# annual report

for the year ended 30 June 2011

FirstRand

Bank Limited

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FIRSTRAND
Bank Limited
1929/001225/06
Certain entities within the FirstRand Group are Authorised Financial Services and Credit Providers
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# Board of directors of FirstRand Bank Limited

**VW Bartlett (68)** Independent non-executive director
*AMP (Harvard), FIBSA*
Director of FirstRand

**JJH Bester (69)** Independent non-executive director
*BSc Eng Elect (Pret), ISMP (Harvard)*
Director of FirstRand

**JP Burger (52)** Financial director
*CA(SA)*
Financial Director and Chief Operating Officer of FirstRand

**L Crouse (58)** Non-independent non-executive director
*BCom (Acc), Cert theory of Acc, CA(SA)*
Director of FirstRand

**LL Dippenaar (62)** Non-independent non-executive chairman
*MCom, CA(SA)*
Chairman of FirstRand and Director of RMB Holdings

**PM Goss (63)** Independent non-executive director
*BEcon (Hons), B (AccSc) (Hons), CA(SA)*
Director of FirstRand and RMB Holdings

**NN Gwagwa (52)** Independent non-executive director
*BA (Fort Hare), MTRP (Natal), MSc (cum laude) (London)*
*PhD (London)*
Director of FirstRand

**PK Harris (61)** Non-independent non-executive director
*MCom*
Director of FirstRand and RMB Holdings

**WR Jardine (45)** Independent non-executive director
*BSc, MSc*
Director of FirstRand

**EG Matenge-Sebesho (56)** Independent non-executive director
*CAIB (SA), MBA*
Director of FirstRand

**AP Nkuna (59)** Non-executive director*
*MAP (Wits Business School)*
Director of FirstRand

**AT Nzimande (40)** Non-executive director
*BCom CTA (UCT), CA(SA); H DIP Law (Wits)*
Director of FirstRand

**SE Nxasana (53)** Chief executive officer
*BCom, BCompt (Hons), CA(SA)*
Chief Executive Officer of FirstRand,
Director of FirstRand

**D Premnarayen (65)** Non-executive director
*BA Economics (Hons) India*
Director of FirstRand

**KB Schoeman (47)** Non-executive director
*BA Economics, Advanced Financial Management Diploma*
Director of FirstRand

**RK Store (68)** Independent non-executive director
*CA(SA)*
Director of FirstRand

**BJ van der Ross (64)** Independent non-executive director
*Dip Law (UCT)*
Director of FirstRand

**JH van Greuning (58)** Independent non-executive director
*CA(SA), CA(Canada), CFA, Dr Acc Sc, Dr Economics*
Director of FirstRand

**MH Visser (57)** Non-independent non-executive director
*BCom (Hons), CA(SA)*
Director of FirstRand

** AP Nkuna, a shareholder representative of FirstRand empowerment partner, Mineworkers Investment Company ("MIC"), has indicated his intention to retire during 2012. He has therefore resigned as a non-executive director from the Board of FirstRand Bank effective 31 July 2011.*

## Corporate governance

### COMPLIANCE STATEMENT

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

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

Following the restructuring of FirstRand as the Bank Controlling Company, the governance structures vest at FirstRand Limited level. Furthermore, in recognition of the need to conduct the affairs of the Bank according to the highest standards of corporate governance, in the interests of investor protection, the directors of FirstRand endorse the Code of Corporate Practices and Conduct recommended in the Code of Conduct on Corporate Governance for South Africa (2009) (King III). The directors are satisfied that the Bank has observed and complied with the principles of the King III Code consistently during the year under review.

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

## Board of directors

### RESPONSIBILITIES OF DIRECTORS

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

### COMPOSITION AND FREQUENCY OF MEETINGS

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

The board comprises 19 directors of whom two serve in an executive capacity. The directors of the Bank are listed on page 1. Non-executive directors comprise individuals of high calibre with diverse backgrounds and expertise. This ensures that their views carry significant weight in the board's deliberations and decisions.

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

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

An annual assessment of the Board is conducted and is referred back to the Board for actions identified.

### LIMITATION TO APPOINTMENT PERIOD

There is a formal transparent board nomination process. Non-executive directors are appointed, subject to re-election and to Companies Act provisions relating to removal, and retire by rotation every three years. Reappointment of non-executive directors is not automatic. The retirement age of directors is set at age 70, but a standing board resolution should be taken that directors be compelled to resign annually at the annual general meeting after turning 70, and would be considered for re-election, where their specialised skills are required.

## Company secretary

The company secretary is suitably qualified and experienced and was appointed by the board in 1998. He is inter alia, responsible for the duties stipulated in section 88 of the Companies Act 71 of 2008, as amended and the certificate required to be signed in terms of subsection (2)(e) thereof appears on page 74.

# Risk and capital management report

## Overview

This risk and capital management report covers the operations of the FirstRand Bank Limited ("the Bank"). The Bank is a wholly-owned subsidiary of FirstRand Limited ("FirstRand" or "the Group"). Risk in the Group is managed on a group basis and in order to understand the risk philosophy and risk management practice of the Bank, an extract of FirstRand's risk and capital management report is included.

FirstRand ("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 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.

Effective 1 July 2010, FirstRand replaced FirstRand Bank Holdings Limited ("FRBH") as the regulated bank controlling company. As part of this change, the Group entered into a process to simplify the Group structure, whereby the Bank disposed of materially all its subsidiaries and associates to fellow wholly-owned Group subsidiary FirstRand Investment Holdings (Pty) Limited ("FRIHL"). As of 1 July 2010, the Bank, FirstRand EMA Holdings Limited ("FREMA"), and FRIHL are all regulated as wholly-owned subsidiaries of FirstRand. Some differences between the practices, approaches, processes and policies of the Bank and its fellow wholly-owned subsidiaries exist and these are highlighted by a reference to the appropriate entity, where necessary. All the information in the risk and capital management report has been audited, except where otherwise indicated.

For fully consolidated entities in the Group, no difference in the manner in which entities are consolidated for accounting and regulatory purposes exist. Toyota Financial Services, an associate of the Bank, is equity accounted for accounting purposes and pro rata consolidated for regulatory purposes.

## Definitions

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

| Risk category | Risk components | Definition | Page reference |
|---|---|---|---|
| **Strategic and business risks** | Includes strategic risk; business risk; 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.<br>**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.<br>**Volume and margin risk** is the risk that the 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. | 12 |
| | | **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. The overall objective of capital management is to maintain sound capital ratios, a strong credit rating, and to ensure confidence in the solvency of the Group during calm and turbulent periods in the economy and financial markets. | 16 |
| | 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, presettlement risk, country risk, concentration risk and securitisation risk. | 22 |
| | Counterparty credit risk | Counterparty credit risk is defined as the risk of a counterparty to a contract, transaction or agreement defaulting prior to the final settlement of the transaction's cash flows. | 50 |
| | 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. | 52 |
| | 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. | 55 |
| | 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 has net open foreign currency positions and, as such, is exposed to currency risk in its foreign currency positions and foreign investments.<br>Translation risk is the risk associated with banks that deal in foreign currencies or hold foreign assets. The greater the proportion of asset, liability and equity classes denominated in a foreign currency, the greater the translation risk. | 57 |

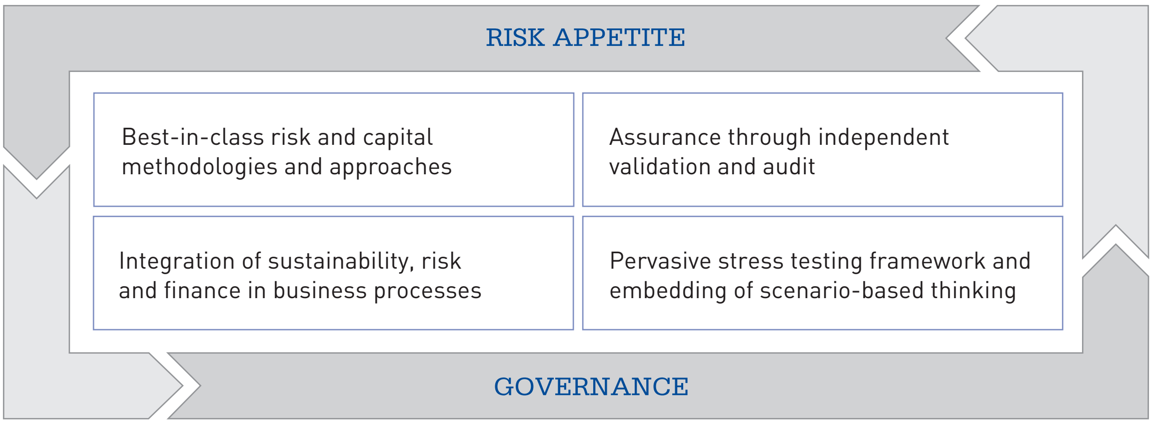
| Risk category | Risk components | Definition | Page reference |
|---|---|---|---|
| | Liquidity risk | Liquidity risk is the risk that a bank will not be able to meet all payment obligations as liabilities fall due. It is also the risk of not being able to realise assets when required to do so to meet repayment obligations in a stress scenario. The definition of liquidity risk is expanded in the *Liquidity risk* section on page 58. | 58 |
| | Interest rate risk in the banking book ("IRRBB") | IRRBB is defined as the sensitivity of a bank's financial position and earnings to unexpected, adverse movements in interest rates. | 63 |
| **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. | 66 |
| | 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. | 69 |

## FirstRand's approach to risk and capital management

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

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

*Components of FirstRand's approach to risk and capital management*




These core components are discussed further in 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 next page).
- Best practice **risk and capital methodologies** have been developed in and for the relevant business areas (see page 6).
- An integrated approach to **sustainability and managing risk** was established to facilitate the proactive exchange of information between individual risk areas, and between risk and finance functions (see page 6).
- The Group is deploying a comprehensive, consistent and integrated approach to **stress testing** that is embedded as a business planning and management tool, emphasising scenario-based analyses in all its decision processes. Stress testing includes the quantification of potential volatility of earnings under various scenarios and due to event risk. (see page 7).
- 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 7).
- **Independent oversight, validation and audit functions** ensure a high standard across methodological, operational and process components of the Group's risk and capital management processes (see page 9).

## 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 FirstRand Risk, capital management and compliance committee ("RCC committee") and subcommittees, as described in the *Risk governance structure* section on page 10.

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 its reputation, are incompatible with the business philosophy and thus fall outside its risk appetite.

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

- the level of earnings growth and volatility the 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 calibrated against broader financial targets. As a function of the business environment and stakeholders' expectations, together with the primary risk appetite measures, these provide firm boundaries for the organisation's chosen path of growth.

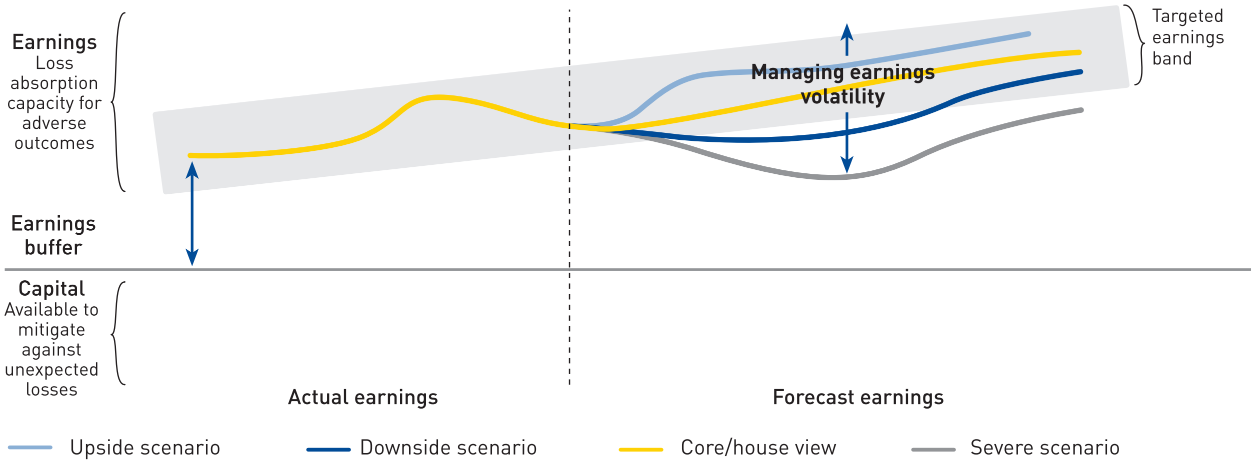
In setting the risk appetite, the Executive management committee ("Exco") and the Board balance the organisation's overall risk capacity with a bottom-up view of the planned risk profile for each business. It is in this process that the Group ultimately seeks to achieve an optimal trade-off between its 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 against unexpected events for stakeholders. FirstRand's capacity to absorb earnings volatility and fluctuations is therefore supported by the generation of sustainable profits.

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 12 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 its franchises is ultimately supported by its financial strength and the Group adopts a management approach that seeks to achieve an optimal deployed risk model.

The franchises are ultimately 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 and forecasting processes, informs credit origination strategies and capital stress testing, directs the interest rate positioning of the banking book, and is used for tail risk strategies.

The Balance Sheet Management ("BSM") unit within the Corporate Centre is the custodian of the macroeconomic house view. It provides the business units with a forecast of key variables that impact the balance sheet and spans a three-year forecast horizon. Given the volatility of the macroeconomic environment, a core forecast and two risk scenarios are presented to the business units for each key variable. A severe scenario is also included for stress testing purposes. These scenarios and forecasts are debated and then communicated to the business units. The outlook is monitored on a daily basis and is updated on a quarterly basis, or more frequently if required.

The Capital Management and Group Treasury functions within the Corporate Centre are responsible for the management of the Group's capital and liquidity, respectively. The capital position provides the final buffer against adverse business performance under extremely severe economic conditions.

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

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

## INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS

The Group views the internal capital adequacy assessment process ("ICAAP") as key to its risk and capital management processes. The 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;
- embedding 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 serves 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

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, changes in competitors strategies and potential stress events forms an integral part of the strategy setting, planning and budgeting processes.

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

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 stress testing framework provides for proactive and continuous identification of such potential events, and establishes a process in which these are evaluated, discussed and escalated across the businesses.

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

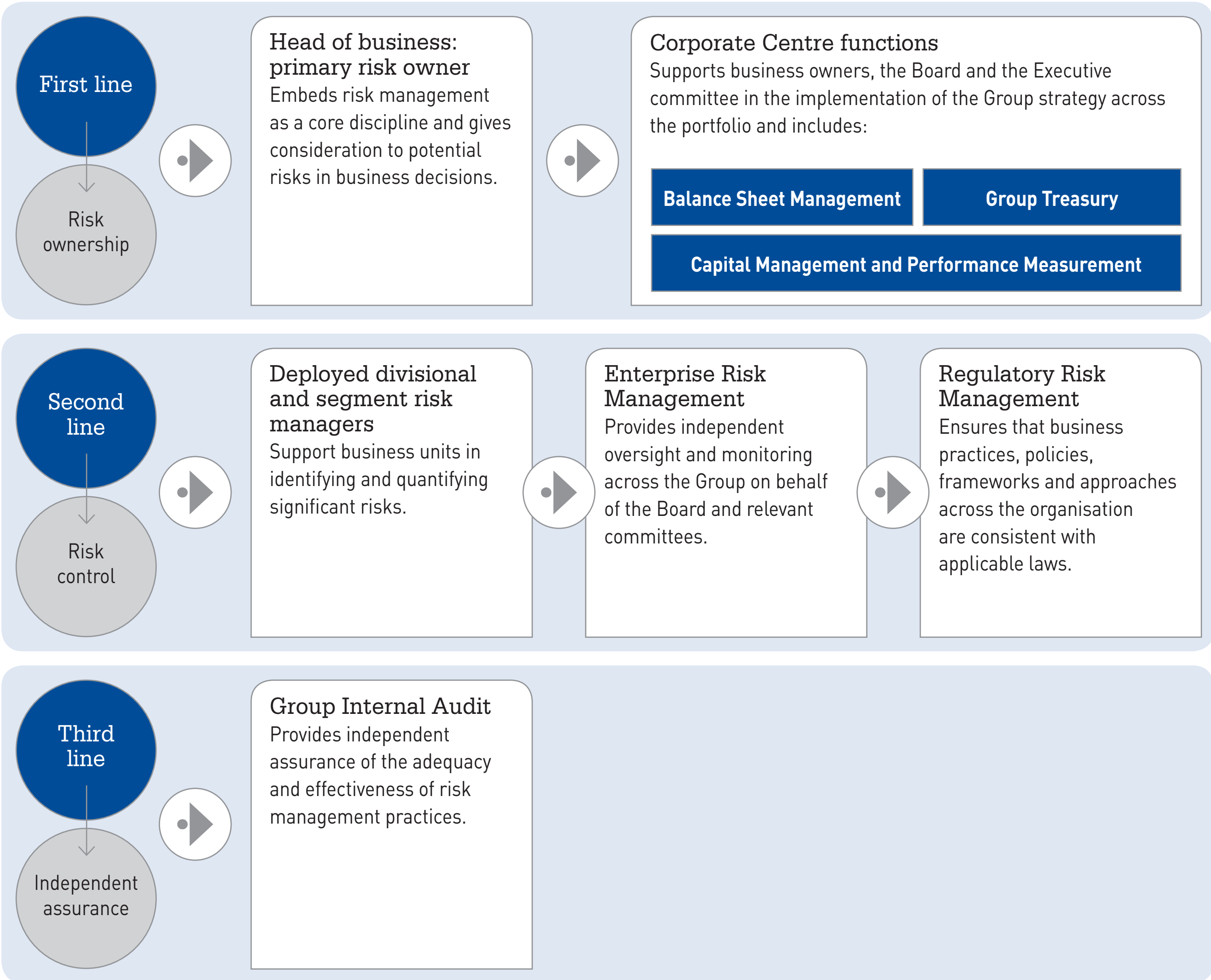
## RISK MANAGEMENT FRAMEWORKS AND GOVERNANCE STRUCTURE

### Risk governance framework

The Group's Board retains ultimate responsibility for ensuring that risks are adequately identified, measured, monitored and managed. The Group believes that effective risk management is predicated 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 applied consistently at various levels throughout the organisation. There are three primary lines of control across the Group's operations illustrated in chart on the next page.

*Lines of risk control*




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 explicitly 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;
- 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 understands responsibilities in relation to risk management.

Business owners, the Board and Exco are supported in these responsibilities by the **Corporate Centre functions** including BSM, Group Treasury, and Capital Management and Performance Measurement. The responsibilities of these functions are described in the *Focus on sustainability and integration of risk and finance* section on page 6.

*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. 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;
- 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 performed in a timely manner as agreed with Enterprise Risk Management ("ERM").

Divisional and segment risk management activities are overseen by 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 appropriate 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 risks inherent in the business of banking 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 69.

*Third line – independent assurance*

The third major line of control involves functions providing independent assurance on the adequacy and effectiveness of risk management practices across the Group. These are the internal audit functions at a business and at a Group level. Group Internal Audit ("GIA") is headed by the chief audit executive and reports to the Board through the FirstRand Audit committee chairman. To achieve its assigned responsibilities, GIA:

- reviews risk assessment results of business entities;
- assesses compliance with the directives of the BPRMF;
- evaluates the development and implementation of policies and procedures for risk management in line with policies of the Board or relevant committees;
- reviews the integrity, accuracy and completeness of risk reports to RCC committee and the Board;
- monitors results of internal and external audit processes;
- coordinates audit processes with ERM and RRM; and
- attends various governance and management committees to remain informed and align its risk- based audit approach accordingly.

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

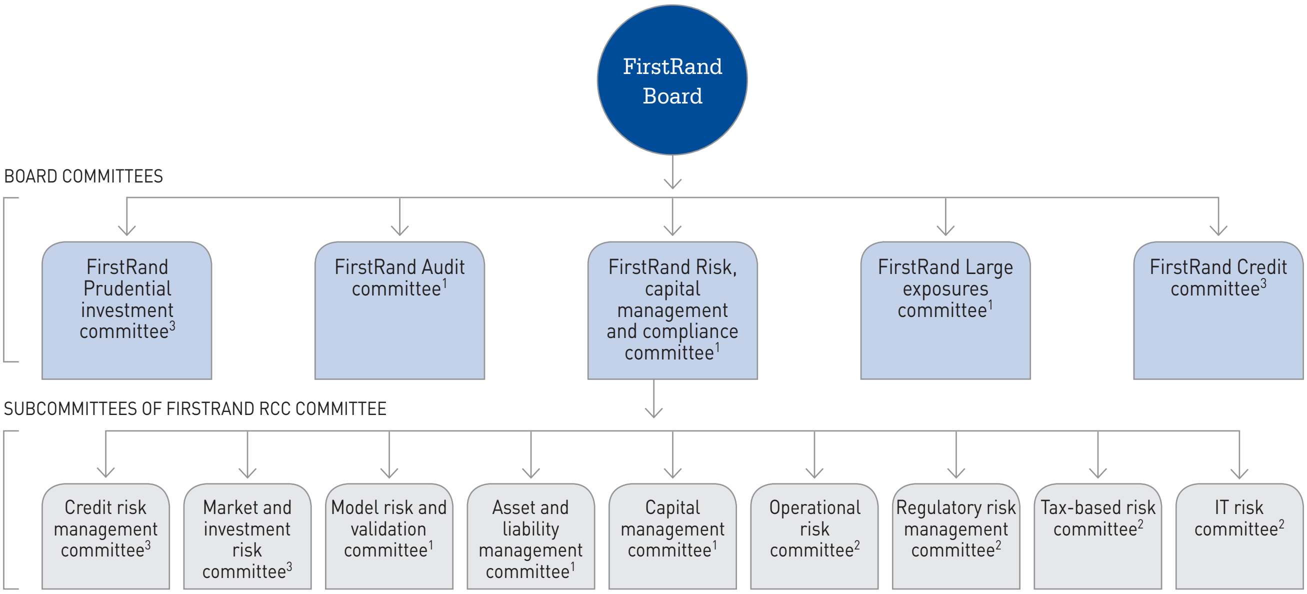
The Audit committee has overseen the establishment of formal enterprise-wide governance structures for enhancing the practice of combined assurance, involving the establishment of combined assurance forums at Group and subsidiary level. These combined assurance forums are specifically mandated to achieve coordination, alignment and integration of risk management and assurance processes within the Group to optimise and maximise the level of risk, governance, and control oversight over the organisation's risk landscape. This work has involved establishing common end-to-end business process and transaction life cycle frameworks against which different assurance processes are leveraged.

The initial outcomes of the combined assurance work completed during the year indicate greater efficiency of assurance processes through the elimination of duplication, more focused risk-based assurance against key control areas and the emergence of a more accurate multidimensional picture of the Group's risk and control universe.

## 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 sub-committees, as illustrated on the next page.

### *Risk governance structure*




1. *Chairperson is an independent non-executive board member.*
2. *Chairperson is an external member.*
3. *Chairperson is member of senior executive managment. The FirstRand Credit and Credit risk management committees have non-executive board representation.*

The primary board committee overseeing risk matters across the Group is the FirstRand 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 Audit committee for review. The responsibilities of the board committees and the subcommittees of the RCC committee are included in the table below.

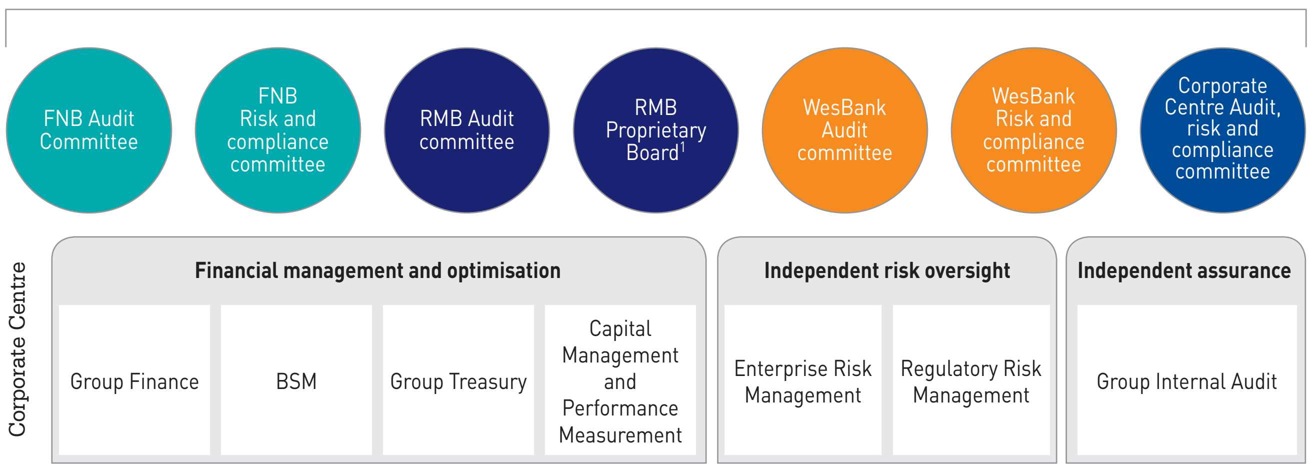
### *Responsibilities of the committees in the risk governance structure*

| | Committee | Responsibility |
|---|---|---|
| Board committees | FirstRand Prudential investment committee | • ensures investment exposures comply with FirstRand's prudential investment guidelines. |
| | FirstRand Audit committee | • considers the annual financial statements for approval by the Board; and<br>• monitors the quality of the internal financial controls and processes of FirstRand and the implementation of corrective actions. |
| | FirstRand Risk, capital management and compliance committee | • approves risk management policies, standards and processes;<br>• monitors Group risk assessments;<br>• monitors the effectiveness of risk management and high priority corrective actions;<br>• monitors the Group's risk profile; and<br>• approves risk and capital targets, limits and thresholds. |
| | FirstRand Large exposures committee | • approves credit exposures in excess of 10% of the Group's capital. |
| | FirstRand Credit committee | • credit approvals of group or individual credit facilities in excess of subcommittee mandates and limits; and<br>• approves all wholesale credit policies. |

| | Committee | Responsibility |
|---|---|---|
| Subcommittees of the FirstRand RCC committee | Credit risk management committee | • approves credit risk management policies, standards, processes and new business origination within risk appetite;<br>• monitors effectiveness of credit risk management processes, credit risk profile and impairment charges;<br>• monitors scenario and sensitivity analysis, stress tests, credit economic capital and credit concentrations; and<br>• approves all retail and commercial credit policies. |
| | Market and investment risk committee | • approves market and investment risk management policy, standards and processes;<br>• monitors the effectiveness of market and investment risk management processes;<br>• monitors the market and investment risk profile; and<br>• approves market and investment risk-related limits. |
| | FSR Model risk and validation committee | • 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 and liability committee | • approves and monitors effectiveness of management policies and processes for interest rate risk in the banking book and liquidity risk. |
| | Capital management committee | • approves policies and principles relating to the management process of accounting, regulatory and economic capital; and<br>• approves buffers over regulatory capital and monitors capital adequacy ratios. |
| | Operational risk committee | • monitors risk management processes, operational risk management, and effectiveness of risk management, process breakdowns and corrective actions. |
| | Regulatory risk management committee | • approves regulatory risk management principles, frameworks, plans, policies and standards; and<br>• monitors the effectiveness of regulatory risk management, breaches and corrective action taken across the Group. |
| | Tax-based risk committee | • monitors tax management processes, effectiveness of tax management process and corrective actions. |
| | IT risk committee | • approves group-wide information and technology risk policies and standards to ensure the protection of information assets. |

### *Franchise risk governance structure*

Franchise committees support FirstRand in the third line of control access across the Group




*1. 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 on the previous page. The board committees are typically staffed by members of the respective committees of the individual franchises' boards so as to ensure a common understanding of the challenges businesses face and how these are addressed across the Group.

### Regular risk reporting and challenge of current practices

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

ERM, together with the independent review by the GIA functions, ensure that all pertinent risk information is accurately captured, evaluated and escalated appropriately in a timely manner. 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

## KEY DEVELOPMENTS AND FOCUS

| | |
|---|---|
| Strategic and business risks | Macro-economics and business conditions remain challenging with a fair degree of uncertainty. FirstRand continues to monitor strategic and business risks carefully in the current environment and emphasis is placed on indirect contagion that may follow from a worsening developed market sovereign debt crisis. |
| Environmental, social and governance ("ESG") risks | 2011 is FirstRand's first year of detailed performance reporting against the Equator Principles. Of the 11 deals screened during the period, five were executed of which three are 'Category A' or high risk. The Group has formal governance structures in place for ensuring that risks are managed in line with the Group's predefined tolerances. |

## 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 the strategic planning process 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.

## 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 Corporate Centre, review the external environment, industry trends, potential emerging risk factors, competitor actions and regulatory changes as part of the strategic planning process.

Through this review, as well as regular scenario planning and stress testing exercises, the risk to earnings and 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 explicit part of the Group's risk appetite and ICAAP processes.

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

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

## Volume and margin risk

Volume and margin risk is considered part of strategic planning and is regularly assessed through the Group's management and governance processes and ICAAP. The manifestation of 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 cost.

The analysis of volume and margin risk is a process to determine the relationship between a fixed cost base and a variable income stream and what the impact may be if market developments lead to sudden decreases in income while costs cannot be reduced as quickly or sufficiently to offset the loss of revenue.

For capital purposes, a stress estimate is applied to the calculated cost-to-income variability of the Group (based on a historical analysis). The stressed ratio is then compared to operating income to determine whether volume and margin risk poses a significant threat to the Group's income.

## 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. Safeguarding its reputation is therefore of paramount importance to ensure continued sustainability and is seen as the responsibility of every staff member. 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 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 ESG 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 RCC committee and the Audit committees.

The impact and likelihood of these risks are evaluated taking into account measures for management, mitigation and avoidance.

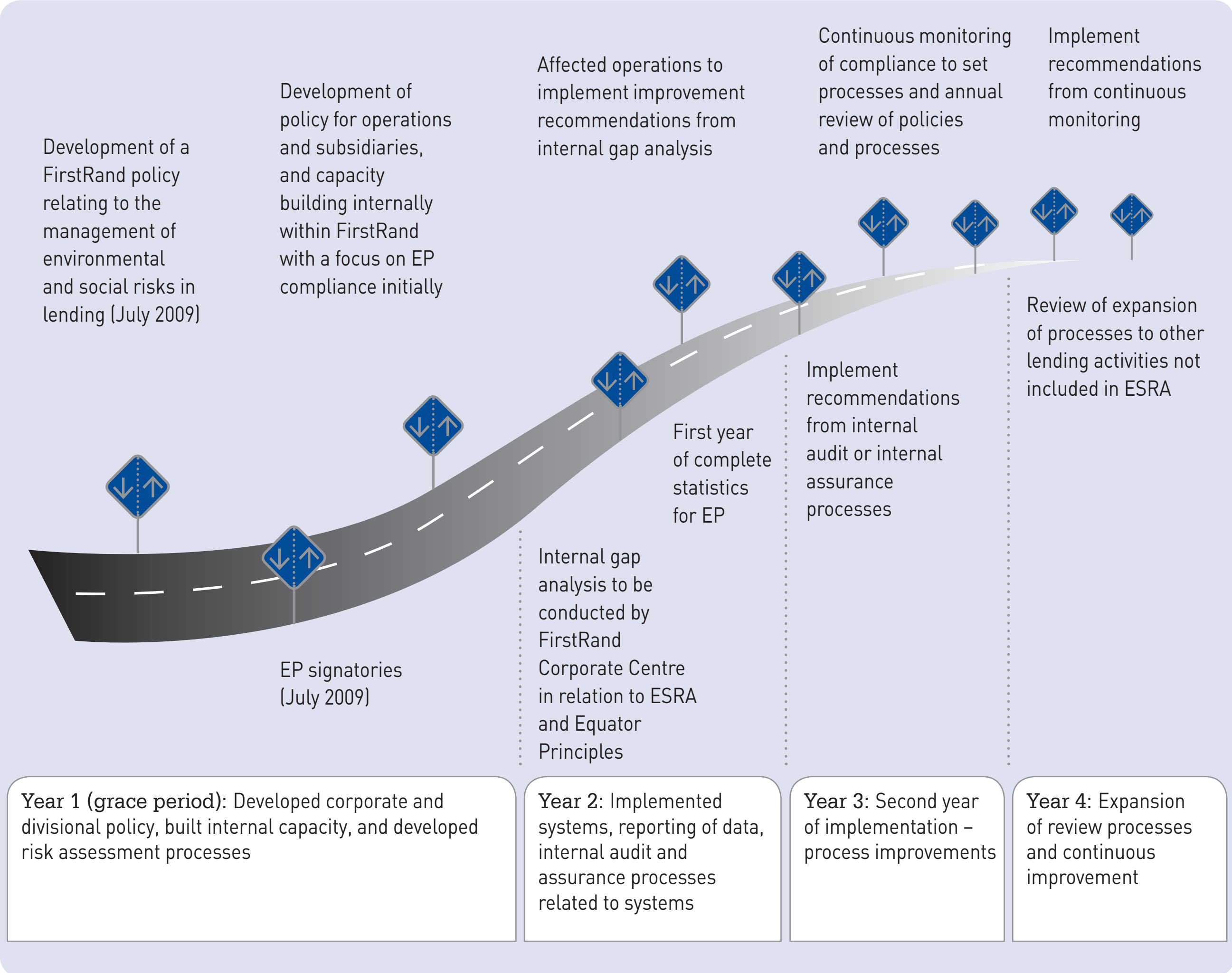
## Equator Principles and environmental and social risk analysis ("ESRA")

FirstRand became an Equator Principles finance institution in July 2009. The Equator Principles ("EP") is a risk management framework for determining, assessing and managing environmental and social risks 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.

During the 2010 financial year, FirstRand extended the ESRA practices beyond EP transactions to commercial, corporate and working capital lending activities where material environmental and social risks may exist.

### *Equator Principles and ESRA roadmap*

FirstRand is currently in the second year of EPs implementation.




### *2011 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.

| IFC/equator category | Risks/impacts |
|---|---|
| Category A | 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 | 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-compliance and reputational damage. Examples could include increased use of energy or increased atmospheric emissions. |
| Category C | Projects with minimal or no social or environmental impacts. |

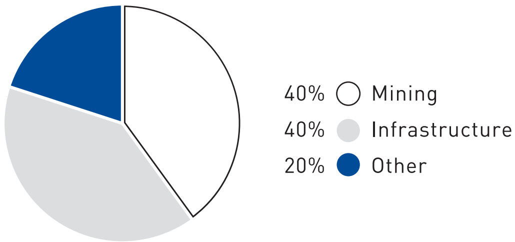
| EP category | Projects receiving review at marketing or appraisal stage | Projects fully funded or executed |
|---|---|---|
| A (high risk)<br>B (medium risk)<br>C (low risk) | 5<br>2<br>4 | 3<br>–<br>2 |
| **Total** | **11** | **5** |

The Group is confident that deals disclosed in the table above have been subjected to appropriate due diligence for environmental and social risks and that, where appropriate, mitigating action plans are in place.

### *Equator Principle transactions by geography and sector*

All of the deals noted in the table above are southern African based projects.

*Transactions by sector*




EP transactions during the period under review were categorised as falling into the mining sector, infrastructure sector, or "other" – which typically comprises 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.

### *ESRA process going forward*

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 committees, as well as affected credit committees. At a Group level, oversight is provided by the RCC committee.

The ESRA implementation process is illustrated in the chart below. The first step in the process involves screening of proposed transactions against an exclusion list of activities that the Group has taken a decision not to finance. Examples include activities involving child labour, human rights abuses, illicit substances or other illegal activities.

*ESRA implementation process*

| Deal origination | Categorisation | Environmental and social risk review | Credit application | Action plan | Monitoring and evaluation |
|---|---|---|---|---|---|
| Deals 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 |

Although the evaluation and monitoring of EP transactions is embedded across the Group, continued focus will be given to both awareness training and the effective implementation of the ESRA process. The Waste Management Act is an area of integration into the ESRA processes which will be a focus going forward, particularly as it relates to the review of contamination risk in property financed or taken as security.

For more detail on the EP and ESRA processes please visit www.firstrand.co.za.

## CAPITAL MANAGEMENT

### KEY DEVELOPMENTS AND FOCUS

Capital management continues to focus on maintaining strong capital levels, with a particular focus on the quality of capital. This is reflected in the Tier 1 ratios of the Bank, which remained above targeted levels throughout the year. Tier 1 continued to exceed economic capital requirements for a range of normal and severe scenarios as well as for stress events.

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

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

### INTRODUCTION AND OBJECTIVES

The Group seeks to establish and manage a portfolio of businesses and associated risks that will deliver sustainable returns to shareholders by targeting a particular earnings profile that will allow it to generate returns within appropriate levels of volatility.

Sustainability also 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 its operations and the interests of its 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 – as well as expectations of investors, targeted capital ratios, future business plans, plans for the issuance of additional capital instruments, the need for appropriate buffers in excess of minimum requirements, rating agencies' considerations and proposed regulatory changes.

Allocating resources effectively (including capital and risk capacity) in terms of the risk appetite targets and in a manner that maximises value for shareholders is a core competence and a key focus area. Sound capital management practices, therefore, form an important component of its overall business strategy. 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 its capital structure are important determinants of the ability to generate returns for shareholders. The Group seeks to hold limited excesses above the capital required to support its medium-term growth plans (including appropriate buffers for stresses and volatility) and future regulatory changes.

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

## ORGANISATIONAL STRUCTURE AND GOVERNANCE

Effective 1 July 2010, the subsidiaries of the Bank moved across to FRIHL.

## CAPITAL ADEQUACY AND PLANNING

### The year under review

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

The Bank currently finds itself in an environment of significant regulatory uncertainty. Although many of the Basel III changes have been finalised, these proposals are yet to be outlined in the domestic regulations. Targeted ranges have been increased in anticipation of the implementation of Basel III even though the levels in South Africa are not yet finalised. The current approach to capital levels is conservative and the Bank would prefer to maintain strong capital ratios at the upper end of its targeted band.

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

FirstRand Bank excluding subsidiaries and branches operated above its targeted capitalisation range with a total capital adequacy of 14.2% and a solid Tier 1 ratio of 12.4%.

### Regulatory developments

The SARB has issued a set of draft regulations which cover the revised market risk and securitisation proposals as per Basel 2.5, as well as introducing a scalar for credit risk. These regulations will be implemented at the beginning of 2012. The draft regulations currently do not make provision for the proposed Basel III framework discussed below.

*Enhancements to the Basel II framework (Basel 2.5)*

The BCBS introduced enhancements to the market risk and securitisations framework, effective 1 January 2012. These revisions incorporate new capital requirements to include the effects of stressed markets (stressed Value-at-Risk "VaR"), an incremental risk charge for default and rating migration risk of trading book positions and higher risk weightings for resecuritised exposures.

*Basel III*

The final Basel III framework "A global regulatory framework for resilient banks and banking systems" was issued in December 2010. The new regulations will be phased in from 1 January 2013 onwards with full compliance of capital levels (including buffers) by 1 January 2019.

Quantitative impact studies are currently being completed by regulators to assess the impact of the new Basel III rules. This exercise will be performed every six months. The Group has been involved in this exercise and current calculations result in lower Tier 1 and total capital adequacy ratios for the Group. However, the Bank will remain above the current regulatory minimum and internal minimum requirements. The targeted capital levels may be further revisited once the Basel III proposals are incorporated into the SARB regulations. The Group expects further guidance from the SARB during the first quarter of 2012.

### Supply of capital – Tier 1

The Group aims to back all economic risks with Tier 1 capital as it offers the greatest capacity to absorb losses. Consequently, required Tier 1 capitalisation levels are used as the primary driver of performance measurement across the various businesses. Tier 1 capitalisation ratios benefited from strong internal capital generation through earnings as well as realising once off profits from the sale of investment in Visa Inc.

### Supply of capital – Tier 2

The uncertainty around the Basel III eligibility criteria of Tier 2 instruments made the issuance of these instruments unattractive during the year under review. The Group continues to investigate ways of optimising its capital base and will review the viability of Tier 2 instruments once the Basel III proposals have been incorporated into the SARB regulations.

On 16 August 2010, SARB approval was received to call the FRB01 and FRB02 subordinated debt instruments on 31 August 2010.

The table below provides more detail on the Bank's capital instruments at 30 June 2011.

*Characteristics of capital instruments (unaudited unless otherwise indicated)*

| Capital type | Instrument | Nominal R million | Actual R million | Rate type | Coupon rate | Maturity date |
|---|---|---|---|---|---|---|
| Other Tier 1 | Non-cumulative non-redeemable ("NCNR") preference share capital* | 3 000 | 3 000 | Floating | 68% of prime | Perpetual |
| Upper Tier 2 | FRBC21 | 628 | 601 | Fixed | 12% | 21 Dec 2018 |
| | FRBC22 | 440 | 441 | Floating | 3 month JIBAR + 300bps | 21 Dec 2018 |
| Lower Tier 2 (Subordinated debt) | FRB03 | 1 740 | 1 788 | Fixed | 9% | 15 Sept 2014 |
| | FRB05 | 2 110 | 2 032 | Fixed | 9% | 21 Dec 2018 |
| | FRB06 | 1 000 | 1 020 | Floating | 3 month JIBAR + 65bps | 5 Nov 2012 |
| | FRB07 | 300 | 304 | Floating | 3 month JIBAR + 65bps | 6 Dec 2012 |
| | FRB08 | 100 | 102 | Floating | 3 month JIBAR + 70bps | 10 Jun 2016 |
| | FRB09 | 100 | 102 | Floating | 3 month JIBAR + 70bps | 10 Jun 2017 |

** Audited.*

## Demand for capital

Capital requirements expressed as a percentage of risk weighted assets ("RWA") remain risk sensitive and cyclical under Basel II. This cyclicality, particularly for credit risk, is less evident at this point in the cycle.

The Bank's overall RWA increase was due to credit risk volume growth. The increase in market risk and operational risk was offset by lower equity investment risk, which was the result of the sale of the investment in Visa Inc and the sale of subsidiaries from the Bank to FRIHL (as part of the Group restructure).

## Regulatory capital

The targeted capital levels as well as the current ratios at 30 June 2011 are summarised in the table below.

*Capital adequacy position (unaudited):*

| | FirstRand Bank* | | Regulatory minimum |
|---|---|---|---|
| | Actual | Target | |
| Capital adequacy ratio (%) | 14.2 | 11.5 – 13.0 | 9.5** |
| Tier 1 ratio (%) | 12.4 | 10.5 | 7.0 |
| Core Tier 1 ratio (%) | 11.4 | 9.0 – 10.5 | 5.25 |

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

The following table shows the composition of regulatory capital for the Bank at 30 June 2011, while the subsequent table provides a breakdown of RWA and capital requirement.

*Composition of qualifying capital and capital ratios of FirstRand Bank (unaudited unless otherwise indicated)*

| | FirstRand Bank* | | | |
|---|---|---|---|---|
| R million | 2011 | % | 2010 | % |
| Ordinary shareholders equity as per IFRS** | 37 965 | | 33 085 | |
| Less: non-qualifying reserves** | (333) | | (477) | |
| Cash flow reserve** | 452 | | 466 | |
| Available-for-sale reserve** | (443) | | (532) | |
| Share-based payment reserve** | (342) | | (411) | |
| Ordinary shareholders equity qualifying as capital | 37 632 | | 32 608 | |
| Ordinary share capital and share premium** | 11 459 | | 10 969 | |
| Reserves | 26 173 | | 21 639 | |
| Non-cumulative non-redeemable preference shares** | 3 000 | | 3 000 | |
| Less: total impairments | (3 295) | | (2 323) | |
| Excess of expected loss over eligible provisions (50%) | (907) | | (379) | |
| First loss credit enhancements in respect of securitisation structures (50%) | (71) | | (45) | |
| Qualifying capital in branches | (1 732) | | (1 732) | |
| Other impairments | (585) | | (167) | |
| **Total Tier 1 capital** | 37 337 | 12.4 | 33 285 | 11.7 |
| Upper Tier 2 instruments | 1 042 | | 1 068 | |
| Tier 2 subordinated debt instruments | 5 349 | | 5 914 | |
| Less: total impairments | (978) | | (424) | |
| Excess of expected loss over eligible provisions (50%) | (907) | | (379) | |
| First loss credit enhancements in respect of securitisation structures (50%) | (71) | | (45) | |
| **Total Tier 2 capital** | 5 413 | 1.8 | 6 558 | 2.3 |
| **Total qualifying capital and reserves** | 42 750 | 14.2 | 39 843 | 14.0 |

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

*RWA by risk type of FirstRand Bank (unaudited)*

| | FirstRand Bank* | | | |
|---|---|---|---|---|
| | 2011 | | 2010 | |
| R million | RWA | Capital requirement** | RWA | Capital requirement** |
| Credit risk | 226 678 | 21 534 | 210 328 | 19 981 |
| Operational risk | 42 659 | 4 053 | 38 223 | 3 631 |
| Market risk | 7 016 | 667 | 4 669 | 444 |
| Equity investment risk | 10 460 | 994 | 16 835 | 1 599 |
| Other risk | 14 027 | 1 333 | 13 690 | 1 301 |
| **Total RWA** | 300 840 | 28 581 | 283 745 | 26 956 |

* *Reflects solo supervision, i.e. Bank excluding branches, subsidiaries and associates.*
** *Capital requirement calculated at 9.5% (Pillar 1 of 8% and Pillar 2a of 1.5%) of RWA.*

## RWA calculation approach for each risk type

The following table provides a list of the Basel II approaches applied to each risk type for FirstRand Bank.

*RWA calculation approach for each risk type*

| Risk type | FirstRand Bank |
|---|---|
| Credit risk | Advanced Internal Ratings Based approach ("AIRB") |
| Operational risk | Advanced Measurement approach ("AMA") |
| Market risk | Internal Model approach |
| Equity investment risk | Simple Risk Weighted method |
| Other risk | Standardised approach |

The following table provides a more detailed breakdown of the RWA numbers per Basel II approach for each risk type.

*RWA numbers per Basel II approach for all risk types for FirstRand Bank (unaudited)*

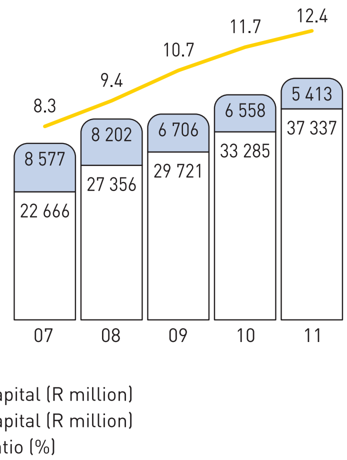
| R million | June 2011 |
|---|---|
| **Credit risk** | 226 678 |
| AIRB approach | 226 678 |
| Corporate, banks and sovereigns | 92 642 |
| Small and medium enterprises ("SME") | 37 584 |
| Residential mortgages | 42 388 |
| Qualifying revolving retail | 9 003 |
| Other retail | 40 481 |
| Securitisation exposure | 4 580 |
| **Equity investment risk** | 10 460 |
| Simple risk weighted method | 10 460 |
| Listed | 2 914 |
| Unlisted | 7 546 |
| **Operational risk** | 42 659 |
| AMA | 42 659 |
| **Market risk*** | 7 016 |
| Internal model approach | 7 016 |
| **Other risk** | 14 027 |
| Standardised approach | 14 027 |
| **Total RWA** | 300 840 |

* *Includes banking and trading book.*

## Capital adequacy position

The graph below provide a historical overview of the capital adequacy for the Bank.

*Bank regulatory capital position (unaudited)*




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

## Economic capital

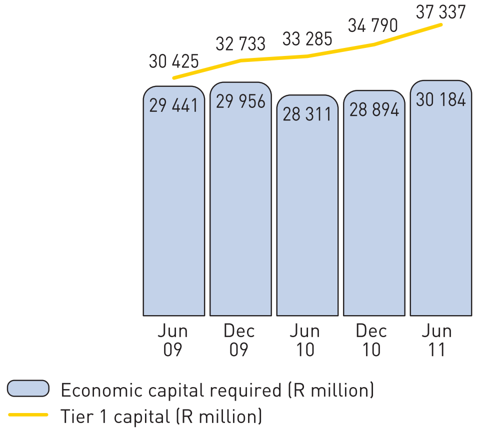
In addition to the regulatory capital requirements disclosed in the previous section, economic capital requirements are also calculated on the basis of a number of internally developed models. Economic capital is defined as the level of capital that must be held commensurate with the Group's risk profile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

Regular reviews of the economic capital position 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 risks with Tier 1 capital. Furthermore, it uses the allocation of capital based on risk capacity as a steering tool and for performance measurement of business units.

ICAAP assists in the attribution of capital in proportion to the risks inherent in the respective business units with reference to both normal economic circumstances and times of potential stress, which may lead to the realisation of risks not previously considered. This process is also supported by the stress testing and scenario based analysis described on page 7.

The graph below provides an overview of the evolution of economic capital requirements and Tier 1 capital for the Bank.

*Economic capital (unaudited) (R million)*



## Credit risk



### KEY DEVELOPMENTS AND FOCUS

During the year under review the Group continued to refine the credit risk appetite framework to ensure that corresponding origination strategies are aligned with and remain within the risk appetite. The Group further focused on strengthening its credit risk management and governance including enhancements to the Group's impairment framework and the retail credit portfolio governance structure; and renewed focus on economic capital measurement with the aim of further integrating this into business processes going forward.

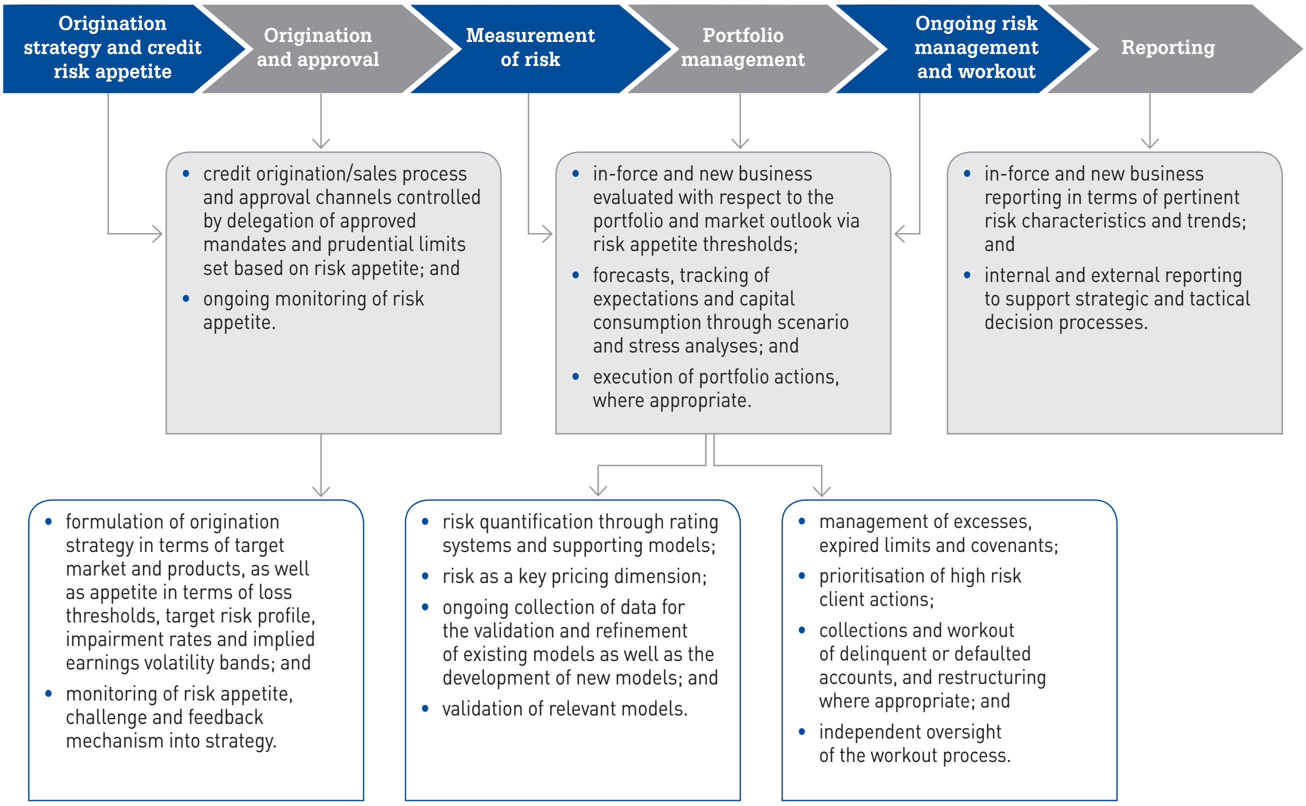
### INTRODUCTION AND OBJECTIVES

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 its credit risk management practices are two-fold:

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

The scope of credit risk identification and management practices across the Group thus 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 Exco's 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 sub-framework of the BPRMF (see page 8).

The credit-focused board committees, namely the FirstRand Credit committee, the Large exposures credit committee and the Model risk and validation committee ("MRVC"), as well as the FirstRand Credit risk management committee (a subcommittee of the RCC committee), support the RCC committee in its task. For a description of the role and responsibilities of these committees refer to the *governance structure* on page 10.

### The Group Credit Risk Management function

The GCRM function in ERM provides independent oversight of credit risk management practices in the deployed risk management functions. 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;
- 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 default experience;
- 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; and
- consolidated regulatory reporting.

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

- formulation of credit strategy and assessment of business level credit risk appetite (together with BSM and Performance Measurement and within the constraints of the overall credit risk appetite, see page 6);
- maintaining and monitoring implementation of methodologies, policies, procedures and credit risk management standards;
- validation of credit rating systems and associated processes as well as other decision support tools, such as economic capital, stress testing and provisioning models;
- ownership of the credit regulatory reporting process;
- maintaining the credit governance structure; and
- monitoring of corrective actions.

To support GCRM in the oversight of credit risk management, the Performance Measurement function in the Corporate Centre performs certain functions with respect to credit risk. Its tasks include the assessment, analysis, forecasting and reporting of impairments, and credit risk reporting to stakeholders such as the Credit risk management committee.

## ASSESSMENT AND MANAGEMENT

### Calculation of internal ratings and rating process

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

Credit risk models are widely employed in a number of 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 II AIRB requirements and the Bank's Model building framework. The Group was granted regulatory approval under Basel II 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 to those used in the Bank 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 heavily 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 includes the forfeiting of principal or interest, as well as a restructuring of facilities resulting in an economic loss).

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***

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

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

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

In line with international best practice, the 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 typically an input to economic and regulatory capital calculations.
- *Point-in-time* ("PIT") PD measures reflect default expectations in the current economic environment and thus tend to be more volatile than TTC PDs. PIT PDs are typically used in the calculation of impairments for accounting purposes.

*Exposure at default*

The EAD of a particular facility is defined as the expected exposure to a counterparty through a facility, should the counterparty default over the next year. It reflects commitments made and facilities granted that have not been paid out and that may be drawn over the time period under consideration (i.e. 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 defined as the economic loss on a particular facility upon default of the counterparty. It is typically expressed as a percentage of exposure outstanding at the time of default.

In most portfolios, LGD is strongly dependent on:

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

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

Typically, a distinction is made between 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.

*Credit portfolio rating process*

| Portfolio and type of exposures | Description of rating system |
|---|---|
| **Large corporate portfolios (Wholesale: FNB Corporate, WesBank Corporate, Corporate Centre and RMB)**<br>Exposures to private sector counterparties including corporates and securities firms and public sector counterparties. A wide range of products gives rise to credit exposure, including loan facilities, structured finance facilities, contingent products and derivative instruments. | The default definitions applied in the rating systems are aligned to Basel II requirements.<br>**Rating process:**<br>• Rating assignment to corporate credit counterparties is based on a detailed individual assessment of the counterparty's creditworthiness.<br>• This assessment is performed through a qualitative analysis of the business and financial risks of the counterparty and is supplemented by internally developed statistical rating models.<br>• 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.<br>• The rating assessment is reviewed by the FirstRand Credit committee and the rating (and associated PD) are approved by this committee.<br>• No overrides of the ratings or the PDs are possible after approval by this committee.<br>• LGD and EAD estimates are based on modelling of a combination of internal and suitably adjusted international data. |
| **Low default portfolios: sovereign and bank exposures (Wholesale: FNB Corporate, Corporate Centre and RMB)**<br>Exposures to sovereign and bank counterparties. | The default definitions applied in the rating systems are aligned to Basel II requirements.<br>**Rating process:**<br>• 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.<br>• The calibration of PD and LGD ratings is based on a mapping to external default data as well as credit spread market data.<br>• The rating assessment is reviewed by the FirstRand Credit committee and the rating (as well as the associated PD) is approved by this committee.<br>• No overrides of the ratings or the PDs are possible after approval by this committee. |
| **Specialised lending portfolios (Wholesale: FNB Corporate, RMB and FNB Commercial)**<br>Exposures to private-sector counterparties for the financing of income-producing real estate. | The default definitions applied in the rating systems are aligned to Basel II requirements.<br>**Rating process:**<br>• The rating system is based on hybrid models using a combination of statistical cash flow simulation models and qualitative scorecards calibrated to a combination of internal data and external benchmarks.<br>• The rating assessment is reviewed by the FirstRand Credit committee and the rating (as well as the associated PD) is approved by this committee.<br>• No overrides of the ratings or the PDs are possible after approval by this committee. |
| **Commercial portfolio (SME corporate and SME retail counterparties in FNB Commercial and WesBank)**<br>Exposures to SME clients. A wide range of products gives rise to credit exposure, including loan facilities, contingent products and term lending products. | The default definitions applied in the rating systems are aligned to Basel II requirements.<br>**SME retail rating process:**<br>• 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.<br>• PDs are estimated for each subpool based on internal product level history associated with the respective homogeneous pools and subpools.<br>• LGD and EAD estimates are applied on a portfolio level, estimated from internal historical default and recovery experience.<br>**SME corporate rating process:**<br>• PD: Counterparties are scored using Moody's RiskCalc, the output of which is calibrated to internal historical default data.<br>• LGD: Recovery rates are largely determined by collateral type and these have been set with reference to internal historical loss data, external data (Fitch) and Basel II guidelines.<br>• EAD: Portfolio level credit conversion factors ("CCFs") are estimated on the basis of the Group's internal historical experience and benchmarked against international studies. |

<table>
<tr><th>Portfolio and type of exposures</th><th>Description of rating system</th></tr>
<tr><td>Residential mortgages<br>(Retail portfolios in FNB HomeLoans, RMB Private Bank exposures and mortgage exposures in the Mass segment)<br>Exposures to individuals for the financing of residential properties.</td><td rowspan="3">The default definition applied in the rating systems is aligned to the requirements of Basel II.<br>Rating process and approach:<br>• Retail portfolios are segmented into homogeneous pools and subpools through an automated scoring process using statistical models that incorporate product type, loan characteristics, customer behaviour, application data and delinquency status.<br>• PDs are estimated for each subpool based on internal product level history associated with the respective homogeneous pools and subpools.<br>• No overrides of the PDs are possible. The only potential override is not that of the PD, but rather of the automated decision to lend or not. Such overrides may be done on the basis of the credit manager's judgement in a structured process supported by pertinent business reasons.<br>• LGD and EAD estimates are based on subsegmentation with reference to the collateral or product type as well as associated analyses and modelling of historical internal loss data.<br>Additional notes on qualifying revolving retail exposures:<br>• These exposures are unsecured and therefore only the efficiency of recovery processes impacts on the level of LGD.<br>• EAD measurement plays a significant role in the assessment of risk due to the typically high level of undrawn facilities that are characteristic of these product types. EAD estimates are based on actual historic EAD, segmented appropriately (e.g. straight vs. budget in the case of credit cards).</td></tr>
<tr><td>Qualifying revolving retail exposures<br>(Retail portfolios in FNB Card, FNB Consumer overdrafts and RMB Private Bank)<br>Exposures to individuals providing a revolving limit through a credit card or overdraft facility.</td></tr>
<tr><td>Other retail exposures<br>(Retail portfolios in FNB Personal Loans, Smart Products and WesBank retail auto finance and personal loans)</td></tr>
</table>

## Model validation

Rating models are recalibrated and independently validated on an annual basis to ensure validity, efficacy 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 GCRM function in ERM. It is responsible for reviewing all rating systems, and an annual comprehensive revalidation of all material rating systems. An actuarial auditing team in GIA carries out additional reviews of the rating systems, as well as sample revalidations. The results of these analyses are reported to MRVC. As part of this process, extensive documentation covering all steps of the model development lifecycle from inception through to validation is maintained. This includes:

- developmental evidence, detailing processes followed and data used to set parameters for the model. GCRM is the custodian of these documents, which are updated 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. These frameworks provide guidance, principles and minimum standards which the model development teams are required to adhere to.

## Credit risk mitigation

Since the taking and managing of credit risk is core to the Group's business, it 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 financed assets;
- personal loans, overdrafts and credit card exposures are unsecured or secured by guarantees and suretyships;
- FNB Commercial credit facilities are secured by the assets of the SME counterparties, and commercial property transactions are typically supported by the 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 Fixed Income, Currency and Commodities ("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 start of the workout process.

## Management of concentration risk

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

In the wholesale credit portfolio, through:

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

In the commercial portfolios through:

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

## Monitoring of weak exposures

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

Across the wholesale credit portfolios:

- watch lists of high risk clients;
- specific and detailed action plans for each client 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.

In 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 Credit Card; and
- revaluation of properties before approval of additional facilities.

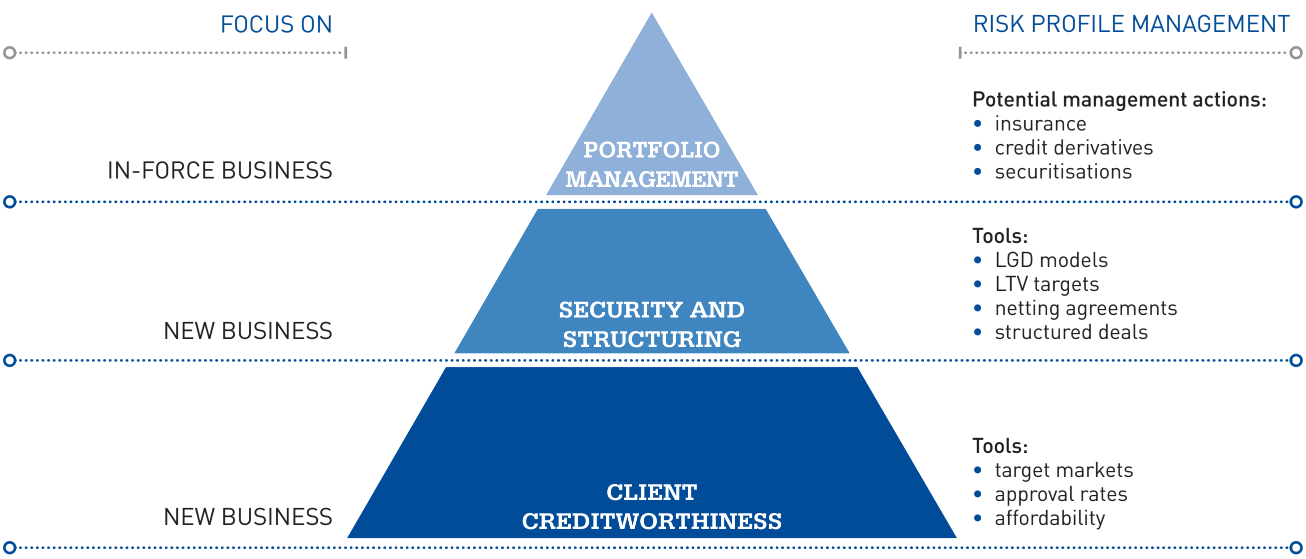
Commercial and other portfolios of clients that fall between the corporate and retail segments are treated in a hybrid manner, dependent on the number of exposures and the size of individual transactions.

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

## Use of credit risk tools and measures

Credit risk measures are used in a large number of business processes, including pricing, setting impairments, in determining capitalisation levels and determining business strategy, risk appetite and the 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*



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

*Use of credit measures in the credit lifecycle*

| Area | Wholesale | Retail |
|---|---|---|
| Credit approval | Ratings form an explicit and integral component of the approval decision, both with respect to the targeted portfolio composition in terms of applicable risk appetite limits (e.g. ratings profile) and with respect to the value proposition based on the projected risk adjusted return on economic capital (for which PD, EAD and LGD are key inputs). | Credit approvals are largely automated on the basis of application scorecards and applicable policy. These are reflective of PD, EAD and LGD. |
| Determination of individual and portfolio limits | The setting of limits at a client level and the ongoing evaluation of industry and geographical concentrations are key aspects of the determination of the overall credit strategy (see below). Ratings are an important consideration in this process and risk related limits on the composition of the portfolio are used to ensure compliance with the banking group's credit risk appetite. | See Wholesale. In addition, retail portfolios are regularly evaluated with respect to modelled vs. actual experience in the setting of credit risk appetite. |
| Reporting to senior management and the Board | Portfolio reports are collated on an ongoing basis and these are presented to and discussed regularly at relevant business and deployed risk committees. Quarterly portfolio reports are also submitted to the FirstRand Credit risk committee, the Wholesale credit technical committee and the RCC committee. | See Wholesale. Reports are also submitted to the Retail and SME credit risk technical committee and the RCC committee. |
| Provisioning | PD and LGD estimates are used extensively in the assessment of impairments and thus in the calculation of provisions. | Loss Identification Period ("LIP") PD, long run LGD and roll rates are used in the derivation of specific, portfolio and incurred but not reported ("IBNR") provisions. |
| Regulatory and economic capital allocation | As the primary credit risk measures PD, EAD and LGD are the most important inputs for both regulatory and economic capital models. | See Wholesale. |
| Profitability analysis and pricing decisions | The primary risk measures are the core parameters of the pricing calculator used for each transaction. For each application a value proposition section has to be completed that provides a cogent rationale for the transaction on a risk adjusted basis. | PIT PDs, downturn LGDs and EADs are used in assigning appropriate price points to each risk rating. Profitability is assessed in terms of economic profit. |
| Credit monitoring and risk management | The monitoring of exposures is dependent on the risk assessment as given by PD, EAD and LGD. FR grades are updated on a regular basis to reflect the organisation's assessment of obligor risk. The risk parameters are also used in the banking group's portfolio model as well as other tools which attribute additional capital to large transactions or to deals that further increase the concentration of risk in the portfolio. | See Wholesale. Extensive analysis of portfolio and risk movements is carried out on a monthly basis. These are used in portfolio management and credit strategy decisions. |
| Determination of portfolio and client acquisition strategy | Credit portfolio strategy is driven by the assessment of overall portfolio credit risk, which is based on a portfolio model driven by the primary risk measures. In this context, acquisition and overall strategy are set in terms of appropriate limits so as to ensure that the credit portfolios remain within the overall risk appetite prescribed by the Board. | See Wholesale. Credit models are also used to determine loss thresholds across retail portfolios, which are a direct consideration in the setting of credit risk appetite. |
| Performance measurement and compensation | The primary risk measures are key parameters for the calculation of deal pricing and are also used in the assessment of economic value added by a transaction or a business unit. From an operational perspective, each deal is evaluated with respect to the value added and compensation structures are tied to the measures. | See Wholesale. By necessity, analyses tend to be carried out at a portfolio level but performance is measured consistently on the basis of capital consumption and economic value added in the form of economic profit. |

## 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 45).

The Group's credit origination strategies, combined with the series of interest rate reductions from 2008 into 2010, have facilitated a reduction in new NPL inflows and credit impairment charges in most retail portfolios. These portfolios were also positively impacted by positive income growth and increased wages.

Although investment spending by business remains subdued, advances growth in the wholesale portfolios remained resilient over the reporting period mainly due to the approval of new investment-grade deals.

### *Retail credit portfolios*

Strong growth was delivered by the vehicle and asset finance portfolio and subsets of the residential mortgages portfolio while the performance of the Africa portfolio has been robust with low credit losses. The level of NPL balances in the secured portfolios remains high due to accounts under debt counselling and the lengthening of recovery processes. FNB HomeLoans' NPL levels were positively impacted by lower new defaults and improved levels of write-offs during the period under review. Lower new defaults drive the substantial improvement in the income statement impairment charge for most retail portfolios. The impairment charge further benefited from increased post write-off recoveries, especially in the unsecured portfolios.

### *Wholesale portfolios*

During the year under review the corporate portfolios were resilient. The inflow of new NPLs increased mainly due to challenges in the commercial property finance sector. These exposures, accounted for on a fair value basis in RMB, are well supported by collateral. This moderated the rise in fair value credit adjustments and resulted in lower coverage.

## Credit assets

The following table provides a breakdown of the Bank's credit assets by segment, including off-balance sheet exposures.

*Credit assets by type and segment (audited)*

| R million | 2011 | 2010 |
|---|---|---|
| Cash and short-term funds | 24 843 | 18 907 |
| Cash and cash equivalents | 1 100 | 1 230 |
| Balances with central banks and guaranteed by central banks | 14 479 | 10 615 |
| Balances with other banks | 9 264 | 7 062 |
| Gross advances | 436 645 | 409 331 |
| FNB[1] | 205 838 | 194 298 |
| FNB Retail | 172 064 | 163 987 |
| FNB Corporate[2] | 3 003 | 2 133 |
| FNB Commercial | 30 771 | 28 178 |
| WesBank | 98 009 | 90 611 |
| RMB | 126 222 | 122 621 |
| Other | 6 576 | 1 801 |
| Derivatives | 36 666 | 38 944 |
| Debt investment securities (excluding non-recourse investments) | 78 970 | 75 489 |
| Accounts receivable | 2 744 | 2 855 |
| Loans due by holding company and fellow subsidiaries | 19 234 | 14 443 |
| Loans to Insurance Group | – | 1 101 |
| **Credit risk not recognised on the balance sheet** | 91 116 | 77 309 |
| Guarantees[3] | 24 901 | 21 986 |
| Acceptances | 300 | 299 |
| Letters of credit | 6 063 | 5 362 |
| Irrevocable commitments | 58 438 | 48 692 |
| Credit derivatives | 1 414 | 970 |
| **Total** | 690 218 | 638 379 |

*1 Certain portfolios have been restated to reflect the current segmentation of the business.*

*2 Includes public sector.*

*3 Guarantees include guarantees of R2 424 million (2010: R4 068 million) granted to other FirstRand Group companies.*

## Credit quality

Advances are considered past due where a specific payment date was not met, or where regular instalments are required and such payments were not received. A loan payable on demand is classified as overdue where a demand for repayment was served but repayment was not made in accordance with the stipulated requirements.

The following tables provide the age analysis of loans and advances for the Bank at 30 June 2011.

Age analysis of advances (audited)

| | 2011 | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | Past due but not impaired | | | | |
| R million | Neither past due nor impaired | Re-negotiated but current | 1 – 30 days | 31 – 60 days | 60 – 90 days | Impaired | Total |
| FNB Retail | 151 185 | 475 | 5 335 | 2 588 | 1 331 | 11 150 | 172 064 |
| FNB Corporate[1] | 2 985 | – | – | – | – | 18 | 3 003 |
| FNB Commercial | 28 604 | – | 164 | 106 | 31 | 1 866 | 30 771 |
| FNB | 182 774 | 475 | 5 499 | 2 694 | 1 362 | 13 034 | 205 838 |
| WesBank | 90 010 | – | 2 723 | 946 | 23 | 4 307 | 98 009 |
| RMB[2] | 122 129 | 3 048 | – | – | – | 1 045 | 126 222 |
| Other | 6 576 | – | – | – | – | – | 6 576 |
| **Total** | 401 489 | 3 523 | 8 222 | 3 640 | 1 385 | 18 386 | 436 645 |

*1 Includes public sector.*
*2 Impaired advances for RMB are net of cumulative credit fair value adjustments.*

| | 2010 | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | Past due but not impaired | | | | |
| R million | Neither past due nor impaired | Re-negotiated but current | 1 – 30 days | 31 – 60 days | 60 – 90 days | Impaired | Total |
| FNB Retail | 140 115 | 776 | 5 568 | 2 596 | 1 672 | 13 260 | 163 987 |
| FNB Corporate[1] | 2 132 | – | – | – | – | 1 | 2 133 |
| FNB Commercial | 25 945 | – | 263 | 34 | 20 | 1 916 | 28 178 |
| FNB[2] | 168 192 | 776 | 5 831 | 2 630 | 1 692 | 15 177 | 194 298 |
| WesBank | 83 615 | – | 1 471 | 603 | 24 | 4 898 | 90 611 |
| RMB[3] | 122 243 | – | – | – | – | 378 | 122 621 |
| Other | 1 801 | – | – | – | – | – | 1 801 |
| **Total** | 375 851 | 776 | 7 302 | 3 233 | 1 716 | 20 453 | 409 331 |

*1 Includes public sector.*
*2 Certain portfolios have been restated to reflect the current segmentation of the business.*
*3 Impaired advances for RMB are net of cumulative credit fair value adjustments.*

### *Renegotiated advances*

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

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

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

### *Past due but not impaired*

The classification of advances as past due but not impaired follows the standards set out in applicable accounting policies; refer to accounting policy note 15 on page 78. Advances past due but not impaired in the tables on the previous page include two types of arrear accounts. These are normal arrears (i.e. accounts in arrears by one up to three full repayments) and technical arrears (e.g. accounts in arrears due to partial payment of the instalment due). Normal arrears are split into the three time buckets provided in the tables above, whereas the majority of technical arrears are in the 1-30 days bucket. Exposure to technical arrears of R3.7 billion (2010: R4.2 billion) was primarily driven by retail exposures.

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

| | 2011 | | | | | | |
|---|---|---|---|---|---|---|---|
| | | FNB | | | | | |
| R million | Total neither past due nor impaired | Retail | Corporate[1] | Commercial | WesBank | RMB | Other |
| FR 1 – 25 | 89 313 | 5 156 | 257 | 307 | 3 330 | 74 476 | 5 787 |
| FR 26 – 91 | 291 026 | 138 202 | 2 728 | 25 295 | 78 608 | 45 404 | 789 |
| Above FR 92 | 21 150 | 7 827 | – | 3 002 | 8 072 | 2 249 | – |
| **Total** | 401 489 | 151 185 | 2 985 | 28 604 | 90 010 | 122 129 | 6 576 |

*1 Includes public sector.*

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

*1 Certain portfolios have been restated to reflect the current segmentation of the business.*
*2 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 2010 to June 2011 show a once-off increase in PDs, due to the recalibrations, thereafter a consistent decrease due to the positive risk migration.

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

*Credit quality of other financial assets (excluding advances) neither past due nor impaired (audited)*

| | 2011 | | | | | |
|---|---|---|---|---|---|---|
| R million | Investment securities* | Derivatives | Cash and short term funds | Amounts due by fellow subsidiary companies | Loans to Insurance group | Total |
| AAA to BBB | 35 912 | 10 671 | 24 342 | 19 234 | – | 90 159 |
| BB, B | 42 931 | 25 972 | 501 | – | – | 69 404 |
| CCC | – | 16 | – | – | – | 16 |
| Unrated | 127 | 7 | – | – | – | 134 |
| **Total** | **78 970** | **36 666** | **24 843** | **19 234** | **–** | **159 713** |

** Excludes non-recourse investments.*

| | 2010 | | | | | |
|---|---|---|---|---|---|---|
| R million | Investment securities* | Derivatives | Cash and short term funds | Amounts due by fellow subsidiary companies | Loans to Insurance group | Total |
| AAA to BBB | 32 373 | 18 762 | 16 867 | 14 443 | 1 101 | 83 546 |
| BB, B | 43 116 | 20 125 | 2 013 | – | – | 65 254 |
| CCC | – | 37 | 25 | – | – | 62 |
| Unrated | – | 20 | 2 | – | – | 22 |
| Total | 75 489 | 38 944 | 18 907 | 14 443 | 1 101 | 148 884 |

** Excludes non-recourse investments.*

## Impairment of financial assets and NPLs

Refer to the policy for impairment of financial assets in the *accounting policy* section on page 80 and to note 10 *Impairment of advances* on page 120 of the consolidated annual financial statements for the analysis of movement in impairment of advances and NPLs.

Adequacy of impairments is assessed through the ongoing review of the quality of the credit exposures. Although credit management and workout processes are similar for amortised cost advances and fair value advances, the creation of impairments for these differs.

For amortised cost advances, impairments are recognised through the creation of an impairment reserve and an impairment charge in the income statement. For fair value advances, the credit valuation adjustment is charged to the income statement through trading income and recognised as a change to the carrying value of the asset.

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

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

## Fair value sensitivity of wholesale advances due to credit risk

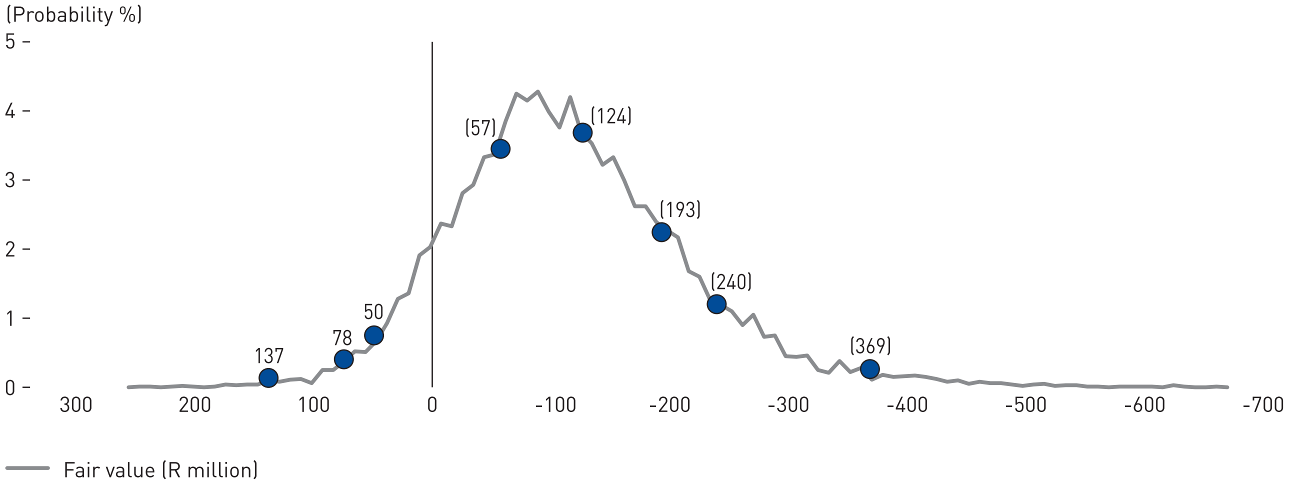
The Investment Banking division within RMB recognises a significant portion of the wholesale advances at fair value through profit or loss. The fair value adjustments made to these advances directly impact the income statement and the value of the advance. For risk management purposes a migration matrix 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.

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 about R67 million losses while the fair value impact at the 90th percentile (i.e. a probability of 10% to exceed this value) is a loss of about R193 million.

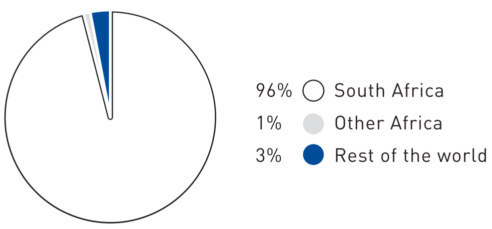
*Distribution: fair value impact – long-term scenario (audited)*



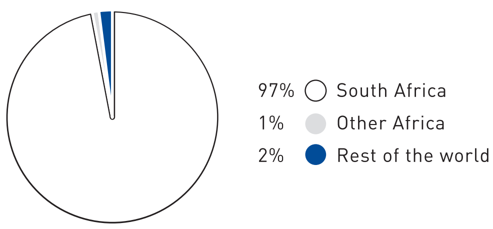

## Geographic and industry concentration risk

Geographically, most of the Group's exposure originates in South Africa. The following charts provide the geographical and industry split of gross advances after deduction of interest in suspense.

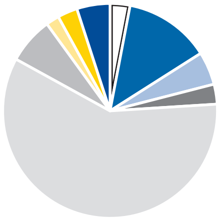
*Geographic split by exposure 2011 (audited)*




*Geographic split by exposure 2010 (audited)*

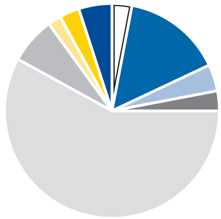


### *Industry split by exposure 2011 (audited)*



| | |
|---|---|
| 3% | Agriculture |
| 13% | Bank and financial services |
| 5% | Building and property development |
| 3% | Government, Land Bank and public authorities |
| 59% | Individuals |
| 7% | Manufacturing and commerce |
| 2% | Mining |
| 3% | Transport and communication |
| 5% | Other services |

### *Industry split by exposure 2010 (audited)*



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

The Group seeks to establish a balanced portfolio profile and monitors credit concentrations closely. The following tables provide a breakdown of credit exposure across geographies at 30 June.

### *Concentration of significant credit exposure (audited)*

| | 2011 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| R million | South Africa | Other Africa | United Kingdom | Ireland | Other Europe | North America | South America | Other | Total |
| Advances | 421 255 | 2 934 | 8 784 | – | 1 970 | 140 | 103 | 1 459 | 436 645 |
| Derivatives | 23 004 | 20 | 5 654 | – | 6 193 | 1 774 | – | 21 | 36 666 |
| Debt investment securities | 71 017 | 35 | 960 | – | 4 538 | 1 356 | – | 1 064 | 78 970 |
| Guarantees, acceptances and letters of credit[1] | 28 205 | 701 | – | 421 | 546 | – | 16 | 1 375 | 31 264 |
| Irrevocable commitments[1] | 56 709 | 533 | 363 | – | 794 | – | – | 39 | 58 438 |

1 *Significant exposures not recognised on the balance sheet.*

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

1 *Significant exposures not recognised on the balance sheet.*

### *Average advances per major risk type (unaudited)*

| R million | 2011 | 2010 |
|---|---|---|
| Retail credit | 289 963 | 277 300 |
| Wholesale credit | 132 274 | 118 585 |
| Commercial credit | 29 263 | 27 306 |
| **Total average advances** | 451 500 | 423 191 |

## BASEL II DISCLOSURE

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

The Group uses the AIRB approach for the exposures of the Bank and the standardised approach for all other legal entities 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 II approach. The figures are based on IFRS accounting standards and differ from the exposure figures used for regulatory capital calculations, which reflect the recognition of permissible adjustments such as the netting of certain exposures.

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

| | | AIRB | Standardised approach |
|---|---|---|---|
| R million | 2011 | FRB (SA) | Offshore branches and other subsidiaries |
| Cash and short-term funds | 24 843 | 24 690 | 153 |
| Cash and cash equivalents | 1 100 | 1 099 | 1 |
| Balances with central banks and guaranteed by central banks | 14 479 | 14 448 | 31 |
| Balances with other banks | 9 264 | 9 143 | 121 |
| Gross advances | 436 645 | 432 346 | 4 299 |
| FNB | 205 838 | 205 838 | – |
| FNB Retail | 172 064 | 172 064 | – |
| FNB Corporate | 3 003 | 3 003 | – |
| FNB Commercial | 30 771 | 30 771 | – |
| WesBank | 98 009 | 94 614 | 3 395 |
| RMB | 126 222 | 125 320 | 902 |
| Other | 6 576 | 6 574 | 2 |
| Derivatives | 36 666 | 36 629 | 37 |
| Debt investment securities | 78 970 | 76 742 | 2 228 |
| Accounts receivable | 2 744 | 2 673 | 71 |
| Loans due by holding company and fellow subsidiaries | 19 234 | 18 908 | 326 |
| **Credit risk not recognised on the balance sheet** | 91 116 | 86 839 | 4 277 |
| Guarantees | 24 901 | 22 022 | 2 879 |
| Acceptances | 300 | 289 | 11 |
| Letters of credit | 6 063 | 6 043 | 20 |
| Irrevocable commitments | 58 438 | 57 278 | 1 160 |
| Credit derivatives | 1 414 | 1 207 | 207 |
| **Total** | 690 218 | 678 827 | 11 391 |

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 between FR grade and rating agency grade.

### PD, EAD and LGD profiles

A summary of credit risk parameters as reported for regulatory capital purposes is shown below for each significant AIRB asset class. The parameters reflect through-the-cycle PDs and downturn LGDs. The scale used from 1-25 per the Basel II accord is for performing assets, with 1 representing the lowest risk and NPL representing defaulted exposures. The Bank uses EAD-weighted PDs based on the FirstRand master-rating scale (see page 24) 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). The EAD weighted downturn LGD and the EAD weighted PD for the performing and total book are also shown. Comparatives for the prior year are also shown.

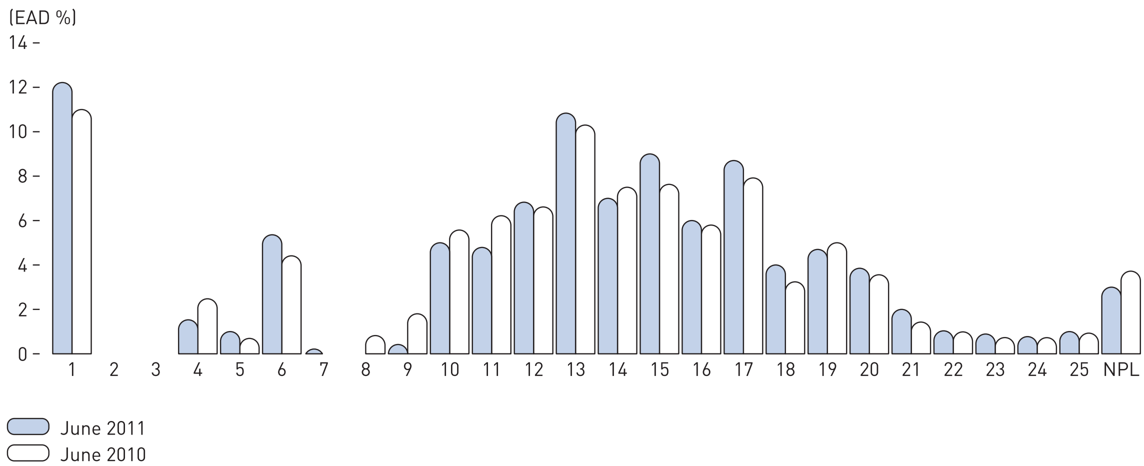
Year-on-year trends will be impacted by the risk migration in the existing book (reflecting changes in the economic environment), quality of new business originated and any model recalibrations implemented during the course of the year.

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 reporting period.

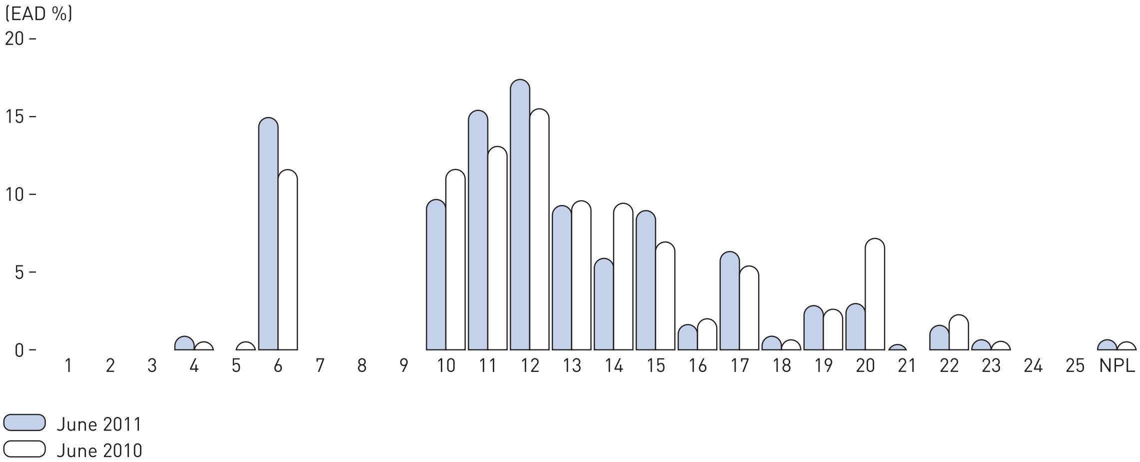
The risk profile reflects the revised credit origination strategy that selectively targets segments providing an appropriate risk/return profile in the current economic environment.

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



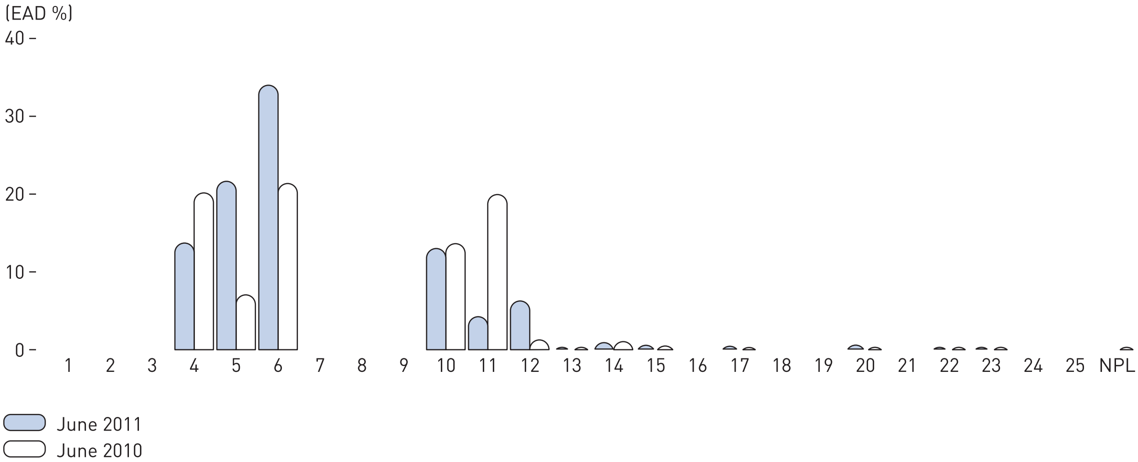

| | | | |
|---|---|---|---|
| Average performing PD% | 3.07% | Average total book PD% | 6.45% |
| Average performing LGD% | 27.84% | Average total book LGD% | 28.10% |
| Performing book EL/EAD | 0.86% | Total book EL/EAD | 1.81% |

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



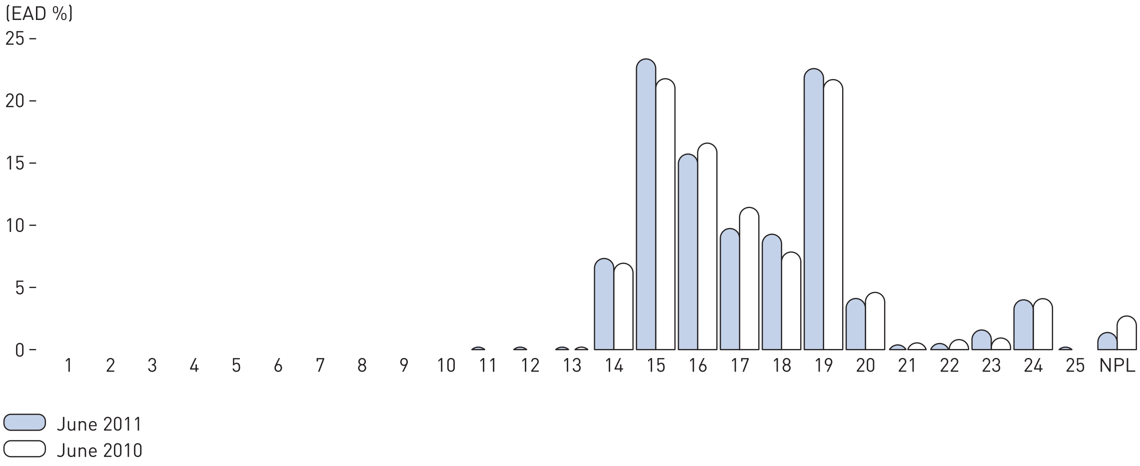

| | | | |
|---|---|---|---|
| Average performing PD% | 1.49% | Average total book PD% | 2.34% |
| Average performing LGD% | 36.00% | Average total book LGD% | 36.11% |
| Performing book EL/EAD | 0.54% | Total book EL/EAD | 0.84% |

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



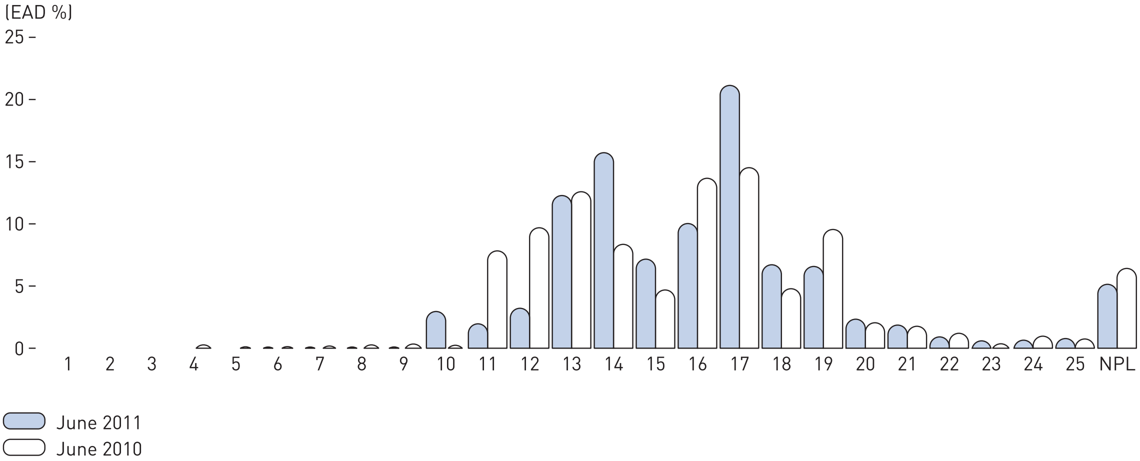

| | | | |
|---|---|---|---|
| Average performing PD% | 0.22% | EAD weighted total book PD% | 0.22% |
| Average performing LGD% | 32.97% | EAD weighted total book LGD% | 32.97% |
| Performing book EL/EAD | 0.07% | Total book EL/EAD | 0.07% |

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



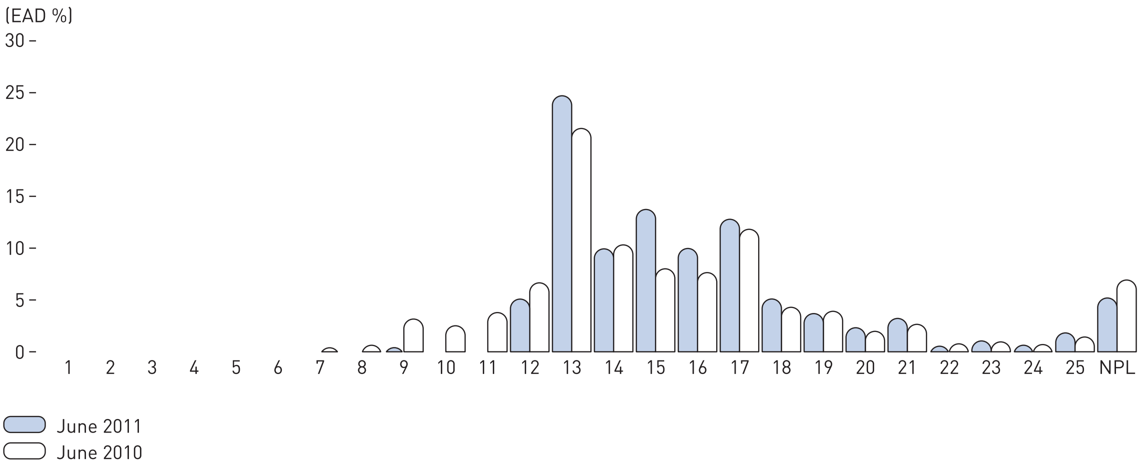

| | | | |
|---|---|---|---|
| Average performing PD% | 4.79% | Average total book PD% | 5.77% |
| Average performing LGD% | 36.66% | Average total book LGD% | 33.77% |
| Performing book EL/EAD | 1.61% | Total book EL/EAD | 1.95% |

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




| | | | |
|---|---|---|---|
| Average performing PD% | 2.74% | Average total book PD% | 10.71% |
| Average performing LGD% | 34.17% | Average total book LGD% | 35.49% |
| Performing book EL/EAD | 0.94% | Total book EL/EAD | 3.80% |

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

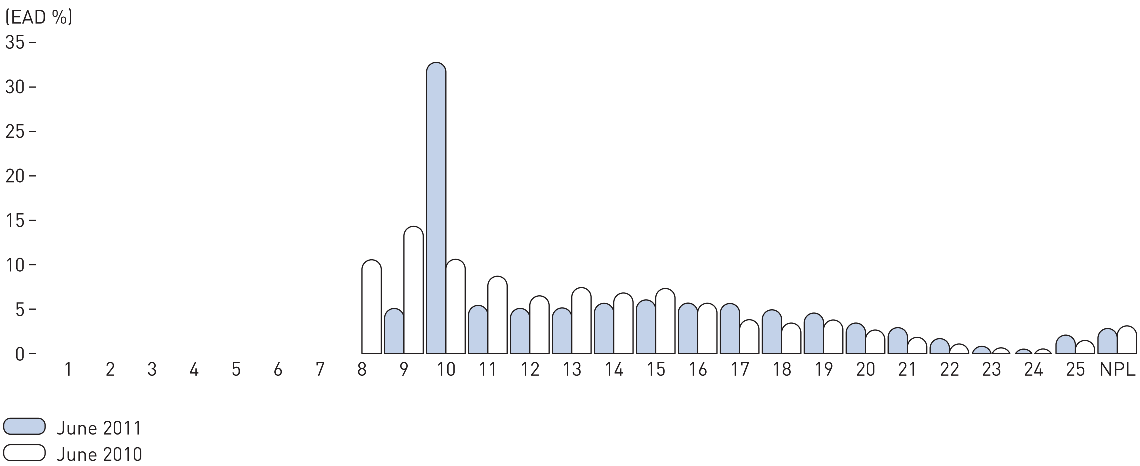



| | | | |
|---|---|---|---|
| Average performing PD% | 3.86% | Average total book PD% | 11.40% |
| Average performing LGD% | 12.95% | Averaged total book LGD% | 13.31% |
| Performing book EL/EAD | 0.50% | Total book EL/EAD | 1.52% |

The deterioration in the risk profile in the above chart is the result of rating system recalibrations (which resulted in an increase in PDs) and not a reflection of deterioration in credit quality.

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 2010 to June 2011 show a once-off increase in PDs, due to the recalibrations, thereafter a consistent decrease due to positive risk migration.

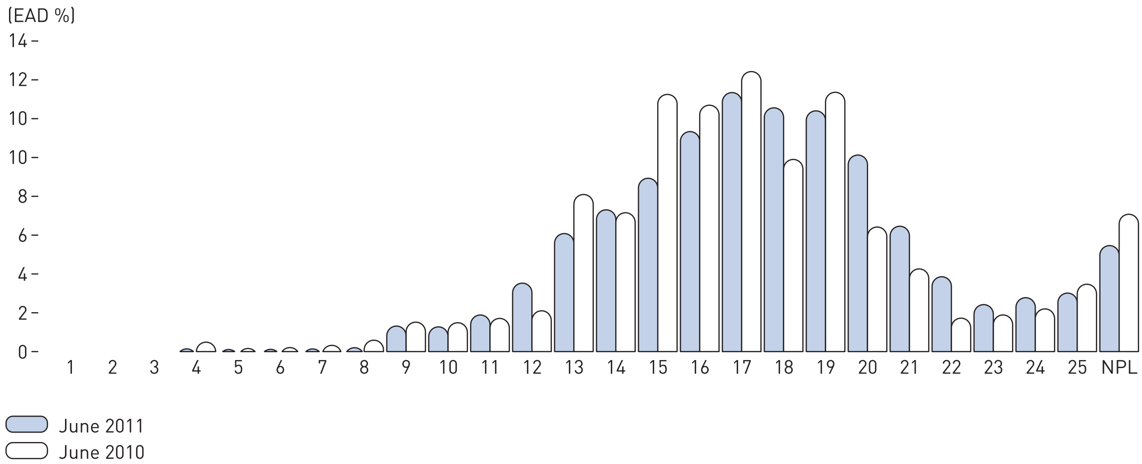
*Risk profile for retail revolving exposures: EAD% distribution per Basel risk buckets (unaudited)*




| | | | |
|---|---|---|---|
| Average performing PD% | 3.73% | Average total book PD% | 6.39% |
| Average performing LGD% | 70.75% | Averaged total book LGD% | 71.08% |
| Performing book EL/EAD | 2.64% | Total book EL/EAD | 4.54% |

Once again, the deterioration in the risk profile in the chart above is attributed to the recalibrations implemented in October 2010, incorporating the higher defaults experienced recently. With the exception of this once-off increase in PDs, PDs decreased consistently from July 2010 to June 2011 reflecting the effect of lower interest rates.

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




| | | | |
|---|---|---|---|
| Average performing PD% | 8.33% | Average total book PD% | 13.53% |
| Average performing LGD% | 32.40% | Averaged total book LGD% | 33.62% |
| Performing book EL/EAD | 2.70% | Total book EL/EAD | 4.55% |

A significant proportion of the other retail asset class is made up of vehicle and asset finance, which is secured by the underlying asset. As such, the LGD is lower than what would be expected in unsecured other retail portfolios. As with retail mortgages and retail revolving asset classes, this can be attributed to recalibrations incorporating the higher defaults experienced recently. With the exception of this once-off increase in PDs, PDs decreased consistently from July 2010 to June 2011 reflecting the impact of lower interest rates.

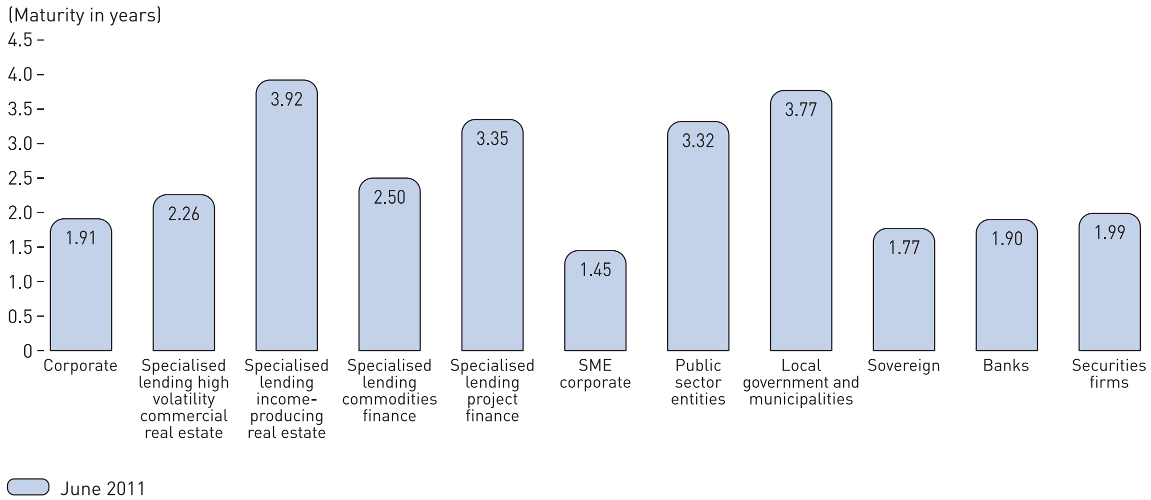
## Maturity breakdown

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. The longer the maturity of a deal, the greater the uncertainty, and all else being equal, the larger the regulatory 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 2011 (unaudited)*



## Actual vs. expected loss analysis

To provide a meaningful assessment of the effectiveness of internal ratings based models, expected loss is compared to 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 year 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 year as determined by IFRS. The calculation is based on the assumption that the specific provisions raised are a fair estimate of what final losses on defaulted exposures would be, although the length of the workout period creates uncertainty in this assumption.

The measure of actual losses includes specific provisions raised for exposures which defaulted during the year, but which did not exist at 30 June 2010. 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 table below.

### *Actual vs. expected loss per portfolio segment for FirstRand Bank (unaudited)*

| | 2011 | |
|---|---|---|
| R million | Expected loss | 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.*

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

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 2010. The models currently applied have since incorporated further defaults 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 vs. 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 year under review.

Expected values are based on regulatory capital models applied as at 30 June 2010. For PDs, this is applied to the total performing book as at 30 June 2010. For LGDs and EADs, it is applied to all facilities that defaulted over the subsequent twelve months.

Actual values are based on actual outcomes over the year July 2010 to June 2011. It should be noted that due to the length of the workout period, there is uncertainty in the measure provided for actual LGDs as facilities that default during the year would only have had between 1 and 12 months to recover to date – depending on when the default event occurred.

The EAD estimated to actual ratio is derived as the ratio of expected nominal exposure at default (for all accounts that defaulted during the 2011 financial year) to the actual nominal exposure at default for the same accounts. A ratio above 100% indicates an overestimation.

*Risk parameters used to determine regulatory expected loss for FirstRand Bank (unaudited)*

| | 2011 | | | | |
|---|---|---|---|---|---|
| | PD | | LGD | | EAD estimated to actual ratio |
| Asset class | Estimated % | Actual % | Estimated % | Actual % | % |
| Corporate, banks and sovereigns[1] | 0.88 | 0.19 | 24.94 | 28.28 | 1.23 |
| SME corporate | 4.54 | 2.15 | 35.81 | 14.04 | 1.09 |
| SME retail | 3.40 | 3.27 | 36.93 | 26.98 | 1.15 |
| Residential mortgages | 3.06 | 3.13 | 15.46 | 14.44 | 1.05 |
| Qualifying revolving retail | 2.58 | 2.64 | 64.78 | 66.63 | 1.28 |
| Other retail | 5.89 | 5.92 | 33.61 | 31.73 | 1.06 |
| **Total** | 2.57 | 2.18 | 26.32 | 24.27 | 1.08 |

*1 Corporate, banks and sovereigns shown as one asset class to align with the respective asset class in the actual vs expected loss table.*

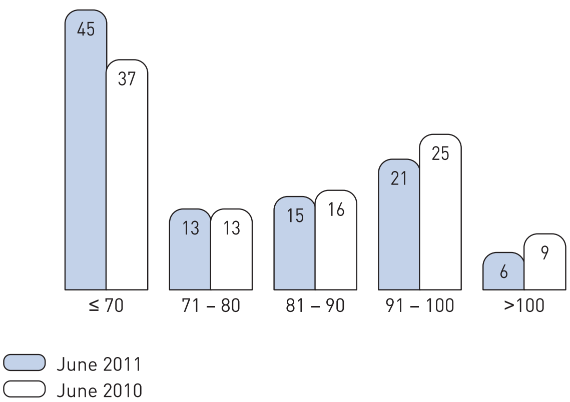
| | 2010 | | | | |
|---|---|---|---|---|---|
| | PD | | LGD | | EAD estimated to actual ratio |
| Asset class | Estimated % | Actual % | Estimated % | Actual % | % |
| Corporate | 1.55 | – | 37.73 | n/a | n/a |
| Banks | 0.15 | – | 31.00 | n/a | n/a |
| SME corporate | 3.45 | 4.38 | 44.98 | 32.07 | 110.58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

As no defaults were experienced within the bank's asset class during the year under review, actual LGDs and EADs could not be calculated for this asset class. PDs used for regulatory capital purposes are based on long-run experience and would be anticipated to underpredict actual defaults at the top of the credit cycle and overestimate actual defaults at the bottom of the credit cycle. The analysis is based on regulatory capital models that were applied at 30 June 2010. The models currently being applied have since incorporated further defaults experienced during the latter part of the recent economic downturn and resulted in an increase in expected losses. The actual PDs and LGDs above, being lower than their respective estimates, reflect the effect of an improving economic cycle.

## SELECTED RISK ANALYSIS

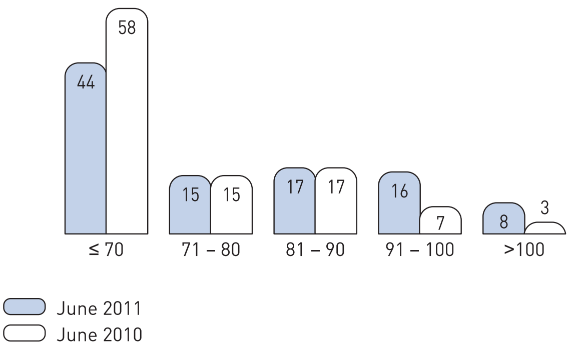
This section provides further information on selected risk analyses that impact the credit portfolios of the Bank. The graphs below provide the balance-to-value distributions and the aging of the residential mortgages portfolios. The recent focus on loan-to-value ratios for new business resulted in an improvement in 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. However, pressures on market value negatively impacted the balance-to-market value distribution.

*Residential mortgages balance-to-value – original value (%) (unaudited)*



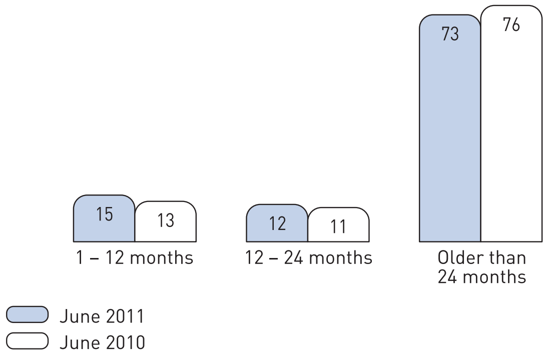

The balance to market value shows a significant proportion of the book in the lower risk categories.

*Residential mortgages balance-to-value – market value (%) (unaudited)*



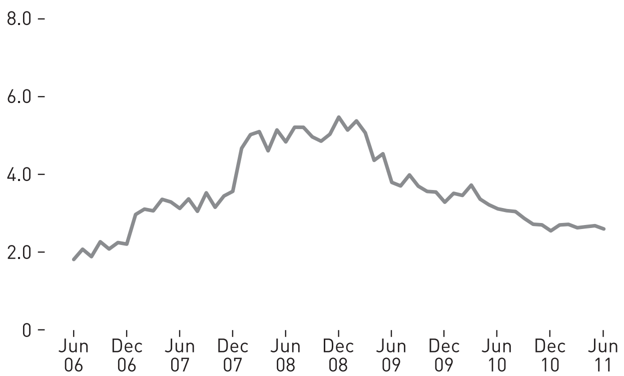

The low levels of new business are evident in the age distribution shown below.

*Residential mortgages age distribution (%) (unaudited)*




The following graph provides 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 the total advances balance.

*FNB HomeLoans arrears (%) (unaudited)*

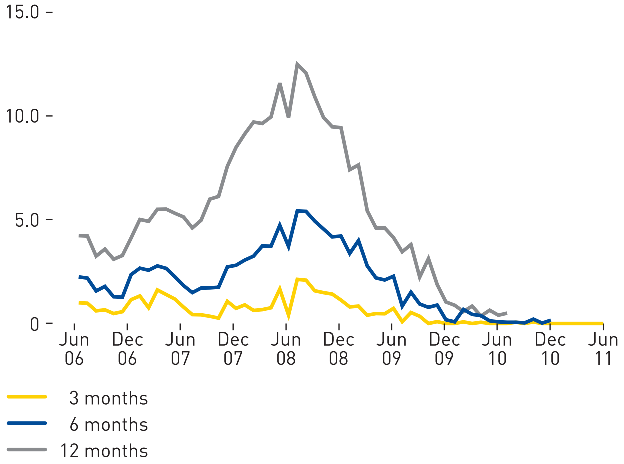



FNB Home Loans arrears are stabilising. Similar trends are also observed in the WesBank and credit card portfolios.

The following graphs provide the vintage analysis for FNB HomeLoans and WesBank retail respectively. 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 environment.

For FNB HomeLoans, the three, six and twelve month cumulative vintage analysis illustrates 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.

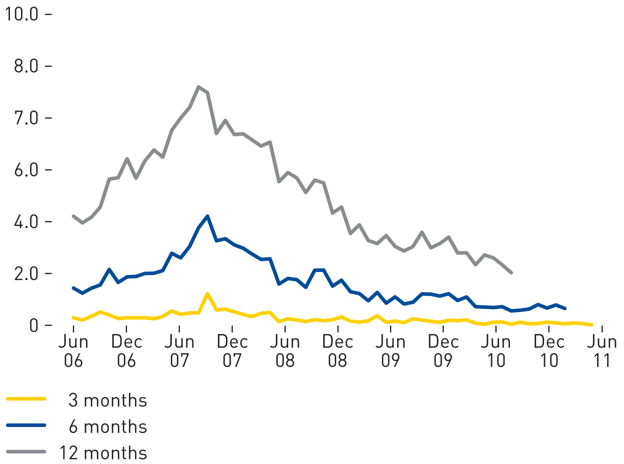
*FNB HomeLoans vintage analysis (%) (unaudited)*




The Group's South African repossessed properties portfolio decreased from R513 million (1 564 properties) at 30 June 2010 to R282 million (1 117 properties) at 30 June 2011.

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, and the more benign macro environment.

*WesBank retail vintage analysis (%) (unaudited)*




In the asset finance business, repossession and stock holding levels continue to decline relative to the comparative period. The gradually reducing trend is likely to continue, but at a slower rate.

## Securitisations and conduits

### KEY DEVELOPMENTS AND FOCUS

In October 2010 the Bank sought and received approval from the SARB to repurchase all outstanding auto loan assets from Nitro Securitisation 3 (Pty) Limited ("Nitro 3"). A detail description of this action is provided on page 47. The R2 billion synthetic auto loan securitisation, Procul (Pty) Ltd ("Procul"), matured successfully in August 2010 (see page 47). There were a number of rating actions on several classes of Fresco 2 notes and iKhaya 1 and 2 notes during the year under review (see page 46 for detail).

In February 2011, the Group closed its first UK auto loan securitisation in order to obtain matched term funding. Turbo Finance plc issued £340 million of notes (see page 47 for further detail on the transaction).

### INTRODUCTION AND OBJECTIVES

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

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

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

### TRADITIONAL AND SYNTHETIC SECURITISATIONS

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

*Securitisation transactions (unaudited)*

| R million | Asset type | Year initiated | Expected close | Rating agency | Assets securi-tised | Assets outstanding 2011 | Assets outstanding 2010 | Notes outstanding 2011 | Notes outstanding 2010 | Retained exposure 2011 | Retained exposure 2010 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Traditional securiti-sations** | | | | | 14 784 | **5 476** | 3 907 | **5 474** | 4 276 | **605** | 43 |
| Nitro 3 | Retail: Auto loans | 2007 | 2011 | Moody's and Fitch | 5 000 | **–** | 736 | **–** | 1 129 | **–** | 15 |
| iKhaya 1 | Retail: Mortgages | 2007 | 2011 | Fitch | 1 900 | **1 164** | 1 317 | **1 131** | 1 321 | **15** | 28 |
| iKhaya 2 | Retail: Mortgages | 2007 | 2012 | Fitch | 2 884 | **1 625** | 1 854 | **1 580** | 1 826 | **–** | – |
| Turbo Finance | Retail: Auto loans | 2011 | 2013 | Moody's and Fitch | 3 620 | **2 687** | – | **2 763** | – | **590** | – |
| **Synthetic securiti-sations** | | | | | 22 000 | **20 000** | 22 000 | **20 000** | 22 000 | **18 162** | 18 948 |
| Procul | Retail: Auto loans | 2002 | 2010 | Fitch | 2 000 | **–** | 2 000 | **–** | 2 000 | **–** | 875 |
| Fresco II | Corporate receivables | 2007 | 2013 | Fitch | 20 000 | **20 000** | 20 000 | **20 000** | 20 000 | **18 162** | 18 073 |
| **Total** | | | | | 36 784 | **25 476** | 25 907 | **25 474** | 26 276 | **18 767** | 18 991 |

*Rating distribution of retained securitisation exposure (unaudited)*

| R million | AAA(zaf) | AA+(zaf) | AA(zaf) | A+(zaf) | A(zaf) | BBB+(zaf) | BBB(zaf) | BB(zaf) | B+(zaf) | Not rated | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Traditional** | | | | | | | | | | | |
| **At 30 June 2011** | **596** | **–** | **5** | **–** | **4** | **–** | **–** | **–** | **–** | **–** | **605** |
| At 30 June 2010 | 15 | – | 9 | – | 4 | 15 | – | – | – | – | 43 |
| **Synthetic** | | | | | | | | | | | |
| **At 30 June 2011** | **17 840** | **–** | **–** | **–** | **–** | **–** | **–** | **180** | **53** | **90** | **18 162** |
| At 30 June 2010 | 17 991 | – | 180 | 51 | – | – | – | – | – | 726 | 18 948 |

*While national scale ratings have been used in the table above, global-scale equivalent ratings are used for internal risk management purposes.*

## Rating actions by Fitch Ratings ("Fitch")

Fresco 2, which is incorporated under South African law, is a partially-funded synthetic securitisation of a portfolio of South African and international wholesale credit exposures originated by the Bank. At closing on 17 July 2007, Fresco 2 entered into a credit default swap ("CDS") with the Bank, whereby Fresco 2, as the protection seller, purchased the credit risk portfolio from the Bank.

On 12 November 2010, Fitch announced that it had downgraded nine of the eleven tranches of Fresco 2. 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.

Fitch downgraded Fresco 2 Class A to G tranches and assigned loss severity ("LS") ratings to seven tranches.

The rating actions were as follows:

- Class A1: Downgraded to AA- (zaf) from AAA (zaf), remains on Rating Watch Negative (RWN).
- Class A2: Downgraded to AA- (zaf) from AAA (zaf), remains on RWN.
- Class B1: Downgraded to BB (zaf) from AA (zaf); Outlook Stable; assigned LS-4.
- Class B2: Downgraded to BB (zaf) from AA (zaf); Outlook Stable; assigned LS-4.
- Class C: Downgraded to B+ (zaf) from A+ (zaf); Outlook Stable; assigned LS-4.
- Class D: Downgraded to B (zaf) from A- (zaf); Outlook Stable; assigned LS-5.
- Class E: Downgraded to B (zaf) from BBB (zaf); Outlook Stable; assigned LS-5.

- Class F: Downgraded to B (zaf) from BBB- (zaf); Outlook Stable; assigned LS-5.
- Class G: Downgraded to B- (zaf) from BB (zaf); Outlook Stable; assigned LS-5.

Since closing, the transaction's performance has been in line with expectations.

## Exercise of clean-up call option for Nitro 3

Nitro 3 was launched on 17 May 2007 at a size of R5 billion and 11.2% subordination below the Aaa.za rated notes. The subordinated loan of R100 million and the Class D notes (from April 2008) were held by the originator (the Bank). By August 2010, notes to the value of R920.1 million were outstanding, representing some 18% of the outstanding principal amount of the notes on issue date. Due to lower than expected levels of prepayments, the assets of Nitro 3 were not maturing as quickly as the issued notes. Structuring features of the vehicles precluded the raising of additional funding, and limited the use of liquidity facilities to only covering interest payments and not redemptions.

Consequently, in September 2010, the Bank sought and obtained approval from the SARB and note holders to repurchase the Nitro 3 assets, on market-related terms. The repurchase took place on 12 October 2010, and the proceeds were utilised for the early redemption of the outstanding Nitro 3 notes. The objective of the Group to obtain matched term funding at a time when its retail asset book was growing rapidly, had been achieved and the structure proved resilient despite the recent difficulties experienced in the retail consumer environment.

Investors in Nitro 3 were able to realise their investments earlier than the legal maturity, without suffering any losses.

## Maturity of Procul

Procul, launched in June 2002, was a R2 billion synthetic securitisation of retail instalment sale automotive loans originated and managed by WesBank. Using a CDS, the transaction provided protection to WesBank on the auto loans up to the value of the portfolio amount. The transaction performed as expected up to its maturity on 31 August 2010. The transaction suffered no losses and all noteholders were repaid in full.

## Outlook changes on SA residential mortgage-backed securities ("RMBS")

During August 2010, ten South African RMBS transactions rated by Fitch, including iKhaya 1 and 2, were placed on Rating Watch Negative as a result of a revision of rating methodology.

## Turbo Finance plc

In February 2011, the Bank closed its first UK auto loan securitisation. The securitisation is backed by fixed rate auto loan receivables originated by FirstRand Bank (London Branch) under the Carlyle Finance trade name. Turbo Finance plc was set up as a special purpose vehicle and issued £340 million of notes rated by Moody's and Fitch. The following table provides further detail regarding the notes issued.

***Turbo finance notes issued (unaudited)***

| Tranche | Rating (Moody's/Fitch) | Amount (£m) | Credit enhancement (%) | Coupon |
|---|---|---|---|---|
| A | Aaa(sf)/AAA(sf) | 246.20 | 27.60 | 1mLibor + 185 |
| B | Aa3(sf)/A(sf) | 54.20 | 11.70 | 5.50% |
| C | NR/BB(sf) | 34.28 | 1.60 | 7.00%[1] |
| D | NR/NR | 5.45 | 0.00 | 20.00% |
| **Total** | | 340.14 | | |

*Represents senior coupon only, subordinated coupon of 8% will also be paid.*

The joint lead managers for the transaction were UBS Limited and BNP Paribas, with the latter also providing an interest rate swap for Class A. The Bank, acting through its London branch, acts as servicer of the transaction. The transaction is compliant with Article 122a of the EU Capital Requirement Directive where the Bank chose to use the on-balance sheet retention method to meet the 5% retained interest requirements of Article 122a.

The transaction was structured to obtain matched term funding for the Group, reduce cross-border funding risk, and establish market familiarity with Carlyle's business.

## CONDUIT PROGRAMMES AND FIXED-INCOME FUNDS

The Group's conduit programmes are debt capital market vehicles, which provide investment-grade corporate South African counterparties with an alternative source of funding to directly assessing 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-lending products on a matched basis.

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 enjoyed the benefit of more benign liquidity than experienced by the market in general, whilst the demand for borrowings reflected a slowdown in line with general corporate borrowing activity.

The tables on page 48 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 (unaudited)*

| Transaction | | | | | Non-recourse investments | | Credit enhancement provided | |
|---|---|---|---|---|---|---|---|---|
| R million | Underlying assets | Year initiated | Rating agency | Programme size | 2011 | 2010 | 2011 | 2010 |
| **Conduits** | | | | | | | | |
| iNdwa | Corporate and structured finance term loans | 2003 | Fitch | 15 000 | **8 779** | 7 373 | **–** | – |
| iVuzi | Corporate and structured finance term loans | 2007 | Fitch | 15 000 | **6 742** | 5 772 | **753** | 758 |
| **Total** | | | | 30 000 | **15 521** | 13 145 | **753** | 758 |
| **Fixed income fund** | | | | | | | | |
| iNkotha | Overnight corporate loans | 2006 | Fitch | 10 000 | **2 948** | 2 164 | **–** | – |
| **Total** | | | | 10 000 | **2 948** | 2 164 | **–** | – |

*Rating distribution of conduits and fixed income funds (unaudited)*

| R million | AAA(zaf) | AA+(zaf) | AA(zaf) | AA-(zaf) | A+(zaf) | A(zaf) | A(zaf) | A-(zaf) | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Conduits** | | | | | | | | | |
| **At 30 June 2011** | **–** | **853** | **248** | **4 438** | **5 074** | **1 449** | **2 025** | **1 433** | **15 521** |
| At 30 June 2010 | – | 1 436 | 633 | 1 487 | 4 682 | 1 480 | 2 592 | 835 | 13 145 |
| **Fixed Income Fund** | | | | | | | | | |
| **At 30 June 2011** | **–** | **–** | **–** | **969** | **652** | **548** | **453** | **326** | **2 948** |
| At 30 June 2010 | – | 656 | – | – | 1 195 | – | 116 | 197 | 2 164 |

*The Bank's role in the conduits and the fixed income fund (unaudited)*

| Transaction | Originator | Investor | Servicer | Liquidity provider | Credit enhancement provider | Swap counterpart |
|---|---|---|---|---|---|---|
| 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 (unaudited)*

| R million | Transaction type | 2011 | 2010 |
|---|---|---|---|
| Own transactions | | 12 671 | 10 442 |
| iNdwa | Conduit | 7 159 | 5 898 |
| iVuzi | Conduit | 5 512 | 4 544 |
| Third party transactions | Securitisations | 1 372 | 1 577 |
| **Total** | | **14 043** | 12 019 |

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 their associated IRB capital requirements per risk band.

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

| | Exposure | | IRB capital | | Capital deduction | |
|---|---|---|---|---|---|---|
| R million | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| Risk weighted bands | | | | | | |
| =<10% | 24 322 | 17 840 | 183 | 122 | – | – |
| >10% = <20% | 1 378 | 12 042 | 16 | 88 | – | – |
| >20% = <50% | 5 517 | 180 | 133 | 6 | – | – |
| >50% = <100% | 4 | 931 | – | 66 | – | – |
| >100% = <650% | 180 | 773 | 114 | 198 | – | – |
| 1 250%/deduction | 90 | 90 | – | – | 90 | 90 |
| **Total** | **31 491** | 31 856 | **447** | 480 | **90** | 90 |

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

*Deductions arising from securitisation exposures (unaudited)*

| R million | Corporate receivables | Retail mortgages | Retail: instalment sales and leasing | Total |
|---|---|---|---|---|
| Traditional | – | – | – | – |
| Synthetic | 90 | – | – | 90 |
| **Total** | 90 | – | – | 90 |

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

### KEY DEVELOPMENTS AND FOCUS

During the past financial year, the Group focused on improving the control environment of the securities financing businesses. Amongst other things, the Group instituted a margin methodology more closely aligned with the internal market risk measurement methodology. Deep-dive reviews of all portfolios exposed to counterparty credit risk were also conducted.

In the next financial year, the focus will be on the implementation of a counterparty credit risk-specific framework. This framework will include Basel III requirements in relation to counterparty credit risk and collateral management and the implementation of an industrialised credit valuation adjustment ("CVA") solution. Furthermore, the Group will continue to cooperate with the Regulator to ensure readiness for Basel III.

### INTRODUCTION AND OBJECTIVES

Counterparty credit risk is concerned with a counterparty's ability to satisfy its obligations under a contract that has a positive economic value to the bank at any point 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 trading and securities financing businesses, and 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.

### ORGANISATIONAL STRUCTURE AND GOVERNANCE

RMB's credit department is responsible for the overall management of counterparty credit risk and is supported by RMB's portfolio and crossover risk 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 subcommittees as well as deployed and central risk management functions. Refer to the *Risk management framework and governance* section, (page 7), and the *Credit risk governance* section (page 22) for more details.

### ASSESSMENT AND MANAGEMENT

#### Quantification of risk exposure

The measurement of counterparty credit risk aligns closely with credit risk measurement practices and is focused both on establishing appropriate limits at counterparty level, as well as 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 for 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, and counterparty exposures are monitored by the respective risk functions on a daily basis. Overall counterparty risk limits are allocated across a number of products. Desk-level reports are used to ensure sufficient limit availability prior to executing additional trades with a counterparty.

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

- quantification of exposure and risk, as well as management of facility utilisation within approved credit limits;
- ongoing monitoring of counterparty creditworthiness to ensure early identification of high-risk exposures and predetermined facility reviews at certain intervals;
- collateral management;
- management of high-risk (watch list) exposures;
- collections and workout process management for defaulted assets; and
- 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 RMB Risk and Compliance function. Any remedial actions are agreed amongst these parties and failure to remedy such a breach is reported to the RMB 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 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 and International Securities Market Association agreements for the purpose of netting derivative transactions and repurchase transactions respectively. These master agreements as well as associated credit support annexes ("CSA") set out internationally accepted valuation and default covenants, which are evaluated and applied on a daily basis, including daily margin calls based on the approved CSA thresholds.

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

## Collateral to be provided in the event of a credit rating downgrade

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, as well as 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 as to the order of magnitude of the netted portfolio size and collateral placed with FirstRand. In aggregate, all of the positive mark-to-market shown below would need to reverse before FirstRand 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 Bank's derivative and structured finance transactions.

*Composition of counterparty credit risk exposure (unaudited)*

| R million | 2011 | 2010 |
|---|---|---|
| Gross positive fair value | 114 070 | 90 367 |
| Netting benefits | (38 462) | (36 693) |
| Netted current credit exposure before mitigation | 75 608 | 53 674 |
| Collateral value | (63 772) | (43 701) |
| Netted potential future exposure | 12 293 | 14 511 |
| Exposure at default | 24 130 | 24 484 |

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

*Credit derivatives exposure (unaudited)*

| | 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 |

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

## Market risk in the trading book

### KEY DEVELOPMENTS AND FOCUS AREAS

During the year under review the basis of expected tail loss ("ETL") measures were changed to a 750-day scenario set incorporating the recent 2008/2009 period of market distress. Market risk ETL is now calculated over 750 unique scenarios at a 99% confidence interval. In addition, improved measures were implemented to manage the Group's concentrated risk exposures across all asset classes, including crossover between risk types. In the 2012 financial year, the Group will focus on preparation for the new Basel 2.5 market risk capital requirements.

### INTRODUCTION AND OBJECTIVES

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

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

### ORGANISATIONAL STRUCTURE AND GOVERNANCE

In terms of the market risk framework, a subframework of the BPRMF, responsibility for determining 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

#### Quantification of risk exposures

Market risk exposures are primarily measured and managed using an ETL measure and 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. During the year, holding periods used in the calculation were increased and are now based on an assessment of distressed liquidity of portfolios. As a consequence, holding periods ranging between 10 to 90 days are used. Historical data sets are chosen to incorporate periods of market stress with the recent 2008/2009 stress period incorporated into the historical data set 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 were introduced and utilisation against these limits is monitored continuously (based on the regulatory building block approach).

#### Stress testing

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

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

#### Back testing

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

#### Regulatory and economic capital for market risk

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

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

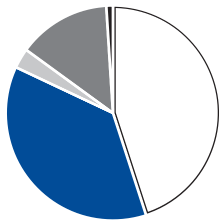
## TRADING BOOK MARKET RISK PROFILE

The following chart shows the distribution of exposures per asset class across the Group's trading activities at 30 June 2011 based on the ETL methodology.

### VaR and ETL analysis by risk type

The tables below reflect the VaR over a 10-day holding period and the liquidity adjusted ETL at a 99% confidence level for trading book activities. Results for the year ended 30 June 2011 reflect that the VaR and ETL utilisations were within risk appetite, with the interest rate component of risk being the most dominant over the period under review.

*Composition of ETL exposure for FirstRand Bank (audited)*




*10 day 99% VaR analysis by instrument of FirstRand Bank (audited)*

| | 2011 | | | | 2010 |
|---|---|---|---|---|---|
| R million | Min[1] | Max[1] | Ave | Period end | Period end |
| **Risk Type** | | | | | |
| Equities | 33.5 | 127.1 | 77.3 | 33.5 | 63.0 |
| Interest Rates | 42.6 | 135.1 | 86.1 | 71.1 | 49.3 |
| Foreign Exchange | 2.7 | 65.5 | 11.4 | 10.5 | 6.2 |
| Commodities | 7.0 | 87.0 | 44.6 | 43.0 | 7.1 |
| Traded Credit | 0.1 | 5.4 | 3.6 | 4.1 | 0.1 |
| Diversification effect | – | – | – | (80.4) | (51.4) |
| **Diversified total** | 59.1 | 162.1 | 117.2 | 81.8 | 74.3 |

*Distressed ETL analysis by instrument of FirstRand Bank (audited)*

| | 2011 | | | | 2010 |
|---|---|---|---|---|---|
| R million | Min[1] | Max[1] | Ave | Period end | Period end |
| **Risk Type** | | | | | |
| Equities | 139.2 | 276.8 | 201.5 | 196.3 | 145.3 |
| Interest Rates | 94.5 | 424.5 | 235.0 | 238.7 | 112.9 |
| Foreign Exchange | 5.3 | 82.4 | 22.0 | 16.3 | 11.8 |
| Commodities | 15.0 | 135.2 | 74.8 | 72.9 | 11.1 |
| Traded Credit | 1.8 | 8.0 | 5.7 | 5.9 | 1.6 |
| Diversification effect | – | – | – | (184.8) | (102.5) |
| **Diversified total** | 174.4 | 449.9 | 276.9 | 345.3 | 180.3 |

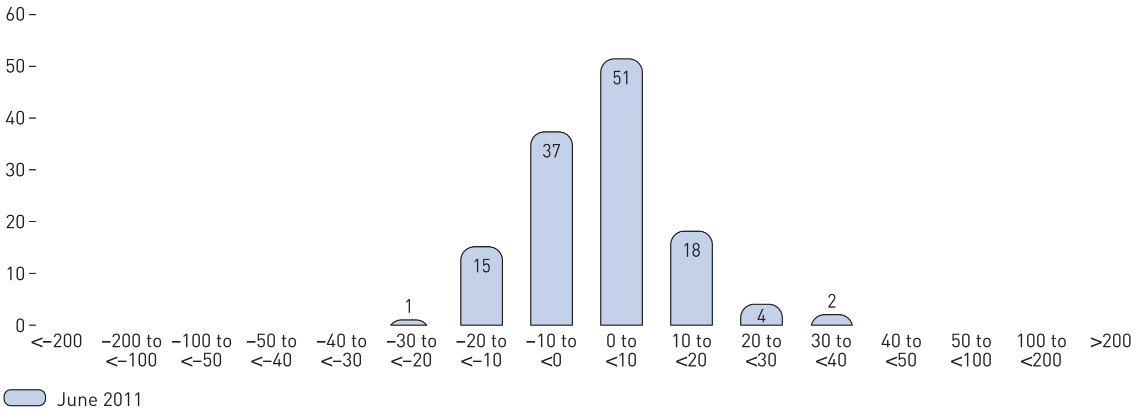
*Notes:*

1. *The maxima and minima VaR and ETL figures for each asset class did not necessarily occur on the same day. Consequently, a diversification effect was omitted from the above table.*
2. *The ETL measures as at 30 June 2011 are based on a 750-day scenario, incorporating both the recent 2008/2009 and 2001/2002 stress periods (i.e. two static periods of stress), whereas the ETL measures as at 30 June 2010 are based on a 500-day scenario set incorporating only the 2001/2002 period of market distress (i.e. only one static period of stress).*
3. *Interest rate risk in the banking book is excluded from above and is separately managed and reported (see pages 63 to 66).*
4. *The diversified 90-day ETL measure for the equity investment book subject to market price risk as at 30 June 2011 is R1 000 million (interest rates: R0.09 million, equities: R1 066 million, foreign exchange: R45 million).*
5. *The diversified 1-day 99% VaR as at 30 June 2011 is R47 million (interest rates: R23 million, equities: R11 million, foreign exchange: R1 million, commodities: R32 million).*
6. *A number of the Bank's physical positions are booked in RMB Securities (Pty) Limited and the risk is managed on a consolidated basis. The 10-day 99% VaR and distressed ETL analysis above therefore includes RMB Securities (Pty) Limited in order to provide a holistic view.*
7. *A revision of the market risk limits for the equity asset class necessitated some portfolio rebalancing. A number of equities positions were reclassified from market risk (short-term) to investment risk (long term) in order to better reflect the risk characteristics of the exposures and the time horizon staged for value extraction to materialise.*

## Distribution of daily trading earnings from trading units

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

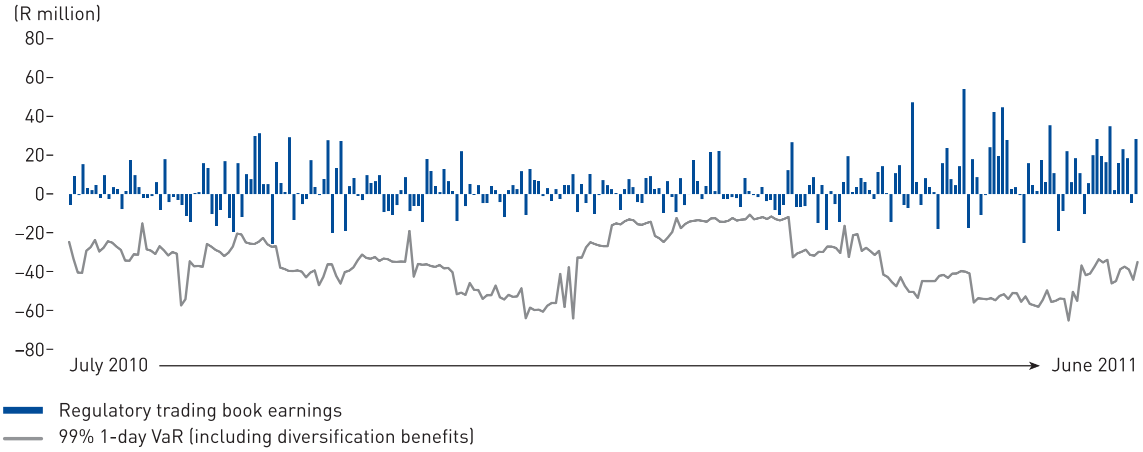
*Distribution of daily earnings of FirstRand Bank (unaudited)*




## Back testing: daily regulatory trading book earnings and VaR

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

*Bank testing: daily regulatory trading book earnings versus 1-day 99% VaR of FirstRand Bank (unaudited)*




Over the period 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.

## Equity investment risk

### KEY DEVELOPMENTS AND FOCUS

An enhanced investment risk management framework was developed and implemented during the year. This framework included refinements on governance, risk appetite quantification, investment valuation and stress testing.

### INTRODUCTION AND OBJECTIVES

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

### ORGANISATIONAL STRUCTURE AND GOVERNANCE

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

- The Prudential investment committee ("Investment committee") chaired by the RMB Chief investment officer and its delegated subcommittees are responsible for the approval of all portfolio investment transactions in equity, quasi-equity or quasi-debt instruments.
- Where the structure of the investments also incorporate significant components of senior debt, approval authority will also rest with the respective credit committees and the Board's Large exposures committee, as appropriate.
- The Risk, capital and compliance committee and Market and investment risk committee are responsible for the oversight of investment risk measurement and management across the Group.
- 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.

### 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 on page 78 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 Bank, 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 Bank holds an equity interest of between 20% and 50%, or over which it has the ability to exercise significant influence, but does not control. Joint ventures are entities in which the Bank has joint control over the economic activity of the joint venture through a contractual 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 level.

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

### Stress testing

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

## Regulatory and economic capital

The Basel II simple risk weight (300% or 400%) approach or 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

The listed equity portfolio benefited from the global equity market rally as well as domestic corporate action during the period under review.

A revision of the market risk limits for the equity asset class necessitated some portfolio rebalancing during the year. A number of equities positions (R1 449 million) were reclassified from short-term market risk to long-term market risk in order to better reflect the risk characteristics of the exposures and the time period envisaged for value extraction to materialise. The long-term equity risk ETL calculation was expanded to incorporate these long-term market risk positions together with the investment risk exposures.

Listed long-term market risk and investment risk exposures of R2 524 million (2010: R1 063 million) were included in the long-term equity risk ETL calculation. The ETL on these exposures amounted to R832 million (2010: R375 million).

The estimated sensitivity of the remaining investment balances (i.e. those not subject to the equity investment risk ETL process) to a 10% movement in market value is an impact of R167 million (2010: R318 million) on investment fair values.

RMB continues to prudently manage its legacy portfolio of investment assets with no significant new impairments deemed necessary. The strategy remains to hold and manage the legacy exposures to realise value over the longer term.

The cumulative gains realised from the sale of positions held in the Group's banking book during the current financial year amounted to R102 million (2010: R249 million).

The following table provides information relating to equity investments in the banking book of FirstRand Bank.

*Investment valuations and associated regulatory capital requirements of FirstRand Bank (unaudited)*

| | 2011 | | | 2010 | | |
|---|---|---|---|---|---|---|
| R million | Publicly quoted | Privately held | Total | Publicly quoted | Privately held | Total |
| Carrying value disclosed in the balance sheet | 971 | 1 886 | 2 858 | 2 127 | 2 614 | 4 741 |
| Fair value[1] | 971 | 1 915 | 2 887 | 2 127 | 3 712 | 5 839 |
| Total unrealised gains recognised directly in balance sheet through equity instead of the income statement[2] | – | 224 | 224 | 747 | 172 | 919 |
| Latent revaluation gains not recognised in the balance sheet[2] | – | 29 | 29 | – | 1 098 | 1 098 |
| Capital requirement[3] | 277 | 717 | 994 | 510 | 836 | 1 346 |

*1 Fair values of listed private equity associates based on their value in use exceeded the quoted market prices by R249 million (2010:R85 million).*

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

*3 Capital requirement calculated at 9.5% of RWA (excluding the bank-specific Pillar 2b add-on). In 2010 the capital requirement was calculated at 8%.*

## Foreign exchange and translation risk in the banking book

### KEY DEVELOPMENTS AND FOCUS

As an authorised dealer in foreign exchange, the Group has a restriction on the gross amount of foreign currency holdings and other foreign exposure it may hold, capped at 25% of its local liabilities. Furthermore, banking regulations regarding the net open forward position in foreign exchange ("NOFP") limits the net open overnight position to no more than 10% of net qualifying capital. The two aspects (gross macro foreign exposure limit and the NOFP) overlay each other and ensure a complementary prudential approach to foreign currency risk management.

### INTRODUCTION AND OBJECTIVES

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 NOFP are overseen by MIRC, a subcommittee of the RCC committee, and mismatch risk is governed through the FirstRand ALCO and International ALCO 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

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 $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 remediation 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.

## Liquidity risk

### KEY DEVELOPMENTS AND FOCUS

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 wholesale funding for banks which has higher liquidity risk than retail deposits.

Given these structural issues and as a result of the significant growth in risk weighted assets between 2005 and 2007, SA banks' overall proportion of institutional funding increased. This in turn means that short-term, expensive institutional deposits are utilised to fund longer-dated assets such as mortgages. Liquidity risk in the South African banking system is therefore structurally higher than in most other markets.

In December 2010 the BCBS published two documents proposing fundamental reforms to the regulatory capital and liquidity framework (referred to as "Basel III"). The Basel III guidelines propose two new liquidity metrics: the Liquidity Coverage Ratio ("LCR"), effective 1 January 2015, which measures short-term liquidity stress; and the Net Stable Funding Ratio ("NSFR"), effective 1 January 2018, which measures the stability of long-term structural funding. The BCBS committee has put processes in place to ensure the rigorous and consistent global implementation of the Basel III framework. The standards will be phased in gradually so that the banking sector can move to the higher liquidity standards while supporting lending to the economy. Both the LCR and the NSFR will be subject to an observation period and will include a review clause to address any unintended consequences.

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

### 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 liquefiable 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.

### 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 ALCO. FirstRand ALCO's 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 ALM functions and ALCOs in these subsidiaries and branches.

#### FirstRand Bank

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

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

Dispensation was granted by the Financial Services Authority ("FSA") for a waiver on a "Wholefirm 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.

## ASSESSMENT AND MANAGEMENT

As indicated in the preceding section, liquidity risk for the Bank is managed centrally by a team in Group Treasury. 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.

### Measurement and assessment

The primary tools and techniques employed for the assessment of liquidity risk are discussed below.

#### *Liquidity mismatch analyses*

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

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

For each of these categories, multiple 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 ALCO and RCC committee monthly and quarterly, respectively.

#### *Stress testing and scenario analysis*

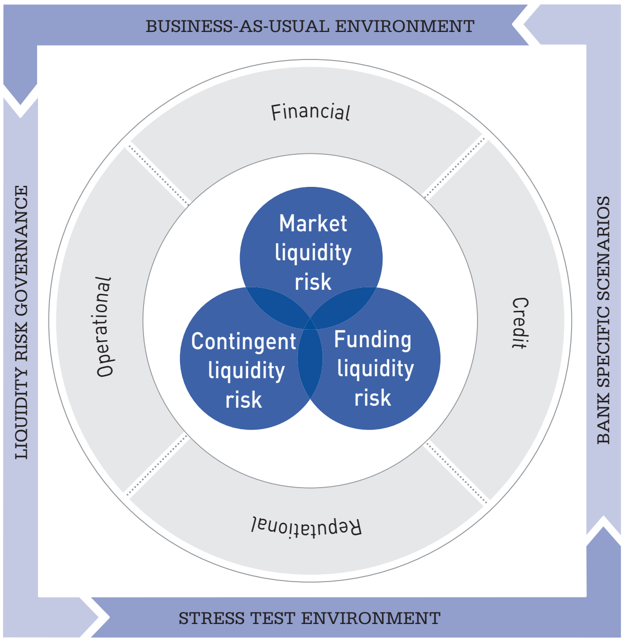
Regular and rigorous stress tests are conducted on the funding profile and liquidity position as part of the overall stress-testing framework with a focus on:

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

### Effective liquidity risk management

Effective liquidity risk management begins with the establishment of a comprehensive and strong internal governance process for identifying, measuring and controlling liquidity risk exposure. The liquidity risk management infrastructure naturally considers business as usual, bank-specific scenarios, and stress test environments. The liquidity risk management process covers market and funding risks, and how risks are interconnected and can "compound" in ways that create elevated levels of risk and potential exposure. Measures of liquidity risk should be based on both structural conditions and prospective cash flow measures.

*Liquidity risk management framework*




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 on page 60.

*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;<br>• liquidity strategy;<br>• ensuring substantial diversification over different funding sources;<br>• assessing the impact of future funding and liquidity needs taking into account expected liquidity shortfalls or excesses;<br>• setting the approach to managing liquidity in different currencies and from one country to another;<br>• ensuring adequate liquidity ratios;<br>• ensuring an adequate structural liquidity gap; and<br>• maintaining a funds transfer pricing methodology and processes. | • managing intraday liquidity positions;<br>• managing the daily payment queue;<br>• monitoring the net funding requirements;<br>• forecasting cash flows;<br>• perform short-term cash flow analysis for all currencies individually and in aggregate;<br>• management of intra group liquidity;<br>• managing Central Bank clearing;<br>• managing the net daily cash positions;<br>• managing and maintaining market access; and<br>• managing and maintaining collateral. | • managing early-warning and key risk indicators;<br>• performing stress testing including sensitivity analysis and scenario testing;<br>• maintaining the product behaviour and optionality assumptions;<br>• ensuring that an adequate and diversified portfolio of liquid assets and buffers are in place; and<br>• maintaining the contingency funding plan. |

*Liquidity contingency funding planning*

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

*Cash flow management*

The Group has a diversified portfolio of funding sources and has set internal board limits to ensure that there is no concentration risk in one particular sector.

Top ten depositors and funding from associates remained relatively constant at 7% and 2% as a percentage of funding liabilities. The top overnight depositor for June 2011 was 0.8% of the total funding liabilities (0.5% 2010), well within the internal board limit.

## Basel III

The Basel III guidelines, published in December, propose two new liquidity metrics: the LCR, effective 1 January 2015, which measures short-term liquidity stress; and the NSFR, effective 1 January 2018, which measures the stability of long-term structural funding.

The BCBS has put processes in place to ensure the rigorous and consistent global implementation of the Basel III Framework. The standards will be phased in gradually so that the banking sector can move to the higher liquidity standards while supporting lending to the economy. Both the LCR and the NSFR will be subject to an observation period and will include a review clause to address any unintended consequences.

When applying the metrics to the Group's balance sheet at 31 December, both FirstRand and most of the South African banking industry do not meet the minimum quantitative requirements. This is due to the specific structure of funding in the domestic financial services industry, particularly the issue of low discretionary savings, the closed Rand domestic market and the fact that South Africa is an emerging economy.

These structural issues have been recognised by the South African regulators, banking industry and National Treasury. In response, and under the guidance of National Treasury, a Structural funding and liquidity task team has been established and mandated to assess the impact and subsequently make recommendations to the Finance Ministry on how the banking industry effectively deals with the proposed regulations.

## LIQUIDITY RISK PROFILE

### 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 financials are 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) for FirstRand Bank (audited)*

| | 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 | 509 364 | 370 625 | 63 190 | 75 549 |
| Short trading positions | 5 777 | 5 777 | – | – |
| Derivative financial instruments | 36 816 | 35 438 | 884 | 494 |
| Creditors and accruals | 6 167 | 4 395 | 1 598 | 174 |
| Long-term liabilities | 10 094 | – | – | 10 094 |
| Amounts due to holding and fellow subsidiary companies | 21 592 | 17 085 | 389 | 4 118 |
| Loans from Insurance group | – | – | – | – |
| Financial and other guarantees | 28 808 | 25 009 | 2 911 | 888 |
| Facilities not drawn | 58 438 | 35 569 | 1 174 | 21 695 |

*Liquidity cash flows (undiscounted cash flows) for FirstRand Bank (audited)*

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

## 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, are used to fund long-term assets, for 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 Bank (audited)*

| | 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 | 616 695 | 223 251 | 52 292 | 341 152 |
| Total equity and liabilities | 616 695 | 433 895 | 66 422 | 116 378 |
| Net liquidity gap | – | (210 644) | (14 130) | 224 774 |
| Cumulative liquidity gap | – | (210 644) | (224 774) | – |

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

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

### KEY DEVELOPMENTS AND FOCUS

The endowment effect, which results from a large proportion of "endowment" liabilities (including "sticky" 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, and results in bank earnings being vulnerable to interest rate cuts. The negative endowment effect impacted net interest income ("NII") in the year to June 2011, as rates were on average 114 basis points lower than in the comparative period.

Interest rate risk is managed as part of a holistic balance sheet management approach, in conjunction with other factors, such as credit impairments and balance sheet growth, and in accordance with the Group's house view. If required, the interest rate profile is adjusted through hedging strategies.

### INTRODUCTION AND OBJECTIVES

The Group's interest rate risk is managed in two distinct categories:

- Interest rate risk emanating from trading activities is managed on an ETL/VaR basis (refer to the *Market risk in the trading book* section on page 52).
- Interest rate risk in the banking book, as is covered here.

This risk is identified and categorised in the following components:

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

The assumption and management of interest rate risk can be an important source of profitability and shareholder value, but excessive interest rate risk positions may pose a significant threat to the Group's earnings and capital base. Effective interest rate risk management practices should contain interest rate risk exposure within board-approved limits and risk appetite. Limits are expressed in terms of NII sensitivity and, where practical, internal measures also include fair value limits of the banking book instruments that can be fair valued.

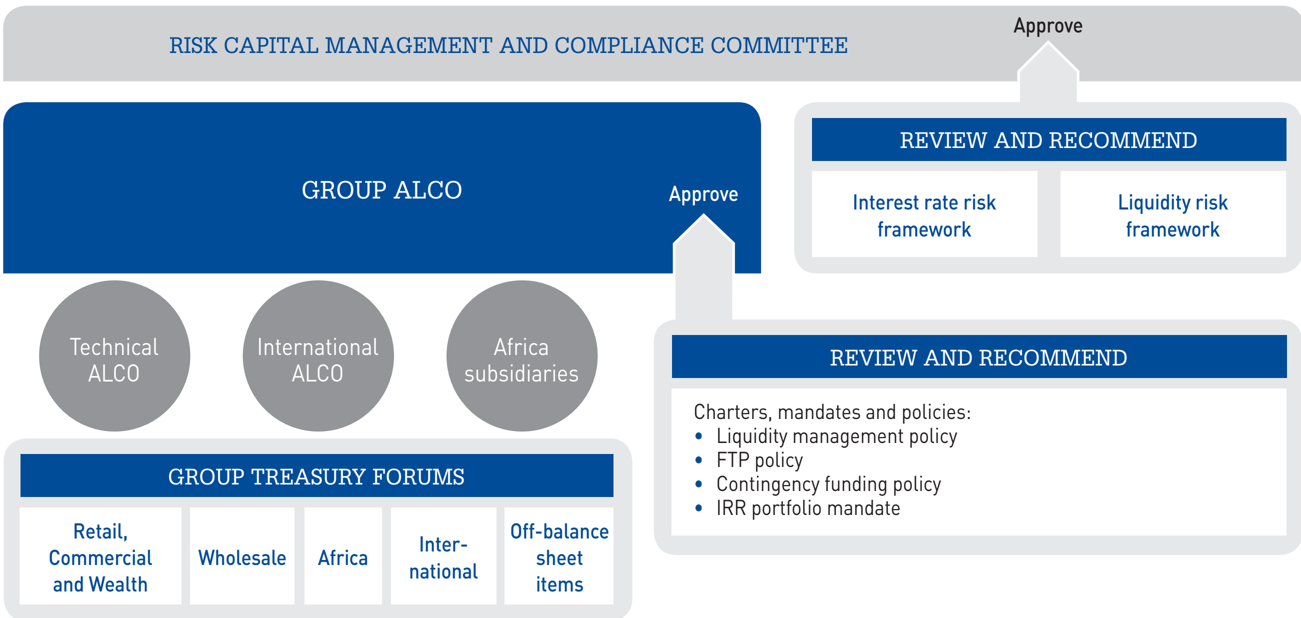
The objective of interest rate risk management is, therefore, to protect the balance sheet and earnings level from potential adverse effects arising from the various interest rate risk types described above.

### ORGANISATIONAL STRUCTURE AND GOVERNANCE

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

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

*Interest rate risk management and governance structure*



All IRRBB related activities are overseen and reported to the FirstRand ALCO, a subcommittee of the RCC committee, as illustrated in the *governance structure* on page 7. FirstRand ALCO is also responsible for the allocation of sublimits on the basis of mandates given by the RCC committee and it approves proposed remedial action for any limit breaches, as appropriate.

Interest rate risk, unlike credit risk, can only be adequately assessed and managed at an aggregate level for the banking book. The net interest rate risk profile of the domestic banking book (i.e. FRB, excluding RMB) is centrally managed by Group Treasury subject to oversight and governance from ERM and FirstRand ALCO.

RMB has a delegated mandate from FirstRand ALCO for the management of its IRRBB (in line with the Market risk management framework) as well as for ensuring that the limits of the Group's risk appetite are observed. ERM oversees and controls the management of interest rate risk in the banking books of Group Treasury and RMB. The RMB banking book interest rate risk exposure was R41.8 million on a 10-day ETL basis at 30 June 2011 (2010: R67.6 million). The *Market risk* section of this report provides a description of the ETL methodology on page 52.

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

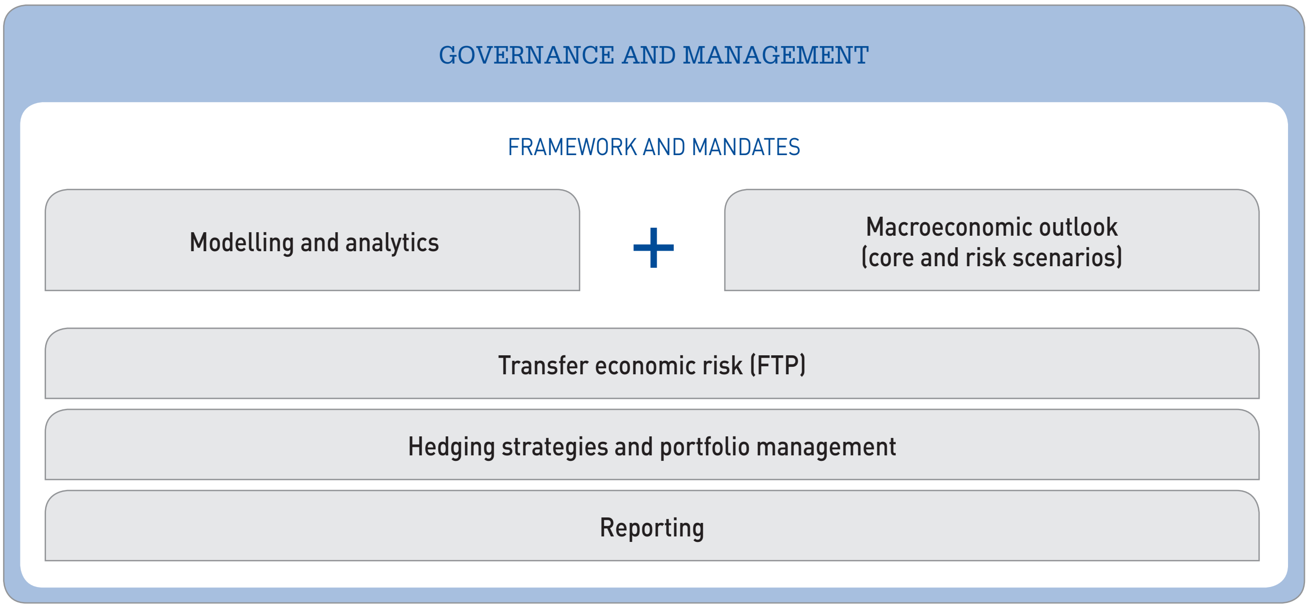
## ASSESSMENT AND MANAGEMENT

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

In line with industry practice the analyses cover parallel rate shocks, yield curve twists, complex stress tests and static repricing gap analyses. Results from these analyses are reported to FirstRand ALCO for review on a monthly basis. Additionally hedge positions and strategies are monitored daily, and are managed within defined risk appetite levels.

The Group's IRRBB management and assessment activities are summarised in the following chart.

*Interest rate risk management and assessment*




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

In addition to measuring and hedging risk at an aggregate (net position) level, individual, large and complex transactions may be hedged at a micro level where appropriate. Management of the interest rate risk profile is carried out within the limits approved by the ALCOs.

An investment committee oversees these activities for the domestic banking operations and proposes portfolio actions.

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

## Modelling assumptions

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

- all banking book assets, liabilities and derivative instruments are placed in gap intervals based on their repricing characteristics;
- instruments which have no explicit contractual repricing or maturity dates are placed in gap intervals according to management's judgement and analysis, based on the most likely repricing behaviour;
- new volume points are assigned to balances as and when they mature in order to maintain balance sheet size and mix;
- derivative hedges that mature are not replaced;
- presettlement expectations are factored into the volume and term of hedges for fixed rate lending activities; and
- interest rate risk modelling extends over a five-year time horizon, of which the first 12-month period is disclosed. Several interest rate shocks and scenarios are modelled.

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

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

## IRRBB PROFILE

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

*Repricing schedules for FRB banking book (audited)*

| | 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 | – |

| | 2010 | | | | |
|---|---|---|---|---|---|
| | 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 | (14 385) | 11 987 | 15 999 | 2 085 | (15 686) |
| Cumulative repricing gap | (14 385) | (2 398) | 13 601 | 15 686 | – |

*This repricing gap analysis excludes the banking books of RMB and the London and India branches, which are separately managed on an economic value basis.*

## Sensitivity analysis

NII sensitivity increased by R1 224 million compared to the previous year. As explained previously, the Group remains sensitive to downward movement in interest rates. The "endowment" effect was partly hedged in June 2010. The hedges have been reduced in June 2011, resulting in an increased positive gap (and increased sensitivity) as disclosed in the above tables, in line with the Group's macroeconomic outlook.

NII sensitivity is subject to approved internal board limits. Utilisation of the risk limit was well within permitted exposures during and at the end of the year.

Assuming no management action in response to interest rate movements, an instantaneous sustained parallel decrease of 200 basis points in all interest rates would result in a reduction in projected 12-month NII of R2 013 million. A similar increase in interest rates would result in an increase in projected 12-month NII of R2 027 million.

*Sensitivity of FirstRand Bank's projected NII (audited)*

| Change in projected 12 month NII<br>R million | 2011 | 2010 |
|---|---|---|
| Downward 200 bps | (2 013) | (789) |
| Upward 200 bps | 2 027 | 798 |

*The NII sensitivity analysis excludes the banking books of RMB and the London and India branches, which are managed separately on an economic value basis.*

*Sensitivity of FirstRand Bank's reported reserves to interest rate movements (audited)*

| As % of total shareholders equity<br>% | 2011 | 2010 |
|---|---|---|
| Downward 200 bps | (0.51%) | 0.39% |
| Upward 200 bps | 0.68% | (0.11%) |

*The NII sensitivity analysis excludes the banking books of RMB and the London and India branches, which are managed separately on an economic value basis.*

## Operational risk

### KEY DEVELOPMENTS AND FOCUS

During the year under review the Group continued to improve operational process efficiencies and implemented a process-based platform for risk control, identification and assessment. Enhancements to and automation of operational risk measurement tools continue to be a focus area. In the next financial year the Group will continue to embed the combined assurance approach to risk management.

### INTRODUCTION AND OBJECTIVES

Operational risk vs. reward is seldom proportional, yet it is an inherent and unavoidable part of doing business and exists, to a varying degree, in all organisational activities.

The Group recognises that operational risk exposure is incurred in the generating sustainable profits, but advocates that it only does so within the Group defined risk tolerance levels.

The objective of operational risk management is thus not to eliminate all operational risk exposure but to set a framework for effectively managing and mitigating operational risk within acceptable and approved risk tolerance levels. Management's continued focus on improving process efficiencies is yielding positive business benefits.

### ORGANISATIONAL STRUCTURE AND GOVERNANCE

The management of operational risk is governed by the Board-approved operational risk management framework ("ORMF") a subframework of the BPRMF. The ORMF prescribes the authorities, governance and monitoring structures, duties and responsibilities, processes, methodologies and standards which have to be implemented and adhered to when managing operational risk.

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

In addition, there are governance committees at all levels of the Group (business unit, segment and franchise) that have been designed and established to support the ORC and the RCC in executing their risk management duties and responsibilities.

The central operational risk management team in ERM is responsible for embedding the governance structure across the Group.

### ASSESSMENT AND MANAGEMENT

#### Operational risk assessment 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 provides oversight, sets the risk appetite and challenges the risk profile. GIA in the third line of control provides independent assurance of the adequacy and effectiveness of operational risk management practices.

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

*Operational risk assessment approaches and tools*

| OPERATIONAL RISK TOOLS AND APPROACHES | | |
|---|---|---|
| **Risk control self assessments ("RCSA")** | **Key risk indicators ("KRI")** | **Audit findings** |
| • Integrated in the day-to-day business and risk management processes.<br>• Used by business and risk managers to identify and monitor key risk areas and assess the effectiveness of existing controls.<br>• Customised RCSA templates have been developed for specialised areas such as IT, business continuity and physical security. | • Used across the Group in all businesses as an early warning measure.<br>• Highlight areas of changing trends in exposures to specific operational risks.<br>• KRI reports are tabled at management and risk governance meetings to ensure that changes in the risk profile are brought to the attention of senior management. | • GIA acts as the third line of risk controls across the Group.<br>• GIA provides an independent view on the effectiveness of existing controls and their effectiveness in mitigating risks associated with key and supporting processes.<br>• Audit findings are tracked, monitored and reported on through the risk committee structures. |
| **Internal/external loss data** | **Internal validation** | **Risk scenarios** |
| The capturing of loss data is well entrenched within the Group.<br>• Internal loss data reporting and analyses occurs at all levels with specific focus on the root cause analysis and corrective action.<br>• External loss data bases are used to learn from other organisations and as an input to the risk scenario process. | • A Group wide internal validation is undertaken annually to ensure consistency in the application and output of the various tools.<br>• This process involves a robust challenge of all the risk tools at all levels within the Group.<br>• A report is issued on the final result to the business. | Risk scenarios are widely used to identify and quantify extreme loss events.<br>• Senior executives of the business actively participate in the bi-annual reviews.<br>• The results are tabled at the appropriate risk committees and used as input to the capital modelling process. |

In addition to these operational risk tools and approaches, other specialised operational risk tools are used for specific risks, such as business resilience and IT risks. FirstRand also uses an integrated and renowned operational risk system which provides the technology for the automation of certain operational risk functions. This system is well positioned as the core operational risk system, and provides a solid platform for further automation, which is currently a key focus area for operational risk management. Other key objectives include the development, deployment and integration of an integrated risk and performance management solution which includes the implementation of an enhanced RCSA process which has been expanded to include process identification and assessment.

## 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. fraud) and are budgeted for appropriately. Business areas seek to 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 seeks to minimise these incidences and contain severity within 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 procedures with meaningful adjustments to risk management. The Board and management continue to refine the consistent and disciplined approach of linking business processes to the operational risk and control environment.

## Basel II – Advanced measurement approach

FirstRand began applying AMA under Basel II 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 FRIHL 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 granular and accurate risk-based measures of capital for all business units on AMA.

A number of **operational risk scenarios** (covering key risks that, although low in probability, may result in severe losses) and **internal loss data** are the inputs into this model.

- Scenarios are derived through an extensive analysis of the Group's operational risks in consultation with business and risk experts from the respective business units. Scenarios are cross referenced to external loss data, internal losses, the control environment and other pertinent information about relevant risk exposures. To ensure the ongoing accuracy of 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 II event types across various internal business lines. Data collection is the responsibility of the respective business units and is overseen by the central operational risk function 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. Regulatory capital requirements are then calculated (for the Group and each franchise) as the operational VaR at the $99.9^{th}$ percentile of the aggregate loss distribution, excluding the effects of insurance, expected losses and potential diversification effects.

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.

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 risk profile, as measured by various risk measurement tools;
- material effects of expansion into new markets, new or substantially changed activities as well as the closure of existing operations;
- changes in the control environment – the organisation targets a continuous improvement in the control environment, but deterioration 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.

## Management processes

A comprehensive and integrated approach to managing operational risk includes the monitoring of some specialist operational risk processes. These are described below.

### *Business resilience management*

Business resilience management ("BRM") is focused on ensuring that the Group's operations are resilient to the risk of severe disruptions caused by internal failures or external events.

The business continuity practices of the Group are documented in the business resilience, emergency response and incident management policy and supporting standards, which are approved at the Business resilience steering committee a subcommittee of the ORC. The policy requires the development and maintenance of business continuity strategies and plans. It also requires regular business continuity testing to be carried out in all business units.

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, all material areas remained at an acceptable status of readiness.

### *Legal risk*

The legal risk management framework 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 the impact of changes in the law brought about by legislation or the decisions of the courts (unless such changes are covered as part of the compliance programme under RRM).

The legal risk management programme which flows from this is subject to continual review and refinement to ensure that sound operational risk governance practices and solutions are adopted and that it aligns with the Group's overall risk management programme. The legal risk committee, a subcommittee of the ORC, has oversight of legal risk management. During the year under review there were no significant legal risk-related incidents.

### *Information risk*

Information risk is the risk of adverse business impacts, including reputational damage caused by a failure of data confidentiality, integrity and availability controls and is therefore a key area of ongoing focus.

The Group's information technology risk management framework ("IT framework") requires the application of the operational risk tools as discussed above. The tools have been adapted to align with IT standards and best practices. The IT framework is approved by the Technology and information risk management committee, an ORC subcommittee and applies to all operations across the Group.

The IT framework clearly defines the objectives for managing information risk, and outlines the processes that need to be embedded, managed and monitored across the Group.

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

*Fraud and security risks*

The Group is committed to creating an environment that safeguards customers, staff and assets against fraud or security risks by continually investing in people and processes for both preventative and detective measures.

Oversight and governance of fraud and security risk is ensured via specific frameworks and policies that are applicable across the Group.

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 centrally by ERM.

## Regulatory risk

### KEY DEVELOPMENTS AND FOCUS

The regulatory landscape is dynamic with many changes and enhancements being proposed and introduced by regulators. These emanate, in the main, from international standard-setting bodies responding to the lessons learned from the global financial crisis. South African banking regulation is based on international standards and best practice and is constantly being enhanced in line with the BCBS's reform programme and its ongoing work to strengthen the resilience of banks and the global banking system.

In this regard, the South African banking regulator is in process of finalising current proposed amendments to the banking legislative framework in its ongoing effort to incorporate measures issued by the various international standard-setting bodies. Amongst others, these new or amended requirements and standards aim to further enhance the safety and soundness of the domestic banking system in support of financial stability. It is anticipated that, going forward, these and other measures will remain focus areas to ensure that the South African legal and regulatory framework pertaining to the banking sector remains effective in strengthening the regulation, supervision and risk management of the banking sector.

FirstRand is supportive of the banking regulator's objectives and endorses improvements in risk management and governance practices as an active participant in the changing regulatory landscape. The same approach is also applied in respect of cooperation with other regulatory authorities and much effort and resources are dedicated in a cost efficient manner in order to reap maximum benefits emanating from the implementation of best practice and the resultant enablement of our business activities.

### INTRODUCTION AND OBJECTIVES

The Group's RRM function plays an integral part in managing the risks inherent in the business of 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 Group embeds and endorses a culture that emphasises standards of honesty and integrity in which the Board and senior management lead by example. The compliance culture also embraces broader standards of integrity and ethical conduct and concerns all employees.

Non-compliance may potentially have serious consequences, which could lead to both civil and criminal liability, including penalties, claims for loss and damages or restrictions imposed by regulatory bodies.

The 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.

It is of paramount importance to ensure compliance with, among others, the provisions of the Banks Act, 1990 (Act No. 94 of 1990 – "the Act") and the Regulations relating to Banks ("the Regulations"), and to ensure that all compliance issues identified in this context are effectively and expeditiously resolved by senior management with the assistance of RRM.

In order to achieve this, all staff members are continually made aware of compliance requirements in order to ensure a high level of understanding and awareness of the regulatory framework applicable to the Group and the potential regulatory risks to which the Group is exposed.

Furthermore, ethical behaviour is both a keystone and an important contributor to the success of the entire compliance process. In view thereof, the Group expects all staff to maintain standards of honesty, integrity and fair dealing and to act with due skill, care and diligence.

### ORGANISATIONAL STRUCTURE AND GOVERNANCE

Responsibility for ensuring compliance with all relevant laws, 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 committee, the RCC committee and the FirstRand Audit committee, all of which receive regular detailed reports on the level of compliance and instances of material non-compliance from RRM.

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

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.

## ASSESSMENT AND MANAGEMENT

The high-level activities of RRM are described in the chart below.

*Regulatory risk management activities*

| Regulatory risk and ethics strategy development | Regulatory risk and ethics management | Centre of excellence | Relationship management |
|---|---|---|---|
| Defines overall strategy for FirstRand – and ensure alignment of brand strategy | Performs strategic risk identification, assessment, mitigation and provide assurance | Provides expertise, advice and guidance | Provides regulatory liaison and relationship management |
| | Monitors, analyses and reports ethics and regulatory risks | | |
| Sets framework, policies, standards for RRM and ethics | Gathers and manages ethics and regulatory risk data/information | Facilitates knowledge management, training and awareness | |
| | Set core control functions at FirstRand level for standards/ policy setting | | Stakeholder relationship management (internal and external) |
| Fosters a culture of ethical conduct and compliance | Challenges, tests and makes final trade-off decisions at divisional level (dependent on decision rights) | Runs selected core activities | |
| | Ensures sustainability through regulatory risk and ethics strategy | | |

The RRM function's Board mandate prescribes full compliance with statutes and regulations. To achieve this, RRM has implemented appropriate structures, policies, processes and procedures to identify regulatory and supervisory risks monitor the management thereof and report 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.

# Directors' responsibility statement

## To the members of FirstRand Bank Limited

The directors of FirstRand Bank Limited are responsible for the preparation of the separate annual financial statements. In discharging this responsibility, the directors rely on management to prepare the annual financial statements in accordance with International Financial Reporting Standards ("IFRS") and for keeping adequate accounting records in accordance with the Company'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 was no change to accounting policies during the financial year. The financial statements incorporate full and responsible disclosure in line with the Company's philosophy on corporate governance.

The directors are responsible for the Company'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 Company is on identifying, assessing, managing and monitoring all known forms of risk across the Company.

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 annual financial statements in accordance with IFRS and maintaining accountability for the Company'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 Company, 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 annual financial statements fairly present the state of affairs of the 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 Company's budget and flow of funds forecast and considered the 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 Company 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 Company'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 73.

The separate annual financial statements of the Company, which appear on pages 6 to 70 and 74 to 201 and specified sections of the risk management report were approved by the Board of Directors on September 12, 2011 and are signed on its behalf by:

| | |
|---|---|
| **SE Nxasana** | **JP Burger** |
| Chief executive officer | Chief financial officer |

Sandton
12 September 2011

# Audit committee report

The audit committee has satisfied itself that Deloitte & Touche and PricewaterhouseCoopers Inc ("The Auditors") are independent and were able to conduct their audit functions without any influence from FirstRand Bank Limited. This conclusion was arrived at after taking into account the following:

- The representations made by the auditors to the audit committee;
- The auditors do not, except as external auditors or in rendering permitted non-audit services, receive any remuneration or other benefits from the company;
- The auditors' independence was not impaired by any consultancy, advisory or other work undertaken by them;
- The auditors' independence was not prejudiced as a result of any previous appointment as auditor; and
- The criteria specified for independence were met.

The audit committee has reviewed the annual report and recommended it to the board for approval.

On behalf of the group audit committee

**JH van Greuning**
Chairman of the Audit committee

Sandton
12 September 2011

# Independent auditors' report

## To the shareholders of FirstRand Bank Limited

We have audited the accompanying annual financial statements of FirstRand Bank Limited, which comprise the statement of financial position as at 30 June 2011, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, a summary of significant accounting policies, other explanatory information and the directors' report, as set out on pages 6 to 70 and 74 to 201.

### DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and 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 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 financial statements are free of material misstatement.

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

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

### OPINION

In our opinion, the financial statements present fairly, in all material respects, the financial position of FirstRand Bank Limited as at 30 June 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and in the requirements of the Companies Act of South Africa.

**Deloitte & Touche**
Registered Auditor
Per Kevin Black
Partner

**PricewaterhouseCoopers Inc.**
Director: T Winterboer
Registered Auditor

Sandton
12 September 2011

# Directors' report

## Nature of business

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

## Share capital

The following shares were issued during the period:

| | |
|---|---|
| 18 October 2010 | 1 ordinary share at a par value of R2.00 |
| 04 April 2011 | 1 ordinary share at a par value of R2.00 |

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

## Dividends

Ordinary cash dividends of R3 072 million were paid during the 2011 financial year (2010: R2 267 million).

Dividends of R201 million (2010: R230 million) were paid on non-cumulative non-redeemable preference shares.

## Ownership of FirstRand Bank Limited

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

## Profit after tax

Profit after tax amounted to R 7 986 million (2010: R5 570 million)

## Directorate

The following directors were appointed to the Board of Directors on 1 July 2010:

NN Gwagwa, AP Nkuna, AT Nzimande, D Premnarayen and KB Schoeman.

Mr AP Nkuna resigned from the Board of Directors on 31 July 2011.

## Consolidated financial reports

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

## Share purchase/option scheme

Details of the investment FirstRand Share Scheme established for the benefit of employees of the Bank can be found in note 27 of the financial statements.

## Company secretary

Declaration by the company secretary in respect of section 88(2) (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 are 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

12 September 2011
Sandton

# Accounting policies

## 1 Introduction

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

## 2 Basis of presentation

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

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

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

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

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

- *IFRS 1 First-time Adoption of International Financial Reporting Standards* which was amended during January 2010. The amendment provides relief to first-time adopters of International Financial Reporting Standards from providing the additional disclosures introduced in March 2009 by the amendment to *IFRS 7 Improving Disclosures About Financial Instruments*. The additional disclosure requirements included in the amendment to IFRS 7 required enhanced disclosures about fair value measurement and liquidity risk. The amendment does not have an impact on the Bank as the Bank has already adopted IFRS.
- *IAS 32 Financial Instruments: Presentation* was amended during October 2009. The amendment clarifies the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. The amendment requires rights issues offered pro rata to all of an entity's existing shareholders to be classified as equity instruments regardless of the currency in which the exercise price is denominated. The amendment has had no impact on the Bank's results as no such arrangements have been entered into.
- 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 2009 is effective for annual periods commencing on or after 1 January 2010 and the improvements made to IFRS 3 and IAS 27 as part of the 2010 annual improvements project is effective for annual periods commencing on or after 1 July 2010. The Bank has adopted these amendments during the current financial year. These amendments have not had a significant impact on the Bank's results nor has it resulted in the restatement of prior year numbers.
- *IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments* is effective for annual periods commencing on or after 1 July 2010. This interpretation addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability. These transactions are often referred to as debt for equity swaps. This interpretation does not address the accounting by the creditor. This interpretation has no effect on the Bank's financial statements as no such arrangements have been entered into.

The Bank prepares its financial statements in accordance with the going concern principle using the historical cost basis, except for the following assets and liabilities:

- financial assets and liabilities held for trading;
- financial assets classified as available-for-sale;
- derivative financial instruments;
- financial instruments elected to be carried at fair value through profit and loss;
- employee benefit liabilities, valued using projected unit credit method; and
- policyholder liabilities under insurance contracts that are valued in terms of the Financial Soundness Valuation ("FSV") basis as outlined below.

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

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

## 3 Subsidiary companies

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

Investments in subsidiary companies are recognised at cost less impairment losses recognised.

## 4 Associates and joint ventures

Associates are entities in which the Bank holds an equity interest of between 20% and 50% and has no control. The Bank is presumed to have significant influence where it holds an equity interest of between 20% and 50%. Joint ventures are entities in which the Bank has joint control over the economic activity of the joint venture, through a contractual arrangement. Investments acquired and held exclusively with the view to dispose of in the near future (within 12 months) are not accounted for using the equity accounting method, but are measured at fair value less cost to sell in terms of the requirements of IFRS 5.

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

## 5 Interest income and expense

The Bank recognises interest income and expense in 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 a financial liability and of allocating the interest income or interest expense over the average expected life of the financial instruments or portfolios of financial instruments.

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

- the Bank's funding operations;
- where hedge accounting is applied; and
- interest on intercompany balances.

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

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

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

## 6 Fair value income

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

## 7 Fee and commission income

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

Certain fees and transaction costs that form an integral part of the effective interest rate of available-for-sale and amortised cost financial instruments are capitalised and recognised as part of the effective interest rate of the financial instrument over the expected life of the financial instruments. These fees and transaction costs are recognised as part of the net interest income and not as non-interest revenue.

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

## 8 Dividend income

The Bank recognises dividends when the Bank's right to receive payment is established. This is on the "last day to trade" for listed shares and on the "date of declaration" for unlisted shares. Dividend income includes scrip dividends, irrespective of whether there is an option to receive cash instead of shares, except to the extent that the scrip dividend is viewed as a bonus issue with no cash alternative and the transaction lacks economic significance.

### 8.1 DISTRIBUTION OF NON-CASH ASSETS TO OWNERS

A dividend payable is recognised when the distributions are appropriately authorised by the shareholders and are no longer at the discretion of the entity. The Bank 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 the 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.

## 9 Foreign currency translation

### 9.1 FUNCTIONAL AND PRESENTATION CURRENCY

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

### 9.2 TRANSACTIONS AND BALANCES

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

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

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

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

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

## 10 Borrowing costs

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

## 11 Direct and indirect tax

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

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

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

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

## 12 Recognition of assets

### 12.1 ASSETS

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

### 12.2 CONTINGENT ASSETS

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

## 13 Liabilities, provisions and contingent liabilities

### 13.1 LIABILITIES AND PROVISIONS

The Bank recognises liabilities, including provisions, when:

- it has a present legal or constructive obligation as a result of past events;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate of the amount of the obligation can be made.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of the obligation as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre tax rate that reflects the current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as interest expense.

### 13.2 CONTINGENT LIABILITIES

The Bank discloses a contingent liability when:

- it has a possible obligation arising from past events, the existence of which will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or

- it has a present obligation that arises from past events but is not recognised because:
  - it is not probable that an outflow of resources will be required to settle an obligation; or
  - the amount of the obligation cannot be measured with sufficient reliability.

## 14 Cash and cash equivalents

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

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

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

## 15 Financial instruments

### 15.1 GENERAL

Financial instruments carried on the statement of financial position include all assets and liabilities, including derivative instruments, but exclude investments in associates and joint ventures, commodities, property and equipment, assets and liabilities of insurance operations, deferred tax, tax payable, intangible assets, inventory and post-retirement liabilities. The Bank recognises financial assets and financial liabilities on its statement of financial position when the Bank becomes a party to the contractual provisions of the instrument.

The Bank classifies its financial assets in the following categories:

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

Financial liabilities are classified in the following categories:

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

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

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

Available-for-sale financial assets and financial instruments at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method, less any impairment. Gains and losses arising from changes in the fair value of the financial instruments at fair value through profit or loss are included in profit or loss in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised in other comprehensive income, until the financial asset is derecognised or impaired, at which time the cumulative gain or loss previously recognised in other comprehensive income is recognised in 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 Bank recognises purchases and sales of financial instruments that require delivery within the time frame established by regulation or market convention (regular way purchases and sales) at settlement date, which is the date the asset is delivered or received. Otherwise the fair value of such transactions is recognised on the statement of financial position until settlement.

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

#### 15.1.1 Financial instruments at fair value through profit or loss

This category has two subcategories: financial instruments held for trading, and those designated at fair value through profit or loss at inception.

A financial instrument is classified as a trading instrument if acquired principally for the purpose of selling in the short-term or if it forms part of a portfolio of financial assets in which there is evidence of short-term profit taking. Derivatives are also categorised as held for trading unless they are designated as effective hedges.

Financial assets and liabilities are designated on initial recognition as at fair value through profit and loss to the extent that it produces more relevant information because it either:

- results in the reduction of measurement inconsistency (or accounting mismatch) that would arise as a result of measuring assets and liabilities and the gains and losses on them on a different basis; or
- is a group of financial assets and/or financial liabilities that is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and this is the basis on which information

about the assets and/or liabilities is provided internally to the entity's key management personnel; or

- is a financial asset or liability containing significant embedded derivatives that clearly require bifurcation.

The main financial assets and liabilities designated at fair value through profit and loss are:

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

Financial instruments include:

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

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

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

The amount of change during the period and cumulatively, in the fair value of designated loans and receivables and designated financial liabilities that is attributable to changes in their credit risk, is determined as the amount of change in fair value that is not attributable to changes in market conditions that gives rise to market risk, i.e. currency, interest rate and other price risk.

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

### 15.1.2 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- those that the Bank intends to sell immediately or in the near term, which shall be classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss;
- those that the Bank upon initial recognition designates as available-for-sale; or
- those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as available for sale.

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

### 15.1.3 Held-to-maturity investments

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

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

### 15.1.4 Available-for-sale financial assets

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

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

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

### 15.1.5 Financial liabilities at amortised cost

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

### 15.2 OFFSETTING FINANCIAL INSTRUMENTS

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

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

### 15.3 EMBEDDED DERIVATIVES

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

- their risks and characteristics are not closely related to those of the host contract;
- they meet the definition of a derivative; and
- the host contract is not carried at fair value, with gains and losses reported in comprehensive income.

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

### 15.4 DERECOGNITION OF ASSETS AND LIABILITIES

The Bank derecognises an asset when:

- the contractual rights to the asset expires; or
- where there is a transfer of the contractual rights to receive the cash flows of the financial asset and substantially all of the risks and rewards related to the ownership of the financial asset are transferred; or
- the Bank retains the contractual rights of the assets but assumes a corresponding liability to transfer these contractual rights to another party and consequently transfers substantially all the risks and benefits associated with the asset.

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

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

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

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

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

### 15.5 SALE AND REPURCHASE AGREEMENTS AND LENDING OF SECURITIES

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

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

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

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

### 15.6 IMPAIRMENTS OF FINANCIAL ASSETS

#### 15.6.1 General

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

#### 15.6.2 Assets carried at amortised cost

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

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

- significant difficulty of the issuer or debtor;
- a breach of contract, such as a default or delinquency in payments;
- it becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be 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 Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and performs a collective assessment for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the financial asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in 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 Bank's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due in accordance with the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with similar credit risk characteristics. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

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

When a loan is uncollectible, it is written off against the related allowance account. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in 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) are treated as overdue where the principal or interest is overdue and remains unpaid as at the reporting date.
- Consumer loans repayable by regular instalments (e.g. mortgage loans, personal loans) are treated as overdue when an instalment payment is overdue and remains unpaid as at the reporting date.
- A loan payable on demand is treated as overdue where a demand for repayment has been served on the borrower but repayment has not been made in accordance with the instruction.

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

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

#### *15.6.2.2 Renegotiated advances*

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

### 15.6.3 Available-for-sale financial assets

The Bank assesses at each reporting 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 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 an 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 Bank initially recognises derivative financial instruments, including foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, currency and interest rate options (both written and purchased) and other derivative financial instruments, on the statement of financial position at fair value. Derivatives are subsequently remeasured at their fair value with all movements in fair value recognised in 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 Bank recognises derivatives as assets when the fair value is positive and as liabilities when the fair value is negative.

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

Where fair value is determined using valuation techniques whose variables include non-observable market data, the difference between the fair value and the transaction price ("the day one profit or loss") is not recognised in the statement of financial position. These differences are however kept track of for disclosure purposes. However, where observable market factors that market participants would consider in setting a price subsequently become available, the balance of the deferred day one profit or loss is released to profit or loss.

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

- hedge of the fair value of recognised assets or liabilities or firm commitments ("fair value hedge"); or
- hedge of highly probable future cash flows attributable to a recognised asset or liability, or a forecasted transaction ("cash flow hedge").

The hedge of a foreign currency firm commitment can either be accounted for as a fair value or a cash flow hedge.

Hedge accounting is used for derivatives designated in this way, provided certain criteria are met.

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

### 15.7.1 Fair value hedge

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

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

### 15.7.2 Cash flow hedge

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

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in other comprehensive income at that time remains in other comprehensive income and is recognised when the forecast transaction is recognised in 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 and 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 Bank 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 Bank has a shorter term trading intention are carried at fair value less cost to sell in accordance with the broker trader exception in IAS 2. The fair value of agricultural commodities is measured in accordance with general fair value principles.

### 16.2 OTHER COMMODITIES AND BASE METALS

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

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

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. The carrying amount of the replacement part is derecognised. All other repairs and maintenance are charged to 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 lease are broken down into significant components that are depreciated to their respective residual values over the economic lives of these components.

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

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

## 18 Leases

### 18.1 THE BANK IS THE LESSEE

#### 18.1.1 Finance leases

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

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

#### 18.1.2 Operating leases

The Bank classifies leases as operating leases where the lessor effectively retains the risks and benefits of ownership. It recognises operating lease payments in 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 Bank recognises as an expense any penalty payment to the lessor for early termination of an operating lease, in the period in which termination takes place.

### 18.2 THE BANK IS THE LESSOR

#### 18.2.1 Finance leases

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

#### 18.2.2 Operating leases

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

### 18.3 INSTALMENT CREDIT AGREEMENTS

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

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

## 19 Intangible assets

### 19.1 COMPUTER SOFTWARE DEVELOPMENT COSTS

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

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

### 19.2 OTHER INTANGIBLE ASSETS

The Bank generally expenses the costs incurred on internally generated intangible assets, such as trademarks, patents and similar rights and assets, to 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 Bank if:

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

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

The Bank carries capitalised trademarks, patents and similar assets at cost less amortisation and any impairments. It amortises these assets at a rate applicable to the expected useful life of the asset. Management reviews the carrying value whenever objective evidence of impairment exists. Carrying value is written down to estimated recoverable amount when a permanent decrease in value occurs. Any impairment is recognised in profit or loss when incurred.

Amortisation and impairments of intangible assets are reflected under operating expenses in profit or loss.

## 20 Deferred tax

Deferred income tax is provided in full, using the liability method on temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

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

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

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

## 21 Employee benefits

### 21.1 POST-EMPLOYMENT BENEFITS

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

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

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds, 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 Bank recognises current service costs immediately, while it expenses past service costs, experience adjustments, changes in actuarial assumptions and plan amendments over the expected remaining working lives of employees. The costs are expensed immediately in the case of retired employees.

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

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

### 21.2 POST-RETIREMENT MEDICAL BENEFITS

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

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

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

### 21.3 TERMINATION BENEFITS

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

### 21.4 LEAVE PAY PROVISION

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

### 21.5 BONUSES

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

### 21.6 RECOGNITION OF ACTUARIAL GAINS AND LOSSES

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

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

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

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

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

## 22 Borrowings

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

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

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

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

## 23 Share capital

### 23.1 SHARE ISSUE COSTS

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

### 23.2 DIVIDENDS PAID

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

### 23.3 DISTRIBUTIONS OF NON-CASH ASSETS

A dividend payable is recognised when the distributions are appropriately authorised and are no longer at the discretion of the entity. Distributions of non-cash assets to shareholders are measured 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 the date of settlement, with changes recognised in equity as an adjustment to the distribution. The difference between the carrying amount of the dividend payable 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 Bank purchases its own equity share capital, the consideration paid, including any directly attributable incremental costs, is deducted from total shareholders' equity as treasury shares until they are reissued or sold. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental costs, is included in shareholders' equity.

## 24 Acceptances

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

## 25 Segment reporting

An operating segment is a component of the Bank that engages in business activities from which the Bank may earn revenues and incur expenses. An operating segment is also a component of the Bank whose operating results are regularly reviewed by the chief operating decision maker in allocating resources, assessing its performance and for which discrete financial information is available. The chief operating decision maker has been identified as the chief executive officer of the Bank. The Bank identification and measurement of operating segments is consistent with the internal reporting provided to the chief executive officer. The operating segments have been identified and classified in a manner that reflects the risks and rewards related to the segments' specific products and services offered in their specific markets. Additional information relating to each segments' specific products and services, geographical areas and major customers is also provided in the notes to the financial statements.

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

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

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

## 26 Fiduciary activities

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

## 27 Share-based payment transactions

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

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

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

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

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

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

### 27.1 EQUITY SETTLED SHARE-BASED COMPENSATION PLANS

The Bank expenses the fair value of the employee services received in exchange for the grant of the options, over the vesting period of the options, as employee costs, with a corresponding credit to equity in the statement of changes in equity. The total value of the services received is calculated with reference to the fair value of the options on grant date.

The fair value of the options is determined excluding non-market vesting conditions. These vesting conditions are included in the assumptions of the number of options expected to vest. At each balance sheet date, the Bank revises its estimate of the number of options expected to vest. The Bank recognises the impact of the revision of original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

Amounts recognised for services received if the options granted do not vest because of failure to satisfy a vesting condition, are reversed through 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 equity 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.

### 27.2 CASH SETTLED SHARE-BASED PAYMENT COMPENSATION PLANS

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

## 28 Disposal groups held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than continuing use. This classification is only met if the sale is highly probable and the assets or disposal groups are available for immediate sale.

In light of the Bank's primary business being the provision of banking, insurance and asset management and health operations, non-current assets held as investments are not classified as held for sale as the ongoing investment management implies regular purchases and sales in the ordinary course of business.

Immediately before classification as held for sale, the measurement (carrying amount) of assets and liabilities in relation to a disposal group is recognised based upon the appropriate IFRS standards. On initial recognition as held for sale, the non-current assets and liabilities are recognised at the lower of carrying amount and fair value less costs to sell.

Any impairment losses on initial classification to held for sale are recognised in 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.

## 29 Discontinued operations

The Bank classifies a component as a discontinued operation when that component has been disposed of, or is classified as held for sale, and:

- it represents a separate major line of business or geographical area of operations;
- is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to resale.

A component of the Bank comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes from the rest of the Bank.

## 30 Customer loyalty programmes

The Bank operates a customer loyalty programme in terms of which it undertakes to provide goods and services to certain customers. The reward credits are accounted for as a separately identifiable component of the fee and commission income transactions of which they form a part. The consideration allocated to the reward credits is measured at the fair value of the reward credit and recognised over the period in which the customer utilises the reward credits.

Expenses relating to the provision of the reward credits are recognised as an expense as they are incurred.

## 31 Service concession arrangements

Service concession arrangements are recognised if the Bank acts as an operator in the provision of public services. Where the Bank has a contractual right to recover the amount receivable in respect of the arrangements from the government organisation, the amount receivable is classified as a financial asset and is accounted for in terms of the Bank policy for financial assets. Alternatively, where the Bank is entitled to collect the monies for usage from the public, the Bank recognises an intangible asset. The intangible asset is measured in accordance with the Bank policy for intangible assets and amortised over its useful life. Fee income earned from public usage is included in fee and commission income as it is receivable.

## 32 Change in accounting policies

There were no changes to the accounting policies in the 2011 financial year.

# Income statement
for the year ended 30 June

| R million | Notes | 2011 | 2010 |
|---|---|---|---|
| Interest and similar income | 1 | 34 684 | 35 130 |
| Interest expense and similar charges | 1 | (22 875) | (23 382) |
| **Net interest income before impairment of advances** | | 11 809 | 11 748 |
| Impairment of advances | 10 | (3 637) | (5 115) |
| **Net interest income after impairment of advances** | | 8 172 | 6 633 |
| Non-interest income | 2 | 26 003 | 21 278 |
| **Income from operations** | | 34 175 | 27 911 |
| Operating expenses | 3 | (23 420) | (20 680) |
| **Income before tax** | | 10 755 | 7 231 |
| Indirect tax | 4 | (503) | (403) |
| **Profit before tax** | | 10 252 | 6 828 |
| Direct tax | 4 | (2 266) | (1 258) |
| **Profit for the year** | | 7 986 | 5 570 |
| **Profit attributable to:** | | | |
| Non-cumulative non-redeemable preference shareholders | | 201 | 230 |
| Ordinary equity holders | | 7 785 | 5 340 |
| **Profit for the year** | | 7 986 | 5 570 |

# Statement of comprehensive income
for the year ended 30 June

| R million | Notes | 2011 | 2010 |
|---|---|---|---|
| **Profit for the year** | | **7 986** | 5 570 |
| **Other comprehensive income/(expense)** | | | |
| Cash flow hedges | | **21** | (180) |
| Available-for-sale financial assets | | **(47)** | 338 |
| Exchange differences on translating foreign operations | | **(133)** | (3) |
| **Other comprehensive (loss)/income for the year before tax** | | **(159)** | 155 |
| Direct tax relating to components of other comprehensive income | | **(46)** | (37) |
| **Other comprehensive (loss)/income for the year** | 5 | **(205)** | 118 |
| **Total comprehensive income for the year** | | **7 781** | 5 688 |
| **Total comprehensive income attributable to:** | | | |
| Non-cumulative non-redeemable preference shareholders | | **201** | 230 |
| Ordinary equity holders | | **7 580** | 5 458 |
| **Total comprehensive income for the year** | | **7 781** | 5 688 |

# Statement of financial position
at 30 June

| R million | Notes | 2011 | 2010 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | 7 | 29 012 | 22 745 |
| Derivative financial instruments | 8 | 36 666 | 38 944 |
| Advances | 9 | 429 134 | 401 279 |
| Investment securities and other investments | 11 | 83 810 | 79 979 |
| Commodities | 12 | 4 388 | 2 365 |
| Accounts receivable | 13 | 2 744 | 2 855 |
| Investments in associates | 14 | 116 | 1 167 |
| Investments in subsidiary companies | 15 | – | 279 |
| Amounts due by holding company and fellow subsidiary companies | 16 | 19 234 | 14 443 |
| Property and equipment | 17 | 8 480 | 7 816 |
| Post-retirement benefit asset | 24 | 2 830 | 2 483 |
| Intangible assets | 19 | 281 | 189 |
| Tax asset | | – | 741 |
| Loans to Insurance Group | | – | 1 101 |
| **Total assets** | | 616 695 | 576 386 |
| **EQUITY AND LIABILITIES** | | | |
| **Liabilities** | | | |
| Deposits and current accounts | 20 | 493 406 | 453 758 |
| Short trading positions | 21 | 5 777 | 7 469 |
| Derivative financial instruments | 8 | 36 150 | 35 285 |
| Creditors and accruals | 22 | 6 199 | 6 171 |
| Provisions | 23 | 2 945 | 2 725 |
| Tax liability | | 95 | – |
| Post-retirement liabilities | 24 | 2 252 | 2 105 |
| Deferred tax liability | 18 | 1 348 | 1 702 |
| Long-term liabilities | 25 | 7 040 | 6 284 |
| Amounts due to holding company and fellow subsidiary companies | 16 | 20 841 | 21 868 |
| Loans from Insurance Group | | – | 3 394 |
| **Total liabilities** | | 576 053 | 540 761 |
| **Equity** | | | |
| Ordinary shares | 26 | 4 | 4 |
| Share premium | 26 | 11 455 | 10 965 |
| Reserves | | 26 183 | 21 656 |
| **Capital and reserves attributable to ordinary equity holders** | | 37 642 | 32 625 |
| Non-cumulative non-redeemable preference shares | 26 | 3 000 | 3 000 |
| **Total equity** | | 40 642 | 35 625 |
| **Total equity and liabilities** | | 616 695 | 576 386 |

# Statement of changes in equity

for the year ended 30 June

| R million | Ordinary share capital and ordinary equity holders' funds | | | |
|---|---|---|---|---|
| | Share capital | Share premium | Share capital and share premium | Cash flow hedge reserve |
| Balance as at 30 June 2009 | 4 | 10 817 | 10 821 | (337) |
| Issue of share capital | – | 148 | 148 | – |
| Ordinary dividends | – | – | – | – |
| Preference dividends | – | – | – | – |
| Transfer (to)/from reserves | – | – | – | – |
| Contribution from parent company | – | – | – | – |
| Total comprehensive income for the year | – | – | – | (130) |
| **Balance as at 30 June 2010** | **4** | **10 965** | **10 969** | **(467)** |
| Issue of share capital | – | 490 | 490 | – |
| Ordinary dividends | – | – | – | – |
| Preference dividends | – | – | – | – |
| Transfer (to)/from reserves | – | – | – | – |
| Changes in ownership interest in subsidiaries | – | – | – | – |
| Contribution from parent company | – | – | – | – |
| Total comprehensive income for the year | – | – | – | 15 |
| **Balance as at 30 June 2011** | **4** | **11 455** | **11 459** | **(452)** |

| | Ordinary share capital and ordinary equity holders' funds | | | | | | Non-cumulative non-redeemable preference shares | Total equity |
|---|---|---|---|---|---|---|---|---|
| | Share-based payment reserve | Available-for-sale reserve | Foreign currency translation reserve | Other reserves | Retained earnings | Reserves attributable to ordinary equity holders | | |
| | 532 | 279 | (288) | 1 345 | 16 906 | 18 437 | 3 000 | 32 258 |
| | – | – | – | – | – | – | – | 148 |
| | – | – | – | – | (2 267) | (2 267) | – | (2 267) |
| | – | – | – | – | – | – | (230) | (230) |
| | (149) | – | – | – | 149 | – | – | – |
| | 28 | – | – | – | – | 28 | – | 28 |
| | – | 251 | (3) | – | 5 340 | 5 458 | 230 | 5 688 |
| | 411 | 530 | (291) | 1 345 | 20 128 | 21 656 | 3 000 | 35 625 |
| | – | – | – | – | – | – | – | 490 |
| | – | – | – | – | (3 072) | (3 072) | – | (3 072) |
| | – | – | – | – | – | – | (201) | (201) |
| | (88) | – | – | – | 88 | – | – | – |
| | 1 | | – | – | – | 1 | – | 1 |
| | 18 | – | – | – | – | 18 | – | 18 |
| | – | (87) | (133) | – | 7 785 | 7 580 | 201 | 7 781 |
| | 342 | 443 | (424) | 1 345 | 24 929 | 26 183 | 3 000 | 40 642 |

# Statement of cash flows
for the year ended 30 June

| R million | Notes | 2011 | 2010 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash receipts from customers | 28.2 | 56 932 | 53 343 |
| Cash paid to customers, suppliers and employees | 28.3 | (42 172) | (39 886) |
| Dividends received | | 2 721 | 2 354 |
| Dividends from associates | | – | 87 |
| Dividends paid | 28.7 | (3 072) | (2 497) |
| **Cash from operating activities** | 28.1 | 14 409 | 13 401 |
| Increase in income earning assets | 28.4 | (35 676) | (27 016) |
| Increase in deposits and other liabilities | 28.5 | 30 214 | 19 202 |
| **Cash utilised by operations** | | (5 462) | (7 814) |
| Tax paid | 28.6 | (2 333) | (2 071) |
| **Net cash inflow from operating activities** | | 6 614 | 3 516 |
| **Cash flows from investing activities** | | | |
| Proceeds on disposal of advances | | – | 22 |
| Proceeds on disposal of investment securities and other investments | | (69) | – |
| Acquisition of associates* | | (96) | (19) |
| Proceeds on disposal of associates* | | 1 530 | 34 |
| Proceeds on disposal of subsidiaries* | | 967 | – |
| Acquisition of property and equipment | | (2 187) | (2 397) |
| Proceeds on disposal of property and equipment | | 192 | 208 |
| Proceeds on disposal of investment properties | | – | 410 |
| Acquisition of intangible assets | | (205) | (75) |
| **Net cash inflow/(outflow) from investing activities** | | 132 | (1 817) |
| **Cash flows from financing activities** | | | |
| Repayment of long-term liabilities | | (961) | (82) |
| Proceeds from share issue | | 490 | 148 |
| **Net cash (outflow)/inflow from financing activities** | | (471) | 66 |
| **Net increase in cash and cash equivalents** | | 6 275 | 1 765 |
| Cash and cash equivalents at the beginning of the year | | 22 745 | 20 980 |
| **Effect of exchange rate changes on cash and cash equivalents** | | (8) | – |
| **Cash and cash equivalents at the end of the year** | 28.8 | 29 012 | 22 745 |

** Refer to note 28 for information on the cash flows arising from acquisition and disposal of significant subsidiaries, associates and joint ventures.*

Dividends received and paid previously included in cash flows from investing activities have been shown in cash flows from operating activities.

# Notes to the annual financial statements
for the year ended 30 June

## 1 Analysis of interest income and interest expenditure

| R million | 2011 | | | | |
|---|---|---|---|---|---|
| | Fair value | Amortised cost | Hedging instruments | Non-financial assets and liabilities | Total |
| 1.1 INTEREST AND SIMILAR INCOME | | | | | |
| – Advances | – | 29 386 | – | – | 29 386 |
| – Cash and cash equivalents | – | 498 | – | – | 498 |
| – Investment securities and other investments | 3 183 | 1 | – | – | 3 184 |
| – Unwinding of discounted present value on non-performing loans | – | 200 | – | – | 200 |
| – Amounts due by holding company and fellow subsidiary companies | 496 | 212 | – | – | 708 |
| – Other | 44 | 90 | 527 | 47 | 708 |
| **Interest and similar income** | **3 723** | **30 387** | **527** | **47** | **34 684** |

| R million | 2010 | | | | |
|---|---|---|---|---|---|
| | Fair value | Amortised cost | Hedging instruments | Non-financial assets and liabilities | Total |
| – Advances | – | 30 235 | – | – | 30 235 |
| – Cash and cash equivalents | – | 184 | – | – | 184 |
| – Investment securities and other investments | 3 139 | – | – | – | 3 139 |
| – Unwinding of discounted present value on non-performing loans | – | 248 | – | – | 248 |
| – Amounts due by holding company and fellow subsidiary companies | 223 | 356 | – | – | 579 |
| – Other | 72 | 449 | 207 | 17 | 745 |
| **Interest and similar income** | 3 434 | 31 472 | 207 | 17 | 35 130 |

## 1 Analysis of interest income and interest expenditure *continued*

| R million | 2011 Fair value | Amortised cost | Hedging instruments | Non-financial assets and liabilities | Total |
|---|---|---|---|---|---|
| **1.2 INTEREST EXPENSE AND SIMILAR CHARGES** | | | | | |
| – Deposits from banks and financial institutions | (44) | (474) | – | – | (518) |
| – Current accounts | (111) | (5 511) | – | – | (5 622) |
| – Savings deposits | – | (31) | – | – | (31) |
| – Term deposit accounts | (2 245) | (5 418) | – | – | (7 663) |
| – Negotiable certificates of deposit | (2 649) | (3 230) | – | – | (5 879) |
| – Long-term liabilities | (144) | (452) | – | – | (596) |
| – Amounts due to holding company and fellow subsidiary companies | (546) | (424) | – | – | (970) |
| – Other | (331) | (110) | (1 152) | (3) | (1 596) |
| **Interest expense and similar charges** | (6 070) | (15 650) | (1 152) | (3) | (22 875) |

| R million | 2010 Fair value | Amortised cost | Hedging instruments | Non-financial assets and liabilities | Total |
|---|---|---|---|---|---|
| – Deposits from banks and financial institutions | (43) | (574) | – | – | (617) |
| – Current accounts | – | (6 306) | – | – | (6 306) |
| – Savings deposits | – | (34) | – | – | (34) |
| – Term deposit accounts | (6 724) | (3 116) | – | – | (9 840) |
| – Negotiable certificates of deposit | (3 443) | – | – | – | (3 443) |
| – Long-term liabilities | (203) | (606) | – | – | (809) |
| – Amounts due to holding company and fellow subsidiary companies | (800) | (398) | – | – | (1 198) |
| – Other | (326) | (169) | (639) | (1) | (1 135) |
| Interest expense and similar charges | (11 539) | (11 203) | (639) | (1) | (23 382) |

## 2 Non-interest income

| R million | 2011 | 2010 |
|---|---|---|
| **Fee and commission income** | | |
| – Instruments at amortised cost | 12 497 | 10 909 |
| – Non-financial assets and liabilities | 3 118 | 2 815 |
| **Fee and commission income** | 15 615 | 13 724 |
| **Fair value income** | | |
| – Held for trading | 2 423 | 2 719 |
| – Designated at fair value through profit or loss | 5 557 | 3 178 |
| – Other | – | 6 |
| **Fair value income** | 7 980 | 5 903 |
| **Gains less losses from investing activities** | | |
| – Designated at fair value through profit or loss | 167 | 43 |
| – Available-for-sale | 363 | 51 |
| – Other | 1 073 | 175 |
| **Gains less losses from investing activities** | 1 603 | 269 |
| Other non-interest income | 805 | 1 382 |
| **Total** | 26 003 | 21 278 |

## 2 Non-interest income *continued*

| R million | 2011 | 2010 |
|---|---|---|
| **Fee and commission income:** | | |
| – Banking fee and commission income | 12 629 | 11 275 |
| – Card commissions | 1 793 | 1 550 |
| – Cash deposit fees | 1 451 | 1 317 |
| – Commitment fees | 207 | 153 |
| – Commissions: bills, drafts and cheques | 485 | 508 |
| – Exchange commissions | 529 | 517 |
| – Bank charges | 8 155 | 7 230 |
| – Brokerage | 9 | – |
| – Knowledge based fee and commission income | 784 | 762 |
| – Non-banking fee and commission income | 1 216 | 908 |
| – Other | 986 | 779 |
| **Fee and commission income** | **15 615** | **13 724** |
| 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. | | |
| **Fair value income** | **7 980** | **5 903** |
| **Included in gains and losses from fair value income:** | | |
| Dividend income on trading securities | 2 669 | 2 257 |
| **Gains less losses from investing activities** | | |
| – Losses on investment securities and other investments | (69) | – |
| – Gain or loss on disposal of subsidiary/associate | 1 072 | – |
| – Gains on investing activities | – | 410 |
| – Reclassification from other comprehensive income on the derecognition/sale of available-for-sale assets | 335 | 31 |
| – Preference share dividends | 3 | 4 |
| – Listed | – | 4 |
| – Unlisted | 3 | – |
| – Dividends from associates | – | 87 |
| – Listed and unlisted | – | 87 |
| – Dividends from subsidiaries | 1 | 78 |
| – Unlisted | 1 | 78 |
| – Other dividends received | 48 | 15 |
| – Listed | 24 | 3 |
| – Unlisted | 24 | 12 |
| – Other investment income | 213 | 42 |
| – Impairment of associates and investment securities and other investments | – | (398) |
| **Gains less losses from investing activities** | **1 603** | **269** |
| **Other non-interest income** | | |
| – Loss on disposal of property and equipment | (44) | (4) |
| – Recoveries from fellow subsidiaries | 120 | 621 |
| – Other income | 729 | 765 |
| **Other non-interest income** | **805** | **1 382** |
| **Total non-interest income** | **26 003** | **21 278** |

## 3 Operating expenses

| R million | 2011 | 2010 |
|---|---|---|
| **Fee and commission expense** | **(233)** | (165) |
| **Auditors' remuneration** | | |
| – Audit fees | (93) | (84) |
| – Fees for other services | (7) | (9) |
| – Other | (7) | (9) |
| – Prior year (under)/over provision | (1) | 1 |
| **Auditors' remuneration** | **(101)** | (92) |
| **Amortisation of intangible assets** | | |
| – Software | (89) | (5) |
| – Development costs | (7) | (82) |
| – Trademarks | (5) | (7) |
| – Other | (9) | (3) |
| **Amortisation of intangible assets** | **(110)** | (97) |
| **Depreciation** | | |
| – Property | (408) | (336) |
| – Freehold property | (129) | (82) |
| – Leasehold premises | (279) | (254) |
| – Equipment | (903) | (816) |
| – Computer equipment | (529) | (513) |
| – Furniture and fittings | (126) | (103) |
| – Motor vehicles | (134) | (89) |
| – Office equipment | (114) | (111) |
| – Capitalised leased assets | (3) | (2) |
| **Depreciation** | **(1 314)** | (1 154) |
| **Impairments incurred** | | |
| – Software | – | (4) |
| **Impairments incurred** | **–** | (4) |
| **Operating lease charges** | | |
| – Property | (695) | (715) |
| – Equipment | (131) | (165) |
| – Motor vehicles | (7) | (3) |
| **Operating lease charges** | **(833)** | (883) |
| **Professional fees** | | |
| – Managerial | (17) | (22) |
| – Technical | (484) | (468) |
| – Other | (343) | (245) |
| **Professional fees** | **(844)** | (735) |

## 3 Operating expenses *continued*

| R million | 2011 | 2010 |
|---|---|---|
| **Direct staff costs** | | |
| – Salaries, wages and allowances | (7 985) | (7 101) |
| – Contributions to employee benefit funds | (1 332) | (1 174) |
| – Defined contribution schemes | (1 084) | (1 005) |
| – Defined benefit scheme (note 24) | (248) | (169) |
| – Social security levies | (110) | (104) |
| – Share-based payments (note 27) | (880) | (544) |
| – Other | (445) | (293) |
| **Direct staff cost** | (10 752) | (9 216) |
| – Other staff related cost | (1 952) | (1 700) |
| **Total staff cost** | (12 704) | (10 916) |
| **Other operating costs** | | |
| – Insurance | (197) | (207) |
| – Advertising and marketing | (744) | (697) |
| – Maintenance | (811) | (755) |
| – Property | (554) | (463) |
| – Computer | (776) | (653) |
| – Stationery | (176) | (193) |
| – Telecommunications | (380) | (386) |
| – Cost associated with customer loyalty programmes | (293) | (294) |
| – Conveyance of cash | (368) | (317) |
| – Origination costs | (37) | (25) |
| – Other operating expenditure | (2 183) | (2 211) |
| – Intergroup expenses | (762) | (433) |
| **Other operating costs** | (7 281) | (6 634) |
| **Total operating expenses** | (23 420) | (20 680) |

## 3 Operating expenses *continued*

Included in staff expenditure and other operating expenditure are the following amounts:

**Directors and prescribed officers' emoluments**

Payments made to directors and prescribed officers for services rendered during the year are as follows:

| R thousand | 2011 | | | 2010 |
|---|---|---|---|---|
| | Services as directors of the FirstRand Bank Ltd Group[1] | Services as directors of subsidiaries of the FirstRand Group[1] | Total | Total |
| **Executive director** | | | | |
| D Premnarayen (appointed 1 July 2010)[2] | **116** | **1 514** | **1 630** | – |
| **Non-executive directors** | | | | |
| VW Bartlett[3] | 440 | 690 | 1 130 | 1 235 |
| JH Bester[3] | 1 762 | 1 065 | 2 827 | 2 408 |
| L Crouse | 141 | 578 | 719 | 663 |
| LL Dippenaar (Chairman) | 563 | 2 650 | 3 213 | 3 462 |
| PM Goss[3] | 136 | 500 | 636 | 708 |
| NN Gwagwa (appointed 1 July 2010) | 65 | 378 | 443 | – |
| PK Harris | 65 | 487 | 552 | 585 |
| WR Jardine[3] | 72 | 412 | 484 | 325 |
| AP Nkuna (appointed 1 July 2010 and resigned 31 July 2011) | 65 | 364 | 429 | – |
| AT Nzimande (appointed 1 July 2010) | 65 | 490 | 555 | – |
| EG Matenge-Sebesho[3] | 185 | 616 | 801 | 430 |
| RK Store[3] | 335 | 816 | 1 151 | 1 427 |
| BJ van der Ross[3] | 197 | 1 586 | 1 783 | 2 094 |
| JH van Greuning[3] | 308 | 2 341 | 2 649 | 1 874 |
| KB Schoeman (appointed 1 July 2010) | 65 | 348 | 413 | – |
| MH Visser | 65 | 410 | 475 | 564 |
| **Total non-executive** | **4 529** | **13 731** | **18 260** | **15 775** |

## 3 Operating expenses *continued*

**Prescribed officers**

| Emoluments | 2007 | 2008 | 2009 | 2010 | 2011 | CAGR |
|---|---|---|---|---|---|---|
| **SE Nxasana**[4, 5, 9] | | | | | | |
| Cash package[6] | 3 684 | 4 065 | 4 427 | 5 101 | 6 107 | |
| Retirement & medical aid contributions | 502 | 555 | 617 | 710 | 826 | |
| **Subtotal** | **4 186** | **4 620** | **5 044** | **5 811** | **6 933** | **13%** |
| Performance related [7] | 9 000 | 8 100 | 4 860 | 5 820 | 8 190 | 9%* |
| Performance payment deferred in FirstRand shares[8] | | | | 5 180 | 4 460 | |
| **Total** | **13 186** | **12 720** | **9 904** | **16 811** | **19 583** | **10%** |
| **JP Burger**[4, 10] | | | | | | |
| Cash package[6] | 3 467 | 3 756 | 4 258 | 4 699 | 5 379 | |
| Retirement & medical aid contributions | 512 | 610 | 692 | 760 | 877 | |
| **Subtotal** | **3 979** | **4 366** | **4 950** | **5 459** | **6 256** | **12%** |
| Performance related[7] | 8 500 | 7 650 | 4 590 | 5 520 | 7 470 | 8%* |
| Performance payment deferred in FirstRand shares[8] | | | | 4 480 | 3 980 | |
| **Total** | **12 479** | **12 016** | **9 540** | **15 459** | **17 706** | **9%** |
| **M Jordaan** | | | | | | |
| Cash package[6] | 3 126 | 3 286 | 3 606 | 3 898 | 4 283 | |
| Retirement & medical aid contributions | 592 | 692 | 760 | 825 | 904 | |
| **Subtotal** | **3 718** | **3 978** | **4 366** | **4 723** | **5 187** | **9%** |
| Performance related[7] | 8 125 | 8 950 | 6 265 | 5 400 | 6 360 | 4%* |
| Performance payment deferred in FirstRand shares[8] | | | | 2 600 | 3 240 | |
| **Total** | **11 843** | **12 928** | **10 631** | **12 723** | **14 787** | **6%** |
| **A Pullinger**[11] | | | | | | |
| Cash package[6] | 1 123 | 1 281 | 1 286 | 1 571 | 1 743 | |
| Retirement & medical aid contributions | 179 | 213 | 333 | 398 | 440 | |
| **Subtotal** | **1 302** | **1 494** | **1 619** | **1 969** | **2 183** | **14%** |
| Performance related[7] | 15 000 | 18 000 | 1 050 | 11 280 | 13 416 | 9%* |
| Performance payment deferred in FirstRand shares[8] | | | | 6 520 | 7 944 | |
| **Total** | **16 302** | **19 494** | **2 669** | **19 769** | **23 543** | **10%** |
| **B Riley**[12] | | | | | | |
| Cash package[6] | 1 335 | 1 697 | 2 177 | 2 315 | 2 572 | |
| Retirement & medical aid contributions | 185 | 218 | 275 | 368 | 403 | |
| **Subtotal** | **1 520** | **1 915** | **2 452** | **2 683** | **2 975** | **18%** |
| Performance related[7] | 3 250 | 2 762 | 1 700 | 3 000 | 4 200 | 17%* |
| Performance payment deferred in FirstRand shares[8] | | | | 1 000 | 1 800 | |
| **Total** | **4 770** | **4 677** | **4 152** | **6 683** | **8 975** | **17%** |

** CAGR for performance related payments includes the performance payment deferred in FirstRand shares.*

## 3 Operating expenses *continued*

In response to aggressive competitor activity from international investment banks, once-off retention payments were made to certain Group executives in 2007. JP Burger[13] and A Pullinger[14] received R15 million and R7 million respectively under these arrangements.

| Co-investment Scheme[15] | 2011 | 2010 |
|---|---|---|
| JP Burger[4] | 990 | 2 819 |
| M Jordaan | 495 | 1 409 |
| SE Nxasana[4] | 220 | 626 |
| A Pullinger | 1 321 | 3 758 |

*Notes:*

*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.*

1. *Fees earned by South Africa based executive directors from FirstRand and its subsidiaries are waived and ceded to companies in the FirstRand Group and do not accrue to them in their private capacity. These fees are not reflected in the above schedule.*
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.*
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 Bank.*
5. *Emoluments paid by FirstRand Limited. All other directors' emoluments are paid by FirstRand Bank.*
6. *"Cash package" includes travel and other allowances.*
7. *"Performance related" payments are in respect of the year ended 30 June, but are paid (together with an interest factor) in three tranches, during the following year ending 30 June.*
8. *Performance payments deferred in FirstRand shares vest in September two years after the award date. Refer to the share option schemes disclosed in note 27.*
9. *Appointed CEO effective 1 January 2010.*
10. *Appointed COO effective 6 June 2009.*
11. *Appointed CEO of RMB on 19 August 2008.*
12. *Appointed CEO of WesBank on 27 November 2006.*
13. *Three years service required in lieu of 2008 retention payment.*
14. *Retention payment paid in three tranches after meeting of performance targets.*
15. *"Co-investment Scheme" comprises the profit share entitlement from the Group co-investment scheme. (See note 27) Profit share is based on the capital contribution by an employee into the scheme which is at risk.*

***King III Code***
*King III requires companies to disclose the three highest paid employees who are not directors. The disclosure of the Prescribed Officers' remuneration deals with this sufficiently and in the Board's view demonstrates the alignment between remuneration and shareholder returns.*

***Share scheme vesting criteria***
*Detailed information in respect of vesting criteria for share incentive schemes is disclosed in note 27 to the annual financial statements.*

# 4 Indirect tax and direct tax

## 4.1 INDIRECT TAX

| R million | 2011 | 2010 |
|---|---|---|
| Value added tax (net) | (502) | (403) |
| Stamp duties | (1) | – |
| **Total indirect tax** | (503) | (403) |

## 4.2. DIRECT TAX

| R million | 2011 | 2010 |
|---|---|---|
| **Normal tax** | | |
| – Current | (2 658) | (1 396) |
| – Current year | (2 614) | (1 600) |
| – Prior year adjustment | (44) | 204 |
| – Deferred | 426 | 162 |
| – Current year | 315 | 276 |
| – Prior year adjustment | 111 | (114) |
| **Total normal tax** | (2 232) | (1 234) |
| **Secondary tax on companies** | | |
| – Deferred | (26) | (24) |
| – Current year | (26) | (24) |
| **Total secondary tax on companies** | (26) | (24) |
| Customer tax adjustment account | (8) | – |
| **Total direct tax** | (2 266) | (1 258) |
| **Tax rate reconciliation – South African normal tax** | % | % |
| **Effective rate of tax** | 22.1 | 18.4 |
| Total tax has been affected by: | | |
| – Non-taxable income | 6.6 | 10.7 |
| – Prior year adjustments | 0.7 | 1.3 |
| – Other non-deductable items | (1.1) | (1.4) |
| – Other taxes | (0.3) | (1.0) |
| **Standard rate of South African normal tax** | 28.0 | 28.0 |

## 5 Disclosure of the components and tax effects of other comprehensive income

| R million | 2011 | 2010 |
|---|---|---|
| **Cash flow hedges (refer to note 8)** | **15** | (130) |
| Losses arising during the year | (604) | (612) |
| Reclassification adjustments for amounts included in profit or loss | 625 | 432 |
| Deferred tax | (6) | 50 |
| **Available-for-sale financial assets** | **(87)** | 251 |
| Gains arising during the year | 289 | 369 |
| Less: Reclassification adjustments for amounts included in profit or loss | (336) | (31) |
| Deferred tax | (40) | (87) |
| **Exchange differences on translating foreign operations** | **(133)** | (3) |
| Losses arising during the year | (133) | (3) |
| **Other comprehensive (loss)/income** | **(205)** | 118 |

## 6 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 page 78 to page 83 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:

| | | 2011 | | |
|---|---|---|---|---|
| R million | Notes | Held for trading | Designated at fair value through profit or loss | Held-to-maturity investments |
| **ASSETS** | | | | |
| Cash and cash equivalents | 7 | – | – | – |
| Derivative financial instruments | 8 | 36 172 | – | – |
| Advances | 9 | – | 118 937 | 90 |
| Investment securities and other investments | 11 | 22 167 | 36 426 | – |
| Commodities | 12 | – | – | – |
| Accounts receivable | 13 | – | – | – |
| Investments in associates and joint ventures | 14 | – | – | – |
| Amounts due by holding company and fellow subsidiary companies | 16 | 79 | – | – |
| Property and equipment | 17 | – | – | – |
| Post-retirement benefit asset | 24 | – | – | – |
| Intangible assets | 19 | – | – | – |
| Tax asset | | – | – | – |
| Loans to Insurance Group | | – | – | – |
| **Total assets** | | 58 418 | 155 363 | 90 |
| **LIABILITIES** | | | | |
| Deposits and current accounts | 20 | – | 134 461 | – |
| Short trading positions | 21 | 5 777 | – | – |
| Derivative financial instruments | 8 | 35 169 | – | – |
| Creditors and accruals | 22 | – | – | – |
| Provisions | 23 | – | – | – |
| Tax liability | | – | – | – |
| Post-retirement liabilities | 24 | – | – | – |
| Deferred tax liability | 18 | – | – | – |
| Long-term liabilities | 25 | – | 943 | – |
| Amounts due to holding company and fellow subsidiary companies | 16 | 191 | – | – |
| Loans from Insurance Group | | – | – | – |
| **Total liabilities** | | 41 137 | 135 404 | – |

| 2011 | | | | | |
|---|---|---|---|---|---|
| Loans and receivables | Available-for-sale financial assets | Financial liabilities at amortised cost | Derivatives designated as hedging instruments | Non-financial assets and liabilities | Total |
| 29 012 | – | – | – | – | 29 012 |
| – | – | – | 494 | – | 36 666 |
| 309 992 | 115 | – | – | – | 429 134 |
| 24 | 25 193 | – | – | – | 83 810 |
| – | – | – | – | 4 388 | 4 388 |
| 2 744 | – | – | – | – | 2 744 |
| – | – | – | – | 116 | 116 |
| 19 155 | – | – | – | – | 19 234 |
| – | – | – | – | 8 480 | 8 480 |
| – | – | – | – | 2 830 | 2 830 |
| – | – | – | – | 281 | 281 |
| – | – | – | – | – | – |
| – | – | – | – | – | – |
| 360 927 | 25 308 | – | 494 | 16 095 | 616 695 |
| – | – | 358 945 | – | – | 493 406 |
| – | – | – | – | – | 5 777 |
| – | – | – | 981 | – | 36 150 |
| – | – | 6 199 | – | – | 6 199 |
| – | – | – | – | 2 945 | 2 945 |
| – | – | – | – | 95 | 95 |
| – | – | – | – | 2 252 | 2 252 |
| – | – | – | – | 1 348 | 1 348 |
| – | – | 5 023 | – | 1 074 | 7 040 |
| – | – | 20 650 | – | – | 20 841 |
| – | – | – | – | – | – |
| – | – | 390 817 | 981 | 7 714 | 576 053 |

## 6 Analysis of assets and liabilities *continued*

| | | 2010 | | |
|---|---|---|---|---|
| R million | Notes | Held for trading | Designated at fair value through profit or loss | Held-to-maturity investments |
| **ASSETS** | | | | |
| Cash and cash equivalents | 7 | – | – | – |
| Derivative financial instruments | 8 | 38 465 | – | – |
| Advances | 9 | – | 111 975 | 121 |
| Investment securities and other investments | 11 | 18 545 | 37 890 | – |
| Commodities | 12 | – | – | – |
| Accounts receivable | 13 | – | – | – |
| Investments in associates and joint ventures | 14 | – | – | – |
| Investments in subsidiary companies | 15 | – | – | – |
| Amounts due by holding company and fellow subsidiary companies | 16 | 113 | – | – |
| Property and equipment | 17 | – | – | – |
| Post-retirement benefit asset | 24 | – | – | – |
| Intangible assets | 19 | – | – | – |
| Tax asset | | – | | |
| Loans to Insurance Group | | – | – | – |
| **Total assets** | | 57 123 | 149 865 | 121 |
| **LIABILITIES** | | | | |
| Deposits and current accounts | 20 | – | 206 293 | – |
| Short trading positions | 21 | 7 469 | – | – |
| Derivative financial instruments | 8 | 34 215 | – | – |
| Creditors and accruals | 22 | – | – | – |
| Provisions | 23 | – | – | – |
| Post-retirement liabilities | 24 | – | – | – |
| Deferred tax liability | 18 | – | – | – |
| Long-term liabilities | 25 | – | 904 | – |
| Amounts due to holding company and fellow subsidiary companies | 16 | 86 | – | – |
| Loans from Insurance Group | | – | – | – |
| **Total liabilities** | | 41 770 | 207 197 | – |

| | 2010 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Loans and receivables | Available-for-sale financial assets | Financial liabilities at amortised cost | Derivatives designated as hedging instruments | Non-financial assets and liabilities | Total |
| | 22 745 | – | – | – | – | 22 745 |
| | – | – | – | 479 | – | 38 944 |
| | 288 883 | 300 | – | – | – | 401 279 |
| | – | 23 544 | – | – | – | 79 979 |
| | – | – | – | – | 2 365 | 2 365 |
| | 2 855 | – | – | – | – | 2 855 |
| | – | – | – | – | 1 167 | 1 167 |
| | – | – | – | – | 279 | 279 |
| | 14 330 | – | – | – | – | 14 443 |
| | – | – | – | – | 7 816 | 7 816 |
| | – | – | – | – | 2 483 | 2 483 |
| | – | – | – | – | 189 | 189 |
| | – | | | | 741 | 741 |
| | 1 101 | – | – | – | – | 1 101 |
| | 329 914 | 23 844 | – | 479 | 15 040 | 576 386 |
| | – | – | 247 465 | – | – | 453 758 |
| | – | – | – | – | – | 7 469 |
| | – | – | – | 1 070 | – | 35 285 |
| | – | – | 6 171 | – | – | 6 171 |
| | – | – | – | – | 2 725 | 2 725 |
| | – | – | – | – | 2 105 | 2 105 |
| | – | – | – | – | 1 702 | 1 702 |
| | – | – | 4 864 | – | 516 | 6 284 |
| | – | – | 21 782 | – | – | 21 868 |
| | – | – | 3 394 | – | – | 3 394 |
| | – | – | 283 676 | 1 070 | 7 048 | 540 761 |

## 7 Cash and cash equivalents

| R million | 2011 | 2010 |
|---|---|---|
| Coins and bank notes | 4 169 | 3 838 |
| Money at call and short notice | 1 100 | 1 230 |
| Balances with central banks | 14 479 | 10 615 |
| Balances with other banks | 9 264 | 7 062 |
| **Cash and cash equivalents** | 29 012 | 22 745 |
| **Mandatory reserve balances included in cash and cash equivalents** | 11 238 | 10 527 |

Banks are required to deposit a minimum average balance, calculated monthly, with the central bank, which is not available for use in the Bank's day to day operations. These deposits bear 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 42 for the current and non-current analysis of cash and short-term funds.

## 8 Derivative financial instruments

### USE OF DERIVATIVES

The Bank transacts in derivatives for three purposes: to create risk management solutions for clients, for proprietary trading purposes, and to manage and hedge the Bank's own risk. For accounting purposes, derivative instruments are classified as either held for trading or hedging instruments.

Derivatives that are held as hedging instruments are formally designated as hedging instruments as defined in IAS 39. All other derivatives are classified as held for trading. The held for trading classification includes two types of derivative instruments: those used in sales and trading activities, and those that are economic hedges but do not meet the criteria to qualify for hedge accounting. The latter includes derivatives managed in conjunction with financial instruments designated at fair value.

The Bank's derivative activities give rise to significant open positions in portfolios of derivatives. These positions are managed constantly to ensure that they remain within acceptable risk levels, with offsetting deals being utilised to achieve this where necessary.

Whilst the Bank employs the same credit risk management procedures to approve the potential credit exposures for derivatives as are used for traditional lending, the calculations and procedures used to assess credit risk for derivatives are more complex.

The notional amounts of the derivative instruments do not necessarily indicate the amounts of future cash flows or the current fair value of the instruments, and therefore, do not present the Bank'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 Bank's detailed risk management strategy, including the use of hedging instruments in risk management, is set out in the Risk Report on pages 3 to 70 of the Annual Report.

### TRADING DERIVATIVES

Most of the Bank's derivative transactions relate to sales and trading activities. Sales activities include the structuring and marketing of derivative products to customers to enable them to take on, 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 the 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 voluming. 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.

## 8 Derivative financial instruments *continued*

### TRADING DERIVATIVES *continued*

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 Bank's fair value hedges principally consist of commodity derivatives used to hedge the price risk associated with physical commodity positions. 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 the fair value hedging requirements should continue to be 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 | 2011 | 2010 |
|---|---|---|
| **Gains or (losses) for the period arising from the change in fair value of fair value hedges:** | | |
| – On hedging instrument | (356) | 120 |
| – On hedged items attributable to the hedged risk | 359 | (120) |
| **Total** | 3 | – |

### CASH FLOW HEDGES

The Bank raises funding and holds assets that bear interest at variable and fixed rates. This mix of interest rates in the Bank's assets and liabilities exposes the Bank to interest rate risk. Changes in the market interest rates have an impact on the Bank's profit or loss. The Bank has hedges in place to manage this risk. These hedges are accounted for as cash flow hedges.

The Bank 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 Bank'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 Bank.

The Bank 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.
- 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 is 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 the hedged item will affect profit or loss.

When hedging instruments are sold or when the hedge no longer meets the criteria for hedge accounting, the 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.

## 8 Derivative financial instruments *continued*

### CASH FLOW HEDGES *continued*

| R million | 2011 | 2010 |
|---|---|---|
| **Reconciliation of movements in the cash flow hedge reserve:** | | |
| Opening balance (net of deferred tax) | (467) | (337) |
| Amount recognised directly in other comprehensive income during the year | (435) | (441) |
| Amounts reclassified from other comprehensive income and included in profit or loss for the year: | 450 | 311 |
| – Gross amount | 625 | 432 |
| – Deferred tax | (175) | (121) |
| **Closing balance** | (452) | (467) |
| During the period the hedging relationship was highly effective and the Bank deferred the lesser of changes in fair value on the hedging instruments and changes in fair value on the hedged items. As the changes on the hedging instruments were more than the changes on the hedged items, there was ineffectiveness recognised in profit or loss. | | |
| **Hedge ineffectiveness recognised in profit or loss:** | 21 | 20 |

**Cash flows on the underlying hedged items are expected to impact profit or loss as follows:**

| | 2011 | | 2010 | |
|---|---|---|---|---|
| R million | Assets | Liabilities | Assets | Liabilities |
| – 0 – 3 months | 1 911 | (1 705) | 5 061 | (3 422) |
| – 4 – 12 months | 5 154 | (4 983) | 3 744 | (2 763) |
| – 1 – 5 years | 2 469 | (6 635) | 1 321 | (1 099) |
| – Over 5 years | – | (57) | – | (10) |
| **Total** | 9 534 | (13 380) | 10 126 | (7 294) |

**Cash flows on the hedging instruments are expected to be released to profit or loss as follows:**

| | 2011 | | 2010 | |
|---|---|---|---|---|
| R million | Assets | Liabilities | Assets | Liabilities |
| – 0 – 3 months | (139) | 259 | (92) | 9 |
| – 4 – 12 months | (435) | 538 | (316) | 414 |
| – 1 – 5 years | (144) | 371 | (239) | 651 |
| – Over 5 years | – | 1 | – | 39 |
| **Total** | (718) | 1 169 | (647) | 1 113 |

## 8 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 | 494 | 54 252 | 973 |
| – Forward rate agreements | 17 130 | 15 | 17 240 | 34 |
| – Swaps | 17 332 | 479 | 37 012 | 939 |
| **Total cash flow hedges** | 34 462 | 494 | 54 252 | 973 |
| **Fair value hedges** | | | | |
| Commodity derivatives | 1 140 | – | – | – |
| Interest rate derivatives | – | – | 2 405 | 8 |
| **Total fair value hedges** | 1 140 | – | 2 405 | 8 |
| **Total qualifying for hedge accounting** | 35 602 | 494 | 56 657 | 981 |
| **Held for trading** | | | | |
| Currency derivatives | 284 930 | 9 027 | 272 129 | 7 168 |
| – Swaps | 182 011 | 5 621 | 198 878 | 4 112 |
| – Options | 9 681 | 636 | 12 372 | 543 |
| – Futures | 93 238 | 2 770 | 60 879 | 2 513 |
| Interest rate derivatives | 9 339 311 | 26 186 | 9 478 850 | 26 636 |
| – Forward rate agreements | 7 305 573 | 5 455 | 7 286 647 | 5 489 |
| – Swaps | 1 453 420 | 20 009 | 1 465 033 | 20 339 |
| – Options | 570 020 | 722 | 723 944 | 808 |
| – Futures | 10 298 | – | 3 226 | – |
| Equity derivatives | 11 427 | 279 | 21 960 | 841 |
| – Swaps | – | – | 3 630 | 2 |
| – Options | 4 477 | 187 | 7 805 | 798 |
| – Futures | 6 950 | 92 | 10 525 | 41 |
| Commodity derivatives | 21 929 | 640 | 31 695 | 476 |
| – Swaps | 4 277 | 348 | 7 588 | 111 |
| – Options | 4 104 | 264 | 3 916 | 153 |
| – Futures | 13 548 | 28 | 20 191 | 212 |
| Credit derivatives | 200 | 40 | 1 075 | 48 |
| **Total held for trading** | 9 657 797 | 36 172 | 9 805 709 | 35 169 |
| **Total** | 9 693 399 | 36 666 | 9 862 366 | 36 150 |

## 8 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 | 494 | 34 462 | 494 |
| – Interest rate derivatives | – | – | 34 462 | 494 | 34 462 | 494 |
| **Fair value hedges** | 1 140 | – | – | – | 1 140 | – |
| – Commodity derivatives | 1 140 | – | – | – | 1 140 | – |
| **Not qualifying for hedge accounting** | | | | | | |
| **Held for trading** | 23 444 | – | 9 634 353 | 36 172 | 9 657 797 | 36 172 |
| – Currency derivatives | – | – | 284 930 | 9 027 | 284 930 | 9 027 |
| – Interest rate derivatives | 10 378 | – | 9 328 933 | 26 186 | 9 339 311 | 26 186 |
| – Equity derivatives | 386 | – | 11 041 | 279 | 11 427 | 279 |
| – Commodity derivatives | 12 680 | – | 9 249 | 640 | 21 929 | 640 |
| – Credit derivatives | – | – | 200 | 40 | 200 | 40 |
| **Total** | 24 584 | – | 9 668 815 | 36 666 | 9 693 399 | 36 666 |

| | 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 | 973 | 54 252 | 973 |
| – Interest rate derivatives | – | – | 54 252 | 973 | 54 252 | 973 |
| **Fair value hedges** | – | – | 2 405 | 8 | 2 405 | 8 |
| – Interest rate derivatives | – | – | 2 405 | 8 | 2 405 | 8 |
| **Not qualifying for hedge accounting** | | | | | | |
| **Held for trading** | 30 766 | – | 9 774 943 | 35 169 | 9 805 709 | 35 169 |
| – Currency derivatives | – | – | 272 129 | 7 168 | 272 129 | 7 168 |
| – Interest rate derivatives | 3 306 | – | 9 475 544 | 26 636 | 9 478 850 | 26 636 |
| – Equity derivatives | 9 059 | – | 12 901 | 841 | 21 960 | 841 |
| – Commodity derivatives | 18 401 | – | 13 294 | 476 | 31 695 | 476 |
| – Credit derivatives | – | – | 1 075 | 48 | 1 075 | 48 |
| **Total** | 30 766 | – | 9 831 600 | 36 150 | 9 862 366 | 36 150 |

## 8 Derivative financial instruments *continued*

| | 2010 | | | |
|---|---|---|---|---|
| | Assets | | Liabilities | |
| R million | Notional | Fair value | Notional | Fair value |
| **Qualifying for hedge accounting** | | | | |
| **Cash flow hedges** | – | – | – | – |
| Interest rate derivatives | 27 417 | 479 | 32 653 | 1 070 |
| **Total cash flow hedged** | 27 417 | 479 | 32 653 | 1 070 |
| **Fair value hedges** | | | | |
| Commodity derivatives | 861 | – | – | – |
| **Total fair value hedges** | 861 | – | – | – |
| **Total qualifying for hedge accounting** | 28 278 | 479 | 32 653 | 1 070 |
| **Held for trading** | | | | |
| Currency derivatives | 222 838 | 7 339 | 202 052 | 5 128 |
| – Forward rate agreements | 1 821 | 959 | 94 | 94 |
| – Swaps | 162 802 | 4 299 | 144 059 | 3 468 |
| – Options | 8 013 | 539 | 7 004 | 312 |
| – Futures | 50 202 | 1 542 | 50 895 | 1 254 |
| Interest rate derivatives | 5 011 890 | 25 890 | 4 850 424 | 26 097 |
| – Forward rate agreements | 3 302 148 | 4 478 | 3 293 141 | 4 634 |
| – Swaps | 1 177 633 | 20 821 | 1 138 603 | 20 924 |
| – Options | 529 185 | 591 | 411 537 | 539 |
| – Futures | 2 924 | – | 7 143 | – |
| Equity derivatives | 11 181 | 350 | 13 045 | 403 |
| – Options | 5 748 | 172 | 6 653 | 379 |
| – Futures | 5 433 | 178 | 6 392 | 24 |
| Commodity derivatives | 15 512 | 4 770 | 6 509 | 2 155 |
| – Swaps | 3 550 | 625 | 3 166 | 157 |
| – Options | 2 326 | 3 870 | 1 016 | 1 448 |
| – Futures | 9 636 | 275 | 2 327 | 550 |
| Credit derivatives | 1 284 | 116 | 2 673 | 432 |
| **Total held for trading** | 5 262 705 | 38 465 | 5 074 703 | 34 215 |
| **Total** | 5 290 983 | 38 944 | 5 107 356 | 35 285 |

## 8 Derivative financial instruments *continued*

| | 2010 | | | | | |
|---|---|---|---|---|---|---|
| | Assets: Derivative instruments | | | | | |
| | Exchange traded | | Over the counter | | Total | |
| R million | Notional | Fair value | Notional | Fair value | Notional | Fair value |
| **Qualifying for hedge accounting** | | | | | | |
| **Cash flow hedges** | – | – | 27 417 | 479 | 27 417 | 479 |
| – Interest rate derivatives | – | – | 27 417 | 479 | 27 417 | 479 |
| **Fair value hedges** | 861 | – | – | – | 861 | – |
| – Commodity derivatives | 861 | – | – | – | 861 | – |
| **Not qualifying for hedge accounting** | | | | | | |
| **Held for trading** | 12 827 | – | 5 249 878 | 38 465 | 5 262 705 | 38 465 |
| – Currency derivatives | – | – | 222 838 | 7 339 | 222 838 | 7 339 |
| – Interest rate derivatives | 3 933 | – | 5 007 957 | 25 890 | 5 011 890 | 25 890 |
| – Equity derivatives | 298 | – | 10 883 | 350 | 11 181 | 350 |
| – Commodity derivatives | 8 596 | – | 6 916 | 4 770 | 15 512 | 4 770 |
| – Credit derivatives | – | – | 1 284 | 116 | 1 284 | 116 |
| **Total** | 13 688 | – | 5 277 295 | 38 944 | 5 290 983 | 38 944 |

| | Liabilities: Derivative instruments | | | | | |
|---|---|---|---|---|---|---|
| | Exchange traded | | Over the counter | | Total | |
| R million | Notional | Fair value | Notional | Fair value | Notional | Fair value |
| **Qualifying for hedge accounting** | | | | | | |
| **Cash flow hedges** | – | – | 32 653 | 1 070 | 32 653 | 1 070 |
| – Interest rate derivatives | – | – | 32 653 | 1 070 | 32 653 | 1 070 |
| **Not qualifying for hedge accounting** | | | | | | |
| **Held for trading** | 14 038 | – | 5 060 665 | 34 215 | 5 074 703 | 34 215 |
| – Currency derivatives | – | – | 202 052 | 5 128 | 202 052 | 5 128 |
| – Interest rate derivatives | 7 986 | – | 4 842 438 | 26 097 | 4 850 424 | 26 097 |
| – Equity derivatives | 5 878 | – | 7 167 | 403 | 13 045 | 403 |
| – Commodity derivatives | 174 | – | 6 335 | 2 155 | 6 509 | 2 155 |
| – Credit derivatives | – | – | 2 673 | 432 | 2 673 | 432 |
| **Total** | 14 038 | – | 5 093 318 | 35 285 | 5 107 356 | 35 285 |

Refer to note 34 for information relating to the fair value of derivatives.

Refer to note 37 for information on related party derivatives.

Refer to note 42 for the current and non-current analysis of derivatives.

## 9 Advances

| R million | 2011 Loans and receivables | Held-to-maturity | Available-for-sale | Designated at fair value through profit or loss | Total |
|---|---|---|---|---|---|
| **Sector analysis** | | | | | |
| Agriculture | 9 953 | – | – | 2 807 | 12 760 |
| Banks and financial services | 9 811 | – | – | 45 615 | 55 426 |
| Building and property development | 4 210 | – | – | 17 478 | 21 688 |
| Government, Land Bank and public authorities | 1 230 | – | – | 13 416 | 14 646 |
| Individuals | 256 648 | 101 | 115 | 807 | 257 671 |
| Manufacturing and commerce | 19 176 | – | – | 11 513 | 30 689 |
| Mining | 309 | – | – | 9 689 | 9 998 |
| Transport and communication | 1 548 | – | – | 10 197 | 11 745 |
| Other services | 16 561 | – | – | 7 415 | 23 976 |
| **Notional value of advances** | 319 446 | 101 | 115 | 118 937 | 438 599 |
| Contractual interest suspended | (1 946) | (8) | – | – | (1 954) |
| **Gross advances** | 317 500 | 93 | 115 | 118 937 | 436 645 |
| Impairment of advances (note 10) | (7 508) | (3) | – | – | (7 511) |
| **Net advances** | 309 992 | 90 | 115 | 118 937 | 429 134 |
| **Geographic analysis (based on credit risk)** | | | | | |
| South Africa | 312 061 | 101 | 115 | 110 928 | 423 205 |
| Other Africa | 885 | – | – | 2 052 | 2 937 |
| United Kingdom | 4 938 | – | – | 3 845 | 8 783 |
| Other | 1 562 | – | – | 2 112 | 3 674 |
| – Other Europe | 507 | – | – | 1 463 | 1 970 |
| – North America | 19 | – | – | 121 | 140 |
| – South America | – | – | – | 103 | 103 |
| – Australasia | 2 | – | – | – | 2 |
| – Other | 1 034 | – | – | 425 | 1 459 |
| **Notional value of advances** | 319 446 | 101 | 115 | 118 937 | 438 599 |
| Contractual interest suspended | (1 946) | (8) | – | – | (1 954) |
| **Gross advances** | 317 500 | 93 | 115 | 118 937 | 436 645 |
| Impairment of advances (note 10) | (7 508) | (3) | – | – | (7 511) |
| **Net advances** | 309 992 | 90 | 115 | 118 937 | 429 134 |
| **Category analysis** | | | | | |
| Overdrafts and managed accounts | 24 243 | – | – | – | 24 243 |
| Loans to other financial institutions | 3 630 | – | – | 5 673 | 9 303 |
| Card loans | 10 766 | – | – | – | 10 766 |
| Instalment sales | 70 621 | – | – | – | 70 621 |
| Lease payments receivable | 15 238 | – | – | – | 15 238 |
| Property finance | 161 391 | 101 | – | 3 226 | 164 718 |
| – Home loans | 152 602 | 101 | – | – | 152 703 |
| – Commercial property finance | 8 789 | – | – | 3 226 | 12 015 |
| Personal loans | 12 160 | – | – | – | 12 160 |
| Preference share advances | 894 | – | – | 24 758 | 25 652 |
| Assets under agreement to resell | 493 | – | – | 29 764 | 30 257 |
| Other | 20 010 | – | 115 | 55 516 | 75 641 |
| **Notional value of advances** | 319 446 | 101 | 115 | 118 937 | 438 599 |
| Contractual interest suspended | (1 946) | (8) | – | – | (1 954) |
| **Gross advances** | 317 500 | 93 | 115 | 118 937 | 436 645 |
| Impairment of advances (note 10) | (7 508) | (3) | – | – | (7 511) |
| **Net advances** | 309 992 | 90 | 115 | 118 937 | 429 134 |

## 9 Advances *continued*

| | 2010 | | | | |
|---|---|---|---|---|---|
| R million | Loans and receivables | Held-to-maturity | Available-for-sale | Designated at fair value through profit or loss | Total |
| **Sector analysis** | | | | | |
| Agriculture | 8 405 | – | – | 2 863 | 11 268 |
| Banks and financial services | 11 412 | – | – | 48 785 | 60 197 |
| Building and property development | 2 227 | – | – | 14 010 | 16 237 |
| Government, Land Bank and public authorities | 3 674 | – | – | 9 684 | 13 358 |
| Individuals | 240 025 | 133 | 300 | 144 | 240 602 |
| Manufacturing and commerce | 16 011 | – | – | 12 162 | 28 173 |
| Mining | 708 | – | – | 7 312 | 8 020 |
| Transport and communication | 1 341 | – | – | 10 493 | 11 834 |
| Other services | 14 944 | – | – | 6 522 | 21 466 |
| **Notional value of advances** | 298 747 | 133 | 300 | 111 975 | 411 155 |
| Contractual interest suspended | (1 816) | (8) | – | – | (1 824) |
| **Gross advances** | 296 931 | 125 | 300 | 111 975 | 409 331 |
| Impairment of advances (note 10) | (8 048) | (4) | – | – | (8 052) |
| **Net Advances** | 288 883 | 121 | 300 | 111 975 | 401 279 |
| **Geographic analysis (based on credit risk)** | | | | | |
| South Africa | 292 910 | 133 | 300 | 107 423 | 400 766 |
| Other Africa | 937 | – | – | 1 208 | 2 145 |
| United Kingdom | 4 683 | – | – | 2 102 | 6 785 |
| Other | 217 | – | – | 1 242 | 1 459 |
| – Other Europe | 117 | – | – | 407 | 524 |
| – North America | – | – | – | 489 | 489 |
| – South America | – | – | – | – | – |
| – Australasia | 24 | – | – | 263 | 287 |
| – Other | 76 | – | – | 83 | 159 |
| **Notional value of advances** | 298 747 | 133 | 300 | 111 975 | 411 155 |
| Contractual interest suspended | (1 816) | (8) | – | – | (1 824) |
| **Gross advances** | 296 931 | 125 | 300 | 111 975 | 409 331 |
| Impairment of advances (note 10) | (8 048) | (4) | – | – | (8 052) |
| **Net advances** | 288 883 | 121 | 300 | 111 975 | 401 279 |
| **Category analysis** | | | | | |
| Overdrafts and managed accounts | 22 962 | – | – | – | 22 962 |
| Loans to other financial institutions | 2 971 | – | – | 2 130 | 5 101 |
| Card loans | 10 744 | – | – | – | 10 744 |
| Instalment sales | 62 693 | – | – | – | 62 693 |
| Lease payments receivable | 17 529 | – | – | – | 17 529 |
| Property finance | 154 687 | 133 | – | 3 298 | 158 118 |
| – Home loans | 146 763 | 133 | – | – | 146 896 |
| – Commercial property finance | 7 924 | – | – | 3 298 | 11 222 |
| Personal loans | 8 825 | – | – | – | 8 825 |
| Preference share advances | 1 078 | – | – | 22 522 | 23 600 |
| Other | 16 636 | – | 300 | 2 048 | 18 984 |
| Investment bank term loans | 87 | | | 44 403 | 44 490 |
| Assets under agreement to resell | 535 | – | – | 37 574 | 38 109 |
| **Notional value of advances** | 298 747 | 133 | 300 | 111 975 | 411 155 |
| Contractual interest suspended | (1 816) | (8) | – | – | (1 824) |
| **Gross advances** | 296 931 | 125 | 300 | 111 975 | 409 331 |
| Impairment of advances (note 10) | (8 048) | (4) | – | – | (8 052) |
| **Net advances** | 288 883 | 121 | 300 | 111 975 | 401 279 |

## 9 Advances *continued*

| R million | Within 1 year | Between 1 and 5 years | More than 5 years | Total |
|---|---|---|---|---|
| **2011** | | | | |
| **Analysis of instalment sales and lease payments receivable** | | | | |
| Lease payments receivable | 5 203 | 12 900 | 530 | 18 633 |
| Suspensive sale instalments receivable | 23 706 | 57 632 | 2 929 | 84 267 |
| Subtotal | 28 909 | 70 532 | 3 459 | 102 900 |
| Less: Unearned finance charges | (4 794) | (11 655) | (592) | (17 041) |
| **Total** | 24 115 | 58 877 | 2 867 | 85 859 |
| **2010** | | | | |
| **Analysis of instalment sales and lease payments receivable** | | | | |
| Lease payments receivable | 6 465 | 15 345 | 394 | 22 204 |
| Suspensive sale instalments receivable | 21 706 | 49 785 | 1 644 | 73 135 |
| Subtotal | 28 171 | 65 130 | 2 038 | 95 339 |
| Less: Unearned finance charges | (4 487) | (10 290) | (340) | (15 117) |
| **Total** | 23 684 | 54 840 | 1 698 | 80 222 |

Under the terms of the lease agreements, no contingent rentals are payable. The agreements relate to motor vehicles and equipment. The accumulated allowance for uncollectable minimum lease payments receivable included in the allowance for impairments at the reporting date is R294 million (2010: R372 million).

**Advances relating to synthetic securitisations:**

- In 2006 WesBank transferred the credit risk relating to retail instalment sale advances of R2 billion to Procul, a bankruptcy remote special purpose entity. On 1 August 2010, the Procul synthetic securitisation transaction matured and all related notes issued to the market were redeemed.
- Fresco II is a synthetic securitisation transaction amounting to R20 billion (2010: R20 billion) of FirstRand Bank Limited corporate advances. In terms of the transaction, the Bank has transferred the credit risk up to the value of the reference portfolio to Fresco II, a bankruptcy remote special purpose entity.

**Credit risk mitigation**

Collateral is an important mitigant of credit risk. Refer to page 27 to page 28 of the Risk Report for Bank's credit risk management strategy with detailed information on credit risk mitigation.

Refer to note 34 for information relating to the fair value of advances.

Refer to note 42 for the current and non-current analysis of advances.

## 10 Impairment of advances

Significant loans and advances are monitored by the Credit committee and impaired according to the Bank'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:

- The estimated amount of collateral held against the loans and advances;
- Breaches of loan covenants and conditions;
- The time period of overdue contractual payments;
- Actuarial credit models;
- Loss of employment or death of the borrower; and
- The probability of liquidation of the customer.

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

| | 2011 | | |
|---|---|---|---|
| | FNB | | |
| R million | Retail | Corporate | Commercial |
| **Analysis of movement in impairment of advances per class of advance** | | | |
| Opening balance | 4 220 | 228 | 970 |
| Amounts written off | (3 051) | (53) | (284) |
| Acquisitions of subsidiaries | 27 | – | – |
| Transfers (to)/from other divisions | (54) | 52 | 8 |
| Reclassifications | – | – | – |
| Exchange rate difference | – | – | – |
| Unwinding of discounted present value on non-performing loans | (182) | – | (17) |
| Net new impairments created/(released) | 2 777 | 11 | 336 |
| **Closing balance** | 3 737 | 238 | 1 013 |
| New and increased provision | (2 777) | (11) | (336) |
| Recoveries of bad debts previously written off | 689 | 3 | 3 |
| **Impairment loss recognised in profit or loss** | (2 088) | (8) | (333) |

| | | | |
|---|---|---|---|
| | FNB | | |
| R million | Retail | Corporate | Commercial |
| Opening balance | 5 467 | 303 | 718 |
| Amounts written off | (4 253) | (230) | (135) |
| Transfers (to)/from other divisions | (71) | 118 | (47) |
| Reclassifications | – | – | – |
| Exchange rate difference | – | – | – |
| Unwinding of discounted present value on non-performing loans | (230) | – | (18) |
| Net new impairments created/(released) | 3 307 | 37 | 452 |
| **Closing balance** | 4 220 | 228 | 970 |
| New and increased provision | (3 307) | (37) | (452) |
| Recoveries of bad debts previously written off | 407 | 3 | 6 |
| **Impairment loss recognised in profit or loss** | (2 900) | (34) | (446) |

| | 2011 | | | | | |
|---|---|---|---|---|---|---|
| | RMB | WesBank | Other | Total impairment | Specific impairment | Portfolio impairment |
| | 181 | 2 453 | – | 8 052 | 6 041 | 2 011 |
| | (1) | (1 651) | – | (5 040) | (5 014) | (26) |
| | 7 | – | – | 34 | 27 | 7 |
| | (6) | – | – | – | – | – |
| | – | – | – | – | (139) | 139 |
| | – | (2) | (1) | (3) | (1) | (2) |
| | – | – | (1) | (200) | (200) | – |
| | (35) | 1 577 | 2 | 4 668 | 4 813 | (145) |
| | 146 | 2 377 | – | 7 511 | 5 527 | 1 984 |
| | 35 | (1 577) | (1) | (4 667) | (4 813) | 146 |
| | – | 337 | (2) | 1 030 | 1 030 | – |
| | 35 | (1 240) | (3) | (3 637) | (3 783) | 146 |

| | 2010 | | | | | |
|---|---|---|---|---|---|---|
| | RMB | WesBank | Other | Total impairment | Specific impairment | Portfolio impairment |
| | 146 | 2 063 | 281 | 8 978 | 6 444 | 2 534 |
| | – | (1 934) | – | (6 552) | (6 556) | 4 |
| | 20 | – | (20) | – | – | – |
| | – | – | – | – | 225 | (225) |
| | – | (6) | – | (6) | (3) | (3) |
| | – | – | – | (248) | (248) | – |
| | 15 | 2 330 | (261) | 5 880 | 6 179 | (299) |
| | 181 | 2 453 | – | 8 052 | 6 041 | 2 011 |
| | (15) | (2 330) | 261 | (5 880) | (6 179) | 299 |
| | 1 | 350 | (2) | 765 | 765 | – |
| | (14) | (1 980) | 259 | (5 115) | (5 414) | 299 |

## 10 Impairment of advances *continued*

| R million | 2011 Total value net of interest in suspense | 2011 Security held | 2011 Specific impairments |
|---|---|---|---|
| **Non-performing loans by sector** | | | |
| Agriculture | 442 | 456 | 67 |
| Banks and financial services | 518 | 341 | 202 |
| Building and property development | 1 734 | 1 638 | 281 |
| Government, Land Bank and public authorities | 74 | 21 | 34 |
| Individuals | 13 703 | 13 088 | 3 871 |
| Manufacturing and commerce | 538 | 300 | 229 |
| Mining | 50 | 38 | 12 |
| Transport and communication | 272 | 177 | 74 |
| Other | 1 759 | 634 | 757 |
| **Total non-performing loans** | 19 090 | 16 693 | 5 527 |
| **Non-performing loans by category** | | | |
| Overdrafts and managed accounts | 756 | 524 | 540 |
| Card loans | 445 | – | 330 |
| Instalment sales | 3 458 | 726 | 1 531 |
| Lease payments receivable | 692 | 149 | 318 |
| Property finance | 11 270 | 13 198 | 2 382 |
| – Home loans | 10 205 | 12 400 | 1 925 |
| – Commercial property finance | 1 065 | 798 | 457 |
| Personal loans | 478 | 67 | 318 |
| Preference share advances | 14 | 2 | 12 |
| Other | 1 977 | 2 027 | 96 |
| **Total non-performing loans** | 19 090 | 16 693 | 5 527 |
| **Non-performing loans by class** | | | |
| FNB Retail | 11 150 | 12 494 | 2 698 |
| FNB Corporate | 18 | – | 19 |
| FNB Commercial | 1 865 | 1 544 | 895 |
| **Total FNB** | 13 033 | 14 038 | 3 612 |
| RMB | 1 749 | 1 749 | – |
| WesBank | 4 308 | 906 | 1 915 |
| **Total non-performing loans** | 19 090 | 16 693 | 5 527 |
| **Non-performing loans by geographical area** | | | |
| South Africa | 18 792 | 16 407 | 5 483 |
| Other Africa | 36 | 36 | 31 |
| UK | 13 | 1 | 13 |
| South America | 249 | 249 | – |
| **Total non-performing loans** | 19 090 | 16 693 | 5 527 |

Net recoverable amount on non-performing loans is R13 895 million.

## 10 Impairment of advances *continued*

| R million | 2010 Total value net of interest in suspense | 2010 Security held | 2010 Specific impairments |
|---|---|---|---|
| **Non-performing loans by sector** | | | |
| Agriculture | 134 | 133 | 25 |
| Banks and financial services | 328 | 295 | 107 |
| Building and property development | 966 | 839 | 173 |
| Government, Land Bank and public authorities | 83 | 17 | 34 |
| Individuals | 16 195 | 12 438 | 4 467 |
| Manufacturing and commerce | 690 | 288 | 317 |
| Mining | 77 | 44 | 18 |
| Transport and communication | 259 | 81 | 104 |
| Other | 1 924 | 663 | 796 |
| **Total non-performing loans** | 20 656 | 14 798 | 6 041 |
| **Non-performing loans by category** | | | |
| Overdrafts and managed accounts | 789 | 332 | 513 |
| Card loans | 672 | – | 478 |
| Instalment sales | 3 255 | 676 | 1 305 |
| Lease payments receivable | 884 | 187 | 377 |
| Property finance | 13 099 | 12 559 | 2 683 |
| – Home loans | 12 117 | 11 698 | 2 385 |
| – Commercial property finance | 982 | 861 | 298 |
| Personal loans | 1 382 | 427 | 676 |
| Preference share advances | 16 | 8 | 4 |
| Other | 559 | 609 | 5 |
| **Total non-performing loans** | 20 656 | 14 798 | 6 041 |
| **Non-performing loans by class** | | | |
| FNB Retail | 13 251 | 11 734 | 3 276 |
| FNB Corporate | 1 | – | 1 |
| FNB Commercial | 1 926 | 1 477 | 779 |
| **Total FNB** | 15 178 | 13 211 | 4 056 |
| RMB | 580 | 575 | 5 |
| WesBank | 4 898 | 1 012 | 1 980 |
| **Total non-performing loans** | 20 656 | 14 798 | 6 041 |
| **Non-performing loans by geographical area** | | | |
| South Africa | 20 572 | 14 736 | 6 021 |
| Other Africa | 58 | 56 | – |
| UK | 26 | 6 | 20 |
| South America | – | – | – |
| **Total non-performing loans** | 20 656 | 14 798 | 6 041 |

Net recoverable amount on non-performing loans is R14 413 million.

For asset finance the total security value reflected represents only the realisation value estimates of the vehicles repossessed at the date of repossession. Where the 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.

## 11 Investment securities and other investments

| | 2011 | | | | |
|---|---|---|---|---|---|
| | Total fair value | | | | |
| R million | Held for trading | Designated at fair value through profit or loss | Available-for-sale | Loans and receivables | Total |
| **Total** | | | | | |
| Negotiable certificates of deposit | 355 | 15 | 362 | – | 732 |
| Treasury bills | 2 459 | 20 034 | 6 661 | – | 29 154 |
| Other government and government guaranteed stock | 12 697 | 8 848 | 17 086 | – | 38 631 |
| Other dated securities | 6 080 | 3 719 | 593 | 24 | 10 416 |
| Other | 576 | 3 810 | 491 | – | 4 877 |
| **Total** | 22 167 | 36 426 | 25 193 | 24 | 83 810 |
| **Listed** | | | | | |
| Negotiable certificates of deposit | – | 15 | – | – | 15 |
| Treasury bills | – | 6 076 | – | – | 6 076 |
| Other government and government guaranteed stock | 12 500 | 2 509 | 17 086 | – | 32 095 |
| Other dated securities | 1 015 | 1 907 | 590 | – | 3 512 |
| Other | 535 | 1 098 | – | – | 1 633 |
| **Listed** | 14 050 | 11 605 | 17 676 | – | 43 331 |
| **Unlisted** | | | | | |
| Negotiable certificates of deposit | 355 | – | 362 | – | 717 |
| Treasury bills | 2 459 | 13 958 | 6 661 | – | 23 078 |
| Other government and government guaranteed stock | 197 | 6 339 | – | – | 6 536 |
| Other dated securities | 5 065 | 1 812 | 3 | 24 | 6 904 |
| Other | 41 | 2 712 | 491 | – | 3 244 |
| **Unlisted** | 8 117 | 24 821 | 7 517 | 24 | 40 479 |

## 11 Investment securities and other investments *continued*

| R million | 2010 | | | | |
|---|---|---|---|---|---|
| | Total fair value | | | | |
| | Held for trading | Designated at fair value through profit or loss | Available-for-sale | Loans and receivables | Total |
| **Total** | | | | | |
| Negotiable certificates of deposit | 2 151 | 1 983 | 38 | – | 4 172 |
| Treasury bills | 394 | 19 913 | 8 686 | – | 28 993 |
| Other government and government guaranteed stock | 13 225 | 11 374 | 13 541 | – | 38 140 |
| Other dated securities | 2 279 | 1 623 | – | – | 3 902 |
| Other | 496 | 2 997 | 1 279 | – | 4 772 |
| **Total** | 18 545 | 37 890 | 23 544 | – | 79 979 |
| **Listed** | | | | | |
| Treasury bills | – | 6 953 | – | – | 6 953 |
| Other government and government guaranteed stock | 13 027 | 2 180 | 13 541 | – | 28 748 |
| Other dated securities | 1 021 | 1 386 | – | – | 2 407 |
| Other | 363 | 1 122 | 781 | – | 2 266 |
| **Listed** | 14 411 | 11 641 | 14 322 | – | 40 374 |
| **Unlisted** | | | | | |
| Negotiable certificates of deposit | 2 151 | 1 983 | 38 | – | 4 172 |
| Treasury bills | 394 | 12 960 | 8 686 | – | 22 040 |
| Other government and government guaranteed stock | 198 | 9 194 | – | – | 9 392 |
| Other dated securities | 1 258 | 237 | – | – | 1 495 |
| Other | 133 | 1 875 | 498 | – | 2 506 |
| **Unlisted** | 4 134 | 26 249 | 9 222 | – | 39 605 |

R26 649 million (2010: R24 475 million) of the financial instruments available-for-sale and at fair value through profit or loss form part of the Bank's liquid asset portfolio in terms of the South African Reserve Bank and other foreign banking regulator's requirements.

## 11 Investment securities and other investments *continued*

**Analysis of investment securities and other investments**

| R million | 2011 | 2010 |
|---|---|---|
| **Listed** | 43 331 | 40 374 |
| Equities | 1 634 | 2 020 |
| Debt | 41 697 | 38 354 |
| **Unlisted** | 40 479 | 39 605 |
| Equities | 3 206 | 2 470 |
| Debt | 37 273 | 37 135 |
| **Total** | 83 810 | 79 979 |
| **Valuation of investments** | | |
| Market value of listed investments | 43 331 | 40 374 |
| Fair value of unlisted investments* | 40 479 | 39 605 |
| **Total valuation** | 83 810 | 79 979 |

* *The fair value of unlisted investments is determined using valuation techniques.*

Information regarding other investments is kept at the Bank'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 34 for information relating to the fair value of investment securities and other investments.

Refer to note 42 for the current and non-current analysis of investment securities and other investments.

## 12 Commodities

| R million | 2011 | 2010 |
|---|---|---|
| Agricultural commodities | 977 | 872 |
| Base metals | 3 411 | 1 493 |
| **Commodities** | 4 388 | 2 365 |

Refer to note 42 for the current and non-current analysis of commodities.

## 13 Accounts receivable

| R million | 2011 | 2010 |
|---|---|---|
| Items in transit | 1 082 | 1 625 |
| Interest and commissions accrued | 58 | 54 |
| Prepayments | 265 | 968 |
| Other | 1 339 | 208 |
| **Accounts receivable** | 2 744 | 2 855 |

## 13 Accounts receivable *continued*

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

| | 2011 | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | Past due but not impaired | | | | |
| R million | Neither past due nor impaired | Re-negotiated but current | 1 – 30 days | 31 – 60 days | >60 days | Impaired | Total |
| Items in transit | 1 081 | – | 1 | – | – | – | 1 082 |
| Interest and commission accrued | 58 | – | – | – | – | – | 58 |
| Other | 1 463 | – | 70 | 35 | 8 | 28 | 1 604 |
| **Total** | 2 602 | – | 71 | 35 | 8 | 28 | 2 744 |

| | 2010 | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | Past due but not impaired | | | | |
| R million | Neither past due nor impaired | Re-negotiated but current | 1 – 30 days | 31 – 60 days | >60 days | Impaired | Total |
| Items in transit | 1 625 | – | – | – | – | – | 1 625 |
| Interest and commission accrued | 54 | – | – | – | – | – | 54 |
| Other | 1 006 | – | 108 | 25 | 24 | 13 | 1 176 |
| **Total** | 2 685 | – | 108 | 25 | 24 | 13 | 2 855 |

The carrying value of accounts receivable approximates the fair value.

Refer to note 42 for the current and non-current analysis of accounts receivable.

## 14 Investments in associates

| R million | 2011 | 2010 |
|---|---|---|
| **Listed investments** | | |
| Investments at cost less amounts written off | – | 332 |
| **Unlisted investments** | | |
| Investments at cost less amounts written off | 116 | 835 |
| **Total carrying value** | 116 | 1 167 |
| **Valuation** | | |
| Market value of listed investments | – | 248 |
| Fair value of unlisted investments* | 145 | 1 933 |
| **Total valuation** | 145 | 2 181 |

* *The fair values of unlisted investments are determined using valuation techniques.*

| | 2011 | | | |
|---|---|---|---|---|
| | Nature of business | Issued ordinary share capital | Number of ordinary shares held | Year end |
| New Seasons Investments | Insurance brokers | 136 000 | 40 000 | 31 March |
| Weston Atlas Funds | Payments finance | | 33% of Fund | 30 June |

## 14 Investments in associates *continued*

| | Effective holding % | | Market value or valuation amount | | Carrying value | |
|---|---|---|---|---|---|---|
| R million | 2011 | 2010 | 2011 | 2010 | 2011 | 2010 |
| **Listed** | | | | | | |
| Private Equity Associates* | Various | Various | – | 248 | – | 332 |
| **Total listed** | – | – | – | 248 | – | 332 |
| **Unlisted** | | | | | | |
| SBV Services (Pty) Ltd* | – | 25 | – | 64 | – | 35 |
| Toyota Financial Services (Pty) Ltd* | – | 33 | – | 1 121 | – | 215 |
| Makalani Holdings Ltd* | – | 25 | – | 548 | – | 544 |
| New Season Investments | 29 | 29 | 34 | – | 19 | 19 |
| Western Atlas Funds | 33 | – | 108 | – | 96 | – |
| Other | Various | Various | 3 | 200 | 1 | 22 |
| **Total unlisted** | | | 145 | 1 933 | 116 | 835 |
| **Total listed and unlisted** | | | 145 | 2 181 | 116 | 1 167 |

* *These investments were sold to FirstRand Investment Holdings (Pty) Ltd as part of the FirstRand restructure. Refer to note 43 for more details.*

Refer to note 42 for the current and non-current analysis of investments in associates and joint ventures.

**Significant proposals during the 2011 financial year**

| R million | 2011 |
|---|---|
| **The Bank disposed of a number of individually immaterial associates during the year. The following information relates to these disposals:** | |
| Carrying amount at date of disposal | 99 |
| Fair value of consideration received | 131 |
| **Gain on disposal of associates** | 32 |

## 15 Investments in subsidiary companies

| R million | 2011 | 2010 |
|---|---|---|
| **Shares at cost less amounts written off** | – | 279 |

| 30 June 2011 | Nature of business | Issued capital (Rand) | Effective holding % | Investment in subsidiaries (Rand) |
|---|---|---|---|---|
| **Other** | Various | Various | Various | 383 668 |
| 30 June 2010 | | | | |
| Direct Axis (Pty) Ltd[1, 2] | Financial services | 13 249 | 66 | 120 985 648 |
| Contract Lease Management (Pty) Ltd[2] | Maintenance leasing | 100 | 100 | 18 000 000 |
| First Auto (Pty) Ltd[2] | Financial services | 97 900 121 | 100 | 139 925 090 |
| Other | Various | | | 393 879 |
| | | | | 279 304 617 |

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

2 *These investments were sold to FirstRand Investment Holdings (Pty) Ltd as part of the FirstRand restructure. Refer to note 43 for more details.*

Refer to note 42 for the current and non-current analysis of investments in subsidiary companies.

## 16 Amounts due (to)/by holding company and fellow subsidiary companies

| R million | 2011 | 2010 |
|---|---|---|
| Amounts due to holding company | – | (266) |
| Amounts due to fellow subsidiary companies | (20 841) | (21 602) |
| **Amounts due to holding company and fellow subsidiary companies** | **(20 841)** | **(21 868)** |
| Amounts due by holding company | 3 348 | 373 |
| Amounts due by fellow subsidiary companies | 15 886 | 14 070 |
| **Amounts due by holding company and fellow subsidiary companies** | **19 234** | **14 443** |
| **Net amounts due to holding company and fellow subsidiary companies** | **(1 607)** | **(7 425)** |

These loans have no fixed terms of repayment and carry varying rates of interest. Loans to fellow subsidiary companies amounting to R33 million (2010: R20 million) are subject to subordination agreements until such a time that their assets, fairly valued, exceed their liabilities.

Included in the above amounts are the following:

| | Amounts due by fellow subsidiary companies | | Amounts due to fellow subsidiary companies | |
|---|---|---|---|---|
| R million | Notional | Fair value | Notional | Fair value |
| **2011** | | | | |
| **Derivative instruments** | **596** | **79** | **784** | **191** |
| 2010 | | | | |
| Derivative instruments | 315 | 113 | 698 | 86 |

The carrying value of these intergroup loans approximates the fair value.

Refer to note 42 for the current and non-current analysis of amounts due (to)/by holding company and fellow subsidiary companies.

## 17 Property and equipment

The useful life of each asset is assessed individually. The table below provides information on the benchmarks used when assessing the useful lives 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 |

| | 2011 | | | 2010 | | |
|---|---|---|---|---|---|---|
| R million | Cost | Accumulated depreciation and impairments | Carrying amount | Cost | Accumulated depreciation and impairments | Carrying amount |
| **Property*** | 6 848 | (1 450) | 5 398 | 6 353 | (1 107) | 5 246 |
| Freehold property | 3 664 | (363) | 3 301 | 3 379 | (239) | 3 140 |
| Leasehold premises | 3 184 | (1 087) | 2 097 | 2 974 | (868) | 2 106 |
| **Equipment*** | 7 216 | (4 134) | 3 082 | 6 470 | (3 900) | 2 570 |
| Computer equipment | 4 379 | (2 975) | 1 404 | 3 804 | (2 625) | 1 179 |
| Furniture and fittings | 1 182 | (457) | 725 | 1 372 | (692) | 680 |
| Motor vehicles | 880 | (238) | 642 | 533 | (186) | 347 |
| Office equipment | 765 | (461) | 304 | 753 | (393) | 360 |
| Capitalised leased assets | 10 | (3) | 7 | 8 | (4) | 4 |
| **Total** | 14 064 | (5 584) | 8 480 | 12 823 | (5 007) | 7 816 |

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

## 17 Property and equipment *continued*

| R million | Property | | |
|---|---|---|---|
| | Freehold property | Leasehold premise | |
| **Movement in property and equipment – carrying amount** | | | |
| Carrying amount at 30 June 2009 | 2 038 | 2 167 | |
| Acquisitions | 1 214 | 266 | |
| Disposals | (31) | (67) | |
| Acquisitions/(disposals) of group companies | – | – | |
| Exchange rate difference | – | (5) | |
| Depreciation charge for the period | (82) | (254) | |
| Other | 1 | (1) | |
| **Carrying amount at 30 June 2010** | **3 140** | **2 106** | |
| Acquisitions | **340** | **295** | |
| Disposals | **(48)** | **(25)** | |
| Acquisitions of group companies | **–** | **1** | |
| Exchange rate difference | **–** | **(3)** | |
| Depreciation charge for the period | **(129)** | **(279)** | |
| Other | **–** | **–** | |
| **Carrying amount at 30 June 2011** | **3 303** | **2 095** | |

Information regarding land and buildings is kept at the Bank'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 25 for liabilities that are related to finance lease assets.

Refer to note 42 for the current and non-current analysis of property and equipment.

| | Equipment | | | | | |
|---|---|---|---|---|---|---|
| | Computer equipment | Furniture and fittings | Motor vehicles | Office equipment | Capitalised leased assets | Total |
| | 1 250 | 638 | 333 | 363 | 6 | 6 795 |
| | 450 | 167 | 153 | 145 | 2 | 2 397 |
| | (6) | (21) | (50) | (36) | (1) | (212) |
| | – | – | – | – | – | – |
| | (2) | – | – | – | (1) | (8) |
| | (513) | (103) | (89) | (111) | (2) | (1 154) |
| | – | (1) | – | (1) | – | (2) |
| | **1 179** | **680** | **347** | **360** | **4** | **7 816** |
| | **748** | **197** | **523** | **77** | **7** | **2 187** |
| | **(13)** | **(30)** | **(99)** | **(19)** | **(2)** | **(236)** |
| | **22** | **4** | **5** | **–** | **–** | **32** |
| | **(2)** | **–** | **–** | **–** | **–** | **(5)** |
| | **(529)** | **(126)** | **(134)** | **(114)** | **(3)** | **(1 314)** |
| | **–** | **–** | **–** | **–** | **–** | **–** |
| | **1 405** | **725** | **642** | **304** | **6** | **8 480** |

## 18 Deferred tax

The movement on the deferred tax account:

| R million | 2011 | 2010 |
|---|---|---|
| **Deferred tax liability** | | |
| Opening balance | 1 702 | 1 803 |
| – Release to profit or loss | (426) | (162) |
| – STC charge to profit or loss | 26 | 24 |
| – Deferred tax on amounts transferred directly to other comprehensive income | 46 | 37 |
| **Total credit balance** | **1 348** | 1 702 |
| **Net balance for the year** | **1 348** | 1 702 |

Deferred tax assets and liabilities and deferred tax charged/(released) to profit or loss are attributable to the following items:

| | 2011 | | | |
|---|---|---|---|---|
| R million | Opening balance | Tax charge/ (release) | Other | Closing balance |
| **Deferred tax liability** | | | | |
| Provision for loan impairment | (463) | (26) | (1) | (490) |
| Provision for post-retirement benefits | 102 | 23 | – | 125 |
| Other provisions | (35) | (119) | – | (154) |
| Cash flow hedges | (181) | – | 6 | (175) |
| Instalment credit assets | 2 127 | (409) | 1 | 1 719 |
| Accruals | 312 | (28) | (1) | 283 |
| Reclassification of available-for-sale securities recognised in other comprehensive income | 75 | – | 40 | 115 |
| STC | (237) | 26 | – | (211) |
| Other | 2 | 133 | 1 | 136 |
| **Total deferred tax liability** | **1 702** | **(400)** | **46** | **1 348** |

| | 2010 | | | |
|---|---|---|---|---|
| R million | Opening balance | Tax charge/ (release) | Other | Closing balance |
| **Deferred tax liability** | | | | |
| Provision for loan impairment | (636) | 173 | – | (463) |
| Provision for post-retirement benefits | 109 | (7) | – | 102 |
| Other provisions | 75 | (110) | – | (35) |
| Cash flow hedges | (131) | – | (50) | (181) |
| Instalment credit assets | 2 277 | (150) | – | 2 127 |
| Accruals | 351 | (39) | – | 312 |
| Reclassification of available-for-sale securities recognised in other comprehensive income | (12) | – | 87 | 75 |
| STC | (271) | 10 | 24 | (237) |
| Other | 41 | (39) | – | 2 |
| **Total deferred tax liability** | 1 803 | (162) | 61 | 1 702 |

**Total reserves**

If the total reserves of R26 183 million as at 30 June 2011 (2010: R21 656 million) were to be declared as dividends, the secondary tax impact at a rate of 10% (2010: 10%) would be R2 380 million (2010: R1 969 million).

Refer to note 42 for the current and non-current analysis of deferred tax.

## 19 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 – 20 years |
| Other | 3 – 10 years |

| | 2011 | | | 2010 | | |
|---|---|---|---|---|---|---|
| R million | Cost | Accumulated amortisation and impairments | Carrying amount | Cost | Accumulated amortisation and impairments | Carrying amount |
| **Software** | | | | | | |
| **Movement in software – carrying amount** | | | | | | |
| Opening Balance | 428 | (285) | 143 | 367 | (209) | 158 |
| Additions | 168 | – | 168 | 74 | – | 74 |
| Disposals | – | – | – | (13) | 10 | (3) |
| Amortisation for the period | – | (89) | (89) | – | – | – |
| Impairments recognised | – | – | – | – | (4) | (4) |
| Other | – | 1 | 1 | – | (82) | (82) |
| **Closing balance** | 596 | (373) | 223 | 428 | (285) | 143 |
| **Development costs** | | | | | | |
| **Movement in development costs – carrying amount** | | | | | | |
| Opening Balance | 39 | (25) | 14 | 37 | (18) | 19 |
| Additions | – | – | – | 2 | – | 2 |
| Amortisation for the period | – | (7) | (7) | – | (7) | (7) |
| Other | – | (1) | (1) | – | – | – |
| **Closing balance** | 39 | (33) | 6 | 39 | (25) | 14 |
| **Trademarks** | | | | | | |
| **Movement in trademarks – carrying amount** | | | | | | |
| Opening balance | 33 | (19) | 14 | 36 | (15) | 21 |
| Exchange rate difference | (2) | 1 | (1) | (4) | 2 | (2) |
| Amortisation for the period | – | (5) | (5) | – | (5) | (5) |
| Other | – | 1 | 1 | 1 | (1) | – |
| **Closing balance** | 31 | (22) | 9 | 33 | (19) | 14 |

## 19 Intangible assets *continued*

| R million | 2011 Cost | 2011 Accumulated amortisation and impairments | 2011 Carrying amount | 2010 Cost | 2010 Accumulated amortisation and impairments | 2010 Carrying amount |
|---|---|---|---|---|---|---|
| **Other** | | | | | | |
| **Movement in other – carrying amount** | | | | | | |
| Opening balance | 29 | (11) | 18 | 27 | (9) | 18 |
| Acquisitions | 3 | – | 3 | 3 | – | 3 |
| Acquisitions/(disposals) of subsidiaries | 69 | (35) | 34 | – | – | – |
| Exchange rate difference | (1) | 1 | – | (2) | 1 | (1) |
| Amortisation for the period | – | (9) | (9) | – | (3) | (3) |
| Other | (1) | (2) | (3) | 1 | – | 1 |
| **Closing balance** | 99 | (56) | 43 | 29 | (11) | 18 |
| **Total intangible assets** | | | | | | |
| Software | 596 | (373) | 223 | 428 | (285) | 143 |
| Development costs | 39 | (33) | 6 | 39 | (25) | 14 |
| Trademarks | 31 | (22) | 9 | 33 | (19) | 14 |
| Other | 99 | (56) | 43 | 29 | (11) | 18 |
| **Total intangible assets** | 765 | (484) | 281 | 529 | (340) | 189 |

The prior year impairment loss of R4 million on computer software arose as the software was no longer being used by the Bank.

Refer to note 42 for the current and non-current analysis of intangible assets.

## 20 Deposits and current accounts

| R million | 2011 At amortised cost | 2011 Designated at fair value through profit or loss | 2011 Total |
|---|---|---|---|
| From banks and financial institutions | 22 060 | 61 630 | 83 690 |
| – In the normal course of business | 22 060 | 29 656 | 51 716 |
| – Under repurchase agreements | – | 31 974 | 31 974 |
| From customers | 291 076 | 21 151 | 312 227 |
| – Current accounts | 188 030 | 2 678 | 190 708 |
| – Savings accounts | 2 377 | – | 2 377 |
| – Term deposits | 100 669 | 18 473 | 119 142 |
| Other deposits | 45 809 | 51 680 | 97 489 |
| – Negotiable certificates of deposit | 45 215 | 23 928 | 69 143 |
| – Buy backs | – | 9 172 | 9 172 |
| – Other | 594 | 18 580 | 19 174 |
| **Deposits and current accounts** | **358 945** | **134 461** | **493 406** |

| R million | 2010 At amortised cost | 2010 Designated at fair value through profit or loss | 2010 Total |
|---|---|---|---|
| From banks and financial institutions | 12 813 | 55 730 | 68 543 |
| – In the normal course of business | 12 813 | 23 343 | 36 156 |
| – Under repurchase agreements | – | 32 387 | 32 387 |
| From customers | 234 025 | 89 392 | 323 417 |
| – Current accounts | 171 945 | 138 | 172 083 |
| – Savings accounts | 1 897 | – | 1 897 |
| – Term deposits | 60 183 | 89 254 | 149 437 |
| Other deposits | 627 | 61 171 | 61 798 |
| – Negotiable certificates of deposit | 4 | 34 715 | 34 719 |
| – Buy backs | – | 8 704 | 8 704 |
| – Other | 623 | 17 752 | 18 375 |
| **Deposits and current accounts** | 247 465 | 206 293 | 453 758 |

Deposits include amounts raised under repurchase agreements with a carrying value of R41 146 million (2010: R41 091 million).

The Bank repurchased R10.6 billion (2010: R2.1 billion) of notes issued into the market during the year. These notes have been pledged as security in terms of a repurchase transaction to an external counterparty.

| R million | 2011 | 2010 |
|---|---|---|
| **Deposits by Insurance Group** | – | 2 516 |

Refer to note 32 for information about changes in the Bank's own credit risk.

Refer to note 34 for information relating to the fair value of the deposits and current accounts.

Refer to note 42 for the current and non-current analysis of deposits and current accounts.

## 21 Short trading positions

| R million | 2011 | 2010 |
|---|---|---|
| Government and government guaranteed | 5 714 | 7 360 |
| Other dated securities | 62 | 107 |
| Undated securities | 1 | 2 |
| **Short trading positions** | 5 777 | 7 469 |
| **Analysed as follows:** | | |
| Listed | 5 777 | 7 469 |
| **Short trading positions** | 5 777 | 7 469 |

Short trading positions are carried at fair value. Refer to note 34 for information relating to the fair value of short trading positions.

Refer to note 42 for the current and non-current analysis of short trading positions.

## 22 Creditors and accruals

| R million | 2011 | 2010 |
|---|---|---|
| Accrued interest | 33 | 61 |
| Short-term portion of long-term liabilities (note 25) | 710 | 1 602 |
| Accounts payable and accrued liabilities | 5 456 | 4 508 |
| **Creditors and accruals** | 6 199 | 6 171 |

The carrying value of creditors and accruals approximates the fair value.

Refer to note 42 for the current and non-current analysis of creditors and accruals.

## 23 Provisions

| R million | 2011 | 2010 |
|---|---|---|
| **Staff related provisions*** | | |
| Opening balance | 2 292 | 1 756 |
| – Acquisitions of group subsidiaries | 24 | – |
| – Exchange rate difference | (3) | – |
| – Charge to profit or loss | 1 952 | 1 700 |
| – Additional provisions created | 1 997 | 1 703 |
| – Unused provisions reversed | (45) | (3) |
| – Utilised | (1 452) | (1 164) |
| **Closing balance** | 2 813 | 2 292 |
| **Audit fees** | | |
| Opening balance | 12 | 32 |
| – Acquisitions of group subsidiaries | 2 | – |
| – Charge to profit or loss | 93 | 83 |
| – Additional provisions created | 93 | 84 |
| – Unused provisions reversed | – | (1) |
| – Utilised | (94) | (103) |
| **Closing balance** | 13 | 12 |
| **Other**** | | |
| Opening balance | 421 | 279 |
| – Acquisitions of group subsidiaries | 2 | – |
| – Exchange rate difference | (1) | – |
| – Charge to profit or loss | (285) | 165 |
| – Additional provisions created | 32 | 183 |
| – Unused provisions reversed | (317) | (18) |
| – Utilised | (18) | (23) |
| **Closing balance** | 119 | 421 |
| **Total provisions** | 2 945 | 2 725 |

* *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 27.*

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

Refer to note 42 for the current and non-current analysis of provisions.

## 24 Post-retirement liabilities

### 24.1 DEFINED BENEFIT POST-RETIREMENT FUND

The Bank 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 Bank is liable to the employees for specific payments on retirement and for any deficit in the provision of these benefits from the plan assets. The liabilities and assets of these pension plans are reflected as a net asset or liability in the statement of financial position.

| | 2011 | | | 2010 | | |
|---|---|---|---|---|---|---|
| R million | Pension | Medical | Total | Pension | Medical | Total |
| **Post-retirement benefit fund liability** | | | | | | |
| Present value of funded obligation | 8 438 | 2 281 | 10 719 | 7 952 | 1 902 | 9 854 |
| Fair value of plan assets | (8 096) | – | (8 096) | (7 332) | – | (7 332) |
| **Pension fund deficit** | 342 | 2 281 | 2 623 | 620 | 1 902 | 2 522 |
| Unrecognised actuarial (losses)/gains | (139) | (232) | (371) | (440) | 23 | (417) |
| **Post-retirement liability** | 203 | 2 049 | 2 252 | 180 | 1 925 | 2 105 |
| **The amounts recognised in staff costs are as follows:** | | | | | | |
| Current service cost | 4 | 51 | 55 | 4 | 33 | 37 |
| Interest cost | 673 | 171 | 844 | 653 | 133 | 786 |
| Actuarial gains recognised | – | – | – | – | (7) | (7) |
| Expected return on plan assets | (651) | – | (651) | (647) | – | (647) |
| **Total included in staff costs** | 26 | 222 | 248 | 10 | 159 | 169 |
| **Movement in post-retirement benefit fund liability** | | | | | | |
| Present value at the beginning of the year | 180 | 1 925 | 2 105 | 174 | 1 832 | 2 006 |
| Subsidiary balances acquired | – | (6) | (6) | – | – | – |
| Amounts recognised in staff costs | 26 | 222 | 248 | 10 | 159 | 169 |
| Benefits paid | – | (92) | (92) | – | (66) | (66) |
| Employer contributions | (2) | – | (2) | (3) | – | (3) |
| Employee contributions | (1) | – | (1) | (1) | – | (1) |
| **Present value at the end of the year** | 203 | 2 049 | 2 252 | 180 | 1 925 | 2 105 |

## 24 Post-retirement liabilities *continued*

### 24.1 DEFINED BENEFIT POST-RETIREMENT FUND *continued*

The Bank 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.

| | 2011 | | | 2010 | | |
|---|---|---|---|---|---|---|
| R million | Pension | Medical | Total | Pension | Medical | Total |
| **Movement in the fair value of plan assets** | | | | | | |
| Opening balance | 7 332 | – | 7 332 | 7 099 | – | 7 099 |
| Expected return on plan assets | 651 | – | 651 | 646 | – | 646 |
| Actuarial gains | 706 | – | 706 | 170 | – | 170 |
| Benefits paid and settlements | (596) | – | (596) | (587) | – | (587) |
| Employer contributions | 2 | – | 2 | 3 | – | 3 |
| Employee contributions | 1 | – | 1 | 1 | – | 1 |
| **Closing balance** | 8 096 | – | 8 096 | 7 332 | – | 7 332 |
| **The actual return on plan assets was:** | 13% | – | | 8% | – | |
| **Plan assets comprised the following:** | | | | | | |
| Debt | 7 341 | – | 7 341 | 6 035 | – | 6 035 |
| Other | 755 | – | 755 | 1 297 | – | 1 297 |
| **Total** | 8 096 | – | 8 096 | 7 332 | – | 7 332 |
| **Included in plan assets were the following:** | | | | | | |
| Buildings occupied by the Bank with a fair value of | 54 | – | 54 | 490 | – | 490 |
| **Total** | 54 | – | 54 | 490 | – | 490 |
| Experience adjustments arising on plan liabilities | (405) | (248) | (653) | (163) | (242) | (405) |
| Experience adjustments arising on plan assets | 706 | – | 706 | 169 | – | 169 |

## 24 Post-retirement liabilities *continued*

### 24.1 DEFINED BENEFIT POST-RETIREMENT FUND *continued*

| | 2011 Pension % | 2011 Medical % | 2010 Pension % | 2010 Medical % |
|---|---|---|---|---|
| **The principal actuarial assumptions used for accounting purposes were:** | | | | |
| Expected return on plan assets | 9.3 | – | 9.3 | – |
| Discount rate | 8.5 | 8.5 | 9.0 | 9.00 |
| Expected rates of salary increases | 7.6 | – | 7.5 | – |
| Long-term increase in health cost | – | 7.0 | – | 7.50 |
| **The effects of a 1% movement in the assumed health cost rate were as follows:** | | | | |
| Increase of 1% | | | | |
| Effect on the aggregate of the current service cost (R million) | | 44.2 | | 34.8 |
| Effect on the defined benefit obligation (R million) | | 367.2 | | 298.9 |
| Decrease of 1% | | | | |
| Effect on the aggregate of the current service cost (R million) | | 35.2 | | 27.8 |
| Effect on the defined benefit obligation (R million) | | 296.6 | | 240.5 |
| **Estimated contributions expected to be paid to the plan in the next financial period (R million)** | 827 | – | 825 | – |
| **Net increase in rate used to value pensions, allowing for pension increases (percentage)** | 6.1 | – | 6.0 | – |

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

| | 2011 | 2010 |
|---|---|---|
| Equities | 10.0% | 10.5% |
| Other | 8.5% | 10.5% |
| Bonds | 7.0% | 9.0% |
| Cash | 10.0% | 7.5% |

| | | 2011 Active members | 2011 Pensioners | 2010 Active members | 2010 Pensioners |
|---|---|---|---|---|---|
| **Mortality rate** | | | | | |
| Pension Fund | | | | | |
| Normal retirement age | | 60 | – | 60 | – |
| Mortality rate table used | | PA(90)-2 | PA(90)-2 | PA(90)-2 | PA(90)-2 |
| Post-retirement medical benefits | | | | | |
| Normal retirement age | | 60 | – | 60 | – |
| Mortality rate table used | Active | SA 72-77 | | SA 72-77 | |
| (rated down 3 years for females) | Retired | PA(90)-3 | PA(90)-3 | PA(90)-3 | PA(90)-2 |

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

PA(90)-2 refers to standard actuarial mortality tables for current and prospective pensioners on a defined benefit plan where the chance of dying after early or normal retirement is expressed at each age for each gender.

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.

## 24 Post-retirement liabilities *continued*

### 24.1 DEFINED BENEFIT POST-RETIREMENT FUND *continued*

| | 2010 | | 2010 | |
|---|---|---|---|---|
| Mortality rate | Pension | Medical | Pension | Medical |
| The average life expectancy in years of a pensioner retiring at age 65, on the reporting date, is as follows: | | | | |
| Male | 17 | 17 | 15 | 17 |
| Female | 21 | 21 | 19 | 21 |
| The average life expectancy in years of a pensioner retiring at age 65, 20 years after the reporting date, is as follows: | | | | |
| Male | 17 | 17 | 15 | 17 |
| Female | 22 | 21 | 19 | 21 |

**Five year analysis of total pension and medical post-retirement plans**

| R million | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| Present value of defined benefit obligation | 10 719 | 9 854 | 9 287 | 8 440 | 9 873 |
| Fair value of plan assets | (8 096) | (7 332) | (7 099) | (6 555) | (8 494) |
| **Deficit** | 2 623 | 2 522 | 2 188 | 1 885 | 1 379 |

The pension fund provides a pension that can be purchased with the member's fund credit (equal to member and employer contributions of 7.5% of pensionable salary each year, plus net investment returns). Death, ill health and withdrawal benefits are also provided.

**The number of employees covered by the two schemes**

| R million | 2010 | 2009 |
|---|---|---|
| **Pension:** | | |
| Active members | 28 091 | 28 849 |
| Pensioners | 7 734 | 7 671 |
| **Total** | 35 825 | 36 520 |
| **Medical:** | | |
| Active members | 6 794 | 6 014 |
| Pensioners | 4 518 | 3 238 |
| **Total** | 11 312 | 9 252 |

The employer's post-employment health care liability consists of a commitment to pay a portion of the members' post-employment medical scheme contributions. This liability is also generated in respect of dependants who are offered (continued) membership of the medical scheme on the death of the primary member. Members employed on or after the 1st of December 1998 do not qualify for a post-employment medical subsidy.

The net discount rate (the difference between the discount rate and the assumed rate of future medical cost inflation) remained unchanged, therefore there was no change in the liability due to a change in net discount rate. (2010: 0.25 percentage points resulted in an increase in the liability of R36 million).

A full actuarial valuation of the pension fund submission to the Financial Services Board is done every 3 years, with the last valuation being in 2008. Annual interim actuarial valuations are performed for the trustees and for IAS 19 purposes.

At the last valuation date the fund was financially sound.

## 24 Post-retirement liabilities *continued*

### 24.2 POST-RETIREMENT MEDICAL ASSET

The amount transferred to meet the post-retirement liability was made in order to meet the increased liability is as a result of changes to the fund in respect of non-clerical staff being included on the scheme and changes in structure to the contribution tables.

| R million | 2011 | 2010 |
|---|---|---|
| **Post-retirement benefit asset** | | |
| **Pension and post-retirement benefits** | | |
| Post-retirement medical asset | 2 830 | 2 483 |
| **Total post-retirement benefit asset** | 2 830 | 2 483 |

**The post-retirement benefit asset comprises the following underlying investments**

| R million | 2011 | 2010 |
|---|---|---|
| Cash and cash equivalents | 194 | 46 |
| Derivatives | 1 | 3 |
| Investment securities and other investments | 2 633 | 2 387 |
| – Held-to-maturity | 77 | 77 |
| – Designated at fair value through profit or loss | 2 556 | 2 310 |
| Intercompanies | – | 46 |
| Accounts receivable | 2 | 1 |
| **Total post-retirement benefit asset** | 2 830 | 2 483 |

**Cash and cash equivalents**

The cash and cash equivalents represents balances with other banks. The carrying value of cash and cash equivalents approximates the fair value. Included in cash and cash equivalents are intercompany deposits of R175 million.

**Derivatives**

The derivatives is an over the counter swap on bonds with a nominal value of R405 million and a fair value of R1 million. These derivatives are classified as held for trading.

## 24 Post-retirement liabilities *continued*

### 24.2 POST-RETIREMENT MEDICAL ASSET

***Investment securities and other investments can be analysed as follows:***

| | 2011 | | | 2010 | | |
|---|---|---|---|---|---|---|
| R million | Designated at fair value through profit or loss | Held-to-maturity | Total | Designated at fair value through profit or loss | Held-to-maturity | Total |
| **Total** | | | | | | |
| Other government and government guaranteed stock | 1 362 | – | 1 362 | 1 303 | – | 1 303 |
| Other undated securities | 1 194 | 77 | 1 271 | 1 007 | 77 | 1 084 |
| **Total** | 2 556 | 77 | 2 633 | 2 310 | 77 | 2 387 |
| **Listed** | | | | | | |
| Other government and government guaranteed stock | 1 362 | – | 1 362 | 1 303 | – | 1 303 |
| Other undated securities | 1 194 | – | 1 194 | 1 007 | – | 1 007 |
| **Listed** | 2 556 | – | 2 556 | 2 310 | – | 2 310 |
| **Unlisted** | | | | | | |
| Other undated securities | – | 77 | 77 | – | 77 | 77 |
| **Unlisted** | – | 77 | 77 | – | 77 | 77 |

### Information about the credit quality of post-retirement assets

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

| | 2011 | | | |
|---|---|---|---|---|
| R million | Investment securities | Derivatives | Cash and cash equivalents | Total |
| Credit quality of financial assets (neither past due nor impaired) | | | | |
| AAA to BBB | 1 439 | 1 | 194 | 1 634 |
| Total | 1 439 | 1 | 194 | 1 634 |

| | 2010 | | | |
|---|---|---|---|---|
| R million | Investment securities | Derivatives | Cash and cash equivalents | Total |
| Credit quality of financial assets (neither past due nor impaired) | | | | |
| AAA to BBB | 1 380 | 3 | 46 | 1 429 |
| Total | 1 380 | 3 | 46 | 1 429 |

## 24 Post-retirement liabilities *continued*

### 24.2 POST-RETIREMENT MEDICAL ASSET *continued*

**Risk concentrations**

The following table provides a breakdown of credit exposure across geographies:

| R million | 2011 South Africa | 2011 Other Africa | 2011 Total | 2010 South Africa | 2010 United Kingdom | 2010 Total |
|---|---|---|---|---|---|---|
| Cash and cash equivalents | 187 | 7 | 194 | 31 | 15 | 46 |
| Derivatives | 1 | – | 1 | 3 | – | 3 |
| Debt securities | 1 439 | – | 1 439 | 1 380 | – | 1 380 |
| | 1 627 | 7 | 1 634 | 1 414 | 15 | 1 429 |

The credit quality of accounts receivable is provided in the table below:

| | 2011 | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | Past due but not impaired | | | | |
| R million | Neither past due nor impaired | Renego-tiated but current | 1 – 30 days | 31 – 60 days | >60 days | Impaired | Total |
| Other | 2 | – | – | – | – | – | 2 |
| **Total** | 2 | – | – | – | – | – | 2 |

| | 2010 | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | Past due but not impaired | | | | |
| R million | Neither past due nor impaired | Renego-tiated but current | 1 – 30 days | 31 – 60 days | >60 days | Impaired | Total |
| Other | 1 | – | – | – | – | – | 1 |
| Total | 1 | – | – | – | – | – | 1 |

## 24 Post-retirement liabilities *continued*

### 24.3 DEFINED CONTRIBUTION POST-RETIREMENT FUND

This defined contribution plan is a post-employment plan in terms of which the Bank, in its capacity as employer, is liable to the employees only for the agreed upon contributions payable for services rendered by the employees. At the end of their employment, employees may use the accumulated funds to purchase a pension annuity from the Bank.

The assets related to this pension fund are managed by an asset manager. The Bank holds the assets related to the pension plan and has an obligation to pay over the value of the plan assets as benefits to employees on retirement. These assets and liabilities are not recognised on the statement of financial position as they are only held by the Bank in a fiduciary capacity. Disclosures on these assets and liabilities are made for information purposes only.

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

| R million | 2011 | 2010 |
|---|---|---|
| **Post-retirement contribution fund liability** | | |
| Present value of obligation | 9 731 | 9 547 |
| Fair value of plan assets | (9 731) | (9 547) |
| **Post-retirement contribution fund liability** | – | – |
| **Movement in post-retirement contribution fund liability** | | |
| Amounts recognised in the profit and loss | 794 | 766 |
| Benefits paid | – | – |
| Employer contributions | (447) | (445) |
| Employee contributions | (347) | (321) |
| **Present value at the end of the year** | – | – |
| **Movement in the fair value of plan assets** | | |
| Opening balance | 9 548 | 8 170 |
| Expected return on plan assets | 869 | 776 |
| Actuarial losses | (383) | 601 |
| Benefits paid and settlements | (1 097) | (766) |
| Employer contributions | 447 | 443 |
| Employee contributions | 347 | 323 |
| **Closing balance** | 9 731 | 9 547 |

Refer to note 42 for the current and non-current analysis of post-retirement liabilities.

## 25 Long-term liabilities

| R million | 2011 | 2010 |
|---|---|---|
| **Preference shares** | | |
| **Authorised** | | |
| 5 billion (2010: 5 billion) cumulative redeemable shares with a par value of R0.0001 | | |
| **Issued** | | |
| The preference shares of FirstRand Bank Limited have been classified as long-term liabilities and comprise the following: | | |
| 2 385 (2010: 2 595) cumulative redeemable preference shares subscribed for by third parties with a par value of R0.0001 and a premium of R99 999.99 per share (disclosed at fair value) | 239 | 58 |
| Less: Portion disclosed in deposits | (239) | – |
| | – | 58 |
| Less: Redeemed shares | – | (58) |
| **Preference shares** | – | – |
| **Other long-term liabilities** | | |
| Fixed rate bond[a] | 4 422 | 5 109 |
| Floating rate bond[b] | 1 969 | 2 256 |
| Subtotal | 6 391 | 7 365 |
| Less: Portion repayable within 12 months transferred to current liabilities (note 22) | (430) | (1 599) |
| **Other long-term liabilities** | 5 961 | 5 766 |

*a The fixed bonds mature between 1 December 2011 and 21 December 2018 and bear interest at between 9% and 12%.*

*b The floating rate bonds mature between 5 November 2012 and 21 December 2018 and the interest varies between 65bps and 300bps above the three month JIBAR rate.*

| R million | 2011 | 2010 |
|---|---|---|
| **Finance lease liabilities** | | |
| Not later than 1 year | 3 | 3 |
| **Later than 1 year and not later than 5 years** | 5 | 2 |
| **Total finance lease liabilities** | 8 | 5 |
| **Future finance charges on finance leases** | | |
| Present value of finance lease liability | 8 | 5 |
| Less: Portion repayable within 12 months transferred to current liabilities (note 22) | (3) | (3) |
| **Long-term finance lease charges** | 5 | 2 |
| **Share-based payment** | | |
| Share-based payment (cash settled) | 1 351 | 516 |
| Less: Portion repayable within 12 months transferred to current liabilities (note 22) | ( 277) | – |
| **Share-based payment** | 1 074 | 516 |
| **Total long-term liabilities** | 7 040 | 6 284 |

Refer to note 17 for assets that secure finance lease liabilities.

Refer to note 32 for information about changes in the Bank's own credit risk.

Refer to note 34 for information relating to the fair value of long-term liabilities.

Refer to note 42 for the current and non-current analysis of long-term liabilities.

## 26 Share capital and share premium

| R million | 2011 | 2010 |
|---|---|---|
| **Ordinary shares** | | |
| **Authorised** | | |
| 2 000 000 shares with a par value of R2 per share | 4 | 4 |
| **Issued – fully paid up** | | |
| 1 866 833 million (2010: 1 866 831 million) ordinary shares with a par value of R2 per share. | 4 | 4 |
| All issued share capital is fully paid up. | | |
| Ordinary share premium | 11 455 | 10 965 |
| **Total issued ordinary share capital and share premium** | **11 459** | 10 969 |
| **Non-cumulative non-redeemable preference shares** | | |
| **Authorised** | | |
| 100 million non-cumulative non-redeemable preference shares with a par value of R0,01 per share | 1 | 1 |
| **Issued fully paid up** | | |
| 3 million (2010: 3 million) non-cumulative non-redeemable preference shares with par value of R0,01 per share to FirstRand Bank Limited | * | * |
| The non-cumulative non-redeemable preference shares were issued at varying interest rates which are linked to the prime lending rate as determined by the Bank | | |
| **Non-cumulative non-redeemable preference share premium** | 3 000 | 3 000 |
| **Total issued non-cumulative non-redeemable preference share capital and share premium** | **3 000** | 3 000 |
| **Total issued share capital and share premium** | **14 459** | 13 969 |

* *Denotes amounts less than R500 000.*

| | Number of ordinary shares | Number of non-cumulative non-redeemable preference shares |
|---|---|---|
| **Reconciliation of shares issued** | | |
| Shares at 1 July 2009 | 1 866 830 | 3 000 000 |
| Issued during the year | 1 | – |
| **Shares at 30 June 2010** | **1 866 831** | **3 000 000** |
| Issued during the year | 2 | – |
| **Shares at 30 June 2011** | **1 866 833** | **3 000 000** |

For detail on capital management of the Bank please refer to the Capital Management section from page 16 to page 21 of the Annual Report.

The unissued ordinary shares are under the control of the directors until the next annual general meeting.

## 27 Remuneration schemes

| R million | 2011 | 2010 |
|---|---|---|
| The charge to profit or loss for share-based payments is as follows: | | |
| FirstRand share incentive scheme | 3 | (8) |
| FirstRand black employee trust | 52 | 36 |
| FirstRand black non-executive directors' trust | – | 1 |
| FirstRand share appreciation rights scheme | 157 | 243 |
| Conditional share plan | 484 | 163 |
| Forfeitable share plan | 184 | 109 |
| **Charge to profit or loss** | **880** | 544 |

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

Cash settled:

- FirstRand share appreciation right scheme
- Conditional share plan
- Forfeitable share plan

The purpose of these schemes is to appropriately attract, incentivise and retain managers within the Group.

The Group adopted new share incentive plans in 2009, a conditional share plan ("CSP") and a forfeitable share plan ("FSP"). These plans are in line with practices in the UK and with several recently adopted schemes for large JSE listed or dual listed companies.

### Description of the schemes

#### FIRSTRAND SHARE INCENTIVE SCHEME

The rules of the FirstRand share inventive scheme ("the Scheme") are constituted in the FirstRand Limited share trust. The 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 classified to retained earnings.

All the share options under this Scheme vested in the current year and the amount recognised in the share-based payment reserve has been transferred to retained earnings in accordance with the group's policy.

#### FIRSTRAND BLACK ECONOMIC EMPOWERMENT TRUSTS

FirstRand Limited is committed to the process of achieving transformation in South Africa and in creating its transformation initiative sought to ensure that the long-term benefits of the transaction reach the widest possible community of black South Africans.

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

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

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 note 23.

#### 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 were 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 at 31 December 2014.

## 27 Remuneration schemes *continued*

### 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.

Distribution to beneficiaries takes place at 31 December 2014.

### FIRSTRAND SHARE APPRECIATION RIGHTS 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 adjusted to ensure that the fair value of the employee's awards before and after the unbundling of Momentum were the same. The modification was 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 over a period of three years. The number of shares that vest is determined by the extent to which the performance conditions are met. Conditional awards will be made annually and vesting will be subject to specified financial and non-financial performance, which will be set annually by the Bank's Remuneration committee.

During the year ended 30 June 2011 the strike price of the appreciation rights was adjusted to ensure that the fair value of the employee's awards before and after the unbundling of Momentum were the same. The modification was neither beneficial nor detrimental to the employees.

### FORFEITABLE SHARE PLAN

The forfeitable share plan is a remuneration scheme that grants selected employees full shares with no strike price that will vest over a period of 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 of two years. During the two year vesting period the shares are held in trust for the employees. The 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.

### CO INVESTMENT ARRANGEMENT

A co investment arrangement was established whereby certain key executives and decision makers of the FirstRand Group are allowed to co invest with FirstRand Limited in certain pre-defined portfolios.

The rationale for the co investment arrangement includes:
- Alignment of management and shareholder objectives;
- Retention of key employees and decision makers; and
- Attracting new talent in a highly competitive market.

The participants who co invest with FirstRand Limited buy into the existing portfolios at the disclosed fair values and are required to place capital at risk. No additional gearing is provided by FirstRand Limited.

Participants share in future profits to the extent of their capital as a percentage of the total capital at risk in the portfolios.

Where losses are incurred, participants share in the losses to the full extent of their capital committed and profits made on these portfolios.

The co investment arrangement encourages a long-term perspective and commitment from employees. The arrangement also encourages executives to remain in the employ of the FirstRand Group companies in excess of three years, as the value of the underlying investments are expected to realised over a longer time frame.

The FirstRand 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 37.

## 27 Remuneration schemes *continued*

### 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 has been assumed to be the last day that the shares trade cum dividend.

Market data consists of the following:

- Volatility is the expected volatility over the period of the plan, and historic 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 that employees participating in the option scheme are expected to leave before the options have vested.
- The number of iterations is the number to be used in the binomial model, which is limited to 500.
- The weighted average number of forfeitures is based on the major grants because these grants have a more reliable cancellation or forfeiture pattern.

### FIRSTRAND BLACK EMPLOYEE TRUST

Economically, FirstRand has granted European call options and is repurchasing shares. The strike price equates to the expected outstanding amount of the funding. The value of the implicit options is determined using the Black Scholes option pricing model.

Market data consists of the following:

- Volatility is the expected volatility over the period of the plan, and historic 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.

### FIRSTRAND BLACK NON-EXECUTIVE DIRECTORS' TRUST

The FirstRand black non-executive directors' trust is valued on the same methodology as used for the FirstRand black employee trust, except that a zero % weighted average forfeiture rate was used due to the fact that there are only 10 participants (2010: 11 participants).

Market data consists of the following:

- Volatility is the expected volatility over the period of the plan, and historic 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 LIMITED SHARE APPRECIATION RIGHTS SCHEME

The share appreciation rights scheme issues are valued using a Cox Ross Rubenstein binomial tree. The scheme is cash settled and is therefore repriced at each reporting date.

Market data consists of the following:

- Volatility is the expected volatility over the period of the option, and historic volatility was used as a proxy for expected valuation.
- The interest rate is the risk free rate of return, as recorded on the last day of the financial year, on a swap curve of a term equal to the expected life of the share appreciation right.

Dividend data consists of the following:

- Management's estimate 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 grants 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 cash settled and will thus be repriced at each reporting date.

Market and dividend data consists of the following:

- Volatility is the expected volatility over the period of the plan, and historical volatility was used as a proxy for expected volatility.

## 27 Remuneration schemes *continued*

- The interest rate is the risk free rate of return as recorded on the last day of the financial year, on a swap curve of a term equal to the expected life of the plan.
- A fixed dividend yield was assumed, based on the average historic dividend yield over a similar period.

Employee statistic assumptions:

- The weighted average forfeiture rate used is based on historical forfeiture data over all schemes.

### FORFEITABLE SHARE PLAN

The forfeitable share plan is valued 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 cash settled and will thus be repriced at each reporting date.

Market and dividend data consists of the following:

- Volatility is the expected volatility over the period of the plan, and historical volatility was used as a proxy for expected volatility.
- The interest rate is the risk free rate of return as recorded on the last day of the financial year, on a swap curve of a term equal to the expected life of the plan.
- A fixed dividend yield was assumed, based on the average historic dividend yield over a similar period.

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.

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

| | 2011 | | | | | |
|---|---|---|---|---|---|---|
| | FirstRand share incentive scheme | FirstRand black employee trust | FirstRand black non-executive directors' trust | FirstRand share appreciation right scheme** | Conditional share plan | Forfeitable share plan |
| Weighted average share price (Rands) | 12.37 – 16.09 | 12.05 – 24.60 | 2.28 – 17.60 | 8.55 – 13.68 | – | – |
| Expected volatility (%) | 23 – 29 | 24 – 29 | 23 – 33 | 26 – 38 | 26 – 41 | 23 |
| Expected option life (years) | 5 | 5 – 10 | 10 | 5 | 3 | 2 – 3 |
| Expected risk free rate (%) | 7.50 – 8.02 | 6.91 – 9.9 | 6.91 | 5.89 – 7.29 | 6.18 – 7.10 | 6.66 |
| Expected dividend yield (%) | – | 2.78 – 6.88 | 3.44 – 4.04 | 3.72 – 4.96 | 3.79 – 4.94 | – |
| Expected dividend growth (%) | 20 | – | – | – | – | – |

| | 2010 | | | | | |
|---|---|---|---|---|---|---|
| | FirstRand share incentive scheme | FirstRand black employee trust | FirstRand black non-executive directors' trust | FirstRand share appreciation right scheme** | Conditional share plan | Forfeitable share plan |
| Weighted average share price (Rands) | 12.37 – 16.09 | 12.05 – 24.60 | 12.28 – 17.60 | 14.01 | – | – |
| Expected volatility (%) | 23 – 29 | 27 – 49 | 23 – 33 | 34 – 42 | 42 | 30 |
| Expected option life (years) | 5.00 | 10.00 | 10.00 | 5 | 3 | 2 – 3 |
| Expected risk free rate (%) | 7.50 – 8.02 | 6.91 – 9.9 | 6.91 | 6.72 – 7.49 | 7.05 | 7.05 |
| Expected dividend yield (%) | – | 2.78 – 6.88 | 3.44 – 4.04 | 4.21 – 4.83 | 4.82 | 3.95 |
| Expected dividend growth (%) | 20.00 | – | – | – | – | – |

*** The strike price of the share appreciation rights scheme has been adjusted for the Momentum unbundling. Some share appreciation rights granted are subject to other vesting conditions that are highly unlikely to be achieved.*

## 27 Remuneration schemes *continued*

| | 2011 | |
|---|---|---|
| | FirstRand Share scheme (FSR shares) | |
| **Number of options and share awards in force at the beginning of the year (millions)** | 25.4 | |
| Granted at prices ranging between (cents) | 1 237 – 1 609 | |
| Weighted average (cents) | 1 533 | |
| **Number of options and share awards granted during the year (millions)** | – | |
| Granted at prices ranging between (cents) | – | |
| Weighted average (cents) | – | |
| **Number of options and share awards exercised/released during the year (millions)** | (25.4) | |
| Market value range at date of exercise/release (cents) | 1 863 – 2 238 | |
| Weighted average share price for the year (cents) | 1 992 | |
| **Number of options and share awards cancelled/lapsed during the year (millions)** | – | |
| Granted at prices ranging between (cents) | – | |
| Weighted average (cents) | – | |
| **Number of options and share awards in force at the end of the year (millions)** | – | |
| Granted at prices ranging between (cents) | – | |
| Weighted average (cents) | – | |
| **Options and share awards are exercisable over the following periods: (first date able to release)** | | |
| Financial year 2011/2012 (millions) | – | |
| Financial year 2012/2013 (millions) | – | |
| Financial year 2013/2014 (millions) | – | |
| Financial year 2014/2015 (millions) | – | |
| **Total** | – | |

* *Denotes amounts less than R500 000.*

** *This price has been adjusted for the impact of the Momentum unbundling.*

| 2011 | | | | | |
|---|---|---|---|---|---|
| | FirstRand share appreciation rights scheme (FSR shares) | FirstRand black employee trust (FSR shares) | FirstRand black non-executive directors' trust (FSR shares) | Conditional share plan (FSR shares) | Forfeitable share plan (FSR shares) |
| | 185.8 | 115.9 | 2.0 | 35.7 | 14.7 |
| | **855 – 2 022 | 1 205 – 2 460 | 1 228 – 1 760 | – | – |
| | 1 334 | 1 667 | 1 494 | – | – |
| | | 1.8 | 2.0 | 53.2 | – |
| | | 1 933 – 1 989 | 1 228 | – | – |
| | | 1 959 | 1 228 | – | – |
| | – | – | – | – | – |
| | – | – | – | – | – |
| | – | – | – | – | – |
| | (16.9) | (7.0) | | (4.6) | (0.8) |
| | 855 – 1 770 | 1 228 – 2 234 | | – | – |
| | 1 319 | 2 027 | | – | – |
| | 168.9 | 110.7 | 4.0 | 84.3 | 13.9 |
| | 855 – 2 022 | 1 205 – 2 460 | 1 228 – 1 760 | – | – |
| | 1 335 | 1 664 | 1 361 | – | – |
| | 69.3 | – | – | – | 13.3 |
| | 70.2 | – | – | 45.0 | 0.6 |
| | 29.4 | – | – | 39.3 | – |
| | * | 110.7 | 4.0 | – | – |
| | 168.9 | 110.7 | 4.0 | 84.3 | 13.9 |

## 27 Remuneration schemes *continued*

| Options and share awards outstanding (by expiry date) | 2011 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | FirstRand share scheme (FSR shares) | | | FirstRand share appreciation rights scheme (FSR shares) | | | FirstRand black non-executive directors' trust (FSR shares) | | |
| | Expiry date | Exercise price (Rand) | Outstanding options 2011 Million | Expiry date | Exercise price (Rand) | Outstanding options 2011 Million | Expiry date | Exercise price (Rand) | Outstanding options 2011 Million |
| | | | | 01/10/2011 | 13.50 | 38.2 | 31/12/2014 | 12.28 | 3.0 |
| | | | | 01/12/2011 | 15.32 | * | 31/12/2014 | 17.60 | 1.0 |
| | | | | 27/02/2012 | 20.22 | 0.2 | | | |
| | | | | 15/03/2012 | 18.05 | 0.3 | | | |
| | | | | 01/04/2012 | 20.15 | 0.6 | | | |
| | | | | 15/06/2012 | 19.29 | 0.6 | | | |
| | | | | 01/10/2012 | 17.70 | 40.6 | | | |
| | | | | 04/03/2013 | 15.16 | 0.1 | | | |
| | | | | 03/11/2013 | 11.18 | 87.7 | | | |
| | | | | 16/03/2014 | 8.55 | 0.1 | | | |
| | | | | 01/05/2014 | 10.22 | 0.3 | | | |
| | | | | 01/10/2014 | 13.68 | 0.2 | | | |
| | | | | | | 168.9 | | | 4.0 |
| Total options and share awards outstanding – in the money (millions) | | | | | | 90.0 | | | 0.0 |
| Total options and share awards outstanding – out of the money (millions) | | | | | | 78.9 | | | 4.0 |
| Total options and share awards (millions) | | | | | | 168.9 | | | |
| Value of company loans to share option trust at the beginning of the year (R million) | | | 901 | | | 1 984 | | | 214 |
| Value of company loans to share option trust at the end of the year (R million) | | | 7 | | | 4 | | | 224 |
| Number of participants | | | – | | | 1 534 | | | 4 |

* *Less than R500 000.*

** *The employees are awarded the shares, there is therefore no strike price associated with the awards made under the conditional or forfeitable share plan.*

| | 2011 | | | | | | |
|---|---|---|---|---|---|---|---|
| | FirstRand black employee trust | | | Conditional share plan (FSR shares)** | | Forfeitable share plan (FSR shares)** | |
| | Expiry date | Exercise price (Rand) | Outstanding options 2011 Million | Expiry date | Outstanding options 2011 Million | Expiry date | Outstanding awards 2011 Million |
| | 31/12/2014 | 12.05 | 0.2 | 13/10/2012 | 5.3 | 15/09/2011 | 13.3 |
| | 31/12/2014 | 12.06 | 0.2 | 17/10/2012 | 39.7 | 15/09/2012 | 0.6 |
| | 31/12/2014 | 12.28 | 49.2 | 14/10/2013 | 38.8 | | |
| | 31/12/2014 | 13.05 | 0.4 | 01/11/2013 | 0.2 | | |
| | 31/12/2014 | 13.65 | 0.1 | 20/11/2013 | * | | |
| | 31/12/2014 | 14.00 | 0.2 | 01/12/2013 | 0.1 | | |
| | 31/12/2014 | 14.70 | 0.2 | 01/01/2014 | 0.1 | | |
| | 31/12/2014 | 15.66 | * | 08/04/2014 | 0.1 | | |
| | 31/12/2014 | 15.88 | 0.1 | 15/04/2014 | * | | |
| | 31/12/2014 | 16.00 | * | 01/05/2014 | * | | |
| | 31/12/2014 | 16.42 | 0.5 | | | | |
| | 31/12/2014 | 16.50 | * | | | | |
| | 31/12/2014 | 16.51 | 0.4 | | | | |
| | 31/12/2014 | 17.37 | 0.6 | | | | |
| | 31/12/2014 | 17.81 | 0.1 | | | | |
| | 31/12/2014 | 18.62 | 11.5 | | | | |
| | 31/12/2014 | 18.72 | 0.1 | | | | |
| | 31/12/2014 | 19.33 | 0.1 | | | | |
| | 31/12/2014 | 19.44 | 1.1 | | | | |
| | 31/12/2014 | 19.81 | * | | | | |
| | 31/12/2014 | 19.89 | 27.8 | | | | |
| | 31/12/2014 | 21.50 | 0.2 | | | | |
| | 31/12/2014 | 22.10 | 0.1 | | | | |
| | 31/12/2014 | 22.34 | 16.4 | | | | |
| | 31/12/2014 | 22.60 | 0.1 | | | | |
| | 31/12/2014 | 22.80 | 0.5 | | | | |
| | 31/12/2014 | 23.35 | * | | | | |
| | 31/12/2014 | 23.75 | 0.1 | | | | |
| | 31/12/2014 | 24.60 | 0.5 | | | | |
| | | | 110.07 | | 84.3 | | 13.9 |
| | | | 65.0 | | 84.3 | | 13.9 |
| | | | 45.7 | | – | | – |
| | | | 110.7 | | 84.3 | | 13.9 |
| | | | 1 888 | | – | | 273 |
| | | | 1 906 | | – | | 21 |
| | | | 11 155 | | 1 896 | | 112 |

## 27 Remuneration schemes *continued*

| | 2010 |
|---|---|
| | FirstRand share scheme (FSR shares) |
| **Number of options and share awards in force at the beginning of the year (millions)** | 61.6 |
| Granted at prices ranging between (cents) | 608 – 1 609 |
| Weighted average (cents) | 1 353 |
| **Number of options and share awards granted during the year (millions)** | – |
| Granted at prices ranging between (cents) | – |
| Weighted average (cents) | – |
| **Number of options and share awards exercised/released/transferred during the year (millions)** | (33.6) |
| Market value range at date of exercise/release (cents) | 1 438 – 2 100 |
| Weighted average share price for the year (cents) | 1 778 |
| **Number of options and share awards cancelled/lapsed during the year (millions)** | (2.60) |
| Granted at prices ranging between (cents) | 1 050 – 1 533 |
| Weighted average (cents) | 1 389 |
| **Number of options and share awards in force at the end of the year (millions)** | 25.4 |
| Granted at prices ranging between (cents) | 1 237 – 1 609 |
| Weighted average (cents) | 1 533 |
| **Options and share awards are exercisable over the following periods** | |
| (first date able to release) | |
| Financial year 2008/2009 (millions) | 6.4 |
| Financial year 2009/2010 (millions) | 7.4 |
| Financial year 2010/2011 (millions) | 11.6 |
| Financial year 2011/2012 (millions) | – |
| Financial year 2012/2013 (millions) | – |
| Financial year 2013/2014 (millions) | |
| Financial year 2014/2015 (millions) | – |
| Total | 25.4 |

| 2010 | | | | |
|---|---|---|---|---|
| FirstRand share appreciation rights scheme (FSR shares) | FirstRand black employee trust (FSR shares) | FirstRand black non-executive directors' trust (FSR shares) | Conditional share plan (FSR shares) | Forfeitable share plan (FSR shares) |
| 206.0 | 94.4 | 3.0 | – | – |
| 1 138 – 2 305 | 1 205 – 2 460 | 1 228 – 1 760 | – | – |
| 1 619 | 1 557 | 1 405 | – | – |
| 0.3 | 29.6 | | 36.5 | 15.2 |
| 1 651 | 1 365 – 2 026 | | – | – |
| 1 651 | 2 002 | | – | – |
| – | | (1.0) | – | – |
| | | 1 228 | – | – |
| | | 1 228 | – | – |
| (20.50) | (8.10) | | (0.8) | (0.5) |
| 1 401 – 2 233 | 1 228 – 2 355 | | – | – |
| 1 628 | 1 727 | | – | – |
| 185.8 | 115.9 | 2.0 | 35.7 | 14.7 |
| 1 138 – 2 305 | 1 205 – 2 460 | 1 228 – 1 760 | – | – |
| 1 617 | 1 667 | 1 494 | – | – |
| | – | – | – | – |
| | – | – | – | – |
| 44.1 | – | – | – | |
| 61.8 | – | – | | 14.1 |
| 47.3 | – | – | 35.7 | 0.6 |
| 32.5 | | | | |
| 0.1 | 115.9 | 2.0 | – | – |
| 185.8 | 115.9 | 2.0 | 35.7 | 14.7 |

## 27 Remuneration schemes *continued*

| | FirstRand (FRS shares) | | | FirstRand share appreciation rights scheme (FSR shares) | | |
|---|---|---|---|---|---|---|
| Options outstanding (by expiry date) | Expiry date | Exercise price (Rand)** | Outstanding options 2010 Million | Expiry date | Exercise price (Rand)** | Outstanding options 2010 Million |
| | 03/01/2010 | 12.37 | 0.1 | 10/01/2011 | 16.33 | 42.1 |
| | 03/10/2010 | 15.33 | 25.1 | 12/01/2011 | 18.15 | * |
| | 15/11/2010 | 15.38 | 0.1 | 27/02/2012 | 23.05 | 0.2 |
| | 01/06/2011 | 16.09 | 0.1 | 15/03/2012 | 20.88 | 0.3 |
| | | | | 01/04/2012 | 22.98 | 0.6 |
| | | | | 15/06/2012 | 22.12 | 0.6 |
| | | | | 01/10/2012 | 20.53 | 44.3 |
| | | | | 04/03/2013 | 17.99 | 0.1 |
| | | | | 03/11/2013 | 14.01 | 96.9 |
| | | | | 16/03/2014 | 11.38 | 0.1 |
| | | | | 01/04/2014 | 12.65 | 0.1 |
| | | | | 01/05/2014 | 13.05 | 0.3 |
| | | | | 01/10/2014 | 16.51 | 0.3 |
| | | | 25.4 | | | 185.9 |
| Total options and share awards outstanding – in the money | | | 25.4 | | | 97.5 |
| Total options and share awards outstanding – out of the money | | | – | | | 88.3 |
| Total (million) | | | 25.4 | | | 185.8 |
| Value of company loans to share option trust at the beginning of the year (R million) | | | 1 282 | | | 2 156 |
| Value of company loans to share option trust at the end of the year (R million) | | | 901 | | | 1 984 |
| Number of participants | | | 740 | | | 1 694 |

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

****The employees are awarded the shares, there is therefore no strike price associated with the awards made under the conditional or forfeitable share plan.*

| | FirstRand black non-executive directors' trust (FSR shares) | | | FirstRand black employee trust | | | Conditional share plan*** | | Forfeitable share plan*** | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Expiry date | Exercise price (Rand) | Outstanding options 2009 Million | Expiry date | Exercise price (Rand) | Outstanding options 2009 Million | Expiry date | Outstanding awards 2010 Million | Expiry date | Outstanding awards 2010 Million |
| | 31/12/2014 | 12.28 | 1.0 | 31/12/2014 | 12.05 | 0.2 | 17/09/2012 | 35.7 | 15/09/2011 | 14.1 |
| | 31/12/2014 | 17.60 | 1.0 | 31/12/2014 | 12.06 | 0.2 | | | 15/09/2012 | 0.6 |
| | | | | 31/12/2014 | 12.28 | 52.5 | | | | |
| | | | | 31/12/2014 | 13.05 | 0.4 | | | | |
| | | | | 31/12/2014 | 13.65 | 0.1 | | | | |
| | | | | 31/12/2014 | 14.00 | 0.2 | | | | |
| | | | | 31/12/2014 | 14.70 | 0.2 | | | | |
| | | | | 31/12/2014 | 15.66 | 0.1 | | | | |
| | | | | 31/12/2014 | 15.88 | 0.1 | | | | |
| | | | | 31/12/2014 | 16.00 | * | | | | |
| | | | | 31/12/2014 | 16.42 | 0.5 | | | | |
| | | | | 31/12/2014 | 16.50 | * | | | | |
| | | | | 31/12/2014 | 16.51 | 0.4 | | | | |
| | | | | 31/12/2014 | 17.37 | 0.6 | | | | |
| | | | | 31/12/2014 | 17.81 | 0.1 | | | | |
| | | | | 31/12/2014 | 18.19 | * | | | | |
| | | | | 31/12/2014 | 18.62 | 12.8 | | | | |
| | | | | 31/12/2014 | 18.72 | 0.1 | | | | |
| | | | | 31/12/2014 | 19.81 | * | | | | |
| | | | | 31/12/2014 | 20.26 | 28.0 | | | | |
| | | | | 31/12/2014 | 21.50 | 0.2 | | | | |
| | | | | 31/12/2014 | 22.10 | 0.1 | | | | |
| | | | | 31/12/2014 | 22.34 | 17.8 | | | | |
| | | | | 31/12/2014 | 22.60 | 0.1 | | | | |
| | | | | 31/12/2014 | 22.80 | 0.5 | | | | |
| | | | | 31/12/2014 | 23.35 | 0.1 | | | | |
| | | | | 31/12/2014 | 23.75 | 0.1 | | | | |
| | | | | 31/12/2014 | 24.60 | 0.5 | | | | |
| | | | 2.0 | | | 115.9 | | 35.7 | | 14.7 |
| | | | 2.0 | | | 55.7 | | 35.7 | | 14.7 |
| | | | – | | | 60.2 | | 0.0 | | 0.0 |
| | | | 2.0 | | | 115.9 | | 35.7 | | 14.7 |
| | | | 206 | | | 1 812 | | – | | – |
| | | | 214 | | | 1 888 | | – | | 273 |
| | | | 2 | | | 11 165 | | 1 561 | | 121 |

## 27 Remuneration schemes *continued*

### CORPORATE PERFORMANCE TARGETS

The FirstRand Limited Group Remuneration Committee ("the Remco") sets the Corporate Performance Targets ("CPTs") 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:

2006 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 2006, for the five year performance period, to enable 100% vesting.

In the event of CPIX plus 10% not being achieved, the Remco was entitled to sanction a partial vesting of the appreciation right, to be calculated pro rata to the performance exceeding CPIX.

The performance period for this grant ended on 30 June 2011. During the period the corporate performance targets were not met in full and accordingly 3.98% of the total grant becomes exercisable on 1 October 2011, the balance being forfeited.

2007 FirstRand' Normalised 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.

The performance targets for the period ended 30 June 2011 have not been met and accordingly none of the grant has become exercisable. The performance period endures to 30 June 2012.

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.

## 28 Cash flow information

| R million | 2011 | 2010 |
|---|---|---|
| **28.1 RECONCILIATION OF OPERATING PROFIT BEFORE INCOME TAX TO CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Operating profit before income tax | 10 755 | 7 231 |
| Adjusted for: | | |
| – Depreciation, amortisation and impairment charges | 1 424 | 1 653 |
| – Impairment of advances | 3 637 | 5 115 |
| – Movement in provisions | 1 760 | 1 948 |
| – Loss on disposal of property and equipment | 44 | 4 |
| – Gain on disposal of investments securities and other investments | (314) | (391) |
| – Gain on disposal of subsidiaries | (688) | – |
| – Deferred expenses and income | (231) | (398) |
| – Share-based payment expense | 843 | 544 |
| – Net fair value gains on financial assets through profit or loss | (4) | 6 |
| – Accruals | 671 | (6) |
| – Present value adjustments | (200) | (248) |
| – Foreign currency translation reserve | 77 | 8 |
| – (Profit)/loss on available-for-sale assets and cash flow hedges transferred | (293) | 432 |
| – Dividends paid | (3 072) | (2 497) |
| **Net cash flows from operating activities** | **14 409** | **13 401** |
| **28.2 CASH RECEIPTS FROM CUSTOMERS** | | |
| Interest income | 34 828 | 34 049 |
| Fee and commission income | 15 615 | 13 724 |
| Trading and other income | 6 489 | 5 570 |
| **Cash receipts from customers** | **56 932** | **53 343** |
| **28.3 CASH PAID TO CUSTOMERS, SUPPLIERS AND EMPLOYEES** | | |
| Interest expense | (23 482) | (22 953) |
| Other operating expenses | (18 690) | (16 933) |
| **Cash paid to customers, suppliers and employees** | **(42 172)** | **(39 886)** |
| **28.4 INCREASE IN INCOME EARNING ASSETS** | | |
| Liquid assets and trading securities | (3 948) | (12 663) |
| Advances | (31 728) | (20 855) |
| Net funding from fellow subsidiary companies | – | 6 502 |
| **(Increase)/decrease in income earning assets** | **(35 676)** | **( 27 016)** |
| **28.5 INCREASE IN DEPOSITS AND OTHER LIABILITIES** | | |
| Term deposits | (30 295) | 19 648 |
| Current deposit accounts | 18 625 | (2 041) |
| Deposits from banks | 15 147 | 12 420 |
| Negotiable certificates of deposits | 34 424 | (7 537) |
| Savings accounts | 480 | (95) |
| Creditors (net of debtors) | 330 | 269 |
| Other | (8 497) | (3 462) |
| **Increase in deposits and other liabilities** | **30 214** | **19 202** |

## 28 Cash flow information *continued*

| R million | 2011 | 2010 |
|---|---|---|
| 28.6 TAX PAID | | |
| Indirect tax paid | (503) | (403) |
| Tax payable and deferred tax at beginning of the year | 741 | 469 |
| Other | – | (138) |
| Charge to profit or loss | (2 266) | (1 258) |
| Tax payable/(refundable) at year end | 95 | (741) |
| Deferred tax | (400) | – |
| **Tax paid** | (2 333) | (2 071) |
| 28.7 DIVIDENDS PAID | | |
| Charged to retained earnings | (3 072) | (2 497) |
| **Dividends paid** | (3 072) | (2 497) |
| 28.8 CASH AND CASH EQUIVALENTS | | |
| Cash and cash equivalents consist of cash on hand and balances with banks. Cash and cash equivalents included in the statement of cash flows comprise the following statement of financial position amounts: | | |
| Cash and cash equivalents (note 7) | 29 012 | 22 745 |
| **Cash and cash equivalents** | 29 012 | 22 745 |
| 28.9 PROCEEDS ON DISPOSAL OF SUBSIDIARIES | | |
| Restructure sale of subsidiaries to FirstRand Investment Holdings Limited | | |
| – discharged by cash consideration | 967 | – |
| **Cash inflow on disposal** | 967 | – |
| 28.10 PROCEEDS ON DISPOSAL OF ASSOCIATES | | |
| Restructure sale of associates to FirstRand Investment Holdings Limited | | |
| – discharged by cash consideration | 1 499 | – |
| **Cash inflow on disposal** | 1 499 | – |
| 28.11 CONSIDERATION FOR THE ACQUISITION OF ASSOCIATES – WESTON ATLAS FUNDS | | |
| Cost of acquisition | 96 | |
| – discharged by cash consideration | 96 | |
| – discharged by non-cash consideration | – | |
| **Cash outflow on acquisition** | 96 | |
| 28.12 PROCEEDS FROM THE DISPOSAL OF ASSOCIATES – OTHER SIGNIFICANT DISPOSALS | | |
| Consideration received on the disposal of entities under common control | 131 | |
| – discharged by cash consideration | 131 | |
| – discharged by non-cash consideration | – | |
| **Cash inflow on disposal** | 131 | |

## 29 Contingencies and commitments

| R million | 2011 | 2010 |
|---|---|---|
| Guarantees* | 24 901 | 26 054 |
| Acceptances | 300 | 299 |
| Letters of credit | 6 063 | 5 362 |
| **Total contingencies** | **31 264** | 31 715 |
| Irrevocable commitments | 58 438 | 48 692 |
| Committed capital expenditure | 3 362 | 2 026 |
| Opening lease commitments | 1 655 | 1 889 |
| Other | 11 200 | 5 078 |
| **Total contingencies and commitments** | **105 919** | 89 400 |

* *Guarantees consist predominantly of endorsements and performance guarantees. Guarantees reported above include guarantees of R2 424 million (2010: R4 068 million) granted to other FirstRand Group Companies.*

| R million | 2011 | 2010 |
|---|---|---|
| **Other contingencies** | | |
| The Bank is exposed to various actual or potential claims. | | |
| **Legal proceedings** | | |
| There are a number of legal or potential claims against the Bank, the outcome of which cannot at present be foreseen. These claims are not regarded as material either on an individual or a Bank basis. Provision is made for all liabilities that are expected to materialise. | 63 | 44 |
| **Claims** | | |
| – The Bank has contingent liabilities in respect of certain outstanding claims. | 150 | 150 |
| – The Bank has reciprocal claims against other institutions. These claims qualify as contingent assets. | (134) | (134) |
| **Commitments** | | |
| Commitments in respect of capital expenditure and long-term investments approved by directors comprise the following: | | |
| – Capital commitments contracted for at the reporting date but not yet incurred: Property and equipment and intangible assets | 356 | 165 |
| – Capital commitments not yet contracted for at reporting date but have been approved by the directors: | | |
| Property and equipment and intangible assets | 3 006 | 1 861 |

Funds to meet these commitments will be provided from Bank resources.

## 29 Contingencies and commitments *continued*

### Group commitments under operating leases where the Bank is the lessee

The Bank'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.

| | **2011** | | |
|---|---|---|---|
| R million | **Next year** | **2nd to 5th year** | **After 5th year** |
| Office premises | **626** | **980** | **9** |
| Equipment and motor vehicles | **62** | **28** | **–** |
| **Total operating lease commitments** | **675** | **970** | **9** |

| | 2010 | | |
|---|---|---|---|
| R million | Next year | 2nd to 5th year | After 5th year |
| Office premises | 614 | 1 064 | 15 |
| Equipment and motor vehicles | 55 | 39 | 2 |
| **Total operating lease commitments** | 669 | 1 103 | 17 |

### Group commitments under operating leases where the Bank is the lessor

The minimum future lease payments under non-cancellable operating leases:

| | **2011** | | |
|---|---|---|---|
| R million | **Next year** | **2nd to 5th year** | **After 5th year** |
| Property | **47** | **32** | **–** |
| Motor vehicles | **205** | **237** | **–** |
| Other | **1** | **–** | **–** |
| **Total under non-cancellable operating leases** | **253** | **269** | **–** |

| | 2010 | | |
|---|---|---|---|
| R million | Next year | 2nd to 5th year | After 5th year |
| Property | 17 | 54 | – |
| Motor vehicles | 124 | 158 | – |
| Other | 2 | – | – |
| Total under non-cancellable operating leases | 143 | 212 | – |

## 30 Collateral pledged and held

The Bank has pledged assets as security for the following liabilities:

| R million | 2011 | 2010 |
|---|---|---|
| **30.1 COLLATERAL PLEDGED** | | |
| Deposits and current accounts held under repurchase agreements | 41 146 | 41 091 |
| Deposits and current accounts in securities lending transactions | 5 895 | 3 739 |
| Intercompany borrowings | 2 705 | 5 659 |
| Short trading positions* | 5 777 | 7 469 |
| Other | 2 250 | 1 874 |
| Total | 57 773 | 59 832 |

* *Short trading positions were not separately disclosed in the 2010 Bank financial statements.*

The Bank 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 Bank's day to day operations.

Assets are pledged as collateral under repurchase agreements with other banks and for security deposits relating to local futures and options.

Collateral in the form of cash and other investment securities is pledged when the Bank borrows equity securities from third parties. These transactions are conducted under the terms and conditions that are usual and customary to standard securities lending arrangements.

All other pledges are conducted under terms which are usual and customary to lending arrangements.

**Assets pledged to secure the above liabilities are included under the following:**

| R million | 2011 | 2010 |
|---|---|---|
| Cash and cash equivalents | 2 250 | 1 874 |
| Investment securities and other investments held under repurchase agreements | 18 607 | 17 232 |
| Total | 20 857 | 19 106 |

### 30.2 COLLATERAL HELD

Under the standard terms for certain of the securities lending and repurchase arrangements that the Bank enters into, the recipient of collateral has an unrestricted right to sell or repledge the assets in the absence of default but subject to the Bank returning equivalent securities on settlement of the transaction.

**Collateral the Bank holds that it has the ability to sell or repledge in the absence of default by the owner of the collateral:**

| | 2011 | | 2010 | |
|---|---|---|---|---|
| R million | Fair value | Fair value of collateral sold or repledged | Fair value | Fair value of collateral sold or repledged |
| Cash and cash equivalents | 2 584 | – | 1 398 | – |
| Advances | 30 257 | 29 764 | 38 108 | 30 119 |
| Investment securities and other investments | 10 600 | 10 600 | 17 735 | 17 735 |
| Total | 43 441 | 40 364 | 57 241 | 47 854 |

When the Bank takes possession of collateral that is not cash or not readily convertible into cash, the Bank determines a minimum sale amount (pre-set sale amount) and auctions the asset for the pre-set sale amount. Where the Bank is unable to obtain the pre-set sale amount in an auction the Bank will continue to hold the asset while actively marketing it to ensure an appropriate value is obtained.

## 30 Collateral pledged and held *continued*

### 30.2 COLLATERAL HELD *continued*

**Collateral taken possession of and recognised on the statement of financial position:**

| R million | 2011 | 2010 |
|---|---|---|
| Property | 255 | 502 |
| **Total** | **255** | **502** |

## 31 Loans and receivables designated at fair value through profit or loss

Certain instruments designated at fair value meet the definition for classification as loans and receivables in terms of IAS 39 were it not for the fair value designation i.e. unquoted debt instruments. The table below contains details on the change in credit risk attributable to these instruments.

| | 2011 | | | |
|---|---|---|---|---|
| | Change in fair value | | | |
| | Of mitigating instruments | | Due to credit risk | |
| R million | Carrying value | Mitigated credit risk* | Current period | Cumulative |
| Included in advances | 118 937 | (1 413) | (147) | (1 322) |
| Included in investment securities and other investments | 36 426 | – | – | – |
| **Total** | **155 363** | **(1 413)** | **(147)** | **(1 322)** |

| | 2010 | | | |
|---|---|---|---|---|
| | Change in fair value | | | |
| | Of mitigating instruments | | Due to credit risk | |
| R million | Carrying value | Mitigated credit risk* | Current period | Cumulative |
| Included in advances | 111 975 | – | (439) | (1 175) |
| Included in investment securities and other investments | 24 375 | – | – | – |
| **Total** | 136 350 | – | (439) | (1 175) |

*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 described below:

**Advances**

The change in credit risk is the difference between fair value of the advances based on the original credit spreads and the fair value of the advances based on the most recent market observable credit spreads.

**Investment securities and other 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.

## 32 Financial liabilities designated at fair value through profit or loss

| R million | 2011 | | | |
|---|---|---|---|---|
| | | | Change in fair value due to credit risk | |
| | Fair value | Contractually payable at maturity | Current period | Cumulative |
| Deposits and current accounts | 134 461 | 149 380 | (2) | – |
| Long-term liabilities | 943 | 1 053 | (24) | 5 |
| **Total** | 135 404 | 150 433 | (26) | 5 |

| R million | 2010 | | | |
|---|---|---|---|---|
| | | | Change in fair value due to credit risk | |
| | Fair value | Contractually payable at maturity | Current period | Cumulative |
| Deposits and current accounts | 206 293 | 206 064 | – | 2 |
| Long-term liabilities | 904 | 1 047 | 8 | 29 |
| **Total** | 207 197 | 207 111 | 8 | 31 |

The current and cumulative change in fair value that is attributable to credit risk of financial liabilities designated at fair value through profit or loss is determined with reference to changes in the Bank's published credit rating.

## 33 Derecognition of assets, securitisations and other structured transactions

In the normal course of business the Bank enters into transactions in terms of which it transfers financial assets directly to third parties or to special purpose entities. These transfers may give rise to the full or partial derecognition of the financial asset concerned.

- Full derecognition occurs when the Bank transfers its contractual right to receive cash flows from the financial assets and substantially all the risks and rewards of ownership. The risks include credit, interest rate, currency, prepayment and other price risks.
- Partial derecognition occurs when the Bank sells or otherwise transfers financial assets in such a way that some but not substantially all of the risks and rewards of ownership are transferred but control is retained.

These financial assets are recognised on the statement of financial position to the extent of the Bank's continuing involvement.

The majority of transferred financial assets that do not qualify for derecognition are debt securities given by counterparties as collateral under repurchase agreements or equity securities lent under securities lending agreements.

The table below sets out the asset classes together with the carrying amounts of the assets and associated liabilities for those asset transfers where substantially all of the risks and rewards of the assets have been retained by the Bank:

| R million | 2011 | | 2010 | |
|---|---|---|---|---|
| | Carrying amount of assets | Carrying amount of associated liability | Carrying amount of assets | Carrying amount of associated liability |
| **Assets under agreements to repurchase** | | | | |
| Investment securities | 18 607 | 15 991 | 17 232 | 18 366 |
| **Total** | 18 607 | 15 991 | 17 232 | 18 366 |

The Bank remains exposed to all of the risks associated with financial assets transferred under repurchase agreements.

## 34 Fair value of financial instruments

The fair value of a financial instrument is defined as the amount at which the instrument could be exchanged in a market transaction between knowledgeable willing parties. When determining fair value it is presumed that the entity is a going concern and the fair value is therefore not an amount that represents a forced transaction, involuntary liquidation or a distressed sale.

When determining the fair value of a financial instrument, preference is given to prices quoted in an active market. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis.

If a particular instrument is not traded in an active market the Bank uses a valuation technique to determine the fair value of the financial instrument. The valuation techniques employed by the Bank include, 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 Bank classifies instruments measured at fair value using a fair value hierarchy that reflects the significance of the inputs used. The Bank's fair value hierarchy has the following levels:

Level 1 – Fair value is determined using unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Fair value is determined using inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (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 generally determined using a price earnings (P/E) model.

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

The P/E multiple is derived from current market observations taking into account an appropriate discount for unlisted companies. The valuation of these instruments may be corroborated by a discounted cash flow valuation or by the observation of other market transactions 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 as far as possible information that is consistent with similar market quoted instruments.

#### Treasury Bills

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

#### Government, public and utility stocks

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

## 34 Fair value of financial instruments *continued*

### Other dated securities

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

### Derivatives

Market prices are obtained from trading exchanges, when the derivatives are traded. If 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 valued using the Black-Scholes model. Inputs are obtained from market observable data. Where prices are obtainable from trading exchanges the value per the exchange is used.
- Forward contracts are valued by discounting the projected cash flows to obtain the present value of the forward contract. Projected cash flows are obtained by subtracting the strike price of the forward contract from the market projected forward value.
- Forward rate agreements are valued by means of the discounted cash flow model. The discount rate is determined using a yield curve of similar market traded instruments. The reset rate is determined in terms of the legal agreement.
- Swaps are valued by discounting the expected cash flows using discount and forward rates determined from similar market traded instruments. The reset rate of each swaplet is determined in terms of legal documents pertaining to the swap.
- Commodity linked instruments are measured by taking into account the price, the location differential, grade differential, silo differential and the discount factor of the most liquidly traded futures linked to the commodity.

### Deposits and current accounts

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

Call deposits are valued at the undiscounted amount of the cash balance, this is considered appropriate because of the short-term nature of these instruments.

Fair valuation will only be applied to deposits that have a maturity profile of longer than 30 days. For all non-term products it is assumed that fair value equals amortised cost.

### Short trading positions

The fair value of listed short trading positions is their market quoted prices. The fair value of unlisted short trading positions is based on the directors' valuation using suitable valuation methods.

### Loans and advances to customers

The Bank has elected to designate the term loan book in the Investment Banking Division at fair value through profit or loss. The fair value is determined using a valuation technique that uses both inputs that are based on observable market data and unobservable data. The Bank 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 Bank uses a valuation methodology based on the credit spread matrix, that considers loss given default, tenor and the internal credit committee rating criteria.

### Long-term liabilities

Fair value of debentures, unsecured debt securities and finance lease liabilities are determined by discounting the future cash flows at market related interest rates.

The fair value of subordinated notes and fixed and floating rate bonds are determined by discounting the future cash flows at market related interest rates.

## 34 Fair value of financial instruments *continued*

The fair value of the post-retirement funding liability has been calculated based on the value of the corresponding assets, since the value of the liability is limited to the value of the assets in the cell captive.

The following table presents the financial instruments recognised at fair value in the statement of financial position of the Bank:

| | 2011 | | | |
|---|---|---|---|---|
| R million | Level 1 | Level 2 | Level 3 | Total carrying amount |
| **Assets** | | | | |
| Advances | – | 35 223 | 83 829 | 119 052 |
| Derivative financial instrument | – | 36 604 | 62 | 36 666 |
| Investment in securities and other investments | 41 859 | 38 756 | 3 170 | 83 785 |
| Amounts due by holding company and fellow subsidiaries | – | 79 | – | 79 |
| **Total financial assets recognised at fair value** | 41 859 | 110 662 | 87 061 | 239 582 |
| **Liabilities** | | | | |
| Deposits and current accounts | – | 131 323 | 3 138 | 134 461 |
| Short trading positions | 5 777 | – | – | 5 777 |
| Derivative financial instruments | – | 36 019 | 131 | 36 150 |
| Long-term liabilities | – | 943 | – | 943 |
| Amounts due to holding company and fellow subsidiaries | – | 191 | – | 191 |
| **Total financial liabilities recognised at fair value** | 5 777 | 168 476 | 3 269 | 177 522 |

There were no transfers of financial instruments between Level 1 and Level 2 during the current year.

| | 2010 | | | |
|---|---|---|---|---|
| R million | Level 1 | Level 2 | Level 3 | Total carrying amount |
| **Assets** | | | | |
| Advances | – | 38 541 | 73 734 | 112 275 |
| Derivative financial instrument | – | 38 944 | – | 38 944 |
| Investment in securities and other investments | 39 978 | 38 290 | 1 711 | 79 979 |
| Amounts due by holding company and fellow subsidiaries | – | 113 | – | 113 |
| **Total financial assets recognised at fair value** | 39 978 | 115 888 | 75 445 | 231 311 |
| **Liabilities** | | | | |
| Deposits and current accounts | – | 203 276 | 3 017 | 206 293 |
| Short trading positions | 7 469 | – | – | 7 469 |
| Derivative financial instruments | – | 35 152 | 133 | 35 285 |
| Long-term liabilities | – | 904 | – | 904 |
| Amounts due to holding company and fellow subsidiaries | – | 86 | – | 86 |
| **Total financial liabilities recognised at fair value** | 7 469 | 239 418 | 3 150 | 250 037 |

There were no transfers of financial instruments between Level 1 and Level 2 during the prior year.

Although the fair value of credit is not significant year-on-year it may become significant in the future. For this reason, together with the fact that South Africa does not have actively traded credit spreads, the Bank has classified loans and advances to customers in Level 3 of the fair value hierarchy.

## 34 Fair value of financial instruments *continued*

### Level 3 fair value instruments

The Bank classifies financial instruments in Level 3 of the fair value hierarchy when the significant inputs into the valuation model are not observable. In addition to these unobservable inputs the valuation model for Level 3 financial instruments typically also rely on a number of inputs that are readily observable either directly or indirectly. Thus, the gains and losses presented below include changes in the fair value related to both observable and unobservable inputs.

The following table shows a reconciliation of the opening and closing balances for financial instruments classified as Level 3 in terms of the fair value hierarchy:

| | 2011 | | | | | |
|---|---|---|---|---|---|---|
| R million | Fair value at 30 June 2010 | Gains/(losses) recognised in profit or loss | Gains recognised in other comprehensive income | Purchases, (sales), issues and (settlements) | Acquisitions of subsidiaries | Fair value at 30 June 2010 |
| **Assets** | | | | | | |
| Advances | 73 734 | 6 078 | – | 4 016 | – | 83 828 |
| Derivative financial instruments | – | 63 | – | – | – | 63 |
| Investment securities and other investments | 1 711 | (206) | 3 | 1 651 | 11 | 3 170 |
| **Total financial assets recognised at fair value** | 75 445 | 5 935 | 3 | 5 667 | 11 | 87 061 |
| **Liabilities** | | | | | | |
| Deposits and current accounts | 3 017 | 10 | – | 112 | – | 3 139 |
| Derivative of financial instruments | 133 | 23 | – | (26) | – | 130 |
| **Total financial liabilities at fair value** | 3 150 | 33 | – | 86 | – | 3 269 |

| | 2010 | | | | | |
|---|---|---|---|---|---|---|
| R million | Fair value at 30 June 2010 | Gains/(losses) recognised in profit or loss | Gains recognised in other comprehensive income | Purchases, (sales), issues and (settlements) | Acquisitions of subsidiaries | Fair value at 30 June 2010 |
| **Assets** | | | | | | |
| Advances | 65 460 | 5 713 | – | 2 561 | – | 73 734 |
| Investment securities and other investments | 1 437 | 173 | 10 | 91 | – | 1 711 |
| **Total financial assets recognised at fair value** | 66 897 | 5 886 | 10 | 2 652 | – | 75 445 |
| **Liabilities** | | | | | | |
| Deposits and current accounts | 2 561 | (5) | – | 461 | – | 3 017 |
| Derivative of financial instruments | 381 | 87 | – | (335) | – | 133 |
| **Total financial liabilities at fair value** | 2 942 | 82 | – | 126 | – | 3 150 |

## 34 Fair value of financial instruments *continued*

The table below presents the total gains/(losses) relating to financial instrument classified in Level 3 that are still held on 30 June 2011. The Bank includes these gains/(losses) including derivative instruments that do not qualify for hedge accounting in terms of IAS 39, as well as trading related financial instruments designated at fair value through profit or loss, as fair value income in non-interest income. Trading related financial instruments designated at fair value through profit or loss excludes instruments relating to the Bank's insurance operations and the Bank's funding requirements.

| | 2011 | | |
|---|---|---|---|
| R million | Gains/(losses) recognised in the profit or loss | Gains/(losses) recognised in other comprehensive income | Total gains/ (losses) |
| **Assets** | | | |
| Advances | 5 319 | – | 5 319 |
| Derivative financial instruments | 63 | – | 63 |
| Investment securities and other investments | (113) | 3 | (110) |
| **Total** | 5 269 | 3 | 5 272 |
| **Liabilities** | | | |
| Deposits and current accounts | 19 | – | 19 |
| Derivative of financial instruments | 25 | – | 25 |
| **Total** | 44 | – | 44 |

| | 2010 | | |
|---|---|---|---|
| R million | Gains/(losses) recognised in the profit or loss | Gains/(losses) recognised in other comprehensive income | Total gains/ (losses) |
| **Assets** | | | |
| Advances | 4 853 | – | 4 853 |
| Derivative financial instruments | – | – | – |
| Investment securities and other investments | 120 | 5 | 125 |
| **Total** | 4 973 | 5 | 4 978 |
| **Liabilities** | | | |
| Deposits and current accounts | – | – | – |
| Derivative of financial instruments | (94) | – | (94) |
| **Total** | (94) | – | (94) |

## 34 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. For all other instruments the carrying value is equal to or a reasonable approximation of the fair value.

| | 2011 | |
|---|---|---|
| R million | Carrying value | Fair value |
| **Assets** | | |
| Advances at amortised cost | 310 083 | 309 967 |
| Investment securities and other investments | 24 | 24 |
| **Total financial assets at amortised cost** | **310 107** | **309 991** |
| **Liabilities** | | |
| Deposits and current accounts at amortised cost | 358 945 | 358 052 |
| Long-term liabilities | 5 023 | 4 929 |
| **Total financial liabilities at amortised cost** | **363 968** | **362 981** |

| | 2010 | |
|---|---|---|
| R million | Carrying value | Fair value |
| **Assets** | | |
| Advances at amortised cost | 288 883 | 288 472 |
| **Total financial assets at amortised cost** | 288 883 | 288 472 |
| **Liabilities** | | |
| Deposits and current accounts at amortised cost | 247 466 | 247 685 |
| Long-term liabilities | 4 864 | 4 636 |
| **Total financial liabilities at amortised cost** | 252 330 | 252 321 |

## 34 Fair value of financial instruments *continued*

### EFFECT OF CHANGES IN SIGNIFICANT UNOBSERVABLE ASSUMPTIONS IN THE REASONABLY POSSIBLE ALTERNATIVES

As described above, the fair value of instruments that are classified in Level 3 of the fair value hierarchy is determined using valuation techniques that make use of significant inputs that are not based on observable market data. The inputs into these valuation techniques are derived from all available information and management's judgement. While management believes that these fair values are appropriate they could be sensitive to changes in the assumptions used to derive the inputs. The table below illustrates the sensitivity of the significant inputs when they are changed to reasonably possible alternative inputs:

| | 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** | | | | | |
| Derivative financial instrument | | | 63 | 69 | 56 |
| Advances | Credit | Credit migration matrix* | 83 828 | 84 136 | 83 745 |
| Investment securities and other investments | Growth rates and P/E ratios of unlisted investments | Unobservable inputs are increased and decreased by 10%. | 3 170 | 3 476 | 2 887 |
| **Total financial assets recognised at fair value** | | | 87 061 | 87 681 | 86 688 |
| **Liabilities** | | | | | |
| Deposits and current accounts | Credit risk of the cash collateral leg of credit linked notes | Credit migration matrix** | 3 139 | 2 825 | 3 452 |
| Short trading positions | | | – | – | – |
| Derivative financial instruments | Volatilities | Volatilities are increased and decreased by 10%. | 130 | 128 | 134 |
| Policyholder liabilities under investment contracts | Mortality; Surrender; Expenses; Expenseinflation; Valuation Rate | | – | – | – |
| **Total financial liabilities at fair value** | | | 3 269 | 2 953 | 3 586 |

## 34 Fair value of financial instruments *continued*

| R million | 2010 | | | | |
|---|---|---|---|---|---|
| | | | | Reasonably possible alternative fair value | |
| | Significant unobservable inputs | Reasonably possible changes to significant unobservable inputs | Fair value | Using more positive assumptions | Using more negative assumptions |
| **Assets** | | | | | |
| Advances | Credit | Credit migration matrix* | 73 734 | 73 754 | 73 516 |
| Investment securities and other investments | Growth rates and P/E ratios of unlisted investments | Unobservable inputs are increased and decreased by 10%. | 1 711 | 1 819 | 1 603 |
| **Total financial assets recognised at fair value** | | | 75 445 | 75 573 | 75 119 |
| **Liabilities** | | | | | |
| Deposits and current accounts | Credit risk of the cash collateral leg of credit linked notes | Credit migration matrix** | 3 017 | 2 715 | 3 319 |
| Derivative financial instruments | Volatilities | Volatilities are increased and decreased by 10%. | 133 | 109 | 147 |
| Policyholder liabilities under investment contracts | Mortality; Surrender; Expenses; Expense inflation; Valuation Rate | | – | – | – |
| **Total financial liabilities recognised at fair value** | | | 3 150 | 2 824 | 3 466 |

* *The credit migration matrix is used as part of the Bank's credit risk management process for the advances measured at fair value through profit or loss. The matrix is a simulation model that contains a matrix of probabilities for downgrading or upgrading to another rating bucket. The migration matrix is based on actual observed rating migrations from S&P over the long-term and is based on the fair value in the 75th percentile.*

** *The deposits included in Level 3 of the hierarchy represent the collateral leg of credit linked notes. The most significant unobservable input in determining the fair value of the credit linked notes is the credit risk component. The sensitivity to credit risk has been assessed in the same way as for advances using the credit migration matrix with the deposit representing the cash collateral component thereof.*

## 35 Trust activities

| R million | 2011 | 2010 |
|---|---|---|
| Market value of assets held or placed on behalf of customers in a fiduciary capacity | 28 811 | 27 344 |
| Income received from trust and fiduciary services | 980 | 90 |

The Bank provides custody, trustee, corporate administration, investment management and advisory services to third parties, which involves the Bank making allocation and purchase and sale decisions in relation to a wide range of financial instruments.

Those assets that are held in a fiduciary capacity are not included in these financial statements. Some of these arrangements involve the Bank accepting targets for benchmark levels of returns for the assets under the Bank's care.

## 36 Segment information

### 36.1 REPORTABLE SEGMENTS

### FNB

FNB offers a diverse set of financial products and services to the retail and corporate market segments, ranging from individual consumers, small business and rural corporate markets to large and medium-sized corporates, financial institutions, parastatals and government entities. FNB's products include mortgage loans, credit and debit cards, personal loans and investment products. FNB's services include transactional and deposit taking, card acquiring, credit facilities and FNB distribution channels, namely the branch network, ATMs, call centres, cell phone and internet channels.

Products and services are provided through brands that include FNB HomeLoans, FNB Card, RMB Private Bank, FNB Trust Services and FNB Private Clients.

### FNB Africa

FNB Africa comprises a support division acting as the strategic enabler, facilitator and coordinator for African expansion undertaken by FNB.

### RMB

RMB provides diversified financial services and products, encompassing investment banking, fund management, private wealth management and advisory services. Their customers include corporates, parastatals and the government. RMB provides equity funding for leveraged and management buyouts, public to private transactions, corporate unbundling, growth opportunities and acquisitions. They also act in an advisory capacity in various transactions including merger and acquisition transactions and BEE transactions. In addition, RMB provides clients with various trading and investment products and services.

RMB comprises RMB Private Equity, RMB Equity Trading, Investment Banking, Fixed Income Currency and Commodities.

## 36 Segment information *continued*

### 36.1 REPORTABLE SEGMENTS *continued*

#### WesBank

WesBank provides full-service instalment credit finance to both the retail and corporate market, including asset-based finance, fleet-management solutions, personal loans, vehicle recovery, car care products and the financing of capital equipment.

#### Corporate Centre

The Corporate Centre consists of business units that provide support services to the Bank. The Corporate Centre can be split into two major business units, Group Treasury and Group Support Services. Group Treasury owns and manages the capital of the Bank. Group Support Services provides the brands with various support services and consists of Group Finance, Regulatory Reporting, Human Resources, Information Risk Services, Internal Audit, Enterprise Risk Management and Legal Services.

#### Major customers

In terms of IFRS 8 a customer is regarded as a major customer if the revenue from transactions with this customer exceeds 10% or more of the entity's revenue. The Bank has no major customer as defined and is therefore not reliant on the revenue from one or more major customers.

## 36 Segment information *continued*

### 36.1 REPORTABLE SEGMENTS *continued*

### 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 IFRSs, the above mentioned amounts are adjusted in the IFRS adjustments column.

| | 2011 | |
|---|---|---|
| R million | FNB | FNB Africa |
| **Net interest income before impairment of advances** | 9 686 | (2) |
| Impairment of advances | (2 429) | – |
| **Net interest income after impairment of advances** | 7 257 | (2) |
| Non-interest income | 14 772 | 174 |
| **Net income from operations** | 22 029 | 172 |
| Operating expenses | (15 494) | (219) |
| **Income before tax** | 6 535 | (47) |
| Indirect tax | (377) | (1) |
| **Profit before tax** | 6 158 | (48) |
| Direct tax | (1 631) | – |
| **Profit after tax** | 4 527 | (48) |
| **The income statement includes:** | | |
| Depreciation | (982) | – |
| Amortisation | (62) | – |
| Impairment charges | – | – |
| Other non-cash provisions | (670) | (12) |
| **The statement of financial position includes:** | | |
| Advances (after ISP – before impairments ) | 205 838 | – |
| Investment in associates and joint ventures | – | – |
| Total assets | 212 406 | 58 |
| Total liabilities | 206 165 | 106 |

| | 2011 | | | | |
|---|---|---|---|---|---|
| | RMB | WesBank | Corporate Centre | Consolidation and IFRS adjustments | Total |
| | 148 | 4 691 | 250 | (2 964) | 11 809 |
| | 35 | (1 240) | (1) | (2) | (3 637) |
| | 183 | 3 451 | 249 | (2 966) | 8 172 |
| | 5 700 | 1 521 | 2 561 | 1 275 | 26 003 |
| | 5 883 | 4 972 | 2 809 | (1 690) | 34 175 |
| | (2 981) | (2 889) | (2 171) | 334 | (23 420) |
| | 2 902 | 2 083 | 638 | (1 356) | 10 755 |
| | (58) | (165) | 98 | – | (503) |
| | 2 844 | 1 918 | 736 | (1 356) | 10 252 |
| | (754) | (508) | (195) | 822 | (2 266) |
| | 2 090 | 1 410 | 541 | ( 534) | 7 986 |
| | – | | | | |
| | (60) | (169) | (103) | – | (1 314) |
| | (34) | (14) | – | – | (110) |
| | – | – | – | – | – |
| | (1 008) | (122) | (216) | (267) | (1 761) |
| | – | | | | |
| | 126 222 | 98 009 | 6 572 | 4 | 436 645 |
| | 115 | – | 1 | – | 116 |
| | 205 592 | 97 986 | 101 046 | (393) | 616 695 |
| | 204 434 | 96 073 | 69 248 | 27 | 576 053 |

## 36 Segment information *continued*

### 36.1 REPORTABLE SEGMENTS *continued*

| | 2010 | |
|---|---|---|
| R million | FNB | FNB Africa |
| **Net interest income before impairment of advances** | 9 315 | (3) |
| Impairment of advances | (3 380) | – |
| **Net interest income after impairment of advances** | 5 935 | (3) |
| Non-interest income | 13 564 | 154 |
| **Net income from operations** | 19 499 | 151 |
| Operating expenses | (13 872) | (212) |
| **Income before tax** | 5 627 | (61) |
| Indirect tax | (304) | – |
| **Profit before tax** | 5 323 | (61) |
| Direct tax | (1 417) | – |
| **Profit after tax** | 3 906 | (61) |
| **The income statement includes:** | | |
| Depreciation | (873) | – |
| Amortisation | (45) | – |
| Impairment charges | – | – |
| Other non-cash provisions | – | – |
| **Statement of financial position includes:** | | |
| Advances (after ISP – before impairments) | 194 298 | – |
| Investments in associates and joint ventures | 36 | – |
| Total assets | 198 895 | 18 |
| Total liabilities | 198 257 | 78 |

| | 2010 | | | | |
|---|---|---|---|---|---|
| | RMB | WesBank | Corporate Centre | Consolidation and IFRS adjustments | Total |
| | 196 | 4 037 | 1 027 | (2 824) | 11 748 |
| | (15) | (1 980) | – | 260 | (5 115) |
| | 181 | 2 057 | 1 027 | (2 564) | 6 633 |
| | 5 769 | 957 | 323 | 511 | 21 278 |
| | 5 950 | 3 014 | 1 350 | (2 053) | 27 911 |
| | (2 874) | (2 402) | (2 228) | 908 | (20 680) |
| | 3 076 | 612 | (878) | (1 145) | 7 231 |
| | (59) | (126) | 87 | (1) | (403) |
| | 3 017 | 486 | (791) | (1 146) | 6 828 |
| | (799) | (129) | (1 259) | 2 346 | (1 258) |
| | 2 218 | 357 | (2 050) | 1 200 | 5 570 |
| | | | | | |
| | (62) | (130) | (90) | 1 | (1 154) |
| | (40) | (13) | – | 1 | (97) |
| | – | – | – | – | – |
| | (402) | – | – | – | (402) |
| | | | | | |
| | 122 621 | 90 611 | 1 923 | (122) | 409 331 |
| | 916 | 215 | 1 | (1) | 1 167 |
| | 196 398 | 90 501 | 91 129 | (555) | 576 386 |
| | 195 122 | 90 023 | 62 775 | (5 494) | 540 761 |

## 36 Segment information *continued*

### 36.2 GEOGRAPHIC SEGMENTS

Refer to the reportable segment information for a description of the divisions.

| Segment | Countries included | Divisions included |
|---|---|---|
| South Africa | South Africa | FNB<br>RMB<br>WesBank<br>Corporate Centre |
| United Kingdom | England | RMB<br>WesBank<br>FNB |
| Other | Asia (India, China)<br>Middle East (UAE)<br>Mauritius<br>Brazil | FNB<br>RMB |

The following significant exchange rates were used to convert the statement of financial position to South African Rand. Foreign denominated assets and liabilities are converted at the closing rate of exchange.

| | 2011 | 2010 |
|---|---|---|
| GBP | 10.84 | 11.48 |
| EUR | 9.80 | 9.39 |
| USD | 6.77 | 7.66 |
| Indian Rupees | 0.15 | 0.16 |

| | 2011 | | | |
|---|---|---|---|---|
| R million | South Africa | United Kingdom | Asia | Total |
| Net interest income | 7 840 | 292 | 39 | 8 172 |
| Non-interest income | 25 698 | 259 | 46 | 26 003 |
| Total assets | 610 094 | 5 923 | 1 239 | 616 695 |
| Non-current assets* | 8 783 | 85 | 9 | 8 877 |
| Total liabilities | 570 858 | 5 072 | 682 | 576 053 |

| | 2010 | | | |
|---|---|---|---|---|
| R million | South Africa | United Kingdom | Asia | Total |
| Net interest income | 6 413 | 210 | 10 | 6 633 |
| Non-interest income | 21 178 | 69 | 31 | 21 278 |
| Total assets | 569 514 | 5 881 | 991 | 576 386 |
| Non-current assets* | 10 084 | 100 | 8 | 10 192 |
| Total liabilities | 533 428 | 6 939 | 394 | 540 761 |

* *Excludes financial instruments, deferred tax assets and post-retirement benefit assets.*

## 37 Related parties

The Bank defines related parties as:

(i) The parent company

(ii) Subsidiaries and fellow subsidiaries

(iii) Associate companies

(iv) Joint ventures

(v) Key management personnel, being the FirstRand Limited Board of Directors, the Bank's Board of Directors and the Bank's executive committee

(v) Close family members of key management personnel (individual's spouse/domestic partner and children; domestic partner's children and dependants of individual or domestic partner). This may include entities controlled, jointly controlled or significantly influenced by any individual referred to in (iv) and (v).

The ultimate parent of the Bank is FirstRand Limited, incorporated in South Africa.

### 37.1 SUBSIDIARIES

Details of interests in subsidiaries are disclosed in note 15.

### 37.2 ASSOCIATES

Details of investments in associates are disclosed in note 14.

During the year the Bank, in the ordinary course of business, entered into various transactions with associates on terms that are not more favourable than those arranged with third parties.

### 37.3 DETAILS OF TRANSACTIONS WITH RELEVANT RELATED PARTIES APPEAR BELOW

| | 2011 | |
|---|---|---|
| R million | Parent | Fellow subsidiaries |
| **Loans and advances** | | |
| Opening balance | – | – |
| Repayments during the year | – | – |
| **Closing balance** | – | – |
| **Deposits and current accounts** | – | – |
| Opening balance | 231 | – |
| Redeemed during the year | (231) | – |
| **Closing balance** | – | – |

## 37 Related parties *continued*

| R million | 2011 Parent | 2011 Fellow subsidiaries |
|---|---|---|
| **Loans to Insurance Group** | | |
| Opening balance | – | 1 101 |
| Repayments during the year | – | (1 101) |
| **Closing balance** | – | – |
| **Loans from Insurance Group** | | |
| Opening balance | 242 | 3 152 |
| Repayments during the year | (242) | (3 152) |
| Issued during the year | – | – |
| **Closing balance** | – | – |
| Interest received | – | 708 |
| Interest paid | – | 970 |
| Non-interest income | – | 120 |
| Operating expenditure | – | 762 |
| Dividends paid | (3 072) | – |

| R million | 2011 Parent | 2011 Fellow subsidiaries |
|---|---|---|
| **Loans to Banking Group** | | |
| Opening balance | 266 | 21 602 |
| Repayments during the year | (266) | (761) |
| **Closing balance** | – | 20 841 |
| **Loans from Banking Group** | | |
| Opening balance | 373 | 14 070 |
| Issued during the year | 2 975 | 1 816 |
| **Closing balance** | 3 348 | 15 886 |

| R million | 2010 Parent | 2010 Fellow subsidiaries |
|---|---|---|
| **Loans and advances** | | |
| Opening balance | 113 | – |
| Repayments during the year | (113) | – |
| **Closing balance** | – | – |
| **Deposits and current accounts** | | |
| Opening balance | 11 | – |
| Redeemed during the year | 220 | – |
| **Closing balance** | 231 | – |

## 37 Related parties *continued*

| R million | 2010 Parent | 2010 Fellow subsidiaries |
|---|---|---|
| **Loans to Insurance Group** | | |
| Opening balance | – | 1 651 |
| Repayments during the year | – | (550) |
| **Closing balance** | – | 1 101 |
| **Loans from Insurance Group** | | |
| Opening balance | 127 | 3 458 |
| Issued during the year | 115 | – |
| Repayments during the year | – | (306) |
| **Closing balance** | 242 | 3 152 |
| Interest received | 16 | 563 |
| Interest paid | – | 1 092 |
| Non-interest income | – | 719 |
| Operating expenditure | – | 433 |
| Dividends paid | (2 267) | – |

| R million | 2010 Parent | 2010 Fellow subsidiaries |
|---|---|---|
| **Loans to Banking Group** | | |
| Opening balance | 51 | 16 113 |
| Issued during the year | 215 | 5 489 |
| **Closing balance** | 266 | 21 602 |
| **Loans from Banking Group** | | |
| Opening balance | 533 | 14 708 |
| Issued during the year | (160) | (638) |
| **Closing balance** | 373 | 14 070 |

The following derivatives are included in loans to/(from) the Insurance Group:

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | **Derivative instruments: Assets (Note 9)** | | Derivative instruments: Assets (Note 9) | |
| R million | **Notional** | **Fair value** | Notional | Fair value |
| Loan to Insurance Group | – | – | 175 652 | 913 |

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | **Derivative instruments: Liabilities (Note 9)** | | Derivative instruments: Assets (Note 9) | |
| R million | **Notional** | **Fair value** | Notional | Fair value |
| Loan from Insurance Group | – | – | 177 570 | 1 347 |

## 37 Related parties *continued*

### 37.4 KEY MANAGEMENT PERSONNEL

| R million | 2011 | 2010 |
|---|---|---|
| **Total advances** | | |
| **In normal course of business** | | |
| Opening balance | 132 | 31 |
| Issued during the year | 369 | 1 704 |
| Repayments during the year | (361) | (1 612) |
| Interest earned | 11 | 9 |
| **Closing balance** | 151 | 132 |
| **Advances in normal course of business by product:** | | |
| **Mortgages** | | |
| Opening balance | 129 | 29 |
| Issued during the year | 346 | 294 |
| Repayments during the year | (336) | (203) |
| Interest earned | 11 | 9 |
| **Closing balance** | 150 | 129 |
| No impairment has been recognised for loans granted to key management in the current and prior year. Mortgage loans are repayable monthly over 20 years. | | |
| **Other loans** | | |
| Opening balance | 2 | 1 |
| Issued during the year | 2 | 1 392 |
| Repayments during the year | (4) | (1 391) |
| Interest earned | – | – |
| **Closing balance** | – | 2 |
| **Instalment finance** | | |
| Opening balance | – | – |
| Issued during the year | 3 | 1 |
| Repayments during the year | (2) | ( 1) |
| **Closing balance** | 1 | – |
| No impairments have been recognised in respect of credit cards held by key management in the current or prior year. Interest rates are in line with normal rates charged to customers. | | |
| **Credit cards** | | |
| Opening balance | 1 | 1 |
| Total annual spend | 18 | 17 |
| Repayments | (19) | (17) |
| Interest income | – | – |
| **Closing balance** | – | 1 |

## 37 Related parties *continued*

### 37.4 KEY MANAGEMENT PERSONNEL *continued*

| R million | 2011 | 2010 |
|---|---|---|
| **Deposits and current accounts by product:** | | |
| **Cheque and current accounts** | | |
| Opening credit balance | (11) | (35) |
| Net deposits | 24 | 29 |
| Interest income | (1) | (5) |
| **Closing credit balance** | 12 | (11) |
| **Savings deposits** | | |
| Opening credit balance | 174 | 83 |
| Interest income | (6) | 7 |
| Net new investments | 9 | 84 |
| **Closing credit balance** | 177 | 174 |
| **Other including term deposits** | | |
| Opening balance | 1 | 18 |
| Interest income | - | - |
| Net withdrawals | - | (17) |
| **Closing balance** | 1 | 1 |
| **Insurance and investment** | | |
| **Insurance** | | |
| **Life and disability insurance** | | |
| Aggregate insured cover | 58 | 51 |
| Surrender value | 1 | 1 |
| | 59 | 52 |
| **Investment products** | | |
| Balance 1 July | 658 | 539 |
| Deposits | (687) | 18 |
| Net investment return credited | 62 | 107 |
| Commission and other transaction fees | (13) | (6) |
| **Balance 30 June** | 20 | 658 |
| **Other fees** | | |
| Financial consulting fees and commissions | 4 | 5 |
| **Key management compensation** | | |
| Salaries and other short-term benefits | 146 | 135 |
| Share-based payments | 33 | 15 |
| **Total compensation** | 179 | 150 |

A listing of the Board of Directors of the Bank is on page 1 of the Annual Report.

## 37 Related parties *continued*

### 37.5 POST-RETIREMENT BENEFIT PLAN

Details of transactions between the Bank and the Bank's post-retirement benefit plan are listed below:

| R million | 2011 | 2010 |
|---|---|---|
| Dividend income | 1 | – |
| Fee income | 3 | 1 |
| Deposits and current accounts held with the Bank | 175 | 50 |
| Interest expenses | 8 | 2 |
| Value of assets under management | 2 830 | 2 483 |

## 38 Critical accounting estimates and judgements in applying accounting policies

In preparing the financial statements, the Bank 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.

### 38.1 CREDIT IMPAIRMENT LOSSES ON LOANS AND ADVANCES

The Bank assesses its credit portfolios for impairment at each reporting date. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a portfolio of loans.

#### (a) Performing loans

The performing portfolio is split into two parts:

(i) The first part consists of the portion of the performing portfolio where there is objective evidence of the occurrence of an impairment event. In the 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 FNB Corporate and RMB) portfolio assessment includes a judgemental review of individual industries for objective signs of distress.

A portfolio specific impairment ("PSI") calculation to reflect the decrease in estimated future cash flows is performed for this subsegment of the performing portfolio. The decrease in future cash flows is primarily estimated based on analysis of historical loss and recovery rates for comparable subsegments of the portfolio.

(ii) The second part consists of the portion of the performing portfolio where an incurred impairment event is inherent in a portfolio of performing advances but has not specifically been identified. A so called incurred but not reported ("IBNR") provision is calculated on this subsegment of the portfolio, based on historical analysis of loss ratios, roll rates from performing status into non-performing status and similar risk indicators over an estimated loss emergence period.

Estimates of roll rates, loss ratios and similar risk indicators are based on analysis of internal and, where appropriate, external data. Estimates of the loss emergence period are made in the context of the nature and frequency of credit assessments performed, availability and frequency of updated data regarding customer creditworthiness and similar factors. Loss emergence periods differ from portfolio to portfolio, but typically range from 1 – 12 months.

## 38 Critical accounting estimates and judgements in applying accounting policies *continued*

### 38.1 CREDIT IMPAIRMENT LOSSES ON LOANS AND ADVANCES *continued*

#### (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 10 for a detailed analysis of the impairment of advances and the carrying amounts of the specific and portfolio provisions.

### 38.2 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 34 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.

### 38.3 IMPAIRMENT OF AVAILABLE-FOR-SALE EQUITY INSTRUMENTS

The Bank determines that available-for-sale equity instruments are impaired and recognised as such 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 Bank 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.

### 38.4 INCOME TAXES

The Bank is subject to direct tax in a number of jurisdictions. There may be transactions and calculations for which the ultimate tax determination has an element of uncertainty during the ordinary course of business. The Bank recognises liabilities based on objective estimates of the amount of tax that may be due. Where the final tax determination is different from the amounts that were initially recorded, such difference will impact the income tax and deferred tax provisions in the period in which such determination is made.

Refer to note 4.2 and 18 for more information regarding the direct and deferred tax charges, assets and liabilities.

## 38 Critical accounting estimates and judgements in applying accounting policies *continued*

### 38.5 EMPLOYEE BENEFIT LIABILITIES

The cost of the benefits and the present value of the defined benefit pension funds and post-retirement medical obligations depend on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the charge to 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, assets allocation and future estimations of long-term investment returns. The Bank determines the appropriate discount rate at the end of each year, which represents the interest rate that should be used to determine the present value of the expected cash outflows required to settle the pension and post-retirement medical obligations. In determining the appropriate discount rate, the Bank considers the interest rate on high quality corporate bonds and government bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability. The expected salary and pension increase rates are based on inflation rates, adjusted for salary scales and country specific conditions. The inflation rate used is a rate within the government's monetary policy target for inflation and is calculated as the difference between the yields on portfolios of fixed interest government bonds and a portfolio of index linked bonds of a similar term.

Additional information is provided in note 24.

### 38.6 SHARE-BASED PAYMENTS

Share-based payment transactions of the Bank are classified as either cash settled or equity settled. The amounts recognised in respect of these share-based payment transactions are determined by applying valuation techniques that are based on various assumptions and estimates that require judgment in their application. These assumptions and estimates include expected volatility, expected dividend yield, the discount rate and the expected forfeit 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 forfeit rate has been based on historical experience and management estimates.

Refer to note 27 for the detailed information regarding the share-based payment expense and the assumptions used in determining the expense, liability and reserve.

### 38.7 FAIR VALUE OF COMMODITIES RECOGNISED IN ACCORDANCE WITH THE BROKER-TRADER EXCEPTION IN IAS 2

The Bank 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.

## 39 Standards and interpretations issued but not yet effective

The Bank will comply with the following new standards and interpretations applicable to its business from the stated effective date:

| | | Effective date |
|---|---|---|
| IFRIC 14 (amended) | **IAS 19-The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction**<br>The amendment applies in limited circumstances when an entity is subject to minimum funding requirements and makes a voluntary early payment of contributions to cover those requirements. The amendment permits such an entity to treat the benefit of such an early payment as an asset.<br>This amendment is not expected to have an impact on the Bank. | Annual periods commencing on or after 1 January 2011 |
| IAS 1 (amended) | **Presentation of Items of Other Comprehensive Income**<br>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.<br>This amendment addresses disclosure in the annual financial statements and will not affect recognition and measurement. The impact of the revised disclosure is not expected to be significant. | Annual periods commencing on or after 1 January 2012 |
| IAS 12 (amended) | **Income Taxes**<br>IAS 12 requires that deferred tax assets is 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.<br>This amendment is not expected to have a significant impact on the Bank. | Annual periods commencing on or after 1 January 2012 |
| IAS 19 (revised) | **Employee Benefits**<br>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.<br>The Bank 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 24 (amended) | **Related Party Disclosures**<br>The amendment removes certain of the disclosure requirements for government related entities, clarifies the definition of a related party and introduces a requirement for entities to disclose commitments to related parties.<br>This amendment addresses disclosure in the annual financial statements and will not affect recognition and measurement. The impact of the revised disclosure is not expected to be significant. | Annual periods commencing on or after 1 January 2011 |

## 39 Standards and interpretations issued but not yet effective *continued*

| | | Effective date |
|---|---|---|
| IAS 27 (amended) | **Separate Financial Statements**<br>IAS 27 removes the accounting and disclosure requirements for consolidated financial statements as a result of the issue of IFRS 10 and IFRS 12, which establish new consolidation and disclosure standards.<br>IAS 27 (amended) contains accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements.<br>This amendment is not expected to have a significant impact on the Bank's results. | Annual periods commencing on or after 1 January 2013 |
| IAS 28 (amended) | **Investments in Associates and Joint ventures**<br>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 investment 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.<br>This amendment is not expected to have a significant impact on the Bank's results. | Annual periods commencing on or after 1 January 2013 |
| IFRS 1 (amended) | **First-time Adoption of International Financial Reporting Standards**<br>The amendments to IFRS 1 are set out in Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters. The first amendment replaces references to a fixed transition date of '1 January 2004' with 'the date of transition to IFRSs'. This eliminates the need for companies adopting IFRSs for the first time to restate derecognition transactions that occurred before the date of transition to IFRSs. The second amendment provides guidance on how an entity should resume presenting financial statements in accordance with IFRSs after a period when the entity was unable to comply with IFRSs because its functional currency was subject to severe hyperinflation.<br>These amendments will not have an impact on the Bank as it has already adopted IFRS. | Annual periods commencing on or after 1 July 2011 |
| IFRS 7 (amended) | **Transfers of Financial Assets**<br>The amendments to IFRS 7 require additional disclosure 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.<br>This amendment will result in additional disclosures in the annual financial statements and will not affect recognition and measurement. | Annual periods commencing on or after 1 July 2011 |

## 39 Standards and interpretations issued but not yet effective *continued*

| | | Effective date |
|---|---|---|
| IFRS 9 | **Financial Instruments**<br><br>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.<br><br>The Bank is in the process of assessing the impact that IFRS 9 would have on the financial statements. Until the process is completed, the Bank is unable to determine the significance of the impact of IFRS 9. | Annual periods beginning on or after 1 January 2013 |
| IFRS 10 | **Consolidated Financial Statements**<br><br>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.<br><br>The Bank is in the process of assessing the impact that IFRS 10 would have on the financial statements. Until the process is completed, the Bank 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**<br><br>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.<br><br>The standard is not expected to have a significant impact on the Bank. | Annual periods commencing on or after 1 January 2013 |
| IFRS 12 | **Disclosure of Interests in Other Entities**<br><br>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.<br><br>This amendment addresses disclosure in the annual financial statements and will not affect recognition and measurement. The Bank is still in the process of assessing the impact of the revised disclosure. | Annual periods commencing on or after 1 January 2013 |

## 39 Standards and interpretations issued but not yet effective *continued*

| | | Effective date |
|---|---|---|
| IFRS 13 | **Fair Value Measurement**<br>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.<br>The Bank is in the process of assessing the impact that IFRS 13 would have on the financial statements. Until the process is completed, the Bank is unable to determine the significance of the impact of IFRS 13. | Annual periods commencing on or after 1 January 2013 |
| Annual Improvements | **Improvements to IFRS**<br>As part of its annual improvements projects, the IASB has issued its 2010 annual improvement project. The annual improvement project's 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.<br>There are no significant changes in the improvement projects that are expected to affect the Bank. | Annual periods commencing on or after 1 January 2011 except for the improvements to IFRS 3 and IAS 27 that are effective for annual periods commencing on or after 1 July 2010 |

## 40 Transactions involving the legal form of a lease

The Bank entered into an arrangement with the counterparty for the refurbishment of moveable assets, which are for the exclusive use of the counterparty. The duration of the arrangement is for 14 years and will conclude in May 2016. The transactions are a series of back to back leases which, although the transactions are structured as leases, are in substance a financing arrangement.

Fees received are recognised annually in non-interest income.

Income received for the period amounted to R33 million (2010: R22 million) and is reflected in interest and similar income in the income statement.

## 41 Subsequent events

No matter that is material to the financial affairs of the Bank occurred between the reporting date and the date of the approval of these annual financial statements.

## 42 Current/non-current analysis of amounts recognised on the statement of financial position

| | 2011 | | |
|---|---|---|---|
| R million | Carrying amount | Current amount | Non-current amount |
| **ASSETS** | | | |
| Cash and cash equivalents | 29 012 | 29 012 | – |
| Derivative financial instruments | 36 666 | 34 933 | 1 733 |
| Advances | 429 134 | 129 772 | 299 362 |
| Investment securities and other investments | 83 810 | 60 346 | 23 464 |
| Commodities | 4 388 | 4 388 | – |
| Accounts receivable | 2 744 | 2 649 | 95 |
| Investments in associates and joint ventures | 116 | – | 116 |
| Investments in subsidiary companies | – | – | – |
| Amounts due by holding company and fellow subsidiary companies | 19 234 | 14 443 | 4 791 |
| Property and equipment | 8 480 | – | 8 480 |
| Post-retirement benefit asset | 2 830 | – | 2 830 |
| Intangible assets | 281 | – | 281 |
| Tax asset | – | – | – |
| Loans to Insurance Group | | | |
| **Total assets** | 616 695 | 275 543 | 341 152 |
| **EQUITY AND LIABILITIES** | | | |
| Deposits and current accounts | 493 406 | 433 123 | 60 283 |
| Short trading positions | 5 777 | 5 777 | – |
| Derivative financial instruments | 36 150 | 35 749 | 401 |
| Creditors and accruals | 6 199 | 6 023 | 176 |
| Provisions | 2 945 | 2 069 | 876 |
| Tax liability | 95 | – | 95 |
| Post-retirement liabilities | 2 252 | – | 2 252 |
| Deferred tax liability | 1 348 | – | 1 348 |
| Long-term liabilities | 7 040 | – | 7 040 |
| Amounts due to holding company and fellow subsidiary companies | 20 841 | 17 576 | 3 265 |
| Loans from Insurance Group | – | – | – |
| Total equity | 40 642 | – | 40 642 |
| **Total equity and liabilities** | 616 695 | 500 317 | 116 378 |

## 42 Current/non-current analysis of amounts recognised on the statement of financial position *continued*

| | 2010 | | |
|---|---|---|---|
| R million | Carrying amount | Current amount | Non-current amount |
| **ASSETS** | | | |
| Cash and cash equivalents | 22 745 | 22 745 | – |
| Derivative financial instruments | 38 944 | 34 086 | 4 858 |
| Advances | 401 279 | 128 020 | 273 259 |
| Investment securities and other investments | 79 979 | 59 923 | 20 056 |
| Commodities | 2 365 | 2 365 | – |
| Accounts receivable | 2 855 | 2 799 | 56 |
| Investments in associates and joint ventures | 1 167 | – | 1 167 |
| Investments in subsidiary companies | 279 | – | 279 |
| Amounts due by holding company and fellow subsidiary companies | 15 544 | 11 583 | 2 860 |
| Property and equipment | 7 816 | – | 7 816 |
| Post-retirement benefit asset | 2 483 | – | 2 483 |
| Intangible assets | 189 | – | 189 |
| Loans to Insurance Group | – | 1 101 | – |
| Tax asset | 741 | – | 741 |
| **Total assets** | 576 386 | 262 622 | 313 764 |
| **EQUITY AND LIABILITIES** | | | |
| Deposits and current accounts | 453 758 | 403 986 | 49 772 |
| Short trading positions | 7 469 | 7 469 | – |
| Derivative financial instruments | 35 285 | 33 904 | 1 381 |
| Creditors and accruals | 6 171 | 6 062 | 109 |
| Provisions | 2 725 | 1 617 | 1 108 |
| Tax liability | – | – | – |
| Post-retirement liabilities | 2 105 | – | 2 105 |
| Deferred tax liability | 1 702 | – | 1 702 |
| Long-term liabilities | 6 284 | – | 6 284 |
| Amounts due to holding company and fellow subsidiary companies | 25 262 | 18 098 | 3 770 |
| Loans from Insurance Group | – | 3 394 | – |
| Total equity | 35 625 | – | 35 625 |
| **Total equity and liabilities** | 576 386 | 474 530 | 101 856 |

## 43 Disposal transactions as a result of the FirstRand Group restructure

On 1 July 2010, the Bank disposed of a number of investments in subsidiaries, SPEs and associates to various other FirstRand Group companies. These investments were disposed of as part of the FirstRand Group legal entity restructure. The restructure was initiated as a result of the FirstRand Group's need to revise the structure of its existing operations and has also impacted the FirstRand Group's governance structures and the management accounting and statutory financial reporting processes.

These investments in subsidiaries, SPEs and associates have been disposed of at their net consolidated carrying value. These investments were carried at cost less impairment in the separate financial statements of the Bank. The consideration received was equal to the net consolidated carrying value. A profit was recognised on the disposal of the investments, being the difference between the consolidated net asset value and their carrying amount in the separate financial statements. This profit will be eliminated in the consolidated financial statements of the Bank.

The profit related to the restructure transaction was calculated as follows:

| | 2011 |
|---|---|
| R million | Sold to FRIHL |
| **Consideration received for the investments disposed of** | **2 661** |
| **Carrying amount of the investments disposed of** | **(1 426)** |
| Investments in subsidiaries | ( 279) |
| Investments in associates and joint ventures | (1 147) |
| **Gain on the Group restructuring transaction recognised in profit or loss** | **1 235** |

| Significant investments transferred as part of the Group restructure |
|---|
| **Sold to FRIHL** |
| Direct Axis (Pty) Ltd |
| Contract Lease Management (Pty) Ltd |
| Toyota Financial Services (Pty) Ltd |
| First Auto (Pty) Ltd |
| SBV Services (Pty) Ltd |
| Makalani Holdings Ltd |
| Various Private Equity associates – Vox Telecom Ltd, Simmer & Jack Mines Ltd and Control Instruments Group. |
| RMB Securities (Pty) Ltd |
| Shisa Investments (Pty) Ltd |

## Disclosure requirements in terms of the Home Loan and Mortgage Disclosure Act 63 of 2000

The following disclosures are made in terms of Section 3(1) of the abovementioned Act:

| | | | Approved – taken up | |
|---|---|---|---|---|
| | Total number | Total Rm | Number | Rm |
| **Total applications[2] received 2011** | 178 805 | 113 493 | 14 286 | 15 342 |
| **Total applications[2] received 2010** | 203 312 | 114 777 | 14 905 | 14 444 |
| **Applications status per race group 2011** | | | | |
| African | 88 041 | 36 539 | 6 019 | 2 781 |
| Coloured | 18 400 | 7 235 | 810 | 495 |
| White | 60 662 | 58 977 | 6 052 | 9 789 |
| Indian | 2 137 | 1 455 | 253 | 508 |
| Other[3] | 9 565 | 9 287 | 1 152 | 1 769 |
| **Total applications received** | 178 805 | 113 493 | 14 286 | 15 342 |
| **Applications status per race group 2010** | | | | |
| African | 90 785 | 33 400 | 6 204 | 2 439 |
| Coloured | 20 601 | 7 459 | 946 | 530 |
| White | 77 756 | 63 008 | 6 356 | 9 415 |
| Indian | 2 149 | 1 089 | 244 | 333 |
| Other[3] | 12 021 | 9 821 | 1 155 | 1 727 |
| **Total applications received** | 203 312 | 114 777 | 14 905 | 14 444 |

| Approved – Not taken up | | Declined1 | | Disbursed | |
|---|---|---|---|---|---|
| Number | Rm | Number | Rm | Number | Rm |
| 23 380 | 17 027 | 96 176 | 51 778 | 21 182 | 9 873 |
| 24 953 | 17 844 | 109 540 | 54 708 | 28 489 | 11 155 |
| 8 769 | 4 289 | 54 492 | 22 012 | 9 502 | 2 397 |
| 1 927 | 1 163 | 10 708 | 3 974 | 3 250 | 611 |
| 10 646 | 9 826 | 25 998 | 22 097 | 7 218 | 6 011 |
| 180 | 154 | 1 207 | 430 | 252 | 43 |
| 1 858 | 1 595 | 3 771 | 3 265 | 960 | 811 |
| 23 380 | 17 027 | 96 176 | 51 778 | 21 182 | 9 873 |
| 8 851 | 4 614 | 55 777 | 20 171 | 10 349 | 2 198 |
| 2 161 | 1 165 | 11 487 | 4 071 | 3 839 | 680 |
| 11 845 | 10 324 | 35 556 | 26 021 | 12 390 | 7 286 |
| 196 | 116 | 1 195 | 434 | 230 | 40 |
| 1 900 | 1 625 | 5 525 | 4 011 | 1 681 | 951 |
| 24 953 | 17 844 | 109 540 | 54 708 | 28 489 | 11 155 |

# Disclosure requirements in terms of the Home Loan and Mortgage Disclosure Act 63 of 2000 *continued*

| **Total applications per province 2011** | | | **Approved – taken up** | |
|---|---|---|---|---|
| Province | **Number** | **Rm** | **Number** | **Rm** |
| Eastern Cape | **10 728** | **4 563** | **433** | **358** |
| Free State | **7 703** | **3 294** | **392** | **259** |
| Gauteng | **88 958** | **61 438** | **8 933** | **9 347** |
| KwaZulu-Natal | **19 002** | **12 166** | **1 226** | **1 308** |
| Limpopo | **3 655** | **1 943** | **240** | **121** |
| Mpumalanga | **8 162** | **4 756** | **504** | **316** |
| Northern Cape | **1 984** | **893** | **102** | **69** |
| Western Cape | **30 765** | **20 623** | **1 949** | **3 302** |
| Unknown[4] | **443** | **93** | **15** | **4** |
| North West | **7 405** | **3 724** | **492** | **258** |
| **Total applications** | **178 805** | **113 493** | **14 286** | **15 342** |

| Total applications per province 2010 | | | Approved – taken up | |
|---|---|---|---|---|
| Province | Number | Rm | Number | Rm |
| Eastern Cape | 11 959 | 4 942 | 603 | 393 |
| Free State | 8 145 | 3 356 | 366 | 212 |
| Gauteng | 96 253 | 61 019 | 9 303 | 9 252 |
| KwaZulu-Natal | 24 873 | 12 724 | 1 288 | 1 104 |
| Limpopo | 4 115 | 2 092 | 234 | 125 |
| Mpumalanga | 8 210 | 4 263 | 492 | 294 |
| Northern Cape | 7 984 | 3 936 | 413 | 234 |
| Western Cape | 2 911 | 946 | 96 | 47 |
| Unknown[4] | 37 049 | 21 358 | 2 105 | 2 766 |
| North West | 1 801 | 126 | 5 | 16 |
| Foreign country/Swaziland | 12 | 15 | – | – |
| **Total applications** | 203 312 | 114 777 | 14 905 | 14 443 |

***Notes:***

*1. "Declined" includes reasons such as affordability, unacceptable credit record, and unacceptable property.*
*2. The disclosure for total applications received, consists of, in addition, matters pending which have not been tabled hereunder as this information is not required by the Act. The disclosure of total applications is given for new loans only and excludes increases or readvances as has been agreed with the Department of Human Settlements.*
*3. The race of "other" includes Asian and customers who have not provided this information.*
*4. The province of "unknown" includes applications in process where the property has not yet been linked to the application.*
*5. This disclosure in 2010 has not been included in 2011 as this information is not required by the Act.*

| Approved – Not taken up | | Declined | | Disbursed | |
|---|---|---|---|---|---|
| Number | Rm | Number | Rm | Number | Rm |
| 1 108 | 697 | 6 140 | 2 420 | 2 054 | 430 |
| 789 | 445 | 4 637 | 1 845 | 1 127 | 293 |
| 12 283 | 9 171 | 45 896 | 26 873 | 9 152 | 5 559 |
| 2 650 | 1 863 | 10 575 | 5 646 | 1 971 | 964 |
| 411 | 221 | 2 333 | 1 219 | 193 | 84 |
| 1 062 | 718 | 4 901 | 2 711 | 732 | 389 |
| 220 | 122 | 1 130 | 493 | 308 | 76 |
| 3 994 | 3 262 | 15 985 | 8 462 | 4 961 | 1 821 |
| – | – | 118 | 10 | 105 | 4 |
| 863 | 528 | 4 461 | 2 099 | 579 | 253 |
| 23 380 | 17 027 | 96 176 | 51 778 | 21 182 | 9 873 |

| Approved – Not taken up | | Declined | | Disbursed | |
|---|---|---|---|---|---|
| Number | Rm | Number | Rm | Number | Rm |
| 1 189 | 659 | 6 678 | 2 693 | 2 283 | 561 |
| 874 | 461 | 4 963 | 1 911 | 1 011 | 303 |
| 12 901 | 9 986 | 50 388 | 27 258 | 11 159 | 5 740 |
| 2 978 | 1 922 | 13 833 | 6 557 | 3 640 | 1 337 |
| 472 | 234 | 2 534 | 1 309 | 341 | 123 |
| 1 124 | 699 | 4 661 | 2 302 | 984 | 426 |
| 900 | 540 | 4 932 | 2 371 | 784 | 278 |
| 168 | 90 | 1 732 | 582 | 637 | 93 |
| 4 328 | 3 246 | 18 978 | 9 685 | 6 765 | 2 254 |
| 16 | 1 | 838 | 39 | 884 | 41 |
| 3 | 5 | 3 | 2 | 1 | – |
| 24 953 | 17 843 | 109 540 | 54 709 | 28 489 | 11 156 |

# Notes

# Supplementary information

# Supplementary unaudited credit information for FirstRand Bank Limited

for the year ended 30 June

(Pages 204 to 213 do not form part of the audited financial statements).

## Credit portfolio management

Credit strategy is managed as part of the broader balance sheet management process and is aligned with the Bank's view of the trends in the wider economy.

There was no significant improvement in the pace or reach of the economic recovery during the year under review. Uncertainties relating to the servicing of sovereign debt in the global space remain and pose a threat of derailing any progress achieved to date.

Household consumption was the main driver of the economic recovery in some sectors and accounted for much of the growth in GDP. This is reflected by the growth in retail loans and advances which increased 6% year-on-year.

## Credit highlights at a glance

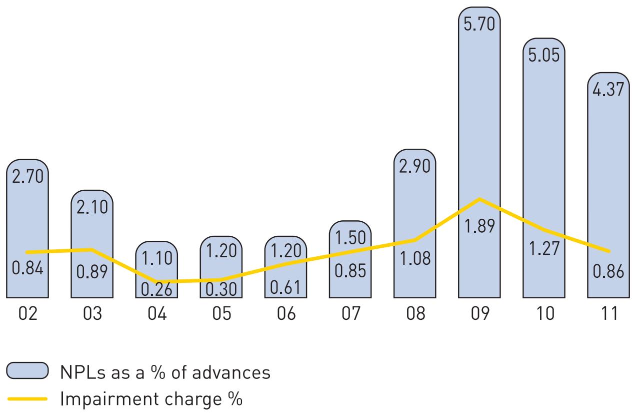
The table below summarises the key information on advances, NPLs and impairments in the credit portfolio for the year under review:

| R million/% | Notes | 2011 | 2010 | % change |
|---|---|---|---|---|
| Total advances | 1 | 436 645 | 409 331 | 7 |
| NPLs | 2 | 19 090 | 20 656 | (8) |
| NPLs as a % of advances | | 4.37 | 5.05 | (13) |
| Impairment charge | 3 | 3 637 | 5 115 | (29) |
| Impairment charge as a % of average advances | | 0.86 | 1.27 | (32) |
| Total impairments | 4 | 9 462 | 9 700 | (2) |
| – Portfolio impairments[a] | | 3 231 | 3 457 | (7) |
| – Specific impairments[a] | | 6 231 | 6 243 | – |
| Implied loss given default (coverage)[b] | 4 | 32.64 | 30.22 | |
| Total impairments coverage ratio[c] | 4 | 49.57 | 46.96 | |

*a. Includes cumulative credit fair value adjustments.*
*b. Specific impairments and non-performing book cumulative credit fair value adjustments as a percentage of the NPLs.*
*c. Total impairments and total cumulative credit fair value adjustments as a percentage of the NPLs.*

The notes referred to in the table above are detailed on the pages to follow. Comparatives of certain portfolios have been restated to reflect the current segmentation of the business.

The graph below shows the history of the Bank's credit losses reflected by the impairment charge and NPLs percentage.




## Retail credit portfolios

Total retail loans and advances grew by 6% year-on-year. Most of this growth was in the vehicle and asset finance portfolio as well as in high margin unsecured loans. Some growth in the residential mortgage portfolio was recorded, however low or static property price growth and oversupply are two of the major challenges exerting pressure on the activity in this market. The wealth portfolio was the largest contributor to growth in the residential mortgage portfolio.

The low interest rate environment pervading the past financial year had a significant impact of reducing credit losses. Total NPLs reduced due to focused strategies aimed at resolution of default accounts and a marked reduction in the level of new NPLs as the interest rate environment improved. Impairment charges also declined across most portfolios and were further aided by increased post write-off recoveries, especially in the unsecured portfolios. The result is a retail impairment charge of 1.16% (June 2010: 1.85%).

## Corporate/wholesale credit portfolios

The advances growth of 5% in the corporate/wholesale portfolio was largely impacted by the volatility in assets under agreements to resell. Excluding these volatile asset balances, the corporate/wholesale lending portfolio recorded growth of 12%. Good growth was recorded in FNB Commercial driven by advances in the agriculture sub-segment as well as owner occupied commercial property and leverage and debtors finance. The investment banking portfolio's steady growth in the structured lending book reflected RMB's strategy to increase its exposure to investment grade corporate credit.

The year-on-year increase in NPLs is mainly attributable to challenges in the commercial property finance sector.

## Expectations

Origination strategies continue to be aligned with the Bank's macroeconomic view. The macroeconomic view is significantly impacted by volatility in the global economic environment. Interest rates are expected to remain at the current low levels for longer than initially anticipated. Inflation is expected to drift upwards driven by commodity and food prices. Income growth is expected to continue but the recovery in employment is expected to be muted.

Consumers remain leveraged and vulnerable to shifts in the credit environment. This continues to constrain the demand for credit. The positive impact of the interest rate reductions is reflected in the reduced levels of new NPLs and credit impairments in most retail credit portfolios.

Demand in the wholesale portfolios is impacted by the slow recovery in fixed investment expenditure. As a result, corporate lending activity remains low due to uncertainty in the macro environment.

## Note 1: Analysis of advances

The table below provides the advances of each segment in the Bank:

| R million | 2011 | 2010 | % change |
|---|---|---|---|
| **Retail** | **240 598** | 226 925 | 6 |
| Residential mortgages | **153 132** | 147 692 | 4 |
| Credit card | **10 758** | 10 705 | – |
| Vehicle and asset finance | **63 208** | 58 549 | 8 |
| Other retail | **13 500** | 9 979 | 35 |
| **Corporate/Wholesale** | **189 316** | 180 595 | 5 |
| FNB Commercial | **30 771** | 28 178 | 9 |
| WesBank Business and Commercial | **29 800** | 28 099 | 6 |
| FNB Corporate | **2 523** | 1 697 | 49 |
| RMB | **126 222** | 122 621 | 3 |
| **Corporate Centre and other** | **6 731** | 1 811 | >100 |
| **Total advances** | **436 645** | 409 331 | 7 |
| Of which: | | | |
| Accrual book | **317 593** | 297 056 | 7 |
| Fair value book* | **119 052** | 112 275 | 6 |

* *Including advances classified as available-for-sale.*

Advances increased by 7% during the year under review. Limited credit demand and the focus on an appropriate risk/return from a risk appetite perspective remain important factors impacting advances growth. Notwithstanding these factors, strong growth was experienced in the mass market and WesBank loans (included in Other retail above), WesBank vehicle and asset finance, and RMB. The RMB advances were largely impacted by the volatility in assets under agreements to resell, and excluding these volatile asset balances, the portfolio recorded growth of 14% as presented below. Corporate centre and other in the table above include Group Treasury advances which increased due to funding placements with other banks as well as increased preference share advances.

The table below provides an analysis of the impact of assets under agreements to resell on the RMB advances growth:

| R million | 2011 | 2010 | % change |
|---|---|---|---|
| RMB advances | **126 222** | 122 621 | 3 |
| Less: Assets under agreements to resell | **(30 257)** | (38 108) | (21) |
| **RMB advances net of assets under agreements to resell** | **95 965** | 84 513 | 14 |

## Note 2: Analysis of NPLs

Despite debt counselling and market factors prolonging the work out processes and causing NPLs to remain at high levels, the Bank's credit strategy to reduce NPLs continues to yield favourable results in most retail portfolios. New inflows of NPLs are reducing and accounts in default are being resolved. In the corporate/wholesale portfolios the rise in NPLs is due to challenges in the commercial property finance sector. The overall result is an NPL% of 4.37% at June 2011, improving from the 5.05% reported at June 2010.

| | NPLs | | | NPLs as a % of advances | |
|---|---|---|---|---|---|
| R million/% | 2011 | 2010 | % change | 2011 | 2010 |
| **Retail** | 14 373 | 16 637 | (14) | 5.97 | 7.33 |
| Residential mortgages | 10 293 | 12 196 | (16) | 6.72 | 8.26 |
| Credit card | 446 | 672 | (34) | 4.15 | 6.28 |
| Vehicle and asset finance | 2 895 | 3 000 | (4) | 4.58 | 5.12 |
| Other retail | 739 | 769 | (4) | 5.47 | 7.70 |
| **Corporate/Wholesale** | 4 753 | 4 075 | 17 | 2.51 | 2.26 |
| FNB Commercial | 1 866 | 1 916 | (3) | 6.06 | 6.80 |
| WesBank Business and Commercial | 1 121 | 1 578 | (29) | 3.76 | 5.62 |
| FNB Corporate | 18 | 1 | >100 | 0.71 | 0.04 |
| RMB | 1 748 | 580 | >100 | 1.38 | 0.47 |
| **Corporate Centre and other** | (36) | (56) | (36) | n/a | n/a |
| **Total NPLs** | 19 090 | 20 656 | (8) | 4.37 | 5.05 |
| Of which: | | | | | |
| Accrual book | 17 354 | 20 101 | (14) | 5.46 | 6.77 |
| Fair value book | 1 736 | 555 | >100 | 1.46 | 0.49 |

## Note 3: Analysis of income statement credit impairments

The Bank's impairment charges are continuing to decline steadily. The June 2010 impairment charge of 1.27% reduced to 0.86% at 30 June 2011 due to improved credit quality, the interest rate environment and increased post write-off recoveries.

The table below provides the income statement credit impairments:

| | Total impairment charge | | | As a % of average advances | |
|---|---|---|---|---|---|
| R million/% | 2011 | 2010 | % change | 2011 | 2010 |
| **Retail** | 2 717 | 4 105 | (34) | 1.16 | 1.85 |
| Residential mortgages | 1 203 | 1 378 | (13) | 0.80 | 0.95 |
| Credit card | 149 | 776 | (81) | 1.39 | 6.92 |
| Vehicle and asset finance | 646 | 943 | (31) | 1.06 | 1.71 |
| Other retail | 719 | 1 008 | (29) | 6.12 | 10.01 |
| **Corporate/Wholesale** | 751 | 1 201 | (37) | 0.41 | 0.68 |
| FNB Commercial | 333 | 441 | (24) | 1.13 | 1.59 |
| WesBank Business and Commercial | 444 | 711 | (38) | 1.53 | 2.40 |
| FNB Corporate | 9 | 34 | (74) | 0.43 | 0.68 |
| RMB | (35) | 15 | (>100) | (0.03) | 0.01 |
| **Corporate Centre and other** | 169 | (191) | (>100) | n/a | n/a |
| **Total** | 3 637 | 5 115 | (29) | 0.86 | 1.27 |
| Of which: | | | | | |
| Portfolio impairment charge | (146) | (299) | (51) | (0.03) | (0.08) |
| Specific impairment charge | 3 783 | 5 414 | (30) | 0.89 | 1.35 |

## Note 4: Analysis of balance sheet impairments and coverage ratios

The Bank constantly monitors market conditions as well as recent and expected recoveries on NPLs to determine coverage ratios. The loss given default ("LGD") in certain secured retail portfolios has increased due to the lengthening recovery periods. The Bank is of the opinion that the NPL coverage ratio of 32.64% (June 2010: 30.22%) is adequate.

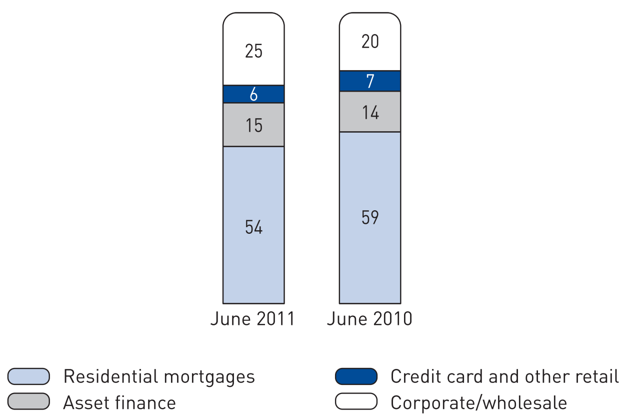
The table below provides the analysis of balance sheet impairments, LGDs and coverage ratios:

| | Balance sheet impairments | | | As a % of NPLs | |
|---|---|---|---|---|---|
| R million/% | 2011 | 2010 | % change | 2011 | 2010 |
| **Specific impairments[1]** | | | | | |
| **Retail** | 3 941 | 4 464 | (12) | 27.42 | 26.83 |
| Residential mortgages | 1 990 | 2 427 | (18) | 19.33 | 19.90 |
| Credit card | 330 | 478 | (31) | 73.99 | 71.15 |
| Vehicle and asset finance | 989 | 951 | 4 | 34.16 | 31.70 |
| Other retail | 632 | 608 | 4 | 85.52 | 79.09 |
| **Corporate/Wholesale** | 2 288 | 1 779 | 29 | 48.14 | 43.65 |
| FNB Commercial | 895 | 775 | 15 | 47.96 | 40.44 |
| WesBank Business and Commercial | 670 | 795 | (16) | 59.77 | 50.38 |
| FNB Corporate | 19 | 1 | >100 | >100 | >100 |
| RMB | 704 | 208 | >100 | 40.27 | 35.86 |
| **Corporate Centre and other** | 2 | – | – | n/a | n/a |
| **Total specific impairments/Implied loss given default[2]** | 6 231 | 6 243 | – | 32.64 | 30.22 |
| **Portfolio impairments[3]** | 3 231 | 3 457 | (7) | | |
| **Total impairments/total impairment coverage ratio[4]** | 9 462 | 9 700 | (2) | 49.57 | 46.96 |

1. *Specific impairments include credit fair value adjustments relating to the non-performing fair value advances.*
2. *NPL specific impairments and credit fair value adjustments as a % of NPLs.*
3. *Performing portfolio impairments and credit fair value adjustments.*
4. *Total impairments and credit fair value adjustments as a % of NPLs.*

The graph reflects the NPL distribution across the product categories, showing a decrease in the residential mortgages portfolio compared to June 2010:

NPL distribution (%)

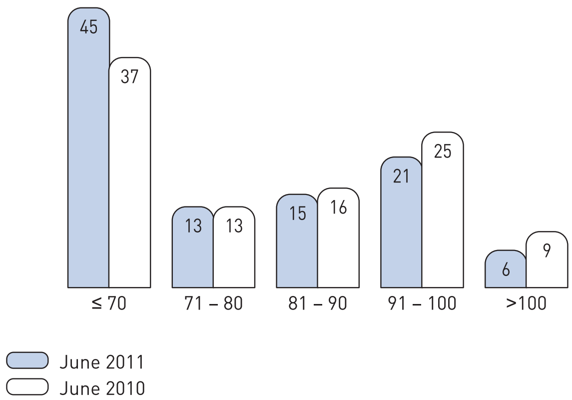


## Risk analyses

This section provides further information on selected risk analyses of the credit portfolios.

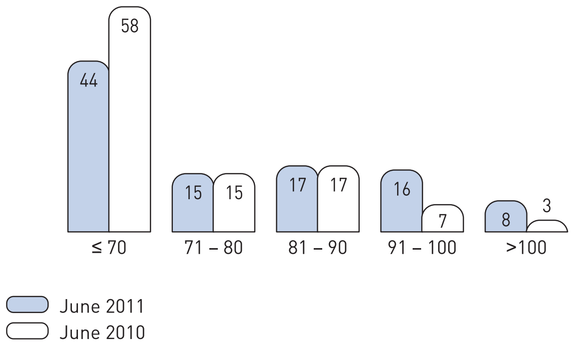
The graphs below provide the balance-to-value distributions and the aging of the residential mortgages portfolios. The recent focus on the loan-to-value ratios for new business has resulted in an improvement in the balance-to-original value although the broader strategy is to place more emphasis on the counterparty creditworthiness as opposed to only on the underlying security. However, pressures on market values have negatively impacted the balance-to market-value distribution.

### *Residential mortgages balance-to-original value (%)*



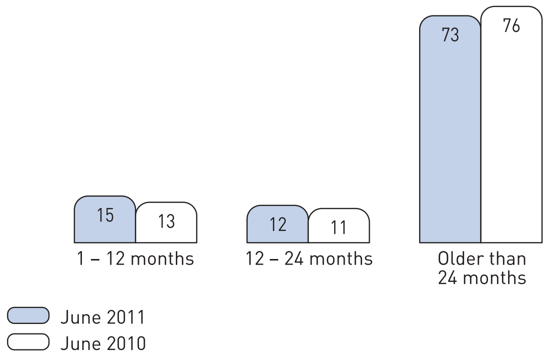

The balance-to-market value shows a significant proportion of the book in the lower risk categories.

### *Residential mortgages balance-to-market value (%)*



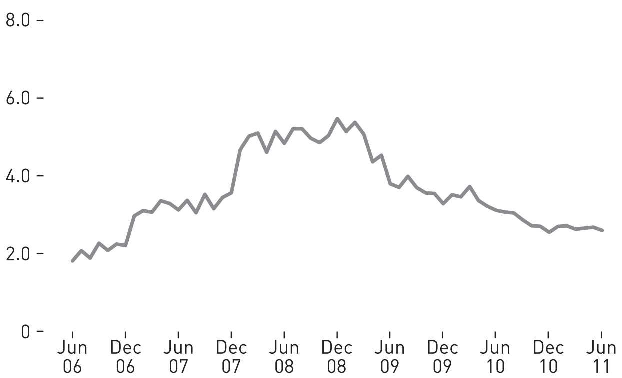

The low levels of new business are evident in the age distribution shown below:

### *Residential mortgages age distribution (%)*




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

### *FNB HomeLoans arrears (%)*

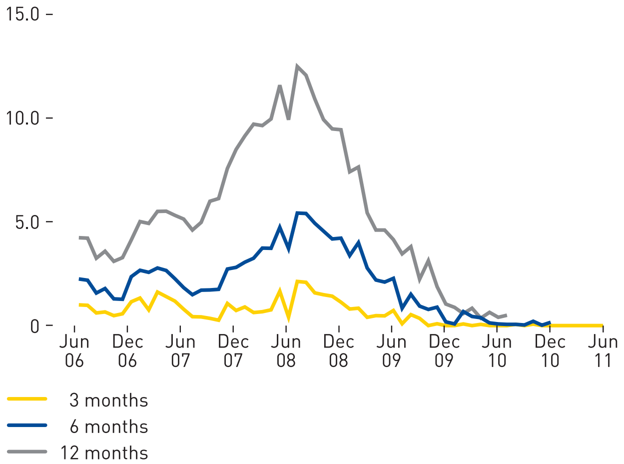



FNB Home Loans arrears are stabilising. Similar trends are also observed in the WesBank and credit card portfolios.

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 macroeconomic 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.

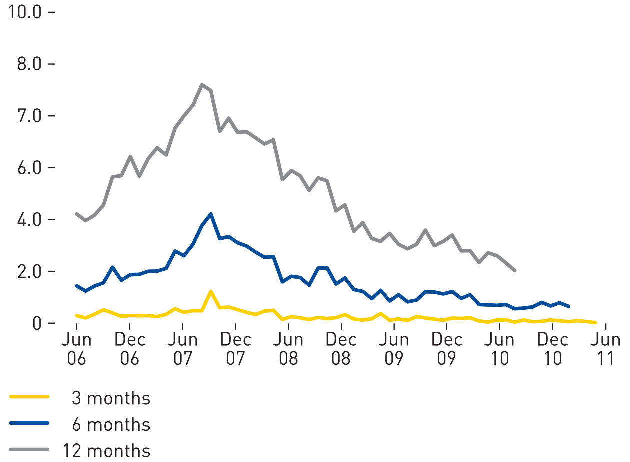
*FNB HomeLoans vintage analysis (%)*




The Bank's South African repossessed properties decreased from R513 million (1 564 properties) at 30 June 2010 to R282 million (1 117 properties) at 30 June 2011.

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 and the more benign macro environment.

*WesBank retail vintage analysis (%)*




In the asset finance business, repossession and stock holding levels continue to decline relative to the comparative period. The gradually reducing trend is likely to continue, but at a slower rate.

## Segmental advances, NPLs and impairment analysis

The table below provides an analysis of the advances, NPLs and credit impairment charges for the year under review:

| | 2011 | | | | |
|---|---|---|---|---|---|
| R million/% | Advances | NPLs | NPLs as a % of advances | Total impairment charge | Impairments as a % of average advances |
| FNB | 205 838 | 13 034 | 6.33 | 2 429 | 1.21 |
| FNB Retail | 172 389 | 11 186 | 6.49 | 1 921 | 1.14 |
| Residential mortgages | 153 132 | 10 293 | 6.72 | 1 203 | 0.80 |
| – FNB HomeLoans (Consumer segment) | 104 071 | 7 113 | 6.83 | 728 | 0.70 |
| – Wealth | 40 864 | 2 796 | 6.84 | 404 | 1.03 |
| – Affordable Housing (Mass segment) | 8 197 | 384 | 4.68 | 71 | 0.98 |
| Credit card | 10 758 | 446 | 4.15 | 149 | 1.39 |
| Personal banking | 4 593 | 131 | 2.85 | 178 | 4.66 |
| Mass (Secured and unsecured) | 3 906 | 316 | 8.09 | 391 | 11.37 |
| FNB Commercial | 30 771 | 1 866 | 6.06 | 333 | 1.13 |
| FNB Corporate Banking | 2 523 | 18 | 0.71 | 9 | 0.43 |
| FNB Other | 155 | (36) | n/a | 166 | n/a |
| WesBank | 98 009 | 4 308 | 4.40 | 1 240 | 1.31 |
| WesBank asset-backed finance | 93 008 | 4 016 | 4.32 | 1 090 | 1.21 |
| WesBank retail | 63 208 | 2 895 | 4.58 | 646 | 1.06 |
| WesBank Business and Commercial | 29 800 | 1 121 | 3.76 | 444 | 1.53 |
| WesBank loans | 5 001 | 292 | 5.84 | 150 | 3.35 |
| RMB | 126 222 | 1 748 | 1.38 | (35) | (0.03) |
| Corporate Centre and other | 6 576 | – | n/a | 3 | n/a |
| **Total** | 436 645 | 19 090 | 4.37 | 3 637 | 0.86 |

| | 2010 | | | | |
|---|---|---|---|---|---|
| | Advances | NPLs | NPLs as a % of advances | Total impairment charge | Impairments as a % of average advances |
| | 194 298 | 15 178 | 7.81 | 3 380 | 1.72 |
| | 164 413 | 13 317 | 8.10 | 2 836 | 1.74 |
| | 147 692 | 12 196 | 8.26 | 1 378 | 0.95 |
| | 103 722 | 9 363 | 9.03 | 1 136 | 1.09 |
| | 37 710 | 2 537 | 6.73 | 217 | 0.62 |
| | 6 260 | 296 | 4.73 | 25 | 0.46 |
| | 10 705 | 672 | 6.28 | 776 | 6.92 |
| | 3 044 | 149 | 4.89 | 202 | 6.18 |
| | 2 972 | 300 | 10.09 | 480 | 16.26 |
| | 28 178 | 1 916 | 6.80 | 441 | 1.59 |
| | 1 697 | 1 | 0.04 | 34 | 0.68 |
| | 10 | (56) | n/a | 69 | n/a |
| | 90 611 | 4 898 | 5.41 | 1 980 | 2.23 |
| | 86 648 | 4 578 | 5.28 | 1 654 | 1.95 |
| | 58 549 | 3 000 | 5.12 | 943 | 1.71 |
| | 28 099 | 1 578 | 5.62 | 711 | 2.40 |
| | 3 963 | 320 | 8.07 | 326 | 8.47 |
| | 122 621 | 580 | 0.47 | 15 | 0.01 |
| | 1 801 | – | n/a | (260) | n/a |
| | 409 331 | 20 656 | 5.05 | 5 115 | 1.27 |

# Supplementary funding and liquidity information for FirstRand Bank Limited

for the year ended 30 June

(Pages 214 to 218 do not form part of the audited financial statements)

## Introduction

### STRUCTURAL CHARACTERISTICS IMPACTING THE FUNDING PROFILE OF SOUTH AFRICAN BANKS

The banking sector in South Africa is characterised by certain structural features, such as a low discretionary savings rate and a higher degree of contractual savings that are captured by institutions such as pension funds, provident funds and providers of asset management services. A portion of these contractual savings translate into institutional funding for banks, which has higher liquidity risk than retail deposits.

Given these structural issues, and as a result of the significant growth in risk weighted assets between 2001 and 2007, SA banks overall proportion of institutional funding increased. This is reflected in the chart below.

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

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

This in turn means that short-term, expensive institutional deposits are utilised to fund longer-dated assets such as mortgages. Liquidity risk in the South African banking system is therefore structurally higher than in most other markets.

However, this risk is to some extent mitigated by the following factors:

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

These factors contributed to South Africa's resilience during the recent global financial crisis.

### CHANGING REGULATORY ENVIRONMENT

The global banking sector is experiencing increased political and regulatory pressures, and some of these pressures will materialise in South Africa. In December 2010 BCBS published two documents proposing fundamental reforms to the regulatory capital and liquidity framework (referred to as Basel III).

The Basel III guidelines, published in December, propose two new liquidity metrics: The Liquidity Coverage Ratio ("LCR"), effective 1 January 2015, which measures short-term liquidity stress; and the Net Stable Funding Ratio ("NSFR"), effective 1 January 2018, which measures the stability of long-term structural funding.

The Basel Committee on Banking Supervision ("BCBS") has put processes in place to ensure the rigorous and consistent global implementation of the Basel III Framework. The standards will be phased in gradually so that the banking sector can move to the higher liquidity standards while supporting lending to the economy.

Both the LCR and the NSFR will be subject to an observation period and will include a review clause to address any unintended consequences.

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

## Funding strategy

FirstRand's objective is to fund its activities in a sustainable, diversified, efficient and flexible manner, underpinned by strong counterparty relationships within prudential limits and requirements. The objective is to maintain natural market share, but also to outperform at the margin, which will provide the Bank with a natural liquidity buffer. The four building blocks of our funding strategy are discussed in more detail below.

### DIVERSIFICATION

The Group views funding diversification from a number of different perspectives:

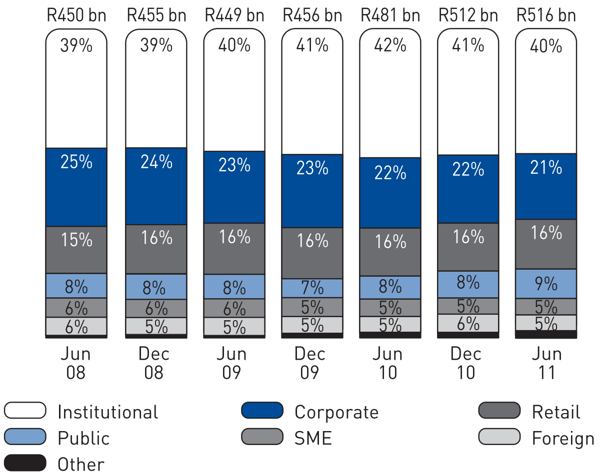
- **Segments** – the Group has a strong and stable deposit franchise, which spans the retail, commercial and corporate segments. Institutional funding represents approximately 40% of the Group's total funding and this reliance represents a risk concentration that is actively managed through the holding of appropriate liquidity buffers and continued focus on lengthening the term profile.
- **Country and currency of issue** – the Bank has access to a variety of funding and capital markets offshore and locally, including South Africa, Europe, Asia, Australia and Botswana in ZAR, USD, GBP, EUR, AUD and BWP.
- **Instrument types and maturity profile** – the Bank funds itself with a variety of different funding instruments, including NCDs, fixed and floating rate notes, syndicated loans, development finance facilities, vanilla and structured capital market issuances, and various retail and corporate products.

In these markets, the Bank seeks to broaden its investor base as far as possible, while actively pursuing an investor relations strategy.

An analysis of the Bank's funding base is provided in the following tables/charts.

The chart below provides an historic analysis of FirstRand Bank's funding sources and reflects the stability of and reliance on institutional funding.

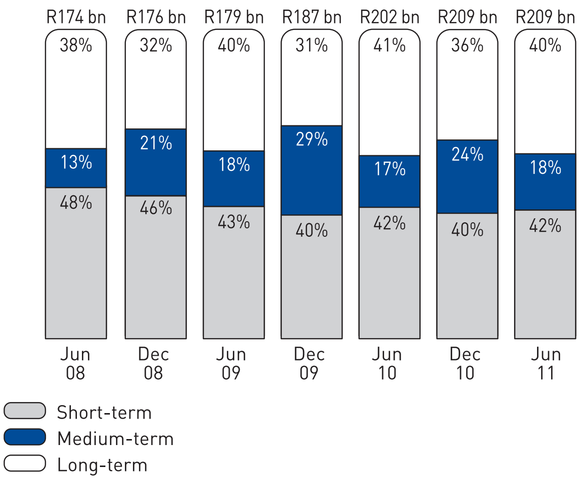
*Funding analysis by source*




*Source: SARB BA900 returns, FirstRand research*

A historical analysis of the average maturity of FRB's institutional funding base is provided in the chart below, and it shows that the Bank has reduced its reliance on short-term funding over time.

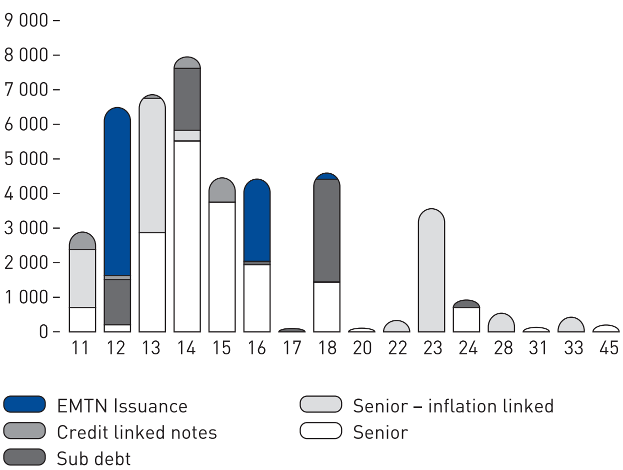
*Term profile of institutional funding base*




*Source: SARB BA900 returns, FirstRand research*

The maturity profile of all issued capital markets instruments is shown below – the Group does not have concentration risk in any one year.

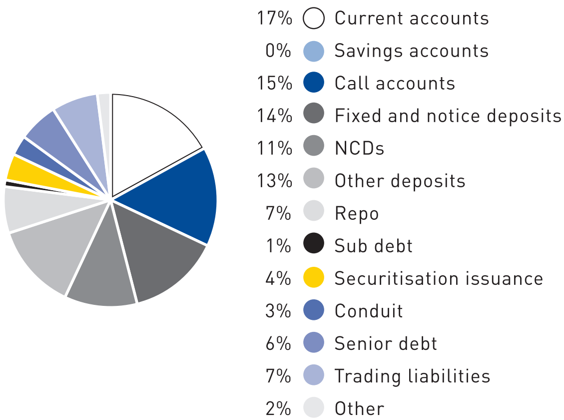
*FirstRand Bank capital markets instruments*




*Source: JSE, LSE*

The chart below shows that FirstRand Bank has well-diversified instruments to fund the balance sheet.

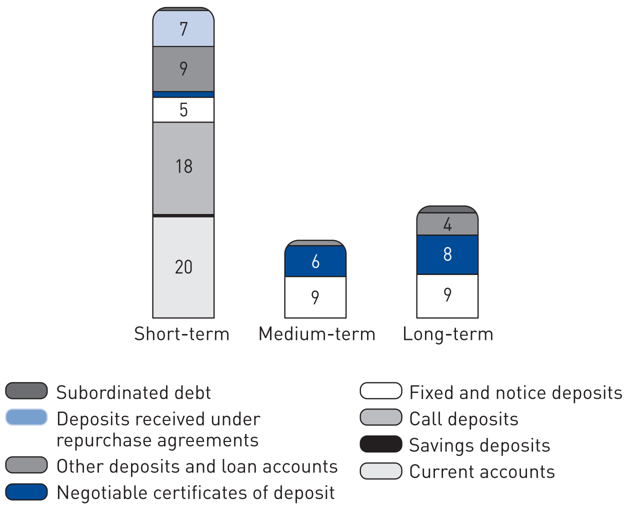
*Instrument type (including senior debt and securitisation)*




*Source: SARB BA900 returns (30 June 2011), JSE and FirstRand research*

An analysis of the Bank's maturity profile by instrument type is provided below. The instruments represent South African banking products.

*Funding by product type (%)*




*Source: SARB BA900 returns (30 June 2011), FirstRand research*

## EFFICIENCY

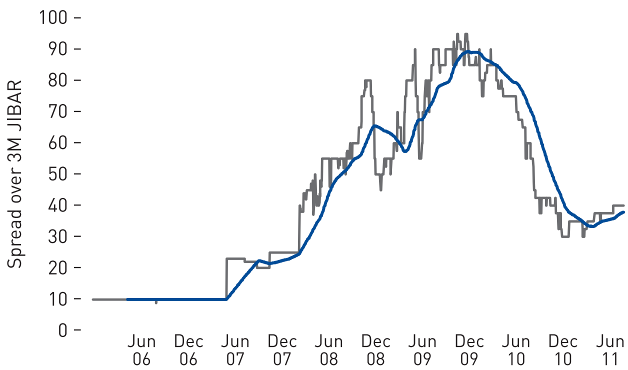
The Group's aim is to fund the balance sheet in the most efficient manner, taking into account the liquidity risk management framework, as well as regulatory and rating agency requirements.

To ensure maximum efficiency and flexibility in accessing funding opportunities, the Bank has established a range of debt programmes. The Bank's strategy for public issuance is to create actively-traded benchmarks, which facilitate secondary market liquidity in both domestic and offshore markets. The value of this strategy is that it assists the Bank to identify cost-effective funding opportunities.

An explanation of how the market impacts the Bank's funding strategy is illustrated below.

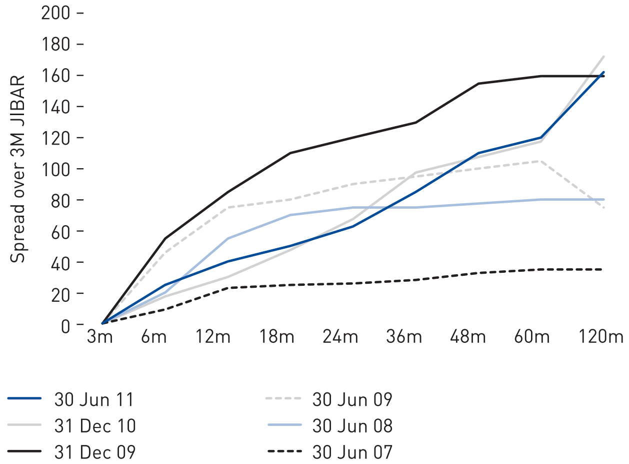
Short-term liquidity costs have reduced in the year under review.

*12-month liquidity spread (bps)*




*Source: Bloomberg (RMBP screen) and Reuters*

*Long-term funding spreads remained elevated*




*Source: Bloomberg (RMBP screen) and Reuters*

Although the average ZAR funding cost has been quite stable year-on-year, the Bank has increased the term of funding raised, thereby reducing the liquidity mismatch. This was achieved through a focus on longer term issuance (two, three and four years) as well as a preference for three to nine-month terms over 12 months due to favourable pricing in that area of the curve.

FLEXIBILITY

Another key aspect of the Bank's strategy is to achieve maximum flexibility as far as access to the widest range of funding markets, debt investors and products are concerned. As market preferences and investor demands change, the Bank is required to operate in a number of jurisdictions, legal entities and operating platforms. The dynamic environment requires an appropriate and up to date funding platform infrastructure to leverage the Bank's globally-integrated approach to debt pricing and risk management in a responsive and effective manner.

The Bank has a track record of differentiating itself through new and innovative funding mechanisms. It constantly reviews new proposals relating to funding strategies based on forecast balance sheet structures, in order to anticipate and plan for future funding and structural liquidity requirements.

STRONG COUNTERPARTY RELATIONSHIPS

The Bank places great value on its established strong relationships with investors and is committed to keeping investors fully informed. Therefore an active marketing approach is embedded in the funding strategy. Through forums such as conference calls, domestic and international roadshows and investor presentations, the Bank aims to extend its investor base, and keep stakeholders up to date on its financial performance and counterparty status.

## Liquidity risk management

The objective of liquidity risk management is to ensure that the Bank has enough resources to meet its obligations as a going concern under stress and severe stress. The Bank's liquidity risk is managed within a risk appetite framework and limits set by the Board.

The chart below illustrates the Bank's liquidity risk management cycle.

LIQUIDITY RISK MANAGEMENT CYCLE

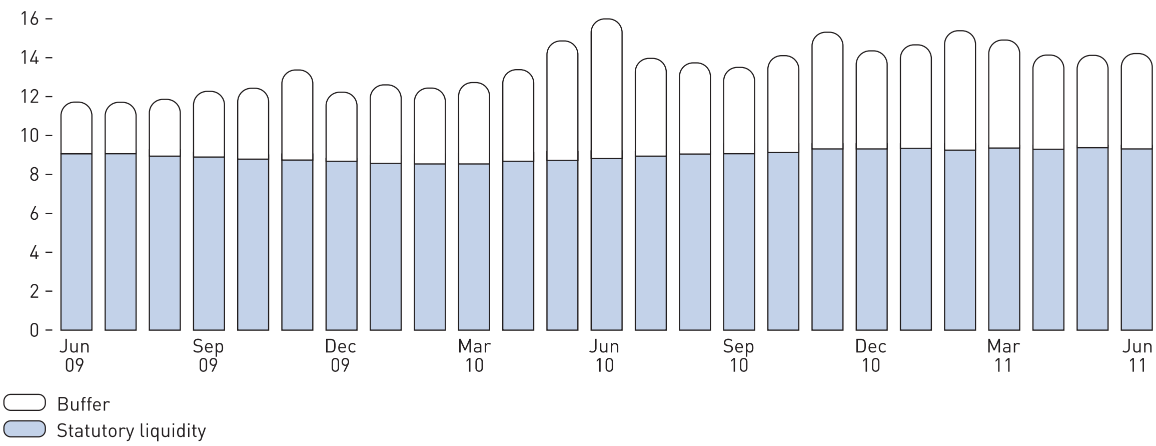
The target liquidity risk profile is determined by the risk appetite framework. It is continuously compared to the prevailing risk profile of the Bank and evaluated under a range of scenarios and business conditions, including economic and event stresses.

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

Liquidity buffers are actively managed, 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 liquidity-at-risk and stress testing. 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.

*Liquid assets (%)*




*Source: SARB BA 310 returns, FirstRand research*

In order to ensure adequate liquidity through the full range of potential operating environments and market conditions, the Bank conducts business activities in a manner that preserves and enhances funding stability, flexibility, and diversity. The evaluation of the Bank's liquidity position under various operating conditions ensures that the Bank would be in a position to operate though a period of stress when access to normal sources of funding is constrained.

# Administration

## FirstRand Bank Limited

Registration No. 1929/001225/06

## Company Secretary and registered office

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Telefax: +27 11 282 8088
Website: www.firstrand.co.za

## Auditors

DELOITTE & TOUCHE

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Deloitte Place
The Woodlands
Woodlands Drive
Woodmead, Sandton
Docex 10 Johannesburg

**National Executive**

GG Gelink (Chief Executive), AE Swiegers (Chief Operating Officer), GM Pinnock (Audit), DL Kennedy (Tax& Legal Advisory), L Geeringh (Consulting), L Bam (Corporate Finance), CR Beukman (Finance), TJ Brown (Clients & Markets), NT Mtoba (Chairman of the Board), MJ Comber (Deputy Chairman of the Board)

PRICEWATERHOUSECOOPERS INC

2 Eglin Road
Sunninghill
2157

**Executive**

SP Kana (Chief Executive Officer), TP Blandin de Chalain, DJ Fölscher, GM Khumalo, IS Sehoole, S Subramoney, F Tonelli

**Resident Director in Charge:** ER Mackeown

# Listed debt instruments

## JOHANNESBURG STOCK EXCHANGE ("JSE")

### Subordinated debt

| Issuer | Bond code | ISIN code |
|---|---|---|
| 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 |

### Upper Tier II

| Issuer | Bond code | ISIN code |
|---|---|---|
| FirstRand Bank Limited | FRBC21 | ZAG000052283 |
| FirstRand Bank Limited | FRBC22 | ZAG000052390 |

### Senior unsecured

| Issuer | Bond code | ISIN code |
|---|---|---|
| FirstRand Bank Limited | FRBN04 | ZAG000041005 |
| FirstRand Bank Limited | FRBN05 | ZAG000042169 |
| FirstRand Bank Limited | FRBN06 | ZAG000073214 |
| FirstRand Bank Limited | FRBN07 | ZAG000073206 |
| 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 | FRJ16 | ZAG000073826 |
| FirstRand Bank Limited | FRJ18 | ZAG000084187 |
| FirstRand Bank Limited | FRS35 | ZAG000076852 |
| FirstRand Bank Limited | FRS36 | ZAG000077397 |
| FirstRand Bank Limited | FRS37 | ZAG000077793 |
| FirstRand Bank Limited | FRS40 | ZAG000078460 |
| FirstRand Bank Limited | FRS42 | ZAG000078478 |
| FirstRand Bank Limited | FRS43 | ZAG000078643 |
| FirstRand Bank Limited | FRS44 | ZAG000078742 |
| FirstRand Bank Limited | FRS45 | ZAG000079252 |
| FirstRand Bank Limited | FRS46 | ZAG000079807 |
| FirstRand Bank Limited | FRS47 | ZAG000080011 |
| FirstRand Bank Limited | FRS48 | ZAG000081456 |
| FirstRand Bank Limited | FRS49 | ZAG000081787 |
| FirstRand Bank Limited | FRS50 | ZAG000085663 |
| FirstRand Bank Limited | FRS51 | ZAG000086117 |
| FirstRand Bank Limited | FRS52 | ZAG000086497 |
| FirstRand Bank Limited | FRS53 | ZAG000086828 |
| FirstRand Bank Limited | FRS54 | ZAG000087032 |
| FirstRand Bank Limited | FRS55 | ZAG000087040 |
| FirstRand Bank Limited | FRX14 | ZAG000079815 |
| FirstRand Bank Limited | FRX15 | ZAG000051103 |
| FirstRand Bank Limited | FRX18 | ZAG000076472 |
| FirstRand Bank Limited | FRX24 | ZAG000073693 |
| FirstRand Bank Limited | FRX31 | ZAG000084195 |
| FirstRand Bank Limited | FRX45 | ZAG000076480 |

### Inflation-linked bonds

| Issuer | Bond code | ISIN code |
|---|---|---|
| FirstRand Bank Limited | FRBI01 | ZAG000025156 |
| FirstRand Bank Limited | FRBI03 | ZAG000033473 |
| FirstRand Bank Limited | FRBI04 | ZAG000044306 |
| FirstRand Bank Limited | FRBI07 | ZAG000055849 |
| FirstRand Bank Limited | FRBI08 | ZAG000071523 |
| 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 |

### Credit-linked notes

| Issuer | Bond code | ISIN code |
|---|---|---|
| FirstRand Bank Limited | FRC01 | ZAG000049800 |
| FirstRand Bank Limited | FRC04 | ZAG000057563 |
| FirstRand Bank Limited | FRC08 | ZAG000051749 |
| FirstRand Bank Limited | FRC11 | ZAG000054131 |
| FirstRand Bank Limited | FRC16 | ZAG000055914 |
| FirstRand Bank Limited | FRC17 | ZAG000056011 |
| FirstRand Bank Limited | FRC29 | ZAG000069857 |
| FirstRand Bank Limited | FRC35 | ZAG000073800 |
| FirstRand Bank Limited | FRC36 | ZAG000076217 |
| FirstRand Bank Limited | FRC37 | ZAG000076712 |
| FirstRand Bank Limited | FRC40 | ZAG000081027 |
| FirstRand Bank Limited | FRC41 | ZAG000081670 |
| FirstRand Bank Limited | FRC42 | ZAG000081878 |
| FirstRand Bank Limited | FRC43 | ZAG000082660 |
| FirstRand Bank Limited | FRC44 | ZAG000082926 |
| FirstRand Bank Limited | FRC45 | ZAG000082918 |
| FirstRand Bank Limited | FRC46 | ZAG000082959 |
| FirstRand Bank Limited | FRC47 | ZAG000084310 |
| FirstRand Bank Limited | FRC55 | ZAG000085507 |
| FirstRand Bank Limited | FRC57 | ZAG000086414 |
| FirstRand Bank Limited | FRC58 | ZAG000086810 |
| FirstRand Bank Limited | FRC59 | ZAG000087057 |
| FirstRand Bank Limited | FRC61 | ZAG000087347 |

### Senior unsecured callable bonds

| Issuer | Bond code | ISIN code |
|---|---|---|
| FirstRand Bank Limited | FR002U | ZAG000042748 |
| FirstRand Bank Limited | FR003U | ZAG000042755 |

### Investment security index contracts

| Issuer | Bond code | ISIN code |
|---|---|---|
| Rand Merchant Bank | RMBI01 | ZAG000050865 |
| Rand Merchant Bank | RMBI02 | ZAG000052986 |
| Rand Merchant Bank | RMBI03 | ZAG000054032 |
| Rand Merchant Bank | RMBI04 | ZAG000055013 |
| Rand Merchant Bank | RMBI05 | ZAG000055864 |
| Rand Merchant Bank | RMBI06 | ZAG000056722 |
| Rand Merchant Bank | RMBI07 | ZAG000057910 |
| Rand Merchant Bank | RMBI08 | ZAG000072265 |

### Structured note

| Issuer | Bond code | ISIN code |
|---|---|---|
| Rand Merchant Bank | OILRMB | ZAE000152732 |

## LONDON STOCK EXCHANGE ("LSE")

### European Medium Term Note (EMTN) Programme

| Issuer | ISIN code |
|---|---|
| FirstRand Bank Limited | XS0306783621 |
| FirstRand Bank Limited | XS0635404477 |

www.firstrand.co.za

FIRSTRAND
Bank Limited