COO & CFO's report

Johan Burger

COO & CFO

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

+22%
Normalised earnings

+19%
Normalised return on equity (ROE)

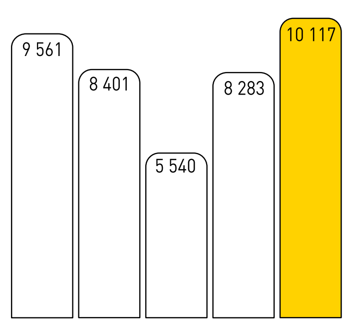
+27%
Dividend per ordinary share

Performance commentary

FINANCIAL PERFORMANCE

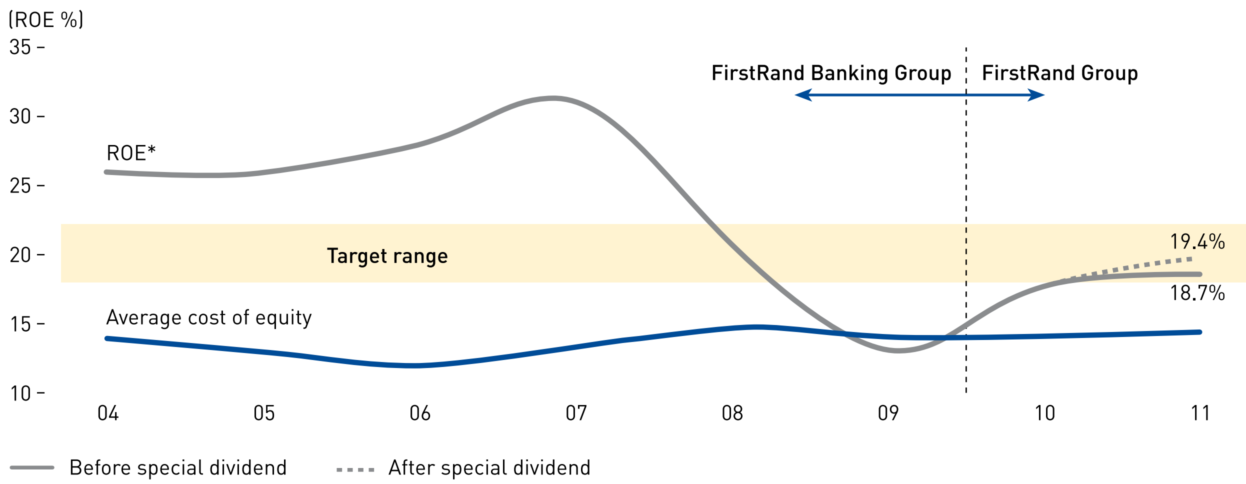
The results are presented on a normalised continuing basis as the Group believes this most accurately reflects economic performance. The normalised continuing operations specifically exclude the profit on the unbundling of Momentum, the earnings contribution of Momentum for the current and comparative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

Group continuing operations – normalised earnings



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

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



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

GROUP KEY RATIOS

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

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

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

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

SOURCES OF NORMALISED EARNINGS FROM CONTINUING OPERATIONS

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

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

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

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

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

The following portfolios showed particularly good new business volumes:

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

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

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

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

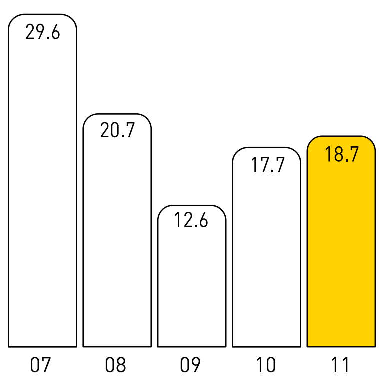
Investment income also contributed strongly, driven by the private equity and resources portfolios of RMB, and profits from the disposal of VISA Inc shares.

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

KEY PERFORMANCE MEASURES

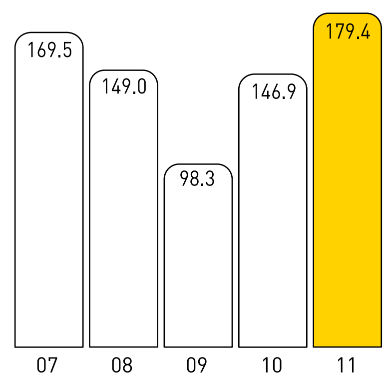
The Group uses certain key performance indicators to monitor progress of strategy. These include:

Normalised ROE (%)



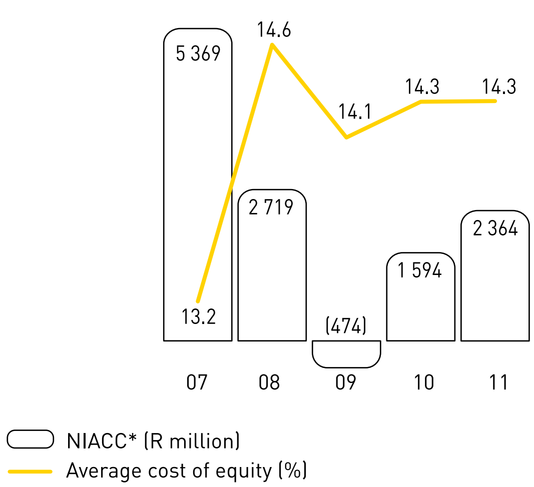
When the Group analyses ROE, it also takes into account the relationship between ROA and gearing levels.

Normalised EPS (cents)



The Group targets earnings growth in excess of nominal GDP.

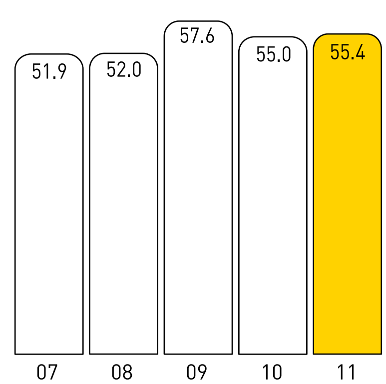
Net income after cost of capital ("NIACC")



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

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

Cost-to-income (%)



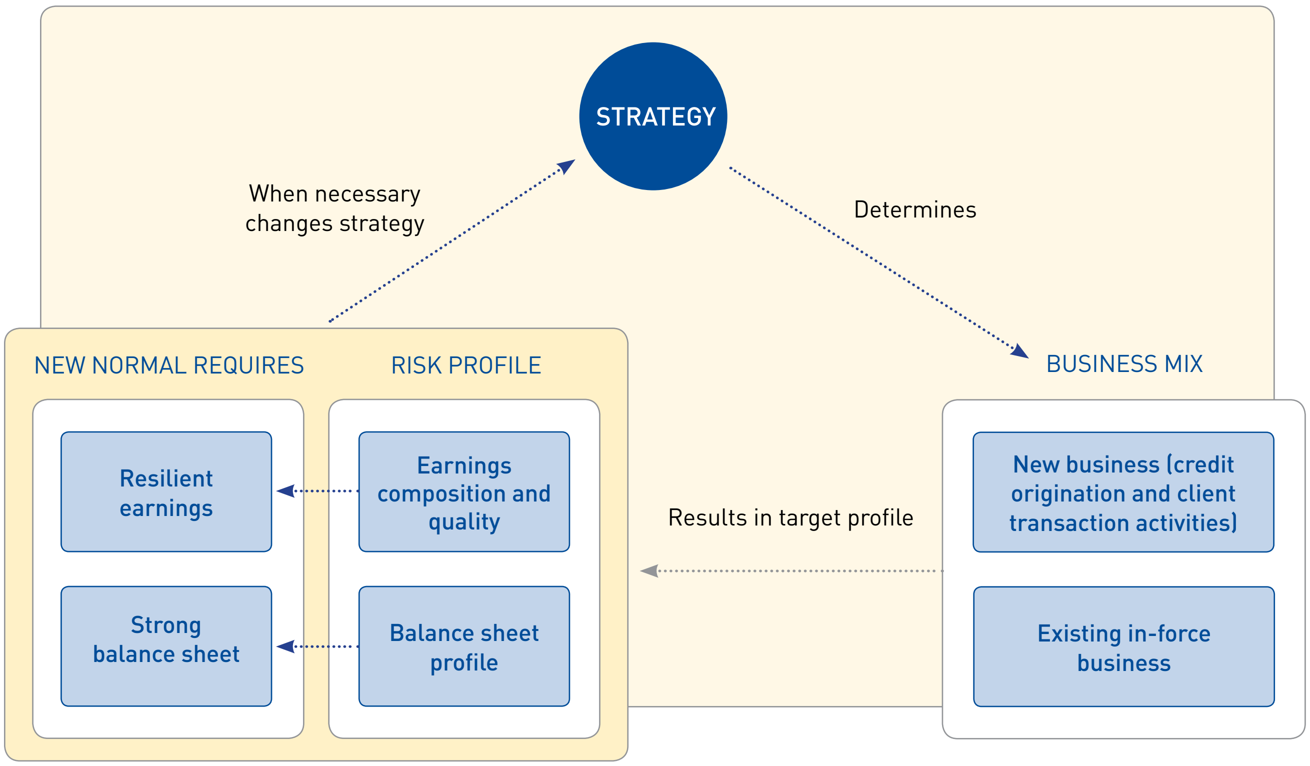
The Group monitors efficiency through the cost-to-income measure, taking into account both revenue and cost growth.

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

Aligning strategy with desired risk profile

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

THE GROUP'S STRATEGIC PLANNING PROCESS



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

MANAGING THE BUSINESS FOR THE NEW NORMAL

The "new normal" environment

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

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

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

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

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

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

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

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

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

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

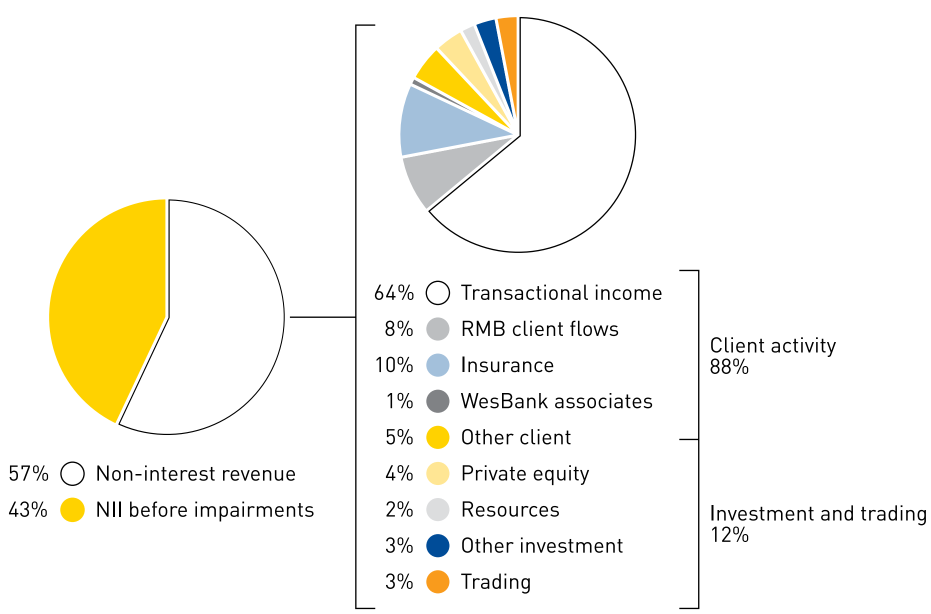
In addition to the maintenance of appropriate buffers, the Group actively mitigates risk by avoiding macro fault lines such as direct exposure to European sovereign and bank debt. Where possible, earnings are also protected against events such as the protection of endowment earnings via interest rate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

EARNINGS RESILIENCE

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

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

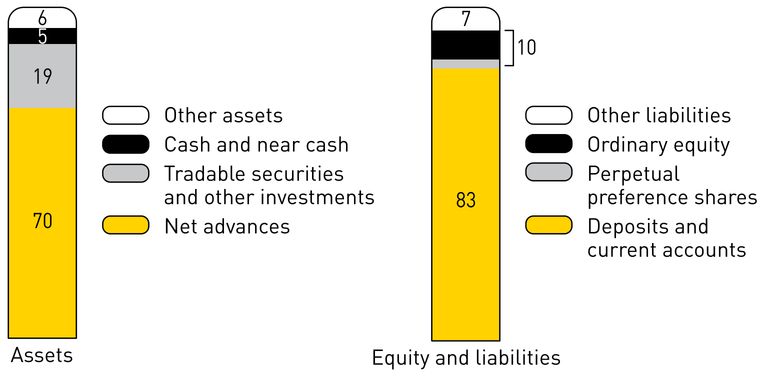
Gross revenue composition and breakdown of normalised non-interest income



STRONG BALANCE SHEET

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

Balance sheet structure



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

ASSETS

Loans and advances

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

Trading, investment and liquid assets

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

LIABILITIES

The Group's liabilities are comprised of:

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

FINANCIAL RISKS

Credit risk

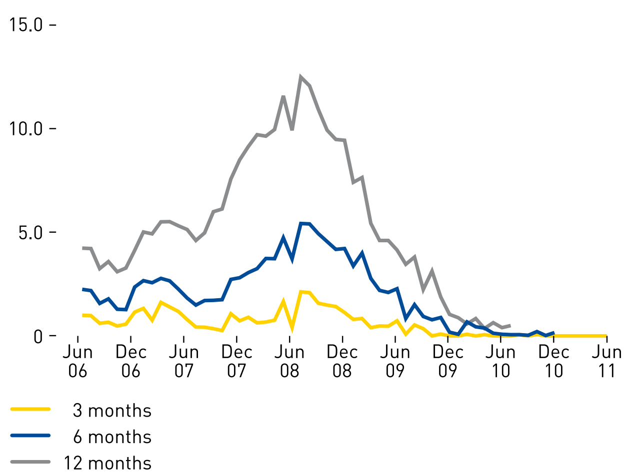
Credit strategy is managed as part of the broader balance sheet management process and is aligned with the Group's view of macroeconomic trends in the wider economy. The Group's origination strategies over the past few years are resulting in improving credit quality across all retail portfolios (as evidenced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

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

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

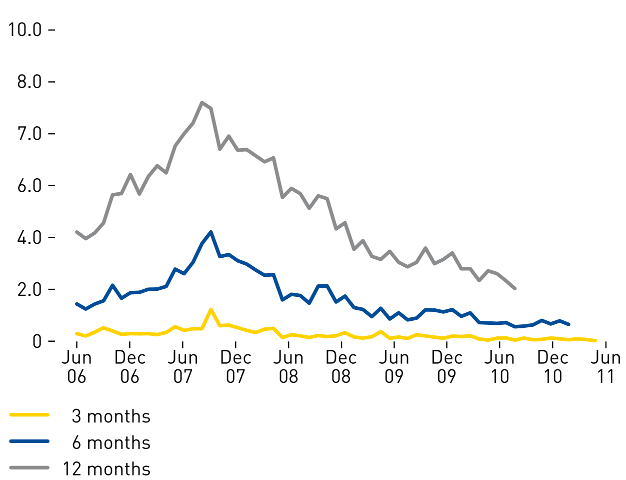
For FNB HomeLoans, the 3, 6 and 12 month cumulative vintage analysis illustrates a marked improvement in the quality of business written since mid 2008. The more recent decreases in the default experience reflect a combination of the credit origination strategies and the favourable interest rate environment.

FNB HomeLoans vintage analysis



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

WesBank retail vintage analysis



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

Large corporate credit exposures arise mainly from:

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

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

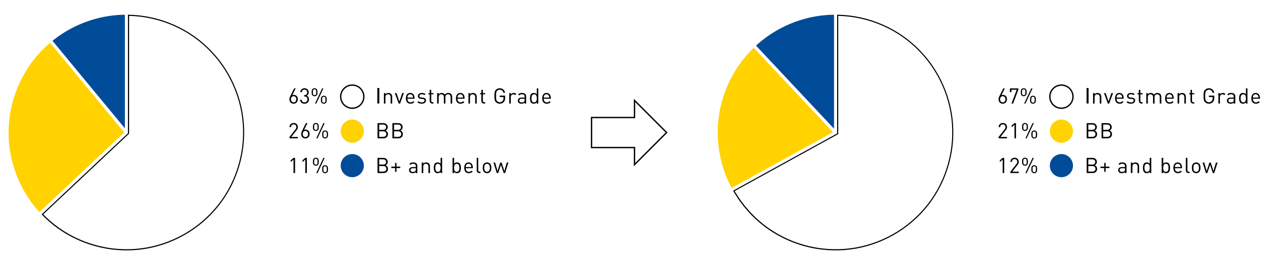
The performance of the Group could be negatively impacted by a large wholesale exposure default. These exposures are, however, diversified and actively managed to mitigate this risk. In addition, risk management processes and prudential limits are in place to limit the loss in the event of default for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

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

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

Wholesale credit portolio ratings composition

Portfolio ratings June 2010 *Portfolio ratings June 2011*



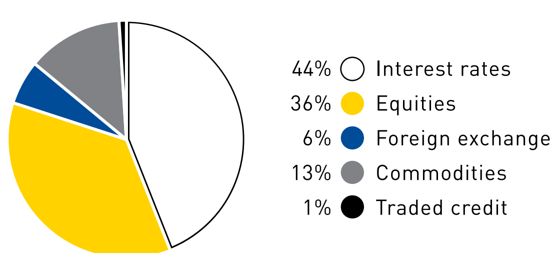
Market risk

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

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

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

Composition of ETL exposure for FirstRand Bank (audited)



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

Equity investment risk

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

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

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

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

Funding and liquidity risk

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

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

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

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

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

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

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

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

Interest rate risk in the banking book

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

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

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

Capital

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

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

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

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

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

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

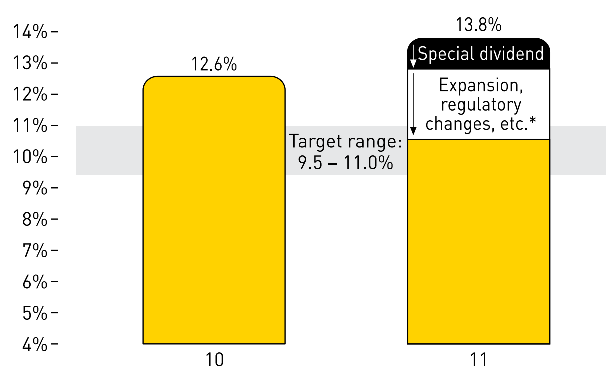
The total capital plan includes a dividend policy, which is set in order to ensure sustainable dividend cover based on sustainable normalised earnings. This also takes into account volatile earnings brought on by fair value accounting, anticipated earnings yield on capital employed, organic growth requirements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

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

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

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

Core Tier 1



** Illustrative.*

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

NON-FINANCIAL RISKS

Operational risk

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

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

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

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

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

Conclusion

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

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

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

Johan Burger
Chief operating officer and Chief financial officer