# 2009 ANNUAL REPORT

FIRSTRAND
Bank Limited

FIRSTRAND BANK LIMITED




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

**VW Bartlett (66)** *Independent non-executive director*
*AMP (Harvard), FIBSA*
Director of FirstRand and FirstRand Bank Holdings

**JJH Bester (67)** *Independent non-executive director*
*BSc Eng Elect (Pret), ISMP (Harvard)*
Director of FirstRand Bank Holdings

**JP Burger (50)** *Executive*
*CA(SA)*
Financial Director of FirstRand and FirstRand Bank Holdings, Director of Momentum Group

**L Crouse (56)** Non-independent non-executive director
*BCom (Acc), Cert theory of Acc, CA(SA)*
Director of FirstRand and FirstRand Bank Holdings

**LL Dippenaar (60)** Non-independent non-executive Chairman
*MCom, CA(SA)*
Chairman of Momentum Group, FirstRand and FirstRand Bank Holdings, Director of RMB Holdings

**PM Goss (61)** Independent non-executive
*BEcon, (Hons), BAccSc (Hons), CA(SA)*
Director of FirstRand, FirstRand Bank Holdings and RMB Holdings

**PK Harris (59)** Non-independent director
*MCom*
Chief Executive Officer of FirstRand, Director of FirstRand Bank Holdings, RMB Holdings and Momentum Group

**WR Jardine (43)** Independent non-executive director
*BSc, MSc*
Director of FirstRand Bank Holdings

**EG Matenge-Sebesho (54)** Independent non-executive director
*CAIB (SA), MBA*
Director of FirstRand Bank Holdings

**SE Nxasana (51)** Chief Executive Officer
*BCom, BCompt (Hons), CA(SA)*
Chief Executive Officer of FirstRand Bank Holdings and Director of FirstRand and Momentum Group

**RK Store (66)** Independent non-executive director
*CA(SA)*
Director of FirstRand and FirstRand Bank Holdings

**BJ van der Ross (62)** Independent non-executive director
*Dip Law (UCT)*
Director of FirstRand, FirstRand Bank Holdings and Momentum Group

**JH van Greuning (56)** Independent non-executive director
*CA(SA), CA(Canada), CFA, Dr AccSc, Dr Economics*
Director of FirstRand and FirstRand Bank Holdings

**MH Visser* (55)** Non-independent non-executive director
*BCom (Hons), CA(SA)*
Director of FirstRand and FirstRand Bank Holdings

### Audit Committee
RK Store *(Chairman)*
VW Bartlett
L Crouse
EG Matenge-Sebesho
JH van Greuning

### Risk 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

*Mr Visser's appointment was confirmed by the Registrar of Banks on 22 July 2009.
**One of three alternate chairpersons.

## COMPLIANCE STATEMENT

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

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

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

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

## BOARD OF DIRECTORS

### Responsibilities of directors

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

### Composition and frequency of meetings

FirstRand Bank has a unitary board. During the past financial year, Mr GT Ferreira retired from the board and as Chairman. Mr Dippenaar was elected Chairman in his stead. The Chairman is non-executive, but not independent in terms of the King II definition. The board members believe that it is appropriate for Mr Dippenaar to chair the Bank's board, notwithstanding the fact that he does not fulfil the strict criteria of "independence" as set out in King II. It is also the view of the directors that a strong independent element of non-executive directors exists on the board and that this provides the necessary objectivity essential for its effective functioning. The roles of chairman and chief executive officer are separate with segregated duties.

The board comprises 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.

### Limitation to appointment period

There is a formal transparent board nomination process. Non-executive directors are appointed, subject to re-election and to the 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 60.

## INTRODUCTION

Risk in FirstRand Bank Holdings Limited ("FRBH"), which is referred to as 'the Banking Group' is managed on a group basis. FirstRand Bank Limited, ("FRB") or "the Bank" is the major subsidiary of FRBH and in order to understand the risk philosophy of FRB it is necessary to understand how risk is managed on a group basis. In order to facilitate this, an extract from FRBH's risk and capital management report has been included below to explain the management of risk within FRB. Some differences between the practices, approaches, processes and policies of FRBH and FRB exist and these are highlighted by a reference to the appropriate entity, where necessary. All of the information in the risk and capital management report has been audited, except where otherwise indicated.

FRBH, one of FirstRand Limited's ("FirstRand" or "the Group") major subsidiaries, adheres to the same corporate governance principles, structures and policy framework as FirstRand. FRBH's primary business objective, like that of the Group, is the generation of sustainable profits.

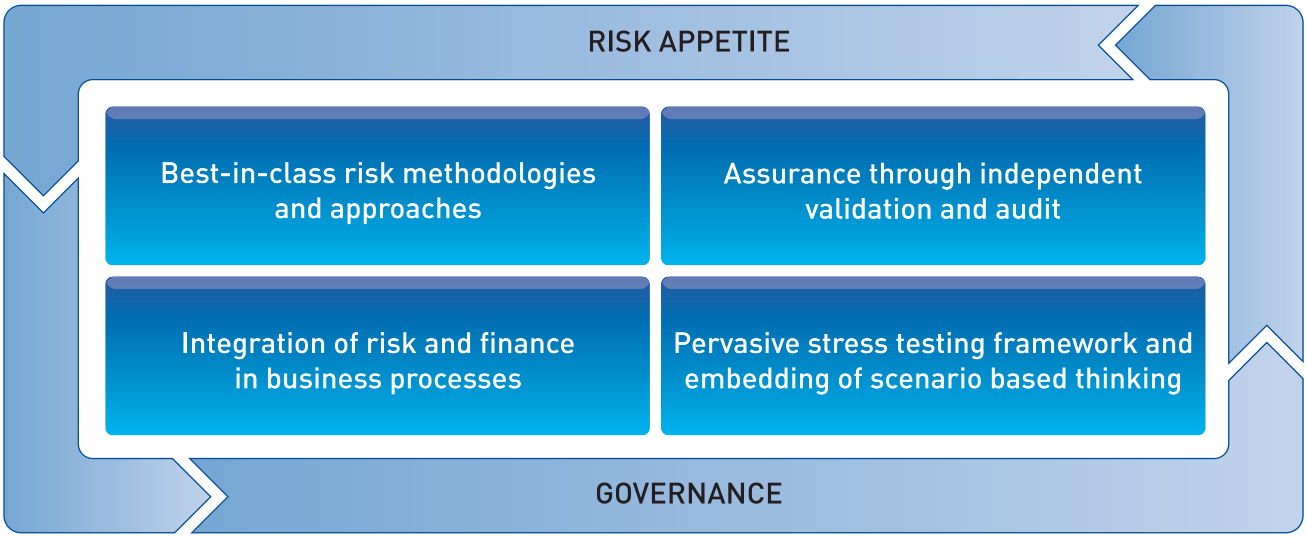
As an integrated financial services company, risk taking is an essential part of the Group's business and FirstRand thus explicitly recognises risk assessment, monitoring and management as core competencies and important differentiators in the competitive environment it operates in.

The Group defines risk widely – as any factor that, if not adequately assessed, monitored and managed, may prevent it from achieving its business objectives or result in adverse outcomes, including damage to its reputation.

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

The current economic crisis precipitated by the turmoil in the world's financial markets and the failure of financial institutions internationally has dramatically underscored the need for an integrated risk and capital management approach alongside the renewed emphasis on sustainable earnings. Consequently, the Banking Group has adopted a comprehensive approach to risk and capital management that comprises six core components, illustrated graphically in the chart below:

**Components of FRBH'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 Banking Group's continuing efforts to improve its risk identification, assessment and management capabilities. The articulation of risk appetite is closely related to the level of earnings volatility the Banking Group is willing to accept, its target capitalisation level and the allocation of capital and risk capacity (see page 6). Sound capital management practices are a core component of the Bank's business strategy and support the management of its businesses within risk appetite constraints.
- A strong governance structure and policy framework fosters the embedding of risk considerations in existing business processes and ensures that consistent standards exist across the Banking Group's operating units (see page 7).
- Best practice risk methodologies have been developed in and for the respective business areas. These have been modelled on existing and emerging best practice in the global financial services industry and are constantly reviewed, challenged and enhanced by deployed and central risk management teams (see page 16).
- An integrated approach to managing risk has been established to facilitate the pro-active exchange of

information between individual risk areas and between risk and finance functions. In doing so, the organisation aims to eliminate any 'risk silo' thinking across different risk types and ensure an increasing integration of the traditionally separate domains of risk and finance (see page 10).

- The Banking Group is deploying a comprehensive, consistent and integrated approach to stress testing that is embedded as a business planning and management tool, emphasising scenario-based analyses in all its decision processes. This will enable FirstRand to draw on strong expertise in individual risk areas and the finance functions to ensure optimal decision making in pursuit of stable, growing and sustainable earnings (see pages 11).
- Independent oversight, validation and audit functions ensure a high standard across methodological, operational and process components of the Bank's risk and capital management efforts. These functions independently review and challenge deployed and centralised risk, business and support functions and are directly responsible for providing board members with assurance that the Banking Group remains within its chosen risk appetite and adheres to the standards and practices set by the board (see page 11).

The remainder of this introductory section provides the Bank's perspective on the recent financial crisis as well as an overview of the major risks it is exposed to and the steps taken to strengthen risk management practices on the basis of lessons taken from the international financial markets. Each of the core components mentioned above is described in more detail in the main section of this risk and capital management report, alongside a detailed discussion of the risk profile for the Banking operations.

## The financial crisis in context

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

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

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

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

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

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

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

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

The Banking Group has taken a number of steps over the period under review to address these challenges and mitigate the negative impact of the financial and economic crisis. It has strengthened its market risk processes considerably to limit the potential losses, which may emanate from market illiquidity and positions in proprietary trading and counterparty credit risk areas. These are discussed in more detail in the following section covering individual risk types as well as aspects of governance, the setting of risk appetite and the embedding of stress testing in the planning and budgeting process, discussed further on page 16.

## Major risk factors and recent developments

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 financial risks, operational risks and strategic risks.

This section provides a brief summary of the major risk types as well as the changes in measurement and management approaches implemented over the period under review, as appropriate. Further information and an analysis of the respective risk profiles can be found in the detailed risk sections from page 16 onwards.

### *Credit risk*

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

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

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

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

### *Market and equity investment risk*

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

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

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

### *Counterparty credit risk*

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

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

### *Liquidity risk*

The Banking Group's international balance sheet has been negatively affected by the global financial crisis, leading to a severe reduction in liquidity in a number of markets and a sharp increase in funding costs internationally. As a consequence, the Bank has elected to de-risk its overseas surplus funds over the reporting period, investing these only in highly liquid and very high quality assets, such as treasury bills of European Central Banks.

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

### *Interest rate risk in the banking book*

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

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

### *Operational risk*

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

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

### *Enterprise risk management*

The Enterprise Risk Management ("ERM") functions provide central independent oversight and risk control as part of the Banking Group's risk governance structure. As part of the Bank's efforts to continuously strengthen and advance its risk measurement and management practices, a number of changes have been implemented over the period under review. These were aimed at strengthening the independence of the risk control functions and at increasing the effectiveness of risk assessment and monitoring practices. The mandate of the ERM functions, reporting lines and the emphasis on assuring independent oversight through the staffing of non-executive directors on all relevant risk and audit boards across the Banking Group are discussed further in the risk governance section of this report (page 7).

### Risk management: Income statement and balance sheet

The Banking Group considers risk management to be an integral part of the management of its balance sheet and income statement. To this end, risk-adjusted versions of the income statement are considered regularly as part of the Banking Group's ongoing stress testing and scenario planning process, as well as in the evaluation of performance across the various businesses. The *Integration of risk and finance* and the *Stress testing and scenario-based planning* sections provide more information on this (see pages 10 and 11). Furthermore, the relevant governance and management processes are also discussed in the detailed risk sections, as appropriate. (For example, the management of the balance sheet from a risk perspective is largely covered in the Credit risk section of this report, see page 16.)

## RISK APPETITE

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

The level of risk the Bank is willing to take on – its risk appetite – is determined by the Banking Group's board, which also assumes responsibility for ensuring that risks are adequately managed and controlled through its Risk, capital and compliance committee ("RCC") and subcommittees, as described in the FRBH risk governance section on page 7.

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

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

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

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

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

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

- the credit origination strategy has been adjusted where portfolios had migrated outside the target risk profile (see Credit risk section, page 16);
- proprietary trading activities have been reduced in line with new earnings volatility targets (see Market risk section, page 41);
- additional liquidity buffers have been implemented and are managed conservatively in response to the financial crisis (see Liquidity risk section, page 45);
- as a key area of focus for the board, ongoing awareness and extensive education sessions on risk appetite are being held at all levels of the organisation; and
- risk appetite measures are included in all management reports across the businesses, as well as at board level, and significant efforts aimed at refining risk thresholds and extending management information in this regard are under way. The results of ongoing stress testing exercises are regularly reported, compared and discussed in light of the Banking Group's risk appetite targets and limits.

## FRBH RISK GOVERNANCE

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

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

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

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

### Risk management framework

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

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

## Lines of risk control in the Bank

### 1st Line of Risk Controls

**HEAD OF BUSINESS: PRIMARY RISK OWNER**

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

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

### 2nd Line of Risk Controls

**ENTERPRISE RISK MANAGEMENT (ERM)**

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

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

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**DEPLOYED, SEGMENT AND DIVISIONAL RISK MANAGERS**

Support business unit management is identifying and quantifying significant risks:

- Approve risk assessment and risk management processes
- Ensure that board approved risk policies and risk tools are implemented and adhered to
- Ensure that performance, risk exposure and corrective actions are reported in an appropriate format and frequency
- Monitor appropriate implementation of corrective action
- Identify process flaws and risk management issues, initiate corrective action
- Ensure all risk management and loss containment activities are performed in a timely manner as agreed with ERM

### 3rd Line of Risk Controls

**INTERNAL AUDIT**

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

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

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

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

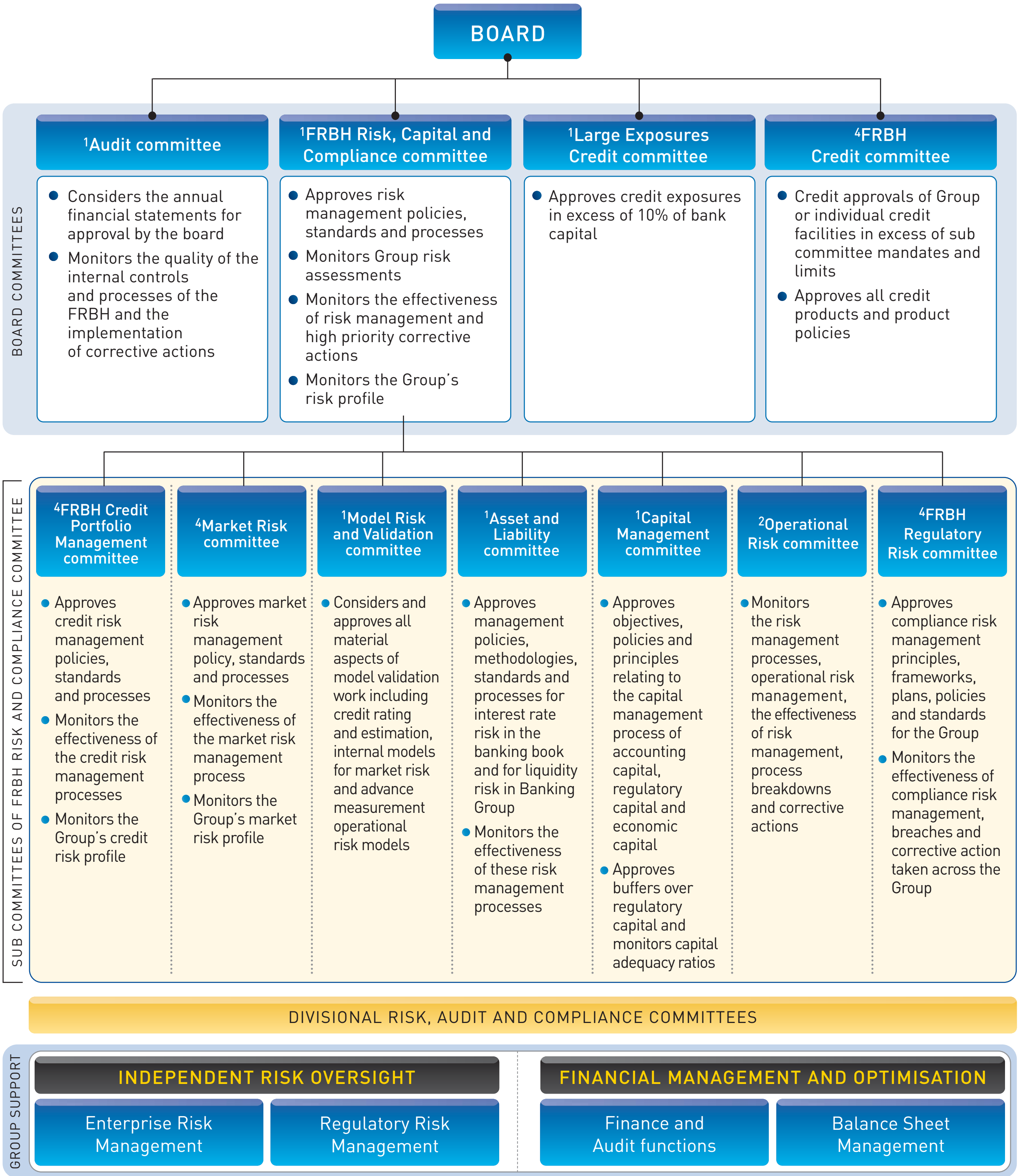
- agreeing deployed and divisional risk plans;
- reporting and escalation of risk matters;
- reviewing skill placement at divisional level and below; and
- performance assessment and remuneration of risk personnel.

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

## Committee structure

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

### Risk governance structure and committees




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

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

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

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

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

### Extensive, regular risk reporting and challenge of current practices

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

In order to ensure the integrity of the information presented, ERM challenges the practices, assumptions and results provided by the businesses and the deployed risk managers. As part of this reporting, challenge, debate and control process, ERM also seeks to drive the implementation of more sophisticated risk assessment methodologies through the design of appropriate policies and processes, including the deployment of skilled risk management personnel in each of the franchises.

Together with the review by the independent audit functions this ensures that all pertinent risk information is captured accurately, evaluated and escalated appropriately in a timely manner. This enables the board and its designated committees to retain effective management control over the Bank's risk position at all times.

## INTEGRATION OF RISK AND FINANCE

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

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

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

The recent creation of the COO portfolio is a major step in this direction. The franchises are ultimately responsible for maximising risk-adjusted returns on a sustainable basis, ie within the confines of the Bank's risk appetite. Centralised business functions within BSM such as MPM support these efforts by providing consistent assumptions and planning scenarios, modelling and forecasting methods and tools (such as detailed risk-adjusted income statements) as well as a structured challenge and debate process that is integrated with the strategy setting and budgeting process for the Bank.

Through the centralisation of the integrated risk and finance view on the Bank's performance, as well as its budgets and plans, these functions also allow the Banking Group to target a more resilient earnings profile and to take actions that address residual risks that are not adequately offset once aggregated at Banking Group level. Such actions may be related to specific credit hedges, may involve macroeconomic hedges that seek to provide indirect mitigation of earnings at risk in certain businesses; or they may involve the procurement of insurance against other operational risks where this is judged to be economically sensible.

These central functions are also responsible for the management of the Bank's capital and liquidity position, which provide the final buffer against insufficient business performance under extremely severe economic conditions. For the purpose of determining the Bank's strategy with respect to capital management actions and the setting of its dividend policy, scenario analyses are employed extensively as supplements to budgets based on consistent planning assumptions and stress scenarios.

A disjointed view on risk and its interaction with more traditional accounting aspects of financial institutions' businesses (eg mark-to-market ("MTM") requirements) has been an important driver of the recent financial crisis. The practices instituted at the Bank are intended to ensure that capital and liquidity-related decisions can be taken in a well-coordinated and pro-active manner on the basis of a consistent, integrated view incorporating aspects of both finance and risk domains, should the need arise.

## STRESS TESTING AND SCENARIO-BASED PLANNING

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

Over the past year, the Banking Group has implemented a comprehensive stress testing framework that formalises the application of scenario-based thinking and stress analyses in its business processes. The design of this stress testing framework built on and consolidated practices that already existed in various businesses as well as the established risk functions.

The most important reflection of these practices is the usage of stress analyses in the planning and budgeting process where all businesses are required to base their forecasts on a consistent set of planning assumptions.

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

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

As indicated in the preceding section, stress testing and scenario analyses have been integrated across the traditionally separate domains of risk and finance. They are an important tool for management decision making on a range of topics, including strategy setting and risk appetite considerations.

## AUDIT

GIA provides independent assurance to the FRBH board through its Audit committee. The function is led by the Group Audit Executive who reports to the Group COO while also retaining an independent functional reporting line into the Chairman of the FRBH Audit committee who is a non-executive member of the FRBH board.

The Chief Audit Executive has direct, unrestricted access to the Chief Executive Officer of the Banking Group, the executives in the respective franchises as well as all FirstRand functions, records, property and personnel.

With respect to risk and capital management, the GIA forms the third line of assurance and control across the organisation and oversees all processes related to financial risks and internal controls, financial reporting and the monitoring of the results of internal and external audit processes. It is responsible for ensuring that:

- risks are appropriately identified and managed;
- significant financial, managerial and operational information is accurate, reliable and timely;
- resources and assets are effectively and efficiently utilised and adequately protected;
- employees' actions are in compliance with policies, standards, procedures and applicable laws and regulations;

- significant legislative or regulatory issues impacting the organisation are recognised and addressed appropriately;
- the adequacy and effectiveness of the organisation's corporate governance, risk and control frameworks are assessed rigorously; and
- processes for controlling and managing its activities and associated risks are adequate.

GIA coordinates its efforts with the other control and monitoring functions – ERM, Regulatory Risk Management ("RRM") and external auditors. As indicated in the governance section, GIA representatives attend all Audit and RCC committee meetings across the Banking Group. In addition, the GIA also attends various governance and management committees in order to remain informed about new developments in the business and to align its risk-based audit approach accordingly.

The GIA team conducts audit work, or any other task, in accordance with the internal auditing standards set by the globally recognised Institute of Internal Auditing ("IIA"). This requires compliance with the Standards for Professional Practice of Internal Auditing ("SPPIA"), in particular, the codes of conduct and ethics that are promulgated from time to time by relevant professional bodies, and any other corporate governance initiatives.

To ensure a consistent standard of quality and detail, all audit reports are reviewed by the GIA Quality Assurance Department in addition to the respective audit committees in the business units. Internal audit practices and activities are also assessed independently by the external auditors on an annual basis, in line with the International Standards of Auditing, ISA 610: *Considering the Work of Internal Audit*. This standard requires that the external auditors assess GIA in order to determine the use that may be made of the work of internal audit in modifying the nature and timing, and in reducing the extent of external audit procedures.

## CAPITAL MANAGEMENT

Allocating resources, including capital and risk capacity effectively, in terms of the Banking Group's risk appetite and in a manner that maximises value for shareholders, is a core competence and a key focus area for the Bank and, as such, sound capital management practices form an important component of its overall business strategy.

### Strategic overview

The Bank seeks to establish and manage a portfolio of businesses and risks that will deliver sustainable returns to its shareholders. In doing so, the Bank targets a particular earnings profile that will allow it to generate these returns within appropriate levels of volatility.

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

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

The Bank's capital planning efforts ensure that the total capital adequacy and Tier 1 ratios remain within the approved ranges or above target levels (Tier 1) across the economic and business cycle. In light of the volatility and distress evident in financial markets internationally, FRB is pleased to have successfully managed to meet its goal of operating at the upper end of its targeted capitalisation range during times of financial and economic stress.

### The year under review (not audited unless otherwise indicated)

Recent events in the international financial markets have increased the focus of stakeholders on both the level and quality of capital in banks. As indicated above, FRB has strengthened its capital adequacy ratios significantly, with a Tier 1 ratio of 10,70% and a total capital adequacy ratio of 13,11%. This compares to 9,44% and 12,28% in 2008, respectively. The core Tier 1 ratio was strengthened to 9,62% in June 2009 (2008: 8,41%) despite pressure on profitability during the year under review. The overall increase in the Tier 1 ratio is largely a function of the conversion of convertible debt instruments to ordinary shares as well as the reduction of the total risk weighted assets ("RWA") discussed below.

In this context it is important to highlight that the targeted capital ratios for FRB was increased in June 2008 and that these new levels have been achieved. The targeted capital levels as well as the current ratios are summarised in the table below:

| | FRB† | | |
|---|---|---|---|
| | Actual | Target | Regulatory minimum |
| Capital adequacy ratio (%) | 13.11 | 11.5 –13.0 | 9.50* |
| Tier 1 ratio (%) | 10.70 | 9.50 | 7.00 |

**The regulatory minimum excludes the bank-specific (Pillar 2b) add-on.*
***Ratios above exclude unappropriated profits of R704 million.*
*†Reflects solo supervision, ie FRB excluding branches, subsidiaries and associates.*

### *Supply of capital – Tier 1*

The Banking Group aims to back all economic risks with Tier 1 capital as it offers the greatest capacity to absorb losses. Consequently, required Tier 1 capitalisation levels are used as the primary driver of performance measurement across the various businesses. Tier 1 capitalisation ratios were primarily affected by lower levels of profitability over the year under review, the payments of dividends (albeit in line with the decline in earnings), as well as the required regulatory adjustment reflecting the excess of expected losses over provisions raised for the Bank. Further increases in the regulatory impairment for FRB were driven by the capital injections into the London and India branches.

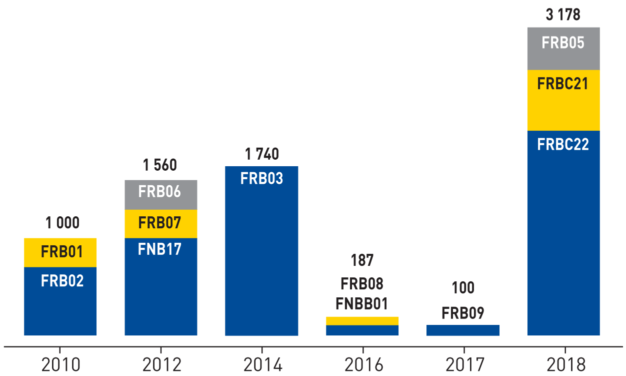
### *Supply of capital – Tier 2*

During the year under review, the FRBH board took a decision to exercise an option to convert the FRB1999 debentures to ordinary shares. This constituted an early exercise of the conversion option, which had an original maturity date of June 2009 (board decision date: 17 November 2008). The conversion resulted in an increase of the Tier 1 ratio with a corresponding decline in the Tier 2 ratio.

The current pricing of subordinated bond instruments, the limited ability of such instruments to absorb losses and the Bank's reduced risk appetite make the issuance of these instruments unattractive at present. Accordingly, no new Tier 2 instruments were issued during the year under review. FRB has not experienced any disruptions in the domestic debt markets and it will continue to consider subordinated debt instruments as part of its long term funding strategy, with the aim of maintaining Tier 2 capitalisation levels and therefore issuances within the range set out above, while not exposing the Bank to excessive roll-over risk. It is the intention of the Bank to redeem all instruments on call date. The following graph provides an overview of the maturity profile of the instruments currently outstanding:

Tier 2 maturity profile

(R million)




### *Demand for capital*

With the introduction of Basel II, capital requirements expressed as a percentage of RWA have become more risk sensitive and thus more cyclical than under the previous regime. This cyclicality is to a large extent driven by external factors that affect the Bank's risk measures across various portfolios and thus drive its capital requirements.

While credit RWAs for FRB have continued to increase as a result of a deteriorating economic environment, the overall RWA position for FRB and FRBH has improved, driven by a number of initiatives implemented over the year under review. These savings have led to a marked decline in the level of overall RWA which lifted the Tier 1 and total capital adequacy ratios during the year.

The decline in RWAs took place mainly in the second half of the year and was predominantly driven by the following factors, namely:

- credit risk – lower economic activity and credit re-risking (see page 16 onward);
- operational risk – AMA was implemented and applied for all domestic operations from March 2009 onwards, (see page 53 onward); and
- equity investment and market risk – the Banking Group continued to de-risk its balance sheet domestically and internationally, (see pages 44 and 41).

The following table shows the composition of regulatory capital (financial resources) for FRB at 30 June 2009, while the subsequent tables provide a breakdown of risk weighted assets and the approaches to calculate them:

*Composition of qualifying capital*

| R million | 2009 | 2008 |
|---|---|---|
| **TIER 1:** | | |
| Ordinary share capital and share premium* | **10 821** | 7 568 |
| Minority interest* | | - |
| Non redeemable non cumulative preference shares* | **3 000** | 3 000 |
| Reserves | **17 682** | 17 363 |
| Less: Total impairments | **(1 782)** | (575) |
| Excess of expected loss over eligible provisions (50%) | **(325)** | (379) |
| Qualifying capital in branches | **(1 297)** | - |
| Goodwill and other impairments | **(160)** | (196) |
| Total Tier 1 capital | **29 721** | 27 356 |
| Tier 2: | | |
| Upper Tier 2 instruments | **1 068** | 1 068 |
| Tier 2 subordinated debt instruments | **5 872** | 7 513 |
| Less: Total impairments | **(234)** | (379) |
| Excess of expected loss over eligible provisions (50%) | **(325)** | (379) |
| Other impairments | **91** | - |
| Total Tier 2 capital | **6 706** | 8 202 |
| Total qualifying capital and reserves | **36 427** | 35 558 |

**Audited.*

*Risk weighted assets by risk type*

| R million | 2009 | 2008 |
|---|---|---|
| Credit risk | **205 472** | 200 424 |
| Operational risk | **35 000** | 44 352 |
| Market risk | **7 809** | 10 369 |
| Equity investment risk | **17 469** | 21 042 |
| Other risk | **12 071** | 13 467 |
| **Total risk weighted assets** | **277 821** | 289 654 |

Risk weighted assets for each risk type are calculated as indicated in the table below:

*RWA calculation approach for each risk type*

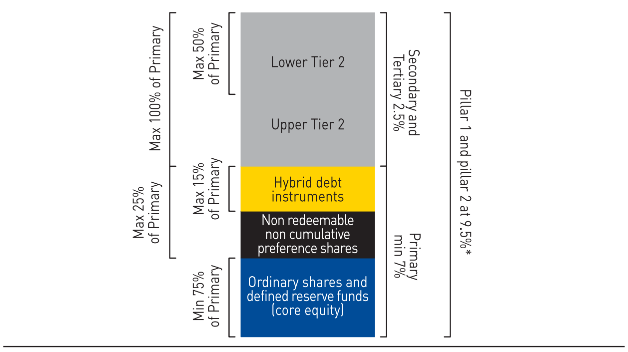
| Risk type | FRB |
|---|---|
| Credit risk | Advanced Internal Ratings Based approach |
| Operational risk* | Advanced Measurement Approach |
| Market risk | Internal model approach |

**Approval for the application of the AMA was given by the SARB from 1 January 2009.*

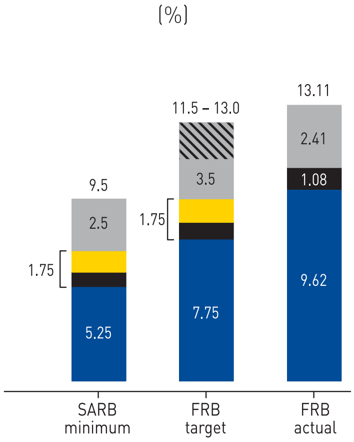
The chart below depicts the current capital adequacy position:

## Capital adequacy position and composition of qualifying capital

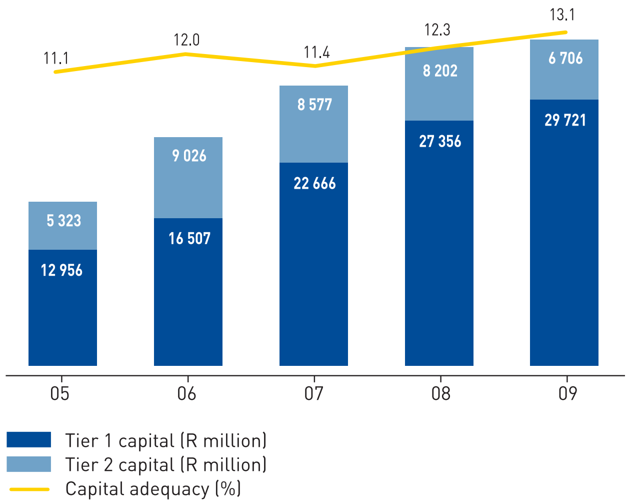
Minimum capital adequacy




Capital adequacy
(%)




FRB




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

## Economic capital

In addition to the regulatory capital requirements discussed in the previous section, the Bank also calculates its economic capital requirements on the basis of a number of internally developed models. It defines economic capital as the level of capital it must hold, commensurate to its risk profile under severe stress conditions, to give comfort to a range of stakeholders that it will be able to satisfy all its obligations to third parties with a desired degree of certainty and that it would continue to operate as a going concern.

Regular reviews of the economic capital position are carried out across the businesses. The Banking Group remains well capitalised in the current environment, with levels of Tier 1 capital exceeding the level of economic capital required. As indicated in the preceding section, the Bank aims to back all economic risks with Tier 1 capital. Furthermore, it uses the allocation of capital as a steering tool and as one expression of risk capacity used for performance measurement purposes. To this end, and considering the need for achieving an adequate return on all capital held by the Bank, capital is allocated to business units as the maximum of the following, including a buffer, namely:

- regulatory capital;
- economic capital; and
- net asset value (shareholder funds).

The Internal Capital Adequacy Assessment Process ("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 emergence of risks not previously considered. This process is also supported by the Banking Group's stress testing and scenario analysis framework described on page 11.

The allocation methodology for economic capital is broadly based on the approaches set out as part of the Advanced Internal Ratings Based ("AIRB") component of Basel II, with the exception of credit risk, which is considered at a product level. A number of assumptions are necessarily made in the attribution and allocation methodologies. These are reviewed periodically and any changes will have a direct impact on business unit level measures such as economic profit or net income after capital charge ("NIACC"). The economic capital framework incorporates aspects of the portfolio's composition in its calibration and reflects the effects of risk concentrations (eg large exposures and industry concentrations) and diversification benefits.

## RISK METHODOLOGIES

As indicated in the introduction to this risk and capital management report, the Banking Group considers the development and embedding of risk assessment and management methodologies and models as a requirement for effective risk management practices that can support the Bank in attaining its strategic objectives.

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

## CREDIT RISK

Credit risk is the risk of loss due to the non-performance of a counterparty in respect of any financial or performance obligation. For fair value portfolios the definition of credit risk is expanded to include the risk of losses through fair value changes arising from changes in credit spreads.

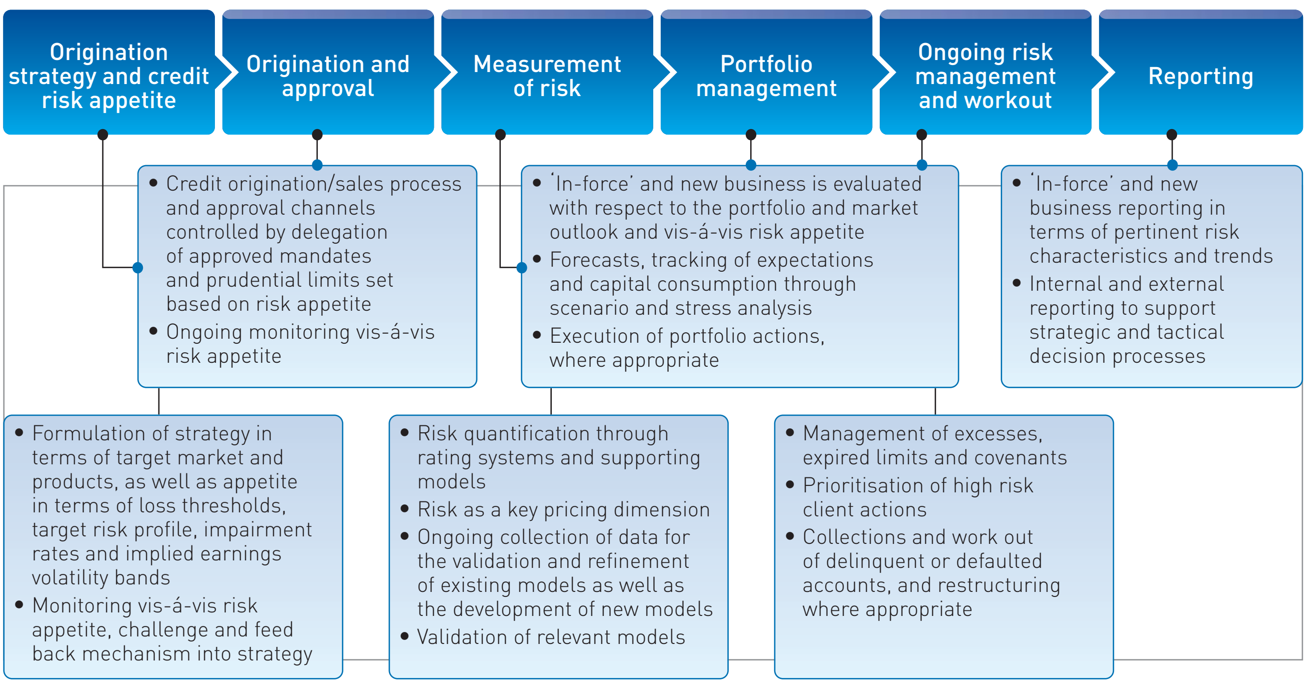
### Introduction and objectives

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

1. Risk control: Appropriate limits need to be placed on the assumption of credit risk and steps have to be taken to ensure the accuracy of credit risk assessments and reports. Deployed and central credit risk management teams fulfil this task.
2. Management: Credit risk needs to be taken within the constraints of the Banking Group's risk appetite framework and the credit portfolio is managed at an aggregate level to optimise the Banking Group's exposure to this risk. The business units and the deployed risk functions, overseen by the central ERM function and relevant board committees, as well as the Credit Portfolio Management ("CPM") team in the BSM function fulfil this role

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

### Scope of credit risk management and identification practices



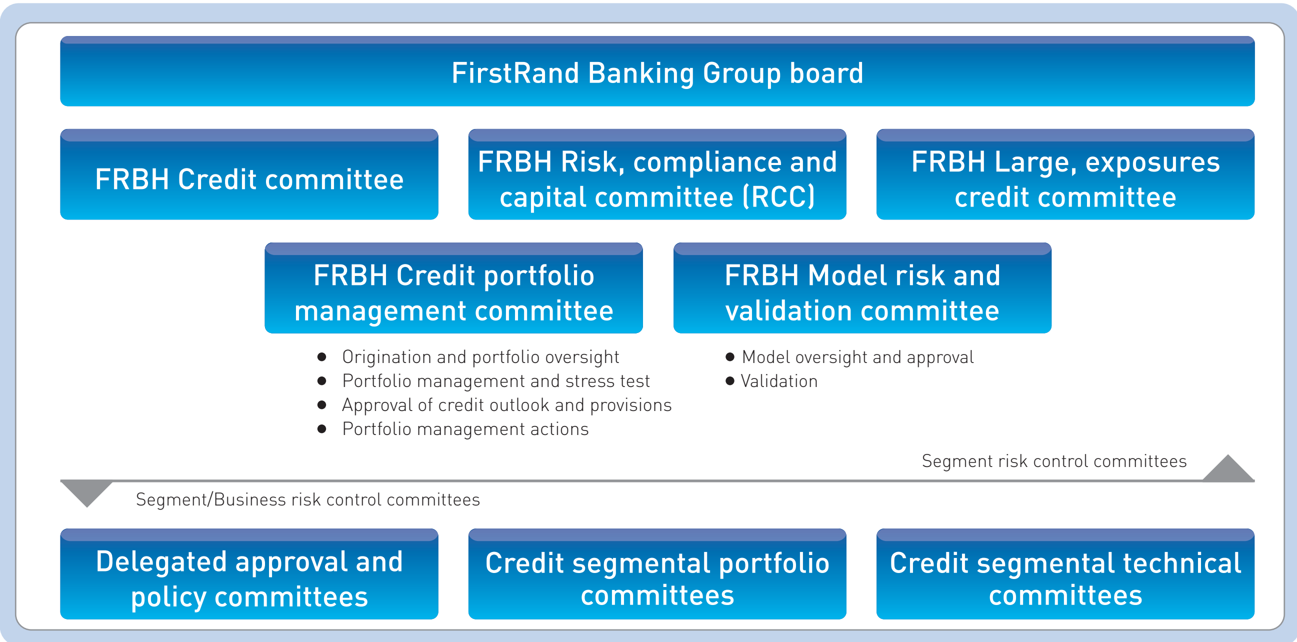
## Organisational structure and governance

As described in the risk governance section (page 7) the ultimate responsibility for the identification and adequate management of risks rests with the board, which has delegated its responsibility for overseeing credit risk to the RCC, its respective subcommittees and the boards of the Banking Group's subsidiaries. The credit risk management governance structures, related roles and responsibilities as well as lines of accountability are set out in the Credit Risk Management Framework ("CRMF").

Approved by the RCC, the CRMF is a policy of the board and integrates with the BPRMF (see page 7). As the primary risk governance body in the Bank, the RCC regularly receives and reviews reports on the adequacy and robustness of credit risk identification, management and control processes, as well as reports on the current and projected credit risk profile across the various businesses.

Two credit focused board committees, the Banking Group Credit committee and the Large Exposures Credit committee as well as two subcommittees of the RCC, the FirstRand Banking Group Credit portfolio risk committee and the Model risk and validation committee, support the RCC in this task. This has been illustrated graphically in the chart below:

### Credit risk governance structure and committees




The Credit portfolio risk committee ("Credit Exco") is responsible for the management of the credit risk profile at a strategic level through the review of reports and the execution of specific actions on:

- the macroeconomic outlook generally, and the forecasts of credit conditions specifically;
- the credit risk profile and the performance of the credit portfolio, in particular with respect to the appropriate level of impairment charges;
- new business origination with reference to the Bank's credit risk appetite and suitable adjustments on the basis of the macro cycle;
- scenario and sensitivity analyses, stress tests and credit economic capital; and
- credit concentrations.

The Model risk and validation committee fulfils a supervisory role with respect to credit risk measurement systems such as the Bank's rating models. It regularly reviews, challenges and approves reports on the design and operation of these systems and it retains ownership of the Banking Group's model development and validation frameworks.

As indicated in the FRBH risk governance section (page 7), three primary lines of risk control have been established across the Bank's operations. Deployed and central risk management functions are the second tier of this control structure.

The Banking Group Credit Risk Management ("GCRM") function in ERM provides independent oversight of the credit risk management practices in the deployed risk management functions in the businesses and of the CPM function in BSM. It is the owner of the CRMF and related policies and monitors the implementation of credit risk related frameworks. In addition its responsibilities include:

- monitoring of the credit components of the Banking Group's risk appetite framework;
- monitoring of the Bank's credit risk profile and reporting thereof;
- review of all credit rating systems and the independent re-validation of material credit rating systems;
- management of the relationships with external stakeholders such as relevant regulators with respect to credit matters;
- supervision of the credit impairment process; and
- regulatory reporting.

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

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

The CPM function in BSM, on the other hand, is responsible for management of the balance sheet with respect to credit risk and thus fulfils both an operational and a central coordination role. Its mandate includes:

- the formulation of the 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 the ICAAP and the assessment of appropriate capital buffers;
- active participation in the formulation of credit and origination strategies, in particular with a view to the implementation and management of the Bank's credit risk appetite across the business units;
- credit risk related stress testing, scenario analysis and portfolio modelling;
- assessment of impairments, their analysis, forecasting and reporting;
- the coordination of the Bank's securitisation process as well as the design and initiation of structured credit transactions aimed at optimising the credit risk profile and the balance sheet; and
- credit risk reporting to stakeholders such as the Credit portfolio risk committee.

## Credit risk assessment: Calculation of internal ratings and rating process

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

Credit risk models are employed widely in a number of areas such as the assessment of capital requirements, pricing, impairment calculations and the stress testing of the portfolio. All of these models are built on a number of client and facility rating models in line with Basel II AIRB requirements. FRB has been granted regulatory approval for the use of its internal models under the AIRB approach. The remaining FRBH subsidiaries are utilising the Standardised Approach for regulatory reporting purposes under the Basel II framework, even though the same or similar models are applied for the internal assessment of the three primary credit risk components, as outlined in the following sections.

### *Probability of default ("PD")*

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

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

The Bank applies this definition of default consistently across all credit portfolios as well as in the recognition of non-performing loans for accounting purposes.

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

### Mapping of FR grades to rating agency scales (not audited)

| FR rating | Mid-point PD | International scale mapping* |
|---|---|---|
| FR 1 – 12 | 0,04% | AAA, AA, A |
| FR 13 – 25 | 0,27% | BBB |
| FR 26 – 32 | 0,77% | BB+, BB |
| FR 33 – 37 | 1,34% | BB- |
| FR 38 – 48 | 2,15% | B+ |
| FR 49 – 60 | 3,53% | B+ |
| FR 61 – 83 | 6,74% | B |
| FR 84 – 91 | 15,02% | B- |
| FR 92 – 94 | | Below B- |
| FR 95 – 100 | 100% | D (defaulted) |

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

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

In line with international best practice, the Banking Group distinguishes between point-in-time ("PIT") and through-the-cycle ("TTC") measures of PD. PIT PDs reflect default expectations in the current economic environment and thus tend to be more volatile than TTC PD measures which reflect long term, average default expectations over the course of the economic cycle. Both measures are used for the management of the business and the exposure to credit risk. For example, PIT PDs are typically used in the calculation of impairments for accounting purposes whereas TTC PDs are an input to economic and regulatory capital calculations, providing for a more stable assessment of capital requirements through the business cycle.

### *Exposure at default ("EAD")*

The exposure at default of a particular facility is defined as the expected exposure the Bank may have to a counterparty through the facility, should the counterparty default over the next year. It reflects commitments made and facilities granted by the Bank that have not been paid out and that may be drawn over the time period under consideration (off balance sheet exposures). It is also a measure of potential future exposure on derivative positions.

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

### *Loss given default ("LGD")*

Loss given default is the third major credit risk component estimated by the Bank on the basis of its internal models. It is defined as the economic loss the Bank is expected to suffer on a particular facility upon default of the counterparty, and it is typically expressed as a percentage of exposure outstanding at the time of default.

In most portfolios, the LGD is strongly dependent on the type, quality, and level of subordination and value of collateral held by the Bank compared to the size of the overall exposure as well as the effectiveness of the recovery process and the timing of cash flows received during the workout or restructuring process.

A number of models are used for the assessment of LGD across various portfolios, which have been developed internally and whose outputs are calibrated to reflect both the Bank's internal loss experience, where available, as well as external benchmarks, where appropriate.

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

### *Rating process*

The Bank employs a consistent rating process across the various businesses, differentiated by the type of counterparty and thus the type of model employed for rating purposes. For example, retail portfolios are segmented into homogenous pools in an automated process based on statistical models of customer behaviour, data gathered from customer applications, a client's delinquency status and other client or product specific parameters. Based on the Bank's internal product-level data, probabilities of default are then estimated (and continuously updated) for each pool.

A combination of external models, such as Moody's RiskCalc, and internally developed models are used in the commercial and corporate portfolios, where clients are typically scored on the basis of their financial strength and PDs are estimated based on historical internal default data. For larger counterparties in the corporate portfolios, as well as for complex bespoke transactions, detailed individual assessments are carried out within a framework that combines qualitative and quantitative analyses with the output of internally developed statistical models, which have been calibrated to the Bank's internal and external data, covering more than ten years.

The following table summarises the processes and approaches employed and it provides an overview of the types of exposures within each of the Banking Group's portfolios:

## Credit portfolios and rating process

| Portfolio and type of exposures | Description of rating system |
|---|---|
| **Large corporate portfolios (Wholesale: FNB Corporate, BSM & RMB)**<br><br>Exposures to private sector counterparties including corporates and securities firms, and public sector counterparties.<br>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.<br><br>**Rating process:**<br>• The rating assignment to corporate credit counterparties is based on a detailed individual assessment of the counterparty's credit worthiness.<br>• 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.<br>• 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.<br>• The rating assessment is reviewed by the FRBH Credit committee and the rating (and associated PD) is approved by this committee.<br>• No overrides of the ratings or the PDs are possible after approval by this committee.<br>• LGD and EAD estimates are based on modelling of a combination of internal and suitably adjusted international data. |
| **Low default portfolios: Sovereign and Bank exposures (Wholesale: FNB Corporate, BSM & RMB)**<br><br>Exposures to sovereign and Bank counterparties. | The default definitions applied in the rating systems are aligned to the requirements of Basel II.<br>**Rating process:**<br>• Expert judgment 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.<br>• The calibration of PD and LGD ratings is based on a mapping to external default data as well as credit spread market data.<br>• The rating assessment is reviewed by the FRBH Credit committee and the rating (as well as the associated PD) is approved by this committee.<br>• No overrides of the ratings or the PDs are possible after approval by this committee. |
| **Specialised lending portfolios (Wholesale: FNB Corporate, RMB & FNB Commercial)**<br><br>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.<br>**Rating process:**<br>• 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.<br>• The rating assessment is reviewed by the FRBH Credit committee and the rating (as well as the associated PD) is approved by this committee<br>• No overrides of the ratings or the PDs are possible after approval by this committee. |

<table>
<tr><th>Portfolio and type of exposures</th><th>Description of rating system</th></tr>
<tr><td>Commercial portfolio<br>(SME corporate and SME retail counterparties in FNB Commercial and WesBank)<br><br>Exposures to SME clients.<br><br>A wide range of products give rise to credit exposure, including loan facilities, contingent products, and term lending products.</td><td>The default definitions applied in the rating systems are aligned to the requirements of Basel II.<br><br>SME retail rating process:<br>• 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.<br>• Probabilities of default are estimated for each subpool based on internal product level history associated with the respective homogeneous pools and subpools.<br>• LGD and EAD estimates are applied on a portfolio level, estimated from internal historical default and recovery experience.<br><br>SME corporate rating process:<br>• Counterparties are scored using Moody's RiskCalc, the output of which has been calibrated to internal historical default data.<br>• 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.<br>• Portfolio level credit conversion factors (CCF) are estimated on the basis of the Bank's internal historical experience and benchmarked against international studies.</td></tr>
<tr><td>Residential mortgages<br>(Retail portfolios in FNB HomeLoans, RMB Private Bank exposures, and mortgage exposures in the Mass segment)<br><br>Exposures to individuals for the financing of residential properties.</td><td rowspan="3">The default definition applied in the rating systems is aligned to the requirements of Basel II.<br><br>Rating process and approach:<br>• 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.<br>• Probabilities of default are estimated for each subpool based on internal product level history associated with the respective homogeneous pools and subpools.<br>• No overrides of the PDs are possible. The only potential override is not that of the PD, but rather of the automated decision to lend or not. Such overrides may be done on the basis of credit managers' judgement in a structured process supported by pertinent business reasons.<br>• LGD and EAD estimates are based on subsegmentation with reference to the collateral or product type as well as associated analyses and modelling of historical internal loss data.<br><br>Additional notes on qualifying revolving retail exposures:<br>• These exposures are unsecured and therefore only the efficiency of the recovery processes impacts on the level of LGD.<br>• EAD measurement plays a significant role in the assessment of risk due to the typically high level of undrawn facilities that are characteristic for these product types. EAD estimates are based on actual historic EAD, segmented appropriately (eg straight vs. budget in the case of credit cards).</td></tr>
<tr><td>Qualifying revolving retail exposures<br>(Retail portfolios in FNB Card, FNB Consumer overdrafts and RMB Private Bank)<br><br>Exposures to individuals for the financing of residential properties.</td></tr>
<tr><td>Other retail exposures<br>(Retail portfolios in FNB Personal Loans, Smart Products and WesBank retail auto finance and personal loans)</td></tr>
</table>

### Model validation

The Bank's rating models are recalibrated and independently validated on an annual basis to ensure their validity, efficacy and accuracy. The rating models used across the credit portfolios incorporate an appropriate degree of conservatism, which has been achieved through the prudent choice of model parameters and the inclusion of downturn periods such as 2001 and 2007/2008 in their calibration.

The independent validation of the Bank's rating systems is carried out by the Banking Group Credit Risk Management function in ERM. It is responsible for the review of all rating systems and a comprehensive revalidation of all material rating systems on an annual basis. An actuarial auditing team in GIA carries out additional reviews of the rating systems as well as sample revalidations. The results of these analyses are reported to the Model risk and validation committee. As part of this process extensive documentation covering all steps of the model development lifecycle from inception through to validation is maintained. This includes:

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

### Credit risk management

The management of individual credit exposures and the credit portfolio as a whole is a core competence of the Bank with commensurate responsibilities shared across business and risk teams as well as deployed and central functions. The individual businesses seek to optimise the risk/return profile of their respective credit portfolios and control their risk exposure through the processes and within the risk appetite constraints set out by the Bank.

Central risk control functions provide the appropriate oversight of this management process and the CPM team in BSM seeks to optimise the overall credit portfolio so as to ensure that diversification effects are duly reflected when evaluating the risk profile against risk appetite constraints and managing the portfolio against these limits.

The primary components of the management process are thus shared and consist of control mechanisms, risk mitigation strategies, approaches to managing credit risk concentrations and a consistent framework for the monitoring of weak and high-risk exposures.

#### *Control mechanisms*

As indicated in the credit risk governance section, risk control is exercised primarily by deployed and central risk management functions. Banking Group Credit Risk Management, as part of the ERM function, is the ultimate owner of credit risk relevant frameworks and policies and provides oversight of their implementation by the deployed risk management personnel.

Additionally, it facilitates credit risk control through the production of relevant reports for the board, senior management and the regulator. A third component of its mandate is the independent validation of credit risk rating systems across the Bank. As indicated in the preceding section, the team seeks to ensure that credit rating systems are appropriately conservative and that their calibration is sufficiently reflective of periods of economic downturn. An actuarial team in GIA carries out additional reviews and pertinent documentation is ultimately submitted to the Model risk and validation committee for approval.

#### *Mitigation*

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

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

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

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

### *Management of concentration risk*

Concentration risk is managed in the respective credit portfolios with aggregate monitoring taking place at Banking Group level through the GCRM and CPM functions in ERM and BSM respectively.

In the wholesale credit portfolio, concentrations are managed primarily through single name limits for large exposures as well as the evaluation of country and industry concentrations. The assessment of credit concentrations and their potential impact on this portfolio is based on a sophisticated, simulation-based portfolio model. The Banking Group also uses securitisation structures and credit derivatives to manage concentration risk, as discussed in the governance section with respect to the CPM function's mandate.

In commercial portfolios, the Bank is focused on maintaining an appropriate balance of exposures across industries with a view to mitigating residual risks at a Banking Group level, where appropriate and economically feasible. Due to the inherent diversification of retail portfolios, credit risk concentrations in these segments are largely driven by the reliance on a small number of collateral types. These concentrations are monitored and managed in the respective business segments (eg exposure to geographical areas and LTV bands for mortgage portfolios).

### *Monitoring of weak exposures*

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

Across the wholesale credit portfolios, watch lists of high risk clients are maintained alongside specific and detailed action plans for each client. These are actively monitored and updated on at least a monthly basis through the respective credit committees in the business area. The Bank seeks to reduce or mitigate its exposure to such clients through the restructuring of facilities where appropriate, through the use of credit derivatives, and ultimately, through an efficient workout and the realisation of collateral value in the event of default.

In retail credit portfolios, weak exposures are monitored on a (homogeneous) portfolio basis. Certain weak exposures are restructured to increase the projected realised value for the Bank. Additionally, the Banking Group typically reduces or removes undrawn facilities in areas such as HomeLoans and Credit Cards, or requires further revaluation of properties before approval of additional facilities. Commercial and other portfolios of clients that fall between the corporate and retail segments are treated in a hybrid manner, dependent on the number of exposures and the size of individual transactions.

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

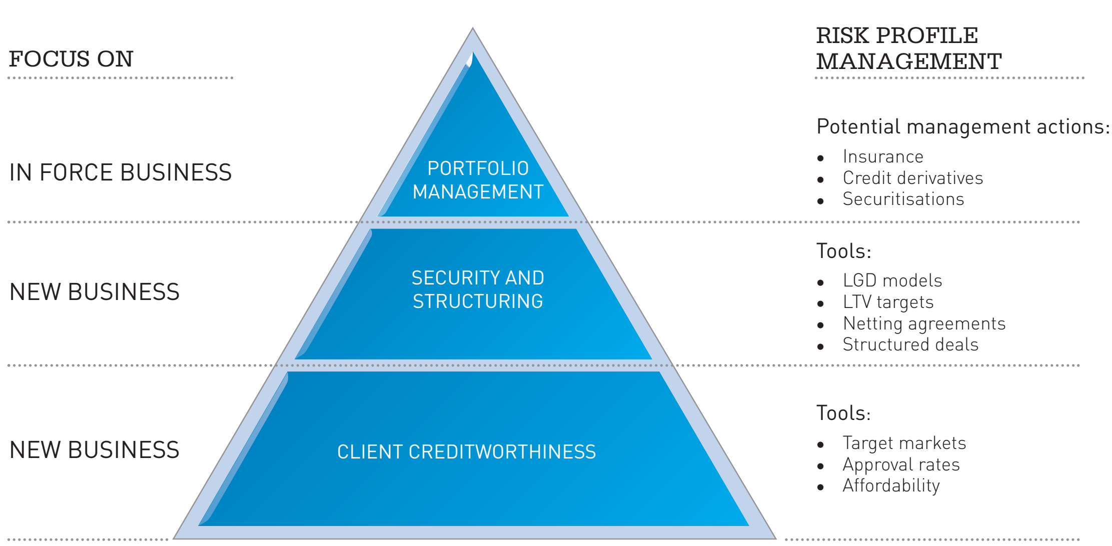
### Use of credit risk measures

The Bank uses credit risk measures in a large number of business processes, including pricing, the setting of impairments, in determining capitalisation levels, and in determining overall business strategy, risk appetite and the choice of appropriate return targets.

As the largest risk type in terms of regulatory and economic capital requirements, credit is a particularly prominent component of the Bank's risk appetite framework. Credit risk tools and measures are used extensively in the determination of its current credit risk profile as well as its credit risk appetite (see chart below):

Management of the credit portfolio is also heavily reliant on the

### Use of credit measures



credit risk measures discussed in the preceding sections. In this context, PD, EAD and LGD are inputs into the portfolio and Banking Group level credit risk assessment where they are combined with estimates of correlations between individual counterparties and industries to reflect diversification benefits across the Bank's portfolio of credit risks.

Expected loss ("EL"), the product of the primary risk metrics PD, EAD and LGD, is a forward looking measure of portfolio or transaction risk. It is used for a variety of purposes across the business alongside the other risk measures. The following table describes the usage of risk concepts and metrics across a number of key areas and business processes related to the management of the credit portfolio:

## Use of credit measures in the credit lifecycle

| AREA | WHOLESALE | RETAIL |
|---|---|---|
| **Credit approval** | Ratings form an explicit and integral component of the approval decision, both with respect to the targeted portfolio composition in terms of applicable risk appetite limits (eg: ratings profile) and with respect to the value proposition based on the projected risk adjusted return on economic capital (for which PD, EAD and LGD are key inputs). | Credit approvals are largely automated on the basis of application scorecards and applicable policy. These are reflective of PD, EAD and LGD. |
| **Determination of individual and portfolio limits** | The setting of limits at a client level and the ongoing evaluation of industry and geographical concentrations are key aspects of the determination of the overall credit strategy (see below).Rating is an important consideration in this process and risk related limits on the composition of the portfolio are used to ensure compliance with the Bank's credit risk appetite. | See Wholesale. In addition retail portfolios are regularly evaluated with respect to modelled vs. actual experience in the setting of credit risk appetite. |
| **Reporting to senior management and the board** | Portfolio reports are collated on an ongoing basis and these are presented to and discussed regularly at relevant business and deployed risk committees. Quarterly portfolio reports are also submitted to the FRBH Credit risk committee, the Wholesale credit technical committee and the board RCC. | See Wholesale. Reports are also submitted to the Retail and SME credit risk technical committee and the board RCC. |
| **Provisioning** | PD and LGD estimates are used extensively in the assessment of impairments and thus in the calculation of provisions. | PIT, long run LGD and roll rates are used in the derivation of specific, portfolios and IBNR provisions. |
| **Regulatory and economic capital allocation** | As the primary credit risk metrics PD, EAD and LGD are the most important inputs for both regulatory and economic capital models. | See Wholesale. |
| **Profitability analysis and pricing decisions** | The primary risk metrics are the core parameters of the pricing calculator used for each transaction. For each application a "value proposition"section has to be completed that provides a rationale for the transaction on a risk adjusted basis. | PIT PDs, downturn LGDs and EADs are used in assigning appropriate price points to each risk rating. Profitability is assessed in terms of economic profit (NIACC). |
| **Credit monitoring and risk management** | The monitoring of exposures is dependant on the risk assessment as given by PD , EAD and LGD. FR grades are updated on a regular basis to reflect the organisation's assessment of obligator risk. The risk parameters are also used in the Banking Group's portfolio model as well as other tools which attribute additional capital to large transactions or to deals that further increase the concentration of risk in the Bank's portfolio. | See Wholesale. Extensive analysis of portfolio and risk movements are carried out on a monthly basis, which are used in portfolio management and credit strategy decisions. |
| **Determination of portfolio and client acquisition strategy** | Credit portfolio strategy is driven by the Bank's assessment of overall portfolio credit risk, which is based on a portfolio model driven by the primary risk metrics. In this context, acquisition and overall strategy are sent in terms of appropriate limits so as to ensure that the credit portfolio remains within the overall risk appetite prescribed by the board. | See Wholesale. Credit models are also used to determine loss thresholds across retail portfolios, which are a direct consideration in the setting of credit risk appetite. |
| **Performance management and compensation** | The primary risk metrics are key parameters for the calculation of deal pricing and they are also used in the assessment of "Economic Value Added" by a transaction or a business unit. From an operational perspective, each deal is evaluated with respect to the value added and compensation structures are tied to the metrics. | See Wholesale. By necessity analyses tend to be carried out at a portfolio level but performance are measured consistently on the basis of capital consumption and economic value added in the form of economic profit. |

## Discussion of the credit portfolio

As indicated in the introduction to this risk and capital management report, the Bank continues to lend across all sectors and products, albeit with a continued focus on mitigating heightened levels of credit risk caused by the current economic downturn. Credit criteria have been tightened carefully over the reporting period, in particular in the mortgage portfolio where more stringent customer affordability assessments are carried out, but also in the commercial and corporate segments where cash flow stress tests are applied. Paired with lower credit demand and lower application quality, this has resulted in lower lending volumes across the franchises.

The Banking Group's aggregate credit strategy remains cautious given its core macroeconomic view of lower expected economic growth and uncertainties around further job losses in the South African economy. The Bank expects the current industry trend of moderating demand and supply of credit relative to recent years to continue over the short term.

There are, however, a number of areas that offer attractive risk and return opportunities for the Bank in the current environment and it has therefore aligned its credit strategy and associated policies to selectively target these opportunities without compromising on the set of overall credit quality criteria stipulated in its credit risk appetite.

### *Retail credit portfolios*

During the period under review interest rate reductions did not yet result in a meaningful decrease in arrears and non performing loan levels. The increase in non performing loans reported in this section is largely driven by the residential mortgage book, constituting approximately half of the reported total non performing loans figure.

The reduction in interest rates in recent months is expected to provide some support for consumer cash flows, which is expected to contribute to a moderation in retail credit impairments going forward. This moderation should, however, be considered in relation to the likely time required for the repair of consumers' balance sheets as well as the expected negative GDP growth in the short term that may result in further income or job losses.

### *Wholesale portfolios*

The SME and the corporate sectors are expected to remain vulnerable to the slow down in economic activity, with default risk for large corporate clients expected to remain at elevated levels. For the period under review, the wholesale environment has shown resilience to the economic downturn, with the exception of small business portfolios, which are highly correlated with the retail market. The increase in impairment charges and non performing loan figures for the wholesale portfolio thus relate primarily to the Bank's commercial portfolio as well as the Dealstream default.

### *Credit assets*

The following table provides a breakdown of the Banking Group's credit assets by segment, including off balance sheet items:

### *Credit assets by type and segment (audited)*

| R million | 2009 | 2008 |
|---|---|---|
| Cash and short term funds | 17 645 | 19 088 |
| – Money at call and short notice | 875 | 828 |
| – Balances with central banks and guaranteed by central banks | 10 837 | 10 390 |
| – Balances with other banks | 5 933 | 7 870 |
| Gross advances | 393 916 | 407 196 |
| FNB | 198 989 | 197 838 |
| – FNB Retail | 160 712 | 153 021 |
| – FNB Corporate | 11 415 | 20 708 |
| – FNB Commercial | 26 862 | 24 109 |
| WesBank | 86 730 | 87 773 |
| RMB | 106 146 | 120 282 |
| FNB Africa | – | 78 |
| Other | 2 051 | 1 225 |
| Derivatives | 59 523 | 48 257 |
| Investment securities | 62 915 | 42 495 |
| Accounts receivable | 2 350 | 3 186 |
| Loans due by holding companies and fellow subsidiaries | 15 241 | 28 772 |
| Loans to Insurance Group | 1 651 | 1 841 |
| Credit risk not recognised on the balance sheet | 82 514 | 84 623 |
| Guarantees | 22 610 | 18 340 |
| Acceptances | 279 | 1 992 |
| Letters of credit | 5 436 | 4 668 |
| Irrevocable commitments | 53 167 | 59 397 |
| Underwriting exposures | 2 | 226 |
| Credit derivatives | 1 020 | – |
| **Total** | 635 755 | 635 458 |

### *Credit quality*

Advances are considered past due where a specific payment date has not been met or where regular instalments are required and such payments have not been received. A loan payable on demand is classified as overdue where a demand for repayment has been served but repayment has not been made in accordance with the stipulated requirements. The following table provides an age analysis of exposures classified as past due as at 30 June 2009:

*Age analysis of advances (audited)*

| | 2009 | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | Past due but not impaired | | | | |
| R million | Neither past due nor impaired | Re-negotiated but current | 1 – 30 days | 31 – 60 days | >60 days | Impaired | Total |
| 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 |
| FNB Africa | – | – | – | – | – | – | – |
| 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 |

** Including public sector.*

| | 2008 | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | Past due but not impaired | | | | |
| R million | Neither past due nor impaired | Re-negotiated but current | 1 – 30 days | 31 – 60 days | → 60 days | Impaired | Total |
| Age analysis of advances | | | | | | | |
| FNB Retail | 122 574 | 867 | 14 073 | 4 375 | 3 480 | 7 652 | 153 021 |
| FNB Corporate* | 20 526 | – | 25 | 17 | – | 140 | 20 708 |
| FNB Commercial | 23 393 | – | 107 | 51 | 46 | 512 | 24 109 |
| FNB | 166 493 | 867 | 14 205 | 4 443 | 3 526 | 8 304 | 197 838 |
| WesBank | 81 562 | – | 2 073 | 771 | 238 | 3 129 | 87 773 |
| FNB Africa | 74 | – | – | – | – | 4 | 78 |
| RMB | 119 917 | – | – | – | – | 365 | 120 282 |
| Other | 1 224 | – | – | – | – | 1 | 1 225 |
| Total | 369 270 | 867 | 16 278 | 5 214 | 3 764 | 11 803 | 407 196 |

** Including public sector.*

The classification of advances past due follows the standards set out in applicable accounting policies. A distinction is drawn between accounts past due for technical reasons (eg insufficient payments due to debit orders not having been updated for changes in interest rates) and normal arrears (ie accounts in arrears by one to three full repayments). The split provided in the tables above includes both types of arrear accounts. Total exposure to technical arrears included in this analysis was R5 billion (R6.6 billion in 2008) and was primarily driven by retail exposures.

The following table presents an analysis of the credit quality of performing advances (ie those classified as neither past due nor impaired). Please refer to page 19 for the mapping of FR grades to agency rating scales:

Renegotiated advances are advances where, due to deterioration in the counterparty's financial condition, FRB granted a concession where original terms and conditions of the facility were amended. The objective of such amendment is to mitigate the risks where the current situation could result in the counterparty no longer being able to meet the terms and conditions originally agreed. As part of the Bank's risk management and work out approach, the Bank enters into arrangements with clients where concessions are made on payment terms (eg a reduction in payments for a specified period of time, changes in the payment profile, or debt counselling payment plans). The Bank has formally defined eligibility criteria appropriate for individual products to determine when clients are eligible for such arrangements. The Bank carefully monitors these accounts as a separate portfolio in each product segment, and track the performance for purpose of management and impairments. The Bank does not allow reclassification of non performing loans into the renegotiated advances category.

The renegotiated advances disclosed above include all loans that have been renegotiated to date. All of these advances are within the revised terms and conditions. These advances are considered as a separate category for purposes of impairments and are not considered with the neither past due or impairments category.

The renegotiated advances exclude any advances where the facility terms were extended or renewed as part of the ordinary course of business on terms and conditions equivalent to the current terms or conditions for new debt with similar risk.

### *Credit quality of performing advances (audited)*

| | 2009 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | FNB | | | | | | |
| R million | Total neither past due nor impaired | Retail | Corporate | Commercial | WesBank | RMB | FNB Africa | Other |
| FR 1 – 25 | 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** |

| | 2008 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | FNB | | | | | | |
| R million | Total neither past due nor impaired | Retail | Corporate | Commercial | WesBank | RMB | FNB Africa | Other |
| FR 1 – 25 | 98 115 | 24 399 | 7 939 | 3 454 | 5 236 | 55 863 | – | 1 224 |
| FR 26 – 91 | 258 197 | 89 434 | 12 587 | 19 190 | 72 878 | 64 034 | 74 | – |
| Above FR 92 | 12 958 | 8 741 | – | 749 | 3 448 | 20 | – | – |
| Total | 369 270 | 122 574 | 20 526 | 23 393 | 81 562 | 119 917 | 74 | 1 224 |

**The renegotiated advances disclosed above include all loans that have been renegotiated to date. All of these advances are within the revised terms and conditions.*

The following table probides an overview of the credit quality of the Banking Group's other financial assets that are neither past due nor impaired:

| | 2009 | | | | | |
|---|---|---|---|---|---|---|
| R million | Investment Securities* | Derivatives | Cash and short term funds | Amounts due by fellow subsidiary companies | Loans to Insurance Group | Total |
| 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** |

| 2008 | | | | | | |
|---|---|---|---|---|---|---|
| R million | Investment securities* | Derivatives | Cash and short term funds | Amounts due by fellow subsidiary companies | Loans to Insurance Group | Total |
| Credit quality of financial assets (excluding advances) neither past due nor impaired | | | | | | |
| AAA to BBB | 35 518 | 27 378 | 18 741 | 28 772 | 1 841 | 112 250 |
| BB, B | 6 967 | 20 858 | 347 | – | – | 28 172 |
| CCC | – | 21 | – | – | – | 21 |
| Unrated | 10 | – | – | – | – | 10 |
| Total | 42 495 | 48 257 | 19 088 | 28 772 | 1 841 | 140 453 |

*Excludes non recourse investments.*

## Risk concentrations

The Bank seeks to establish a balanced portfolio profile and monitors concentrations in the credit portfolio closely. The following table provides a breakdown of credit exposure across geographies (audited):

| 2009 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Consentration risk of significant credit exposures R million | **South Africa** | **Other Africa** | **United Kingdom** | **Ireland** | **Other Europe** | **North America** | **South America** | **Other** | **Total** |
| Advances | **379 996** | **2 243** | **8 994** | **305** | **1 924** | **42** | **2** | **409** | **393 915** |
| Derivatives | **37 125** | **40** | **12 439** | **2** | **8 148** | **1 745** | **4** | **20** | **59 524** |
| Debt securities | **57 486** | **–** | **–** | **–** | **5 005** | **425** | **–** | **–** | **62 916** |
| **Off balance sheet exposures** | | | | | | | | | |
| Guarantees acceptances and letters of credit | **22 698** | **289** | **–** | **–** | **–** | **–** | **–** | **–** | **22 988** |
| Irrevocable commitments | **52 866** | **7** | **135** | **13** | **80** | **27** | **8** | **30** | **53 167** |
| Average Advances for the period under review | | | | | | | | | 282 887 |

| 2008 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Consentration risk of significant credit exposures R million | South Africa | Other Africa | United Kingdom | Ireland | Other Europe | North America | South America | Other | Total |
| Advances | 391 058 | 1 208 | 9 386 | 397 | 5 114 | 27 | 1 | 5 | 407 196 |
| Derivatives | 20 602 | 593 | 10 016 | 10 006 | 4 603 | 2 432 | – | 5 | 48 257 |
| Debt securities | 42 026 | 60 | – | – | – | 409 | – | – | 42 495 |
| **Off balance sheet exposures** | | | | | | | | | |
| Guarantees acceptances and letters of credit | 13 323 | 3 | – | 9 808 | – | – | – | 1 866 | 25 000 |
| Irrevocable commitments | 39 394 | 3 | – | – | – | – | – | – | 59 397 |

### *Credit rating systems and processes used for Basel II*

As discussed previously, the Banking Group is utilising the AIRB approach for the exposures of FRB and the Standardised Approach for all other legal entities in the Banking Group for the purpose of calculating regulatory capital requirements. Due to the small size of the subsidiaries and the scarcity of relevant data, the Bank plans to continue using the Standardised Approach for the foreseeable future for these portfolios.

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

## Exposure by type, segment and Basel II approach (not audited)

| Exposure to credit risk – Basel II approaches | | | |
|---|---|---|---|
| | | FirstRand Bank | |
| R million | **2009** | AIRB | Standardised approach |
| Cash and short term funds | **17 645** | 17 369 | 276 |
| – Money at call and short notice | **875** | 875 | – |
| – Balances with central banks and guaranteed by central banks | **10 837** | 10 836 | 1 |
| – Balances with other banks | **5 933** | 5 658 | 275 |
| Gross advances | **393 916** | 390 009 | 3 907 |
| FNB | **198 989** | 198 989 | – |
| FNB Retail | **160 712** | 160 712 | – |
| – FNB Corporate | **11 415** | 11 415 | – |
| – FNB Commercial | **26 862** | 26 862 | – |
| WesBank | **86 730** | 83 871 | 2 859 |
| RMB | **106 146** | 105 754 | 392 |
| FNB Africa | **–** | – | – |
| Other | **2 051** | 1 395 | 656 |
| Derivatives | **59 523** | 59 426 | 97 |
| Debt Investment securities | **62 915** | 62 507 | 408 |
| Accounts receivable | **2 350** | 2 318 | 32 |
| Amounts due by holding company and fellow subsidiaries | **15 241** | 15 002 | 239 |
| Loans to Insurance Group | **1 651** | 1 640 | 11 |
| Credit risk not recognised on the balance sheet | **82 514** | 77 149 | 28 |
| Guarantees | **22 610** | 17 273 | – |
| Acceptances | **279** | 279 | – |
| Letters of credit | **5 436** | 5 436 | – |
| Irrevocable commitments | **53 167** | 53 139 | 28 |
| Underwriting | **2** | 2 | – |
| Credit derivatives | **1 020** | 1 020 | – |
| Total | **635 755** | 625 420 | 4 998 |

For portfolios using the Standardised Approach, the agency rating scales from Fitch Ratings, Moody's and Standard & Poor's are used. External ratings are not available for all jurisdictions and for certain parts of the portfolio other than corporate, Bank and sovereign counterparties. Where applicable, the Bank uses its internally developed mapping between FR grade and rating agency grade.

### *PD, EAD and LGD profiles*

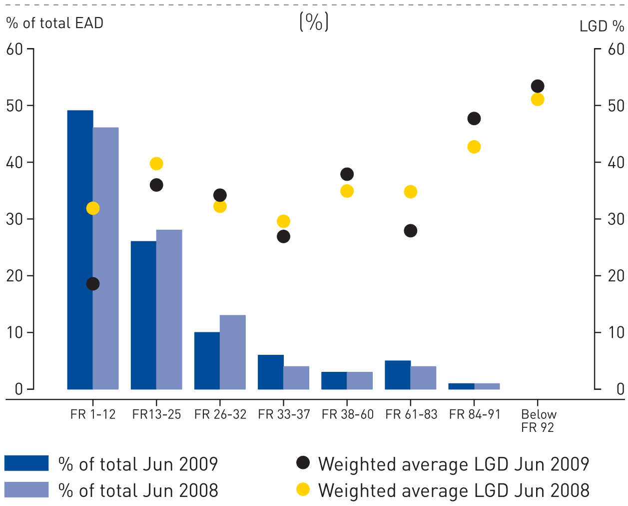
The following graphs provide a summary of the EAD distribution by Banking Group segment, bucketed by FR grade. They also show the EAD weighted downturn LGD and the EAD weighted PD. The associated capital requirements are given in the corresponding tables provided below each graph. Comparative information for the prior period has also been provided in the charts and in the tables.

Over the period under review, the performance of the credit portfolio has been in line with that of the industry.

Capital requirements as given by RWAs, have evolved in line with movements in the primary risk parameters, notably shifts in LGD. This is a reflection of the Banking Group's revised credit strategy that selectively targets areas that provide an appropriate risk and return profile in the current economic environment:

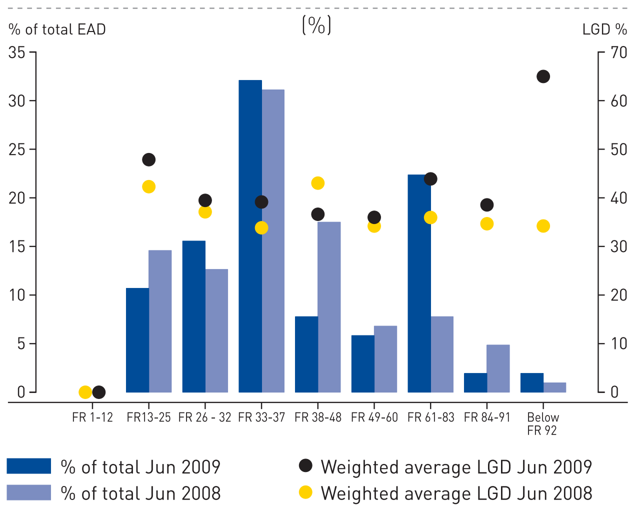
## Risk profile for corporate, bank and sovereign exposures (not audited)

Corporate, Bank and Sovereign



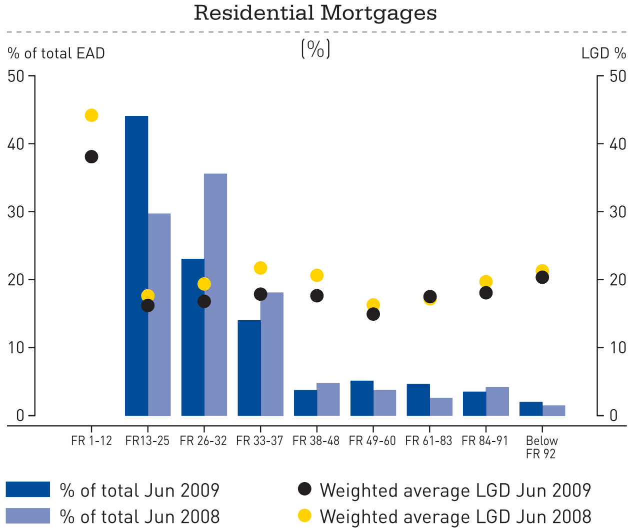

| Measure | FR 1 – 12 | FR13 – 25 | FR 26 – 32 | FR 33 – 37 | FR 38 – 60 | FR 61 – 83 | FR 84 – 91 | Below FR 92 |
|---|---|---|---|---|---|---|---|---|
| Weighted average PD Jun 2009 | 0.02% | 0.29% | 0.88% | 1.35% | 2.80% | 6.50% | 16.23% | 53.38% |
| Weighted average PD Jun 2008 | 0.04% | 0.29% | 0.87% | 1.35% | 2.80% | 4.92% | 16.07% | 51.04% |
| Capital % Jun 2009 | 0.56% | 3.76% | 6.12% | 5.89% | 10.07% | 9.50% | 23.42% | 14.92% |
| Capital % Jun 2008 | 1.03% | 4.47% | 6.11% | 6.82% | 9.86% | 8.99% | 18.99% | 15.16% |

## Risk profile for FNB Commercial exposures (not audited)



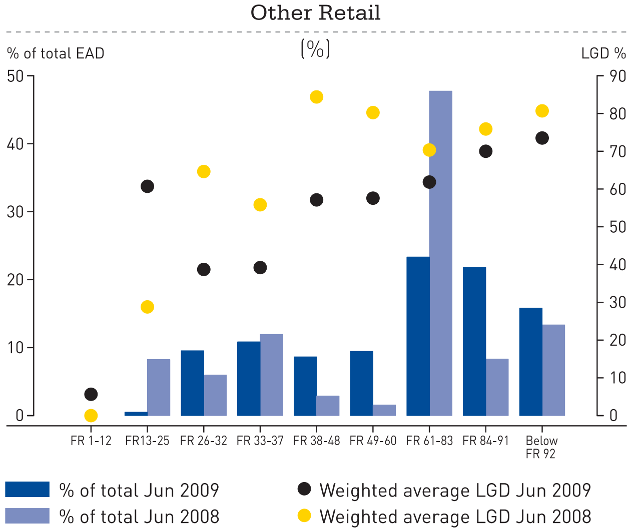

| Measure | FR 1 – 12 | FR13 – 25 | FR 26 – 32 | FR 33 – 37 | FR 38 – 60 | FR 61 – 83 | FR 84 – 91 | Below FR 92 |
|---|---|---|---|---|---|---|---|---|
| Weighted average PD Jun 2009 | 0.00% | 0.30% | 0.90% | 1.43% | 2.51% | 3.64% | 4.89% | 12.55% |
| Weighted average PD Jun 2008 | 0.00% | 0.42% | 0.81% | 1.59% | 2.69% | 3.53% | 5.98% | 14.37% |
| Capital % Jun 2009 | 0.00% | 2.34% | 5.56% | 6.03% | 7.36% | 7.30% | 11.94% | 11.79% |
| Capital % Jun 2008 | 0.00% | 3.31% | 4.84% | 5.55% | 10.18% | 7.04% | 8.68% | 14.62% |

## Risk profile for residential mortgage exposures (not audited)



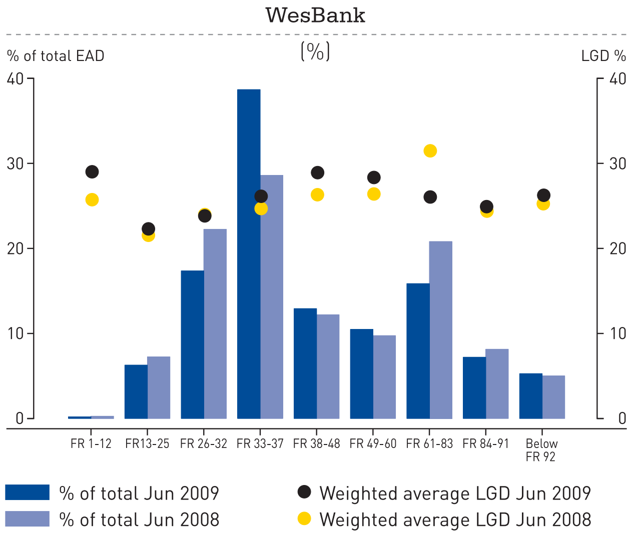

| Measure | FR 1 – 12 | FR13 – 25 | FR 26 – 32 | FR 33 – 37 | FR 38 – 60 | FR 61 – 83 | FR 84 – 91 | Below FR 92 |
|---|---|---|---|---|---|---|---|---|
| Weighted average PD Jun 2009 | 0.03% | 0.32% | 0.80% | 1.54% | 2.48% | 3.82% | 6.24% | 16.60% |
| Weighted average PD Jun 2008 | 0.03% | 0.33% | 0.78% | 1.51% | 2.48% | 3.80% | 6.53% | 18.05% |
| Capital % Jun 2009 | 0.34% | 0.90% | 1.71% | 2.83% | 3.81% | 3.94% | 6.06% | 9.10% |
| Capital % Jun 2008 | 0.00% | 1.05% | 2.08% | 3.61% | 4.73% | 4.44% | 6.42% | 10.77% |

## Risk profile for other retail exposures (not audited)




| Measure | FR 1 – 12 | FR13 – 25 | FR 26 – 32 | FR 33 – 37 | FR 38 – 60 | FR 61 – 83 | FR 84 – 91 | Below FR 92 |
|---|---|---|---|---|---|---|---|---|
| Weighted average PD Jun 2009 | 0.05% | 0.44% | 0.89% | 1.44% | 2.61% | 3.69% | 5.28% | 15.36% |
| Weighted average PD Jun 2008 | 0.00% | 0.46% | 0.84% | 1.81% | 2.62% | 3.54% | 5.62% | 16.39% |
| Capital % Jun 2009 | 0.08% | 4.12% | 3.41% | 4.42% | 7.39% | 7.91% | 8.94% | 13.54% |
| Capital % Jun 2008 | 0.00% | 1.95% | 6.10% | 7.21% | 11.85% | 11.79% | 10.91% | 17.14% |

## Risk profile for WesBank exposures (not audited)




| Measure | FR 1 – 12 | FR13 – 25 | FR 26 – 32 | FR 33 – 37 | FR 38 – 60 | FR 61 – 83 | FR 84 – 91 | Below FR 92 |
|---|---|---|---|---|---|---|---|---|
| Weighted average PD Jun 2009 | 0.06% | 0.40% | 0.86% | 1.53% | 2.56% | 3.60% | 5.55% | 14.47% |
| Weighted average PD Jun 2008 | 0.04% | 0.35% | 0.86% | 1.72% | 2.62% | 3.72% | 6.24% | 16.22% |
| Capital % Jun 2009 | 0.49% | 1.43% | 2.25% | 3.17% | 3.99% | 4.11% | 4.19% | 4.89% |
| Capital % Jun 2008 | 0.27% | 1.33% | 2.34% | 3.27% | 3.85% | 4.06% | 6.32% | 5.84% |

## Risk profile for qualifying revolving retail exposures (not audited)


| Measure | FR 1 – 12 | FR13 – 25 | FR 26 – 32 | FR 33 – 37 | FR 38 – 60 | FR 61 – 83 | FR 84 – 91 | Below FR 92 |
|---|---|---|---|---|---|---|---|---|
| Weighted average PD Jun 2009 | 0.06% | 0.44% | 0.80% | 1.58% | 2.54% | 3.47% | 6.16% | 14.22% |
| Weighted average PD Jun 2008 | 0.03% | 0.11% | 0.75% | 1.32% | 2.59% | 3.66% | 6.05% | 12.95% |
| Capital % Jun 2009 | 0.31% | 1.28% | 3.59% | 4.89% | 5.74% | 9.43% | 9.52% | 14.02% |
| Capital % Jun 2008 | 0.19% | 0.40% | 2.12% | 4.71% | 5.19% | 6.55% | 8.72% | 13.63% |

The following table provides the portfolio weighted average performing PD and LGD per Basel II asset class (TTC PDs and downturn LGDs):

## Weighted PD and LGD per Basel II asset class (not audited)

| | Weighted average performing PD 2009 | Weighted average performing PD 2008 | Weighted average LGD 2009 | Weighted average LGD 2008 |
|---|---|---|---|---|
| Corporate, bank and sovereign | 0.87% | 0.77% | 32.46% | 34.27% |
| SME exposures | 3.00% | 3.09% | 41.41% | 37.23% |
| Residentail mortgages | 2.65% | 2.61% | 16.79% | 19.20% |
| Qualifying revolving retail | 3.50% | 3.64% | 62.10% | 62.60% |
| Other retail | 12.9% | 11.24% | 59.97% | 67.37% |
| WesBank | 4.94% | 5.32% | 25.99% | 25.91% |

## *Selected risk analyses*

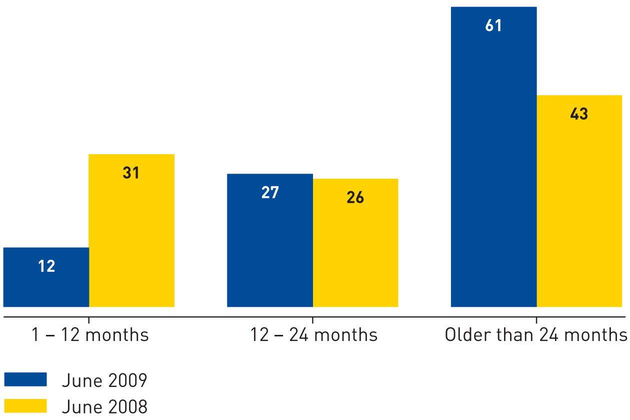
This section provides further information on selected risk analyses of the relevant parts of the Bank's credit portfolio.

The two graphs below show the evolution of the balance-to-value distribution for the residential mortgages over time as well as the age distribution of the residential mortgages portfolios. As indicated above, the Bank has implemented a number of steps targeting a specific portfolio profile. Accordingly, the recent focus on certain LTV ratios for new business has resulted in a slight improvement in the balance to original value measures. The balance to market value shows a significant proportion of the book in the lower risk category of where the LTV is lower than 70%.

The improvement in the residential mortgages age distribution is a direct result of the reduction in new loans written during the period under review in line with the adjusted credit and pricing strategies alluded to previously.

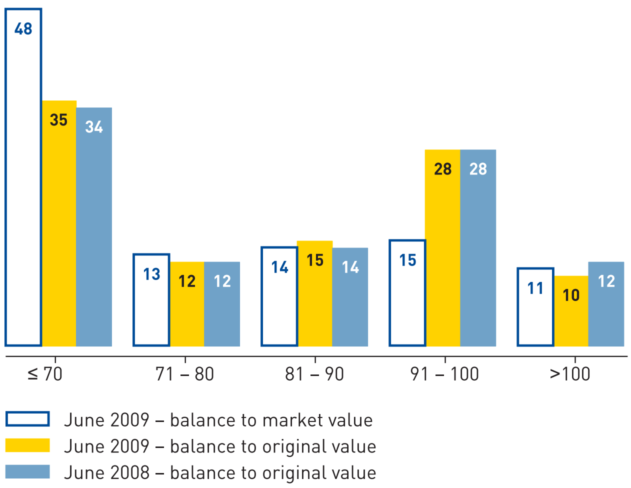
Residential mortgages age distribution (not audited)

(%)




Residential mortgages balance-to-value –
original value and market value (not audited)

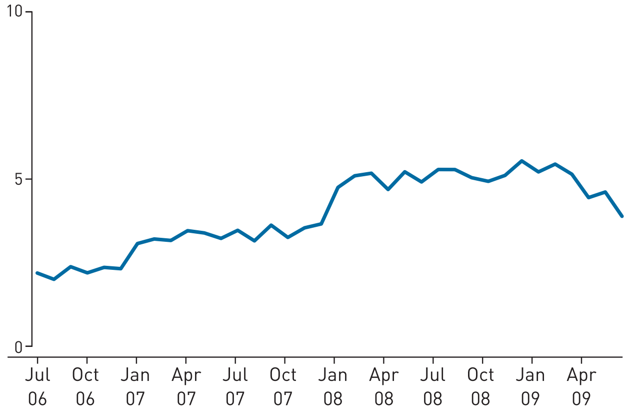
(%)




## Evolution of arrears in the FNB HomeLoans portfolio (not audited)

FNB HomeLoans arrears

(%)




*Exposure to facilities more than one, but less than three, payments in arrears as a percentage of total advances*

As indicated in this chart, the Bank has experienced a slight decrease in arrears over the last months of the reporting period. This is mirrored in the FNB HomeLoans portfolio as well as in the WesBank and Credit Card portfolios.

The following graphs provide a vintage analysis for FNB HomeLoans and WesBank Retail respectively. Vintage graphs represent a cohort analysis and illustrate the default experience three, six and twelve months after each origination date.

For FNB HomeLoans, the three, six and twelve month cumulative vintage analysis shows a marked reduction in defaults for these cohorts. This improvement in portfolio quality is due to changes in the origination strategy as well as general market conditions.

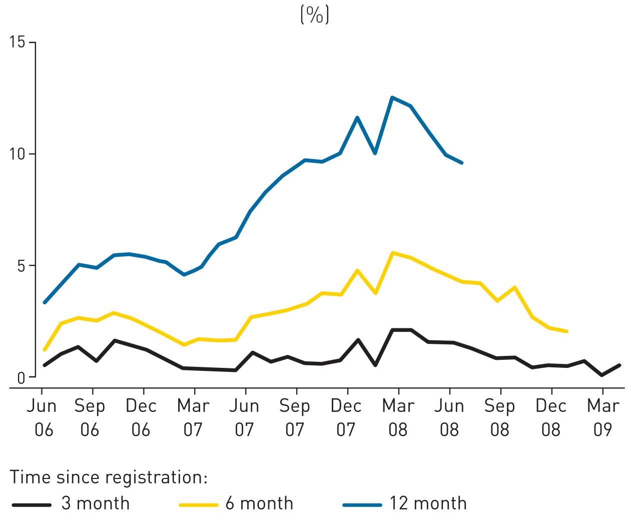
In the asset finance business, repossession and stock holding levels have also decreased significantly from their peaks last year. This gradual reduction is expected to continue should the economic pressures ease further over time.

In light of the ongoing pressure on collateral values (especially home loans), as well as to prevent an undue negative impact on the resale market, the Bank applies a multi-strategy approach for mortgage recoveries. This includes special arrangements with certain customers to allow them to restructure their finances over a twelve month period, a quick sell process to assist with the sale of houses so as to support customer de-gearing and a re-evaluation of the Bank's properties-in-possession strategy.

The Banking Group's domestic repossessed properties portfolio had a carrying value of R178 million at 30 June 2009 (R34 million at 30 June 2008), consisting of 670 properties (210 at 30 June 2008).

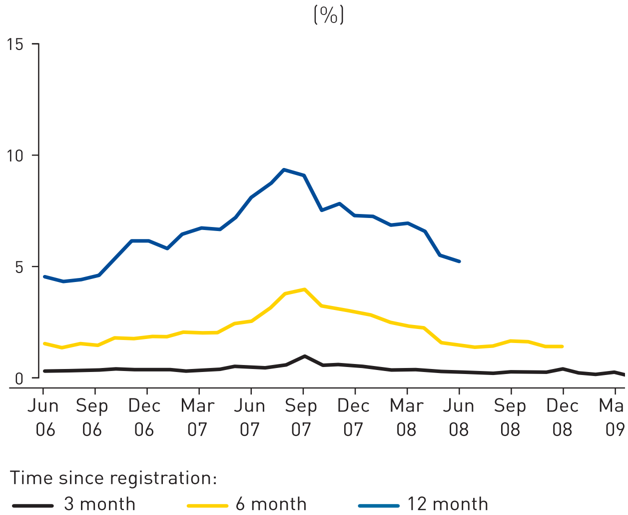
Mortgage portfolio default rates 3, 6 and 12 months after origination, based on the actual number of defaults expressed as a percentage of total business originated in the cohort (not audited):

**FNB HomeLoans vintage analysis**




WesBank default rates 3, 6 and 12 months after origination, based on the actual number of defaults expressed as a percentage of total business originated in the cohort (not audited):

**WesBank Retail vintage analysis**



## Securitisations and conduits

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

- enhancing the liquidity position through the diversification of funding sources;
- matching of the cash flow profile of assets and liabilities;
- reduction of balance sheet credit risk;
- reduction of capital requirements; and
- management of credit concentration risk.

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

### *Traditional and synthetic securitisations*

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

## Securitisation transactions (not audited)

| Transaction | Assets outstanding | Year initiated | Expected Close | Rating agency | Asset Type | Assets securitised | | Notes outstanding | | Exposure | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| R million | | | | | | **2009** | 2008 | **2009** | 2008 | **2009** | 2008 |
| Traditional securitisations | | | | | 16 784 | **6 206** | 9 447 | **7 262** | 10 851 | **59** | 58 |
| Nitro 1 | Retail: Auto loans | 2006 | 2009 | Moody's | 2 000 | **181** | 534 | **245** | 712 | **3** | 8 |
| Nitro 2 | Retail: Auto loans | 2006 | 2010 | Moody's | 5 000 | **847** | 1 897 | **1 216** | 2 484 | **–** | – |
| Nitro 3 | Retail: Auto loans | 2007 | 2011 | Moody's and Fitch | 5 000 | **1 688** | 3 088 | **2 095** | 3 566 | **29** | 50 |
| Ikhaya 1 | Retail mortgages | 2007 | 2011 | Fitch | 1 900 | **1 439** | 1 608 | **1 592** | 1 749 | **27** | – |
| Ikhaya 2 | Retail mortgages | 2007 | 2012 | Fitch | 2 884 | **2 051** | 2 320 | **2 113** | 2 340 | **–** | – |
| Synthetic securitisations | | | | | 22 000 | **22 000** | 22 000 | **22 000** | 22 000 | **19 083** | 19 174 |
| Procul | Retail: Auto loans | 2002 | 2010 | Fitch | 2 000 | **2 000** | 2 000 | **2 000** | 2 000 | **1 009** | 1 015 |
| Fresco II | Corporate receivables | 2007 | 2013 | Fitch | 20 000 | **20 000** | 20 000 | 20 000 | 20 000 | **18 073** | 18 159 |
| Total | | | | | 38 784 | **28 206** | 31 447 | **29 262** | 32 851 | **19 142** | 19 232 |

The table below shows the rating distribution of the retained exposures:

| R million | AAA(zaf) | AA(zaf) | A+(zaf) | A(zaf) | BBB-(zaf) | BB+(zaf) | BB(zaf) | NR | Total |
|---|---|---|---|---|---|---|---|---|---|
| Traditional | | | | | | | | | |
| **2009** | **56** | **1** | **–** | **–** | **–** | **–** | **–** | **2** | **59** |
| 2008 | 55 | 1 | – | – | – | – | – | 2 | 58 |
| Synthetic | | | | | | | | | |
| **2009** | **18 083** | **189** | **53** | **4** | **–** | **29** | **3** | **724** | **19 083** |
| 2008 | 18 060 | 186 | 52 | 4 | 29 | 50 | 67 | 726 | 19 174 |

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

In each of the securitisations mentioned above, the Bank played the role of originator, investor, servicer and swap counterparty. All the transactions continue to perform in line with expectations.

### *Conduit programmes and fixed income funds*

The Bank'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. They also provide institutional investors with highly rated short term alternative investments. The fixed income fund is a call loan bond fund, which offers overnight borrowers and lenders an alternative to traditional overnight Bank lending products on a matched basis.

All the assets originated for the conduit programmes are rigorously evaluated as part of the ordinary credit approval process applicable to any other corporate exposure held on the Bank's balance sheet.

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

### Conduit programmes and fixed income funds (not audited)

| Transaction<br>R million | Underlying assets | Year initiated | Rating agency | Program size | Non-recourse investments **2009** | 2008 | Enhancement credit provided **2009** | 2008 |
|---|---|---|---|---|---|---|---|---|
| Conduits | | | | | | | | |
| iNdwa | Corporate & Structured Finance term loans | 2003 | Fitch | 15 000 | **7 287** | 9 329 | | |
| iVuzi | Corporate & Structured Finance term loans | 2007 | Fitch | 15 000 | **5 017** | 4 362 | **679** | 680 |
| Total | | | | | **12 304** | 13 691 | **679** | 680 |
| Fixed Income fund | | | | | | | | |
| iNkotha | Overnight Corporate loans | 2006 | Fitch | 10000 | **3 623** | 4 327 | | |
| Total | | | | | **3 623** | 4 327 | **–** | – |

### Rating distributions of the underlying assets in the conduit programmes and the call loan bond fund (not audited)

| | F1+(zaf) | AAA(zaf) | AA+(zaf) | AA(zaf) | AA-(zaf) | A+(zaf) | A(zaf) | A-(zaf) | **Total** |
|---|---|---|---|---|---|---|---|---|---|
| **Conduits** | | | | | | | | | |
| **2009** | **–** | **1 551** | **341** | **2 076** | **4 640** | **2 259** | **1 020** | **416** | **12 304** |
| 2008 | 1 247 | 2 053 | 1 647 | 914 | 4 605 | 2 260 | 822 | 143 | **13 691** |
| **Fixed Income Fund** | | | | | | | | | |
| **2009** | **–** | **1 209** | **–** | **–** | **1 107** | **–** | **1 002** | **305** | **3 623** |
| 2008 | – | 1 015 | – | – | 1 561 | 681 | 767 | 303 | **4 327** |

### Roles fulfilled by the Bank in the conduit programmes currently in place

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

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

## Liquidity facilities

The table below provides an overview of the liquidity facilities issued by the Bank:

All liquidity facilities in the transactions given in the table below rank senior in terms of payment priority in the event of a drawdown. Economic capital is allocated to the liquidity facility extended to iNdwa and iVuzi as if the underlying assets were held on the Bank's balance sheet to reflect the risk that these assets may have to be brought onto the balance sheet in a stress scenario. The conduit programmes are consolidated into FRBH for financial reporting purposes.

### Liquidity facilities* (not audited)

| Transaction | Transaction type | Exposure | |
|---|---|---|---|
| R million | | **2009** | 2008 |
| Own transactions | | **9 540** | 13 682 |
| iNdwa | Conduit | **5 653** | 9 126 |
| iVuzi | Conduit | **3 887** | 4 556 |
| Third Party Transactions | Securitisations | **2 160** | 1 616 |
| Total | | **11 700** | 15 298 |

*It is important to note from an accounting perspective, upon consolidation the underlying assets in the off balance sheet entries are reconsolidated into the Banking Group's balance sheet.*

## Additional information

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

### Retained or purchased securitisation exposure and associated regulatory capital requirements (not audited)

| Risk weight bands | Exposure | | IRB capital | | Capital deduction | |
|---|---|---|---|---|---|---|
| R million | **2009** | 2008 | **2009** | 2008 | **2009** | 2008 |
| =<10% | **17 840** | 17 840 | **122** | 122 | **–** | – |
| >10% =<20% | **11 724** | 10 742 | **92** | 126 | **–** | – |
| >20% =<50% | **233** | 230 | **9** | 9 | **–** | – |
| >50% =<100% | **1 013** | 1 015 | **57** | 39 | **–** | – |
| >100% =<650% | **711** | 827 | **152** | 206 | **–** | – |
| 1 250%/Deduction | | | **–** | | | – |
| Total | **31 521** | 30 654 | **432** | 502 | **–** | – |

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

## COUNTERPARTY CREDIT RISK

Counterparty credit risk is defined as the risk of a counterparty to a bilateral contract, transaction or agreement defaulting prior to the final settlement of the transaction's cash flows.

### Introduction and objectives

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

It is a risk commonly taken in the Banking Group's trading operations and the objective of counterparty credit risk management is thus to ensure that risk is only taken within specified limits in line with the Bank's risk appetite framework as mandated by the board.

### Organisational structure and governance

Counterparty credit risk is managed on the basis of the principles, approaches, policies and processes set out in the CRMF for Wholesale Credit Exposure. This framework is a sub component of the Banking Group's Credit Risk Management Framework, which is ancillary to the BPRMF, as discussed in the preceding section on credit risk (see page 16).

In this respect, counterparty credit risk governance aligns closely with the Bank's credit risk governance framework, with mandates and responsibilities cascading from the board, through the RCC to the respective subcommittees as well as deployed and central risk management functions. Refer to the FRBH risk governance section, page 7, and the credit risk governance section, page 16, for more details.

### Counterparty credit risk assessment and management

The measurement of counterparty credit risk aligns closely with credit risk measurement practices and is focused on establishing appropriate limits at counterparty level. To this end, counterparty risk limit applications are assessed and approved individually, based on a comprehensive analysis of potential exposure, including exposure under distressed conditions. A credit specialist, in conjunction with the market risk team, typically carries out this analysis and submits a recommendation to the appropriate credit committee for discussion and potential approval.

These recommendations are then discussed and tabled for approval at the relevant credit committees, with appropriate executive and non-executive representation. All counterparty credit risk limits are subject to annual review and counterparty exposures are monitored by the respective risk functions on a daily basis. Overall counterparty risk limits are typically allocated across a number of products and desk level reports are used to ensure sufficient limit availability prior to executing additional trades with a counterparty. Business and risk management functions share the following responsibilities in this process:

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

Any limit breaches necessitate immediate reporting to the head of the business unit, the head of risk for the respective business unit and the RMB risk and compliance function. Any remedial actions have to be agreed amongst these parties and failure to remedy such breaches are reported to the RMB Finance, Risk and Capital committee, the ERM function and the Banking Group's RCC.

### *Counterparty credit risk mitigation*

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

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

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

### Discussion of the risk profile

The following table provides an overview of the counterparty credit risk arising from derivative and structured finance transactions of FRB as at 30 June 2009:

### Composition of counterparty credit risk exposure (not audited)

| R million | Exposure |
|---|---|
| Gross positive fair value | 134 055 |
| Netting benefits | 60 864 |
| Netted current credit exposure before mitigation | 73 130 |
| Collateral value | 54 513 |
| Exposure at default | 34 945 |

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

### Exposure to credit derivatives (not audited)

| R million | Credit default swaps | Total return swaps | Other | Total |
|---|---|---|---|---|
| Own credit portfolio | | | | |
| – protection bought | 2 264 | – | 5 694 | 7 958 |
| – protection sold | – | – | – | – |
| Intermediation activities | | | | |
| – protection bought | – | – | – | – |
| – protection sold | 970 | – | – | 970 |

## MARKET RISK

Market risk is the risk of adverse revaluation of any financial instrument as a consequence of changes in market prices or rates.

### Introduction and objectives

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

Risks related to market factors and rate movements in credit and investment portfolios are managed as part of the credit, counterparty credit and equity investment risk management processes.

### Organisational structure and governance

Market risk is taken and managed on the basis of the Bank Market Risk Framework, which is a subframework of the BPRMF. It sets out a governance structure consistent with the overall risk management approach of the Banking Group as well as applicable lines of accountability, reporting procedures and policies.

Responsibility for determining the Bank's appetite for market risk vests with the board, which also retains independent oversight of the market risk related activities through the RCC and its Market and Investment Risk subcommittee. Separate governance forums, such as the RMB Proprietary board, take responsibility for allocating these mandates further while deployed and central risk management functions provide independent control of identification, assessment and management approaches and processes. Refer to the governance chart on page 9.

### Market risk assessment and management

Market risk exposures are assessed and managed against limits calculated on the basis of liquidity adjusted distressed ETLs. Additional soft liquidity adjusted VaR triggers are used to highlight positions that need to be reviewed by management.

The recent crisis has clearly demonstrated the need to move beyond simplistic VaR measures and, most importantly, to incorporate the risks inherent in potentially illiquid positions. The basis for the liquidity adjusted ETL limits is thus a scenario set pertinent to the individual structure or transaction under consideration. As indicated in the preceding section, both sets of limits are approved by the RMB Proprietary board and the RCC.

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

In summary, the assessment and management process can be described as follows:

- exposures are quantified daily and monitored against the respective limits as described above by the business unit and central risk management functions;
- the causes of any limit breaches are investigated immediately and relevant reports are escalated to the respective business and risk heads as well as the independent risk control functions and board committees with corrective action, as appropriate;
- risk management also tracks and reports daily P&L movements and their attribution to individual risk factors to ensure that all risk exposure is appropriately identified; and
- absolute loss thresholds have been introduced to ensure an automatic, staggered de-risking of positions.

Market risk assessment practices have also been aligned with the Banking Group's stress testing framework and regular portfolio-wide analyses are conducted on the basis of systemic stresses representative of illiquid conditions and heightened volatility characteristic of historical market downturn scenarios. A distressed ETL measure for the whole portfolio is calculated based on a full re-valuation on the basis of pertinent risk factor movements.

In addition to the distressed ETL and VaR methodologies, the Bank supplements its measurement techniques with defined stress tests and scenario analyses across all material risk factors. The calibrations of the stress tests are reviewed from time to time to ensure that they are indicative of possible market moves under distressed market conditions. Stress and scenario analyses are reported to and considered regularly by the individual executive committees and the boards, and are seen as a valuable tool in determining business strategy with respect to the assumption of market risk going forward.

### *Consistent regulatory and business management approaches*

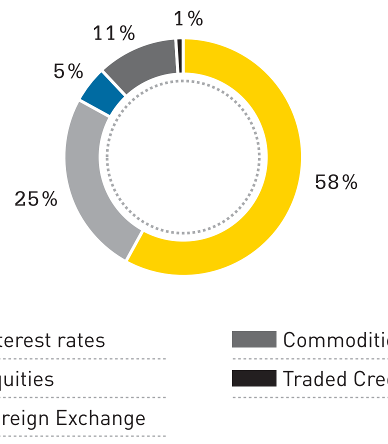
The Banking Group has approval from the SARB to measure regulatory general market risk capital under the internal model approach, as stipulated in the Basel II framework, for the domestic trading book. As such, the market risk assessment and management practices described above are consistent with the methodology used for the management of business on a day-to-day basis.

For all international legal entities, the Standardised Approach is used for regulatory market risk capital purposes although the internal model approach based on distressed ETL is used for internal economic capital measurement and business management.

### Discussion of the market risk profile and analysis of the trading book

The Banking Group is active in all principal traded markets and thus seeks to maintain a balance of exposure to individual risk factors in line with its core view and planning outlook. The following pie chart shows the distribution of exposures per asset class across the Bank's trading activities at 30 June 2009 based on the distressed ETL methodology:

Composition of VaR exposure




### *Value at risk analysis*

The VaR risk measure estimates the potential loss over a 10-day holding period at a 99% confidence level. The scenario set used in the calculation of these figures comprises of the most recent 250 days, as required for regulatory capital measurement purposes under the internal models based approach. The following table provides the aggregate risk exposure per asset class across different trading activities:

### VaR analysis by instrument (audited)

| | 30 June 2009 | | | | 30 June 2008 |
|---|---|---|---|---|---|
| R million | Minimum | Maximum | Average | Year end | Year end |
| **Risk type** | | | | | |
| Equities | 43,6 | 328,7 | 149,6 | 146,5 | 118,3 |
| Interest rates | 48,7 | 217,8 | 102,2 | 146,5 | 65,4 |
| Foreign exchange | 2,5 | 77,4 | 25,4 | 37,9 | 19,3 |
| Commodities | 9,9 | 116,0 | 61,2 | 65,7 | 115,8 |
| Traded credit | 0,6 | 18,2 | 3,7 | 0,6 | 18,2 |
| Diversification | | | | (213,5) | (194,2) |
| Total | | | | 183,8 | 142,8 |

VaR calculations are validated on a daily basis through a comparison of 1-day VaR figures (at the 99% confidence level) to actual trading profits or losses for the particular day.

## Market risk stress analysis (distressed ETL)

The portfolio is also re-valued over a set of 500 scenarios, of which 250 represent a distressed market period. The scenario set is supplemented with additional relevant data points over time, including, for example, the period of the current financial crisis, as and when appropriate. The following table provides a summary of distressed ETL figures by asset class, based on a 10-day liquidity horizon over a 99% confidence level.

### Distressed ETL analysis by instrument (audited)

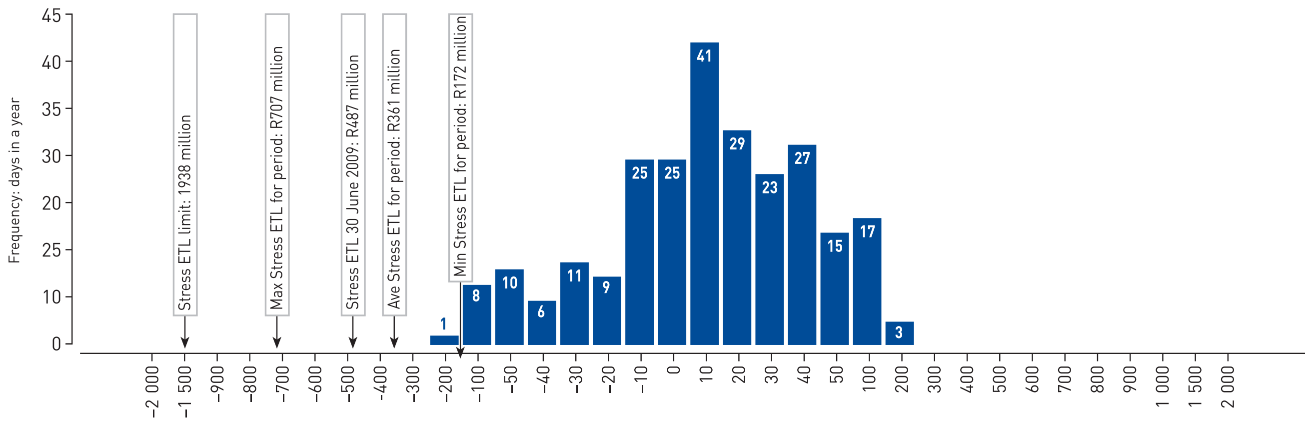
| | 30 June 2009 | | | | 30 June 2008 |
|---|---|---|---|---|---|
| R million | Minimum | Maximum | Average | Year end | Year end |
| **Risk type** | | | | | |
| Equities | 76,9 | 513,6 | 233,8 | 219,8 | 173,3 |
| Interest rates | 161,4 | 526,2 | 314,1 | 510,4 | 211,7 |
| Foreign exchange | 7,4 | 135,0 | 45,5 | 46,5 | 30,9 |
| Commodities | 19,0 | 184,4 | 96,3 | 99,9 | 173,7 |
| Traded credit | 2,9 | 26,2 | 5,7 | 3,4 | 26,3 |
| Diversification | | | | (392,7) | (302,2) |
| Total | | | | 487,3 | 310,7 |

### *Daily earnings at risk*

The Bank tracks its daily earnings profile from trading activities as illustrated graphically in the chart below. In the period under review the Bank experienced heightened income volatility resulting from more volatile market conditions. Exposures have, however, been contained within risk limits during the trading period and the earnings profile has been skewed towards profitability.

### Daily VaR distribution for local divisions (not audited)

Distribution of trading income for the year ended 30 June 2009 for local divisions



## EQUITY INVESTMENT RISK

Equity investment risk generally denotes the risk associated with the acquisition (complete or partial) of an ownership interest in a listed or unlisted company and the potential adverse change in value of this investment.

### Introduction and objectives

Equity investments can be a substantial source of value for shareholders as part of a balanced portfolio of risks as set out in the Bank's overall risk appetite statement. The objective of equity investment risk management is thus the identification, assessment, monitoring and management of risks associated with the Bank's investments so as to ensure that the aggregate risk to its earnings remains within acceptable limits.

Over the reporting period RMB placed Dealstream, a clearing client, into default and took over its portfolio under its futures clearing agreement and applicable JSE rules. Due to market liquidity constraints and the relative size of the holdings, three large investments in the portfolio, namely Vox Telecom Limited, Simmer & Jack Mines Limited and Control Instruments Limited were retained. These are now held in and managed as part of RMB's private equity portfolio with a view to realising value over the longer term and therefore fall within the purview of the risk management framework set out in the following sections.

### Organisational structure and governance

The primary responsibility for the assessment and management of equity investment risk vests with the board and its designated subcommittees. Approval authority for taking equity investment risk has been delegated to the respective business unit investment committees, eg the RMB Investment committee under a delegated mandate from the board and the RCC. As the structure of the Bank's investments may also incorporate significant components of debt, approval authority also rests with the respective credit committees and the board's Large exposures credit committee, as appropriate.

### Equity investment risk assessment and management

Equity investment risk is assessed primarily in terms of regulatory and economic capital requirements as well as scenario analyses of potential event risks and associated write-downs in value.

For the assessment of economic capital requirements, an approach similar to that employed for Basel II purposes is utilised – ie applying a risk weighting of 300% and 400% to the exposure for listed and unlisted investments, respectively. For unlisted investments that are equity accounted, a conservative offset is employed should the carrying value fall below the market value by a specified margin.

Where price discovery is possible for listed positions, an ETL under distressed market conditions is calculated on a standalone basis and used for economic capital purposes, subject to a floor of 20% of market value. Similarly, in the case of investments in funds, the modelling of economic capital requirements is based on a look-through where this is feasible, where the individual exposure represents less than 5% of the fund's total value, and where RMB did not provide the seed capital for the fund. The distressed ETL figure used for economic capital purposes is supplemented by a specific risk add-on of 12% in line with Basel II requirements. Funds for which frequently updated asset prices are not available are classified as unlisted investments and assessed as indicated above.

The Bank holds additional capital buffers against the potential of adverse revaluations of its investment portfolios, which are calculated on the basis of scenario and stress analyses. These analyses have been integrated with the Banking Group's overall stress testing framework (see page 11). For example, stress tests are carried out simulating the staggered write-down of the three largest investment exposures to determine the largest potential marginal impact on existing capital requirements, which in turn is used to determine the appropriate level of buffers held.

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

For each transaction an appropriate structure is put in place that aligns the interests of all parties involved through the use of incentives and constraints for management and the selling party. The Bank typically seeks to take a number of seats on the respective company's board and maintains close oversight through the ongoing monitoring of the company's operations. In addition, normal semi-annual reviews are carried out and crucial parts of these reviews such as valuation estimates are independently peer reviewed.

To reduce and manage risk within acceptable constraints, the Banking Group targets a diversified investment portfolio profile along a number of pertinent dimensions such as geography, industry, investment stage and vintage (ie annual replacements of realisations).

### Discussion of the equity investment risk profile

As indicated in a preceding section, RMB took over significant positions in Vox Telecom Ltd., Simmer and Jack Mines Ltd. and Control Instruments Ltd., which are now managed as part of RMB's private equity portfolio. These holdings are monitored on a daily basis as part of the Bank's market risk monitoring process. Capital requirements for these positions are, however, calculated on the basis of the equity investment risk framework, reflecting the Bank's long term exit strategy.

The following table provides information relating to equity investments in the Banking book of those entities regulated as Banks within the Banking Group as at 30 June 2009:

### Investment valuations and associated economic capital requirements (not audited)

| R million | Publicly quoted | Privately held | Total |
|---|---|---|---|
| Carrying value disclosed in balance sheet | 1 917 | 2 930 | 4 847 |
| Fair value* | 2 196 | 3 314 | 5 510 |
| Total unrealised gains recognised directly in the balance sheet through equity instead of the income statement** | 630 | 63 | 693 |
| Latent revaluation gains not recognised in the balance sheet** | (279) | 384 | 663 |
| Economic capital held | 460 | 938 | 1 398 |

**Fair values for listed private equity associates based on their values in use exceeded the quoted market prices by R511 million.*

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

## LIQUIDITY RISK

Liquidity risk is the risk that the Bank will not be able to meet all payment obligations as liabilities fall due. It is also the risk of not being able to realise assets when required to do so to meet repayment obligations in a stress scenario.

### Introduction and objectives

The Banking Group applies a comprehensive definition of liquidity risk and further distinguishes two types of liquidity that may pose a risk, namely:

1. Funding liquidity, which relates to the risk that the Bank will be unable to meet current and/or future cash flow or collateral requirements without adversely affecting the normal course of business, its financial position or its reputation; and
2. Market liquidity, which relates to the risk that the Bank may be unable to trade in specific markets or that it may only be able to do so with difficulty due to market disruptions or a lack of market liquidity.

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

### Organisational structure and governance

Liquidity risk management efforts are governed by the Liquidity Risk Management Framework ("LRMF"), which provides relevant standards in accordance with regulatory requirements and international best practices. As an ancillary framework to the BPRMF, the LRMF is approved by the board and sets out consistent and comprehensive guidelines with respect to the following:

- Governance (strategy as well as control and oversight of liquidity risk);
- Principles for the management of liquidity risk;
- Systems for measuring, monitoring and reporting liquidity exposures and risks as well as disclosure requirements and policies; and
- Contingency funding plans.

The 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 a subcommittee of the RCC, the FRBH Asset and liability management committee ("FRBH ALCO"). FRBH ALCO's primary responsibility is the assessment, control and management of both liquidity and interest rate risk for FRB, FNB Africa and international subsidiaries or branches, either directly or indirectly through providing guidance, management principles and oversight to the ALM functions and ALCOs in these subsidiaries and branches.

### *FirstRand Bank Limited*

Liquidity risk for FRB (RMB, FNB and WesBank) is centrally managed by a dedicated liquidity risk management team in the BSM function. It is this central function's responsibility to ensure that the liquidity risk management framework is implemented appropriately, ie that suitable measurement and management tools are in place to control liquidity risk and to support relevant decision processes at the Banking Group level. ERM provides governance and independent oversight of the central liquidity management team's approaches, models and practices.

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

### Liquidity risk assessment and management

As indicated in the preceding section, liquidity risk for FRB is managed centrally by a team in BSM. The Banking Group explicitly acknowledges liquidity risk as a consequential risk that may be caused by other risks as demonstrated by the reduction in liquidity in many international markets as a consequence of the credit crisis. The Bank has remained largely unaffected by these events, as highlighted in the introduction to this report. Therefore, the Banking Group is focused on continuously monitoring and analysing the potential impact of other risks and events on the funding and liquidity position of the organisation.

### *Measurement and assessment*

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

#### Liquidity mismatch analyses

The purpose of these analyses is to anticipate the mismatch between payment profiles of balance sheet items under normal, stressed and contractual conditions. The Bank has developed three forecasting models for this purpose:

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

#### Early warning systems and key risk indicators

As indicated above, liquidity risk is considered to be a consequential risk that may be driven by a number of variables unrelated to the structural composition of the balance sheet and may thus not be easily quantified and summarised. Therefore, the Banking Group employs an early warning system composed of a number of key metrics and indicators to assess potential risks to its liquidity position. The indicators monitored in this regard can be grouped broadly as follows:

- diversification (term, source, product);
- off balance sheet exposures;
- available funding resources;
- performance measurement;
- reputation (risks and events);
- regulatory requirements;
- asset quality; and
- other risks/events.

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

#### Stress testing and scenario analysis

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

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

### *Management*

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

## Aspects of liquidity risk management

### MANAGEMENT OF LIQUIDITY RISK

**STRUCTURAL LRM**

- Liquidity risk tolerance
- Liquidity strategy
- Ensuring substantial diversification over different funding sources
- Assessing the impact of future funding and liquidity needs taking into account expected liquidity shortfalls or excesses
- Setting the approach to managing liquidity in different currencies and from one country to another
- Ensuring adequate liquidity ratios
- Ensuring an adequate structural liquidity gap
- Maintaining a funds transfer pricing methodology and processes

**DAILY LRM**

- 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
- Managing and maintaining collateral

**CONTINGENCY LRM**

- Managing early warning and key risk indicators
- Performing stress testing including sensitivity analysis and scenario testing
- Maintaining the product behaviour and optionality assumptions
- Ensuring that an adequate and diversified portfolio of liquid assets and buffers are in place
- Maintaining the Contingency Funding Plan

### Structural liquidity risk management

Structural liquidity risk denotes the risk that structural, long term on and off balance sheet exposures cannot be funded timeously or at reasonable cost. Risk management in this area therefore seeks to maintain an appropriately balanced asset and liability structure to avoid undue pressure on current or future sources of liquidity. The liquidity management team is responsible for determining the Banking Group's liquidity strategy and for establishing its liquidity risk tolerance, subject to approval by FRBH ALCO and the board. In doing so, the team retains responsibility for maintaining adequately diversified sources of funding in terms of instrument type, term, geography, counterparty and currency.

### Daily liquidity risk management

The team is responsible for ensuring that intraday and day-to-day anticipated and unforeseen payment obligations can be met by maintaining a sustainable balance between liquidity inflows and outflows. This also includes responsibility for the management of daily payment queues, Central Bank clearing systems as well as the maintenance of collateral and the statutory liquid asset inventory.

### Contingency liquidity risk management

The Banking Group seeks to maintain a number of contingency funding sources that it is able to draw upon in times of economic stress. To this end, the liquidity risk management team carries out stress analyses to determine the possible impact of various scenarios on the Bank's cash flows, liquidity, profitability and solvency position on a regular basis. The team also maintains and monitors early warning systems and key risk indicators, which it reports on to the funding Exco's and FRBH ALCO, as appropriate.

### Liquidity contingency funding planning

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

### Liquidity risk management cycle

These management activities are subsumed in the liquidity risk management cycle, which is illustrated in the chart below.

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

### Liquidity risk management lifecycle


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

### Discussion of the liquidity risk profile

The table below presents the undiscounted cash flows of liabilities for the Banking Group and includes all cash outflows related to the principal amounts as well as future payments. These balances will not concur directly with the balance sheet for the following reasons:

- they are contractual, undiscounted amounts whereas the balance sheet is prepared using the discounted amounts;
- the table includes contractual cash flows with respect to off balance sheet items which have not been recorded on the balance sheet;
- all instruments held for trading purposes are included in the "call to 3 months" bucket and not by contractual maturity 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 flow analysis (undiscounted cash flow 2009) (audited)

| | 2009 | | | |
|---|---|---|---|---|
| | | Term to maturity | | |
| R million | Carrying amount | Call – 3 months | 3 – 12 months | Over 12 months |
| **Maturity analysis of liabilities based on the undiscounted amount of the contractual payment** | | | | |
| **EQUITY AND LIABILITIES** | | | | |
| **Liabilities** | | | | |
| Deposits and current accounts | 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 |
| Policyholder liabilities under insurance contracts | 18 153 | 10 016 | 286 | 7 851 |
| Policyholder liabilities under investment 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 |

### Liquidity cash flow analysis (undiscounted cash flow 2009) (audited)

| | | 2008 | | |
|---|---|---|---|---|
| | | Term to maturity | | |
| R million | Carrying amount | Call – 3 months | 3 – 12 months | Over 12 months |
| Maturity analysis of liabilities based on the undiscounted amount of the contractual payment | | | | |
| EQUITY AND LIABILITIES | | | | |
| Liabilities | | | | |
| Deposits and current accounts | 431 300 | 320 608 | 71 932 | 38 760 |
| Short trading positions | 26 929 | 26 929 | – | – |
| Derivative financial instruments | 47 163 | 41 287 | 3 364 | 2 512 |
| Creditors and accruals | 5 374 | 4 783 | 251 | 340 |
| Long term liabilities | 16 582 | 67 | 2 956 | 13 559 |
| Policyholder liabilities under insurance contracts | 37 001 | 21 973 | 1 759 | 13 269 |
| Policyholder liabilities under investment contracts | – | – | – | - |
| Loans from Insurance Group | 2 767 | 1 653 | 662 | 452 |
| Financial and other guarantees | 36 224 | 24 997 | 1 347 | 9 880 |
| Facilities not drawn | 59 397 | 56 735 | 1 263 | 1 399 |

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

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

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

### Contractual discounted cash flow analysis (financial year 2009) (audited)

| | | 2009 | | |
|---|---|---|---|---|
| | | Term to maturity | | |
| R million | Carrying amount | Call – 3 months | 3 – 12 months | Over 12 months |
| Maturity analysis of assets and liabilities based on the present value of the expected payment | | | | |
| Total assets | 564 847 | 223 103 | 43,410 | 298 334 |
| Total equity and liabilities | 564 847 | 399 301 | 81 801 | 84 745 |
| Net liquidity gap | – | (176 198) | (38 391) | 214 589 |
| Cumulative liquidity gap | | (176 198) | (214 589) | – |

### Contractual discounted cash flow analysis (financial year 2008) (audited)

| | 2008 | | | |
|---|---|---|---|---|
| | | Term to maturity | | |
| R million | Carrying amount | Call – 3 months | 3 – 12 months | Over 12 months |
| Maturity analysis of assets and liabilities based on the present value of the expected payment | | | | |
| Total assets | 567 792 | 201 534 | 57 714 | 308 544 |
| Total equity and liabilities | 567 792 | 374 410 | 90 413 | 102 969 |
| Net liquidity gap | – | (172 876) | (32 699) | 205 575 |
| Cumulative liquidity gap | – | (172 876) | (205 575) | – |

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

- Compared to conditions experienced by banks internationally, the domestic funding environment has remained fairly calm. There are a variety reasons for this, including the insulated nature of the South African payments system, the effects of exchange controls and the lower gearing of South African banks.
- Asset growth in the banking sector has been muted over the period under review.
- The Bank has undertaken efforts to grow Retail and Term funding during the period under review.
- The roll-over risk of international buffer stock of liquidity has been reduced by placing these as investments in European Central Bank Treasury Bills.
- The Bank has built up further stress funding buffers both locally and overseas during the period under review.

## INTEREST RATE RISK IN THE BANKING BOOK

Interest rate risk in the banking book ("IRRBB") is defined as the sensitivity of the balance sheet and income statement to unexpected, adverse movements in interest rates.

The Bank identifies and categorises this risk further in the following components:

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

### Introduction and objectives

The assumption and management of interest rate risk can be an important source of profitability and shareholder value, but excessive interest rate risk positions may pose a significant threat to the Bank's earnings and capital base. Effective interest rate risk management practices that contain the Banking Group's interest rate risk exposure within prudent levels, as stipulated by its risk appetite, is essential to the safety and soundness of the enterprise.

The objective of interest rate risk management is therefore to protect the balance sheet and income statement from potential adverse effects arising from exposure to various components of interest rate risk as described above.

### Organisational structure and governance

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

All IRRBB related activities are overseen and reported to the Banking Group's board through FRBH ALCO, a subcommittee of the RCC, as illustrated on page 9. FRBH ALCO is also responsible for the allocation of sublimits on the basis of mandates given by the RCC, and it approves proposed remedial action for any limit breaches, as appropriate.

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

Interest rate risk, unlike credit risk, can only be sensibly assessed and managed at an aggregate level. Therefore, the net interest rate risk profile of the domestic Banking book (ie FRB, excluding RMB) is centrally managed by the MPM team in BSM. In this respect, BSM is responsible for ensuring that adequate processes and controls are in place to quantify and manage the interest rate risk position by ensuring that the framework and relevant regulations are adhered to.

RMB has a delegated mandate from FRBH ALCO for the management of its interest rate risk (under the market risk framework) as well as for ensuring that the limits of the Banking Group's risk appetite are observed. The interest rate risk management efforts of both BSM and RMB are overseen and controlled by a team in the central ERM function.

Individual ALCOs exist in each of the FNB Africa subsidiaries for the purpose of interest rate risk monitoring and management. Relevant reports are submitted by the subsidiaries to FRBH ALCO on a monthly basis. International subsidiaries and branches are overseen by the International ALCO, a subcommittee of FRBH ALCO, which provides central oversight and monitoring reflective of each region's specific issues and requirements.

## IRRBB assessment and management

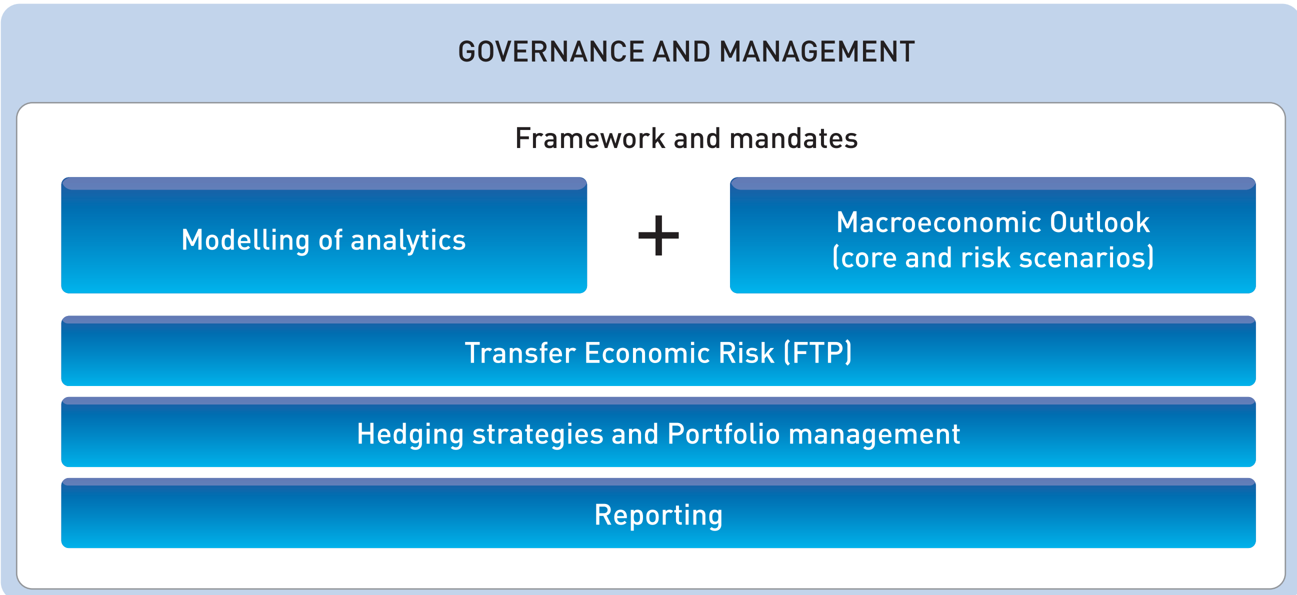
The Banking Group employs a number of measurement techniques to quantify interest rate risk as defined above, focusing both on the potential risk earnings as well as the potential impact on overall economic value.

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

The management of interest rate risk has been delegated by FRBH ALCO to BSM, RMB and the regional ALCOs as described above.

The Banking Group's activities around the assessment and management of interest rate risk have been summarised graphically in the following chart:

## Components of the interest rate risk management approach




As alluded to previously, the interest rate profile is modelled and analysed at an aggregate level, in line with the principles and standards set out in the respective risk framework. The risk profile is typically adjusted by changing the composition of the Banking Group's liquid asset portfolio or through derivative transactions where possible based on the Banking Group's interest rate outlook as well as its view on potential other risk factors that may impact its balance sheet. In this respect, it is important to highlight that interest rate risk can, in the Banking Group's view, only be effectively managed if it is understood in the context of other risks and how their interaction may adversely impact its balance sheet and, ultimately, its interest rate risk profile.

In addition to measuring and hedging risk at an aggregate (net position) level, individual, large and complex transactions may be hedged at a micro level where appropriate. Management of the interest rate risk profile is carried out within the limits approved by the ALCOs. The Investment committee ("Invesco") oversees these activities for the domestic Banking operations, challenges and debates the 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 these portfolio level risk management actions are transferred through the internal funds transfer pricing mechanisms and contribute to a suitable measurement of risk adjusted performance across the various businesses.

The Banking Group applies cash flow hedge accounting for derivates used in the aforementioned hedging strategies for the Banking book. Where hedges do not qualify for this treatment, mismatches may arise due to timing differences in the recognition of income from the fair valued hedges and the underlying exposures, which would be accounted for on an accrual basis.

### Discussion of the interest rate risk profile

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

The change to the interest rate gap shown in the tables below can be ascribed to this hedging activity in response to the change in interest rates over the reporting period. The decrease in the positive gap in the 'within 3 months' category is driven by the increased pay-floating leg of the swaps used for hedging purposes.

### Repricing schedule for FRB consolidated Banking book as at 30 June 2009 (audited)

| | Term to repricing | | | | |
|---|---|---|---|---|---|
| R million | Within 3 months | After 3 months but within 6 months | After 6 months but within 12 months | After 12 months | Non rate sensitive |
| Net repricing gap | 2 401 | 14 101 | (527) | 127 | (16 101) |
| Cumulative repricing gap | 2 401 | 16 501 | 15 974 | 16 101 | – |

**Note:** This repricing gap analysis excludes the Banking books of RMB and the international balance sheet, both of which are separately managed on an ETL and VaR basis.

### Repricing schedule for FRB consolidated Banking book as at 30 June 2008 (audited)

| | Term to repricing | | | | |
|---|---|---|---|---|---|
| R million | Within 3 months | After 3 months but within 6 months | After 6 months but within 12 months | After 12 months | Non rate sensitive |
| Net repricing gap | 30 349 | 4 561 | (10 343) | 375 | (24 942) |
| Cumulative repricing gap | 30 349 | 34 910 | 24 567 | 24 942 | – |

**Note:** This repricing gap analysis excludes the Banking books of RMB and the international balance sheet, both of which are separately managed on an ETL and VaR basis

Net interest income sensitivity has reduced in rand terms compared to last year. The sensitivity is subject to approved internal board limits. Utilisation of the risk limit was well within permitted exposures at year end and during the year.

### Sensitivity of FRB projected NII as at 30 June 2009 (audited)

| R million | Changed in projected 12 month NII |
|---|---|
| Downward 200 bps | **(1 111)** |
| Upward 200 bps | **1 123** |

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

### Sensitivity of FRB NII as at 30 June 2008 (audited)

| R million | Changed in projected 12 month NII |
|---|---|
| Downward 200 bps | (1 423) |
| Upward 200 bps | 1 438 |

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

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

### Sensitivity of FRB reported reserves to interest rate movements as at 30 June 2009 (audited)

| R million | As a % of total shareholders' equity |
|---|---|
| Downward 200 bps | **0.41%** |
| Upward 200 bps | **(0.25%)** |

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

### Sensitivity of FRB reported reserves to interest rate movements as at 30 June 2008 (audited)

| R million | As a % of total shareholders' equity |
|---|---|
| Downward 200 bps | (0.48%) |
| Upward 200 bps | 0.60% |

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

## OPERATIONAL RISK

Operational risk denotes the risk of loss resulting from inadequate or failed internal processes, controls and systems, human factors or from external events.

### Introduction and objectives

Over the reporting period FRB obtained approval from the SARB to adopt the AMA for operational risk on a partial use basis from 1 January 2009. This achievement highlights the sound operational risk governance practices across the Bank's operations, which are aimed at ensuring the proper identification of all operational risks, their mitigation where appropriate and their management as part of the businesses' operations.

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

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

## Organisational structure and governance

Operational risk is managed on the basis of the policies, standards, approaches and procedures set out in the Operational Risk Management Framework ("ORMF"), a sub-framework of the BPRMF, which is a policy of both the board and Executive committee.

The FRBH board has delegated its responsibility for the adequate identification and management of operational risk to the Operational risk committee ("ORC"), a subcommittee of the RCC. The ORC provides governance, supervision, oversight, and coordination of relevant risk processes as set out in the framework. To ensure appropriate visibility at a board level, the ORC includes two non-executives, one of which is a member of the board. Other members include the divisional heads of risk and senior personnel of the central ERM function.

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

## Operational risk assessment and management

In line with international best practice, the Banking Group employs a variety of approaches and tools in the assessment of operational risk. The most pertinent of these are:

- key risk indicators ("KRIs") – KRIs have been put in place across all businesses as an early warning measure to highlight areas of increasing potential exposure to operational risk. KRI reports are included in regular management reports to support ongoing risk identification and mitigation efforts by the business;
- self assessments – risk and control self assessments ("RCSA") are integrated in the business and risk management processes to assist risk managers in identifying key risk areas and to assess the effectiveness of existing controls. Other risk self assessments include business continuity self assessments, risk effectiveness reports for IT ("RERIT") and physical security self assessments;
- audit findings – GIA acts as the third line of risk controls across the organisation and audit findings are used to verify whether controls put in place by the businesses are acceptable in mitigating the risks associated with their key and supporting processes. The number of findings issued, as well as audit findings that have not been resolved before the due date, are tracked, monitored and reported on through the risk committee structures;
- internal loss data – loss data reporting and analyses are used by risk managers to understand the root causes of loss incidents and to understand where corrective action should be taken to mitigate losses;
- external data – external loss data bases are used to derive lessons from other organisations and loss events and to inform quantitative operational risk assessments through risk scenario analyses; and
- incident and issue reporting – a well-defined and embedded process for the reporting of incidents and potential issues is in place to ensure that operational risk losses can be managed and potentially mitigated and to facilitate a feedback of any lessons learned into the organisation's operational risk management practices.

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

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

The AMA allows the Bank to employ a sophisticated, statistical model-based approach for the estimation of capital requirements, which enables more granular and more accurate estimates of the capital requirements associated with the operational risks in each business. A number of operational risk scenarios covering key risks that, although low in probability, may result in severe losses are the basis for this model. These scenarios were derived through an extensive analysis of the Bank's operations in consultation with business experts from the respective areas. All scenarios were subsequently cross-referenced to external loss data, internal losses, the control environment and other pertinent information about relevant business processes. To ensure the ongoing efficacy of the capital assessment, all scenarios are reviewed, supplemented or updated semi-annually, as appropriate.

The internal loss scenarios are combined with loss data in a simulation engine to derive the distribution of potential operational risk losses. Regulatory and economic capital requirements are then calculated as the potential loss at the 99.9% confidence level, excluding the effects of insurance and potential diversification effects.

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

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

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

For management and performance measurement purposes, aggregate operational risk capital figures are broken down to lower levels of the organisation on the basis of a risk scorecard that has been aligned to the risk scenarios, control assessments and internal loss experience.

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

### *Business continuity management*

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

### *Legal risk*

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

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

### *Information risk*

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

The organisation's Information Technology Governance and Information Security Framework ("IT framework") is a customisation of ISACA's Control Objectives for Information and related Technology ("COBIT®") framework and the Information Security Forum's Standard of Good Practice for the Banking Group. The IT framework is approved by the Technology and Information Management Risk committee ("TIMCO"), 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 their implementation in the respective functions across the Banking Group.

Like many other large organisations, the Banking Group constantly faces a number of new and changing threats across the evolving IT landscape. The risk monitoring and management structures are designed to enable it to adapt and evolve its risk management strategy with the continuously changing IT environment.

### *Fraud and security risks*

The 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 the Banking Group's commitment to a stance of "zero tolerance" towards crime. Executive management throughout the Banking Group is committed to living the values of "zero tolerance" and enforcing them stringently.

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

## STRATEGIC AND BUSINESS RISK

Strategic risk denotes the risk to current or prospective earnings arising from adverse business decisions or the improper implementation of such decisions. Business risk denotes the risk to earnings and capital due to potential changes in the business environment, client behaviour and technological progress. It is often termed volume and margin risk and relates to the Banking Group's ability to generate sufficient levels of revenue to offset its costs.

### Introduction and objectives

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

Business risk is considered as a potential outcome in the strategic planning process and it is also considered as a part of regular and pervasive stress testing and scenario analyses carried out across the businesses. The Banking Group's objective is to develop and maintain a portfolio that delivers sustainable earnings and thus minimises the chance of such an adverse scenario occurring.

### Organisational structure and governance

The development and execution of business level strategy is the responsibility of the individual business areas, subject to approval by the board, which sets the Banking Group's overall strategy and ensures that strategic objectives set at a business level are consistent with its overall strategy. This includes the approval of any subsequent material changes to strategic plans, acquisitions, significant equity investments and new strategic alliances.

Business unit and executive management, as well as the central BSM and ERM functions, review the external environment, industry trends, potential emerging risk factors, competitors' actions, and regulatory changes as part of the strategic planning process. Through this review, as well as through regular scenario planning and stress testing exercises, the Banking Group assesses the risk to its earnings and thus the level of potential business risk it faces. Reports on the results of such exercises are discussed at various business, risk and board committees and are ultimately taken into account in the setting of risk appetite and in potential revisions to existing strategic plans.

### Strategic and business risk assessment and management

Strategic risk, as defined above, is not readily quantifiable and is therefore not a risk that an organisation can or should hold a protective capital buffer for. The risk to the Banking Group's earnings on the other hand can be assessed, and this forms an explicit part of the Banking Group's risk appetite and internal capital adequacy assessment processes (including the regulatory ICAAP).

Business risk is a residual risk (to the extent that its impact is not captured by other risk types) and is assessed regularly as part of the ICAAP. It is managed strategically at a Banking Group level through the development, review and updating of the strategic plan in light of the organisation's evolving view of the business environment.

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

As a financial services provider, FRB's business is one that is inherently built on trust and close relationships with its clients. Safeguarding the Banking Group's reputation is therefore of paramount importance to ensure its continued prosperity and is thus seen as the responsibility of every staff member. Reputational risks can arise from environmental, social and governance issues or as a consequence of financial or operational risk events.

The Banking Group's reputation is built on the way in which it conducts its business and protects its reputation by managing and controlling these risks across its operations. It thus seeks to avoid large risk concentrations by establishing a risk profile in its operations that is balanced both within and across risk types. In this respect, potential reputational risks are also taken into account as part of stress testing exercises, which are a component of the planning and strategy setting processes. As indicated in the introduction of this report, the Banking Group aims to establish a risk and earnings profile within the constraints of its risk appetite and thus seeks to limit potential stress losses from credit, market, liquidity and operational risks that may otherwise introduce undesirable volatility in its financial results and adversely affect its reputation.

## REGULATORY RISK

Regulatory risk denotes the risk of legal or regulatory sanction and material financial loss or reputational damage as a result of a failure by the Banking Group or any part thereof to comply with any applicable laws, regulations or supervisory requirements.

## Introduction and objectives

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

The objective of the Banking Group's compliance and regulatory risk management efforts is thus to ensure that business practices, policies, frameworks and approaches across the organisation are consistent with applicable laws and that any risks to compliance can be identified and managed pro-actively prior to incurring a potential liability.

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

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

## Organisational structure and governance

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

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

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

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

## Regulatory risk assessment and management

The RRM function and its board mandate prescribe a 'zero tolerance' approach to compliance breaches. To achieve this, RRM 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 has been drafted which also fulfils the function of assisting the businesses in addressing all material compliance risks.

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

## TO THE MEMBERS OF FIRSTRAND BANK LIMITED

The directors of FirstRand Bank Limited are required by the Companies Act to maintain adequate accounting records and to prepare financial statements for each financial year that fairly present the state of affairs of the company 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 company's philosophy on corporate governance.

The directors have reviewed the company's budget and flow of funds forecast for the year to 30 June 2010. 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 will not be a going concern for the foreseeable future. The going concern basis has therefore been adopted in preparing the financial statements.

The company's external auditors, Deloitte & Touche and PricewaterhouseCoopers Inc. have audited the financial statements and their unqualified report appears on page 59.

The financial statements of the company for the year ended 30 June 2009, which appear on pages 3 to 57, and 60 to 165 respectively, have been approved by the board of directors and are signed on its behalf by:

**JP Burger**
Financial Director

**SE Nxasana**
Chief Executive Officer

Sandton

14 September 2009

## TO THE MEMBERS OF FIRSTRAND BANK LIMITED

We have audited the parent company annual financial statements of FirstRand Bank Limited, which comprise the balance sheet as at 30 June 2009, the income statement, the statement of changes in equity and the cash flow statement for the year then ended, a summary of significant accounting policies, other explanatory notes as set out on pages 60 to 165 and information defined as "audited" in the risk report, as set out on pages 3 to 57 and the directors' report.

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The company's directors are responsible for the preparation and fair presentation of the parent company 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 the parent company 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 auditors' judgement, including the assessment of the risks of material misstatement of the parent company 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 parent company 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 parent company annual financial statements present fairly, in all material respects, the financial position of the company as at 30 June 2009, 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

**Deloitte & Touche**
Partner: W Klaassen
Registered Auditor

PricewaterhouseCoopers Inc.

**PricewaterhouseCoopers Inc.**
Director: J Grosskopf
Registered Auditor

Sandton

14 September 2009

## 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:

| | |
|---|---|
| 27 October 2008 | 1 ordinary at a par value of R2.00 |
| 17 November 2008 | 107 981 ordinary at a par value of R2.00 |
| 27 March 2009 | 1 ordinary at a par value of R2.00 |

Details of the FirstRand Bank Limited's share capital are presented in note 27 of the financial statements.

## DIVIDENDS

Ordinary cash dividends of R2 823 million were paid during the 2009 financial year (2008: R4 354 million).

Dividends of R309 million (2008: R273 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 R3 886 million (2008: R6 961 million).

## POST BALANCE SHEET EVENTS

None.

## 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, Mr GT Ferreira retired (28 November 2008), resigned his board membership and stepped down as Chairman. Mr LL Dippenaar was elected Chairman in his stead.

Mr DM Falck (29 October 2008) and Mr RA Williams (11 September 2008) resigned their board memberships.

Mr L Crouse (30 September), Dr JH van Greuning (28 November 2008) and Mr MH Visser were appointed to the board during the year. Mr MH Visser's appointment became effective on 22 July 2009, on receipt of confirmation from the Registrar of Banks.

The following non-executive directors are up for re-election at the next annual general meeting: LL Dippenaar, EG Matenge-Sebesho, BJ van der Ross, MH Visser and JH van Greuning.

## 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 28 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

## 1. INTRODUCTION

FirstRand Bank Limited 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 undertakings (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:

- IFRIC 13 Customer Loyalty Programmes which is effective for annual periods beginning on or after 1 July 2008. The Interpretation applies to the accounting for customer loyalty award credits that the entity grants to its customers that customers can redeem in future. The Interpretation impacts the revenue recognition related to the sales transaction and further details are provided in accounting policy note 30.
- IFRIC 14 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction is effective for annual periods beginning on or after 1 January 2008. This Interpretation provides guidance on the measurement of defined benefit assets. As a result of the fact that the Bank has not recognised a defined benefit asset the Interpretation does not have any impact on the Bank's results.

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

These financial assets and liabilities include:

- financial assets and liabilities held for trading;
- financial assets classified as available-for-sale;
- derivative financial instruments;
- financial instruments elected to be carried at fair value; and
- employee benefit liabilities, valued using the projected unit credit method.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. 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 35.

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 instrument or portfolios of financial instruments. Net interest income on advances and deposits designated at fair value through profit or loss, which are not trading in nature, are recognised in interest income and expense.

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

From an operational perspective, the Bank suspends the accrual of contractual interest on non recoverable advances. However, in terms of IAS 39, interest income on impaired advances is thereafter recognised based on the original effective interest rate used to determine the discounted recoverable amount of the advance. This difference between the discounted and undiscounted recoverable amount is released to interest income over the expected collection period of the advance.

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

## 6. FAIR VALUE INCOME

The Bank includes profits, losses and fair value adjustments on trading financial instruments (including derivative instruments which do not qualify for hedge accounting in terms of IAS 39) as well as financial instruments designated at fair value through profit or loss, other than advances and deposits not of a trading nature, as fair value income in non interest income.

## 7. FEE AND COMMISSION INCOME

The 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 income 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.

## 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 equity as qualifying cash flow hedges and qualifying net investment hedges.

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

Foreign currency translation differences on monetary items classified as available–for-sale, such as foreign currency bonds designated as available-for-sale, are not reported as part of the fair value gain or loss in equity, but are recognised as a translation gain or loss in the income statement when incurred.

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

## 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 by the balance sheet 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.

### 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 cash flow statement, cash and cash equivalents comprise:

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

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

## 15. FINANCIAL INSTRUMENTS

### 15.1 General

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

The Bank recognises financial assets and financial liabilities on its balance sheet when, and only 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 directly in equity, until the financial asset is derecognised or impaired, at which time the cumulative gain or loss previously recognised in equity is recognised in the income statement as gains and losses from investment securities. However, interest calculated on available-for-sale financial assets using the effective interest method is recognised in the income statement as part of interest income. Dividends on available-for-sale equity instruments are recognised in the income statement when the entity's right to receive payment is established and are included in investment income.

The 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 criterion (i) are:

- Various loans to customers, structured notes and other investments that form part of the merchant banking division. 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 equity. This would result in a significant accounting mismatch, as the movements in the fair value of the policyholder liability are recognised directly in the income statement.

Financial instruments designated under criterion (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, ie 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.

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

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

### *15.1.5 Financial liabilities at amortised cost*

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

## 15.2 Offsetting financial instruments

The Bank offsets financial assets and liabilities and reports the net balance in the balance sheet where:

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

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

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the 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 Bank, including:
  - Adverse changes in the payment status of issuers or debtors in the Bank; or
  - National or local economic conditions that correlate with defaults on the assets in the Bank.

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. As a practical expedient, the Bank may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (ie on the basis of the Bank's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors).Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due 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 Bank 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 (eg term loans) are treated as overdue where the principal or interest is overdue and remains unpaid as at the reporting date.
- Consumer loans repayable by regular instalments (eg mortgage loans, personal loans) are treated as overdue when an instalment payment is overdue and remains unpaid as at the reporting date.
- A loan payable on demand is treated as overdue where a demand for repayment has been served on the borrower but repayment has not been made in accordance with the instruction.

In these instances, the full outstanding amount is considered overdue even if part of it is not yet due. The days past due is referenced to the earliest due date of the loan.

The past due analysis is only performed for advances with specific expiry dates or instalment repayment dates or demand loans that have been demanded. The analysis is not applicable to overdraft products or products where no specific due date is determined. The level of riskiness on these types of products is done with reference to the counterparty ratings of the exposures and reported as such.

#### *15.6.2.2 Renegotiated advances*

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

### *15.6.3 Available-for-sale financial assets*

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

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

## 15.7 Derivative financial instruments and hedging

The Bank initially recognises derivative financial instruments, including foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, currency and interest rate options (both written and purchased) and other derivative financial instruments, in the balance sheet at fair value. Derivatives are subsequently re-measured 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 (ie the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (ie without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Bank recognises profits or losses on day one.

Where fair value is determined using valuation techniques whose variables include non observable market data, the difference between the fair value and the transaction price ("the day one profit or loss") is deferred and released over the life of the instrument. However, where observable market factors that market participants would consider in setting a price subsequently become available, the balance of the deferred day one profit or loss is released to income.

The method of recognising the resulting fair value 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 equity. 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 equity 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 equity at that time remains in equity and is recognised when the forecast transaction is recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Where the forecast transaction or a foreign currency firm commitment results in the recognition of a non-financial asset or a liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or liability. For financial assets and liabilities, the Bank transfers amounts deferred in equity to the income statement and classifies them as revenue or expense in the periods during which the hedged firm commitment or 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 Group acquires commodities as a broker-trader in order to benefit from short term fluctuations in price or to earn a brokers' margin such commodities are measured at fair value less costs to sell and all changes in fair value less costs to sell are recognised in profit or loss in the period of the change.

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

## 17. PROPERTY AND EQUIPMENT

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

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

## 18. 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 instalments 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 recognises 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. Internally generated intangible assets which are separately identifiable, where the costs can be reliably measured and where the Bank is expected to derive a future benefit for more than one accounting period is capitalised.

The Bank capitalises material acquired trademarks, patents and similar rights where it will receive a benefit from these intangible assets in more than one 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 is provided in full, using the liability method on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the 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 affects 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 balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs.

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

The 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 expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

### 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 balance sheet.

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

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

### 21.3 Termination benefits

The Bank recognises termination benefits as a liability in the balance sheet and as an expense in the income statement when it has a present obligation relating to termination. 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 balance sheet 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.

### 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 balance sheet date are not recognised but disclosed as a post balance sheet event.

### 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

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

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

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

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

Assets, liabilities, revenues 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 intersegment revenues and transfers as if the transactions were with third parties at current market prices. Tax is allocated to a particular segment on a pro-rata basis.

Funding is provided to business units and segments based at 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.

### 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 retained earnings in the statement of changes in equity. The total value of the services received is calculated with reference to the fair value of the options on grant date.

The fair value of the options is determined, excluding non-market vesting conditions. These vesting conditions are included in the assumptions of the number of options expected to vest. At each balance sheet date, the 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 retained earnings.

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

### 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 balance sheet date until settled. The liability is recognised over the vesting period and is revalued at every balance sheet 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

As a result of the application of IFRIC 13 Customer Loyalty Programmes ("IFRIC 13") for the first time in the current period, the Bank has changed its accounting policy in respect of the revenue related to customer loyalty programmes because the accounting treatment specified by IFRIC 13 is consistent with the accounting treatment applied by the Bank.

| R million | Notes | 2009 | 2008 |
|---|---|---|---|
| Interest and similar income | 1 | 46 733 | 42 723 |
| Interest expense and similar charges | 1 | (34 805) | (31 558) |
| **Net interest income before impairment of advances** | | 11 928 | 11 165 |
| Impairment of advances | 10 | (7 578) | (4 457) |
| **Net interest income after impairment of advances** | | 4 350 | 6 708 |
| Non interest income | 2 | 18 336 | 20 188 |
| **Income from operations** | | 22 686 | 26 896 |
| Operating expenses | 3 | (18 322) | (17 513) |
| **Income before tax** | | 4 364 | 9 383 |
| Indirect tax | 4 | (395) | (488) |
| **Profit before tax** | | 3 969 | 8 895 |
| Direct tax | 5 | (83) | (1 934) |
| **Profit for the year** | | 3 886 | 6 961 |
| **Attributable to:** | | | |
| Non cumulative non redeemable preference shares | | 309 | 273 |
| Ordinary equity holders | | 3 577 | 6 688 |
| **Equity holders** | | 3 886 | 6 961 |
| **Profit for the year** | | 3 886 | 6 961 |

# BALANCE SHEET
as at 30 June



| R million | Notes | 2009 | 2008 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and short term funds | 7 | **20 980** | 21 913 |
| Derivative financial instruments | 8 | **59 523** | 48 257 |
| Advances | 9 | **384 938** | 400 621 |
| Investment securities and other investments | 11 | **67 102** | 52 108 |
| Commodities | 12 | **1 276** | 1 778 |
| Accounts receivable | 13 | **2 350** | 3 186 |
| Investments in associates and joint ventures | 14 | **1 580** | 838 |
| Investment in subsidiary companies | 15 | **279** | 75 |
| Amounts due by holding company and fellow subsidiary companies | 16 | **15 241** | 28 772 |
| Property and equipment | 17 | **6 795** | 5 154 |
| Post retirement benefit asset | 19 | **2 447** | 2 771 |
| Intangible assets | 20 | **216** | 122 |
| Tax asset | | **469** | 261 |
| Non current assets and disposal groups held for sale | 21 | **–** | 95 |
| Loans to Insurance Group | | **1 651** | 1 841 |
| **Total assets** | | **564 847** | 567 792 |
| **EQUITY AND LIABILITIES** | | | |
| **Liabilities** | | | |
| Deposits and current accounts | 22 | **427 441** | 415 173 |
| Short trading positions | 23 | **14 427** | 26 929 |
| Derivative financial instruments | 8 | **53 842** | 44 313 |
| Creditors and accruals | 24 | **4 512** | 4 869 |
| Provisions | 25 | **2 067** | 2 768 |
| Post retirement benefit fund liability | 19 | **2 005** | 1 888 |
| Deferred tax liability | 18 | **1 803** | 2 778 |
| Long term liabilities | 26 | **6 743** | 10 643 |
| Amounts due to holding company and fellow subsidiary companies | 16 | **16 164** | 26 502 |
| Loans from Insurance Group | | **3 585** | 2 639 |
| **Total liabilities** | | **532 589** | 538 502 |
| **Equity** | | | |
| **Capital and reserves attributable to ordinary equity holders** | | | |
| Ordinary shares | 27 | **4** | 4 |
| Share premium | 27 | **10 817** | 7 564 |
| Reserves attributable to equity holders | | **18 437** | 18 722 |
| **Total shareholders' funds** | | **29 258** | 26 290 |
| Non cumulative non redeemable preference shares | 27 | **3 000** | 3 000 |
| **Capital and reserves attributable to equity holders** | | **32 258** | 29 290 |
| **Total equity** | | **32 258** | 29 290 |
| **Total equity and liabilities** | | **564 847** | 567 792 |

# STATEMENT OF CHANGES IN EQUITY

for the year ended 30 June

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| R million | Share capital | Share premium | **Share capital and share premium** | General risk reserve |
|---|---|---|---|---|
| **Balance as at 30 June 2007** | 4 | 6 161 | 6 165 | 919 |
| Issue of share capital | – | 1 403 | 1 403 | – |
| Movement in revaluation reserves | – | – | – | – |
| Movement in other reserves | – | – | – | – |
| Profit for the year | – | – | – | – |
| Ordinary dividends | – | – | – | – |
| Preference dividends | – | – | – | – |
| Transfer (to)/from reserves | – | – | – | (919) |
| Contribution from parent company | – | – | – | – |
| Available-for-sale reserve transferred to the income statement | – | – | – | – |
| **Balance as at 30 June 2008** | **4** | **7 564** | **7 568** | **–** |
| Issue of share capital | **–** | **3 253** | **3 253** | **–** |
| Currency translation differences | **–** | **–** | **–** | **–** |
| Movement in revaluation reserves | **–** | **–** | **–** | **–** |
| Profit for the year | **–** | **–** | **–** | **–** |
| Ordinary dividends | **–** | **–** | **–** | **–** |
| Preference dividends | **–** | **–** | **–** | **–** |
| Contribution from parent company | **–** | **–** | **–** | **–** |
| Available-for-sale reserve transferred to the income statement | **–** | **–** | **–** | **–** |
| Reserve transferred from/(to) the income statement | **–** | **–** | **–** | **–** |
| **Balance as at 30 June 2009** | **4** | **10 817** | **10 821** | **–** |

| Cash flow hedge reserve | Share based payment reserve | Available-for-sale reserve | Currency translation reserve | Other reserves | Retained earnings | **Reserves attributable to equity shareholders** | Non cumulative preference share capital | **Total equity** |
|---|---|---|---|---|---|---|---|---|
| 65 | 415 | 203 | – | 1 345 | 12 837 | 21 949 | 3 000 | 24 949 |
| – | – | – | – | – | – | 1 403 | – | 1 403 |
| 111 | – | 443 | – | – | – | 554 | – | 554 |
| 346 | (62) | – | – | – | 62 | 346 | – | 346 |
| – | – | – | – | – | 6 961 | 6 961 | – | 6 961 |
| – | – | – | – | – | (4 354) | (4 354) | – | (4 354) |
| – | – | – | – | – | (273) | (273) | – | (273) |
| – | – | – | – | – | 919 | – | – | – |
| – | 88 | – | – | – | – | 88 | – | 88 |
| – | – | (384) | – | – | – | (384) | – | (384) |
| 522 | 441 | 262 | – | 1 345 | 16 152 | 26 290 | 3 000 | 29 290 |
| – | – | – | – | – | – | 3 253 | – | 3 253 |
| – | – | – | (288) | – | – | (288) | – | (288) |
| (572) | – | 71 | – | – | – | (501) | – | (501) |
| – | – | – | – | – | 3 886 | 3 886 | – | 3 886 |
| – | – | – | – | – | (2 823) | (2 823) | – | (2 823) |
| – | – | – | – | – | (309) | (309) | – | (309) |
| – | 91 | – | – | – | – | 91 | – | 91 |
| – | – | (54) | – | – | – | (54) | – | (54) |
| (287) | – | – | – | – | – | (287) | – | (287) |
| (337) | 532 | 279 | (288) | 1 345 | 16 906 | 29 258 | 3 000 | 32 258 |

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| R million | Notes | 2009 | 2008 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash receipts from customers | 29.2 | 61 201 | 59 566 |
| Cash paid to customers, suppliers and employees | 29.3 | (50 881) | (46 543) |
| Net cash flows from operating activities | 29.1 | 10 320 | 13 023 |
| Increase in income earning assets | 29.4 | (3 737) | (75 562) |
| (Decrease)/increase in deposits and other liabilities | 29.5 | (1 304) | 65 366 |
| **Net cash utilised by operations** | | (5 041) | (10 196) |
| Tax paid | 29.6 | (1 387) | (2 428) |
| **Net cash inflow from operating activities** | | 3 892 | 399 |
| **Cash flows from investment activities** | | | |
| Dividends from other investments | | 3 237 | 1 511 |
| Dividends from associates and joint ventures | | 46 | 36 |
| Purchase of property and equipment | | (2 794) | (3 080) |
| Proceeds from the disposal of property and equipment | | 130 | 225 |
| Proceeds from disposal of investments | | 2 | 30 |
| Proceeds on disposal of subsidiary | | 35 | – |
| Acquisition of subsidiaries | | (231) | (62) |
| Purchase of associates and joint ventures | | (732) | (34) |
| Proceeds from VISA listing | | – | 993 |
| Purchase of intangible assets | | (171) | (121) |
| Proceeds from disposal of advances | | 24 | – |
| **Net cash outflow from investment activities** | | (454) | (502) |
| **Cash flows from financing activities** | | | |
| (Repayment of)/proceeds from long term liabilities | | (4 492) | 2 533 |
| Proceeds from share issue | | 3 253 | 1 403 |
| Dividends paid | 29.7 | (3 132) | (4 627) |
| **Net cash (outflow)/inflow from financing activities** | | (4 371) | (691) |
| **Net (decrease)/increase in cash and cash equivalents** | | (933) | (794) |
| Cash and cash equivalents at the beginning of the year | | 21 913 | 22 707 |
| **Cash and cash equivalents at the end of the year** | 29.8 | 20 980 | 21 913 |

## 1 ANALYSIS OF INTEREST INCOME AND INTEREST EXPENDITURE

| | 2009 | | | | |
|---|---|---|---|---|---|
| R million | Fair value | Amortised cost | Hedging instruments | Non financial assets and liabilities | Total |
| **1.1 Interest and similar income** | | | | | |
| Interest on: | | | | | |
| – Advances | – | 39 308 | – | – | 39 308 |
| – Cash and short term funds | – | 204 | – | – | 204 |
| – Investment securities | 4 151 | – | – | – | 4 151 |
| – Unwinding of discounted present value on non performing loans | – | 391 | – | – | 391 |
| – Amounts due by holding company and fellow subsidiaries | 438 | 1 009 | – | – | 1 447 |
| – Other | 196 | 510 | 399 | 127 | 1 232 |
| **Interest and similar income** | **4 785** | **41 422** | **399** | **127** | **46 733** |

| | 2008 | | | | |
|---|---|---|---|---|---|
| R million | Fair value | Amortised cost | Hedging instruments | Non financial assets and liabilities | Total |
| Interest on: | | | | | |
| – Advances | 89 | 36 560 | – | – | 36 649 |
| – Cash and short term funds | – | 140 | – | – | 140 |
| – Investment securities | 1 572 | – | – | – | 1 572 |
| – Unwinding of discounted present value on non performing loans | – | 120 | – | – | 120 |
| – Amounts due by holding company and fellow subsidiaries | 875 | 983 | – | – | 1 858 |
| – Loans to Insurance Group | 23 | – | – | – | 23 |
| – Other | 701 | 1 506 | 154 | – | 2 361 |
| Interest and similar income | 3 260 | 39 309 | 154 | – | 42 723 |

| R million | | Fair value | Amortised cost | Non financial assets and liabilities | Total |
|---|---|---|---|---|---|
| | **2009** | | | | |
| 1.2 | **Interest expense and similar charges** | | | | |
| | 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 subsidiaries | (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) |
| | **2008** | | | | |
| | Interest on: | | | | |
| | – Deposits from banks and financial institutions | (218) | (926) | – | (1 144) |
| | – Current accounts | (6) | (10 057) | – | (10 063) |
| | – Savings deposits | – | (57) | – | (57) |
| | – Term deposit accounts | (7 435) | (4 880) | – | (12 315) |
| | – Negotiable certificates of deposit | (3 746) | – | – | (3 746) |
| | – Long term liabilities | (727) | (167) | – | (894) |
| | – Amounts due to holding company and fellow subsidiaries | (1 387) | (574) | – | (1 961) |
| | – Loans from Insurance Group | – | (130) | – | (130) |
| | – Other | (240) | (987) | (21) | (1 248) |
| | **Interest expense and similar charges** | (13 759) | (17 778) | (21) | (31 558) |

| R million | | 2009 | 2008 |
|---|---|---|---|
| 2 | NON INTEREST INCOME | | |
| | **Fee and commission income:** | | |
| | – Instruments at amortised cost | 10 251 | 7 181 |
| | – Non financial assets and liabilities | 2 563 | 3 078 |
| | **Fee and commission income** | 12 814 | 10 259 |
| | **Fair value income** | | |
| | – Held for trading | 1 870 | 5 463 |
| | – Designated at fair value | 2 077 | 633 |
| | – Other | – | 893 |
| | **Fair value income** | 3 947 | 6 989 |
| | **Gains less losses from investment activities** | | |
| | – Designated at fair value | 35 | 1 015 |
| | – Available-for-sale | 99 | 9 |
| | – Other | 122 | 94 |
| | **Gains less losses from investment activities** | 256 | 1 118 |
| | Other non interest income | 1 319 | 1 822 |
| | **Total** | 18 336 | 20 188 |

| R million | 2009 | 2008 |
|---|---|---|
| **2 NON INTEREST INCOME** continued | | |
| **Fee and commission income:** | | |
| – Banking fee and commission income | 10 720 | 9 316 |
| – Card commissions | 1 419 | 1 274 |
| – Cash deposit fees | 1 230 | 1 054 |
| – Commissions: bills, drafts and cheques | 639 | 543 |
| – Bank charges | 7 432 | 6 445 |
| – Knowledge based fee and commission income | 722 | 781 |
| – Non banking fee and commission income | 721 | 62 |
| – Other | 651 | 100 |
| **Fee and commission income** | 12 814 | 10 259 |

Non banking fee and commission 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.

| R million | 2009 | 2008 |
|---|---|---|
| **Fair value income:** | | |
| – Foreign exchange trading | 48 | 893 |
| – Treasury trading operations | 1 870 | 5 463 |
| – Designated at fair value through profit or loss | 2 029 | 633 |
| **Fair value income** | 3 947 | 6 989 |

Foreign exchange net trading income includes gains and losses from spot and forward contracts, options, futures, and translated foreign currency assets and liabilities. Trading operations include interest rate instruments and equity trading income.

Interest rate instruments include the results of making markets in instruments in government securities, corporate debt securities, money market instruments, interest rate and currency swaps, options and other derivatives. Equity trading income includes the results of making markets globally in equity securities and equity derivatives such as swaps, options, futures and forward contracts.

| R million | 2009 | 2008 |
|---|---|---|
| **Gains less losses from investment activities** | | |
| – Gains on investment securities | 2 | 1 015 |
| – Transfer (to)/from revaluation reserve on sale of available-for-sale assets | – | 9 |
| – Preference share dividends | 22 | – |
| – Listed shares | 22 | – |
| – Dividends from associates | 46 | 36 |
| – Unlisted shares | 46 | 36 |
| – Dividends from subsidiaries | 51 | 49 |
| – Unlisted shares | 51 | 49 |
| – Other dividends received | 96 | 9 |
| – Listed shares | 74 | 4 |
| – Unlisted shares | 22 | 5 |
| – Other investment income | 29 | – |
| – Impairment of investment securities | 10 | – |
| **Gains less losses from investment activities** | 256 | 1 118 |

| R million | 2009 | 2008 |
|---|---|---|
| **2 NON INTEREST INCOME continued** | | |
| **Other non interest income** | | |
| – (Loss)/gain on sale of property and equipment | (9) | 6 |
| – Recoveries from subsidiaries | 719 | 865 |
| – Other income | 609 | 951 |
| **Other non interest income** | 1 319 | 1 822 |
| **Total non interest income** | 18 336 | 20 188 |
| **3 OPERATING EXPENSES** | | |
| **Fee and commission expense** | (199) | (195) |
| **Auditors' remuneration** | | |
| – Audit fees | (77) | (59) |
| – Fees for other services | (9) | (8) |
| – Technical advice | (1) | – |
| – Other | (8) | (8) |
| – Prior year over provision | 3 | – |
| **Auditors' remuneration** | (83) | (67) |
| **Amortisation of intangible assets** | | |
| – Trademarks | (4) | – |
| – Software | (65) | (52) |
| – Development costs | (6) | (4) |
| – Other | (3) | – |
| **Amortisation of intangible assets** | (78) | (56) |
| **Depreciation** | | |
| – Property | (310) | (185) |
| – Freehold property | (43) | (37) |
| – Leasehold premises | (267) | (148) |
| – Equipment | (712) | (585) |
| – Computer equipment | (445) | (399) |
| – Furniture and fittings | (112) | (82) |
| – Motor vehicles | (54) | (32) |
| – Office equipment | (101) | (72) |
| – Capitalised leased assets | (1) | – |
| **Depreciation** | (1 023) | (770) |

| R million | 2009 | 2008 |
|---|---|---|
| **3 OPERATING EXPENSES** continued | | |
| **Other impairments incurred** | | |
| – Property and equipment | (13) | (24) |
| – Software | – | (4) |
| **Other impairments incurred** | (13) | (28) |
| **Other impairments reversed** | | |
| – Property and equipment | 1 | 5 |
| – Other | 1 | – |
| **Impairments reversed** | 2 | 5 |
| **Operating lease charges** | | |
| – Property | (988) | (779) |
| – Equipment | (259) | (227) |
| – Motor vehicles | (11) | (16) |
| **Operating lease charges** | (1 258) | (1 022) |
| **Professional fees** | | |
| – Managerial | (8) | (1) |
| – Technical | (513) | (394) |
| – Other | (267) | (253) |
| **Professional fees** | (788) | (648) |
| **Direct staff costs** | | |
| – Salaries, wages and allowances | (6 367) | (5 631) |
| – Contributions to employee benefit funds | (1 082) | (921) |
| – Defined contribution schemes | (896) | (1 018) |
| – Defined benefit schemes | (186) | 97 |
| – Social security levies | (90) | (79) |
| – Share based payments | 26 | (106) |
| – Other | (352) | (534) |
| **Direct staff cost** | (7 865) | (7 271) |
| – Staff related cost | (1 137) | (1 817) |
| **Total staff cost** | (9 002) | (9 088) |

| R million | 2009 | 2008 |
|---|---|---|
| **3 OPERATING EXPENSES continued** | | |
| **Other operating costs** | | |
| – Insurance | **(176)** | (242) |
| – Advertising and marketing | **(620)** | (666) |
| – Maintenance | **(681)** | (612) |
| – Property | **(341)** | (349) |
| – Computer | **(632)** | (549) |
| – Stationery | **(202)** | (200) |
| – Telecommunications | **(430)** | (399) |
| – Customer loyalty programmes | **(246)** | (232) |
| – Conveyance of cash | **(269)** | (208) |
| – Origination costs | **(21)** | (45) |
| – Other operating expenditure | **(1 930)** | (1 695) |
| – Intergroup expenses | **(331)** | (446) |
| **Other operating costs** | **(5 879)** | (5 643) |
| Research and development expenditure | **(1)** | (1) |
| **Total operating expenses** | **(18 322)** | (17 513) |
| Included in staff expenditure and other operating expenditure is the following amounts: | | |
| **Directors' emoluments** | | |
| Payments made to directors during the year for services rendered are as follows: | | |
| **Executive directors** | **(20)** | (41) |
| – Salaries and performance payments | **(18)** | (40) |
| – Company contributions to pension and medical aid funds | **(1)** | (1) |
| – Share based payments | **(1)** | – |
| **Non-executive directors** | **(7)** | (7) |
| – Services as directors of FirstRand Bank Holdings Limited | **(7)** | (7) |
| **Total** | **(27)** | (48) |

| R million | 2009 | 2008 |
|---|---|---|
| **4 INDIRECT TAX** | | |
| Value added tax (net) | (393) | (469) |
| Regional services levy | – | (1) |
| Stamp duties | (1) | (2) |
| Other | (1) | (16) |
| **Total indirect tax** | (395) | (488) |
| **5 DIRECT TAX** | | |
| **Normal tax** | | |
| – Current | (785) | (856) |
| – Current year | (223) | (1 247) |
| – Prior year adjustment | (562) | 391 |
| – Deferred | 501 | (1 021) |
| – Current year | (172) | (752) |
| – Prior year adjustment | 673 | (334) |
| – Tax rate adjustment | – | 65 |
| **Total normal tax** | (284) | (1 877) |
| **Foreign company and withholding tax** | | |
| – Current | – | (1) |
| – Current year | – | (1) |
| **Total foreign company and withholding tax** | – | (1) |
| **Secondary tax on companies** | | |
| – Current | – | (18) |
| – Deferred | 201 | (38) |
| – Current year | 201 | (38) |
| **Total secondary tax on companies** | 201 | (56) |
| **Total direct tax** | (83) | (1 934) |

The rate of corporate tax was changed from 29% to 28% in February 2008 as a result of the Revenue Laws amended by the Minister of Finance.

| **Tax rate reconciliation – South African normal tax** | % | % |
|---|---|---|
| **Effective rate of tax** | 2.1 | 21.7 |
| Total tax has been affected by: | | |
| – Non taxable income | 23.1 | 11.5 |
| – Prior year adjustments | 2.8 | 0.6 |
| – Tax rate adjustment | – | 0.7 |
| – Other permanent differences | (5.0) | (5.9) |
| – Other taxes | 5.1 | (0.6) |
| **Standard rate of South African tax** | 28.0 | 28.0 |

## 6 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 pages 61 to 73 describe how the classes of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognised.

The following table analyses the financial assets and liabilities in the balance sheet per category of financial instrument to which they are assigned and therefore by measurement basis:

| R million | Note | Held for trading | Designated at fair value through profit or loss |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and short term funds | 7 | – | – |
| Derivative financial instruments | 8 | 59 147 | – |
| Advances | 9 | – | 93 443 |
| Investment securities and other investments | 11 | 30 238 | 13 327 |
| Commodities | 12 | 1 276 | – |
| Accounts receivable | 13 | – | – |
| Investment in associate and joint ventures | 14 | – | – |
| Investment 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 and deferred acquisition costs | 20 | – | – |
| Tax asset | | – | – |
| Loans to Insurance Group | | – | – |
| **Total assets** | | **91 499** | **106 770** |
| **LIABILITIES** | | | |
| Deposits | 22 | – | 189 726 |
| Short trading positions | 23 | 14 427 | – |
| Derivative financial instruments | 8 | 53 004 | – |
| Creditors and accruals | 24 | – | – |
| Provisions | 25 | – | – |
| Post retirement benefit fund liability | 19 | – | – |
| Deferred tax liability | 18 | – | – |
| Long term liabilities | 26 | – | 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 cash flow 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 |

## 6 ANALYSIS OF ASSETS AND LIABILITIES continued

| R million | Note | Held for trading | Designated at fair value through profit or loss |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and short term funds | 7 | – | – |
| Derivative financial instruments | 8 | 47 249 | – |
| Advances | 9 | – | 94 119 |
| Investment securities and other investments | 11 | 33 357 | 8 080 |
| Commodities | 12 | 1 778 | – |
| Accounts receivable | 13 | – | – |
| Investment in associate and joint ventures | 14 | – | – |
| Investment in subsidiary companies | 15 | – | – |
| Amounts due by holding company and fellow subsidiary companies | 16 | 412 | – |
| Property and equipment | 17 | – | – |
| Post retirement benefit asset | 19 | – | – |
| Intangible assets and deferred acquisition costs | 20 | – | – |
| Tax asset | | – | – |
| Non current assets and disposal groups held for sale | 21 | – | – |
| Loans to Insurance Group | | – | – |
| **Total assets** | | 82 796 | 102 199 |
| **LIABILITIES** | | | |
| Deposits | 22 | – | 165 008 |
| Short trading positions | 23 | 26 929 | – |
| Derivative financial instruments | 8 | 43 791 | – |
| Creditors and accruals | 24 | – | – |
| Provisions | 25 | – | – |
| Post retirement benefit fund liability | 19 | – | – |
| Deferred tax liability | 18 | – | – |
| Long term liabilities | 26 | – | 2 090 |
| Amounts due to holding company and fellow subsidiary companies | 16 | 999 | – |
| Loans from Insurance Group | | – | – |
| **Total liabilities** | | 71 719 | 167 098 |

| 2008 | | | | | | |
|---|---|---|---|---|---|---|
| Held-to-maturity investments | Loans and receivables | Available-for-sale financial assets | Financial liabilities at amortised cost | Derivatives designated as cash flow hedging instruments | Non financial assets and liabilities | Total |
| – | 21 913 | – | – | – | – | 21 913 |
| – | – | – | – | 1 008 | – | 48 257 |
| – | 305 829 | 673 | – | – | – | 400 621 |
| – | – | 10 671 | – | – | – | 52 108 |
| – | – | – | – | – | – | 1 778 |
| – | 3 186 | – | – | – | – | 3 186 |
| – | – | – | – | – | 838 | 838 |
| – | – | – | – | – | 75 | 75 |
| – | 28 360 | – | – | – | – | 28 772 |
| – | – | – | – | – | 5 154 | 5 154 |
| – | – | – | – | – | 2 771 | 2 771 |
| – | – | – | – | – | 122 | 122 |
| – | – | – | – | – | 261 | 261 |
| – | – | – | – | – | 95 | 95 |
| – | 1 841 | – | – | – | – | 1 841 |
| – | 361 129 | 11 344 | – | 1 008 | 9 316 | 567 792 |
| | | | | | | |
| – | – | – | 250 165 | – | – | 415 173 |
| – | – | – | – | – | – | 26 929 |
| – | – | – | – | 522 | – | 44 313 |
| – | – | – | 4 869 | – | – | 4 869 |
| – | – | – | – | – | 2 768 | 2 768 |
| – | – | – | – | – | 1 888 | 1 888 |
| – | – | – | – | – | 2 778 | 2 778 |
| – | – | – | 8 436 | – | 117 | 10 643 |
| – | – | – | 25 503 | – | – | 26 502 |
| – | – | – | 2 639 | – | – | 2 639 |
| – | – | – | 291 612 | 522 | 7 551 | 538 502 |

| R million | 2009 | 2008 |
|---|---|---|
| **7 CASH AND SHORT TERM FUNDS** | | |
| Coins and bank notes | **3 335** | 2 825 |
| Money at call and short notice | **875** | 828 |
| Balances with central banks | **10 837** | 10 390 |
| Balances with other banks | **5 933** | 7 870 |
| **Cash and short term funds** | **20 980** | 21 913 |
| **Fair value of balance presented** | | |
| The carrying value of cash and short term funds approximates the fair value. | | |
| **Mandatory reserve balances included in the above** | **10 837** | 10 390 |

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.

A current and non current split can be found in note 44.

## 8 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 as hedging instruments are formally designated as hedging instruments as defined in IAS 39.

All other derivatives are classified as held for trading. The held for trading classification includes two types of derivative instruments; those used in sales and trading activities, and those that do not meet the qualifying criteria for hedge accounting. The second type of held for trading category includes derivatives managed in conjunction with financial instruments designated at fair value.

The 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 3 to 57 of the Annual Report ("the Risk Report").

Please refer to note 35 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 the Bank's balance sheet using separate risk portfolios. These portfolios are managed under separate mandates, which take into account the underlying risk inherent in each portfolio. Counterparty credit risk is managed centrally by FirstRand Credit.

The inherent complexity of interest rate risks in the Bank's balance sheet and consequently in each portfolio, requires that interest rate risk be analysed and managed using various analytical tools and frameworks. While each analytical process may highlight a different aspect of interest rate risk, each analytical tool is intended to corroborate and support the overall interest rate risk management objectives of the Bank.

Interest rate derivatives comprising mainly interest rate swaps, rand overnight deposit swaps ("RODS") and forward rate agreements that are utilised for hedging purposes to eliminate uncertainty and reduce the risk that the Bank faces due to volatile interest rates. The Bank accepts deposits at variable rates and uses pay fixed interest rate derivatives as cash flow hedges of future interest payments, effectively converting borrowings from floating to fixed rates. The Bank also has assets at variable interest 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 and interest rate derivatives used to hedge the price risk associated with physical commodity positions and interest rate products. For qualifying fair value hedges, all changes in fair value of the derivative and in the fair value of the item in relation to the risk being hedged are recognised in profit or loss. If the hedge relationship is terminated, the fair value adjustment to the item continues to be reported as part of the basis of the item and will be realised upon sale of the hedged item.

| R million | 2009 | 2008 |
|---|---|---|
| Gains or losses for the period arising from the change in fair value of fair value hedges: | | |
| – on hedging instrument | 63 | 514 |
| – on hedged items attributable to the hedged risk | (63) | (432) |
| **Total** | – | 82 |

### Cash flow hedges

Swaps used for cash flow hedging purposes have quarterly resets and settlements. The amounts of these resets are dependent upon a number of factors, including notional amounts, reset rates and reset dates. The maturities of these instruments are negotiated at the time of the deal and are dependent on future yields and maturity profile of the underlying hedged book. Underlying hedged items have monthly cash flows based on the underlying reference rate. A single swap cash flow hedges the cumulative change in cash flow for three subsequent months.

The effective portion of changes in fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is released to income. Amounts accumulated in equity are released to the income statement in periods in which the hedged item will affect profit or loss. When hedging instruments are sold or when the hedge no longer meets the criteria for hedge accounting, the gains or losses continue to be deferred in equity and are released to the income statement as the risks, previously hedged, affects profit or loss.

When the hedged risk is no longer expected to occur, the gains or losses deferred in equity are released to profit and loss immediately.

Interest rate derivatives comprising mainly of interest rate swaps and government securities are utilised for hedging purposes to eliminate uncertainty and reduce the risk that the 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 | 2009 | 2008 |
|---|---|---|
| **8 DERIVATIVE FINANCIAL INSTRUMENTS** continued | | |
| **Reconciliation of movements in the cash flow hedge reserve** | | |
| Opening balance (net of deferred tax) | 522 | 65 |
| Amount recognised directly in equity during the year | (572) | 111 |
| Amounts removed from equity and included in the income statement for the year | (287) | 346 |
| – Gross amount | (399) | 502 |
| – Deferred tax | 112 | (156) |
| **Closing balance** | (337) | 522 |

During the period, the hedging relationship was highly effective and the Bank deferred the lesser of changes in fair value of the hedging instruments and changes in fair value on the hedged items. As the changes on the hedging instruments were less than the changes in fair value on the hedged items, no ineffectiveness was recognised in profit or loss.

| | 2009 | | 2008 | |
|---|---|---|---|---|
| R million | Assets | Liabilities | Assets | Liabilities |
| **Hedge ineffectiveness recognised in the income statement** | | | | |
| **Cash flows on the underlying hedged items are expected to impact the income statement as follows:** | | | | |
| – 1 – 3 months | 2 740 | (960) | 1 110 | (1 648) |
| – 3 – 12 months | 3 109 | (1 298) | 2 234 | (3 744) |
| – 1 – 5 years | 2 119 | (2 722) | 2 731 | (4 691) |
| – Over 5 years | 3 | (2 985) | 205 | (170) |
| **Total** | 7 971 | (7 965) | 6 280 | (10 253) |
| **Cash flows on the hedging instruments are expected to be released to the income statement as follows:** | | | | |
| – 1 – 3 months | (221) | 258 | (152) | 261 |
| – 3 – 12 months | (433) | 234 | (290) | 566 |
| – 1 – 5 years | (365) | 190 | (307) | 651 |
| – Over 5 years | – | – | (18) | 15 |
| **Total** | (1 019) | 682 | (767) | 1 493 |

A split between current and non current amounts can be found in note 44.

## 8 DERIVATIVE FINANCIAL INSTRUMENTS continued

**Cash flow hedges continued**

| | 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 hedges** | 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 |
| **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 |
| – Futures | – | – | – | – |
| 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 |

## 8 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 |

## 8 DERIVATIVE FINANCIAL INSTRUMENTS continued

| | Assets | | Liabilities | |
|---|---|---|---|---|
| R million | Notional | Fair value | Notional | Fair value |
| 2008 | | | | |
| **Qualifying for hedge accounting** | | | | |
| **Cash flow hedges** | | | | |
| Interest rate derivatives | 81 401 | 1 008 | 44 730 | 522 |
| – Swaps | 81 401 | 1 008 | 44 730 | 522 |
| **Total cash flow hedges** | 81 401 | 1 008 | 44 730 | 522 |
| **Fair value hedges** | | | | |
| Commodity derivatives | 704 | – | 1 110 | – |
| – Futures | 704 | – | 1 110 | – |
| **Total fair value hedges** | 704 | – | 1 110 | – |
| **Total qualifying for hedge accounting** | 82 105 | 1 008 | 45 840 | 522 |
| **Held for trading** | | | | |
| Currency derivatives | 399 607 | 16 316 | 336 926 | 10 522 |
| – Forward rate agreements | 163 867 | 2 763 | 179 571 | 3 661 |
| – Swaps | 218 878 | 6 030 | 143 455 | 4 583 |
| – Options | 16 661 | 6 712 | 13 483 | 1 420 |
| – Futures | 201 | 811 | 417 | 858 |
| Interest rate derivatives | 2 926 336 | 27 643 | 2 742 699 | 27 827 |
| – Forward rate agreements | 1 841 487 | 5 324 | 1 751 835 | 5 982 |
| – Swaps | 665 540 | 20 530 | 576 845 | 19 952 |
| – Options | 389 753 | 1 571 | 385 974 | 1 579 |
| – Futures | 29 556 | 218 | 28 045 | 314 |
| Equity derivatives | 18 787 | 723 | 28 979 | 2 765 |
| – Options | 12 237 | 491 | 21 645 | 2 624 |
| – Futures | 6 550 | 232 | 7 334 | 141 |
| Commodity derivatives | 15 875 | 2 553 | 4 949 | 2 299 |
| – Swaps | 10 037 | 1 402 | 2 507 | 817 |
| – Options | 1 036 | 676 | 547 | 149 |
| – Futures | 4 802 | 475 | 1 895 | 1 333 |
| Credit derivatives | 2 291 | 14 | 1 586 | 378 |
| **Total held for trading** | 3 362 896 | 47 249 | 3 115 139 | 43 791 |
| **Total** | 3 445 001 | 48 257 | 3 160 979 | 44 313 |

## 8 DERIVATIVE FINANCIAL INSTRUMENTS continued

Assets: Derivative instruments

| | Exchange traded | | Over the counter | | Total | |
|---|---|---|---|---|---|---|
| R million | Notional | Fair value | Notional | Fair value | Notional | Fair value |
| 2008 | | | | | | |
| **Qualifying for hedge accounting** | | | | | | |
| Cash flow hedges | – | – | 81 401 | 1 008 | 81 401 | 1 008 |
| Interest rate derivatives | – | – | 81 401 | 1 008 | 81 401 | 1 008 |
| Fair value hedges | 704 | – | – | – | 704 | – |
| Commodity derivatives | 704 | – | – | – | 704 | – |
| **Not qualifying for hedge accounting** | | | | | | |
| Held for trading | 10 880 | 166 | 3 352 016 | 47 083 | 3 362 896 | 47 249 |
| Currency derivatives | – | – | 399 607 | 16 316 | 399 607 | 16 316 |
| Interest rate derivatives | 4 970 | – | 2 921 366 | 27 643 | 2 926 336 | 27 643 |
| Equity derivatives | 4 871 | 166 | 13 916 | 557 | 18 787 | 723 |
| Commodity derivatives | 1 039 | – | 14 836 | 2 553 | 15 875 | 2 553 |
| Credit derivatives | – | – | 2 291 | 14 | 2 291 | 14 |
| Total | 11 584 | 166 | 3 433 417 | 48 091 | 3 445 001 | 48 257 |

Liabilities: Derivative instruments

| | Exchange traded | | Over the counter | | Total | |
|---|---|---|---|---|---|---|
| R million | Notional | Fair value | Notional | Fair value | Notional | Fair value |
| 2008 | | | | | | |
| **Qualifying for hedge accounting** | | | | | | |
| Cash flow hedges | – | – | 44 730 | 522 | 44 730 | 522 |
| Interest rate derivatives | – | – | 44 730 | 522 | 44 730 | 522 |
| Fair value hedges | 1 110 | – | – | – | 1 110 | – |
| Commodity derivatives | 1 110 | – | – | – | 1 110 | – |
| **Not qualifying for hedge accounting** | | | | | | |
| Held for trading | 11 690 | 159 | 3 103 449 | 43 632 | 3 115 139 | 43 791 |
| Currency derivatives | – | – | 336 926 | 10 522 | 336 926 | 10 522 |
| Interest rate derivatives | 3 460 | 2 | 2 739 239 | 27 825 | 2 742 699 | 27 827 |
| Equity derivatives | 7 031 | 157 | 21 948 | 2 608 | 28 979 | 2 765 |
| Commodity derivatives | 1 199 | – | 3 750 | 2 299 | 4 949 | 2 299 |
| Credit derivatives | – | – | 1 586 | 378 | 1 586 | 378 |
| Total | 12 800 | 159 | 3 148 179 | 44 154 | 3 160 979 | 44 313 |

## 8 DERIVATIVE FINANCIAL INSTRUMENTS continued

The following related party derivatives are included in:

| | Derivative instruments (Note 8) | | Loan from Insurance Group | |
|---|---|---|---|---|
| | **2009** | | 2008 | |
| | **Assets** | | Assets | |
| R million | **Notional** | **Fair value** | Notional | Fair value |
| Loan to Insurance Group | **1 312** | **64** | 7 261 | 837 |

| | Derivative instruments (Note 8) | | Loan from Insurance Group | |
|---|---|---|---|---|
| | **2009** | | 2008 | |
| | **Liabilities** | | Liabilities | |
| | **Notional** | **Fair value** | Notional | Fair value |
| Loan from Insurance Group | **2 561** | **412** | 9 365 | 2 587 |

## 9 ADVANCES

| | 2009 | | | | |
|---|---|---|---|---|---|
| R million | Loans and receivables | Held-to-maturity | Available-for-sale | Designated at fair value through profit or loss | Total |
| **Sector analysis** | | | | | |
| Agriculture | 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) | (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) | (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) | (8 971) | (7) | – | – | (8 978) |
| **Net advances** | 290 873 | 163 | 459 | 93 443 | 384 938 |

## 9 ADVANCES continued

| | 2008 | | | | |
|---|---|---|---|---|---|
| R million | Loans and receivables | Held-to-maturity | Available-for-sale | Designated at fair value through profit or loss | Total |
| **Sector analysis** | | | | | |
| Agriculture | 7 419 | – | – | 168 | 7 587 |
| Banks and financial services | 16 729 | – | 673 | 44 316 | 61 718 |
| Building and property development | 2 953 | – | – | 9 304 | 12 257 |
| Government, Land Bank and public authorities | 10 887 | – | – | 8 211 | 19 098 |
| Individuals | 224 534 | – | – | 142 | 224 676 |
| Manufacturing and commerce | 29 723 | – | – | 10 717 | 40 440 |
| Mining | 2 552 | – | – | 9 009 | 11 561 |
| Transport and communication | 2 077 | – | – | 6 732 | 8 809 |
| Other services | 16 457 | – | – | 5 520 | 21 977 |
| **Notional value of advances** | 313 331 | – | 673 | 94 119 | 408 123 |
| Contractual interest suspended | (927) | – | – | – | (927) |
| **Gross advances** | 312 404 | – | 673 | 94 119 | 407 196 |
| Impairment of advances (Note 10) | (6 575) | – | – | – | (6 575) |
| **Net advances** | 305 829 | – | 673 | 94 119 | 400 621 |
| **Geographic analysis (based on credit risk)** | | | | | |
| South Africa | 312 731 | – | 673 | 78 581 | 391 985 |
| Other Africa | 496 | – | – | 713 | 1 209 |
| United Kingdom | 42 | – | – | 9 344 | 9 386 |
| Other | 62 | – | – | 5 481 | 5 543 |
| – Ireland | 2 | – | – | 395 | 397 |
| – Other Europe | 50 | – | – | 5 064 | 5 114 |
| – North America | 4 | – | – | 22 | 26 |
| – South America | 1 | – | – | – | 1 |
| – Australasia | 4 | – | – | – | 4 |
| – Other | 1 | – | – | – | 1 |
| **Total value of advances** | 313 331 | – | 673 | 94 119 | 408 123 |
| Contractual interest suspended | (927) | – | – | – | (927) |
| **Gross advances** | 312 404 | – | 673 | 94 119 | 407 196 |
| Impairment of advances (Note 10) | (6 575) | – | – | – | (6 575) |
| **Net advances** | 305 829 | – | 673 | 94 119 | 400 621 |
| **Category analysis** | | | | | |
| Overdrafts and managed accounts | 47 316 | – | – | – | 47 316 |
| Loans to other financial institutions | 6 344 | – | – | 3 103 | 9 447 |
| Card loans | 12 805 | – | – | – | 12 805 |
| Instalment sales | 53 054 | – | – | – | 53 054 |
| Lease payments receivable | 23 766 | – | – | – | 23 766 |
| Property finance | 139 842 | – | – | 2 066 | 141 908 |
| – Home loans | 133 405 | – | – | – | 133 405 |
| – Commercial property finance | 6 437 | – | – | 2 066 | 8 503 |
| Personal loans | 14 490 | – | – | – | 14 490 |
| Preference share advances | 2 344 | – | – | 15 727 | 18 071 |
| Assets under agreement to resell | 579 | – | – | 30 469 | 31 048 |
| Other | 12 791 | – | 673 | 42 754 | 56 218 |
| **Notional value of advances** | 313 331 | – | 673 | 94 119 | 408 123 |
| Contractual interest suspended | (927) | – | – | – | (927) |
| **Gross advances** | 312 404 | – | 673 | 94 119 | 407 196 |
| Impairment of advances (Note 10) | (6 575) | – | – | – | (6 575) |
| **Net advances** | 305 829 | – | 673 | 94 119 | 400 621 |

A split of current and non current advances can be found in note 44.
The fair value of advances is disclosed in note 32.

## 9 ADVANCES continued

| R million | Within 1 year | Between 1 and 5 years | More than 5 years | Total |
|---|---|---|---|---|
| **2009** | | | | |
| **Analysis of instalment sales and lease payments receivable** | | | | |
| Lease payments receivable | **7 003** | **15 990** | **927** | **23 920** |
| Suspensive sale instalments receivable | **20 123** | **44 999** | **3 002** | **68 124** |
| Subtotal | **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** |
| 2008 | | | | |
| **Analysis of instalment sales and lease payments receivable** | | | | |
| Lease payments receivable | 6 465 | 17 017 | 364 | 23 846 |
| Suspensive sale instalments receivable | 19 083 | 50 114 | 1 075 | 70 272 |
| Subtotal | 25 548 | 67 131 | 1 439 | 94 118 |
| *Less: Unearned finance charges* | (4 672) | (12 361) | (265) | (17 298) |
| **Total** | 20 876 | 54 770 | 1 174 | 76 820 |

Under the terms of the lease agreements, no contingent rentals are payable. These agreements relate to motor vehicles and equipment. The accumulated allowance for uncollectible minimum lease payments receivable included in the allowance for impairments at the balance sheet date is R386 million (2008: R452 million).

Collateral is an important mitigant of credit risk. In accordance with the Bank's credit risk management strategy, the following principal 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 counterparties.

## 10 IMPAIRMENT OF ADVANCES

Significant loans and advances are monitored by the credit division and impaired according to the FirstRand impairment policy when an indication of impairment is observed.

The following factors are considered when determining whether there is objective evidence that the asset has been impaired:

– The estimated amount of collateral held against the loans and advances;

– Breaches of loan covenants and conditions;

– The time period of overdue contractual payments;

– Actuarial credit models;

– Loss of employment or death of the borrower; and

– The probability of liquidation of the customer.

Where objective evidence of impairment exists impairment testing is performed based on the loss given default ("LGD"), probability of default ("PD") and exposure at default ("EAD").

## 10 IMPAIRMENT OF ADVANCES continued

| | FNB | | |
|---|---|---|---|
| R million | Retail | Corporate | Commercial |
| **Analysis of movement in impairment of advances per class of advance** | | | |
| 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 |
| – impairments created | 6 638 | 111 | 809 |
| – impairments released | (1 989) | (39) | (402) |
| 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 on 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)** |

| | FNB | | |
|---|---|---|---|
| R million | Retail | Corporate | Commercial |
| Opening balance | 2 065 | 233 | 325 |
| Amounts written off | (1 159) | (24) | (50) |
| Unwinding of discounted present value on non performing loans | (84) | – | (36) |
| Reclassifications | – | – | – |
| Net new impairments created | 2 864 | 100 | 207 |
| – impairments created | 3 311 | 100 | 207 |
| – impairments released | (447) | – | – |
| Transfers from/(to) other divisions | (4) | (17) | 15 |
| **Closing balance** | **3 682** | **292** | **461** |
| New and increased provision | (2 864) | (100) | (207) |
| Recoveries of bad debts previously written off | 217 | 9 | 6 |
| Loss on sale of property in possession | 4 | – | – |
| **Impairment loss recognised in the income statement** | **(2 643)** | **(91)** | **(201)** |

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 |
| | 5 671 | 335 | – | – | 13 564 | 13 013 | 551 |
| | (2 909) | (80) | – | (100) | (5 519) | (5 059) | (460) |
| | 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) |

2008

| | WesBank | RMB | FNB Africa | Other | Total impairment | Specific impairment | Portfolio impairment |
|---|---|---|---|---|---|---|---|
| | 951 | 465 | 1 | (5) | 4 035 | 2 224 | 1 811 |
| | (1 311) | – | – | (7) | (2 551) | (2 558) | 7 |
| | – | – | – | – | (120) | (120) | – |
| | – | – | – | – | – | 126 | (126) |
| | 2 004 | 25 | 4 | 7 | 5 211 | 4 502 | 709 |
| | 2 004 | 25 | 4 | 7 | 5 658 | 4 949 | 709 |
| | – | – | – | – | (447) | (447) | – |
| | – | (380) | – | 386 | – | – | – |
| | 1 644 | 110 | 5 | 381 | 6 575 | 4 174 | 2 401 |
| | (2 004) | (25) | (4) | (7) | (5 211) | (4 502) | (709) |
| | 117 | – | – | 401 | 750 | 750 | – |
| | – | – | – | – | 4 | 4 | – |
| | (1 887) | (25) | (4) | 394 | (4 457) | (3 748) | (709) |

## 10 IMPAIRMENT OF ADVANCES continued

| | 2009 | | | |
|---|---|---|---|---|
| R million | Total value including interest in suspense | Security held | Specific impairments | Contractual interest suspended |
| **Non performing lendings by sector** | | | | |
| Agriculture | 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 lendings** | 23 920 | 15 870 | 6 444 | 1 681 |
| **Non performing lendings 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 lendings** | 23 920 | 15 870 | 6 444 | 1 681 |
| **Non performing lendings 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 lendings** | 23 920 | 15 870 | 6 444 | 1 681 |
| **Non performing lendings by geographical area** | | | | |
| South Africa | 23 881 | 15 861 | 6 415 | 1 681 |
| Other Africa | 1 | – | 1 | – |
| UK | 37 | 9 | 28 | – |
| Other | 1 | – | – | – |
| Asia | 1 | – | – | – |
| Other | – | – | – | – |
| **Total non performing lendings** | 23 920 | 15 870 | 6 444 | 1 681 |

The net recoverable amount on non performing loans is R15 685 million.

For asset finance the total security value reflected represents only the realisation value estimates of the vehicles repossessed at the date of repossession. Where the repossessions have not occurred yet the realisation value of the vehicle is estimated using internal models and is included as part of the recoveries total.

## 10 IMPAIRMENT OF ADVANCES continued

| | 2008 | | | |
|---|---|---|---|---|
| R million | Total value including interest in suspense | Security held | Specific impairments | Contractual interest suspended |
| **Non performing lendings by sector** | | | | |
| Agriculture | 93 | 74 | 35 | 17 |
| Banks and financial services | 64 | 28 | 29 | 5 |
| Building and property development | 104 | 28 | 93 | 11 |
| Government, Land Bank and public authorities | 280 | 8 | 13 | 3 |
| Individuals | 10 924 | 4 807 | 3 572 | 776 |
| Manufacturing and commerce | 486 | 110 | 231 | 65 |
| Mining | 31 | 2 | 8 | 2 |
| Transport and communication | 158 | 42 | 26 | 5 |
| Other | 590 | 137 | 167 | 43 |
| **Total non performing lendings** | 12 730 | 5 236 | 4 174 | 927 |
| **Non performing lendings by category** | | | | |
| Overdrafts and managed accounts | 667 | 149 | 471 | 92 |
| Card loans | 1 655 | – | 1 082 | 151 |
| Instalment sales | 1 968 | 337 | 674 | 98 |
| Lease payments receivable | 1 044 | 161 | 380 | 52 |
| Property finance | 6 112 | 4 432 | 1 071 | 441 |
| – Home loans | 5 993 | 4 343 | 1 040 | 417 |
| – Commercial property finance | 119 | 89 | 31 | 24 |
| Personal loans | 901 | 151 | 476 | 88 |
| Other | 383 | 6 | 20 | 5 |
| **Total non performing lendings** | 12 730 | 5 236 | 4 174 | 927 |
| **Non performing lendings by class** | | | | |
| FNB Retail | 8 302 | 4 388 | 2 585 | 650 |
| FNB Corporate | 140 | – | 121 | – |
| FNB Commercial | 625 | 349 | 291 | 113 |
| **Total FNB** | 9 067 | 4 737 | 2 997 | 763 |
| WesBank | 3 293 | 499 | 1 157 | 164 |
| RMB | 365 | – | 20 | – |
| FNB Africa | 4 | – | – | – |
| Other | 1 | – | – | – |
| **Total non performing lendings** | 12 730 | 5 236 | 4 174 | 927 |
| **Non performing lendings by geographical area** | | | | |
| South Africa | 12 716 | 5 236 | 4 164 | 927 |
| Other Africa | 14 | – | 10 | – |
| **Total non performing lendings** | 12 730 | 5 236 | 4 174 | 927 |

The net recoverable amount on non performing loans is R7 628 million. The disclosure of recoverable amount of fair value non performing loans have been aligned with the accrual non performing loan disclosure in the current year. The net recoverable amount on non performing loans disclosed previously was R7 522 million.

## 11 INVESTMENT SECURITIES AND OTHER INVESTMENTS

Refer to note 35 Fair value of financial instruments for the methodologies used to determine the fair value of investment securities and other investments.

| | 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 |

## 11 INVESTMENT SECURITIES AND OTHER INVESTMENTS continued

| | 2008 | | | |
|---|---|---|---|---|
| | 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 | 7 046 | – | – | 7 046 |
| Treasury bills | 9 249 | – | 4 268 | 13 517 |
| Other government and government guaranteed stock | 12 640 | 166 | 5 279 | 18 085 |
| Other dated securities | 2 796 | 484 | – | 3 280 |
| Other | 1 626 | 7 430 | 1 124 | 10 180 |
| **Total** | 33 357 | 8 080 | 10 671 | 52 108 |
| **Listed** | | | | |
| Treasury bills | 922 | – | – | 922 |
| Other government and government guaranteed stock | 11 948 | 166 | 5 279 | 17 393 |
| Other dated securities | 1 022 | 68 | – | 1 090 |
| Other | 1 410 | 611 | 843 | 2 864 |
| **Listed** | 15 302 | 845 | 6 122 | 22 269 |
| **Unlisted** | | | | |
| Negotiable certificates of deposit | 7 046 | – | – | 7 046 |
| Treasury bills | 8 327 | – | 4 268 | 12 595 |
| Other government and government guaranteed stock | 692 | – | – | 692 |
| Other dated securities | 1 774 | 416 | – | 2 190 |
| Other | 216 | 6 819 | 281 | 7 316 |
| **Unlisted** | 18 055 | 7 235 | 4 549 | 29 839 |

R26 186 million (2008: R24 745 million) of the financial instruments held for trading form part of the Bank's liquid asset portfolio in terms of the South African Reserve Bank and other foreign banking regulators' requirements.

The fair value of investment securities and other investments is disclosed in note 32.

A current and non current split can be found in note 44.

## 11 INVESTMENT SECURITIES AND OTHER INVESTMENTS continued

**Analysis of investment securities**

| R million | 2009 | 2008 |
|---|---|---|
| **Listed** | **29 250** | 22 269 |
| Equities | **1 818** | 2 473 |
| Debt | **27 432** | 19 796 |
| **Unlisted** | **37 852** | 29 839 |
| Equities | **2 369** | 7 140 |
| Debt | **35 483** | 22 699 |
| **Total** | **67 102** | 52 108 |
| **Valuation of investments** | | |
| Market value of listed investments | **29 250** | 22 269 |
| Directors' valuation of unlisted investments | **37 852** | 29 839 |
| **Total valuation** | **67 102** | 52 108 |

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 company's registered offices. This information is open for inspection in terms of the provisions of Section 113 of the Companies Act.

Details of current and non current investment securities is outlined in note 44.

## 12 COMMODITIES

| R million | 2009 | 2008 |
|---|---|---|
| **Agricultural commodities** | **1 276** | 1 778 |

A current and non current split can be found in note 44.

## 13 ACCOUNTS RECEIVABLE

| R million | 2009 | 2008 |
|---|---|---|
| Accounts receivable | 2 109 | 3 016 |
| – Items in transit | 546 | 416 |
| – Interest and commissions accrued | 41 | 98 |
| – Other | 1 522 | 2 502 |
| Prepayments | 241 | 170 |
| **Accounts receivable** | **2 350** | 3 186 |

The carrying value approximates fair value.

The credit quality of the above balances is provided in the table below:

**2009**

| R million | Neither past due nor impaired | Renegotiated but current | Past due but not impaired: 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** |

2008

| R million | Neither past due nor impaired | Renegotiated but current | Past due but not impaired: 1 – 30 days | 31 – 60 days | >60 days | Impaired | Total |
|---|---|---|---|---|---|---|---|
| Items in transit | 416 | – | – | – | – | – | 416 |
| Accrued interest | 98 | – | – | – | – | – | 98 |
| Other | 2 639 | – | 28 | 3 | 2 | – | 2 672 |
| **Total** | 3 153 | – | 28 | 3 | 2 | – | 3 186 |

A current and non current split can be found in note 44.

## 14 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

| R million | 2009 | 2008 |
|---|---|---|
| **Listed investments** | | |
| Investments at cost less amounts written off | 1 275 | 544 |
| **Unlisted investments** | | |
| Investments at cost less amounts written off | 305 | 294 |
| **Total carrying value** | 1 580 | 838 |
| **Valuation** | | |
| Listed investments at market valuation | 1 043 | 493 |
| Unlisted investments at directors' valuation | 689 | 944 |
| **Total valuation** | 1 732 | 1 437 |

| | Nature of business | Issued ordinary share capital | Number of ordinary shares held | Year end |
|---|---|---|---|---|
| **Listed** | | | | |
| Makalani Holdings Limited | Investment holding | 21 352 568 | 5 480 885 | 30-Jun |
| **Unlisted** | | | | |
| SBV Services (Pty) Limited | Logistics | 3 000 | 750 | 30-Jun |
| Pamodzi Investment Holdings (Pty) Limited | Venture capital | 50 000 | 22 619 | 31-Aug |
| Toyota Financial Services (Pty) Limited | Vehicle finance | 4 695 | 1 565 | 31-Mar |
| Langa Lokulunga Investment Holdings (Pty) Limited | Investment holding | 100 | 15 | 31-Mar |

** = Unlisted shares cost is less than R1.*

| | Effective holding % | | Market/valuation amount | | Carrying amount | |
|---|---|---|---|---|---|---|
| R million | 2009 | 2008 | 2009 | 2008 | 2 009 | 2 008 |
| **Listed** | | | | | | |
| Makalani Holdings Limited | 26 | 26 | 536 | 493 | 544 | 544 |
| Private Equity Associates* | – | – | 507 | – | 731 | – |
| **Total listed** | | | 1 043 | 493 | 1 275 | 544 |
| **Unlisted** | | | | | | |
| SBV Services (Pty) Limited | 25 | 25 | 64 | 64 | 35 | 35 |
| Pamodzi Investment Holdings (Pty) Limited | 23 | – | 15 | – | 15 | – |
| Toyota Financial Services (Pty) Limited | 33 | 33 | 489 | 663 | 215 | 215 |
| Langa Lokulunga Investment Holdings (Pty) Limited | – | – | – | 3 | – | 4 |
| Other | – | – | 121 | 214 | 40 | 40 |
| **Total unlisted** | | | 689 | 944 | 305 | 294 |
| **Total listed and unlisted** | | | 1 732 | 1 437 | 1 580 | 838 |

** 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 R1 019 million.*

A current and non current split can be found in note 44.

## 15 INTEREST IN SUBSIDIARY COMPANIES

| R million | 2009 | 2008 |
|---|---|---|
| Shares at cost less amounts written off | 279 | 75 |

| | Nature of business | Issued capital | Effective holding | Investment in subsidiaries |
|---|---|---|---|---|
| | | Rand | % | Rand |
| **30 June 2009** | | | | |
| **Direct Axis (Pty) Limited*** | **Financial services** | **13 249** | **66** | **120 985 648** |
| **Contract Lease Management (Pty) Limited** | **Maintenance leasing** | **100** | **100** | **18 000 000** |
| **First Auto (Pty) Limited** | **Financial services** | **97 900 121** | **100** | **139 925 090** |
| **Other** | **Various** | | | **491 912** |
| | | | | **279 402 650** |
| 30 June 2008 | | | | |
| Direct Axis (Pty) Limited | Financial services | 13 333 | 51 | 11 000 000 |
| RMB Corporate Finance (Pty) Limited | Investment | 1 000 | 100 | 1 282 762 |
| First Auto (Pty) Limited | Financial services | 97 900 121 | 75 | 35 025 090 |
| Thabo Ekgolo (Pty) Ltd | Property | 100 | 25 | 7 500 000 |
| Meletse Golf Estate (Pty) Ltd | Property | 100 | 25 | 8 450 000 |
| Monteriva Investments 17 (Pty) Ltd | Property | 100 | 20 | 10 000 000 |
| Other | Various | | | 1 274 058 |
| | | | | 74 531 910 |

** Direct Axis (Pty) Limited share capital number is after consolidation of the share trust which holds the company's shares.*

## 16 AMOUNTS DUE BY/(TO) HOLDING AND FELLOW SUBSIDIARY COMPANIES

| R million | 2009 | 2008 |
|---|---|---|
| Amounts due to holding company | (51) | (869) |
| Amounts due to fellow subsidiary companies | (16 113) | (25 633) |
| **Amounts due to holding and fellow subsidiary companies** | (16 164) | (26 502) |
| Amounts due by holding company | 533 | 1 609 |
| Amounts due by fellow subsidiary companies | 14 708 | 27 163 |
| **Amounts due by holding and fellow subsidiary companies** | 15 241 | 28 772 |
| **Net amounts due by/(to) holding and fellow subsidiary companies** | (923) | 2 270 |

These loans have no fixed terms of repayment and carry varying rates of interest. Loans to fellow subsidiary companies amounting to R165 million (2008: R357 million) are subject to subordination agreements until such time that their assets fairly valued, exceed their liabilities.

| Included in above are the following: | Amounts due by fellow subsidiary companies | | Amounts due to fellow subsidiary companies | |
|---|---|---|---|---|
| | Notional | Fair value | Notional | Fair value |
| **2009** | | | | |
| Amounts due by/(to) fellow subsidiaries includes derivative instruments of | **12 649** | **838** | **7 335** | **277** |
| 2008 | | | | |
| Amounts due by/(to) fellow subsidiaries includes derivative instruments of | 15 755 | 412 | 10 015 | 999 |

## 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 |

| | 2009 | | |
|---|---|---|---|
| R million | Gross carrying amount | Accumulated depreciation and impairments | Net carrying amount |
| **Property** | 5 015 | (810) | 4 205 |
| Freehold land and buildings* | 2 205 | (167) | 2 038 |
| Leasehold premises* | 2 810 | (643) | 2 167 |
| **Equipment*** | 5 935 | (3 345) | 2 590 |
| Computer equipment | 3 545 | (2 295) | 1 250 |
| Furniture and fittings | 1 272 | (634) | 638 |
| Motor vehicles | 438 | (105) | 333 |
| Office equipment | 670 | (307) | 363 |
| Capitalised leased assets | 10 | (4) | 6 |
| **Total** | 10 950 | (4 155) | 6 795 |

** Assets utilised by the Bank in the normal course of operations to provide services.*

| | Property | |
|---|---|---|
| R million | Freehold land and buildings | Leasehold premises |
| **Movement in property and equipment – carrying amount** | | |
| **Carrying amount at 30 June 2007** | 955 | 403 |
| Additions | 345 | 1 596 |
| Depreciation charge for the period | (37) | (148) |
| Impairments recognised | – | (1) |
| Impairments reversed | – | – |
| Disposals | (181) | – |
| Other | – | 1 |
| **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 |

| 2008 | | |
|---|---|---|
| Gross carrying amount | Accumulated depreciation and impairments | Net carrying amount |
| 3 441 | (508) | 2 933 |
| 1 207 | (125) | 1 082 |
| 2 234 | (383) | 1 851 |
| 4 977 | (2 756) | 2 221 |
| 3 149 | (1 919) | 1 230 |
| 1 120 | (554) | 566 |
| 204 | (71) | 133 |
| 504 | (212) | 292 |
| – | – | – |
| 8 418 | (3 264) | 5 154 |

| Equipment | | | | | |
|---|---|---|---|---|---|
| Computer equipment | Furniture and fittings | Motor vehicles | Office equipment | Capitalised leased assets | Total |
| 1 045 | 396 | 81 | 202 | – | 3 082 |
| 623 | 270 | 87 | 159 | – | 3 080 |
| (399) | (82) | (32) | (72) | – | (770) |
| (5) | (17) | – | (1) | – | (24) |
| – | – | – | 5 | – | 5 |
| (34) | – | (3) | (1) | – | (219) |
| – | (1) | – | – | – | – |
| **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** |

## 17 PROPERTY AND EQUIPMENT continued

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 current year were as follows:**

– Impairments recognised in the current year relate to the closure of certain FNB branches. Assets which could not be redeployed to other FNB branches and have no future economic benefits were written off.

**The circumstances which led to the reversal of previously recognised impairment losses in the current year were as follows:**

– Previously recognised impairments were reversed as assets previously written off due to branch closures in the prior year have been redeployed in the current year.

Refer to note 26 for liabilities that are related to the finance leased assets.
A current and non current split can be found in note 44.

## 18 DEFERRED TAX

| R million | 2009 | 2008 |
|---|---|---|
| **Deferred tax** | | |
| The movement on the deferred tax account is as follows: | | |
| **Deferred tax liability** | | |
| Opening balance | 2 778 | 1 741 |
| – (Charge)/release to the income statement | (501) | 1 086 |
| – STC charge/(release) to the income statement | (201) | 38 |
| – Tax rate adjustment | – | (65) |
| – Deferred tax on amounts charged/(transferred) directly to equity | (275) | (22) |
| – Other | 2 | – |
| **Total credit balance** | 1 803 | 2 778 |
| **Net balance for the year** | 1 803 | 2 778 |

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

| | 2009 | | | | |
|---|---|---|---|---|---|
| R million | Opening balance | Tax charge | Tax rate adjustment | 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 equity | (72) | 59 | – | 1 | (12) |
| Unutilised STC credits | (72) | (201) | – | 2 | (271) |
| Other | 138 | (93) | – | (4) | 41 |
| **Total deferred tax liability** | 2 778 | (702) | – | (273) | 1 803 |

## 18 DEFERRED TAX continued

| | 2008 | | | | |
|---|---|---|---|---|---|
| R million | Opening balance | Tax charge | Tax rate adjustment | Other | Closing balance |
| **Deferred tax liability** | | | | | |
| Provision for loan impairment | (382) | (195) | – | – | (577) |
| Provision for post retirement benefits | 14 | 12 | – | – | 26 |
| Other provisions | (648) | 434 | – | – | (214) |
| Cash flow hedges | 57 | 76 | – | 70 | 203 |
| Instalment credit assets | 1 870 | 367 | (31) | (1) | 2 205 |
| Accruals | 896 | 278 | (32) | (1) | 1 141 |
| Revaluation of available-for-sale securities to equity | 24 | (4) | – | (92) | (72) |
| STC | (113) | 38 | – | 3 | (72) |
| Other | 23 | 118 | (2) | (1) | 138 |
| **Total deferred tax liability** | 1 741 | 1 124 | (65) | (22) | 2 778 |

**Secondary tax on companies ("STC")**

**Total reserves**

If the total reserves of R18 437 million as at 30 June 2009 (2008: R18 722 million) were to be declared as dividends, the secondary tax impact at a rate of 10% would be R1 844 million (2008: R1 872 million).

A current and non current split can be found in note 44.

## 19 POST RETIREMENT LIABILITIES

The Bank operates both defined benefit plans and defined contribution plans for employees.

### 19.1 Defined benefit post retirement funds

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 retirment and for any defecit in the provision of these benefits from the plan assets.

The liabilities and assets of these plans are reflected as a net asset or liability in the balance sheet.

## 19 POST RETIREMENT LIABILITIES continued

Details of the defined benefit plan assets and the fund liabilities are as follows:

| | 2009 | | | 2008 | | |
|---|---|---|---|---|---|---|
| R million | Pension | Medical | Total | Pension | Medical | Total |
| **Post retirement benefit fund liability** | | | | | | |
| Present value of funded obligation | 7 720 | 1 567 | 9 287 | 7 096 | 1 344 | 8 440 |
| Fair value of plan assets | (7 099) | – | (7 099) | (6 555) | – | (6 555) |
| Pension fund deficit | 621 | 1 567 | 2 188 | 541 | 1 344 | 1 885 |
| Unrecognised actuarial (losses)/gains | (448) | 265 | (183) | (403) | 406 | 3 |
| **Post retirement liability** | 173 | 1 832 | 2 005 | 138 | 1 750 | 1 888 |
| **The amounts recognised in the income statement are as follows:** | | | | | | |
| Current service cost | 3 | 27 | 30 | 7 | 45 | 52 |
| Interest cost | 716 | 139 | 855 | 590 | 140 | 730 |
| Actuarial loss recognised | 42 | (17) | 25 | – | – | – |
| Expected return on plan assets | (724) | – | (724) | (632) | – | (632) |
| **Total included in staff costs** | 37 | 149 | 186 | (35) | 185 | 150 |
| **Movement in post retirement benefit fund liability** | | | | | | |
| Present value at the beginning of the year | 138 | 1 750 | 1 888 | 174 | 1 624 | 1 798 |
| Amounts recognised in the income statement as above | 37 | 149 | 186 | (35) | 185 | 150 |
| Benefits paid | (2) | (67) | (69) | (1) | (59) | (60) |
| **Present value at the end of the year** | 173 | 1 832 | 2 005 | 138 | 1 750 | 1 888 |
| **Movement in the fair value of plan assets of the year is as follows:** | | | | | | |
| Opening balance | 6 555 | – | 6 555 | 7 465 | – | 7 465 |
| Expected return on plan assets | 724 | – | 724 | 631 | – | 631 |
| Actuarial (losses)/gains | 285 | – | 285 | (1 104) | – | (1 104) |
| Employer contributions | 1 | – | 1 | 1 | – | 1 |
| Employee contributions | 1 | – | 1 | 1 | – | 1 |
| Benefits paid and settlements | (467) | – | (467) | (439) | – | (439) |
| **Closing balance** | 7 099 | – | 7 099 | 6 555 | – | 6 555 |
| **The actual return on plan assets was:** | 10% | – | 10% | – | – | – |
| **Plan assets comprised the following:** | | | | | | |
| Equity | 2 932 | – | 2 932 | 3 574 | – | 3 574 |
| Debt | 3 388 | – | 3 388 | 1 382 | – | 1 382 |
| Other | 779 | – | 779 | 1 599 | – | 1 599 |
| **Total** | 7 099 | – | 7 099 | 6 555 | – | 6 555 |
| **Included in plan assets were the following:** | | | | | | |
| Property occupied by the Bank with a fair value of: | 400 | – | 400 | 440 | – | 440 |
| **Total** | 400 | – | 400 | 440 | – | 440 |

## 19 POST RETIREMENT LIABILITIES continued

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | **Pension %** | **Medical %** | Pension % | Medical % |
| **The principal actuarial assumptions used for accounting purposes were:** | | | | |
| Expected return on plan assets | | | | |
| – Bank Fund | **10.0** | **–** | 11.5 | – |
| Discount rate | | | | |
| – Bank Fund | **9.0** | **9.0** | 10.8 | 10.8 |
| Expected rates of salary increases | | | | |
| – Bank Fund | **8.0** | **–** | 9.3 | – |
| Long term increase in health cost | | | | |
| – Bank Fund | **–** | **8.0** | – | 9.0 |
| **The effects of a 1% movement in the assumed health cost rate were as follows:** | | | | |
| *Increase of 1%* | | | | |
| Effect on the aggregate of the current service cost and interest cost | **–** | **124.6** | – | 117.5 |
| Effect on the defined benefit obligation | **–** | **116.0** | – | 116.0 |
| *Decrease of 1%* | | | | |
| Effect on the aggregate of the current service cost and interest cost | **–** | **90.1** | – | 86.0 |
| Effect on the defined benefit obligation | **–** | **87.0** | – | 87.3 |
| Contributions expected to be paid into the plan in the next financial period (R million) | **776** | **–** | | |
| **Net increase in rate used to value pensions, allowing for pension increases** | | | | |
| – Bank Fund | **3** | **1** | – | – |

| | **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)-1 | PA(90)-1 |
| Post retirement medical benefits | | | | |
| Normal retirement age | **60** | **–** | 60 | – |
| Mortality rate table used | **PA(90)-2** | **PA(90)-2** | PA(90)-1 | PA(90)-1 |

SA72-77 refers to standard actuarial mortality tables for active members on a defined benefit plan where the chance of dying before normal retirement is expressed at each age for each gender.

PA(90)-1 refers to standard actuarial mortality tables for current and prospective pensioners on a defined benefit plan where the chance of dying after early or normal retirement is expressed at each age for each gender.

## 19 POST RETIREMENT LIABILITIES continued

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | **Pension** | **Medical** | Pension | Medical |
| Mortality rate | | | | |
| The average life expectancy in years of a pensioner retiring at age 65 on the balance sheet date is as follows: | | | | |
| Male | **15** | **16** | 15 | 16 |
| Female | **19** | **17** | 19 | 17 |
| The average life expectancy in years of a pensioner retiring at age 65, 20 years after the balance sheet is as follows: | | | | |
| Male | **15** | **16** | 15 | 16 |
| Female | **19** | **17** | 19 | 17 |

**Five year analysis on total pension and medical post retirement plans**

| As at 30 June | **2009** | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|
| Present value of defined benefit obligation | **9 287** | 8 440 | 9 873 | 8 799 | 7 190 |
| Fair value of plan assets | **(7 099)** | (6 555) | (8 494) | (7 032) | (5 670) |
| **Deficit** | **2 188** | 1 885 | 1 379 | 1 767 | 1 520 |

The expected rate of return over the year is a weighted average of the expected rate of return of the asset classes at the beginning of the year. The weights are based on the actual proportions of market value of assets in each asset class. The expected return per class of assets is:

| | |
|---|---|
| – Equities | 10.37% |
| – Other | 10.37% |
| – Bonds | 8.87% |
| – Cash | 7.37% |

### 19.2 Defined contribution post retirement fund

This defined contribution plan is a pension plan which provides retired employees with annuity income after their service. In terms of this plan, the Bank, in its capacity as employer, is liable to the employees only for the agreed upon contributions payable for services rendered by the employees and not for any deficits of the fund assets in providing benefits to the employees after service.

The assets related to this pension fund are managed by the 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 balance sheet as they are only held by the Bank in a fiduciary capacity. Disclosure of these assets and liabilities are disclosed for information purposes only.

## 19 POST RETIREMENT LIABILITIES continued

Details of the pension plan assets and the related liability are as follows:

| R million | 2009 | 2008 |
|---|---|---|
| **Post retirement contribution fund liability/asset** | | |
| Present value of obligation | **8 170** | 11 066 |
| Fair value of plan assets | **(8 170)** | (11 066) |
| **Post retirement contribution fund liability** | **–** | – |
| Movement in post retirement contribution fund liability | | |
| Amounts recognised in the income statement | **720** | 277 |
| Benefits paid | **(720)** | (277) |
| **Present value at the end of the year** | **–** | – |
| **Movement in the fair value of plan assets of the year is as follows:** | | |
| Opening balance | **11 065** | 11 263 |
| Expected return on plan assets | **1 180** | 1 124 |
| Actuarial losses | **(3 468)** | (720) |
| Employer contributions | **413** | 370 |
| Employee contributions | **307** | 275 |
| Benefits paid and settlements | **(1 327)** | (1 247) |
| **Closing balance** | **8 170** | 11 065 |

In prior years the assets and liabilities of the pension contribution fund, as reflected above, were included as part of the plan assets and liabilities of the pension defined benefit plan under note 19.1 above.

The sum of the assets and liabilities balances for the comparatives under notes 19.1 and 19.2 is the total as reported in the prior year annual financial statements.

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.

## 19 POST RETIREMENT LIABILITIES continued

| R million | 2009 | 2008 |
|---|---|---|
| **Post retirement benefit asset** | | |
| **Pension and post retirement benefits** | | |
| Leave pay insurance policy | 156 | 278 |
| Post retirement medical asset | 2 291 | 2 493 |
| **Total post retirement benefit asset** | 2 447 | 2 771 |

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 healthcare liability consists of a commitment to pay a portion of the members' post-employment medical scheme contributions.

This liability is also generated in respect of dependants who are offered continued membership of the medical scheme on the death of the primary member. Members employed on or after 1 December 1998 do not qualify for a post employment medical subsidy.

The net discount rate (the difference between the discount rate and the assumed rate of future medical cost inflation) decreased by 0.25 percentage points from the previous valuation to the current one.

This resulted in an increase in the liability of R36 million.

A full actuarial valuation of the pension fund submission to the Financial Services Board is done every three years, with the last valuation being in 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.

The number of employees covered by the two schemes are:

| | 2009 | 2008 |
|---|---|---|
| Pension: | | |
| Active members | 30 166 | 31 170 |
| Pensioners | 7 018 | 7 218 |
| **Total** | 37 184 | 38 388 |
| Medical: | | |
| Active members | 4 747 | 5 353 |
| Pensioners | 3 250 | 3 813 |
| **Total** | 7 997 | 9 166 |

A current and non current split can be found in note 44.

## 20 INTANGIBLE ASSETS

| | 2009 | | | 2008 | | |
|---|---|---|---|---|---|---|
| R million | Gross | Accumulated amortisation and impairments | Net | Gross | Accumulated amortisation and impairments | Net |
| **Software** | | | | | | |
| **Movement in software – book value** | | | | | | |
| Opening Balance | **244** | **(144)** | **100** | 123 | (88) | 35 |
| Disposals | **(29)** | **–** | **(29)** | – | – | – |
| Additions | **152** | **–** | **152** | 121 | – | 121 |
| Impairment losses | **–** | **–** | **–** | – | (4) | (4) |
| Amortisation to the income statement | **–** | **(65)** | **(65)** | – | (52) | (52) |
| **Closing balance** | **367** | **(209)** | **158** | 244 | (144) | 100 |
| **Development costs** | | | | | | |
| **Movement in development costs – book value** | | | | | | |
| Opening Balance | **30** | **(11)** | **19** | 37 | (11) | 26 |
| Disposals | **–** | **–** | **–** | (17) | 4 | (13) |
| Additions | **6** | **–** | **6** | 10 | – | 10 |
| Amortisation to the income statement | **–** | **(6)** | **(6)** | – | (4) | (4) |
| Other | **1** | **(1)** | **–** | – | – | – |
| **Closing balance** | **37** | **(18)** | **19** | 30 | (11) | 19 |
| **Trademarks** | | | | | | |
| **Movement in trademarks – book value** | | | | | | |
| Balance acquired | **40** | **(13)** | **27** | – | – | – |
| Exchange differences | **(4)** | **2** | **(2)** | – | – | – |
| Amortisation to the income statement | **–** | **(4)** | **(4)** | – | – | – |
| **Closing balance** | **36** | **(15)** | **21** | – | – | – |
| **Other** | | | | | | |
| **Movement in other – book value** | | | | | | |
| Opening Balance | **3** | **–** | **3** | – | – | – |
| Balance acquired | **21** | **(7)** | **14** | – | – | – |
| IFRS 3 adjustment | **–** | **–** | **–** | – | – | – |
| Exchange differences | **(2)** | **1** | **(1)** | – | – | – |
| Additions | **5** | **–** | **5** | 3 | – | 3 |
| Amortisation to the income statement | **–** | **(3)** | **(3)** | – | – | – |
| **Closing balance** | **27** | **(9)** | **18** | 3 | – | 3 |
| **Total intangible assets** | | | | | | |
| Software | **367** | **(209)** | **158** | 244 | (144) | 100 |
| Development costs | **37** | **(18)** | **19** | 30 | (11) | 19 |
| Trademarks | **36** | **(15)** | **21** | – | – | – |
| Other | **27** | **(9)** | **18** | 3 | – | 3 |
| **Total intangible assets** | **467** | **(251)** | **216** | 277 | (155) | 122 |

A current and non current split can be found in note 44.

## 21 NON CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE

In the prior year, the assets and liabilities attributable to RMB Private equity division met the definition of non current assets or disposal group held for sale in terms of IFRS 5 – Non current Assets Held for Sale and Discontinued Operations. In line with the requirements of IFRS 5, the assets and liabilities attributable to the division have been disclosed as separate lines on the balance sheet. IFRS 5 does not require comparative information to be reclassified.

Disposal group held for sale

| R million | 2009 | 2008 |
|---|---|---|
| **ASSETS** | | |
| Investment securities and other investments | – | 95 |
| **Total assets classified as disposal group held for sale** | – | 95 |
| **Net assets of disposal group held for sale** | – | 95 |

## 22 DEPOSITS

| R million | At amortised cost | Designated at fair value through profit or loss | Total |
|---|---|---|---|
| **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 |
| **2008** | | | |
| **Deposit and current accounts** | | | |
| From banks and financial institutions | 33 088 | 30 329 | 63 417 |
| – In the normal course of business | 33 088 | 12 721 | 45 809 |
| – Under repurchase agreements | – | 17 608 | 17 608 |
| From customers | 213 931 | 65 874 | 279 805 |
| – Current accounts | 156 480 | 2 620 | 159 100 |
| – Savings accounts | 1 843 | – | 1 843 |
| – Term deposits | 55 608 | 63 254 | 118 862 |
| Other deposits | 3 146 | 68 805 | 71 951 |
| – Negotiable certificates of deposit | 21 | 41 086 | 41 107 |
| – Buy backs | – | 2 955 | 2 955 |
| – Other | 3 125 | 24 764 | 27 889 |
| **Deposits and current accounts** | 250 165 | 165 008 | 415 173 |

## 22 DEPOSITS continued

Deposits include amounts raised under repurchase agreements with a carrying value of R33 239 million (2008: R20 563 million).

The Bank repurchased 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 | 2009 | 2008 |
|---|---|---|
| **Deposits by Insurance Group** | **2 731** | 572 |

A current and non current split can be found in note 44.

The fair value of deposits and current accounts are disclosed in note 33.

## 23 SHORT TRADING POSITIONS

| R million | 2009 | 2008 |
|---|---|---|
| **Short trading positions** | | |
| Government and government guaranteed | **13 955** | 23 813 |
| Other dated securities | **472** | 3 003 |
| Undated securities | **–** | 113 |
| **Short trading positions** | **14 427** | 26 929 |
| **Analysed as follows:** | | |
| Listed | **14 326** | 23 985 |
| Unlisted | **101** | 2 944 |
| **Short trading positions** | **14 427** | 26 929 |
| **Fair value of balance disclosed** | **14 427** | 26 929 |

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.

A current and non current split can be found in note 44.

Refer to note 35 for a description of the valuation methods employed for unlisted equities.

## 24 CREDITORS AND ACCRUALS

| R million | 2009 | 2008 |
|---|---|---|
| Accrued interest | **54** | 106 |
| Short term portion of long term liabilities (note 26) | **709** | 173 |
| Accounts payable and accrued liabilities | **3 749** | 4 590 |
| **Creditors and accruals** | **4 512** | 4 869 |

The carrying value approximates fair value.

A current and non current split can be found in note 44.

## 25 PROVISIONS

| R million | 2009 | 2008 |
|---|---|---|
| **Staff related provisions*** | | |
| Opening balance | 2 433 | 2 388 |
| – Subsidiary balances acquired/disposed | 10 | – |
| – Exchange differences | (3) | – |
| – Charge to the income statement | 1 137 | 1 817 |
| – Additional provisions created | 1 159 | 1 929 |
| – Unused amounts reversed | (22) | (112) |
| – Utilised | (1 821) | (1 772) |
| **Closing balance** | 1 756 | 2 433 |
| **Audit fees** | | |
| Opening balance | 6 | 11 |
| – Subsidiary balances acquired/disposed | 1 | – |
| – Charge to the income statement | 77 | 59 |
| – Additional provisions created | 79 | 59 |
| – Unused amounts reversed | (2) | – |
| – Utilised | (52) | (64) |
| **Closing balance** | 32 | 6 |
| **Other**** | | |
| Opening balance | 329 | 418 |
| – Charge to the income statement | 69 | (63) |
| – Additional provisions created | 223 | 234 |
| – Unused amounts reversed | (154) | (297) |
| – Utilised | (119) | (26) |
| **Closing balance** | 279 | 329 |
| **Total provisions** | 2 067 | 2 768 |

**Staff related provision mainly consists of provision for leave pay and staff bonuses.*

***Other provisions mainly consist of provisions for litigation, fraud and restructuring.*

A current and non current split can be found in note 44.

## 26 LONG TERM LIABILITIES

| R million | 2009 | 2008 |
|---|---|---|
| **Preference shares** | | |
| **Authorised** | | |
| 500 million (2008: 500 million) cumulative redeemable shares with a par value of R0.0001. | | |
| **Issued** | | |
| The preference shares of FirstRand Bank Limited have been classified as long term liabilities and comprise the following: | | |
| 1 595 (2008:2 411) cumulative redeemable preference shares subscribed for by third parties with a par value of R0.0001 and a premium of R99 999.9999 per share (disclosed at fair value)[a] | 166 | 255 |
| Less: Portion disclosed in deposits | (83) | (83) |
| | 83 | 172 |
| Less: Portion repayable within 12 months transferred to current liabilities (note 24) | (25) | (89) |
| **Preference shares** | 58 | 83 |

*a These preference shares are redeemable at the company's discretion, at the full subscription price. Dividends are paid at a variable rate based on prime and currently amounts to 7.8%.*

| R million | 2009 | 2008 |
|---|---|---|
| Subordinated convertible loans[b] | – | 2 349 |
| Fixed rate bonds[c] | 5 083 | 1 288 |
| Reclassification from floating rate bonds | – | 3 691 |
| | 5 083 | 4 383 |
| Floating rate bond[d] | 2 279 | 6 890 |
| Reclassification to fixed rate bonds | – | (3 691) |
| Reclassification to other long term liabilities | – | (931) |
| | 2 279 | 2 864 |
| Other long term liabilities | – | 931 |
| Less: Portion repayable within 12 months transferred to current liabilities (note 24) | (680) | (84) |
| **Other long term liabilities** | 6 682 | 10 443 |

*b The subordinated convertible loans have been converted to ordinary shares in 2009, the holder being FirstRand Bank Holdings Limited.*

*c The fixed rate bonds mature between 31 August 2010 and 21 December 2018 and bear interest at between 8% and 13%.*

*d The floating rate bonds mature 31 August 2010 and 21 December 2018 and bear interest at 65 bps and 300 bps above the three month JIBAR rate.*

| R million | 2009 | 2008 |
|---|---|---|
| **Finance lease liabilities** | | |
| Not later than 1 year | 4 | – |
| Later than 1 year and not later than 5 years | 3 | – |
| Later than 5 years | – | – |
| **Total finance lease liabilities** | 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 | 7 | – |
| Less: Portion repayable within 12 months transferred to current liabilities (note 27) | (4) | – |
| **Long term finance lease charges** | 3 | – |
| Share based payment (cash settled) | – | 117 |
| **Total long term liabilities** | 6 743 | 10 643 |

The fair value of long term liabilities are disclosed in note 33.

A current and non current split can be found in note 44.

## 27 SHARE CAPITAL AND SHARE PREMIUM

| R million | 2009 | 2008 |
|---|---|---|
| **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** | | |
| 1 866 830 (2008: 1 758 847) ordinary shares with a par value of R2 per share | 4 | 4 |
| All issued share capital is fully paid up. | | |
| Ordinary share premium | 10 817 | 7 564 |
| **Total issued ordinary share capital and share premium** | 10 821 | 7 568 |
| **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 (2008: 3 000 000) non cumulative non redeemable preference shares with par value of R0.01 per share to 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 Limited. | | |
| 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 | 13 821 | 10 568 |

| | Number of ordinary shares | Number of non cumulative non redeemable preference shares |
|---|---|---|
| **Reconciliation of shares issued** | | |
| Shares at 1 July 2007 | 1 758 845 | 3 000 000 |
| Issued during the year | 2 | – |
| **Shares at 30 June 2008** | 1 758 847 | 3 000 000 |
| Issued during the year* | **107 983** | **–** |
| **Shares at 30 June 2009** | **1 866 830** | **3 000 000** |

**107 981 million debentures converted to ordinary shares during the year.*

For detail on capital management of the Bank, please refer to the Capital Management section from pages 12 to page 16, 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.

## 28 REMUNERATION SCHEMES

| R million | 2009 | 2008 |
|---|---|---|
| The income statement charge for share based payments is as follows: | | |
| FirstRand Share Incentive Scheme | 35 | 52 |
| FirstRand Black Employee Trust | 55 | 35 |
| FirstRand Black Non Executive Directors' Trust | 1 | 1 |
| FirstRand Share Appreciation Right Scheme | (117) | 18 |
| **(Release)/charge to income statement** | (26) | 106 |

**Share option schemes**

The FirstRand share option schemes are equity settled schemes, except for the FirstRand Limited share appreciation rights scheme which is cash settled.

The FirstRand 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 shares.

This scheme is better aligned to employment and governance practices currently prevailing in the market.

**Description of the trusts**

**FirstRand share incentive scheme**

The rules of the FirstRand share scheme ("the Scheme") are constituted in the FirstRand Limited share trust.

The purpose of the scheme is to increase the proprietary interests of identified employees in the Bank's success and to encourage them to render and continue to render their best services to the Bank. Options over FirstRand 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 is committed to the process of achieving transformation in South Africa and in creating its transformation initiative sought to ensure that the long term benefits of the transaction reach the widest possible community of black South Africans.

171.4 million shares, representing approximately 3.1% of the issued share capital of FirstRand, are held by the BEE trusts which have granted participation to black South African directors and employees.

- 20.0 million shares to the FirstRand staff assistance trust.
- 136.4 million shares to the FirstRand black employee trust (subject to IFRS 2).
- 15.0 million shares to the FirstRand black non-executive directors' trust (subject to IFRS 2).

**FirstRand black employee trust**

This trust was set up specifically for the benefit of the black employees. The participation in this trust is in addition to participation in any existing FirstRand share incentive scheme.

The first issue of participation rights in the trust was made on 20 July 2005, the second issue was done on 1 November 2006, and a further issue of participation rights were granted on 3 December 2007.

The remainder will be granted at the discretion of the directors.

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 Bank companies.

Distribution to beneficiaries 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. These payments may, on election by the participant be paid in cash or settled by the delivery of FirstRand ordinary shares.

## 28 REMUNERATION SCHEMES continued

Entitlement to incentive remuneration payments is predicated on the achievement of certain key performance objectives which are set by the remuneration committee prior to each grant of appreciation rights to participating employees. Appreciation rights may only be exercised as to one third of the total number of rights issued after the third, two thirds after the fourth and all of the shares by the fifth anniversary of the date of grant, provided that the performance objectives set for the grant have been achieved.

**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 rights 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.

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.

Dividend data consists of the following:

A fixed dividend yield was assumed.

Employee statistic assumptions:

The number of options granted is reduced by the actual staff turnover at year end. This turnover is then assumed to be constant over the period of the options and used to estimate future turnover.

The significant weighted average assumptions used to estimate the fair value of options granted and the IFRS 2 expenses for the year under review are:

| | FirstRand share incentive scheme | FirstRand black employee trust | FirstRand black non-executive directors' trust | FirstRand share appreciation right scheme** |
|---|---|---|---|---|
| **2009** | | | | |
| Weighted average share price (Rands) | **7.70 – 19.49** | **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 – 9.46** | **6.91 – 9.9** | **6.91** | **–** |
| Expected dividend yield (%) | **–** | **3.81 – 6.88** | **3.81** | **–** |
| Expected dividend growth (%) | **20.00 – 22.87** | **–** | **–** | **–** |
| 2008 | | | | |
| Weighted average share price (Rands) | 6.80 – 19.49 | 12.28 – 23.55 | 12.28 – 17.60 | 16.33 – 23.05 |
| Expected volatility (%) | 27 – 33 | 27 – 35 | 27 | 35 |
| Expected option life (years) | 5 | 10 | 10 | 5 |
| Expected risk free rate (%) | 6.80 – 12.00 | 6.91 – 9.9 | 7 | 12.48 – 13.35 |
| Expected dividend yield (%) | – | 3.81 – 5.57 | 4 | 7 |
| Expected dividend growth (%) | 20.00 – 22.87 | – | – | – |

*** Share appreciation rights granted are subject to other vesting conditions that is highly unlikely to be achieved.*

## 28 REMUNERATION SCHEMES continued

| | 2009 | | | | |
|---|---|---|---|---|---|
| | FirstRand (FSR shares) | FNB (FSR shares) | FirstRand share appreciation rights scheme (FSR shares) | FirstRand black employee trust (FSR shares) | FirstRand black non-executive directors' trust |
| **Number of options in force at the beginning of the year (millions)** | 96.6 | 1.7 | 113.7 | 109.0 | 3.0 |
| Granted at prices ranging between (cents) | 608 – 1 609 | 424 – 508 | 1 633 – 2 305 | 1 228 – 2 520 | 1 228 – 1 760 |
| Weighted average (cents) | 1 188 | 468 | 1 856 | 1 574 | 1 405 |
| **Number of options granted during the year (millions)** | – | – | 111.4 | 1.4 | – |
| Granted at prices ranging between (cents) | – | – | 1 138 – 1401 | 1 205 – 1 605 | – |
| Weighted average (cents) | – | – | 1 401 | 1432 | – |
| **Number of options exercised/released during the year (millions)** | (27.6) | (1.7) | – | – | – |
| Market value range at date of exercise/release (cents) | 1 135 – 1 745 | 1 135 – 1 680 | – | – | – |
| Weighted average share price for the year (cents) | 1 430 | 1 430 | – | – | – |
| **Number of options cancelled/lapsed during the year (millions)** | (8) | – | (18.9) | (15) | – |
| Granted at prices ranging between (cents) | 608 – 1533 | – | 1 401 – 2 053 | 1 228 – 2 520 | – |
| Weighted average (cents) | 1 379 | – | 1 733 | 1 642 | – |
| **Number of options in force at the end of the year (millions)** | 61 | – | 206.2 | 95.4 | 3.0 |
| Granted at prices ranging between (cents) | 608 – 1 609 | – | 1 138 – 2 305 | 1 228 – 2 520 | 1 228 – 1 760 |
| Weighted average (cents) | 1 353 | – | 1 619 | 1 642 | 1 405 |
| **Options are exercisable over the following periods (first date able to release)** | | | | | |
| Financial year 2007/2008 (millions) | 4.3 | – | | | |
| Financial year 2008/2009 (millions) | 20.1 | – | | | |
| Financial year 2009/2010 (millions) | 23.4 | – | 16.1 | | |
| Financial year 2010/2011 (millions) | 13.2 | – | 32.9 | | |
| Financial year 2011/2012 (millions) | | | 68.7 | | |
| Financial year 2012/2013 (millions) | | | 52.6 | | |
| Financial year 2013/2014 (millions) | | | 35.9 | | |
| Financial year 2014/2015 (millions) | | | | 95.4 | 3.0 |
| **Total** | 61 | – | 206.2 | 95.4 | 3.0 |

## 28 REMUNERATION SCHEMES continued

| | 2008 | | | | |
|---|---|---|---|---|---|
| | FirstRand (FSR shares) | FNB (FSR shares) | FirstRand share appreciation rights scheme (FSR shares) | FirstRand black employee trust (FSR shares) | FirstRand black non-executive directors' trust |
| **Number of options in force at the beginning of the year (millions)** | 142.8 | 3.3 | 59.9 | 91 | – |
| Granted at prices ranging between (cents) | 655 – 1 609 ** | 424 – 562 ** | 1 633 – 2 305 ** | 1 228 – 2 520 | – |
| Weighted average (cents) | 1 060 ** | 471 ** | 1 650 ** | 1 377 | – |
| **Number of options granted during the year (millions)** | – | – | 60 | 26.60 | 3 |
| Granted at prices ranging between (cents) | – | – | 1 799 – 2 053 | 1470 – 2 355 | 1 228 – 1 760 |
| Weighted average (cents) | – | – | 2 053 | 2 227 | 1 405 |
| **Number of options exercised/released during the year (millions)** | (40.2) | (1.6) | – | – | – |
| Market value range at date of exercise/release (cents) | 1 280 – 2 626 | 1 310 – 2 625 | – | – | – |
| Weighted average share price for the year (cents) | 1 974 | 1 974 | – | – | – |
| **Number of options cancelled/lapsed during the year (millions)** | (6.1) | – | (6.2) | (8.6) | – |
| Granted at prices ranging between (cents) | 608 – 1 533 | – | 1 633 – 2 053 | 1 228 – 2 520 | – |
| Weighted average (cents) | 1 191 | – | 1 755 | 1 543 | – |
| **Number of options in force at the end of the year (millions)** | 96.5 | 1.7 | 113.7 | 109 | 3 |
| Granted at prices ranging between (cents) | 608 – 1 609 | 424 – 508 | 1 633 – 2 305 | 1 228 – 2 520 | 1 228 – 1 760 |
| Weighted average (cents) | 1 188 | 468 | 1 856 | 1 574 | 1 405 |
| **Options are exercisable over the following periods (first date able to release)** | | | | | |
| Financial year 2006/2007 (millions) | 2.9 | 1.7 | – | – | – |
| Financial year 2007/2008 (millions) | 10.5 | – | – | – | – |
| Financial year 2008/2009 (millions) | 40.2 | – | – | – | – |
| Financial year 2009/2010 (millions) | 27.5 | – | 19 | – | – |
| Financial year 2010/2011 (millions) | 15.5 | – | 37.9 | – | – |
| Financial year 2011/2012 (millions) | – | – | 37.9 | – | – |
| Financial year 2012/2013 (millions) | – | – | 19.3 | – | – |
| Financial year 2014/2015 (millions) | – | – | – | 109 | 3 |
| **Total** | 96.6 | 1.7 | 113.7 | 109 | 3 |

## 28 REMUNERATION SCHEMES continued

| | 2009 | | | | | |
|---|---|---|---|---|---|---|
| Options outstanding (by expiry date) | FirstRand (FSR shares) | | | FNB (FSR shares) | | |
| | Expiry date | Exercise price (Rands) | Outstanding options 2009 Millions | Expiry date | Exercise price (Rands) | Outstanding options 2009 Millions |
| | 2008/09/17 | 6.08 | 0.2 | | | |
| | 2009/10/01 | 10.50 | 21.0 | | | |
| | 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 | * | | | |
| | 2010/10/03 | 15.33 | 37.0 | | | |
| | 2010/10/20 | 13.29 | 2.0 | | | |
| | 2010/11/15 | 15.38 | 0.2 | | | |
| | 2011/03/01 | 17.08 | 0.1 | | | |
| | 2011/06/01 | 16.09 | * | | | |
| | | | **61.0** | | | **–** |
| **Total options outstanding – in the money (millions)** | | | **23.7** | | | **–** |
| **Total options outstanding – out of the money (millions)** | | | **37.3** | | | **–** |
| **Total (millions)** | | | **61.0** | | | **–** |
| **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 is highly unlikely to be achieved.*

| FirstRand share appreciation right scheme (FSR shares) | | | FirstRand black employee trust | | | FirstRand black non-executive directors' trust (FSR shares) | | |
|---|---|---|---|---|---|---|---|---|
| Expiry date | Exercise price (Rands) | Outstanding options 2009 Millions | Expiry date | Exercise price (Rands) | Outstanding options 2009 Millions | Expiry date | Exercise price (Rands) | Outstanding options 2009 Millions |
| 2011/01/10 | 16.33 | 46.7 | 2014/12/31 | 12.05 | 0.2 | 2014/12/31 | 12.28 | 2.0 |
| 2011/01/12 | 18.15 | * | 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 | 56.8 | | | |
| 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 | 107.2 | 2014/12/31 | 16.50 | 0.1 | | | |
| 2014/03/16 | 11.38 | * | 2014/12/31 | 17.81 | 0.1 | | | |
| 2014/05/01 | 13.05 | 0.3 | 2014/12/31 | 18.62 | 14.2 | | | |
| | | | 2014/12/31 | 18.72 | 0.1 | | | |
| | | | 2014/12/31 | 19.81 | * | | | |
| | | | 2014/12/31 | 20.78 | * | | | |
| | | | 2014/12/31 | 21.50 | 0.2 | | | |
| | | | 2014/12/31 | 22.10 | * | | | |
| | | | 2014/12/31 | 22.34 | 20.1 | | | |
| | | | 2014/12/31 | 22.60 | 0.1 | | | |
| | | | 2014/12/31 | 22.80 | 0.5 | | | |
| | | | 2014/12/31 | 23.35 | * | | | |
| | | | 2014/12/31 | 23.55 | 0.1 | | | |
| | | | 2014/12/31 | 23.75 | 0.1 | | | |
| | | | 2014/12/31 | 24.60 | 0.5 | | | |
| | | **206.2** | | | **95.4** | | | **3.0** |
| | | **–**** | | | **57.5** | | | **2.0** |
| | | **206.2** | | | **37.9** | | | **1.0** |
| | | **206.2** | | | **95.4** | | | **3.0** |
| | | **1 906** | | | **1 714** | | | **186** |
| | | **2 156** | | | **1 812** | | | **206** |
| | | **1 891** | | | **11 366** | | | **3** |

## 28 REMUNERATION SCHEMES continued

| | 2008 | | | | | |
|---|---|---|---|---|---|---|
| Options outstanding (by expiry date) | FirstRand (FSR shares) | | | FNB (FSR shares) | | |
| | Expiry date | Exercise price (Rands) | Outstanding options 2008 Millions | Expiry date | Exercise price (Rands) | Outstanding options 2008 Millions |
| | 2008/09/17 | 6.08 | 20.0 | 2008/10/15 | 4.68 | 0.8 |
| | 2009/06/15 | 8.53 | * | 2009/03/24 | 4.66 | 0.9 |
| | 2009/10/01 | 10.50 | 29.5 | 2009/05/01 | 5.08 | * |
| | 2009/11/15 | 10.87 | 0.1 | 2009/05/31 | 4.24 | * |
| | 2010/03/01 | 12.37 | 0.3 | 2009/08/01 | 5.05 | * |
| | 2010/03/15 | 12.32 | 0.2 | | | |
| | 2010/06/15 | 12.78 | * | | | |
| | 2010/10/03 | 15.33 | 44.3 | | | |
| | 2010/10/20 | 13.29 | 2.0 | | | |
| | 2010/11/15 | 15.38 | 0.2 | | | |
| | 2011/06/01 | 16.09 | * | | | |
| | | | 96.6 | | | 1.7 |
| Total options outstanding - in the money (millions) | | | 52.1 | | | 1.7 |
| Total options outstanding - out of the money (millions) | | | 44.5 | | | – |
| Total (millions) | | | 96.6 | | | 1.7 |
| Value of company loans to share option trust at the beginning of the year (R million) | | | 2 369 | | | 28 |
| Value of company loans to share option trust at the end of the year (R million) | | | 1 513 | | | 20 |
| Number of participants | | | 1 245 | | | 39 |

** = Less than R1 million.*

| FirstRand share appreciation rights scheme (FSR shares) | | | FirstRand black employee trust | | | FirstRand black non-executive directors' trust (FSR shares) | | |
|---|---|---|---|---|---|---|---|---|
| Expiry date | Exercise price (Rands) | Outstanding options 2008 Millions | Expiry date | Exercise price (Rands) | Outstanding options 2008 Millions | Expiry date | Exercise price (Rands) | Outstanding options 2008 Millions |
| 2011/10/01 | 16.33 | 54.0 | 2014/12/31 | 12.28 | 64.9 | 2014/12/31 | 12.28 | 2.0 |
| 2011/12/01 | 18.15 | * | 2014/12/31 | 14.70 | 0.1 | 2014/12/31 | 17.60 | 1.0 |
| 2012/02/27 | 23.05 | 0.2 | 2014/12/31 | 14.91 | 1.0 | | | |
| 2012/03/01 | 22.33 | * | 2014/12/31 | 15.66 | 0.1 | | | |
| 2012/03/15 | 20.88 | 0.3 | 2014/12/31 | 16.00 | * | | | |
| 2012/04/01 | 22.98 | 0.6 | 2014/12/31 | 17.81 | 0.1 | | | |
| 2012/06/15 | 22.12 | 0.6 | 2014/12/31 | 18.62 | 16.3 | | | |
| 2012/10/01 | 20.53 | 57.9 | 2014/12/31 | 18.72 | 0.1 | | | |
| 2013/03/04 | 17.99 | 0.1 | 2014/12/31 | 19.81 | * | | | |
| | | | 2014/12/31 | 20.78 | * | | | |
| | | | 2014/12/31 | 21.50 | 0.2 | | | |
| | | | 2014/12/31 | 22.10 | * | | | |
| | | | 2014/12/31 | 22.34 | 24.4 | | | |
| | | | 2014/12/31 | 22.60 | 0.1 | | | |
| | | | 2014/12/31 | 22.80 | 0.5 | | | |
| | | | 2014/12/31 | 23.35 | * | | | |
| | | | 2014/12/31 | 23.55 | 0.1 | | | |
| | | | 2014/12/31 | 23.75 | 0.1 | | | |
| | | | 2014/12/31 | 24.60 | 0.9 | | | |
| | | | 2014/12/31 | 25.20 | 0.1 | | | |
| | | 113.7 | | | 109.0 | | | 3.0 |
| | | – | | | 64.9 | | | 2.0 |
| | | 113.7 | | | 44.1 | | | 1.0 |
| | | 113.7 | | | 109.0 | | | 3.0 |
| | | – | | | – | | | – |
| | | – | | | – | | | – |
| | | 1 563 | | | 11 623 | | | 3 |

## 29 CASH FLOW INFORMATION

| R million | 2009 | 2008 |
|---|---|---|
| **29.1 Reconciliation of operating profit before income tax to cash flows from operating activities** | | |
| Operating profit before income tax | 4 364 | 9 383 |
| Adjusted for: | | |
| – Depreciation, amortisation and impairment costs | 1 102 | 878 |
| – Impairment of advances | 7 578 | 4 457 |
| – Movement in provisions | 1 283 | 1 813 |
| – (Profit)/loss on disposal of property and equipment | 9 | (6) |
| – Loss/(profit) on disposal of investments | 29 | (1 023) |
| – Revaluation reserve | – | (62) |
| – Deferred expenses and income | (247) | (312) |
| – Share based payment (expense)/income | (26) | 106 |
| – Net fair value gains on assets through profit or loss | 303 | (419) |
| – Accruals | 5 | (100) |
| – Present value adjustments | (391) | (120) |
| – Foreign currency translation reserve | (7) | 13 |
| – Profit on available-for-sale assets and cash flow hedges transferred | (399) | (38) |
| – Dividends from other investments | (3 283) | (1 547) |
| **Net cash flows from operating activities** | 10 320 | 13 023 |
| **29.2 Cash receipts from customers** | | |
| Interest income | 46 223 | 42 398 |
| Fee and commission income | 12 814 | 10 259 |
| Trading and other income | 2 164 | 6 909 |
| **Cash receipts from customers** | 61 201 | 59 566 |
| **29.3 Cash paid to customers, suppliers and employees** | | |
| Interest expense | (34 857) | (31 598) |
| Other operating expenses | (16 024) | (14 945) |
| **Cash paid to customers, suppliers and employees** | (50 881) | (46 543) |
| **29.4 Increase in income earning assets** | | |
| Liquid assets and trading securities | (15 221) | (18 423) |
| Advances | 8 291 | (66 298) |
| Net funding from/(of) fellow subsidiary companies | 3 193 | 9 159 |
| **Increase in income earning assets** | (3 737) | (75 562) |
| **29.5 Increase in deposits and other liabilities** | | |
| Term deposits | 10 927 | 17 268 |
| Current deposit accounts | 15 024 | 21 019 |
| Deposits from banks | (7 294) | 24 117 |
| Negotiable certificates of deposits | 1 149 | 862 |
| Savings accounts | 149 | (114) |
| Creditors, net of debtors | 1 225 | 1 819 |
| Other | (22 484) | 395 |
| **(Decrease)/increase in deposits and other liabilities** | (1 304) | 65 366 |

## 29 CASH FLOW INFORMATION continued

| R million | | 2009 | 2008 |
|---|---|---|---|
| **29.6** | **Tax paid** | | |
| | Indirect tax paid | **(395)** | (488) |
| | Tax receivable/(payable) at beginning of the year | **261** | (805) |
| | Deferred tax included in tax charge | **(702)** | 1 059 |
| | Charge to income statement | **(83)** | (1 934) |
| | Tax payable at end of the year | **(469)** | (261) |
| | Other | **1** | 1 |
| | **Tax paid** | **(1 387)** | (2 428) |
| **29.7** | **Dividends paid** | | |
| | Dividends payable at beginning of the year | **–** | – |
| | Charged to distributable reserves | **(3 132)** | (4 627) |
| | Dividends payable at end of the year | **–** | – |
| | **Dividends paid** | **(3 132)** | (4 627) |
| **29.8** | **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 balance sheet amounts: | | |
| | Cash and short term funds | **20 980** | 21 913 |
| | **Cash and cash equivalents** | **20 980** | 21 913 |

## 30 CONTINGENCIES AND COMMITMENTS

| R million | 2009 | 2008 |
|---|---|---|
| **Contingencies and commitments** | | |
| Guarantees* | 22 610 | 18 340 |
| Acceptances | 279 | 1 992 |
| Letters of credit | 5 436 | 4 668 |
| Underwriting exposures | 2 | 226 |
| Committed capital expenditure | 1 466 | 584 |
| Lease payments | 2 370 | 1 726 |
| Irrevocable commitments | 53 167 | 59 397 |
| Other | 4 180 | 8 688 |
| **Total contingencies and commitments** | 89 510 | 95 621 |

**Guarantees consist predominantly of endorsements and performance guarantees.*

| | | |
|---|---|---|
| **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. | 129 | 77 |
| **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 | 304 | 584 |
| – Total not contracted for | 947 | 541 |
| **Made up of the following:** | | |
| Capital commitments contracted for at the balance sheet date but not yet incurred are as follows: | | |
| – Property and equipment | 304 | 584 |
| Capital commitments not yet contracted for at balance sheet date but have been approved by the directors: | | |
| – Property and equipment | 947 | 541 |

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.

## 30 CONTINGENCIES AND COMMITMENTS continued

The Bank has various operating lease agreements, which may or may not contain renewal options.

| | 2009 | | |
|---|---|---|---|
| R million | Next year | 2nd to 5th year | After 5 years |
| 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** |

| | 2008 | | |
|---|---|---|---|
| R million | Next year | 2nd to 5th year | After 5 years |
| Office premises | 464 | 1 080 | 60 |
| Recoverable under subleases | – | – | – |
| Equipment and motor vehicles | 68 | 44 | 10 |
| **Total operating lease commitments** | 532 | 1 124 | 70 |

## 31 COLLATERAL PLEDGED AND HELD

| R million | 2009 | 2008 |
|---|---|---|
| **31.1 Collateral pledged** | | |
| The Bank has pledged assets as security for the following liabilities: | | |
| Deposits held under repurchase agreements | 33 239 | 20 563 |
| Other | 6 275 | 5 201 |
| **Total** | **39 514** | 25 764 |

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.

| **Assets pledged to secure the above liabilities are carried at and included under the following:** | | |
|---|---|---|
| Cash and short term funds | 6 429 | – |
| Investment securities and other securities held under repurchase agreements | 19 132 | 6 162 |
| **Total** | **25 561** | 6 162 |

### 31.2 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.

| | 2009 | | 2008 | |
|---|---|---|---|---|
| R million | Fair value | Fair value of collateral sold or repledged | Fair value | Fair value of collateral sold or re pledged |
| **Collateral the Bank holds which it has the ability to sell or repledge in the absence of default by the owner of the collateral** | | | | |
| Cash and short term funds | 8 183 | – | – | – |
| Investment securities | 25 999 | 25 710 | 31 048 | 14 401 |
| Other securities | 3 337 | 2 892 | – | – |
| Commodities | – | – | 579 | – |
| Other | – | – | 1 | – |
| **Total** | **37 519** | **28 602** | 31 628 | 14 401 |

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.

| R million | 2009 | 2008 |
|---|---|---|
| **Collateral taken possession of and recognised on the balance sheet** | | |
| Property | 165 | 39 |
| **Total** | **165** | 39 |

Prior year numbers have been restated in line with developing industry practice.

## 32 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.

| | | | Change in fair value | | | |
|---|---|---|---|---|---|---|
| | | | Of mitigating instrument | | Due to credit risk | |
| R million | Carrying value | Mitigated credit risk* | Current period | Cumulative | Current period | Cumulative |
| **2009** | | | | | | |
| Included in advances | **93 443** | **22** | **–** | **–** | **(37)** | **(736)** |
| Included in investment securities | **13 327** | **–** | **–** | **–** | **–** | **–** |
| **Total** | **106 770** | **22** | **–** | **–** | **(37)** | **(736)** |
| 2008 | | | | | | |
| Included in advances | 94 119 | 2 326 | 62 | 88 | 417 | 1 023 |
| Included in investment securities | 8 080 | 166 | 16 | 16 | 5 | 5 |
| **Total** | 102 199 | 2 492 | 78 | 104 | 422 | 1 028 |

**The notional amount by which any credit derivatives or similar instruments mitigate the maximum exposure to credit risk.*

Different methods are used to determine the current period and cumulative changes in fair value attributable to credit risk for investment securities and advances. This is due to the differing inherent credit risk of these instruments. The methods used are described below:

**– Investment securities**

The change in fair value for investments designated at fair value through profit or loss is calculated by stripping out the movements which result from a change in market factors that give rise to market risk. The change in fair value due to credit risk is then calculated as the balancing figure, after deducting the movement due to market risk from the total movement in fair value.

**– Advances**

The current and cumulative change in fair value due to changes in credit risk for advances designated at fair value through profit or loss is calculated as the amount of change in fair value that is attributable to changes in credit risk. The change in credit risk is the difference between fair value of the advances based on the original credit spreads and the fair value of the advances based on the most recent market observable credit spreads.

## 33 FINANCIAL LIABILITIES DESIGNATED AS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | 2009 | | | |
|---|---|---|---|---|
| | | | Change in fair value due to credit risk | |
| **R million** | **Fair value** | **Contractually payable at maturity** | **Current period** | **Cumulative** |
| Deposits and current accounts | **189 726** | **182 416** | **3** | **3** |
| Long term liabilities | **1 870** | **1 849** | **21** | **21** |
| **Total** | **191 596** | **184 265** | **24** | **24** |

| | 2008 | | | |
|---|---|---|---|---|
| | | | Change in fair value due to credit risk | |
| R million | Fair value | Contractually payable at maturity | Current period | Cumulative |
| Deposits and current accounts | 165 008 | 171 457 | – | – |
| Long term liabilities | 2 090 | 2 172 | – | – |
| **Total** | 167 098 | 173 629 | – | – |

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.

## 34 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 balance sheet 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 by 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:

| | 2009 | | 2008 | |
|---|---|---|---|---|
| R million | **Carrying amount of assets** | **Carrying amount of associated liability** | Carrying amount of assets | Carrying amount of associated liability |
| **Assets under agreements to repurchase** | | | | |
| Investment securities | **19 132** | **19 048** | 6 162 | 6 064 |
| **Total** | **19 132** | **19 048** | 6 162 | 6 064 |

The Bank remains exposed to the interest rate risk on the repurchase agreements and market risk on the securities lending agreements.

**Advances relating to synthetic securitisations are:**

- Procul is a synthetic securitisation transaction amounting to R2.0 billion (2008: R2.0 billion) of WesBank retail Instalment sale advances. In terms of the transaction, WesBank has transferred the credit risk up to the value of the reference portfolio to Procul, a bankruptcy remote special purpose vehicle.
- Fresco II is a synthetic securitisation transaction amounting to R20 billion (2008: R20 billion) of FirstRand Bank Limited corporate advances. In terms of the transaction, FirstRand Bank Limited has transferred the credit risk up to the value of the reference portfolio to Fresco II, a bankruptcy remote special purpose entity.

## 35 FAIR VALUE OF FINANCIAL INSTRUMENTS

The Bank determines fair value with the maximum possible use of quoted market prices and/or observable market data as indicated in the accounting policy note. If market prices are not available or the market for a financial instrument is not active, fair value is determined by using valuation techniques that make maximum use of market inputs.

Where market inputs are not available, non observable market inputs are used to determine the fair value, based on the Bank's best estimate. Such inputs include risk premiums, liquidity discount rates, credit risk, volatilities and correlations. Valuation techniques applied by the Bank and that incorporates non observable market inputs include, inter alia, discounted cash flows, earnings multiples, the underlying net asset value of the business and recent similar transactions. Refer below for a description of the principal methods and assumptions used to determine the fair value of financial instruments.

Changes in the Bank's best estimate of the non observable inputs could affect the reported fair values recognised on balance sheet and the movement in fair values recognised in the income statement. However, changing these inputs to reasonably possible alternatives is not likely to change the fair value significantly. The total amount of the change in fair value estimated using a valuation technique based on non observable market data that was recognised in the income statement for the year ended 30 June 2009 was a loss of R nil (2008: R390 million loss).

The fair value of advances is determined by the Bank Limited Group's internal corporate credit valuation model as the vast majority of the advances are not traded in the market. This model takes into account changes in market interest rates as well as credit spreads with the latter mainly driven by internal credit ratings mapped to S&P default probabilities. The adjustment due to credit risk is not a significant component of the overall valuation to the balance sheet and income statement.

The following describes the principal methods and assumptions used to determine the fair value of financial instruments:

### Investments securities

#### Unlisted equities

The fair value of unlisted equities is determined using a price earnings ("P/E") model.

The earnings included in the model are derived from a combination of historical and budgeted earnings depending on the specific circumstances of the entity whose equity is being valued and the relevance and reliability of the available information.

The P/E multiple is derived from current market observations taking into account an appropriate discount for unlisted companies. The valuation of these instruments may be corroborated by a discounted cash flow valuation or by the observation of other market transactions which have taken place.

#### Negotiable certificates of deposit

Where market prices are not available for a specific instrument fair value is determined using discounted cash flow techniques. Inputs to these models include as far as possible information which is consistent with similar market quoted instruments.

#### Treasury bills

Treasury bills are valued by means of the Bond Exchange of South Africa ("BESA") bond pricing model using the closing BESA mark to market bond yield.

#### Government, public and utility stocks

Where market prices are not available the fair value is estimated using quoted market prices of securities with similar credit, maturity and yield characteristics.

#### Other dated securities

Fair value of other dated securities is determined by using a discounted cash flow model. The discount curve is derived from similar market quoted instruments.

#### 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 is determined in terms of legal documents pertaining to the swap.

Commodity linked instruments are measured by taking into account the price, the location differential, grade differential, silo differential and the discount factor of the most liquidly traded futures linked to the commodity.

**Deposits and current accounts**

Fair value of deposits and current accounts is determined by discounting future cash flows using a swap curve adjusted for liquidity premiums and business unit margins.The valuation methodology does not take early withdrawals and other behavioural aspects into account.

Call deposits are valued at the undiscounted amount of the cash balance; this is considered appropriate because of the short term nature of these instruments.

Fair valuation will only be applied to deposits having a maturity profile of longer than 30 days. For all non term products it is assumed that fair value will equal the amortised cost.

**Loans and advances to customers**

The fair value of advances is the present value of the expected future cash flows determined using an appropriate discount rate adjusted for the credit spreads where necessary.

Projected cash flows, taking into account behaviour, loss given default and probability of default are grouped according to their maturity dates.

The discount rate for fixed interest rate instruments is adjusted by an appropriate risk premium while floating rate cash flows are discounted by means of a yield curve which represents the projected cash flows.

**Long term liabilities**

Fair value of debentures, unsecured debt securities and finance lease liabilities are determined by discounting the future cash flows at market related interest rates.

The fair value of subordinated notes and fixed and floating rate bonds are determined by discounting the future cash flows at market related interest rates.

The fair value of the post retirement funding liability has been calculated based on the value of the corresponding assets, since the value of the liability is limited to the value of the assets in the cell captive.

**Liabilities arising to third parties as a result of consolidating collective investment schemes**

The fair value of these liabilities is the quoted unit price for the collective investment scheme multiplied by the number of units held by third parties.

**Policyholder liabilities under investment contracts**

Refer to the Accounting policies for a description of the valuation of investment contracts.

## 35 FAIR VALUE OF FINANCIAL INSTRUMENTS continued

| | 2009 | |
|---|---|---|
| R million | **Carrying value** | **Fair value** |
| **Assets** | | |
| Total advances at amortised cost | **290 873** | **289 072** |
| **Liabilities** | | |
| Total deposits and current accounts at amortised cost | **237 715** | **237 257** |
| Long term liabilities | **4 873** | **4 666** |

The following represents the fair values of financial instruments not carried at fair value on the balance sheet. For all other instruments the carrying value is equal to or a reasonable approximation of the fair value.

| | 2008 | |
|---|---|---|
| R million | Carrying value | Fair value |
| **Assets** | | |
| Total advances at amortised cost | 305 829 | 303 875 |
| **Liabilities** | | |
| Total deposits and current accounts at amortised cost | 250 165 | 248 668 |
| Long term liabilities | 8 436 | 8 308 |

| R million | **2009** | 2008 |
|---|---|---|
| **36 TRUST ACTIVITIES** | | |
| Market value of assets held or placed on behalf of customers in a fiduciary capacity | **24 146** | 24 059 |
| 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 | **–** | 83 |

## 37 SEGMENT INFORMATION

### 37.1 Primary segments (business)

| Divisions | Segment | Brands | Target segment | Description |
|---|---|---|---|---|
| FNB | Consumer | First National Bank<br>FNB Card,<br>FNB HomeLoans,<br>eBucks | Individuals in the middle and upper income market<br>Home Loans<br>Card Issuing | Retail banking<br>Insurance Broking<br>Rewards programme<br>Support |
| | Wealth | RMB Private Bank<br>FNB Trust Services<br>FNB Private Clients | High net worth individuals | Retail banking<br>Wealth management<br>Trust services |
| | Commercial | First National Bank | Mid-corporate, business and agriculture | Commercial banking (Corporate and Retail Banking) |
| | Corporate | First National Bank | Large corporates, financial institutions and state-owned enterprises | Corporate Banking |
| | FNB Other (Mass, Public Sector Banking, Branch Banking and support) | First National Bank<br>BOB | Government, individuals in the Mass market, universities and schools and includes the banking infrastructure | Retail Banking<br>Infrastructure<br>Support services |
| RMB | RMB Private equity | RMB | Smaller corporates | Investment in private equity businesses |
| | RMB Equity Trading | RMB | Large corporates, parastatals and government | Trading in equity instruments |
| | Investment Banking | RMB | | Investment Banking services |
| | FICC | RMB | Large corporates, parastatals and government | Fixed income and currency products |
| | Other | RMB | Large corporates, parastatals and government | Other Investment and Merchant Banking services |
| WesBank | Instalment finance | WesBank | Corporates and individuals | Motor vehicle and instalment finance |
| Group Support | Capital centre | | | Owns the capital of the Banking Group and provides banking support |

## 37 SEGMENT INFORMATION continued

### 37.1 Primary segments (business) continued

**2009**

| R million | Mass | Consumer segment: Home-Loans | Card Issuing | Other Consumer | Consumer segment |
|---|---|---|---|---|---|
| **Net interest income before impairment of advances** | 1 126 | 929 | 1 182 | 2 157 | **4 268** |
| Impairment of advances | (384) | (2 253) | (1 355) | (424) | **(4 032)** |
| **Net interest income after impairment of advances** | 742 | (1 324) | (173) | 1 733 | **236** |
| Non interest income | 3 207 | 162 | 1 447 | 2 130 | **3 739** |
| **Net income from operations** | 3 949 | (1 162) | 1 274 | 3 863 | **3 975** |
| Operating expenses | (2 776) | (707) | (1 374) | (2 344) | **(4 425)** |
| **Income before taxation** | 1 173 | (1 869) | (100) | 1 519 | **(450)** |
| Indirect taxation | (27) | (18) | (7) | (77) | **(102)** |
| **Income before direct taxation** | 1 146 | (1 887) | (107) | 1 442 | **(552)** |
| Direct taxation | (304) | 500 | 28 | (382) | **146** |
| **Income after taxation** | 842 | (1 387) | (79) | 1 060 | **(406)** |
| Cost to income (%) | 64.1 | 64.8 | 52.3 | 54.7 | **55.3** |
| Diversity ratio (%) | 74.0 | 14.8 | 55.0 | 49.7 | **46.7** |
| Bad debt charge as a percentage of average advances (%) | 5.7 | 2.1 | 11.2 | 12.0 | **3.5** |
| NPLs as a percentage of advances (%) | 10.2 | 10.3 | 12.3 | 12.9 | **9.8** |
| **Income statement includes** | | | | | |
| Depreciation | (8) | (11) | (2) | (148) | **(161)** |
| Amortisation | – | – | – | (2) | **(2)** |
| Impairment charges | – | – | – | (5) | **(5)** |
| Other non cash provisions | (17) | (9) | (7) | (82) | **(98)** |
| **Balance sheet includes** | | | | | |
| Advances (after ISP – before impairments) | 7 449 | 105 093 | 11 726 | 3 476 | **120 295** |
| – Normal advances | 7 449 | 105 093 | 11 726 | 3 476 | **120 295** |
| Advances net of LROS | 7 449 | 105 093 | 11 726 | 3 476 | **120 295** |
| LROS adjustment | – | – | – | – | **–** |
| Non performing loans (after ISP) | 763 | 10 865 | 1 444 | 447 | **12 756** |
| Investment in associated companies | – | – | – | – | **–** |
| **Total deposits** | 8 075 | 38 | 1 091 | 53 716 | **54 845** |
| Deposits net of LROS | 8 075 | 38 | 1 091 | 53 716 | **54 845** |
| LROS adjustment | – | – | – | – | **–** |
| Total assets | 7 133 | 102 408 | 10 477 | 3 506 | **116 391** |
| Total liabilities | 8 336 | 83 | 1 161 | 54 403 | **55 647** |
| **Capital expenditure** | 4 | 2 | 1 | 159 | **162** |
| – Property and equipment | 4 | 2 | 1 | 159 | **162** |
| – Intangible assets | – | – | – | – | **–** |

The segmental analysis is based on the management accounts for the respective segments.

| FNB | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Wealth | Commercial | Corporate | FNB Other and support | **Total FNB** | **FNB Africa** | **RMB** | **WesBank** | **Group Support** | **Total** |
| 717 | 3 595 | 512 | (147) | **10 071** | **(2)** | **327** | **3 637** | **(2 105)** | **11 928** |
| (76) | (389) | (70) | 84 | **(4 867)** | **–** | **(255)** | **(2 555)** | **99** | **(7 578)** |
| 641 | 3 206 | 442 | (63) | **5 204** | **(2)** | **72** | **1 082** | **(2 006)** | **4 350** |
| 360 | 3 184 | 1 333 | 895 | **12 718** | **98** | **4 012** | **729** | **779** | **18 336** |
| 1 001 | 6 390 | 1 775 | 832 | **17 922** | **96** | **4 084** | **1 811** | **(1 227)** | **22 686** |
| (717) | (3 644) | (1 020) | (431) | **(13 013)** | **(130)** | **(2 105)** | **(2 083)** | **(991)** | **(18 322)** |
| 284 | 2 746 | 755 | 401 | **4 909** | **(34)** | **1 979** | **(272)** | **(2 218)** | **4 364** |
| (12) | (18) | (15) | (75) | **(249)** | **–** | **(66)** | **(102)** | **22** | **(395)** |
| 272 | 2 728 | 740 | 326 | **4 660** | **(34)** | **1 913** | **(374)** | **(2 196)** | **3 969** |
| (72) | (723) | (196) | (86) | **(1 235)** | **10** | **(507)** | **99** | **1 550** | **(83)** |
| 200 | 2 005 | 544 | 240 | **3 425** | **(24)** | **1 406** | **(275)** | **(646)** | **3 886** |
| 66.6 | 53.8 | 55.3 | 57.6 | **57.1** | **135.4** | **48.5** | **47.7** | **(74.8)** | **60.5** |
| 33.4 | 47.0 | 72.2 | 119.7 | **55.8** | **102.1** | **92.5** | **16.7** | **(58.8)** | **60.6** |
| 0.3 | 2.9 | 0.6 | (2.1) | **2.7** | **–** | **3.9** | **2.9** | **(9.8)** | **3.8** |
| 6.5 | 6.0 | 1.0 | – | **8.7** | **–** | **0.4** | **5.1** | **0.0** | **5.6** |
| (23) | (11) | (83) | (546) | **(832)** | **(1)** | **(44)** | **(99)** | **(47)** | **(1 023)** |
| (7) | (9) | (5) | (18) | **(41)** | **–** | **(29)** | **(9)** | **1** | **(78)** |
| – | – | (4) | (14) | **(23)** | **–** | **(12)** | **(2)** | **26** | **(11)** |
| (95) | (82) | (92) | (221) | **(605)** | **(6)** | **(463)** | **(58)** | **(151)** | **(1 283)** |
| 32 968 | 26 862 | 8 727 | 2 688 | **198 989** | **–** | **106 146** | **86 730** | **2 051** | **393 916** |
| 32 968 | 26 862 | 8 727 | 2 688 | **198 989** | **–** | **106 146** | **86 730** | **2 051** | **393 916** |
| 32 968 | 26 756 | 3 233 | (213) | **190 488** | **–** | **106 146** | **86 730** | **2 051** | **385 415** |
| – | 106 | 5 494 | 2 901 | **8 501** | **–** | **–** | **–** | **–** | **8 501** |
| 2 130 | 1 623 | 84 | – | **17 356** | **–** | **452** | **4 430** | **1** | **22 239** |
| – | – | – | – | **–** | **–** | **1 180** | **215** | **185** | **1 580** |
| 17 153 | 60 843 | 35 360 | 16 273 | **192 549** | **–** | **91 547** | **64** | **143 281** | **427 441** |
| 17 153 | 60 737 | 29 866 | 13 372 | **184 048** | **–** | **91 547** | **64** | **143 281** | **418 940** |
| – | 106 | 5 494 | 2 901 | **8 501** | **–** | **–** | **–** | **–** | **8 501** |
| 33 063 | 26 294 | 9 911 | 8 185 | **200 977** | **28** | **204 497** | **86 293** | **73 052** | **564 847** |
| 17 405 | 61 030 | 36 510 | 17 526 | **196 454** | **62** | **205 003** | **86 672** | **44 398** | **532 589** |
| 65 | 86 | 38 | 1 155 | **1 510** | **–** | **145** | **305** | **997** | **2 957** |
| 56 | 82 | 38 | 1 070 | **1 412** | **–** | **145** | **295** | **942** | **2 794** |
| 9 | 4 | – | 85 | **98** | **–** | **–** | **10** | **55** | **163** |

## 37 SEGMENT INFORMATION continued

### 37.1 Primary segments (business) continued

2008

| | | Consumer segment | | | |
|---|---|---|---|---|---|
| R million | Mass | Home-Loans | Card Issuing | Other Consumer | **Consumer segment** |
| **Net interest income before impairment of advances** | 921 | 1 176 | 1 129 | 2 038 | **4 343** |
| Impairment of advances | (165) | (971) | (1 084) | (311) | **(2 366)** |
| Net interest income after impairment of advances | 756 | 205 | 45 | 1 727 | **1 977** |
| Non interest income | 2 644 | 179 | 1 366 | 1 901 | **3 446** |
| **Net income from operations** | 3 400 | 384 | 1 411 | 3 628 | **5 423** |
| Operating expenses | (2 306) | (813) | (1 295) | (2 250) | **(4 358)** |
| **Income before taxation** | 1 094 | (429) | 116 | 1 378 | **1 065** |
| Indirect taxation | (22) | (44) | (10) | (82) | **(136)** |
| **Income before direct taxation** | 1 072 | (473) | 106 | 1 296 | **929** |
| Direct taxation | (284) | 125 | (28) | (343) | **(246)** |
| **Income after taxation** | 788 | (348) | 78 | 953 | **683** |
| Cost to income (%) | 64.7 | 60.0 | 51.9 | 57.1 | **56.0** |
| Diversity ratio (%) | (74) | (13) | (55) | (48) | **(44)** |
| Bad debt charge as a percentage of average advances (%) | 8.0 | 1.0 | 8.9 | 8.5 | **2.0** |
| NPLs as a percentage of advances (%) | 11 | 4 | 11 | 7 | **5** |
| **Income statement includes** | | | | | |
| Depreciation | (5) | (6) | (1) | (140) | **(147)** |
| Amortisation | – | – | – | (8) | **(8)** |
| Impairment charges | – | – | – | (5) | **(5)** |
| Other non cash provisions | (21) | (18) | (11) | (112) | **(141)** |
| **Balance sheet includes** | | | | | |
| Advances (after ISP – before impairments) | 2 269 | 107 126 | 12 516 | 3 582 | **123 224** |
| – Normal advances | 2 269 | 107 126 | 12 516 | 3 582 | **123 224** |
| Advances net of LROS | 2 269 | 107 126 | 12 516 | 3 582 | **123 224** |
| LROS adjustment | – | – | – | – | **–** |
| Non performing loans (after ISP) | 294 | 5 004 | 1 482 | 271 | **6 758** |
| Investment in associated companies | – | – | – | – | **–** |
| Total deposits | 7 720 | 103 | 1 252 | 49 872 | **51 227** |
| Deposits net of LROS | 7 720 | 103 | 1 252 | 49 872 | **51 227** |
| LROS adjustment | – | – | – | – | **–** |
| Total assets | 2 024 | 105 831 | 11 234 | 3 808 | **120 873** |
| Total liabilities | 7 828 | 174 | 1 301 | 50 710 | **52 185** |
| **Capital expenditure** | 11 | 71 | 1 | 302 | **374** |
| – Property and equipment | 11 | 71 | 1 | 292 | **364** |
| – Intangible assets | – | – | – | 10 | **10** |

The segmental analysis is based on the management accounts for the respective segments.
Certain comparative segment numbers have been restated to reflect moves of business units between segments.

| FNB | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Wealth | Commercial | Corporate | FNB Other and support | Total FNB | FNB Africa | RMB | WesBank | Group Support | Total |
| 752 | 3 586 | 404 | 56 | **10 062** | **12** | **(3 289)** | **3 581** | **799** | **11 165** |
| (88) | (201) | (91) | (24) | **(2 935)** | **(4)** | **(25)** | **(1 887)** | **394** | **(4 457)** |
| 664 | 3 385 | 313 | 32 | **7 127** | **8** | **(3 314)** | **1 694** | **1 193** | **6 708** |
| 297 | 2 815 | 1 338 | 578 | **11 118** | **45** | **9 581** | **545** | **(1 101)** | **20 188** |
| 961 | 6 200 | 1 651 | 610 | **18 245** | **53** | **6 267** | **2 239** | **92** | **26 896** |
| (588) | (3 268) | (994) | (494) | **(12 008)** | **(82)** | **(2 732)** | **(1 935)** | **(756)** | **(17 513)** |
| 373 | 2 932 | 657 | 116 | **6 237** | **(29)** | **3 506** | **304** | **(635)** | **9 383** |
| (13) | (20) | (16) | (137) | **(344)** | **(1)** | **(49)** | **(124)** | **30** | **(488)** |
| 360 | 2 912 | 641 | (21) | **5 893** | **(30)** | **3 457** | **180** | **(605)** | **8 895** |
| (95) | (771) | (170) | 6 | **(1 561)** | **8** | **(916)** | **(48)** | **583** | **(1 934)** |
| 265 | 2 141 | 471 | (15) | **4 332** | **(22)** | **2 541** | **132** | **(23)** | **6 961** |
| 56.1 | 51.1 | 57.1 | 77.9 | **56.7** | **146.4** | **43.6** | **46.9** | **(277.1)** | **55.9** |
| (28) | (44) | (77) | (91) | **(52)** | **78.6** | **(153)** | **(13)** | **(403)** | **64.4** |
| 0.4 | 0.9 | 0.6 | 0.4 | **1.6** | **6.7** | **0.0** | **2.2** | **(18.6)** | **1.2** |
| 2 | 2 | 1 | – | **4** | **5.1** | **–** | **3** | **–** | **2.9** |
| | | | | | | | | | |
| (17) | (10) | (71) | (393) | **(643)** | **(2)** | **(35)** | **(67)** | **(23)** | **(770)** |
| (4) | (6) | (2) | (1) | **(21)** | **–** | **(32)** | **(3)** | **–** | **(56)** |
| – | – | (4) | (14) | **(23)** | **–** | **–** | **–** | **–** | **(23)** |
| (95) | (104) | (109) | (247) | **(717)** | **(11)** | **(939)** | **(74)** | **(72)** | **(1 813)** |
| | | | | | | | | | |
| 27 528 | 24 109 | 15 424 | 5 284 | **197 838** | **78** | **120 282** | **87 773** | **1 225** | **407 196** |
| 27 528 | 24 109 | 15 424 | 5 284 | **197 838** | **78** | **120 282** | **87 773** | **1 225** | **407 196** |
| 27 528 | 23 766 | 2 792 | (289) | **179 290** | **78** | **120 282** | **87 773** | **1 225** | **388 648** |
| – | 343 | 12 632 | 5 573 | **18 548** | **–** | **–** | **–** | **–** | **18 548** |
| 601 | 512 | 140 | – | **8 304** | **4** | **365** | **3 129** | **1** | **11 803** |
| – | – | – | – | **–** | **–** | **435** | **217** | **186** | **838** |
| 15 347 | 58 357 | 43 229 | 16 587 | **192 467** | **387** | **88 669** | **35** | **133 615** | **415 173** |
| 15 347 | 58 014 | 30 597 | 11 014 | **173 919** | **387** | **88 669** | **35** | **133 615** | **396 625** |
| – | 343 | 12 632 | 5 573 | **18 548** | **–** | **–** | **–** | **–** | **18 548** |
| 27 553 | 23 746 | 16 704 | 10 083 | **200 983** | **207** | **210 658** | **87 231** | **68 713** | **567 792** |
| 15 433 | 58 556 | 45 012 | 17 921 | **196 935** | **398** | **211 552** | **87 061** | **42 556** | **538 502** |
| 49 | 47 | 115 | 1 061 | **1 657** | **11** | **78** | **206** | **1 262** | **3 214** |
| 40 | 24 | 110 | 1 059 | **1 608** | **11** | **78** | **200** | **1 183** | **3 080** |
| 9 | 23 | 5 | 2 | **49** | **–** | **–** | **6** | **79** | **134** |

## 37 SEGMENT INFORMATION continued

### 37.2 Secondary segments (geographic)

Refer to the primary segment information for a description of the divisions.

| Segment | Countries included | Divisions included |
|---|---|---|
| South Africa | South Africa | FNB<br>RMB<br>OUTsurance<br>WesBank<br>Group Support |
| United Kingdom | England<br>Ireland | RMB<br>WesBank<br>FNB |
| Other | Asia (India, China)<br>Middle East (U.A.E)<br>Mauritius<br>Brazil | FNB<br>RMB |

The following significant exchange rates were used to convert the balance sheet. Foreign denominated assets and liabilities are converted at the closing rate of exchange.

| | 2009 | 2008 |
|---|---|---|
| Pounds | 12.714 | 15.601 |
| Rupee | 0.162 | 0.182 |

| | 2009 | | | |
|---|---|---|---|---|
| R million | South Africa | United Kingdom | Asia | Total |
| Segment income – external | 64 549 | 518 | 2 | 65 069 |
| Segment expenses | 41 729 | 624 | 30 | 42 383 |
| Segment assets | 536 235 | 28 193 | 419 | 564 847 |
| Segment liabilities | 527 132 | 5 429 | 28 | 532 589 |
| Segment capital expenses | 2 885 | 72 | – | |
| – Property & equipment | 2 722 | 72 | – | 2 794 |
| – Intangibles | 163 | – | – | 163 |

| | 2008 | | | |
|---|---|---|---|---|
| R million | South Africa | United Kingdom | Asia | Total |
| Segment income – external | 62 911 | – | – | 62 911 |
| Segment expenses | 36 015 | – | – | 36 015 |
| Segment assets | 567 792 | – | – | 567 792 |
| Segment liabilities | 538 502 | – | – | 538 502 |
| Segment capital expenses | 3 214 | – | – | 3 214 |
| – Property & equipment | 3 080 | – | – | 3 080 |
| – Intangibles | 134 | – | – | 134 |

## 38 RELATED PARTIES

The Bank defines related parties as:

- The parent company
- Associate companies
- Joint ventures
- Key management personnel as the FirstRand Bank Holdings Limited 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 Limited, (incorporated in South Africa) which owns 100% of the ordinary shares. The ultimate parent of the Bank is FirstRand Limited, incorporated in South Africa.

### 38.1 Subsidiaries

Details of interest in subsidiaries are disclosed in note 15.

Refer below for details of transactions with subsidiaries and fellow subsidiaries.

### 38.2 Associates and joint ventures

Details of investments in associate and joint venture companies 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.

### 38.3 Details of transactions with relevant related parties appear below:

| | 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) | – |

## 38 RELATED PARTIES continued

### 38.3 Details of transactions with relevant related parties appear below:

The following related party derivatives are included in:

| | Derivative instruments (Note 8) | | Loan to Insurance Group | |
|---|---|---|---|---|
| | **2009** | | 2008 | |
| | **Assets** | | Assets | |
| | **Notional** | **Fair value** | Notional | Fair value |
| Loan to Insurance Group | **1 312** | **64** | 7 261 | 837 |

| | Derivative instruments (Note 8) | | Loan from Insurance Group | |
|---|---|---|---|---|
| | **2009** | | 2008 | |
| | **Liabilities** | | Liabilities | |
| | **Notional** | **Fair value** | Notional | Fair value |
| Loan from Insurance Group | **2 561** | **412** | 9 365 | 2 587 |

| | 2008 | |
|---|---|---|
| | Parent | Fellow subsidiaries |
| **Loans and advances** | | |
| Balance 1 July | 354 | – |
| Repayments during year | (297) | – |
| **Balance 30 June** | 57 | – |
| **Deposits** | | |
| Balance 1 July | 8 | – |
| Advanced during year | 1 | – |
| **Balance 30 June** | 9 | – |
| **Loans to Insurance Group** | | |
| Balance 1 July | 135 | 3 301 |
| Repayments during year | (135) | (1 460) |
| **Balance 30 June** | – | 1 841 |
| **Loans from Insurance Group** | | |
| Balance 1 July | 41 | 4 144 |
| Advanced during year | 157 | – |
| Repayments during year | – | (1 703) |
| **Balance 30 June** | 198 | 2 441 |
| **Amounts due to holding and fellow subsidiaries** | | |
| Balance 1 July | 526 | 17 402 |
| Advanced during year | 343 | 8 231 |
| **Balance 30 June** | 869 | 25 633 |

## 38 RELATED PARTIES continued

| | 2008 | |
|---|---|---|
| | Parent | Fellow subsidiaries |
| **Amounts due from holding and fellow subsidiaries** | | |
| Balance 1 July | 472 | 28 885 |
| Advanced during year | 1 137 | – |
| Repayments during year | – | (1 722) |
| **Balance 30 June** | 1 609 | 27 163 |
| Interest received | 18 | 1 863 |
| Interest paid | 33 | 2 058 |
| Non interest income | 11 | 1 083 |
| Operating expenditure | 17 | 429 |
| Dividends paid | (4 627) | – |

### 38.4 Key management personnel

| R million | 2009 | 2008 |
|---|---|---|
| **Total advances** | | |
| In normal course of business (mortgages, other, instalment finance and credit cards) | | |
| Balance 1 July | **51** | 87 |
| Advanced during year | **501** | 329 |
| Repayments during year | **(526)** | (373) |
| Interest earned | **5** | 8 |
| **Balance 30 June** | **31** | 51 |
| 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 | **45** | 82 |
| Advanced during year | **363** | 201 |
| Repayments during year | **(383)** | (245) |
| Interest earned | **4** | 7 |
| **Balance 30 June** | **29** | 45 |
| No impairment has been recognised for loans granted to key management (2008: R nil). Mortgage loans are repayable monthly over 20 years. | | |
| **Other loans** | | |
| Balance 1 July | **3** | 3 |
| Advanced during year | **115** | 109 |
| Repayments during year | **(118)** | (110) |
| Interest earned | **1** | 1 |
| **Balance 30 June** | **1** | 3 |
| **Instalment finance** | | |
| Balance 1 July | **2** | 2 |
| Advanced during year | **1** | 2 |
| Repayments during year | **(3)** | (2) |
| **Balance 30 June** | **–** | 2 |

No impairments have been recognised in respect of instalment finance (2008: R nil).

## 38 RELATED PARTIES continued

### 38.4 Key management personnel continued

| R million | 2009 | 2008 |
|---|---|---|
| **Credit cards** | | |
| Balance 1 July | 1 | – |
| Total annual spend | 22 | 17 |
| Repayments | (22) | (16) |
| **Balance 30 June** | 1 | 1 |
| No impairments have been recognised in respect of credit cards held by key management. Interest rates are in line with normal rates charged to customers. | | |
| **Cheque and current accounts** | | |
| Credit balance 1 July | (101) | 20 |
| Net deposits and withdrawals | 69 | (111) |
| Interest income | (3) | (10) |
| **Balance 30 June** | (35) | (101) |
| **Savings deposits** | | |
| Credit balance 1 July | 31 | 41 |
| Interest income | 13 | 3 |
| Net new investments | 39 | (13) |
| **Balance at 30 June** | 83 | 31 |
| **Other including term deposits** | | |
| Balance 1 July | 5 | 32 |
| Interest income | 1 | 1 |
| Net new withdrawals/investments | 12 | (28) |
| **Balance 30 June** | 18 | 5 |
| **Insurance and investment** | | |
| **Insurance** | | |
| **Life and disability insurance** | | |
| Aggregate insured cover | 15 | 1 |
| Surrender value | 1 | – |
| Other insurance | | |
| Claims paid | – | 1 |
| | 16 | 2 |
| **Investment products** | | |
| Fund value opening balance | 995 | 1 042 |
| Deposits | (232) | (62) |
| Net investment return credited | (220) | 19 |
| Commission and other transaction fees | (4) | (4) |
| **Fund closing balance** | 539 | 995 |
| **Other fees** | | |
| Financial consulting fees and commissions | 3 | 5 |
| **Key management compensation** | | |
| Salaries & other short-term benefits | 84 | 133 |
| Share based payments | 21 | 82 |
| **Total compensation** | 105 | 215 |

A listing of the board of directors of the Bank is on page 1 of the annual report.

| R million | 2009 | 2008 |
|---|---|---|
| **38.5 Post retirement benefit plan** | | |
| **Details of transactions between The Bank and the Bank's post retirement benefit plan is listed below:** | | |
| Insurance premium | **–** | 20 |
| Fee income | **1** | 1 |
| Deposits held with the Bank | **30** | 30 |
| Interest expenses | **2** | 1 |
| Value of assets under management | **2 320** | 2 534 |

## 39 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

**(a) Credit impairment losses on loans and advances**

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

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

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

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

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

Estimates of roll rates, loss ratios and similar risk indicators are based on analysis of internal and, where appropriate, external data. Estimates of the loss emergence period are made in the context of the nature and frequency of credit assessments performed, availability and frequency of updated data regarding customer creditworthiness and similar factors. Loss emergence periods differ from portfolio to portfolio, but typically range from one – twelve months.

**Non performing loans**

Retail loans are individually impaired if amounts are due and unpaid for three or more months, or if there is evidence before this that the customer is unlikely to repay its obligations in full. WesBank's loans are impaired upon its classification status, ie following an event driven approach and specific assessment of the likelihood to repay. Commercial and Wholesale loans are analysed on a case by case basis taking into account breaches of key loan conditions, excesses and similar risk indicators.

Management's estimates of future cash flows on individually impaired loans are based on internal historical loss experience, supplemented by analysis of comparable external data (for Commercial and

Wholesale loans) for assets with similar credit risk characteristics. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Refer to note 10 for a detailed analysis of the impairment of advances and the carrying amounts of the specific and portfolio provisions.

National Credit Act ("NCA")

The NCA came into effect on 1 June 2007 and has impacted the Bank's levels of credit impairment. Specifically, the NCA had an impact on the judgements and estimates made regarding the default ratios and the recovery periods (resulting from debt counselling programmes and outcomes).

(b) Fair value of derivatives

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

Refer to note 8 for a detailed analysis of the derivatives and the carrying amounts of the different types of derivative instruments. Note 35 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, industry and sector performance, changes in technology, and operational and financing cash flows.

The Bank determined that the impairment of available-for-sale equity instruments were not appropriate for the year under review.

(d) Securitisations and special purpose entities

The 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 34 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 element of 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 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 and 5 for more information regarding the direct 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 3 to 57 of the annual report. The repricing analysis on pages 52 to 53 forms part of the audited annual financial statements.

(g) **Impairment of goodwill**

The recoverable amount of goodwill is tested annually for impairment in accordance with the stated accounting policy. The recoverable amount of the cash generating units ("CGU") has been determined based on value-in-use calculations, being the net present value of the discounted cash flows of the CGU less the tangible net asset value of the CGU. Details of the main assumptions applied in determining the net present value of the CGU are provided in notes to these financial statements.

(h) **Employee benefit liabilities**

The cost of the benefits and the present value of the defined benefit pension funds and post retirement medical obligations depend on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the charge to the income statement arising from these obligations include the expected long term rate of return on the relevant plan assets, the discount rate and the expected salary and pension increase rates. Any changes in these assumptions will impact the charge to the income statement and may affect planned funding of the pension plans.

The assumptions related to the expected return on plan assets are determined 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.

(i) **Share based payments**

Share based payment costs arise from the issue of share options to employees. These share options are classified as equity-settled share based payments and as such, the fair value cost is determined on date of grant on an actuarial basis using a number of assumptions. These assumptions used in determining the fair value cost include expected volatility, expected dividend yield, the discount rate and the expected forfeit or lapse rate. In accordance with the principles of valuing equity-settled share based payments, only a change in the actual experience of forfeits compared to the estimated forfeit rate assumption, will impact on the charge in the income statement. All other assumptions are determined at grant date and are not amended.

The expected volatility assumption is determined based on a ruling historical volatility over the expected life of the options and comparable financial information. The expected dividend yield is determined based on historical dividend yields and management's estimates. The discount rate is based on zero coupon government bonds and have terms to maturity consistent with the assumed life of the share option. The expected forfeit rate has been based on historical experience and management estimates.

Refer to note 28 for the detailed information regarding the sharebased payment expense and the assumptions used in determining the expense, liability and reserve.

(j) **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.

## 40 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 |
|---|---|---|
| IFRIC 15 Amendments | **Agreements for the Construction of Real Estate**<br>The interpretation clarifies when real estate sales should be accounted for in terms of IAS 11 Construction Contracts or IAS 18 Revenue.<br>The interpretation is not applicable to the Group. | Annual periods commencing on or after 1 January 2009 |
| IFRIC 16 | **Hedges of a Net Investment of a Foreign Operation**<br>The interpretation clarifies which risks can be hedged under a hedge of the net investment in a foreign operation and by which entities within the Group the hedging instruments can be held in order to qualify as a hedge of a net investment in a foreign operation.<br>The Group does not currently apply hedge accounting to net investments in foreign operations. | Annual periods commencing on or after 1 October 2008 |
| IFRIC 17 | **Distribution of Non-cash Assets to Owners**<br>The interpretation clarifies how an entity should measure distribution of assets other than when it pays cash dividends to its owners. At present there is diversity in practice when accounting for these dividends payable. This assets will be measured at their fair value, and the difference between the fair value and the carrying will be recorded in the profit or loss for the period.<br>The impact of this interpretation on the Group is not considered to be significant. | Annual periods commencing on or after 1 July 2009 |
| IFRIC 18 | **Transfers of Assets from Customer**<br>The interpretation clarifies how an entity should treat items of property, plant and equipment from its customers that must be used to connect those customers to a network and provide them with ongoing access to a supply of commodities such as electricity, gas or water. An entity could also receive cash from customers for the acquisition or construction of such items of property, plant and equipment. This interpretation applies to the accounting for such transfers.<br>The interpretation is not applicable to the Group. | Annual period commencing on or after 1 July 2009 |
| IFRS 1 and IAS 27 (revised) | **Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate**<br>The amendments to IFRS 1 allow first-time adopters of IFRS 1 to use a deemed cost option for determining the cost of an investment in a subsidiary, jointly controlled entity or associate.<br>This amendment will not impact the Group as the Group adopted IFRS in full in the financial year ending 30 June 2006. Consequently, IFRS 1 is no longer appropriate. | Annual periods commencing on or after 1 January 2009 |
| IFRS 2 (amended) | **Vesting Conditions and Cancellations**<br>The amendments to IFRS 2 clarify that vesting conditions are performance conditions and service conditions only. The amendment also clarify 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.<br>This amendment is not expected to impact the Group's results significantly. | Annual periods commencing on or after 1 January 2009 |

| | | Effective date |
|---|---|---|
| IFRS 3 and IAS 27 (revised) | **Revision to IFRS 3 Business Combinations and IAS 27 Consolidated and Separate Financial Statements**<br>The revised IFRS 3 retains the current basic requirements. The most significant amendments are that the acquisition related costs will now be recognised as an expense in the income statement when incurred, rather than including it in goodwill.<br>The revised IFRS 3 also states that contingent consideration must be recognised and measured at fair value at the acquisition date. Subsequent changes in fair value are recognised in accordance with other IFRSs, usually in the income statement rather than by adjusting goodwill.<br>The amendment to IAS 27 requires that changes in a parent's ownership interest in a subsidiary that does not result in a loss of control to be accounted for within equity.<br>The amendments are expected to affect the Group's accounting for business combinations that arise after the effective date. The amendment to IAS 27 requires that transactions with minorities be accounted for in equity, this will require a prospective change in accounting policy for the Group in line with the amended transitional provisions. | Annual periods commencing on or after 1 July 2009 |
| IFRS 7 | **Financial Instruments: Disclosures**<br>The amendments to IFRS 7 will require enhanced disclosures about fair value measurements and liquidity risk.<br>The amendments affect the disclosures in the annual financial statements, and does not affect measurement and recognition. The impact is therefore not expected to be significant. | Annual periods commencing on or after 1 January 2009 |
| IFRS 8 | **Operating Segments**<br>IFRS 8 replaces IAS 14 Segment Reporting. IFRS 8 requires an entity to report financial and descriptive information about its reportable operating segments. Operating segments are components of an entity about which separate financial information is available and that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and assessing performance.<br>The standard addresses disclosure in the annual financial statements and will not affect recognition and measurement. The impact on the revised disclosure is not expected to be significant. | Annual periods commencing on or after 1 January 2009 |
| IAS 1 (revised) | **Presentation of Financial Statements**<br>IFRS 8 replaces IAS 14 Segment Reporting. IFRS 8 requires an entity to report financial and descriptive information about its reportable operating segments. Operating segments are components of an entity about which separate financial information is available and that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and assessing performance.<br>The amendments will not affect the financial position or results of the Group but will introduce some changes to the presentation of the financial position, changes in equity and financial results of the Group. | Annual periods commencing on or after 1 January 2009 |

| | | Effective date |
|---|---|---|
| IAS 23 (amended) | **Borrowing Costs**<br>The amendment removes the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. The capitalisation of borrowing costs as part of the cost of such assets is therefore now required.<br>The Group's exisiting accounting policy is to capitalise borrowing costs incurred on qualifying assets. The amendment will therefore not have an effect on the Group's results. | Annual periods commencing on or after 1 January 2009 |
| IAS 32 (amended) | **Financial Instruments Puttable at Fair value**<br>The amendment to IAS 32 requires the classification of certain puttable financial instruments and financial instruments that impose on the issuer an obligation to deliver a pro rata share of the entity only on liquidation as equity. The amendment sets out specific criteria that are to be met to present the instruments as equity together with related disclosure requirements.<br>This amendment is not expected to have an impact to the Group. | Annual periods commencing on or after 1 January 2009 |
| IAS 39 (amended) | **Eligible Hedged Items**<br>The amendment clarifies that inflation may only be hedged in instances where changes in inflation are contractually specified portions of cash flows of a recognised financial instrument. It also clarifies that an entity is permitted to designate purchased or net purchased options as a hedging instrument in a hedge of a financial or non-financial item and to improve effectiveness, an entity is allowed to exclude the time value of money from the hedging instrument.<br>This amendment is not expected to have a significant impact to the Group. | Annual periods commencing on or after 1 July 2009 |
| Annual Improvements | **Annual Improvements Project**<br>As part of its annual improvements projects, the IASB has issued its editions of annual improvements. The annual improvements 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. | |
| | The first annual improvements project is effective. | Annual period commencing on or after 1 July 2009 |
| | The second annual improvements project is effective. | Annual period commencing on or after 1 January 2010 |

## 41 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 R26 million (2008: R37million) and is reflected in interest and similar income in the income statement.

## 42 AVERAGE BALANCE SHEET AND EFFECTIVE INTEREST RATES

| | 30 June 2009 | | | 30 June 2008 | | |
|---|---|---|---|---|---|---|
| | Average balance | Average rate | Interest income/ expenses | Average balance | Average rate | Interest income/ expenses |
| R million | Rm | % | Rm | Rm | % | Rm |
| **ASSETS** | | | | | | |
| Cash and short term funds | 23 800 | 2.8 | 665 | 24 105 | 6.0 | 1 454 |
| Derivative financial instruments | 62 713 | 0.6 | 399 | 31 948 | 0.5 | 154 |
| Advances | 391 692 | 10.1 | 39 727 | 373 883 | 9.9 | 36 860 |
| Investment securities and other investments | 62 274 | 7.0 | 4 371 | 41 617 | 5.7 | 2 374 |
| Commodities | 1 431 | – | – | 1 011 | – | – |
| Accounts receivable | 2 845 | 4.3 | 123 | 3 797 | – | – |
| Investment in associate and joint venture companies | 1 333 | – | – | 653 | – | – |
| Investment in subsidiary companies | 134 | – | – | 42 | – | – |
| Amounts due by holding company and fellow subsidiary companies | 24 138 | 6.0 | 1 448 | 28 889 | 6.4 | 1 858 |
| Property and equipment | 5 853 | – | – | 3 827 | – | – |
| Post retirement benefit asset | 2 682 | – | – | 2 699 | – | – |
| Intangible assets and deferred acquisition costs | 175 | – | – | 87 | – | – |
| Tax asset | 553 | – | – | 87 | – | – |
| Non current assets and disposal groups held for sale | 32 | – | – | 222 | – | – |
| Loans to Insurance Group | 1 714 | – | – | 2 800 | 0.8 | 23 |
| **Total assets** | 581 369 | 8.0 | 46 733 | 515 667 | 8.3 | 42 723 |
| **EQUITY AND LIABILITIES** | | | | | | |
| Deposits and current accounts | 422 626 | 7.4 | 31 128 | 388 105 | 7.6 | 29 315 |
| Short trading positions | 24 802 | – | – | 24 537 | – | – |
| Derivative financial instruments | 57 648 | – | – | 29 218 | – | – |
| Creditors and accruals | 4 845 | – | – | 4 615 | 0.5 | 21 |
| Provisions | 2 177 | – | – | 2 552 | – | – |
| Post retirement benefit fund liability | 1 948 | – | – | 1 847 | – | – |
| Deferred tax liability | 2 420 | – | – | 2 186 | – | – |
| Amounts due to holding company and fellow subsidiary companies | 21 959 | 7.8 | 1 717 | 21 802 | 5.5 | 1 198 |
| Long term liabilities | 8 555 | 18.3 | 1 568 | 9 512 | 9.4 | 894 |
| Loans from Insurance Group | 3 023 | 13.0 | 392 | 3 655 | 3.6 | 130 |
| **Total liabilities** | 550 003 | 6.3 | 34 805 | 488 390 | 6.5 | 31 558 |
| **Equity** | | | | | | |
| **Capital and reserves attributable to the Bank's shareholders** | | | | | | |
| Ordinary shares | 4 | – | – | 4 | – | – |
| Share premium | 9 557 | – | – | 6 886 | – | – |
| Reserves | 18 805 | – | – | 17 387 | – | – |
| Non cumulative non redeemable preference shares | 3 000 | – | – | 3 000 | – | – |
| **Total shareholders' equity** | 31 366 | – | – | 27 277 | – | – |
| **Total equity and liabilities** | 581 369 | 6.0 | 34 805 | 515 667 | 6.1 | 31 558 |

## 43 SUBSEQUENT EVENTS

There are none.

## 44 CURRENT/NON CURRENT SPLIT OF AMOUNTS RECOGNISED ON THE BALANCE SHEET

| | 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 |
| Investment in associate and joint ventures | 1 580 | – | 1 580 |
| Investment in subsidiary companies | 279 | – | 279 |
| Property and equipment | 6 795 | – | 6 795 |
| Post retirement benefit asset | 2 447 | – | 2 447 |
| Intangible assets and deferred acquisition costs | 216 | – | 216 |
| Tax asset | 469 | 469 | – |
| Amounts due by holding company and fellow subsidiary companies | 15 241 | 9 534 | 5 707 |
| 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 benefit fund liability | 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 | – |
| Shareholders' equity | 32 258 | – | 32 258 |
| **Total equity and liabilities** | **564 847** | **481 102** | **83 745** |

## 44 CURRENT/NON CURRENT SPLIT OF AMOUNTS RECOGNISED ON THE BALANCE SHEET continued

| | 2008 | | |
|---|---|---|---|
| | | Term to maturity | |
| R million | Carrying amount | Current | Non current |
| **ASSETS** | | | |
| Cash and short term funds | 21 913 | 21 913 | – |
| Derivative financial instruments | 48 257 | 21 001 | 27 256 |
| Advances | 400 621 | 165 542 | 235 079 |
| Investment securities and other investments | 52 108 | 33 885 | 18 223 |
| Commodities | 1 778 | 1 778 | – |
| Accounts receivable | 3 186 | 3 003 | 183 |
| Investment in associate and joint ventures | 838 | – | 838 |
| Investment in subsidiary companies | 75 | 26 | 49 |
| Property and equipment | 5 154 | – | 5 154 |
| Post retirement benefit asset | 2 771 | – | 2 771 |
| Intangible assets and deferred acquisition costs | 122 | – | 122 |
| Tax asset | 261 | 261 | – |
| Non current assets and disposal groups held for sale | 95 | 95 | – |
| Amounts due by holding company and fellow subsidiary companies | 28 772 | 11 744 | 17 028 |
| Loans to Insurance Group | 1 841 | – | 1 841 |
| **Total assets** | 567 792 | 259 248 | 308 544 |
| **EQUITY AND LIABILITIES** | | | |
| Deposits | 415 173 | 386 272 | 28 901 |
| Short trading positions | 26 929 | 26 929 | – |
| Derivative financial instruments | 44 313 | 18 881 | 25 432 |
| Creditors and accruals | 4 869 | 4 849 | 20 |
| Provisions | 2 768 | 2 040 | 728 |
| Post retirement benefit fund liability | 1 888 | – | 1 888 |
| Deferred tax liability | 2 778 | 2 178 | 600 |
| Long term liabilities | 10 643 | – | 10 643 |
| Amounts due to holding company and fellow subsidiary companies | 26 502 | 21 386 | 5 116 |
| Loans from Insurance Group | 2 639 | 2 288 | 351 |
| Shareholders' equity | 29 290 | – | 29 290 |
| **Total equity and liabilities** | 567 792 | 464 823 | 102 969 |

# NOTES

## FirstRand Bank Limited

(Registration number 1929/001225/06)

## Company Secretary:

BW Unser

## Registered office:

1st Floor, 4 Merchant Place
Cnr Fredman Drive and Rivonia Road
Sandton
2196

## Auditors:

PricewaterhouseCoopers Incorporated
2 Eglin Road
Sunninghill
2157

## Postal address:

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**National Executive*
*GG Gelink Chief Executive*
*AE Swiegers Chief Operating Officer*
*GM Pinnock Audit*
*DL Kennedy Tax & Legal and Financial Advisory*
*L Geeringh Consulting*
*L Bam Corporate Finance*
*CR Beukman Finance*
*TJ Brown Clients and Markets*
*NT Mtoba Chairman of the board*
*CR Qually Deputy Chairman of the board*
*A full list of partners and directors is available on request.*

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