the defined benefit pension funds and post retirement medical obligations depend on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the charge to the income statement arising from these obligations include the expected long term rate of return on the relevant plan assets, the discount rate and the expected salary and pension increase rates. Any changes in these assumptions will impact the charge to the income statement and may affect planned funding of the pension plans.

The assumptions related to the expected return on plan assets are determined on a uniform basis, considering long term historical returns, assets allocation and future estimations of long term investment returns. The Bank 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 Bank considers the interest rate on high quality corporate bonds and government bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability. The expected salary and pension increase rates are based on inflation rates, adjusted for salary scales and country specific conditions. The inflation rate used is a rate within the government's monetary policy target for inflation and is calculated as the difference between the yields on portfolios of fixed interest government bonds and a portfolio of index linked bonds of a similar term.

Additional information is provided in note 19.

38. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES *continued*

(h) Share based payments

Share based payment transactions of the Bank are classified as either cash settled or equity settled. The amounts recognised in respect of these share based payment transactions are determined by applying valuation techniques which are based on various assumptions and estimates that require judgement in their application. These assumptions and estimates include expected volatility, expected dividend yield, the discount rate and the expected forfeit or lapse rate.

Refer to note 27 for the detailed information regarding the share based payment expense and the assumptions used in determining the expense, liability and reserve.

(i) Fair value of commodities

The Bank is long on certain commodities through the outright purchase of the specific commodity or through a series of 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.

39. STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

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

		Effective date
IFRS 1 (amended)	**Amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards ("IFRS 1")** The amendment provides relief to first-time adopters of International Financial Reporting Standards from providing the additional disclosures introduced in March 2009 by the amendment to IFRS 7 *Improving Disclosures about Financial Instruments*. This amendment will not have an impact on the Bank, as the Bank has already adopted IFRSs.	Annual periods commencing on or after 1 July 2010
IFRIC 14 (amended)	**IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction** The amendment applies in limited circumstances when an entity is subject to minimum funding requirements and makes a voluntary early payment of contributions to cover those requirements. The amendment permits such an entity to treat the benefit of such an early payment as an asset. This amendment is not expected to have an impact to the Bank.	Annual periods commencing on or after 1 January 2011
IFRIC 19	**Extinguishing Financial Liabilities with Equity Instruments** The interpretation provides guidance on the accounting treatment of transactions where a financial liability is extinguished by the issue of equity instruments. These transactions are often referred to as debt for equity swaps. This amendment is not expected to impact the Bank's results significantly.	Annual periods beginning on or after 1 July 2010

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

		Effective date
IFRS 9	**Financial Instruments** The IFRS is the first phase in the IASB's three part project to replace the current IAS 39 *Financial Instruments: Recognition and Measurement*. This phase deals with the classification and measurement of financial assets. Financial assets can be classified as financial assets at amortised cost or fair value. The classification is based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. The Bank is in the process of assessing the impact that IFRS 9 would have on the financial statements. Until the process is completed, the Bank is unable to determine the significance of the impact of IFRS 9.	Annual periods beginning on or after 1 January 2013
IAS 24 (amended)	**Related Party Disclosures** The amendment removes certain of the disclosure requirements for government related entities and clarifies the definition of a related party. This amendment addresses disclosure in the annual financial statements and will not affect recognition and measurement. The impact on the revised disclosure is not expected to be significant.	Annual periods commencing on or after 1 January 2011
IAS 32 (amended)	**Classification of rights issues** An amendment was made to IAS 32 *Financial Instruments: Presentation* to clarify the accounting for rights issues (rights, options or warrants) that are denominated in a currency other than the functional currency of the issuer. These transactions were accounted for as derivative liabilities, as they did not represent a contract to receive a fixed amount of equity instruments for a fixed amount of cash. The amendment requires that rights issues offered pro rata to all of an entity's existing shareholders should be classified as equity instruments regardless of the currency in which the exercise price is denominated. This amendment is not expected to impact the Bank's results significantly.	Annual periods beginning on or after 1 February 2010
Annual Improvements	**Improvements to IFRS** As part of its annual improvements projects, the IASB has issued its editions of annual improvements. The annual improvement projects aim is to clarify and improve the accounting standards. The improvements include those involving terminology or editorial changes with minimal effect on recognition and measurement. Annual improvements projects undertaken in the 2009 calendar year. Annual improvements projects undertaken in the 2010 calendar year. There are no significant changes in the either of the improvement projects that are expected to affect the Bank materially.	Annual periods commencing on or after 1 January 2010 Annual periods commencing on or after 1 January 2011 except for the improvements to IFRS 3 and IAS 27 that are effective for annual periods commencing on or after 1 July 2010

40. TRANSACTIONS INVOLVING THE LEGAL FORM OF A LEASE

The Bank entered into an arrangement with the counterparty for the refurbishment of moveable assets, which are for the exclusive use of the counterparty.

The duration of the arrangement is for 14 years and will conclude in May 2016. The transactions are a series of back to back leases, which, although the transactions are structured as leases, are in substance a financing arrangement.

Fees received are recognised annually in non interest income.

Income received for the period amounted to R22 million (2009: R26 million) and is reflected in interest and similar income in the income statement.

41. CURRENT/NON CURRENT SPLIT OF AMOUNTS RECOGNISED ON THE STATEMENT OF FINANCIAL POSITION

	2010		
	Term to maturity		
R million	Carrying amount	Current	Non current
ASSETS			
Cash and short term funds	22 745	22 745	–
Derivative financial instruments	38 944	34 086	4 858
Advances	401 279	128 020	273 259
Investment securities and other investments	79 979	59 923	20 056
Commodities	2 365	2 365	–
Accounts receivable	2 855	2 799	56
Investments in associates	1 167	–	1 167
Investments in subsidiary companies	279	–	279
Amounts due by holding company and fellow subsidiary companies	14 443	11 583	2 860
Property and equipment	7 816	–	7 816
Post retirement benefit asset	2 483	–	2 483
Intangible assets	189	–	189
Tax asset	741	–	741
Loans to Insurance Group	1 101	1 101	–
Total assets	576 386	262 622	313 764
EQUITY AND LIABILITIES			
Deposits and current accounts	453 758	403 986	49 772
Short trading positions	7 469	7 469	–
Derivative financial instruments	35 285	33 904	1 381
Creditors and accruals	6 171	6 062	109
Provisions	2 725	1 617	1 108
Post retirement liabilities	2 105	–	2 105
Deferred tax liability	1 702	–	1 702
Long term liabilities	6 284	–	6 284
Amounts due to holding company and fellow subsidiary companies	21 868	18 098	3 770
Loans from Insurance Group	3 394	2 931	463
Total equity	35 625	–	35 625
Total equity and liabilities	576 386	474 067	102 319

41. CURRENT/NON CURRENT SPLIT OF AMOUNTS RECOGNISED ON THE STATEMENT OF FINANCIAL POSITION *continued*

	2009		
	Term to maturity		
R million	Carrying amount	Current	Non current
ASSETS			
Cash and short term funds	20 980	20 980	–
Derivative financial instruments	59 523	52 805	6 718
Advances	384 938	128 281	256 657
Investment securities and other investments	67 102	49 341	17 761
Commodities	1 276	1 276	–
Accounts receivable	2 350	2 176	174
Investments in associates	1 580	–	1 580
Investments in subsidiary companies	279	–	279
Amounts due by holding company and fellow subsidiary companies	15 241	9 534	5 707
Property and equipment	6 795	–	6 795
Post retirement benefit asset	2 447	–	2 447
Intangible assets	216	–	216
Tax asset	469	469	–
Loans to Insurance Group	1 651	1 651	–
Total assets	564 847	266 513	298 334
EQUITY AND LIABILITIES			
Deposits	427 441	395 223	32 218
Short trading positions	14 427	14 427	–
Derivative financial instruments	53 842	51 431	2 411
Creditors and accruals	4 512	4 512	–
Provisions	2 067	1 641	426
Post retirement liabilities	2 005	–	2 005
Deferred tax liability	1 803	–	1 803
Long term liabilities	6 743	–	6 743
Amounts due to holding company and fellow subsidiary companies	16 164	10 283	5 881
Loans from Insurance Group	3 585	3 585	–
Total equity	32 258	–	32 258
Total equity and liabilities	564 847	481 102	83 745

42. SUBSEQUENT EVENTS

Events after the reporting period

The FirstRand Limited Group has commenced a legal entity restructuring process. This restructuring process was approved by the shareholders and the South African Reserve Bank during November 2009.

The restructuring process was initiated as a result of the Group's need to revise the structure of its existing operations and will also impact the Groups' governance structures and the management accounting and statutory financial reporting processes.

As part of the FirstRand Limited Group restructure transaction, FRB will transfer a number of investments in subsidiaries, SPEs and associates on 1 July 2010. For a list of the significant subsidiaries, SPEs and associates that will be transferred and the FRBH Group entities to which these entities will be transferred to refer to note 14 and 15 of the annual financial statements. Transactions are accounted for as common control transactions, when an entity is ultimately controlled by the same party before and after the transaction. The subsidiaries, SPEs and associates will ultimately be controlled by FirstRand Limited both before and after the restructuring transaction. These investments in subsidiaries, SPEs and associates will be acquired at their net consolidated carrying value and will be accounted for in line with the Firstrand Limited Group's accounting policy for business combinations under common control.

In terms of IFRS 5 Non current Assets Held for Sale and Discontinued Operations an entity should classify a non-current asset or disposal group as held for sale if its carrying amount will be recovered principally through a sales transaction rather than through continuing use. When considering the restructure from a FirstRand Limited Group perspective, the carrying amount of these investments in subsidiaries, SPEs and associates will be recovered through continuing use and not through sale and as a result these entities have not been classified as held for sale.

The FRBH Group will distribute FRB to FirstRand as a dividend-in-specie. The unbundling of FRB will also be accounted for in terms of the FRBH Group's accounting policy for common control transactions. Unbundling transactions under common control are specifically excluded from the scope of IFRIC 17 Distribution of Non-Cash Assets to Owners and the assets distributed will be measured at their carrying value and will not be remeasured to their fair value. The FRBH consolidated financial statements will exclude the carrying value of these subsidiaries, SPEs and associates from 1 July 2010. The quantum of this restructure is currently being determined.

Supplementary unaudited credit information for FirstRand Bank Limited

for the year ended 30 June

(Pages 197 to 201 do not form part of the audited financial statements.)

CREDIT PORTFOLIO MANAGEMENT

Introduction

The credit strategy of the Bank is managed as part of the broader balance sheet management process which includes capital management, funding and liquidity management as well as asset and liability management. The balance sheet management strategy is aligned with the Bank's view of trends in the wider economy.

Credit highlights at a glance

The table below summarises the key information on advances, non performing loans ("NPLs") and impairments in the credit portfolio for the year under review:

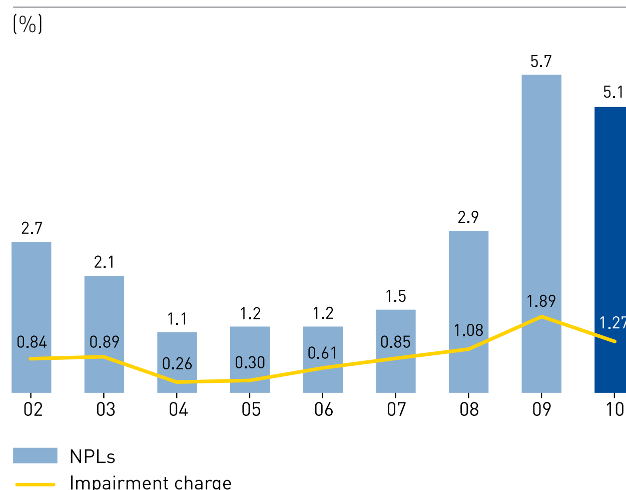
R million/%	Note	2010	2009	% change
Total advances	1	**409 331**	393 916	4
NPLs	2	**20 656**	22 239	(7)
NPLs as % of advances (%)		**5.05**	5.65	(11)
Impairment charge	3	**5 115**	7 578	(33)
Impairment charge as % of average advances (%)		**1.27**	1.89	(33)
Total impairments	4	**9 700**	10 166	(5)
– Portfolio impairments[a]		**3 457**	3 610	(4)
– Specific impairments[a]		**6 243**	6 556	(5)
Implied loss given default (coverage)[b]	4	**30.22**	29.48	3
Total impairments coverage ratio[c]		**46.96**	45.71	3

[a] *Includes cumulative credit fair value adjustments*
[b] *Specific impairments and non performing book cumulative credit fair value adjustments as a percentage of the NPLs.*
[c] *Total impairments and total cumulative credit fair value adjustments as a percentage of the NPLs.*

The notes referred to in the table above, are detailed on the pages to follow.

The graph below shows the history of the Bank's credit losses reflected by the impairment charge and non performing loans percentages.

NPLs and impairment history



Expectations

Despite the reduction in debt servicing costs as a result of lower interest rates, the subsequent improvement in affordability and underlying asset recovery (e.g. house price growth), credit appetite has not increased considerably. Consumers remain leveraged and vulnerable to shifts in the external economic environment and concerns remain with regards to unemployment prospects and the timing and strength of the recovery.

The wholesale portfolio has remained resilient in the face of the market downturn in the year under review. The majority of negative credit migrations were experienced in specific sub sectors, such as property development and transportation, while most of the exposures to other industries showed resilience against the downturn. The strategy of rebalancing the wholesale portfolio to more investment grade lending has also already started paying off.

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

Note 1. Analysis of advances

The table below provides the advances of each segment in the Bank.

Advances

R million	2010	2009	% change
Retail	**254 816**	247 442	3
Residential mortgages	**147 485**	142 556	3
Credit card	**10 705**	11 726	(9)
Vehicle and asset finance	**86 648**	82 992	4
Other retail	**9 978**	10 168	(2)
Corporate/Wholesale	**152 908**	141 735	8
FNB Corporate	**1 697**	8 373	(80)
FNB Commercial	**28 590**	27 216	5
Investment banking	**122 621**	106 146	16
Corporate centre and other	**1 607**	4 739	(66)
Total	**409 331**	393 916	4
Of which:			
Accrual book	**297 056**	300 014	(1)
Fair value book[1]	**112 275**	93 902	20

[1]*Fair value book includes advances classified as available-for-sale.*

Advances increased by 4% during the year under review. The combination of limited credit demand and the focus on appropriate risk return from a risk appetite perspective have resulted in low advances growth during this period. The application of setoff in the FNB Corporate portfolio resulted in a reduction in advances during the 2009 calendar year.

Note 2. Analysis of non performing loans

The interest rate reductions resulted in lower new NPLs in most retail portfolios when compared to 30 June 2009. The NPLs as a percentage of advances decreased from 5.65% at 30 June 2009 to 5.05% at 30 June 2010. NPL levels are however impacted by the debt counselling process and the lengthening of the work out process, especially for secured portfolios.

	NPLs			NPLs as a percentage of	
R million/%	2010	2009	% change	2010	2009
Retail	**18 204**	20 079	(9)	**7.14**	8.11
Residential mortgages	**12 185**	13 211	(8)	**8.26**	9.27
Credit card	**672**	1 444	(53)	**6.28**	12.31
Vehicle and asset finance	**4 578**	4 185	9	**5.28**	5.04
Other retail	**769**	1 239	(38)	**7.71**	12.19
Corporate/Wholesale	**2 508**	2 159	16	**1.64**	1.52
FNB Corporate	**1**	84	(99)	**0.06**	1.00
FNB Commercial	**1 927**	1 623	19	**6.74**	5.96
Investment banking	**580**	452	28	**0.47**	0.43
Corporate Centre and other	**(56)**	1	(>100)	**(3.48)**	0.02
Total portfolio	**20 656**	22 239	(7)	**5.05**	5.65
Of which:					
Accrual book	**20 101**	21 968	(8)	**6.77**	7.32
Fair value book	**555**	271	>100	**0.49**	0.29

Note 3. Analysis of income statement credit impairments

The credit impairment charge for the year ended 30 June 2010 was 1.27% comparing favourably to the impairment charge at 30 June 2009 of 1.89%. The table below provides an analysis of the income statement impairment charges:

Income statement impairments

	Total impairment charge			As a % of average advances	
R million/%	2010	2009	% change	2010	2009
Retail	**4 812**	7 047	(32)	**1.92**	2.89
Residential mortgages	**1 373**	2 323	(41)	**0.95**	1.68
Credit card	**776**	1 355	(43)	**6.92**	11.18
Vehicle and asset finance	**1 654**	2 032	(19)	**1.95**	2.44
Other retail	**1 009**	1 337	(25)	**10.02**	13.31
Corporate/Wholesale	**495**	714	(31)	**0.34**	0.47
FNB Corporate	**34**	70	(51)	**0.38**	0.59
FNB Commercial	**446**	389	15	**1.60**	1.52
Investment banking	**15**	255	(94)	**0.01**	0.23
Corporate Centre and other	**(192)**	(183)	5	**(6.05)**	(3.23)
Total	**5 115**	7 578	(33)	**1.27**	1.89
Of which:					
Portfolio impairment charge	**(299)**	95	(>100)	**(0.08)**	0.02
Specific impairment charge	**5 414**	7 483	(28)	**1.35**	1.87

Interest rate reductions, which started in 2008 and continued into 2010, resulted in a reduction in NPL inflows and consequently in the credit impairment charges of most retail portfolios. The level of NPLs remained high, however, due to the debt counselling process. As a result of the improvement in credit quality, the Bank's retail portfolios now fall within the Bank's desired credit appetite ranges.

During the year under review the corporate portfolios were resilient, however, lending appears likely to remain tepid as corporates maintain high levels of cash and investment spending remains subdued. Commercial NPLs and impairments have increased since June 2009 due to the lagged impact of the economic cycle on this sector.

Note 4. Analysis of balance sheet impairments and coverage ratios

The table below provides the balance sheet impairments and coverage ratios:

Implied loss given default ("LGD") and total impairment coverage ratios

R million/%	Balance sheet impairments		% change	As a percentage of NPLs	
	2010	2009		2010	2009
Specific impairments[1]					
Retail	**5 255**	5 822	(10)	**28.87**	29.00
Residential mortgages	**2 423**	2 457	(1)	**19.89**	18.60
Credit card	**478**	1 041	(54)	**71.13**	72.09
Vehicle and asset finance	**1 746**	1 295	35	**38.15**	30.95
Other retail	**608**	1 029	(41)	**79.01**	83.03
Corporate/Wholesale	**988**	735	34	**39.39**	34.04
FNB Corporate	**1**	69	(99)	**100.00**	82.14
FNB Commercial	**779**	528	48	**40.43**	32.53
Investment banking	**208**	138	51	**35.86**	30.53
Corporate Centre and other	**–**	(1)	(100)	**–**	(100)
Total specific impairments/Implied LGD[2]	**6 243**	6 556	(5)	**30.22**	29.48
Portfolio impairments[3]	**3 457**	3 610	(4)	**–**	–
Total impairments/Total impairment coverage ratio[4]	**9 700**	10 166	(5)	**46.96**	45.71

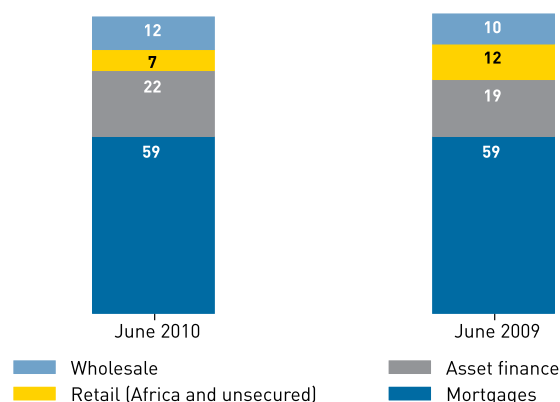
1 *Specific impairments including credit fair value adjustments relating to the non performing fair value advances book.*
2 *Non performing loan specific impairments and credit fair value adjustments as a % of NPLs.*
3 *Performing portfolio impairments and credit fair value adjustments.*
4 *Total impairments and credit fair value adjustments as a % of the NPLs.*

The Bank regularly reviews the coverage ratios to ascertain market conditions as well as recent and expected recoveries on non performing loans. The Group believes the NPL coverage ratio of 30.22% (June 2009: 29.48%) to be adequate.

The graph below provides the NPL distribution across the product categories, showing a consistent level of residential mortgage NPL proportion since June 2009. The proportion of NPLs relating to asset finance and wholesale advances increased relative to June 2009. Both these categories have higher NPL coverage ratios (see table above) than mortgages. The proportion other retail NPLs reduced during the year. The changes of the underlying proportions of NPLs and the changes in coverage per product resulted in an increase in the coverage ratio for June 2010 when compared with June 2009.

NPL distribution

(%)



The table below provides an analysis of the advances, NPL and credit impairment charges for the year under review:

R million/%	2010				
	Advances	NPLs	NPLs as a % of advances	Total impairment charges	Impairments as % of average advances
FNB	194 298	15 178	7.81	3 380	1.72
FNB Retail	164 205	13 306	8.10	2 832	1.74
Residential mortgages	147 485	12 185	8.26	1 373	0.95
– FNB HomeLoans (Consumer segment)	103 743	9 369	9.03	1 139	1.09
– Wealth	37 482	2 520	6.72	209	0.60
– Affordable Housing (Mass segment)	6 260	296	4.73	25	0.46
Credit card	10 705	672	6.28	776	6.92
Personal banking	3 043	149	4.90	203	6.21
Mass (secured and unsecured)	2 972	300	10.09	480	16.26
FNB Commercial	28 590	1 927	6.74	446	1.60
FNB Corporate Banking	1 697	1	0.06	34	0.68
FNB Other	(194)	(56)	28.87	68	5.45
WesBank	90 611	4 898	5.41	1 980	2.23
WesBank asset backed finance	86 648	4 578	5.28	1 654	1.95
WesBank loans	3 963	320	8.07	326	8.47
RMB	122 621	580	0.47	15	0.01
Corporate Centre	1 801	–	–	(260)	(13.50)
Total	409 331	20 656	5.05	5 115	1.27

R million/%	2009				
	Advances	NPLs	NPLs as a % of advances	Total impairment charges	Impairments as % of average advances
FNB	198 989	17 356	8.72	4 867	2.45
FNB Retail	160 712	15 649	9.74	4 492	2.86
Residential mortgages	142 556	13 211	9.27	2 323	1.68
– FNB HomeLoans (Consumer segment)	105 307	10 909	10.36	2 261	2.13
– Wealth	32 732	2 087	6.38	64	0.21
– Affordable Housing (Mass segment)	4 517	215	4.76	(2)	(0.09)
Credit card	11 726	1 444	12.31	1 355	11.18
Personal banking	3 498	445	12.72	428	12.09
Mass (secured and unsecured)	2 932	549	18.72	386	14.85
FNB Commercial	27 216	1 623	5.96	389	1.52
FNB Corporate Banking	8 373	84	1.00	70	0.59
FNB Other	2 688	–	–	(84)	(2.11)
WesBank	86 730	4 430	5.11	2 555	2.93
WesBank asset backed finance	82 992	4 185	5.04	2 032	2.44
WesBank loans	3 738	245	6.55	523	13.40
RMB	106 146	452	0.43	255	0.23
Corporate Centre	2 051	1	0.05	(99)	(5.90)
Total	393 916	22 239	5.65	7 578	1.89

Administration

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Notes

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