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annual integrated report

FIRSTRAND

owner-manager culture
innovation
entrepreneurship
franchise value

contents

A FIRSTRAND GROUP

B FIRSTRAND GROUP

C FIRSTRAND COMPANY

D SHAREHOLDERS' INFORMATION

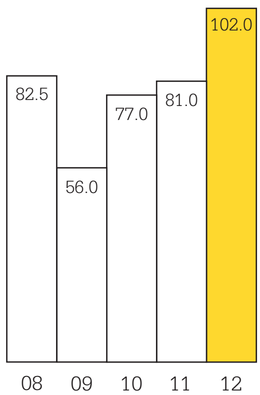
Financial highlights

26% Ordinary dividend per share

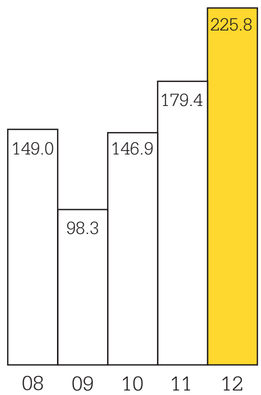
26% Diluted normalised earnings per share

9% Normalised net asset value per share

Ordinary dividend per share (cents)



Diluted normalised earnings per share from normalised continuing (cents)



FirstRand is differentiated from its peers by its owner-manager culture its objective to build long-term franchise value.

Since the creation of FirstRand in 1998 the diversified portfolio of the Group has delivered strong growth in earnings, assets and dividends. The Group's track record has been achieved through a combination of organic growth, acquisitions, and creating extra sources of revenue through the start up and development of completely new businesses.

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

FNB First National Bank how can we help you?

RMB

WesBank A division of FirstRand Bank Ltd.

Introducing FirstRand's sustainability framework

FirstRand has carefully considered the principles and objectives of integrated reporting. The Group's objective is to apply best practice, in so far that it supports the Group's interpretation of the sustainability of its strategy and operations. It does not seek to tick all the boxes but rather provide stakeholders with enough relevant information to take an informed view on the quality of leadership's strategic thinking, execution of strategy and utilisation of operating platforms, financial resources and risk capacity. The approach is fundamentally designed to present substance over form.

Depicted below is FirstRand's sustainability framework which represents the five key pillars of the Group's approach to delivering superior and sustainable returns to its stakeholders. It indicates some key sections or pages in this report where the reader can find narrative and data that substantiates the statement of intent.

Core purpose	To be the African financial services group of choice through the creation of long-term franchise value	• Chairman's statement • CEO's report • FNB, RMB and WesBank operational reviews
Portfolio management	Build and actively managing a portfolio of businesses to deliver on this strategic focus; a dynamic process that is constantly measured with appropriate frameworks that balances risk, growth and returns	• COO & CFO's report
Sustainability	Deliver sustainable returns with acceptable levels of earnings volatility; managing the business on a through the cycle basis and utilising strategic and operational levers – capital, balance sheet and operating platforms – to minimise volatility	• Highlights and key performance indicators • COO & CFO's report • Risk report
Values and culture	Build on the track record of generating organic growth, driven by entrepreneurial culture and dedication to innovation. This has created significant franchise value and is an underpin to sustainable growth going forward	• CEO's report • FNB, RMB and WesBank operational reviews
Stakeholders	Create value for the providers of capital and for the benefit of all stakeholders – customers, regulators, staff and the communities the Group serves	• Value added statement • FNB, RMB and WesBank operational reviews

core purpose

FirstRand's vision is to be the African financial services group of choice, creating long-term franchise value and delivering superior and sustainable economic returns to shareholders, within acceptable levels of volatility.

The Group seeks to achieve this through two parallel growth strategies:

- become a predominant player in all of the financial services profit pools in South Africa, growing in existing markets and those where it is under-represented; and
- grow its franchise in the broader African continent, targeting those countries expected to show above average domestic growth and which are well positioned to benefit from the trade and investment flows between Africa, China and India.

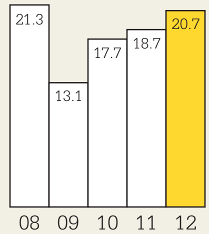
These strategies are executed through its portfolio of operating franchises, within a framework set by the Group. An overview of progress on these strategic objectives and the financial and operational performance of each franchise can be found on pages 30 to 39 of this report.

Measuring performance

The Group measures its performance against strategy in many ways, below are a few examples.

Core purpose

The Group believes that the true measure of value creation is return on equity (ROE). As can be seen from this chart the Group is currently meeting its ROE target of 18% to 22% and believes that this is sustainable going forward.



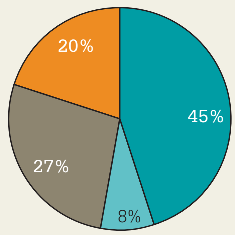
Normalised ROE (%)

June 2012

Comparatives prior to 2011 are for banking activities pre-unbundling of Momentum.

Portfolio management

The Group seeks optimal diversification from its portfolio, from a franchise, segment, geographical and product perspective. This chart demonstrates the current franchise diversification which the Group believes is an appropriate mix of activities.



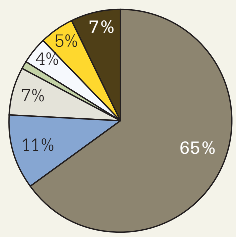
Franchise diversification (profit before tax)

June 2012

- FNB SA
- FNB Africa
- RMB and GTS
- WesBank

Sustainability

The Group believes its client franchise is key to sustainability and therefore analyses the proportion of revenues generated from client activities as this represents the highest quality of earnings. This chart shows that 88% of NIR emanates from client activities, if NII is included 94% of gross revenue is generated from the client franchise.



NIR breakdown

June 2012

- Transactional income
- Insurance
- RMB client flows
- WesBank associates
- Other client

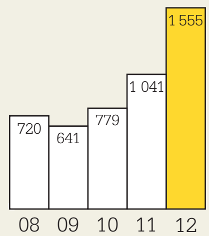
Client activity 88%

- Investing
- Trading and other fair value

Investment and trading 12%

Values and culture

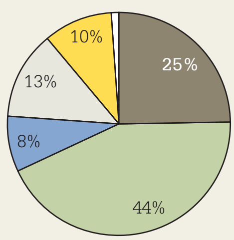
One of the key drivers of the Group's growth has been its ability to leverage a culture of innovation across its business. This chart indicates the growth in number of innovations implemented since 2008.



Innovations implemented

Stakeholders

The Group manages its business for a broad range of stakeholders, this chart indicates the economic value distribution to the different stakeholders of the Group.



2012 economic impact (%)

- Employees
- Providers of funding
- Government
- Suppliers
- Expansion and growth
- Communities (less than 0.5%)

Integrated highlights

R million	2012	2011	% change
Continuing and discontinued operations			
Attributable earnings to ordinary equityholders	**13 196**	20 065	(34)
Headline earnings	**12 642**	9 856	28
Normalised earnings	**12 730**	10 805	18
Diluted headline earnings per share (cents)	**226.9**	179.4	26
Diluted normalised earnings per share (cents)	**225.8**	191.6	18
Ordinary dividend per share (cents)	**102.0**	81.0	26
Special dividend per share (cents)	**–**	70.0	(100)
Normalised return on equity (%)	**20.7**	18.6	
Normalised net asset value per share (cents)	**1 142.4**	1 044.0	9
Continuing			
Headline earnings	**12 642**	9 258	37
Normalised earnings	**12 730**	10 117	26
Diluted normalised earnings per share (cents)	**225.8**	179.4	26
Non-financial highlights			
Economic value added to society by continuing operations	**64 774**	69 500	(7)
Total workforce (number)	**36 398**	34 612	5
South African workforce (number)	**32 175**	30 600	5
% ACI employees (SA operations %)	**70**	70	
Skills development investment	**340**	271	25
Retail customers (millions)	**9.1**	8.6	6
BEE procurement spend (%)	**78**	73	
Carbon emissions (Kw/h (000))	**285 562**	280 665	2

The Group's performance reflects the **success** of a number of **key growth strategies** executed by the franchises in the domestic market over the past few years.

LAURIE DIPPENAAR / CHAIRMAN

A RECURRING THEME, BUT AN IMPORTANT ONE

One of the topics I have covered more than once in my recent statements is the **need for banks to build bridges with their regulators.** The first time I raised it was in 2010, when I warned that **unless global banks demonstrated appropriate discipline,** governments and regulators would continue to look for ways to rein them in. Last year I touched on the issue of trust and how that had been eroded between banks and regulators and the need for the banks **to earn that trust back,** or suffer the consequences of more draconian regulations.

As I write this statement towards the end of August 2012, I see no positive developments in this regard in the global banking sector. In the last six months alone we have witnessed the Libor fixing issue at Barclays, the money laundering fine for HSBC and Standard Chartered fined for circumventing US sanctions against Iran. Some banks seem to continue to push the boundaries from a risk and regulatory perspective to generate profits, and when this finally backfires it confirms what everyone thinks about banks – they can't be trusted.

It also begs the question – how much more bad news is there to come? Was this behaviour systemic during the golden years of banking, and now, following increased scrutiny from regulators, the accusations and fines will follow? I sincerely hope not as the effects are beginning to spill over into a broader negativity, which ultimately impacts customer perceptions of banks. The trust of depositors is a bank's fundamental licence to operate but it is also ephemeral in nature, therefore we need to guard against any kind of breakdown in this relationship.

So far the South African banking sector appears to have avoided similar behaviour and it is probably due to a combination of factors. Firstly, there is a very robust relationship with the regulator who has always had clear line of sight on the execution of banking strategies. Secondly, as emerging market banks we had significant natural growth to tap into without needing to seek it out in marginal type activities, which certainly seems to have been an issue for the more developed market global banks. Thirdly, the domestic banks have been, in the main, regionally focused, and management capacity has not been diluted by extended expansion into other markets, on different continents and in different time zones. Banks are incredibly complex organisms and when you replicate that complexity over and over again, it is extremely difficult to keep track of the most basic of principles and reliance on people's competence and integrity increases exponentially.

Even with robust risk management frameworks, human beings are such that if they deliberately choose to work outside of mandates, the impact of these actions can be hard to detect for some time. This year FirstRand suffered its own event where a few individuals hid bad business practices. A new management team, deployed into the FNB merchant acquiring business unit, uncovered collusion between certain members of staff, who had created an incredibly complex set of transactions to cover up their incompetence. These concealed transactions proved very difficult to detect by the risk management and internal audit processes and what this demonstrates is, that if people deliberately seek to circumvent frameworks, however robust, they can, and complexity creates opportunity for bad practice if you have the wrong people in place. This matter has been fully dealt with in the risk and capital management report.

There is also a strong link between pushing the boundaries and remuneration. One of the lessons learned from the banking crisis is that you get the behaviour you reward. This played out in very elevated levels of gearing and high risk strategies as bankers tried to maintain the trajectory of earnings their shareholders had become accustomed to and the commensurate growth in performance pay. This was not confined to the investment banking fraternity, eventually the universal banks also fell victim to remuneration practices out of kilter with their mandates. Over time this created massive excesses building up in the system and eventually it ran out of steam. The rest, as they say, is history. I will return to the topic of remuneration a bit later.

So the aggressive pursuit of growth and high levels of remuneration, which were in many cases inappropriate, led to financial Armageddon. Five years on and the legacy of that is still playing out across the world in the form of significant macro economic uncertainty which in turn continues to introduce major business challenges.

WE ARE OPERATING IN VERY UNCERTAIN TIMES BUT OUR FRANCHISES CONTINUE TO OUTPERFORM

During the year global policy makers had to deal with a number of significant negative issues, including the European sovereign debt and banking sector crisis which threatened to break up the euro zone on a number of occasions. Portugal and Greece received bailout packages and concerns over systemically important countries such as Spain became elevated. Faced with its own fiscal challenges, the US sovereign rating was downgraded by ratings agency Standard and Poor's, preceded by heightened volatility in financial markets over fears that the US government might default on some of its debt obligations. Conflict in the Middle East and the ever-present possibility of military action against Iran also contributed.

This uncertainty, along with high indebtedness of governments, ongoing stress in the European banking system and households that continued to rebuild their balance sheets, weighed heavily on economic activity in the major developed economies. This weakness subsequently spilled over into the large emerging economies and growth in countries such as China, India and Brazil slowed markedly during the latter part of the year.

South Africa was not immune to these global developments and although domestic growth picked up in the latter part of 2011, it moderated again at the start of 2012. Consumer demand remained resilient, particularly on durable goods, however falling business confidence resulted in subdued private sector investment spending and these factors directly impacted the Group's performance, albeit in very different ways.

Looking across our franchises, the businesses most exposed to the consumer, namely FNB and WesBank, delivered extremely strong topline growth, profits and ROEs. The investment bank, RMB, faced a tough trading environment and despite the significant base created last year, produced a really commendable performance.

Overall, the Group's normalised earnings grew 26% year-on-year, to R12.7 billion, and the ROE was 20.7%. This was definitely outperformance on every key metric. Taking a high level look at the Group's income statement, net interest income before impairments (NII) increased 21%, driven by good growth in advances at FNB and WesBank. Non-interest revenue (NIR) was underpinned by very strong growth of 14% at FNB and 27% at WesBank with a good contribution from RMB's client activities, particularly advisory and structuring and currency and commodity trading. However investment income was down, mainly due to the base created by the private equity realisations of last year and a poor performance from RMB Resources. This somewhat mixed picture still produced growth in overall NIR of 5%.

SUSTAINABLE STRATEGIES FOR GROWTH ARE DELIVERING

The Group's performance reflects the success of a number of key growth strategies executed by the franchises in the domestic market over the past few years. These strategies are closely aligned with the Group's overall growth objectives and a more comprehensive overview of the franchise performance can be found on pages 30 to 39 of this report.

Touching briefly on a few examples, FNB is reaping the benefits of a deliberate strategy to grow and retain core transactional accounts. It has built this strategy on the back of three basic banking fundamentals, namely, superior service levels, value for money and innovation. RMB's business is clearly benefiting from the strategic decision in 2009/10 to focus more on client-driven activities, which has delivered on the original objective of a healthier balance between these and trading or investment businesses. WesBank's excellent performance for the year reflects the success of its strategy to dominate point-of-sale through long-standing alliances with leading motor manufacturers and large dealer groups.

Outside South Africa, we continue to make steady progress and in his CEO's report on page 10, Sizwe Nxasana covers this topic in more detail. I would however like to add that whilst there are very compelling reasons to grow our franchises in other African territories, given our approach, it will take a long time to move the earnings needle and shareholders need to be patient. It's relatively easy to buy earnings but this Group has always been highly allergic to paying large amounts of goodwill, particularly given our obsession with maintaining the ROE. So whilst we will look to acquire platforms in certain markets where greenfields is not a viable strategy, we will continue to exercise discipline in how we deploy our capital. We also need to send our best people to Africa, avoid legacy thinking and drive innovation, which I think is a philosophy that underpins our entry strategy in the Indian market.

FirstRand's original strategy in India when we opened in Mumbai in 2009, was to mine the trade and investment flows between India and the African continent and initially the operation was staffed and managed by RMB. However, we now believe we have an appropriate platform for FNB to leverage to provide some of their innovative retail and commercial banking solutions, particularly in the electronic and digital space.

In line with the way we prefer to enter new markets, it's a greenfields approach. However, we want to commit early to growing retail as our technology and innovative products and channels should provide a real competitive advantage.

Whilst I would like to emphasise how important it is to take a long-term view of these strategies outside of our home market, it is equally important to recognise why we need to pursue them. FirstRand is a very large domestic player and, whilst we continue to grow profitable market share in the financial services revenue pools of the country, the reality is that from a future growth perspective there will be many more headwinds than tailwinds. This is an issue that occupies our minds a great deal as banks' growth is inextricably linked to the level of economic activity and GDP growth.

MEANINGFUL MACRO GROWTH GOING FORWARD REQUIRES MORE INVESTMENT

Without embarking on a lengthy economics review, it is obvious that the current structure of government spending is not the best answer to long-term higher economic growth. In fact the Minister of Finance himself has commented on a number of occasions that the country's significant exposure to the social wage worries him, and limits the government's ability to fund fixed investment, which is a potentially powerful driver of future job creation and growth.

The social grant structure has, to be fair, had some benefits (excuse the pun). It has ensured political stability, reduced poverty and the threat of social unrest, despite continued high levels of unemployment. It has also played its part in driving two years of strong consumption spending – which has underpinned growth for the retailers and the banks and the economy as a whole. However this is not sustainable in the medium to longer term.

The private sector continues to contribute significantly to fixed investment and the social wage. The total corporate tax paid on profits in the fiscal year to March 2012 (R154 billion) is the same amount as the social grants paid out in that same year. Statistics also show that 60% of current fixed investment is supplied by the private sector, corporate tax contributes 21% of total tax revenues and of the 8.4 million people employed in the formal non-agricultural sector, 6.4 million are in the private sector. If you then add the PAYE contribution of those 6.4 million, the multiplier effect is even more significant.

If nothing else, what these statistics indicate is that a strong private sector in this country is critical to its success. They send a powerful message to government that big business should be embraced as a force for social and economic prosperity not constantly threatened with the privatisation or confiscation of assets or criticised to the point where both parties glare at each other across an ever widening divide. South Africa has many world class companies and as a country we should view these as national assets and refrain from continuous corporate bashing. To this end, it is particularly pleasing to me that the Minister of Finance has recently opened a face-to-face dialogue with the financial services industry, to find a common path in addressing some of the structural issues we face. I look forward to more of these conversations and I fundamentally believe that building constructive bridges between government and the private sector will be the defining difference between whether South Africa grows or declines over the next decade.

Going back to the point above about the proceeds of PAYE, I have unearthed another statistic which resonates strongly with me. The income tax paid by the top 25 earners at FirstRand (assuming a marginal tax rate of 40%) would pay for child support grants of 100 000 children. I mention this point only because executive pay receives more and more public criticism and it is sometimes important to remember that the state also benefits from growth in remuneration.

ALIGNING EXECUTIVE PAY WITH PERFORMANCE

For me there are two key questions about remuneration – one, is the absolute number too high? Second, do executives, on a *pro rata* basis, receive more than the providers of the capital? The first one is, in some ways, the more difficult to answer as there is always an emotional reaction to very high numbers. The remuneration committee at FirstRand fully applies its collective mind to this question and in the process follows very rigorous formulas to get to an appropriate number. However I would also like to make the following point. At current market capitalisation levels (at time of writing R150 billion) if actions taken by the CEO of FNB (for instance) influenced the FSR share price up 5%, this would create R7.5 billion of value. Compared to this, what he receives in terms of remuneration is modest. Conversely this simple sum also demonstrates that if you have the wrong person in place, not properly incentivised, the potential for value destruction is equally high.

I have stated on a number of occasions that FirstRand fundamentally believes that executive remuneration must align with shareholder value and our key performance measure, net income after cost of capital, ensures that the link between pay and performance is direct. This year, as a compensation health check, I compared the growth in the combined remuneration of our leadership team (CEO, CFO and franchise CEOs) over a four-year period to growth in shareholder returns.

This analysis shows that growth in total return for FirstRand shareholders, between 2008 and 2012, was substantially above growth in leadership's remuneration, and therefore in line with what our reward philosophy seeks to achieve. A graphic representation of this analysis can be found in the remuneration report on page 79.

In addition, I commissioned some work comparing FirstRand to a universe of around 20 banks to test my assertion that in 2011 we rewarded our people appropriately. The analysis looked at value created attributable to employees versus ROE, and the universe we used consisted of our local peers; Brazilian banks (emerging market peers), Canadian banks (highest rated banking system globally) and a couple of international universal banks. What this analysis showed was that at one end of the spectrum, some of the international universal banks are producing ROEs well below cost of capital but paying between 65% and 80% out to employees. FirstRand, however, is situated in the upper quartile of the universe, producing an ROE of 20% and paying out 45% to employees. This is in line with some of the largest Brazilian and Canadian banks and is, in my view, appropriate. It is also in line with our overall remuneration objectives and pleasingly stands up to scrutiny. The final point I would like to make on this topic is that should it ever happen, we will not reward profits generated outside of our risk parameters, and this should ensure that people don't push the boundaries.

IN CLOSING...

Whilst all of the topics I have covered above are important ones, it is important in life to maintain a balanced perspective and in some ways they all pale in comparison to a singularly profound event that took place during the year, the loss of Thys Visser in a motor car accident. I had the privilege of knowing Thys for many years both as a friend and a colleague. He was a man I respected deeply, a man of few words but huge wisdom and an outstanding director of the Board. He is sorely missed.

All that is left to say is well done to every single FirstRand employee for another outstanding year.

Laurie Dippenaar
Chairman

Our operating franchises **FNB, RMB and WesBank** all **outperformed** both the macro economic conditions and the market.

SIZWE NXASANA / CEO

ceo's report

A STRONG PERFORMANCE

FirstRand's diversified financial services portfolio produced **another strong performance** for the year to June 2012, once again demonstrating the quality and resilience of our operating franchises, **FNB, RMB and WesBank,** all of which **outperformed** both the macro economic environment and the market.

DRIVEN BY A CONSISTENT STRATEGY

The Group's ultimate objective is to create long-term franchise value and deliver superior and sustainable returns to our shareholders. It pursues this objective through a consistent strategy to;

- become a leading player in all of the financial services profit pools in South Africa, growing in existing markets and those where we are under-represented;
- grow our franchise in the broader African continent, targeting those countries expected to show above average domestic growth and which are well positioned to benefit from the trade and investment flows between Africa, China and India.

Focusing for a moment on growth in our existing markets, in South Africa FNB has successfully grown core transactional accounts. It has achieved this through offering customers a compelling value proposition, supported by exciting rewards programmes and platform innovations such as the Banking App, cellphone banking and e-Wallet. A positive outcome from this strategy has been the strong increase in transactional volumes, which, along with robust advances growth, contributed significantly to FNB's overall growth.

RMB's decision to focus more on client-driven activities has resulted in structurally lower ROEs, however these levels are much more sustainable and earnings are of a much higher quality with less volatility.

WesBank's domestic point of sale dominance means that it has been able to capitalise on the strong domestic replacement cycle that has played out over the past two years.

Now turning to those markets or profit pools where we remain under-represented, there are some specific initiatives already underway to grow our share in these markets. As I mentioned in my report last year, at RMB we have created a CIB business to more effectively service the large corporate market. This strategy has continued to gain traction as we have grown out the coverage team, particularly into those segments and economic sectors where we have been historically under-represented. In addition we have attracted key talent to supplement our growing African footprint which better positions us to take advantage of clients who trade across the corridors which link Africa to both Asia and Europe. The year also saw continued investment into the technology platform which is key to providing a holistic transactional capability for clients. In WesBank, the focus on growing the corporate and Full Maintenance Rental business remains a strategic priority.

Another gap in our portfolio, particularly since we unbundled Momentum, is asset management. When we looked at the opportunities to enter this market again we took the decision to position the strategy as an alternative investment management offering, as this plays to the strengths and track records of our existing investment, origination and structuring businesses. We will continue to offer traditional products, particularly to our wealth clients.

To facilitate this strategy we have created an asset management pillar alongside the Bank. In line with our multi-branding strategy we have branded the new asset management franchise, Ashburton Investments, and through this franchise we will market traditional and alternative products. Traditional products will in the main be originated by the original Ashburton business, which has a 30-year track record as an active investment manager. The alternative products will initially be provided by RMB.

GROWING IN NEW MARKETS TAKES PATIENCE AND DISCIPLINE

In the franchise operating reviews on pages 30 to 39 there is further detail on these growth initiatives, I would now like to focus on the progress we are making in our non-domestic growth strategies, in the rest of Africa and India.

As Laurie Dippenaar points out in his chairman's statement (page 6) our approach in new markets will not move the earnings needle in the short-term. However given our relative size in the South African market, and the subdued domestic macro growth we predict over the next few years, pursuing profitable growth in the rest of Africa remains an imperative for us. We therefore seek to generate incremental growth, executing on the ground through our operating franchises. We fundamentally believe that this is an appropriate and sustainable strategy; however it is very long-term in nature. I often comment that it will be the next generation of leadership at FirstRand that witnesses the non-domestic earnings needle really move. As we pursue this strategy, there are a few golden rules we apply:

1. Build scale but not a high cost base; in particular leverage existing platforms wherever possible.
2. Establish comprehensive universal banking operations by deploying RMB on-the-ground presence in FNB subsidiaries.
3. Don't grow at the expense of the domestic market where the current strategy has allowed us to significantly outperform GDP.
4. Only deploy up to 10 per cent of Group capital in new countries (unless something truly compelling emerges and then we would ask shareholders).
5. Always send the A Team to new countries.
6. Lead with innovation as far as possible, don't apply/rely on legacy thinking.
7. Don't plant a flag in every African country; focus only on our priority territories for the next three to five years (these being Mozambique, Zambia, Tanzania, Ghana, Nigeria and Kenya).

Ultimately the Group seeks to protect its ROE, it prefers greenfields operations or small-to-medium size rather than significant acquisitions. Whilst this can mean expansion takes longer, potential dilution of returns can be contained. Bolt-on acquisitions to existing greenfields operations are also preferable, as these can bring additional scale more rapidly.

AFRICA IS PRESENTING GOOD OPPORTUNITIES IN SELECT MARKETS

If we look at these objectives and where we have made steady progress, FNB is continuing to organically build full service banking in Zambia, Mozambique and Tanzania, and the larger more established franchises such as Namibia and Botswana produce very healthy returns. In both the established and new territories FNB has introduced a number of its innovative SA products and delivery channels. It is successfully growing customers and transaction volumes.

The benefits of RMB's ongoing investment in the FNB African subsidiaries has proved successful, with the deployment of specific Fixed Income, Currency and Commodities (FICC) and investment banking skills. Earnings grew strongly in the current year driven by Botswana, Namibia, Zambia and Mozambique. RMB also has a very active representative office in Nigeria and recently received agreement in principle to its application for an investment banking licence.

The Group continues to look for opportunities to acquire a platform for retail and commercial activities in Nigeria as longer term we need access to local deposits to fund an in-country strategy. We also need a branch network, even if it is initially only a regional presence, so we can service customers in what remains very much a cash-based economy. Although financial deepening continues to take place in the retail sector, we see early opportunities in Nigeria to lie in the commercial and corporate sectors.

Ghana also offers scope for growth and since the year end we have made an offer for Merchant Bank Ghana (MBG) whereby FirstRand will invest (R746.2 million (GHs176.4 million)) in exchange for a 75% shareholding in the bank. MBG is a medium-sized retail and commercial bank with 22 branches and a well established client base and deposit franchise. It is ranked amongst the top ten banks in Ghana and we believe it will provide an excellent platform for FNB and RMB to roll out products and services in Ghana.

A Kenyan presence is important for building an east African corporate and investment banking hub, particularly given the strong trade flows with India. During the year FirstRand officially opened a representative office in Kenya from where RMB will market corporate and investment banking services. As the only African bank with a licence to operate in India, we are ideally placed to act as a conduit for transactions between the east African region and India. RMB is already a significant participant in the east African region and has a strong pipeline of potential transactions in infrastructure and project finance, resource finance, debt financing, structured trade and commodity finance, and fixed income, currency and commodity activities.

WHY WE LIKE INDIA

Whilst on the topic of India, our original strategy, which commenced in 2009, was to mine the trade and investment flows between India and the African continent. So why India at all?

Like South Africa (and indeed much of the rest of Africa), India displays sound economic fundamentals, bolstered by a solid and well regulated banking system and robust capital markets. Both countries enjoy vibrant and steadily growing corporate sectors and a strong entrepreneurial spirit that is, in many ways, driving continued economic growth and is recognised as a key requirement for future economic and social sustainability.

It's not surprising, then, that India and Africa have developed such a strong economic relationship over the past few decades. Since 1990, bilateral trade between India and Africa has flourished – as evidenced by the growth in trade value from US$1 billion two decades ago to its peak of around $42 billion in 2008. While trade values have declined slightly since then as a result of the global economic crisis, trade relationships between India and Africa are as strong as ever. This is particularly true of the sub-Saharan African region, where countries like Nigeria, Angola, DRC, Tanzania, Mauritius and Kenya continue to enjoy very strong export and import trade volumes with India.

In addition to this well-established economic cooperation, India and South Africa enjoy many other similarities. The governments of both countries are committed to driving economic and social development via infrastructure- and agriculture-led growth. Both also have very strong technology, manufacturing and resources sectors and the banking systems of both countries have been relatively unscathed by the global economic crisis thanks to robust policies and systems.

Of course, both countries also face many challenges. And even here, there are similarities. Like South Africa, India is faced with high levels of inflation and unemployment and poverty alleviation is an ongoing focus.

FirstRand's early presence in India was established by RMB, utilising both South African and local skills, and since commencing operations the investment banking business has demonstrated two consecutive years of profitability. More importantly, it is achieving its objective to be the African banker of choice in the Indian market and is actively involved in various advisory, structuring and financing transactions. RMB divisions, Global Markets and Global Transactional Services (GTS), have also been growing currency, commodities and trade activities in a measured manner. We are now selectively looking at in-country investment banking opportunities that align with the Group's risk appetite framework and product strengths. We believe this will ensure a balanced and sustainable earnings base for the business in the long-term.

During the year, FNB entered the Indian market through the opening of its first branch in Mumbai. The operations are branded FRB and will focus on introducing and carefully growing the innovative products and channels that have underpinned FNB's domestic customer franchise over the past few years.

This is also a greenfields or startup strategy, with the objective to eventually establish full retail and commercial banking capabilities in India. This will allow for incremental investment with reliance to be placed on established, home-grown systems and processes which we believe is an appropriate approach given the country's specific regulatory constraints and the strength of the Indian banking sector. Near term focus will be placed on growing the distribution footprint in selected Indian markets. To expedite this we are looking at forming partnerships with suitable Indian corporates which will allow us to bring our innovative products, complement their activities and leverage their distribution platforms. Ultimately we see our strategy in India to be long-term, reflecting a highly measured and incremental approach particularly in the retail and commercial activities.

ULTIMATELY THE GROUP SEEKS TO PROTECT ITS ROE, IT **PREFERS GREENFIELDS OPERATIONS** OR **SMALL-TO-MEDIUM SIZE** RATHER THAN SIGNIFICANT ACQUISITIONS.

LOOKING FORWARD, IT GETS A BIT TOUGHER TO GROW

The global economic situation will continue to place pressure on our earnings and growth potential in the 2012 financial year. Macro economic conditions are a large driver of earnings growth and are becoming tougher. The South African GDP growth is currently expected to be 2.5% for the 2012/2013 financial year, and, although interest rates are expected to remain flat for the rest of the year, there is downside risk if economic growth slows further. Consumer spending could reduce and growth in retail advances is likely to remain subdued, with mortgage lending expected to continue to lag nominal GDP growth. Business confidence has not fully recovered although, should some of the proposed government and public sector infrastructure spending start, this could provide some underpin to growth.

Despite these increased domestic headwinds FirstRand expects to continue to produce good organic growth. Increasing revenues remains a challenge, but our franchises have compelling strategies to grow their respective toplines.

In sub-Saharan Africa growth is expected to further strengthen and we will continue to build on our progress in our priority countries.

We are managing the business and have adjusted strategies appropriately;

- innovation becomes even more important;
- driving cost efficiency whilst investing for growth;
- origination strategies adjusted; and
- pricing for risk critical.

We continue to strive to become the African financial services company of choice.

Sizwe Nxasana
Chief executive officer

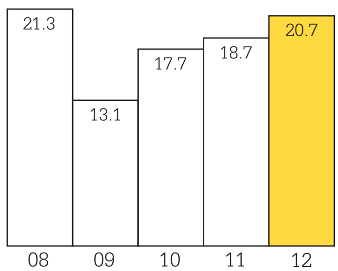
The Group believes that ROA is **the key metric** for assessing management's ability to provide **real returns** to shareholders.

JOHAN BURGER / COO & CFO

KEY PERFORMANCE INDICATORS

FirstRand uses the key financial performance indicators below to measure the Group's performance against its core purpose to create long-term franchise value.

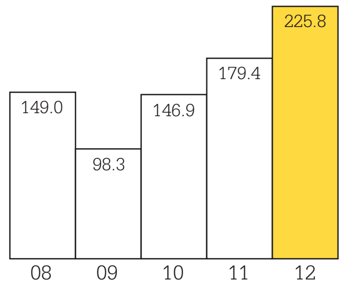
Normalised ROE (%)



Comparatives prior to 2011 are for banking activities pre-unbundling of Momentum.

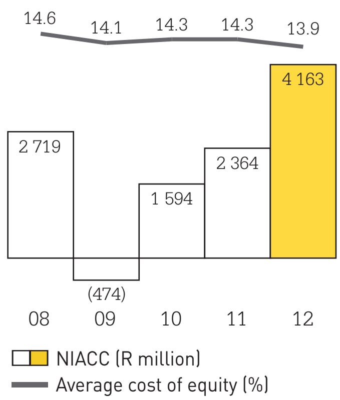
When the Group analyses ROE, it also takes into account the relationship between ROA and gearing levels. The Group's long-term ROE target range is 18% to 22%.

Normalised EPS (cents)



The Group targets earnings growth of 3% to 5% in excess of nominal GDP growth over the long-term, as this will vary from year-to-year dependent on economic cycles.

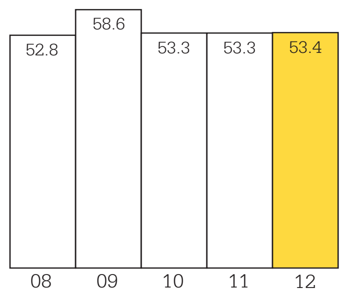
Net income after cost of capital (NIACC)



Comparatives prior to 2011 are for banking activities pre-unbundling of Momentum.

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

Cost-to-income ratio (%)

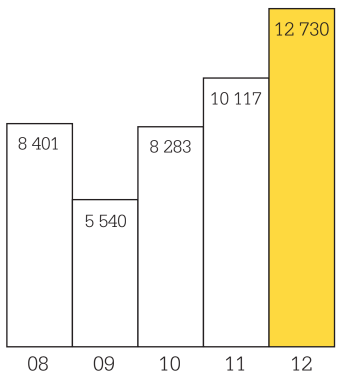


The Group monitors efficiency through the cost-to-income measure. Whilst the Group views the cost-to-income ratio as an outcome rather than a target, it recognises that balancing revenue growth and cost growth are key to value creation.

OVERVIEW OF RESULTS

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

Group continuing operations – normalised earnings (R million)



FOR THE 12 MONTHS TO JUNE 2012 FIRSTRAND ACHIEVED **26% GROWTH** IN **NORMALISED EARNINGS** TO **R12.7 BILLION** AND A NORMALISED **ROE OF 20.7%.**

OTHER KEY RATIOS ARE INDICATED IN THE TABLE BELOW.

Group key ratios

	Year ended 30 June	
	2012	2011
Normalised earnings (R million)	**12 730**	10 117
Normalised return on equity (%)	**20.7**	18.7
Diluted normalised earnings per share (cents)	**225.8**	179.4
Return on average assets (%)	**1.73**	1.49
Normalised credit loss ratio (%)	**1.08**	0.93
Normalised net asset value per share (cents)	**1 142.4**	1 044.0
Dividend per share (cents)	**102.0**	81.0
Cost-to-income ratio (%)	**53.4**	53.3
Tier 1 ratio (%)	**13.2**	15.0
Core Tier 1 ratio (%)	**12.3**	13.9
Net interest margin (%)	**4.92**	4.58
Normalised gross advances (R billion)	**536**	475

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

Sources of normalised earnings

for the year ended 30 June

R million	2012	% composition	2011	% composition	% change
Total FNB	**6 673**	**53**	5 327	53	25
– FNB South Africa	**6 157**	**49**	4 787	47	29
– FNB Africa	**516**	**4**	540	6	(4)
RMB and GTS	**3 646**	**29**	3 842	38	(5)
WesBank	**2 599**	**20**	1 862	18	40
Corporate Centre and consolidation adjustments	**(702)**	**(6)**	(711)	(7)	(1)
FirstRand Limited (company)*	**789**	**6**	98	1	>100
NCNR preference dividend	**(275)**	**(2)**	(301)	(3)	(9)
Normalised earnings from continuing normalised operations	**12 730**	**100**	10 117	100	26

* *Included in this amount is the consolidation adjustment of R818 million to bring the IFRS 2 costs from cash settled in the underlying subsidiaries to equity settled at the Group level resulting in zero impact on overall group results. The significant increase in this amount from previous years is due to the 33% increase in the FirstRand share price year-on-year.*

CONSISTENT STRATEGIES DRIVING FINANCIAL PERFORMANCE

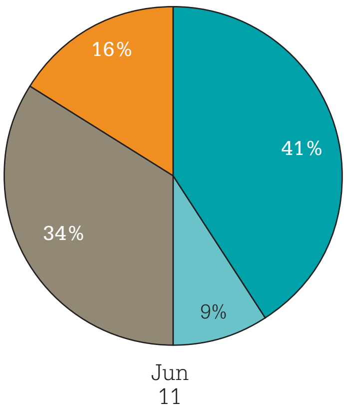
The Group's strong financial performance was driven by its focus on specific strategies which are outlined in the table below. Further analysis on these strategies and their impact on financial performance follows.

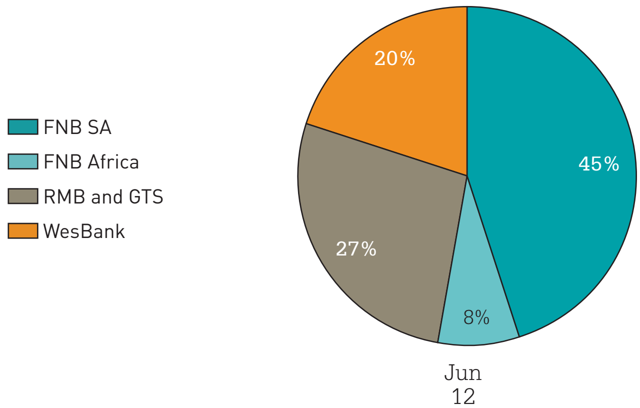
		Strategies
Earnings resilience (income statement)		• improve diversification; • grow the client franchise businesses; • improve margins; • reduce the contribution from trading activities; and • cost containment.
Balance sheet strength	Assets	• improve the balance between corporate and retail lending activities; • shift the retail asset mix; and • improve asset quality.
Balance sheet strength	Liabilities and equity	• grow the deposit franchise; and • maintain ROEs and the Group's strong capital position post-Basel III.
Performance management		• maintain ROE within target range; and • consistently improve the premium above cost of equity (NIACC).

IMPROVE DIVERSIFICATION

FirstRand's portfolio of franchises provides good diversification. Although FNB South Africa remains the largest contributor to earnings, the Group believes its portfolio represents the appropriate mix of business activities, at both a franchise and segment level.

Franchise diversification

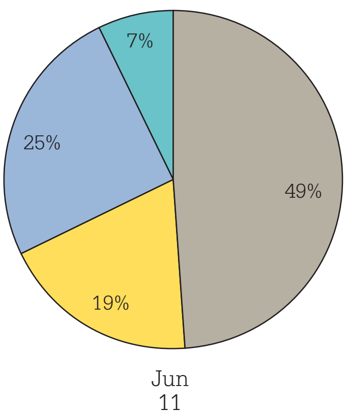


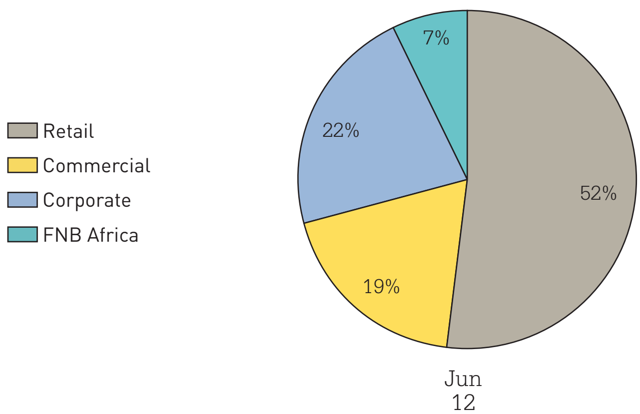


Based on PBT, excluding Corporate Centre and consolidation adjustments.

The shift in segment diversification in the year under review is a reflection of the macro economic conditions which favoured the retail and consumer businesses of FNB and WesBank whilst conditions in corporate and investment banking remained subdued. This resulted in the overall contribution from retail increasing to 52% of gross revenue.

Segment diversification

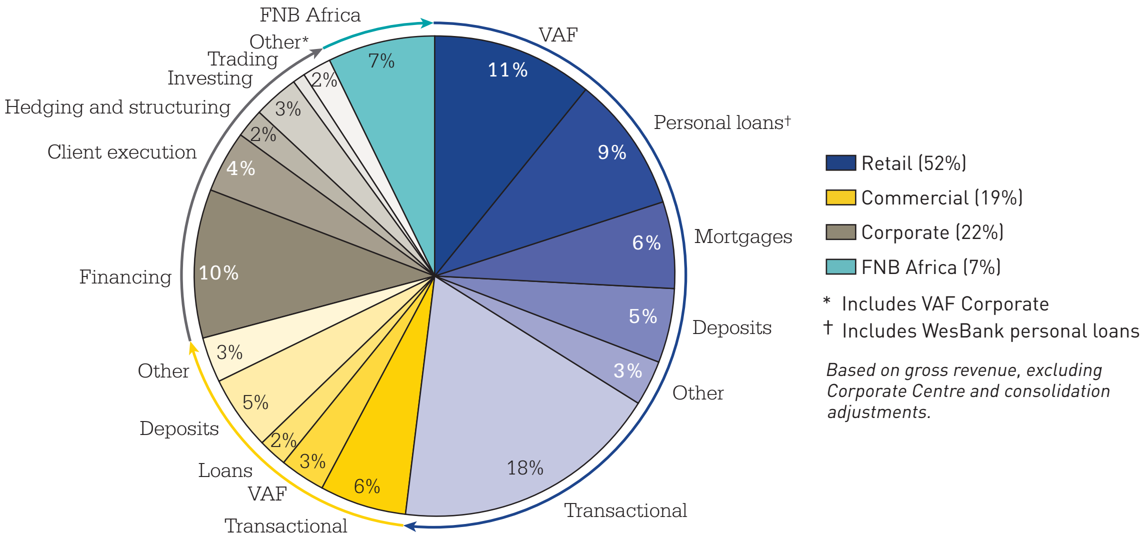




Based on gross revenue, excluding FNB Other and support.

The Group's product diversification across the various segments provides further underpin to reduced earnings volatility and mitigates against reliance on specific revenue streams.

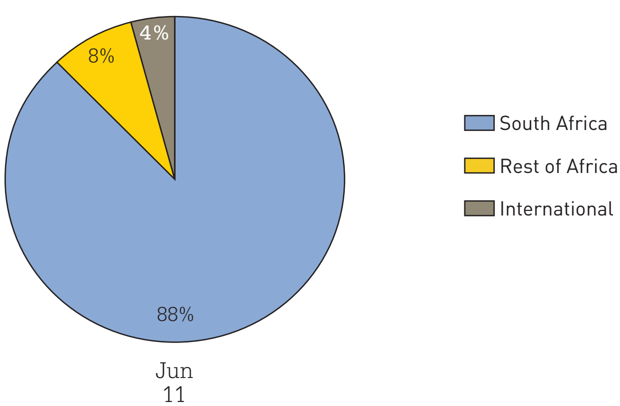
Product diversification

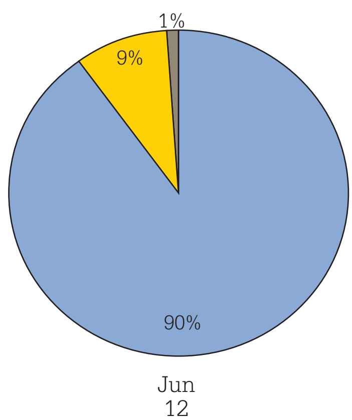


Based on gross revenue, excluding Corporate Centre and consolidation adjustments.

The Group remains concentrated in its domestic market and therefore believes it is important to seek geographic diversification albeit within a disciplined strategic framework. FirstRand's approach is to limit dilution of the return profile, therefore, a significant shift in geographic diversification will take time.

Geographical diversification

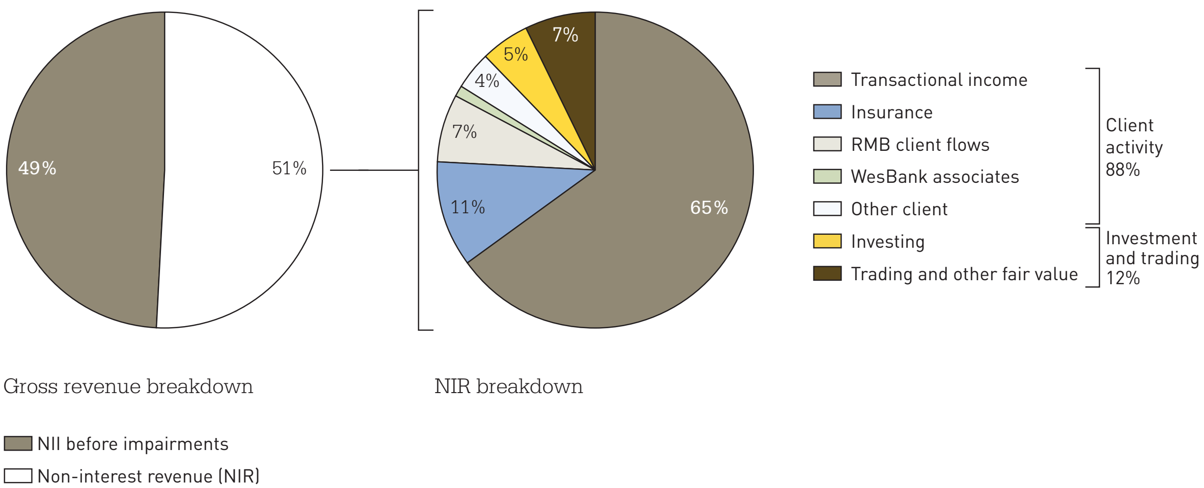




Based on gross revenue, excluding Corporate Centre and consolidation adjustments.

GROW CLIENT FRANCHISE BUSINESSES AND REDUCE CONTRIBUTION FROM TRADING ACTIVITIES

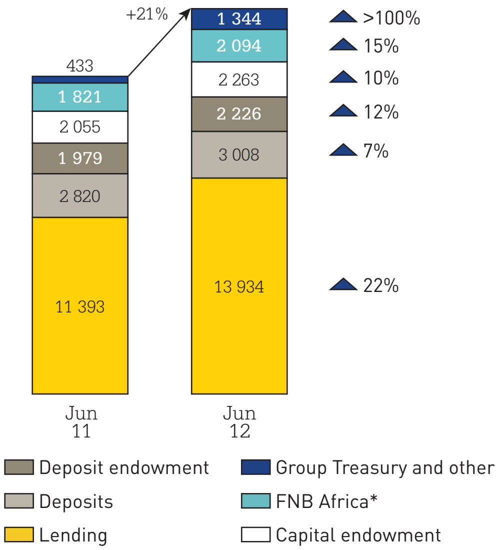
As can be seen from the chart below, interest income now represents 49% of gross revenue (2011: 43%), reflecting the Group's focus on higher margin business and appropriate pricing strategies. The Group's focus on growing its client businesses has resulted in 88% of NIR derived from client activities with only 6% from trading and investment, if NII is included 94% of gross revenue emanates from the client franchises.



The higher level of revenues generated from client activities reflects the change in strategy in 2009/2010 in the investment bank. The chart below demonstrates the significant shift in RMB's earnings since 2008 as it focused on growing its client franchise.

IMPROVE MARGINS

Historically banks' ROE's were flattered by gearing levels rather than the generation of appropriate ROAs. The Group's margins are now benefiting from a deliberate strategy to reprice appropriately for risk and originate a larger proportion of higher margin new business, such as VAF and unsecured.



* *Reflects statutory view.*

	%
June 2011 normalised margin	4.58
Accounting mismatches	0.09
	4.67
Capital and deposit endowment	(0.06)
Advances	0.22
Changes in balance sheet mix	0.18
Asset pricing	0.04
Liabilities	0.10
Changes in balance sheet (deposits)	0.04
Changes in balance sheet (capital)	0.02
Term funding cost	0.07
Deposit pricing	(0.03)
Interest rate risk hedges	(0.01)
June 2012 normalised margin	**4.92**

Although advances still dominate net interest income (NII), the Group's deposit franchises are increasingly contributing to NII growth and the improvement in net interest margin (NIM).

THE GROUP'S MARGINS ARE NOW BENEFITING FROM A **DELIBERATE STRATEGY** TO REPRICE APPROPRIATELY FOR RISK AND ORIGINATE A **LARGER PROPORTION OF HIGHER MARGIN** NEW BUSINESS.

MANAGING IMPAIRMENTS WITHIN THE LONG-RUN AVERAGE

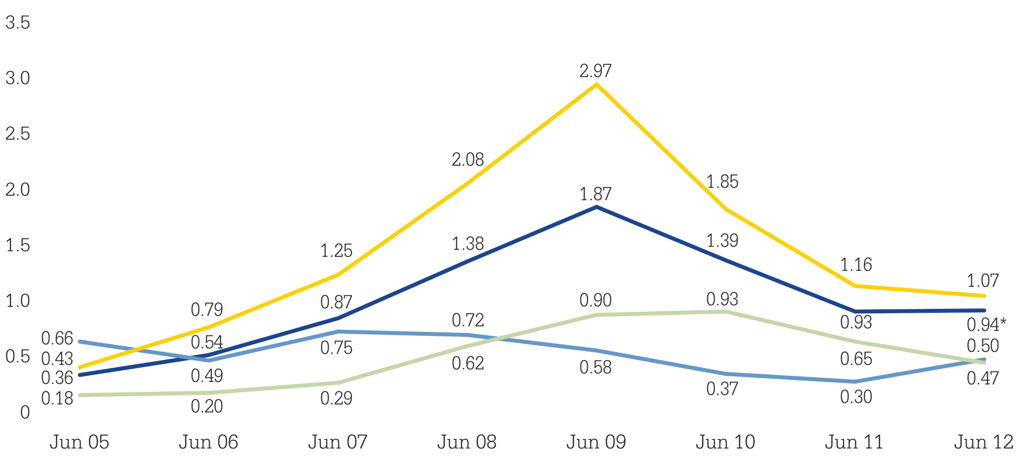
NPLs continued to trend downwards and the core impairment trend is in line with expectations, however, the overall increase in the impairment charge was driven by:

- the creation of certain portfolio provisions at the centre, reflecting the Group's view that the benign credit cycle has now bottomed; and
- a specific impairment for unrecovered amounts in FNB's merchant acquiring business.

NPLs continued to decline (down 6%), and mortgages still dominate. It is also important to understand that the lifecycle of NPLs has changed given the severity of the last cycle and the introduction of the NCA (debt counselling processes). NPLs are therefore stickier and take longer to work out. The Group remains prudent in provisioning, and although the specific impairment charge remained similar to last year, the higher portfolio provisions have increased the total coverage ratio to 60.0% (2011: 50.4%).

The Group believes the higher portfolio provisions are appropriate given the current cycle, some signals from both the macro economic environment and portfolio trends. Bad debts are expected to start trending up to the long-run average of the portfolio of 100-110 bps.

Credit loss ratio (%)



* *Core impairment charge.*

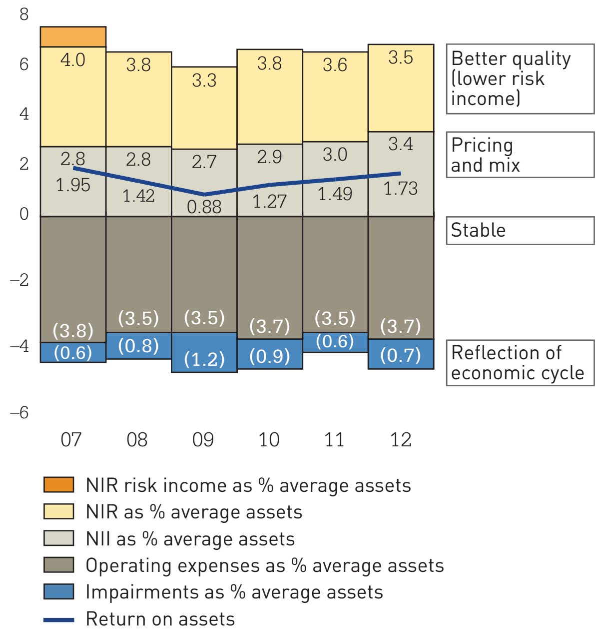
- Retail
- Total
- Africa
- Corporate

ROA – THE KEY METRIC

The Group believes that ROA is the key metric for assessing management's ability to provide real returns to shareholders.

When assessing the trend in and composition of ROA over five years, it is pleasing to note that the NIR component is of a much higher quality (with risk income a significantly lower proportion). The NII component reflects the success of the Group's repricing strategies and the recent shift in mix. The cost-to-asset ratio has remained stable and the volatility in the impairment component is as expected given the accounting treatment. The Group is pleased to have produced a high-quality ROA, but recognises that this is now at a cyclical high because bad debts are at the bottom of the long-run average.

ROA (%)



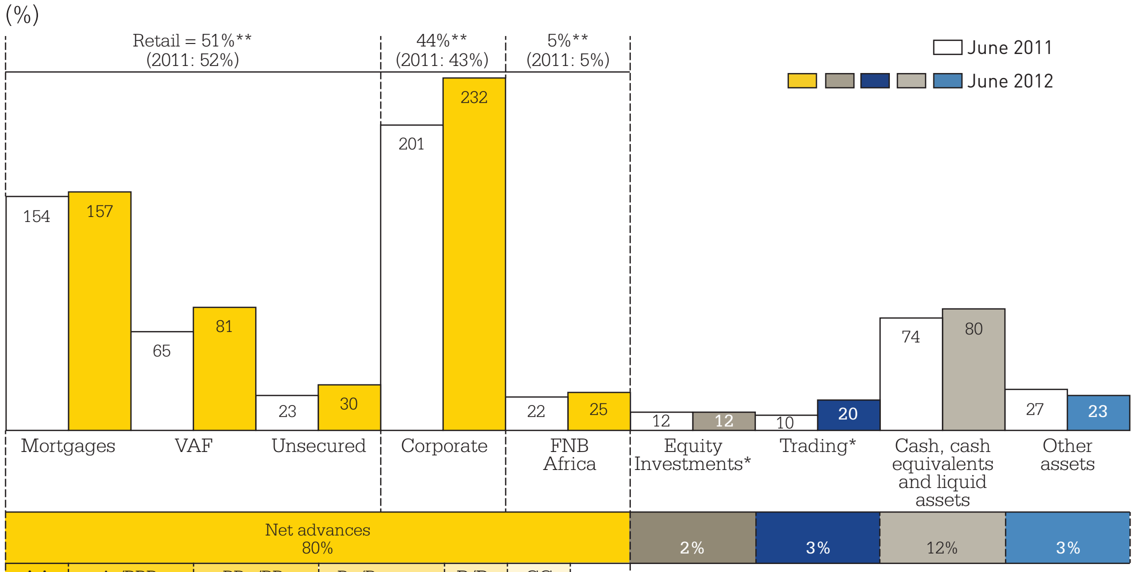
Pre-June 2011 figures are for FirstRand Banking Group and are not presented on a normalised basis.

COST CONTAINMENT

The Group's cost-to-income ratio remained flat at 53.4% despite continued investment in a number of growth initiatives. Core costs were well controlled increasing only 10% year-on-year.

BALANCE SHEET STRUCTURE – ASSETS

Asset profile (R billion)



* *Netted off and adjusted for derivatives, repos, non-recourse deposits, securities lending and short trading positions.*
** *Percentage of net advances.*

When assessing the underlying risk in the balance sheet, the Group's asset profile is dominated by a balanced advances portfolio, which constitutes 80% of total assets. In terms of credit quality, 88% of advances are rated B+ or better. Cash and liquid assets represent 12% of total assets, with only a small portion related to the investment and trading businesses.

Market risk arising from trading activities has declined as a result of RMB's decision to exit outright proprietary trading businesses. The most significant impact was the reduction in the size of the Group's listed equities trading book. RMB continues to assume market risk in relation to its client activities (market making in local markets, hedging and client facilitation). Market risk exposures are strictly monitored and managed with risk appetite and limits set in relation to the size of the earnings and capital base. VaR limits are dealt with in more detail on page 189 of the *Risk and capital management report.*

Equity investment risk stems primarily from RMB's private equity activities. The Group's portfolio is diversified across different investment teams, industries and counters.

The private equity portfolio is equity accounted, and not marked-to-market. The significant unrealised value of approximately R1.6 billion (2011: R1.2 billion) mitigates earnings volatility.

IMPROVE THE BALANCE BETWEEN CORPORATE AND RETAIL LENDING ACTIVITIES AND SHIFT THE RETAIL ASSET MIX

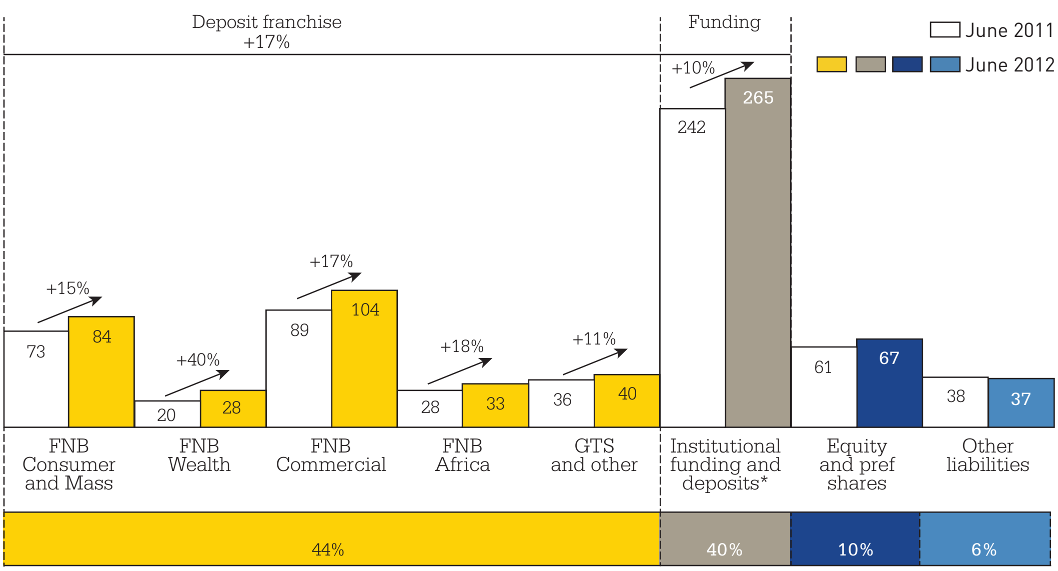
Although the Group made significant progress in growing its lending activities in the corporate market, retail remains a larger component given the strong consumer cycle. Corporate advances were driven by very good growth in investment banking advances, through a continued focus on defensive, investment-grade counterparties and an increase in prudential limits.

As can be seen from the chart opposite a shift has also taken place in the mix of retail advances, reflecting the good growth in VAF and unsecured lending. Mortgages have remained flat.

Retail advances mix

BALANCE SHEET STRUCTURE – LIABILITIES AND EQUITY

Liabilities and equity (R billion)

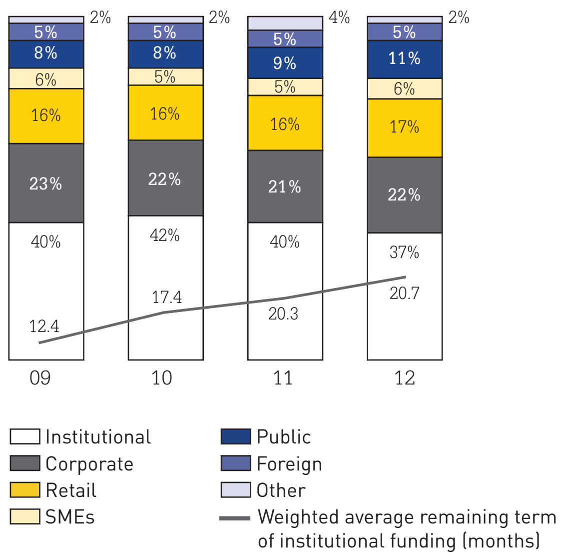


* *Excluding securities lending, derivatives, repos and short trading positions.*

The chart above shows that the Group's liability profile improved due to good growth in the retail and commercial deposit bases.

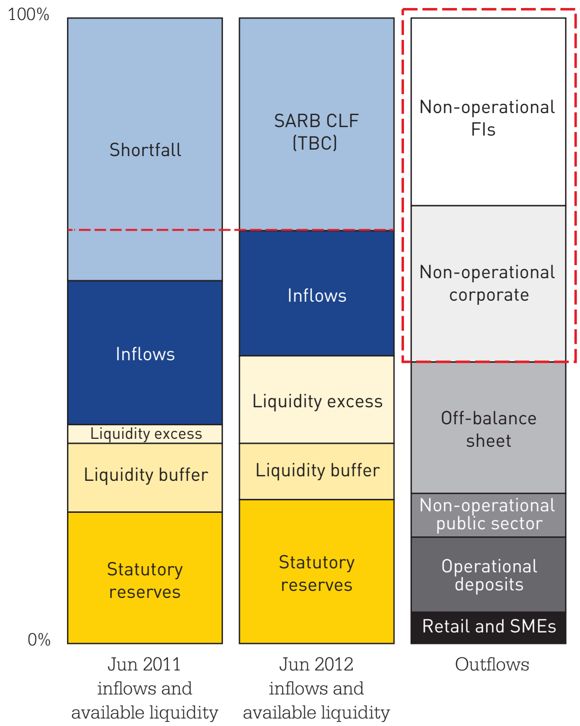
FirstRand's funding profile continues to reflect the structural funding issues associated with the South African banking sector, however, the Group has continued to reduce its reliance on institutional funding and has further improved the term profile of institutional funding from a weighted average remaining term of 12.4 months in 2009 to 20.7 months in 2012.

Funding profile



The growth in deposits across the portfolio reduced the need to grow in the institutional funding market with 70% of advances growth funded by the deposit franchise. This resulted in improved margins and a better liquidity position.

The Group's funding strategy is influenced by its preparations for the implementation of the Basel III Liquidity Coverage Ratio (LCR), in particular as it seeks to restore the correct risk-adjusted pricing of deposits. The chart opposite shows that the Group continues to improve its liquidity position and is well prepared for the implementation of the LCR.



INTEREST RATE RISK IN THE BALANCE SHEET

The Group does not take interest rate views in the banking book. All interest rate positions are consolidated in Group Treasury and hedged out in the market. The Group has to assume an interest rate profile in its endowment portfolio (capital and lazy deposits). Endowment accounts for the majority of interest rate risk in the banking book and the Group is exposed to cuts in interest rates. The Group evaluates hedging options on an ongoing basis. A 100 bps cut in interest rates would reduce margins between 15 and 20 bps before any hedging activities.

MAINTAIN ROEs AND THE GROUP'S STRONG CAPITAL POSITION POST-BASEL III

The Group's capital ratios remained strong – the year-on-year reduction can be ascribed to the special dividend payment in the year to June 2012 and the introduction of Basel 2.5.

FirstRand's capital management strategy is aligned to the Group's overall objective to deliver sustainable returns to shareholders within appropriate levels of volatility. The Group's current philosophy, given the uncertain macro economic and regulatory environment, is to operate at the higher end of its targeted capital levels to ensure balance sheet resilience. Current targeted levels and ratios are summarised in the table following.

%	FirstRand Actual	FirstRand Target	Regulatory minimum
Capital adequacy ratio	**14.7**	12.0 – 13.5	9.5*
Tier 1 ratio	**13.2**	11.0	7.0
Core Tier 1 ratio	**12.3**	9.5 – 11.0	5.25

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

%	FirstRand Bank (FRB)* Actual	FirstRand Bank (FRB)* Target	Regulatory minimum
Capital adequacy ratio	14.6	11.5 – 13.0	9.5**
Tier 1 ratio	12.6	10.5	7.0
Core Tier 1 ratio	11.8	9.0 – 10.5	5.25

* *Reflects solo supervision, i.e. FirstRand Bank excluding foreign branches.*
** *The regulatory minimum excludes the bank-specific (Pillar 2b) add-on and capital floor.*

The Group does not seek to hold excess capital for large acquisitions, however, as previously indicated to shareholders, it is holding a buffer for investments in selected growth opportunities in certain African jurisdictions. Given the current economic conditions in South Africa and the subdued credit appetite amongst consumers and corporates, the Group's operating franchises continue to generate good returns at a time when there is limited opportunity to grow risk weighted assets (RWA). The Group, therefore, continues to review the appropriate level of payout to shareholders on a sustainable basis.

With regard to the impact of Basel 2.5 and Basel III, the Group's level of Core Tier 1 capital is sufficient as it held buffers in anticipation of these changes. These buffers have now been allocated to the operating franchises as part of the capital allocation and performance management processes.

Each franchise has been through a process of assessing if any action is required to optimise returns given these new allocations. The most significant impact, particularly associated with Basel 2.5, is at RMB, which has already made the necessary adjustments to its business model as outlined in its operating review on page 34 of this report.

Following Basel III, including business model adjustments, the Group believes it can maintain ROEs between 18% and 22% through the cycle.

Basel III seeks to enhance the quality of loss absorbing capital. To this end, emphasis is placed on Common Equity Tier 1 as the predominant form of capital, whilst Additional Tier 1 and Tier 2 will receive more limited recognition.

Types of capital and proposed Basel III requirements

Common Equity Tier 1*	7.0%	Minimum; can be higher
Additional Tier 1	1.5%	Limit; higher level not recognised for total capital requirements
Tier 2	2.0%	Limit; higher level not recognised for total capital requirements

* *Does not include additional buffers required (e.g. countercyclical, D-SIB or bank-specific add-ons).*

It is the Group's intention to make use of these regulatory limits to optimise its capital structure. Future capital issuance will be balanced against the utilisation of these regulatory limits and the expected rundown profile of the existing capital instruments. Banks will need to consider how to optimise this mix against the backdrop of more costly instruments and uncertain investor appetite given potential regulatory intervention at different trigger levels and capital market conditions. Should banks be unable to issue these capital instruments they may have to rely on more expensive Core Tier 1, which would negatively impact ROEs.

STRATEGIC FOCUS MOVES TO INTEGRATED FINANCIAL RESOURCE MANAGEMENT

The COO and CFO is the custodian of the total balance sheet, ROE profile, earnings composition and mitigation of volatility. In line with this mandate, the Group has historically implemented an integrated/holistic balance sheet management approach. This requires a detailed understanding of the economic cycle and the interplay between the risks created by the cycle and the levers within the business that can be used to mitigate those risks. Ultimately, the aim is to optimise the natural position of the balance sheet, identify and implement appropriate macro hedges in the current structure and only make the balance sheet available to the origination businesses if the required risk-reward return can be met.

FirstRand's integrated balance sheet management approach seeks to deliver a sustainable return profile (i.e. ROE between 18% and 22%). It also assists the Group in managing its counterparty status by maintaining a balance sheet/risk profile which meets its targeted credit rating.

This approach has always worked on the basis that equity capital is an expensive and scarce resource, which was reflected in performance measures such as ROE and NIACC. These metrics were monitored closely and capital was allocated to maximise ROE and NIACC. Given the financial crisis and the revised strategy to deliver higher quality of earnings, the Group now believes that funding and risk capacity and utilisation should receive the same level of focus from an allocation and measurement perspective.

The Group is thus adopting an integrated financial resource management approach in which the price and availability of all financial resources will be inputs in the strategy setting and planning process (on a forward-looking basis). Targeted returns should be considered in the context of potential volatility and the portfolio of risks the Group is exposed to.

The objective is to optimise the portfolio such that the Group will deliver sustainable returns within an acceptable level of risk to produce long-term shareholder value. The focus is on:

- balance sheet strength;
- earnings resilience (growth within an acceptable level of volatility); and
- performance management
  - ROE
  - ROA
  - NIACC

The chart below illustrates the Group's approach to integrated financial resource management.

Financial resources		
Capital • Levels • Mix • Efficient	**Funding** • Diversified • Flexible • Sustainable • Efficient	**Risk capacity utilisation** • Available capacity • Volatility • Sustainable ROE
Balance sheet strength		Sustainable earnings
Measurement and allocation (performance management)		
NIAAC Cost of equity Leverage	Targeted rating Cost of funds Liquidity profile (market and funding) Deposit franchise	ROE within 18 – 22% 1-year earnings reduction limit • normal cycle • turbulent cycle • stress cycle

CONCLUSION

When assessing the results for the year to June 2012 it is pleasing to note that FirstRand continues to deliver on its strategic objectives. Going forward the Group will measure, monitor and refine these objectives. FirstRand believes that the increase in focus on integrated financial resource management will allow it to fully optimise the financial, strategic and operational levers required to maximise returns to shareholders.

Johan Burger
Chief operating officer and chief financial officer

FirstRand believes that the **increased focus** on integrated financial resources management will allow it to **optimise** the financial, strategic and operational levers required to **maximise returns** to shareholders.

fnb review of operations

Michael Jordaan / CEO
First National Bank

WHEN ASSESSING FNB'S PERFORMANCE IN THE YEAR UNDER REVIEW, THE BUSINESS BENEFITED FROM **A DELIBERATE STRATEGY TO GROW** AND RETAIN CORE TRANSACTIONAL ACCOUNTS.

38.7%	29%	19%
return on equity (FNB SA)	normalised earnings (FNB SA)	total deposits (FNB SA)

INTRODUCTION

FNB's strong performance for the year to June 2012 reflects the ongoing successful execution of a number of very specific growth strategies. These are underpinned by a consistently improving retail and commercial franchise which is particularly focused on providing innovative and cost effective products and solutions for customers.

The FNB franchise is key to the Group's vision to be a predominant South African financial services player and a growing force in other targeted African markets.

EXECUTION ON STRATEGY

South Africa

Given the relative size of FirstRand in its domestic market, it is imperative that the Group continues to grow in its existing segments and at the same time increase its share of those markets and segments where it is under-represented. However, the Group is only focused on profitable growth, not market share *per se* and many of FNB's strategies reflect this focus.

When assessing FNB's performance in the year under review, the business benefited from a deliberate strategy to grow and retain core transactional accounts. It has driven this through offering customers a compelling value proposition – innovative products and channels at an acceptable cost to the customer.

This proposition has been supported by various reward programmes such as eBucks, SLOW lounges and fuel, data and airtime rewards. Innovations such as the Banking App, cellphone banking and eWallet also attracted new customers. This has resulted in a net increase of 1.3 million active accounts in the year under review and growth in customers of 5% to 7.5 million. In addition, FNB's success in cross-selling to its customers also increased the average products per customer from 2.03 to 2.10. A positive outcome from this growth in customers is the commensurate increase in transactional volumes, particularly on the back of FNB's deliberate objective to drive customers onto its electronic platforms.

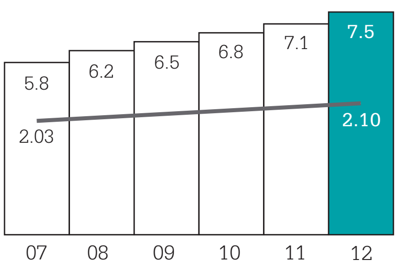
FNB's focus on customer acquisition and retention also resulted in excellent growth in deposits, where historically FNB has been under-represented relative to some of its peers. The approach is focused on building long-term relationships and is not interest rate or price led. FNB considers this to be a more sustainable strategy and is linked to the Group's overall objective to attract liabilities onto its banking platforms.

Continuing expansion in lending margins for the year under review also reflects a specific strategy to grow in the higher margin term/unsecured products, in both the Mass (Smart and EasyPlan) and Consumer (personal loans) segments. In addition FNB continued to focus on appropriate risk pricing in residential mortgages and wealth structured lending. FNB takes measures to assist customers make informed decisions when taking on credit and more detail on customer indebtedness management can be found on page 71.

All of these growth strategies resulted in profit gains and have underpinned FNB's objective to deliver a sustainable and superior ROE.

Africa

FNB has profitable and well established African franchises in Botswana, Namibia, Swaziland and Lesotho. In line with FirstRand's objective to grow in countries with strong domestic growth potential and trade links with Asia, FNB is continuing to organically build full service banking in Zambia, Mozambique and Tanzania. During the year, FNB established a greenfields operation in India to launch a range of investment, financial and transactional banking products and services to certain identified niches of the Indian retail and commercial segments.



Customer franchise and operating footprint

FNB believes strong customer relationships are key to the sustainability of its business and in order to understand its success in building these relationships, it measures growth in customers and improvement in cross sell.

To monitor customer satisfaction, FNB uses the Voice of Customer Instrument (a customer experience measure) to continuously monitor the service quality.

The instrument measures the:

- quality of specific service attributes of a channel in relation to customer expectation;
- the problems clients have with specific channels; and
- the overall level of experience with FNB and the quality of its service.

FNB's overall score is 61, with 75% of customers having a positive experience (rating between 8 and 10 out of 10) with 3% of customers having a negative experience (rating between 0 and 2 out of 10).

FNB believes the quality of its franchise can also be measured by independent endorsements such as awards.

- FNB Online Banking was rated number 1 in the 2011 AMPS 2011RB Data Release.
- FNB was rated South Africa's leader in cellphone banking (AMPS 2011RB Data Release).
- FNB was the winner of the M&G Top Companies Reputation Index Awards 2012 in the Bank and Financial Company categories.
- FNB was voted SA's most innovative bank (2011 and 2012 Systemic Logic Banking Innovation study, South Africa).
- FNB was ranked South Africa's strongest brand (Brand Finance 2012).
- FNB was rated South Africa's coolest bank in the Sunday Times Generation Next Survey 2012.
- FNB has the largest financial Facebook community in South Africa with more than 150 000 followers.
- FNB Namibia was awarded the Best Banking Group in Namibia for 2012 by the World Finance Banking Awards. RMB Namibia also won the Best Investment Bank in Namibia for 2012.
- FNB Zambia was voted second 'Best Customer service award' of the year 2011 for financial services.
- FNB Swaziland was awarded 'Best Bank in Swaziland' in 2011 (for the second consecutive year) by the Banker Magazine (London).

FNB services its customers with a physical footprint it believes to be appropriately structured to service all the segments of the market, including digital and electronic channels. Over the past few years FNB has focused on building appropriate channels to service the emerging consumer, especially the 37% growth in EasyPlan branches.

Representation points

	FNB South Africa			FNB Africa		
	2012	2011	% change	**2012**	2011	% change
Banking channels						
Representation points (branches, agencies, EasyPlan)	**775**	722	7	**108**	101	7
ATMs	**4 969**	5 360	(7)	**523**	556	(6)
ADTs	**959**	546	75			

FINANCIAL AND OPERATIONAL HIGHLIGHTS

- SmartSpend loans (Mass segment) payout to June 2012 grew 46% year-on-year to R3.1 billion;
- Smart Bond payout (affordable housing) to June 2012 grew 15% year-on-year to R2.9 billion;
- cellphone banking prepaid sales increased 33% year-on-year;
- HomeLoans achieved profits before tax of R528 million compared to R62 million in the previous year;
- reduction in PIPs portfolio from 1 129 properties (June 2011) to 594 properties (June 2012);
- eBucks spend of R493 million increased 53% year-on-year;
- personal loans (Consumer segment) payouts increased >100% to R5.3 billion for the year;
- commercial deposits grew 17% to R103.9 billion attributable to year-on-year growth in the public sector banking book (R4.5 billion), and successes in the flexi-fixed deposit and 7-day interest investment product accounts;
- 98% growth in eWallet transactions; and
- 78 000 Smart Devices sold to customers.

Financial performance

	FNB South Africa			FNB Africa		
	Year ended 30 June			Year ended 30 June		
R million	**2012**	2011	% change	**2012**	2011	% change
Net interest income	**11 072**	9 276	19	**2 132**	1 821	17
Non-interest revenue	**14 742**	12 889	14	**1 476**	1 340	10
Operating expenses	**(14 429)**	(12 963)	11	**(2 061)**	(1 719)	20
Income before indirect tax	**8 675**	6 876	26	**1 432**	1 385	3
Indirect tax	**(382)**	(347)	10	**(47)**	(35)	34
Income before direct tax	**8 293**	6 529	27	**1 385**	1 350	3
Normalised earnings	**6 157**	4 787	29	**516**	540	(4)
Advances	**220 638**	206 183	7	**25 420**	22 639	12
Total deposits	**216 186**	181 809	19	**33 403**	28 166	19
Assets under management	**42 567**	44 005	(3)	**1 967**	1 540	28
Assets under advice	**28 297**	14 521	95	**–**	–	
Assets under execution	**35 864**	30 546	17	**–**	–	
NPLs (%)	**5.26**	6.42		**1.87**	1.63	
ROE* (%)	**38.7**	34.9		**16.2**	19.6	

* *Based on normalised earnings.*

PERFORMANCE COMMENTARY – FNB SOUTH AFRICA

FNB produced an excellent performance for the year, increasing pre-tax profits 27% and delivering an ROE of 38.7% which is well above the Group's hurdle rate. Other key ratios are shown below.

	Year ended 30 June	
%	**2012**	2011
Cost-to-income ratio	**55.8**	58.2
Credit loss ratio	**1.28**	1.21
ROA	**2.78**	2.24
Advances margin	**2.80**	2.34

NII growth was driven by balance sheet growth, margin expansion due to the growth in unsecured lending and the substantial decrease in NPLs in FNB HomeLoans. Advances increased 7% in the main emanating from the Consumer, Commercial and Mass segments, with particularly strong growth in unsecured products. Card advances grew 11% on the back of proactive customer acquisition. HomeLoans advances increased only 1% reflecting FNB's strategy to grow residential mortgages in the low risk categories. Margins, however, remained healthy. Affordable housing, particularly Smart Bonds, continued to show good growth.

FNB's focus on attracting deposits resulted in a 19% increase, mainly driven by the Commercial, Consumer and Wealth segments particularly in the notice deposit products.

Bad debts increased largely due to the specific impairment for unrecovered amounts in the merchant acquiring business. If this specific impairment is excluded, bad debts showed a marginal decrease of 4% reflecting the continued improvement in NPLs in HomeLoans and Card. Whilst bad debts in the unsecured lending books increased, this was in line with expectations given the growth in advances and appropriate provisions are held.

NIR was a significant contributor to earnings for the year, increasing 14% and driven by strong customer acquisition and volume growth.

FNB maintained core cost growth at 9%, reflecting its focus on ongoing efficiencies and streamlining platforms. Once the R148 million of asset write-downs (specifically SpeedPoint devices) and the costs associated with ongoing investment in the local franchise are included, total operating expenditure increased 11%.

FNB'S FOCUS ON ATTRACTING DEPOSITS **RESULTED IN A 19% INCREASE,** MAINLY DRIVEN BY THE COMMERCIAL, CONSUMER AND WEALTH SEGMENTS **PARTICULARLY** IN THE NOTICE DEPOSIT PRODUCTS.

PERFORMANCE COMMENTARY – FNB AFRICA

FNB Africa grew pre-tax profits 3% year-on-year (excluding the profit on the disposal of MMI Namibia). Other key ratios are shown below.

	Year ended 30 June	
%	**2012**	2011
ROE	**16.2**	19.6
Cost-to-income ratio	**57.0**	54.3
Credit loss ratio	**0.50**	0.30

The results of FNB Africa comprise the established subsidiaries in Namibia, Botswana, Swaziland and Lesotho, and the start-up operations in Mozambique, Zambia and Tanzania. Overall the business performed well, despite ongoing investment in the start-up operations.

The portfolio benefited from increased lending and good NIR growth. The continued investment in building the footprint and expanding the branch network, particularly in the new territories, has resulted in customer acquisition and growth in transactional volumes. During the year, FNB introduced a number of products into the subsidiaries such as cellphone banking and eWallet.

rmb review of operations

RAND MERCHANT BANK
A division of FirstRand Bank Limited

Alan Pullinger / CEO
Rand Merchant Bank

ONGOING STRATEGIC IMPERATIVES REMAIN ANCHORED AROUND **STRENGTHENING THE CLIENT FRANCHISE BOTH LOCALLY AND REGIONALLY** WITH TRADING AND INVESTING ACTIVITIES BEING SCALED APPROPRIATELY.

24.1%	24% ↗	31% ↗
return on equity	total assets	FICC pre-tax profits

INTRODUCTION

In what has been one of the toughest investment banking environments for many years, RMB's performance for the year to June 2012 is testament to the strength and quality of its franchise. RMB's strategy continues to be refined in anticipation of the changing market conditions and regulatory regime and is focusing on three key themes – capital allocation, growth and efficiency. These themes are fully aligned with FirstRand's objective to deliver sustainable growth in shareholder returns, within acceptable levels of volatility.

EXECUTION ON STRATEGY

In broad terms RMB executed on specific initiatives which support the Group's strategic intent to grow the franchise in areas where it is currently under-represented domestically such as the corporate and investment banking (CIB) segment. The current year has also seen a focus on India and certain targeted African territories, particularly Nigeria where RMB has received approval in principle for a merchant banking licence.

When assessing RMB's performance in the current year, the business is clearly benefiting from the strategic decision in 2009/10 to focus more on client-driven activities, resulting in a healthier balance between these and trading or investment businesses. This shift has resulted in structurally lower but more sustainable ROEs (which remain well above Group hurdle rates) and a higher quality of earnings with less volatility. The CIB strategy is gaining traction with benefits accruing as closer cooperation and more extensive client coverage led to new deal flow and ancillary business across the broader FirstRand Group. GTS continues to invest in technology solutions and benefits are projected to flow in future periods.

Despite the high base created in the previous year and very challenging investment and corporate banking markets, RMB has grown revenues across most of its business activities. Value continues to accrue from the Indian branch and the year also saw the opening of a representative office in Kenya, enhancing RMB opportunities for growth in the east African region.

In terms of client activities, despite muted M&A activity in the domestic market, RMB successfully secured a number of large cross border mandates which contributed to growth in fee income. Financing margins remained under pressure as a consequence of tighter credit spreads and increased funding and liquidity costs. Despite this, revenues grew on the back of a 21% increase in the core wholesale loan book which improved the margin income run rate. Hedging and structuring revenues outperformed expectations, with the business generating income growth from a number of clients across the currency, interest rate and credit structuring areas. Client execution revenues benefited from excellent performances in the currency businesses and the African franchise.

During the year under review the RMB business model was further adjusted in anticipation of impending regulatory changes and the expected macro environment. The following actions were taken in this regard:

- the formation of a Global Markets division; merging components of the FICC and Equities businesses: this will realise scale, synergy benefits and improved levels of innovation;
- the termination of outright proprietary trading activities: this should decrease earnings volatility and reduce the drag on returns, particularly with the adoption of Basel 2.5;
- the centralisation of certain key technology functions: to provide an appropriately responsive platform enabling a stable, scalable IT infrastructure across the organisation; and
- more capital to be allocated to client and investing activities: to enable growth in the CIB franchise.

These changes will ensure that RMB is well positioned for growth and sustainable returns in what is expected to be a difficult environment going forward. RMB has become a more client-centric business with a very clear strategy anchored around a risk appetite designed to effectively manage the trade-offs between earnings volatility, profit growth and returns.

The domestic client franchise remains key to RMB's growth strategy, and the current financial year saw RMB cement its market leading position on a number of fronts. Statistics published by Dealmakers, ranked RMB 1st in M&A advisory and general corporate finance activity, RMB was also ranked leading debt underwriter by Bloombergs and maintained a prominent position in the volumes traded across the JSE through the RMB Morgan Stanley joint venture. In addition Global Markets garnered recognition through the Spire awards, with their offerings in the inflation and bond markets.

Financial performance

	RMB			GTS		
	Year ended 30 June			Year ended 30 June		
R million	**2012**	2011	% change	**2012**	2011	% change
Income before indirect tax	**4 770**	4 968	(4)	**538**	497	8
Indirect tax	**(67)**	(68)	(1)	**(15)**	(27)	(44)
Income before direct tax and special impairment	**4 703**	4 900	(4)	**523**	470	11
Special impairment	**–**	–	–	**(300)**	–	
Income before direct tax	**4 703**	4 900	(4)	**223**	470	(53)
Normalised earnings	**3 482**	3 567	(2)	**164**	275	(40)
Total assets	**328 890**	264 404	24	**3 022**	2 723	11
ROE (%)	**24.1**	28.7		**12.5**	25.8	
ROA (%)	**1.20**	1.33		**5.54**	11.39	
Cost-to-income ratio (%)	**41.5**	38.5		**69.9**	71.4	

Divisional results – income before direct tax

	Year ended 30 June		
R million	**2012**	2011	% change
Private Equity	**815**	865	(6)
Investment Banking	**2 857**	2 727	5
Global Markets			
– FICC	**1 329**	1 013	31
– Equities	**299**	338	(12)
Other	**(597)**	(43)	>100
RMB*	**4 703**	4 900	(4)
GTS	**523****	470#	11

* *Income before direct tax restated by R59 million for commercial foreign exchange and money market customer dealing business transferred from FICC to FNB Commercial.*

** *GTS operating performance excluding the impact of the impairment losses in the merchant acquiring business at FNB.*

Income before direct tax restated due to the migration of businesses between GTS and FNB.

PERFORMANCE COMMENTARY

The Investment Banking Division (IBD) produced excellent results of R2 857 million, 5% up on prior year levels. Financing activities continued to contribute strongly on the back of solid growth in the core wholesale loan book and provided the business with a stable platform to generate ancillary structuring, advisory and equity investing revenues.

FICC delivered a strong performance for the year growing profits 31% to R1 329 million. Despite pressure on domestic margins and difficult trading conditions in the early part of the financial year, a more volatile currency environment coupled to demand factors in the soft commodities market provided good opportunities in the second half. The benefits of RMB's investment in the FNB African subsidiaries were demonstrated as profits increased 91% to R210 million, driven by strong performances from Botswana, Namibia, Zambia and Mozambique. The structured trade business also profited from the renewed focus on Africa.

Equities posted earnings of R299 million, R39 million lower than in the prior period, but benefiting from good client-centric activity out of the RMB Morgan Stanley joint venture. Within the trading environment results were mixed. As mentioned above, changes to the capital regime during the year placed significant pressure on returns, contributing to the decision to discontinue outright proprietary trading activities within Equities. The majority of exposures were realised by 30 June 2012.

THE **BENEFITS OF RMB'S INVESTMENT** IN THE **FNB AFRICAN SUBSIDIARIES** WERE DEMONSTRATED AS PROFITS **INCREASED 91%** TO R210 MILLION

Private Equity profits for the year were exceptionally strong and, despite the absence of a material realisation, are only 6% lower than the prior year at R815 million. The year was characterised by substantial investment within both the Corvest and Ventures portfolios. There were no material impairments and equity-accounted earnings grew strongly. Portfolio valuations remain conservative.

The RMB Resources portfolio experienced a poor year as resources markets and junior mining counters in particular gave back the valuation gains of the previous 18 months, manifesting in unrealised losses in the current period.

Central costs were well contained with spend on African expansion placing mild upward pressure on the expense line.

GTS produced a stable operating performance in an environment characterised by margin compression which drove financing revenue lower. Pre-tax profits of R523 million were 11% higher than the comparative period and benefited from growth in client transactional activities on the back of higher volumes. Non-interest revenue, however, declined marginally compared to the prior financial year and pricing remains highly competitive in this segment.

wesbank review of operations

Brian Riley / CEO
WesBank

THE QUALITY OF THE WESBANK FRANCHISE HAS **CONTRIBUTED SIGNIFICANTLY TO FIRSTRAND'S GROWTH** IN THE YEAR UNDER REVIEW. THIS WAS UNDERPINNED BY **APPROPRIATE ORIGINATION STRATEGIES** AND **RIGID COST MANAGEMENT** IN ITS CORE BUSINESS.

33.9%	43%	17%
return on equity	normalised earnings	advances

INTRODUCTION

WesBank's excellent performance for the year reflects its leading market position in instalment finance. In particular, WesBank's point-of-sale dominance through long-standing alliances with leading motor manufacturers and large dealer groups, has allowed it to fully capitalise on the strong replacement cycle that has played out over the past two years in the retail motor segment. The quality of the WesBank franchise has contributed significantly to FirstRand's growth in the year under review. This was underpinned by appropriate origination strategies and rigid cost management in its core business combined with increasing penetration of new markets.

Whilst WesBank will always be prone to a certain level of cyclicality, it has undertaken a number of specific initiatives around pricing of credit, active management of the underlying risk profile, cost cutting and driving operational efficiencies, which better positions the business to deliver sustainable returns with lower levels of earnings volatility.

EXECUTION ON STRATEGY

In line with FirstRand's strategic objectives, WesBank has continued to focus on growing its core business and, at the same time, pursued specific strategies in markets where it sees good opportunities and where it is currently under-represented.

In its core lending businesses this focus translated into excellent new business growth, particularly in the motor and unsecured credit books. In addition, in support of the Group's intention to grow its overall share of the domestic corporate and commercial markets, WesBank has increased credit collaboration with RMB and FNB through the integration of teams, processes and origination.

Full Maintenance Rental (FMR) also remains a strategic priority as it represents a complementary activity to the corporate and commercial product suite. The business model assumes less traditional risks in the form of operational and residual value risk and WesBank remains cautiously optimistic that it can grow in this market over time. Early indications are promising, with the total asset book currently approaching R800 million.

FirstRand has taken the decision to reclassify MotoNovo Finance, formerly viewed as an investment, as a complementary business that forms an integral part of its asset-financing operations. In line with the Group's objective to provide sustainable and superior returns, MotoNovo, which is closely aligned to the core business of WesBank, is expected to produce above average returns going forward, particularly given the value created through WesBank's ownership. The investments made in people, systems, credit scoring and the creation of a much stronger market positioning are expected to be reaped in the future. In addition, as the operations are in a market outside the Group's overall geographic representation, there will be some counter cyclical benefits, which could reduce earnings volatility. The positive turnaround at MotoNovo continued during the year under review and was achieved despite continuing tough economic conditions in the UK.

WesBank continues to grow in the unsecured lending sector, through Direct Axis and the underlying personal loans books that it originates and manages, and believes there are ongoing opportunities in this market. WesBank will, through incremental partnerships, focus on growing new business in the lower risk buckets and at profitable overall returns, applying the appropriate discipline in terms of risk profile and appetite. WesBank takes measures to assist customers to take appropriate credit decisions. More information on overall levels of customer indebtedness can be found on page 71.

ON ALL KEY METRICS **WESBANK DELIVERED AN EXCELLENT PERFORMANCE** GROWING PRE-TAX PROFITS 43% TO R3 650 MILLION

Financial performance

R million	**2012**	2011	% change
Net interest income	**5 849**	4 868	20
Impairments	**(1 100)**	(1 291)	(15)
Non-interest revenue	**2 806**	2 212	27
Operating expenses	**(3 938)**	(3 393)	16
Associate income	**239**	318	(25)
Income before indirect tax	**3 856**	2 714	42
Indirect tax	**(206)**	(166)	24
Normalised income before tax	**3 650**	2 548	43

FINANCIAL AND OPERATIONAL HIGHLIGHTS

- advances growth of 17% to R119 billion:
  - new business growth of 19% to R67.7 billion;
  - motor new business growth of 20% to R46.3 billion;
  - corporate new business growth of 15% to R11.8 billion;
  - unsecured loans new business growth of 17% to R4.3 billion; and
  - MotoNovo new business growth of 30% to R5.2 billion;
- excellent performance in Direct Axis through high profits generated in the unsecured lending books;
- good growth through alliance partners;
- debt review showing positive overall outcomes in terms of customer payment behaviour; and
- implementation of iContract, an electronic contracting process, providing front and back end efficiencies, in addition to a number of other initiatives around customer self service.

WesBank continuously monitors customer satisfaction. The net promoter score indicated below is based on customer responses and the rating index is a universally used benchmark. Customer satisfaction remains stable at a very high comparative level.

	June 2012	June 2011	June 2010	June 2009	June 2008
Net promoter score	**68.2**	65.7	61.2	52.1	51.5

PERFORMANCE COMMENTARY

On all key metrics WesBank delivered an excellent performance growing pre-tax profits 43% to R3 650 million, compared with R2 548 million in the prior year (excluding the R540 million profit on the sale of Tracker and Ronald Sewells). Other key performance metrics are indicated in the table below.

Key ratios

	Year ended 30 June	
%	**2012**	2011
ROE	**33.9**	26.3
Cost-to-income ratio	**44.3**	45.9
Credit loss ratio	**0.99**	1.33
ROA	**2.33**	1.79
Interest margin	**5.22**	4.97

The improving interest margins resulted from long-term repricing efforts, in addition to a shift in the mix of underlying advances to a greater proportion of retail secured and unsecured lending, which have better margins than the corporate book. The underlying advances are also well balanced between fixed and variable, thus minimising the impact of changes in interest rates.

Arrear levels continue to reflect positive trends although they appear to now be at the low end and further improvement would not be expected. Overall NPLs have decreased over the prior year, driven by a significant reduction in corporate. Retail NPLs include residual debt review accounts; most of which are paying according to arrangement.

Credit appetite remains conservative and disciplined across all the portfolios. Origination is well within agreed risk thresholds and vintage performance is very closely monitored. The overall portfolios continue to track well within expectations.

Non-interest revenue grew strongly on the back of advances growth and the administration fees and insurance revenues it generates. In addition FMR assets produce non-interest revenue, which has grown 52% to R262 million in the 2012 financial year.

Core operating cost growth was maintained at 3% reflecting static headcount and the non-recurrence of certain restructuring costs in the prior year. Overall growth reflects the variable costs attached to increased profit shares and the rising depreciation cost associated with FMR assets.

Since the creation of FirstRand in 1998 the **diversified** portfolio of the Group has **delivered strong growth** in earnings, assets and dividends.

Five year review
Continuing and discontinued operations

R million	2008	2009	2010	2011	**2012**	Compound growth %
Statement of financial position – IFRS						
Total assets	823 944	809 851	845 240	697 927	**769 765**	(2)
Average assets	772 752	816 898	827 546	771 584	**733 846**	(1)
Net advances	446 286	416 488	434 793	464 593	**524 507**	4
Average advances	416 653	431 387	425 641	449 693	**494 550**	4
Impairment of advances	7 383	9 591	8 972	8 022	**8 840**	5
NPLs	13 104	24 227	22 205	19 790	**18 666**	9
Gross advances before impairments	453 669	426 079	443 765	472 615	**533 347**	4
Deposits	488 423	478 083	507 522	552 879	**606 281**	6
Total equity	48 689	50 004	55 951	61 150	**67 040**	8
Treasury shares	6 023	5 976	6 077	2 226	**1 795**	(26)
Dividends	4 523	3 764	2 955	4 179	**8 742**	18
Total equity before dividends and treasury shares	59 235	59 744	64 983	67 555	**77 577**	7
Total ordinary equity	44 170	45 485	51 432	56 631	**62 521**	9
Assets under administration	1 022 088	965 484	1 006 475	790 758	**880 244**	(4)
Income statement – IFRS						
Net interest income before impairment of advances	16 722	17 289	16 350	17 369	**21 882**	7
Impairment of advances	(5 064)	(8 024)	(5 686)	(3 778)	**(5 065)**	–
Non-interest income	21 405	20 055	28 892	29 565	**29 494**	10
Share of profit of associated and joint venture companies after tax	1 300	1 161	253	531	**1 120**	(4)
Operating expenses	(20 696)	(22 408)	(26 803)	(24 584)	**(28 422)**	8
Earnings attributable to ordinary equityholders	11 309	6 501	9 444	20 065	**13 196**	4
Headline earnings	9 922	6 939	9 453	9 856	**12 642**	6
Normalised earnings	10 583	7 151	9 963	10 805	**12 730**	5
Earnings per share (cents)						
– Basic	218.2	124.9	179.9	372.7	**241.7**	3
– Diluted	214.1	124.7	178.1	365.3	**236.8**	3
Headline earnings per share (cents)						
– Basic	191.5	133.3	180.1	183.1	**231.5**	5
– Diluted	187.8	133.1	178.3	179.4	**226.9**	5
Normalised earnings per share (cents)						
– Basic	187.8	126.8	176.7	191.6	**225.8**	5
– Diluted	187.7	126.8	176.7	191.6	**225.8**	5
Dividend per share (cents)	82.5	56.0	77.0	81.0	**102.0**	5
Dividend cover based on headline earnings	2.3	2.4	2.3	2.3	**2.3**	
Dividend cover based on normalised earnings	2.3	2.3	2.3	2.4	**2.2**	
Special dividend per share (cents)	–	–	–	0.70	**–**	
NCNR preference dividends per share (cents)						
– February	477.77	518.94	342.30	313.55	**305.20**	(11)
– August	511.30	423.09	355.00	305.20	**333.08**	(10)
Net asset value per ordinary share (cents)	852.37	873.55	980.00	1 051.82	**1 145.00**	8
Shares in issue	5 637.8	5 637.9	5 637.9	5 637.9	**5 637.9**	–
Weighted average number of shares in issue	5 182.0	5 206.9	5 248.2	5 384.1	**5 460.4**	1
Diluted weighted average number of shares in issue	5 283.1	5 213.6	5 302.4	5 492.8	**5 572.5**	1

Five year review
Continuing and discontinued operations continued

R million	2008	2009	2010	2011	**2012**	Compound growth %
Key ratios						
Return on ordinary equity based on headline earnings (%)	23.9	15.5	19.5	18.2	**21.2**	
Price earnings ratio based on headline earnings (times)	6.9	10.6	10.0	10.8	**11.4**	
Price to book ratio (times)	1.6	1.6	1.8	1.9	**2.3**	
Market capitalisation (R million)	74 983	79 269	101 821	111 913	**148 785**	19
Closing share price (cents)	1 330	1 406	1 806	1 985	**2 639**	19
Cost-to-income ratio (%)	52.0	57.6	56.5	51.8	**54.1**	
Impairment charge as % of average advances	1.2	1.9	1.3	0.8	**1.0**	
NPLs as a percentage of gross advances (%)	2.89	5.69	5.00	4.19	**3.50**	
Non-interest income as a percentage of total income (%)	53.8	51.5	61.3	63.6	**56.2**	
Return on average total assets based on headline earnings(%)	1.3	0.8	1.1	1.3	**1.7**	
Interest margin on average advances (%)	4.0	4.0	3.8	3.9	**4.4**	
Exchange rates						
Rand/US$						
– Closing	7.82	7.73	7.66	6.77	**8.19**	
– Average	7.30	8.88	7.59	6.96	**7.78**	
Rand/£						
– Closing	15.60	12.71	11.48	10.83	**12.83**	
– Average	14.66	14.08	11.96	11.08	**12.31**	
Statement of financial position ($)*						
Total assets	105 364	104 794	110 379	103 044	**94 044**	(3)
Advances	57 070	53 893	56 779	68 594	**64 080**	3
Deposits	62 458	61 864	66 923	81 744	**74 070**	4
Total equity	6 226	6 470	7 307	9 028	**8 190**	7
Assets under administration	130 702	124 933	131 435	116 750	**107 541**	(5)
Income statement ($)**						
Earnings attributable to ordinary equityholders	1 549	732	1 245	2 883	**1 696**	2
Headline earnings	1 359	781	1 246	1 416	**1 625**	5
Normalised earnings	1 450	805	1 313	1 552	**1 636**	3
Statement of financial position (£)*						
Total assets	52 817	63 689	73 657	64 396	**59 986**	3
Advances	28 608	32 749	37 889	42 867	**40 874**	9
Deposits	31 309	37 604	44 658	51 085	**47 246**	11
Total equity	3 121	3 933	4 876	5 642	**5 224**	14
Assets under administration	65 518	75 940	87 708	72 962	**68 596**	1
Income statement (£)**						
Earnings attributable to ordinary equityholders	771	462	790	1 811	**1 072**	9
Headline earnings	677	493	791	890	**1 027**	11
Normalised earnings	722	508	833	975	**1 034**	9

* *The statement of financial position is translated using the closing rates as disclosed.*

** *The income statement is translated using the average rate as disclosed.*

R million	2008	2009	2010	2011	**2012**	Compound growth %
CONTINUING NORMALISED						
Earnings attributable to ordinary equityholders	9 080	4 820	7 963	9 889	**12 586**	9
Headline earnings	7 765	5 194	7 789	9 258	**12 642**	13
Normalised earnings	8 401	5 540	8 283	10 117	**12 730**	11
Earnings per share (cents)						
– Basic	174.2	91.4	150.7	183.1	**228.8**	7
– Diluted	146.1	98.4	149.2	179.5	**224.2**	11
Headline earnings per share (cents)						
– Basic	149.0	98.5	147.4	171.4	**231.5**	12
– Diluted	159.0	98.4	145.9	168.0	**226.9**	9
Normalised earnings per share (cents)						
– Basic	149.0	98.3	146.9	179.4	**225.8**	11
– Diluted	149.0	98.3	146.9	179.4	**225.8**	11
Normalised net asset value (R million)	43 923	44 166	49 382	58 858	**64 409**	10
Return on equity based on normalised earnings (%)	20.7	12.6	17.7	18.7	**20.7**	
Cost-to-income ratio (%)*	52.0	57.6	53.1	53.3	**53.4**	

* *From 2010 normalisation as per industry practice has been adopted.*

Statement of headline earnings from continuing and discontinued operations – IFRS

for the year ended 30 June

R million	2012	2011	% change
Continuing operations			
Profit from continuing operations (refer page 235)	**14 369**	14 244	1
Non-controlling interests	**(898)**	(1 164)	(23)
NCNR preference shares	**(275)**	(301)	(9)
Earnings attributable to ordinary equityholders	**13 196**	12 779	3
Adjusted for:	**(554)**	(3 341)	(83)
Loss/(gain) on disposal of investment securities and other investments of a capital nature	**20**	(12)	
Gain on disposal of available-for-sale assets	**(154)**	(341)	
Gain on disposal of associates	**(473)**	(2 792)	
Gain on disposal of subsidiaries	**(266)**	(571)	
Loss/(gain) on the disposal of property and equipment	**49**	(9)	
Fair value of investment properties	**(12)**	–	
Impairment of goodwill	**115**	96	
Impairment of assets in terms of IAS 36	**7**	37	
Gain from a bargain purchase	**–**	(9)	
Other	**41**	–	
Tax effects of adjustments	**43**	16	
Non-controlling interest adjustments	**76**	244	
Headline earnings from continuing operations	**12 642**	9 438	34
Discontinued operations			
Profit from discontinued operations	**–**	7 283	(100)
Non-controlling interests	**–**	3	(100)
Earnings attributable to ordinary equityholders	**–**	7 286	(100)
Adjusted for:	**–**	(6 868)	(100)
Profit on dividend *in specie*	**–**	(6 868)	
Headline earnings from discontinued operations	**–**	418	(100)
Headline earnings from continuing and discontinued operations	**12 642**	9 856	28

Reconciliation from headline earnings to normalised earnings from continuing and discontinued operations

for the year ended 30 June

R million	2012	2011*	% change
Headline earnings from IFRS continuing operations	**12 642**	9 438	34
Adjusted for:	**88**	859	(90)
IFRS 2 Share-based payment expense	**77**	(20)	(>100)
Treasury shares	**251**	418	(40)
– Consolidation of share trust	**242**	210	
– FirstRand shares held by policyholders	**9**	208	
Total return swap (TRS) adjustment	**(240)**	–	
Private equity subsidiary realisations	**–**	461	(100)
Normalised earnings from IFRS continuing operations	**12 730**	10 297	24
Headline earnings from discontinued operations	**–**	418	(100)
Adjusted for:	**–**	90	(100)
– FirstRand shares held by policyholders	**–**	90	
Normalised earnings from IFRS continuing and discontinued operations	**12 730**	10 805	18

* *June 2011 figures include six months of OUTsurance income amounting to R180 million in earnings from continuing operations, which are excluded from normalised earnings – refer below for reconciliation.*

Reconciliation of IFRS continuing operations to continuing normalised operations

for the year ended 30 June

R million	2012	2011	% change
Earnings attributable to ordinary equityholders from IFRS continuing operations (refer page 44)	**13 196**	12 779	3
OUTsurance equity-accounted income for the period	**–**	(180)	(100)
Profit on sale of OUTsurance	**–**	(2 710)	(100)
Profit on disposal of investments*	**(610)**	–	–
Attributable earnings from continuing normalised operations	**12 586**	9 889	27
Headline earnings from IFRS continuing operations (per above)	**12 642**	9 438	34
OUTsurance equity-accounted income	**–**	(180)	(100)
Headline earnings from continuing normalised operations	**12 642**	9 258	37
Normalised earnings from IFRS continuing operations (per above)	**12 730**	10 297	24
OUTsurance equity-accounted income	**–**	(180)	(100)
Normalised earnings from continuing normalised operations	**12 730**	10 117	26

* *This includes the disposal of MMI Namibia, Tracker and Ronald Sewells.*

Description of difference between normalised and IFRS results – continuing operations

The Group believes normalised results more accurately reflect the economic substance of the Group's performance. The Group's results are adjusted to take into account non-operational items and accounting anomalies.

TRACKER AND RONALD SEWELLS

The Group previously owned 36.11% of Tracker (Pty) Ltd (Tracker). On 3 October 2011, the Group disposed of an effective 15.76% of its shareholding to a consortium of investors. The Group equity accounted for Tracker at its effective shareholding of 36.11% to 1 October 2011 and at 20.35% from 1 October 2011 to 30 June 2012.

In addition, WesBank disposed of its subsidiary, Ronald Sewells, effective August 2011.

For continuing operations results, profits resulting from the disposal of Ronald Sewells and the 15.76% shareholding in Tracker were excluded from both headline earnings (in terms of Circular 03/2009) and normalised earnings.

MMI NAMIBIA

The Group concluded the disposal of its 51% shareholding in Momentum Life Assurance Namibia Limited (MMI Namibia) on 30 June 2012, for effective economic value on 1 July 2011. The profit on the disposal of MMI Namibia was excluded from both headline earnings (in terms of Circular 03/2009) and normalised earnings.

SHARE-BASED PAYMENTS, EMPLOYEE BENEFITS AND TREASURY SHARES: CONSOLIDATION OF STAFF SHARE TRUSTS

IFRS 2 Share-based Payments requires that all share-based payment transactions for goods or services received must be expensed with effect from financial periods commencing on or after 1 January 2005. IAS 19 Employee Benefits requires that an expense be raised if benefits are expected to be paid to employees in return for services rendered in the current period.

In 2005 the Group concluded a BEE transaction. As part of this transaction, rights were granted to the Group's black South African employees and black non-executive directors of FirstRand. These rights are accounted for as expenses in accordance with IFRS 2. FirstRand hedged itself against the price risk of the FirstRand share price inherent in these schemes by buying in the open market the FirstRand shares required to settle these schemes. These shares are held in various share trusts. SIC 12 Consolidation – Special Purpose Entities requires that these share trusts be consolidated by the Group. FirstRand shares held by the staff share trusts are, therefore, treated as treasury shares.

Due to the unbundling of Momentum Group Limited these share trusts received MMI Holdings Limited shares as a dividend *in specie*. On vesting date participants will receive FirstRand as well as MMI shares. The inclusion of the MMI shares in the overall benefit that participants will receive led to the recognition of an employee benefit liability in terms of IAS 19 Employee Benefits. FirstRand hedged itself against the price risk of MMI shares by retaining the MMI shares received as a dividend *in specie* in the share trusts. MMI shares held by the staff share trusts are treated as trading and investment securities in the Group financial statements.

The economic cost to the Group for both the IFRS 2 expense and the employee benefit is the net funding cost paid by the Group on the funding required to buy these shares.

For purposes of calculating normalised earnings the share trusts are deconsolidated, FirstRand shares held by staff share schemes are treated as issued to parties external to the Group, and loans to share trusts are recognised as external loans.

ECONOMIC HEDGE AGAINST SHARE-BASED PAYMENT OBLIGATIONS

The Group entered into a Total Return Swap (TRS) with external parties in order to economically hedge itself against the cost associated with the Group's share option schemes.

In terms of IAS 39 Financial Instruments: Recognition and Measurement, the TRS is accounted for as a derivative instrument at fair value, with the full fair value change recognised in profit and loss.

In accordance with IFRS 2 the expense resulting from these option schemes is recognised over the vesting period of the schemes. This leads to a mismatch in the recognition of the profit or loss of the hedge and the share-based payment expense.

For purposes of calculating normalised earnings, the Group eliminates the fair value profit in excess of the IFRS 2 cost or adds back to profit or loss the unwind/loss of the TRS as it pulls to par over the maturity of the hedging instrument for the specific reporting period. This reflects the economic substance of the hedge and associated option costs for the Group.

TREASURY SHARES: FIRSTRAND SHARES HELD FOR CLIENT TRADING ACTIVITIES

FirstRand shares may be acquired by the Group in specific instances. The Group invests in FirstRand shares to offset its exposure as a result of client trading positions. Depending on the nature of the client trading position and resulting risks, FirstRand shares may be held long or sold short by the Group.

In terms of IAS 32 Financial Instruments: Presentation, FirstRand shares held by the Group are deemed to be treasury shares for accounting purposes. For the statement of financial position the cost price of FirstRand shares held long is deducted from equity and the consideration received from selling FirstRand shares short is added back to equity. All gains and losses on FirstRand shares are reversed to profit and loss.

Changes in fair value of FirstRand shares and dividends declared on these shares affect the fair value of client trading positions reflected in the statement of financial position, unless the client trading position is itself an equity instrument. The change in fair value of client trading positions is recognised in profit and loss. However, because of the rules relating to treasury shares, the corresponding fair value changes in FirstRand shares held to match client trading positions are reversed or eliminated. This results in a mismatch in the overall equity and profit and loss of the Group.

For purposes of calculating normalised earnings, the adjustments described above are reversed and FirstRand shares held for client trading positions are treated as issued to parties external to the Group.

Where the client trading position is itself an equity instrument, then neither gains or losses on client trading positions nor FirstRand shares held to hedge these are reflected in profit and loss or on the statement of financial position. For purposes of calculating normalised earnings, adjustments are made to reflect client trading positions and FirstRand shares to hedge these positions as if the positions and hedges were in respect of shares other than treasury shares.

ECONOMIC HEDGES

From time to time the Group enters into economic interest rate hedging transactions, which do not qualify for hedge accounting in terms of IFRS. The Group reclassifies fair value changes on these hedging instruments from NIR to NII to reflect the economic substance of these hedges.

FAIR VALUE ANNUITY INCOME – LENDING

The Group accounts for the majority of its wholesale advances book within RMB on a fair value basis in terms of IFRS. As a result, the margin on these advances is reflected as part of NIR.

The Group reclassifies the margin relating to annuity fair value income earned on the RMB wholesale advances book from NIR to NII to reflect the economic substance of income earned on these assets. The corresponding impairment charge is reallocated from NIR to impairment of advances. Fair value advances are adjusted to reflect the cumulative adjustment.

CONSOLIDATED PRIVATE EQUITY SUBSIDIARIES

In accordance with IFRS, operating costs of consolidated private equity subsidiaries are included in profit and loss as part of operating expenses. These costs are reclassified to NIR, where income earned from these entities is included. This presentation of net income earned from consolidated private equity subsidiaries more accurately reflects the underlying economic substance of the Group's relationship with these entities.

PRIVATE EQUITY SUBSIDIARIES REALISATIONS

In terms of Circular 03/2009, profits and losses from the sale of subsidiaries are excluded from headline earnings.

The Circular includes specific industry rules. Rule 1 allows entities to include in headline earnings gains or losses associated with private equity investments that are associates or joint ventures, which form part of trading or operating activities. This rule, however, does not apply to gains or losses associated with private equity investments that are subsidiaries. The Group includes gains or losses on the sale of private equity subsidiaries in normalised earnings to reflect the nature of these investments.

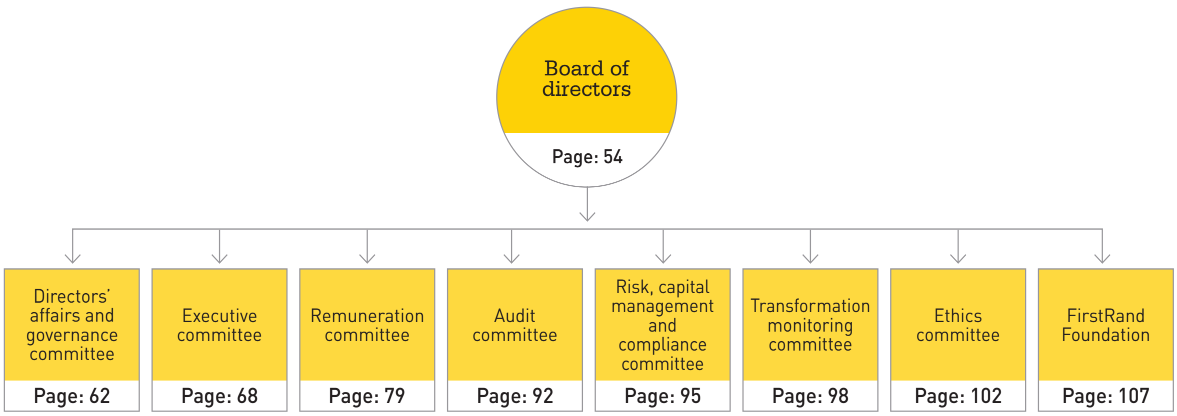
CORPORATE GOVERNANCE

“Excellent corporate governance allows the Group to achieve **sustainable profitability** and supports the responsible provision of **financial services.”**

Corporate governance structure

"FIRSTRAND'S BOARD OF DIRECTORS AND ITS COMMITTEES **ENSURE ALIGNMENT OF GROUP STRATEGY** WITH THE PEOPLE, SYSTEMS AND PROCESSES THAT MEASURE, MONITOR AND MANAGE THE SUCCESSFUL IMPLEMENTATION OF STRATEGY IN THE SHORT, MEDIUM AND LONG-TERM."

"EACH BOARD COMMITTEE HAS A CLEARLY DEFINED SET OF RESPONSIBILITIES **SUPPORTING THE LONG-TERM SUCCESS** OF THE FIRSTRAND GROUP."



Notes

The boards of subsidiary companies are subject to the same corporate governance criteria as the holding company.

FirstRand board committees include representatives from the subsidiary board committees and, where appropriate, divisional executive management.

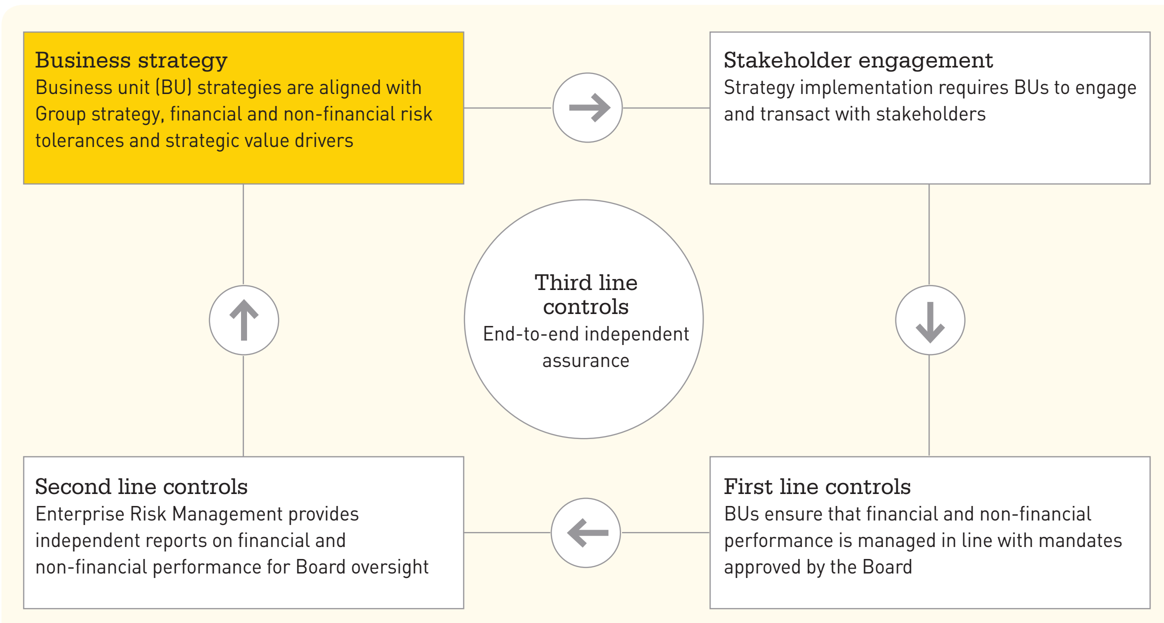
The Group structure, including major operating divisions and local and international subsidiaries, is set out on page 433.

ECONOMIC IMPACT

	2012		2011	
	R million	**%**	R million	%
Value added				
Interest income net of impairments by FirstRand	**36 270**	**56.0**	34 409	49.5
Value added by continuing operations	**36 270**	**56.0**	34 409	49.5
Non-operating income	**31 320**	**48.4**	30 171	43.4
Non-operating expenditure	**(2 816)**	**(4.4)**	(2 363)	(3.4)
Value added by continuing operations	**64 774**	**100.0**	62 217	89.5
Value added by discontinued operations	**–**	**–**	7 283	10.5
Value added by continuing and discontinued operations	**64 774**	**100.0**	69 500	100.0
To employees				
Salaries, wages and other benefits	**16 208**	**25.0**	14 189	20.4
To providers of funding	**28 470**	**44.0**	25 298	36.4
Dividends to shareholders	**9 017**		4 480	
Interest paid	**19 453**		20 818	
To suppliers	**8 578**	**13.3**	7 466	10.7
To government	**5 136**	**7.9**	4 920	7.1
Normal tax	**4 542**		4 176	
Value added tax	**539**		538	
Capital gains tax	**114**		122	
Other	**(59)**		84	
To communities				
CSI spend	**83**	**0.1**	65	0.1
To expansion and growth	**6 299**	**9.7**	17 562	25.3
Retained income	**4 454**		15 886	
Depreciation and amortisation	**2 341**		1 737	
Deferred tax	**(496)**		(61)	
Total value added	**64 774**	**100.0**	69 500	100.0

Integrated governance model

"FirstRand's **integrated approach** to managing financial and non-financial issues **ensures the alignment of Group objectives with the long-term interests of its stakeholders.** This **creates an environment where every transaction with every stakeholder can be seen as an opportunity to support the sustainable development of the economies** in which the Group operates."



Stakeholder engagement

"FirstRand has defined its stakeholders as **entities and individuals that are significantly affected by its activities** and those which have the ability to significantly impact the Group's **strategies and objectives**."

	Engagement mechanisms			
Stakeholder group	Transactional dialogue and official communiqués	Face-to-face *ad hoc* engagement	Line management/ relationship managers	Regulatory returns
Government and regulators		✓	✓	✓
Shareholders and analysts	✓	✓	✓	
Employees	✓	✓	✓	
Customers	✓	✓	✓	
Suppliers	✓	✓	✓	
Communities	✓	✓	✓	
Civil society		✓		

FirstRand's stakeholder policies are developed and implemented at both Group and subsidiary level. In cases where policies are required to address specific needs of business units and their stakeholders, these policies are developed and applied at business unit level with appropriate Group oversight via the Executive committee.

Non-financial reporting policies

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

Disclosures relating to non-financial issues have been selected based on the principles of materiality and stakeholder inclusiveness. Material topics are defined as those reflecting significant economic, environmental and social impacts, or those that would influence the decisions of the company's stakeholders.

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

Memberships and associations

FirstRand is a signatory of the United Nations Global Compact (UNGC), the United Nations Environment Programme Finance Initiative (UNEP-FI), the Carbon Disclosure Project (CDP) and the Equator Principles (EP). The Group is actively involved in Black Economic Empowerment (BEE) through the application of the South African Financial Sector Charter (FSC) and the Department of Trade and Industry (dti) Codes of Good Practice (CoGP), and participates in the determination of regulatory requirements in respect of BEE through membership of the Banking Association of South Africa. FirstRand is represented at the National Business Initiative (NBI), the Centre for Development and Enterprise and participates in the UNGC South African Advisory committee. In addition, FirstRand supports the South African Institute of Race Relations, the Free Market Foundation, the Business Trust and Business Against Crime.

Representation at these bodies is seen as being strategically important for reinforcing ethical and sustainable business practice and responding to changes in local and international best practice.

Precautionary principle

In so far as there are social and environmental issues that potentially impact FirstRand's profitability a precautionary approach is applied to business decisions. Simultaneous recognition is given to the importance of innovation and trial and error for improving sustainable business processes.

Board of directors

"FIRSTRAND HAS A **UNITARY BOARD OF 18 MEMBERS,** 15 OF WHOM ARE NON-EXECUTIVE DIRECTORS. NINE OF FIRSTRAND'S NON-EXECUTIVE DIRECTORS ARE INDEPENDENT AND A **STRONG CONTINGENT** OF INDEPENDENT DIRECTORS EXISTS ON THE BOARDS OF **THE GROUP'S MAJOR SUBSIDIARIES.** THE ROLES OF THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER ARE SEPARATE AND THE **COMPOSITION OF THE BOARD** ENSURES A **BALANCE OF AUTHORITY** PRECLUDING ANY ONE DIRECTOR FROM EXERCISING **DISPROPORTIONATE POWERS** OF **DECISION MAKING."**

2012 Board attendance

	Sep 2011	Nov 2011	Feb 2012	Apr 2012	May 2012
LL Dippenaar* – chairman	✓	✓	✓	✓	LOA
SE Nxasana**	✓	✓	✓	✓	✓
VW Bartlett#	✓	✓	✓	A	✓
JJH Bester#	✓	✓	✓	✓	✓
MS Bomela*	✓	✓	✓	✓	A
JP Burger**	✓	✓	✓	✓	A
L Crouse*	✓	✓	✓	✓	✓
PM Goss#	✓	✓	✓	✓	✓
NN Gwagwa#	✓	✓	✓	✓	✓
PK Harris*	✓	✓	✓	✓	✓
WR Jardine#	✓	✓	✓	✓	✓
EG Matenge-Sebesho#	✓	✓	✓	✓	✓
AT Nzimande*	✓	✓	✓	✓	✓
D Premnarayen**	✓	✓	✓	✓	✓
KB Schoeman*	✓	✓	✓	✓	✓
RK Store#	✓	✓	✓	✓	✓
BJ van der Ross#	✓	✓	A	✓	✓
JH van Greuning#	✓	✓	✓	✓	✓
MH Visser* (deceased – April 2012)	✓	✓	✓	✓	–

* *Non-executive director.*
** *Executive director.*
\# *Independent non-executive director.*
A Apologies tendered and accepted.
LOA Approved leave of absence.

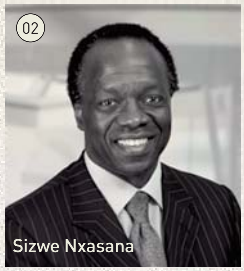
DEFINITION OF INDEPENDENCE

For the purpose of this integrated report directors are defined as follows:

- executive directors are employed by, or contracted to, FirstRand Limited or any company in the FirstRand Group. This includes directors participating in share incentive schemes;
- non-executive directors are those who represent FirstRand's BEE partners and those who are also directors of RMB Holdings or Remgro Limited and are not classified in that company as independent; and
- all other directors are classified as independent non-executive directors. This includes those directors who participate in the FirstRand black non-executive directors' share trust established as part of FirstRand's BEE transaction.

The Board is satisfied that these classifications do not conflict with those of sections 3.84 (f) of the JSE Listings Requirements.

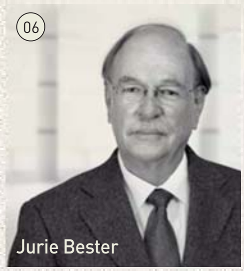

01 Laurie Dippenaar


02 Sizwe Nxasana


03 Johan Burger

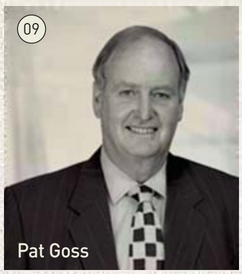

04 Deepak Premnarayen


05 Vivian Bartlett


06 Jurie Bester

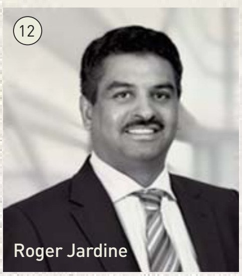

07 Mary Bomela


08 Leon Crouse


09 Pat Goss


10 Lulu Gwagwa


11 Paul Harris


12 Roger Jardine


13 Ethel Matenge-Sebesho


14 Tandi Nzimande


15 Kgotso Schoeman


16 Tim Store


17 Ben van der Ross


18 Hennie van Greuning

Skills and experience

01 Lauritz Lanser (Laurie) Dippenaar (63)

Non-executive chairman / MCom, CA(SA)

Appointed May 1998

Laurie Dippenaar graduated from Pretoria University, qualified as a chartered accountant with Aiken & Carter (now KPMG) and spent three years at the Industrial Development Corporation before becoming a co-founder of Rand Consolidated Investments in 1977. Rand Consolidated Investments acquired control of Rand Merchant Bank in 1985 and he became an executive director. He was appointed managing director of Rand Merchant Bank in 1988 which position he held until 1992 when RMB Holdings acquired a controlling interest in Momentum Life Assurers (MLA).

He served as executive chairman of MLA from 1992 until the formation of FirstRand in 1998. He was appointed as the first chief executive officer of FirstRand and held this position until the end of 2005 when he assumed a non-executive role. He was elected to the position of chairman of FirstRand in November 2008.

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

Directorships – FirstRand Group
- FirstRand Bank Limited – chairman
- First National Bank*
- Rand Merchant Bank*

Directorships – external
- RMB Holdings Limited
- Rand Merchant Insurance Holdings Limited
- OUTsurance Holdings Limited – chairman

* Divisional board

02 Sizwe Errol Nxasana (54)

Chief executive officer / BCom, BCompt (Hons), CA(SA)

Appointed January 2006

Sizwe Nxasana started his career at Unilever. In 1989 he established Sizwe & Co, the first black-owned audit practice in KwaZulu-Natal. In 1996 he became the founding partner of Nkonki Sizwe Ntsaluba, the first black-owned national firm of accountants, and was national managing partner until 1998 when he joined Telkom SA as chief executive officer. He held this position until August 2005.

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

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

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

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

Directorships – external
- The Banking Association South Africa
- MMI Holdings Limited
- Momentum Group Limited
- Metropolitan Life Limited

* Divisional board

03 Johan Petrus Burger (53)

Financial director and chief operating officer / BCom (Hons), CA(SA)

Appointed January 2009

Johan Burger graduated from Rand Afrikaans University in 1983 and qualified as a chartered accountant after serving articles at PricewaterhouseCoopers Inc.

He joined Rand Merchant Bank in 1986 and was appointed an executive director in 1995. Following the formation of FirstRand in 1998, he was appointed financial director of the FirstRand Banking Group. In January 2009 he was appointed to the FirstRand Board as financial director and assumed the additional role of Group chief operating officer in June 2009.

FirstRand – committee memberships
- Audit – *ex officio*
- Ethics
- Executive
- Large exposures
- Remuneration – *ex officio*
- Risk, capital management and compliance – *ex officio*
- Strategic executive

Directorships – FirstRand Group
- FirstRand Bank Limited
- FirstRand EMA Holdings Limited
- FirstRand Investment Holdings Proprietary Limited
- First National Bank*
- Rand Merchant Bank*
- WesBank*

Directorships – external
- MMI Holdings Limited
- Momentum Group Limited
- Metropolitan Life Limited

* Divisional board

04 Deepak Premnarayen (66)

Executive / BA Economics (Hons) India
Appointed January 2009

Deepak Premnarayen founded the ICS Group in 1998 to pursue emerging infrastructure development opportunities in India after entering the financial advisory services space earlier in the decade. ICS subsequently expanded into the real estate space and now has interests in:

- asset management;
- financial services: banking and corporate finance;
- hospitality;
- property development and management services; and
- architectural design services.

He is currently:

- co-chair of the Confederation of Indian Industry (CII) National Committee on Sports;
- convener for the India-South Africa CEO's Forum;
- member of the CII National committee on Banking;
- member of the CII National Task Force on Financial Inclusion;
- member of the Managing committee of the Indian Merchants Chamber (IMC);
- member of the Audit committee of the Noida Toll Bridge Company Limited; and
- member of the Human resources committee of the Noida Toll Bridge Company Limited.

FirstRand – committee memberships
- Directors' affairs and governance

Directorships – FirstRand Group
- FirstRand Bank Limited

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

05 Vivian Wade (Viv) Bartlett (69)

Independent non-executive / AMP (Harvard), FIBSA
Appointed May 1998

Viv Bartlett started his career with Barclays Bank DCO South Africa, which in 1987 became First National Bank of Southern Africa. After four years of overseas secondments he returned to South Africa in 1972 where he served as general manager and managing director at various group companies until being appointed as group managing director and chief executive officer of First National Bank of Southern Africa in 1996. In 1998, he was appointed deputy chief executive officer of FirstRand Bank, a position he held until his retirement in 2004.

FirstRand – committee memberships
- Audit
- Directors' affairs and governance
- Large exposures
- IT Governance
- Remuneration
- Credit portfolio review

Directorships – FirstRand Group
- FirstRand Bank Limited
- First National Bank*
- WesBank – chairman*
- RMB Co-Investment Trust – Trustee

Directorships – external
- OUTsurance Holdings Limited

* Divisional board

06 Jurie Johannes Human Bester (70)

Independent non-executive / BSc Eng Elect (Pret), ISMP (Harvard)
Appointed July 2010

Jurie Bester is a seasoned banker with a broad range of experience and expertise in banking and the financial services, risk management, risk modelling and risk quantification. He was the Head of Risk Management at RMB and Risk and Audit Services of the FirstRand Banking Group from 1997 until he retired from the Group in 2005.

He has subsequently served as chairman or a member of a number of risk and audit committees of the FirstRand Group.

FirstRand – committee memberships
- Audit
- Directors' affairs and governance
- IT Governance – chairman
- Remuneration
- Risk, capital management and compliance – chairman

Directorships – FirstRand Group
- FirstRand Bank Limited
- RMB Co-Investment Trust – Trustee

07 Mary Sina Bomela (37)

Non-executive director / BCom (Hons), CA(SA), MBA
Appointed September 2011

Mary Bomela was appointed to the position of chief executive officer of the Mineworkers Investment Company Proprietary Limited (MIC) in July 2010 and was appointed to the Board in September 2011.

Prior to joining the MIC, Mary was the chief financial officer of Freight Dynamics and prior to that, an executive in the corporate services division of the South African Institute of Chartered Accountants. She has held executive positions in the resources, media, utilities and financial services sector.

Mary is a chartered accountant and holds a BCom (Hons) in financial management from the University of Cape Town, a BCom (Hons) with the Certificate in the Theory of Accountancy from the University of KwaZulu-Natal and an MBA from the University of Pretoria.

FirstRand – committee membership
- Directors' affairs and governance
- Ethics
- Transformation monitoring

Directorships – FirstRand Group
- FirstRand Bank

Directorships – external
- BP Southern Africa Proprietary Limited
- Envision Trust – Trustee
- Masana Petroleum Solutions Proprietary Limited
- Metrofile Holdings Limited
- MSA Africa Proprietary Limited
- Norman Bisset and Associates Group Proprietary Limited
- Peermont Global Holdings Proprietary Limited
- Primedia Proprietary Limited
- Set Point Technology Holdings Proprietary Limited
- Tracker Investment Holdings Proprietary Limited

08 **Leon Crouse** (59)

Non-executive / CA(SA)
Appointed September 2008

Leon Crouse studied at the Nelson Mandela Metropolitan University in Port Elizabeth and after obtaining a Certificate in the Theory of Accounting in 1976, qualified as a chartered accountant in 1977. During his professional career of more than 30 years, he gained financial knowledge and experience by lecturing at the University of Stellenbosch and holding various financial management positions in the sectors of telecommunications, clothing and textiles, luxury goods and chemicals.

He joined the former Rembrandt Group in 1986 in which year he transferred to Switzerland to hold the position of financial controller of Compagnie Financiére Richemont AG and to be part of the team that unbundled the luxury goods business of the Rembrandt Group to form Richemont and list it on the Swiss, Luxembourg and South African Stock Exchanges.

In 1993, as a Rembrandt appointee, he returned to South Africa to become a founder member of the Vodacom Group executive team. Rembrandt, at the time, held a 15% interest in Vodacom. During his nearly 15 year career at Vodacom, he served as general manager (finance) from 1993 to 1996 and as chief financial officer from 1996 to March 2008. He joined Remgro in April 2008 as designate director: group finance and was appointed to the Remgro board on 18 June 2008.

FirstRand – committee memberships
- Audit
- Directors' affairs and governance
- Risk, capital management and compliance

Directorships – FirstRand Group
- FirstRand Bank Limited

Directorships – external
- CIV Fibre Network Solutions Proprietary Limited
- Dark Fibre Africa Proprietary Limited
- Maxshell 26 Investment Proprietary Limited
- Metropolitan Life Limited
- MMI Holdings Limited
- Momentum Group Limited
- Remgro Limited
- RMB Holdings Limited
- Rand Merchant Insurance Holdings Limited
- Total SA Proprietary Limited

09 **Patrick Maguire (Pat) Goss** (64)

Independent non-executive / BEcon (Hons), BAccSc (Hons), CA(SA)
Appointed May 1998

Pat Goss, after graduating from the University of Stellenbosch, served as President of the Association of Economics and Commerce Students, representing South Africa at The Hague and Basel. He qualified as a chartered accountant with Ernst and Young and subsequently joined the Industrial Development Corporation. Most of his active career was spent in food retailing and the hospitality industry.

He has served as a director of various group companies for the past 30 years. A former chairman of the Natal Parks Board, his family interests include Umngazi River Bungalows and other conservation related activities.

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

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

Directorships – external
- RMB Holdings Limited
- Rand Merchant Insurance Holdings Limited
- Goss and Company Proprietary Limited
- Umngazi Mouth Proprietary Limited

* Divisional board

(10) **Nolulamo Nobambiswano (Lulu) Gwagwa** (53)
Independent non-executive / **BA (Fort Hare), MTRP (Natal), MSc (cum laude) (London), PhD (London)**
Appointed February 2004

Lulu Gwagwa worked as a town planner in the private, public and NGO sectors between 1981 and 1986, before furthering her studies. In 1992 she joined the University of Natal as a senior lecturer in the Department of Town and Regional Planning. In 1995 she was appointed as a deputy director general in the national Department of Public Works, where she was responsible for the national public works programme and the transformation of the construction industry.

From 1998 to 2003, she was the chief executive officer of the Independent Development Trust. She is currently the chief executive officer of Lereko Investments.

FirstRand – committee memberships
- Directors' affairs and governance
- Transformation monitoring – chairman

Directorships – FirstRand Group
- FirstRand Bank Limited
- Firstshelf 25 (RF) Proprietary Limited
- Nebavest 82 (RF) Proprietary Limited
- Newshelf 1070 Proprietary Limited

Directorships – external
- Cisco Technology and Services Proprietary Limited
- Lereko Investments Proprietary Limited
- Ethics Institute of South Africa
- Massmart Holdings Limited
- Sun International Limited
- Tsebo Holdings Proprietary Limited

(11) **Paul Kenneth Harris** (62)
Non-executive / **MCom**
Appointed May 1998

Paul Harris graduated from the University of Stellenbosch and joined the Industrial Development Corporation in 1974. He was a co-founder of Rand Consolidated Investments (RCI) in 1977. RCI acquired control of Rand Merchant Bank (RMB) in 1985 and he became an executive director. He spent four years in Australia where he founded Australian Gilt Securities (later to become RMB Australia) and returned to South Africa in 1991 as deputy managing director of RMB. In 1992, he took over as chief executive officer. Subsequent to the formation of FirstRand, he was appointed chief executive officer of FirstRand Bank Holdings in 1999, a position he held until December 2005 when he was appointed chief executive officer of FirstRand.

FirstRand – committee memberships
- Directors' affairs and governance

Directorships – FirstRand Group
- FirstRand Bank Limited

Directorships – external
- Remgro Limited
- RMB Holdings Limited

(12) **William Rodger (Roger) Jardine** (46)
Independent non-executive / **BSc (Physics), MSc (Radiological Physics)**
Appointed July 2010

Roger Jardine was national coordinator of science and technology policy in the department of economic planning of the African National Congress from 1992 to 1995. In 1995, he became the director general of the Department of Arts, Culture, Science and Technology. He was chairman of the board of the CSIR and the Nuclear Energy Corporation between 1999 and 2005. In 1999, Roger joined Kagiso Media Limited as chief executive officer and in 2006 became the chief operating officer of Kagiso Trust Investments.

Roger joined Aveng Limited as chief executive officer in July 2008 and is also a director of Aveng (Africa) Limited, McConnell Dowell Corporation Limited and Trident Steel Holdings Proprietary Limited. He was appointed to the boards of FirstRand Bank during 2004 and FirstRand Limited during 2010.

FirstRand – committee memberships
- Directors' affairs and governance – chairman
- Large exposures

Directorships – FirstRand Group
- FirstRand Bank Limited

Directorships – external
- Aveng Limited
- McConnell Dowell Corporation Limited
- Trident Steel Holdings Proprietary Limited

(13) **Ethel Gothatamodimo Matenge-Sebesho** (57)
Independent non-executive / **MBA (Brunel) CAIB (SA)**
Appointed July 2010

Ethel Matenge-Sebesho started her career in banking with Standard Chartered Bank Botswana Limited from 1973 to 1996, during which time she studied for an MBA from Brunel University of London. She has considerable experience in banking and financial services, which was acquired in her role as director from 2001 to 2007 on the boards of Oikocredit, an international development financial institution based in the Netherlands, Women Finance House Botswana from 1989 to 1996 and Botswana Housing Corporation.

In November 1996 as general manager, Housing Institutions in the National Housing Finance Corporation Limited, she was part of the team that pioneered the concept of social housing in South Africa.

From April 1998, she has held various management positions in the Home Loan Guarantee Company including marketing solutions for housing and housing finance-related problems to new markets in Africa.

FirstRand – committee memberships
- Audit
- Directors' affairs and governance committee

Directorships – FirstRand Group
- FirstRand Bank Limited
- First National Bank*

Directorships – external
- Finmark Trust – Trustee
- Momentum Ability Limited
- Momentum Structured Insurance Limited
- Momentum Alternative Insurance Limited
- Women's Development Business
- Botswana Investment and Trade Centre
- WDB Micro Finance Proprietary Limited

* Divisional board

14 Amanda Tandiwe (Thandi) Nzimande (41)

Non-executive / BCom, CTA (UCT), CA(SA), H DIP Law (Wits)
Appointed May 2005

Tandi Nzimande is the chief financial officer at WDB Investment Holdings, the investment vehicle for the WDB Trust. Her role includes overseeing the financial area of WDB Investment Holdings as well as executing transactions and monitoring of ongoing investment relationships.

She qualified in 1996 as a chartered accountant while with KPMG. She was a senior associate in the investment banking division of Deutsche Bank where she spent five years gaining experience in mergers and acquisitions internationally and in South Africa.

FirstRand – committee memberships
- Directors' affairs and governance
- Remuneration
- Transformation monitoring

Directorships – FirstRand Group
- FirstRand Bank Limited

Directorships – external
- Dinatla Investment Holdings Proprietary Limited
- Maemo Motors Proprietary Limited
- Masana Petroleum Solutions Proprietary Limited
- Mintbrooke Technologies Proprietary Limited
- Paracon Holdings Limited
- WDB Investment Holdings Proprietary Limited
- WDB Discovery Investments Proprietary Limited
- WDB Inyosi Investments Proprietary Limited

15 Kgotso Buni Schoeman (48)

Non-executive / BA Economics, Advanced Financial Management Diploma
Appointed May 2008

Kgotso Schoeman is currently the chief executive officer of Kagiso Trust. He has been involved with the trust for over 14 years. He led the team that developed the new strategy of the trust from being a general conduit grant funding agency to a development and implementing agency in the early education and rural finance development fields. He has considerable experience in programme design and management. He has over the past ten years, participated as a team member or led a number of projects including the Alexandra Renewal Programme, the Local Economic Development Study for the Amajuba Municipality in Newcastle, the Impact Study of the SMME Microfinancing sector around the Tshwane area and the Public Participation Process that led to Robben Island gaining world heritage status.

FirstRand – committee memberships
- Directors' affairs and governance
- Transformation monitoring

Directorships – FirstRand Group
- FirstRand Bank Limited

Directorships – external
- Kagiso Tiso Holdings Proprietary Limited
- Kagiso Trust Investments Proprietary Limited
- Kagiso Enterprises Private Equity Fund Proprietary Limited
- Kagiso Activ Training Proprietary Limited
- Kagiso Trust Consultancy Proprietary Limited

16 Ronald Keith (Tim) Store (69)

Independent non-executive / CA(SA)
Appointed May 2007

Tim Store retired from Deloitte, South Africa, in 2004, following his career as chairman of the board of partners. He founded the firm's Financial Institutions Services Team in 1984. In that capacity, he rendered regulatory, risk management and corporate governance consulting services to southern African banking institutions, central banks and the World Bank.

He has had an ongoing interest in training pertaining to regulatory, governance and risk management topics relating to banks. He was appointed curator for four failed South African banks during the period 1991 to 2004.

FirstRand – committee memberships
- Audit
- Directors' affairs and governance
- Ethics – chairman
- Large exposures – chairman
- Risk, capital management and compliance

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

* Divisional board

(17) Benedict James van der Ross (65)

Independent non-executive / Dip Law (UCT)

Appointed May 1998

Ben van der Ross is a director of companies. He has a diploma in Law from the University of Cape Town and was admitted to the Cape Side Bar as an attorney and conveyancer. He had a private practice for 16 years. He became an executive director at the Urban Foundation for five years until 1990 and then joined the Independent Development Trust where he was deputy chief executive officer from 1995 to 1998. He acted as chief executive officer of the South African Rail Commuter Corporation from 2001 to 2003 and as chief executive officer of Business South Africa from 2003 to 2004. He served on the board of The Southern Life Association from 1986 until the formation of the FirstRand Group in 1998.

FirstRand – committee memberships
- Directors' affairs and governance
- Ethics
- Large exposures
- Remuneration committee
- Transformation monitoring

Directorships – FirstRand Group
- FirstRand Bank Limited
- Firstshelf 25 (RF) Proprietary Limited
- Nebavest 82 (RF) Proprietary Limited
- Newshelf 1070 Proprietary Limited
- First National Bank*

Directorships – external
- Distell Group Limited
- Lewis Group Limited
- MMI Holdings Limited
- Momentum Group Limited
- Metropolitan Life Limited
- Morris Jones & Co Proprietary Limited
- Momentum Medical Scheme Administrators Proprietary Limited – chairman
- Momentum Africa Investments Proprietary Limited – chairman
- Momentum Group Limited
- Naspers Limited
- Naspers Investments Limited
- Pick 'n Pay Stores Limited
- RMB Asset Management Proprietary Limited – chairman
- Strategic Real Estate Management Proprietary Limited – chairman

* Divisional board

(18) Jan Hendrik (Hennie) van Greuning (59)

Independent non-executive / DCom (Economics), DCompt (Accounting Science), CA(SA), CFA

Appointed January 2009

Hennie van Greuning joined the World Bank in 1994 from the South African Reserve Bank where he had served as financial manager (1986 – 1989) and Registrar of Banks (1990 – 1994). Prior to this he was a partner at Deloitte, where he spent ten years.

During his World Bank career he worked in the Financial Sector Development department as well as the Europe and central Asia region. He retired from the World Bank Treasury, as Senior Adviser to the Treasurer, in 2009. He has worked extensively on financial regulatory, securities accounting and operational risk management issues.

His World Bank publication on International Financial Reporting Standards (IFRS – A Practical Guide) was very successful (six editions) and he co-authored "Analysing Banking Risk" (three editions), "Risk Analysis for Islamic Banks" (2007), as well as International Financial Statement Analysis (CFA Institute – November 2008).

FirstRand – committee memberships
- Audit – chairman
- Directors' affairs and governance
- Risk, capital management and compliance

Directorships – FirstRand Group
- FirstRand Bank Limited

Directorships – external
- BIBD, Brunei

Directors' affairs and governance committee

Roger Jardine
Chairman

"RECENT DEVELOPMENTS IN CORPORATE GOVERNANCE HAVE ACCOMPANIED INCREASED FIDUCIARY DUTIES FOR DIRECTORS OF COMPANIES. FIRSTRAND'S DIRECTORS' AFFAIRS AND GOVERNANCE COMMITTEE **WORKS TO CONTINUALLY IMPROVE THE GROUP'S CORPORATE GOVERNANCE FRAMEWORK** TO HELP DIRECTORS CONFIDENTLY FULFIL THESE REQUIREMENTS IN THE BEST INTERESTS OF THE COMPANY."

COMPOSITION

FirstRand's Directors' affairs and governance committee (DAG) comprises all FirstRand's non-executive directors and is chaired by Roger Jardine, an independent non-executive director.

ROLE

"The committee oversees corporate governance and assists the Board in ensuring that FirstRand implements the **highest standards of corporate governance** at all operations."

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

2012 Highlights

Focus area	Actions
Governance effectiveness	Oversaw the effectiveness of the Group's governance processes and internal assurance programme.
Board and committee succession planning	Reviewed the effectiveness of the Board of directors and its subcommittees and ensured sound and effective succession planning at both Board and executive level.
Compensation of non-executive directors and trading in company shares	The committee made recommendations to Remco about the compensation of non-executive directors and monitored trading in company shares.

DIRECTOR RESPONSIBILITIES

"FirstRand ensures that **best practice is consistently applied across all local and international operations.** Statutory in-country boards provide further comfort at major international operations."

In overseeing the performance of the Group, directors have a fiduciary duty to act in good faith and with due diligence and care in the best interests of the Group and all its stakeholders. All directors subscribe to the FirstRand code of ethics which can be found on the FirstRand website (www.firstrand.co.za) and forms part of FirstRand's Board charter.

Directors have full and unrestricted access to management and all Group information and property. They are entitled to seek independent professional advice in support of their duties at the Group's expense. Directors may also meet separately with management without the attendance of executive directors.

BOARD COMPOSITION

Each year one third of FirstRand's non-executive directors retire. Three of the directors, Mr Schoeman, Ms Bomela and Ms Nzimande represent FirstRand's three BEE directors. These directors were nominated by the trusts they represent and their appointment was subject to the standard approval processes applied in terms of the Banks Act and JSE Listings Requirements.

FirstRand's chairman is non-executive, but not independent in terms of the definitions above. Mr Dippenaar is a major shareholder in RMB Holdings Limited, which owns 33.9% of the issued share capital of FirstRand. Mr Dippenaar retired as chief executive of FirstRand in November 2005. The Board believes that his specialist knowledge of the financial services industry and of the FirstRand Group makes it appropriate for him to hold this position. In line with the JSE Listings Requirements and the King III code, an independent lead director was appointed during the year.

SUBSIDIARY BOARDS AND BOARD COMMITTEES

"At FirstRand achieving excellence in corporate governance means **achieving synergy** between procedural rigour and the good judgement of **individual directors and Board committees** as a whole. In practice this synergy is enhanced through nurturing a governance culture **defined by care, skill, diligence, good faith and trust.**"

In exercising control of the Group, the directors are empowered to delegate. Board committees assist the directors in their duties and responsibilities. In addition to the Executive committee (Exco), FirstRand's Board has committees to deal with directors' affairs and governance, compensation, audit, ethics, BEE transformation, and risk, capital management and compliance. These committees have formal charters and report to the Board at regular intervals. With the exception of Exco, board committees are chaired by independent non-executive directors. Reappointment to the committees is not automatic and is subject to the approval of FirstRand's Directors' affairs and governance committee. When FirstRand directors retire by rotation they automatically retire from the committees on which they serve.

Additional board committees exist at divisional level and are established specifically for the purposes of managing risk. These boards assist FirstRand Limited's Board in overseeing the activities of FirstRand's operating franchises which are also subject to the oversight of the divisional advisory boards and their board committees.

GOVERNANCE EFFECTIVENESS

Internal assurance programme

The DAG ensures continual enhancement of the Group's internal assurance programme with clearly defined lines of responsibility between executive management and board committees.

During the year the committee oversaw further enhancements to the Group's internal assurance programme through:

- confirming lines of responsibility for assurance providers over-seeing different governance processes at Group and franchise level;
- ensuring consistency between governance reports at franchise and consolidated Group level; and
- leveraging strengths of different assurance functions in the collection and consolidation of governance and compliance information.

Director and committee effectiveness

"Directors' responsibilities include **oversight of financial and non-financial value drivers** including environmental, social and governance issues impacting the sustainable profitability of the Group."

During the year under review the Board and all of its committees measured their effectiveness and that of their individual members. The directors convey to the chairman any concerns that they might have in respect of the performance and conduct of their peers. As part of these evaluations the independence of all independent non-executive directors is evaluated. This includes, in particular, those who have served continuously for up to nine years or more.

The evaluations include an appraisal of the chairman of the Board or committee being evaluated. The performance of the chief executive is also formally evaluated at least annually against a balanced scorecard, which is described in the Remuneration committee report on page 79. Evaluations conducted for the period under review identified no material concerns in respect of Board, board committees or individual director performance.

Succession planning

FirstRand benefits from an extensive pool of people with diverse experience and competence. The Group's non-statutory subsidiary boards are used as a platform for mentoring potential future executive and non-executive directors and developing their knowledge of the FirstRand Group. During the year the Group's executive and Board succession plans were updated to take cognisance of developments in the Group's talent pool and future skills needs.

Based on the measures in place, the Board is confident that it is able to identify suitable short-term and long-term replacements from within the Group if and when the need arises.

APPOINTMENT OF DIRECTORS

There is a clear policy in place detailing procedures for appointments to the Board. Such appointments are formal and a matter for the Board as a whole, assisted by the Directors' affairs and governance committee. Prior to the appointment of a new director, a Nominations committee is appointed. This committee is responsible for interviewing the nominee and making recommendations to the rest of the committee as to his or her suitability.

The Nominations committee is constituted exclusively of non-executive directors, the majority of whom are independent, and is chaired by the chairman of the Directors' affairs and governance committee, who is also an independent director.

When appointing directors the Board takes cognisance of its needs in terms of different skills, experience, cultural diversity, size and demographics. A brief CV of each director standing for election or re-election at the annual general meeting accompanies the notice of the meeting contained in the integrated report. A staggered rotation of directors ensures continuity of experience and knowledge. The reappointment of non-executive directors is not automatic and is subject to performance and eligibility for reappointment.

The retirement age for non-executive directors is 70 and may be extended if unanimous agreement is reached by the Board that the skills and experience of a director warrants retention. There is no limit to the number of times that a director may be re-elected to the Board. Non-executive directors are expected to ensure that appointments to boards outside of the FirstRand Group do not impinge on their ability to perform their duties as directors of FirstRand and do not present any material conflicts of interest.

The appointment of all directors to the Board requires the approval of shareholders at the annual general meeting. The directors are accountable and responsible for all the actions of Board committees. This is emphasised during the induction training provided to new directors. Other ongoing training and education courses allow them to familiarise themselves with FirstRand's operations, the business environment, their fiduciary duties and responsibilities and the Board's expectations in respect of their commitment and ethical behaviour.

In terms of South African banking regulations, all directors of a bank or a bank controlling company must be approved by the South African Reserve Bank. During the year the Directors' affairs and governance committee oversaw the necessary actions for ensuring compliance with this requirement.

TRADING IN COMPANY SHARES

FirstRand has closed periods prohibiting trade in FirstRand shares by directors, senior executives and participants in the various share incentive schemes. The closed periods commence on 1 January and 1 July and are in force until the announcement of the interim and year end results. Closed periods also include any period where the Company is trading under cautionary or where participants have knowledge of price sensitive information. Similar prohibitions exist in respect of trading in RMB Holdings shares because of the relative importance of FirstRand in the earnings of RMB Holdings. All directors' dealings require the prior approval of the chairman and the company secretary retains a record of all such share dealings and approvals. Trading in securities by employees who are exposed to price sensitive information is subject to the Group's personal account trading rules.

DIRECTORS' INTERESTS

It is not a requirement of the Company's memorandum of incorporation or the Board charter that directors own shares in the Company. Certain directors have also disclosed their effective interest in FirstRand as a result of their shareholding in RMB Holdings Limited, which holds 33.9% (2011: 33.9%) of the issued share capital of FirstRand.

According to the Register of Directors' Interests, maintained by FirstRand in accordance with the provisions of Section 75 of the Companies Act, directors of FirstRand have disclosed the following interests in the Company at 30 June 2012. Where necessary, prior year figures have been amended to reflect the new disclosures required in terms of the JSE Listings Requirements.

Ordinary shares (audited)

Director	Direct beneficial ('000)	Indirect beneficial ('000)	Held by associates ('000)	Indirect via RMBH ('000)	**Total 2012 ('000)**	Percentage holding %	Total 2011 ('000)
Executive directors and prescribed officers							
SE Nxasana	642				**642**	0.01	642
JP Burger	698		1 837	1 234	**3 769**	0.07	3 582
M Jordaan	302				**302**	0.01	46
A Pullinger	1 482				**1 482**	0.03	1 201
Non-executive directors							
VW Bartlett	3 193	376			**3 569**	0.06	4 069
JJH Bester	20				**20**	–	20
LL Dippenaar	5 383	7 006	6	75 845	**88 240**	1.57	128 501
PM Goss	1			11 580	**11 581**	0.21	15 672
PK Harris	1 167	4 918	96	14 762	**20 943**	0.37	44 105
Total	12 888	11 924	1 939	103 421	**130 172**	2.31	197 838

Directors' interests remained unchanged from the end of the financial year to the date of this report.

B preference shares (audited)

	Indirect beneficial ('000)	**Total 2012 ('000)**	Percentage holding %	Total 2011 ('000)
Non-executive director				
LL Dippenaar	566	**566**	1.26	520
Total	566	**566**	1.26	520

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

PROCEEDINGS AND PERFORMANCE REVIEW

The committee met three times during the year. Attendance was as follows:

	Sep 2011	Oct 2011	May 2012
VW Bartlett	✓	A	✓
JJH Bester	✓	✓	✓
MS Bomela	✓	✓	A
L Crouse	✓	✓	✓
LL Dippenaar	✓	✓	LOA
PM Goss	✓	✓	✓
NN Gwagwa	✓	✓	✓
PK Harris	✓	✓	✓
WR Jardine – chairman	✓	✓	✓
EG Matenge-Sebesho	✓	✓	✓
AT Nzimande	✓	A	✓
D Premnarayen	✓	A	✓
KB Schoeman	✓	✓	✓
RK Store	✓	✓	✓
BJ van der Ross	✓	✓	✓
JJH van Greuning	✓	✓	✓
MH Visser (deceased – April 2012)	✓	✓	–

A – apologies tendered and accepted.
LOA – approved leave of absence.

The Chairman attends the annual general meeting.

Company secretary

FirstRand's company secretary assists the Board as a whole and directors individually with detailed guidance as to how their responsibilities should be properly discharged in the best interests of the FirstRand Group and its stakeholders. Where necessary the company secretary facilitates induction and training for directors and assists the chief executive in determining the annual meeting timetable.

Mr BW Unser is FirstRand Limited's company secretary. He is suitably qualified and empowered and has been the company secretary for FirstRand Bank since 1992 and FirstRand Limited since 2010.

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

LOOKING FORWARD

"Looking forward, the committee will continue to strengthen the Group's governance processes through ensuring the efficiency and effectiveness of internal assurance processes."

The Directors' affairs and governance committee is satisfied that they, and all board committees, have complied with the requirements of their charters and that all reasonable measures have been taken to ensure that the highest standards of corporate governance are implemented at all operations.

WR Jardine
Chairman, Directors' affairs and governance committee

10 September 2012

"Exco is empowered to manage the **tactical implementation of strategy** on a day-to-day basis."

Executive committee

Sizwe Nxasana
Chief executive officer

COMPOSITION

Exco is chaired by the chief executive and comprises the financial director and chief operating officer, the chief audit executive, chief executives of the Group's major operating franchises, chief risk officer, the heads of Regulatory Risk, Investor Relations, Human Capital, Capital Management and certain other members of senior management.

ROLE

"EXCO OVERSEES THE **SYNCHRONISATION OF FRANCHISE STRATEGIES AND THE OPTIMISATION OF THE GROUP'S FINANCIAL AND NON-FINANCIAL RESOURCES.** DURING THE YEAR THE CHIEF EXECUTIVE AND FINANCIAL DIRECTOR ACCORDINGLY PROVIDED REGULAR AND DETAILED REPORTS TO THE BOARD ON MATTERS OF MATERIAL AND STRATEGIC SIGNIFICANCE."

2012 Highlights

Focus area	Actions
BEE	Ensured integration of BEE strategy into business as usual objectives at franchise and business unit level and provided regular reports on progress to the Transformation monitoring committee.
Responsible lending	Implemented measures for increasing mainstream market access to financial services while carefully monitoring and managing credit and operational risk as well as affordability among all customers on a current and forward-looking basis.
Internal controls	Oversaw implementation of the Group's combined assurance programme and received regular reports on progress from heads of finance, enterprise risk management, regulatory risk management and Group internal audit. This included formal budgeting processes to ensure that these areas are appropriately resourced.
IT governance and information security	Oversaw implementation of the Group's IT governance framework and received regular reports from the chief information officer on the effectiveness of the Group's IT infrastructure.
Enterprise risk management	Ensured credit origination strategies were aligned with forward looking macro economic risk indicators. Origination strategies were changed where necessary and performance of the various portfolios is being actively monitored. Additional focus was placed on improvement of operational risk controls across the Group.
Regulatory risk management	Governments and regulators are second only to customers in their ability to affect the Groups' economic value. The Regulatory Risk Management team has been focusing on managing the risks arising from the rapidly changing and increasingly complex regulatory environment and they have been working closely with regulators to minimise the impact of intense and occasionally intrusive regulation on the Group.
Reputation and investor relations	The Group did not suffer any major reputational issues during the year under review. In addition, its financial performance for the year was well received by the market as it was above market expectations. The Group continues to proactively engage with existing and potential investors, both debt and equity, in the domestic market and certain international markets such as UK, Europe, North America, Asia and the Middle East.

Focus area	Actions
Treasury and balance sheet management	Group Treasury has positioned the Group well to manage capital and liquidity risk and also meet new Basel III requirements. Key measures include: • maintaining and improving capital and liquidity buffers; • setting aside the appropriate core equity for the Group's expansion efforts; • introducing sophisticated behavioural liquidity fund transfer pricing; and • increasing funding from the deposit franchise, thereby reducing reliance on professional funding and increasing the effective maturity for professional funding.
Human capital management	Oversaw the implementation of the Group Human Capital strategy, with special focus on employment equity, succession planning and resourcing present and future operations.
Sustainable supply chain management	Oversaw further alignment of Group procurement strategies through leveraging economies of scale, managing concentration risk in the supply chain and increasing spend with BEE suppliers.

STRATCO

FirstRand's Strategy committee (Stratco) is composed of the chief executive, the financial director and chief operating officer and the chief executives of the Group's operating divisions. This committee is charged with developing strategy and identifying the strategic priorities for the Group.

"Stratco takes a portfolio view of the Group, which enables it to **identify strategic priorities** for leveraging Group strength and capitalising on **potential opportunities.** With Stratco in place to set the strategic framework within which the Group will pursue business objectives, **Exco is empowered to manage the tactical implementation of strategy** on a day-to-day basis."

During the year Stratco and Exco focused on strategic priorities which include:

- leveraging of Group strength to improve innovation and cost efficiencies;
- identifying and coordinating opportunities for international expansion into Africa and capitalising on international financial flows between China, India and Africa;
- ensuring the highest standards of ethics, governance and risk management are implemented at all operations;
- implementing a human capital plan that meets the Group's skills needs and satisfies diversity objectives; and
- ensuring that the Group's activities contribute positively to socio-economic development and BEE as strategic imperatives in their own right.

ETHICS, GOVERNANCE AND RISK MANAGEMENT

A crucial role of Exco is to provide an effective link between Board-approved business strategy and management's implementation of this strategy. This also entails oversight of the risk and control activities that exist to support the efficiency of strategy implementation and ensure compliance with laws and regulations. All of these activities are ultimately overseen by the Board and it is up to Exco to ensure effective delivery against these objectives.

Combined assurance

Exco has overseen progress in the implementation of FirstRand's combined assurance model through enterprise-wide combined assurance committees, which leverage synergies between complementary risk and control functions. An important new ingredient to the Group's internal control environment is the Group's ethics management programme which is responsible for monitoring and continually improving ethics performance within the Group.

Ethics management and fraud prevention

The FirstRand Ethics Office works in close partnership with group internal audit, risk and compliance, human capital and fraud risk management for the effective implementation of ethics programmes.

The Group Social and ethics committee (Secom) is supported by FNB, RMB, WesBank and the FirstRand Corporate Centre ethics committees, with franchise ethics committees reporting directly to franchise boards and into the Group Secom on a bi-annual basis. This enterprise-wide network of ethics governance structures is a strategic enabler to enhanced ethics management practices at all operations.

Stakeholders are referred to pages 102 – 106 of the *Social and ethics committee* reports for a detailed review of how the Group's ethics management processes complement existing operational risk management activities for preventing and combating fraud.

IT governance

Exco has overseen the implementation of the enterprise-wide information and technology governance mechanisms via the Group Information and technology governance committee (ITGC). The ITGC is a committee composed of Group and franchise chief information officers, non-executive board members, risk, audit and other members of executive management. During the year, Exco received regular reports from the ITGC on delivery in key areas, including:

- quality and integrity of the Group's information resources;
- relevance of the Group's information resources and structures to business strategy;
- effective maintenance of information records;
- information security, including security of customer information;
- business continuity planning;
- IT architecture; and
- leveraging Group efficiencies in IT related procurement expenditure.

Exco is satisfied with progress made on the above and can report notable improvements in Group IT efficiencies through the further leveraging of synergies across the franchises. These efficiencies have included a material saving on Group IT expenses.

BLACK ECONOMIC EMPOWERMENT

"During the year FirstRand achieved **level 2 BEE status**, with Exco being responsible for the **implementation of the Group's BEE strategy** and the monitoring of performance against targets."

The Group's BEE strategy aims to move the Group beyond compliance with BEE regulations toward embedding BEE in the way that the Group does business. As a result BEE performance targets are set and measured across the franchises with centres of excellence, such as Group Human Capital Management and Group Procurement, driving strategic enterprise-wide initiatives. This means that although BEE is ultimately overseen by the Board via the Transformation monitoring committee, all business functions have their role to play. For this reason BEE performance is managed and reported as an integral part of the relevant business functions' business as usual.

Key areas addressed in this section are employment equity (human capital management), BEE procurement (supply chain management) and access to financial services (responsible lending). For more information on the Group's BEE programme stakeholders are referred to pages 98 – 100 of the *Transformation monitoring committee* report.

RESPONSIBLE LENDING

"Providing finance to underserved communities is not just a lending strategy or a means of diversifying income streams, but part of a **longer term strategy** to contribute to a more buoyant and inclusive economy."

Mainstream market access to financial services

"FirstRand understands that the fundamental role of banks is to **provide stable platforms** for people and companies to **transact** and thus **create** velocity of money in the economy. This enables transformation towards more inclusive and sustainable economic development while **protecting the financial stability of the business** and the many sectors to which the Group provides finance."

Exco's emphasis on innovation encourages new solutions for extending financial services to new and underserved markets through innovative and convenient channels. These innovations aim to achieve the following:

- relevance and usefulness of mainstream banking products and services;
- effectively managing the affordability of credit for all customers;
- innovative delivery channels that enhance both convenience and affordability; and
- customer education and awareness sessions to increase financial literacy.

The key role of FirstRand in promoting financial stability and inclusion is reflected in the good progress that FNB has made in providing access to financial services for the mainstream market with appropriate products and channels such as Affordable Housing loans, eWallet and cellphone banking.

"EasyPlan is a **strong transactional banking platform** with many innovative channels such as cellphone banking and Automatic Deposit Terminals (ADTs), which **allow customers to pay bills and deposit cash in real time.** These channels are designed around **customer needs,** with a focus on affordability and convenience."

In 2005 FNB cellphone banking started with 25 customers. Today FNB has more than four million cellphone banking customers, most of whom were economically marginalised South Africans, and carries close to 80% of cellphone banking traffic in South Africa. Such benefits are also being exported into other developing economies as the Group expands into Africa.

Customer indebtedness

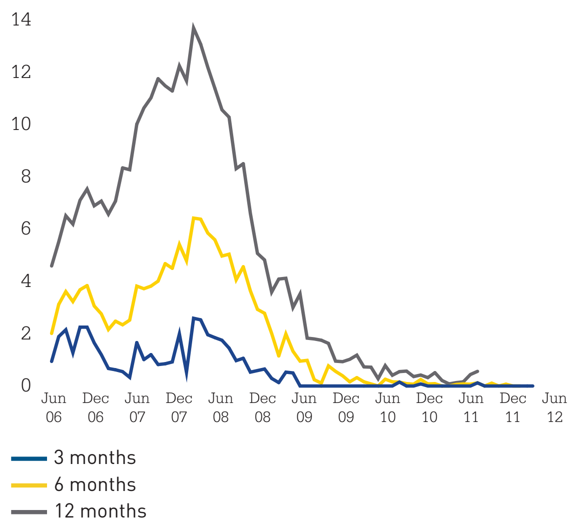
The global financial crisis has been described as the result of irresponsible lending and lax regulation. Although South African banks were relatively well insulated from the crisis, the residual implications for the global economy have impacted debt levels among South African consumers.

In this uncertain economic climate Exco has overseen decisive measures to ensure that the Group assists customers to make informed decisions when taking on credit. Individual loan affordability assessments are rigorously applied as part of the credit application process as measures for preventing over-indebtedness of customers. These processes are complemented by analytical tools that allow the Group to understand the levels of affordability of debt among its customers and respond proactively to these. Residential mortgages are a very important part of these analyses because home loans are often the largest loans ever taken by individual customers.

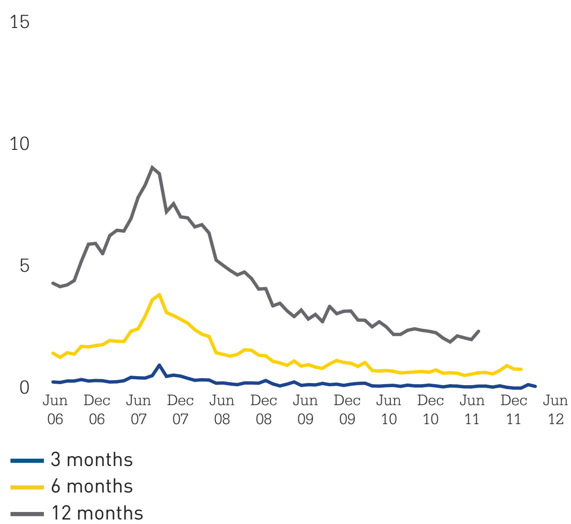
The Group's focus on customer quality assisted by the emphasis on the loan-to-value ratios for mortgages resulted in a significant improvement in the vintage performance as detailed below, as well as the improvement in the balance-to-original value although the strategy is to place more emphasis on the customer affordability rather than the value of the relevant property. In the current economic climate pressure on market value negatively impacted the balance-to-market value distribution, which compares outstanding mortgage borrowings to the market value of the property.

The graphs below compare the rates of default on FNB HomeLoans and WesBank retail lending across 3, 6 and 12 month periods after the initiation date for each loan. For FNB HomeLoans, the 3, 6 and 12 month cumulative vintage analysis shows a marked improvement in the affordability of loans provided since mid-2008 despite further deterioration in macro economic conditions since then. The more recent decreases in defaults from 2009 onward are ascribed to improved affordability.

FNB HomeLoans default rate (%)



WesBank retail default rate (%)



At WesBank, repossessions continue to decline thanks to the implementation of a range of measures to ensure that customers are able to afford the loans that they take. Some of these measures are developed and implemented in-house in response to regulatory procedures designed to protect customers from over indebtedness and other economic risks. Examples of these regulations include:

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

Stakeholders are referred to pages 122 – 136 of the *Risk and capital management report* for a comprehensive review of FirstRand's performance and practices.

Debt remediation

"Exco is extremely aware of the important role that the Group plays in the **financial future** of its **customers** and in the **financial stability of the economies** in which it operates."

The Group has well established processes for assisting over-indebted customers to achieve more sustainable arrangements for their financial affairs. While these processes accommodate formal debt counselling and rehabilitation programmes, special emphasis is placed on preventative measures. Among these are channels for financially distressed customers to approach the Bank for debt consolidation.

Rehabilitation of HomeLoan customers is an important focus and the Group assists customers to find practical solutions to avoid home repossessions. Such engagements are not purely reactive and aim to prevent over-indebtedness through ensuring that customers understand the obligations associated with taking credit before loans or credit extensions are granted. Under certain conditions the Bank will renegotiate the original terms and conditions of the loan. The objective of these renegotiated advances is to avoid a situation where a customer is no longer able to meet the original agreed terms and conditions. These arrangements are normally based on renegotiated payment terms (e.g. a reduction in payments for a specified period of time, changes in the payment profile or debt counselling payment plans) and are formally defined criteria to determine if and when customers are eligible for such arrangements. FNB continues to reap the benefits of programmes such as QuickSell and QuickFix, which aim to minimise the Bank's losses due to defaults. QuickFix takes the QuickSell process to the next level whereby FNB assists customers in understanding their cashflow profile and actively working, with their debt counsellors to improve their HomeLoan repayments, ultimately assisting them to stay in their homes.

Commitment to a greener economy

FirstRand believes that in order to ensure sustainability of its operations, prosperity and energy security, it is important to realise that they are all interrelated. South Africa faces particularly urgent challenges in water and energy security. The Group actively supports investment in renewable energy and water infrastructure, with RMB providing finance for a number of renewable energy projects contributing to the national energy grid. The Group has a very strong and balanced overall renewable energy portfolio across all key technologies which include wind, solar PV and solar CSP technologies.

Environmental and Social Risk Analysis (ESRA)

"Exco believes that environmental and social risks represent **a new generation of banking risks** that also have a bearing on the Group's status as a responsible financial services provider."

Exco has overseen the further embedding of systems for monitoring and managing the credit and reputational risk related to the environmental and social performance of customers and clients. Therefore the executive committee has proactively responded to ensuring that these are integrated appropriately into existing risk governance structures.

ESRA principles are also applied by the Group's private equity unit to ensure that responsible lending processes are complemented by equivalent responsible investment practices. To this end, FirstRand's membership of the United Nations Global Compact and United Nations Environment Programme are viewed as strategic enablers of environmentally and socially responsible banking practices. More detail on the Group's ESRA and Equator Principles performance is available in the *Risk and capital management report* on page 133 and in the sustainability section of the FirstRand website.

Information management and privacy

During the year Exco oversaw enhancements to the Group IT governance framework through achieving greater alignment of existing IT strategies, controls and management systems across the Group. The two principal benefits of a more synchronised approach are greater efficiency in the implementation of IT solutions and even more coordinated management of IT-related risks at both divisional and enterprise level.

The Group subscribes to the Code of Banking Practice of The Banking Association South Africa and complies with the Consumer Protection Act and the Protection of Information Act, all of which require that personal client information be treated as private and confidential. The Group is further committed to complying with the Electronic Communications and Transactions Act about client privacy, as well as the Financial Intelligence Centre Act (FICA) and Financial Advisory and Intermediary Services (FAIS) Act. Formal policies and processes are in place to manage customer privacy and confidentiality.

HUMAN CAPITAL MANAGEMENT

FirstRand's People practices committee facilitates and coordinates the implementation of the Group's human capital strategy, which ensures that the Group has the diversity and specialist skills required for successfully implementing business strategy.

Succession planning

An important objective for the year under review has been to ensure that the Group's operating divisions have access to suitably qualified and adequate human resources to execute business strategy successfully. This included careful consideration of succession planning processes, with particular focus on ensuring that all key areas are addressed. Exco has also ensured that the Group's international expansion efforts are appropriately resourced. Employment equity, diversity management and skills development have been important drivers of the Group's succession planning activities.

Workforce movements

	2012	2011	% change
SA staff complement at 1 July	**30 600**	31 288	(2)
New appointments	**4 222**	4 010	5
Resignations	**(1 414)**	(2 548)	(44)
Retrenchments	**(500)**	(177)	>100
Dismissals	**(157)**	(388)	(60)
Deaths and disabilities	**(55)**	(64)	(14)
Other*	**(521)**	(1 521)	(66)
SA staff complement at 30 June	**32 175**	30 600	5
Rest of Africa	**4 113**	3 631	13
Other countries	**110**	381	(71)
Total workforce	**36 398**	34 612	5
Number of ACI employees (SA operations)	**22 578**	21 517	5
ACI employees as a % of SA workforce	**70**	70	–

* *Other consists of retirements, non-renewal of contracts and mutual terminations.*

Employment equity and diversity management

While approximately 71% of the Group's overall workforce is composed of African, Coloured and Indian (ACI) employees, progress has been slow in achieving a similar demographic at more senior management levels.

This challenge is seen as being symptomatic of the global skills shortage and is not viewed as an exclusively South African issue. The Group is implementing a long-term strategy for ensuring that skills development initiatives, including career and succession planning are coordinated in a way that will help to develop African, Coloured and Indian business leaders from within the Group.

Skills development

FirstRand's skills development investments are in line with the Business Leadership South Africa (BLSA) CEO Skills Commitment which encourages companies to develop South Africa's skills base by looking "beyond the factory gate". This is achieved through:

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

Skills development investment

R million	**2012**	2011	% change
ACI skills development investment	**271**	202	34
Other skills development investment	**69**	68	1
Total skills development investment	**340**	270	26
ACI skills development investment as % of total skills	**80**	75	–

Data reflects prior year calendar year per dti reporting timeframes.
Skills development investment calculations have been refined to incorporate requirements in terms of the dti definitions.

BLSA CEO Skills Commitment

	2012	2011	% change
Total skills development investment (R million)	**340**	270	26
ACI skills development investment (R million)	**271**	202	34
Average training days per employee	**6**	6	–
Students supported by FirstRand	**2 510**	3 223	(22)
Number of new graduate appointments	**1 226**	514	>100
Average age of new employee graduates and diplomates	**31**	31	–
Number of technicians	**470**	370	27
Average age of technicians	**35**	35	–
Call centre	**2 254**	544	>100
Average age of call centre agents	**36**	30	20
Employee graduates and diplomates leaving the Group	**1 621**	1 080	50
Average age of employee graduates and diplomates leaving the Group	**33**	32	3

Examples of additional financial services skills development activities include taking on and developing young black professionals through the following formal programmes:

- BANKSETA skills development programme;
- BANKSETA Letsema programme; and
- BANKSETA Kuyasa programme.

In addition to entry level programmes FirstRand's leadership development initiatives include:

- mentoring and coaching by senior executives;
- career enhancement programmes;
- business leadership programme;
- junior leadership programme;
- middle management development programme;
- BANKSETA International Executive Development Programme;
- accelerated development programme; and
- industry specific compliance training.

SUPPLY CHAIN MANAGEMENT

"FirstRand has **proactively engaged** with its **top suppliers** to help improve their own awareness and performance on internal practices related to **BEE, labour practices, environmental impact** and **business ethics** more broadly."

BEE procurement

Exco adopts a beyond compliance approach to BEE and, in addition to being a founder member of the South African Diversity Council (SASDC), the Group is actively involved in sponsoring black-owned and black women-owned business forums in collaboration with the SASDC. A formal BEE procurement strategy approved by the FirstRand Transformation committee guides the procurement activity in a structured and sustainable manner.

BEE procurement spend

R million	**2012**	2011	% change
BEE procurement spend	**6 414**	5 119	25
Other procurement spend	**1 807**	1 927	(6)
Total discretionary procurement spend	**8 221**	7 046	17
BEE procurement spend as a % of total spend	**78**	73	–

Data reflects prior year calendar year per dti reporting timeframes.

Cost efficiencies

The committee has overseen the introduction of strategic sourcing best practices across the franchises with cross function sourcing teams providing further integration of Group procurement practices and further leveraging of scales of economy in the Group's supply chain. Cost savings reporting related to supplier spend is in accordance with an approved guideline and are subject to CFO sign off and internal audit.

Enhanced product offering

Exco has enabled several initiatives that utilise Group procurement to the advantage of customers through the provision of unique products, services and/or rewards programmes. An example of this is the price benefit enjoyed by customers purchasing travel or technology products within the eBucks reward program.

Environmental impact

FirstRand adopts an holistic approach to using supply chain efficiencies for minimising its direct environmental impacts. Focus areas include:

- reducing travel e.g. by increased use of new video conferencing technology;
- reducing printing and paper consumption;
- reducing water consumption by roll out flow restrictors; and
- reducing energy consumption through various energy savings interventions.

Energy efficiency

Energy efficiency remains the strongest driver to reduce FirstRand's carbon footprint as electricity constitutes its principal direct environmental impact. To this end FirstRand renewed its commitment to energy efficiency through signing an Energy Efficiency Leadership Network Pledge at COP 17 (2011) in Durban.

Carbon footprint

Carbon emissions (Metric tonnes of CO_2 equivalents)	**2012**	2011	% change
Fuel use	**390**	162	>100
Business fleet travel	**8 008**	5 960	34
Electricity	**257 172**	249 207	3
Paper use	**2 729**	5 949	(54)
Business road travel	**8 087**	8 591	(6)
Business air travel	**6 003**	4 662	29
Refrigerants	**3 173**	6 134	(48)
Total carbon emissions	**285 562**	280 665	2
Total energy used (Kw/h) (000)	**259 769**	251 724	3
Total energy saved (Kw/h) (000)	**37 795**	37 146	2
Total value of savings (R'000)	**34 219**	19 254	78

"At the end of the last financial year, **Exco exceeded its own carbon emission reduction target** of an **11% reduction by 2011** when the Group achieved an overall reduction of 24% from the baseline year of 2008. In June 2012, the committee approved a new **absolute emissions reduction target of a 34%** reduction from the 2008 baseline by 2020."

The focus of environmental initiatives during the next financial year will be on understanding the Group's water and waste footprints and reducing the company's impact related to these aspects.

PROCEEDINGS AND PERFORMANCE REVIEW

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

SE Nxasana
Chief executive officer

10 September 2012

In order to link compensation to the time horizon of risk assumed, the **vesting of long-term incentive awards** is subject to **performance conditions** measured over three to five years.

Remuneration committee

Pat Goss
Chairman

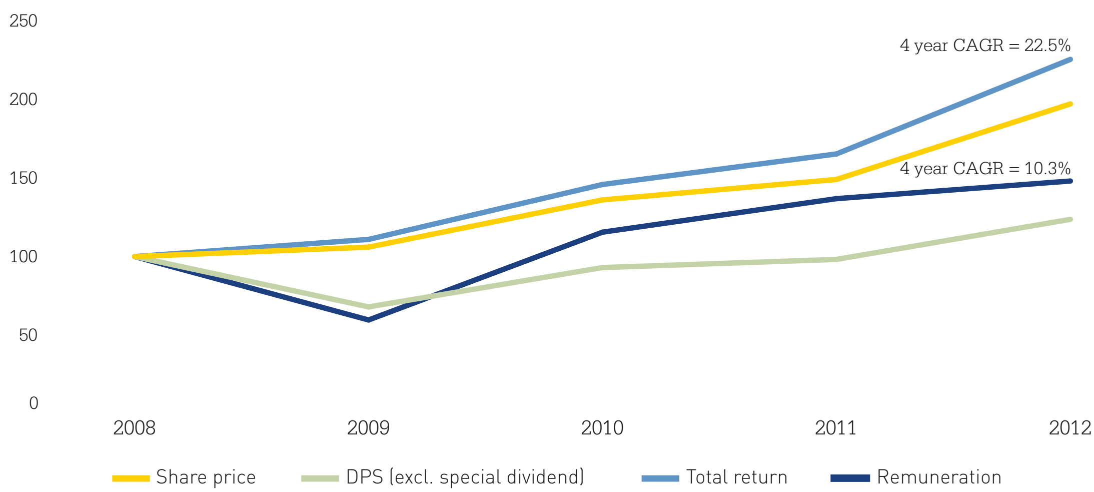
COMPENSATION SUMMARY

Since the creation of the FirstRand Group in 1998 the Remuneration committee (Remco) has consistently and methodically entrenched compensation practices within the Group which appropriately align employee behaviour with the interests of shareholders and other stakeholders. Key characteristics of FirstRand's compensation practices include the following:

- FirstRand has never paid bonuses unless cost of capital has been met;
- long-term incentives have never vested unless performance conditions have been met; and
- variable compensation has consistently been aligned with shareholder returns through determining the size of the variable compensation pool in proportion to net income after cost of capital.

"THE GRAPH BELOW COMPARES GROWTH IN SHAREHOLDER RETURNS WITH GROWTH IN THE COMBINED COMPENSATION OF THE GROUP'S PRESCRIBED OFFICERS OVER A FOUR-YEAR PERIOD. THE TREND LINES DEMONSTRATE THAT **GROWTH IN SHAREHOLDER RETURNS IS SUBSTANTIALLY HIGHER THAN GROWTH IN PRESCRIBED OFFICER COMPENSATION,** WHICH INDICATES THE DESIRED ALIGNMENT BETWEEN SHAREHOLDER RETURNS AND THE GROUP'S COMPENSATION PRACTICES."

Total growth in shareholder return compared with growth in prescribed officer compensation



In 2012 FirstRand delivered a solid set of results in challenging market and economic conditions. The compensation of the Group's chief executive, chief operating officer and other prescribed officers reflected these improved results.

During 2012 the Group made significant progress on executing its strategic objective to become Africa's financial services group of choice. The following summarises the Group's 2012 performance against objectives.

- normalised earnings grew 26%;
- net income after capital charge for the year was R4 163 million;
- normalised ROE improved to 20.7%;
- loan impairment charges and other credit risk provisions increased marginally;
- the cost-to-income ratio increased marginally from 53.3% in 2011 to 53.4% in 2012;
- the strong balance sheet was maintained with a Core Tier 1 ratio at 12.3%;
- dividends increased from 81.0 cents per ordinary share in 2011 to 102.0 cents per ordinary share in 2012 resulting in a 26% increase in value added to shareholders; and
- the Group achieved level 2 BEE status.

Composition

FirstRand's Remuneration committee (Remco) is chaired by an independent non-executive director and is composed of non-executive directors, the majority of whom are independent directors. Executives attending Remco meetings do so in an *ex officio* capacity.

Role

FirstRand's Remco recognises that executive compensation generally, and bank compensation in particular, is an important issue. Remco strives to align the interests of the Group's 36 398 employees with those of regulators, shareholders, depositors and other stakeholders. It engages with regulators and seeks best practice advice on how to optimise the relationship between employee compensation and sustainable value creation for all stakeholders. Compensation is determined on the basis of risk-adjusted profits, subject to claw back provisions for deferred compensation in the event of poor individual, business unit or Group performance.

The committee provides oversight of all forms of compensation and reward to executive directors and senior management including fees, basic and variable compensation, other benefits and share awards. The committee is also responsible for reviewing proposals to the Board and shareholders on non-executive director compensation.

In discharging its duties Remco aligns compensation with stakeholder interests by ensuring that appropriate adjustments to fixed, variable and long-term compensation arrangements are made relative to company performance and industry specific compensation practices.

As a financial services group, FirstRand's most critical asset required for delivering on its proposition to customers, is its human resources. Given the war for talent in the financial services arena, rewarding these resources appropriately is key to the sustainability of its business. Its compensation strategy is tailored accordingly towards:

- attracting, retaining and motivating people with the ability, experience and skill to successfully implement business strategy;
- creating recognisable alignment between rewards for employees, particularly executive directors and senior management, and the risk exposure of shareholders and other stakeholders;
- incentivising employees to deliver consistent performance in line with strategic goals and risk tolerances and rewarding success appropriately;
- delivering compensation that is affordable and reasonable in terms of, and in accordance with, the value created for shareholders; and
- encouraging behaviour consistent with FirstRand's code of ethics, business philosophy and corporate culture.

FirstRand's compensation policy specifically addresses the following factors to achieve its compensation strategy:

- incentive pools shaped by Group profitability and performance metrics, divisional profitability, risk taken within risk appetite compared to realised returns and sustainable future profitability;
- individual performance measured against specific quantitative financial and non-financial performance criteria, individual behaviour and competitive performance;
- incentives which reduce or disappear in the event of poor Group, divisional, business unit or individual performance (in line with the claw back principle);
- no multi-year guaranteed incentives, substantial severance arrangements or compensation linked to revenue generation by formula;
- significant deferral of senior management's variable compensation in share-linked instruments for a period of two years; and
- transparency to enable stakeholders to make reasonable assessments of reward practices and underlying governance processes.

FirstRand's divisions operate across a variety of financial services activities, each with distinct employment and human resource pressures. The Group's compensation policy takes account of the diverse needs of the Group's divisions. Appropriate industry specific compensation practices are implemented in accordance with the Group's compensation policy which is applicable at all operations, including international branches and subsidiaries.

During the year to June 2012 the Group implemented the following actions pertaining to compensation.

2012 Highlights

Focus area	Actions
Shareholder approval of compensation practices	In December 2011 the Group's compensation policy was put to a shareholders vote at the annual general meeting and was approved with an overwhelming majority.
Review of compensation practices	Special attention was paid to ensuring the effective application of the Financial Stability Board's Principles for Sound Compensation Practices and the Financial Service Authority's compensation code of practice.
Aligning risk and reward	The chairman of the Risk, capital management and compliance committee is a Remco member and formally confirms that the risk element of FirstRand's compensation policy has been duly considered, while ensuring appropriate compensation for risk managers and discouraging inappropriately risky behaviour.
Deferral of variable compensation	Between 20% and 40% of all performance payments above R1.5 million are deferred in FirstRand shares for two years. 40% applies to Exco members and 30% to other employees earning bonuses in excess of R5 million.

Review of compensation practices

During the year Remco reviewed a comprehensive gap analysis of the Group's compensation practices relative to international best practice, notably those recommended in Regulation 43 of the South African Banks Act and the Financial Stability Board's Principles of Sound Compensation Practices and Implementation Guidelines. The latter has resulted in the inclusion of new aggregate compensation information on page 89 for the first time. Based on the outcome of this exercise, the committee is satisfied that the Group's compensation practices are in line with international best practice and the requirements of the Banks Act.

Remco has access to local and international consultants to ensure that it obtains independent advice on both general and specific compensation practices. During the year there were no matters requiring specific external advice.

"During the year **Remco ensured consistency of FirstRand's compensation practices** and those recommended by the International Financial Stability Board's Principles for Sound Compensation Practices and the International Financial Service Authority's compensation code of practice."

In terms of the new Companies Act, prescribed officers are defined as employees who exercise general executive control over and management of the whole, or a significant portion, of the business and activities of the company. FirstRand defines its prescribed officers as members of Group Stratco; the Group CEO, Group CFO/COO and the CEOs of the Group's operating franchises (FNB, RMB and WesBank) are so defined and their compensation is included as part of the emoluments table on page 87.

Aligning risk and reward

FirstRand's variable compensation pool takes into account the performance of the Group which is considered within the context of our risk appetite which was approved by the Board and applied consistently across the Group. The risk appetite defines the amount and types of risk that FirstRand is prepared to take in executing strategy and shapes the integrated approach to business, risk and capital management.

The *Risk and capital management report* on page 118 provides comprehensive detail on all the risk types the Group is exposed to and describes the methods used to measure, manage and report these risks. This report covers the overall incentive pools for business units and the individual incentive awards of senior managers and executives. In determining the size of the variable compensation pool Remco pays specific attention to issues covered in the Group's risk framework. These include:

- internal audit findings on weaknesses in the internal control environment;
- breaches of the regulatory requirements applicable to operations;

- operational risk losses;
- risk appetite breaches;
- limit breaches, particularly by trading desks; and
- breaches of the credit risk control environment.

During the year Remco's deliberations took cognisance of the boundary event that occurred in FNB's merchant services business unit, as disclosed on page 209. The variable compensation of all employees having executive oversight or operational influence over the affected area has been reduced by between 15% and 100% based on proximity to the event.

Forward looking measures

The chairman of FirstRand's Risk, capital management and compliance committee (RCC) has provided formal confirmation that the risk element of FirstRand's compensation policy has been duly considered and does not encourage inappropriate risky behaviour.

In addition to the above, Remco ensures that total variable compensation does not limit its ability to strengthen its capital base and compensation has been structured to account for all identified types of risk including credit and liquidity risk.

The size of the variable compensation pool and its allocation within the Group takes current and potential future risks into account. These include:

- the cost and quantum of capital required to support the risks taken;
- the liquidity risk assumed in the conduct of business; and
- consideration of the timing and certainty of the realisation of accrued, but as yet unrealised, accounting profits included in current earnings.

As part of the Group's internal capital adequacy assessment process (ICAAP), three-year forecasts are used – taking into account the Basel Pillar 1 and 2 stresses and future regulatory changes. ICAAP includes an assessment of the Pillar 1 risk types (i.e. credit, operational, market, equity investment and other risks) and Pillar 2 risk types (i.e. liquidity risk, interest rate risk in the banking book, business risks, etc.). These assessments inform the target capitalisation levels and buffers for the Group. The targeted capitalisation levels determine capital allocation to the business units. All risks within the organisation are taken into account when capital is allocated for performance measurement purposes since outputs from the ICAAP are key inputs into pricing and performance measurement.

"To ensure the Group delivers sustainable returns to its shareholders, the performance of **each business is evaluated using both ROE and net income after cost of capital (NIACC).** NIACC measures the value added by each business unit after taking into account the cost of capital (i.e. NIACC = earnings less cost of capital)."

The bonus pool allocation incorporates both the earnings generated and risk introduced by the business unit on a current and forward-looking basis. This is achieved through basing the capital levels used in the cost of capital calculations on the higher of net asset value (existing capital), regulatory risk weighted assets and the targeted level of economic capital.

Reputational and legal risk is dealt with in product acceptance and deal conclusion forums. These are overseen via the governance structure of risk committees, audit committees and review committees. These controls have a bearing on the size of the bonus pool by measuring the quality of business written and the income earned. To the extent that reputational or legal risks result in a financial loss for the Bank, these costs would impact the income of the affected business unit and would therefore have a direct bearing on the size of the bonus pool for the period under review.

Compensation decisions for employees working in key control functions, including risk and compliance functions, are determined independently of the business in which they work through a special Remuneration subcommittee dealing exclusively with compensation of risk and compliance staff. Compensation processes for Group internal audit staff are also held separately from those of the business units that they audit and are based on the achievement of the objectives of the internal audit function.

Steps have been taken to ensure that their compensation is market related and adequate to attract and retain qualified and skilled staff. The heads of Enterprise Risk Management and Regulatory Risk Management continuously monitor the compensation levels of risk managers across the Group with ultimate oversight provided by the Board via Group Remco.

Deferral of variable compensation

"Profits and losses of different activities of the Group are deferred over different periods. Variable compensation payments are deferred accordingly and payments are not finalised over short periods where risks can manifest over longer periods. For senior executives and all other employees whose actions have a material impact on the risk exposure of the Group, a substantial proportion of compensation is variable and paid on the basis of individual business unit and Group-wide performance indicators."

2012 Deferral structure

Performance payment	Deferred in shares	Payment date			
		Aug 2012	Dec 2012	Jun 2013	Sep 2014
≤ R500k	No	100%	–	–	–
≤ R1.5 million	No	R500k + 33% of balance of cash portion	33% of balance of cash portion	33% of balance of cash portion	–
> R1.5 million	20 – 40% of amount above R1.5 million	R500k + 33% of balance of cash portion	33% of balance of cash portion	33% of balance of cash portion	Qualifying shares vest
> R1.5 million (all employees earning variable compensation above R5 million)	30% of amount above R1.5 million	R500k + 33% of balance of cash portion	33% of balance of cash portion	33% of balance of cash portion	Qualifying shares vest
> R1.5 million (FirstRand and franchise Exco members only)	40% of amount above R1.5 million	R500k + 33% of balance of cash portion	33% of balance of cash portion	33% of balance of cash portion	Qualifying shares vest

"There are no guaranteed bonuses for senior positions. Should an employee resign or be dismissed from the Group's employment, unpaid bonus tranches are forfeited. In terms of FirstRand's current policy any unpaid portion of deferred compensation is withheld in the event that the applicable business unit suffers a loss during the year in question."

Share awards

The schemes operated by the Group are useful tools in retaining key people and aligning their interests with those of FirstRand's shareholders. All the share incentive schemes currently in operation within the Group have received the prior approval of FirstRand's shareholders and other stakeholders.

"In order to link compensation to the time horizon of risk assumed by the Group, the vesting of **long-term incentive awards is subject to satisfying performance conditions** set for, and measured over, a three- to five-year period. If performance conditions are not satisfied, outstanding payments are forfeited. FirstRand's Remco believes that this period is aligned with **the nature of its business** and the risks it has to address."

Remco is of the opinion that the balance between short-term incentives and long-term deferred incentives linked to share price performance represents a healthy mix which will encourage focus on sustainability of profits and performance against well defined financial and non-financial objectives.

Vesting criteria for the Group's long-term incentive schemes are clearly defined in the schedule of share incentive schemes in note 30 of the annual financial statements. These vesting criteria are reviewed regularly and adjusted in line with the prevailing macroenvironment and to ensure alignment with performance and shareholder returns. Performance hurdles are never adjusted retrospectively, therefore the failure to meet these hurdles results in outstanding share-based payments being forfeited. Performance targets for the 2007 scheme have not to date been met and thus share incentives have not become exercisable.

Remco is of the view that by their very nature, share-based payments encourage behaviour that is consistent with effective risk management. Claw back arrangements, therefore, do not exist post vesting.

Basic salaries and benefits

Salaries are reviewed annually in the context of individual and business unit performance, inflation and specific industry practices and trends. Reference is made to independent industry salary surveys on a regular basis.

New employees joining the Group become members of a defined contribution pension and/or provident fund scheme operated under the control of the relevant governing legislation. All schemes are valued regularly by independent actuaries and are financially sound. Should the actuaries advise of any deficits within the old defined benefit schemes, such deficits are funded to ensure the ongoing soundness of the fund concerned. Retirement funding contributions are charged against expenditure when incurred.

The assets of retirement funds are managed separately from the Group's assets. Boards of trustees of the pension and provident funds include staff and pensioner representatives who oversee the management of the funds and ensure compliance with the relevant legislation.

All full-time employees are required to belong to a medical aid scheme. On retirement, facilities exist for retired employees to join medical aid schemes in their individual capacities. When, as a result of past practice, the Group is required to contribute to post-employment medical aid costs, the present value of such contributions is calculated and provided for. Current employment practice excludes post-employment medical aid contributions.

Executive compensation

The basis for remunerating executive directors and prescribed officers is similar to that of senior management and comprises a basic salary plus benefits, an annual performance-related reward and participation in the Group's share award schemes.

FirstRand's executive directors and prescribed officers are employed under the Company's standard employment contract. Compensation is benchmarked against industry peers and is subject to external professional advice when deemed appropriate. The services of the prescribed officers are subject to one month's notice and no protection is provided in the event of an unsolicited takeover.

"Executive compensation is designed to align **with shareholder returns** and to drive creation of long-term franchise value, through **delivering superior** and **sustainable returns,** within acceptable levels of earnings volatility. For the year to June 2012, FirstRand **produced excellent results** achieving normalised earnings from continuing operations of R12 730 million, an increase of 26% on the previous period, and producing a normalised ROE of 20.7% (2011: 18.7%)."

In addition to the strategic drivers, compensation of executive management also takes into account the size, complexity and risk profile of the individual operating franchise. Detailed performance score cards cover the following measurements:

- financial performance
  - growth in profit after tax
  - ROE
  - NIACC;
- risk appetite;
- efficiencies;
- customer service; and
- BEE transformation.

These criteria play out differently in each franchise. A retail franchise has many annuity income streams that require little capital to be deployed to generate profits, whereas the investment banking model requires considerable ingenuity, creativity and capital to generate sustainable returns. Therefore a key component of the Group's compensation approach also takes into account industry specific issues, not only absolute numbers.

During the year all FirstRand's operating franchises achieved positive net income after cost of capital. Looking at their individual performances in the table below, the following key financial measurements were achieved.

Franchise key measurements

Profit before tax (R million)	**2012**	2011	% change	ROE %
FNB*	**9 678**	7 879	23	35.0
RMB and GTS	**4 926**	5 370	(8)	23.2
WesBank**	**3 650**	2 548	43	33.9

* *Excluding profit on disposal of MMI Namibia.*
** *Excluding profit on disposal of investments.*

In line with the Group's objective to drive the delivery of long-term franchise value, there are deferral structures within the performance bonus component of compensation. Furthermore, the vesting of share-based payments depends on the Group achieving certain performance criteria – namely real growth in earnings and a premium over cost of equity. Details of share scheme vesting criteria are disclosed in note 30 of the annual financial statements.

Non-executive director compensation

Non-executive directors receive fees for their services as directors and for services provided as members of board committees. These fees vary depending on the role of the committee. Non-executive directors do not participate in normal share incentive schemes.

Fees paid to non-executive directors are based on current market practice. The fees are reviewed by the Directors' affairs and governance committee and are approved in advance by shareholders at the annual general meeting.

Proceedings and performance review

The committee meets at least three times per year. Attendance at the meetings held during the year was as follows:

	Jul 2011	Sep 2011	Feb 2012	Apr 2012	Jun 2012
VW Bartlett	✓	✓	✓	A	✓
JJH Bester	✓	A	✓	✓	✓
LL Dippenaar	✓	✓	✓	✓	✓
PM Goss (chairman)	✓	✓	✓	✓	✓
AT Nzimande	✓	✓	✓	✓	✓
BJ van der Ross	✓	✓	A	✓	✓
MH Visser (deceased – April 2012)	✓	✓	✓	✓	–

A – apologies tendered and accepted.
The chairman attends the annual general meeting.

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

"FirstRand's compensation policies for the coming financial year **will be put to a shareholders' vote at the annual general meeting,** details of which are provided in the notice of the annual general meeting."

PM Goss
Chairman, Remuneration committee

10 September 2012

DIRECTORS' AND PRESCRIBED OFFICERS' EMOLUMENTS

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

Directors' and prescribed officers' emoluments (audited)

	2012			2011		
	Services as directors[1]		**Total**	Services as directors[1]		Total
R'000	**FSR**	**Group**	**2012**	FSR	Group	2011
Executive director						
D Premnarayen[2]	787	29	**816**	592	1 038	1 630
Non-executive directors						
LL Dippenaar (chairman)	2 865	125	**2 990**	2 079	1 134	3 213
VW Bartlett[3]	707	238	**945**	630	500	1 130
JJH Bester[3]	1 270	1 624	**2 894**	927	1 900	2 827
MS Bomela (appointed September 2011)	371	29	**400**	–	–	–
L Crouse	771	11	**782**	578	141	719
PM Goss[3]	615	116	**731**	500	136	636
NN Gwagwa[3]	484	56	**540**	378	65	443
PK Harris	396	5	**401**	327	225	552
WR Jardine[3]	453	29	**482**	412	72	484
EG Mantenge-Sebesho[3] (appointed July 2010)	584	213	**797**	456	345	801
AP Nkuna (retired July 2011)	35	15	**50**	364	65	429
AT Nzimande	548	44	**592**	425	130	555
KB Schoeman	440	29	**469**	348	65	413
RK Store[3]	803	387	**1 190**	816	335	1 151
BJ van der Ross[3]	564	262	**826**	529	1 254	1 783
JH van Greuning[3]	1 052	1 605	**2 657**	2 341	308	2 649
MH Visser (deceased April 2012)	504	11	**515**	410	65	475
Total non-executive directors	12 462	4 799	**17 261**	11 520	6 740	18 260

All the executive directors and prescribed officers have a notice period of one month. Non-executive directors are appointed for a period of three years and are subject to the provisions relating to removal set out in the Companies Act 71 of 2008. The retirement age of directors is set at age 70. Benefits derived by executive directors in terms of their share option schemes are disclosed in FirstRand Limited. No options are granted to executive directors who have attained the age of 57 by September of each year.

1. *Fees earned by South Africa-based executive directors of FirstRand and its subsidiaries are waived and ceded to companies in the FirstRand Group and do not accrue to them in their private capacity. These fees are not reflected in the above schedule.*
2. *D Premnarayen is classified as an executive director due to his participation in FirstRand's share scheme and does not participate in other executive remuneration arrangements.*
3. *Independent non-executive director.*

Prescribed officers

Emoluments	2009	2010	2011	**2012**
SE Nxasana[4]				
Cash package	4 427	5 101	6 220	**6 614**
Retirement contributions	524	617	616	**786**
Other allowances[5]	93	93	97	**81**
Subtotal	5 044	5 811	6 933	**7 481**
Performance related[6]	4 860	5 820	8 190	**9 600**
Share awards for performance[7]	–	5 180	4 460	**5 400**
Subtotal	4 860	11 000	12 650	**15 000**
Total	9 904	16 811	19 583	**22 481**
JP Burger[4,8]				
Cash package	4 258	4 699	5 503	**5 776**
Retirement contributions	630	698	679	**866**
Other allowances[5]	62	62	74	**118**
Subtotal	4 950	5 459	6 256	**6 760**
Performance related[6]	4 590	5 520	7 470	**8 760**
Share awards for performance[7]	–	4 480	3 980	**4 840**
Subtotal	4 590	10 000	11 450	**13 600**
Total	9 540	15 459	17 706	**20 360**
M Jordaan				
Cash package	3 606	3 898	4 283	**4 604**
Retirement contributions	699	692	760	**816**
Other allowances[5]	61	133	144	**149**
Subtotal	4 366	4 723	5 187	**5 569**
Performance related[6]	6 265	5 400	6 360	**7 512**
Share awards for performance[7]	–	2 600	3 240	**4 008**
Subtotal	6 265	8 000	9 600	**11 520**
Total	10 631	12 723	14 787	**17 089**
A Pullinger[9]				
Cash package	1 286	1 571	1 743	**1 981**
Retirement contributions	257	198	330	**339**
Other allowances[5]	76	100	110	**99**
Subtotal	1 619	1 869	2 183	**2 419**
Performance related[6]	1 050	11 280	13 416	**11 400**
Share awards for performance[7]	–	6 520	7 944	**6 600**
Subtotal	1 050	17 800	21 360	**18 000**
Total	2 669	19 769	23 543	**20 419**
B Riley[10]				
Cash package	2 177	2 315	2 572	**2 746**
Retirement contributions	185	268	297	**270**
Other allowances[5]	90	100	106	**163**
Subtotal	2 452	2 683	2 975	**3 179**
Performance related[6]	1 700	3 000	4 200	**5 400**
Share awards for performance[7]	–	1 000	1 800	**2 600**
Subtotal	1 700	4 000	6 000	**8 000**
Total	4 152	6 683	8 975	**11 179**

Co-investment scheme

In addition to contractual and performance remuneration, prescribed officers are entitled to participate in a co-investment scheme. Profit share, as shown in the table below, is based on a capital contribution placed at risk by the employee.

Co-investment scheme	**2012**	2011
JP Burger[4]	**1 928**	990
M Jordaan	**964**	495
SE Nxasana[4]	**428**	220
A Pullinger	**2 570**	1 321

All the executive directors and prescribed officers have a notice period of one month. Non-executive directors are appointed for a period of three years and are subject to the Companies Act 71 of 2008 provisions relating to removal. The retirement age of directors is set at age 70. Benefits derived by executive directors in terms of their share option schemes are disclosed in FirstRand Limited. No options are granted to executive directors who have attained the age of 57 by September of each year.

4. *These prescribed officers in terms of the Companies Act 71 of 2008 are also executive directors. A prescribed officer is a person who exercises general executive control over and management of the whole or a significant portion of the business and activities of FirstRand.*
5. *Other allowances includes travel and medical.*
6. *Performance-related payments are in respect of the year ended 30 June, but are paid (with an interest factor) in three tranches, during the following year ending 30 June.*
7. *Performance payments deferred in FirstRand shares vest in September two years after the award date. Refer to the share option schemes disclosed in note 30.*
8. *Appointed COO effective 6 June 2008.*
9. *Appointed CEO of RMB on 19 August 2008.*
10. *Appointed CEO of WesBank on 27 November 2006.*

Aggregate compensation disclosures

	2012
Employees receiving variable awards (number of employees)	
Employees receiving variable compensation	15 447
Employees receiving union-agreed variable compensation[1]	19 761
Total variable awards	35 208
Sign on and severance (number of employees)	
Sign on awards granted	58
Severance awards	192
Total sign on and severance awards	250
Sign on and severance (R million)	
Value of sign-on awards granted	28
Value of severance awards	44
Total value of sign on and severance awards	72
Portion of 2012 compensation not deferred (R million)	
Guaranteed compensation	9 775
Union-agreed variable compensation[1]	224
Variable compensation[2]	1 452
Vested share-based long-term incentives (LTIs) exercised and paid[3]	633
Total non-deferred compensation	12 084
Portion of 2012 compensation deferred[4] (R million)	
Second and third cash tranches of variable compensation[5]	534
Portion of 2012 variable compensation deferred in shares[6]	157
2012 share-based LTI award	897
Total deferred compensation	1 588
Cumulative outstanding deferred compensation at 30 June 2012[4,7] (R million)	
Second and Third cash tranches of variable compensation	534
Portion of variable compensation deferred (cumulative 2011 and 2012)	214
Share-based LTI awards (cumulative 2009, 2010, 2011)	1 930
Share-linked LTI awards (2008)	897
Total cumulative outstanding deferred compensation	3 575
Total deferred compensation clawed back (R million)	2

Notes

1. *Guaranteed bonuses paid to non-managerial employees in the form of 13th cheques in terms of the Group's annual union negotiations.*
2. *Includes first tranche of cash-settled variable compensation.*
3. *LTIs are share-based incentives that only become exercisable subject to clearly defined vesting criteria. Refer to note 30 for detailed disclosure of the Group's vesting criteria.*
4. *All deferred compensation is subject to clearly defined performance criteria to ensure alignment of employee remuneration with company performance. Refer to page 83 for a detailed description of the Group's deferral policy.*
5. *Portion of cash bonus deferred to 2nd and 3rd tranche payments in December and June respectively of the preceding financial year.*
6. *Cash portion of variable compensation deferred relating to FirstRand shares and subject to vesting criteria.*
7. *Vested but not yet exercisable fair value of cumulative outstanding deferred compensation is subject to individual, business unit and corporate performance criteria.*

Executive directors' and prescribed officers' interests

	Opening balance (number of shares)	Strike price (cents)	Expiry date	Granted/ taken up this year (number of shares)	Portion not exercisable due to vesting criteria not being met (number of shares)	Closing balance (number of shares)	Benefit derived (Rand)
Sizwe Nxasana							
Forfeitable share plan (MMIH)	108 416	0.00	2011/09/16	–	–	108 416	–
Share appreciation right (APR)	350 000	13.50	2011/10/31	(13 930)	(336 070)	–	94 863
Forfeitable share plan (FSP)	642 405	0.00	2012/09/16	–	–	642 405	–
Bonus deferral CSP	291 965	0.00	2012/10/13	10 248	–	302 213	–
Conditional share plan 2009 (CSP)	691 380	0.00	2012/10/17	24 267	–	715 647	–
Share appreciation right (APR)	1 000 000	17.00	2012/11/01	–	–	1 000 000	–
Bonus deferral CSP	–	0.00	2013/10/13	228 882	–	228 882	–
Conditional share plan 2010 (CSP)	600 101	0.00	2013/10/14	21 064	–	621 165	–
Share appreciation right (APR)	2 000 000	10.48	2013/12/03	–	–	2 000 000	–
Conditional share plan 2011 (CSP)	–	0.00	2014/10/13	576 567	–	576 567	–
FirstRand black non-executive share trust*	1 000 000	12.28	2014/12/31	–	–	1 000 000	–
FirstRand black employee share trust*	1 000 000	14.91	2014/12/31	–	–	1 000 000	–
Subtotal	**7 684 267**			**847 098**	**(336 070)**	**8 195 295**	**94 863**
Johan Burger							
Forfeitable share plan (MMIH)	100 672	0.00	2011/09/16	–	–	100 672	–
Share appreciation right (APR)	800 000	13.50	2011/10/31	(31 840)	(768 160)	–	200 274
Forfeitable share plan (FSP)	596 519	0.00	2012/09/16	–	–	596 519	–
Bonus deferral CSP	252 510	0.00	2012/10/13	8 863	–	261 373	–
Conditional share plan 2009 (CSP)	518 535	0.00	2012/10/17	18 201	–	536 736	–
Share appreciation right (APR)	900 000	17.00	2012/11/01	–	–	900 000	–
Bonus deferral CSP	–	0.00	2013/10/13	204 249	–	204 249	–
Conditional share plan 2010 (CSP)	457 220	0.00	2013/10/14	16 048	–	473 268	–
Share appreciation right (APR)	1 500 000	10.48	2013/12/03	–	–	1 500 000	–
Conditional share plan 2011 (CSP)	–	0.00	2014/10/13	461 870	–	461 870	–
Subtotal	**5 125 456**			**677 391**	**(768 160)**	**5 034 687**	**200 274**
Deepak Premnarayen							
APR	2 304 577	10.48	2013/12/03	(768 192)		1 536 385	6 813 863
Subtotal	**2 304 577**			**(768 192)**		**1 536 385**	**6 813 863**
Prescribed officers							
Michael Jordaan							
Forfeitable share plan (FSP)	379 747	0.00	2011/09/16	(379 747)	–	–	7 938 171
Forfeitable share plan (MMIH)	64 088	0.00	2011/09/16	(64 088)	–	–	1 053 321
Share appreciation right (APR)	800 000	13.50	2011/10/31	(31 840)	(768 160)	–	220 174
Bonus deferral CSP	146 546	0.00	2012/10/13	5 144	–	151 690	–
Conditional share plan 2009 (CSP)	432 113	0.00	2012/10/17	15 167	–	447 280	–
Share appreciation right (APR)	800 000	17.00	2012/11/01	–	–	800 000	–
Bonus deferral CSP	–	0.00	2013/10/13	166 273	–	166 273	–
Conditional share plan 2010 (CSP)	372 255	0.00	2013/10/14	13 066	–	385 321	–
Share appreciation right (APR)	1 000 000	10.48	2013/12/03	(333 333)	–	666 667	3 023 330
Conditional share plan 2011 (CSP)	–	0.00	2014/10/13	410 551	–	410 551	–
Subtotal	**3 994 749**			**(198 807)**	**(768 160)**	**3 027 782**	**12 234 996**

* *Participation right.*

	Opening balance (number of shares)	Strike price (cents)	Expiry date	Granted/ taken up this year (number of shares)	Portion not exercisable due to vesting criteria not being met (number of shares)	Closing balance (number of shares)	Benefit derived (Rand)
Alan Pullinger							
Forfeitable share plan (FSP)	379 747	0.00	2011/09/16	(379 747)	–	–	7 941 209
Forfeitable share plan (MMIH)	64 088	0.00	2011/09/16	(64 088)	–	–	1 047 249
Share appreciation right (APR)	550 000	13.50	2011/10/31	(21 890)	(528 110)	–	137 688
Bonus deferral CSP	367 494	0.00	2012/10/13	12 899	–	380 393	–
Conditional share plan 2009 (CSP)	432 113	0.00	2012/10/17	15 167	–	447 280	–
Share appreciation right (APR)	250 000	17.00	2012/11/01	–	–	250 000	–
Bonus deferral CSP	–	0.00	2013/10/13	309 035	–	309 035	–
Conditional share plan 2010 (CSP)	372 255	0.00	2013/10/14	13 066	–	385 321	–
Share appreciation right (APR)	1 250 000	10.48	2013/12/03	–	–	1 250 000	–
Conditional share plan 2011 (CSP)	–	0.00	2014/10/13	359 232	–	359 232	–
Subtotal	**3 665 697**			**243 674**	**(528 110)**	**3 381 261**	**9 126 146**
Brian Riley							
Forfeitable share plan (FSP)	253 165	0.00	2011/09/16	(253 165)	–	–	5 297 952
Forfeitable share plan (MMIH)	48 687	0.00	2011/09/16	(48 687)	–	–	795 585
Share appreciation right (APR)	135 000	13.50	2011/10/31	(5 373)	(129 627)	–	32 668
Share appreciation right (APR)	165 000	19.52	2012/03/27	(6 567)	(158 433)	–	28 895
Forfeitable share plan (FSP)	35 320	0.00	2012/09/15	(35 320)	–	–	736 447
Bonus deferral CSP	56 364	0.00	2012/10/13	1 978	–	58 342	–
Conditional share plan 2009 (CSP)	311 121	0.00	2012/10/17	10 920	–	322 041	–
Share appreciation right (APR)	400 000	17.00	2012/11/01	–	–	400 000	–
Bonus deferral CSP	–	0.00	2013/10/13	92 374	–	92 374	–
Conditional share plan 2010 (CSP)	268 024	0.00	2013/10/14	9 408	–	277 432	–
Share appreciation right (APR)	1 000 000	10.48	2013/12/03	(333 333)	–	666 667	3 139 997
Conditional share plan 2011 (CSP)	–	0.00	2014/10/13	266 858	–	266 858	–
Subtotal	**2 672 681**			**(300 907)**	**(288 060)**	**2 083 714**	**10 031 544**

Audit committee

Hennie van Greuning
Chairman

ROLE

FirstRand's Audit committee is an independent statutory committee appointed by FirstRand's shareholders with a formal charter approved by the Board of directors.

"THE MAIN TASK OF THE COMMITTEE IS TO **OVERSEE THE INTEGRITY OF THE GROUP'S INTERNAL CONTROL ENVIRONMENT** AND ENSURE THAT FINANCIAL STATEMENTS COMPLY WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) AND FAIRLY PRESENT THE FINANCIAL POSITION OF THE GROUP AND THE RESULTS OF ITS OPERATIONS. THE COMMITTEE **PROVIDES REGULAR REPORTS TO FIRSTRAND'S BOARD,** WHICH ASSUMES **ULTIMATE RESPONSIBILITY** FOR THE FUNCTIONS PERFORMED BY THE COMMITTEE."

COMPOSITION

The committee is composed of six non-executive directors, five of whom are independent. FirstRand's chief executive, financial director, chief audit executive, external auditors, heads of finance, risk and compliance and other assurance providers attend committee meetings in an *ex officio* capacity. The external auditors and chief audit executive meet independently with the non-executive members as and when required.

2012 Highlights

Focus area	Actions
IFRS	Attended regular technical sessions to facilitate a thorough understanding of the accounting policies used. The committee is satisfied that these are in compliance with IFRS.
Going concern	Reviewed a documented assessment, including key assumptions of the going concern status of the company and reviewed budgets for the next three years. Based on the information provided by management the committee has concluded that the Group will continue to be a going concern.
Financial analysis	Refining reporting to ensure that financial information is provided in a manner that enables value-added analysis and probing by non-executives.
Integrated reporting	Oversaw the Group's integrated reporting processes and the effectiveness of the internal control environment underpinning these. Considered the recommendations of external assurance providers in reviewing the consistency of the information disclosed in the integrated report. In September 2012 the committee accordingly recommended the integrated report to FirstRand's Board.
Combined assurance	Monitored alignment of all lines of defence to achieve elimination of multiple approaches to risk assessment and reporting. The combined assurance process aims to ensure that any loss events or control breakdowns are used to help synchronise complementary risk and assurance functions through a focus on root-cause analysis and related management actions.
External auditors	Recommended the appointment of the external auditors at the annual general meeting and approved the external audit plan. External auditors meet with non-executive directors prior to each audit committee meeting.

Assessment of internal controls

The Group's internal controls and systems are relied upon to provide reasonable assurance about the integrity and reliability of the financial statements, to safeguard, verify and maintain accountability of its assets, and to detect fraud, potential liability, loss and material misstatement, while complying with regulations.

Financial services institutions are inherently complex in nature with a number of areas exposed to the risk of control failure. In general, most internal control systems require continuing review and refinement of business processes to ensure best market practice as well as elimination of the potential for human error or deliberate manipulation of control activities. The Audit committee receives regular progress reports on the improvement of business processes and detailed disclosures on the functioning of the Group's internal controls during the year under review are included in the *Risk and capital management report* which can be found on pages 118 to 212.

The committee can confirm that the financial and risk management information contained in the integrated report accurately reflects the information reported to the committee by management and has no reason to believe that the existing internal financial controls do not form a sound basis for the preparation of reliable financial statements. The committee's opinion in this regard is supported by the reports received from the Risk committee, external audit, internal audit and executive management.

Relationship with Risk committee

"FirstRand's Audit committee works closely with the Group's Risk, capital management and compliance committee to **identify common control themes** and achieve synergy between assurance processes thereby ensuring that, where appropriate, these functions can leverage off one another. Several non-executive directors, including the chairpersons, serve on both committees to **ensure that relevant information is shared.**"

Financial reporting risks

The Audit committee fulfils an oversight role regarding financial reporting risks, internal financial controls, fraud risk and information technology risks as they relate to financial reporting.

Compliance with regulations

Based on the reports received throughout the year the committee is able to confirm to FirstRand's stakeholders that the Group has implemented appropriate processes for complying with the spirit and the letter of the SA Banks Act, the SA Companies Act and King III .

IT risk

The Audit committee receives regular reports from the IT governance committee (ITGC) which monitors refinements to the Group's information and technology governance framework as well as providing a comprehensive and transparent review of the effectiveness of the information and technology governance mechanisms within the Group. Based on the reports received, the Audit committee is satisfied that the Group is able to effectively manage its information and technology resources as well as plan appropriately for potential future IT risks.

Stakeholders are referred to page 210 of the *Risk and capital management report* for a detailed review of Group's IT risk governance processes.

Whistle-blowing

The Audit committee did not receive any concern or complaint relating to the accounting practices and internal audit of the company, the content or auditing of the company's financial statements, the internal financial controls of the company or any other related matter.

Finance function expertise

The Audit committee considers the expertise and experience of the financial director in terms of the JSE Listings Requirements and is satisfied that the appropriate requirements have been met. The Audit committee is also satisfied by the expertise and adequacy of resources of the finance function and experience of the senior members of management responsible for it.

Internal audit charter and plan

The committee recommends the internal audit charter for approval by the Board and approves the annual internal audit plan. The chief audit executive is responsible for reporting on the findings of the internal audit work and has direct access to the audit committee, primarily through its chairman. During the year the committee received regular reports from group internal audit on any weaknesses in controls that were identified, including financial controls, and considered corrective actions to be implemented by management.

The committee has assessed the performance of the chief audit executive and is satisfied that the internal audit function is independent and appropriately resourced, and that the chief audit executive has fulfilled the obligations of the position. A more detailed review of the work undertaken by internal audit during the year is provided on pages 128 and 129.

External audit plan

The committee, in consultation with executive management, agreed to the engagement letter, terms of engagement, audit plan and budgeted audit fees for the 2012 financial year. The external audit plan was carefully aligned with a risk-based approach taking cognisance of the internal audit plan and the work plans of the Group's combined assurance community.

Audit and non-audit services

There is a formal procedure that governs the process whereby auditors are considered for non-audit services and the committee has pre-approved a service agreement for the provision of these by the external auditors.

Auditor independence

The committee is satisfied that the external auditors were independent of the company, as set out in section 94(8) of the Companies Act. This has included consideration of previous appointments of the auditors, the extent of other work undertaken by the auditors for the company, compliance with criteria relating to independence or conflicts of interest and internal governance processes within the audit firms.

LOOKING AHEAD

Changing environment

South Africa has escaped many of the developments in global banking practices that appear to demonstrate lapses in ethics and risk management. In this context, feedback and analysis by the Group ethics officer is included in committee proceedings, to determine whether similar events could undermine risk management and internal control in the Group.

"FirstRand's Audit committee understands that it has to **remain vigilant** and that its role is not simply to ensure that audit procedures are performed, but to **ensure that the work performed makes sense and adds value.** This requires increasing collaborative approaches to work undertaken by executive management and the Group's other assurance providers."

Committee effectiveness

During the year under review FirstRand's Audit committee members conducted an effectiveness survey, the results of which were shared with the Board. The Committee confirms that for the period under review, it discharged its duties and responsibilities in accordance with the terms of reference.

PROCEEDINGS AND PERFORMANCE REVIEW

Attendance at the meetings held during the year was as follows:

	Sep 2011	Nov 2011	Feb 2012	May 2012
VW Bartlett	✓	A	✓	✓
JJH Bester	✓	✓	✓	✓
L Crouse	✓	A	✓	✓
EG Matenge-Sebesho	✓	✓	✓	✓
RK Store	✓	✓	✓	✓
JH van Greuning – chairman	✓	✓	✓	✓

A – apologies tendered and accepted.

JH van Greuning
Chairman, Audit committee

10 September 2012

Risk, capital management and compliance committee

Jurie Bester
Chairman

"IN RECENT YEARS INNOVATIONS IN FINANCIAL MARKETS AND THE **INTERNATIONALISATION OF FINANCIAL FLOWS** HAVE CHANGED THE NATURE OF BANKING. MARGINS FROM TRADITIONAL BANKING BUSINESS BEGAN TO DIMINISH AND CAPITAL ADEQUACY REQUIREMENTS BEGAN TO INCREASE. **BANKS HAVE RESPONDED** BY ENTERING INTO NEW BUSINESS AREAS **FOCUSING ON SUPERIOR INFORMATION AND KNOWLEDGE MANAGEMENT.** RISK COMMITTEES HAVE ACCORDINGLY HAD TO KEEP UP WITH THESE DEVELOPMENTS."

COMPOSITION

FirstRand's Risk, capital management and compliance (RCC) committee is composed exclusively of non-executive directors with a majority of independent non-executive directors. Among the attendees are members of the Group's divisional risk committees, the chief executive officer, chief operating officer, the Group and divisional chief risk officers, the Group audit executive and the head of regulatory risk management, all of whom attend meetings in an *ex officio* capacity.

The chairman and with other members of the RCC committee are nominated by the Board which ensures that members have the necessary, skills, experience and financial services background to fulfil their duties.

ROLE

"Income generation through **client-based activities** is now a **major source of FirstRand's profits.** Financial innovation has led to **increased market orientation and marketability of bank assets.** These recent developments have placed renewed focus on the need for robust risk management processes, sophisticated risk measurement techniques and integrated approaches to internal controls."

The RCC committee is appointed by the Board and has a formally approved charter. The RCC committee provides independent oversight of risk, capital management and compliance activities undertaken within the FirstRand Group. This includes ensuring that:

- an effective policy and plan for risk management has been implemented to enhance the FirstRand's ability to achieve desired outcomes; and
- FirstRand's risk disclosures are timely, sufficiently detailed and relevant to the Group's stakeholders.

The Committee does not assume the functions of management, which remains the responsibility of the executive directors, officers and other members of senior management.

During the year the RCC committee reviewed reports from the chief risk officer and subsidiary risk committees in ensuring that significant issues are addressed adequately across the Group.

2012 Highlights

Focus area	Actions
Combined assurance	The RCC committee assisted management in identifying and addressing key risk areas, while the prime responsibility for risk management is integrated into all levels of management. The committee has overseen greater coordination by management of the risk management processes affecting the life cycle of each business line.
International expansion	In line with FirstRand's strategic intent on international expansion of operations, the RCC committee oversaw processes for ensuring that the Group risk management policies and procedures were implemented at all operations.
Aligning risk and reward	Increased focus was placed on the alignment of remuneration practices with risk taken by FirstRand employees. This includes recommendations on the remuneration of employees in the risk and control functions.
Identifying and managing sustainability risks	By means of the analysis of potential volatility of earnings against the internal capital adequacy processes under various scenarios the RCC committee quantified the risk exposures impacting the short, medium and long run viability of the going concern. In addition to the above environmental, social and governance risks affecting the sustainability of the Group were assessed using both quantitative and qualitative methodologies.

Stakeholders are referred to the comprehensive *Risk and capital management report* set out from pages 118 to 212 for a detailed review of the risk and capital management processes and responsibilities undertaken by the Group.

ACTIVITIES UNDERTAKEN DURING THE YEAR

FirstRand's combined assurance model **underlines the importance of an effective relationship** between the RCC and Audit committees. To this end the RCC committee works closely with the Audit committee to ensure that risk management processes and information appropriately inform the **evolving nature of risks affecting financial institutions.**

In line with the above the committee has undertaken the following during the year:

- approved risk management policies, standards and processes as required;
- received the CRO reports from the Group and franchise chief risk officers and specialised risk functions, which highlights the effectiveness of risk management processes;
- noted corrective actions implemented and initiated additional corrective actions where necessary across all risk types;
- received compliance and regulatory reports and noted actions taken and effectiveness of regulatory risk management. This included updates on new and pending regulatory changes;
- received presentations on emerging risk and topics requiring detailed analysis;
- reported the consolidated risk profile and risk effectiveness to the Board;
- approved regulatory capital models;
- reviewed and approved changes to board limits and risk appetite;
- overseen the Group's stress testing processes used to assess the Group's capital adequacy and to determine the Group's internal policies and exposure limits as approved by the Board;
- liaised closely with the Audit Committee to exchange information relevant to risk.

PROCEEDINGS AND PERFORMANCE REVIEW

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

	Nov 2011	Feb 2012	May 2012
JJH Bester – chairman	✓	✓	✓
L Crouse	✓	✓	✓
Z Roscherr	✓	✓	✓
RK Store	✓	✓	✓
JJH van Greuning	✓	✓	✓

During the year under review the RCC committee members conducted an effectiveness survey and are satisfied that the committee has met the requirements of its charter.

The chairman is satisfied that the FirstRand Group has the necessary resources, systems, skills and remuneration practices to enable the ongoing effectiveness of the risk, capital management and compliance functions within the FirstRand Group.

JJH Bester
Chairman, Risk, capital management and compliance committee

10 September 2012

Transformation monitoring committee

Lulu Gwagwa
Chairman

"FIRSTRAND IS PROUD TO HAVE ACHIEVED A **LEVEL 2 BEE RATING** OVER THE PAST YEAR. THIS WAS DUE TO CONCERTED EFFORTS MADE BY THE GROUP'S FRANCHISES AS WELL AS A **STRONG EMPOWERMENT STRATEGY** HARDWIRED INTO THE ORGANISATION."

COMPOSITION

The committee is chaired by an independent non-executive director and comprises five independent non-executive directors. The chief executives of FirstRand's operating franchises and other members of senior management attend in an *ex officio* capacity.

ROLE

FirstRand's Transformation monitoring committee (TMC) is a subcommittee of the Board charged with overseeing the development and successful implementation of the Group's BEE transformation strategy.

2012 Highlights

Focus area	Actions
BEE risk reporting	Overseeing the further integration of BEE risk into the Group's enterprise risk management processes.
Employment equity and talent management	Overseeing strategies for ensuring that skills development initiatives, career and succession planning are coordinated in a way that will help to develop black business leaders from within the Group.
BEE procurement	Overseeing the implementation of a five-point strategy to enable the Group to meet black-owned and black women-owned supplier targets.
Transformation scorecard	Overseeing the Group's dti scorecard and an improvement from level 3 to level 2 contribution. This also included oversight of BEE objectives set out specifically for the financial services sector, notably financing small black-owned businesses and transformational infrastructure in underdeveloped areas.

MEASURABLE PROGRESS

Following progress in the equity ownership and skills development components of the Group's dti scorecard FirstRand improved its BEE rating from a level 3 contributor to a level 2 contributor.

	Target	2012	2011	% change
Equity ownership	20	18.56	12.75	46
Management control	10	6.94	6.96	–
Employment equity	15	11.07	11.03	–
Skills development	15	12.02	11.04	9
Preferential procurement	20	18.48	16.60	11
Enterprise development	15	15.00	15.00	–
Socioeconomic development	5	5.00	5.00	–
Total	**100**	**87.07**	**78.38**	**11**

WORKPLACE DIVERSITY

While approximately 70% of the Group's overall workforce is composed of African, Coloured and Indian (ACI) employees, progress has been slow in achieving greater representation of ACI candidates at top and senior management, specifically African employees, and in particular African women.

This challenge is seen as being symptomatic of macro economic conditions and the TMC has overseen decisive measures for addressing this challenge through:

- Upskilling existing ACI talent and adopting appropriate succession planning for high-potential employees; and
- Using the information from exit interviews to identify and respond appropriately to any instances of higher than average turnover among ACI employees

Workforce profile

	Male				Total	Female				Total	Foreign	
Occupational Levels	African	Coloured	Indian	White	Male	African	Coloured	Indian	White	Female	national	**Total**
Top management	4	1	5	34	44	2	2	1	4	9	4	**57**
Senior management	75	28	122	595	820	56	27	46	252	381	17	**1 218**
Middle management	962	350	755	2 183	4 250	795	607	706	1 905	4 013	73	**8 336**
Junior management	1 587	562	505	813	3 467	2 740	1 827	1 025	2 227	7 819	39	**11 325**
Semi-skilled	2 236	521	305	356	3 418	4 298	1 319	573	1 072	7 262	19	**10 699**
Unskilled	247	43	6	4	300	212	28	0	0	240	0	**540**
Total South Africa	5 111	1 505	1 698	3 985	12 299	8 103	3 810	2 351	5 460	19 724	152	**32 175**

Management control

FirstRand's Board of directors is constituted of 18 directors. Eight of FirstRand's directors are classified as black in terms of the dti definitions, and four of the directors are black women.

In terms of the Group's dti scorecard FirstRand achieved a score of 42% ACI representation for its Board of directors and 22% for top management.

Disability forum

The Group's disability policy addresses recruitment, performance management, disability declaration procedures and measures necessary to accommodate special needs of disabled employees.

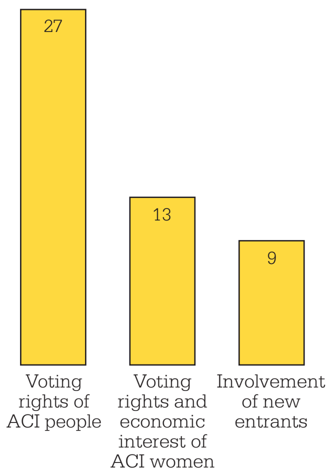
Over the past year FirstRand initiated an exercise to further increase disclosure of disabilities by employees in order to improve accommodation of special needs.

EQUITY OWNERSHIP

In terms of the Group's formal BEE ownership structures, 26.8% of FirstRand shares are owned by black people, 12.6% by black women and 9.3% by black people who have never owned shares in a company before.

The ownership increased from the prior period due to the Royal Bafokeng/RMB Holdings transaction and the results of an independent analysis of the Group's indirect black ownership resulting from public purchases of FirstRand shares on the JSE.

Transformation monitoring committee
(%)



TRANSFORMATION PHILOSOPHY

FirstRand believes that BEE transformation is about more than scorecards or BEE credentials and understands that the company cannot be transformed without thinking of the country as whole. The TMC has responded by ensuring that the Group's BEE strategy takes cognisance of the Group's broader operating environment. The committee has ensured that FirstRand leverages areas of Group strength in line with business strategy while developing carefully considered actions where improvements are required.

Transparency and accountability for the implementation of the Group's BEE strategy rests with executive management and the TMC receives regular and detailed reports on progress from the Group's executive teams.

PROCEEDINGS AND PERFORMANCE REVIEW

Attendance of FirstRand directors at the committee meetings held during the year was as follows:

	Sep 2011	Nov 2011	Feb 2012	May 2012
MS Bomela	✓	✓	✓	A
NN Gwagwa – chairman	✓	✓	✓	✓
AT Nzimande	✓	✓	✓	✓
KB Schoeman	✓	✓	A	✓
BJ van der Ross	✓	A	✓	✓

A – apologies tendered and accepted.

During the year under review the committee members conducted an effectiveness survey and are satisfied that the committee has met the requirements of its charter.

NN Gwagwa
Chairman, Transformation monitoring committee

10 September 2012


The importance of **good ethics in banking** cannot be **overemphasised.**

Social and ethics committee

Tim Store
Chairman

"GLOBALLY TRUST IN FINANCIAL SERVICES HAS SUFFERED BECAUSE OF SIGNIFICANT ETHICAL LAPSES. FIRSTRAND RECOGNISES THAT BANKING IS A TRUST BUSINESS AND THUS **ETHICS ARE CORE TO THE ENTERPRISE** – CUSTOMERS AND INVESTORS TRUST BANKS WITH THEIR MONEY, WHIST BANKS SEEK TO DO BUSINESS WITH TRUSTWORTHY INDIVIDUALS AND ORGANISATIONS. THE IMPORTANCE OF **GOOD ETHICS IN BANKING** CANNOT BE **OVEREMPHASISED.**"

COMPOSITION

FirstRand's Social and ethics committee (Secom) is composed of three independent non-executive directors in addition to the chief executive officer, the chief operating officer and the group ethics officer who all attend in an *ex officio* capacity. The Group head of human capital and the head of environmental risk attend as invitees to the Secom.

ROLE

"Secom oversees the optimal functioning of the Group's ethics management processes **in the interests of all of FirstRand's stakeholders.**"

The Secom in terms of Section 72 of the Companies Act (2008), is a statutory committee charged with assisting the Board in promoting responsible business practices across the FirstRand Group. The committee is supported by franchise ethics committees, chaired by the Group ethics officer and include among their membership the franchise chief risk officers who are charged with the implementation of the Group ethics framework.

2012 Highlights

Focus area	Actions
Code of ethics	Oversaw institutionalising of the Group code of ethics.
Ethical culture assessments	Conducted major organisational culture audits in Banking Channels (FNB) and Global Transactional Services (RMB).
Safe whistle-blowing	Oversaw gradual improvements in reporting rates as employees gain confidence in the safety and effectiveness of the process.
Leading light campaign	Launched a new whistle-blower reward programme while also rewarding employees who design and implement innovations that assist the Group to combat theft, fraud or corruption.
Responsible competitive practices	Oversaw the institutionalisation of the Group Responsible Competitive Practices Policy.
Responsible lending	Established processes to enable the identification, prevention and management of risks related to the ethics performance of the Group's clients and the moral desirability of their activities.

FIRSTRAND CODE OF ETHICS

"The Group code of ethics formalises the FirstRand philosophy and **values and acts as the cornerstone** of the company's ethics management framework."

The practical implementation of the Code is monitored through regular organisational culture surveys which aim to assess the level of adherence to the Code among FirstRand employees. Based on the reports received from management and the Group's franchise ethics committees, Secom is satisfied that there are adequate levels of awareness of, and commitment to, the Group code of ethics. The committee is equally satisfied that the Group Ethics Office has the necessary skills and resources for responding to any areas for improvement.

ETHICAL CULTURE ASSESSMENTS

"Conducting regular **ethical culture assessments** provides management with an understanding of the perceptions and experiences employees have of their **workplace** allowing targeted interventions in areas requiring attention."

The Group Ethics Office possesses the skills and experience to conduct world-class culture assessments. These assessments are done to support management in understanding the people dynamics in their respective business areas. The assessments are used to proactively identify risks in how employees perceive or experience their workplace. Levels of observed misconducted and the tendencies to report such observed misconduct are, among other indicators, closely monitored.

During the reporting period Secom has overseen major assessments in FNB Banking Channels and RMB Global Transactional Services.

DECLARATIONS OF INTEREST

"The Group has a declaration of interest process designed **to proactively identify potential conflicts** of interest. Emphasis is given on declaring outside business interests and gifts."

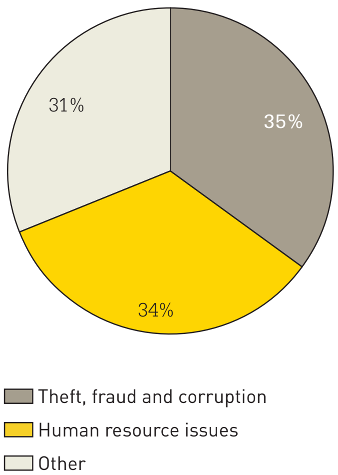
Secom oversaw institutionalising the Group declarations of interest policy. A project to transfer to declarations of ownership interests and gifts onto an Oracle platform is progressing. Secom has issued supportive guidance notes on foreign business travel and accommodation and on recognising conflicts of interest.

SAFE WHISTLE-BLOWING

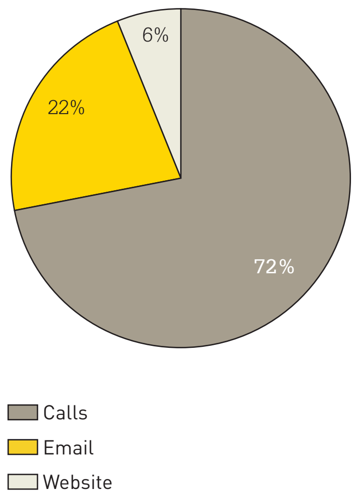
Secom has overseen the effective functioning of the Group's whistle-blowing programme. The whistle-blowing programme is supported by the Ethics Line, a facility to enable safe and effective reporting or misconduct (independently operated by Deloitte & Touche) and the Group whistle-blowing policy which provides FirstRand employees with guidance on how to use the line safely.

"Secom views the **increase in the number of calls** and the **change in mix towards the use of email and online facilities** as a sign of **rising levels of trust** in the facility among the Group's internal stakeholders."

2012 ethics alerts by category



2012 ethics alerts by channel



THE ETHICS LINE CAN BE ACCESSED VIA TELEPHONE, INTERNET OR EMAIL FROM ALL THE GROUP'S OPERATIONS.

During the reporting period the Ethics Line reported 171 calls. The data indicates a steady growth in the number of reports over the past year, primarily via the phone facility, with an uptake in the number of reports using the web facility. Reporting rates are gradually improving as employees gain confidence in the safety and effectiveness of the process.

The Group ethics officer is also reporting increased tendencies to approach the Group Ethics Office directly with ethical concerns in the workplace.

THE ETHICS LINE CONTACT METHODS

Tel SA/Namibia:	0800 003 312
Tel UK:	08082 387 500
Tel India:	0008 001 007 900
Email:	report@firstrandethicsoffice.co.za
Internet:	www.firstrandethicsoffice.com

RESPONSIBLE BUSINESS PRACTICES

"The Group's responsible competitive practices programme **supports compliance** with the Competition Act and **enables fair market competition** and provides employees with the tools to ensure that they **do not engage** in anti-competitive behaviour."

The committee has overseen the development and implementation of a responsible competitive practices policy (RCP) to promote adherence to the principles of the Competition Act among all employees and has received regular reports on progress with the RCP progamme.

FAIR CUSTOMER PRACTICES

"Fair customer practice is not primarily a regulatory matter. It is first and foremost a matter of **ethical principle,** which if adhered to **will facilitate compliance with regulation."**

Secom has overseen proactive steps to ensure that FirstRand meets the requirements of future regulation governing fair customer treatment, with a particular focus on ensuring that adequate disclosure of product and service conditions, responsible marketing and fair pricing are consistently achieved.

ANTI-BRIBERY AND CORRUPTION

"Secom has received reports on coordinated efforts by the Group Ethics Office, fraud risk management teams and Group Internal Audit to **continually enhance the detection and prevention of bribery**, **fraud and corruption** at all operations."

In response to legislative developments like the UK Bribery Act and general concern with the state of corruption in South African society, FirstRand is instituting a formal process for preventing bribery and corruption in all transactions. Secom is of the view that satisfactory progress is being made in further processes for identifying and managing bribery and corruption related risks within the Group's internal control framework.

RESPONSIBLE LENDING

"Secom sets **ethical guidelines** on responsible lending flowing from FirstRand's commitment to the **ten principles** on the United Nations Global Compact and the Equator Principles."

The Group Ethics Office has established processes to enable the identification, prevention and management of risks related to the ethics performance of the Group's clients and the moral desirability of their activities. A detailed review of the Group's environmental and social risk management processes during the year is provided on pages 132 to 136.

KING III

"The directors of FirstRand and the Group's divisional boards believe that **ethics are foundational to responsible leadership and good governance."**

During the year under review FirstRand's Ethics Office conducted a gap analysis of corporate governance practices compared with those recommended in King III and made recommendations on how any gaps should be addressed.

Explain items

King III adopts an apply or explain principle whereby a reasonable explanation for omitting to apply the King III principles results in compliance. FirstRand's explain items are as follows:

King III Chapter 2 – Boards and directors

King III principle 2.16 states that the board should elect a chairman of the board who is an independent non-executive director.

Explanation: FirstRand's chairman, Mr Dippenaar, is non-executive, but not independent in terms of the definitions explained below.

Mr Dippenaar is a major shareholder in RMB Holdings Limited, which owns 33.9% of the issued share capital of FirstRand. The Board believes that his specialist knowledge of the financial services industry and of the FirstRand Group makes it appropriate for him to hold this position. In line with the JSE Listings Requirements and the King III, an independent lead director was appointed during the year.

King III Chapter 3 – Audit committees

King III principle 3.2 states that the audit committee members should be suitably skilled and experienced independent non-executive directors.

Explanation: King III also recommends that the Audit committee should be constituted of at least three independent members. FirstRand's Audit committee is composed of six non-executive directors, five of whom are independent.

One of the members, Mr Leon Crouse, is not independent in terms of the definition provided. The committee is therefore not composed exclusively of independent directors as recommended by King III. The Board is of the opinion that Mr Crouse's specialist skills, experience, knowledge of the FirstRand Group and value that these bring to Audit committee deliberations, warrant his ongoing membership.

SECOM PROCEEDINGS AND PERFORMANCE REVIEW

The committee met twice during the year, with one additional special meeting. Membership and attendance were as follows:

	October 11	Nov 11	Jun 12
RK Store – chairman	✓	✓	✓
MS Bomela	✓	✓	✓
BJ van der Ross	A	✓	✓

A – apologies tendered and accepted.

The chairman attends the annual general meeting.

The committee has conducted an effectiveness assessment and is satisfied that it has fulfilled the requirements of its charter.

Tim Store
Chairman, Social and ethics committee

10 September 2012

FirstRand Foundation

Sizwe Nxasana
Chief executive officer

COMPOSITION

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

ROLE

"THE FOUNDATION IS THE **PRINCIPAL VEHICLE** FOR FIRSTRAND'S CORPORATE SOCIAL INVESTMENT ACTIVITIES. ITS INVESTMENT STRATEGY IS TO **OPTIMISE SOCIETAL RETURN ON INVESTMENT** THROUGH SUSTAINABLE AND WELL COORDINATED ENGAGEMENTS WITH THE COMMUNITIES IN WHICH THE FIRSTRAND GROUP OPERATES."

2012 Highlights

Focus area	Actions
Grant making and beneficiary engagement	The Foundation has overseen the granting of R83 million to beneficiary organisations. Special programmes are in place to ensure ongoing engagement with these organisations.
Employee volunteers	The Foundation provides ongoing funding for FirstRand's employee volunteers initiatives. Since the launch of the programme in 2003, employees have donated over R24 million. This amount has been matched by FirstRand with a further R24 million.
Monitoring and evaluation	The FirstRand Foundation uses stringent pre-funding assessments, along with post-funding reporting requirements, on-site visits, face-to-face engagements, and the deployment of a dedicated in-house monitoring & evaluation team.

"In line with FirstRand's **strong financial performance,** 2012 grant making increased by 28%, or R19 million, when compared to 2011. The Foundation **approved grants to the value of approximately R83 million** across all provinces in South Africa. A further R2.2 million was made available from separate endowments for the funding of the FirstRand Laurie Dippenaar postgraduate scholarship, the Momentum Dippenaar scholarship and the FirstRand India-Africa skills training initiative."

CSI spend

R'000	2012	2011	% change
GRANTS AND BENEFICIARIES			
Arts, culture and heritage	**8 159**	6 020	36
Food, security and agricultural livelihoods	**8 665**	–	–
Emergency relief	**250**	250	–
Maths leadership programme	**8 375**	5 700	47
Environment programme	**5 580**	4 329	29
Community care	**6 285**	6 150	2
Volunteers (The RMB hug fund)	**5 000**	4 000	25
Substance abuse programme	**–**	1 300	-
Strategic partners programme	**7 066**	7 415	(5)
Tertiary bursary programme	**10 452**	9 150	14
Primary schools maths programme	**40**	–	–
Secondary schools maths programme	**1 000**	1 611	(38)
Early childhood development programme	**6 770**	5 975	13
Hospice HIV/AIDS programme	**6 814**	6 935	(2)
Maths Chair initiative	**7 250**	4 500	61
Numeracy Chairs initiative	**1 500**	1 500	–
Total FirstRand Foundation grants	**83 206**	64 835	28
Laurie Dippenaar scholarship	**1 000**	1 121	(11)
Momentum Dippenaar scholarship	**205**	200	3
FirstRand India-African skills training	**1 000**	–	–
Total CSI spend	**85 411**	66 156	29

During the year 202 students received funding for tertiary education and a further four for postgraduate study.

Sustainable CSI

The Foundation has one fund for each of the Group's major franchises and adopts a programmatic approach to grants, whereby longer term commitments are made to carefully selected social investments. Each fund has its own focus running parallel to those of the other franchises and operating in complementary ways. Careful consideration is given to ensuring synergy across the focus areas of the various funds and ensuring the ongoing monitoring and evaluation of the social return on investment associated with these grants.

Strategic partners programme

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

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

FirstRand Foundation SA Maths Education Chairs Initiative

A national intervention, FirstRand Foundation South African Maths Education Chairs Initiative is a multi-million Rand maths leadership public-private partnership, co-founded by the FirstRand Foundation, and RMB Fund and the Department of Science and Technology (to jointly fund SA mathematics education chairs at leading local universities).

"The Foundation has approved a special grant of **R30 million** (to include both FirstRand and RMB) over five years in support of **"Making M4TH5 Count".**

FirstRand Foundation SA Numeracy and Literacy Chairs Initiative

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

EMPLOYEE VOLUNTEERS

"Approximately **one in five FirstRand staff members** regularly volunteers time and personal resources to the communities in which the Group operates."

The FirstRand Volunteers Programme was launched in 2003 to facilitate and support employee community involvement. Group employees are provided with an opportunity to make a difference in their communities via a matched-funding programme which provides a rand for every rand contributed in either employees' time or money. Since 2003, employees have donated over R24 million to worthy causes.

MONITORING AND EVALUATION

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

"The FirstRand Foundation assesses projects for funding and their subsequent delivery, **using stringent pre-funding assessments,** along with post-funding reporting requirements, on-site visits, face-to-face engagements, and through the **deployment of a dedicated in-house monitoring and evaluation team** using various measurement tools."

PROCEEDINGS AND PERFORMANCE REVIEW

During the year the Foundation's trustees conducted an effectiveness survey and are satisfied that they have met the requirements of its charter.

SE Nxasana
Chairman, FirstRand Foundation

10 September 2012

Independent assurance report on selected non-financial information to the directors of FirstRand Limited

We have undertaken an assurance engagement on selected non-financial information, as presented in the FirstRand Limited Group Integrated Report for the year ended 30 June 2012.

FirstRand applies its own sustainability performance reporting criteria, derived from the Sustainability Reporting Guidelines of the Global Reporting Initiative (G3), the JSE SRI index, BEE transformation reporting requirements and the King III Code on Corporate Governance.

DIRECTORS' RESPONSIBILITY

The directors' are responsible for:

- the selection, preparation and presentation of the sustainability information included in the integrated report;
- the identification of stakeholders and stakeholder requirements; and
- establishing and maintaining appropriate performance management and internal control systems from which the reported information is derived and reported in FirstRand's integrated report.

INTERNAL AUDIT RESPONSIBILITY

Internal Audit performed agreed-upon substantive procedures on the FirstRand corporate governance statement. Our responsibility is to express limited assurance conclusions on the selected non-financial information based on the procedures performed.

Group Internal Audit was not responsible for preparing any part of the report and confirm that we are not aware of any issue that could impair our objectivity in relation to this assurance engagement.

The following items were included in the scope:

- Verification and review of the accurate transfer and aggregation of information from the franchise records to the FirstRand Limited integrated report:
  - workforce movements;
  - workforce profile;
  - retail customers; and
  - retail banking access.
- Review of the accurate transfer and aggregation of the following information from the source data subjected to external assurance to the FirstRand Limited ESG report:
  - BEE scorecard, skills development, BEE procurement spend and BEE ownership. This information is included in the scope of the review of the dti scorecard that was performed by Sizwe Ntsaluba VSP;
  - direct environmental footprint and Equator Principles transactions. This information is included in the scope of the review of the FirstRand Bank Limited Carbon Data for the South African operations prepared in accordance with the World Business Council for Sustainable Development (WBCSD)/World Resources Institute (WRI) Greenhouse Gas Reporting Guidelines and is audited by KPMG.
- Review of the accuracy, validity and completeness of the CSI spend information with reference to the reports provided by Tshikululu Social Investments NPC which is reviewed by Deloitte & Touche.
- Review of the accurate transfer of financial data from the audited annual financial statements to the FirstRand Limited ESG report.
- Assurance work was not replicated by the above service providers and reliance was placed on the assurance opinion issued by the other parties where warranted.

Audit procedures selected were judgemental and included the risks of material misstatement of the selected sustainability information in the report. In assessing risks, we considered internal control relevant to FirstRand's preparation of the report. We believe that we have obtained sufficient and appropriate evidence to provide the basis for our limited assurance conclusion.

Based on the results of the work performed on FirstRand's 2012 corporate governance statement, Internal Audit confirms that:

- Nothing has come to our attention that causes us to believe that the identified sustainability information selected for our review has not been prepared, in all material respects, in accordance with the defined reporting criteria.
- The level of data accuracy in the report content was found to be within satisfactory levels. Statements included in the report that required improvement were identified and all suggested changes and identified anomalies were corrected prior to the finalisation of the report. Additional improvements were recommended for the further enhancement of sustainability management and reporting within the Group.
- As required by King III, stakeholders were identified and adequately addressed in the report.
- The report content includes information pertaining to the major operating divisions and local and international subsidiaries and is closely aligned to the ESG risks identified by FirstRand.

J John
Chief audit executive

10 September 2012

FIRSTRAND GROUP ANNUAL FINANCIAL STATEMENTS

Contents

Directors' responsibility statement

TO THE MEMBERS OF FIRSTRAND LIMITED

The directors of FirstRand Limited are responsible for the preparation of the consolidated and separate annual financial statements in terms of the Companies Act. In discharging this responsibility, the directors rely on management to prepare the consolidated and separate annual financial statements in accordance with IFRS and for keeping adequate accounting and separate records in accordance with the Group's system of internal control. As such, the annual financial statements include amounts based on judgments and estimates made by management.

In preparing the annual financial statements, suitable accounting policies have been applied and reasonable estimates have been made by management. The directors approve significant changes to accounting policies, however, there were no changes to accounting policies during the financial year. The financial statements incorporate full and responsible disclosure in line with the Group's philosophy on corporate governance.

The directors are responsible for the Group's system of internal control. To enable the directors to meet these responsibilities, the directors set the standards for internal control to reduce the risk of error or loss in a cost effective manner. The standards include the appropriate delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. The focus of risk management in the Group is on identifying, assessing, managing and monitoring all known forms of risk across the Group.

Based on the information and explanations given by management and the internal auditors, nothing has come to the attention of the directors to indicate that the internal controls are inadequate and that the financial records may not be relied on in preparing the consolidated and separate annual financial statements in accordance with IFRS and maintaining accountability for the Group's assets and liabilities. Nothing has come to the attention of the directors to indicate any breakdown in the functioning of internal controls, resulting in a material loss to the Group, during the year and up to the date of this report. Based on the effective internal controls implemented by management, the directors are satisfied that the consolidated and separate annual financial statements fairly present the state of affairs of the Group and company, at the end of the financial year, and the net income and cash flows for the year. Alan Hedding, CA(SA), supervised the preparation of the financial statements for the year.

The directors have reviewed the Group and company's budget and flow of funds forecast and considered the Group and company's ability to continue as a going concern in the light of current and anticipated economic conditions. The directors have reviewed the assumptions underlying these budgets and forecasts based on currently available information. On the basis of this review, and in the light of the current financial position and profitable trading history, the directors are satisfied that the Group has adequate resources to continue in business for the foreseeable future. The going concern basis therefore continues to apply and has been adopted in the preparation of the annual financial statements.

It is the responsibility of the Group's independent external auditors, Deloitte & Touche and PricewaterhouseCoopers Inc, to report on the fair presentation of the annual financial statements. Their unqualified report appears on page 114.

The consolidated annual financial statements of the Group, which appear on pages 115 to 212 and 213 to 404 and the separate annual financial statements of the company, which appear on pages 405 to 426, were approved by the Board of directors on 10 September 2012 and are signed on its behalf by:

LL Dippenaar
Chairman

SE Nxasana
Chief executive officer

Sandton

10 September 2012

Group secretary's certification

DECLARATION BY THE COMPANY SECRETARY IN RESPECT OF SECTION 88(E) OF THE COMPANIES ACT.

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

BW Unser
Company secretary

10 September 2012

Independent auditors' report

TO THE SHAREHOLDERS OF FIRSTRAND LIMITED

We have audited the consolidated and separate financial statements of FirstRand Limited, set out on pages 213 to 426, which comprise the statements of financial position as at 30 June 2012, the income statements, the statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended and the notes, comprising a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The company's directors are responsible for the preparation and fair presentation of these consolidated and separate financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated and separate 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 about whether the consolidated and separate financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of FirstRand Limited as at 30 June 2012, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Other reports required by the Companies Act

As part of our audit of the consolidated and separate financial statements for the year ended 30 June 2012, we have read the directors' report, the Audit committee's report and the company secretary's certificate for the purpose of identifying whether there are material inconsistencies between these reports and the audited consolidated and separate financial statements.

These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited consolidated and separate financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

Deloitte & Touche
Registered auditor
Per: Kevin Black
Partner

PricewaterhouseCoopers Inc.
Registered auditor
Director: Tom Winterboer

Sandton
10 September 2012

Directors' report

for the year ended 30 June

NATURE OF BUSINESS

FirstRand Limited (FirstRand) is a public company and from 1 July 2010 a registered bank controlling company. It is the holding company of the FirstRand group of companies. These companies are engaged in diverse financial services such as retail, commercial and investment banking, instalment finance, short-term and life insurance.

Whilst the Group is predominantly South African based, it has operations in Namibia, Swaziland, Botswana, Zambia, Mozambique, Tanzania, Nigeria, Lesotho, Mauritius, the United Kingdom, the Middle East, Australia, Kenya, Angola, China and India.

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

A simplified FirstRand Group organogram is shown on page 433.

INTEGRATED REPORT

The Board acknowledges its responsibility for the integrity of this integrated report. Guidelines as provided by King III have been adopted in preparation of this integrated report. The Board believes that this report fairly represents the performance of the Group.

GROUP RESULTS

A general review of the financial results of the Group and the operations of its major subsidiaries is provided in the CEO, COO and CFO reports and review of operations.

DIVIDENDS

Ordinary shares

The following ordinary cash dividends were declared in respect of the 2012 financial year.

	Year ended 30 June	
Cents per share	**2012**	2011
Interim (declared 28 February 2012)	**44.00**	35.00
Final (declared 10 September 2012*)	**58.00**	46.00
	102.00	81.00
Special (declared 12 September 2011)	–	70.00

The salient dates for the final dividend are as follows:

Last day of trade to receive a dividend	Friday, 5 October 2012
Shares commence trading ex-dividend	Monday, 8 October 2012
Record date	Friday, 12 October 2012
Payment date	Monday, 15 October 2012

Share certificates may not be dematerialised or rematerialised between 8 October 2012 and 12 October 2012, both days inclusive.

The final dividend of 58.0 cents per share carries an STC credit of 7.15566 cents per share. Shareholders that are exempt from Dividend Withholding Tax (DWT) will receive the full 58.0 cents per share. For shareholders that are subject to DWT, tax will be calculated at 15% (or such lower rate if a double taxation agreement applies for foreign shareholders), after taking account of the STC credit.

For South African resident shareholders that are subject to the DWT, the net final dividend after deducting the 15% tax will be 50.37335 cents per share.

The issued share capital at the declaration date is 5 637 941 689 ordinary shares and 45 000 000 variable rate, NCNR B preference shares.

FirstRand's income tax reference number is 9150/201/71/4.

B preference shares

Dividends on the B preference shares were calculated at a rate of 68% of the prime lending rate as published by FirstRand Bank Limited to 27 February 2012 and thereafter at 75.56% of prime.

The following dividends were declared and paid:

	B preference shares	
Cents per share	**2012**	2011
Period:		
31 August 2010 – 28 February 2011		313.6
1 March 2011 – 29 August 2011		305.2
Period:		
30 August 2011 – 27 February 2012	**305.2**	
28 February 2012 – 27 August 2012	**333.1**	
	638.3	618.8

SHARE CAPITAL

Details of the company's authorised share capital as at 30 June 2012 are shown in note 29 to the company's financial statements.

Ordinary share capital

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

Preference share capital

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

SHAREHOLDER ANALYSIS

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

	As at 30 June	
%	**2012**	2011
RMB Holdings Limited	**33.93**	33.89
Financial Securities Limited (Remgro)	**3.90**	3.90
Public Investment Corporation	**11.29**	12.26
FirstRand Empowerment Trust and related parties	**8.13**	8.13

A further analysis of shareholders is set out on page 434.

EVENTS SUBSEQUENT TO REPORTING DATE

The directors are not aware of any material events that have occurred between the date of the statement of financial position and the date of this report.

DIRECTORATE

Details of the board of directors are on pages 56 to 61.

BOARD CHANGES

Mrs Mary Sina Bomela was appointed to the Board as a non-executive director with effect from 24 September 2011. Mrs Bomela joined the Board as a shareholder representative of Mineworkers Investment Company, replacing Mr Paul Nkuna who resigned from the Board on 31 July 2011, following his decision to retire in 2012.

On 26 April 2012 it was with great regret that the Board was advised of the passing of Mr MH (Thys) Visser following a motor car accident. Thys joined the FirstRand Limited Board in 2009. His widely acknowledged integrity, support and wise contribution to Board and committee deliberations will be greatly missed.

DIRECTORS' AND PRESCRIBED OFFICERS' INTERESTS IN FIRSTRAND

Details of the directors' and prescribed officers' interests in the issued ordinary and preference shares of FirstRand are in the Corporate Governance report.

DIRECTORS' AND PRESCRIBED OFFICERS' EMOLUMENTS

Details of directors' and prescribed officers' emoluments and their participation in share incentive schemes are in the Corporate Governance report. Further information relating to the determination of directors' and prescribed officers' emoluments, share option allocations and related matters are included in Remco report in the Corporate Governance report.

AUDIT COMMITTEE REPORT

The Audit committee report appears on pages 92 to 94.

MANAGEMENT BY THIRD PARTIES

The directors had no interest in any third party or company responsible for managing any of the business activities of the Group except to the extent that they are shareholders in RMB Holdings, which together with Remgro, has management control of FirstRand.

DIRECTORS' INTEREST IN CONTRACTS

During the financial year, no contracts were entered into in which directors or officers of the company had an interest and which significantly affected the business of the Group.

DISPOSALS

During the current year FirstRand sold its interest in Momentum Life Assurance Namibia Limited.

PROPERTY AND EQUIPMENT

There is no change in the nature of the property and equipment of the Group or in the policy regarding their use during the year.

INSURANCE

The Group protects itself against crime risks as well as professional indemnity by carrying large deductibles through a structured insurance risk financing programme. Levels of cover carried are commensurate with the size and stature of the Group.

SUBSIDIARIES AND ASSOCIATES

Interests in subsidiary and associate companies which are considered material in view of the Group's financial position and its results are included in note 40 and note 15.

COMPANY SECRETARY AND REGISTERED OFFICES

The Group secretary is Mr BW Unser. FirstRand's business and postal addresses are on page 436, these are also the addresses of the company secretary.

SPECIAL RESOLUTIONS DURING 2012

Special resolution by FSR

1. Pursuant to the requirements of item 4(2)(a) of schedule 5 to the Companies Act 71 of 2008 (as amended), a new Memorandum of Incorporation (MOI) was adopted by shareholders at a meeting held on 23 May 2012. The new MOI was registered by CipC on 18 June 2012.

Special resolutions by subsidiaries (8.63(i))

2. Ashburton Fund Managers Proprietary Limited
   A special resolution was passed on 23 January 2012 to change the company name from Barnard Jacobs Mellet Wealth Proprietary Limited and to change the main business and objects of the company to "investment management, including the investment management of Collective Investment Schemes". This change was registered by CipC on 30 January 2012;

3. FNB Administrative Processing Services Proprietary Limited
   A special resolution was passed on 26 April 2012 to change the company name from First Link Proprietary Limited and to change the main business and objects of the company to "administrative services and all related services". This change was registered by CipC on 11 June 2012.

LL Dippenaar
Chairman

SE Nxasana
Chief executive officer

RISK AND CAPITAL MANAGEMENT REPORT

Risk and capital management report

for the year ended 30 June

OVERVIEW

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

Risk taking is an essential part of the Group's business and FirstRand thus explicitly recognises risk assessment, monitoring and management as core competencies and important differentiators in the competitive environment in which it operates. Through its portfolio of leading franchises, FirstRand wants to be appropriately represented in all significant earnings pools across all chosen market and risk-taking activities. This entails building revenue streams that are diverse and creating long-term value through sustainable earning pools managed within acceptable earnings volatility parameters.

Highlights

During the year ended 30 June 2012 the Group focused on refining origination scorecards in order to improve the credit quality of new business across all retail portfolios. Macro economic conditions, however, remain challenging affecting in-force portfolios. The wholesale portfolio has remained resilient and the Group will continue to focus on a credit strategy to capture an appropriate level of new business. Indications are that impairments have bottomed and limited benefit will be realised from any further interest rate decreases that may result from worsening economic conditions.

The Group's capital management strategy is aligned to its overall objective to deliver sustainable returns to shareholders within appropriate levels of volatility. The Group's current philosophy, given the uncertain macro environment, is to operate at the higher end of its targeted capital levels to ensure balance sheet resilience. Current targeted ranges and ratios are summarised in the table below.

Capital adequacy position

	FirstRand		FirstRand Bank*		Regulatory minimum
	Actual	Target	**Actual**	Target	
Capital adequacy ratio (%)	**14.7**	12.0 – 13.5	**14.6**	11.5 – 13.0	9.5**
Tier 1 ratio (%)	**13.2**	11.0	**12.6**	10.5	7.0
Core Tier 1 ratio (%)	**12.3**	9.5 – 11.0	**11.8**	9.0 – 10.5	5.25

* *Reflects solo supervision, i.e. FRB excluding foreign branches.*

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

The Group focused on a number of regulatory changes during the year:

- implementing the Basel II standardised approach for the calculation of counterparty credit default risk capital;
- regulatory changes to measure the performance of market risk-taking activities;
- Banks Act changes relating to regulatory returns; and
- preparations for the implementation of Basel III:
  - quality and level of capital;
  - counterparty credit risk measures; and
  - the liquidity coverage ratio.

The COO and CFO's report on pages 14 to 28 provides a high-level overview of the Group's financial condition, performance and risk profile for the year ending 30 June 2012.

Basel Pillar 3 disclosure

Regulation 43 of the revised regulations of the Banks Act, 1990 (Act no. 94 of 1990), requires that a bank shall disclose in its annual financial statements and other disclosures to the public, reliable, relevant and timely qualitative and quantitative information that enables users of that information, amongst other things, to make an accurate assessment of the bank's financial condition, including its capital adequacy position, financial performance, business activities, risk profile and risk management practice. This disclosure requirement is commonly known as Pillar 3 of the Basel Accord. This is the Basel Pillar 3 report of FirstRand and complies with the risk disclosure requirements of Basel Pillar 3.

FirstRand is the listed holding company and regulated bank-controlling company of the Group. The wholly-owned subsidiaries of FirstRand are FirstRand Bank Limited (the Bank), FirstRand EMA Holdings Limited (FREMA) and FirstRand Investment Holdings (Pty)

Ltd (FRIHL) and are all regulated. Banking operations are included under the Bank, FREMA includes Africa and emerging markets and all other activities are under FRIHL. A simplified diagrammatic representation of the Group structure is provided on page 433.

Some differences between the practices, approaches, processes and policies of the Bank and its wholly-owned subsidiaries exist and these are highlighted by a reference to the appropriate entity, where necessary. For fully consolidated entities in the Group, no difference in the manner in which entities are consolidated for accounting and regulatory purposes exists.

This report has been internally verified by the Group's governance processes in line with the Group's public disclosure policy. All information in this report is unaudited unless otherwise indicated.

Recent regulatory changes

In July 2009, as part of its *Enhancements to the Basel II framework*, namely Basel 2.5, the Basel Committee on Banking Supervision (BCBS) introduced guidance to address a number of risk management weaknesses revealed during the financial crisis that started in 2007. A number of these were included in this report:

- **Market risk:** Combined Value-at-Risk (VaR) and stressed VaR were incorporated in the Group's local trading book on 1 January 2012. A number of additional concentration measures were also implemented.
- **Securitisations:** The new Regulation 43 disclosure requirements regarding resecuritisations, additional disclosures in respect of processes monitoring securitisation exposures, differentiation between banking and trading book exposures and accounting policies, the regulatory approach used to assess capital requirements on retained exposures, and updated quantitative disclosures for retained exposures.
- **Remuneration:** Qualitative and quantitative disclosures on compensation and remuneration were included. The remuneration report is included in the integrated annual report on page 79 and includes the Basel Pillar 3 disclosure requirements for remuneration.

Future regulatory changes

Basel III, released in December 2010, builds on Basel 2.5. It sets higher capital and liquidity requirements to be progressively phased in from 1 January 2013. This includes the phasing out of certain existing Tier 1 and 2 instruments that no longer qualify as regulatory capital over ten years starting from January 2013. In terms of the Basel III guidelines for liquidity, the Liquidity Coverage Ratio (LCR), which measures short-term liquidity stress, will be effective from January 2015 and the Net Stable Funding Ratio (NSFR), which measures the stability of long-term structural funding, will come into effect on 1 January 2018.

Remuneration and compensation

FirstRand's divisions operate across a variety of financial services activities, each with distinct employment and human resource pressures. The Group's remuneration policy takes account of the diverse needs of the Group's divisions and the implementation of appropriate industry specific remuneration practices in accordance with the Group's remuneration policy which is applicable at all operations, including international branches and subsidiaries. The Remuneration committee is a board committee mandated to ensure the Group's remuneration practices appropriately reflect company performance and are aligned with the interests of shareholders and other stakeholders. Its responsibilities include:

- to ensure compliance with international best practice including the BCBS and Financial Stability Board's guidelines and recommended practices;
- to ensure that the Group's remuneration practices appropriately reflect company performance and are aligned with the interest of shareholders and other stakeholders; and
- to provide oversight of remuneration and rewards of executive directors, senior management and reviews proposals on non-executive remuneration.

The remuneration report on page 79 provides an overview of executive remuneration and details of variable compensation for 2012 as well as additional disclosures to comply with regulatory requirements.

DEFINITIONS

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

Risk category reference	Risk components	Definition	Page
STRATEGIC AND BUSINESS RISKS	Includes strategic risk, business risk, volume and margin risk, reputational risk, and environmental, social and governance (ESG) risks.	Strategic risk is the risk to current or prospective earnings arising from inappropriate business decisions or the improper implementation of such decisions.	132
		Business risk is the risk to earnings and capital from potential changes in the business environment, client behaviour and technological progress. Business risk is often associated with volume and margin risk and relates to the Group's ability to generate sufficient levels of revenue to offset its costs.	
		Volume and margin risk is the risk that the earnings and capital base is negatively impacted by a downturn in revenue due to market factors (e.g. margin compression), combined with the risk that the cost base is inflexible.	
		Reputational risk is the risk of reputational damage due to compliance failures, pending litigations or underperformance or negative media coverage.	
		ESG risks focus on the environmental, social and governance issues which impact the Group's ability to successfully and sustainably implement business strategy.	
FINANCIAL RISKS	Capital management	The Group manages capital by allocating resources effectively in terms of its risk appetite and in a manner that maximises value for shareholders.	136
	Credit risk	Credit risk is the risk of loss due to the non-performance of a counterparty in respect of any financial or other obligation. For fair value portfolios, the definition of credit risk is expanded to include the risk of losses through fair value changes arising from changes in credit spreads. Credit risk also includes credit default risk, pre-settlement risk, country risk, concentration risk and securitisation risk.	145
	Securitisations and conduits	Securitisation is the structured process whereby loans and other receivables are packaged, underwritten and sold in the form of asset backed securities.	178
	Counterparty credit risk	Counterparty credit risk is the risk of a counterparty to a contract, transaction or agreement defaulting prior to the final settlement of the transaction's cash flows.	185
	Market risk in the trading book	Market risk is the risk of adverse revaluation of any financial instrument as a consequence of changes in market prices or rates.	188

Risk category reference	Risk components	Definition	Page
FINANCIAL RISKS	Equity investment risk	Equity investment risk is the risk of an adverse change in the fair value of an investment in a company, fund or any other financial instrument, whether listed, unlisted or bespoke.	192
	Foreign exchange and translation risk in the banking book	Foreign exchange risk is the risk of losses occurring or a foreign investment's value changing from movements in foreign exchange rates. A bank is exposed to currency risk in its net open foreign currency positions and foreign investments. Translation risk is the risk associated with banks that transact in foreign currencies or hold foreign assets. The greater the proportion of asset, liability and equity classes denominated in a foreign currency, the greater the translation risk.	195
	Funding and liquidity risk	Funding liquidity risk is the risk that a bank will not be able to meet current and future cash flow and collateral requirements (expected and unexpected) without negatively affecting its reputation, daily operations and/or financial position. Market liquidity risk is the risk that market disruptions or lack of market liquidity will cause the bank to be unable (or able, but with difficulty) to trade in specific markets without affecting market prices significantly.	195
	Interest rate risk in the banking book (IRRBB)	IRRBB is the sensitivity of a bank's financial position and earnings to unexpected, adverse movements in interest rates.	203
OPERATIONAL RISKS	Operational risk	Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes and systems or from external events and human error. It includes fraud and criminal activity (internal and external), project risk, legal risk, business continuity, information and IT risk, process and human resources risk. Strategic, business and reputational risks are excluded from the definition.	207
	Regulatory risk	Regulatory risk is the risk of statutory or regulatory sanction and material financial loss or reputational damage as a result of a failure to comply with any applicable laws, regulations or supervisory requirements.	211

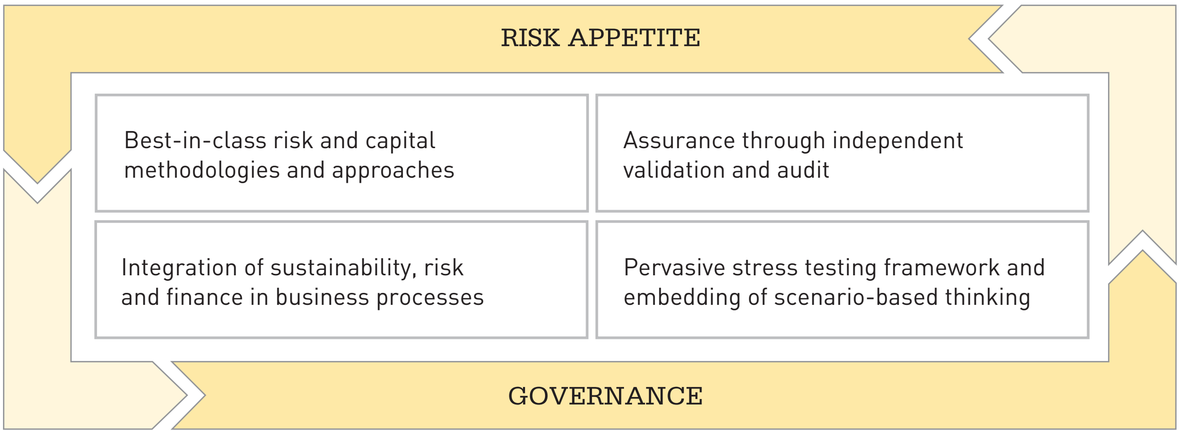
FIRSTRAND'S APPROACH TO RISK AND CAPITAL MANAGEMENT

The Group believes that effective risk management is of primary importance to its success and is a key component of the delivery of sustainable returns to its shareholders. It is therefore part of the Group's tactical and strategic decision making. The Group aligns its risk management approach to its strategy discussed in the COO and CFO's report on page 14. Risk taking is an essential part of the Group's business. FirstRand recognises risk assessment, monitoring and management as core competencies and important differentiators in the competitive environment in which it operates.

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

FirstRand follows a comprehensive approach to risk and capital management that comprises six core components, illustrated in the following chart.

Components of FirstRand's approach to risk and capital management



These are discussed further in this report:

- The Group's **risk appetite** frames all organisational decision making and forms the basis for the refinement of risk identification, assessment and management capabilities (see page 123).
- 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 Group's operating units (see page 129).
- Best practice **risk and capital methodologies** have been developed in and for the relevant business areas (see page 132 to 212).
- An integrated approach to **sustainability and managing risk** was established to facilitate the exchange of information between individual risk areas, and between risk and finance functions (see page 124).
- The Group employs a comprehensive, consistent and integrated approach to **stress testing** that is ingrained as a business planning and management tool, emphasising scenario-based analyses in all its decisions. Stress testing includes the quantification of potential volatility of earnings under various scenarios and due to event risk. (see page 125).
- **Independent oversight, validation and audit functions** ensure a high standard of assurance across methodological, operational and process components of the Group's risk and capital management processes (see page 128).

Risk appetite

The level of risk the Group is willing to take on – its risk appetite – is determined by the Board, which also assumes responsibility for ensuring that risks are adequately managed and controlled through the Risk, capital management and compliance (RCC) committee and subcommittees, as described in the *Risk governance structure* section on page 129.

The Group's risk appetite framework sets out specific principles, objectives and measures that link diverse considerations such as strategy, risk, target capitalisation levels and acceptable levels of earnings volatility. As each franchise is ultimately tasked with the generation of sustainable returns, risk appetite limits act 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 reputation, are incompatible with the business philosophy and thus fall outside its risk appetite.

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

- the level of earnings, growth and volatility the Group is willing to accept from certain risks that are core to its business; and
- the level of capitalisation to meet regulatory capital requirements, maintain a capital buffer for unforeseen events and business expansion, and the return achieved on capital allocated.

These two measures define the risk capacity and this expression of risk appetite is aligned against broader financial targets.

The Board established risk appetite principles in which business is tracked against certain measures. These principles include:

- not excessively gearing the balance sheet;
- off-balance sheet exposure should be limited relative to own capital funding base;
- risk transfer to be about true risk transfer and not accounting or regulatory arbitrage;
- sources of income must be widely diversified across business entities, products, market segments, investments, financial and commodity markets and regions;
- the potential impact of severe downturn and stress conditions must be identified, measured, quantified, understood and contained in accordance with capital preservation and earnings volatility parameters;
- concentration in higher risk asset classes must be avoided;
- diversified sources of funding;
- sufficient buffers must be held for capital and liquidity purposes; and
- losses arising from operational process breakdowns must be contained.

As a function of the business environment and stakeholders' expectations, together with the primary risk appetite measures, these principles provide firm boundaries for the organisation's chosen path of growth.

In setting the risk appetite, the Executive committee (Exco) and the Board balance the organisation's overall risk capacity with a bottom-up view of the planned risk profile for each business. In this the Group ultimately seeks to achieve an optimal trade-off between its ability to take on risk and the sustainability of the returns it delivers to its shareholders.

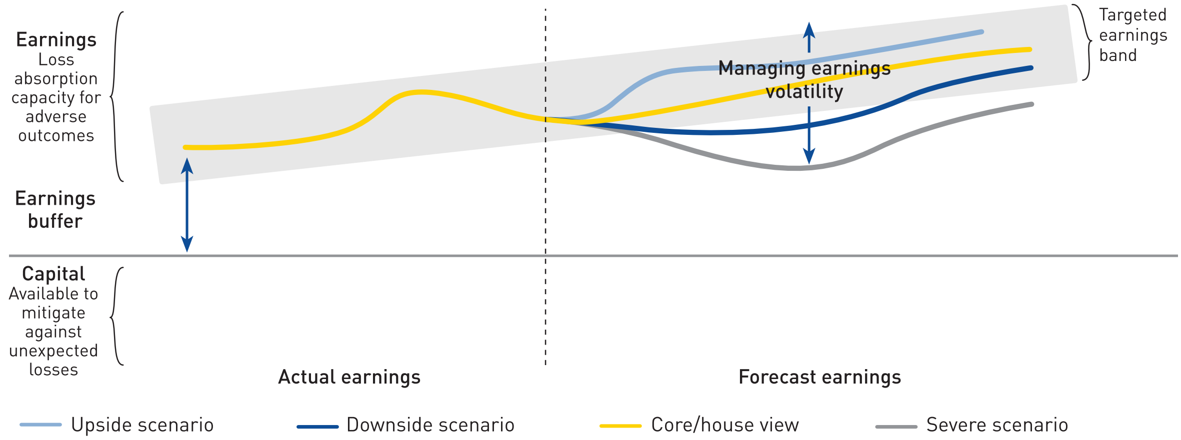
Risk appetite measures are included in risk and management reports across the businesses, as well as at board level. These measures are continually refined as more management information becomes available and stress test results are reported and discussed.

The Group views earnings as the primary defence against adverse outcomes. The earnings buffer and capital base provide protection for stakeholders against unexpected events. FirstRand's capacity to absorb earnings volatility and fluctuations is, therefore, supported by the generation of sustainable profits.

Risk and capital management report continued

The chart below illustrates the strategy to manage earnings volatility through the cycle.

Managing earnings volatility through the cycle



Risk and capital methodologies

The detailed sections commencing on page 132 provide in-depth descriptions 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 risk profile with respect to the type of risk under consideration and the capital position.

Focus on sustainability and integration of risk and finance

The Group considers the sustainability of its earnings within acceptable volatility as a core objective and key performance measure. The value of the franchises is supported by the Group's financial strength and it adopts a management approach that seeks to achieve an optimal deployed risk model.

The franchises are responsible for maximising risk-adjusted returns on a sustainable basis, within the limits of the Group's risk appetite. Shifts in the macro environment are also critical to any strategic adjustments. FirstRand manages its business based on the Group's house view which is used for budgeting, forecasting and credit origination strategies. The house view focuses on the key macro economic variables that impact the balance sheet and income statement. The macro outlook is reviewed on a monthly basis and spans a three year forecast horizon for a core scenario and two risk scenarios. These scenarios are debated internally and communicated to the business units. A severe stress scenario is also generated for stress testing purposes.

The objective of the Group's balance sheet management is to protect and enhance financial performance of the Group through the holistic management of the balance sheet and its income streams within the context of the macro economic environment. At the core of FirstRand's approach is a belief that the balance sheet and its income statement streams can be both protected and enhanced throughout the cycle to improve sustainability and predictability, by actively managing the investment and enterprise value risks which include:

- interest rate risk;
- credit portfolio risk;
- capital risks; and
- strategic funding risks.

To achieve this objective, the Group implements an integrated balance sheet management approach. This requires a detailed understanding of the economic cycle and the interplay between the risks created by the cycle and the levers within the business that can be used to mitigate those risks. Ultimately, the aim is to optimise the natural position of the balance sheet, look for natural hedges or implement appropriate macro hedges in the current structure and only make the balance sheet available to the origination businesses if the required risk-reward profile can be met.

FirstRand's integrated balance sheet management approach is aligned to the objectives of performance management in that it facilitates optimisation of the spread between ROE and cost of equity.

Group Treasury is responsible for the capital management. The capital position provides the final buffer against adverse business performance under extremely severe economic conditions.

Group Treasury is also responsible for the financial resources of the Group including funding and liquidity management, exchange control, interest rate risk and capital and market risk in the banking book management.

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

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

Internal capital adequacy assessment process (ICAAP)

The overall objective of capital management is to maintain sound capital ratios, a strong credit rating, ensure confidence in the solvency of the Group, comply with regulatory requirements and instil confidence during periods of uncertainty and turmoil in financial markets.

In order to achieve this objective the Group needs to:

- ensure that at least the minimum amount of regulatory capital is held at all times for the South African Reserve Bank (SARB) to allow the Group to conduct business;
- hold sufficient capital that will instil confidence for all stakeholders in the Group's ongoing solvency and status as a creditworthy counterparty;
- allocate capital to businesses based on an understanding of the risk and reward drivers of the income streams and to ensure that appropriate returns are earned on the capital deployed;
- ensure that the buffer over the minimum regulatory capital requirement is sufficient to cater for income and capital volatility and economic risk which may manifest through business disruption, regulatory intervention or credit downgrades, where applicable;
- consider the returns on a risk-adjusted basis to assess business performance; and
- ensure that FirstRand's capital adequacy ratios and other sublimits remain above appropriate (and approved) limits during different economic and business cycles.

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

Additionally, this requires that the Group develops and maintains a capital plan that incorporates, among others, the following:

- anticipated capital utilisation;
- planned issuance of capital instruments ;
- stress tests and scenario analysis;
- appropriation of profits and dividend payments;
- desired level of capital, inclusive of a buffer;
- expansion and strategic initiatives; and
- general contingency plan for dealing with divergences and unexpected events.

ICAAP is an integral tool in meeting the above capital management objectives and is key to the Group's risk and capital management processes. ICAAP allows and facilitates:

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

Stress testing and scenario-based analyses

Stress testing and scenario-based analysis form an integral part of the overall governance and risk management culture of the Group and is an important risk management tool used to alert management of adverse unexpected outcomes related to a variety of risks and to provide an indication of how much capital is needed to absorb losses should these occur.

The evaluation of business plans and strategic options at a Group and business level, as well as the choice of tactical steps towards implementing these plans are 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 and competitors' strategies, and potential stress events forms an integral part of the strategy setting, planning and budgeting processes.

Additionally, stress testing is used amongst others to:

- validate existing quantitative risk models in order to assess whether the output derived in a negative stress scenario is consistent with model outputs at a similar severity level;

- set risk limits; and
- evaluate emerging risks.

FirstRand's approach to planning, including the stress and scenario analysis, requires comprehensive involvement of the franchises and the various units within the Group's Corporate Centre. The Board, through the RCC committee, is ultimately responsible to critically evaluate the:

- stress-test approach followed;
- scenario/s selected; and
- the impacts of the stress test results on the business and strategic direction of the Group.

From a business planning perspective, the business is managed in line with the core macro economic view (core scenario). Stress scenarios are overlaid on the core scenario to alert management of adverse unexpected outcomes which in turn impacts management action considerations. The Group also recognises the fact that it is exposed to a number of risks that are difficult to anticipate and model and that are, therefore, difficult to manage and mitigate economically. These risks are collectively denoted as event risks and are not necessarily strongly related to the economic environment or the Group's strategy. The planning and stress test provides for proactive and continuous identification of such potential events and establishes a process in which these are evaluated and discussed across the businesses.

From time to time, the regulator may call for the Group to run a supervisory stress test with prescribed assumptions and methodologies, which are also considered as part of the overall planning and stress test process.

RISK MANAGEMENT FRAMEWORK AND GOVERNANCE STRUCTURE

Risk governance framework

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

Effective risk management also requires multiple points of control or safeguards that should be consistently applied at various levels throughout the organisation. There are three primary lines of control across the Group's operations illustrated in chart opposite.

The risk management structure is set out in the Group's business performance and risk management framework (BPRMF). As a policy of both the Board and Exco, it delineates the roles and responsibilities of key stakeholders in business, support and control functions across the various franchises and the Group. The BPRMF recognises the three lines of control.

First line – risk ownership

Risk taking is inherent in the individual businesses' activities. Business management carries the primary responsibility for the risks in its business, in particular with respect to identifying and managing risk appropriately. In order to achieve this, the head of each business entity:

- ensures the entity acts in accordance with mandates approved by the Board or its delegated authority;
- identifies, quantifies and monitors key risks to business under normal and stress conditions;
- implements the strategic and business plans as applicable to the business entity within approved risk appetite parameters;
- designs business processes that will ensure that risks are managed appropriately;
- specifies the risk management processes whereby the key risks of the entity are managed;
- specifies and implements early warning measures, associated reporting, management and escalation processes;
- implements risk mitigation strategies;
- implements timeous corrective actions and loss control measures as required;
- reports risk information to Exco and the governance committee structure as appropriate through to the Board; and
- ensures staff understand responsibilities in relation to risk management.

Business owners, the Board and Exco are supported in these responsibilities by Group Treasury within the Corporate Centre. The responsibilities of Group Treasury, including Balance Sheet Management (BSM) and Capital Management and Performance Measurement, are described in the *Focus on sustainability and integration of risk and finance* section on page 124.

Second line – risk control

Business heads are supported in this by deployed divisional and segment risk management functions that are involved in all business decisions and are represented at an executive level across all franchises. Franchise heads of risk have a direct reporting line to the Group chief risk officer (CRO) and the relevant franchise CEO. Franchise and segment risk managers are responsible for risk identification, measurement and control.

Lines of risk control

First line → Risk ownership

Head of business: primary risk owner
Embeds risk management as a core discipline and gives consideration to potential risks in business decisions.

Group Treasury
Supports business owners, the Board and Exco in the implementation of Group strategy across the portfolio and includes:

- capital management and performance measurement;
- balance sheet management;
- management of liquidity, interest rate risk and foreign exchange mismatch; and
- management of funding and liquidity.

Second line → Risk control

Deployed divisional and segment risk managers
Support business units in identifying and quantifying significant risks.

Enterprise Risk Management
Provides independent oversight and monitoring across the Group on behalf of the Board and relevant committees.

Regulatory Risk Management
Ensures that business practices, policies, frameworks and approaches across the organisation are consistent with applicable laws.

Third line → Independent assurance

Group Internal Audit
Provides independent assurance of the adequacy and effectiveness of risk management practices.

To this end, they:

- approve, coordinate and monitor risk assessment and risk management processes;
- ensure that board-approved risk policies and risk tools are implemented and adhered to;
- approve the design of business risk processes that will ensure that risks are managed appropriately;
- ensure that performance, risk exposures and corrective actions are reported in an appropriate format and frequency;
- monitor appropriate implementation of corrective action;
- identify process flaws and risk management issues and initiate corrective action;
- compile, analyse and escalate risk reports through appropriate governance structures; and
- ensure all risk management and loss containment activities are timeously performed as agreed with Enterprise Risk Management (ERM).

Divisional and segment risk management activities are overseen by the independent, central risk control functions, ERM and Regulatory Risk Management (RRM).

ERM is headed by the Group CRO who is a member of Exco and provides independent oversight and monitoring across the Group on behalf of the Board and relevant committees. Furthermore ERM:

- takes ownership of and maintains risk frameworks;
- develops the Group's risk management strategy and communicates the risk management strategy plan and requirements to stakeholders;
- challenges risk profiles through review of risk assessments, evaluation of risk management processes and monitoring of exposures and corrective actions;
- reports risk exposures and performance in relation to management of risk exposures to relevant committees;
- ensures appropriate risk skills throughout the Group alongside an appropriate risk management culture for risk taking;
- performs risk measurement validation and maintains risk governance structures;
- deploys a comprehensive and integrated approach to stress testing; and
- manages regulatory relationships with respect to risk matters.

RRM is an integral part of managing banking risks and ensures that business practices, policies, frameworks and approaches across the organisation are consistent with applicable laws. The risks, responsibilities and processes of RRM are discussed in the *Regulatory risk* section on page 211.

Third line – independent assurance

The third major line of control involves internal audit and external advisors providing independent and objective assurance to the Board, Audit committee and regulators. The assurance is provided on the overall adequacy and effectiveness of governance, risk management and control within the Group as established by the first (management oversight) and second (management of risk) lines of control.

FirstRand Group has an established internal audit function, namely Group Internal Audit (GIA).

GIA is an independent, objective assurance and consulting activity designed to add value and improve the operations of FirstRand and its subsidiaries, joint ventures, trusts, offshore operations and business interests. GIA assists executive management and the Audit committee to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes within the Group.

GIA is headed by the chief audit executive (CAE) and reports to the Board through the Audit committee chairman. The CAE has direct, unrestricted access to the Group CEO and executives, and respective subsidiaries as well as to all FirstRand business unit functions, records, property and personnel. The CAE reports administratively to the CEO and functionally to the chairman of the Audit committee, which is in line with Institute of Internal Auditing standards and good corporate governance principles.

To achieve its objectives, GIA:

- assesses whether management establishes and monitors the adequacy and effectiveness of the internal control systems, internal risk management procedures and methodologies;
- assesses the adequacy and effectiveness of the organisation's corporate governance, risk management and internal control frameworks;
- assesses if governance processes and ethics are designed and operating in line with legislation and best practice guidelines;
- reviews the adequacy of manual and automated internal controls to ensure compliance with policies, plans, procedures, regulatory requirements, and business objectives;
- evaluates whether approved business processes adequately address the risks that should be controlled and if they are operating effectively throughout the period under review; if not, adjusts substantial work to address deficiencies in these business processes;
- reviews internal control, management, financial and information systems, including electronic systems to ensure that sound general and processing controls are incorporated to produce accurate, valid and complete financial and regulatory reporting disclosure;
- appraises the economy, efficiency and effectiveness of resource utilisation;

- assesses the adequacy of processes implemented to ensure that all tangible and intangible assets are safeguarded and accounted for;
- assesses if systems of fraud prevention and detection are functioning as intended; and
- escalates significant internal control weaknesses, together with practical recommendations to management and the Audit committee and follows up on recommendations to ensure effective remedial action has taken place.

GIA conducts work in accordance with globally recognised internal audit standards and practices and its activities are assessed annually by the external auditors.

Combined assurance

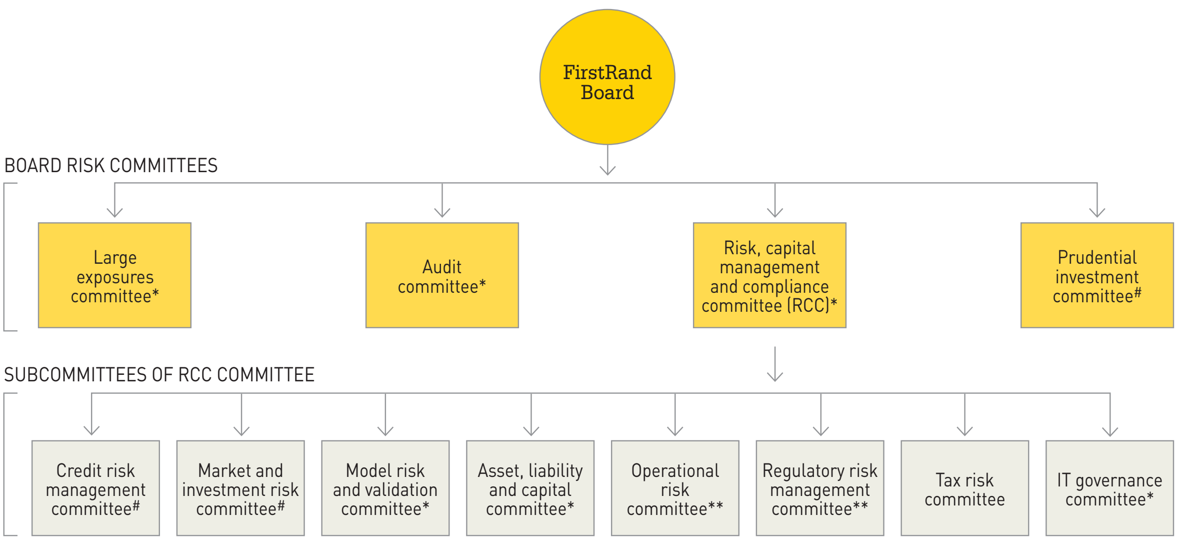
The Audit committee has overseen the establishment of formal enterprise-wide governance structures for enhancing the practice of combined assurance forums at Group and subsidiary level. Through the assurance framework, GIA coordinates its work with senior management and ERM, RRM and external audit. The primary objective of the Group and assurance forums is for the assurance providers to work together with management to deliver the right assurance in the right areas by people with the best skills and experience and skills as cost effectively as possible.

The initial outcomes of the combined assurance work completed during the year indicate greater efficiency of the assurance processes through the elimination of duplication, more focused risk-based assurance against key control areas and heightened awareness of emerging issues resulting in the implementation of appropriate preventative and corrective actions plans.

Risk governance structure

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

Risk governance structure



* *Chairperson is an independent non-executive board member.*
** *Chairperson is an external member.*
\# *Chairperson is a member of senior executive management. The Credit risk management committee has non-executive board representation.*

Risk and capital management report continued

The primary board committee overseeing risk matters across the Group is the RCC committee. It has delegated responsibility for a number of specialist topics to various subcommittees. The RCC committee submits its reports and findings to the Board and highlights control issues to the Audit committee. The responsibilities of the board committees and the subcommittees of the RCC committee are included in the table below.

Responsibilities of the board risk committees

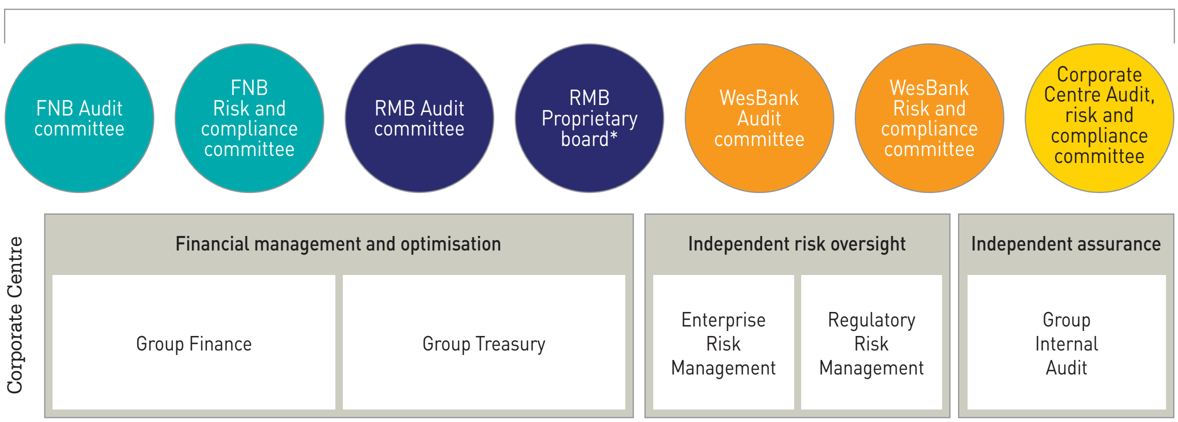
Committee	Responsibility
Large exposures committee (LEC)	• approves credit exposures in excess of 10% of the Group's capital; and • delegates the mandate for the approval of group and individual credit facilities to the FirstRand Wholesale credit committee, Commercial credit committee and Retail credit committee, as appropriate.
Audit committee	• considers the annual financial statements for approval by the Board; and • monitors the quality of the internal financial controls and processes of control in FirstRand, and the implementation of corrective actions. The Audit committee report is included on page 92 of the FirstRand integrated annual report.
Risk, capital management and compliance committee (RCC)	• approves risk management policies, standards and processes; • monitors Group risk assessments; • monitors the effectiveness of risk management and high priority corrective actions; • monitors the Group's risk profile; and • approves risk and capital targets, limits and thresholds.
Prudential investment committee (PIC)	• ensures investment exposures comply with FirstRand's prudential investment guidelines.

Responsibilities of the subcommitees of the RCC committee

Committee	Responsibility
Credit risk management committee	• approves credit risk management policies, standards, processes and new business origination within risk appetite; • monitors effectiveness of credit risk management processes, credit loss forecasting and impairment charges; • monitors the quality of the credit risk profile, in-force business and new business origination, and underlying assets in the securitisation process; • monitors scenario and sensitivity analysis, stress tests, credit economic capital and credit concentrations; • ensures the uniform interpretation of the credit regulatory requirements and acceptable standards of credit reporting; • reviews the credit economic conditions outlook from BSM and ensures that business units align credit origination strategies with the FirstRand view; and • delegates the approval of wholesale, commercial and retail credit policies to its subcommittees, namely the FirstRand Wholesale credit, Commercial credit and Retail credit committees.
Market and investment risk committee (MIRC)	• approves market and investment risk management policies, standards and processes; • monitors the effectiveness of market and investment risk management processes; • monitors the market and investment risk profile; and • approves market and investment risk-related limits.

Committee	Responsibility
Model risk and validation committee (MRVC)	• considers and approves all material aspects of model validation work including credit rating and estimation, internal models for market risk and advanced measurement operational risk models for the calculation of regulatory capital requirements.
Asset, liability and capital committee (ALCCO)	• approves and monitors effectiveness of management policies and processes for liquidity and funding risk, capital risk and market risk in the banking book (interest rate risk in the banking book, credit and counterparty credit risk, foreign exchange and translation risk, Corporate Centre macro hedges and investment risk); • monitors the management of funding of the Group's balance sheet; • provides governance and oversight of the level and composition of capital, and considers the supply and demand of capital across the Group; • approves buffers over regulatory capital and monitors capital adequacy ratios; and • approves frameworks and policies relating to internal funds transfer pricing (FTP) for the Group.
Operational risk committee (ORC)	• provides governance, oversight and coordination of relevant operational risk management practices.
Regulatory risk management committee (RRM committee)	• approves regulatory risk management principles, frameworks, plans, policies and standards; and • monitors the effectiveness of regulatory risk management, breaches and corrective action taken across the Group.
Tax risk committee	• monitors tax management processes, effectiveness of tax management process and corrective actions.
IT governance committee	• approves group-wide information and technology risk policies and standards to ensure the protection of information assets; and • ensures the effectiveness of information and technology systems, and processes across the Group.

Franchise risk governance structure



* *The RMB Proprietary board is the Risk and regulatory committee for RMB.*

The roles of the RCC committee and its subcommittees are further described with reference to the applicable governance structures and processes for each particular risk type in the major risk sections of this report. A number of the individual committee members are non-executive, further strengthening the Group's central, independent risk oversight and control functions.

Additional risk, audit and compliance committees exist in each franchise; the governance structures of which align closely with that of the Group, as illustrated in the chart above. The board committees are staffed by members of the respective committees of the individual franchise boards so as to ensure a common understanding of the challenges business faces and how these are addressed across the Group.

Regular risk reporting

ERM drives 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.

ERM, together with the independent review by GIA, ensures that all pertinent risk information is accurately captured, evaluated and reported appropriately. This enables the Board and its designated committees to retain effective management control over the Group's risk position at all times.

STRATEGIC AND BUSINESS RISK

Introduction and objectives

Any business runs the risk of choosing an inappropriate strategy or failing to execute its strategy appropriately. The Group's objective is to minimise this risk in the normal course of business.

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

In an environment of continued weakness of the South African economy and the risks imposed by the continued weak world economy, FirstRand continues to focus on cost containment whilst pursuing growth opportunities both locally and in selected African markets. While the Group has negligible direct exposure to counterparties in the peripheral European countries, the risk lies in the growth impact on South Africa's economy as Europe is a major trading partner.

Organisational structure and governance

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

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

Assessment and management

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

Volume and margin risk

Volume and margin risk is considered as part of strategic planning and is regularly assessed through the Group's management and governance processes and ICAAP. Volume and margin risk could result in a situation where the operating income of the Group is insufficient to absorb the variability in income and operating costs.

Reputational risk

As a financial services provider, the Group's business is one that is inherently built on trust and close relationships with its clients. Reputational risk can arise from environmental, social and governance issues or as a consequence of financial or operational risk events.

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

Environmental, social and governance risk management

FirstRand has formal governance processes for managing ESG risks affecting the Group's ability to successfully implement business strategy. These processes involve the generation of management reports at Group and franchise level, which detail ESG performance on a quarterly basis.

Each franchise defines tolerances for its principal ESG risks and action plans for addressing these in line with particular circumstances and risk appetite. Tolerances and mitigating actions are defined at Group and franchise level and progress in respect of these is tracked through existing risk reporting structures. Provision is made for the escalation of significant ESG issues to the Board via Exco and the RCC and Audit committees.

The impact and likelihood of these risks are evaluated taking into account measures for management, mitigation and avoidance.

Equator Principles and environmental and social risk analysis (ESRA)

FirstRand became an Equator Principles (EP) finance institution in July 2009. Within FirstRand, the application of EP forms part of ESRA and is a very specific credit risk management framework for determining, assessing and managing ESG risk in project finance transactions. EP transactions are all structured project finance activities, as defined by Basel II, where the capital costs associated with the project are US$10 million or above.

Once an applicable transaction has been identified, the activity for which finance is requested is categorised according to its potential impact on the environment or on social systems associated with the activity or operations. This categorisation process then determines the level of approval and review that is required for the particular transaction.

Specialist resources within the franchises are technical advisors to senior management and employees involved with credit transactions and provide assessment and review, consultation and specialist advice on lending transactions.

Each of the Group's operating franchises have formalised credit and compliance processes for the implementation of ESRA, with oversight provided by franchise risk and compliance officers, credit committees throughout the Group and divisional social and ethics committees in cases of sensitivity. At a Group level oversight is provided by the RCC and Audit committees. The ESRA review process is illustrated in the chart below.

ESRA review process

Deal origination →	Categorisation →	Environmental and social risk review →	Credit application →	Action plan →	Monitoring and evaluation
Deal identified and screened against an exclusion list.	Deals categorised by project type, value and ESRA category.	Environmental and social risk assessment informs in-house opinion.	Credit application assessed.	Action plan and covenants defined with client in line with legal documentation.	Ongoing monitoring and evaluation against covenants and legal documents.

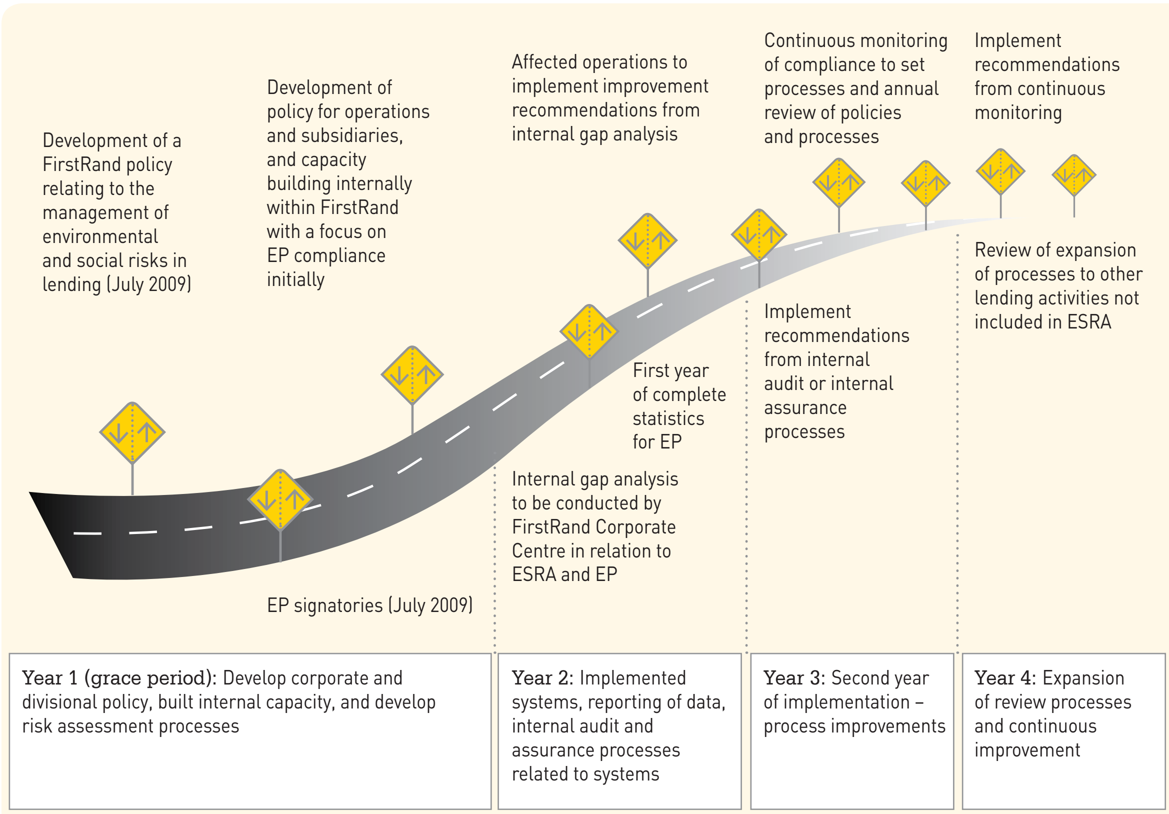
ESRA transaction by type

Transaction type	Threshold amount after which an ESRA review is triggered
Project finance transactions (subject to EP)	Total project capital costs at or above US$10 million.
Project finance advisory (subject to EP)	Total project capital costs at or above US$10 million.
Project finance transactions	All category A (high risk) and B (medium risk) transactions with a total project capital costs of less than US$10 million are subject to review.
Corporate loans	No threshold applied.
Equity investment deals	No threshold applied.
Affected commercial loans (inclusive of property finance)	Property finance or property securitised loans – no threshold is applied. Commercial loans (non-property related) – total facility amount above R7 million.
Asset finance for commercial or corporate purposes	Total facility amount above R50 million.
Commercial and corporate related working capital and overdraft loans	Total facility amount above R7 million.

Risk and capital management report continued

Progress on implementation

FirstRand is currently in the third year of ESRA implementation.



2012 Equator Principles performance

The Group measures EP performance in line with the International Finance Corporation (IFC) performance standards as either Category A (high risk), Category B (medium risk) or Category C (low to no risk), per the definitions set out below.

Definition of EP performance categories

IFC/equator category	Risks/impacts
Category A (high risk)	Projects with potential significant adverse social or environmental impacts that are diverse, irreversible or unprecedented. Issues relating to these risks may lead to work stoppages, legal authorisations being withdrawn and reputational damage. Examples could include projects involving the physical displacement of the natural environment or communities.
Category B (medium risk)	Projects with potential limited adverse social or environmental impacts that are few in number, generally site specific, largely reversible and readily addressed through mitigation measures. Issues relating to these risks may lead to fines, penalties or legal non-compliances and reputational damage. Examples could include increased use of energy or increased atmospheric emissions.
Category C (low risk)	Projects with minimal or no social or environmental impacts.

EP transactions

EP category	2012 Projects screened for the first time during the year	2012 Projects that reached financial close during the year	2011 Projects screened for the first time during the year	2011 Projects that reached financial close during the year
A (high risk)	**2**	**1**	5	3
B (medium risk)	**9**	**8**	2	-
C (low risk)	**6**	**7**	3	2
Total	**17**	**16**	10	5

The projects screened are the structured EP defined project finance deals, which were reviewed by an in-house environmental and social risk specialist, and had been subjected to an independent EP review, where applicable, to establish the environmental and social risks of the project for the first time during the reporting period. The projects that reached financial close are defined as the number of structured EP defined project finance deals which reached financial close during the reporting period. Financial close is assumed when all conditions precedent to initial drawing of the debt have been satisfied or waived.

The Group is confident that the transactions have been subjected to appropriate due diligence for environmental and social risks and that, where appropriate, mitigating action plans are in place.

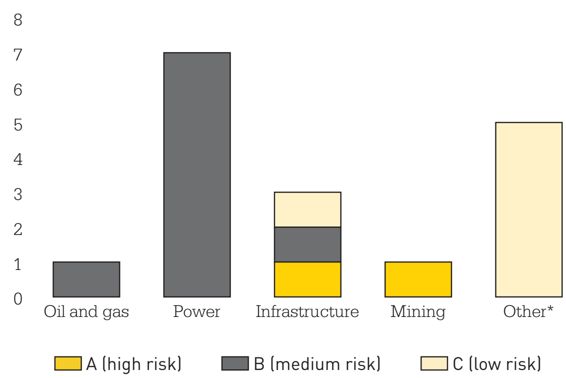
Analysis of EP transactions

EP transactions during the period under review were categorised into the mining and infrastructure sectors, renewable energy projects or other, which typically comprise deals related to large commercial property developments. This is not an unusual grouping of sectors in relation to EP due to the financial threshold associated with the EP projects and the nature of project finance deals within these sectors.

All of the transactions noted are southern African based projects.

The chart below illustrates the number of EL transaction screened per industry category.

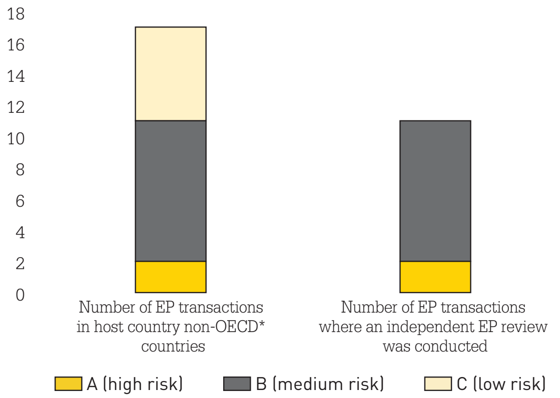
EP finance transactions screened per industry category (number of transactions)



* *Transactions in the other category are typically deals related to large commercial property developments.*

Risk and capital management report continued

Category of EP transactions (number of transactions)



* *Organisation for economic cooperation and development (OECD). During the year under review there were no EP transactions screened hosted in OECD countries.*

ESRA process going forward

Although the evaluation and monitoring of EP transactions are embedded across the Group, continued focus will be given to the effective implementation of the ESRA process. Planning for future reporting on further implementation of the ESRA process will allow for performance reporting in relation to ESRA transactions that go beyond project finance transactions as defined in EP.

The National Environmental Management Act: Waste Act is an area that will be a future focus area, particularly as it relates to the review of ecological contamination of financed property or taken as security.

For more detail on the EP and ESRA processes please visit www.firstrand.co.za.

CAPITAL MANAGEMENT

Introduction and objectives (audited)

The Group seeks to establish and manage a portfolio of businesses and associated risks that will deliver sustainable returns to its shareholders by targeting a particular earnings profile that will generate returns within appropriate levels of volatility.

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

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

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 overall business strategy. Moreover, performance measurement is aligned with the allocation of risk and continually enhanced to drive the desired behaviour.

The effectiveness of capital allocation decisions and the efficiency of the Group's 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. The plan 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.

Capital adequacy and planning

The year under review (audited)

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

The board-approved capital plan is reviewed annually as part of the Group's ICAAP, with the stress-testing framework being an extension of the process. ICAAP assists in the attribution of capital in proportion to the risks inherent in the respective businesses with reference to normal economic circumstances and times of potential stress, which may lead to the realisation of risks not previously considered. These processes are refined on an ongoing basis and continue to inform the targeted buffer over the minimum capital requirement.

Regular reviews of economic capital are carried out across the businesses and the Group remains well capitalised in the current environment, with levels of Tier 1 capital exceeding the level of economic capital required. The Group aims to back all economic risk with Tier 1 capital, which offers the greatest capacity to absorb losses.

Targeted ranges were increased in the prior year in anticipation of the implementation of Basel III, even though the levels for South Africa are not yet finalised. Given the continued uncertainty, the Group follows a conservative approach to capital levels and prefers to maintain capital ratios at the upper end of its targeted capitalisation range. The Group will revisit the internal target capitalisation levels once the SARB finalises the regulations incorporating Basel III.

Throughout the year under review, the Group operated above its targeted capitalisation range, reporting a total capital adequacy ratio of 14.7% and a solid Core Tier 1 ratio of 12.3% at 30 June 2012.

Similarly the Bank, excluding foreign branches, operated comfortably above its targets with a total capital adequacy of 14.6% and Core Tier 1 ratio of 11.8%.

Although the Group's internal capital generation remains strong, regulatory uncertainty and the ongoing capital requirements for the Africa strategy lead the Group to continue to adopt a conservative approach to capital levels.

The targeted capital levels as well as the ratios at 30 June 2012 are summarised in the table below.

Capital adequacy position

	FirstRand		FRB*		Regulatory minimum
	Actual	Target	Actual	Target	
Capital adequacy ratio (%)	14.7	12.0 – 13.5	14.6	11.5 – 13.0	9.5**
Tier 1 ratio (%)	13.2	11.0	12.6	10.5	7.0
Core Tier 1 ratio (%)	12.3	9.5 – 11.0	11.8	9.0 – 10.5	5.25

* *Reflects solo supervision, i.e. FRB excluding foreign branches.*

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

Basel III

The final Basel III framework "A global regulatory framework for resilient banks and banking systems," issued in December 2010, will be phased in from 1 January 2013 with full compliance of capital levels (including buffers) required by 1 January 2019.

The SARB is currently drafting regulations incorporating the Basel III proposals. The second draft was released on the 17 August 2012 for implementation on 1 January 2013. The Basel III impact on the Group's Core Tier 1 ratio is expected to be minimal. There is, however, a more pronounced negative impact on the total capital adequacy ratio as the current NCNR preference share capital and subordinated debt instruments do not meet the new loss absorbency criteria. Given the transitional period for the implementation of Basel III, the Group remains focused on optimising its capital base. The Basel III impact on the supply and demand of capital is discussed below.

The Group continues to participate in the SARB's bi-annual quantitative impact studies to assess the impact of Basel III on capital adequacy ratios.

The BCBS introduced a simple, transparent non-risk based leverage ratio that is calibrated to act as a credible supplementary measure to the risk-based capital requirements. The SARB has proposed a minimum Tier 1 capital leverage ratio of 4%, which is higher than the BCBS's requirement of 3%. The Group's current leverage ratio is well in excess of this requirement and therefore this does not introduce any constraints to the Group.

Supply of capital – Tier 1

Tier 1 capitalisation ratios benefited from stronger internal capital generation through earnings, offset by the special dividend paid in October 2011. All profits were appropriated at 30 June 2012.

The draft regulations allow for the inclusion of disclosable reserves (i.e. share-based payment, foreign currency translation and available-for-sale reserves) in the supply of capital. This is offset by the exclusion of certain minority interests, additional regulatory deductions for the expected loss over provisions and the grandfathering of the NCNR preference share capital over a ten-year period.

Supply of capital – Tier 2

During the year, the Bank, FNB Botswana and FNB Namibia issued subordinated debt that meets the Basel III entry criteria (excluding loss absorbency). These instruments qualify for the grandfathering arrangements under Basel III. The Group's old-style Tier 2 instruments also do not meet the loss absorbency criteria under Basel III and will be grandfathered.

Demand for capital

Risk weighted assets (RWA) movement for the year was driven mainly by the following:

- credit risk – the increase is due to credit risk recalibrations, volume growth and the 6% scalar applied to exposures on the advanced internal ratings-based (AIRB) approach (Basel 2.5 requirement);
- market risk – decreased market risk positions were offset by the Basel 2.5 stressed VaR requirements and incremental risk charge; and
- equity investment risk - effective 1 July 2011, the SARB requested that all equity investment risk exposures be risk weighted under the simple risk weighted method (previously risk weighted under the standardised approach). This is only applicable to the non-bank entities and has increased the RWA movement for the Group.

Under Basel III RWA are expected to increase further mainly due to the credit valuation adjustment for counterparty credit risk, as well as the requirement for capital on central clearing parties.

Capital adequacy

Composition of capital

The following table shows the composition of regulatory capital for FirstRand.

Composition of qualifying capital and capital ratios for FirstRand

	FirstRand			
R million	**2012**	**%**	2011	%
Ordinary shareholders equity as per IFRS*	**62 521**		56 631	
Less: non-qualifying reserves	**(3 983)**		(2 954)	
– Cash flow reserve*	**753**		451	
– Available-for-sale reserve*	**(626)**		(225)	
– Share-based payment reserve*	**(3 247)**		(2 739)	
– Foreign currency translation reserve*	**(1 052)**		(474)	
– Other reserves*	**189**		33	
Ordinary shareholders equity qualifying as capital	**58 538**		53 677	
– Ordinary share capital and share premium*	**5 271**		4 998	
– Reserves	**53 267**		48 679	
Non-controlling interests	**2 767**		3 069	
Less: total impairments	**(3 419)**		(3 121)	
– Excess of expected loss over eligible provisions (50%)	**(400)**		(907)	
– First loss credit enhancements in respect of securitisation structures (50%)	**(508)**		(247)	
– Goodwill and intangibles	**(1 743)**		(1 691)	
– Other impairments	**(768)**		(276)	
Total Core Tier 1 capital	**57 886**	**12.3**	53 625	13.9
NCNR preference share capital*	**4 519**		4 519	
Less: impairments	**(400)**		(400)	
Total Tier 1 capital	**62 005**	**13.2**	57 744	15.0
Upper Tier 2 instruments	**1 045**		1 042	
Tier 2 subordinated debt instruments	**6 973**		5 712	
Other reserves	**215**		202	
Less: total impairments	**(908)**		(1 154)	
– Excess of expected loss over eligible provisions (50%)	**(400)**		(907)	
– First loss credit enhancements in respect of securitisation structures (50%)	**(508)**		(247)	
Total Tier 2 capital	**7 325**	**1.5**	5 802	1.5
Total qualifying capital and reserves	**69 330**	**14.7**	63 546	16.5

* *Audited.*

Risk and capital management report continued

The table below provides more detail on the Group's capital instruments at 30 June 2012.

Characteristics of capital instruments for FirstRand

Capital type	Instrument	Nominal (R million)	Actual (R million)	Rate type	Maturity date**
Core Tier 1	Ordinary share capital and premium*	5 271	5 271		Perpetual
Other Tier 1	NCNR preference share capital*	4 519	4 519	Floating	Perpetual
Upper Tier 2	FRBC21	628	604	Fixed	21 Dec 2018
	FRBC22	440	441	Floating	21 Dec 2018
Lower Tier 2 (Subordinated debt)	FRB03	1 740	1 826	Fixed	15 Sept 2014
	FRB05	2 110	2 041	Fixed	21 Dec 2018
	FRB06	1 000	1 009	Floating	5 Nov 2012
	FRB07	300	301	Floating	6 Dec 2012
	FRB08	100	100	Floating	10 Jun 2016
	FRB09	100	100	Floating	10 Jun 2017
	FRB10	1 000	1 014	Floating	25 Jan 2017
	FNB002	120	155	Floating	1 Dec 2016
	FNB003	27	25	Fixed	1 Dec 2016
	FNBX22	110	113	Fixed	29 Mar 2017
	FNBJ22	280	280	Floating	29 Mar 2017

* *Audited.*
** *Represents the call date of the instrument.*

The table below provides a detailed breakdown of the RWA numbers and capital requirement per current SARB regulations for each risk type of FirstRand.

RWA and capital requirements

	FirstRand				
	June 2012				June 2011
	RWA				
R million	**Advanced approach**	**Standardised approach**	**Total**	**Capital requirement#**	RWA
Credit risk					
Corporate, banks and sovereigns	**108 719**	**8 842**	**117 561**	**11 168**	92 642
Small and medium enterprises (SME)	**34 134**	**11 359**	**45 493**	**4 322**	37 584
Residential mortgages	**52 224**	**3 708**	**55 932**	**5 314**	42 388
Qualifying revolving retail	**12 564**	**97**	**12 661**	**1 203**	9 003
Other retail	**55 311**	**8 399**	**63 710**	**6 052**	40 481
Securitisation exposure	**9 207**	**381**	**9 588**	**911**	4 580
Other	**–**	**12 904**	**12 904**	**1 226**	31 911
Total credit risk	**272 159**	**45 690**	**317 849**	**30 196**	258 589
Operational risk*	**58 114**	**14 849**	**72 963**	**6 931**	63 649
Market risk	**12 511**	**3 357**	**15 868**	**1 507**	17 311
Equity investment risk**	**40 640**	**–**	**40 640**	**3 861**	20 605
Other assets	**–**	**24 148**	**24 148**	**2 294**	25 036
Total RWA	**383 424**	**88 044**	**471 468**	**44 789**	385 190
– Pillar 1 (8%)				**37 717**	30 814
– Pillar 2a (1.5%)				**7 072**	5 778
Total capital requirement				**44 789**	36 592

* *Exposures subject to the basic indicator approach are included under the standardised method.*
** *Effective 1 July 2011, all exposures are subject to the simple risk weighted method (previously non-bank entities were on the standardised approach).*
# *Capital requirement calculated at 9.5% (Pillar 1 of 8% and Pillar 2a of 1.5%) of RWA.*

The following table shows the composition of regulatory capital for the Bank.

Composition of qualifying capital and capital ratios for the Bank

	FirstRand Bank*			
R million	**2012**	**%**	2011	%
Ordinary shareholders equity as per IFRS**	**45 956**		37 965	
Less: non-qualifying reserves**	**(364)**		(333)	
– Cash flow reserve**	**753**		452	
– Available-for-sale reserve**	**(695)**		(443)	
– Share-based payment reserve**	**(422)**		(342)	
Ordinary shareholders equity qualifying as capital	**45 592**		37 632	
– Ordinary share capital and share premium**	**15 308**		11 459	
– Reserves	**30 284**		26 173	
Less: total impairments	**(2 526)**		(3 295)	
– Excess of expected loss over eligible provisions (50%)	**(400)**		(907)	
– First loss credit enhancements in respect of securitisation structures (50%)	**(45)**		(71)	
– Qualifying capital in branches	**(1 732)**		(1 732)	
– Intangibles	**(332)**		(268)	
– Other impairments	**(17)**		(317)	
Total Core Tier 1 capital	**43 066**	**11.8**	34 337	11.4
NCNR preference share capital**	**3 000**		3 000	
Total Tier 1 capital	**46 066**	**12.6**	37 337	12.4
Upper Tier 2 instruments	**1 045**		1 042	
Tier 2 subordinated debt instruments	**6 392**		5 349	
Less: total impairments	**(445)**		(978)	
– Excess of expected loss over eligible provisions (50%)	**(400)**		(907)	
– First loss credit enhancements in respect of securitisation structures (50%)	**(45)**		(71)	
Total Tier 2 capital	**6 992**	**2.0**	5 413	1.8
Total qualifying capital and reserves	**53 058**	**14.6**	42 750	14.2

* *Reflects solo supervision, i.e. FirstRand Bank excluding foreign branches.*
** *Audited.*

Risk and capital management report continued

The table below provides a detailed breakdown of the RWA and capital requirement per current SARB regulations for each risk type of the Bank.

RWA and capital requirements

	FirstRand Bank*				
	2012				2011
	RWA†				
R million	Advanced approach	Standardised approach	Total	Capital requirement#	RWA
Credit risk					
Corporate, banks and sovereigns	**108 719**	**–**	**108 719**	**10 328**	92 642
Small and medium enterprises (SME)	**34 134**	**–**	**34 134**	**3 243**	37 584
Residential mortgages	**52 224**	**–**	**52 224**	**4 961**	42 388
Qualifying revolving retail	**12 564**	**–**	**12 564**	**1 194**	9 003
Other retail	**55 311**	**–**	**55 311**	**5 255**	40 481
Securitisation exposure	**9 207**	**–**	**9 207**	**875**	4 580
Total credit risk	**272 159**	**–**	**272 159**	**25 856**	226 678
Operational risk**	**54 099**	**–**	**54 099**	**5 139**	42 659
Market risk	**12 511**	**–**	**12 511**	**1 188**	7 016
Equity investment risk	**10 391**	**–**	**10 391**	**987**	10 460
Other assets	**–**	**15 275**	**15 275**	**1 451**	14 027
Total RWA	**349 160**	**15 275**	**364 435**	**34 621**	300 840
– Pillar 1 (8%)				**29 154**	24 068
– Pillar 2a (1.5%)				**5 467**	4 513
Total capital requirement				**34 621**	28 581

* *Reflects solo supervision, i.e. the FirstRand Bank excluding foreign branches.*

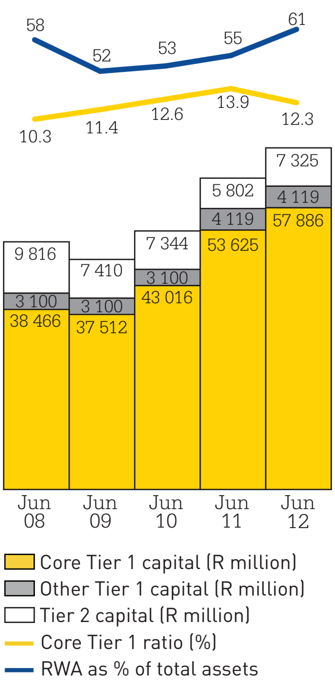
** *Exposures subject to the basic indicator approach are included under the standardised method.*

\# *Capital requirement calculated at 9.5% (Pillar 1 of 8% and Pillar 2a of 1.5%) of RWA.*

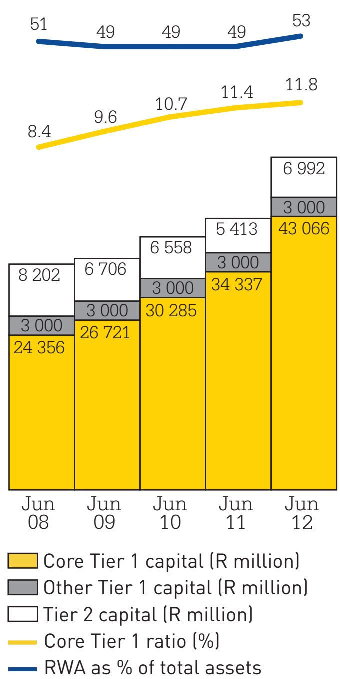
† *All risk types, except other assets are subject to the advanced approach at the Bank.*

Historical overview of capital adequacy

The graphs below provide a historical overview of the capital adequacy for FirstRand and the Bank.



* *Comparative information prior to July 2010 relates to previously regulated entity FirstRand Bank Holdings Limited.*



Risk and capital management report continued

Capital adequacy position for FirstRand and its subsidiaries

The registered banking subsidiaries of FirstRand must comply with SARB regulations and those of their respective in-country regulators, with primary focus placed on Tier 1 capital and total capital adequacy ratios. Based on the outcome of detailed stress testing, each entity targets a capital level in excess of the regulatory minimum. Adequate controls and processes are in place to ensure that each entity is adequately capitalised to meet local regulatory requirements. Capital generated by subsidiaries in excess of targeted levels is returned to the Group, in the form of dividends. During the year under review, no significant restrictions were experienced on the repayment of such dividends or capital to the Group.

The capital adequacy position of FirstRand and its subsidiaries is set out below.

RWA and capital adequacy position for FirstRand and its subsidiaries

	FirstRand				
	2012			2011	
	RWA R million	**Tier 1 %**	**Total capital adequacy %**	Tier 1 %	Total capital adequacy %
Basel II					
FirstRand	**471 468**	**13.2**	**14.7**	15.0	16.5
FirstRand Bank South Africa	**364 435**	**12.6**	**14.6**	12.4	14.2
FirstRand Bank London	**6 134**	**17.8**	**18.0**	12.5	12.5
FirstRand Bank India	**1 693**	**30.4**	**30.4**	43.0	43.0
FirstRand Ireland*				24.9	24.9
RMB Australia	**9 288**	**14.2**	**14.2**	24.0	24.0
FNB Namibia**	**13 085**	**11.8**	**17.6**	12.6	16.6
Basel I**					
FNB Botswana	**9 601**	**13.9**	**16.6**	13.7	15.7
FNB Lesotho	**319**	**17.2**	**17.4**	19.7	20.0
FNB Mozambique	**1 011**	**11.1**	**11.9**	11.8	16.6
FNB Swaziland	**1 600**	**28.1**	**29.4**	23.0	24.2
FNB Zambia	**753**	**12.1**	**18.0**	33.0	33.0
FNB Tanzania#	**79**	**77.8**	**77.8**	–	–

* *In the process of voluntary liquidation.*
** *Ratios based on local rules.*
# *Opened offices in July 2011.*

CREDIT RISK

Introduction and objectives

Credit risk is managed as part of the broader balance sheet management process and is aligned with the Group's macro economic view. Activities that give rise to credit risk in the Group include:

- retail loans and advances;
- large corporate credit risk exposures from term lending activities in the RMB Investment bank division (IBD), short-term exposures from overdraft and working capital facilities in Global Transactional Services' (GTS) corporate and transactional banking, and short-term money market exposures in RMB's Fixed income, currency and commodity division (FICC); and
- exposure from financial market activities such as cash placements with other banks, exposure from positive mark-to-market movements on derivatives and reverse repos.

Credit risk management is split into three distinct portfolios, namely retail credit, commercial credit and wholesale credit, which are aligned to customer profiles. Credit risk management includes credit origination strategy, risk appetite, risk quantification and measurement, collection and recovery of delinquent accounts, and extends across the franchises. Activities that give rise to credit risk in each of the portfolios are described below:

Retail credit

Retail credit in FNB comprises three main segments, wealth, personal banking (the consumer segment) and smart solutions (for customers with income below R100 000 per annum). These segments offer similar products but are segmented according to customers income. Retail credit in WesBank is not segmented by customer income.

Secured products in retail credit in FNB include mortgage finance with property as security for the loan and pension backed loans with a portion of a pension fund as security to purchase or improve a property. Secured retail credit at WesBank mainly relates to instalment sale agreements for the financing of motor vehicles.

Unsecured products in both FNB and WesBank include:

- personal loans ranging from small short-term loans to larger loans with repayment terms of up to 60 months;
- student loans to finance studies at approved tertiary institutions;
- revolving overdrafts facilities linked to the transactional demand deposit accounts; and
- credit cards with revolving credit limits and either straight or budget period repayment facilities.

Risk and capital management report continued

Commercial credit

The commercial credit portfolio strategy is focused on providing tailored credit products to commercial customers. These credit products are originated under both of the FNB (primary relationship owner) and WesBank (vehicle and asset based finance (VAF)) brands. These products include:

- revolving overdraft facilities linked to transactional demand deposit accounts;
- traditional VAF and fleet petrol cards;
- dealer funding solutions to selective vehicle dealerships secured by trade stock;
- guarantees and letters of credit to assist in the facilitation of transactions;
- forward exchange contracts and interest rate swaps;
- secured term loans;
- property finance includes owner occupied and multi-tenanted properties as well as finance for residential developments secured by the properties;
- leveraged finance provides specialised business financing to fund, amongst others, business acquisitions, management buy-outs, management buy-ins, BEE transactions and balance sheet restructuring over a maximum period of five years; and
- working capital facilities secured against debtors books and selective invoice discounting.

Wholesale credit

Wholesale credit offered by RMB to large corporate multi-banked customers includes the following products:

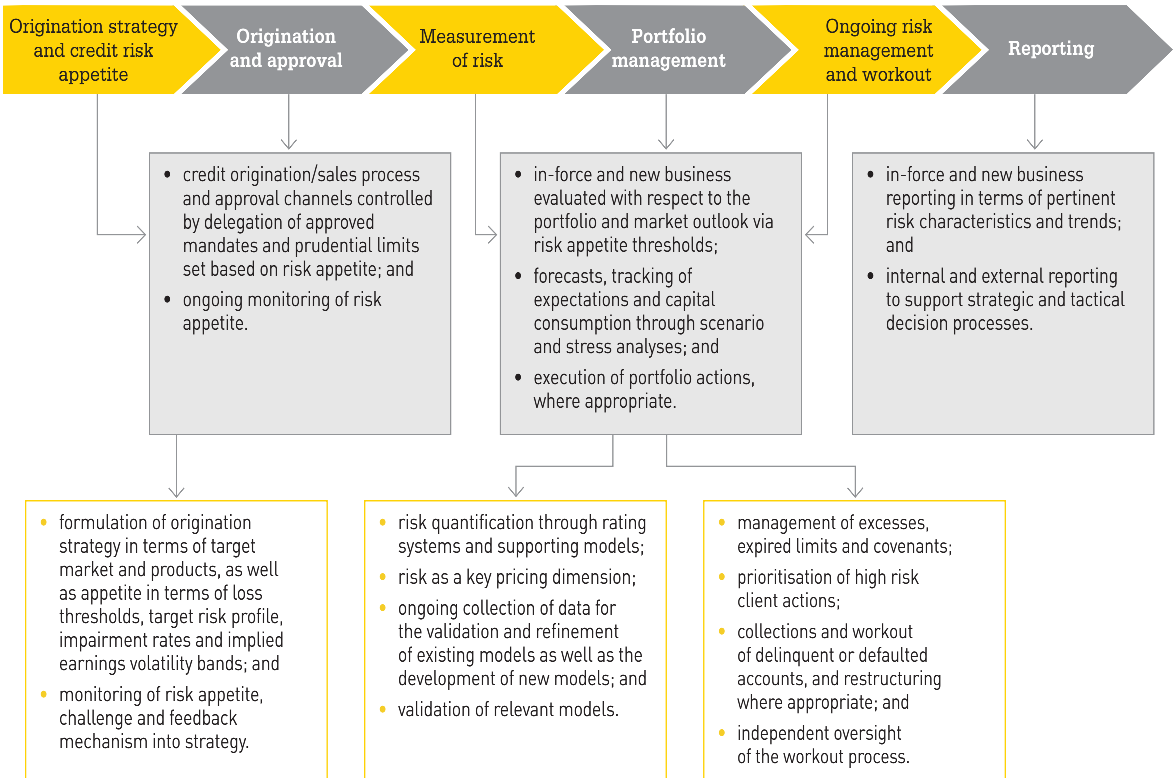
- structured asset finance for client funding requirements in local and cross-border strategic African jurisdictions;
- funding of corporate businesses, government and parastatals through debt capital market instruments;
- all inclusive financing packages for investment banking clients;
- structuring, raising and underwriting of equity capital and structured equity solutions;
- infrastructure and project finance;
- leveraged finance;
- real estate investment banking; and
- resource finance.

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

- Risk control: Appropriate limits are placed on the assumption of credit risk and steps are taken to ensure the accuracy of credit risk assessments and reports. Deployed and central credit risk management teams fulfil this task.
- Management: Credit risk is taken within the constraints of the risk appetite framework. The credit portfolio is managed at an aggregate level to optimise the exposure to this risk. Business units and deployed risk functions, overseen by the Group Credit Risk Management function within ERM and relevant board committees, as well as BSM, fulfil this role.

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

Scope of credit risk management and identification practices



Organisational structure and governance

The RCC committee and franchise Excos regularly receive and review reports on the adequacy and robustness of credit risk identification, management and control processes, as well as on the current and projected credit risk profile across the Group. The credit risk management governance structures, related roles and responsibilities as well as lines of accountability are set out in the credit risk management framework (CRMF). Approved by the RCC committee, the CRMF is a policy of the Board and a subframework of the BPRMF (see page 126).

The credit-focused committees, namely the Large exposures committee (a board committee) and the FirstRand Credit risk management committee (subcommittees of the RCC committee) support the RCC committee in its tasks. The Model risk and validation committee (MRVC, also a subcommittee of the RCC committee), also supports the RCC committee in it tasks relating specifically to models. For a description of the roles and responsibilities of these committees refer to the *Governance structure* on page 129.

The Group Credit Risk Management (GCRM) function

The GCRM function in ERM provides independent oversight of credit risk management practices in the deployed risk management functions to ensure an effective credit risk management process. It owns the CRMF and related policies and monitors the implementation of credit risk-related frameworks. In addition, its responsibilities include:

- active participation in the formulation of credit and origination strategies, in particular with a view to the implementation and management of the Group's credit risk appetite across the business units;
- aggregation of credit risk-related stress testing and scenario analysis;
- monitoring the credit components of the risk appetite framework;
- monitoring and reporting the credit risk profile and credit performance;

Risk and capital management report continued

- aggregation and quantification of credit economic capital, including the credit risk assessment employed for ICAAP;
- reviewing all credit rating systems and independent revalidation of credit rating systems;
- management of relationships with external stakeholders such as relevant regulators with respect to credit matters;
- oversight of the credit impairment process;
- consolidated regulatory reporting; and
- the assessment, analysis and reporting of impairments and consolidated credit risk reporting to stakeholders such as the RCC committee.

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

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

Assessment and management (audited)

Calculation of internal ratings and rating process

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

Credit risk models are widely used in a number of activities such as the assessment of capital requirements, pricing, impairment calculations and stress testing of the portfolio. All of these models are built on a number of client and facility rating models, in line with Basel AIRB approach requirements and the Bank's model building framework. The Group was granted regulatory approval under Basel for the approaches as shown in the table below.

Basel approach	FirstRand Bank	Remaining FirstRand subsidiaries
AIRB	✓	
Standardised approach		✓

Even though only the Bank has regulatory approval to use the AIRB approach, the same or similar models are applied for the internal assessment of credit risk in the remaining Group subsidiaries on the standardised approach. The models are used for the internal assessment of the following three primary credit risk components discussed in the following sections:

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

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

Probability of default

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

- time-driven: the counterparty is in arrears for more than 90 days or three instalments as appropriate; and
- event-driven: there is reason to believe that the exposure will not be recovered in full and has been classified as such.

This definition of default is consistently applied across all credit portfolios as well as in the recognition of non-performing loans (NPLs) for accounting purposes.

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

Mapping of FirstRand (FR) grades to rating agency scales (unaudited)

FR rating	Midpoint PD	International scale mapping*
FR 1 – 12	0.04%	AAA, AA, A
FR 13 – 25	0.27%	BBB
FR 26 – 32	0.77%	BB+, BB
FR 33 – 37	1.34%	BB-
FR 38 – 48	2.15%	B+
FR 49 – 60	3.53%	B+
FR 61 – 83	6.74%	B
FR 84 – 91	15.02%	B-
FR 92 – 94	60.46%	Below B-
FR 95 – 100	100%	D (defaulted)

* *Indicative mapping to the international rating scales of Standard & Poor's. These mappings are reviewed and updated on a regular basis.*

FR rating of 1 references to the lowest PD and a FR rating of 100 to the highest. External ratings have been mapped to the master-rating scale for reporting purposes.

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

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

Exposure at default

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

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

Loss given default

LGD is the third major credit risk component estimated on the basis of internal models. It is the economic loss on a particular facility upon default of the counterparty. It is expressed as a percentage of exposure outstanding at the time of default. In most portfolios, LGD is strongly dependent on:

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

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

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

Expected loss (EL)

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

Specialised lending

Specialised lending relates mainly to project and commodity finance. In terms of the slotting approach, the exposure is rated after assessing the risks and mitigations applied to reduce/eliminate the risk and mapped to one of four supervisory categories.

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

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

Rating process

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

Risk and capital management report continued

Credit portfolio rating process

<table>
<tr><th>Portfolio and type of exposures</th><th>Description of rating system</th></tr>
<tr><td>Large corporate portfolios
(Wholesale: FNB Corporate, WesBank Corporate, Corporate Centre and RMB)

Exposures to private sector counterparties including corporates and securities firms and public sector counterparties.

A wide range of products give rise to credit exposure, including loan facilities, structured finance facilities, contingent products and derivative instruments.</td><td>The default definitions applied in the rating systems are aligned to Basel requirements.
Rating process:
• rating assignment to corporate credit counterparties is based on a detailed individual assessment of the counterparty's creditworthiness;
• this assessment is performed through a qualitative analysis of the business and financial risks of the counterparty and is supplemented by internally developed statistical rating models;
• rating models were developed using internal and external data covering more than ten years. Qualitative analysis is based on the methodology followed by international rating agencies;
• the rating assessment is reviewed by the Wholesale credit committee and the rating (and associated PD) is approved by this committee;
• no overrides of the ratings or the PDs are possible after approval by this committee; and
• LGD and EAD estimates are based on the modelling of a combination of internal and suitably adjusted international data.</td></tr>
<tr><td>Low default portfolios:
sovereign and bank exposures
(Wholesale: FNB Corporate, Corporate Centre and RMB)

Exposures to sovereign and bank counterparties.</td><td>The default definitions applied in the rating systems are aligned to Basel requirements.
Rating process:
• expert judgement models are used in combination with external rating agency ratings as well as structured peer group analyses which form a key input in the ratings process. The analysis is supplemented by internally developed statistical models;
• the calibration of PD and LGD ratings is based on a mapping to external default data as well as credit spread market data;
• the rating assessment is reviewed by the Wholesale credit committee and the rating (as well as the associated PD) is approved by this committee; and
• no overrides of the ratings or the PDs are possible after approval by this committee.</td></tr>
<tr><td>Specialised lending portfolios
(Wholesale: FNB Corporate, RMB and FNB Commercial)

Exposures to private-sector counterparties for the financing of income-producing real estate.</td><td>The default definitions applied in the rating systems are aligned to Basel requirements.
Rating process:
• the rating system is based on hybrid models using a combination of statistical cash flow simulation models and qualitative scorecards calibrated to a combination of internal data and external benchmarks;
• the rating assessment is reviewed by the Wholesale credit committee and the rating (as well as the associated PD) is approved by this committee; and
• no overrides of the ratings or the PDs are possible after approval by this committee.</td></tr>
<tr><td>Commercial portfolio
(SME corporate and SME retail counterparties in FNB Commercial and WesBank)

Exposures to SME clients.
A wide range of products give rise to credit exposure, including loan facilities, contingent products and term lending products.</td><td>The default definitions applied in the rating systems are aligned to Basel requirements.
SME retail rating process:
• the SME retail portfolio is segmented into homogeneous pools and subpools through an automated scoring process using statistical models that incorporate product type, customer behaviour and delinquency status;
• PDs are estimated for each subpool based on internal product level history associated with the respective homogeneous pools and subpools; and
• LGD and EAD estimates are applied on a portfolio level, estimated from internal historical default and recovery experience.
SME corporate rating process:
• PD: Counterparties are scored using Moody's RiskCalc™, the output of which is calibrated to internal historical default data;
• LGD: Recovery rates are largely determined by collateral type and these have been set with reference to internal historical loss data, external data and Basel guidelines; and
• EAD: Portfolio level credit conversion factors are estimated on the basis of the Group's internal historical experience and benchmarked against international studies.</td></tr>
</table>

<table>
<tr><th>Portfolio and type of exposures</th><th>Description of rating system</th></tr>
<tr><td>Residential mortgages
(Retail portfolios in FNB HomeLoans, RMB Private Bank exposures and mortgage exposures in the Mass segment)

Exposures to individuals for the financing of residential properties.</td><td rowspan="3">The default definition applied in the rating systems is aligned to the requirements of Basel.
Rating process and approach:
• retail portfolios are segmented into homogeneous pools and subpools through an automated scoring process using statistical models that incorporate product type, loan characteristics, customer behaviour, application data and delinquency status;
• PDs are estimated for each subpool based on internal product level history associated with the respective homogeneous pools and subpools;
• no overrides of the PDs are possible. The only potential override is not that of the PD, but rather of the automated decision to lend or not. Such overrides may be done on the basis of the credit manager's judgement in a structured process supported by pertinent business reasons; and
• LGD and EAD estimates are based on subsegmentation with reference to the collateral or product type as well as associated analyses and modelling of historical internal loss data.
Additional notes on qualifying revolving retail exposures:
• these exposures are unsecured and therefore only the efficiency of recovery processes impacts on the level of LGD; and
• EAD measurement plays a significant role in the assessment of risk due to the typically high level of undrawn facilities that are characteristic of these product types. EAD estimates are based on actual historic EAD, segmented appropriately (e.g. straight versus budget in the case of credit cards).</td></tr>
<tr><td>Qualifying revolving retail exposures
(Retail portfolios in FNB Card, FNB Consumer overdrafts and RMB Private Bank)

Exposures to individuals providing a revolving limit through a credit card or overdraft facility.</td></tr>
<tr><td>Other retail exposures
(Retail portfolios in FNB Personal loans, Smart products and WesBank Retail auto finance and personal loans)</td></tr>
</table>

Model validation

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

Independent validation of rating systems is carried out by the GCRM function in ERM. It is responsible for reviewing all rating systems, and an annual comprehensive revalidation of all material rating systems. An audit team in GIA carries out additional reviews of the independent validation function, as well as sample revalidations. The results of these analyses are reported to MRVC and ultimately approved by the RCC committee (designated model approval committee). As part of this process, extensive documentation covering all steps of the model development lifecycle from inception to validation is maintained. This includes:

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

Credit risk mitigation (audited)

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

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

- mortgages and instalment sale finance are secured by the assets financed;
- personal loans, overdrafts and credit card exposures are unsecured or secured by guarantees and suretyships;
- FNB Commercial credit facilities are secured by the assets of the SME counterparties and commercial property transactions are supported by the financed property and associated cash flows;

- working capital facilities in FNB Corporate are often not secured by claims on specific assets, but risk in structured facilities granted by RMB is mitigated by financial or other collateral such as guarantees or credit derivatives; and
- credit risk in RMB's FICC business is mitigated through the use of netting agreements and financial collateral.

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

Management of concentration risk (audited)

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

Wholesale credit portfolio:

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

Commercial portfolios:

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

Monitoring of weak exposures (audited)

Credit exposures are actively monitored throughout the life of 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.

Wholesale credit portfolios:

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

Retail credit portfolios:

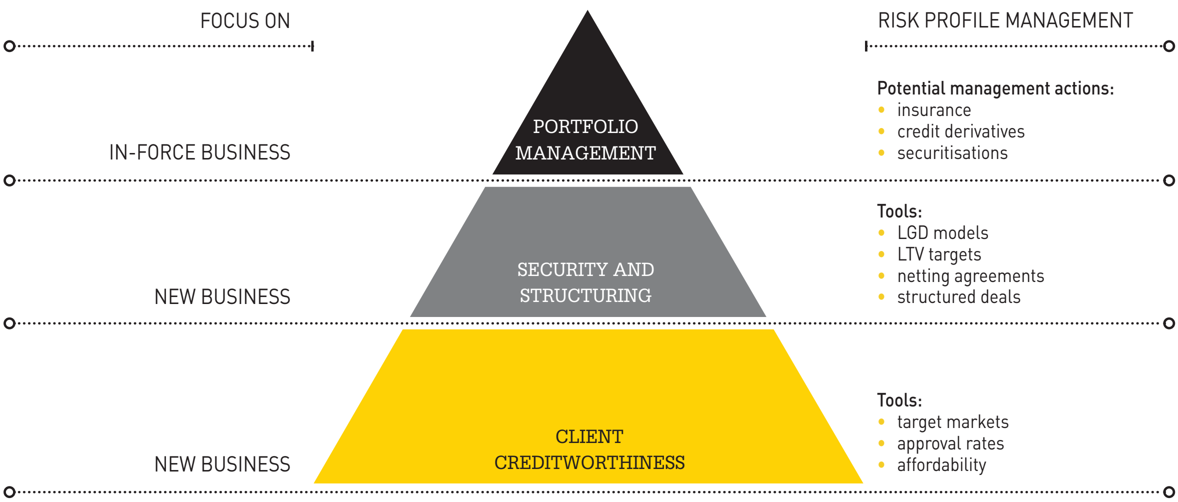
- monitoring on a (homogeneous) portfolio basis;
- restructuring of weak exposures to increase the projected realised value;
- reduction or removal of undrawn facilities in areas such as HomeLoans and Card; and
- revaluation of properties before approval of additional facilities.

Commercial and other portfolios of clients that fall between the corporate and retail segments are treated in a hybrid manner, dependent on the number of exposures and the size of individual transactions. Reports on the overall quality of the portfolio are monitored closely at a business unit as well as at a Group level.

Use of credit risk tools and measures (audited)

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

Use of credit risk tools and measures



Risk and capital management report continued

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

Use of credit measures in the credit lifecycle

	WHOLESALE	RETAIL
Credit approval	• consideration of applicant's ratings; • risk appetite limits; and • projected risk-adjusted return on economic capital (PD, EAD and LGD are key inputs in these measures).	• automated based on applications (scorecards are reflective of PD, EAD and LGD).
Determination of individual and portfolio limits	• industry and geographical concentrations; • ratings; • risk-related limits in composition of portfolio; and • Group risk appetite.	• see wholesale; and • modelled versus actual experience are evaluated in setting of risk appetite.
Reporting to senior management and board	• portfolio reports discussed at business and deployed risk committee meetings; and • quarterly portfolio reports submitted to Credit risk management and RCC committees.	• portfolio reports discussed at business and deployed risk committee meetings; and • quarterly portfolio reports submitted to Credit risk management and RCC committees.
Provisioning	• PD and LGD used in assessment of impairments and provisioning.	• loss identification period (LIP), PD, LGD and roll rates used for specific, portfolio and incurred but not reported (IBNR) provisions.
Regulatory and economic capital calculation	• primary credit risk measures – PD, EAD and LGD are the most important inputs.	• primary credit risk measures – PD, EAD and LGD are the most important inputs.
Profitability analysis and pricing decisions	• PD, EAD and LGD; and • value proposition based on risk-adjusted basis.	• PD, EAD and LGD used to determine pricing; and • economic profit used for profitability.
Credit monitoring and risk management	• risk assessment based on PD, EAD and LGD; • counterpart FR grades updated based on risk assessment; and • portfolio model apportion additional capital to large transactions that will increase concentration risk.	• see wholesale; and • monthly analysis of portfolio and risk movements used in portfolio management and credit strategy decisions.
Determination of portfolio and client acquisition strategy	• assessment of overall portfolio credit risk determined by PD, EAD and LGD; and • acquisition and overall strategy set in terms of appropriate limits and Group risk appetite.	• see wholesale; and • credit models determine loss thresholds used in setting of credit risk appetite.

Credit risk portfolio

Credit strategy is managed as part of the broader balance sheet management process and is aligned with the Group's view of trends in the wider economy. The current origination strategies are resulting in improving credit quality across all retail portfolios (as evidenced in the vintage analyses for the large retail portfolios on page 176).

Total loans and advances grew strongly during the financial year. Although corporate activity is still subdued, growth in investment banking and commercial loans to the property and agriculture sectors showed improvement. Retail advances benefited from strong growth in the vehicle and asset-based finance (VAF) and unsecured portfolios. Growth in the Africa book is consistent and steady.

The level of NPLs has been trending downwards since the peak in June 2009. Facilitated by the favourable credit environment, incidences of defaults have continued to decline in the retail book. Overall the corporate portfolio experienced a slight decline in NPLs despite an uptick in the investment banking book. Retail NPLs as a percentage of advances continued to decline, however, increases in some unsecured portfolios have materialised, as expected.

Retail credit portfolios

The VAF growth was particularly robust. Residential mortgages growth was flat compared to the prior year with a strong focus on low and medium risk counterparties and appropriate loan-to-value ratios. The strong growth recorded in the unsecured lending portfolios was within the defined credit risk appetite. The most pronounced shifts occurred in personal banking where both overdrafts and loans increased substantially from previous low bases.

The Group's strategies to reduce NPLs continued to yield favourable results. The reduction in NPLs is driven by the slower inflow into NPLs in FNB HomeLoans. Increases in NPLs in most of the unsecured portfolios have been recorded. This is in line with expectations and risk appetite and has been appropriately priced for.

The decreased impairment charge in the retail secured portfolios was supported by the sustained low interest rates, reductions in NPL inflows in FNB HomeLoans and by post write-off recoveries. The retail unsecured portfolios produced increased impairments compared to June 2011 with the exception of FNB Card where the charge was significantly reduced by post write-off recoveries.

Corporate credit portfolios

Strong growth in the RMB core advances book is due to investment banking related lending. Growth in the FNB commercial portfolio is attributed mainly to property term loans and agricultural portfolios.

NPLs in the corporate portfolio declined modestly over the past year, reflecting a reduction in NPLs in the FNB Commercial portfolio, however, RMB's NPLs increased. Impairment charges also showed signs of improvement. Significant reductions in impairment charges were experienced in FNB Commercial and WesBank Corporate compared to the previous June.

Risk and capital management report continued

Credit assets (audited)

The following table provides a breakdown of the Group's credit assets by segment, including off-balance sheet exposures.

Credit assets by type and segment

R million	**2012**	2011
Cash and short-term funds	**33 587**	29 239
– Money at call and short notice	**1 767**	1 371
– Balances with and guaranteed by central banks	**15 434**	15 660
– Balances with other banks	**16 386**	12 208
Gross advances	**533 347**	472 615
– FNB*	**220 638**	206 183
– FNB Retail	**184 992**	174 905
– FNB Commercial**	**35 646**	31 278
– WesBank	**119 389**	102 125
– RMB*	**160 217**	130 862
– GTS*	**2 605**	2 593
– FNB Africa	**25 420**	22 639
– Other	**5 078**	8 213
Derivatives	**52 913**	37 206
Debt investment securities (excluding non–recourse investments)	**82 020**	89 280
Accounts receivable	**6 007**	7 289
Reinsurance assets	**898**	484
Credit risk not recognised on the balance sheet	**104 158**	95 852
– Guarantees	**22 741**	24 727
– Acceptances	**293**	289
– Letters of credit	**7 886**	6 331
– Irrevocable commitments	**69 348**	63 298
– Credit derivatives	**3 890**	1 207
Total	**812 930**	731 965

* *Certain portfolios have been restated to reflect the current segmentation of the business.*
** *Includes public sector.*

Reconciliation of gross advances to net advances

R million	**2012**	2011
Gross advances after interest in suspense	**533 347**	472 615
Less: total impairment (refer note 13 of the consolidated financial statements page 274)	**(8 840)**	(8 022)
Net advances (refer consolidated statement of financial position page 237)	**524 507**	464 593

Credit quality (audited)

Advances are considered past due in the following circumstances:

- loans with a specific expiry date (for example term loans) and consumer loans repayable by regular instalments (for example mortgage loans and personal loans) are treated as overdue where one full instalment is in arrears for one day or more and remains unpaid as at the reporting date; or
- loans payable on demand (for example overdrafts) are treated as overdue where a demand for repayment was served on the borrower but repayment has not been made in accordance with the stipulated requirements.

In these instances, the full outstanding amount is considered overdue even if part is not yet due.

A past due analysis is performed for advances with specific expiry or instalment repayment dates. The analysis is not applicable to overdraft products or products where no specific due date is determined. The level of risk on these types of products is assessed and reported with reference to the counterparty ratings of the exposures.

The following tables provide the age analysis of loans and advances for the Group.

Age analysis of advances

R million	2012					
			Past due but not impaired			
	Neither past due nor impaired	**Renegotiated but current**	**One instalment past due**	**Two instalments past due**	**Impaired**	**Total**
– FNB Retail	**170 853**	**288**	**2 604**	**1 307**	**9 940**	**184 992**
– FNB Commercial*	**33 926**	**–**	**38**	**17**	**1 665**	**35 646**
FNB	**204 779**	**288**	**2 642**	**1 324**	**11 605**	**220 638**
WesBank	**111 680**	**–**	**2 612**	**956**	**4 141**	**119 389**
FNB Africa	**24 467**	**45**	**259**	**174**	**475**	**25 420**
RMB**	**158 400**	**–**	**147**	**17**	**1 653**	**160 217**
GTS	**2 596**	**–**	**–**	**–**	**9**	**2 605**
Other	**5 078**	**–**	**–**	**–**	**–**	**5 078**
Total	**507 000**	**333**	**5 660**	**2 471**	**17 883**	**533 347**

* *Includes public sector.*

** *Impaired advances for RMB are net of cumulative credit fair value adjustments on the non-performing book.*

R million	2011					
			Past due but not impaired#			
	Neither past due nor impaired	Renegotiated but current	One instalment past due	Two instalments past due	Impaired	Total
– FNB Retail	153 627	474	8 072	1 359	11 373	174 905
– FNB Commercial*	29 111	–	271	31	1 865	31 278
FNB**	182 738	474	8 343	1 390	13 238	206 183
WesBank	93 879	–	3 790	89	4 367	102 125
FNB Africa	21 824	7	374	64	370	22 639
RMB**	126 656	3 094	19	–	1 093	130 862
GTS**	2 575	–	–	–	18	2 593
Other	8 213	–	–	–	–	8 213
Total	435 885	3 575	12 526	1 543	19 086	472 615

* *Includes public sector.*

** *Certain portfolios have been restated to reflect the current segmentation of the business. Impaired advances for RMB are net of cumulative credit fair value adjustments on the non-performing book.*

The past due but not impaired aging analysis has changed to from a day count to an instalment count classification in line with the provisioning methodology.

Risk and capital management report continued

Renegotiated advances (audited)

Financial assets that would otherwise be past due or impaired that have been renegotiated, are separately 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 the original terms and conditions of the facility were amended and the counterparty is within the new terms of the advance.

Advances are only classified as renegotiated if the terms of the renegotiated contract have not yet expired and remain classified as such until the terms of the renegotiated contract expire. Where the advances are reclassified as neither past due nor impaired the adherence to the new terms and conditions is closely monitored. Renegotiated advances exclude advances which are extended or renewed as part of the ordinary course of business on similar terms and conditions as the original advances.

Non-performing advances cannot be reclassified as renegotiated unless the arrears balance has been repaid. Renegotiated but current financial assets are considered as part of the collective evaluation of impairment where financial assets are grouped on the basis of similar credit risk characteristics.

As part of the risk management and recoveries approach, the Group enters into arrangements with clients where concessions are made on payment terms (for example a reduction in payments for a specified period, changes in the payment profile or debt counselling payment plans). There are formally defined eligibility criteria appropriate for individual products to determine when clients are eligible for such arrangements. These accounts are monitored in a separate portfolio in each product segment and the performance is tracked for management and impairment purposes.

Past due but not impaired (audited)

The classification of advances as past due but not impaired follows the standards set out in applicable accounting policies. Advances past due but not impaired in the tables above include accounts in arrears by one or two full repayments. For the financial year ended June 2011, exposures to technical and partial arrears of R4.1 billion were classified as being one instalment in arrears. In this disclosure, these now form part of the one instalment past due category. However, for the financial year ended 30 June 2012, R5.4 billion in technical and partial arrear exposures have been classified as neither past due nor impaired in accordance with FirstRand provisioning methodology. These balances are primarily driven by retail exposures.

Credit quality of performing advances

	2012							
		FNB						
R million	**Total neither past due nor impaired****	**Retail**	**Commercial***	**WesBank**	**RMB**	**GTS**	**FNB Africa**	**Other**
FR 1 – 25	**118 874**	**28 979**	**1 625**	**2 999**	**76 868**	**444**	**5 377**	**2 582**
FR 26 – 91	**372 031**	**134 404**	**29 870**	**106 233**	**77 838**	**2 152**	**19 068**	**2 466**
Above FR 92	**16 428**	**7 758**	**2 431**	**2 448**	**3 694**	**–**	**67**	**30**
Total	**507 333**	**171 141**	**33 926**	**111 680**	**158 400**	**2 596**	**24 512**	**5 078**

* *For 2012 total neither past due nor impaired includes renegotiated but current advances.*
** *Includes public sector.*

	2011							
		FNB*						
R million	Total neither past due nor impaired	Retail	Commercial**	WesBank	RMB*	GTS*	FNB Africa	Other
FR 1 – 25	91 993	5 241	480	3 373	74 881	179	224	7 615
FR 26 – 91	320 475	140 540	25 629	82 434	48 739	2 396	20 165	572
Above FR 92	23 417	7 846	3 002	8 072	3 036	–	1 435	26
Total	435 885	153 627	29 111	93 879	126 656	2 575	21 824	8 213

* *Certain portfolios have been restated to reflect the current segmentation of the business.*
** *Includes public sector.*

Both prior and subsequent to the implementation of recalibrations, the risk profile improved and PDs decreased consistently, due to positive risk migration, with the lower interest rate environment positively impacting the existing portfolio. In addition, stricter lending criteria resulted in higher quality new business being written. Monthly trend analyses from July 2011 to June 2012 show a once-off increase in PDs, due to the recalibrations, thereafter a consistent decrease due to the positive risk migration.

The following tables provide an overview of the credit quality of other financial assets that are neither past due nor impaired.

Credit quality of other financial assets (excluding advances) neither past due nor impaired

	2012				
R million	**Debt Investment Securities***	**Derivatives**	**Cash and short-term funds**	**Reinsurance assets**	**Total**
AAA to BBB	**77 584**	**36 369**	**31 329**	**898**	**146 180**
BB+ to B-	**4 385**	**16 440**	**2 214**	**–**	**23 039**
CCC	**–**	**93**	**–**	**–**	**93**
Unrated	**51**	**11**	**44**	**–**	**106**
Total	**82 020**	**52 913**	**33 587**	**898**	**169 418**

* *Excludes non-recourse investments.*

	2011				
R million	Debt investment securities*	Derivatives	Cash and short-term funds	Reinsurance assets	Total
AAA to BBB	43 284	10 767	27 745	484	82 280
BB+ to B-	45 876	26 046	1 159	–	73 081
CCC	–	85	–	–	85
Unrated	120	308	335	–	763
Total	89 280	37 206	29 239	484	156 209

* *Excludes non-recourse investments.*

Impairment of financial assets and NPLs (audited)

Refer to the policy for Impairment of financial assets in the accounting policy section on page 221 and to note 13 Impairment of advances on page 274 of the consolidated annual financial statements for the analysis of the movement in the impairment of advances and NPLs.

Adequacy of impairments is assessed through ongoing review of the quality of the credit exposures. Although credit management and recovery processes are similar for amortised cost advances and fair value advances, impairments for these differ.

For amortised cost advances, impairments are recognised through the creation of an impairment reserve and an impairment charge in the income statement. For fair value advances, the credit valuation adjustment is charged to the income statement through trading income and recognised as a change to the carrying value of the asset.

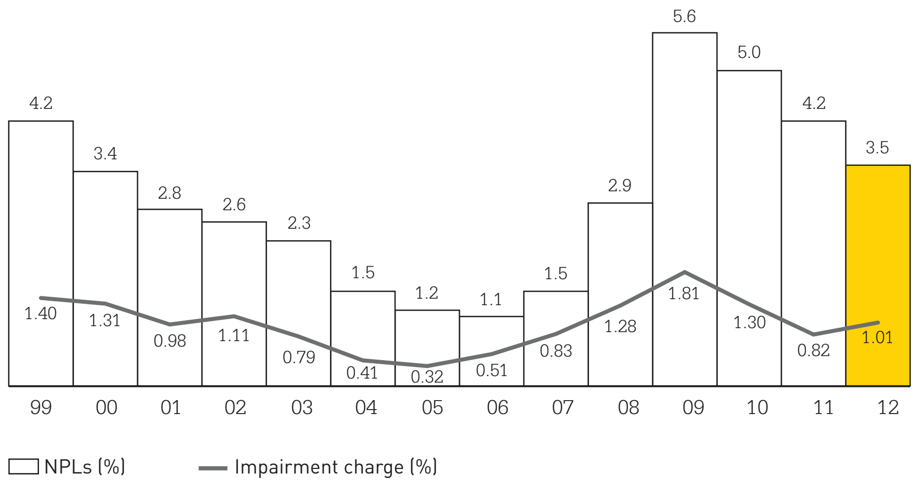
Specific impairments are created for non-performing advances for which objective evidence that an incurred loss event will have an adverse impact on the estimated future cash flows from the asset was identified. Potential recoveries from guarantees and collateral are incorporated into the calculation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

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

During the year under review a special impairment of R705 million was included in bad debts for unrecovered amounts in FNB's merchant acquiring business. A detailed discussion of the special impairment is included under the heading Boundary event in the *Operational risk* section on page 209.

The graph shows the history of the credit losses reflected by the impairment charge and NPLs percentages.

NPLs and impairments history
(%)



Impairment charges are reflected before insurance proceeds where applicable.

Fair value sensitivity of wholesale advances due to credit risk

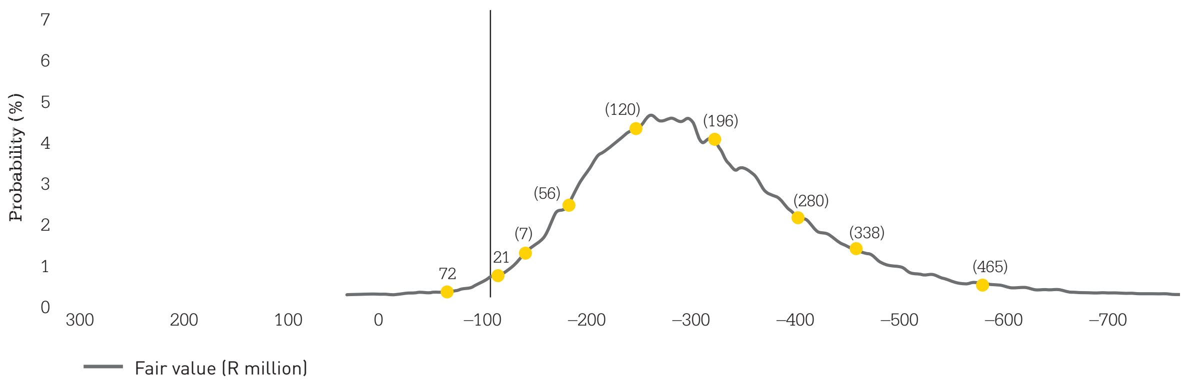
The Investment Banking division within RMB recognises a significant portion of the wholesale advances at fair value through profit or loss. The fair value adjustments made to these advances directly impact the income statement and the value of advances. For risk management purposes a migration matrix is used to estimate the fair value impact of changes in credit risk. The matrix contains probabilities of downgrading or upgrading to another rating bucket.

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

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

The graph below sets out the fair value impact based on actual observed rating migrations from Standard & Poor's over the long-term. Based on this scenario the average fair value impact is a loss of approximately R120 million. The fair value at the 75th percentile (i.e. there is a probability of 25% to exceed this value) of the distribution is a loss of approximately R196 million.

Distribution: Fair value impact – long-term scenario



Risk and capital management report continued

Geographic and industry concentration risk (audited)

Geographically, most of the Group's exposure is in South Africa. The following charts provide the geographical and industry split of gross advances after deduction of interest in suspense.

Geographical split by exposure 2012

Geographical split by exposure 2011

Industry split by exposure 2012

Industry split by exposure 2011

The Group drives to establish a balanced portfolio profile and closely monitors credit concentrations closely. The following tables provide a breakdown of credit exposure across geographies.

Concentration of significant credit exposure (audited)

	2012							
R million	**South Africa**	**Other Africa**	**United Kingdom**	**Other Europe**	**North America**	**South America**	**Other#**	**Total**
Advances	**478 204**	**31 271**	**15 747**	**2 266**	**284**	**102**	**5 473**	**533 347**
Derivatives	**33 808**	**88**	**11 925**	**5 568**	**1 424**	**–**	**100**	**52 913**
Debt investment securities*	**71 152**	**5 456**	**1 525**	**–**	**1 636**	**–**	**2 251**	**82 020**
Guarantees, acceptances and letters of credit**	**23 912**	**5 674**	**–**	**529**	**7**	**2**	**796**	**30 920**
Irrevocable commitments**	**63 073**	**4 941**	**814**	**148**	**66**	**–**	**306**	**69 348**

* *Excludes non-recourse investments.*
** *Significant off-balance sheet exposures.*
# *Other includes Australasia and Asia.*

	2011							
R million	South Africa	Other Africa	United Kingdom	Other Europe	North America	South America	Other#	Total
Advances	430 377	25 817	11 474	2 032	375	171	2 369	472 615
Derivatives	23 198	157	5 611	6 215	1 874	40	111	37 206
Debt investment securities*	76 223	5 631	468	4 538	1 356	–	1 064	89 280
Guarantees, acceptances and letters of credit**	26 913	3 204	–	546	–	16	668	31 347
Irrevocable commitments**	56 901	5 192	363	794	9	–	39	63 298

* *Excludes non-recourse investments.*
** *Significant off-balance sheet exposures.*
# *Other includes Australasia and Asia.*

Average advances per major risk type (unaudited)

R million	**2012**	2011
Retail credit	**315 417**	289 963
Africa	**24 722**	21 096
Wholesale credit	**146 197**	132 274
Commercial credit	**33 299**	29 263

Segmental analysis of advances (audited)

The following table provides a breakdown of credit exposure by FirstRand segments.

R million/%	2012				
	Advances	NPLs	NPL as a % of advances	Total impairment charge	Impairments as % of average advances
FNB*	220 638	11 605	5.26	2 329	1.09
– FNB Retail	185 132	9 940	5.37	2 064	1.15
– Residential mortgages	158 784	8 763	5.52	885	0.56
– FNB HomeLoans (Consumer segment)	107 694	5 584	5.19	523	0.49
– Wealth	40 721	2 734	6.71	297	0.73
– Affordable Housing (Mass segment)	10 369	445	4.29	65	0.70
– Credit Card	11 946	271	2.27	40	0.35
– Personal banking	8 780	272	3.10	416	6.22
– overdrafts	2 450	72	2.94	102	5.51
– loans	6 330	200	3.16	314	6.49
– Mass (Secured and unsecured)	5 622	634	11.28	723	15.18
– FNB Commercial**	35 646	1 665	4.67	166	0.50
– FNB Other	(140)	–	–	99	(42.49)
WesBank	119 389	4 141	3.47	1 100	0.99
– WesBank asset backed finance	113 488	3 828	3.37	836	0.79
– WesBank Retail	72 601	2 621	3.61	362	0.55
– WesBank Corporate	31 621	1 134	3.59	377	1.20
– WesBank International	9 266	73	0.79	97	1.26
– WesBank loans	5 901	313	5.30	264	4.84
RMB*	160 217	2 436	1.52	89	0.06
GTS*	2 605	9	0.35	(28)	(1.08)
FNB Africa	25 420	475	1.87	121	0.50
Corporate centre	5 078	–	–	749	11.27
Total	533 347	18 666	3	4 360	0.87
Special impairments#	–	–	–	705	0.14
Total	533 347	18 666	3	5 065	1.01

* *Certain portfolios have been restated to reflect the current segmentation of the business.*
** *Includes public sector.*
\# *Special impairments relate to FNB Commercial (R405 million) and GTS (R300 million).*

2011				
Advances	NPLs	NPL as a % of advances	Total impairment charge	Impairments as % of average advances
206 183	13 238	6.42	2 435	1.21
175 231	11 409	6.51	1 934	1.12
155 974	10 515	6.74	1 216	0.79
106 864	7 335	6.86	740	0.69
40 913	2 796	6.83	405	1.03
8 197	384	4.68	71	0.98
10 758	446	4.15	149	1.39
4 593	132	2.87	178	4.66
1 251	44	3.52	62	5.36
3 342	88	2.63	116	4.36
3 906	316	8.09	391	11.37
31 278	1 865	5.96	334	1.12
(326)	(36)	11.04	167	(>100)
102 125	4 367	4.28	1 291	1.33
97 124	4 025	4.14	1 141	1.23
59 865	2 492	4.16	607	1.07
31 109	1 490	4.79	452	1.47
6 150	43	0.70	82	1.48
5 001	342	6.84	150	3.35
130 862	1 798	1.37	(25)	(0.02)
2 593	18	0.69	9	0.42
22 639	370	1.63	64	0.30
8 213	(1)	(0.01)	4	0.08
472 615	19 790	4.19	3 778	0.82
–	–	–	–	–
472 615	19 790	4.19	3 778	0.80

Risk and capital management report continued

Basel disclosure

Credit rating systems and processes

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

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

Credit exposure by type, segment and Basel approach

		AIRB	Standardised approach	
R million	**2012**	FirstRand Bank (SA)	Regulated bank entities within FNB Africa	Other subsidiaries
Cash and short-term funds	**33 587**	27 195	3 191	3 201
– Money at call and short notice	**1 767**	1 664	91	12
– Balances with and guaranteed by central banks	**15 434**	12 396	2 243	795
– Balances with other banks	**16 386**	13 135	857	2 394
Gross advances	**533 347**	486 537	25 420	21 390
– FNB	**220 638**	220 540	–	98
– FNB Retail	**184 992**	184 894	–	98
– FNB Commercial*	**35 646**	35 646	–	–
– WesBank	**119 389**	106 088	–	13 301
– RMB	**160 217**	152 226	–	7 991
– GTS	**2 605**	2 605	–	–
– FNB Africa	**25 420**	–	25 420	–
– Other	**5 078**	5 078	–	–
Derivatives	**52 913**	52 237	2	674
Debt investment securities (excluding non-recourse investments)	**82 020**	70 831	5 624	5 565
Accounts receivable	**6 007**	3 209	529	2 269
Loans due by holding company and fellow subs	**–**	22 954	3 303	(26 257)
Reinsurance assets	**898**	–	1	897
Credit risk not recognised on the balance sheet	**104 158**	95 015	7 277	1 866
– Guarantees	**22 741**	20 029	2 210	502
– Acceptances	**293**	293	–	–
– Letters of credit	**7 886**	7 295	591	–
– Irrevocable commitments	**69 348**	63 508	4 476	1 364
– Credit derivatives	**3 890**	3 890	–	–
Total	**812 930**	757 978	45 347	9 605

* *Includes public sector.*

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

The following table provides the breakdown of exposures rated through the standardised approach in FNB Africa by risk bucket after taking risk mitigation into account.

FNB Africa exposures by risk bucket

Risk bucket	Exposure R million
0%	91
10%	–
20%	4 476
35%	9 707
50%	3 056
75%	3 569
100%	24 221
Specific impairments	227
Total	45 347

PD, EAD and LGD profiles

A summary of credit risk parameters as reported for regulatory capital purposes is shown below for each significant AIRB asset class. The parameters reflect through-the-cycle PDs and downturn LGDs. The Bank uses EAD-weighted PDs based on the FirstRand master-rating scale (see page 149) which are then mapped to Basel rating buckets (1 – 25) for regulatory reporting purposes.

The graphs provide a summary of the EAD distribution by prescribed counterparty risk bands (Basel risk buckets) as well as comparatives for the prior year. The EAD weighted downturn LGD and the EAD weighted PD for the performing and total book are also shown.

Year-on-year trends will be impacted by the risk migration in the existing book (reflecting changes in the economic environment), quality of new business originated and any model recalibrations implemented during the course of the year.

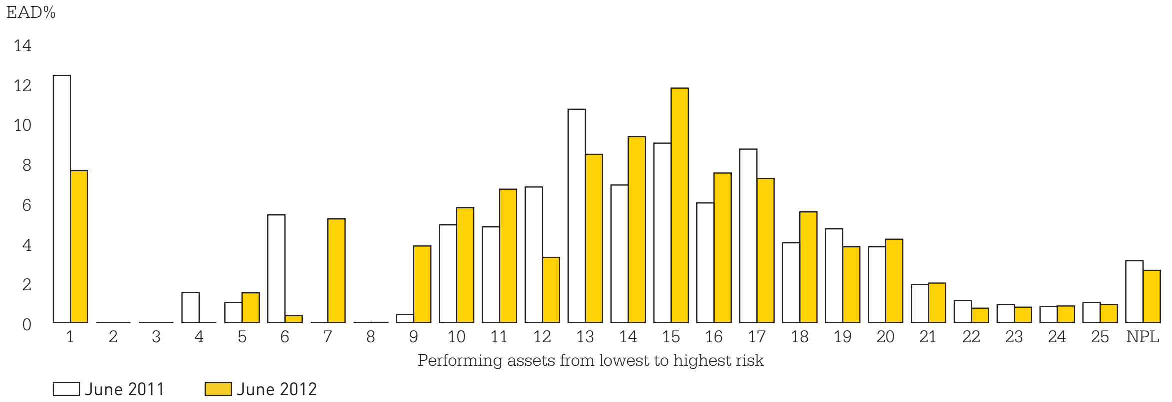
The majority of the retail portfolios exhibited significant positive risk migration for the period under review. This was, however, negated by model recalibrations implemented during the financial year, incorporating further defaults after the peak of the economic downturn.

The performance of the credit portfolio was in line with that of the industry over the period under review.

The risk profile reflects the revised credit origination strategy that selectively targets segments providing an appropriate risk/return profile in the current economic environment.

Risk and capital management report (continued)

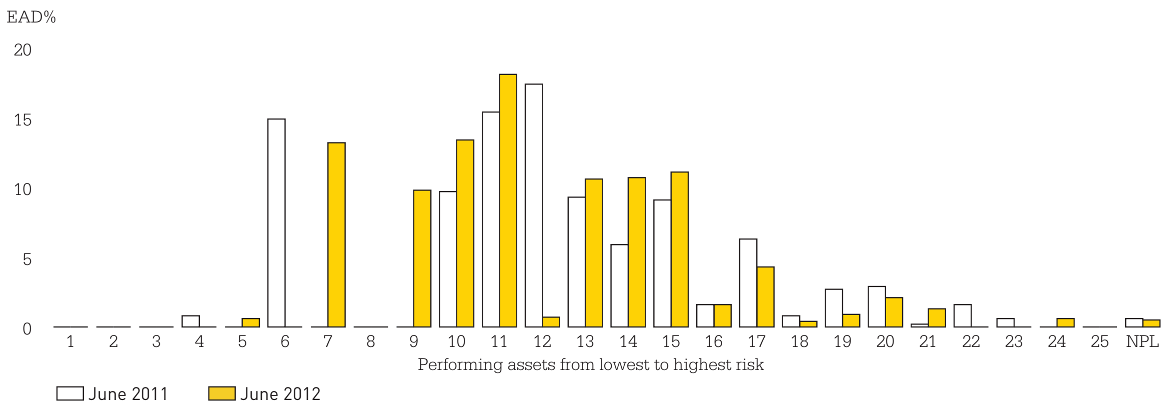
Risk profile for FRB: EAD% distribution per Basel risk buckets



Average performing PD %	3.20%	Average total book PD %	6.16%
Average performing LGD %	28.42%	Average total book LGD %	28.72%
Performing book EL/EAD	0.91%	Total book EL/EAD	1.77%

The distributions above are reflective of PDs on the entire FRB book as at June 2011 and June 2012. The movements are analysed per subportfolio under the following graphs.

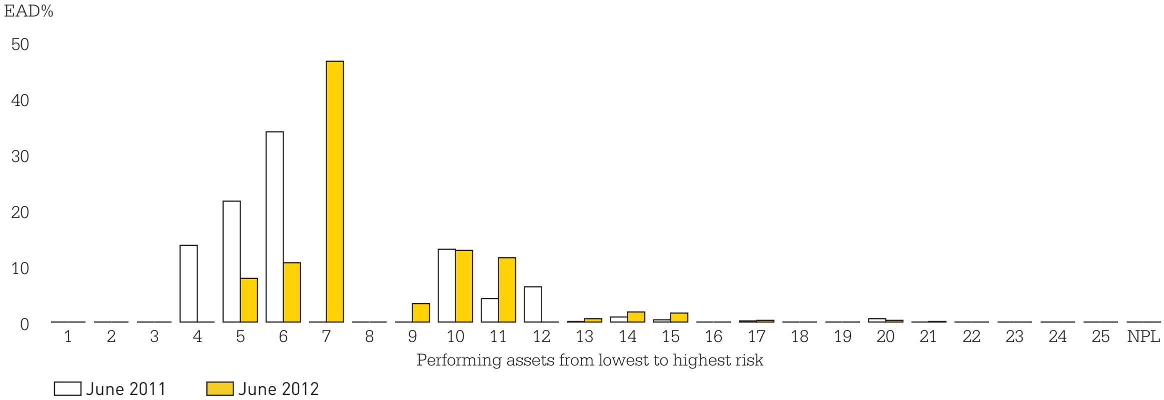
Risk profile for corporate exposures: EAD% distribution per Basel risk buckets



Average performing PD %	1.35%	Average total book PD %	1.87%
Average performing LGD %	35.13%	Average total book LGD %	35.23%
Performing book EL/EAD	0.47%	Total book EL/EAD	0.66%

There are a number of significant movements observed on the corporate portfolio. The reason driving most of this is the recalibration of PDs. As a result, many counterparties have been reallocated to different PD bands. In addition, through the re-rating process, a number of counterparty ratings have changed.

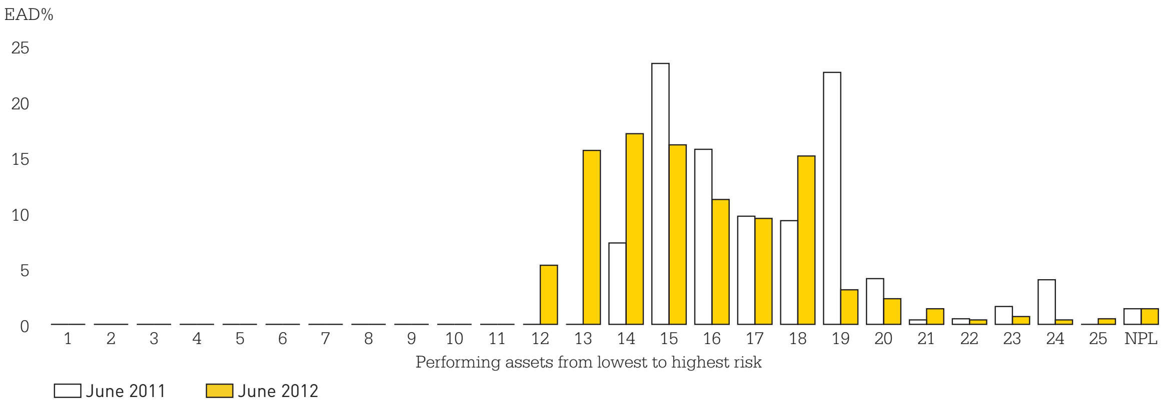
Risk profile for banks exposures: EAD% distribution per Basel risk buckets



Average performing PD %	0.21%	Average total book PD %	0.21%
Average performing LGD %	31.92%	Average total book LGD %	31.92%
Performing book EL/EAD	0.07%	Total book EL/EAD	0.07%

As in the corporate portfolio, there are a number of significant movements observed on the banks portfolio. The reason driving most of this is the recalibration of PDs for this portfolio. As a result, many counterparties will have been reallocated to different PD bands. In addition, through the re-rating process a number of counterparty ratings will have changed.

Risk profile for SME corporate exposures: EAD% distribution per Basel risk buckets

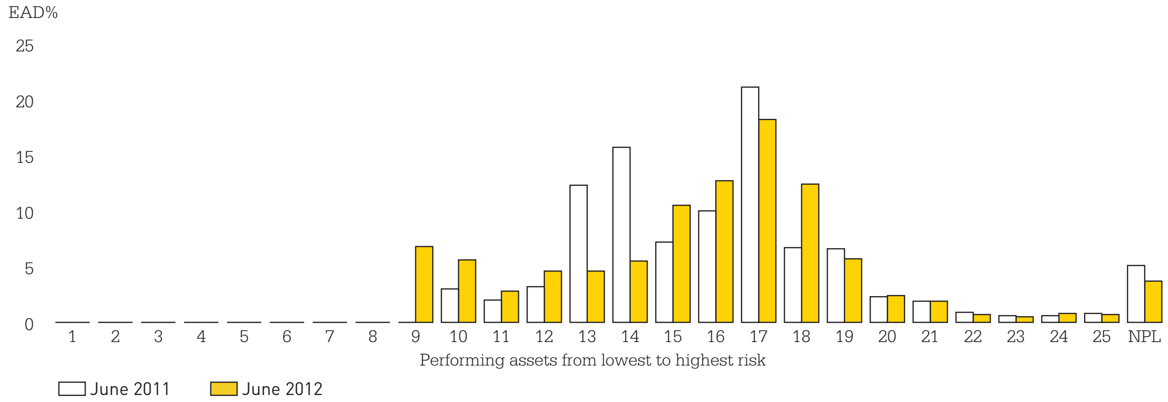


Average performing PD %	2.48%	Average total book PD %	5.39%
Average performing LGD %	28.24%	Average total book LGD %	28.61%
Performing book EL/EAD	0.70%	Total book EL/EAD	1.54%

The movements observed on the SME corporate portfolio are as a result of a recalibration of the PD model. The previous model was too conservative with actual defaults consistently lower than expected defaults, therefore, the recalibration provides lower PDs, which are more in line with expectations.

Risk and capital management report continued

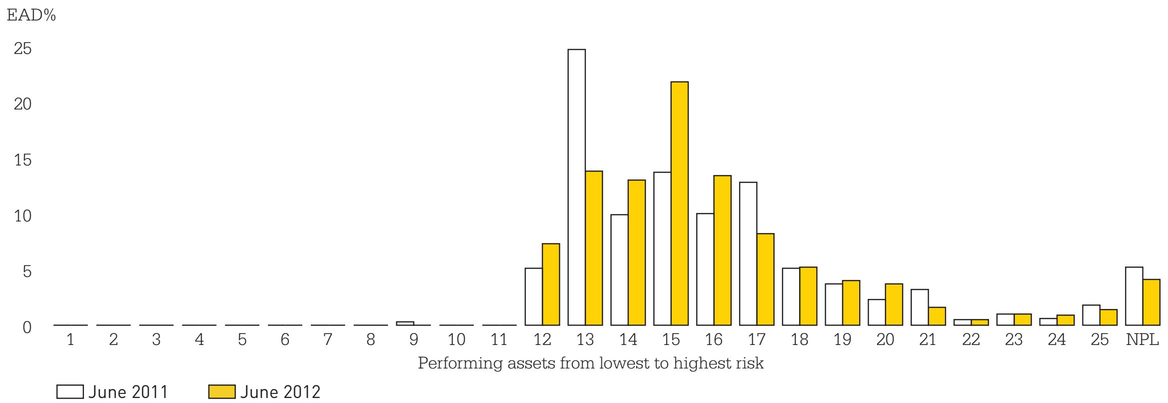
Risk profile for SME retail exposures: EAD% distribution per Basel risk buckets



Average performing PD %	4.37%	Average total book PD %	11.30%
Average performing LGD %	18.97%	Average total book LGD %	19.64%
Performing book EL/EAD	0.83%	Total book EL/EAD	2.22%

The distributions above indicate no significant movements in PD from June 2011 to June 2012.

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



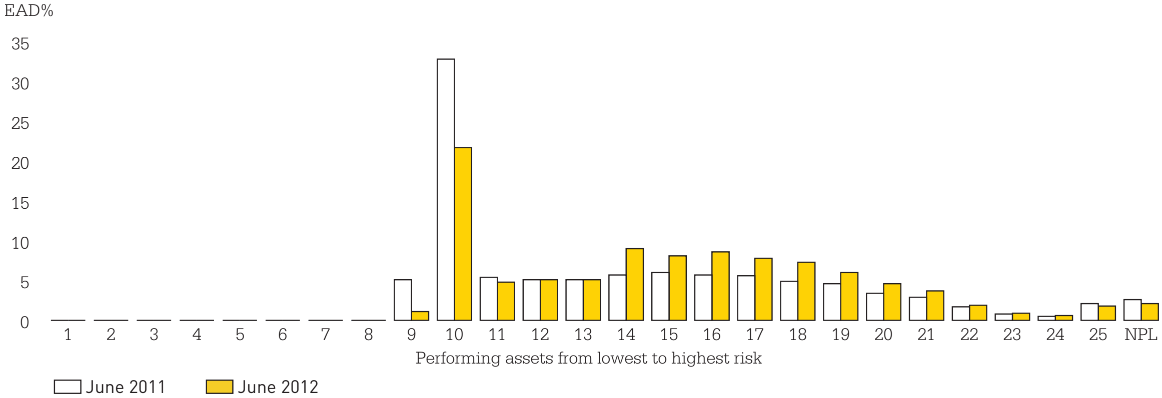
Average performing PD %	3.53%	Average total book PD %	9.38%
Average performing LGD %	14.65%	Average total book LGD %	14.94%
Performing book EL/EAD	0.52%	Total book EL/EAD	1.40%

The distributions above indicate no significant movements in PD from June 2011 to June 2012. This is after improvements in PDs over the previous year as a result of:

- a low interest rate environment positively impacting the existing portfolio; and
- stricter lending criteria resulting in higher quality new business being written,

both of which continue to reflect in the PD distribution.

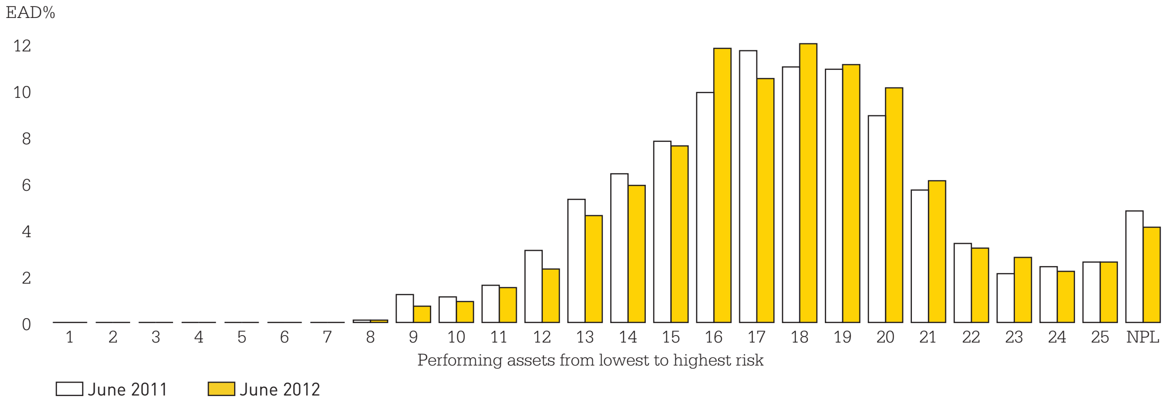
Risk profile for retail revolving exposures: EAD% distribution per Basel risk buckets



Average performing PD %	3.86%	Average total book PD %	6.07%
Average performing LGD %	66.27%	Average total book LGD %	66.50%
Performing book EL/EAD	2.56%	Total book EL/EAD	4.03%

The minor deterioration in the risk profile in the chart above is as a result of a recalibration of the Consumer Overdrafts models, resulting in higher PDs.

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



Average performing PD %	8.98%	Average total book PD %	13.41%
Average performing LGD %	34.24%	Average total book LGD %	35.38%
Performing book EL/EAD	3.07%	Total book EL/EAD	4.75%

A significant proportion of the other retail asset class is made up of VAF, which is secured by the underlying asset. As such, the LGD is lower than what would be expected for unsecured other retail portfolios. The minor deterioration in the risk profile above is a result of increased lending in the unsecured space including to the mass market.

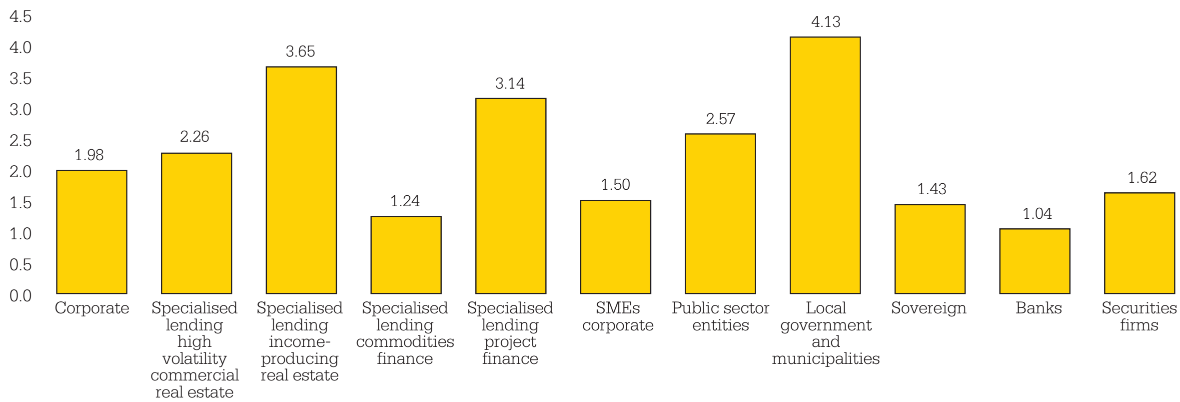
Risk and capital management report continued

Maturity breakdown

Maturity is defined as the average time at which a bank will receive its contractual payments (cash flows), calculated for each account or exposure weighted by the size of each of the cash flows. Maturity is used as an input in the AIRB regulatory capital calculation for wholesale portfolios. These are aggregated on an asset class basis for review and reporting purposes. For deals with longer terms, greater uncertainty is inherent and these also attract a greater capital requirement.

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

Maturity breakdown per wholesale AIRB asset class as at 30 June 2012
(Maturity in years)



Actual versus expected loss analysis

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

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

Risk parameters include:

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

Actual losses experienced during the period consist of both the level of specific impairments at the start of the year (1 July 2011), and the net specific impairment charge recorded through the income statement for the period as determined by IFRS. The calculation is based on the assumption that the specific provisions raised are a fair estimate of what final losses on defaulted exposures would be, although the length of the workout period creates uncertainty in this assumption.

The measure of actual losses includes specific impairments raised for exposures which defaulted during the year, but which did not exist at 30 June 2011. These exposures are not reflected in the expected loss value described below.

The table below provides the comparison of actual loss to regulatory expected loss for each significant AIRB asset class of the Bank. PDs used for regulatory capital purposes are based on long run experience and would be anticipated to underestimate actual defaults at the top of the credit cycle and overestimate actual defaults at the bottom of the credit cycle, as is evident from the following table.

Actual versus expected loss per portfolio segment for the Bank

R million	2012 Expected loss	2012 Actual loss
Corporate (corporate, banks and sovereigns)	**1 621**	**313**
SME (SME corporate and SME retail)	**1 146**	**1 094**
Residential mortgages	**2 674**	**2 961**
Qualifying revolving retail	**1 126**	**808**
Other retail	**1 718**	**1 990**
WesBank	**2 780**	**3 371**
Total	**11 065**	**10 537**

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

R million	2011 Expected loss	2011 Actual loss
Corporate (corporate, banks and sovereigns)	847	16
SME (SME corporate and SME retail)	1 354	1 189
Residential mortgages	3 102	3 773
Qualifying revolving retail	1 168	1 122
Other retail	790	1 013
WesBank	3 142	3 663
Total	10 403	10 776

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

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

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

It should also be noted that the regulatory expected loss shown above is based on the expected loss derived from the regulatory capital models that were applied as at 30 June 2011. The models currently applied have since incorporated further details after the peak of the economic downturn and resulted in an increase in expected losses. A restatement of the above comparison using the capital models currently applied would result in a closer alignment of actual versus expected losses.

This comparison is supplemented with more detailed analyses below, comparing actual and expected outcomes for each risk parameter (PD, LGD and EAD) over the period under review.

Expected values are based on regulatory capital models applied as at 30 June 2011. For PDs, this is applied to the total performing book as at 30 June 2011. For LGDs and EADs, it is applied to all facilities that defaulted over the subsequent 12 months.

Actual values are based on actual outcomes over the year July 2011 to June 2012. It should be noted that due to the length of the workout period, there is uncertainty in the measure provided for actual LGDs as facilities that default during the year would only have had between one and 12 months to recover to date – depending on when the default event occurred.

The EAD estimated to actual ratio is derived as the ratio of expected nominal exposure at default (for all accounts that defaulted during the 2012 calendar year) to the actual nominal exposure at default for the same accounts. A ratio above 100% indicates an overestimation.

Risk and capital management report continued

Risk parameters used to determine regulatory expected loss for the Bank

	2012				
	PD		**LGD**		**Estimated EAD to actual EAD ratio**
Asset class	**Estimated %**	**Actual %**	**Estimated %**	**Actual %**	**%**
SME corporate	**4.85**	**2.33**	**26.97**	**28.98**	**144.33**
SME retail	**3.21**	**2.96**	**28.83**	**20.87**	**113.27**
Residential mortgages	**3.57**	**2.92**	**15.30**	**11.53**	**104.43**
Qualifying revolving retail	**3.02**	**2.46**	**72.37**	**68.53**	**98.94**
Other retail	**5.99**	**5.07**	**45.99**	**43.66**	**102.91**
Total	**2.72**	**1.96**	**30.55**	**27.52**	**107.98**

* *Corporate, banks and sovereigns shown as one asset class to align with the respective asset class in the actual versus expected loss table.*

	2011				
	PD		LGD		Estimated EAD to actual EAD ratio
Asset class	Estimated %	Actual %	Estimated %	Actual %	%
SME corporate	4.54	2.15	35.81	14.04	108.56
SME retail	3.40	3.27	36.93	26.98	114.81
Residential mortgages	3.06	3.13	15.46	14.44	104.82
Qualifying revolving retail	2.58	2.64	64.78	66.63	127.53
Other retail	5.89	5.92	33.61	31.73	106.00
Total	2.57	2.18	26.32	24.27	108.08

* *Corporate, banks and sovereigns shown as one asset class to align with the respective asset class in the actual versus expected loss table.*

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

PDs used for regulatory capital purposes are based on long-run experience (i.e. TTC PDs) and are expected to underestimate defaults at the top of the credit cycle and overestimate defaults at the bottom of the credit cycle. Comparisons between current and prior PDs show that there have not been significant changes and this is in line with the expected stability of the Bank's book. These PDs are based on all performing counterparties at the start of the period.

Differences in the latest actual and expected LGDs as compared to previous years are primarily as a result of the actual and expected LGD being based only on counterparties which have defaulted during the respective periods in question. Differences in the characteristics of defaulted accounts can change quite significantly over time, particularly in the wholesale and commercial space where defaults are sparse, and this is evident from the numbers presented above. Another point evident in the latest figures is the increase in actual and expected LGDs on the other retail asset class. This is a result of the increased contribution of unsecured lending to defaulted exposures which is natural given the increase in unsecured lending. This increase then also flows through to the total actual and expected LGDs.

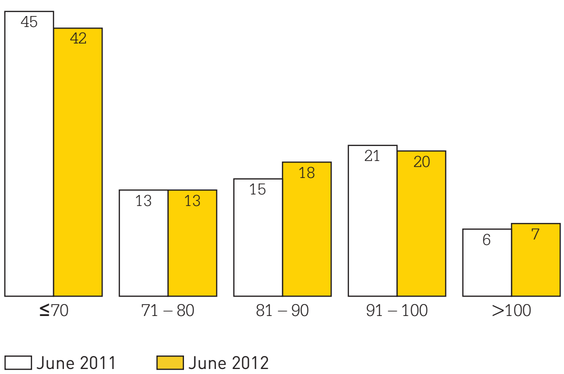
Deviations in the actual versus expected EADs can be seen where the Estimated EAD to actual EAD ratio deviates from 100%. A ratio above 100% indicates an overprediction, and a ratio below 100% indicates an underprediction of EAD. An overprediction of EAD is observed in the corporate, banks and sovereigns, and the SME corporate asset classes. This is as a result of proactive risk management where high risk counterparties are identified prior to default and exposures then actively managed and reduced, where applicable.

Selected risk analysis

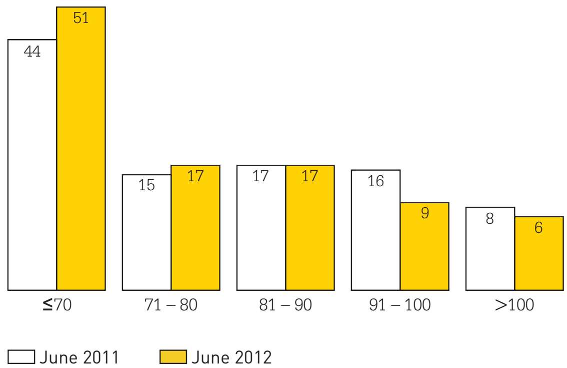
This section provides further information on selected risk analyses that impact the credit portfolios of the Bank.

The graphs below provide the balance-to-value distributions and the ageing of the residential mortgages portfolios. The recent focus on the loan-to-value ratios for new business has resulted in an improvement in the balance-to-original value although the broader strategy is to place more emphasis on the counterparty credit-worthiness as opposed to only on the underlying security.

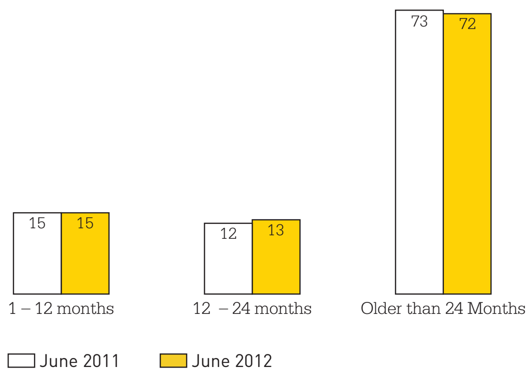
Residential mortgages balance-to-original value
(%)



Residential mortgages balance-to-market value
(%)



Residential mortgages age distribution
(%)



Risk and capital management report continued

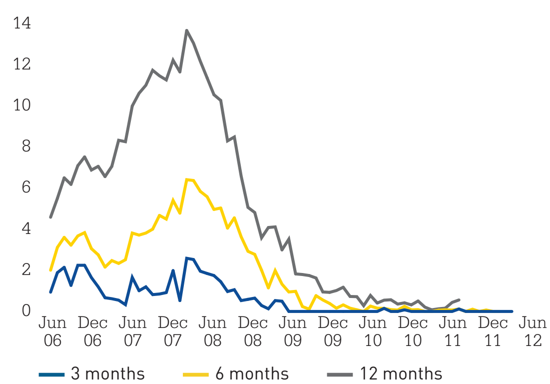
The following graph shows the arrears in the FNB Home Loans portfolio. It includes arrears where more than one full payment is in arrears, expressed as a percentage of total advances balance.

FNB HomeLoans arrears (%)

The following graphs provide the vintage analysis for FNB HomeLoans and WesBank retail. Vintage graphs provide the default experience three, six and twelve months after each origination date. It indicates the impact of origination strategies and the macro economic environment.

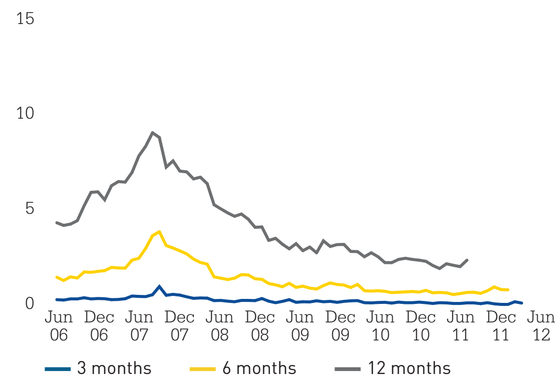
For FNB HomeLoans, the three, six and twelve month cumulative vintage analysis illustrate a marked improvement in the quality of business written since mid-2008 despite further deterioration in macro conditions in the succeeding period. The more recent decreases in the default experience reflect a combination of the credit origination strategies and the improvement in macro conditions.

FNB HomeLoans vintage analysis (%)



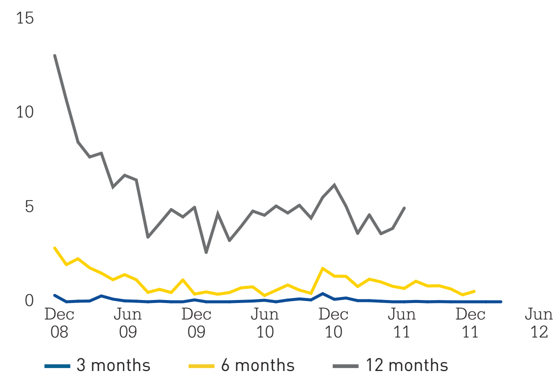
The WesBank retail six and twelve month cumulative vintage analysis continues to show a noticeable improvement in the quality of business written since mid-2007.

WesBank retail vintage analysis (%)

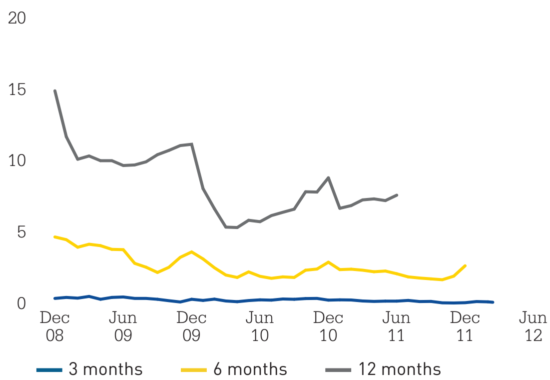


The vintage analyses of FNB and WesBank unsecured portfolios show an uptick in default experience, however, the portfolios remain within risk appetite. Continued actions are undertaken to ensure these portfolios remain within risk appetite.

FNB Card vintage analysis (%)



Unsecured (excluding FNB Card) vintage analysis (%)



The Group's South African repossessed properties are shown below.

Properties in possession

	2012	2011	% change
Number of properties	**594**	1 117	(47)
Value (R million)	**103**	258	(60)

SECURITISATIONS AND CONDUITS

Introduction and objectives

Securitisation is the structured process whereby interests in loans and other receivables are packaged, underwritten and sold in the form of asset-backed securities.

Asset securitisation enables the Group to access the funding markets at debt ratings higher than its overall corporate rating, which generally provides access to broader funding sources at more favourable rates. By removing the assets and supporting debt from the balance sheet, the Group is able to reduce some of the costs of on-balance sheet financing and manage potential asset-liability mismatches and credit concentrations.

Securitisation transactions for FirstRand

R million	Asset type	Year initiated	Expected close	Rating agency
Traditional securitisations**				
– Nitro 4	Retail: Auto loans	2011	2016	Moody's
– iKhaya 1	Retail: Mortgages	2007	2011	Fitch
– iKhaya 2	Retail: Mortgages	2007	2012	Fitch
– Turbo Finance	Retail: Auto loans	2011	2012	Moody's and Fitch
– Turbo Finance 2	Retail: Auto loans	2012	2015	Moody's and Fitch
Synthetic securitisations**				
– Fresco 2	Corporate receivables	2007	2013	Fitch
Total				

* *Does not include cash reserves.*
** *This table includes transactions that have been structured by the Group and therefore excludes third party transactions.*

Rating distribution of retained and purchased securitisation exposures

R million	AAA(zaf)	AA(zaf)	AA–(zaf)	A+(zaf)	A(zaf)
Traditional					
At 30 June 2012	**2 000**	**–**	**–**	**81**	**–**
At 30 June 2011	596	5	–	–	4
Synthetic					
At 30 June 2012	**–**	**–**	**17 839**	**–**	**–**
At 30 June 2011	17 839	–	–	–	–
Third party					
At 30 June 2012	**625**	**–**	**–**	**–**	**51**
At 30 June 2011	188	–	–	–	51

While national scale ratings have been used in this table, global-scale equivalent ratings are used for internal risk management purposes.
This table includes the rating distribution of transactions retained by FirstRand and those purchased from third parties.

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

- enhance the Group's liquidity position through the diversification of funding sources;
- match the cash flow profile of assets and liabilities;
- optimise balance sheet credit risk exposure and capital requirements; and
- manage credit concentration risk.

Traditional and synthetic securitisations

The following tables show the traditional and synthetic securitisations currently in place, the rating distribution of any exposures retained and a breakdown of the various roles performed by the Group. Whilst national scale ratings have been used in this table, global scale equivalent ratings are used for internal risk management purposes.

		Assets outstanding*		Notes outstanding		Retained exposure	
	Assets securitised	**2012**	2011	**2012**	2011	**2012**	2011
	16 423	**7 491**	5 476	**8 130**	5 474	**3 407**	1 260
	3 982	**2 573**	–	**3 007**	–	**1 366**	–
	1 900	**–**	1 164	**–**	1 131	**–**	84
	2 884	**–**	1 625	**–**	1 580	**–**	148
	3 620	**1 487**	2 687	**1 486**	2 763	**1 208**	1 028
	4 037	**3 431**	–	**3 637**	–	**833**	–
	20 000	**20 000**	20 000	**20 000**	20 000	**18 262**	18 262
	20 000	**20 000**	20 000	**20 000**	20 000	**18 262**	18 262
	36 423	**27 491**	25 476	**28 130**	25 474	**21 669**	19 522

	BBB+(zaf)	BBB(zaf)	BB(zaf)	B+(zaf)	Not Rated	Total
	59	**442**	**–**	**–**	**825**	**3 407**
	–	373	–	–	282	1 260
	–	**–**	**180**	**53**	**190**	**18 262**
	–	–	180	53	190	18 262
	–	**–**	**–**	**–**	**–**	**676**
	–	–	–	–	–	239

Risk and capital management report continued

The Group's role in securitisation transactions as at 30 June 2012

Transaction	Originator	Sponsor	Servicer	Investor	Liquidity provider	Credit enhancement provider	Swap provider
Fresco 2	✓	✓	✓	✓		✓	
Nitro 4	✓	✓	✓	✓			✓
Turbo Finance	✓	✓	✓	✓			
Turbo Finance 2	✓	✓	✓	✓			

Third party securitisations

Transaction	Originator	Sponsor	Servicer	Investor	Liquidity provider	Credit enhancement provider	Swap provider
Homes Obligor Mortgage Enhanced Securities					✓		
On the Cards Investment II				✓	✓		
Prime Realty Obligors Packed Securities – Series 2					✓		
Private Residential Mortgages 2					✓		
Superdrive Investments				✓			

Resecuritisations

A resecuritisation exposure is a securitisation exposure in which the risk associated with an underlying pool of exposures is tranched and at least one of the underlying exposures is a securitisation exposure. The Group has not structured any resecuritisations nor has it acquired any resecuritisation exposures.

Oversight and credit risk mitigation

The Group monitors retained securitisation exposures in a number of ways:

- proposed securitisations follow a rigorous internal approval approach and are reviewed for approval by ALCCO, the RCC committee and the Board;
- off-balance sheet transactions are discussed and approved at a bi-monthly meeting of the off-balance sheet forum;
- changes to retained exposures (ratings, redemptions, losses) reflect in the monthly BA 500 regulatory reporting; and
- transaction investor reports, alignment with special purpose vehicle (SPV) financial reporting and the impact of underlying asset performance are reviewed on quarterly regulatory reporting.

The Group does not employ credit risk mitigation techniques to hedge credit risk on retained securitisation tranches. The Group determines the applicable capital requirements for retained exposures according to the Basel securitisation framework, further detail hereon is provided below.

Securitisation accounting policies

From an accounting perspective, traditional securitisations are treated as sales transactions. At inception, the assets are sold to a special purpose vehicle at carrying value and no gains or losses are recognised. 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.

The securitisation entities are subsequently consolidated into FRIHL for financial reporting purposes. Retained traditional securitisation notes are accounted for as available-for-sale investment securities within the banking book.

The Group does not currently employ any form of warehousing prior to structuring a new securitisation.

Summary of securitisation activity

Nitro Securitisation 4 Issuer Trust (Nitro 4)

In August 2011, the Group closed its fourth domestic traditional auto loan securitisation, Nitro 4. Nitro 4 is a cash securitisation of auto loans extended to obligors by WesBank. Nitro 4 was set up as an insolvency remote trust and issued R4 billion of notes rated by Moody's to acquire the asset pool.

The Bank, acting through its RMB division, was the arranger, manager and sponsor for the transaction. The interest rate swap is provided by the Bank with deal administration performed by RMB. The assets will continue to be serviced by WesBank. The following table provides further detail regarding the notes issued.

Nitro 4 notes issued

Tranche	Rating (Moody's)*	Amount (R million)	Credit enhancement (%)	Coupon (bps over 3m JIBAR)
A1	Aa2(sf)/Aaa.za(sf)	345	20.78	12
A2	Aa2(sf)/Aaa.za(sf)	345	20.78	30
A3	Aa2(sf)/Aaa.za(sf)	330	20.78	37
A4	Aa2(sf)/Aaa.za(sf)	320	20.78	44.5
A5	Aa2(sf)/Aaa.za(sf)	314	20.78	52
A6	Aa2(sf)/Aaa.za(sf)	320	20.78	58
A7	Aa2(sf)/Aaa.za(sf)	295	20.78	68
A8	Aa2(sf)/Aaa.za(sf)	150	20.78	73
A9	Aa2(sf)/Aaa.za(sf)	140	20.78	79
A10	Aa2(sf)/Aaa.za(sf)	130	20.78	94
A11	Aa2(sf)/Aaa.za(sf)	115	20.78	104
A12	Aa2(sf)/Aaa.za(sf)	100	20.78	115
A13	Aa2(sf)/Aaa.za(sf)	85	20.78	125
A14	Aa2(sf)/Aaa.za(sf)	180	20.78	130
B	Baa2(sf)/A1(sf)	286	13.63	190
C	Ba2(sf)/Baa1.za(sf)	140	10.13	260
D	NR	281	3.10	425
E	NR	124	0.00	500
Total		4 000		

* *International and national scale ratings provided.*

Structural highlights include:

- a sequential pay waterfall where senior notes are paid down first in order of priority;
- as and when the subordination afforded the Class A tranche is double that at closing, the transaction will redeem capital on all then outstanding notes proportionally;
- excess capital prepayments by obligors will fund the purchase of additional eligible assets;
- first Group transaction to be managed using the ABSSuite™ securitisation administration system; and
- the transaction is compliant with South African securitisation regulations.

The transaction was structured to obtain matched term funding for the Bank and is currently performing in line with expectations.

iKhaya RMBS 1 Limited and (iKhaya 1) iKhaya RMBS 2 Limited (iKhaya 2) maturity

iKhaya 1 was launched on 9 March 2007 with a total note issuance of R1.956 billion. The Class A notes were rated AAA(zaf) with 12.4% subordination provided by mezzanine and junior tranches. The Group retained the first loss subordinated loan of R56 million.

iKhaya 2 was launched on 22 June 2007 with a total note issuance of R3 billion. The Class A notes were rated AAA(zaf) with 16% subordination provided by mezzanine and junior tranches. The Bank retained the first and second loss subordinated loans totalling R116 million.

By September 2011, iKhaya 1 notes to the value of R1.09 billion were outstanding, representing some 57% of the outstanding principal amount of the notes on issue date. From a loss perspective, the

Risk and capital management report continued

transaction had by this time suffered a cumulative loss of 1.2%, all of which was covered by excess spread.

By November 2011, iKhaya 2 notes to the value of R1.55 billion were outstanding, representing some 52% of the outstanding principal amount of the notes on issue date. From a loss perspective, the transaction had by this time suffered a cumulative loss of 2.1%, all of which was covered by excess spread.

A muted housing market and lower-than-expected levels of prepayments leading to lower levels of principal payments meant that although being solvent, the transaction would be unable to meet its targeted maturity date. Structuring features of the vehicle precluded the raising of additional funding and limited the use of liquidity facilities to only covering interest payments and not redemptions.

Consequently, in November 2011, the Bank sought and obtained approval from the SARB and note holders to repurchase the underlying iKhaya 1 and iKhaya 2 assets, on market-related terms. The iKhaya 1 repurchase took place on 9 December 2011 and the iKhaya 2 repurchase took place on 22 March 2012. In both instances the proceeds were utilised for the redemption of the outstanding notes.

Investors in iKhaya 1 and iKhaya 2 were able to realise their investments at the targeted maturity date, without suffering any losses.

Turbo Finance 2 plc, a securitisation of UK auto loan receivables

In March 2012, the Group closed its second UK traditional auto loan securitisation, Turbo Finance 2 plc (Turbo 2). Turbo 2 is a cash securitisation of fixed rate auto loans extended to obligors by MotoNovo Finance (formerly Carlyle Finance), a division of the Bank (London Branch). The note issuance of £319.8 million is rated by both Fitch and Moody's. The following table provides further detail regarding the notes issued:

Tranche	Rating (Moody's/Fitch)	Amount (£ million)	Credit enhancement (%)	Coupon*
A	Aaa(sf)/AAA(sf)	255.00	20.25	1mLibor + 140
B	A1(sf)/A(sf)	38.00	8.37	5.50%
C	NR/NR	21.62	1.60	15.00%
D	NR/NR	5.13	0.00	20.00%
Total		**319.75**		

* *Represents senior coupon only, subordinated coupon of 8% will also be paid.*

A follow up to last year's Turbo Finance securitisation, Turbo 2 was favourably received by investors. As with Turbo 1, the Group secured additional matched term funding for its UK vehicle finance operations together with a reduction in the cost of funds for asset origination. FirstRand, acting through its London branch, acts as servicer of the transaction.

Rating actions by Fitch Ratings

Fresco 2, which is incorporated under South African law, is a partially-funded synthetic securitisation of a portfolio of South African and international corporate credit exposures originated by the Bank. At closing on 17 July 2007, Fresco 2 entered into a portfolio credit default swap with the Bank, whereby Fresco 2, as the protection seller, provides credit risk protection on an R20 billion portfolio of corporate loans.

Following rating actions on Fresco 2 in November 2010, Fitch placed the Class A1 and A2 tranches on Rating Watch Negative (RWN). On 9 August 2011, Fitch concluded the rating review of Fresco 2 and downgraded the Class A1 and A2 tranches, assigning a Stable outlook. The ratings on tranches B1 to G have been affirmed, while the outlook on tranches C to G has been changed to negative.

These downgrades were a result of Fitch's revision of their rating criteria/methodology and were not a reflection of any deterioration in the credit quality of the underlying corporate assets of Fresco 2 or the Bank.

The rating actions were as follows:

- Class A1: downgraded to BBB (zaf) from AA- (zaf); RWN removed; assigned outlook stable.
- Class A2: downgraded to BBB (zaf) from AA- (zaf); RWN removed; assigned outlook stable.
- Class B1: affirmed at BB (zaf); outlook stable.
- Class B2: affirmed at BB (zaf); outlook stable.
- Class C: affirmed at B+ (zaf); outlook negative.
- Class D: affirmed at B (zaf); outlook negative.
- Class E: affirmed at B (zaf); outlook negative.
- Class F: affirmed at B (zaf); outlook negative.
- Class G: affirmed at B- (zaf); outlook negative.

Since closing, the transaction's performance has been in line with expectations.

Conduit programmes and fixed-income funds

The Group's conduit programmes are debt capital market vehicles, which provide investment-grade corporate South African counter-parties with an alternative source of funding to directly accessing capital markets via their own domestic medium-term debt programmes or traditional bank funding. It also provides institutional investors with highly-rated short-term alternative investments. The fixed income fund is a call-loan bond fund, which offers overnight borrowers and lenders an alternative to traditional overnight bank borrowings or overnight deposits.

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

The conduit programmes have proved resilient during difficult financial market conditions and have experienced a tightening of credit spreads in line with the corporate debt market. Supply of assets and demand for notes issued by the conduits remain healthy.

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

Conduits and fixed income funds

Transaction R million	Underlying assets	Year initiated	Rating agency	Programme size	Non-recourse investments **2012**	Non-recourse investments 2011	Credit enhancement **2012**	Credit enhancement 2011
Conduits								
iNdwa	Corporate and structured finance term loans	2003	Fitch	15 000	**6 687**	8 779	**–**	–
iVuzi	Corporate and structured finance term loans	2007	Fitch	15 000	**4 487**	6 741	**670**	753
Total				30 000	**11 174**	15 520	**670**	753
Fixed income fund								
iNkotha	Overnight corporate loans	2006	GCR	10 000	**2 654**	2 948	**–**	–
Total				10 000	**2 654**	2 948	**–**	–

Rating distribution of conduits and fixed income funds

R million	F1+(zaf)	AAA(zaf)	AA+(zaf)	AA(zaf)	AA–(zaf)	A+(zaf)	A(zaf)	A–(zaf)	Total
Conduits									
At 30 June 2012	**–**	**121**	**730**	**2 628**	**3 778**	**1 071**	**1 765**	**1 081**	**11 174**
At 30 June 2011	–	853	248	4 438	5 074	1 449	2 025	1 433	15 520
Fixed income funds									
At 30 June 2012	**–**	**–**	**–**	**1 097**	**479**	**519**	**–**	**559**	**2 654**
At 30 June 2011	–	–	–	969	652	548	453	326	2 948

Risk and capital management report continued

The Bank's role in the conduits and the fixed income fund

Transaction	Originator	Sponsor	Servicer	Investor	Liquidity provider	Credit enhancement provider	Swap provider
iNdwa	✓		✓	✓	✓		✓
iNkotha				✓			
iVuzi	✓		✓	✓	✓	✓	✓

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

Liquidity facilities

The table below provides a summary of the liquidity facilities provided by the Bank.

Liquidity facilities

R million	Transaction type	Exposure 2012	Exposure 2011
Own transactions		**8 157**	12 671
– iNdwa*	Conduit	**4 713**	7 159
– iVuzi	Conduit	**3 444**	5 512
Third party transactions	Securitisations	**558**	1 372
Total		**8 715**	14 043

All liquidity facilities granted to the transactions in the table above rank senior in terms of payment priority in the event of a drawdown. Economic capital is allocated to the liquidity facility extended to iNdwa and iVuzi as if the underlying assets were held by the Bank. The conduit programmes are consolidated into FRIHL for financial reporting purposes.

Additional information

The following table provides the securitisation exposures retained or purchased as well as associated capital requirements per risk band. The Group applies a number of methodologies in determining the capital requirements for securitisation and conduit exposures.

For domestic transactions, the Group applies the AIRB approach, using either the ratings based approach, supervisory formula or look-through basis, the choice of which is determined by the most efficient use of capital. For international transactions, the Group uses the standardised approach.

Retained or purchased securitisation exposure and the associated regulatory capital charges

	Exposure		AIRB capital		Capital deduction	
R million	**2012**	2011	**2012***	2011	**2012**	2011
Risk weighted bands						
= <10%	**7 443**	24 322	**55**	183	**–**	–
>10% = <20%	**810**	1 378	**11**	16	**–**	–
>20% = <50%	**1 235**	5 517	**42**	133	**–**	–
>50% = <100%	**81**	4	**6**	–	**–**	–
>100% = <650%	**59**	180	**26**	114	**–**	–
1250%.deduction	**1 457**	415	**46**	–	**1 015**	415
Look through	**22 745**	–	**797**	–	**–**	–
Total	**33 830**	31 816	**983**	446	**1 015**	415

* *Capital is calculated at the Basel II 9.75% requirement and includes a 6% capital scalar.*

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

Deductions arising from securitisation exposures

R million	Corporate receivables	Retail mortgages	Retail: instalment sales and leasing	Total
Traditional	–	–	825	825
Synthetic	190	–	–	190
Total	190	–	825	1 015

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

COUNTERPARTY CREDIT RISK

Introduction and objectives (audited)

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

Counterparty credit risk is a risk taken mainly in the Group's over-the-counter (OTC) derivative and securities financing businesses. The objective of counterparty credit risk management is to ensure that risk is appropriately measured, analysed and reported on, and is only taken within specified limits in line with the Group's risk appetite framework as mandated by the Board.

During the year under review the Group implemented the Basel II standardised approach for the calculation of counterparty credit default risk capital. This measure is more risk-sensitive than the current exposure method (CEM) used previously. The improved risk sensitivity of the measure implies that capital now more accurately reflects the risk profile of the book. In the next financial year the Group will focus on the implementation of the Basel III credit value adjustment (CVA) and asset value correlation (AVC) multiplier capital charges.

FirstRand continues to be an active participant in processes to implement legislative and structural reforms in the local derivatives market. Changes to international regulations as relating to derivative market reforms are monitored.

The risk to bilateral OTC counterparts was reduced by restricting transactions to higher rated counterparts and collateralising all mark-to-market movements. The risk to clients in securities financing was reduced due to improved margining and exposure to higher quality underlying assets.

Organisational structure and governance

RMB's credit department is responsible for the overall management of counterparty credit risk. It is supported by RMB's Derivative counterparty risk management department which is responsible for ensuring that market and credit risk methodologies are consistently applied in the quantification of risk.

Counterparty credit risk is managed on the basis of the principles, approaches, policies and processes set out in the credit risk management framework for wholesale credit exposures.

In this respect, counterparty credit risk governance aligns closely with the Group's credit risk governance framework with mandates and responsibilities cascading from the Board through the RCC committee to the respective credit committees and subcommittees as well as deployed and central risk management functions. Refer to the *Risk management framework and governance section*, (page 126), and the *Credit risk governance section* (page 147) for more details.

The Derivative counterparty risk committee supports the Credit committee and its subcommittees with analysis and quantification of counterparty credit risk for traded product exposures.

Assessment and management (audited)

Quantification of risk exposure

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

To this end, appropriate quantification methodologies of potential future exposure over the life of a product, even under distressed market conditions, are developed and approved at the relevant technical committees. The two-way credit (and debit) valuation adjustment is calculated and priced on bespoke transactions.

Individual counterparty risk limit applications are prepared using the approved risk quantification methodologies and assessed and approved at the dedicated counterparty credit committee, which has appropriate executive and non-executive representation.

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

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

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

Limit breaches are dealt with in accordance with the approved excess mandate. Significant limit breaches necessitate reporting to the head of the business unit, the head of risk for the affected business unit and the Derivative counterparty risk management function. Any remedial actions are agreed amongst these parties and failure to remedy such a breach is reported to the RMB Proprietary board, ERM and the RCC committee.

As part of the ongoing process of understanding the drivers of counterparty credit risk, regular analysis is carried out on over-the-counter derivative and securities financing portfolios on a look-through basis. This portfolio review process seeks to identify concentrations, the hypothetical impact of stress scenarios and to better understand the interaction of underlying market risk factors and credit exposure. The benefits gained include clearer insight into potential collateral, earnings and capital volatility, and potentially unduly risky trading behaviour by counterparties.

Advanced monitoring of the creditworthiness of developed market counterparty banks is conducted through the real-time analysis of the credit spreads on listed securities that have been issued by or referencing these banks.

Counterparty credit risk mitigation

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

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

For regulatory purposes, the net exposure figures are employed in capital calculations, calculated using the standardised approach under Basel, whilst for accounting purposes netting is only applied where both a legal right to set off and the intention to settle on a netted basis exist.

Collateral to be provided in the event of a credit rating downgrade

In several isolated instances, FirstRand has signed ISDA agreements where both parties would be required to post additional collateral in the event of a rating downgrade. The additional collateral to be provided by the Group in the event of a credit rating downgrade is not material and would not adversely impact its financial position.

When assessing the portfolio in aggregate, the collateral that would need to be provided in the hypothetical event of a rating downgrade is subject to many factors, not least of which are market moves in the underlying traded instruments and netting of existing positions.

While these variables are not quantifiable, the table below, in addition to showing the effect of counterparty credit risk mitigation, provides a guide to the order of magnitude of the netted portfolio size and collateral placed with the Group. In aggregate, all of the positive mark-to-market values shown below would need to reverse before the Group would be a net provider of collateral.

Counterparty credit risk profile

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

Composition of counterparty credit risk exposure

R million	**2012**	2011
Gross positive fair value	**91 924**	114 070
Netting benefits	**(9 315)**	(38 462)
Netted current credit exposure before mitigation	**82 609**	75 608
Collateral value	**(72 470)**	(63 772)
Netted potential future exposure	**3 194**	12 293
Exposure at default*	**21 174**	24 129

* *EAD includes exposures calculated under both the standardised approach and CEM. FirstRand implemented the standardised approach in June 2012. The standardised approach implementation covers all material portfolios with full coverage to be attained in the new financial year. EAD under the standardised approach is quantified by scaling either the current credit exposure less collateral or the net potential future exposure by a factor of 1.4. The latter explains why the summation of the netted current exposure, collateral value and netted potential future exposure in the table above (June 2012 figure) differs from the EAD computed.*

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

Credit derivatives exposure

	2012			
R million	**Credit default swaps**	**Total return swaps**	**Other**	**Total**
Own credit portfolio				
– protection bought	**19**	**–**	**–**	**19**
– protection sold	**1 900**	**–**	**–**	**1 900**
Intermediation activities				
– protection bought	**3 149**	**–**	**–**	**3 149**
– protection sold	**3 865**	**–**	**–**	**3 865**

	2011			
R million	Credit default swaps	Total return swaps	Other	Total
Own credit portfolio				
– protection bought	18	–	–	18
– protection sold	3 259	–	–	3 259
Intermediation activities				
– protection bought	46	–	–	46
– protection sold	1 091	–	–	1 091

MARKET RISK IN THE TRADING BOOK

Introduction and objectives (audited)

Market risk exists in all trading, banking and listed equity 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 Bank is taken and managed by RMB. The relevant businesses within RMB function as the centres of expertise with respect to all trading and market risk-related activities, ensuring that at all times market risk is managed and contained within the risk appetite of the Group.

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

The Bank implemented the regulatory changes associated with Basel 2.5 in the local trading book, namely the combined incorporation of VaR plus stressed VaR on 1 January 2012. As of January 2012, the performance of market risk-taking activities is measured as the higher of the Bank's internal expected tail loss (ETL) measure (as a proxy for economic capital) or regulatory capital based on VaR plus stressed VaR.

During the year, and as part of a strategic review of its business, RMB decided to cease all outright proprietary trading activities in the trading businesses. This resulted in a reduction in the size of the listed equity trading book. Discontinued positions are in the process of being managed down. However, it should be noted that market risk remains in certain client related activities, such as the provision of client-based hedging solutions and market making.

Organisational structure and governance

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

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

Assessment and management (audited)

Quantification of risk exposures

Market risk exposures are primarily measured and managed using an ETL measure and associated ETL limits. The ETL measure used by RMB is a historical simulation measure assessing the average loss beyond a selected percentile. RMB's ETL is based on a confidence interval of 99% and applicable holding periods. Since ETL is adjusted for the trading liquidity of the portfolio, it is referred to as liquidity-adjusted ETL. Holding periods, ranging between 10 to 90 days, are used in the calculation and are based on an assessment of distressed liquidity of portfolios. Historical data sets are chosen to incorporate periods of market stress such as data from the 2008/2009 global financial crisis included during the year under review.

VaR calculations over holding periods of 1 day and 10 days are used as an additional tool in the assessment of market risk. VaR triggers and absolute loss thresholds are used to highlight positions to be reviewed by management.

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

Stress testing

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

Additional stress testing, to supplement the ETL assessment, is conducted using historical market downturn scenarios and includes the use of "what-if" hypothetical and forward-looking simulations. The calibrations of the stress tests are reviewed regularly to ensure that the results are indicative of the possible impact of severely distressed and event-driven market conditions. Stress and scenario analyses are reported to and considered regularly by the relevant governance bodies frequently.

Back testing

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

Regulatory and economic capital for market risk

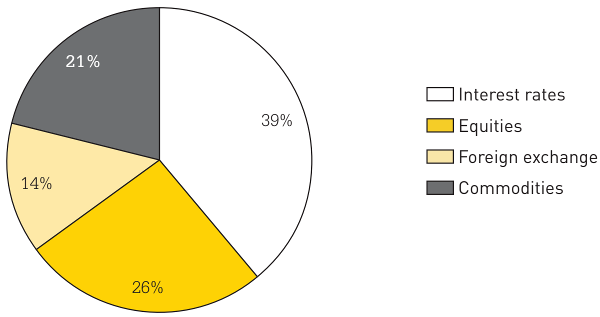
The internal VaR model for general market risk was approved by the SARB for local trading units and is consistent with the methodologies stipulated by the Basel 2.5 framework. For all international legal entities, the standardised approach is used for regulatory market risk capital purposes.

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

Trading book market risk profile

The following chart shows the distribution of exposures per asset class across the Group's trading activities at 30 June 2012 based on the VaR methodology.

Composition of VaR exposure per asset class (audited)



VaR analysis by asset class (audited)

The table below reflects the VaR over a 1-day holding period at a 99% confidence level. Results for the year ending 30 June 2012 reflect the de-risking that has taken place with regards to outright proprietary trading, predominantly in the listed equity asset class.

1-day 99% VaR analysis by asset class

	2012				2011**
R million	**Min***	**Max***	**Average**	**Period end**	Period end
Risk type#					
Equities	**30.6**	**84.2**	**55.5**	**30.6**	51.0
Interest rates	**16.8**	**51.9**	**28.4**	**45.8**	22.9
Foreign exchange	**6.4**	**41.7**	**14.4**	**15.8**	6.5
Commodities	**2.8**	**45.1**	**21.0**	**24.6**	32.4
Diversification effect				**(44.2)**	(27.4)
Diversified total	**57.6**	**127.5**	**80.8**	**72.6**	85.4

* *The maximum and minimum VaR figures for each asset class did not necessarily occur on the same day. Consequently, a diversification effect was omitted from the above table.*

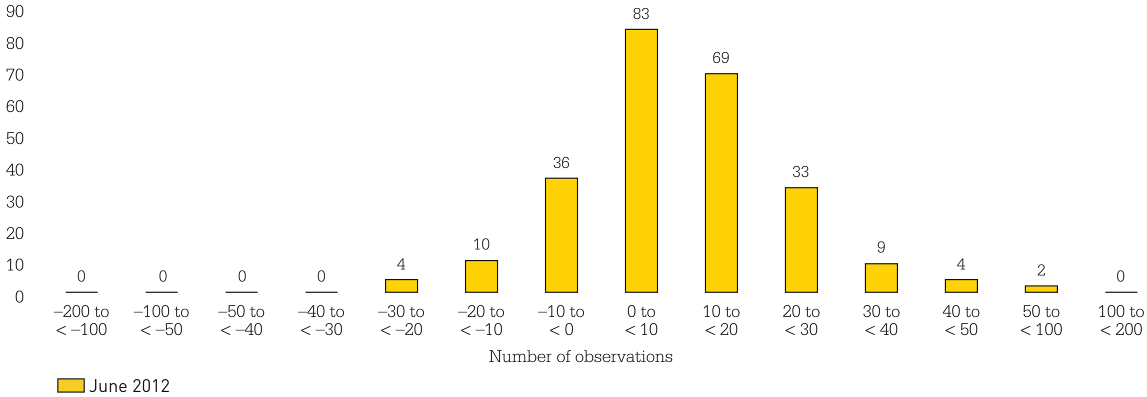
** *The 2011 period end VaR numbers reported last year were based on a 10-day holding period. As 1-day VaR is reported this year, the 2011 period end numbers have been restated to reflect 1-day VaR. In addition, note that the table includes market risk for the trading activities that take place in FRIHL (within RMB Securities (Pty) Limited and RMB Australia Holdings Limited entities). Consequently, the 2011 period end VaR numbers were also restated to include listed equity exposures previously classified as investing activities within the RMB Australia Holdings Limited entity.*

\# *Banking book exposures are managed by Group Treasury and are reported under the banking book interest rate risk section.*

Distribution of daily trading earnings from trading units

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

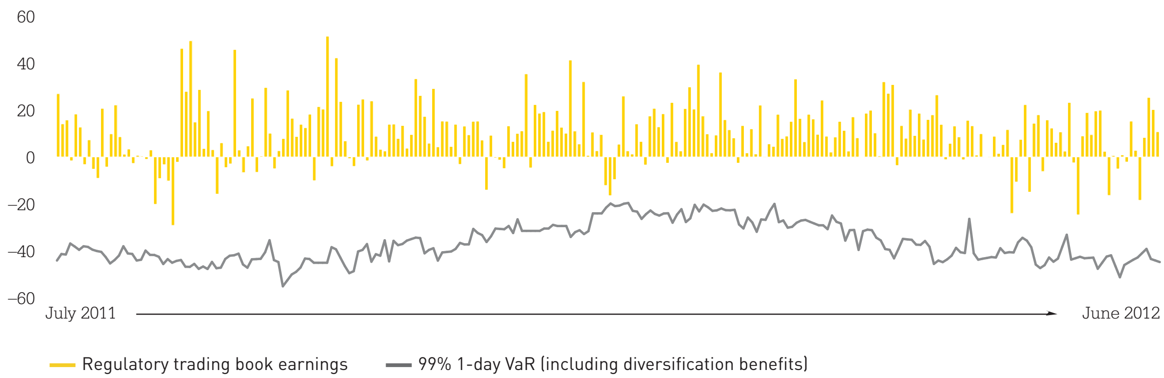
Distribution of daily earnings (unaudited)
Frequency (days in a period)



Back testing: daily regulatory trading book earnings and VaR

The Group tracks its daily earnings profile as illustrated in the chart below. The earnings and 1-day VaR relate to the Bank's internal VaR model. Exposures were contained within risk limits during the trading period and the earnings profile is skewed towards profitability.

Back testing: daily regulatory trading book earnings versus 1-day 99% VaR of the Bank (unaudited)
(R million)



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

International

RMB Australia Holdings and the Bank's India branch hold the most material exposure to market risk amongst the international operations. The same approach is employed for the measurement and management of market risk as in the local portfolio. During the year under review, market risk was contained within acceptable limits.

FRIHL

VaR analysis by risk type

The table below reflects the VaR over a 1-day holding period at a 99% confidence level for FRIHL. Market risk in FRIHL relates to the trading activities taking place in RMB Australia Holdings Limited and RMB Securities Trading (Pty) Limited, and represents a subset of the VaR analysis by asset class reflected above for the Group.

The table below reflects the de-risking that has taken place with regard to outright proprietary trading in the listed equity asset class, particularly as it relates to RMB Securities Trading (Pty) Limited.

1-day 99% VaR analysis by instrument for FRIHL (audited)

	2012				2011
R million	**Min***	**Max***	**Average**	**Period end**	Period end
Diversified total	**27.2**	**74.7**	**43.8**	**27.2**	41.8

* *The maximum and minimum VaR figures for each asset class did not necessarily occur on the same day. Consequently, a diversification effect was omitted from the above tables.*

FNB Africa subsidiaries

Market risk for the African subsidiaries is measured using a stress loss measure per asset class and supplemented with the same VaR/ETL methodology as described above. During the period under review, market risk was contained within acceptable limits and was effectively managed in the FNB African subsidiaries.

EQUITY INVESTMENT RISK

Introduction and objectives (audited)

Portfolio investments in equity instruments are primarily undertaken in RMB, but certain equity investments have been made by WesBank, FNB and the 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 Resources division.

The Group actively monitors regulatory developments, including amendments to current Basel capital requirements and the anticipated impact of Basel III. Basel III regulations are expected to impact the Group's equity investment portfolio's capital adequacy requirements in January 2013. This is likely to result in the minority interests, intangibles and goodwill of the Group's fully consolidated subsidiaries no longer qualifying as Core Tier 1 capital.

The overall quality of the investment portfolio remains acceptable and is within risk appetite. This year has seen less equity realisations and a number of significant new equity investment acquisitions undertaken as part of a significant portfolio rebuilding drive. This trend is set to continue in the private equity market in the coming year in line with RMB's approved business strategy and risk appetite.

Organisational structure and governance

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

- the Prudential investment committee (Investment committee) chaired by the RMB chief investment officer and its delegated subcommittees are responsible for the approval of all portfolio investment transactions in equity, quasi-equity or quasi-debt instruments;
- where the structure of the investments also incorporate significant components of senior debt, approval authority will also rest with the respective credit committees and the large exposures committee, as appropriate;
- the RCC and MIRC committees are responsible for the oversight of investment risk measurement and management across the Group;
- this year saw the formation of a bi-annual investment risk oversight committee. The committee assesses the quality and size of investment business within RMB and reviews movements in light of risk appetite; and
- the RMB CRO, in consultation with the Group CRO and with support from the deployed and central risk management functions, provides independent oversight and reporting of all investment activities in RMB to the RMB Proprietary board, as well as MIRC.

Assessment and management (audited)

Management of exposures

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

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

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

Recording of exposures – accounting policies

IAS 39 requires equity investments to be classified as:

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

Refer to note 15 Financial instruments of the accounting policies for a description of the policy.

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

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

Measurement of risk exposures

Risk exposures are measured as the potential loss under stress conditions. A series of standardised stress tests are used to assess potential losses under current market conditions, adverse market conditions, as well as severe stress/event risk. These stress tests are conducted at individual investment and portfolio levels.

The Group targets a diversified investment portfolio profile, spread along pertinent dimensions such as geography, industry, investment stage and vintage (i.e. annual replacements of realisations).

Stress testing

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

Regulatory and economic capital

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

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

Where price discovery is reliable, the risk of listed equity investments is measured based on a 90-day ETL calculated using RMB's internal market risk model. The ETL risk measure is supplemented by a measure of the specific (idiosyncratic) risk of the individual securities per the specific risk measurement methodology.

Equity investment risk profile

Market prices in selected industries continue to present the Group with opportunities to build its private equity portfolio. Unrealised profits for the investment portfolio continue to remain resilient. RMB's strategic business review included a decision to cease outright proprietary trading in the listed equities business. This has resulted in the managing down of listed equity investment risk exposures. At the same time, the private equity portfolio was subject to a significant portfolio rebuilding drive.

Investment risk exposure and sensitivity of investment risk exposure

R million	**2012**	2011
Listed investment risk exposure included in the equity investment risk ETL process*	**687**	1 407
ETL on above equity investment risk exposures*	**377**	616
Estimated sensitivity of remaining investment balances**		
Sensitivity to 10% movement in market value on investment fair value#	**502**	169
Cumulative gains realised from sale of positions in the banking book during the period	**1 642**	972

* *The decline in both exposure and ETL for listed investments from June 2011 to June 2012 was largely due to further run down of the legacy portfolios, de-risking of the listed equity exposures and the allocation of certain exposures from equity investment risk portfolio to the market risk portfolio. The listed investment risk exposure and ETL for June 2011 was restated to reflect the removal of long-term market risk exposure and included in the market risk disclosures.*

** *These are the investment balances not subject to the equity investment risk ETL process.*

Audited.

Risk and capital management report continued

The following table provides information relating to equity investments in the banking book of the Group.

Investment valuations and associated regulatory capital requirements

	2012		
R million	**Publicly quoted investments**	**Privately held**	**Total**
Carrying value disclosed in the balance sheet	**2 509**	**10 064**	**12 573**
Fair value*	**2 509**	**13 087**	**15 596**
Total unrealised gains recognised directly in balance sheet through equity instead of the income statement**	**55**	**44**	**99**
Latent revaluation gains not recognised in the balance sheet**	**–**	**3 054**	**3 054**
Capital requirement#	**715**	**3 824**	**4 539**

* *The fair values of listed private equity investments were not considered to be materially different from the quoted market prices.*
** *These unrealised gains or losses are not included in Tier 1 or Tier 2 capital.*
# *Capital requirement calculated at 9.5% of RWA (excluding the bank-specific Pillar 2b add-on). Effective 1 July 2011, the SARB requested that all equity investment risk exposures be risk weighted under the simple risk weighted method (previously non-bank entities were risk weighted under the standardised approach). This has increased the capital requirement for the Group.*

	2011		
R million	Publicly quoted investments	Privately held	Total
Carrying value disclosed in the balance sheet	3 236	8 068	11 304
Fair value*	3 236	10 973	14 209
Total unrealised gains recognised directly in balance sheet through equity instead of the income statement**	49	134	183
Latent revaluation gains not recognised in the balance sheet**	–	2 905	2 905
Capital requirement#	493	1 459	1 952

* *The fair values of listed private equity investments were not considered to be materially different from the quoted market prices.*
** *These unrealised gains or losses are not included in Tier 1 or Tier 2 capital.*
# *Capital requirement calculated at 9.5% of RWA (excluding the bank-specific Pillar 2b add-on).*

FOREIGN EXCHANGE AND TRANSLATION RISK IN THE BANKING BOOK

Introduction and objectives (audited)

Foreign exchange risk arises from on- and off-balance sheet positions whose valuation in Rand is subject to currency movements. Key activities giving rise to these positions are foreign currency placements, lending and investing activities, the raising of foreign currency funding and from trading and client facilitation activities in foreign currencies. The objective of foreign exchange risk management is to ensure that currency mismatches are managed within the Group's risk appetite and to ensure that it is overseen and governed in keeping with the risk governance structures.

Translation risk is the risk to the Rand-based South African reported earnings brought about by fluctuations in the exchange rate when applied to the value, earnings and assets of foreign operations. Translation risk is, at present, seen as an unavoidable risk which results from having offshore operations. The Group does not actively hedge this risk.

Organisational structure and governance

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

Market risk, foreign exposure and mismatch limits are approved by the Board and the primary governance body is the RCC committee. Trading risk and the net open forward position in foreign exchange (NOFP) are overseen by MIRC, a subcommittee of the RCC committee and mismatch risk is governed through the FirstRand ALCCO and International ALCCO processes. In addition to the committee structures, business units charged with frontline management of these risks have deployed risk managers within their units who assess and report on these risks on an ongoing basis.

Assessment and management (audited)

In addition to the regulatory prudential limit on foreign exposure, the Board has set internal limits on FirstRand's total foreign currency exposure, within the regulatory limit but allowing opportunity for expansion and growth. Internal limits are also set per franchise, taking into account existing foreign asset exposure and future growth plans. Internal limits and utilisation are continuously monitored and are reviewed when necessary.

The Group's NOFP position is within the regulatory limit of approximately US$600 million. Senior management implemented various levels of internal prudential limits, again below the regulatory limit but large enough to cater for the hedging, settlement and execution positions of business units. Group Treasury is the clearer of all currency positions in FirstRand and is therefore tasked with the responsibility for managing the Group's position within all internal and prudential limits. Any breaches are reported through the risk management structures and corrective action is monitored by both the deployed risk manager and ERM.

Foreign exchange and translation risk profile

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

FUNDING AND LIQUIDITY RISK

Introduction and objectives

The Group distinguishes three types of liquidity risk:

- funding liquidity risk is the risk that a bank will not be able to effectively meet current and future cash flow and collateral requirements without negatively affecting the normal course of business, financial position or reputation;
- market liquidity risk is the risk that market disruptions or lack of market liquidity will cause the bank to be unable (or able, but with difficulty) to trade in specific markets without affecting market prices significantly; and
- mitigation of market and funding liquidity risks is achieved via contingent liquidity risk management. Buffer stocks of highly liquid assets are held to either be sold into the market or provide collateral for loans to cover any unforeseen cash shortfall that may arise.

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

Funding structure

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. Limited yield incentivisation and corporate liquidity needs mean that South African banks are funding seekers. The structural liquidity risk is therefore higher in South Africa than in most other markets. This risk is however, to some extent mitigated by the following factors:

- the "closed Rand" system where all Rand transactions have to be cleared and settled in South Africa through registered banks and clearing institutions domiciled in South Africa;
- the prudential exchange control framework in place in South Africa; and
- the low dependency of South African banks on foreign currency funding.

In the light of the structural funding issues focus is currently placed on lengthening and diversifying the funding profile in line with Basel III requirements. New Basel rules for liquidity particularly the LCR and the NSFR, are anticipated to have a significant impact if implemented as currently proposed. The provision of a tiered committed liquidity facility capped at 40% of total available liquidity, and the inclusion of cash reserves as an available source of liquidity have alleviated the structural constraints to LCR compliance.

Surplus liquidity buffers for cash flow management were amended in line with available liquidity in government debentures, treasury bills and bonds. The current level is considered sufficient relative to current market conditions.

Organisational structure and governance

Liquidity risk management is governed by the liquidity risk management framework (LRMF), which provides relevant standards in accordance with regulatory requirements and international best practices. As a subframework to the BPRMF, the LRMF is approved by the Board and sets out consistent and comprehensive standards, principles, policies and procedures to be implemented throughout the Group to effectively identify, measure, report and manage liquidity risk.

The Board retains ultimate responsibility for the effective management of liquidity risk. The Board has delegated its responsibility for the assessment and management of this risk to the RCC committee, which in turn delegated this task to FirstRand ALCCO. FirstRand ALCCOs primary responsibility is the assessment, control and management of both liquidity and interest rate risk for the Bank, FNB Africa and international subsidiaries and branches, either directly or indirectly, through providing guidance, management and oversight to the asset and liability management (ALM) functions and ALCCOs in these subsidiaries and branches.

The Bank (SA)

Liquidity Risk for FRB SA (RMB, FNB, FirstRand Corporate Centre and WesBank) is centrally managed by a dedicated liquidity and funding team in Group Treasury. Governance is provided by an independent liquidity risk team under the Corporate Centre CRO function responsible for ensuring that the liquidity risk management framework is implemented appropriately.

The Group's liquidity position, exposures and auxiliary information are reported bi-monthly to the Funding executive committee. In addition, management aspects of the liquidity position are reported to and debated by Group Treasury. The liquidity risk management and risk control teams in Group Treasury and the Corporate Centre risk function also provide regular reports to FirstRand ALCCO.

FNB Africa

Individual asset and liabilities committees (ALCCOs) in each of the FREMA businesses manage liquidity risk on a decentralised basis, in line with the principles under delegated mandates from the respective boards. Reports from these committees are regularly presented to FirstRand ALCCO and the management and control of liquidity risk in the subsidiaries follows the guidance and principles that have been set out and approved by FirstRand ALCCO.

International subsidiaries

Similarly, liquidity risk for international subsidiaries is managed on a decentralised basis in line with the Group's LRMF. Each international subsidiary and branch reports into International ALCCO, which is a subcommittee of FirstRand ALCCO, and meets quarterly to review and discuss region-specific liquidity and interest rate risk issues.

FirstRand has been granted renewable dispensation by the Financial Services Authority (FSA) for a waiver on a "Whole-firm Liquidity Modification application" basis where the FSA considers local risk reporting and compliance of the parent bank sufficient to waive FSA requirements for FirstRand Bank (London branch). FSA reporting commenced from January 2011.

Liquidity risk management

The Group explicitly acknowledges liquidity risk as a consequential risk that may be caused by other risks as demonstrated by the reduction in liquidity in many international markets as a consequence of the recent credit crisis. The Group is, therefore, focused on continuously monitoring and analysing the potential impact of other risks and events on the funding and liquidity position of the organisation to ensure business activities preserve and enhance funding stability. This ensures the Group is able to operate through a period of stress when the access to funding is constrained.

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

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

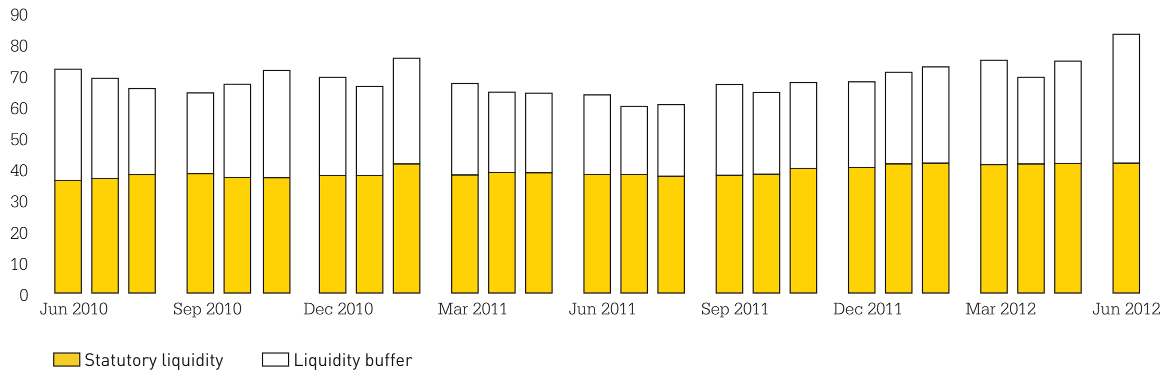
Risk and capital management report continued

Available liquidity

Liquidity buffers are actively managed via high quality, highly liquid assets that are available as protection against unexpected events or market disruptions. The buffer methodology has been defined and linked to regular stress testing and scenario analysis. The methodology is adaptive and will be responsive to Basel III changes on the LCR.

The chart below shows the liquidity buffer and statutory liquidity requirements for the Bank.

The Bank's liquidity buffer and statutory liquidity requirements
(R billion)



In addition to the measurement and management of the liquidity profiles, various key risk indicators are defined that highlight potential risks within defined thresholds. Two levels of severity are defined 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 FirstRand ALCCO and the RCC committee quarterly.

Stress testing and scenario analysis

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

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

Liquidity contingency planning (audited)

Frequent volatility in funding markets and the fact that financial institutions can and have experienced liquidity problems even during good economic times have highlighted the relevance of quality liquidity risk and contingency management processes.

The Bank's ability to meet all of its daily funding obligations and emergency liquidity needs is of paramount importance and in order to ensure that this is always adequately managed, the Bank maintains a liquidity contingency plan (LCP).

The objective of the LCP is to achieve and maintain funding sufficiency in a manner that allows the Group to emerge from a potential funding crisis with the best possible reputation and financial condition for continuing operations. The plan is expected to:

- support effective management of liquidity and funding risk under stressed conditions;
- establish clear roles and responsibilities in the event of a liquidity crisis; and
- articulate clear invocation and escalation procedures.

The LCP provides a pre-planned response mechanism to facilitate a swift and effective response to contingency funding events. These events may be triggered by financial distress in the market (systemic) or a bank-specific event (idiosyncratic) which may result in the loss of funding sources.

It is reviewed, annually and tested bi-annually via a Bank-wide liquidity stress simulation exercise to ensure the document remains up to date, relevant and familiar to all key personnel within the Bank that have a role to play should the Bank ever experience an extreme liquidity stress event.

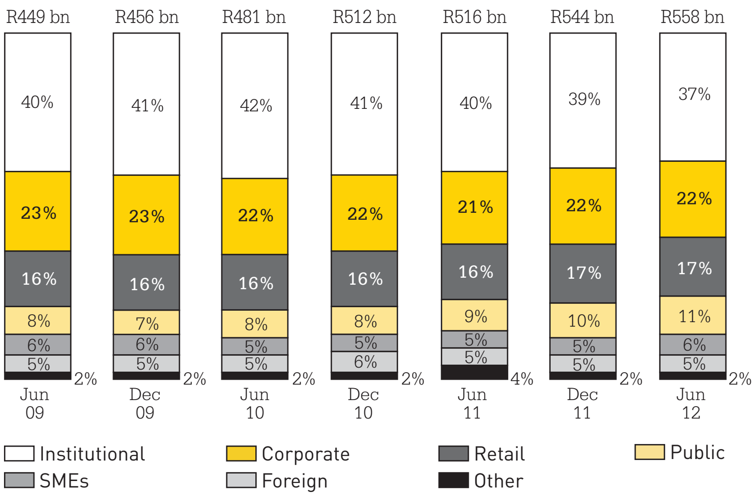
Funding strategy

The Group'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 Group seeks to diversify funding sources across segments, countries, instrument types and maturities. Where structural restrictions exist such as South Africa's reliance on wholesale funding, the risk is mitigated through term profile and liquidity buffers.

The table below illustrates the Group's sources of funding by counterparty.

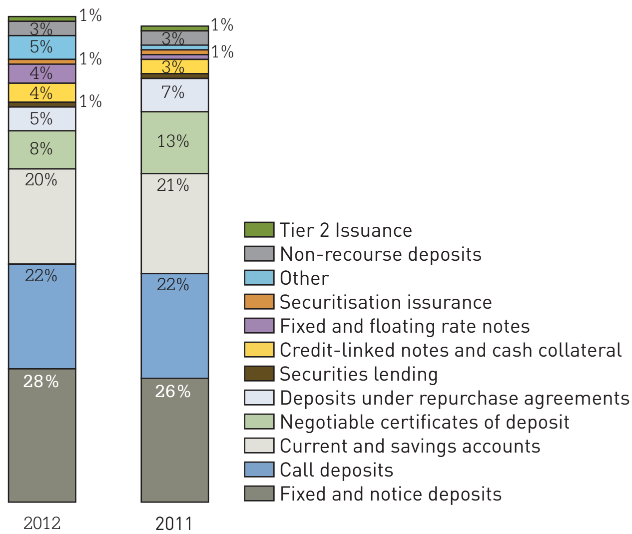
FRB's funding analysis by source (%)
and total deposit base (R billion)



Risk and capital management report continued

The chart below illustrates the Group's funding instruments by instrument type including senior debt and securitisation.

FirstRand's funding instruments by instrument type (%)



The business is incentivised to preserve and enhance funding stability via the funds transfer pricing framework, which ensures the pricing of assets is in line with liquidity risk, liabilities in accordance with funding stability and contingents in respect of the potential funding draws on the Group.

Liquidity risk profile (audited)

Undiscounted cash flow

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

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

Liquidity cash flows (undiscounted cash flows)

	2012			
		Term to maturity		
R million	**Carrying amount**	**Call – 3 months**	**3 – 12 months**	**> 12 months**
Maturity analysis of liabilities based on the undiscounted amount of the contractual payment				
EQUITY AND LIABILITIES				
Liabilities				
Deposits and current accounts	**641 809**	**432 128**	**76 444**	**133 237**
Short trading positions	**5 343**	**5 343**	**–**	**–**
Derivative financial instruments	**53 958**	**52 016**	**443**	**1 499**
Creditors and accruals	**9 080**	**8 294**	**521**	**265**
Two-tier liabilities	**10 437**	**13**	**1 346**	**9 078**
Other liabilities	**7 445**	**72**	**825**	**6 548**
Policyholder liabilities under insurance contracts	**1 523**	**339**	**56**	**1 128**
Policyholder liabilities under investment contracts	**71**	**–**	**8**	**63**
Financial and other guarantees	**30 920**	**25 327**	**2 733**	**2 860**
Facilities not drawn	**69 348**	**57 438**	**3 100**	**8 810**

	2011*			
		Term to maturity		
R million	Carrying amount	Call – 3 months	3 – 12 months	> 12 months
Maturity analysis of liabilities based on the undiscounted amount of the contractual payment				
EQUITY AND LIABILITIES				
Liabilities				
Deposits and current accounts	553 091	398 806	68 577	85 708
Short trading positions	12 413	12 413	–	–
Derivative financial instruments	37 028	35 650	884	494
Creditors and accruals	18 306	6 789	2 438	9 079
Long-term liabilities	9 927	–	–	9 927
Two-tier liabilities	10 333	–	399	9 934
Other liabilities	4 176	591	950	2 635
Policyholder liabilities under insurance contracts	1 047	151	308	588
Financial and other guarantees	31 346	25 801	3 175	2 370
Facilities not drawn	63 299	38 616	1 433	23 250

* *During the current year a comprehensive review of the liability disclosure was undertaken by the Group in order to ensure that the Group's presentation was consistent with industry practice and to provide more detailed and useful information in the financial statements. A reclassification was required to bring the comparative numbers in line with the updated presentation.*

Risk and capital management report continued

Contractual discounted cash flow analysis

The following table represents the contractual discounted cash flows of assets, liabilities and equity for the 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 short-term institutional funds which represent a significant proportion of banks' liabilities. These are used to fund long-term assets, e.g. mortgages.

Therefore, in addition to the analysis in the table above, the 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 to manage this mismatch on an ongoing basis.

Contractual discounted cash flow analysis for FirstRand

	2012			
		Term to maturity		
R million	**Carrying amount**	**Call – 3 months**	**3 – 12 months**	**> 12 months**
Maturity analysis of assets and liabilities based on the present value of the expected payment				
Total assets	**769 765**	**295 061**	**66 046**	**408 658**
Total equity and liabilities	**769 765**	**498 741**	**78 177**	**192 847**
Net liquidity gap	**–**	**(203 680)**	**(12 131)**	**215 811**
Cumulative liquidity gap	**–**	**(203 680)**	**(215 811)**	**–**

	2011			
		Term to maturity		
R million	Carrying amount	Call – 3 months	3 – 12 months	> 12 months
Maturity analysis of assets and liabilities based on the present value of the expected payment				
Total assets	697 927	260 517	56 392	381 018
Total equity and liabilities	697 927	476 231	73 356	148 340
Net liquidity gap	–	(215 714)	(16 964)	232 678
Cumulative liquidity gap	–	(215 714)	(232 678)	–

As illustrated in the table above, during the period under review, the negative contractual liquidity short-term gap deteriorated slightly in the short end on a cumulative basis due to muted asset growth. Management continues to align stress funding buffers both locally and offshore, taking into account prevailing economic and market conditions.

INTEREST RATE RISK IN THE BANKING BOOK

Introduction and objectives (audited)

Interest rate risk is the sensitivity of the balance sheet and income statement to unexpected, adverse movements in interest rates. Activities in the Group that gives rise to interest rate risk are the endowment effect and interest rate mismatch. The endowment effect, which results from a large proportion of endowment liabilities (including stagnant deposits and equity) that fund variable-rate assets (e.g. prime-linked mortgages), remains the primary driver of interest rate risk in the banking book (IRRBB), and results in bank earnings being vulnerable to interest rate cuts. For its interest rate mismatch, the Group also hedges its residual fixed-rate position, which has been adjusted for optionality.

In the Group, interest rate risk arises in trading and non-trading/banking book activities. In the trading book, interest rate risk is primarily quantified and managed using ETL measures and limits, VaR calculations are performed over a 1 and 10-day holding period as an additional risk measure. This is covered in the *Market risk* section of this report.

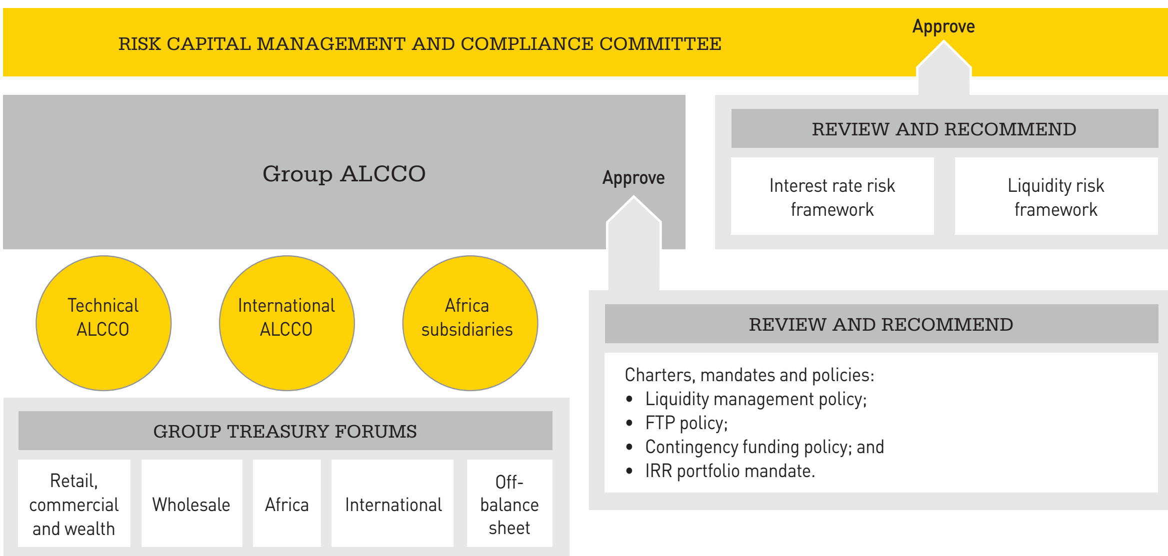
IRRBB originates from the differing repricing characteristics of balance sheet instruments, yield curve risk, basis risk and client optionality embedded in banking book products. It is an inevitable risk associated with banking and can be an important source of profitability and shareholder value. IRRBB continues to be managed from an earnings approach, with the aim to protect and enhance the Groups earnings and economic value within approved risk limit and appetite levels.

Organisational structure and governance

The control and management of IRRBB is governed by the framework for the management of IRRBB, which is a subframework of the BPRMF. Ultimate responsibility for determining risk limits and appetite for the Group vests with the Board. Independent oversight for monitoring is done through the RCC committee, who in turn has delegated the responsibility for IRRBB to the FirstRand ALCCO. ALCCO also maintains responsibility on behalf of the Board for the allocation of sublimits, and remedial action to be taken in the event of any limit breaches.

Individual ALCCOs exist in each of the African subsidiaries and international branches which monitor and manage in country IRRBB. Material issues from individual ALCCO are reported through to FirstRand ALCCO.

Interest rate risk management and governance structure



Risk and capital management report continued

Assessment and management (audited)

FirstRand Bank

Management and monitoring of the FirstRand domestic banking book is split between the RMB book and the remaining domestic banking book. RMB manages the banking book under its market risk framework, as such, risk is measured and monitored in conjunction with the trading book with management oversight provided by MIRC. The RMB banking book interest rate risk exposure was R79.7 million on a 10-day ETL basis at 30 June 2012 (June 2011 R45.9 million). (Refer to *Market risk* section on page 188) Any reference in future relating to the banking book excludes the RMB book.

The remaining banking book consists predominantly of retail balances from FNB and WesBank and the Corporate Centre balance sheet. This is managed centrally by Group Treasury with oversight from Corporate Centre risk management. The Group Treasury investment committee meets regularly to discuss and propose strategies, and to ensure that management action is within the Group's risk limit and appetite levels.

The internal FTP process is used to transfer interest rate risk from the franchises to Group Treasury, where risk can be managed holistically in line with the Groups macro economic outlook. This is achieved by balance sheet optimisation, or alternatively through the use of derivative transactions. Derivative instruments used are mainly interest rate swaps, for which there is a liquid market. Hedge accounting is used where possible to minimise accounting mismatches, thus ensuring that amounts deferred in equity are released to the income statement at the same time as movements attributable to the underlying hedged asset/liability.

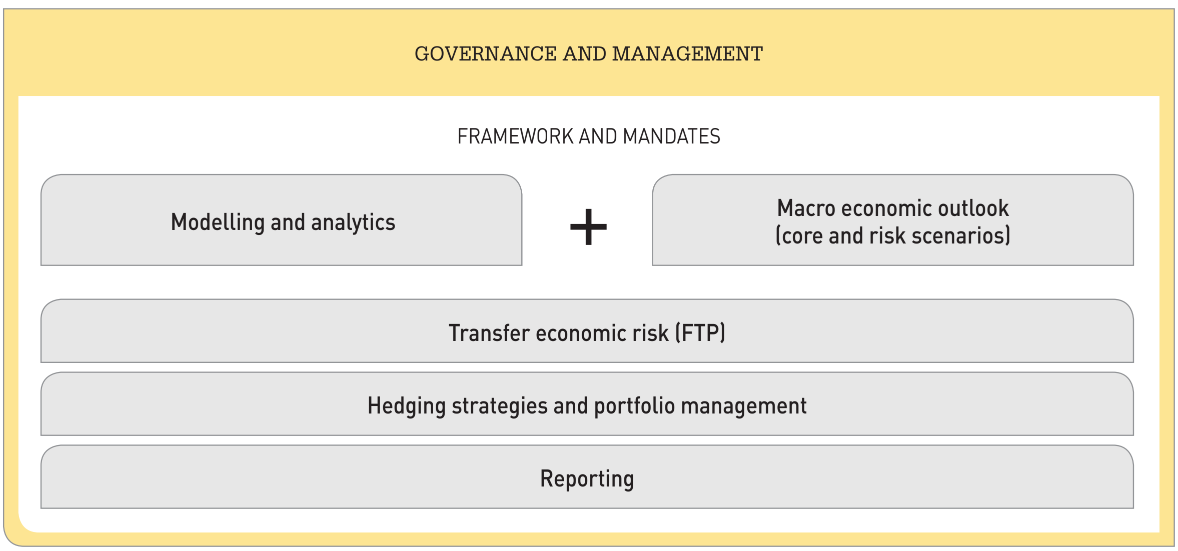
A number of measurement techniques are used to measure IRRBB; these focus on the net interest income (NII) sensitivity/earnings risk and the overall impact on economic value of equity (EVE) and daily PV01 measures.

The interest rate risk from the fixed book is managed to low levels with remaining risk stemming from timing and basis risk. The primary driver of NII sensitivity relates to the non- and low-rate products in the balance sheet, the endowment book. This has an adverse impact on the Group's NII margin in a cutting cycle as the decrease in NII from assets repricing to lower rates is not offset by a corresponding interest saving from liabilities. In the current rate cycle, the average repo rate for the year dropped by 29 bps, resulting in a negative impact to the Bank's margin.

International subsidiaries and branches

Management of the African subsidiaries and international branches is performed by in-country management teams with oversight provided by Group Treasury and Corporate Centre risk management. For subsidiaries, NII measures are used to measure, monitor and manage interest rate risk in line with the Group's appetite.

Interest rate risk management and assessment



Current repricing profile (audited)

The natural position of the banking book is asset sensitive, since interest-earning assets tend to reprice faster than interest-paying liabilities in response to interest rate changes.

In calculating the repricing gap, all banking book assets, liabilities and derivative instruments are placed in gap intervals based on their repricing characteristics. Non-maturing deposits and transmission accounts for which rates are administered by the Group are considered to reprice overnight. No prepayment assumptions are applied.

Repricing schedules for the Group's banking book

	2012				
	Term to repricing				
R million	**< 3 months**	**> 3 but ≤ 6 months**	**> 6 but ≤ 12 months**	**> 12 months**	**Non-rate sensitive**
FirstRand Bank					
Net repricing gap	**23 422**	**(4 164)**	**(5)**	**15 650**	**(34 903)**
Cumulative repricing gap	**23 422**	**19 258**	**19 253**	**34 903**	**–**
FNB Africa					
Net repricing gap	**2 555**	**(1 398)**	**(484)**	**1 558**	**(2 231)**
Cumulative repricing gap	**2 555**	**1 157**	**673**	**2 231**	**–**
Total cumulative repricing gap	**25 977**	**20 415**	**19 926**	**37 134**	**–**

	2011				
	Term to repricing				
R million	< 3 months	> 3 but ≤ 6 months	> 6 but ≤ 12 months	> 12 months	Non-rate sensitive
FirstRand Bank					
Net repricing gap	52 582	(2 746)	(12 145)	(8 061)	(29 630)
Cumulative repricing gap	52 582	49 836	37 691	29 630	–
FNB Africa					
Net repricing gap	5 263	(715)	(562)	642	(4 628)
Cumulative repricing gap	5 263	4 548	3 986	4 628	–
Total cumulative repricing gap	57 845	54 384	41 677	34 258	–

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

Risk and capital management report continued

Sensitivity analysis

NII sensitivity

NII models are run on a monthly basis to provide a measure of the NII sensitivity of the existing balance sheet to shocks in interest rates. Different scenarios are modelled including parallel and key rate shocks as well as yield curve twists and inversions as appropriate. Underlying transactions are modelled on a contractual basis, assuming a constant balance sheet size and mix. No adjustments are made for prepayments in the underlying book, however, prepayment assumptions are factored into the calculation of hedges for fixed rate lending. Roll-over assumptions are not applied to off-balance sheet positions.

The tables below show the 12-month NII sensitivity for a 200 downward parallel shock to interest rates. The decreased sensitivity in June 2012 from June 2011 is attributable to an increase in the use of derivative positions to manage interest rate risk in line with the macro economic outlook. In the prior year, the book was positioned for rate hikes. However, due to the rising threat of a crisis in Europe and growing global growth concerns, hedges have been put in place to provide greater NII margin stability in the event of further rate reductions.

Assuming no change in the balance sheet and no management action in response to interest rate movements, an instantaneous and sustained parallel decrease in interest rates of 200 bps would result in a reduction in projected 12-month NII of R1 755 million, a similar increase in interest rates would result in an increase in projected 12-month NII of R1 801 million.

Sensitivity of the Group's projected NII

	2012		
	Change in projected 12-month NII		
R million	**FirstRand Bank**	**FNB Africa**	**FirstRand**
Downward 200 bps	**(1 514)**	**(241)**	**(1 755)**
Upward 200 bps	**1 562**	**238**	**1 801**

	2011		
	Change in projected 12-month NII		
R million	FirstRand Bank	FNB Africa	FirstRand
Downward 200 bps	(2 013)	(173)	(2 186)
Upward 200 bps	2 027	173	2 200

Economic value of equity (EVE)

EVE sensitivity measures are calculated on a monthly basis. The impact on equity is as a result of the net open position after hedging used to manage IRRBB. The impact on equity occurs either as a result of fair value movements on these positions being recognised in the income statement, or movements deferred to the available-for-sale/cash flow hedging reserves.

The table below shows the EVE measures for a -200 bps and +200 bps instantaneous, parallel shock to rates on open positions run in Group Treasury. This is shown as a percentage of total Tier 1 and Tier 2 capital for the Group. The change in the current year is attributable to growth in the retail fixed book and the additional hedges put in place to minimise interest rate risk in line with the macro economic outlook.

Sensitivity of the Group's reported reserves to interest rate movements

R million/%	**2012**	2011
Downward 200 bps		
Available-for-sale	**1 008**	1 186
Cash flow	**(1 006)**	(1 390)
Total sensitivity	**2**	(204)
As % of Tier 1 and Tier 2 capital	**0.004%**	(0.321%)
Upward 200 bps		
Available-for-sale	**(871)**	(1 044)
Cash flow	**916**	1 315
Total sensitivity	**45**	271
As % of Tier 1 and Tier 2 capital	**0.065%**	0.427%

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.

OPERATIONAL RISK

Introduction and objectives (audited)

The Group processes large volumes of simple and complex transactions on a daily basis. The ability to process these transactions effectively is impacted by failure of IT systems and infrastructure, internal or external fraud, litigation, business disruption or process failure. Disruption in power supply, complex systems and inter-connectivity with other financial institutions and exchanges increase the risk of operational failure. Operational risk can also cause reputational damage, and therefore, efforts to identify, manage and mitigate operational risk are equally sensitive to reputational risk as well as the risk of financial loss.

The Group uses a variety of approaches and tools in the assessment, measurement and management of operational risk. ERM, the Group risk management function independent of the revenue-producing units, is responsible for developing and ensuring the implementation of the operational risk management framework (ORMF) and its supporting policies to manage operational risks, and provides regular reports of operational risk exposures to the Board via the Group's risk governance structures. ERM is supported in its tasks by deployed segment and divisional risk managers, using Group-wide control standards endorsed by senior management and through the training of staff in a process of identifying, measuring, monitoring and reporting operational risk.

The year under review has strengthened the Group's view that the management of operational risk is an ongoing process that must be routinely defined, refined and re-examined. Existing policies, methodologies, processes, systems and infrastructure are frequently evaluated for relevance to ensure that the discipline remains at the forefront of operational risk management and in line with regulatory developments and emerging best practices.

The Group recognises that managing operational risk effectively is not only a key capability but also provides a competitive advantage when addressing the balance between risk and reward. Providing and operating within the defined operational risk appetite levels remains a key operational risk strategic objective for the year ahead.

The overall objective of operational risk management is to enhance the level of risk maturity across the Group by implementing and embedding process-based risk and control identification and assessments and integrating the operational risk management advanced measurement approach (AMA) elements for a more comprehensive view of the operational risk profile.

The year under review

An exercise to identify inherent high risk areas and prioritise these for the roll-out of the processed-based risk and control identification and assessment is underway. This assessment aims to provide a comprehensive view of a business' operational risk profile based on end-to-end processes. Work is underway to integrate and automate the Group's operational risk management tools onto a single platform to enhance operational risk management processes. There are, furthermore, a number of Group-wide initiatives focusing on improving the internal control environment.

In order to ensure that the Group's operational risk practices remain in line with global and emerging operational risk management standards, its practices have been benchmarked against the recently issued BCBS's Principles for the Sound Management of Operational Risk and Operational Risk – Supervisory Guidelines for AMA.

The Group's current focus is to refine operational risk appetite levels and to monitor operational risk exposure against the set appetite levels across all the divisions within the Group.

Organisational structure and governance

The Board has delegated its responsibility for the governance and oversight over the management of operational risk to the Operational risk committee (ORC), a subcommittee of the RCC committee. The ORC provides governance, supervision, oversight and coordination of relevant operational risk processes as set out in the board-approved ORMF, a subframework of the BPRMF. Members of the ORC include a non-executive board member and an independent specialist advisory member, franchise heads of operational risk and the head of operational risk of the Group.

In addition, governance committees at all levels of the Group (business unit, segment and franchise) support the ORC and RCC committees in the execution of risk management duties and responsibilities.

Measurement

Basel – advanced measurement approach

FirstRand began applying AMA under Basel from 1 January 2009 for the Group's domestic operations. Offshore subsidiaries and operations continue to utilise the standardised approach for operational risk and all previously unregulated entities that are now part of the FRIHL Group utilise the basic indicator approach.

Under AMA, FirstRand is allowed to use a sophisticated statistical model for the calculation of capital requirements, which enables more accurate risk-based measures of capital for all business units on AMA.

Operational risk scenarios (covering key risks that, although low in probability, may result in severe losses) and internal loss data are the inputs into this model.

Scenarios are derived through an extensive analysis of the Group's operational risks in consultation with business and risk experts from the respective business areas. Scenarios are cross referenced to

Risk and capital management report continued

external loss data, internal losses, risk and control self assessments and other pertinent information about relevant risk exposures. To ensure the ongoing accuracy of risk and capital assessments, all scenarios are reviewed, supplemented or updated semi-annually, as appropriate.

The loss data used for risk measurement, management and capital calculation is collected for all seven Basel event types across various internal business lines. Data collection is the responsibility of the respective business units and is overseen by the operational risk management team in ERM.

The modelled operational risk scenarios are combined with modelled loss data in a simulation model to derive the annual, aggregate distribution of operational risk losses. Basel Pillar 1 minimum capital requirements are then calculated (for the Group and each franchise) as the operational VaR at the 99.9th percentile of the aggregate loss distribution, excluding the effects of insurance, expected losses and correlation/diversification.

Capital requirements are calculated for each franchise using the AMA capital model and then allocated to the legal entities within the Group based on gross income contribution ratios. This split of capital between legal entities is required for internal capital allocation, regulatory reporting and performance measurement purposes.

Business practices continuously evolve 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 exposures and associated capital requirements take the following into account:

- changes in the operational risk profile, as measured by the various operational risk tools;
- material effects of expansion into new markets, new or substantially changed products or 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 in effectiveness 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.

Assessment and management

Operational risk assessment and management approaches and tools

The Group obtains assurance that the principles and standards in the ORMF are being adhered to by the three lines of control model integrated in operational risk management. In this model, business units own the operational risk profile as the first line of control. In the second line of control ERM is responsible for consolidated operational risk reporting, policy ownership and facilitation and coordination of operational risk management and governance processes. GIA, as the third line of control, provides independent assurance of the adequacy and effectiveness of operational risk management processes and practices.

In line with international best practice, a variety of tools and approaches are employed and embedded in the assessment and management of operational risk. The most pertinent of these are outlined in the following chart.

Operational risk assessment, management approaches and tools

OPERATIONAL RISK TOOLS AND APPROACHES	
Risk control self assessments (RCSA) Process-based risk and control identification assessments (PRCIA)	**Key risk indicators (KRI)**
• integrated in the day-to-day business and risk management processes; • used by business and risk managers to identify and monitor key risk areas and assess the effectiveness of existing controls; and • PRCIA (currently being rolled out) is the risk and control assessment per product/service based on key business processes.	• used across the Group in all businesses as an early warning measure; • highlight areas of changing trends in exposures to specific key operational risks; and • inform operational risk profiles which are reported periodically to the appropriate management and risk committees and are monitored on a continuous basis.
Internal/external loss data	**Risk scenarios**
• the capturing of internal loss data is well entrenched within the Group; • internal loss data reporting and analyses occur at all levels with specific focus on the root cause and process analysis and corrective action; and • external loss databases are used to learn from the loss experience of other organisations and as an input to the risk scenario process.	• risk scenarios are widely used to identify and quantify low frequency extreme loss events; • senior executives of the business actively participate in the bi-annual reviews; and • the results are tabled at the appropriate risk committees and are used as input to the capital modelling process.

As the PRCIA is rolled out across the Group over a period, it will replace the RCSA to ensure that a comprehensive assessment of risks and controls across end-to-end business processes is conducted.

FirstRand uses an integrated and renowned operational risk system which is well positioned as the core operational risk system and provides a solid platform for automation of all the operational risk tools. The automation and integration of all the operational risk tools on the operational risk system is currently a key focus area for the operational risk management function.

Operational risk losses

As operational risk cannot be avoided or mitigated entirely, frequent operational risk events resulting in small losses are expected as part of business operations (e.g. external fraud) and are budgeted for appropriately. Business areas minimise these losses through continuously monitoring and improving relevant business and control practices and processes. Operational risk events resulting in substantial losses occur much less frequently and the Group strives to minimise these and contain frequency and severity within its risk appetite limits.

Given the ever-changing and complex nature of its business and processes, the Group employs a dynamic approach to managing operational risk and this approach results in continuous change or renewal. It is common practice, when implementing change of this nature, to address less-than-optimal operational processes with meaningful adjustments to risk management.

Boundary event (audited)

During the year under review FNB deployed a new management team into its merchant acquiring business. This unit provides Speedpoint devices at various merchants that accept credit, cheque and debit cards as a form of payment. FNB acquires these transactions and pays the merchant; it then recovers these payments to the merchants from the banks that issue cards to their customers and charges a fee for this process. FNB also settles its own customer transactions through the other banks.

The new team subsequently discovered the deliberate concealment, by certain members of the business unit staff, of payments made to merchants that remained unrecovered from the card issuers. Since 2008 staff had built a complex web of manipulated transactions that proved very difficult to detect by internal and external lines of control. No evidence of personal financial gain had been uncovered and no customers have been negatively impacted by this issue.

In line with best practice the Board and FNB management appointed the services of an independent auditing firm to investigate the issue, including the surrounding operational control environment. This investigation has now been completed and the gross unrecovered amount confirmed at R915 million for the year to 30 June 2012.

The Group has written off R705 million of the amount as bad debt. The remaining exposure is expected to be recovered over time. Refer to page 160 Impairment of financial assets and NPLs in the *Credit risk* section of this report.

The Board and management continue to refine the approach of linking key business processes to the operational risk and control environment.

Internal validation

In order to ensure consistency in the application and output of the various operational risk tools, a Group internal validation is undertaken annually. This process involves a robust challenge of all the operational risk tools at all levels within the Group. A report is issued on the final results of the internal validation exercise to the business for action where necessary.

Internal audit findings

GIA acts as the third line of risk control across the Group and provides an independent view on the adequacy of existing controls and their effectiveness in mitigating risks associated with key and supporting processes. Audit findings are tracked, monitored and reported on through the risk management and governance processes and structures.

Risk management processes

Within operational risk, a number of key risks exist in respect of which specialised teams, frameworks, policies and processes have been established and integrated into the broader operational risk management and governance processes as described below.

Business resilience management

Business resilience management (BRM) focuses on ensuring that the Group's operations are resilient to the risk of severe disruptions caused by internal failures or external events. The Business resilience steering committee, a subcommittee of the ORC, has oversight of BRM.

The business continuity practices of the Group are documented in the Group's business resilience policy and supporting standards, which are approved at the ORC. The policy, a subframework of the ORMF, requires the development and maintenance of business continuity strategies and plans. It also requires regular business continuity assessments and testing to be carried out in all business units and the results reported to the Business resilience steering committee.

The Group carries out regular reviews of BRM practices and any disruptions or incidents are regularly reported to the relevant risk committees. Over the reporting period, the Group successfully invoked and revoked full disaster recovery with respect to its primary systems.

Legal risk

The legal risk management framework, a subframework of the ORMF, addresses and seeks to guide the operations of the Group in areas such as the creation and ongoing management of contractual relationships, the management of disputes, which do or might lead to litigation, the protection and enforcement of property rights (including intellectual property) and failure to account for the impact of the law or changes in the law brought about by legislation or the decisions of the courts. Whilst compliance with law is a major element of legal risk, RRM, through the regulatory risk management governance framework and attendant programme manages this aspect of legal risk. Added to these substantive and direct risks is the management of risk around the procurement of external legal resources.

A legal risk management programme is in place to work towards an ultimate goal of ensuring that comprehensive, sound operational risk governance practices and solutions are adopted in respect of legal risk management which represent best practice and which align to the Group's overall risk management programme. The Legal risk committee, a subcommittee of the ORC, has oversight of legal risk management.

Information risk

Information risk is concerned with the protection of information and information systems against unauthorised access, destruction, modification, use and disclosure. The goal is to ensure the confidentiality, availability and integrity of all information and the systems that maintain, process and disseminate this information.

The Group's information technology risk management framework, acceptable use of information resources policy and information security policy provide the basis for the management of IT risk and information security within the Group.

The IT risk management framework, a subframework of the ORMF, defines the objectives of IT risk management and the processes that are to be embedded, managed and monitored across the Group for the effective management of IT risk.

During the reporting period the Group's IT risk and information security governance structures have been reviewed and restructured to ensure specialised focus on IT risk and information security at the appropriate levels.

The IT risk management tools currently in use are being reviewed to ensure phased integration with the broader operational risk management tools like the PRCIA tool. This integration will ensure that IT risks are identified and managed as part of the management of operational risks in the end-to-end business processes.

Fraud and security risks

Fraud risk is defined as the risk of loss resulting from unlawfully making, with intent to defraud, a misrepresentation which causes actual prejudice or which is potentially prejudicial to another. Fraud incorporates both internal (staff) criminal activities as well as those that emanate from an external source.

Fraud risk is governed by the fraud risk management framework, which is a subframework of the ORMF. The Group utilises a deployed fraud risk management model that requires businesses to institute processes and controls specific and appropriate to its operations within the constraints of a consistent governance framework that is overseen by the fraud risk management function reporting to the Group CRO.

The Group is committed to creating an environment that safeguards customers, staff and assets against fraud or security risks by continually investing in people, systems and processes for both preventative and detective measures.

Risk insurance

The Group has a structured insurance risk financing programme in place which has been developed over many years to protect the Group against unexpected material losses arising from non-trading risks. The insurance risk programme is continuously refined and enhanced through ongoing assessment of the changing risk profiles, organisational strategy and growth and the monitoring of international insurance markets. The levels and extent of the various insurance covers are reviewed and benchmarked annually.

The Group's insurance-buying philosophy is to carry as much risk on its own account as is economically viable and to only protect it against catastrophic risks through the use of third party insurance providers. Accordingly, the majority of cover is placed into the Group's wholly-owned first party dedicated insurance company, FirstRand Insurance Services Company Limited (FRISCOL). All cover on the main programme are placed with reinsurers with a minimum credit rating of A-. The insurance programme includes, inter alia, cover for operational risk exposures such as professional indemnity, directors and officers liability, crime bond, public and general liability, etc. The Group, however, does not consider insurance as a mitigant in the calculation of capital for operational risk purposes.

REGULATORY RISK

Introduction and objectives

In FirstRand, the Group's RRM function plays an integral part in managing the risks inherent in banking. The Group fosters a compliance culture in its operations that contributes to the overall objective of prudent regulatory compliance and risk management by observing both the spirit and the letter of the law as an integral part of its business activities. The compliance culture also embraces broader standards of integrity and ethical conduct which concerns all employees.

Non-compliance may have potentially serious consequences, which could lead to both civil and criminal liability, including penalties, claims for loss and damages or restrictions imposed by regulatory bodies.

The objective of the RRM function is to ensure that business practices, policies, frameworks and approaches across the organisation are consistent with applicable laws and that regulatory risks are identified and managed proactively throughout the Group. This objective culminates in the maintenance of an effective and efficient regulatory risk management framework with sufficient operational capacity throughout the Group to promote and oversee compliance with legislative and best practice requirements.

It is of paramount importance that the Group ensures compliance with, among others, the provisions of the Banks Act, 1990 (Act No. 94 of 1990 – the Act) and the Regulations relating to Banks and ensures that all compliance issues identified in this context are effectively and expeditiously resolved by senior management with the assistance of RRM. Similarly, compliance with other important legislative and regulatory requirements such as anti-money laundering legislation and the combating of the financing of terrorism standards requires close cooperation with and interaction between RRM, other functions within the Group and the various regulatory authorities.

In order to achieve the Group's regulatory risk management objectives, all staff members are continually made aware of compliance requirements in order to ensure a high level of understanding and awareness of the applicable regulatory framework.

The year under review

The most notable development and focus area in respect of regulatory reforms is the anticipated implementation of a twin peaks model of financial regulation in South Africa and ongoing adjustments to the regulatory framework in terms of the implementation of the Basel III reforms.

The new Regulations relating to Banks became effective on 1 January 2012 and incorporated, among others, amendments and additions to supervisory standards and banking legislation. In addition, as South Africa is following international best practices and standards on financial regulation, supervision and market conduct, it is anticipated that ongoing changes in these areas, which are based mainly on the lessons learnt from the global financial crisis, will be incorporated into the regulatory framework.

Organisational structure and governance

Responsibility for ensuring compliance with all relevant laws, related internal policies, regulations and supervisory requirements rests with the Board. In order to assist board members to make informed judgements on whether the Group is managing its regulatory and compliance risks effectively, the head of RRM has overall responsibility for coordinating the management of the Group's regulatory risk, including monitoring, assessing and reporting on the level of compliance to senior management and the Board. RRM complies with the prescribed requirements in terms of regulation 49 of the Regulations and its mandate is formalised in the Group's compliance risk management framework.

Governance oversight of the RRM function is conducted by a number of committees such as the RRM, RCC and Audit committees, all of which receive regular detailed reports on the level of compliance and instances of material non-compliance from RRM.

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

FirstRand has proactively formalised the governance of social and ethics performance through the establishment of a social and ethics committee and is taking steps to ensure the optimal functioning of Group-wide ethics management processes. The FirstRand Group code of ethics is the cornerstone of FirstRand's ethics management framework.

Upon joining the Group all directors are obliged to sign a pledge to adhere to the FirstRand Group code of ethics. This code addresses duties of care and skill, good faith, honesty, integrity and whistle blowing. It also addresses processes for dealing with conflicts of interest and the need to always act in the best interests of the Group. Guidance on political donations and solicitation of gifts is provided in the code of ethics. No issues of impropriety or unethical behaviour on the part of any of the directors were drawn to the attention of the committee during the year.

RRM retains an independent reporting line to the Group CEO as well as to the Board through its designated committees.

Assessment and management

RRM's board mandate is to ensure full compliance with statutes and regulations. To achieve this, RRM has implemented appropriate structures, policies, processes and procedures to identify regulatory and supervisory risks. RRM monitors the management of these risks and reports on the level 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 FirstRand;
- 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.

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

Public policy and regulatory affairs office

The Group's newly established Public policy and regulatory affairs office (PPRAO) provides the Group with a central point of engagement, representation and coordination in respect of relevant regulatory and public policy related matters, at a strategic level. The PPRAO's function is differentiated from the existing and continuing engagement with regulators at an operational level (i.e. regulatory reporting, compliance and audit) with its main objective to ensure that executives across the Group and the franchises are aware of key developments relating to public policy, legislation and regulation which are considered pertinent to the Group's business activities and to support executives in developing the Group's position on issues pertaining to government policy, proposed and existing legislation and regulation.

Accounting policies

1. INTRODUCTION

FirstRand Limited (the Group) is an integrated financial services company consisting of banking, insurance and asset management operations.

The Group adopts the following accounting policies in preparing its consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated.

2. BASIS OF PRESENTATION

The Group's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The principal accounting policies are consistent in all material aspects with those adopted in the previous year, except for the adoption of:

- *IFRS 7 Financial Instruments: Disclosures* amended in October 2010 to include additional disclosure requirements for financial assets transferred but not derecognised and for financial assets that are derecognised, but the entity retains some form of continuing involvement after the transaction. This amendment addresses disclosure in the annual financial statements and does not impact the recognition and measurement of financial assets.
- *IAS 24 Related Party Disclosures* was amended to remove certain disclosure requirements for government-related entities, clarify the definition of a related party and introduce a requirement for entities to disclose commitments to related parties. This amendment addresses disclosure in the annual financial statements and does not affect recognition and measurement.
- As part of its annual improvements project the IASB made amendments to a number of accounting standards. The aim is to clarify and improve the accounting standards. The improvements include those involving terminology or editorial changes with minimal effect on recognition and measurement. The annual improvements project for 2010 is effective for annual periods commencing on or after 1 January 2011. The Group has adopted the amendments made as part of the annual improvement project for 2010 during the current financial year, with the exception of the improvements made to IFRS 3 and IAS 27, which were effective for annual periods commencing on or after 1 July 2010. These amendments do not have a significant impact on the Group's results nor has it resulted in the restatement of prior year numbers.
- *IFRIC 14: IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (amendments with respect to voluntary prepaid contributions): was amended to remedy an unintended consequence of IFRIC 14. Without the amendments, entities are not permitted to recognise as an asset some voluntary prepayments for minimum funding contributions. This was not intended when IFRIC 14 was issued and the amendments correct this. The amendments are effective for annual periods beginning 1 January 2011. This amendment does not have a significant impact on the Group's results nor has it resulted in the restatement of prior year numbers.
- The Group adjusts comparative figures to conform to changes in presentation in the current year. For details refer to accounting policy note 32.

The Group prepares its consolidated financial statements in accordance with the going concern principle using the historical cost basis, except for certain assets and liabilities.

These assets and liabilities include:

- financial assets and liabilities held for trading;
- financial assets classified as available-for-sale;
- derivative financial instruments;
- financial instruments elected to be carried at fair value through profit and loss;
- investment properties valued at fair value;
- employee benefit liabilities, valued using the projected unit credit method; and
- policyholder liabilities under long-term insurance contracts that are valued in terms of the Financial Soundness Valuation (FSV) basis as outlined below.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are outlined in note 43.

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

3. CONSOLIDATION

3.1 Subsidiaries

The consolidated financial statements include the assets, liabilities and results of the operations of the holding company and its subsidiaries. Subsidiaries are all companies over which the Group, directly or indirectly, has the power to exercise control over the operations for its own benefit. The Group considers the existence and effect of potential voting rights that are presently exercisable or

Accounting policies continued

convertible in determining control. Subsidiaries are consolidated from the date on which the Group acquires effective control. Consolidation is discontinued from the date that control over the subsidiary ceases.

The Group will consolidate a Special Purpose Entity (SPE) when the substance of the relationship between the Group and the SPE indicates that the Group controls the SPE.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

3.2 Business combinations

The Group uses the acquisition method of accounting to account for the acquisition of subsidiaries. The consideration transferred for the acquisition is measured at the fair value of the assets transferred, equity instruments issued and the liabilities incurred or assumed at the acquisition date. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement and the acquisition date fair value of any existing equity interest held in the subsidiary. The contingent consideration is initially measured at fair value on the acquisition date. An obligation to pay a contingent consideration is classified as a liability or equity based on the respective definitions set out in IAS 32. The acquirer shall classify as an asset a right to the return of previously transferred consideration. The asset or liability arising from the contingent consideration arrangement is subsequently measured at fair value. Any changes resulting from additional and new information about events and circumstances that existed at the acquisition date and, if known would have affected the measurement of the amounts recognised at that date, are considered to be a measurement period adjustment and retrospective adjustment of the consideration is required. The measurement period ends when the acquirer receives all the information it was seeking about facts and circumstances that existed at acquisition date or learns that information is not obtainable. The measurement period shall, however not, exceed one year from the acquisition date, To the extent that changes in the fair value relate to post-acquisition events, these changes are recognised in accordance with the IFRS applicable to the specific asset or liability. Contingent consideration that is classified as equity is not remeasured after the acquisition date. Transaction costs are expensed as incurred.

Identifiable assets acquired, and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at the acquisition date. The excess of the consideration transferred, the amount of any non-controlling interest in the subsidiary (also refer to accounting policy 3.3) and the acquisition date fair value of any previous equity interest in the subsidiary over the fair value of the Group's share of the identifiable net assets acquired, is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired, in the case of a bargain purchase, the difference is recognised immediately in profit or loss.

When control is achieved in stages, each transaction is accounted for separately and the identifiable assets, liabilities and contingent liabilities are measured at fair value at acquisition date.

3.3 Non-controlling interests

Non-controlling interests in the net assets of subsidiaries are separately identified and presented from the Group's equity therein. Non-controlling interests can initially be measured either at fair value or at the non-controlling interests' proportionate share of the subsidiary's identifiable net assets at the acquisition date. This is not an accounting policy election and the Group will apply the choice of measurement basis on an acquisition by acquisition basis.

Subsequently the non-controlling interests consist of the amount attributed to such interest at initial recognition and the non-controlling interests' share of changes in equity since the date of the combination.

Non-controlling interests are treated as equity participants of the subsidiary company. The Group treats all acquisitions and disposals of its non-controlling interests in subsidiary companies, which do not result in a loss of control, as equity transactions. The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Group.

4. ASSOCIATES AND JOINT VENTURES

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

The Group includes the results of associates and joint ventures in its consolidated financial statements using the equity accounting method from the effective date of acquisition. The investment is initially recognised at cost. The Group's investment in associates and joint ventures includes goodwill identified on acquisition, net of any accumulated impairment loss.

Earnings attributable to ordinary shareholders include the Group's share of earnings of associates and joint ventures. Other comprehensive income includes the Group's share of other comprehensive income of associates and joint ventures. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment in the associate or joint venture.

Goodwill on the acquisition of associates and joint ventures is included in the carrying amount of the investment in associates or joint ventures. The Group assesses at each reporting period whether there is objective evidence, in terms of IAS 39, that an investment in an associate or joint venture is impaired. If such evidence of impairment exists, the entire carrying amount, including the goodwill, is tested for impairment in terms of IAS 36.

Equity accounting is discontinued from the date that the Group ceases to have significant influence over the associate or joint venture. The Group measures at fair value any investment it has retained in the entity when significant influence is lost and recognises the resulting gain or loss in profit or loss. The gain or loss is measured as the difference between the fair value of this retained investment and the carrying amount of the original investment at the date significant influence is lost.

After discontinuing equity accounting, the Group accounts for any retained investment in the entity in accordance with the relevant IFRS as appropriate.

The Group does not account for any further losses of the associate or joint venture when the carrying amount of the investment in an associate or joint venture reaches zero, unless it has incurred obligations or guaranteed obligations in favour of the associated undertaking.

The Group resumes equity accounting only after its share of the profits equals the share of losses not recognised. The Group increases the carrying amount of investments with its share of the associate or joint venture's income when equity accounting is resumed.

Unrealised gains on transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's interest in the entity. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the associates and joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

5. INTEREST INCOME AND EXPENSE

The Group recognises interest income and expense in profit or loss 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 financial liability by allocating the interest income or interest expense over the average expected life of the financial instruments or portfolios of financial instruments.

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

- the Group's insurance operations;
- the Group's funding operations; and
- where hedge accounting is applied.

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

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

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

6. FAIR VALUE INCOME

The Group includes profits or losses, fair value adjustments and interest on trading financial instruments (including derivative instruments that do not qualify for hedge accounting in terms of IAS 39), as well as trading related financial instruments designated at fair value through profit or loss as fair value income in non-interest

Accounting policies continued

income. Trading related financial instruments designated at fair value through profit or loss exclude instruments relating to the Group's insurance operations and the Group's funding requirements.

7. NET FEE AND COMMISSION INCOME

7.1 Fee and commission income

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

Certain fees and transaction costs that form an integral part of the effective interest rate of available-for-sale and amortised cost financial instruments are capitalised and recognised as part of the effective interest rate of the financial instrument over the expected life of the financial instruments. These fees and transaction costs are recognised as part of the net interest income and not as non-interest revenue.

Fees and transaction costs that do not form an integral part of the effective interest rate are recognised as income when the outcome of the transaction involving the rendering of services can be reliably estimated. Fees related to services rendered are recognised as fee and commission income on an accrual basis when the service is rendered, for example, banking fee and commission income, and asset management and related fees. The Group recognises fees that are earned on the execution of a significant act, for example knowledge-based fee and commission income and non-banking fee and commission income when the significant act has been completed.

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

7.2 Fee and commission expenses

Fee and commission expenses are expenses that are incremental or directly attributable to the generation of fee and commission income. Fee and commission expenses include transaction and service fees, which are expensed as the services are received. Fee and commission expenses that form an integral part of the effective interest rate of a financial instrument are recognised as part of net interest income.

8. DIVIDEND INCOME

The Group recognises dividend income when the Group's right to receive payment is established. This is on the "last day to trade" for listed shares and on the "date of declaration" for unlisted shares. Dividend income includes scrip dividends, irrespective of whether there is an option to receive cash instead of shares, except to the extent that the scrip dividend is viewed as a bonus issue, with no cash alternative and the transaction lacks economic significance.

9. FOREIGN CURRENCY TRANSLATION

9.1 Functional and presentation currency

Items included in the consolidated financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in Rand (R), which is the functional and presentation currency of the holding company of the Group.

9.2 Transactions and balances

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

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

Translation differences on non-monetary items, such as equities that are recognised at fair value through profit or loss are reported as part of the fair value gain or loss in profit or loss for the year. Translation differences on non-monetary items, such as equities classified as available-for-sale, are reported as part of the fair value adjustment and are included in other comprehensive income when incurred.

Foreign exchange gains or losses on monetary items measured at amortised cost are included in a separate line item, foreign exchange differences, within non-interest income in profit or loss for the year. Translation differences on monetary items measured at fair value through profit or loss are reported as part of the fair value gain or loss in profit or loss. Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost and other changes in the fair value of the security. Translation differences relating to changes in the amortised cost are recognised in profit or loss and other changes in the fair value are recognised in other comprehensive income.

9.3 Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency of the Group are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the actual rates at the dates of the transactions); and
- all resulting exchange differences are recognised as a separate component of other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments are recognised in other comprehensive income.

When a foreign operation is sold or partially disposed of and control is lost, including partial disposals where the entity retains an interest in the operation, the Group's portion of the cumulative amount of the exchange differences relating to the foreign operation which were recognised in other comprehensive income, are reclassified from other comprehensive income to profit or loss when the gain or loss on disposal is recognised. For partial disposals where control is retained, the Group re-attributes the proportionate share of the cumulative exchange differences recognised in other comprehensive income to the non-controlling interests of the foreign operation.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

10. BORROWING COSTS

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

11. DIRECT AND INDIRECT TAXES

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

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

Indirect taxes are disclosed 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 that are non-taxable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the reporting date, in each particular jurisdiction within which the Group operates.

12. RECOGNITION OF ASSETS

12.1 Assets

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

12.2 Contingent assets

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

13. LIABILITIES, PROVISIONS AND CONTINGENT LIABILITIES

13.1 Liabilities and provisions

The Group recognises liabilities, including provisions, when:

- it has a present legal or constructive obligation as a result of past events;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate of the amount of the obligation can be made.

Where there are a number of similar obligations, the likelihood that an outflow will be required upon settlement is determined by considering the class of the obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as interest expense.

13.2 Contingent liabilities

The Group discloses a contingent liability when:

- it has a possible obligation arising from past events, the existence of which will only be confirmed 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.

Accounting policies continued

13.3 Acceptances

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

14. CASH AND CASH EQUIVALENTS

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

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

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

15. FINANCIAL INSTRUMENTS

15.1 General

Financial instruments carried on the statement of financial position include all assets and liabilities, including derivative instruments, but exclude investments in associates and joint ventures, commodities, property and equipment, assets and liabilities of insurance operations, deferred tax, tax payable, intangible assets, inventory and post-employment liabilities. The Group recognises a financial asset or a financial liability in its statement of financial position when it becomes a party to the contractual provisions of the instrument.

The Group classifies its financial assets in the following categories:

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

Financial liabilities are classified in the following categories:

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

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

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

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

The Group recognises purchases and sales of financial instruments that require delivery within the time frame established by regulation or market convention (regular way purchases and sales) at settlement date, which is the date the asset is delivered or received.

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. When the Group has assets and liabilities with offsetting market risks, it uses mid-market prices as a basis for establishing fair values for the offsetting risk positions and applies the ask/offer price to the net open position as appropriate. Alternatively, the Group 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 on initial recognition.

A financial instrument is classified as a trading instrument if acquired principally for the purpose of selling in the short-term or if it forms part of a portfolio of financial assets in which there is evidence of short-term profit taking. Derivatives are also categorised as held for trading unless they are designated as effective hedges.

Financial assets and liabilities are designated on initial recognition as at fair value through profit and loss to the extent that it produces more relevant information because it either:

i. results in the reduction of measurement inconsistency (or accounting mismatch) that would arise as a result of measuring assets and liabilities and the gains and losses on them on a different basis; or

ii. is a group of financial assets and/or financial liabilities that is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and this is the basis on which information about the assets and/or liabilities is provided internally to the entity's key management personnel; or

iii. is a financial asset or liability containing significant embedded derivatives that clearly require bifurcation.

The main financial assets and liabilities designated at fair value through profit and loss under criteria (i) are various advances to customers, structured notes and other investments that form part of the investment banking division. These financial instruments have been designated to eliminate the accounting mismatch between these assets and the underlying derivatives and funding instruments. If the assets were not designated at fair value through profit or loss, the mismatch would be as a result of the assets being recognised at amortised cost and the derivatives and funding instruments being recognised at fair value.

Financial instruments designated under criteria (ii), include certain private equity and other investment securities.

The current and cumulative change in the fair value of designated loans and receivables and designated financial liabilities that is attributable to changes in credit risk, is determined as the change in fair value that is not attributable to changes in market conditions that gives rise to market risk, i.e. currency, interest rate and other price risk.

Gains and losses arising from changes in the fair value of the financial instruments at fair value through profit or loss are included in profit or loss in the period in which they arise.

15.1.2 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- those that the Group intends to sell immediately or in the near term, which shall be classified as held for trading, and those that the Group upon initial recognition designates as at fair value through profit or loss;
- those that the Group upon initial recognition designates as available-for-sale; or
- those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as available-for-sale.

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

15.1.3 Held-to-maturity investments

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

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

The Group recognises gains and losses arising from changes in the fair value of available-for-sale financial assets in other comprehensive income. It recognises interest income on these assets as part of interest income, based on the instrument's original effective interest rate using the effective interest method. Interest income is excluded from the fair value gains and losses reported in other comprehensive income. When the available-for-sale financial assets are disposed of or impaired, the related accumulated fair value adjustments are included in profit or loss as gains less losses from investment activities. Dividends on available-for-sale equity instruments are recognised in profit or loss when the entity's right to receive payment is established and are included in investment income.

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

Financial liabilities are measured at amortised cost, except for certain liabilities that are designated as at fair value through profit or loss. Interest paid is recognised in profit or loss over the period of the borrowing using the effective interest method. Discounts or premiums on financial liabilities carried at amortised cost are amortised on a basis that reflects the effective interest rate on the liabilities over their life span.

The Group classifies a financial instrument that it issues as a financial liability or an equity instrument in accordance with the substance of the contractual agreement. If a financial instrument includes a contractual obligation to deliver cash or another financial asset or to exchange financial assets or financial liabilities on potentially unfavourable terms, such as redeemable preference shares, the financial instrument is classified as a financial liability. An instrument is classified as equity if it evidences a residual interest in the assets of the Group after the deduction of liabilities.

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

15.1.6 Compound financial instruments

The Group separately measures and recognises the debt component of a compound financial instrument, such as an issued convertible bond, as a financial liability with the residual value separately allocated to equity. The initial fair value of the debt component is recognised at the fair value of a similar non-convertible instrument. The equity component is recognised initially as the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their carrying values.

15.2 Offsetting financial instruments

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

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

15.3 Embedded derivatives

The Group treats derivatives embedded in other financial or non-financial instruments, such as the conversion option in a convertible bond, as separate derivatives when:

- their risks and characteristics are not closely related to those of the host contract;
- they meet the definition of a derivative; and
- the host contract is not carried at fair value, with gains and losses reported in profit or loss.

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

15.4 Derecognition

The Group derecognises a financial asset when:

- the contractual rights to the asset expire; or
- where there is a transfer of the contractual rights to receive the cash flows of the financial asset and substantially all of the risks and rewards related to the ownership of the financial asset are transferred; or
- the Group retains the contractual rights of the assets but assumes a corresponding liability to transfer these contractual rights to another party and consequently transfers substantially all the risks and rewards associated with the asset.

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

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

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

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

The Group derecognises a financial liability when it is extinguished, i.e. when the obligation specified in the contract is discharged, cancelled or expired. A substantial modification of the terms and conditions of an existing financial liability or part of an existing financial liability is accounted for as an extinguishment of the original financial liability and recognition of a new one.

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

15.5 Sale and repurchase agreements and securities lending

The consolidated financial statements reflect securities sold subject to a linked repurchase agreement (repos) as trading or investment securities. These instruments are recognised at fair value through profit or loss. The counterparty liability is included in deposits held under repurchase agreements. These financial liabilities are either carried at fair value or amortised cost.

Securities purchased under agreements to resell (reverse repos) are recorded as loans and advances relating to the repurchase transactions and recognised in line with the requirements of IAS 39. The difference between purchase and resale price is treated as interest and accrued over the life of the reverse repos using the effective interest method.

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

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

15.6 Impairment of financial assets

15.6.1 General

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

15.6.2 Assets carried at amortised cost

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

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

- significant financial difficulty of the issuer or counterparty;
- a breach of contract, such as a default or delinquency in payments of principal or interest;
- it becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties or adverse changes in the market, economic or legal environment in which the entity operates; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be allocated to the individual financial assets in the Group, including:
  - adverse changes in the payment status of issuers or debtors in the Group; or
  - national or local economic conditions that correlate with defaults on the assets in the Group.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and performs a collective assessment for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the financial assets' 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 profit or loss. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

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

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Group's grading process that considers asset type, industry, geographical location, collateral type, past due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Accounting policies continued

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Group and historical loss experience for assets with similar credit risk characteristics. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are regularly reviewed by the Group to reduce any differences between loss estimates and actual loss experience.

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

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 profit or loss.

15.6.2.1 Past due advances

Advances are considered past due in the following circumstances:

- loans with a specific expiry date (e.g. term loans etc.) and consumer loans repayable by regular instalments (e.g. mortgage loans and personal loans) are treated as overdue where one full instalment is in arrears for one day or more and remains unpaid as at the reporting date; or
- loans payable on demand (e.g. overdrafts) are 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 past due analysis is only performed for advances with specific expiry 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 risk on these types of products is assessed 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 separately 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 the original terms and conditions of the facility were amended and the counterparty is within the new terms of the advance. Advances are only classified as renegotiated if the terms of the renegotiated contract have not yet expired and remain classified as such until the terms of the renegotiated contract expire. Where the advances are reclassified as neither past due nor impaired the adherence to the new terms and conditions is closely monitored. Renegotiated advances exclude advances extended or renewed as part of the ordinary course of business for similar terms and conditions as the original. Non-performing advances cannot be reclassified as renegotiated unless the arrears balance has been repaid. Renegotiated but current financial assets are considered as part of the collective evaluation of impairment where financial assets are grouped on the basis of similar credit risk characteristics.

15.6.3 Available-for-sale financial assets

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of available-for-sale financial assets is impaired.

In the case of equity investments classified as available-for-sale, objective evidence of impairment includes information about significant changes with an adverse effect on the environment in which the issuer operates and indicates that the cost of the investment in the equity instrument may not be recovered and a significant or prolonged decline in the fair value of the security below its cost. If any such objective 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 previously recognised impairment loss on that financial asset, is removed from other comprehensive income and recognised in profit or loss. Impairment losses recognised in profit or loss on equity instruments are not reversed through profit or loss.

In the case of a debt instrument classified as available-for-sale, the same objective evidence of impairment as for financial assets measured at amortised cost is considered in determining if impairment exists. The difference between the acquisition cost and the current fair value less any previous impairment losses recognised in profit or loss is removed from other comprehensive income and recognised in profit or loss. 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 profit or loss, the impairment loss is reversed through profit or loss.

15.7 Derivative financial instruments and hedging

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

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

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

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

Where fair value is determined using valuation techniques whose variables include non-observable market data, the difference between the fair value and the transaction price (the day one profit or loss) is not recognised in the statement of financial position. These differences are however monitored for disclosure purposes. If observable market factors that market participants would consider in setting a price subsequently become available, the balance of the deferred day one profit or loss is released to profit or loss.

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

- hedge of the fair value of recognised assets or liabilities or firm commitments (fair value hedge); or
- hedge of highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction (cash flow hedge).

The hedge of a foreign currency firm commitment can either be accounted for as a fair value or a cash flow hedge.

Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

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

15.7.1 Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss, together with any changes in the fair value of the hedged item that are attributable to the hedged risk. The gain or loss relating to the effective portion of interest rate swaps are reflected in interest income or interest expense. Effective changes in fair value of currency futures are reflected in non-interest income. The gains or losses relating to the ineffective portion are recorded as fair value income in non-interest income.

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

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 is recognised in the cash flow hedge reserve in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately as part of fair value income in non-interest income in profit or loss.

Amounts accumulated in other comprehensive income are reclassified to profit or loss in the periods in which the hedged item will affect profit or loss (for example, when the forecast sale that is hedged takes place) and are recognised as part of non-interest income.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss recognised in the cash flow hedge reserve at that time remains in other comprehensive income and is recognised when the forecast transaction is recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to profit or loss.

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

16. COMMODITIES AND BASE METALS

16.1 Agricultural commodities

Commodities, where the Group has a shorter term trading intention, are carried at fair value less costs to sell in accordance with the broker trader exception in IAS 2. The fair value of agricultural commodities is determined in accordance with general fair value principles.

16.2 Other commodities and base metals

Commodities and base metals, where the Group has a longer term investment intention, are carried at the lower of cost or net realisable value. Cost is determined using the weighted average method. Cost excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. The cost of commodities and base metals includes the amount of gains or losses on qualifying cash flow hedges previously recognised in other comprehensive income.

When the Group acquires commodities and/or base metals 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 and/or base metals, where net settlement occurs or where physical delivery occurs and the commodities are held to settle a further derivative contract, are recognised as derivative instruments and fair valued.

17. PROPERTY AND EQUIPMENT

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

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

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

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

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

18. INVESTMENT PROPERTIES

The Group classifies investment properties as properties held to earn rental income and/or capital appreciation that are not occupied by the companies in the Group.

Investment properties comprise freehold land and buildings and are carried at fair value. Fair value is based on observable market prices adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Group uses valuation methods such as discounted cash flow projections or recent prices on less active markets. These valuations are reviewed annually by a combination of independent and internal valuation experts. Investment properties that are being redeveloped for continuing use as investment property, or for which that market has become less active, continue to be measured at fair value.

Property located on land that is held under an operating lease is classified as investment property as long as it is held for long-term rental yields and is not occupied by the Group. The initial cost of the property is the lower of the fair value of the property and the present value of the minimum lease payments. Subsequent to initial recognition the property is carried at fair value.

When investment properties become owner occupied, the Group reclassifies them to property and equipment, using the fair value at the date of reclassification as the cost, and depreciates it on a straight line basis at rates calculated to reduce the book value of these assets to estimated residual values over the expected useful lives.

If this information is not available the Group uses valuation methods such as discounted cash flow projections, recent prices on less active markets, or current offers to purchase the particular property.

Fair value adjustments on investment properties are included in profit or loss as gains less losses from investment activities. These fair value gains or losses are adjusted for any double counting arising from the recognition of lease income on the straight line basis compared to the accrual basis normally assumed in the fair value determination.

The Group carries properties under development at cost, less adjustments to reduce the cost to open market value, if appropriate.

19. LEASES

19.1 A Group company is the lessee

19.1.1 Finance leases

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

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

19.1.2 Operating leases

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

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

19.2 A Group company is the lessor

19.2.1 Finance leases

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

19.2.2 Operating leases

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

19.3 Instalment credit agreements

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

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

20. INTANGIBLE ASSETS

20.1 Goodwill

Goodwill represents the excess of the consideration transferred, the fair value of the previous equity interests held and the non-controlling interest of an acquisition over the attributable fair value of the Group's share of the fair value of the identifiable net assets of the acquired subsidiary, associate or joint venture at the date of acquisition. Goodwill on the acquisition of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates and joint ventures is included in the carrying amount of the investment.

Accounting policies continued

Goodwill is tested annually for impairment or more frequently if an impairment indicator exists at the reporting date and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

For impairment purposes goodwill is allocated to the lowest component of the business that is expected to benefit from synergies of the combination and at which management monitors goodwill (cash generating unit). Each cash generating unit represents a grouping of assets no higher than an operating segment. The recoverable amount of a cash generating unit is the higher of fair value less costs to sell and value in use.

20.2 Computer software development costs

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

The Group carries capitalised software assets at cost less amortisation and any impairment losses. It amortises these assets on a straight line basis at a rate applicable to the expected useful life of the asset. Management reviews the carrying value wherever objective evidence of impairment exists. The carrying value is written down to the estimated recoverable amount when a permanent decrease in value occurs. The recoverable amount is the higher of fair value less cost to sell and value in use. Any impairment is recognised under operating expenses in profit or loss when incurred.

20.3 Other intangible assets

The Group expenses the costs incurred on internally generated intangible assets such as trademarks, patents and similar rights and assets, in profit or loss in the period in which the costs are incurred. The costs incurred on the development of separately identifiable internally generated intangible assets, are capitalised by the Group if:

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

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

The Group carries capitalised trademarks, patents and similar assets at cost less amortisation and any impairment. It amortises these assets at a rate applicable to the expected useful life of the asset. 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. The recoverable amount is the higher of fair value less costs to sell and value in use. Any impairment is recognised in profit or loss when incurred. Amortisation and impairments of intangible assets are reflected under operating expenses in profit or loss.

20.4 Reacquired rights

As part of a business combination an acquirer may reacquire a right to use one of its recognised or unrecognised assets for which it had previously granted the right of use to this asset to the entity which becomes its subsidiary. Reacquired rights that arise from these transactions are identifiable intangible assets that the Group recognises separately from goodwill. Reacquired rights are recognised at fair value at acquisition date based on the remaining contractual term of the related contract without taking into consideration the effect of any potential contractual renewals. Where the terms of the contract giving rise to the reacquired rights are favourable or unfavourable relative to current market transactions for the same or similar items, the Group recognises a settlement gain or loss respectively.

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. The recoverable amount is the higher of fair value less cost to sell and value in use. Any impairment is recognised in profit or loss when incurred. Amortisation and impairments of reacquired rights are reflected under operating expenses in profit or loss.

21. DEFERRED INCOME TAX

Deferred income tax is provided in full, using the liability method on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the consolidated financial statements. However, 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 reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

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

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

Deferred income tax related to fair value remeasurement of available-for-sale investments and cash flow hedges, which is recognised directly in other comprehensive income, is also recognised directly in other comprehensive income and is subsequently reclassified to profit or loss together with the deferred gain or loss.

The Group reviews the carrying amount of deferred income tax assets at each reporting date and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.

Current and deferred income tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and these relate to income taxes levied by the same tax authority on the same taxable entity or on different tax entities, but the entities intend to settle current tax liabilities and assets on a net basis or the tax assets and liabilities will be realised simultaneously.

In respect of temporary differences arising from the fair value adjustments on investment properties, deferred income tax is provided at the normal income tax rate if the property is considered to be a long-term strategic investment or at the capital gains tax rate if recovery is anticipated to be mainly through disposals.

22. EMPLOYEE BENEFITS

22.1 Post-employment benefits

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

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

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

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

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

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

22.2 Post-employment medical benefits

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

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

Accounting policies continued

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

22.3 Termination benefits

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

22.4 Leave pay provision

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

22.5 Bonuses

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

22.6 Recognition of actuarial gains and losses

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

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

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

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

The Group does not recognise actuarial gains or losses in profit or loss in the period under review, but defers such gains or losses to future periods, unless the net cumulative unrecognised actuarial gains or losses at the end of the previous reporting period exceed the greater of:

- 10 % of the present value of the defined benefit obligation at that date (before deducting plan assets); and
- 10% of the fair value of any plan assets at that date.

23. SHARE CAPITAL

23.1 Share issue costs

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

23.2 Dividends paid

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

23.3 Distribution of non-cash assets to owners

A dividend payable is recognised when the distributions are appropriately authorised by the shareholders and is no longer at the discretion of the entity. The Group measures the liability to distribute the non-cash assets as a dividend to owners at the fair value of the asset to be distributed. The carrying amount of the dividend payable is remeasured at the end of each reporting period and on settlement date, with changes recognised in equity as an adjustment to the distribution. The difference between the carrying amount of the assets distributed and the fair value of the assets on the date of settlement is recognised in profit or loss for the period.

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

23.4 Treasury shares

Where the company or other members of the consolidated Group purchases the company's equity share capital, the consideration paid, including any directly attributable incremental costs, is deducted from total shareholders' equity as treasury shares until they are reissued or sold. Fair value changes recognised in the subsidiary's financial statements on equity investments in FirstRand's shares, are reversed on consolidation and dividends received are eliminated against dividends paid. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental costs, is included in shareholders' equity.

23.4.1 Share trusts

The Group's remuneration schemes are operated through various share trusts. These share trusts are considered to be SPEs of the Group and therefore consolidated.

The share trusts purchase FirstRand shares for the various remuneration schemes in the open market to economically hedge the Group against price risk of the FirstRand shares and to limit the dilutive effect on current shareholders. The purchase of the shares by the share trusts is treated as a reduction in the Group's equity. For purposes of the earnings per share calculation, the weighted average number of shares in issue is reduced by the number of shares held by the share trusts.

24. SEGMENT REPORTING

An operating segment is a component of the Group that engages in business activities from which the Group may earn revenues and incur expenses. An operating segment is also a component of the Group whose operating results are regularly reviewed by the chief operating decision maker in allocating resources, assessing its performance and for which discrete financial information is available. The chief operating decision maker has been identified as the chief executive officer of the Group. The Group's identification and measurement of operating segments is consistent with the internal reporting provided to the chief executive officer. The operating segments have been identified and classified in a manner that reflects the risks and rewards related to the segments' specific products and services offered in their specific markets.

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

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

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

25. FIDUCIARY ACTIVITIES

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

26. SHARE-BASED PAYMENT TRANSACTIONS

The Group operates equity settled and cash settled share-based compensation plans for employees and historically disadvantaged individuals and organisations.

26.1 Equity settled share-based compensation plans

The Group expenses the fair value of the employee services received in exchange for the grant of the options, over the vesting period of the options, as employee costs, with a corresponding credit to a share-based payment reserve in the statement of changes in equity. The total value of the services received is calculated with reference to the fair value of the options on grant date.

The fair value of the options is determined excluding non-market vesting conditions. These vesting conditions are included in the assumptions of the number of options expected to vest. At each reporting date, the Group revises its estimate of the number of options expected to vest. The Group recognises the impact of the revision of original estimates, if any, in profit or loss, with a corresponding adjustment to the share-based payment reserve.

Amounts recognised for services received if the options granted do not vest because of failure to satisfy a vesting condition, are reversed through profit or loss. 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 in the statement of changes in equity.

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

26.2 Cash settled share-based payment compensation plans

The Group measures the services received and liability incurred in respect of cash settled share-based payment plans at the current fair value of the liability. The Group remeasures the fair value of the liability at each reporting date until settled. The liability is recognised over the vesting period and any changes in the fair value of the liability are recognised in profit or loss.

27. DISPOSAL GROUPS HELD FOR SALE

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than continuing use. This classification is only met if the sale is highly probable and the assets or disposal groups are available for immediate sale.

In light of the Group's primary business being the provision of banking, insurance and asset management 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.

Accounting policies continued

Immediately before classification as held for sale, the carrying amount of the assets and liabilities included in the disposal group are measured based upon the appropriate IFRS. 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 profit or loss.

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.

28. DISCONTINUED OPERATIONS

The Group classifies a component of the business as a discontinued operation when that component has been disposed of, or is classified as held for sale, and:

- it represents a separate major line of business or geographical area of operations;
- is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to resale.

A component of the Group comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the Group.

29. INSURANCE

29.1 Classification of contracts

An insurance contact is a contract that transfers significant insurance risk to the Group. Significant insurance risk exists when it is expected that the present value of the benefits payable in terms of the policy on the occurrence of an insured event will materially differ from the amount payable had the insured event not occurred. Financial penalties levied on early termination of policy contracts are not taken into account when classifying the contracts.

Contracts that transfer only financial risk and not insurance risk are classified as financial instruments. Financial risk refers to the risk of a possible change in the value of a financial instrument due to a change in interest rates, commodity prices and an index of prices, foreign exchange or other measurable variable.

The classification of contracts is performed at the initial recognition of each contract. The classification of the contract at initial recognition remains the classification of the contract for the remainder of its lifetime unless the terms of the contract change to such an extent that it necessitates a change in classification.

The Group consolidates cell captives when the substance of the arrangement is such that the Group controls the cell captive. Through its subsidiaries and controlled cell captives the Group issues insurance contracts that are classified into two main categories, long and short-term insurance contracts, based on the duration of the risk.

29.2 Long-term insurance contracts

29.2.1 Long-term insurance contracts

The following types of contracts issued by the Group are classified as long-term insurance contracts:

- insurance policies providing lump sum benefits on death or disability of the policyholder; and
- policies that provide for retrenchment or funeral cover.

Liabilities under insurance contracts are measured in accordance with professional guidance notes (PGN) issued by the Actuarial Society of South Africa. Of particular relevance to the liabilities are the following PGNs:

- PGN 104 (January 2005): Life Offices – Valuation of Long-term Insurers;
- PGN 102 (March 1995): Life Offices – HIV/AIDS;
- PGN 105 (March 2007): Recommended AIDS extra mortality bases;
- PGN 106 (July 2005): Actuaries and Long-term Insurance in South Africa.

The guidance notes are available on the website of the Actuarial Society of South Africa (www.actuarialsociety.co.za)

29.2.1.1 Valuation

Policyholder liabilities under long-term insurance contracts are valued in terms of the financial soundness valuation (FSV) method as described in PGN 104, issued by the Actuarial Society of South Africa.

The FSV method measures the liability at the amount of the best estimate of the future cash flows relating to the insurance contracts plus certain compulsory and discretionary margins. This methodology is applied to each product type depending on the nature of the contract and the associated risks.

The best estimate of future cash flows takes into account current and expected future experience as well as revised expectations of future income, claims and expenditure. The assumptions are applied to the whole policy book. Differences between the assumptions used at the start and end of the period give rise to revised liability quantification.

The expected level of early terminations is incorporated into the liabilities irrespective of whether this leads to an increase or a decrease in the liabilities.

If future experience under a policy contract is exactly in line with the assumptions employed at the initial recognition of the contract the valuation margins will emerge as profits over the duration of a policy contract. This is known as the unwinding of margins.

In addition to the profit recognised at the origination of a policy contract and the unwinding of margins as the Group is released from risk, any differences between the best estimate valuation assumptions and actual experience over each accounting period also gives rise to profits and losses. These profits and losses emerge over the lifetime of the policy contract. The change in liabilities resulting from changes in the long-term valuation assumptions is another source of profit or loss.

29.2.1.2 Discretionary margins

Discretionary margins are held in addition to the compulsory margins. These discretionary margins are used to ensure that profit and risk margins in premiums are not capitalised prematurely so that profits are recognised in line with the product design and in line with the risks borne by the Group.

The main discretionary margins utilised in the valuation are as follows:

- investment stabilisation accounts are held to reduce the risk of future losses, caused by the impact of market fluctuations on capitalised fees and on assets backing guaranteed liabilities;
- additional prospective margins are held in respect of decrement assumptions and asset-related fees on certain product lines to avoid the premature recognition of profits that may give rise to future losses if claims experience turns out to be worse than expected; and
- an additional data reserve is held to protect against possible future losses due to data discrepancies.

29.2.1.3 Premium recognition

Premiums receivable from insurance contracts are recognised in profit or loss gross of commission and reinsurance premiums but net of taxes and levies.

Premium received in advance is included in creditors and accruals.

29.2.1.4 Recognition of claims and benefits

Insurance benefits and claims incurred under insurance contracts include death, disability, maturity and surrender payments and are recognised in profit or loss gross of any related reinsurance recoveries. Death, disability and surrender claims are recognised when notified. Maturity and annuity claims are recognised when they are due for payment in terms of the contract. The estimate of the expected settlement value of claims that are notified but not paid before the reporting date is included in creditors and accruals.

29.2.1.7 Liability adequacy test for business with prospective liabilities

Where the liability is calculated based on the present value of the future cash flows the valuation method projects future income and discounts it back to the valuation date to arrive at the liability. The methodology ensures that the liability will by definition be adequate and no additional liability adequacy test is required.

29.2.1.8 Liability adequacy test for business with retrospective liabilities

For liabilities measured retrospectively a liability adequacy test is performed in order to verify that the liability is sufficient to cover future claims and servicing expenses after the expected future income over the remaining contractual lifetime.

29.2.1.9 Acquisition costs

Acquisition costs for insurance contracts include all commission and expenses directly related to acquiring new business. The FSV methodology implicitly creates a deferred acquisition cost asset by reducing the liabilities to the extent of margins included in the premium that are intended to recover acquisition costs. Therefore no explicit deferred acquisition cost asset is recognised in the statement of financial position for contracts valued on this basis.

29.3 Short-term insurance contracts

29.3.1 Insurance premium revenue

Gross premiums written comprise the premiums on contracts entered into during the year. Premiums are shown excluding any taxes and levies on the premium. Premiums are shown before the deduction of commission.

Premium revenue relates only to the earned portion of premiums and includes all premiums for the period of risk covered by the policy, regardless of whether or not these are due for payment in the accounting period.

Accounting policies continued

29.3.4 Policyholder liabilities

Policyholder liabilities comprise a provision for claims reported but not paid, provision for claims incurred but not reported (IBNR) and a provision for unearned premiums.

Policyholder liabilities are measured at the best estimate of the ultimate cost of settling all claims incurred but unpaid at the reporting date, whether reported or not, and related internal and external claims handling expenses. The liability for outstanding claims is calculated by reviewing individual claims and making allowance for claims incurred but not yet reported, the IBNR provision, and the effect of both internal and external foreseeable events, such as changes in claims handling procedures, inflation, judicial trends, legislative changes and past experience and trends. The company does not discount its liability for unpaid claims.

Adjustments to the amounts of policyholder liabilities established in prior years are reflected in the financial statements for the period in which the adjustments are made and disclosed separately if material. The methods used are reviewed annually.

Claims incurred include claims handling expenses paid during the financial year together with the estimated liability for compensation owed to policyholders or third parties affected by the policyholders. Claims handling expenses include, amongst others, fees incurred for legal expenses, loss adjusters and administration fees.

The provision for unearned premiums comprises the proportion of gross premiums written which are estimated to be earned in the following or subsequent financial year. This is computed separately for each insurance contract using the method most reflective of any variation in the incidence of risk during the period covered by the contract.

29.3.5 Liability adequacy test

The net liability recognised for insurance contracts is tested for adequacy by calculating current estimates of all future contractual cash flows and comparing this amount to the carrying value of the liability. Where a shortfall is identified, an additional liability and the related expense are recognised.

29.3.6 Contingency reserve

A reserve is created in respect of the Group's short-term insurance contracts as required by the regulatory authorities. The contingency reserve is calculated as 10% of the net written premiums in terms of the Short Term Insurance Act, 1998.

29.4 Reinsurance contracts held

The Group seeks reinsurance in the ordinary course of business for the purpose of limiting its net loss potential through the diversification of its risks on both long-and short-term insurance contracts. Reinsurance arrangements do not relieve the company from its direct obligations to its policyholders.

Only contracts that give rise to a significant transfer of insurance risk are accounted for as reinsurance. Rights under contracts that do not transfer significant insurance risk are accounted for as financial instruments.

Reinsurance premiums are recognised as an expense in profit or loss when they become due for payment at the undiscounted amounts due in terms of the contract.

Reinsurance recoveries are recognised in profit or loss in the same period as the related claim at the undiscounted amount receivable in terms of the contract.

Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the underlying insurance contracts and in accordance with the terms of each reinsurance contract.

The benefits to which the Group is entitled under its reinsurance contracts are recognised as assets. These assets consist of short-term balances due from reinsurers on settled claims (included in accounts receivable) as well as receivables that are dependent on the expected claims and benefits arising under the related insurance contracts (classified as reinsurance assets).

Reinsurance assets are assessed for impairment if there is objective evidence, as a result of an event that occurred after its initial recognition, that the company may not recover all amounts due and that the event has a reliably measurable impact on the amounts that the company will receive from the reinsurer. Any difference between the carrying amount of the reinsurance asset and the recoverable amount is recognised as an impairment loss in profit or loss. The same indicators that are considered when assessing whether a financial asset measured at amortised cost is impaired are considered when assessing whether there is objective evidence of impairment of reinsurance assets.

Reinsurance liabilities comprise premiums payable for reinsurance contracts and are recognised as an expense when they fall due in terms of the contract. Reinsurance liabilities are included in creditors and accruals.

29.5 Receivables and payables related to long-and short-term insurance contracts and investment contracts

Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and policyholders.

Receivables are included in the accounts receivable balance on the statement of financial position while payables are included in the creditors and accruals balance.

If there is objective evidence that an amount receivable under an insurance contract is impaired then the Group reduces the carrying amount of the insurance receivable accordingly and recognises the impairment loss in profit or loss. The same indicators that are considered when assessing whether a financial asset measured at amortised cost is impaired are considered when assessing whether there is objective evidence of impairment of receivables related to insurance.

29.6 Accounting for cell captive arrangements

Certain cell captive arrangements have been entered into by businesses within the Group. Per these arrangements, certain risk products marketed and distributed by these companies are underwritten by an external insurer.

The collection of premiums and the payment of claims is a function that is performed by the cell captive's administrator. When the substance of the arrangement is such that the Group controls the cell captive, the results of the cell captives are fully consolidated into the results of the Group.

30. CUSTOMER LOYALTY PROGRAMMES

The Group operates a customer loyalty programme in terms of which it undertakes to provide goods and services to certain customers. The reward credits are accounted for as a separately identifiable component of the fee and commission income transactions of which they form a part. The consideration allocated to the reward credits is measured at the fair value of the reward credit and recognised over the period in which the customer utilises the reward credits.

Expenses relating to the provision of the reward credits are recognised as fee and commission expenses as they are incurred.

31. SERVICE CONCESSION ARRANGEMENTS

Service concession arrangements are recognised if the Group acts as an operator in the provision of public services. Where the Group has a contractual right to recover the amount receivable in respect of the arrangements from the government organisation the amount receivable is classified as a financial asset and is accounted for in terms of the Group's policy for financial assets. Alternatively, where the Group is entitled to collect the monies for usage from the public the Group recognises an intangible asset. The intangible asset is measured in accordance with the Group's policy for intangible assets and amortised over its useful life. Fee income earned from public usage is included in fee and commission income as it is receivable.

Accounting policies continued

32. RECLASSIFICATION OF PRIOR YEAR NUMBERS

During the financial year the following reclassifications were made to the income statement and statement of financial position:

R million	2011 As previously reported	2011 As restated	Reason for restatement
Income statement			
Non-interest income	31 882	29 565	Fee and commission expenses that are incremental or directly attributable to the generation of fee and commission income have been reclassified out of various operating expense lines into the fee and commission expense line. In addition, the presentation of fee and commission expenses has been updated by presenting it as part of fee and commission income and not as part of operating expenses. The presentation was updated to be in line with industry practice.
Operating expenses	26 901	24 584	
Share of profit from associates and joint ventures	868	531	The Group's share of profits from associates and joint ventures has been stated net of the related tax expense. The comparative information was restated in order to be comparable with the new presentation.
Direct tax	4 582	4 245	

R million	2011 As previously reported	2011 As restated	2010 As previously reported	2010 As restated	Reason for restatement
Statement of financial position					
Creditors and accruals	9 930	9 497	12 115	7 518	During the current year a comprehensive review of the liability disclosure was undertaken by the Group in order to ensure that the Group's presentation was consistent with industry practice and to provide more detailed and useful information in the financial statements. A reclassification was required to bring the comparative numbers in line with the updated presentation.
Deposits	553 657	552 879	512 469	507 522	
Short trading positions	12 413	9 094	16 735	13 927	
Provisions	3 621	517	3 359	759	
Post-employment liabilities	2 292	–	2 162	–	
Employee liabilities	–	5 937	–	5 088	
Other liabilities	–	4 107	–	10 552	
Tier 2 liabilities	–	6 666	–	10 758	
Long-term liabilities	6 690	–	9 183	–	
Policyholder liabilities under investment contracts	94	–	101	–	

No other amounts reported in the statement of financial position or income statement were affected by the above reclassifications.

Consolidated income statement

for the year ended 30 June

R million	Notes	2012	2011
Continuing operations			
Interest and similar income	1.1	**41 335**	38 187
Interest expense and similar charges	1.2	**(19 453)**	(20 818)
Net interest income before impairment of advances		**21 882**	17 369
Impairment of advances	13	**(5 065)**	(3 778)
Net interest income after impairment of advances		**16 817**	13 591
Non-interest income	2	**29 494**	29 565
Income from operations		**46 311**	43 156
Operating expenses	3	**(28 422)**	(24 584)
Net income from operations		**17 889**	18 572
Share of profit of associates and joint ventures after tax	15	**1 120**	531
Income before tax		**19 009**	19 103
Indirect tax	4.1	**(551)**	(614)
Profit before direct tax		**18 458**	18 489
Direct tax	4.2	**(4 089)**	(4 245)
Profit for the year from continuing operations		**14 369**	14 244
Discontinued operations			
Profit attributable to discontinued operations after tax		**–**	415
Profit after tax on unbundling of discontinued operations		**–**	6 868
Profit for the year		**14 369**	21 527
Attributable to:			
Ordinary equityholders		**13 196**	20 065
NCNR preference shareholders		**275**	301
Equityholders of the Group		**13 471**	20 366
Non-controlling interests		**898**	1 161
Profit for the year		**14 369**	21 527
From continuing operations and discontinued operations			
Earnings per share (cents)			
– Basic	5	**241.7**	372.7
– Diluted	5	**236.8**	365.3
From continuing operations			
Earnings per share (cents)			
– Basic	5	**241.7**	236.6
– Diluted	5	**236.8**	231.9
From discontinued operations			
Earnings per share (cents)			
– Basic	5	**–**	136.1
– Diluted	5	**–**	133.4

Consolidated statement of comprehensive income

for the year ended 30 June

R million	Notes	2012	2011
Profit for the year		**14 369**	21 527
Other comprehensive income			
Cash flow hedges		**(420)**	21
Available-for-sale financial assets		**560**	(41)
Exchange differences on translating foreign operations		**599**	(266)
Share of other comprehensive income of associates and joint ventures after tax and non-controlling interests		**(167)**	35
Other comprehensive income for the year before tax		**572**	(251)
Deferred income tax relating to components of other comprehensive income		**(41)**	(44)
Other comprehensive income for the year	6	**531**	(295)
Total comprehensive income for the year		**14 900**	21 232
Total comprehensive income attributable to:			
Ordinary equityholders		**13 706**	19 837
NCNR preference shareholders		**275**	301
Equityholders of the Group		**13 981**	20 138
Non-controlling interests		**919**	1 094
Total comprehensive income for the year		**14 900**	21 232

Consolidated statement of financial position

as at 30 June

R million	Notes	2012	2011*	2010*
ASSETS				
Cash and cash equivalents	8	**38 363**	34 240	27 067
Derivative financial instruments	9	**52 913**	37 206	39 764
Commodities	10	**5 108**	4 388	2 365
Accounts receivable	11	**6 007**	7 289	5 743
Policy loans		**–**	–	27
Tax asset		**331**	139	935
Advances	12	**524 507**	464 593	434 793
Investment securities and other investments	14	**119 708**	124 756	117 171
Investments in associates and joint ventures	15	**6 869**	6 029	6 901
Property and equipment	16	**12 026**	10 542	10 018
Intangible assets	17	**1 743**	1 691	2 104
Reinsurance assets	27	**898**	484	524
Post-employment benefit asset	25	**7**	2	–
Investment properties	18	**215**	203	138
Deferred income tax asset	19	**471**	560	443
Non-current assets and disposal groups held for sale	20	**599**	5 805	197 247
Total assets		**769 765**	697 927	845 240
EQUITY AND LIABILITIES				
Liabilities				
Short trading positions	21	**5 343**	9 094	13 927
Derivative financial instruments	9	**53 760**	36 361	36 035
Creditors and accruals	22	**9 086**	9 497	7 518
Tax liability		**386**	288	157
Deposits	23	**606 281**	552 879	507 522
Provisions	24	**592**	517	759
Employee liabilities	25	**6 933**	5 937	5 088
Other liabilities	26	**6 383**	4 107	10 552
Policyholder liabilities under insurance contracts	27	**1 517**	1 047	1 868
Deferred income tax liability	19	**1 679**	2 223	2 132
Tier 2 liabilities	28	**7 885**	6 666	10 758
Liabilities directly associated with disposal groups held for sale	20	**113**	5 092	189 961
Total liabilities		**699 958**	633 708	786 277
Equity				
Ordinary shares	29	**55**	53	52
Share premium	29	**5 216**	4 945	1 491
Reserves		**57 250**	51 633	49 889
Capital and reserves attributable to ordinary equityholders		**62 521**	56 631	51 432
NCNR preference shares	29	**4 519**	4 519	4 519
Capital and reserves attributable to equityholders of the Group		**67 040**	61 150	55 951
Non-controlling interests		**2 767**	3 069	3 012
Total equity		**69 807**	64 219	58 963
Total equity and liabilities		**769 765**	697 927	845 240

* *Refer to reclassification of prior year numbers on page 234.*

Consolidated statement of changes in equity

for the year ended 30 June

R million	Notes	Ordinary share capital and ordinary equityholders' funds				
		Share capital	Share premium	**Share capital and share premium**	General risk reserve	Cash flow hedge reserve
Balance as at 1 July 2010		52	1 491	**1 543**	12	(466)
Issue of share capital	29	–	–	**–**	–	–
Movement in other reserves		–	–	**–**	–	–
Ordinary dividends		–	–	**–**	–	–
Preference dividends		–	–	**–**	–	–
Transfer from/(to) reserves		–	–	**–**	1	–
Changes in ownership interest in subsidiaries		–	–	**–**	–	–
Consolidation of treasury shares		1	3 454	**3 455**	–	–
Total comprehensive income for the year		–	–	**–**	–	15
Dividend *in specie*: unbundling of Momentum		–	–	**–**	–	–
Balance as at 30 June 2011		53	4 945	**4 998**	13	(451)
Movement in other reserves		–	–	**–**	–	–
Ordinary dividends		–	–	**–**	–	–
Preference dividends		–	–	**–**	–	–
Transfer from/(to) reserves		–	–	**–**	44	–
Changes in ownership interest in subsidiaries		–	–	**–**	–	–
Consolidation of treasury shares		2	271	**273**	–	–
Total comprehensive income for the year		–	–	**–**	–	(302)
Vesting of share-based payments		–	–	**–**	–	–
Balance as at 30 June 2012		55	5 216	**5 271**	57	(753)

Ordinary share capital and ordinary equityholders' funds								
Share-based payment reserve	Available-for-sale reserve	Foreign currency translation reserve	Other reserves	Retained earnings	**Reserves attributable to ordinary equity-holders**	**NCNR preference shares**	**Non-controlling interests**	**Total equity**
2 487	969	698	(617)	46 806	**49 889**	**4 519**	**3 012**	**58 963**
–	–	–	–	–	**–**	**–**	**7**	**7**
341	–	–	(8)	48	**381**	**–**	**(342)**	**39**
–	–	–	–	(4 179)	**(4 179)**	**–**	**(583)**	**(4 762)**
–	–	–	–	–	**–**	**(301)**	**–**	**(301)**
–	–	–	–	(1)	**–**	**–**	**–**	**–**
–	–	–	12	(34)	**(22)**	**–**	**46**	**24**
–	–	–	–	1 074	**1 074**	**–**	**–**	**4 529**
–	(80)	(206)	43	20 065	**19 837**	**301**	**1 094**	**21 232**
(89)	(664)	(18)	583	(15 159)	**(15 347)**	**–**	**(165)**	**(15 512)**
2 739	225	474	13	48 620	**51 633**	**4 519**	**3 069**	**64 219**
709	–	–	36	173	**918**	**–**	**(438)**	**480**
–	–	–	–	(8 742)	**(8 742)**	**–**	**(652)**	**(9 394)**
–	–	–	–	–	**–**	**(275)**	**–**	**(275)**
–	–	–	–	(44)	**–**	**–**	**–**	**–**
–	–	–	–	(37)	**(37)**	**–**	**(131)**	**(168)**
–	–	–	–	102	**102**	**–**	**–**	**375**
–	401	578	(167)	13 196	**13 706**	**275**	**919**	**14 900**
(201)	–	–	–	(129)	**(330)**	**–**	**–**	**(330)**
3 247	626	1 052	(118)	53 139	**57 250**	**4 519**	**2 767**	**69 807**

Consolidated statement of cash flows

for the year ended 30 June

R million	Notes	2012	2011
Cash generated from operating activities			
– Cash receipts from customers	31.2	**62 833**	59 328
– Cash paid to customers, suppliers and employees	31.3	**(40 046)**	(40 833)
– Dividends received		**3 517**	3 491
– Dividends paid	31.7	**(9 017)**	(4 480)
– Dividends paid to non-controlling interests		**(652)**	(583)
Cash flows from operating activities		**16 635**	16 923
– Increase in income-earning assets	31.4	**(54 402)**	(38 895)
– Increase in deposits and other liabilities	31.5	**47 338**	41 419
Net cash (utilised)/generated from operations		**(7 064)**	2 524
Tax paid	31.6	**(5 331)**	(3 965)
Net cash from operating activities		**4 240**	15 482
Cash flows from investing activities			
Acquisition of associates and joint ventures*		**(1 707)**	(166)
Proceeds on disposal of associates and joint ventures*		**1 371**	4 092
Acquisition of subsidiaries*		**–**	(450)
Proceeds on disposal of subsidiaries*		**375**	704
Acquisition of property and equipment		**(4 179)**	(2 677)
Proceeds on disposal of property and equipment		**639**	583
Acquisition of investment properties		**–**	(22)
Proceeds on disposal of investment properties		**–**	1
Acquisition of intangible assets		**(280)**	(311)
Proceeds on disposal of intangible assets		**18**	23
Net cash (outflow)/inflow from investing activities		**(3 763)**	1 777
Cash flows from financing activities			
Proceeds from/(repayment of) other liabilities		**2 276**	(5 960)
Proceeds from/(repayment of) Tier 2 liabilities		**1 188**	(4 092)
Net cash inflow/(outflow) from financing activities		**3 464**	(10 052)
Net increase in cash and cash equivalents		**3 941**	7 207
Cash and cash equivalents at the beginning of the year		**34 240**	27 067
Cash and cash equivalents at the end of the year		**38 181**	34 274
Cash and cash equivalents acquired**		**1**	200
Cash and cash equivalents disposed of**		**(31)**	(83)
Effect of exchange rate changes on cash and cash equivalents		**212**	(151)
Cash and cash equivalents at the end of the year		**38 363**	34 240

* *Refer to note 31 for information on the cash flows arising from the acquisition and disposal of significant subsidiaries, associates and joint ventures.*

** *Cash and cash equivalents acquired and disposed of relate to cash balances held by subsidiaries acquired and disposed of during the year.*

Consolidated statement of headline earnings and dividends

for the year ended 30 June

	2012	2011
Headline earnings per share (cents)		
Basic	**231.5**	183.1
Diluted	**226.9**	179.4
Ordinary dividends per share (cents)		
Interim	**44.0**	35.0
Final	**58.0**	46.0
Total dividends per ordinary share (cents)	**102.0**	81.0
Special dividend per share (cents)	**–**	0.70
Headline earnings are calculated in terms of Circular 3/2009.		
Basic headline earnings		
Basic headline earnings per share is calculated by dividing the Group's attributable earnings to ordinary equityholders after excluding separately identifiable remeasurements, net of tax and non-controlling interests, by the weighted average number of ordinary shares in issue during the year, excluding the average number of ordinary shares purchased by the Group and held as treasury shares.		
Headline earnings attributable to ordinary shares in issue (R million)	**12 642**	9 856
Weighted average number of ordinary shares in issue	**5 460 366 282**	5 384 058 475
Diluted headline earnings		
Diluted headline earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding assuming conversion of all dilutive potential ordinary shares.		
Diluted headline earnings attributable to ordinary shareholders (R million)	**12 642**	9 856
Diluted weighted average number of shares in issue	**5 572 471 134**	5 492 848 142

Consolidated statement of headline earnings and dividends continued

for the year ended 30 June

	2012		2011	
R million	**Gross**	**Net**	Gross	Net
Headline earnings reconciliation				
Attributable earnings to ordinary equityholders		**13 196**		20 065
Attributable earnings to ordinary equity holders – discontinued operations		**–**		(7 286)
Attributable earnings to ordinary equity holders – continuing operations		**13 196**		12 779
Adjusted for				
Loss/(gain) on disposal of investment securities and other investments of a capital nature	**20**	**24**	(12)	5
Gain on disposal of available-for-sale assets	**(154)**	**(85)**	(341)	(298)
Gain on the disposal of associates	**(473)**	**(473)**	(2 792)	(2 755)
Gain on the disposal of subsidiaries	**(266)**	**(150)**	(571)	(447)
Loss on the disposal of property and equipment	**49**	**37**	(9)	34
Impairment of property and equipment	**2**	**3**	71	71
Impairment of associates or joint ventures	**41**	**37**	–	–
Impairment of goodwill	**115**	**63**	96	95
Fair value adjustment on investment properties	**(12)**	**(12)**	–	–
Impairment of assets in terms of IAS 36	**5**	**2**	(34)	(37)
Gain from a bargain purchase	**–**	**–**	(9)	(9)
Headline earnings to ordinary equityholders		**12 642**		9 438
Headline earnings from discontinued operations				
Attributable earnings to ordinary equityholders		**–**		7 286
Adjusted for				
Profit on dividend *in specie*		**–**		(6 868)
Headline earnings to ordinary equityholders		**–**		418
Headline earnings to ordinary equityholders continued and discontinued		**12 642**		9 856

Cents	2012	2011
Basic headline earnings per share	**231.5**	183.1
– From continuing operations	**231.5**	174.7
– From discontinued operations	**–**	8.4
Diluted headline earnings per share	**226.9**	179.4
– From continuing operations	**226.9**	171.3
– From discontinued operations	**–**	8.1

Cents	2012	2011
Dividend information		
Dividends declared on NCNR preference shares		
B preference shares		
27 February 2012/28 February 2011	**305.2**	313.6
27 August 2012/29 August 2011	**333.1**	305.2
Total B preference shares	**638.3**	618.8
Ordinary dividends declared		
7 March 2012/7 March 2011	**44.0**	35.0
10 September 2012/12 September 2011	**58.0**	46.0
12 September 2011*	**–**	70.0
Total ordinary dividends declared	**102.0**	151.0

* *Special dividend.*

Notes to the consolidated annual financial statements

for the year ended 30 June

1 ANALYSIS OF INTEREST INCOME AND INTEREST EXPENDITURE

	2012				
R million	Fair value	Amortised cost	Hedging instruments	Non-financial assets and liabilities	Total
1.1 Interest and similar income					
Advances	–	35 618	–	–	35 618
Cash and cash equivalents	–	986	–	–	986
Investment securities and other investments	3 507	341	–	122	3 970
Unwinding of discounted present value on non-performing loans	–	131	–	–	131
Accrued on off-market advances	–	5	–	–	5
Other	–	77	533	15	625
Interest and similar income	3 507	37 158	533	137	41 335

	2011				
R million	Fair value	Amortised cost	Hedging instruments	Non-financial assets and liabilities	Total
Advances	–	32 676	–	–	32 676
Cash and cash equivalents	–	619	–	–	619
Investment securities and other investments	3 665	50	–	–	3 715
Unwinding of discounted present value on non-performing loans	–	214	–	–	214
Accrued on off-market advances	–	8	–	–	8
Other	–	267	527	161	955
Interest and similar income	3 665	33 834	527	161	38 187

1 ANALYSIS OF INTEREST INCOME AND INTEREST EXPENDITURE continued

	2012				
R million	**Fair value**	**Amortised cost**	**Hedging instruments**	**Non-financial assets and liabilities**	**Total**
1.2 Interest expense and similar charges					
Current accounts	**–**	**(7 684)**	**–**	**–**	**(7 684)**
Savings deposits	**–**	**(70)**	**–**	**–**	**(70)**
Fixed and notice deposits	**–**	**(3 162)**	**–**	**–**	**(3 162)**
Negotiable certificates of deposit	**(94)**	**(2 961)**	**–**	**–**	**(3 055)**
Repurchases	**–**	**(351)**	**–**	**–**	**(351)**
Securities lending	**–**	**(249)**	**–**	**–**	**(249)**
Cash collateral	**–**	**(365)**	**–**	**–**	**(365)**
Other liabilities	**–**	**(130)**	**–**	**–**	**(130)**
Tier 2 liabilities	**(18)**	**(671)**	**–**	**–**	**(689)**
Other	**(664)**	**(1 702)**	**(1 327)**	**(5)**	**(3 698)**
Interest expense and similar charges	**(776)**	**(17 345)**	**(1 327)**	**(5)**	**(19 453)**

	2011				
R million	Fair value	Amortised cost	Hedging instruments	Non-financial assets and liabilities	Total
Current accounts	(155)	(6 273)	–	–	(6 428)
Savings deposits	–	(57)	–	–	(57)
Fixed and notice deposits	(518)	(4 982)	–	–	(5 500)
Negotiable certificates of deposit	(2 274)	(3 075)	–	–	(5 349)
Repurchases	–	–	–	–	–
Securities lending	–	(239)	–	–	(239)
Cash collateral	–	(224)	–	–	(224)
Other liabilities	–	(28)	–	–	(28)
Tier 2 liabilities	(325)	(706)	–	–	(1 031)
Other	(332)	(469)	(1 152)	(9)	(1 962)
Interest expense and similar charges	(3 604)	(16 053)	(1 152)	(9)	(20 818)

Notes to the consolidated annual financial statements continued

for the year ended 30 June

2 NON-INTEREST INCOME

R million	2012	2011
Fee and commission income	**20 700**	18 353
– Instruments at amortised cost	**15 506**	13 869
– Instruments at fair value	**78**	241
– Non–financial assets and liabilities	**5 122**	4 243
Fee and commission expenses	**(2 704)**	(2 317)
Net fee and commission income	**18 002**	16 036
Fair value income		
Held for trading	**2 638**	2 921
Designated at fair value through profit or loss	**3 099**	2 620
Other	**154**	93
Fair value income	**5 891**	5 634
Gains less losses from investing activities		
Designated at fair value through profit or loss	**245**	365
Available-for-sale	**404**	582
Other*	**897**	3 493
Gains less losses from investing activities	**1 546**	4 440
Other non-interest income	**4 055**	3 455
Total	**29 494**	29 565

* *Included in other for 2011 is R2 841 million for the sale of associates.*

2 NON-INTEREST INCOME continued

R million	2012	2011
Fee and commission income		
Banking fee and commission income	**17 444**	14 896
– Card commissions	**2 410**	2 001
– Acceptances, guarantees and letters of credit	**30**	25
– Cash deposit fees	**1 846**	1 599
– Commitment fees	**429**	256
– Commissions: bills, drafts and cheques	**487**	522
– Exchange commissions	**709**	530
– Brokerage income	**963**	939
– Bank charges	**10 570**	9 024
Knowledge-based fee and commission income	**870**	817
Non-banking fee and commission income*	**2 392**	2 640
Fee and commission income	**20 706**	18 353
Fee and commission expenses		
Transaction processing fees	**(775)**	(628)
Commission paid	**(235)**	(251)
Customer loyalty programmes	**(425)**	(292)
Cash sorting, handling and transportation charges	**(565)**	(618)
Card and cheque book related	**(135)**	(106)
ATM commissions paid	**(23)**	(25)
Other	**(546)**	(397)
Fee and commission expenses	**(2 704)**	(2 317)
Net fee and commission income	**18 002**	16 036
Fair value income	**5 891**	5 634

* *Non-banking fee and commission income earned relates to fees and commissions for rendering services to clients other than those related to the banking operations. This includes commission earned on the sale of insurance products.*

Notes to the consolidated annual financial statements continued

for the year ended 30 June

2 NON-INTEREST INCOME continued

R million	2012	2011
Gains less losses from investing activities		
(Loss)/gain on investment securities and other investments	**(20)**	12
Reclassification from other comprehensive income on derecognition/sale of available-for-sale assets	**154**	341
Preference share dividends	**34**	195
– Unlisted	**34**	195
Other dividends received	**86**	55
– Listed	**72**	30
– Unlisted	**14**	25
Gain on disposal of subsidiaries	**266**	571
Gain on disposal of associates	**579**	2 841
Share of profit of associates and joint ventures after tax (note 15)	**1 120**	531
Gain on a bargain purchase	**–**	9
Unrealised profit on assets held against employee liabilities	**169**	339
Fair value gains on investment properties held at fair value through profit or loss (note 18)	**12**	44
Rental income from investment properties (note 18)	**20**	10
Other investment income	**246**	23
Gross gains less losses from investing activities	**2 666**	4 971
Less: share of profit from associates and joint ventures after tax (disclosed separately on the face of the income statement)	**(1 120)**	(531)
Gains less losses from investing activities	**1 546**	4 440
Other non-interest income		
(Loss)/gain on disposal of property and equipment	**(49)**	9
Non-interest income from insurance operations	**1 589**	1 165
– Premium income	**2 502**	1 691
– Reinsurance recoveries	**430**	13
– Claims and policyholder benefits	**(637)**	(387)
– Increase in value of policyholder liabilities	**(706)**	(152)
– Transfer from policyholder liabilities under insurance contracts	**(706)**	(75)
– Fair value adjustments on policyholder liabilities under investment contracts	**–**	(77)
Other income	**2 515**	2 281
Other non-interest income	**4 055**	3 455
Total non-interest income	**29 494**	29 565

3 OPERATING EXPENSES

R million	2012	2011
Auditors' remuneration		
Audit fees	**(145)**	(128)
Fees for other services	**(44)**	(15)
Prior year under provision	**(1)**	(2)
Auditors' remuneration	**(190)**	(145)
Amortisation of intangible assets		
Software	**(113)**	(103)
Development costs	**(14)**	(10)
Trademarks	**(54)**	(34)
Other	**(37)**	(25)
Amortisation of intangible assets (note 17)	**(218)**	(172)
Depreciation		
Property	**(563)**	(450)
– Freehold property	**(225)**	(142)
– Leasehold premises	**(338)**	(308)
Assets held under leasing arrangements*	**(129)**	(54)
Equipment**	**(1 430)**	(1 058)
– Computer equipment	**(840)**	(611)
– Furniture and fittings	**(250)**	(175)
– Motor vehicles	**(181)**	(142)
– Office equipment	**(159)**	(130)
Capitalised leased assets	**(1)**	(3)
Depreciation (note 16)	**(2 123)**	(1 565)

* *Depreciation on assets which are owned by the Group and leased to third parties under operating leases as part of the Group's revenue generating operating activities.*

** *Depreciation includes accelerated depreciation of R251 million recognised in the current year as a result in a change in estimate regarding the write-off of fixed assets. Refer to note 16 for further details.*

Notes to the consolidated annual financial statements continued

for the year ended 30 June

3 OPERATING EXPENSES continued

R million	2012	2011
Impairments incurred		
Property and equipment (note 16)	**(4)**	(71)
Goodwill (note 17)	**(115)**	(96)
Other*	**(64)**	(56)
Impairments incurred	**(183)**	(223)
Impairments reversed		
Property and equipment (note 16)	**2**	–
Other	**2**	35
Impairments reversed	**4**	35
Operating lease charges		
Property	**(881)**	(771)
Equipment	**(142)**	(160)
Motor vehicles	**(10)**	(8)
Operating lease charges	**(1 033)**	(939)
Direct staff costs		
Salaries, wages and allowances	**(10 034)**	(9 256)
Contributions to employee benefit funds	**(1 605)**	(1 454)
– Defined contribution schemes	**(1 390)**	(1 231)
– Defined benefit schemes (note 25)	**(215)**	(223)
Social security levies	**(151)**	(121)
Share-based payments (note 30)	**(1 436)**	(696)
Other	**(473)**	(554)
Direct staff costs	**(13 699)**	(12 081)
Other staff related costs (note 25)	**(2 509)**	(2 108)
Total staff costs	**(16 208)**	(14 189)
Other operating costs		
Insurance	**(64)**	(119)
Advertising and marketing	**(1 196)**	(1 039)
Maintenance	**(762)**	(919)
Property	**(796)**	(715)
Computer	**(905)**	(698)
Stationery	**(194)**	(213)
Telecommunications	**(364)**	(469)
Other operating expenditure	**(3 050)**	(2 208)
Total directors' remuneration**	**(20)**	(20)
– Services as directors	**(20)**	(20)
Professional fees	**(1 120)**	(986)
Other operating costs	**(8 471)**	(7 386)
Total operating expenses	**(28 422)**	(24 584)

* *Included in other is accounts receivable.*

** *Refer to directors' and prescribed officers' emoluments on page 86 to 88.*

4 INDIRECT AND DIRECT TAX

R million	2012	2011
4.1 Indirect tax		
Value added tax (net)	**(539)**	(538)
Stamp duties and securities transfer tax	**(12)**	(20)
Other	**–**	(56)
Total indirect tax	**(551)**	(614)
4.2 Direct tax		
Normal tax		
Current	**(3 966)**	(3 578)
– Current year	**(4 316)**	(3 808)
– Prior year adjustment	**350**	230
Deferred income tax	**967**	20
– Current year	**1 156**	(76)
– Prior year adjustment	**(189)**	96
Total normal tax	**(2 999)**	(3 558)
Foreign company and withholding tax		
Current	**(529)**	(443)
– Current year	**(528)**	(442)
– Prior year adjustment	**(1)**	(1)
Deferred income tax	**1**	(5)
– Current year	**–**	(17)
– Prior year adjustment	**1**	12
Total foreign company and withholding tax	**(528)**	(448)
Secondary tax on companies		
Current year	**(47)**	(155)
Deferred income tax	**(478)**	44
– Current year	**(410)**	44
– Prior year adjustment	**(68)**	–
Total secondary tax on companies	**(525)**	(111)
Capital gains tax		
Current tax	**(114)**	(122)
Deferred income tax	**6**	2
Total capital gains tax	**(108)**	(120)
Customer tax adjustment account	**71**	(8)
Total direct tax	**(4 089)**	(4 245)

Notes to the consolidated annual financial statements continued

for the year ended 30 June

4 INDIRECT AND DIRECT TAX continued

4.2 Direct tax continued

Tax rate reconciliation – South African normal tax	2012 %	2011 %
Effective rate of tax	**22.2**	23.0
Total tax has been affected by:		
Non-taxable income	**10.9**	3.0
Foreign tax rate differential	**(2.9)**	(2.4)
Prior year adjustments	**0.5**	1.8
Effect of income at capital gains tax rate	**(0.6)**	(0.6)
Other non-deductible items	**(2.1)**	3.2
Standard rate of South African normal tax	**28.0**	28.0

5 EARNINGS PER SHARE

	2012	2011
Basic Basic earnings per share is calculated by dividing the net profit attributable to equityholders of the Group by the weighted average number of ordinary shares in issue during the year, excluding the average number of ordinary shares purchased by the Group and held as treasury shares.		
Earnings attributable to ordinary equityholders (R million)	**13 196**	20 065
– From continuing operations	**13 196**	12 779
– From discontinued operations	**–**	7 286
Weighted average number of ordinary shares in issue	**5 460 366 282**	5 384 058 475
Basic earnings per share (cents)	**241.7**	372.7
– From continuing operations (cents)	**241.7**	236.6
– From discontinued operations (cents)	**–**	136.1
Diluted Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding assuming conversion of all dilutive potential ordinary shares.		
Earnings attributable to ordinary shareholders (R million)	**13 196**	20 065
– From continuing operations	**13 196**	12 779
– From discontinued operations	**–**	7 286
Actual number of shares		
Opening balance	**5 637 941 689**	5 637 941 689
Less: treasury shares	**(175 283 030)**	(189 017 706)
– Staff schemes	**(2 590 187)**	(16 251 263)
– BEE staff trusts	**(171 401 072)**	(171 401 072)
– Shares held by policyholders*	**(1 291 771)**	(1 365 371)
Number of shares in issue (after treasury shares)	**5 462 658 659**	5 448 923 983

* *Policyholders only include FirstRand shares held in the FNB ELI cell.*

5 EARNINGS PER SHARE continued

	2012	2011
Weighted average number of shares		
Weighted average number of shares before treasury shares	**5 637 941 689**	5 637 941 689
Less: treasury shares	**(177 575 407)**	(253 883 214)
– Staff schemes	**(4 867 033)**	(63 457 590)
– BEE staff trusts	**(171 401 072)**	(171 401 072)
– Policyholder and mutual funds deemed treasury shares	**(1 307 302)**	(19 024 552)
Weighted average number of shares in issue	**5 460 366 282**	5 384 058 475
Dilution impact:		
Staff schemes	**84 347 709**	84 813 466
BEE staff trust	**27 757 143**	23 976 201
Diluted weighted average number of shares in issue	**5 572 471 134**	5 492 848 142
Number of shares from continuing operations		
Weighted average number of shares in issue	**5 460 366 282**	5 384 058 475
Add shares held by Momentum policyholders	**–**	17 673 294
Weighted average number of shares in issue	**5 460 366 282**	5 401 731 769
Dilution impact	**112 104 852**	108 789 667
Diluted weighted average number of shares in issue	**5 572 471 134**	5 510 521 436
Diluted earnings per share (cents)	**236.8**	365.3
– From continuing operations (cents)	**236.8**	231.9
– From discontinued operations (cents)	**–**	133.4

6 DISCLOSURE OF THE COMPONENTS AND TAX EFFECTS OF OTHER COMPREHENSIVE INCOME

R million	2012	2011
Cash flow hedges (note 9)	**(302)**	15
Losses arising during the year	**(1 214)**	(604)
Reclassification adjustments for amounts included in profit or loss	**794**	625
Deferred income tax	**118**	(6)
Available-for-sale financial assets	**401**	(79)
Gains arising during the year	**714**	299
Reclassification adjustments for amounts included in profit or loss	**(154)**	(341)
Deferred income tax	**(159)**	(38)
Non-controlling interests	**–**	1
Exchange differences on translating foreign operations	**599**	(266)
Losses arising during the year	**578**	(206)
Non-controlling interests	**21**	(60)
Share of other comprehensive income of associates and joint ventures after tax and non-controlling interests	**(167)**	35
Other comprehensive income	**531**	(295)

Notes to the consolidated annual financial statements continued

for the year ended 30 June

7 ANALYSIS OF ASSETS AND LIABILITIES

Financial assets and financial liabilities are measured either at fair value or at amortised cost. The principal accounting policies on pages 218 to 224 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 assets and liabilities in the statement of financial position per category of financial instrument and therefore by measurement basis:

		2012		
R million	Notes	**Held for trading**	**Designated at fair value through profit or loss***	**Held-to-maturity**
ASSETS				
Cash and cash equivalents	8	–	–	–
Derivative financial instruments	9	**52 277**	–	–
Commodities	10	–	–	–
Accounts receivable	11	–	–	–
Tax asset		–	–	–
Advances	12	–	**139 697**	**60**
Investment securities and other investments	14	**38 261**	**58 096**	**244**
Investments in associates and joint ventures	15	–	–	–
Property and equipment	16	–	–	–
Intangible assets	17	–	–	–
Reinsurance assets	27	–	–	–
Post-employment benefit asset	25	–	–	–
Investment properties	18	–	–	–
Deferred income tax asset	19	–	–	–
Non-current assets and disposal groups held for sale	20	–	–	–
Total assets		**90 538**	**197 793**	**304**
LIABILITIES				
Short trading positions	21	**5 343**	–	–
Derivative financial instruments	9	**52 213**	–	–
Creditors and accruals	22	–	–	–
Tax liability		–	–	–
Deposits	23	–	**105 756**	–
Provisions	24	–	–	–
Employee liabilities	25	–	–	–
Other liabilities	26	–	**1 849**	–
Policyholder liabilities under insurance contracts	27	–	–	–
Deferred income tax liability	19	–	–	–
Tier 2 liabilities	28	–	**1 067**	–
Liabilities directly associated with disposal groups held for sale	20	–	–	–
Total liabilities		**57 556**	**108 672**	–

* *Investment securities designated at fair value through profit and loss include non-recourse investments of R20 092 million. Refer to note 14.*

2012						
Loans and receivables	Available-for-sale financial assets	Financial liabilities at amortised cost	Derivatives designated as fair value hedging instruments	Derivatives designated as cash flow hedging instruments	Non-financial assets and liabilities	Total
38 363	–	–	–	–	–	38 363
–	–	–	122	514	–	52 913
–	–	–	–	–	5 108	5 108
6 007	–	–	–	–	–	6 007
–	–	–	–	–	331	331
384 642	108	–	–	–	–	524 507
103	23 004	–	–	–	–	119 708
–	–	–	–	–	6 869	6 869
–	–	–	–	–	12 026	12 026
–	–	–	–	–	1 743	1 743
–	–	–	–	–	898	898
–	–	–	–	–	7	7
–	–	–	–	–	215	215
–	–	–	–	–	471	471
–	–	–	–	–	599	599
429 115	**23 112**	**–**	**122**	**514**	**28 267**	**769 765**
–	–	–	–	–	–	5 343
–	–	–	99	1 448	–	53 760
–	–	9 086	–	–	–	9 086
–	–	–	–	–	386	386
–	–	500 525	–	–	–	606 281
–	–	–	–	–	592	592
–	–	–	–	–	6 933	6 933
–	–	4 533	–	–	1	6 383
–	–	–	–	–	1 517	1 517
–	–	–	–	–	1 679	1 679
–	–	6 818	–	–	–	7 885
–	–	–	–	–	113	113
–	**–**	**520 962**	**99**	**1 448**	**11 221**	**699 958**

Notes to the consolidated annual financial statements continued

for the year ended 30 June

7 ANALYSIS OF ASSETS AND LIABILITIES continued

		2011		
R million	Notes	Held for trading	Designated at fair value through profit or loss*	Held-to-maturity
ASSETS				
Cash and cash equivalents	8	–	–	–
Derivative financial instruments	9	36 711	–	–
Commodities	10	–	–	–
Accounts receivable	11	–	–	–
Tax asset		–	–	–
Advances	12	–	122 144	90
Investment s securities and other investments	14	35 868	58 027	207
Investments in associates and joint ventures	15	–	–	–
Property and equipment	16	–	–	–
Intangible assets	17	–	–	–
Reinsurance assets	27	–	–	–
Post-employment benefit asset	25	–	–	–
Investment properties	18	–	–	–
Deferred income tax asset	19	–	–	–
Non-current assets and disposal groups held for sale	20	–	–	–
Total assets		72 579	180 171	297
LIABILITIES				
Short trading positions	21	9 094	–	–
Derivative financial instruments	9	35 315	–	–
Creditors and accruals	22	–	–	–
Tax liability	–	–	–	–
Deposits	23	–	160 273	–
Provisions	24	–	–	–
Employee liabilities	25	–	–	–
Other liabilities	26	–	252	–
Policyholder liabilities under insurance contracts	27	–	–	–
Deferred income tax liability	19	–	–	–
Tier 2 liabilities	28	–	1 390	–
Liabilities directly associated with disposal groups held for sale	20	–	–	–
Total liabilities		44 409	161 915	–

* *Investment securities designated at fair value through profit and loss include non-recourse investments of R17 414 million. Refer to note 14.*

	2011						
	Loans and receivables	Available-for-sale financial assets	Financial liabilities at amortised cost	Derivatives designated as fair value hedging instruments	Derivatives designated as cash flow hedging instruments	Non-financial assets and liabilities	Total
	34 240	–	–	–	–	–	34 240
	–	–	–	–	495	–	37 206
	–	–	–	–	–	4 388	4 388
	7 289	–	–	–	–	–	7 289
	–	–	–	–	–	139	139
	342 244	115	–	–	–	–	464 593
	78	30 576	–	–	–	–	124 756
	–	–	–	–	–	6 029	6 029
	–	–	–	–	–	10 542	10 542
	–	–	–	–	–	1 691	1 691
	–	–	–	–	–	484	484
	–	–	–	–	–	2	2
	–	–	–	–	–	203	203
	–	–	–	–	–	560	560
	–	–	–	–	–	5 805	5 805
	383 851	**30 691**	**–**	**–**	**495**	**29 843**	**697 927**
	–	–	–	–	–	–	9 094
	–	–	–	74	972	–	36 361
	–	–	9 497	–	–	–	9 497
	–	–	–	–	–	288	288
	–	–	392 606	–	–	–	552 879
	–	–	–	–	–	517	517
	–	–	–	–	–	5 937	5 937
	–	–	3 845	–	–	10	4 107
	–	–	–	–	–	1 047	1 047
	–	–	–	–	–	2 223	2 223
	–	–	5 276	–	–	–	6 666
	–	–	–	–	–	5 092	5 092
	–	**–**	**411 224**	**74**	**972**	**15 114**	**633 708**

Notes to the consolidated annual financial statements continued

for the year ended 30 June

8 CASH AND CASH EQUIVALENTS

R million	2012	2011
Coins and bank notes	**4 776**	5 001
Money at call and short notice	**18 153**	13 579
– Banks	**16 386**	12 208
– Other	**1 767**	1 371
Balances with central banks	**15 434**	15 660
Cash and cash equivalents	**38 363**	34 240
Mandatory reserve balances included above:	**13 677**	12 173

Banks are required to deposit a minimum average balance, calculated monthly, with the central bank, which is not available for use in the Group's day-to-day operations. These deposits bear little or no interest.

Money at short notice constitutes amounts withdrawable in 32 days or less.

The carrying value of cash and cash equivalents approximates the fair value.

Refer to note 46 for current and non-current analysis of cash and cash equivalents.

9 DERIVATIVE FINANCIAL INSTRUMENTS

Use of derivatives

The Group transacts in derivatives for three purposes: to create risk management solutions for clients, for proprietary trading purposes and to manage and hedge the Group's own risk. For accounting purposes, derivative instruments are classified as held either for trading or hedging. Derivatives that are held for hedging are formally designated as hedging instruments as defined in IAS 39.

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

The Group's derivative activities give rise to significant open positions in portfolios of derivatives. These positions are managed continually to ensure that they remain within acceptable risk levels, with offsetting deals being utilised to achieve this where necessary.

Whilst the Group employs the same credit risk management procedures to approve the potential credit exposures for derivatives as are used for traditional lending, the calculations and procedures used to assess credit risk for derivatives are more complex.

The notional amounts of the derivative instruments do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments, and therefore, do not represent the Group's exposure to credit or market risk. Derivative instruments become favourable (assets) or unfavourable (liabilities) based on changes in market interest rates, foreign currency, market share prices, credit rating and the price of underlying commodities, as applicable. The aggregate notional amount of derivative financial instruments, the extent to which the instruments are favourable or unfavourable, and thus the aggregate fair value can fluctuate significantly over time.

The Group's detailed risk management strategy, including the use of hedging instruments in risk management, is set out in the *Risk and capital management report* on pages 117 to 212.

9 DERIVATIVE FINANCIAL INSTRUMENTS continued

Trading derivatives

Most of the Group's derivative transactions relate to sales and trading activities. Sales activities include the structuring and marketing of derivative products to customers to enable them to take, transfer, modify or reduce current or expected risks. Trading activities in derivatives are entered into principally for the purpose of generating profits from short-term fluctuations in price or margin.

Positions may be traded actively or be held over a period of time to benefit from expected changes in currency rates, interest rates, equity prices or other market parameters. Trading includes market making, positioning and arbitrage activities. Market making entails quoting bid and offer prices to other market participants for the purpose of generating revenues based on spread and volume. Positioning means managing market risk positions in the expectation of benefiting from favourable movements in prices, rates or indices. Arbitrage involves identifying and profiting from price differentials between markets and products.

As mentioned above, other derivatives classified as held for trading include non-qualifying hedging derivatives, ineffective hedging derivatives and the components of hedging derivatives that are not part of a designated and effective hedge. 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

Fair value hedges

The Group's fair value hedges consist of commodity derivatives used to hedge the price risk associated with physical commodity positions and interest rate swaps that hedge the interest rate risk inherent in a fixed rate preference share advance. For qualifying fair value hedges, all changes in fair value of the derivative and in the fair value of the item in relation to the risk being hedged are recognised in profit or loss. Upon discontinuance of the hedging relationship, any fair value adjustments recognised as part of the carrying amount of the hedged item in terms of fair value hedging requirements is included in the carrying amount of the item until it is disposed of.

On disposal of the previously hedged item, these fair value adjustments will be realised through profit or loss.

R million	2012	2011
Gains/(losses) for the year arising from the change in fair value of fair value hedges		
On hedging instrument	**(400)**	(393)
On hedged items attributable to the hedged risk	**406**	385
Total	**6**	(8)

Cash flow hedges

The Group raises funding and holds assets that bear interest at variable and fixed rates. The mix of interest rates in the Group's assets and liabilities exposes the Group to interest rate risk. Changes in the market interest rates have an impact on the Group's profit or loss. The Group has hedges in place to manage this risk and are accounted for as cash flow hedges.

The Group hedges this risk using separate 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 risk in the Group's statement of financial position and consequently in each portfolio, requires that the risk be analysed and managed using various analytical tools and frameworks. While each analytical process may highlight a different aspect of risk, each analytical tool is intended to corroborate and support the overall interest rate risk management objectives of the Group.

Notes to the consolidated annual financial statements continued

for the year ended 30 June

9 DERIVATIVE FINANCIAL INSTRUMENTS continued

Cash flow hedges continued

The Group uses the following derivatives as hedging instruments:

- forward rate agreements are negotiated interest rate futures that call for cash settlement at a future date for the difference between the contractual and market rates of interest, based on a notional principal amount; and
- interest rate swaps are commitments to exchange one set of cash flows for another, resulting in the economic exchange of interest rates (for example fixed rate for floating rate). No exchange of principal takes place.

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

Amounts accumulated in other comprehensive income are released to profit or loss in periods in which movements in the hedged item affect profit or loss.

When hedging instruments are sold or when the hedge no longer meets the criteria for hedge accounting, the cumulative gains or losses remain in other comprehensive income and are released to profit or loss as the risk, previously hedged, affects profit or loss.

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

R million	**2012**	2011
Reconciliation of movements in the cash flow hedge reserve		
Opening balance (net of deferred income tax)	**(451)**	(466)
Movement for the year (note 6)	**(302)**	15
– Amount recognised directly in other comprehensive income during the year	**(874)**	(435)
– Amounts reclassified from other comprehensive income and included in profit or loss for the year	**572**	450
– Gross amount	**794**	625
– Deferred income tax	**(222)**	(175)
Closing balance	**(753)**	(451)

During the period, the hedging relationships were highly effective and the Group deferred the lesser of changes in fair value on the hedging instruments and changes in fair value on the hedged items. As the changes on the hedged items were less than the changes in fair value on the hedging instrument, a portion of ineffectiveness was recognised in profit or loss.

R million	**2012**	2011
Hedge ineffectiveness recognised in profit or loss	**(18)**	21

9 DERIVATIVE FINANCIAL INSTRUMENTS continued

Cash flows on the underlying hedged items are expected to impact profit or loss as follows:

	2012		2011	
R million	**Assets**	**Liabilities**	Assets	Liabilities
0 – 3 months	**1 897**	**(1 518)**	1 911	(1 705)
4 – 12 months	**3 664**	**(2 639)**	5 154	(4 983)
1 – 5 years	**914**	**(1 497)**	2 469	(6 635)
Over 5 years	**2**	**(17)**	–	(57)
Total	**6 477**	**(5 671)**	9 534	(13 380)

Cash flows on the hedging instruments are expected to be released to profit or loss as follows:

	2012		2011	
R million	**Assets**	**Liabilities**	Assets	Liabilities
0 – 3 months	**(126)**	**239**	(139)	259
4 – 12 months	**(232)**	**494**	(435)	538
1 – 5 years	**(88)**	**461**	(144)	371
Over 5 years	**(1)**	**6**	–	1
Total	**(447)**	**1 200**	(718)	1 169

	2012			
	Assets		**Liabilities**	
R million	**Notional**	**Fair value**	**Notional**	**Fair value**
Qualifying for hedge accounting				
Cash flow hedges				
Interest rate derivatives	**32 390**	**514**	**52 646**	**1 448**
– Forward rate agreements	**11 400**	**135**	**12 005**	**134**
– Swaps	**20 990**	**379**	**40 641**	**1 314**
Total cash flow hedges	**32 390**	**514**	**52 646**	**1 448**
Fair value hedges				
Interest rate derivatives	**2 863**	**122**	**1 355**	**99**
– Swaps	**2 863**	**122**	**1 355**	**99**
Commodity derivatives	**2 207**	**–**	**–**	**–**
– Futures	**2 207**	**–**	**–**	**–**
Total fair value hedges	**5 070**	**122**	**1 355**	**99**
Total qualifying for hedge accounting	**37 460**	**636**	**54 001**	**1 547**

Notes to the consolidated annual financial statements continued

for the year ended 30 June

9 DERIVATIVE FINANCIAL INSTRUMENTS continued

	2012			
	Assets		Liabilities	
R million	Notional	Fair value	Notional	Fair value
Held for trading				
Currency derivatives	512 796	13 070	439 991	11 215
– Swaps	289 698	8 513	246 250	7 190
– Options	56 960	769	57 074	469
– Futures	166 138	3 788	136 667	3 556
Interest rate derivatives	6 758 717	36 884	6 765 413	39 694
– Forward rate agreements	4 863 768	7 121	4 822 810	7 507
– Swaps	1 357 934	29 145	1 352 732	31 186
– Options	528 033	562	571 338	871
– Futures	8 982	56	18 533	130
Equity derivatives	15 728	1 888	13 314	1 013
– Swaps	3 907	1 379	–	–
– Options	4 464	296	6 313	931
– Futures	7 357	213	7 001	82
Commodity derivatives	20 158	425	11 864	203
– Swaps	802	94	3 763	97
– Options	107	24	82	25
– Futures	19 249	307	8 019	81
Credit derivatives	1 139	10	5 920	88
Total held for trading	7 308 538	52 277	7 236 502	52 213
Total	7 345 998	52 913	7 290 503	53 760

9 DERIVATIVE FINANCIAL INSTRUMENTS continued

	2012					
	Assets: Derivative instruments					
	Exchange traded		Over the counter		Total	
R million	Notional	Fair value	Notional	Fair value	Notional	Fair value
Qualifying for hedge accounting						
Cash flow hedges	–	–	32 390	514	32 390	514
– Interest rate derivatives	–	–	32 390	514	32 390	514
Fair value hedges	2 207	–	2 863	122	5 070	122
– Interest rate derivatives	–	–	2 863	122	2 863	122
– Commodity derivatives	2 207	–	–	–	2 207	–
Not qualifying for hedge accounting						
Held for trading	47 682	–	7 260 856	52 277	7 308 538	52 277
– Currency derivatives	25 082	–	487 714	13 070	512 796	13 070
– Interest rate derivatives	5 621	–	6 753 096	36 884	6 758 717	36 884
– Equity derivatives	387	–	15 341	1 888	15 728	1 888
– Commodity derivatives	16 592	–	3 566	425	20 158	425
– Credit derivatives	–	–	1 139	10	1 139	10
Total	49 889	–	7 296 109	52 913	7 345 998	52 913

	2012					
	Liabilities: Derivative instruments					
	Exchange traded		Over the counter		Total	
R million	Notional	Fair value	Notional	Fair value	Notional	Fair value
Qualifying for hedge accounting						
Cash flow hedges	–	–	52 646	1 448	52 646	1 448
– Interest rate derivatives	–	–	52 646	1 448	52 646	1 448
Fair value hedges	–	–	1 355	99	1 355	99
– Interest rate derivatives	–	–	1 355	99	1 355	99
Not qualifying for hedge accounting						
Held for trading	20 971	–	7 215 531	52 213	7 236 502	52 213
– Currency derivatives	–	–	439 991	11 215	439 991	11 215
– Interest rate derivatives	11 314	–	6 754 099	39 694	6 765 413	39 694
– Equity derivatives	4 335	–	8 979	1 013	13 314	1 013
– Commodity derivatives	5 322	–	6 542	203	11 864	203
– Credit derivatives	–	–	5 920	88	5 920	88
Total	20 971	–	7 269 532	53 760	7 290 503	53 760

Refer to note 37 for additional information relating to the fair value of derivatives.

Refer to note 46 for current and non-current analysis of derivatives.

Notes to the consolidated annual financial statements continued
for the year ended 30 June

9 DERIVATIVE FINANCIAL INSTRUMENTS continued

	2011			
	Assets		Liabilities	
R million	Notional	Fair value	Notional	Fair value
Qualifying for hedge accounting				
Cash flow hedges				
Interest rate derivatives	34 462	495	54 252	972
– Forward rate agreements	17 130	15	17 240	34
– Swaps	17 332	480	37 012	938
Total cash flow hedges	34 462	495	54 252	972
Fair value hedges				
Interest rate derivatives	–	–	3 942	74
– Swaps	–	–	3 942	74
Commodity derivatives	1 140	–	–	–
– Futures	1 140	–	–	–
Total fair value hedges	1 140	–	3 942	74
Total qualifying for hedge accounting	35 602	495	58 194	1 046
Held for trading				
Currency derivatives	285 883	9 063	272 807	7 180
– Swaps	182 350	5 625	199 185	4 119
– Options	9 842	658	12 519	546
– Futures	93 691	2 780	61 103	2 515
Interest rate derivatives	9 341 576	26 271	9 477 479	26 570
– Forward rate agreements	7 305 573	5 455	7 286 647	5 489
– Swaps	1 455 686	20 094	1 463 662	20 272
– Options	570 020	722	723 944	809
– Futures	10 297	–	3 226	–
Equity derivatives	12 511	408	22 434	841
– Swaps	–	–	3 630	2
– Options	5 561	316	7 805	798
– Futures	6 950	92	10 999	41
Commodity derivatives	24 044	929	32 802	676
– Swaps	4 277	348	7 588	112
– Options	5 164	439	4 516	293
– Futures	14 603	142	20 698	271
Credit derivatives	200	40	1 075	48
Total held for trading	9 664 214	36 711	9 806 597	35 315
Total	9 699 816	37 206	9 864 791	36 361

FirstRand Group AFS

9 DERIVATIVE FINANCIAL INSTRUMENTS continued

	2011					
	Assets: Derivative instruments					
	Exchange traded		Over the counter		Total	
R million	Notional	Fair value	Notional	Fair value	Notional	Fair value
Qualifying for hedge accounting						
Cash flow hedges	–	–	34 462	495	34 462	495
– Interest rate derivatives	–	–	34 462	495	34 462	495
Fair value hedges	1 140	–	–	–	1 140	–
– Commodity derivatives	1 140	–	–	–	1 140	–
Not qualifying for hedge accounting						
Held for trading	23 852	–	9 640 362	36 711	9 664 214	36 711
– Currency derivatives	–	–	285 883	9 063	285 883	9 063
– Interest rate derivatives	10 782	–	9 330 794	26 271	9 341 576	26 271
– Equity derivatives	390	–	12 121	408	12 511	408
– Commodity derivatives	12 680	–	11 364	929	24 044	929
– Credit derivatives	–	–	200	40	200	40
Total	24 992	–	9 674 824	37 206	9 699 816	37 206

	2011					
	Liabilities: Derivative instruments					
	Exchange traded		Over the counter		Total	
R million	Notional	Fair value	Notional	Fair value	Notional	Fair value
Qualifying for hedge accounting						
Cash flow hedges	–	–	54 252	972	54 252	972
– Interest rate derivatives	–	–	54 252	972	54 252	972
Fair value hedges	2 405	–	1 537	74	3 942	74
– Interest rate derivatives	2 405	–	1 537	74	3 942	74
Not qualifying for hedge accounting						
Held for trading	31 240	–	9 775 357	35 315	9 806 597	35 315
– Currency derivatives	–	–	272 807	7 180	272 807	7 180
– Interest rate derivatives	3 306	–	9 474 173	26 570	9 477 479	26 570
– Equity derivatives	9 533	–	12 901	841	22 434	841
– Commodity derivatives	18 401	–	14 401	676	32 802	676
– Credit derivatives	–	–	1 075	48	1 075	48
Total	33 645	–	9 831 146	36 361	9 864 791	36 361

Notes to the consolidated annual financial statements continued

for the year ended 30 June

10 COMMODITIES

R million	2012	2011
Agricultural commodities	**1 474**	977
Base metals	**3 634**	3 411
Commodities	**5 108**	4 388

Refer to note 46 for the current and non-current analysis of commodities.

11 ACCOUNTS RECEIVABLE

R million	2012	2011
Items in transit	**876**	1 518
Interest and commissions accrued	**45**	95
Prepayments	**686**	372
Properties held for resale (note 33)	**103**	258
Other accounts receivable	**4 297**	5 046
Total accounts receivable	**6 007**	7 289

The credit quality of the accounts receivable is provided in the table below:

	2012						
			Past due but not impaired				
R million	**Neither past due nor impaired**	**Renegotiated but current**	**1 – 30 days**	**31 – 60 days**	**61 – 90 days**	**Impaired**	**Total**
Items in transit	**871**	**–**	**5**	**–**	**–**	**–**	**876**
Interest and commissions accrued	**42**	**–**	**3**	**–**	**–**	**–**	**45**
Prepayments	**686**	**–**	**–**	**–**	**–**	**–**	**686**
Properties held for resale	**55**	**–**	**–**	**–**	**–**	**48**	**103**
Other accounts receivable	**4 020**	**–**	**118**	**5**	**97**	**57**	**4 297**
Total accounts receivable	**5 674**	**–**	**126**	**5**	**97**	**105**	**6 007**

	2011						
			Past due but not impaired				
R million	Neither past due nor impaired	Renegotiated but current	1 – 30 days	31 – 60 days	61 – 90 days	Impaired	Total
Items in transit	1 517	–	1	–	–	–	1 518
Interest and commissions accrued	95	–	–	–	–	–	95
Prepayments	372	–	–	–	–	–	372
Properties held for resale	228	–	–	–	–	30	258
Other accounts receivable	4 758	–	204	51	23	10	5 046
Total accounts receivable	6 970	–	205	51	23	40	7 289

The carrying value of accounts receivable approximates the fair value.
Refer to note 46 for the current and non-current analysis of accounts receivable.

12 ADVANCES

R million	2012 Designated at fair value through profit and loss	Held-to-maturity	Loans and receivables	Available-for-sale	Total
Notional value of advances	139 697	67	395 499	108	535 371
Contractual interest suspended	–	(6)	(2 018)	–	(2 024)
Gross advances	139 697	61	393 481	108	533 347
Sector analysis					
Agriculture	787	–	15 679	108	16 574
Banks	9 401	–	4 606	–	14 007
Financial institutions	45 836	–	13 842	–	59 678
Building and property development	21 162	–	8 072	–	29 234
Government, Land Bank and public authorities	13 451	–	2 718	–	16 169
Individuals	447	61	284 615	–	285 123
Manufacturing and commerce	15 965	–	39 982	–	55 947
Mining	12 296	–	3 973	–	16 269
Transport and communication	10 293	–	4 623	–	14 916
Other services	10 059	–	15 371	–	25 430
Gross value of advances	139 697	61	393 481	108	533 347
Impairment of advances (note 13)	–	(1)	(8 839)	–	(8 840)
Net advances	139 697	60	384 642	108	524 507

Notes to the consolidated annual financial statements continued

for the year ended 30 June

12 ADVANCES continued

	2012				
R million	Designated at fair value through profit and loss	Held-to-maturity	Loans and receivables	Available-for-sale	Total
Category analysis					
Overdrafts and cash management accounts	–	–	32 967	–	32 967
Term loans	1 550	–	17 024	–	18 574
Card loans	–	–	13 634	–	13 634
Instalment sales and hire purchase agreements	–	–	95 507	–	95 507
Lease payments receivable	–	–	12 578	–	12 578
Property finance	3 088	61	179 912	–	183 061
– Home loans	16	61	167 354	–	167 431
– Commercial property finance	3 072	–	12 558	–	15 630
Personal loans	–	–	20 575	–	20 575
Preference share agreements	25 306	–	2 212	–	27 518
Assets under agreement to resell	37 690	–	813	–	38 503
Investment bank term loans	71 286	–	296	–	71 582
Other	777	–	17 963	108	18 848
Gross value of advances	139 697	61	393 481	108	533 347
Impairment of advances (note 13)	–	(1)	(8 839)	–	(8 840)
Net advances	139 697	60	384 642	108	524 507
Geographic analysis (based on credit risk)					
South Africa	128 809	61	349 226	108	478 204
Other Africa	3 432	–	27 839	–	31 271
United Kingdom	5 376	–	10 371	–	15 747
Other	2 080	–	6 045	–	8 125
– Europe	545	–	1 721	–	2 266
– North America	64	–	220	–	284
– South America	102	–	–	–	102
– Australasia	500	–	1 137	–	1 637
– Asia	869	–	2 967	–	3 836
Gross value of advances	139 697	61	393 481	108	533 347
Impairment of advances (note 13)	–	(1)	(8 839)	–	(8 840)
Net advances	139 697	60	384 642	108	524 507

12 ADVANCES continued

R million	Designated at fair value through profit and loss	Held-to-maturity	Loans and receivables	Available-for-sale	Total
	2011				
Notional value of advances	122 144	101	352 317	115	474 677
Contractual interest suspended	–	(8)	(2 054)	–	(2 062)
Gross advances	122 144	93	350 263	115	472 615
Sector analysis					
Agriculture	3 067	–	10 750	–	13 817
Banks	9 501	–	3 757	–	13 258
Financial institutions	36 330	–	6 183	–	42 513
Building and property development	17 742	–	6 704	–	24 446
Government, Land Bank and public authorities	13 488	–	1 833	–	15 321
Individuals	828	93	272 553	115	273 589
Manufacturing and commerce	12 477	–	22 782	–	35 259
Mining	10 251	–	1 085	–	11 336
Transport and communication	10 840	–	2 063	–	12 903
Other services	7 620	–	22 553	–	30 173
Gross value of advances	122 144	93	350 263	115	472 615
Impairment of advances (note 13)	–	(3)	(8 019)	–	(8 022)
Net advances	122 144	90	342 244	115	464 593

Notes to the consolidated annual financial statements continued

for the year ended 30 June

12 ADVANCES continued

	2011				
R million	Designated at fair value through profit and loss	Held-to-maturity	Loans and receivables	Available-for-sale	Total
Category analysis					
Overdrafts and cash management accounts	–	–	27 720	–	27 720
Term loans	1 672	–	9 381	–	11 053
Card loans	–	–	12 151	–	12 151
Instalment sales and hire purchase agreements	–	–	75 688	–	75 688
Lease payments receivable	–	–	16 391	–	16 391
Property finance	3 247	93	174 456	–	177 796
– Home loans	21	93	163 194	–	163 308
– Commercial property finance	3 226	–	11 262	–	14 488
Personal loans	–	–	15 540	–	15 540
Preference share agreements	25 675	–	2 827	–	28 502
Assets under agreement to resell	29 866	–	916	–	30 782
Investment bank term loans	57 197	–	210	–	57 407
Other	4 487	–	14 983	115	19 585
Gross value of advances	122 144	93	350 263	115	472 615
Impairment of advances (note 13)	–	(3)	(8 019)	–	(8 022)
Net advances	122 144	90	342 244	115	464 593
Geographic analysis (based on credit risk)					
South Africa	113 877	93	316 292	115	430 377
Other Africa	2 263	–	23 554	–	25 817
United Kingdom	3 846	–	7 628	–	11 474
Other	2 158	–	2 789	–	4 947
– Europe	1 463	–	569	–	2 032
– North America	121	–	254	–	375
– South America	103	–	68	–	171
– Australasia	47	–	866	–	913
– Asia	424	–	1 032	–	1 456
Total value of advances	122 144	93	350 263	115	472 615
Impairment of advances (note 13)	–	(3)	(8 019)	–	(8 022)
Net advances	122 144	90	342 244	115	464 593

12 ADVANCES continued

R million	2012 Within 1 year	2012 Between 1 and 5 years	2012 More than 5 years	2012 Total
Analysis of instalment sales and lease payments receivable				
– Lease payments receivable	**4 548**	**13 499**	**609**	**18 656**
– Suspensive sale instalments receivable	**29 488**	**77 511**	**4 899**	**111 898**
Subtotal	**34 036**	**91 010**	**5 508**	**130 554**
– Less: unearned finance charges	**(6 203)**	**(14 947)**	**(1 006)**	**(22 156)**
Total gross instalment sales and lease payments receivable	**27 833**	**76 063**	**4 502**	**108 398**
Less: interest in suspense				**(313)**
Total net instalment sales and lease payments receivable				**108 085**

R million	2011 Within 1 year	2011 Between 1 and 5 years	2011 More than 5 years	2011 Total
Analysis of instalment sales and lease payments receivable				
– Lease payments receivable	5 502	17 255	531	23 288
– Suspensive sale instalments receivable	24 706	58 861	2 930	86 497
Subtotal	30 208	76 116	3 461	109 785
– Less: unearned finance charges	(4 967)	(11 719)	(593)	(17 279)
Total gross instalment sales and lease payments receivable	25 241	64 397	2 868	92 506
Less: interest in suspense				(427)
Total net instalment sales and lease payments receivable				92 079

Under the terms of the lease agreements, no contingent rentals are payable. These agreements relate to motor vehicles and equipment. The accumulated allowance for uncollectible minimum lease payments receivable included in the allowance for impairments at reporting date is R200 million (2011: R294 million).

12 ADVANCES continued

Securitisation transactions

Securitisation transactions arranged by the Group result in either the full derecognition of the securitised financial assets (i.e. traditional securitisation transactions) or the transfer of credit risk related to specific financial assets, thereby resulting in neither the transfer nor derecognition of the asset (i.e. synthetic securitisations).

In a synthetic securitisation transaction, credit risk related to specific advances is transferred to a SPE through credit derivatives. The securitised advances are neither transferred nor derecognised and associated credit derivatives are recognised at fair value through profit or loss. The Group consolidates these securitisation vehicles as, in terms of IAS 27 Consolidated Financial Statements and SIC 12 Consolidation - Special Purpose Entities (SIC 12), the Group exercises control over the SPEs. The following are bankruptcy remote SPEs created to facilitate synthetic securitisation transactions in the Group:

- Fresco 2, a bankruptcy remote SPE, facilitated a synthetic securitisation transaction where credit risk relating to the R20 billion (2011: R20 billion) of the value of a portfolio of the Group's corporate advances, has been transferred to Fresco 2.
- Procul, a bankruptcy remote SPE, facilitated a synthetic securitisation transaction where credit risk relating to retail instalment sale advances of R2 billion was transferred from WesBank to Procul. The transaction was wound up in 2011 and all the related notes issued were redeemed.

In a traditional securitisation transaction, certain advances are transferred to a SPE, which then issues liabilities to third party investors, for example, variable rate notes. The Group consolidates these securitisation vehicles under SIC 12 and has, therefore, not derecognised the securitised advances. The Group's obligations (associated liability) toward the third party note holders is limited to the cash flows received on the underlying securitised advances, i.e. the note holders only have a claim to the ring fenced advances in the SPE, and not to other assets of the Group.

The following are bankruptcy remote SPEs created to facilitate a traditional securitisation transaction related to WesBank retail instalment sale advances:

- Nitro 4 facilitates a securitisation transaction amounting to R4 billion of WesBank retail instalment sale advances and was established in July 2011. Advances with a carrying amount of R2 573 million are held by Nitro 4 and are not derecognised as Nitro 4 is consolidated by the Group. Liabilities of R3 007 million have been recognised in terms of notes issued into the market.
- Turbo Finance facilitated a securitisation transaction amounting to GBP 341 million of retail instalment sale advances in the United Kingdom relating to the Group's MotoNovo finance division (formerly Carlyle Finance). It was established in September 2010 and issued notes into the market in February 2011. Advances with a carrying amount of R1 487 million (2011: R2 682 million) are held by Turbo Finance and are not derecognised as Turbo Finance is consolidated by the Group. Liabilities of R1 486 million (2011: R2 771 million) included in deposits have been recognised in terms of notes issued into the market.
- Turbo Finance 2 facilitated a securitisation transaction amounting to GBP 320 million of retail instalment sale advances in the United Kingdom relating to the Group's MotoNovo finance division (formerly Carlyle Finance) and was established in March 2012. Advances with a carrying amount of R3 426 million (2011: Rnil) are held by Turbo Finance and are not derecognised as Turbo Finance is consolidated by the Group. Liabilities of R3 637 million (2011: Rnil) included in deposits have been recognised in terms of notes issued into the market.

The following are bankruptcy remote SPEs created to facilitate a traditional securitisation transaction related to FNB home loan advances:

- iKhaya 1 facilitated a securitisation transaction amounting to R1.9 billion of FNB home loan advances. The transaction was wound up during the year and all the notes issued were called/settled. Advances with a carrying amount of Rnil million (2011: R1 161 million) are held by iKhaya 1 and are not derecognised as iKhaya 1 is consolidated by the Group. Liabilities of Rnil million (2011: R1 131 million) included in deposits have been recognised in terms of notes issued into the market.
- iKhaya 2 facilitated a securitisation transaction amounting to R3 billion of FNB home loan advances. The transaction was wound up during the year and all the notes issued were called/settled. Advances with a carrying amount of Rnil million (2011: R1 620 million) are held by iKhaya 2 and are not derecognised as iKhaya 2 is consolidated by the Group. Liabilities of Rnil million (2011: R1 578 million) included in deposits have been recognised in terms of notes issued into the market.

Additional information relating to these transactions is set out in note 36.

12 ADVANCES continued

Credit risk mitigation

Collateral is an important mitigant of credit risk. Refer to page 145 to page 177 of the *Risk and capital management report* for the Group's credit risk management strategy with detailed information on credit risk mitigation.

The table below sets out the financial effect of collateral per class of advance. The amounts disclosed below represent the difference between the balance sheet impairment using the actual LGD and the proxy unsecured LGD for all secured portfolios.

R million	**2012**	2011
FNB Retail	**6 763**	8 841
FNB Commercial	**441**	518
Total FNB	**7 204**	9 359
FNB Africa	**228**	240
RMB	**1 056**	1 208
GTS	**23**	91
Total Corporate and Investment Banking	**1 079**	1 299
WesBank	**1 933**	3 368
Corporate Centre and other	**1**	3
Total	**10 445**	14 269

The financial effect of collateral and other credit enhancements has been calculated with reference to the unsecured loss given default (LGD) per class for the performing book (IBNR and portfolio specific impairments) and the non-performing book separately.

Where there is no collateral or where collateral is disregarded for impairment purposes, no financial effect was calculated.

It is the Group's policy that all items of collateral are valued at the inception of a transaction and at various points throughout the life of a 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. However, in the event of default a more detailed review and valuation of collateral is performed, this therefore yields a more accurate financial effect.

Refer to note 37 for information relating to the fair value of advances.

Refer to note 46 for the current and non-current analysis of advances.

Notes to the consolidated annual financial statements continued

for the year ended 30 June

13 IMPAIRMENT OF ADVANCES

Significant loans and advances are monitored by the credit committee and impaired according to the Group's impairment policy when an indication of impairment is observed.

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

- 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).

	2012		
	FNB		
R million	Retail	Commercial	FNB Africa
Analysis of movement in impairment of advances per class of advance			
Opening balance	3 793	1 011	375
Amounts written off	(2 919)	(306)	(77)
Acquisitions/(disposals) of subsidiaries	–	–	–
Acquisitions/(disposals) of advances	4	–	–
Reclassifications	–	–	–
Exchange rate difference	(3)	3	9
Unwinding of discounted present value on non-performing loans	(113)	(9)	(9)
Net new impairments created/(released)**	3 399	174	121
Closing balance	4 161	873	419
(Increase)/decrease in provision**	(3 399)	(174)	(121)
Recoveries of bad debts previously written off	831	8	–
Impairment loss recognised in profit or loss	(2 568)	(166)	(121)

* *The Group's corporate transactional banking activities were previously reported under FNB Corporate. Following a strategic review, it was decided that the results of the Group's corporate transactional banking will be reported under GTS from 1 July 2011 which will form part of the overall Corporate and Investment Banking activities of the Bank.*

** *Refer to the Risk Management Framework and Governance Structure report in the following categories for more details:*

- *Credit risk – under the Impairment of financial assets and NPLs section.*
- *Operational risk – under the Boundary event section.*

	2012						
	Corporate and Investment Banking						
	RMB	GTS*	WesBank	Other	Total impairment	Specific impairment	Portfolio impairment
	156	238	2 451	(2)	8 022	5 812	2 210
	(2)	(301)	(1 863)	14	(5 454)	(5 454)	–
	–	–	–	41	41	37	4
	(4)	–	–	(3)	(3)	(2)	(1)
	–	–	–	–	–	(31)	31
	–	–	10	2	21	12	9
	–	–	–	–	(131)	(131)	–
	90	272	1 540	748	6 344	5 279	1 065
	240	209	2 138	800	8 840	5 522	3 318
	(90)	(272)	(1 540)	(748)	(6 344)	(5 279)	(1 065)
	1	–	440	(1)	1 279	1 279	–
	(89)	(272)	(1 100)	(749)	(5 065)	(4 000)	(1 065)

Notes to the consolidated annual financial statements continued

for the year ended 30 June

13 IMPAIRMENT OF ADVANCES continued

	2011		
	FNB		
R million	Retail	Commercial	FNB Africa
Opening balance	4 325	970	392
Amounts written off	(3 077)	(284)	(70)
Acquisitions/(disposals) of subsidiaries	–	–	–
Transfers from/(to) other divisions	(62)	5	–
Reclassifications	–	–	–
Exchange rate difference	–	–	(3)
Unwinding of discounted present value on non-performing loans	(182)	(16)	(8)
Net new impairments created/(released)	2 789	336	64
Closing balance	3 793	1 011	375
(Increase)/decrease in provision	(2 789)	(336)	(64)
Recoveries of bad debts previously written off	687	3	–
Impairment loss recognised in profit or loss	(2 102)	(333)	(64)

* *The Group's corporate transactional banking activities were previously reported under FNB Corporate. Following a strategic review, it was decided that the results of the Group's corporate transactional banking will be reported under GTS from 1 July 2011 which will form part of the overall Corporate and Investment Banking activities of the Group.*

	2011						
	Corporate and Investment Banking						
	RMB	GTS*	WesBank	Other	Total impairment	Specific impairment	Portfolio impairment
	469	228	2 599	(11)	8 972	6 888	2 084
	(299)	(53)	(1 730)	(42)	(5 555)	(5 518)	(37)
	–	–	–	–	–	–	–
	(6)	51	(30)	42	–	–	–
	–	–	–	–	–	(140)	140
	17	–	(4)	–	10	11	(1)
	–	–	–	(8)	(214)	(213)	(1)
	(25)	12	1 616	17	4 809	4 784	25
	156	238	2 451	(2)	8 022	5 812	2 210
	25	(12)	(1 616)	(17)	(4 809)	(4 784)	(25)
	–	3	325	13	1 031	1 031	–
	25	(9)	(1 291)	(4)	(3 778)	(3 753)	(25)

Notes to the consolidated annual financial statements continued

for the year ended 30 June

13 IMPAIRMENT OF ADVANCES continued

R million	2012 Total value net of interest in suspense	2012 Security held and expected recoveries	2012 Specific impairments
Non-performing loans by sector			
Agriculture	571	464	107
Financial institutions	371	212	159
Building and property development	2 342	1 966	376
Government, Land Bank and public authorities	40	20	20
Individuals	13 089	9 088	4 001
Manufacturing and commerce	1 003	551	452
Mining	422	376	46
Transport and communication	246	175	71
Other	582	292	290
Total non-performing loans	18 666	13 144	5 522
Non-performing loans by category			
Overdrafts and cash management accounts	896	254	642
Term loans	600	452	148
Card loans	322	79	243
Instalment sales and hire purchase agreements	3 385	2 086	1 299
Lease payments receivable	434	232	202
Property finance	9 740	7 618	2 122
– Home loans	8 815	7 082	1 733
– Commercial property finance	925	536	389
Personal loans	1 242	392	850
Preference share agreement	14	2	12
Investment bank term loans	2 030	2 027	3
Other	3	2	1
Total non-performing loans	18 666	13 144	5 522

13 IMPAIRMENT OF ADVANCES continued

R million	2012 Total value net of interest in suspense	2012 Security held and expected recoveries	2012 Specific impairments
Non-performing loans by class			
FNB Retail	9 940	7 201	2 739
FNB Commercial	1 665	886	779
Total FNB	11 605	8 087	3 518
FNB Africa	475	248	227
RMB	2 436	2 354	82
GTS	9	–	9
Corporate and Investment Banking	2 445	2 354	91
WesBank	4 141	2 455	1 686
Corporate Centre and other	–	–	–
Total non-performing loans	18 666	13 144	5 522
Non-performing loans by geographical area			
South Africa	17 386	12 226	5 160
Other Africa	509	282	227
United Kingdom	68	44	24
Other	703	592	111
– North America	219	212	7
– South America	290	290	–
– Australasia	194	90	104
Total non-performing loans	18 666	13 144	5 522

Notes to the consolidated annual financial statements continued

for the year ended 30 June

13 IMPAIRMENT OF ADVANCES continued

	2011		
R million	Total value net of interest in suspense	Security held and expected recoveries	Specific impairments
Non-performing loans by sector			
Agriculture	453	385	68
Financial institutions	519	315	204
Building and property development	1 771	1 471	300
Government, Land Bank and public authorities	74	40	34
Individuals	14 161	10 107	4 054
Manufacturing and commerce	635	359	276
Mining	55	41	14
Transport and communication	276	200	76
Other	1 846	1 060	786
Total non-performing loans	19 790	13 978	5 812
Non-performing loans by category			
Overdrafts and cash management accounts	880	277	603
Term loans	253	181	72
Card loans	483	116	367
Instalment sales and hire purchase agreements	3 479	1 930	1 549
Lease payments receivable	701	378	323
Property finance	11 667	9 191	2 476
– Home loans	10 567	8 565	2 002
– Commercial property finance	1 100	626	474
Personal loans	546	168	378
Preference share agreement	14	2	12
Investment bank term loans	1 622	1 622	–
Other	145	113	32
Total non-performing loans	19 790	13 978	5 812

13 IMPAIRMENT OF ADVANCES continued

	2011		
R million	Total value net of interest in suspense	Security held and expected recoveries	Specific impairments
Non-performing loans by class			
FNB Retail	11 373	8 626	2 747
FNB Commercial	1 865	970	895
Total FNB	13 238	9 596	3 642
FNB Africa	370	205	165
RMB	1 798	1 790	8
GTS	18	–	18
Corporate and Investment Banking	1 816	1 790	26
WesBank	4 367	2 392	1 975
Corporate Centre and other	(1)	(5)	4
Total non-performing loans	19 790	13 978	5 812
Non-performing loans by geographical area			
South Africa	19 057	13 489	5 568
Other Africa	406	211	195
United Kingdom	16	1	15
Other	311	277	34
– South America	248	248	–
– Australasia	63	29	34
Total non-performing loans	19 790	13 978	5 812

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

Notes to the consolidated annual financial statements continued

for the year ended 30 June

14 INVESTMENT SECURITIES AND OTHER INVESTMENTS

	2012		
R million	Held for trading	Designated at fair value through profit or loss	Held-to-maturity
Total			
Negotiable certificates of deposit	1 252	–	–
Treasury bills	1 245	17 556	155
Other government and government guaranteed stock	21 413	5 458	10
Other dated securities	4 518	8 385	–
Other undated securities	–	158	–
Equities	9 833	6 447	–
Other	–	–	79
Total investment securities and other investments	**38 261**	**38 004**	**244**
Listed			
Treasury bills	–	2 585	–
Other government and government guaranteed stock	21 342	3 691	–
Other dated securities	2 093	4 512	–
Other undated securities	–	101	–
Equities	9 753	2 104	–
Total listed	**33 188**	**12 993**	**–**
Unlisted			
Negotiable certificates of deposit	1 252	–	–
Treasury bills	1 245	14 971	155
Other government and government guaranteed stock	71	1 767	10
Other dated securities	2 425	3 873	–
Other undated securities	–	57	–
Equities	80	4 343	–
Other	–	–	79
Total unlisted	**5 073**	**25 011**	**244**

2012			
Loans and receivables	Available-for-sale	Non-recourse investments designated at fair value through profit or loss	Total
103	484	–	1 839
–	5 038	–	23 994
–	16 125	3 205	46 211
–	–	16 887	29 790
–	–	–	158
–	1 316	–	17 596
–	41	–	120
103	23 004	20 092	119 708
–	–	–	2 585
–	13 298	716	39 047
–	–	1 348	7 953
–	–	–	101
–	546	–	12 403
–	13 844	2 064	62 089
103	484	–	1 839
–	5 038	–	21 409
–	2 827	2 489	7 164
–	–	15 539	21 837
–	–	–	57
–	770	–	5 193
–	41	–	120
103	9 160	18 028	57 619

Notes to the consolidated annual financial statements continued

for the year ended 30 June

14 INVESTMENT SECURITIES AND OTHER INVESTMENTS continued

	2011		
R million	Held for trading	Designated at fair value through profit or loss	Held-to-maturity
Total			
Negotiable certificates of deposit	355	15	–
Treasury bills	2 462	20 034	120
Other government and government guaranteed stock	15 310	10 303	–
Other dated securities	6 207	4 613	9
Other undated securities	–	37	–
Equities	11 534	5 611	–
Other	–	–	78
Total investment securities and other investments	35 868	40 613	207
Listed			
Negotiable certificates of deposit	–	15	–
Treasury bills	–	6 076	–
Other government and government guaranteed stock	15 090	3 964	–
Other dated securities	1 054	1 880	–
Equities	11 447	2 276	–
Other	–	–	–
Total listed	27 591	14 211	–
Unlisted			
Negotiable certificates of deposit	355	–	–
Treasury bills	2 462	13 958	120
Other government and government guaranteed stock	220	6 339	–
Other dated securities	5 153	2 733	9
Other undated securities	–	37	–
Equities	87	3 335	–
Other	–	–	78
Total unlisted	8 277	26 402	207

R35 371 million (2011: R33 924 million) of the financial instruments held for trading form part of the Group's liquid asset portfolio in terms of the SARB and other foreign banking regulators' requirements.

2011			
Loans and receivables	Available-for-sale	Non-recourse investments designated at fair value through profit or loss	Total
54	362	–	786
–	8 166	–	30 782
–	21 093	3 572	50 278
24	3	12 131	22 987
–	–	–	37
–	916	–	18 061
–	36	1 711	1 825
78	30 576	17 414	124 756
–	–	–	15
–	149	–	6 225
–	17 471	760	37 285
–	–	3 067	6 001
–	538	–	14 261
–	–	–	–
–	18 158	3 827	63 787
54	362	–	771
–	8 017	–	24 557
–	3 622	2 812	12 993
24	3	9 064	16 986
–	–	–	37
–	378	–	3 800
–	36	1 711	1 825
78	12 418	13 587	60 969

Notes to the consolidated annual financial statements continued

for the year ended 30 June

14 INVESTMENT SECURITIES AND OTHER INVESTMENTS continued

Non-recourse investments designated at fair value through profit and loss

Certain investments held by the Group include investment grade commercial paper that is issued by asset-backed conduits held by the Group. The Group is deemed to control these conduits in terms of SIC 12.

Fair value adjustments on non-recourse investments therefore include the effect of fair value changes in this investment grade commercial paper linked to conduits.

The fair value adjustments related to the portion of this commercial paper held by the Group itself is deducted to arrive at the actual fair value adjustment.

The Group has entered into the following conduit transactions:

1. iNdwa Investment Limited, an asset-backed conduit that provides South African institutional investors with short-dated investment grade commercial paper.
2. iNkotha Investment Limited, a fixed income fund that provides South African institutional investors with short-dated investment grade commercial paper.
3. iVuzi Investment Limited, an asset-backed conduit that provides South African institutional investors with short-dated investment grade commercial paper.
4. iNguza Investments Limited is a secured debenture programme that provides South African institutional investors with a debenture linked to a specific underlying credit exposure.

The Group has no obligations toward other investors beyond the amount already contributed. The Group has no management control or influence over these investments, which are designated at fair value through profit or loss.

Total fair value adjustments on non-recourse investments, including the adjustments linked to the above conduits, are as follows:

R million	2012	2011
Investment grade commercial paper	**20 092**	18 071
Less: Group's share thereof	**–**	(657)
Total non-recourse investments	**20 092**	17 414
Analysis of investment securities and other investments		
Listed	**62 089**	63 787
– Equities	**12 403**	14 262
– Debt	**49 686**	49 525
Unlisted	**57 619**	60 969
– Equities	**5 193**	3 801
– Debt	**52 426**	57 168
Total	**119 708**	124 756
Valuation of investment securities and other investments		
Fair value of listed investments	**62 089**	63 787
Fair value of unlisted investments*	**57 619**	60 969
Total fair value	**119 708**	124 756

* *The fair value of unlisted investments is determined using valuation techniques. Valuation techniques used by the Group are described further in note 37.*

Information regarding other investments is kept at the Group's registered offices. This information is open for inspection in terms of the provisions of section 26 of the Companies Act 71 of 2008.

Refer to note 37 for additional information relating to the fair value of investments securities and other investments.

Refer to note 46 for the current and non-current analysis of investment securities and other investments.

15 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

R million	2012	2011
Listed investments		
Investments at cost less amounts written off	**365**	320
Unlisted investments		
Investments at cost less amounts written off	**4 821**	3 993
Share of profit from associates and joint ventures after tax	**1 120**	531
– Income before tax for the year	**1 529**	1 168
– Impairments of associates and joint ventures	**(32)**	(300)
– Tax for the year	**(377)**	(337)
Repurchase of shares	**–**	(88)
Dividends received for the year	**(509)**	(395)
Retained earnings for the year	**611**	48
Exchange rate differences	**57**	(74)
Disposals of associates and joint ventures	**(729)**	(326)
Share of retained earnings at beginning of the year	**1 587**	1 939
Share of retained earnings at end of the year	**1 526**	1 587
Share of other reserves	**157**	129
Total retained earnings and reserves	**1 683**	1 716
Total investments in associates and joint ventures	**6 869**	6 029
Valuation of investments in associates and joint ventures		
Fair value of listed associates and joint ventures	**294**	287
Fair value of unlisted associates and joint ventures*	**9 584**	8 614
Total fair value of investments in associates and joint ventures	**9 878**	8 901
Shareholder loans included in investments in associates and joint ventures	**1 892**	1 487

* *The fair value of unlisted investments is determined using valuation techniques. Valuation techniques used by the Group are described further in note 37.*

The cumulative share of losses from associates not recognised was R161 million (2011: R111 million).

Notes to the consolidated annual financial statements continued

for the year ended 30 June

15 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES continued

	Nature of business	Issued ordinary shares (R)	Number of ordinary shares held	Year end
Listed				
Private Equity Associates*	Various	Various	Various	Various
Crookes Brothers Limited	Agriculture	12 385 000	3 737 993	31 Mar
Other	Various	Various	Various	Various
Unlisted				
Toyota Financial Services Proprietary Limited	Vehicle finance	4 695	1 565	31 Mar
Tracker Investment Holdings Proprietary Limited**	Vehicle trading	82 375	29 738	30 Jun
Private Equity Associates	Various	Various	Various	Various
RMB Morgan Stanley	Equity sales, trading and research	2	1	30 Jun
Eris Property Group Proprietary Limited#	Property services	100 000	40 000	30 Jun
Weston Atlas Funds	Investment fund	–	–	31 Dec
Sanlam Direct Axis Proprietary Limited	Personal loans	10 000	3 000	31 Dec
New Seasons Investments	Investment holdings company	136 000	40 000	28 Feb
Bankserv	Clearing house	800	185	30 Jun
Home Choice Holdings Limited	Direct marketing and financial services	100 899 000	9 487 033	31 Dec
SBV	Cash in transit	3 000	750	30 Jun
Other	Various	Various	Various	Various

15 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES continued

R million	Effective holding % 2012	Effective holding % 2011	Market value/ Group valuation amount 2012	Market value/ Group valuation amount 2011	Group carrying value 2012	Group carrying value 2011
Listed						
Private Equity Associates*	**Various**	Various	**115**	121	**115**	144
Crookes Brothers Limited	**30**	31	**179**	166	**193**	176
Total listed	**–**	–	**294**	287	**308**	320
Unlisted						
Toyota Financial Services Proprietary Limited	**33**	33	**1 427**	1 189	**566**	522
Tracker Investment Holdings Proprietary Limited**	**–**	36	**–**	1 253	**–**	662
Private Equity Associates	**Various**	Various	**5 412**	4 014	**4 516**	3 318
RMB Morgan Stanley	**50**	50	**309**	246	**296**	246
Eris Property Group Proprietary Limited#	**–**	40	**–**	440	**–**	89
Weston Atlas Funds	**33**	33	**69**	108	**69**	108
Sanlam Direct Axis Proprietary Limited	**30**	30	**180**	137	**180**	137
New Seasons Investments	**29**	29	**26**	34	**26**	14
Bankserv	**23**	23	**442**	198	**102**	89
Home Choice Holdings Limited	**9**	–	**101**	308	**73**	–
SBV	**25**	25	**308**	64	**78**	64
Other	**Various**	Various	**1 310**	623	**655**	460
Total unlisted	**–**	–	**9 584**	8 614	**6 561**	5 709
Total investments in associates and joint ventures	**–**	–	**9 878**	8 901	**6 869**	6 029

* *Included in the Private Equity Associates are Vox Telecom Limited and Control Instruments Group Limited. The value in use of these associate investments is R115 million (2011: R144 million) and has been used in determining the Group carrying value.*

** *The Group previously owned 36.1% of Tracker Proprietary Limited. Effective 3 October 2011, the Group disposed of a portion of its shareholding to a consortium of investors. After the disposal, the Group continued to equity account the remaining interest of 22.7%. The remaining interest is held through a new company included in the total Private Equity Associates. A gain of R462 million was made on the disposal of a portion of the investment in Tracker Proprietary Limited.*

The investment in Eris Property Group Proprietary Limited has been reclassified to non-current assets held for sale.

Notes to the consolidated annual financial statements continued

for the year ended 30 June

15 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES continued

Summarised financial information of associates and joint ventures:

	Crookes Brothers Limited		Kula Gold		OUTsurance Insurance Company Limited		Toyota Financial Services Proprietary Limited	
	Associate		Associate*		Associate*		Associate	
R million	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
Statement of financial position								
Current assets	**359**	304	**–**	–	**–**	–	**5 929**	6 014
Non-current assets	**372**	295	**–**	–	**–**	–	**13 555**	11 496
Current liabilities	**(80)**	(43)	**–**	–	**–**	–	**(7 171)**	(7 939)
Non-current liabilities	**(147)**	(117)	**–**	–	**–**	–	**(10 664)**	(8 022)
Equity	**504**	439	**–**	–	**–**	–	**1 649**	1 549
Income statement								
After tax profit attributable to the Group	**23**	26	**–**	1	**–**	180	**116**	95
Loans to associates								
Loans to associates – included in investments	**–**	–	**–**	–	**–**	–	**–**	–
Loans to associates – included in advances	**–**	–	**–**	–	**–**	–	**–**	–

	Tracker Investment Holdings Proprietary Limited		Marsh Holdings Proprietary Limited		Private Equity		RMB Morgan Stanley	
	Associate		Associate*		Associates		Joint venture	
R million	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
Statement of financial position								
Current assets	**–**	137	**–**	–	**8 708**	8 928	**2 946**	1 413
Non-current assets	**–**	900	**–**	–	**19 486**	16 427	**–**	–
Current liabilities	**–**	(263)	**–**	–	**(5 996)**	(6 536)	**(2 296)**	(903)
Non-current liabilities	**–**	(98)	**–**	–	**(12 646)**	(7 559)	**(35)**	(510)
Equity	**–**	676	**–**	–	**9 552**	11 260	**615**	–
Income statement								
After tax profit attributable to the Group	**22**	101	**–**	8	**723**	(5)	**67**	50
Loans to associates								
Loans to associates – included in investments	**–**	–	**–**	–	**1 818**	1 376	**–**	–
Loans to associates – included in advances	**–**	–	**–**	–	**294**	173	**–**	–

* *Profit attributable to the Group up to the date of sale.*

15 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES continued

Summarised financial information of associates and joint ventures:

	New Seasons Investments		Eris Property Group Proprietary Limited		Weston Atlas Funds		Sanlam Direct Axis Proprietary Limited	
	Associate		Associate*		Associate		Associate	
R million	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
Statement of financial position								
Current assets	**148**	13	**–**	423	**–**	–	**727**	640
Non-current assets	**92**	103	**–**	156	**210**	328	**1 947**	1 424
Current liabilities	**(51)**	(28)	**–**	(46)	**–**	–	**(1 134)**	(550)
Non-current liabilities	**(62)**	(63)	**–**	(277)	**–**	–	**(1 156)**	(1 251)
Equity	**127**	25	**–**	256	**210**	328	**384**	263
Income statement								
After tax profit attributable to the Group	**16**	(6)	**27**	23	**(3)**	10	**53**	41
Loans to associates								
Loans to associates – included in investments	**–**	–	**–**	–	**–**	–	**–**	58
Loans to associates – included in advances	**–**	10	**–**	–	**–**	–	**–**	–

Summarised financial information of associates and joint ventures:

	Bankserv		Home Choice Holdings Limited		SBV		Other associates and joint ventures	
	Associate		Associate		Associate			
R million	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
Statement of financial position								
Current assets	**–**	221	**1 000**	–	**–**	340	**2 512**	3 194
Non-current assets	**545**	244	**191**	–	**960**	646	**3 448**	3 201
Current liabilities	**(103)**	(77)	**(174)**	–	**(325)**	(342)	**(1 955)**	(1 558)
Non-current liabilities	**–**	(5)	**(124)**	–	**(328)**	(387)	**(2 872)**	(2 550)
Equity	**442**	383	**893**	–	**307**	257	**1 133**	2 287
Income statement								
After tax profit attributable to the Group	**18**	12	**45**	–	**14**	17	**(1)**	(22)
Loans to associates								
Loans to associates – included in investments	**–**	–	**–**	–	**–**	–	**74**	53
Loans to associates – included in advances	**–**	–	**–**	–	**–**	–	**131**	92

Notes to the consolidated annual financial statements continued

for the year ended 30 June

15 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES continued

Summarised financial information of associates and joint ventures:

	Total listed and unlisted associates and joint ventures	
R million	**2012**	2011
Statement of financial position		
Current assets	**22 329**	21 627
Non-current assets	**40 806**	35 220
Current liabilities	**(19 285)**	(18 285)
Non-current liabilities	**(28 034)**	(20 839)
Equity	**15 816**	17 723
Income statement		
After tax profit attributable to the Group	**1 120**	531
Loans to associates		
Loans to associates – included in investments	**1 892**	1 487
Loans to associates – included in advances	**425**	275

The most recent audited annual financial statements of associates are used by the Group in applying the equity method of accounting for associates. These are not always drawn up to the same date as the financial statements of the Group. Where the reporting date of the associate is different from that of the Group, the Group uses the most recent available financial statements of the associate as well as reviews the associates management accounts for material transactions during the in-between period. In instances where significant events occurred between the last reporting date of an associate and the reporting date of the Group, the effect of such events are adjusted for. The Group has applied this principle consistently since adopting the equity accounting method for associates.

16 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

	2012			2011		
R million	**Cost**	**Accumulated depreciation and impairments#**	**Carrying amount**	Cost	Accumulated depreciation and impairments	Carrying amount
Property	**9 742**	**(2 830)**	**6 912**	8 721	(2 353)	6 368
Freehold property*	**5 817**	**(1 334)**	**4 483**	4 994	(1 123)	3 871
Leasehold premises*	**3 925**	**(1 496)**	**2 429**	3 727	(1 230)	2 497
Assets held under leasing agreements**	**1 864**	**(333)**	**1 531**	931	(216)	715
Equipment*	**9 052**	**(5 469)**	**3 583**	8 398	(4 939)	3 459
Computer equipment	**5 048**	**(3 562)**	**1 486**	4 869	(3 391)	1 478
Furniture and fittings	**1 796**	**(909)**	**887**	1 656	(710)	946
Motor vehicles	**1 141**	**(323)**	**818**	945	(281)	664
Office equipment	**1 062**	**(673)**	**389**	916	(554)	362
Capitalised leased assets	**5**	**(2)**	**3**	12	(3)	9
Total property and equipment	**20 658**	**(8 632)**	**12 026**	18 050	(7 508)	10 542

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

** *Assets which are owned by the Group and leased to third parties under operating leases as part of the Group's revenue generating operations.*

During the current reporting period the Group reassessed the useful lives of small item fixed assets. Small item fixed assets are those items of property and equipment with a cost of less than R7 000. The Group has determined that from the 2012 financial year all small item fixed assets will no longer be capitalised but rather written off through the income statement when acquired. This change in estimate has been applied prospectively in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. The write off of these small items fixed assets is reflected in note 3 of the financial statements. The change in estimate resulted in accelerated depreciation of R251 million in the current period relating to small item fixed assets that had been capitalised in prior periods and written off in full in the current period.

Notes to the consolidated annual financial statements continued

for the year ended 30 June

16 PROPERTY AND EQUIPMENT continued

R million	Freehold property	Leasehold premises	Assets held under leasing agreements
Movement in property and equipment – carrying amount			
Carrying amount at 1 July 2010	3 609	2 490	896
Acquisitions	573	355	62
Disposals	(239)	(46)	(118)
Acquisition/(disposal) of subsidiaries	134	9	1
Exchange rate difference	5	(4)	(56)
Depreciation charge for period	(142)	(308)	(54)
Impairments recognised	(54)	–	(14)
Other	(15)	1	(2)
Carrying amount at 30 June 2011	**3 871**	**2 497**	**715**
Acquisitions	**894**	**292**	**903**
Disposals	**(145)**	**(37)**	**(1)**
Acquisition/(disposal) of subsidiaries	**64**	**–**	**–**
Exchange rate difference	**42**	**15**	**82**
Depreciation charge for period	**(225)**	**(338)**	**(129)**
Impairments recognised	**(4)**	**–**	**–**
Impairments reversed	**–**	**–**	**2**
Transfer to non-current assets and disposal groups held for sale	**(13)**	**–**	**(41)**
Other	**(1)**	**–**	**–**
Carrying amount at 30 June 2012	**4 483**	**2 429**	**1 531**

Information regarding land and buildings is kept at the Group's registered offices. This information will be open for inspection in terms of section 26 of the Companies Act 71 of 2008.

Property occupied for banking operations serves as security for finance lease liabilities. Refer to note 26 for liabilities that are related to the finance lease assets.

The impairment reversal of R2 million is as a result of exchange rate gains causing a movement in the recoverable amount of the asset.

R37 million of the impairment of freehold property in the prior year was as a result of the decline in certain offshore property markets, where the additional cost to the Group to complete certain building projects is in excess of the expected recoverable amounts of these assets. The remaining impairment is as a result of the decline in the market value of property and assets held under lease agreements. The cost to acquire and repair these assets exceeded their market value. The impairment of computer equipment in the prior year was as a result of the decline in the market value of this equipment.

Refer to note 46 for the current and non-current analysis of property and equipment.

	Computer equipment	Furniture and fittings	Motor vehicles	Office equipment	Capitalised leased assets	Total
	1 300	913	383	422	5	10 018
	804	244	524	90	25	2 677
	(14)	(33)	(101)	(21)	(2)	(574)
	2	(3)	1	1	1	146
	(1)	–	–	1	–	(55)
	(611)	(175)	(142)	(130)	(3)	(1 565)
	(3)	–	–	–	–	(71)
	1	–	(1)	(1)	(17)	(34)
	1 478	**946**	**664**	**362**	**9**	**10 542**
	926	**276**	**688**	**199**	**1**	**4 179**
	(78)	**(53)**	**(349)**	**(18)**	**(7)**	**(688)**
	(3)	**–**	**–**	**–**	**–**	**61**
	6	**4**	**1**	**5**	**–**	**155**
	(840)	**(250)**	**(181)**	**(159)**	**(1)**	**(2 123)**
	–	**–**	**–**	**–**	**–**	**(4)**
	–	**–**	**–**	**–**	**–**	**2**
	(2)	**(36)**	**(5)**	**–**	**–**	**(97)**
	(1)	**–**	**–**	**–**	**1**	**(1)**
	1 486	**887**	**818**	**389**	**3**	**12 026**

Notes to the consolidated annual financial statements continued

for the year ended 30 June

17 INTANGIBLE ASSETS

The useful life of each intangible asset is assessed individually. The table below provides information on the benchmarks used when assessing the useful lives of the individual intangible assets:

Software	3 years
Development costs	3 years
Trademarks	10 to 20 years
Other	3 to 10 years other than a service concession arrangement, that has a contractual term of 37 years

	2012			2011		
R million	**Cost**	**Accumulated amortisation and impairments**	**Carrying amount**	Cost	Accumulated amortisation and impairments	Carrying amount
Goodwill						
Movement in goodwill – carrying amount						
Opening balance	**1 436**	**(264)**	**1 172**	1 438	(178)	1 260
Acquisitions	**89**	**–**	**89**	5	–	5
Disposals	**(1)**	**–**	**(1)**	(14)	9	(5)
Acquisitions/(disposals) of subsidiaries	**10**	**–**	**10**	(2)	1	(1)
Reclassification	**(6)**	**6**	**–**	–	–	–
Transfer to non-current assets and disposal groups held for sale	**(97)**	**97**	**–**	–	–	–
Exchange rate differences	**28**	**1**	**29**	9	–	9
Impairment incurred	**–**	**(115)**	**(115)**	–	(96)	(96)
Closing balance	**1 459**	**(275)**	**1 184**	1 436	(264)	1 172
Software						
Movement in software – carrying amount						
Opening balance	**657**	**(410)**	**247**	480	(309)	171
Acquisitions	**82**	**–**	**82**	174	–	174
Disposals	**(17)**	**–**	**(17)**	(1)	2	1
Acquisitions/(disposals) of subsidiaries	**–**	**–**	**–**	4	–	4
Exchange rate differences	**5**	**(3)**	**2**	–	–	–
Amortisation for the year	**–**	**(113)**	**(113)**	–	(103)	(103)
Other	**1**	**–**	**1**	–	–	–
Closing balance	**728**	**(526)**	**202**	657	(410)	247

17 INTANGIBLE ASSETS continued

R million	2012 Cost	2012 Accumulated amortisation and impairments	2012 Carrying amount	2011 Cost	2011 Accumulated amortisation and impairments	2011 Carrying amount
Development costs						
Movement in development costs – carrying amount						
Opening balance	**78**	**(55)**	**23**	63	(40)	23
Acquisitions	**164**	**–**	**164**	11	–	11
Acquisitions/(disposals) of subsidiaries	**–**	**–**	**–**	4	(5)	(1)
Amortisation for the year	**–**	**(14)**	**(14)**	–	(10)	(10)
Other	**1**	**(1)**	**–**	–	–	–
Closing balance	**243**	**(70)**	**173**	78	(55)	23
Trademarks						
Movement in trademarks – carrying amount						
Opening balance	**203**	**(135)**	**68**	661	(194)	467
Acquisitions	**25**	**–**	**25**	–	–	–
Disposals	**(1)**	**1**	**–**	(10)	9	(1)
Acquisitions/(disposals) of subsidiaries	**–**	**–**	**–**	(424)	68	(356)
Reclassification	**–**	**–**	**–**	(23)	17	(6)
Transfer to non-current assets and disposal groups held for sale	**(27)**	**27**	**–**	–	–	–
Exchange rate differences	**6**	**(6)**	**–**	(1)	(1)	(2)
Amortisation for the year	**–**	**(54)**	**(54)**	–	(34)	(34)
Closing balance	**206**	**(167)**	**39**	203	(135)	68
Deferred acquisition cost asset						
Movement in deferred acquisition cost assets – carrying amount						
Opening balance	**–**	**–**	**–**	250	(250)	–
Acquisitions	**–**	**–**	**–**	(250)	250	–
Closing balance	**–**	**–**	**–**	–	–	–

Notes to the consolidated annual financial statements continued

for the year ended 30 June

17 INTANGIBLE ASSETS continued

	2012			2011		
R million	**Cost**	**Accumulated amortisation and impairments**	**Carrying amount**	Cost	Accumulated amortisation and impairments	Carrying amount
Other						
Movement in other – carrying amount						
Opening balance	**218**	**(37)**	**181**	247	(64)	183
Acquisitions	**9**	**–**	**9**	5	–	5
Disposals	**–**	**–**	**–**	(5)	(13)	(18)
Acquisitions/(disposals) of subsidiaries	**–**	**–**	**–**	3	8	11
Reclassification	**2**	**(6)**	**(4)**	(31)	21	(10)
Exchange rate differences	**6**	**(5)**	**1**	(1)	1	–
Amortisation for the year	**–**	**(37)**	**(37)**	–	(25)	(25)
Impairment (incurred)/reversal	**–**	**(5)**	**(5)**	–	35	35
Closing balance	**235**	**(90)**	**145**	218	(37)	181
Total intangible assets						
Goodwill	**1 459**	**(275)**	**1 184**	1 436	(264)	1 172
Software	**728**	**(526)**	**202**	657	(410)	247
Development costs	**243**	**(70)**	**173**	78	(55)	23
Trademarks	**206**	**(167)**	**39**	203	(135)	68
Other	**235**	**(90)**	**145**	218	(37)	181
Total intangible assets	**2 871**	**(1 128)**	**1 743**	2 592	(901)	1 691

Included in other intangible assets are assets that the Group, through RMB, has legal ownership of in terms of a service concession arrangement. In terms of the service concession arrangement the Group is entitled to charge the users of the asset for usage, the pricing of which has been established in the terms of the service concession arrangement. The Group has the obligation to maintain the asset in a workable condition and will deliver ownership of the asset to the government at the conclusion of the concession period.

The carrying amount of the intangible asset relating to the service concession arrangement has been estimated taking into account usage levels and the pricing under the arrangement.

During the previous year there was a reversal of a previously recognised impairment loss in respect of the service concession arrangement entered into by the Group. The reversal occurred as result of an improvement in the receipts associated with the asset's economic performance being better than expected and a reduction in the risk margin associated with the asset.

17 INTANGIBLE ASSETS continued

The impairment of goodwill in the prior year was as a result of the partial disposal of investments in certain subsidiaries of the Group. The partial disposal of these subsidiaries requires the write down of the related portion of goodwill, and in the case of certain private equity investments, this represented the realisation of previously unrealised value of the investments. Impairment of goodwill also occurred as a result of the decline in the future economic benefits expected to be derived from certain investments in subsidiaries of the Group. The circumstances which resulted in this decline related to the decrease in the net asset value of these investments.

The goodwill impairment of R115 million relates to certain investments in private equity subsidiaries held through Corvest Proprietary Limited that have been impaired during the current financial year. These specifically relate to the investments in South African companies SA Die & Pattern Company Proprietary Limited (R98 million) and Diamonds Discount Liquor Proprietary Limited (R9 million). These subsidiaries are currently operating under financial pressure and have defaulted on certain of their debt agreements with the Group. Both of these investments are in the process of being disposed of and have been included in non-current assets and disposal groups held for sale. The amounts included in non-current assets and disposal groups held for sale, are the amounts after the impairment of goodwill was recognised. The remaining goodwill impairment relates to various other private equity subsidiaries held by Corvest Proprietary Limited that are individually immaterial and are included in RMB. The recoverable amount was calculated based on the value in use of the investments in subsidiaries. Details about the discount rate and growth rates applied are set out in the table below.

Impairment of goodwill

For impairment testing purposes, goodwill is allocated to cash-generating units (CGU) at the lowest level of operating activity to which it relates, and is therefore not combined at Group level.

The CGUs to which the goodwill balance as at 30 June relate to:

R million	**2012**	2011
FNB Botswana	**29**	28
FNB Mozambique	**128**	105
FNB Retail	**433**	431
RMB Corvest	**192**	205
RMB Other	**117**	117
WesBank	**164**	178
Other	**121**	108
Total	**1 184**	1 172

When testing for impairment, the recoverable amount of a CGU is determined as the higher of the fair value less cost to sell and value in use. The fair value less cost to sell is determined as the current market value of the CGU less any costs related to the realisation of the CGU. The value in use is calculated by discounting the estimated future cash flows to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the CGU. The future cash flows are based on financial budgets approved by management covering a one year period. Cash flows beyond one year are extrapolated using the estimated growth rate for the CGU. The period over which management has projected the cash flows ranges between three and five years. The growth rate does not exceed the long-term average past growth rate for the business in which the CGU operates.

Notes to the consolidated annual financial statements continued

for the year ended 30 June

17 INTANGIBLE ASSETS continued

The table below shows the discount rate and the growth rate used in calculating the value in use for the CGUs.

	Discount rates		Growth rates	
	2012	2011	**2012**	2011
FNB Botswana	**14.00**	15.00	**4.00**	3.00
FNB Mozambique	**19.00**	19.00	**5.00**	5.00
FNB Retail	**18.76**	18.88	**6.47**	8.00
RMB Corvest	**18.80**	25.00	**7.42**	6.00
RMB Other	*	*	*	*
WesBank	**19.00**	18.88	**3.74**	4.00
Other	**11.04**	18.88	**2.50**	3.00

* *The discount rate used is the weighted average cost of capital for the specific segment, adjusted for specific risks relating to the segment. Some of the other assumptions include investment returns, expense inflation rates, tax rates and new business growth.*

RMB determines the recoverable amount as the fair value less cost to sell and not based on the value in use due to the nature of the entity.

The discount rate used is the weighted average cost of capital for the specific segment, adjusted for specific risks relating to the segment. Some of the other assumptions include investment returns, expense inflation rates, tax rates and new business growth.

Refer to note 46 for the current and non-current analysis of intangible assets.

18 INVESTMENT PROPERTIES

R million	**2012**	2011
Completed properties		
Fair market value at beginning of the year	**203**	138
Net revaluations (included in gains less losses from investing activities – refer to note 2)	**12**	44
Additions	**–**	22
Disposals	**–**	(1)
Fair market value at end of year	**215**	203
Total investment properties	**215**	203
Comprising		
Office buildings	**34**	22
Industrial buildings	**181**	181
Total investment properties	**215**	203
The following amounts have been included in the consolidated income statement:		
Rental income (included in gains less losses from investing activities – refer to note 2)	**20**	10
Direct operating expenses arising from investment properties that generate rental income	**1**	–

Investment properties are acquired for letting to external tenants with the intention to generate future rental income and for capital appreciation purposes.

The fair value was determined by reference to market evidence, in particular offers received to purchase the property during the year.

An external, independent valuation of the investment properties was not performed during the year.

Information regarding investment properties as required is kept at the Group's registered offices. The information will be open for inspection in terms of section 26 of the Companies Act, 71 of 2008.

Refer to note 46 for the current and non-current analysis of investment properties.

19 DEFERRED INCOME TAX

The movement on the deferred income tax account is as follows:

R million	2012	2011
Deferred income tax liability		
Opening balance	**2 223**	2 132
– Acquisitions/(disposals) of subsidiaries	**2**	–
– Exchange rate difference	**3**	(3)
– (Release)/charge to profit or loss	**(801)**	20
– STC charged to profit or loss	**216**	26
– Deferred income tax on amounts charged directly to other comprehensive income	**39**	46
– Tax rate adjustment	**5**	(12)
– Other	**(8)**	14
Total deferred income tax liability	**1 679**	2 223
Deferred income tax asset		
Opening balance	**(560)**	(443)
– Acquisitions/(disposals) of subsidiaries	**–**	(3)
– Exchange rate difference	**(1)**	–
– (Release)/charge to profit or loss	**(173)**	21
– STC charged to profit or loss	**262**	(70)
– Deferred income tax on amounts charged directly to other comprehensive income	**2**	(2)
– Tax rate adjustment	**(5)**	–
– Other	**4**	(63)
Total deferred income tax asset	**(471)**	(560)
Net deferred income tax	**1 208**	1 663

Deferred income 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.

Notes to the consolidated annual financial statements continued

for the year ended 30 June

19 DEFERRED INCOME TAX continued

Deferred income tax assets and liabilities and deferred income tax charged/(released) to profit or loss are attributable to the following items:

	2012		
R million	Opening balance	Tax charge/ (release)	Exchange rate difference
Deferred income tax liability			
Tax losses	**230**	**31**	**–**
Provision for loan impairment	**(547)**	**(82)**	**–**
Provision for post-employment benefits	**113**	**14**	**–**
Other provisions	**(139)**	**(454)**	**–**
Cash flow hedges*	**(175)**	**–**	**–**
Financial instruments	**10**	**7**	**–**
Instalment credit assets	**1 864**	**(175)**	**3**
Accruals	**319**	**(101)**	**–**
Available-for-sale securities*	**100**	**–**	**–**
STC	**(211)**	**216**	**–**
Other	**659**	**(41)**	**–**
Total deferred income tax liability	**2 223**	**(585)**	**3**
Deferred income tax asset			
Tax losses	**(34)**	**(101)**	**–**
Provision for loan impairment	**(22)**	**21**	**–**
Provision for post-employment benefits	**7**	**(7)**	**–**
Other provisions	**(112)**	**50**	**–**
Financial instruments	**(15)**	**3**	**–**
Instalment credit assets	**(37)**	**37**	**–**
Accruals	**27**	**(47)**	**(1)**
Available-for-sale securities*	**4**	**(6)**	**–**
Capital gains	**(3)**	**(6)**	**–**
STC	**(262)**	**262**	**–**
Other	**(113)**	**(117)**	**–**
Total deferred income tax asset	**(560)**	**89**	**(1)**
Net deferred income tax	**1 663**	**(496)**	**2**

* *Amounts reported under the Other column have been charged directly to other comprehensive income.*

2012			
Tax rate adjustment	Acquisitions/ (disposals) of subsidiaries	Other	Closing balance
–	2	–	263
–	–	–	(629)
–	–	–	127
–	–	–	(593)
–	–	(118)	(293)
5	–	(8)	14
–	–	(1)	1 691
–	–	–	218
–	–	157	257
–	–	(5)	–
–	–	6	624
5	2	31	1 679
–	–	–	(135)
–	–	(2)	(3)
–	–	–	–
–	–	–	(62)
(3)	–	6	(9)
–	–	–	–
–	–	–	(21)
–	–	2	–
–	–	(1)	(10)
–	–	–	–
(2)	–	1	(231)
(5)	–	6	(471)
–	2	37	1 208

Notes to the consolidated annual financial statements continued

for the year ended 30 June

19 DEFERRED INCOME TAX continued

	2011		
R million	Opening balance	Tax charge/ (release)	Exchange rate difference
Deferred income tax liability			
Tax losses	165	64	1
Provision for loan impairment	(494)	(48)	–
Provision for post-employment benefits	91	22	–
Other provisions	(181)	41	–
Cash flow hedges*	(181)	–	–
Fair value adjustments of financial instruments	(23)	40	–
Instalment credit assets	2 280	(400)	(4)
Accruals	334	(15)	–
Available-for-sale securities to other comprehensive income*	68	(8)	–
STC	(9)	26	–
Other	82	324	–
Total deferred income tax liability	2 132	46	(3)
Deferred income tax asset			
Tax losses	(17)	(17)	–
Provision for loan impairment	(33)	5	–
Provision for post-employment benefits	4	3	–
Other provisions	(103)	(1)	–
Fair value adjustments of financial instruments	(36)	15	–
Instalment credit assets	(37)	–	–
Accruals	32	(2)	–
Available-for-sale securities to other comprehensive income*	6	–	–
Capital gains	(2)	(2)	–
STC	(192)	(70)	–
Other	(65)	20	–
Total deferred income tax asset	(443)	(49)	–
Net deferred income tax	1 689	(3)	(3)

* *Amounts reported under the Other column have been charged directly to other comprehensive income.*

	2011			
	Tax rate adjustment	Acquisitions/ (disposals) of subsidiaries	Other	Closing balance
	–	–	–	230
	1	–	(6)	(547)
	–	–	–	113
	–	–	1	(139)
	–	–	6	(175)
	–	–	(7)	10
	(12)	–	–	1 864
	–	–	–	319
	–	–	40	100
	–	–	(228)	(211)
	(1)	–	254	659
	(12)	–	60	2 223
	–	–	–	(34)
	–	–	6	(22)
	–	–	–	7
	–	(4)	(4)	(112)
	–	–	6	(15)
	–	–	–	(37)
	–	(2)	(1)	27
	–	–	(2)	4
	–	–	1	(3)
	–	–	–	(262)
	–	3	(71)	(113)
	–	(3)	(65)	(560)
	(12)	(3)	(5)	1 663

Notes to the consolidated annual financial statements continued

for the year ended 30 June

19 DEFERRED INCOME TAX continued

R million	2012	2011
Secondary tax on companies (STC)		
Accumulated STC credits	–	4 730
Deferred income tax asset raised	–	473
Total reserves		
As at 1 April 2012 secondary tax was replaced with a shareholder withholding tax. As such the Group would incur no additional tax if the total reserves of R57 250 million were declared as dividends.		
Deferred income tax not provided for		
Deferred income tax assets are recognised for tax losses carried forward only to the extent that realisation of tax related benefit is probable.		
The Group has recognised deferred income tax on deductible temporary differences, unused tax losses and unused tax credits. These losses have no expiry dates and will be utilised as the companies become profitable.		
Deferred income tax assets not provided for:		
Tax losses	**14**	100
Total	**14**	100

The tax losses for which no deferred income tax assets have been recognised have expiry dates ranging between 2014 to 2017.

The Group has recognised deferred income tax liabilities on all temporary differences associated with investments in subsidiaries, branches, associates and interest in joint ventures.

Refer to note 46 for current and non-current analysis of deferred tax.

20 NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE

R million	2012	2011
Assets included in disposal groups held for sale		
Loans and receivables		
Cash and cash equivalents	**–**	26
Accounts receivable	**120**	4 053
Held for trading		
Investment securities and other investments	**–**	1 055
Available-for-sale		
Investment securities and other investments	**–**	202
Non-financial		
Tax asset	**1**	–
Property and equipment	**43**	4
Intangible assets	**–**	16
Other	**–**	49
Total assets included in disposal groups held for sale	**164**	5 405
Non-current assets held for sale		
Available-for-sale		
Investment securities and other investments	**–**	400
Designated at fair value through profit or loss		
Investment securities and other investments	**215**	–
Non-financial		
Property and equipment	**54**	–
Investment in associates	**166**	–
Other	**–**	–
Total non-current assets held for sale	**435**	400
Total non-current assets and disposal groups held for sale	**599**	5 805
Liabilities included in disposal groups held for sale		
Financial liabilities at amortised cost		
Deposits	**20**	–
Creditors and accruals	**93**	4 048
Designated at fair value through profit or loss		
Policyholder liabilities under investment contracts	**–**	94
Non-financial		
Taxation liability	**–**	1
Provisions	**–**	11
Policyholder liabilities under insurance contracts	**–**	938
Total liabilities included in disposal groups held for sale	**113**	5 092
Net non-current assets and disposal groups held for sale	**486**	713

Notes to the consolidated annual financial statements continued

for the year ended 30 June

20 NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE continued

20.1 Disposal groups held for sale during 2012

Private equity subsidiaries

Corvest Proprietary Limited, a subsidiary of the Group, has taken a decision to dispose of two subsidiaries, Diamonds Discount Liquor Proprietary Limited and SA Die & Pattern Co Proprietary Limited.

The legal agreements relating to the disposal of Diamond Discount Liquor Proprietary Limited have been signed by the respective parties and the transaction has been approved by the shareholders. The sale will be concluded once the outstanding conditions precedent have been met. The outstanding conditions include approval of the transaction by the Competition Commission. It is expected that the sale will be finalised within three months after year end.

At 30 June 2012, the final details of the sales contract relating to the disposal of SA Die & Pattern Co Proprietary Limited had not been finalised and shareholder approval of the transaction still needs to be obtained. Management believes that it is highly probable that shareholders will approve the transaction and the transaction is expected to be finalised within six months after year end.

Analysis of the assets and liabilities included in the disposal group held for sale

R million	**2012**
Assets	
Loans and receivables	
Accounts receivable	**120**
Non-financial	
Tax asset	**1**
Property and equipment	**43**
Total assets	**164**
Liabilities included in disposal groups held for sale	
Financial liabilities at amortised cost	
Deposits	**20**
Creditors and accruals	**93**
Total liabilities	**113**
Net assets of disposal group held for sale	**51**

The assets and liabilities of these subsidiaries are included in RMB.

20 NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE continued

20.1 Disposal groups held for sale during 2012 continued

Investment securities and other investments

Tiso Investments

During the current year, the Group took a decision to sell their 3.21% investment in Kagiso Tiso Holdings Proprietary Limited that was held through RMB. The pending transaction resulted in the Group classifying the investment in Kagiso Tiso Holdings Proprietary Limited as a non-current asset held for sale. A binding sales agreement has been signed by the various parties and the transaction is subject to approval from the Takeover Regulation Panel.

It is anticipated that the sale transaction will be completed by the end of December 2012.

R million	2012
Assets	
Designated at fair value through profit or loss	
Investment securities and other investments	**215**
Total non-current assets held for sale	**215**

The investment was previously included in RMB.

Property and equipment

The property and equipment consists of the following assets that have been classified as held for sale.

R million	2012
Property	**14**
Aircraft	**40**
Total property and equipment classified as non-current assets held for sale	**54**

The property consists of vacant land that is owned by FNB Botswana and RMB Investments and Advisory Proprietary Limited. The property owned by FNB Botswana is situated in Gaborone. The sales transaction has been approved by Board of directors and a sales agreement signed by both parties. This property was previously reported in FNB Africa. The sales transaction is expected to be completed by the end of December 2012. The land owned by RMB Investments and Advisory Proprietary Limited is situated in Olifantsfontein in Midrand. This property was previously reported in RMB and it is expected that the asset will be disposed of within the next 12 months.

The aircraft, a Learjet 45XR, is owned by RMB Investments and Advisory Proprietary Limited and is currently on charter loan to Anglo Operations Limited. A potential buyer has been identified and a letter of intent was signed by the potential buyers on 26 June 2012. This aircraft was previously reported in RMB.

Investments in associates

The Group has classified various investments in associates as held for sale. Details about these investments is set out below.

R million	2012
Eris Property Group Proprietary Limited	**62**
Gruppo Investments Nigeria Limited	**66**
EMC Singapore	**34**
Other	**4**
Total investments in associates classified as non-current assets held for sale	**166**

Notes to the consolidated annual financial statements continued

for the year ended 30 June

20 NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE continued

20.1 Disposal groups held for sale during 2012 continued

Eris Property

RMB was approached by MMI Holdings Limited to dispose of their 40% investment in the Eris Property Group. At financial year-end, the parties to the transaction had signed a high-level term sheet setting out the commercial principles and key terms of the proposed sale and the legal agreements will be finalised subsequent to 30 June 2012. The finalisation of the sale is also subject to a number of conditions including obtaining the relevant competition approvals. The sale is expected to be completed by the end of October 2012.

Gruppo Investments Nigeria Limited

The Group's 20% investment in an associate, Gruppo Investments Nigeria Limited, will be sold to the Westport Real Estate Development Fund. The legal agreements were finalised by the end of August 2012 and the sale was completed in September 2012. The investment was previously reported in RMB.

EMC Singapore

Mco International Limited, a subsidiary of the Group, will be disposing of its investment in an associate, EMC Singapore. This investment will be sold to the Singapore Exchange Limited and it is expected that the sale will be finalised shortly after 30 June 2012. The investment was previously reported in RMB.

20.2 Disposal groups held for sale during 2011

Momentum Life Assurance Namibia Limited

During the prior financial year, FNB Namibia Holdings Limited, a subsidiary of the Group, took a decision to sell its shareholding in Momentum Life Assurance Namibia Limited. This was necessitated by the merger of the Momentum Group South Africa and Metropolitan Holdings, resulting in the creation of the new entity, MMI Holdings in South Africa.

The pending transaction resulted in FNB Namibia classifying the Momentum Group as a disposal group held for sale in line with the requirements of IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

The sale was completed on 30 June 2012. Refer to note 41 for additional information.

Analysis of the assets and liabilities included in the disposal group held for sale

R million	2011
Statement of financial position	
Cash and cash equivalents	26
Accounts receivable	38
Policy loans on investments contracts	25
Investment securities	1 257
Property and equipment	3
Intangible assets	16
Reinsurance assets	17
Total assets	1 382
Liabilities	
Creditors and accruals	34
Policyholder liabilities under investment contracts	94
Provisions	7
Tax liability	1
Post-employment benefit liabilities	*
Policyholder liabilities under insurance contracts	938
Total liabilities	1 074
Net assets of disposal group held for sale	308

* *Denotes amount less than R500 000.*

Momentum Namibia was previously included in FNB Africa.

20 NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE continued

20.2 Disposal groups held for sale during 2011 continued

Finsettle Services Proprietary Limited

Subsequent to the acquisition of Barnard Jacobs Mellet during the prior year management of FNB took a decision to dispose of Finsettle Services Proprietary Limited, a division of Barnard Jacobs Mellet. Management had begun negotiations with potential buyers and as a result Finsettle Services Proprietary Limited was classified as a disposal group held for sale in line with the requirements of IFRS 5.

An impairment loss of R3 million was recognised when Finsettle was classified as a disposal group held for sale. The full impairment loss was allocated to goodwill recognised at acquisition.

During the current financial year there was a change to the plan to dispose of Finsettle Services Proprietary Limited. Finsettle Services Proprietary Limited was previously disclosed as a disposal group held for sale. The negotiations between management and potential buyers of Finsettle Services Proprietary Limited was unsuccessful and management decided to wind down the business rather than dispose of it. As a result of this change in the plan of sale, Finsettle Services Proprietary Limited were no longer classified as a disposal group held for sale and all assets and liabilities of Finsettle Services Proprietary Limited were reallocated to their respective categories on the statement of financial position. The effect of the decision on the results for the current period is that additional depreciation was recognised on the property and equipment that would not have been recognised if the entity had continued to be classified as held for sale. This additional depreciation was recognised as an impairment charge as it represents an IFRS 5 remeasurement adjustment of a disposal group classified as held for sale. The additional depreciation amounted to R203 000 and has been included in operating expenses.

Analysis of the assets and liabilities included in the disposal group held for sale

R million	2011
Statement of financial position	
Assets	
Cash and cash equivalents	*
Accounts receivable	4 015
Property and equipment	1
Deferred income tax asset	*
Other	7
Total assets	4 023
Liabilities	
Creditors and accruals	4 014
Provisions	4
Total liabilities	4 018
Net assets of disposal group held for sale	5

* *Amount less than R500 000.*

20.3 Non-current assets held for sale during 2011

This amount relates to NCNR preference shares held by FirstRand Limited. These shares were going to be repurchased by MMI Holdings as part of a share buyback. A final agreement regarding the sales price could not be reached and the Group made the decision to continue holding these investments. As a result these investments are no longer classified as held for sale and have been included in available-for-sale investment securities.

R million	2011
Assets	
Investment securities and other investments	400
Total non-current assets held for sale	400

Notes to the consolidated annual financial statements continued

for the year ended 30 June

21 SHORT TRADING POSITIONS

R million	**2012**	2011
Government and government guaranteed stock	**4 019**	5 766
Other dated securities	**–**	62
Undated securities	**1 324**	3 266
Total short trading positions	**5 343**	9 094
Analysed as follows:		
Listed	**5 343**	9 094
Total short trading positions	**5 343**	9 094

Refer to note 37 for additional information relating to the fair value of short trading positions.

Refer to note 46 for current and non-current analysis of short trading positions.

22 CREDITORS AND ACCRUALS

R million	**2012**	2011
Accrued interest	**64**	73
Accounts payable and accrued liabilities	**8 156**	8 626
Deferred income	**699**	661
Operating lease liability arising from straight lining of lease payments	**99**	90
Payments received in advance	**68**	47
Total creditors and accruals	**9 086**	9 497

The carrying value of creditors and accruals approximates the fair value.

Refer to note 46 for current and non-current analysis of creditors and accruals.

23 DEPOSITS

	2012		
R million	**Designated at fair value through profit or loss**	**At amortised cost**	**Total**
Category analysis			
Current accounts	**831**	**248 471**	**249 302**
Savings accounts	**–**	**5 328**	**5 328**
Fixed and notice deposits	**32 756**	**136 352**	**169 108**
Negotiable certificates of deposit	**2 001**	**46 544**	**48 545**
Repurchase agreements	**25 280**	**2 997**	**28 277**
Securities lending	**–**	**3 192**	**3 192**
Credit linked notes and cash collateral	**11 223**	**12 001**	**23 224**
Other	**13 573**	**45 640**	**59 213**
Non-recourse deposits*	**20 092**	**–**	**20 092**
Deposits	**105 756**	**500 525**	**606 281**

	2011		
R million	Designated at fair value through profit or loss	At amortised cost	Total
Category analysis			
Current accounts	28 236	205 918	234 154
Savings accounts	–	3 785	3 785
Fixed and notice deposits	32 719	110 379	143 098
Negotiable certificates of deposit	27 429	47 964	75 393
Repurchase agreements	41 146	–	41 146
Securities lending	–	5 895	5 895
Credit linked notes and cash collateral	10 805	6 137	16 942
Other	2 524	12 528	15 052
Non-recourse deposits*	17 414	–	17 414
Deposits	160 273	392 606	552 879

* *Refer to note 14 for a description of non-recourse investment securities.*

Refer to note 35 for information about changes in the Group's own credit risk.

Refer to note 37 for additional information relating to the fair value of deposits.

Refer to note 46 for current and non-current analysis of deposits.

Notes to the consolidated annual financial statements continued

for the year ended 30 June

24 PROVISIONS

R million	2012	2011
Audit fees		
Opening balance	**43**	34
Acquisitions/(disposals) of subsidiaries	**–**	1
Exchange rate difference	**1**	–
Charge to profit or loss	**145**	128
– Additional provisions created	**148**	128
– Unused provisions reversed	**(3)**	–
Utilised	**(129)**	(120)
Closing balance	**60**	43
Other*		
Opening balance	**474**	725
Transfer to non-current assets and disposal groups held for sale	**–**	(4)
Exchange rate difference	**2**	–
Charge to profit or loss	**127**	(182)
– Additional provisions created	**137**	148
– Unused provisions reversed	**(10)**	(330)
Utilised	**(71)**	(65)
Closing balance	**532**	474
Total provisions	**592**	517

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

Refer to note 46 for current and non-current analysis of provisions.

25 EMPLOYEE LIABILITIES

R million		2012	2011
Staff related provision	25.1	**3 572**	3 104
Cash settled share-based payment liability*		**892**	436
Co-investment scheme		**–**	11
Defined benefit post-employment liability	25.2	**2 398**	2 294
Other long-term employee liability		**71**	92
Total employee liabilities		**6 933**	5 937
Defined benefit post employment asset	25.2	**(7)**	(2)
Net amount due to employees		**6 926**	5 935

* *Included in the cash settled share-based payment liability is an amount of R122 million that relates to options that have already vested but have not yet been exercised by staff.*

Refer to note 30 for more detail on the cash settled share-based payment schemes.

Refer to note 46 for the current and non-current analysis of employee liabilities.

25.1 Staff related provision

The staff related provision consists mainly of the provision for leave pay, staff bonuses and the liability relating to the MMI shares that the participants in the BEE schemes will receive as a result of the unbundling of Momentum. Further details of this scheme and the vesting conditions related to the scheme are provided in note 30.

R million	2012	2011
Opening balance	**3 104**	2 600
Acquisitions of subsidiaries	**1**	22
Exchange rate differences	**23**	2
Charge to profit or loss	**2 509**	2 108
– Additional provisions created	**2 568**	2 161
– Unused provisions reversed	**(59)**	(53)
Utilised	**(2 065)**	(1 628)
Closing balance	**3 572**	3 104

Notes to the consolidated annual financial statements continued

for the year ended 30 June

25 EMPLOYEE LIABILITIES continued

25.2 Defined benefit post-employment liability

The Group operates two defined benefit plans, a plan that 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 after their service. In terms of these plans, the Group is liable to the employees for specific payments on retirement and for any deficit in the provision of these benefits from the plan assets. The liabilities and assets of these pension plans are reflected as a net asset or liability in the statement of financial position.

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

	2012			2011		
R million	**Pension**	**Medical***	**Total**	Pension	Medical*	Total
Post-employment benefit fund liability						
Present value of funded obligation	**9 074**	**2 686**	**11 760**	8 615	2 321	10 936
Fair value of plan assets	**(8 696)**	**–**	**(8 696)**	(8 277)	–	(8 277)
Pension fund deficit	**378**	**2 686**	**3 064**	338	2 321	2 659
Unrecognised actuarial (losses)/gains	**(199)**	**(463)**	**(662)**	(138)	(229)	(367)
Unrecognised past service cost	**(12)**	**–**	**(12)**	–	–	–
IFRS adjustments to liabilities	**–**	**–**	**–**	–	–	–
Other	**1**	**–**	**1**	–	–	–
Total post-employment liability	**168**	**2 223**	**2 391**	200	2 092	2 292
The amounts recognised in the income statement are as follows:						
Current service cost	**9**	**43**	**52**	–	37	37
Interest cost	**694**	**192**	**886**	674	172	846
Actuarial loss recognised	**(1)**	**–**	**(1)**	–	–	–
Expected return on plan assets	**(719)**	**–**	**(719)**	(652)	–	(652)
Past service cost recognised	**(3)**	**–**	**(3)**	–	–	–
Gain/(loss) on settlement	**–**	**–**	**–**	(8)	–	(8)
Total included in staff costs (note 3)	**(20)**	**235**	**215**	14	209	223
Movement in post-employment benefit fund liability						
Present value at the beginning of the year	**200**	**2 092**	**2 292**	186	1 976	2 162
Exchange differences	**–**	**–**	**–**	1	2	3
Amounts recognised in the income statement as above (including discontinued operations)	**(20)**	**235**	**215**	14	209	223
Benefits paid	**(7)**	**(104)**	**(111)**	–	(92)	(92)
Employer contribution	**(3)**	**–**	**(3)**	(3)	–	(3)
Employee contribution	**(1)**	**–**	**(1)**	(1)	–	(1)
Settlement of liability	**(1)**	**–**	**(1)**	3	(3)	–
Present value at the end of the year	**168**	**2 223**	**2 391**	200	2 092	2 292

* *The Group has set aside certain assets against the medical liabilities. The assets are managed and invested to achieve a return which reflects the growth in the underlying liability.*

25 EMPLOYEE LIABILITIES continued

25.2 Defined benefit post-employment liability continued

	2012			2011		
R million	Pension	Medical	Total	Pension	Medical	Total
Movement in the fair value of plan assets of the year is as follows:						
Opening balance	**8 277**	**–**	**8 277**	7 490	–	7 490
Expected return on plan assets	**718**	**–**	**718**	661	–	661
Actuarial gains	**195**	**–**	**195**	713	–	713
Exchange differences	**22**	**–**	**22**	(7)	–	(7)
Employer contributions	**11**	**–**	**11**	22	–	22
Employee contributions	**3**	**–**	**3**	3	–	3
Benefits paid and settlements	**(530)**	**–**	**(530)**	(605)	–	(605)
Closing balance	**8 696**	**–**	**8 696**	8 277	–	8 277
Plan assets comprised of the following:						
Equity	**1 661**	**–**	**1 661**	157	–	157
Debt	**6 912**	**–**	**6 912**	7 359	–	7 359
Other	**123**	**–**	**123**	761	–	761
Total plan assets	**8 696**	**–**	**8 696**	8 277	–	8 277
Included in plan assets were the following:						
FirstRand Limited ordinary shares with fair value of	**–**	**–**	**–**	–	–	–
Buildings occupied by the Group with a fair value of	**56**	**–**	**56**	54	–	54
Total	**56**	**–**	**56**	54	–	54
Experience adjustments arising on plan liabilities	**(244)**	**(236)**	**(480)**	(405)	(248)	(653)
Experience adjustments arising on plan assets	**196**	**–**	**196**	706	–	706

Notes to the consolidated annual financial statements continued

for the year ended 30 June

25 EMPLOYEE LIABILITIES continued

25.2 Defined benefit post-employment liability continued

	2012		2011	
	Pension	**Medical**	Pension	Medical
	%	**%**	%	%
The principal actuarial assumptions used for accounting purposes were:				
Expected return on plan assets	**8.9**	**–**	9.0	–
Discount rate	**8.9**	**8.9**	8.5	8.5
Expected rates of salary increases	**8.1**	**–**	7.6	–
Long-term increase in health cost	**–**	**7.6**	–	7.0
The effects of a 1% movement in the assumed health cost rate were as follows:				
Increase of 1%				
Effect on the defined benefit obligation (R million)	**–**	**439.0**	–	367.2
Effect on the aggregate of the current service cost and interest cost (R million)	**–**	**60.0**	–	44.2
Decrease of 1%				
Effect on the defined benefit obligation (R million)	**–**	**354.0**	–	296.6
Effect on the aggregate of the current service cost and interest cost (R million)	**–**	**40.0**	–	35.2
Estimated contributions expected to be paid to the plan in the next annual period (R million)	**1 047**	**–**	827	–
Net increase in rate used to value pensions, allowing for pension increases				
– Banking Group Fund (%)	**6.6**	**–**	6.1	–

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 net increase in the rate used to value pensions is 8.9% and (2011: 8.5%). The expected return per class of assets is:

	2012	2011
	%	%
Equities	**11**	10
Other	**11**	9
Bonds	**9**	7
Cash	**7**	–

25 EMPLOYEE LIABILITIES continued

25.2 Defined benefit post-employment liability continued

Mortality rate		2012 Active Members	2012 Pensioners	2011 Active Members	2011 Pensioners
Pension Fund					
Normal retirement age		**60**		60	–
Mortality rate table used		**PA(90)-2**	**PA(90)-2**	PA(90)-2	PA(90)-2
Post-employment medical benefits					
Normal retirement age		**60**	**–**	60	–
Mortality rate table used	Active	**SA 85–90**	**–**	SA 72-77	–
Mortality rate table used (rated down 3 years for females)	Retired	**PA(90)-3**	**PA(90)-3**	PA(90)-3	PA(90)-3

SA 85–90 refers to standard actuarial mortality tables for active members on a defined benefit plan where the chance of dying before normal retirement is expressed at each age for each gender.

PA(90)-2 refers to standard actuarial mortality tables for current and prospective pensioners on a defined benefit plan where the chance of dying after early or normal retirement is expressed at each age for each gender.

PA(90)-3 refers to standard actuarial mortality tables for current and prospective pensioners on a defined benefit plan where the chance of dying after early or normal retirement is expressed at each age for each gender.

Mortality rate	2012 Pension	2012 Medical	2011 Pension	2011 Medical
The average life expectancy in years of a pensioner retiring at age 65 on the reporting date is as follows:				
Male	**17**	**17**	17	17
Female	**21**	**21**	21	21
The average life expectancy in years of a pensioner retiring at age 65, 20 years after the reporting date is as follows:				
Male	**18**	**18**	17	17
Female	**22**	**22**	22	21

Five year analysis on total pension and medical post-employment plans

As at 30 June	2012	2011	2010	2009	2008
Present value of defined benefit obligation	**11 760**	10 936	10 077	10 463	9 991
Fair value of plan assets	**(8 696)**	(8 277)	(7 490)	(8 226)	(8 188)
Deficit	**3 064**	2 659	2 587	2 237	1 803

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.

Notes to the consolidated annual financial statements continued

for the year ended 30 June

25 EMPLOYEE LIABILITIES CONTINUED

25.2 Defined benefit post-employment liability continued

The number of employees covered by the two schemes

	2012	2011
Pension:		
Active members	**28 345**	28 091
Pensioners	**6 850**	7 734
Total	**35 195**	35 825
Medical:		
Active members	**6 399**	6 794
Pensioners	**4 964**	4 518
Total	**11 363**	11 312

The employer's post-employment health care liability consists of a commitment to pay a portion of the members' post-employment medical scheme contributions. This liability is also generated in respect of dependants who are offered continued membership of the medical scheme on the death of the primary member. Members employed on or after 1 December 1998 do not qualify for a post-employment medical subsidy.

A full actuarial valuation of the pension fund submission to the Financial Services Board is done every three years, with the last valuation being in 2011. Annual interim actuarial valuations are performed for the trustees and for IAS 19 purposes.

At the last valuation date the fund was financially sound.

Refer to note 46 for the current and non-current analysis of post-employment liabilities.

26 OTHER LIABILITIES

R million		2012	2011
Finance lease liabilities	26.1	**1**	10
Other funding liabilities*		**6 382**	4 097
Total other liabilities		**6 383**	4 107

* *Other funding liabilities include funding liabilities not directly related to banking activities, including preference shares not qualifying as tier 2 capital.*

26.1 Finance lease liabilities

R million	2012	2011
Finance lease liabilities		
Not later than 1 year	**–**	3
Later than 1 year and not later than 5 years	**1**	7
Total finance lease liabilities	**1**	10

Refer to note 16 for assets that secure the finance lease liabilities.

Refer to note 35 for information about changes in the Group's own credit risk.

Refer to note 37 for additional information relating to the fair value of other liabilities.

Refer to note 46 for current and non-current analysis of other liabilities.

27 POLICYHOLDER LIABILITIES UNDER INSURANCE CONTRACTS

	2012		
R million	Gross	Reinsurance	Net
Short-term insurance contracts			
Claims outstanding and claims incurred but not reported	**1 096**	**(898)**	**198**
Unearned premiums	**157**	**–**	**157**
Long-term insurance contracts	**264**	**–**	**264**
Total policyholder liabilities under insurance contracts	**1 517**	**(898)**	**619**

	2011		
R million	Gross	Reinsurance	Net
Short-term insurance contracts			
Claims outstanding and claims incurred but not reported	578	(484)	94
Unearned premiums	159	–	159
Long-term insurance contracts	310	–	310
Total policyholder liabilities under insurance contracts	1 047	(484)	563

R million	2012	2011
Insurance contracts with discretionary participation features	**45**	42
Insurance contracts without discretionary participation features	**1 472**	1 005
Gross policyholder liabilities under insurance contracts	**1 517**	1 047

	2012		
R million	Gross	Reinsurance	Net
Opening balance	**578**	**(484)**	**94**
Increase/(decrease) in claims arising from current year claims outstanding	**728**	**(337)**	**391**
Increase/(decrease) in claims arising from prior years claims outstanding	**(131)**	**(77)**	**(208)**
Claims settled in the year	**(79)**	**–**	**(79)**
Closing balance	**1 096**	**(898)**	**198**

	2011		
R million	Gross	Reinsurance	Net
Opening balance	594	(524)	70
Increase/(decrease) in claims arising from current year claims outstanding	126	(88)	38
Increase/(decrease) in claims arising from prior years claims outstanding	(127)	78	(49)
Claims settled in the year	(32)	–	(32)
Acquisition/(disposal) of subsidiaries	17	50	67
Closing balance	578	(484)	94

Notes to the consolidated annual financial statements continued
for the year ended 30 June

27 POLICYHOLDER LIABILITIES UNDER INSURANCE CONTRACTS continued

27. 2 Reconciliation of unearned premiums

	2012		
R million	**Gross**	**Reinsurance**	**Net**
Opening balance	**159**	**–**	**159**
Increase during the year	**185**	**–**	**185**
Decrease during the year	**(187)**	**–**	**(187)**
Closing balance	**157**	**–**	**157**

	2011		
R million	Gross	Reinsurance	Net
Opening balance	4	–	4
Increase during the year	85	–	85
Acquisition/(disposal) of subsidiaries	70	–	70
Closing balance	159	–	159

27.3 Reconciliation of gross long-term insurance contracts

	2012	2011
Opening balance	**310**	268
Revaluation of liability	**–**	(97)
Transfer to/(from) policyholder liabilities under insurance contracts	**111**	90
– Increase in retrospective liabilities	**115**	51
– New business	**–**	39
– Change in non-economic assumptions	**(44)**	–
– Expected cash flows	**40**	–
Other	**(157)**	49
Net closing balance	**264**	310

27. 4 Risk management relating to insurance contracts

The Group underwrites short-term and long-term insurance policies through their subsidiaries FirstRand Insurance Services Limited and Newinvest 231 Proprietary Limited and through other cell captive agreements entered into with various insurers.

Terms and conditions of insurance contracts

The terms and conditions of insurance contracts have a material effect on the amount, timing and uncertainty of future cash flows. The key risks associated with general insurance contracts are claims experience. The provisions of these contracts are refined at least annually. As claims experience develops, certain claims are settled, further claims are revised and new claims are reported. The reasonableness of the estimation process is tested by management and reviewed on a regular basis. The Group believes that the liability for claims carried at the end of the year is adequate.

27 POLICYHOLDER LIABILITIES UNDER INSURANCE CONTRACTS continued

27. 4 Risk management relating to insurance contracts continued

The Group underwrites short-term insurance in the following risk classes:

- **Liability** – Provide cover for risks relating to the incurring of a liability other than relating to a risk covered more specifically under another insurance contract.
- **Motor** – Provide indemnity cover relating to the possession, use or ownership of a motor vehicle. The cover includes comprehensive cover, third party, fire and theft and liability to other parties.
- **Personal accident** – Provide compensation arising out of the death or disability directly caused by an accident occurring anywhere in the world, provided that death or disability occurs within 12 months of this injury.
- **Property** – Provide indemnity relating to movable and immovable property caused by perils such as fire explosion, earthquakes, acts of nature, burst geysers and pipes, malicious damage, impact, alterations and additions.

The Group underwrites long-term insurance in the following risk classes:

- **Death cover** – Provide compensation arising out of the death of the policyholder. With respect to the credit life product, in the event of a valid death claim, the Group settles the policyholder's outstanding debt by way of a lump sum payment to the finance provider.
- **Disability cover** – Provide compensation arising out of the permanent disability of the policyholder. With respect to the credit life product, in the event of a valid death claim, the Group settles the policyholder's outstanding debt by way of a lump sum payment to the finance provider.

Risk management objectives and policies for mitigating insurance risk

The principle risk the Group faces under such contracts is that the actual claims and expenses exceed the carrying amount of insurance liabilities. Insurance risk occurs due to the uncertainty of the timing and amount of future cash flows arising under insurance contracts. This is influenced by the frequency and severity of claims, especially if actual benefits paid, are greater than originally estimated, and the subsequent development of long-term claims.

The Group manages its insurance risk through underwriting limits, approval procedures for transactions that involve new products or that exceed set limits, pricing guidelines and monitoring of emerging issues.

The Group cedes insurance risk to limit exposure to underwriting losses under various reinsurance agreements. These reinsurance agreements spread the risk of loss and minimise the effect of losses. The risk retention levels depend on evaluation of specific risk, subject to certain circumstances, to maximum limits based on the characteristics of coverage.

The Group is not exposed to any significant concentrations of insurance risk due to the fact that the nature of the policies underwritten by the Group. In addition, the Group has adequate reinsurance in place to reduce the risk that arise from insurance contracts to acceptable levels.

28 TIER 2 LIABILITIES

R million	**2012**	2011
Fixed rate bonds*	**4 414**	4 697
Floating rate bonds**	**3 471**	1 969
Total Tier 2 liabilities	**7 885**	6 666

* *The fixed rate bonds mature between 15 September 2014 and 21 December 2018 and bear interest at between 9% and 12%.*

** *The floating rate bonds mature between 5 November 2012 and 22 December 2018 and the interest varies between 65 bps and 300 bps above the three month JIBAR rate.*

Refer to note 35 for information about changes in the Group's own credit risk.

Refer to note 37 for additional information relating to the fair value of Tier 2 liabilities.

Refer to note 46 for current and non-current analysis of Tier 2 liabilities.

Notes to the consolidated annual financial statements continued

for the year ended 30 June

29 SHARE CAPITAL AND SHARE PREMIUM

	2012		
	Number of ordinary shares	Number of A preference shares[1]	
Authorised Number of shares	6 001 688 450	198 311 550	
Issued – fully paid up** **Ordinary shares** Opening balance	5 637 941 689	–	
Closing balance	5 637 941 689	–	
B preference shares Opening balance	–	–	
Closing balance	–	–	
Total issued share capital and share premium – closing balance	5 637 941 689	–	
Analysis of total issued share capital closing balance Ordinary issued share capital closing balance as above of 1 cent each Treasury shares	5 637 941 689 (175 283 030)	– –	
Total issued share capital attributable to ordinary equityholders – closing balance	5 462 658 659	–	
B variable rate NCNR preference shares of 1 cent each	–	–	
Total issued share capital attributable to equityholders of the Group – closing balance	5 462 658 659	–	
Disclosed on the face of the statement of financial position Ordinary share capital Ordinary share premium NCNR preference shares			
Total			

* *Less than R500 000.*

** *All issued share capital is fully paid up.*

1. *The A variable rate cumulative convertible redeemable preference shares are not listed.*
2. *The B preference shares are variable rate NCNR preference shares and are listed on the JSE. Dividends on the B preference shares are calculated at a rate of 75.5% of the prime lending rate published by FirstRand Bank Limited effective 23 May 2012.*
3. *The C preference shares are variable rate convertible non-cumulative redeemable preference shares.*
4. *The D preference shares are variable rate cumulative redeemable preference shares.*

	2012 %
The following represents the shareholding of subsidiaries in FirstRand Limited at 30 June: These shares have been treated as treasury shares.	0.02
Share option schemes The investment in FirstRand Limited by the share incentive schemes have been treated as treasury shares as set out above.	3.09

2012						
	Number of B preference shares[2]	Number of C and D preference shares[3,4]	Ordinary share capital R million	Share premium R million	Total R million
	100 000 000	200 000 000	–	–	–
	–	–	56	7 083	7 139
	–	–	56	7 083	7 139
	45 000 000	–	*	4 519	4 519
	45 000 000	–	*	4 519	4 519
	45 000 000	–	56	11 602	11 658
	– –	– –	56 (1)	7 083 (1 867)	7 139 (1 868)
	–	–	55	5 216	5 271
	45 000 000	–	*	4 519	4 519
	45 000 000	–	55	9 735	9 790
					55 5 216 4 519
					9 790

Notes to the consolidated annual financial statements continued

for the year ended 30 June

29 SHARE CAPITAL AND SHARE PREMIUM continued

	2011		
	Number of ordinary shares	Number of A preference shares[1]	
Authorised Number of shares	6 001 688 450	198 311 550	
Issued – fully paid up** Ordinary shares Opening balance	5 637 941 689	–	
Closing balance	5 637 941 689	–	
B preference shares Opening balance	–	–	
Closing balance	–	–	
Total issued share capital and share premium – closing balance	5 637 941 689	–	
Analysis of total issued share capital closing balance Ordinary issued share capital closing balance as above of 1 cent each Treasury shares	5 637 941 689 (189 017 706)	– –	
Total issued share capital attributable to ordinary equityholders – closing balance	5 448 923 983	–	
B variable rate, NCNR preference shares of 1 cent each	–	–	
Total issued share capital attributable to equityholders of the Group – closing balance	5 448 923 983	–	
Disclosed on the face of the statement of financial position Ordinary share capital Ordinary share premium NCNR preference shares			
Total			

* *Less than R500 000.*

** *All issued share capital is fully paid up.*

1. *The A variable rate cumulative convertible redeemable preference shares are not listed.*
2. *The B1 preference shares were incorporated with the B preference shares effective 4 January 2010. The B preference shares are variable non-cumulative, non-redeemable preference shares and are listed on the JSE.*
   Dividends on the B preference shares are calculated at a rate of 68% of the prime lending rate published by FirstRand Bank Limited.
3. *The C preference shares are variable rate convertible non-cumulative redeemable preference shares.*
4. *The D preference shares are variable rate cumulative redeemable preference shares.*

	2011 %
The following represents the shareholding of subsidiaries in FirstRand Limited at 30 June: These shares have been treated as treasury shares.	0.02
Share option schemes The investment in FirstRand Limited by the share incentive schemes have been treated as treasury shares as set out above.	3.31

2011				
Number of B preference shares[2]	Number of C and D preference shares[3,4]	Ordinary share capital R million	Share premium R million	Total R million
100 000 000	200 000 000	–	–	–
–	–	56	7 083	7 139
–	–	56	7 083	7 139
45 000 000	–	*	4 519	4 519
45 000 000	–	*	4 519	4 519
45 000 000	–	56	11 602	11 658
–	–	56	7 083	7 139
–	–	(3)	(2 138)	(2 141)
–	–	53	4 945	4 998
45 000 000	–	*	4 519	4 519
45 000 000	–	53	9 464	9 517
				53
				4 945
				4 519
				9 517

29 SHARE CAPITAL AND SHARE PREMIUM continued

Preference shares that qualify as Tier 2 capital have been included in Tier 2 liabilities. Other preference share liabilities have been included in deposits (note 23) or other liabilities (note 26) as appropriate.

R million	**2012**	2011
Redeemable preference shares		
Authorised		
5 billion redeemable preference shares with a par value of R0.0001 per share		
100 million cumulative redeemable preference shares with a par value of R0.01 per share		
Issued – fully paid up		
1 905 (2011: 2 385) redeemable preference shares with par value of R0.0001 per share	**191**	239
3.6 million (2011: 1.5 million) cumulative redeemable preference shares with a par value of R0.01 per share at various premiums per share*	**2 262**	2 783
Redeemable class R preference shares		
Authorised		
50 000 redeemable preference shares with a par value of R0.0001 per share		
Issued – fully paid up		
7 270 (2011: 2 406) redeemable preference shares with par value of R0.0001 per share issued by FirstRand Bank Limited.	**727**	241

* *The amount excludes shares issued within the Group and eliminated upon consolidation of R4 030 million (2011: R2 680 million).*

	Redeemable preference shares	Cumulative redeemable preference shares	Redeemable Class R preference shares
Reconciliation of shares issued			
Shares at 1 July 2010	2 595	44 830	–
Issued/(redeemed) during the year	(210)	1 475 000	2 406
Shares at 30 June 2011	2 385	1 519 830	2 406
(Redeemed)/issued during the year	(480)	2 037 791	4 864
Shares at 30 June 2012	**1 905**	**3 557 621**	**7 270**

For detail on capital management of the Group please refer to the Capital Management and Regulatory Capital section from pages 136 to 144, 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.

4 890 class R redeemable preference shares were issued during the year of which 26 shares were redeemed during the year. These preference shares bear interest at 66.67% of the FNB prime lending rate and are redeemable after three years and one day of issue.

30 REMUNERATION SCHEMES

R million	2012	2 011
The charge to profit or loss for share-based payments is as follows:		
FirstRand share incentive scheme	–	3
FNB Botswana	5	1
FNB Namibia	4	1
FirstRand black employee trust	50	52
FirstRand black non-executive directors' trust	19	–
FirstRand share appreciation right scheme	724	225
Conditional share plan	611	345
Forfeitable share plan	23	69
Amount included in profit or loss (note 3)	**1 436**	696

The various FirstRand share schemes are settled as follows:
Equity settled:

- FirstRand share incentive scheme
- FirstRand black employee trust
- FirstRand black non-executive directors' trust
- Conditional share plan (2011 and 2012 awards)
- Forfeitable share plan

Cash settled:

- FirstRand share appreciation right scheme

The purpose of these schemes is to appropriately attract, incentivise and retain managers within the Group.

The Group adopted revised share incentive plans in 2009, a conditional share plan (CSP) and forfeitable share plan (FSP). These plans are in line with practices in the UK and with several adopted schemes for large JSE listed or dual listed companies.

On the date of the unbundling of Momentum, FirstRand will receive no further services from the Momentum employees. As such all of the unvested amounts that related to the share-based payment transactions in which Momentum employees received FirstRand shares were recognised on the date of unbundling. For equity settled schemes the share-based payment reserve relating to these schemes was reclassified to retained earnings and the liability for cash settled schemes was derecognised as part of the unbundling.

Description of the schemes

FirstRand share incentive scheme

The rules of the FirstRand share incentive scheme (the scheme) are constituted in the FirstRand share trust. This scheme was implemented in 2000.

One third of the total number of options issued may be exercised after the third year, two-thirds after the fourth year and all of the options vest on the fifth anniversary of the grant date.

The last of the benefits awarded under this scheme vested during the year ended 30 June 2011. The share-based payment reserve relating to these awards was reclassified to retained earnings.

The FNB Botswana and FNB Namibia schemes are generally aligned to this scheme in terms of purpose and rules.

Notes to the consolidated annual financial statements continued

for the year ended 30 June

30 REMUNERATION SCHEMES continued

Description of the schemes continued

FirstRand black economic empowerment trust

FirstRand Limited is committed to the process of achieving transformation in South Africa and in creating its transformation initiative sought to ensure that the long-term benefits of the transaction reach the widest possible community of black South Africans.

171.4 million shares, representing approximately 3.1% of the issued share capital of FirstRand, 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)

Pursuant to the unbundling of Momentum the trusts received MMI shares that will be held by the trusts for the benefit of the participants until the distribution date. These shares are employee benefits that fall within the scope of IAS 19 and as such the portion of the share-based payment reserve that relates to these shares has been reclassified to staff-related provisions, refer to note 25.

FirstRand black employee trust

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

The issues of participation rights in the trust was made as follows:

- first issue on 20 July 2005;
- second issue on 1 November 2006;
- third issue on 3 December 2007; and
- last issue on 14 May 2010.

Distribution to beneficiaries takes place on 31 December 2014.

FirstRand black non-executive directors' trust

The beneficiaries of this trust are the black non-executive directors and those executive directors who were non-executives prior to becoming executives of FirstRand Group companies.

Distribution to beneficiaries takes place on 31 December 2014.

FirstRand share appreciation right scheme

The FirstRand share appreciation right scheme was implemented in 2006 to provide selected FirstRand Group employees, including executive directors of the participating companies, the opportunity of receiving incentive remuneration payments based on the increase in the market value of ordinary FirstRand shares.

One third of the total number of rights issued may be exercised 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. In any one year where the performance objectives have not been achieved the shares will not vest in that year but will be carried over to the following year, provided that the performance objectives are met in that following year. If performance conditions are not met by year five, the rights will not vest.

During the year ended 30 June 2011 the strike price of the appreciation rights was amended as a result of the Momentum unbundling. During the current year the strike price was amended as a result of the special dividend of R0.70. The purpose of these amendments was to place employees in the same position before and after the transactions. The modifications were neither beneficial nor detrimental to the employees.

Conditional share plan

The conditional award comprises a number of full shares with no strike price that will vest conditionally after three years. The number of shares that vest is determined by the extent to which the performance conditions are met. Conditional awards are made annually and vesting is subject to specified financial and non-financial performance, set annually by the Group's Remuneration committee.

During the year ended 30 June 2011 additional conditional awards were granted to the Group employees as a result of the unbundling of Momentum. During the current year additional conditional awards were granted to Group employees and as a result of the special dividend of R0.70. The purpose of the additional shares was to place the employees in the same position before and after the transactions. The modifications were neither beneficial nor detrimental to employees.

30 REMUNERATION SCHEMES continued

Description of the schemes continued

Forfeitable share plan

The forfeitable share plan is a remuneration scheme that grants selected employees full shares with no strike price that will vest after two years.

Selected employees are awarded shares that are forfeited if the employee leaves the employment of the FirstRand Group before the end of the vesting period. During the vesting period the shares are held in trust for the employees. Dividends earned on the shares during the vesting period form part of the award. As such they accrue to the participants and will be delivered along with the shares at the vesting date.

Due to the unbundling of Momentum Limited from the FirstRand Group in December 2010, participants received MMI Holdings shares to compensate them for loss of value. These shares vested during September 2011 and the related liability settled.

Co-investment arrangement

A co-investment arrangement was established whereby certain key executives and decision makers of the Group are allowed to co-invest with FirstRand in certain predefined portfolios.

The rationale for the co-investment arrangement includes:

- alignment of management and shareholder objectives;
- retention of key employees and decision makers; and
- attracting new talent in a highly competitive market.

The participants who co-invest with FirstRand buy into existing portfolios at the disclosed fair values and are required to place capital at risk. No additional gearing is provided by FirstRand.

Participants share in future profits to the extent of their capital as a percentage of the total capital at risk in the portfolios.

The co-investment arrangement encourages a long-term perspective and commitment from employees. The arrangement also encourages executives to remain in the employ of the Group companies in excess of three years, as the value of the underlying investments are expected to realise over a longer time frame.

The Group remuneration committee determines annually:

- the portfolios in which co-investment will be allowed;
- the level of co-investment allowed; and
- which key executives and decision makers qualify for co-investment.

The amounts invested by key management personnel have been included in note 42.

Valuation methodology

FirstRand share incentive scheme

Fair values for the share incentive schemes are calculated at the grant date 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 have 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 plan, and historical volatility was used as a proxy for expected volatility; and
- 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.

Employee statistic assumptions:

- annual employee turnover is the average annual rate at which employees participating in the option scheme are expected to resign before the options have vested.

The number of iterations is the number to be used in the binomial model, which is limited to 500.

The weighted average number of forfeitures is based on the major grants as these grants have a more reliable cancellation or forfeiture pattern.

Notes to the consolidated annual financial statements continued

for the year ended 30 June

30 REMUNERATION SCHEMES continued

Valuation methodology continued

Corporate performance targets

The FirstRand Limited Group Remuneration Committee (Remco) sets the corporate performance targets (CPT's) for the Group's (FirstRand) long-term incentive schemes, the share appreciation right scheme and conditional share plan. These criteria, which must be met or exceeded to enable vesting, vary from year to year, depending on the conditions prevailing at the time of the award.

The criteria for the schemes are as follows:

2007 FirstRand's normalised earnings per share (EPS) must grow at a rate per annum which equals or exceeds CPIX plus 10%, measured on a cumulative basis from base year end, 30 June 2007, for the five year performance period, to enable 100% vesting.

In respect of the 2006 and 2007 awards, should CPIX plus 10% not be achieved, the Remco may sanction a partial vesting of the appreciation right, which is calculated pro-rata to the performance which exceeds CPIX.

2008 FirstRand's normalised EPS must grow at a rate per annum which equals or exceeds CPIX, measured on a cumulative basis from base year end 30 June 2008, to enable 100% vesting. In addition FirstRand's net income after cost of capital (NIACC) must be positive over the five year performance period.

2009 FirstRand's normalised EPS must grow at a rate per annum which equals or exceeds CPIX, measured on a cumulative basis from year end 30 June 2009, to enable 100% vesting. In addition FirstRand's NIACC must be positive over the three year performance period.

2010 FirstRand's normalised EPS growth must equal or exceed South African Nominal GDP (defined as South African GDP plus CPIX) plus 4%, measured on a cumulative basis, from year end 30 June 2010, to enable 100% vesting. In addition NIACC must be positive over the three year performance period.

Should Nominal GDP plus 4% not be achieved, the Remco may sanction a partial vesting of conditional shares, which is calculated pro-rata to the performance which exceeds Nominal GDP.

2011 FirstRand's normalised EPS growth must equal or exceed South African Nominal GDP (defined as South African GDP plus CPIX) plus 1.5%, measured on a cumulative basis, from year end 30 June 2010, to enable 100% vesting. In addition NIACC must be positive over the three year performance period.

Should Nominal GDP plus 1.5% not be achieved, the Remco may sanction a partial vesting of conditional shares, which is calculated pro-rata to the performance which exceeds Nominal GDP.

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 plan, and historical volatility was used as a proxy for expected volatility; and
- 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 and takes cognisance of whether the shares are in or out the money and the vesting date.

30 REMUNERATION SCHEMES continued

Valuation methodology continued

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 percentage weighted average forfeiture rate was used due to the fact that there are only 10 participants (2011: 10 participants).

Market data consists of the following:

- volatility is the expected volatility over the period of the plan, and historical volatility was used as a proxy for expected volatility; and
- the interest rate used was the RMB forward prime curve (extrapolated where necessary) as the funding of the option is linked to the prime lending rate.

Dividend data consists of the following:

- a fixed dividend yield was assumed.

FirstRand share appreciation right scheme

The share appreciation right scheme issues are valued using a Cox Ross Rubenstein binomial tree. The scheme is cash settled and will thus be repriced at each reporting date.

Market data consists of the following:

- volatility is the expected volatility over the period of the plan, and historical volatility was used as a proxy for expected volatility; and
- 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:

- management's estimates of future dividends.

Employee statistic assumptions:

The number of rights granted is reduced by the actual staff turnover at year end. This turnover is then assumed to be constant over the period of the grant and used to estimate the expected number of rights which will vest on the vesting date.

Conditional share plan

The conditional share plan is valued using the Black Scholes model with a zero strike price. The scheme is equity settled and is therefore not repriced at each reporting date.

Market and dividend data consists of the following:

- volatility is the expected volatility over the period of the plan, and historical volatility was used as a proxy for expected volatility;
- the interest rate is the risk free rate of return as recorded on the last day of the financial year, on a swap curve of a term equal to the expected life of the plan; and
- a fixed dividend yield was assumed, based on the average historic dividend yield over a similar period.

Employee statistic assumptions:

- the weighted average forfeiture rate used is based on historical forfeiture data over all schemes cognisant of whether the shares are in or out the money and the vesting date.

Forfeitable share plan

The forfeitable share plan is valued using the Black Scholes model. The present value of all declared dividends was added to the value as determined using Black Scholes. The scheme is equity settled and will thus not be repriced at each reporting date.

Market and dividend data consists of the following:

- volatility is the expected volatility over the period of the plan, and historical volatility was used as a proxy for expected volatility;
- the interest rate is the risk free rate of return as recorded on the last day of the financial year, on a snap curve of a term equal to the expected life of the plan; and
- a fixed dividend yield was assumed, based on the average historic dividend yield over a similar period.

The valuation includes assumptions about the valuation of the MMI shares received as a dividend as well as cash dividends on the MMI shares.

Employee statistic assumptions:

- no forfeiture rate is used due to the short duration of the scheme.

Notes to the consolidated annual financial statements continued

for the year ended 30 June

30 REMUNERATION SCHEMES continued

The significant weighted average assumptions used to estimate the fair value of options and share awards granted are:

	FirstRand share incentive scheme	FNB Botswana
2012		
Weighted average exercise price (Rand)	**–**	**2.69 – 15.10**
Expected volatility (%)	**–**	**13 – 35**
Expected option life (years)	**–**	**5**
Expected risk free rate (%)	**–**	**7.29 – 9.45**
Expected dividend yield (%)	**–**	**–**
Expected dividend growth (%)	**–**	**15 – 20**
2011		
Weighted average exercise price (Rand)	12.37 – 17.87	2.69 – 15.10
Expected volatility (%)	23 – 29	13 – 35
Expected option life (years)	5	5
Expected risk free rate (%)	7.42 – 8.02	7.29 – 9.45
Expected dividend yield (%)	–	3.71
Expected dividend growth (%)	20.00	15.00 – 20.00

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

	FNB Namibia	FirstRand black employee trust	FirstRand black non-executive directors' trust	FirstRand share appreciation right scheme*	Conditional share plan	Forfeitable share plan
	7.21 – 12.26	**12.05 – 24.60**	**12.28 – 17.60**	**7.85 – 17.00**	**–**	**–**
	4.02 – 16.00	**24 – 49**	**23 – 33**	**25**	**25**	**25**
	5	**5 –10**	**10**	**5**	**3**	**2 – 3**
	6.50 – 9.47	**6.91 – 9.90**	**6.91**	**5.35 – 5.53**	**5.35 – 5.77**	**5.51**
	–	**3.50**	**3.50**	**3.50**	**3.50**	**–**
	13 – 19	**–**	**–**	**–**	**–**	**–**
	7.21 – 12.26	12.05 – 24.60	12.28 – 17.60	8.55 – 13.68	–	–
	4.02 – 16.00	24 – 49	23 – 33	26 – 38	26 – 41	23.00
	5	5 – 10	10	5	3	2 – 3
	7.11 – 9.47	6.91 – 9.90	6.91	5.89 – 7.29	6.18 – 7.10	6.66
	–	2.78 – 6.88	3.44 – 4.04	3.72 – 4.96	3.79 – 4.94	–
	13 – 19	–	–	–	–	–

Notes to the consolidated annual financial statements continued

for the year ended 30 June

30 REMUNERATION SCHEMES continued

	2012	
	FirstRand share scheme (FSR shares)	FirstRand share appreciation right scheme (FSR shares)
Number of options and share awards in force at the beginning of the year (millions)	–	183.0
Granted at prices ranging between (cents)	–	855 – 2 022*
Weighted average (cents)	–	1 341
Number of options and share awards granted during the year (millions)	–	–
Granted at prices ranging between (cents)	–	–
Weighted average (cents)	–	–
Grant date fair value	–	–
Number of options and share awards exercised/released during the year (millions)	–	(25.5)
Market value range at date of exercise/release (cents)	–	1 890 – 2 785
Weighted average share price for the year (cents)	–	2 045
Number of options and share awards cancelled/lapsed during the year (millions)	–	(46.4)
Granted at prices ranging between (cents)	–	1 048 – 1 952
Weighted average (cents)	–	1 364
Number of options and share awards in force at the end of the year (millions)	–	111.1
Granted at prices ranging between (cents)	–	785 – 1 700
Weighted average (cents)	–	1 302
Options and share awards are exercisable over the following periods (Date able to release)		
Financial year 2012/2013 (millions)	–	81.0
Financial year 2013/2014 (millions)	–	30.0
Financial year 2014/2015 (millions)	–	0.1
Total	–	111.1

* *This price has been adjusted for the impact of the Momentum unbundling which occurred in the prior year and the special dividend of R0.70, which occurred in the current year.*

	2012			
	FirstRand black employee trust (FSR shares)	FirstRand black non-executive directors' trust (FSR shares)	Conditional share plan (FSR shares)	Forfeitable share plan (FSR shares)
	114.7	9.5	89.0	14.9
	1 205 – 2 460	1 228 – 1 760	–	–
	1 654	1 284	–	–
	–	–	51.9	–
	–	–	–	–
	–	–	–	–
	–	–	1 764 – 2 314	–
	–	–	1.3	(13.7)
	–	–	–	–
	–	–	–	–
	(5.6)	–	(5.3)	–
	1 228 – 2 335	–	–	–
	1 790	–	–	–
	109.1	9.5	136.9	1.2
	1 205 – 2 460	1 228 – 1 760	–	–
	1 645	1 215	–	–
	–	–	47.1	1.2
	–	–	48.3	–
	109.1	9.5	41.5	–
	109.1	9.5	136.9	1.2

Notes to the consolidated annual financial statements continued

for the year ended 30 June

30 REMUNERATION SCHEMES continued

Options and share awards outstanding (by expiry date)	FirstRand share scheme (FSR shares) Expiry date	Exercise price (Rand)*	Outstanding options 2012 (millions)
Total options – in the money and share awards (millions)			–
Total options – out of the money (millions)			–
Total options and share awards (millions)			–
Value of company loans to share option trust at the beginning of the year (R million)			7
Value of company loans to share option trust at the end of the year (R million)			5
Number of participants			–

* *This price has been adjusted for the impact of the Momentum unbundling which occurred in the prior year and the special dividend of R0.70, which occurred in the current year.*

The share options outstanding at the end of the year had a weighted average remaining contractual life of 309 days.

	FirstRand share appreciation right scheme (FSR shares)			FirstRand black non-executive directors' trust (FSR shares)		
	Expiry date	Exercise price (Rand)*	Outstanding options 2012 (millions)	Expiry date	Exercise price (Rand)	Outstanding options 2012 (millions)
	2012/11/01	17.00	43.2	2014/12/31	12.28	8.5
	2013/04/04	14.46	0.1	2014/12/31	17.60	1.0
	2013/12/03	10.48	67.2			
	2014/04/16	7.85	–			
	2014/06/01	9.52	0.3			
	2014/06/01	10.14	0.1			
	2014/11/01	12.98	0.2			
			111.1			9.5
			67.8			9.5
			43.3			–
			111.1			9.5
			4			224
			268			213
			2 115			10

Notes to the consolidated annual financial statements continued

for the year ended 30 June

30 REMUNERATION SCHEMES continued

	FirstRand black employee trust		
Options and share awards outstanding (by expiry date)	Expiry date	Exercise price (Rand)	Outstanding options 2012 (millions)
	2014/12/31	12.05	0.2
	2014/12/31	12.06	0.2
	2014/12/31	12.28	50.5
	2014/12/31	13.05	0.4
	2014/12/31	13.65	0.1
	2014/12/31	14.00	0.2
	2014/12/31	14.70	0.2
	2014/12/31	14.91	1.0
	2014/12/31	15.66	–
	2014/12/31	15.88	0.1
	2014/12/31	16.00	–
	2014/12/31	16.42	0.5
	2014/12/31	16.50	–
	2014/12/31	16.51	0.4
	2014/12/31	16.56	0.1
	2014/12/31	17.37	0.6
	2014/12/31	17.81	0.1
	2014/12/31	18.62	11.2
	2014/12/31	18.72	–
	2014/12/31	19.33	0.1
	2014/12/31	19.44	0.7
	2014/12/31	19.81	–
	2014/12/31	19.89	25.7
	2014/12/31	21.50	0.1
	2014/12/31	22.10	0.1
	2014/12/31	22.34	15.6
	2014/12/31	22.60	0.1
	2014/12/31	22.80	0.5
	2014/12/31	23.35	–
	2014/12/31	23.75	0.1
	2014/12/31	24.60	0.4
			109.2
Total options – in the money and share awards (millions)			109.2
Total options outstanding – out of the money (millions)			–
Total options and share awards (millions)			109.2
Value of company loans to share trust at the beginning of the year (R million)			1 906
Value of company loans to share trust at the end of the year (R million)			1 793
Number of participants			11 347

* *The employees are awarded the shares, there is therefore no strike price associated with the awards made under the conditional or forfeitable share plan.*

Conditional share plan*		Forfeitable share plan*	
Expiry date	Outstanding options 2012 (millions)	Expiry date	Outstanding awards 2012 (millions)
2012/09/17	0.6	2012/10/15	1.2
2012/10/13	5.7		
2012/10/17	40.9		
2013/10/13	7.4		
2013/10/14	40.5		
2013/11/01	0.1		
2013/12/01	0.1		
2014/01/01	0.1		
2014/04/08	0.1		
2014/10/13	40.9		
2015/03/28	0.4		
2015/04/01	0.1		
	136.9		1.2
	136.9		1.2
	–		–
	136.9		1.2
	–		22
	–		(8)
	5 071		2

Notes to the consolidated annual financial statements continued

for the year ended 30 June

30 REMUNERATION SCHEMES continued

	2011	
	FirstRand share scheme (FSR shares)	FirstRand share appreciation right scheme (FSR shares)
Number of options and share awards in force at the beginning of the year (millions)	35.0	235.0
Granted at prices ranging between (cents)	1 237 – 1 787	855 – 2 022#
Weighted average (cents)	1 522	1 338#
Number of options and share awards granted during the year (millions)	–	–
Granted at prices ranging between (cents)	–	–
Weighted average (cents)	–	–
Grant date fair value	–	–
Number of options and share awards exercised/released during the year (millions)	(34.80)	–
Market value range at date of exercise/release (cents)	1 860 – 2 238	–
Weighted average share price for the year (cents)	1 992	–
Number of options and share awards cancelled/lapsed during the year (millions)	(0.2)	(52.0)
Granted at prices ranging between (cents)	1 533 – 1 538	855 – 1 770
Weighted average (cents)	1 533	1 330
Number of options and share awards in force at the end of the year (millions)	–	183.0
Granted at prices ranging between (cents)	–	855 – 2 022
Weighted average (cents)	–	1 341
Options and share awards are exercisable over the following periods (first date able to release)		
Financial year 2011/2012 (millions)	–	74.2
Financial year 2012/2013 (millions)	–	77.3
Financial year 2012/2013 (millions)	–	31.5
Financial year 2014/2015 (millions)	–	*
Total	–	183.0

* *Less than R1 million.*

\# *Prices adjusted for the Momentum unbundling.*

2011			
FirstRand black employee trust (FSR shares)	FirstRand black non-executive directors' trust (FSR shares)	Conditional share plan (FSR shares)	Forfeitable share plan (FSR shares)
136.0	10.5	43.8	17.9
1 205 – 2 460	1 228 – 1 760	–	–
1 624	1 279	–	–
2.1	–	56.5	–
1 933 – 1 989	–	–	–
1 964	–	–	–
460	–	1 401 – 1 771	–
–	–	–	–
–	–	–	–
–	–	–	–
(23.4)	(1.0)	(11.3)	(3.0)
1 228 – 2 234	1 228	–	–
1 612	1 228	–	–
114.7	9.5	89.0	14.9
1 205 – 2 460	1 228 – 1 760	–	–
1 654	1 284	–	–
–	–	–	13.7
–	–	47.6	1.2
–	–	41.4	–
114.7	9.5	–	–
114.7	9.5	89.0	14.9

Notes to the consolidated annual financial statements continued

for the year ended 30 June

30 REMUNERATION SCHEMES continued

Options and share awards outstanding (by expiry date)	FirstRand share scheme (FSR shares)			
	Expiry date	Exercise price (Rand)**	Outstanding options 2011 (millions)	
			–	
Total options and share awards outstanding – in the money			–	
Total options and share awards outstanding – out of the money			–	
Total (millions)			–	
Value of company loans to share option trust at the beginning of the year (R million)			–	
Value of company loans to share option trust at the end of the year (R million)			–	
Number of participants			–	

* *Less than R1 million.*

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

The share options outstanding at the end of the year had a weighted average remaining contractual life of 427 days.

	FirstRand share appreciation right scheme (FSR shares)			FirstRand black non-executive directors' trust (FSR shares)		
	Expiry date	Exercise price (Rand)**	Outstanding options 2011 (millions)	Expiry date	Exercise price (Rand)	Outstanding options 2011 (millions)
	2011/10/01	13.50	41.1	2014/12/31	12.28	8.5
	2011/12/01	15.32	*	2014/12/31	17.60	1.0
	2012/02/27	20.22	0.2			
	2012/03/15	18.05	0.3			
	2012/04/01	20.15	0.6			
	2012/06/15	19.29	0.6			
	2012/10/01	17.70	45.6			
	2013/03/04	15.16	0.1			
	2013/11/03	11.18	93.9			
	2014/03/16	8.55	0.1			
	2014/05/01	10.22	0.3			
	2014/10/01	13.68	0.2			
			183.0			9.5
			96.1			9.5
			86.9			–
			183.0			9.5
			1 984			214
			4			224
			1 614			10

Notes to the consolidated annual financial statements continued

for the year ended 30 June

30 REMUNERATION SCHEMES continued

Options and share awards outstanding (by expiry date)	FirstRand black employee trust Expiry date	Exercise price (Rand)	Outstanding options 2011 (millions)
	2014/12/31	12.05	0.2
	2014/12/31	12.06	0.2
	2014/12/31	12.28	51.6
	2014/12/31	13.05	0.4
	2014/12/31	13.65	0.1
	2014/12/31	14.00	0.2
	2014/12/31	14.70	0.2
	2014/12/31	14.91	1.0
	2014/12/31	15.66	0.1
	2014/12/31	15.88	0.1
	2014/12/31	16.00	*
	2014/12/31	16.42	0.5
	2014/12/31	16.50	*
	2014/12/31	16.51	0.4
	2014/12/31	17.37	0.6
	2014/12/31	17.81	0.1
	2014/12/31	18.62	11.6
	2014/12/31	18.72	0.1
	2014/12/31	19.33	0.1
	2014/12/31	19.44	1.1
	2014/12/31	19.81	*
	2014/12/31	19.89	28.1
	2014/12/31	21.50	0.2
	2014/12/31	22.10	0.1
	2014/12/31	22.34	16.4
	2014/12/31	22.60	0.1
	2014/12/31	22.80	0.5
	2014/12/31	23.35	0.1
	2014/12/31	23.75	0.1
	2014/12/31	24.60	0.5
			114.7
Total options and share awards outstanding – in the money			68.6
Total options and share awards outstanding – out of the money			46.1
Total (millions)			114.7
Value of company loans to share trust at the beginning of the year (R million)			1 888
Value of company loans to share trust at the end of the year (R million)			1 906
Number of participants			11 464

* *Less than R1 million.*

** *The employees are awarded the shares, there is therefore no strike price associated with the awards made under the conditional or forfeitable share plan.*

Conditional share plan**		Forfeitable share plan**	
Expiry date	Outstanding options 2011 (millions)	Expiry date	Outstanding awards 2011 (millions)
2012/10/13	5.6	2011/09/15	13.7
2012/10/17	42.0	2012/09/15	1.2
2013/10/14	40.8		
2013/11/01	0.2		
2013/12/20	0.1		
2013/12/01	0.1		
2014/01/01	0.1		
2014/04/08	0.1		
2014/04/15	*		
2014/05/01	*		
	89.0		14.9
	89.0		14.9
	–		–
	89.0		14.9
	–		273
	–		22
	1 990		118

Notes to the consolidated annual financial statements continued

for the year ended 30 June

31 CASH FLOW INFORMATION

R million	**2012**	2011
31.1 Reconciliation of operating profit before income tax to cash flows from operating activities		
Operating profit before income tax	**19 009**	19 103
Adjusted for:		
– Depreciation, amortisation and impairment charges	**2 520**	1 925
– Impairment of advances	**5 065**	3 778
– Share of profit of associates and joint ventures after tax net of dividends	**(611)**	(136)
– Interest earned on loans to associates	**(106)**	–
– Unrealised profits on assets held against employee liabilities	**(169)**	(339)
– Movement in provisions	**2 781**	2 054
– Gain on disposal of property and equipment	**49**	(9)
– Gain on disposal of investments securities and other investments	**20**	(1 542)
– Gain on disposal of subsidiaries	**(266)**	(571)
– Fair value gains on investment properties held at fair value through profit or loss	**(12)**	(44)
– Deferred expenses and income	**1**	(418)
– Share-based payment expense	**1 436**	696
– Net fair value gains on financial assets through profit or loss	**(2 976)**	815
– Accruals	**(164)**	50
– Present value adjustments	**(136)**	(220)
– Dividends paid	**(9 017)**	(4 480)
– Gain on disposal of associates	**(579)**	(2 841)
– Dividends paid to non-controlling interests	**(652)**	(583)
– (Gain)/loss relating to foreign currency translations	**(198)**	62
– Impairment of goodwill	**–**	(9)
– Reclassification from other comprehensive income in respect of available-for-sale assets and cash flow hedges	**640**	(368)
Cash flows from operating activities	**16 635**	16 923
31.2 Cash receipts from customers		
Interest income	**40 611**	37 527
Fee and commission income	**18 002**	16 036
Trading and other income	**4 926**	5 918
Premium less claims	**(706)**	(153)
Cash receipts from customers	**62 833**	59 328

31 CASH FLOW INFORMATION continued

R million	2012	2011
31.3 Cash paid to customers, suppliers and employees		
Interest expense	**(18 135)**	(20 854)
Other operating expenses	**(21 911)**	(19 979)
Cash paid to customers, suppliers and employees	**(40 046)**	(40 833)
31.4 Increase in income earning assets		
Liquid assets and trading securities	**8 345**	(4 392)
Advances	**(62 747)**	(34 503)
Increase in income earning assets	**(54 402)**	(38 895)
31.5 Increase in deposits and liabilities		
Deposits	**51 636**	46 467
Creditors (net of debtors)	**627**	296
Employee liabilities	**(1 961)**	(1 379)
Other	**(2 964)**	(3 965)
Increase in deposits and liabilities	**47 338**	41 419
31.6 Tax paid		
Tax payable and deferred tax at beginning of the year	**(149)**	778
Indirect tax paid	**(551)**	(614)
Other*	**(101)**	28
Charge to income statement	**(4 089)**	(4 245)
Tax payable and deferred tax at end of the year	**55**	149
Deferred tax	**(496)**	(61)
Tax paid	**(5 331)**	(3 965)
31.7 Dividends paid		
Charged to retained earnings	**(9 017)**	(4 480)
Dividends paid	**(9 017)**	(4 480)

* *Other includes acquisition/disposal of subsidiaries and customer tax adjustment.*

Notes to the consolidated annual financial statements continued

for the year ended 30 June

31 CASH FLOW INFORMATION continued

R million	Notes	2012	2011
31.8 Acquisition and proceeds on disposal of significant associates			
Proceeds from the disposal of associates			
Weston Atlas Fund			
Proceeds from disposal		**55**	–
– discharged by cash consideration		**55**	–
– discharged by non-cash consideration (shares issued and loans acquired)		**–**	–
Cash inflow on disposal	41.6	**55**	–
RMB Private Equity Associates			
Proceeds from disposal		**140**	–
– discharged by cash consideration		**140**	–
– discharged by non-cash consideration (shares issued and loans acquired)		**–**	–
Cash inflow on disposal	41.7	**140**	–
OUTsurance			
Proceeds from disposal		**–**	3 608
– discharged by cash consideration		**–**	3 608
Cash inflow on disposal	41.11	**–**	3 608
Marsh Holdings Proprietary Limited			
Proceeds from disposal		**–**	54
– discharged by cash consideration		**–**	54
Cash inflow on disposal	41.12	**–**	54
Kula Gold Proprietary Limited			
Proceeds from disposal		**–**	243
– discharged by cash consideration		**–**	243
Cash inflow on disposal	41.13	**–**	243
Other insignificant disposals			
Proceeds from disposal		**7**	206
– discharged by cash consideration		**7**	187
– discharged by non-cash consideration (shares issued and loans acquired)		**–**	19
Cash inflow on disposal	41.14	**7**	187
Partial disposals of significant associates*			
Proceeds from disposal		**1 169**	–
– discharged by cash consideration		**1 169**	–
Cash inflow on disposal		**1 169**	–

* *Refer to note 15.*

31 CASH FLOW INFORMATION continued

	R million	Notes	2012	2011
31.8	**Acquisition and proceeds on disposal of significant associates continued**			
	Consideration for acquisition of associates			
	RMB Private Equity Associates			
	Cost of acquisition		**(1 988)**	–
	– discharged by cash consideration		**(1 705)**	–
	– discharged by non-cash consideration (shares issued and loans acquired)		**(283)**	–
	Cash outflow on acquisition		**(1 705)**	–
	Other insignificant acquisitions acquired			
	Cost of acquisition		**(2)**	(199)
	– discharged by cash consideration		**(2)**	(166)
	– discharged by non-cash consideration (shares issued and loans acquired)		**–**	(33)
	Cash outflow on acquisition		**(2)**	(166)
	Cash outflow on acquisitions of associates and joint ventures		**(1 707)**	(166)
31.9	**Acquisitions and proceeds on disposal of significant subsidiaries**			
	Consideration for acquisition of subsidiaries			
	Sani Pass Hotel Proprietary Limited			
	Cost of acquisition		**–**	–
	– discharged by cash consideration		**–**	–
	Less: cash and cash equivalents in subsidiary acquired		**1**	–
	Cash inflow on acquisition	41.1	**1**	–
	Proceeds from the disposal of subsidiaries			
	Ronald Sewells & Associates SA Proprietary Limited			
	Proceeds from disposal		**10**	–
	– discharged by cash consideration		**10**	–
	Less: cash and cash equivalents in subsidiary disposed		**–**	–
	Cash inflow on disposal	41.2	**10**	–
	Momentum Life Assurance Namibia Limited			
	Proceeds from disposal		**365**	–
	– discharged by cash consideration		**365**	–
	Less: cash and cash equivalents in subsidiary disposed		**(28)**	–
	Cash inflow on disposal	41.3	**337**	–

Notes to the consolidated annual financial statements continued

for the year ended 30 June

31 CASH FLOW INFORMATION continued

R million	Notes	2012	2011
31.9 Acquisitions and proceeds on disposal of significant subsidiaries continued			
First Trade Solutions (Limited) Guernsey			
Proceeds from disposal		**–**	–
– discharged by cash consideration		**–**	–
Less: cash and cash equivalents in subsidiary disposed		**1**	–
Cash inflow on disposal	41.4	**1**	–
Consideration for acquisition of subsidiaries			
BJM Holdings Limited			
Cost of acquisition		**–**	450
– discharged by cash consideration		**–**	450
Less: cash and cash equivalents in subsidiary acquired		**–**	200
Cash outflow on acquisition	41.9	**–**	(250)
Davita Trading Proprietary Limited			
Proceeds from disposal		**–**	704
– discharged by cash consideration		**–**	704
Less: cash and cash equivalents in subsidiary disposed		**–**	(57)
Cash inflow on disposal	41.10	**–**	647
31.10 Cash and cash equivalents			
Cash and cash equivalents consist of cash on hand and balances with banks, and other investments. Cash and cash equivalents included in the statement of cash flows comprise the following statement of financial position amounts:			
Cash and cash equivalents		**38 363**	34 240
Total cash and cash equivalents		**38 363**	34 240

32 CONTINGENCIES AND COMMITMENTS

R million	2012	2011
Contingencies and commitments		
Guarantees*	**22 741**	24 727
Acceptances	**293**	289
Letters of credit	**7 886**	6 331
Total contingencies	**30 920**	31 347
Irrevocable commitments	**69 348**	63 298
Committed capital expenditure	**3 711**	3 737
Operating lease commitments	**3 217**	2 355
Other**	**449**	11 330
Total contingencies and commitments	**107 645**	112 067
* *Guarantees consist predominantly of endorsements and performance guarantees.* ** *During the year a portion of other commitments were reclassified as being revocable. The comparative number for the prior year is R11 billion.*		
Other contingencies		
The Group is exposed to various actual or potential claims.		
Legal proceedings		
There are a number of legal or potential claims against the Group, the outcome of which cannot at present be foreseen. These claims are not regarded as material either on an individual or a group basis. Provision is made for all liabilities that are expected to materialise.	**91**	63
Claims		
The Group has contingent liabilities in respect of certain outstanding claims.	**–**	150
The Group has reciprocal claims against other institutions. These claims qualify as contingent assets.	**–**	(134)
Commitments		
Commitments in respect of capital expenditure and long-term investments approved by directors:		
Capital commitments contracted for at the reporting date but not yet incurred are as follows:		
Property and equipment and intangible assets	**1 474**	614
Capital commitments not yet contracted for at reporting date but have been approved by the directors:		
Property and equipment and intangible assets	**2 237**	3 123

Funds to meet these commitments will be provided from the Group's resources.

Notes to the consolidated annual financial statements continued

for the year ended 30 June

32 CONTINGENCIES AND COMMITMENTS continued

Commitments under operating leases where the Group is the lessee

The Group's significant operating leases relates to property rentals of office premises and the various branch network channels represented by full service branches, agencies, mini branches and ATM lobbies. The rentals are fixed monthly payments, often including a contingent rental based on a percentage contribution of the monthly operating costs of the premises. Escalation clauses are based on market related rates and vary between 8 and 12%.

The leases are usually for a period of one to five years. The leases are non-cancellable and certain of the leases have an option to renew for a further leasing period at the end of the original lease term.

Restrictions are more an exception than the norm and usually relate to the restricted use of the asset for the business purposes specified in the lease contract.

	2012		
R million	**Within 1 year**	**Between 1 and 5 years**	**More than 5 years**
Office premises	**940**	**1 928**	**17**
Equipment and motor vehicles	**99**	**233**	**–**
Total operating lease commitments	**1 039**	**2 161**	**17**

	2011		
R million	Within 1 year	Between 1 and 5 years	More than 5 years
Office premises	772	1 207	145
Equipment and motor vehicles	93	138	–
Total operating lease commitments	865	1 345	145

Future minimum lease payments under operating leases where the Group is the lessor

The minimum future lease payments receivable under non-cancellable operating leases on investment properties and other assets where the Group is the lessor:

	2012		
R million	**Within 1 year**	**Between 1 and 5 years**	**More than 5 years**
Office premises	**76**	**167**	**138**
Equipment and motor vehicles	**523**	**1 305**	**951**
Total operating lease commitments	**599**	**1 472**	**1 089**

	2011		
R million	Within 1 year	Between 1 and 5 years	More than 5 years
Office premises	109	140	167
Equipment and motor vehicles	213	243	–
Other	4	3	–
Total operating lease commitments	326	386	167

33 COLLATERAL PLEDGED AND HELD

33.1 Collateral pledged

The Group has pledged assets as security for the following liabilities:

R million	2012	2011
Short trading positions	**5 343**	9 094
Total deposits	**31 469**	47 041
– Deposits held under repurchase agreements	**28 277**	41 146
– Deposits in securities lending transactions	**3 192**	5 895
Other secured deposits	**3 161**	8 137
Other liabilities	**303**	237
Other	**2 363**	2 269
Total	**42 639**	66 778

The Group pledges assets under the following terms and conditions:

- Mandatory reserve deposits are held with the Central Bank in accordance with statutory requirements. These deposits are not available to finance the Group's day-to-day operations.
- Assets are pledged as collateral under repurchase agreements with other banks and non–banks for security deposits and current accounts relating to local futures and options.
- Collateral in the form of cash and other investment securities is pledged when the Group borrows equity securities from third parties. These transactions are conducted under the terms and conditions that are usual and customary to standard securities lending arrangements.

All other pledges are conducted under terms which are usual and customary to lending arrangements.

Assets pledged to secure the above liabilities are included under the following:

R million	2012	2011
Cash and cash equivalents	**4 577**	2 269
Investment securities and other investments held under repurchase agreements	**13 463**	18 607
Investment securities and other investments	**1 293**	2 688
Other	**2 458**	2 423
Total	**21 791**	25 987

Under the standard terms for certain of the securities lending arrangements and repurchase agreements that the Group enters into, the recipient of collateral has an unrestricted right to sell or repledge the assets in the absence of default but subject to the Group returning equivalent securities on settlement of the transaction.

Notes to the consolidated annual financial statements continued

for the year ended 30 June

33 COLLATERAL PLEDGED AND HELD continued

Collateral the Group holds that it has the ability to sell or repledge in the absence of default by the owner of the collateral:

R million	**2012** Fair value	**2012** Fair value of collateral sold or repledged	2011 Fair value	2011 Fair value of collateral sold or repledged
Cash and cash equivalents	**–**	**–**	2 584	–
Investments securities and other investments	**54 704**	**35 114**	46 180	45 212
Total	**54 704**	**35 114**	48 764	45 212

Collateral taken possession of and recognised on the statement of financial position:

When the Group takes possession of collateral that is not cash or not readily convertible into cash, the Group determines a minimum sale amount (pre-set sale amount) and auctions the asset for the pre-set sale amount.

Where the Group is unable to obtain the pre-set sale amount in an auction the Group will continue to hold the asset while actively marketing it to ensure an appropriate value is obtained.

Reconciliation of collateral taken possession of:

	2012		
R million	**Property**	**Equipment**	**Total**
Opening balance	**258**	**65**	**323**
Additions	**33**	**–**	**33**
Disposals	**(188)**	**(36)**	**(224)**
Closing balance	**103**	**29**	**132**

	2011		
R million	Property	Equipment	Total
Opening balance	502	–	502
Additions	95	65	160
Disposals	(339)	–	(339)
Closing balance	258	65	323

34 LOANS AND RECEIVABLES DESIGNATED AS AT FAIR VALUE THROUGH PROFIT OR LOSS

Certain instruments designated at fair value through profit or loss would meet the definition for classification as loans and receivables in terms of IAS 39 were it not for the fair value designation i.e. unquoted debt instruments. The table below contains details on the change in credit risk attributable to these instruments.

	2012					
			Change in fair value			
			Of mitigating instrument		**Due to credit risk**	
R million	**Carrying value**	**Mitigated credit risk***	**Current period**	**Cumulative**	**Current period**	**Cumulative**
Included in advances	**139 697**	**3 417**	**(397)**	**(416)**	**(498)**	**(1 826)**
Included in investment securities and other investments	**25 011**	**–**	**–**	**–**	**–**	**–**
Included in non-recourse investments	**18 028**	**–**	**–**	**–**	**–**	**–**
Total	**182 736**	**3 417**	**(397)**	**(416)**	**(498)**	**(1 826)**

	2011					
			Change in fair value			
			Of mitigating instrument		Due to credit risk	
R million	Carrying value	Mitigated credit risk*	Current period	Cumulative	Current period	Cumulative
Included in advances	122 144	1 673	(19)	(19)	(135)	(1 320)
Included in investment securities and other investments	26 402	–	–	–	–	–
Included in non-recourse investments	13 587	–	–	–	–	–
Total	162 133	1 673	(19)	(19)	(135)	(1 320)

Losses are indicated with a "()".

* *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:

Advances
The change in credit risk is the difference between the 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.

Investment securities and other investments and non-recourse investments
The change in fair value for investments designated at fair value through profit or loss is calculated by stripping out the movements that 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.

Notes to the consolidated annual financial statements continued

for the year ended 30 June

35 FINANCIAL LIABILITIES DESIGNATED AS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2012			
			Change in fair value due to credit risk	
R million	**Fair value**	**Contractually payable at maturity**	**Current period**	**Cumulative**
Deposits	**85 664**	**94 510**	**–**	**–**
Non-recourse deposits	**20 092**	**21 758**	**–**	**–**
Other liabilities	**1 849**	**1 805**	**–**	**–**
Tier 2 liabilities	**1 067**	**1 045**	**6**	**12**
Total	**108 672**	**119 118**	**6**	**12**

	2011			
			Change in fair value due to credit risk	
R million	Fair value	Contractually payable at maturity	Current period	Cumulative
Deposits	142 859	138 435	–	–
Non-recourse deposits	17 414	16 804	–	–
Other liabilities	252	243	–	–
Tier 2 liabilities	1 390	1 401	(23)	5
Total	161 915	156 883	(23)	5

The current and cumulative change in fair value that is attributable to the movement in credit risk of financial liabilities designated at fair value through profit or loss is determined with reference to changes in the Group's published credit rating.

36 TRANSFERS AND DERECOGNITION OF FINANCIAL ASSETS

In the normal course of business the Group enters into transactions in terms of which it transfers financial assets directly to third parties or to special purpose entities (SPE). Financial assets are transferred when the Group has either transferred its contractual right to receive cash flows from the financial asset, or it has assumed an obligation to pay over all the cash flows from the financial asset to another entity in such a way that the transaction meets the definition of a pass through arrangement in terms of IAS 39. Where the transfer of the financial asset qualifies for derecognition, these transfers may give rise to the partial or full derecognition of the financial asset concerned.

- No derecognition occurs when the Group transfers financial assets in such a way that it retains substantially all the risks and rewards of ownership of the transferred asset. The entire transferred financial asset will continue to be recognised on the statement of financial position of the Group. The majority of transferred financial assets of the Group that do not qualify for derecognition are debt securities transferred under repurchase agreements or lent under securities lending agreements. Disclosures relating to these transferred financial assets that are not derecognised in their entirety are included under point 36.1 below.

36 TRANSFERS AND DERECOGNITION OF FINANCIAL ASSETS continued

- Partial derecognition occurs when the Group transfers financial assets in such a way that it neither transfers nor retains substantially all the risks and rewards of ownership but still controls the transferred financial assets. These financial assets are recognised on the statement of financial position to the extent of the Group's continuing involvement. This excludes the full derecognition of part of a larger financial asset as is detailed below. Disclosures relating to these transferred financial assets that are partially derecognised are included under point 36.1 below.
- Full derecognition occurs when the Group has transferred a financial asset and it either transfers substantially all the risks and rewards of ownership, or it neither retains nor transfers substantially all the risks and rewards of ownership but loses control of the financial asset. Where the financial asset qualifies for full derecognition, the Group derecognises the entire transferred financial asset. The transfer may however result in the Group obtaining a new asset or assuming a new liability that continues to expose the Group to the derecognised financial asset (for example a servicing asset or liability). Full derecognition includes the derecognition of a specific and identifiable portion of a financial asset where all the risks and rewards of ownership of that part are transferred, for example, 90% of all the cash flows or interest payments of a financial asset. This is not partial derecognition as is detailed above. The majority of transferred financial assets of the Group that qualify for full derecognition are outright sales, loan syndications and securitisation transactions. Disclosures relating to the continuing involvement in derecognised financial assets to which the Group is still exposed are included under point 36.2 below.

36.1 Transferred financial assets that are not derecognised in their entirety

Repurchase agreements

The Group enters into repurchase agreements in terms of which the Group sells investment securities to an external counterparty in exchange for cash and agrees to repurchase the investment securities at a specified price at a specified future date. The Group retains substantially all the risks and rewards of ownership of the transferred investment securities in these transactions. The transferred investment securities continue to be recognised in full by the Group (investment securities and other investments) and a financial liability (deposits) is recognised for the cash received. The counterparty's only recourse is to the transferred investment securities that are subject to the repurchase agreement. The Group remains exposed to all the underlying risks on the repurchase agreements. The risks include counterparty, interest rate, currency, prepayment and other price risks.

No derecognition of the transferred assets

Investment securities and other investments of the Group with a carrying amount of R13 463 million have been transferred in terms of repurchase transactions. Associated liabilities with a carrying amount of R13 383 million have been recognised for cash received from counterparties and have been included in deposits. Both the transferred investments and related deposits are designated at fair value through profit or loss.

Securities lending transactions

The Group enters into securities lending transactions in terms of which the Group lends investment securities that it owns to external counterparties in exchange for cash collateral. The cash collateral is provided by the counterparty as security for the return of the securities. The investment securities that are lent, continue to be recognised in full as the Group retains substantially all the risks and rewards of ownership of these investment securities and the derecognition criteria are not met. A financial liability is recognised for the cash collateral received from the counterparty. The Group's only recourse in respect to the return of the securities it has lent is to the cash collateral held and as such, the Group generally requires cash collateral in excess of the fair value of the securities lent. The Group remains exposed to all the underlying risks of the transferred investment securities. The risks include counterparty, investment, equities price, currency and other price risks.

During the current year, the Group did not enter into any securities lending transactions in terms of which it lent securities recognised on its statement of financial position.

36.2 Transferred financial assets that are derecognised in their entirety

During the current year, the Group did not enter into any transactions in terms of which transferred financial assets were derecognised in their entirety.

Notes to the consolidated annual financial statements continued

for the year ended 30 June

37 FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of a financial instrument is defined as the amount at which the instrument could be exchanged in a market transaction between knowledgeable willing parties. When determining fair value it is presumed that the entity is a going concern and the fair value is therefore not an amount that represents a forced transaction, involuntary liquidation or a distressed sale.

When determining the fair value of a financial instrument, preference is given to prices quoted in an active market. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis.

If a particular instrument is not traded in an active market the Group uses a valuation technique to determine the fair value of the financial instrument. The valuation techniques employed by the Group include, *inter alia*, quoted prices for similar assets or liabilities in an active market, quoted prices for the same asset or liability in an inactive market, adjusted prices from recent arm's length transactions, option-pricing models, and discounted cash flow techniques.

The objective of using a valuation technique is to determine what the transaction price would have been at the measurement date. Therefore maximum use is made of inputs that are observable in the market and entity specific inputs are only used when there is no market information available. All valuation techniques take into account the relevant factors that other market participants would have considered in setting a price for the financial instrument and are consistent with accepted methodologies for pricing financial instruments.

The Group classifies instruments measured at fair value using a fair value hierarchy that reflects the significance of the inputs used. The Group's fair value hierarchy has the following levels:

Level 1 – Fair value is determined using unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Fair value is determined using inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 – Fair value is determined using a valuation technique and inputs that are not based on observable market data (i.e. unobservable inputs).

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

Investment securities and other investments

Unlisted equities

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

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

The P/E multiple is derived from current market observations taking into account an appropriate discount for unlisted companies. The valuation of these instruments may be corroborated by a discounted cash flow valuation or by the observation of other market transactions that 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 information that is consistent with similar market quoted instruments, where available.

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.

37 FAIR VALUE OF FINANCIAL INSTRUMENTS continued

Derivatives

Market prices are obtained from trading exchanges, when the derivatives are traded. If the derivatives are not traded the following techniques are used:

- Contracts for difference are valued by using the differential between the market price and the traded price multiplied by the notional amount.
- 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 generally 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 for similar market traded instruments. The reset rate is determined in terms of the legal agreement.
- Swaps are valued by discounting the expected cash flows using discount and forward rates determined from similar market traded instruments. The reset rate of each swaplet is determined in terms of legal documents pertaining to the swap.
- Commodity linked instruments are measured by taking into account the price, the location differential, grade differential, silo differential and the discount factor of the most liquidly traded futures linked to the commodity.

Deposits

Fair value of deposits 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.

The Group also determines the fair value of the amortised cost book for disclosure purposes.

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.

The fair value of deposits will only be determined for deposits that have a maturity profile of longer than 30 days. For all non-term products it is assumed that fair value equals amortised cost.

Short trading positions

The fair value of listed short trading positions is their market quoted price. The fair value of unlisted short trading positions are based on the directors' valuation using suitable valuation methods.

Loans and advances to customers

The Group has elected to designate the term loan book in the investment banking division at fair value through profit or loss in terms of IAS 39. The fair value is determined using a valuation technique that uses both inputs that are based on observable market data and unobservable data. The Group also determines the fair value of the amortised cost book for disclosure purposes.

The interest rate component of the valuation uses observable inputs from market interest rate curves. To calculate the fair value of credit the Group uses a valuation methodology based on the credit spread matrix, which considers loss given default, tenor and the internal credit committee rating criteria.

Other liabilities and Tier 2 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.

Notes to the consolidated annual financial statements continued

for the year ended 30 June

37 FAIR VALUE OF FINANCIAL INSTRUMENTS continued

The following table presents the financial instruments recognised at fair value in the consolidated statement of financial position of the Group.

	2012			
R million	**Level 1**	**Level 2**	**Level 3**	**Total carrying amount**
Assets				
Derivative financial instruments	–	**52 715**	**198**	**52 913**
Advances	–	**39 014**	**100 791**	**139 805**
Investment securities and other investments	**57 966**	**35 899**	**5 404**	**99 269**
Non-recourse investments	–	**20 092**	–	**20 092**
Total financial assets recognised at fair value	**57 966**	**147 720**	**106 393**	**312 079**
Liabilities				
Short trading positions	**5 343**	–	–	**5 343**
Derivative financial instruments	–	**53 613**	**147**	**53 760**
Deposits	–	**82 397**	**3 267**	**85 664**
Non-recourse deposits	–	**20 092**	–	**20 092**
Other liabilities	–	**1 849**	–	**1 849**
Tier 2 liabilities	–	**1 067**	–	**1 067**
Total financial liabilities at fair value	**5 343**	**159 018**	**3 414**	**167 775**

During the year an amount of R34 million was transferred from Level 2 into Level 1 and an amount of R770 million was transferred out of Level 1 into Level 2. The transfer into Level 1 was as a result of certain entities in which the Group holds an investment becoming listed for the first time during the current year. The transfer out of Level 1 was as a result of the market in which certain instruments are listed, becoming inactive during the current year.

37 FAIR VALUE OF FINANCIAL INSTRUMENTS continued

	2011			
R million	Level 1	Level 2	Level 3	Total carrying amount
Assets				
Derivative financial instruments	–	37 014	192	37 206
Advances	–	35 415	86 844	122 259
Investment securities and other investments	58 477	44 297	4 284	107 058
Non-recourse investments	–	17 414	–	17 414
Total financial assets recognised at fair value	58 477	134 140	91 320	283 937
Liabilities				
Short trading positions	9 094	–	–	9 094
Derivative financial instruments	–	36 230	131	36 361
Deposits	1 408	138 052	3 399	142 859
Non-recourse deposits	–	17 414	–	17 414
Other liabilities	–	252	–	252
Tier 2 liabilities	–	1 390	–	1 390
Total financial liabilities at fair value	10 502	193 338	3 530	207 370

There were no transfers of financial instruments between Level 1 and Level 2 during the year ended June 2011.

Although the fair value of credit is not significant year-on-year it may become significant in the future. For this reason, together with the fact that South Africa does not have actively traded credit spreads, the Group has classified loans and advances to customers in Level 3 of the fair value hierarchy.

Notes to the consolidated annual financial statements continued

for the year ended 30 June

37 FAIR VALUE OF FINANCIAL INSTRUMENTS continued

Changes in Level 3 fair value instruments

The Group classifies financial instruments in Level 3 of the fair value hierarchy when the significant inputs into the valuation model are not observable. In addition the valuation model for Level 3 financial instruments typically also relies on a number of inputs that are readily observable either directly or indirectly. Thus, the gains and losses presented below include changes in the fair value related to both observable and unobservable inputs.

The following table shows a reconciliation of the opening and closing balances for financial instruments classified as Level 3 in terms of the fair value hierarchy.

	2012		
R million	**Fair value on 30 June 2011**	**Gains/(losses) recognised in profit or loss**	**Gains/(losses) recognised in other comprehensive income**
Assets			
Derivative financial instruments	**192**	**27**	**–**
Advances	**86 844**	**6 622**	**–**
Investment securities and other investments	**4 284**	**341**	**13**
Total financial assets at fair value	**91 320**	**6 990**	**13**
Liabilities			
Derivative financial instruments	**131**	**6**	**–**
Deposits	**3 399**	**(315)**	**–**
Total financial liabilities at fair value	**3 530**	**(309)**	**–**

	2011		
R million	Fair value on 30 June 2010	Gains/(losses) recognised in profit or loss	Gains/(losses) recognised in other comprehensive income
Assets			
Derivative financial instruments	31	144	–
Advances	78 210	6 410	–
Investment securities and other investments	3 666	58	(20)
Total financial assets at fair value	81 907	6 612	(20)
Liabilities			
Derivative financial instruments	189	23	–
Deposits	3 300	10	–
Total financial liabilities at fair value	3 489	33	–

There were no transfers of financial instruments out of or into Level 3 during the current year or prior year.

	2012					
	Purchases/ (sales)/issues/ (settlements)	**Acquisitions/ (disposals) of subsidiaries**	**Transfers into Level 3**	**Transfer out of Level 3**	**Exchange rate differences**	**Fair value on 30 June 2012**
	(28)	**–**	**–**	**–**	**7**	**198**
	7 080	**92**	**–**	**–**	**153**	**100 791**
	770	**(42)**	**–**	**–**	**38**	**5 404**
	7 822	**50**	**–**	**–**	**198**	**106 393**
	10	**–**	**–**	**–**	**–**	**147**
	159	**–**	**–**	**–**	**24**	**3 267**
	169	**–**	**–**	**–**	**24**	**3 414**

	2011					
	Purchases/ (sales)/issues/ (settlements)	Acquisitions/ (disposals) of subsidiaries	Transfers into Level 3	Transfer out of Level 3	Exchange rate differences	Fair value on 30 June 2011
	17	–	–	–	–	192
	2 205	19	–	–	–	86 844
	753	(173)	–	–	–	4 284
	2 975	(154)	–	–	–	91 320
	(81)	–	–	–	–	131
	89	–	–	–	–	3 399
	8	–	–	–	–	3 530

37 FAIR VALUE OF FINANCIAL INSTRUMENTS continued

The table below presents the total gains/(losses) relating to financial instruments classified in Level 3 that are still held on 30 June. With the exception of interest on funding instruments, all of these gains or losses are recognised in non-interest income.

	2012		
R million	**Gains/(losses) recognised in the income statement**	**Gains/(losses) recognised in other comprehensive income**	**Total gains/(losses)**
Assets			
Derivative financial instruments	**33**	**–**	**33**
Advances	**6 089**	**–**	**6 089**
Investment securities and other investments	**283**	**2**	**285**
Total	**6 405**	**2**	**6 407**
Liabilities			
Derivative financial instruments	**1**	**–**	**1**
Deposits	**(401)**	**–**	**(401)**
Total	**(400)**	**–**	**(400)**

	2011		
R million	Gains/(losses) recognised in the income statement	Gains/(losses) recognised in other comprehensive income	Total gains/(losses)
Assets			
Derivative financial instruments	150	–	150
Advances	5 397	–	5 397
Investment securities and other investments	(75)	(20)	(95)
Total	5 472	(20)	5 452
Liabilities			
Derivative financial instruments	25	–	25
Deposits	19	–	19
Other liabilities	25	–	25
Total	69	–	69

37 FAIR VALUE OF FINANCIAL INSTRUMENTS continued

Effect of changes in significant unobservable assumptions to reasonably possible alternatives

As described above, the fair value of instruments that are classified in Level 3 of the fair value hierarchy is determined using valuation techniques that make use of significant inputs that are not based on observable market data. The inputs into these valuation techniques are derived from all available information and management's judgement. While management believes that these fair values are appropriate they could be sensitive to changes in the assumptions used to derive the inputs. The table below illustrates the sensitivity of the significant inputs when they are changed to reasonably possible alternative inputs:

	2012				
				Reasonably possible alternative fair value	
R million	Significant unobservable inputs	Reasonably possible changes to significant unobservable inputs	Fair value	Using more positive assumptions	Using more negative assumptions
Assets					
Advances	Credit	Credit migration matrix*	100 791	101 700	100 350
Derivative financial instruments	Volatilities	Volatilities are increased and decreased by 10%.	198	268	179
Investment securities and other investments	Growth rates and P/E ratios of unlisted investments	Unobservable inputs are increased and decreased by 10%.	5 404	5 794	4 761
Total financial assets recognised at fair value			106 393	107 762	105 290
Liabilities					
Deposits	Credit risk of the cash collateral leg of credit linked notes	Credit migration matrix**	3 267	2 940	3 594
Derivative financial instruments	Volatilities	Volatilities are increased and decreased by 10%.	147	142	150
Total financial liabilities recognised at fair value			3 414	3 082	3 744

* *The credit migration matrix is used as part of the Group's credit risk management process for the advances measured at fair value through profit or loss. The matrix is a simulation model that contains a matrix of probabilities for downgrading or upgrading to another rating bucket. The migration matrix is based on actual observed rating migrations from S&P over the long-term and is based on the fair value in the 75th percentile.*

** *The deposits included in Level 3 of the hierarchy represent the collateral leg of credit linked notes. The most significant unobservable input in determining the fair value of the credit linked notes is the credit risk component. The sensitivity to credit risk has been assessed in the same way as for advances using the credit migration matrix with the deposit representing the cash collateral component thereof.*

Notes to the consolidated annual financial statements continued

for the year ended 30 June

37 FAIR VALUE OF FINANCIAL INSTRUMENTS continued

	2011				
				Reasonably possible alternative fair value	
R million	Significant unobservable inputs	Reasonably possible changes to significant unobservable inputs	Fair value	Using more positive assumptions	Using more negative assumptions
Assets					
Advances	Credit	Credit migration matrix*	86 844	87 174	86 447
Derivative financial instruments	Volatilities	Volatilities are increased and decreased by 10%.	192	230	162
Investment securities and other investments	Growth rates and P/E ratios of unlisted investments	Unobservable inputs are increased and decreased by 10%.	4 284	4 651	3 853
Total financial assets recognised at fair value			91 320	92 055	90 462
Liabilities					
Deposits	Credit risk of the cash collateral leg of credit linked notes	Credit migration matrix**	3 399	3 059	3 738
Derivative financial instruments	Volatilities	Volatilities are increased and decreased by 10%.	131	128	134
Total financial liabilities recognised at fair value			3 530	3 187	3 872

* *The credit migration matrix is used as part of the Group's credit risk management process for the advances measured at fair value through profit or loss. The matrix is a simulation model that contains a matrix of probabilities for downgrading or upgrading to another rating bucket. The migration matrix is based on actual observed rating migrations from S&P over the long-term and is based on the fair value in the 75th percentile.*

** *The deposits included in Level 3 of the hierarchy represent the collateral leg of credit linked notes. The most significant unobservable input in determining the fair value of the credit linked notes is the credit risk component. The sensitivity to credit risk has been assessed in the same way as for advances using the credit migration matrix with the deposit representing the cash collateral component thereof.*

37 FAIR VALUE OF FINANCIAL INSTRUMENTS continued

The following represents the fair values of financial instruments not carried at fair value on the statement of financial position:

	2012		2011	
R million	**Carrying amount**	**Fair value**	Carrying amount	Fair value
Assets				
Advances at amortised cost	**384 702**	**379 324**	342 334	342 014
Investment securities and other investments	**347**	**347**	285	285
Total assets at amortised cost	**385 049**	**379 671**	342 619	342 299
Liabilities				
Deposits and current accounts at amortised cost	**500 525**	**501 056**	392 606	391 563
Tier 2 liabilities	**6 818**	**7 010**	5 276	4 990
Other liabilities	**4 533**	**4 537**	3 845	3 886
Total liabilities at amortised cost	**511 876**	**512 603**	401 727	400 439

For all other financial instruments the carrying value is equal to or a reasonable approximation of the fair value.

Day 1 profit or loss

Day 1 profit or loss arises on the initial recognition of a financial instrument when the fair value of an instrument is determined using a valuation technique that makes use of inputs that are not observable in an active market. In terms of IAS 39 if the fair value determined in accordance with such a valuation technique differs from the transaction price the initial recognition should take place at the transaction price as the transaction price is considered the best evidence of fair value at initial recognition. The day 1 profits or losses arising as a result of the difference between the two values should only be recognised over the life of the instrument as a result of changes that would also be considered by market participants.

The following table represents the aggregate difference between transaction price and fair value based on a valuation technique yet to be recognised in profit or loss:

R million	**2012**	2011
Balance at 1 July	**–**	–
Day 1 profits or losses not recognised on financial instruments initially recognised in the current reporting period	**41**	–
Amount recognised in profit or loss as a result of changes which would be observable by market participants	**(4)**	–
Balance at 30 June	**37**	–

Notes to the consolidated annual financial statements continued

for the year ended 30 June

38 TRUST ACTIVITIES

R million	**2012**	2011
Fair value of assets held or placed on behalf of customers in a fiduciary capacity	**108 695**	90 612
Income received from trust and fiduciary services	**1 566**	1 477

The Group provides custody, trustee, corporate administration, investment management and advisory services to third parties, which involves the Group making allocation and purchase and sale decisions in relation to a wide range of financial instruments.

Those assets that are held in a fiduciary capacity are not included in these financial statements. Some of these arrangements involve the Group accepting targets for benchmark levels of returns for the assets under the Group's care.

39 SEGMENT INFORMATION

39.1 Reportable segments

Set out below is information about the reportable segments of the FirstRand Group, the details of the various products and services provided by each of the reportable segments, its major customers and the basis of preparation of segment information.

FNB

FNB offers a diverse set of financial products and services to the retail and corporate market segments, ranging from consumer, small business and rural markets to large and medium-sized corporates, financial institutions, parastatals and government entities. FNB's products include mortgage loans, credit and debit cards, personal loans and investment products. FNB's services include transactional, banking deposit taking, card acquiring, credit facilities and FNB distribution channels (namely the branch network, ATMs, call centres, cell phone and internet channels).

FNB Africa

A comprehensive range of FNB products and services are offered to retail, corporate and public sector clients through the FNB Africa subsidiaries. FNB Africa comprises the FNB Africa subsidiaries (FNB Namibia, FNB Botswana, FNB Swaziland, FNB Lesotho, FNB Mozambique, FNB Tanzania and FNB Zambia) and a central support division.

RMB

RMB is the investment banking arm of the Bank. RMB's portfolio spans Investment Banking, Fixed Income, Currencies and Commodities (FICC), Equities, Private Equity. RMB services corporate, institutional and public sector clients across all industries.

GTS

Global Transactional Services provides large corporate customers, financial institutions and certain state-owned enterprises, with global transactional banking capabilities as well as cash flow optimisation and working capital solutions.

WesBank

WesBank provides instalment finance to both the retail and corporate market and provides both asset-based finance and fleet-management solutions. WesBank has operations in the United Kingdom.

Corporate Centre

The Corporate Centre includes various centralised risk and finance functions, including Group Treasury, Capital Management and Performance Measurement, Group Finance, Information and Technology, Enterprise Risk Management, Regulatory Risk Management and Group Internal Audit.

Major customers

In terms of IFRS 8 a customer is regarded as a major customer if the revenue from transactions with this customer exceeds 10% or more of the entity's revenue. The FirstRand Group has no major customer as defined and is therefore not reliant on the revenue from one or more major customers.

Basis of preparation of segment information

The segmental analysis is based on the information reported to management for the respective segments. The information is prepared in terms of IFRS with the exception of certain adjustments that are made to the segment results in order to eliminate the effect of non-taxable income and other segment specific items that impact certain key ratios reviewed by the chief operating decision maker when assessing the operating segments' performance.

In order to ensure that the total segment results, assets and liabilities agree to the amounts reported in terms of IFRS, the above mentioned amounts are adjusted in the IFRS adjustments column.

39 SEGMENT INFORMATION continued

39.2 Geographical segments

Refer to the reportable segment information for a description of the divisions.

Segment	Countries included	Divisions included
South Africa	South Africa	FNB RMB GTS WesBank Corporate centre
Other Africa	Namibia Botswana Swaziland Lesotho Zambia Mozambique Tanzania	FNB RMB WesBank
United Kingdom	England	FNB RMB WesBank
Australasia	Australia	RMB
Other	Asia (India, China) Middle East (UAE) Mauritius Brazil Ireland	FNB RMB

The following significant exchange rates were used to convert the balance sheet. Foreign denominated assets and liabilities are converted at the closing rate of exchange.

	2012	2011
GBP	**12.8**	10.8
Euro	**10.4**	9.8
AUD	**8.4**	7.3
USD	**8.2**	6.8

Notes to the consolidated annual financial statements continued

for the year ended 30 June

39 SEGMENT INFORMATION continued

39.3 Reportable segments

R million	2012 FNB	2012 FNB Africa
Continuing operations		
Net interest income before impairment of advances	**11 072**	**2 132**
Impairment of advances	**(2 734)**	**(121)**
Net interest income after impairment of advances	**8 338**	**2 011**
Non-interest income	**14 742**	**1 708**
Net income from operations	**23 080**	**3 719**
Operating expenses	**(14 429)**	**(2 061)**
Share of profit from associates and joint ventures after tax	**24**	**6**
Income before tax	**8 675**	**1 664**
Indirect tax	**(382)**	**(47)**
Profit for the year before direct tax	**8 293**	**1 617**
Direct tax	**(2 197)**	**(469)**
Profit for the year	**6 096**	**1 148**
The income statement includes:		
Depreciation	**(1 323)**	**(108)**
Amortisation	**(78)**	**(29)**
Impairment charges	**–**	**(5)**
The statement of financial position includes:		
Investment in associates and joint ventures	**196**	**4**
Total assets	**229 329**	**39 267**
Total liabilities	**220 931**	**34 399**

* *Other includes FirstRand Company, consolidation of treasury shares and related consolidation entries.*

The Group disposed of its investment in the Momentum Group during the financial year ended 30 June 2011 and it is no longer a reportable segment.

	2012						
	Corporate and Investment Banking						
	RMB	GTS	WesBank	Corporate Centre	Consolidation and IFRS adjustments	Other*	Total
	438	517	5 849	1 859	114	(99)	21 882
	(89)	(272)	(1 100)	10	(759)	–	(5 065)
	349	245	4 749	1 869	(645)	(99)	16 817
	8 087	1 177	3 347	2 862	(2 423)	(6)	29 494
	8 436	1 422	8 096	4 731	(3 068)	(105)	46 311
	(4 868)	(1 184)	(3 938)	(3 585)	909	734	(28 422)
	1 202	–	239	–	(351)	–	1 120
	4 770	238	4 397	1 146	(2 510)	629	19 009
	(67)	(15)	(206)	167	1	(2)	(551)
	4 703	223	4 191	1 313	(2 509)	627	18 458
	(1 246)	(59)	(1 110)	(348)	1 506	(166)	(4 089)
	3 457	164	3 081	965	(1 003)	461	14 369
	(275)	(44)	(269)	(101)	(3)	–	(2 123)
	(61)	–	(48)	(3)	1	–	(218)
	(134)	–	(3)	(1)	(36)	–	(179)
	5 959	–	732	2	(24)	–	6 869
	328 890	3 022	121 610	100 816	(109 859)	56 690	769 765
	321 493	2 684	117 110	55 288	(52 262)	315	699 958

Notes to the consolidated annual financial statements continued

for the year ended 30 June

39 SEGMENT INFORMATION continued

39.3 Reportable segments continued

Reconciliation of profit for the year to normalised earnings

R million	2012
Profit for the year (per above)	**14 369**
NCNR preference shareholders	**(275)**
Non-controlling interests	**(898)**
Attributable earnings to ordinary equity holders	**13 196**
Attributable earnings to ordinary equity holders – discontinued operations	**–**
Attributable earnings to ordinary equity holders – continuing operations	**13 196**
Headline earnings adjustments (per page 44)	**(554)**
Headline earnings to ordinary equityholders	**12 642**
Normalised adjustments	**88**
– IFRS 2 share-based payment expenses	**77**
– Treasury shares	**251**
– TRS adjustment	**(240)**
Normalised earnings from continuing operations	**12 730**

For information about the normalised adjustments refer to page 46.

39 SEGMENT INFORMATION continued

39.3 Reportable segments continued

Geographical segments – 2012

R million	South Africa	Other Africa	United Kingdom	Australasia	Other	Total
Net interest income	**14 202**	**1 981**	**479**	**24**	**131**	**16 817**
Non-interest income*	**28 482**	**2 021**	**(2)**	**(6)**	**119**	**30 614**
Total assets	**709 203**	**40 850**	**14 022**	**3 634**	**2 056**	**769 765**
Non-current assets**	**18 848**	**1 028**	**70**	**1 225**	**14**	**21 185**
Total liabilities	**646 433**	**35 784**	**14 493**	**2 289**	**959**	**699 958**

* *Includes share of profit from associates and joint ventures after tax.*

** *Excludes financial instruments, deferred tax assets, post-employment benefit assets and rights arising under insurance contracts.*

Notes to the consolidated annual financial statements continued

for the year ended 30 June

39 SEGMENT INFORMATION continued

39.3 Reportable segments continued

	2011			
			Corporate and Investment Banking	
R million	FNB	FNB Africa	RMB	GTS
Continuing operations				
Net interest income before impairment of advances	9 276	1 821	130	532
Impairment of advances	(2 435)	(64)	25	(9)
Net interest income after impairment of advances	6 841	1 757	155	523
Non-interest income	12 889	1 340	8 799	1 235
Net income from operations	19 730	3 097	8 954	1 758
Operating expenses	(12 963)	(1 719)	(4 173)	(1 261)
Share of profit from associates and joint ventures after tax	109	7	187	–
Income before tax	6 876	1 385	4 968	497
Indirect tax	(347)	(35)	(68)	(27)
Profit for the year before direct tax	6 529	1 350	4 900	470
Tax	(1 730)	(390)	(1 298)	(124)
Profit for the year from continuing operations	4 799	960	3 602	346
Discontinued operations				
Profit attributable to discontinued operations	–	–	–	–
Profit after tax on unbundling of discontinued operations	–	–	–	–
Profit for the year	4 799	960	3 602	346
The income statement includes:				
Depreciation	(977)	(86)	(150)	(16)
Amortisation	(66)	(26)	(58)	(1)
Impairment charges	(4)	–	3	–
The statement of financial position includes:				
Investment in associates and joint ventures	351	28	4 589	–
Total assets	220 527	35 439	264 404	2 723
Total liabilities	213 852	31 493	258 726	2 127

* *Other includes FirstRand Company, consolidation of treasury shares and related consolidation entries.*

	2011						
	WesBank	Corporate Centre	Consolidation and IFRS adjustments	Subtotal	Momentum	Other*	Total
	4 868	1 176	(293)	17 510	–	(141)	17 369
	(1 291)	(1)	(3)	(3 778)	–	–	(3 778)
	3 577	1 175	(296)	13 732	–	(141)	13 591
	2 212	1 996	(1 217)	27 254	–	2 311	29 565
	5 789	3 171	(1 513)	40 986	–	2 170	43 156
	(3 393)	(2 483)	1 135	(24 857)	–	273	(24 584)
	318	238	(328)	531	–	–	531
	2 714	926	(706)	16 660	–	2 443	19 103
	(166)	96	(64)	(611)	–	(3)	(614)
	2 548	1 022	(770)	16 049	–	2 440	18 489
	(677)	(271)	440	(4 050)	–	(195)	(4 245)
	1 871	751	(330)	11 999	–	2 245	14 244
	–	–	–	–	415	–	415
	–	–	–	–	–	6 868	6 868
	1 871	751	(330)	11 999	415	9 113	21 527
	(227)	(103)	(5)	(1 564)	–	(1)	(1 565)
	(22)	–	1	(172)	–	–	(172)
	(75)	(37)	(75)	(188)	–	–	(188)
	1 268	(161)	(46)	6 029	–	–	6 029
	104 117	112 077	(1 379)	737 908	–	(39 981)	697 927
	101 171	76 345	(7 103)	676 611	–	(42 903)	633 708

Notes to the consolidated annual financial statements continued

for the year ended 30 June

39 SEGMENT INFORMATION continued

39.3 Reportable segments continued

Reconciliation of profit for the year to normalised earnings

R million	2011
Profit for the year (per above)	21 527
NCNR preference shareholders	(301)
Non-controlling interests	(1 161)
Attributable earnings to ordinary equityholders	20 065
Attributable earnings to ordinary equityholders – discontinued operations	(7 286)
Attributable earnings to ordinary equity holders – continuing operations	12 779
Headline earnings adjustments (per page 44)	(3 341)
Headline earnings to ordinary equityholders	9 438
Normalised adjustments	679
– IFRS 2 share-based payment expenses	(20)
– Treasury shares	418
– Private equity subsidiary realisations	461
– OUTsurance equity-accounted income for the period	(180)
Normalised earnings from continuing operations	10 117

For information about the normalised adjustments refer to page 46.

Geographical segments – 2011

R million	South Africa	Other Africa	United Kingdom	Australasia	Other	Total
Net interest income	11 271	1 751	292	70	207	13 591
Non-interest income*	27 419	1 572	252	453	400	30 096
Total assets	647 013	35 813	5 923	3 374	5 804	697 927
Non-current assets**	16 742	810	85	918	49	18 604
Total liabilities	588 534	31 751	6 804	2 018	4 601	633 708

* *Includes share of profit from associates and joint ventures after tax.*

** *Excludes financial instruments, deferred tax assets, post-employment benefit assets and rights arising under insurance contracts.*

40 SUBSIDIARIES

	Nature of business	Country	Issued ordinary Listed/ Unlisted	Capital R million	Effective holding 2012 %	2011 %
Significant subsidiaries						
FirstRand Bank Limited	Commercial and merchant banking	South Africa	Unlisted	15 308	**100**	100
FirstRand EMA Holdings Limited						
Emerging Markets						
First National Bank of Lesotho Limited	Commercial banking	Lesotho	Unlisted	38	**100**	100
First National Bank of Namibia Holdings Limited	Investment holding	Namibia	Listed	183	**60**	60
First National Bank of Swaziland Limited	Commercial banking	Swaziland	Unlisted	30	**100**	100
First National Bank Holdings Botswana Limited	Commercial banking	Botswana	Listed	56	**100**	100
FirstRand Mozambique Holdings Limitada	Commercial banking	Mozambique	Unlisted	262	**96**	100
First National Bank of Zambia Limited	Commercial banking	Zambia	Unlisted	350	**100**	100
First National Bank of Tanzania Limited	Commercial banking	Tanzania	Unlisted	133	**99**	100
FirstRand (International) Mauritius Limited	Financial services	Mauritius	Unlisted	90	**100**	100
FirstRand Investment Holdings Proprietary Limited (FRIHL)						
Non-banking						
Makalani Holdings Limited	Leverage finance	South Africa	Unlisted	496	**78**	77
Shisa Investments Proprietary Limited***	Investment company	South Africa	Unlisted	*	**100**	100
Rentworks Africa Proprietary Limited	Financial services	South Africa	Unlisted	*	**60**	75
First Auto Proprietary Limited***	Fleet management	South Africa	Unlisted	98	**100**	100
Direct Axis SA Proprietary Limited***	Personal loans	South Africa	Unlisted	*	**66**	65
Contract Lease Management***	Fleet management	South Africa	Unlisted	*	**100**	100
FirstRand Insurance Services Company Proprietary Limited	Insurance services	South Africa	Unlisted	40	**100**	100
Barnard Jacobs Mellet Holdings Limited	Financial services	South Africa	Unlisted	38	**100**	100
FirstRand International Guernsey	Financial services	Guernsey	Unlisted	1 845	**100**	100
RMB Investment and Advisory Proprietary Limited	Investment and financial services	South Africa	Unlisted	2 414	**100**	100
Other**	Various	Various	Unlisted	1 591	**Various**	Various

* *Denotes amounts less than R500 000.*

** *Other includes all internal structures set up to facilitate business e.g. RMB Private Equity Holdings and RMB Stockbroking Operations.*

*** *This investment was previously owned by FREMA Group and was sold to FRIHL as part of the Group restructure during 2011. Refer to note 41.15*

Notes to the consolidated annual financial statements continued

for the year ended 30 June

40 SUBSIDIARIES continued

	Group carrying amount	
R million	**2012**	2011
FirstRand Bank Limited	**48 997**	40 642
FirstRand EMA Holdings Limited		
Emerging Markets		
First National Bank of Lesotho Limited	**61**	54
First National Bank of Namibia Holdings Limited	**2 382**	1 986
First National Bank of Swaziland Limited	**465**	364
First National Bank Holdings Botswana Limited	**1 697**	1 197
FirstRand Mozambique Holdings Limitada	**314**	137
First National Bank of Zambia Limited	**97**	117
First National Bank of Tanzania Limited	**63**	105
FirstRand (International) Mauritius Limited	**105**	67
FirstRand Investment Holdings Proprietary Limited (FRIHL)		
Non-banking		
Makalani Holdings Limited	**458**	458
Shisa Investments Proprietary Limited***	*****	*
Rentworks Africa Proprietary Limited	**254**	224
First Auto Proprietary Limited***	**171**	148
Direct Axis SA Proprietary Limited***	**444**	260
Contract Lease Management***	**27**	18
FirstRand Insurance Services Company Proprietary Limited	**300**	254
Barnard Jacobs Mellet Holdings Limited	**73**	24
FirstRand International Guernsey	**3 777**	2 214
RMB Investment and Advisory Proprietary Limited	**4 703**	5 653
Other**	**344**	2 390

* *Denotes amounts less than R500 000.*

** *Other includes all internal structures set up to facilitate business e.g. RMB Private Equity Holdings and RMB Stockbroking Operations.*

*** *This investment was previously owned by FREMA Group and was sold to FRIHL as part of the Group restructure during 2011. Refer to note 41.15*

41 ACQUISITION AND DISPOSAL OF SIGNIFICANT SUBSIDIARIES AND ASSOCIATES

Significant acquisitions during the 2012 financial year

Significant acquisitions of subsidiaries

41.1 Sani Pass Hotel Proprietary Limited

On 1 July 2011, the Group purchased 20% of the issued share capital of Sani Pass Hotel Proprietary Limited from the existing shareholders. On this date, control over Sani Pass Hotel Proprietary Limited was obtained as a result of the Group exercising control over the financial and operating policies of the company. On 1 September 2011, the remaining 80% of the issued share capital was acquired, resulting in the entity becoming a wholly-owned subsidiary. Sani Pass Hotel Proprietary Limited is incorporated in South Africa. The primary reason for the business combination was as a result of the Group swapping its existing impaired advance for a controlling interest in the company. Sani Pass Hotel Proprietary Limited contributed R16 million income to the Group from the date when control was acquired (i.e. 1 July 2011) to reporting date.

Identifiable assets and liabilities acquired.

	2012
R million	**Fair value at acquisition**
ASSETS	
Cash and cash equivalents	**1**
Accounts receivable**	*****
Property and equipment	**65**
Total assets acquired	**66**
LIABILITIES	
Creditors and accruals	**5**
Total deferred income tax liabilities	**2**
Loans from holding company and fellow subsidiary companies	**98**
Shareholder loans	**1**
Total liabilities acquired	**106**
Net identifiable asset value as at date of acquisition	**(40)**
The goodwill is calculated as follows:	
Total cash consideration transferred	**–**
Add: non-controlling interests at acquisition	**(32)**
Less: net identifiable asset value as at date of acquisition	**(40)**
Goodwill	**8**

* *Amounts less than R500 000.*

** *At acquisition date, the gross contractual amounts of accounts receivable was equal to the fair value of the receivables. It is expected that all contractual cash flows for these receivables will be collected.*

Goodwill arose as a result of acquiring a subsidiary with a negative net asset value for no consideration. None of the goodwill is expected to be deductible for tax purposes.

Notes to the consolidated annual financial statements continued

for the year ended 30 June

41 ACQUISITION AND DISPOSAL OF SIGNIFICANT SUBSIDIARIES AND ASSOCIATES continued

Significant disposals during the 2012 financial year

Significant disposals of subsidiaries

41.2 Ronald Sewells & Associates SA Proprietary Limited

On 1 July 2011 the Group disposed of its 90% shareholding in Ronald Sewells and Associates Proprietary Limited. This disposal resulted in the Group losing control of Ronald Sewells and Associates Proprietary Limited. Therefore Ronald Sewells and Associates Proprietary Limited is no longer consolidated in the financial statements of the Group.

Identifiable assets and liabilities disposed of:

R million	2012 Carrying amount at disposal date
ASSETS	
Investments in subsidiaries	**3**
Total assets disposed of	**3**
LIABILITIES	
Amounts due to holding company and fellow subsidiary companies	**1**
Total liabilities disposed of	**1**
Net identifiable asset value as at date of disposal	**2**
The gain on disposal is calculated as follows:	
Total cash consideration received	**10**
Add: non-controlling share of net asset value at disposal date	*
Less: net identifiable asset value on disposal	**2**
Gain on disposal of controlling interest in a subsidiary	**8**

* *Amount less than R500 000.*

41 ACQUISITION AND DISPOSAL OF SIGNIFICANT SUBSIDIARIES AND ASSOCIATES continued

Significant disposals during the 2012 financial year continued

Significant disposals of subsidiaries continued

41.3 Momentum Life Assurance Namibia Limited

On 1 July 2011 the Group disposed of its 51% shareholding in Momentum Life Assurance Namibia Limited. However, for the purposes of IFRS the effective date of disposal is the date on which control over a subsidiary is lost. The Group effectively lost control of Momentum Life Assurance Namibia Limited on 30 June 2012. Therefore Momentum Life Assurance Namibia Limited is no longer consolidated in the financial statements of the Group as of 30 June 2012.

Identifiable assets and liabilities disposed of:

R million	2012 Carrying amount at disposal date
ASSETS	
Cash and cash equivalents	**28**
Investment securities and other investments	**1 429**
Accounts receivable	**41**
Property and equipment	**4**
Intangible assets	**7**
Policy loans on investments contracts	**23**
Reinsurance assets	**34**
Total assets disposed of	**1 566**
LIABILITIES	
Creditors and accruals	**39**
Gross outstanding claims	**3**
Tax liability	**1**
Post-employment liabilities	*****
Policyholder liabilities under insurance contracts	**1 088**
Policyholder liabilities under investment contracts	**173**
Total liabilities disposed of	**1 304**
Net identifiable asset value as at date of disposal	**262**
The gain on disposal is calculated as follows:	
Total cash consideration received	**365**
Add: non-controlling share of net asset value at disposal date	**-**
Less: Group's portion of the net identifiable asset value on disposal (51%)	**134**
Gain on disposal of controlling interest in a subsidiary	**231**

* *Amount less than R500 000.*

Notes to the consolidated annual financial statements continued

for the year ended 30 June

41 ACQUISITION AND DISPOSAL OF SIGNIFICANT SUBSIDIARIES AND ASSOCIATES continued

Significant disposals during the 2012 financial year continued

Significant disposals of subsidiaries continued

41.4 First Trade Solutions Limited Guernsey

On 31 May 2012 the Group disposed of its 100% shareholding in First Trade Solutions Limited Guernsey. This disposal resulted in the Group losing control of First Trade Solutions Limited Guernsey. Therefore First Trade Solutions Limited Guernsey is no longer consolidated in the financial statements of the Group.

Identifiable assets and liabilities disposed of:

R million	2012 Carrying amount at disposal date
ASSETS	
Cash and cash equivalents	1
Accounts receivable	309
Amounts due from holding company and fellow subsidiary companies	304
Investments in subsidiaries	(1)
Total assets disposed of	**613**
LIABILITIES	
Creditors and accruals	*
Provisions	*
Amounts due to holding company and fellow subsidiary companies	610
Total liabilities disposed of	**610**
Net identifiable asset value as at date of disposal	**3**
The loss on disposal is calculated as follows:	
Total cash consideration received	–
Add: non-controlling share of net asset value at disposal date	*
Less: net identifiable asset value on disposal	3
Loss on disposal of controlling interest in a subsidiary	**(3)**

* *Amounts less than R500 000.*

41 ACQUISITION AND DISPOSAL OF SIGNIFICANT SUBSIDIARIES AND ASSOCIATES continued

Significant disposals during the 2012 financial year continued

Significant disposals of subsidiaries continued

41.5 RMB Global Solutions

On 31 May 2012 the Group disposed of its 100% shareholding in RMB Global Solutions. This disposal resulted in the Group losing control of RMB Global Solutions. Therefore RMB Global Solutions is no longer consolidated in the financial statements of the Group.

Identifiable assets and liabilities disposed of:

R million	2012 Carrying amount at disposal date
ASSETS	
Cash and cash equivalents	**2**
Advances	**7**
Investment securities and other investments	**3**
Amounts due from holding company and fellow subsidiary companies	**579**
Accounts receivable	**294**
Total assets disposed of	**885**
LIABILITIES	
Creditors and accruals	**–**
Provisions	**–**
Taxation liability	**24**
Amounts due to holding company and fellow subsidiary companies	**595**
Total liabilities disposed of	**619**
Net identifiable asset value as at date of disposal	**266**
The gain on disposal is calculated as follows:	
Total cash consideration received	**7**
Total non-cash consideration received (loans written off)	**282**
Total consideration received	**289**
Less: net asset value on disposal	**266**
Gain on disposal of controlling interest in a subsidiary	**23**

Notes to the consolidated annual financial statements continued

for the year ended 30 June

41 ACQUISITION AND DISPOSAL OF SIGNIFICANT SUBSIDIARIES AND ASSOCIATES continued

Significant disposals during the 2012 financial year continued

Significant disposals of associates

41.6 Weston Atlas Fund

On 30 January 2012, the Group disposed of its shareholding in Weston Atlas Fund to third parties for a consideration of R55 million. Weston Atlas Fund is no longer equity accounted as the Group no longer has significant influence over the entity.

R million	2012
Carrying amount at date of disposal	55
Fair value of consideration received	55
Gain/(loss) on disposal of associate	–

41.7 RMB Private Equity Associates

During the year, the Group disposed of various RMB Private Equity Associates to third parties for a consideration of R140 million.

R million	2012
Carrying amount at date of disposal	68
Fair value of consideration received	140
Gain on disposal of associate	72

41.8 Other insignificant disposals

In addition to the above disposals, the Group disposed of a number of individually insignificant associates during the year. The following information relates to these disposals:

R million	2012
Carrying amount at date of disposal	4
Fair value of consideration received	7
Gain on disposal of associates	3

41 ACQUISITION AND DISPOSAL OF SIGNIFICANT SUBSIDIARIES AND ASSOCIATES continued

Significant acquisitions during the 2011 financial year continued

Significant acquisitions of subsidiaries

41.9 BJM Holdings Limited

On 1 January 2011, the Group purchased 100% of the issued share capital of Barnard Jacobs Mellet Holdings Limited (BJM) and its subsidiaries (BJM Group) from the existing shareholders. The BJM Group's main activities are stockbroking, wealth management, asset management and broker settlements. The company is incorporated in South Africa.

The proposed acquisition will facilitate expansion of the current wealth business in FNB which intend to use the expertise and insight gained from the acquisition to develop and enhance current business practice and to broaden the existing and prospective client base. It is further envisaged that the acquisition will give the Group a competitive advantage in the marketplace, by virtue of access to a high net worth stock broking and private client business, which prior to the acquisition was anticipated to be a complex route to pursue.

If the acquisition had occurred on 1 July 2010 the total after tax loss that would have been included in the Group's results amounts to R102 million.

The details of the fair value of assets acquired and liabilities assumed at the acquisition date and the consideration transferred are set out below:

R million	2011 Fair value at acquisition
ASSETS	
Cash and cash equivalents	200
Accounts receivable	6 400
Property and equipment	17
Deferred tax asset	5
Intangible assets	11
Investment in associates and joint ventures	1
Total assets acquired	6 634
LIABILITIES	
Creditors and accruals	6 320
Provisions	14
Tax liability	18
Long-term liabilities	1
Total liabilities acquired	6 353
Net identifiable asset value as at date of acquisition	281
The goodwill is calculated as follows:	
Total cash consideration transferred	450
Add: non-controlling interests at acquisition	–
Less: net identifiable asset value as at date of acquisition	281
Goodwill	169

Notes to the consolidated annual financial statements continued
for the year ended 30 June

41 ACQUISITION AND DISPOSAL OF SIGNIFICANT SUBSIDIARIES AND ASSOCIATES continued

Significant acquisitions during the 2011 financial year continued

Significant acquisitions of subsidiaries continued

41.9 BJM Holdings Limited continued

Details of the acquired receivables are as follows:

	2011		
R million	Fair value of the receivables	Gross contractual amounts receivable	Estimate at acquisition of contractual cash flows not expected to be collected
Accounts receivable	6 400	6 400	–
Total	6 400	6 400	–

None of the goodwill recognised is expected to be deductible for income tax purposes.

The fair value of the assets and liabilities acquired are based on the directors' valuation.

No acquisition provisions were created.

Significant disposals during the 2011 financial year

Significant disposals of subsidiaries

41.10 Davita Trading Proprietary Limited

On 31 May 2011, the Group disposed of its 70% shareholding in Davita Trading Proprietary Limited to Tiger Brands Limited. Davita Trading Proprietary Limited is a manufacturing company incorporated in South Africa. As a result of the sale the Group lost control of Davita Trading Proprietary Limited and the entity is no longer consolidated in the financial statements of the Group.

Identifiable assets and liabilities disposed of:

	2011
R million	Carrying amount at disposal date
ASSETS	
Cash and cash equivalents	57
Accounts receivable	157
Property and equipment	31
Deferred tax asset	2
Intangible assets	628
Total assets disposed of	875
LIABILITIES	
Creditors and accruals	137
Tax liability	15
Long-term liabilities	498
Total liabilities disposed of	650
Net identifiable asset value as at date of disposal	225
The gain on disposal is calculated as follows:	
Total cash consideration received	704
Add: non-controlling share of net asset value at disposal date	104
Less: net identifiable asset value on disposal	225
Gain on disposal of controlling interest in a subsidiary	583

41 ACQUISITION AND DISPOSAL OF SIGNIFICANT SUBSIDIARIES AND ASSOCIATES continued

Significant disposals during the 2011 financial year continued

Significant disposals of associates

41.11 OUTsurance

On 4 May 2011, the Group disposed of its shareholding in OUTsurance Insurance Company Limited to third parties for a consideration of R3 608 million. OUTsurance Insurance Company Limited is no longer equity accounted as the Group no longer has significant influence over the entity.

R million	2011
Carrying amount at date of disposal	853
Fair value of consideration received	3 608
Gain on disposal of associate	2 755

41.12 Marsh Holdings SA Proprietary Limited

On 12 April 2011, the Group disposed of its shareholding in Marsh Holdings SA Proprietary Limited to third parties for a consideration of R66 million. Marsh Holdings SA Proprietary Limited is no longer equity accounted as the Group no longer has significant influence over the entity.

R million	2011
Carrying amount at date of disposal	24
Fair value of consideration received	54
Gain on disposal of associate	30

41.13 Kula Gold Proprietary Limited

On 15 November 2010, the Group disposed of its shareholding in Kula Gold Proprietary Limited to third parties for a consideration of R111 million. Kula Gold Proprietary Limited is no longer equity accounted as the Group no longer has significant influence over the entity.

R million	2011
Carrying amount at date of disposal	114
Fair value of consideration received	243
Gain on disposal of associate	129

41.14 Other

In addition to the above disposals the Group disposed of a number of individually immaterial associates during the year. The following information relates to these disposals:

R million	2011
Carrying amount at date of disposal	279
Fair value of consideration received	206
Loss on disposal of associate	(73)

41 ACQUISITION AND DISPOSAL OF SIGNIFICANT SUBSIDIARIES AND ASSOCIATES continued

41.15 Group restructure

The Group completed a legal entity restructure in the 2011 financial year end. This restructure was approved by the shareholders and the SARB during November 2009 and the effective date of the transaction was 1 July 2010.

The restructure process was initiated as a result of the Group's need to revise the structure of its existing operations and also impacts the Group's governance structures and the management accounting and statutory financial reporting processes.

As part of the Group restructure transaction, the FirstRand Bank Group and the FirstRand EMA Holdings Group (previously the FirstRand Bank Holdings Group) disposed of a number of subsidiaries, SPEs and associates to various other Group entities such as FirstRand EMA Holdings Group and Rand Merchant Bank Insurance Advisories. These transactions were accounted for as common control transactions, as these entities were ultimately controlled by the same party, FirstRand, before and after the transaction. These subsidiaries, SPEs and associates were disposed of at their net consolidated carrying value. The consideration received was equal to the net consolidated carrying value.

The FirstRand EMA Holdings Group unbundled its investment in FirstRand Bank to FirstRand through a dividend *in specie* on 1 July 2010. As a result of this transaction, FirstRand is the direct holding company of FirstRand Bank. The unbundling transaction was accounted for at the consolidated carrying value in line with the Group's policy for common control transactions.

Subsequent to the Group restructure the name of the holding company of the FirstRand Bank Holdings Group was changed to FirstRand EMA Holdings.

All entities previously included in the consolidated annual financial statements of the Group will continue to be included under the revised structure. The restructure had no impact on the Group's financial position or financial results for the year ended 30 June 2011.

42 RELATED PARTIES

The Group defines related parties as:

(i) Subsidiaries;
(ii) Associate companies;
(iii) Joint ventures;
(iv) Entities that have significant influence over the Group. If an investor has significant influence over the Group that investor and its subsidiaries are related parties of the Group. The Group is FirstRand Limited and its subsidiaries;
(v) Post-employment benefit funds (pension funds);
(vi) Key management personnel, being the FirstRand Limited Board of directors and the FirstRand Executive committee;
(vii) 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); and
(viii) Entities controlled, jointly controlled or significantly influenced by any individual referred to in (vi) and (vii).

The principal shareholder of the FirstRand Group is RMB Holdings Limited, incorporated in South Africa.

42.1 Subsidiaries

Details of investments in subsidiaries are disclosed in note 40. Transactions between the Group and its subsidiaries have been eliminated on consolidation and are not disclosed in this note.

42.2 Associates and joint ventures

Details of investments in associate and joint venture companies are disclosed in note 15.

During the year the Group, in the ordinary course of business, entered into various transactions with associates and joint ventures on the same terms as those arranged with third parties.

42 RELATED PARTIES continued

42.3 Details of transactions with relevant related parties appear below

	2012		
R million	Groups that have significant influence over the Group and their subsidiaries	Associates	Joint ventures
Advances			
Opening balance	1 355	2 393	48
Advanced during year	117	3 534	2
Repayments during year	(261)	(893)	(45)
Interest income	–	243	–
Exchange rate differences	–	37	–
Provision for impairment loss	–	161	–
Closing balance	1 211	5 475	5
Accounts receivable			
Opening balance	–	73	5
Raised during the year	–	558	68
Repayments during year	–	(163)	(19)
Exchange rate differences	–	–	9
Closing balance	–	468	63
Derivative assets			
Notional amount	–	7	–
Fair value	–	–	–
Deposits			
Opening balance	42	834	34
Received during year	190	2 823	1 039
Repayments during year	(187)	(3 371)	(607)
Interest expense	–	(3)	3
Closing balance	45	283	469
Accounts payable			
Opening balance	–	–	–
Raised during the year	–	470	19
Repayments during year	–	(437)	–
Closing balance	–	33	19
Derivative liabilities			
Notional amount	–	–	21
Fair value	–	–	1
Commitments	–	47	2

Notes to the consolidated annual financial statements continued

for the year ended 30 June

42 RELATED PARTIES continued

42.3 Details of transactions with relevant related parties appear below continued

R million	2012 **Groups that have significant influence over the Group and their subsidiaries**
Interest received	–
Interest paid	–
Fees and commissions earned	**127**
Operating expenses	–
Dividends paid	–

R million	2011 Groups that have significant influence over the Group	Associates	Joint ventures
Advances			
Opening balance	1 108	2 302	65
Advanced during year	247	669	49
Repayments during year	(93)	(892)	(71)
Interest income	93	153	5
Exchange rate differences	–	22	–
Provision for impairment loss	–	139	–
Closing balance	1 355	2 393	48
Accounts receivable			
Opening balance	–	72	1
Raised during the year	1	434	12
Repayments during year	(1)	(433)	(8)
Closing balance	–	73	5
Derivative assets			
Notional amount	–	9	–
Fair value	–	4	–
Deposits			
Opening balance	113	806	68
Received during year	129	3 055	–
Repaid during year	(200)	(3 027)	(34)
Interest expense	–	(4)	–
Fair value movements during the year	–	4	–
Closing balance	42	834	34

42 RELATED PARTIES continued

42.3 Details of transactions with relevant related parties appear below continued

R million	2011 Groups that have significant influence over the Group	2011 Associates	2011 Joint ventures
Accounts payable			
Received during year	–	309	–
Repayments during year	–	(309)	–
Closing balance	–	–	–
Derivative liabilities			
Notional amount	–	3	–
Fair value	–	–	–
Commitments	22	82	–

R million	2011 Groups that have significant influence over the Group and their subsidiaries
Interest received	–
Interest paid	–
Fees and commissions earned	13
Impairment loss	–
Dividends paid	93

Notes to the consolidated annual financial statements continued

for the year ended 30 June

42 RELATED PARTIES continued

42.4 Key management personnel

R million	2012	2011
Total advances		
Opening balance	**154**	139
Advanced during the year	**276**	376
Repayments during the year	**(398)**	(372)
Interest earned	**8**	11
Closing balance	**40**	154
Advances by product		
Mortgages		
Opening balance	**152**	127
Advanced during the year	**273**	350
Repayments during the year	**(396)**	(336)
Interest earned	**8**	11
Closing balance	**37**	152
Other loans		
Opening balance	**–**	9
Advanced during the year	**–**	5
Repayments during the year	**–**	(14)
Closing balance	**–**	–
Instalment finance		
Opening balance	**2**	2
Advanced during year	**2**	3
Repayments during year	**(2)**	(3)
Closing balance	**2**	2
No impairments have been recognised in respect of instalment finance in the current and prior year.		
Credit cards		
Opening balance	**–**	1
Total annual spend	**1**	18
Repayments	**–**	(19)
Closing balance	**1**	–
No impairments have been recognised in respect of credit cards held by key management in the current and prior year. Interest rates are in line with normal rates charged to customers.		
Total deposits		
Opening balance	**188**	167
Net deposits	**16**	31
Net interest and service cost	**7**	(10)
Closing balance	**211**	188

42 RELATED PARTIES continued

42.4 Key management personnel continued

R million	2012	2011
Deposits by product		
Cheque and current accounts		
Opening balance	**11**	(10)
Net deposits	**124**	22
Net interest and service cost	**5**	(1)
Closing balance	**140**	11
Savings accounts		
Opening balance	**176**	176
Net (withdrawals)/deposits	**(168)**	9
Interest income	**2**	(9)
Closing balance	**10**	176
Other including term deposits		
Opening balance	**1**	1
Net deposits	**60**	–
Closing balance	**61**	1
Investments under the co-investment arrangement		
Opening balance	**20**	653
Withdrawals	**–**	(682)
Net investment return credited	**3**	62
Commission and other transaction fees	**–**	(13)
Closing balance	**23**	20
Commitments	**–**	–
Other fees		
Financial consulting fees and commissions	**5**	4
Key management compensation		
Salaries and other short-term benefits	**174**	161
Share-based payments	**75**	33
Total	**249**	194
Deferred compensation included in the above and payable in FirstRand shares in October 2014/2013	**30**	25
Post-employment benefit plan		
Details of transactions between the Group and the Group's post-employment benefit plan are listed below		
Dividend income	**3**	1
Fee income	**3**	3
Deposits held with the Group	**110**	175
Interest expenses	**9**	8
Value of assets under management	**2 986**	2 830

Notes to the consolidated annual financial statements continued

for the year ended 30 June

43 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In preparing the financial statements, the Group makes estimates and assumptions that affect the reported amounts of assets and liabilities. 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.

43.1 Credit impairment losses on loans and advances

The Group assesses its credit portfolios for impairment at each reporting date. In determining whether an impairment loss should be recognised in the income statement, the Group makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a portfolio of loans.

(a) Performing loans

The impairment provision on the performing portfolio is split into two parts:

(i) The first 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. An incurred but not reported (IBNR) provision is calculated on this subsegment of the portfolio, based on historical analysis of loss ratios, roll rates from performing status into non-performing status and similar risk indicators over an estimated loss emergence period.

Estimates of roll rates, loss ratios and similar risk indicators are based on analysis of internal and, where appropriate, external data. Estimates of the loss emergence period are made in the context of the nature and frequency of credit assessments performed, availability and frequency of updated data regarding customer creditworthiness and similar factors. Loss emergence periods differ from portfolio to portfolio, but typically range from 1 to 12 months.

(ii) The second part consists of the portfolio specific impairment (PSI) to reflect the decrease in estimated future cash flows for the subsegment of the performing portfolio where there is objective evidence of impairment. The decrease in future cash flows is primarily estimated based on analysis of historical loss and recovery rates for comparable subsegments of the portfolio.

The assessment of whether objective evidence of impairment exists requires judgement and depends on the class of the financial asset. In the FNB 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 FNB 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 (includes RMB and GTS) portfolio assessment includes a judgemental review of individual industries for objective signs of distress.

(b) Non-performing loans

FNB Retail loans are individually impaired if amounts are due and unpaid for three or more months, or if there is evidence before this that the customer is unlikely to repay its obligations in full. WesBank's loans are impaired upon its classification status, i.e. following an event driven approach and specific assessment of the likelihood to repay. FNB 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 FNB 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 13 for a detailed analysis of the impairment of advances and the carrying amounts of the specific and portfolio provisions.

43.2 Fair value of financial instruments

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by independent qualified senior personnel. All models are certified before they are used, and models are calibrated and back tested to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data, however, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions could affect the reported fair value of financial instruments. Note 37 provides additional details on the calculation of fair value of financial instruments not quoted in active markets and an analysis of the effect of changes in managements' estimates on the fair value of financial instruments.

43 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES continued

43.3 Impairment of available-for-sale equity instruments

The Group determines that available-for-sale equity instruments are impaired and the impairment recognised in profit or loss, when there has been a significant or prolonged decline in the fair value below cost. The determination of what is significant or prolonged requires judgement. In making this judgement, the Group evaluates factors such as, inter alia, the normal volatility in share prices, evidence of a deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

43.4 Securitisations and special purpose entities

The Group sponsors the formation of special purpose entities (SPEs) primarily for the purpose of allowing clients to hold investments, for asset securitisation transactions and for buying and selling credit protection. The Group consolidates SPEs that it controls in terms of IFRS. As it can sometimes be difficult to determine whether the Group controls 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 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 37 for more information regarding the Group's synthetic securitisations and the respective carrying amounts.

43.5 Income taxes

The Group is subject to direct tax in a number of jurisdictions. There may be transactions and calculations for which the ultimate tax determination has an element of uncertainty during the ordinary course of business. The Group recognises liabilities based on objective estimates of the amount of tax that may be due. Where the final tax determination is different from the amounts that were initially recorded, the difference will impact the income tax and deferred income tax provisions in the period in which such determination is made.

Refer to note 4 and 19 for more information regarding the direct and deferred income tax charges, assets and liabilities.

43.6 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 or fair value less cost to sell. The value in use is calculated as the net present value of the discounted cash flows of the CGU. Details of the main assumptions applied in determining the net present value of the CGU are provided in note 17.

43.7 Employee benefit liabilities

The cost of the benefits and the present value of the defined benefit pension funds and post-employment 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 profit or loss 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 profit or loss 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, asset allocation and future estimations of long-term investment returns. The Group determines the appropriate discount rate at the end of each year, which represents the interest rate that should be used to determine the present value of the expected cash outflows required to settle the pension and post-employment medical obligations. In determining the appropriate discount rate, the Group considers the interest rate on high quality corporate bonds and government bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability. The expected salary and pension increase rates are based on inflation rates, adjusted for salary scales and country specific conditions. The inflation rate used is a rate within the government's monetary policy target for inflation and is calculated as the difference between the yields on portfolios of fixed interest government bonds and a portfolio of index-linked bonds of a similar term.

Additional information is provided in the note 25.

43 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES continued

43.8 Share-based payments

Share-based payment transactions of the Group are classified as either cash settled or equity settled. The amounts recognised in respect of these share-based payment transactions are determined by applying valuation techniques that use various assumptions and estimates that require judgement in their application. These assumptions and estimates include expected volatility, expected dividend yield, the discount rate and the expected forfeiture or lapse rate.

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 forfeiture rate has been based on historical experience and management estimates.

Refer to note 30 for the detailed information regarding the share-based payment expense and the assumptions used in determining the expense, liability and reserve.

43.9 Fair value of commodities recognised in accordance with the broker trader exception in IAS 2

The Group is long on certain commodities through the outright purchase of the specific commodity. 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.

44 STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

The Group will comply with the following new standards and interpretations from the stated effective date.

		Effective date
IAS 1 (amended)	**Presentation of Items of Other Comprehensive Income** This amendment was issued to eliminate inconsistencies in the presentation of items in the statement of other comprehensive income. The amendment requires an entity to group the items of other comprehensive income on the basis of whether the amounts will subsequently be reclassified to profit or loss or not i.e. the statement of comprehensive income should be split between items that will be reclassified to profit or loss and items that will not be reclassified to profit or loss. This amendment addresses presentation in the annual financial statements and will not affect recognition and measurement. The impact of the revised presentation is not expected to be significant.	Annual periods commencing on or after 1 July 2012.
IAS 12 (amended)	**Income Taxes** IAS 12 requires that deferred tax assets be measured based on whether the entity expects to recover the carrying amount of the asset through use or through sale. This assessment of the method of recovery may be difficult to assess for investment property measured using the fair value model. The amendment provides a practical solution by introducing a presumption that the carrying amount of such investment property will normally be recovered through sale. As a result of the amendment, SIC 21 Income Taxes – Recovery of Revalued Non-Depreciable Assets has been withdrawn. This amendment is not expected to have a significant impact on the Group.	Annual periods commencing on or after 1 January 2012
IAS 19 (revised)	**Employee Benefits** The main changes include the removal of the corridor approach, which allowed entities the option to defer the recognition of actuarial gains and losses on defined benefit plans. The revised standard requires that all remeasurements arising from defined benefit plans be presented in other comprehensive income. It also includes enhanced disclosure requirements for defined benefits plans. The Group is in the process of assessing the impact the revised IAS 19 would have on the financial statements.	Annual periods commencing on or after 1 January 2013
IAS 27 (amended)	**Separate Financial Statements** The accounting and disclosure requirements for consolidated financial statements have been removed from IAS 27 as a result of the issue of IFRS 10 and IFRS 12, which establish new consolidation and disclosure standards. IAS 27 (as amended in 2011) contains accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. This amendment is not expected to have a significant impact on the Group's results.	Annual periods commencing on or after 1 January 2013
IAS 28 (amended)	**Investments in Associates and Joint Ventures** IAS 28 Investments in Associates and Joint Ventures (amended) supersedes IAS 28 Investments in Associates as a result of the issue of IFRS 11 and IFRS 12. The new IAS 28 prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. The disclosure requirements relating to these investments are now contained in IFRS 12. This amendment is not expected to have a significant impact on the Group's results.	Annual periods commencing on or after 1 January 2013

Notes to the consolidated annual financial statements continued

for the year ended 30 June

44 STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE continued

		Effective date
IAS 32	**Financial Instruments: Presentation** The amendments issued to IAS 32 clarifies the existing requirements related to offsetting of financial assets and financial liabilities. The application guidance to the standard has been amended to clarify the practical application of the offsetting requirements. The Group is in the process of assessing the impact of these amendments.	Annual periods commencing on or after 1 January 2014
IFRS 1 (amended)	**First-time Adoption of International Financial Reporting Standards** On 13 March 2012 the IASB published an amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards. The amendments, dealing with loans received from governments at a below market rate of interest, give first-time adopters of IFRSs relief from full retrospective application of IFRSs when accounting for these loans on transition. It provides the same relief to first-time adopters as is granted to existing preparers of IFRS financial statements when applying IAS 20 Accounting for Government Grants and Disclosure of Government Assistance. The Group is not a first-time adopter and this amended standard will therefore have no impact.	Annual periods commencing on or after 1 January 2013
IFRS 7	**Financial Instruments: Disclosures** The amendment requires information about all recognised financial instruments that are set-off in accordance with paragraph 42 of IAS 32. Information includes the gross amounts subject to rights of set-off, amounts set-off in accordance with the accounting standards followed, and the related net credit exposure. This information will help investors understand the extent to which an entity has set-off in its statement of financial position and the effects of set-off on the entity's rights and obligations. This amendment addresses disclosure in the annual financial statements and will not affect recognition and measurement.	Annual periods commencing on or after 1 January 2013
IFRS 9	**Financial Instruments** IFRS 9 is the first phase in the IASB's three-part project to replace IAS 39 Financial Instruments: Recognition and Measurement. This phase deals with the classification and measurement of financial assets and financial liabilities. Financial assets can be classified as financial assets at amortised cost or fair value. The classification is based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. Financial liabilities can also be classified as financial liabilities at amortised cost or fair value in line with the existing requirements of IAS 39. If an entity elects to measure its financial liabilities at fair value, it should present the portion of the change in fair value due to changes in its own credit risk in other comprehensive income. The Group is in the process of assessing the impact that IFRS 9 would have on the financial statements. Until the process is completed, the Group is unable to determine the significance of the impact of IFRS 9.	Annual periods beginning on or after 1 January 2015

44 STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE continued

		Effective date
IFRS 10	**Consolidated Financial Statements** IFRS 10 establishes a new control model for determining which entities should be consolidated. The standard also provides guidance on how to apply the principle of control to specific situations in order to identify whether an investor controls an investee. IFRS 10 supersedes a portion of IAS 27 Separate and Consolidated Financial Statements and SIC 12 Consolidation – Special Purpose Entities. Transitional guidance issued in June 2012 amends IFRS 10 to provide additional transition relief by limiting the requirement to provide adjusted comparative information to only the preceding comparative period. The Group is in the process of assessing the impact that IFRS 10 would have on the financial statements. Until the process is completed, the Group is unable to determine the significance of the impact of IFRS 10.	Annual periods commencing on or after 1 January 2013
IFRS 11	**Joint Arrangements** The standard supersedes IAS 31 Joint Ventures and aims to improve on IAS 31 by establishing accounting principles that are applicable to all joint arrangements. The standard distinguishes between two types of joint arrangements, joint operations and joint ventures. The accounting for joint operations remains unchanged from IAS 31 and all joint ventures should be equity accounted in the financial statements of the venturer. Transitional guidance issued in June 2012 amends IFRS 11 to provide additional transition relief by limiting the requirement to provide adjusted comparative information to only the preceding comparative period. Amendments to IFRS 11 also eliminate the requirement to provide comparative information for periods prior to the immediately preceding period. The standard is not expected to have a significant impact on the Group.	Annual periods commencing on or after 1 January 2013
IFRS 12	**Disclosure of Interests in Other Entities** The standard aims to provide consistent disclosure requirements for subsidiaries, joint arrangements, associates and structured entities. IFRS 12 requires disclosure of information that will enable users to evaluate the nature of the risks associated with the interest and the effect of the interest on the financial position, performance and cash flows of the reporting entity. Transitional guidance issued in June 2012 amends IFRS 12 to provide additional transition relief by limiting the requirement to provide adjusted comparative information to only the preceding comparative period. Amendments to IFRS 12 also eliminate the requirement to provide comparative information for periods prior to the immediately preceding period. This amendment addresses disclosure in the annual financial statements and will not affect recognition and measurement. The Group is still in the process of assessing the impact of the revised disclosure.	Annual periods commencing on or after 1 January 2013

Notes to the consolidated annual financial statements continued

for the year ended 30 June

44 STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE continued

		Effective date
IFRS 13	**Fair Value Measurement** IFRS 13 was issued in order to eliminate inconsistencies in the guidance on how to measure fair value and disclosure requirements that currently exist under the different IFRSs' that require or permit fair value measurement. It provides a fair value hierarchy, which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The Group is in the process of assessing the impact that IFRS 13 would have on the financial statements. Until the process is completed, the Group is unable to determine the significance of the impact of IFRS 13.	Annual periods commencing on or after 1 January 2013
IFRIC 20	**Stripping Costs in the Production Phase of a Surface Mine** This Interpretation applies to waste removal costs that are incurred in surface mining activity during the production phase of the mine (production stripping costs). The Interpretation falls outside the scope of the Group's operations and will have no impact on the Group.	Annual periods commencing on or after 1 January 2013
Annual Improvements	**Improvements to IFRS** The IASB issued Annual Improvements 2009-2011 Cycle in May 2012, as its latest set of annual improvements to various Standards. The collection of amendments to IFRS is in response to six issues addressed during the 2009-2011 cycle. The annual improvement project's aim is to clarify and improve accounting standards. The improvements include terminology or editorial changes with minimal effect on recognition and measurement. The amendments have been assessed and are not expected to have a significant impact on the Group.	Annual periods commencing on or after 1 January 2013

45 TRANSACTIONS INVOLVING THE LEGAL FORM OF A LEASE

The Group entered into an arrangement with the counterparty for the refurbishment of moveable assets, which are for the exclusive use of the counterparty. The duration of the arrangement is for 14 years and will conclude in May 2016. The transactions are a series of back to back leases, which, although the transactions are structured as leases, are in substance a financing arrangement. The arrangement also provides for a final balloon payment, which will be serviced through sinking fund deposits ceded to the Group, into which the counterparty is making payments and earning interest.

Fees received are recognised annually in non-interest income. During the current year the interest paid on the sinking fund deposits exceeded the interest earned on the leases, resulting in a net interest expense reflected in the income statement of R20 million (2011: net interest income of R33 million).

46 CURRENT/NON-CURRENT ANALYSIS OF AMOUNTS RECOGNISED ON THE STATEMENT OF FINANCIAL POSITION

	2012		
R million	Carrying amount	Current	Non–current
ASSETS			
Cash and cash equivalents	38 363	38 363	–
Derivative financial instruments	52 913	49 610	3 303
Commodities	5 108	5 108	–
Accounts receivable	6 007	4 939	1 068
Tax asset	331	26	305
Advances	524 507	171 361	353 146
Investment securities and other investments	119 708	91 090	28 618
Investments in associates and joint ventures	6 869	–	6 869
Property and equipment	12 026	–	12 026
Intangible assets	1 743	–	1 743
Reinsurance assets	898	1	897
Post-employment benefit asset	7	7	–
Investment properties	215	–	215
Deferred income tax asset	471	3	468
Non-current assets and disposal groups held for sale	599	599	–
Total assets	769 765	361 107	408 658
EQUITY AND LIABILITIES			
Short trading positions	5 343	5 343	–
Derivative financial instruments	53 760	52 383	1 377
Creditors and accruals	9 086	8 822	264
Tax liability	386	166	220
Deposits	606 281	504 378	101 903
Provisions	592	203	389
Employee liabilities	6 933	3 038	3 895
Other liabilities	6 383	786	5 597
Policyholder liabilities under insurance contracts	1 517	394	1 123
Deferred income tax liability	1 679	6	1 673
Tier 2 liabilities	7 885	1 287	6 598
Liabilities directly associated with disposal groups classified as held for sale	113	113	–
Shareholders equity	67 040	–	67 040
Non-controlling interests	2 767	–	2 767
Total equity and liabilities	769 765	576 919	192 846

Notes to the consolidated annual financial statements continued

for the year ended 30 June

46 CURRENT/NON-CURRENT ANALYSIS OF AMOUNTS RECOGNISED ON THE STATEMENT OF FINANCIAL POSITION continued

	2011		
R million	Carrying amount	Current	Non-current
ASSETS			
Cash and cash equivalents	34 240	34 240	–
Derivative financial instruments	37 206	35 422	1 784
Commodities	4 388	4 388	–
Accounts receivable	7 289	6 836	453
Tax asset	139	15	124
Advances	464 593	137 736	326 857
Investment securities and other investments	124 756	92 464	32 292
Investments in associates and joint ventures	6 029	–	6 029
Property and equipment	10 542	–	10 542
Intangible assets	1 691	–	1 691
Reinsurance assets	484	–	484
Post-employment benefit asset	2	–	2
Investment properties	203	–	203
Deferred income tax asset	560	3	557
Non-current assets and disposal groups held for sale	5 805	5 805	–
Total assets	697 927	316 909	381 018
EQUITY AND LIABILITIES			
Short trading positions	9 094	9 094	–
Derivative financial instruments	36 361	35 960	401
Creditors and accruals	9 497	9 283	214
Tax liability	288	69	219
Deposits	552 879	485 208	67 671
Provisions	517	17	500
Employee liabilities	5 937	2 497	3 440
Other liabilities	4 107	1 595	2 512
Policyholder liabilities under insurance contracts	1 047	459	588
Deferred income tax liability	2 223	13	2 210
Tier 2 liabilities	6 666	300	6 366
Liabilities directly associated with disposal groups classified as held for sale	5 092	5 092	–
Shareholders equity	61 150	–	61 150
Non-controlling interests	3 069	–	3 069
Total equities and liabilities	697 927	549 587	148 340

47 SUBSEQUENT EVENTS

The directors are not aware of any material events that have occurred between the date of the statement of financial position and the date of the report.

48 RISK DISCLOSURE

The risk disclosure has been disclosed as part of the *Risk and capital management report*.
Refer to pages 117 to 212.

FIRSTRAND COMPANY ANNUAL FINANCIAL STATEMENTS

Statement of comprehensive income

for the year ended 30 June

R million	Notes	2012	2011
Continuing operations			
Interest and similar income	2	**67**	82
Interest expense and similar charges	2	*****	–
Net interest income		**67**	82
Non-interest income	3	**10 020**	43 537
– fees and commission income	3	**24**	31
– gains less losses from investment securities	3	**9 996**	43 506
Income from operations		**10 087**	43 619
Operating expenses	4	**(80)**	(98)
Income before indirect tax		**10 007**	43 521
Indirect tax	5.1	**(2)**	(3)
Income before tax		**10 005**	43 518
Direct tax	5.2	**(19)**	(126)
Profit for the year from continuing operations		**9 986**	43 392
Discontinued operations			
Profit attributable to discontinued operations		**–**	10 714
Profit for the year		**9 986**	54 106
Other comprehensive income		**–**	–
Total comprehensive income for the year		**9 986**	54 106
Attributable to:			
Equityholders of the company		**9 711**	53 805
NCNR preference shares		**275**	301
Total comprehensive income for the year		**9 986**	54 106

* *Less than R500 000.*

Statement of financial position
as at 30 June

R million	Notes	2012	2011#	2010#
ASSETS				
Cash and cash equivalents	7	**45**	69	61
Accounts receivable	8	**5**	*	*
Investment in subsidiaries	9	**55 992**	55 256	16 547
Investment securities and other investments	10	**400**	–	–
Non-current asset and disposal groups held for sale	19.1	**–**	400	5 116
Total assets		**56 442**	55 725	21 724
EQUITY AND LIABILITIES				
Liabilities				
Creditors and accruals	11	**51**	45	74
Provisions	12	**8**	7	2
Tax liability		**–**	8	*
Employee liabilities	14	**45**	31	17
Total liabilities		**104**	91	93
Equity				
Capital and reserves attributable to equityholders				
Ordinary shares	16	**56**	56	56
Share premium	16	**7 082**	7 082	7 082
Reserves		**44 681**	43 977	9 974
Capital and reserves attributable to ordinary equityholders		**51 819**	51 115	17 112
NCNR preference shares	16	**4 519**	4 519	4 519
Total equity		**56 338**	55 634	21 631
Total equity and liabilities		**56 442**	55 725	21 724

* *Less than R500 000.*

\# *Refer to reclassification of prior year numbers on page 426.*

FirstRand Company AFS

Statement of changes in equity

for the year ended 30 June

	Ordinary share capital and ordinary equityholders' funds		
R million	Share capital	Share premium	**Share capital and share premium**
Balance at 1 July 2010	56	7 082	**7 138**
Total comprehensive income for the year	–	–	**–**
Ordinary dividends	–	–	**–**
Preference dividends	–	–	**–**
Movement on other reserves	–	–	**–**
Dividend in specie: Momentum unbundling	–	–	**–**
Balance at 30 June 2011	56	7 082	**7 138**
Total comprehensive income for the year	–	–	**–**
Ordinary dividends	–	–	**–**
Preference dividends	–	–	**–**
Movement on other reserves	–	–	**–**
Balance at 30 June 2012	**56**	**7 082**	**7 138**

* *Less than R500 000.*

	Ordinary share capital and ordinary equityholders' funds					
	Share-based payment reserve	Capital redemption reserve	Retained earnings	**Reserves attributable to ordinary equityholders**	**NCNR preference shares**	**Total equity**
	2 089	1	7 884	**9 974**	**4 519**	**21 631**
	–	–	53 805	**53 805**	**301**	**54 106**
	–	–	(4 398)	**(4 398)**	**–**	**(4 398)**
	–	–	–	**–**	**(301)**	**(301)**
	(59)	–	2	**(57)**	**–**	**(57)**
	–	–	(15 347)	**(15 347)**	**–**	**(15 347)**
	2 030	1	41 946	**43 977**	**4 519**	**55 634**
	–	–	9 711	**9 711**	**275**	**9 986**
	–	–	(9 021)	**(9 021)**	**–**	**(9 021)**
	–	–	–	**–**	**(275)**	**(275)**
	14	–	–	**14**	**–**	**14**
	2 044	**1**	**42 636**	**44 681**	**4 519**	**56 338**

Statement of cash flows

for the year ended 30 June

R million	Notes	2012	2011
Cash generated from operating activities			
Cash flow from operating activities	17.1	**9 961**	6 984
Working capital changes	17.2	**(13)**	(29)
Net cash flows from operating activities		**9 948**	6 955
Interest received		**67**	82
Interest paid		*****	*
Tax paid	17.3	**(29)**	(121)
Dividends paid	17.4	**(9 296)**	(4 699)
Net cash inflow from operating activities		**690**	2 217
Cash flow from investing activities			
Increase in investment in subsidiaries		**(3 850)**	(2 665)
Proceeds on sale of subsidiary		**–**	3 608
Decrease in loan to subsidiaries		**3 136**	(3 152)
Net cash outflow from investing activities		**(714)**	(2 209)
Net increase in cash and cash equivalents		**(24)**	8
Cash and cash equivalents at the beginning of the year		**69**	61
Cash and cash equivalents at the end of the year		**45**	69

* *Less than R500 000.*

Notes to the annual financial statements

for the year ended 30 June

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The annual financial statements of FirstRand Limited (FirstRand) are prepared according to the same accounting policies used in preparing the consolidated financial statements of the Group other than accounting policy 3 which deals with consolidated financial statements. For detailed accounting policies refer to pages 213 to 234.

2 ANALYSIS OF INTEREST INCOME AND EXPENSE

	2012	
R million	**Amortised cost**	**Total**
Interest and similar income		
Cash and cash equivalents	**67**	**67**
Interest and similar income	**67**	**67**
Interest expense and similar charges		
Borrowed funds	*	–
Interest expense and similar charges	*	–

* *Less than R500 000.*

	2011	
R million	Amortised cost	Total
Interest and similar income		
Cash and cash equivalents	82	82
Interest and similar income	82	82

3 ANALYSIS OF NON-INTEREST INCOME

R million	**2012**	2011
Fees from subsidiaries**	**24**	31
Other fees	*	*
Total fees and commission income	**24**	31
Gains less losses from investment activities		
Dividends received from subsidiaries – unlisted shares		
Ordinary dividends**	**9 782**	11 397
Dividend *in specie*** (note 9)	–	28 383
Preference dividends**	**214**	234
Dividends received from listed shares	*	*
Fair value income on listed shares	*	*
Other non-interest income		
Profit on sale of subsidiary#	–	3 492
Total gains less losses from investment activities	**9 996**	43 506
Total non-interest income	**10 020**	43 537

* *Less than R500 000.*

** *Non-interest income relates to non-financial assets and liabilities.*

\# *This relates to profit on the sale of Firness which contained the OUTsurance investment. At Group level this was treated as a profit on sale of an associate.*

Notes to the annual financial statements continued

for the year ended 30 June

4 OPERATING EXPENSES

R million	2012	2011
Advertising and marketing	**2**	2
Annual reports	**4**	8
Auditors remuneration		
Audit fees (note 12)	**4**	7
Directors fees paid	**18**	12
Direct staff costs		
Salaries, wages and allowances	**27**	36
Contributions to employee benefit funds	**2**	2
Share-based payment expense (note 14)	**9**	17
Travel	**3**	1
Investor relations	**5**	5
Rental charges		
Property	**1**	1
Furniture and equipment	**1**	1
Professional fees	**2**	4
Corporate memberships	**1**	1
Other	**1**	1
Total operating expenses	**80**	98

5 INDIRECT AND DIRECT TAX

R million	2012	2011
5.1 Indirect tax		
Value added tax (net)	**2**	3
Total indirect tax	**2**	3
5.2 Direct tax		
South African normal taxation		
Normal tax – current year	**19**	23
Capital gain tax – current year	**–**	103
Total direct tax	**19**	126
Tax rate reconciliation – South African normal tax	**%**	%
Effective rate of tax*	**–**	–
Total tax has been affected by:		
Dividends received	**28**	26
Taxable accounting capital profit – sale of subsidiary	**–**	2
Standard rate of South African normal tax	**28**	28

* *Less than 0.1%.*

6 ANALYSIS OF ASSETS AND LIABILITIES BY CATEGORY

Financial assets and financial liabilities are measured on an ongoing basis either at fair value or at amortised cost. The principal accounting policies on pages 218 to 224 describe how the classes of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the financial assets and liabilities in the statement of financial position per category of financial instrument to which they are assigned and therefore by measurement basis:

		2012				
R million	Notes	**Loans and receivables**	**Financial liabilities at amortised cost**	**Available-for-sale financial assets**	**Non-financial assets and liabilities**	**Total**
ASSETS						
Cash and cash equivalents	7	**45**	**–**	**–**	**–**	**45**
Accounts receivable	8	**5**	**–**	**–**	**–**	**5**
Investment in subsidiaries	9	**–**	**–**	**–**	**55 992**	**55 992**
Investment in securities and other investments	10	**–**	**–**	**400**	**–**	**400**
Total assets		**50**	**–**	**400**	**55 992**	**56 442**
LIABILITIES						
Creditors and accruals	11	**–**	**51**	**–**	**–**	**51**
Provisions	12	**–**	**–**	**–**	**8**	**8**
Employee liabilities	14	**–**	**–**	**–**	**45**	**45**
Total liabilities		**–**	**51**	**–**	**53**	**104**

		2011				
R million	Notes	Loans and receivables	Financial liabilities at amortised cost	Available-for-sale financial assets	Non-financial assets and liabilities	Total
ASSETS						
Cash and cash equivalents	7	69	–	–	–	69
Accounts receivable	8	*	–	–	–	–
Investment in subsidiaries	9	–	–	–	55 256	55 256
Non-current asset held for sale		–	–	–	400	400
Total assets		69	–	–	55 656	55 725
LIABILITIES						
Creditors and accruals	11	–	45	–	–	45
Tax liability		–	–	–	8	8
Provisions	12	–	–	–	7	7
Employee liabilities	14	–	–	–	31	31
Total liabilities		–	45	–	46	91

* *Less than R500 000.*

Notes to the annual financial statements continued

for the year ended 30 June

7 CASH AND CASH EQUIVALENTS

R million	**2012**	2011
Money at call and short notice	**45**	69
Cash and cash equivalents	**45**	69

The carrying value for cash and cash equivalents approximates the fair value. Money at short notice constitutes amounts withdrawable in 32 days or less.

Refer to note 13 for current and non-current split.

8 ACCOUNTS RECEIVABLE

R million	**2012**	2011
Sundry debtors	**5**	*
Total accounts receivable	**5**	*

* *Less than R500 000.*

At the reporting date all accounts receivable are considered to be neither past due nor impaired.

The carrying value of accounts receivable approximates the fair value.

Refer note 13 for current and non-current split.

9 INVESTMENT IN SUBSIDIARIES

	Effective percentage holding		Investment of holding company: Amounts owing by subsidiaries		Investment of holding company: Shares at net carrying amount		Investment of holding company: Investment through equity settled share incentive schemes	
	2012 %	2011 %	**2012 R million**	2011 R million	**2012 R million**	2011 R million	**2012 R million**	2011 R million
FirstRand EMA Holdings Limited (previously FirstRand Bank Holdings Limited) (FREMA)								
– Ordinary shares	**100**	100	**–**	–	**5 538**	5 538	**–**	–
– Non-redeemable preference shares	**100**	100	**–**	–	**3 000**	3 000	**–**	–
FirstRand Bank Limited*								
– Ordinary shares	**100**	100	**212**	3 348	**38 694**	34 844	**–**	–
FirstRand Investment Holdings Proprietary Limited								
– Ordinary shares	**100**	100	**854**	854	**7 338**	7 338	**–**	–
FirstRand Empowerment Trust	**100**	100	**–**	–	**–**	–	**–**	–
Investment through equity settled share incentive scheme	**100**	100	**–**	–	**–**	–	**356**	334
Total			**1 066**	4 202	**54 570**	50 720	**356**	334
Total interest in subsidiaries							**55 992**	55 256

* *From 1 July 2010 FirstRand became the bank controlling company in term of the Bank's Act. As part of this restructure FirstRand became the direct shareholder of FirstRand Bank Limited.*

9 INVESTMENT IN SUBSIDIARIES continued

R million	2012	2011
Carrying amount at the beginning of the year	**50 720**	15 179
Movement for the year:		
Decrease in investment in FirstRand EMA Holdings Limited due to restructure of the Group	–	(5 972)
Investment in FirstRand Bank Limited received as a dividend *in specie*	–	28 383
Increase in investment in FirstRand Bank Limited due to cost adjustment of FirstRand EMA Holdings Limited	–	5 972
Increase in investment in FirstRand Bank Limited	**3 850**	489
Increase in investment in FirstRand EMA Holdings Limited	–	1 400
Increase in investment in FirstRand Investment Holdings Proprietary Limited	–	5 269
Investment in Firness International Proprietary Limited made	–	117
Investment in Firness International Proprietary Limited sold	–	(117)
Carrying amount at the end of the year	**54 570**	50 720

The following share trusts are controlled by FirstRand Limited:
- Southern Life Association Limited share scheme
- First National Bank share purchase/option scheme
- FirstRand Limited share trust
- FirstRand staff assistance trust
- FirstRand black employee trust
- FirstRand black non-executive directors trust

The carrying amount of these investments is Rnil.

Refer to note 13 for current and non-current split.

Notes to the annual financial statements continued

for the year ended 30 June

10 INVESTMENT SECURITIES AND OTHER INVESTMENTS

R million	2012 Available-for-sale	2012 Total	2011 Available-for-sale	2011 Total
Total				
Equities	**400**	**400**	–	–
Total investment securities and other investments	**400**	**400**	–	–
Unlisted				
Equities	**400**	**400**	–	–
Total unlisted	**400**	**400**	–	–

Analysis of investment securities and other investments

R million	2012	2011
Unlisted		
Equities	**400**	–
Total unlisted	**400**	–
Valuation of investment securities and other investments		
Fair value of unlisted investments*	**400**	–
Total fair value	**400**	–

* *The fair value of unlisted investments is determined using valuation techniques. Valuation techniques used by the Group are described further in note 37 of the consolidated financial statements.*

Information regarding other investments is kept at the Group's registered offices. This information is open for inspection in terms of the provisions of Section 26 of the Companies Act 71 of 2008.

11 CREDITORS AND ACCRUALS

R million	2012	2011
Unclaimed dividends	**37**	31
Sundry creditors	**14**	14
Loan from FirstRand Empowerment Trust	**–**	*
Total creditors and accruals	**51**	45

* *Less than R500 000.*

The carrying value of creditors and accruals approximates their fair value at year end.

Refer note 13 for current and non-current split.

12 PROVISIONS

R million	2012	2011
Audit fees		
Opening balance	**7**	2
Additional provisions created	**4**	7
Utilised during the year	**(3)**	(2)
Total audit fees	**8**	7
Total provisions	**8**	7

Refer note 13 for current and non-current split.

13 CURRENT/NON-CURRENT SPLIT OF AMOUNTS RECOGNISED ON THE STATEMENT OF FINANCIAL POSITION

	2012		
R million	**Carrying amount**	**Current**	**Non-current**
ASSETS			
Cash and cash equivalents	**45**	**45**	**–**
Accounts receivable	**5**	**5**	**–**
Investment in subsidiaries	**55 992**	**1 102**	**54 890**
Investment in securities and other investments	**400**	**400**	**–**
Total assets	**56 442**	**1 552**	**54 890**
LIABILITIES			
Creditors and accruals	**51**	**51**	**–**
Provisions	**8**	**8**	**–**
Employee liabilities	**45**	**16**	**29**
Total liabilities	**104**	**75**	**29**

	2011		
R million	Carrying amount	Current	Non-current
ASSETS			
Cash and cash equivalents	69	69	–
Accounts receivable	*	*	–
Investment in subsidiaries	55 256	–	55 256
Non-current asset held for sale	400	400	–
Total assets	55 725	469	55 256
LIABILITIES			
Creditors and accruals	45	45	–
Provisions	7	4	3
Tax liability	8	8	–
Employee liabilities	31	–	31
Total liabilities	91	57	34

* *Less than R500 000.*

Notes to the annual financial statements continued

for the year ended 30 June

14 EMPLOYEE LIABILITIES

Staff-related provisions

The staff-related provision consists mainly of the provision for leave pay, staff bonuses and the liability relating to the MMI shares that the participants in the BEE schemes will receive as a result of the unbundling of Momentum. Further details of this scheme and the vesting conditions related to the scheme are provided in note 30 of the 2012 annual report of the Group.

R million	**2012**	2011
Opening balance	**20**	12
Additional provisions created	**11**	19
Utilised during the year	**(14)**	(11)
Total staff related provisions	**17**	20

Share-based payment

For a detailed description of share option schemes and trusts in which FirstRand Limited participates refer to note 30 of the 2012 annual report of the Group.

Share-based payment liability

R million	**2012**	2011
Opening balance	**11**	5
Income statement charge	**17**	6
Total share-based payment liability	**28**	11
Total employee liabilities	**45**	31

The income statement charge for share-based payments is as follows:

R million	**2012**	2011
FirstRand black non-executive directors' trust	**1**	1
FirstRand share appreciation right scheme	**16**	6
Conditional share plan	**(8)**	10
Total share-based payment expense	**9**	17

15 DIVIDENDS

R million	**2012**	2011
Ordinary dividends		
An interim dividend of 44.0 cents (2011: 35.00 cents) per share was declared on 7 March 2012 in respect of the six months ended 31 December 2011.	**2 481**	1 973
A final dividend of 46.00 cents (2010: 43.00) per share was declared on 12 September 2011 in respect of the six months ended 30 June 2011.	**2 593**	2 425
A special dividend of 70 cents per share was declared on 12 September 2011 due to the sale of non-core assets.	**3 947**	15 347
Total ordinary dividends paid for the year	**9 021**	19 745
B preference shares		
An interim dividend of 305.162 cents (2011: 313.545 cents) per share was declared on 27 February 2012 in respect of the six months ended 31 December 2011.	**137**	141
A final dividend of 305.162 cents per share was declared on 4 August 2011in respect of the six months ended 30 June 2011.	**138**	137
Total preference dividends paid for the year	**275**	278
A final ordinary dividend per share was declared on 10 September 2012 (12 September 2011).	**58.0**	46.0

Notes to the annual financial statements continued

for the year ended 30 June

16 SHARE CAPITAL AND SHARE PREMIUM

	2012		
	Number of ordinary shares	**Number of A preference shares[1]**	
Authorised			
Number of shares	**6 001 688 450**	**198 311 550**	
Issued – fully paid up**			
Ordinary shares			
Opening balance	**5 637 941 689**	–	
Closing balance	**5 637 941 689**	–	
B preference shares			
Opening balance	–	–	
Closing balance	–	–	
Total issued share capital and share premium – closing balance	**5 637 941 689**	–	
Analysis of total issued share capital closing balance			
Ordinary issued share capital at end of year as above of 1 cent each	**5 637 941 689**	–	
B variable rate, NCNR preference shares of 1 cent each	–	–	
Total issued share capital – closing balance	**5 637 941 689**	–	
Disclosed on the face of the statement of financial position			
Ordinary share capital			
Ordinary share premium			
NCNR preference shares			
Total			

* *Less than R500 000.*
** *All issued share capital is fully paid up.*
1. *The A variable rate cumulative convertible redeemable preference shares are not listed.*
2. *The B preference shares are variable rate NCNR preference shares and are listed on the JSE. Dividends on the B preference shares are calculated at a rate of 75.5% of the prime lending rate of banks effective 23 May 2012.*
3. *The C preference shares are variable rate convertible non-cumulative redeemable preference shares.*
4. *The D preference shares are variable rate cumulative redeemable preference shares.*

	2012				
	Number of B preference shares[2]	Number of C and D preference shares[3,4]	Ordinary share capital R million	Share premium R million	Total R million
	100 000 000	200 000 000	–	–	–
	–	–	56	7 082	7 138
	–	–	56	7 082	7 138
	45 000 000	–	*	4 519	4 519
	45 000 000	–	*	4 519	4 519
	45 000 000	–	56	11 601	11 657
	–	–	56	7 082	7 138
	45 000 000	–	*	4 519	4 519
	45 000 000	–	56	11 601	11 657
					56
					7 082
					4 519
					11 657

Notes to the annual financial statements continued

for the year ended 30 June

16 SHARE CAPITAL AND SHARE PREMIUM continued

	2011		
	Number of ordinary shares	Number of A preference shares[1]	
Authorised			
Number of shares	6 001 688 450	198 311 550	
Issued – fully paid up**			
Ordinary shares			
Opening balance	5 637 941 689	–	
Closing balance	5 637 941 689	–	
B preference shares			
Opening balance	–	–	
Closing balance	–	–	
Total issued share capital and share premium – closing balance	5 637 941 689		
Analysis of total issued share capital closing balance			
Ordinary issued share capital at end of year as above of 1 cent each			
B variable rate, NCNR preference shares of 1 cent each			
Total issued share capital – closing balance			
Disclosed on the face of the statement of financial position			
Ordinary issued share capital closing balance as above of 1 cent each			
Treasury shares			
NCNR preference shares			
Total			

* *Less than R500 000.*

** *All issued share capital is fully paid up.*

1. *The A variable rate cumulative convertible redeemable preference shares are not listed.*
2. *The B1 preference shares were incorporated with the B preference shares effective 4 January 2010. The B preference shares are variable NCNR preference shares and are listed on the JSE. Dividends on the B preference shares are calculated at a rate of 68% of the prime lending rate of banks.*
3. *The C preference shares are variable rate convertible non-cumulative redeemable preference shares.*
4. *The D preference shares are variable rate cumulative redeemable preference shares.*

	2011				
	Number of B preference shares[2]	Number of C and D preference shares[3,4]	Ordinary share capital R million	Share premium R million	Total R million
	100 000 000	200 000 000	–	–	–
	–	–	56	7 082	7 138
	–	–	56	7 082	7 138
	45 000 000	–	*	4 519	4 519
	45 000 000	–	*	4 519	4 519
	45 000 000	–	56	11 601	11 657
			56	7 082	7 138
			*	4 519	4 519
			56	11 601	11 657
					56
					7 082
					4 519
					11 657

Notes to the annual financial statements continued

for the year ended 30 June

17 CASH FLOW INFORMATION

	R million	2012	2011
17.1	**Cash generated by operations**		
	Income before tax attributable to equityholders	**10 007**	43 521
	Adjustment for non-cash items	**21**	(32 963)
	Profit on sale of subsidiary	**–**	(3 492)
	Interest received	**(67)**	(82)
	Cash generated by operations	**9 961**	6 984
17.2	**Working capital changes**		
	Increase in accounts receivable	**(5)**	*
	Decrease in employee liabilities	**(14)**	(2)
	Increase/(decrease) in creditors and accruals	**6**	(27)
	Net working capital changes	**(13)**	(29)
17.3	**Tax paid**		
	Tax payable and deferred income tax at beginning of the year	**(8)**	–
	Charge to income statement	**(19)**	(126)
	Indirect tax paid	**(2)**	(3)
	Tax payable and deferred income tax at the end of the year	**–**	8
	Tax paid	**(29)**	(121)
17.4	**Dividends paid**		
	Ordinary dividends		
	Final dividend paid	**(2 481)**	(2 424)
	Interim dividend paid	**(6 540)**	(1 974)
	Ordinary dividends paid	**(9 021)**	(4 398)
	Preference dividends on B preference shares		
	Final dividend paid	**(138)**	(160)
	Interim dividends paid	**(137)**	(141)
	Preference dividends paid	**(275)**	(301)
	Total dividends paid	**(9 296)**	(4 699)

* *Less than R500 000.*

18 RELATED PARTIES

FirstRand Limited defines related parties as:

(i) The parent company;
(ii) Subsidiaries;
(iii) Associate companies;
(iv) Joint ventures;
(v) Associates and joint ventures of the subsidiaries;
(vi) Groups that have significant influence over FirstRand Limited. If an investor has significant influence over the parent, it is a related party not only over the parent but also the subsidiaries. If an investor that has significant influence over the parent has subsidiaries, those subsidiaries are also related to FirstRand Limited;
(vii) Post-employment benefit funds (pension funds);
(viii) Key management personnel, being the FirstRand Limited Board of directors;
(ix) 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); and
(x) Entities controlled, jointly controlled or significantly influenced by an individual referred to in (viii) and (ix).

The principal shareholder of the FirstRand Limited is RMB Holdings Limited, incorporated in South Africa.

During the current year FirstRand Limited did not directly enter into a transaction with its principal shareholder.

18.1 Subsidiaries

Details of interests in subsidiaries are disclosed in note 9.

Refer below for details on transactions with subsidiaries.

18.2 Details of transactions with relevant related parties appear below

	2012	
R million	**Entities that have significant influence over FirstRand Limited and their subsidiaries**	**Subsidiaries**
Interest received	**–**	**67**
Non-interest income	**–**	**23**
Dividends received	**–**	**9 965**
Dividends paid	**3 060**	**–**

	2011	
R million	Entities that have significant influence over FirstRand Limited and their subsidiaries	Subsidiaries
Interest received	–	51
Non-interest income	–	30
Dividends received	–	39 798
Dividends paid	1 547	–

Notes to the annual financial statements continued

for the year ended 30 June

19 NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE

19.1 Non-current assets and disposal held for sale during 2011

This amount relates to non-cumulative non-redeemable preference shares held by FirstRand Limited. These shares were going to be repurchased by MMI Holdings as part of a share buyback. A final agreement regarding the sales price could not be reached and the Company made the decision to continue holding these investments. As a result these investments are no longer classified as held for sale and have been included in available-for-sale investment securities.

R millions	2011
Assets	
Investment securities and other investments	400
Total non-current assets and disposal groups held for sale	400

20 CONTINGENT LIABILITIES

FirstRand Limited provides put options to holders of certain debt instruments issued by its subsidiaries. The term of put option determines that in the instance where the subsidiaries default on the terms of debt instrument agreements, the capital amount of the debt and any accrued dividend will be repaid by FirstRand Limited. At 30 June 2012 and 30 June 2011 no instance of default by a subsidiary had occurred.

21 RECLASSIFICATION OF PRIOR YEAR NUMBERS

During the current year the following reclassifications were made to the statement of financial position:

Statement of financial position

	2011		2010		
R million	As previously reported	As restated	As previously reported	As restated	Reason for restatement
Provisions	27	7	14	2	During the current year a comprehensive review of the liability disclosure was undertaken by the Group in order to ensure that the Group's presentation was consistent with industry practice and to provide more detailed and useful information in the financial statements. A reclassification was required to bring the comparative numbers in line with the updated presentation.
Long-term liabilities	11	–	5	–	
Employee liabilities		31	–	17	
– Ex provisions	–	20	–	12	
– Ex long-term liabilities		11		5	
Total	38	38	19	19	

No other amounts reported in the statement of financial position or income statement were affected by the above reclassifications.

Definitions

Normalised earnings	The Group believes normalised earnings more accurately reflect its economic performance. Headline earnings are adjusted to take into account non-operational and accounting anomalies. Refer to page 46 for a detailed description of normalised earnings.
Normalised net asset value	Normalised equity attributable to ordinary equityholders.
Normalised net asset value per share	Normalised equity attributable to ordinary equityholders divided by the number of issued ordinary shares.
Normalised earnings per share	Normalised earnings attributable to ordinary equityholders divided by the weighted average number of shares including treasury shares.
Capital adequacy ratio (CAR)	Capital divided by risk weighted assets.
Risk weighted assets	Prescribed risk weightings relative to the credit risk of counterparties, operational risk, market risk, equity investment risk and other risk multiplied by on- and off-balance sheet assets.
Return on equity (ROE)	Normalised earnings divided by average normalised ordinary shareholders' equity.
Price-to-book (times)	Closing share price on 30 June divided by normalised net asset value per share.
Price earnings ratio (times)	Closing price on 30 June divided by basic normalised earnings per share.
Dividend cover	Normalised earnings per share divided by dividend per share.
Loan-to-deposit ratio	Average advances expressed as a percentage of average deposits.
Diversity ratio	Non-interest revenue expressed as a percentage of total income including share of profits from associates and joint ventures.
Credit loss ratio	Total impairment charge per the income statement expressed as a percentage of average advances (average between the opening and closing balance for the year).
Cost-to-income ratio	Operating expenses excluding indirect taxes expressed as a percentage of total income including share of profits from associates and joint ventures.
Effective tax rate	Tax per the income statement divided by the income before direct tax per the income statement.
Net income after capital charge (NIACC)	Normalised earnings less the cost of equity times the average ordinary shareholders' equity and reserves.
Shares in issue	Number of ordinary shares listed on the JSE.
Weighted average number of ordinary shares	The weighted average number of ordinary shares in issue during the year as listed on the JSE.
Exposure at default (EAD)	Gross exposure of a facility upon default of a counterparty.
Loss given default (LGD)	Economic loss that will be suffered on an exposure following default of the counterparty, expressed as a percentage of the amount outstanding at the time of default.
Probability of default (PD)	Probability that a counterparty will default within the next year (considering the ability and willingness of the counterparty to repay).
Probability of default (PD)	The probability of default is the probability that a counterparty will default within the next year and considers the ability and willingness of the counterparty to repay.

Abbreviations

AIRB	Advanced internal ratings based approach
ALCCO	Asset, liability and capital committee
ALCO	Asset and liability management committee
ALM	Asset and liability management
AMA	Advanced measurement approach
ASSA	Actuarial Society of South Africa
ATM	Automated teller machine
AVC	Asset value correlation multiplier
BCBS	The Basel Committee on Banking supervision
BEE	Black Economic Empowerment
BPRMF	Business performance and risk management framework
bps	basis points
BRM	Business resilience management
BSA	Bonus stabilisation account
BSM	Balance Sheet Management
CAE	Chief audit executive
CAGR (%)	Compound annual growth rate
CCFS	Credit conversion factors
CDS	Credit default swap
CEO	Chief executive officer
CGT	Capital gains tax
COO	Chief operating officer
CPIX	Consumer Price Index
CRMF	Credit risk management framework
CRO	Chief risk officer
CSA	Credit support annexes
CSI	Corporate Social Investment
CV	Curriculum Vitae
CVA	Credit valuation adjustment
DAC	Deferred acquisition cost
DPF	Discretionary participation features
DRL	Deferred revenue liability
EAD	Exposure at default
EL	Expected loss
EP	Equator principles
ERM	Enterprise Risk Management
ESG	Environmental, social and governance risks
ESRA	Environmental and social risk analysis
ETL	Expected tail loss
EVE	Economic value of equity
Exco	Executive committee
FICC	Fixed income, currency and commodities division
FNB	First National Bank
FRB	FirstRand Bank Limited
FRBH	FirstRand Bank Holdings Limited
FREMA	FirstRand EMA Holdings Limited
FRIHL	FirstRand Investment Holdings Proprietary Limited
FRIN	FirstRand India
FRISCOL	FirstRand Insurance Services Company Limited
FSA	Financial Services Authority
FSB	Financial Services Board
FSV	Financial Soundness Valuation
FTP	Funds transfer pricing
GCRM	Group Credit Risk Management
GIA	Group Internal Audit
GTS	Global Transactional Services
IBD	RMB Investment banking division
IBNR	Incurred but not reported
ICAAP	Internal capital adequacy assessment process
IFC	International Finance Corporation
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IIA	Institute of Internal Audit
iKhaya 1	iKhaya 1 RMBS Limited
iKhaya 2	iKhaya 2 RMBS Limited
INVESCO	Investment committee
IRB	Internal rating based approach
IRRBB	Interest rate risk in the banking book
ISDA	International Swaps and Derivative Association
ISMA	International Securities Market Association
JSE	Johannesburg Stock Exchange
KPI	Key performance indicators
LCP	Liquidity contingency planning
LCR	Liquidity coverage ratio
LEC	Large exposures committee
LGD	Loss given default
LIP	Loss identification period
LRMF	Liquidity risk management framework
LS	Loss severity
LTV	Loan-to-value
MIRC	Market and investment risk committee
MRVC	Model risk and validation committee
NCNR	Non-cumulative non-redeemable
NIACC	Net income after capital charge
NII	Net interest income

NIR	Non-interest revenue
Nitro 4	Nitro Issuer Trust
NMD's	Non-maturity deposits and transmission account balances
NOFP	Net open forward position in foreign exchange
NPLs	Non-performing loans
NSFR	Net stable funding ratio
ORC	Operational risk committee
ORMF	Operational risk management framework
OTC	Over-the-counter
PD	Probability of default
PE	Price earnings
PGN	Professional Guidance Note
PIT	Point-in-time
PPRAO	Public policy and regulatory affairs office
PRCIA	Process-based and control assessments
RCSA	Risk control self assessments
PVIF	Present value of in-force
QIS	Basel Quantitative Impact Study
RCC	Risk, capital management and compliance committee
RCSA	Risk and control self assessments
Remco	Remuneration committee
RMB	Rand Merchant Bank
RMBS	Residential mortgage-backed securities
ROE	Return on equity
RRM	Regulatory Risk Management
RWA	Risk weighted assets
RWN	Rating watch negative
S&P	Standard & Poors
SARB	South African Reserve Bank
SENS	Stock Exchange News Service
SME	Small and medium enterprise
SPV	Special purpose vehicle
STC	Secondary tax on companies
Stratco	Strategic executive committee
TSA	The standardised approach
Turbo 2	Turbo Finance 2 plc
TTC	Through-the-cycle
UK	United Kingdom
US	United States
VaR	Value at Risk

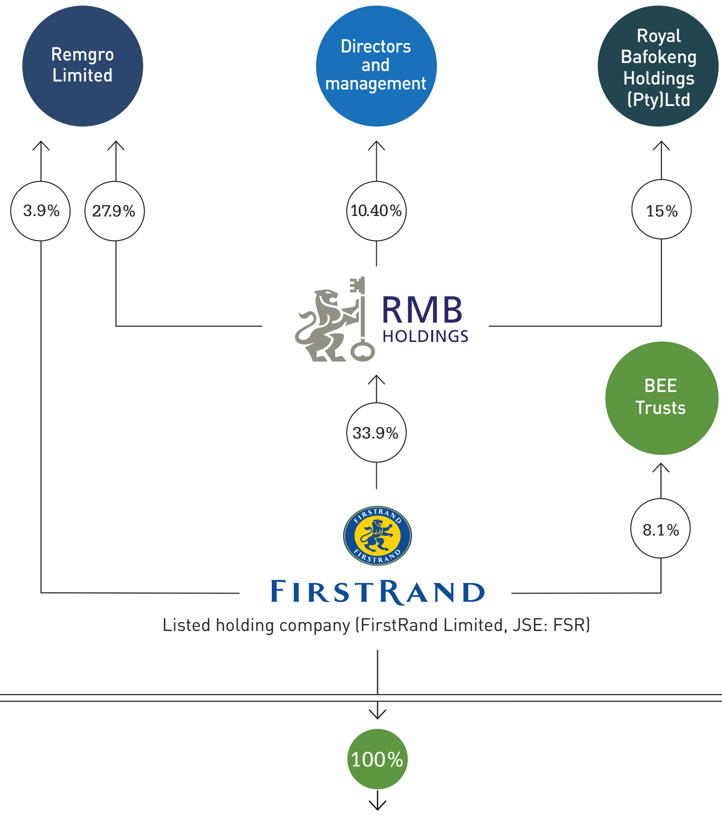
Notes

SHAREHOLDERS' INFO

The annual general meeting will take place at 09:00 on Thursday, 29 November 2012 in the Auditorium, FNB Conference and Learning Centre, 114 Grayston Drive, Sandton

Contents

Simplified group structure



FirstRand Bank Limited	FirstRand EMA Holdings Limited	FirstRand Investment Holdings (Pty) Ltd (FRIHL)
Banking	**Africa and emerging markets**	**Other activities[4, 5]**

Banking

100% First National Bank[1]
100% Rand Merchant Bank[1]
100% WesBank[1]
100% FirstRand Bank India[2]
100% FirstRand Bank London[2]
100% FirstRand Bank Dubai[3]
100% FirstRand Bank Shanghai[3]
100% FirstRand Bank Nigeria[3]
100% FirstRand Bank Angola[3]
100% FirstRand Bank Kenya[3]

Africa and emerging markets

59% FNB Namibia
70% FNB Botswana
100% FNB Swaziland
90% FNB Mozambique
100% FNB Zambia
100% FNB Lesotho
100% FNB Tanzania
100% FirstRand International – Mauritius

Other activities

96% RMB Private Equity Holdings
93% RMB Private Equity
100% RMB Securities
40% Eris Property Group
50% RMB Morgan Stanley
100% FNB International Wealth Management
100% BJM Private Clients
100% Rentworks
65% Direct Axis
100% First Auto (Pty) Ltd
100% FirstRand International – Guernsey (includes RMB Australia Holdings)

Structure shows effective consolidated shareholding.

1. Division
2. Branch
3. Representative office
4. For segmental analysis purposes entities included in FRIHL are reported as part of the results of the managing franchise
5. The Group's securitisation vehicles and conduits are in FRIHL

Analysis of ordinary shareholders

as at 30 June 2012

	Number of shareholders	Shares held 000's	%
Shareholders holding more than 5%			
RMB Holdings Limited		1 912 688	33.93
Financial Securities Limited (Remgro)		219 805	3.90
Public Investment Commissioner		636 506	11.29
FirstRand Empowerment Trust and related parties		458 259	8.13
Subtotal		3 227 258	57.24
Other		2 410 684	42.76
Total		5 637 942	100.00
Shareholder type			
Corporates (RMB Holdings and Remgro)		2 132 493	37.82
Pension funds		1 084 427	19.23
Insurance companies and banks		230 903	4.10
Unit trusts		852 453	15.12
Individuals		37 483	0.66
Empowerment trusts		285 954	5.07
Employee share trusts		172 305	3.06
Other		841 924	14.93
Total		5 637 942	100.00
Public and non-public shareholders			
Public	38 220	3 020 439	53.57
Non-public			
– corporates (Remgro and RMBH)	2	2 132 493	37.82
– directors and prescribed officers	7	26 751	0.47
– empowerment trusts	1	285 954	5.07
– employee share trusts	4	172 305	3.06
Total	38 234	5 637 942	100.00
Geographic ownership			
South Africa		4 334 167	76.87
International		976 565	17.32
Unknown/unanalysed		327 210	5.80
Total		5 637 942	100.00

Analysis of B preference shareholders

as at 30 June 2012

	Number of shareholders	Shares held 000's	%
Public and non-public shareholders			
Public	**7 395**	**44 418**	**98.71**
Non-public			
– directors	**2**	**582**	**1.29**
Total	**7 397**	**45 000**	**100.00**

Peformance on the JSE

as at 30 June 2012

	2012	2011
Number of shares in issue (000s)	**5 637 942**	5 637 942
Market price (cents per share)		
Closing	**2 639**	1 985
High	**2 819**	2 253
Low	**2 074**	1 817
Weighted average	**2 203**	2 001
Closing price/net asset value per share	**2.30**	1.98
Closing price/earnings (headline)	**11.40**	10.86
Volume of shares traded (millions)	**1 723**	10 320
Value of shares traded (R million)	**42 242**	204 908
Market capitalisation (R billion)	**148.79**	111.91

Administration

DIRECTORS

LL Dippenaar (Chairman), SE Nxasana (Chief executive officer), VW Bartlett, JJH Bester, MS Bomela, JP Burger (Financial director and chief operating officer), L Crouse, PM Goss, Dr NN Gwagwa, PK Harris, WR Jardine, EG Matenge-Sebesho, AT Nzimande, D Premnarayen (Indian), KB Schoeman, RK Store, BJ van der Ross, Dr JH van Greuning

SECRETARY AND REGISTERED OFFICE

BW Unser
4 Merchant Place
Corner Fredman Drive and Rivonia Road
Sandton 2196
PO Box 650149
Benmore 2010
Telephone: +27 11 282 1808
Telefax: +27 11 282 8088
Website: www.firstrand.co.za

SPONSOR

(In terms of JSE requirements)
Rand Merchant Bank (a division of FirstRand Bank Limited)
Corporate Finance
1 Merchant Place
Corner Fredman Drive and Rivonia Road
Sandton 2196
Telephone: +27 11 282 1079
Telefax: +27 11 282 4184

TRANSFER SECRETARIES – SOUTH AFRICA

Computershare Investor Services Proprietary Limited
70 Marshall Street
Johannesburg 2001
PO Box 61051
Marshalltown 2107
Telephone: +27 11 370 5000
Telefax: +27 11 688 5221

TRANSFER SECRETARIES – NAMIBIA

Transfer Secretaries Proprietary Limited
4 Robert Mugabe Avenue, Windhoek
PO Box 2401, Windhoek, Namibia
Telephone: +264 612 27647
Telefax: +264 612 48531

STOCK EXCHANGES

JSE Limited (JSE)

Ordinary shares	Share code	ISIN code
FirstRand Limited	FSR	ZAE000066304

Non-cumulative non-redeemable preference shares	Share code	ISIN code
B	FSRP	ZAE000060141

Namibian Stock Exchange (NSX)

Ordinary shares	Share code	ISIN code
FirstRand Limited	FST	ZAE000066304
FNB Namibia Holdings Limited	FNB	NA0003475176

Subordinated debt		
FNB of Namibia Limited	FNBJ22	NA000A1G3AF2
FNB of Namibia Limited	FNBX22	NA000A1G3AG0

Botswana Stock Exchange (BSE)

Ordinary shares	Share code	ISIN code
FNB Botswana Holdings Limited	FNBB	BW0000000066

JSE

	Issuer	Bond code	ISIN code
Subordinated debt	FirstRand Bank Limited	FRB03	ZAG000026774
	FirstRand Bank Limited	FRB05	ZAG000031337
	FirstRand Bank Limited	FRB06	ZAG000045758
	FirstRand Bank Limited	FRB07	ZAG000047598
	FirstRand Bank Limited	FRB08	ZAG000047796
	FirstRand Bank Limited	FRB09	ZAG000047804
	FirstRand Bank Limited	FRB10	ZAG000092487
Upper Tier II	FirstRand Bank Limited	FRBC21	ZAG000052283
	FirstRand Bank Limited	FRBC22	ZAG000052390
Senior unsecured	FirstRand Bank Limited	FRBN04	ZAG000041005
	FirstRand Bank Limited	FRBN05	ZAG000042169
	FirstRand Bank Limited	FRBZ01	ZAG000049255
	FirstRand Bank Limited	FRBZ02	ZAG000072711
	FirstRand Bank Limited	FRBZ03	ZAG000080029
	FirstRand Bank Limited	FRJ13	ZAG000079823
	FirstRand Bank Limited	FRJ14	ZAG000069683
	FirstRand Bank Limited	FRJ15	ZAG000094368
	FirstRand Bank Limited	FRJ16	ZAG000073826
	FirstRand Bank Limited	FRJ17	ZAG000094343
	FirstRand Bank Limited	FRJ18	ZAG000084187
	FirstRand Bank Limited	FRS36	ZAG000077397
	FirstRand Bank Limited	FRS37	ZAG000077793
	FirstRand Bank Limited	FRS43	ZAG000078643

	Issuer	Bond code	ISIN code
Senior unsecured	FirstRand Bank Limited	FRS46	ZAG000079807
	FirstRand Bank Limited	FRS49	ZAG000081787
	FirstRand Bank Limited	FRS51	ZAG000086117
	FirstRand Bank Limited	FRS54	ZAG000087032
	FirstRand Bank Limited	FRS55	ZAG000087040
	FirstRand Bank Limited	FRS56	ZAG000087271
	FirstRand Bank Limited	FRS57	ZAG000087313
	FirstRand Bank Limited	FRS59	ZAG000089855
	FirstRand Bank Limited	FRS60	ZAG000090267
	FirstRand Bank Limited	FRS61	ZAG000090523
	FirstRand Bank Limited	FRS62	ZAG000090614
	FirstRand Bank Limited	FRS63	ZAG000091513
	FirstRand Bank Limited	FRS64	ZAG000092529
	FirstRand Bank Limited	FRS65	ZAG000094277
	FirstRand Bank Limited	FRS66	ZAG000094327
	FirstRand Bank Limited	FRS67	ZAG000095720
	FirstRand Bank Limited	FRS69	ZAG000095829
	FirstRand Bank Limited	FRS70	ZAG000095910
	FirstRand Bank Limited	FRS71	ZAG000096009
	FirstRand Bank Limited	FRS72	ZAG000096033
	FirstRand Bank Limited	FRS73	ZAG000096157
	FirstRand Bank Limited	FRS74	ZAG000096223
	FirstRand Bank Limited	FRS75	ZAG000096363
	FirstRand Bank Limited	FRS76	ZAG000096413
	FirstRand Bank Limited	FRX14	ZAG000079815
	FirstRand Bank Limited	FRX15	ZAG000051103
	FirstRand Bank Limited	FRX16	ZAG000084203
	FirstRand Bank Limited	FRX17	ZAG000094376
	FirstRand Bank Limited	FRX18	ZAG000076472
	FirstRand Bank Limited	FRX19	ZAG000073685
	FirstRand Bank Limited	FRX24	ZAG000073693
	FirstRand Bank Limited	FRX31	ZAG000084195
	FirstRand Bank Limited	FRX45	ZAG000076480
Inflation-linked bonds	FirstRand Bank Limited	FRBI04	ZAG000044306
	FirstRand Bank Limited	FRBI07	ZAG000055849
	FirstRand Bank Limited	FRBI22	ZAG000079666
	FirstRand Bank Limited	FRBI23	ZAG000076498
	FirstRand Bank Limited	FRBI28	ZAG000079237
	FirstRand Bank Limited	FRBI33	ZAG000079245
	FirstRand Bank Limited	FRI15	ZAG000051137

	Issuer	Bond code	ISIN code
Credit-linked notes	FirstRand Bank Limited	FRC08	ZAG000051749
	FirstRand Bank Limited	FRC11	ZAG000054131
	FirstRand Bank Limited	FRC17	ZAG000056011
	FirstRand Bank Limited	FRC29	ZAG000069857
	FirstRand Bank Limited	FRC37	ZAG000076712
	FirstRand Bank Limited	FRC40	ZAG000081027
	FirstRand Bank Limited	FRC41	ZAG000081670
	FirstRand Bank Limited	FRC46	ZAG000082959
	FirstRand Bank Limited	FRC47	ZAG000084310
	FirstRand Bank Limited	FRC55	ZAG000085507
	FirstRand Bank Limited	FRC57	ZAG000086414
	FirstRand Bank Limited	FRC61	ZAG000087347
	FirstRand Bank Limited	FRC66	ZAG000088485
	FirstRand Bank Limited	FRC67	ZAG000088741
	FirstRand Bank Limited	FRC68	ZAG000088758
	FirstRand Bank Limited	FRC69	ZAG000088766
	FirstRand Bank Limited	FRC70	ZAG000088840
	FirstRand Bank Limited	FRC71	ZAG000088923
	FirstRand Bank Limited	FRC72	ZAG000088956
	FirstRand Bank Limited	FRC73	ZAG000089046
	FirstRand Bank Limited	FRC74	ZAG000089178
	FirstRand Bank Limited	FRC75	ZAG000089566
	FirstRand Bank Limited	FRC76	ZAG000089574
	FirstRand Bank Limited	FRC77	ZAG000089608
	FirstRand Bank Limited	FRC78	ZAG000089806
	FirstRand Bank Limited	FRC79	ZAG000089947
	FirstRand Bank Limited	FRC80	ZAG000090077
	FirstRand Bank Limited	FRC81	ZAG000090325
	FirstRand Bank Limited	FRC82	ZAG000090796
	FirstRand Bank Limited	FRC83	ZAG000090952
	FirstRand Bank Limited	FRC84	ZAG000090986
	FirstRand Bank Limited	FRC85	ZAG000091109
	FirstRand Bank Limited	FRC86	ZAG000091182
	FirstRand Bank Limited	FRC87	ZAG000091570
	FirstRand Bank Limited	FRC88	ZAG000091596
	FirstRand Bank Limited	FRC89	ZAG000091604
	FirstRand Bank Limited	FRC90	ZAG000092388
	FirstRand Bank Limited	FRC91	ZAG000092370
	FirstRand Bank Limited	FRC92	ZAG000092511
	FirstRand Bank Limited	FRC93	ZAG000092545

Administration continued

	Issuer	Bond code	ISIN code
Credit-linked notes	FirstRand Bank Limited	FRC94	ZAG000092677
	FirstRand Bank Limited	FRC95	ZAG000092792
	FirstRand Bank Limited	FRC96	ZAG000093204
	FirstRand Bank Limited	FRC97	ZAG000093212
	FirstRand Bank Limited	FRC98	ZAG000093220
	FirstRand Bank Limited	FRC99	ZAG000093501
	FirstRand Bank Limited	FRC101	ZAG000093576
	FirstRand Bank Limited	FRC103	ZAG000093840
	FirstRand Bank Limited	FRC104	ZAG000093857
	FirstRand Bank Limited	FRC105	ZAG000093998
	FirstRand Bank Limited	FRC106	ZAG000093956
	FirstRand Bank Limited	FRC107	ZAG000094574
	FirstRand Bank Limited	FRC108	ZAG000094871
	FirstRand Bank Limited	FRC109	ZAG000094889
	FirstRand Bank Limited	FRC110	ZAG000094954
	FirstRand Bank Limited	FRC112	ZAG000095621
	FirstRand Bank Limited	FRC113	ZAG000095761
	FirstRand Bank Limited	FRC114	ZAG000095837
	FirstRand Bank Limited	FRC115	ZAG000095852
	FirstRand Bank Limited	FRC116	ZAG000095860
	FirstRand Bank Limited	FRC117	ZAG000095928
	FirstRand Bank Limited	FRC118	ZAG000096280
	FirstRand Bank Limited	FRC119	ZAG000096298
	FirstRand Bank Limited	FRC120	ZAG000096306
	FirstRand Bank Limited	FRC121	ZAG000096314
	FirstRand Bank Limited	FRC122	ZAG000096322
	FirstRand Bank Limited	FRC123	ZAG000096272
	FirstRand Bank Limited	FRC124	ZAG000096579
	FirstRand Bank Limited	FRC125	ZAG000096678
Senior unsecured callable bonds	FirstRand Bank Limited	FR002U	ZAG000042748
	FirstRand Bank Limited	FR003U	ZAG000042755

	Issuer	Bond code	ISIN code
Investment security index contracts	Rand Merchant Bank	RMBI01	ZAG000050865
	Rand Merchant Bank	RMBI02	ZAG000052986
	Rand Merchant Bank	RMBI03	ZAG000054032
	Rand Merchant Bank	RMBI04	ZAG000055013
	Rand Merchant Bank	RMBI05	ZAG000055864
	Rand Merchant Bank	RMBI06	ZAG000056722
	Rand Merchant Bank	RMBI07	ZAG000057910
	Rand Merchant Bank	RMBI08	ZAG000072265
Structured notes	FirstRand Bank Limited	OILRMB	ZAG000152732
	FirstRand Bank Limited	COLRMB	ZAE000155222

London Stock Exchange (LSE)
European medium term note (EMTN) programme

	Issuer	ISIN code
Senior unsecured	FirstRand Bank Limited	XS0635404477
	FirstRand Bank Limited	XS0610341967
	FirstRand Bank Limited	XS0595260141

Notice of annual general meeting

FIRSTRAND LIMITED

(Incorporated in the Republic of South Africa)
(Registration number: 1966/010753/06)
Share code: (JSE): FSR ISIN: ZAE000066304
JSE B preference share code: FSRP ISIN: ZAE000060141
NSX ordinary share code: FST
(FirstRand or the Company or FSR)

Notice is hereby given that the sixteenth annual general meeting (the meeting) of FirstRand will be held in the Auditorium, FNB Conference and Learning Centre, 114 Grayston Drive, Sandton, on Thursday, 29 November 2012, at 09h00 to deal with such business as may lawfully be dealt with at the meeting and to consider and, if deemed fit, pass, with or without modification, the ordinary and special resolutions set out hereunder in the manner required by the Companies Act, 71 of 2008, as amended (the Act), as read with the Listings Requirements of the JSE Limited (JSE).

The record date in terms of section 59 of the Act for shareholders to be recorded in the securities register of the Company in order to be able to attend, participate and vote at the meeting, is Friday, 23 November 2012. Accordingly, the last day to trade in order to be able to attend, participate and vote at the annual general meeting is Friday, 16 November 2012. This notice will be sent to all shareholders who are recorded as such in the Company's securities register on Friday, 19 October 2012.

Kindly note that participants at the meeting (including shareholders and proxies) will be required to provide reasonably satisfactory identification before being entitled to attend or participate in the meeting. Forms of identification include valid identity documents, drivers' licences and passports.

AGENDA

1. Presentation of the consolidated audited annual financial statements of the Company (as approved by the directors of the Company), including the reports of the external auditor, audit committee and directors for the financial year ended 30 June 2012, all of which are included in the annual integrated report 2012 (annual report), distributed as required to shareholders.

2. Ordinary resolution number 1

Re-election of directors by way of separate resolutions

To re-elect, by way of separate resolutions, directors of the Company in accordance with the Act and in terms of clause 25.7.1 of the Company's Memorandum of Incorporation (MOI). The directors proposed, being eligible and having been recommended by the Board, have offered themselves for re-election:

1.1 Lauritz Lanser Dippenaar (Chairman)
Non-executive
Date of appointment
27 May 1998
Educational qualifications
MCom, CA(SA)
Board committees
Directors' affairs and governance
Remuneration

1.2 Leon Crouse
Non-executive
Date of appointment
16 September 2008
Educational qualifications
CA(SA)
Board committees
Audit
Directors' affairs and governance
Risk, capital management and compliance

1.3 Patrick Maguire Goss
Non-executive
Date of appointment
27 May 1998
Educational qualifications
BEcon (Hons)
BAccSc (Hons)
CA(SA)
Board committees
Directors' affairs and governance
Remuneration (Chair)

1.4 Nolulamo Nobambiswano Gwagwa
Non-executive
Date of appointment
25 February 2004
Educational qualifications
BA (Fort Hare)
MTRP (Natal)
MSc (cum laude) (London)
PhD (London)
Board committees
Directors' affairs and governance
Transformation monitoring (Chair)

1.5 Deepak Premnarayen*
Executive
Date of appointment
1 January 2009
Educational qualifications
BA Economics (Hons) India
Board committees
Directors' affairs and governance

** D Premnarayen is classified as an executive director due to his participation in FirstRand's share scheme – refer page 86. He retires in the same manner as the other (non-executive) directors.*

Notice of annual general meeting continued

1.6 Benedict James van der Ross
Non-executive
Date of appointment
27 May 1998
Educational qualifications
Dip Law (UCT)
Board committees
Directors' affairs and governance
Social and ethics
Large exposures
Transformation monitoring

Biographical details of these directors are set out on pages 56 to 61 of the annual integrated report.

The percentage of voting rights required for each ordinary resolution contained under this point 2 of the notice to be adopted, is more than 50% (fifty percent) of the voting rights exercised on each resolution.

3. Ordinary resolution number 2

Election of director by way of a separate resolution

To re-elect the following director in accordance with the Act and in terms of clause 25.7.1 of the Company's MOI.

3.1. Jurie Johannes Human Bester
Non-executive
Date of appointment
1 July 2010
Educational qualifications
BSc Eng Elect (Pret)
ISMP (Harvard)
Board committees
Audit
Directors' affairs and governance
Risk, capital management and compliance (Chair)
Remuneration

In terms of clause 26.9.2 of the Company's MOI a non-executive director should vacate office at the first annual general meeting of the Company after reaching age 70, provided that the Board has discretion to extend that age on one or more occasions for an additional year period in each instance.

Mr Bester reached age 70 on 25 February 2012. The Board has considered and has unanimously approved the extension of his tenure as a director.

Accordingly, being eligible for re-election and having been recommended by the Board, Mr Bester offers himself for re-election.

The percentage of voting rights required for this ordinary resolution number 2 to be adopted, is more than 50% (fifty percent) of the voting rights exercised on the resolution.

4. Ordinary resolution number 3

Election of director by way of a separate resolution

To elect the following director who was appointed by the directors on 24 September 2011 and is now recommended by the Board for election by shareholders:

Mary Sina Bomela
Date of appointment
24 September 2011
Educational qualifications
BCom (Hons)
CA(SA)
MBA
Board committees
Directors' affairs and governance
Social and ethics
Transformation monitoring

The percentage of voting rights required for this ordinary resolution number 3 to be adopted, is more than 50% (fifty percent) of the voting rights exercised on the resolution.

5. Ordinary resolution number 4

Appointment of joint auditors and the individual registered auditors

Resolved that, as recommended by the Audit committee of the Company, PricewaterhouseCoopers Inc. and Deloitte & Touche be appointed as joint auditors of the Company until the next annual general meeting and that Messrs Tom Winterboer and Kevin Black respectively be appointed as the individual registered auditors who undertake the audit of the Company for the ensuing year.

The Company's Audit committee has recommended and the Board of directors of the Company has endorsed the proposed appointments.

The percentage of voting rights required for this ordinary resolution number 4 to be adopted, is more than 50% (fifty percent) of the voting rights exercised on the resolution.

6. Ordinary resolution number 5

Auditors' remuneration

Resolved that the FirstRand Audit committee be and is hereby authorised to determine the remuneration of the Company's auditors and the auditors' terms of reference.

The percentage of voting rights required for this ordinary resolution number 5 to be adopted, is more than 50% (fifty percent) of the voting rights exercised on the resolution.

7. Advisory endorsement of remuneration policy

Resolved, by way of a non-binding advisory vote, that the Company's remuneration policy (excluding the remuneration of the non-executive directors and the members of board committees for their services as directors and members of committees) be and is hereby endorsed.

The Company's remuneration report is set out on pages 79 to 85 of the annual report.

In terms of King III, every year, a Company's remuneration policy should be tabled for a non-binding advisory vote at its annual general meeting. The essence of this vote is to enable the shareholders to express their views on the remuneration policies adopted and on their implementation. Shareholders are accordingly requested to endorse the Company's remuneration policy.

8. Ordinary resolution number 6

Place the unissued ordinary shares under the control of the directors

Resolved that the authorised but unissued ordinary shares in the capital of the Company be and are hereby placed under the control and authority of the directors of the Company and that the directors of the Company be and are hereby authorised and empowered to allot, issue and otherwise dispose of such shares to such person or persons on such terms and conditions and at such times as the directors of the Company may from time to time and in their discretion deem fit, subject to the provisions of the Act, the Banks Act 94 of 1990 as amended (the Banks Act), the MOI and the Listings Requirements of the JSE and the Namibian Stock Exchange (NSX), when applicable.

Shareholders are asked to note that at 363 746 761 ordinary shares, the unissued ordinary share capital of the Company, represents approximately 6% of the authorised share capital.

The percentage of voting rights required for ordinary resolution number 6 to be adopted, is more than 50% (fifty percent) of the voting rights exercised on the resolution.

9. Ordinary resolution number 7

General authority to issue authorised but unissued ordinary shares

Resolved that, subject to the passing of ordinary resolution number 6, the directors of the Company be and are hereby authorised, by way of a renewable general authority, to issue all or any of the authorised but unissued equity securities in the capital of the Company for cash as and when they in their discretion deem fit, subject to the Act, the Banks Act, the MOI and the Listings Requirements of the JSE and NSX, when applicable, on the basis that:

- this authority shall be valid until the Company's next annual general meeting or for 15 months from the date that this resolution is passed, whichever period is shorter;
- the ordinary shares must be issued to public shareholders as defined by the Listings Requirements of the JSE and the NSX and not related parties;
- the equity securities which are the subject of the issue for cash must be of a class already in issue, or where this is not the case, must be limited to such securities or rights that are convertible into a class already in issue;
- in respect of securities which are the subject of the general issue of shares for cash:
  - in the aggregate in any one financial year the ordinary shares may not exceed 5% of the Company's relevant number of equity securities in issue of that class, (for purposes of determining the securities comprising the 5% number in any one year, account must be taken of the dilution effect, in the year of issue of options/convertible securities);
  - of a particular class, will be aggregated with any securities that are compulsorily convertible into securities of that class, and, in the case of the issue of compulsorily convertible securities, aggregated with the securities of that class into which they are compulsorily convertible;
  - as regards the number of securities which may be issued, the 5% for the ordinary shares, shall be based on the number of securities of that class in issue added to those that may be issued in future (arising from the conversion of options/convertible securities), at the date of such application:
- less any securities of the class issued, or to be issued in future arising from options/convertible securities issued, during the current financial year;
- plus any securities of that class to be issued pursuant to:
  - a rights issue which has been announced, is irrevocable and is fully underwritten; or
  - an acquisition, which has had final terms announced, which may be included as though they were securities in issue at the date of application;
- a maximum discount at which the ordinary shares may be issued is 10% of the weighted average traded price of the Company's ordinary shares measured over 30 business days prior to the date that the price of the issue is determined or agreed by the directors of the Company and the party subscribing for the securities;
- any such general issues are subject to exchange control regulations and approval at that point in time; and

Notice of annual general meeting continued

- a paid press announcement giving full details, including the impact on net asset value and earnings per share, will be published at the time of any issue representing, on a cumulative basis within one financial year, 5% or more of the number of ordinary shares in issue prior to that issue, in terms of the Listings Requirements of the JSE.

The percentage of voting rights required for ordinary resolution number 7 to be adopted, is at least 75% (seventy five percent) of the voting rights exercised on the resolution.

10. Special resolution number 1

Proposed Amendment to MOI

Resolved that the MOI be and is hereby amended by the deletion of:

"provided that the chairperson and the lead independent director (if any) elected in terms of clause 29.3 shall retire from office at each annual general meeting referred to in clause 19.4" where it appears in clause 25.7.1 of the Company's MOI;

"(other than the chairperson and the lead independent director (if any) elected in terms of clause 29.3)" where it appears in clause 25.7.2 of the Company's MOI; and

"including the chairperson and the lead independent director (if any) elected in terms of clause 29.3)" where it appears in clause 25.7.3 of the Company's MOI.

Additional information in respect of special resolution no. 1

In terms of the provisions of the principles contained in King III, the Board of a company is obliged to elect a chairperson annually. A lead independent non-executive director, in those circumstances where the chairperson of that Board is not independent, should be appointed.

The effect of the proposed amendment is to amend the MOI so that it provides for the retirement as directors of the chairperson and lead independent director in the same manner as the remaining directors of FirstRand and to clarify the MOI so that it is clear that the Board of FirstRand will elect the chairperson and lead independent non-executive director, as required by King III and the applicable FirstRand Board charter.

The amended MOI will be available for inspection by the shareholders of the Company at the Company's registered office.

The percentage of voting rights required for special resolution number 1 to be adopted is at least 75% of the voting rights exercised on the resolution.

11. Special resolution number 2

Authority to repurchase ordinary shares

Resolved, as a special resolution of the Company, that the Company and/or its subsidiaries be and are hereby authorised, in terms of a general authority contemplated in sections 48 of the Act, read with sections 4b, 114 and 115, as amended, to acquire the Company's issued shares from time to time on such terms and conditions and in such amounts as the directors of the Company may from time to time decide, but always subject to the approval, to the extent required, of the Registrar of Banks, the provisions of the Act, the Banks Act, the MOI and the Listings Requirements of the JSE and NSX, and subject to the following conditions:

- this general authority will be valid only until the Company's next annual general meeting, provided that it will not extend beyond 15 months from the date of the passing of this special resolution, whichever is shorter;
- the repurchase of securities will be effected through the main order book operated by the JSE trading system and done without any prior understanding or arrangement between the Company and the counterparty;
- repurchases may not be made at a price greater than 10% above the weighted average of the market value for the securities for the five business days immediately preceding the date on which the repurchase of such securities by the Company is effected.
- the acquisitions of ordinary shares shall in the aggregate in any one financial year not exceed 10% of the Company's issued ordinary share capital as at the beginning of the financial year, provided that the number of shares purchased and held by a subsidiary/ies of the Company shall not exceed 10% in aggregate of the number of issued shares in the Company at the relevant times;
- neither the Company nor its subsidiaries will repurchase securities during a prohibited period, as defined in paragraph 3.67 of the Listings Requirements of the JSE, unless they have in place a repurchase programme where the dates and quantities of securities to be traded during the relevant period are fixed (not subject to any variation) and full details of the programme have been disclosed in an announcement on the JSE Securities Exchange News Service (SENS) prior to the commencement of the prohibited period;
- a resolution having been passed by the Board of directors confirming that the Board has authorised the repurchase, that the Company passed the solvency and liquidity test and that since the test was done there have been no material changes to the financial position of the Company;

- any such general repurchases are subject to exchange control regulations and approval at that point in time;
- when the Company has cumulatively repurchased 3% of the initial number of the relevant class of securities, and for each 3% in aggregate of the initial number of that class acquired thereafter, an announcement shall be published on SENS and in the financial press; and
- at any point in time the Company shall appoint only one agent to effect any repurchase(s) on its behalf.

The percentage of voting rights required for this special resolution number 2 to be adopted is at least 75% (seventy five percent) of the voting rights exercised on the resolution.

Additional information in respect of special resolution number 2

The reason for special resolution number 2 is to grant the Company's directors a general authority, up to and including the date of the following annual general meeting of the Company, to approve the Company's purchase of shares in itself, or to permit a subsidiary of the Company to purchase shares in the Company.

The directors of the Company have no immediate intention to use this authority to repurchase Company shares. However, the directors are of the opinion that this authority should be in place should it become appropriate to undertake a share repurchase in the future.

The directors undertake that the Company will not commence a general repurchase of shares as contemplated above unless the following can be met:

- the Company will be in a position to repay its debts in the ordinary course of business for a period of 12 months after the date of the general repurchase of shares in the open market;
- the assets of the Company will be in excess of the liabilities of the Company for a period of 12 months after the date of the general repurchase of shares in the open market, for which purpose the assets and liabilities will be recognised and measured in accordance with the accounting policies used in the latest audited consolidated annual financial statements which comply with the Act;
- the ordinary capital and reserves of the Company will be adequate for ordinary business purpose for the 12 months after the general repurchase of shares in the open market;
- the available working capital will be adequate to continue the operations of the Company for a period of 12 months after the repurchase of shares in the open market; and
- upon entering the market to proceed with the general repurchase, the Company's sponsor has confirmed the adequacy of the Company and the Group's working capital for the purposes of undertaking a general repurchase of shares, in writing to the JSE.

12. Special resolution number 3

Financial assistance to directors, prescribed officers, employee share scheme beneficiaries and related or interrelated companies

Resolved, as a special resolution of the Company in terms of sections 44 and 45 of the Act, that the directors of the Company may, subject to compliance with the requirements of the MOI, the Act and the JSE and NSX, when applicable, each as presently constituted and as amended from time to time, authorise the Company to provide direct or indirect financial assistance (as contemplated in sections 44 and 45 of the Act) to, *inter alia*, a director or prescribed officer of the Company, or to any company or corporation which is related or interrelated to the company on such terms and conditions as the directors of the Company determine, provided that nothing in this approval will limit the provision by the Company of financial assistance that does not require approval by way of a special resolution of the shareholders in terms of sections 44 and 45 of the Act or falls within the exemptions contained in these sections.

The percentage of voting rights required for this special resolution number 3 to be adopted is at least 75% (seventy five percent) of the voting rights exercised on the resolution.

Additional information in respect of special resolution no. 3

Companies within the FirstRand Group receive and provide loan financing and other support in the course of business.

The Company funds the long-term incentive schemes in which executive directors, prescribed officers and identified staff of the Company and related and interrelated companies participate.

Notice of annual general meeting continued

13. Special resolution number 4

Remuneration of non-executive directors with effect from 1 December 2012

Resolved as a special resolution in terms of section 66(9) of the Act that the following directors' remuneration (due to the applicable directors for services rendered by them in their capacities as such) be and is hereby approved:

	Current annual fee	Proposed annual fee with effect 1 December 2012
Board		
Chairman*	3 125 000	3 600 000
Director	362 000	390 000
Audit committee		
Chairman	482 000	540 000
Member	193 000	212 000
Risk, capital management and compliance committee		
Chairman	482 000	540 000
Member	193 000	212 000
Remuneration committee		
Chairman	225 000	270 000
Member	110 000	121 000
Directors' affairs and governance committee		
Chairman	84 000	92 400
Member	42 000	46 200
Large exposures committee		
Chairman		
Member		
(per meeting payment on an hourly basis for preparation and attendance at the *ad hoc* work fee)		
Transformation monitoring committee		
Chairman	108 000	120 000
Member	54 000	60 000
Ad hoc* work*		
Chairman	6 200	6 600
Member	3 100	3 300

* *The chairman will be paid a single fee, covering his activities as Board chairman and for his activities on board committees.*

** *For work of an ad hoc nature on an hourly basis, or for work on an ad hoc committee or attendance at advisory/subsidiary boards or committee meetings where no other fee is specifically approved, hourly for preparation and attendance.*

Directors domiciled outside of South Africa are paid double the approved fees for South African domiciled directors.

The percentage of voting rights required for this special resolution number 4 to be adopted is at least 75% (seventy five percent) of the voting rights exercised on the resolution.

14. For the purposes of considering special resolution number 2 and in compliance with Rule 11.26 of the JSE Listings Requirements, the information listed below has been included in the FirstRand annual report to shareholders for the year ended 30 June 2012 at the places indicated:

- directors and prescribed officers – refer pages 86 to 88;
- major shareholders – refer page 434;
- directors' interest in securities – refer page 65;
- share capital of the Company – refer note 29;

- the directors, whose names are set out on pages 56 to 61 of the annual report, collectively and individually accept full responsibility for the accuracy of the information contained in the special resolutions and certify to the best of their knowledge and belief that there are no other facts, the omission of which would make any statement false or misleading and that they have made all reasonable enquiries in this regard; and that this resolution contains all information required by the JSE Listings Requirements; and
- litigation – save as reported in note 24 on page 314 and, in terms of section 11.26 of the JSE Listings Requirements, the directors, whose names are given on pages 56 to 61 of the annual report of which this notice forms part, are not aware of any legal or arbitration proceedings, including any such proceedings that are pending or threatened, that may have or have had in the previous 12 months, a material effect on the Group's financial position.

Other than the facts and developments reported on in the annual report, there have been no material changes in the financial position of the Company and its subsidiaries since the date of signature of the audit report and the date of this notice.

15. Social and ethics committee report

The FirstRand Social and ethics committee report is set out in pages 102 to 106 of the annual report, in terms of Regulation 43 (5) (c) of the Act.

Important notes regarding attendance at the meeting

General

Shareholders wishing to attend the meeting have to ensure beforehand with the transfer secretaries of the Company that their shares are in fact registered in their name.

Certificated members and own name dematerialised shareholders

Members who have not dematerialised their shares, who have dematerialised their shares with own name registration are entitled to attend and vote at the meeting and are entitled to appoint a proxy or proxies to attend, speak and vote in their stead.

The person so appointed need not be a shareholder. Proxy forms must be forwarded to reach the registered office of the Company's transfer secretaries by 09:00 on Tuesday, 27 November 2012. Before a proxy exercises any rights of a shareholder at the meeting, such form of proxy must be so delivered. Any forms of proxy not lodged by this time must be handed to the chairperson of the meeting immediately prior to the meeting.

Dematerialised shareholders other than with own name registration

Members who have dematerialised their shares, other than those members who have dematerialised their shares with own name registration, should contact their Central Securities Depository Participant (CSDP) or broker in the manner and time stipulated in their agreement:

- to furnish them with their voting instructions; and
- in the event that they wish to attend the meeting, to obtain the necessary authority to do so.

Voting will be by way of a poll and every shareholder of the Company present in person or represented by proxy shall have one vote for every ordinary share held in the Company by such shareholder.

Shares held by a FirstRand share trust or scheme, treasury shares and unlisted shares will not have their votes at the meeting taken into account for the purposes of resolutions proposed in terms of the JSE Listings Requirements.

Proof of identification required

In compliance with section 63 of the Act, kindly note that meeting participants (including proxies) are required to provide reasonably satisfactory identification before being entitled to attend or participate in a shareholders' meeting. Forms of identification include valid identity documents, driver's licenses and passports.

Summary of shareholder rights

In compliance with the provisions of section 58(8)(b)(i) of the Act, a summary of the rights of a shareholder to be represented by proxy, as set out in section 58 of the Act, is set out immediately below:

- a shareholder entitled to attend and vote at the meeting may appoint any individual (or two or more individuals) as a proxy or as proxies to attend, participate in and vote at the meeting in the place of the shareholder. A proxy need not be a shareholder of the Company.
- A proxy appointment must be in writing, dated and signed by the shareholder appointing a proxy, and, subject to the rights of a shareholder to revoke such appointment (as set out below), remains valid only until the end of the meeting.
- A proxy may delegate the proxy's authority to act on behalf of a shareholder to another person, subject to any restrictions set out in the instrument appointment the proxy.
- The appointment of a proxy is suspended at any time and to the extent that the shareholder who appointed such proxy chooses to act directly and in person in the exercise of any rights as a shareholder.

Notice of annual general meeting continued

The appointment of a proxy is revocable by the shareholder in question cancelling it in writing, or making a later inconsistent appointment of a proxy, and delivering a copy of the revocation instrument to the proxy and to the Company. The revocation of a proxy appointment constitutes a complete and final cancellation of the proxy's authority to act on behalf of the shareholder as of the later of (a) the date stated in the revocation instrument, if any; and (b) the date on which the revocation instrument is delivered to the Company as required in the first sentence of this paragraph.

If the instrument appointing the proxy or proxies has been delivered to the Company, as long as that appointment remains in effect, any notice that is required by the Act or the Company's MOI to be delivered by the Company to the shareholder, must be delivered by the Company to (a) the shareholder, or (b) the proxy or proxies, if the shareholder has (i) directed the Company to do so in writing; and (ii) paid any reasonable fee charged by the Company for doing so.

Attention is also drawn to the notes to the form of proxy.

By order of the Board

BW Unser
Company secretary

10 September 2012

Transfer secretaries
Computershare Investor Services (Pty) Ltd
70 Marshall Street
Johannesburg
2011

Important notes regarding attendance at the annual general meeting

GENERAL

Shareholders wishing to attend the annual general meeting have to ensure beforehand with the transfer secretaries of the Company that their shares are in fact registered in their name.

CERTIFICATED MEMBERS AND OWN NAME DEMATERIALISED SHAREHOLDERS

Members who have not dematerialised their shares or who have dematerialised their shares with own name registration are entitled to attend and vote at the meeting and are entitled to appoint a proxy or proxies to attend, speak and vote in their stead. The person so appointed need not be a shareholder. Proxy forms must be forwarded to reach the registered office of the Company's transfer secretaries by 09:00 on Tuesday, 27 November 2012.

DEMATERIALISED SHAREHOLDERS OTHER THAN WITH OWN NAME REGISTRATION

Members who have dematerialised their shares, other than those members who have dematerialised their shares with own name registration, should contact their Central Securities Depository Participant (CSDP) or broker in the manner and time stipulated in their agreement:

- to furnish them with their voting instructions; and
- in the event that they wish to attend the meeting, to obtain the necessary authority to do so.

Voting will be by way of a poll and every shareholder of the Company present in person or represented by proxy shall have one vote for every ordinary share held in the Company by such shareholder.

FIRSTRAND LIMITED
(Incorporated in the Republic of South Africa)
(Registration number: 1966/010753/06)
Share code: (JSE): FSR ISIN: ZAE000066304
JSE B preference share code: FSRP ISIN: ZAE000060141
NSX ordinary share code: FST
(FirstRand or the Company or FSR)

FIRSTRAND

Form of proxy – ordinary shareholders

For the year ended 30 June 2012

Only for use by shareholders who have not dematerialised their shares or who have dematerialised their shares with own name registration.

All other dematerialised shareholders must contact their CSDP or broker to make the relevant arrangements concerning voting and/or attendance at the annual general meeting.

For completion by the aforesaid registered members who hold ordinary shares of the Company and who are unable to attend the 2012 annual general meeting of the Company to be held in the Auditorium, FNB Conference and Learning Centre, 114 Grayston Drive, on Thursday, 29 November 2012 at 09:00 (the annual general meeting).

I/We,

Of (address)

Being the holder/s of ordinary shares in the Company, hereby appoint (see notes overleaf)

1. or, failing him/her

2. or, failing him/her

3. the chairman of the annual general meeting, as my/our proxy to attend, speak and vote for me/us and on my/our behalf or to abstain from voting at the annual general meeting of the Company and at any adjournment thereof, as follows (see notes overleaf).

	Insert an X or the number of votes exercisable (one vote per ordinary share)		
	In favour of	Against	Abstain
Ordinary resolution number 1.1 to 1.6 Re-election of directors by way of separate resolutions: LL Dippenaar L Crouse PM Goss LL Gwagwa D Premnarayen BJ van der Ross			
Ordinary resolution number 2 The election of director by way of separate resolution: JJH Bester			
Ordinary resolution number 3 To elect director appointed by the Board: MS Bomela			
Ordinary resolution number 4 Appointment of joint auditors and the individual registered auditors			
Ordinary resolution number 5 Auditors' remuneration			
Advisory endorsement of remuneration policy Endorsement of remuneration policy			
Ordinary resolution number 6 Place the unissued ordinary shares under the control of the directors			
Ordinary resolution number 7 General authority to issue authorised but unissued ordinary shares			
Special resolution number 1 Amendments to clauses 25.7.1, 25.7.2 and 25.7.3 of the Memorandum of Incorporation			
Special resolution number 2 Authority to repurchase ordinary shares			
Special resolution number 3 Financial assistance to directors, prescribed officers, employee share scheme beneficiaries and related or interrelated companies			
Special resolution number 4 Remuneration of directors with effect from 1 December 2012			

Signed at on 2012

Signature/s

Assisted by
(where applicable)

PLEASE SEE NOTES ON REVERSE SIDE OF THE FORM

Notes

NOTES

Use of proxies

A member who holds ordinary shares (member) is entitled to attend and vote at the annual general meeting and to appoint one or more proxies to attend, speak and vote in his/her stead. A proxy need not be a member of the Company.

Every member present in person or by proxy and entitled to vote at the annual general meeting of the Company shall, on a show of hands, have one vote only, irrespective of the number of shares such member holds, but in the event of a poll, every ordinary share in the Company shall have one vote.

Instructions on signing and lodging the proxy form:

1. A member may insert the name of a proxy or the names of two alternative proxies of the members' choice in the space/s provided overleaf, with or without deleting "the chairman of the annual general meeting", but any such deletion must be initialled by the member. Should this space be left blank, the chairman of the annual general meeting will exercise the proxy. The person whose name appears first on the proxy form and who is present at the annual general meeting will be entitled to act as proxy to the exclusion of those whose names follow.

2. A member's voting instructions to the proxy must be indicated by the insertion of the number of votes exercisable by that member in the appropriate spaces provided overleaf. Failure to do so shall be deemed to authorise the proxy to vote or to abstain from voting at the annual general meeting, as he/she thinks fit in respect of all the member's exercisable votes. A member or his/her proxy is not obliged to use all the votes exercisable by his/her proxy, but the total number of votes cast, or those in respect of which abstention is recorded, may not exceed the total number of votes exercisable by the member or his/her proxy.

3. A minor must be assisted by his/her parent or guardian unless the relevant documents establishing his/her legal capacity are produced or have been registered by the Transfer Secretaries.

4. To be valid the completed proxy forms must be forwarded to reach the Company's transfer secretaries, Computershare Investor Services (Pty) Limited, 70 Marshall Street, Johannesburg, 2001 (PO Box 61051, Marshalltown, 2107), fax number (011) 688 5238 or in Namibia to Transfer Secretaries (Pty) Limited, PO Box 2401, Windhoek, Namibia, fax number +264 6124-8531 by no later than 09:00 on Tuesday, 27 November 2012. Proxy forms may only be completed by members who have not dematerialised their shares or who have dematerialised their shares with "own name" registration.

5. Documentary evidence establishing the authority of a person signing a proxy form in a representative capacity must be attached to the proxy form unless previously recorded by the Transfer secretaries or waived by the chairman of the annual general meeting.

6. The completion and lodging of this proxy form shall not preclude the relevant member from attending the annual general meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof, should such member wish to do so.

7. The completion of any blank spaces overleaf need not be initialled. Any alternations or corrections to this proxy form must be initialled by the signatory/ies.

8. The chairman of the annual general meeting may reject or accept any proxy form which is completed other than in accordance with these instructions provided that he is satisfied as to the manner in which a member wishes to vote.

STUDIO 5

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